Shopping for Ideas to Unlock Africa's Economic Potential

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Africa's Third Liberation: The New Search for Prosperity and Jobs

by Greg Mills and Jeffrey Herbst

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Africa's Third Liberation examines how the continent could finally liberate itself from degrading poverty. Mills and Herbst contend that Africa's first two liberations, liberation from colonialists and liberation from the liberators, would remain incomplete unless Africa is able to ensure development that provides decent life to its people and jobs to the restless youth. The third liberation, according to the authors, should also free the continent from the deeply entrenched politics of patronage and corruption.

The volume starts with a note of optimism about the prospects of African economic transformation. Indeed, in the period spanning 2000-2010, six of the ten fastest growing economies in the world were African, including Angola, Chad, Ethiopia, Mozambique, Nigeria, and Rwanda (p. 1). In addition to economic growth, many sub-Saharan African countries saw remarkable expansion of infrastructure and social services. For instance, there has been a phenomenal growth of the telecom sector in the continent. This remarkable development also changed the way the continent is viewed by foreign observers. A good testimony to this change is how *The Economist,* the 'stalwart mouthpiece of laissez-faire capitalism'[1], changed its branding of Africa from 'hopeless' to 'hopeful and rising'.[2]

In addition to economic growth, political and governance reforms, the decline of conflicts and the consensus among African leaders that development cannot be achieved through aid (p. 14) provide important ingredients for Africa's third liberation. In other words, the volume under review aims to identify ways and means that would help African leaders to bring about long-term development. Economic development, the authors contend, should ensure jobs to the youth. As Africa is home to one quarter of the world's population under 25 (p. 2), failure to produce jobs, Mills and Herbst caution, would have detrimental consequences for the continent's future.

Africa's Third Liberation is an informative volume and, unlike many books examining the predicaments of African economic development, does not shy away from making recommendations. The volume begins with an examination of the problems that African economies face by drawing on the experiences of 12 countries. It then considers broadly the development experiences of five Central American, four Asian, and two Middle Eastern countries with the aim of bringing lessons to Africa. The authors, by covering a large number of countries (23 to be precise), have shown their preference to breadth rather than depth. The sheer size of the countries covered in this volume also raises an important question – which country's experience is more relevant to Africa?

The volume comprises five chapters (excluding the introduction and the conclusion). The first chapter provides an overview of growth and liberalisation at the continental level. Before identifying some of the key features of the recent growth in Africa using statistical data, the chapter draws attention to the long-standing impacts of the two lost decades of African development – the 1980s and 1990s.

Since the mid-1990s, there has been positive continental per capita growth. This sustained growth brought some crucial changes. One of these changes, according to this volume, is the widening of the 'gap between high and low performing African countries'

(p. 36). Smaller countries like Equatorial Guinea, Namibia, Botswana, Mauritius and Seychelles showed better economic performance than the larger countries like the Democratic Republic of Congo (DRC), Ethiopia and Nigeria (p. 37). This insight is not only interesting, but also defies the long-standing notion that population and geographic size are crucial for economic transformation due to economies of scale and large markets. The factors that the authors give to explain the better economic performance of smaller countries include lower population pressure, natural resources like oil, and better economic and political governance. In contrast, the larger countries continue to face problems of insecurity (pp. 37-8).

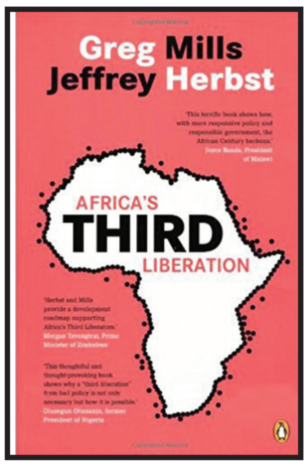
The second chapter assesses the economic performance of 12 African countries (namely, Angola, Burundi, Cote d'Ivoire, DRC, Ethiopia, Kenya, Lesotho, Malawi, Mozambique, South Africa, Zambia and Zimbabwe) with an expressed intention of exhibiting policy bottlenecks that created obstacles for growth and job creation. The third, fourth and fifth chapters examine lessons that Africa could draw from the development experiences of selected Central American, Asian and Middle Eastern countries, respectively.

Explaining the Ailment of African Economies

Chapter two of this volume discusses the major factors that could help explain the ailment of sub-Saharan African economies by looking at the experiences of the 12 African countries cited above. The countries included in this broad survey come from different geographic regions of the continent and vary widely in terms of economic development and political history. The treatment of each country also varies in terms of length and depth of analysis. There is no good explanation why these particular countries were chosen. One major thread that connects all of them is, however, the difficulty that the countries are facing in reforming their economies. The analysis of Africa's economic woes could be seen from four interrelated angles.

