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ADJUSTMENT AND INVESTMENT IN AFRICA: A RETREAT TO COMPRADORIZATION

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ADJUSTMENT AND INVESTMENT IN AFRICA: A RETREAT TO COMPRADORIZATION

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Abstract: This study considers the impact of structural adjustment programmes on investment and on the relative position of indigenous private firms, public enterprises, and foreign direct investment in African economies from a historical perspective. The trend in capital accumulation of the 1980s and 1990s is contrasted with that of the pre-colonial, colonial, and post-independence periods. The historical pattern in the three forms of business organisations in African economies reflects the degree and tempo of Africa's incorporation into the world capitalist system. Contemporary structural adjustment is understood as the latest expression of this incorporation. While African states and local private enterprises experienced their greatest autonomy in the decades immediately following their political independence, the circumstances created by structural adjustment resemble the ‘legitimate’ trade era- a period directly preceding the colonial era.

1. Introduction

For the last two decades of the twentieth century, the economies of Africa and much of the developing world have been dominated by structural adjustment programmes (SAPs). The programmes forced fundamental changes in the direction of these economies, in their macroeconomic environment, resource allocation mechanisms, and institutional arrangements. Few events in African history have had such broad and wide implications on so many aspects of the society, economy, and polity. The impact of SAPs on the relative role of public, indigenous, and foreign investment in African economies is one of the main aspects of this process of adjustment. In this paper, the impact of this adjustment on investment in Africa will be discussed in a broad historical context defined as a long-run relationship between the capitalist metropole and the periphery. In fact, it might be said that the history of capital accumulation and modern enterprise in Africa is largely the story of its incorporation into the world capitalist system.

Even before the sixteenth century contact with Europeans, some parts of Africa were engaged in long distance trade, and had developed well organized polities and economies, some of which used gold and commodity currencies and generated surplus.[1] However, most African economies were focussed on subsistence production until European long distance traders established themselves along the West African coast. This traders became the region's regular link with the European markets. The establishment of regular international commerce geared toward the demands of Europe changed the pattern of African economic development. From the sixteenth century onward, Africa was brought into increasing contact with a world wide trade system that was being fashioned by European powers (Wallerstein 1980).

In Europe, the economy went through mercantilist, industrial and monopoly capital (imperialist) phases. These in turn generated structural and institutional changes or 'adjustments' in Africa: the slave trade, 'legitimate' trade, and colonialism. The roots of capitalist enterprise in Africa cannot be divorced from these developments. The trends in the mix of domestic private firms, public enterprises, and foreign direct investment in African economies may also reflect the degree and tempo of Africa's incorporation into the world capitalist system. Contemporary structural adjustment could be understood as the latest expression of this incorporation. Therefore, a brief foray into the past may shade some light on the present adjustment that African economies and the enterprises within them are going through. The paper is organised around four periods of African history: pre-colonial, colonial, post-independence, and the epoch of contemporary structural adjustment.

2. The Pre-Colonial Era: 1560-1870

For about three centuries the slave trade dominated the exchange relationship between Africa and Europe. Whereas slave labour played a significant role in the 'primitive accumulation of capital' of Europe and America (Marx 1977), its effect on Africa was destructive (Rodney 1972). African chiefs and traders who benefited from the slave trade were unable to transform themselves into capital accumulators, perhaps because the technological and institutional conditions did not offer them investment opportunities. The abolition of the slave trade in the first half of the nineteenth century coincided with the transition of the

European economies, especially the British economy, from mercantilist to industrial capitalism (Williams 1981). In West Africa, what is referred to as the era of 'legitimate' trade, roughly 1807-1870, was substituted for the slave trade (Hopkins 1973, Law 1996).

'Legitimate' trade reflected the new patterns of demand in Europe for raw materials needed in manufacturing. The main export items from Africa were palm products, ground nuts, gum, gold, timber and ivory. African imports involved consumer goods such as textiles, spirits, salt and iron. The nature of the export staples allowed small-scale African farmers and traders to play an increasing role in the new international trade. The expansion of trade and markets gave stimulus to service industries such as transport and accommodation. This expansion, however, was dependent on robust demands of the industrialized economies. Fluctuations in the prices of staples caused adverse movements in the terms of trade which limited the growth of African economies and domestic enterprises (Hopkins 1973). The dependency of primary producing regions was evident from these early days.

