Debt Issues in Africa: Thinking Beyond the HIPC Initiative to Solving Structural Problems

(Paper for a WIDER Conference on Debt Relief, Helsinki, August 2001)

Alemayehu Geda*

The Kenya Institute for Public Policy and Research (KIPPPRA) and Addis Ababa University

Abstract

This paper attempts to answer the following question: If the HIPIC initiative is fully successful and managed to write-off all debt that owed to Africa, will the debt problem be over? The answer is No. This pessimist answer is arrived at by examining the historical origin of African debt and the structural problems the continent is confronted with. The literature about the origins of the African debt crisis lists a number of factors as its cause. The oil price shocks of 1973-74 and 1978-79, the expansion of the Eurodollar, a rise in public expenditure by African governments following rising commodity prices in early 1970's, the recession in industrial countries and the subsequent commodity price fall, and a rise in real world interest rate are usually mentioned as major factors. Surprisingly, almost all the literature starts its analysis either in the early 1970s or, at best, after independence in 1960s. The main argument in this paper is that one has to go beyond this period not only to adequately explain the current debt crisis but also to propose its possible solution. The conclusion that emerges from such analysis is that the African debt problem is essentially a trade problem. Thus, long run solution to debt points to the importance of addressing trade and trade related structural problems in the continents.

1. Introduction

Notwithstanding the highly publicized debt relief initiative, the Highly Indebted Poor Countries (HIPC), the African debt problem is one among myriad of problems the continent is facing. A number of studies, in particular on Latin American countries debt, have attempted to explain the origin of the debt crisis. This literature attributes the developing countries debt (including that of Africa’s) to shocks generated in the early 1970s. In this paper an attempt to explain the historical origin of the African debt crisis is made. It will be argued that understanding the African debt and proposing its solution requires understanding its historical origin. The paper is organized as follows. In section 2 an attempt to provide a brief summery of the policy debate about African economic crisis is given. This is primarily intended to show the general context under which the debt problem is understood by major institutions. This is followed by section 3 where the external finance problems of Africa will be described. In section 3 I will focus on the structure of African economies created by its colonial history and its impact on current
debt problem. Section 4 will examine the evolution of the debt problem from 1970's onwards. Section 5 will conclude the paper.

2 Background on African Debt and Macro Policy Debate

2.1 Africa's Economic Crisis – What caused it?

There are three sets of contending explanations for Africa's economic crisis. The first is set out in World Bank (1981) - also known as ‘the Berg Report’ - and a number of subsequent World Bank publications. An alternative explanation for Africa’s economic problems, associated with the United Nations’ ‘Economic Commission for Africa’ (ECA) is outlined in African Alternative Framework to Structural Adjustment Programs, AAF-SAP (ECA, 1989a). Finally, there exists a third view, which is less clearly associated with any particular institution and largely held by academics of a Marxist orientation. This latter position is often offered as a critique to the other two explanations. Although the scope of all three sets of explanations is general, encompassing every aspect of the African economic crisis, we focus mainly on how problems in the external sector of the economy are explained. Nevertheless, by referring to this wider debate, we aim to locate the problems and the role of the external sector in a wider context.

The World Bank's Agenda for action (1981) argues that Africa's problems relate to underdeveloped human resources, political fragility, problems of restructuring colonial institutions, inheritance of poorly shaped economies, climate, geography and population growth. Set in the context of these problems, disappointing performance of the external sector is, perhaps, a little more understandable. The Bank argues that, in spite of external shocks, associated particularly with a rise in oil prices in the periods 1973-74 and 1978-80 and a decline in world demand for primary commodities, the balance of payments problems experienced by most African nations since the 1970s cannot generally be attributed to deterioration in terms of trade. With the exception of mineral exporters, it is suggested that terms of trade for most African nations have, in fact, been either favourable or neutral.

The main cause of the balance of payments problem, according to the Bank, has been a decline in the volume of exports. The decline in terms of trade faced by African nations is attributed to three factors. Firstly, structural changes in the composition of world trade; with trade in commodities growing at a slower rate than that of manufactures has resulted in a decline in the African share of total world trade. Secondly, drought and civil strife has negatively affected Africa’s supply capacity. And thirdly, trade restrictions and agricultural subsidy policies of industrial countries represent a barrier to African trade. The Bank goes on to argue that the failure of Africa’s export sector may be explained in terms of three main factors. Firstly, government policy has tended to be biased against agricultural and export production. Secondly, increased consumption associated with rapid population growth has placed a burden on resources, which might otherwise have been used by the export sector. And, thirdly, inflexibilities in African economies are seen as representing an obstacle to diversification. The Bank’s insistence that policy failure represents the main explanation for Africa’s economic crisis, and consequent emphasis on the need for reforms, has continued with the publication of its long-term perspective study (World Bank, 1989). Moreover, as recently as 1994, the Bank continues to argue that orthodox macroeconomic management represents the road to economic recovery in Africa and, hence, that more adjustment, not
less, is required (World Bank, 1994). This assertion has been the subject of various criticisms, coming from a host of different angles (see inter alia Adam (1995), Mosley et al (1995), Lall (1995))

A number of other analysts have arrived at conclusions, in line with those of the Bank. van Arkadie (1986), while sympathetic to the problems posed by external shocks, argues that stagnating or falling output has had an important impact on export earnings. On the latter point the World Bank (1989) argues, rather vigorously, that declining export volumes, rather than declining prices, account for Africa's poor export revenue. Grier and Tullock's (1989) analysis supports this view. Based on their survey of empirical studies into the causes of the African economic crisis, Elbadawi et al (1992), also found domestic policies to be important. White (1996b), citing the case of Zambia, argues that economic decline following Zambia's independence may largely be attributed to economic mismanagement. Using a simple pooled multiple regression equation for thirty-three African countries, Ghura (1993) also found significant support for the Bank/IMF viewpoint. Easterly and Levine (1996) suggest political instability, low levels of schooling, deterioration in infrastructure, as well as policy failures as representing possible causes of Africa's growth problems. They conclude, however, that policy improvements alone are likely to boost growth substantially. (See also Collier and Gunning (1999) for a similar argument). Although the above survey is not exhaustive, the aforementioned works would tend to lend strong support to the Bank/Fund's viewpoint. The logical conclusion to be drawn from this survey, therefore, is that the remedy to Africa's economic problems is to implement Structural Adjustment Programs (SAPs).

In contrast, the ECA (1989a), prefers to explain Africa's problems in terms of deficiencies in basic economic and social infrastructure (especially physical capital), research capability, technological know-how and human resource development, compounded by problems of socio-political organization. The ECA sees inflation, balance of payments deficit, a rising debt burden and instability of exports as resulting from a lack of structural transformation, unfavourable physical and socio-political environment, as well as an excessive outward orientation and dependence. The ECA study suggests that weaknesses in Africa's productive base, the predominant subsistence and exchange nature of the economy and its openness (to international trade and finance) have all conspired to perpetuate the external dependence of the continent. Hence, one of the striking features of the African economy is the dominance of the external sector. This has the effect of rendering African countries quite vulnerable to exogenous shocks. Consequently, according to the ECA viewpoint, perceiving African problems in terms of internal and external balance problems and seeking a solution within that framework (most notably, through the implementation of Structural Adjustment Programs) implies not only the wrong diagnosis but also the wrong treatment. The ECA study argues that '...both on theoretical and empirical grounds, the conventional SAPs are inadequate in addressing the real causes of economic, financial and social problems facing African countries that are of a structural nature' (ECA, 1989a: 25).

Based on this alternative diagnosis, and the major objectives of ‘the Lagos Plan of Action’ (OAU, 1981), the ECA formulated an African alternative framework to the Bank/Fund's policy recommendations. The ECA framework focuses on three dynamically interrelated aspects, which need to be taken into account. First, the operative forces [political, economic, scientific and technological, environmental, cultural and sociological], second the available resources [human and natural resources, domestic saving and external financial resources] and
third the needs to be catered for [i.e. focusing on vital goods and services as opposed to luxuries and semi-luxuries]. The adoption of this general framework would allow the different categories of operative force to influence not only the level and structure of what is produced but also the distribution of wealth. Moreover, these forces may then influence the nature of needs to be catered for and the degree of their satisfaction. At a concrete level this is envisaged as taking a number of policy directions. Firstly, improving production capacity and productivity, mobilization and efficient use of resources, human resource development, strengthening the scientific and technological base and vertical and horizontal diversification. Secondly, improving the level and distribution of income, adopting a pragmatic balance between the public and private sectors, putting in place ‘enabling conditions’ for sustainable development (particularly economic incentives and political stability), shifting of (non-productive) resources, and improving income distribution among various groups. And, finally, focusing on the required needs, particularly in relation to food self-sufficiency, reducing import dependence, re-alignment of consumption and production patterns and managing of debt and debt servicing.

Just as many have argued in favour of the Bank/IMF view, so too, many analysts have come out in support of the ECA’s position. Thus, various studies have emphasized Africa’s extreme dependence on primary commodity exports (See Ngwenya and Bugembe (1987), Fantu (1992), Adedeji (1993)). Setting this discussion in a broader historical context, these studies have highlighted the impact of colonialism in establishing the rules by which Africa might participate in the world economy. According to these rules, African nations produced raw materials and agricultural goods for Europe’s industries. –Further, it is argued that this pattern of trade has changed very little since the time of political ‘independence’ (Fantu, 1992: 497-500, Adedeji, 1993: 45). Indeed, Stefanksi (1990) argues that, understood in the context of direct continuum with the colonial experience, Africa’s economy still depends on external factors to a much greater degree than any other developing region. As a result of this dependence, Africa’s economic crisis is seen as being intricately interconnected with external factors such as falling terms of trade, declining demand for African exports and related external shocks (Stefanski, 1990: 68-77, Adedeji, 1993: 45). Collier (1991) also argues that abrupt external shocks (be they negative or positive) have represented important causes of the poor long-term economic performance of Africa. Ali (1984) has touched on another dimension of the problem. He argues that, for most African nations, the mitigation of their problems depends not only on the characteristics of the commodities they export (and specifically their elasticities) but also on the presence or absence of the necessary market staying power. Wheeler (1984) has made an exploratory econometric analysis of the sources of stagnation and suggests that ‘environmental’ factors (especially terms of trade and international conditions of demand) have had a greater impact on growth than policy variables. Indeed, based on Ghura’s (1993) recent econometric analysis, world interest rates represent a further significant variable, which should be added to Wheeler’s list of adverse ‘environmental’ factors.

