NEW AGENDA

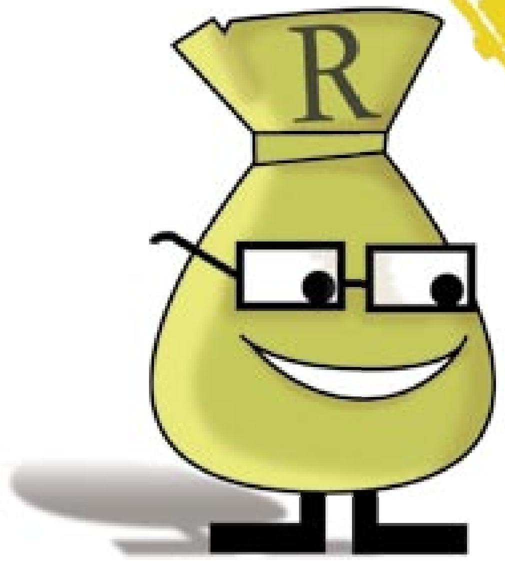
SOUTH AFRICAN JOURNAL OF SOCIAL AND ECONOMIC POLICY

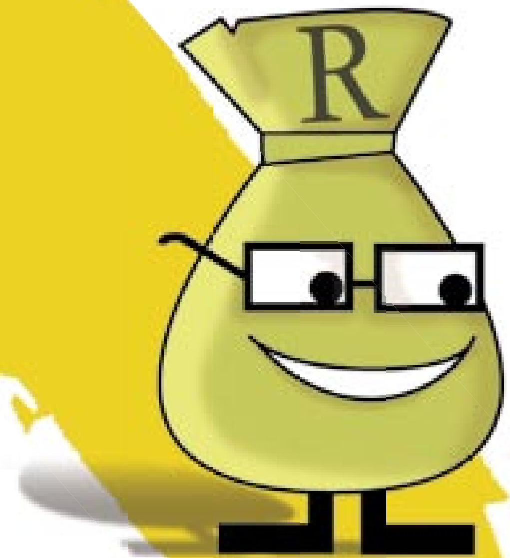
STATE WORKERS Pension Fund INVESTMENT DILEMMA

By Martin Kuscus GEPF

BLACK Businessman's MORAL DILEMMA

By Marcel Golding e.tv





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ISSUE 26 – CONTENTS

THE DEVELOPMENTAL STATE CAN WORK

BY MILLS SOKO

The remarkable economic achievements of East Asia's "economic tigers" in recent decades triggered interest in the role of the state in economic development. It is now widely recognised that the state played a crucial role in the success of outward-oriented development strategies pursued by countries such as South Korea, Taiwan, Hong Kong and Singapore. In these countries, the state directed the process of industrial accumulation by funnelling capital into risky investments, improving the capacity of private firms to participate in international markets, and taking on entrepreneurial functions directly through state-owned enterprises.

The success of East Asia's developmental states has been ascribed to two related factors. First, their powerful strength *vis-à-vis* societal interests bestowed upon them a degree of autonomy that enabled decision-making elites not only to define developmental goals independently, but also to insulate themselves organisationally from societal pressures. These were largely authoritarian regimes. Second, their relative autonomy provided them with the capacity to take advantage of their control over production to influence the behaviour of other social actors and mobilise their support for government's policies.

It is doubtful whether South Africa can replicate the experiences of East Asian countries, especially in the post-Cold War context and under conditions of economic globalisation. However, this does not diminish the importance and relevance of building a developmental state in South Africa.

Since 1994, South Africa has made tremendous strides towards becoming a growing and robust emerging market economy, whose stable political system rests on a secure constitutional and legal order.

Beneath the veneer of South Africa's relative success, however, lurk vulnerabilities that threaten to undercut the country's social and economic progress: inadequate growth rates; poor international competitiveness; exchange rate volatility; skills shortages; low productivity; low domestic savings; insufficient investment in research and development; small domestic market; endemic crime; high social and economic inequality; a deficient public transport system; and a poor entrepreneurial culture. It is remarkable how media analysts fail to balance the successes with an understanding of our problems.

Overcoming these vulnerabilities requires a strong state that can articulate a clear political and economic vision for the country and direct national development efforts. To succeed, such a vision needs strong cooperation and support from the private sector. Alas, such a shared vision between the ANC government and organised business in South Africa has been patently lacking. On the contrary, the government/business relationship in the post- apartheid era has been characterised largely by mutual distrust, suspicion and confrontation.

A developmental state, working in tandem with private business and labour, is necessary if South Africa is to achieve long-term growth and to kick-start a process of dealing with the myriad social and economic constraints that have stunted its international competitiveness and undermined its internal social cohesion.

In the globalising world economy, it is crucial that South Africa finds a balance between its goals of international economic integration and its challenges of domestic social redistribution.

This requires willingness and the courage to embrace change, shift priorities and make difficult choices. It demands the removal of structural economic impediments by, among other things, increasing national investment, improving education and skills training for workers, increasing worker productivity, raising investment in research and development, promoting small and medium enterprises, upgrading transport infrastructure, and addressing high logistical and telecommunications costs.

It also necessitates that South Africa positions itself as a highly competitive trade and investment destination, although this should not occur at the expense of developmental objectives such as job creation and poverty reduction.

Success also demands strong domestic growth and business confidence. A growing domestic market, combined with a stable social and political system, is a key precondition for attracting trade and investment. No significant foreign trade or investment can be generated in the absence of local business confidence.

A successful economy cannot be built on shaky domestic political and social foundations. The persistently high levels of racially defined inequality – reflected in social and economic indicators such as poverty, social alienation, unemployment, public health, housing and income distribution – pose a serious threat to South Africa's social stability and make a mockery of the country's global ambitions. If left unchecked, these problems could undo hard-earned social and economic gains.

MORAL DILEMMAS OF BLACK BUSINESS

Marcel Golding is Chairman of Hosken Consolidated Investments (HCI) and CEO of e.tv

Interviewed by Ben Turok

BEN TUROK: You used to be a senior leader in COSATU, heavily involved in the trade union movement, and you left that. Do you have regrets about the old times; do you have any regrets about leaving them?

MARCEL GOLDING: No, no regrets at all about the old times. I think it was an important school. In the area where I grew up, you had limited choices. You either collaborated or you fought the system. If you decided to fight the system, you could go into exile or you could stay in the country. I chose to stay in the country. Within the country, you either worked in extra-political activity or you worked in the trade union movement. I chose the trade union movement, and I suppose that's largely because of my experience and my intellectual training. And the working class was the most important social group that had an interest in change. The trade union would be an ideal school to understand issues faced by working people and their families. It was an opportunity for me to be schooled and learn. So I do not have any regrets. I think it was an opportunity, and I was educated to a large extent.

BT: Did you come into the trade union movement as a worker or as an intellectual?

MG: I'd say as an intellectual.

BT: What is your education?

MG: Honours in social science and arts from UCT.

BT: So you didn't come through the factory floor?

MG: No. I had many, many opportunities to go overseas. I had scholarships, etcetera. I was encouraged by a lot of my friends and peers and university academics to pursue an academic career. I didn't think it was the right thing to do, and I was torn at that time about it. I'd sort of failed in my first love – to be a professional soccer player, largely through injury; I decided to stay, and I have no regrets about not pursuing an academic career. I think the lessons I learnt in the union movement were invaluable for my future, because I began to appreciate a whole lot of things I normally would not have appreciated if I'd stay in academia. I suppose my early Marxist training was that, to make a difference in the world, you had to act. You couldn't just talk about it. I chose the union movement – it was all fortuitous.

I was the deputy general-secretary of the Miners Union, and I was the acting general-secretary for a while when Cyril Ramaphosa left.

BT: And then you were in parliament for a short time?

MG: Yes. I was the one elected by the National Union of Mineworkers' executive to go into parliament.

BT: How did you feel in parliament?

MG: I enjoyed it. The scope that I had was quite interesting. It was stimulating, but what I realised very quickly is that in parliament there are a whole range of circles: inner circles, outer circles, bigger circles, etcetera. The inner circle was obviously the cabinet where all the decisions were being made and things were executed. Parliament, in my time, was the government of national unity. It was still very interesting. One would like to believe that we made some difference in that particular era. There was a major change in health and safety legislation for mineworkers; we changed the Boards, and we certainly started the debate about mineral rights. By the time I left, all these things were on board.

BT: Why did you leave, if you found it stimulating?

MG: After a while I wasn't effective as a committee chair of minerals and energy. I was effective during the government of national unity, but after that, I wasn't. When the government

of national unity was in place, we had Pik Botha as the minister of Minerals and Energy. We had a slightly different view, and there was healthy debate and engagement. I'd say we won ninety percent of the time – changing the Board and health and safety legislation, the debate about how mineral rights ought to be changed, the minerals and energy policy centre. I think we did quite a lot during that time, but once the government of national unity ended, you know, I think the policy function went to central government and I don't the think the committees had much role in influencing policy.

BT: And you felt frustrated?

MG: I wouldn't say that I felt frustrated. I think that I served my time. I have always had the philosophy that I do the best I can under the given circumstances, but then things came to a point where I didn't think I was effective any longer. I was very happy that the ANC was now in full control of the government. I thought that they would discharge that responsibility and did not need surplus bodies.

How, in a democracy, could the working people benefit from the economic transformation; how could they really become stakeholders in the economy?

BT: You saw an opportunity?

MG: I wouldn't say I saw an opportunity. Even when I was in the union, I began to debate the fact that a mining union, unlike other unions, was in an industry where there is a limited and defined resource. It has to mine the resource, and the resource gets less and less. And one has got to find new initiatives to meet the needs of miners and their families. When I was at the height of the union, there were about 700 000 people in the mining industry. Today there are only 300 000. So, I began to debate with the union that we had to look at new things. One of those was certainly to get stronger independence for the unions and find a way to become financially stable. There were three things we wanted. One was investments and to change the way in which we generated subscription fees.

Historically, we had a fixed amount. One of the things we pioneered was to take a percentage of the worker's income. So, every time we would negotiate for another percent, that percent would go to the union as well. That's the first issue. The second issue was: how, in a democracy, could the working people benefit from the economic transformation; how could they really become stakeholders in the economy? And then the third was that workers entering COSATU were essentially focused on the political battle of bringing down apartheid. They did not focus on the traditional issues of trade unions, like benefits for workers. I thought that it was appropriate that we also begin to focus on benefits for workers and their families. How do you make sure that the sons and daughters of miners get out of the grip of being miners and clothing workers, etcetera. How could we create a platform for them to be educated and play a different role in this country?

But to do that, we needed resources which could create wealth, and that led me and Johnny Copelyn and other people to debate the whole question of economic transformation. We came up with one model – which was at the time severely criticised – but we came up with a model which we thought was appropriate for the mineworkers and clothing workers: an investment trust that is wholly owned by workers and their unions, but separated from their unions. The union's dependants and families ought to be beneficiaries of the trust so they should not be involved in the business.

Let me put it this way. You have the union at the top, and the Chinese wall between the union and the business is an investment trust, and at the bottom you have the business. The investment trust is not the business. The investment trust is the custodian of the value that is going to be created, which will then be distributed to working people. The money is not to go to unions to make them self-sufficient, it is not to go to pay money to union officials: it goes to the families and clothing workers and others we believe should benefit from charitable donations.

BT: But the trust is dependent on a business?

MG: On a business, which creates the wealth. That's how I saw my role – to create the wealth, put it into the trust, and then the trust decides how it will benefit the community.

How, in a society dominated by capitalism, can you create both collective wealth and individual wealth?

BT: What kind of business was it?

MG: Johnny and I were working with two different unions. Johnny was working in the clothing and textile union and I was working with the mineworkers. I founded the mineworkers investment company, and we pursued individual activities. The first thing we did was to buy a whole range of mining stores and listed a company called Mothomo on the stock exchange, a private investment company that owned stores and clothing shops. We generated considerable wealth, and it was the first time we took to buying and selling materials on the mines. Effectively, we harnessed the collective buying power of the workers on the mines. From a R3 million investment we created a R30 million base. Then Johnny and I agreed that, instead of competing, we should join forces and share our assets. We established a joint company called Amalgamated Union Investments. It was a merger of the clothing and textile workers' and the mineworkers' investment companies. We pursued that for about two years.

BT: You effectively became a businessman who benefited workers?

MG: Yes.

BT: You seem to have moved fairly naturally into the business environment, but not on the basis of self-enrichment, unlike many who have who followed you. Why do you think that has happened?

MG: One has to accept that as a natural consequence of democracy. Before, in apartheid, we had no choices; in a democracy, you have real choices. For the first time, you can decide what you'd like to do and have opportunities to pursue that.

BT: But many of the people who have taken your trail have now seen economic enrichment. The choice is about making money – for most people.

MG: Yes. You see, the problem we grappled with was this: How, in a society dominated by capitalism, can you create both collective wealth and individual wealth? The debate is not that "I have been made wealthy by the process", but "can I get wealthy in the right proportion to the collective?" That is really the issue. Also in creating the wealth, we also share the risks and problems of building a company or business with other shareholders.

BT: But that is not the issue for most people who do it now?

MG: I think that is what democracy is about. Imagine if we all had to be the same – society would actually be boring.

BT: But it seems to me that the sort of things that motivated you are not what motivate most people who go into business.

MG: I suppose it is how you see the world. For us, we just see ourselves as social entrepreneurs. We come from unions. The union experience cannot leave you unmoved. I mean, people are living and working in poor conditions. If you drive through townships, you see people suffer. If you are not moved by that, then I don't know. So, we are still driven by those objectives, to see if we can make a difference in society, even in the context where we are small players.

BT: How do you define a social entrepreneur? What is distinct about it as opposed to a conventional entrepreneur?

MG: I'm really not sure!
I am less concerned about what others do, rather what we do. I think it is trying to make a meaningful impact in society through your business, by creating jobs and opportunities, but also other things. You might not like our businesses, that is one question, but there is no doubt that in our businesses, there is a social impact. We created new jobs; we created opportunity. That is the difference. A lot of the businesses were started from scratch and are now reasonably successful. New people are working in the industry. New skills have been created. So, that's the issue. Can we make a difference in society, can we uplift the society? It cannot only be about money. There has to be more than money – but money, I suppose, is the measure of the success.

BT: What do you actually do as a businessman? What is your job?

MG: Well, I am chairman of HCI, and within the company, I have a very specific responsibility. I'm in partnership with Johnny Copelyn – the CEO – because it was our concept, our idea.

I spend a lot of my time in meetings, or on the phone, or evaluating opportunities that land up on my desk, or meeting people about business opportunities. People ask: "Do you want to invest in this? Do you want to do this; do you want to do that?" I spend a lot of time listening and a lot of time thinking. I don't read as much as I would like to. I travel a lot, to keep up to date with what is happening globally.

We are a team and I suppose we are the custodians of the values of the company and the principal allocators of resources, and I'm part of the team that will select who we employ and why we employ them. These are the people who make it happen. And lastly, you spend your time mapping out your vision of where you would like to go.

BT: That's a nice portrait of a chief executive. What is it that your companies do?

MG: HCI is a private equity company. It is listed on the stock exchange. It is "private" because 90 percent of its assets are unlisted. So, to get access to the value of those underlying assets, you have to buy HCI shares. We are not a traditional private equity business because we do not normally buy assets and sell them. When we get good assets, we hang onto them – we buy more.

BT: So you're a holding company?

MG: We're a private investment holding company.

BT: How many companies do you hold?

MG: Twenty. I will give you an annual report.

BT: What do they do?

MG: Well, we are big in two sectors. Our biggest sector is casinos, gambling, hotels. That's the Tsogo Sun group, where we own about 70 hotels across Africa and South Africa and some of the largest casinos in the country. The second area we are involved in is media. We own e.tv in partnership with VenFin, which is part of the Rupert group. We own YFM, which is one of the largest regional radio stations in Johannesburg, and then we own a whole lot of other businesses. We own the Golden Arrow Bus Services in Cape Town and we own Clover, one of the largest milk companies.

BT: You are all over the place. Radio, gambling, transport…

MG: That is what private equity is about. It is about taking opportunistic positions on businesses.

BT: So if you hear of a business which is staggering a bit, but has huge potential, you move in, take it over, get some new directors in, and so on?

MG: Yes.

BT: How do you feel about your casino role, in light of your earlier position on ethics?

MG: I really believe that that is the great thing about a democracy. There are conflicting points of view in the world, differences of opinion, choices that can be made. You cannot treat people as children, but we have a social responsibility to educate. At the same time, people must decide whether they should gamble – that is their choice.

BT: Is there not a contradiction between your social ethos and what you do through HCI casinos? Isn't there a conflict there? You know all about capitalism. There are fundamental moral issues and ethical issues in capitalism, as we all know, and once you go into business, you land in the middle of those conflicts. In the casino industry, these are severe. How would you respond to that?

MG: Those are the sort of philosophical issues that one can address. But these businesses have created many, many jobs in the country, because they link to hotels, they link to a whole range of other entertainment places. They are huge cash generators. And because these assets are owned by the union, a lot of the money goes back to the union.

BT: What money is that?

MG: The profits and dividends. They come through the company back to the holding company, so in the end, the final owner beneficiary would be the workers' investment trust.
BT: Of the casino?

MG: Yes.

BT: I'm sorry, I am not with you. I thought it belonged to HCI?

MG: Yes, but HCI has shareholders and one of the largest shareholders is the Southern African Clothing and Textile Workers Union (SACTWU)'s investment company. They are the largest shareholder. They own about 40 percent of the company. They own over R3 billion in HCI.

They are beneficiaries of that income and that income is going back into bursaries, etcetera. But let's talk about the philosophical issue here. If we were not doing it, who else would be doing it? I am not a gambler, but these are businesses that created huge jobs and opportunities. They are huge cash generators, and substantial private money goes back into philanthropic purposes, into the investment trust.

The other important point is that I do not want to make myself the custodian of the moral values of this society.

The other important point is that I do not want to make myself the custodian of the moral values of this society.

BT: But you said that one of your roles was to be the custodian of the values of the business?

MG: Yes, but I am not going to elevate myself above society, and say, "I think gambling is wrong, I think drinking is wrong, I think smoking is wrong". I might have a view on it, but I am not going to propagate those particular views. I do not want to impose them. I don't drink, I don't smoke, I don't gamble. Would I fight for it, no; if there is no other place I'd stay at home.

I suppose as one gets into a democracy, these are the real conflicts and differences that one has to manage. These are the choices that people have, and we recognise the problems. Yes, people gamble with their money. The moral choice is for each one to decide and not for me to decide.

BT: Now, let's go to e.tv, which we all know and watch. I am a particularly strong critic of the kind of American junk that our TV – not only e.tv, but SABC – shows. There is a moral problem within our country, and I would argue that some of our youngsters are misbehaving because of these films. Do you have to show sex and violence? I'm putting you on the spot.

MG: I don't mind being put on the spot. In the end, it gets back to this fundamental proposition of who am I to decide what is good and what is bad. I am very much led by what people seek, because that is what I am going to be judged on, in the final analysis. If I show things they want, they will watch my station. If I show things that they do not want, they will not watch my station. If they do not watch the station, I lose money and I go out of business. The fact of the matter is that there is an important balance between commercial issues and social responsibility, and we have that. We provide an enormous amount of public service in the economy through social responsibility.

BT: How?

MG: But that is the issue one has to understand. The commercial films are the films that are watched. I cannot ignore that. If I don't show them, I will lose an audience; if I lose the audience, I lose money. I can then close the business, and if I close the business, all the 400 people who work for e.tv will not get any work. I don't think it is sensible. I don't think it is right.

Just to assure you, a large part of what we show on e.tv, 45 percent, is local content. Three hours per day of news, local shows. We do shows that people want, that affect their lives, their contradictions, their aspirations. You may not like it, but that is the point. It is not what I like: it is what the audience likes and what the audience wants.

BT: All right, but you know that many people who have analysed TV all over the world are saying it also creates markets. You create values which people then seek – you know the argument very well.

MG: Yes, sure. I think that is a part of the problem. You know, one cannot actually imply that these people who watch it on TV are going to become criminals. I think parents are abdicating their responsibility. Why blame things on someone else? Why are they not keeping their kids under control? Why are they not learning discipline, those old values that we were taught at home, of hard work? Why is that not imposed? I mean, you can't blame us; it's like a finger pointing exercise. I was told that if you point a finger there are three fingers pointing at you. What are you doing about the problem? I suppose as I get older, I become less judgmental about society, and less judgmental about people. I am less inclined to take a position, because I am more hesitant than I used to be.

There is an important balance between commercial issues and social responsibility.

BT: You don't feel it so strongly?

MG: No, I do feel it strongly, but I keep it inside. When you're younger, you have an opinion on anything. But, as you get older, you become more circumspect, less judgmental, because you see more grey than black and white. I suppose that is just how I have become. When I was younger, I used to speak on every single platform, at every single conference. But I had something to say; I have less to

say nowadays.

BT: And yet you have more power now?

MG: Yes, but that is beside the point. The more powerful you become, the less you have to say. You don't have to make a noise – it's not sensible.
You can ask my secretary, yours is the first interview I have given for I don't know how long. Now I'm with an old friend, I am engaging intellectually; you'll probably ask me the right questions, you really want to get to the heart of understanding what this trade unionist turned capitalist does. So, I don't have a problem. I don't mind engaging. The issues that you have asked me about are the key issues, issues I constantly grapple with and debate with our staff. I get pushed back or I go forward depending on those issues.

It is not that one doesn't think about those issues, but, in the end, at e.tv we stand or die by what our audiences say. They are the ones who hold the remote. If they switch me off, I have no revenue, I have no audience, I have no people. So I have got to pander to them. But we have also done lots of new documentaries and allowed first-time film-makers to make films. They'd never had that chance. Five percent of e.tv's staff are disabled people. Why? Because we believe they should be gainfully employed. Ninety percent of our staff has never worked in TV before. Never ever worked in TV. I can show you stories. I mean, people go from the call centre, answering telephones, to becoming producers. My secretary became the head of publicity. That is the other side of the business. We had a staff function over the weekend, and I told them it is not only about money. I value the success of our business, the number of people who grow, the opportunities that have been given to them where they have lived out their dreams. During apartheid, they could never get a job like this because it was only whites and Afrikaners that predominated. Now 90 percent are black, 70 percent African, but it doesn't mean we don't give whites a job. There are a lot of youngsters who come here; they work for nothing, they want to come. Whoever wants to work, whoever has got the enthusiasm, who's got the discipline, who wants to contribute – here is a space for them, as long as we see those things. I'm not interested in their colour, I'm interested in their attitude.

