

# Free Market and Sub-Saharan African Poverty

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## Executive Summary

In most emerging economies, the premise of the free market has assisted economies in competing on the world economic stage. However, in the poorest countries of world, the countries of Sub-Saharan Africa, free markets are just not enough to help build up these economies.

Sub-Saharan began their cycle of poverty in colonialism. Some may argue that Africa is still a colony; an economic chance for the western countries. However, western countries are not just to blame. Africa has a long history of internal exploitation.

Sub-Saharan Africa consists of 47 countries recognized by the World Bank. Some nations are developing and responding to foreign direct investment, while others are becoming worse off.

Africa is not going to develop at the same rate as other developing nations and it is not going to develop as quickly as western societies expect it to develop. It is expected that by 2015, that 340 million Sub-Saharan African's will be living on less than a dollar a day.

These countries are so deeply impoverished, lack easy access to clean water, are devoid of fertile grounds, and lack preventative measures against malaria and treatment for HIV/AIDS that concerns like education, trade and institutions do not even enter into the equation. These people are fighting to survive; all of their energies go into making it through one more day.

There is no time and no energy and minimal factor endowments to consider producing more than what will be consumed by the family. In reality Sub-Saharan African families do not even have enough food for themselves.

Africa needs building from the village out and not from FDI. Foreign direct investment has little effect on the poorest of SSA.

Companies investing in Africa are setting precedence and demonstrating that things are improving in some areas of SSA. Organization with long term strategies may do well to invest now, while capital markets are still immature and the currency is inexpensive. I have to believe that the world will continue to press on with SSA's development and that one day, investing in will be a wise economic option.

## Free Markets

Free markets are part of the basic premise of Adam Smith and Friedrich Hayek's ideas of a society and economies based on the rule of supply and demand – Smith's invisible hand, and far away from the controls, regulations and subsidies by government. *It is my sense that markets, in their true sense are hindered in all economies. In every economy, fiscal and monetary constructs exist around free markets and there really is no invisible hand. The global stock and commodities exchanges have rules and regulations, trade is done through agreements and rules of engagement, and interest rates are raised and lowered to offset inflation. However, free markets provide us with a vision for us to strive towards.*

In addition, economists such as Joel Mokyr<sup>1</sup>, Douglas North<sup>2</sup> and Richard Florida<sup>3</sup> argue the importance of technology, institutions and knowledge capital as being paramount for an developing economy to achieve the benefits of a free market. Whether that means intelligent individuals as in the case of India, technological advancement and infrastructure as in the case of China or reliable institutions and laws as in the case of Singapore, in order to attract foreign direct investment a developing nation needs some incentive to allow the water to flow towards them.

Factors of production are also necessary to developing nations. Land, labour and capital are the building blocks of an economy and a requirement for the development of institutions, technology and creativity.

Furthermore, having comparatively inexpensive access to these factors and maybe a comparatively weaker currency furthers the attractiveness.

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<sup>1</sup> Joel Mokyr, *The Lever of Riches: Technological Creativity and Economic Progress* (Oxford, UK: Oxford University Press, 1990).

<sup>2</sup> Douglas C. North, *Institution, Institutional Change and Economic Performance* (Cambridge, UK: Cambridge University Press, 1990).

<sup>3</sup> Richard Florida, *The Flight of the Creative Class: The new Global Competition for Talent* (New York, NY: Harper Collins, 2005).

In most emerging economies, the premise of the free market has assisted economies in competing on the world economic stage. Organizations such as the International Monetary Fund assist in this process: open up your borders, sign trade agreements, minimize your state financing, reduce social spending, raise taxes and devalue your currency. However, in the poorest countries of world, the countries of Sub-Saharan Africa (SSA), free markets are just not enough to help build up these economies.

## **Sub-Saharan Africa and the Virtuous Cycle<sup>4</sup>**

Sub-Saharan began their cycle of poverty in colonialism. Developed nations of Europe as well as North America used Africa to supply them with cheap labour, gold and other natural resources. Some may argue that Africa is still a colony; an economic chance for the western countries. However, western countries are not just to blame. Africa has a long history of internal exploitation. Some African Governments, like those of Somalia and Chad have continued dictatorial regimes. When you look at the FDI targets, oil and minerals, it may seem like nothing has changed.

Sub-Saharan Africa consists of 47 countries recognized by the World Bank.<sup>5</sup> These countries include Somalia, Chad, Burkina Faso, Malawi, Angola and Burundi. Terry Power refers to these nations as not just being foreign direct investment underperformers, but as well having low foreign direct investment potential. This statement makes an insurmountable business case against investing in these areas. However, Western influence has said, you need to compete and in order to compete, you need to buy, for example, our technology, our machines. Unfortunately, without the factor endowments to operate the technology these LDCs have useless capital assets and further indebtedness to the IMF and World Bank. This vicious cycle contributes to less and less FDI.