The negative impact of dependence on exports of primary commodities is reflected in three interdependent phenomena. Firstly, a decline in prices faced by exporters (‘terms of trade’). Secondly, instability of exports earnings. And, thirdly an absolute decline in levels of demand and supply. Attempts to compensate for deterioration in the exchange rate facing exporters by increasing supply have resulted in a further decline in prices (Fantu, 1992: 502, Stefanksi (1990) Stein (1977)). Stein (1977) examined export trends in East Africa (Uganda, Kenya and Tanzania) in order to determine the causes of the divergence of each country’s export
growth from that of the world. He found that unfavourable commodity composition, as opposed to the favourable/unfavourable nature of its market and increased competitiveness went a long way in accounting for this divergence. Because African countries depend on a few commodities, whose prices swing cyclically and may decline over time, these countries face export-earning instability. Naturally, such instability adversely affects their economies. However, Fosu (1991) examining the evidence for sub-Saharan Africa argues that export instability per se is less important than fluctuation in capital formation (capital instability) in affecting economic growth. Yet, as his own work shows, in sub-Saharan Africa, high export instability may render export proceeds a relatively unreliable source for funding for investment projects (Fosu, 1991: 74-75). This usually forces countries to depend on external finance (discussed, at length, below).

The third view differs from the other two in its understanding of what crisis means in the African context. For these analysts crisis ‘...has a connotation of systemic breakdown, but more generally it can refer to a moment or a specific time period in the history of a system at which various developments of a negative character combine to generate a serious threat to its survival’ (Lawrence, 1986:2). Sutcliffe (1986) for instance, argues that the African crisis represents the continuation of a complex process of polarization trends. It emanates from Africa's economic dependence. For him, the African crisis is best understood in terms of the combined result of long-term secular effects of imperialism suddenly aggravated by the impact of the world capitalist crisis. Thus, according to these viewpoints, Africa’s problems are best understood as resulting from long-term underdevelopment, following dependency theory, and short-term vulnerability, following international aspects of crisis theory (Amin 1974a, 1974b, Ake 1981 cited in Ofuatey-Kadjoe 1991, Sutcliffe, 1986:19-20; Harris, 1986:93; Onimode, 1988: 13, Moyo et al, 1992: 210). In general, these writers are against the view that there is a ‘norm’ from which African countries are in a temporary deviation, with associated implications that these countries may return to that norm given a particular adjustment measure (Harris, 1986:84). Harris (1986) and Mamdani (1994) for instance, argue that the IMF and Bank’s ultimate objective is not to correct distortions in a free market international system, but to construct such a system (Harris, 1986:88). In doing so, these institutions may undermine any attempt to create an independent, integrated and self-sustained [African] economy (Mamdani, 1994:129).

While there are areas where the first two approaches both converge and diverge, the third explanation for Africa’s economic crisis stands firmly in opposition to both. Thus, the core of the disagreement between the bank and ECA views centers on 'the role of the market' mechanism (Oskawe, quoted in Asante, 1991:179). While the Bank believes in the market mechanism as representing the fundamental instrument of resource allocation and income distribution, the ECA questions this viewpoint. Thus, while the bank focuses mainly on financial balances, the ECA considers a much broader transformation as an enabling condition for the former. While the Bank emphasizes the export sector, the ECA strategy advocates selectivity (See also Asante, 1991:180). While the Bank expresses concern about anti-export bias and population policy, the ECA prefers to emphasize the need to ensure total structural transformation and food self-sufficiency. While the Bank places more emphasis on short-term policies than on Africa's long term needs, the ECA Strategy, as defined in the Lagos plan of action, stresses the importance of also addressing issues of long-term transformation alongside these short-term policies. However, these institutions do agree on some major issues, such as the need for human resource development, improving the efficiency of parastatals, and sound debt management. The ECA analysis is quite
comprehensive in addressing the causes of the crisis and in suggesting not only short run
solutions but also a framework for long-term transformations13. Thus, the analysis of the
external sector of Africa, adopted in this study, will be conducted within this broader
context. Within this perspective, it is not difficult to show that the African debt crisis has
developed as part of the broader external economic problem of the continent.

2.2 Background on African Debt

One of the major external problems of African countries is the external finance problem in
general and the debt crisis in particular. As can be seen from Table 1, the total external debt
of Africa grew nearly 25 fold, from its relatively low level of US $12.6 billion in 1971 to
nearly US $300 billion today. The most important component of this foreign burden is long-
term debt outstanding. The use of IMF credit became important in the late 1970s and early
1980s when structural adjustment and enhanced structural adjustment facilities became
important components of flows to Africa.
### Table 1: Major Debt Indicators of Africa (in billions of US Dollars, unless otherwise stated) (In billions of US dollars, unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total External Debt Stock (EDT)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa (ESA)</td>
<td>4.9</td>
<td>11.4</td>
<td>28.3</td>
<td>55.4</td>
<td>85.2</td>
<td>88.8</td>
<td>91.1</td>
<td>93.4</td>
<td>101.4</td>
<td>106.0</td>
<td>104.0</td>
<td>103.2</td>
<td>107.3</td>
</tr>
<tr>
<td>North Africa (NA)</td>
<td>5.1</td>
<td>12.9</td>
<td>51.3</td>
<td>75.0</td>
<td>93.0</td>
<td>90.9</td>
<td>88.7</td>
<td>86.7</td>
<td>94.1</td>
<td>99.6</td>
<td>98.0</td>
<td>92.2</td>
<td>94.4</td>
</tr>
<tr>
<td>West and Central Africa (WCA)</td>
<td>3.9</td>
<td>8.2</td>
<td>32.2</td>
<td>51.7</td>
<td>91.7</td>
<td>94.2</td>
<td>90.9</td>
<td>94.7</td>
<td>98.2</td>
<td>103.9</td>
<td>101.7</td>
<td>94.5</td>
<td>98.1</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>8.8</td>
<td>19.7</td>
<td>60.8</td>
<td>107.1</td>
<td>176.9</td>
<td>183.4</td>
<td>182.7</td>
<td>194.8</td>
<td>221.3</td>
<td>235.4</td>
<td>231.8</td>
<td>223.1</td>
<td>230.1</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>13.9</td>
<td>32.6</td>
<td>112.1</td>
<td>182.1</td>
<td>269.8</td>
<td>274.2</td>
<td>271.4</td>
<td>281.5</td>
<td>315.4</td>
<td>335.0</td>
<td>329.9</td>
<td>315.3</td>
<td>324.5</td>
</tr>
<tr>
<td><strong>Long-term External Debt (total, All Africa)</strong></td>
<td>11.9</td>
<td>27.2</td>
<td>84.6</td>
<td>140.1</td>
<td>227.7</td>
<td>231.7</td>
<td>227.2</td>
<td>234.0</td>
<td>253.0</td>
<td>266.9</td>
<td>260.9</td>
<td>249.2</td>
<td>256.3</td>
</tr>
<tr>
<td><strong>Multilateral (DOD),</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>0.5</td>
<td>1.4</td>
<td>4.0</td>
<td>8.9</td>
<td>18.9</td>
<td>20.7</td>
<td>21.5</td>
<td>23.4</td>
<td>25.9</td>
<td>27.7</td>
<td>28.0</td>
<td>28.0</td>
<td>29.8</td>
</tr>
<tr>
<td>North Africa</td>
<td>0.2</td>
<td>0.6</td>
<td>4.1</td>
<td>7.2</td>
<td>12.4</td>
<td>13.8</td>
<td>14.2</td>
<td>15.4</td>
<td>17.0</td>
<td>18.4</td>
<td>18.2</td>
<td>17.2</td>
<td>18.5</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>0.5</td>
<td>1.2</td>
<td>3.6</td>
<td>7.8</td>
<td>19.4</td>
<td>20.9</td>
<td>21.7</td>
<td>22.8</td>
<td>25.3</td>
<td>27.1</td>
<td>26.7</td>
<td>25.6</td>
<td>27.3</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.0</td>
<td>2.6</td>
<td>7.6</td>
<td>16.7</td>
<td>38.2</td>
<td>41.6</td>
<td>43.2</td>
<td>46.1</td>
<td>51.2</td>
<td>54.7</td>
<td>54.7</td>
<td>53.6</td>
<td>57.0</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>1.2</td>
<td>3.2</td>
<td>11.7</td>
<td>23.9</td>
<td>50.6</td>
<td>55.4</td>
<td>57.4</td>
<td>61.4</td>
<td>68.2</td>
<td>73.0</td>
<td>72.9</td>
<td>70.7</td>
<td>75.6</td>
</tr>
<tr>
<td><strong>Bilateral</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>2.6</td>
<td>5.0</td>
<td>11.1</td>
<td>23.7</td>
<td>36.6</td>
<td>37.3</td>
<td>37.2</td>
<td>36.8</td>
<td>39.2</td>
<td>40.0</td>
<td>39.5</td>
<td>38.2</td>
<td>39.8</td>
</tr>
<tr>
<td>North Africa</td>
<td>3.0</td>
<td>6.0</td>
<td>17.5</td>
<td>31.9</td>
<td>36.6</td>
<td>37.8</td>
<td>38.2</td>
<td>38.1</td>
<td>44.4</td>
<td>49.8</td>
<td>50.7</td>
<td>48.0</td>
<td>49.1</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>2.0</td>
<td>3.2</td>
<td>6.9</td>
<td>10.5</td>
<td>33.9</td>
<td>36.7</td>
<td>37.1</td>
<td>37.0</td>
<td>40.4</td>
<td>42.8</td>
<td>41.2</td>
<td>38.7</td>
<td>40.7</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.6</td>
<td>8.3</td>
<td>18.1</td>
<td>34.2</td>
<td>70.5</td>
<td>74.0</td>
<td>74.4</td>
<td>73.8</td>
<td>79.6</td>
<td>82.7</td>
<td>80.7</td>
<td>77.0</td>
<td>80.5</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>7.6</td>
<td>14.3</td>
<td>35.6</td>
<td>66.1</td>
<td>107.2</td>
<td>111.7</td>
<td>112.6</td>
<td>111.9</td>
<td>124.0</td>
<td>132.6</td>
<td>131.4</td>
<td>125.0</td>
<td>129.7</td>
</tr>
<tr>
<td><strong>Private creditors (DOD)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>1.1</td>
<td>2.6</td>
<td>5.4</td>
<td>8.6</td>
<td>13.3</td>
<td>13.3</td>
<td>13.0</td>
<td>13.0</td>
<td>12.9</td>
<td>13.5</td>
<td>12.6</td>
<td>12.6</td>
<td>12.3</td>
</tr>
<tr>
<td>North Africa</td>
<td>1.2</td>
<td>4.8</td>
<td>21.0</td>
<td>23.8</td>
<td>34.5</td>
<td>30.8</td>
<td>29.0</td>
<td>27.3</td>
<td>26.1</td>
<td>24.5</td>
<td>21.5</td>
<td>18.7</td>
<td>17.6</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>0.7</td>
<td>2.3</td>
<td>10.8</td>
<td>17.6</td>
<td>22.1</td>
<td>20.2</td>
<td>14.5</td>
<td>14.6</td>
<td>13.9</td>
<td>13.4</td>
<td>12.2</td>
<td>10.6</td>
<td>10.6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.9</td>
<td>4.9</td>
<td>16.3</td>
<td>26.3</td>
<td>35.4</td>
<td>33.9</td>
<td>28.2</td>
<td>33.4</td>
<td>34.6</td>
<td>36.8</td>
<td>35.1</td>
<td>34.7</td>
<td>33.6</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>3.0</td>
<td>9.7</td>
<td>37.3</td>
<td>50.1</td>
<td>69.9</td>
<td>64.7</td>
<td>57.2</td>
<td>60.7</td>
<td>60.8</td>
<td>61.3</td>
<td>56.6</td>
<td>53.4</td>
<td>51.1</td>
</tr>
<tr>
<td><strong>Interest and Principal Arrears (Percent of total external debt)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>0.3</td>
<td>3.6</td>
<td>10.3</td>
<td>16.4</td>
<td>21.1</td>
<td>25.2</td>
<td>28.4</td>
<td>32.5</td>
<td>34.0</td>
<td>36.7</td>
<td>35.0</td>
<td>34.2</td>
<td>35.4</td>
</tr>
<tr>
<td>North Africa</td>
<td>1.5</td>
<td>0.2</td>
<td>0.9</td>
<td>6.9</td>
<td>6.3</td>
<td>0.9</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>2.8</td>
<td>3.9</td>
<td>1.6</td>
<td>3.1</td>
<td>9.6</td>
<td>10.3</td>
<td>14.1</td>
<td>19.2</td>
<td>19.5</td>
<td>21.9</td>
<td>23.8</td>
<td>22.7</td>
<td>25.6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.4</td>
<td>3.7</td>
<td>5.6</td>
<td>10.0</td>
<td>15.2</td>
<td>17.5</td>
<td>21.2</td>
<td>25.0</td>
<td>24.2</td>
<td>26.3</td>
<td>26.2</td>
<td>25.5</td>
<td>27.5</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>1.4</td>
<td>2.3</td>
<td>3.5</td>
<td>8.7</td>
<td>12.1</td>
<td>12.0</td>
<td>14.4</td>
<td>17.4</td>
<td>17.1</td>
<td>18.6</td>
<td>18.6</td>
<td>18.2</td>
<td>19.6</td>
</tr>
</tbody>
</table>