BT: Tell me more about social responsibility.

MG: Well, HCI has a huge HCI Foundation. It is capitalised with about R400 million in value. It distributes hundreds of bursaries every single year to disadvantaged students. That is besides the bursaries that are distributed by SACTWU.

BT: SACTWU?

MG: SACTWU's foundation is also very big. Their asset base is about R3 billion.

BT: Which is invested in HCI?

MG: Which is invested in HCI, but they get dividends. They spend about R20 million a year on philanthropic activities, and in HCI we spend a similar amount of money – R20 million per year. And our business is only ten years old. We give bursaries, we do health care and big AIDS initiatives, and we are looking at housing as a third opportunity.

BT: Although you did not come through that route, what do you think are the pros and cons of BEE? You know the arguments. The government is worried about the interface between black business and government – the question of tenders, procurement, insider dealings and influence. What do you think about BEE?

MG: I think BEE is necessary. No way are we going to transform the economy without increasing the number of black people participating in the economy, either in equity or with more opportunities or more training in management. Deracialising the economy through the development and promotion of black people is key. The redistribution of opportunities is also a key element of BEE.

BT: Doing the kind of things that you are doing here?

MG: Ours is just one aspect of economic empowerment. Another aspect is building a very strong professional black corps of managers who can run businesses. The third, obviously, is to create incentives and opportunities and staff for new businesses. BEE cannot just be a wealth transfer. It's got to be the creation of additional wealth, to expand the cake rather than to keep slicing the existing little bit of cake. But you've got to start somewhere, I suppose.

BT: You know, Cyril Ramaphosa said in *Time* magazine that he believes that the accumulation of some basic capital is needed before you can go into production. But critics say that BEE is just about making money out of stock exchange transfers, without creating new value by productive activity. They are not producing anything. What's your take on that?

MG: You are taking a risk, especially if you are paying for those shares on a loan basis. You are taking a risk.

BT: But you are not actually producing anything.

MG: Probably not, but neither are many other shareholders. Neither are Old Mutual and others. They are just investing our collective savings in these companies. There is no difference. I think it is not fair to beat the drum against empowerment, because – I know it might sound a bit old hat now – that is what democracy is about. It is about people moving in a whole range of different directions.

There's a difference between the apartheid era and today. We had a common enemy and we were marching in the same direction. Today there is no enemy, except people who oppose democracy, so one builds a life and focuses on one's family and what one considers important. There is nothing wrong with that.

BT: The critique is really concerned with value addition through equity, without any productive foundation.

MG: But the world is changing. Some of the greatest contributors of wealth are intellectual entrepreneurs. There is no more physical production. I think people are losing an appreciation of the complexity of the society that we are moving in. Some of the greatest creators of wealth are in services. They are not providing productive assets, but value-added services to a whole range of people. Is it wrong? No. It doesn't really matter, because, in the end – and as critical as one wants to be, one has to accept this fundamental proposition that the best allocator of resources is the market. It is not the only, but probably the more efficient allocator that will decide. Money will go where there is more return, and you will consciously say, "this is good for us". It's the same choice we have to make. Do we give dividends back to the shareholders, to allow them to fund bursaries, or do we use the money to invest to create more wealth? That's the reality.

Sure, on a clear day, on top of the COSATU building, I do see socialism in the distance – but we have to deal with practical constraints, and we are a very small company, in the context of what you are talking about. You look at Anglo American's R436 billion, and you know we're just a small little company.

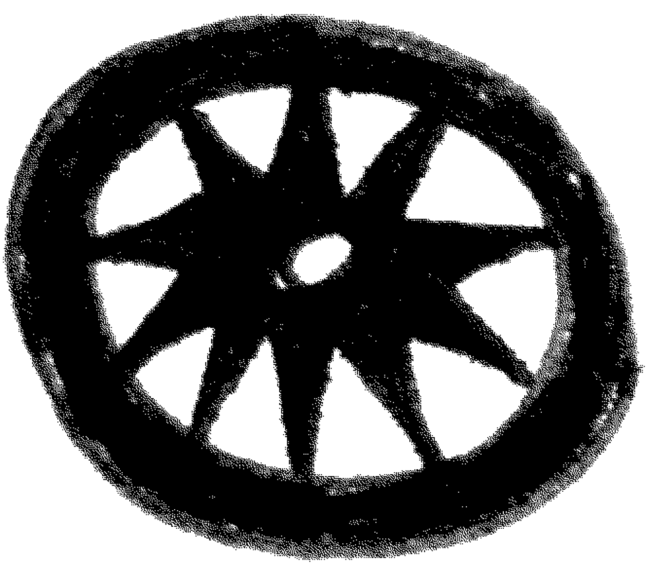
BT: You talk about the old establishment, since you mentioned Anglo. Assuming that we call you "black business" for the moment, how does black business or black empowered business relate to the old establishment? Is it a difficult relationship, are you being let in, or are they excluding you?

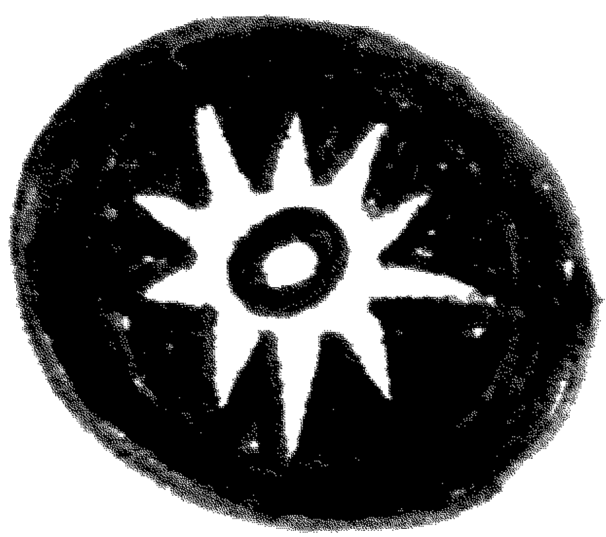
MG: Look, you always have to fight. That is the one thing that I've learnt about the struggle: it has not ended. You have to fight for your space to create an environment.

BT: Just one quick question. Who controls the economy in your experience?

MG: I think the state controls it a lot. There are a whole range of levers that it can impose. I mean, tax policies, fiscal policy, monetary policy: these are all instruments.

The state is the key player in the economy. The economy is doing well. Obviously, I'd like it to do better. I think the government has a huge responsibility to make sure they create a social net for poor people, and create more jobs. The government has got to make sure that they invest in infrastructure: with good infrastructure, more business opportunities will flow. There is a lot of responsibility on all sides. People can take more risks because interest rates are lower. If interest rates are high, you can not take risks. If inflation gets out of hand, then you know there is a problem. There is a whole range of macro-economic issues that need to be dealt with, and then that will create a climate for business to expand and do things.





GOVERNMENT EMPLOYEES PENSION FUND: A HEAVYWEIGHT ON THE MARKET

Martin Kuscus is the chairperson of the board of trustees of the Government Employees Pension Fund (GEPF)

Interviewed by Ben Turok

THE GEPF AND THE PIC

BEN TUROK: What is your relationship to the Public Investment Corporation (PIC)?

MARTIN KUSCUS: The GEPF uses the PIC as a multi-fund manager, to invest the money that we collect as contributions towards pension funds, and to make sure that it yields the returns necessary for the sustainability of the fund.

BT: Previously, the GEPF was a rather quiet body and we didn't hear a lot about it. More recently, there seems to be a lot more visibility. What's happening?

MK: Well, in June 2005, history was made when a board of trustees for the GEPF was set up for the first time. Previously, the minister of finance was the only trustee. To bring the Fund in line with international best practice and with the new pension fund reform processes in the country, a board was set up with sixteen members – with eight coming from the employer, that is, the government and eight employee representatives: six from the unions, one from the armed forces and one from the pensioners.

BT: Before that, the minister was in charge of government employees' pensions?

MK: Yes, he was the sole trustee.

BT: But that's odd, isn't it?

MK: It's odd. It was an anomaly that was corrected in the GEPF Law that was promulgated already in 1996 by former president Mandela. Provision was made for a board of trustees, but there was some to-ing and fro-ing. This matter has gone through the bargaining process and ultimately an acceptable formula was found for the level of representation for the mandate of the Fund.

BT: It seems that the unions were rather slow, because this was their money – not the minister's!

MK: Well, I don't want to apportion blame to any constituency. Coming from the minister's side, the fund is by nature a defined benefit scheme, and so the minister – the government – will be standing guarantee if there's any adverse eventuality. So one appreciates the risk-aversion of the minister towards the process. But then, on the other side, it's the people's money, so they must also have direct say in the oversight, in the way it's invested and the way benefits are administered.

BT: Yes of course, that is fair. But I recall that, when I was on the parliamentary finance committee, the PIC often complained that the employees, namely government employees, were not very proactive; even COSATU was not proactive in looking after the money that is certainly partly the workers'.

MK: Well, I wouldn't put it like that. I must say that there is a level of cadreship within the trade union movement where people have been empowered to a large extent. This issue is co-ordinated also through the bargaining chamber arrangement with government, so any benefit administration becomes a part of the bargaining process. But on the oversight question, yes, they have definitely come to the party. The level of participation is quite encouraging.

NEW POLICY DIRECTIONS

BT: There seems to be new policies apart from the new structures and new responsibilities. Brian Molefe, the chief executive of the PIC, is now taking a strong line on BEE practices. Is the GEPF, for which you are responsible, pushing new policies since the new arrangement?

MK: (laughs) Well, as a starting point, the G stands for "government", which means there is no way in which we can escape or ignore the transformation agenda of the government of the day. And, given the sheer size of the GEPF, it can become a very forceful agent of change to enhance government's transformation efforts. But also, as a board, we should exercise our minds independently in a fiduciary responsible manner. The policy directives in this regard are quite clear.

I had the privilege last year of being invited by the secretary-general of the United Nations, Kofi Annan – coincidentally on the 27th of April – to the New York Stock Exchange as part of the UN Global Compact. The GEPF was a founding signatory of the United Nations' Principles for Responsible Investment (PRI), so now we've got one set of policy issues emanating from government, but also a set of policy issues in the global context that we need to be aligned to. Basically, the principles focus on the so-called "GSE" issues: governance, social and environmental. A whole range of policy initiatives emanates out of those issues and, whereas the GEPF was formerly just passing on the mandate to the PIC, our role in terms of shareholder activism is now much more profound. And hence, Brian [Molefe] is under an obligation towards us and we have an obligation towards our members. So that's why you shouldn't be surprised by what Brian's doing: if he doesn't do it, he'll be in trouble! (laughs)

The negative side, given the sheer size of the GEPF and even the nature of the fund, is that there are simply not sufficient investment opportunities in the country to absorb that quantum of money.

BT: So, the new policies are actually a reflection of the new will in the GEPF but also of the United Nations' principles. What is the main thrust of this mandate?

MK: On the governance side, it's our money, which means that we've got a vested interest to make sure that institutions are governed to comply with good corporate governance, and companies subscribe to international best practices.

BT: Does that include accountability and transparency?

MK: All those issues, but, above all, we are also interested in the executive. That's why the PIC was so forceful recently on executive responsibility, in terms of "who ultimately

drives the business?"; "does it reflect the new ethos of our country?"; and very important, executive remuneration. We have seen situations in the past where companies are not performing at all and executives get away with handsome share options and liberal packages. Responsible shareholders say, "Hang on, it can't be given! Let's balance the risk and reward equation, Mister CEO, or Mister Executive Director. Are these things aligned?

BT: So the GEPF is putting pressure on the PIC to ask those questions, because it's your money?

MK: Yes. As a matter of fact, we now have an evaluation instrument to measure these things. We're working with the Johannesburg stock exchange to objectively measure GSE principles within the context of our country's transformation agenda, for example employment equity, BEE, affirmative procurement, enterprise development, etcetera.

BT: Who does the monitoring?

MK: The GEPF's investment committee.

BT: So you're "hands on"?

MK: Indeed, so.

BT: Not the PIC?

MK: The PIC reports quarterly to our investment committee and the investment committee then reports back to our board.

R5 billion, or 10 billion – pick any number – in the bank account of any emerging asset manager can "leapfrog" that emerging asset manager. We are duty bound to develop this sector.

BT: Who sits on your investment committee? Are they trade unions?

MK: It's a mixture of both. The chairperson is Leon Ely and his counterpart in the PIC is Futhi Mathoba. They meet as the two committees and exchange notes on an ongoing basis regarding our investments.

BT: And the objectives are governance, social responsibility – and, as well, environmental?

MK: Environmental responsibility is an area that's still very much in a developmental stage –monitoring companies and disinvesting from companies that have a total disregard for sound environmental considerations in doing business.

A MAJOR PLAYER

BT: The total power of the GEPF is very substantial because the money is huge. It's something like R650 billion. But what *weight* does the GEPF carry in the corporate world? Do people there respect you?

MK: Well, to me it was also a sobering experience to discover that the GEPF is the 21st biggest fund in the world, by market cap. It's the biggest in Africa and the biggest in South Africa. On any given day, at least between 12 and 16 percent of all active trading on the JSE is our money.

BT: GEPF?

MK: Yes, the GEPF.

BT: This is workers' money? It's a kind of workers' revolution here!

MK: (laughs) This is workers' money, "oiling the wheels of the economy". Indeed a potent force. But that's the up side. The negative side, given the sheer size of the GEPF and even the nature of the fund, is that there are simply not sufficient investment opportunities in the country to absorb that quantum of money. A pension fund always takes a long-term view, so there's a lot of passive money lying around.

BT: Where?

MK: The PIC has made an announcement that they're mopping up some of the excess money from the current fund managers. The PIC has now developed its own internal capacity; they've got their own trading floor to handle some of the excess money. And the fee structure is such that it will enhance performance and facilitate the entry of more players. No more just the Stanlibs and the Big Four.

BT: Let me clarify that. There use to be four private brokers who controlled about a quarter of all PIC assets?

MK: Stanlib, RMB (Rand Merchant Bank), Sanlam and Old Mutual.

BT: They invested on your behalf?

MK: Yes, but we'd give them a benchmark. For instance, we'd say, "In this asset class, if you are performing to this benchmark, this is the reward you get; and if you under-perform, this is the penalty." That is the current arrangement.

BT: Are you withdrawing that now?

MK: A large portion of that money, yes, because some of them are battling to outperform the benchmarks. If you sit with such a lot of excess cash and you can't deploy it… There's not such a huge uptake in the country for even R200 billion at any given time.

INVESTING IN AFRICA

BT: You've got too much money?

MK: Well with 1,3 million members this is a handsome amount, but it needs to be managed prudently. We want to break it up into smaller, more manageable chunks. The effect of that is that we will have niche service providers, that will then be able to maximise our performance. Secondly, it also opens up the window for emerging – black, by definition – asset management companies. If they can meet our requirements they can also become part of the action. Imagine, 5 billion rand, or 10 billion – pick any number – in the bank account of any emerging asset manager can "leapfrog" that emerging asset manager. We are duty bound to develop this sector.

BT: That's very interesting. So it's a new ball game altogether? But you said there's a shortage of places to invest because the money is too big.

MK: Yes, one of the restrictions is that we cannot invest offshore. We only made one shift, with the agreement of the minister (of finance), and that was for the establishment of the Pan African Infrastructure Development Fund (PAIDF). For the first time, money will be deployed on the African continent.

BT: Is the minister in authority; can he decide?

MK: There is an element of concurrence, given the nature of the fund being a defined benefit fund. It's a specialist vehicle that has been established. President Mbeki made a very passionate plea a few years ago. He asked why should African pension funds be used to build shopping malls in London and everywhere else, when some of our counterparts north of the Limpopo lack economic activity in their countries because of funding limitations? Fund managers can invest and generate good returns, if we pool our resources together. And, as I'm talking to you now, the due date for launch (of the PAIDF) is sometime in April, perhaps the beginning of May. We have in excess of US$700m committed to that fund, of which the GEPF put down US$250m as start-up capital for that fund. This is in support of the Nepad objectives of economic development through infrastructure such as telecommunications, electricity, and those types of things.

BT: Excellent, just what was needed. But, apart from this pan-African fund, how do you overcome the lack of investment opportunities?

MK: We've set aside 5 percent of our portfolio and we put it in a specialist vehicle called the Isibaya Fund.

BT: We know the Isibaya Fund was non-performing for years!

MK: Well, you'll be surprised. Don't get distracted by the elephant debacle and those types of things!1 The deal flows there were quite substantial and we've helped a lot of BEE start-up operations to access capital. That Isibaya fund is doing very well.

You see, with the major infrastructure boom taking place in this country, another challenge to the GEPF is to increase its

size of the property portfolio as well. Currently, the property portfolio is around 2.9 to 3 percent of the total portfolio, and this is where socially responsible investment comes in. It's no fun having a stake in Sandton City and yet the people of Inanda and Khayalitsha don't have a shopping complex. Two years ago, the minister of finance went to switch on the Christmas lights at the Mabopane shopping complex we've refurbished. The quality of life of their community was raised substantially, because we've now got "Woolies", movies, and a host of other brand names in the complex. We put in another R14 million to refurbish the Garankuwa shopping complex, and we're now targeting areas where your ordinary fund manager is normally risk averse to the Khayelitshas of this world. We're doing it in partnership. The PIC has gone into partnership with Futuregrowth Asset Management, and they will also partner with others, like the Development Bank of South Africa (DBSA), to go into those areas and make sure that the workers' money is making an impact, right on their doorstep. People don't have to go out of the townships to have a decent shopping experience. It can be right on their doorsteps.

APARTHEID'S WAR CHEST

BT: I asked you about the weight of the GEPF as a financial institution in the corporate world. We always said that there were four or five big companies – like Anglo, De Beers – who in fact controlled South Africa. But this was only half of the picture because the GEPF was lying there, rather fallow and rather quiet. In fact, potentially, there was a very powerful financial institution in post-liberation South Africa that was just dormant. About eight years ago, I made some enquiries to the Reserve Bank and the Treasury about the GEPF. I got very little information; it was all very quiet. And so, there was this large pool of money virtually at the behest of the government and the workers that was not being used. Why was that?

MK: Ben, the other side of the story hasn't been fully told. Prior to 1994, when the new democratic government came into office, the pension fund used to be a kind of a slush fund for the previous regime. They raided the pension fund substantially to bolster the apartheid monster.

You will recall there was disinvestment from the country and sanctions against the country, and this pension fund was the war chest. When we took office, that fund was only 69 percent funded. You know that, if anything went wrong, government has to stand in for that shortfall? So, the minister of finance, through very astute financial management, has narrowed that gap. We do an actuarial evaluation every three years. At the last evaluation we were 96 percent funded, and I will be surprised if we are not at least 104 to 106 percent funded this year. I can confidently predict that there will be a possible surplus.

BT: You're fully funded?

MK: More than fully funded. That's why we could give such liberal increases last time to the beneficiaries. First prize was to stabilise the environment, and now – in this current economic boom, with robust activity in the equity markets – we can start flexing our muscles. It was stabilisation first, and now we can go on and grow.

BT: You are now a major player in the South African economy?

MK: Undoubtedly so. It's not we who say it, but our critics. (laughs)

SAFEGUARDING WORKERS' MONEY

BT: How representative is your board? Are all the unions represented?

MK: The public service co-ordinating bargaining chamber decided on who should be represented. Currently, I know of the Public Servants Association (PSA), Health and Other Service Personnel Trade Union of SA (HOSPERSA), National Education, Health and Allied Workers Union (NEHAWU), South African Democratic Teachers Union (SADTU), Police and Prisons Civil Rights Union (POPCRU) and National Professional Teachers Organisation of South Africa (NAPTOSA).

BT: Let me go back to a crucial point. As chair of the board, your main preoccupation must be to safeguard the money of the workers. Whatever you do, you cannot just "dish out". You must make sure that the children of the present workers are looked after, and their own futures secured. You can't just go out and invest anywhere.

MK: Not at all, we have a long-term view about this fund. That is why we can't play like people play in a casino, for short-term returns. Ours is a twenty- to thirty-year time horizon.

BT: Does the board or does the PIC experience enormous pressures from the private sector? They want your money, don't they?

MK: (laughs) Well, they want our money, but I always believe that "good fences make good neighbours". For the first time, we've constructed a well-documented mandate for the PIC on what they can and can't do, and where and when they should invest, what type of asset classes and what percentage. So the only way in which the PIC can respond to our mandate is to look very meticulously at who the best players are to respond to that mandate in the marketplace. I don't think any amount of pressure will distract the PIC from that mandate, because that's the basis on which they will be judged by the GEPF. The pressure has been eased now, because we're taking a lot of that money away and managing it in-house. The fees for managing those funds have dramatically decreased and more players are allowed in, too. The players will now have to demonstrate their ability to respond to the PIC's mandate. The mandate is now much tighter and more focused.

BT: More investors?

MK: More players can now raise their hands and be counted.

BT: These guys are appointed by the PIC, not by you? The PIC must have a very, very sophisticated management tool.

MK: They've built up a very reputable capacity. Dr Dan Matjila, who is the chief investment officer, is a very reputable player in the market.

CEO OR THE TRIPLE-T?

BT: There was an article in *Business Day* on Monday, July 24 2006, in which they discussed the PIC's challenge to Edcon (Edgars Consolidated Stores Ltd) concerning the huge profits and returns to chief executives, and the question of "options" you mentioned earlier. Now, clearly, some executives in the private sector are getting away with a hundred million at a time in bonuses and share options, which are really shares priced at a lower

value than the current value. Do you have any say in that, as the GEPF? Or does the PIC?

MK: Our point of entry into that discourse is through the annual general meeting of shareholders. You know that on many occasions, via the PIC, we've been very vocal where there were deviations from stated objectives. You will also appreciate that our voting power, in some of these companies, is also a determining factor, unless we are in alliance with others. Shareholders can vote on an issue, and sometimes we've got 19 percent or 11 percent of the company. We can raise these issues, but ultimately it's a collective vote of all the shareholders that carries motions. Therefore, one of the strategies is to make sure that we are in line with the JSE measuring tool, although it's voluntary, so that the people we want to form alliances with are sharing our philosophy of shareholder activism.

