

NEPAD AND FDI_s: SYMMETRIES AND CONTRADICTIONS

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Summary

The latest effort to “do something for Africa” at the continental and international level, called *NEPAD (New Partnership for African Development)*, claims its inspiration and legitimacy from the concept of the “African Renaissance”. African civil society and academia are gradually waking up to this initiative. Although the document promises to be “people-oriented”, the people have not yet been consulted. However, NEPAD leaders have appealed to the people for their support (paragraph 53 to 56). This paper takes this invitation seriously, and seeks to examine both the positive and not so positive aspects of NEPAD in the hope that a critical inquiry would help clarify some of the more difficult issues underlying this initiative. The single most important issue is: where is the money going to come from for this, what appears to be, the most ambitious project conceived by some of the major political leaders of Africa? NEPAD talks about “self-reliance” and argues, repeatedly, that Africans must be “masters of their own destiny”. It also says (para 3) that the credit and aid binomial has led to the “debt deadlock”, and “instalments to rescheduling”. But then, in obvious, or apparent, contradiction, it goes on to say (para 130) that Africa needs to secure more aid and more credit, and furthermore, that the “bulk” of Africa’s capital needs up to the year 2015 “will have to come from outside Africa” (para 147). In order to secure these funds, NEPAD promises to the Western partners to put itself in its best behaviour in matters of economic and political governance. This paper seeks to examine this proposed strategy of NEPAD in some depth, and in particular, to look at the value that African leaders seem to have placed on Foreign Direct Investments (FDIs) as their main source of funds from outside. The paper ends with proposing an alternative strategy for self-reliant development that puts more faith in the people of Africa than on foreign capital.

I. NEPAD's Political-Economic Analysis on Africa's Underdevelopment and Forward Strategy

A. What is the cause of Africa's Underdevelopment ?

Like with most descriptive papers on Africa that come out of mainstream institutions, such as the World Bank and the UNDP, and other literature, NEPAD has its own facts and figures on Africa's poverty. They confirm the view that Africa is in dire a condition.

In Africa, 340 million people, or half the population, live on less than US \$1 per day. The mortality rate of children under 5 years of age is 140 per 1000, and life expectancy at birth is only 54 years. Only 58 per cent of the population have access to safe water. The rate of illiteracy for people over 15 is 41 per cent. There are only 18 mainline telephones per 1000 people in Africa, compared with 146 for the world as a whole and 567 for high-income countries. (para 4)

It is clear that something has to be done, something radical, to get out of this appalling condition in which Africa finds itself. But how does NEPAD explain this situation? How did Africa come to be in such a mess?

There is no one cause for this condition, argues NEPAD. There are multiple causes. It does argue that there are historical causes to Africa's continuing poverty (para 18), but it does not put the blame entirely on the colonial period. The impoverishment of the African continent is "accentuated" by the "legacy of colonialism"; it is not the root cause. Among other historical "legacies" are the cold war and the "international economic system". However, colonialism did subvert the "traditional structures, institutions and values." (para 21) And it created an economy "subservient to the economic and political needs of the imperial powers."

Africa, NEPAD argues, has been integrated into the world economy as "supplier of cheap labour and raw materials draining Africa's resources rather than industrialising Africa." (para 21). But the problem is not purely economic. It is also political. Colonialism retarded the development of an entrepreneurial and middle class with managerial capability. At independence, Africa inherited a "weak capitalist class" and this explains the "weak accumulation process, weak states and dysfunctional economies." (para 22). The "rate of accumulation" in the post-colonial period has not been sufficient "leading to patronage and corruption." (para 25) The "vicious circle" of "economic decline and poor governance" has confirmed Africa's peripheral and diminishing role and "marginalisation." (para 26) Among the

more recent reasons for Africa's dire condition is "its continued marginalisation from globalisation process." (para 2)

B. So what is the way forward?

It is first and foremost a question of political will, says NEPAD. NEPAD is "anchored on the determination of Africans to extricate themselves and the continent from the malaise of underdevelopment and exclusion in a globalising world." (para 1). It is time that "African resources are harnessed to create wealth for the well-being of her peoples." (para 20) "In doing so, the challenge is for the peoples and governments of Africa to understand that development is a process of empowerment and self-reliance. Accordingly, Africans must not be wards of benevolent guardians; rather they must be the architects of their own sustained upliftment. (para 27)

Why have African states not able to achieve this since they became independent? The historical legacy mentioned earlier remains one of the reasons. But part of the problem has been

"questionable leadership" and part of it lack of "ownership" of the strategies "by Africans themselves" (para 42) As for more recent efforts, such as the Structural Adjustment Programme (SAP), these provided a "partial solution". "They promoted reforms that tended to remove serious price distortions, but gave inadequate attention to the provision of social services." (para 24)

Globalisation has created "opportunities for lifting millions of people out of poverty." (para 32). But somehow Africa has missed out on this. Why? Mainly because Africa has not been able to "compete effectively" in the globalising markets. (para 33) One of the factors that militate against Africa is "the absence of fair and just global rules." Globalisation has

... increased the ability of the strong to advance their interests to the detriment of the weak, especially in the areas of trade, finance and technology. It has limited the space for developing countries to control their own development, as the system has no provision for compensating the weak. (para 33)

Also, Africa has not been able to take advantage of globalisation because of "structural impediments" and "resource outflows and unfavourable terms of trade." (para 34)

NEPAD does not say what African countries might do to make the global system of trade and finance fairer and more equitable, or how “structural impediments” might be removed, or how the adverse terms of trade might be reversed. These matters NEPAD prefers to leave to the international community. “We hold that it is within the capacity of the international community to create fair and just conditions.” (para 41)

