

**DESA Working Paper No. 102**

ST/ESA/2011/DWP/102

February 2011

## Globalization and development in sub-Saharan Africa

*Jomo Kwame Sundaram with Oliver Schwank and Rudiger von Arnim*

---

### 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. Foreign direct investment in SSA has been largely confined to resource—especially mineral—extraction, even as continuing capital flight has reduced financial resources available for productive investments. Premature trade liberalization has further undermined prospects for the economic development of SSA as productive capacities in many sectors are not sufficiently competitive to take advantage of any improvements in market access.

JEL Classification: O1 (Economic Development), O2 (Development Planning and Policy), O55 (Economy-wide Country Studies: Africa).

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

---

**Jomo Kwame Sundaram** is Assistant Secretary-General for Economic Development in the United Nations Department of Economic and Social Affairs, UN-DESA (e-mail: [jomo@un.org](mailto:jomo@un.org)).

**Oliver Schwank** is a development economist with research interests in industrial development and the political economy of development, particularly in Africa (e-mail: [oliver.schwank@wu-wien.ac.at](mailto:oliver.schwank@wu-wien.ac.at)).

**Rudiger von Arnim** is Assistant Professor in the Economics Department, University of Utah, Salt Lake City, and worked for the G24 (e-mail: [Rudiger.vonArnim@economics.utah.edu](mailto:Rudiger.vonArnim@economics.utah.edu)).

Comments should be addressed by e-mail to the authors.

## Contents

<b>1. Introduction</b> .....	<b>1</b>
Catching up? .....	1
African growth in a changing policy environment .....	1
Deindustrialization.....	4
Slow growth, poverty and inequality .....	5
<b>2. Resource mobilization for development</b> .....	<b>7</b>
FDI flows: small and highly concentrated.....	9
Portfolio flows mainly speculative and negative .....	11
Remittances.....	12
Aid: unpredictable, fragmented and welfare-oriented .....	14
<b>3. Trade and development</b> .....	<b>16</b>
What does Africa trade and with whom? .....	17
Tropical fate and resource curse .....	21
Gains from trade liberalization? .....	23
<b>4. Conclusions</b> .....	<b>28</b>
<b>References</b> .....	<b>30</b>
<b>Appendix</b> .....	<b>36</b>

UN/DESA Working Papers are preliminary documents circulated in a limited number of copies and posted on the DESA website at <http://www.un.org/en/development/desa/papers/2010> to stimulate discussion and critical comment. The views and opinions expressed herein are those of the author and do not necessarily reflect those of the United Nations Secretariat. The designations and terminology employed may not conform to United Nations practice and do not imply the expression of any opinion whatsoever on the part of the Organization.

United Nations  
Department of Economic and Social Affairs  
2 United Nations Plaza, Room DC2-1428  
New York, N.Y. 10017, USA  
Tel: (1-212) 963-4761 • Fax: (1-212) 963-4444  
e-mail: [esa@un.org](mailto:esa@un.org)  
<http://www.un.org/en/development/desa/papers/2011>

## Globalization and development in sub-Saharan Africa

*Jomo Kwame Sundaram with Oliver Schwank and Rudiger von Arnim*

### 1. Introduction

#### *Catching up?*

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

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

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

#### *African growth in a changing policy environment*

Between 1970 and 2000, real income growth failed to keep pace with population growth in 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, falling 1 per cent and 0.5 per cent, respectively. Since 2000, SSA countries have posted improved growth rates, largely thanks to primary commodity-driven recoveries, and most seem to have recovered relatively quickly from the global economic crisis. Even so, average real per capita income is still barely higher than in 1970 and SSA fell behind all other regions on most development indicators (see table 1). The regional average also conceals vast differences within the continent, where countries affected by violent conflict and political instability were the worst performers, and mainly resource-rich countries have profited from the commodities boom since 2000 (see appendix tables A1 and A2). Furthermore, the weak and often erratic growth performances have been accompanied by regressive trends in income distribution in many countries, with a particularly marked drop in the average per capita

**Table 1. Average annual per capita growth rates, 1960-2008**

Average compound growth rates per decade (percentage)					
	1960-1969	1970-1979	1980-1989	1990-1999	2000-2008
<b>World</b>	<b>3.4</b>	<b>2.1</b>	<b>1.4</b>	<b>1.2</b>	<b>1.7</b>
East Asia and the Pacific	1.3	4.4	6.1	7.1	8.0
Europe and Central Asia				-2.0	5.8
Latin America and the Caribbean	2.4	3.1	-0.8	1.5	2.3
Middle East and North Africa		2.8	-0.4	1.8	2.7
South Asia	1.8	0.3	3.2	3.3	5.4
Sub-Saharan Africa	2.0	0.7	-1.0	-0.5	2.4
GDP per capita in constant 2000 US dollars					
<b>World</b>	<b>2 806</b>	<b>3 659</b>	<b>4 177</b>	<b>4 780</b>	<b>5 585</b>
East Asia and the Pacific	140	210	358	696	1 299
Europe and Central Asia			2 296	1 847	2 496
Latin America and the Caribbean	2 277	3 099	3 446	3 643	4 197
Middle East and North Africa	923	1 295	1 372	1 464	1 687
South Asia	201	224	274	373	545
Sub-Saharan Africa	475	577	552	504	553

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

income of the poorest 20 per cent in SSA.<sup>1</sup> Not only is this likely to undermine human resource development and social as well as political cohesion in SSA, it is also likely to restrict future growth prospects.

In historical perspective, this development failure was unexpected and seems a lot less unavoidable than the longstanding “Afro-pessimistic” discourse on Africa’s economic development would have us believe. In the 1960s, per capita gross domestic product (GDP) and GDP growth were higher in Africa than in Asia, and expectations then were that African countries would grow faster due to their superior resource endowments (World Bank, 2005, p. 274). However, they failed to adjust to changing global economic conditions and went on to experience over two lost decades of development from the late 1970s until the early 2000s.

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

The policy shift has often been dated back to the influential 1981 World Bank report *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, often referred to as the Berg Report after its principal author, Professor Elliot Berg, from the University of Michigan’s Economics Department. This report recommended adopting a more outward-oriented programme of raw materials exports, eliminating subsidies

- 1 The poorest 20 per cent of the SSA population saw their incomes decline by an average of 2 per cent per annum between 1980 and 1995, or twice the rate of decline of the average per capita income (Geda and Shimeles, 2007).
- 2 More recently, this domestic focus has gone beyond economic policies to include institutions, governance, corruption, rent-seeking elites, ethnic diversity, geography, disease, “resource wealth”, population growth, etc.

and controls and letting market forces determine raw materials' export prices. In a sense, the Berg Report led to the "counter-revolution" against development economics (Toye, 1987), even before the subsequent shift in World Bank policy prescriptions after the departure of McNamara and Hollis Chenery (Kapur, Lewis and Webb, 1997). The international sovereign debt crises from the early 1980s provided an opportunity for the Bretton Woods institutions (BWIs) to broaden this agenda and impose it on recalcitrant Governments through policy conditionalities for providing desperately needed credit.

While the International Monetary Fund (IMF) was initially responsible for short-term, typically anti-inflationary macroeconomic stabilization programmes, and the World Bank for more medium-term market-liberalizing structural adjustment programmes (SAPs), their policies 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 the "conventional wisdom" at the core of economic policy making across most of the African continent (see, for example, Stiglitz, 1998 and Stein, 2008).

There is little disputing that the developments in the world economy in the mid-to-late 1970s and the early 1980s have had profound impacts on SSA economic prospects. The abandonment of the Bretton Woods system, including fixed exchange rates, the two oil shocks of the 1970s and the interest rate hike of the early 1980s all undermined the profitability of private firms in the real economy. They also led to a collapse in State revenues and added to the debt that had begun to accumulate from the mid-1970s with the greater availability of cheap credit through the increased recycling of petrodollars following the oil price spikes of 1973-1974 and 1978-1979. A vicious downward spiral followed in many countries, with little prospect of raising export earnings to maintain import levels; macroeconomic policies were tightened further in line with structural adjustment programmes, which in turn increased constraints on investment, growth and diversification. The debt overhang from the 1970s mushroomed, and by further squeezing investment in critical areas such as transport, health and education, undermined some of the most essential conditions for sustainable growth and poverty reduction.

Negative average per capita income growth from the late 1970s into the early twenty-first century suggests that the reforms failed, but there has been little consensus over the reasons why. Nonetheless, the BWIs were generally quick to claim responsibility for the exceptional economic success stories (see, for example, IMF, 2002), even as they continued to deny the adverse consequences of the policies pursued by SSA Governments, which were recommended or imposed upon them. Rather, they insisted that the slow growth was best explained by the reluctance of African policymakers to undertake needed reforms, for example, to open up quickly enough, only resulting in partial implementation of adjustment programmes.<sup>3</sup>

The link between the structural adjustments required by the BWIs and subsequent economic growth is extremely tenuous, however: Of the 15 countries identified as core adjusters by the World Bank in 1993, only 3 were subsequently classified by the IMF as strong economic performers, while few of the original 15 are among the current crop of strong performers. In fact, the recent cases of rapid growth by a few strong performers can be explained by circumstances unrelated to structural adjustment policies. Mkandawire (2005) argues that IMF-led "adjustment" in Africa put the continent on a slow growth path, a view broadly

<sup>3</sup> 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."

supported by econometric studies of the broader impact of such programmes (Barro and Lee, 2002; Vreeland, 2003). He notes that many of the oft-invoked “determinants” of growth are themselves determined by growth (Macpherson and Goldsmith, 2001), particularly those associated with external economic integration, such as exports. In this respect, the rapid opening up of SSA economies since the mid-1980s at a time of slower global growth was particularly ill-timed (Easterly, 2000).

Recent pre-crisis real GDP growth rates suggest that SSA was beginning to recover after the “lost” last quarter of the twentieth century), thanks largely, but not exclusively, to a strong commodity boom (see table 1 above). Appendix table A1 confirms that the fastest growing countries since 2000 include Angola, Chad and Equatorial Guinea, all major petroleum exporters. Despite this growth upturn, the region remains mired in poverty, faces the most serious infrastructure gaps and retains a narrow export base, none of which is conducive to rapid and sustainable development.

### *Deindustrialization*

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

Yet, when most other developing economies embarked on import-substituting industrialization in the 1930s (in Latin America) and the 1950s, Africa remained under colonial rule for much of the period, and 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 owing to the oil shocks of the 1970s (Mkandawire, 1988). Import compression following the debt crisis constrained capacity utilization and investment, preventing many countries in SSA from adjusting positively to the changed global environment. In this context, trade liberalization, beginning in the 1980s, prematurely exposed African “infant” industries to global competition against much more mature industries. The United Nations Industrial Development Organization (UNIDO) notes that African countries had been increasingly gaining comparative advantage in labour-intensive manufacturing before this forced import liberalization. With the Washington Consensus presumption that import substitution must be bad, there was little attempt to consider how such industries might be the bases for new export initiatives. Presuming that African import-substituting industries had been protected for far too long and would never become viable, let alone internationally competitive despite considerable evidence to the contrary from Northeast Asia, the policy preference was simply to abandon existing industrial capacity, precipitating deindustrialization (UNIDO, 1999).

As a result, manufacturing value added (MVA) in SSA grew at a disappointing 1.9 per cent annually between 1980 and 1990, and at only 0.1 per cent per annum between 1990 and 1995. The already tiny share of global MVA for SSA decreased further from 1.0 per cent in 1980 to 0.8 per cent in 2000 (UNIDO, 2004, p. 184). Overall, deindustrialization in SSA has been severe,<sup>4</sup> as reflected in table 2, which reports the GDP

---

<sup>4</sup> See also, Jalilian and Weiss (2000) on SSA deindustrialization.

**Table 2. GDP components of sub-Saharan Africa, excluding South Africa, 1970-2008**

Average percentage shares				
	1970-1979	1980-1989	1990-1999	2000-2008
Consumption	61	66	72	68
Government expenditure	16	16	15	13
Investment	24	19	17	17
Exports	24	22	28	35
Imports	26	23	32	34
Agriculture, hunting, forestry, fishing	69	43	30	28
Industry	15	25	29	33
Mining, manufacturing, utilities	12	22	25	29
Manufacturing	7	12	11	8
Construction	2	3	4	4
Services	17	32	41	38
Wholesale, retail trade, restaurants and hotels	6	12	15	14
Transport, storage and communications	3	5	6	6
Other activities	8	15	20	18

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

composition of SSA economies, excluding South Africa, both by expenditure and by broad categories of value added. First, "adjustment" as prescribed by the BWIs has insisted on reducing government expenditure, which fell from an already low 16 per cent of GDP in the 1970s to 13 per cent during 2000-2008. Even the initial level was low compared to the developed world, and such spending cuts have not only affected social spending, but also economic expenditure, e.g., on infrastructure. These declines in public investment went hand in hand with discouraging private manufacturing investment (UNCTAD, 2003). It is thus not surprising that the average share of manufacturing in value added fell to 8 per cent from 2000 to 2008.

In the region's major petroleum-exporting countries, the share of manufacturing in value added fell even more drastically, from 12 per cent in the 1970s to 5 per cent during 2000-2008 (see table 3). The reduced share of government spending since the turn of the century reflects the commodity boom and related GDP growth for oil-exporting countries. These low shares stand in marked contrast to Asian developing economies, where the manufacturing sector is responsible for 27 per cent of total value added during 2000-2008, and are markedly lower than the global average for all developing economies. Appendix tables A5 and A6 report the composition of GDP by category of expenditure as well as by sectoral output for all developing economies and for Asian developing economies, confirming the crucial importance of manufacturing activities for development.

