

## **UNU Public Lectures**

### **African Development in the 21st Century**

Cassim Chilumpha

Minister of Finance of the Republic of Malawi

Delphin G. Rwegasira

Executive Director, African Economic Research Consortium

#### **About the United Nations University**

The United Nations University is an organ of the United Nations established by the General Assembly in 1972 to be an international community of scholars engaged in research, advanced training, and the dissemination of knowledge related to the pressing global problems of human survival, development, and welfare. Its activities focus mainly on peace and conflict resolution, development in a changing world, and science and technology in relation to human welfare. The University operates through a worldwide network of research and postgraduate training centres, with its planning and coordinating headquarters in Tokyo.

#### **UNU Public Lectures**

African Development in the 21st Century

First edition published: May 1999

Public Affairs Section

The United Nations University

53-70, Jingumae 5-chome, Shibuya-ku

Tokyo 150-8925, Japan

Telephone: +81(3)3499-2811

Fax: +81(3)3499-2828

E-mail: [mbox@hq.unu.edu](mailto:mbox@hq.unu.edu)

Website: <http://www.unu.edu>

Designed and printed by: Omega Communications, Inc.

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## **Preface**

The Second Tokyo International Conference on African Development (TICAD II) was held from 19 to 21 October 1998 in Tokyo, co-organized by the Government of Japan, the United Nations and the Global Coalition for Africa. The Conference was attended by high-level representatives of African, Asian, European, and North American countries, and international organizations. The purpose of TICAD II was to assist African countries in improving people's lives, and promoting peace and stability, through self-help of sub-Saharan countries (ownership), and in cooperation with countries outside the region (partnership).

In preparation for the discussions at TICAD II, the United Nations University and the African Economic Research Consortium (AERC) organized a high-level open forum on African Development in the 21st Century. This was held at the United Nations University Headquarters on 16 October 1998. In particular, the public forum focused on the challenges of poverty reduction, of strengthening Africa's participation in the global economy and of revitalizing the state in Africa. This lecture series contains the introductory remarks by Hans van Ginkel, Rector of the UNU, and the keynote speeches that were made at the Conference by Cassim Chilumpha, Minister of Finance, Republic of Malawi and Delphin Rwegasira, Executive Director of the AERC.

## **Introduction**

The topic of the public forum – “African development in the 21st Century” – is a very important one.

The weak performance of most of Africa's economies over the past three decades has had tragic consequences for the people of the continent. However, there appears to have been a revival in recent years. A particularly positive aspect is that the growth has been widespread – a large and increasing number of countries have posted improved growth performance. As the turn of the century approaches, people are increasingly and hopefully asking – has Africa turned the corner?

The key questions we are addressing here today is how can this recovery be sustained? And how can Africa develop more quickly in the 21st century?

“Something new always comes out of Africa!”

This is the second time this year we have had a major public forum in Tokyo on African development.

Earlier this year, His Excellency Thabo Mbeki, Deputy President of South Africa, gave a lecture at the UNU on “The African Renaissance.” It was a fascinating lecture and discussion. Mr. Mbeki started off by quoting the Latin Expression “Ex Africa semper aliquid novi!” (Something new always comes out of Africa!).

It is in that spirit that we have organized the forum today. We have, as speakers and panellists, some of the leading thinkers and policy makers from the region. We wanted to provide the rare opportunity for policy makers and researchers from Africa to speak in Japan. I am sure we will get insights in some of the key areas for African development in the 21st century.

As a background, I would like to draw out four ongoing themes from UNU work on Africa.

### **The human and economic costs of armed conflict**

One of the most acute problems facing Africa is war and instability. After a few years of relative peace, the re-emergence of armed conflict in West Africa, Central Africa and the Horn of Africa amply demonstrates that peace and stability in the region is still very fragile. Conflicts take a tremendous toll in human lives. Conflicts also impose very large costs on the economies of Africa and nullify domestic and international efforts at promoting growth.

Promoting the basic foundations of peace and stability should be given the highest priority within the region and by international partners as we enter the 21st century. First, there is a need for more effective mechanisms to stabilize the region once conflicts erupt. Second, there is also need to highlight the fact that conflict partly stems from the lack of development. Our economics research institute in Finland – UNU/WIDER – has done some very interesting work on the economic factors responsible for complex humanitarian emergencies. The study of Tony Addison, Raimo Värynen, and Frances Stewart, among others, identifies four sets of factors:

- stagnation and protracted decline in incomes,
- unequal growth,
- rapid population growth accompanied by substantial environmental degradation, and
- large and abrupt shifts in income and wealth distribution during adjustment and liberalization programmes.

The strategies of elites to maintain or expand power, in the midst of adverse economic changes and mass reaction to these changes, are instrumental in determining the potential for humanitarian disasters.

## **Agriculture development**

The second issue I would like to mention is the vital need to develop agriculture.

It is important to highlight just how important this sector is in Africa. The agricultural sector accounts for about 30 to 60 per cent of GDP (gross domestic product) and provides employment to the range of 60 to 70 per cent of Africa's labour force. In most African countries, smallholder and subsistence farmers account for about 50 per cent of total agricultural output. In the early 1960s, just after independence, Julius Nyerere, the first President of Tanzania, said "While some people aim for the moon we must aim for the villages." This remains the key challenge today, as then, for many countries in Africa.

All developed and "successful" developing regions experienced some kind of agricultural revolution before their "take off." It is doubtful that without an "agricultural revolution" any sustainable development can be set into motion in the region. In Africa, the agricultural productivity problem remains unresolved, and may be getting worse. Policy makers in the region and international organizations need to emphasize much more forcefully the policies and measures needed to help encourage small farmers to become the future "engine of growth" of sub-Saharan Africa (SSA).

This issue is also at the heart of UNU work on Africa. Our own institute in Accra, Ghana, the UNU Institute for Natural Resources in Africa (UNU/INRA), focuses on the continent's urgent need to achieve sustainable use of its rich natural resources.

## **Globalization and Africa**

So, too, the economic performance of African countries in years to come will depend in no small amount on the success with which they can integrate with the global economy.

Over the last two years, the UNU and the African Economic Research Consortium (AERC) have put a lot of effort into looking closely at the issue of globalization. We have tried to identify how African governments can strengthen their participation in the global economy – and do so in ways that bring widespread and sustainable benefits to their peoples.

The rationale for this work stems from two issues. First, the forces of globalization are perhaps the most important factors that affect the current environment for economic development. Globalization provides great opportunities for developing countries to grow rapidly. It also provides major challenges, even threats sometimes. Second, there are lessons from South-East Asian experiences that policy makers in sub-Saharan Africa could adapt to their own contexts. These lessons stem both from South-East Asia's era of rapid growth as well as from the current economic crisis.