**Source:** World Bank 'Global Development Finance' (2000).
Table 2: Major Debt Indicators of Africa (in Billions of US Dollar, unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Transfer on Debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>1.09</td>
<td>2.19</td>
<td>2.48</td>
<td>2.49</td>
<td>2.07</td>
<td>0.80</td>
<td>2.45</td>
<td>0.84</td>
<td>-0.04</td>
<td>0.47</td>
<td>-0.45</td>
<td>1.65</td>
<td>-1.32</td>
</tr>
<tr>
<td>North Africa</td>
<td>0.54</td>
<td>4.68</td>
<td>2.25</td>
<td>-0.06</td>
<td>-5.64</td>
<td>-3.39</td>
<td>-5.71</td>
<td>-5.85</td>
<td>-2.80</td>
<td>-3.33</td>
<td>-3.58</td>
<td>-4.86</td>
<td>-5.97</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>0.40</td>
<td>1.12</td>
<td>4.01</td>
<td>-1.89</td>
<td>-0.27</td>
<td>-2.22</td>
<td>-0.02</td>
<td>0.83</td>
<td>-2.80</td>
<td>-0.57</td>
<td>-1.33</td>
<td>0.31</td>
<td>-3.28</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.50</td>
<td>3.31</td>
<td>6.56</td>
<td>0.55</td>
<td>1.78</td>
<td>-1.18</td>
<td>0.74</td>
<td>2.53</td>
<td>5.48</td>
<td>2.01</td>
<td>-2.57</td>
<td>0.15</td>
<td>-6.48</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>2.04</td>
<td>7.99</td>
<td>8.81</td>
<td>0.49</td>
<td>-3.86</td>
<td>-4.57</td>
<td>-4.98</td>
<td>-3.32</td>
<td>2.68</td>
<td>-1.32</td>
<td>-6.15</td>
<td>-4.71</td>
<td>-12.45</td>
</tr>
<tr>
<td><strong>Aggregate Net Transfer</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>1.08</td>
<td>2.30</td>
<td>4.18</td>
<td>5.37</td>
<td>7.62</td>
<td>7.57</td>
<td>7.55</td>
<td>6.46</td>
<td>5.66</td>
<td>5.76</td>
<td>3.77</td>
<td>5.37</td>
<td>4.13</td>
</tr>
<tr>
<td>North Africa</td>
<td>0.46</td>
<td>5.19</td>
<td>2.95</td>
<td>2.60</td>
<td>3.08</td>
<td>0.54</td>
<td>-0.75</td>
<td>-1.80</td>
<td>0.39</td>
<td>-1.54</td>
<td>-0.23</td>
<td>0.29</td>
<td>-2.20</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>0.29</td>
<td>1.14</td>
<td>1.16</td>
<td>-1.28</td>
<td>2.32</td>
<td>1.80</td>
<td>1.49</td>
<td>4.19</td>
<td>5.45</td>
<td>3.05</td>
<td>2.77</td>
<td>2.52</td>
<td>1.95</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.43</td>
<td>3.41</td>
<td>5.11</td>
<td>4.44</td>
<td>9.23</td>
<td>8.97</td>
<td>8.83</td>
<td>10.21</td>
<td>11.75</td>
<td>15.36</td>
<td>8.66</td>
<td>13.33</td>
<td>6.68</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>1.90</td>
<td>8.60</td>
<td>8.06</td>
<td>7.04</td>
<td>12.31</td>
<td>9.51</td>
<td>8.08</td>
<td>8.41</td>
<td>12.14</td>
<td>13.81</td>
<td>8.43</td>
<td>13.61</td>
<td>4.48</td>
</tr>
<tr>
<td><strong>Technical co-operation grants (as percentage of total grants)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>61.81</td>
<td>36.39</td>
<td>36.77</td>
<td>32.06</td>
<td>24.31</td>
<td>25.61</td>
<td>26.44</td>
<td>28.94</td>
<td>24.26</td>
<td>29.06</td>
<td>33.98</td>
<td>31.25</td>
<td>24.94</td>
</tr>
<tr>
<td>North Africa</td>
<td>38.70</td>
<td>16.33</td>
<td>58.53</td>
<td>39.71</td>
<td>20.31</td>
<td>22.50</td>
<td>31.49</td>
<td>52.21</td>
<td>38.85</td>
<td>51.19</td>
<td>40.04</td>
<td>43.32</td>
<td>33.25</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>51.54</td>
<td>46.90</td>
<td>54.37</td>
<td>36.61</td>
<td>30.04</td>
<td>31.78</td>
<td>35.62</td>
<td>37.18</td>
<td>26.81</td>
<td>32.06</td>
<td>30.01</td>
<td>32.53</td>
<td>28.86</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>61.36</td>
<td>49.23</td>
<td>42.60</td>
<td>35.52</td>
<td>29.76</td>
<td>31.79</td>
<td>32.91</td>
<td>33.86</td>
<td>28.45</td>
<td>30.70</td>
<td>32.69</td>
<td>31.30</td>
<td>27.82</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>50.03</td>
<td>32.78</td>
<td>50.57</td>
<td>37.61</td>
<td>25.04</td>
<td>27.14</td>
<td>32.20</td>
<td>43.04</td>
<td>33.65</td>
<td>40.94</td>
<td>36.36</td>
<td>37.31</td>
<td>30.53</td>
</tr>
<tr>
<td><strong>Debt (EDT)/GNP (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>19.87</td>
<td>23.12</td>
<td>44.32</td>
<td>77.66</td>
<td>99.45</td>
<td>94.71</td>
<td>115.66</td>
<td>116.12</td>
<td>141.51</td>
<td>133.18</td>
<td>114.93</td>
<td>103.40</td>
<td>111.55</td>
</tr>
<tr>
<td>North Africa</td>
<td>29.33</td>
<td>31.56</td>
<td>57.07</td>
<td>84.27</td>
<td>71.98</td>
<td>75.11</td>
<td>68.30</td>
<td>67.02</td>
<td>69.68</td>
<td>68.75</td>
<td>61.36</td>
<td>58.15</td>
<td>55.81</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>21.35</td>
<td>27.61</td>
<td>59.61</td>
<td>106.68</td>
<td>121.16</td>
<td>127.89</td>
<td>147.63</td>
<td>167.20</td>
<td>158.63</td>
<td>145.95</td>
<td>146.27</td>
<td>163.02</td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>14.55</td>
<td>15.52</td>
<td>23.45</td>
<td>56.37</td>
<td>63.01</td>
<td>63.68</td>
<td>62.91</td>
<td>70.99</td>
<td>82.57</td>
<td>77.57</td>
<td>73.82</td>
<td>67.74</td>
<td>72.32</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>21.94</td>
<td>23.54</td>
<td>40.26</td>
<td>70.32</td>
<td>67.50</td>
<td>69.39</td>
<td>65.61</td>
<td>69.00</td>
<td>76.13</td>
<td>73.16</td>
<td>67.59</td>
<td>62.94</td>
<td>64.07</td>
</tr>
<tr>
<td><strong>Debt service Ratio (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Africa</td>
<td>21.77</td>
<td>8.52</td>
<td>22.27</td>
<td>30.24</td>
<td>32.96</td>
<td>34.58</td>
<td>37.21</td>
<td>36.49</td>
<td>29.86</td>
<td>24.48</td>
<td>21.15</td>
<td>20.10</td>
<td>22.38</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>5.28</td>
<td>6.88</td>
<td>13.16</td>
<td>22.08</td>
<td>19.29</td>
<td>18.12</td>
<td>15.83</td>
<td>14.52</td>
<td>21.12</td>
<td>18.98</td>
<td>18.39</td>
<td>15.92</td>
<td>17.08</td>
</tr>
<tr>
<td><strong>All Africa</strong></td>
<td>..</td>
<td>..</td>
<td>14.73</td>
<td>23.91</td>
<td>22.94</td>
<td>23.52</td>
<td>24.74</td>
<td>22.84</td>
<td>22.21</td>
<td>19.88</td>
<td>17.69</td>
<td>17.41</td>
<td>18.53</td>
</tr>
</tbody>
</table>

* Simple arithmetic mean (based on those countries that have relevant data)


Net transfer = Loan disbursements less amortization and interest payment [as defined in World Debt Tables]

Aggregate net transfer = Aggregate net resource flows (Loan disbursements less amortization) plus official grants (non-technical) and foreign direct investment (FDI) less interest payment and FDI profit [as defined in World Debt Table]
Another dimension of the structure of African debt is the changing pattern of its creditors. Based on Table 1, it can generally be said that bilateral debt is the most important component of the total debt. This is followed by multilateral debt. Private inflows are showing a declining trend. A final observation is that a larger share of the official debt is on concessional terms (See Alemayehu 1997 for detail). It is also interesting to note that the debt problem is aggravated by capitalization of interest and principal arrears, which constitute nearly a quarter of the external debt.

