

NEPAD AND AFRICA'S DEVELOPMENT: AN OVERVIEW OF CHALLENGES AND STRATEGIC OPTIONS

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Background

- The New Partnership for Africa's Development (NEPAD) is a strategic policy framework, and a socio-economic development plan of the African Union
- The objective of NEPAD is “to eradicate poverty and to place countries, individually and collectively, on a path of sustainable growth and development, and at the same time to facilitate active participation in the world economy and body politic”.

Focus of the paper

- Identification of structural and policy impediments to successful regional integration and development
- Highlight strategic policy options for attracting FDI

Rationale for regional integration

- Regional cooperation and integration enables individual countries to achieve greater economic benefits
- It provides larger markets and economies of scale in investment and production
- It increases the bargaining power of member states on international economic scene

Africa's experience of regional integration

- Long before independence, (1960s) regional cooperation and integration was seen as a strategy to fight colonial domination and imperialism.
- Modest beginnings of regional integration with focus on sectoral cooperation
- By 1977 there were over 20 intergovernmental multisectoral economic cooperation organisations in Africa.
- Adoption of Lagos Plan of Action in 1980 formalised in 1991 into the Abuja Treaty to form the African Economic Community (AEC)
- AEC provides for a gradual process of integration (over a period of 34 years), to be built on existing regional economic communities: ECOWAS, SADC, ECCAS, COMESA, and AMU

Africa's economic performance

- Poor economic growth:
- e.g. in terms of real GDP growth rate: Africa recorded a 3.8 % average growth rate in 2003 (World Bank, 2004)
- Poor performance in trade:
- In 2003 SSA world trade share was: 1.5% compare to Asia (24.3%), and Latin America (5.5%) (UNCTAD, 2004)
- Low levels of intra-regional trade (e.g.11% of total trade in ECOWAS in 2000)
- FDI inflows to Africa: In 2004, inflows to Africa were estimated at US \$20 billion. This compares to \$166 billion into Asia and the Pacific, and \$69 billion to Latin America and the Caribbean (UNCTAD, 2005).

Impediments to regional integration in Africa

- Lack of political commitment to integration
- Non involvement of key stakeholders
- Political instability
- Weak infrastructures
- Underdeveloped human capital
- Adoption of “European model of Market integration” approach designed for developed economies. Africa lacks most of the prerequisites for market integration such as similar levels in industrial development, macroeconomic stability, complementary and competitive products
- Problems of distribution of costs and benefits of integration

External impediments

- Debt servicing: few resources at the disposal of countries are diverted for debt servicing instead of being allocated into development programs such as education, health and infrastructure building.
- Policy conditionalities attached to the SAPs lead African governments to focus more on the demands of the international financial institutions, than on national and regional priorities

NEPAD: A model for integration and development

	OAU & development plans	AU and NEPAD
Objectives	<p>Protect sovereignty and territorial integrity of state members</p> <p>Principle of non-interference</p> <p>Promote economic cooperation</p>	<p>Eradicate poverty and promote sustainable development</p> <p>Facilitate effective participation in world economy</p> <p>Achieve a “united and integrated Africa” (AU vision 2030)</p>
Development strategies	<p>Inward-looking strategies</p> <p>Development programs and strategies designed by the IMF and World Bank</p>	<p>Partnerships</p> <p>Integration in the world economy</p> <p>Designed by African leaders</p>
Monitoring & accountability mechanisms	<p>No specific instrument of monitoring and accountability</p>	<p>African Peer Review Mechanism (APRM) to monitor political, corporate and economic governance, and regional integration progress</p>

NEPAD and Africa's Development

- The role of FDI in development
- Strategic policy options for NEPAD with respect to FDI

Role of FDI in Development

- Direction of causation between FDI and economic growth
- FDI, technology, and human capital augmentation
- FDI and employment
- FDI and market structure

Direction of causation between FDI and economic growth

- It cannot simply be concluded that FDI leads to economic growth (or vice-versa)
 - ◆ Correlation is not equal to causation
 - ◆ Correlation cannot specify temporal precedence
- Granger causality model
- De Mello (1996) study
 - ◆ Brazil, Mexico, Venezuela, Chile, Colombia

FDI, Technology and Human Capital Augmentation

- Neo-classical growth models
 - ◆ Key assumption: diminishing returns to physical capital
- Contemporary growth models
 - ◆ New inputs and advanced technology are endogenous variables
 - ◆ Human capital augmentation
- Borenzstein (1998) study
 - ◆ Through advanced technology transfer, FDI contributes relatively more to growth than does domestic investment

FDI and Employment

- FDI may contribute to local employment by creating service, supply and distribution linkages with local entrepreneurs
- Employment effects may be negative if local business and employment are effectively crowded out
- Choice of technology and the propensity to export

FDI and Market Structure

- The competitive market effects of FDI may be observed, *ceterus paribus*, through changes in industry structure
- Anti-competitive characteristics inherent in the MNE through global access to capital and advanced technology
- Creation of monopoly market power through the exercise of proprietary rights over technology – i.e., the terms and costs under which technology is transferred
- “Inappropriate technology”
- Form of MNE entry and industry structure

Strategic Policy Options for NEPAD with respect to FDI

- A government's FDI policy should be consistent with the development plans of that government (Modelski 1979:313)
- Strategy of size
- Challenge: differences in ideology towards FDI and FDI attraction strategies
- Regulating technology transfer

Table. 2 Continuum of liberal versus conservative policy options

Liberal/non interventionist		Conservative/insular
	Technology transfer law	
Investment incentives		Screening laws
Lack of specialised controls over FDI		Indigenisation laws
EPZs and related policy enclaves		
Regional, bilateral, and multilateral liberalisation agreements		

Conclusion

- In the era of international interdependence, regional integration is seen as the most effective method to increase economic competitiveness, and avoid marginalization
- What is being proposed by NEPAD goes beyond harmonisation at the regional level
- NEPAD faces major challenges
- The paper has discussed some of the impediments to effective integration and investment in Africa and proposed remedial strategies thereof