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Muthoka, Sila and Muthuri, Evan and Oginga, Jared

University of Nairobi

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Globalization in Africa: An Overview[1]

MuthokaSila*

muthokajs@students.uonbi.ac.ke

+254 729 805 240

Eva Muthuri*

enmuthuri@gmail.com

+254 724 416 208

Jared Oginga*

bakulejero@rocketmail.com

+254 738 935 518

*Graduate School of Economics, University of Nairobi.

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ABSTRACT

Globalization is a hot area in the economies of Sub-Saharan Africa, especially considering the unfavorable outcomes of the IMF and World Bank sponsored structural adjustment programs. Pan-Africanism has emerged as a political reaction to feelings that globalization is only a tool topropagate western interests in the region. We survey and compare empirical studies with a view to evaluate the validity of the argument that globalization has minimal benefit to African economies. Using surveys conducted by western as well as African researchers, the study recommends globalization to African economies because it has great benefits in terms of job creation and technical externalities. It also explores some opportunities and gaps that can be harnessed to the benefit of these economies. In this paper, a case is made for cautious and shrewd trade and fiscal policies in order to maneuver the numerous shortcomings that have been cited by other opponents of globalization and liberalization.

KEY WORDS: globalization, global value chains, technical externalities

I.

An Overview

Globalization refers to the elimination of a nation's physical or virtual trade limitations with an aim of increasing integration of domestic markets into world markets. In a globalized economy, goods and services are able to flow into and out of a country more freely, especially without being subjected to tariff and non-tariff barriers, such as exorbitant taxes, standards and other qualitative checks which only serve to block entrance of more competitive international firms. The position of African economies in global trade networks has been hotly debated and authored. From the passionate article by Bush (2008) which sets out a complain that Africa's underdevelopment was designed and is being effected by Western powers by the arms of subservient local politicians,to the optimistic submissions of Bhagwati (2004) that globalization is not necessarily good, but has more good than bad, we recognize that Africa has always been the centre of the discourse. Particularly, Bush (2008) raises those issues that have been pertinent viewed by the perspective of a conservative African by arguing that globalization has, in a way, constrained the benefits of political and economic independence in the continent.[2] Of course, this kind of view is highly celebrated by Pan-Africanists all over.

The ultimate view on the role of globalization on the African economies is likely to unresolved for a long time, partly because continuing studies do not affirm either or refute the other, or because most of these sensational views are merely based on ideological affiliations. Ibrahim (2013) outlines the vices of globalization on African economies including dictatorial leaders, social conflicts and international tensions like the cold war, which outcomes further inhibit full-scale appropriation of the benefits of globalization. On the same note, Ajayi (2003) argues that the present condition of African economies is the outcome of their own isolation from the global markets through market controls and unwelcome policy regimes. The latter puts a more emphatic plea for African economies to consider appropriate entry to the global markets.

Africa is on record as one of the regions most committed to the structural adjustment programs of the Brettonwoods twin-institutions, the International Monetary Fund and the World Bank. In the 1970s through 1990s, the advocacy for market liberalization was unavoidable. The adoption

[2] Bush (2008) argues that globalization has been used as a tool to African resource reservoirs for the western powers at will. He follows on to add that the regions we find most globalized are those endowed with precious resources like oil and minerals.

of these SAPs[3], coincided with the downfall of African economic growths, and has come to be blamed for all the consequences (Dongeet.al. 2012).[4]Sundaram et.al. (2011) add that the introduction of SAPs in Africa and subsequent liberalization led to the collapse of the manufacturing sector, unlike the East Asian cohort. The nexusbetweenDongeet.al (2012) and Sundaramet.al (2011),disappears when we consider their explanation. Both agree that policy had an important role in the outcomes of globalization in these regions. Even when one argues that East Asia"tricked" the other regions, it is impossible to downplay that shrewdness is also a useful tool in microeconomic bargains, as hinted by Coase's cattle raiser-crop farmer example. The burden of responsibility again, but slimly, falls on African leaders, who did not foresee economic effects of the extreme policies. On the same note, the oil price crises of the time have been blamed, yet these other regions were as well exposed to it but were found more resilient.