Firstly, Mills and Herbst persuasively explain how economic development in the continent was hampered by misguided redistribution policies. They draw on the experiences of countries like South Africa, Malawi and Zimbabwe to prove their point. In South Africa, the massively expanded public service and the welfare system put a heavy burden on the economy, particularly on the mining sector. Indeed, the sector has been declining due to tax burden (p. 62). The other example that was given to show the adverse effects of redistributive policies was the Malawian fertilizer distribution programme. This scheme provides to poor farmers heavily subsidized fertilizers and other farm inputs, estimated to be 1.6 million in 2011 (p. 68). The scheme created dependency among farmers and was susceptible to corruption (p. 68). In Zimbabwe, redistributive policies ranging from gratuity payments and pensions to war veterans to redistribution of farmlands formerly owned by white farmers led to the decline of production and skyrocketing inflation (p. 117).

Mills and Herbst undoubtedly made a good argument about the adverse impacts of redistributive policies on economic growth. They, however, failed to examine the political and economic ramifications of these policies. In countries like South Africa, where horizontal inequality is large and the economic divide takes racial lines, redistribution policies are important not only to redress economic injustice but also to ensure political stability. Indeed, as discussed in the same volume, Malaysia, which was afflicted by racial economic inequality, used a policy of economic redistribution, popularly known as *Bumiputra*, to successfully reduce the income gap between the indigenous ethnic Malays and the economically dominant Chinese minority (p. 178).



Secondly, the volume discusses how low productivity hampers economic growth. Mills and Herbst convincingly argue the need to enhance the skill and productivity of the African worker if Africa is going to attract investment. They give a sobering example of the problem of productivity by looking at the case of South Africa, arguably the most advanced economy in sub-Sahara Africa. Thus, 'between 1990 and 2009, multifactor productivity increased only two per cent per year while unit labour costs rose 5.7 per cent' (p. 59). Because of this, Mills and Herbst contend, South African companies have been investing in capital-intensive technologies and outsourcing jobs.

Thirdly, Mill and Herbst showed how 'vested politico-economic interests' continue to hamper job creation and growth in Africa. Angola, which has indeed emerged as a 'land of ironies' (p. 97), is given as a good example to show how vested political interests frustrate inclusive development and bring massive inequality. The figures about Angola are indeed damning. In a country where 'average per capita income is nearly $US 9000, more than two-thirds of the approximately 8 million Angolans live under the US$2 per-day poverty line' (p. 97). It is a matter of no surprise then that people hold the view that the ruling party, the People's Movement for the Liberation of Angola (MPLA), remains a hegemonic distributor of wealth, which creates millionaires (p. 98). As clearly narrated in the volume, similar patterns of cronyism and patronage are seen in countries like DRC, Zimbabwe and Kenya.

Fourthly, the volume discusses how the crowding out of the private sector and government control regimes undermine growth and the creation of jobs. Actually, what the authors said about Mozambique, where the private sector is not only over-regulated but also crowded out by state-linked actors, reflects the situation in many other African countries (p. 103). In Ethiopia, for instance, as a foreign economist whom the authors interviewed in Addis Ababa said, 'every law is extremely complicated. They [the government] would like to follow China, and micro-manage the economy, but they do not have the quality of the administration' (p. 115). Mills and Herbst also showed how Ethiopia's unfriendly visa regime undermines the development of the tourism sector in the country despite serious official commitment to expand the industry (p. 113).

The main conclusions that emerge out of the second chapter are the need for Africa to move away from distributive policies and statist control regimes and provide more space to the private sector (p. 124). In other words, the authors recommend the reintroduction of policies of economic liberalization and free market to reinvigorate growth and job creation in the continent. However, before arriving at such a conclusion, Mills and Herbst should have made two things clear. First, what makes their recommendations different from the policies of economic liberalization that were promoted by donors and international financial institutions under the rubric of structural adjustment programmes (SAP) during the 1980s and 1990s? Second, in the face of the failure of earlier efforts to liberalize African economies,how can one be sure that their recommendation for a new round of liberalization would be successful?

Lessons for Africa

After a thorough examination in the second chapter of the ailments of African economies and the deadlock that the reform movement faced, in chapter three, four and five of the volume, Mill and Herbst broadly explore the lessons that selected countries from Central America, Asia, and Middle East could provide to Africa. Chapter three deals with the lessons that could be generated from the experiences of five Central American countries, namely, Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. The survey of the five countries provides first hand experiences about the difficulties and successes recorded regarding growth and jobs in Central America. The authors were not oblivious to the differences that exist between Africa and Central America. They, however, contend that as sub-Saharan Africa and Central America share profound similarities, there are lessons that the former could learn from the later.