Another aspect of dependency- that of monetary and financial ties to the metropole- was also established during the pre-colonial era. Slave procurement required considerable capital and African 'slave entrepreneurs'[2] depended on access to credit granted by Europeans. These Africans, for instance the Efik of West Africa, created institutions that acted as debt collection agencies and ensured the viability of the credit system. This arrangement between European sources of capital and African borrowers, also known as the trust system, was condemned by European commentators on the grounds that it encouraged improvidence on the part of the 'natives'. However, as Hopkins observed, the 'legitimate' export trade continued to require the injection of foreign capital. The credit or trust system survived the abolition of the slave trade and expanded despite objections that it was morally reprehensible and financially risky. It became "a permanent feature of the colonial economy, and exists today in the form of international loans and suppliers' credit" (Hopkins 1973, pp. 108-110).

Financial dependence could have serious consequences. One of the most dramatic and perhaps instructive historical episodes concerning the consequences of external indebtedness on a dependent economy involves nineteenth century Egypt. In the second half of the nineteenth century, Egypt found itself in dire financial straits and indebtedness. In 1875, foreshadowing the debt-equity swaps and privatization of last two decades of the twentieth century, the Egyptian government sold its shares in the Suez Canal Company to Britain for a small fraction of what Egypt had actually spent on the project. The deal not only gave Britain an economic windfall, but also a political and strategic foothold in Egypt. Moreover, Britain obtained cabinet positions in the Egyptian government, culminating in the colonial status of Egypt in 1882 (Zeleza 1993).

The last quarter of the nineteenth century was mired in what is known as the Great Depression (1873-1896). They also experienced technological progress and widening income inequalities with results not unlike those of the last decades of the twentieth century (Williamson 1996). The dominant British economy was suffering from debt problems and relative decline in the world economy, as competition for economic supremacy and markets from late European industrializers became intense. The ideology of laissez-faire had to allow room for the marriage of politics and economics, and the rise of large corporations and oligopolies (Wilson 1977, Hobsbawm 1968, 1987). In the meantime, severe adverse movements in the terms of trade caused a general crisis in Africa. This crisis was exacerbated by the strains of transition from the slave trade to 'legitimate' commerce. The European powers believed that the way to alleviate these problems was to bring non-European countries under direct or informal rules. Hence the partition of Africa (Hopkins 1973).

3. The Colonial Era: 1870-1960

There are two incompatible assessments of the economic impact of colonialism on the development and industrialisation of Africa. Contrast, for instance, leading imperialists such as Lord Lugard (1922) who claim that the task of colonialism was to 'promote the commercial and industrial progress of Africa' with that of Walter Rodney (1972) who maintains that under colonialism 'the only things that developed were dependency and underdevelopment'. On Lord Lugard's side are neoclassical economists who underscore the constructive aspects of colonialism (Bauer 1976). On Walter Rodney's side are the neo-Marxists who emphasize the destructive aspects of colonialism (Frank 1969, Amin 1976). But note also Warren (1980) who, from a Marxist perspective, blasted the neo-Marxists and Lenin (1916) for failing to highlight the progressive role imperialism plays in backward regions. He hailed imperialism as the pioneer of capitalism, and a necessary stage on road to socialism.

Hobsbawm (1987) maintains that 'colonialism was merely one aspect of a more general change in world affairs' and was not the most important aspect, even if the most striking and spectacular. (p. 59) From Africa's perspective, however, colonialism was immensely important because it made the penetration of international trade into the entire continent virtually complete, and made Africans aware that they had been incorporated into the world capitalist system. At a more practical level, colonialism is important because it created the formal administrative structure and a monetized economy which provided the national framework within which state, foreign and domestic enterprises have since functioned.

The economic policies of the colonial administrators involved external regulation such as trade and monetary policies, and internal policies regarding land usage, labour, and the degree of government intervention in the economy. In contrast to the mercantilist era which was characterized by regulations of international commerce, Britain advocated a free trade policy during the period of industrial capitalism. British colonies were open to ships and goods of all countries on equal terms. Although the colonial administrators were allowed to raise public revenue via import duties, they had to make sure that the duties did not provide protection for local producers. For instance, the duty paid on imported soap to colonial Ghana was balanced by the duty paid on imports of raw materials needed to manufacture soap in that colony. Consequently, there were no incentives for Ghanian entrepreneurs or foreign firms to manufacture soap in Ghana until the country became independent. Hence such policy changes occurred in the 1960's. In the French colonies, a mix of free trade and protectionist policies were followed. Imports from other colonial powers were subject to discriminating duties. The policy regime was unfavourable to African entrepreneurs and protected established French companies (Fieldhouse 1981).