Since the 1990s, Africa is catching up, albeit a bit slowly, with the past glory. The contribution of exports and services sectors to GDP has been growing steadily (Sundaramet.al. 2011). A growing flow of exports and imports is crucial in fostering economic growth as well as improving welfare in developing countries. Africarecorded an economic growth rate of about 4% compared to only 3% of the global economy in 2013 (African Economic Outlook, 2014).These exports consist of primary products that are mainly driven by strong commodity prices in the same period. In 2012, Africa's exports grew faster than those of any other region in the world (6.1%). However, this only comprised of 3.5% of the world exports in the same year; and this figure has remained low over the years. Intra-African trade with value additions in manufacturing have been seen to grow faster than exports from Africato other parts of the world have grown (AEO, 2014).

The rest of the paper is organized as follows: Section II outlines the opportunities and gaps African globalization, section III discusses a few challenges and, lastly, section IV closes with a conclusion and few recommendations.

[3] Structural Adjustment Programs

[4]Donge et.al. (2012) show that the East Asian Tigers overtook their African cohort by maneuvering the SAPs. They assert that these economies undertook liberalization with reservations in order to support domestic firms. Further, the policy makers were guided by properly laid-out expectations; exhibited characteristic commitment to economic goals. The same may not be said of Africa.

II.
OPPORTUNITIES AND GAPS

Global value chains

Global value chains refer to production linkages where the value of the final product consists of contributions from multiple firms located in different nations of the world. Global value chains are either forward integrating or backward integrating. Backward integration is measured according to the value of foreign value additions contained in a country's exports. It refers to the value added by a country's firms on imported inputs, before exporting the product, either for further processing or for final consumption. A good example would be where a country, say, X, imports engines and frames from county Y, assembles such engines and frames into cars and exports such cars to country Z. The total value addition here is measured as the total value of the value additions (engines and Frames) compared to the value of the exports made from assembled cars.[5] Forward integration on the other hand is measured with respect to the worth of a country's exported value additions to an importing country. A good example of this kind of integration is where by country X endowed with a natural resource in the form of diamonds, extracts such diamonds, which is a form of value addition, exports such diamonds to country Y, country Y processes the diamonds into various forms of jewelry, which it exports to country Z.[6]

Most African countries would benefit more from globalization if they took advantage of the opportunities that are available in global value chains. Evidence supports the hypothesis of a positive relationship between economic performance and participation in global value chains among model developing countries of South East Asia.[7]The ongoing argument is that African countries stand to benefit from positive technological externalities once multinational enterprises set up local subsidiaries to undertake activities in processing, assembling and servicing of higher-technology goods. The African region has been known to contribute mostly in export of primary products (African Economic Outlook, 2014), which offer much less value added to international markets than products in higher levels of processing. Trade returns for products in the lower levels of processing is highly volatile, uncertain and more prone to significant international price

[5] This example is adopted from the African Economic Outlook, 2014.
[6] Ibid.
[7] See Donge, Henley & Lewis (2012): s20.

fluctuations.[8] Some good prospects for African economies lie in their ability to enter global value chains in the higher levels of product development like design, assembling, manufacturing, and marketing and after-sales services.

The feasibility of global value chains depends on availability of a number of requisite conditions. In order to set up local subsidiaries, multinationals consider availability of a conducive business-legal environment, provision of infrastructure, labour and product markets. There is need for reliable contract-enforcement mechanisms in the legal systems, especially with regard to foreign-domestic partners. African countries do not rank well in contract enforcement. For example, according to Doing Business website, an online database which tracks contract enforcement in various countries and hosted by the World Bank,the best ranking African country is Tanzania in position 46 while Kenya ranks position 136.[9]Most notably, the data shows that a client making a contract claim in a court of law in Kenya looses up to 47.2% of the amount of the claim in case-related expenses. The process of settling a contract claim is also very long in Kenya (465 days) days compared to the most efficient country, Singapore, (150 days). Therefore, a gap exists in the efficacy of the judiciary as well as management of bureaucracies in enforcing business contract law.

