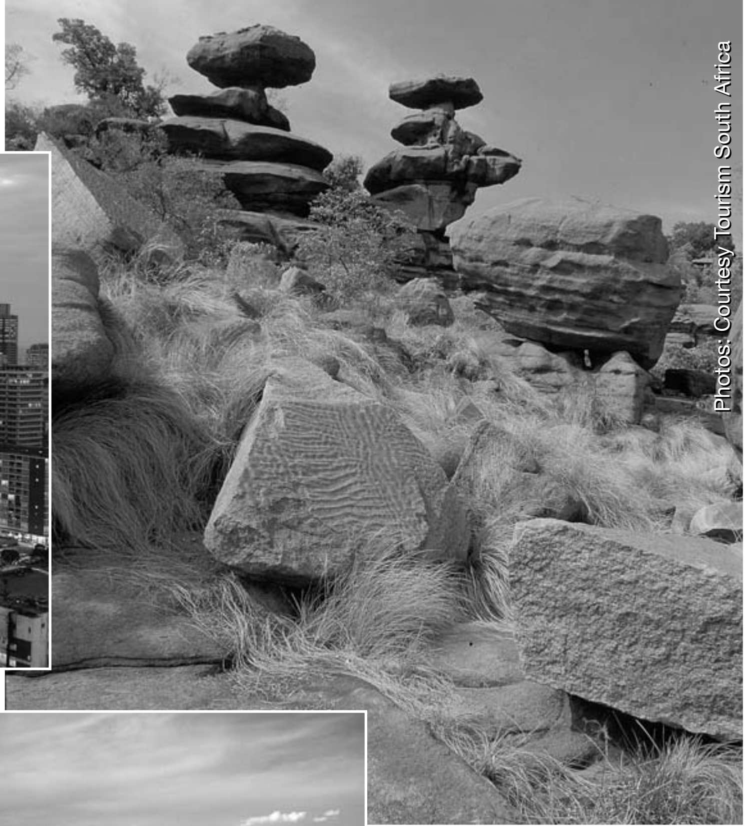
CASE STUDY



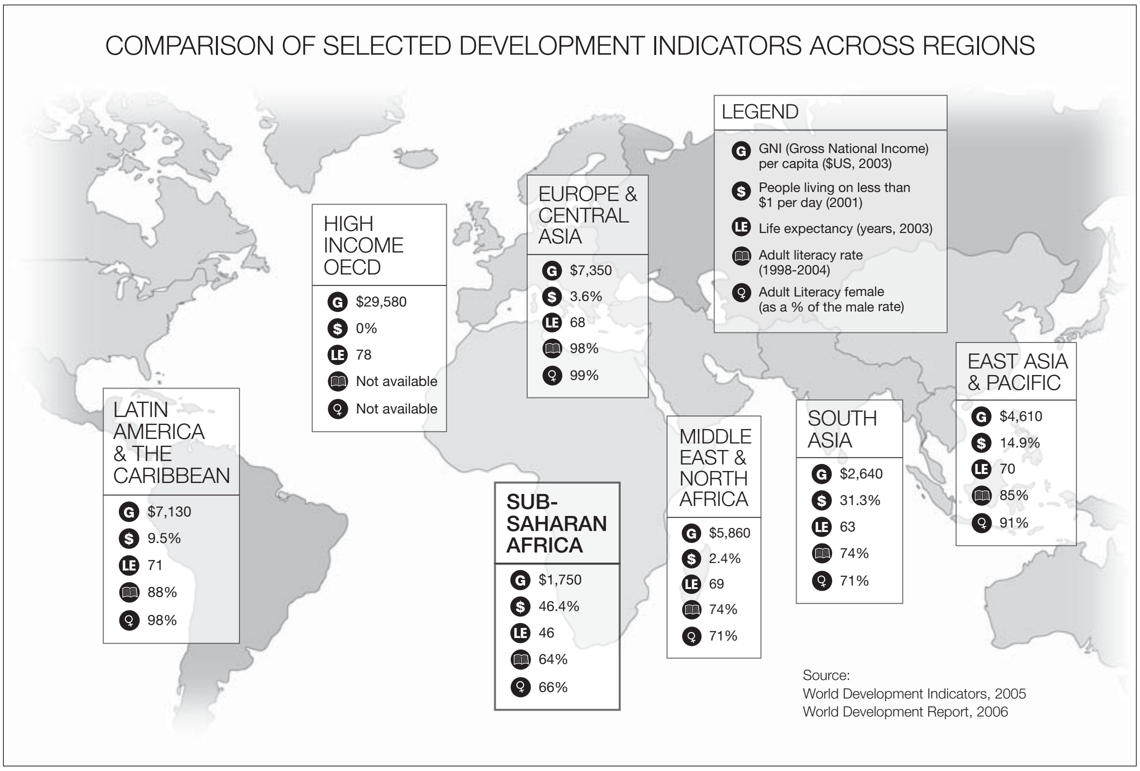
Photos: Courtesy Tourism South Africa

# Globalisation and economic development in Sub-Saharan Africa: an introductory guide

## Introduction

Whether measured by income levels, health standards or educational outcomes, most developing economies are looking forward to real improvements in their quality of life in years ahead. However, the region of sub-Saharan Africa, stretching from the vast deserts in the continent's north to the southern tip of Africa, remains the exception to the trend of improvement elsewhere. The economies of this region have in recent years experienced poor economic conditions, stagnant or falling living standards, and a seemingly unending avalanche of political and military turmoil - the human consequences of which undoubtedly make it one of the worst episodes in human history. This guide provides an insight into some of the common economic issues and challenges facing sub-Saharan African economies. Analysing the economic factors at work in the **world's poorest region** will deepen your understanding of the impacts of globalisation, even if your chosen case study for the HSC Course is an economy in a different region. If you are interested in specialising in an economy of sub-Saharan Africa, consider choosing one of the economies we preview in the final section of this guide. Either way, we hope this guide helps you untangle some of the complexities of globalisation and economic development.

# Economic development in Sub-Saharan Africa: a snapshot




Sub-Saharan Africa is the most economically marginalised region in the world. Its combined gross domestic product (GDP) of $US544 billion per year is considerably smaller than Australia's, despite a population 36 times the size (719 million people). Of sub-Saharan Africa's 48 nations, 34 are classified by the United Nations as **Least Developed Countries** (LDCs), which each have a per capita GDP below $US900. And, unlike most other developing regions, many of the economies of sub-Saharan Africa are going backwards. While average annual economic growth in the region was 2.8 per cent from 1990-2003, increases in population over the same period have left **per capita income levels lower than they were three decades ago**. According to the United Nations Development Program (UNDP), 14 of the 18 countries that experienced a decline in economic development levels between 1990 and 2005 were in sub-Saharan Africa.