For its part, NEPAD prefers to lay emphasis on what Africa might do to improve its competitiveness in the global market place. “The African Renaissance project, which should allow our continent, plundered for centuries to take its rightful place in the world, depends on the building of a strong and competitive economy as the world moves towards greater liberalisation and competition.” (para 50)

NEPAD understands Africa’s underdevelopment problem as arising out of a complex set of factors, both historical and structural. It puts part of the blame on poor leadership in Africa. It hopes that a new leadership that is now in power will change things. “Significantly, the numbers of democratically elected leaders are on the increase. Through their actions, they have declared that the hopes of Africa’s peoples for a better life can no longer rest on the magnanimity of others.” (para 44) It says that NEPAD is a “new framework of interaction with rest of world,” but one that is “based on Africans setting their own agenda,” (para 48), “a long-term vision of an African-owned and African-led development programme.” (para 60)

But this vision, NEPAD says, cannot be realised outside of the process of globalisation. “While globalisation has increased the cost of Africa’s ability to compete, we hold that the advantages of an effectively managed integration present the best prospects for future economic prosperity and poverty reduction.” (para 28) Africa cannot afford to miss out on the new millennium economic revolution. “This revolution could provide both the context and the means for Africa’s rejuvenation.” (Para 28) Central to this revolution are the advances made in science and technology, especially, the information and communications technology (ICT). It has “reduced the cost of and increased the speed of communications across the globe, abolishing pre-existing barriers of time and space, and affecting all areas of social and economic life. It has made possible the integration of national systems of production and finance, and is reflected in an exponential growth in the scale of cross-border flows of goods, services and capital.” (para 29) What Africa needs to do is to create the possibility for it to be part of this new economic revolution, and to “slice up the value chain” in many manufacturing and service-sector production processes. (para 30)

C. The centrality of FDIs in NEPAD's development strategy

In order for Africa to “slice up the value chain” in the process of globalisation, NEPAD says, Africa must be prepared to undertake massive investments. Without these, NEPAD's vision will remain merely rhetorical.

But where are these investments going to come from? In the entire NEPAD document, this is the most critical question: Where is the money going to come from to get Africa out its present state of underdevelopment and marginalisation? No amount of dreaming about new visions, or about new kind of leadership in Africa, will amount to much unless ways are found to finance the new vision.

NEPAD hopes that the capital will come from its “partners.” *There is a “resource gap” in Africa*, says NEPAD (para 153). Africa must therefore depend on foreign capital to fill the gap. And this, for all intents and purposes, means, capital from the highly industrialised countries. “The locomotive for these major advances is the highly industrialised nations. Outside this domain, only a few countries in the developing world play a substantial role in the global economy.” (para 31)

NEPAD is not optimistic about aid or credit as sources of finance from the West. In fact, it looks at these rather unfavourably.

Historically ... the credit and aid binomial has underlined the logic of African development. Credit has led to the debt deadlock, which, from instalments to rescheduling, still exists and hinders the growth of African countries. The limits of this option have been reached. Concerning the other element of the binomial – aid – we can also note the reduction of private aid and the upper limit of public aid, which is below the target set in the 1970s. (para 3)

Under NEPAD, African leaders will seek to “mobilise domestic resources” (para 148); they will seek “the extension of debt relief beyond its current levels (based on debt “sustainability””, and link debt relief with “costed poverty reduction outcomes”; (para 148-49); they will seek “increased ODA flows in the medium term, as well as reform of the ODA delivery system, to ensure that flows are more effectively utilised by recipient African countries” (para 151-152). They will do all this, but, in the final analysis, it is the flow of FDIs that will decide whether Africa can meet its growth targets. NEPAD considers debt reduction and ODA “as complementary external resources required in the short to medium term”, and “addresses private capital flows as a longer-term concern.” (para 147)

NEPAD sets its target at an estimated 7 per cent annual growth rate needed to meet the millennium goals – particularly, the goal of reducing by half the proportion of Africans living in poverty by the year 2015. “To achieve this Africa needs to fill an annual *resource gap* of 12 per cent of its GDP, or US \$64 billion. ... *the bulk of the needed resources will have to be obtained from outside the continent.*” (para 147, emphasis added).

This is only a reiteration of what NEPAD had already indicated earlier in para 66 :

The new long-term vision will require massive and heavy investment to bridge existing gaps. The challenge ahead for Africa is to be able to raise the required funding under the best conditions possible. We therefore call on our development partners to assist in this endeavour.

D. But why should the West help Africa?

The West should help Africa for two main reasons. One is that, under the new partnership concept, the West must recognise that Africa is an “indispensable resource base that has served all humanity for so many centuries.” (para 9) To be specific, these are: Africa’s “rich complex of mineral, oil and gas deposits, its flora and fauna”, etc.; the “ecological lung provided by the continent’s rain forests”; “the paleontological and archaeological sites containing evidence of the evolution of the earth, life and the human specie”; and Africa’s cultural contribution. (paras 10-16) “In this new millennium,” says NEPAD, “when humanity is searching for a new way to build a better world”, the West must recognise that Africa’s past and present contributions place Africa “on a pedestal of equal partnership in advancing human civilisation.” (para 17) The West must help to “build a universal understanding of the historic need to end the underdevelopment and marginalisation of the continent.” (para 14)

The second reason the West must help Africa is because it is in its own interest to do so. “Improvements in the living standards of the marginalised offer massive potential for growth in the entire international economy, through the creation of new markets.” (para 38) Furthermore, it will bring with it “greater stability on a global scale, accompanied by a sense of economic and social well-being.” (para 38) “The imperative of development,” says NEPAD, “therefore, not only poses a challenge to moral conscience; it is in fact fundamental to the sustainability of the globalisation process.” (para 39)

But NEPAD does not leave matters to work out on their own. The West will not help Africa if Africa does not help itself first. What Must Africa do to help the West to help Africa?

