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Africa's Growth Prospects in the Era of Globalisation: The Optimists versus The Pessimists

Karl Wohlmuth

Berichte aus dem Weltwirtschaftlichen Colloquium der Universität Bremen

Nr. 71

Hrsg. von
Andreas Knorr, Alfons Lemper, Axel Sell, Karl Wohlmuth

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Berichte aus dem Weltwirtschaftlichen Colloquium
der Universität Bremen, Nr. 71, März 2001.
ISSN 0948-3829

Bezug: IWIM – Institut für Weltwirtschaft
und Internationales Management
Universität Bremen
Fachbereich Wirtschaftswissenschaft
Postfach 33 04 40
D- 28334 Bremen
Telefon: 04 21 / 2 18 - 34 29
Telefax: 04 21 / 2 18 - 45 50
E-mail: iwim@uni-bremen.de
Homepage: http://www.wiwi.uni-bremen.de/iwim

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Africa's Growth Prospects in the Era of Globalisation: The Optimists versus The Pessimists[1]

Karl Wohlmuth

1 Introduction

We find highly conflicting views on the perspectives of Africa with regard to growth and world market integration. We find optimistic and pessimistic statements and evaluations, and not always the assumptions, the methodologies used in analyses, and the basis for the projections are outlined. So it is high time to make explicit this controversy and to look at this neglected area of development thinking on Africa's chances, prospects and perspectives in the context of globalisation which as a process is affecting this continent more and more. Especially because of the importance of the globalisation trend there is an urgent need to know more about the real situation of Africa in the years to come, and more about the policy actions that are needed to make Africa progress towards higher growth and a more effective world market integration.

In the following sections we will discuss major issues in this context of growth in Africa in an era of globalisation. In Section 2 we will present alternative views on the "growth turnaround" that has taken place in the year 1996 in Africa, and that is considered with extremely great interest and with very high hopes. In Section 3 we will highlight the foundations of the "new growth optimism" that has emerged in the recent years with regard to Africa. In Section 4 the determinants of Africa's unsatisfactory growth performance are analysed, by distinguishing between long-term, medium-term and short-term growth-determining factors and

1 This contribution is an extended, completely revised and updated version of Wohlmuth 1999a.

trends. In Section 5 the most relevant growth theories are related to the observable growth trends in Africa, and the implications of these theories for national, regional and international policy action will be considered in order to see how the gap between potential and actual growth rates in Africa, and also between the target growth rates set for Africa and the effective growth rates achieved can be closed. In this Section 5 we will also discuss the importance of the new growth trend in Africa for benefiting from globalisation, and we will consider the implications of the globalisation process for the growth performance and the growth perspectives in Africa. In the concluding Section 6 some perspectives, options and projections will be presented in order to highlight again crucial factors for growth and a successful world market integration, and to summarise the policy implications of this research on the longer-term patterns of growth in Africa and the chances for world market integration of Africa. This Section will then also allow us to conclude on the validity and the relevance of the optimistic versus the pessimistic views and projections in the ongoing discussion.

2 Alternative Views on Africa's Trends in Growth and World Market Integration

Many reports of international organisations presented since the years 1996 and 1997 give a rather positive view of the growth trends of African countries, some sub-regions, and of the African continent as a whole.

As an example, the *Bank for International Settlements* argued in its 68th Annual Report from June 1998 that the economic situation of many African economies has improved, mainly because of the impact of macroeconomic discipline and of the decisive structural reforms undertaken (BIZ 1998, p. 57). In a recent Report (BIZ 2000, pp. 64-67) the Bank for International Settlements argues that despite favourable world market conditions the growth rate in Africa has declined to around 2.5 percent in 1999, compared to over 3 per cent in 1998.

The *United Nations* argued in their World Economic And Social Survey 1997 that the recovery in Africa has gained momentum. Especially important is – according to this report – the fact that the year 1996 has brought the return to an again increasing per capita income in Africa, and

that the recovery is rather broadly based in Africa, and not limited to a few countries. Remarkable according to this source is obviously the fact that 1996 and 1997 were since the years 1979 and 1980 the first years where we can observe over two consecutive years an increase of the average per capita income in Africa. However, we find also warnings that only a sustained growth performance as in these two years may help in the task of eradicating an increasing unemployment and poverty in Africa, and that even in such a positive growth context of an optimistic scenario will it last more than 10 years to reach just the per capita income level of the year 1980 (see United Nations, 1997, pp. 29-30). In its World Economic And Social Survey 1998 the United Nations find that the picture of new hope for Africa as presented in the report for 1997 is already darkening a bit. We find the statement that the growth rate in the year 1997 was only by a small margin beyond the population growth rate, although still a quarter of the African countries have achieved a growth rate of at least 6 percent (United Nations 1998, pp. 35-40). And for the year 1998 we find a growth rate projected of below 4 percent. However, the hope is expressed that numerous African countries will reach a trend growth rate which is higher than in former years, and that these countries will reach in the future a rate of growth of between 5 and 6 per cent (United Nations 1998, p. 36). On the other hand, even in this optimistic scenario as presented by the United Nations, the growth process in Africa remains strongly influenced by external shocks, mainly by weather and climatic changes as well as by raw material price and demand changes on the respective world market. In the World Economic And Social Survey 1999 the United Nations then admit that real GDP growth in Africa has decelerated from 2.7 per cent in 1997 to 2.5 per cent in 1998 so that per capita GDP growth became again negative. It is vaguely stated that Africa has to grow faster so as to prevent further declines in GDP per capita (United Nations 1999, pp. 66-73).

The *International Monetary Fund (IMF)* in its World Economic Outlook of October 1997 states that countries with strong macroeconomic programmes and with decisive structural programmes have a greater growth potential than other countries because of a better investment climate in this group of countries (IMF 1997). The vulnerability of recovery in Africa is emphasised, but also the hope is expressed that some countries can succeed in reaching a sustainable recovery. In the IMF's World Economic Outlook of May 1998 unfavourable weather conditions and

raw materials prices as well as the numerous civil wars in Africa are made responsible for a rather disappointing growth performance of only 3.25 per cent in 1997. However, the hope is expressed that the year 1998 will show for many countries in Africa a growth rate of around 5 percent, especially if these countries are ready for important reforms also in the area of governance (IMF 1998, p. 16). In the World Economic Outlook of May 2000 the IMF is projecting a recovery of growth in Africa to over 4 per cent in the year 2000 after a slowing of growth to under 2.5 per cent in 1999. Assumed is that the recovery in three of the largest economies of Africa (Algeria, Nigeria, and South Africa) as well as in some smaller African countries will lead to this result (IMF 2000, pp. 35-36).

In the Annual Report of the IMF for 1997 we find that the Executive Directors of the Fund show a rather optimistic attitude as regards the growth perspectives for Africa (see IWF 1997, p. 26). In the Annual Report for 1999 it is stated that the growth in Africa in 1998 remained with around 3.5 per cent quite below expectations what is considered to be the result of unfavourable raw materials prices and – in the case of Southern Africa – the result of Asian Crisis contagion (IWF 1999, p. 21).

In various other statements of leading IMF executives optimistic views had been expressed from time to time (see for example the entries in the IMF Survey, Volume 27, 1998, Number 12, pp. 194-195). In his statement the Managing Director of the IMF at that time, Mister Camdessus, argued that Africa is now a continent "on the move". Also it was stated that Africa can shoulder the problems of globalisation only if a "new world partnership" supports this recovery process. Camdessus himself formulated at that time an agenda of seven points for priority action in this regard, an agenda which follows neatly the economic policy principles of the IMF. In a report about a seminar on Africa in the globalisation process, in which the IMF was a leading partner (see IMF Survey, May 25, 1998, pp. 164-165), Africa's recovery is associated with a comprehensive reform policy, although doubts are expressed with regard to the sustainability of growth processes in Africa. Sustainability in this context requires according to the IMF also that a new form and depth of world market integration is realised for Africa. In a contribution to the Second Tokyo International Conference on African Development, October 1998, the Deputy Managing Director of the IMF at that time, A. D. Ouattara, stated that a sustainable growth rate of 6 to 7 percent is required for Africa, contrary to the growth rate of only 4 percent as realised on

average in the recent years. In addition, complementary measures towards the eradication of poverty are also necessary to make this growth rate sustainable. Key requirement for such a sustained growth process at such a high level of growth is a "new form" of world market integration (see A. D. Ouattara 1998).

The *World Bank* in its Annual Report for 1997 envisages an acceleration of the reform process in Africa and more firmness of donor countries to support this process. All this is positive for sustaining the acceleration of growth in Africa. Hope in this respect gives also the obvious transition the Bank sees from economic recovery in Africa to a process of economic development (Weltbank 1997, p. 41). The World Bank also warns that the improvements in the framework conditions and in the policy foundations are not that solidly backed in Africa so that setbacks can occur in the years to come. In its Annual Report for 1998 the World Bank is cautiously optimistic and states that the macroeconomic reforms have still to be intensified so as to accelerate further the growth process in Africa, what requires first of all a new role of the state in its functions then leading to more efficiency in African economies (see Weltbank 1998, pp. 15-24). Also the high degree of aid dependency of Africa is considered as a risk factor (Weltbank 1998, p. 15). In the Annual Report for 1999 it is stated that in several countries of Africa in the year 1998 growth has continued and in some countries even with more than 5 per cent, but nonetheless growth on average could not keep pace with population growth (Weltbank 1999, pp. 34-46). The overall growth rate of only 2 per cent for Africa is caused according to the Bank by slow progress in the large African countries (Weltbank 1999, p. 34).

Remarks on the necessity of deepening the reforms in Africa can be found in the World Bank reports again and again. In its report "Global Economic Prospects And The Developing Countries" for 1997 the World Bank questions if the turnaround towards sustainable growth in Africa south of the Sahara has already been achieved. As success factors of crucial importance are mentioned the changes in South Africa and a stronger commitment towards reform in African countries (World Bank, 1997a, p. 20). Dangerous for the growth processes may be in this context however "policy slippages" which could result from a terms-of-trade deterioration and from unfavourable government revenue trends. The report of the World Bank "Global Economic Prospects and the Developing Countries" for 1998/99 discusses also the consequences of the Asian Crisis for Af-

rica' s growth and comes to the conclusion that there is an unfavourable trend for Africa south of the Sahara (SSA), with the projection presented for 1998 of a sharp decline of the growth rate to 2.4 percent, a rate that is again below the rate of population growth (World Bank, 1999a, p. 37). Emphasised is again the fact that the investment climate has improved in Africa in those countries only where serious and committed reforms have taken place. However, the unfavourable economic growth performance in Nigeria and in South Africa, external factors as the weather conditions, unfavourable terms of trade, and the repercussions of the civil war in the People's Republic of Congo have resulted in the disappointing overall growth trend. In the World Bank's report "Global Economic Prospects and the Developing Countries" for 2000 it is stated that for SSA despite of continued improvements in political and economic fundamentals the GDP growth for 1999 has been revised downward to 2.3 per cent (World Bank 2000b, p. 21). Per capita incomes are now again declining in 1999 for a second successive year, and the oil price increase is affecting negatively the terms of trade of most countries in Africa (World Bank 2000b, p. 21). An acceleration of growth to 3.1 percent for the year 2000 is however anticipated, assumed to be based on higher exports.

The *UNCTAD* in its Trade And Development Report for 1997 finds that the growth of the agricultural sector in the year 1996 of 5.2 percent has played a leading role in the overall positive growth performance of the African continent. On the other hand, the high foreign trade dependence coupled with low export diversification and the high foreign indebtedness of African countries affect negatively the sustainability of the recovery process so that the growth potential can not be fully exploited and the recovery is remaining endangered (UNCTAD 1997b, pp. 15-18). The Trade And Development Report for 1998 of UNCTAD finds that there are considerable negative repercussions from the Asian Crisis on growth in Africa, as the African current account situation is serious enough and the foreign aid dependency of African countries leads to more and more pressing problems (UNCTAD 1998a, pp. 19-21). So according to this source the direct and the indirect consequences of the Asian Crisis affect negatively all steps of stabilising growth in Africa. The Trade And Development Report for 1999 mentions that Africa succeeded in 1998 to surpass with a growth rate of 2.9 percent the growth rate of other developing countries. However, this was not enough to keep pace with population growth, nor was it caused by a superior perform-

ance, but rather by the sharp slowdown of growth in other developing areas (UNCTAD 1999, p. 13). According to UNCTAD Africa became more and more affected from the impacts of the Asian Crisis. A most important constraining factor on African growth is – beside the dependence on the behaviour of the commodity prices – the unsolved debt problem with a heavy debt burden and largely unsustainable debt-service obligations (UNCTAD 1999, p. 14). Nothing really has changed to the better with regard to the African economic performance in the years 1997-1999 after the single year 1996 with strong growth (see UNCTAD 2000, pp. 18-20). It is also remarked pessimistically that nowhere is Africa "close to what is needed to produce the much hoped-for take-off into rapid and sustained growth,..." (UNCTAD 2000, p. 19).

These opinions from international organisations show that the growth prospects and the perspectives of Africa are now widely registered, and it is argued that these trends should be analysed carefully. These growth trends are considered now with great interest because the African continent showed a weak growth performance for decades, with the consequence that Africa became dissociated from the other economic regions in the world more and more, a process that is referred to as a "marginalisation process". This brought about economic opportunity losses not only to Africa but also to the other economic regions in the world economy. Any tendency towards sustained growth in Africa may not only lead to a new association of Africa to other economic regions with positive effects on the trade and growth of these regions, but will also stimulate the expansion of trade and production linkages within Africa.

These statements and analyses can not only be found in the publications and newsletters of the *international organisations* and of the development organisations of the United Nations system, but also the African *regional organisations* have observed and commented on the – obviously short-lived – turnaround in African growth; mainly the United Nations Commission for Africa (UNECA), the African Development Bank (AfDB), and the Organisation for African Unity (OAU) give evidence and first analyses of this new trend in the discussion on Africa. There can be found quite optimistic arguments that express the hope for sustained growth in Africa: "The recovery is broadening"; "Africa is on the way towards sustained growth"; and "Africa can improve its growth performance, if only the reform policies can be sustained".

