

**AFRICA'S MILLENNIUM:  
TRADE, INVESTMENT AND GROWTH**



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**ABSTRACT:** *Within the context of the factors of production, it is well known that African countries have rich quantities of labour but desperately lack capital investment. Therefore, one of the primary questions of modern Africa is finding effective channels through which the quantity and quality of capital investment can be increased without sacrificing the use of its strongest asset: labour. In light of the first world countries' accelerating technological progress and capital growth, it has become crucial that African countries can no longer afford to lag behind. The importance of closing this gap is not only a means of survival but also an opportunity for Africa to bring forth new dimensions of development that could serve as an example and stimulus for both the developing and developed economies of the world. This challenge gives rise to the fact that the key to the African continent's growth and prosperity lies in the efficient utility and improvement of its resources. Investment in human capital as well as mobilising the recipients of it into the workforce should be the mainstream channel. Out of this, the channelling of capital investment for production and economic growth purposes, becomes another primary objective. A third primary channel then is making sure that economic policies are constructed in a very effective, adjustable and coordinated manner to ensure the realisation of diverse economic progress at ground level. Although all of this is a process, measures must be put into place to accelerate this process in order to reach the African dream of sustained prosperity.*

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## **1. Introduction**

The African state is poised at a critical juncture in the continent's history: will it, can it recover from decades of economic mismanagement, corruption, the vices of one-party statehood and military dictatorships? Alternatively, will the new mood of African "self-reliance" articulated by a new, dynamic generation of leaders herald a revival of the continent's fortunes? The signs are modestly encouraging: it is no longer fashionable to blame Africa's ills on colonialism or to rely on aid handouts to rescue hard-pressed economies. Instead, the emphasis is on self-help designed to transform African states into emerging markets, capable by dint of their own efforts of profiting from the freer flow of capital and trade in the global economy (Spence, 1997:3).

As a result of Africa's failures of the past there is a strong sense of negativity regarding the continent's immediate and future expectations. Some view Africa as the "lost-case scenario". The importance of changing this perception into positive sentiment cannot be overly emphasised. Although there is no quick-fix answer, a

critical point of departure is to realise the importance of finding 'African solutions' for 'African problems'. This implies that the time has certainly come for Africans (and especially the leaders) to stand up and collectively start working towards economic, political and social progress. The purpose of this paper is to focus on the combined effect of different methods (channels) through which African economic progress can be achieved. These channels encompass two focus-areas; firstly, the role of governments through policy-making where the creation of a stable economic, political and social environment will be highlighted, and secondly, the linkage between economic growth and the main sources of capital flows (trade and investment) will be investigated. This will be done within the context of the gap between Africa and the industrialised world where the role of globalisation and technology will be emphasised. The discussion of the last-mentioned will precede the discussion regarding the focus-areas.

The approach throughout this paper will be to highlight the current situation, the constraints and workable suggestions regarding the various aspects mentioned above. Emphasis will be placed on both the internal (African) and external (international) dimensions of the aspects.

## **2. The widening divergence between Africa and the industrialised countries**

The world economy is undergoing significant change in technological and market conditions via the globalisation process which clearly influences the position of Africa and the role it plays in the world market. The widening gap between Africa and the industrialised nations is surely a source of great concern as it affects the real and sustainable progress of the continent. The challenge for Africa is to understand these changes as a basis for developing the ability to respond constructively and positively (Wangwe, 1995:52).

Globalisation is the trend of increasing integration of economies in terms not only of goods and services, but of ideas, information and technology. Globalisation means trade liberalisation, free capital mobility, privatisation and commercialisation. The world is gripped in an accelerating process of globalisation as reflected in the growth of specifically world trade, unification of capital markets, and the internationalisation of production and distribution networks, and the mega-revolution in information, communications, and technology. Globalisation is both a cause and a consequence of the information technology revolution. It is driven by dramatic improvements in

telecommunications, exponential increases in computing power coupled with lower costs, and the development of electronic communications and information networks. These communications technologies are helping to overcome the barriers of physical distance. To participate in the global economy, African nations are supposed to open up barriers to foreign investment, reduce corporate regulations and taxes, as well as other disincentives to vibrant economic activities (Hough & Neuland, 2000:359).

Globalisation presents both challenges (risks) and opportunities for African nations. Globalisation in its present form exacerbates the inequitable nature of the international market. Increased capital mobility across borders, aided by advanced telecommunication technology, brings with it the risk of destabilising capital flows and gives rise to balance of payments problems and exchange rate volatility. Furthermore, the low level of development of African economies in terms of technology, infrastructure, and technical and managerial skills, increases the risk of being marginalised. The risks stem from the fact that their integration into the global economy will exacerbate inequality, at least in the short run, and raise the political costs of inequality and the social tensions associated therewith. Most importantly, there is a risk that globalisation is going to expedite the rate of ecologically unsustainable growth in Africa (Wallace, 1999:48).

To use Herman Daly's metaphor, such argument does not recognise the *plimsoll line*, which indicates the maximum load capacity of a ship. Overloading (excess growth) may eventually sink the ship. Pareto efficiency - the current criterion of macro-economic health - only ensures that the load is distributed in such a way that the ship sinks optimally. Recent evidence shows that this sinking will start from natural resource dependent economies such as Africa. This is because of both the economic implication of resource depletion and their lack of adequate resources to protect themselves from the rebounds of ecological destruction, such as global warming, acid rain, etc. No doubt, globalisation has tremendous potential benefits for Africa and indeed any developing country for that matter. The challenge though, is to realise the potential benefits without incurring huge offsetting costs in loss of the ecological basis for development and in the increase of inequality and impoverishment of the populace. African governments and policy makers should thus cease to see globalisation as an end in itself, but as the means to an end. The real end is sustainable well-being for all. To the extent that globalisation objectives add value to the achievement of this goal, it is very welcome. But to the extent that it

detracts from the well-being objective, policies and developmental goals should be steered away from such aspects of globalisation (Ikeme, 1999:23).

Most African countries are small, both in terms of population and per capita incomes. As a consequence of limited markets, they do not offer attractive returns to potential investors, while progress in diversifying production and exports is retarded. This limits investment in essential infrastructure that depends on economies of scale for viability. These economic conditions show the need for African countries to pool their resources and enhance regional cooperation and economic integration on the continent, in order to improve international competitiveness. The five regional economic groupings of the continent must be strengthened: West Africa, North Africa, Central Africa, East Africa and Southern Africa.

The real challenge for African countries is to develop structures and adopt appropriate policies which will transfer the region's productive capacity into manufactured products for export. This would be sustainably competitive at regional level, and would give the continent the latitude to launch itself effectively onto the global market. Notwithstanding these challenges, there are substantial benefits to be derived from globalisation. These benefits can be noticed in increasing trade, which gives consumers access to a wider choice of low-cost, high-quality goods and services. Producers would also have access to advanced technology that facilitates more efficient and effective use of resources (Hough & Neuland, 2000:360).

African nations need to face up to the harsh realities of surviving in a highly competitive global system. Some critics of globalisation and market economies present economic development and prosperity as human rights, things that come about simply because people are poor. The impression is created that the responsibility for transcending the poverty of underdeveloped nations lies with rich nations - all the poor need do is demand prosperity and sit back waiting to receive what they are due. This latter-day liberalism has not been helpful (Obadina, 2000:5).

The notion of catching up to the developments of globalisation and especially technology, has its antecedents in historical studies on the industrial transformation of countries such as Germany, the US and Japan. The process of "catching up" is often associated with technological learning. However, technological learning serves a more complex function than simply pursuing the same path of development as that

of the more industrialised countries. It involves a critical stage in the learning process where there is an attempt to industrialise, and should be seen in that context.