E. What must Africa do to help the West to help Africa?

First of all Africa must put its house in order. This is where the new leadership that is in power now will make all the difference.

“Across the continent,” says NEPAD, “democracy is spreading, backed by the African Union (AU), which has shown a new resolve to deal with conflicts and *censure deviation from the norm.*” (para 45, emphasis added). NEPAD puts in place a system of “peer review” by which African leaders will monitor each other’s behaviour and domestic practices. If these deviate from “the norm” then the deviants will be brought to book.

What does “the norm” comprise? What are its principles? Who is to judge the “deviations” from the norm? NEPAD spells these out in detail (see below), but there is one thing that stands out paramount. Since foreign capital is the most critical factor in meeting Africa’s future goals (paras 31, 66, 147, 153-155) nothing must be allowed to happen in the continent that prejudices the flow of foreign capital. And here comes arguably the most powerful, and probably the most controversial, message of NEPAD:

A basic principle of the Capital Flows Initiative is that improved governance is a necessary requirement for increased capital flows, so that participation in the Economic and Political Governance Initiatives is a prerequisite for participation in the Capital Flows Initiative.” (para 147, emphasis added)

This, by the way, is the basis of the sanctions imposed on Zimbabwe (including, on the recommendation of the Heads of states of Australia, Nigeria and South Africa, its suspension from the Commonwealth). NEPAD goes into considerable detail (paras 71 to 92) to spell out the principles of “Economic and Political Governance” and the mechanism to put these in place. For example:

- Long-term peace is one of the primary conditions to attract FDIs. It also includes addressing “political and social vulnerabilities” (para 73);
- Africans must make all efforts to find a lasting solution to existing conflicts (para 77);
- Africa undertakes to respect the global standards of democracy, whose core components include political pluralism (para 79);

- Principles of democracy, transparency, accountability, integrity, respect for human rights and promotion of the rule of law and Economic Governance Initiatives (para 80);
- Commitments by participating countries to create or consolidate basic governance processes and practices (para 81); and appropriate diagnostic and assessment tools, in support of compliance with the shared goals of good governance (para 82);
- Strengthening of national, sub-regional and continental structures that support good governance (para 84);
- The “Leadership of the NEPAD” will periodically monitor and assess the progress made (para 85);
- “State capacity-building” as a critical aspect of creating conditions for development (para 86);
- Promoting a set of concrete and time-bound programmes (para 88);
- A “Task Force from Ministries of Finance and Central Banks” to review “economic and corporate governance practices” (para 89);

There are many things here that may be put to question. For example, who elected the “Leadership of the NEPAD”? Where did they get the mandate to monitor the rest of the leaders from Africa? On the other hand, the NEPAD says many things, in the earlier parts of the document, that most people on the left would agree with, such as the need for “self-reliance”, the need for Africa’s renaissance to be based on Africa’s “ownership” of its development agenda, the need for civil society organisations to be mobilised in support of Africa’s millennium vision, and so on. But when NEPAD hitches Africa’s star to the wagon of FDIs, and puts in place a sanctions-imposing machinery to ensure that nothing is done to prejudice the flow of FDIs to Africa, then it is necessary to seriously examine the assumptions under which it does so, as well as to assess its future implications for Africa.

II. The Political Economy of NEPAD -

Some Conceptual and Political Anomalies

A. Resource and Resource Gap

Starting with the simplest concept first, what does NEPAD mean by “resource” and “resource gap”?

It is clear that there is double confusion about this term in NEPAD. It uses the term “resource” in at least two senses: resource as physical, natural, human or knowledge assets; and resource as simply money or capital. The following elucidates this anomaly in NEPAD.

Resource as physical, natural, human or knowledge assets:

Africa, NEPAD says, has been an “indispensable resource base” that has served all humanity for so many centuries.” (para 8) NEPAD, as mentioned earlier, goes on to enumerate four kinds of “resources” of Africa.

“For centuries, Africa has been integrated into the world economy mainly as a supplier of cheap labour and raw materials. Of necessity, this has meant the draining of Africa’s resources rather than their use for the continent’s development.” (para 19)

“It is time that African resources are harnessed to create wealth for the well-being of her peoples.” (para 20)

Africa has suffered lack of growth on account of “structural impediments” and “resource outflows” as well as “unfavourable terms of trade”. (para 34)

If Africa’s “enormous natural and human resources” are properly harnessed, NEPAD says, then it could lead to “equitable and sustainable growth” of the continent (para 52)

Need to reverse the loss of “environmental resources” by 2015. (para 68)

NEPAD talks about culture as part of Africa’s resource and adds: “The term also includes genetic resources and associated knowledge.” (para 143)

And so on.

Resource as money or capital

Nepad quotes the United Nations Millennium Declaration emphasising the need to enhance “resource flows to Africa”, in the form of aid, trade and debt relief (para 46)

The whole section on “Mobilising Resources” treats the word purely in terms of money and capital. For example:

To achieve 12% annual growth, NEPAD says, Africa needs “to fill an annual resource gap of 12 per cent of its GDP, or US \$64 billion”. (para 147)

By the phrase “increasing domestic resource mobilisation”, NEPAD means simply money. “Domestic resources include,” NEPAD say, “national savings by firms and households”. (para 148)

“HIPC,” says NEPAD, will “release resources for poverty reduction.” (para 155)

NEPAD’s entire discussion of FDI is couched in terms of “resource gap”, meaning Africa lacks adequate capital for its development. It is from this perspective that NEPAD bases its theory of “The Capital Flows Initiative”.

What anomalies result from this double use of the terms?

There are several anomalies resulting from this dual meaning, but we mention two of these, for they lead to quite absurd strategic and political choices that NEPAD advances.