These and other expressions and judgements can be found with regard to the growth prospects of Africa in most of the published reports. Often, too often, however, the reports and statements are not detailed enough, not critically researched enough, not analytically based enough, and so we find positive judgements and references to growth figures and trends without showing the context, the validity, and the sustainability of the figures in more detail. This is dangerous enough as it leads to unfounded optimism which does not help the various actors in their developmental work – neither the countries in their internal effort to restructure their economies, nor the donor countries in their aid and relief programmes, or the partners in the world economy that think about investment and trade opportunities to be taken up in Africa.

Especially great interest in this discussion is related to the fact that in the year 1996 the 'magical' figure of a 6 percent growth rate of the Gross Domestic Product (GDP) could be reached widely in regions of Africa (and around 5 percent or less as calculated for the whole continent by various international organisations). This is a magical figure as just these 6 percent allow a development of per capita incomes to an extent that is significantly beyond the growth rate of the population in Africa, and would also allow a sustained pattern of income growth and of structural change if the rate could be continued. Only a rate of growth of 6 percent on a sustainable basis for many years may lead to positive structural effects and to sectoral changes that are commonly associated with "development", to considerable positive social effects of growth, and to significant and broad enough "trickle down" effects of growth to poor households and to poorer regions in the countries (to those households that are suffering most and to those regions that are not so well endowed with resources and other factors of growth so as to ensure the survival of its inhabitants). Just these 6 percent are a guarantee that sectoral changes, distribution and poverty alleviation effects, and the political sustainability of reforms are moving in the right direction. These 6 percent of GDP growth are therefore not only a magical figure but also a "benchmark" rate for economic, social and political stability, and also a rate that would allow a gradual re-association of Africa with the world market and also a gradual and highly necessary dissociation from overwhelming foreign aid dependency.

What can we learn from the growth history of Africa, with regard to countries, regions, and the continent as a whole? What we can observe in

this context is that this "magical" figure of 6 per cent could only be approached in a very short period of growth history (1975-1979) for the African continent as a whole (see AfDB 1996, p. 43). In the 1960s a growth rate of 4 per cent was reached what was in effect just beyond the population growth rate. Then in the long period between 1970 and 1995 only an average growth rate of 2 per cent was achieved on the African continent, but to be fair, it has to be mentioned that in a sub-period (1975-1979) in the second half of the 1970s a much higher growth rate near the "target rate" was achieved. The more disappointing was therefore the growth performance of Africa in the other sub-periods .

It follows for the further analysis that the 5-6 percent growth rate could be achieved again in the one year of 1996 and that the then following decline of the growth rate show again that sustainable growth in Africa is not easy to achieve, and that only in a few years and in short sub-periods of Africa's post-independence growth history the target rate of 6 percent annually could be reached. The 6 per cent is also a "target rate" for African planners since independence, as it has played a role in all plans, programmes and projections of African regional organisations (see AfDB 1996, pp. 43-53). For decades however Africa had to live with an actual growth rate of just a third of the target rate, and so far below the rate of population growth. The target growth rate of 6 per cent can not only be found in all old documents and declarations on African development perspectives and development options as in the Lagos Plan of Action, but also in the new documents and papers as in the proposed "contract between Africa and the world community" in the frame of the United Nations programmes for Africa (such as the "New Agenda for Africa", the UN-NADAF).

These 6 per cent have also a highly symbolic value because achieving this rate in one or in some more years means for many observers that this is a clear tendency towards realising African development objectives and perspectives, and also shows that the growth projections of the UN-ECA, the AfDB and the OAU are not unrealistic and over-ambitious, but indicate that Africa can take steps in the right direction towards reform and re-integration into the world economy. On the basis of sustained growth at this level it can also be demonstrated to international investors and to international organisations that the context and the objectives of reform and development in Africa are on the right track.

However, no observer inside and outside of Africa will held the view that growth can be seen independent from living standards, from the distribution of income and property, from the level of poverty, and from the ability to achieve basic needs for the local population. Nonetheless, any sustained period of growth in Africa is to be taken as a chance to use the new potentials for redistribution and poverty eradication, for diversification of production and exports, for the consolidation of the political and the social system, and for avoiding any further destruction of the functions of the state in development. Without sustained growth the capacity of the state to deliver developmental services will diminish further what only will lead to new internal, to cross-border, and to regional conflicts as well as to more international economic and political marginalisation of African countries. The internal political, economic, social and ethnic fabric in Africa as well as the regional and international position of Africa can therefore be strengthened by sustained growth. More than this, such a growth process will increase Africa' s chances to benefit from the globalisation process.

The African Development Report 1997 records the great number of countries that benefited in 1996 from growth – 41 countries (AfDB 1997, pp. 1-4). Also recorded is the regional unevenness of the African growth process in 1996 – being highest in Northern and Eastern Africa, less in Western, Central and Southern Africa (AfDB 1997, pp. 14-17). The recovery is generally considered as "fragile". A rate of growth of 7 per cent on a sustained basis is considered as necessary to impact positively on the poverty situation (AfDB 1997, p. 35). Although the private sector accounts for about two-thirds of the African GDP, and about 50 per cent of gross investment, especially also in this area much needs to be done in Africa to support growth. Obviously four pillars of private sector development are undeveloped in Africa – there is an unstable macroeconomic framework, an insufficient legal framework, a low level of quality of infrastructure, and there are weak financial systems (AfDB 1997, Part Two: Theme of the Report: Fostering Private Sector Development In Africa).

In the African Development Report 1998 we find interesting figures and assessments for Africa in 1997 (AfDB 1998, pp. 1-4). It is argued that the growth rate estimated at 3.7 per cent gives ground for optimism as there is a deepening of reforms in Africa and progress in stabilising the socio-political framework. However, averages are misleading as several

larger countries in Africa had low or negative growth rates, and so these few countries have depressed the average growth rates of 34 countries with growth above 4 per cent.

In the African Development Report 1999 we find figures and assessments for the year 1998 (AfDB 1999, pp. 1-6). It is now acknowledged tat the Asian Crisis had larger impacts on African growth than anticipated so that a growth rate of only 3.2 per cent was estimated for the year 1998. The encouraging export situation of the year 1997 was affected negatively in 1998 as negative price and volume effects occurred. The coincidence of the Asian Crisis with "signs of recovery in Africa" (AfDB 1999, p. 1) is put as a major issue for Africa. This coincidence occurred just at a point of time when Africa began to recover some of the income losses that accumulated over the preceding two decades. The unsatisfactory investment performance of most of Africa has not changed in this year.

In the African Development Report 2000 a figure of 3.5 per cent for growth in 1999 is presented (AfDB 2000, p. 1). Investment remained "hesitant" with investment rates being on average lower than those in 1990 and especially those in 1980 (AfDB 2000, p. 2). As a minimum for Africa to "break out of the current low-level income trap" (AfDB 2000, p. 2) is considered an investment rate at a level of 25 per cent of GDP. However, a further loss of Africa' s share in world trade occurred in 1999 because of low export prices and sluggish growth of volumes, reversing not only the positive trend of the current account that began in 1995 but also having negative impact on the debt service ratios (AfDB 2000, pp. 4-5). It is also emphasised that although in the mid-1990s a transition to a new era of African growth has started Africa obviously could not bring to a halt its further marginalisation on a global scale (AfDB 2000, p. 5).

3 The Foundations of the Old and of the New Growth Optimism

When looking back to the situation of Africa in the 1960s then we see that the development plans and the development processes in those yeas were supported by a considerable growth optimism, which we can call here the *Old Growth Optimism*. The foundations of the old growth optimism were:

first, the view that governments can achieve at the same time the build-up of a mighty state economic sector and the realisation of the first steps towards import substitution industrialisation in Africa; the aim was to complement as quickly as possible the raw materials production and marketing by other market-oriented activities so as to diversify the economy, especially the production base and the export activity. The creation of a state economic sector as a leading sector in the African economy and the establishment of an industry which is in the first phase near to the consumption needs of the local people so as to start a comprehensive industrialisation process on this basis both these objectives should change fundamentally the structures of the economy and of the society quite soon.

Beside of the hope that such a dominating state sector could work to the benefit of the country and its economy and the hope that industrialisation could be started quickly, there was a *second* factor giving weight to the old growth optimism, the hope that a Pan African identity could be enhanced in Africa with the result of speeding up regional integration on the continent as a political and economic process. It was also assumed in this context that the political independence of the African countries could be complemented as well by a political co-operation of these countries and by a growing economic interdependence of the African countries, of the sub-regions and of the continent as a whole.

Third, the educational expansion in Africa after independence was expected to lead to a huge human capital build-up considered as a further factor that gave new hope for quick changes in this time. Human capital accumulation in these countries and also an increasing capacity for importing, absorbing and adapting new technologies in Africa should then support the other growth factors that were seen in the African countries at that time. The rather disappointing growth performance of not more than 4 per cent in this period is however evidence that the objectives and the expectations linked to these three elements of the old growth optimism could not be met by reality.

An increasing tendency toward a growth pessimism set in during the 1970s. The reasons were not so much the world market changes which added to the problems of Africa at that time, as a) the oil price rises and the associated crises affecting especially the net oil-importing countries, b) the end of the Brettonwoods System with effects of a transition to more flexible exchange rates and demands for adjustment of African

currency arrangements and regulations that were impacting not only on the FCFA countries, and c) inflationary tendencies in the world economy that were followed by recessionary consequences. More important were three groups of internal factors.

First, there was a proliferation in these years of a highly sceptical evaluation of state-led development and industrialisation models, after recognising low efficiency, insufficient linkages and trickle-down effects, and after observing an overall lack of the state-dominated part of the economy to guide the other sectors and the private economy. The awareness that the state-led sector in Africa was not a motor for the private economy but rather a hindrance of further development gained ground. It was also quite clear from now on that the state-led sector was absorbing scarce foreign exchange and savings at the expense of the private sector. It was increasingly becoming obvious that there was a deficit in competition policy and in creating a frame for private and public economic sectors, so that the lack of a functioning market economy in Africa was also seen as a result of the dominance of the state sector and as a factor that eroded the growth potential of the economies in Africa. Already in this period it became quite clear to all observers of African development that growth depends on the prior establishment of the foundations of a market economy, and that a market economy needs adequate institutions, regulations, policies and rules. A state-led sector of the economy however became in Africa increasingly a factor of implementing costly ad hoc decisions and non-neutral economic actions instead of supportive rule-based decisions and neutral actions in the sense of efficient resource allocation and mobilisation.

Second, the marginalisation of Africa with regard to the world market became more and more evident and was now recognised especially as a problem of inappropriate and inconsistent economic policy, and as a problem of failed adjustment to the structures and the functioning principles of the world economy. The extent of marginalisation of Africa could be observed already at this time with regard to all relevant economic indicators – declining trade and direct investment shares, brain drain from Africa to Western countries, and an increasingly insufficient transfer of technologies and knowledge in the direction of Africa. Regional economic activity however could not compensate for this lack of ability in exploiting world market opportunities.

In this whole period between 1970 and 1995 there was only one quite effective but highly problematic offset to this tendency of marginalisation that was manifested in all relevant areas of productive involvement of Africa in the world economy – the tremendous increase of official development aid towards Africa, making this continent the area where donors were most active and also most influential, and leading Africa to an unprecedented level of foreign aid dependency. Only in this regard there was no observable marginalisation tendency for Africa, but the drastic increase of foreign aid dependency of most of the African countries had severe economic and political consequences, especially there were negative impacts on the efficiency of investment and the use of public and foreign funds, on the resource mobilisation and the use of savings, and on export development and diversification of the African economies. Most important, this tendency led to an increasing foreign dominance of development planning and development policy in Africa. There was a disastrous combination of forces at work of a marginalisation in all productive international economic relations and an increasing domination of African development plans, programmes and policies by the way of foreign aid and related conditionality.

Today there is an increasing awareness that Africa needs "own" plans, programmes and policies, "owned" by their institutions and bureaucracies as well as by the local entrepreneurs, and that "own" programmes with regard to development policy and structural adjustment are a requirement for growth and therefore indispensable. This emphasis on "own" programmes is now theme at all conferences and meetings where the future of Africa is discussed, and this contrasts sharply with the omnipotence of foreign-dominated programmes. The economic losses related to the foreign-dominated development programmes are well known – inappropriate resource allocation, technological dependency, inappropriate education and training curricula and programmes, irrelevant and inadequately adapted institutional and organisational development, just to mention some of the most severe consequences of this dangerous trend of aid dependency since the 1970s.

Third, there emerged an increasingly sceptical assessment of the structural adjustment programmes (SAPs) for Africa that were used since the end of the 1970s in order to find new ways for Africa to move out of the trend of growth deceleration and crisis. By adjusting to the world economy and by speeding up the structural change in the country, but

also by stabilising the macro-economy and by restructuring the budget new foundations for growth should be implemented. In the meantime new generations of structural adjustment programmes were proposed, especially for Africa, and some elements were implemented to some extent: e.g. more long-term orientation, consideration of social aspects and consequences of the SAPs, and inclusion of more institutional development. All this was done so as to compensate for the fundamental dilemma with these programmes that any country looks not only towards the chances for reform and change, but often more to the financial support associated with these programmes. The severe consequence is it then that the structural adjustment programmes are rather seen as an instrument to capture international financial rents from donors and international organisations, thereby dissociating finance from reform.

The weak growth performance in this period of only 2 per cent has however also to do with the insufficient agricultural production in Africa (far below the minimum of 3 to 3.5 percent projected by African organisations for this sector) and with the very low investment rate (of far below the projected 25 per cent of GDP). In this period neither a dynamic transformation of the agricultural sector in African countries was achieved nor the realisation of investment rates comparable to those in the dynamic regions of Asia and in Latin America. Africa lost in terms of investment dynamics and speed of agricultural sector transformation compared to the dynamic development regions in the world economy more and more. The reasons for all these failures have been studied widely, and internal and external, political, geographic, social, ethnic and economic factors were mentioned as causes (see the recent analyses by Collier/Gunning 1999a, 1999b).

