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## **Economic liberalization and constraints to development in sub-Saharan africa**

*Jomo Kwame Sundaram and Rudiger von Arnim*

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### **Abstract**

This paper critically reviews the impact of globalization on Sub-Saharan Africa (SSA) since the early 1980s. The large gains expected from opening up to international economic forces have, to date, been limited, and there have been significant adverse consequences. FDI 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 SSA economic development as productive capacities in many sectors are not sufficiently competitive to take advantage of any improvements in market access.

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# Economic liberalization and constraints to development in sub-Saharan Africa<sup>1</sup>

*Jomo Kwame Sundaram and Rudiger von Arnim*

## Introduction

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 (-1.0 and -0.5 per cent respectively). SSA countries have posted improved growth rates since 2000, thanks largely to commodity-driven recoveries (see Table 1).<sup>2</sup> Even so, real per capita income is still barely higher than in 1970. Furthermore, this weak and erratic growth performance has been accompanied by regressive trends in income distribution (Geda and Shimeles, 2007), with a particularly marked drop in the average per capita income for the poorest 20 per cent in SSA (UNCTAD, 2001: 53). Not only is this likely to undermine efforts to develop human resources, and strengthen political cohesion in SSA, it is also likely to restrict future growth prospects.

In this paper, we review the SSA experience under structural adjustment programs, discuss recent growth in the wake of the global commodity price boom, and distinguish causes from effects. The remainder

**Table 1. Average annual per capita growth rates, 1960-2006**

<i>Average compound growth rates per decade</i>	<i>1960-69</i>	<i>1970-79</i>	<i>1980-89</i>	<i>1990-99</i>	<i>2000-06</i>
<i>World</i>	3.4%	2.1%	1.4%	1.2%	1.7%
East Asia & Pacific	1.3%	4.4%	6.1%	7.1%	7.6%
Europe & Central Asia				-2.0%	5.5%
Latin America & Caribbean	2.4%	3.1%	-0.8%	1.5%	1.7%
Middle East & North Africa		2.8%	-0.4%	1.8%	2.4%
South Asia	1.8%	0.3%	3.2%	3.3%	5.1%
Sub-Saharan Africa	2.0%	0.7%	-1.0%	-0.5%	2.1%
<hr/>					
<i>GDP per capita in constant 2000 US\$</i>	<i>1960-69</i>	<i>1970-79</i>	<i>1980-89</i>	<i>1990-99</i>	<i>2000-06</i>
<i>World</i>	2806	3659	4177	4780	5446
East Asia & Pacific	140	210	358	696	1184
Europe & Central Asia			2296	1847	2270
Latin America & Caribbean	2277	3099	3446	3643	3994
Middle East & North Africa	923	1295	1372	1464	1720
South Asia	201	224	274	373	510
Sub-Saharan Africa	475	577	552	504	536

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

<sup>1</sup> We are grateful to Richard Kozul-Wright for his suggestions to improve this paper and to Miriam Rehm for her editorial assistance, but implicate neither of them.

<sup>2</sup> Also Tables A1 and A2 in the Appendix for statistics on growth and levels of real income per capita in SSA countries.

of the paper is organized as follows. The first section examines growth and poverty trends in more detail. In the following section, we review the progress—or lack thereof—of capital formation and economic diversification in Africa, and discuss the impact of foreign (FDI, portfolio flows, aid) and domestic (public and private saving) sources of capital to finance development. The big policy challenge is to reverse the role of SSA as a net capital exporter. In the following section, we look more closely at the trade and development nexus. The central issue here is the region's ongoing reliance on commodity exports. Locked into extractive resource industries, with few linkages to the rest of the economy, and fighting associated 'Dutch disease', 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 limit the developmental impact of expansion in this area. Neglect of food agriculture certainly has not helped, but the removal of developed country agricultural protection in a Doha agreement is not much of a panacea. A final section offers some concluding remarks.

### **Growth and poverty reduction in a shifting policy environment**

The African development policy landscape has changed radically over the last three decades. Liberalization and privatization measures aimed at opening up to global market forces and attracting private investment have replaced state intervention and public ownership, e.g. building infant industries. 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 benign and price perfecting, thereby carrying a strongly positive influence on economic performance and prospects.<sup>3</sup>

The policy shift dates back to 1981, when the World Bank published the influential *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, often referred to as the Berg Report, after its principal author, Elliot Berg, from the University of Michigan's Economics Department. This report recommended adopting a more outward-oriented program of raw materials exports, eliminating subsidies and controls, and letting market forces determine the prices for raw materials exports. 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 macroeconomic stabilization programs, and the World Bank for medium-term structural adjustment programs (SAPs), these converged around what was subsequently dubbed the 'Washington Consensus'. 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 at the core of economic policy making across most of the African continent.<sup>4</sup>

There is little disputing that the developments in the world economy in the late 1970s and early 1980s had a profound impact on SSA economic prospects. These undermined the profitability of private firms, led to a collapse in state revenues and added to the debt that had begun to accumulate in the mid-1970s. A vicious downward spiral followed in many countries; with little prospect of raising export earnings

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<sup>3</sup> More recently, this domestic focus has gone beyond economic policies to include institutions, governance, the role of rent-seeking elites, ethnic diversity, geography, etc.

<sup>4</sup> See, for example, Stiglitz (1998) and Stein (2008).

to maintain import levels, macroeconomic policies were tightened further, which in turn increased the constraints on investment, diversification and growth. The debt overhang from the 1970s mushroomed further, and by placing a further squeeze on investment in critical areas such as transport, health and education, further compromised some of the most essential conditions for sustainable growth and poverty reduction.

The BWIs (e.g. see *Finance & Development*, September 2002) have generally been quick to claim responsibility for economic success stories in the subsequent period, even as they have continued to deny the adverse consequences that have arisen from their recommended (or imposed) policies pursued by SSA governments. Rather, they have insisted that the slow growth is best explained by reluctance on the part of African policy makers to undertake governance reforms and to open up quickly enough, resulting in only partial implementation of adjustment programmes.<sup>5</sup>

However, the link between the structural adjustments required by the BWIs and economic growth has been weak: 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 very 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 (2002) has argued that IMF-led 'adjustment' in Africa has placed the continent on a slow growth path, a position 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. 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).

Looking at real GDP growth rates suggests that SSA is beginning to recover after the 'lost' last quarter of the 20<sup>th</sup> century (Table 2) thanks largely, but not exclusively, to a strong commodity boom. Despite this growth upturn, the region is mired in poverty, faces a dire lack of infrastructure, and retains a narrow export base, none of which are conducive to rapid and sustainable development.

Recent estimates by the World Bank<sup>6</sup> include a substantial upward revision of the numbers of poor worldwide as measured by a poverty line of \$1.25 per day at 2005 PPP, equivalent to \$1 per day in 1996 US\$ (Chen and Ravallion 2008: Tables 4, 5, 7, 8). About 1400 million people lived in poverty in 2005 (Table 3). The new World Bank figures give a total of 384 million people living below the new poverty line in SSA. More than half of the population lives in poverty in SSA, the highest percentage in the world for any region.

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, Alemayehu and Shimeles, 2007: 306). Real wages

5 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"

6 According to earlier World Bank figures, the number of poor people in the developing world had 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).

**Table 2. Real GDP growth, 1970-2006**

(Annual average growth rates of real GDP, 1970-2005, 2005, 2006)

<i>Selected regions</i>	<i>1970</i> <i>-1980</i>	<i>1980</i> <i>-1989</i>	<i>1992</i> <i>-2000</i>	<i>2000</i> <i>-2005</i>	<i>2005</i>	<i>2006</i>
World	3.8	3.3	3.1	2.8	3.5	4.1
Developing economies	5.8	3.8	4.9	5.4	6.5	7.0
Economies in transition	5.0	3.6	-2.0	6.1	6.6	7.1
Developed economies	3.3	3.1	2.8	2.0	2.4	3.0
Developing economies: Africa	4.5	2.3	3.2	4.9	5.5	5.3
Developing economies: America	5.7	1.8	3.1	2.4	4.4	5.1
Developing economies: Asia	6.3	5.6	5.9	6.5	7.4	7.8
LDCs: Africa and Haiti	2.3	1.7	4.3	6.0	7.9	8.2
Major petroleum exporters: Africa	5.9	1.3	2.8	6.2	6.5	5.8
Sub-Saharan Africa	3.3	2.0	3.3	4.8	5.9	5.4
Sub-Saharan Africa excl. South Africa	3.4	2.3	3.6	5.2	6.2	6.2

Source: *UNCTAD Handbook of Statistics* (Table 8.2: Annual average growth rates of real gross domestic product) and authors' calculations

have also fallen for many in the formal economy, including the nascent middle class in SSA, contributing to greater inequality and undermining prospects for a stable growth environment.

Higher growth in the last half-decade is believed to have raised incomes and reduced poverty levels in some SSA countries. However, growth based on resource extraction has also contributed to rising inequality and limited its employment effects, 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, further trapping these countries in a vicious spiral of economic decline (Miguel, Satyanath and Sergenti, 2004).

