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The Challenge of African Development: A View from Latin America

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Africa is an urgent development challenge in the world economy today. As documented in the stimulating chapter by McCord, Sachs, and Woo, Africa has experienced, on average, negative GDP per capita growth in the last decades, showing indicators of underdevelopment that are probably the most alarming in the world. Given the very low level of income per head of most African countries, this is really a development disaster for it implies a high level of poverty, deprivation, low living standards and high human vulnerabilities.

In this chapter, I will concentrate on: (a) the recent experience with economic reform and development in Latin America and its relevance for Africa; (b) the role of governance factors in economic development; and (c) the scope and limits of a strategy based on a "big push" financed with foreign aid as a development strategy for African development.

Reform Policies in Latin America: Main Results

Economic growth in Latin America in the last 25 years or so has been modest and volatile (see Solimano, 2005a). The policies of the Washington Consensus (in its original version) comprising macro stabilisation, market liberalisation and privatisation were applied in Latin America since the early 1990s (although some countries, such as Chile, started similar policies in the mid-1970s). Although reform policies contributed to reduce inflation, bring fiscal discipline and open the economies for foreign competition they failed to deliver sustained

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and stable growth; in fact, the average annual rate of growth of GDP has been below 3 percent in the 1990-2004 period leading to small gains in per capita income growth and in poverty reduction (which has remained persistent at near 45 percent of total population, say over 200 million people). Moreover, inequality of income and wealth has not declined in the last decade. As a result of limited economic growth and slow job creation, emigration outside Latin America (mainly to the US) surged in the 1990s and early 2000s.[1]

In Latin America, an excessive reliance on natural resources as a source of export earnings, fiscal revenues and national income leads to exposure to shocks in commodity prices and to macroeconomic volatility. At the same time, the concentration in the export of natural resources with a low level of elaboration tends to hamper the development of more value-added intensive products. On the positive side, several countries in Latin America in the last 10 years or so have put in place stabilisation funds with built-in savings mechanisms to avoid the traditional boom-and-bust cycles associated with terms of trade bonanzas. Now part of the extra income gains associated with positive terms of trade shock are saved. This is also a relevant development experience for Africa, a continent also reliant on natural resources.

The combination of social inequality with unstable political systems is another characteristic that makes more difficult the adoption of adequate economic and public policies in Latin America. In several countries of the region such as Ecuador, Bolivia and Argentina, there is a chronic record of political instability, a high turnover of political authorities including the president, finance ministers and other key officials. The high turnover of authorities leads to short horizons in policymaking and deters private investment and innovation, critical factors for long-term prosperity. Thus, political fragmentation and the lack of consensus-oriented processes are an unfortunate feature of the political process of the region.[2] The point is simple but important: politics matter for economic development. In turn, the political process is linked to the social structure, the political culture of the country and the working of its formal institutions (see Solimano, 2005c).

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[1] In the early 2000s, according to OECD, around 18 million people born in Latin America were living in the United States; see Solimano (2005b).

[2] In the positive side, Latin America has a reduced degree of ethnic and religious fractionalisation avoiding the kind of ethnically driven internal conflict and civil wars seen in other areas of the world, including Africa.

The Role of Governance in Promoting Development: Causality Issues

It is apparent that for policies to yield good economic outcomes some basic conditions are required to be in place: social peace and respect for human life, contracts and property rights, appropriate education and health levels of the workforce, a physical infrastructure that enables trade and investment. It is in Africa where the absence of these elements is more acute.