Although the share of African debt in the total debt of developing countries’ is very low, its relative burden is very high. As can be seen from Table 2 (See Alemayehu 1997 for details) the debt to GNP and debt service ratio rose from 20% and 9 % in 1971 to 100% and 17%, respectively, in 1997. Both had reached as high as 110% and 25%, respectively, in the late 1980s14. The burden of debt on meagre resources can also be read from the net transfers to the sub-regions. It is interesting to note from Table 2 that if grants and net foreign direct investment inflows are not taken, African countries are on a net basis transferring resources to the developed countries since 1985. The figure picking from its low level of 1.7 billion in 1985 to nearly 7 billion in 1997. Moreover, even a good part of grants, nearly 35%, goes to ‘technical experts’ that came from the North.

In sum, the last three decades have witnessed an unprecedented increase in the level of African debt. This debt is characterized by its predominant long-term character, the growing importance of debt owed to bilateral and multilateral creditors, a trend away from concessional to nonconcessional and an increasing importance of interest and principal arrears (usually capitalized through the Paris and London clubs) in the growth of long term debt. Indicators of the debt burden also revealed that the African debt is extremely heavy compared to the capacity of the African economies, in particular their export sectors. Moreover, African countries in general are characterized by net outflow since the mid 1980s. The performance of these economies coupled with the mounting debt surely shows that African countries are incapable of simultaneously servicing their debt and attaining a reasonable level of economic growth, not to speak of poverty alleviation.

Whereas the mere size of debt is not ordinarily an economic problem in itself, being tackled by rescheduling and similar temporary arrangements, its relative (to capacity) level and subsequent impact in the economy are serious problems. In this respect three inter related implications of the debt problem can be singled out. First, the servicing of the external debt erodes the meagre foreign exchange available for imports. This has led to the import compression problem that adversely affected both public and private investments. This issue has become the main feature of African macroeconomics. Second, the debt stock creates a debt overhang problem that could shatter the confidence of both foreign and domestic private investors who are usually sensitive to uncertainty. The declining trend of private investment (as share of GDP) in most African countries from the late 1970s onwards can partly be attributed to this factor. Finally, servicing of debt in the African context is placing an enormous fiscal pressure. Such pressure has an adverse effect on public investment (as can be read from the declining share of public investment in GDP from late 1970s onwards in most African countries) and on physical and social infrastructure. Thus, the debt issue is a crucial part of the overall economic crisis facing Africa. The important question is: how this crisis comes about?
The literature on the origins of the African debt crisis lists a number of factors as its cause. The oil price shocks of 1973-74 and 1978-79, the expansion of the Eurodollar, a rise in public expenditure by African governments following increases in commodity prices during the early 1970’s, recession in the industrialised nations and subsequent fall in commodity prices, as well as rises in real world interest rate are all mentioned as major factors. Surprisingly, almost all of this literature focuses on the post-independence period, with a greater part of the analysis contained therein relating to the 1970s, 80s and 90s. The main argument set out in this paper is that we need to extend this analysis to the pre-independence period if we are to adequately explain the current debt crisis, as well as propose possible solutions for its resolution. From this point of departure, the following section traces the historical formation of an African economic structure incapable of handling the current debt crisis.

2.3 The Historical Origin of Africa’s Economic Linkage with the Industrialized Countries / The North/

Following Amin (1972), African economic history may be classified into: (i) the ‘pre-mercantilist period’ (from pre-history to the beginning of the seventeenth century); (ii) the ‘mercantilist period’ 15 (from the seventeenth century to 1800) characterized by the operation of the slave-trade; (iii) the ‘third period’ (from 1800 to 1880) characterized by attempts to set up a European dependent African economy; and finally, (iv) the ‘period of colonization’ in which the dependent African economy became fully established (Amin, 1972:106). This section will not pretend to discuss the details of Amin’s periodization. Rather, after briefly reviewing the economic history of the other periods, it will focus mainly on the colonial period, during which time the economic structure African countries inherited at the time of independence became established.

2.3.1 African Trade before Western Europe

Pre-colonial African economic interactions with the rest of the world, and especially Europe, date back many centuries, before culminating in fully-fledged colonisation in the latter part of the nineteenth century. During the first part of this period, Africa had autonomy in its linkages with the rest of the world 17 (Amin, 1972:107-110). However, during the sixteenth century, African trade centers moved from the savannah hinterland to the coast, in reaction to changes in European trade, which shifted increasingly from the Mediterranean to the Atlantic (Hopkins, 1973:87),

Various studies have documented how pre-colonial Africa was characterized by production of diversified agricultural products (see for instance Rodney, 1972: 257). The internal trade of the continent was distinguished by regional complementarities, with a broad natural resource base. Thus, a dense and integrated network was set in place, dominated by African traders, which included, inter alia, trade among herdsmen and crop farmers, supply of exports and distribution of imports. This was dominated by trade in salt, West African ‘spices’, perfumes, resins and kola nuts, of which the latter was the most important (Amin, 1972:117, Hopkins, 1973: 51-86; Neumark, 1977:128-130, Vansina, 1977: 237-248, Austen, 1987:36). Brooks’ account of the economic conditions prevailing in this period provides an impressive insight into African trade at the time (Brooks, 1993). Specifically, one is struck by: (a) the
extent of local and long distance trade; (b) the range of goods traded; and, (c) the degree of processing of commodities (for instance in textile manufacturing, dyeing and metalworking) particularly in West Africa. According to his account, the major commodities traded among West Africans in pre-colonial times include salt, iron, gold, kola, and malaguetta pepper and cotton textile. Of these, Kola and malaguetta pepper were important, not only in West Africa, but also in the trans-Saharan trade. Indeed, this trade was so extensive that Europeans were able to obtain malaguetta pepper at inflated prices from Maghreb middlemen from at least the fourteenth century onwards (Brooks, 1993: 51-121). Moreover, in this period, Europeans were able to purchase cloth from Morocco, Mauritania, Senegambia, Ivory Coast, Benin, Yorubaland and Loango for resale elsewhere (Rodney, 1972:113; Hopkins 1973: 48). It is curious to note that, in a geographic and economic sense, North Africa was connected, rather than separated, by the Sahara to other parts of Africa. It is also worth noting that the quality of many of these processed goods was quite comparable with products originating in other parts of the world. For instance the level of manufacturing of textiles in pre-colonial West Africa was so sophisticated that these textiles were not only traded in West, North and Central Africa but also in the European market (See Hopkins, 1973:48 for detail). Moreover, none of the goods brought by Europeans supplied any of the basic or unfulfilled needs of African societies. Indeed, similar commodities and/or substitutes were obtainable through West African commercial networks. Specifically, African artisans of the time manufactured high quality iron, cotton, textiles, beers, wines and liquors (Brooks, 1993:56). Austin argues that this trade, sometimes referred to as the ‘Sudanic economy’, represents “an ideal African development pattern: continuous and pervasive regional growth with a minimum of dependence upon foreign partners for provision of critical goods and services” (Austen, 1987: 48). However, this autonomy in traditional industries was to be undermined by subsequent events (Konzacki, 1990:24).

The early development pattern of Africa varies between regions. In contrast to West Africa, East and Southern Africa (ESA) were characterized by a well-established economic interaction with the Arabian and Asian countries, long before the arrival of the Europeans. More specifically, this part of Africa supplied a range of products, such as gold, copper, grain, millet, and coconut to the Middle East and Indian Ocean economies. There also existed a dynamic caravan trade and commercial plantations long before the onset of European colonial rule. According to Austen, the towns in this part of Africa degenerated into little more than entrepôts for raw material exports and manufactured imports, rendering them dependent on the external economy (Austen, 1987:67-74). However, as documented by Kjekshus, during the mid-nineteenth century, prior to the onset of the colonial period, the interior of what is now mainland Tanzania carried an estimated four and a half million head of cattle. Indeed, the entire coastal region also supported a rich agricultural and pastoral economy (quoted in Leys, 1996:111). Further, Nzula et al (1979) argued that the region was characterized by peasant production, which was mainly a natural and closed economy, with a substantial number of people leading a nomadic existence (Nzula et al, 1979: 38). The existence of an independent and autonomous economy dating back to antiquity is also well documented in Ethiopian history. Amin also notes that the African societies of the pre-colonial period, including this region, developed autonomously (Amin, 1972: 107-108). Thus, one may reasonably conclude that, although its economy was not as complex as that of West Africa, nevertheless, that the ESA region had some degree of autonomy in its economic activity, and, hence, was not as dependent on the export of commodities, particularly to Europe.
To sum up, there would appear to be a long history of integrated and autonomous economic activity in most regions of Africa with local and long distance trade playing a linking role. This is not an attempt to paint a 'golden past' for Africa. Rather, it is meant to underline the fact that Africa had a healthy and fairly independent economic system, before colonialism intervened to force a structural interaction with Europe.

2.3.2 The Formation of a Commodity Exporting and External Finance Constrained Economy

The period leading up to the industrial revolution, and the 16th and 17th centuries, in particular, witnessed the beginning of the shaping of the African economy by European demand. A clear example is the pressing demand for gold coin in Europe, and the subsequent search for gold in West and Central Africa (WCA). Indeed, demand for labour required in the American gold search was instrumental in the formation of the European slave trade (Rodney, 1972:86-87). Thus, the shaping of the African economy by Europe began, even before the onset of the formal colonial period.

With the onset of the industrial revolution in Europe, Africa lost its remaining autonomy and was reduced to being a supplier of slave labour for the plantations of America (Amin, 1972 :107-110). The European slave trade, and the so-called 'triangular trade', both of which are beyond the scope of this paper, are widely discussed issues in the economic history of Africa. Any resistance to the slave trade was silenced, not only by the co-opting of local chiefs, but also by sheer force. Such use of force has been documented in what is now Angola, Guinea and various other parts of the continent (Rodney, 1972:90-91. See also Bernstein et al (1992) for a brief summary of the triangular trade). Moreover, this era witnessed a widespread expansion of European control. This expansion was undertaken with the dual aims of: (a) incorporating new areas under primary crop production, using African land and labour (which were priced below world market prices); and, (b) increasing the level of production of existing primary commodities. On the import side, cheaper and purer iron bars, and implements such as knives and hoes were made available, displacing some of the previous economic activities undertaken by local blacksmiths. This had knock-on effects in terms of a reduction in levels of Iron smelting and even a decline in the mining of iron-ore (Wallerstein, 1976: 34-36; Baran, 1957:141-143^23).