There is even a more explicit gap in development of the necessary human capital. According to Alexander & Warwick (2007), international firms are restructuring their production technologies in favour of labour intensive ones. Because it is more possible, with growing population and high unemployment rates in developing countries, to obtain cheap labour, most firms prefer to use more labour to capital. Therise of China as the world's workshop has been attributed to her big population, which is, most distinctively, more skilled and able to offer cheaper labour than other developing countries. The high population growth rates have often been cited as an economic hurdle in Africa(Bloom et.al., 1998), (Collier & Gunning, 1999), but not in China and India, where high population coincided with high levels of productivity, economic growth, innovations and more involvement in global value chains. Moreover, the demographic profiles of these two subcontinents consist of a significant independence on foreign markets. This paper envisages that the particular challenge of replicating this kind of power of human capital in African economies is multi-fold.

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[8] Ibid.:s9

[9] (WorldBank, 2014)

The acquisition of labour skills, as has been targeted in Kenya through reforms in the educational sector, will be an important ingredient. However, the kind of skills offered through formal education in African institutions has been faulted in the labour markets, even by domestic employers. A study by Oluyomi&Adedeji (2012) to evaluate the extent to which skills acquired by graduatesdiffered from employer expectations in Nigeria found that skills mismatch was as high as 60.6%. Significant weaknesses were noted in information technology, critical thinking and entrepreneurial skills, the qualities that multinationals are likely to find useful. On a similar note, Balwanz (2012) has already pointed out that the ability to equip the population with skills that match the demand-side expectations will be useful in reducing unemployment in Kenya. It is also a hinge for Kenya's bargain for a place in global value chains. High quality labour is both an assurance of sustainable productivity to multinationals as well as a possible market for the products thus produced. The size of markets also highlights the importance of the integration of regional economies in Africa.

Adaptability of domestic agents

Adaptabilityof domestic labour and firms to modern values, ideas and technology is imperative in attracting foreign capital. It is also a factor in determining how a country benefits form globalization externalities. A study by Siddharthan (2004) to explore the effects of globalization on factor productivity and efficiency in India unveils that domestic firms which benefit most from globalization tend to be more similar to the multinationals. Since the entry of multinationals attracts global-level competition, only those firms which are just as efficient and use similar technologies can survive in the market. In order to tap the spillovers, domestic firms need to be improved in management efficiency, technical efficiency and R & D commitment. The quality of their employees should also be equipped with proper skills, both to identify and exploit opportunities in the market most efficiently.

One aspect of adaptation which haunts firms in developing countries is lack of access to vital market information, especially about international markets. While multinational competitors can afford rare market signals through their subsidiaries abroad, the purely domestic firms must pay exorbitantpremiums to obtain such signals. This puts them at a disadvantage against firms which have international subsidiaries, and calls for economy-wide strategies tojerk them. The magnitude of globalization-related externalities has also been seen to be determined by the home country of the parent multinational. For example, in Siddharthan (2004), Japanese firms were found to contribute more positive externalities than their American counterparts. The former were more perfected in managerial efficiency while the latter were most endowed in technology. Supposing this conclusion holds across regions and countries-and we have no big reason to think it should not hold-, a case can be made for strategic screening of capital inflows to empower the domestic economy in the aspects it is most likely to benefit.

Exposure to global competition through globalization of the domestic markets will further require firms to embrace adjustments in various aspects. Service delivery may have to change in order to cope with new competition; strategies may include turning to new technologies; competition may encourage swift adoption of new research into production and operations. All these require characteristic flexibility which most big companies may find difficult in the short run. Narula (2001) compares SMEs and large firms on this front. The outcome emphasizes the role of SMEs in a globalized developing economy market. SMEs are have less bureaucracy, and, hence,are able to incorporate emergent research faster than larger firms. This makes them more responsive to global competition than large firms. If the governments of developing countries would empower and motivate investment in SMEs, then, perhaps, the negative externalities would be less sharp or even turned to positive gains in production efficiency in domestic markets. The flexibility of SMEs also contributes to more productivity of skilled labour than large firms. In the light of this paper, the prospects of gains from globalization depend on whether sufficient focus will be turned to SMEs and the provision of favourable conditions to prepare them for the real duel. Structures must be put in place to take advantage of the behavioral advantages of SMEs, which are plenty in developing countries, over large firms.

