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**WHAT EXPLAINS ECONOMIC
UNDERDEVELOPMENT IN SUB-SAHARAN AFRICA?**

by

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December 2015

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**WHAT EXPLAINS ECONOMIC UNDERDEVELOPMENT IN SUB-SAHARAN
AFRICA?**

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Submitted in partial fulfillment of the
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ABSTRACT

This thesis examines the causes of slow economic growth in Sub-Saharan Africa. In particular, it attempts to identify the links between economic growth and the dual-economic system that exists in most African countries. In doing so, the thesis argues that, without inclusive efforts to lift national or regional economies as one package, the problem with slow growth will persist. In the past, much effort has been oriented toward developing African capitalist economies by focusing on the modern sector while the indigenous or traditional economy that has sustained Africans for generations has been ignored. The main finding of the thesis is that the traditional sector appears to be rejecting any attempts to be conquered by a foreign capitalist system; at the same time, however, traditional economies have not had a good track record for attracting economic growth. In order to grow economies in Africa, the gap between the formal and informal economies will have to be reduced.

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LIST OF ACRONYMS AND ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
AU	African Union
CAR	Central African Republic
CFA	Communauté Financière Africaine
DRC	Democratic Republic of Congo
ECASS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EIU	Economist Intelligence Unit
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
HIV	Human Immunodeficiency Virus
IFIs	International Financial Institutions
ISI	Import Substitution Industrialization
NBER	National Bureau of Economic Research
NMC	Multinational Corporation
RoC	Republic of Congo
RSA	Republic of South Africa
SADC	Southern Africa Development Community
SSA	Sub-Saharan Africa

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I. INTRODUCTION

Until recently, the gross domestic product (GDP) for the vast majority of countries in Sub-Saharan Africa (SSA)¹ saw little change since independence from colonial rules. In fact, some African countries experienced a decline in GDP since.² More depressing is that there are no clear answers as to why African countries have performed so poorly and there is little agreement on what exactly needs to be done, argues Todd J. Moss.³ Given the dismal economic showing in the region, this thesis asks what explains Africans' inability to grow economically. However, while searching for the possible causes of Africa's slow economic growth, one cannot understate the importance of the dual-economic system that exists in almost all African countries. Tried though some leaders have, no African leadership has made great strides in merging the divergent national economies into one entity. Consequently, this thesis argues that without inclusive efforts to lift national or regional economies as one package, the problem with slow growth will likely persist. This thesis examines five proposed causes of slow economic growth to determine how they affect the dual economy: the environment, institution, policy, culture, and history.

A. THE TWO ECONOMIES

The picture of the region's economy is as complex as it is full of misconceptions. The modern or formal economy in Africa is the one that the world recognizes. It comprises the export of a few primary commodities including oil, timber, and minerals, and the import of mostly manufactured products from non-African markets. But while the modern economy is globally recognized, it is also the economy with which the average African has marginal engagements. The traditional or informal economy that supports the

¹ SSA, "the Region," and Africa are often used interchangeably.

² Jeffrey D. Sachs, "Globalization and Patterns of Economic Development," *Weltwirtschaftliches Archive* 136, no. 4 (2000): 579–600.

³ Todd J. Moss, *African Development: Making Sense of the Issues and Actors* (Boulder: Lynne Rienner Publishers, 2007), 87.

majority of Africans is hardly a subject for analysis or efforts for development.⁴ Therefore, what constitutes Africa's economies depends on who is making the analysis.

Focus on the Republic of Congo (RoC) as an example. The country became independent from France in 1960. Although politically independent, the country still maintained good relations with the former colonial power on many levels and for various reasons. That relation was tested in 1968 when a communist-led coalition overthrew the Franco-friendly government. To seize the opportunity of influence for its Cold War losses in Congo-Kinshasa, the Soviet Union rushed into Congo-Brazzaville with much assistance to the new Marxist leaders.⁵ For the next few years, Congo-Brazzaville would be under communist influence. However, when oil was discovered in the 1970s, France expertly outmaneuvered the Soviets to seize control of the oil business in the RoC. It did not matter that the country was under communist rule. A deal was struck in which French state-owned oil company Elf Aquitaine would pay whoever is in charge in order for the company to keep the oil flowing.⁶

Congolese political elites knew little about the oil business, argues Howard French while quoting a American diplomat saying that "foreign companies define all of the terms," including how much government officials should receive.⁷ In the end, the amount that Elf paid to the government amounted to crumbs when compared to the company's overall profits from the Congolese oil concession, which, according to French, formed the higher percentage of the company's overall profit.⁸ As he explains it: "The Marxist leaders ran a tightly police dictatorship ... while they and their foreign

⁴ The informal economy is also known as the shadow, parallel, underground, or the economy behind the scene. This thesis also refers to the informal sector as the indigenous or traditional economy because it grew out of tradition. It is the economic system that "follows age-old patterns determined by a complex culture that has evolved over thousands of years (James Eggert, *Invitation to Economics*, 9.)

⁵ Congo-Brazzaville is another name for the RoC while Congo-Kinshasa is the other name for Democratic Republic of Congo (formerly Zaire). Brazzaville and Kinshasa are the world's closest national capitals, separated one of the narrowest part of the Congo River.

⁶ Howard W. French, *A Continent for the Taking: The Tragedy and Hope of Africa* (New York: Vintage Books, 2005), 74.

⁷ Ibid.

⁸ French, *A Continent for the Taking*, 75.

partners salted away billions of dollars' worth of oil revenues in Western banks and luxury real estate in Paris, Switzerland and the French Riviera.”⁹ As Houphouet-Boigny, the founding-father of Cote D’Ivoire once said, “I do have assets abroad ... What sensible man does not keep his assets in Switzerland, the whole world's bank? I would be crazy to sacrifice my children's future in this crazy country (La Croix, Paris, March 13, 1990).”¹⁰ This is the typical story of the national economy that the average economic analysts are concerned with. In the modern sector of economies, most of these countries rely on a few export commodities that the world determines valuable and not much else matters.

The informal or indigenous economy, the one that has existed for generations, is rarely the subject of analysis by African or non-African economic experts. According to an editorial in *Ventures Africa*, “This shadow economy is a self-reliant unregulated economy that represents a tremendous source for global development going forward.”¹¹ Yet, this economy is often described as low-value, subsistence-based, tax-free exchanges that are out of reach of governments control and unsuitable for development.

Rafael La Porta and Andrei Shleifer explain that “Informal economic activity is pervasive in developing countries. It includes both output produced by firms that are not registered with the government, and output by registered firms that is sold for cash and is not reported to the government.”¹² This informality is more pervasive in Africa than most other regions of the world. As the aforementioned *Ventures Africa* article argues, the informal sector account for 75 percent of the employment base in Nigeria, the largest economy in the sub-region, representing approximately 37 percent of SSA economy.¹³

⁹ Ibid.

¹⁰ George B. N Ayittey, *Africa Unchained: The Blueprint for Africa’s Future*, (New York: Palgrave Macmillan, 2015), 18.

¹¹ “The Economy Behind The Scenes,” March 9, 2015, *Ventures Africa*, <http://venturesafrica.com/the-economy-behind-the-scenes/>

¹² Rafael La Porta, Andrei Shleifer, and National Bureau of Economic Research, “The Unofficial Economy in Africa,” (Cambridge, MA: National Bureau of Economic Research, 2011). <http://www.nber.org/papers/w16821>

¹³ “The Economy behind the Scenes,” *Ventures Africa*.

Currently, there are few efforts to see the informal sectors of SSA economies evolve beyond what they have always been, but every major stakeholder in SSA economies recognizes their influence. Most governments appear to have given-up on efforts to formalize the informal sector. Such IMF operatives as Adil Mohommad, Anoop Singh, Sonali Jain-Chandra view the sector with contempt. Considering the above description, these IMF operatives see the informal sector as one that is deliberately concealed to avoid taxes or meeting certain legal labor market standards and procedures.¹⁴ But regardless of the views and attitudes toward the informal sector of SSA economies, it has been and will continue to be the sector that sustains the vast majority of Africans. It is difficult to envision how the region's economies are going to evolve without the development of the informal economy.

B. THE PROBLEM

James Eggert defines an economy as the manner in which individuals and communities survive, reproduce, and evolve by managing limited resources.¹⁵ The people of SSA have certainly been surviving and reproducing. However, the sub-region has not managed to evolve far beyond basic subsistence. Poor healthcare, under-employment, declining per-capita agricultural output, widespread poverty, and the constant need for economic assistance from other parts of the world are the norms. While some countries do better than others, SSA on average remains at what economist Jeffrey Sachs calls the “pre-commercial stage of [economic] development,” and there are few signs that most countries in the region will achieve any kind of transformation beyond this stage. Sachs puts the economic levels into four stages: pre-commercial, commercial, industrial and knowledge economy. He labels “the commercial stage economy as one with basic division of labor between urban and rural settings in which the urban sector produces manufactured goods and services, while the rural sectors produce agricultural

¹⁴ Anoop Singh et al., “Inclusive Growth, Institutions, and the Underground Economy,” IMF Working Paper No. 12/47, February 1, 2012, <https://www.imf.org/external/pubs/cat/longres.aspx?sk=25721.0>.

¹⁵ James Eggert, *Invitation to Economics: Macroeconomics and Microeconomics*, 2nd ed. (Mountain View, CA: Mayfield Publishing Company, 1991).

products.”¹⁶ The majority of countries in SSA have yet to establish such basic prerequisite for economic growth.

The reality is that apart from South Africa, the urban centers in SSA are manufacturing little to nothing. As John Page puts it, “in 2010, Sub-Saharan Africa’s average share of manufacturing value added in GDP was 10 percent, largely unchanged from the 1970s.”¹⁷ The vast majority of manufactured goods are shipped from outside of the continent where they are produced with more efficiency. Furthermore, agricultural products from the rural sectors are generally kept off the shelves in the formal commodity stores of the urban centers. In some areas, formal store managers, most of whom are non-indigenous non-African, prefer to get agricultural products from Brazil, Europe, and other non-African markets, when similar products are produced locally.¹⁸ Governments are generally indifferent to such practices because they can tax the import, while the comparable items that are locally grown are mostly sold in open-air market settings where states have little control. Under such a condition, establishing the urban-rural labor distribution is handicapped, keeping the formal and the traditional economies at a perpetual standoff.

C. SIGNIFICANCE OF THE PROBLEM

A healthy national or regional economy has, at least since WWII, become the primary determinant of societal progress, national strength, and overall human development. It is not to say that economic growth will lead to development, but historically, economic growth has gone hand-in-hand with better living standards, less poverty, and a whole range of other societal benefits. Having a solid economic foundation facilitates quick recovery from such occurrences as civil conflicts, which, in the last few decades, were common in SSA. A healthy economy makes it possible for

¹⁶ Jeffrey D. Sachs, “Stages of Economic Development,” Speech at the Chinese Academy of Arts and Sciences, Beijing, June 19, 2004.

http://www.earth.columbia.edu/sitefiles/file/about/director/documents/china_speech061904.pdf

¹⁷ John Page, “Africa’s Failure to Industrialize: Bad Luck or Bad Policy,” *Brookings*. November, 2014. <http://www.brookings.edu/blogs/africa-in-focus/posts/2014/11/19-africa-failure-industrialize-page>

¹⁸ Moss, *African Development*, 236.

nations to invest in technology that can help balance such demographic pressures as the numerous diseases (HIV/AIDS, malaria, tuberculosis) that the continent has been plagued with for generations. It can help generate funds to invest in machinery to increase agricultural production; to develop transportation networks to carry products to various parts of the continent; and to invest in research and development to be better prepared to respond to a health crisis like ebola.

The reasons for slow economic growth in Africa have been a major subject of debate and concern in Africa and around the world. Since independence, Africans and their foreign allies, friends and donors have been looking for an economic model that Africans can emulate, but none of the proposed models seems to be a good fit. Beginning in the 1960s, leaders of such countries as the DRC, Liberia, and Cote D'Ivoire aligned with the West to imitate Western style capitalism. However, it did not take long to discover that crony capitalism did not lead to economic growth. Meanwhile, Tanzania, Ethiopia, and Guinea tried socialism for some time but they also failed. The end results were weak economies, constantly in a state of crises, regularly seeking assistance from the developed world in the forms of financial rescue, loans, and grants. So bad are the economic results in Africa that international financial institutions (IFI) at times dictate what some countries are allowed to do.

While every other region of the world is looking for ways to make markets the main driver of progress, the SSA region lags behind in every economic indicator.¹⁹ Such economic weakness results in much suffering by the larger percentage of ordinary Africans. It is only natural that Africa and Africans would want to be as prosperous as any other people or regions of the world. The developed and some developing regions achieved much success in human development through resource efficiency and market effectiveness. Africans can do the same. SSA has enough of a consumer base and the materials required are mostly found within the region. Greater economic efficiency in managing limited resources to develop markets is not only good for Africans; the world is better when Africans prosper.

¹⁹ Ayittey, *Africa Unchained*, 3.

D. LITERATURE REVIEW

There may well be an infinite number of causes for the lack of economic growth in SSA. As previously mentioned, however, causes of slow growth can be analyzed using various lenses. Given the divided economy, the primary question to ask is to which economy a particular explanation applies. The following reviews of possible reasons focuses mainly on the formal economy in which the world expects Africans to operate. This segment covers experts' stances on the environment, institution, policy, history and culture. The review will attempt to bridge linkage between the formal and the informal economies where such linkages exist.

1. The Environmental Argument

The environmental causes of SSA's lack of economic growth are probably the oldest arguments presented by the experts. Adam Smith predicted Africa's economic destiny in his 1776 publication of *The Wealth of Nations*, claiming that the African geography generally condemns it to stagnant growth.²⁰ Today, however, the environmental logic is professed primarily by American economist Jeffrey Sachs.²¹ The idea is that the SSA environment itself is a deterrent to economic growth. Whether it is the land, the climate, the geography, the general ecosystem, or such associated demographic pressures as diseases of the tropics, Africa is destined to economic misfortune no matter what. Daron Acemoglu, Paul Collier, William Easterly, Ross Levine and countless other economists refer to Sachs studies and conclusions of the environmental effects on African economies and they all agree that the environment causes are valid. However, these experts arrive at different conclusions as to the level of impact the environment has on economic development. One point of agreement is that diffusion of advanced technology, particularly in agriculture and medicine, can help mitigate the environmental challenges that are said to contribute to Africa's lack of economic growth.

²⁰ Sachs, "Globalization and Patterns of Economic Development," 579.

²¹ Ibid. Also see Sachs, "Tropical Underdevelopment" (NBER Working Paper No. 8119) Feb. 2001.

2. The Institutional Argument

The second cause of slow economic growth considers the effects of weak institutions on African economies. This is an explanation proposed primarily by the Daron Acemoglu. To Acemoglu, “It cannot be that the climate, ecology, or diseases of the tropical areas have condemned these countries to poverty today, because these same areas ... were richer than the temperate areas 500 years ago.”²² Something happened to cause this reversal of economic fortunes and those who share Acemoglu’s mindset point to the set-up of colonial era institutions of resource extraction as the cause of the reversal.

Douglas North is another famous expert to whose work on institutions most analysts refer when examining institutional effects on economies. According to North, “Institutions set the rules of the game. In so doing, institutions define and limit the set of choices of individuals and reduce the uncertainties involved in human interaction. The economic performance of a country depends critically on its institutional arrangements.”²³ But the institutional argument is an area where the dilemma of the dual-economy comes into play in a major way. When analysts assess African institutions, they usually refer to institutional effects on the modern economies since the traditional economies in SSA are usually out of the reach of the modern institutions that the world recognizes.