As long as technology is understood as a cumulative unidirectional process, development will be seen as a race along a fixed track, where catching up will be merely a question of relative speed. Speed is no doubt a relevant aspect, but history is full of examples of how successful overtaking has been primarily based on running in a new direction. Indeed, in new fields such as biotechnology, the developing countries are making efforts to move to the scientific frontiers, but they plan to apply the acquired knowledge in developing products that are more relevant to local needs. There is a counter-intuitive aspect of the catch-up hypothesis which suggests that the further back a country is in technological development, the faster it is likely to catch up. The larger the technological and, therefore, the productivity gap between the leader and the follower, the stronger the follower's potential for growth in productivity and, other things being equal, the faster one expects the follower's growth rate to be. Followers tend to catch up faster if they are initially backward. Therefore, the economic gap between industrialised and African countries measures the backlog of technological opportunities that can be exploited by the poor countries (Gomluka, 1990:325-327).

Catching up is not an automatic process, but a result of national policy effort. The most important variable in the catching up process is the rate at which African countries are able to undertake technological learning. It is through such learning that a country industrialises. Technological learning requires conscious and policy-guided efforts by the imitating countries. The rate of learning is greatly influenced by existing technological capabilities, policies and institutional arrangements. This learning process is however, also influenced by the nature of technological systems, the structure of the market for the technology and international trading rules, and the emergence of competing technologies. It is notable that many of the technology transfer efforts in Africa were designed to produce specific commodities and not to promote technological development. The issue of time is often taken for granted when dealing with technological development.

In South Korea, for example, engineering firms have taken nearly 20 years to emerge from industrial infancy and compete in international markets without the need for extensive protection. The removal of protection does not necessarily mean that a

firm has fully mastered technological competence, and the long time horizons required for technological development are not unique to developing countries. It often takes more than a decade for an industry to create competitive advantage. The process entails upgrading human skills, building clusters and penetrating foreign markets. In the case of the Japanese auto industry, companies made their first faltering steps towards exporting in the 1950s – yet did not achieve strong international positions until the 1970s.

At the level of product development, similar time horizons apply. Technological learning is thus time-dependent and involves a series of discrete steps that cannot be easily avoided. In this respect, the main issue is therefore the ability of a country to facilitate the accumulation of technological capability and build technological dynamism. It is this rapid rate of technological development – as manifested through local industrial activities or international competitiveness, that is the main concern for African countries (Enos & Park, 1988:244).

The global economy is marked by extreme disparities in the creation of scientific and technical knowledge. The industrialised world generates nearly 90 percent of the world's scientific output. Similar patterns of knowledge distribution are reflected in the registration of patents and other forms of intellectual property rights. The question of the transfer of technology from the industrialised nations to the developing countries is also considered by African states to be of great importance if the developing countries are to accelerate the pace of their industrialisation. African countries have played a key role in international negotiations on economic development, in an effort to obtain the technology needed to add value to their natural resources. These negotiations have culminated in a variety of regional and international agreements on wetlands, natural heritage sites, endangered species, migratory animals and biological diversity. Yet, despite these efforts, little has been achieved in the field of technology transfer, and the prospects for progress through international forums are diminishing. The international forums have helped to put in place a number of important norms and guidelines for international cooperation. However, solving many of the agricultural, health and communications problems of Africa will require a shift in policy attention to new forms of international cooperation based on partnerships that identify local strengths and resources, and the formulation of clear goals and domestic investments (Saxena, 2001:145).

A call for global alliances should not be seen as a substitute for regional and sub-regional cooperation. On the contrary, global alliances should be used to strengthen regional and sub-regional activities. African countries already have a wide range of regional and sub-regional mechanisms for cooperation, although many of these mechanisms have been designed with political rather than technical considerations in mind. There are, however, examples of technological cooperation programs and networks that focus on solving scientific and technical problems. The lessons from such partnerships would form a good basis for the design of new arrangements that can support programmatic work in technological development (Ikeme, 1999:16). Thus, by coherently working together the African economies can make significant efforts in closing the gap caused by globalisation and technological developments.

### **3. The role of governments through policy-making**

In order for African governments to create a favourable environment in which the free flow of capital, the stimulation of higher volumes of trade as well as the opportunities for growth and development are enhanced, there is a definite need for effective policies to be in place which will attract economic stimuli. Without efficient political, social and economic policies the African continent will never lose its label as the "lost-case scenario". The importance of the complementary role that these three types of government policies must play towards each other cannot be overemphasised. If there is no coherent approach in formulating them, they will contradict each other's goals and in effect no progress will be made. The same can be said of the importance that African nations should start coordinating each other's policies in the sense that they all strive towards the same generic goals. Regional interest should be placed before national interest. Thus, only by working together, African economies will create opportunities for growth and prosperity. In the following discussions the aspects which should serve as common goals for all African governments in their policy-making will be highlighted.

#### **3.1 Political policy-making and governance**

In the process of political decision-making by African governments, the importance of good governance is the vital prerequisite for political stability. Good governance entails publicly accountable institutions of government that are capable of making and implementing policies in an efficient, transparent, and honest manner, thereby serving the wider public interest. It also entails efficient, effective, and transparent management of public expenditure, an efficient and equitable tax regime, a fair and effective legal and regulatory framework, political accountability in free and fair

elections, as well as the observance of fundamental freedoms and rights of human beings. Lastly, it requires a clear separation of powers between the executive, the legislature and the judiciary, as well as a recognition of the role of an independent press and media (Wallace, 1999:111). In his speech at the African Renaissance Conference in 1998, the President of South Africa, Thabo Mbeki, stressed the importance of democracy where the people participate in government and where they are truly able to determine their destiny. He said it was time Africans put behind them the notions of democracy and human rights as peculiarly 'Western' concepts. He voiced the caveat that they had to oppose all forms of dictatorship and ensure that when elections were held they were truly democratic, so that people would accept their government as genuinely representative. He further emphasised the fact that the new African world (inspired by the African Renaissance) would be a world of democracy, peace and stability, sustainable development and a better life for the people, non-racism and non-sexism, equality among the nations and a just and democratic system of international governance (Louw, 1998:2).

Due to the fact that African governments have not reached this ideal yet, the role of states and policy still needs to be reformed. It needs to be reformed so that it becomes more responsive to the democratic movement now so vibrant throughout the continent. This will require both a technocratic element that will constitute the core of the service delivery system, and an informed political process in which are also independent minded and selfless leaders. Clearly, the development of higher education, even if stunted in many of our countries, and the emergence of entrepreneurship – including the possibility of a national bourgeoisie – will help to enhance the technocratic and political capacity of the state, at the national, sub-regional, continental and international levels. The growth and development of sub-regional groupings will enhance the potential of both the African Economic Community and the Organisation of African Unity (OAU), as the economic and political bases for the African recovery, and thereby improve Africa's position in global affairs (Mandaza, 2000:6).

It is crucial in this context to avoid any suggestion to African peoples that there is only one Western-inspired model of democracy worth striving for. Indeed, African leaders and their peoples must be encouraged to find their own individual democratic path, drawing on local traditions where appropriate. The key ingredient in any such system must be the capacity to evolve, as time and circumstances dictate (Spence, 1997:5).

It is of utmost importance that African governments make a collective and strong commitment to reform and demonstrate strong leadership if they hope to create an atmosphere of economic security and good governance within which democratic reforms can take place. Africa needs to develop local capacity for the efficient design and implementation of monetary and exchange rate policies on a routine basis. Of course, there are technical, institutional, and human resource constraints facing most African countries. This is where the international community – the IMF, the World Bank, and other bilateral and multilateral institutions – can help, by supporting reform efforts through the provision of technical assistance and training. But the situation is no doubt in the hands of Africans, especially the leaders, to prove that they can successfully initiate the much-needed reforming efforts (Wallace, 1999:58).