When comparing Africa with other dynamic development regions the data for the economies and the sectors give not much hope to substantiate the new growth optimism, but nonetheless we find often very optimistic assessments of the growth factors in Africa, and especially we find very optimistic judgements on the growth forces of the market economy in Africa, if the markets are freed from over-regulation (see the evaluation of the UNCTAD on the experiences with regard to Africa's growth and market development in detail; UNCTAD 1998a, Part 2). When looking at the great number of factors that are decisive for growth in Africa (see Kappel 1999; he distinguished three groups of factors; first, environmental factors that cannot be easily changed; second, factors that can be

influenced in the long-term by politics, and third, factors that can be changed by appropriate policies), we can see that with regard to Africa's growth a great number of factors is ignored in the discussion. This leads to unfounded expressions of hope that a change towards market reforms, towards economic and policy reform, and towards opening Africa for transactions with the world market and for regional integration will be sufficient to strengthen the growth forces in the African countries. We can then quickly observe that all this has not too much correspondence with African reality, as too often such a package of changes and reforms is not in conformity with the historical experiences of development in Africa. Historical reality in Africa has a lot to do with complex processes of decolonisation, the build-up of dominant and rent-seeking state classes, and with quite uneven experiences of development in countries and in growth periods.

Most important are however the trends that the investment activity in Africa has lost its importance as a motor of growth gradually since independence what is the case for public, private and foreign investment, and that the context between diversification of production and exports on the one side and growth stimulation by investment activity on the other side was disconnected more and more in these decades. Declining investment rates have resulted in a stop of the necessary structural changes in most of Africa – between and within economic sectors and especially so at the enterprise-level, so that the capital stock with regard to physical and human capital has eroded rapidly. Lack of structural change and erosion of the capital stock have brought about a stagnation of growth conditions and of growth prospects. The ideological fight between the "market failure school" and the "state failure school" has obviously blocked for a long time in Africa the work on designs for realistic strategies of economic transformation and then also a targeted redirection of economic policies (see UNCTAD 1998a, esp. pp. 115-124). The economic policy changes that have taken place in the 1980s in most of Africa had been overshadowed for a long time by this ideological confrontation with the consequence that "stop and go policies" in reform were used, and that it was often necessary in programmes of reform to hide some intentions of the policy reform.

It was not earlier than in the 1990s that a *new consensus* was found with regard to overall development options, with regard to the role of the state and the market, and with regard to the role of private, public and

foreign investments in economic sectors, a consensus showing that markets and governments, as well as public and private sector activities and investments have a complementary role to play. However, this new consensus is not shared all over Africa and not in all circles of donor organisations, but the view is spreading that such a consensus is a basic factor for the consolidation of growth policies, and for all attempts in Africa to increase the net benefits from globalisation.

The *new growth optimism* since the years of 1995/1996 is founded on various factors which have to be considered in more detail, especially by regarding the background of observable medium- and long-term growth trends in Africa. The new growth optimism basically rests on three assumptions. *Firstly*, in Africa there has set in a deepened and broadened process of reforming the economic and social systems – and views are held that no country in Africa can really withheld from reform pressure, and that no government can stop the reforms because of being under continuous pressure of global competition. *Secondly*, the new growth optimism is supported from the expectation that the further opening of the Republic of South Africa to the world market will create pull- and push-effects and will lead to an economic pole for a wider region in South Africa and beyond, and that a comprehensive economic reform programme for South Africa that is effectively implemented will produce distinctive economic effects on the neighbouring regions and for whole of Africa. A great chance for regional South African economic restructuring is seen thereby, and especially also the possibility is anticipated that the neighbouring countries of South Africa can generate export surpluses on the basis of new export products for South Africa, creating thereby positive income and employment effects that may stimulate the whole region. *Thirdly*, the new growth optimism is supported also by new attitudes and expectations with regard to Africa' s reintegration into the multilateral trade and investment framework, and especially into the WTO system. Most important in this context is the new policy of the WTO and of associated organisations towards the poorest countries, concentrating less on trade preferences and more on export facilitation and on supporting action so as to open effectively the overseas markets to the benefit of these poorest countries. The spread of knowledge in Africa about the quick erosion of trade advantages for the poorer countries by the way of trade preferences and other advantageous trade clauses has – since the trade discussions and developments after the Uruguay Round of the GATT

System – also in Africa changed the attitudes towards the multilateral trade system, and has led to the acceptance of new forms of world market integration – by facilitating a more competitive and private sector-led intra-regional trade in Africa, and by promoting more undistorted, market-led and competitive trade of Africa with overseas markets. This new attitude has also influenced the recent negotiations of Africa (and of other ACP countries) with the European Union because of the need to change from the former great importance of trade preferences in all contracts to other instruments, while the USA by tradition focussed more on a mutual market opening, the support of direct investments, and a dynamic development of export markets and opportunities. As a complementary sphere in new policies towards world market integration, the further opening for direct investments is now seen in Africa as a motor of growth as well as of further world market integration, and direct investments are viewed also as an effective aid to private sector development.

These *three* foundations of the new growth optimism have however to be considered with caution and have to be studied now more carefully, as we can see that the perspectives of reform politics in Africa, the role of South Africa as a motor for Africa's growth, development and world market integration, and the future of Africa's role in the multilateral trade and investment systems are highly controversial issues with regard to the validity and the state of implementation and lead to many questions that are not clearly enough stated so far.

It is not so that we can assume without further proof that there exists such a tendency as an irreversibility of reform politics in Africa. There is evidence enough that the "successes" of African countries with a so-called "strong adjustment performance" can be explained by other factors than by a "strong" and "sustained" structural adjustment policy (see UNCTAD 1998a, p. 125). There is no evidence so far of strong and quantitatively measurable push-, pull- and pole effects of the transformation of South Africa on neighbouring regions in Africa. And it is not so that the multilateral trade and investment systems and the attitudes in Africa towards them allow now a speeding up of the integration of the poorest countries of Africa into the world economy on a broad scale.

Reference is made very often – when analysing the characteristics of growth in Africa – to the "discontinuity problem", the fact that since Independence African countries and sub-regions have experienced from time to time phases of accelerated growth, but that this growth could not

be sustained over the years for quite different reasons (UNCTAD 1998a, p. 125). There is also some suspicion that the growth optimism since 1996 has to do with the utilisation of unused capacities in African countries – unused capital stock, labour and other resources – that are mobilised for growth in a unique period, in a situation where the current account positions are more favourable so as to allow this utilisation of capacity reserves, having as a consequence that growth will not necessarily lead to much-needed new investment. Rather there may be a continuation of the "investment pause" in Africa, and when looking at the actual investment rate of 17 per cent of the gross domestic product for sub-Saharan Africa which is not higher than in former years and is not improving relative to other developing regions, a sceptical evaluation of the new growth optimism in terms of investment activity seems to be well founded (UNCTAD 1998a, p. 125). Not only the low rate of investment is a problem, but also the unfavourable distribution of investments by sectors has to be mentioned, as the private investments are low and the public investments are not adequate for maintaining and modernising infrastructure. The share of public investments in overall investments and the role of the volume of investments for the development and transformation of the state economic sector are not adequate, and these investments are not efficient enough although these investments have an overwhelming importance for accelerating economic development (UNCTAD 1998a, p. 125). Only 5 per cent of the gross domestic product is devoted to public investments in Africa. Investment figures are too low even to allow a maintenance of the capital stock in Africa. A further erosion of the capital stock and an unbalanced development of investment activity by sectors may follow.

It is also obvious that growth rates and investments can not be accelerated and sustained if not innovative modalities for solving the foreign debt problem in Africa are found quickly, modalities that go far beyond what is discussed now at international levels. New initiatives require that the levels of export revenues and government revenues are considered more directly when discussing the extent of necessary reduction of debt service and of debt stock, as the levels of available export revenues and government revenues impact on the ability and the willingness of investors to undertake private and public investments, and also the foreign direct investment activity is affected thereby. The overall foreign exchange and fiscal situation of a country is of great importance when dis-

cussing new initiatives for a debt reduction policy so as to allow an increase of the public and private investments parallel with the debt service/debt stock reduction (see UNCTAD 1998a, pp. 124-130).

It is interesting to see that the debate on the new growth optimism seems to ignore all these issues of the danger of a prolonged "investment pause" and also the danger of a severe "debt overhang", so emphasising more the potential developments in the region rather than the ways to use the available options for growth accordingly.

It is therefore necessary to analyse the short-term, the medium-term and the long-term growth trends in Africa, so as to understand in more detail what can be achieved by appropriate growth interventions, by policies to stimulate growth factors and forces, and by knowledge about the determinants of growth which can be influenced by policy to some extent. This may then also allow us to decide on the plausibility of projections with regard to growth which are often not commented further after their presentation. On the other hand, it is necessary to ask how the new growth optimism can best be stabilised in Africa by politics, as we know that all investments have to do with positive expectations, and in Africa there is – after so many years of growth stagnation – an observable turnaround in growth that can only be supported by sustained policy and structural changes with timely impacts on the investment climate and on the political foundations for growth.

4 The Determinants of Growth in Africa and the Role of Policies

In order to answer the question whether Africa can achieve a sustainable growth rate of 5 to 6 per cent annually it is necessary to analyse the short-term, the medium-term and the long-term determinants of growth in Africa. It is necessary to distinguish quite clearly between these *three* groups of determinants of growth as there are quite different factors and causes at work when regarding different time horizons. Regrettably, such a necessary differentiation in analyses cannot be found in most of the regional and international reports that focus on the situation of growth and development in Africa.

When looking at the *long-term* trend of growth in Africa first, we see that there are some quite interesting studies available that highlight the growth trend over a longer time horizon (see for example Barro/Lee 1994; Easterly/Levine 1997; Sen 1994; AfDB 1996; and Savvides 1995). These analyses are undertaken in an African and international comparative framework (considered is in these studies the growth trend for the periods 1965-1985, 1960-1990, 1960-1985, 1970-1992, and 1960-1987). Another study refers to the shorter period of growth between 1970-1985 (see Otani/Villanueva 1990). The study by Langhammer (1996) looks at the "African Malaise" for a long period by referring to the distorting impacts of rent-seeking activity, looking at national and international rents at the same time. He compares the growth performance of African countries prior to the implementation of structural adjustment programmes with the growth performance in the period after their implementation. However, this is only a selection of studies that deal with longer-run trends in Africa . These studies differ considerably in methodology, and with regard to periods of observation and African countries included in observations – therefore these studies give some broad picture of developments and trends, but not more. These various analyses are very complex and differ in many details of statistics and methodology.

The study by Easterly/Levine (1997) looks at an observation period of 30 years (1960-1990) and asks how growth differences between countries can be explained by different conditions, factors and polices, and also asks why policies differ between countries. Comparisons of Africa with other developing regions in this study show that ethnicity is of major importance in Africa, and that the impact of ethnicity variables on the formation of interest groups matters in these countries, determining the selection, the frame and the quality of governmental policies. This is a most important result of this study. Growth differences between countries are determined by factors that impact basically on the formation of interest groups and so on the policy formation, and the degree of ethnic fragmentation in a country is the most decisive factor in this context.

Barro/Lee (1994) look in their study at 116 countries for the period of 1965-1985 so as to identify for this quite long period "winners" and "losers" in terms of growth of GDP. The results show that *five* factors condition the "dividing line" between winners and losers: these are first, the "initial conditions" of a country as they determine the potential convergence of incomes towards the level of more developed countries; second,

the investment rate; third, the government share in GDP; fourth, the extent of market distortions; and fifth, the degree of political instability. We see that these five factors are not independent, that there is a considerable overlap between them, and that the quality of the framework for a functioning market economy in these countries is the focus of all these factors that are measured by certain proxies. These analyses show for Africa that there is only a small – but in the composition stable – group of countries that have managed in a longer-run perspective to maintain high growth rates so that we can speak of conditions of sustainable growth. This also means that for Africa only few "winners" in this sense can be identified. Considering short-term and medium-term periods we then see that the variability of countries that can be considered as winners or losers in terms of growth rates is increasing. These advantages that some more countries may have in terms of high growth over shorter periods are eroded quickly by various factors that account for the small number of long-term winners in Africa. It is therefore of great interest why for so many countries in Africa high growth is not sustainable over the years.

The study by Sen (1994) analyses for the period 1960-1985 the correlation in developing countries between indicators of growth and indicators of "human development" ("human development" in this context is measured by infant mortality under the age of 5), and this is done in order to identify "countries in regress" that have experienced declining per capita incomes or/and worsening human development indicators. The countries in regress with negative "growth" of per capita incomes for the period of 1960-1985 are examined in great detail by Sen as these countries have quite different conditions and developments with regard to economic and human development. Some African countries belong to this group of countries and it is an open question whether their number is increasing since the 1990s. This study is important beside of some other important studies on countries in regress which consider however only medium-term developments (see UNCTAD 1997a, a study in which a period of around 10 years is considered).

The study by the African Development Bank (AfDB 1996) considers the long-term correlation between growth and export performance, and this is done for the period of 1970-1992, and it is related to 28 African and Asian developing economies. It is asked which share of the growth rate of GDP can be explained by export growth (this indicator is taken as a proxy for the competitiveness and the openness of a country).

The study by Savvides (1995) looks at the growth of 28 African countries for the period of 1960-1987 in order to test some hypotheses of the new growth/endogenous growth theory. Among the most important factors that have relevance in explaining growth differences among countries emerge factors as the "initial conditions" of growth, investment, population growth, openness of trade and investment policies, inflation, financial sector development, the growth of the state economic sector, and the degree of political freedom. The study by Otani/Villanueva (1990) includes 55 developing countries for the years of 1970-1985, and therein a group of 13 African countries. Factors that explain growth differences are according to this study the savings rate, the export performance, the expenditures on human capital, population growth, and the level of real interest rates on foreign debt. These are the most important factors to explain the differing growth performance of the developing countries included in this study. Although all these factors mentioned are interrelated to a high degree, they stand not only for important policy variables but also for the initial situation of a country that is in a process of transition towards growth and development.

We see that all these studies referred so far use quite different methodological approaches and quite different sets of hypotheses to explain growth differences. Quite different sets of hypotheses are used for different periods and a different country coverage is presented in order to analyse the differences in growth of countries under a long-term perspective. Although we find so many methodological differences in these studies, some important messages follow so as to understand better the African growth performance over time, in comparison with African and other developing countries, and the growth prospects for specific countries in the region. A review of these studies allows us also to conclude on policies to be pursued in the future by African economies.

