

# Promoting Economic Development in Sub-Saharan Africa

Stephen A. O'Connell<sup>1</sup>  
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**Abstract:** The period from 1988 to 1994 opened an historic window of opportunity for African development. To assist the continent in grasping this opportunity, the next U.S. Administration should: press for deep and rapid debt relief; continue to emphasize the participatory approach to poverty reduction, both in its bilateral policy and in support of World Bank and IMF efforts; exploit the new scope for regionalism in Africa; attack the HIV/AIDS challenge as an opportunity to develop new approaches to the provision of government services and regional public goods; and make AGOA the basis of a meaningful trade and investment partnership with the continent.

## 1. Introduction

Long-run growth in real income per capita in SSA has lagged that in other developing regions by about 1.7 percentage points a year since 1960. The result has been an increase in absolute poverty on the continent and a reduction in African incomes by half relative to those in the rest of the developing world. At the sectoral level, the markers of economic stagnation have been slow productivity growth in agriculture, declining shares of world export markets, and reductions in the share of manufactured goods in exports. Exceptions to these trends have been few, and the transferability of their lessons uncertain: until the 1990s only tiny Botswana and Mauritius, accounting for well under 1 percent of the continent's population, achieved dramatic success. If we focus on what I'll call the "big 10," the critical large countries whose progress will matter most for the continent over the next decade, the magnitude of Africa's development problem is clear.<sup>2</sup> As shown in Figure 1, this group (excluding Ethiopia and Uganda due to data limitations) under-performed even the rest of the continent over most of the wrenching period from 1974 to 1994. Growth revived across the continent in the mid-1990s, but has recently fallen back under the weight of weak commodity prices and civil strife.

While hostile geography, adverse initial conditions, and external shocks are important in driving growth, a voluminous empirical literature establishes that the policy environment is also important. Countries grow faster that choose reasonably open trade and exchange regimes, that avoid extreme financial repression, and that steer clear of persistently high fiscal deficits and of monetary instability. An educated workforce is supportive of growth, as is "good government" as measured by bureaucratic capability, low corruption and rule of law. Political freedoms contribute importantly, particularly at low incomes and under conditions of social fractionalization.

Leading accounts in the political economy literature argue that the authoritarian political regimes that emerged in Africa by around 1970 – generously supported by foreign assistance and foreign military intervention – were corrosive of economic policy and of good government, and therefore

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<sup>1</sup> Professor of Economics, Swarthmore College (steve\_oconnell@swarthmore.edu). This is a slightly revised version of a paper presented at the conference *Africa: What Is To Be Done?*, co-sponsored by the Bureau of Intelligence and Research of the U.S. Department of State and the National Intelligence Council, Washington, DC, December 11, 2000.

<sup>2</sup> These are, in declining order of real GDP in 1997: South Africa and Nigeria, with GDPs of roughly \$300 and \$100 billion (less than half that, at official exchange rates), and then 8 economies with GDP below \$50 billion: Sudan, the Democratic Republic of Congo (DRC), Kenya, Ethiopia, Ghana, Cameroon, Cote d'Ivoire, and Uganda.

of growth. Policy choices embodied an urban bias that was strongly anti-agriculture and therefore anti-poor; and in combination with inward-looking trade policy, failures in governance undermined the development of export competitiveness in manufacturing. These accounts place the continent well inside its development frontier: authoritarian political regimes in Africa were bad for freedom, bad for growth, and bad for equity.

The leading diagnosis suggests that the continent faces an historic opportunity to move to the frontier. The watershed period was 1988-94, a period that saw democratization, the end of aid clientilism, and a clear victory of the Washington consensus<sup>3</sup> over alternative visions of economic policy and the role of the state. In concert, these developments definitively raise the region's long-run development prospects. U.S. policy should be geared towards assisting the continent in grasping its new potential.

