Will Africa become a new model for economic progress?

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The G20 leaders’ Summit in South Korea during November 2010 was another interesting but disappointing event. While the international financial system and issues such as currency, China and the future of the IMF were at the top of the agenda new economic and business models received attention and there was as usual the issue of development on the agenda. Africa was of course at the top of the list.

There has been outrage in the US, UK and in other OECD member countries over the past two years and wide spread dissatisfaction with governments. Obama had this pointed out in the mid term US elections, and in London students are rioting over the five fold increase in universities fees. Throughout western economies there has been growing uncertainty about the wisdom of economic policies.

The financial system has showcased its various weaknesses over the past couple of years with developing economies in the ascendancy during this period. Questions have arisen about the decline in the west and many wonder how long China will continue its relentless economic drive and whether the US and Europe will regain moral and retain their technical leadership

Is the current situation a major turning point in the globalization of this ever-smaller planet? China continues to embrace the developing world, particularly Africa and there has been a significant shift of focus away from the Pacific and Atlantic to the Indian Ocean zone. Some of our questions in this paper concern Africa and the Middle East region and whether nations in these regions will make the best use of changing global circumstances.

The South Korean government, the Summit host, like their Asian neighbors has been rethinking their economy as they monitor and try to anticipate China’s expanding and increasingly more powerful engine. Decisions in Seoul about how Korea, the world’s most wired nation should build its knowledge economy are being given a lot of attention – an economy that is not dependant on Hyundai’s and television and household electronics– but one that will become among the world’s first test beds for a truly new economic model.

This is not theory in Korea as an entirely new city of considerable scale is being designed and built to purpose as a fully wired metropolis, that will properly test and evaluate the role of ICT’s in the new economy. Health, education, entertainment, energy use and media related services are sectors that we can all grasp, but what about completely new ideas and technologies such as how to construct and utilize new materials such as synthetic diamonds, build or grow human body parts, let alone conceive of what will be necessary in space technologies such as a space solar energy elevator.

I wonder after seeing two exceptional movies in recent days, the ‘Social Network’ and ‘Gasland’, and having participated in an online forum on ‘Poverty, Entrepreneurship & Development’ how we will achieve sufficient clarity and understanding about the ever increasing and more complex problems we face as individuals and nations. The very best thought processes and problem solving capabilities are required to solve transnational resource issues on top of the many national priorities that individual governments are facing across the globe - one has to wonder if the G20 or any other forum is up to the task of making headway with effective policies and actions.

There are signs today that even in China’s manufacturing industries that costs are getting too high and material resources too expensive to satisfy price points for their global consumers. With new attitudes towards consumption in the west, developing markets are in favor and with this a growing interest in Africa as an investment destination and a source of resources, potential labor and markets. There are indeed interesting indicators that some titanic shifts are afoot - the issue will become will these lead to sustainable development for the soon to be one billion plus population of Africa, or are they to receive second hand goods of yesterdays technologies while the resources are once again plundered?

The signs are not all bright but there is reason to be confident that benefits from industrialization and growth and the related knowledge maybe shifting before it’s too late to the developing world. The west with its ideals of capital and markets is not yet dead due to changes in consumption, and in moving towards a knowledge-based economic future such as Korea is advocating it can better contribute to a more balanced and sustainable global economy by sharing its advanced knowledge with developing nations.

The resentment by any nation and its people to economic exploitation is not new but in the future this could gradually reside if the sharing of knowledge by those who possess it becomes a reality. The west could lead the way by providing critical knowledge and research to those that need it. A fairer and better world would be the result. This would seem a more reasonable formula - than another 10 or 20 years of extreme exploitation at the cost of destruction of the environment without any advantages for those that live in the developing world. A concert here and there a new aid package or ideas that help, but they do not change the dynamics of the number one problem. Dignity for all by eliminating extreme poverty.

The success of this experiment will lie in the hands of those countries like the United States, European nations such as Germany, France, the UK, Japan and South Korea among others. They have the research institutions and corporations with the knowledge essential for building tomorrow’s economies. China and India and other BRIC nations are rapidly increasing their knowledge but have a long way to go in new fields of cutting edge research that will determine future outcomes.