There is a bit of a contradiction about this thing of share options, because, if truth be told, the halo of CEOs is a myth in many respects. One should rather look at the "triple T-factor" in this country – Thabo, Trevor and Tito. The astute management of the economy under the leadership of the president, the minister of finance and the governor of the Reserve Bank do not always enjoy the same degree of prominence as market results. This country is now reaping the fruits of a very meticulous policy stance. Some of these "superstars in the market place" are basically just riding on the wave of the environment that's been created. Yes, indeed, some of them had to spot the entrepreneurial opportunities, some of them had to unpack these things. But some of the so-called "super performances" paraded out there are on the back of an environmental condition that was not the making of those CEOs, but of this government's economic policy stance, therefore the real test of some of them will come when there's a downswing in the economy. How will some of them perform? Certain industries go through a downswing. Is the CEO of that industry going to jump ship or will he be able to steer that industry out of the doldrums? What is happening in the commodity sector, for example: one day gold is the "flavour of the month", but then another day something else is, and that's when the true guys will come to the fore. But I must say there's sometimes an exaggeration of the performance of some CEOs, with a very small footnote about the "triple T-factor".

SHAREHOLDER ACTIVISM

BT: (laughs) That's an interesting point. Now, we hear of Brian Molefe making a noise at these general meetings and I've asked whether the GEPF and the PIC also ask questions about lower, broader BEE, or if is it only about management. I asked that question of Brian on a radio show, and he said that we must get the management more representative as a priority. I'm not sure if I agree with that. Do you?

MK: Who drives those businesses? If you've got the right management in place, obviously they will make sure that the mandate of shareholders will be fulfilled. There's a financial services charter now, and a couple of others that are out, ICT and so on. So this is not rocket science anymore. The game rules have been defined by industry in partnership with government, like the BEE scorecards. But there are sometimes subtleties that one needs to challenge, and that's where shareholder activism comes in, to ask the right questions and make sure that they're targeted at the right level. It's no use to hold the procurement guy responsible there, and leave the CEO unscathed. It's no use to go for the huma n resources guy and the CEO is untouched. Your voice must be raised there at the top to make sure you've got the right people at the helm of this company.

BT: When the PIC or yourselves go to the meeting of a big company in which, say, you have an 11 percent share, do you raise questions not only about the management but also about the broad base?

MK: Definitely.

FINAL QUESTIONS

BT: Do you support small enterprise or is that beyond your reach?

MK: Through the Isibaya Fund.

BT: But the GEPF, as a whole, cannot get involved?

MK: Through the Isibaya Fund there's been a lot of start-up venture capital that got a couple of blue chip SMMEs on top.

BT: Do you co-ordinate with the Industrial Development Corporation (IDC), the Department of Trade and Industry (DTI) and the Treasury?

MK: I know there are at least a few examples where there's been collaboration between the DBSA and the PIC; and the PIC and the IDC. Treasury's role is more in policy. There's also been collaboration between the PIC and some of the parastatals, like Airports Company South Africa (ACSA). We are in Telkom, and a few other parastatals. There is not a structured way in which it's currently taking place. It's very much more on a deal by deal basis. But I know in the cabinet *legotla* and all those high-level meetings, these things are usually looked at in totality, in order to mobilise our best possible efforts as a collective.

BT: What about the question of ongoing co-ordination in government as a whole? For example, the Human Sciences Research Council (HSRC), the DBSA, the Council for Scientific and Industrial Research (CSIR), the Independent Development Trust (IDT): they do not have standing meetings where they discuss policy and co-ordination.

MK: But there are such meetings, Ben.

BT: There are meetings, but not for ongoing policy co-ordination.

MK: I can at least speak for the trade and industry cluster, the 19 agencies, the Council of Trade and Industry Institutions (COTII). I think the government's cluster system works perfectly well. I think that a lot of convergence is taking place at ministerial level, because a lot of these agencies report to a specific line minister.

BT: I stand corrected. But if some of us are raising these questions, it is because this doesn't happen in the public domain. It's a private thing, in the *legotla* or the cabinet. But the question of co-ordination in the developmental state is clearly fundamental at this stage.

MK: Not forgetting that, in the presidency, there's a special unit that looks at all this co-ordination in government. The president is the conductor who ensures that the orchestra, in other words, every organ, is in line with the score.

BT: Last question. The PIC reports to parliament. How seriously do they take that?

MK: It's a serious matter because government's exposure can be immense. If there's any mismanagement – like wrong investment decisions, etcetera – the government will have to cough up, given the nature of the fund, given the volatilities that can happen. Just a few days ago everybody was nervous about what's happening in China, and as an economist, you know that these shifts can happen overnight. Therefore, we have to be vigilant. Parliamentary oversight can't be overemphasised to ensure sustainability of the fund.

SOUTH AFRICA: STILL HOSTAGE TO ECONOMIC THINKING THAT IS NOW HISTORY

BY MICHAEL POWER

The author is a leading South African economist

Having a sensible conversation about the fundamental value of the Rand with most South Africans working in the First World enclave of our economy is a near hopeless undertaking. Even for those few polite enough to listen, virtually none of them then want to hear what follows. For most members of the developed world core of South Africa's economy, hearing the comment that "the Rand is fundamentally overvalued" is so insulting, it automatically precludes hearing out any and all of the evidence that follows. Why? Because, it appears such a thought is, to borrow a phrase from Vorster, "too ghastly to contemplate".

After many frustrating hours of reasoning, I have concluded it is a lifestyle thing, about as welcome as telling someone their house might be overvalued. For those into behavioural science, these phobias are wrapped up in one of the most powerful economic instincts known to man: aversion to perceived loss.

Perhaps the saddest thing is that this default deafness is found even in those who should at least aspire to know better – economists who comment every day on the outlook for our country. But then, given the bias of traditional economic doctrine and the textbook economics nearly all of us have been weaned upon, refusal to entertain this "heresy" is perhaps not so surprising after all.

THE DEMAND-SIDE BIAS IS BUILT INTO OUR ECONOMIC GENES

Our basis for understanding today's global economy derives largely from what we call macroeconomics, a discipline that grew mainly out of Keynes's concept of aggregate demand, which can be broadly defined as "the collective purchasing power of a nation's consumers". The insights flowing from this demand-based approach were fashioned by treasury Mandarins everywhere into the policies of macroeconomic management.

From the 1930s onwards, understanding how to manage aggregate demand gave governments a handle on how they best could counteract the influence of a slowdown in the economic cycle, using a combination of fiscal policy (the preference of Keynesians being to alter tax rates) and monetary policy (the main preference of monetarists being to alter interest rates).

BUT DEMAND IS ONLY HALF THE STORY; NEVER FORGET SUPPLY

Ignored – deliberately – was any attempt to understand the concept of aggregate supply. Brushing aside some very valid reservations from one of economies' most enigmatic yet pragmatic practitioners, the Italian Piero Sraffa, Keynes assumed supply was the responsibility of the private sector and its natural animal instincts. He wrote: "We (the Treasury Mandarins) leave saving to the private investor... We leave the responsibility for setting production in motion to the businessman... These arrangements, being in accord with human nature, have great advantages". For Keynes, understanding and shaping the anatomy of supply was not the government's business; it was strictly business's business.

But even Keynes's greatest admirer, Joan Robinson, realised that Sraffa was on to something and, deep down, she suspected Keynes feared as much too. As she wrote to the latter: "think that, like the rest of us, you have had your faith in supply curves shaken by Piero. But what he attacks are just the one-by-one supply curves that he regards as legitimate. His objections do not apply to the supply curve of output as a whole – but heaven help us when he starts thinking out objections that do apply to it". Seventy years have passed and only now are the objections foreshadowed by Sraffa coming back to haunt not just Keynes's basis of macroeconomics, but the western-rooted global economy that has since held sway. Why? Because globalisation has started to reveal, albeit faintly, "the supply curve of output as a whole".

The laws of supply and demand will always be wih us.

THE CONSEQUENCES OF OVERSUPPLY: FALLING PRICES

Our understanding of economics may still evolve, but if economics has one certainty, it is that the laws of supply and demand will always be with us. This means when demand exceeds supply, prices rise; when supply exceeds demand, prices fall. And as the world economy globalises, as capital mobilises, as international trade becomes more integrated and supply chains become more sophisticated, these laws will only tend to operate more efficiently.

And these laws work at the macroeconomic level just as much as they do at the microeconomic. If your country is oversupplied with foreign goods by spending more on imports than it earns from exports, eventually you should expect downward pressure on your nation's "price", your currency. If you have much more labour than you can immediately employ in the global economy, eventually you should expect downward pressure on your currency. If your investors are oversupplied with opportunities to invest abroad relative to those available at home, again eventually you should expect downward pressure on your currency.

Of course, given that the widespread levels of oversupply in goods and services as well as semi-skilled and unskilled labour affect an increasing number of countries, you cannot have every currency falling in price. This means the game is relative; those nations with the biggest current account deficits, the highest levels of unemployment and the least investment opportunities at home will be those whose currencies are most likely to be overpriced.

ENTER THE DRAGON: HOW CHINA IS REWRITING CONVENTIONAL ECONOMICS

Many economists consider the conventional wisdom founded on the macro insights of Keynes concerning aggregate demand to be the only wisdom there is. But, as in so many fields, the East has started to show us there is another way. For South African economists – most of whom are closely allied to our traditional vested interests and so western in their outlook as well as being trapped in the post-1930s straitjacket of demand management – will not like the implications of these more modern insights.

I believe the South African Rand to be structurally overvalued.

Whilst nearly all of these insights are "Made in Asia" (though one key one relating to capital flows and exchange rates I would regard as Chilean), the Chinese version has been by far the most successful. It addresses the issue of excess supply – especially of unskilled and semi-skilled labour – within the broader context of the nature of the global economy in which we live. And its central policy conclusion has been as follows:

> Set your exchange rate at a level that will start to clear the unemployed labour languishing in your second economy, and have much of that harnessed labour produce manufactured goods not for your own domestic "aggregate demand" (which in any case is probably still too nascent to be significant) but to meet global aggregate demand via exports.

The reasoning continues, and thus far the evidence out of Asia strongly endorses it, that as the second economy (largely made up of underemployed semi-skilled and unskilled labour) gains traction in the global value-adding production hierarchy, the first economy cannot help but prosper mightily too.

AMERICA MIGHT RULE THE WAVES, BUT CHINA IS WAIVING THE RULES

Keynes's division of responsibilities between who was responsible for managing aggregate demand and who was responsible for creating supply was a neat idea, but it only really stood a chance of succeeding if nearly everyone played by the same set of rules.

But what happens if a government were rather to target, albeit indirectly, aggregate supply? And what happens if that government were leading a nation of such size that its economic impact would change the face of the world economy as we know it? Well, that is what is in effect happening today and, with poetic irony, it is the original Mandarins themselves – the Chinese – who are the masterminds of this new supply management approach. (Strictly speaking, one might argue that the Chinese are following a furrow first ploughed by the Japanese, but Japan's economy was never weighty enough to alter the axis about which the global economy rotated; China's economy soon will be.)

The consequence of Beijing's break with the Keynesian tradition of demand management is that we now live in a world characterised by significant pockets of oversupply.

Firstly and most importantly, the pool of unskilled and semi-skilled labour has ballooned – Harvard professor Richard Freeman estimates a virtual doubling in the size of the global labour force over the past 15 years. Since the fall of China's Bamboo Curtain (1978), Russia's Iron Curtain (1989) and India's Silk Curtain (1992), the global workforce has grown to over 3 billion workers today.

Secondly, the physical result of this labour market explosion has been a massive increase in the supply of firstly goods (due mainly to China) and now services (more an Indian-led phenomenon). The yoking of these two giant Asian air-conditioners to the global supply chain has sent deflationary hurricanes howling through the value-added hierarchies of everything from flat-screen televisions to the cost of radiography.

Finally, the supply of capital has recently become not just plentiful but ultra-cheap and, in real terms, sometimes even free. This happened when the Japanese pursued quantitive easing in the late 1990s and Greenspan opened the liquidity taps after Wall Street took a tumble in 2000. "Helicopter" Bernanke today continues to rain liquidity that transmutes into capital down upon not just America but, via the medium of the carry trade, upon the world at large.

THE WORLD OF DIFFERENCE AND THE DIFFERENCE OF THIS WORLD

What, you might ask, has all this got to do with the value of the Rand? The answer is, literally and metaphorically, the world of difference.

Let me give you a pertinent example. As already noted, nearly all macroeconomists have been raised in the demand management tradition rooted in the insights of Keynes, and I even include most monetarists in this generalisation. This means, when it comes to determining the fair value of currencies, most use a demand-based measure to anchor their valuations: purchasing power parity (PPP) or one of its derivatives such as REER (real effective exchange rate). PPP is largely derived from "the law of one price", the near-truism that, in an efficient market, identical goods must have only one price and that, cross country, if they do not, exchange rates will eventually realign until they do.

The trouble with this approach, as I hope you have now realised, is that it is altogether one-sided. By focusing on the purchasing or demand side of the price equation, it does not take into consideration the selling or supply side of that same equation. To do that, one needs to understand mainly the marginal cost of production and that has in turn, at least until recently, rested largely upon the marginal price of labour. (China's economic rise has recalibrated cost ratios so that raw material inputs have again become a significant component of unit costs, thus helping to explain recent commodity price strength; but that is another story). At the margin, the price of labour is now being set by China and, in some spheres, even Vietnam (shoes) and Bangladesh (low-end textiles).

This means we have moved from a world where PPP was a passable guide to currency values to one where what one might call supplier pricing power (SPP) must now be added to the mix.

This explains why optically attractive measures like *The Economist's* Big Mac Index have started to crumble; indeed even that venerable magazine admits that the PPP acronym could also stand for "pretty poor predictor". Such indices measure only what price is paid in buying items, not what those items might cost to make in different locales and in particular, how much workers will be paid to make them.

A much better measure than the one-sided Big Mac Index would surely be how many Big Macs an average worker could afford to buy with a day's wages at their own MacDonald's outlet. When a Big Mac costs twice as much in Peoria, USA as it does in Pretoria, SA and American salaries are four times those in South Africa, is the Rand simply undervalued by 50% (as PPP demand-side proponents would have us believe), or is it more complicated than that? Obviously, I maintain the latter to be the case.

TRUST THE SWISS TO ENGINEER A SOLUTION

But help is at hand. It comes in the form of the UBS Prices and Earnings Survey, a monumental piece of research that is updated annually and might be called the "Big Mac Index for Grown-ups". Not only does this survey compare 122 prices of goods and services, it looks at earnings data in 14 professions and does this for 71 cities across the world. This allows one to compare the demand side's purchasing power with the supply side's pricing power and come up with a more balanced measure of affordability and fair value.

This in turn allows one to derive a more balanced "fair value" for exchange rates. And it immediately begs the question: If a Big Mac were to cost twice as much in Accra as in Zagreb, but wages were also twice as high in the Ghanaian city as the Croatian one, would not the relative levels of prices and earnings of both cities approximately balance out in the individual supply versus demand equations? In theory, one can see why the answer should be far closer to "yes" than the one-sided logic employed by the Big Mac Index, which would rather simplistically suggest that the Croatian Kuna was 50% undervalued relative to the Ghanaian Cedi.

The South African economy is, to a very large degree, still strapped into a pre-1994 straitjacket.

I have compared the 2006 findings from UBS for Johannesburg to the seven BRIC (Brazil, Russia, India and China) cities cited in the report: Rio de Janeiro, Sao Paolo, Moscow, Delhi, Mumbai, Shanghai and Beijing. Here are their findings for 2006:

- Including rent, Joburg US Dollar prices are broadly in line with the BRIC 7 average by being only 3% more expensive
- After tax, Joburg US Dollar salaries are 125% greater than the BRIC 7 average
- This means Joburg US Dollar salaries buy 121% more than the BRIC 7 average
- Food prices (in terms of how many minutes would one have to work in a given city to buy its bread, milk and Big Macs) are second only to Moscow in terms of "affordability", what a local wage will buy locally.

BACK TO THE VALUE OF THE RAND

So let me return to where I started. I believe the South African Rand to be structurally overvalued. The principal reason is that US Dollar salaries in South Africa are too high relative to our BRIC peers, nations who are now the New South Africa's competitors if we wish to participate in the production of manufactured goods. This may help to explain why, according to The Economist's latest weekly indicators, South Africa's unemployment is so high relative to these BRIC nations: South Africa: 25.6%; Brazil: 8.4%; Russia: 6.9%; India: 7.6%; China: 9.8%.

Employing President Mbeki's first economy/second economy characterisation, South Africa's developed core of our dichotomous di-conomy appears close to being fully employed (hence all the talk of there being a skills shortage) and so arguably the Rand's current exchange rate is indeed appropriate for this privileged enclave of our economy.

However, market mechanisms – and most especially the exchange rate – appear not to be working for the second economy. This may explain why most of the second economy is not working – unemployment amongst the Black population is, according to Azar Jammine at Econometrix, close to 50%.

"TRICKLE UP ECONOMIES": DEFYING BOTH GRAVITY AND LOGIC

Even at the risk of courting controversy by saying this, the South African economy is, to a very large degree, still strapped into a pre-1994 straitjacket, and in far more than merely the visually obvious ways. The first economy is currently benefiting from a windfall cocktail of higher US Dollar prices of commodities, a stronger Rand, lower inflation, lower interest rates and higher levels of consumer borrowing. Compared to its own history, South African economic growth – 4.5% last year – has indeed been impressive. But because our second economy is effectively frozen out of participating in world markets, our economy continues to languish near the foot of the emerging market economic growth league tables.

During the Reagan and Thatcher eras, there was much talk of "trickle down economies", the idea being that if you solved the business environment at the top (usually by cutting taxes), ultimately everyone further down the economic food chain would prosper. However, given that Western Gini coefficients have sharply diverged since 1980, many now question whether this logic was after all valid.

Yet South Africa now seems to be adopting an anti-gravitational variation of this philosophy, call it "trickle up economies". Many of those who have retreated into the increasingly domestic-focused, service-oriented, import-dependent, consumer-driven, higher-skilled first economy laager seem to hope and even believe that somehow the unemployed of South Africa's second economy can be co-opted up into the first and find work within its much higher US Dollar wage level structure. In a world of abundant labour, still falling goods prices, integrated supply chains and capital mobility, I simply do not believe this can be done, at least to any material degree.

A COMPETITIVE CURRENCY IS THE YEAST IN THE BREAD OF ECONOMIC GROWTH

A recent opinion piece in the *Financial Mail* ran with a typical first economy enclave headline "It is not the Rand". To be fair, the headline was at least partly right: it is not *just* the Rand; there are many other issues that need to be addressed if South Africa is ever to achieve the 6% and more GDP growth rate to which the architects of ASGISA aspire.

But apologists for the first economy *status quo* are profoundly wrong if they believe the challenges that South Africa faces – and by far the most profound of them is black unemployment – can be solved without addressing the fundamental value of the Rand in the context of the answer I gave above: the different world in which we are evolving today. Unequivocally, this means a Sino-centric world, not yesterday's OECD-constructed world, nor even that world South Africa inhabited before 1994.

And this means – and I repeat myself for emphasis here – a world of abundant labour, still falling goods prices, integrated supply chains and capital mobility.

The level of a nation's currency is that which inserts its labour force into the world's value-adding hierarchy. The greater the unemployment that results, the more likely it is that the rate of insertion is incorrect and, by definition, too high. No doubt there might be a host of other potential blockages holding back job creation; for example, skills shortages, insufficient infrastructure, inappropriate labour laws and uncompetitive tax regimes (even these phrases are decidedly "First World" in tone and address the particularly developed country challenge of how to improve labour flexibility). But when South Africa's unemployment rate is above 25%, it is at best wishful thinking and at worst an ostrich-headed denial if commentators believe that a shortcoming of this magnitude can be solved without addressing the issue of South Africa's US Dollar (not, per se, its Rand) price of labour via the valuation of our currency.

ROLL OVER, KEYNES

In the oft-quoted closing words of Keynes's 1936 General Theory masterpiece – and do not get me wrong, I regard Keynes as the finest economist who ever lived – he famously wrote: "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist." Is it just possible that we have reached that stage in the evolution of economic thought where the practical men who run our treasury and our central bank, Mandarins who are far from exempt from any intellectual influences, are nevertheless still slaves of some defunct economist... and that that economist is, of all people, John Maynard Keynes?

America might rule the waves, but China is waiving the rules.

We are now entering a truly post-Keynesian world and we must sit up and realise the profound implications of this fact. This means the value of the Rand must be re-examined in the new light emanating from the East. Only then do I believe will we truly be able to build a new South Africa. Only then do I believe will we stand a chance of delivering a better life not just for the privileged enclave that rather narrow-mindedly believes we have never had it so good but, far far more importantly, a better life for all.

WHOSE TURN IS IT TO COOK TONIGHT? CHANGING GENDER RELATIONSHIPS IN A SOUTH AFRICAN TOWNSHIP

BY WENDY ANNECKE

Wendy Annecke is a South African who carries out independent research on gender and energy, and promotes the interests of the poor. Her PhD thesis was entitled "One Man One Megawatt, One Woman One Candle. Women, Gender and Energy in South Africa with a focus on research"

This gender and energy study is set in an urban area, in the township of Khayelitsha, where poverty, violence and unemployment are endemic. Since the new democratic order came to power in South Africa in 1994, there have been efforts made to deliver basic services to such areas, and an extensive electrification programme has ensured that 75 percent of the formal houses and shacks in Khayelitsha are now electrified. All new connections are made on a pre-payment meter system. The other important change since 1994 has been the introduction of legislated gender equality with some machinery to enforce this. The impact of national macro-level policies on gender equality and electrification are examined in this article as they play themselves out in the politics of household relationships.

This study uses cooking as the domestic chore that epitomises traditional gendered domestic relations in order to explore the hypothesis that when women have access to modern energy services, and can use these on a sustainable basis, they are freed from some of the daily drudgery associated with being a woman and are able to improve their own lives. One of the questions is, if women's domestic burdens are to be relieved, will this be through access to modern energy services and appliances which reduce the physical labour involved in meeting women's practical needs, or will it be through sharing the tasks with men – that is through shifting and sharing the gendered division of housework? Further, would changing gendered roles, or even meeting women's productive needs, be accompanied by a shift in power relations, thereby addressing what have come to be known as women's strategic needs? This study suggests that a further category, that of emotional needs, has to be addressed in order to achieve gender equality.

THE STUDY

Urban studies are gaining in importance as the rapid migration from rural to urban areas in developing countries continues to put pressure on the ability of cities to meet the needs of their new and expanding populations. Khayelitsha has been labelled the most dangerous township in South Africa with such high rates of violence, including rape, that women are not safe on the streets or even in their homes. However, there have been changes in the attitudes and actions of some local police, and women have found that now being able to report domestic violence, and having the police take the issue seriously, has given them the support they need to refuse to be "slaves". This has had repercussions among the men who blame the new dispensation for the new breed of "cheeky women", and for men losing the power and privileges that they had ten years ago. Men complain that, if they use the old ways of resolving differences (in other words a beating), their wives "run to the police" who "are very unsympathetic to men" and lock them up "for nothing".