## **2. The watershed: 1988-94**

Structural adjustment was well underway by the early 1980s, but the opening for lasting change occurred between 1988 and 1994. Two things conspired to make the continent a major participant in what Samuel Huntington has called the "third wave" of democratization in the 20<sup>th</sup> century. The first was internal disaffection brought on by prolonged economic crisis – disaffection that was focused on authoritarian regimes that had weathered the crisis virtually everywhere in Africa, having earlier removed the political mechanisms for their own replacement (South Africa aside, for example, each of our big 10 had made a transition to 1-party or military rule by 1966). The second was the end of the Cold War, which not only removed the financial and military props to regimes like those in the DRC and Ethiopia, but more broadly, exerted a powerful demonstration effect in favor of political freedom and the market-based economy. Other important developments reinforced these. French colonialism effectively ended in this period, with withdrawal of intervention in favor of non-democratic incumbents in the late 1980s, and, in 1994, with devaluation of the CFA franc. The democratic transition in South Africa exerted its own demonstration effect for freedom and pluralism.

## **3. Short-run challenges**

The developments of 1988-94 removed a set of military, financial and ideological props to corrupt and fundamentally anti-competitive policy regimes in Africa. It follows that Africa's long-run growth prospects are decidedly up. Where states have undertaken economic reform while managing an orderly expansion of civil liberties, growth has revived and in many respects the situation on the ground now looks as promising as it did in the 1960s. Macro policy is reasonably prudent and market-oriented, making some allowance for the populist temptations of democratic regimes; and political freedoms exist not only on paper but also in reality. Notwithstanding new threats from HIV/AIDS, high debt burdens, and high dependency ratios, countries like Tanzania, Mali, and Senegal are set for concerted progress on agricultural productivity and manufacturing competitiveness. Within our big 10, Ghana and Uganda have laid the groundwork in their halting but cumulative progress in both the economic and political spheres.

As one illustration of the policy convergence achieved in the 1988-94 period, Figure 3 focuses on the CFA zone, 13 countries in West and Central Africa whose currency is tied to the French franc. The figure shows the economic contraction in these countries relative to other African countries during the "franc fort" period of the late 1980s and early 1990s. The long-overdue 1994

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<sup>3</sup> By Washington consensus I mean nothing more than John Williamson did in his original article: a set of broad tenets for economic policy in a mixed developing economy in which the private sector is seen as the main engine of growth. See Williamson (1994).

devaluation had the conventional effect of expanding both output and exports in the zone, relative to the comparison group whose real depreciations had taken place a decade earlier.

The upheavals of 1988-94 have also, however, brought divergence, often centering on issues of political succession. Figure 2 suggests that our big 10 have tended if anything to lag the others on the political dimension in the 1990s; the recent divergence of Cote d'Ivoire and Nigeria suggests that such uncertainties will continue. In the DRC, the state has collapsed altogether, suggesting the ephemeral nature of externally supported order during the post-colonial period. The political vacuum in the Congo has exacerbated the weakness of important neighbors like Uganda and Zimbabwe.

Divergence of economic performance was to be expected. The removal of external security guarantees is its most important cause, but on the side of economic reform, a risk of reversibility is intrinsic to policy changes that realign rewards and opportunities and that rely on a private sector response for their success. Democratization itself, while restraining predation by the elite, cannot guarantee against populist pressures. Newly ambitious parliaments, as in Nigeria and Kenya, will continue to find it difficult to reconcile "staying the course" of economic reforms with the desire to manifest ownership of these reforms. These uncertainties undermine the investment response to reforms and therefore the domestic constituency for their continuation. The U.S. should avoid micro-managing economic and political performance and thereby exacerbating these uncertainties. Aid conditions should be few, transparent, and credible: the aim should be to create space for governments to build reputations for good policy. Reputation building is a cumulative process, and when investment begins to respond it can do so dramatically.

Institutional commitments are key to locking in good policy and reflect the substantial convergence that has taken place on the policy front. In the macro and trade areas there have been major accomplishments in this respect. Eight of our Big 10 are WTO members, for example, and Sudan is in the accession process; only Ethiopia remains outside. Six have accepted the obligations of Article VIII status in the IMF, which requires them to forego exchange controls on the current account; only South Africa had Article VIII status before 1990. Uganda and Ghana, among others, have new central bank charters that grant considerable independence in the pursuit of monetary stability. In Kenya, a new economic policy institute, jointly funded by the government and external donors, has brought top researchers further into the policy process than they have been in 25 years or more.

