Africa

A Light at the End of the Tunnel?

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Everyone wants Africa to succeed.

In the broad sense, African nations have no strategic adversaries. Nor is most of Africa's territory the objective of big-power hegemonic ambitions—with the exception of the eastern Horn, which is geographically close to the oil states of the Middle East. Most of the rest of the world's nations would welcome African states' participation in the global economy as full partners. The major industrial powers would welcome the day when Africa ends its dependence on both economic development aid and humanitarian assistance. None of these powers seek spheres of influence in Africa.

Looking forward to the year 2020, we see that the outlook for the majority of African countries remains mediocre, at best, in the absence of major policy reforms at all levels. At the present time (2010), there is little indication that the required reforms will likely see implementation, with a few exceptions. The key to this bleak prognosis lies chiefly among the large, resource-rich African nations that demonstrate absolutely no political will to take the necessary steps leading to strong and sustainable economic growth. On the contrary, these countries are hopelessly mired down as prisoners of the status quo and the special interests that want to keep them just where they are. These countries, which should normally be the engines of growth for all of sub-Saharan Africa, include Nigeria, Democratic Republic of the Congo, Sudan, and Angola. To this unhappy list we must add two smaller African states that showed great promise until the turn of this century—Zimbabwe and Côte d'Ivoire—but which succumbed to civil strife that set both of them back several decades, with no turnaround currently in sight.[1]

The one glimmer of hope among the larger African nations is the Republic of South Africa. Having achieved black majority rule only in 1994, South Africa has managed to avoid most of the mistakes made by those countries that achieved independence between 1957 and 1974. Although South Africa's real democracy has some way to go before consolidation, it appears irreversible.[2] That nation has also preserved a market economy, the rule of

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law, and a vigorous international trading capability. Nevertheless, South Africa's uncertain political future and the absence of viable opposition to the power structure have caused potential investors to hesitate. In addition, its crime rate, one of the highest in the world, deters investor confidence. In the final analysis, South Africa's natural market is the rest of Africa, and the absence of significant purchasing power to the north continues to dampen growth in South Africa itself.

The Roots of Stagnation

Why is Africa lagging behind the rest of the emerging world? Some historical reasons, which provide perspective, continue to inhibit progress 60 years later. It is sobering to contemplate that Nigeria, Ghana, Kenya, Côte d'Ivoire, and Guinea had higher gross domestic products (GDP) per capita in 1950 than South Korea, Malaysia, and Indonesia. What happened?[3]

Africa's first generation of leaders, the captains of the anticolonial movement, made some important decisions about their political and economic policies that caused great damage to their nations and that continue to haunt their countries to this day.[4] Virtually all African leaders rejected the Western-style democracy that they inherited from the European colonial powers, considering multiparty democracy incompatible with African cultural norms. As practiced in Europe and the United States, multiparty democracy is adversarial. In Africa, tradition requires the resolution of political issues through a slow process of consensus building from which solutions emerge.

The political system of choice, the "African one-party state," proved all-encompassing, including all citizens as party members from birth. Civil society, the singularly important countervailing power that constitutes the backbone of democracy, was co-opted into the single-party structure. The state/party, which prohibited political opposition, owned all media. The party structure became a huge bureaucracy that constituted a parallel state within a state. Without opposition, the single political party became the most important route to fame and fortune. Without multiparty elections, the single party could not be defeated. Hence, careers within the single party provided security as well as power.

Needless to say, the African one-party state at the national, provincial, and municipal levels could not replicate the traditional consensus exercises led by the village chiefs. With so many different ethnic groups and their different languages, and with so many competing interests based on geography and economic resources, government by consensus made no sense. Political opposition would inevitably rear its head to air profound differences. Real conflicts required nonviolent resolution. With opposition forbidden under the one-party consensus system, people who expressed discontent and unhappiness with the party in power faced incarceration. Thus, political prisoners became a fact of life. In addition, political opposition had to be stifled in its infancy. Consequently, the secret police became a growth industry. People were afraid to talk to each other in public places for fear of being overheard. To find out the truth about their own countries, citizens had to listen to the BBC, the Voice of America, or Radio France on shortwave radio.