Colonialism enhanced the monetization of African economies by imposing metropolitan currencies on the colonies. Later the British and the French introduced separate colonial currencies pegged to that of the metropole. The generally easy convertibility of local currencies tied the colonial economies even more closely to the international economy. A universal monetary standard allowed the administrators easy collection of taxes, payment of public expenditures, while the metropolitan government profited from the seignorage of new coinage. African traders who held pre-colonial currencies suffered because the governments hesitated to redeem them.

The metropolitan control over currency restricted the money supply in Africa and inhibited private economic activities. Monetary policy was not used to encourage local African entrepreneurs or foreigners to invest in Africa. As Hobsbawm (1987) put it: whatever the official rhetoric, the function of colonies and informal dependencies was to complement metropolitan economies and not to compete with them. (p. 65)

While the imposition of monetization and taxation may have speeded the expansion of the market economy, it left a legacy of mistrust of both market and authority, and the association of taxation with oppression among African masses.

The policies of colonial administrators with regard to labour and land was aimed at making these factors of production available for the capitalist system. Despite the non-interventionist policy that was professed until the 1930's, administrators in the colonies were not hesitant to use measures to ensure this objective. In some parts of West Africa the population had become familiar with the demands of the metropolitan economy because of long established trade relations. The peasants were willing to work the land for the market. Still, in order to ensure and accelerate their integration into the world economy via the production of exportable commodities, the authorities imposed taxes on the peasants which were to be paid in cash.

In most other African colonies, the European administrators and entrepreneurs found vast natural endowments fit for agriculture, mining and timber, but faced severe shortages of labour. The population refused to work under the conditions offered by the European companies. The colonial governments responded by introducing indenture, head and hut taxes to force people to take paid work in agricultural and mining firms. In parts of Eastern and Southern Africa, European settlers gained vast concessions of land at times by evicting African inhabitants. Some of these concessionary areas were successfully developed and became the basis for locally generated capital accumulation (Fieldhouse 1981).

Until 1945, the colonial regimes focussed on stimulating commodity production to meet the demand of the metropole, and on generating trade on which taxes could be levied to sustain the colonial governments. They did not encourage industrialization and diversification, nor did they by and large directly take part in the economy. They helped trading companies from the mother countries control the colonial economy. The share of other competing European companies and of local entrepreneurship in the economy was nil. Local entrepreneurship never got the chance to be unleashed, except in peculiar cases such as in the French colonies (particularly Senegal) during World War II when the colonies where cut off from German occupied France. During the war, a shortage of imported goods in French colonies led to a revival of indigenous weaving and blacksmithing as well as to the general beginnings of industrialization which metropolitan interests hitherto had effectively checked (Wilson 1990).

The last decade of colonialism witnessed the shift of colonial economic policy from that of laissez-faire to one of intervention and management. The colonial administrations in Africa began to infuse and lend substantial amounts of money to get development underway (Austen 1987). This may have been a reflection of the triumph of Keynesian economics in the metropole. Also the increased struggle of Africans for independence, and the willingness of colonial officials to placate them- perhaps to preempt Soviet influence- allowed indigenous entrepreneurs to take advantage of the openings presented by the growth and diversification of the economy. By the eve of independence years, industrial activity was probably the fastest growing sector of the economy of many African countries, and on average accounted for close to 20% of African GDP (United Nations 1959, pp. 16-17).

4. Investment Policies of the Post Independence Era: 1960-1980

From a long run African economic history perspective decolonization may not be as significant as colonization. Imperial partition opened internal African markets and established the tentacles of international economic structure within which African economies functioned, while decolonization signified a change in the formal control without alteration of the basic structure. Hence political independence may not constitute a major turning point in the broad historical trend of African economies (Wallerstein 1980). The economies of African countries on gaining political independence were dubbed neocolonial by African liberation leaders such as Kwame Nkrumah. To change this condition, they embarked on a number of initiatives on the international and national stages. In 1955 twenty nine newly independent Afro-Asian countries met for the first time at Bandung, Indonesia, to discuss anti-colonial struggles and to lend support to liberation movements. This meeting, known as the Bandung conference, signalled the presence of African and Asian nations on the world scene demanding consultation by Western powers on matters that affected them. The political and economic offshoots of this conference are the Non-Aligned Movement in 1961 and the United Nations Conference on Trade and Development in 1964. These movements fostered a policy of positive neutralism in the political field, and sought a policy of some degree of disengagement from the world capitalist system in the economic arena.