**Table 3. Poverty, 1981-2005**

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

	<i>1981</i>	<i>1984</i>	<i>1987</i>	<i>1990</i>	<i>1993</i>	<i>1996</i>	<i>1999</i>	<i>2002</i>	<i>2005</i>
Sub-Saharan Africa									
% of population	50.8	55.0	53.4	54.9	54.8	57.5	56.4	52.7	50.4
Millions	202.1	238.5	252.9	283.7	305.6	347.6	370.1	373.2	384.2
Developing countries									
% of population	52.2	47.1	41.8	41.7	38.9	34.7	33.7	31.0	25.7
Millions	1913.3	1827.1	1718.2	1817.5	1785.1	1672.0	1695.4	1627.1	1399.6

Source: Chen and Ravallion 2008 (Tables 4, 5, 7, 8).

## Resource mobilization for development

There is little disputing the need for strong and sustained growth to address the development and poverty challenges across the SSA region; most observers put the target figure in the 6-8 per cent range annually (e.g. Blair Commission Report, 2005). It is very difficult to reduce poverty through redistribution when average income levels are low, as in SSA. Further, political stability and prospects for development decrease with elevated economic insecurity (UN 2008). It is far from clear that the policies of the past two and a half decades have transformed the SSA context away from insecurity towards investment, growth and diversification.

Leaving markets to mobilize and allocate financial resources and determine interest rates is a central objective of the liberal policy agenda. Doing so should not only mean an increased willingness of households to save and hold financial assets, but also that scarce resources will be employed by the most productive firms regardless of their location. Financial liberalization<sup>7</sup> promised to remove distortions arising from an artificially repressed financial sector, but also to strengthen the productive sector and ease the external payments constraint by channelling global savings to the most profitable investments in the capital-scarce poorer countries of the world.

Particular attention has been paid to FDI as a driving force in such a process, and a more reliable source of financing trade deficits. In the next section, we discuss the often limited contribution of FDI in Africa, which has remained small compared to other developing regions, and highly concentrated in extractive industries. Portfolio flows, on the other hand, are in fact negative. Capital owners in Africa with access to liquid assets prefer to transfer them abroad. Unlike other developing regions, net portfolio flows have been consistently negative over longer time periods.

What remains as a potential source of finance? Aid, it turns out, is not necessarily as ineffective as many critics have suggested (Minoiu and Reddy, 2007), but it is unpredictable and, importantly, does not necessarily promote economic development goals. Increasingly, aid aims to alleviate the effects of disasters, or to strengthen welfare programs and social services, rather than to promote industrialization or infrastructure development.

Successful resource mobilization begins at home. However, statistics indicate that savings and investment rates are still low in SSA by international comparison, and reaching a high, sustainable growth path will have to include changing this—as part of creating a dynamic that reverses capital flight and increases more diversified, ‘developmental’ FDI, supported by tangible, predictable aid flows.

### *FDI flows: small and highly concentrated*

Most African governments accepted the BWIs’ policies, expecting the promised ‘catalytic effect’ on foreign capital inflows with their stamp of approval. The actual response of private capital has, in the words of the World Bank, ‘been disappointing’ (quoted by Mkandawire, 2002b: 6). Even though rates of return to FDI

7 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 ending of multiple exchange rates, so that banks and corporations are free to borrow abroad and reserve requirements are kept at a minimum level; the liberalization of the domestic financial system characterized by the removal of controls on lending and borrowing interest rates, the removal of credit controls and permission to hold foreign currency deposits; and the liberalization of the stock market in which foreign investors are allowed to buy, earn income from and sell equities without restriction.

have generally been much higher in Africa than in any other region (Bhattacharya, Montiel and Sharma, 1997; UNCTAD, 1995, 2005), this, however, has not made Africa much more attractive to foreign investors, ostensibly due to ill-specified and often intangible ‘risk factors’. Political instability certainly plays a role here, as Africa is systematically rated as more risky than warranted by economic indicators.

Even the recent mineral-led surge in FDI into Africa has produced only a marginal impact on Africa’s share of global FDI flows. Indeed, the share of global inward FDI to all African developing countries is still far below its 5 per cent share in the 1970s; the recent increase to 2.4 per cent only marks a return to Africa’s more modest share in the 1980s (see Table 4).

**Table 4. Africa’s share of inward foreign direct investment, 1970-2006**

	1970-79	1980-89	1990-99	2000-06
<i>Share of world FDI</i>				
Developed economies	75%	75%	68%	68%
Developing economies	25%	25%	31%	29%
Developing economies: Africa	5.1%	2.5%	1.9%	2.4%
Developing economies: America	12%	8%	10%	9%
Developing economies: Asia	8%	14%	19%	18%
<i>Addendum: China</i>	<i>n/a</i>	2%	8%	7%
Economies in transition	<i>n/a</i>	0%	1%	3%
<i>Share of developing country FDI</i>				
Developing economies: Africa	24%	10%	6%	8%
Developing economies: America	50%	36%	32%	30%
Developing economies: Asia	26%	54%	62%	62%
<i>Addendum: China</i>	<i>n/a</i>	8%	24%	23%

Source: UNCTAD, *World Investment Report, 2007*, and authors’ calculations.

Table 5 shows country FDI shares for the top five SSA countries (of 47 countries), by volume of FDI in the 2000s. The top five countries—Nigeria, South Africa, Angola, Equatorial Guinea and Chad—are, except for South Africa, highly dependent on petroleum exports and foreign investment in this sector. Since 1990, these five countries have absorbed an average of 64 per cent of all FDI going to all 47 SSA economies. The exception here might be South Africa, which appears in the top five mainly due to the size of its economy, relative to other SSA countries.<sup>8</sup>

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 the pattern of FDI in Africa is likely to bring sustained, broad-based economic growth and strong employment generation (UNCTAD, 2005).<sup>9</sup> Much of that FDI has gone to mining, which is hardly influenced by macro-economic policy considerations. 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 one-time

<sup>8</sup> Table A4 in the Appendix shows that South Africa does not appear in the top twenty for FDI-to-GDP ratio. However, Angola, Equatorial Guinea and Chad are three of the four highest ranked countries.

<sup>9</sup> As Mkandawire (2002) observes, this paper seeks to “help boost SSA’s image as an investment location” (Pigato 2000: 2), justifying the positions advocated despite data suggesting otherwise.

**Table 5. SSA economies with the highest shares of total FDI, 1970-2006**

	1970-79	1980-89	1990-99	2000-06
Nigeria	35.4%	3.0%	40.6%	21.7%
South Africa	7.1%	0.7%	13.3%	16.8%
Angola	0.3%	13.1%	9.8%	9.7%
Equatorial Guinea	0.0%	0.2%	1.9%	8.9%
Chad	1.2%	1.2%	0.5%	4.8%
<i>Subtotal</i>	<i>44.0%</i>	<i>18.2%</i>	<i>66.1%</i>	<i>61.9%</i>
United Republic of Tanzania	0.5%	0.4%	1.9%	3.0%
Ethiopia	1.1%	0.1%	1.1%	2.8%
Cameroon	2.2%	12.2%	0.1%	2.7%
Botswana	2.1%	8.9%	0.2%	2.3%
Congo, Democratic Republic of	4.7%	7.3%	4.1%	2.2%
Namibia	0.0%	0.3%	2.5%	2.2%
Mozambique	0.1%	0.3%	1.6%	2.0%
Congo	3.2%	3.8%	2.4%	2.0%
Uganda	0.0%	0.2%	1.3%	1.9%
Zambia	3.3%	5.5%	3.9%	1.9%
Mauritania	0.2%	1.5%	0.2%	1.6%
Ghana	2.3%	1.1%	2.3%	1.5%
Mali	0.2%	0.2%	0.4%	1.4%
Gabon	4.6%	6.9%	-2.1%	1.0%
Madagascar	0.4%	0.4%	0.5%	0.9%
<i>Total</i>	<i>68.9%</i>	<i>67.4%</i>	<i>86.3%</i>	<i>91.4%</i>

Sources: UNCTAD *Handbook of Statistics*; UNCTAD, *World Investment Report, 2007* (Table 7.3 Major FDI indicators) and authors' calculations.

opportunities associated with privatization. For example, FDI to Ghana—hailed by the BWIs as a 'success story'—peaked with privatization, with subsequent negative outflows. Moreover, much recent FDI through acquisitions has often been 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\$684 million in FDI (UNCTAD). 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. 'Brown-field' FDI acquisitions through privatization do not enhance economic capacities, but merely involve a change in ownership.

The end of the Multi-Fibre Arrangement (MFA) in 1995, and of its successor Agreement on Textiles and Clothing (ATC) in 2005, has reduced new investments in this sector. Many such industries now only survive due to remaining, but eroding, trade preferences enjoyed in US and European markets. Similarly, logging and agricultural expansion have been especially encouraged in recent years as the Washington Consensus effectively discourages (import-substituting) industrialization for Africa. While generating temporary and dangerous (owing to the high incidence of logging accidents) work locally, logging has also exacerbated water supply problems, floods, droughts and desertification. More generally, corruption and ongoing resource conflicts in Africa have been fuelled by such foreign interest in the continent's natural resources.

*Portfolio flows mainly speculative and negative*

Highly speculative portfolio investment has been attracted by often temporary ‘pull factors’ such as high real domestic interest rates on treasury bills to finance budget deficits as well as temporary export price booms which have attracted large export pre-financing loans (Kasekende, Kitabire and Martin, 1997). Mkandawire (2002) notes, with concern, the predominance of portfolio over direct investments and ‘brown-field’ acquisitions over ‘green field’ investments as consequences of the FDI policies adopted. Moreover, the overwhelming majority of portfolio flows—in the order of 9 out of every 10 dollars invested in the region -- goes to South Africa.

