Globalisation and Africa's development: The Limits of an Inward-Looking Economic Policy

The African continent would do well to adapt to the opportunities and challenges of globalisation rather than engage in a policy of self-sufficiency which could set it back in the world economy, argues LSE Visiting Fellow, Olu Fasan.

On 23 July, Dr Kingsley Chiedu Moghalu, Deputy Governor of the Central Bank of Nigeria, visited the London School of Economics to deliver a public lecture on Africa's development. The lecture, entitled *Beyond Africa Rising*, drew on his recent book, *Emerging Africa: how the global economy's 'last frontier' can prosper and matter*.

Dr Moghalu's mission was to challenge current orthodoxy about Africa's development and to articulate a new vision for the continent. Africa may be emerging, he said, but it is far from rising. He argued that recent positive macroeconomic indicators in the continent have led to the growth of what he called the "Africa Rising industry". Yet Africa has not emerged, let alone risen as a co-creator of global prosperity.

Dr Moghalu gave two reasons why Africa has not risen. First, Africa lacks a *worldview* in its economies and its governance. Second, *globalisation* has hurt the continent more than it has helped. From these "fundamental understandings", as he put it, came Dr Moghalu's big ideas, his "new" paradigm for Africa's development. He urged Africa to adopt an inward-looking economic policy to become a "self-sufficient player". He advocated a more muscular state hand on the levers of capitalism so that Africa can "short-circuit" globalisation and "liberate itself from the oppressive dominance of globalisation".

These anti-globalisation and self-sufficiency worldviews, however, pose enormous challenges. First, it is misleading to suggest that, in a world of complex interdependence and linkages, a nation-state can ignore global economic realities. Global interconnectedness has changed the world, and the glory of independence or self-sufficiency is a mirage. Secondly, globalisation does not only constrain domestic policy autonomy, it creates huge opportunities as well. Since the 1990s, globalisation has helped to liberate economies and spread prosperity across the world, including in Africa.

Take, for example, Nigeria which recently became the largest economy in Africa due to the growth of its telecommunication and entertainment sectors. But these new sectors owe their emergence and growth to the forces of globalisation. For example, Nigerian musicians and actors can perform in London, New York and other world capitals, because of the performing, recording, and broadcast rights that countries are obliged to protect under the rules of the World Trade Organisation (WTO) and the World Intellectual Property Organisation (WIPO). Similarly, the use of mobile phones and the internet has transformed lives and businesses in Africa, thanks to the rules of the International Telecommunications Union that facilitate the global interconnection and interoperability of telecommunications traffic across national borders. So, when Dr Moghalu criticised the "uncritical embrace of globalisation and its institutions and agents in the mistaken belief that African countries are obliged to do so as members of some presumed international community or global village", one would assume he is not suggesting that African countries should withdraw from global economic institutions, such as the WTO, WIPO or the ITU, or ignore their rules.

There is another contradiction in Dr Moghalu's view of globalisation. The secret for Africa's development, he said, is in innovation. Nothing can be truer; after all, the key mechanism for convergence at the international level is the diffusion of knowledge. Poor countries can catch up with rich ones to the extent that they achieve the same level of technological know-how, skill and education. So, Dr Moghalu is right to privilege innovation as one of the key drivers of progress. However, his view on innovation cannot square with his argument that Africa is not ready for globalisation. You need openness and, by extension, globalisation to achieve technological convergence. As Thomas Piketty powerfully puts in his recent book, *Capital in the Twenty-First Century*, "The diffusion of knowledge is not like manna from heaven: it is often hastened by international openness and trade", adding that "autarky does not encourage technological transfer".

It is somewhat atavistic to suggest that Africa needs an inward-looking economic policy to prosper and matter in the 21st century. This is a well-trodden path that has produced disastrous results. In the 1960s up to the early 1980s, African and Latin American countries practised illiberal economic policies, with the intent of promoting state-directed industrialisation and ensuring self-reliance through the creation of an internal market. The promotion of economic development through manufacturing was seen as the only way to address the global imbalance in which Africa took the role of exporter of raw materials and foodstuffs while importing manufactured goods.

Dr Moghalu is certainly of the same school as the Latin American economists, Raul Prebisch and Celso Furtado, who advocated the failed import substitution industrialisation policy in the 1950s. Like them, he urged Africa to manufacture goods for its own markets. He argued that Africa should not worry about globalisation at this stage, because "we don't have what it takes to compete at the global market place", adding that "those who are competing at the global market place have been at it for a very long time, and they have perfected their products and perfected their control of the processes that direct international trade". To achieve industrialisation and self-sufficiency, he said, African governments should protect local inventions and products through prohibitive tariffs on imports.

This is a road that will lead Africa nowhere, but, in fact, set it back in the world. Nothing will perpetuate the inequality and marginalisation that Africa currently suffers in the world more than an inward-looking, self-reliant economic policy. Self-sufficiency failed spectacularly as an economic policy in the countries that practised it, and had to be abandoned in the 1980s, thanks to economic/debt crises that it triggered and subsequent pressures from the international financial institutions for policy reforms.

Let's be clear: Africa should industrialise and move away from the export of raw materials. As Adam Smith, the father of capitalism, put it in his seminal book, *The Wealth of Nations*, "(n)o nation is ever rich by the exploitation of the crude produce of the soil but the exportation of manufactures and services". But the key words are "exportation" of manufactures and services. A nation that produces for the domestic as well as the international markets, rather than being dependent on the domestic markets, will enjoy the efficiency, productivity, and know-how benefits that internationalisation brings.

Openness to trade augments a country's possibility set. It incentivises innovation and makes businesses more competitive on the world stage. As Jagdish Bhagwati puts it, trade openness ensures that firms use capital and other resources productively instead of "goofing off", and gives consumers more choice, quality and value. Furthermore, openness to trade brings prosperity, which, in turn, creates or expands the middle class. This is important, because the middle class is usually a bulwark against authoritarianism and bad governance in many societies. Yet, the middle class is often the victim of a policy of self-sufficiency since its aim is to limit or prohibit imports of luxury consumer goods and so-called superfluous goods that can be produced at home.

To be sure, Dr Moghalu is right to remind us that Africa has not emerged, let alone risen in the world economy. But he is wrong to recommend an inward-looking economic policy as the way forward. If globalisation is evil, the policy of self-sufficiency is a greater evil, and, as the saying goes, of two evils choose the less. So, Africa should embrace the competition and opportunities that globalisation and particularly openness to trade bring. To this end, Africa needs to embark on supply-side reforms to improve the productive and export capacities of its industries so that they can produce goods and develop services that can compete in international markets.

Of course, there are still distortions in international trade that disadvantage Africa, but the continent's response to this market failure should not be to develop export pessimism or turn inwards. Rather, it should help develop the productive and export capacities of its businesses, and, at the same time, engage actively at the WTO and other international trade for a change to the rules of international trade in favour of African exports. To be effective in doing so, however, Africa needs an integrated market by establishing the Africa Free Trade Area (AFTA). Through AFTA, it should then negotiate as a single economic power with other key trading blocs to secure favourable trade and investment deals for the continent, as the EU does for its members. The African Union copies the EU structure in all areas but economic diplomacy. It should do more on the economic front.

Africa must, however, not engage in autistic exchange with itself through a parochial fixation on a policy of self-sufficiency. This will further set the continent back in the world economy. Globalisation is a reality, and Africa must embrace both the challenges and the opportunities it presents.

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