The detailed findings of this work are in a policy brief we have produced on

“Strengthening Africa’s Participation in the Global Economy.”

### **The state in Africa**

The topic for the final session today – the state in Africa – is likely to be one of the most interesting and controversial. The state is today the most demonized institution in Africa. It is criticized from all sides – for its weaknesses, its over-extension, its interference with the functioning of the markets, its repressive character and its dependence on foreign powers. Reducing the role of the state has been a key part of the Bretton Woods Institutions’ approach to the region.

However, history tells us the state is a cornerstone of development strategies. There is a real need to take a balanced view of the state in Africa; to realize that the state is part of the solution not just the problem. One of the key challenges for the 21st century is to identify ways and start to revitalize the state in Africa. In that context it will be crucial to develop innovative strategies of democracy and power sharing, to share with and care for all the different population groups.

### Strengthening research institutions in Africa

I would also like to highlight the great importance of further strengthening research institutions in Africa.

Development efforts require a wide range of policies and measures to facilitate economic and social change. Sound development management is more likely to happen when there exists an active, locally-based group of professional researchers and analysts who can conduct policy-relevant research, examine various options and extract the key lessons of successful practices.

There is a substantial pool of research capability within Africa, actual and potential. If research capabilities could be utilized more effectively, there would be enormous benefits for the development of the region. However, many research and training institutions in Africa are in a dire state. They can be characterized as having deteriorating physical infrastructure, poor staff morale, woefully inadequate research materials and inadequate funds for research.

A significant factor in explaining this is the lack of material resources. In particular, governments have cut back severely on funding of research partly as a response to structural adjustment. There is no doubt about the need for greater support of the academic infrastructure in Africa. Also, the links between researchers and policy makers are still very weak.

There are also a number of trends that point to an even greater role for research institutions.

First – within Africa – there seems to be increasing scope for researchers to participate in the policy making process. There have been advances in political liberalization and a rise in the technocracy. The development agenda is broadening significantly. There is also increasing emphasis attached to ownership.

Second, the importance of “knowledge” for development – not only capital – is increasingly emphasized. Access to knowledge is crucial to improving the living standards of the poor. In some ways, knowledge is more important than money as it can help to develop better institutions and spur more creative ideas.

Thomas Jefferson pointed out almost two centuries ago that “Knowledge is like a candle. Even as it lights a new candle, the strength of the original flame is not diminished.” One person’s use of knowledge does not diminish other people’s ability to use knowledge.

This insight is particularly powerful at the present time given the amazing revolution in computer, information and communication technologies that is dramatically affecting the way we generate and distribute knowledge. These developments have far-reaching implications for the future of Africa. They create opportunities to lift millions out of poverty. But, they may also create a widening knowledge gap, in which African countries lag further and further behind.

Research and training institutions have a central place in helping less developed countries to close the knowledge gap. They can help do this in three ways:

- First – by making the most of indigenous knowledge.
- Second – by adapting knowledge from abroad to suit local conditions.
- Third – by finding solutions to seemingly intractable problems.

This issue is at the heart of the UNU mission, and we intend to strengthen our work on it in the future.

In addition to our research and capacity-building programmes, one initiative we are working on is an African Research Bank. This would be an Internet site of downloadable documents on key development issues generated primarily by researchers based in Africa. This is naturally in an early stage of development, but over time we will develop it into a great store of knowledge. We hope this will provide a mechanism to help disseminate the work of African researchers more widely. We also hope that it will provide a resource for researchers interested in African development.

#### UNU work on Africa

As outlined in the UNU Charter, our mission is to carry out scholarly work to help resolve pressing global problems, focusing in particular on developing countries. Our goals are

twofold: to strengthen available capacities in developing countries to carry out high-quality and focused research and education, and to make scholarly and policy-relevant contributions to the work of the United Nations.

Trying to look for answers to the challenges of African development is naturally at the heart of the mission of the United Nations University. We try to fill the gap between long-term reflection and pressing global problems. We try to be a bridge between international organizations, national governments and civil society. And to do this, we bring together scholars, practitioners and policy makers.

Currently, our academic activities are carried out from the UNU Centre in Tokyo and by eight UNU research and training centres and programmes located in various parts of the world, as well as through our networks of associated existing institutions. I have already mentioned the work of two of these – UNU/INRA and UNU/WIDER. But we do much more.

In terms of capacity building, the Centre is responsible for the UNU's Training and Fellowships Programme, which awards about a third of its fellowships to researchers from Africa. I just returned from Iceland where UNU maintains and develops, with strong Icelandic support, highly effective training programmes in geothermal energy and in fisheries, in which African fellows form a large majority. We also intend for the UNU Centre to become a sort of "gateway" to Japan for African researchers.

I look forward to hearing the discussions. I am sure they will inform and inspire the work of the United Nations University and the people of Japan.

Thank you very much.

Hans van Ginkel  
Rector  
The United Nations University

African Development in the 21st Century

Cassim Chilumpha  
Minister of Finance of the Republic of Malawi

Public Forum on African Development in the 21st Century

UNU Headquarters, Tokyo, 16 October 1998

It gives me great honour and pleasure to address this forum today regarding Africa's development as well as the main challenges and opportunities facing the continent at the dawn of the 21st century.

Before I do that, allow me, Mr. Chairman, on behalf of my fellow Africans, to express profound gratitude to you and the Government of Japan for the warm and cordial reception given to us.

The challenges facing Africa as we approach the new millennium are indeed enormous. Africa's position today is quite different from that of the past decade. For the first time in a long time, there is encouraging economic progress in many countries. This reflects the implementation of sound economic policies, a move towards rules-based institutions, and participatory forms of government that foster consensus between the state and civil society.

No doubt, Africa still has a long way to go to make up for lost time and opportunities. Economic growth rates are still not high enough to make a real impact on the pervasive poverty. Investment remains subdued, limiting the efforts to diversify economic structures and accelerate growth.

Further, a number of countries have only recently emerged from civil wars that have severely hampered development efforts, while new flames of conflicts have, sadly, erupted in other parts of the continent.

Africa, therefore, faces major challenges to accelerate growth, reduce poverty, build up its human resources, and create an environment that encourages the development of the private sector. At the same time, globalization has raised the stakes by offering greater opportunities for faster economic growth while significantly raising the risk of marginalization for those countries that fail to integrate into the global economy.