Incredibly, despite growing poverty, Africa has been a net exporter of capital. In 1990, 40 per cent of privately held wealth was invested outside Africa (Collier and Gunning, 1997; Collier, Hoeffler and Patillo, 1999; quoted by Mkandawire, 2002). In the period 1970-1996, capital flight from SSA came to US\$193 billion; with imputed interest, the value goes up to US\$285 billion (Boyce & Ndikumana, 2000), compared to SSA’s combined debt of US\$178 billion in 1996 (Mkandawire, 2002). Ndikumana & Boyce (2002) argue that capital flight from Africa has been largely debt-fuelled, though Collier, Hoeffler and Patillo (2004) claim that serious financial capital flight from Africa has started to be reversed. The most recent estimates of net external assets are probably from Ndikumana & Boyce (2008: 6) who report that:

“[r]eal capital flight over the [1970-2004] period amounted to about \$420 billion (in 2004 dollars) for the 40 countries as a whole. Including imputed interest earnings, the accumulated stock of capital flight was about \$607 billion as of end-2004. .... Their net external assets (accumulated flight capital minus accumulated external debt) amounted to approximately \$398 billion over the 35-year period. To give a sense of the relative magnitude of the region’s net external position, the region’s external assets are 2.9 times the stock of debts owed to the world. For some individual countries, the results are even more dramatic: for Côte d’Ivoire, Zimbabwe, Angola, and Nigeria the external assets are 4.6, 5.1, 5.3, and 6.7 times higher than their debt stocks, respectively”.

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

These claims can be contested on both methodological and econometric grounds. First, in the standard approach in growth empirics, investment should be measured in international prices. However, the study used domestic prices, which generally overestimate investment rates because of the high cost of doing business in Africa. Second, they used cross-sectional regressions that do not account for country-specific effects. Such an omission can lead to inconsistent estimates.<sup>10</sup> But, more importantly, as Mkandawire (2002) notes, the social benefits -- to the national economy -- of citizens investing in their own country exceed the private benefits accruing to individual investors.

<sup>10</sup> We owe these observations to Carl Gray and Oumar Diallo, who have also provided other valuable comments and suggestions.

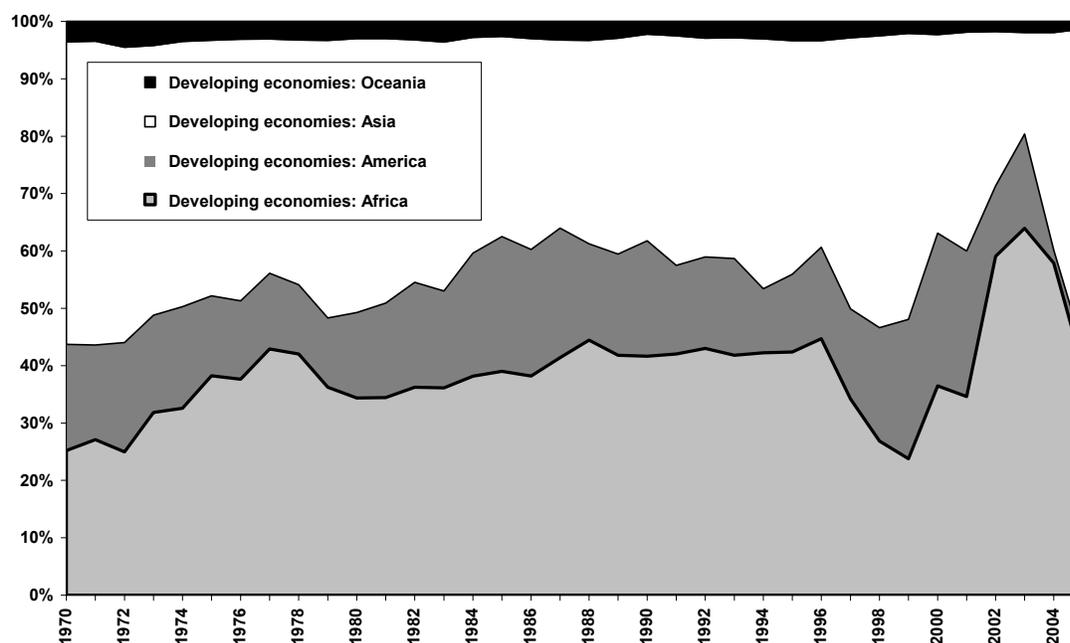
*Aid: unpredictable and welfare-oriented*

The role of aid for development has been debated for decades. Rosenstein-Rodan (1943, 1944) laid the foundations for the idea of an externally-funded ‘big push’ for development of then so-called ‘backward areas’ through the realization of scale economies. Subsequently, in the post-war development paradigm, substantial foreign aid was seen as necessary to provide financing and balance-of-payments support for such large-scale industrialization and development programs. This broadly structuralist development literature and its derivative policy recommendations have been challenged by more market-friendly economists worried that aid would crowd out more efficient private investment and undermined by the economic policy conditionalities and recommendations of the multilateral institutions during the 1980s. Currently, that debate echoes in the context of African development challenges through the conflicting positions of Jeffrey Sachs (2005) and William Easterly (2001; 2007), with the former arguing for a new ‘big push’, requiring much more plentiful and reliable aid flows, and the latter arguing that the private investment needed has been crowded out by large aid flows to the region.

Aid statistics are notoriously controversial. As the UNCTAD (2006) report on ‘Making the Big Push work’ notes, it is well known that a large percentage of aid—as reported by donor countries to the OECD Development Assistance Committee (DAC)—never actually reaches the intended recipients. UNCTAD (2006: 14) quotes a study from the NGO Action Aid, saying 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”.

The statistics available also indicate that aid to Africa has been highly volatile. Figure 1 shows the regional composition 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

Figure 1: Total official aid flows: Regional composition, 1970-2005



Source: UNCTAD Handbook of Statistics and authors calculation.

the mid-1990s, before falling off precipitously to 20 per cent in 1999; its share then rose to over 60 per cent in 2003, only to fall back to 39 per cent in 2005.<sup>11</sup>

Weighted by regional GDP per capita, the picture looks different. GDP per capita is an admittedly crude gauge of aid requirements—presuming that the lower income per capita, the higher the need for aid. Perhaps not surprisingly, Africa's share in the past four decades is lower by roughly fifteen percentage points. On the other hand, aid by recipient region, independent of the income level in the region, reflects the very large populations of China and India. Aid flows per person (per annum) to Asian countries are lower, while Africa's per capita (per annum) aid receipts are the highest for the three developing regions—Asia, Africa and Latin America and the Caribbean. From a low of US\$17 in 2000, these flows increased to US\$38 per person, though part of the volatility is due to reporting in US dollars and the vicissitudes of the greenback. Lastly, relative to GDP, Africa receives the largest portion of aid, roughly 5 per cent of GDP.<sup>12</sup>

To what extent, though, does aid reach its target? In fact, for many countries, much aid is for debt relief and debt repayment, meaning it does not help to finance development in any way. The old idea—that aid is supposed to help finance a balance of payments deficit in the face of imports of machinery and technology necessary to start a virtuous circle of growth and development on the one hand, and volatile and structurally declining commodity export revenues on the other—appears turned on its head, as many African countries become net exporters of capital. See Table 6 for statistics on net debt transfers, which are dis-

**Table 6. Net debt transfers of selected regions, 1990-2004\***

<i>Ratio to GDP</i>	<i>1990-94</i>	<i>1995-99</i>	<i>2000-04</i>
Developing economies	0.0%	-0.1%	-1.1%
Developing economies: Africa	-0.5%	-1.3%	-1.0%
Eastern Africa	1.7%	0.2%	1.2%
Middle Africa	1.6%	-2.3%	-1.7%
Northern Africa	-1.8%	-2.1%	-2.0%
Southern Africa	0.2%	-0.5%	0.0%
Western Africa	-1.2%	-1.6%	-1.5%
Developing economies: America	-0.4%	0.2%	-2.1%
Developing economies: Asia	0.3%	-0.1%	-0.6%
Developing economies: Oceania	-0.9%	-0.9%	-1.2%
LDCs: Africa and Haiti	0.9%	-3.1%	-1.3%
Major petroleum exporters (Africa)	0.3%	-1.4%	-0.8%
Africa excluding South Africa	-0.7%	-1.6%	-1.4%
Sub-Saharan Africa	0.6%	0.2%	0.4%
SSA excluding South Africa	-1.5%	-1.9%	-2.0%

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 creditors.

<sup>11</sup> 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.

<sup>12</sup> See Figures A1, A2 and A3 in the Appendix.

bursments of loans less debt service (principal plus interest payments) from all sources of credit. However, a detailed critical review of the IMF argument claiming aid ineffectiveness—in terms of promoting growth—suggests that the conclusion is reversed once politically-driven aid is factored out (Minoiu and Reddy 2008).

As mentioned before, much of the developing world consists of net capital exporters, but the aggregate statistics in Table 6 mask the differences among regions. Asia and, much more recently, Latin America freed themselves from the Washington-led aid nexus, with good export performances, as well as exchange rate and reserve strategies.<sup>13</sup> The drain of capital from a host of countries in Africa, however, does not appear to be based on sustainable development strategies, and thus does not enhance the ability to afford repayment, but rather a combination of increased debt service and the slow trickle of real resource transfers from the developed world.

