IMPACT AND COHERENCE OF OECD COUNTRY POLICIES ON ASIAN DEVELOPING ECONOMIES: A REGIONAL NOTE FOR SUB-SAHARAN AFRICA

(PRELIMINARY DRAFT)

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I. Introduction

The aim of this short note is to (i) highlight the key lessons that can be drawn for sub-Saharan Africa (SSA) from the East Asian growth experience. (ii) Discuss some main issues on OECD country policy (in)coherence and impacts in Africa for reflection and discussion (iii) focus on areas of OECD country policy (in)coherence in SSA that might need research and analysis.

The significant growth in the economies of East Asian developing countries dubbed a “miracle” in some cases has been a source of inspiration to African countries. The sudden increases in the growth rates and the geographical proximity of the economies giving rise to the notion of “neighborhood effects” have caught the attention of many economists in the continent. The success of these economies raises obvious questions about whether these experiences can be translated to some other economies elsewhere especially in Africa.

The similarity between Asia and Sub-Saharan Africa is that many Asian countries were also low-income countries in the early 1960s but since then economic development has been remarkable in Asia while many African economies have stagnated. There is no real single model of East Asian development. It has been a combination of factors including the mix of interventionist policies based on states high capacity, and conducive external environment. The lessons that Africa can learn from Asia’s growth experience are many and include the following1:

- Infrastructure, incentives, education, and sound macroeconomic policies are basic to any industrial development strategy;
- Different forces of economic development work in different ways at different stages. It is important to consider what policies East Asian government used at the start of the successful growth and what was used at later stages
- Successful mix of interventionist policy was possible because of the states high capacity2.
- Initial conditions do matter

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1 Some of these are drawn from Ito, (1997).
2 As pointed out by Ito (1997), “if a bureaucracy is fragile and easily influenced by political pressure, relying on government-led industrial policy would be ineffective.
• The quality of Institutions is of importance to growth
• Substantial improvement in domestic policy is necessary in order to benefit from the global economy.

II. Africa Within the World economy and the issue of Policy coherence
Of all the regions of the world, Africa faces in the new millennium the most daunting development challenge. Africa is the most heavily indebted region of the world and the most aid dependent. Africa has been experiencing low growth in per capita income and it is therefore not surprising that Africa has the highest rates of incidence, depth and severity of poverty in the world. Economic stagnation combined with declining levels of development aid and private investment, deteriorating terms of trade and unsustainable debt burden and the ravages of conflict and HIV/AIDS and other diseases have left Africa with fewer resources to invest in development. Over the last several years, the objective of policy in SSA has been the development and growth of the continent.

The recent African Initiative, the New Partnership for Africa’s development (NEPAD) remains the center of policy attention conceived as an African vision to usher in a new age of peace, stability, security and economic growth and prosperity. It is a pledge by African leaders based on a common vision and shared conviction, that they need as a matter of duty, to eradicate poverty and place their countries both individually and collectively on a path of growth and development. Among African countries, NEPAD is becoming the organizing idea for the development of domestic economic policies while for the donor countries; it is the anchor of their support. In order to meet the MDG goal of reducing poverty by half by year 2015, Africa needs to fill an annual resource gap that has been variously estimated to be about US$60-64 billion. Given the limitedness of the ability of African countries to raise this amount of money domestically, Africa will have to depend on raising this externally. Increasingly the public in rich countries recognizes that the responsibility for global poverty reduction is shared by the rich and poor countries alike, while the adoption of the Millennium Development Goal 8 – “Develop a global partnership for development” – has legitimized the notion that the purview of development policy extends well beyond aid. There is no doubt that the gap between the rich and the poor is widening at an alarming rate and some have contended that the rate is even widening with globalization and that the poor countries are the losers in the process. If we do not attempt to create the global partnership for development as articulated in MDG8, the objectives in other seven would be unattainable.

Policy coherence for development entails ensuring that each country pursues policies that support, and do not undermine, specific efforts it is making to help and sustain the development process. “Policy incoherence on the other hand would be actions that reduce current income and growth prospects in developing countries and thus run counter to aid policies that work to develop competitiveness, i.e. their capacity to capture the benefits of globalization.” About 1991, the OECD Development assistance Committee (DAC)

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3 See Ajayi (2004).
4 The desired growth rate is about 7 percent. Out of the 53 countries in Africa, only 5 grew at rate of 7 percent required to meet the millennium development goals in 2002.
coined the term “policy coherence” for development and has worked to promote coherence by its members ever since. The United Nation’s Millennium Declaration of September 2000 called upon developed countries to ensure adequate resources and policy coherence, and to balance the responsibilities of developing and developed countries when reporting on development progress” The Monterrey Consensus on financing for development of March 2002 strengthened the renewed impetus to achieve policy coherence. Development is seen as a shared responsibility of developed and developing world. The consensus commits developing countries, among other things, to good governance, good policies and conflict resolution.