### *Slow growth, poverty and inequality*

Recent World Bank estimates<sup>5</sup> substantially revise upwards the number of poor worldwide, as measured by a poverty line of \$1.25 per day at 2005 purchasing power parity (PPP), supposedly equivalent to \$1 per day in

5 According to earlier World Bank figures, the number of poor people in the developing world decreased slightly from 1,179 million in 1987 to 1,120 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, p. 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 3. GDP components of major petroleum exporters in developing Africa, 1970-2008**

Average percentage shares				
	1970-1979	1980-1989	1990-1999	2000-2008
Consumption	47	56	60	52
Government expenditure	16	17	18	12
Investment	31	25	20	18
Exports	31	25	31	46
Imports	26	22	28	28
Agriculture, hunting, forestry, fishing	21	18	17	19
Industry	46	46	43	51
Mining, manufacturing, utilities	39	39	37	47
Manufacturing	12	13	8	5
Construction	7	7	6	4
Services	33	36	40	30
Wholesale, retail trade, restaurants and hotels	12	12	13	11
Transport, storage and communications	5	6	6	6
Other activities	15	18	21	13

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

**Notes:** Major petroleum exporters in "developing Africa" include: Angola, Congo, Equatorial Guinea, Gabon, Algeria, Libyan Arab Jamahiriya, Sudan, Nigeria.

1996 US dollars (Chen and Ravallion, 2008, tables 4, 5, 7 and 8). The World Bank gives a figure of almost 1,400 million people living in poverty in 2005 (table 4), 384 million of which are in SSA, more than half of that region's population. This is the highest percentage in the world for any region, and it is also the region with the greatest increase in the number of poor people both numerically and proportionally.

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

Higher growth in the last half decade is believed to have raised incomes and reduced poverty in some SSA countries. However, growth based on resource extraction has also contributed to rising inequality and limited employment growth, thereby dampening the impact on poverty reduction. In some cases, the

**Table 4. Poverty, 1981-2005**

World Bank estimates for a poverty line of US\$ 1.25 at 2005 purchasing power parity									
	1981	1984	1987	1990	1993	1996	1999	2002	2005
<b>Sub-Saharan Africa</b>									
Percentage 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
<b>Developing countries</b>									
Percentage of population	52.2	47.1	41.8	41.7	38.9	34.7	33.7	31.0	25.7
Millions	1 913.3	1 827.1	1 718.2	1 817.5	1 785.1	1 672.0	1 695.4	1 627.1	1 399.6

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



combination of slower growth, rising inequalities and vulnerability to exogenous shocks has contributed to civil conflict, trapping these countries in a vicious spiral of economic decline (Miguel, Satyanath and Sergenti, 2004). In addition, the global economic crisis of 2008 has had a severe impact on Africa. Growth decelerated significantly in 2009, endangering the limited progress made on the Millennium Development Goals (MDGs), especially poverty reduction (UNECA-AU, 2010).

## 2. Resource mobilization for development

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

The resources to finance such growth and development can come from a variety of sources, both domestic and external (see table 5). Successful resource mobilization begins at home of course. However, savings and investment rates are still low in SSA by international standards. At the same time, public resource mobilization is insufficient, despite significant improvements in tax collection rates, partly due to higher growth since 2000. The tax share of GDP in Africa increased from 16.5 per cent in 1990 to 21.6 per cent in 2007 (OECD-AfDB, 2010: 85). However, much of this increase is due to the taxation of resource rents (see figure 1).

**Table 5. Resources for financing development**

	<i>Private</i>	<i>Public</i>
Domestic	Domestic saving	Taxation, public borrowing
External	FDI, portfolio investment, remittances	Foreign aid, public borrowing

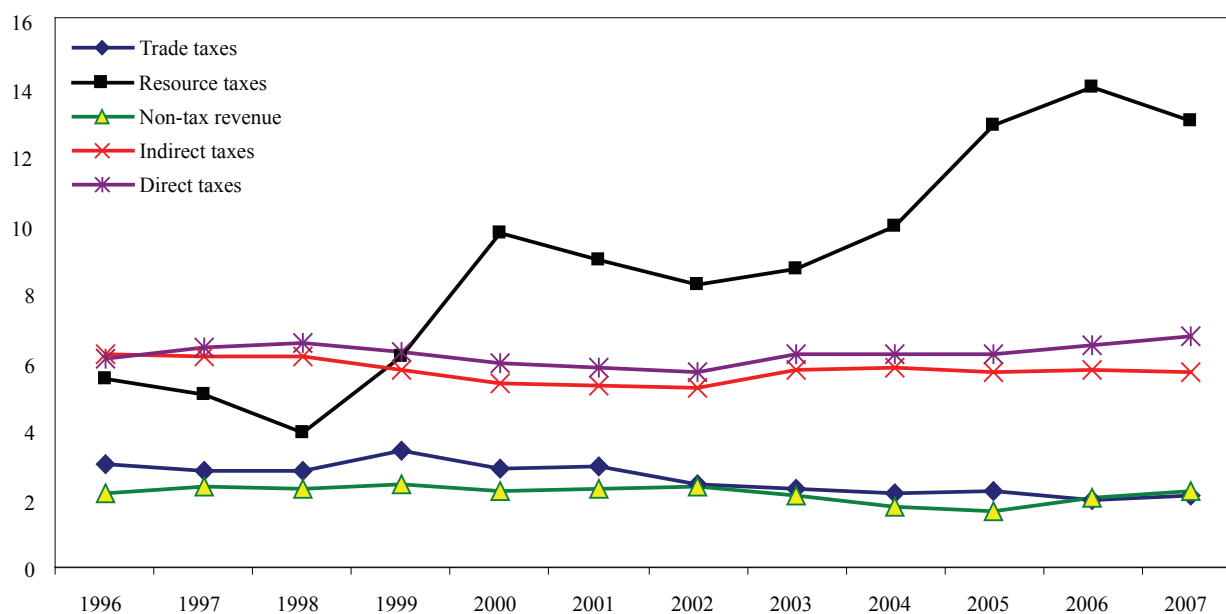
**Source:** Adapted from OECD-AfDB, 2010.

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

In any case, the focus of the Washington international financial institutions (IFIs) was very much on financial market liberalization and the attraction of external finance, and not on increasing tax revenues. In fact, the reforms of the 1980s and 1990s undermined States' capacity to mobilize more domestic resources. Leaving markets to mobilize and allocate financial resources and determine interest rates remains part of policy agenda of the IFIs. The desired impacts of liberalized financial markets were twofold: an increased willingness of households to save and hold financial assets, and an efficient use of scarce resources by the most productive firms regardless of location. Financial liberalization<sup>6</sup> promised not only to minimize, if

<sup>6</sup> As Arestis (2004) notes, the term "financial liberalization" does not have a standard meaning. He distinguishes between capital account liberalization involving, for example, the removal of regulations on offshore borrowing (by financial institutions and non-financial corporations) and on capital outflows, and the replacement of multiple exchange rates, allowing banks and corporations to borrow abroad and keeping bank reserve requirements to a minimum level; liberalization of the domestic financial system characterized by removing controls on lending and borrowing interest rates, removing credit controls and allowing the holding of foreign currency deposits; and liberalization of the stock market enabling foreign investors to buy, earn income from and sell equities without restriction.

**Figure 1: Tax mix in Africa**  
(Percentage of GDP)



Source: OECD-AfDB, (2010).

not eliminate, distortions arising from financial sector interventions, but also to ease external payments constraints by channelling global savings to the most profitable investments in the capital-scarce poorer countries of the world—although it has been observed that capital has been flowing “uphill” from the “capital-poor” to the “capital-rich” economies.

Particular attention has been paid to foreign direct investment (FDI) as a driving force in this process. It is seen as a more reliable source of financing and as a way to access superior technology, management and market access. The following section discusses the limited contribution of FDI in Africa, which remains small compared to other developing regions and is highly concentrated in extractive industries. Portfolio flows, on the other hand, are in fact negative. Capital owners with access to liquid assets in Africa prefer to transfer them abroad. Unlike other developing regions, net portfolio flows have been consistently negative over longer time periods, with Africa consistently exporting capital.

Aid is another potential source of finance, and has not necessarily been as ineffective as many critics have suggested (Minoiu and Reddy, 2007). However, it remains volatile, unpredictable and increasingly fragmented, reflecting donor preferences. Increasingly, aid aims to alleviate the effects of disasters, or to strengthen welfare programmes and social services, rather than promote growth, industrialization or infrastructure development, let alone provide budget support for national priorities. Nonetheless, many countries in the SSA region remain dependent on aid flows, even to finance regular budgetary expenditure. However, to reach a sustainable high growth path, African countries will need to mobilize more domestic resources both through higher savings and investment rates and through more efficient taxation (AfDB-OECD, 2010). In the short run, they have to focus their efforts on creating a growth dynamic that reverses capital flight and ensures more and “developmentally” diversified FDI, supported by predictable aid flows.

*FDI flows: small and highly concentrated*

Most African Governments accepted the BWI policy prescriptions, expecting foreign capital inflows to be catalysed by the latter's stamp of approval. The actual response of private capital has, in the words of the World Bank, "been disappointing" (quoted in Mkandawire, 2005, p. 6). Even though rates of return to FDI have generally been much higher in Africa than in any other region (Bhattacharya, Montiel and Sharma, 1997; UNCTAD, 1995, 2005), it is not more attractive to foreign investors, ostensibly due to ill-specified and often intangible "risk factors". Perceived political instability certainly plays a role here, as Africa is systematically rated as more risky than warranted by economic indicators. Ndikumana and Verick (2008) have shown that domestic investment "crowds in" rather than "crowds out" FDI. Public investment typically improves domestic infrastructure, while domestic private investment signals confidence and high returns. The impact of domestic private investment on FDI is stronger and more robust than the converse, suggesting that sustained dynamic growth is unlikely to be triggered by FDI alone.

Even the recent mineral-led surge in FDI into Africa has had only a marginal impact on Africa's share of global FDI flows. Indeed, the share of global inward FDI in all African countries is still below its 5 per cent share in the 1970s, even though it has recovered slightly since 2000, to 3.2 per cent (see table 6).

Table 7 shows country FDI shares by volume for the top 5 of 47 SSA countries in the 2000s. Except for South Africa, the top five countries—Angola, Nigeria, South Africa, Sudan and Equatorial Guinea—are highly dependent on petroleum exports and foreign investment in this sector. The only exception to such extreme sectoral concentration is South Africa, which appears in the top five mainly due to the size of its economy, relative to other SSA countries.<sup>7</sup> Since 1990, these 5 countries have absorbed an average of 67.5 per cent of all FDI going to all 47 SSA economies.

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

7 South Africa does not appear in the top 20 African countries for FDI-to-GDP ratio (see appendix table A3). Angola, Equatorial Guinea and Chad are three of the four highest ranked countries.

8 As Mkandawire (2005) observes, Pigato (2000, p. 2) seeks to "help boost SSA's image as an investment location", leading to the positions advocated despite data suggesting otherwise.

**Table 6. Africa's share of inward foreign direct investment, 1970-2008**

Percentage				
	1970-1979	1980-1989	1990-1999	2000-2008
<b>Share of world FDI</b>				
<b>Developed economies</b>	75	75	68	67
<b>Developing economies</b>	25	25	31	30
Developing economies: Africa	5	3	2	3
Developing economies: America	12	8	10	9
Developing economies: Asia	8	14	19	18
China	n.a.	2	8	6
Economies in transition	n.a.	0	1	3
<b>Share of developing country FDI</b>				
Developing economies: Africa	21	10	6	11
Developing economies: America	47	33	31	28
Developing economies: Asia	31	56	62	61
China	n.a.	7	25	21

Source: UNCTAD, *World Investment Report 2009*, and authors' calculations.

**Table 7. Sub-Saharan Africa economies with the highest shares of total FDI, 1970-2008**

Percentage				
	1970-1979	1980-1989	1990-1999	2000-2008
Angola	0.3	13.1	9.5	23.4
Nigeria	35.3	3.9	40.3	20.1
South Africa	7.1	0.6	13.1	14.1
Sudan	0.2	0.7	1.1	6.5
Equatorial Guinea	0.0	0.2	1.8	5.0
<b>Sub-total</b>	<b>43</b>	<b>18</b>	<b>66</b>	<b>69</b>
Chad	1.2	1.2	0.5	2.6
Congo	3.2	3.8	2.4	2.3
United Republic of Tanzania	0.5	0.4	1.9	2.2
Zambia	3.3	5.5	3.9	1.8
Ethiopia	0.0	0.0	0.9	1.7
Cameroon	2.2	12.0	0.0	1.6
Uganda	0.0	0.2	1.3	1.5
Namibia	0.0	0.3	2.5	1.5
Côte d'Ivoire	4.7	7.2	4.0	1.4
Mozambique	0.1	0.3	1.5	1.4
Botswana	2.1	8.8	0.2	1.4
Ghana	2.3	1.1	2.4	1.4
Madagascar	0.4	0.4	0.5	0.9
Mauritania	0.2	1.5	0.2	0.9
Mali	0.2	0.2	0.4	0.7
<b>Total</b>	<b>63.3</b>	<b>61.1</b>	<b>88.5</b>	<b>92.4</b>

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

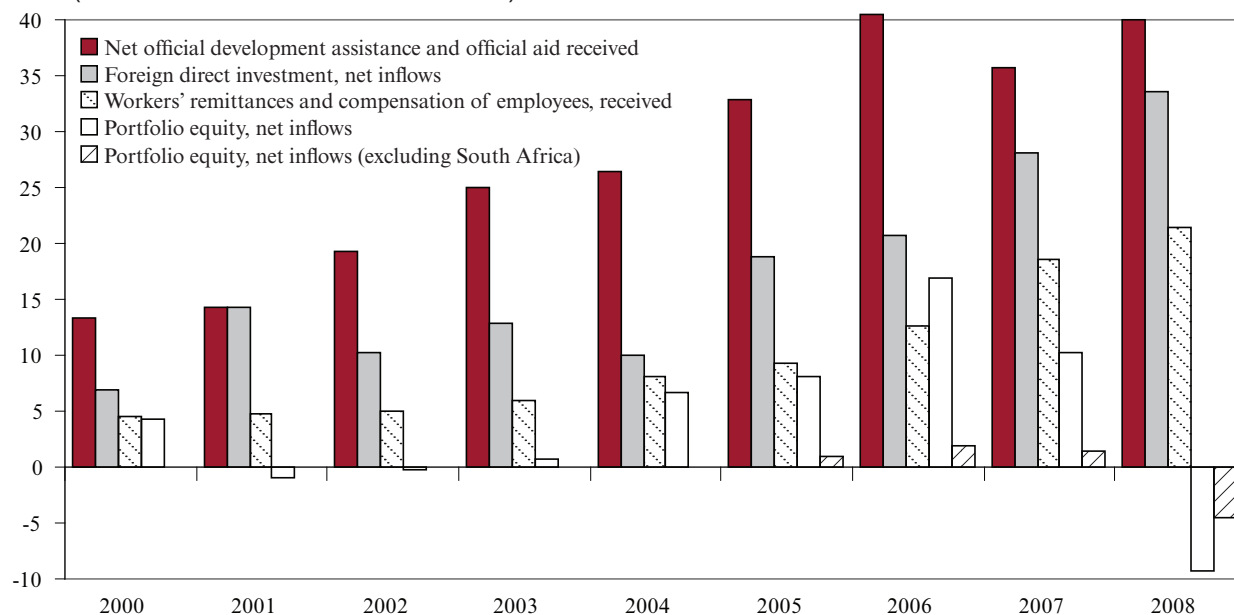
privatization-related FDI had slowed down. The commodities boom in the mid-2000s led to unprecedented levels of FDI flowing into the continent’s extractive industries, but the economic crisis of 2008-2009 and the related commodity price collapse brought such flows to a rapid halt. FDI has since decreased from US\$ 72 billion in 2008 to US\$ 59 billion in 2009 (UNCTAD, 2010).