Economic diversification

Most authors in the field of globalization have argued in favour of diversification of economies as a shield against crises in global markets (Dongeet.al., 2012). African economies have been victims of narrow range of exports which consist of extracted minerals and agricultural products. These have exposed her to the full wrath of international fluctuations in oil and primary product prices and business cycles. Resilience in African economies may be stimulated through diversification of exports and markets.Entering global value chains in higher levels of processing requires the economy to be ready to participate in processing, manufacturing and servicing of goods with higher contents of technology and know-how. It begs the question as to whether the predominantly primary economies, whose export-oriented firms are majorly capital-intensive, will be flexible and strategic enough to exploit these opportunities. It also invites policy makers to forge for new markets for exports and sources of foreign capital.

The service sector has been a big force in East Asia, a region that has attracted inordinate comparison with Sub-Saharan Africa. Tourism, marketing, entertainment and professional services are prospects that could be harnessed to foster growth of incomes and positive externalities from global investments. Africa may only be a net exporter of primary products because of her self-preclusion from alternative lucrative opportunities in diversification.

Prudential policies

This deals with both macroeconomic and strategic policies directed towards improving and sustaining the economic gains from opening up the domestic economy. The policy framework in the region has been a case in point among discussants of African underdevelopment. Policies meant to motivate export-oriented production have not considered ability to create jobs for the local population. Unlike Vietnam, for example, Kenya has embraced capital-intensive technologies, which have limited contribution to job creation and technical externalities (Jenkins, 2004).This led to a growing wage inequality in Kenya as reported by Manda&Sen (2004), which has led to further income inequalities. Improving on the policy regulation to encourage labour-intensive technologies may improve Kenya's gains from globalization. It is possible to turn the semi-skilled and unskilled labour to highly productive labour by motivating the types of investments which use their abilities efficiently in the economy.

Another role of policies and governmental input in beneficial globalization lies in the ability to undertake a cautious and strategic policy formulation and implementation. However, top experts in globalization recommend that the absolute abolition of trade controls be approached with caution. Bhagwati (2004), in his defence of globalization praises the adjustment assistance programmes launched in the United States in the 1960s by president J.F. Kennedy as the reason why the country has not experienced the vices of globalization like other regions of the world. In this regard, developing countries can benefit more by providing subsidies to domestic export firms, providing market information to them as well as guiding capital towards carefully thought-out projects and sectors. The East Asian Tigers are an illustration that careful and research-based management of liberalization can have long-lasting outcomes for the economy. While Africa was conducting an obsessive liberalizationin the 1970s, the region embarked on the same, but maintained substantial control over the economy. In the process, investment was targeted to export-oriented manufacturing and rural infrastructure. By the 1980s, the region had settled on high rate of economic growth trajectory.

III.
CHALLENGES

While globalisation offers many opportunities to developing countries and Africa included, it also presents a number of challenges. What is viewed as a challenge depends very much on whether one is a proponent or an opponent of globalization. Fierce supporters of globalisation are Brettonwoods institutions and their close affiliates - IMF, the World Bank and WTO- among others, which are often called to task to defend their conviction against opposing scholars and politicians from the developing world.