Moreover, the recent crisis in Asia shows that it is not enough merely to open up economies. Sound and fully transparent macroeconomic policies, solid and well-supervised financial systems, and good governance are crucial to the sustenance of economic growth.

#### Economic performance

Recent economic performance in most of Africa has been encouraging. After almost two decades of stagnation and decline, real GDP (gross domestic product) in sub-Saharan Africa is now growing at an average rate of 4–5 per cent a year, while real per capita incomes are rising in most countries. Average inflation came down from a peak of some 45 per cent in 1994 to an

estimated 13 per cent in 1997, and only 15 sub-Saharan African countries still had double-digit inflation rates in 1997.

Internal and external financial imbalances have also been reduced. The average overall fiscal deficit (before grants) was halved between 1992 and 1997, to about 4 per cent of GDP, while the average current account deficit (again, before grants) fell from 5 per cent of GDP to 4 per cent over the same period. These improvements have been accompanied by an upturn in investment ratios.

As exporters of predominantly primary products, African countries are more exposed to terms of trade shocks than most other countries. Their exposure to adverse terms of trade during most of the 1980s and early 1990s had a negative impact on their economic performance.

Such unfavourable terms of trade contribute, among other things, to balance of payments difficulties, which in turn create an unstable environment that does not particularly encourage investment.

Many African countries have also been vulnerable to other shocks, arising mainly from natural environmental forces. Such shocks have resulted in depressed production and therefore depressed exports. This has further led to the need for increased government expenditures.

Although a number of African countries have been undertaking economic reforms to introduce macroeconomic stability and trade and exchange rate liberalization, most of them have yet to be rewarded with any meaningful foreign direct investment.

Statistics on resource flows show that aggregate net long-term resource flows to developing countries increased from US\$101.9 billion in 1990 to US\$231.3 billion in 1995, and official development assistance (represented by official grants and loans) increased from US\$58 billion to US\$64.2 billion over the same period. Foreign Direct Investment and portfolio flows increased from US\$44 billion in 1990 to US\$165.1 billion in 1995, increasing its share from 43 per cent to 72 per cent over the same period. The share of sub-Saharan Africa in these resources was, however, merely US\$0.2 billion in 1990, US\$4.7 billion in 1994, and US\$5.0 billion in 1995, representing 0.005 per cent in 1990 and 0.03 per cent in 1994 and 1995.

#### Investment appeal

Mr. Chairman, distinguished participants: Perhaps noteworthy here is that sub-Saharan Africa has experienced an increase in private capital inflows since 1990. Clearly this suggests that the region has a destination appeal for private investment.

This appeal would seem to arise from:

- Political stability, which has increased investor confidence;
- Policies that allow investors to freely move their capital as and when the need arises;
- Privatization, which has opened up the chance to invest in what were previously government-run enterprises;
- Development of stock exchanges that provide an easy way to trade shares and offer institutional investors (pension funds, insurance companies, etc.) with interest in emerging markets, an opportunity to place their money where there is potential for its growth; and
- A shift from controlled economic systems to open market economies.

Market size and economic growth are important determinants for investment decisions. The limited size of the typical national economy in Africa has significantly hindered the promotion of private investment. Each such economy on its own is not big enough to justify significant investment in many areas of production. For that reason, regional integration is not a matter of choice for Africa; rather, it is an economic imperative.

Consequently, the trend throughout the African continent is towards regional economic integration. This is an important development that needs to be strengthened particularly where it enhances trade liberalization on a most-favoured nation basis.

Regional integration would also provide a framework for African countries to cooperate in developing a common economic infrastructure (in such areas as transport and telecommunications, as well as banking and insurance services), which would better equip them to participate in the global economy.

### The challenges

While these trends are no doubt encouraging, there are several reasons why they are not enough and why more needs to be done. First, economic growth must increase in order to achieve a lasting reduction in poverty. Since Africa's population has been growing at about 2.8 per cent a year over the last decade, real GDP will need to rise at least twice as fast to achieve a significant reduction in poverty and to enable us catch up with other developing countries.

Viewed from another perspective, much faster growth is required to absorb the rapidly rising labour force and materially improve living standards. There is thus a need to consistently average real GDP growth rates of some 7–8 per cent per annum. These rates may seem too high, but several countries in the continent (such as Côte d'Ivoire, Mozambique, and Uganda) have already demonstrated that they are not out of reach.

We in Africa realize that private investment requires a conducive environment that offers functional infrastructure; skilled labour; an even-handed, efficient, and transparent regulatory framework, and a clear government commitment to foster private sector development.

While our reform efforts represent important steps in this right direction, their pace needs to be accelerated. Such acceleration will signal to the private sector, both at home and abroad, that African governments are indeed committed to addressing the structural shortcomings of their economies and to creating an environment conducive to productive private economic activity.

The process of trade liberalization has been launched throughout Africa. Most countries have reduced or eliminated non-tariff barriers, often replacing them with tariff equivalents. Trade regimes are still significantly more restrictive and complex than in most other regions of the world. Tariff rates remain too high and too dispersed, partly because governments are very dependent on import tariffs for budgetary revenue, and partly due to the prevalence of statutory and ad hoc exemptions.

Eliminating these exemptions, preferably in the context of a comprehensive medium-term reform, would allow tariffs to be reduced at a much faster pace. That would in turn not only make domestic producers competitive, but also deepen trade links and thus help Africa to integrate more fully in the world economy and better exploit the opportunities of globalization.

In most African countries, financial intermediation is characterized by shallowness and institutional weakness, with little or no linkage between the formal and informal components. As a result, the sector is ill-equipped to effectively mobilize savings.

Despite the progress made in restructuring the financial sector in many African countries, most central banks still lack autonomy, banking institutions remain, by and large, weak and inefficient, and financial sectors are thin. There is thus a need to accelerate financial sector reform. In particular, it is important to ensure independence and accountability of central banks, with freedom from political interference.

There is also a need to complete the rehabilitation of weak commercial banks; open the banking sectors to healthy domestic and foreign competition; privatize government-owned banks; establish or strengthen the institutions of prudential regulation and supervision of banks; and apply best practices in bank management.

Furthermore, specialized financial institutions and instruments for mobilizing long-term savings (such as stock exchanges) must be developed, and innovative, efficient forms of extending credit to the rural sector must be found. The legal provision for loan recovery and contract enforcement must also be rationalized.

African governments need to move ahead decisively in restructuring and privatizing public enterprises, in order to enhance the efficiency of their operations and to expand the scope for private sector activity. Enterprises that remain in the government portfolio, however temporary, should be operated on a fully commercial basis, with market-based pricing and

employment decisions, and management autonomy and accountability.