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

*Portfolio flows mainly speculative and negative*

Portfolio investment has not been important in SSA, except for South Africa, where it is overwhelmingly concentrated (see figure 2). Its primarily speculative nature renders it unsuitable for financing long-term development. Implausibly, Africa has been a net exporter of capital overall, despite growing poverty: its private assets held overseas exceed the continent’s foreign liabilities. In 1990, 40 per cent of privately held wealth was invested outside Africa (Collier and Gunning, 1997; Collier, Hoeffler and Patillo, 1999; quoted

**Figure 2: Net capital flows to sub-Saharan Africa**  
(Billions of current United States dollars)



Source: World Bank Global Development Finance Databank.

in Mkandawire, 2005). In the period 1970-2004, capital flight from SSA amounted to approximately US\$ 420 billion. Including imputed interest, the accumulated stock of capital flight amounts to about US\$ 607 billion. Boyce & Ndikumana (2008, p. 6) thus conclude that “SSA countries [are] a ‘net creditor’ to the rest of the world in the sense that their private assets held abroad, as measured by capital flight including interest earnings, exceed their total liabilities as measured by the stock of external debt. [T]he regions’ external assets are 2.9 times the stock of debts owed to the world.”

Table 8 estimates capital flight for 40 SSA countries for the period 1997 to 2004 by country. In more than half the sample, capital flight actually exceeded inward FDI in the year 2004, the latest year for which capital flight estimates are available.

Even World Bank economists concede that the effects of financial liberalization on growth in Africa have been “very small” (Devajaran, Easterly and Pack, 1999). Incredibly, they argue that capital flight may be good for Africa—“The much-denigrated capital flight out of Africa may well have been a rational response to low returns at home.... Indeed, Africans are probably better off having made external investments than they would have been if they invested solely at home!” (Devajaran, Easterly and Pack, 1999, pp. 15-16)—and conclude that there has been “over-investment”. Devajaran, Easterly and Pack (1999, p. 23) then conclude that “we should be more careful about calling for an investment boom to resume growth in Africa...[and] about Africa’s low savings rate...[p]erhaps...due to the fact that the returns to investment were so low. Also, the relatively high levels of capital flight from Africa may have been a rational response to the lack of investment opportunities at home.”

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

### ***Remittances***

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

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

**Table 8. Real capital flight**

Annual average, in millions of 2004 United States dollars				
	1997-2000	2001-2004	2004	Inward FDI 2004
Angola	860.25	2 629.05	2 763.10	5 606.41
Benin	-143.03	-43.60	-127.40	65.15
Botswana	201.25	625.58	681.00	391.06
Burkina Faso	33.20	36.70		14.35
Burundi	73.50	79.48	-88.60	0.04
Cameroon	867.75	-735.13	-471.60	319.34
Cape Verde	120.20	119.33	58.60	68.03
Central African Republic	0.32	44.50	-4.00	28.58
Chad	3.85	-19.35	446.20	466.79
Comoros	-96.38	21.30	8.90	0.67
Congo	1 132.00	1 798.20	3 732.20	512.79
Côte d'Ivoire	133.05	1 016.73	543.80	282.98
Democratic Republic of the Congo	-238.25	303.45	1 104.10	409.00
Ethiopia	153.00	1 802.05	1 759.90	545.10
Gabon	519.88	586.13	1 429.70	319.51
Ghana	44.88	743.35	808.40	139.27
Guinea	-72.58	-97.63	-84.70	97.90
Kenya	46.18	-231.65	-331.30	46.06
Lesotho	-103.68	19.63	89.70	53.30
Madagascar	318.18	149.40	-323.10	95.19
Malawi	60.85	101.25	189.80	107.71
Mali	-130.95	67.95	146.60	100.22
Mauritania	87.40	-82.05	-324.70	391.60
Mauritius	-132.08	-286.28	-634.10	11.16
Mozambique	-2.08	129.90	-562.70	244.70
Niger	-258.35	-371.78	-379.80	20.32
Nigeria	4 360.00	8 907.65	5 768.20	2 127.09
Rwanda	48.63	37.80	50.80	10.90
Sao Tome and Principe	42.23	13.88	21.20	3.50
Senegal	-378.10	-173.75	-740.70	63.97
Seychelles	214.63	263.33	270.60	38.01
Sierra Leone	151.18	121.65	219.80	61.15
South Africa	-819.10	7 067.95	11 711.70	798.03
Sudan	-566.90	864.88	2 891.90	1 511.07
Swaziland	14.18	164.90	228.90	70.55
Togo	-209.90	-355.00	-176.00	59.36
Uganda	155.33	394.75	162.10	295.42
United Republic of Tanzania	325.53	268.10	806.40	330.60
Zambia	-163.28	-721.23	517.40	364.00
Zimbabwe	1 266.13	-515.50	28.30	8.70

Sources: Boyce and Ndikumana, 2008, *UNCTAD Handbook of Statistics* and authors' calculations.



**Table 9. Remittance inflows to sub-Saharan Africa**

	Millions of United States dollars						Percentage of GDP
	2000-2004	2005	2006	2007	2008	2009 <sup>a</sup>	2007
Sub-Saharan Africa	5 661	9 379	12 629	18 646	21 139	20 525	2.2
East Asia and the Pacific	26 986	50 460	57 598	71 309	86 115	84 785	1.6
Europe and Central Asia	14 401	30 089	37 341	50 777	57 801	49 279	1.6
Latin America and the Caribbean	30 415	50 122	59 199	63 239	64 717	58 481	1.8
Middle-East and North Africa	17 231	24 958	26 112	31 364	34 696	32 212	3.8
South Asia	23 916	33 924	42 523	54 041	73 293	71 955	3.7

Source: World Bank 2009.

a Projection.

***Aid: unpredictable, fragmented and welfare-oriented***

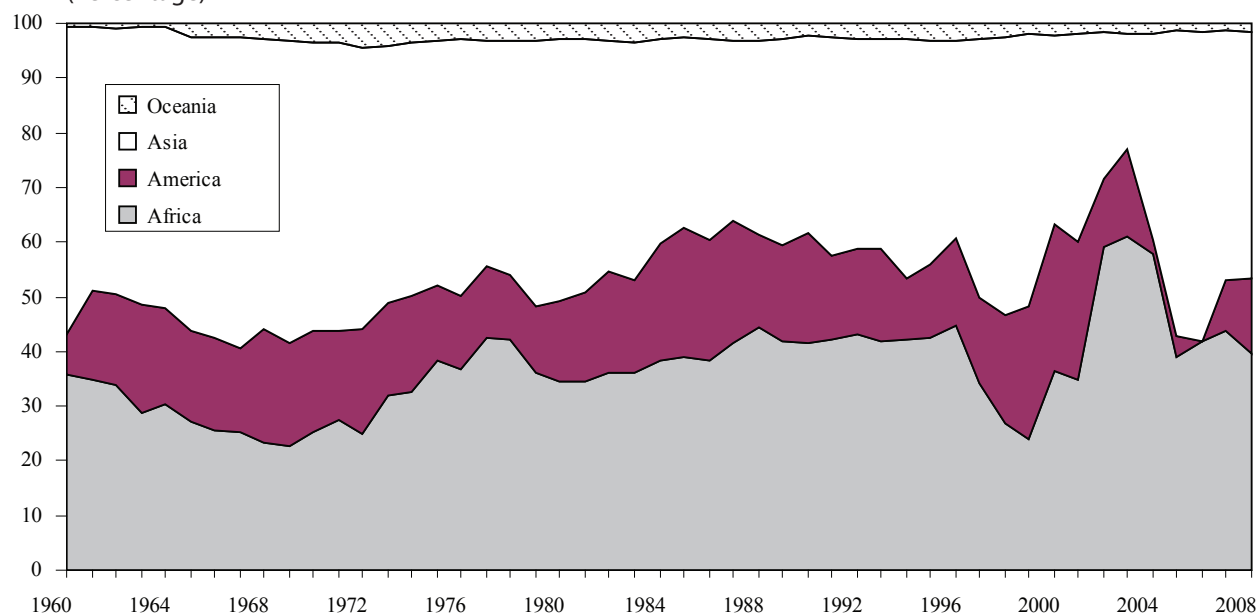
The contribution of aid to development has been debated for decades. Rosenstein-Rodan (1943; 1944) laid the foundation for the idea of an externally funded “big push” for development of “backward areas” through the realization of scale economies. Subsequently, in the post-war development paradigm, especially following the success of the Marshall Plan, substantial foreign aid was seen as necessary to provide financing and balance-of-payments support for large-scale industrialization and development programmes. This development literature and its policy recommendations have been challenged by other economists, arguing that aid would crowd out more efficient private investments. The economic policy conditionalities and recommendations of multilateral institutions since the 1980s have successfully undermined such development heresies. Currently, that debate is echoed in relation to African development challenges by 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 for development 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, a large percentage of aid—reported by donor countries to the Organization for Economic Cooperation and Development, Development Assistance Committee (OECD/DAC)—never actually reaches the intended recipients. UNCTAD (2006, p. 14) quotes the non-governmental organization Action Aid, claiming that about 60 per cent per cent of bilateral donor assistance in 2003 “never materializes for poor countries, but is instead diverted for other purposes within the Aid system”.

Official statistics confirm that aid to Africa has also been highly volatile. Figure 3 shows the regional shares of total aid flows among the four major developing country regions—Oceania, Asia, America and Africa. Africa’s share rose in the 1970s, to almost 40 per cent, and remained fairly stable until the mid-1990s before falling off precipitously to below 25 per cent in 1999; its share then rose to over 60 per cent in 2003, only to fall back to 39 per cent in 2008.<sup>10</sup> Aid flows per person (per annum) to Africa are also higher than for Asia and Latin America, as well as the Caribbean. From a low of US\$ 17 in 2000, these flows increased to US\$ 45 per person in 2008, though part of the volatility was due to reporting in US dollars and that

<sup>10</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.

**Figure 3: Aid flows, regional composition, 1960-2008**  
(Percentage)



Source: UNCTAD Handbook of Statistics.

currency's vicissitudes. Lastly, relative to GDP, Africa receives the largest portion of aid, roughly 3 per cent of GDP in 2008.<sup>11</sup>

To what extent, though, does aid reach its intended targets? According to the post-war paradigm, aid can finance a balance-of-payments deficit for the import of machinery and technology necessary to start a virtuous circle of growth and development, on the one hand, and to compensate for volatile and declining commodity export revenues, on the other. Contradicting aid sceptics on both ends of the political spectrum, Minoiu and Reddy (2006) show that aid contributes to growth only after aid allocated for blatantly geopolitical reasons has been disregarded. Yet, for many African countries today, much aid is for debt relief and debt repayment, rather than for financing development. Indeed, the fact that many African countries have become net exporters of capital has turned on its head the idea of capital inflows' financing a big push. Table 10 displays net debt transfers, namely disbursements of loans less debt service (principal plus interest payments) from all sources of credit, and confirms the net outflow of resources from Africa. Appendix table A4 lists the top net payers and net recipients in Africa by country.

In fact, much of the developing world consists of net capital exporters. 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. The drain of capital from many countries in Africa, on the other hand, undermines sustainable development strategies, which are compounded by the inability to afford repayment, increased debt service and the slow trickle down of real resource transfers from the developed world.

The focus of the international community on achieving the MDGs by 2015 has also directed development aid towards "social safety net", health, education and gender programmes. This has often come at the expense of general budget support and economic objectives, such as supporting productive capacity

<sup>11</sup> See appendix figures A1 and A2.

**Table 10. Net debt transfers of selected regions, 1990-2007<sup>a</sup>**

Percentage				
<i>Ratio to GDP</i>	<i>1990-1994</i>	<i>1995-1999</i>	<i>2000-2004</i>	<i>2004-2007</i>
Developing economies	-0.04	-0.14	-1.00	0.03
Developing economies: Africa	-0.54	-1.37	-1.01	-0.83
Eastern Africa	1.58	0.24	1.37	1.43
Middle Africa	1.62	-2.23	-1.81	-1.19
Northern Africa	-1.78	-2.08	-1.91	-1.72
Southern Africa	0.21	-0.55	-0.09	0.75
Western Africa	-1.63	-1.92	-1.62	-2.13
Developing economies: America	-0.42	0.16	-1.86	-0.63
Developing economies: Asia	0.26	-0.13	-0.64	0.40
Developing economies: Oceania	-0.87	-0.87	-1.10	-0.03
LDCs: Africa and Haiti	2.26	0.89	1.40	0.95
Major petroleum exporters (Africa)	-2.15	-2.97	-2.56	-2.87
Africa, excluding South Africa	-0.81	-1.65	-1.30	-1.34
Sub-Saharan Africa	0.24	-0.85	-0.35	-0.27
Sub-Saharan, excluding South Africa	0.24	-1.06	-0.54	-0.87

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

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

development, generating linkages and employment, which are ultimately a more sustainable way to reduce poverty in the long run. Not surprisingly, the large majority of Poverty Reduction Strategy Papers (PRSPs) lack an employment strategy altogether. In 2008, half of total official development assistance (ODA) to Africa went to social and humanitarian causes, compared with only 26 per cent to economic and productive sectors (OECD, 2010).

