

Africa In An Age Of Globalization

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Abstract

The global markets continue to grow in developing countries. Global markets have created new businesses and provided opportunities for global employers and individuals in developing countries. Through globalization of economies, jobs have been created which reduce unemployment rates. However, economic growth rates in Africa have been lagged behind other developing countries. This paper examines the importance of global business to Africa. Also, this study explores how African countries can strengthen their macroeconomic policies and structural reforms in order to achieve globalization of their economies. In addition, this study evaluates the current state and future direction of globalization in Africa.

1. Introduction

Globalization refers to the shift toward a more integrated and interdependent world economy (Hill, 1999). Globalization is characterized by an intensification of cross-border trade and increased financial and foreign direct investment flows, promoted by rapid liberalization and advances in information technologies (Daouas, 2001). This definition contains both a description and a prescription. The description refers to the expansion of international flows of trade, finance, and information into an integrated global market. The prescription refers to the liberalization of national and global markets in the belief that free flows of trade, finance, and information will produce the best outcome for both economic growth and human welfare (Ajayi, 2001).

Companies from all over the world began benefiting from globalization in the 1960s when they expanded their economic activities beyond national borders. The liberalization of international trade, the growing importance of international financial flows, the rise in democracy in the world, and the improvements in information and communication technologies have defined and strengthened the rise of the global economy (Kumar & Nagpal, 2001; N'Diaye, 2001).

Previous and recent research and analysis on globalization in Africa has often highlighted that its countries need to be more interacting among and integrate in global business in order to take full advantage of marketplace created by globalization and liberalization of international trade. Poor economic performance is the reason why many researchers and analysts advocate that Africa needs more integration with the global economy (Calamitsis, 2001). A study shows that liberal trade regime is almost linked to a country's ability to attract foreign direct investment and promote trade (Sharer, 2001). The first avenue of economic integration for most countries is international trade. Hence, trade remains the main vehicle for Africa's participation and integration into the global economy (Ajayi, 2001; Sharer, 2001).

The objectives of this paper are to: (1) elaborate on the importance of global business to Africa, (2) explore possible ways in which African countries can strengthen their macroeconomic policies and structural reforms in order to achieve the benefits of globalization of its economies, and (3) provide actual assessment of the current state and future direction of globalization in Africa.

2. The Importance Of Global Business To Africa

Globalization offers new business opportunities through expanded markets and acquisition of new technologies and ideas. These factors will yield increased productivity and higher standards of living (Ajayi, 2001).

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How Africa decides to approach globalization must be determined by faster economic growth and development and poverty reduction. Studies indicate that economic growth requires increasing investment by promoting private initiative, enhancing human resource development, and improving overall economic efficiency and productivity (Calamitsis, 2001). In view of this challenge, African countries need to strengthen their macroeconomic policies and structural reforms in order to take full advantage of the benefits of globalization that accelerate growth and reduce poverty.

Africa seems, along with others, to have been left behind to respond to the new global business opportunities. Africa's income gap, relative to the advanced countries, has widened and per capita incomes in a number of countries have actually dropped (Calamitsis, 2001). These income gaps have created imbalanced development and poverty in Africa, which also affected the global capital flows into the continent. Africa needs to recognize and react to the new business opportunities in the global market, as well as remain competitive at home. These challenges can be accomplished, provided policymakers in Africa and the international community is ready to do their parts (Gondwe, 2001). With the support of regional and international organizations, African countries will be able to meet the challenges of increasing growth, reducing poverty, and thus lay the foundation for political, economic, and social stability (Daouas, 2001).

Regional economic integration is also a necessary element for ensuring Africa's active integration into globalization (Daouas, 2001; Gondwe, 2001). By introducing more open policies in its own markets, Africa has the potential source to create new business opportunities by expanding integrated production across the continent in agriculture, industry, commerce, finance, and social services. Through this, regional economic integration and cooperation, trade and investment, economic efficiency, and growth will be enhanced (Sharer 2001). It is on this point that Africa will take advantage of the new market opportunities by improving production standards and competing in a global marketplace.

