17

Africa and the Washington Consensus

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Introduction

Although Africa remains marginal to the globalisation process, the continent's future development prospects are nevertheless profoundly influenced by the global environment. Washington Consensus-type reforms have been implemented in many instances, although as John Williamson,[2] in his review of the Washington Consensus argued, sub-Saharan Africa moved "spottily and grudgingly, too often under foreign pressure rather than out of conviction". However, South Africa's Minister of Finance, Trevor Manuel, has argued in a recent *Finance and Development*[3] article, that few African countries have applied all the reforms because of the difficulties of pursuing them, and it is not clear that some of the proposals contained in the Washington Consensus are appropriate to Africa's needs. In particular, there are difficulties with the emphasis on privatisation and fiscal reform and trade liberalisation. The New Partnership for Africa's Development (NEPAD) initiative is an attempt to overcome some of these shortcomings, although at this stage the jury is still out as to the efficacy of NEPAD.

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[1] The views expressed are those of the author and do not necessarily represent those of the South African Reserve Bank.

[2] John Williamson (2004) "The Washington Consensus as Policy Prescription for Development", A lecture in the series "Practitioners of Development" delivered at the World Bank, January 13, 2004.

[3] Trevor Manuel (2003) "Africa and the Washington Consensus: Finding the Right Path", *Finance and Development*, September.

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The nature of globalisation has made it difficult for African countries to apply the Washington Consensus reforms and at the same time benefit from globalisation. In particular, I would argue that the dependence of many African economies on a narrow range of commodities has made it difficult for them to undertake the proposed reforms. In turn, some of the reforms that have been undertaken, particularly with respect to the role of the state, have made it difficult for African countries to deal with the more open trade environment. While recognising that the problems of African development have an important domestic dimension, my brief remarks will focus on some of the external constraints to growth.

Africa and the Washington Consensus

Although Africa's economic performance has improved in recent years, the 7 percent growth rate required to meet the Millennium Development Goals (MDGs) in the timeframe set, is still a long way off. There are major structural problems that the Washington Consensus cannot deal with, and inequalities continue to abound. These inequalities do not only manifest themselves internally, but internationally as well, with Africa falling further behind in the global distribution of income.

Very few economists argue against the importance of macroeconomic balance, but the emphasis placed on this in the Washington Consensus too often resulted in a focus on stabilisation rather than on growth and development, and ignored the equity dimensions of growth. Although stabilisation is important, it invariably has been seen as the end product rather than a precondition for sustainable development. As Manuel has argued, one of the most important drawbacks of the Washington Consensus was that although it provided a good mixture of reforms to both stabilise the economy and encourage private sector activity, it has done very little to help resolve the structural constraints on growth. An important constraint is Africa's interaction with the international trade regime and the international financial system.

Africa and the International Trade Regime

Much emerging market literature focuses on the problems caused by the volatility of capital flows and problems of access to international capital markets. Because most African countries are marginal or negligible borrowers, these problems are of secondary importance. Most

African countries, particularly those in sub-Saharan Africa, rely on foreign aid flows for financing. As with most of the developing world, African countries depend on exports for growth, but most African countries are dependent on commodities whose share in world trade is declining, and subject to high price volatility and declining terms of trade. Real exchange rate volatility is associated not with capital surges but with commodity price volatility. These issues are highlighted in a recent UNCTAD study.[4]

The UNCTAD study shows that although trade relative to GDP for sub-Saharan Africa (excluding South Africa and Nigeria) increased from 45 percent to 50 percent between 1980 and 2000, Africa's share of world exports declined from 6 percent to 2 percent, and imports from 4,6 percent to 2,1 percent over the same period. Even though Africa has remained commodity dependent, Africa has been losing market share in commodity exports to other developing countries and has been unable to diversify into manufacturing exports. It is argued that Africa's primary commodity dependence is unlikely to decrease in the short to medium term, which accentuates the need to reduce the problems associated with this dependence.