Women are the ones with the bruises and broken bones.

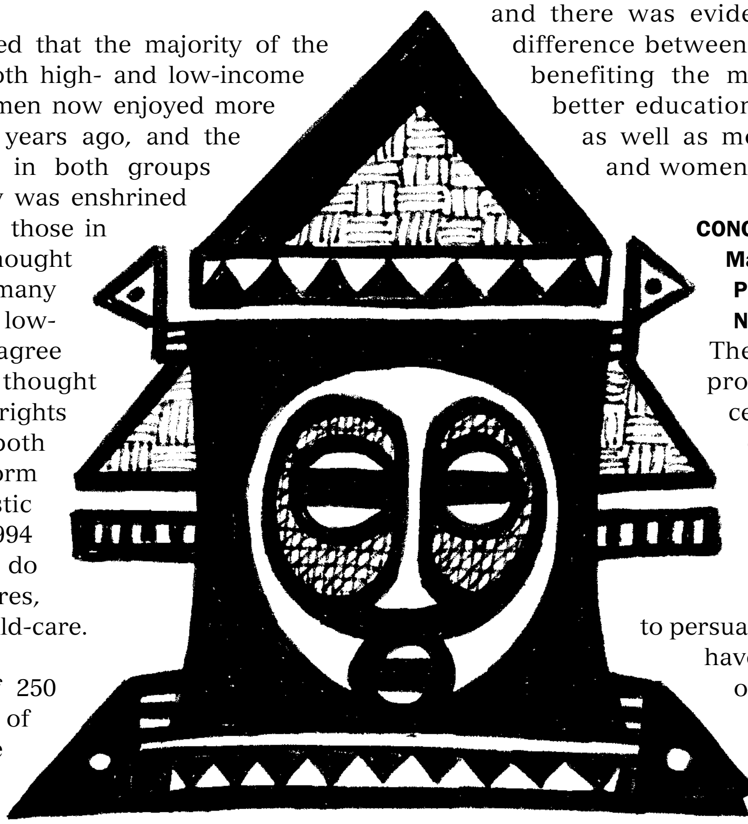
Finding a methodology for integrating domestic violence into this energy study has been difficult, especially in the context of constitutional rights for women. The literature offers reasons for gendered violence such as hurt egos from job losses, the legacy of the brutality of apartheid and the confusion of identities in transition, but the everyday reality is that women are the ones with the bruises and broken bones. It was in response to the very apparent women's distress that an additional category, that of emotional needs, was identified and included in the study. It is argued that a degree of emotional security is necessary in order to achieve gender equality; without this, women may remain in subordinate positions even if their other needs are met.

Other analytical frameworks used included gender analysis covering the gendered division of labour; access to and control over resources and benefits; and meeting practical, productive and strategic needs.

A survey of 250 electrified households in Khayelitsha provided data on household energy preferences, as well as trends in the gendered division of labour, decision-making, income generation, health and safety, and leisure for men and women. This information was supplemented by a short survey of gender relations in 60 high- and low-income households, and qualitative information gleaned from five in-depth focus groups in Khayelitsha. The methodology adopted also involved increasing the capacity of young researchers.

SUMMARY OF FINDINGS

The gender survey showed that the majority of the 60 men and women in both high- and low-income brackets thought that women now enjoyed more rights than they did ten years ago, and the majority of respondents in both groups knew that gender equality was enshrined in the Constitution. While those in the high-income group thought this was a positive step, many of the respondents in the low-income group did not agree with the principle and thought that women had gained rights at men's expense. In both groups, women still perform the majority of domestic tasks, although since 1994 most men in both groups do help with domestic chores, but noticeably not with child-care.



In the larger survey of 250 households, 72 percent of the respondents were women and 28 percent were men. Marginally more women than men in the sample reported working, but many of these women earned less than a living wage in the informal sector. Some of the men said they did not work because they could not afford the expensive machinery required to set up their own businesses. Overall, the respondents reflected the better-off section of the Khayelitsha population (as is often the case when looking at electrified households) but, even so, most people lived on less than US$1 a day.

Access to Energy and Gender Relationships

Electricity was the energy of choice by both men and women for all purposes except space heating; however, only 14 percent of households used electricity for all applications; with kerosene, batteries and some wood use in evidence elsewhere. Liquid petroleum gas (LPG) is not widely used. An unexpectedly wide variety of appliances were owned, even by shack-dwellers. Women tend to buy small appliances, whereas men buy televisions and large appliances; and men admitted that they spend money on televisions and fridges rather than on tools for income-generating purposes. Decisions are usually made jointly, and while there were eight more televisions than electric stoves in the sample, television is seen as a way of keeping children safe inside the home.

Gendered Division of Labour

Women manage electricity much as they managed wood: they supply the money, they walk to buy credits (for the pre-payment meters) and they are the heaviest users of the electricity – albeit mostly for family, rather than personal activities, such as cooking and ironing. In most households, men assist in some way or other and there was evidence that men recognised the difference between using the most electricity and benefiting the most. Having electricity meant better education, television, health and safety, as well as more leisure time for both men and women.

CONCLUSIONS AND RECOMMENDATIONS

Make Gender Equality a Priority, and Provide the Necessary Resources

The findings record the high propensity for violence among certain men, and men's resentment of their loss of power. The men had insisted on having one meeting where no women were present, and it was encouraging to see those with progressive perspectives trying to persuade the "traditionalists" that times have changed and that the realities of urban working conditions, as well as democratic values such as gender equality, have to be respected. Such men could be trained so that they could facilitate further discussions. The men who were angry blamed the new dispensation and women for their loss of position and privileges – not electricity. Indeed, many seemed relieved, almost proud, to be able to boil their own water to make a cup of tea and cook with the ease of electricity, but men continue to see "helping" as a favour, which they can withdraw at will. Urban and media messages of masculinity need to present alternative models of "the new man" that can appeal to poor men.

Keep Paying Attention to Women

Women still do most of the chores and they appreciate how much easier this is with electricity. A slight majority of the women said they enjoy doing the cooking, however they would like their efforts to be appreciated more, and some would like more help. The majority of women still lack confidence and competence when it comes to simple tasks such as changing plugs, and more effort should be made by utilities while carrying out electrification to address this.

Health, Safety and HIV/AIDS

There is significant anecdotal evidence of the benefits to health and safety of electricity. Quantification of these benefits should now be sought from those organisations which respond to shack fires, hospitals which deal with burns and poisoning, and school records of pass rates. People living with HIV/AIDS all agreed with the sentiments that "people who are HIV positive need a warm, dry place to live. They can easily get sick in conditions where there are no ceilings and gaps in the walls – draughts, particularly at night, can be fatal. Warm water is necessary, but we don't have any. Refrigeration is necessary to keep food fresh, and for medication. It would be advisable for someone with HIV not to be in a house where kerosene is used to cook – it amounts to suicide."

Achieving gender equality is a process, and in answer to the question: "How can energy interventions most effectively contribute to the process of empowering women?", what this case study shows is that if there is substantial institutional support for gender equality, access to electricity can further facilitate shifts in gendered roles and responsibilities in the domestic sphere. The reasons for this are twofold: firstly, women know they have legal backing to assert their rights, and men are pushed by the legal system to accept this. Secondly electricity makes it easier for men to perform domestic chores because they are not as burdensome or demeaning. However, it is clear that gender equality is not only a matter of meeting practical, strategic and productive needs, it is also necessary to meet women's and men's emotional needs in an accepting cultural environment.

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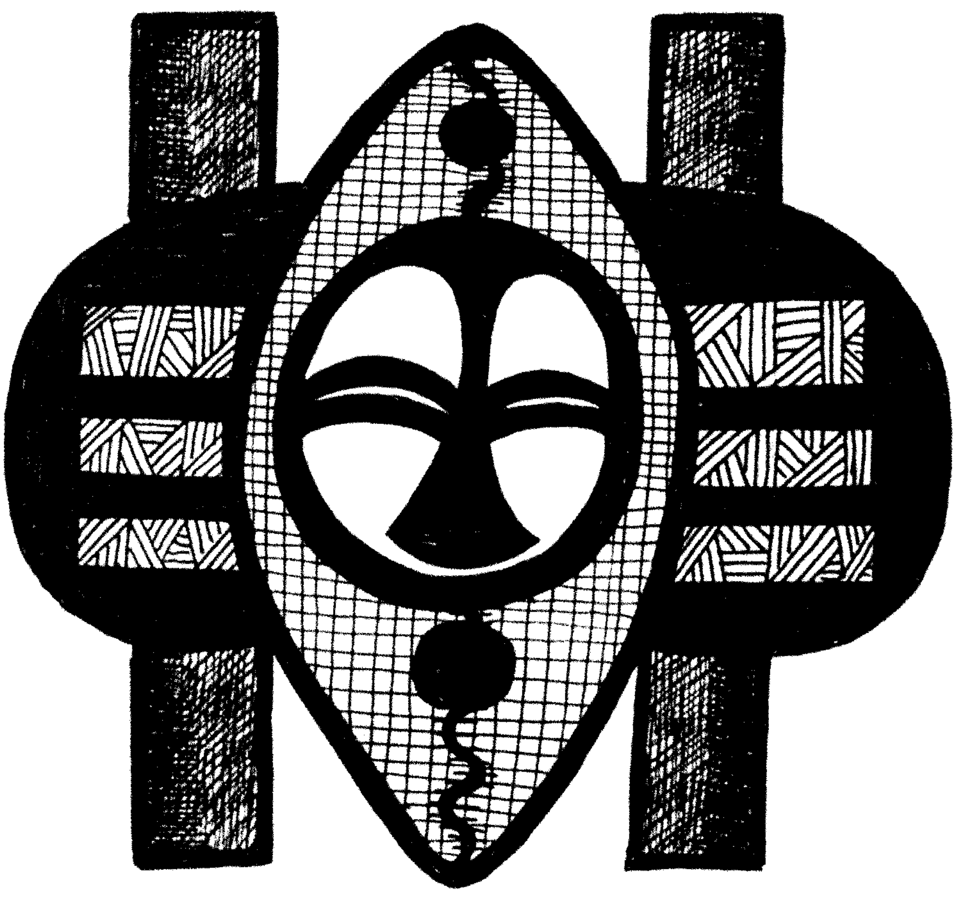

URBAN POLITICS AND SOCIAL MOVEMENTS IN ZIMBABWE

BY BRIAN RAFTOPOULOS

Brian Raftopoulos is a professor at the Institute for Justice and Reconciliation, Cape Town

INTRODUCTION

One of the many effects of Zanu PF's authoritarian nationalist project, in particular since 2000, has been the relegation of the important role played by urban politics and social movements in Zimbabwe's history. In building its legitimacy around the central role of the land question and its rural support, the Mugabe regime has often characterised the urban population and urban social movements as either marginal, or antagonistic elements in the liberation struggle, in a revised version of the "labour aristocracy" thesis.[1] More recently, since the onset of the Zimbabwean crisis from 2000, the urban electorate have been regularly berated as "totemless" people, under the influence of "foreign" directed opposition and civic groups, and traitors to their rural families and the liberation history. In 2005 the government of Zimbabwe demonstrated its disdain and fear of the urban informal sector through its "Operation Murambatsvina", (Clean out the filth) which, in the space of a few weeks, destroyed the homes and livelihoods of some 700 000 people, with 2 million more urban dwellers suffering related losses as a result of the urban "clean up". Moreover, in the increasingly repressive environment that has characterised Zimbabwean politics over the last six years, the major opposition political party, the Movement for Democratic Change, as well as its allies in the labour, constitutional and broader civic movement, have continuously suffered from the coercive actions of the state. In sum, the relationship of urban civic and opposition movements to the post-colonial state has been increasingly confrontational, and constructed by the state as the activities of a marginal group working outside of the "legitimate" discourse of "national history".

URBAN POLITICS IN THE COLONIAL PERIOD

From the 1930s, movements that emerged in the early urban settlements provided important forms of struggle against the colonial state. Moreover, in their geographical coverage, their mobilisation issues and their alliances, they transcended any formal citizen/subject binaries, and the still clumsy efforts of the colonial state to develop rural governance structures around a traditional/modern dichotomy. In her excellent new book Jocelyn Alexander has captured this complexity in her *longue durée* discussion of the land question in Zimbabwe, and more particularly in her description of the politics of land over the period 1893-2003. In this regard she provides a nuanced description of the politics of the Industrial and Commercial Union (ICU) in the 1930s, in which she observes that demands of this initially urban organisation overrode the colonial administrative idea of "tribal rule" and "custom", through its involvement of chiefs as well as its alliances and political objectives. Moreover this complexity characterised African politics for much of the colonial period.[2]

However, it is also clear that from the 1950s there were tensions between older style urban politicians like Charles Mzingeli, trade unions and the nationalist movement. These tensions involved disagreement over political objectives, forms of political autonomy, and sources of funding. In particular, as the trade unions grew stronger from the 1950s, their struggle to maintain their autonomy from nationalist politics, their growing international labour linkages, as well as their attempts to exploit the spaces in colonial labour policy, led to increasing cleavages with the dominant nationalist parties. These disagreements sometimes led to violence between nationalists and trade unionists, and set the tone for long-term tensions between the two.

As the liberation struggle became increasingly rural-based from the early 1970s, the organisational linkages between urban organisations and the nationalist parties weakened, though they did not disappear. Moreover, the structural linkages between urban workers and their rural homes led to other connections. Nevertheless, by the time of independence in 1980, a difficult relationship had developed between the nationalist parties and urban organisations like the trade union movement. Moreover, the urban areas had witnessed the growth of community, residents and women's struggles, which developed a dynamic connected to, but also separate from, dominant nationalist politics.

URBAN POLITICS IN THE POST-COLONIAL PERIOD

In the period after 1980 it did not take long for both the legacy of older urban organisations and emergent structures in the cities to confront the new state. By the late 1980s, trade unions and students, breaking their initial close working relationship with the new state, took progressively critical positions regarding the rising levels of state corruption and the one-party domination of national politics. This led to several confrontations with the state and the arrest and harassment of the leaders of these organisations. The language of labour and student rights challenged the assumed unities of nationalist discourse, and the state responded not only through force, but also with accusations of betrayal and ingratitude.

By the time of independence in 1980, a difficult relationship had developed between the nationalist parties and urban organisations like the trade union movement.

By the 1990s, in the period of economic and political liberalisation, labour mobilisation became more organised and sustained, and through a public sector strike in 1996, a general strike in 1997 and a series of stay-aways in 1998, showed its capacity not only for national organisation, but also for confronting the state. In developing this capacity, the unions drew both on longer-term structures and their capacity to mobilise a new generation of workers. The labour movement also connected to international labour alliances, as they had done from the 1950s, and appealed to an international language of labour rights and standards to hold the new state to account. As the repression of the Mugabe state has intensified, the labour movement has also called on the solidarity of regional labour organisations such as COSATU, and through this solidarity, has challenged Mugabe's authoritarian notion of sovereignty with broader ideas of international labour rights.

The 1990s also saw the emergence of a plethora of urban-based human rights organisations, women's organisations and other rights-based forms that broadened the national debate on human and civic rights, and lobbied the state to account for its abuses in these areas. Foremost amongst these new organisations was the constitutional movement, which galvanised an alliance between the labour movement and other civic organisations around the issue of constitutional reform. A major result of these developments in the labour and civic movement was the emergence of the first national opposition political party, the Movement for Democratic Change (MDC) in 1999, which provided the Mugabe government with the first major electoral threat to its political power. Through a series of electoral gains at national and local government levels the MDC, until its tragic split in early 2006, demonstrated Zanu PF's longstanding problems with urban politics. Moreover, the undemocratic manner in which the ruling party has administratively undermined the elected local government structures dominated by the MDC has further alienated the urban electorate. As Kamete has written, the ruling party has failed to develop a strategy that "combines administrative triumphs with a democratic mandate".[3] The disastrous attack on the urban informal sector through Operation Murambatsvina merely emphasised that for the ruling party the emphasis of its strategy for the urban electorate rests largely on violence and control. Additionally, through a combination of the central role of the state in controlling land through the land occupations since 2000, and the forced disruptions of urban livelihoods in Operation Murambatsvina, the state has made its own disastrous attempt to govern the cost of social and labour reproduction.[4] This authoritarian response to local government has in turn triggered the growth of residents' organisations such as the Combined Harare Residents Association (CHRA) that has challenged the state both in the courts and through public mobilisation over the issue of the state's abuse of local government legislation.

CONCLUSION

As the political and economic crisis in Zimbabwe deepens, urban social movements continue to present a challenge to the authoritarian Zimbabwean state. In October 2006 members of the labour movement were badly beaten and tortured by the police while in custody, after attempting to demonstrate over the rapidly deteriorating living conditions of its members. Moreover, the demonstrations were characterised by the state as the organisational front of foreign masters. This response of the state marks the persistent inability of the ruling party to come to terms with challenges of urban social movements. However, the limits of such challenges to the state also indicate both the geographical and strategic problems faced by such urban organisations. Connecting urban and rural struggles to confront the repressive politics of the post-colonial state remains a major challenge for Zimbabwe's urban social movements. In the context of the post-2000 land occupations and the authoritarian state politics that have accompanied them, this is proving to be an extremely difficult task.

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CHAMPIONING AGRICULTURE IN AFRICA

Championing Agricultural Successes for Africa's Future, A Parliamentarians' Dialogue, was the theme of a Nepad conference held near Cape Town, 15–18 May 2006. It was attended by parliamentarians from all corners of Africa, leading international organisations, farmer groups, private sector representatives, researchers and donors to raise awareness of the importance of agriculture in Africa for poverty reduction and economic growth.

OPENING REMARKS BY MAFA E CHIPETA

The speaker is the director of the policy assistance division of the Food and Agriculture Organisation of the United Nations (FAO)

Being an international civil servant, I am not accustomed to public speaking; you will therefore forgive me if I am brief and to the point, devoting my time instead largely to listening. I start by expressing thanks to the host government and the co-organisers for offering FAO the opportunity to say a few words at this opening session. My presentation can be reduced to the few points that follow:

- I start with a message of hope and optimism: Africa can carry much of the investment burden to reverse its precarious food situation. I say this because Africa spends each year between US$22 and 25 billion on agricultural imports and earns some US$14 to 15 billion from exports. A sustained diversion of only a fraction of what it spends on imports to purchasing from Africa's own farmers can lead to sustained investment in its own agricultural development that would enable the continent to regain productivity. Africa has capacity not only to attain self-sufficiency, but to become an exporter to reckon with on the international stage. What is needed are deliberate decisions and sustained commitment to taking this bold step: it can be done.

- A decision by Africa to lead in investment into its own agriculture would be in the spirit of Nepad as an Africa-owned and Africa-led programme of renewal. Surely Africa is by now aware that those who pay also dictate what is done. By investing its own resources, Africa would regain ownership of its development priorities and control over their emphasis. Africa would, furthermore, send a clear signal of its seriousness, thereby more easily attracting complementary funding from external partners. In weighing whether to invest local money into agriculture, Africa's leaders would no doubt remember two things: that the AU ministerial meeting of July 2003 in Maputo recognised in its discussions that no external parties owe Africa a living; and that food is a basic need whose supply may carry some risks if left to the charity of others.

My figures revealed for the committee the historical fact that each time donors had offered more funds, the government had reduced local allocations.

- But there are challenges. At an earlier stage in my career, I had the chance to interact with a parliamentary committee on agriculture. Members were preoccupied with the limited willingness of donors to offer more money and were ready to condemn the external partners for this. My figures revealed for the committee the historical fact that each time donors had offered more funds, the government had reduced local allocations. Thus, donor aid was leading not to supplementation of investment in agriculture but to budget displacement. Africa must do better than this if it is serious about its commitment to the sector.

- There are some achievable goals that Africa may wish to privilege. Most commonly expressed is the need for earliest and most vigorous *implementation* of the Nepad CAADP [Comprehensive Africa Agricultural Development Programme] on the ground. Less often expressed, but very critical for the sustainability of efforts, is the need for *implantation* in the minds of Africa's governmental and political leaders of the need to grant sustained priority to agriculture in their budgets, if the developmental needs of Africa's masses are to be met. In this respect, at the 2003 Maputo Summit, African Union heads of state and government already set themselves goals to achieve.

- There are some elements of reality which Africa would do well to treat as clarion calls for action:
  - only four of some 78 members of the ACP [African, Caribbean and Pacific countries] prioritised agriculture as an objective of funding under the European Development Fund (EDF) – only 15 prioritised rural development. Under the EDF system, if a sector is not prioritised in advance, it cannot be funded. Partly as a result of this, Africa, like the rest of the ACP, has seen unused EDF funds repeatedly returned to the EU. Unless things change, this could happen again when the EDF10 is launched in another couple of years
  - Africa, on average, uses only 9 kg of fertilisers per hectare of arable land. By contrast, OECD countries use well over 100 kg; China is reported to use as much as 240 kg. Under these conditions, the low productivity of African farming should not come as a surprise
  - sub-Saharan Africa has only around 4 percent of its arable land irrigated, as opposed to some tenfold higher in Asia. Yet Africa is a relatively well-watered continent – at present this water is let loose to run to the ocean, making no contribution to agriculture. Africa then blames unreliable rains for unreliable and insufficient food production
- Africa is commended for the 2003 Maputo decision to raise allocations to agriculture to 10 percent of budgets within 5 years, i.e. by 2008. The current reality is that many of its countries allocate far less than this, some in the order of 2 or so percent, despite some 60-70 percent or more of their people being directly dependent on agriculture. By contrast, in Europe, where perhaps 5 percent of the population lives directly on agriculture, not only do national governments budget for the sector, but the European Commission allocates about half of its budget to the Common Agricultural Policy – a mechanism for budgetary transfers (including subsidies) into farming. There must surely be some lessons for Africa somewhere in this and in the fact that other developed countries extend similar generous support to their low farming populations.

To conclude: Africa can do it – it just requires commitment, determination and persistence. It is unacceptable, or should be considered unacceptable, both that Africa should continue to live on food handouts year in and year out, and that Africa should continue to lay the blame for this permanence of famines on droughts or floods: water can be controlled if deliberate efforts are made to do so.

In the end, moving from expressing outrage at what is unacceptable to acting on it requires public policy. You, as members of Africa's parliaments, are central to making decisions to move into action. As a civil servant, I cannot make further comments without being drawn into the political arena, for which I am unqualified.