President Mbeki, who was then deputy president of South Africa, stressed in his speech that the abuse of political power to gain material wealth could not be tolerated. He said that we cannot speak of an African Renaissance where we permit that corruption remains an endemic feature of the private and public sectors on our continent (Louw, 1998:2). In many African countries, corruption continues to be a threat to the efficient delivery of services both in the public and private sectors and to a large degree the Western world holds the African governments responsible for the crisis in statehood which in many cases, is the result of corruption. The major challenge for African governments is to design systems that remove opportunities for individuals to engage in and benefit from corrupt activities. In this sense, it would be appropriate for African governments to initiate various anti-corruption crusades to eliminate all forms of this epidemic which might exist on the continent as it is one of the greatest threats to the attraction of much-needed domestic and foreign investment.

Similarly, coordinated regulatory frameworks should safeguard property and related rights through well-defined legislation; it should be transparent and easily enforceable, as well as free of any taint of arbitrariness or favouritism. Economic agents require confidence that the laws and regulations are stable, predictable, and uniformly applied. It is further essential that regulations need to be clear, and there must be incentives for administrative agents to enforce them. Thus, the mere existence of a good legal framework is not enough. The rules must be applied equally, impartially, and without exception. This underscores the need for an independent and efficient judiciary. In other words, regulatory reform must be supported by institutional reform (Wallace, 1999:31,193). What is possible in the

short run is inter-governmental cooperation on specific issues such as transnational crime, enforced migration, environmental degradation, and transportation linkages. The hope must be that over the long run particular regions will be locked together in a network of such agreements, making the transition to integrated supranational structures seem an inevitable and desirable progression.

An African Renaissance would empower the continent to act for itself and its interests; it would do so through economic recovery and the meeting of basic needs, an end to neo-colonialism, and the mobilisation of African people to shape their own destinies. But there is a growing realisation in Africa itself that a Renaissance is not possible in an environment of conflict and instability (Lemon, 2000:37). A democratic society, founded on equity, truth and egalitarianism is fundamental to economic progress. Empirical evidence suggests that inequity and injustice breeds conflict, strife and war (see Amoako, 1999) and that countries with deficient basic governance will never be able to undergo sustained economic development. It is worrisome that half a dozen of African states have collapsed amid civil strife as we have seen tragically with Rwanda, Liberia and Sierra Leone to name just a few (Ikeme, 1999:46).

Probably the biggest cause of political instability and chaos in Africa is ethnic nationalism. Ethnic nationalism should be condemned and fought in Africa. As long as it thrives there will be little prospect for achieving the political stability and focus needed for rapid economic development and nation building. Ethnic nationalism is a destructive force that breeds intolerance and parochialism, much in the same way as racial nationalism. It is odd that there exists universal liberal consensus on the evil of racism, but ethnicity, which has caused the deaths of millions of people in Africa and elsewhere, is not so viewed. The ethnic warlords who stir hatred that cause civil wars in different parts of Africa are as evil as were German Nazis and are contemporary European fascists. Thus, there is no question that political stability is not to be bargained about as it is fundamental to creating an African environment which will promote sustainable growth and development.

Consequently, for economic reforms to be successful, they must be accompanied by political reforms, which include a multiparty democracy, good governance, a free media, and respect for human rights. Despite a long record of involvement in Africa's development efforts, the IMF has tended to ignore the importance of political reforms

in ensuring that the economic reforms are sustained. The IMF continues to emphasise the need for macroeconomic stability and related structural reforms. But this inevitably leads to only partial success of the reform efforts, as corruption and lack of accountability in the management of resources continue to result in inefficiency and misuse of public funds (Wallace, 1999:186). It is thus opportune for both the IMF and African governments to become more actively involved in political reforms to complement the successful implementation of economic reforms. It is certainly encouraging that in recognition of the importance of political reforms, the majority of African countries are currently deepening the democratic process, thereby encouraging quality leadership and governance.

### **3.2 Social policy-making and human development**

The design of African social policies should first and foremost, consist of workable programs regarding the improvement of human capital. Labour is the one asset that Africa has plenty of and the importance of improving this asset through proper education and training should constantly be stressed. Two of the biggest threats to the improvement of human capital in an African context is the health crisis (especially the HIV/AIDS-situation) and the persistent conflicts and wars on the continent. It should be the purpose of African governments to target these problem areas and provide realistic and sustainable solutions. The implementation of workable health programs and the promotion of peace and security are essential steps towards protecting Africa's strongest asset.

Human development is about expanding peoples' choices and enabling them to enjoy long, healthy and creative lives. Africa lags behind the rest of the world in human development. Empirical studies indicate that the infant mortality rate is 91 per 1000 live births. The total primary school enrollment rate is 75%, with the figure for females lower at 67%. Only about 50% of population has access to safe water, and there are about 11 main telephone lines per 1000 people (Wallace, 1999:131). Tremendous work thus remains for improving the quality of life in Africa and of assisting Africans to improve their own lot. Donors, business, and most governments hold the view that market development is the key to poverty reduction. Yet, there remains a substantial role for government in ensuring that rules promote competition and bring out the best of what each country has to offer, and in providing basic services when markets fail or externalities are to be found. It is clear that the situation justifies the location of a higher share of budgetary resources for education,

health and capital formation if African governments are serious about accelerating the formation of human and physical capital.

A policy to build human capital should aim to develop a broad array of technical, managerial, and scientific skills needed to sustain rapid growth. Technological progress should be seen more broadly to encompass skill formation. A supportive incentive structure should reward the acquisition and building up of such competence. The issues here include the most cost-effective ways of achieving basic human competence involving the private and the public sectors (Rodrik, 1999:18).

While building up on the Western scientific knowledge and skills, a vigorous program of protecting indigenous knowledge and skills should be mounted and sustained. It is absolutely wrong to jettison all that is indigenous in favour of all that is Western as is presently the case in Africa. The African traditional medicine should be studied, developed and applied where appropriate, the indigenous crafts and technology should be developed and promoted to attract foreign interest. Today much of Asian medical science and technology is finding its way into the Western health culture - from acupuncture to massage techniques. There is no culture that is ideal to all human situations and circumstances. The problem of unsustainability is one of the crucial areas that have proved that Western capitalism and civilisation does not have all the answers. The answers to humanity's questions and problems lie in the diversity of races, cultures, world-views and beliefs scattered all over the world. Most of the problems in the world today stem from the attempt to project just one culture as superior and universal. That is certainly unacceptable. African nations should preserve the indigenous human capital as a way of expanding their choices and the horizon of their outlook to various shades of social, economic, and political situations of the different stocks of the human race (Ikeme, 1999:18).

There can be no true economic development without education of and by Africans for African purposes. Neither can there be democracy and peace without a populous prepared to be both self-governing and mutually respectful with a commitment to 'Africanisation', leaving behind the divide and conquer hatreds of colonialism which are the source of so much current internal strife. Beyond the influence of family and religion, education is a key to the prevention of an event such as human emancipation. The basic issues for an educational policy designed to liberate

Africans from their “state of decency”, deal with the concept of man, his role in a special historical context, and the right perspective on which to base education work. This education must be centripetally oriented-base on local realities as it directs its intellectual efforts towards the achievement of cultural freedom (Macleans, 1999:2).

It is encouraging to see that more attention is being paid to institutional linkages and knowledge networks than was the case only two decades ago. As a result of this new understanding, African governments have designed new strategies and created incentives to promote innovation. They have come to recognise that knowledge is the key to economic change, and that learning is the fundamental process through which knowledge is generated, transmitted and used for technological “catch up.” The role of science and technology in economic growth has long been part of an intellectual heritage. What is recent however, is the growing appreciation of the role of science in economic growth and its integration into theoretical approaches in the fields of economics and public policy. While science and technology are widely appreciated as theories of endogenous growth, their roles have largely been missing in development economics. Bringing scientific knowledge and technological learning to the core of economic policy may be the most critical challenge facing African countries (Sachs & Warner, 1999:61).