3. Why Economic And Political Development Fail In Africa

Global economic factors are linked to political, legal, and cultural issues, and different countries in Africa have different economic systems. Most African countries gained their independence from colonial powers in the 1950s and 1960s. These newly independent nations of Africa became one-party states ruled by authoritarian leaders. These leaders adhered to socialist theories and applied the same theories to govern their respective countries (Hill, 1999).

Communism, socialism, Marxism, and state-controlled economies' approach for African development generally failed. By the same reasoning, democracy of the Western model of capitalism and free market has also failed in Africa. The rationale for failure of these economic development approaches was that they were at odds with realities on the ground, having been imported wholesale from outsiders (Kanuma, 2002). Some even still operate with a modified version of communism as an official economic approach, which also has essentially failed. In recent years, both socialism and totalitarianism are slowly retreating across the continent. Since the late 1980s, some 42 African countries have abandoned their experiments with socialism and moved toward more democratic modes of government and free market reforms (Hill, 1999; Swarns, 2002).

For 30 years, most African countries resisted adopting the market-oriented policies and reforms needed to tap the benefits of globalization. As a result, African countries' economies stagnated or declined and poverty increased (Hill, 1999; Calamitsis, 2001). Economic stagnation had left African countries trailing far behind the West in terms of living standards and economic growth rate. A study shows that 48 percent of African people are living in extreme poverty (Nsouli & Le Gall, 2001). Hence, most African people have never reached their full potential as a result of 30 years of misrule, mismanagement, and other historical misfortunes on the continent (Kanuma, 2002). These decades of economic growth problems should give African leaders an incentive for a more integrated global economy and determined approach to fighting poverty.

4. Africa's Share Of Global Trade

Africa has been integrated into the global economy as an exporter of primary commodities and importer of manufactured products. However, there is an erosion of Africa's share of world trade, even for its traditional commodity exports. Between the years of 1960 and 1969, Africa's average market share of total world exports was 5.3 percent and imports of 5.0 percent. These figures were dropped to 2.3 percent and 2.2 percent, respectively between the years of 1990 and 1998. The decline in Africa's market share of total world exports are attributed to the restrictions of the free market policy, slow growth of per capita income, high transportation costs, and the continent's distance from major markets. Africa has also failed to attract the capital flows it needs because of negative perceptions of the continent's economic and political activities, its poor infrastructure, and an inadequate legal framework, particularly for the enforcement of contracts (Ajayi, 2001; The economist, 1994; Financial Times, 1994).

A study has shown that maintaining high trade barriers is costly and that open trade regimes and increased exports are linked to economic growth. For example, more than 75 percent of African countries had trade regimes classified as "restrictive" by the IMF in 1990. Many African countries have realized the effects of the high trade barriers and adopted structural adjustment programs toward trade liberalization and reforms by the early 1990s. Only 14 percent of African countries' trade regimes are now classified as restrictive, while 43 percent are classified as open. Yet, on average, Africa's trade policies remain more protectionist than those of other countries including its major trading partners and competitors (Sharer, 2001; Ajayi, 2001). In fact, 61 percent of countries outside Africa have trade regimes classified as open. All industrial countries maintain open trade regimes. Africa's current average tariff of about 19 percent is still higher than the average of 12 percent for the rest of the world (Sharer, 2001).

5. Regional Economic Integration And Cooperation In Africa

The presence of different and overlapping regional arrangements, particularly in eastern and southern Africa, has created confusion. Africa's regional arrangements include Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Regional Integration Facilitation Forum (RIFF), Southern African Development Community (SADC), and Southern African Customs Union (SACU). As illustrated in figure 1, this regional economic integration has overlapping memberships, conflicting obligation, different strategies and objectives, conflicting rules, and costly duplication of administrative procedures in the trading system (Sharer, 2001; Gondwe, 2001).