### 3. Trade and development

In line with the 1981 Berg Report, much World Bank research has suggested for a long time that Africa would gain most by specializing in agriculture. Removal or reduction of subsidies and protection in the North would give farmers in SSA the opportunity to significantly increase their shares in these markets, although evidence of African agricultural competitiveness remains dubious for most crops.

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

African countries have experienced volatile and, by and large, unfavourable movements in their terms of trade for much of the twentieth century, including the post-independence period. First, until recently, the prices of primary commodities have declined against those of manufactures, as noted by Hans Singer and Raul Prebisch more than half a century ago (see Ocampo and Parra, 2006). Second, the prices of tropical agricultural products have continued to decrease relative to temperate agricultural goods, as observed in Lewis (1969) decades ago. Third, recent decades have also seen the decline in the prices of generic

manufactures where entry into industries (for example, most clothing) has not been inhibited—unlike those activities protected by technological barriers, scale economies and strong intellectual property rights. Although Africa has experienced deindustrialization in recent decades, a few countries have developed garments industries which still enjoy trade preferences and may therefore at least survive, despite the erosion of trade preferences with greater trade liberalization.

Table 11 underscores Africa’s still declining marginal role in overall world trade. Africa’s share of world trade has long been small, but even this has declined in recent decades, with a small, but notable, upsurge in recent years. African exports of manufactures and food have declined during this period, while exports of minerals and other agricultural products have risen, reflecting not only deindustrialization and more export-oriented agricultural production, but also heavier reliance on resources, especially mineral (particularly petroleum) exports.

**Table 11. Shares of world merchandise exports, 1950-2008**

Percentage						
	1950-1959	1960-1969	1970-1979	1980-1989	1990-1999	2000-2008
Developing economies: Africa	6.46	5.33	4.95	4.08	2.44	2.72
Sub-Saharan Africa	5.03	4.02	3.28	2.58	1.65	1.78
Sub-Saharan Africa, excluding South Africa	3.36	2.61	2.30	1.65	1.05	1.27
Developing economies: America	9.78	6.57	5.07	5.17	4.55	5.47
Developing economies: Asia	12.90	9.87	13.57	16.34	20.22	26.29
China	1.57	1.29	0.80	1.34	2.70	6.48

**Source:** UNCTAD *Handbook of Statistics 2009* (table 1.1: Value and shares of merchandise exports and imports) and authors’ calculations.

***What does Africa trade and with whom?***

Africa is less dependent on developed country demand for its exports today than when the debt crisis hit in the early 1980s (table 12). Asia has emerged as a major trading partner, while increased SSA trade integration has reduced the share of exports to the developed world from 74 per cent in the 1960s to 61 per cent in 2000-2008. The SSA export share to East Asia—which includes the 10 ASEAN members plus China, Japan and the Republic of Korea—more than tripled, from 5 to 16 per cent, over the same period. However, much of this trade expansion is fairly recent. The growth of China’s demand for primary commodities since the late 1990s has been the driving force behind this trend.

Notably, intra-SSA exports increased significantly, from 5 per cent of total exports in the 1960s to 12 per cent in 2000-08. Intra-regional trade also has significant development potential if it relies on and strengthens developmental linkages. The declining importance of rich country markets for African commodity exporters may have reduced the continent’s direct vulnerability to the business cycles of the advanced economies, thus enabling it to recover more easily from the Great Recession of 2008-2009.

Second, sourcing from emerging countries has increased. The lower part of table 12 shows that the decline in the share of imports from developed countries is even more pronounced than for exports, falling from 80 per cent in the 1960s and 1970s to 52 per cent in 2000-2008. Similarly, as above, both Asian and intraregional import sources have become more important, with the former rising from 7 to 19 per cent, and the latter from 5 to 14 per cent.

**Table 12. Destinations and sources of sub-Saharan Africa trade with selected regions, 1960-2008**

Percentage					
	1950-1959	1970-1979	1980-1989	1990-1999	2000-2008
<b>Export shares, selected regions</b>					
To developed countries	74	69	64	62	61
To ASEAN+3 <sup>a</sup>	5	6	6	8	16
Intra-SSA	5	5	4	10	12
To rest of the world	16	20	26	20	11
<b>Import shares, selected regions</b>					
From developed countries	80	80	71	64	52
From ASEAN+3 <sup>a</sup>	7	10	11	18	19
Intra-SSA	5	5	6	10	14
From rest of the world	8	4	12	8	15

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

**a** ASEAN+3 includes ASEAN members plus China, Japan and the Republic of Korea.

The diversification of origins of imports and destinations of exports decreases dependence and improves economic integration in some respects, but the greater reliance on mineral exports is worrying. Also, the developmental implications of diversifying primary commodity export markets and import sources, with greater trade through neighbouring transit economies, cannot be exaggerated. Reliance of SSA countries on exports of primary commodities, especially minerals, has actually grown. Table 13 shows the share of primary commodity exports in total world exports and for selected African country groups. The global share of commodity exports rose slightly from 1995-2000 to 2000-2008.

Higher prices for a wide range of commodities, especially those related to petroleum, have had important consequences. The share of such exports for all developing countries in Africa increased from 70

**Table 13. Africa's export composition, 1995-2008**

Percentage		
	1995-2000	2001-2008
<b>Share of primary commodity exports in total exports<sup>a</sup></b>		
World	22.53	25.26
Developing economies: Africa	70.48	78.44
Major petroleum exporters: developing Africa	97.29	97.66
Sub-Saharan Africa, excluding South Africa	86.17	89.55
<b>Share of agricultural exports in total exports<sup>b</sup></b>		
World	10.33	8.42
Developing economies: Africa	17.75	11.32
Major petroleum exporters: developing Africa	3.15	1.34
Sub-Saharan Africa, excluding South Africa	28.14	15.50

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

**a** Data include SITC 1 through 4 plus 68.

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

per cent in 1995-2000 to 78 per cent in 2001-2008, and from 97 to 98 per cent for the major petroleum exporters in the region. This aggregation of all primary commodities obscures agricultural exports' declining role, as reflected in the lower part of table 13. For all developing economies in Africa, the average share of agricultural exports in total exports fell from 18 to 11 per cent between 1995-2000 and 2000-2008. The falling share of agricultural exports is likely due to a combination of much higher oil and other mineral prices in excess of rising agricultural prices.

Africa, particularly SSA, did not significantly increase manufactured exports in 2001-2008 compared to 1995-2000 (table 14). While developing economies in Asia now export 28 per cent of total manufactured exports in the world, Africa's share of world manufactured exports does not even reach 0.5 per cent. This is even more pronounced for petroleum-exporting countries in Africa—compared to petroleum exporters in other regions of the world—but holds for all of SSA, including South Africa.

**Table 14. African shares of world manufacturing exports, 1995-2008<sup>a</sup>**

Percentage		
	1995-2000	2001-2008
Developing economies: Africa	0.78	0.76
Developing economies: America	3.65	3.77
Developing economies: Asia	22.01	28.30
Major petroleum exporters: developing Africa	0.03	0.04
Major petroleum exporters: developing America	0.10	0.10
Major petroleum exporters: developing Asia	0.42	0.87
Sub-Saharan Africa	0.53	0.48
Sub-Saharan Africa, excluding South Africa	0.16	0.17
SADC <sup>b</sup>	0.46	0.39

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

**a** Includes SITC 5 through 8 less 68.

**b** SADC includes 15 SSA nations.

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

According to the international financial institutions, poverty in Africa would be significantly reduced by eliminating market distortions, especially marketing boards and other related parastatals (State-owned enterprises), in the rural economy and by promoting export-oriented cash crop agriculture. This approach ignored the fact that the green revolutions in Asia and elsewhere raised food agricultural productivity by providing extensive government support to farmers, often including price support. In addition, large food-deficit countries—such as India, the Republic of Korea, China, Malaysia, Indonesia and Bangladesh—implemented these policies in a global environment of rising food prices (Ellis, 2010). SSA countries, on the other hand, adopted their agricultural market liberalization reforms subsequently, in an era of falling global food prices, partly due to heavy subsidies for farmers by rich countries.

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

Meanwhile, government interventions in agriculture remain ubiquitous in most rich countries, ostensibly to ensure their own food security and support their own farmers (Chang, 2009). More recently, some have begun supporting biofuels, supposedly for energy security and climate change mitigation, inadvertently contributing to the food price spikes. Indeed, the possibility of many developing countries' gaining from increased agricultural exports has been frustrated by such protection and subsidies in the rich economies. Meanwhile, however, trade preferences have ensured better market access for former colonies, least developed countries (LDCs) and African, Caribbean and Pacific economies. Table 15 summarizes average tariff

**Table 15. Average applied import tariffs, by sector and region, 2001**

Percentage, ad valorem equivalent		
<i>Exporting region:</i>	<i>World</i>	<i>Sub-Saharan Africa</i>
<b>Importing region:</b>		
<b>Agriculture and food</b>		
High-income countries <sup>a</sup>	16.0	11.0
Developing countries <sup>b</sup>	18.0	13.0
South Africa	9.0	2.0
Other Southern Africa <sup>c</sup>	12.0	11.0
Rest of sub-Saharan Africa	21.0	15.0
<b>Textiles and wearing apparel</b>		
High-income countries <sup>a</sup>	8.0	5.0
Developing countries <sup>b</sup>	17.0	10.0
South Africa	22.0	9.0
Other Southern Africa <sup>c</sup>	13.0	6.0
Rest of sub-Saharan Africa	26.0	8.0
<b>Other manufactures</b>		
High-income countries <sup>a</sup>	1.3	0.4
Developing countries <sup>b</sup>	8.0	7.0
South Africa	5.0	0.2
Other Southern Africa <sup>c</sup>	8.0	6.0
Rest of sub-Saharan Africa	14.0	6.0
<b>All merchandise</b>		
High-income countries <sup>a</sup>	3.0	3.0
Developing countries <sup>b</sup>	10.0	8.0
South Africa	7.0	1.0
Other Southern Africa <sup>c</sup>	9.0	7.0
Rest of sub-Saharan Africa	16.0	9.0

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

**a** High-income countries include the newly industrialized East Asian customs territories of Hong Kong Special Administrative Region (SAR) of China, the Republic of Korea, Singapore and Taiwan Province of China, as well as the European transition economies that joined the EU in April 2004.

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

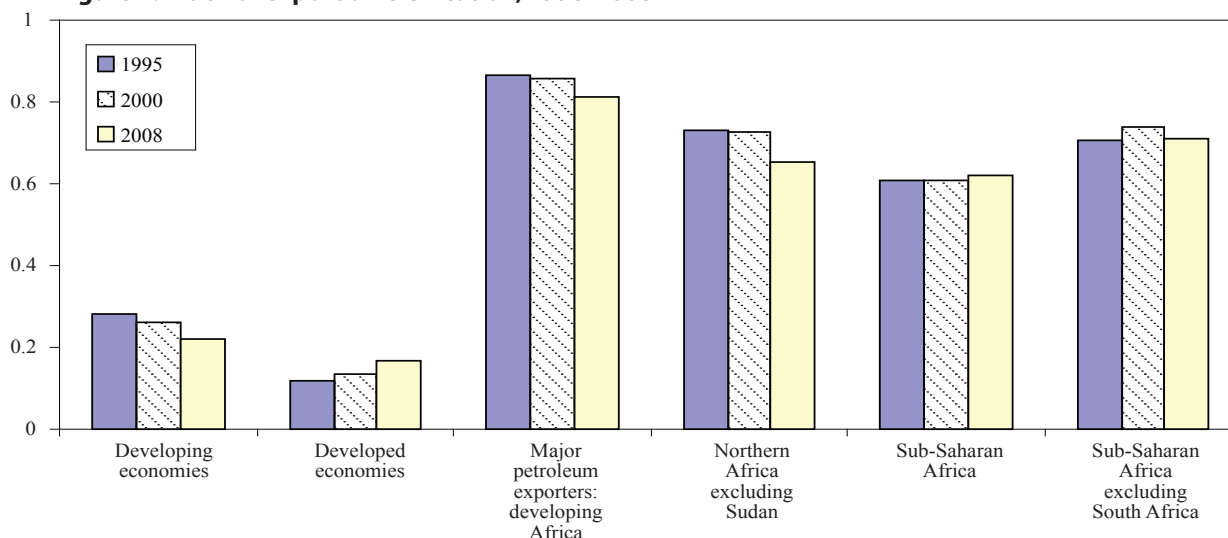
**c** Botswana, Madagascar, Malawi, Mozambique, Uganda, United Republic of Tanzania, Zambia, Zimbabwe. These countries accounted for 14 per cent of SSA GDP in 2001 (while South Africa accounted for 36 per cent and the rest of SSA for 50 per cent).



rates in SSA vis-à-vis the rest of the world. More recently, further erosion of such preferential market access has become a particular concern of African countries in negotiations over additional trade liberalization.

By the end of the 1990s, it had become clear that the few acknowledged gains from trade for SSA were of a one-off character, often reflecting switches from domestic to foreign markets without much increase in overall output (Helleiner, 2002a, 2002b; Mwega, 2002; Ndulu, Semboja and Mbelle, 2002). In some cases, manufactured exports increased, even as total manufacturing output contracted. “No major expansion occurred in the diversity of products exported by most of the Sub-Saharan African countries. [...] Indeed, the product composition of some of the African countries’ exports may have become more concentrated. Africa’s recent trade performance was strongly influenced by exports of traditional products which appear to have experienced remarkably buoyant global demand in the mid-1990s” (Ng and Yeats, 21, quoted in Mkandawire, 2005). Figure 4 confirms this, with the index of export diversification showing that Africa did not broaden its export base during 1995-2008. The index has actually increased slightly for SSA since 2004, indicating even less diversification.

