The Historical Origin of the African Economic Crisis

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From Colonialism to China

By

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Preface and Major Findings of the Book

This book is a culmination of ideas that developed while doing my PhD study on African economic development. That PhD dissertation aimed at examining the challenges of the African external environment (international trade and finance) for African development. The dissertation, in a reduced from, was later published by Palgrave Macmillan in 2002 (Alemayehu, 2002). The historical excursion chapter in that book, Chapter 2, was largely focussed on the African debt problem and how it is linked with the historical origin of the African economic crisis. This debt aspect was later published in a journal in 2003 (Alemayehu, 2003). I have since found the journal article is required reading in many European and American universities' graduate courses on African development. This is one of the factors that motivated me to extend its coverage to the general economic crisis instead of limiting it to debt issues. I have also updated it to include recent developments such as the rise of China in Africa in the current book. Moreover, the 2002 book was very technical and could be accessed only by professional economists. In the current book, thus, the other main objective is to make the ideas discussed as jargon-free as possible so as to make it more accessible to general readers on African development as well as African policy makers. Thus, the current book is written in such way that if readers jump the technical aspects of a particular chapter or section (and related diagrams), they will not lose the main message in that technical section of the chapter.

Thus, notwithstanding the publication of major parts of Chapters One to Three of the current book in the 2002 book and 2003 journal article, major changes and updates have been made to the previous versions in the current book. This has been done by extending the scope of the study in many dimensions that include the following: (i) the historical analysis is now extended from its initial focus on the debt issue to the general economic crisis (challenges of growth and poverty reduction) of Africa; (ii) new material about the impact of China and other emerging southern (developing) economies on African development has been added; (iii) all relevant data which was previously covered until the end of the 1990s has now been updated to the year 2017 (in the process, the validity of some the predictions made in the earlier versions can now easily be seen to have been confirmed, giving more credence to the current book's predictions and implications); and (iv) after the 2002 book was published, I was fortunate to engage in a number of African economic studies at different times. This was done with the support of three African institutions (and their financiers through research grants) to whom I am grateful. These are the African Economic Research Consortium (AERC) in Nairobi, the African Export and Import Bank (Afrexim Bank) in Cairo and the African Capacity Building Foundations (ACBF) in Harare. One of these studies has appeared as an occasional paper of the Afrexim Bank while the other study on China-Africa relations appeared in a special issue of the *Journal of African Economies* as part of the AERC's research. Based on these studies, the following new additions to the original studies have also been made: (i) a new section on China and other emerging southern economies' economic relations with Africa, which rapidly grew at the turn of this century, has been added, as noted above; and (ii) a discussion about the experience of East Asian states as well as the African developmental states of Botswana and Mauritius in trade, finance and growth policies and the lessons for Africa's future development has been added.

The book's value lies in illuminating our efforts to answer the following three major questions on Africa's external sector (international trade and finance) and its imperatives for African development. First, what was the economic interaction between Africa and the now developed countries (the West) in the past and with China today? Second, what is the legacy of these interactions for Africa's growth and poverty reduction efforts today? Finally, is there a lesson that can be learned from this experience and the experience of successful East Asian and African developmental states in addressing similar challenges for Africa's future development? In brief, the following are the major answers (or findings) of the study.

Starting from the first question, in short, the literature about the origin of the African economic crisis, viewed from the perspective of the external sector, lists a number of factors as its causes. The oil price shocks of 1973-74 and 1978-79, the expansion of the Eurodollar following this period, a rise in public expenditure by African governments following rising commodity prices in the early 1970s, the recession in industrial countries and the subsequent fall in price of commodities, a rise in real world interest rates in the 1980s, and policy failure on the part of African governments are usually mentioned as major factors. Surprisingly, almost all the literature about African external sector problems starts its analysis either in the early 1970s or, at best, after independence in the 1960s. The main argument in this book is that one has to go beyond this period to trace the historical pattern of African economic relations with today's developed countries (the West), not only to adequately explain the debilitating effect of the external sector on the continent, but also to propose a policy on how to address them.

Today, at the turn of the 21st century, this historical pattern is re-emerging and, furthermore, being strengthened owing to Africa's recent economic engagement with China and other emerging southern economies such as India and Brazil. The conclusion that emerges from the analysis of this African economic engagement with its traditional and non-traditional trade and financial partners is that the African economic crisis from this perspective is essentially the problem of trading in primary commodities, historically with the West and recently with China, and its resulting structure that hinders structural transformation (or industrialization) on the continent. Thus, sustained growth and poverty reduction in Africa is impossible without addressing such structural problems through the structural transformation of the continent. For the latter to happen, international and national political economy issues are as important as economic issues.

The lessons for Africa's future development from this legacy and the experience of successful Asian (and African) countries that have extracted themselves from similar patterns of engagement and levels of poverty are multifaceted. However, though almost all African countries are exposed to this debilitating external environment, each country has its own political, structural, institutional and historical features that distinguish it from others and determine its response to this external environment. This underscores the need to seek policy lessons from East Asian success stories, such as those of Taiwan and Korea. This lesson needs to be tailor-made to suit each African country's uniqueness. Such policy framework and how lessons can be drawn from such experiences will also be different from the policies currently being pursued in Africa under the influence of international financial institutions (IFIs) such as the World Bank, IMF and WTO, which are generally "one-size-fits-all" policies of liberalization. The analysis in this book shows that the international trade (and finance) challenges of Africa, which are alluded to in the first part of the book, may not be addressed by addressing constraints that are specific to the trade or export sectors alone. It is argued that the trade challenges of Africa are challenges of a development strategy in general and an industrialization strategy in particular. This is constrained by foreign exchange, knowhow and market problems. This in turn is interwoven with political economic issues. Thus, African countries need to design and implement international trade and finance policies in a broader industrialization strategy context aimed at simultaneously addressing the foreign exchange, knowhow and market problems noted above. For this, the task of drawing lessons from the success stories of East Asian countries needs to take on board the initial conditions in East Asia before their current development vis-à-vis their implications for Africa; the political economy dimension and the context of such policy making in East Asia and the lessons for Africa; the strong role of the state and its capable experts and bureaucracy; the role of research-based informed policy making in general and dynamic macroeconomic policy making in particular that is aimed at macroeconomic stability and enhancing competitiveness; the complementarity of import substitution and export promotion strategies; the optimal distribution of income in a politically sustainable manner; and the role of government-guided foreign firms in the success stories of East Asia. This entails working towards a democratic developmental state in Africa whose viability is proven by the success stories of Botswana and Mauritius, which are discussed in this book.