Nigeria, for example, is one of the sponsors of NEPAD. Everybody knows that Nigeria is “resource rich” (in oil for example). However, somehow its approximately US\$ 20 billion a year in oil revenue alone somehow gets “spirited away”. So, then, it has a “resource gap” in the second meaning of the term which, NEPAD advises, needs to be “filled” by attracting FDIs as “resource” from outside. If Nigeria is both “resource rich” (oil, etc) and at the same time “resource poor” (in the sense that it has no money), then this should open the strategic discussion in several possible directions, and not simply the single-minded, tunnel-visioned, monistic advice from NEPAD that the way out for Nigeria is to create conditions for FDIs to fill the “resource gap.”

What will foreign capital do that it has not been doing for all these decades? Para 34, quoted above, for example, says that Africa has suffered lack of growth on account of “structural impediments” and “resource outflows” as well as “unfavourable terms of trade”. How will the flow of more foreign capital help tackle these “structural impediments”, or reverse the “resource outflows” and “unfavourable terms of trade”? Indeed, is not one kind of “resource inflow” (i.e. capital from outside) the very reason why there has been “resource outflow” of another kind (i.e. the mineral and other resources of Africa) under terms of trade that are not only not changing but getting worse over the last forty years and more? Globalisation, NEPAD says, has “increased the ability of the strong to advance their interests to the detriment of the weak, especially in the areas of trade, finance and technology.” (para 33)

So how is FDI going to diminish the power of the strong? Would it not, in fact, increase the power of the globalisers in relation to the globalised?

And if Nigeria is to choose the option of opening the door to capital resources from outside “to fill the gap”, is it not an easy way out for its ruling elite not to do anything seriously to ensure that its domestic natural resources (oil, for example) are not frittered away? Why should they change their life-styles, or their production style, if money is going to come from outside to “fill the gap” anyway? At independence, NEPAD says, Africa inherited a “weak capitalist class” and this explains the “weak accumulation process, weak states and dysfunctional economies.” (para 22). Would it be right to infer from this that NEPAD is the framework through which FDI will be invited from outside to bolster the fortunes of this “weak capitalist class” in Africa?

It should be obvious that it is not simply a question of “good leadership” or “good governance”, or one or two “top leaders” who are “incorruptible”. The issue is much more profound and subtle than NEPAD makes it out, or what NEPAD wants the people of Africa to believe.

The other equally absurd consequence of this single-minded pursuit for FDIs, is that it gives licence to a country like Nigeria then to propose that global sanctions be applied to a country like Zimbabwe because the latter is alleged to have violated “the norm” set by, among others, Nigeria, to which Zimbabwe was not a party. NEPAD’s rationale for this is that “participation in the Economic and Political Governance Initiatives is a prerequisite for participation in the Capital Flows Initiative.” (para 147) In other words, a country has no right to “capital flows” if does not participate in the “Economic and Political Governance Initiatives” as ordained by NEPAD. This is not to enter into a discussion into whether Zimbabwe’s behaviour is right or wrong. That itself is a complex issue, made even more so by the active, indeed quite aggressive, intervention of Britain in the internal affairs of the Zimbabwe. However, that is not the issue here. At issue here is the principle that any African country whose behaviour endangers the “Capital Flows Initiative”, an idea that is itself seriously flawed, must then be subject to collective sanctions of the Western countries on the recommendation of the bigger African countries, whose elite leadership would like to have their cake (FDIs) and eat it too (e.g. not change the “structural impediments”). Is it a burden that self-appointed “leaders of Africa” would like to take on and answer to History when things go wrong?

B. A logical construct is not the same as empirical reality

It is interesting to understand how NEPAD, or to be more correct, the economists who produced the document, came to the conclusion that there is “resource gap” (in the monetary sense) in Africa. It is based on a quite simple mathematical logic, which may or may not have any empirical basis.

It starts with a development goal, or rather, a “goal” in terms of projected increase in the GNP (which is not the same as “development” goal). In NEPAD this is stated as 7% growth per year for Africa up to the year 2015 in order to meet the millennium objectives. Then, based on spurious data and questionable concept of “saving” (analysed below), the economists give a figure of say 2% or 3% as Africa’s “saving rate”. It then follows, logically, arithmetically, that the balance has to come from outside. Hence, it is argued, the need for capital inflows, or FDIs. The logic is so simple that anybody who questions it would, by definition, be either a lunatic or simply stupid. It is, after all, a syllogism. Who can question it?

The use of mathematics, especially by a certain genre of economists, can sometimes be merely pedantic, or a means to prove something that is banal and obvious. But if this is their chosen language to make it difficult for ordinary people to question their logic that spuriously sounds unassailable, then sometimes it is also necessary to resort to their language to draw out its many hidden assumptions.

Take the famous equation:

$$Y - E = S \quad (1)$$

where Y and E are national income and expenditure, and S is national saving. If one wishes to make saving as the focus of ones inquiry, then the equation may be written as:

$$S = Y - E \quad (2)$$

The equation itself says nothing about any particular reality. It is simply a logical construct. All that it says is that national saving is whatever is left out of national income after expenditure. In order to reach the reality on the ground, one has to look into the actual sources and amounts of national income and the sources and amounts of actual expenditure. A country like Angola, for example, may have a huge income from the sale of its oil and minerals, but most of it could go into two major items of expenditure – war expenditure, and profits taken out of the country by foreign companies exploiting the oil. The result could be zero saving or, if the

country has to borrow money to finance the war, negative (domestic) savings. Or, to give the example of one of the promoters of NEPAD, namely, Nigeria, the “expenditure” may consist of oil revenues externalised into foreign banks by a corrupt bureaucracy. So once again, there may be zero savings, or if the country borrows from the external market, then there is negative savings, or what amounts to the same thing, the country gets into external debt. The equation may thus be written as:

$$S_d = Y - E_d - E_e \quad (3)$$

Where S_d is domestic saving, and E_d and E_e are domestic expenditure and externalised expenditure. If, in real life, E_e is very large, i.e. there is vast seepage of value (through, for example, corruption, payment of past debts, transfer pricing by which multinationals overprice their imports into the country and underprice exports; worsening balance of payments on account of worsening terms of trade or flight of capital because of speculation – in other words, by a hundred different ways in which an “externalised expenditure” drains away the national income), then, obviously, there is little, or even negative, domestic saving.