Within the ESA region, cloves grown in Zanzibar and Pemb islands, for export to the Asian and European markets, were the first cash crops successfully produced prior to European colonialism. Mainland estates, dominated initially by Arab and Asian traders, were involved in externally oriented production through sales of copra, sesame seed and oil-yielding materials, for which France was the principal market (Munro, 1976: 55). Following colonization, peasant cash cropping developed in East Africa. However, unlike the WCA region, this was mainly as a consequence of a combination of political injunction and regulation. Such imposition from above was usually resisted, the Maji-Maji uprising, in today's Tanzania, being a case in point. In other instances cash cropping simply failed to take hold, as in the case of a cotton scheme proposed for Nyanza province, Kenya (Munro, 1976: 116). However, in spite of these initial setbacks, eventually the colonial powers were successful in implementing their policy of introducing cash cropping to the region.
As described above, there existed a reasonable degree of trade linkage with Europe in the pre-colonial period. Leaving aside the slave trade, the main feature of this trade was the export of primary commodities by African colonies to Europe. Thus, even before the onset of the colonial era, the seeds of Africa's subsequent role (as a supplier of raw materials and foodstuffs for Europe, and a market for European manufactures) as well as its dependence on external finance had already been sown. Or, to take a slightly different perspective, a move from the production of primary products to processing of these products (by Africans and in Africa) was interrupted. This represents the first pre-designed attempt to articulate African economic activity to the requirements of the outside world. This development was vigorously followed up during the colonial period as a consequence of: (i) the so called *imperial self sufficiency in raw materials* scheme; (ii) the impact of the first and second world wars; and, (iii) financing requirements for the creation of public utilities designed to serve (i) and (ii).

### i) The Imperial Self Sufficiency Scheme

As noted above, the export structure associated with colonialism did not arise by accident. Rather, it was preceded by various experiments to produce agricultural products demanded by the developing European industries. A French experiment to produce crops similar to those produced in America, the establishments of plantations in Senegal, during the 1820s, British experiments with ‘model farms’ in Niger, during the 1840s and cotton experiments in Senegal, Nigeria and the Gold Coast (Ghana) all represent cases in point (Hopkins, 1973:137). In Germany, German commercial interests persuaded Bismarck, initially reluctant to create a colonial empire, that overseas territories could provide raw materials for German industries, as well as markets for their products (Longmire, 1990: 202). This growing demand for raw materials, the search for a market for finished products from Europe, inter-European competition, and a number of other factors conspired to form the basis upon which colonialism was to evolve.

During the colonial period, one of the main phenomena, which strengthened primary commodity exports from European colonies in Africa, was the so-called ‘*imperial self sufficiency*’ scheme. Thus, British, French and Belgian textile industries sought to obtain cotton from Africa, and invested accordingly. A similar scheme was also developed for tobacco. This was administered both by colonial governments and by some European based companies (Munro 1976: 128-137) and resulted in an expansion in colonial trade. With the onset of colonialism, the centre of African trade shifted from the hinterland to the coast, and the composition of this trade also changed in response to the demands of the increasing external orientation of the economy (Amin, 1972:117). For example, expansion in the production of palm products and groundnuts in Africa was directly linked with increased demand for inputs required in soap and candle factories, lubricants (particularly for the railways) and European economic growth in general (Hopkins, 1973:129).

At the same time, the processing of such primary products in Africa, except in white settler colonies, was actively discouraged. Indeed, this was the case even when factories were owned by Europeans. For example, in Senegal, the proportion of groundnuts, which could be processed prior to its export to France, was strictly controlled (Fieldhouse, 1986: 48; Fyfe quoted in Wallerstein, 1976:36; Onimode, 1988:177). In Angola the Portuguese prevented the operation of flourmills, with the country exporting wheat to Portugal and importing wheat flour back (Konczacki, 1977:81). According to Austen, the fact that colonial
governments, (with the possible exception of the Union of South Africa), saw themselves primarily as representative of the ‘mother’ (colonial) country which was benefiting from the existing pattern of trade, explains why they pursued policies which were directly and indirectly designed to block efforts at local industrialization (Austen, 1987: 133).

In order to achieve these dual objectives, of inducing the colonies to be suppliers of inputs, and markets for manufactured goods, various methods of coercion were employed. Africans were forced, by superior firepower, to abandon small scale manufacturing industries and trade with rival European nations (Dickson, 1977:142). At the same time, large European firms were encouraged to concentrate on growing and trading in agricultural products. This was easily achieved for a variety of reasons. Specifically, African peasants moved into cash cropping: (a) to ensure access to European goods, to which they had become accustomed, in a limited way, in the pre-colonial era; (b) to earn cash, which was required to pay various taxes; and, finally: (c) as a result of force. In other cases, Africans were simply exterminated to pave the way for settlers. In other parts of Africa Europeans directly controlled the production of commodities such as cotton, sugarcane and tobacco (Amin, 1972: 112-113). Indeed, in areas such as British East Africa the law required that farmers grow a minimum acreage of cash crops. However, these peasants were not wholly dependent on cash crop production. Rather, they also produced food for own consumption, this being in the interests of the big firms, since it enabled them to pay only minimal wages, which did not have to cover maintenance of the labourer and his family (Rodney, 1972: 172). Nevertheless, the colonial authorities ensured that the extent of such food production was not large enough to ensure self-sufficiency. For instance, in British Guinea it was a criminal offence to grow rice (at a time when it was imported from India and Burma) because it was feared that rice growing would lead to the diversion of labour from the sugar plantations (Frankel, 1977:236). Thus, in this manner, Africa’s economic role basically as a producer of primary commodities, continued to be shaped to serve Europe’s industrial and commercial interests.

ii). The First and Second World Wars (W.W.I and II)

The impact of W.W.I on African colonies was devastating. Although trade was disrupted during the period, nevertheless African colonies were forced to supply commodities to finance the war. The end of the war was followed by a surge in major commodity prices and hence high export earnings for the African colonies (Munro, 1976: 119-23). Similarly, W.W.II also resulted in an increased demand for primary commodities, and especially those with military strategic importance such as vegetable oils, metals and industrial diamonds (Ibid. 170, Burdette, 1990:84.). This had the effect of reinforcing the commodity producing and exporting role of the European colonies in Africa. In addition to the direct effects of the war, the post-war reconstruction of Europe, rising levels of European incomes and removal of restrictions on consumer demand and commodity stockpiling, engendered by the outbreak of the Korean war in 1950, resulted in the price of African exports surging to unprecedented heights (Munro, 1976: 177). Thus, when war erupted or was expected to erupt in the colonizing countries, commodity production and exports by African colonies was boosted by non-price mechanisms. Further, the end of the war was usually also followed by a commodity price boom and associated increase in the level of the commodity exported, this time through the operation of the price mechanism. In the process, the specialization of European colonies in Africa as producers and exporters of primary commodities became firmly established.
iii) Financing Public Utilities and Commodity Export

In general, in the pre 1929 international financial order, which was dominated by government bonds (i.e. portfolio investment), Asian and African colonies had little choice in relation to the nature of their involvement in international financial systems. Political considerations were at the heart of regulating access to capital markets (Bacha and Alejandro, 1982: 2-3). Besides, such inflows to Africa were generally negligible (UN, 1949: 26-28). Capital inflows from W.W.II onwards were increasingly in the form of Foreign Direct investment (FDI). There was a moderate flow of such capital from the United States and Britain to Africa. However, such investment that did come (especially that originating in the United States, which was the largest supplier) was concentrated mainly in South Africa, Egypt and Liberia, the latter relating to the introduction of a shipping line by the United States (UN, 1954: 15-16). In almost all cases the investment went into plantations and mineral extraction (UN, 1949: 32-33).

The colonial period also witnessed a flow of loans and grants from European centers to the African colonies. In almost all cases these funds were spent on public infrastructure development such as railways and roads to link ports to export production sites, and, to a lesser extent, on schools and health facilities. This was undertaken with the aim of developing the primary commodity exporting capacity of the colonies (see UN, 1954: 32-33). In some circumstances the colonial powers were also motivated by military-strategic considerations. It is estimated that, from the mid 1940s to 1960 only 15 to 20 per cent of such inflows were allocated for social and production sectors, while the rest went into infrastructural development (Munro, 1976:183). The nature of these financial flows to the colonies also differs before and after W.W.II. In general, it can be said that the pre-W.W.II flows came mainly in loan form, while the post W.W.II flows, and especially those from France, increasingly incorporated a grant element (See also Austen, 1987:197-202 for details). However, the repayment of this debt by colonial administrators created serious difficulties.

These financial difficulties were exacerbated by instability in the world commodity market and the vulnerability of the African colonies to this. Indeed, various analogies may be drawn between the current debt crisis and the situation in this period. For instance, after the great depression (1929-1932), African exports declined by about 42 per cent. The depression also resulted in contraction of credit flowing to the colonies. These events led to a serious incapacity to service debt owed to the ‘mother’ (colonizing) country. Since colonies were not in a position to default on these debts, there was effectively no way out for them. This had repercussions for every African economy, with widespread Bank failures, retrenchment programs in colonial administrations and liquidation of businesses (See Munro, 1976: 150-53 for details).

Setting in place a vicious cycle, the financial difficulties being experienced by colonial governments forced the colonies to vigorously follow a policy of producing export commodities, at the expense of other alternatives (Munro, 1976: 155, Austen, 1987:127). Peasant cropping, with its attractive minimum cost for colonial governors, was chosen as a convenient vehicle to address this problem. This, the so called the ‘peasant path’ to financial solvency, became a universal phenomenon throughout the colonies, and especially in the present day WCA. It was attained by forced involvement of ordinary peasants in the primary
commodity export sector. Indeed, this coercion was sometimes so harsh that the ordinary peasants were paid not in cash, but in bills of credit to the administration’s head tax (Munro, 1976:156). In the British colonies of East Africa a similar emphasis to the ‘peasant path’ was also followed (Ibid. 156-57).

In summary, through the process discussed above, the foundations for the existing economic structure of African countries were laid during the colonial period. This was achieved through two channels. Firstly, by directly contributing to the expansion of an enclave of primary commodity exporting economies. And, secondly, by bringing about a situation of indebtedness, it further accentuated the importance of these activities as sources of foreign exchange required for settling of this debt. Although this general pattern was applied throughout the African colonies, some variations existed across these regions. The next section addresses this issue.

2.3.3 The Three Macro-Regions of Colonial Africa: The Amin-Nzula Category

Although colonialism shaped the production structure in a similar way across Africa, nevertheless one may observe certain variations in this general pattern between different macro regions. Leaving aside North Africa, Nzula et al (1937),29 and Amin (1972) divide the continent into three distinct regions, based on their colonial structure. Firstly, Africa of the labour reserves (Nzula et al (1979) label this ‘East and Southern Africa’). Secondly, Africa of the colonial economy (Nzula et al label this the ‘British and French West Africa’). And, thirdly, Africa of the concession-owning companies (Nzula et al label this ‘Belgian Congo and French Equatorial Africa’). The fundamental distinction between these regions is derived from the manner in which the colonial powers settled the ‘land question’ (Nzula et al, 1979: 36).

