



Strengthening Africa's Economic Performance

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BUSINESS PRINCIPLES FOR A STRONG AFRICA

Africa Delegation* Discussion Paper

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The post-colonial period in Africa is over. More and more democratic and peaceful, Africa today battles not against colonialism or neo-colonialism, but against exclusion from the global economy, disease and poverty. In contrast to the apocalyptic humanitarianism of most media, Africa is *increasingly* optimistic about its own future and increasingly serious about business. Fewer and fewer African citizenries are willing to tolerate prolonged deviations from new norms of political freedom and public accountability. More and more African governments understand and embrace their role in reducing the barriers to commerce and investment. They understand that the only sure pathway to prosperity and true political and fiscal independence is a vibrant, tax-paying private sector.

The full benefits of reform have yet to be reaped, in some countries the transition has yet to begin and in many there is still too much belief in bureaucratic and statist modes of governance. But the possibility of a general return to the authoritarian politics and purely statist economics of the first thirty years of independence is *increasingly* remote.

Contemporary Global Narratives

The discourse surrounding globalisation – defined here as growing international trade in goods and services, the global spread of cultural attributes and influences, and the adoption of government policies that encourage these trends – is often confused, fraught with tensions, and sometimes violent. While both the extreme left and extreme right share the rhetoric of anti-globalisation, most economies depend on the global market for trade and growth. In the 1990s few questioned the desirability of growing output and trade growth, breaking down the main ideological divides of the Cold War. However, differential ability to take advantage of these opportunities has *increased* resistance to change.

China is the most notable example of poverty reduction via globalisation, with several hundred million people climbing the ladder from peasantry to global producers as a result of a process of market reforms and trade openness. India, Indonesia and others are not far behind. By contrast, over this period GDP per capita of the least open countries – many of them in Africa – fell by one per cent a year. The

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first years of the 21st century has seen a reversal of these trends but many countries economies still grow slower than their populations.

The arguments against globalisation generally take the same line: that more international trade, openness, and competition have raised inequality between and within states, harming the poor; that globalisation favours big multinational companies and destroys jobs. Though at first these arguments seem valid, they do not stand up to closer scrutiny. While globalisation has destroyed some jobs, it has created many more. While many people have become richer, the poor still have to make do with the same percentage of national income irrespective of whether their economies are open or closed. Globalisation has created richer countries, which still, however, have poor people.

Globalisation is an inherently political process, and not just an economic one. This is why, for example, the West spends a billion dollars a day protecting inefficient agricultural industries. Perhaps the greatest threat to globalisation is from within, from local workers unable to withstand external competitive pressures.

Different regions have varied performance records in coping with and benefiting from globalisation. East Asia has been the most successful, through achieving high rates of export-led growth. There is no single formula for success in the case in these economies, but several (Taiwan, Vietnam, and China for example) have followed a sequenced pattern of boosting agricultural production through reforms, followed by an emphasis on light industrial manufacturing and exports. In every case there has been an emphasis on poverty alleviation; raising education standards and appropriate skills levels; encouraging (and in Singapore's case, legislating) the raising of saving levels; importing and applying technology; and investing in infrastructure, particularly communications.

Governments played a central role in planning, decision-making, and allocating the necessary resources. Trade openness was limited, ensuring that foreign imports would not undercut fledgling domestic industries. Trade by itself was seen as insufficient – the countries in question understood that there was a corresponding need for technology, skills, infrastructure, and knowledge of markets.

All this was underpinned by an emphasis on social and political stability, achieved by increasing employment and reducing poverty – the opposite to what has happened in Africa over the past 50 years of independence. A combination of weak governments, misguided policies, and high levels of instability and corruption have seen a twofold rise in continental poverty in Africa over just the past three decades, and agricultural production is now just one third of Asia's. Elsewhere, in Latin America, high levels of external borrowing coupled with fiscal weakness have produced both cyclical crises and high levels of disillusionment with the key actors in the global economy, from Washington to the Bretton Woods institutions. Coupled with high degrees of domestic inequality (often along broadly racial or ethnic lines), it is easier to see where the current wave of resistance to globalisation led, in Latin America for example, by Presidents Chavez, Morales, and Correa originates and who their policies appeal to. In both the cases of Latin America and Africa, the recent trend, however, is towards increasing differentiation between states in terms of their reform and performance records.