**Figure 4: Index of export diversification, 1995-2008**



Source: UNCTAD Handbook of Statistics 2009, table 4.1.

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

**Tropical fate and resource curse**

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. Surprisingly, the study seems oblivious of the pioneering work of Lewis (1969; 1978) which seeks to explain economic performance in the tropics. Lewis (1978) argued that the tropics had not industrialized and had grown slower than temperate settlements during the last globalization era from the end of the nineteenth century until the early twentieth, and attributed this to the deteriorating terms of trade for tropical agricultural products.<sup>12</sup>

Although the tropics outside of the New World of the Americas generally had more modest export bases than the temperate zones to begin with, imperial domination ensured that the new tropical colonies of

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

Asia and Africa better responded to export demands compared to the settler colonies.<sup>13</sup> Lewis emphasized, however, that not all tropical countries responded to this increased demand for exports. As the exports in greater demand were largely water-intensive, according to him, only those areas with enough water—or minerals—to substantially increase their exports were able to take advantage of the new opportunities. Thus, the more arid tropical areas, mainly in SSA, could not respond to the increased demand for tropical agricultural products. The absence of local supplies of wage labour in “under-populated (tropical) Africa” must also have constrained the capacity to respond.

Some South-East Asian newly industrializing countries and some other tropical countries have grown rapidly since the sixties, but most tropical countries fared badly, especially in the last two decades of the twentieth century. It is, however, not enough to simply attribute the tropical growth shortfall to “pests, diseases, typhoons and other natural calamities”, although such factors may have been important. As mentioned earlier, Lewis observed that the terms of trade for tropical agricultural exports badly deteriorated against their temperate counterparts. In the half century between 1916 and 1966, for example, the price index for natural rubber fell from 100 to 16. This suggests that productivity gains in the tropics were largely lost to worsening terms of trade, the situation being worse where few productivity gains had been made.

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

In one version of the geography-based explanation of Africa’s poor growth performance, Sachs (1997) suggests that natural resource wealth is bad for growth. Curiously, he defines natural resource abundance in terms of the ratio of net primary product exports to GDP in 1971, without distinguishing between extractive non-renewable natural resources (especially minerals) and agricultural products. So-called Dutch disease mainly involves the former, which tends to be very capital-intensive and involve only a small proportion of the population in extraction of the resource. Consequently, additional income from resource extraction typically accrues to a few, unless “redistributed” by the State, while appreciation of the country’s currency affects the entire population.

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

**13** 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 5 per cent or more, while Brazil had 4.5 per cent. Of the new *temperate* settlements—Canada, Australia, New Zealand, Argentina, Chile, South Africa and Uruguay—only Argentina and South Africa had export growth rates above 5 per cent (see Lewis, 1978, p. 195, tables 8.1 and 8.2).

*Gains from trade liberalization?*

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

A basic presumption of the Berg Report was that Africa’s comparative advantage lay in agriculture. If only the State would stop “squeezing” agriculture through marketing boards and price distortions,<sup>14</sup> the supply-side response by agricultural producers would drive export-led growth. Subsequent changes in Africa’s exports show no significant increase in activities in which African countries ostensibly had comparative advantage. Indeed, after two decades of reforms, Africa’s share of global non-oil exports fell to less than half of what it had been in the early 1980s (Ng and Yeats, 2000, quoted in Mkandawire, 2005).

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

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

Severe public spending cuts under structural adjustment have caused a significant deterioration of infrastructure (roads, water supply, etc.) and undermined the potential supply response (UNECA, 2003)<sup>15</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 acknowledge, on the contrary, the likelihood of losses. Gains from agricultural trade liberalization would largely accrue to existing major agricultural exporters, mainly from the Cairns Group,<sup>16</sup> again yielding little benefit to most of SSA. Greater trade liberalization in manufactures with a non-agricultural market access (NAMA) agreement would probably also undermine potential African industrialization. African market access to developed country markets has been more significantly secured through preferential market access agreements, rather than through trade liberalization. Further trade liberalization threatens to erode the advantages of preferential market access.

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

<sup>14</sup> See also Bates (1981).

<sup>15</sup> Numerous studies have confirmed the importance of good infrastructure for production capacity enhancement and trade facilitation (see Badiane and Shively, 1998; Abdulai, 2000).

<sup>16</sup> The Cairns Group comprises 19 agriculture exporting countries, composed of Argentina, Australia, Bolivia (the Plurinational State of), Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand and Uruguay.

Referring to the rich countries' claim that developing countries ought to repeal manufacturing tariffs before they can reduce agricultural subsidies, Dani Rodrik observed: “[w]hy they need to be bribed by poor countries to do what is good for them is an enduring mystery”.<sup>17</sup> Similarly, one might ask why poor countries should agree to multilateral trade liberalization that they need to be compensated for or induced to initiate.

“Aid for Trade” was initially proposed as a means to promote and finance trade facilitation. However, the debate over this proposal has recognized that trade liberalization involves “winners” and “losers”, even if the overall outcome is welfare-enhancing in a static sense. Several important policy implications follow from this acknowledgement. First, developing countries should be compensated for their loss of productive and export capacities. Less competitive producers, including small farmers facing competition from subsidized farms from OECD and Cairns Group countries, can be expected to go out of business following trade liberalization. In OECD countries, many such losers have been assisted to adjust to varying degrees, for example, manufacturing workers by welfare, unemployment support, retraining programmes and the like. Second, most developing country Governments cannot make up for such lost tariff revenues and hence need to be compensated by the rich countries. Third, developing countries—especially the LDCs, African, Caribbean and Pacific small island developing States—need to be compensated for the erosion of existing preferences due to further multilateral trade liberalization. Fourth, and most importantly from a development point of view, there are considerable, but uncertain costs involved in developing new or alternative internationally competitive productive and export capacities and capabilities. Fifth, developing countries have emphasized that Aid for Trade must be truly additional to long-promised ODA, which has still not been delivered in full four decades after the United Nations General Assembly resolution of October 1970. Otherwise, Aid for Trade risks becoming a pretext for aid diversion and for imposing new conditionalities requiring trade liberalization.

World Bank model-based estimates<sup>18</sup> of ostensible welfare gains from full trade liberalization (Anderson and Martin, 2005) have been significantly revised downwards from previous ones, possibly because the gains from freer trade as observed in practice have been much less than expected. More than 70 per cent of these gains accrue to rich countries, including two thirds of the global benefits from agricultural trade liberalization, and even more for non-textile manufacturers. More than two thirds of the static gains to developing countries from agricultural trade liberalization will accrue to Argentina, Brazil and India, and to China and Viet Nam in the case of textiles and garments.

<sup>17</sup> Dani Rodrik, “Don’t cry for Doha”, *Daily Star* (Egypt), 5 August 2008.

<sup>18</sup> The World Bank has long supported the World Trade Organization (WTO) in promoting trade liberalization, often citing projections made using a computable general equilibrium (CGE), the so-called LINKAGE model. A CGE model is essentially a system of equations, describing the “behaviour” of firms, households, Governments and so on. LINKAGE happens to be a particularly large CGE model with more than 40,000 equations. As in any economic model (or system of equations), the number of equations is matched by the number of variables. The data requirements for parameters and base year variables are tremendous, and trade elasticities, in particular, are often mere “guesstimates”, albeit with crucial implications. The effects of trade liberalization then are estimated by removing tariffs and subsidies, which enter the price equations affecting demand decisions. Additional real income—from increased exports—is presumed to outweigh the impact of increased taxes on developing country households.

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

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

Most African Governments cannot fully substitute lost tariff revenues with new and higher taxes. The main concessions African developing countries are expected to get from a Doha deal are reduced agricultural subsidies and tariffs in OECD countries, but the neglect of both infrastructure and agricultural development over two decades of BWI structural adjustment programmes has left these countries with little capacity to respond to such export opportunities. What, then, can most of Africa really gain from a Doha deal? How likely are African countries to realize even the paltry \$16 billion projected by this model for developing countries? Developing economies' aggregate nominal GDP, according to the *UNCTAD Handbook of Statistics 2008*, was just above \$14 trillion in 2007—making \$16 billion, or one tenth of 1 per cent, look fairly negligible rather than the big boost to development the Doha Round is touted to be.

Another World Bank study analysed 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, p. 26). According to the simulation results (Anderson, Martin and van der Mensbrugghe, 2005, p. 38, table 2), SSA, excluding South Africa, would gain \$3.5 billion. The GDP of SSA 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 1 per cent. This is much more than the tenth of 1 per cent in expected gains for all developing countries mentioned above, but is still not a lot. Some of the poorest and least developed countries in SSA are also expected to be net losers under “realistic” Doha scenarios (Anderson, Martin and van der Mensbrugghe, 2005, p. 48, table 12).

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

A more recent “large-scale” investigation, based on the MIRAGE model (Bouet, 2008), produced similar results: rich countries would capture 74 per cent of total gains, while middle-income countries and LDCs would 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 1 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 1 per cent by 2015 relative to initial GDP. It is not surprising that these numbers are so close to those produced by LINKAGE, as the MIRAGE model is structurally similar and utilizes the same data set.

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

The likely contribution of such different scenarios to 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 (for example, Ackerman, 2005). Using a simplified, but structurally similar model, Taylor and von Arnim (2006) show how heavily trade liberalization simulation results depend on assumptions. Allowing a bit more realism—unemployment, for example—makes clear that Africa will *not* gain, on balance, from trade liberalization. Their exercise suggests that SSA is likely to experience welfare losses, even assuming the absence of macroeconomic shocks. The region is likely to experience worsening trade balances and increased debt problems, while any short-term gains in income and employment could evaporate quickly under pressure from such strained balances.

Even though the model’s details differ, Kraev (2005) presents an “alternative” analysis of the effects of trade liberalization on GDP that has a methodology and aims compatible with those of Taylor and von Arnim. By endogenizing output, employment and the current account in a CGE framework, he estimates future risks and past losses due to trade liberalization. With the current account and employment endogenized, trade liberalization is found to induce macroeconomic volatility—with mostly negative effects for developing countries. Kraev considers two different scenarios. The first assumes that the trade balance remains unchanged, but the level of demand is variable (implying the possibility of underemployment of resources). With trade liberalization, imports increase, and domestic demand decreases to satisfy the external balance constraint, resulting in losses in the order of 10 per cent of GDP for SSA (Kraev, 2005, p. 14, table 3). The second scenario holds GDP constant, but allows the trade balance to vary. As the level of demand remains unchanged, the trade balance worsens considerably, resulting in growing external deficits (Kraev, 2005, pp. 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 realistically negotiated agreement are close to negligible. “Full liberalization” would bring growth of about 0.5 per cent. A “central Doha scenario” could be expected to increase base year global GDP by 0.19 per cent,<sup>19</sup> and a “central Doha scenario with ‘special products’ for developing countries” by 0.18 per cent (Polaski, 2006, p. 22, table 3.1). In contrast to the studies discussed earlier, she found that developing countries’ aggregate GDP would *decrease* by \$6.3 billion, while developed countries’ GDP would increase by \$5.5 billion with an agreement dominated by agriculture. On the other hand, developing countries’ GDP would *increase* by \$23 billion, while developed countries would increase by \$30.2 billion with an agreement focusing on manufactures.

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

Recent advances in international trade theory do not support the case for trade liberalization in SSA either (see Bernard and others, 2007). “New trade theories” and evolutionary studies of technological development suggest that countries risk being “locked” into permanently slow growth by simply accepting static comparative advantage. It is now generally acknowledged that economic growth and structural transformation—particularly the accumulation or development of new capacities and capabilities—is necessary for export growth. In that sense, while trade can foster a virtuous circle, it cannot trigger it. Meanwhile, the United Nations Conference on Trade and Development (UNCTAD) has long emphasized the importance of growth for trade expansion, and, more specifically, the weakness of the investment-export nexus, which 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 in Mkandawire, 2005). However, “Africa’s failures have been developmental, not export failure per se” (Helleiner, 2002a, p. 4). Rodrik (1997) has also argued that Africa’s “marginalization” is not due to trade performance per se, although performance is undoubtedly low by international standards. An alternative view suggests that Africa trades as much as is to be expected, given its geography and per capita income level. Indeed, “Africa over-trades compared with other developing regions in the sense that its trade is higher than would be expected from the various determinants of bilateral trade” (Coe and Hoffmaister, 1999; Foroutan and Pritchett, 1993).

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

<sup>19</sup> The “central Doha scenario” assumes that developed and developing countries lower tariffs on agricultural (manufactured) products by 36 per cent (50 per cent) and 24 per cent (33 per cent), respectively. Export subsidies are eliminated completely, and domestic support is reduced by one third in all regions.



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

#### 4. Conclusions

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

However, it is also important to recognize the remaining policy space which exists (Amsden, 1999) and the development potential it offers, before it also disappears with further changes in the international economic context. The rapid growth in SSA during the half-decade before the Great Recession of 2008-2009 and its recovery since point to some of the remaining potential that exists. It remains to be seen whether the crisis and other developments—for example, the poor progress of SSA on the MDGs—become the catalyst for reshaping the global economic context.

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

Invariably, the circumstances of such policy changes as well as the policy constraints on the Governments concerned have meant little preparation in terms of a proactive strategy or transitional policies to anticipate and cope with trade and financial liberalization. Fewer of the investment or technology policy instruments of the past are viable or feasible, let alone desirable, today, including many used successfully in post-Second World War North-East Asia. Many industrial policy tools were used by the advanced industrial economies (including those that now deny such selective industrial promotion to others) during their developmental or “catching up” phases, if not since. Indeed, most advanced economies still have a plethora of policies and institutions involved in R&D, skills training, investment promotion and infrastructure provision, e.g., for the new information and communication technologies (ICT), biotechnology, nanotechnology etc., and for export promotion.

Such policies and institutions are necessary, but certainly not sufficient, for stimulating and sustaining economic growth and structural change for those developing countries trying to “catch-up”. Additional

initiatives are urgently needed to prevent such economies—already at a great disadvantage in various respects—from falling further behind the industrially more developed economies of the North, as well as the newly industrializing economies that have emerged in recent decades.