One of the current issues in public policy analysis is the content of the training programs. So far, much of the policy training relating to Africa has focused on issues of macro-economic management. While this has been important, these approaches have failed to address fundamental issues related to the sources of economic growth. Some of them have further confused symptoms of poverty with its causes. A focus on science and technology would require adjustments in conceptual frameworks. Economic theories that seek to place issues such as innovation, human development and knowledge at the center of the growth process are more likely to reflect the needs of Africa (Gomluka, 1990:254).

A further aspect to consider is the relationship between the development of human capital and the population growth rates. Nowhere is the relationship between rapid population growth and development more apparent than in Africa in general and in Sub-Saharan Africa in particular. Unfortunately, African governments have hardly been able to meet the demographic investment level required to satisfy the increasing needs of the rapidly growing population. Efforts made to promote social and economic development have been seriously hampered by the dismal economic

climate and the low budgetary resources of African countries. Nevertheless, slowing down population growth and the development of human resources are major components of sustainable development. Therefore, while every effort is made to improve the quality of life of every individual, ways should be found to reduce the fertility rates and generate slower population growth rates. If linking population and sustainability means focusing development on the welfare of the populations as both agents and beneficiaries of the development process, slowing down population growth and the development of human resources should then be viewed as two primary components of all sustainable development strategies in Africa (Herbst, 1997:14).

Also, the development of 'social safety nets' should receive greater attention by African governments. Workers lose their jobs and must search for new employment. Policies should be implemented to mitigate these inevitable social costs – generally referred to under the rubric of social safety nets. These include severance payments, training and relocation programs, and measures to develop alternative employment opportunities. Such programs are not only right, they also help to create the needed public support to make the reform package sustainable. Although the design, implementation, and funding of social safety nets present difficulties, more emphasis should be placed on this approach as it is a valuable method of retaining and improving Africa's main asset: labour (Wallace, 1999:88).

Furthermore, African governments, international agencies, and other policy makers in the area of development often emphasise targeting as a strategy for implementing programs and projects. For governments in Africa, uneven development, patterns of social and class differentiation, the need to ensure fiscal budgetary discipline, among other factors, have made it necessary for the adoption of targeting. The notion of human development, which puts people at the center of all development efforts based on exercising choices, cannot be fully captured without targeting. Targeting appears to be a way of putting the human development paradigm into practice.

Three requirements are necessary in the design and implementation of a targeting policy. These are *effectiveness*, which ensures that the target group benefits directly from the program; *minimal cost*, in order to ensure efficiency; and *optimal political support*, which guarantees sustainability of a program, and ensures participation of interest/pressure groups and stakeholders. Therefore when designing policy for

targeting development programs and in considering feasible options for adoption, it is essential that these requirements or criteria are met (Collier, 1999:41).

Turning now to the importance of combating HIV/AIDS. Ways should be found to reduce and eliminate the negative effects on human survival and welfare generated by HIV/AIDS and other diseases such as malaria and tuberculosis. It is through emphasising the importance of the quality of individual life that reproduction will be motivated by the desire for quality children rather than numbers of children.

The HIV/AIDS crisis in Africa is the most devastating disaster to befall the continent. Within the last two decades, the AIDS virus is responsible for ten times more deaths in Africa than all its wars combined. Sales of coffins are booming in many African countries such as Zimbabwe and Zambia due to the high death toll resulting from AIDS. According to UNAIDS (the UN agency responsible for HIV/AIDS), about 25 million persons are living with HIV/AIDS in Africa, and 13 million have already died of the disease. In the next ten years, most of the HIV positive Africans will die painful deaths without access to life saving treatment. Africa accounts for 95% of the 13 million orphans worldwide. More than 95% of all new infections in children 15 years or below occur in Africa. At least 95% of all mother-to-child transmission occurs in Africa. By the year 2010, at least 40 million African children will have no father or mother to assist them as they go through their most critical formative years in life. For the first time in many traditional African societies, the extended family system is no longer adequate as many orphans have to fend for themselves. The rates of HIV infection in the so-called high risk African countries range from 13% to 36% among the adult population. For example, Botswana has an infection rate of 36%, Zimbabwe, 25%, and South Africa 13%. Although Nigeria's current rate of infection is only about 5.4% (one in 20 adults), the large population base of 110 million people will most likely ignite a major catastrophe in a few years time. According to some estimates, by 2020, more than 75 million Nigerians may carry the virus if the present trend continues (Akukwe, 2000:1).

Rich nations are getting healthier while poor nations are getting sicker. Unless the developed world does more to raise the health status of developing countries, they will remain impoverished. AIDS, tuberculosis and malaria are posing a formidable barrier to foreign investment and African governments are already stretched to the limit of their resources. Thus, the continent's prognosis is not good because these

health problems can also be devastating to Africa's overall investment climate (Bisseker, 2000:35).

The collateral and direct effects of Africa's health epidemic relate to an increase in poverty, the additional burdening of countries' budgets and healthcare systems, increased political instability and a decrease in the morale of a nation as people lose hope of any prosperous future. Notwithstanding these effects, it is shocking to realise that the actual barriers to conquering the epidemic are a lack of education, medical infrastructure and political will (Akukwe, 2000:3).

A health (and more specifically HIV/AIDS) strategy should be predicated on four fundamental principles (Akukwe, 2000:4):

- *The need for the international community to mobilise resources to provide life saving treatment to the 25 million Africans living with the HIV virus.* There is no justification for denying millions of Africans, access to life saving drugs. These drugs have made it possible for HIV positive individuals in Western countries to go back to work, assist their families and contribute to the betterment of their society.
- *The need for African leaders to develop and implement a credible HIV prevention program* that recognises the following facts: There is no known cure for HIV/AIDS; The best safe sex message is abstinence or monogamous relationships after relevant tests and knowledge of HIV status and; the urgent need to lift the conspiracy of silence about sexual matters in many African societies.
- *The critical importance of revamping the healthcare system in Africa.* As of today, the current healthcare system in Africa cannot manage the complex logistics of providing cheap or free drugs to HIV/AIDS individuals if they are made available. Many African countries neglect their health systems and do not provide incentives for their health workers. The strategy of a multi-sectoral approach to health matters is not firmly rooted in Africa. As shown in a recent World Bank report on healthcare in Africa, the health infrastructure in most African countries leaves much to be desired. The political will to fund health services in African countries is lacking.
- *The ultimate responsibility for managing and eventually conquering the HIV/AIDS menace lies with Africans, in the continent and the diaspora.* As shown by the debacle of aid and debt relief, no amount of international

assistance will change the HIV/AIDS situation in Africa unless sustained progress is achieved in the following areas of governance: (a) adequate political representation where various shades of opinion are represented at the highest decision-making apparatus of government; (b) transparent macroeconomic policies that promote private enterprise, ensure the implementation of unambiguous rules and regulations, and assure the protection of the weak and the infirmed in the society, and (c) involvement of community-based entities and non governmental organisations in the design and provision of grassroots health programs.

HIV/AIDS is real in Africa. No matter the origin of the HIV virus or the so-called disagreement about the pathogenesis of the disease, millions of Africans have died of this horrible disease, and 25 million individuals are living under a certain death sentence. The time to act is now to save lives and create a better future for Africa. The much-vaunted African Renaissance will become a pipedream if African intellectuals and leaders waste time chasing shadows while the proverbial Rome burns. The die is cast.

The other constraining factor to the improvement to Africa's human capital is the conflict and wars that plague the continent. Over the last 40 years nearly 20 African countries have experienced at least one period of civil war. It is estimated that 20% of Sub-Saharan Africa's (SSA) population now live in countries which are formally at war and low-intensity conflict has become endemic to many other African states. This state of affairs has created stereotypes of Africa as a doomed continent with inescapable ethnic cleavages and violent tribal conflict. The more incidents of political violence we observe in Africa, the more support for this simplistic and negative perception (Elbadawi & Sambanis, 2000:245).