Having no fear of the populace voting them out of office and enjoying total control over government bureaucracies, the single parties condemned themselves to fall into corruption and malfeasance. To paraphrase Lord Acton, unchecked power is always abused. In addition, the tendency to bend or severely diminish the rule of law rendered those societies uninviting to private investors, both homegrown and foreign.[5]

Socialism with an African Face

On the economic side, the initial decisions were no less damaging to the prospects for future prosperity than on the political side. Under the strong influence of their best friends in the United Kingdom and France, most of them ideological socialists, the first generation of free African leaders opted for "African socialism," the economic counterpart of the African one-party state. That translated into the state's taking possession of the "commanding heights of the economy." Within the first five years after independence, most of the large plantations, banks, insurance companies, telecommunications firms, agro-industries, mines, and factories were nationalized with compensation to the (mostly foreign) owners.

Government ownership of enterprises is not necessarily condemned in advance to failure. A number of such enterprises in Africa have proven profitable and expansive, such as Ethiopian Airways and Société Nationale Industrielle et Minière (SNIM), the iron ore mining company in Mauritania. Unfortunately, managers of the vast majority of African nationalized enterprises did not consider profitability and growth a high priority. Instead, government-owned enterprises have created employment for the ruling party's supporters and their families, many of whom come from rural areas, where salaried employment is scarce.

As the bloating of enterprises expanded, profitability turned into loss making. The government had to subsidize the enterprises in order to keep them in business. The money funneled into subsidies for enterprises reduced the amount of funds available to pay for vital traditional governmental services, including education, public health, and maintenance of infrastructure. Government borrowing from central banks crowded out applicants for bank credit. All of these developments made it virtually impossible for the indigenous private sector to obtain financing. The net result was an economic vicious cycle, with subsidies to government enterprises reducing government services, which in turn made it more difficult for existing private business to continue operating. As more investors disinvested, revenue from taxes and royalties decreased, and so on.

In most African countries, the economic vicious cycles were masked between 1957 and 1975, when the global economy enjoyed a commodities boom. The many tropical and mineral products exported to world markets by African nations brought in high prices. Thus, those countries could avoid budget deficits, at least to permit the paying of salaries. Where cash was still short, some African governments could use their high earnings as collateral for commercial borrowing from London and New York banks. Sadly, those governments spent a significant percentage of the receipts from exports and borrowing on white elephants rather than on water, roads, and power for the rural majorities.

Between 1975 and 1980, world commodity prices declined steeply. Electrolytic copper diodes exported from the Democratic Republic of the Congo, for example, dropped from $1.40 per pound to $0.75—a catastrophic loss on copper exports of 400,000 tons per year. It was the same for natural rubber, palm oil, coffee, and ground nuts. This occurred because of a leveling of demand from industrialized countries after the initial surge of World War II reconstruction, combined with increased exports from new producers in Latin America and Southeast Asia. Because African governments neglected maintenance and new investments in infrastructure in favor of subsidized state enterprises, their exports became less competitive, and they subsequently lost substantial market share to countries like Brazil, Indonesia, Thailand, and Malaysia. The Republic of Togo, to cite another example, used to supply 5 percent of the European Union's cattle feed with exports of cassava. Togo lost its entire European market to Thailand in the 1970s due to the lack of competitiveness.

World Bank to the Rescue

By 1980 the World Bank considered the majority of African economies "in free fall," overburdened by debt, incapable of paying government salaries, and suffering from declining infrastructure and essential services. Between 1980 and 1990, most African countries signed on to tough World Bank economic-reform programs in return for substantial debt rescheduling and development assistance. They had no choice. The World Bank gave them significant breathing room on the road to economic recovery. By 1990 African countries that had accepted the World Bank recovery programs, called "structural adjustment," had hit bottom and were steadily working their way back to financial stability. Growth rates of 2.5 percent to 3.5 percent were mediocre compared to those of Southeast Asia but gave hope to some very sick economies.[6]

To make Africa's prospects look even better, multiparty democracy started to break out all over the continent at the beginning of the 1990s. Two new generations of educated Africans, who had not known colonialism, demanded an end to political prisoners, media censorship, government media monopolies, and just plain old dictatorship. They wanted multiparty democracies, and they started to get them.