The avowed policy of most OECD countries is to assist Africa in achieving its ultimate policy objectives of growth and poverty reduction. There has of course been a conflict. These objectives are better achieved when there are resources to finance projects and programs, trade is unfettered so that income can be earned and debt burden is sustainable. To the extent that policy is incoherent, it is difficult to attain the objectives of policy. With the spread of democracy in Africa and better and improving macroeconomic policy management in many countries, there has been transparency and improved policy coherence in recent years. For many developed countries, however, and in particular the OECD countries, there is less coherence as they pursue quite a large constellation of conflicting policies and objectives. As examples, the OECD farm subsidies have devastated the economies of many African countries they assist with rural programs.

III. What then are the areas of Policy incoherence?
1. Trade: Trade and investment coupled with transfers of knowledge and technology and appropriate institutional framework have been major engines of global economic growth over the last several years. Integration into the global economy offers the potential for more rapid economic growth, the creation of better-paid jobs and poverty reduction. Trade is one of the indicators of integration into the global economy. Trade is of great importance to Africa not only to dispose of its goods but also to earn foreign exchange to cater for other things on sustainable basis. On this basis, the ideal situation would be one in which there is free and open trade policy. After about fifty years of significant progress, the future of the multilateral system of trade negotiations is currently shrouded in uncertainty.

The collapse of the Cancun WTO Ministerial Meeting has indeed put pressure on the OECD countries to bring about a reduction in agricultural subsidies and other domestic support measures, which distort the present global trading system and contributes to the marginalization of Africa from the global trading system. If anything, the collapse of the meeting in Cancun over developing country demands for an end to agricultural subsidies, better market access and the reform of other inequitable trade policies underscores not only the difficulty of aligning global trade and financial policies with Africa’s national objectives embedded in the NEPAD objective but also the global general objectives. While generally known that the existence of such constraints to trade is a major barrier to growth in Africa, OECD countries are nevertheless reluctant because of possible political

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6 Africa services its debt from export proceeds and resources for economic development are also derived from export earnings.
consequences to remove the constraints. Africa’s trade has therefore been bedeviled not only by its concentration on primary commodities, declining terms of trade, macroeconomic policy errors, but also discrimination with regards to market access as a result of policy incoherence of the developed world.

2. Agriculture
The foreign trade policy of OECD has numerous protectionist elements especially in the agricultural sector. The OECD agricultural subsidies have negative effect on the agricultural sector. Agriculture is the mainstay of many African economies and employs over 60 percent of the population in some cases and provides a larger proportion of government revenue. In some cases and in some other cases, it is the main foreign exchange earner. Given the importance of agriculture to the African economy, it is important that duty-free and quota-free market access and removing non-tariff barriers are of great importance and a great step in Africa’s participation in the global economy. What Africa needs is a level-playing field. Africa loses about $20 million of exports annually. There is need to eliminate OECD conflicting policies.

3. International Aid.
Aid is important to Africa and for quite some time, the focus of debate has been on the amount of aid that is made available, and the economic, social and political conditions that must be met before aid can be obtained. There are three forms of International aid in Africa. These are Official Development Assistance provided by the governments of the developed countries (mostly the OECD countries); multilateral aid provided by multilateral institutions like the World Bank, Asian Development Bank, UNDP, African Development Bank etc and aid provided by non-governmental organizations. The experience of aid in Africa is one in which it is very effective in some places and absolutely ineffective in others. When one takes a global look at aid delivery in Africa, it can be seen as the imbalance between the power of the rich and the poor. During the cold war for example, aid in the form of ODA was often given to secure commercial advantage in recipient countries or sometimes as a reward for ideological allegiances. Aid in such circumstances was not meant to achieve any development objective in the recipient country. In some cases, conflicting conditions were imposed on loans while in others, the absence of cooperation among bilateral donors often produced overlapping projects in the same sector, with each one having its own administrative and reporting system. One of the greatest problems is certainly one of cooperating in order to allow recipients of aid not only to benefit but also to ensure that the main objectives of the recipient countries are achieved.