3. The Policy Argument

The undisputed consensus among economists and economic analysts alike is that African leaders adopted the wrong economic models and policies once in charge of their national affairs. So desperate were some African leaders to steer their newly independent countries away from colonial domination that they were willing to try anything not associated with capitalism. Consequently, a command economy under socialist

²² Daron Acemoglu, “Root Causes: A Historical Approach to Assessing the Role of Institutions in Economic Development,” in *Essential Readings in Comparative Politics*, 4th ed. Edited by Patrick H. O’Neil and Ronald Rogowski, (New York: W.W. Norton, 2003), 157.

²³ Hongying Wang, “Informal institutions and foreign investment in China,” *The Pacific Review*, 13:4, 525–556, DOI: 10.1080/09512740010004269.

tendencies was the approach chosen by most. As Ghanaian economist George Ayittey states:

The courtship and fascination with socialism emerged during the struggle for political independence and freedom from colonial rule in the 1950s. Many African nationalists harbored deep distrust and distaste for capitalism, which was falsely identified by most African nationalist leaders as an extension of colonialism and imperialism. Therefore, freedom from colonial rule was synonymous with freedom from capitalism ... having just emerged from the colonial era, all African leaders were naturally poised to jealously protect the hard-won sovereignty and to strenuously guard against another episode of colonial and foreign exploitation. This was only possible if the state maintained a large presence in the economy.²⁴

Unfortunately, such policies did not payout for the newly independent African countries. For economist like Paul Collier, the stagnant economic posture that started in the 1980s is correlated to increased authoritarianism and dictatorial tendencies of African leaders since the 1970s. African rulers imposed extensive tariffs and quantitative trade restrictions that severely limited international exchanges,²⁵ argued Collier. Ayittey further explains that:

With the passage of time, state control began to wreak havoc on African economies ... prices control, regardless of where they were imposed, created artificial shortages. If the free market price of a bag of maize is \$5.00 and the government fixes its price at \$1.00, the immediate effect is to artificially cheapen the commodity and increase its demand. But it has the opposite effect on supply. By forcing suppliers to accept a price lower than what they were receiving before, it discourages production and reduce supplies. The combination of increased demand and reduced supplies produce the shortage.²⁶

These are the kinds of policies that analysts claimed to have destroyed African economic potentials in the early years since independence. By the same token, many of the authors fail to remind readers that Western experts, governments, and such global

²⁴ Ayittey, *Africa Unchained*, 61.

²⁵ Paul Collier and Jan Willem Gunning, "Why Has Africa Grown Slowly?" *The Journal of Economic Perspectives*, Vol. 13, No. 3 (Summer, 1999): 3–22, American Economic Association Stable, <http://www.jstor.org/stable/2646982>

²⁶ Ayittey, *Africa Unchained*, 30.

entities as the World Bank and IMF have always been present and actively anchored these African despots in steering their countries' economies to disaster.

4. Africa's Economic History

The refusal by the traditional sector to be conquered by the imported imperialist economic system is at the core of Africa's economic problems. As Goran Hyden explains, "economic history is largely the story of how to capture the peasants. Nowhere in the world have other social classes risen to power without making the many small and independent rural producers subordinate to their demands."²⁷ This is not the case in Africa. In the formal sectors where such primary commodities as petroleum and minerals are key elements, governing elites and foreign enterprises are in control. But when it comes to the informal sector, the rural farmers are in charge of their own destiny. They have much freedom to control how and what they produce. This is the way it has been for generations except for the brief colonial era.

"Africa is the only continent where the peasants have not been captured by other social classes," says Hyden.²⁸ To make matters worse, low population and lots of excess land only decrease the likelihood of peasant control. Each family unit produces enough for its needs. They all are independent and require little from governments that they often see as alien elements to fear and evade. Such sentiment is a lasting legacy of the colonial era when colonial administrators, through proxy traditional chiefs specially trained by the colonials, imposed excessive force to get the peasants to produce agricultural excess. In the struggle for independence, it was these colonially constructed chiefs, not the white settlers, who were at the front end of the Africa spear. There began the duel between the formal and the informal sectors that lingers in post-colonial Africa.

²⁷ Göran Hydén, *Beyond Ujamaa in Tanzania: Underdevelopment and an Uncaptured Peasantry* (Berkeley: University of California Press, 1980), 9.

²⁸ *Ibid.*

5. The Culture Argument

The cultural argument is one area that most economists and Africa economic analysts shy away from. To some analysts, culture makes little difference in economic development.²⁹ The continuous portrayal of African mannerism as one stuck in custom, rejecting development, is nothing more than misguided prejudice. To extend this portrayal would suggest that Africans are poor and economically underdeveloped precisely because their cultures are African. There is little empirical evidence for such supposition.

Other analysts shy away from discussing cultural effects on economies because they do not want to offend. Many took note Samuel Huntington's observation that the average GDP for South Korea and Ghana was nearly the same in 1960. In 2000, observed Huntington, the South Korean economy far outperformed that of Ghana. He concluded that such deviation in economic outcome resulted because South Koreans culture valued thrift, investment, hard work, education, organization, and above all – discipline.³⁰ Ghanaian cultural values were different, if Huntington's analysis has any merit. Apparently such beliefs are still generally accepted among many economic experts because despite the various other factors that could have made a difference in Huntington's observation; many experts continually compare African economies with that of the so-called Asian tigers (S. Korea, Taiwan, Hong Kong, and Malaysia).

Those analysts, like the editor-in-chief of the African Sun Times, Chika Onyeani, who highlight the strong correlation between dismal economic showing and the economic tendencies of people of African descent, receive much criticism for their views.³¹ An African of Nigerian origin, Onyeani does not shy away from emphasizing his observations about the lack of economic progress of people of African descent in comparison to others. The African, he argues, is a consumer race that has been led to

²⁹ Jean-Michel Severino, *Africa's Moment* (translate by David Fernbach), (Cambridge: Polity Press, 2011), 60–63.

³⁰ Samuel P. Huntington and Lawrence E Harrison, *Culture Matters: How Values Shape Human Progress* (New York: Basic Books, 2000) xiii.

³¹ Chika Onyeani, *Capitalist Nigger: The Road to Success*, (New York: Timbuktu Publishing, 2000).

believe that production of commodities to exchange in the global marketplace is something to be left to other people. “I am frightened and disgusted at the same time, at a people who produce nothing and consume everything that others produce,” says Onyeani.³² Whether it is by design or accident, to discuss it or not, culture matters and may very well be an obstacle to economic development in Africa.

E. METHOD, SCOPE, AND THESIS ORGANIZATION

1. Method

The bulk of the thesis focuses on critical examination of the theorized causes of Africa’s slow economic growth. Each of the selected cause is assessed to determine how it influences the dual-economic system. This is important because in such divided system, remedies to the lack of growth must address all economic sectors independently and this is counter-productive. It makes solving the problems event harder since the economic sector that supports most Africans is the sector that receives the least attention. As indicated previously, African economies cannot evolve to follow-on stages of economic development in such an extreme bifurcated fashion.

2. Scope

The thesis will take a sub-regional approach focusing on all of SSA even though the sub-region may be further divided into geographical areas: East, West, Central, and South. The thesis takes the regional approach because, except for a few anomalies, the general economic posture of countries in SSA is similar. Some countries—Gambia, Togo, Benin, Rwanda, Burundi and Swaziland—are small in size, population, and economy; while such others, as Nigeria, Tanzania, Ethiopia, and DRC are larger, but the economic posture of countries large or small is the same. Even the economy of the Republic of South Africa (RSA), one of the larger and most modern in the region follows the general trend because daily life and economic status of the average native South African is not much different than that of any others in the sub-region.

³² Onyeani, *Capitalist Nigger*, 5.

3. Thesis Organization

The thesis is organized into four main chapters or categories of analysis. The next three chapters examine the main causes for Africa's slow economic growth, while the follow-on chapter discusses a well-documented recent shift in SSA's economic growth trajectory. Chapter II covers the environmental causes of slow growth. The central issue discussed in this segment is the land and its lack of productive capacity. The central theme revolves around tropical climate. The belief is that tropical climates are prone to economic underdevelopment and recent comparisons between hot and temperate climates in the last few centuries seem to indicate that cooler climates generally do better economically than areas with hot weather. Since the vast majority of the landmass of SSA is located in the tropics, the chapter considers whether geography and weather explains Africa's slow economic growth.

Chapter III examines the effects of weak institutions and bad economic policies on slow growth. It combines the institutions and policy since both explanations can be considered tools of economic management. They are examined together since they overlap in many ways. It takes institutions to make the policies and it takes policies to lay-out how institutions will function.

Chapter IV examines Africa's economic history from pre-modern to present conditions. The chapter combines history with culture because in most ways, historical experiences of a society shape its culture, and the short colonial experience has been the single most important cultural transformative experiment in the continent's modern history. Central to this chapter is the fact that the modern capitalist economy was introduced to Africa during the colonial era and this system, it appears, has not yet taken hold in the region. The traditional economy that has sustained Africans for generations seems to be determined to resist encroachment by a foreign system that has consistently attempted to subjugate it. Can African culture explain this resistance? Economic history should provide the details.

Chapter V examines the recent economic growth trends that have dominated Africa's economic analysis and the headlines in the last decade. Apparently, some

analysts believe that the era of economic stagnation is over and the continent is on the verge of a massive transformation. There are three main elements that analysts claim to be driving the growth trend. These elements are an increase in the price of export commodities, urbanization, and growth in the service sector—particularly in the communication and banking.

The thesis concludes with a general regrouping of the factors of slow growth in SSA. Key among these factors is the general history of economic isolation, mismanagement of national resources, in addition to the region's history of unfavorable foreign relations. In the end, the thesis provides some recommendations for internal as well as external factions that have a stake in the development of the SSA's economies. Additionally, it makes some recommendations to future researchers who may want to address what the private sector, governments, and the international community can do to reduce the informality that seems to represent a major obstacle to economic development in the region.

II. THE ENVIRONMENTAL EXPLANATION

This chapter evaluates the environmental causes of Africa's lack of economic growth. The main focus of this chapter is the low agricultural output of the land, for which, the environment is said to be the cause. Under the environmental logic, the low agricultural output is due to SSA's hot climate and its effects on the land and the labor force. This is a particular problem for the traditional economy since agriculture forms the backbone of that sector.

Comparative analysis does show tropical economies to be generally poorer and less advanced than those in temperate climate.³³ The question is whether this condition is by nature or by design. Experts like Sachs who believe nature to be the cause refer to climate and the general ecology for explanations. Those, like Acemoglu, who believe this condition to be by design, look to institutional evolution while others point to economic policy choices of the various African leaders.

The geography argument concludes that because of its location, Africa will not benefit much from global trade. This consideration is something that mostly concerns the formal economic sectors in SSA. These sectors rely heavily on their connections with the global economy more so than with the local or traditional. The situation is worse for landlocked countries that do not have access to the sea.³⁴ Given that the formal economies in SSA countries were designed to maintain economic linkage with the former colonial powers, the situation became even more challenging once countries gained independence from the metropolises.

³³ John Luke Gallup, Jeffrey D. Sachs, Andrew Mellinger, "Geography and Economic Development," NBER Working Paper No. 6849 (1998), *International Regional Science Review* 22, no. 2 (August 1999), <http://www.nber.org/papers/w6849>.

³⁴ Severino, *Africa's Moment*, 56–57.

A. THE MAIN FOCUS

The lack of agricultural productivity is ambiguous in that some experts argue that the sub-Saharan part of the continent possesses sufficient arable lands to produce enough food to feed Africa's current population. As Amadou Sy puts it, "Africa accounts for about 60 percent of the world's arable land, and most of its countries do not achieve 25 percent of their potential yield."³⁵ The claim 60 percent of world's arable land is questionable; however, according to a 1981 Food and Agriculture Organization (FAO) study, "Africa can feed herself. Even without using any modern farming techniques such as pesticides and with only the most casual approach to maintaining the soil ... Africa presently has the potential to feed a population three times as large as that now living on the continent."³⁶ Despite this claim, however, Africa is today a net food importer. As Sy puts it, "The region spent more than \$30 billion to import basic grains in 2011 according to the FAO. For every \$1 it earns today in agricultural exports (mainly coffee, cotton, and cocoa), the region spends nearly \$2 on agricultural imports, mainly food."³⁷ Past incidences of mass starvation and worries about feeding the growing African population are issues of constant concerns for Africans and their foreign supporters.

"Hunger remains a persistent problem in Africa," says Ayittey, continuing that, "At the beginning of 2003, an estimated 25 million Africans required emergency food aid."³⁸ Not even seasonal droughts can explain this phenomenon, noted former Food and Agriculture Organization (FAO) Director-General Jacques Diouf in 2003: "even where there is no drought or other acute crisis, about 200 million Africans suffer from chronic hunger."³⁹ The international Food Policy Research Institute also projected in its 2020 Global Food Outlook that the problem of chronic hunger on the African continent will

³⁵ Amadou Sy, "What Do We Know about the Chinese Land Grab in Africa?" *Brookings Institute*, November 2015, <http://www.brookings.edu/blogs/africa-in-focus/posts/2015/11/05-chinese-land-grab-africa-sy>.

³⁶ Ayittey, *Africa Unchained*, 237.

³⁷ Sy, "What Do We Know about the Chinese Land Grab in Africa?"

³⁸ Ayittey, *Africa Unchained*, 242.

³⁹ *Ibid.*

increase.⁴⁰ This gives the impression that Africa indeed has an agricultural productivity problem. As far as the environmental explanation is concerned, the main problem for the lack of agro-productivity is the ecology—particularly the climate and its association with the land.

Demographic challenges of the labor force also contribute to the lack of agricultural productivity. The hot climate causes undue harm to the human body. Such tropical diseases as malaria only compound the problem. Infant mortality is high due in part to undernutrition that is a direct result of agricultural underproduction. Life expectancy is low due to years of sickness. The end result is a cycle of poverty that only increases fertility. But since life expectancy is low, countries end up with a working population that is usually young, inexperienced, with few prospects in life.

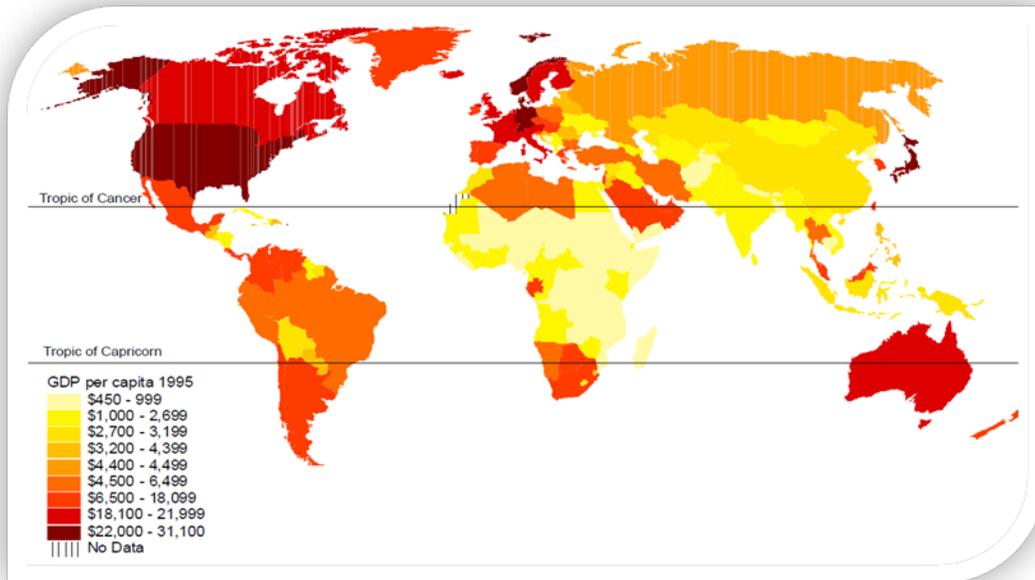
B. THE CLIMATE

The main issue within the environmental explanation is climate. Most of SSA falls between the Tropics of Cancer and Capricorn at roughly 23 degrees north and south latitude from the equator (see Figure 1).⁴¹ Though land features within the area vary, the areas located in the global tropics are known to be among the hottest on the planet. Such high temperature has several effects on soil and laborers. The heat affects soil conditions, rendering the land less productive, the same way it affects human health because of the various tropical diseases tropical area supports. As mentioned earlier, if the land and people cannot efficiently produce, economic growth is off to a bad start.