I had the great pleasure recently to meet Professor Paul Collier, author of ‘The Bottom Billion’ and Director of the Center for The Study of African Economies at Oxford University. Professor Collier has recently completed his latest book ‘The Plundered Planet’ that elegantly questions the role of economics in understanding nature as an asset. This is applicable everywhere today as consumers, governments and business exploit the very resources that belong to the people in newly discovered resource rich countries nowhere more so than in Africa.

I have been working with colleagues at the UN in New York and Australia after recently conducting a successful symposium on the issues that Sudan will face following the upcoming referendum. It is likely that South Sudan will separate from the North forming the world’s newest nation after the referendum on January 9 2011.

This significant event poses many challenges for the new government of South Sudan, as they will need to build capacity, linkages and create the mechanisms rapidly to manage the new country, widely acknowledged among those with the world’s worst infrastructure and foundations for nationhood of any country in the world.

Transparently International ranks Sudan with Afghanistan, Somalia and Myanmar in the corruption stakes. This clearly indicates the task ahead for a new nation where living conditions that address the needs and aspirations of the people will matter if peace and stability is to be achieved. During our Symposium we had the opportunity to hear from many Australian experts who had played roles in the founding of Timor Leste – as it faced the challenges of being the most recent new nation on the planet and how it would face the issues of natural and human resources.

Sudan is more complex and the situation that is unfolding despite many hurdles offers prospects to build an economy that will benefit from oil and other plentiful resources. The issue will be - can the government with the help of the international community including close neighbors of the African Union that border Sudan create a workable nation that all of Africa can be proud of. Paul Collier’s startling insights into how natural assets must be managed is very timely for Sudan. Economists are important along with the scientists and technologists in getting reason with knowledge and ethics into the equation as a guiding principle for facing such decision-making.

Professor Jeffrey Sachs has recently made similar remarks: “The financial crash exposed deep failures at the core of macroeconomic policy-making and thinking. The rapid spread of the crisis from its epicenter on Wall Street to nearly the entire world underscored the interconnectedness of the global economy.

Sustained and widespread future prosperity will require changes in global macroeconomic governance and science, and a new way of thinking. This new thinking will need to focus on two things: first, on 'human ecology' - humanity in the context of the physical environment, rather than a single-minded focus on markets; and second, on finding global solutions for global structural problems. A return to sustained prosperity will also require the reassertion of core values in economic life: integrity, fairness, justice for the weak and sustainability for the future”.

Sachs goes on to say we find ourselves at a watershed in history, with multiple dramas unfolding at once across the planet. Global changes pose major challenges. First, dramatic shifts in global power and wealth are under way. With the rise of Asia, Western economic dominance is coming to an end, after more than two centuries, due to the global diffusion of technology, literacy and political sovereignty since the end of colonial rule.

We are heading towards a multi-polar world, both politically and economically. Society has never been very good at changes in power. They can give rise to new tensions, destabilizing political competition and even (in the most dire cases) to war.

Second, we are witnessing the unprecedented global-scale impact of human society and production on the physical environment, and the economic disasters that come with this. Today's 6.8 billion people (a figure which will cross 7 billion in 2011) average around US$10,000 production per person (measured at purchasing-power adjusted prices), which amounts to about US$70 trillion of global production per year. The scale of the world economy has risen roughly 100- to 1,000-fold during the past two centuries, since the start of the industrial era.

The ecological consequences are staggering. Around 30 billion tonnes of carbon dioxide each year are now emitted into the atmosphere by burning fossil fuels. Around 60,000 major dams, rapidly depleting groundwater and human-induced climate change are dramatically altering the world's hydrological cycle, leading to severe water crises in many regions.

We have no reliable systems for coping with the profound consequences of human impacts on water, climate, biodiversity, patterns of disease, invasive species and other environmental changes wrought by global society and the global economy.