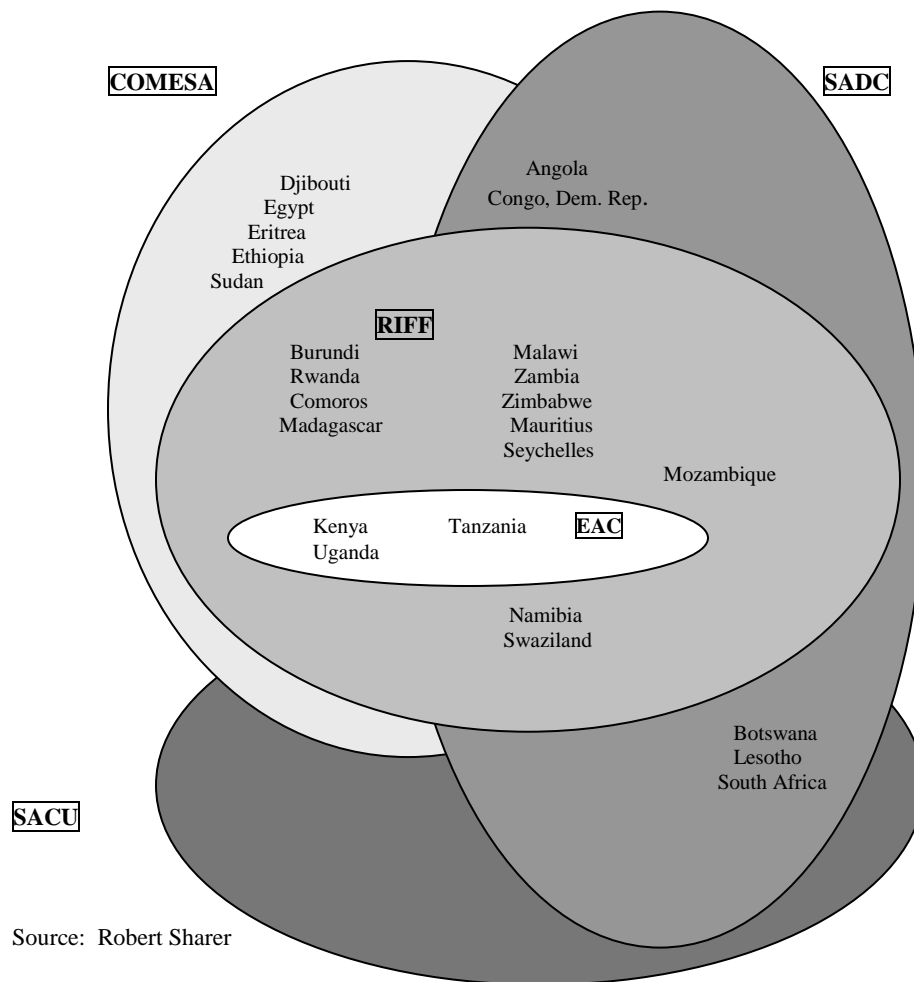
These attempts of regional economic integration in Africa reduce the potential trading gains from regionalism and undermine the improvement in the investment climate that arises from larger markets, stability of policies, and improved transparency. They also introduce new complexities such as rules of origin (Sharer, 2001). The real challenge is to ensure that these regional organizations are perceived as effective means of integrating Africa into the world economy by fostering mutual support among members in their reform efforts (Gondwe, 2001).

In contrast, after the North American Free Trade Agreement (NAFTA) of 1994 was signed, there was a flood of investment into Mexico from many countries. NAFTA was able to create a region of 370 million consumers with \$6.5 trillion in output. There are over 4,000 plants employing several hundred thousand workers in Mexico (Malkin, 2001). NAFTA is North America's response to the global economy.

6. Lowering Barriers To Trade And Investment In Africa

After World War II, many countries committed themselves to the goal of removing barriers to the free flow of resources between countries (Bhagwati, 1989). This commitment was reinforced by acceptance of the principle that free trade was the best way to promote a healthy domestic economy and low unemployment (Krugman & Obstfeld, 1991; Hill, 1997; Bhagwati, 1989).

