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Where does Africa fit in the globalization puzzle?

The continent has often been singled out as an exception to the story of increasing globalization. Todd Moss, an Africa expert with the Center for Global Development, discusses Africa's integration in world markets, why trade between African countries is so hard, and the role of outside powers such as China.

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Q: What has globalization meant in Africa?

Africa has been at the margins of the global economy for much of the post-independence period. In terms of trade, it has been one of the least integrated regions of the world. Africa's share of world trade has actually dropped from 4% to 1.5% over the last 40 years. Growth rates were down through the 1970s, '80s and '90s. They weren't able to attract private capital. People didn't think of it as a serious investment destination.

In the last five years growth rates have been up over 6%. Private capital has flowed into Africa, and not just in oil and mining. We started to see a lot more private equity and some of the more flexible asset classes that you would expect in dynamic economies.

The current global economic situation is a good lens for thinking about Africa's place in the world. In the early stages, when it was a financial crisis, it didn't really affect Africa at all. With the sizeable exception of South

Africa, the continent is just not integrated into the global financial markets. But now we are seeing second-order effects of the downturn, particularly through trade, severely impacting Africa. This is most obvious with commodity price drops which cause balance of payment and fiscal shocks for a number of countries, particularly those that export minerals and oil. And I do worry that the financial crisis has made everybody too risk-averse. There's still a lot of growth potential in Africa. I think that those who do their homework and disaggregate the risks will do very well.

With the exceptions of Sudan and Eastern Congo, which are absolute disasters and humanitarian emergencies, most countries in Africa are doing quite well. People live normal lives. They go about their days getting their kids to school and getting to work. People don't fully appreciate how common that non-story really is.

Q: Are there parts of the continent that have particularly benefited or been hurt by globalization?

The big impact as we've seen globalization progress, and here I'm talking about greater trade, greater capital flows, and particularly greater migration of skilled labor, is a divergence among African countries. A handful of countries are becoming a part of the next wave of emerging markets. Those countries are benefiting very strongly from globalization. These are the better economic performers like Ghana, Tanzania, Kenya, and Botswana. They are making their economies more competitive, helping their citizens participate in a global economy and reap the benefits that more circularity of goods, capital, and people can bring.

On the other end of the spectrum there's a subset of countries where it's hard to imagine things getting a lot better, even going out 20 years, because they are not putting in place the policies and institutions that would allow their populations to thrive in a competitive global economy. These are countries where you hope they will contain conflict and ensure citizens have the basics of sustenance, but you're not going to expect them to be a player in the global services market. I don't want to pick on a bunch of countries here, but Chad and Malawi fall into that camp. It's not that globalization is necessarily hurting them, but it's leaving them behind.

Clearly globalization brings lots of benefits, but it also brings additional volatility and demands on governments. For countries that aren't integrated into the global economy, the costs of making macroeconomic policy mistakes aren't that consequential. In Chad, if the finance ministry blows the fiscal account, it's bad but not disastrous. But for countries like Ghana or Kenya, which are actually integrated, the banking sector matters. They're trying to compete in the global economy, and if the fiscal policy is a mess, it has very negative consequences. So it raises the bar on policy makers to get things right. And of course mistakes will be made, so it looks like globalization is coming with all of these costs, but it's just that the expectations and the requirements are much higher.

Q: Could you discuss South Africa and Nigeria as big players?
South Africa, obviously, is the economic powerhouse. It's in the mainstream of the emerging markets. It's a diversified economy. But it still has a very large mining sector which is getting slammed by the commodity price movements. And it hasn't put in place the labor and technology policies that would allow it to really compete in the IT or services sectors.

Overall, it has the potential to play a very positive role in terms of political and economic progress, not just in southern African, but for the whole continent. Unfortunately, we're not seeing that leadership yet. I think South Africa is uncomfortable as a regional hegemon – because of the activities of the South African government during the apartheid era, there's a real hesitance to throw their weight around. The country likes to project itself as the reasonable, responsible leader of Africa that deserves a seat, for example, at the G-20. At the same time, it finds itself in an awkward position, defending regimes such as Iran, Burma, and Zimbabwe. It's not only odd, given South Africa's own history, but counterproductive to earning a greater role as a responsible, mature player in the international community. I think that hasn't resolved because South Africa is still a young democracy finding its way.