⁴⁰ Ibid.

⁴¹ David E. Bloom, Jeffrey D. Sachs, Paul Collier and Christopher Udry, “Geography, Demography, and Economic Growth in Africa,” *Brookings Papers on Economic Activity*, Vol. 1998, No. 2 (1998), pp. 207–295 (Brookings Institution Press Stable, 1998) URL: <http://www.jstor.org/stable/2534695>

Figure 1. GDP per Capita, 1995



Source: John Luke Gallup, Jeffrey D. Sachs, Andrew Mellinger, and the President and Fellows of Harvard College “Geography and Economic Development,” CID Working Paper No. 1, Center for International Development at Harvard University, 1999, <http://www.hks.harvard.edu/content/download/69366/1250274/version/1/file/001.pdf>.

Economic experts have historically placed agriculture at the center of the initial phase of economic growth.⁴² Therefore, moving up the economic ladder requires a society to first and foremost have a grip of its agriculture. Food productivity is what makes the difference in why some poor countries grew and other decline, argues Sachs.⁴³ The idea is for food production to match or outpace population growth. Accordingly, increased agricultural output through more efficient farming methods lessens the amount of labor required on the farms. As a result, more of the labor resource transitions from the agricultural sectors to the urban settings where higher wages, technological advances, and manufacturing are the norms.⁴⁴ This is exactly what happened in a developed country like the United States. Farmers made up about 90 percent of U.S. labor force in 1790. By

⁴² Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time* (New York: Penguin Press, 2005), 69.

⁴³ Ibid.

⁴⁴ Sachs, *End of Poverty*, 36.

the year 2000, that figure was less than 2 percent.⁴⁵ In keeping with this logic, Africans have definitely been surging to the urban centers as will be discussed in the last chapter. However, although agricultural output for Africa has overall increase in recent decades, it has not kept pace with population growth. Additionally, very little manufacturing takes place in the African urban centers where unemployment is already high.

1. The Effects of Climate on Land

Low agricultural output is the primary contribution of the land problems. According to Sachs, “High temperatures cause bacteria in the soil to decompose soil organic materials as a very high rate, causing the soil to lose nutrients and physical structure more easily.”⁴⁶ Among the many associated problems of land and temperature, Sachs also cited reduction in net photosynthesis, high rates of water evaporation, tropical pests, and various plants and livestock diseases.⁴⁷ In a predominantly agrarian society like Africa, such a condition is definitely problematic. More food means healthier individuals who can reproduce to increase population, which, as many analysts agree, is a major step to economic growth.

2. The Effects of Climate on the Labor Force

The second problem relates to tropical climate is its effects on the human body. Poor health, combined with undernutrition due to the low productivity of the land only increases the burden of diseases. According to Sachs, “the tropical environment is much more supportive of infectious disease, both because bacterial pathogens flourish in warm environments, and because such key vector-borne diseases as malaria require warm temperature for the survival and infectivity of the intermediate vectors (see Figure 2).”⁴⁸ The heat already poses excessive stress on the human body, and, when recurring illnesses are factored in the equation, the body simply caves to the pressures. Consequently, very

⁴⁵ Debra Spielmaker, “Growing a Nation: The Story of American Agriculture (1600–2004),” multimedia CD, USDA & Utah State University, 2005.

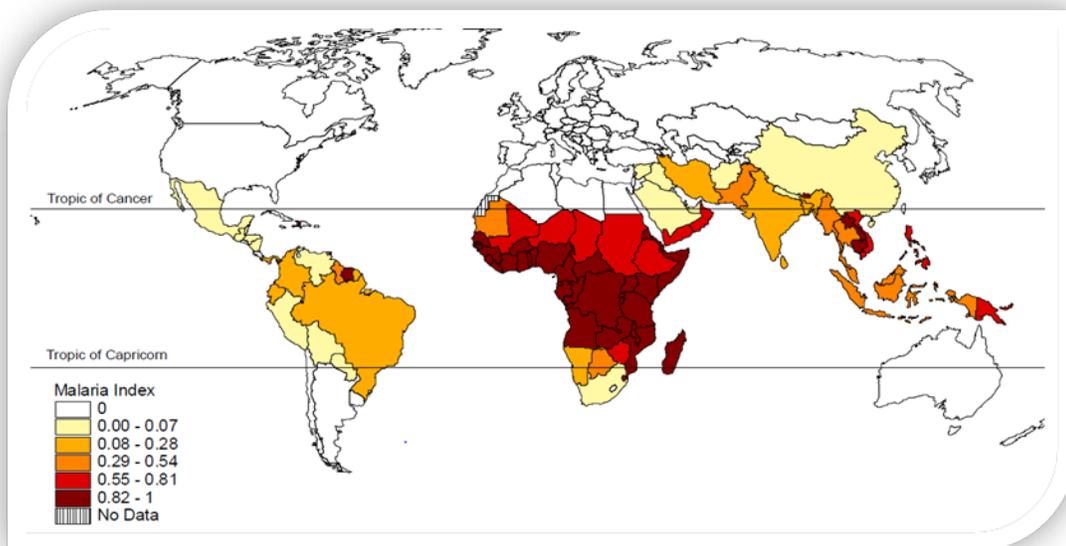
⁴⁶ Sachs, “Globalization and Pattern of Economic Development,” 588.

⁴⁷ Ibid.

⁴⁸ Ibid.

few people want to spend long hours at work under such perilous conditions. “It is no accident that slave labor has historically been associated with tropical and semi-tropical climates,” says Landes, continuing that, “The aim is to shift the work and pain to those not able to say no.”⁴⁹ There is no arguing with such logic, especially if one adds the HIV/AIDS phenomenon, dengue fever, and the periodic disease outbreaks of, for example, ebola and cholera that Africans seem to be unable to control.

Figure 2. Malaria Index, 1994



Source: John Luke Gallup, Jeffrey D. Sachs, Andrew Mellinger, “Geography and Economic Development,” NBER Working Paper No. 6849 (1998), Center for International Development at Harvard University <http://www.hks.harvard.edu/content/download/69366/1250274/version/1/file/001.pdf>.

3. Climate and Economic Posture

Based on the tropical underdevelopment logic, economies are generally worse in places where year-round high temperature is hotter compared to places with cooler climate. One of the ways to compare the economic capacities of two societies or regions

⁴⁹ David S Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor*. (New York: W.W. Norton, 2015), 7.

is to examine the differences in average income. “Locate the poorest places in the world where the per-capital incomes are less than one-twentieth those in the United States, you will find almost all of them close to the equator, in very hot regions ... where, by definition, tropical diseases are widespread,”⁵⁰ says Daron Acemoglu. Could this be an accident or a natural phenomenon?

In his research of tropical underdevelopment, Sachs demonstrates that there is a strong relationship between low income and high temperatures when compared to zones with cooler temperatures. It is not so much a matter of latitude or distance from the equator that is being explained, argued Sachs, but that “countries with the same latitude can have different climate patterns because of influence of land masses, wind patterns, and ocean currents.”⁵¹ The one thing places that places of similar latitude have in common, however, is the general temperature. Consequently, income in northeastern United States is higher than the south because the general climate in the north is cooler.

The colonial experience cannot explain tropical underdevelopment because according to Sachs, “tropical Latin America had gained independence by the 1820s, without decisive breakthroughs in development as of the late 21st.”⁵² Accordingly, Sachs would argue that the Republic of South Africa (RSA) is the most modern economy on the continent not because of its colonial history of unfair distribution of the country’s wealth to the settler community, but because the climate is cooler. What Sachs did not emphasize was that tropical Latin America, like near all of SSA, developed from a resource extraction arrangement. Chile, Argentina, and Southern Brazil are cooler and doing better economically, yes, but these are settler colonies where people of European descent make-up more than 50 percent of the population.⁵³ As will be detailed in the next chapter, European settler communities adopted institutions that support economic

⁵⁰ Acemoglu, “Root Causes,” 157–158.

⁵¹ Jeffrey Sachs, “Tropical Underdevelopment, National Bureau of Economic Research (NBER), Working Paper No. 8119, (Feb 2001): 1, <http://www.nber.org/papers/w8119>

⁵² Sachs, “Tropical Underdevelopment,” 11.

⁵³ See CIA Factbook. <https://www.cia.gov/library/publications/the-world-factbook/geos/ar.html>

development while extractive institutions that invite economic reversal were the norm in the non-settler colonies.

C. THE GEOGRAPHY

In his book, *The Wealth of Nations*, Adam Smith predicted that some countries and regions of the world are simply not in the best location to benefit from market-based development—particularly the benefits of market globalization.⁵⁴ Most, if not all of inland Africa is destined to economic misfortune, predicted Smith: “There are in Africa none of those great inlets, such as the Baltic and the Adriatic Seas as in Europe, the Mediterranean and Euxine Sea in both Europe and Asia ... to carry maritime commerce into the interior of that great continent.”⁵⁵ Given such logic, landlocked countries are even worse-off than countries with a water coast. The geographic logic concludes that Africa’s dismal economic showing and failures to fully take advantage of globalization of economies are due to its location and physical land features, notably the lack of major waterways.

If the geography explanation has any merit, it would mean that Africa’s economic growth and development depends on the region’s trade with economies of other regions. Never mind that countries in the region are not trading among each other, such trade is unlikely to bring any major economic benefit. Such logic is in keeping with the common tendency that the modern economy that relates to the outside world is the only economy that deserves attention.

D. EXPERT ANALYSIS OF THE ENVIRONMENTAL EXPLANATION

When analyzing the environmental causes of slow growth, contemporary experts primarily refer to Sachs’ research. However, former head of Australia’s bureau of statistics, Dennis Trewin, notes that “the time period used for much of his [Sachs] analysis ended in 1995 and [though his analysis] correctly represented the situation at that

⁵⁴ Jeffrey D. Sachs, “Globalization and Patterns of Economic Development.” *Weltwirtschaftliches Archive* 136, no. 4 (2000): 579–600.

⁵⁵ Sachs, “Globalization and Patterns of Economic Development,” 580.

time.”⁵⁶ Trewin’s revision of Sach’s data indicates that the growth rate was indeed lower in tropical zones between 1820 and 1995, in the same period when Europe underwent two industrial revolutions.⁵⁷ Consistent with the latest GDP trend, the World Bank’s average real GDP from 1995 to 2010 shows 5.3 percent for Africa, south of the Sahara; a percentage that is slightly above world average.⁵⁸ Trewin’s statistical analysis also accounts for all zones in the tropics including countries in South and Southeast Asia where some countries experienced their own economic growth take-off in the last few decades.

Daron Acemoglu and Paul Collier also highlight, and in some respect agree with Sachs’ environmental assessment of the effects of geographical and demographic pressures on African economies. The curse of tropical diseases and their effects on health and soil conditions do render people and land less productive. This condition is particularly problematic since the agro-sector is still the largest employment sector in most of Africa. These effects are further aggravated by declining rainfall since the 1960s, says Collier.⁵⁹ But both Collier and Acemoglu also argue that the environmental effects on African economies only show a correlation—not causation—to slow economic growth. Landes also notes that “it is a mistake to see geography as destiny[;] ... science and technology is the key.”⁶⁰ For these authors, the limitations to Africa’s economic performance are manmade. They are either the result of bad economic policies or ineffective institutions.

To his credit, however, Sachs also argues that diffusion of technology from more technologically advanced areas, particularly in healthcare and the agro-sector, could help overcome some of the effects of tropical underdevelopment that facilitate low economic output. As Collier argues, technology can transform nature into an asset, and “a formula

⁵⁶ Dennis Trewin, “Tropical Underdevelopment: Is it a Thing of the Past?” Essay 4, State of the Tropics Project, 339–352. <http://stateofthetropics.org/wp-content/uploads/Essay-4-Trewin.pdf>

⁵⁷ Trewin, “Tropical Underdevelopment,” 340.

⁵⁸ Ibid.

⁵⁹ Collier and Gunning, “Why has Africa Grown Slowly?” 3–22.

⁶⁰ Landes, *Wealth and Poverty of Nations*, 15.

that the world as a whole, and the poorest countries in particular, must master [is that] nature + technology + regulation = prosperity.”⁶¹ Technological advances have clearly not taken hold in most of Africa except for imported technology in the communication and service industries that is now fueling the recent growth to be discussed in the last chapter.

E. THE ENVIRONMENT AND THE DUAL-ECONOMY

The distribution of fertile and non-fertile lands among African countries depended on the inherited arbitrary borders created by non-Africans. Countries like Niger and Mauritania are mostly desert with minimal land available for agriculture, while in Liberia and Cote D’Ivoire, agricultural lands are in abundance. On a regional economic outlook, disparities in arable land distribution between countries should not be a problem. With minimal coordination, Cote D’Ivoire can easily reinforce Niger’s agricultural shortfalls in exchange for livestock from the north, and that’s exactly what has been happening for generations, although on a small, non-industrial scale. Livestock from Mali and Burkina Faso continually make their way to Abidjan and Accra in exchange for agro-products mostly in the informal economy, but these transactions are not captured in economic estimates. There are few to no major multi-state corporations in place to make an industry out of the informal markets exchanges. If these exchanges were organized within a multi-national economy of scale, capable of developing ways to improved production and distribution, the probability of growth would be much higher in the region. As Rafael La Porta and Andrei Shleifer states, “The source of economic growth and transformation to modernity is the creation of large formal firms ... Informal firms operate in the so-called dual economy, providing subsistence to their owners and employees, but not being productive enough to become a source of economic progress.”⁶² Such economy of scale, supported by coordinated efforts among governments and regional economic planners is clearly missing in Africa, and this is a direct result of the fixation on improving foreign

⁶¹ Paul Collier, *The Plundered Planet*, Reprint edition (Nov 2011) ed. (New York: Oxford University Press, 2010) 4.

⁶² La Porta et al., “The Unofficial Economy in Africa.” <http://www.nber.org/papers/w16821>

economic models that cannot relate to economic practices that have existed for generations.

F. CLIMATE AND THE DUAL-ECONOMY

Despite the general consensus among the experts on the validity of the environmental causes, low agricultural productivity due to climate cannot tell the whole story of economic stagnation in Africa. Although generally hot, the sub-Saharan Africa landmass is enormous with varied terrain features. There are the tropical forest areas, the sub-tropical deserts, the Savannahs, etc. Some areas, for example, coastal West and Central Africa in the Gulf of Guinea, are known to be a generally damp with recurring rainfall and tropical weather suitable for agriculture.⁶³ According to World Bank country overview (last updated April 2015), the DRC alone has an estimated 80 billion hectares of arable lands that, if properly cultivated, have the potential to sustain one billion Africans—nearly the entire population of SSA.⁶⁴

Part of the problem is that large-scale, industrial farming in the more productive areas of the continent has yet to take hold. Whether by design or the inability of the agro-industries, large-scale farms are few and those that exist normally are concentrated on the production of a few cash crops for overseas export. But even if industrial farming were to take hold, the management and transportation infrastructure required to move agricultural products from one part the sub-continent to the other is minimal.