Figure 1: Regional Trading Arrangements In Eastern And Southern Africa



Trade has been a major engine of growth in industrial countries and middle-income developing countries. Studies have shown that export growth is linked to economic growth. This improved economic growth performance is also closely associated with increased employment opportunities and increased income for the poor (Sharer, 2001). In other words, countries that encourage international trade enjoy higher levels of economic activity, employment, and wages than those that restrict it (Boone & Kurtz, 2003).

The shift toward a more open global economy in Africa could create opportunities for organizations to expand the market for their goods and services through exports and investments. An open global economy in Africa could also facilitate the globalization of production and market in the continent. It could also provide additional support by promoting flows of private capital to African countries, especially foreign direct investment (FDI) that creates new jobs and often brings new technologies to the country. A study suggests that FDI is the most important source of external finance for developing countries. However, in most African countries, FDI has remained at very low levels. Africa's share of FDI in developing countries dropped from 25 percent in the early 1970s to 5 percent in 2000. South Africa is by far the continent's most important source of FDI (ERA, 2002).

7. Factors Undermining Africa's Strategy For Development And Globalization

A number of factors have undermined Africa's strategy for development and globalization. These factors include weak internal markets and fragmented production structures inherited from colonial history, disadvantageous geography, heavy economic dependence on exports of primary products, package of macroeconomic policy errors, internal and external structural policy failures, political instability, and conflicts and weakness in governance (Ajayi, 2001; Calamitsis, 2001). In addition, Africa's policies of liberalization, privatization, and deregulation are conditionally structured and adjusted by the World Bank and the IMF (Ahmed et al., 2001). In other words, the policies and structures put forward by the World Bank and IMF have undermined the capacity of Africa's own thinking strategy for development and globalization.

Most of Africa's economies were also contracted in the 1970s and 1980s. Even though African countries now achieve a 3 percent annual growth rate in gross domestic product (GDP), it will take 40 years before many achieve the level they were in the early 1970s. Foreign investors who might be attracted to Africa's cheap labor are also deterred by its problems of corruption (Ajayi, 2001; The Economist, 1994; Financial Times, 1994).

8. The Need For Improving Infrastructure In Africa

Most African countries need to initiate the restructuring of institutional reforms with an economic infrastructure in place. Infrastructure seems to be the basic institutions and public facilities upon which Africa's economic development depends. Infrastructure includes money and a banking system that provides major investment loans to businesses; an educational system that turns out the varieties of skill and basic research that run production lines; transportation and communications systems (interstate highways, railroads, airports, canals, telephones, Internet sites, postal systems, television stations) that link into one market; an energy system that powers factories; and a market system itself, which brings goods and services into homes and businesses (Giman & McDaniel, 2003). In view of the major infrastructure deficiencies, most African countries need substantial new investment and support from the international community to ensure that all countries share the opportunities and benefits of globalization (N'Diaye, 2001).

9. The Goals For Development In Africa

Africa's overall economic growth increased from 3.5 percent in 2000 to 4.3 percent in 2001. However, this macroeconomic growth hides wide disparities among countries in Africa. For example, the economic growth in Equatorial Guinea is 65 percent while a contraction of 7.5 percent is in Zimbabwe. In any case, this macroeconomic growth is not sufficient to meet the goals of reducing poverty in Africa (ERA, 2002).

Africa is still far from reaching its goal (annual growth rate above 7 percent a year) to reach the quality of life of other developing countries. African countries can accomplish this goal by integrating with the world economy and by accelerating reforms that would attract private investment by promoting greater openness in domestic and foreign trade. African countries can also make their economies more efficient by redefining the role of the state, reforming the civil service in order to improve the business climate, and introducing a transparent legal and regulatory framework that will encourage private investment. Reforms must be adapted to each country's specific economic and social characteristics as well as to its priorities and level of development. In doing so, the industrial countries need to support Africa's efforts by allowing the continent's exports free access to their markets (Daouas, 2001).