The main consequence of sluggish economic growth and rapid population growth has been the **continued rise in absolute poverty**, defined as those living on less than $US1.08 a day, measured at 1993 purchasing power parity prices. According to World Bank estimates, while absolute poverty across the world has fallen from 28 per cent of the world's population in 1990 to 18 per cent in 2002, it has risen from 45 per cent to 46 per cent in sub-Saharan Africa over the same period. The **number of people living in absolute poverty has almost doubled**, from 164 million in 1981 to 313 million in 2001. And it gets worse. Even those in absolute poverty have seen their incomes deteriorate from an average of US64 cents in 1981 to US60 cents in 2001. Over the next decade, it is expected that absolute poverty will increase, with sub-Saharan Africa's estimated growth rate of 1.6 per cent per year well below the 5 per cent growth rate required just to prevent the number of people in absolute poverty from rising.

"International donors spent $300 billion in aid for sub-Saharan Africa between 1981 and 2001. Yet in the same period the number of Africans living on $1 a day doubled from 164 million to 313 million. Unless the pace of growth accelerates, the number of poor people on the continent is expected to rise 340 million in the next ten years."

*Paul Wolfowitz, President of the World Bank*
*The Economist - World in 2006*

Trends in other development indicators over the past decade reinforce sub-Saharan Africa's bleak prospects:

- Almost one third of its people live in **hunger**, rising from 31.5 per cent to 32.2 per cent over the past decade
- **Life expectancy** has fallen from 50 to 46 years
- **HIV/AIDS** has infected 28 million people and is estimated to reduce economic growth in sub-Saharan Africa nations by around 0.8 per cent each year
- The **infant mortality** rate has fallen only marginally from 187 deaths to 171 deaths per 1000 children

## Causes of underdevelopment

Untangling the reasons why sub-Saharan Africa has fallen so far behind other developing regions is a difficult task. In general terms, the economies of sub-Saharan Africa face a common set of challenges: isolation from global markets for goods, services, finance and investment, and a range of demographic, geographical, historical and political factors that hinder economic growth and development.

The structure of the **global trading system** works against the interests of sub-Saharan Africa's agricultural producers, perhaps more than any other region in the world. Trade protectionism in advanced economies makes it hard for African nations to sell the items in which they have a comparative advantage - agricultural produce. The enormous subsidies for products like cotton has a devastating effect on their competitiveness, with the total level of assistance given to farmers of Organisation of Economic Cooperation and Development (OECD) nations almost three quarters the size of the entire GDP of sub-Saharan Africa. Even those economies that benefit from substantial mineral resources remain exposed to fluctuations in highly volatile global commodity prices.