To compare Africa with Asia, Sachs explains that “the Asian countryside is densely populated, with relatively extensive road network that can carry fertilizer to the farms and farm output to the markets.”⁶⁵ In contrast, “the African countryside is much less densely populated, with an absence of roads to transport fertilizers and crops. Farmers do not use fertilizers on food crops, and depend on rainfall rather than

⁶³ Kwadwo Konadu-Agyemang and Martin Kwamina Panford, *Africa's Development in the Twenty-first Century: Pertinent Socio-economic and Development Issues*, (Aldershot, England ; Burlington, VT: Ashgate, 2006) 93.

⁶⁴ Democratic Republic of the Congo, Country Overview, The World Bank. <http://www.worldbank.org/en/country/drc/overview>

⁶⁵ Sachs, *End of Poverty*, 70.

irrigation.”⁶⁶ To make matters worse, countries like Cote D’Ivoire, Liberia and Cameroon are looking to ship their agricultural excess to their former colonial power or anywhere in Europe where they can get Euros for their produce. These countries are not programing agricultural endeavors to ship produce to Burkina Faso, northern Mali, or the entire North African region which imports food mostly from Europe. Agricultural lands in the Congo mostly sit idle, unused, because farmers are not going to labor to produce products when there is no guaranteed market worthy of their cultivation efforts.

When it comes to the labor challenges, it is clear that diseases—environmentally associated or not—are problems of major concerns. But while diseases can keep labor resources in check, various analysts highlight that the poverty resulting from such conditions also encourage high fertility in human reproduction. Infant mortality in SSA is high, but Africa’s population is still reproducing faster than all other regions of the world.⁶⁷ As France’s former Director of Agence Française de Développement states, “Cote d’Ivoire had only 11 inhabitants per square kilimotre in 1960; it has nearly 70 today [2011], and will be 110 by 2050. If Britain had undergone the same population growth ... it would today count 285 million inhabitants.”⁶⁸ Consequently, it is not that a lack of labor that hinders economic growth, but rather the lack of economic development renders the labor force inactive. Underdeveloped healthcare and human habits are also primary contributors to the disease environment. Ultimately, economies are not stagnant because workers are dying of common diseases since for every soon-to-be sick worker; three are produced for the replacement.

G. GEOGRAPHY AND THE DUAL-ECONOMY

The geography limitations on growth would make sense if SSA’s formal economy were the only concern. The modern economy after all is the sector that is most connected and dependent on world markets. Accordingly, it would also suggest that economic

⁶⁶ Ibid.

⁶⁷ Michael Barratt Brown, *Africa’s Choices: After Thirty Years of the World Bank* (Boulder CO: Westview Press, 1996) 13.

⁶⁸ Severino, *Africa’s Moment*, 1.

growth in SSA is dependent on its trade and connections with economies of other regions. This is the typical mindset of the analysts who only focus on what Africans have to trade with non-African markets while intra-Africa trade is ignored. African leadership is increasingly waking-up to understanding the need for intra-Africa trade. But given the inability to reconcile the dual national economies, reaching the point where controlled intra-Africa trade is the norms would be a long time coming.

The geography argument does not impact the traditional sector as much as it does the modern economy. Apart from the few cash-crops traditionally exchanged on global markets, geography do not mean much for the indigenous economy since people in that sector have been self-sustained for generations. But if geography does make a difference in overall economic growth, it would either mean that the traditional economy practiced in Africa for generations is unsuitable to growth or Africans need to further develop intra-Africa trade to locally grow before going global. It is what the United States did during the isolationist era. It first developed its home markets prior to going fully global after WWII.

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III. INSTITUTION AND POLICY

While the harshness of the environment is often considered the oldest explanation of Africa's lack of economic growth, weak institutions and bad economic policies are among the most popular. As noted earlier, management is the category of economic resources needed to coordinate the functions of all other resources, and institutions and policies are two of the primary tools used to this end. The institutions and policy causes of slow growth are at the heart of the dual-economy dilemma since these tools of economic enhancement seem to be applicable only to the formal economic sector, while they have little to no influence in the traditional. This is not surprising, however, because the institutions and policies that African governments have adopted are foreign implants introduced to Africa during the colonial era. This chapter examines what institutions and policies mean to Africa and African economies. It takes a historical approach in the evaluation because, until the colonial era, institutions were traditional and policies were unwritten and commonly understood among members of the indigenous, stateless people of SSA.

The main focus for the institutional argument is the failure of Africans to transform these institutions and adapt to changing economic realities. Outdated institutional practices continue unabated because small groups of petty elites do not see the need for adjustments. For policies, the original errors took place when African leaders adopted prepackaged, foreign economic development models that were totally out of touch with on-the-ground economic realities. Essentially, these leaders were looking for quick fixes to the creation and development of modern economies when the prerequisite for such grand schemes were absent. It was like trying to create in a decade what it took more technologically advanced societies a century or more to accomplish. For what they are worth, the modern institutions and policies that most African societies are now struggling with are the same tools through which the international community relates to Africa. One way or another, Africans are going to have to make them work because the international financial institutions (IFIs) in particular hold huge sway in Africa's

economic destiny. As long as Africans remain dependent on the international system, modern institutions and policies will have to be the way forward.

A. THE INSTITUTIONAL ARGUMENT

To clarify why formally rich regions of the world are now poor, Patrick H O’Neil and Ronald Rogowski summarize Acemoglu’s research on institution stating that:

Because Europeans sought to plunder those richer regions, they established predatory institutions (rapacious governments, insecure property rights) that have often survived down to the present day. When Europeans colonized originally poorer and less densely settled regions (Australia, North America) ... they could augment wealth only by attracting settlers, minimizing the burden of government, and establishing clear property rights. The result had been a “reversal of fortune,” in which originally poor regions wound up with good institutions, rapid economic growth, and ultimate wealth, while originality rich regions inherited bad institutions that impoverished them.⁶⁹

The concept or meaning of institutions in Africa is complex. The first misconception to set aside is that there is just one institutional inclination in the SSA region. Some experts conclude that there are two types: the modern Western institutions created during colonialism and the indigenous or traditional African institutions. Others claim that there are three, adding the informal institution, a hybrid system that allow Africans to transition back and forth between the traditional and the modern.⁷⁰

The indigenous is the homegrown institution which, at times, seems to be in conflict with formal. It is the institution “which has historically been castigated as backward and primitive,” says Ayittey, “yet it works—albeit at a low level of efficiency; otherwise, it would not have been able to sustain its [African] people throughout the centuries.”⁷¹ On the other hand, the modern or formal institutions constitute models adopted or enforced on Africans during and after the colonial era. They are the

⁶⁹ Patrick H. O’Neil and Ronald Rogowski, *Essential Readings in Comparative Politics* (New York: W. W. Norton & Co., 2013), 135.

⁷⁰ Ayettey, *Africa Unchained*, 332.

⁷¹ *Ibid.*, 19.

institutional models to which the indigenous institutions were supposed to evolve, but never did. Ayittey continues that, “Most of Africa’s problems emanate from its modern sector. They spill over onto the traditional, causing disruptions, dislocations, and claiming innocent victims” in the process.⁷² These institutions were passed on to Africans as colonial administrators prepared to leave. Since decolonization, however, European institutions have evolved, but Africans maintain the same institutional practices as they were passed on.

Today, Africans are supposed to operate within the confines of the imported Eurocentric institutions. The problem is that only a minority segment of Africans subscribes to these imported institutions. This condition has created an institutional nightmare as the minority sector, mostly situated in niche sectors in the urban centers, tries to cope with the imported institutions while the majority of Africans, still living in the rural settings, cling to their traditional institutions. However, it is not by nature that the bifurcation of indigenous and modern institutions came to be. For Mahmood Mamdani, it was by design.⁷³ The modern institutions were not made to regulate the societal affairs of native Africans. They were established to regulate human interaction in the urban settings where most of the European settlers operated.⁷⁴ The rural sectors were left to the behest of traditional chiefs, trained and appointed by colonial administrators to manage the natives. In essence, if the modern institutions of today are unable to contribute to Africa’s economic growth, they were never designed for such a purpose.

The introduction of the imported institutions appears to have ushered in a lasting shift of institutional tendencies in Africans. While various analysts describe Africa’s indigenous societies to have had cultural institutions that promote practices similar to what we now call democracy, institutional tendencies in contemporary Africa are anything but democratic. Ayittey describes the modern sector as a “meretricious fandango of imported or borrowed institutions that are little understood by the [African]

⁷² Ayittey, *Africa Unchained*, 19.

⁷³ Mahmood Mamdani, *Citizen and Subject: Contemporary Africa and the Legacy of Late Colonialism*, 1st ed. ed. (Princeton, NJ: Princeton University Press, 1996).

⁷⁴ Mamdani, *Citizen and Subject*, 5–7.

elites ... and the end product is a mass confusion.”⁷⁵ From their inception, they were designed to benefit their foreign inventors, and later, the African elites who would replace them.

Acemoglu reinforces this stance by stating that, “Historical evidence suggests that Europeans indeed pursued very different colonization strategies, with very different associated institutions, in various colonies” depending on what economic advantages there were to gain.⁷⁶ He continues that “at one extreme, Europeans set up exclusively extractive institutions, as exemplified by the Belgian colonization of the Congo, slave plantations in the Caribbean, and forced labor systems in the mines of Central America.”⁷⁷ Simply put, the European colonists never intended to settle permanently in these places. These are the hot, malaria ridden environments that Sachs and others discussed in the preceding chapter. Europeans conquered these places to extract primary resources, with the express purpose of making a profit. Acemoglu explains it best when he states:

In places where Europeans did not settle and cared little about aggregate output and the welfare of the population, in places where there was a large population that could be coerced and employed cheaply in mines or in agriculture or simply taxed, in places where there were resources to be extracted, Europeans pursued the strategy of setting up extractive institutions In those colonies, there were no constraints on the power of the elites (which were typically the Europeans themselves or their allies) and no civil or property rights for the majority of the population; in fact, many of them were forced into labor or enslaved.⁷⁸

At the other extreme, “Europeans founded a number of colonies where they created settler societies, replicating—and often improving—the European form of institutions ... primary examples of this mode of colonization includes Australia, Canada, New Zealand and the United States,”⁷⁹ says Acemoglu. One can attest that most of these

⁷⁵ Ayittey, *Africa Unchained*, 21.

⁷⁶ Acemoglu, “Root Causes,” 157.

⁷⁷ *Ibid.*

⁷⁸ *Ibid.*, 158.

⁷⁹ *Ibid.*, 157.

are places where the climate is generally temperate or resembles that of Europe. One can also include the southern cone of SSA on the list of chosen settler colonies as the area is generally cooler than the rest of the sub-continent. It is a condition that may help to explain why Zimbabwe and the RSA were among the last to gain their independence from European domination. Even in these locations, however, the institutions were not supposed to help develop or manage the affairs of native inhabitants. This point helps explain the apartheid systems in South Africa.

This colonial institution legacy lingers in Africa, manifested perhaps most clearly in the fact that most African economies depend on the same few primary extractive resources determined valuable by the former colonial powers. In addition to the usually small, formal economic sector, these primary resources are the only things considered when making economic analysts and forecast. Little focus is put on developing the local, informal, or indigenous institutions.

African leaders continued to operate through institutions that are non-democratic, and designed only to extract resources for shipment to non-African markets. Better exercise of institutions can help to accelerate economic growth, but changing the institutional culture adopted from colonial rules would affect the redistribution of the wealth which could lessen the share of the powerful African elite. Only if there were some way to compensate for these losses might the African political bourgeoisie be inclined to support institutional reforms. As Acemoglu states, “Any reform to the system, however beneficial for the country as a whole, would be a direct threat to them [elites].”⁸⁰ Like Acemoglu, Ayittey affirms that these elites are not interested in any kind of reform, “in fact, it would be economically and politically suicidal for them to do so.”⁸¹ Accordingly, if Africa’s modern institutions contribute little to SSA’s economic growth; it is exactly how the African political elites want it to be. So what are the options?

⁸⁰ Acemoglu, “Root Causes,” 159.

⁸¹ Ayittey, *Africa Unchained*, 21.

One of the institutional options that some analysts suggest is to go back to the origins and develop the indigenous institutions.⁸² However, it is uncertain how much a difference such endeavor will bring, especially at this late stage of global economic development. The battle for primacy between the traditional and modern institutions took place even before the African countries became independent. For years leading up to independence, the colonially constructed traditional chiefs struggled with those who Basil Davidson calls the new nationalists who were in favor of maintaining the modern system of institutions.⁸³ Those in favor of keeping the modern institutions emerge victorious because it is believed that the indigenous institutions could not compete under the modern conditions.

Application of Western style democracy is the second offer to the way forward with African institutions. Since the 1990s, democratizing the manner in which African leaders manage their countries has become top priority for Western donors as well as government elites. Democratization was supposed to enhance the effectiveness of the economic management tools that, in turn, would improve Africa's economic potential. To cope with the new demands, most African leaders manipulated democracy in ways intended to ensure continuity of the status quo while claiming to be democratic at the same time. For most African regimes, democracy simply meant holding elections.⁸⁴ As long as elections are held, it does not matter if state institutions remain incompetent and illegitimate. The question then becomes, does democracy really have an effect on growth?

There is no empirical evidence to suggest that democracy guarantees economic progress. In some countries, democratization may even invite economic regression, at least in the short-term due to the uncertainty of results. One thing is evident however;

⁸² Ayittey, *Africa Unchained*.

⁸³ Basil Davidson, *The Black Man's Burden: Africa and the Curse of the Nation-State*, (New York: Random House, 1992.)

⁸⁴ Gabrielle Lynch and Gordon Crawford, "Democratization in Africa 1990–2010: An Assessment," *Democratization* Vol. 18, No. 2 (2011), 275–310.
<http://www.tandfonline.com/doi/ref/10.1080/13510347.2011.554175>

most countries that are prosperous today also claim to be democratic. Notwithstanding China and Malaysia, democracy is the system to which most countries aspire. If democracy cannot guarantee economic success, the most it can do is strengthen the economic management tools since democracy is, after all, a great exercise of institutions and policies. As Adam Przeworski states “democracy is a system of processing conflicts in which outcomes depend on what participants do but no single force controls what occurs.”⁸⁵ Such exercise of institutions through democratic norms can make a difference. If institutions are strengthened and legitimized through the democratic process, it can facilitate increased reach in the informal sector, which can in turn help bridge the gap in the bifurcated state of economy and institutions.

Regionalization of institutions is yet another possible option to institutional development. The idea of integration to increase economy of scale was proposed by some African leaders even before the various colonies asserted their independence from colonial rules. Internally, such leaders as Ghana’s Kwame Nkrumah and Guinea’s Ahmed Sékou Touré lobbied hard for the realignment of the colonial construct. Externally, however, it was not the wish of the colonial powers, particularly France, to see such drastic rearrangement of the fixed borders and structures that colonial powers have imposed on the continent.⁸⁶ The intent of the colonial powers was for these new countries to only be independent politically - not economically. As a result, the situation prevented the economies of the region from “achieving the critical mass needed to provide a production and consumer market large enough to thrive and compete internationally,” said Moss.⁸⁷

Politically or otherwise, the region is easily 25 or so states too many; therefore, regionalization of institutions may hold the key to the region’s economic growth prospects. The efforts to reach such an end are now left to the sub-regional organizations like Economic Community of West African States (ECOWAS), Economic Community of

⁸⁵ Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge ; New York: Cambridge University Press, 1991), 12.

⁸⁶ Konadu-Agyemang and Panford, *Africa’s Development*, 71.

⁸⁷ Moss, *African Development*, 190.