The records of the five Central American countries covered in this volume are mixed. The key drivers of growth in the region are agriculture, *maquilas* (duty-free export processing zones, which are also known as free zones/industrial parks) and tourism. The trailblazer in the region is Costa Rica, a country of 3.5 million people. The country is indeed unique in the region in many regards. As indicated in the volume, its 'exports rose from US$870 million in the early 1980s to US$9.3 billion in 2010' (p. 165). The country not only managed to expand its economy but also to successfully diversify its exports. Accordingly, Costa Rica exports thousands of high tech industrial goods as well as the previously dominant agricultural products like banana and coffee. The reasons for the success of Costa Rica, according to Mills and Herbst, are the opening up of the economy, higher investment on education and the determination of the political leaders to get the country out of patronage politics (p. 168). While Costa Rica was successful in diversifying its economy away from the *maquila* sector, the other four countries continue to depend on this sector for the creation of new jobs (p. 136).

The *maquila* sector, which plays a central role in the provision of jobs in Central America, faces a major challenge in the shape of rising production costs and minimum wages (p. 142). Hence, the countries of the region compete in order to attract foreign investment by reducing minimum wages and production cost. Honduras went further than any of the other countries of the region in providing incentives to international companies. Accordingly, 'the *maquilas* have been completely exempt from all taxes, with no restriction on capital repatriation or, unusually, on local sales tax' (p. 156). Moreover, the government fixed the minimum wage under US$ 200 and allowed the employment of 40 per cent of the workforce on 'part-time' basis without benefits (p. 156). In its bid to win more investment, the Honduran government even pursued the 'charter city' scheme. Under this scheme, the government made the '… legal and tax environment in Honduras – or parts of it – akin to Singapore or Hong Kong...' (p. 157). For this purpose, the constitution was amended in August 2011. Following the introduction of the *maquilas* in 1990, there were positive changes in the export performance of the country. Accordingly, 'exports have grown from US$113 million, when the *maquilas* first started in 1990, to more than US$ 3.6 billion in 2008. By mid 2011, there were 253 companies producing goods and services within these free zones "parks"' (p. 156).

The fourth chapter examines what Africa could learn from the Asian experience. The chapter starts by making a comparison of the economies of Nigeria and Ghana with Indonesia and South Korea, respectively. The comparison gives a good glimpse of the economic decline that had taken place in Africa. Both Nigeria and Ghana had higher per capita income than the two Asian countries during the 1950s and 1960s.

Much of Southeast Asia, according to the authors, follows a similar pattern of growth: 'agricultural revolution based on land reform segues into progressive industrial development through garment, light manufacturing and electronics, and then into services' (pp. 173-174). The volume also mentions that crucial to the success of the region has been the attention given to girls' and boys' education and diversifying economies – from agriculture, to light industry, and to service and knowledge based industries (p. 175).

Having presented this general trend, the authors discuss the experiences of four Asian countries, namely, Malaysia, the Philippines, Vietnam and Bangladesh. Malaysia followed a development trajectory like the other Southeast Asian countries. Immediately after independence, Malaysia revolutionized its agriculture and then ventured into manufacturing industry (p. 178). First, it developed import substitution industries; then it proceeded to heavy industries (p. 179). With the advent of the information age, Malaysia began to invest heavily in information technology (IT) industries (p. 182). Using a series of five-year development plans, Malaysia was able to transform its economy. Policies of economic redistribution and government support to selected industries, which were identified by Mills, and Herbst as counter-productive to African growth, were effectively used by Malaysia to bring about economic transformation and reduce inequality. The relatively successful use of redistribution policy and support to selected industries by Malaysia shows the difficulty of dismissing such policies outright in Africa.

In comparison to the other countries of the region, the economic performance of the Philippines has been low. This is despite its huge potential in terms of educated human resource and also minerals. Due to its weak economic performance, the country earned the unenviable name of the 'sick man of Asia' (p. 187). But in recent years, the country has emerged as a 'service leader' using free zones (p. 186). While free zones of Central America specialize in the production of consumer goods, Philippine's free zones specialize in the provision 'back-office' services for multinational corporations. The Philippines government banked on its citizens' English language skills and low wages to attract foreign companies to export their back office work to the country. As a result, the Philippines overtook India in 2011 in what is called Business Process Outsourcing (BPO) and the sector generated US$9 billion in 2010 (pp. 190-1).