To show how the above findings are derived, the rest of the book is organized as follows. The first five chapters aim to offer the historical origins of African economic interaction with today's developed countries (the West) and recently with China and its legacy. Chapter One, by way of introduction, briefly offers the policy discourse about the African economic crisis and its diagnosis by IFIs and critical African institutions of the time. Chapter Two focuses on narrating African economic interaction with the West in the last two centuries. Chapter Three is devoted to the implications of the patterns of trade and finance identified in Chapter Two for post-independence African development. In Chapter Four, the patterns of trade and finance between Africa and the emerging southern economies in general and with China in particular are discussed. In Chapter Five, the challenges and opportunities of engaging with the West (historically) and with China (currently) for African structural transformation (or development) are discussed. Chapter Six is devoted to drawing lessons for moving forward with African development. To that end, Chapter Six focuses on examining the experience of successful East Asian and African developmental states in designing appropriate trade, industrial and growth policies and the lessons for Africa's future development. Chapter Seven concludes the book by offering the major policy implications of the study for the future of African development. Finally, I would also advise readers to pay equal attention to my footnotes as that of the main text. I love my footnotes and I wish they were in the main text. I kept them as a footnote just to keep the flow of the argument in the main text.

Alemayehu Geda
Addis Abeba, 2018

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CHAPTER I

INTRODUCTION: THE AFRICAN ECONOMIC CRISIS AND ITS POLICY DISCOURSE

1.1 Introduction

Notwithstanding the recent optimism about African economies, the performance of these economies since the time of political 'independence' can only be described as dismal. There has been a secular deterioration in their terms of trade for almost a century; the level of external debt has grown enormously, leading to near insolvency by the 1990s; dependency on foreign aid and related flows has grown at an alarming rate (and this has been exacerbated by stagnation in exports); and, finally, levels of investment have been extremely low. Partly as a result of the latter issue, physical and social infrastructures have also deteriorated. Political instability, poor policies and implementation thereof, frequent wars, and natural disasters have further aggravated this situation.[1] The major question to be asked then is 'why is there such a crisis?' In fact, it might be equally relevant to ask whether there are special features specific to Africa that can help to explain these features and the massive poverty and inequality that has engulfed the continent. In this book an attempt is made to explain the historical origin of this African economic crisis. It will be argued that understanding the African economic crisis and proposing its solution require an understanding of its historical origin and its current trajectory.

With this broad objective, an attempt to provide a brief summary of the policy debates around the African economic crisis both from the perspective of international financial institutions (IFIs) and critical African institutions is given in the rest of this chapter (Section 1.2). The chapter offers the

[1] In 2016, using the OECD definition of state fragility, 30 out of 54 (nearly 60%) African countries that are home to more than half a billion Africans could be considered as fragile states (Alemayehu, 2017b).

continental and international policy perspectives in the context of which the arguments in the rest of the book need to be understood.

1.2 The African Economic Crisis and Its Policy Discourse

Before commencing the debate, a working definition of the 'African economic crisis' is in order. In this study the African economic crisis is understood as the failure to achieve sustained growth and a macroeconomic stability that ensure significant poverty reduction in the short run and its elimination in the long run. In addition to domestic shortcomings in designing and implementing appropriate policies, the continent was and still is confronted with a hostile external environment. Cognizant of the effect of the latter on the former, the focus of this study is on this debilitating external environment and its effect on sustained growth, structural transformation and poverty reduction in the continent.[2] One major indicator of this African economic crisis, poverty, has been on the rise from the 1980s to 2000. During the period 1980-2000 there was a sharp contrast between Sub-Saharan Africa (SSA), where the proportion of the population below the poverty line increased, and the sharp decline in poverty in East and South Asia. Thus, the absolute number of the poor living on less than a dollar per day (the poverty line in SSA) rose from 163 million in 1981 to nearly 313 million by 2000 (McKay, 2004).[3]

Following the recovery in GDP growth in the last decade, most countries in Africa saw their per capita income steadily rising for over a decade. The corresponding effect on poverty reduction, however, has been less clear and controversial. Following his comprehensive survey on African poverty,

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[2] This study does not attempt to minimize the internal constraints on African economic growth and poverty reduction efforts (or as the cause of the African economic crisis as defined here). It recognizes them but underscores the impact of the external sector on these internal constraints themselves. Interested readers may consult Mkandawire (2001) for a politico-economic analysis about this internal constraint (or the African state) that is compatible with this study. Thus, Mkandawire's analysis can be taken as a complement to this study, which focuses on the internal aspect of the constraints on African economic development.

[3] Despite the impressive growth registered in Africa in the last decade, 47% of the population of sub-Saharan Africa still lives below the $1.25-a-day poverty line, according to a 2012 World Bank study. Between 1981 and 2008, the region's poverty rate only declined by 4 percentage points. In contrast, East Asia saw dramatic drops in poverty, from 77% of the population in 1981 to 14% in 2008 (63 percentage points!), and South Asia saw the percentage of its population in poverty decline from 61% to 36% (McKay, 2012).