Here we are today, two decades later, and whither Africa? Well, the answer is that not much progress toward poverty reduction has taken place. Africa's share of world trade has decreased over that period (1990–2010) from 3 percent to 1 percent. Average annual GDP growth continues to move between 2.5 percent and 5 percent. Considering the low bases of most African countries (the growth rate needed to reach sustainable development is 10 percent to 20 percent), Africa still has not produced a single equivalent of the Asian "tiger." What are the problems, and are there solutions?

The structural adjustment programs of the World Bank, International Monetary Fund, and international donors established a macroeconomic floor for most African countries, reversing the free fall of the 1970s. But that marked only the beginning of the process of achieving sustainable development. Moving upward from that point would require even greater effort. Unfortunately, African nations have encountered too many pitfalls along the way, including civil conflict; loss of market share in international trade through lack of competitiveness; continued neglect of agriculture, which employs the majority of the people at subsistence level; and vagaries of global markets.

Agriculture: The Key

Among the several reasons for the agonizingly slow progress in African development, the neglect of agriculture is probably the most important. As one African head of state informed me recently, "By neglecting agriculture, we killed the goose that laid the golden egg."

At the time of independence in the early 1960s, the African continent was a major exporter of tropical products, and most African nations were self-sufficient in food production. Unfortunately, with the notable exceptions of Côte d'Ivoire, Malawi, and Zimbabwe, most African governments assigned their highest priority to satisfying the needs of the cities—the centers of political activity. This resulted in taxation of producers of wealth in the rural areas for the benefit of urban dwellers. A corollary of this policy involved maintaining artificially high exchange rates so as to provide cheap imports for the urban populations. Among other results, this practice raised agricultural export prices artificially, thereby causing loss of market share to cheaper producers in Latin America and Southeast Asia. Needless to say, these policies reduced incentives for the farmers to produce for markets and caused major reductions in export earnings. With the lowering of opportunities for young people in farming, migration to cities expanded, thereby increasing pressure on governments to rob Peter (the farms) to pay Paul (the cities).[7]

The World Bank stabilization programs eliminated artificial exchange rates. The devaluation of the common Communauté Financière d'Afrique (Financial Community of Africa) (CFA) currency in 13 francophone countries in 1994 provided major relief to farmers, especially in those few nations with active agricultural support programs, such as Côte d'Ivoire.[8] But the African governments and international donor community failed to follow up with agricultural modernization programs that could have tripled yields for grains, stabilized domestic markets, and expanded exports. The donors had no incentives to help African agriculture in view of their agricultural protectionism at home.

As for local food security, African farmers did a fairly good job of matching agricultural production to population expansion. But they ran out of steam around 1995 when food imports began to expand significantly. From 2006 to 2008, world food prices increased dramatically, causing great hardship in a number of African importing countries that found themselves competing with the gigantic and wealthier populations of China and India. Currently, though, we see signs of African countries paying new attention to agriculture, with talk of improved seed varieties, increased availability of fertilizer, and development of local irrigation schemes. Better late than never.[9]

The African Entrepreneur: Under the Radar

After neglect of agriculture, the absence of an enabling environment for private investors represents the most important impediment to African development. African entrepreneurs are reluctant to invest. Unless a business person enjoys a close connection to the ruling elites, no rule of law exists; banks extend very little credit; many hurdles impede attempts to start a business; and pathological corruption is extremely stifling. Safety-conscious investors keep their money outside Africa. In the final analysis, the ruling class takes a dim view of African entrepreneurs not closely connected to the power structure and unable to win special privileges. Countries in Southeast Asia consider entrepreneurs partners in development. Those in Africa, however, often see them as a threat to power.[10]

To make matters worse, the lack of investment in infrastructure maintenance and upgrades over the years has steeply increased the cost of doing business for both local and foreign investors. Electric power is expensive and unreliable. Port operations are slow and inefficient. Workers often do not have needed skills, including basic literacy and a working knowledge of math. Roads to and from ports and neighboring countries are badly in need of repairs, making transport very expensive and slow. All other things being equal, Africa remains noncompetitive for value-added investors.