#### **4. Directions for U.S. policy**

Over the longer term, the key issue remains that of consolidating a supportive environment for private investment in human and physical capital. Recent documents of the UNECA, including its collaboration with the World Bank, are imbued with this perspective and reflect the broad opening of 1988-94. U.S. policy has been well focused in this respect since the late 1980s and the Africa Growth and Opportunity Act (AGOA) represents an important milestone for the continent. The next Administration should: press for deep and rapid debt relief; continue to emphasize the participatory approach to poverty reduction, both in its bilateral policy and in support of World Bank and IMF efforts; exploit the new scope for regionalism in Africa; attack the HIV/AIDS challenge as an opportunity to develop new approaches to the provision of government services and regional public goods; and make AGOA the basis of a meaningful trade and investment partnership with the continent.

***Debt relief: accelerate.*** When a portion is not expected to be repaid, a large debt exerts a potentially heavy tax on investment and policy reform – and particularly on policy reform in

support of export expansion. Debt relief can improve the policy environment and crowd in private investment – including reverse capital flight – even if it does not increase net official resource flows. The recent expansion of the World Bank/IMF HIPC Initiative is a critical development for African growth (of our big 10, only South Africa and Nigeria are ineligible for HIPC relief). The U.S. should be out front in pushing the implementation of the initiative – and in working with African countries seeking to develop safeguards against elite capital flight.

***Participatory poverty reduction: messy but essential.*** The Poverty Reduction Strategy Paper (PRSP) framework engages the five key actors in Africa’s development drama – the African state, African civil society, the multilateral institutions, and in a lesser role donor governments and their own constituencies – in the one area where they cannot admit to disagreeing. As such it holds the promise of keeping the aid constituency in place among donors while enhancing the ownership of reform among African populations. For these reasons, messy as it is, it should be strongly supported by the U.S. The recent GAO report points out that making HIPC relief conditional on a PRSP risks rushing and therefore cheapening the poverty-reduction framework. The appropriate response is not to delay HIPC relief or drop the PRSP component, but rather to ensure that new flows are made conditional on a similar process.

***Support the new regionalism.*** Given the public good aspects of security, agricultural research, and market infrastructure, the challenges of raising agricultural productivity and enhancing export competitiveness in manufacturing have important regional dimensions. The watershed period has dramatically increased the scope for regional cooperation, both for negative reasons (the security vacuum) and for positive reasons (policy convergence among neighbors). Regional trade arrangements can also provide mechanisms for locking in country-level policy reforms. The U.S. should explore ways of exploiting the new scope for effective regionalism in Africa.

***HIV/AIDS: a focus for innovation.*** Lack of a demographic transition has been a characteristic feature of economic stagnation in Africa. By keeping the dependency rate high, burdening the quality of public services – including all levels of education – and slowing growth of the labor force relative to population, high population growth has substantially hindered economic progress on the continent. Now, as the beginnings of a demographic transition are appearing in a number of countries, their promise is being overtaken by the systemic challenge posed by HIV/AIDS. In AGOA, the Congress expressed its view that HIV/AIDS should be a centerpiece of U.S. foreign assistance to Africa. If current projections are even close to correct, HIV/AIDS poses three first-order risks to African development. First, labor force participation rates will fall; labor productivity will fall; and given the costs and duration of treatment, national saving will fall. These reductions in factor accumulation will depress growth rates of income per capita. This means not only an increase in poverty but also increased risk of civil conflict. Second, the fall in national saving and rise in real wages will shift Africa’s comparative advantage (even further) in favor of land- and resource-intensive primary exports. This will slow Africa’s entry into labor-intensive export activities, where learning-by-doing and other positive externalities are allegedly greater than in primary commodity production. Finally, HIV/AIDS is reputed to be more prevalent among the skilled in African than in other regions, suggesting particular dangers to the development of the manufacturing sector and of bureaucratic capability in government. Confronting the HIV/AIDS problem offers an opportunity for innovation in the relation between donors and Africa. African countries need assistance not only in handling the resource burden of HIV/AIDS (and other major public health threats) but also in addressing systemic inadequacies in public service provision.