THE CAPE TOWN PROCLAMATION: PARLIAMENTARIANS' RECOMMENDATIONS SUPPORTING CAADP GOALS (SOMERSET WEST, SOUTH AFRICA. 18 MAY 2006)

1. THE IMPORTANCE OF AGRICULTURAL GROWTH

Sustained agricultural growth is necessary if Africa is to stimulate economic growth and reduce poverty. Over 70 percent of Africa's poor work in agriculture: the majority of them are women. Meanwhile, Africa's poor spend over half their income on food staples. Thus, agriculture has the greatest potential to simultaneously increase production and productivity while enhancing incomes of the majority of the continent's poor, and at the same time raising real incomes of the urban poor by reducing the cost of food staples. Members further recognised that agricultural prosperity stimulates demand for many non-farm goods and services, generating large spillover growth in other sectors of the economy and driving large GDP growth multipliers. Further, agricultural growth improves national food security and drives rural prosperity and wealth creation which, in turn, help in stemming rural-to-urban migration.

2. PROSPECTS FOR SUCCESS

The conference recognised that African farmers and agricultural policy makers have achieved a series of substantial successes in agricultural development, although these have proven inadequate in number and scale to counter Africa's rapid demographic growth. Many of these successes have endured for decades, without being scaled up. The development of tropical manioc selection (TMS) varieties of cassava has launched two decades of breeding breakthroughs in most regions of Africa. The development and diffusion of modern, high-yielding varieties of maize, from the 1960s onwards, have transformed this imported cereal from a minor crop into the continent's major source of calories today. By crossing African and Asian varieties of rice, African rice breeders have developed Nerica, a hardy, high-yielding upland variety of rice, which is spreading rapidly in West and Central Africa. Further, members noted that in recent decades African farmers have successfully contested highly competitive export markets for high-value agricultural products – including cotton, coffee, livestock and horticultural products – for Europe, the Middle and Far East.

Reviews of past successes suggest a regular confluence of three key ingredients. First is new, more productive technology that lowers costs and makes farming more competitive and profitable. Second is a focus on growing markets. Third is high-level political commitment to agriculture. It was evident that clear vision and high-level political commitment have consistently proven essential for creating favourable policy environments and ensuring adequate budget allocations to agricultural support institutions and related infrastructure.

Under the EDF system, if a sector is not prioritised in advance, it cannot be funded. Partly as a result of this, Africa has seen unused funds repeatedly returned to the EU. Unless things change, this could happen again.

Looking forward, medium-term projections suggest that the largest immediate opportunity for agricultural growth will lie in the anticipated explosive growth in Africa's internal and sub-regional markets for food staples. Flexible responsiveness to high-value and niche export markets can supplement this with opportunities for external growth. Both domestic and export markets open opportunities for value addition up- and downstream, in input supply and processing industries. Africa's abundant resource base can underwrite these gains, provided African governments can maintain sustained policy follow-ups to maintain favourable policy environments and provide necessary public goods – such as roads, power, legal institutions and research – that the private sector will not supply.

3. THE ROLE OF PUBLIC POLICIES AND INVESTMENTS

The conference further recognised that a modern African agriculture must view farmers as entrepreneurs seeking profit through access to credit and productivity-enhancing technologies in order to compete in growing domestic and export markets. Indeed, Africa's farmers have proven inventive and resourceful as well as highly responsive to new opportunities. Input suppliers, together with agri-business processing and distribution networks, form vital links between farmer and final output markets.

Public policy must provide a favourable environment for sustained agricultural production and agri-business. Access to land and security of tenure, a solid legal framework, stable macroeconomic policy and well-functioning support institutions provide a necessary foundation for agricultural prosperity. However, members expressed concern about the scourge of HIV/AIDS and other debilitating diseases. Harmonised access to continental, regional and sub-regional markets enhances prospects for sustained agricultural growth, particularly in rapidly growing markets for food staples. Fair trade conditions and prices are a necessary part of this favourable incentive system.

Likewise, significant public investment will be required in rural roads, electricity, and other infrastructure as well as in agricultural research and extension of new, more productive technologies. Returns to public investment in agricultural research and development prove consistently high, both in Africa and elsewhere. Yet Africa, on average, has continued to under-invest in its key productive sector. While Green Revolution Asian countries invested 15 percent of their budgets in agriculture, on average, African governments today allocate only 6 percent.

Similarly, the conference acknowledged that public investments necessary to sustain rapid agricultural growth will require a significant boost in African government budgetary allocations for agriculture. Recognising this imperative, African heads of state and government at the African Union (AU) summit in Maputo, July 2003, agreed to make agriculture a top priority and to raise budget allocations for agriculture to a minimum of 10 percent of their individual countries' total public spending by 2008.

4. WHAT IS REQUIRED TO ACHIEVE THE CAADP GOALS?

The conference recommends that achievement of the Comprehensive Africa Agricultural Programme (CAADP) goals will require concerted action at multiple levels.

A. U/Nepad level

- communicate the Maputo Declaration (MD) to all stakeholders, including governments, relevant ministries, parliaments, civil society and private sector
- the Nepad Secretariat and AU Commission should enhance the monitoring of these agreements, including the MD for all member states
- provide a website with real-time information on spending targets and achievement
- harmonise definitions of agriculture and total spending. Support the Nepad initiative on agricultural expenditure tracking within government institutions and the necessary budget translations
- host regular, sub-regional seminars, to include government, parliament as well as representatives from the farmer organisations.

B. National level

- immediately internalise, formalise and institutionalise the MD in national budgeting process. Prepare cabinet memos; provide high-level briefings within government and legislative branches, as well as stakeholder groups. Integrate the MD into national medium-term planning and budgeting systems.
- improve the quality of agricultural investment allocations
- enhance internal capacities to utilise budget allocation effectively and efficiently
- develop transparent and efficient accounting systems that will accurately track actual expenditures on a timely basis
- initiate national peer review mechanisms whereby government, legislature and civil society can monitor progress towards this goal
- engage and enhance the capacity of farmer organisations, civil society and other beneficiary groups on follow-up and expenditure monitoring

- document and showcase past agricultural successes
- make agricultural education and image attractive.

African heads of state agreed to raise budget allocations for agriculture to a minimum of 10 percent of their individual countries' total public spending by 2008.

C. Parliamentarians

- designate the agriculture and associated committees of parliament to monitor progress towards the CAADP goals
- annually verify the implementation of the CAADP programme, including progress towards the MD by reviewing annual budget allocations and actual expenditure
- engage in sub-regional dialogues
- alert constituencies, including the youth, men, women and political parties, to the importance of agriculture and increased investment in agriculture
- require briefing by the executive to parliament on all initiatives related to agriculture
- monitor government progress in achieving the MD
- introduce private member resolutions advocating achievement of the MD
- parliamentarians should take a leading role in fighting HIV/AIDS
- encourage exchanges of experience and mutual learning with other parliamentarians and technical experts.

D. Development partners

- encourage development partners to prioritise agriculture again and provide matching grants to support African governments that display commitment to CAADP
- support capacity building efforts among African governments, parliaments and parliamentary groups
- support regional and sub-regional parliamentary fora on agriculture
- provide technical backstopping on technical issues affecting agricultural technology, development and trade
- provide links to industrialised country parliaments and policy makers so African parliamentarians can communicate the interdependence of African and developed country farm policies.

We believe that with renewed commitment by African governments, significant gains are achievable in African agriculture and that this enhanced agricultural performance will significantly improve prospects for economic growth and poverty reduction in the decades ahead. We call upon the organisers of this conference and all participants to play their rightful role to ensure the realisation of these recommendations.

CHALLENGES OF NATION-BUILDING: THE CASE OF SUDAN

BY FRANCIS DENG

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This policy project, focusing on the Sudanese experience, addresses two sets of issues. Firstly, the management of diversities through various forms of self-determination, preferably within a framework of national unity; and secondly, cultural contextualisation through the application of relevant indigenous norms within a framework that recognises both peculiarities and commonalities.

THE QUEST FOR AN APPROPRIATE AFRICAN CONSTITUTIONAL MODEL

African scholars and statesmen have been concerned with the way most African countries are being governed by constitutional models that are external in origin and not adequately grounded in the African cultural values and institutions of the peoples they are supposed to reflect and serve. African countries have yet to achieve clarity on what political and governance frameworks will best manage their rich diversities of peoples and draw upon indigenous African cultural values, organisational structures and institutions as sources of strength and legitimacy. Contemporary problems in Africa – civil wars, increasing disparities in wealth among regions and populations, and acute crises in nation-building – indicate that the legacy of constitutions and political frameworks left behind by its colonial powers has largely proven ineffective.

Post-independence governance frameworks have contributed to a crisis of national identity throughout much of the African continent. Existing legal frameworks that seem to stress unity through the suppression of diversity have left many Africans feeling disempowered and unable to see a reflection of themselves in the governance of the nations within which they live. If African constitutions are to embody the soul of the nation, they must accommodate diversity and build on the essential cultural values of all of the nation's peoples. In doing so, African constitutionalism should be a living process that is constantly evolving with the engaged participation of its peoples to reflect the political, economic, social and cultural dynamics of the continent and its population.

The crisis of identity that this proposed policy approach seeks to address is not only the product of contemporary events, but the outcome of a historical evolution. The African state was and is still largely a composite of distinct ethnic units – many of which would likely have described themselves at the time of colonisation as nations in their own right. As the colonial powers applied preferential treatment to the various groups, this pluralism created considerable disparities in the shaping and sharing of power, wealth, services and opportunities. The effect was to sow the seeds of potential conflict. Instead of seeking remedies to address these disparities through an equitable system of distribution of power and representation, many post-independence African governments chose to merely adopt the constitutional models left behind by their colonisers. In doing so, they emphasised monolithic concepts of unity by suppressing territorially-definable ethnic minorities who not only sought recognition for their distinctive identities against majority domination, but also a reflection of themselves in the constitutional and governing frameworks of the state within which they lived.

Existing legal frameworks that seem to stress unity through the suppression of diversity have left many Africans feeling disempowered and unable to see a reflection of themselves in the governance of the nations within which they live.

In a number of African countries, this culminated in armed conflict and a demand for various forms of self-determination. Sudan suffered a 17-year secessionist war that began four months before independence. Temporarily halted by a precarious peace accord, the war resumed a decade later with the unilateral abrogation of that accord by the government. The war only ended with the Comprehensive Peace Agreement (CPA) of 5 January 2005. While granting the South the right of self-determination, including the option to secede, the CPA upholds unity as a priority to hopefully be made attractive as an option. In the former Belgian Congo, Katanga tried to break away at independence in 1960, igniting a civil war in which the major powers became involved. In Nigeria, Biafra waged a secessionist war that was only suppressed after considerable loss of lives and much destruction to the infrastructure. Eritrea fought a successful war of independence, but one that lasted for 30 years. Civil wars also devastated Angola and Mozambique. Chad too suffered a violent conflict in which regionalism was a factor. These wars, which were more ideological than ethnic, had undercurrents of identity conflicts. And these are only examples of conflicts that were pervasive throughout the continent.

Some of these conflicts, or at least their root causes, persist today, even where peace has been achieved. The Democratic Republic of the Congo is back in arms. Côte d'Ivoire, previously seen as a model of stability, has exploded. Senegal is confronting a regional rebellion in the Cassamance region. The situation in Nigeria remains precarious, and although the North-South conflict in Sudan appears to have ended, conflicts in the regions of Darfur in the west and the Beja region in the east continue to pose a major challenge to the unity and stability of the country.

Among the critical questions posed by these conflicts and the crises of identity behind them are whether the country is pluricultural and multi-ethnic and should be governed as such; whether the role of religion (in particular one religion) should dominate in the affairs of an inherently pluralistic state; and whether majority rule is sufficient to satisfy contemporary standards of democracy.

Accordingly, this policy project, focusing on the Sudanese experience, addresses two sets of issues. Firstly, the management of diversities through various forms of self-determination, preferably within a framework of national unity; and secondly, cultural contextualisation through the application of relevant indigenous norms within a framework that recognises both peculiarities and commonalities. These issues will be examined with particular emphasis on

- approaches to conflict prevention, management and resolution
- democratic principles of decision-making
- the pursuit of human dignity through culturally relevant principles of "human and people's rights", with special attention to gender equality
- socio-economic development as a process of self-enhancement from within that balances growth with equitable distribution
- respect for the environment in formulating appropriate policies and strategies for development.

Constitutionalism is approached as a concept that goes beyond the focus on legal processes, to include political, economic, social and cultural dynamics in a comprehensive constitutive process. In this context, self-determination should be understood as a means by which people sharing distinct characteristics decide on the framework and the system of governance under which they wish to live and participate. Accordingly, the project views self-determination as a tool of conflict prevention, management and resolution within or outside the unity framework. Secession is a remedy of last resort.

Although national unity is a preferred option, the proposed project holds that it is indeed in the interest of unity that the principle of self-determination be pursued credibly, not to promote secession, but to encourage the creation of conditions that would make unity attractive to potential secessionists. While the long-run prospects of national integration should be cautiously and sensitively promoted, in the short run governance in Africa should be pursued through a constitutional system based on coexistence within a broader national framework of unity in which every group is respected and equitably accommodated. Whether the resulting constitutional system is labelled "autonomy", "federation" or "confederation" is less important than the effective distribution of powers it stipulates and the manner in which it attends to all of its peoples, regardless of their racial, ethnic, religious or other differences.

A word of apology about the presumptive scope of this project is called for. Despite the differences in the situations of African countries, there is much in common in the conflicts and crises of nationhood around the continent. The conflicts that have raged in numerous countries reflect cleavages of varying degrees.

Consequently, the project aims at building on both the differences and the similarities by focusing on Sudan within a broader comparative African framework. The southern Sudan is probably the least touched in Africa by the impact of Euro-centric systems of governance and socio-economic development. It has of course been devastated by civil wars throughout the independence period. Yet its indigenous institutions, patterns of life, cultural values and institutions have resiliently survived. For that reason, southern Sudan provides virgin soil for experimenting an appropriate African constitutional and normative framework.

SUDAN: PAST, PRESENT AND FUTURE

Geographically the largest country in Africa, Sudan is just emerging from a war that has raged intermittently for half a century, pitting the Arab Muslim North against the people of the South, who are black Africans, Christians and adherents of traditional religious beliefs. What was the war about? How has that been addressed by the CPA? And what are the future prospects for the South, especially in light of the tragic and untimely death of Dr John Garang de Mabior, leader of the Sudan People's Liberation Movement and Army (SPLM/A), in a helicopter crash only three weeks after he was sworn in as first vice president of the republic and president of the government of Southern Sudan.

A. What was the war about?

The war in Sudan reflected a crisis of national identity. As with most African countries, the colonial state brought together groups that had been distinctive, separate, and in some cases mutually hostile, and created severe disparities between them. The independence movement was a collective struggle that unified all the national groups. After independence, conflicts over political authority and the distribution of goods surfaced, with the stakes heightened by the centralisation and monopolisation of power.

A history of animosity between the Arab-Muslim North and the black African "animist" South, resulting from slavery, had deeply divided the two parts of the colonial Sudanese state. The British – the dominant partners in the Anglo-Egyptian Condominium rule – ended slavery and governed the country as two parts in one, developing the North as an Arab-Muslim society, and reinforcing in the South an identity that was indigenously African. While exposing it to Western concepts through Christian missionaries, any political, economic, social or cultural development was denied. The independence movement – pioneered and championed by the North and Egypt, the subordinate partner in the Condominium rule – was reluctantly supported by the South, which stipulated federalism and guarantees for the region as conditions for endorsing independence. On the basis of a Northern promise that their concerns would be given "serious consideration" after independence, Southerners voted for independence. It soon became abundantly obvious that not only did the Northerners dishonour their promise to the South, but worse, they stepped into the shoes of the British as internal colonisers, and adopted Arabisation and Islamisation as policies for national unification through homogenisation.

Southern reaction to the impending Arab domination first took the form of a mutiny that soon escalated into a rebellion and resulted in the civil war which devastated the South for 17 years. That war, led by the Southern Sudan Liberation Movement and its army, the Anyanya, was aimed at the independence of the South but ended in a compromise solution that gave the South regional autonomy. The unilateral abrogation of that agreement in 1983 by President Nimeiri, who had made it possible in the first place, triggered the second civil war, championed by the SPLM/A. Unlike the first liberation movement, the SPLM/A postulated the creation of a New Sudan that would be free from any discrimination based on race, ethnicity, religion, culture or gender.

The vision of the New Sudan was mainly that of Dr John Garang de Mabior, chairperson of the SPLM and commander-in-chief of the SPLA. Initially it was not understood, even within his movement. The fighting men and women in the South took it as a clever ploy to allay the fears of those opposed to separation in the African region and internationally. The soldiers, most of them Dinka, said in their language: "*Ke tharku, angicku*", meaning: "What we are fighting for, we know." This meant, in essence, that while Garang was talking the language of the New United Sudan, they were fighting for the secession of the South from the North.

What is important to underscore in the context of Garang's vision is that the dichotomy between the Arab-Islamic North and the African South is largely a fiction. Even those who can trace their genealogy to Arab origins are a hybrid of Arab and African race, and even their culture is Afro-Arab. Significant portions of the country bordering the South are as African as the Africans of the South. The Beja in the eastern part of the country are also indigenously Sudanese. The Fur and several other ethnic groups in Darfur to the far west also have large African populations. The Nubians to the far north have retained their pride in their identity and ancient civilisation. And in most cases, these non-Arab pockets of the North, although predominantly adherents of Africanised Islam, have been almost as marginalised as the people of the South. The vision of the New Sudan therefore promises to liberate all these people, along with the South, from their marginalisation, and to create a country of genuine pluralism and equality. An aspect of Africanisation therefore underlay the vision.

B. Have the causes of the conflict been effectively addressed?
Two sets of normative issues underlie the North-South conflict: failure to manage the diversities of the country; and correlatively, failure to build on indigenous cultures, values and institutions. Perceived simplistically at first as a North-South issue, it became evident over time that the national challenge penetrated deep into the North. Those who had been mislabelled Arab and had accepted the label began to question it.

The CPA addresses this multilayered crisis of identity by giving the South the right to decide whether to remain within a united Sudan or become fully independent, while at the same time challenging the North and all those who want to see Sudan united to exert all efforts to make unity an attractive option for the South.

Meanwhile, the South will have its own government, fully independent of Northern interference; its own army, virtually on a par with the national army; its own branch of the National Bank, which, unlike its Northern counterpart branch that will remain Islamic, will be conventional. Despite a national foreign policy, the South will have the right to establish bilateral relations with international trade and development partners. In addition, the South will have an effective role in the Government of National Unity and to that end, key ministries have been divided between the ruling National Congress Party and the Sudan People's Liberation Movement

The principles of the CPA on decentralisation, regional self-determination (albeit internally), and equitable power and wealth sharing are to apply to the marginalised areas of the North. What is likely to emerge is a restructured Sudan in which the traditionally dominant Arab-Islamic centre will cede power to the periphery and allow the process of African renaissance to bloom.

This arrangement provides the South with the opportunity to manage its own internal ethnic diversity, but also to orientate its system of governance to its indigenous values and institutions through a strategy of transitional integration that bridges tradition with modernity in dynamic synergy. Whether the government of the South will in fact do this will remain to be seen. The immediate challenge, however, is how the implementation of the CPA will proceed without Garang, who was a major force in its achievement and the prospects of its successful implementation.

C. The Future with Garang's legacy
The first major step in the implementation of the CPA, the swearing in of the collegiate presidency on 9 January 2005, with Garang as first vice-president of the Republic, was an unprecedented event in the history of Sudan. The nation was euphoric. The day before the swearing in, millions of people had turned up to receive Garang when he arrived in Khartoum after leading the SPLM/A for 22 years. It was clearly a hero's welcome that brought together Sudanese from all parts of the country, and especially the marginalised groups from the South, the Nuba Mountains, the Southern Blue Nile in the east and Darfur in the west, whose plight defied the simplistic North-South divide.

In his televised inauguration address to the nation, Garang declared that the people of Sudan were now free: "Put on your wings and fly to greater freedoms". He declared the SPLM a national party, said it would open offices in all regions of the country, and called on Northerners to join the party. Obviously he was challenging, and threatening to win over, supporters from the Northern political establishment, but he softened his appeal with the argument that such a development would reinforce the cause of national unity.

The southern Sudan, probably the least touched in Africa by the impact of Euro-centric systems of governance and socio-economic development, provides virgin soil for experimenting an appropriate African constitutional and normative framework.

Garang was speaking as a diplomatic fighter who had significantly achieved the objectives of his struggle, the centrepiece of which was the right of the people of the South to decide after six years whether to remain in a united restructured Sudan or secede. The CPA stipulates that efforts will be made during the interim period to make unity attractive to the South. But Garang's vision for the nation had already gone beyond the South, and he had already been applauded in the North as a champion of national unity in a reconstructed Sudan. He also realised that if his grand design for the country failed, an independent South that would remain committed to supporting the transformation of the North would be a guaranteed fall-back position. Suddenly, only three weeks later, Sudan and the world were shocked by Garang's tragic and most untimely death. It is extremely difficult to believe that a man who had not only conspicuously shaped contemporary history, but was still in the process of doing so with spectacular visibility, could suddenly be gone because of a helicopter crashing in bad weather. But that is what happened to Garang; a soldier, a scholar, a politician and a statesman who, more than anyone in recent history, had started a radical transformation of Sudan in a way that seems irreversible. He was at the helm of consolidating this achievement when he died.

For over 20 years, Garang surprised everyone by reversing the separatist rhetoric of previous Southern Sudanese liberation movements. The New Sudan of Garang would be a framework with which all Sudanese would identify with pride and dignity, and would enjoy the full rights of citizenship as equals, without any discrimination based on race, ethnicity, religion, culture or gender.

Over the years, culminating in the CPA, the cause of unity has gained slow but increasing support. The millions of people who received Garang on his heroic return to Khartoum on 8 January 2005 were not only Southerners, but people from around the country. It was obvious that Garang's vision had captured the imagination of the nation and had become a spectacular reality. Even the opponents grudgingly went with the waves of change.

It is, however, obvious that Garang was at a crossroads. Called upon to help shape the national unity framework, he was also needed in the South to form the government of Southern Sudan that would bring all diverse groups into a genuine Southern unity of purpose. Acrobatic ability was required to divide his time between Khartoum and Rumbek or New Site in the South, not to mention maintaining close contacts with allies and friends in the region.