Civil conflict has taken a heavy toll on a high number of African countries. Internal wars in Somalia, Sudan, Chad, and Ethiopia continue to inhibit development and continue to generate refugees and flows of illegal arms. Countries coming out of conflict have a long, steep hill to climb in order to repair destroyed infrastructure, repatriate refugees, and restore basic services. Because of minority government in a number of African states, civil conflict lurks under the surface and can explode at any time. A monopoly of power residing in one minority ethnic group produces an absence of social capital and a disaffection from government among the excluded ethnic groups—a potentially explosive situation. A number of African countries continue to be ruled by ethnic minorities that have firm control over coercive power, which they show no intention of sharing.

The Resource Curse: Alive and Well

Countries along the west coast of Africa, known as the Gulf of Guinea, have become both major and minor producers of hydrocarbons. Easy money coming from production-sharing agreements between governments and oil companies has resulted in declines in all other economic activities. Why make an effort in infrastructure, agriculture, or manufacturing when a big monthly check comes in from Houston, Paris, Rome, or London? The resource curse has hit particularly hard in Nigeria, Gabon, Cameroon, Angola, and the two Congo republics. In Africa, perhaps only Botswana—the world's biggest producer of high-quality diamonds—has utilized an abundant natural resource wisely.[11]

The Big Four of Misery

The outlook for Africa as a whole remains discouraging for a special reason which relates to the dismal internal performance of the four countries that are most populous, biggest in land mass, and most fortunate in their abundance of natural resources: Nigeria, Democratic Republic of the Congo, Angola, and Sudan. All of them are mired down in civil conflict, debilitating corruption, and dysfunctional government.

With a population of 120 million people or more, Nigeria suffers from blockages by powerful vested interests. Such interests in the importation of refined petroleum products, for example, prevent the repair of four government-owned oil refineries. New, privately owned power plants cannot receive allocations of natural gas because vested interests are profiting from imports of diesel generators for homes and businesses. The stealing of crude oil from oil company pipelines is connected to high-ranking politicians who realize personal profits and finance their political machines from these criminal acts. When democracy returned to Nigeria in 1999 after two decades of military rule, electricity production stood at 6,000 megawatts. Eleven years later, it has dropped to less than 3,000 megawatts. The overall negative outlook appears irreversible in Nigeria. The same holds true for Democratic Republic of the Congo, Angola, and Sudan—countries that should be the locomotives of development for all of Africa. Sadly, they remain negative economic forces.

African Points of Light and Potential World Players

Moving from the general to the specific, we see individual African countries, or clusters of countries, that seem capable of achieving sustainable development. Their governments are making an effort. In addition, a few African governments can pull some weight on the global scene.

In southern Africa, South Africa knows how to produce wealth and is making an effort to bring benefits to the people. Closely attached to South Africa are the economies of Botswana, Namibia, and southern Mozambique, where good policies encourage activity in the private sector.

In East Africa, the increasingly integrated nations of Kenya, Tanzania, and Uganda show signs of breakthrough in development. Governance is generally good, if not brilliant, and entrepreneurship is becoming politically acceptable.

In West Africa, the Republic of Ghana has become a role model for democratic transitions, the rule of law, and openness to business.[12] Unsurprisingly, Pres. Barack Obama chose to visit only Ghana during his first visit to the continent of Africa in July 2009.

In the sector of international peacekeeping operations and diplomatic conflict resolution, some African countries have begun to stand out. Nigeria, Angola, and Senegal have battle-hardened professional militaries that provide leadership in stabilization activities in conflict zones. Its own severe internal problems notwithstanding, Nigeria—boasting Africa's largest population and oil-production revenues—serves as a key diplomatic mediator in conflict countries such as Sudan, Chad, and the Central African Republic.

