Editorial

For more than a decade, most economies of Africa have suffered a succession of shocks with a complexity of sources. A substantial share of negative interrelationships was triggered by changes in the international economic environment. By 1989 when the World Bank issued the study, *Sub-Saharan Africa: From Crisis to Sustainable Growth*, the lack of substantive policy solutions was so discouraging as to support the summation that: "The outlook for Africa is potentially devastating".

External shocks have invariably combined with domestic disadvantages (such as inclement weather affecting agricultural sector performance) weaknesses and failures in economic policy and management. The shocks were large: current account deficits exceeding ten per cent of GDP; inflation rates in some cases verging on double digits per month. The cumulative effects have reached avalanche proportions, disrupting overall economic activity to the extent that the regularly positive annual evaluations of country economic performance during the 1960s and 1970s have turned regularly negative for the 1980s and 1990s. The promise of development which pervaded public policy in the last two decades is being shattered. The economic crises and stagnation are so pervasive that the underlying prospects appear to be for protracted and diminishing expectations. These are conditions which must elicit a critical assessment of the existing paradigms of economic relations, economic management and the options they offer.

The present issue presents a variety of contributions on the African open economy under crisis. The subject coverage is dispersed broadly among Monetary Policy, Privatization and Resource Mobilization. This permits the treatment of diverse issues. Weaknesses in monetary policy tools and linkages are shown to have persisted even where institutional mechanisms for integration, such as the Franc Zone monetary unions, were in place. Public sector involvement in economic activity, which gained momentum in African countries after independence in the 1960s, is shown to have had diverse impacts. By the 1980s these included a legacy of failures which ruined government budgetary positions. The subsequent problem of Privatization is illustrated with the case of Tanzania and the paper which discusses the prospects of commercialization as an alternative to the Privatization of public enterprises. It can not be gainsaid that public investments had some initial social and economic externalities- such as the indegenization of aspects of formal economic activity and greater equity in the distribution of goods and services, inputs and credit- that could not be captured in commercial returns. But the externalities soon ran into the fallacy of composition as public enterprises multiplied. The paper on savings

Mobilization also shows that the budgetary weaknesses encroached on national savings performance, compounding other problems of savings behaviour and it's idiosyncrasies in the region.

The above divisions of this issue are a simplification to cover a taxonomy of issues thrown up in Africa under the three key markets constituting open economy linkages: the leading market for goods- both traded and non-traded: the factor markets which motivate capital mobility, labour mobility (and consequent remittances) and the determination of labour costs: and the assets market represented by cross-border movements in wealth, or even portfolio choices in the holding of wealth domestically, including foreign currency dealings in the black markets. The international economy has complex influences on each of the three interrelated markets and thus the entire home economy.

Under varying levels of complexity of analysis, open economy outcomes thus form an important short-hand for understanding what might go wrong with the domestic economy's exogenous links to external activities. Discussion of the issues for Africa can provide a means of evaluating the environment in which the economies operate and the available policy alternatives.

Although economic openness is a characteristic of African economies the condition would not in itself contribute to the current economic predicament of the continent if it did not also bring to light serious and unique structural constraints. The constraints are typified most unmistakably by the fact that Africa's economies remain hidebound to colonial production and trade patterns of sixty or seventy years ago. These limit the continent to economic activities dominated by agrarian and primary commodity export preoccupations which have absorbed little in technological, production and processing modernization. Some countries have also become labor-exporters. Africa's commodity-based economic activity remains closely linked to increasingly unstable patterns in world commodity merchandise trade and to falling world demand. The share of the commodity category in global world trade volume has fallen in the last two decades relatively to non-commodity merchandise export volumes - mainly manufactured goods- and the terms of trade have deteriorated. The consequent adjustments triggered by the shift have left Africa paying more for imports while earning less from exports. The continent's goods market linkages with the international economy thus form a crucial open-economy aspect which constrains economic recovery and development. No efforts to re-examine and change the development policy approaches of the past two decades can avoid the focus on these linkages.

In other developing regions, particularly the newly industrializing countries, the distributional shift in the growth of world merchandise trade induced a shift towards faster-growing non-commodity merchandise exports while regional shares in the declining world commodity trade category were retained. Although these regions face the threat of protectionism from industrial countries as a result of the recent shift in their open economy relations, Africa alone lost it's share in the diminishing commodity category, and did not counterbalance the loss with a shift to higher export volumes in the faster growing world non-commodity trade category.

Some would argue that it would strategically have been better to manage the shift in tandem with other developing regions, and thus have some leverage in trade negotiations with the industrial countries, than to be attempting recovery in the 1990s under the current adverse terms for commodities in world trade. And from the example of countries such as Australia, Denmark etc., it is not necessarily the case that agricultural activity can not be transformed, diversified and combined with other sectoral activities to provide a strong base for development even when shifts occur in relative gains from trade among categories of merchandise exports. A shift in Africa from the reliance on primary commodities for exports could also have benefited trade among African countries by diversifying regionally traded goods, thereby partially diffusing the potential pressures of protectionism in the markets of industrial countries. The failure to change the composition of exports implied that the potential contributions of the commodity export sector to recovery were bound to be severely weakened by the softening of world demand for the trade category: As the paper on export-import responses to devaluation shows, monetary tools, as well as other policies, are then rendered fairly ineffective in recuperating gains from trade.