However, careful analysis of the determinants of civil wars in Africa and a systematic comparison to other regions points to a more complex picture. Deep political and economic development failures – not tribalism or ethnic hatred – are the root causes of Africa's problems. The implication is that political and economic development can effectively reduce or eradicate political violence in Africa. The fact is that it is crucial to put an end to Africa's civil wars, not simply to get the task of rebuilding the continent underway, but also to check the effects of near-disastrous spill-over into neighboring states caused, for example, by the plight of refugees and the absorption of scarce resources in ameliorating their wretched condition (Spence, 1997:4).

In this regard, three important pointers for formulating a strategy for avoiding civil wars in future can be considered. The first is that Africa's ethnic diversity is not a cause of the recent rise in the incidences of civil wars that impacted on the region. Indeed, all things being equal, Africa is inherently safer than other regions because of its social diversity. Secondly however, before Africa can turn its ethnic diversity into an asset for preserving peace, it must achieve better levels of political freedom, much higher standards of living and diversified economies. Thirdly, to achieve economic development and hence contribute to the prevention of future wars, both 'appropriate' political governance (i.e., functioning democracy) and high quality institutions for economic management would be required for mitigating possible adverse economic consequences of social diversity. Under favourable conditions Africa's ethnic diversity would actually enhance development efforts by promoting positive inter-group interactions. A pre-condition for this is the 'appropriate' political framework which focuses on participation, inclusion and consensus-building among social and especially ethnic groups (Elbadawi & Sambanis, 2000:266).

What is however, encouraging is the growing belief among Africa's new leaders that the maintenance of peace and security requires African commitment and African solutions – yet another example of that spirit of self-reliance mentioned earlier. At the very least, the West can help with training and peacekeeping techniques, logistic support and appropriate weapons systems. The new South Africa, too, might have an extended role to play beyond its immediate hinterland. In this respect, South Africa's hinge position between the developed and developing world, and the respect in which it is still held for its peaceful revolution and internal reconciliation, offers the potential for serious influence on the regional and global stage (Spence, 1997:13 and Lemon, 2000:37).

African leaders have learnt from their own experiences that peace, security, democracy, good governance, human rights and sound economic management are conditions for sustainable development. The incentives to work, both individually and collectively, to promote these principles in their countries, regions and the continent are strong enough. Strengthening of the capacity of the state is a critical aspect of creating conditions for development. The state has a major role to play in promoting economic growth and development and in the implementation of poverty reduction programs. However, in reality many governments lack the capacity to fulfill this role. As a consequence, many countries lack the necessary policy frameworks and

regulatory structures that provide the rules of the game for the private sector. They also lack the capacity to implement programs even when funding is available. It is for this reason that targeted capacity building should be given a high priority. Programs in every area must be preceded by an assessment of capacity, followed by the provision of appropriate support as needed (Wallace, 1999:195).

In an era of globalisation, the African state has no choice but to modernize and devise institutions capable of adaptation to external pressures. But, above all, it is the belief that democracy must be viewed as a process with a variety of local modes to assist those beginning the long march to political rejuvenation. South Africa, Botswana, Benin and Mali are all states with viable institutions, different in the style of day-to-day governance, but all, nonetheless, recognisably democratic. However, it must be recognised that by themselves, the grand institutions of government and public administration can only do so much for institutional structures to take root and respond to individual needs, the political process must be vigorous and diverse (Spence, 1997:6).

### **3.3 Economic policy-making and stability**

As the primary focus, macroeconomic stability stands out as the ultimate goal in order to achieve economic prosperity in Africa. Macroeconomic stability sends important signals to the private sector and potential foreign direct investment about the direction of African economic policies and the credibility of the authorities' commitment to manage the economy efficiently. Such stability, by facilitating long-term planning and investment decisions, encourages savings and capital accumulation by the private sector. On the other hand, excessive volatility in key macroeconomic variables and/or uncertainty about the outlook for these variables makes it difficult and costly for economic agents to extract the correct signals from relative prices – such as the real returns to investment – and thus lead to inefficient allocation of resources. High and unpredictable inflation rate is an important indicator of macroeconomic instability, which can have an adverse impact on private investment by distorting the information content of relative prices, thus increasing the riskiness of longer-term investment. In countering this, economic reform, which includes tight monetary policy and fiscal restraint has a stabilizing impact on inflation.

But if one assumes that employment elasticities and income distribution do not change in the short run, then a deflationary program, by definition, reduces

employment opportunities and increases poverty in the short run. How much depends not only on the amount of deflation but also on the parameters that describe the employment and income inequality functions of the particular economy. Thus, one of the main reasons why African economies should shift the emphasis to longer-term structural adjustment policies is the recognition that in the case of Africa an important element in reducing poverty is for economies to grow faster. Although even the hypothetical achievement of no further increases in the total number of the poor, under assumptions of unchanged income distribution, this would require growth rates which most African countries would find difficult to attain, higher rates should be a primary focus in African macroeconomic policy-making (Van der Geest & Van der Hoeven, 1999:15).

Of importance for African economies, is the fact that investment behaviour is affected by the economic environment in which entrepreneurs operate. This indicates the importance of providing an appropriate macroeconomic environment, mainly by following sound fiscal, monetary, trade and competition policy. It involves prudent and responsible fiscal policy, as characterised by low budget deficits and low government debt. The attempt by African countries to restructure their national budgets can also make targeting development programs necessary. African countries are being advised by international financial organisations such as the IMF to cut expenditure and employ fiscal discipline in their budgets. An implication of this tends to be reduction in the number programs or projects that the government will finance. Thus, targeting government expenditure in the most desirable areas may be necessary. On the monetary policy side, an appropriate macroeconomic environment is achieved by countries maintaining low and stable inflation and low interest rates. Trade and competition policy conducive to productivity and investment growth means low entry barriers and access to world-scale markets. To complement this, African governments should focus more on the removal of capital controls and a liberalisation of the foreign investment environment (Chipeta, 1998:100).

In addition, investment in modern capital and technology requires a financial system that can transfer resources from savers to investors. Monetary and financial sector policy are vital in this regard to the extent that they contribute to the maintenance of a well-functioning financial system. Many African countries have undertaken financial reform programs to reduce financial repression by limiting the monetisation of fiscal deficits, liberalising interest rates, eliminating credit controls and reducing directed credit programs. These measures constitute the first steps toward making the

financial systems responsive to the needs of the private sector. Building an efficient financial sector for mobilising domestic resources for private investment will also require the reform of banking and non-banking financial institutions, and the promotion of the development of capital markets.

African countries have made significant progress in improving the overall macroeconomic conditions. Interventionists economic policies have been replaced by a set of market-based policies aimed primarily at stabilising the economy, improving efficiency and reducing distortions in the economy. There has been some progress in liberalising credit allocation and interest rates, strengthening monetary management and eliminating import licensing, price controls, and the direct allocation of inputs and foreign exchange. The response of private investment to African macroeconomic adjustment has however, generally been slow. Thus the gains, particularly the improvements in macroeconomic conditions, from the recent adjustment efforts need to be strengthened by efforts to build an enabling business environment for investment recovery. To achieve this, African countries need to deepen the reforms by focusing on a number of areas, such as rationalising the tax and customs administration, and business licensing and registration requirements. From a fiscal policy point of view, tax reform would promote economic efficiency by improving the allocation of resources and therefore would enhance productivity (Mlambo & Oshikoya, 2001:41).