Privatization operations should be ambitious in terms of timing, but well prepared and executed in a fully transparent manner to ensure that the process does not give rise to new distortions and private monopolies.

Economic security and good governance, coupled with sound macroeconomic policies and structural reforms, should be the motto for Africa in the 21st century. As a number of African countries have shown in recent years, this recipe for higher, sustainable growth is certainly within the capacity of most countries. Yet Africa continues to suffer from and pay a price for its poor image of famine and disease, poverty and helplessness, and ethnic strife and political instability.

The recent conflicts in a few African countries in East and West Africa have only served to reinforce the distorted perception of the continent, diluting the impact of major strides made in both economic and political reforms. Unfortunately, it is these headlines that capture the world attention.

Political instability, however distant, affects the investment, especially foreign direct investment, that is sorely needed for growth throughout the region. Therefore, there is also a need to foster peace and security in Africa, both through conflict prevention and a prompt resolution to disputes.

This will help create the overall environment within which sound economic and financial policies can have the best prospects for success. Although much more remains to be accomplished, considerable economic progress has been achieved in many African countries, as mentioned at the outset. Therefore, we all need to do a better job of conveying this message to foreign investors. That way, we would help to bridge the gap between the old and the new millennium Africa.

Africa's success will depend largely on its own home-grown efforts. However, Africa's international partners, including the Government of Japan, will also have an important role to play. Industrialized countries can contribute to Africa's success by:

- Pursuing economic policies that promote world economic growth and stability;
- Opening their markets to products in which African countries have, or can develop, a comparative advantage, and phasing out distortionary protective practices;
- Strengthening their bilateral assistance to countries committed to strong reform programmes, particularly where such programmes might entail additional costs;
- Cooperating actively in the fight against corruption in all its forms; and
- Ensuring that the multilateral institutions have the necessary resources to support adjustment and reform programmes.

The international financial institutions, for their part, will also have to continue to

support Africa's adjustment and reform efforts through appropriate policy advice, financial and technical assistance, and training. As you know, the World Bank in close collaboration with the International Monetary Fund (IMF), the African Development Bank, and Africa's major bilateral partners has been very active in all of these areas.

The World Bank, together with the IMF, is implementing the debt initiative for the heavily indebted Poor Countries (the HIPC Initiative), the majority of which are in Africa. Already, four African countries (namely Burkina Faso, Côte d'Ivoire, Mozambique, and Uganda) have received commitments of assistance from all creditors totalling about US\$6 billion in nominal terms.

Of course, to qualify for assistance under the HIPC Initiative, eligible countries need to establish a strong track record of adjustment. I am hopeful that many more countries will do so in the period ahead, and that the list of beneficiaries will be much longer by the year 2000.

As you can see, Africa's reform agenda is full. However, if vigorously implemented, with the support of Africa's international partners, it should help achieve the desired result of higher, sustainable growth and a durable reduction in poverty. As economic and social progress takes hold throughout the continent, confidence in Africa's future will increase, and the image of Africa itself will gradually change for the better. We thus all need to work together to sustain Africa's progress.

#### The case for Malawi

Allow me to say something about my own country. As you already have heard, Mr. Chairman, I come from Malawi, which is a country situated in the south-east corner of southern Africa. Our neighbours are Tanzania to the north and north-east, Mozambique to the east and south-west, and Zambia to the west. The country covers an area of 118,485 square kilometres, of which approximately 24,208 is Lake Malawi.

Malawi has a population of 12 million people and a growth rate of 3.1 per cent per annum. The country is very stable and peaceful. The people are very friendly, courteous, and kind: that is why it is called the "Warm Heart of Africa." The economy of Malawi is predominantly agricultural-based. Agriculture contributes about 40 per cent of the country's Gross Domestic Product.

Prior to 1986, the Malawi economy was very regulated. For example, there were price controls on most products, foreign exchange rationing, import restrictions, industrial licensing, official pegging of the Malawi Kwacha against other major currencies, and restrictions on repatriation of dividends. Such practices obviously restricted the growth of the private sector.

In addition, fiscal problems have been experienced that have rendered it difficult or

virtually impossible for the state to provide for the basic needs of the people of Malawi, especially through the use of public enterprise. It is in this regard that the private sector should increasingly take over the provision of such basic goods and services.

However, in a bid to stimulate the economy and encourage enterprise development among the business community, a number of measures have been taken, including:

- Deregulation of price, foreign exchange, and industrial licensing;
- Introduction of market-based instruments for monetary policy management;
- Efficient company registration and incorporation procedures;
- Introduction of export and import incentives;
- Repeal of duty on capital equipment and raw materials; and
- Privatization of some government-owned enterprises.

Macroeconomic stability will continue to be Malawi's priority objective through low and stable inflation and interest rates. There is need also for stability of currency. Inadequate financial institutions, mostly owned by government parastatals and a few other conglomerates, make access to capital difficult, especially for new firms. This true for Malawi, as it is true for many other southern African states.

The challenge for us as we face the 21st century is to pursue financial sector reforms to improve access and broaden the range of instruments, through for example, Stock Exchanges, Unit Trusts, and other investments.

In order to meet that challenge, a Stock Exchange was established in 1996. Regulations have also been in existence since 1990, passed under the Capital Markets Act (1990), for the creation of Unit Trusts and other collective investment schemes.

In Malawi, we realize that liberalization needs to be accompanied by a competition policy and legislation to "level the playing field;" otherwise, existing conglomerates will simply use their market power to frustrate any new investors. In this connection, a Competition Bill is being prepared for presentation to Parliament as soon as possible.

We also realize that there is need to review labour legislation to ensure that it supports rather than frustrates investment. Malawi is now discussing ways of speeding up the issuance of Temporary Employment and Residence Permits as well as Business Residence Permits. There is need to review the tax legislation continuously to ensure that it encourages investment.

An important aspect of the Investment Promotion Act was the establishment of procedures for setting up Export Processing Zones in 1995. Incentives in EPZs include no withholding tax on dividends, no value-added taxes, a corporate tax rate of 15 per cent, and export tax allowance equal to 12 per cent of export revenue for non-traditional exports.

In privatization of state-owned companies, we understand that sub-Saharan African

governments need to show commitment to privatization of State-Owned Enterprises (SOEs) as part and parcel of private sector development strategies to end the domination of banking and other services by government, promote efficiency and reduce government deficits, and raise revenues to finance social programmes. This process started in 1996 with the enactment of the Public Enterprise (Privatization) Act, 1996, and the establishment of the Privatization Commission. Some ten SOEs have been privatized and many others are in the process of being privatized.

