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ORIGINAL PAPER

Introduction to the Special Issue

Developing the African Continent: Selected Issues

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Abstract This special issue, "Developing the African Continent: Selected Issues," is the outgrowth of a conference held in Gaborone, Botswana, August 19–21, 2008 sponsored by the Institute for Economic Policy Studies (IEPS), Worcester Massachusetts, USA. The theme of the conference was, "Developing the African Continent: Who is in Charge?"

Keywords Africa · Economic integration · Corruption · Exchange rates · Conflicts · Debt relief · Foreign aid

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Building on the efforts of participants at that conference, a session addressing some issues relevant to the African continent development was put together for presentation at the International Atlantic Economic Society meeting in Montreal, October 9–12, 2008. The conference session presentation was well received, and especially in view of the fact that the conference session was perhaps a first in devoting an entire session to African development. To encourage the Society's members to delve into problems besetting the development of the African continent, and help the continent's efforts in chartering a viable course for successful development, the Society offered us the opportunity to disseminate our finding to its members in this special issue. We are grateful to John M. Virgo, Executive Vice President of the Society and its Executive Committee for giving us this opportunity. We hope that the Society's members will continue this tradition by devoting some sessions in future conferences to development issues of significance to the African continent.

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As can be seen from the affiliation of authors in this special issue, three are African scholars, Henri Bezuidenhout, Dobdinga Fonchamnyo, and Naa Anyeley Akofio-Sowah. The Society is not only contributing this issue to spur interests of its members in researching topics relating to African development, but has also committed some of its own resources to facilitate the participation of scholars from Africa in its annual conferences. With this background out of the way, I turn now to a brief overview of the contribution of authors in this special issue.

The first paper is a summary of the keynote address delivered by Dr. Tina Dooley- Jones, Director of the Regional Growth Office, USAID/ Southern Africa at the IEPS Botswana conference. Since the IEPS conference theme was "Developing the African Continent: Who is in Charge?" it was only fitting to open the discussion with one of the key players in the development of developing economies. As everyone knows, USAID plays a significant role in the development theater. USAID, as the keynote address illustrates, neither shapes development policies of a host country nor its choice of strategy. Rather, it offers a mediating structure, a sounding board if you will for comparing outcomes and or ranking alternatives.

The keynote address, although was not delivered at the Montreal session, is included in this issue to provide readers with a feel of what development efforts on the ground are about. Most significantly, it spotlights what AID dollars, few as they may be, are worth to givers and receivers.

Dr. Dooley-Jones' address does more than that. It provides us with a glimpse of what role university scholars can play in the development process. She outlined for us the constraints the agency faces in channeling resources to achieve development goals as well as how we at higher education institutions can partner with the agency to bring about development outcomes. As she aptly put it: "USAID should always be looking to innovate and improve the ways the agency delivers development assistance. Finding ways for you to inform USAID's development process and those of our host country partners and our implementing partners is the first step."

In this spirit, this issue offers the following contributions to the development efforts exerted by and on behalf the African continent. There are six contributors, each addressing an issue of relevance to the development of Africa. The papers are quite diverse in terms of coverage, methodology followed, and data analysis. To put the authors' contribution into the proper perspective, I have grouped the papers in terms of the theme the author has chosen. Thus, three themes are identified. The first examines the African countries' own efforts to foster development (Ott/ Patino's paper and Akofio-Sowah's paper); the second theme evaluates the contribution of outsiders to development (Bezuidenhout, and Fonchamnyo's papers), while the third theme examines impediment to developments (Bissessar and Querido's papers).

The Ott/Patino's paper frames Africa's economic development within the new global order. In this order, national borders no longer define economic interaction. Economic integration, whether in the form of a free trade area, a currency union, or an economic union, has perforated during the last half of the 20th century. One needs not speculate about the motives behind the formation of regional groups in Africa or elsewhere. The objectives are well known: promoting economic growth, political stability, and perhaps good governance. Towards these goals several initiatives were launched in Africa, given rise to several regional groupings: Common Market for Eastern and Southern Africa (COMESA), Central African Economic and Monetary

Community (CEMAC), East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Southern African Development Community (SADC), and West Africa Economic and Monetary Union (UEMOA). Because memberships overlap, a country may belong to more than one group. The authors elected to look at the African continent as one universe (henceforth referred to as the African Universe), viewed as an all inclusive club. Against this backdrop, individual grouping can be evaluated. In the paper, two such groups were selected, COMESA and ECOWAS.