10. The New African Initiative For Global Integration

One of the main tasks for the African Union (AU) is to push forward the New Partnership for Africa's Development (NEPAD). This new African initiative is focused on Africa's participation and integration into the global economy to fight poverty. In doing so, the AU is calling for the promotion of democratic principles and institutions, popular governance, and good governance in Africa (Swarns, 2002; Reynolds, 2002). This new emphasis of good governance and democracy is to make Africa an interesting place for private investments to promote development

and improve living standards. However, NEPAD can only become functional with increased and better-coordinated international technical and financial assistance (Kanuma, 2002).

By establishing partnerships with industrial countries, African countries will enhance their level of technological development. In other words, technological know-how would be transferred from the industrial economies to the countries of Africa through partnerships. As a result, African countries' products would meet global demand and compete internationally (Daoua, 2001). Also, Africa must be able to count on technical assistance of its external partners to strengthen its human resource capabilities in the use of new information and communication technologies (N'Diaye, 2001).

11. Achievement Of Globalization Strategy In Africa

Mauritius and Tunisia were sited of their success stories in economic growth and development and reducing poverty. For example, between 1973 and 1999, real GDP in Mauritius grew 5.9 percent a year, on average, compared with 2.4 percent for sub-Saharan Africa as a whole (Subramanian, 2001). Mauritius' success story is the result of its stable macroeconomic policies, neutral incentives between tradable and nontradeable sectors, efficient service sector, and quality of governance. Also, the growth of Mauritius' trade and development strategy is the result of its liberal trade policies and openness to foreign direct investment. Since the mid-1980s, the volume of goods imported and exported by Mauritius has grown at an annual rate of 8.7 percent and 5.4 percent, respectively (Subramanian, 2001). Strong domestic institutions such as the culture of transparency and participatory politics ensured the rule of law and respect for property rights that have made Mauritius attractive to investors (Subramanian, 2001).

By the same reasoning, Tunisia's success story is attributed to its macroeconomic policies and structural reforms. This includes closer regional integration with the European Union (through an association agreement), the rest of Africa, and the Arab world. These interregional cooperation and continued democratic reform efforts attributed to Tunisia's economic growth and improved standard of living conditions (Saddem, 2001). Hence, both Mauritius and Tunisia can be seen as a case study providing that openness and an embrace of globalization are beneficial.


12. Africa's Global And Development Strategy For Future Direction

African countries need to formulate and implement a sound development strategy on domestic policies and reforms that will focus on consolidating macroeconomic stability, enhancing human resource development, improving basic infrastructure, encouraging agricultural development, accelerating trade liberalization and regional economic integration, promoting banking system, fostering private investment and more open global economy, capitalizing on ways to strengthen their bargaining power within the global trade system, and concluding bilateral cooperation agreements with the EU for investment and economic growth (Chambrier, 2001; Calamitsis, 2001).

This comprehensive development strategy and future direction could help Africa integrate into the global marketplace. To do so, most African countries need to limit the role of the state in delivering essential public services. They also need to promote a private sector within a liberal and transparent regulatory framework. Implementing these comprehensive developmental strategy reforms would also strengthen the role of civil society in Africa, which could make an important contribution to fighting poverty and protecting the environment (N'Diaye, 2001). Moreover, as African countries bear primary responsibility for achieving their reform and development objectives, international organizations and the international community must also support their efforts (Daouas, 2001).

13. Conclusion

This study examines how much Africa is able to benefit from the new economic opportunities offered by globalization. Globalization can facilitate much needed inflows of private investment and transfers of technology as well as increase the access of African countries' exports to world markets. By embracing the global economy, improving policies, and strengthening institutions, Africa will be able to promote growth and reduce poverty. Regional integration is also an important step in integrating Africa into the global economy. Progress made in Africa's politi-

cal changes and market reforms is likely to attract more new global business opportunities and achieve their goals for growth and poverty reduction. All these tasks can be accomplished, provided policymakers in Africa and the international community is ready to do their parts. The objective of globalization is that African countries will move to accelerate reforms while the international community will have to provide sufficient financing and technical assistance to support the reform initiatives. 

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Notes