Investment in human resources is also a priority for Malawi. It has been echoed, time and again, that southern Africa is overpopulated. Perhaps the concern should be that the region has too many unproductive people. To make them productive, it is necessary to invest in them through education, both technical and academic. In Malawi, we now have a free primary school system, the aim of which is to achieve a higher level of literacy and numeracy.

On regional cooperation, we understand the need to cooperate with other countries in the region in all aspects of development. Malawi is therefore a member of regional bodies such as the Organization of African Unity (OAU), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the Cross Border Initiative (CBI), just to mention a few.

We believe that problems like money laundering and crime should be tackled on a regional basis. So, too, is the need to cooperate in areas like infrastructure development (roads, railways, power, telecommunications) research, tourism, and trade.

Promotion of small enterprises should be encouraged to inculcate and enhance entrepreneurship among the local communities. If this is done, foreign investment will not be seen as simply an enclave of foreign investors; rather, it will be seen as a complementary effort to private investment.

Land reforms should be encouraged to guarantee security of tenure and enhance enterprise development among citizens. Malawi has recently set up a commission on Land Reform to examine current practices and make proposals for land ownership. A comprehensive Trade and Industry Policy is being finalized to ensure that various strategies in the sector support rather than conflict with one another.

Corruption needs to be seriously considered if sub-Saharan Africa is to appeal to investors. Malawi has established an Anti-corruption Bureau to deal with this problem.

In conclusion, I should emphasize the importance of foreign direct investment to Africa. It would be very discouraging for the African countries to create the necessary environment and still fail to attract interest from the industrialized countries, whether in terms of investment funds, technology transfer, or knowledge and skills transfer. What Africa is actually looking for is a regular flow of investment from our partners in the form of such countries as Japan, the

Republic of Korea, Malaysia, Indonesia, and other countries of South-East Asia.

Africa is a beautiful continent with a lot of untapped potential. While most of what is seen and read about on Africa in the mass media is negative, and in some cases true, there is much more positive news that goes unreported about the beautiful side of the continent with its hard-working people.

A lot of African countries are striving for prosperity and have adopted a lot of policies aimed at seeing the continent leap into the next century with stamina and enthusiasm. It is to this Africa that I invite you our colleagues to come and fill the gap in terms of investment.

I thank you for your attention.

## Key Issues in African Development in the 21st Century

Delphin G. Rwegasira

Executive Director, African Economic Research Consortium

Public Forum on African Development in the 21st Century

UNU Headquarters, Tokyo, 16 October 1998

### Introduction

The latter part of the 1990s has witnessed a much welcome economic recovery in sub-Saharan Africa (SSA),<sup>1</sup> after almost two decades of decline. Growth in real Gross Domestic Product (GDP) has averaged over 4 per cent annually in 1995–97, compared with about 1.5 per cent yearly in 1990–94. There have also been significant improvements in containing the rate of inflation and the current account deficit of the balance of payments. Importantly, this overall recovery has not been systematically aided by exogenous factors like terms of trade gains or changes in weather.

In looking at key issues in the future development of Africa, it is crucial, however, to situate this recent recovery in a proper historical context. As the 1998 UNCTAD Trade and Development Report<sup>2</sup> points out, Africa's growth performance was on the average quite strong for over a decade – from the mid-1960s until the first oil shock (in 1973). GDP growth in SSA averaged about 4.5 per cent per year during the period, although that was lower than in other developing regions (with the exception of South Asia). And, that growth was accompanied by

encouraging trends in investment performance and export revenues. Given the experience of the last two decades or so in SSA, it can be concluded on the whole, that since the 1970s, the economy failed to systematically recover due to a combination of economic vulnerability and weak domestic policies. Economic vulnerability was and remains rooted in over-dependence on primary export commodities and the overall lack of diversification. And, as more recent studies<sup>3</sup> have re-emphasized, the vulnerability importantly is also related to adverse geographic factors such as the tropical location and land-lockedness. Weak policies, on the other hand, originated substantially from what an observer has characterized as a “mistrust of market economies and unreconstructed instinct to over-intervene and over-regulate.”<sup>4</sup>

Many individual analysts and institutions have associated the recent recovery in Africa with the various macroeconomic and structural policies that have been implemented in a relatively large number of countries over the last decade or so. These policies, ranging from control of fiscal deficits to price and trade liberalization and to privatization of public enterprises, have been associated with improved growth and micro-financial performance. Countries that have implemented these policies more rigorously have, on the whole, registered stronger performance – although the outcome in some cases reflects special factors (such as recovery from armed conflicts and the discovery and exploitation of natural resources, like oil).

This welcome recovery of the 1990s is based to a significant extent on greater utilization of existing capacity, and is also clearly inadequate for addressing the widespread poverty in the continent. In comparison to the average annual growth rate of about 4 per cent, the population continues to increase at about 3 per cent. Again, as the 1998 UNCTAD report points out, even if the growth of the past few years could be sustained in the next decade, it would not have much of an effect on widespread poverty, and would constitute little more than the recovery of ground lost during the past twenty years.<sup>5</sup> Apart from output growth, many countries in the region still have very large external imbalances, which also reflect heavy dependence on external assistance. The saving-investment process in the region remains weak – given the desirable range in the rate of aggregate growth. There has not been significant improvement in the ratio of investment to GDP, which on average has remained below 17 per cent through the 1990s. This may be compared to the corresponding ratio of nearly 28 per cent for Asia (excluding Japan). Also, there has not been much success in tapping into foreign capital to developing countries – which increased sharply in the latter part of the 1990s. Although there has been an increase from a small base, the share of SSA relative to other subregions of the developing world remains quite small.<sup>6</sup>

Key issues in African development

As SSA looks to the early decades of the 21st century, it is clear that the overarching objective for the economy is going to be the regeneration and acceleration of growth to decisively reverse the long-term decline of the past, and reduce poverty. The continent's experience with the first oil shock (in early 1970s) and the more recent one during the latter part of this decade<sup>7</sup> provide grounds for optimism. Indeed, in the 1990s a group of ten countries that have been categorized as good performers were able to raise their average real GDP growth rate from about 2.5 per cent per year in 1990–94 to 7 per cent over 1995–97. Countries of the CFA zone as a group were able to reverse the negative growth of the earlier period and attain an average real expansion of about 5 per cent over 1995–97. This, of course, followed a major delayed adjustment of the exchange rate and the accompanying demand-management measures necessary for validating the real exchange rate change.

