

POVERTY IN ASS (2003): WORLD BANK

**AFRICA SOUTH OF THE SAHARA (ASS)
THE IMPOVERISHED STEPCHILD
OF THE WORLD –**

**WHO IS TO BE BLAMED?
ASS OR THE REST OF THE WORLD? ***

Samplie Terreblanche

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1. Per capita GDP (SA included) = \$490 or PPP\$1770
Per capita GDP (SA excluded) = \$331 or PPP\$1184
2. Per capita GDP (USA) = \$37610
Per capita the ASS as % USA per capita inc. = 0.9%
3. We can divide ASS (SA included) population of 705 million into 47 groups of 15 million each.
4. The richest 15 million in SA receive 31% of income of ASS.
At least 30 groups of 15 million each received less than 1% of the income of ASS (SA included)
5. While ASS (SA excluded) is home to 11% of the world's population (± 660 million), it generates only 0,65% of the world's income.
6. Since 1980 the per capita income of ASS (SA excluded) has declined by almost 1% per annum.

From now on ASS excludes South Africa.

**GNP PER CAPITA AS A PERCENTAGE OF THE RICH
NORTH'S GNP PER CAPITA**

	1960	1980	1990	2000
ASS (w/SA)	5,2	3,6	2,5	2,0
South Africa	25,9	21,4	15,2	10,1
ASS (wo/SA)	2,9	1,7	1,2	1,1
China	0,9	0,8	1,3	3,0
East Asia (wo/China/Japan)	5,7	7,5	10,4	10,0
South Asia	1,6	1,2	1,3	1,6
Latin America	19,7	17,6	12,3	13,7

(Giovanni Arrighi)

ASS (wo/SA) is the BIGGEST loser

South Africa is also a loser

South Asia is captured in a bad situation

Latin America lost a lot until 1990

East Asia (wo/China and Japan) is a moderate winner.

China is the big winner

**PERIODISATION OF THE HISTORY OF AFRICA
SOUTH OF THE SAHARA**

± 700 AD

→ Arab slave traders (8 million slaves)

± 1500

→ Western slave traders (12 million slaves)

± 1885

→ European colonialism/imperialism
(European imperialism had shallow historical roots and its disadvantages outweighed its advantages by a wide margin)

1957

→ The decolonisation process (for the wrong reasons, at the wrong time and on the wrong footing)

1974

→ Stagflation and the deterioration in the terms of trade.
Oil dollars freely available as loans

1980

→ Bretton Woods institutions and structural adjustments programmes – an ideologically driven policy decline in per capita income.

**WHO SHOULD BE BLAMED FOR ASS's POVERTY, ITS
INSTABILITY AND ITS BACKWARDNESS?**

According to World Bank and many observers in the West, ASS is to be blamed.

1. Main culprit is the undemocratic, unstable and corrupt political system in ASS.
2. The chronic wars, violence and conflicts in ASS are blamed on the people of ASS.
3. Geological and climatological factors: partly tropical, partly desert and poor quality of agricultural land.
4. Too many countries – some too big, some too small; the balkanisation of ASS.
5. Too many tribes: Tanzania has more than 150 ethnic communities or tribes.
6. The inability and/or underdeveloped nature of the people of Africa.

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..... blame (continued)

- There is an element of truth in these arguments ... but each one must be judged in its proper historical context. Many observers are inclined to look at the observable problems in ASS not as symptoms of much deeper problems (and as problems whose origins are rooted in history) but as the actual problems.
- Consequently they are inclined to prescribe medicine to attain a “quick fix” solution to the observable problems, while the root causes of these problems remain unattended to.
- We should try to make an in-depth diagnosis of the real causes of the serious “maladies” that infest the “body politic” of ASS.
- The World Bank’s approach is shockingly a-historical - conspicuous inability to see problems in their historical context. This attitude must be deplored.

A LONG HISTORY OF MALIGN EXTERNAL INTERVENTION INTO ASS

During the past 1300 years ASS was often the victim of historical events that occurred outside of Africa and over which it had little or even no control.