Central African States (ECCAS), and the Southern African Development Community (SADC). Currently, politics dominates the integration objectives of the member states. Grand claims are made, but methods and capabilities to achieve the claims are lacking. If there is a test for the future prospects of these regional economic organizations, one can point to the two CFA Franc monetary unions that have been in effect since 1945, yet produced little economic development for member states except maybe for the French Republic, the architect of the CFA initiates. Nevertheless, regionalization of economies is a step in the right direction because most of these economies are simply too small to compete in world markets on their own. “Out of the forty-eight sub-Saharan countries, twenty have less than 5 million people, or about the population of metropolitan Detroit,” says Moss.⁸⁸ As of 2007, Moss highlighted that “the GDP of at least thirty sub-Saharan economies is \$5 billion or less, or about equivalent to the capitalization of a midsize U.S. company.”⁸⁹ As he explains:

Africa, with a total economy roughly the same size as metropolitan Chicago, is split up into four dozen individual states. (Imagine the impact on life in Chicago if it was divided into forty districts each with border security, customs, and other hassles.) ... Many states also mean many governments. This is highly inefficient, because each government needs to re-create similar structures and institutions—armies, health ministries, central banks, parliaments—each with their own overhead costs and staff.⁹⁰

While challenges remain, regional integration of economic institutions is the way to go. However, such initiatives will not be complete if national economies stay divided. Otherwise, the national economic bifurcation problems will simply transfer to regional problems.

⁸⁸ Ibid.

⁸⁹ Ibid.

⁹⁰ Ibid.

B. POLICY EXPLANATION

Analysts who believe in the policy theory of Africa's lack of economic growth often start by painting a rosy picture of Africa's economic prospects immediately after independence. According to on various analysts, Africa's economic future seemed bright beginning with the decolonization era in the 1960s.⁹¹ However, it was clear by the late 1970s that Africa's economic prospects were on a downward trend. Most economic scholar generally place the blame squarely on African rulers, with Western experts, governments, and institutions like the Western-dominated IMF and the World Bank running to the rescue once the problems became intolerable. This segment reviews the short history of the policy effects on SSA's economic stagnation. It details three policy considerations (trade, debt, and natural resource) in which African policy makers might have had some influence, but examination reveals these possibilities to not be self-evidence.

The history of economic policy in Africa is short because the largely stateless, agrarian and unlettered societies in SSA did not formulate economic policies in its modern form prior to the mid-1900s when these colonies became politically independent. The story of Africans economic policy can be summarized in that Africans adopted foreign economic policies at independence. It was clear by the 1980s that these policies were cumbersome. Western governments and International Financial Institutions (IFIs) stepped in and demanded policy structural readjustment for countries that wish to continue receiving foreign assistance. It has been 25 years of readjustments without major impact. Neither pre nor post policy adjustment addresses the bifurcation of the modern and traditional economies.

The general consensus is that the policy choices of African leaders after independence set African countries on a course to economic stagnation. However, it is uncertain if there could have been a particular policy orientation that would have opened a different economic path for the region. Given the inter-dependence of economies of the

⁹¹ Collier and Gunning, "Why Has Africa Grown Slowly?," 3–22.

newly independent states with that of the former colonial powers, colonial influence on economic policy choices of these new states was something that the new leaders could not escape. Some African leaders like Ghana's Kwame Nkrumah, Tanzania's Julius Nyerere, and Guinea's Ahmed Sékou Touré desperately searched for ways to design their own economic path. To keep things simple, other first generation African leaders like Cote D'Ivoire's Félix Houphouët-Boigny or the DRC's Joseph Mobutu chose to be toe-the-line and follow orders from the same powers from which they just claimed independence. But regardless of the policy orientations of the newly independent African countries, nearly all African economies ended up in the same stagnating state beginning in the early 1980s. Regardless of the policy approaches that African leaders embraced, Western and non-Western economic advisors were present from the start to help the new leaders embark on these reckless policy endeavors. The idea at the time was that such massive national economic development could only be undertaken by the state.⁹² As Ayittey explains:

In Francophone Africa, industries were nationalized, tariff barriers erected, and the state assumed near-total control of the national economy (Africa Analysis, October 2000, p.4) Rather interestingly, the World Bank, USAID, the U.S. State Department and even the development experts from Harvard University supported these arguments and accordingly channeled much aid resources to African governments (Bandow, 1986).⁹³

These were the years of the Marshall Plan after the devastations of WWII, and state-driven reconstruction of economies was the norm around the world—especially in Europe. For Africa, however, it was not reconstruction of economies that was in the works; it was creation of brand new economies where none previously existed. The difference between Europe's post-war reconstruction and Africa's economic construction is that modern economy in Europe has an established history. There were no shortage of experienced economic experts, business people, and an educated workforce that can quickly get Europe's economic engines spinning given the right capital and material resources.

⁹² Ayittey, *Africa Unchained*, 28.

⁹³ *Ibid.*

Even the typical Asian economies like Taiwan, S. Korea, and Hong Kong, with which Western analysts often compare African countries, had advantages that Africa did not possess. Unlike Africa, most societies in Asia were not stateless. Reading and writing was the norm in most of Asia. As Amartya Sen states, “At the time of Meiji restoration in 1868, Japan had a higher rate of literacy than Europe.”⁹⁴ It is no coincident that the official language of most, if not all Africa countries is the language of their former colonial masters. These are languages that the majority of Africans barely speak or understand, yet it is through these languages that Africans have to connect with the rest of the world. Even connection among and between Africans are now coordinated through the colonial set-up.

Another advantage of these typical Asian example countries is that they are mostly island nations situated along a heavily travelled, maritime economic superhighway that carries the greatest percentage of commerce from Asia to the rest of the world. Dutch traders used Taiwan as a commercial base to engage China and other prominent markets in the area since the early 1600s, and this tradition of commerce continued on the island after in the modern era. Other advantages include the fact that these island nations were fertile grounds for foreign technological investments during the time that most of Africa was marred in proxy wars between East and West. As Sachs explains:

Many poor East Asian countries were initially successful in raising technology not so much through home-grown innovation as through ... as early as the late 1960s, Texas Instrument, National Semi-conductor, and Hewlett Packard, among others, set up operations in Singapore, Penang Island (Malaysia), and other parts of East Asia. They [the companies] saved a lot of money but also introduced what were otherwise very poor economies to sophisticated scientific technology and advanced management processes. If a poor country can become an attractive place for high-technology enterprises to conduct part of their production activities, then they can become a home, even at a low level of development, to quite sophisticated production and management techniques. Under the right circumstances, hosting such activities on the

⁹⁴ Amartya Sen, “How Does Culture Matter?” In *Culture and Public Action*, Rao, Vijayendra and Michael Walton, (Stanford, Calif.: Stanford University Press, 2004), 51.

home turf can then lead to a diffusion of knowledge, and participation in modern production, so that those benefits can then be transferred to domestic firms.⁹⁵

No such advantages were possible or occurred in Africa. As common economic principle states, economic activities that are labor-intensive will concentrate in places with high population, while capital-intensive endeavors rest with countries with low population. Africa, in general remains an underpopulated continent when compared to Europe or Asia, but capital resources are few and far in between.

It is evident that the few educated African leaders that emerged to replace colonial administrators made a number of *faux-pas* in the initial years of establishing of national economic policies. It is, however, hypocritical to believe that these leaders had the capacity and experience to transform African societies into modernity in a relatively short period of time when the colonialists themselves could not do the same, even if they had tried. As Ayittey states:

To initiate development, African nationalist leaders had to work with a cadre of inexperienced bureaucrats. Few of the leaders had any experience running the ship of state. Most had spent time in jail for agitating for freedom, or in the bush, fighting for independence for their perspective countries. Under that circumstance, mistakes were bound to be made.⁹⁶

These were mistakes from which these countries have never managed to recover despite the applications of various national and international remedies. It is also correct to say that out-going colonial administrators helped set the conditions for these missteps in efforts to damage the future viability of these weak and fragile states.⁹⁷ With such a meager beginning, any society would have found it difficult to develop policies that would make a difference in this fast changing economic reality. While it is true that “some of these mistakes were too elementary to be excusable and could have been

⁹⁵ Sachs, *End of Poverty*, 63.

⁹⁶ Ayittey, *Africa Unchained*, 84.

⁹⁷ Davidson, *The Black Man's Burden*, 45.

avoided with a little more introspection and study,”⁹⁸ what was expected of these leaders, not even the experienced predecessor could deliver.

1. Trade Policy

International trade, focusing mainly on the few traditional export commodities is probably the only area where Africans’ economic policies may have some influence since local economies do not matter much when it comes to policies. The saying goes that, “higher levels of trade also seem to correspond with higher rates of economic growth.”⁹⁹ This correlation is true in most cases, but when it comes to Africa, the export of the few land-based resources has not proven to stimulate growth. As Sachs explains, such agricultural commodities as sugar, cacao, coffee and tea were pathways to economic development in the 19th century.¹⁰⁰ One can link this overreliance on the trading of key land-based resources beginning with rubber production in the Belgian Congo, coffee economy in Cote D’Ivoire under Houphouet Boigny, to today’s oil economy in such countries as Angola, Nigeria, Equatorial Guinea. Staying afloat a few export commodities is risky, as any market imbalance or unforeseen setback could bring economies crumbling down, especially when such trade is highly dependent on distant markets. In essence, the resource-based economies that have enriched colonial Africa and have more recently created fortunes for the well-connected political and economic elites do not form the basis of Africa’s long-term growth and prosperity. Sachs further explains:

Highly developed economies shifted increasingly toward knowledge base, and as transport and communications costs fell markedly, the actual ownership of raw materials became less and less essential to economic development. Natural-resource-scarce economies in East Asia, such as Japan, Korea, and Taiwan became wealthy by exporting technology-intensive manufacturing goods and importing the primary commodities that were needed for their productions and for final consumption demand.

⁹⁸ Ayittey, *Africa Unchained*, 84.

⁹⁹ Moss, *African Development*, 204.

¹⁰⁰ Sachs, “Globalization and Patterns of Economic Development,” 591.

It has often been noted in recent years, in fact, those natural-resource-rich economies have fared particularly badly in the past half century.¹⁰¹

Despite the shift to manufacturing, African leaders remain committed to raw-material resource extraction. Whether in logging, oil, or minerals, the raw materials are normally extracted from their sources, put on a ship, and exported to foreign lands for further processing—an arrangement that only helps to create jobs outside of the continent.

2. Debt Policy

Debt control is another area where African policy makers should have some influence, but no policy can change the fact that most governments in the region have lost control of this debt trap to which they have been duped since independence. As Konadu-Agyemang and Panford state, “the greatest threat to Africa’s development comes from the debt overhang.”¹⁰² Borrowed funds that were supposed to supplement resources to help stimulate economic growth never reached such effects in most African countries. At the turn of the last century, Africa’s debts stood at around \$375 billion, noted Onyeani. He continues that “in 1998 Africa spent more money servicing the loan than they received in assistance.”¹⁰³ This condition is like borrowing money to pay debt which further indebted the continent and future generations. With the possible exception of South Africa, there is no country that one can point as evidence to where \$375 billion was spent, explains Onyeani; it certainly did not go to infrastructure development, good roads, better energy (electricity), or better health care.¹⁰⁴ Even if national economies were to evolve to a point of making active returns, the gains will be put aside to pay debts. Consequently, some choose to stay indebted even when oil revenues should have been enough to wipeout these debts.

¹⁰¹ Sachs, “Globalization and Patterns of Economic Development,” 592.

¹⁰² Konadu-Agyemang and Panford, *Africa’s Development*, 51.

¹⁰³ Onyeani, *Capitalist Nigger*, 39.

¹⁰⁴ *Ibid.*, 39.

3. Natural Resource Policy

Natural resources policy is the other area in which African policy makers could have had some influence, but it is difficult to make policies concerning resources over which Africans have little control. The best example for such analysis can be taken from Africa's oil resources that, in the last decade, constitute the economic lifeblood of many African countries. A case in point is Nigeria, which nearly doubled the size of its GDP to become SSA's largest economy since rebasing its GDP in 2013 to include elements of the informal economy that had not previously played a role in GDP calculation.¹⁰⁵ In 1990, "oil revenue accounted for about 93 percent of Nigerian export earnings, 75 percent of foreign exchange earnings, 87 percent of total government revenues, and 45 percent of the gross national product," says Augustine Ikein.¹⁰⁶ Today, these figures have not changed much. Onyeani uses the oil industry as an example for those who want to get a clearer picture of what economic freedom of production means for African leaders, for, despite the huge influence in its economy, the country has little control over its oil.

To discover the oil, a Caucasian [foreigner] has to bring his equipment and survey our land and shores. If there is oil, he estimates the amount of oil located in that area. We award him the contract of drilling for the oil. He brings his own men. Unlike in his country, whatever environmental damage the drilling does is none of his concerns. All he wants is the oil ... he brings his tankers, loads the oil and brings it to his own country where he refines it. He pays less than \$12 per barrel for the crude oil. He refines the crude into several different products, which are then sent back to us at more than \$65 per barrel. In the 1998 year, Exxon generated revenues of \$100 billion, Mobil \$47 billion, Texaco, \$32 billion and Chevron \$27 billion. The revenue of these four companies almost outstripped the revenues of all the 50 Black African countries south of the Sahara combined.¹⁰⁷

¹⁰⁵ Amadou Sy, "Are African countries rebasing GDP in 2014 finding evidence of structural transformation?" Brookings, <http://www.brookings.edu/blogs/africa-in-focus/posts/2015/03/04-african-gdp-structural-transformation-sy-copley>

¹⁰⁶ Ikein, Augustine. *The Impact of Oil on a Developing Country: The Case of Nigeria* (New York: Praeger, 1990).

¹⁰⁷ Onyeani, *Capitalist Nigger*, 45.

When one talks about African economies, it is important to specify exactly which economy is being discussed because if the example is the preceding segment holds true, there is no such thing as a modern African economy. The formal economy is mostly an affair between foreign firms and a corrupt selection of political elites. The traditional economy which has sustained SSA for generations may be the only true African economy. There is definitely something wrong when the most valuable resources of African nations are controlled by extra-national corporations and there is little that Africans can do about it. No one is denouncing outsourcing, but in the case of the oil business in Africa, these countries are not outsourcing such activities by choices, they simply do not have the human and financial capital required to do it themselves. There is nothing that policies can do to change this fact.

C. INSTITUTION, POLICY, AND THE DUAL-ECONOMY

Dual-economy, multiple institutional orientations, and misguided policies designed to influence only a portion of an economy are simply bad combinations for economic growth. Policy and institutions do not create economies; they are economic enabling tools. It is after people began to transact can these tools assist in making human transactions more efficient. Leaders of African countries only experimented with the modern economy when their countries became independent in the mid-1900s. Whether through adaptation of the socialist or the capitalist approach, these attempts at establishing modern economies have generally failed. They failed because the novices misunderstood modern economy. Just as a dollar's worth is about the intangible value and confidence people assign to what it represents, an economy is about people's choices, confidence, risk and trust exercised in economic activities.

1. Institutions and the Dual-Economy

Douglas North defines institutions as “the humanly devised constraints that structure political, economic, and social interaction.”¹⁰⁸ Institutions are supposed to “evolve incrementally, connecting the past with the present and the future; history in consequence is largely a story of institutional evolution in which the historical performance of economies can only be understood as part of a sequential story.”¹⁰⁹ It is how it was done in most of Europe. Europeans developed on the back of a mostly agrarian society and, through population growth, urbanization, wars, homegrown and borrowed technology, they evolved into the knowledge-based economy.

The development of institutions in Africa took a different turn. Indigenous African institutions were violently assaulted through colonial encroachment. Coexistence between the Western and the indigenous institutions have been problematic from the start. Both institutions operate in their own space, within their own reach and limits in Africa’s dual-economic system.

Western institutions can help the formal economies if those who depend on these institutions choose to exercise them the way they were intended to work. But this has not been the case in most of Africa. More often than not, managers and clients of these institutions do not play by their own rules. It is this dilemma that often keeps potential investors away. Whether the countries institutionally adjust or maintain the status-quo, these institutions will remain alien to most Africans as long as they are managed by people who do not represent the interest of those in the indigenous sector.