It is becoming increasingly clear that the stabilisation of the macroeconomic fundamentals, though an important first step to enhance competitiveness and provide the right incentives for private sector investment, is not sufficient to confer sustained economic growth in African countries. Growth is very much linked to private sector-led technological innovation in export activities that drive countries to excellence because of the need to compete on the international market. Moreover, an expanded private sector base dominated by the indigenous population would provide the political cover for meaningful privatisation (Elbadawi & Sambanis, 2000:366).

As a further stimulation African governments could play an important role in enhancing the inflow of long-term direct investment funds into the continent's economies through privatisation. This could give the African economies the highly needed breathing space to manage the traditional constraint imposed by the balance of payments on their capital accounts, but its immediate effect would be the

additional liquidity in the financial system which could make it possible for the economies to operate at lower interest rates. Privatisation will also attract multinationals that will promote intra-industry trade. Africa can therefore enhance open economy growth effects via technology transfers. In this regard it is essential that the African privatisation process should not be half-hearted and should under no circumstances serve socialist aims (Strydom, 2000:10).

Instability or volatility in Africa arises from a number of sources, such as high and variable inflation, growing and unsustainable fiscal deficit, volatile and overvalued exchange rates, and large external shocks. However, one important area that poses a risk to investment recovery in Africa is the risk of policy reversal, which can arise where governments are perceived as lacking commitment to reform. As a consequence investors lose faith in the reform process because of the time lags between policy implementation and policy outcomes. In this regard the building of 'agencies of restraint' as a way of improving policy predictability and minimising investors' uncertainty can provide some solutions. Agencies of restraint available to African countries may include participating in existing international agencies (like the World Trade Organisation and European Union) and binding trade and investment agreements that contain reciprocity between African countries and developed countries (Mlambo & Oshikoya, 2001:43).

From a holistic point of view, it is of utmost importance that fiscal, monetary and trade and competition policies need to be coordinated in order for African economies to become more integrated and complementary towards each other. The fiscal and monetary authorities need to work on coherent policies to speak as 'one voice' for the purpose of attracting more foreign direct investment. Africa needs to prove to the West that they can, firstly, sort out their own economic problems to a large degree and secondly, that the continent is a safe haven with optimal potential returns for foreign investment.

Achieving the objectives of rapid economic growth and substantial poverty reduction in Africa requires the implementation of market-oriented policies aimed at both promoting the development of the private sector and accelerating Africa's integration into the global economy. Such a growth strategy will need to be underpinned by an integrated and mutually reinforcing set of macroeconomic policies and structural reforms. These should foster economic liberalisation through reforms of the legal and regulatory environment; the financial sector; the foreign investment, trade and

exchange regulations; and the role of government – including the improvement of tax systems to make them non-distortionary and non-discriminatory, and restructuring public expenditure to give priority to the social sectors (Wallace, 1999:184).

Without a doubt, the benefits of such a reform strategy could be substantially enhanced by regional initiatives. These should aim at promoting macroeconomic stability; the harmonisation of regulatory systems; cross-border trade, investment and financial flows; infrastructure cooperation; and progress toward opening up the region to the global economy.

#### **4. Growth and the main sources of capital flows**

The main sources of capital flows are trade and investment and complementary to this are foreign aid and debt relief. These capital flows are primary prerequisites for economic growth and without it the African continent will never experience sustainable prosperity. A further determining factor to sustainable economic growth is economic development which comprises the improvement of people's quality of life. Without economic/human development, economic growth in Africa will be restricted to short-term phases at most. Therefore, both capital flows and development should be considered when economic growth is evaluated.

The current position of Africa in world trade is characterised by two main features: first, it has a small and declining share in world trade and second, its presence in world trade is largely confined to primary exports and the importation of non-primary products. Nevertheless, the timing is now propitious for Africa to capitalise on the trend toward globalisation. This means dramatically speeding up the pace of trade liberalisation, if Africa hopes to benefit from the increasing global pattern of production and trade, by improving both incentives and the investment climate.

Why is trade liberalisation so important? It improves the efficiency of resource allocation, enhances economic growth, and improves transparency and governance. Indeed, there is no case of a highly restrictive trade regime being associated with sustained strong economic performance. Trade policy does not work in a vacuum, but as a complement to appropriate macroeconomic and other structural policies. Lowering trade barriers reduces the cost of imported inputs and improves access to them, reduces anti-export bias, and facilitates the transfer of knowledge and foreign technology. African trade reform is thus a critical component of moving to a virtuous cycle of export-led growth.

Most of the African countries depend entirely on the export of a small number of raw materials such as minerals, agricultural and forest-based products for their currency reserves, their budget revenues and the monetary earnings of their inhabitants. Their economic development depends, to a great extent, on the stability of the market prices for these products on the international market. Stable and remunerative prices for these products are essential for the economic expansion of the African economies, for increasing the well-being, and raising the living standard, of their peoples, for social peace and for their political stability (Saxena, 2001:131).

The question for the African continent is: What is a reasonable level of openness? In principle, the objective of trade reform should be free trade, and the faster it is implemented the faster the benefits are attained. In practice, however, very rapid movement from a restrictive to a completely open regime is difficult to achieve. Thus, the goal should be early movement to a trade regime that minimises distortions and enhances transparency. This means moving to relatively low and broadly uniform tariffs, and the progressive elimination of non-tariff barriers to the flow of goods, services, and investments. Dismantling non-tariff barriers should include removal of measures that restrict trade, either through quantitative restrictions or by allowing administrative discretion so as to restrain trade. These reforms improve transparency, predictability, and simplicity of the trade regime, thereby promoting good governance (Wallace, 1999:86).

African trade reform is a necessity because the continent cannot afford to be isolated in a global economy where an increasing proportion of the world's trade is taking place within and between regional blocs such as the EU and NAFTA. In this regard the World Trade Organisation (WTO) has emerged as a key institutional mechanism that shapes the global economy. This imposes new and challenging demands on African economies, in particular as the WTO is the international institution in which the African voice is perhaps, least heard. Full-fledged integration of African countries into the global trading system requires building the requisite capacity to enable them to contribute to shaping and designing the rules and regulations for its management by active participation in WTO activities, backed up by active and informed support from home-based analysts and policy-makers. Most if not all African governments – and especially the technocrats and the private sectors in those countries – now accept that the key problem at this point in time is not a lack of market access, but rather the inadequate domestic supply response to existing market access

opportunities. On the positive side, African participation in negotiations and related WTO activities has witnessed a gradual and evolutionary build-up as African countries are moving away from the practice of subsuming their interests under those of the broader group of developing countries – and hence taking no real direct and active interest in the negotiating process – and are now more actively involved in WTO activities (Blackhurst *et al*, 2000:494).

The WTO framework is important for African economic growth as well, as it sets the rules for international trade. Africa can enjoy potential benefits from the framework, despite the transactions and opportunity costs associated with compliance. The time-bound exceptions accorded least developed and, in some cases, low-income countries should be helpful to most African countries as they attempt to improve their share of international trade. Nonetheless, in order to be able to meet the various WTO requirements, African economies will require assistance (Fosu, 2002:305).

Establishing an adequate and skilled professional home-based support staff has turned out to be quite difficult in many African countries, primarily because of the diffused nature of the trade policy-making process and lack of coordination among the institutions involved in the design and implementation of trade policy. A primary element of the coordination problem arises from the split in responsibility between (a) trade policy formulation and (b) authority to negotiate and sign trade agreements. This implies not just a simple division of labour between different agencies, but rather fundamental differences in perspectives. The reason for this in many cases is the limited understanding of economic issues and its limited interaction with major domestic trade policy stakeholders. Thus, the fundamental challenge, for both African countries and for the other WTO members, involves not money but knowledge and priorities (Collier, 1996:276).