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

More credible simulation exercises based on available evidence suggest that trade liberalization gains will be modest for the world economy and even more so for developing countries, while net gains for Africa are far from assured. There is considerable evidence that the main beneficiaries of agricultural trade liberalization will be the existing major agricultural exporters from North America, Australasia, South-East Asia and the Southern Cone of Latin America. Nonetheless, many well-meaning advocates have joined in the chorus calling for agricultural trade liberalization as if it will boost development prospects in Africa in the near term.

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

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

The MDGs are important for and mutually reinforce the broader United Nations development agenda of the internationally agreed development goals derived from the Organization’s global summits and

conferences since the 1990s, such as the “Earth Summit” in Rio de Janeiro in 1992, the Population and Development Conference in Cairo in 1994, the Beijing conference on women in 1995, the Copenhagen Summit in 1995, the Monterrey conference on financing for development and the Johannesburg conference on sustainable development, both in 2002, among others. This agenda has been reaffirmed and given greater coherence by the Millennium Declaration of 2000 and the Outcome Document of the World Summit in September 2005. African Governments need to be able to follow through with meaningful reforms to ensure inclusive, sustainable development processes. Donors, the BWIs and other members of the international community must provide the financial means, other resources and policy space for them to do so, by meeting the various commitments made over the decades.

## References

- Abdulai, Awudu (2000). Spatial price transmission and asymmetry in the Ghanaian maize market. *Journal of Development Economics*, vol. 63, pp. 327-349.
- Adelman, Irma, and Erinc Yeldan (2000). Is this the end of economic development? *Structural Change and Economic Dynamics*, vol. 11, pp. 95-109.
- AfDB and OECD (2010). *African Economic Outlook 2010*. African Development Bank and Development Centre of the Organisation for Economic Co-Operation and Development. Tunis.
- Akyüz, Yilmaz (1996). The investment-profit nexus in East Asian industrialization. *World Development*, vol. 24, No. 3, pp. 461-470.
- Amsden, Alice (1989). *Asia's Next Giant*. Oxford University Press, New York.
- Amsden, Alice (1999). Industrialization under new WTO law. UNCTAD X High Level Round Table on “Development Directions for the Twenty-First Century”. Bangkok.
- Anderson, Kym, and Will Martin, eds. (2005). *Agricultural trade reform and the Doha Development Agenda*. World Bank, Washington, D. C.
- Anderson, Kym, Will Martin and Dominique van der Mensbrugghe (2005). Would multilateral trade reform benefit sub-Saharan Africans? Policy Research Working Paper, World Bank, Washington, D. C.
- Ariff, Mohamed, and Hal Hill (1985). *Export-oriented Industrialization: The ASEAN Experience*. Allen and Unwin, Sydney.
- Badiane, Ousmane, and Gerald Shively (1998). Spatial integration, transport costs, and the response of local prices to policy changes in Ghana. *Journal of Development Economics*, vol. 56, pp. 411-431.
- Bates, Robert (1981). *Markets and states in tropical Africa*. University of California Press, Berkeley.
- Bernard, Andrew, Bredford Jensen, Stephen Redding and Peter Schott (2007). Firms in international trade. *Journal of Economic Perspectives*, vol. 21.
- Bhagwati, Jagdish (1988). Export-promoting trade strategy: issues and evidence. *World Bank Research Observer*, vol. 3, No. 1 (January), pp. 27-57.
- Bhattacharya, Amar, Peter Montiel, and Sunil Sharma (1997). How can sub-Saharan Africa attract more private capital flows? *Finance and Development*, June, pp. 3-6.
- Bird, Graham (2001). IMF programmes: do they work? Can they be made to work better? *World Development*, vol. 29, No. 11, pp. 1849-1865.
- Bouët, Antoine (2008). The expected benefits of trade liberalization for world income and development: opening the “Black Box” of global trade modeling. *IFPRI Food Policy Review*.
- Bouët, Antoine, and David Laborde (2010). Eight years of Doha trade talks. Where do we stand? IFPRI Discussion Paper 00997. International Food Policy Research Institute, Washington, D. C.
- Boyce, James, and Leonce Ndikumana (2000). Is Africa a net creditor? New estimates of capital flight from severely indebted sub-Saharan African countries, 1970-1996. Political Economy Research Institute, University of Massachusetts, Amherst.
- Bradford Jr., Colin (1990). Policy interventions and markets: development strategy: typologies and policy options. In *Manufacturing Miracles: Paths of Industrialization In Latin America and East Asia*, Gary Gereffi and Donald Wyman, eds. Princeton University Press, Princeton, NJ.
- Chang, Ha-Joon (1994). *The Political Economy of Industrial Policy*. Macmillan, Basingstoke.

- Chang, Ha-Joon (2009). Rethinking public policy in agriculture: lessons from history, distant and recent. *Journal of Peasant Studies*, vol. 36, No. 3, pp. 477-515.
- Coe, David, and Alexander Hoffmaister (1999). North-South trade: is Africa unusual? *Journal of African Economies*, vol. 8, No. 2, pp. 228-256.
- Collier, Paul. 2007. *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*. Oxford University Press, New York.
- Collier, Paul, Lani Elliott, Havard Hegre, Anne Hoeffler, Marta Reynal-Querol, and Nicholas Sambanis. 2003. *Breaking the Conflict Trap: Civil War and Development Policy*. Oxford University Press, New York, pp. 11-50.
- Collier, Paul, and Jan Willem Gunning (1997). *Explaining African Economic Performance*. Centre for the Study of African Economies, Oxford University, Oxford.
- Collier, Paul, and Jan Willem Gunning (1999). Why Has Africa Grown Slowly? *Journal of Economic Perspectives*, vol. 13, No. 3, pp. 3-22.
- Collier, Paul, Anke Hoeffler and Catherine Patillo (1999). Flight capital as portfolio choice. International Monetary Fund, Washington, D. C.
- Collier, Paul, Anke Hoeffler, and Catherine Patillo (2004). Africa's exodus: capital flight and the brain drain as portfolio decisions. *Journal of African Economies*, vol. 13, pp. 15-54.
- Collins, Susan, and Barry Bosworth (1996). Economic growth in East Asia: Accumulation versus assimilation. *Brookings Papers on Economic Activity*, vol. 2, pp. 135-203.
- Darity, Jr, William, and Lewis Davis (2005). Growth, Trade and Uneven Development. *Cambridge Journal of Economics*, vol. 29, No. 1 (January).
- Darity, Jr, William (2005). Africa, Europe and origins of uneven development: the role of slavery. In *African Americans in the U.S. Economy*, C. Conrad, J. Whitehead, P. Mason, and J. Stewart, eds. Rowman and Littlefield, Oxford, pp. 14-19.
- Devajaran, Shantayanan, William Easterly and Howard Pack (1999). Is Investment in Africa Too Low or Too High? Macro and Micro Evidence. World Bank, Washington, D. C.
- Easterly, William (2000). The Lost Decades: Developing Countries Stagnation in Spite of Policy Reform, 1980-1998. *Journal of Economic Growth*, vol. 6, pp. 135-157.
- Easterly, William (2001). *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. MIT Press, Cambridge, MA.
- Easterly, William (2007). *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. Penguin Press, New York.
- Easterly, William, and Ross Levine (1995). Africa's Growth Tragedy. World Bank, Washington, D. C.
- ECA (2004). *Economic Report on Africa 2004: Unlocking Africa's Trade Potential*. Economic Commission for Africa, Addis Ababa.
- Elbadawi, Ibrahim, and Francis Mwega (2000). Can Africa's Saving Collapse Be Reversed? *World Bank Economic Review*, vol. 14, No. 3, pp. 415-443.
- Ellis, Frank (2010). Strategic dimensions of rural poverty reduction in sub-Saharan Africa. In *The Comparative Political Economy of Development*, Barbara Harriss-White and Judith Heyer, eds. Routledge, London, pp. 47-63.
- Fischer, Stanley, Ernesto Hernández-Catà and Mohsin Khan (1998). Africa: is this the turning point? Processed, World Bank, Washington, D. C.
- Foroutan, Faezah, and Lant Pritchett (1993). Intra-sub-Saharan African trade: is it too little? *Journal of African Economies*, vol. 2, No. 1 (May), pp. 74-105.
- Geda, Alemayehu, and Abebe Shimeles (2007). Openness, trade liberalization, inequality and poverty in Africa. In *Flat World, Big Gaps*, Jomo K. S., ed. Zed Books, London.
- Gerschenkron, Alexander (1962). *Economic Backwardness in Historical Perspective*. Harvard University Press, Cambridge, MA.
- Helleiner, Gerald (2002a). Introduction. In *Non-traditional export promotion in Africa: Experience and issues*, Gerald Helleiner, ed. Palgrave, London.
- Helleiner, Gerald (2002b). *Non-traditional export promotion in Africa: Experience and issues*. Palgrave, New York.
- Hernández-Catà, Ernesto (2000). Raising growth and investment in sub-Saharan Africa: what can be done? International Monetary Fund, Washington, D. C.
- IMF (2002). Finance & Development, vol. 29, No. 3 (September), available from <http://www.imf.org/external/pubs/ft/fandd/2002/09/index.htm>.

- Intal, Ponciano Jr. (1997). Comments on Chapter 2 of the Emerging Asia Study, "Economic Growth and Transformation". Emerging Asia seminar, Asian Development Bank, Manila, 1-2 September.
- Jalilian, Hossein, and John Weiss (2000). De-industrialization in sub-Saharan Africa: myth or crisis? In *Industrial Development and Policy in Africa*. Hossein Jalilian, Michael Tribe and John Weiss, eds. Edward Elgar, Cheltenham, UK.
- Kaplinsky, Raphael, and Mike Morris (2008). Do the Asian drivers undermine export-oriented industrialization in SSA? *World Development*, vol. 36, No. 2, pp. 254-273.
- Kaplinsky, Raphael, and Mike Morris (2009). Chinese FDI in sub-Saharan Africa: engaging with large dragons. *European Journal of Development Research*, vol. 21, No. 4, pp. 551-569.
- Kapur, Devesh, John P. Lewis and Richard Webb (1997). *The World Bank. Its First Half-Century*. Brookings Institution, Washington, D. C.
- Kasekende, Louis, D. Kitabire and Matthew Martin (1997). Capital inflows and macroeconomic policy in sub-Saharan Africa. In *Capital Account Regimes*, G.K. Helleiner, ed. Macmillan, London.
- Killick, Tony (1992). Explaining Africa's Post Independence Development Experiences. Biennial Conference on African Economic Issues, Lome.
- Kim, Jong-Il, and Lawrence Lau (1994). The sources of economic growth of the East Asian newly industrialized countries. *Journal of the Japanese and International Economies*, vol. 8, No. 3, pp. 235-271.
- Kraev, Egor (2005). Estimating GDP Effects of Trade Liberalization on Developing Countries. Christian Aid, London.
- Krugman, Paul (1994). The myth of Asia's miracle. *Foreign Affairs*, vol. 73, No. 6, pp. 62-78.
- Lewis, William Arthur (1969). *Aspects of Tropical Trade, 1883-1965*. Wicksell lectures, Almqvist & Wicksell, Stockholm.
- Lewis, William Arthur (1978). *Growth and Fluctuations, 1870-1913*. Allen & Unwin, London.
- Lindauer, David, and Ann Valenchik (1994). Can African Labour Compete? In *Asia and Africa Legacies and Opportunities in Development*, David L. Lindauer and Michael Roemer, eds. ICS Press, San Francisco.
- Little, Ian (1981). The experience and causes of rapid labour-intensive development in Korea, Taiwan Province, Hong Kong and Singapore, and the possibilities of emulation. In *Export-led industrialization and development*, Eddy Lee, ed. Asian Employment Program, International Labour Organization, Geneva.
- Little, Ian (1994). Trade and Industrialization Revisited. *Pakistan Development Review*, vol. 33, No. 4i (Winter), pp. 359-389.
- Little, Ian, Tibor Scitovsky and Maurice Scott (1970). *Industry and Trade in Some Developing Countries: A Comparative Study*. Basic Books, New York.
- Loayza, Norman, Klaus Schmidt-Hebbel, and Luis Servén (2000). Saving in developing countries: an overview. *The World Economy Review*, vol. 14, No. 3, pp. 393-414.
- Madavo, Callisto, and Jean-Louis Sarbib (1997). Africa on the Move: Attracting Private Capital to a Changing Continent. *The SAIS Review*, vol. 7, No. 2, pp. 111-126.
- McPherson, Malcolm, and Arthur Goldsmith (2001). Is Africa on the move? Belfer Center for Science & International Affairs, John F. Kennedy School of Government, Harvard University, Cambridge, MA.
- McPherson, Malcolm, and Tzvetana Rakovski (2001). Understanding the growth process in sub-Saharan Africa: some empirical estimates of African economic policy. Belfer Center for Science & International Affairs, John F. Kennedy School of Government, Harvard University, Cambridge, MA.
- Miguel, Edward, Shanker Satyanath and Ernest Sergenti (2004). Economic Shocks and Civil Conflict: An Instrument Variables Approach. *Journal of Political Economy*, vol. 112, No. 4, pp. 725-753.
- Milanovic, Branko (2002). The two faces of globalization: against globalization as we know it. Processed, May, World Bank, Washington, D. C.
- Milanovic, Branko (2005). *Worlds Apart*. Princeton University Press, Princeton, NJ.
- Minoiu, Camelia, and Sanjay Reddy (2008). Aid does matter after all: revisiting the relationship between aid and growth. In *Growth Divergences: Explaining differences in economic performance*, J. A. Ocampo, Jomo K. S. and Rob Vos, eds. Zed Books, London, pp. 236-259.
- Mhlanga, Nomathemba, Garrick Blalock and Ralph Christy (2010). Understanding foreign direct investment in the Southern African development community: an analysis based on project-level data. *Agricultural Economics*, vol. 41, Nos. 3-4, pp. 337-347.
- Mkandawire, Thandika (1988). The road to crisis, adjustment and de-industrialization: the African case. *Africa Development*, vol. 13, No. 1.
- Mkandawire, Thandika (2005). Maladjusted African economies and globalization. *Africa Development*, vol. 30, Nos. 1&2, pp. 1-33.