On the other hand the indigenous institutions do not have a track record of helping to grow economies either. This informality of institutions is suitable for societies that are generally small, dispersed, and agrarian. As reviewed earlier, economic growth has shown to go hand-and-hand with urbanization. Accordingly, the management of complex urban societies cannot rely on such institutions of affection, relations, or lineage.

¹⁰⁸ Douglass C. North, “Institutions,” in *Essential Reading in Comparative Politics*. 4th ed., (New York: W.W. Norton & Company, 2013), 143.

¹⁰⁹ Ibid.

Complex and highly urban societies as well as their rural counterparts require institutions in which the norms are clearly spelled out, preferably on paper, for local as well as visitors.

2. Policy and the Dual-Economy

The source of the policy problems was the belief that governments and policies can create economies. So bad were the policies adapted by African leaders that only 20 years after independence, most African leadership has lost their autonomy in making national economic policies. The *de facto* policy makers in most African countries are now the IMF and the World Bank for two reasons: The first is that the Fund and the Bank has their loan money on the line. The second is that these IFIs had a hand in creating the problems; therefore, they must be part of the solution. But these policies adjustment or readjustment can only address the formal economy, the one that these institutions have arranged with African elites decades before. As Barrat Brown explains it:

The answer to all Africa's problems is, they say, to open up national markets to world competition and free trade. While the IMF and the World Bank have persuaded more than thirty African governments to follow their advice, the results has been even worse economic decline in these countries than in those which did not adopt the Bank's structural adjustment programmes.¹¹⁰

Even if these adjustments were to work, the question is how far these remedies can take African economies before realizing that the informal economy has to be part of the solution. As previously alluded, the traditional economy does not need written policies. This sector has been conducting business long enough for the policies to be understood by all members. Unless African governments can manage to bring this sector under the control of the modern economy, national policy rearrangements will continue to mean little to the traditional sector and overall growth.

¹¹⁰ Barrat Brown, *Africa's Choices*, 14.

IV. HISTORY AND CULTURE EXPLANATION

It must be noted that every society evolves into modernity in its own manner as the circumstances are different in each country or region. Because of its relative isolation, the sub-Saharan part of the African continent developed methods and manners that were distinctively African, while the peopling of the region was purely an internal process.¹¹¹ As various experts conclude, “the African way, while not communistic, is communitarian.”¹¹² The sharing and trading of basic subsistence, especially at the household or small community level is the norm. This logic runs opposite to capitalism which emphasizes individualism, expansion of the means of production, and the transfer of wealth and power to the hands of a few while the rest is mostly reduced to wage laborers at the service of the few. African cultures appear to have generally resisted the capitalist logic. This proposed resistance forms the basis of the dual-economy that continues to linger in Africa. But if such resistance continues to exist, it cannot be that African cultures are against capitalist principle; it is the long history of bad experiences with imperialism, logically confused with capitalism that invites this guarded approach. This chapter examines Africans’ cultural and historical approach to economy in general. It considers whether it is African cultures or the disadvantageous history with outside forces that limit the regional economic growth.

It is difficult to separate culture from history because historical experiences of a society normally shape its culture. Essentially however, culture can be modified, but history, if properly accounted for, must provide answers to a given phenomenon. If cultural norms are major factors of hindrance to economic growth in Africa, then the modern institutions and Western style policies that Africans are trying to cope with make little difference. For what it’s worth, culture matters, and it is an element that analysts must consider when evaluating the lack of economic progress in Africa.

¹¹¹ John Iliffe, *Africans: The History of a Continent*, (Cambridge University Press, 2007).

¹¹² Barrat Brown, *Africa’s Choices*, 4.

A. CULTURE

In her listing of some of the generally contemplated reasons for Africa's poor economic showing, Zambian economist Dambisa Moyo highlighted that:

There is ... the largely unspoken and insidious view that the problem with Africa is Africans—that culturally, mentally and physically Africans are innately different. That somehow, deeply embedded in their psyche is an inability to embrace development and improve their own lot in life without foreign guidance and help.¹¹³

This unspoken view of African cultural norms is reinforced by the reality that the majority of the entrepreneurs, wholesale and retail store owners and merchants across Africa are not indigenous Africans. To find native African ownership, one must go to the usually informal, street markets based mostly on the exchange of basic subsistence goods and low-end retail commodities. As Moss articulates, “some groups can be seen as dominating the economy, such as people of South Asian descent in East Africa, Europeans in southern Africa, and Lebanese in West Africa.”¹¹⁴ Is this reality a coincidence?

A case in point is Liberia, a country whose first president was what would today be considered an African American who had his own shipping business in the mid-1800s when Liberia claimed its independence from the American Colonization Society.¹¹⁵ Many of the free American Negroes of the Liberian colonies had experience in ocean transport, but it was clear that by the mid-1900s that Liberia's maritime import and export was entirely in the hands of Lebanese traders. One would think that the Americo-Liberians tradition of business ownership would continue, but it was later revealed that the true power of business ownership in Liberia rested with the Lebanese. When the Lebanese followed other foreigners out of the country in the early 1980s due to civil

¹¹³ Dambisa F. Moyo, *Dead Aid: Why Aid is Not Working and how there is a Better War for Africa*, 1st ed. (New York: Farrar, Straus and Giroux, 2009), 31.

¹¹⁴ Moss, *African Development*, 236.

¹¹⁵ Pat Matthews, “Joseph Jenkins Roberts: The Father of Liberia,” *Virginia Cavalcade* 23.2 (Autumn, 1973): 5–11.

unrest, the country's economy collapsed by 90 percent.¹¹⁶ It has become the general tendency that Africans generally cannot accomplish great things in this modern era without foreign assistance.

Africans are no less intelligent than the Europeans, Indians, Chinese, or any other group of people who has recently adopted the modern principles of economy to increase prosperity. As previously mentioned, economic successes of each of these groups have a history of their own. It was not for lack of intelligence that Europeans used to persecute their Jewish forebears and early practitioners of the modern form of economy, especially the art of money lending and contracting of promissory notes with high interest rates. Europe's Christian culture regarded such transactions as sinful in the medieval period. Jews were confined to special quarters—later known as ghettos—along with their *tavule* and their *banci* for lending money with interest on return.¹¹⁷ Today, however, the *banci* that the Jews of Europe used to conduct sinful transactions became what we come to know as banks; and where would world economies be without banks to facilitate worldwide financial transactions?

The ascent of money, as described by Niall Ferguson, developed into the bonds market that financed the many European wars in which governments borrowed from their populations with promise of higher future returns. The interesting thing about the evolution of money and market is that the concepts did not originate from Europe, but today, the modern economy is Eurocentric. Like many other things, Europeans imported it from the East and modified their cultures to adapt to it, and later used it to conquer the world. Africans in SSA did not have this historical background, nor did they have early contact with other cultures to import such developmental phenomenon.

The Chinese figuratively put up a wall when they first encountered the refined modern economy introduced by European traders. Chinese believed that the system they had was good enough as the Chinese dynasties were largely self-sufficient. The Anglo-

¹¹⁶ Lawrence A. Marinelli, "Liberia's Open-Door Policy Author," *The Journal of Modern African Studies* 2, no. 1 (1964), <http://www.jstor.org/stable/158998>.

¹¹⁷ Niall Ferguson, *The Ascent of Money: A Financial History of the World*, (New York : Penguin Press, 2015), 34–36.

Chinese wars forced down the walls to open China to trade. It took some time for the Chinese to regain their balance and get onboard with this Eurocentric economic system. Already the world's largest economy, China is now poised to beat Europe at its own game. How were the Chinese so successful at modifying their culture to adapt to a system that was not their own? They copied. They learned how their opponents operated, studied their models and technics, made cheaper, less efficient products if necessary, but they increased their human capital over time.

The difference between China and Africa is that the Chinese had a unified system prior to European encroachment. There was one China, and Chinese civilizations permeated the Far East. Africans, on the other hand, had to learn that they are Africans—members of one entity in the eyes of non-Africans. Prior to the Arabs calling them Africans, people on the continent were just that, 'people,' colonizing a large mass of land with a few unified polities in some locations. It was this condition that made it easier for European culture to have so easily subjugated that of the Africans. Even "educated Africans have themselves been brainwashed by the Europeans education into devaluing their own culture," says Brown.¹¹⁸ Since colonization, it is questionable if there still is such a thing as African culture when it comes to economy.

None of the presumed cultural differences earlier mentioned carry much weight in the current state of world economy affairs. Since the end of the WWII, globalization of economic culture has become the new norm and this norm is based around supply and demand. Regardless of the cultural orientation of a particular society, such society will, in some shape or form, find itself demanding supplies and/or services from another community which will strive to service the demand. Africa is no exception in this integrated world of economies.

Asia was once the target of cultural bias beginning as early as Weber's analyses of various cultural orientations.¹¹⁹ As Amartya Sen surmise, "Max Weber was particularly clear that Confucianism was quite unsuited for a dynamic industrial

¹¹⁸ Barrat Brown, *Africa's Choices* 3.

¹¹⁹ Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (Gloucester: Peter Smith, 1988).

economy.”¹²⁰ Decades later, such analysis proved less than correct. Africa will also survive and rise above current cultural bias, but the process cannot start until Africans stop allowing the rest of the world to define who they are. The process has to start with reducing Afro-pessimism within Africa and Africans.

B. HISTORY

It takes time and directed measures to transform a culturally diverse, stateless and agrarian society from antiquity to modernity. The transformation is even more complicated when the economic system that this society knows and practices for generations is circumvented, forcing the society to accept a foreign system that it barely understands. This segment reviews Africans’ economic history in its relationship with outside forces. It argues that from the first major economic encounter to the present, not much has changed in Africans’ economic interactions with foreign interests. Consequently, centuries of cooperation with outside forces have brought little in terms of economic growth for Africans.

Unlike the Europeans, Africans did not have the opportunist predisposition to venture in mass out of the continent to search for economic opportunities in other places. As a result, others brought new economic know-how to Africa, and outsiders often determined the worth of Africa’s most valuable economic resources.¹²¹ Early Africans moved about the continent surviving on agriculture, “adapting to the environment rather than transforming it, in order to avert extinction by crop-failure,” says historian John Iliffe.¹²² Africans were still trying to colonize a huge continent as the Europeans were exploring and colonizing other places for economic gains, increasing their experience and knowledge of the world in the process.

¹²⁰ Amartya Sen, “How Does Culture Matter?” In *Culture and Public Action*, edited by Rao, Vijayendra., and Michael Walton, (Stanford, Calif.: Stanford University Press, 2004), 48.

¹²¹ Barratt, *Africa’s Choices*, 349.

¹²² John Iliffe, *Africans: The History of a Continent*, (Cambridge University Press, 2007), 1.

The Portuguese are recorded as having first patrolled the Western African coast in the late 15th century to trade various items in return for gold.¹²³ The Arabs controlled trade and spread their culture along the eastern coast down the Horn of Africa to present-day Tanzania. In the north, Arab nomads broke through the Sahara desert, mostly on the wings of Islam to trade and spread their religion. So while the north, because of its proximity to Eurasia, had some contact with other cultures, the southern part of the continent remained partly hidden to the rest of the world. As Iliffe rightly argues, partial isolation made Africans more receptive to external influence, including their willingness to export slaves.¹²⁴ Consequently, SSA's first major entry into global economy occurred through the trans-Atlantic slave trade and Africans were the commodity.

While the first major encounter brought Africans into realm of global economy, Moss argues that the extraction of an estimated 11 million from an already underpopulated continent was probably the most devastating historical encounter for Africa and Africans. As he explains: "prior to the nineteenth century, slavery was commonplace in much of the world and many in African societies accepted it as a feudal-style labor arrangement."¹²⁵ Slaves in the labor arrangement generally knew what to expect from such arrangement. What changed is that the trans-Atlantic slavery business took the old feudal-style practice to a whole new dimension. African contribution was to use the provided weapons to capture human-beings and turn them over to foreign traders. As far as the Africans understood the trade, it continued the age-old feudal-style labor arrangement. But the true reality of the inter-continental slave business was only known to the victims and the non-Africans who controlled the life cycle of the human commodities. In essence, the continent's economic destiny is still influenced in some measures by ancestors of the same people who helped Africans set on the disastrous course of selling millions into slavery from a continent that was already underpopulated. Whether in careless extraction of people as in yesteryear or the extraction of natural

¹²³ Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, (New York: Crown Publishers, 2012), 58.

¹²⁴ Iliffe, *Africans*, 4.

¹²⁵ Moss, *African Development*, 28.

resources since the colonial era, the arrangement between African elites and foreign interest continues unabated.

Daron Acemoglu, and James A. Robinson give an example of how the Congo kingdom rejected much of the technology introduced by Portuguese traders during their first encounters in the late 1400s. For economic incentive, however, the Africans in that part of the continent were quick to adopt one innovation—the gun. “They used the new and powerful tool to respond to market incentives,” says Acemoglu, “to capture and export slaves.”¹²⁶ The authors continue that “the real reason that the Congolese did not adopt superior technology was because they lacked any incentives to do so,” but mostly for the fear that their excess production from using imported tools, would be confiscated by the kingdom.¹²⁷ Not even the king was interested in applying more productive methods, argues Acemoglu and Robinson, “exporting slave was much more profitable.”¹²⁸ This example is similar to Western critics who blame ineffective economic policies on the inexperienced, and often times greedy African leaders, even though their Western advisors were present and greatly contributed to helping these leaders make these bad decisions.

What most Western experts fail to understand is that “technology has to be cleared through cultural customs ... and African culture is not European culture and cannot simply be transplanted,” says Michael B. Brown.¹²⁹ To this day, outsiders are trying to get Africans to adapt foreign methods and are mystified as to why Africans are simply not adapting. Similarly, just about every economic expert is looking for the one economic model that Africa can adopt to get the sub-region on some kind of economic ladder to success. So far, none of the models seems to be a good universal fit for Africa. As Moss puts it, “economists simply cannot say what exactly causes growth and thus are unable to come up with clear remedies to generate faster growth. There are lots of ideas

¹²⁶ Acemoglu and Robinson, *Why Nations Fail*, 60.

¹²⁷ *Ibid.*

¹²⁸ *Ibid.*

¹²⁹ Barrat Brown, *Africa's Choices*, 4.

and many hints, but no unambiguous answers that apply universally.”¹³⁰ Essentially, what works for one place may not work for another.

Evidently, African authorities are still making decisions that have adverse effects on their societies and many of these decisions continue to be encouraged by outsiders. One can draw a parallel with Acemoglu’s example with the current economic situation in Africa today. Based on the above example, the Congo king knew what he was doing within the limits of his knowledge of the world around him. The Portuguese traders, however, had a clear vision of the possible outcome of the activities in which they were engaged. The guns were not made in the Congo in 1493, and they are still not made in the Congo today. Greed and the lust for profit blinded any sense of moral conscience when it came to taking advantage of a people who were not exposed to things beyond their immediate environment due to lack of contact with others. The lack of human capital, experience, and know-how is still a huge problem in Africa. The guns that were provided were explicitly used by those to whom they were provided for the purpose of furthering a business arrangement between outsiders and a small cadre of African governing elites selected and legitimized by non-Africans. Today, these types of business arrangements continue, especially in the extractive industries that comprise the modern sector of economies in Africa.

C. CULTURE, HISTORY, AND THE DUAL-ECONOMY

The vast majority of Africans have made the rational choices not to abandon their indigenous system in exchange for one with which they have had a traumatized history. If Africa cannot evolve under its own terms, it is senseless to do so under a system in which non-Africans will dictate how much Africans can economically achieve. Since the region’s political independence, the more economically advanced countries have been trying to convince poor African countries that “poverty is your fault,” says Sachs, “be like us (or what we imagine ourselves to be—free market orientated, entrepreneurial, fiscally responsible) and you too, can enjoy the riches of private-sector-led economic

¹³⁰ Moss, *African Development*, 7.

development.”¹³¹ While the offer looks attractive, Africans can generally see the hidden costs of such a venture.