Abebe (2014) concluded that "it is difficult to provide conclusive evidence to the link between growth and poverty [reduction]". Be that as it may, using the widely used data of the World Bank, he noted that poverty in SSA has declined – although only by about 5 percentage points in the last decade, or by about 1% per annum. When one compares this with the per capita growth rate of close to 2.5% in the decade, the pace of poverty reduction was extremely slow.[4] Yet, although the evidence is non-conclusive and the reduction in poverty not significant, the growth surge in Africa since the early 2000s seems to be positively associated with poverty reduction (Abebe, 2014; Mckay, 2012; Fosu, 2015). Thus, in this study, the attempt to examine the impact of the external sector on the African economic crisis in general and its growth in particular assumes that growth is linked to poverty reduction positively. However, this needs to be looked at in the context of the political economy of growth, the nature of growth (which includes the distribution of income and structural transformation) and the power of having policy options for making relevant policies.

With such a working definition established, there are three sets of contending explanations for Africa's economic crisis in the post-independence period. The first was set originally out by the World Bank (1981) – also known as 'the Berg Report' – and a number of subsequent World Bank publications (World Bank 1989; 1994). An alternative explanation for Africa's economic crisis, which could be described as the 'African structuralist approach'[5] is

[4] Abebe (2014), however, noted that alternative approaches that rely on a combination of national accounts (to estimate mean income) and surveys (to estimate distribution of income) have reported rapidly falling poverty in the continent in the last two decades (e.g. Pinkovskiy and Sala-i-Martin, 2014; 2013; cited in Abebe, 2014). These estimates suggest a fall in poverty at a rate of 1.9% per annum, almost double that obtained from household surveys. It has to be noted, however, that not only is national income data extremely misleading in Africa (see Jenver, 2016; Alemayehu and Addis, 2015), but even this is extremely low compared to the situation in Asia noted above.

[5] The African structuralist view seems to begin with this ECA (1989) publication under the then ECA General Secretary Adebayo Adedeje. The 1989 document appears to draw its main perspective from the structuralist macroeconomics tradition of Latin America, in particular that of ECLAC (Economic Commission for Latin America and the Carbines) economists (Prebisch, Signer, Sunkel, Furtado, Cardoso etc.; see Palma, 1978; Kay, 1989) and other structuralist and/or progressive economists that include Lance Taylor, Duncan Foley, E.V.K Fitzgerald, Rob Vos, Karel Jansen, Marc Wuyts, Ashewani Saith, Krishna Dutt, John Weeks, Marc Lavoie, Francis Stewart, Sanjay Lall, Howard Stien and Fantu Cheru, among others. In African macro and trade studies the approach of economists such as Jorn Rattso,

associated with the United Nations' Economic Commission for Africa (ECA). This is outlined in the *African Alternative Framework to Structural Adjustment Programmes* (*AAF-SAP*; ECA, 1989a). Finally, there exists a third view, which is less clearly associated with any particular institution and largely held by academics of a Marxist orientation (see *inter alia* Lawrence, 1986; Sutcliffe, 1986; Amin, 1996). This latter position is often offered as a critique to the other two explanations. The scope of all three sets of explanations is general, encompassing every aspect of the African economic crisis.

The World Bank argues that, in spite of external shocks, associated particularly with a rise in oil prices in the periods 1973-74 and 1978-80 and a decline in world demand for primary commodities, the balance of payments problems experienced by most African nations since the 1970s cannot generally be attributed to a deterioration in terms of trade. With the exception of mineral exporters, it is suggested that terms of trade for most African nations have, in fact, either been favourable or neutral.[6] The main cause of the balance of payments problem, according to the World Bank, was a decline in the volume of exports, which is attributed to three factors. Firstly, structural changes in the composition of world trade, with trade in commodities growing at a slower rate than that of manufactured goods. This has resulted in a decline in the African share of total world trade. Secondly, drought and civil strife have negatively affected Africa's supply capacity. Thirdly, the trade restrictions and agricultural subsidy policies of industrial countries represent a barrier to African trade.[7] The World Bank goes on to

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Raphiel Kaplenski, Mike Morris, Ademola Oyedeji, Olu Ajakaiye, Tony Addison, Leonce Ndikumana, John Sender, and Marc Wuyts, *inter alia*, as well as the broader political economy tradition of CODSERIA such as the works of Samir Amin, Archie Maife and Tandika Makandware, as well as the early works of Claude Ake, Walter Rodeny, M. Mamdani and Collin Leys, could be taken in this African-heterodox tradition.

[6] In subsequent publications, notably *Africa's Adjustment and Growth in the 1980s*, published jointly with UNDP, the Bank argues forcefully that Sub-Saharan Africa has been in relatively "good shape" compared to other parts of the developing world and that *policy mistakes* have been the principal cause of its economic crisis. However, the ECA (1989b) argued that the World Bank based its conclusions on "pseudo-statistics" and selective reporting. A re-examination of the same data by ECA analysts would tend to suggest that the World Bank's argument cannot be substantiated (see ECA (1989b) and Mosley and Weeks (1993) for a brief summary).

[7] However, according to the World Bank, the effects of the protectionist policies of developed nations may be rendered less significant due to the low capacity of African manufacturing, an inability to produce temperate products as well as the

argue that the failure of Africa’s export sector may be explained in terms of three main factors. Firstly, government policies have tended to be biased against agricultural and export production. Secondly, increased consumption associated with rapid population growth has placed a burden on resources, which might otherwise have been used by the export sector. Thirdly, inflexibilities in African economies are seen as representing an obstacle to diversification. The World Bank’s insistence that policy failure represents the main explanation for Africa’s economic crisis, and consequent emphasis on the need for reforms, continued with the publication of its long-term perspective study at the end of the 1980s (World Bank, 1989). Moreover, in the mid-1990s, the World Bank continued to argue that orthodox macroeconomic management represented the road to economic recovery in Africa and, hence, that more adjustment, not less, is required (World Bank, 1994). This assertion has been the subject of various criticism, coming from a host of different angles (see *inter alia* ECA, 1989; Adam, 1995; Mosley et al, 1995; Lall, 1995; White, 1996a; Alemayehu, 2002).