The analysis begins with a look at a portfolio of attributes to discern communality of interests, a necessary condition for the formation of a successful club. Next, the EU criteria for membership were applied to identify those countries that have met conditions for membership in an economic club. Meeting the EU conditions for memberships, although necessary, is not sufficient for judging the efficiency of a given regional arrangement. What is needed, in addition, is a method for evaluating potential gains from integration. This was done through the application of the gravity model. Using data for the period 1986–2005, three sets of equations were estimated: one set for the full sample, consisting of 49 countries and the other two sets for COMESA and ECOWAS. The gravity model performed quite well. What emerged from this exercise is that efforts towards the full integration of the African Continent are likely to bear fruit if integration were to proceed in a fashion similar to that followed by the EU by sequencing membership, in insuring members do adhere to the condition of membership set up by a nucleus group.

As countries seek to better their economic and political status, they exercise choices they believed to be compatible with their environment. One such choice is the choice of the country monetary regime: pegged, currency board, or dollarization. The economic literature makes the case for a monetary regime that leads to a stable rate of inflation. Several models make a strong case as to the link between inflation and output growth. The traditional prescription for developing economies is to reduce their inflation rate, and to adopt a monetary regime that is credible. The paper by Akofio-Sowah puts this prescription to the test. It examines the link between the form of monetary regime and the inflation rate. The link, from the regime to inflation, is established via the exchange rate pass-through hypothesis. Pass-through is defined as the percentage change in local currency import prices resulting from a 1 percent change in the exchange rate between the exporting and importing countries.

The law of one price stipulates that the exchange rate pass-through into import prices should be complete. Akofio-Sowah tests this proposition so that inferences can be made about the link using a combined sample of 15 sub-Saharan countries and 12 Latin American countries over the period 1980–2005. The inclusion of the Latin American countries was deemed desirable as most of these countries adopted dollarization as the exchange rate regime whereas the African countries did not. The empirical findings for the sub-Saharan group are not very enlightening in that the link between the exchange rate pass-through and the monetary regime was tenuous at best. For the Latin American countries, the findings do support the hypothesis. A link exists between the regime and the inflation rate. Countries that are efficiently dollarized did experience significantly lower exchange rate pass-through than those of unofficially dollarized economies.

The next two papers assess the impact of efforts exerted by international agencies, donors, and investors to foster development. The paper by Bezuidenhout provides an

empirical assessment of two types of international flows, aid and foreign direct investment (FDI) using a sample of countries in the Southern African region covering the period 1990 to 2005. After a thorough review of the literature on aid and investment flows to the developing countries, most of which is critical of aid effectiveness, the author follows that with a presentation of data on the evolution of said flows to the region. Empirical estimates about effectiveness of these flows are derived from estimating a growth equation linking output growth to aid (in the form of grants) and FDI flows. The results are not encouraging, in that he found no significant relationship between aid and growth, and a negative relation between FDI and growth. Clearly, these findings will be challenged especially by those who see aid and FDI as necessary ingredients for successful development. The author is aware of these negative findings and correctly warns readers to use them with care as the regression result hinges to a large extent on the quality of the data which impacts the model estimates.

Those who see aid (in whatever form it is delivered) as a necessary ingredient in any development strategy are likely to be heartened by the findings reported by Fonchamnyo.

The author provides an empirical analysis of the effects of the Heavily Indebted Poor Countries (HIPC) initiative for a sample of 60 low income countries, some of which have reached HIPC completion points. The sample period runs from 1990 to 2005.