It is true that capitalism has proven to be the system that most encourages economic growth. In Africa, however, the capitalist system and culture has either yet to take hold or the African system and cultures are simply rejecting it. The RSA may be the only SSA country where the capitalist culture has reached a large share of the national population, but by the same token, the country’s economy is often described by some as more European instead of African. A few other SSA countries, such as Botswana, Kenya, Senegal, Rwanda, Uganda, and Ethiopia have also made some small progress toward capitalism, but they are far from being labeled capitalistic economies.

If Africans are not easily welcoming the invisible hand and the laissez-faire attitude of capitalist system, one should look to history instead of culture as the primary reason. As Ayittey notes Kenya’s economic status just before independence:

In 1955 in Kenya, among registered companies, there were about 246 new companies owned by Europeans with a nominal capital of £8.9 million (£ = \$1.83), 99 companies belonging to Asians with a nominal capital of £3.6 million, and only one company belonging to an African with a nominal capital of £250.¹³²

These are the conditions under which the world, particularly the Western world, wanted Africans to partake in the global capitalist system. The only Africans that the imperialists can partially convince to validate such laissez-faire arrangements are the tiny elites with whom they have been cooperating since the first major economic encounter. The vast majority of Africans who have not been part of any deal will continue with what they have been doing for generations unless they can clearly see the benefits that changing their indigenous practices will bring.

¹³¹ Sachs, *End of Poverty*, 81.

¹³² Ayittey, *Africa Unchained*, 66.

D. CULTURE AND THE DUAL-ECONOMY

It would seem as if there are two divergent cultural approaches to economic developments in the SSA region: the capitalist culture in the modern sector and the indigenous African culture in the traditional economy. It is irrational, however, to call what is being witnessed in the Westernized sector of African economies capitalism. The three main activities that comprise the modern African economy are extraction of natural resources, service, and retail—the purchase of manufactured products from elsewhere and reselling them on the African markets. An economy that does not manufacture is far from being capitalistic.

Culture matters, but there is little evidence to suggest that African cultures are averse to economic growth. Culture did not create the indigenous economy in Africa. This economy developed out of traditional patterns that are universal. Even the communitarian culture, the norm that some prominent analysts love to associate with Africanism, is not something distinctly African. It is a universal tendency for largely agrarian societies to be communitarian. Not long ago, many of the same cultural propositions that are now being made about Africa cultures were directed toward Asia. As Severino puts it:

Fifty years ago, great intellectuals explained to us, with weighty arguments, why Asia was condemned to famine and underdevelopment; how Asian culture and institutions, imprinted by Confucianism, formed unsurpassable obstacles to the region's development. Thirty years later, their intellectual heirs explained how the Confucian ethic was crucial to the economic take-off of East Asia and its entry into modernity. Will we let ourselves be gulled again by the sirens of culturalism?¹³³

If there is one culture that can bridge the modern and the indigenous economy, that culture is employment. As the common biblical saying goes, “man does not live by bread alone.” Claude Ake highlighted that a more fundamental truth is that “man cannot live without bread.”¹³⁴ To obtain his daily bread, man must work. When a person has

¹³³ Severino, *Africa's Moment*, 62.

¹³⁴ Claude Ake, *A Political Economy of Africa*, (Harlow, Longman House, 1981), 1.

quality employment that provides for him and his family, culture becomes less of an issue in this modern era of economy. Essentially, it is not African culture that keeps the larger part of the African populace in the subsistence-based traditional economies; they simply don't have many other options. Create quality employment and the seeming cultural differences between people in the dual-economy disappear. It is the condition that once rendered the RSA the exception in African economies; the tiny European element in the RSA used their relative advantage to establish manufacturing early in the country's economic evolution by turning the majority black mass into wage laborers. The establishment of manufacturing is what some African leaders attempted to do when they insisted on creating local industries to compete with those of the metropolises. Unable to compete in this fast changing, manufacturing-lead global economic environment, Africans retreated to what they know best—the informal way of economy—leaving the extractive, service, and intercontinental trade to governments and their foreign partners.

E. HISTORY AND THE DUAL-ECONOMY

Africa's history of contact with the outside world created the dual-economy. It was the inability of Africans to shape the course of their economic destiny that resulted in contemporary outcomes. Africans' lack of exposure and experience with globally tested methods put them at a disadvantage from the start. What's done is done. The question now is what Africans will do to change their course and create their own path. Given observed trends, there is not much that they can do because most African governments, which have been the primary drivers of change, continue to depend on foreign creditors for hand-outs and economic solutions.

Since the failures of economic take-off during the first two decades of independence, the IFIs have demanded readjustments focusing mainly on controlling poor and excessive government intervention, spending, and state ownership. As Sachs explains it: "belt tightening, privatization, liberalization, and good governance became the order of the day."¹³⁵ While these efforts put lots of strain on most African

¹³⁵ Sachs, *End of Poverty*, 81.

governments in the short-term, most African leadership had no choice but to accept their creditors' demands.

Africans leaders have essentially lost their autonomy in the formal sectors of economies. The IFIs have become the *de facto* policy makers in most African countries. The IMF for example ordered Zimbabwe to sell its national grains reserves in order to pay debts. With no reserves, low agricultural output in subsequent years forced the country to import grains at higher prices.¹³⁶ Because of debts owed and the continuous need for future loans, African leaders are now busy implementing policies and demands of international institutions while ignoring what can benefit local economies.

Note that the rearrangements focus mainly on fixing deficiency in governments, the same governments that have had little to no control over indigenous economies. Therefore, even if these adjustments worked, the new arrangements will continue to mean little to the indigenous economy. But since it was the arrangements between political elites and foreign entities that created the problems of the dual economy, the solutions to the region's economic growth may indeed lie in the proper management of Africa's relations with the rest of the world. The first step would be for Africans to regain control of their economic affairs. If Africans can manage to get a grip of their economic affairs, past loan can be considered paid because there is no loan amount in the current debt trap that can equate the amount of wealth these same creditors have commandeered or stolen out of Africa.

African economies will grow. The question is how and who will control it. Foreign elements want the control but not the responsibilities. They have historically been pre-disposed to pull out their money at the first sign of problems. The indigenous sector is determined not to partake in any transformation that does not cater to its needs. Until such time there is a formal understanding, the phenomenon of the dual-economy and stagnant growth will likely continue.

¹³⁶ Konadu-Agyemang and Panford, *Africa's Development*, 14.

V. RECENT REGIONAL GROWTH

Africa is still economically challenged but many economic analysts believe that a reversal from two decades of economic stagnation since the early 1980s is in progress at the turn of the 21st century. This chapter will review the main factors (commodity price, urbanization, service) that are believed to be the driving force behind the recent growth trends in the region. If this growth is indeed authentic, it should at least partially address some of the economic growth challenges identified in previous chapters.

The overwhelming outpouring of positive economic indicators in the last 10 years definitely gives the sense that SSA economies are collectively on the verge of a breakthrough. As late as 2001, economic headlines, books, and expert analysis of African economies were almost entirely negative. However, “gone are the traditional pessimism about the continent’s growth prospects and the reference to basket case economies,”¹³⁷ says economist and social science professor Dani Rodrik. Today’s headlines on African economies are mostly positive with such titles as: “Africa: open for business,”¹³⁸ “Africa Rising: A hopeful continent,”¹³⁹ and “An African Growth Miracle?”¹⁴⁰ With these highly positive signals, one cannot help but to take a closer look at the meaning of it all.

Since 2000, various sources report real GDP in SSA to average between 4–6 percent (see Figure 3). It took a plunge in 2009, a reaction to the global economic slowdown of 2008, and quickly rebounded to the aforementioned average and stayed positive since.¹⁴¹ Even the 2009 dip was largely the result of adding numbers from South Africa, the largest African economy and the most integrated with advanced global markets at that time. The rest of Africa fared rather well in 2009 when compared to world

¹³⁷ Dani Rodrick, *An African Growth Miracle?* Richard H. Sabot Lecture, April 2014, JEL No. O11,O40,O55 <http://www.nber.org/papers/w20188>.

¹³⁸ “Africa: open for business - the potential, challenges and risks,” The Economist Intelligence Unit, *The Economist*, 2012, <https://www.ciaonet.org/attachments/19934/uploads>.

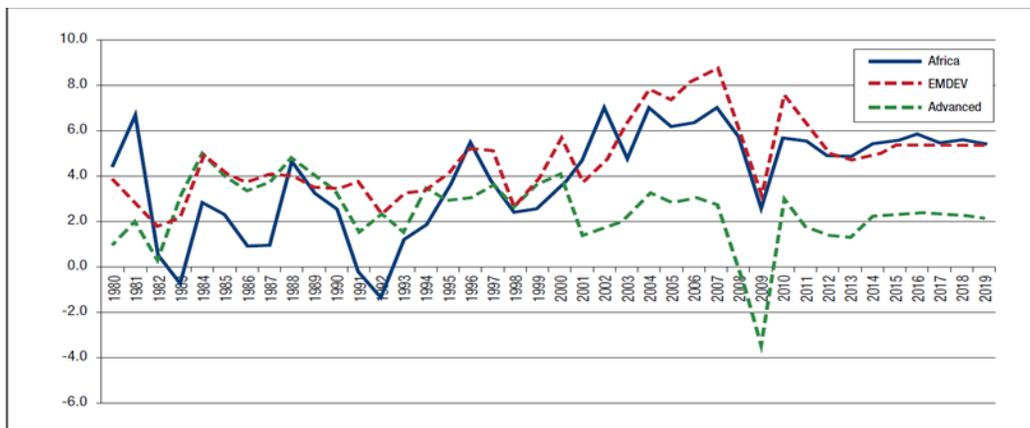
¹³⁹ “Africa rising: A hopeful continent,” Emerging Africa, Special Report, *The Economist*, <http://www.economist.com/node/21572377>.

¹⁴⁰ Rodrik, “African Growth Miracle,” Richard H. Sabot Lecture.

¹⁴¹ “Africa: open for business,” The Economist Intelligence Unit, 2012.

output.¹⁴² The World Bank 2015 market resiliency report concludes that “growth in Sub-Saharan Africa is fairly resilient to a variety of external shocks. In contrast, it is highly vulnerable to domestic shocks, such as drought or civil conflict,”¹⁴³ says the same report. But this resiliency could be good or bad. It could indicate that, apart from South Africa, the rest of the continent is not integrated enough to the world markets, or maybe Africa needs to pay more attention to internal factors if this recent growth and accompanying market resiliency are to stay the course. Either way, the latest growth trends are validated by various sources, but analysts are still taking a cautious view at drawing conclusions.

Figure 3. GDP Growth (%), 1980–2019 (Projected)



Source: Amadou Sy, “Is Africa at a Historical Crossroads to Convergence?” Brookings Institute, 2014, <http://www.brookings.edu/research/reports2/2014/11/think-tank-20>.

A. COMMODITY PRICE INCREASE

The aforementioned *Economist* article entitled, “Africa open for business” captures the most details of the recent growth phenomenon in one document. According to the same article, one of the driving forces behind the recent growth and rebound since 2000 is “surging external demand [for African commodities—mainly oil & minerals gas],

¹⁴² World Bank GDP growth outlook, 2007–2017, Sub-Saharan Africa in 2014, Chapter 2, p. 1. https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter2_regionaloutlook_SSA.pdf

¹⁴³ World Bank GEP2015, Sub-Saharan Africa, Resiliency Report, FIGURE B2.4.1, p. 10.

especially from China and India.”¹⁴⁴ But research has shown that apart from a few exceptions, such resource-based economies have historically not propelled countries to economic prosperity. As Jeffrey D. Sachs and Andrew M. Warner explain, “One of the surprising features of modern economic growth is that economies abundant in natural resources have tended to grow slower than economies without substantial natural resources.”¹⁴⁵ This observation goes to the core of the common logic called the resource curse.

A country like Equatorial Guinea has held one of the strongest GDP average for decades because of its oil export, yet, the country’s general economic posture is as bad as any other poor African country. Because of its relative low population, Equatorial Guinea’s average income is slightly higher than most African countries, but the calculations do not take into account the huge gap between income levels. Rather, the country’s GDP and other analyses are overly concerned with the few primary export commodities, while economic activities in the traditional sector are usually not a factor.

Countries like Angola and Nigeria will continue to lead the pack with such resource-based growth as more African countries are inviting experts to search for their own petroleum sources. Uganda was advertised to be the next oil giant due to a recent discovery, but as evident with the latest price-drop at the gas pumps, not even a cash-crop product like oil is immune from market shocks, and investors in the Uganda oil exploration endeavor have been put on alert. Economic Professor Robert Looney properly expresses that “in Uganda, it’s the *Bust* before the *Boom*” as the country’s leaders accumulate large amount of debts with the hope of repayment through future oil revenue that may not come to fruition.¹⁴⁶ Generally, such a scenario has been the

¹⁴⁴ “Africa: open for business,” The Economist Intelligence Unit, 3.

¹⁴⁵ Jeffrey D. Sachs and Andrew M. Warner, “Natural Resource Abundance and Economic Growth,” Center for International Development and Harvard Institute for International Development, <http://www.nber.org/papers/w5398>

¹⁴⁶ Robert Looney, “In Uganda, It’s Bust Before Boom: Uganda picked the wrong time to mortgage its future to oil,” *Foreign Policy*, Feb 2015, <http://foreignpolicy.com/2015/02/02/in-uganda-its-bust-before-boom-oil-prices-east-africa/>.

tendency of Africans governments since independence, yet, they always seem to find lenders to extend loans that these governments are almost always unable to repay.

B. URBANIZATION

The growing urbanization and ‘consumerization’ in Africa is the second proposed driving force behind the recent growth. Maybe there is something behind this latest economic trend after all, since, as various other economic experts similarly note: “Modern economic growth is accompanied first and foremost by *urbanization*, that is, by a rising share of a nation’s population living in urban areas.”¹⁴⁷ One reasons for the urbanization argument is that “As Africans flock to the cities and disposable income rises, their demand for modern goods and services will accelerate, and global businesses ... will strive to meet this demand.”¹⁴⁸ With these projections, one cannot help but wonder if this recent growth phenomenon is truly about Africa’s long-term development and prosperity. The projections appear to cater to those who want to come to Africa to succeed at the expense of African consumerist tendencies. As previously stated, Africans consume everything but produce little to nothing for sale on the global market.

Not long ago, urbanization was a thing to discourage due to all the misfortunes overcrowding could bring; now increased urbanization is described as a potential economic blessing for global entrepreneurs. One has to look no further than South Africa for examples of the deprived shanty slums consisting of large numbers of crude dwellings that the urban manufacturing and processing plants invited. The initial idea in the RSA was for contracted rural labors to come to the urban centers with a round-trip ticket to return home once work contract ended. But that is not what resulted. In fact, it was this urbanization that put pressure to force the end of the apartheid system. As the urbanization of African countries continues, African can learn a lot from the South African example.

¹⁴⁷ Sachs, *End of Poverty*, 36.

¹⁴⁸ “Africa: open for business,” *Economist*, 3.

It is not the intent of this analysis to downplay the importance of foreign investment, urbanization, and the supply of modern goods to the demand of the growing African urbanite. After all, foreign investment, particularly in manufacturing, can help bridge the gap between the formal and the informal sectors of economies if such investments create jobs. However, the supply and demand should be a two-way street in which African demands for modern goods are supplied by global businesses, while Africans produce product to exchange in return. It cannot be a situation in which non-Africans market produce and Africans do all the consuming. Such an arrangement is unlikely to bring long-term economic growth.