A number of other analysts have arrived at conclusions in line with those of the World Bank. Van Arkadie (1986), while sympathetic to the problems posed by external shocks, argues that stagnating or falling output has had an important impact on export earnings. On the latter point, the World Bank (1989) argues, rather vigorously, that declining export volumes, rather than declining prices, account for Africa's poor export revenue. Grier and Tullock’s (1989) analysis supports this view. Based on their survey of empirical studies into the causes of the African economic crisis, Elbadawi et al (1992) also found domestic policies to be important. White (1996b), citing the case of Zambia, argues that economic decline following Zambia’s independence may largely be attributed to economic mismanagement. Using a pooled multiple regression equation for 33 African countries, Ghura (1993) also found significant support for the World Bank/IMF viewpoint. Easterly and Levine (1996) suggest that political instability, low levels of schooling, deterioration in infrastructure as well as policy failures represent possible causes of Africa’s growth problems. They conclude, however, that policy improvements alone are likely to boost growth substantially. Similar views are also expressed in Collier and Gunning (1999). Although this brief survey is not exhaustive, the aforementioned works tend to lend strong support to the World Bank/IMF’s viewpoint. The logical conclusion to be

continent’s preferential status within the EEC. See Amjadi et al (1996), another WB study, for a similar argument along this line, as well as proposals for a possible policy conditionality plan for privatizing African shipping lines during that time.

drawn from this, therefore, is that the remedy to Africa’s economic crisis is to implement structural adjustment programs (SAPs) more vigorously.

In contrast, the ECA (1989) prefers to explain Africa's problems in terms of deficiencies in basic economic and social infrastructure (especially physical capital), research capability, technological know-how and human resource development, compounded by problems of socio-political organization – in short, structural problems. The ECA sees inflation, balance of payments deficits, a rising debt burden and the instability of exports, which are focused on in the World Bank/IMF’s view, as resulting from a lack of structural transformation and unfavourable physical and socio-political environments, as well as excessive outward orientation and dependence. The ECA study suggests that weaknesses in Africa’s productive base, the predominant subsistence and exchange nature of the economy and its openness have all conspired to perpetuate the external dependence of the continent. Hence, one of the striking features of the African economy is the dominance of the external sector. This has had the effect of rendering African countries quite vulnerable to exogenous shocks.[8] Consequently, according to the ECA’s viewpoint, perceiving African problems in terms of internal and external balance problems and seeking a solution within that framework (most notably through the implementation of SAPs) implies not only the wrong diagnosis but also the wrong treatment. The ECA study argues that “both on theoretical and empirical grounds, the conventional SAPs are inadequate in addressing the real causes of economic, financial and social problems facing African countries that are of a *structural* nature” (ECA, 1989a: 25).

Based on this alternative diagnosis, and the major objectives of *The Lagos Plan of Action* (OAU, 1981), the ECA formulated an African alternative framework to the World Bank/IMF’s policy recommendations, which is also effectively endorsed by the OAU. The ECA framework focuses on three dynamically interrelated aspects, which need to be taken into account. First, the *operative forces* (political, economic, scientific and technological, environmental, cultural and sociological[9]); second, the *available resources*

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[8] In sharp contrast to this view, Collier and Gunning (1999) argued that a lack of openness, not openness, represents one of the major causes of the poor performance of African economies.

[9] This basically includes the system of government, public enterprises, the private sector, domestic markets, research and development, forces of nature and climate, ethnicism and society's value system, external commodity markets and finance and transnational corporations.

(human and natural resources, domestic saving and external financial resources); and third, the *needs to be catered for* (i.e. focusing on vital goods and services as opposed to luxuries and semi-luxuries). The adoption of this general framework would allow the different categories of operative force to influence not only the level and structure of what is produced but also the distribution of wealth. Moreover, these forces may then influence the nature of needs to be catered for and the degree of their satisfaction. At a concrete level this is envisaged as taking a number of policy directions. Firstly, improving production capacity and productivity, the mobilization and efficient use of resources, human resource development, strengthening the scientific and technological base, and vertical and horizontal diversification. Secondly, improving the level and distribution of income, adopting a pragmatic balance between the public and private sectors, putting in place ‘enabling conditions’ for sustainable development (particularly economic incentives and political stability), the shifting of (non-productive) resources, and improving income distribution among various groups. Finally, focusing on the required needs, particularly in relation to food self-sufficiency, reducing import dependence, the re-alignment of consumption and production patterns and the managing of debt and debt servicing (ECA, 1989).

Just as many have argued in favour of the Bank/IMF’s view, so, too, have many analysts come out in support of the ECA’s ‘structuralist’ line of reasoning (Ngwenya and Bugembe, 1987; Fantu, 1992; Adedeji, 1993; Stefanski, 1990; Ali, 1984; Wheeler, 1984; Stein, 1977; Alemayehu, 2002). Setting this discussion in a broader historical context, these studies have highlighted the impact of colonialism in establishing the rules by which Africa might participate in the world economy. According to these rules, African nations produced raw materials and agricultural goods for Europe's industries. Further, it is argued that this pattern of trade has changed very little since the time of political 'independence' (Fantu, 1992: 497-500; Adedeji, 1993: 45). Indeed, Stefanski (1990) argues that, understood in the context of a direct continuum with the colonial experience, Africa’s economy still depends on external factors to a much greater degree than any other developing region. As a result of this dependence, Africa’s economic crisis is seen as being intricately interconnected with external factors such as falling terms of trade, declining demand for African exports and related external shocks (Stefanski, 1990: 68-77; Adedeji, 1993: 45). Collier (1991) also argues that abrupt external shocks (be they negative or positive) have represented important causes of the poor long-term economic performance of Africa.[10] Ali (1984) has touched on another dimension of the problem. He argues that, for most African nations, the mitigation of their problems depends not only on the characteristics of the commodities they export (and specifically their elasticities) but also on the presence or absence of the necessary market staying power. Wheeler (1984) has made an exploratory econometric analysis of the sources of stagnation and suggests that 'environmental' factors (especially terms of trade and the international conditions of demand) have had a greater impact on growth than policy variables. Indeed, based on Ghura's (1993) econometric analysis, world interest rates represent a further significant variable, which should be added to Wheeler's list of adverse 'environmental' factors.[11]