In West Africa, commodity production did not take a plantation form. Besides, until quite recently the mineral wealth of the region remained largely untapped (Amin, 1972: 115). The amount of African peasant land expropriated was also negligible (Nzula et al 1979). However, in spite of this, the control and growth of the commodity sector was governed by European interests, while land remained in the hands of small peasants. The mechanisms for this control were as much political as economic (Amin, 1972: 115). Hopkins lists a number of reasons why plantation-based production never became fully established in West Africa. Firstly, some traders were opposed to plantations for fear that they might compete with the export sector for scarce capital (Such objections were voiced, for example, by businessmen such as Lever and Verdier). Secondly, a few plantations, which were established, failed because of lack of capital and ignorance about tropical conditions. The third, and perhaps most important reason why plantations failed to became fully established in West Africa was that small African peasants had already succeeded in forming an export economy by their own efforts. Moreover, establishing plantations would have created conflicts with traditional land rights. Indeed, some crops, such as groundnuts, would not have been suited to plantation agriculture (Hopkins, 1973: 213-214). Finally, it is worth pointing out that it was not necessary to develop formal plantation agriculture, since it was possible to influence the nature of production and control the export supply of peasants through monopolistic trading practices, customs restrictions, fiscal controls and appropriate credit arrangements (Nzula et al, 1979:38).30
In much of today’s Central Africa, and part of Southern Africa, concessionaire companies, usually supported by their European state, dominated the entire economic structure through their involvement in mining, fishing, public works and communication, and even taxation (See Seleti, 1990:40). In these regions, the indigenous population were reduced to semi-slavery, and exploited by open and non-economic forms of coercion on the plantations and mines (Nzula et al, 1979: 37, Austen, 1987:140-142). The establishment of such concessionaire companies was further facilitated by the indigenous population fleeing and seeking refuge in the more inaccessible parts of the region. Discouraged by this population exodus, the colonial authorities encouraged adventurer companies to ‘try to get something out of the region’ (Amin, 1972: 117). The activities of these companies were organized in line with demand in the 'mother country'. One example of this was the demand for raw materials required in the European war effort. Thus, the mining companies, in cooperation with colonial officials, designed and determined the nature of their enclave activity to meet the increased demand for copper and other base metals required by the European war industries (Burdette, 1990:84).

In Southern and Eastern Africa both systems referred to above were intricately interwoven with a number of specific features (Nzula et al, 1979: 36). In this region the extraction of mineral and settler agriculture was accompanied by the creation, often by force, of a small, and often insufficient, reserve of labour comprising land owning peasants and the urban unemployed. This was undertaken with the labour demands of mineral extraction and settler agriculture firmly in mind (Amin, 1972: 114, Nzula et al, 1979:37). This labour was further supplemented by inter regional migration. Other economic instruments, such as taxation, were also used to create reserve labour for European plantations and mining (Seleti, 1990:34; Konczacki, 1977:82). The reduction of the cost of labour in such regions to mere subsistence levels rendered the exports of the colonies competitive, in comparison to similar goods produced in Europe. Clearly, the formulation of such a structure was 'as much political as economic'31 (Amin, 1972:115; Seleti, 1990:47). However, since the focus of this paper is on the economic, we do not go further into such political considerations here. Rather, we would simply observe that, during this period, an economic structure was set in place, characterized by the export of primary commodities.

By the end of the colonial period, what had been achieved in all these macro-regions was the creation of a commodity exporting economy and virtual monopoly of the African trade (both import and export) by Europe (see Hopkins, 1973: 174). The commodity export-led strategy was vigorously followed during this period. As a result, not only did production for overseas markets expand at a high rate, but also several new items (especially foodstuffs) began to appear on the import list (Hopkins, 1973: 178). In some cases, European business interests were so pervasive that they created a protected market, on which to dump their manufactured goods32. Summarizing the stylized facts in the colonial period, Konczacki described the economic pattern of what is called ‘matured’ colonialism33 as having three distinct components. Firstly, both imports (which were mainly manufactured goods), and exports (mainly raw materials), were fixed with the 'mother' country. Secondly, capital investment in the colony was determined by the trading interest of the 'mother' country, and concentrated in exporting enclaves. Finally, a supply of cheap labour was ensured through a variety of mechanisms (legal, monopolistic employment and through other economic instruments.) (Konczacki, 1977:75-76). Indeed, it is worth noting that this pattern has not changed fundamentally, even today. Another important characteristic of this period relates to technological change. For example, if one focuses on cotton production, during the colonial
era, Africa ‘...was concentrating almost entirely on export of raw cotton and the import of manufactured cotton cloth. This remarkable reversal [compared to the pre-colonial period] is tied to technological advance in Europe and to stagnation of technology in Africa owing to the very trade with Europe’ (Rodney, 1972:113). Colonialism further exacerbated this situation. Thus, as Amin notes, when we speak of the exchange of agricultural products against imported manufacture (i.e. the terms of trade), ‘the concept is much richer: it describes analytically the exchange of agricultural commodities provided by a peripheral society shaped in this [colonial] way against the product of a central capitalist industry (imported or produced on the spot by European enterprises)’ (Amin, 1972: 115).

To sum up, it has been shown that African nations were in possession of an integrated and autonomous economic structure prior to their intensive interactions with Europeans during the colonial period. It is hard to speculate what the future of such a structure might have been, in the absence of colonialism. However, it goes without saying that it would not have been what it is now, since clearly the present is the result of specific historical process. More specifically, historical interaction with today’s developed countries has shaped the structure of the economic activity of African nations, particularly in the areas of international trade and finance. Indeed, economic domination, accompanied by colonization, has further cemented this structure. Thus, given such historical process it is not surprising to find that almost all African nations had become exporters of a limited range of primary products, and importers of manufactured goods, by the time of independence, in the 1960s. 34 This was further accompanied by a demand for external finance, when export earnings were not sufficient to finance the level of public expenditures required for maintaining and expanding the commodity exporting economy. This structure has not changed in any meaningful way in the post-colonial era. Thus, when one examines the financial problems of Africa (which I am arguing relate to its role as a primary commodity exporter) one is, compelled to conclude that these problems are a direct outcome of historical process.

3. The Implication for the Post-Independence Period

In the previous section we have explained how a primary commodity and external finance dependent economy has been created in Africa. The impact of the subsequent (after political independence) events of the boom in commodity prices, the oil price shocks of 1973-74 and 1978-79 and the evolution of African debt from the early 1970s onward would be difficult to understand unless an explicit link is made between the historically formed structure and the pattern of trade and finance in the period 1970-1990. This section briefly summarizes this phenomenon. This evolution of African trade and finance in the post independence period could be categorized under three periods.

The first period refers to the late 1960s and early 1970s. This period is characterized by the first oil shock and the rise in commodity prices. The commodity price boom is followed by a sharp bust in 1974, and again after 1977 for coffee and cocoa (See Figures 1 and 2). The response in most African countries is a rise in government expenditure in particular in infrastructure sector. When the commodity price fall governments were not only unable to cut expenditure but also in need of marinating on going projects. This has been accompanied by increased borrowing owing to improved credit worthiness when prices of export commodities rise and due to belief in cyclical nature of prices when commodity prices decline. This pattern is examined and can be read from the pattern of trade and finance in sample of countries examined in the context of this study (See Alemayehu 1997 for details).
The major point that emerges from examining this period is that following the rise in commodity price and access to loan there was a rise in public expenditure. Given the inherited colonial structure that necessitated spending on social and physical infrastructure, the rise in government expenditure (and hence the beginning of debt creation) is not a policy mistake, as seems to be depicted in the good part of the African debt literature. This spending is necessitated by fundamental problems, which were structural/historical, and the resulting policies are the reflection of this reality (See Alemayehu 1997).

Figure 1: Price Index of Some Major Agricultural Export Commodities of Africa (1965=100)

Figure 2: Price Index of Some Major Mineral Export Commodities of Africa (1965=100)

The above analysis shows that the period 1970 to mid 1970s was characterized by a rise in the price of commodities on which African countries had specialized for historical reasons. It was
also a period in which imports of capital and intermediate goods (mainly to develop infrastructure) increased. This effort was complemented by foreign borrowing. It is at this particular juncture that almost all countries were hit by the first oil price shock. This shock was tackled, partly, by resorting to external financing. This was the case in Ghana, Zambia, Sierra Leon, and many other countries. The same was true in Kenya (although price of coffee rose in the first half of 1970s but fall in the second half leading Kenya to finance its balance of payment deficit by a rise in private capital inflow). Malawi also experienced similar problems and private capital inflows (especially of supplier's credit) were important in tackling the balance of payment difficulties. Another way of viewing the latter phenomenon is to consider the additional external finance (which eventually turned into debt) requirements of African countries as a policy response to the external shocks they were facing (See Balassa 1983, 1984; Hardy 1986; Ezenwe 1993). The question is whether such policy responses were rational. Should the shock be seen as a temporary one? Both on the part of African governments and creditors these shocks were believed to be temporary. Given this belief (that is the expectation of an eventual rise in commodity prices) and given the then prevailing low real interest rate (which was even negative, see Khan and Knight, 1983:2), it seems reasonably rational that both lenders and borrowers responded in the same way. As it turned out, the frustration of these expectations (secular decline in commodity price and rise in real world interest rate) put an enormous burden on Africa and not on Northern creditors.36

In all these cases the rise in commodity prices during this period was followed by an increase in government expenditure. True, there were domestic policy problems in managing public expenditure in this period. However, the nature of public expenditure did not constitute a reckless spending as is usually implicitly portrayed in the African debt literature. For instance in Nigeria after the first oil boom nearly 80% of public expenditure was on physical and social infrastructure. Capital expenditure was twice that of current expenditure. Public expenditure on trade, industry and mining rose from 7.3% in 1970-74 to 26% in 1975-80, transport from 21.3% to 22.2% in the two periods while general administration dropped from 22% to 13.6% (Mohammed 1989).37 Contrary to the case of Nigeria current expenditure in Zambia was nearly 75% of total expenditure in 1970-74 and this is largely attributed to the Zambianaization policy, which is dictated by the inherited colonial structure (see Mwale 1983). Nonetheless, from 1972 (strengthened in 1974) the government attempted to curb current expenditure. For instance consumer durable import was reduced from 28% in 1974 to 18% in 1978. Similarly subsidies, with attending political costs, had been reduced in the early 1970s (Mwale 1983). In general by the mid 1970s public and private consumption had been substantially reduced from its high level in 1970 (Mulalu 1987). In Sudan the rise in government expenditure following the early 1970s was largely owing to decentralization, infrastructure development and debt servicing (Galil, 1994:31-33). This pattern was similar in many African countries (See Alemayehu 1997 for detail).