### Trade and development

In line with the 1981 Berg Report, much World Bank research has suggested that Africa would gain most if it specializes in agriculture. Removal or reduction of subsidies and protection in the North would give farmers in SSA the opportunity to significantly increase their share of these markets. This section reviews the structure of African trade, particularly the potential of agricultural trade and problems related to the terms of trade and ‘Dutch disease’ for African development prospects. What and with whom does Africa trade, and how might that help or hinder development? The structural features of the region’s trade are an important starting point for trade policy, industrial policy and development policy.

African countries have experienced volatile and, by and large, unfavourable movements in their terms of trade for much of the post-independence period. First, except in recent years, prices of primary commodities have declined against those of manufactures, as suggested by Hans Singer and Raul Prebisch more than half a century ago (see Ocampo and Parra, 2006). Second, 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 (reduced) trade preferences and may therefore at least survive even if they do not expand due to the erosion of trade preferences with greater trade liberalization.

Table 7 underscores Africa’s declining marginal role in overall world trade. Africa’s share of world trade was small, but even this has declined in recent decades. African exports of manufactures and food have declined during this period, while exports of minerals and other agricultural products have risen, reflecting the pressures of de-industrialization and changes in agricultural production, but also heavier reliance on mineral exports, particularly petroleum.

#### *De-industrialization and the investment climate*

Exchange rate, monetary and other policies in East Asia have ensured relative prices favourable to export industries (instead of non-tradeables), with preferential interest rates supporting investment and economic restructuring. Export promotion strategies have generally involved an investment-export nexus, including

<sup>13</sup> See, as well, Table A5 in the appendix for country-specific statistics on net debt transfers of SSA countries.

**Table 7. GDP components of SSA excluding South Africa, 1970-2006**

<i>Average percentage shares of GDP</i>	1970-79	1980-89	1990-99	2000-06
Consumption	68%	73%	74%	69%
Government expenditure	20%	19%	14%	13%
Investment	17%	13%	16%	17%
Exports	33%	30%	33%	34%
Imports	38%	36%	37%	32%
<i>Agriculture, hunting, forestry, fishing</i>	30%	28%	31%	29%
<i>Industry</i>	40%	40%	32%	35%
<i>Mining, manufacturing, utilities</i>	34%	36%	28%	31%
<i>Manufacturing</i>	21%	22%	12%	9%
<i>Construction</i>	6%	4%	4%	4%
<i>Services</i>	30%	32%	38%	36%
<i>Wholesale, retail trade, restaurants and hotels</i>	12%	12%	14%	13%
<i>Transport, storage and communications</i>	5%	5%	5%	6%
<i>Other Activities</i>	14%	15%	18%	17%

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

measures to promote public investment, subsidized inputs (from state-owned enterprises and with preferential special exchange rates), direct subsidies (including tax incentives), selective credit allocation and other industrial policy instruments (Akyüz and Gore, 1996). Government instruments for stimulating investment and industrial development have been severely eroded by economic liberalization measures.

African countries had largely 'adjusted' by the 1990s, in the sense of adopting market-friendly economic policies and making corresponding institutional changes. Most African countries undertook currency devaluations, trade liberalization and privatization as well as various other investor friendly reforms, particularly towards foreign investors. Improvements in the terms of trade and favourable weather conditions have recently corrected for the deflationary bias of macroeconomic policies to bring about improvements in economic performance.

African savings rates are generally much lower than in fast growing Asian economies; the failure of Africans to raise their savings rates to finance higher investment and growth rates is often emphasized in accounts of the policy challenges facing the region. However, causation is disputed. Keynesians argue that the causal chain runs from growth to investment to savings, and not the other way round. El Bedawi & Mwega (2000) and Mlambo & Oshikoya (2001) have found that causality runs from growth to investment in Africa as well. Capital needs are essentially determined by expected output, i.e. investment demand is driven by expected growth. Meanwhile, 'endogenous growth theories' also suggest that some 'determinants of growth' may themselves be dependent on growth.

The investment patterns following economic liberalization cannot be associated with high economic growth. Historically, investment, growth and productivity have evolved together, e.g. investment was associated with relatively high growth and significant total factor productivity gains in the pre-adjustment

era (Rodrik, 2001). Instead, economic liberalization has brought economic stagnation, de-industrialization and agricultural decline, rather than structural change induced by productivity gains and stronger domestic demand due to increasing incomes (Mkandawire, 1988; Singh, 1987; Stein, 1992; Stewart, 1994). The two countries that performed well were Botswana and Mauritius, both high growth economies not pursuing orthodox adjustment programmes.

De-industrialization in SSA has been severe,<sup>14</sup> as reflected in Table 8, which reports the GDP composition of SSA economies excluding South Africa, both by expenditure and broad categories of value added. First, 'adjustment' orchestrated by the BWIs has insisted on reducing government expenditure, which fell from an average 20 per cent of GDP in the 1970s to 13 per cent during 2000-2006. 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. With strong crowding-out effects linked to these declines in public investment (UNCTAD, 2003), it is not surprising that the average share of industry in value added fell from 21 per cent in the 1970s to 9 per cent in the years since 2000.

Deindustrialization has been worse for the region's major petroleum exporters where the share of manufacturing in value added fell from 21 per cent in the 1960s to 5 per cent between 2000 and 2006. (See Table 8 for statistics on GDP composition for Africa's major petroleum exporting countries.) However, the decrease in government spending has been less drastic in these countries, presumably due to greater fiscal space thanks to natural resource extraction.<sup>15</sup>

**Table 8. GDP Components of Major Petroleum Exporters in Developing Africa, 1970-2006**

<i>Averages of percentage shares in GDP</i>	<i>1970-79</i>	<i>1980-89</i>	<i>1990-99</i>	<i>2000-06</i>
Consumption	59%	64%	64%	53%
Government expenditure	22%	21%	16%	13%
Investment	20%	18%	18%	18%
Exports	39%	32%	36%	43%
Imports	40%	35%	35%	27%
<i>Agriculture, hunting, forestry, fishing</i>	22%	19%	20%	20%
<i>Industry</i>	52%	52%	46%	52%
<i>Mining, Manufacturing, Utilities</i>	45%	45%	41%	48%
<i>Manufacturing</i>	21%	22%	10%	5%
<i>Construction</i>	7%	7%	5%	4%
<i>Services</i>	26%	29%	34%	28%
<i>Wholesale, retail trade, restaurants and hotels</i>	11%	11%	13%	11%
<i>Transport, storage and communications</i>	4%	5%	5%	5%
<i>Other Activities</i>	11%	13%	16%	12%

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

<sup>14</sup> See, as well, Jalilian and Weiss (2000) on the issue of SSA de-industrialization.

<sup>15</sup> Tables A6, A7 and A8 report the composition of GDP by expenditure and sectoral production for all developing economies, Asian developing economies, and major developing country exporters of manufactures, respectively. These statistics point to the crucial importance of manufacturing activities for development.

When most other developing economies embarked on import substitution industrialization in the 1950s, Africa was still under colonial rule and remained so, 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 led to lower utilization of existing capacity and a fall in investment, and prevented many countries in SSA from making a positive adjustment to the changed global environment. In this context, trade liberalization, beginning in the 1980s, prematurely exposed African 'infant' industries to global competition with much more mature industries, causing de-industrialization. UNIDO notes that African countries had been increasingly gaining comparative advantage in labour-intensive manufacturing before such forced import liberalization. Given the BWI presumption that import substitution was bad, there was no attempt to see how such industries could form 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, the policy was simply to abandon existing industrial capacity.

The growth rates of manufacturing value added have fallen from the 1970s, and actually contracted by an average of one per cent annually during 1990-1997 (UNIDO: 245, quoted in Mkandawire, 2002). UNIDO found that in ten industrial branches in 38 African countries, labour productivity declined by seven per cent between 1990 and 1995. The decline in the measure of total factor productivity can also be attributed to de-industrialization.

### *Gains from trade liberalization?*

As discussed 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 to much of Asia and Latin America as well.

A basic premise of the Berg Report was that Africa's supposed comparative advantage lay in agriculture. If only the state would stop 'squeezing' agriculture through marketing boards and price distortions<sup>16</sup>, the supply-side response to agricultural producers would drive export-led growth. Subsequent changes in Africa's exports indicate 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, 2002).

Recent high growth in 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 helped by foreign direct investments from these same big Asian developing countries. However, and 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, and renewed attention is now being given to the issue as food prices rose sharply from late 2007.

Official development rhetoric continues to imply that small farmers in Africa would benefit greatly if agriculture were liberalized under a comprehensive Doha trade agreement. However, this is not an obvious conclusion. After all, many food importing African countries would be worse off without subsidized

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16 Also see Bates (1981)

food imports while very few economies are likely to be in a position to significantly increase their output and exports in the near term. African agricultural production and export capacities have been undermined by the last three decades of economic contraction and neglect.

Severe cuts in public spending under structural adjustment have caused a significant deterioration of infrastructure (roads, water supply, etc) and have undermined the potential supply response (UNECA, 2003)<sup>17</sup>. Even World Bank estimates (Anderson and Martin 2005) of the overall welfare effects from multilateral agricultural trade liberalization do not suggest significant gains for SSA, but on the contrary, the likelihood of some losses. Gains from agricultural trade liberalization would largely accrue to existing major agricultural exporters, mainly from the Cairns Group,<sup>18</sup> again of little benefit to most of SSA. Greater trade liberalization in manufactures with a non-agricultural market access (NAMA) agreement would further undermine the potential for African industrialization. African market access to developed country markets are significantly secured through preferential market access agreements, rather than through past trade liberalization per se. Further trade liberalization threatens to erode this advantage.