C. THE SERVICE SECTORS

The service sector is said to be the third element that is feeding the recent growth trend in Africa. Communication services, particularly with cellular phone industry, are leading the charge with the service of the trend. Even those who are barely able to economically sustain themselves possess one or more cellular phones nowadays. It is not to say that there is anything wrong with a service economy; highly developed countries and regions are all about service. The difference is that the service-based growth in Africa is highly skewed toward the few categories - mainly banking and telecommunication. The continent has almost entirely bypassed structural development like installation of landline telephones, and leapfrogged straight into the next generation of communication.

If opportunities for shortcuts exist, bypassing stages seems warranted, but such actions demand proper management as the actors may find themselves stuck in transition when there is not a structure to which to return if developments get out of hand. There is little evidence to suggest that any of the aforementioned drivers of the recent growth are planned occurrences. As Kwadwo Konadu-Agyemang and Kwamina Panford noted, “even though people all over the continent crave for mobile phones, radios, computers and other contraptions of information technology, few African countries have laid the foundations for rationalized and clearly formulated policies to guide their participation in

the ICT revolution.”¹⁴⁹ The commodity phenomenon is cyclical. African has been through such cycles before. Urbanization is not new but it has proportionally increased when compared to previous periods. The question that must be asked is: does any or all of the drivers of the recent growth herald a new dawn of foreign domination or will Africans take the lead in directing African economies to a programmed destination? Since the formal sector of African economies provides the base for the recent development, what will be the implications of participation on non-involvement of the indigenous sector?

D. EXPERTS’ ANALYSIS AND FUTURE OF RECENT GROWTH

While Rodrick is just as enthusiastic as the next economist about the region’s latest growth prospects, his balance sheet after reviewing the data suggests caution:

Much of the recent performance seems to be due to temporary boost: an advantageous external context and making up of lost ground after a long period of economic decline. While the region’s fundamentals have improved, the payoffs to macroeconomic stability and improved governance are mainly to foster resilience and lay the groundwork for growth, rather than to ignite and sustain rapid productivity growth. The traditional engines behind rapid growth and convergence, structural change and industrialization, are operating at less than full power.¹⁵⁰

SSA is indeed unique in historical experience, culture, and environmental setting. It is unlikely that the region will experience an economic transformation the likes of 18th century England. Asia, the region with the latest economic growth miracles followed a manufacturing approach, which is related to industry. If African countries maintain the latest growth trends, “they will do so pursuing a growth model that is different from earlier miracles based on industrialization,” says Rodrick, continuing, “Perhaps it will be agriculture led growth. Perhaps it will be services. But it will look quite different than what we have seen before.”¹⁵¹ Maybe there are things that the world can learn from the African experience after all.

¹⁴⁹ Konadu-Agyemang and Panford, *Africa’s Development*, 376.

¹⁵⁰ Rodrik, “African Growth Miracle,” Richard H. Sabot Lecture.

¹⁵¹ *Ibid.*

While the experts try to figure out the significance of the growth trends, Shantayanan Devarajan, Chief Economist at the World Bank's African Region, and Wolfgang Fengler, the Bank's lead economist for most of East Africa have concluded that "the optimists' view of Africa's future is ultimately closer to the mark."¹⁵² Like most loyal World Bank executive would conclude, structural and political adjustments are major contributors to the sustainability of the growth trend. But Shantayanan and Fengler's essay also concedes that "Despite Africa's recent growth, there are few signs of what economists refer to as structural transformation: the shift from low-productivity agriculture to higher-productivity manufacturing and services."¹⁵³ The approach is to wait for it, argue the aforementioned Economist editorial, "A Hopeful Continent."

The biggest reason to be hopeful is that it takes time for results from past investment to come through, and many such benefits have yet to materialise. Billions have already been put into roads and schools over the past decade; the tech revolution has only just reached the more remote corners of the continent; plenty of new oilfields and gold mines have been tapped but are not yet producing revenues. The aid pipeline too is fairly full. The Bill and Melinda Gates Foundation alone has invested \$1.7 billion in Africa since 2006 but acknowledges that "it takes years and years to shift the system." Some aid will be wasted, some new roads will remain empty and more than a few barrels of oil will be stolen. Yet whereas currently not even half of Africa's countries are what the World Bank calls "middle income" (defined as at least \$1,000 per person a year), by 2025 the bank expects most African countries to have reached that stage.¹⁵⁴

What the future holds for this recent growth is unknown. Unlike Asia, there are few African example economies that SSA countries can emulate. Some normally point to Botswana and Mauritius as Africa's example economies. Mauritius is a small island whose history barely represents that of the average African experience, and Botswana is a country with a low population that is blessed with, and dependent on one single natural

¹⁵² Shantayanan Devarajan and Wolfgang Fengler, "Africa's Economic Boom: Why the Pessimists and the Optimists Are Both Right," *Foreign Affairs*: Essay May/June 2013 Issue. <https://www.foreignaffairs.com/articles/west-africa/2013-04-03/africas-economic-boom>.

¹⁵³ Ibid.

¹⁵⁴ "Africa Rising: A Hopeful Continent," *Economist*, <http://www.economist.com/node/21572377>.

resource (diamond) that is quickly phasing out. One would think that South Africa, being the most modern economy on the continent, would serve as the model for African economies, but a March 2013 *Economist* article suggests:

If there is one country that exemplifies the challenges awaiting Africa as it becomes richer and more developed, it is South Africa. It has the biggest economy and the most developed democracy among the larger African countries. However, it is also among the most unequal. In a global ranking by Gini coefficient, a measure of income inequality, South Africa comes off as one of the worst ... the gap between rich and poor is now wider than under apartheid. There are many reasons for this, but the main one is the country's failure to move up the economic development ladder. Industrialization has stalled. Sedated by mining income, politicians and voters see little need to make difficult adjustments. Above all, they are unwilling to free up labour markets. The rest of the continent must learn its lesson from this. Resource income is useful but it cannot replace other industries. Many countries know this but, like South Africa, they fail to create an environment in which businesses can prosper and create jobs.”¹⁵⁵

The economic realities in SSA are definitely changing but experts still struggle to make sense of it all. Unlike the Asian success stories that made their fortune on the manufacturing and exporting of finished consumer goods, Africa's current and projected trends are not uniform. The service industry appears to be on course while the extractive sectors are already showing signs of distress as Chinese demand subsides. In fact, most analysts have consented that the commodity super-cycle—created mainly by increased demand from China—has already ended. Such countries as Kenya and Rwanda that are not blessed with many natural resources appear to have maintained recent gains. What the future holds for this latest trend is still anybody's guess.

¹⁵⁵ “South Africa: Cheerleaders and Naysayers: Who Is Making the Right Call about Africa's Future?” *Economist*, March 2013, <http://www.economist.com/node/21572381>.

VI. CONCLUSION

The thesis only reviews five obstacles to economic growth and the proposed recent shift in growth trends in SSA. As initially noted, the list of factors hindering the region's economic growth is long and experts have yet to find a proven formula that will get the region on the right economic course. But if there are primary elements to which one can point to help explain the SSA's stagnant phase, among them are the history of isolation, mismanagement, and the disadvantageous nature of economic relationships between Africans and all others.

One can also conclude that given the nature of the world's economic affairs in the last few decades, Africa and Africans were pulled into a system in which they had little preparation to compete. With its resources squandered, its leaders untrained or trained to mismanage, its people forced to produce excess for the benefits of others, Africa has certainly had its share of misuse and abuse. It was these abuses that precipitated the dual approach to economy. Despite the history, however, the traditional economy has no choice but to collaborate with the modern system because isolation is no longer an option. Both sectors need each other and long-term growth is near impossible if each sector evolve individually.

What is known is that Africans are resilient. From relative isolation, slavery, colonization, imperialism, and exploitation, to the new world order of globalization, seasonal health crises, declining per-capita agricultural output, ineffective leadership, and threats of economic colonization, Africans remain resilient. This resilience has kept Africans from being written in the pages of history as a conquered civilization. This resiliency helped Africans to abrogate the yoke of political imperialism. It may well be this resilience that will help Africans to find their balance, the same way the Chinese, Indians, and countless other people and regions are finding their way out of economic slump after years of turbulence.

A. ISOLATION AND THE ENVIRONMENT

The culture and history problems with SSA's slow economic growth derive from the region's relative isolation. Markets in the region continue to be partially isolated within SSA, as well as from the outside world. Communication technology is said to be a potential help in closing the isolation gap. The previously discussed urbanization of African cities may also help. Regionalization of institutions and policies is also a step in the right direction but these efforts are still in the beginning stages after decades. Even at the beginning stages, such entities as the EU and such MNCs as Nestle and Coca-Cola, through their power of their funding assistance, have a bigger say in the future of these regional economic blocks than Africans.¹⁵⁶ Internal integration is a long way in the making as Africans need to amass enough capacity to take charge of their economic destiny without having to rely on external assistance.

Chapter II emphasized how the environment is now a barrier to economic growth. Economic analysts have provided enough details to validate that land degradation is indeed a reality in Africa although the explanations for the roots causes of such degradation varied. But it is this same environment that has provided so much that it made Africans generally less inclined to change. Europeans exercised similar norms prior to the population boom that forced people to be more aggressive in competition to create opportunities where none previously exist. It is only when discomfort is intense that humans spend time looking to ways to evolve. Some may see it as culture, but it boils down to motivation, or the lack thereof. Once Africans muster their courage to take charge of their environment, nature will do its part in helping to grow economies.

It will be some time for Africans in the SSA to understand that despite their various borders and cultures, most of the world looks at Africans as one people. Consolidation of national economies is the first step to effective regionalization. The sooner Africans understand this process, the sooner they can begin working on

¹⁵⁶ Konadu-Agyemang and Panford, *Africa's Development*, 100.

establishing the internal integration measures to solidify their position in this global economic reality.

B. MISMANAGEMENT

Policy and institutions were supposed to guide the economic growth and process in the region. Common sense quickly revealed the difficulties of using foreign management systems and tools that did not reflect the on-the-ground economic realities. The end result is that both management tools could not live up to their expectations. But, this problem is a matter of leadership, not of the tools per se because these tools have proven to work in other places. At the core of problem was the attempts to establish controls over an economic sector that only represent the minority interest of Africans. It could be that the history of subjugation limits African confidence in taking charge of their economic affairs, or the modern environment in which they were dragged is too advanced to comprehend. It cannot be that the persuasive power of non-African actors is such that Africans are condemned to be, as Onyeni would say, “economic slaves.”

C. EXOGENOUS ECONOMIC RELATIONS

The general prescription for economic development in Africa, as far as the outside world is concerned, is for Africans to open their markets to trade, investments, less control and barriers. Simply put, the expectation is to create a free-for-all scenario in which foreign and national entrepreneurs can find their niche and compete. This ideal sounds good. After all, it is the way of capitalist markets to attract investments, create competition, and expand.

But the question of “what’s in it for Africa” continues to linger. Pre-independence Africa was a free-for-all, but Africans were not part of that equation. Consequently, post-independence left Africans with little to no capability to be shareholders in the laissez-faire scenario that the world is proposing. The few among Africans who benefit from the current arrangement seem not to care, nor do they reinvest their gains in Africa. Like the African political elite, foreign concessions are only in the game to maximize profit, while little of the gains are re-invested in the continent. There are few signs that foreign investment will focus on manufacturing. Such job-creating investments are reserved for

foreigners' homelands – China included. What's in the laissez-faire market scenario for Africans? If recent trends can provide some hints to an answer, the answer will be: not much.

The SSA economies will have no choice but to grow, regardless of all the aforementioned challenges. As Severino noted, an Africa with the current population growth rate will quickly impose itself on the world and demand to be recognized.¹⁵⁷ The question is how and who will control this growth? Any durable economic development will require that it be one made in Africa, by Africans and for Africans. Anything less will result in the continued scenario in which weak government solicits assistance to survive, foreign interests focus on cheap gains, and the vast indigenous markets continue with business as usual.

D. RECOMMENDATION FOR FUTURE WORK

Future works can focus on methods and approaches that governments, the private sector, and the international community can take to narrow the gap between the formal and the informal economy. In the last two years, several countries in the region have rebased their GDP to include elements of the informal sectors that were not previously calculated in annual statistics. As previously mentioned, rebasing measures nearly doubled Nigeria's GDP in 2014 to become Africa's largest economy.¹⁵⁸ As Sy concludes, "Tanzania's [GDP] grew by a third, Kenya's and Zambia's increased by a quarter and Uganda's rose by 13 percent" after adding elements of the informal sector in GDP calculations.¹⁵⁹ But what does it all mean? Does it mean that the elements that are now calculated have become part of the formal economy that can be leveraged to spur development? Future work can help answer these questions because given the history of

¹⁵⁷ Severino, *Africa's Moment*, 3.

¹⁵⁸ Amadou Sy, "Are African countries rebasing GDP in 2014 finding evidence of structural transformation?" *Brookings Institute*, <http://www.brookings.edu/blogs/africa-in-focus/posts/2015/03/04-african-gdp-structural-transformation-sy-copley>.

¹⁵⁹ *Ibid.*

the dual economy, it is highly unlikely that counting elements of the informal sector into national GDP is enough to formalize these sectors.

E. RECOMMENDATIONS FOR INTERNAL AND EXTERNAL ACTORS

It appears that the different factions in the local economies, governments, and the international community are focusing on different ways, means, and desired ends when searching for the best way ahead with SSA economies. Since governments and their international backers are the ones making big plans, the mass populations in the informal sector appear to be asking: What's in it for me, or, why should I join the grand plans that surface every so often? Neither governments nor the international community have heeded to this very simple question. Under such a context, the best one can do is to provide some recommendations for the internal factions, as well as the international community that mostly knows and understands the formal methods of economy because it is the system practiced at home.

1. Internal Recommendations

Internally, it is not enough for governments to pass laws and regulations to make the shadow economy formal. The informal sector will resist and evade such an approach just like they have done in the past. Policies and credible institutions will be required, but the approach to the formalization of the traditional economy must be gradual. More importantly, if governments are going to demand formality, they must also be prepared to provide alternative survival means during and after the transition. Given the historic lack of capability of the average African government, such opportunities may have to be created through leadership within the private sector of the traditional economy if formality ever becomes the general goal. However, for the private sector to take charge of transforming the informal sector, governments will have to maintain the historic stance of not getting overly involved, except for the provision of minimal law enforcement and security. The private sector will also require much help and assistance from the international community of financial institutions, governments, donors, and advisors. Such a scenario may create opportunities for foreign and more knowledgeable

entrepreneurs to work directly with the African private sector, bypassing the governments that have often been more of an obstacle than an asset.

2. International Recommendation

Historically, large international companies that do business in Africa only focus on niche markets that provide quick returns for shareholders. The same goes for the mid-size firms that operate in the import/export or retail businesses. Whether it is the Chinese, Indians, Lebanese, and the few Africans involved in retail, the approach has been to purchase cheap manufactured products abroad for sale on the African markets while most of the return is reinvested elsewhere. This tendency toward what African proverbs call “milking the cow, while refusing to feed the cow” will have to change. But such a shift will have to start with fixing the corrupt governing systems that are making it possible for foreign businesses to only milk the cow.

Elements of the international community that claim to be helping African economies can make the difference. However, after more than half a century of claiming to be helping Africa, there appears to be something fundamentally wrong with either the approach or the choice of partners. First of all, it appears as if the international helpers have totally written off the economic sector that supports the majority of Africa. It should have been clear by now that the insistence on trying to get African business practices to mirror those of the outside world is not going to work. Africans have had unique historical experiences that make them respond to market incentives differently. Maybe it's time to stop telling Africans how to be and give them a stake in shaping the future of how things are going to be. Too much focus is put on working with political elites who know little to nothing about economy. Helping to shape local and regional entities that can amass local synergy to stand on-par with international economic institutions and enterprises is a good start.

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