Primary commodities have tended to exhibit short-term instability and long periods of slumps resulting in uncertainties relating to export revenues, external debt and fiscal solvency. According to UNCTAD, between 1997-2001, the UNCTAD combined price index of all commodities in US dollars declined by 53 percent in real terms. Had the terms of trade of sub-Saharan Africa remained at 1980 levels, Africa's share in world exports would be twice its current level. This has clear implications for employment and the possibilities for poverty alleviation.

Price volatility has resulted not only from weather conditions and other supply shocks, but also from the secular decline in real prices caused by structural oversupply in commodity markets as a result of EU and US policies that have stimulated output in the advanced economies. Other causal factors include increased productivity in other emerging market regions and the unwillingness of the international community to support price stabilisation through commodity agreements.

The price volatility and declining terms of trade have created problems for macroeconomic management in African countries as they have resulted in uncertainties regarding exchange rates, return on investment

[4] UNCTAD (2003) "Economic Development in Africa: Trade Performance and Commodity Dependence", Geneva.

and import capacity, and debt overhang. It has also been argued that despite macroeconomic reforms, sub-Saharan Africa is not in a position to manage fluctuations any better than in 1970. Indeed, it is argued that some aspects of these reforms have undermined the capacity of governments to mediate these shocks.

The reason for Africa's continued commodity dependence is related to (i) domestic policies and (ii) market access issues and agricultural policies in industrial countries.

Domestic Issues

With respect to domestic issues, it is argued that African agriculture has not been modernised because of the inability to overcome structural constraints against a high cost of trading background. Low agricultural productivity has resulted from land tenure policies and the lack of state institutions in innovation and investment. This lack of state institutions is exacerbated by the emphasis in the Washington Consensus on a decreasing role of the state.

The UNCTAD report further argues that Africa's trade performance reflects its inability to tap into cheaper finance, efficient logistics, capital resources and skills. Africa has also been unable to cope with the new demands linked to production technology and changing consumption habits, while at the same time EU disciplines for food exports as well as WTO requirements are causing additional problems.

The nature of international trade has changed significantly and many African countries have been unable to adapt to these changes. At the distribution and marketing levels, trade is increasingly dominated by supermarkets and there is greater importance attached to quality, packaging and timely delivery. The report points to weak private sectors, unreliable communications and transport links, cumbersome customs formalities and the lack the institutional capacity to provide support services to producers and exporters.

Market Access

The UNCTAD report argues that market access is an important constraint on African development, as most tariff peaks are in agriculture. A further constraining factor is that in the oligopolistic marketing structures primary producers have been accruing smaller shares of the final product prices. Finally, subsidies in the US and EU have also distorted world prices. The 2002 cotton subsidies for US and EU producers caused a loss of revenue to Africa greater than the total debt relief under the HIPC Initiative.

Access to Capital

The nature of capital flows has also affected Africa's ability to insert itself into the global economy. As I mentioned earlier, much of the focus on capital flows is on the problems caused by volatility and reversals. In the case of Africa, the problem is generally one of access. Since the Asian crisis, flows to developing countries in general have declined and there has also been a change in the composition of capital flows with the collapse of net bank lending. This has made aid flows even more important, and these have dropped sharply during the 1990s. By 2000, for example, aid flows were 10 percent lower in real terms than in 1990. Increasing private capital flows to sub-Saharan Africa failed to offset this decline in official flows, and the increase in FDI explains more than 100 percent of the increase in private capital flows. Much of the increase in FDI in turn was focused on a narrow range of countries, mainly oil producers and South Africa. Africa's total share of global FDI nevertheless remains extremely low.

According to the World Bank, the aid flows to sub-Saharan Africa declined due to delays in reform implementation. But there have been numerous criticisms of the nature of ODA flows to Africa. According to Trevor Manuel, "the Washington Consensus implicitly assumed that there was nothing wrong with the development assistance relationship, but certainly, from an African perspective, development assistance has tended to undermine growth prospects, even if it has helped fill the investment-savings gap". He has argued for a move away from the donor-recipient relationship of tied, politically driven and welfare based aid.