1. Arab and Western slavery disrupted normal trade relations with Europe and caused huge social and economic dislocations and conflicts (700-1885).
2. At the end of the 19th century, the rivalry between European countries over raw materials and markets led to the "scramble for Africa", to an arbitrary division of ASS and to an exploitative version of European imperialism (1884-1957).
3. The rivalry between Eisenhower and Khrushchev during the Cold War led to the premature decolonisation of ASS (from 1957-1973) and to a very damaging "arms race" between the USA and the USSR in ASS.
4. The Egypt-Israel War (1973), OPEC and the stagflation of the 1970s had exerted a very disruptive effect on the still vulnerable newly independent countries in ASS.
5. Bretton Woods Institutions (and Washington Consensus) responsible for wrong policy prescriptions with their structural adjustment programmes.

(See Development Bank Publication, 2003)

SEVEN MAIN CRISES IN ASS

1. The health crisis.
2. The educational crisis.
3. The security crisis.
4. The infrastructural crisis
5. The absence of proper economic, judicial and financial institutions.
6. The governance crisis: lack of political capacity and accountability.
7. The "power" crisis: the unequal power relations between the Rich North and ASS.

Each of these seven crises or distortions has become endemic and self-perpetuating and together they are reinforcing each other. Together they represent structural deficits that form the huge "poverty trap".

Due to this poverty trap the per capita income of ASS has declined chronically since 1980.

ASS also experienced an alarming feminisation of poverty, while children are carrying a very heavy burden.

**THE SEVEN INTERLOCKING VICIOUS CIRCLES
IN GREATER DETAIL**

1. **The deteriorating health situation:** TB, malaria, HIV/AIDS, other poverty-related illnesses and the inadequate but expensive health services.
2. **The inadequate spending on education,** the lack of social capital, the brain drain and the very slow diffusion of technology. (The role of SAPs).
3. ***The wars, violence, conflicts, the military coups*** and the disruptive activities of the private military corporations (to control diamonds and oil).
4. ***The lack of a proper physical infrastructure*** and the multiple barriers that impede the flow of goods, capital, information and people between the 47 states and between ASS and the rest of the world.

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...vicious circles (continued)

5. **The absence of the economic, judicial and financial *institutions*** necessary for a workable capitalist or market-orientated economic system in ASS.
6. **The absence of stable and predictable political systems** (either democratic or not) with the necessary *capacity and accountability* to counteract the endemic inclination towards corruption, patronage, political and bureaucratic maladministration and towards the violation of human rights.
7. **The unequal power relationships** – of a political, economic and ideological or propagandistic nature – between the Rich North and ASS within the framework of Global Capitalism and/or the Pax Americana: Countries in ASS are the pathetically “powerless captives” in a global web of power relations.

THE BIG CHALLENGE

1. How to turn not only some, but all seven *vicious* circles into *virtuous* circles simultaneously?
2. Is that *überhaupt* possible? It will be a very difficult task.
3. The first four crises – health, education, infrastructure and security – can perhaps be solved by throwing more money – in a smart way – at ASS.
4. The other three crises – the economic, political and “power” crises – are of an *institutional* nature and it will take much more than money to turn them around.
5. In ASS legal and political institutions are in a condition of such collapse and/or corruption that their inhabitants are effectively cut off from hope and prosperity.

We need a “Big Push” for at least 30 years in an attempt to turn ASS around. But who is going to take the responsibility and who is going to coordinate the “Big Push”?

Let us look in greater detail at the last three vicious circles.

THE ABSENCE OF PROPER ECONOMIC INSTITUTIONS

1. Agriculture still plays a dominant role: 35% of GDP, 70% of employment, 40% of exports.
2. Since the 1980s global circumstances not conducive for the modernisation of agriculture – normally the first step *en route* to development. (Agriculture subsidies in the Rich North prevent exports).
3. Without agricultural development secondary and tertiary developments are hardly possible.
4. BWIs: try to get prices “right”, but “market” players do not act rationally. (What are “right” prices?)
5. BWIs: dogmatic about marketfundamentalism.