"Many people think Africa's problems in trade come primarily from the trade barriers imposed by rich nations. It is true that those barriers are absolutely unacceptable. … But, contrary to what is often supposed - there is also another cause, and that is this: Africa simply does not produce enough goods to trade, at least not of the right kind or quality, or at the right price. Addressing those questions, as well as the trade barriers Africa face, are key if Africa is to prosper."

*'Our Common Future', Commission for Africa, 2005*

Another factor constraining growth in sub-Saharan Africa is the nature of **international financial flows**. Foreign investment sources are insufficient to make up for the lack of domestic investment funds: net foreign direct investment flows to the region are around $US10bn a year (a mere 0.6 per cent of the global total), which limits their role in business creation and technology transfer. **Foreign aid flows** are also small: although they rose by 35 per cent in 2002, annual per capita aid is $US34, still well below the 1992 peak of $US40.

Government policies also damage the region's access to global trade and financial markets. Sub-Saharan African economies suffer from notoriously **high levels of government corruption and burdensome business regulation**, discouraging both domestic and foreign investment. A recent World Bank report, *Doing Business in 2005* showed that establishing a business in sub-Saharan Africa took an average of 64 days and cost 215 per cent of the average annual per capita income (compared with only 2 days and 2 per cent of income in Australia).

High levels of government debt owed by many sub-Saharan African nations, often accumulated by former governments, have led to burdensome interest repayments today. Despite several rounds of debt relief, including the World Bank's Heavily Indebted Poor Countries (HIPC) Initiative, sub-Saharan Africa still spends more on debt service payments than it does on health care. And on average, for every $US2 of aid received, nearly $US1 is paid in servicing debt.

Many sub-Saharan African economies also suffer from a range of domestic problems:

- **High disease burden:** The spread of HIV/AIDS and malaria reduces the productivity and availability of workers.
- **Low agricultural productivity:** Erratic rainfall, hot temperatures and limited use of agricultural technology such as fertilizers and irrigation have seen food production across the region shrink over the past two decades.
- **Poor health and education facilities:** A severe shortage of doctors and teachers, along with inadequate facilities, reduces people's ability to participate in the labour force.
- **Lack of transport infrastructure:** A lack of paved roads and port facilities leads to high transport costs, reducing the international competitiveness of African producers, especially for the 15 landlocked nations that must transport their goods overland to reach foreign markets.
- **Civil conflicts:** One in five sub-Saharan Africans live in a country scarred by conflict, which discourages investment and reduces the productive capacity of an economy.
- **Small national market sizes:** African producers struggle to achieve the economies of scale that would improve their international competitiveness.
- **Narrow export bases:** Income from exports has been vulnerable to volatile and declining prices faced by key primary commodities such as sugar, coffee, cocoa and cotton.

Facing such intractable problems, most development economists argue that the only chance for major progress in economic development in sub-Saharan Africa is through significant economic support from the international community, especially from the world's richest nations.

## Strategies to promote development

The most important step by the international community to promote economic development worldwide was the adoption of the **Millennium Development Goals** (MDGs) by the 191 members of the United Nations in 2000. These goals set out ambitious targets for halving poverty and improving health, education, gender equality and environmental outcomes in developing economies by 2015. While significant progress has been made in some regions, particularly East Asia & the Pacific, **sub-Saharan Africa is unlikely to meet any of its MDG targets**.

To help sub-Saharan Africa achieve the MDGs, the **Millennium Project**, a UN advisory body led by Columbia University economist Jeffrey Sachs, has called for a significant increase in foreign aid flows. Professor Sachs argues that sub-Saharan Africa is stuck in a **poverty trap** - it is too poor to save enough funds (or attract capital from overseas) that are required to fund the investment necessary to 'kickstart' economic growth in the region. Instead, sub-Saharan

Africa needs a 'big push' in the form of additional annual foreign aid - approximately $US25bn per year. This needs to be maintained over 10 to 25 years to address widespread poverty and kickstart the investment in health, education and infrastructure facilities required to raise living standards and overcome the structural barriers to economic growth. Yet this seems unlikely. Despite pledging to donate 0.7 per cent of their gross national product (GNP) to developing nations since the 1970s, a commitment reaffirmed in 2002, aid flows from rich nations remain well below this promise. At $US79.5bn, total foreign aid flows to developing countries in 2004 were just 0.26 per cent of combined GNP.