Professor Sachs goes on to talk about the 75million being added to the population every year, but what was interesting was he traced the G20 back to its establishment in 1999 as a ministerial meeting in the aftermath of the Asian financial crisis. Discussions in Paris at the time focused on a great concern about the global institutions having the capacity and being able to cope with the many major problems that were looming large.

The G2O has recognized the “power shifts” taking place globally in a post-Washington consensus world. The rapidly waning role of the west is not easy medicine for it to swallow but it still has much to contribute. Some global actors don’t even get a seat at the G20 table, this breeds suspicion and the growing perception is that the G20 is unlikely to be very interested in development issues when there are so many other problems of concern.

The good news is the summit’s development agenda was launched at Seoul by establishing a Working Group on Development intended to coordinate G20 work with the UN achieving the MDGs. South Africa is the only African country in the G2O, and it co-chaired the working group raising hopes for tangible outcomes for issues on the African continent like Sudan.

South Africa presented a plan developed in conjunction with a committee of comprising of finance ministers and central bankers along with the African Development Bank, the Economic Commission for Africa and the African Union Commission. Along with Sudan, the referendum and the crisis in Cote D’Ivoire the world’s attention will be focused on Africa this year.

My colleague Aravinda Perera who assisted in preparing this paper has been looking at what Graça Machel, the wife of Nelson Mandela has recently said about how African Economies were leaving the people behind in their development.

To comment on this, we should look elsewhere in the world and how other countries overcame the same challenge a few decades ago. Both China and India closed their economies to foreign trade for a considerable part of the second half of the 20th century and nurtured local industries from agriculture to automobile and even aircraft production: industries otherwise earmarked for ‘developed nations’. These countries developed their prime asset: their people. Navigating into more advanced industries created a new educated population. This ‘closed economy’ model may have led to a brain drain, but proved to be a successful model in capacity building at the time. Skilled knowledge flowed back into these countries over the last four or more decades.

According to Graça Machel, although Africa has a population on their side, it lacks unified leadership and vision to bring their resources together. This reflects back on nations sharing their knowledge to help develop other countries. This lack of unity and cooperation has caused natural resources to be siphoned off to the rest of the world for processing and production. Australia, China and even some Middle East countries have a deeply vested interest along with the historic players in the African continent by way of economic investments.

A visionary imperative emphasized by Graça Machel is for business to invest in Africa’s human capital. She said, “Africa’s best and strongest capital is its people – the energy, skills and potential they represent.” The true key to creating a sustainable and long term economy lies in investing in human capital. It’s time for the continent to come up with a plan to educate its population and stop playing catch up to the rest of the world.

In the 21st century, a different model to that used by India and China is required. No longer can a country afford to close their borders to trade. African and international companies that have invested in the continent need to consider the issue of developing human capital of the continent to be, “The most important investment – the best investment.” Given that economies and firms invest more in capacity building, in 20 to 30 years, Africa will have a broader pool of experts and skills that will make its economies stable.

“Africa is a continent of young people, of which 60% are below the age of 25. Challenges facing youth are just as diverse and unique as the youth themselves. Youth are being marginalized and not being given there rightful place around the table,” said Machel. South Africa, Kenya, Egypt and even Morocco and Algeria need to take charge, put aside their political and geographical differences and work towards bringing the continent up to date.

The changing balance of economic power may not be a bad thing after all: for those of us who were born in the west it’s been good these past 55 years. Perhaps with a more balanced world where the national assets are wisely used and a greater number of nations, perhaps under the guidance of the UN, can agree on the management and use of the transnational assets we may not only save the planet, and create and a new and better model for democracy, but we may finally with the wise use of many new and fantastic technologies end poverty.

How these issues are dealt with will not only ascertain the value of the G2O and other international forums to Africa’s and the developing world’s needs: they may just change the direction that the moral and economic compass points in. This will still need the entrepreneurial spirit of a new young generation of African leaders, thinkers and business people who create value for their nations while understanding the ultimate opportunity for a great and rich and unified continent. Dreams perhaps but the signs are present.