The author advances the proposition that donors should be wary of rent seeking behavior of governments. Hence, he argues for debt relief efforts to bear fruit; relief should be coupled with reforms. Donors should provide incentives for governments to exhibit good behavior. This would enhance the returns to relief efforts.

Using the GMM method, the empirical analysis provides estimates of two equations: an investment equation and a growth equation. The regression equations gave estimates of the effects of accumulated external debt and the HIPC initiatives on investment and growth. In the investment equation, the HIPC initiative period has resulted in a positive and significant improvement in investment. This was true whether the full sample of 60 countries was used or when the estimates were made using the subsample of the HIPC's.

With respect to the growth equation, the author found evidence that the ratio of external debt to exports exerts a negative effect on growth. The HIPC initiative had a positive effect on growth for those countries that have reached the completion point.

The last two papers tackle two issues that have gained notoriety in the later part of the twentieth century, corruption and mass killing. The paper by Bissessar looks at evidence of corruption using a sample of 110 countries, which includes sub-Saharan African countries, and countries in the Middle East and North Africa. The period covered is from 1984 to 2006.

Although corruption is known to have existed for centuries, it has only taken center stage in the last quarter of the twentieth century. International organizations, the World Bank in particular, began leading the attack against its prevalence especially in the developing and the emerging countries. One needs to put the corruption issue in the proper perspective. In other words, one needs to ask if developing and emerging countries have a monopoly on corruption or is it prevalent everywhere? A related question is whether corruption persists or is it transitory?

Bissessar's paper sheds light on these questions. For a start, she asks, what exactly is meant by corruption? A formal definition by Transparency International says corruption is, "abuse of public office for private gain." There are two types of corruption: internal and external. Internal corruption is where an individual bribes another individual in his home country to gain advantage, secure a service, or cut the waiting time involved in carrying out an activity. The second, of concern to international agencies, is where an official of one nation bribes an individual or an official of another nation. This is the definition that is used in the paper.

The author begins the analysis by focusing on the concept of persistence. She defines it with reference to corruption scores. Persistence is said to exist if a "country maintains the same corruption score over some period of time." In the analysis, corruption scores were divided into three categories: most corrupt, middle corrupt, and least corrupt. Transition matrices were computed using the Markov Transition Chain method to examine the long-run tendencies of corruption scores. The analysis was done using the full sample and the subsample. The calculation shows that corruption did persist in one-half of the full sample. For the subsample, consisting of the sub-Saharan African countries, the Middle East, and North Africa, corruption persists in those countries falling in the low and middle corruption categories. With this finding, the author addressed the question of whether the level of economic development has a bearing on corruption. Accordingly, countries were classified into three groups: high income, middle income, and low income. The findings are instructive: high levels of corruption were more prevalent in low-income countries and as income rises corruption tends to moderate.

The paper by Querido deals with a vexing issue: How one hopes to better the living conditions of so many in the developing world if their economies' resources are plundered, looted, wasted, and destroyed to secure a ruler's tenure and or his fortune. The author points out the fact that Africa seems to bear the brunt of violent outbreaks of wars. The question that needed to be addressed is: What motivates African rulers to engage in violent conflicts leading to mass killing of civilians? The author makes the argument that it is a rational act, motivated for the most part by greed.

The paper begins with brief accounts of violent conflicts in Africa, definitions of what constitute mass killing, and the theoretical underpinning of the proposition advanced.

Modeling mass killing requires an analysis of the cost and benefits of war. Two hypotheses are tested: The existence of a high level of economic resources increases the likelihood of mass killing and, secondly, the high cost of the war is likely to reduce it. Using data on episodes of mass killing obtained from the Uppsala Conflict Data Program covering the period 1989–2005 she tested the hypotheses. The results show that the existence of oil on shore, diamonds, the cost of the war, and the number of ethnic groups in the country are significant factors in explaining the violent conflicts in Africa.

To conclude, the contributions in this special issue are but a modest way of bringing to the forefront issues of significance to the development of the African continent. The authors through their contributions hope to spotlight some of the many problems that afflict the continent.