At the national level, decolonization recast the structure of ownership and investment in Africa. As discussed earlier, for most of the colonial era, investment was monopolized by foreign companies with some room for local entrepreneurs after 1945. The post independence era provided a condition in which investment became a competitive arena for three forces: the state, foreign capital, and local entrepreneurs. The state has been prominent in post independence African economies. This is due partly to state institutions inherited from colonial administrators, and partly to the weakness of indigenous entrepreneurs (Austen 1987). Additional reasons necessitated the push toward state directed economic strategy. Although African countries remained within the Western capitalist orbit, most avoided explicitly embracing capitalism as an ideology. On the political level it was difficult to dissociate the anti-colonial nationalist struggle from anticapitalist sentiments. Imperialism and colonialism were, after all, extensions of the capitalist system. While colonial powers manoeuvred to ensure that the African elites that replaced them were not communists, the existence of East European and Chinese and other socialisms still indicated the possibility of an alternative route toward industrialization. Furthermore, even in western countries, this was a period in which the welfare state and Keynesianism were the norm. The field of economic development which took root at this time was dominated by Keynesian economists who were ready to assign a prominent role to the state in the development process. For these reasons, the state in Africa was bound to play a leading role in the industrialization drive.

The prominence of the state manifested itself through the nationalization of private firms, the formation of government partnership with foreign owners, and the creation of entirely new industrial parastatals. The state was also involved in the economy through marketing boards, national trading companies, foreign exchange control, licensing of different kinds of activities, and import substitution policies. The policies of nationalization, indigenization, and import substitution were used to increase African public and private ownership of enterprises, and also to avoid domination by multinational firms and to decrease dependence on the metropole. However, prominence of the state in the economy did not translate into the capacity to control the economy. Such capacity was limited because of the administrative weakness of the state, and underdeveloped economic forces. This is indicated by lower government expenditures of African states as compared to developed countries.

Table 1 here

Table 1 shows central government expenditure as a percentage of GNP for selected low-income African countries and the G-7 countries. The advanced countries tend to have a higher percentage of government expenditures than the African countries. Canada, the U.S, and Japan have low percentages. However, note that the data accounts for merely central government expenditures and that developed countries usually have federal structures with significant expenditure powers for lower polities, whereas African countries usually are unitarian states. Including all levels of government makes the comparison of the role of the state between developed and developing countries even more dramatic. Using aggregate data the World Bank (1997, p. 2) shows that for the years 1960, 1980, and 1990 the shares of total government expenditure in GDP for OECD countries were around 19%, 44%, and 48% respectively; while the corresponding figures for developing countries were 15%, 27%, and 28%.

Notwithstanding this limited capacity of African states, the policy environment of the first two decades of post independence African countries reduced the relative strength of foreign companies in their economies. The African states were new and significant entrants into the economic space hitherto dominated by colonial companies. This was a new challenge that multinational corporations had to reckon with. Apparently, even the state of a poor country is better able to garner economic resource, compete, and negotiate with multinationals firms than its weak national capitalist class. Also national political power introduced a new element into the relationship. Expropriation of foreign subsidiaries steadily increased from the 1960's to the mid-1970's (UNCTNC 1988). Indigenisation programmes were also popular during this period. Furthermore, the availability of capital in the form of aid and debt, from multinational institutions and socialist countries strengthened the state.

Nevertheless, investment by multinational companies was still sought after. This was not just for capital, but even more so for employment creation, technology transfer, technical and management skills, and access to the world market. Even public enterprises, which tended to be capital-intensive, had to rely on foreign firms to continue operation. We must also recall that some countries, notably Kenya and Ivory Coast, were not enthusiastic about nationalization. Nor was the door on foreign investment shut in the rest of Africa. Actually, African ruling elites may have found it easier both to control foreign firms and derive benefits from cooperating with multinationals than with local entrepreneurs (Kennedy 1988). For their part, multinationals viewed their African operations as marginal to their global strategies, yet were interested in keeping their presence in African markets (Kitchen 1983, Lipson 1985).

The role of African entrepreneurs in the post-colonial economy has been conditioned by the attitude of the state toward it. From a long term development perspective, it might be suggested that the national bourgeoisie would have greater interest in the industrialization of African economies than foreign capital which tends to lack permanent family roots in the continent. Domestic capital may also be willing to sacrifice for national goals, participate in national politics, pay taxes, invest within the country and generally be more accountable to public interests (Kennedy 1988). These possibilities, assuming that the state is not threatened by a vigourous national capitalist class, should make the post independence era favourable to local entrepreneurs. On the other hand the national bourgeoisie may be perceived as a weak collaborator with foreign capital unable to transcend its comprador or 'service' role with regard to the metropole (Baran 1957, Frank 1969, Amin 1976). The policies of African states toward the national bourgeoisie reflect these contradictory views.