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..... *the absence (continued)*

According to Stiglitz, the BWI's policy on ASS is based on the prejudice "*that markets by and large work well and that governments by and large work badly*".

In reality both the "markets" and the "governments" work badly.

- **The market fails:** It is not a case of market failures, but the MARKET fails because property rights, legal systems, financial institutions and communication networks are either underdeveloped or non-existent. (Markets only in urban enclave).
- The market fails because it is not yet *institutionalised* in a proper way.
- Policy of Bretton Wood Institutions doubtful and destructive and is undermining economic development. (Stiglitz).

SOUTH AFRICA'S ROLE IN THE ECONOMY OF ASS SINCE 1994

1. SA corporations have extended their wings to cover all of ASS since 1994 – Is this involvement benign or malign for ASS?
2. Is there a parallel between the Dollar-diplomacy of the USA in South America from 1870-1940 and the Rand-diplomacy of SA in ASS since 1994? – the first was exploitative: what about the second?
3. Have SA corporations' involvement in ASS stimulated the development of *economic institutions* and *economic capacity* in ASS, or have they retarded these developments? I do not know.
4. What about the involvement of multi-national corporations (MNC) from the Rich North? To what extent must these MNCs be bribed before they invest in ASS? And what about South African MNCs operating in ASS? Is it also necessary to bribe them?

THE LACK OF POLITICAL CAPACITY AND ACCOUNTABILITY: THE GOVERNANCE PROBLEM

1. During the premature decolonialisation process ASS made a “False Start” politically (René Dumont, 1966). (Colin Legum).
2. The inclination towards corruption, patronage, maladministration and violence became deeply **institutionalised**, because the necessary checks and balances were not put in place during the “False Start” *and are still not in place*.
3. It is alleged that “roughly 80 cents of every dollar borrowed by African countries flowed back as capital flight in the same year”.
4. It is estimated that Africa’s ruling elite have private overseas assets equivalent to 145% of the public debt these countries owed.
5. In a sea of poverty, the political and bureaucratic elites in ASS thrive on corruption and have attained a huge vested interest in it.
6. *How to build capacity and accountability?* A huge problem. Can NEPAD’s peer review mechanism accomplish it? Very unlikely: the governance problem is too deep, while NEPAD is not powerful and consistent enough (Zimbabwe the graveyard of NEPAD?).

(Ferguson)

THE AMERICAN “COUNTERREVOLUTION” AND THE RISE OF IDEOLOGICAL GLOBALISATION

1. The USA was losing its power and prestige during the 1970s:
 - Defeat in Vietnam
 - Portuguese defeat in Africa (1974)
 - Watergate
 - Israel’s difficulties in the 1973 War
 - OPEC and the oil prices (1973)
 - Stagflation and unemployment during 1970s
 - Accession of China to the Security Council
 - The Group of 77 and the NIEO (1975)
 - Iranian Revolution (1979)
 - Soviet invasion of Afghanistan (1980)
 - Money and investments were flowing from North to South
 - Industrial activities were relocated from North to South

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.....the american (continued)

2. A neo-liberal “counterrevolution” (and the TINA doctrine) was launched by the USA in the 1970s to institutionalise “ideological globalisation”, instead of “structural” globalisation to reverse the slide in USA’s power and prestige.

3. The counterrevolution rests on a threefold onslaught:
 - Liberalising financial flows and the *financialization* of international relations.

 - Deregulation of the USA’s economy and the ideology of neo-liberalism to create “space”, freedom and power for the multinational corporations.

 - An intensification of the Cold War ideological and military onslaught against the “evil empire” (Reagan, term). Massive borrowing from abroad, mostly from Japan, was essential to the escalation under Reagan of the armaments race well beyond what the USSR could afford.