The third view differs from the other two in its understanding of what crisis means in the African context. For these analysts, crisis "has a connotation of systemic breakdown, but more generally it can refer to a moment or a specific time period in the history of a system at which various developments of a negative character combine to generate a serious threat to its survival" (Lawrence, 1986: 2). Sutcliffe (1986), for instance, argues that the African crisis represents the continuation of a complex process of polarization trends. It emanates from Africa's economic dependence. For him, the African crisis is best understood in terms of the combined result of the long-term secular effects of imperialism, suddenly aggravated by the impact of the world capitalist crisis. Thus, according to these viewpoints, Africa's problems are best understood as resulting from long-term underdevelopment, following dependency theory,[12] and short-term vulnerability, following international aspects of crisis theory (see Amin 1974a, 1974b; Ake, 1981, cited in Ofuatey-Kadjoe, 1991; Sutcliffe, 1986: 19-20; Harris, 1986: 93;

[10] Collier (1991) cites the Zambian economy and copper prices as classic examples of negative shocks. In Collier's opinion two errors are made. Firstly, the price fall was treated as temporary, and, secondly, foreign exchange shortages were handled by rationing. Notwithstanding an acknowledgment of the effect of negative shocks, he emphasized poor policies in what he called 'controlled' economies as representing a major problem. However, it could be argued that the root cause of these policy problems lies in the structure of the economy of these countries, and in their external trade in particular. Taken in this light, policy problems, per se, may be of only secondary importance.

[11] However, Ghura (1993) seems extremely optimistic in stating that judicious macro and trade policies may stimulate growth in Africa, even if external conditions do not improve. This viewpoint is essentially similar to the types of empirical studies undertaken in support of World Bank/IMF-type policies.

[12] See Leys (1996) and Ofuatey-Kodjoe (1991) for critiques of dependency theory in the African context.

Onimode, 1988: 13; Moyo et al, 1992: 210). In general, these writers are against the view that there is a 'norm' from which African countries are in a state of temporary deviation, with the associated implications that these countries may return to that norm given a particular adjustment measure (Harris, 1986: 84). Harris (1986) and Mamdani (1994), for instance, argue that the IMF and the World Bank's ultimate objective (using SAPs) is not to correct distortions in a free market international system, but to construct such a system (Harris, 1986: 88). In so doing, these institutions may undermine any attempt to create an independent, integrated and self-sustained (African) economy (Mamdani, 1994: 129).

While there are areas where the first two approaches both converge and diverge, the third explanation for Africa's economic crisis stands firmly in opposition to both. The core of the disagreement between the World Bank/IMF and the ECA's views centres on the role of the market mechanism (Oskawe, quoted in Asante, 1991: 179).[13] While the World Bank believes in the market mechanism as representing the fundamental instrument of resource allocation and income distribution, the ECA questions this viewpoint. Thus, while the World Bank focuses mainly on financial balances, the ECA considers a much broader transformation as an enabling condition for the former. While the World Bank emphasizes the export sector, the ECA strategy advocates selectivity (see Asante, 1991: 180). While the World Bank expresses concern about anti-export bias and population policy, the ECA prefers to emphasize the need to ensure total structural transformation and food self-sufficiency. While the World Bank places more emphasis on short-term policies than on Africa's long-term needs, the ECA's strategy, as defined in *The Lagos Plan of Action*, stresses the importance of also addressing issues of long-term transformation,

[13] Makandawire (1989, cited in Elbadawi et al, 1992) summarizes the two contending views about the cause of the African economic crisis as structuralist and neoclassical. He notes

> *The structuralist view is one which highlights a number of features and 'stylized facts' that almost every point contradicts the neoclassical view...class based distribution of income rather than marginal productivity based distribution of income; oligopolistic rather than the laissez-faire capitalist market; increasing returns or fixed proportion production functions rather than 'well-behaved' production functions with decreasing returns and high rates of substitution; non-equivalent or 'unequal exchange' in the world rather than competitive, comparative advantage based world system; low supply elasticities rather than instantaneous response to price incentives.*

alongside these short-term policies.[14] However, these institutions do agree on some major issues, such as the need for human resource development, improving the efficiency of parastatals, and sound debt management. The ECA analysis is quite comprehensive in addressing the causes of the crisis and in suggesting not only short-term solutions but also a framework for long-term structural transformations.[15] In addition, we note today, with the benefit of hindsight, the obsession with macroeconomic stability through SAPs came at the expense of the structural transformations (raising productivity in agriculture, exports, infrastructure, and human capital formation – supply side policies) that the ECA was arguing for from the outset. That led to deterioration of the African economy from the 1980s until the year 2000. Thus, the analysis of the external sector of Africa adopted in this study is conducted within this broader context, where the African economic crisis has developed as part of a broader and historically formed external economic problem of the continent.