Next we will look at some of the issues related to trade liberalization and development in Africa in more detail. Trade liberalization results in an immediate loss of tariff revenue, which can be very significant in developing countries, especially the poorest ones, where tariffs have accounted for up to half of total tax revenue. Reducing these revenues severely reduces their fiscal capacities, and can severely aggravate debt problems with the need for new and increased 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 asked "[w]hy they need to be bribed by poor countries to do what is good for them is an enduring mystery"<sup>19</sup>. Similarly, one might ask why poor countries should agree to multilateral trade liberalization that they need to be compensated for.

'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 generally involves 'winners' and 'losers', even if the overall outcome is welfare-enhancing. Several important policy implications follow from this. First, developing countries should be compensated for their loss of productive and export capacities. Less productive enterprises, including small farmers facing subsidized agri-business competition from G-7 and Cairns Group countries, can be expected to go out of business following trade liberalization. In many industrialized countries, many losers have been protected to varying degrees, e.g. manufacturing workers by welfare, unemployment support, retraining programs and the like. Second, most developing country governments cannot make up for such lost tariff revenues, and hence, need to be compensated by the richer countries. Third, developing countries—especially the least developed countries, African, Caribbean and Pacific small island developing states—need to be compensated to accept the erosion of existing preferences due to further multilateral trade liberalization. Fourth, and most importantly from a development point of view, there are considerable and uncertain costs involved in developing alternative internationally competitive productive and export capacities and capabilities. Fifth, developing countries have been very emphatic that 'aid for trade' must be truly additional to promised official development assistance, which has never been

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

18 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.

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

delivered despite being in existence since the 1960s; otherwise, 'aid for trade' risks becoming a new excuse for imposing new conditionalities promoting trade liberalization.

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" with nonetheless crucial implications. The effects of trade liberalization then are estimated by removing tariffs and subsidies, which enter the price equations affecting demand decisions.

World Bank projections 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 trade liberalization accrue to Argentina, Brazil and India in the case of agriculture, and to China and Vietnam in the case of textiles and garments.

As full trade liberalization is not under negotiation in the Doha Round, Anderson and Martin (2005) also considered several possible Doha Round scenarios of trade liberalization. Their most realistic scenario projects welfare gains by 2015 of \$96 billion, a third of their estimated gains from full trade liberalization, most of which, some \$80 billion, or 83 per cent, flows to rich countries.

Crucially, the LINKAGE model presumes that governments do not, cannot or do not want to increase either borrowing or expenditure, which means that the public deficit in the model remains constant. In order to achieve this, the government has to raise taxes. Thus, crucial issues—a thin tax base and a large informal sector—are assumed away, implying that taxes can be raised easily. Obviously, if taxes on household consumption are raised, private demand decreases. On the positive side, consumption increases because the prices of imports fall following tariff removal.

An overall positive estimate of 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. Additional real income—from increased exports and higher consumption—is presumed to outweigh the impact of increased taxes on developing country households.

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 Africa 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 could gain as much as \$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 relative to 2007 GDP discussed 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 gains from trade liberalization are one-time increases attributable to theoretical static comparative advantage gains. Such calculations ignore the realities behind the decline of African food agriculture in recent decades, for example. As discussed at length before, World Bank structural adjustment programmes 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, further reducing many of the ‘long term’ welfare improvements these models predict. Hence, it is important to consider the implications of reduced subsidies for food-importing countries as well as non-food farmers in all countries.

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 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 comparable 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 papers reviewed by him expect 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; if efficient redistribution mechanisms are put in place, all agents could experience increased welfare”. This too supports the case for the need to compensate losers. Several studies reviewed by Bouet (2008: Table 4.2) suggest SSA will be one of the losers in terms of welfare. Bouet, *et al.* (2005) found that rich countries would gain \$19 billion, China and South Asia \$1 billion each, while other developing countries would lose \$3 billion.

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 a worsening trade balance, debt problems are likely to increase, and any short term gains in employment and GDP could evaporate quickly under the pressure of 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 regions. Kraev considers two different scenarios. In the first, it is assumed that the trade balance remains unchanged, but that the level of demand is variable (implying the possibility of underemployment of resources). With trade liberalization, imports increase and domestic demand has to decrease to satisfy the external balance constraint. Results in this scenario suggest losses in the order of 10 per cent of GDP (Kraev 2005: 14, Table 3) for SSA. The second scenario holds GDP constant, and varies the trade balance. 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 cent<sup>20</sup>, 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 previously discussed studies, 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.

Crucially, 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 lib-

<sup>20</sup> The "central Doha scenario" assumes that developed and developing countries decrease 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.

eralization (Polaski 2006: 28, Figure 3.8). Polaski's findings appear to more accurately reflect 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 permanent slow growth by pursuing static comparative advantage. It is now generally acknowledged that economic growth—particularly the accumulation of capacities and capabilities—precedes export growth. In that sense, trade can foster a virtuous circle, but cannot trigger it. Meanwhile, UNCTAD has long pointed to the importance of growth 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, 2002). 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 this may be seen as low by international standards. Another 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 (2002) notes that the advent of the WTO trade regime was expected to entail losses for Africa from the outset, especially with the loss of preferential treatment (from erstwhile colonial rulers and 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), though some (e.g. Amsden, 1999) argue that the WTO regime still leaves room for industrial policy initiatives.

Hence, in summary, there is considerable controversy concerning structure, assumptions and resulting estimates from particular models. Overall, though, there is broad agreement that gains for SSA countries from any realistically achievable Doha agreement are, with near certainty, negligibly small, if not negative. Besides, it is important to remember that neither computable general equilibrium (CGE) models nor theoretical debates about trade liberalization are directly relevant to the WTO negotiations.

### *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 9). 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 59 per cent in 2000–2006. The export share to East Asia—which includes the ten ASEAN members plus China, Japan and South Korea—almost tripled from 5 per cent to 14 per cent.

However, most of this trade expansion is fairly recent. The share of exports for East Asia averaged 5 per cent between 1970 and 1989, grew to 8 per cent in the 1990s, and has since jumped to 14 per cent. The growth of China's demand for commodities since the late 1990s has been the driving force behind this trend.

**Table 9. Destinations and sources of SSA trade with selected regions, 1960-2006**

<i>Export shares, selected regions</i>	1960-69	1970-79	1980-89	1990-99	2000-06
To developed countries	74%	69%	64%	62%	59%
To ASEAN+3*	5%	6%	6%	8%	14%
Intra-SSA	5%	5%	4%	10%	12%
To rest of the world	16%	20%	26%	20%	15%
<i>Import shares, selected regions</i>					
From developed countries	80%	80%	71%	64%	53%
From ASEAN+3*	7%	10%	11%	18%	20%
Intra-SSA	5%	5%	6%	10%	12%
From rest of the world	8%	4%	12%	8%	15%

Source: *UNCTAD Handbook of Statistics* and authors' calculations.

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

Notably, intra-SSA exports increased strongly from 5 per cent of total exports in the 1960s to 12 per cent in 2000-06. Intra-regional trade also has significant potential for development, if it relies on and strengthens developmental linkages. The declining importance of industrialized countries' markets for African commodity exporters may have reduced the continent's direct vulnerability to the business cycles of the Western economies compared with the emerging economies of Asia.

Second, sourcing from emerging countries has increased. The lower part of Table 9 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 53 per cent in 2000-2006. Similarly, as above, both Asian and intra-regional import sources have become more important, with the former rising from 7 per cent to 20 per cent, and the latter from 5 per cent to 12 per cent.

The apparent diversification in terms of the origin and destination of imports and exports decreases dependence and improves economic integration in some respects, but the greater reliance on minerals 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. The persistent reliance on exports of primary commodities, especially minerals, is telling, especially for SSA countries. Table 10 shows the share of primary commodity exports in total world exports and selected African country groups. The global share of commodity exports rose slightly from 1995-2000 to 2000-2006.

The upturns for a wide range of commodity prices, especially petroleum related products, have had important consequences. The share of these exports for all developing countries in Africa increased from 71 per cent in 1995-2000 to about 73 per cent in 2001-2006, and from an overwhelming 96 per cent to 97 per cent for the major petroleum exporters in the region. This picture—aggregating all primary commodities—obscures agricultural exports' declining role, as reflected in the lower part of Table 10. For all developing economies in Africa, the average share of agricultural exports in total exports fell from 18 per cent to 12 per cent between 1995-2000 and 2000-2006. The fall in the share of agricultural exports is likely due to a combination of much higher oil and other mineral prices—in excess of also rising agricultural commodity prices—and continued structural change towards services.

**Table 10. Africa's export composition, 1995-2006**

	1995-2000	2001-2006
<i>Share of primary commodity exports*</i>		
World	22.04%	23.67%
Developing economies: Africa	70.99%	72.86%
Major petroleum exporters: Developing Africa	96.44%	97.39%
Sub-Saharan Africa excluding South Africa	85.48%	83.27%
<i>Share of agricultural exports**</i>		
World	10.38%	8.57%
Developing economies: Africa	18.15%	12.64%
Major petroleum exporters: Developing Africa	3.27%	1.51%
Sub-Saharan Africa excluding South Africa	27.90%	18.45%

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

\* Data includes SITC 1 through 4 plus 68.

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

This is underlined by the fact that Africa, particularly SSA, did not significantly increase the exports of manufactured goods in 2001-2006 as compared to 1995-2000 (Table 11). While developing economies in Asia export as much as 26 per cent of total manufactured goods in the world, Africa's share of world manufactured exports does not reach 1%. 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.