In meetings of the G-20 economic powers, South Africa enjoys full membership, indicating its growing weight on trade and investment issues. Within the World Trade Organization, the Africans have become increasingly sophisticated in their negotiations, demanding an end to farm subsidies that undercut African agricultural production.

In the United Nations, Africa retains three Security Council seats on a rotating basis. A consensus of the entire African caucus at the United Nations decides the votes of the three Africans, who have repeatedly demonstrated their ability to tilt the balance between the Western members and China and Russia.

Clearly, despite the weakness of individual states, no one can take collective Africa for granted on the world stage. That continent has begun to carve out its own identity.

The Need for a New Paradigm

What is to be done? What can the international donor community do to make a difference in Africa? Do we need a new paradigm?

To give it much credit, the international donor community has been quite innovative in Africa. After a decade of heated debate, toward 1995 the donors agreed to forgive and reduce debt owed to international financial institutions (World Bank, International Monetary Fund, and the regional developments banks) by the poorest heavily indebted countries, most of them African. The administration of Pres. George W. Bush was particularly creative with respect to Africa, persuading the other donors to move toward grants rather than loans from the World Bank; establishing the Millennium Challenge Corporation, which selectively finds African countries with the best potential for growth and gives them significant amounts of money to implement homegrown development plans; obtaining large appropriations from Congress to begin a huge program in Africa to combat HIV, malaria, and tuberculosis; and expanding duty-free entry for African products, without a requirement for reciprocity, in a program authorized in the final year of the Clinton administration.

The donor partners must contemplate what they can do now to help Africans make the right decisions to achieve breakthroughs in economic growth. Is there a new paradigm?[13]

The Essentials

Agriculture must come back. Only 15 percent of African land is arable, but only 15 percent of the arable land is actually devoted to modern agriculture. However, 15 percent of African land equates to 45 percent of the United States in a continent with fewer than one billion people. It is unacceptable, therefore, that Africa cannot feed itself and must lose scarce foreign currency to import food from around the world. An additional key element of the modernization of agriculture in Africa involves land reform. Moreover, China and India will probably greatly increase their consumption of protein and cereals as their middle classes grow—a situation that has already caused food prices to rise worldwide, making Africa's self-sufficiency imperative. The other side of that coin, of course, is that Africa can earn money as a food exporter, as it did before the independence wave.[14]

The *private sector* must take the lead in stimulating economic growth—and the most important subset of the private sector is the African private sector. Though always welcome, foreign investors do not necessarily create jobs. The African entrepreneur, if allowed to invest with security, will become the driving economic force.[15]

Infrastructure and its multiplier effect represent the key link to a revival of agriculture and to the rise of the private sector. Rural areas need infrastructure to provide irrigation water, roads to markets, and real-time communications for the modern farmer. The entrepreneur needs it to provide reliable power and water, efficient port services, and good road and rail communications. Until agriculture, the private sector, and related infrastructure become priorities in Africa, the rise of African economic tigers will remain elusive.

What about the international donor community? Does it need a new paradigm for Africa? I think it does. The Bush administration's Millennium Challenge Account adopted a policy of selectivity, finding countries that have demonstrated an ability to grow rapidly and giving them a significant financial head start. These countries have made progress in implementing a variety of reforms and have fulfilled a set of criteria, as witnessed by independent observers. The idea that all developing countries should receive aid regardless of their level of policy reform has essentially been allowed to lapse.

The End of Dependency

The next logical step, in my view, would involve announcing the phasing out of development aid over a relatively reasonable period of time, such as 15 years. At present, most African nations receiving foreign assistance include this aid in their annual budgets. In essence, those aid recipients have developed a dependency that tends to dull other needed efforts to promote rapid growth. Foreign assistance for the poorest African countries is like the cursed oil resource for oil-producing countries in the Gulf of Guinea.