Sub-Saharan Africa is not one country. When considering FDI in countries in Africa, one needs to remember that not all countries considered SSA are the same. Countries such as

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<sup>4</sup> Thomas L. Friedman, *The World is Flat: A Brief History of the Twenty-First Century* (New York, NY: Farrar, Straus and Geroux, 2005).

<sup>5</sup> The World Bank Website, "Countries – Sub-Saharan Africa," The World Bank Web site, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:20226042~menuPK:258664~pagePK:146736~piPK:226340~theSitePK:258644,00.html>, accessed September 2006.

Namibia, South Africa and Mauritius are well diversified in tourism, banking and finance, manufacturing, agriculture, mining and real estate. Countries such as these have their own ports which facilitate trade. Countries such as Namibia, South Africa and Mauritius are feeling the positive effects of the free market.

However countries such as Malawi are so deeply impoverished, lack easy access to clean water, are devoid of fertile grounds, and lack preventative measures against malaria and treatment for HIV/AIDS that concerns like education, trade and institutions do not even enter into the equation. These people are fighting to survive; all of their energies go into making it through one more day.

These individuals live on less than one dollar per day.<sup>6</sup> In 2001, there were 313 million people living on less than one dollar per day.<sup>7</sup> By 2015, the goal date of the Millennium Goals, this number is expected to increase to 340 million.<sup>8</sup> To put it into perspective, there are less than 300 million people living in the US right now. The one dollar a day number is irrelevant, because the rest of the world's income is increasing exponentially when compare to that of the Sub-Saharan African. There is no time and no energy and minimal factor endowments to consider producing more than what will be consumed by the family. In reality the family does not even have enough food for themselves.

For the most part grandmothers are raising their grandchildren because the mother is either dying or has died from AIDS. In addition she had no access to treatment to the vaccines. Malaria is a constant threat to the family because they cannot afford mosquito nets. Do you think they care about foreign policy, institutions, trade surpluses, fiscal or monetary policy? "You cannot drive economic growth in a place where 50% of the people are infected with malaria or half the kids are malnourished or a third of the mothers are dying of AIDS."<sup>9</sup>

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<sup>6</sup> Thomas L. Friedman, *The World is Flat*, (New York, NY: Farrar, Straus and Geroux, 2005), p. 315.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

In his book, *The World is Flat*, Friedman refers to the un-flat world as the developing world.<sup>10</sup> He describes the idea of the virtuous cycle, a concept. In the virtuous cycle, individuals “begin to produce enough food for people to leave the land, the excess labor gets trained and educated, it begins working in services and industry: that leads to innovation and better education and universities, freer markets, economic growth and development, better infrastructure, fewer diseases, and slower population growth.”<sup>11</sup>

More people from the flat world need to give to the un-flat world.<sup>12</sup> Get them into the virtuous cycle.<sup>13</sup> Enter Jeffrey Sachs, Stephen Lewis and the United Nations Millennium Goals. Here are some fundamental ideas that can really have an impact on SSA. Ideas that once implemented will enable Africa to effectively participate in free markets.

### ***The Millennium Goals***<sup>14</sup>

- Reduce by half the proportion of people living on less than a dollar a day
- Reduce by half the proportion of people who suffer from hunger
- Ensure that all boys and girls complete a full course of primary schooling
- Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015
- Reduce by two thirds the mortality rate among children under five
- Reduce by three quarters the maternal mortality ratio
- Halt and begin to reverse the spread of HIV/AIDS
- Halt and begin to reverse the incidence of malaria and other major diseases
- Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources
- Reduce by half the proportion of people without sustainable access to safe drinking water
- Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020
- Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory, includes a commitment to good governance, development and poverty reduction— nationally and internationally
- Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor

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<sup>10</sup> Thomas L. Friedman, *The World is Flat*.

<sup>11</sup> *Ibid.*, p. 378.

<sup>12</sup> Thomas L. Friedman, *The World is Flat*.

<sup>13</sup> *Ibid.*

<sup>14</sup> The United Nations, “The UN Millennium Development Goals,” The United Nations Web site, <http://www.un.org/millenniumgoals/>, accessed September 2006.

- countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction
- Address the special needs of landlocked and small island developing States
  - Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term
  - In cooperation with the developing countries, develop decent and productive work for youth
  - In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
  - In cooperation with the private sector, make available the benefits of new technologies— especially information and communications technologies

There are other organizations such as NEPAD (New Partnership for African Development). “The goals of NEPAD are to promote accelerated growth and sustainable development, eradicate widespread and severe poverty, and halt the marginalisation of Africa in the globalization process.”<sup>15</sup> The wording indicates the recognition of manageable and sustainable growth. This is the type of support SSA requires in order to become more developed. Africa is not going to develop at the same rate as other developing nations and it is not going to develop as quickly as western societies expect it to develop. NEPAD “aims to achieve sustainable growth by improving the aid, trade and debt relationships between Africa and the rest of the world, and by creating the conditions necessary to attract increased capital flows.”<sup>16</sup>

Jeffrey Sachs has developed, in my opinion, the most profound, yet simple way to eradicate African poverty as we know it. In his book, *The End of Poverty*, he discusses nine steps to reducing poverty in some of the most impoverished areas of the world.<sup>17</sup>

1. Commit To The Task
2. Adopt A Plan Of Action – The Millennium Goals
3. Raise The Voice Of The Poor – Citizens of the World, and particularly, the citizens of these impoverished countries need to stand against corruption.