Other elements of the African trade regime are also important however, including trade-related exemptions, tariff dispersion and variability, and the complexity of the system and its administration. These elements can detract from the efficiency of resource allocation and thus affect the investment climate directly through the impact on economic efficiency. They may also have a substantial effect on the investment climate by reducing transparency and impairing governance. In Africa, foreign investors' preference for short-term investment would no doubt be even stronger, given concerns about political and social instability and economic governance. Even for short-term investment, relatively high interest rates would be demanded to

accommodate risks that investors perceive. Although short-term capital has always been important, its significance has increased in the post-debt crisis period of some African countries. Short-term capital also shows greater variability compared to other components of capital flows. This raises questions of sustainability and appropriate policy response from the monetary authorities. In this regard, many African countries have introduced economic reform programs designed to introduce macroeconomic stability (Chipeta, 1998:105; Wallace, 1999:75,89).

Foreign direct investment (FDI) is becoming an increasingly important factor in the economic development and industrial restructuring of Africa and other developing countries. FDI, in the last two decades, has been one of the most important instruments for international economic involvement in Africa. FDI flows to Africa in the period 1991-1994 increased to an average of \$3,1 billion from an annual average of \$1,7 billion for the period 1981-1985. However, in percentage terms these figures do not compare favourably with other developing regions, where the share of total world FDI moved up from 18% in 1987-1991 to 37% in 1994. During the same period, Africa's share continued to stagnate.

Judging by the number of bilateral treaties and multilateral agreements signed, and the modifications made to investment promotion regimes, FDI has been actively sought by African countries. However, this has had very little impact on FDI flows into the region. Even by implementing structural adjustment programs and liberalising their economies, African countries have not elicited any significant response from the investing community (D'costa, 1999:64). Capital formation in Africa is a serious problem and the reasons for this are mainly: underdeveloped banking systems and financial services; aspirant local entrepreneurs who lack sophisticated business skills; inadequate statistical information and low levels of skills and productivity that fail to attract foreign investment. FDI in particular, has played an important role in stimulating economic growth in many developing countries around the world through the transfer of technology and production techniques; the transfer of skills, management expertise and high-level training; the enhancement of access to international sources of finance; and the facilitation of access to global markets. Only a few African countries have reaped some of these benefits and thus it has become increasingly important that the whole of Africa should become an attraction for foreign direct investment. (Hough & Neuland, 2000:362)

The economies of most African countries depend largely on natural resource endowment and are, therefore, highly influenced by changing commodity prices and associated political factors outside their control. Evidence from comparative development paths of several Asian and African countries suggests that African countries currently lag far behind their Asian contemporaries in the 1940's and 1950's in economic growth and wealth accumulation. Factors that explain the comparatively poor economic growth of African countries include the low level of technological competence and exclusive dependence on the exploitation and sale of natural resources. FDI is an important source of capital for growth in developing countries. The assumption is generally made that FDI can contribute to economic growth and restructuring in African economies. However, there is increasing competition between developing (and developed) countries to attract FDI flows in order to either enter into, or consolidate their position within, an increasingly integrated world production, trading and investment system. FDI is currently the largest source of external funding to developing countries. It is worrisome to realise that among the top ten developing country recipients of FDI, not one African country appears to be among them (Loots, 2000:2,7). This emphasises the fact that the onus is on African economies themselves to change the negative perception that foreign investors have about the continent's investment return ratios.

To start looking for answers, one should identify what might have caused foreign investors to bypass most African countries, also including a country like Ghana, which has applied, perhaps for the longest period of all African countries, the various elements of a structural adjustment (reform) program. Several reasons can be advanced. One reason is the fear of policy reversals. Since policies undertaken under structural adjustment programs are often induced by the international financial institutions, foreign investors fear that the reform policies may be undone once the adjustment program is finished. Nigeria's, and to a lesser extent Kenya's, erratic trade liberalisation policies in the 1980s are good examples of this. Another frequently noted problem is that, although the policies pursued may be on the right track, institutions to implement the policies are often lacking. Privatisation without an independent judiciary and competent accountancy practices may well lead to a system of crony capitalism, which favours neither workers nor honest entrepreneurs (Van der Geest & Van der Hoeven, 1999:23).

The importance attached to increasing the magnitude and productivity of investment must be underscored. Africa's investment ratio is still not sufficient to replace

depreciated physical and human capital, requiring that both domestic and foreign investment be mobilised to effectively achieve sustained economic growth. However, in Africa, the progress in the implementation of privatisation programs has been slow and public enterprises in many countries remain a significant drain on resources. Accelerating the privatisation programs can improve the environment for the private sector in cases where state control of key sectors – electricity, telecommunications, water and finance – has hampered the development of businesses (Mlambo & Oshikoya, 2001:41).

Africa has generated very little confidence, and despite talk of a groundswell of democratisation and talk of an African Renaissance, FDI continues to dwindle. The perception remains that Africa's problems are almost unsolvable. The outside world is suffering from 'donor fatigue' and what is known as Afro-Pessimism (D'costa, 1999:66). As a result, there was external insistence by the World Bank and the International Monetary Fund (IMF) that the price of continued aid, technical assistance, investment and debt rescheduling was a sustained commitment to the principles of good governance, the liberalisation of decrepit command economies and the application of structural adjustment programs designed to promote lasting growth and wealth creation. They emphasised that in future aid policy would favour democracies: countries tending towards pluralism, public accountability, respect for the rule of law, human rights and market principles, should be encouraged. For many African states, following the achievement of a "second independence", the task of transformation in terms of these criteria has proved formidable: in effect, their peoples, expecting great things from newly elected governments, have been asked to defer satisfaction of basic needs in the short run for the sake of ultimate benefit in the long run (Spence, 1997:2; Mlambo & Oshikoya, 2001:28).

The evidence on external aid seems clear enough. Aid can work for Africa, provided that African economies improve their policy environment: better monetary, fiscal and trade policies. Donors can also help by coordinating their efforts so as to reduce the instability in aid receipts. Existing evidence also suggests that external debt is adverse to growth in most African countries, whether through debt overhang or liquidity difficulties. Thus, here too donors have an important role to play in assisting African countries in removing this 'elephant'. Some alarming statistics emerge: Africa has 10% of the world's population, but attracts only 2% of the world's investment. Furthermore, assuming growth rates of Africa and the industrialised world remain the same, Africa would take some 700 years to achieve 50% of the

Gross National Product (GNP) of the latter. Clearly there is a very strong case for giving increased investment a higher priority if the trends noted above are to be reversed. But this, in turn requires capacity building at a variety of levels (Fosu, 2002:305; Spence, 1997:9).

The new globalised environment is particularly sensitive to two characteristics, i.e., economic growth and macroeconomic stability. Successful, growing economies achieve both these features simultaneously. Related to this, African economies have been unable to attract foreign long-term capital on a sustainable basis. This has imposed important constraints on the continent's policy options, because it is almost constantly forced to concentrate its efforts on achieving macroeconomic stability to such an extent that the growth process is at risk (Strydom, 2000:9).

There is also a school of thought that views Africa's low investment and economic growth rates as symptomatic of underlying factors. They are strongly convinced that the usual suspects – inefficient parastatals or inappropriate government macro-economic policies are not the main culprits. Instead, the answer lies in much more everyday explanations: low capacity utilisation and a shortage of crucial skills turn out to be the critical explanations. It seems there is no single explanation for the low productivity of investment in the continent. Rather, there are a number of factors at work that occur simultaneously. There are two main lessons to be learnt. First, there is much more to high levels of economic growth than increased investment ratios. Second, Africa's low savings rate may well be no more than a rational response to the scarcity of attractive, high-return investment opportunities at home. All of which ought to be food for thought for those in government and business who blame "misplaced perceptions" for Africa's economic problems. Changing perceptions may well increase investment, but if that investment is only half as productive as in some other parts of the world, the benefits may be both small and short-lived. The rate of return is a much more powerful influence on investment decisions (Hawkins, 2001:13).