Success in today's global era will not hinge on exclusively emphasising either market or government. Rather, it will depend on finding a balance between these forces. Markets are no substitute for government, but the limits of liberalisation should not obscure the limits of government. The history of government intervention in markets is lamentable, especially in Africa, and fundamentalism in either direction is a recipe for failure. The reason why some countries have benefited more from globalisation relates to their possession of systems of effective government, the presence of an educated critical mass of people, and a pool of talented entrepreneurs. In this world, a government succeeds by means of the economic activity that it *facilitates*: ultimately it is not government that sells into, and buys from, global markets directly, but business firms and consumers. A healthy economy requires healthy business firms, large and small, domestic and foreign. But firms need not only to thrive, but to thrive in a way that accelerates growth and ever-widening opportunity in African societies.

Therefore politics and policy both continue to matter. Making globalisation work for poor countries means picking the best of the international market (technology and skills, for example) and managing the political challenges while avoiding its cultural and environmental fallout. The key challenges are predominantly political: locally, to instil political and economic freedoms around personal choice; globally, to invigorate political regimes to catch up and cope with the economic reality of interdependency.

Policy responses to globalisation have to bear in mind local and foreign business requirements. Overall this demands putting competitive policies in place, and acting quickly on them. As Rupert Murdoch has observed, 'The world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow.'

Understanding the Development Aid Narrative

There are two competing visions of global development. One holds that poor countries are poor because their people are sick and uneducated. In this vision, the developed world has a moral duty to heal and school poor Africans, Asians, and Latin Americans by spending billions more dollars on aid programs. Only then will it be possible for them to participate in the global economy and 'trade their way out of poverty'.

Yet aid has costs. It can divert the attention of well-meaning governments from their investment climates. It seeks to ensure African development while it gives some donors an excuse not to make tough domestic concessions on trade. Developing nations might by necessity be more aggressive and effective in trade negotiations if their survival and well-being depended on it. Similarly leaders might not feel the imperative to trade or die – the global and more recently Asian route to development – since they feel their path to survival and development is not trade but aid.

Aid can also create the illusion amongst donors and recipients that Africa's problems are primarily technical and moral rather than political and managerial. Aid regimes propose complex solutions to complex problems, but big aid pushes *à la* Gleneagles encourage the notion that silver bullet 'all-in' answers to Africa's problems can be engineered. Such an approach does not encourage an iterative, productive development process focused on local learning from experiences, but rather one that is externally-directed.

The other development vision is embraced by all successful economies in both the developed and developing worlds. It holds that people in poor countries are sick and uneducated because they are poor. It insists that countries reduce poverty only when they make their countries more attractive and fair places for everyone to do business.

Proponents of this vision understand the mechanism by which social goods are provided in the real world of politics in bounded nation-states: social investments are made when governments feel public pressure to do so. They are concerned that aid that flows directly to the executive branch of governments can weaken the accountability of governments to their own populations, and make parliaments superfluous, because they do not have the power of the purse.

The welfare vision of development has the Millennium Development Goals around which to organize itself. Yet the proponents of the enterprise-led vision have no corresponding set of internationally-recognized goals with which to orient governments and development agencies. It is important that enterprise-led development also occurs in Africa: only when there are sufficiently many business firms that succeed, employ and prosper – and particularly domestic firms – will countries generate sufficient taxable resources to make their own decisions about social investment, and in so doing adopt a more normal and internally accountable politics.

