

Africa Squeezed

Obama's visit and the new globalization

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President Obama's visit to Kenya and Ethiopia has raised questions and skepticism concerning the American policy narrative that underpins the types of engagements this American President or any other President undertakes with emerging Africa. Africa is increasingly squeezed by investors and trade regimes led by the United States from the Western hemisphere and by China from the emerging world. My hypothesis for this article is this. The intense rivalry between the two is taking place, in large part, without Africans having a major say on matters that affect their lives and destinies. Concerns about the President's visit are therefore more than about human rights and other forms of governance. Human rights are always vital. An African who has nothing to eat or does not have a job or safe drinking water or proper shelter etc. does not really care whether the President of the United States pays a visit to Africa or not. "What is in it for those who are marginalized? For the tens of thousands who flee their homes in search of jobs in Western Europe and the Middle East?"

Equally, the debate that is going on in most parts of Africa today is about ownership of African assets and shaping the future for Africans by Africans. These same concerns are not raised when President Obama visits democratic Europe or Canada or Australia etc. These countries are governed by governments that are accountable to citizens. At the heart of President Obama's visit to Africa---dominated by more authoritarian governments than any other continent--is the question of retarding governance that has barely improved after colonialism, imperialism and the Cold War collapsed. The African Union is more of a club of like-minded authoritarian and corrupt leaders than of advocates for the rule of law and accountable government. We are obliged to acknowledge that colonial repression and pitting one Super Power against another have been replaced by new elites and new external actors and allies who have captured political, financial and economic institutions as well as natural resources; and opened up Africa's womb for a new form of undemocratic globalization. This collusion of mutual interests is real. It is an African problem that should be solved by Africans. Reality tells us that, whether it is the Chinese, former colonializes with influence, the Saudis or the Americans, what drives engagement is self or national interest.

In presenting the pros and cons of Obama's visit, we Ethiopians either forget, ignore or neglect his speech in Ghana. His narrative is as crystal clear as it can be. It anchors America's foreign policy. He said, "We must start from the simple premise that Africa's future is up to Africans. We may share mutual interests, but we also live in a very competitive world. It isn't a zero sum game, but the choices they make will not necessarily be to our advantage, and vice versa." It is true. As I indicated in my book, "Waves," in a competitive world that tolerates it, gross inequality is inevitable as long as state actors preserve and retain narrow financial and economic interests for a

narrow band of folks in concert with global actors. It just depends on who these state actors are in collusion with. David Rothkope put it succinctly. "We ignore these class distinctions at our peril in practical terms, in political terms, and perhaps most of all, in moral terms" (*The Global Power Elite and the World they are Making*, 2008). We Africans are ignoring the new actors of globalization "at our peril." How long do we tolerate natural resources exploitation for the benefit of elites and their foreign backers; human trafficking that is taking a toll on African youth; destitution and repression of Africans from Burkina Faso, Mali, Nigeria, Eritrea, Ethiopia etc. while elites live in luxuries that is beyond belief and the concert takes out billions of dollars illicitly from Africa?

Globalization in the form of foreign direct investment, trade, migration, remittances, the fight against terrorism do not have to be a zero sum game; but they tend to be. The single most important message I took from President Obama's speech is this. If Africans, including Ethiopians, wish to transform their (our) societies on a sustainable and transformative manner, they (we) must do it themselves (ourselves) for themselves (ourselves). No one else will do it for us. Africans rejected colonialism and imperialism and others isms; and then lost decades of growth because of dictatorships. Sadly, these other isms have been replaced by elitism, tribalism, nepotism and political and economic captures (new isms). With the exception of democratic Botswana, Mauritius, Cape Verde, Namibia and a few others in between, most of Africa is still shackled by new forms of repression, exploitation and collusion. The consequences are staggering. For example, if we take the ten fastest growing economies in Africa, the socioeconomic situation for most Africans is either the same or worse. The difference in GDP per capita per year between Botswana at \$16,000 and Ethiopia \$470 to \$490 is day and night; and can't be bridged any time soon. The difference is good governance.