The high-profile July 2005 Summit of the Group of Eight (G8) nations held in Gleneagles, Scotland did make modest progress in addressing poverty in sub-Saharan Africa by agreeing to provide some economies with debt relief and increasing aid flows:

- The G8 endorsed the 'London Agreement', to cancel $US40 billion in foreign debt owed by 18 **Heavily Indebted Poor Countries** to three multilateral organisations - the World Bank, the International Monetary Fund, and the African Development Bank (AfDB). The 18 countries included Guyana, Honduras, Nicaragua, Bolivia and 14 African economies. But as most of these loans were originally granted on a concessional basis (with little or no interest), the agreement is only likely to save the African continent around $US1-1.5 billion in debt servicing payments each year. And these nations may also face reduced aid from the World Bank and AfDB, offsetting some of the relief from reduced debt service payments.
- The G8 nations will increase their **foreign aid to developing economies by $US50 billion by 2010**, with the developing economies of sub-Saharan Africa receiving around half of the additional funding, roughly doubling what they receive now. While the G8's pledge is a substantial increase on the $US79.5 billion aid provided by OECD donors in 2004, the OECD estimates that $US46 billion of the promised increase in aid only recycles previous commitments by donors.

> "At Gleneagles we showed the world - and the world's poor - that political leaders in rich countries not only care about world poverty, but are capable of acting together to help eliminate it. Of course we could have done more, but we showed that cooperation can deliver results. If we follow the gains made in Gleneagles then 13,000 people who die preventable deaths every day will be saved. Some 600,000 African children who would have died from malaria will live. Six million Africans will get anti-AIDS drugs within the next five years. Polio should now be eradicated. Twenty million more children will go to school. Five million more orphans will be cared for."
>
> *Tony Blair, Prime Minister of the United Kingdom*
> *Lord Mayor's Banquet Speech,14 November 2005*

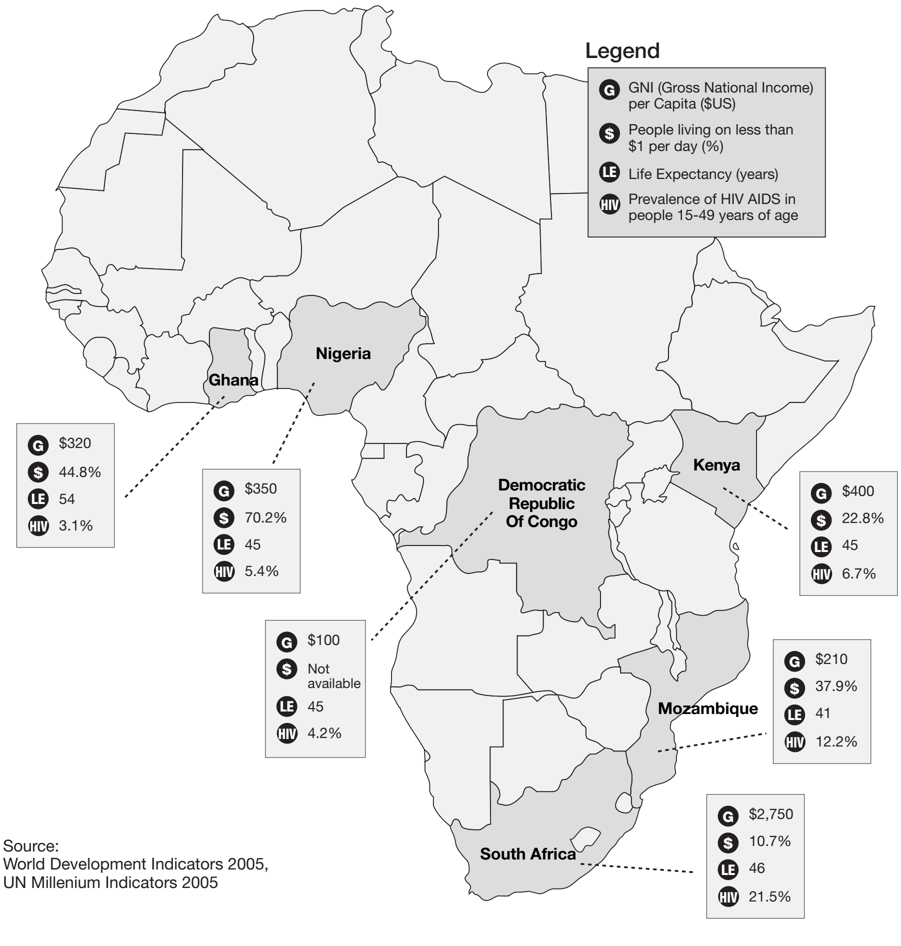
Organisers of the high-profile **"Make Poverty History" campaign**, which staged the worldwide "Live 8" concerts in the lead up to the G8 Summit to raise awareness about global poverty, were largely disappointed with these outcomes, arguing that increased aid would be phased in over a long period of time and that the Summit did nothing to address trade barriers faced by developing nations - another factor constraining their economic growth potential. Leaders of high-income countries say they are now focusing on **assisting developing nations through trade rather than aid**, because of the perceived ineffectiveness of aid in fostering economic development and reaching those most in need.