Appreciating Africa's Seismic Shift

One signal of Africa's emergence from a post-colonial to a globalization paradigm can be discerned in the increasing presence of Chinese firms on the continent, most visibly in natural resource sectors, but also in construction, retailing, manufacturing, and services. Because the post-colonial period is over, Africa does not tend to interpret China's increased engagement in 'imperialist' terms. African leaders do not mind if China pursues its interests in Africa, so long as their countries benefit too. Yet in many cases, African governments and businesses have not been able to take full advantage of the new opportunities. In spite of rhetoric on 'win-win cooperation', only African states, through tough and principled negotiation, can secure their national interests.

The shift will also require new roles for the United States and Europe in Africa. First, the historical players in Africa have to learn to see Africa as a place of opportunities, not as a problem to be solved. Second, they will have to make the shift from monopoly donors to strategic competitors – with each other, with Chinese and African firms, as well as with new entrants from other parts of the developing world, like Malaysia, India, Russia and Brazil. But there can be no return to paradigms of past.

Those paradigms include extraction of resources with zero value-added in Africa (and collusion in maintenance of unaccountable rentier states), the control of Africa's policy space through conditionality, and the imposition of forms of aid that retarded democracy, weakened the private sector, and saddled poor governments with unsustainable levels of debt.

Competition does not mean conflict. The area where China and the United States can most fruitfully achieve joint 'trilateral' effort with Africa is in entrenching the

business principles that will make the continent strong – and which are also in the interest of both these great powers.

Five Types of Businesses

Like other societies that engage successfully with a globalised world, Africa needs a spectrum of successful businesses. Some important types are:

- ◆ The **domestic business** – large or small, sophisticated or informal, agricultural or in the city, this category is essential to a sustainable pro-growth political economy. As a rule, policies that are favourable to non-dominant domestic businesses are good policies for business generally, and for the country (excluding, though, policies that amount to a conspiracy against the domestic consumer). Among the most important policies for domestic businesses are a congenial business climate and secure property rights. Therefore this category should be an important touchstone for overall policy.
- ◆ The **foreign business that provides access to markets and technology** – such businesses generally require no more than that required by domestic businesses, and no more should be asked of it than of its domestic counterparts.
- ◆ **Natural resource extractors.** An exception occurs in the area of natural resources, where important obligations rest on the state as a proprietor of the country's natural endowment. These obligations, and indeed the value often embedded in natural resources, tend to create ensuing obligations for these businesses, whether local or foreign. For both the state and the extractor, a balance needs to be struck in favour of the public weal, but that ensures commercial sustainability by giving due reward to effort and risk.
- ◆ The **infrastructure provider, whether state-owned or privately-funded** – these businesses provide key transport, communications, power and other infrastructures, i.e., provide facilities that tend to both require long-term financing and have natural monopoly tendencies. Whilst the state is often an owner of such enterprises, its two core roles do not in fact always require ownership: the state has to provide stability and risk-mitigation, or the business will not be funded; the state also often has to provide wise regulation, or such businesses may not serve society best.
- ◆ The **provider of finance** – banks and other providers of finance are both a critical funder and a key potential risk in the economy. The state as an owner of financial intermediaries has mostly been disappointing, and political influence over such firms devastating. But the state as a wise regulator is a pre-requisite.

Business Principles for a Strong Africa

From the above, the interplay between business success and state attitudes is evident. In that interplay rests the seeds of success, but also risks that need to be managed.

Business principles for a strong Africa therefore deal in equal measure with how business should act in Africa (the first two principles), how the international

community should support Africa (the next two principles) and, finally, two principles dealing with how African governments should act.

How Businesses Should Act

The first, and perhaps most obvious, is to raise the levels of transparency and corporate governance in Africa. Serious investors, both African and foreign, will only invest large sums in firms that follow international norms of openness and accountability. African governments need to improve their legal and regulatory environments. And American and Chinese firms (and governments) have a role to play in transferring the fiscal technology that attracts capital. To help fight corruption, China might consider enacting a law modelled on the U.S. Foreign and Corrupt Practices Act, which allows U.S. courts to try Americans involved in bribery and corruption abroad. In the case of government-to-government deals, the terms and conditions should be transparent so as to minimise opportunities for corruption, patronage and rent-seeking.