He left at a moment that could both be viewed as tragic and opportune. He had raised the South, and Sudan as a whole, to heights previously never considered possible. He has now passed the challenge on to those he has left behind. Will they allow the nation to fall from those heights, with shattering consequences, or will they come together to pursue this vision? Southerners now have the right to decide whether to secede or remain. The North and friends of Sudan have the opportunity to make unity attractive to the South.

All indications are that Southern leadership, military and political, are now rallying behind Garang's successor, Salva Kiir Mayardit, the deputy chairperson of the movement and chief of staff of its army, who has stood in solidarity with Garang and in unwavering commitment to the cause of the liberation struggle since its inception.

With the CPA, the South now confronts the challenges of reconstruction, development and nation-building, whether its ultimate future is one of remaining within a United Sudan or becoming fully independent. Southern Sudan also has the opportunity of constructing a system of governance that builds on indigenous cultural values and institutions. As indicated earlier, Southern Sudan is perhaps the least touched by foreign concepts and therefore has the potential to build an African state on the pillars that link tradition and modernity in a dynamic fusion.

But if Southern Sudan is to offer a competitive model based on indigenous African cultural values and institutions, what are they and how can they be put into practice? In an attempt to answer the question and facilitate the process of transitional integration between tradition and modernity, we offer the cultural values of the Dinka, which are shared by the Nuer, and probably also by other groups in the South, in varying forms and degrees. It is hoped that the specific case of the Dinka will inspire members of other groups to explore comparative concepts in their own sub-cultures.

PERTINENT CULTURAL VALUES OF IDENTITY

The war in Sudan that raged for half a century has been widely perceived as a conflict of identities. An important factor in developing a system of governance that is appropriate to the context is the identification of elements of indigenous cultures, values and institutions, capable of application to contemporary challenges.

Although Sudanese societies may differ on details, to all of them, the family is the foundation of the culture and its value system. Ancestral continuity through the lineage implies a system of values that links the interest of every individual in the line to that of the collective interest of the lineage or the clan. Central to the value system among the Dinka is a concept known as *cieng*, which literally means "to live together", "to look after" or "to inhabit". At the core of *cieng* are the ideals of human relations, family and community, dignity and integrity, honour and respect, loyalty and piety and the power of the word. *Cieng* is opposed to coercion, and instead encourages persuasion and mutual cooperation.

Although *cieng* is a concept with roots in the heritage of the ancestors, it can be improved upon, including through innovation. So vital to the Dinka is *cieng* and the ideals it embodies that even in the modem context, it is always highlighted in discussions on how people should conduct themselves in human affairs.

It is indeed in the interest of unity that the principle of self-determination be pursued credibly, not to promote secession, but to encourage the creation of conditions that would make unity attractive.

A related concept, which confers social status on a person based on living up to the principles of *cieng*, is *dheeng*, translatable as "dignity". When a young man is initiated and moves from being a boy to being a man, he is said to have become *adheng*, a "gentleman", with the attributes of *dheeng*. But *dheeng* is a word with multiple meanings – all positive and also applicable to women.

A final set of values crucial to leadership is *dom*, establishing authoritative or legitimate control over a group; *muk*, maintaining and sustaining the group in accordance with the ideals of a good leader; and *guier*, improving the lot of the group by enhancing unity, harmony and prosperity. It is obvious that each of these concepts connotes the observance of the principles of *cieng* and *dheeng*.

A chief establishes control and "holds" the land or the group, not only by the mere fact of wielding power and authority, but also by using his position wisely to ensure peace, security and prosperity. The continuity or stability of that state of affairs is maintained through *muk*, which literally means "keeping", a word also applied to childrearing, looking after, protecting and raising. *Guier* goes a step further to imply improvement of the existing situation, whether through reconstruction or reform. It is close to "development" in traditional thought, but with implicit cultural and moral values. These normative concepts are mutually reinforcing and cyclic in nature. When a chief has taken over the reins of legitimate and authoritative power (*dom*), has stabilised his benevolent control over the situation (*muk*), and has introduced reforms to ensure a constructive and stable leadership (*guier*), he is described as having held (*dom*) the land to ensure security, stability and prosperity.

While the overriding value of ancestral continuity favours men over women, the social norms associated with *cieng* and *dheeng* apply equally to men and women. Even the leadership goals of *dom*, *muk* and *guier* also apply to women, albeit within the framework of their responsibilities as wives and mothers. It is generally agreed that as a function of the heart, a son is closer to the mother, while as a function of the mind, he must be seen as closer to the father and not susceptible to the jealousy and divisiveness of the mother. And indeed, a prudent mother will reinforce and develop this attitude in her son so as not to prejudice his position in the male-dominated world.

Ironically, with the devastations of the war and the massive displacement outside the traditional context, and as the indigenous society gets shattered and cultural values become threatened, women are proving to be far more resourceful than men. Often assuming responsibility for the family, even becoming heads of households, they are more adaptable to doing odd jobs for the survival of the family. The men become increasingly dysfunctional.

These concepts were the pillars of a coherent, well-integrated social order, whose overriding goals and legitimate means for pursuing them were well defined and accessible to all members of the community, who adhered to them with varying degrees of success. They still provide overriding values and guidelines for behaviour in virtually all aspects of life, both private and public, although their coherence, strength and functionality have been deeply affected and remain threatened by the upheavals of the war. Nevertheless, they need to be built upon, albeit with adaptation, especially as far as the role of women is concerned.

UTILISING CULTURAL VALUES IN GOVERNANCE

In light of the above cultural values, we now consider their application to the development of a political, social and economic order that is sensitive to the values of society. For illustrative purposes, focus will be placed on conflict management, participatory democracy, human rights, self-reliance, development, environmental integrity and changing gender roles.

A. Conflict management

Whenever groups with competing interests co-exist as neighbours, they will inevitably come into conflict. By the same token, they also develop conventional ways of regulating their interaction, managing their differences and resolving their conflicts.

Generally speaking, before the impact of modern government in Sudan, there was a relative balance of power between neighbouring ethnic groups, which made the development of conventional ways of managing and resolving conflicts a matter of mutual interest. With independence, the various governments began to arm some groups, thereby upsetting the balance of power and the mutual interest in peaceful co-existence. The abolition of the native administration in the North by the military regime of Jaafar Mohammed Nimeiri (1969 to 1985) compounded the problem as traditional methods of conflict management and resolution began to erode. Although the present regime has tried to revive the system of native administration, the authority of tribal leaders has weakened to the point where they have lost most of their traditional influence. In the South, chieftainship was not abolished, but the strains of the war and contested loyalties between the warring factions have had a debilitating effect on the authority of the chiefs. Nevertheless, tribal leaders continue to wield influence and still play a vital role in conflict management both within and between the tribes.

The independence movement was a collective struggle that unified all the national groups. After independence, conflicts over political authority and the distribution of goods surfaced, with the stakes heightened by the centralisation and monopolisation of power.

Traditionally, at least in the war-like Nilotic tribes, there was a clear differentiation of roles between, on the one hand, chiefs and elders who were the peacemakers, and on the other hand, the youth, who were organised into warrior age-sets with corresponding female age-sets, whose function was to encourage the warriors in defending society against aggression and performing public services that required physical strength. As warriors tended to exaggerate resort to force as a distinctive attribute of their identity and social standing, it was for the elders to restrain them. The chief was also the spiritual leader and his distinctive attribute was promoting peace in human relations

The age-set system was, for both men and women, also a vital institution for sanctioning the moral behaviour of members. Such offences as theft, however petty the objects involved, or rape, met with severe measures that shamed and ostracised the member. The age-set system was a means of socialising men and women through a life-long corporate membership that extended relations beyond the family. Members of the age-set engaged in a wide variety of activities that varied with the changing phases of life.

Members were first organised and initiated as warriors, with a corresponding female age-set, then they married and became fathers and mothers, and then, in the case of men, they became elders with a voice in public discussions and decision-making.

The disintegration of the age-set system has left a major vacuum in the social orientation of youth, especially young men, whose options now tend to be joining the rebellion or drifting into urban centres, where many of them fall victim to self-destructive behaviour that would not have been tolerated under the authority of the age-set.

B. Participatory democracy

Democracy advocates popular participation in the political, economic, social and cultural life of a country, but this poses a challenge for pluralistic states that are acutely divided on ethnic, cultural or religious grounds. Because democracy has become narrowly associated with elections, it poses serious dilemmas where people tend to vote on the basis of their politicised ethnic or religious identity. On the one hand, democracy requires that the will of the majority prevail. On the other hand, that risks creating a "dictatorship of numbers", with the majority imposing its will on the minority. While the normative principles of democracy are universally valid, they need to be contextualised within local realities, making effective use of indigenous cultural values and institutions.

Perhaps the most outstanding characteristics of traditional society are the autonomy of the component elements and the devolution of power and decision-making down to the smallest territorial sub-divisions; the lineages, the extended families, and even to the individual. This is particularly pronounced in stateless or acephalous societies, such as the Nilotics of Sudan

These concepts were the pillars of a coherent, well-integrated social order, whose overriding goals and legitimate means for pursuing them were well defined and accessible to all members of the community. They need to be built upon, albeit with adaptation, especially as far as the role of women is concerned.

C. Human rights

Human rights constitute the core of respect for differences of identities and the demand for equality and non-discrimination. The argument is often made that human rights emanate from a Judaic-Christian tradition and are therefore distinctively Western. To the extent that what is meant by human rights are the standards enshrined in, among others, the International Bill of Rights, this argument is, to a degree, valid. However, the more profound roots of the claim to universality lie in the idea that human rights reflect the universal quest for human dignity.

The universal principles of human rights must be shown to be, as they indeed are, integral parts of the ideals of human dignity shared by all cultures, even though they may be articulated and pursued differently. It is through the local lens that universal principles become grounded, contextualised and legitimised.

A number of Dinka elders interviewed in the 1970s, following the Addis Ababa Agreement, articulated traditional values that would support the universality of human rights. As one put it: "If you see a man walking on his two legs, do not despise him; he is a human being. Bring him close to you and treat him like a human being. That is how you will secure your own life. But if you push him on the ground and do not give him what he needs, things will spoil and even your big share, which you guard with care, will be destroyed." Another, referring to what he saw as the disdain the Arab-Muslim North had towards the people of the South, said: "Our brothers (the Northerners) thought that we should be treated that way because we were in their eyes fools ... A human being who speaks with his mouth cannot be such a fool. Whatever way he lives ... and whatever he does ... he deserves respect as a human being."

D. Self-reliant development

Quite apart from identity-based discrimination in accessing development opportunities, there are deeper issues that relate cultural values to development. Development should be viewed in the cultural context, as an integral part of building on identity and cultural values. Traditionally, people pursued a self-reliant lifestyle that met their basic needs in a web of kinship ties and solidarity. Seeing development as an imported goal outside of the indigenous purview runs the risk of dissipating local energies and resourcefulness.

The role of indigenous cultures in development requires an understanding of traditional values and institutions, and the ways in which they can be used to support development as a process of self-enhancement from within.

E. Environmental integrity

The value of the human being and the related social and moral context cannot be divorced from the environment; indeed, they are intrinsically interconnected. Modern Africans used to consider environmental issues a Western preoccupation. However, it has now become increasingly obvious that dangers to the environment are a global concern. In Africa, armed conflicts and the massive displacement of people have led to a severe degradation of the environment. In particular, deforestation has raised the stakes. Encroaching desertification and recurrent drought have also added to the degradation.

Traditionally, to illustrate with the Dinka again, there was a strong religiously-ordained respect for the environment.

As one elder put it: "Our blood ... was one ... with our hyenas, with our leopards, with our elephants, with our buffaloes; we were all ... one people ... We should all unite the people, the animals, the birds that fly we are all one." Another elder said: "Even the tree which cannot speak has the nature of a human being. It is a human being to God, the person who created it. Do not despise it."

F. Changing gender roles

As noted earlier, the cultural values of ancestral continuity were largely male-oriented, although women played a paradoxically influential role that had to be contained to minimise the threat to the male-dominated social order. With the devastations of war, especially massive displacement in unfamiliar circumstances, men become increasingly unproductive while women assume new roles, and become resourceful providers for their families. This has begun to alter perspectives on gender roles. Women are not only becoming increasingly involved in public life, but are assuming positions of leadership, and demanding full equality.

As women become partners in decision-making in family and public affairs, their role is bound to have a profound effect. In order to understand the logic of this change and its qualitative significance, it is important to understand the cultural context of what was, is, and will be, in the social dynamics of gender relations and roles.

THE CHALLENGE IN PERSPECTIVE

Sudan appears to be at a critical juncture, poised between the threat of disintegration emanating from an acute crisis of national identity, and the promise of genuine unity within a restructured national identity framework. The vision of the SPLM/A, as championed by its late leader Garang, has reversed the separatist demand of the South into a call for a New Sudan that would be free from discrimination due to race, ethnicity, religion, culture or gender. This has resonated with non-Arab groups in the North, and among all men and women who believe in the equality of citizenship. To what extent this vision is genuinely shared within the movement, or is a pragmatic ploy for gaining support for what may in the end be a separatist struggle, remains to be seen. However, the fact is that grievances generally associated with the South, and now shared by non-Arab marginalised regions in the North, are certainly tearing down the North-South barriers and improving the prospects for unity on radically transformed bases.

This development calls for close observation and appraisal. How dependable is the trend towards unity in a restructured "New" Sudan? What is required to make the restructuring genuinely inclusive and attractive? What, beyond the resistance of non-Arabs, non-Muslims and other negative self-descriptions, are the elements of identity and associated cultural values that need to be factored into the new framework? And how do these values and institutions relate to the challenges of development and nation-building?

Considering that the South is among the least developed or modernised parts of the country, it offers a particularly suitable context for bridging tradition and modernity. The contribution of the South to the restructuring and development of the country as a whole will, however, remain within the overarching framework of nation-building.

DOES AFRICA REALLY OWN ITS NATURAL WEALTH?

BY GODSON NOSIRI

Does Africa really own its natural wealth? Africa is undoubtedly the holy grail of rich natural endowments such as gold, diamond, iron ore, oil, coal, copper, cobalt, platinum, tin and others. She is also endowed with rich agricultural resources such as cocoa, palm oil, groundnut, cotton, timber and blessed with diverse ecological, economic and human resources. Africa is highly strategic to the western countries in terms of supply of raw materials and markets for industrial goods and services.

To answer the title question, this paper is divided into four parts. The first part delves into Africa's integration into the international capitalist system. The second part explains African states' lack of sovereignity in their rich natural endowments. The third part considers the consequences of foreign control of Africa's natural wealth. Finally, it suggests measures in which African nations can own or benefit immensely from their rich natural resources.

AFRICA'S INTEGRATION INTO THE INTERNATIONAL CAPITALIST SYSTEM

The periods of the Atlantic slave trade were characterised by a string of tribal wars, political unrests and the lack of development in Africa. The European slave traders' surplus profits were later used to establish companies to exploit the resources of the African continent. The abolition of slavery led to the introduction of legitimate commerce, such as the export of cash crops. Because Africans made it difficult for European traders to penetrate into the interior, the traders called for the support of their home governments to protect their interests.

Hobson (1938) argued that the European conquest of Africa was motivated by economic interest, and that imperial expansion was a product of the manipulation of national policies by the "Randlords" and similar financial operators. The European "overseas" companies played significant roles in the European conquest in the nineteenth century: they had a viable corporate presence; used their organisations as conduits for political relations; were independent in corporate political behaviour ("private foreign policy"); and their impact was of systemic significance.

One example is the Association International du Congo (AIC), which was formed in 1882 to achieve the imperial interests of King Leopold II of Belgium, as he believed that the Belgian state and people would not accept such responsibility. Fronted as a humanitarian-scientific organisation directed by Leopold and his cabinet, it hired military officers and administrators to achieve its economic and political expansion.

Trading rights in the larger areas of the Congo were reserved for the company. In 1890, ivory and rubber trades were declared state monopolies by the AIC. It conquered the empire of Tippo Tibo in 1892, an empire created by Arabised Swahili ivory and slave traders, and built a railway to the area. Between 1895 and 1909, the AIC became a political and economic force in central Africa. Anglo-French rivalry forced Leopold to recognise the company as a technically independent state with official relations with the Belgian government. A series of state loans were negotiated for the AIC, with the condition that Belgium might take over Congo if the AIC defaulted.

Fearing French conquest and British support of Portugal's claim to the mouth of the Congo river, Leopold transformed the AIC from a purely economic organisation into one with tangible territorial claims. In 1884, the USA recognised the AIC as a "friendly state", followed later by Germany, Britain and France. The AIC, renamed Etat Independent du Congo (EIC), won the Congo at the 1885 Berlin conference which determined European partition of Africa. (Cooney 1980: 162-166).

A second example is Britain's Royal Niger Company, founded as the National African Company by George Taubman Goldie in 1879. Through shrewd political and economic manoeuvres, he broke the monopoly of the Delta tribes and established up-river stations in direct contact with the palm oil producers and powerful emirs of the middle Niger. With these, he created the largest British firm operating in the West African region. Britain had the responsibility to supervise international trade in Niger, but few resources to do so. A charter agreement with the Royal Niger Company in 1886 extricated her from this difficult diplomatic situation. Moreover, the Royal Niger Company fought against the French imperial interests in the Niger Delta. The Anglo-French agreement of 1890 reserved the Niger Delta for the company. The company also secured middle belt areas for the British government through treaties and military conquest. With these, the British were able to win territorial claims over Nigeria at the Berlin conference. (Cooney 1980:169)

The British South African Company (BSA), founded by Cecil Rhodes, is another chartered company that served the interests of European conquest.

The Berlin conference set up the acquisition of African territories for economic imperialism through force and geographical manipulation against the will of African people. This was the genesis of colonial governments in Africa, designed to destroy African identity and economy. However, colonialism fully integrated the African nations into the international capitalist system as suppliers of raw materials, dependent on western goods and services. This paved the way for the exploitation of African natural resources by transnational trading and shipping corporations. The 1960s' scramble for vast African mineral resources saw the influx of multinationals in the mining, petroleum and technical service sectors.

WHY AFRICA LACKS OWNERSHIP OF ITS NATURAL WEALTH

Excessive dependence on primary exports

Most African states depend heavily on the export of unprocessed natural resources to countries that produce the industrial goods which are then imported by Africa at higher prices. This system, a legacy of the colonial regimes, is characterised by volatile international trade shocks, loss of currency value and cheap prices, especially for agricultural products. From 1972 to 1997, sub-Saharan Africa lost about US$68 billion as a result of shocks. (Collier 2002:4). This commodity-dependent export-led economic system contributed to the economic crisis of the 1980s that led to the introduction of the evil structural adjustment programmes (SAPs) in most African countries, which reinforced poverty, structural inequality and underdevelopment in the continent.

This system has discouraged the industry and economic diversification that are the engines of economic development, showing that the resources have not been used for sustainable economic development of the continent. It is responsible for the increased manufacturing imports in most African states that decrease job creation. In other words, commodity-export dependence enhances and sustains the industrial economies of western nations while African states remain dependent.

This economic system has other negative consequences for sustainable socio-economic development in the continent. State dependence on natural resources has encouraged prolonged armed conflict in many African states (see table). These conflicts provide opportunities for corrupt leaders and rebel groups, in collaboration with their foreign sponsors (multinationals), to amass wealth at the cost of millions of innocent lives and the destruction of state processes and infrastructure. Their natural wealth is a curse rather a blessing to most African states.

African Conflicts Fuelled by Natural Resources

Country	Date	Estimated deaths	Resource
Algeria	1992-	71 000	Gas, oil
Angola	1975-2002	800 000	Diamonds, oil
Chad	1980-1994	300 000	Oil, uranium
Congo-Brazzaville	1993-	9 000	Oil
DRC	1993-	200 000	Copper, cobalt, diamonds, gold, uranium
Liberia	1989-1996	250 000	Diamonds, iron, rubber
Sierra Leone	1991-1999	85 000	Bauxite, diamonds, rutile
Sudan	1983-	500 000	Oil

Source: Lwanda (2003: 21)

The state dependence on natural resources is a contributory factor to the high level of official corruption and rent-seeking in the continent. For instance, the Angolan government earns around $3.5 billion from oil sales, but the bulk of the money bypasses the budget and disappears straight into the hands of the presidency (*Economist*, 15 January 2000). Former Zambian president Kenneth Kaunda was alleged to have transferred $6 billion of state funds, mostly from copper sales, to personal accounts abroad (*New York Times*, 15 August 1990).

According to Herman Cohen, former US assistant secretary of state for African affairs, an estimated $20 billion more than what Africa receives in foreign aid flees Africa annually (*Africa Insider*, July 1994). Between 40 and 60 percent of privately owned African wealth is held abroad. With about $104 billion in stolen funds from Africa being held in western countries, the G-8 is hindering the repatriation in spite of conventional agreements (SABC2 News Africa, 10 April 2006).

While Asians invest in factories and wealth creation, African elites shift their money to western banks and luxurious living. Nigeria is the eighth largest exporter of crude oil in the world, yet the majority of her citizens live in poverty and face the burdens of poor infrastructure. Natural resources benefit only the few – the leaders and their apologists who do not believe in development. That is why militarisation and dictatorial states persist in the continent.

Third, commodity-dependence is responsible for the structural production problems in Africa today and the collapse of industrial and agricultural output. African states face acute food shortages in spite of abundant agricultural resources.

Domination by transnational corporations

Multi- and transnational corporations (TNCs) dominate the mining, commercial and manufacturing sectors of African economies. They have the necessary technology and finance capital that most indigenous firms lack, along with adequate credit facilities and a highly developed workforce.

TNC operations in the continent have been characterised by the following. They

- pay taxes and royalties to the African governments. For instance, the bulk of state money looted by Sani Abacha of Nigeria and Mobutu Sese Seko of Zaire were derived from corporate revenue (Dare 2001:2)
- generate employment opportunities through investments and provision of technical services, but there are limited employment opportunities because the primary products are not converted into industrial products for local use and export
- repatriate the bulk of their profits to their home countries as well as importing industrial raw materials. These activities discourage domestic industrial production, investments, research and development – the engines of sustainable economic development
- are alleged to sponsor rebel groups and dictatorial governments. For example, Jean-Raymond Boulle, American Mineral Fields' (AMF) principal shareholder, is known to have invested millions of dollars supporting rebel groups in order to secure juicy mineral exploration contracts. The late Congolese leader Laurent Kabila used Boulle's jet to prosecute his war against Mobutu. When Kabila came to power in 1997, AMF was granted exploration rights for 600 million pounds of cobalt and three billion pounds of copper (Dare 2001:2)
- exploit rich African natural resources, with little interest in the industrial development of Africa. This neo-colonialism is the worst type of imperialism that discourages sustainable economic and social development in Africa.