In the *long-term* consideration we see that in Africa only a small group of countries can be identified as winners in terms of sustainable growth, but we see that in Africa a large number of losers in terms of growth exists – countries that are not able to sustain growth over longer periods or even are not able to avoid a decline of per capita incomes over longer periods. This result can be explained on the basis of *three* approaches. *Firstly,* various studies explain this long-term growth trend with the *theory of rent-seeking*, relating the "African Malaise" to the behaviour of agents in the economy and in politics that manage successfully

to appropriate rents and to adjust policies in such a way as to maximise the rents. On this basis the small number of winners in terms of growth in Africa can be explained quite easily (see especially the study by Langhammer 1996). *Secondly*, reference is made to the *theory of ethno-linguistic diversity/fragmentation* as an approach to explain the small number of winners in terms of growth by the ethnic situation in Africa characterised by a high degree of ethnic diversity that leads to political and economic conflicts, to distortions in policy formation and implementation, and to budgetary allocations that are non-developmental (see Easterly/Levine 1997). *Thirdly*, various studies base their results on a *theory of critical development bottlenecks* assuming that specific bottlenecks impede the take-off and the development in African countries so that only few countries can overcome this situation of critical bottlenecks (in terms of inadequate human capital accumulation, political instability, low degree of trade and investment openness, or low savings and investments ratios) so as to become winners in terms of growth (see Barro/Lee 1994, Otani/Villanueva 1990, AfDB 1996, and Savvides 1995). Most important is however the analysis why some African countries can do better – by escaping the consequences of rent-seeking, of ethno-linguistic diversity and of critical bottlenecks.

The *theory of rent-seeking* assumes that in most African countries there exist conditions that make it profitable to invest mainly in unproductive sectors and activities, so that entrepreneurial activity is not primarily related to productive activities but rather to short-term and to speculative activities that impede investment and growth, leading then also to corruption, smuggling and to black market activities on a large scale. All this can be measured in this context when generating and interpreting data about the taxation of productive sector activities, especially the explicit or implicit taxation of agriculture, of small and medium enterprises, and of the enterprises in the informal sectors. Also data on the taxation of the export sectors in Africa, especially by the instrument of overvalued currencies, are of great interest as they can add to explain the weak export performance of African producers on the world market. Taking together all these forms of implicit and explicit taxation we see that investment in Africa is still discouraged to a large extent and was discouraged for decades by those actors that were responsible for these policies in Africa. Investment was discouraged by a set of measures that cre-

ated on a permanent scale rents to political and economic actors as a basis for their luxury consumption.

Important studies show that the reform policies in Africa since the 1980s have not changed dramatically the situation with regard to the appropriation of rents – to the contrary, as only the modalities for the appropriation of rents were changed. The structure of the economy as based on the large-scale appropriation of rents was changed since the 1980s in a specific way – by using the financial component of the structural adjustment programmes in addition to the traditional forms of development finance and official development assistance. The structure of the appropriation of rents in Africa has changed because international rents (measured by the volume of net transfers of official development assistance in per cent of the GDP) as derived from traditional development assistance and new structural adjustment financing were now replacing national rents from the taxation of productive sectors, and these rents were allocated to similar groups of profiteers (see Langhammer 1996; this study is a very interesting critical assessment of the positions of the World Bank that claims quite often in their studies that their structural adjustment policies are successful (this is a critical assessment especially of the World Bank study on adjustment policies – World Bank 1994 – as this and other studies from the World Bank praise their own effort too often in an inappropriate form). There was not only a replacement of national by international rents, but also a replacement of explicit forms of taxation by the use of indirect and more implicit forms of taxing the productive actors in African economies. A most important result emerging from these studies is the fact that entrepreneurial activity in Africa is still directed towards those sectors that are not important for structural change, for growth and investment in a longer-run perspective. This also explains why in a continent so rich endowed with entrepreneurial talent and entrepreneurial capacity private sector development is misdirected, distorted or stagnating. This also explains that the profits to be derived from the rents-based economy are still larger and can be reaped with less effort than investing more productively. World Bank analyses on the efficacy of structural adjustment policies and sector adjustment polices published from time to time since the 1980s confirm directly or indirectly that in Africa there were not always sustainable successes with regard to reforms in productive sectors such as agriculture, industry, mining, plantations, productive services industries and informal sectors. Disappointing were

the outcomes with regard to the intentions of the World Bank to reduce the excessive level of taxation (implicit and explicit) of these sectors in Africa, and in many respects the reforms also failed with regard to the aim of restructuring the budget, the state economic sectors and the bureaucracies so as to make them more responsive to the demands of world market competitiveness; also weak was the outcome of the reforms of the trade and investment regimes (see especially World Bank 1994). It can be concluded that the basis for the generation and allocation of rents was maintained to such an extent that the restructuring of the African economies under the label of "structural adjustment policies" could not succeed.

The *theory of ethno-linguistic diversity* assumes that the African Malaise can be explained by an extraordinary high degree of ethno-linguistic diversity in Africa, thereby creating distortions and conflicts in various fields of politics and economics. Political instability, distorted government expenditure and taxation structures and policies, low and stagnating investments, and an inefficient allocation of investments are only some of the consequences of this high degree of ethnic fragmentation and diversity (see Easterly/Levine 1997). It is argued that there are *direct* and *indirect* channels for this very negative result. Direct consequences of ethnic fragmentation on growth follow from ethnic conflicts per se and from a governmental policy of manipulating the interest groups that are shaped by ethnic diversity in such a way that political instability and growth bottlenecks easily occur. Indirect effects of ethnic diversity on growth follow because of general distortions of public policy that follow, especially because of government expenditure and taxation policies are focussed on ethnic groups instead of organising fiscal policy around public necessities and needs. These direct and indirect effects may add up to a high level of allocational distortions with huge welfare losses in the economic sense. The government expenditure and taxation policies are distorted and impeded, but more than this effect, any reform of these policies is getting much more difficult in such a situation. Growth and distribution targets are in such a context easily failed and reform policies such as privatisation policies will not really work. Obviously these ethno-linguistic factors explain a significant share of the growth differences of Africa compared to the Asian economies, but also the growth differences within Africa can be better explained on this basis. It is obvious that the theory of rent-seeking and the theory of ethno-linguistic diversity have

some common ground, and cannot be separated in such an attempt to analyse the complex growth problems of Africa. Rent-seeking by appropriating national and international rents and ethno-linguistic diversity by distorting public policies are quite near as relevant phenomena with regard to focus, frame and impact in the political and economic context when trying to explain the growth performance of Africa relative to other areas.

The *theory of critical bottlenecks* defines the "crucial factors" that impede African development and especially its growth performance. Crucial factors are identified that can explain long-term growth differences within Africa and relative to other developing economies. These are those factors that are missing in Africa or are not at a level comparable to other developing areas, and are so blocking fast growth. The consequence is that convergence towards income levels of more developed countries is not taking place or occurs with a slower time path than anticipated by development theories (see Barro/Lee 1994, Savvides 1995, AfDB 1996, and various other studies of more recent date; see the References and Bibliography). The creation, the mobilisation and the utilisation of those factors that are important for the convergence towards higher income levels are obviously blocked in Africa for a long time, especially so human capital accumulation, technological and financial innovation, investment and savings mobilisation, the policy transition to a more open trade and investment regime, and the "demographic transition", only to mention just some important factors. The relevance of these important factors for growth in Africa is even underlined when referring to the small number of African winners in terms of growth – a small group of countries in Africa that managed to grow despite of so many neighbouring countries in the Africa region with such a low growth performance.

International comparative studies about the cases of long-term winners in terms of growth in Africa show that these few countries such as Botswana, Cameroon, Congo, Egypt, Gabon, Lesotho, Rwanda, and Tunisia, are either oil-exporting countries (Cameroon, Congo, Gabon) or they are located – as the cases Lesotho and Botswana – in the South African periphery or – as the cases Tunisia and Egypt – in the European periphery (see Barro/Lee 1994 on these countries and their growth performance over time). The case of Rwanda is not so easily to be classified with regard to the causes of the long-term growth performance, and the events

of the recent years in the country have to be considered in retrospect. Botswana is the only country in Africa that could grow out of the position of a Least Developed Country to reach now the most favoured position as a leader in most of the international rankings with regard to locational attractiveness. However, these winners in terms of growth in Africa also managed for some time to avoid excessive state intervention, pervasive market distortions, and a high degree of political instability, and could reach on this basis a far higher investment rate for longer periods than most of the other African countries, and at the same time were benefiting from spill-over effects and linkages from and with South Africa or Europe, and also within the Franc Zone.

We see that these analyses based on the theory of critical bottlenecks are not at all inconsistent with the projections of the theory of rent-seeking and the theory of ethno-linguistic diversity as it is obvious that the favourable framework conditions in the form of positive spill-over effects and linkages can compensate for the negative impacts of ethnic diversity and of rent-seeking in African society. Crucial factors with regard to the convergence of countries to higher income levels are count also in the analytical frame of the other two theories that are here of relevance. Such a critical factor is the capability of economic management to avoid excessive forms of state intervention and pervasive levels of market distortions, but also the capability to realise a minimum of political stability in a context of democratic and good governance. Only then private, public and foreign investments can take place on a sustained basis. Such a set of crucial factors allows it to maintain a comparatively high investment rate, and so to avoid an erosion of the societal capital stock – the physical as well as the human capital stock – and to give incentives to innovate on the basis of local entrepreneurial talent, whose activity is then directed towards productive activities. However, the government also has to organise for a distinctive capacity and ability to "lead" in the process of policy formation so that the policy decisions impact positively on the whole economy and on all types of interest groups how well they may be organised by function, ethnic affiliation and region . The small group of winners in terms of growth in Africa shows that just this is not easy to organise under African conditions where rent-seeking, ethno-linguistic diversity and critical bottlenecks summed up to the African Malaise.

Complementary to these analyses are those studies that analyse the position of countries in regress, countries that experienced over long periods decreasing per capita incomes and so could not escape the negative growth path (see Sen 1994, and UNCTAD 1997a). International comparative studies show that not only the number of winners is small and the number of losers large in Africa, but also show that the number of countries "in regress" is large and even increasing since the 1990s. However, the problem of countries in regress – of long-term falling per capita incomes – is concentrated largely in Africa (Sen 1994, UNCTAD 1997a). It is therefore not enough to study the position of winners and losers in Africa but also to structure analytically the losers according to their position in terms of stagnation or regress. At the same time it is necessary to look at the countries in regress in more detail and to compare the growth indicators with human development indicators, as we can see that the countries "in regress" are not necessarily also losers in terms of "human development" (see Sen 1994). To the contrary, the international comparative analyses show that countries in regress can do quite well in terms of specific human development indicators. Using the human development indicator of "infant mortality under the age of 5" we can see (according to Sen's data) that the losers in terms of long-term growth in most of the cases are not losers with regard to the specific human development indicator selected (which is obviously a very important one). The implication of this result is that these countries and these people are obviously adapting to the situation of regress by creating viable survival systems under conditions of state failure and/or market failure and/or adverse effects from the world market. We also can see that sometimes countries with a positive growth trend over such a long period as 25 years experience a negative trend with regard to this particular human development indicator. So we find a very complex situation in Africa where growth as a factor and as a process counts also for welfare but has to be qualified with regard to sustainability and with regard to the dynamics of human development indicators.

Also this interpretation of the African Malaise is compatible with the projections of the theory of rent-seeking, the theory of ethno-linguistic diversity and the theory of critical bottlenecks. We know that economic analysis, and especially development economics, can not abstract from social, political and ethnic factors when looking at the framework conditions for market development. We also know that growth and human

development indicators can diverge in the trend considerably if public policies are not supportive. Countries with an unfavourable growth trend can not only rely on compensating survival systems but they can also use appropriate public policies to contribute to a better than expected long-term trend of human development indicators. The opposite is also possible as we know from various African countries. Countries with a favourable growth trend can – by pursuing inappropriate public policies – end up with a negative trend in terms of human development indicators. Decisive is the capability of countries and governments to pursue a consistent growth and investment policy and a basic needs-oriented development policy in the context of an environment that is characterised by external shocks, internal political conflicts and a high degree of ethnic fragmentation.

Especially important is it then to look at those countries that are worst performing with regard to both groups of indicators, growth and human development. Countries that are in regress with regard to both sets of indicators, as Somalia, the Central African Republic, Mozambique and Mali (Sen 1994), need not only specific forms of assistance, but from the analytical point of view it is necessary to discuss the foundations for change and growth for such a group of countries. So far not too much research was devoted to this type of countries. It is necessary to develop concepts for a growth strategy and a human development policy for these countries, but also to develop policies for specific groups of countries in regress (on first attempts in this direction see UNDP 1996 und UNCTAD 1997a). Although interest in this type of research is increasing, there is much to be done to go beyond an analysis of state failure and state destruction in Africa. More important is it to come to an analytical frame for the reconstruction of the economic base of such states in Africa (see Harvey 1991 on specific elements of such an approach).

Whereas international comparative studies identify a number of *determinants* of long-term growth, the three theoretical approaches discussed above (rent-seeking, ethno-linguistic diversity, and critical bottlenecks) go much further to identify the *causes* of the highly unsatisfactory growth performance of Africa, and to mention also *systemic causes* that condition the specific type of economic, social and economic systems prevailing in Africa. However, the analytical work in this context is not very advanced. It is necessary to continue with international comparative work but also to apply alternative theoretical concepts of development

economics to African conditions so as to come to a broader set of strategic conclusions. It is also quite clear that the policy conclusions that follow from the analysis so far are not that easy to derive, and that it may be premature to work on an agenda of action for Africa based on these results. Anyway, some preliminary conclusions can be drawn for reform policies as well as for aid policies, and some general messages follow: for example, there is an obvious necessity to look in Africa at regions that are more homogenous so as to compensate for the potentially negative effects of ethno-linguistic diversity; it is also necessary to have in all programmes and projects in mind that there is an inherent tendency to capture rents so that competitive processes and an "ownership" of programmes are important elements in all contexts of development and development assistance; it is also important to consider in any policy formation the complexity of critical factors and not to focus on a single factor as the missing one.

But all these analyses for Africa do not give that much cause for optimism, as we see that in Africa the tendency is widespread just to replace national by international rents, to ignore the ethno-linguistic fragmentation in national and regional policies, and to look at one critical factor rather than looking at the developmental context. So far the extent of destruction of the African state and the position of countries in regress has not been tackled directly by politics and by international aid, rather basing the proposed reforms on orthodox economic thought and related prescriptions. There is also a widespread tendency to overestimate the prospects for recovery, growth and investment in Africa although the situation is characterised by policy reversals, political instability, and the prevalence of important risk factors of internal and external origin. Most important is it to counteract the tendency of the 1990s that saw the number of countries in regress increasing, and for some of these countries also the human development indicators deteriorating. And we also have to acknowledge that for these countries so far no applicable growth theory and strategy exists so that new concepts linking growth and human development urgently have to be designed.