Thus, following the rise in commodity prices and access to loans there was a rise in public expenditure. However, this in itself did not constitute a mistake. Given the inherited colonial structure that necessitated spending on social and physical infrastructure to address the problem of the hitherto neglected sections of the population; prevailing hope in technology transfer through import substitution; and the uncertainly about commodity prices, the expenditure was not reckless. In fact, in most African countries the relative share of functional expenditure hardly changed following the commodity boom of 1973-74 in general and 1976-77 for cocoa and coffee exporters. The capital expenditure did change, however, owing, as noted above, owing to the import substitution strategy pursued (See Alemayehu 1997). In retrospect, it might appear a policy problem. However, it is difficult to expect that such infant government structures (which were themselves the result of a unique historic process) would have had full foresight of commodity price decline.38 Even had they had such insight, the root cause of the
problem was the deterioration of the terms of trade. The policy problem that emanated from failing to predict commodity price collapse and manage demand was a secondary one. This argument should not be taken as endorsing some white-elephant investments carried in some African countries, however. Perhaps the major domestic policy problem associated with the rising expenditure was the way in which the import substitution (IS) strategy was conducted. While the IS strategy was a sound one, it was carried out in the context of a disarticulated production and consumption structure. The latter is in particular vivid in the neglect of: the industrial and agricultural linkages (as it was based on the urban elite's patterns of consumption); future demands for recurrent cost of intermediate inputs; and development of the human capital required. However, the fundamental problems were structural/historical and the resulting policies are therefore a reflection of this reality and hence secondary in their effect.

This pattern was compounded by another development in the global financial markets. The oil price hikes not only forced oil importers to become more dependent on borrowing, they also created what is called the OPEC surplus - *pax Arabica*? (Bacha and Alejandro 1982). This surplus was circulated through the international banking system. The Euromarket became an important source of financing for a number of African countries, which had never borrowed before (Krumm 1985, Mistry 1988). The situation was reinforced by a second oil price shock (Kruger 1987, Salazar-Carrillo 1988 in Taiwo, 1991:39; and Ezenwe 1993). The new funds borrowed were spent on mining companies and major public projects. But, in general, these loans were characterized by harder terms. When the second oil price shock came in the late 1970s, with commodity prices continuously deteriorating as shown in Figures 1 and 2, most countries were unable to absorb the shock (Krumm, 1985: 1-9). Thus, by the end of the 1970s the total external debt grew almost ten folds.

The second period refers to the late 1970’s and early 1980s. The end of the 1970s had witnessed the second oil price shock. Major commodity prices continue to decline, prompted, *inter alia*, by the recession in the industrial countries. The early 1980s was also characterized by a hike in real interest rate in industrial countries, chiefly due to lax fiscal and tight monetary policy of the US. By 1981 the real foreign interest rate was 17.4% compared to -17.9% in 1973 (see Khan and Knight, 1983:2). The latter aggravated the interest rate cost of nonconcessional and private debts that became increasingly important during this period (see Alemayehu 1997 for detail). This development prompted many African governments to continue borrowing (and get credit) on the assumption of a cyclical turn around in commodity prices. These new loans were used to finance enlarged oil bills and avoid sharp politically/socially disruptive cut backs in public expenditure (Mistry, 1988:7). The experiences of most countries’, such as Ghana, Zambia, Malawi, Tanzania, Sierra Leone, Libya and Nigeria, discussed in detail in Alemayehu (1997), experiences during this period generally confirm this pattern.

The third period refers to the late 1980s to the 1990s. This period, as that of late 1970s was generally characterized by continually declining commodity prices and the deterioration of terms of trade. For the period 1985-90, when a large number of African countries undertook adjustment programs, the deterioration in the barter terms of trade of nine major export commodities resulted in a 40% decline in average export revenue (compared to 1977-79 average), despite a 75% increase in export volume (Husain, 1994:168). As a result, African countries became more vulnerable to further indebtedness. Moreover, the capitalization of amortization and interest payment through the Paris and London clubs rescheduling had also started pushing the debt stock upward (van der Hoeven, 1993 and Alemayehu 1997). This pattern is obvious from the reports of many countries examined in detail in Alemayehu (1997).

Given this general pattern from the mid 1980s to early 1990s, African economies were extremely indebted by the 1990s. Moreover, apart from investment in infrastructure (like the transport
sector) which needed external finance for its maintenance, almost all countries had become dependent on external finance for securing imported intermediate inputs and ensuring the smooth functioning of their economy (See Ndulu 1986, Ngwenya and Bugembe 1987, Fantu 1991, Rattos 1992, Mbelle and Sterner 1991). Thus, throughout the two decades analyzed the value of import was persistently increasing in almost all countries. This recurrent import demand problem was compounded by actual running down of the capital stock, including infrastructure.

Thus, by late 1980s and early 1990s such historically structured African economies were vulnerable to events such as the industrialized economies recession, following the global monetary shock of 1979-81, which depressed commodity prices. This is also a time where the world economy witnessed (i) the emergence of high, positive real interest rate throughout the 1980s which increased the debt service burden of indebted countries, (ii) protectionism in the world market for agricultural products and low technology manufacturing which hampered diversification attempts and, finally, (iii) the prevalence of repeated official and private rescheduling, often at punitive terms (see Mistry, 1991:10-11 for detail). This crisis widened the role of multilateral finance despite being available at unacceptable terms - policy conditionality. Thus, another major development in the 1980s and early 1990s was the growth of multilateral debt, especially that owed to the World Bank and African Development Bank and to a lesser degree the IMF. The main reasons for an increase in debt owed to multilateral agencies were (a) the stepping in of these multilateral banks to finance the partial bail-out of commercial banks in the 1980s, (See Alemayehu 1997 for detail), (b) the fact that these debts were denominated in SDR and ECU while most African countries earned their currency in US dollars, which had depreciated against both SDR and ECU for the last 30 years and finally (c) the growth of adjustment financing (Mistry, 1994, 1996). In sum, by the 1990s African countries found themselves not only being extremely indebted but also structurally unable to pay back their debt.

4. Conclusions

The descriptive analysis at the beginning of this papers revealed that the current level of debt is beyond the capacity of the continent to service. Thus, the insolvency issue is at the heart of the African debt crisis. Various contending explanations about the cause of the problems of Africa’s external economy in general and its external finance in particular have been forwarded in the literature. These contending explanations range from those that emphasize policy as the main problem to those that favour historically formed structures. A third view emphasizes the systemic nature of the crisis. The recent literature on the origin of African debt problems limits itself largely to the events of the 1970s and late 1980s. Certainly these are crucial but explain only part of the story. The analysis of the African debt crisis needs a historical explanation of how a weak and vulnerable economic structure has been built as a result of Africa’s specialization as a primary commodity exporter. I have shown that this was the case in Africa. Such analysis also explains how such structure paved the way for indebtedness by creating the necessity for borrowing and by making debt servicing difficult.

It is interesting to ask whether the financial, physical, human and institutional ‘capital’ inventories from colonial era have somewhat reproduced themselves in the last three decades. The answer is undoubtedly, yes. There are at least four fundamental reasons for this. First, the demand from the previous colonial powers and hence the pattern of trade and finance is not fundamentally changed. For instance by 1988 88% of sub-Saharan export went to Europe (See Sommers and Assefa, 1992 for details). This old division of labour was strengthened by what is called the Lomé convention (See Amin, 1996). Second, the new agents that came to power after ‘independence’ attempted diversification. This was largely a failure not only due the conceptualization of the whole process, notably of the disarticulation of agriculture and industry but also fundamentally because such efforts required huge investments, which were beyond their
capacity. This severely limited the policy options available. Third, despite politically both the radical -i.e. radical departure form colonial pattern- Casablanca (Nasserism, Algerian FLN, Nkrunahism and to a degree followers of Lumumba) and the moderate- i.e. adaptation to the pattern- Monrovia groups (Ivory Coast and Kenya being the main) after ‘independence’ have been reconciled to an African perspective by Emperor Haile Selassie of Ethiopia and hence the OAU formation in 1963 (see Amin, 1996), their subsequent existence in power is informed by maximization of short run gains subject to the constraint of inherited trade and financial structure. This necessarily implies relying on primary commodities and loans instead of structural transformation. Finally, since the mid 1980s (for some even before that) the economy of Africa was essentially (mis) managed by the Bank and the Fund which itself is a failure (see Adams 1995, Lall 1995, Mosley and Weeks 1993, Mosley et al 1995, ECA 1989b among others). It is within this broader framework that the specific problem of the African external finance and debt crisis and its macroeconomic ramifications should be understood.
References


Notes

1 However, the Bank acknowledges that many African nations were faced with unfavorable terms of trade during the early 1980s.

2 In subsequent publications, notably *Africa's adjustment and growth in the 1980s* published jointly with UNDP, the Bank argues forcefully that Sub-Saharan Africa has been in relatively 'good shape' compared to other parts of the developing world and that policy mistakes have been the principal cause of its economic crisis. However, the ECA (1989b) argues that the Bank has based its conclusions on 'pseudo-statistics' and selective reporting. Re-examination of the data by ECA analysts would tend to suggest that the Bank’s argument cannot be substantiated (See ECA 1989b and Mosley and Weeks 1993 for a brief summary).

3 However, according to the Bank, the effects of the protectionist policies of developed nations may be rendered less significant due to the low capacity of African manufacturing, an inability to produce temperate products as well as the continent’s preferential status within the EEC. See also Amjadi et al (1996) for a recent argument along these lines, as well as proposals for possible policy conditionality plan for privatizing African shipping lines.

4 See White (1996) for a review of this debate.

5 In contrast, Collier and Gunning (1999) argue that lack of openness represents one of the major causes of poor performance of African economies.

6 This basically includes the system of government, public enterprises, the private sector, domestic markets, research and development, forces of nature and climate, ethnicism and society's value system, external commodity markets and finance and transnational corporations.

7 Collier (1991) cites the Zambian economy and copper price as a classic example of negative shocks. In Collier’s opinion two errors are made. Firstly, the price fall was treated as temporary, and, secondly, foreign exchange shortages were handled by rationing. Notwithstanding an acknowledgment of the effect of negative shocks, he emphasized poor policies in what he called ‘controlled’ economies as representing a major problem. However, it could be argued that the root cause of these policy problems lies in the structure of the economy of these countries, and in their external trade in particular. Taken in this light, policy problems, per se, may be of only secondary importance.

8 However Ghura (1993) is extremely optimistic in stating that judicious macro and trade policies may stimulate growth in Africa, even if external conditions do not improve. This viewpoint is essentially similar to the types of empirical studies undertaken in support of Bank type policies.