Indigenization policy may have been the main instrument that was employed to create favourable conditions for local capital. To this end, foreign capital was banned from certain sectors (usually low level enterprise areas), or required certain minimum capitalization, and also had to sell a specified share of equity to local investors. Government support for indigenous firms also came in the form of access to credit and foreign exchange, allocation of government contracts, and technical training. Given the weakness of African entrepreneurs relative to public enterprises and foreign firms, the supportive policies were needed for a substantial period of time and consistent application. This does not seem to have been the case with the possible exception of Kenya (Helmsing and Kolste, 1993).

In the meantime, the focus by many countries on large prestige projects enhanced dependence on foreign capital and expertise, and allowed more room for foreign capital against which local capital could not compete. While some African entrepreneurs were able to respond by forming partnerships with foreign capital, many have remained compradors, and the majority were confined to the informal economy. Certainly, other factors such as the cultural milieu of African societies, the harsh environment, the continued marginalization of Africa in the world capitalist system, low urbanization, and low per capita income have all militated against the emergence of a strong national capitalist class. It is not clear whether state policy played the decisive role in weakening the emergence of African capitalism.

Has independence hurt the economic development prospects of Africa? Jesperson (1992) maintains that African economies performed reasonably well in aggregate terms during the 1960's and part of the 1970's. Austen (1987) to underscore the problems of the 1970's and the 1980's, and claims that the post-colonial African economy has been characterized by a weakened position in the international economy, and the failure in both agricultural and industrial sectors on the domestic front. He suggests that "one lesson to be learned from historical contemplation might be that the continent should return to the less pretentious development modes which prevailed before the unsettling events of the Great Depression, the Second

World War, and decolonization" (Austen 1987, p.258). Does contemporary structural adjustment signal a return to the policy environment of pre-Keynesian and informal colonial days? Is the new world order a repetition of history in a new guise?

5. The Epoch of Structural Adjustment: the 1980's and 1990's

Structural adjustment is a comprehensive and an evolving concept. Various definitions and perspectives exist. Streeten (1987) defines structural adjustment as the essence of development. Here the concept is cast as 'a problem of transition', of modernization and structural transformation. A less broad definition is that of Glover (1991) in which structural adjustment is "a process of deliberately adjusting the structure of an economy to counter adverse shocks or to take advantage of new opportunities arising from internal or external economic shifts." The emphasis here is on the response of a country to new economic conditions. He seems to assume that countries are free players in the global economy, and thus have a menu of choices with which to respond to changes. For Loxley (1986) "The term 'structural adjustment' simply makes more explicit the fact that contemporary stabilization programmes frequently imply substantial changes in the direction of the economy, in its sectoral priorities and in its institutional make up." This has the merit of indicating the evolution of the concept partly as a result of close co-operation between the International Monetary Fund (IMF) and the World Bank in their dealings with indebted developing countries. Adjustment was initiated by the IMF and the Bank as a response to the debt crisis of the early 1980s. This response induced far-reaching changes in the trade regime of developing countries, substantial shifts in the structure of investment and production, and significant alteration in the mix of state control and market incentives. In practice, structural adjustment is made operational through specific economic policies that the IMF and the World Bank require developing countries to follow in order to access the financial facilities of the two international financial institutions. These policies have three prongs: 1. macroeconomic- such as fiscal restraint, tight monetary policy, and devaluation; 2. microeconomic- such as trade, price, and financial liberalization; 3. institutional adjustment- such as privatization, improving the business climate and legal arrangements, and governance and civil service reform.

From a long run historical perspective, adjustment may describe the major changes that Africa has had to go through in the past five centuries as a result of its relationship with the world capitalist system. The continent has had to adjust to the main challenges and trends of the world system: the commodity demands of mercantilism, demographic impacts of the slave trade, the requirements of industrial capitalism, colonialism, the aftermath of the second world war, and the profound transformations of the last quarter of the twentieth century. As Amin (1990a, p. x) puts it " The development of the periphery has always entailed a never-ending 'adjustment' to the demands and constraints of the dominant capital. The centres are 'restructured', the peripheries are 'adjusted' to these restructurings. Never the reverse." Adjustment thus involves the grafting of the internal development of Africa onto the possibilities offered by the world capitalist system.