**Table 11. African shares of world manufacturing exports, 1995-2006**

	1995-2000	2001-2006
<i>Africa's share of world manufacturing exports*</i>		
<i>Developing economies: Africa</i>	0.702%	0.820%
Developing economies: America	3.6%	3.8%
Developing economies: Asia	21.9%	26.3%
<i>Major petroleum exporters: Developing Africa</i>	0.037%	0.038%
Major petroleum exporters: Developing America	0.102%	0.102%
Major petroleum exporters: Developing Asia	0.422%	0.627%
<i>Sub-Saharan Africa</i>	0.458%	0.558%
<i>Sub-Saharan Africa excluding South Africa</i>	0.158%	0.225%
<i>SADC**</i>	0.394%	0.487%

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.

More pronounced trade specialization or dependence is principally due to economic liberalization strategies pursued under the auspices of the Bretton Woods institutions. The period since the 1980s has seen a general neglect of agriculture, especially for food security,—often in the form of reduced public spending for infrastructure, agricultural research and development, extension services and agricultural subsidies—and some encouragement of export-oriented agriculture. Such policies undermined earlier commitments and efforts in the interest of food security, rural development and even urban-rural redistribution, undermining the viability of small-scale farming, increasing reliance on food imports, and inadvertently creating the conditions for the food crisis since late 2007.

Meanwhile, developed countries strengthened their efforts to ensure their own food security and support their own farmers. More recently, they have begun promoting bio-fuels, ostensibly for energy security and climate change mitigation, inadvertently precipitating the food price spikes. Indeed, the possibility of many developing countries gaining from increased agricultural exports has been frustrated by such increased protection and subsidies in rich economies. Meanwhile, trade preferences ensure better market access, particularly for former colonies, LDCs, African, Caribbean and Pacific economies. Table 12 summarizes average tariff rates in SSA vis-à-vis the developed world. As discussed further below, erosion of such preferential market access is a particular concern of African countries in negotiations over further trade liberalization.

### *Trade concentration, tropical fate and resource curse*

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; Mweha, 2002; Ndulu, Semboja, and Mbelle, 2002). In some cases, manufactured exports increased even as the manufacturing sector contracted. “No major expansion occurred in the diversity of products exported by most of the Sub-Saharan African countries... Indeed, the product composition of some of the African countries’ exports may have become more concentrated. Africa’s recent trade performance was strongly influenced by exports of traditional products which appear to have experienced remarkably buoyant global demand in the mid-1990s” (Ng and Yeats: 21, quoted by Mkandawire, 2002). Figure 2 confirms this, with the index of export diversification showing that Africa did not broaden its export base during 1995-2006. The index has actually declined slightly since 2004, probably due to the rise in commodity prices.<sup>21</sup>

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. 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 to be oblivious to W. A. Lewis’ (1969; 1978) pioneering work seeking to explain economic performance in the tropics. Lewis (1978) argued that the tropics did not industrialize and grew slower than temperate settlements during the last period of globalization from the end of the 19th century. However, his data do not confirm his assertion in his chapter synopsis 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). Both the new temperate settlements’ and tropical countries’ exports grew faster than US or European trade.

<sup>21</sup> In contrast, many Asian economies have seen considerable increases in their export diversification indices. However, the series shown here are too short—only beginning in the mid-1990s—to show improvement among ‘all developing economies’.

**Table 12. Average applied import tariffs, by sector and region, 2001**  
(per cent, ad valorem equivalent)

<i>Exporting region:</i>	<i>World</i>	<i>SSA</i>
<i>Importing region:</i>		
<b>Agriculture and food</b>		
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
<b>Textiles and wearing apparel</b>		
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
<b>Other manufactures</b>		
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
<b>All merchandise</b>		
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 Mensbrugge (2005: 37, Table 1, Table A12.3).

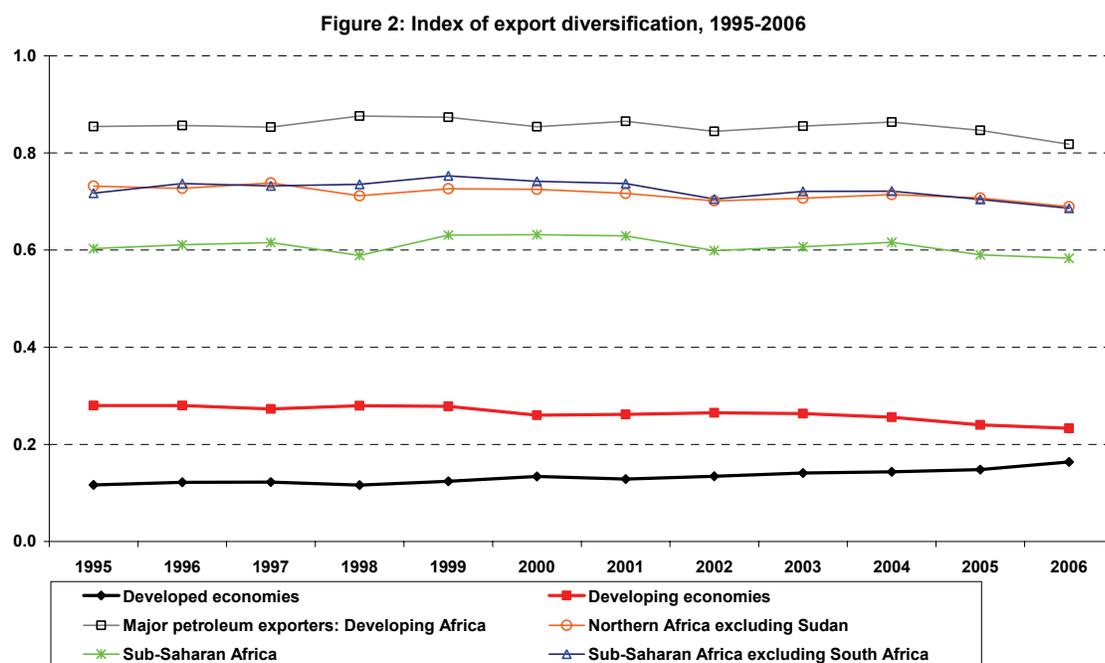
\* High-income countries include the newly industrialized East Asian customs territories of Hong Kong, Korea, Singapore and Taiwan as well as the European transition economies that joined the EU in April 2004.

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

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

The tropics generally had more modest export bases than the temperate zone to begin with, suggesting that the tropics were better able to respond to export demand despite the disadvantages they faced<sup>22</sup>.

<sup>22</sup> 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. Among the new *temperate* settlements—Canada, Australia, New Zealand, Argentina, Chile, South Africa and Uruguay—only Argentina and South Africa featured export growth rates above 5 per cent (see Lewis 1978: 195, Tables 8.1 and 8.2).



Lewis emphasized that not all tropical countries have been able to take advantage of opportunities from increased export demand. He suggested that the exports in greater demand were largely water-intensive; hence, only those areas with enough water to substantially increase their exports were able to take advantage of the new opportunities. Thus, the more arid tropical areas, e.g. in SSA, could not benefit from the increased demand for tropical products.

Some Southeast Asian newly industrializing countries and some other tropical countries have grown rapidly since the sixties, but most tropical countries have fared badly, especially in the last two decades of the 20<sup>th</sup> century. It is not enough to simply attribute the tropical growth shortfall to 'pests, diseases, typhoons and other natural calamities', though such factors may have been important. As mentioned earlier, Lewis observed that the terms of trade for tropical commodity exports have deteriorated badly against temperate commodity exports. In the half century between 1916 and 1966, for example, the index for natural rubber fell from 100 to 16. This suggests that productivity gains in the tropics were largely lost to worsening terms of trade, with the situation worse where few productivity gains were made.

Many observers (e.g. Intal, 1997) have suggested that SSA has lagged behind in terms of agricultural development since the sixties due to inadequate agricultural R&D and infrastructure, crop and agronomic considerations as well as macroeconomic conditions. Higher temperate zone agricultural productivity has partly been due to long, sustained and 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 has mainly benefited irrigated farms in Southeast and South Asia, while arid zone agriculture in Africa has generally been left behind. The Southeast Asian success with tree crop agriculture may offer some opportunities for equatorial Africa. Significant investments in tree crop agricultural R&D (e.g. in rubber, oil palm and cocoa) as well as rural infrastructure may have made possible productivity gains in tree crop agriculture as well.

Sachs' (1997) suggests that natural resource wealth is bad for growth. Curiously, the study defines natural resource abundance in terms of the ratio of net primary product exports to GDP in 1971, without distinguishing extractive non-renewable natural resources (especially minerals) from agricultural products. So-called Dutch Disease mainly involves the former, which tend to be very capital-intensive and only involve a small proportion of the population in extraction of the resource. Consequently, additional income from resource extraction mainly accrues to a few 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, helping offset problems associated with the mineral exports of Malaysia and Indonesia, in sharp contrast to, say, Nigeria. Generally better macro-economic management—including undervalued exchange rates—has also helped, especially to check the tendency to indulge in expenditure on imports or non-tradeables.

## Conclusions

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

There has been a 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 the debt crises of the 1980s and, more recently, in the wake of currency and financial crises. This has been especially true of much of Latin America and Africa, which experienced a 'lost decade' of economic growth in the 1980s. The 1990s were only slightly better, with sporadic, but not sustained growth spurts. While the Washington Consensus has been challenged, if not discredited in academic and even policy circles, revised versions continue to provide the ideological basis for economic analysis and policy-making in developing countries, especially in Africa, Latin America and other smaller economies.