4. The “financialization” of international relations (inter alia through the policy of monetarism) brought about a massive rerouting of the global capital flows towards the USA and towards the dollar.
 - (a) From 1950-1970: USA the main source of world liquidity and foreign direct investment

 - (b) Since 1980: USA became the world’s main debtor nation and absorber of world liquidity

 - (c) Through neo-liberalism and through an escalating foreign debt the USA succeeded in achieving through financial means what it could not achieve through political and military means: defeat the USSR, contain the South and lock in Japan and China.

The neo-liberal counterrevolution was especially catastrophic for ASS (since 1980), for Latin America (in the 1980s) and for the former USSR in the 1990s. (These catastrophes were partly counter balanced by progress in China and East Asia). *(Giovanni Arrighi)*

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**A COMPARISON BETWEEN GLOBAL CAPITALISM
MARK I (PAX BRITANNICA) AND
GLOBAL CAPITALISM MARK II (PAX AMERICANA)**

1. Structural globalisation ought to be about the *free* flow of *commodities, labour and capital* – especially from the developed to the developing world.

2. **What happened in the British Empire (1870-1914)?**

- A high degree of free trade between countries of the British empire
- Mass migration of skilled Europeans to USA and British colonies
- In 1914 British assets overseas amounted to about £4 billion as against British GDP of £2,5 billion. (In 1913 25% of world's stock of capital was invested in countries with per capita incomes of 20% or less of British per capita GDP)

British Empire was *benevolent* compared with the *malevolence* of the American Empire. (Ferguson)

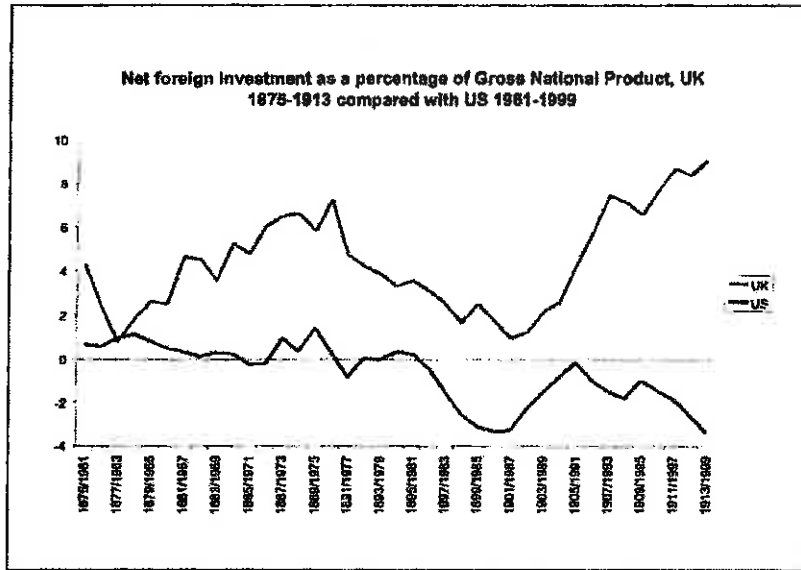
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3. **What is happening in the American Empire (1960-2005)?**

- WTO put pressure on ASS to liberalising its imports of industrialised products, but USA, EU and Japan are paying huge subsidies to their farmers. ASS cannot increase export of agricultural products. (Very hypocritical of Rich North).
- ASS is experiencing a huge “brain drain” of skilled and professional labour to Rich North.
- Between 1960 and 1976 the USA ran current account surpluses totalling \$60 billion. Since the early 1980s its current account has been in deficit.
- Presently only 5% of the world's stock of capital is invested in countries with per capita income of 20% or less of US per capita GDP (in comparison with 25% in 1913).
- The USA international investment position has changed dramatically since 1980: from net foreign *assets* equal to 13% of GDP in 1980, to net foreign *liabilities* (of \$2,7 trillion) equal to 23% of GDP (or 7,5% of world GDP) in 2003. (USA preys on the rest of the world). (See Figure 1 to 4).