Trade and foreign direct investment without accountability

The concept of development is fairly simple. For me, it is empowerment. It is ownership of assets. If you wish to build a better home; you work hard and save. You can't save if you do not have a job or are not allowed to establish a firm; or if someone comes to your home or goes to the bank and steals your savings. AFRICANS are unable to keep what is theirs (their savings). Over the past 39 years, **Africa lost \$1.8 trillion**. This sum would 'Power Africa' more than four times. Ethiopia lost more than \$22 billion in the past 14 years. If kept to improve people's lives, this sum would build numerous factories and create jobs for hundreds of thousands. So, increased trade and investment is unlikely to change this bleeding unless governance changes. This is the reason why I argue that Africans must take charge of their own destiny. After all, the trillions of dollars that are taken out of the continent end up in Western, East Asian, Middle Eastern, and or Caribbean banks or bogus investments. This won't occur if there are not beneficiaries on the remitting and receiving side. Only good governance, with caring, democratic and nationalist leaning governance and competent

leadership that serves the common good, and not elites, would have a chance to stop this bleeding.

One of my favorite economists, Dr. Ha-Joon Chang summed up the deleterious effects of trade and investment without good governance (**The Bad Samaritans: The Myth of Free Trade and the Secret of Capitalism**. “The more recent economic success stories of China, and increasingly, of India, are examples of strategic rather than unconditional integration with the global economy based on a national vision,” similar to the U.S. in the mid-19th century, or Japan and Korea in the mid-twentieth century. The Korean economic miracle was the result of a clear and pragmatic mixture of market incentives (for the home-grown private sector) and state direction. Today, there are certainly some people in the rich countries who preach free market and free trade to the poor in order to capture larger shares of the latter’s markets and preempt the emergence of competitors.” Homegrown economies protected by competent, committed and nationally oriented governments are future competitors. African governments have responsibility to do everything in their power to encourage, promote and nurture these future competitors. This won’t happen if the pillars of the economy are owned by the party, endowments, the state and government the party controls, and global actors whose primary motive is profit.

I share President Obama’s hope for Africa and Africans. Africa is the last frontier for foreign direct investment in almost every imaginable sector including electric power generation and grid, roads, rails, agriculture, trade, information and communication technology, etc. In my mind, a “last frontier” does not imply that its wombs should be wide open for new forms of domination and exploitation regardless of the actor. The truth is this. It is happening in the form of land grab, mineral resources and fossil exploitation, human trafficking, illicit outflow including tax evasion, expenditures to pay foreign experts, etc. Under these conditions, it will be very difficult if not impossible to **establish world class home grown industries and modern agriculture**. Global governance won’t be amenable in creating and strengthening homegrown world class firms unless governments and leaders are committed to reform. In Chang’s words, “In the hands of a competent, non-corrupt technocratic bureaucracy, industrial policy can be used effectively to compensate for the information inadequacies of underdeveloped capital markets. In the wrong hands, however, it could be used to steer investment resources to politically favored groups or indeed into the pockets of friends and family of those making the decisions.” This happens all over Africa, most prominently in dictatorial regimes such as Ethiopia.

The volume of FDI and trade to “the new frontier,” especially to the ten fastest economies, has increased dramatically over the past decade, with FDI of \$32 billion in 2013 and \$29 billion in 2014. In 2013, a quarter of the inflow or \$10.3 billion was invested in Nigeria and South Africa. In 2012, Mozambique attracted \$7.1 billion, most of the investment dedicated to natural resources extraction. Other beneficiaries of FDI include Ghana, Uganda and Zambia. One encouraging trend is diversification of the investment portfolio into media and telecommunications, technology and

manufacturing. In this regard, Ethiopia is paying a heavy price in the media and telecommunications sector. The party and state own this sector. Its potential to contribute to increased employment and GDP won't be realized until and unless the government deregulates and privatizes the sector as other African counties have done.

Who invests in Africa?