The adjustment of the 1980's and 1990's is a programme "by the international financial institutions, and the northern governments which control them, to create new regimes of accumulation in the South based on the further internationalization of trade and payments." (Loxley 1998, p. 48). Adjustment programmes mediate the asymmetric relationship between the metropole and the dependent economies. What has occurred is that adjustment programmes have forced African states into the role of comprador- local elites who act on behalf of global capital- whose task is the provision of local security and markets for a world wide liberal capitalist order. This is part of a general trend in which the bourgeoisies of the Third World "have abandoned their national plan in 'the spirit of Bandung', to accept compradorization." (Amin 1990b, p. 17).

The issue of structural adjustment in Africa is perhaps marginal to the world system relative to those of the retreat of Keynesianism in the West and the total reversal of the command economies in Eastern

Europe. Still for Africa, the loss of the elbow room it had begun to establish in the international politico-economic setting because of the demise of the Soviet Union, the decline of the economic left in Europe and North America, the detailed policy conditionalities associated with the debt crisis, and the shrinking of the role of the state in the economy constitute fundamental shocks. These changes have important implications for the mix of enterprise and the level of total investment in Africa.

In the early days of independence African countries were closely linked to their former colonial masters for their financial needs. Eventually they were able to acquire foreign capital from several sources and in various forms which included foreign direct investment, private loans for local enterprises, official loans and aid from foreign governments and multilateral institutions. The web of international finance in which Africa found itself became increasingly obvious when the continent was hit by a series of external economic shocks in the beginning of the 1980's. These shocks included: recession in the industrialized countries which reduced the demand for African exports; a sharp downturn in commodity prices and increases in prices of manufactured goods leading to adverse terms of trade; dramatic increases of interest rates on foreign debt, and the decline in both gross and net capital flows.

These external shocks produced adverse effects on inflation, the government deficit, and the balance of payments which forced African countries to seek IMF help. Initially, the IMF focused on traditional short term balance of payments problems and stabilization programmes supported by stand-by-arrangement credits. At a later stage, the problems were believed to be of a structural nature and emanating from much deeper roots and as such required long term adjustment programmes. To this end, the IMF created special facilities- the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF) to support low income countries.[3] These programmes complemented the structural and sectoral adjustment loan programmes of the World Bank. Between 1980 and 1989 alone close to two hundred and fifty policy-based loans were initiated in Sub-Saharan African under the auspices of the IMF and the World Bank.[4]

As the example of Egypt, mentioned in section 2, shows external indebtedness could result in the loss of sovereignty. While the present indebtedness of African countries seems to have been handled with leniency by bilateral lenders through rescheduling and other options offered by the Paris Club, the adverse implications of indebtedness for the sovereignty of African states and their ability to forge national economic policies is obvious. The IMF and World Bank conditionalities push for laissez faire policies, including privatization and deregulation. These institutional changes have significantly reduced the number of public enterprises, as well as weakened indigenization programmes. By 1986 adjusting African countries had privatised 20% of their parastatals. Table 2 shows the extent of privatization in twenty nine adjusting African countries between 1986 and 1992. The effect of these changes on the composition of investment-- state, local and foreign-- is of significance for the degree of control Africans would have over their economies.

Table 2 here

Institutional reforms such as privatization offer considerable incentives and advantages for foreign investment. In the absence of a dynamic and large scale African capitalist class, privatization involves the transfer of major national assets to foreign ownership. Such transfers preempt the opportunity of Africans to learn to operate large enterprises effectively, and thus diminish the potential for long term development associated with indigenous entrepreneurs. While we must note the potential role of foreign investment in the transfer of technology, management and marketing techniques, its contribution to African development has been minimal because it has been highly import intensive which has led to significant reserve outflow (Cockcroft 1992).

What is the impact of structural adjustment on the rate of capital formation ? The World Bank and the IMF aim to decrease public investment in the hope that privatization and other components of adjustment policies package lead to a surge in private investment enough to compensate or surpass the decline in public investment. The available data on domestic private investment and public investment in Africa is sparse and incomplete. Nevertheless, some observation can be made from Table 3 about the trends in domestic investment for the period of 1970-97. The table presents the averages of private, public, and total domestic investment as a percentage of GDP for ten Sub-Saharan African countries for which data is available. The data indicates that there has been a declining trend in total domestic investment over the three decades. The average share of total domestic investment in GDP during the seventies was 24.2%, declining to 19.6% and 18.9% in the eighties and nineties respectively. The corresponding values for private domestic investment in these periods are 12.9%, 9.9% and 10%; while that of public investment are 11.3%, 9.8% and 8.9%. Clearly the decline in public investment has not been replaced by increases in private investment. In fact both have tended to decline over the adjustment period, and the rates in investment in the pre-adjustment period are generally higher than those in the adjustment era.