Figure 1

Chart 8: Net Foreign Investment as a Percentage of Gross National Product, UK



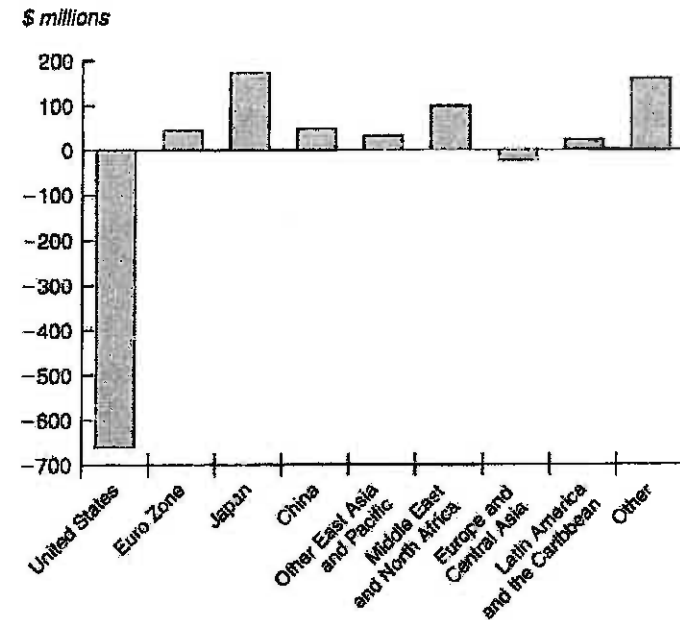
Between 1870 and 1914 the net capital exports out of London average between 4% and 5% of GDP; at their peak on the eve of the first World War they reached on astonishing 9%.

From 1983 the USA is a net importer of capital. Today the USA has a negative net international investment position of 23% of GDP.

Gross foreign claims on the USA in 2003 amounted around \$8 trillion.
(Ferguson)

Figure 2

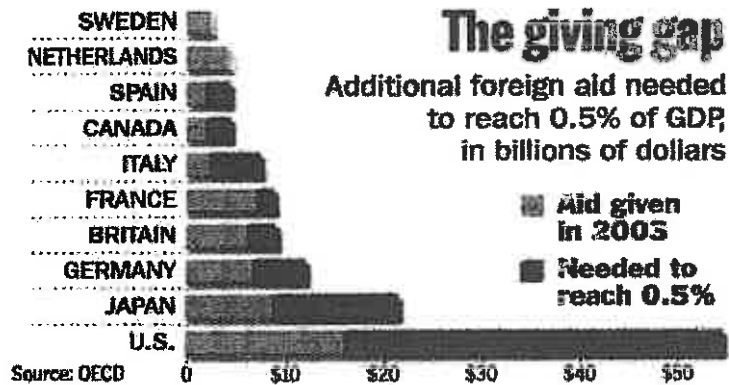
Figure 2.4 Estimated global imbalances in current accounts, 2004



(World Bank)

- In 2004 the USA's current account deficit was \$666 billion (or 5.6% of GDP).
- While we could have expected that the leading country in the world should have "exported" investment to the rest of the world, the opposite is happening.