The overall focus of African development programs should be capacity building at all levels. What is capacity building? It is a broad concept encompassing any activity where output is the increased ability to carry out specified functions more effectively. Capacity building includes training and the development of human resources, as well as improvements in systems and institutional structures (Wallace, 1999:107). Until the sources of declining productivity are better understood, it is premature to

advocate greater investment as a source of faster economic growth. Improving capacity utilization rates – making better use of existing capital equipment – offers a much less expensive and more certain path to sustained growth in production. There is a growing consensus too, that the lack of human capital – skills, training, relevant education, effective healthcare programs – is a more binding constraint on economic growth than physical capital. Politicians who complain that business is not investing enough in plant and machinery would be better occupied improving the quality of education, training and healthcare, and especially in southern Africa, HIV/AIDS prevention.

It is also evident from comparative studies that Africa's share of global manufacturing added value is on the decline despite the continent's immense natural resource endowments. Therefore, the possession of natural resources does not necessarily provide sufficient basis for economic growth. Significant economic development is unlikely to occur unless the exploitation of natural resources is linked to technological development within the economy. Skills and knowledge rather than natural resources are now the basis of comparative and competitive advantage in the developed world. African nations are grossly poor in this aspect of development. They are not only still dependent on natural resources for comparative advantage, but possess a stock of grossly underdeveloped human capital - that is in terms of the type of knowledge and skills presently required by Western capitalism (Ikeme, 1999:17).

The fact is that the structure of employment is changing, with a shift from manual to mental work as indirect production/support work is gaining ground over direct work. Practical skills have to be complemented by higher levels of theoretical skills in science and modern technologies and there is a preference for personnel with multidisciplinary skills. In the process, new needs for training have emerged: needs for higher basic education, training for increased flexibility, training in machinery know-how, in production planning systems and the circulation of goods, and in electronic data processing and information and communication techniques, and training to improve quality. As a starting point, user-oriented strategies towards new technologies can result in improvements. In this case, computer literacy and basic electronic hardware maintenance skills are likely to be essential (Wangwe, 1995:75). The question is how much learning is necessary for the effective use of new technologies in Africa. This can only be answered by speeding up the training process of African labour as quickly as possible.

Human capital is a critical factor for promoting the competitiveness and growth of African economies since it provides the required knowledge, skills, attitudes, and capacities for the development of competitive strategies, product development, quality control, corporate financial operations, marketing and human resource development. Furthermore, human resource and skills development facilitates the adoption, absorption, and diffusion of new technology. The requisite skills and an ability to learn quickly are needed. As a continent, substantial investment in human resource development and training has been made in Africa, but this has to be a continuous process as new ways of doing business are developed. There is no shortage of potential entrepreneurial skill as the growth of the informal economy throughout Africa demonstrates. The key to success is the establishment of basic training programs to foster skills in accountancy, marketing, literacy, and credit management. Non-governmental organisations (NGO's) clearly have a role to play here, but continued aid is important in this context, providing for capacity building at relatively low cost to donors. In this regard, NGO's are increasingly focusing their attention on strategies which build upon local knowledge, skills and resources (Spence, 1997:10; Hough & Neuland, 2000:368; Binns & Nel, 1999:389).

Poverty contributes to environmental degradation and disease. Education is also seen as vital on the grounds that without skilled training, basic literacy and numeracy, individuals have little, if any prospect of lifting themselves above the poverty line. The importance of education for woman is stressed. Without a gender balance women will continue to have unequal access to productive assets – a waste of valuable human resources. Education too, is acknowledged to have a critical role to play in eliminating disease. HIV/AIDS – to which Africa has been especially prone – tuberculosis, meningitis and malaria have all taken a heavy toll. Access to decent medical care is often difficult and governments with thin budgets have few resources to spare for improving their peoples' health. Yet sensible provision for training healthcare workers would reap enormous benefits out of all proportion to the costs involved. The same approach can also be followed by African governments and NGO's with the training of people in other disciplines as well (Spence, 1997:12)

Another dimension of the education problem has been the African 'brain-drain' situation. The outflow of expertise indicates the lack of opportunity to utilise the available human capacity. Previous efforts to address this problem have focused on activities that encourage students to return to their home institutions. Many donors

and universities have conditions, attached to fellowships, that require the students to return home after the completion of their studies. This has worked in some situations, but it has not guaranteed that the expertise was fully utilized. It is of paramount importance that governments and NGO's should address this problem by creating a win-win situation for both, those with the expertise, as well as the African economies which utilize these expertise. If these experts don't feel accommodated, they will lose their interest in adding value to the continent and settle themselves in the developed world where their financial reward is very high.

Thus, although the African continent is in desperate need of trade and foreign direct investments to stimulate economic growth, it is the enhancement of human capital that will ensure sustainable growth. The factors undermining the improvement of human capital like the health crisis, poverty and unemployment should be addressed together with promoting the factors which stimulate human capital improvement namely, education and skills development. It is certain that without true development, African economies will never grow to a higher level of prosperity.

### **Conclusion**

It is evident that Africa is continually confronted with the realities of being in a competitive global environment that requires adaption in order to survive. One of the most important questions for Africa today is whether its economies are able to adjust to the forces of globalisation and technological advancement. The continent's ability to adjust is firstly determined by the nature in which it is governed by the various governments as well as the African Renaissance initiative, and secondly, by its ability to grow economically as well as attract foreign direct investment.

The increasing attention given to the promotion of good governance and strengthening of institutions is a positive development. This is manifesting itself in greater attention to legal reforms, transparency and strengthening of parliamentary processes. Public sector institutional reform and the growing anti-corruption crusade are other welcome developments. The redirection of macroeconomic policy towards market-driven measures and the increasing emphasis on the participatory approach to rural poverty and natural resource management are all part of this positive agenda. African states should follow interventionist policies that entail regulation of domestic and foreign investment in accordance with government priorities; the allocation of investments between regions and countries in the interests of equity; and generally a comprehensive and integrative approach in terms of policy-making.

Improved governance in both public and private institutions can best tackle the problem of corruption in Africa. This will require provision of proper incentives to employees, adequate transparency and clear accountability for individual actions. Although Africa's development partners have a vital role to play in supporting reform programs, efforts to develop effective institutions and regulations – and to remove any remaining official tolerance for corruption – must be home-grown. Such efforts cannot and should not be imposed from outside of Africa.

Further, it is essential that especially the hegemonic powers of Africa (like South Africa and Nigeria) have to combine sensitivity and restraint with subtle and skillful leadership of a disparate group of states characterised by uneven development. The need for economic growth in African countries is simply not negotiable. The improvement of Africa's human capital should be the top priority in any form of planning. It should be the centre of all economic prosperity thinking in Africa. The threats to human development should be fought and the benefits strengthened through all possible efforts.

HIV/AIDS poses a serious threat to Africa's development because it affects the savings rates through higher dependency ratios. It kills many adults in the prime of their working lives and impoverishes families. Urgent action by African governments and their development partners will be critical to prevent further infections and to help those affected with affordable treatment. Education and skills development, on the other hand, provides the most benefits to African development as it enables the people of the continent to be self-reliant which is the primary ingredient for economic prosperity. It is always assumed that there can be no depreciation of human capital since knowledge and skills are always increasing, rather than declining, and can always be passed on to future generations. But nothing can be further from the truth. Depreciation of human capital does occur and this is expressed in the way Africa is lagging behind in terms of skills and education when compared to developed countries. The gap needs to be closed and the answer lies in the development of the continent's human capital.

The onus is on Africa itself to change the negative perceptions surrounding the continent. In other words, we must bridge the "image gap" between the old and the emerging Africa. And the only way this could be done is by proving to the rest of the world that African economies can be self-reliant and that we can provide African solutions for African problems ourselves.

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