***AGOA: Aid for trade, not aid vs. trade.***

While aid flows have been declining in the 1990s, they are still large. Like mineral rents, large aid flows tend to appreciate the recipient's real exchange rate and therefore to undermine export competitiveness in agriculture and manufacturing. To the degree that aid is fungible, of course, recipients are free to deploy it in ways that directly counteract this effect – for example, in the development of trade-promoting infrastructure. But at a broader level it is important that donors recognize the dissonance between their own pronouncements regarding the importance of outward orientation and the potentially corrosive effect of large financial transfers. A similar point holds with respect to barriers to labor-intensive manufactured exports, as in the textiles and apparel sectors where African countries have potential comparative advantage. AGOA embodies a constructive response to both of these concerns. The next Administration should do all it can to make it real and credible. A major risk to AGOA is a U.S. recession, which would strengthen the constituency for safeguards and therefore undermine the credibility of market access. Access to US markets should be viewed as an *instrument* for the consolidation of democratization and economic reform in Africa, and not as a *reward* for these. To this end, accession to AGOA benefits should be made a once-for-all event, rather than the result of a year-to-year assessment.

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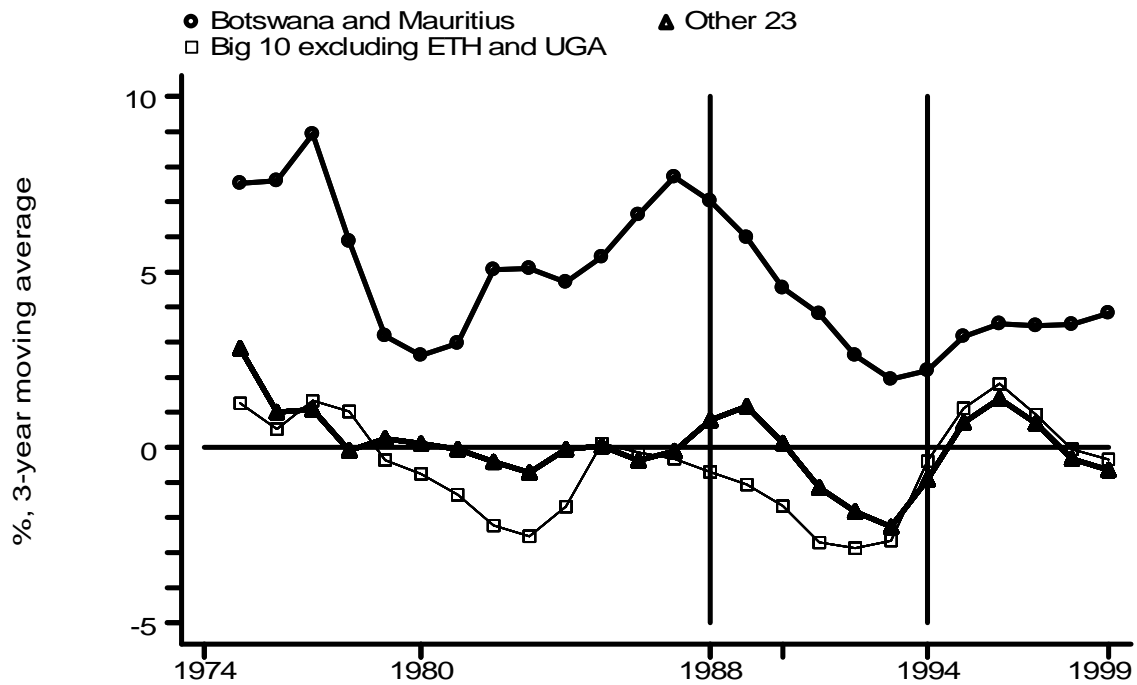
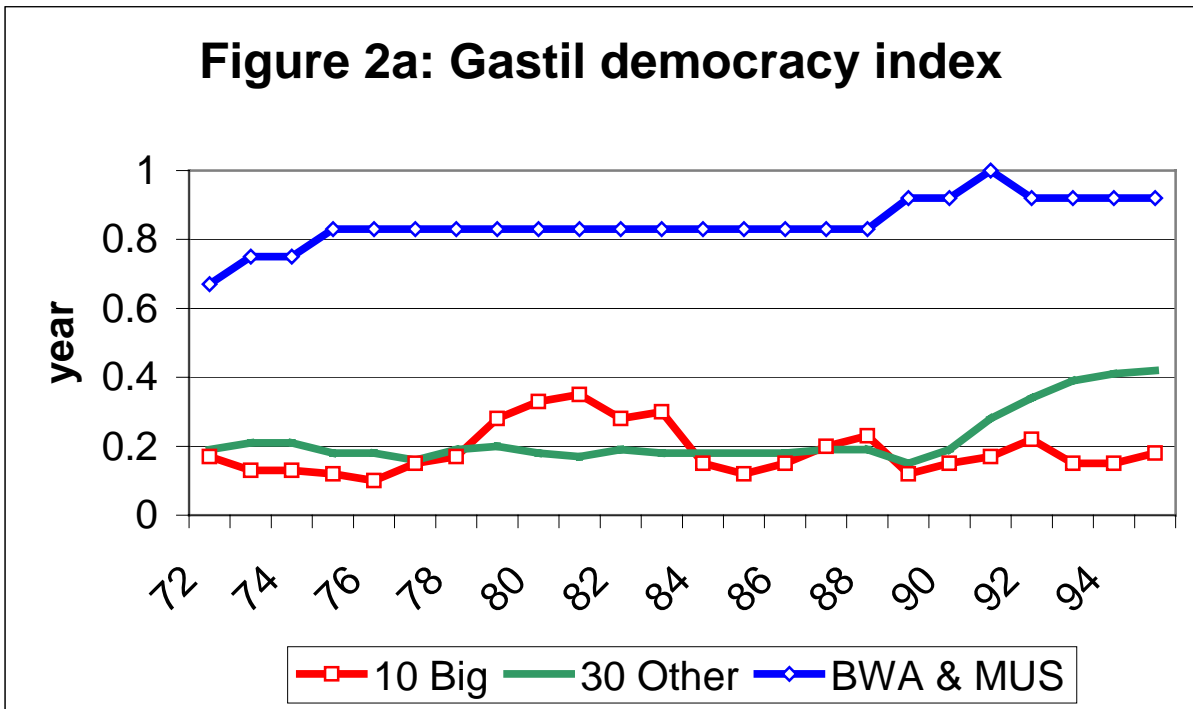