Vietnam, which is still governed by a Marxist-Leninist party, managed to turn around its economy by providing room for private enterprise. Accordingly, the country, which was a net food importer, became the second largest exporter of rice following, its economic reforms (p. 199). Indeed, from 1990 to 2005, agricultural production in Vietnam nearly doubled. What Vietnam achieved in the production of coffee after it liberalized its economy is stunning. In 2000, Vietnam from nowhere became the second largest exporter of coffee, next to Brazil (p. 199). The country has also registered positive results in the industrial sector, including in the manufacturing of apparel, footwear and consumer electronics.

Bangladesh, which is one of the densely populated countries of the world with high levels of poverty, managed to turn around its economy through policies of economic liberalization. The government uses tax incentives, low minimum wages and export processing zones (EPZ) to encourage investment, particularly in the apparel and textile industry. In 2011, the industry employed about five million people and generated, more than 80 per cent of annual export earnings, which was estimated at about US$18 billion (p. 203).

Chapter five examines lessons that Africa could learn from two Middle Eastern countries, Dubai and Israel. Actually, the authors themselves admit that what Africa could learn from the experiences of Dubai and the other oil rich countries of the Gulf is limited (p. 221). But the effort of Dubai and the other Gulf countries in diversifying their economies, which are heavily reliant on oil and gas, is instructive to those African countries whose economies are dependent on mineral resources (pp. 213-214).

The discussion on Israel brings good insights in several respects. The main lessons for Africa include the Israeli experience in creating closer collaboration among the government, research institutions and business and its heavy investment on human resource development. As explained in the volume, the secret behind Israeli's massively successful horticulture industry is the use of innovative farming methods developed by its agricultural research organizations (p. 232). Israel has also a good experience regarding innovation. The government provides seed money for start up projects on a competitive basis. The seed money will be repaid if the projects become successful and make it to the market. This collaboration was one of the key reasons for the success of Israeli high tech and IT industries (pp. 228-9).

Instruments for Africa's Third Liberation

The exploration of the experiences of the eleven countries covered in this volume undoubtedly gives ample lessons for Africa. The chief message that Mills and Herbst want to send to African policymakers is the need to adopt what they call 'conventional model of development', which empowers private enterprise and opens markets (p. 240). As noted above, however, it is not clear how this key recommendation is different from the policies of economic liberalization that were forced upon African states in the name of structural adjustment programmes.

One of the most important policy instruments that were used to spur growth and create jobs both in Central America and Asia, as discussed in this volume, has been the development of free zones. In recent years, countries like Ethiopia have shown strong interest in the development of free zones/industrial parks to create employment and raise much-needed foreign exchange. But the limitations of this policy option are not adequately discussed in the volume. The most important challenge regarding free zones is the incessant desire of multinational corporations (MNCs) to reduce cost. As a result, MNCs relocate their operations where the cost of production is lower and incentives are the greatest. This puts developing countries at a disadvantage; they compete to attract foreign investment by lowering wages and reducing production cost. Moreover, free zones do not have a particularly stellar record in creating decent jobs and in respecting workers' rights.

The main shortcoming of this volume is, however, the lack of a discussion on the 'ideology of development'. This is in spite of the authors' claim that the lack of 'ideology of growth' is one of the key reasons that explains the difficulty in sustaining economic reforms in Africa (p. 3). One important missing point in this regard is a discussion of the ideology of the developmental state. In recent years, the developmental state, which emphasizes the strategic role that the state plays in economic transformation, has become influential in African development discourse.[3] In light of this, it would have been helpful to examine how this ideology worked in Asia and what Africa could learn from the Asian experience.

The volume also overlooks the issue of how intra-African economic cooperation could contribute to Africa's economic transformation. Nor are the challenges and opportunities that the rise of China and India in Africa provides to *Africa's Third Liberation* discussed.[4]

In spite of such limitations, *Africa's Third Liberation* is an important contribution to the issue of African development. Its chief strength lies in the provision of first hand experiences of several countries from which African leaders can draw lessons to reinvigorate the continent's hopes for economic transformation and the creation of jobs.

Notes

1. Doug Lorimer, 2002, *Imperialism in the 21st century: war, neo-liberalism & globalisation*, Broadway, NSW: Resistance Books, p. 28.
2. Kingsley Chiedu Moghalu, 2014, *Emerging Africa: How the Global Economy's 'last Frontier' can prosper and matter*, London: Penguin Books, p.1.
3. Thandika Mkandawire, 2001, 'Thinking about developmental states in Africa', *Cambridge Journal of Economics,* Volume 25, Issue 3.
4. Fantu Cheru and C. I. Obi, eds., 2010, *The rise of China and India in Africa: challenges, opportunities and critical interventions*, London: Zed Books.