This is not as hypothetical as it may sound. It is indeed the “real life” situation of most African countries. There is such enormous amount of funds that get externalised (for many reasons) that Africa indeed has no, or little, “domestic saving”. However, *if the analysis of saving does not go into the details of real-life situations, and limits itself to a mathematical formula, then, of course, logically, it would be correct to say that Africa has no saving, and hence, creates the “basis” for the NEPAD economists to argue, that Africa must open its door to FDI.*

What such an exercise does is to act as a cover up for not getting deeper into the empirical reality. For example, instead of “logically” coming to the conclusion that FDIs have to be solicited because there is a “zero saving” and hence a “resource gap”, a deeper, real-life analysis, might lead to the conclusion that instead of looking for foreign capital, it may be better from the national point of view to block, or reduce, some of the externalised expenditure, for example, blocking the use of transfer price mechanism, or refusing to pay illegitimate foreign debts. That is why NGOs and civil society organisations that call for “debt cancellation” are more on the correct lines than NEPAD economists who want to go on paying the debts (or beg of the donors to give periodic debt reliefs) because cancelling them (even those that can be proven to be illegitimate) would send “wrong signals” to FDI owners, who will then be shy of coming to Africa.

Let us bring investment (I) into the equation, and the first and third equations can then be written respectively as:

$$Y - E = S - I \quad (4)$$

$$S_d = Y - E_d - E_e - I \quad (5)$$

Equation 5 may further be written as:

$$S_d = Y - E_d - E_e - I_d - I_f \quad (6)$$

Where I_d and I_f are domestic investment and foreign investment. The equation may be written as:

$$I_f = Y - E_d - E_e - S_d - I_d \quad (6)$$

Once again, this is only a logical construct, and says nothing about reality. In real life, then, if a case for foreign investments (FDIs), or capital inflow, is to be made, then, from formula 6 one or more of the following must apply:

1. The national income (Y) may be very small; or
2. the domestic expenditure (E_d) may be too high, or
3. there may be large externalisation of funds (E_e) - external seepage; or
4. there may be no or little domestic savings (S_d); or
5. there may be no or little domestic investment (I_d).

But all these propositions have to be empirically explained. They are not just mathematical constructs. To put it differently, in a concrete situation, such as in Nigeria or South Africa, those who make a case for wanting capital from outside may have to explain, concretely, at least two things:

One: Why is domestic expenditure so high? Is it because of war? Is it because the ruling elite, or a section of it, is very indulgent and wastes national income in “unnecessary” imports – such as luxury cars and expensive consumables?

Two: Why is there a high externalisation of funds? Is it justified? Is it because of corrupt officials and/or private sector operators are externalising funds? Is it because of

repayment of interest on past debts that may have been incurred illegally or unjustifiably? Is it because exporters are not bringing the full value of their exports back into the country?

Conclusion: All this tortuous exercise is undertaken to show that the rationale behind NEPAD's case for wanting foreign direct investment is based on a logical construct, and not on real life analysis. The case for FDIs, in the light of the above, can be interpreted in two ways.

One: the ruling elite has no intention to cut down on their own profligacy.

Two: those who are externalising funds (legitimately or illegitimately) have no intention to put controls on their activities.

If these conclusions have empirical validity, then the ruling elite's case for wanting an inflow of capital becomes all the more suspect if it is in control of both the state and the major sources of export revenues, such as oil or minerals. If, furthermore, the ruling elite is in alliance with foreign corporations, or foreign banks, wanting profitable investments in these countries, then it is difficult to escape the conclusion that the whole thing is a massive fraud.

C. A brief case study of South Africa

Let us take South Africa, one of the main authors and promoters of the NEPAD. The London *Economist*, in a special survey of South Africa in its issue of 24 February 2001, recorded the following:

... by the standards of other countries, South Africa has lured relatively little foreign direct investment: \$32 per head in 1994-99, compared with \$106 for Brazil, \$252 for Argentina, \$333 for Chile. At the same time, money has been leaving South Africa: the \$9.8 billion it invested abroad in 1994-99 exceeded the inward flow by about \$1.6 billion. ... And its big companies, long confined by apartheid's isolation, are now anxious to seek stock-exchange listings abroad. ... The capital they need for expansion is far more expensive if raised in South Africa, which still has some exchange controls, than in Europe or North America. So in the past few years, Anglo American (mining), Billiton (mining), Old Mutual (insurance), South African Breweries and Dimension Data (a hugely successful information-technology company) have all sought primary listings elsewhere.

Coming from one of the most conservative, free-market ideological publications in the Western world, that is an alarming, or damning, evidence against South Africa's "open door", or what comes to the same thing, NEPAD, strategy. Of course, South African policy-makers may argue that \$9.8 billion capital exit during the 1994-99 period (compared to a mere trickle of \$1.6 b inflow) is "good" for South Africa "in the long run", because, "eventually" the externalised capital will generate profits for South African companies, and these will then return to the country, and create the basis for jobs, etc. (which, in the meantime, will have been lost – regrettably). That argument is a lot of "hogwash" (to use a scientific term). Running after that exited capital is like running with a whip behind a horse that has already bolted.