If the diminished possibilities for growth through trade (including trade among African countries themselves) have generated adverse shocks, they also provide some of the most daunting challenges to adjustment and recovery on the African continent. They raise questions on the practical possibility of resuscitation of economic activity based to a substantial extent on contracting opportunities in world trade and severe declines in the terms of trade for the region's exports of agricultural commodities and raw materials.

Furthermore, the region's debt ensures that under worsening economic performance, a certain amount of the GNP must nevertheless be assigned to creditors and is unavailable domestically to complement investment and output towards recovery. Not only do the underlying constraints thus put a question on the possibility of economic adjustment through open-economy channels as conceived in economic theory and policy, but alternative policies for re-orienting the economies of the region towards growth can also be elusive.

Much alternative economic common-sense on the continent seems to involve a restatement of the key features of the Lagos Plan of Action of

1980. The Plan offered fresh responses by committing African countries to the framework for a different regional strategy: more self-reliant economic policies, greater integration among economies, priority in the expansion of food crops and the development of continent-wide internal linkages between agricultural sectors and small-scale labor-intensive industries. It must be admitted that the required linkages are yet to be furnished with political commitment and a coherent body of technical approaches to the objectives, to say nothing of the financial requirements for the change.

For relatively long periods in the last decade therefore, The Plan seems to have been prudently set aside, a policy stance dictated by the realities of the sources of finance and technical support for adjustment. Adjustment was underpined by a different "global" paradigm followed under the close direction of the World Bank and the International Monetary Fund. Most African countries seek economic renewal in stabilization and adjustment measures agreed with these major institutions.

Until recently, adjustment questions under the global paradigm were addressed broadly within the framework of orthodox macroeconomics. For example, this is the underlying model on which is built the workings of the stabilization packages advocated by the International Monetary Fund for countries of the region. Topping the list of the assumptions of the framework is the belief that a return to market responses and incentives will redress economic activity. The process would reverse much of the public-sector-based initiatives cited above. Under the proposed re-orientation, public sector deficits, particularly the primary deficits (total budget deficits less servicing charges) should be reduced with measures such as government expenditure cuts, the strengthening of revenue collection and the administration of the relevant institutions. Currencies should be devalued to diminish overvaluation, thereby raising international competitiveness and incentivising export production. The price outcomes should also engender domestic parsimony and efficiency of use for scarce capital etc. A list of other supporting measures are aimed at strengthening market forces and economic activity in the private sector. It has to be admitted however, that certain changes from the "off the shelf" model have been made, as in the case of Ghana cited below.

The dilemma of repeated adjustment programs is that little room is left in the framework to address the structural constraints of the African open-economy mentioned above. Glaring local idiosyncrasies and prevalent facets of market and economic fragmentation are left untouched: African countries have little latitude to respond to commodity market swings. Large initial shocks prior to adjustment have thus led to packages requiring labor unemployment rates exceeding twenty per cent, output losses of more than ten per cent and complete overhauling of financial systems which have known little market competition or market-determined interest rates in nearly a century of operations in the region.

After a decade with the global paradigm, the summary of experience gained and the impacts of the novel and poorly understood economic exercises on the continent is that, on balance, success is still not in sight. The paper on Ghana's economic recovery programme also shows that the outcomes in oft-cited "success" stories of the experiment remain fragile. Ghana's is a classic case of adjustment efforts under the structural constraints highlighted above, although other cases such as Malawi could be cited. The economy was initially constrained by shortages of food and foreign exchange, partly attributable to the collapse in commodity prices. "Chopping off the back side" as the economic phenomena of the parallel markets and corruption came to be labelled in the gimmickry of distortions and rent-seeking activities, had risen to endemic proportions. The Fund stepped in, in 1983-85, applying the standard program. A key change was the provision of the foreign assistance needed to ameliorate import scarcities. Imports rose 40 per cent. Illegal transactions were re-routed to a certain extent back to official channels. Cocoa production, a major hope for improving open-economy linkages, was rehabilitated at a time when the world cocoa market was also weakening.

Other measures taken at the time seem to have been stagflationary. The financial sector reforms, for example, engendered high levels of liquidity as banks shunned the high- interest earning deposits of savers newly incentivised by financial liberalization to shift their assets to financial savings. Investors stayed away from loans at high interest rates and the system of payments by cheque broke down, dealing a severe blow to savings mobilization and credit availability.

In all this, another unanticipated godsend in the adjustment efforts was a highly favorable shift in the weather which led to a decline in food prices in 1984-85: Proof that the programs do rely as much (if not more) on the weather as on financial support and exact financial programming can be cited for other countries. The paper on Ghana shows that the outcomes in any case remain fragile.

In summary, the choices taken by African countries under financial necessity have not produced the desirable results in output and macroeconomic stability. In some cases they have yielded unexpected results in political instability. The prospect remains one of the continuation of falling expectations and uncertain solutions.

It is hoped that the articles in this issue stimulate new responses and new dimensions of analysis in the promotion of recovery on the continent.

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