Finally, it is worth looking at the recent comprehensive study about the political economy of growth in post-independence Africa and the role of policy in that process. This study was conducted by the African Economic Research Consortium (AERC), based on the case studies of 27 countries (Ndulu et al, 2008a; 2008b). The AERC study identified four political regimes that characterized the political and policy landscape of post-independence Africa. These are countries characterized by: State Controls (SC), Adverse Redistribution (AR), Inter-temporally Unsustainable Spending (IUS), and State Breakdown (SB). In addition, there is the complementary Syndrome-Free (SF) category (see Fosu, 2008; Ndulu et al, 2008a). The study noted that the quality of economic policy pursued by each of these regimes has a powerful effect on whether countries seize the growth opportunities implied by global technologies and markets and by their own initial conditions (Fosu, 2008). The evidence that the syndromes reduce growth is strong in the AERC studies. Fosu and O'Connell (2006) found, for example, that avoiding the syndromes is simultaneously a necessary condition for attaining sustainable growth in SSA and a nearly-sufficient condition for preventing growth collapse. Indeed, being syndrome-free may add as much as 2 to 2.5 percentage points per year to per capita income growth (see Fosu, 2008; Fosu and O'Connell, 2006). This is an excellent and comprehensive study on Africa's growth problem since independence. However, one of its main weaknesses lies in its failure to look at the deeper

[14] See Stewart (1993) for a discussion of this issue.

[15] See, however, Helleiner (1993), who argued for an emergence of consensus on this issue in the early 1990s.

historical reasons for having a structure that is vulnerable to syndromes. One of the significant elements of this structure is the external sector, which was established during the colonial period and has hardly changed today. Hence, the resulting growth and developmental policy problems (or syndromes) are largely the legacy of this structure.[16] The rest of this study is devoted to the analysis of this issue. The second weakness of the AERC study is to delink the policy regime analysis from the *internal* politico-economic context of African countries, which is a widely examined issue in the literature about 'the nature of the African state'. This latter issue includes: 'state-civil society' relations, 'the nature of the African state that includes the potential for the African developmental state', 'global capitalist development and the African dependent state', and 'the African elite and class relations', among others (see, *inter alia*, Hyden, 1983; Sender and Smith, 1986; Makandawire, 2001; Routely, 2012). Notwithstanding the impact of the external sector on such internal causes or aspects of the African economic crisis, this internal aspect is not discussed in this study, which is aimed at focusing on the external sector.

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[16] This 'structure' also has implications for the political regimes witnessed in the post-independence period, as outlined in these AERC studies. This is an interesting area of research. In this study, I have focused only on the economic aspect. The ECA (1989a) broadly defined this 'structure' as a predominance of subsistence and commercial agriculture; a narrow and disarticulated production base; a large and neglected informal sector; a fragmented economy; openness and excessive dependence on the external sector and factors; a weak institutional (and human) capability; and a related socio-political structure, among other factors (see ECA, 1989a: 2-8 for details).

CHAPTER II

THE HISTORICAL ORIGIN OF AFRICA'S ECONOMIC LINKAGE WITH TODAY'S DEVELOPED COUNTRIES (THE WEST)

Following Amin (1972: 106), African economic history may be classified into: (i) the 'pre-mercantilist period' (from pre-history to the beginning of the seventeenth century); (ii) the 'mercantilist period'[17] (from the seventeenth century to 1800), characterized by the operation of the slave trade; (iii) the 'third period' (from 1800 to 1880), characterized by attempts to set up a European-dependent African economy; and (iv) the 'period of colonization', in which the dependent African economy became fully established. This section will not pretend to discuss the details of Amin's periodization. Rather, after briefly reviewing the economic history of the other periods, it will focus mainly on the colonial period, during which time the economic structure that African countries inherited at the time of independence became established.

2.1 Pre-colonial trade in Africa

African interactions with the rest of the world, and especially Europe, date back many centuries, before culminating in fully-fledged colonization in the latter part of the nineteenth century. During the first part of this period, Africa had autonomy in its linkages with the rest of the world[18] (Amin,

[17] See Amin (1974b), Chapter Two, on the mercantilist period.

[18] Wallerstein characterizes the trade of the period as a trade in "luxuries", with such trade being undertaken in the external arena and not in an integrated world economy framework. Wallerstein and Amin define luxuries as those goods for which demand comes from the part of the profit that is consumed. Suraffa defines luxuries as goods which are not used in the production of other goods. He, however, took it as a trade/exchange in which "each can export to the other what is in his system socially defined as worth little in return for the import of what in its system is defined as worth much". Or, in Alpers' words, "trade from which each side believed itself to be profiting" (Wallerstein, 1976: 31 and footnote 3).

1972: 107-110). However, during the sixteenth century, African trade centers moved from the savannah hinterland to the coast in reaction to changes in European trade, which was shifting increasingly from the Mediterranean to the Atlantic (Hopkins, 1973: 87).

Various studies have documented how pre-colonial Africa was characterized by the production of diversified agricultural products (see for instance Rodney, 1972: 257). The internal trade of the continent was distinguished by regional complementarities, with a broad natural resource base. Thus, a dense and integrated network was set in place, dominated by African traders, which included, *inter alia*, trade among herdsmen and crop farmers, a supply of exports and a distribution of imports. This was dominated by trades in salt, West African 'spices', perfumes, resins and kola nuts, in which the latter was the most important (Amin, 1972: 117; Hopkins, 1973: 51-86; Neumark, 1977: 128-130; Vansina, 1977: 237-248; Austen, 1987:36). Brooks' account of the economic conditions prevailing in this period provides an impressive insight into African trade at the time (Brooks, 1993). Specifically, one is struck by: (a) the extent of local and long-distance trade; (b) the range of goods traded; and (c) the degree of processing of commodities (for instance in textile manufacturing, dyeing and metal working), particularly in West Africa. According to his account, the major commodities traded among West Africans in pre-colonial times included salt, iron, gold, kola, malagueta peppers and cotton textiles. Of these, kola and malagueta peppers were important not only in West Africa, but also in the trans-Saharan trade. Indeed, this trade was so extensive that Europeans were able to obtain malagueta peppers at inflated prices from Maghreb (North African) middlemen from at least the fourteenth century onwards (Brooks, 1993: 51-121). Moreover, in this period, Europeans were able to purchase cloth from Morocco, Mauritania, Senegambia, Ivory Coast, Benin, Yorubaland and Loango for resale elsewhere (Rodney, 1972: 113; Hopkins, 1973: 48). (It is curious to note that, in a geographic and economic sense, North Africa was connected, rather than separated, by the Sahara to other parts of Africa[19].) It is also worth noting that the quality of many of these processed goods was quite comparable with products originating in other parts of the world. For instance, the level of the manufacturing of textiles in