Looking at the Economist figures again, what good did it do to Argentina to have attracted \$333 FDIs per head, compared to South Africa's mere \$32, in 1994-99? Argentina is in the midst of an economic, social and political crisis whose equal its citizens have not experienced in their life-time. And it cannot be said that Argentina is "resource poor" (in the sense of natural or human resources). What good FDIs have done to Argentina is a question we shall leave the neo-liberal economists from Argentina and South Africa to sort out.

In a more recent event (recorded January-March 2002), the South African government set up a commission of inquiry – the Myburgh Commission - into why the Rand slid so dramatically during 2001. The CEO of the South African Chamber of Business (Kevin Watkins) wrote to the State President (on 8 January 2002) that contrary to "popular causes" (such as the Zimbabwe situation, the slow pace of privatisation, and the Aids epidemic in SA), the real reason for Rand's dramatic depreciation may have to do with "dubious and peculiar share transaction" structured by the German bank, Deutsche Bank, in which the South African oil company, Sasol, purchased a German chemical company, Condea. The off-shore deal involved, among other transactions, "buy-back" of shares by Sasol, Deutsch Bank's dumping of rands in the domestic market because of its over-exposure at a time when the foreign bank was in a "monopoly situation to manipulate the currency", and the possibility of the Bank earning a "double wammy" if the shares are sold in the domestic market, leading to further capital outflows over and above about R6bn initial off-shore transaction. (See *Financial Mail*, March 29, 2002, pp. 24-25)

The Commission is still sitting at the time of writing, so not much more may be said at this point in time. However, one thing seems to be emerging. Sasol and Deutsch Bank may not have done anything "illegal". Technically speaking, this may be all within the new regime of "open door" policy towards foreign capital that the Government has initiated since it took power. The externalisation of South Africa's major companies is part of this "open door"

policy. Foreign banks are not bound by South Africa's exchange controls, and institutional asset swaps are difficult instruments to monitor. As Stuart Theobald says:

Banks could and did trade in rand for short-term profit through exchange-rate fluctuations. The Reserve Bank chose to ignore this because it wished to be seen to be liberalising an attractive environment for investors. (Ibid, p. 27)

It is not much of an encouraging story to relate, with the obvious lesson that the more African countries create an "enabling environment" to lure FDIs, the more opportunities it creates for even respectable banks to manipulate the foreign exchange and speculative market, to engage in dubious equity swaps, to externalise their funds, and to throw the domestic currency, balance of payments and the whole banking structure into a whirlpool of crisis that drags down everybody, as in Argentina, into the depths of its vortex.

D. NEPAD's strategy to lure FDIs

It is in the light of the South African and Argentina experiences (as also, the earlier experience of Mexico in 1994/95, and of East Asian countries in 1997/98) that we must assess the value of the following strategy offered by NEPAD on how to lure FDIs into Africa.

The first priority is to address investors' perception of Africa as a "high risk" continent, especially with regard to security of property rights, regulatory framework and markets. Several key elements of the New Partnership for Africa's Development will help to lower these risks gradually, and include initiatives relating to peace and security, political and economic governance, infrastructure and poverty reduction. Interim risk mitigation measures will be put in place, including credit guarantee schemes and the strong regulatory and legislative frameworks. The next priority is the implementation of a Public-Private sector partnership (PPP) capacity-building programme through the African Development Bank and other regional development institutions, to assist national and sub-national governments in structuring and regulating transactions in the provision of infrastructural and social services. The third priority is to promote the deepening of financial markets within countries, as well as cross-border harmonisation and integration, via a Financial Market Integration Task Force. Initially, this will focus on the legislative and regulatory environment for the financial system. (para 154)

The objective behind all this is to show to the investors that Africa is not a "high risk" continent, and that they can safely bring their money in, do what they want to do with it, and take it with them when they want it and how they want it. NEPAD, together with international

institutions such as the World Bank, the IMF, the UNCTAD, and the international business community, including the Davos Global Economic Forum, have been busy since the floatation of the NEPAD, organising conferences and workshops in order to showcase Africa as a relatively “risk free” continent for FDIs. The high-point of this orchestrated drama is the G8 summit in Alberta, Canada, at the end of June 2002, at which, the NEPAD leadership is hoping that Africa would have been sufficiently marketed as a safe haven for FDIs in order to begin concrete and detailed “project” work, including privatisation of water, energy and transport services.

It is sad to see how little mainstream economists that have drafted the NEPAD document have learnt from history, or from the experiences of other countries in the third world. There is even a degree of innocent belief that FDIs will really come to Africa, that conditions of peace and security will be maintained in Africa, that “deviant” states like Zimbabwe (and others to come) will be disciplined so as not to scare FDIs away, that no demands will be made to write off (even illegitimate) debts so as not to send “wrong signals” to the owners of FDIs. In all this there is also a mystical belief that, somehow, FDIs are nameless, neutral, carriers of wealth and goodwill for Africa, that they do not have names like Deutsch Bank and Enron who are as greedy, culpable (even criminal) as any “corrupt” African leader, that the investors will finally acknowledge that Africa has been the “origin of mankind” and has nurtured the world for thousands of years with its rich resources and that now it is “payback” time.

E. Capital, Capital Goods and FDIs

Does the above argument lead to the conclusion that Africa, therefore, does not need capital? Of course, not. But there is need first to understand what is capital.

Often there is lack of clarity about what one means when one talks about capital or FDIs. There is often confusion between the two. Sometimes the two are confused with technology, or FDIs are deemed as necessary instruments for securing technology. It is these equations that evoke surprises when one tries to object to FDIs as a means to growth - "So you don't want capital!" or "So how are you going to get technology?" or “which country has developed without capital from outside?” are the kinds of reactions one evokes. Indeed, in the vast literature that has developed on FDIs over the last decade or so, there is very little attempt made to define either FDIs or its correlate, capital? What is capital? Is it a thing? Is it money? Is it a relationship of production?