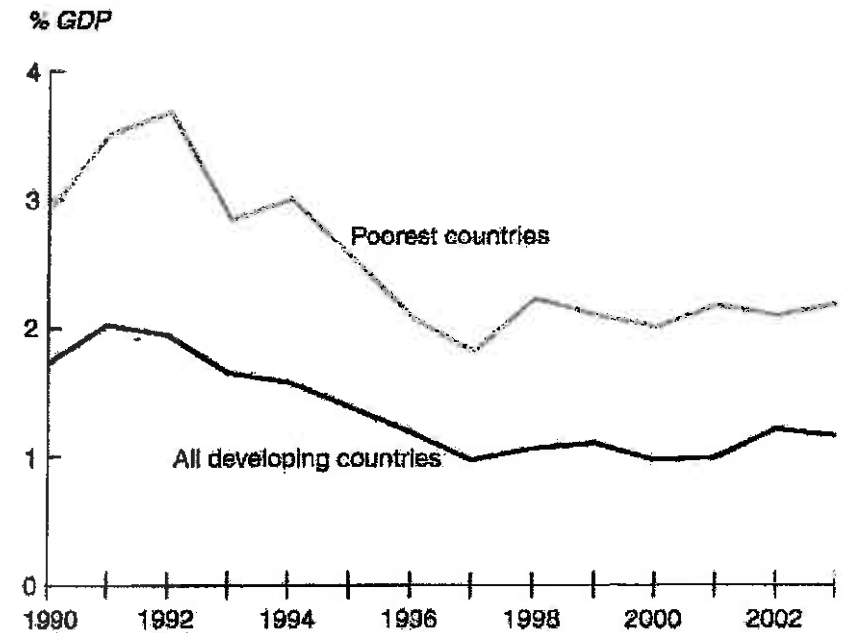
Figure 3



- The US gave ± \$16,3 billion as foreign aid in 2003.
- To reach 0,5% of GDP it should have given \$54,7b.
- To reach the NIEO's target of 0,7% of GDP it should have given \$76,6b.
- USA average foreign aid since 1975 is only 0.11% of GDP in stead of 0,7%.

Figure 4

Figure 1.13 ODA as a percentage of GDP in recipient countries, 1990-2003



- Since 1997 ODA is equal to only 1% of GDP in recipient countries in the developing world.
- Since 1997 ODA is equal to only 2% of GDP in the poorest countries.

(World Bank)

(*pax Americana....continued*)

- Japanese and Chinese banks have been buying up dollar assets in order to keep their own currencies from appreciating against the dollar (or to prevent the dollar from declining). Japan and China want to continue their huge exports to the USA and are prepared to loan money to the USA at favourable terms.

4. ASS in the American Empire

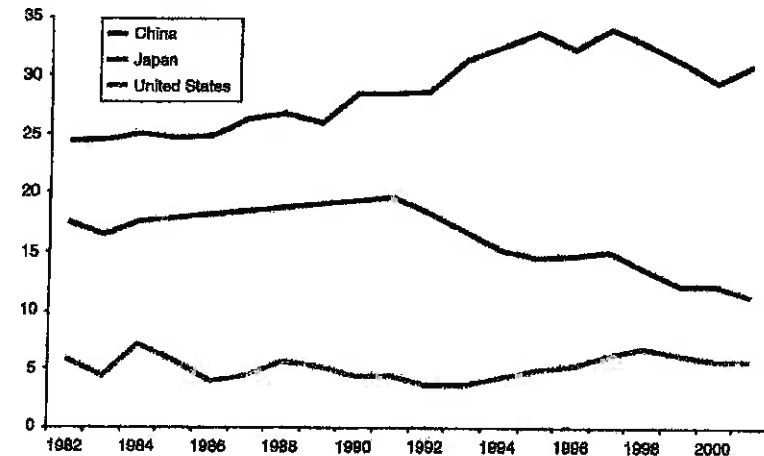
- Africa receives less than 5% of the \$200 billion flowing annually in FDI to developing countries – and it flows mainly to enclave oil economies. (China receives FDI's equal to 40% of its GDP).
- About 40% of Africa's wealth is held off-shore – 70% in the case of Nigeria.
- Within the framework of Global Capitalism Mark II, ASS
 - *imports* industrial goods,
 - *exports* social capital,
 - is in all probability a net *exporter* of capital,
 - while its *exports* of commodities (and the terms of trade) have declined sharply.

5. A strange new world: A symbiotic relationship exists between Asia and the USA:

- Asia saves, lends and exports to America
- America imports and borrows from Asia and it CONSUMES and maintains living standards much higher than their own resources justify. (See Figure 5)

Figure 5

Net National Savings as a Percentage of Gross National Income, China, Japan and the United States, 1982-2001



There is a neat symmetry between the American propensity to consume and the chinese propensity to save. China is playing essential the role that Japan played in the 1980s channeling its surplus *savings* into the American current and fiscal deficite.