When we look at the *medium-term* determinants of growth in Africa, and some few studies are available, we see that there is a much greater variability with regard to the number of countries and the specific countries that are classified as winners and losers than in analyses regarding long-term periods. In the medium-term period of 5-10 years we see there-

fore a continuously changing number and classification of countries that are counted as winners and losers (see especially the studies by United Nations 1987, IMF 1994, and UNCTAD 1992). This is quite plausible because in the medium-term the factors that impact on growth are itself affected more often and more erratically than those that work in the long-term.

Anyway, some important generalisations can be made as we see that two *key factors* determine successes in medium-term growth of African countries. These *key factors* are *first*, the capacity and the ability to pursue an agricultural policy that is coherent and has a long-term orientation, a policy that is comprehensive and broad enough with regard to those factors that shape agriculture (prices, infrastructure, input supplies, institutions, innovations and incentives), and *second*, the ability and capacity to pursue a comprehensive policy of securing on a sustainable basis foreign exchange for development (by holding adequate foreign exchange reserves as well as by a careful foreign exchange management). The *second* factor requires that a coherent export policy (with strategic elements of export promotion and export diversification) is designed and implemented so that foreign exchange can be procured on a continuous basis; related to this policy is a well-designed import policy avoiding that imported inputs are becoming too expensive, an effective debt stock and debt service policy (with a workable time frame for rescheduling and reduction of debt), and a future-oriented and well-designed policy of development co-operation. A long-term oriented agricultural policy and a well-designed foreign exchange policy require however that there is progress with regard to the debt stock and the debt service. A debt policy is effective when giving space for a long-term focussed agricultural policy and export promotion strategy as well as for a future-oriented and efficient import substitution programme. We see that these two factors are highly interdependent. An effective agricultural policy that is long-term oriented depends on an effective foreign exchange policy, and the implementation of a foreign exchange policy will be facilitated by an effective agricultural development and import substitution policy. These two factors are therefore key to a policy of growth in Africa, and we see in various studies on medium-term growth prospects that only few countries could over time keep on track, although specific and varying external as well as internal causes for the deviation from the growth path may be mentioned.

It is obvious that a well-designed debt policy can support structural reforms in agriculture and an export diversification policy. Without a more effective debt policy growth at the medium-term cannot be stabilised in Africa. The current proposals and initiatives as the initiative for the Highly Indebted Programme Countries (HIPC) and all the changes that are proposed and discussed now by World Bank, IMF, and by bilateral donors are not at all sufficient – neither in scope nor in content or in implementation – to support a policy of foreign exchange access and security. Without a new start in this important issue it will not be possible to stabilise the medium-term growth of African countries. To the contrary, the variability with regard to the cases of African growth winners and losers may in future even increase as the access to foreign exchange differentiates more and more between African countries. Beyond this, there is even the danger that the bleak prospects of medium-term growth may endanger also the long-term growth prospects as there is a close connection between the growth factors and perspectives in the medium-term and the long-term.

The *short-term* determinants of growth in Africa have a quite different character. Especially relevant are the development of raw materials prices, demand changes, climatic and weather impacts, or abrupt economic and political changes that are affecting a country directly (such as abrupt changes of exchange rates or sudden flows of refugees) or are transmitted indirectly from the world economy (for example by the effects of the Asian Crisis on Africa). All these factors and impacts may have important consequences for the level and speed of the fluctuation of growth rates. Some of these factors as the Asian Crisis have negatively affected the growth rates in Africa after 1996 but it is not appropriate to identify these short-term growth rates with growth potentials and growth opportunities in the medium-term and in the long-term. Very often it is argued in regional and international reports on the basis of short-term growth rates, although for development policy and for economic and social welfare programmes the medium-term and the long-term growth factors and potentialities count. For policy purposes it is necessary to identify clearly the various periods for which growth trends are analysed in Africa, and only then it is possible to work on realistic growth strategies and growth projections.

Not only for strategic policy purposes but also for reform policies in a broader sense is it quite important to identify the long-term, the medium-

term and the short-term determinants of growth. Short-term growth rates can be influenced by monetary and fiscal policies although in Africa the instruments of monetary policy are so far not that effective and the role of fiscal policy is limited because of a persistent structural gap between government revenues and expenditures. Medium-term and long-term growth rates can be influenced less by monetary and fiscal policies than by policies that impact directly on the factors that are determining medium-term and long-term growth, and these are the policies at the sectoral level and the strategic development policies that may lay the foundations for a greater locational attractiveness of countries and regions, and for the speeding up of resources mobilisation, resources creation and resources use in a specific social and political context.

So we can say that the analysis of determinants of growth in Africa has relevance for policy analysis, for policy formation, and also for policy implementation in Africa. The relevance is great not only for formulating a local and national development policy but also of a development strategy that is more directed to regions and sub-regions in Africa; increasing is the importance of such analyses also for the design of a strategy of development co-operation that is supportive to such a development policy.

5 Growth Theories and Growth Policies: An Agenda for Action in an Era of Globalisation

It is not clear why the debates on growth perspectives in Africa are not considering more explicitly the wide array of growth theories and their applicability in terms of growth and development policies. The long tradition of growth theories is obviously not used to come to relevant conclusions for a new growth policy for Africa and to formulate a related policy agenda. The development economics literature is not exploited systematically enough to come to a better understanding of what can be done to promote investment and growth in Africa.

We will consider now *five approaches* in the context of growth theories and development economics that have relevance for policy formation with regard to the stimulation of growth in Africa. We will look at the

theoretical frame, the projections of the theory and the applicability in the African context.

First, we have to refer to the *"classical" approach of growth theory* in the context of the Harrod-Domar model, as this theory interprets growth on the basis of the savings/investment rate and the (marginal) capital productivity. Growth can be enhanced by a higher investment rate made possible by higher savings and/or a higher efficiency in the use of capital, and can be accelerated if investment rates and the efficiency of capital can be mobilised as instruments for growth. The examination of the relevance of this approach for African growth has yet to be done. So far we cannot find many attempts to lay the foundations for the analysis of growth in Africa in terms of these two strategic variables.

There are data on the investment rate of African economies available, but we see that there is a high variability of the investment rates, that they are for many African countries quite low, and that they followed over many years a tendency of decline, and that more recently they are now stabilising at a slightly higher but still comparatively low level. These rates are fluctuating heavily and obviously internal and external factors play a role, causing short-term and medium-term changes. These investment rates are also determined by economic policy reversals, and are dependent on manifold internal political risk factors and as well global risk factors that determine the investment behaviour in Africa (see on more recent data for African investment rates World Bank 1998, pp. 24-26; AfDB 1998, p. 208, and UNIDO 1997, pp. 26-33; however we have to consider in comparative analysis the quite different classification of countries used when defining "Africa" and "sub Saharan Africa", beside of many other definitional and conceptual problems in data generation and use of data for analysis). So far we do not know that much about the determinants of the investment rates in Africa, about the determinants itself and the various short-term, medium-term and long-term impacts on it, the causes of the high degree of variability over time, or about the low level equilibrium trap of investment rates of below 20 per cent of the GDP in Africa. We can therefore say that the central variable according to the "classical" theory of growth is not only awaiting further research, but that the policy consequences for investment promotion are so far not clear.

For growth policy purposes it is often referred to the necessity to stabilise the investments in Africa by new framework conditions that have

impact on economic returns and on risks for the investor, especially by using so-called "agencies of restraint", institutions that can mobilise and stabilise the private investment activity because thereby the credibility of economic policy and of the institutional environment is increased. Reference is made to domestic as well as to regional and international agencies of restraint. A domestic agency of restraint can be a central bank that is given specific and strong rights and competencies to control monetary policy and to avoid a further "monetisation" of government budget deficits by central banks. Because of the difficulty to make such an agency workable in the African context, regional and international actors or agents are recommended. Such institutions or agents can be the integration of an African country into economic and monetary unions so that supranational central banks can decide on behalf of national units and agents, and indeed there is now a growing interest in Africa to make operative more of such commitments in the frame of economic and monetary unions, hoping so for more credibility of economic policy. However, such a hope is only well founded if the commitment of the country is sincere, and if the country has strong enough incentives to follow the agreed common policies. An alternative is an international "agent of restraint" like the treaty between the ACP countries and the European Union, or treaties and binding commitments withinthe frame of the World Bank, the IMF, the WTO (GATT), and the Bank for International Settlements, that may have similar effects on policy credibility.

Although some of these agents of restraint work since decades in and with Africa as the international organisations, the Lome Convention, or the Franc Zone, so far investment in Africa has not benefited that much from these obviously too weak agents of restraint. The search for stronger "agents of restraint" is going on therefore – also debating about new-type African Economic and Monetary Unions, linked specifically with international agents of restraint of the type mentioned above. Background to these expectations that Africa can benefit in terms of higher and more stable investment by such agents of restraint is the experience of the European newly industrialising countries after integration into the European Union (especially Ireland, Portugal, and Spain), as these countries have successfully managed to change from a weak monetary policy position to a strong one within a few years only. Other countries in other regions can also be mentioned that have managed such a change successfully.

There are many other approaches to analyse the conditions for a sustainable increase of investment rates in Africa. These proposals can be found in most reform programmes as the structural adjustment and sector adjustment programmes negotiated with international organisations. These programmes emphasise new modalities on ownership and corporate control, on capital account liberalisation, on new laws and regulations for investment, on investment promotion policies, and the like. However, even the Structural Adjustment Programmes in Africa have so far not managed to bring the low and highly variable investment rates up to acceptable and more stable levels. Insofar the work with Harrod-Domar-type models of growth does not help so much further as the knowledge about the determinants of the investment rates is not sufficient.

Also problematic is the lack of knowledge about the capital productivity in Africa and related trends. Data show for the total factor productivity during the last 25 years for African countries negative rates of change (see Kappel 1999, pp. 49-50). The data about capital productivity in African countries itself reveal quite negative trends when regarding the contribution of investment to the growth of the GDP (see UNIDO 1997, p. 27). All these data have a preliminary character, and are not more than illustrative and tentative, as they can not give a picture for a long enough period and for Africa including all economically important countries. Very interesting are the analyses of capital productivity in Africa that demand an inclusion or at least a consideration of the "rents" that are "appropriated" by recalculating the low capital productivity of the productive sectors in such a way that a systematic underestimation of the productivity indicator is avoided (see Langhammer 1996, pp. 125-127). The context between rents and the low capital productivity has to be made more explicit because these rents distort also the expectation of investors concerning the return of potential investments. It is therefore necessary to investigate in more detail the "rent sector" in Africa as we see that the capital-scarce African countries are those saving the least their scarce capital, and much less than the countries with a far higher capital endowment. Capital expenditures for one unit of output are in Africa much higher, much higher than in countries with such an endowment of capital that they could afford them (see especially the analysis of the rent sector in Africa and relevant measurement of the "uncovered return" in Langhammer 1996, pp. 124-126).

There is also a remarkable tendency of a strong variability of the capital productivity measure as dependent on global economic factors and economic policy interventions; but there is also a great degree of independence of the behaviour of capital productivity measures from the foreign debt level of a country. This could be interpreted as a form of foreign aid/foreign resources dependence that is transmitted to the measurement of the level of capital productivity, as foreign resource availability obviously does not induce a more efficient use of capital in Africa. We see that not only the variable investment rates pose a major problem, but also the highly variable capital productivity measure is affecting growth and structural change negatively, showing strong interrelations with and dependencies from internal and external determinants. We also see that rent-seeking may impact not only directly on the investment rate but also indirectly on the capital productivity measure to a large degree. Reform proposals concerning the capital productivity are related to financial sector development, strengthening monetary and fiscal policies, improving project planning, and the like. Also this reform agenda had been tested in Africa since so many years, but so far without the hoped for success. The reasons may lie in the dimension of the rent sector that distorts all entrepreneurial activities.

Another weakness of this approach follows from the fact that the "classical" approach towards growth policies does not regard complementary factors of growth, especially various forms of labour, human capital, technical progress in its endogenous and exogenous forms, and the institutional framework that is necessary for the management of the economy and for supporting innovations in technology and finance. This then refers to the agenda of other theories of growth that may have more applicability in terms of policy reform for Africa.

Only few African countries have reached somewhat stable investment rates at a relatively high level and based on a mechanism of economic allocation that ensures a comparatively efficient use of capital. These countries are Mauritius, Tunisia, and Botswana, and some few other African countries are also sometimes mentioned in investment rankings such as Namibia, Morocco, Egypt, South Africa, Swaziland, Ghana and Lesotho, but all these countries have a much lower index of competitiveness according to The Africa Competitiveness Report 1998, which however has included only 23 African countries and was based on a methodology of controlling for the levels of initial income. The list is not long

and not stable except of the three countries on the top of the list. What we learn from The Africa Competitiveness Report as well as from many other sources is that these "top countries" benefit from *geography*, from nearness to Europe and to South Africa, and from their level of human capital endowment or human development in more general terms what is cumulative past investment. Because of this we still are left with the question what about investment in the other countries that are not benefiting from geography and from past investments in human capital. For all these other African countries it is still so that the conditions for the efficient input and use of capital are not favourable, and that both the levels of investment rates and of the capital productivity preclude higher growth. This then leads to pessimistic expectations for these countries as they are affected by rent-seeking, ethno-linguistic diversity, and a lack of critical development factors such as past investments in human capital, or are just hit by unfavourable geography.

Most important is an agenda for action as these countries lack agents of restraint in all its national, regional and international forms. However, there is much work now going on how these countries can really benefit from such agents of restraint, especially by new forms of inclusion into the WTO and the new ACP arrangements, into new forms of African Economic and Monetary Unions, and into new forms of development assistance that take up the issue of inadequate national agents of restraint. The problem is that all these agents of restraint would only be some substitute for still inefficient national agents of restraint. Such approaches to manage risks for investors are however important as investors are not differentiating that much between the risk profiles of various African countries, because of regarding Africa as a region with generally high risks, as a region with investment conditions below any threshold of manageable risks (see especially the study by Collier 1995, and the study by Kappel 1997, p. 74). However, this reliance on international agents of restraint is not sufficient as substitutes for national and regional systems will not work that long so smoothly if not simultaneously national agents of restraint develop so that investors will see the conditions in these countries really improving.