The long-term decline between the 1970s and early 1990s is a painful reminder, however, of the very present dangers of reversal in the ongoing momentum in policy and structural reforms, and of destabilizing external shocks. The design of pro-growth and anti-poverty policies through partnerships will, therefore, be crucial in the coming decade and beyond. This no doubt represents a complex set of issues, some of which we shall be reverting to shortly. An encouraging dimension in this regard should, however, be pointed out: The human and technical capacity for managing development policies, though still inadequate given the task at hand, has improved substantially since the post-independence years of the 1960s and 1970s. There is, therefore, a stronger basis for shaping and managing the requisite policies, if other supportive elements in society are present. But, of course, the presence of these other elements, like a conducive political framework and good governance generally, cannot be simply assumed.

Important as well in looking at the possibilities for accelerated and sustained economic growth in Africa is the problem of structural vulnerability. This, as was alluded to earlier, originated from the very limited diversification in the economy and from natural disadvantages, all of which imply limited flexibility in terms of responding to possible (adverse) external shocks to defend an underlying growth dynamic. Let it be understood, of course, that the existence of a reasonably strong domestic policy framework and capacity would assist an economy in better withstanding better the adverse effects of an external shock. All in all, however, SSA has not succeeded in effecting significant structural changes – either in terms of export composition (overdependence on primary commodities) or industrialization. The importance of this issue is not really in relation to the old dichotomy of agriculture vis-à-vis industry, but in relation to the more pertinent question of the composition of national output vis-à-vis the evolution of national and global demand. For faster and sustained growth, the

composition of national output has to change in ways that are consistent with the dynamic aspects of demand (national and global). Related to concerns of national output and demand is the specific long-term problem of inadequate growth in agricultural value-added in SSA. There has been deterioration in agricultural performance,<sup>8</sup> with the average annual rate of output growth dropping from about 2.5 per cent in 1965–73 to about 2 per cent over 1980–94. This latter growth rate is well below that of population. The trend in output growth is indeed problematic, given the pro-growth and anti-poverty strategy required for Africa. As the proportions of agriculture in GDP and of agricultural and rural population to the total are relatively large, medium- to long-term aggregate growth as well as improvements in living standards would realistically have to be significantly based on better performance in agriculture.

Beyond pro-growth and poverty-reduction policies and the imperatives of effecting structural change, Africa will as well need to explicitly situate its development efforts in the evolving contexts of globalization and the new political realities. Africa will have to find ways and means of gainfully opening up and competing in the global economy, or otherwise face the risk of increased marginalization.

The foregoing considerations point to a cluster of strategic issues that will be rather key to African development in the coming decade. They may be outlined under five headings: pro-investment policies, the role of the state and governance, enhanced regional markets, greater economic openness, and diversification and agricultural growth.

### **Pro-investment policies**

In the medium- and long-term, the regeneration and acceleration of growth in SSA will have to depend on factors beyond greater utilization of existing capacity and related short-term measures. This will, above all, require the enhancement of the saving-investment process and growth in total factor productivity. Significant progress will have to be made in mobilizing greater domestic and external resources for attaining critical levels in the investment rates. The challenge is, therefore, one of systematically creating a clearly pro-investment climate from all fronts – political, administrative, and narrowly economic – for significantly raising the investment rate while improving the rates of return to all the factors of production. Progress on these fronts would, importantly, depend on the actual availability of resources and on incentives for private investment.

If it needs to be mentioned, there is strong empirical evidence of the close link between investment and growth in developing countries over the long run.<sup>9</sup> In the case of Africa,<sup>10</sup> the estimate for the elasticity of growth with respect to the investment/GDP ratio ranges from 0.3 to 0.6. The overall failure to raise the investment ratio in the 1990s has, therefore, meant

depressed growth performance. The empirical evidence also indicates the specific importance of private investment. For Africa, one study<sup>11</sup> has estimated the rate of return to be 50 to 60 per cent higher for private capital than for public capital.

The improvement of a pro-investment environment in the context of Africa would start by building on the gains that have been made in recent years in establishing a less distorted and more stable macroeconomic environment. The reduced domestic uncertainty resulting from this effort would need, however, to be complemented by other political and institutional requirements pertaining to greater political stability, conducive legal structures and effective contract-enforcement mechanisms. It should also be added that the combined macroeconomic, political and institutional measures would assist in addressing the capital flight problem.<sup>12</sup> An estimate<sup>13</sup> indicates that SSA is one of the regions most affected by this, with a proportion of 70 per cent of privately owned wealth (excluding land) having been held abroad in 1992. Although the problem is clearly beyond frameworks of markets and investment returns, some of the wealth may indeed respond to conducive policy and institutional changes.

Beyond the concerns of a broad framework for investment, the mobilization of resources for financing investments is equally important. In the case of SSA, investment has clearly been constrained by the low domestic saving rate which, in the 1990s, has averaged about 16 per cent compared, for instance, with over 30 per cent in Asia (excluding Japan). Policy and institutional measures to increase domestic savings – especially in the recent context of declining aid flows – are, therefore, particularly important for faster growth in SSA. The principal areas for action are financial-sector reforms aimed at building efficient financial institutions and financial instruments, and the pursuit of conducive interest-rate policies. It is necessary to reverse the negative real interest-rate policies of the past, which could assist neither the saving process nor the financing of investment in the long-run. In the corporate sector, a range of fiscal instruments could be used to encourage retention and reinvestment of profits.

The attraction of foreign capital – foreign direct investment (FDI), in particular – should be the next target, given the very small relative share for SSA and the sharp drop in overseas development assistance (ODA). As is well known, FDI would normally bring with it the additional benefits of technology, managerial expertise, and international marketing possibilities. The factors that are critical to the attraction of FDI are similar to those relating to domestic private investment: macroeconomic and financial stability, and a conducive institutional and regulatory framework. It is important to stress in this regard that it is necessary to reduce the perceived risk of policy reversals by providing credible commitments and increasing the cost of renegeing on those commitments.<sup>14</sup> As well, Africa should position itself for greater competitiveness in attracting FDI through wide-ranging measures to reduce

transaction costs for investors (transport, telecommunication costs, etc.) and through strategically investing in physical infrastructure and the acquisition of human skills.

A more robust pro-investment climate that requires much reduced domestic uncertainty is further impeded in many sub-Saharan countries by the debt overhang. The excessive debt-service stands in the way of a country's external viability and reduces otherwise investable resources for economic and social development. For many countries of the region, there is, therefore, a pressing need to move with decisive speed to implement debt-reduction initiatives in order to assure greater external viability and enhanced domestic and foreign investment. The initiative for the Highly Indebted Poor Countries (HIPC), developed and promoted by the Bretton Woods Institutions, has been a welcome recent step; but as has been expressed in many quarters, it requires stronger up-front action and a faster pace of implementation.