The Monterrey Consensus gave some recognition to this, with increased aid being pledged and a recognition of a need for aid through partnerships. (At Monterrey donors underlined the difficulties facing Africa, and at the subsequent G-8 summit it was concluded that up to 50 percent of additional funds announced at Monterrey would be targeted to Africa.) This theme was extended to the Johannesburg World Summit on Sustainable Development and is one of the cornerstones of the NEPAD initiative. However, it is not clear that these aid flows have been forthcoming on the scale envisaged, with Manuel describing it as no more than "a slight reversal of the trend of declining aid levels".

What Can Be Done?

The solutions are not straightforward and it is clear that the reforms proposed by the Washington Consensus in themselves are insufficient to tackle the structural problems faced by African countries. Reliance on a fluctuating single commodity complicates fiscal policies, as there is a reliance on a very narrow tax base, and a reliance on trade taxes as the main source of revenue which explains in part why trade liberalisation is opposed in many cases. The narrow tax base in many countries precludes significant direct government support to farmers while compensatory financing mechanisms are premised on temporary declines rather than on secular declines. Monetary and exchange rate policies are complicated by fluctuating commodity prices which result in real exchange rate instability.

Furthermore, as noted above, access to international capital markets is limited and pro-cyclical, i.e. access is available when commodity prices are high. In addition, there is opposition by developed countries to intervention in international commodity markets, despite significant intervention by these countries in their own domestic agriculture.

Much of the focus on the solution relates to the possible role of the state, not in the old-style protectionist form, but rather as a means of overcoming market failure and filling institutional voids. It is essential not only to adapt macroeconomic policies to deal with structural constraints, but also to build up and reinforce institutional capacities, rather than stick to an excessive focus on reducing the role of the state. Manuel, for example, has argued that most African states need to expand their public sectors and improve their efficiency in delivering quality public services, particularly in the areas of regulation, service delivery and social spending.

Finally, UNCTAD has argued that action is needed at the international level to mitigate adverse effects of market failure. Increased international economic cooperation and integration is seen as essential to stimulating intra-regional trade. The UNCTAD report calls for renewed efforts to deal with subsidies and protection in the agricultural sector, and provide a mechanism to compensate African countries for increased losses from subsidies. In addition, increased ODA, debt relief and a solution to the debt overhang are seen as essential components of the solution. Although an international policy package aimed at the structural transformation of African commodity-dependent economies is seen as essential, it is stressed that better market access and lower subsidies in developed countries are not sufficient, and that there have to be domestic reforms as well. This is a theme taken up strongly in the NEPAD initiative.

NEPAD

NEPAD is to some extent a reaction to the Washington Consensus, taking some of the positive aspects and attempting to promote greater integration of Africa into the international economy from which it has been marginalised. It emphasises the collective responsibility of Africa to meet its developmental challenges and recognises the external constraints discussed above. Although NEPAD is clear about the problems Africa faces, it is less clear about the development path required.

Although NEPAD has been successful in getting Africa back into the international discussion and debate, the tangible results are still to be seen and the initiative is not without its critics within Africa. Some see the main focus being on the African Peer Review Mechanism as a means to show the rest of the world that there is a commitment to democracy and human rights in Africa. If this is the case it suggests a fairly narrow focus for NEPAD as an institution. Others argue that NEPAD is limited to grandiose wish-lists and schemes which have little chance of success. Ravi Kanbur argues that both proponents and opponents are arguing on too grand a scale – proponents are in danger of taking on too much, whereas opponents risk losing an opportunity to do some small things right.

Conclusion

The global economic environment reduces the prospects for internal reforms being undertaken and sustained. Many of the solutions to Africa's problems are contained in the NEPAD initiative. There is a recognition that Africans must be part of the solution, and that there is not one simple development path. Many African countries have improved significantly on the macroeconomic policy front, but this on its own will not guarantee future growth and development. There are numerous external constraints, particularly relating to the trade-related external environment that will continue to make it difficult for Africa to overcome the challenges to meet the Millennium Development Goals, particularly in the light of developments at Doha and Cancún.[5]

[5] See the next chapter in this volume.

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Increased regional integration is part of the solution, but international and multilateral agreements are needed on substantially increasing partnership-based and focused ODA, debt relief and funding mechanisms for dealing with commodity price shocks. Finally, internal public sector institutional reforms and increased efficiency of state structures are also vital.

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