From a strategic point of view the USA is for its economic stability reliant on the central bank of the Peoples Republic of China. (Ferguson)

6. The growing economic and financial *interdependence* between USA and Asia has squeezed ASS out of the picture.
7. The growing foreign indebtedness of USA and the growing fiscal indebtedness of the Federal government have transformed the USA into a vulnerable, selfish and *malevolent* giant ... very much to the detriment of ASS!
 - If we take the present value of all the revenue the Federal government can expect in the future and the present value of all its future commitments, the shortfall amounts to \$45 trillion. (With this huge “generational imbalance” the Federal government is technically bankrupt. (See Gokhale and Smetters)
 - Because of 9/11, the Iraqi war and the confrontation between the USA and parts of the Moslem world, ASS has dropped from the radar screen.
 - According to the “neocon” ideology, the Bush administration wants to mould the rest of the world in the image of America to make America safe for Americans. In this ideological climate Africa will only draw the attention of the USA when it endangers the USA – and that is unlikely.
 - ASS is systemically neglected by the USA and the rest of the Rich North.

THE COMMISSION OF AFRICA (C for A) 2005
(THE BLAIR/BROWN PLAN)

1. “African poverty and stagnation is the greatest tragedy of our time”
2. “To make serious inroads into poverty ... requires a *partnership* between Africa and the developed world”
3. “Africa *must* accelerate reform ... and the developed world *must* increase and improve its aid”
4. “The developed world has a *moral duty* – as well as a powerful motive of *self-interest* - to assist Africa”
5. “Africa requires a comprehensive “big push” on many fronts at once”
6. “[The C for A]” is a new relationship founded on solidarity and mutual respect, not on conditionality or on contracts”

7. **Resources:**

(a) “A 100% debt cancellation for all low-income African countries.

(b) Increase in resources of \$25 billion per year by 2010.

(c) A further increase of \$25 billion by 2015”.

8. “Money and state assets stolen from the people of Africa by corrupt leaders must be repatriated ... [Foreign companies] who give bribes should be dealt with too ...”

RECOMMENDATIONS

A. Governance and Capacity Building

B. Peace and Security

C. Leaving No-one Out: Investing in People

D. Growth and Poverty Reduction

E. Trade

F. Resources

G. How to make all this happen

COMMENTS ON THE C FOR A

1. It is in all probability the most comprehensive and the most promising plan for Africa ... yet we cannot but ask the following questions:
2. Why has the developed world a *moral duty* to assist Africa? Is it based on *humanitarian* considerations or on an acknowledgement of *guilt* due to systemic exploitation during the periods of slavery, colonialism and ideological globalisation? – Rich North ought to acknowledge its multiple exploitations explicitly. This is a precondition to address ASS problems effectively.
3. I agree that assets stolen by corrupt leaders must be repatriated ... but what about the assets stolen by the West during colonialism? – i.e. when plundering was the name of the game? Stolen assets *are* stolen assets ... the methods of the theft and the date when it took place are immaterial.

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4. In the C for A 17 pages of Annex B: *Recommendations*, almost every sentence started with either “Developed countries *should/must* ...” or “African countries *should/must* ...”. We are confronted with two big problems:
 - (a) Most of the developed countries CAN do what they *should/must* do, but WILL they be prepared to do it? (The USA has already announced that it is not going to support the C for A plan and the G7 already rejected the proposal for debt cancellation).
 - (b) Many of the African countries may be willing or inclined to do what they should/must do, but they simply CANNOT do it, because they do not have the (political, economic and institutional) *capacity* to do it.

It seems as if the C for A is not aware of this problem asymmetry. The C for A suffers from an obvious naivety. It is also inclined to prescribe “medicine” to cure the symptoms instead of the root causes of the illnesses of ASS.

5. The C for A writes about *partnerships*, but says very little about the UNEQUAL *power relationships* between the Rich North and ASS and even less about the inherently selfish and repressive nature of the Pax Americana which preys on the rest of the developing world to maintain its extraordinarily high consumption patterns.

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