[19] This stands in sharp contrast to the current categorization of North Africa as geographically and economically distinct from Sub-Saharan Africa, as can be read in various World Bank/IMF country classification schemes for Africa. See Alemayehu and Addis (2015) for an alternative, politically correct and economically sensible country classification scheme for Africa that is relevant for economic analysis.

pre-colonial West Africa was so sophisticated that these textiles were not only traded in West, North and Central Africa but also in the European market (see Hopkins, 1973: 48 for detail). Moreover, none of the goods brought by Europeans supplied any of the basic or unfulfilled needs of African societies. Indeed, similar commodities and/or substitutes were obtainable through West African commercial networks. Specifically, African artisans of the time manufactured high quality iron, cotton, textiles, beers, wines and liquors (Brooks, 1993: 56). Austin argues that this trade, sometimes referred to as the 'Sudanic economy', represents "an ideal African development pattern: continuous and pervasive regional growth with a minimum of dependence upon foreign partners for provision of critical goods and services" (Austen, 1987: 48). However, this autonomy in traditional industries was to be undermined by subsequent events (Konczacki, 1990: 24).

The early development pattern of Africa varies between regions. In contrast to West Africa, East and Southern Africa (ESA) were characterized by a well-established economic interaction with Arabian and Asian countries, long before the arrival of the Europeans. More specifically, this part of Africa supplied a range of products, such as gold, copper, grain, millet, and coconut to the Middle East and Indian Ocean economies. There also existed a dynamic caravan trade and commercial plantations long before the onset of European colonial rule. According to Austen, the towns in this part of Africa degenerated into little more than entrepôts for raw material exports and manufactured imports, rendering them dependent on the external economy (Austen, 1987: 67-74). However, as documented by Kjekshus, during the mid-nineteenth century, prior to the onset of the colonial period, the interior of what is now mainland Tanzania carried an estimated four and a half million head of cattle. Indeed, the entire coastal region also supported a rich agricultural and pastoral economy (Kjekshus, quoted in Leys, 1996: 111). Further, Nzula et al (1979: 38)[20] argued that the region was characterized by peasant production, which was mainly a natural and closed economy, with a substantial number of people leading a nomadic existence. The existence of an independent and autonomous economy dating back to antiquity is also well-documented in Ethiopian history.[21]

[20] The original book was published in Russian in 1933; the English translation appeared in 1979.
[21] It could be argued that since Ethiopia was not colonized, it represents a 'counter-factual' example of how other parts of Africa might have developed in the absence of colonialism. However, this argument is a very weak one. First, internally, a good part of the history of Ethiopia has been a succession of wars under the ideology of

Amin also notes that the African societies of the pre-colonial period developed autonomously (Amin, 1972: 107-108). Thus, one may reasonably conclude that, although its economy was not as complex as that of West Africa, the ESA region nevertheless had some degree of autonomy in its economic activity, and, hence, was not as dependent on the export of commodities, particularly to Europe.

To sum up, there would appear to be a long history of integrated and autonomous economic activity in most regions of Africa, with local and long-distance trade playing linking roles. This is not an attempt to paint a 'golden past' for Africa. Rather, it is meant to underline the fact that Africa had a healthy and fairly independent economic system, with some degree of processing, before colonialism (and slavery before that) intervened to force structural interactions with Europe.

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religion, regionalism, nationality, or a combination of these. This has created a serious crisis in the agricultural sector (see Gebre-Hiwot, 1924). Moreover, Ethiopia's history has been characterized by two clearly distinct antagonistic classes: the landed aristocracy and the peasantry, with corresponding state structures (see Gebru, 1995). Given the history of conflict, which characterizes Ethiopia's history, the main preoccupation of the landed aristocracy and of the church has been to maintain their power. Notwithstanding this, the landed aristocracy was in the course of changing itself into a capitalist class. Second, colonialism had the effect of disrupting the dynamic caravan trade, which linked the southwest parts of Ethiopia to the rest of the East African region. In addition, Ethiopian independence was basically a besieged one because it was encircled by hostile and powerful colonial forces (British, Italy and France) that used Ethiopian regional and ethnic differences for ensuring conflict and benefiting therefrom. This, as well as the fear of being colonized one day like their neighbouring African colonies, had an influence on the political and economic structure of the country. More specifically, Ethiopia developed as a militaristic nation, with a dependent economy based on the export of commodities and import of manufactures (especially firearms) that seems to have persisted until today. In fact, one of the pioneering economists of the time, Gebre-Hiwot (1924), was worried about this emerging trade pattern and the deterioration of Ethiopian terms of trade *vis-à-vis* Europe and advised, *inter alia*, a policy of protection, skill formation through education and industrialization following a Japanese model. Other Ethiopian development economists of the time (in the 1920s) pursued this argument and are referred to as the Japanaizers in Ethiopian economic history (see Alemayehu, 2008c; 2011).

2.2 Formation of a commodity exporting and external finance constrained economy

The period leading up to the industrial revolution, and the sixteenth and seventeenth centuries, in particular, witnessed the beginning of the shaping of the African economy by European demands. A clear example is the pressing demand for gold coin in Europe, and the subsequent search for gold in West and Central Africa (WCA).[22] Indeed, demand for labour, required in the American gold rushes and plantations, was instrumental in the formation of the European slave trade too (Rodney, 1972: 86-87). Based on recently compiled data, Frankema et al (2015) argued that a significant improvement on the terms of trade of Africa and the exceptionally sharp price boom for African commodities in the four decades before the Berlin conference (1845-1885) might explain the European scramble for Africa at that Berlin conference. Thus, the shaping of the African economy by European interests began even before the onset of the colonial period.