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<sup>15</sup> The Department of Foreign Affairs, “NEPAD,” The Department of Foreign Affairs Web site, <http://www.dfait-maeci.gc.ca/africa/aap-nepad-en.asp>, accessed September 2006.

<sup>16</sup> Department of Foreign Affairs, “Trade and Investment in Sub-Saharan Africa,” [http://www.dfait-maeci.gc.ca/africa/trade\\_invest-en.asp](http://www.dfait-maeci.gc.ca/africa/trade_invest-en.asp), accessed September 2006.

<sup>17</sup> Jeffrey Sachs, *The End of Poverty* (New York, NY: Penguin Press, 2005).

4. Redeem The US Role In The World – The US is the most powerful entity in the World, regardless of the emergence of the BRIC countries. All countries that agreed to contribute .7% of their GDP to the MDGs need to do it! Including Canada.
5. Rescue The IMF And World Bank – These two institutions have becoming the lender of last chance and used as debt collectors for the largest lending countries. The IMF and World Bank’s roles need to revert to the initial purposes of helping everyone equally.
6. Strengthen The UN – The UN mission is to help countries and not be influenced by the big economies. The UN needs to be treated and needs to act as a entirely separate entity.
7. Harness Global Science – Why is that we do not have Malaria in developed regions? Why is it that Canadians have access to AIDS treatments? Millions of Africans die needlessly every year. Really. MILLIONS OF AFRICANS DIE EVERY YEAR! An estimated 24.5 million people are living with HIV/AIDS in Sub-Saharan Africa.<sup>18</sup> If you really want SSA to compete in the global economy, give Africans the basics (education, access to clean water, mosquito nets, the ability to create fertile ground, and train them in their use so that they can be part of our community.
8. Promote Sustainable Development -
9. Make A Personal Commitment – As Terry would say, show me the business case. Lobbying our government, NGOs and other world organizations will have an impact.

## **Making a Business Case**

Free markets encourage free trade. Free trade leads to, increased FDI which leads to the existence of capital markets. Increased capital markets allow the citizenry to purchase technology, educate themselves take advantage of the factor endowments, ultimately allowing increased competition and access to other foreign markets. But when corruption

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<sup>18</sup> Avert, “Sub-Saharan Africa HIV and AIDS Statistics,” Avert Web site, <http://www.avert.org/subadults.htm>, accessed September 2006.

is high, inflation rates are unstable, bureaucracy prevents efficiency, taxes are outrageous, the population has zero energy left to serve anyone outside of their family, then the positive effects of free markets is a near to mute point - who wants to provide foreign direct investment. If a Small or Medium Enterprises that have a choice to open their factory in a stable, business friendly country such as Brazil versus starting a factory in corrupt Chad, the SME is going to choose Brazil. Ultimately, foreign direct investment will only flow to where there is a greater return. FDI is the lowest in Sub-Saharan Africa than any other developing region.<sup>19</sup> In addition local SSA Governments are unable to provide protection to foreign investors due to the lack of institutions, high level of corruption and minimal property rights.

“What is needed is a sustained and substantial increase in real per capita GDP growth rates in these countries, coupled with significant improvements in social conditions.”<sup>20</sup>

Africa needs building from the village out and not from FDI. Foreign direct investment has little effect on the poorest of SSA. As I have previously stated, these individuals are living one day at a time. The money that is required is the money to buy mosquito nets, to help grow crops and to build systems for clean water.

With the heighten talk of various economic areas following in the footsteps of the European Union, I cannot help but imagine an African Union. But again, this is miles down the road, probably not in my lifetime. If Africa is able to capitalize on it is factors of production, they may just eventually become an economic power house. They have an expansive area that is rich in oil and, minerals and precious stones. Many areas of Africa are accessible by water. Because of the minimal development, infrastructure and superstructure can be created from scratch with today and tomorrow’s technology.

Building a manufacturing plant does not provide assistance as income to these individuals yet. However, in saying that any FDI, is better than no FDI. Companies investing in

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<sup>19</sup> FDI in Sub-Saharan Africa, OECD Development Centre  
<http://www.oecd.org/dataoecd/18/19/1921651.pdf#search=%22fdi%20in%20subsaharan%20africa%22>, accessed September 2006.

<sup>20</sup> International Monetary Fund, “Promoting Growth in Sub-Saharan Africa,” The International Monetary Web site, <http://www.imf.org/external/pubs/ft/issues/issues23/index.htm>, accessed September 2006.

Africa are setting precedence and demonstrating that things are improving in some areas of SSA. Organization with long term strategies may do well to invest now, while capital markets are still immature and the currency is inexpensive. I have to believe that the world will continue to press on with SSA's development and that one day, investing in will be a wise economic option.

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