From a slightly different angle, the issue of debt-reduction may be seen from the broader perspective of concessional-resource availability for financing investment in low-income countries. And, closely related to that is the question of policy conditionality to be associated with such assistance. With respect to debt reduction, the appropriate conditionality to assist in quickly creating a pro-investment climate would be ex-ante rather than ex-post in nature – designed within a development-partnership framework and aimed at reducing domestic uncertainty<sup>15</sup> as well augmenting investable resources. With respect to aid more generally, what is called for is policy conditionality based on genuine partnerships between recipients and aid donors in order to ensure domestic ownership and sustainability of the policies and development programmes. This approach would assist in the formulation of credible and sound policies that are necessary<sup>16</sup> for assuring that foreign assistance does result in growth benefits for recipient countries.

### **The role of the state and governance**

A sustained pro-investment climate will in turn require progressive establishment of what has been called “developmental states.” Such states would systematically create a set of institutions that aim to promote entrepreneurship, profits and capital accumulation without compromising a wider set of development objectives beyond those narrowly prescribed by business interests.<sup>17</sup> In the specific circumstances of SSA, this would additionally require capacity building in the public and private sectors, apart from the general need for resisting the capture of state agencies by special interest groups. By implication, also, a developmental state would reflect critical aspects of good governance, paying attention to issues relating to social development and to matters like corruption – which adversely affects growth by reducing private investment,<sup>18</sup> and worsens the (social) composition of government expenditure.<sup>19</sup>

Various measures to strengthen the state and manage public resources more efficiently have been taken in many African countries. This process has been assisted by the recent domestic and international pressures for democratization. Additional impetus<sup>20</sup> has come from the threat of marginalization (on the part of the ruling elites) following the rapid pace of globalization, and from a more inclusive process in national policy dialogue (partly espoused by bilateral and multilateral financing agencies). However, much more remains to be done to increase the number and “depth” of developmental states in Africa.

Specifically on strengthening the state in a pro-investment direction, two related aspects would be especially important: the creation of a competent and independent state bureaucracy, and the building of closer ties between such a bureaucracy and the emerging private sector.<sup>21</sup> The more recent efforts aimed at restoring the quality of the civil service in many countries of SSA must, therefore, continue and, where necessary, be supported in frameworks of international development partnerships. Apart from measures required to make civil service positions competitive and attractive in terms of career, others should aim at reasonably insulating the core bureaucracy from political pressures and at providing learning environments for the improvement of future policies.

With respect to forging government-business ties, a national government would first need to diffuse a sense of shared commitment to a collective project of national development, and then seek a concrete set of ties that would enable specific agencies and enterprises to conceive and implement joint projects.<sup>22</sup> Policies of “rent creation” and discipline for the private sector would be called for so as to better manage profits and investment. The underlying development principal would be to ensure that short- or medium-term measures necessarily taken to initially attract or protect the private investor do not become permanent policies that would be inimical for an efficient and competitive economy in the long-run. In order to manage “productive” links along these lines between government and enterprises, various instruments of dialogue and analyses (special councils, conferences, etc.) would need to be instituted and actively managed.

Apart from an efficient state bureaucracy and its desirable relationship with private enterprise, a “developmental state” in SSA would need to address the broader imperative for capacity building, especially with respect to policy analysis and management. Part of the problem in the region has been that the analytical bases of development policies have been overly donor driven. It is now broadly agreed that in order for policies to be sustained they need to be locally formulated, by and large, and, therefore, locally owned. Furthermore, the more meaningful development cooperation that is being increasingly advocated – based on partnerships rather than on “unilateral” conditionality – similarly requires local capacity that is able to undertake both general and strategic analyses.

A major role of a state in SSA should, therefore, be the development of skilled human resources for tackling these broad and strategic tasks, strengthening key institutions, and contributing to creating an enabling regulatory and policy environment. The objective of creating such an enabling environment would, as well, call for capacity-building perspectives beyond immediate or utilitarian purposes. It would call for analytical and policy capacities in units independent of government and in the private sector in order to attract broader thinking, analyses and policy dialogue. Capacity-building efforts would also need to be situated in the increasingly international contexts of globalization in such critical areas as trade and investment. Seen within this larger framework, the task of capacity-building in SSA would call for international partnerships in this area – perhaps representing a new area of emphasis (away from technical assistance) for aid in the coming decade.

### **Enhanced regional markets**

In the search for strategic dimensions of a pro-investment environment and opportunities for faster growth in SSA, greater regional cooperation and integration is still being indicated as one key area by various analysts.<sup>23</sup> In a historical context, there have on the whole been limited successes in achieving the immediate objectives of cooperation and integration schemes (established at various times in parts of SSA) – such as raising the level of intra-regional trade – and the higher aim of raising the average rate of economic growth for the cooperating countries. In spite of the modest gains, however, there has been, in recent years, a new and positive mood, strongest at the subregional level, toward economic cooperation and integration. This mood culminated in the ratification of the Abuja Treaty in 1994, establishing the African Economic Community.

The new and positive mood towards economic integration in the continent should indeed be welcome as one looks ahead into the likely realities of the twenty-first century. The Africa that has severely suffered from “lack of growth” for so long should seize every opportunity to expand internal markets, attract greater investment, and significantly raise the rate of economic growth, or risk being increasingly marginalized in the rapidly evolving world of global competition. Regional cooperation and integration (RCI) is such one important opportunity to be seized by African countries in their quest to meaningfully participate in the global economy. In order for the renewed positive mood on RCI to endure, however, the integration process will have to deliver stronger results – in part, through bringing economies much closer – than the evidence to-date indicates.

The overall weak results on the integration front point, on the whole, to the hard reality that over the years African economies have not in a significant sense succeeded in “pulling” their economies together to achieve even some of the intermediate objectives, such as greater

intra-regional trading. The higher level objective of accelerated economic growth has, partly as a reflection, remained equally elusive. Economies could, of course, have applied other mechanisms individually to attain more reasonable growth rates without relying much on formal cooperation and integration ties. This is said, for example, to be the experience of the countries in the Association of South-East Asian Nations (ASEAN), which individually enjoyed high rates of economic growth and, without very formal institutional support for regional integration, raised intra-bloc trade in recent years to about 20 per cent of total trade. The ASEAN countries were able to experience increases in trade shares within the bloc by relying on general pro-growth factors, like foreign capital and private entrepreneurship, assisted by some commitment to regional cooperation. In a long time frame, the majority of African countries have, by contrast, neither achieved reasonable growth rates nor made major strides in regional integration. In these unsatisfactory circumstances, therefore, it would be appropriate to step back and re-examine the potential that stronger regional cooperation and integration still presents for raising the rate of investment, encouraging market efficiency, raising intra-regional and international trade, and ultimately supporting a stronger growth dynamic (the higher objective). In this sense, RCI would be seen as an instrument that has a significant potential to contribute to the desperately needed revival of growth and the reduction of poverty.