The massive exploitation of mineral resource-producing areas

Most mineral-producing areas have been neglected in terms of infrastructure and human development. For instance, the oil-rich Niger Delta is characterised by dilapidated infrastructure, environmental degradation and high levels of unemployment: the indicators of poverty. It is a case study of the massive exploitation of people by the oil multinationals. It clearly shows the deprivation of the people's rights to benefit from their resources.

In Angola and the DRC, mineral-producing communities have been displaced by a string of wars, with no serious commitment by multinationals and governments to improve their living standards. Corporate social investment is low in most African states, which contributes to the poor level of research and development.

Resource ownership requires active participation of the citizens in the critical or strategic sectors of economy, and the conversion of primary products into industrial goods and services for sustainable economic development of the continent.

There is no doubt that African states do not really own their natural resources. Resource ownership requires active participation of the citizens in the critical or strategic sectors of economy, and the conversion of primary products into industrial goods and services for sustainable economic development of the continent.

CONSEQUENCES OF FOREIGN CONTROL OF AFRICA'S NATURAL WEALTH

Reinforcing economic dependence

Economic dependence is the reliance by a nation on foreign goods, services and development assistance. From a critical analysis, almost all the African states are dependent, as is seen in the increasing manufacturing imports into Africa.

Between 1990 and 2005, there was a significant increase in China's trade and investments in Africa. China has benefited immensely. Sino-Africa trade grew by 700 percent during the 1990s. From 2002 to 2003, trade between China and Africa doubled to $18.5 billion. In 2005, it jumped to $32.17 billion (Moyo 2006). The increasing manufacturing imports create unemployment through job loss. In 2005, the Congress of South African Trade Unions (COSATU) organised strikes against the loss of jobs in the textile industry due to increased imports from China. Apart from that, the influx of foreign goods and services discourages industrial creativity and innovation, and reinforces underdevelopment.

Reinforcing Africa's spectatorship in the global economy

Africa is a spectator in the global economy, rather than an active participant. With 13 percent of the global population, Africa accounts for only 1.5 percent of the global gross domestic product and 2.1 percent of the global trade (Dlamini 2005:7) There is no way that African countries can develop technology or industrial economies without sovereign control of their natural resources or economies. Sovereign control of the economy enables the development of technology and innovation, which are the key components of the global economy.

Growing African poverty

Africa is the least developed and poorest continent in the world, lagging far behind other continents in technology, infrastructure, per capita income and human development. The majority of the African population live in abject or grinding poverty. The main cause of Africa's increasing poverty is the non-utilisation of its own rich natural endowments, creating the lack of internal capacity to create wealth. The growing rate of poverty is a threat to Africa's sustainable development.

MEASURES TO ENSURE AFRICA'S OWNERSHIP OF IT NATURAL WEALTH

Based on the above analysis, the following suggestions are made to enable African states not only to benefit immensely from their rich natural wealth, but also to have sovereign control of their economies.

Promotion and sustenance of good governance in the continent

Good governance is imperative for Africa's ownership and control of its rich natural endowments. In the present dispensation, the government is a valued and trusted partner in economic development because it

- promotes, ensures and sustains the democratic values, such as transparency, accountability, responsibility, rule of law and respect for human rights, that are necessary

for peace, human security and development
- identifies and defines strategic areas for sustainable development
- builds and maintains socio-economic infrastructure
- formulates, designs and implements macro and fiscal policies for economic and social development
- provides the environment to achieve a knowledge economy, a key component of the global economy
- promotes and sustains visionary leadership.

For African states to have sovereign control of their resources, poor and corrupt leadership must be a thing of past. African states need to redesign their political systems to create an enabling environment for human security and sustainable development.

Regional economic integration

Economic integration has become a viable strategy for achieving free and prosperous economies, through common market, common currency, technology and cross-fertilisation of cultural ideals and values and the formulation and harmonisation of monetary and fiscal policies by a supra-national body. It encourages the growth of intra-regional trade. Integration has helped the European Union member-states to achieve prosperous economies. It has also helped to maintain peace and human security in Europe.

Earlier attempts to achieve economic integration in Africa, such as the 1980 Lagos Plan of Action and the 1991 African Economic Community, have not made any significant impact due to endogenous and exogenous factors, including the lack of civil stability, the lack of strong commitment among African leaders and external interference. Present African leaders should show more commitment and political will to achieve a pan-African economic integration to extricate the continent from the bondages of underdevelopment and economic dependence through promotion of regional trade and joint development projects, which could lead to development of its vast and rich mineral resources.

While Asians invest in factories and wealth creation, African elites shift their money to western banks and luxurious living.

TNC strategy

Currently, transnational corporations are the real owners of the global market. The EU and the Asia-Pacific Economic Cooperation (APEC) control the global market because their members own about 90 percent of the TNCs in the world.

Entrepreneurs from South Korea, China and other "Asian tigers" adopted a transnational corporation strategy to escape developing nations' vicious circle. Chaebol (family-controlled business conglomerates) have been a force in the South Korean economy since 1953. Over four decades, it has assisted the government to develop new industries, markets and exports, increasing South Korea's industrial economy, as well as increasing the standard of living to a level similar to the highly industrialised countries (*African Standard* July-August 2005:13).

Wealthy Africans should emulate the patriotism, ingenuity and discipline of the wealthy Asian titans to form transnational companies. This requires government assistance in terms of finance, infrastructure and concessions grants. The Transnational Corporation Nigeria PLC, launched in July 2005 by Nigerian wealth titans with proposed capital of $500 million, is a bold step to free the country from chronic dependence and underdevelopment.

This transnational strategy will help African countries play an active role in their domestic economies through investments in agriculture, power, gas, oil, technology and international trade. It will help African entrepreneurs penetrate into local markets that are dominated by foreign firms or have been completely neglected, as well as into the global market. This strategy will be a catalyst to the development of a strong private sector and knowledge-based economy in Africa.

Sustainable corporate social responsibility function

According to Nosiri (2004:24), corporate social responsibility (CSR) is deliberate, planned and sustained efforts by a corporate organisation to develop the potentials of its publics (host communities, employees, customers, shareholders, governments, etcetera) in particular and the entire society in general. He identifies it as a viable instrument of public relations to create and maintain mutual understanding and goodwill.

The crises in mineral resource-producing communities are attributable to the lack of sustainable corporate social investments in those areas. African governments must formulate and implement sustainable CSR policies to improve the economic and social living standards of these communities in particular and the entire society in general. There should be legislation to ensure that TNCs adhere to the principles of corporate governance.

Sustainable macroeconomic and fiscal policies

African states need sound and sustainable macroeconomic and fiscal policies to ensure sustainable economic growth and development. Africa's poor economic performance is also due to policy weaknesses, such as a lack of clear and precise definitions of national interest in policy formulation; lack of competent and experienced staff to analyse global economic issues; lack of network capacity; ineffective inter-agency coordination and cooperation; and high levels of bureaucratic corruption and rent-seeking.

A sustainable macroeconomic and fiscal policy can be ensured through a huge investment in institutional capacity building, motivation of staff through better remuneration and conditions of service, an effective checks system and punishment for violations of codes of conduct.

Development of knowledge-based economy

Knowledge economy emphasises human knowledge to build a productive and sustainable economy. Its components are creativity, discipline, innovation and resourcefulness. It is a a key component of the global economy and a sustainable strategy for creating wealth, which aids economic growth and development.

African countries need knowledge-based economies to achieve sustainable economic growth and development. They require huge investments in the research and development sector (such as adequate funding of research institutes and higher institutions, financial assistance to inventors and industrialists); the building and maintenance of solid infrastructure; and a strong public and private partnership to achieve a solid network system through the promotion of durable political and economic stability. African states like Nigeria, Equatorial Guinea and Gabon should use the surpluses from their crude oil and mineral resources to build solid infrastructure and institutional capacity.

Africa's sovereign control of its natural wealth could lead to the development of viable and prosperous economies in the continent.

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WORLD BANK AND IMF ENGAGE WITH PARLIAMENTARIANS

BY BEN TUROK

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What role do parliaments across the world play in promoting economic development? That was the challenge placed before a meeting of international parliamentarians on March 15–17 2007, in the parliament of South Africa.

The occasion was the annual conference of the Parliamentary Network on the World Bank (PNoWB). Paul Wolfowitz, president of the World Bank, Rodrigo de Rato, managing director of the IMF, and Donald Kaberuka, president of the African Development Bank, appeared before 300 MPs from across the globe to talk and answer questions.

This was the most intensive interaction yet between the Fund, the Bank and the Parliamentary Network. It marked a clear departure from the Bank and the Fund's previous insistence that their relationship was with the executive arm of government, and not parliament. Article 5 of the Articles of Agreement of the IMF stipulates that it will only deal with a member country through its treasury or central bank. Similarly, the international agreement which established the World Bank states: "The Bank and its officers shall not interfere in the political affairs of any member".

As an example of this approach, the conference heard how World Bank officials and surveillance teams of the IMF had confined their interactions to members of the executive behind closed doors, and ignored parliaments. MPs at the conference complained that this practice undermined parliamentary democracy and good governance. They insisted that parliamentarians should be consulted near the beginning of programmes for their countries – even if their governments objected – and that the Bank should "strongly advise" the relevant government to do so. Yet both institutions had seemed unduly reluctant to offend member governments.

Why the turnaround on dialogue with parliamentarians? In a briefing document, *The World Bank and Parliaments* (April 2006), the World Bank stated: "Parliamentarians are advocates for development… promote good governance… can be agents of change… exercise their oversight role over matters handled by multilateral organisations." Paul Wolfowitz explained at the conference that partnerships with parliaments are needed in the pursuit of good governance, especially where there are errant regimes.

But a further reason seemed to be an underlying awareness of a subtle shift in the global balance of forces. The growth of the emerging markets of China, India and parts of Latin America as world players, and also the appearance of a united voice in the African Union, all pointed to the need for a change in the Bank's international relations. This shift has led to a new posture of broader accountability and less overt dedication to the interests of the big powers. In addition, the Bank and Fund are concerned about global economic instability, the need for "crisis prevention", and the protection of low-income countries. The potential security threat that a poverty-stricken Africa constitutes to the North is yet another cause for concern. A new approach seems to be required on all fronts.

Relations between parliamentarians and the Fund and the Bank have frequently been marked by antagonism and suspicion. This is reflected in the mandate of the Parliamentary Network to strengthen "accountability and transparency in international financial institutions". Many of the questions directed at Wolfowitz and Co. challenged the Bank and the Fund's lack of transparency in policies and conditionalities imposed on developing countries.

In a question and answer session, Wolfowitz was asked, "Since the Bank is a public institution which exercises oversight over the world economy, will you allow parliamentary oversight over the Bank?" He replied without hesitation, "Transparency yes; oversight no". This means that the Network will have to institute a systematic method of pursuing transparency.

DEBT CANCELLATION AND POVERTY REDUCTION PROGRAMMES

There was ample opportunity at the conference to examine the Bank's policy and practices on concrete issues, such as the debt cancellation and poverty reduction programmes that are now central to their policy. All agreed that, since a debt burden stops development, debt cancellation is essential; but since this is not enough by itself to lift countries out of poverty, poverty reduction is vital. The World Bank claimed that "country ownership" was necessary for poverty reduction to succeed, and quoted examples of consultation with civil society in the design of programmes. Many participants remained sceptical. In fact, although the Bank acts in an "advisory capacity", it exercises final approval of these programmes and therefore carries more weight than local opinion and has ample opportunity to introduce conditionalities.

In a special session on Poverty Reduction Strategy Papers (PRSPs), the Bank urged a stronger role for parliaments in designing the programmes in order to increase the sense of country ownership, although governments would make the final decisions subject to the Bank's approval. Parliaments should also examine donor coordination in development projects, and work with the World Bank mission in their country. This would depend on the parliament getting regular reports on PRSP progress and liaison, which the bank's country director could facilitate.

Tanzania presented evidence of a great deal of involvement by non-state civil society actors to develop programmes based on the UN Millennium Development Goals (MDGs). Examples were also cited where field visits of Network members to developing countries had increased awareness of the positive effects of the programmes.

Questions were raised about the weak links between PRSPs and a country's development strategy, and the negative consequences of a PRSP that is not thought through properly. Some PRSPs have ignored actual budget allocations, making co-ordination difficult. A major weakness of PRSPs is the total absence of vitally important social impact assessments of the poor.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

The conference was informed that ODA is increasingly guided by the 2005 Paris Declaration, which includes the principles of national ownership, alignment with government strategies, harmonisation of donors, management of decision-making, and mutual accountability. But donor-driven aid is unlikely to be effective, said an IMF official. According to the International Development Association's report on the global "aid architecture" (Feb 2007), ODA has grown steadily over the last decade, rising to $105 billion in 2005, with 70 percent going to debt relief between 2004–5. ODA is increasingly going to budget support (from 8 percent in 2001 to 20 percent in 2004), rather than to individual projects. (In Tanzania, ODA is 40 percent of the budget).

There was much hand-wringing about the role of aid in Africa. While all agreed that aid must be increased, and that earlier promises by the developed countries to double aid must be kept, Bank officials reported anarchy among donor countries and massive duplication. There are now 56 donors and 230 international organisations, funds and programmes involved in aid. Seventy percent of ODA flows through bilateral organisations and 30 percent through multilateral organisations, with a high degree of aid proliferation and ODA fragmentation that leads to higher transaction and administrative costs for all concerned. Tanzania alone has 700 aid projects managed by 56 units, and received 541 donor missions during 2005. Across Africa, most aid goes directly to projects, bypassing governments. Still the IMF believes that aid must not be earmarked.

In the face of considerable donor country resistance, efforts are being made to harmonise aid and reduce pet projects and political influence in poor recipient countries. Parliamentarians in both donor and recipient countries can do much to bring in order here. Parliaments must debate priorities, hold governments to account, monitor budget expenditures, and ensure proper auditing.

They insisted that parliamentarians should be consulted near the beginning of programmes for their countries – even if their governments objected – and that the Bank should "strongly advise" the relevant government to do so.

There is also the problem of ODA accountability, even where most of the funding goes into the national budget. In some cases, it is treated as a separate account within the budget, managed outside the normal revenue process, with different auditing requirements. In most cases, parliaments in both donor and recipient countries are only involved peripherally in the whole ODA exercise, even where formal reporting does take place. It was proposed at the conference that the chairs of parliamentary committees should participate in consultative meetings with donors. There is certainly much room for genuine parliament-to-parliament partnerships for policy development and the delivery of ODA.

The campaign by the Nepad Contact Group of African Parliamentarians and the Association of European Parliamentarians for Africa (AWEPA) to track aid flows between selected European and African countries will produce important insights into how parliamentarians can play a vital role to make ODA more effective.

NEW PROSPECTS FOR AFRICA

Much was made of the better prospects for Africa in the current climate of higher mineral prices on world markets, and better governance within many African countries, including higher growth, lower inflation and lower fiscal deficits. Bank officials said that economic performance is the best since the 1960s. However, the IMF continued to argue for further integration into the global economy, promotion of the private sector and stabilisation policies.

In a notable departure from previous IMF dogma, de Rato graciously conceded that "one size does not fit all". He also said: "We do not live in a world that ends with macroeconomic policies and financial equilibrium." In response to a question, he stated that where the Fund does not publish reports, it is because of an embargo by the relevant government. Nevertheless, de Rato stated that transparency and accountability are the keys to a far greater legitimacy than the Fund has at present. It is also vital that the whole set of development agencies, including regional development banks, coordinate far more.

South African finance minister Trevor Manuel argued that cross-border trade within Africa is vital, and requires the creation of necessary infrastructure and regional co-operation. The inherited pattern of infrastructure has to be changed.

Pursuing the theme of a greater role for parliamentarians, Wolfowitz asked African parliaments to be much more aware of irresponsible borrowing by their governments. He also called upon donors to be much more responsive to Africa's needs. In response to a direct question about previous support for corrupt regimes, he said, "We are not giving funding to the likes of Mobutu (Sese Seko, of the former Zaire) any more."

Tanzania alone has 700 aid projects managed by 56 units, and received 541 donor missions during 2005.

The African Development Bank's Kaberuka called for a greater role for the private sector in Africa and openness in all relations with governments: "when there is secrecy, things go wrong."

In general debate, there was strong criticism that the doubling of aid agreed to at the G8 Gleneagles meeting had not materialised, and that the increased aid which has gone through has mostly been for debt relief – and then, mainly for Nigeria and Afghanistan. On the whole, aid to Africa has fallen, leading to "promise fatigue".

In contrast, the US, EU and Japan now provide $260 billion annually for internal agricultural subsidies. (In South Africa, there are no such subsidies). These subsidies are being paid for by taxes on ordinary consumers, and parliamentarians in these countries should raise awareness of this.

An important issue was the Bank and Fund's argument that, in recent years, the focus on meeting the Millennium Development Goal targets through spending on health and education, has been at the expense of infrastructure and productive capabilities. The combined share of infrastructure and production in Africa dropped from 59 percent to 38 percent between 2001 and 2004. This is clearly something Africa's parliaments need to consider.

THE CHALLENGE FOR PARLIAMENTS

So, are the Bank and Fund changing? Perhaps they have little choice in a changing global context. Some even suggest that both institutions are in some trouble, due to diminishing finances, and argue that the present overture is part of a survival plan. That may be overstating the case.

But will parliaments across the globe take up the challenge and demand greater interaction with the World Bank? The Bank offers accountability, but how can this be turned into oversight – perhaps not in a formal constitutional sense, but at least into consistent examination of policies and practices? Some participants argued that a more unified approach by both parliaments and civil society is essential because some issues can only be won globally. Others thought that reforming the Bank should be part of the reform of the United Nations to bring greater accountability in line with a new multilateral world.

Can the Parliamentary Network respond adequately to the challenge of greater interaction with the World Bank? Will it move from occasional meetings to a more rigorous style of accountability to its members and, indeed, to parliaments across the globe? Will it take on board the Bank's offer of transparency? And will it make a difference? (The conference noted that, while civil society organisations have had a much closer relationship with the Bank for some years, it is not clear whether this has helped to increase the commitment to poverty reduction.)

The PNoWB can lead by example, by

- creating a strong standing committee
- building regional chapters with formal status in the governing structures of the PNoWB
- the board setting clear positions on what it wants from the Bank
- reporting to the members regularly on all these matters.

It is also possible to overcome the exclusivity of relations between national executives and the Bank and the Fund, by inviting their officials to meetings of parliamentarians for special briefings, especially to explain country reports arising from surveillance visits – which are supposed to be in the public domain anyway. This would be an opportunity for opening up the thorny issue of the conditionalities that have been responsible for so many disasters in developing countries. The Norwegian government is leading the way with its November 2006 decision "not to support programmes that are made conditional on liberalisation and privatisation." They define conditionality as "the application of specific, pre-determined requirements that directly or indirectly enter into a donor's decision to approve or continue to finance a loan or grant."

Ultimately, all these matters could be resolved if both the Fund and the Bank were transformed into democratic multilateral institutions where no single country or group of countries could exercise a veto. After all, as the head of the IMF conceded at the conference, the IMF is a "public institution delivering public goods". The democratic deficit at these institutions has to be overcome. No doubt the international parliamentary community could do a great deal more to bring that day nearer.

IMPASSE AT THE WTO

BY MARTIN KHOR

The author is the director of Third World Network. This is the conclusion of his paper, "The WTO's Doha negotiations and impasse: A development perspective" (November 2006)

Due to unrelenting pressure by the developed-country members of the World Trade Organisation (WTO), led by the US and EU, the Doha Work Programme negotiations have veered from their proclaimed orientation as a "development-friendly" outcome, towards a "market access" direction in which developing countries are pressed to open up their agricultural, industrial and services sectors.

A development-oriented outcome would have

- given top priority to satisfactory conclusions on resolving the "development issues"(implementation issues and the strengthening of special and differential treatment)
- resulted in significant real reductions in domestic support and in tariffs in agriculture in developed countries, while enabling developing countries to protect and promote the interests of their small farmers
- allowed developing countries to continue to make use of existing flexibilities in NAMA (non-agricultural market access) so as to promote domestic industrial development, while developed countries would commit to eliminate or significantly reduce their industrial tariff peaks and high tariffs and eliminate their non-tariff barriers
- enabled developing countries to maintain and make full use of the development flexibilities contained in the GATS (General Agreement on Trade in Services) and reaffirmed in the March 2001 Guidelines and Procedures for the services negotiations.

Besides the above, there are several other development outcomes expected by developing countries, such as resolving the issues of the relationship between the Trade-Related Intellectual Property Rights Agreement (TRIPs) and the Convention on Biological Diversity (for example, by amending TRIPs to incorporate requirements for the disclosure of the source of origin of genetic materials and traditional knowledge); and providing meaningful concessions and preferences for least developed countries.

However, the developed countries have successfully

- marginalised the "development issues"
- minimised or trivialised the development components (including the principles of "special and differential treatment" and "less than full reciprocity") in the agriculture and NAMA negotiations
- not committed to reduce their total trade-distorting domestic subsidies beyond the actual levels or the already planned levels, nor to effectively discipline or limit Green Box subsidies, thus ensuring their continuation of high subsidisation in agriculture
- introduced new modalities in services which make it potentially easier to pressure developing countries to liberalise, while not making meaningful offers in areas (especially Mode 4 on labour services) that can practically benefit developing countries
- so far blocked progress in the TRIPs negotiations on disclosure for genetic resources and traditional knowledge.

The developed countries have turned the negotiations into demands for market access opening by developing countries in all three areas of agriculture, NAMA and services. As the Indian commerce minister, Kamal Nath, correctly pointed out in the June-July 2006 meetings in the WTO, this was supposed to be a Development Round, but the developed countries are trying to ignore development concerns and turn it into a Market Access Round, which he found unacceptable.

AN OPPORTUNITY TO REVIEW

The current impasse in the negotiations (with the Doha talks suspended in all areas) provides an opportunity to review the negotiating positions and proposals from a development perspective.

On the development issues, it is imperative that progress is made, in order to rebalance the existing WTO rules in the various areas and make the multilateral trading system more fair. As these issues are part of the single undertaking, it must be made clear that there can be no agreement on the Doha Work Programme unless there is a satisfactory outcome on the development issues.

The developed countries have turned the negotiations into demands for market access opening by developing countries in all three areas of agriculture, NAMA and services.