Table 3 here

Table 4 shows foreign direct investment (FDI) flow to Sub-Saharan African (SSA) countries and all developing countries for the period 1980-1997. We can glean from the data that in absolute terms FDI flow to Africa has tended to increase over time. However, this flow is small relative to the flow to other developing countries. The fourth column in Table 4 shows the FDI flow to SSA as a percentage of the FDI flow to all developing regions. Africa's share in FDI flow to developing countries has declined from 11.2% in the first part of the eighties to 1.9% in 1997.

The last two columns of Table 4 compare the share of FDI in gross fixed capital formation in SSA and in all developing countries. This share is consistently higher in Africa than in other developing regions. We may interpret the data in Table 4 to imply two apparently contradictory patterns. The first is that even though absolute FDI flow has an upward trend, the declining share of the flow to Africa points to the continued marginalization of Africa in the world capitalist system. The second is that, despite the marginalization of Africa, the role of FDI in capital formation in Africa has increased. This may have been abetted by the decline of domestic investment in Africa as shown in Table 3, as well as by the absolute increase in FDI flow to Africa as shown in Table 4. The increased prominence of FDI in gross investment in Africa relative to other developing regions may indicate the fragility of African capitalists in the new environment created by structural adjustment. Domestic African enterprises may have lost out to foreign investment as governments abandoned Africanisation programmes, and liberalization and deregulation allowed multinational firms to use a long established strengths to become prominent in African markets.

Table 4 here

As discussed in section 4, in the first two decades of the post-independence period, African states promoted nationalization and indigenization policies without abandoning close co-operation with foreign enterprises. The present circumstances, however, resemble the ‘legitimate’ trade era the return to which Austen (1987) recommended. This return is hastened by the weakening of African states due to both adjustment programmes (Riddel 1992) and the narrowing of their manoeuvring room in the world economy. The ascending position of foreign investment in Africa can be beneficial if it results in the 'fortification and diversification' of African economies (Warren 1980). It remains to be seen, however, if reinvigorated imperialism- the penetration of international capital into Africa- will end the marginalization of the continent in the world capitalist system. It is also possible that, instead of leading to a sustained capitalist development, this reinvigorated imperialism will preserve non-capitalist modes of production and rigidify the African economy into a primary-commodity structure (Laclau 1971). Such an articulation would restrain the forces that could shoulder sustained capital accumulation- African entrepreneurs- by restricting them to comprador roles or confining them to the chieftaincy of the informal sector.

6. Conclusion

The African economies and the enterprises within them lack autonomy and their progress is dependent on trends occurring in core capitalist countries. The degree of dependency and autonomy of African capitalism has fluctuated with the phases of world capitalism. African states and private enterprises experienced the greatest autonomy in the immediate decades following political independence. The main economic aspiration was to transform African economies from dependency on raw materials and therefore vulnerability to fluctuations in metropolitan demands, to a balanced primary, manufacturing, and service sectors.

During this period the strength of national liberation movements and the existence of a world socialist camp allowed African and developing countries a space in which to build economies based on state capitalism and/or national bourgeoisie by partially disengaging themselves from the world capitalist system. This period was not long enough nor the policies of African countries sufficiently astute to create autonomous domestic or regional economies. Indeed among some one hundred and and fifty developing countries, only the few referred to as the newly industrialized countries can claim a successful use of this period, a success severely qualified by the East Asian economic crisis of the second half of the 1990s.

Structural adjustment programme is the repeal of the opportunity of partial disengagement from the world capitalist system, of state capitalism, and of import substitution strategy. Structural adjustment calls for export promotion based on comparative advantage, and therefore reliance on the production of cash crops, mineral extraction, and natural resource exploitation. The future of modern enterprise in Africa, therefore, may be confined to the primary sector as it was before the 1960s, and with greater room for multinationals than it would have been thinkable during the euphoric years following political independence.