Second, Africa, for its part, should develop and transparently apply continent-wide principles of corporate good behaviour. Such a '*Tswalu Code of Social Responsibility*' should involve support for employees and the communities in which business operates and their application by those with whom business **is** conducted in terms of five key areas:

- ◆ Universal human rights, including equal opportunity regardless of race, gender, creed, age or origin, and voluntary freedom of association.
- ◆ Provision of a safe and healthy workplace, including the promotion of sustainable development and the environment.
- ◆ The facilitation of skills and capability, and the promotion of sufficient compensation to at least meet basic living requirements.
- ◆ Respect for intellectual and property rights.
- ◆ Ensuring that corruption is eradicated.

Such frameworks should be as enabling and unbureaucratic as possible. Making doing business in Africa too costly and complex with European social democracy standards, will simply stifle investment. Similarly, discretion is advised when dealing with NGOs focused on extracting rents through complex governance monitoring mechanisms.

How the International Community Should Act

Third, the purpose of aid should be reconceptualized. Development-aid process must focus more on economic and financial fundamentals than on posturing and empty promises of more aid. Rather than *instrumentalizing* global poverty as a backdrop from which to proclaim their compassion and moral seriousness, the international community should instead offer poor countries a partnership focused on the same economic insights that make them prosperous and free. Development is not about the relationship among donors, NGOs, and recipient governments. It is fundamentally about the relationship between poor governments, their citizens, and their own

private sector. Instead of being primarily a source of funding for important health and welfare projects, both Chinese and American aid money should be strategically targeted at projects that will stimulate growth by reducing the costs of doing business. In many countries, this will mean infrastructure investments in electricity, broadband internet, roads, and ports. It may also mean funding for legal and administrative reform, or the hiring of foreign commercial judges.

Fourth, related to the point above, establishing a set of '*MDGs for competitiveness*' would incorporate measures of economic freedom and administrative efficiency, and also attempt to quantify how much their absence cost businesses. It would also add a number of other indicators that entrepreneurs find are the other main obstacles to running a business: the costs of capital, electricity, transportation, telecommunications, tax, labour, and corruption. A focus on these measurable fundamentals would re-prioritize how aid money is spent. To reduce the cost of capital, policy attention should be paid to reducing risks to local commercial banks so that they can lend the money they already have. To reduce the cost of transportation, the focus should be on trade facilitation and infrastructure. Reducing the costs of energy requires creative public-private infrastructure partnerships. Each poor country has its own distinct cost structure, a unique mix of reasons why it is overly expensive or risky to do business there – both for domestic and foreign entrepreneurs.

How African Governments Should Act

Fifth, just as China did in the 1970s and 1980s when it negotiated access to China with foreign companies, African governments should – *without overplaying their hand* – seek to make technology transfer and value addition a condition in their contract and concession negotiations with foreign firms.

Sixth, and finally, there are things that African nations can do themselves to become more competitive and to develop faster. As long as countries succeed by making and selling things, government can lower the cost of doing business through policy. They can ensure transparency and the rule of law, and improving regulatory oversight. They can put policies in place that attract skills, the most valuable and scarce resource of all. Capital is not the key problem; competitiveness is. Since successful countries are not good at everything, there is an imperative to prioritise, where governments have a key role. And success presumes government capacity, efficiency and insight in key areas just as it presumes the absence (or removal) of onerous and inefficient bureaucracy, cumbersome and costly overregulation, and too-high barriers to trade and investment. As highlighted above, this should not be politically polarised as having to make a choice between market and government fundamentalism. Instead there is a critical need for both attributes in due measure.