With the onset of the industrial revolution in Europe, Africa lost its remaining autonomy and was reduced to being a supplier of slave labour for the plantations of America (Amin, 1972: 107-110). The European slave trade and the so-called ‘triangular trade’, both of which are beyond the scope of this study, are widely discussed issues in the economic history of Africa. Any resistance to the slave trade was silenced, not only by the co-opting of local chiefs, but also by sheer force. Such use of force has been documented in what is now Angola, Guinea, Senegal and various other parts of the continent (Rodney, 1972: 90-91; see also Bernstein et al (1992) for a brief summary of the triangular trade). Moreover, this era witnessed a widespread expansion of European control. This expansion was undertaken with the dual aims of: (a) incorporating new areas for primary crop production, using African land and labour (which were priced below world market prices); and (b) increasing the level of production of existing primary commodities. On the import side, cheaper and purer iron bars and implements such as knives and hoes were made available, displacing some of the previous economic activities undertaken by local blacksmiths. This had knock-on effects in terms of a reduction in the levels of iron smelting and even a

[22] First by the Portuguese, and later by the British, Dutch, Germans and Scandinavians.

decline in the mining of iron ore (Wallerstein, 1976: 34-36; Baran, 1957: 141-143).[23]

Within the ESA region, cloves grown in the Zanzibar and Pemba islands for export to the Asian and European markets were the first cash crops successfully produced prior to European colonialism. Mainland estates, dominated initially by Arab and Asian traders, were involved in externally oriented production through sales of copra, sesame seeds and oil-yielding materials, for which France was the principal market (Munro, 1976: 55). Following colonization, peasant cash cropping developed in East Africa. However, unlike the WCA region, this was mainly as a consequence of a combination of political injunctions and regulations. Such impositions from above were usually resisted, the Maji-Maji uprising, which occurred in today's Tanzania, being a case in point. In other instances, cash cropping simply failed to take hold, as in the case of a cotton scheme proposed for Nyanza province, Kenya (Munro, 1976: 116). However, in spite of these initial setbacks, eventually the colonial powers were successful in implementing their policy of introducing cash cropping to the region.

In sum, as described above, there existed a reasonable degree of trade linkage with Europe in the pre-colonial period. Leaving aside the slave trade, the main feature of this trade was the export of primary commodities by African nations to Europe. Thus, even before the onset of the colonial era, the seeds of Africa's subsequent role (as a supplier of raw materials and foodstuffs for Europe and a market for European manufactures) as well as its dependence on external finance had already been sown.[24] Or, to take a

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[23] In describing the impact of underdeveloped nations' interaction with Western Europe, Baran noted "[the population of these nations] found themselves in the twilight of feudalism and capitalism enduring the worst features of both worlds. Their exploitation is multiplied, yet its fruits were not to increase their productive wealth; these went abroad or served to support parasitic bourgeoisie at home. They lived in abysmal misery, yet they had no prospect of a better tomorrow. They lost their time-honoured means of livelihood, their arts and crafts, yet there was no modern industry to provide new ones in their place. They were thrust into extensive contact with advance of the West, yet remained in a state of the darkest backwardness" (Baran, 1957: 144). It is striking to note that Baran's description, written nearly six decades ago, seems to remain relevant today.

[24] Imports of palm oil by Britain, groundnuts by France, palm kernels (for cattle cake) by Germany (and for the manufacturing of margarine) by the Dutch represented the main items traded during the nineteenth century, prior to the onset of formal colonialism at the end of that century. For a description of this, see particularly Chapter 4 of Hopkins (1973).

slightly different perspective, a move from the production of primary products to the processing of these products (by Africans and in Africa) was interrupted. This represents the first pre-designed attempt to articulate African economic activity to the requirements of the outside world. This development was vigorously followed up during the colonial period as a consequence of: (i) the so-called 'imperial self-sufficiency in raw materials and markets' scheme; (ii) the impact of the First and Second World Wars; and (iii) financing requirements for the creation of public utilities designed to serve (i) and (ii).

(i) The imperial self-sufficiency scheme

As noted above, the export structure associated with colonialism did not arise by accident. Rather, it was preceded by various experiments to produce agricultural products demanded by the developing European industries. A French experiment to produce crops similar to those produced in America, the establishment of plantations in Senegal during the 1820s, British experiments with 'model farms' in Niger during the 1840s, and cotton experiments[25] in Senegal, Nigeria and the Gold Coast (Ghana) all represent cases in point (Hopkins, 1973: 137). In Germany, Bismarck, initially reluctant to create a colonial empire, was persuaded by German commercial interests that overseas territories could provide raw materials for German industries, as well as markets for their products (Longmire, 1990: 202). This growing demand for raw materials, the search for a market for finished products from Europe, inter-European competition, and a number of other factors conspired to form the basis upon which colonialism was to evolve.[26]

During the colonial period, one of the main phenomena which strengthened primary commodity exports from European colonies in Africa was the so-called 'imperial self-sufficiency' scheme. Thus, British, French and Belgian textile industries sought to obtain cotton from Africa, and invested

[25] These were prompted by the so-called 'cotton famine' in Europe, following the American Civil War.

[26] The motives underlying colonialism represent a widely debated topic. For instance, Austen (1987) argues that "within [the] general context of intense multifaceted international competition, the economic rationale for African colonization was to a considerable extent pre-emptive - designed to assure access to potential rather than actual markets and commodities as well as trade routes to Asia" (Austen, 1987: 116). Using recently compiled historical data, Frankma et al (2015) argue that a sharp rise in African commodity prices before the Berlin conference of the scramble for Africa might have been the motivation for European colonialism in Africa, as noted above.