There is need to distinguish between money and capital, and between capital and FDIs. A failure to make distinctions has created much confusion between both "experts" and

policymakers, especially among developing countries. It is certainly the case with NEPAD. Money is basically a means of exchange and an accounting mechanism for storing accumulated assets. Capital is money when used in production with other factors of production such as labour power and land. But FDI is more than money or capital. FDI is a package of capital, technological knowhow, management specific to a particular type of production of goods or services, market knowledge and access, and contacts. The *Economist* is closer to the truth than many who use the term loosely to mean just capital. This is what it said:

The point about FDI is that it is far more than mere "capital": it is a uniquely potent bundle of capital, contacts, and managerial and technological knowledge. It is the cutting edge of globalisation. (The Economist, February 24, 2001)

So FDI, generally, is proprietorial. It is owned by a corporation or a bank, and it carries a premium. Usually, you accept it as a “bundle” or you don’t have it at all. And with the bundle comes, usually, control over the domestic assets that are used for goods production or for services. In other words, FDI is really a means for corporations to accumulate their wealth (stored value), and although they may leave behind certain immovable assets in the countries in which they are operating, generally, their capital is highly fluid and mobile. Also, there is often no real distinction between speculative or short term capital, and long term capital that is usually associated with the term FDI. George Soros, the well-known millionaire who made his millions out of speculation, knows better than most that capital is extremely whimsical. Proprietorial capital, or FDI, are the proverbial house of cards out of which it is risky to build one’s economy, as Argentina discovered to the shock, and misery, of its people. If such shocks are spared to countries such as the United States and the European Union (although they too are not completely immune), then this has to do more with their power (including military power) than with capital as such. It is an issue that needs to be explored further.

The question of whether Africa needs capital is, in a sense, a meaningless question. For the real question is capital from where, for what purpose, and under what conditions. The first source of capital must be domestic. If a country like Nigeria externalises its entire savings, through legal or illegal means, then the first task is to plug the holes through which capital exits the country. Also, when soliciting capital from outside, it may be necessary to try to unbundle the FDI package, if this is possible, and then to monitor and control its use carefully, for otherwise, a country can get into the kind of situation allegedly created by the Deutsche bank in South Africa, for example.

In trying to unbundle FDI, India, for example, may want only the technology part of the FDI, if it can negotiate that part out of the FDI separately. By contrast, Uganda may want

not only technology but also, in all probability, the management system and market access that go with FDIs. Every country has its own specific needs depending on what it already has, the level of development of its productive forces (including science, technology and management resources), and its own circumstances at a particular point in time. In other words, there are no "good" or "bad" FDIs outside of national policy, and in terms of hard negotiations with the owners of capital.

For India, for example, to open the door to foreign management under the guise of FDIs could mean the destruction of its own management resources. For Uganda, it may not be an issue; or if it is an issue, it may not be in a strong enough position to negotiate with a large foreign Transnational Corporation (TNC). China, because of the vastness of its potential market, may be a unique case. But the proposition is valid even for a small country like Uganda. If, for example, the condition for entry of a big European textile company with all the modern and fully mechanised system of production in Uganda is that Uganda should first dismantle its old machinery and throw out hundreds of people out of job, then it is better that Uganda thinks twice about such a transaction, even at the cost of losing the FDI package with which the European company might entice Uganda. These are not (or should not be) matters that can be settled by the Uganda government or by the Reserve Bank of Uganda without proper consultations with the private sector and the trade unions.

So the question, does Africa need capital? is not such a simple question as might appear at first sight. And it is certainly not the kind of question that should get African leaders to open their doors wide open for all manner of FDIs to enter and leave the continent at will.

F. NEPAD's doubtful road to Africa's renaissance through FDIs

There can be no doubt that the path that NEPAD offers is the neo-liberal path that is espoused by the IMF, the World Bank and the WTO, and most mainstream economists that work in African institutions such as the Economic Commission for Africa. Neo-liberalism has become a code word for the contemporary development theory. This theory puts "integration" into the globalized economy on the basis of the liberalisation of markets and the free movement of capital at the centre of the development paradigm. Can the further integration of Africa into an asymmetric globalised system that is dominated by a few countries really be the basis for Africa's "renaissance"?

NEPAD seems to think it can and should. The leaders of Africa do not see any other alternative to integrating into the neo-liberal globalised model of development. NEPAD appears to lean towards the creation of the "right" kind of conditions within Africa - good

governance as understood by the Northern partners, open economy, and partial measures on debt relief, increase aid from the North, and greater access to their markets.

At one point (paragraph 7), NEPAD does recognise that globalization "has increased the ability of the strong to advance their interests to the detriment of the weak", but this brilliant and incisive observation on the current asymmetrical power relationship is quickly forgotten. It is only a descriptive statement; for NEPAD it has no strategic or tactical significance. Nowhere, for example, does NEPAD recognise that "liberalisation" and the "open economy" are practically forced on Africa, of which the fourth WTO Ministerial Conference at Doha was a living testimony.

NEPAD also admits, indirectly, that the Structural Adjustment Programmes (SAPs) have failed, in that they paid "inadequate attention to the provision of social services" [para 24], but it fails to recognise the claims of African people that SAPS have not just failed to pay attention to social services, they have been at the very root of Africa's economic and social crises.

In a civil society initiated research project called SAPRIN - the Structural Adjustment Participatory Review International Network – researchers from Argentina, Ecuador, Mexico, Central America, Ghana and the Philippines carried out a four-continent impact assessment of economic adjustment policies. They examined the economic and social effects of neo-liberal policies, such as financial - sector and trade liberalization, privatization and public-sector reform, imposed by the World Bank and the IMF. And they came to the following conclusion.