The *second* approach is based on assumptions of the *new growth theory*. Growth according to this theoretical approach is *first* of all contingent on a complementarity of physical capital and human capital. Accumulation processes of physical and of human capital have to be synchro-

nised for sectors, for companies and for the whole economy in order to promote growth. Physical capital is activated in the economic sense by appropriate human capital accumulation, and vice versa.

At the same time, there is a *second* complementarity that counts between human capital investments and R&D expenditures in enterprises. Human capital investments in enterprises are the more profitable the more is spent on technical innovation and other types of innovation in these enterprises; and vice versa R&D investment is the more profitable if the stock of human capital in the company is appropriate. R&D expenditures have to be balanced with human capital investment in all forms. Further education and training of all types in and outside the enterprises are rewarding if the R&D expenditures in and outside of enterprises are increasing the value added generation of the enterprise and of the whole economy.

A *third* type of complementarity that matters in the context of the new growth theory is the one between cross-border technical learning between economies and domestic technical learning in specific economies. Cross-border technical learning by trade of capital goods, technology transfer, direct investment, and exchange of experts and services enhances the domestic capabilities of learning, and vice versa domestic learning capabilities are necessary so as to benefit from cross-border technical information flows. This third complementarity requires that the learning system of the economy is open enough for the technology transfers and the information flows, and it is not enough to liberalise trade and foreign investment regimes but to look at all information flows.

More than this, also the education, the training, the national innovation systems have to be open enough so as to enhance these information flows. However this does not mean that the trade and investment regimes must be completely liberalised, but the policies of opening have to be consistent and the regimes have to be structurally open so as to benefit from the various channels of technical information transfers, especially by trade of technical goods and services, technical information flows by patents and licences, direct investment, and technological data transfer. The "new economy" in this context adds another element to the policy agenda as it makes clear that regional and international networks at all levels are required so as to speed up this cross-border learning process, otherwise causing a global "digital divide" as it is called with reference to Africa and other less endowed regions. All channels for technical infor-

mation have their role to play. If protection makes the import of adequate technical goods and services difficult this causes higher cost of production. If the foreign trade regime is more open than the foreign investment regime, this leads to allocative switches from one sphere to another one – and not necessarily to an optimal change. If trade and foreign investment is liberalised, but the information-telecommunication-computer sector is still highly controlled, monopolised and regulated, this situation creates problems in the form of higher transaction and communication costs for the producers in Africa or elsewhere. Comparative advantages are lost or cannot be created.

We know that all these three conditions for benefiting from complementarities are not fulfilled in most of Africa. The data situation is extremely poor in all this fields, as data on human capital investments, R&D expenditures, technological competency in companies, economic sectors and in the overall economy, and data on technological learning by cross-border and domestic information flows are not available for African countries (see on the very scarce evidence Killick 1995, pp. 177-180, and Kappel 1997, p. 70; these sources give some illustrative evidence only, showing that R&D expenditures at company and at government level are not available and are so far not accounted for). The data of the World Bank in the context of the work on African Development Indicators (see World Bank 1998, 2000a) do not give any systematic evidence on technology competence-building and on technical learning processes in African countries, and only some data on access to the schooling systems is referred to. However, not only data availability creates problems for reaching a state of better policies based on the assumptions of the new growth theory (see Pio 1994 on the application and the relevance of the new growth theory to developing countries). There are many other conceptual problems in the frame of this theory, especially with regard to the role of the state and of popular participation, the specific focus on human development and impacts on income distribution, and the concrete meaning of open door policies for African countries.

The complementarity of human capital and physical capital in Africa has been inhibited since decades by the still growing development aid dependency that is affecting the whole development process in Africa. On the extent of the "development aid dependency" of African countries we find more recent evidence in World Bank publications (see especially World Bank 1997b, pp. 218-219, and World Bank 1999b, pp. 230-231).

These figures show that for some countries in sub-Saharan Africa in the period between 1980 and 1994 the ratio for this type of dependency has not less than quadrupled. The study by Langhammer (1996) even concludes that this result had been caused itself by the World Bank programmes (and the finance of other donors) when subsidising the rent sector in African economies by allocations of programme finance in the form of structural adjustment loans/credits and by other forms of development assistance. Investment/infrastructure projects and education/training projects financed both by development aid too often were not of a complementary type, with severe consequences as sectoral imbalances and increasing debt. A policy to provide for a higher degree of complementarity is not available in most of Africa – only some few countries can be mentioned positively in this respect, and the list of these countries is similar to the countries mentioned above (see Wohlmuth et al. 1999 a, b on recent evidence).

A sufficient degree of complementarity between human capital investments and R&D expenditures in the African private sector is not there what was caused not only by the limited role of education and training systems in and for the private enterprises sector, but also by the huge role of state companies in the economy and the biased type of privatisation policies that were pursued and are still prevailing. Also quite relevant factors that impede development of this highly functional complementarity are the still observable neglect of private sector development by many African governments and the neglect of innovation, technology and research policies at governmental and private sector level (this neglect affects however not only the industry sector but also all other sectors of the African economies such as agriculture, mining, plantations, and public and private services).

Most disastrous for future development in Africa is the failure of innovation, technology and research policies in Africa with regard to agriculture. There exist since decades quite good research and innovation facilities for agriculture in some African countries (for example in Sudan with a great tradition in such fields of research at university level and in other specialised research centres), but these facilities were not used so as to make agricultural extension, training and advisory systems more effective, or to improve – based on the available expertise – the agricultural credit system.

Concerning the third type of complementarity, the African trade and foreign investment regimes are still closed and also other measures to control information flows inhibit cross-border technical learning to a large extent. Only in specific sectors as in oil exploration direct investments take place and allow cross-border technical learning; in other sectors such technical learning processes were not facilitated. High transaction costs, communication costs, production costs and rents preclude more interest from the side of foreign investors. Technical learning and know how transfers are still impeded in all other spheres, especially also in technical licensing contracts, in scientific exchanges, in skilled personnel exchanges, and also in data exchanges. The ongoing privatisation and commercialisation of public enterprises can change the situation only if the framework conditions for enterprises are fundamentally changed. It is not enough to think only in terms of a sound macroeconomic policy framework as a prerequisite for successful privatisation. Most important is also a competitive framework, a framework for a more dynamic financial sector development, and a framework that will generate incentives for human capital investments and for R&D expenditures in companies. So far the benefits from unproductive rent accumulation are in Africa still greater than investing in human capital and in technical innovations. This to change requires much more prevalence of competitive processes at all levels, and especially the introduction of competition policies at the domestic level and in all types of international economic relations, but just these policies are still undeveloped and not forthcoming. The focus of national and international reforms was far too long only on macroeconomic reforms and then much later on financial sector reforms, but much less or not at all on competition policies, research, technology, innovation policies, and human capital accumulation policies.

Only few countries such as Mauritius, South Africa, Tunisia, Botswana, and to a minor degree some other countries such as Ghana, Zimbabwe, Egypt, Morocco, and Kenya have developed capabilities and institutions to change these policies so as to benefit from these three complementarities for development referred to above. However, even in these countries the framework conditions for private sector development, for research, innovation and human development policies, and for competition policies have yet to be further strengthened and developed, so that major problems that impede a more rapid growth can be overcome. New policies based on future-oriented regulatory and incentives frameworks

will be necessary in these as well as in the other African countries so as to change the situation to the better. Globalisation adds pressures to work in this direction with a greater speed.

A third approach refers to the *innovation, growth and development theories of Schumpeter and of the neo-Schumpeterians* that have adapted his theories to our times of multinational corporations, internationalisation, and globalisation. Determinants of growth for Schumpeter and the neo-Schumpeterians are the *innovative entrepreneurs* that create and develop new markets, new products, new processes, new inputs, new organisations, new styles of management and new technologies, and that are innovative only insofar as they manage to succeed with the effected changes on the markets, in our times at international markets. In current times the Schumpeter entrepreneur is succeeding on global markets by rearranging patterns of production, research & development expenditures and marketing strategies according to the global market developments and trends. Success depends on their ability to adjust to the new form of competition that is based more and more on R&D expenditures and on human capital investments so as to exploit new developments and chances on the global market (see Wohlmuth 1999b on Schumpeterian competition in the national and international context).

Relevant are however also the framework conditions for innovations, and in this context the National Innovation Systems (NISs) and the National Finance Systems (NFSs) matter, as the neo-Schumpeterians call these ingredients of growth. The National Innovation Systems are networks of actors and institutions that make various elements of a system work productively together, elements that are important for the generation and the diffusion of knowledge. What matters in NISs is the interaction of: the entrepreneurs; the education, training and further education system; the universities and other private and public research institutions; the financing system (linking the NIS with the NFS); and all other types of government authorities and offices that have impact on the creation and diffusion of knowledge, such as patent offices, institutions for the promotion of research and development, all offices concerned with technology policy and surveillance, but also the legal institutions that are important for the protection of intellectual property rights owned by companies and by research institutions. There may be many other agents, actors and offices also that constitute the framework conditions for innovative entrepreneurship, such as offices concerned with specific areas of

technology policy and those involved in the financing of technical innovations. The set of institutions, capabilities and incentives that constitutes the National Innovation System is at the core of what we may call the Schumpeterian/neo-Schumpeterian economic policy agenda. The entrepreneur gets an appropriate environment that is conducive, by networking all relevant supporting institutions and actors. Related to Africa this approach has so far not been applied in an elaborate form. However, the conditions for analysing the problems and development perspectives of the African private entrepreneurial sector are obviously improving and it is quite necessary to apply this analytical approach just now in a period when the reform agenda for Africa is widened and deepened and when the pressures from globalisation are on the increase.

The neglect of this approach in African development analysis is remarkable as we see that in Africa the Schumpeter entrepreneur emerges and works basically in informal sectors whereas it is difficult to find the Schumpeterian entrepreneur in large companies and in the formal industry sector – and not only in the large public industries is this entrepreneur absent what we have learned from the application of the theory of rent-seeking to Africa. It is also remarkable that in Asia the Schumpeterian economic policy agenda was already accepted in the 1960s so as to analyse the catching up development of Japan and later of the newly industrialising economies.

The NFS is linked to the NIS as the innovative entrepreneur needs finance for any innovation, and as in efficient market systems only the innovator is "authorised" by the banks and the other finance institutions to get credit and finance for investment. Also in this regard the reforms in Africa so far were not related to these important elements of growth and development. The financial development issues were too long separated from issues of innovation promotion and financing of innovations .

Both preconditions for growth by the way of speeding up innovations are in Africa not fulfilled in most of the countries. This is so because of the lack of effective and open enough National Innovation Systems and because of the strong incentives for innovative entrepreneurs to concentrate more on activities in the rent sector rather than on productive activities. Concerning the lack of NISs and related NFSs we can see the severe consequences when regarding the sectoral case of agriculture in Africa. We observe that agricultural research is not coordinated with agricultural extension, with agricultural credit and other finance, with agricultural

training, and all these areas of importance for a functioning agriculture are not coordinated at the level of ownership rights, legal action and administrative decisions. We can also refer to industry, mining and plantations, or to services, where such sectoral innovation systems are as well not utilised or not available at all. On the other hand, the innovative entrepreneurs in Africa are working in areas that have often much more to do with appropriation and reallocation of rents rather than with productive activities, although the example of the small informal sector entrepreneurs shows that they are successfully integrated in the productive sphere because they can control their narrow environment. In the formal sectors the relevant framework conditions cause a significant use of productive resources for unproductive activities, at least in the important sphere of large-scale and public sector companies. Productive are the African entrepreneurs in many areas, especially in the informal sectors, because there innovative market strategies are necessary for economic survival of the entrepreneur and of many related households.

But all these activities there do not support sufficient accumulation of capital and growth of enterprises, and will not lead to a sufficient base for taxation, and to long-term employment and poverty alleviation, so that a more dynamic form of economic activity that enhances market development can not really emerge. Also in the subsectors where the craftsmen and the small peasants in Africa are working we can observe such an innovative entrepreneurial behaviour but also there we can not find the Schumpeterian/neo-Schumpeterian framework conditions that would matter for growth and for an economy-wide accumulation of capital. The NISs and the NFSs are not at all adapted to the needs of these groups of entrepreneurs.

Only few countries can be mentioned that have already developed at least some of the prerequisites that are defined as the Schumpeterian and neo-Schumpeterian framework conditions; these countries are – again – Mauritius, Tunisia, to some extent and in some areas also South Africa, and in specific sectors reference can also be made to Ghana, Kenya, Morocco and to Egypt. But even for some of these countries there remain doubts that such framework conditions as there exist can be maintained, improved and kept stable for a long enough time so that innovative entrepreneurs will move from unproductive to productive activities. It is an open question how such framework conditions can be strengthened further in these countries, and particularly in which sectors innovative capa-

bilities should be promoted (this could be in mining and plantations, in tourism and other commercial services, in mining and oil exploration, or even in specific industries). This overlaps with some issues of foreign trade theory and policy when looking at the potential for "created" comparative advantages for these countries.

The privatisation of public enterprises is a quite crucial area with regard to innovations and growth. The privatisation of public enterprises is a policy move that is per se not identical with a Schumpeterian/neo-Schumpeterian economic policy agenda – much more is necessary to complete such a policy agenda. Especially important is the creation of sectoral and nation-wide innovation systems so as to integrate the privatised enterprises into networks with governmental institutions; banks and other finance institutions; education, training and further education institutions; and public and private research institutions. It is also important to network the privatised corporations with the many other partners that count in international business like multinational companies, business associations and chambers of commerce that link the national innovation system to the foreign countries and the world market.

Enterprises have to be integrated into such innovation systems so as to be enabled to restructure effectively their production and their exports in a future-oriented way. However, other important requirements are the design and the implementation of future-oriented policies in the fields of competition, financial development, foreign trade and foreign investment, and the formulation of basically new technology and innovation policies in order to make the privatisation policies a success. There are some hints that the privatisation programmes in some African countries are now based on a long-term strategy, and are oriented also on a technological restructuring and upgrading programme that may lead in the future to more world market competitiveness (see UNCTAD 1998b, pp. 170-173).