The Washington Consensus policies in its original formulation often ignored, at least explicitly, the importance of institutions, politics and social conflict in policy formulation and execution. The chapter by McCord, Sachs and Woo makes an interesting additional point: governance is not really an exogenous variable that explains economic performance; on the contrary, the quality of governance in itself is a result of the development level of a country. In this line, the traditionally assumed causality from governance to development must be changed for a causality that goes from development to governance. The authors highlight that good governance requires resources. For example, a government needs to adequately pay well-talented professionals to run sound economic and public policies. Poor countries have under-funded governments that fail to attract the most talented people to policymaking. The social cost of poor policymaking can be enormous. In addition, if talent is under-appreciated it will avoid government and eventually may leave the country. The importance of having adequate human resources for ensuring good governance underscores a related topic: that qualified resources are mobile and prefer to undertake exciting and rewarding endeavours either in their home country or abroad. In poor environments, human capital flight can be as important as financial capital flight in retarding economic development. Although the new literature on the topic has brought to the fore the concept of "brain circulation" rather than "brain drain", for Africa the old notion of a depletion of qualified human resources that aggravates a development trap is still very relevant (see Solimano, 2005d).

A Big Push and Foreign Aid: Scope and Limits

The McCord, Sachs and Woo chapter's main recommendation for Africa to get out of its poverty trap is a national development strategy based on a big push funded by generous foreign aid. The "big push" would be a massive investment effort in human and physical capital

oriented to upgrade the infrastructure and human resource base as a condition for the economic take-off of Africa. This reminds us of the famous Paul Rosenstein-Rodan blueprint for industrialisation in southern Europe in the 1940s. The Rosenstein-Rodan notion of a big push was similar to the one proposed in the McCord *et al.* chapter, not in the details, but in its essence: say a coordinated effort of investment in physical and human capital in several fronts to take countries towards a high development path. This provided the analytical underpinnings for the reconstruction of Western Europe after World War II under the financial and political support of the Marshall Plan. Of course, the historical context, the human resource base, the institutions and the geopolitics were very different in post-war Europe to the one currently prevailing in Africa. Latin America also tried a strategy of economic development tied to foreign aid in the 1960s under the Alliance for Progress. This programme was launched by the President Kennedy administration in the United States, chiefly as a reaction to the challenge posed by the Cuban revolution. Clearly, there are historical precedents for the strategy of the big push that can offer useful clues on what can work (or cannot) for the specific case of Africa.

The idea of a broad national development strategy, as different from the rather narrow focus of the Washington Consensus, is an appealing one. However, I would not throw out completely all the elements of the Washington Consensus. Things such as the need of fiscal discipline and macroeconomic stability (albeit narrowly defined) and the importance of incentives for resource allocation are valid and have been emphasised by less ideologically charged formulations of economic policy for development.

Finally, a couple of comments on two key elements of the grand strategy proposed by McCord *et al.*: first, the reliance on foreign aid and, second, the absorptive capacity of the countries targeted to receive that aid. Foreign aid is a complex business that is not guided only by increasing the social welfare of the recipient countries. Geopolitical, bureaucratic and economic interests of the donor countries also influence the amounts and modalities of foreign aid. The different interests of various actors in donor countries may not coincide with the development interests of the recipient countries. Still this is not to deny the importance and the moral obligations of rich nations and the international community with Africa. The Millennium Development Goals signed by a majority of countries also incorporate these concerns.

The other element that is critical for the success (or failure) of the

big push strategy is the internal absorption capacity of African countries to receive large amounts of money and use it productively. According to the calculations of McCord, Sachs and Woo, some African countries need to receive between 20 and 30 percent of their GDP in foreign aid to finance their economic take-off. Here it is useful to remind the classical issues of macroeconomic adjustment and governance associated with the receipt of large amounts of foreign aid: a tendency for appreciation of the real exchange rate, the disincentives for non-traditional exports and national savings, and the risk of possible misuse of the money (i.e. corruption).

To sum up, Africa poses an extremely complex challenge to the development community. The development experiences of other countries and regions in the world are certainly useful. At the end, however, the proposed big push will be more effective if it is merged with an appreciation of current economic and political realities of the region and the scope and limits of other strategies of big push to device the appropriate policies needed to pull Africa out of its dramatic condition of underdevelopment.

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