Invariably, the circumstances of such policy changes as well as the limited policy capabilities of the governments concerned have meant that little preparation—in terms of a pro-active strategy or transitional policies to anticipate and cope with the implications of sudden exposure to new international competition—has been undertaken. Few of the investment policy instruments of the past are viable or feasible options today, including many used successfully in post-war East Asia. Most of the main industrial policy tools were used by the advanced industrial economies, including those that now deny such selective industrial promotion to others. 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), and for export promotion.

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

The preceding discussion strongly suggests that much of the conventional wisdom regarding African development and poverty is not only misguided, but often harmful. International financial liberalization has not improved growth, but has instead exacerbated volatility. For Africa, net capital outflows, facilitated by such liberalization, have exceeded ODA inflows—not only on a net, but even on a gross basis. Worse still, there is strong evidence that some of the economic policy advice given to and the conditionalities imposed on SSA governments have reflected vested interests and prejudices. In recent years, much emphasis has been given to promoting FDI, even though experiences elsewhere show that FDI generally tends to follow, rather than lead domestic investments. Not surprisingly, there continues to be limited FDI, mainly confined to the minerals sector, with limited employment and other benefits. Nonetheless, the economic policy reforms have enhanced the profitability and protection of FDI while reducing the trickle down benefits to domestic economies of such enclave investments.

Available evidence suggests that the gains from trade liberalization will be modest for the world economy, and even more so for developing countries, while gains for Africa are even less assured. There is considerable evidence that the main winners from agricultural trade liberalization will be the existing big 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 in Africa.

In view of the pervasive influence of such erroneous and harmful policy advice and conditionalities, it is crucial to increase ‘policy space’ for governments to be able to pursue policies for development. Countries need to be able to choose or design their own development strategies as well as 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 dependence on aid (UNCTAD 2006). Over two decades of economic stagnation, contraction and increased poverty, corruption, abuse as well as disease, conflict, and other scourges have also taken a huge toll on the continent’s economic, social and political fabric, and 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 such outcomes. The United Nations’ Millennium Development Goals (MDGs) provide some specific welfare targets and indicators for this purpose. Enhanced social expenditure should be universal as far as possible to ensure broad public support and, thus, sustainability, but selective targeting—including affirmative action measures—may be needed to overcome long-term discrimination, marginalization and neglect. After all, progress towards achieving the MDG indicators may still bypass the poor as even the rising tide of economic growth does not raise all boats.

The MDGs are important for and mutually reinforce the UN's broader Development Agenda of internationally agreed development goals derived from the UN's global summits and conferences, especially since the 1990s, such as the Earth Summit in Rio de Janeiro in 1992, the Population and Development Conference in Cairo in 1994, the Beijing conference on women in 1995, the 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. It is now up to African governments to follow through with meaningful reforms to reinstitute sustainable development processes, and for the international community of donors and the Bretton Woods institutions to provide the financial means, other resources and policy space for them to do so.

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## Appendices

**Table A1. GDP per capita in constant 2000 US\$**

<i>Annual average compound growth rates</i>	<i>1960-69</i>	<i>1970-79</i>	<i>1980-89</i>	<i>1990-99</i>	<i>2000-06</i>
Equatorial Guinea				17.6%	17.0%
Angola				-2.3%	8.5%
Chad	-1.2%	-3.9%	3.4%	-0.6%	8.5%
Sierra Leone	1.9%	0.2%	-1.8%	-6.3%	8.2%
Mozambique			-1.0%	2.3%	5.9%
Sudan	-1.2%	0.7%	0.5%	2.8%	5.2%
Tanzania				-0.2%	3.8%
Botswana	4.8%	11.4%	7.8%	3.4%	3.6%
Ethiopia				0.1%	3.4%
Mauritius			4.9%	4.2%	3.1%
Togo	5.8%	0.5%	-2.4%	-0.6%	-0.4%
Malawi	2.6%	3.5%	-2.4%	1.6%	-0.6%
Burundi	0.8%	1.0%	1.2%	-3.6%	-0.8%
Eritrea					-1.2%
Seychelles	0.5%	6.8%	1.8%	3.0%	-1.3%
Cote d'Ivoire	4.3%	2.5%	-3.4%	0.0%	-1.6%
Central African Republic	-0.1%	-0.2%	-1.2%	-1.0%	-1.8%
Guinea-Bissau		0.0%	2.3%	-2.2%	-2.5%
Liberia	1.9%	-0.5%	-6.4%	-3.0%	-5.1%
Zimbabwe	1.2%	-1.4%	0.3%	0.0%	-5.1%

Source: World Bank, *World Development Indicators*

**Table A2. GDP per capita in constant 2000 US\$**

<i>Average per decade</i>	1960-69	1970-79	1980-89	1990-99	2000-06
Seychelles	2440	3506	4435	6388	7099
Equatorial Guinea			614	1103	6043
Gabon	2496	5336	4943	4720	4255
Mauritius			1907	3055	4137
Botswana	295	792	1685	2768	4040
South Africa	2593	3244	3324	2993	3239
Namibia			1817	1715	1984
Swaziland		876	1035	1317	1354
Cape Verde			759	953	1261
Congo, Rep.	649	811	1230	1060	1056
Chad	237	202	170	177	218
Sierra Leone	236	279	278	196	192
Eritrea				187	172
Niger	357	270	221	175	165
Liberia	717	817	601	115	152
Guinea-Bissau		178	167	179	141
Malawi	110	147	146	141	139
Ethiopia			121	111	128
Burundi	98	130	145	130	104
Congo, Dem. Rep.	321	307	239	130	85

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

**Table A3. Selected SSA countries: Percentage of population below poverty line, 1994-2004**

<i>US\$1 PPP a day</i>	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Burkina Faso	54%				45%						27%
Cote d'Ivoire		23%			55%				48%		
Madagascar						66%		60%			
Mauritania			29%				26%				
Nicaragua					45%			45%			
Niger	55%	61%									
Nigeria			78%								71%
Senegal		24%						70%			
South Africa		6%					7%				
Zambia			73%		66%					76%	64%

Source: Millennium Development Goal Indicators, see <http://mdgs.un.org/>

**Table A4. SSA economies with the highest ratio of FDI to GDP, 1970-2006**

	1970-79	1980-89	1990-99	2000-06
Equatorial Guinea	0.0%	1.6%	31.0%	30.1%
Chad	1.5%	1.2%	1.5%	20.0%
Mauritania	-0.7%	1.0%	0.4%	13.7%
Angola	0.1%	2.0%	8.4%	10.6%
Gambia	1.6%	0.5%	4.7%	10.0%
Seychelles	9.1%	7.0%	5.8%	9.6%
Namibia	0.0%	0.2%	2.8%	5.8%
Liberia	13.4%	15.2%	14.1%	5.7%
Congo	6.3%	1.4%	4.9%	5.4%
Mozambique	0.0%	0.1%	2.7%	4.8%
Cape Verde	0.0%	0.1%	2.6%	4.8%
Burundi	0.1%	0.3%	0.1%	4.7%
Congo, Democratic Republic of	1.2%	1.3%	3.3%	4.0%
Djibouti	0.2%	0.1%	0.5%	3.9%
Lesotho	0.0%	1.6%	2.7%	3.9%
Mali	0.2%	0.2%	0.9%	3.9%
Zambia	1.2%	1.7%	4.2%	3.9%
Botswana	2.0%	5.1%	0.3%	3.8%
Ethiopia	0.4%	0.0%	0.9%	3.7%
Togo	1.4%	1.0%	0.9%	3.2%

Source: *World Investment Report, 2007*, and authors' calculations

**Table A5. Net debt transfers as GDP shares of selected African countries, 1990-2004\***

	1990-94	1995-99	2000-04
<i>'Top Ten' net transferors</i>			
Gabon	-0.9%	-5.4%	-5.4%
Algeria	-3.0%	-4.5%	-4.4%
Côte d'Ivoire	-0.1%	-5.8%	-4.2%
Morocco	-2.9%	-3.4%	-3.8%
Mauritius	0.4%	-0.1%	-2.7%
Nigeria	-3.6%	-2.7%	-2.5%
Angola	3.3%	-3.0%	-2.4%
Guinea-Bissau	12.1%	3.3%	-2.3%
Lesotho	5.2%	2.6%	-2.1%
Congo	-2.3%	-4.4%	-2.0%
<i>'Top Ten' net transferees</i>			
Uganda	5.1%	2.0%	3.2%
Niger	0.9%	1.0%	3.4%
Madagascar	1.9%	1.3%	3.6%
Ethiopia	2.4%	0.6%	3.6%
Sierra Leone	2.5%	1.4%	4.2%
Mauritania	2.7%	-0.6%	4.6%
Gambia	1.7%	2.4%	5.2%
Sao Tome and Principe	34.8%	17.4%	6.3%
Seychelles	0.3%	-0.2%	7.1%
Eritrea	2.5%	5.9%	9.4%

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 creditors.