Just to support this process of a more strategic orientation of privatisation policies complementary action is needed in many fields in order to create an innovative environment for these privatised and commercialised enterprises. Of great relevance is for any Schumpeterian economic policy to work the attitude of foreign entrepreneurs towards the locational investment opportunities – indicators of locational attractiveness for African countries therefore matter. It is important to look at such – measurable – indicators of locational attractiveness. Such indicators can show how the investors look at the performance and the policies of a country,

especially with regard to the protection of ownership and intellectual property, the consistency and credibility of macroeconomic policies, the orientation of the exchange rate policy and the credibility of the capital account liberalisation policy, and the effective possibilities or barriers to transfer capital and profits. These indicators measure the expectations of foreign entrepreneurs with regard to investment at a specific point of time, but these investors often have a long-term perspective drawing on previous experience in these countries. Evidence shows that countries can become "leaders" in the field of investment rankings by sustaining a successful policy course or by changing the policy course in the right direction as the cases of Botswana, Burkina Faso and Cameroon show (see UNCTAD 1998b, p. 173). This investment ranking is including also new countries with "investment-friendly" conditions and this may then sooner or later change also the investment behaviour of the local investors, so that growth in these countries will be broader based on the investments of domestic and foreign entrepreneurs.

However, it is obvious that the growing development aid dependency of African countries since the 1960s and more so since the 1980s reduces the options for development of so many African countries along an innovative growth path. This is so because of the effects of the pervasive aid dependency on saving, investment, foreign exchange earnings and use, and on the way consumption, production and technologies are adapted to the level of income, the distribution of income and the local production structures. Aid dependency also shapes the institutional framework, the incentives structure and the education/training system of the society in a negative way.

We see that neither the new growth theory focussing on important developmental complementarities nor the growth analysis based on Schumpeterian entrepreneurs and innovative framework conditions can be made relevant for a strategic turnaround in the context of increasing development aid dependency. Growth policies can not work in such conditions so as to benefit from the relevant developmental complementarities and the behaviour of innovative entrepreneurs and systems. An optimisation of physical capital and of human capital and a balancing of NISs and NFSs is not possible in this context, and so growth and development will be inhibited. We should also recognise that an integration of the informal sector into the mainstream economy as proposed by so many development economists and international development organisations is not

feasible if the framework conditions are not changed accordingly. Privatisation policies for the large-scale and formalised sectors and policies for the support of informal sector entrepreneurs have therefore much in common as both the formal and the informal sectors need an improvement and a functional interrelation of the NISs and the NFSs as the base for a successful transformation and integration.

Fourthly, we have to refer to *location-theoretic approaches to growth* that involve "geography" as a very important developmental variable. Locational aspects and geography are of importance for African development as the investors look at wider regions when planning for investments, often disregarding or discounting positive developments in one country or in a sub-region because of the negative overall image of Africa as an investment area. We also have seen above – when discussing the determinants of growth – that those African countries develop better that are located in the periphery of economically stronger countries and regions what we observed especially for countries in the North African and the South African regions. We also observe that in some countries provinces and localities prosper despite of failures in overall macroeconomic policies and highly unstable macro-political conditions.

Location-specific theories have a great tradition in economics, and now there is a new interest in development economics and in international economics to use relevant streams of thought for analysing catching up. This has also to do with the fact that these theories are not unhistorical in their focus, and analyse production and market locations as well as a certain specialisation as the outcome of historical decisions and developments that led to industrial sites, and to the formation of agglomerations and clusters.

Location-specific growth theories relate to the growth stimulus that may occur if a region develops to become a growth pole for neighbouring countries or for neighbouring regions in the country. In a specific country neighbouring areas can benefit from the clustering of activities in an area as demand is created and competencies are developed that have an impact also on outside factors and firms. In a region as Southern Africa the high income area of South Africa is potentially functioning as a growth pole because it is surrounded by lower income areas, and it can be expected that push and pull effects that are associated with he pole will have stimulating but also damaging impacts on the lower income areas. With regard to South Africa the political changes after the end of the apartheid led to

expectations that the pull and push effects will have strong positive repercussions on sectoral restructuring and growth, on trade structures and direct investment flows, on labour reallocation, and on technology and information flows in the whole region. It was expected that the whole region will benefit from the socio-economic restructuring in South Africa. Pull effects were expected to arise for the neighbouring countries as South Africa after opening for regional and global trade constitutes a relatively great market with a potential for substantial growth. It was also expected that this growth will lead to more demand for labour in South Africa, and that the neighbouring countries will also develop new chances to produce at home for the newly open export markets in South Africa, what both would create more employment and foreign exchange in the neighbouring countries. Push effects were expected to emerge if South Africa succeeded in restructuring its own production with the effect of being forced to speed up production relocations to the neighbouring countries by the way of direct investments. Direct investments in neighbouring countries are seen as an instrument to upgrade its production, exports and labour force skill profiles in order to remain competitive on the world market by gaining cheaper imports, especially intermediate products, minerals and other raw materials, and light industry products that are part of the consumption basket of the South African workers. It was however also expected that an additional demand for labour from neighbouring countries for specific industries would emerge, for sectors that are still producing for local markets or remain more protected. Push and pull effects therefore should provide for a distinct change of regional comparative advantages for all partners concerned. The whole region should benefit from lower transaction, communication and production costs.

So far the South African region could not realise these benefits and the results are far below the expectations, and obviously the regional growth pole effects emanating from South Africa are incomparably smaller than the effects so far at work on North African countries from the growth pole of the European Union.

South Africa could not conform to these expectations because of a high unemployment rate and tremendous underemployment in the former homelands, but also because of a relatively slow speed of restructuring the economy with the effect of low growth. Based on these unfavourable developments regional production restructuring and changes of regional

trade patterns were delayed, and the overall situation did not turn that favourable, as the South African regional integration policy was not becoming open enough but turned to the defensive side in the last years. The opening towards the South African region was too slow to change the trade and investment patterns, or to give the region the expected for push and pull effects. It is obvious that many conditions have to be fulfilled to create these effects: in the growth pole unemployment rates have to adjust downwards, structural changes have to speed up, and a more open attitude to the interests of the neighbouring countries is necessary. A certain level of structural adjustment has to be realised first.

South Africa is also far away from a position to sustain the expectation held widely in the South African region that it can become "another Japan" for the region, replicating the "flying geese development formation" that we know from the Asian development since the 1960s. This is a formation of restructuring the economy at the industrial sector level in the Asian countries according to the degree of development and of relocating these industries at the regional level according to the comparative advantages, involving more and more countries as production networks in Asia increased over the years (see Wohlmuth 1999b on more recent tendencies). South Africa is far away form this position of moving as a "front-runner" in this process of relocations. The conditions of the South African economy are different and the policies on foreign trade and on foreign investment are not comparable to those in the case of Japan so as to support such far-reaching regional changes. The attempt to test the theory of the growth pole with push and pull effects and the theory of the flying geese formation with a chain of regional production relocations had been undertaken for Africa (see UNCTAD 1997c, pp. 64-71). It is interesting to compare the two approaches of regional growth – based on push and pull factors and based on the flying geese formation – and to apply them to the South African region by referring also to empirical data for the region.

With regard to the *push and pull theory* we see that in order to make the projection a reality South Africa would have to turn firstly to a policy of a quicker liberalisation of trade with regard to the neighbours and secondly to a policy of accelerating growth in South Africa so as to reduce more quickly unemployment, but not at the cost of a weak domestic currency. Such a policy approach would have an impact on the region by transmitting more demand for products and labour to the region as South

Africa grows faster and the regional production and trade structures are changed. So far both factors did not materialise in South Africa. More than this, all the partners in the region seem to expect now more from a global integration of their economies than from the regional integration option.

The *theory of the flying geese formation* – when it is applied to the case of South Africa with regard to the neighbouring countries – gives evidence that the conditions for such a flying geese formation in the South African region are not at all comparable at the moment to the case of Japan when it started its catching up process in relation to the other catching up countries in the Asian region. In order to realise all that what the flying geese formation implies a restructuring of the South African region by production networks of investing corporations from South Africa and later from other areas in the region would necessitate that six fundamental conditions have to be fulfilled:

First, the development levels between South Africa and the other countries in the region have to be different (what is fulfilled as a condition as South Africa is a leader in the level of income and development); *secondly*, there must exist a sufficient willingness, ability and capability to restructure especially the South African economy and especially its industries (so far this condition is not fulfilled because of high unemployment and increasing poverty, unfavourable endowment with and rates of accumulation of human capital, and the still rather limited world market competitiveness of enterprises in South Africa after such a long period of isolation from the world market); *third*, the intra-regional and extra-regional demand for products from the whole region has to be sufficient so as to sustain such a wide-ranging regional restructuring process as observed in Japan and Asia where huge markets in Asia and in the USA, but also in Europe were utilised and could sustain the long-term structural changes in the region (so far this condition is not fulfilled as the access to intra-regional and extra-regional markets is limited); *fourth*, a precondition is that the corporations in the South African region can reach quickly global competitiveness (so far many corporations in South Africa are not yet in this position to compete with outside corporations as competitors); *fifth*, a further precondition is that the degree of legal protection for foreign investment and for other forms of international economic relations has to be sufficient in the whole region and comparable in quality to what Asia had at times of catching up development (also this

condition is not yet fulfilled), and *sixth*, the "investment climate" in the region has to be comparable with the conditions in Asia that allowed the flying geese process to start (so far the minimum threshold level has not been reached so as to sustain a stable environment for investments – of domestic as well as foreign source (see UNCTAD 1997c, pp. 67-70).

From all this follows that many or most of the preconditions are not yet fulfilled to benefit in Africa from regional growth poles or from a flying geese constellation as in Asia. However, these preconditions can be realised in a long-term programme for development in Africa so as to support other factors of growth.

Another location-specific theoretical approach assumes that geographic and sectoral clustering enables enterprises to grow faster by overcoming developmental constraints in a context of collective efficiency. The analyses by McCormick (1999) are based on some case studies for Africa, and the findings come to interesting conclusions on the role of such clusters in the regional development of countries, as the studies reveal that various levels of cluster formation have to be distinguished in the development process – starting at the bottom with "groundwork clusters" that pave the way for enterprises, then moving up in the hierarchy to "industrialising clusters" that begin the process of specialisation, differentiation, and technological development, and later moving to "complex industrial clusters" that produce product already competitively for wider markets. Clustering of activities may so become a very important aspect and element of growth in African countries. There are implications for development policy and development assistance which had so far not been adequately considered.

It is obvious that for African countries growth based on "clustering" of activities and firms can play a great role and even can supplement the growth effects from regional growth poles and from regional industrial restructuring. This has implications for industrial and development policies, for development aid and technical assistance, but also for the African regional integration policy as well as the wider liberalisation policy with regard to the agenda of the WTO.

So far these location-focussed theoretical approaches had been neglected in development research and policy on Africa, and it is therefore important to document the case studies that measure the regional growth impacts of clusters and economic poles so as to formulate location-specific growth strategies.

Fifth, foreign trade theories traditionally have a great role in explaining growth of African countries and in the formulation of growth policies. This has to do with the degree of economic openness of African countries and also with the dependence of most of Africa on some few export products. Most important has been in discourses on African development the relevance and the impact of the pursued import substitution policies. Most of the African countries have followed such policies up to a certain point but have not decided in time on the future trade and industry policies to be chosen after the first stage of import substitution. The question remained therefore open how African countries can reach a higher stage of import substitution that is consistent and coordinated with a higher stage of export substitution and export diversification so as to permit an effective integration into the world economy by deliberate steps of trade liberalisation. In some African countries that have achieved industrialisation earlier (Egypt, Nigeria, Zimbabwe, and in South Africa) the policy dilemma became obvious earlier that these countries had not in time designed and implemented policies of how and when to move from the first phase of import substitution (mainly in light industries and/or in some basic industries) to a new phase of export promotion. Policies on export substitution and export diversification would have allowed African countries a more rapid and more effective integration into the world economy than following a transition to a second phase of import substitution. The industrialisation and trade policies were not consistent, not coordinated and not effective so as to give a new direction after the first phase of import substitution. Such a new course would have required guidance by public policies and especially support for the new direction with adequate trade and investment policies, but also with technology and competition policies. It would have been an advantage for African countries to avoid a further deepening of their policy of import substitution towards the production of capital goods and more basic industries without the timely implementation of elements of a strategy of export substitution. Such a policy of export substitution would have made these countries less dependent from a few export products and from unstable foreign exchange earnings.

This failure turned out to be a very costly strategic choice precluding the option to reach more flexibility in development processes and more adaptability with regard to the world market. Instead of securing the basis for world market competitiveness for a growing number of export goods

the strategy towards a higher phase of import substitution was also expensive in terms of the foreign exchange needed to sustain this strategy.

Insofar the East Asian model of development to switch early from import substitution to export substitution is considered now in retrospect also as a viable development model for Africa, and one can learn from the East Asian development path about foregone chances and the necessity of early strategic choices for development success. The inability of most countries in Africa to transform their production and trade structures by deliberate political and economic strategic choices has also led to a very rigid form of import substitution, sustained by interventionist economic policies in the particular political context of African countries. However, this unfavourable trend has also its causes in the growing development aid dependency that hindered this strategic re-evaluation in Africa. Beside of many other factors this aid dependency was a factor that prevented the governments to make the necessary strategic choices in the decades after independence. Clear and consistent strategic choices were not made so as to move in the direction of regional and global economic integration – despite of the rhetoric on African economic integration. Without such strategic directives that are of importance for the guidance of any economy it was not possible to move up in the "chain of value added generation" to higher productivity activities that would have allowed for higher income growth, more employment and poverty alleviation. We see that it was not only an ignorance of "comparative advantages" what led to the marginalisation of Africa in trade and investment, but rather the lack of strategic directives matters until now.

Only few African countries have made such strategic decisions on the role of industry and trade sector by sector, and even less have tried to keep the chosen direction on course during implementation. There are two important requirements – to give a guiding directive and to sustain the directive even in the context of an unfavourable environment. There are not too many countries that can be mentioned as positive examples (Tunisia, Cameroon, Morocco?, Botswana, Mauritius, Kenya?). In Nigeria, in Egypt and in South Africa, but also in many other African countries such strategic directives are now of great importance so as to support structural adjustments in the era of globalisation. Especially because of the impacts of globalisation and of adjustment programmes on the African countries (see also Mosley 1996) it is urgent to make such strategic choices now and to start implementation. Structural adjustment brought

liberalisation in various fields, but without guidance by strategic choices the investors lack the necessary framework for action. Often this lack of guidance led to erratic decisions, to erroneous policies, and to gaps in implementation of selected policies and programmes. It is therefore necessary to decide on the direction of economic opening, on the degree of opening and on the sequencing of opening, always based on an evaluation of the level of development and on a critical assessment of the strategies pursued so far. All that is facilitated if government and business cooperatively work with medium-term scenarios that are based on agreed upon policies and programmes (see on these issues also AfDB 1996, pp. 148-161, and AfDB 2000).