The European Union, for example, recently announced the '**Everything But Arms' initiative** - an agreement that will give the 34 sub-Saharan African LDCs complete access to EU markets within five years. The United States implemented a similar initiative in 2000, called the **African Growth and Opportunity Act**. However, in what is arguably the most important forum for promoting development in sub-Saharan Africa - the World Trade Organisation's (WTO) Doha 'Development Round' of trade talks - high income countries have continuously fought moves to significantly lower agricultural protection levels and grant concessions to poor countries. British Prime Minister Tony Blair has warned that the lack of progress at the Hong Kong Ministerial Conference in December 2005 has seriously threatened the future of the WTO.

## Sub-Saharan African Economies: A Preview

Distinct from the common features that sub-Saharan African economies share, each faces a unique set of challenges to achieving higher levels of economic development. Understanding the economic structure, geography, and even political forces at work in individual countries is crucial to identifying the policies needed to promote economic development. Below, we provide a snapshot of development indicators in six key economies of the region, and provide a brief sketch of their economic circumstances. Along with the overview of the region presented above, we hope this preview is a useful "launching pad" if you choose a sub-Saharan African economy as your case study of the impacts of globalisation for the HSC in 2006.

DEVELOPMENT INDICATORS IN SELECTED ECONOMIES




Source:
World Development Indicators 2005,
UN Millenium Indicators 2005

## Ghana

- **Sustained economic growth** throughout the 1990s, raising per capita GDP to nearly double the average for sub-Saharan Africa.
- A **narrow export base**, dependent on commodities such as cocoa and gold, which face volatile prices and are heavily influenced by weather and disease.
- Substantial servicing costs on a **large foreign debt**, of which 68 per cent is government borrowing from international organisations such as the IMF and World Bank.

## Kenya

- Severe drought, declining agricultural commodity prices, low investment and corruption have constrained **economic growth** in recent decades.
- Key advocate for the formation of Common Market for Eastern and Southern Africa (COMESA), a **regional** grouping that aims to coordinate trade and environmental policies.
- An educated workforce, with an adult literacy rate of 90 per cent of males and 79 per cent of females.

## Democratic Republic of Congo

- Suffers from some of the **lowest levels of development** in the world. The OECD estimates 80 per cent of its population survive on less than US20 cents a day, with severe inequality in living standards between regions.
- Land-locked DRC faces high transportation costs, restricting the international competitiveness of all but a **narrow export base** of diamonds and copper.
- Political stability, following years of devastating conflict, and a large increase in foreign aid, have allowed a recovery in **economic growth**.

## Nigeria

- Exchange rate shocks have increased the cost of imported food, causing widespread hunger and malnutrition, and fuelled **inflation**.
- Crude oil is the key driver of **economic growth**, accounting for ninety per cent of export earnings and thirty per cent of GDP.
- **Foreign investment** has been deterred by political instability and ethnic conflict despite Nigeria's vast mineral resources.

## South Africa

- Has one of the most **unequal distributions of income** in the world, caused by decades of high unemployment and the devastating impact of AIDS on the labour force.
- Recent **public sector** and **infrastructure reforms** to expose inefficient government-run firms to competition, particularly in transport, energy and communications sectors.
- Long term shift from a historical dependence on mining and agriculture towards manufacturing and services based economy.

## Mozambique

- Despite being amongst the poorest economies, Mozambique has achieved some of the **fastest rates of economic growth** in the world as it recovers from a decade of devastating civil war.
- Considerable success in attracting **foreign direct investment**, with transnational corporations such as Vodafone and BHP-Billiton, bringing desperately needed resources and technology.
- Prospect of **free trade** with members of the South African Development Community (a group of 14 African countries) by 2012, with tariff reductions beginning in 2008.
- **Fiscal policy** is constrained by the unpredictability of **foreign aid** flows, which finance roughly half of government spending.

For more information about the economies of Sub-Saharan Africa, go to the 'What's New' Section of our website and click on 'Research links'.

**www.leadingedge.com.au**