- Mkandawire, Thandika (2007). Universalism versus Targetting. United Nations Research Institute for Social Development, Geneva. In *Policy Matters*, J. A. Ocampo, Jomo K. S. and Sarbuland Khan, eds. Zed Books, London.
- Mkandawire, Thandika, and Charles Soludo (1999). *Our Continent, Our Future: African Perspectives on Structural Adjustment*. African World Press, Trenton, NJ.
- Mlambo, Kupukile, and Temitope Oshikoya (2001). Macroeconomic Factors and Investment in Africa. *Journal of African Economies*, vol. 10, No. 2, pp. 12-47.
- Mosley, Paul, Turan Subasat, and John Weeks (1995). Assessing Adjustment in Africa. *World Development*, vol. 23, No. 9, pp. 1459-1473.
- Mwega, Francis (2002). Promotion of non-traditional exports in Kenya. In *Nontraditional Export Promotion in Africa: Experience and Issues*, G.K. Helleiner, ed. Palgrave, New York.
- Myrdal, Gunnar (1968). *Asian Drama*. 3 vol. Pantheon, New York.
- Naya, Seiji, Kernial Sandhu, Michael Plummer and Narongchai Akrasanee, eds. (1989). *ASEAN-US Initiative: Assessment and Recommendations for Improved Economic Relations*. Institute of Southeast Asian Studies, Singapore.
- Ndikumana, Leonce, and James Boyce (2002). Public Debt and Private Assets: Explaining Capital Flight from Sub-Saharan African Countries. Working Paper No. 32, Political Economy Research Institute, University of Massachusetts, Amherst.
- Ndikumana, Leonce, and James Boyce (2008). New Estimates of Capital Flight from Sub-Saharan African Countries: Linkages with External Borrowing and Policy Options. Working Paper No. 166, Political Economy Research Institute, University of Massachusetts, Amherst.
- Ndikumana, Léonce, and Sher Verick (2008). The linkages between FDI and domestic investment: unravelling the developmental impact of foreign investment in sub-Saharan Africa. *Development Policy Review*, vol. 26, No. 6, pp. 713-726.
- Ndulu, Benno, Joseph Semboja, and Ammon Mbelle (2002). Promotion of non-traditional exports in Kenya. In *Non-traditional Export Promotion in Africa: Experience and issues*, G.K. Helleiner, ed. Palgrave, New York.
- Nel, Philip. 2003. Income inequality, economic growth and political instability in sub-Saharan Africa. *Journal of Modern African Studies*, vol. 41, No. 4.
- Ng, Francis, and Alexander Yeats (2000). On the recent trade performance of sub-Saharan African countries: cause for hope or more of the same? Processed, World Bank, Washington, D. C.
- Ocampo, José Antonio, and María Angela Parra (2006). The commodity terms of trade and their strategic implications for development. In *Globalization Under Hegemony: The Changing World Economy*, Jomo K. S., ed. Oxford University Press, New Delhi.
- OECD (2010). *Development Aid at a Glance 2010*. Organization for Economic Cooperation and Development, Paris.
- Ouattara, Alassane (1997). The Challenges of Globalization for Africa. Southern African Economic Summit, organized by the World Economic Forum, Harare.
- Panchamukhi, Vadiraj (1996). WTO and Industrial Policies. Processed, UNCTAD, Geneva.
- Perkins, Dwight (1994). There are at least three models of East Asian development. *World Development*, vol. 22, No. 4, pp. 655-661.
- Pigato, Miria (2000). Foreign direct investment in Africa: old tales and new evidence. World Bank, Washington, D. C.
- Polaski, Sandra (2006). *Winners and Losers: Impact of the Doha Round on Developing Countries*. Carnegie Endowment for International Peace, Washington, D. C.
- Przeworski, Adam, and James Vreeland (2000). The effects of IMF programs on economic growth. *Journal of Development Economics*, vol. 62, pp. 385-421.
- Reddy, Sanjay, and Camelia Miniou (2006). Real Income Stagnation of Countries, 1960-2001. DESA Working Paper No. 28, September, United Nations, New York.
- Rodrik, Dani (1994). Getting interventions right: how South Korea and Taiwan grew rich. NBER Working Paper No. 4964, December, National Bureau of Economic Research, Cambridge, MA.
- Rodrik, Dani (1995). Trade strategy, investment and exports: another look at East Asia. Working Paper No. 5339, November, National Bureau of Economic Research, Cambridge, MA.
- Rodrik, Dani (1997). Trade policy and economic performance in sub-Saharan Africa. Swedish Foreign Ministry, Stockholm.
- Rodrik, Dani (1999). The new global economy and developing countries: making openness work. Overseas Development Council, Washington, D. C.
- Rodrik, Dani (2000a). Can integration into the world economy substitute for a development strategy? World Bank ABCDE-Europe Conference, Paris.
- Rodrik, Dani (2000b). Saving Transitions. *The World Bank Economic Review*, vol. 14, No. 3, pp. 481-507.

- Rodrik, Dani (2001). The global governance of trade as if development really mattered. Processed, Kennedy School of Government, Harvard University, Cambridge, MA.
- Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi (2002). Institutions rule: the primacy of institutions over integration and geography in economic development. IMF working paper No. 02/189, African Department, November, International Monetary Fund, Washington, D. C.
- Rosenstein-Rodan, Paul (1943). Problems of industrialisation of Eastern and South-Eastern Europe. *The Economic Journal*, vol. 53, pp. 202-211.
- Rosenstein-Rodan, Paul (1944). The international development of economically backward areas. *International Affairs*, vol. 20, pp. 157-165.
- Sachs, Jeffrey (2005). *The End of Poverty: Economic possibilities for our time*. Penguin Press, New York.
- Sachs, Jeffrey (2008). *Common Wealth: Economics for a crowded planet*. Penguin Press, New York.
- Sachs, Jeffrey, and Andrew Warner (1995). Natural resource abundance and economic growth. HIID Discussion Paper No. 517A, Harvard Institute for International Development, Cambridge, MA.
- Sender, John (1999). Africa's economic performance: limitations of the current consensus. *Journal of Economic Perspectives*, vol. 13, No. 3, pp. 89-114.
- Singh, Ajit (1982). Industrialization in Africa: a structuralist view. In *Industry and Accumulation in Africa*, Martin Fransman, ed. Heinemann, London.
- Singh, Ajit (1986). The IMF-World Bank policy programme in Africa: a commentary. In *The World Recession and the Food Crisis in Africa*, P. Lawrence, ed. James Currey and Review of African Political Economy, London.
- Singh, Ajit (1987). Exogenous shocks and de-industrialization in Africa: prospects and strategies for re-industrialization. In RISNODEC. *African Economic Crisis*. RIS, New Delhi.
- Singh, Ajit (1999). Should Africa promote stock market capitalism? *Journal of International Development*, vol. 11, No. 3, pp. 343-367.
- Stein, Howard (1992). De-industrialization, adjustment and World Bank and IMF in Africa. *World Development*, vol. 20, No. 1.
- Stein, Howard (2008). *Beyond the World Bank agenda: An institutional approach to development*. University of Chicago Press, Chicago.
- Stewart, Frances (1994). Are short-term policies consistent with long-term development needs in Africa? In *From Adjustment to Development in Africa: Conflict, Controversy, Convergence, Consensus*, G.A. Cornia and G. K. Helleiner, eds. Macmillan, London.
- Stiglitz, Joseph (1998). More instruments and broader goals: moving toward the post-Washington Consensus. UNU/WIDER lecture, World Institute for Development Economics Research, United Nations University, Helsinki.
- Taylor, Lance, and Rudiger von Arnim (2006). Computable general equilibrium models of trade liberalization: the Doha debate. Paper for Oxfam UK, 8 January, Center for Economic Policy Analysis, New School University, New York.
- The Economist (2001). Globalisation and its Critics: A Survey of Globalisation. *The Economist*, 29 September, pp. 5-6.
- Toye, John (1987). *The Dilemma of Development*. Blackwell, Oxford.
- UNCTAD (1987). *Handbook of Trade Control Measures of Developing Countries. Supplement: A Statistical Analysis of Trade Control Measures of Developing Countries*. United Nations Conference on Trade and Development, Geneva.
- UNCTAD (1995). *Foreign Direct Investment in Africa - 1995*. United Nations Conference on Trade and Development, Geneva.
- UNCTAD (1998). *Trade and Development Report, 1998*. United Nations Conference on Trade and Development, Geneva.
- UNCTAD (2000). *World Investment Report, 2000: Cross-border Mergers and Acquisitions and Development*. United Nations Conference on Trade and Development, Geneva.
- UNCTAD (2001). *Economic Development in Africa: Performance, Prospects and Policy Issues*. UNCTAD/GDS/AFRICA/1, United Nations, Geneva.
- UNCTAD (2002). *Economic Development in Africa: From Adjustment to Poverty Reduction: What is New?* UNCTAD/GDS/AFRICA/2, United Nations Conference on Trade and Development, Geneva.
- UNCTAD (2005). *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment*. United Nations Conference on Trade and Development, Geneva.
- UNCTAD (2006). *Doubling Aid: Making The 'Big Push' Work*. United Nations Conference on Trade and Development, Geneva.
- UNCTAD (2008). *World Investment Report 2008*. United Nations Conference on Trade and Development, Geneva.
- UNCTAD (2010). *World Investment Report 2010*. United Nations Conference on Trade and Development, Geneva.
- UN/DESA (2005). *The Inequality Predicament: Report on the World Social Situation, 2005*. United Nations Department of Economic



- and Social Affairs, New York.
- UN/DESA (2008). *World Economic and Social Survey, 2008: Overcoming Economic Insecurity*. United Nations Department of Economic and Social Affairs, New York.
- UNECA (1999). *The ECA and Africa: Accelerating a Continent's Development*. United Nations Economic Commission for Africa, Addis Ababa.
- UNECA and AU (2010). *Economic Report on Africa 2010*. United Nations Economic Commission for Africa and African Union, Addis Ababa.
- UNIDO (1999). Domestic capacity-building for enhancing productivity and competitiveness in Africa. In *The Future Competitiveness of African Economies*, A. Sall, ed. Karthala, Paris.
- UNIDO (2004). *Industrial Development Report 2004*. Vienna.
- Wade, Robert (1990). *Governing the Market*. Princeton University Press, Princeton.
- Weisbrot, Mark, Dean Baker, Egor Kraev and Judy Chen (2001). The scoreboard on globalization, 1980-2000: twenty years of diminished progress. Center for Economic and Policy Research (CEPR), Washington, D. C.
- Weisbrot, Mark, Dean Baker, Robert Naiman and Gila Neta (2000). Growth may be good for the poor - but are IMF and World Bank policies good for growth? Center for Economic and Policy Research (CEPR), Washington, D. C.
- Weisbrot, Mark, Dean Baker and David Rosnick (2005). Scorecard on development: 25 years of diminished progress. CEPR Reports and Issue Briefs 2005-30, Center for Economic and Policy Research (CEPR), Washington, D. C.
- Weisbrot, Mark, Robert Naiman and Joyce Kim (2000). The emperor has no growth: declining economic growth rates in the era of globalization. Center for Economic and Policy Research (CEPR), Washington, D. C. Available from [http://www.cepr.net/images/IMF/The\\_Emperor\\_Has\\_No\\_Growth.htm](http://www.cepr.net/images/IMF/The_Emperor_Has_No_Growth.htm)
- Wolfensohn, Jim (1997). The challenge of inclusion. Address to the Board of Governors, Hong Kong. World Bank, Washington, D. C.
- Wolfensohn, Jim (1999). A proposal for a comprehensive development framework. World Bank, Washington, D. C.
- World Bank (1981a). *Accelerated Development in sub-Saharan Africa: An Agenda for Action*. World Bank, Washington, D. C.
- World Bank (1981b). *World Development Report 1981*. Oxford University Press, New York.
- World Bank (1983). *World Development Report, 1983*. Oxford University Press, New York.
- World Bank (1993). *The East Asian Miracle: Economic Growth and Public Policy*. Oxford University Press, New York.
- World Bank (1994). *Adjustment in Africa: Reforms, Results and the Road Ahead*. World Bank, Washington, D. C.
- World Bank (1997). *World Development Report, 1997: The State in a Changing World*. Oxford University Press, New York.
- World Bank (2000). *Can Africa Claim the 21st Century?* World Bank, Washington, D. C.
- World Bank (2001a). *Global Development Finance, 2001*. World Bank, Washington, D. C.
- World Bank (2001b). *Global Economic Prospects*. World Bank, Washington, D. C.
- World Bank (2005). *Economic Growth in the 1990s: Learning from a Decade of Reform*. World Bank, Washington, D. C.
- World Bank (2006). *Global Economic Prospects. Economic Implications of Remittances and Migration*. World Bank, Washington, D. C.
- World Bank (2009). Migration and Development Brief 11. World Bank, Washington, DC.
- Young, Alwyn (1994). Lessons from the East Asian NICs: A contrarian view. *European Economic Review*, vol. 38, Nos. 3-4, pp. 964-973.
- Yeats, Alexander J., Azita Amjadi, Ulrich Reincke and Francis Ng (1997). *Did Domestic Policies Marginalize Africa in International Trade? Directions in Development*. World Bank, Washington, D. C.
- Young, Alwyn (1995). The tyranny of numbers: Confronting the statistical realities of the East Asian growth experience. *Quarterly Journal of Economics*, vol. 110, No. 3, pp. 641-680.