During those 15 years, foreign assistance should focus on food self-sufficiency and agricultural exports, an enabling environment for the African private sector, and targeted infrastructure designed to make African nations global competitors. The countdown to the end of foreign assistance will serve as an incentive for a much greater effort on the part of Africans themselves. For those African countries that border on collapse, or which suffer natural disasters, donor humanitarian assistance would remain in place indefinitely.

Some would call this new paradigm "tough love." That is exactly the right term. In the United States, President Obama, a son of Africa, has launched that policy. He is speaking out about corruption without fear of alienating the Africans who hear him. He is also insisting on food security and infrastructure development.[16] ❑

Notes

1. "Sub-Saharan Africa Lags, Rest of World on Track to Meet Poverty Goals," UN News Centre, 9 June 2005, http://www.un.org/apps/news/story.asp?NewsID=14550&Cr=millennium&Cr1=development. See also United Nations Development Programme, *UNDP Poverty Report, 2000: Overcoming Human Poverty* (New York: UNDP, 2000).

2. All of the international observers judged the South African presidential election of May 2009 a high-quality, free, and fair process.

3. Paul Collier and Jan Willem Gunning, "Explaining African Economic Performance," *Journal of Economic Literature* 37, no. 1 (March 1999): 64–111.

4. Daniel Etunga-Manguelle, "Does Africa Need a Cultural Adjustment Program?" in *Culture Matters: How Values Shape Human Progress*, ed. Lawrence E. Harrison and Samuel P. Huntington (New York: Basic Books, 2000), 65–77.

5. Victor T. Le Vine, *Politics in Francophone Africa* (Boulder, CO: Lynne Rienner Publishers, 2004). See chap. 7, "Experiments in Power, 1958–2003."

6. Robert B. Zoellick, president, World Bank Group, "A Challenge of Economic Statecraft" (speech to the Center for Global Development, Washington, DC, 2 April 2008).

7. Philippe Hugon, "Hunger Riots and the Food Crisis in Africa," *Passages*, March 2009, 74–78.

8. The CFA, a common currency pegged to the euro, is guaranteed convertible by the French Treasury.

9. Jeffrey D. Sachs, "Top Economist Calls for Massive Increase in Aid for Agriculture in Africa," *International Herald Tribune*, 8 May 2008. See also Michelle D. Gavin, "Africa's Looming Mega-Challenges," in *U.S. Africa Policy beyond the Bush Years: Critical Challenge for the Obama Administration*, ed. Jennifer G. Cooke and J. Stephen Morrison (Washington, DC: Center for Strategic and International Studies, 2009), 181–201.

10. R. Glen Hubbard and William Duggan, "The Forgotten Lessons of the Marshall Plan: To Combat Poverty in Africa, Government Should Redirect Aid to Foster Local Business," *Strategy+Business*, no. 51 (Summer 2008), http://www.strategy-business.com/article/08203?gko=7a7ab.

11. Stephan Faris, "Fool's Gold," *Foreign Policy*, 31 July 2007, http://www.foreignpolicy.com/articles/2007/07/30/fools_gold.

12. "African Economies: Lion Cubs? An Up-Beat Assessment of Africa," *Economist.com*, 19 April 2008, 131, http://www.docstoc.com/docs/2085362/TheEconomist20080419.

13. Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa* (New York: Farrar, Straus and Giroux, 2009). See chap. 5, "Radical Rethink of the Dependency Model."

14. "African Farmland: Investing for the Long-Term," *Corporate Council on Africa (CCA) Business Report 2009* 6, no. 2 (30 January 2009).

15. "The Corporate Council on Africa Sends Private Sector's Policy Recommendations for Africa to the Obama Administration," press release, Corporate Council on Africa, 5 March 2009, http://emailwire.com/release/20197-The-Corporate-Council-on-Africa-Sends-Private-Sectors-Policy-Recommendations-for-Africa-to-the-Obama-Administration.html.

16. Paul Collier, "A Measure of Hope," *New York Times*, 21 September 2008, http://www.nytimes.com/2008/09/22/opinion/22collier.html.