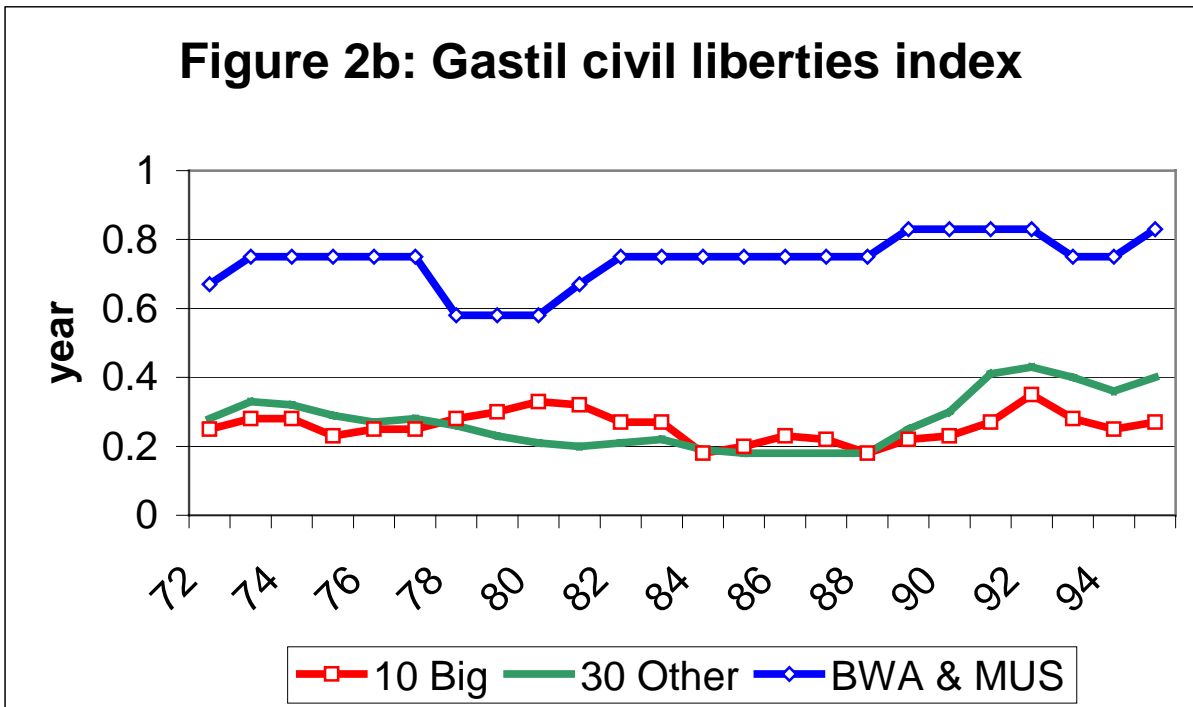
Figure 1: Growth in real GDP per capita

Source: World Bank data. The big 10 are listed in footnote 2. Growth rates are calculated using real GDP in constant local currency units.

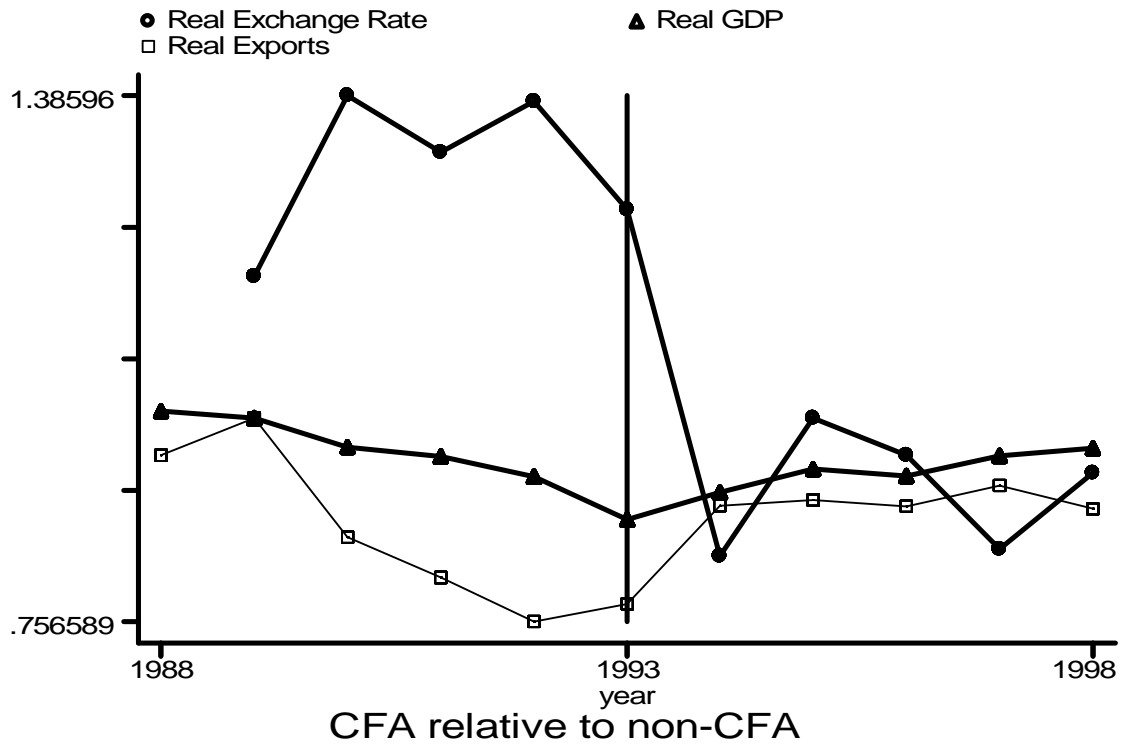
**Figure 2a: Gastil democracy index**



**Figure 2b: Gastil civil liberties index**



Source: World Bank. The big 10 are listed in footnote 2.



**Figure 3: the CFA devaluation**

Source: IMF and World Bank data. The graph shows ratios of average values for CFA and non-CFA countries for which data are continuously available. A fall in the real exchange rate is a depreciation in the CFA countries relative to the non-CFA countries. The diagram shows the conventional expansionary and export-promoting response to a credible one-shot nominal devaluation.