It is obvious that African growth not only depends on an "investor-friendly business climate" and on "liberalisation". This would be a too simple interpretation of African reality based on inaccurate assumptions about the structure of the economies and the processes of economic policy-making. More than this, it is necessary to make a strategic direction for development public that is needed for all aspects of economic policy, and especially for the design of industrial and trade policies that are pursued by the government so as to determine the country-specific path towards world market integration. A coherent trade, investment, technology and competition policy is the base for a better investment climate in African countries, and also the base for a further economic integration of African countries – regionally and globally. It is interesting to note that guidelines for Africa's policy redirection had been developed already so as to learn especially from the experiences of the dynamic Asian countries. However, the Asian Crisis has brought a setback in this regard as doubts about the strategic directives for trade and growth of the Asian countries were raised (see on the guidelines AfDB 1996, pp. 152-160, and on the impacts of the Asian Crisis on Africa AfDB 1999, Chapter 3). However, there is no time to postpone the work on strategic decisions as otherwise growth and trade prospects for Africa are lost. Africa has no other option to overcome the extreme degree of trade concentration in raw materials that causes unfavourable terms of trade, foreign exchange and income effects – and this in the context of rapidly changing global raw materials markets that are shaped from the supply and from the demand side.

We also know that simple prescriptions for Africa on the basis of trade and direct investment theories that lead to the "trade liberalisation

approach" are not sufficient; developmental guidance based on strategic choices cannot be substituted by proposals for action at the industry and sector levels that are derived from these theories (although most of the research on the application of trade and investment theories to Africa comes to optimistic projections on the potential trade and investment flows). Studies on the performance of African exporters also show that the firms have the ability and the capability to export and that they are able to overcome constraints that arise for them in terms of regulation, market access and inadequate policies, but obviously the constraints are often insurmountable for the enterprises, either because they relate to international freight costs and inadequate transport policies, or to domestic policy constraints that lead to a heavy anti-export bias in the form of taxes, duties, and other costs. However, higher duties and taxes can also follow from economic and trade liberalisation as unfavourable consequences for the level and the structure of public revenues are generated (see on these unsolved issues of the "trade liberalisation agenda" the case study on Tanzania by Kanaan 2000). African exporters – capable as they are according to the comparative analyses that are available – are affected by such policies and rigidities that inhibit them in exporting and responding appropriately and timely to the pressures of globalisation (see Wangwe 1995, and Wangwe in this volume). But there are not only domestic policy constraints at work – also internal factors in African enterprises matter and some international policy factors play a role (see Wangwe 1995, Baah-Nuakh et al 1996, and Yeats et al 1996, 1997). However, the major problem areas are at the domestic policy and the strategy front.

There are barriers at work with regard to exports from Africa that go far beyond the adjustment agenda and the reform of the traditional instruments of export policies, and need therefore a joint effort of national, regional and international actors to be tackled with. Complex rearrangements are necessary so that anti-export biases are eliminated effectively and pro-export policies are implemented as soon as possible. On the other hand, Africa can benefit from an active attitude towards the global trade negotiations on issues of most concern to African countries as the liberalisation of agricultural markets and a further improved access to the markets of industrial countries, although we know that market access is not the dominating impediment to higher African exports (see on these issues Lall 1993, Lall and Stewart 1996, and Sharer 1999). It is mostly

the state of the incentives framework and the rate of accumulation of capabilities at enterprise level that matter for exports to increase. Increasing the competition for African producers and exporters side by side with a quite selective and only temporary protection based on strategic policy choices (see also Lall 1993) seem to be the most promising ways for a reform of trade and industrial policies in Africa. Capacity-building in enterprises and in governments with regard to the world market depends on competition, knowledge transfer, and to some limited extent on a highly selective protection for deliberately chosen industries over short periods of time.

So far only few African countries have successes in their manufactured goods export activity. South Africa, Zimbabwe, Mauritius, Ghana, Nigeria and Madagascar are mentioned as old or new exporters supplying established or new manufactured export products, but according to a more recent survey only South Africa, Nigeria and Madagascar managed to supply new manufactured export products to the world market (see Möbius 1997). However, the successful export products are limited to few industrial sectors as wood, cotton, garments, precious stones and metals, some machinery and furniture, and some chemical and plastic products. Limited scale, small amounts, and sporadic supplies characterise even the successful exporters, but outstanding performance is credited to South Africa in many respects.

It can be concluded that there is a high potential in Africa to respond to the globalisation pressures, although joint private and public action and new strategic and operational approaches at national, regional and international levels are necessary.

Another approach – we may call it "*economic and social regression approach*" – refers to the countries in economic and social regress so as to focus on their specific and quite disparate economic and social reality. This will allow it to combine in a new growth–theoretical approach solutions to the specific problems of these countries by focussing not only on the established growth strategies but also on human development strategies and on strategies to reconstruct the state as an organiser of development and as a guarantor of social and economic progress (see on the elements of such an approach UNDP 1996 and UNCTAD 1997a). It is necessary to consider especially those countries that have experienced negative per capita income "growth" for a longer time and periods of social regress with regard to crucial human indicators, and to look at options

still available to affect positively the conditions of these countries by a mix of economic, human development and state reconstruction programmes. This approach to realise growth on a sustainable basis has a medium-term perspective. Such an approach may then help to design strategies so as to accelerate growth, to improve the social situation, and to support the reconstruction of the state.

The available indicators on the situation of countries in economic and social regress show that more and more countries are affected by this phenomenon, so that there is a necessity to work urgently on a new approach to restore growth for this particular group of countries in Africa or elsewhere in the developing world (see on the increasing importance of the problem as measured by indicators on regression especially UNCTAD 1997a, pp. 125-148). In such a new approach to restore growth in these countries of Africa it is necessary to consider the state as it really functions, and therefore the fragmentation and destruction of the state in these countries has to be the basic element of a strategy for the acceleration of growth. The reconstruction of the state to support growth and human development will depend however on the assessment of the degree of disruption of the state, of its organisations and institutions, as a realistic assessment of this degree determines the necessary mix of policies for consolidation, strengthening and reconstruction of the pillars of state activity (see on such a differentiation and classification UNCTAD 1997a, pp. 139-148).

The relevant growth/human development/state reconstruction models that may fit for these country cases are based on assumptions, prescriptions and objectives such as: creating structured markets, pursuing selective protection, exploiting complementarities between public and private investments, identification of strategic development sectors, promotion of linkages between small-scale agriculture and small-scale industry, and promotion of linkages between formal and informal sectors of the rural and urban economy. Also important are those elements of a strategy that combine both macroeconomic and sectoral development with human development by focussing on such important sectors as education and health, and that link international development assistance with all these programmes in a new and progressive way that reduces the degree of aid dependency in the long run. The state has to be reconstructed in these countries by specific support from the side of the international community and has to be strengthened first as the key regulator and promotor of

growth in these countries. State reconstruction is the key to any recovery programme as otherwise these growth-stimulating and human development-focussed strategies will not work. Burkina Faso is considered by observers as a country where the reconstruction of the state as a development organiser has achieved something although growth rates are still not satisfactory. However, in many other countries of Africa with low growth or in countries with economic regress we see that the state can not perform this role so far. However, this new growth approach for countries in regress is not yet elaborated enough so as to guide action, as the state reconstruction issue is a new theme for development economics and for development policy, but especially so for international development assistance.

When confronting these approaches to speed up growth in Africa with the African realities of episodic growth and with the implications for policy and action that follow from these approaches there is not that much cause for optimism; not too many African countries emerge as already fit for confronting the globalisation pressures in our times. The evidence presented and the policy prescriptions derived do not give the basis for a very optimistic long-term scenario when with regard to sustainable growth of the region. However, as we could identify some sources that underline that there are some real causes for the new growth optimism that was emerging since the mid-1990s, we see that Africa has some chances to respond to the pressures of globalisation. However, action has to be taken with regard to the policy prescriptions following from the explanations of weak growth performance and the programmatic approaches to speed up growth in Africa.

We have seen that the acceleration and stabilisation of growth at sustainable rates requires

first, that investment rates and the capital productivity are optimised by measures to affect the high investment risks in Africa at the national and at the regional level, especially so by credibility-enhancing instruments, institutions and incentives;

second, that the creation of complementarities between physical capital, human capital and R&D expenditures is emphasised at the national and the enterprise levels what also requires that a reduction of the pervasive development aid dependency is reached, as otherwise the creation of adequate framework conditions for competition, investment and innovation is not possible;

third, that national and regional innovation systems in Africa are strengthened by the creation of networks of the relevant actors, and that the national finance systems – that are in the process of deepening and diversification in many African countries – are co-ordinated with the national innovation systems so as to redirect the energies of entrepreneurs from rent-seeking towards productive activities;

fourth, that growth poles and industrial clusters have an important role in newly designed growth policies as the push effects and the pull effects of economically strong areas and of clusters of activities can only trickle down to neighbouring countries and to other regions if an appropriate frame for co-operation at the regional level is created; a long-term regional strategy of opening for trade, direct investment, relocation of production, technology transfer and labour migration is necessary; industrial clusters can play an increasing role in transmitting impulses of growth if the clusters find an environment so that they can develop further to higher stages of development; and

fifth, that foreign trade and foreign investment strategies are based on clear and coherent strategic decisions and directives in a way that gives a guiding frame for trade, technology and investment regimes and for policies on trade, technology transfers and direct investment what so far only few countries in Africa have achieved as part of their reform policy.

Taken together, these five approaches are in their policy recommendations not contradictory, and these can be part of an *agenda for reform and renewal in Africa* whose elements are quite complementary when put in the form of a list of recommendations for a new growth policy. It is possible to adjust the policies of African countries according to the main policy conclusions that are derived from these five approaches to growth acceleration in Africa. We also see that a country can on the basis of these prescriptions for growth respond more flexibly to the pressures of globalisation and can react more directly when impacts occur. The determinants of slow growth in Africa as analysed in this paper can be attacked directly by such a strategy when the incentives for rent-seeking are reduced or even eliminated, when the national and regional reform focus reduces the danger of ethnic tensions and conflicts, and when the critical development factors that are still missing are identified and corrected by deliberate action.

For the countries in economic and social regress some more specific policies in the context of a new growth strategy are required. Such a new

growth strategy has to include a human development component and a state reconstruction component side by side with an economic programme that restores as quickly as possible the fiscal capacity of the state to finance public investments (so as to benefit from developmental complementarities between public and private investments in these countries). Such a new growth strategy for the countries in economic and social regress combines human development and state reconstruction policies with private sector development policies and a new orientation for international development co-operation. So this particular group of African countries has the greatest difficulties to cope with the realities of globalisation, and so it is urgent to work on a sustainable growth strategy for these countries.

6 Conclusions: Perspectives and Projections

We have shown that the new growth optimism since the mid-1990s is based on certain beliefs, expectations and some unfounded assumptions, and that the growth trend since has not developed so favourably. On the other hand the policy conclusions from the old growth optimism in the 1960s were not properly drawn so as to learn from the history of growth and development in Africa. We also have shown that the analytical interpretation of the growth trend for Africa is not differentiated enough and that especially a clear distinction between long-term, medium-term and short-term trends is required. In most of the regional and international reports on Africa we find observations on the growth trends that do not distinguish carefully enough by periods and regions. Insofar too often unfounded optimism is spread instead of presenting a clear-cut analysis.

We also have shown in this paper that the dominant theories with regard to the stimulation of growth have some relevance for Africa, but so far adequate policy responses are rare, and conclusions from the theories and their policy implications for Africa have not been drawn yet. Economic policy interventions are not based on the manifold prescriptions of these theories, and the necessary changes with regard to decision-making processes and institution-building requirements were not made. Most important, the degree of development aid dependency as a cause of so many problems in Africa could not be reduced.

Especially in the era of globalisation a review of the theories that focus on the stimulation of growth is necessary so as to use the available avenues and options for policy changes and concrete prescriptions for growth. So far economic policy reform in Africa was based on various elements and forms of stabilisation policies and structural adjustment programmes although we know that even the newest generation of these policies and programmes does not cover the complex issues of growth stimulation in a globalised world economy adequately. Beyond this assessment, most of these policies and programmes are just part of the problem itself because in Africa they are increasing further the aid dependency of African countries as the external financing component is large. Most important is the assessment that these policies and programmes as they are applied in Africa have neither a growth perspective nor an equity dimension so as to affect directly the speed of development.

It is therefore necessary to check in the future the assumptions concerning the growth policies, projections and perspectives much more carefully with regard to underlying time horizons, country-specific variations of growth, historical growth experiences, and the economic policy and institutional frameworks for sustainable rates of growth. Most important is it to design *now strategic growth programmes* that can overcome the dominance of the orthodox stabilisation policies and structural adjustment programmes as soon as possible. Elements for such strategic growth programmes that may allow sustainable growth rates in Africa to be achieved can be derived from the wealth of growth theories that we have discussed above, and some applications of these new growth theories in growth policy formulation are already observable in Africa.

We have seen that dynamic approaches to stimulate growth are relevant for Africa when they focus on investment risks, on complementarities between human capital, physical capital and R&D expenditures, on innovation strategies and national innovation systems, on regional growth poles and industrial clusters, and on international trade and investment as part of a strategy of guided development. However, also important is it to define the capacity for and the extent of government intervention in this respect. It is obvious that in the era of globalisation the state in Africa is even in more need to intervene although in quite different areas and forms than so far. All this can and will lead to a further differentiation of growth conditions and potentials in Africa as governments will quite

differently respond to the opportunities for growth in the era of globalisation.

All the arguments presented in the paper come to the main points that it is important for Africa to speed up the economic reform in a new direction drawing on the wealth of alternative growth theories, and to consolidate the role of the state as a promotor and regulator of growth and investment conditions. This will help to broaden the prospects for peace, social cohesion and development. In Africa the recent discussion on new foundations for growth has already brought about important changes with regard to outlook for development and policies that lead to renewal. Reform policies however will have to be linked much more than so far with growth policies, the reestablishment of a guiding role for the state, and an increasing awareness of the importance of functioning social safety systems in Africa so as to allow Africa to reintegrate into the world economy in an era of globalisation.

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