**Table A1. Africa: growth of GDP per capita, 1960-2008**  
(Annual compound growth rates, based on values in 2000 US dollars)

Percentage					
	1960-1969	1970-1979	1980-1989	1990-1999	2000-2008
Angola				-2.4	8.7
Benin	1.1	-0.3	-0.4	1.3	0.7
Botswana	4.8	11.4	7.8	3.4	2.4
Burkina Faso	1.5	1.3	1.3	2.7	2.0
Burundi	0.8	1.0	1.2	-3.3	0.2
Cameroon	-0.4	4.5	1.4	-1.5	1.2
Cape Verde				3.4	3.4
Central African Republic	-0.1	-0.2	-1.2	-1.0	-0.8
Chad	-1.2	-3.9	3.4	-0.6	4.9
Comoros				-1.0	-0.1
Congo	1.1	2.0	2.1	-1.4	1.5
Côte d'Ivoire	4.1	2.3	-3.1	-0.3	-1.4
Democratic Republic of the Congo	0.5	-2.8	-1.2	-8.2	1.7
Equatorial Guinea				16.4	15.5
Eritrea					-1.7
Ethiopia				-0.7	4.8
Gabon	5.8	5.5	-1.6	-0.9	0.1
Gambia		1.0	-0.2	-0.8	1.6
Ghana	-0.3	-2.0	-1.1	1.6	2.8
Guinea			0.2	1.0	1.3
Guinea-Bissau		-0.3	2.8	-1.6	-2.8
Kenya	2.2	4.4	0.3	-0.9	1.5
Lesotho	3.4	6.2	1.1	2.0	2.6
Liberia	1.6	-0.4	-6.4	-1.9	-3.2
Madagascar	0.2	-1.7	-2.4	-1.6	0.7
Malawi	2.6	3.5	-2.4	1.6	1.0
Mali		2.7	-1.4	1.4	2.2
Mauritania		-1.2	-0.6	0.2	1.7 <sup>a</sup>
Mauritius			4.9	4.2	3.0
Mozambique			-1.0	2.8	5.1
Namibia			-2.4	1.3	2.9
Niger	-0.5	-1.5	-2.9	-1.4	1.2
Nigeria		1.9	-2.5	-0.3	3.1
Rwanda	-0.4	1.7	-1.1	-0.9	4.1
Senegal	-1.8	-0.8	0.0	0.3	1.3
Seychelles	0.5	6.8	1.8	3.0	1.0
Sierra Leone	2.0	0.0	-1.7	-5.6	6.3
South Africa	3.5	0.8	-0.8	-0.6	2.5
Sudan	-1.3	0.6	0.5	2.8	4.6
Swaziland		2.4	4.2	0.7	1.4
Togo	5.8	0.5	-2.3	-0.4	-0.4
Uganda				3.5	3.6
United Republic of Tanzania				-0.3	3.5
Zambia	0.5	-2.1	-1.9	-2.4	2.5
Zimbabwe	1.2	-1.4	0.3	0.1	-4.5 <sup>b</sup>

Source: World Bank, *World Development Indicators 2009*, and author's calculations.

**a** 2000-2007.

**b** 2000-2005

**Table A2. Africa: GDP per capita, 1960-2008**  
(Values in 2000 US dollars)

	1960-1969	1970-1979	1980-1989	1990-1999	2000-2008
Angola			803	623	886
Benin	286	294	314	308	348
Botswana	295	792	1 685	2 768	4 106
Burkina Faso	140	152	174	192	244
Burundi	98	130	145	132	109
Cameroon	504	574	854	617	674
Cape Verde			761	962	1 374
Central African Republic	337	348	298	245	229
Chad	237	202	170	177	226
Comoros			425	389	379
Congo	643	806	1 219	1 068	1 133
Cote d'Ivoire	699	979	782	622	554
Democratic Republic of the Congo	321	307	239	130	88
Equatorial Guinea			578	927	5 781
Eritrea				187	163
Ethiopia			135	118	147
Gabon	2 496	5 346	4 923	4 606	4 064
Gambia	294	321	342	322	338
Ghana	276	268	208	234	285
Guinea		333	326	345	391
Guinea-Bissau		168	162	183	139
Kenya	272	382	426	422	425
Lesotho	165	233	294	382	458
Liberia	701	799	588	122	157
Madagascar	402	389	302	254	249
Malawi	110	147	146	141	144
Mali	207	232	221	220	276
Mauritania	454	477	439	419	440 <sup>a</sup>
Mauritius			1 907	3 055	4 289
Mozambique			170	197	299
Namibia			2 080	1 963	2 370
Niger	357	270	221	175	168
Nigeria	301	427	349	368	420
Rwanda	196	215	256	222	258
Senegal	580	519	479	450	504
Seychelles	2 440	3 506	4 435	6 388	7 466
Sierra Leone	236	278	273	200	220
South Africa	2 593	3 244	3 324	2 993	3 351
Sudan	269	274	268	298	427
Swaziland		695	918	1 222	1 460
Togo	248	307	291	253	249
Uganda			175	210	290
United Republic of Tanzania			257	256	311
Zambia	561	547	429	338	343
Zimbabwe	478	629	613	636	523 <sup>b</sup>

Source: World Bank, *World Development Indicators 2009*, and author's calculations.

**a** 2000-2007.

**b** 2000-2005

**Table A3. Sub-Saharan Africa economies with the highest ratio of FDI to GDP, 1970-2009**

Percentage				
	1970-1979	1980-1989	1990-1999	2000-2009
Angola	0.07	2.02	8.39	33.39
Liberia	15.99	18.22	12.43	23.50
Congo	6.35	1.36	4.88	16.03
Equatorial Guinea	-0.05	1.75	29.33	15.35
Seychelles	7.50	5.73	4.81	13.47
Sao Tome and Principe		0.12	1.62	12.42
Chad	1.51	1.22	1.48	12.09
Mauritania	-0.73	1.01	0.45	11.57
Djibouti	0.26	0.07	0.48	9.58
Cape Verde		0.49	2.75	7.92
Gambia	0.73	0.24	2.32	6.88
Democratic Republic of the Congo	1.41	-0.21	0.05	6.83
Zambia	1.20	1.69	4.06	6.46
Namibia		0.33	2.49	5.86
Mozambique	0.03	0.07	2.53	5.32
Sudan	0.04	0.07	0.84	5.00
Madagascar	0.38	0.16	0.55	4.61
Lesotho	0.10	1.66	2.98	4.25
Ghana	0.97	0.23	1.72	3.96

**Source:** UNCTAD, *World Investment Report 2010*, and authors' calculations.

**Table A4. Net bebt service transfers as GDP shares of selected African countries, 1990-2008<sup>a</sup>**

Percentage				
<i>Ratio to GDP</i>	<i>1990-1994</i>	<i>1995-1999</i>	<i>2000-2004</i>	<i>2005-2008</i>
<b>"Top Ten" net payers</b>				
Gabon	-1.0	-5.3	-5.5	-4.7
Nigeria	-5.3	-4.1	-3.1	-3.0
Central African Republic	4.3	0.4	-0.3	-2.2
Democratic Republic of the Congo	1.0	0.0	0.4	-2.0
Lesotho	5.8	2.9	-2.2	-2.0
Sao Tome and Principe	16.0	8.9	6.0	-1.8
Côte d'Ivoire	-0.1	-5.8	-4.0	-1.8
Comoros	2.4	1.9	1.9	-1.8
Guinea	3.5	0.7	-1.4	-1.6
Cameroon	1.6	-2.5	-1.8	-1.4
<b>"Top Ten" net recipients</b>				
Seychelles	0.9	0.6	2.0	3.5
Burkina Faso	2.9	1.9	3.0	3.7
Ghana	3.5	3.8	2.1	3.8
Ethiopia	2.6	0.6	3.7	3.8
Eritrea	1.6	5.5	8.9	3.9
Gambia	0.8	1.1	3.5	4.1
United Republic of Tanzania	2.1	0.5	1.6	4.2
Mozambique	4.5	3.9	3.2	4.5
Madagascar	1.9	1.3	3.6	4.9
Mauritania	2.9	-0.6	4.7	5.5

**Source:** UNCTAD *Handbook of Statistics 2009* (table 7.7 External long-term debt of developing economies) and author's calculation.

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

**Table A5. All developing economies: average shares of GDP, 1970-2008**

Percentage				
	1970-1979	1980-1989	1990-1999	2000-2008
Agriculture, hunting, forestry, fishing	29	18	12	10
Industry	34	38	35	38
Mining, manufacturing, utilities	29	32	29	32
Manufacturing	19	21	22	23
Construction	5	6	6	5
Services	37	44	52	52
Wholesale, retail trade, restaurants and hotels	12	13	14	14
Transport, storage and communications	5	6	7	8
Other activities	20	25	31	30

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

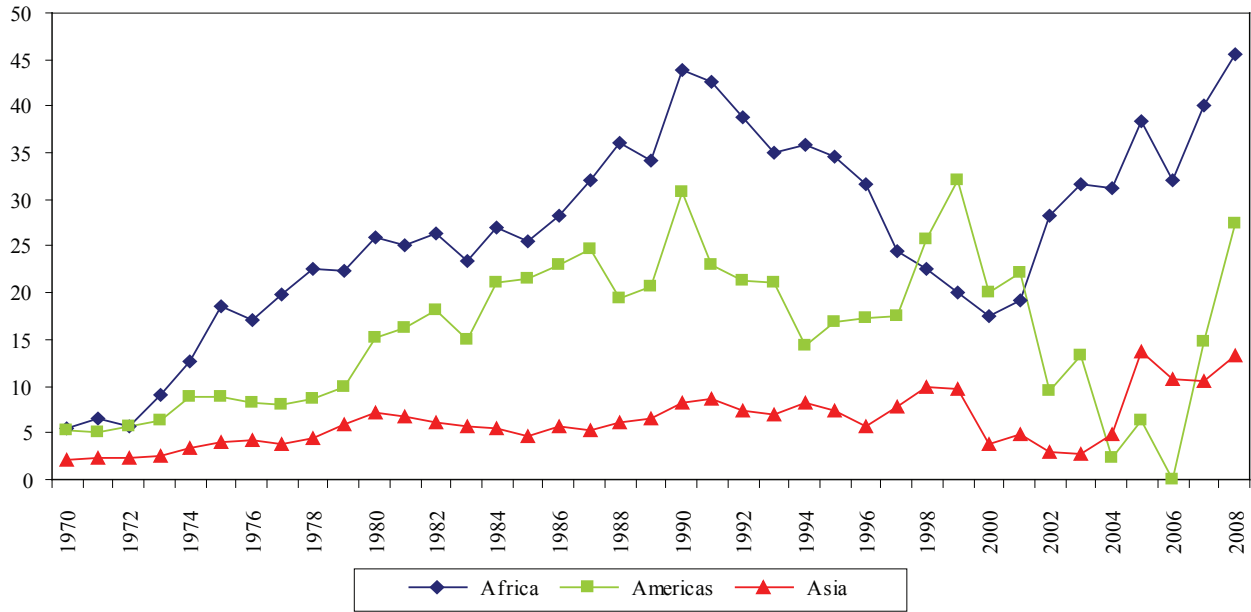
**Table A6. Asian developing economies: average shares of GDP, 1970-2008**

Percentage				
	1970-1979	1980-1989	1990-1999	2000-2008
Agriculture, hunting, forestry, fishing	26	19	14	11
Industry	39	39	38	40
Mining, manufacturing, utilities	34	33	31	34
Manufacturing	22	22	25	27
Construction	5	6	6	5
Services	35	42	48	49
Wholesale, retail trade, restaurants and hotels	11	13	14	13
Transport, storage and communications	5	6	7	7
Other activities	19	23	27	29

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

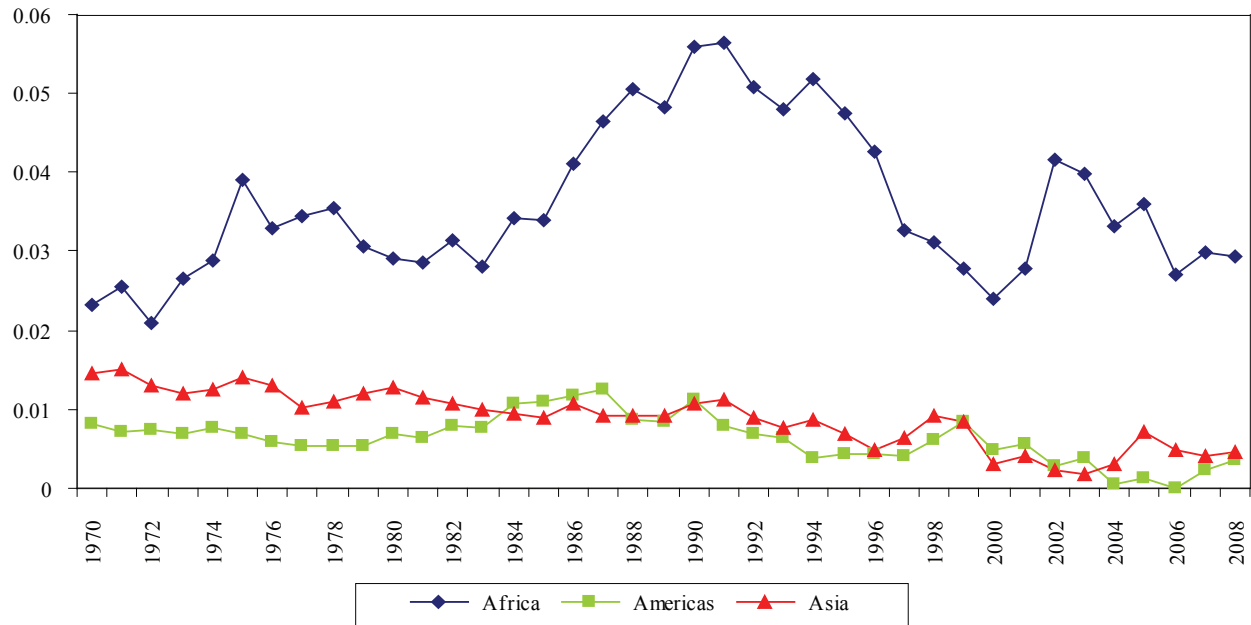


Figure A1: Total official aid flows to developing economies: current US dollars, per capita, 1970-2008



Source: UNCTAD Handbook of Statistics and authors' calculations.

Figure A2: Total official aid flows to developing economies as a share of GDP of each region, 1970-2008



Source: UNCTAD Handbook of Statistics and authors' calculations.