It is not well known that the biggest investors in the 'new frontier' are not the Chinese or other Asians. Europe dominates FDI while China dominates trade. With some 104 projects and \$4.6 billion, the old colonial power, the United Kingdom, is by far the largest investor followed by the United States. China's investment has risen from \$392 million in 2005 to \$2.5 billion in 2012. Its investment portfolio is concentrated in mining and infrastructure. A unique feature of American investment that has attracted global attention is "Power Africa"—a commitment to light 60 million homes and businesses-- to which the U.S. has committed \$7 billion and the U.S. private sector \$12 billion. The Blackstone Group and the Carlyle Group are the most active promoters of the project. The capital requirement to achieve "Power Africa" is in excess of \$300 billion. African countries can meet part of this requirement if they prevent capital leakage.

Who dominates trade in Africa?

When I was growing up, it was Japan that dominated trade in many countries of the world, including Africa. Today, the dominant player is China; and competition for the African market is stiff. Africa is being squeezed in the competition between China on the one hand and the West on the other. In 2011 U.S. trade with Africa amounted to \$125 billion; and China's \$166 billion. Although the U.S. had initiated the Africa Growth and Opportunity Act (AGOA), there is little indication that access for African goods has been made easier. Two way trade has not expanded. In 2013, U.S. trade declined to \$85 billion while Chinese trade rose to \$213 billion. The government of China aims to increase this to \$400 billion by 2020.

Whether FDI or trade, the central question in my mind is the extent to which Africans, especially the poor and youth, would gain. More research should be done on the role of the new form of globalization in accelerating sustainable and equitable development for Africans or doing the opposite. At minimum, there must be African governments that are dedicated to the defense and services of their own national interests and societies in the same way as developmental states in East Asia and the Pacific region. As President Obama said in Ghana, this is a highly "competitive" world in which weaker and least developed countries are at the mercy of domestic elites and global actors that often work in tandem. Singular concentration on fighting terrorism while leaving intractable socioeconomic and political problems that breed terrorism, civil conflict, balkanization, capital flight them untouched and undiscussed is not a winning strategy.

Concluding remarks

Regardless of the motive that takes President Obama to Kenya and Ethiopia, we Africans have no one to defend our interests but us. Ethiopian-American relations were established by the wise and farsighted Emperor Menelik II; and President Theodore Roosevelt in 1903. This relationship is likely to continue for generations to come regardless of government changes in Addis Ababa and Washington D.C. I am sure President Obama will witness the glitz of growth in Addis Ababa but won't see the deep social and economic fissures that simmer beneath or the hundreds of political prisoners who continue to suffer. Beyond the rhetoric of "remarkable growth" in Ethiopia that other African countries have also enjoyed over the past decade, President Obama's visit comes at a time when Ethiopian society is undergoing one of the most trying times in the country's history.

While I cannot dismiss the long-term positive effects of trade and FDI, people who are excluded or marginalized and people with no say in the affairs of their government won't gain benefits. What the President should appreciate is this. At the heart of the problem is bad governance. It deters potential in African countries including Ethiopia where gross violation of human rights, decimation of civil society and independent and free media, closure of political, religious and civic space, ethnic based nepotism and corruption and massive illicit outflow of capital have been institutionalized. The condition poses systemic risks. People without voice cannot hold their governments accountable for corruption and illicit outflow. To illustrate this point; one study chaired by the former President of South Africa, Mbeki, showed that Ethiopia lost \$10 billion in illicit outflow in the past four years alone. I have not found any American or Chinese investor that has brought in the equivalent of the lost capital; and built domestic factories employing thousands of Ethiopians. It makes no sense to provide aid and tolerate corruption and illicit outflow.

Will President Obama appreciate the notion that the Ethiopian state he will visit is not only repressive; but also institutionally corrupt to the core? Will he recognize and speak up in defense of human dignity and human rights, the rule law and democracy on which America has singular comparative advantage? Would there be any chance that he will make his own judgement that such a repressive state is unlikely to be a "reliable ally in the long run."

It seems to me that the single most important contribution America can make for the advancement of Africans is to defend and finance human rights activities, and to promote the rule of law and democracy. The benefits that would accrue for America and Africans will be immense.