**Table A6. All Developing Economies: Average shares of GDP, 1970-2006**

<i>Average GDP shares</i>	1970 -1979	1980 -1989	1990 -1999	2000 -2006
Agriculture, hunting, forestry, fishing	21%	17%	13%	11%
Industry	37%	38%	35%	37%
Mining, Manufacturing, Utilities	32%	32%	29%	32%
Manufacturing	22%	22%	22%	23%
Construction	6%	6%	6%	5%
Services	42%	45%	52%	52%
Wholesale, retail trade, restaurants and hotels	12%	13%	14%	13%
Transport, storage and communications	6%	6%	7%	8%
Other Activities	23%	26%	31%	31%

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 A7. Asian Developing Economies: Average shares of GDP, 1970-2006**

<i>Average GDP shares</i>	1970 -1979	1980 -1989	1990 -1999	2000 -2006
Agriculture, hunting, forestry, fishing	27%	20%	15%	11%
Industry	37%	38%	37%	39%
Mining, Manufacturing, Utilities	33%	32%	31%	34%
Manufacturing	22%	22%	25%	26%
Construction	5%	6%	6%	5%
Services	35%	42%	48%	50%
Wholesale, retail trade, restaurants and hotels	11%	12%	14%	13%
Transport, storage and communications	5%	6%	7%	8%
Other Activities	20%	24%	27%	29%

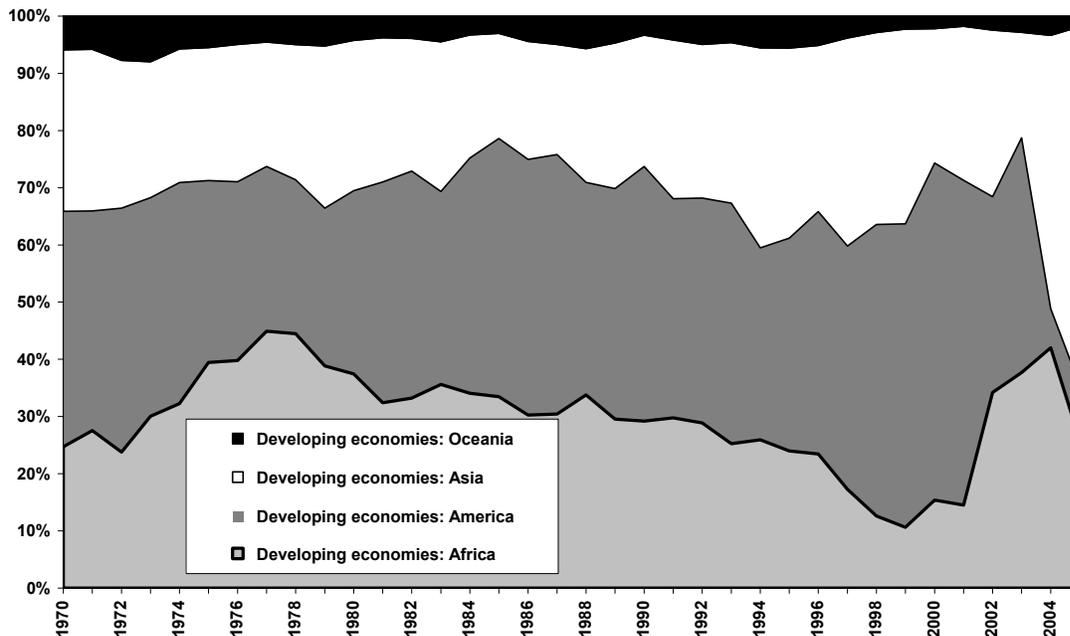
Source: *UNCTAD Handbook of Statistics* (Table 8.3: Gross domestic product by type of expenditure and by kind of economic activity) and authors' calculations.

**Table A8. Major developing country exporters of manufactures, 1970-2006**

<i>Average GDP shares</i>	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>2000</i>
	<i>-1979</i>	<i>-1989</i>	<i>-1999</i>	<i>-2006</i>
Agriculture, hunting, forestry, fishing	24%	19%	12%	10%
Industry	34%	36%	35%	36%
Mining, Manufacturing, Utilities	29%	31%	29%	31%
Manufacturing	27%	28%	26%	28%
Construction	5%	6%	7%	6%
Services	42%	45%	52%	54%
Wholesale, retail trade, restaurants and hotels	12%	13%	13%	14%
Transport, storage and communications	6%	6%	7%	8%
Other Activities	23%	26%	32%	32%

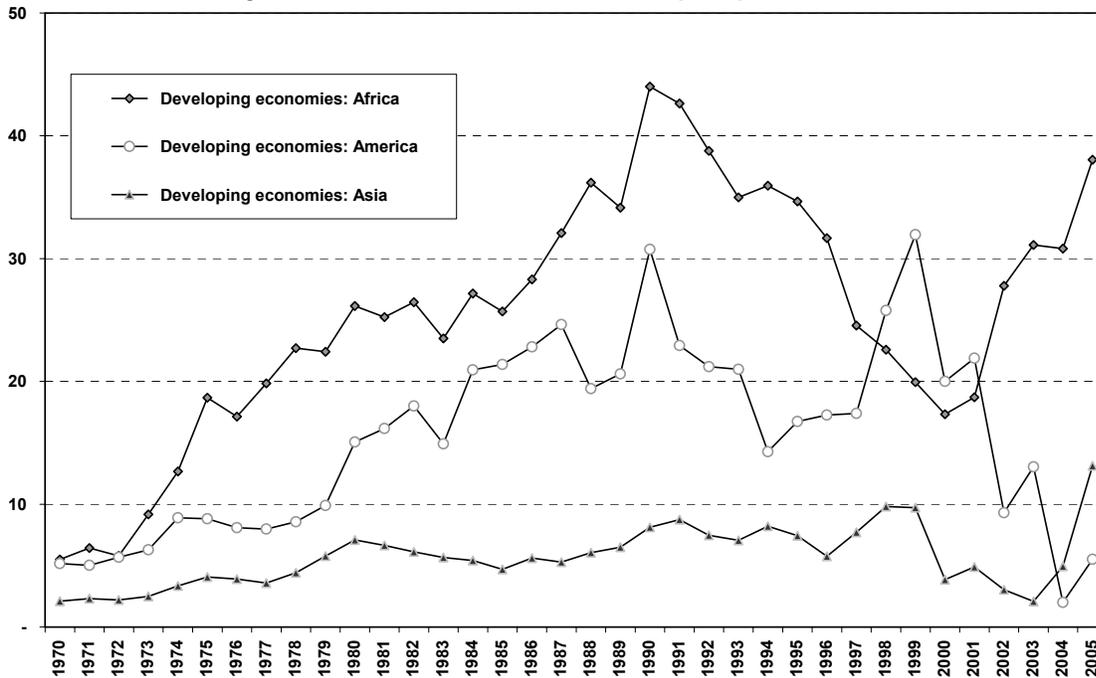
Source: *UNCTAD Handbook of Statistics* (Table 8.3: Gross domestic product by type of expenditure and by kind of economic activity) and authors' calculations.

Figure A1: Total official aid flows: Regional composition, weighted by GDP per capita, 1970-2005



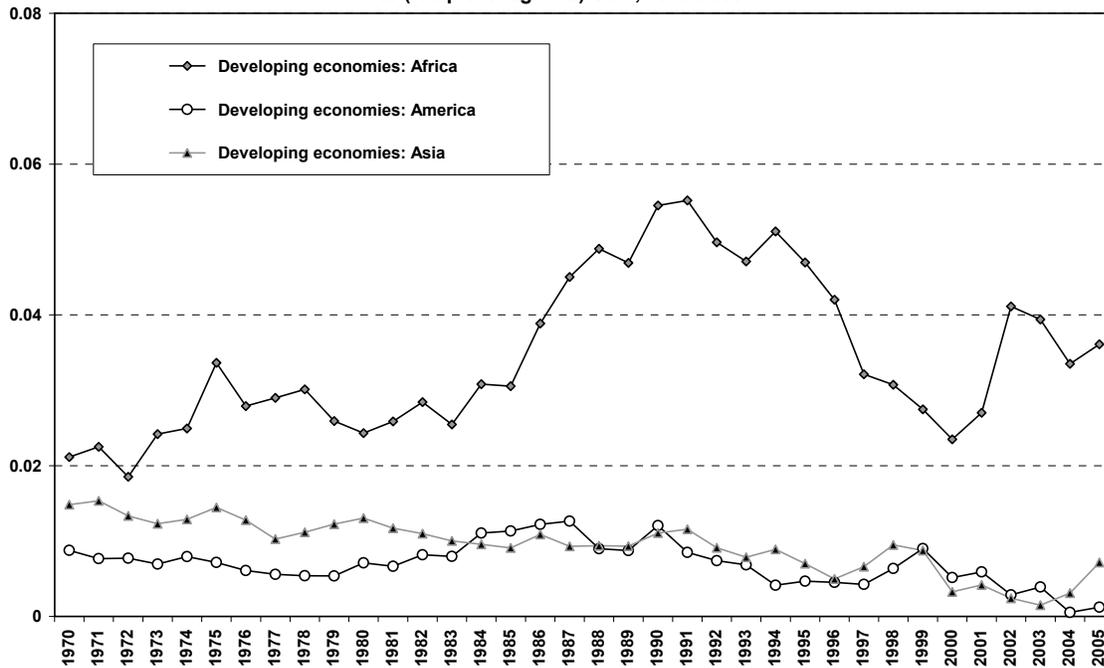
Source: UNCTAD Handbook of Statistics and authors calculation.

Figure A2: Total official aid flows: Current US\$ per capita, 1970-2005



Source: UNCTAD Handbook of Statistics and authors calculation.

Figure A3: Total official aid flows relative to (recipient region's) GDP, 1970-2005



Source: UNCTAD Handbook of Statistics and authors calculation.