To the proponents of globalisation especially for African's development, there is a big risk to those countries which continue to implement economically unfavourable policies, over and above the external shocks that global forces expose them to. Countries that refrain from prudent policies may not improve economic efficiency to levels that match international competition. Such countries will soon be out-competed as the most efficient producers are favoured; the weaknesses of their internal structures will be exposed and exploited to their disadvantage; policy mistakes will be punished.Dueto speedy flow of information in a global economyand high capital mobility under globalisation, their exchange rates destabilised (Ouattara, 1997). Most importantly, those countries which fail to adapt to modern competition with the pace risk being left behind and, henceforth, may suffer from world marginalisation. One may blame it on Africa, for instance, that after being at par with the world's now fastest growing economies just five decades ago, she is still the world's slum!

To counter these adverse possibilities, the IMF gives the following advice (as listed in Fischer, 2001): implementation of sound macroeconomic policies, better governance, legal and financial reforms, privatisation, price liberalisation and infrastructure investment.And as we have note in the previous section, some countries opted to effect the recommendations with calculated reservations and have been more successful than those which embraced the wholesale without modification. Some critics have considered most of these recommendations to be recipes of the developed countries' agenda to dominate Africa (Akindele, Gidado&Olaopo, 2002).

In the view of the most of the critics of globalisation, Africa long lost its autonomy with the advent of colonisation (Obadina 1998 cited in Akindele et al. 2002). The colonialists developed structures which ensured Africa's continued dependency on their colonial masters; rejected the African traditional ways better suited for Africa' s progress and through western education, inculcated a culture which is repulsive to the African culture (Maduagwu, 1999). Such exposure to the western culture, especially in this age of the internet, media awareness, and technology obsession, promotes western cultures at the expense of African cultures. This has made others to talk of a convergence to a monoculture (Waters, 1995 cited in Maduagwu, 1999) where English is the only language (Maduagwu, 1999). So, the question is, how will Africa maintain its cultural diversity in the face speedy globalisation? The recommendation is for it to salvage what it can while there is still time to do so, and that not without a trade-off on some economic goals.

Wereiterate that globalisation is not a recent phenomenon as others have implied. It is a process which has been there but whose magnitude has only increased in the recent time, particularly, in this age of the internet. It brings opportunities and challenges. What is considered a challenge depends on the side a person find himself in, however is accepted by all that it exposes every country to shocks previously not experienced such that decisions of a country are not to be influenced entirely by their own wishes and aspirations. We, therefore, present a trade-off whose net decision should lie with the policy makers and economic agents.

IV.
CONCLUSIONS AND RECOMMENDATIONS

We have discussed the invaluable prospects for African economies in global value chains and discussed very pertinent gaps in policy and orientation. There are benefits and costs, almost in equal measures, in entering the global liberal markets. However, other nations have managed the opportunities and overshadowed their costs. In the light of recent research, the emphasis is turning on globalization and there are evident benefits in job creation, generation of corporate profits, technological growth and generation of public revenue. We cannot understate the fact that Africa stands to gain a lot if she taps into the framework of global value chains. However, there is need to formulate policies that will create an enabling environment to boost Africa's ability to integrate and upgrade beneficially. In light of this, the following issues ought to be considered:

i. *Trade and fiscal policy*: trade barriers and local content regulations must be balanced against attractiveness to global firms or multinationals. This enables creation of afavourable environment foreign investors, while at the same time protecting domestic firms which should preserve the technical externalities of globalization on the country's behalf.

ii. *Entrepreneurship and public-private collaboration:* these are the reservoirs of the benefits to be accrued from global value chains and the associated positive externalities. The main function of the entrepreneurs within the framework is to identify the opportunities within the global value chains and mitigating the risks involved in taking advantage of such opportunities. The government should be willing to offer training, access to finance, as well as partnering with local firms in the generation of global value chain strategies.We have already mentioned the special power of SMEs in surviving international competition when large firms are collapsing. This should motivate commitment to support SMEs in the pursuit of globalization and the associated benefits.

iii. *Domestic business associations*: These are fundamental for this process as their main role is to establish what firms in the global value chain require and communicate such requirements to government. Mostly, global firms would like to partner with domestic firms which understand domestic markets. Partnerships and associations increase capital base and market shares, some issues global partners may find valuable in deciding to set up a local subsidiary.

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