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Table 1 Central Government Expenditure as a Percentage of GNP

Low Income African Countries	1972	1980	1993
Tanzania	19.7	28.8	…
Uganda	21.8	6.1	…
Malawi	22.1	37.6	…
Madagascar	16.7	…	16.1
Kenya	21.0	26.1	28.9
Ghana	19.5	10.9	21.0
Zimbabwe	…	35.3	36.2
G 7 Countries			
United Kingdom	31.8	38.2	43.4
Italy	29.5	41.0	53.4
Canada	20.1	21.5	25.8

France	32.3	39.3	45.5
Germany	24.2	…	33.6
United States	19.1	21.7	23.8
Japan	12.7	18.4	…

Source: World Bank, *World Development Report* (Washington, D.C.: World Bank, 1985, 1991, and 1995).

Table 2 Divestitures of Public Enterprises, 1986-92

	Number of parastatals before divestiture			
Firms divested in %	0-50	*51-100*	*101-200*	*over 200*

0-10	Gambia Mauritania Rwanda Siera Leone Zimbabwe	Burkina Faso Conga Uganda Zambia	Cameroon Cote d'Ivoire Malawi	Kenya Tanzania
11-25	Chad	Burundi Central African Republic	Madagascar	Ghana Mozambique
26-40	Niger		Guinea Nigeria	
41-60	Guinea Bissau	Benin Mali Senegal Togo		

Source: World Bank, *Adjustment in Africa: Reforms, Results, and the Road Ahead*, (Washington D.C.: World Bank, 1993).

Table 3 Domestic Investment as a Percentage of GDP for Sub-Saharan Africa, 1970-1997*

	Total Investment	Private Investment	Public Investment
1970	22.2	13.9	8.3
1971	24.4	14.2	10.2
1972	24.5	13.8	10.7
1973	22.2	10.9	11.3

1974	21.1	10.4	10.7
1975	24.8	11.4	13.4
1976	25.2	13.8	11.4
1977	24.7	13.5	11.2
1978	27.7	14.8	12.9
1979	25.6	12.7	12.9
1980	24.3	11.4	12.9
1981	23.0	11.4	11.6
1982	20.2	10.2	10.1
1983	18.8	10.0	8.8
1984	17.6	9.3	8.3
1985	15.9	8.2	7.7
1986	15.5	7.9	7.7
1987	18.3	8.4	9.9
1988	21.3	10.5	10.8
1989	20.5	10.2	10.3
1990	19.8	10.3	9.5
1991	18.3	9.5	8.8
1992	20.3	10.1	10.2
1993	18.6	9.4	9.3
1994	19.0	9.4	9.6
1995	18.0	9.9	8.1
1996	17.9	10.3	7.6
1997	18.4	10.7	7.7
1970-79	24.2	12.9	11.3
1980-89	19.6	9.8	9.8
1990-97	18.8	10.0	8.9

* Data is for Benin, Cote d'Ivoire, Guinea-Bissau, Kenya, Madagascar, Malawi, Mauritania, Mauritius, Namibia, and South Africa.

Source: Compiled from Pfeffermann, Kisunko, and Sumliinski, *Trends in Private Investment in Developing Co untries and Perceived obstacles to Doing Business* (Wahington, D.C.: World Bank 1999).

Table 4 Foreign Direct Investment (FDI) Flow to Africa and All Developing Countries*

	SSA**	All Developing Countries	Flow to SSA as % of Flow to ADC	Flow to SSA as % of Gross Investment	Flow to ADC*** as % of Gross Investment
1980-85	1411	12634	11.2	…	…
1986-91	1673	29090	5.8	6.7	3.4
1992	1589	51108	3.1	6.4	4.2
1993	2068	72528	2.9	8.8	6.1
1994	3329	95582	3.5	14.1	7.6
1995	3874	105511	3.7	14.8	7.4
1996	3515	129813	2.7	13.2	8.7
1997	2899	148944	1.9	…	…

* The second and third columns are in millions of dollars, and the last three columns are shares.
** SSA = Sub-Saharan Africa
*** ADC = All Developing Countries

Source: United Nations, *World Investment Report* (New York: UN 1992, 1998).

Endnotes

1. See for instance chapter two of Rodney (1972).

2. McClellan (1980) refers to emperor Menilik of Ethiopia as the 'greatest slave entrepreneur', p.71.

3. For a discussion on IMF facilities see Williamson (1983) and Polak (1991). Polak discusses the processes involved in preparing adjustment programmes and performance monitoring. We must also note that these special facilities tend to change their names rather frequently.

4. For details see Cornia (1992), p. 34.