9 This is measured as the divergence in the rate of growth of a country's exports from that of the world as a whole over the period under study, multiplied by the total exports of the country in question. This is taken from a simple model, which specifies the different factors affecting exports (See Stein, 1977:106).


11 Makandawire (1989 cited in Elbadawi et al 1992) summarizes the two contending views about the cause of African crisis as structuralist and neoclassical. He notes

   The structuralist view is one which highlights a number of features and 'stylized facts' that almost every point contradicts the neoclassical view...class based distribution of income rather than marginal productivity based distribution of income; oligopolist rather than the laissez-faire capitalist market; increasing returns or fixed proportion functions rather than 'well-behaved' production functions with decreasing returns and high rates of substitution; non-equivalent or 'unequal exchange' in the world rather than competitive, comparative advantage based world system; low supply elasticities rather than instantaneous response to price incentives (Makandawire (1989) quoted in Elbadawi et al (1992).

12 See Stewart (1993) for a discussion of this issue.

13 See, however, Helleiner (1993) who argues for an emerging consensus on this issue.
By and large these figures show the average scenario. However, there are some exceptions. Burundi and Guinea-Bissau in WCA region had a debt service ratio of 40% and 94%, respectively, by 1992; Uganda and Madagascar in ESA region had a ratio ranging from 40-70% and 50-60%, respectively, from the mid 1980s. In terms of debt to GNP ratio, Mozambique recorded 300-580% from the mid 1980s to early 1990s; Guinea-Bissau had a debt to GNP ratio of 130-300% from 1980-1990. Similarly Congo and Cote d’Ivoire had a ratio close to 200% in the mid 1980s (World Bank, World Debt Tables, electronic, 1994).

See Amin (1974), chapter two, on the mercantilist period.

Amin (1972) has termed this the Pre-mercantile period.

Wallerstein characterizes the trade of the period as trade in "luxuries", with such trade being undertaken between external arena and not in an integrated world economy framework. Wallerstein and Amin define luxuries as those goods, the demand for which comes from the part of the profit that is consumed. Surafia defines luxuries as goods that are not used in the production of other goods. He, however, took it as trade/exchange in which 'each can export to the other what is in his system socially defined as worth little in return for the import of what in its system is defined as worth much'. Or, in Alpers’ phrase 'trade from which each side believed itself to be profiting' (Wallerstein, 1976:31 and footnote 3).

Maghreb refers to North Africa.

This stands in sharp contrast to the current categorization of North Africa as geographically and economically distinct from Sub-Saharan Africa. For justification of this view see Sommers and Assefa (1992) and various World Bank/IMF classification schemes for Africa.

The original work is written in 1933.

The commonly argued case that, since Ethiopia was not colonized, it represents a ‘counter factual’ for how other parts of Africa might have developed, in the absence of colonialism is a very weak one. Firstly, a good part of the history of Ethiopia has been a history of wars under the ideology of either religion, region, nationality or a combination of these. This has created a serious crisis in the agricultural sector (See Gebrehiwot, 1917). Secondly, Ethiopia’s history has been characterized by the existence of two clearly distinct antagonistic classes: the landed aristocracy and the peasantry, with corresponding state structures (see Gebru, 1995). Given the history of conflict, which characterizes Ethiopia’s history, the main preoccupation of the landed aristocracy and the church, has been to maintain its power. Thirdly, colonialism had the effect of disrupting the dynamic caravan trade, which linked the Southwest parts of Ethiopia to the rest of the East African region. And, finally, Ethiopian independence was basically a besieged one. Since hostile and powerful colonial forces encircled it, naturally this had an influence on the political and economic structure of the country. More specifically, Ethiopia developed as a militaristic nation, with a dependent economy based on the export of commodities and import of manufactures.

First by the Portuguese, and later by the British, Dutch, Germans and Scandinavians.

In describing the impact of underdeveloped nations’ interaction with Western Europe Baran noted "[the population of these nations] found themselves in the twilight of feudalism and capitalism enduring the worst features of both worlds. Their exploitation is multiplied, yet its fruits were not to increase their productive wealth; these went abroad or served to support parasitic bourgeoisie at home. They lived in abysmal misery, yet they had no prospect of a better tomorrow. They lost their time-honored means of livelihood, their arts and crafts, yet there was no modern industry to provide new ones in their place. They were thrust into extensive contact with advance of the West, yet remained in a state of the darkest backwardness" (Baran, 1957:144). Perhaps we should not be surprised that Baran’s description, written nearly four decades ago remains relevant today.

Imports of palm oil by Britain, groundnuts by France, palm kernels (for cattle cake) by Germany (and for the manufacturing of margarine) by the Dutch represented the main items traded during the 19th century, prior to the onset of formal colonialism at the end of that century (For a description of this, see particularly Chapter 4 of Hopkins (1973) ).

These were prompted by the so called ‘cotton famine’ in Europe, following the American civil war.

The motives underlying colonialism represent a widely debated topic. For instance, Austen (1987) argues that “within [the] general context of intense multifaceted international competition, the economic rational for African
colonization was to a considerable extent pre-emptive -designed to assure access to potential rather than actual markets and commodities as well as trade routes... to Asia” (Austen, 1987:116).

27 There are many examples of Africans being forced into cash crop production. This occurred in Tanganyika (today’s mainland Tanzania), in the Portuguese colonies, in French Equatorial Africa and French Sudan (today’s Mali). In Congo Brazzaville the French enforced cotton cultivation by banning traditional agricultural activities. These policies of coercion were resisted to the extent possible. The revolts in Tanganyika and Angola represent cases in point (See Rodney, 1972:172-181, Austen, 1987:140-142).

28 This was the policy followed by Germany in what is now called Namibia. Indeed, the extermination of the Africans was so extensive that, when they discovered diamond, the Germans had to look for migrant labour for mining from other regions (See Longmire, 1990:203-204).


30 See also Amin (1972) for a political and social analysis of how the region’s commodity production and exports were controlled.

31 Pim places this at the center of his investment analysis and argues that the main investment was in areas with extensive mineral wealth, plantation possibilities and a mass of unskilled labour. This involved heavy expenditure in communications, which required an expansion of the export sector for its finance. The latter, in turn, required a large labour supply, which was secured by direct and indirect compulsion, affecting every aspect of native life (Pim, 1977:229).

32 France was in possession of such a protected market in West Africa. The protectionist policy was the result of pressure from French metallurgical, textile and chemical industries, which had difficulty competing with Britain (Hopkins, 1973:160). Portuguese industrialists had also created such protected markets in Africa, especially for their textile industry (Seleti, 1990:36).

33 Portuguese colonialism does not qualify as ‘matured’ in his analysis.

34 In virtually all African countries, one to three commodities account for 50-90% of total exports. Indeed, in the period 1982-86, in 13 African countries 1 product, in 8 countries 2 products, in 6 countries 3 products, and finally, in 8 African countries 4 products accounted for over 75% of export earning (see Adedeji (1993) for details).

35 This list includes, Zambia, Sierra Leone, Tanzania, Ghana, Zambia, Kenya, Malawi, Nigeria, Egypt (See Alemayehu 1997 for detailed information about the evolution of the pattern of trade and finance since 1970 in each of this counties which are picked from each macro regions outlined in this paper).

36 The situation was a little different for oil exporters (See Alemayehu 1997 for details).

37 This investment was not without result either. Following this expenditure universal primary education was almost achieved, more health infrastructure was built, infant mortality rate declined more than by third. However, the public enterprises built were seriously affected by recession in the North, high import content (59-60%), lack of domestic demand, which adversely affected their capacity to be self-sufficient (see Mohammed 1989).

38 Let alone the then African government’s, even an international institution like the IMF that was supervising some countries’ economic evolution (like Zambia) did not foresee some of the events. Observing this, Mulalu (1987) noted the irony of IMF blame of the Zambian government despite its close monitoring of that country from 1975.

39 One common comments is that East Asian countries (such as Korea, Singapore and Hong Kong) that were under colonial rule have developed while Africa is not. Such comments are not credible because the historical parallel is completely different. Hong Kong and Singapore prospered as entrepots owing to direct British colonial interest. Moreover, they are city-states incomparable to African colonies. Probably the only comparable country is Korea and to some degree Taiwan. However, the Japanese colonialism (which was as harsh as the others) had an aim of creating heavy industry and self-sufficiency in its empire, and, hence, has done better than the colonizers in Africa. Some figures may substantiate this point. Taiwan and Korea experienced higher GDP growth than their colonizer (Japan) between 1911-1939; their infrastructure has also developed (Taiwan having 600 kilometres of rails and 3,553 kilometres of road where there were none before. By the end of the colonial period primary school enrolment in Taiwan stood at 71% and similar pattern is observed in Korea. Owing to geopolitical factors (the cold
war) Korea, for instance, obtained US $6 billion grants from USA between 1946-78 compared to US $6.89 billion for the whole of Africa. US military delivery to the two countries in 1955-78 stood at US $9 billion, the combined figure for Latin America being US $3.2 billion- one can imagine what the economic impact of this might be (see Chowdhury and Islam 1993). In Korea alone aid financed nearly 70% of total imports and equalled 75% of total fixed capital formation (See Haggard 1990 which also provides the political economy of this event). Hopefully, the above points show that this experience is incomparable to the situation in Africa.

40 However, Taiwo (1991) using regression analysis based on data from eleven sub-Saharan African countries (1970-88) noted that the most important factor for the debt crisis was the relative (periphery to center) level of economic development (measured as the ratio of per capita income of LDC to industrial world) and to a lesser degree terms of trade, relative prices, real cost of borrowing and openness of the economy.

41 However, the collapse of oil price from its 1979 hike although relived the oil importing countries it adversely affected oil exporting economies of North Africa and some of the countries in West and Central African regions (mainly Nigeria).

42 Besides, the terms for African countries were harder even compared to South Asian countries. For instance in 1980 African countries on the average had to pay an average interest rate of 6.6% on loans with a maturity of 18 years. The comparable figures for South Asian countries were 3.1% and 30 years (van der Hoeven, 1993:1).

43 An interesting area of further study is to explore the impact of services (especially of insurance and shipping), which seriously affected a number of small countries in Africa.

44 According to Mistry (1996) if this fact is taken into account one need to question the concessionality of this debt. For instance the effective average annual exchange-risk adjusted cost of their concessional debt in US dollars may be between 4-6% annually instead of the 1% or lower coupon rate which such debt nominally carry. Besides, the residual principal value of the concessional debt, which needs to be repaid, had increased by between 30-45% in US dollar terms, aggravating the debt servicing problem of African countries. Thus, had it been borrowed in US dollars in the first place such concessional debt is as expensive as market debt. This exchange rate effect not only effectively reduces the concessionality of such debt (form 80% which donors usually say to 40-50%) but also makes African countries vulnerable to macroeconomic policies of industrialized countries (Mistry, 1996: 26).