Four major areas<sup>24</sup> seem, from theory and African experience, to be indicated for greater policy emphasis and action in order to realize the potential that RCI may have for raising regional investment and growth. First, greater macroeconomic and institutional coordination would facilitate market unification for the cooperating countries, thereby maximizing the growth benefits of integration. Both the institutions and the relevant policy coordinating organs would have, however, to be actively governed at high policy making levels to ensure effectiveness and continuing impact on the integration process. The second area with considerable potential is in respect to coordination of investment in infrastructure and natural resources. The potential gains<sup>25</sup> would arise from unit-cost reductions that may be realized by way of scale-economies in infrastructural provision; considerable reduction in the opportunity costs of unmet demand, where regional cooperation facilitates enhanced supply of infrastructural services; trade benefits for the cooperating countries through the exchange of infrastructural services; and from reduced uncertainties usually associated with the planning of long-term infrastructural investments (as there would be regional export/import possibilities). The third area of potential is private-sector promotion that would become more viable within larger regional markets and which, in turn, could contribute to otherwise public-sector domains like infrastructural investment. Fourth, external assistance – both bilateral and multilateral – could be aligned more closely to integration efforts for greater development impact.

### **Economic openness and competitiveness**

Regional cooperation and integration would help SSA in a sustained way if the cooperation framework were conceived within the context of what has come to be called “open regionalism.” For part of the development problem in the region has been the relatively high barriers to foreign trade<sup>26</sup> that have worked to reduce efficiency and productivity growth as well as prevented infant industries from graduating to higher levels of maturity. The appropriate approach would, therefore, be to use a regional cooperation framework to resolve some of these problems in a more viable and phased manner. Trade barriers initially should be easier to reduce among cooperating countries that are at a fairly similar stage of development, giving the group of countries the time to promote learning and develop managerial and other capabilities, before opening up substantially to the rest of the world.

An “open regionalism” approach would, however, caution against over-reliance on the regional market in order to avoid the well-known limitations of import-substitution strategies. The regional market would, therefore, be seen in this context as a spring-board for the cooperating countries to build a stronger basis for competitiveness and exports. Development experience indicates that one key policy instrument for assisting developments in this direction is the real exchange rate. This is particularly important in the case of SSA, where other institutional and technological capacities are still weak.<sup>27</sup> The maintenance of competitive real exchange rates within cooperating countries (vis-à-vis the rest of the world) should, therefore, be one important area for enhanced macroeconomic and institutional coordination within integration schemes.

It has been observed that the use of the exchange rate and other policies to liberalize trade will be of limited benefit to Africa so long as countries lack not only the supply but also the human and institutional capacity to take advantage of new opportunities.<sup>28</sup> An important aspect in enhancing Africa’s competitiveness is, therefore, the building of institutional and human capacities for managing in a globalized context: the practical aspects of the international trading process, meeting international product standards, fuller participation in the WTO framework, and so on.

### **Diversification and agricultural growth**

Policies to enhance economic openness and competitiveness should assist in promoting exports, both traditional and manufactured, and growth. In particular, a competitive exchange rate would increase and protect the profitability of export production, thus attracting investment into the export sector, with the additional and important effect of diversifying the structure of production into processed, new and manufactured products. But, it is difficult to envisage

significant progress on this front without situating the whole process in the broader context of accelerating overall economic growth for a given country. What is called for in diversifying an economy and its exports is increased investment and new technologies, the same factors – beyond economic openness – that have been emphasized in accelerating overall economic growth. The promotion of economic diversification and export must, therefore, be seen as part and parcel of the overall effort to raise aggregate growth through increasing investment and total factor productivity.

It is partly for this reason that discussion of diversification must inevitably relate to agriculture – which in a typical country in the region accounts for 70 per cent of total employment, 40 per cent of merchandise exports, and one-third of GDP. Part of the explanation for the weak aggregate growth performance in Africa over the years is found in the historically low rate of growth of the agricultural sector that led to the loss of market shares in world exports. Better policies to promote stronger agricultural growth would thus not only lead to general economic improvements arising from trade but also create possibilities of diversification within agriculture. These policies (and related institutions) need to address the major weaknesses that have been identified with African agriculture: seriously inadequate public and private investment in the sector, very weak physical and research structure, inadequate marketing and support systems, the basic issue of price and other incentives, and so on. A stronger agricultural growth framework would also present diversification possibilities into products that have a dynamic potential because of their high unit values and high income elasticities of demand. Apart from the domestic and external trade benefits that would result, such a more diversified agriculture would make it easier to advance on the strategic objective of reducing poverty in a more conducive context of agricultural and rural development.

Diversification efforts outside agriculture would have to be guided by fairly specific country endowment situations. Mineral exploration and production, for instance, have in recent years indicated good promise in a number of SSA countries. But significant mineral exploitation does require substantial resources and technology, which implies that the promotion of foreign direct investment should be high on the development agenda for countries in position to benefit from that route. With respect to industry, possibilities for processed and manufactured exports are particularly important in moving the composition of exports towards products with higher income elasticities of demand. And in the case of SSA, most countries seem to export fewer manufactured products relative to primary products than would be analytically predicted from their resource endowment.<sup>29</sup> This means, among other things, that SSA could possibly increase such manufactured exports in the short-run simply from efficiency improvements. But that is only in the short-run; sustained expansion in the share of manufactured exports would require a combination of domestic private and public

investment, foreign direct investment (for technology, management and marketing) and the pro-investment policies mentioned earlier.

## **Conclusion**

The overarching economic issue in SSA in the opening years of the next century will be the acceleration of broad-based growth to raise living standards and reverse the threatening trends of poverty. Key aspects in this objective would have to be enhancement of the saving-investment process and growth in total factor productivity. Africa would also need to position itself to benefit from the unavoidable process of globalization in trade and investment. The political economy of all this implies that the state would have to play a strategic role in shaping pro-investment, pro-poor policies and in building critical human and institutional capacities to manage development affairs in the context of globalization. Strategic partnerships would also need to be forged by the state with the domestic and international sectors, with the bilateral and multilateral donor agencies, and with neighboring states for widening of regional markets.

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E51-05-99