Nigeria is the second largest economy in sub-Saharan Africa. It is the fifth largest source of U.S. oil and petroleum imports. It went through a period, from 2003 to 2006, of very impressive economic reforms and incredible progress. We saw financial transparency increase many times. We saw the banking sector take off. The reforms allowed the government to buy down almost all of its debt. It looked like Nigeria was poised to finally take its place as a real economic power. But since the election of the new government, we've seen most if not all of those reforms stall, and there has been some back-tracking.

Part of that may be the inevitable cycle of reform, but it is also worrying. Some of the political powers threatened by the reforms are fighting back, and it's not clear whether we are going to see a recovery or if things will really start to deteriorate. I still am a Nigeria optimist in the long term, but I've become quite pessimistic over the short-to-medium term.

Q: Is trade within Africa a significant component of development?
You would think so, but unfortunately we don't see very much. There are two things going on. One is that the infrastructure that enables trade is still mostly colonial-era infrastructure. It was designed for export, principally to Europe, so most of the railways and roads go from a mine or industrial area to a port. The infrastructure for trading between countries is very poor. And for the land-locked countries geography is a significant additional challenge. If you look at a country like Malawi, in most cases the cost of getting goods to a foreign market varies by a couple of percentage points country to country. For Malawi it's up to 40% more expensive than for a country with a port.

In addition to that, there are still “beggar thy neighbor” policies that impose high taxes for trading between countries. We haven't seen anything that would suggest a serious push to promote intra-regional trade. There are trade groupings and promises, but the actual progress on the ground has been very disappointing.

There are also a number of structural problems that make trade within Africa difficult. People think of the continent as a crowded place, but in reality there's a very low population density. Most people still live in rural areas. And there are a tremendous number of countries. Sub-Saharan Africa alone has 48 countries. It is very hard to get scale.

If you think about the entire economy of sub-Saharan Africa, and here I am including South Africa, it's about the same economic activity as metropolitan Chicago. Now what would happen to commerce in Chicago if you broke it up into 48 separate administrative zones? If you add 48 central banks, 48 finance ministries, and armies at the borders of every administrative district? It's devastating. Africa recognizes this and they've been talking since the 1950s, about a United States of Africa. But the reality is that once you get a president and a government in place, they don't like to cede authority to some greater body.

Q: Who are the important external players?
The big external players are the former colonial powers. France and Britain are still very important both politically and economically. Beyond that, the United States is a major player and the single largest donor in sub-Saharan Africa. And China has been involved in Africa for decades. Most of the anti-colonial guerrilla armies were funded by the Chinese. After independence, the Chinese built a lot of stadiums and palaces.

What we're seeing with the Chinese now that's different is a lot of private or quasi-private investment, where before it was government-to-government. In general, it is quite positive. Africa has a massive infrastructure deficit, and the Chinese are both very good at building infrastructure and have the wherewithal to finance it. The United States and the Europeans do very little infrastructure in Africa. In fact, the U.S. does almost none, with the exception of running the Millennium Challenge Corporation compacts.

The negative on China is that their approach to financing has undermined some of the progress in financial transparency that we have seen in Africa. And, of course, their involvement with two rogue states, Sudan and Zimbabwe, has been seen as a negative. But in general, Chinese involvement has been positive, and will be very helpful for the private sector in Africa.

Finally, India is getting increasingly involved in Africa. And, I think, because India is an open democracy and also very good at low-cost infrastructure, there are a lot of things that Africa could learn from India's development model. The Indian development model may be much more appropriate for Africa than the Chinese model, which is based on very heavy technical state involvement, something that Africa tried and was an utter disaster.

Todd Moss is a senior fellow at the Center for Global Development (http://www.cgdev.org/). For more on these issues, see his book African Development: Making Sense of the Issues and Actors (http://www.amazon.com/African-Development-Making-Issues-Actors/dp/1588264726).

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