... the effects [of adjustment policies], particularly on the poor, are so profound and pervasive that no amount of targeted social investments can begin to address the social crises that they have engendered. Only restructuring of the productive sectors through more appropriate public policy can ensure economic opportunities, resources and benefits to all segments of the population. (SAPRIN, "Executive Summary, The Policy Roots of Economic Crisis and Poverty, A Multi-Country Participatory Assessment of Structural Adjustment", November 2001, page 24.)

NEPAD admits that SAPs have failed. African governments knew, in advance, that SAPs would lead to the diminishing of social services to the people. The IMF was stringent in its demand that in return for accepting its money, it expected governments to cut down on budget deficits, which meant, in practical terms, expenses for things like health and education. In recognition of this, Governments were then advised to set aside a "social fund" to cushion the effects of SAPs.

In none of the countries in Africa that accepted SAP did the social fund prove adequate to fill the social gap that it created. This is what NEPAD means when it says that SAPs were “inadequate.” So what is its solution? NEPAD’s solution is to place these services in the globalization basket, and let private capital (foreign, as it would mostly turn out) to finance the provision of these services. African countries must attract FDIs to finance the provision of these services, says NEPAD. Thus, from a peripheral matter (as under SAPs), services now occupy a central place for investments on a competitive bid. African states must now fight amongst themselves to attract FDIs so that these can be employed to provide water, electricity and other services, to the population of Africa.

This is not only a pipe dream (such investments are not likely to materialise), but also a dangerous one. Why? Because in trying to attract foreign capital for essential services, African governments are going to be dragged into downward spiral of offering to the owners of capital competitive terms, including tax incentives or tax holidays, free land, borrowing in local currency, and so on. Indeed, such competition may take place not only between states but also between provinces within the same state. Thus, in South Africa, Gauteng may compete with Cape Town and with other provinces.

Furthermore, services are one of the mandated issues for negotiations under the General Agreement on Trade in Services (GATS) provision of the WTO. Countries are expected to make offers on the kinds of services they would want to put up front for negotiations under the WTO. In bringing services into the centre of its “vision” for the future of Africa, what NEPAD does is to risk the lives of African people, their access to basic essentials of life, into a volatile and fluid global investment situation. Does this sound too alarmist?

No, it is not being alarmist, for this is the precise logic of NEPAD. SAPs were “inadequate”, says NEPAD, because they neglected social services, so let us put the services, too, into the investment basket. NEPAD thus is SAP+GATS. But it is more than that. Once a matter is brought under the purview of the WTO, it is subject to the provisions of the Disputes Settlement Body, with all its attendant legalism, appeal panels, and sanctions. The DSB, it is widely known, is an asymmetrical system, where the rich countries can both afford the legal costs and impose sanctions, but the poor can afford neither.

It is possible that the authors of NEPAD did not have the time or the necessary advice from those who should have known better that the route they have chosen to bring the “renaissance” of Africa could well be Africa’s final and utter submission to the rule of the IMF/WB plus the WTO.

III. Conclusion: The NEAPD way versus the People's way

The sentiment behind NEPAD is noble. It is to put Africa on a “self-reliant” path to development where Africans themselves own the processes. But, as they say, the road to hell is often paved with good intentions. The intentions notwithstanding, the practical effect of NEPAD would be to surrender the human rights of the people of Africa (their rights to food, water, energy, etc.) to the whims of a volatile and untrustworthy global capital. If the experience of Argentina does not give wisdom, then Africa sadly will learn, bitterly, from its own experiences.

It is, however, not necessary to go the NEPAD-way in terms of strategy. There are alternatives. NEPAD's noble intentions may be embraced, yes, but the strategy for self-reliance is just that. Self-reliance. Not FDI-reliance. African governments must pledge to provide the basic services to the people – drinking water, basic food, essential housing and transport, and access to energy, etc. – as necessary elements of their basic human rights. They must then work upwards from there and see how the production and distribution (including domestic savings and investments) are organised in order to meet these basic needs. Leave these matters to the whim of international capital, and Africa would find itself in a worse mess than it is in now. If foreign capital is absolutely necessary, mostly in the form of technology (for example the IT), then its entry into Africa must be negotiated “with a hard head”, and its operation and exit must be monitored closely, if possible on a Pan-African, and if this is not possible then on a regional, basis.

The point to start is not further integration of Africa's economy into the process of globalisation that NEPAD suggests. Africa is already more fully integrated into the global economy than, for example, the United States. The point to begin is with human needs. This is not being pedantic. There is a profoundly strategic difference between the NEAPD-way and the peoples' way. For example, the people of Soweto in South Africa need, among other things, access to drinkable water. There are two ways of going about it – the NEPAD-way, and the peoples'-way. In the NEPAD-way, you open this essential service of water provision to international competition; whoever is able to bring capital from outside can have control over the distribution of water, and must be able to charge “cost recovery” price to the water-users. If people cannot pay, then their water pipes must be closed until they are able to pay. In the process, the Government of South Africa must create a climate of confidence (above all, the ability of the investor to externalise his profits and eventually the capital value of his assets) so that an investor is induced to come to South Africa rather than to, say, Vietnam or Chile or

Rumania (because, says NEPAD, capital is global, and must be induced with attractive terms to come to Africa). This is the NEPAD way.

The people's way starts with the recognition that whether or not foreign capital comes to South Africa to provide water to the people, water is a basic human right. Its provision to all households in Soweto (our example in this case) is Government's responsibility that cannot be turned on or off on the basis of the peoples' ability to pay for the water. Access to water is a human right not a privilege. And the same is true of food, adequate housing, electricity, basic education and essential transport. Subject these to the whims of profit, and you have subverted the human rights of the people.