



AFRICA IN THE 21ST CENTURY'S GLOBAL ECONOMIC PARADIGM

The good governance challenge

By Jean-Pierre Lehmann - July 2009

IMD

Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.ch
<http://www.imd.ch>

In the course of the years of decolonization (early/mid 60s) through to the early 70s, Africa was seen by foreign multinationals and investors as the most promising continent of the “Third World” and was consequently the focus of much business attention. Business ties were encouraged and “promoted” by European governments, notably the Belgians, British and French, by means fair and foul – more often than not the latter.

In stark contrast, East Asia was a region most investors would not touch with a barge pole. It was ravaged by wars, revolutions, and mired in seemingly irredeemable poverty. In 1968, Gunnar Myrdal, the 1974 Nobel Laureate in Economics, published a three volume opus entitled *Asian Drama: An Inquiry into the Poverty of Nations*, which depicted the Asian continent as the global economic basket-case. The GDP per capita of South Korea, Hong Kong, Taiwan and Singapore in the early 1960s was lower than that of countries such as Ghana, Kenya, Nigeria and Zambia.

What a reversal of fortune! By the mid-1970s, as the African dream was shattered, the East Asia economic miracle took off! Since 1950, out of the roughly 200 economies of the world, only 13 have achieved an average annual growth rate of 7% for a period of 25 years or more according to UN Growth Report: *Strategies for Sustained Growth and Inclusive Development*. Out of the 13, no less than nine are East Asian*.

The African tragedy has occurred mainly due to catastrophic governance. Africa was undoubtedly plundered by the slave trade and European colonialism. In many cases after decolonization, not only did the plunder continue, it became worse.

In contrast to East Asian dictators and autocrats such as Lee Kuan Yew in Singapore, Mahathir in Malaysia, Suharto in Indonesia, Park Chung-hee in South Korea, Deng Xiaoping and his successors in China, etc – who displayed a very high degree of economic pragmatism, African leaders, even in the rare instances where they were not plunderers, tended to be ideologically driven and economically illiterate. In his excellent book *False Economy: A Surprising Economic History of the World*, Alan Beattie in a chapter on corruption, poses the question: “Why did Indonesia prosper under a crooked ruler and Tanzania stay poor under an honest one?”, referring respectively to the 32 years of Suharto’s rule in Indonesia and the 24 years of Julius Nyerere’s rule in Tanzania. Nyerere was certainly a good man, but a catastrophe for the Tanzanian economy.

While 9 out of the 13 high sustained growth economies are East Asian, there is also an African country: Botswana. Whereas in many/most African countries, GDP per capita has actually declined over the last few decades, in some cases precipitately so, in Botswana it has increased quite remarkably from \$210 to \$3800. The Botswana case definitely proves that

* They are: China, Hong Kong, Indonesia, Japan, Korea (South!), Malaysia, Singapore, Taiwan and Thailand. (The other four are: Botswana, Brazil, Malta and Oman!)

there is nothing in the African DNA that makes it impossible for African economies to grow at the same rate as the East Asian tigers. Nor should Botswana's growth be ascribed to diamonds. Beattie, in the book cited above, asks "Why are oil and diamonds more trouble than they are worth?" Indeed in most cases richness in resources has been a curse rather than a blessing. For Botswana, the curse was turned into a blessing thanks to a system of good governance that was put in place at an early stage of the country's post-independence development.

In the first half of the 21st century, Africa's population is due to soar by over a billion. By 2040 the African continent will be more populated than both India and China. Computing current population growth rates with economic growth rates, prospects are very bleak. Africa will be demographically an extremely young continent, with all that youth has to offer, but unless these youth can be educated and find jobs, there is a high risk that the continent will experience an even higher degree of socio-political instability and that more states will implode. The urgency of the situation is made all the more acute in that parts of Sub-Saharan Africa will be especially prone to the effects of climate change. Water will be a major problem.

So what is to be done? One positive indicator is that Africa in the course of the last few years has been the subject of far more debate among scholars and other opinion leaders. A number of prominent authorities have recently come out with book titles weighing the pros and cons of international aid going to the continent, notably Dambisa Moyo's highly challenging *Dead Aid: Why Aid is not Working and How there is a Better Way for Africa*

There have also been some recent important shifts in the global economic paradigm. In the past, Africa was pretty much the European, and to a more limited extent American, backyard. In the course of this decade, there has been a wave of new investors, primarily the Chinese, but also Indians and Arabs. This is good and has raised hopes in many African quarters that new investors will provide both a spurt to growth and a competitive challenge to "traditional" Western investors. It is somewhat early however to determine whether these new sources of investment will provide the goods many hope for or whether, as others fear, they may further relegate Africa to global economic servitude.

The causes of the "African problem" are complex and hence one must be wary of simple solutions. Aid per se may not be the answer, but it is at the same time illusory to believe that business alone will raise what Paul Collier calls the bottom billion* out of poverty, especially since business is unlikely to have much interest. It is increasingly believed that more aid per

* Paul Collier, *Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*

se is not the answer, but rather a mix of policy options, which includes aid disbursed far more effectively, and also greater reliance on public-private partnerships.

There is much more the West should do for Africa, especially in generating more trade. Combining the two, Aid For Trade, seems to be reaping rewards. There is also a lot that the West should not do, especially in areas of corruption and complicity with plundering regimes. At the end of the day, however, the role of the “international community” must not be overblown. Only better governance will improve the prospects of Africa. African governments and elites must be held as the responsible parties and upon whom ultimately the fate of their rapidly approaching 2 billion population depends. Unless the current condition of governance in most African countries changes dramatically, prospects could be catastrophic. At that point, the West may need to consider alternative methods not only to save Africans, but to protect the rest of the world as well from the consequences of an African implosion.

Throughout most of the first two-and-a-half post-war decades, East Asia was rapidly descending into a spiral of conflict and poverty. A Thai politician proposed in the 70s that the region should be transformed from a battlefield to a market-place. The transformation was truly remarkable. There is absolutely no reason why Africa should not be able to achieve a similar transformation, especially as for many Africans it will be literally a question of life or death.

The Evian Group and the German Marshall Fund of the United States will jointly convene a meeting to address these issues on July 6-8 at the IMD campus. Africa in the Global Crisis and Trade Disorder: Opportunities for Business Leadership will enable business, government and opinion leaders from Africa, Europe and the US to deliberate on how the global trade and investment climate should be more conducive to African growth, development and opportunities especially in this time of crisis and collapsing trade. It will also address how the regional business environment must be made far more open to local entrepreneurs.

Jean-Pierre Lehmann is Professor of International Political Economy at IMD and the Founding Director of The Evian Group. He teaches on the Orchestrating Winning Performance (OWP), Leading the Global Enterprise (LGE) and the Building on Talent (BOT) programs.

RELATED PROGRAMS



BUILDING ON TALENT - <http://www.imd.ch/bot>

Powering the next generation of managers

Program Director Jack Wood

- Prepare yourself for higher responsibilities
- Acquire the business and leadership knowledge necessary to work across the organization
- Apply the new learning in your company and deliver results



LEADING THE GLOBAL ENTERPRISE – <http://www.imd.ch/lge>

Capturing opportunities, executing smartly

Program Director Bala Chakravarthy

- Build a shared understanding of the global scenarios that will face multinational corporations
- Examine winning strategies, for major players and their challengers, in a variety of sectors
- Make your organization more efficient, connected and nimble
- Fine-tune your own leadership style for greater success