In 2003 it was reported that some 40 donors maintained 2,000 aid projects in the 1980s. It was further reported that this was not only chaotic but created vast administrative burden on the government with no reasonable development on the ground. This issue was further brought out by the President of the World Bank at a donors meeting in Rome in 2003:

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7 No doubt African exports have been handicapped by industrial country policies such as tariff escalator, tariff peaks and agricultural protectionism, the examples of some Asian countries like South Korea and China that have managed to increase their share of global trade shows that given the right domestic policy, the current inequitable global trading system can be made to work
"We are not cooperating. We’re not coordinating. We’re not learning from the experience of the others, and in some cases we’re not even learning from our own experience."

4. Official Development Assistance: ODA is an important source of assistance to Africa; and has been a very reliable source of funds for many countries in the continent. One of the problems with ODA is the fact that many countries have failed to meet the target rate of 0.7 percent of their GDP. For sub-Saharan Africa, net real ODA from all donors in real terms fell from its historical peak of $18 billion in 1994 to $13.4 billion in 2000. Apart from the worrying trends in general in the flow of ODA, the sectoral distribution of ODA also gives room for concern. There has been a decline in the allocation of ODA for economic infrastructure and services, productive sectors; and decline in program assistance. The fall in program aid is worrisome as this is the best way to support country-designed policies. It is clear from available statistics that net ODA has in general been falling in real terms at a time when the macroeconomic environment of Africa as a whole seems to be improving and at a time when the resource needs of Africa is also great. The resulting shortfall in resource flow is inimical to Sub-Saharan Africa’s growth prospects in view of the needed financial resources to meet both the MDG and NEPAD’s objective, and depicts part of policy inconsistency in the past.

Tied aid has been another concern and one of policy incoherence of policy in Africa. Tied aid, which is the requirement in return for ODA to purchase exports from the donor country reduces the value of aid to the recipient country by an estimated 25-40 percent by forcing them to buy uncompetitive priced imports. Some countries have made substantial progress by providing a substantial part of their assistance as untied aid while some others are still insistent on it.

To make the best use of aid and maintain policy coherence, it is very important that the quality and effectiveness of aid be improved. Coherence in policy can be achieved if:

- Donors programs and policies are aligned with African development programs and policies
- Donors’ coordination with each other are improved so that contradictory policies are eliminated
- Aid policies are integrated with the recipients general program of development.

5. Foreign Direct Investment:
In a market-driven economy and as shown in the case of the East Asian economy, foreign direct investment provides a very important source of investible resources. It adds not only to capital formation but also creates jobs, transfers skills and technology. FDI is often used as a measure of investors’ confidence in an economy and indicates as well the integration of an economy with the global economy. Foreign Direct Investment is of great importance to Africa because of stimulus to economic growth. It is capable of dealing with two of the problems facing Africa, namely, the savings gap and the shortage of technology and skills. Africa has however not benefited significantly from the flow of foreign direct investment into the world. Africa’s share of global FDI inflows in 1998 was more than 2 percent but it steadily declined thereafter to a share that is now less than 2 percent. Africa has been shown to have the highest rates of return to investment relative

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8 From Africa Recovery Vol. 17 No. 4 p.2
to other developing countries. It has been claimed by ECA that African countries have the highest rates of return on investment in the world – four times more than in the G-7 countries, twice more than in Asia, and two-thirds more than in Latin America. This fact and the general improvement in the macroeconomic stance notwithstanding, Africa has had difficulty attracting foreign direct investment. This is as a result of the perception that investment in Africa is high-risk because of the perception of Africa’s political and economic activities. In most cases, the knowledge of Africa is shallow and needs to be improved.

IV. What then are the areas of Policy incoherence that needs research and Analysis?

There are many areas of policy incoherence in Africa that need further research but three areas stand out prominently. These are in the areas of agriculture, aid and trade. In the area of agriculture, further research is necessary to estimate the current impact of the OECD countries subsidy on agriculture to the development of Agriculture in general in Africa. Such research will need to focus on the various commodities that are of interest to SSA.

Specifically, what are the impacts of the reduction of OECD subsidy on agriculture to the poor in SSA? Can SSA take advantage of all the opportunities open to it through trade? What are the differing impacts of the effect of the subsidy in EU countries on different countries in Africa? What are the policy alternatives that can minimize losers and maximize winners from trade liberalization in Africa? What is the loss in exports to various crops in Africa as a result of OECD agricultural policy?

What are the various forms and types of aid in Africa? What would be the impact of aid coordination on policy objectives?

References