On agriculture, the developed countries have to improve their offers to reduce their total allowed trade-distorting subsidies to levels that would significantly cut their actual or planned levels, including at the product level. There should be effective disciplines on the Green Box subsidies, including criteria on which farmers are eligible to receive them, and limits placed on amounts receivable per farmer, while excluding corporations. Developing countries should have enough flexibility in their market access obligations (in the tariff-reduction formula and in special products and special safeguard mechanism) to allow them to effectively safeguard food security, livelihood security and rural development.

NON-AGRICULTURAL TRADE

It should be recognised that the current NAMA frameworks (Annex B in the August 2004 Framework and the Hong Kong Declaration) are inappropriate to meet the desired goal of facilitating industrial development in developing countries. The proposed outcome would seriously erode the present flexibilities available to developing countries.

A standard tariff-reduction formula, to apply to all affected members, is inappropriate. It is all the more inappropriate when a non-linear Swiss formula is chosen and when it is to be applied on a line-by-line basis. The flexibilities remaining, as provided for in paragraph 8 of Annex B, are too limited – and even then, there are proposals to further limit these flexibilities or even remove them.

There should be a rethinking of the modalities, as Annex B is inappropriate and potentially extremely damaging to the industrial prospects of developing countries.

A more suitable approach for developing countries is that of the Uruguay Round, in which developing countries committed to reduce tariffs by an overall and average target rate. During the Uruguay Round, members could choose the method by which to cut their tariffs as long as they met the minimum target. Thus, for the current NAMA negotiations, members can choose to apply the Swiss formula if they so wish. But developing-country members should not be obliged to do so.

There should also be adequate flexibility in the treatment of unbound tariffs. The method of multiplying by two the applied rate and then applying the formula is unsuitable. Members should have the flexibility to retain a significant percentage of their tariff lines unbound, and also to bind their unbound tariffs at levels of their choice, as is the case under the current system.

TRADE IN SERVICES

On services, the existing principle of development flexibility should be upheld, in other words that developing countries be able to choose which sectors they will commit to liberalise under the GATS, and to what extent, and at the time of their own choosing, according to national policy priorities.

The main negotiating method should remain the bilateral request-offer basis. Attempts to introduce "benchmarking" or "targets and indicators" where developing countries are obliged to commit in a certain number of sub-sectors have been rejected and should not be revived.

The plurilateral approach, which was agreed to in Hong Kong, should not be mandatory for a country to join. Any plurilateral approach should be on a voluntary basis and there should not be any pressure put on a developing country.

POLICY COHERENCE IS ESSENTIAL TO GLOBAL ECONOMIC STABILITY: AN OPINION

BY MILLS SOKO

The author is a senior lecturer at the UCT Graduate School of Business

The lack of coherence between international trade, monetary and financial policies undermines global economic stability. One of these policies concerns the issue of exchange rates, and the dilemmas it poses to policymakers in developing countries under conditions of economic globalisation.

Traditionally, the exchange rate has been accepted in international policymaking circles as a vital tool of industrial policy that can be used – under certain circumstances – to strengthen the international competitiveness of domestic economic sectors, boost exports, diversify the economic structure, and generate sustained growth rates. But, as the United Nations Conference on Trade and Development (UNCTAD) has argued in recent years, it is more difficult in the contemporary global economy for national states to pursue these policy objectives effectively through exchange rate devaluation than it was several decades ago.

These developments have posed a significant challenge for traditional tools of national economic policy.

According to the reports, managed currency depreciations can, by and large, improve the trade performance of developing countries. However, the same cannot be said for the sharp and sudden exchange rate depreciations that have taken place in numerous financially-open developing countries in the last thirty years. The latter devaluations were frequently accompanied by sharp decreases in imports and diminished access to trade finance and working capital. This, in turn, reduced the ability of domestic exporters to benefit from their increased international competitiveness as a result of the devaluation.

POST-WAR ORDER

At the heart of the problem is the paucity in the current multilateral system of coherence between national development strategies and global economic policies, as well as between the international trade, monetary and financial systems. Policy coherence was a central feature of the debate that culminated in the establishment of the post-war international economic order.

Although the Bretton Woods regime that emerged out of the post-war settlement was designed to promote international trade liberalisation, its architects stressed the importance of embedding liberalisation in domestic economic and social stability. National governments were allowed to intervene extensively in their economies and financial systems, not only to promote national developmental objectives, but also to protect domestic economic policies from the whims of the international markets.

Capital controls enabled countries to shelter their currencies from destabilising capital flows, while also providing them with the breathing space necessary to undertake orderly adjustments. Pegged but adjustable exchange rates – in conditions of restricted private international capital flows – provided a stable environment conducive to trade and investment in the face of macroeconomic policy differences among countries.

With the tariff regarded as the only legitimate trade measure, policymakers could forecast more or less accurately the impact that tariff reductions would have on the competitive position of domestic industries – without having to resort to competitive devaluations to mitigate the unforeseen negative consequences of trade liberalisation. Further, the International Monetary Fund's balance-of-payments lending provided an additional line of defence for countries trying to retain pegged exchange rates in the face of market pressures.

DEREGULATION

The collapse of the Bretton Woods system in 1973 made way for the adoption by many countries of floating exchange rates and the resurgence of rapid global capital flows reminiscent of those that had induced systemic instability in the 1930s. Driven by advances in telecommunications and information processing technologies, and championed by governments that had benefited from financial openness, the progressive deregulation and liberalisation of financial markets impeded efforts to restrict financial flows.

Short-term financial capital, moving with great speed across national borders, became a defining element of the international financial system, with the capital markets responding swiftly to differences in macroeconomic policies between countries. And deeper financial integration raised the costs of pursuing monetary policies that diverged from regional or global policy trends.

These developments have posed a significant challenge for traditional tools of national economic policy. Although capital inflows have provided essential development finance for developing countries, financial market volatility has made it difficult for governments to manage interest rates and exchange rates in ways favourable to domestic capital formation and the international competitiveness of firms. It has also been a contributor to financial crises in emerging market economies, even in countries with good macroeconomic policies.

In particular, there has been a concern about the adverse impact of exchange rate instability on trade. Huge currency devaluations in crisis-ridden countries have had a destabilising effect on the external trade positions of other countries. This, in turn, has sparked resistance from import-sensitive sectors in the countries affected by the devaluation, with governments in those countries being forced to also depreciate their currencies in order to ensure that the international competitiveness of their exporters is not undermined.

Developing countries should be allowed to administer their exchange rates in a manner that permits them to maintain competitive rates, while also giving them adequate policy space to carry out orderly adjustments.

In the absence of multilateral rules to avert competitive currency depreciations, a growing number of countries have attempted to raise the international competitiveness of their firms by managing the floating of their currencies unilaterally. Yet as the UNCTAD reports have cautioned, only a few developing countries can manage their exchange rate movements successfully.

REFORM NEEDED

This has underscored the need for a better model of global economic governance. A reformed architecture of governance ought to tackle trade imbalances and distortions that emanate from the financial and monetary domains. Multilateral co-operation should be strengthened to make sure that the international financial system is responsive to the needs of developing nations, and appropriate mechanisms should be instituted to reduce the vulnerability of these countries to rapid financial liberalisation.

Moreover, effective co-ordination should be established between national policies and global economic processes. Developing countries should be allowed to administer their exchange rates in a manner that permits them to maintain competitive rates, while also giving them adequate policy space to carry out orderly adjustments when confronted with external shocks. This is necessary if the benefits of globalisation are to be shared equitably among all countries, rich and poor.

FROM LIBERALISATION TO INVESTMENT AND JOBS

BY YILMAZ AKYÜZ

The author is the former director of UNCTAD's Globalisation and Development Strategies division. This is a shortened version of a publication prepared for the International Labour Organisation. The full version is available online from Third World Network (www.twnside.org.sg)

That liberalisation of trade and investment flows causes displacements in labour markets should not come as a surprise. The key problem is that global economic integration is serving more to redistribute investment and jobs among countries than to accelerate capital accumulation and job creation. International trade has been growing faster than ever, capital flows, including foreign direct investment (FDI), have been booming, but global income growth is slower and the world economy is allocating a smaller proportion of its income to fixed capital formation. This is why globalisation is increasingly seen as a zero-sum game.

This problem is due to a major shortcoming in the approach to international economic integration. Rather than aiming at full employment and rapid growth as a basis for expansion of international trade and investment, policy in recent years has emphasised liberalisation and global economic integration as a remedy to high unemployment and sluggish growth. This stands in sharp contrast to the approach adopted by the architects of the post-war economic system at the Bretton Woods and Havana Conferences, which saw full employment as a necessary condition for closer economic integration – an approach which produced the golden age of capitalism with gradual but continuous liberalisation and expansion of trade in the context of full employment and rapid growth.

With few notable exceptions, capital accumulation and job creation has been slow and erratic in developed and developing countries alike, in large part because policy has neglected these key determinants of social welfare. Consequently, at the level of existing production capacity and skill profile, the labour force cannot all be productively employed – that is, it is not possible to provide decent jobs to all.

> ***There is nothing so distastrous as a rational investment policy in an irrational world.* – John Maynard Keynes**

The solution to unemployment lies primarily in the acceleration of capital formation and improvements of the skill profile of labour. This paper focuses on capital accumulation.

CAPITAL FORMATION, GROWTH AND EMPLOYMENT

Although there is no consensus on the precise nature of the link between the two, empirical studies show capital accumulation as the single most important variable in economic growth, with a robust and independent influence. This influence arises not only because investment, as a dynamic component of effective demand, generates income, but also because it expands productive capacity and carries strong complementarities with other elements of growth, notably technological progress and productivity growth.

Investment in machinery and equipment appears to have a close linkage with growth across all developing regions. Since much technological change is embodied in new equipment, and application of technology to production is essential, the scope for productivity growth would be limited in the absence of capital accumulation.

Developing countries appear to need an average growth rate of at least 5 percent in order to close the productivity gap with the industrial world and improve conditions in the labour market by raising wages and reducing open and disguised unemployment.

The impact of accumulation on labour is shaped by the extent to which growth is associated with increases in productivity and employment. Productivity growth is essential to increase labour income. In developing countries, this typically takes place through the absorption of surplus labour by industry.

How much growth is needed to make a dent in unemployment and how much investment is needed to generate such a growth are matters difficult to judge *a priori* because of the complexities in the relations among accumulation, growth and employment. Nevertheless, some 3 percent is generally considered as the minimum rate needed to start reducing unemployment in advanced industrial countries.

In developing countries, labour force has been growing at around 2 percent per annum, and it could even grow faster if accelerated growth increases the participation rate. Productivity growth would need to be at least 3 percent in order to narrow the income gap with the industrial world, and again with increased accumulation and capital deepening, productivity could be expected to increase even faster. On current trends, therefore, developing countries appear to need an average growth rate of at least 5 percent in order to close the productivity gap with the industrial world and improve conditions in the labour market by raising wages and reducing open and disguised unemployment. Such a growth rate could be generated by different rates of investment, but thresholds of 20 and 25 percent of gross domestic product (GDP) are identified for low-income and middle-income countries respectively as the minimum rates of accumulation needed.

THE RECORD

On these criteria, the recent performance of the world economy is poor. The period from 1980 to 2000 witnessed a remarkable collapse of growth in many parts of the world. In industrial countries, growth of output per worker slowed from an annual rate of some 3 percent in 1960-1980 to 1.5 percent during 1980-2000. The slowdown was similar for developing countries taken as a whole, from 2.3 percent to 0.6 percent. Notable exceptions include China and India, where growth increased by 7 and 3.5 percentage points respectively.

This performance is shaped in large part by policies pursued in response to disequilibria and instability that pervaded first the developed countries, then the developing economies in the late 1970s and early 1980s. In industrial countries, the wage-price spiral set off by the first oil shock and accommodating macroeconomic policies resulted in rapid inflation. As the burden was placed largely on profits, incentives for private investment were reduced, resulting in stagflation.

The policy response to the second oil price shock in 1979 was different. Aggregate demand policy no longer accommodated the acceleration in inflation induced by the oil price rise. “It was considered important not only to reduce inflation in its own right, but also to moderate growth of labour costs relative to product prices, and to restore profit margins to levels sufficient to support a higher rate of investment” (OECD 1982: 9).

This medium-term financial strategy, supported also by supply-side policies (including liberalisation of labour, product and financial markets) was indeed successful in bringing inflation under control. By the end of the 1980s, the downward trend in profits was already reversed. With increased mobility of capital, there was a rapid upward convergence of profits, and as of the mid-1990s both capital income share and the rate of return on capital in the business sector in the G-7 countries reached pre-1970s levels.

However, this did not generate the expected boom in investment. In industrial countries, investment as a percentage of GDP was lower in the 1990s than in the 1980s, and this decline continued further in the new millennium. Growth in output and employment mirrored the trends in capital accumulation. After staying at 4 percent, the average unemployment rate in the OECD rose to 7.5 percent in the 1980s. Despite subsequent recovery in the United States and the United Kingdom, it fluctuated around 7 percent during 1990-2004 without any long-term tendency to decline. This, in large part, is because the 2.6 percent average growth has remained below the 3 percent threshold needed to make a dent in unemployment.

For developing countries, the industrial countries’ policy response to the second oil-shock and ongoing stagflation caused serious dislocations. The combination of the hike in interest rates and sharp declines in commodity prices brought about by the 1980-82 recession in major industrial countries caused acute balance of payment problems. Economic difficulties were aggravated as international banks behaved pro-cyclically and cut lending to indebted countries, forcing many of them to generate trade surpluses by cutting economic growth and imports, eventually leading to a debt crisis and a lost decade.

The policy response to falling growth and rising unemployment and inflation was essentially the same as the earlier response of industrial countries to stagflation, although it was much less orderly. The predominant objective was first to stabilise prices and the balance of payments through monetary and fiscal tightening, and secondly to undertake market-friendly reforms in wide areas of policy, with a view to overcoming structural difficulties and high vulnerability to external shocks and balance of payment crises. The stabilisation and structural reforms that constituted the so-called Washington Consensus were to prepare the ground for sustained growth based on a rapid recovery in investment.

While there are widespread inefficiencies in the public sector in many countries, the arguments that state-owned enterprises are invariably inefficient and that government investment is unproductive cannot stand against evidence.

This policy approach failed to deliver on its promises. In developing countries, investment as a proportion of GDP was not higher in the 1990s or in the new millennium than the levels reached in the difficult times of the 1980s. Average growth in the 1990s was somewhat faster than in the 1980s (3.2 compared to 2.7 percent), due to the easing of the under-utilisation of capacity that had emerged during the times of import strangulation in the 1980s, which allowed output to rise without additional investment as external constraints eased up.

There has also been an acceleration of growth in the new millennium as private capital flows to emerging markets recovered sharply, thanks to exceptionally low international interest rates and ample global liquidity. But the average growth rate of 4.5 percent attained in the past few years would not make much of a dent in unemployment, even if it could be sustained.

PUBLIC INVESTMENT

The past two decades have seen a considerable retrenchment of the public sector through the privatisation of state-owned enterprises and cuts in public investment. In the more dogmatic version of the Washington Consensus, the withdrawal of the public sector has been advocated not only from industry and commerce, but also from public utilities, on the assumptions that the private sector would be willing and able to invest in these areas if the investment climate is right, and that downsizing the public sector is one way of improving the investment climate.

This approach is based on the premise that public investment would have little or even a negative effect on economic growth. On this view, a higher level of public investment would crowd out private spending by pushing up interest rates, and the impact would be felt primarily by private investment. Second, it could drive out the private sector by entering activities that might otherwise offer acceptable returns to private investors. Third, the public sector tends to make bad investments because state-owned enterprises operate under a soft budget constraint. Finally, since, for the same reason, public enterprises are not run efficiently, even investment of the same quality would generate higher output in the hands of the private than the public sector.

While there are widespread inefficiencies in the public sector in many countries, the arguments that state-owned enterprises are invariably inefficient and that government investment is unproductive cannot stand against evidence. In many developing countries, public enterprises played a strategic role in industrialisation and generated significant positive externalities for the private sector. In industrial countries, there is ample evidence that government capital is productive, even more so than private capital.

The evidence on crowding out does not lend support to any definite conclusion on the impact of public investment on private investment and overall capital accumulation. It is often the case that, even when there is a crowding out effect, a higher level of public investment is rarely associated with a lower level of aggregate investment. It has thus been recognised by the International Monetary Fund (IMF) (2004:6) that the “possibility that a declining share of public investment in GDP could have adverse consequences for economic growth over the longer term is a legitimate concern, although the empirical evidence in this area is inconclusive.”

FDI AND CAPITAL FORMATION

Another important ingredient of the new development strategy has been increased reliance on FDI, which has been seen as a crucial factor for success in industrialisation, because of its role in the transfer of technology and entrepreneurial know-how in linking developing countries to international production networks and enhancing their access to global markets for goods and finance. Many countries have thus removed impediments to FDI and provided foreign investors with incentives and security over and above those enjoyed by national investors. These policies, together with the increased outreach of transnational corporations (TNCs), have resulted in a rapid increase of FDI flows to developing countries, rising from some $20 billion at the end of the 1980s to $160 billion a decade later, and almost $240 billion in 2005.

The impact of FDI on capital accumulation and growth is highly contentious. Its contribution to balance of payments appears to be generally negative over the long-term, even though it may provide net positive transfers in the short run before profit remittances pick up. When FDI is in the form of acquisition of existing public or private assets, it has no direct contribution to domestic capital formation – although changes in ownership can give rise to productivity gains or stimulate investment that would not have otherwise taken place.

The recent surge in FDI flows has contributed to a reallocation of production facilities, jobs and ownership across different countries. For the world economy as a whole in recent years, the share of FDI as a proportion of GDP has almost tripled compared to the 1980s, but the proportion of world GDP allocated to investment has fallen by 2.5 percentage points. The contrast is even sharper in developing countries where the increase in FDI inflows is almost fivefold during the same period.

In many economies experiencing strong surges in FDI, but stagnant or declining gross fixed capital formation (GFCF), macroeconomic and financial policies have played an important role in creating conditions favourable to asset acquisition, but not to fixed capital formation.

POLICY FAILURE: OMISSION OR COMMISSION?

The evidence shows that investment and growth have generally been too weak to improve labour market conditions in most developing countries. The outcome of the strategy based on rapid domestic and external liberalisation, reduced public investment, reduced policy intervention and increased reliance on FDI, is disappointing. The slowdown in accumulation that emerged in the course of adjustment to the debt and balance of payment crises of the 1980s has become a more permanent feature of these economies. Weak private investment has been associated with declines in the share of public investment in GDP, and the surge in FDI encouraged by rapid opening up, privatisation and special incentives has failed to ignite growth by accelerating capital formation. Furthermore, the link between accumulation and growth has weakened, even with measures adopted to improve the allocation and utilisation of resources.

The poor outcome in terms of investment and growth has not given rise to a fundamental rethinking of Washington Consensus policies, despite the rhetoric to the contrary. In fact, there has been a tendency to attribute failure to omissions and slippages in reforms rather than shortcomings in the policies recommended.

Attention has since turned to second-generation reforms that emphasise "getting the investment climate right" by combining macroeconomic stability with good governance and policies promoting greater competition. It has been argued that richer and faster-growing countries tend to have more competition and fewer barriers to entry, and so the promotion of productive investment would require removing barriers to imports and foreign investment, and dismantling administrative obstacles to private business.

Once again, this is an act of faith. First, the relationship between economic openness and growth is highly controversial, both theoretically and empirically. Second, even though there are still barriers to international trade and investment, there has been considerable liberalisation in these areas. Similarly, while some administrative obstacles to business remain, governance has improved considerably in most developing countries. Shortcomings in these areas cannot explain why investment and growth performance has failed to improve and, in fact, has in many cases worsened. More importantly, it is a gross exaggeration to claim that successful examples of rapid accumulation and growth in East Asia relied on competitive market forces.

MANAGING PROFITS

Despite increased international mobility of capital, a very large proportion of domestic investment continues to be supported by domestic savings in both developed and developing countries. The conventional theory tells us that the savings propensity increases with income; that is, the rich save proportionately more than the poor, and richer countries are capital-abundant compared to less developed economies. In reality, however, some countries save and invest a lot more than others at similar levels of per capita income, and more equitable income distribution is not always associated with lower savings and investment.

The poor outcome in terms of investment and growth has not given rise to a fundamental rethinking of Washington Consensus policies, despite the rhetoric to the contrary. In fact, there has been a tendency to attribute failure to omissions and slippages in reforms rather than shortcomings in the policies recommended.

Evidence shows that after the initial stages of development, when agricultural incomes provide the main source of investment, private capital accumulation in industry is financed primarily by profits in the form of corporate retentions. Indeed, in the course of industrial development, dynamic interactions between profits and investment become the main driving force whereby profits constitute simultaneously an incentive for investment, a source of investment and an outcome of investment. In major industrial countries, up to 95 percent of corporate investment was financed by retained earnings during 1960-1990. In most, the contribution of gross profits to total savings and capital formation was as high as, and even higher than, household savings.

Available evidence also shows that high rates of capital accumulation in more successful developing countries have been associated with high rates of corporate retention and investment. This is particularly true in East Asian countries, where the impressive savings-investment performance over the past decades owed a great deal to significantly higher business savings and investment rates rather than higher household savings. During the 1980s, these countries' business savings were in the order of 8–14 percent of GDP, financing between 42 percent and 65 percent of corporate investment. Evidence for the more recent period also shows a strong relationship between a high savings rate, a high share of manufacturing in GDP, and a high profit share in East Asia.

A third boom now appears to be under way, driven by a combination of highly favourable conditions, including historically low interest rates, abundant international liquidity, oil surpluses, strong commodity prices and buoyant international trade.

The accumulation/concentration ratio effectively gives the ratio of private investment to income received by the richest quintile of the population. Since private investment is undertaken primarily by the richest strata, this is a reasonably good indicator of the propensity of the rich to save and invest. Successful East Asian countries again top the table.

A strong profit-investment nexus does not emerge spontaneously from market forces. Market-based incentives and competition do not always translate profits into investment, or ensure that investments generate adequate profits to justify undertaking them. An important element of the successful industrialisation in East Asia was the willingness and ability of governments to intervene effectively to accelerate accumulation and growth by animating the investment-profits nexus, rather than relying on market forces alone.

The kind of measures used fall into two broad categories. First, a number of fiscal instruments, such as tax exemptions and special depreciation allowances were employed in order to raise gross profits and encourage their retention. Second, a range of selective trade, financial and competition policies were used to increase profits over and above the levels that could be attained under free market conditions, provided that protection and support were reciprocated by faster accumulation and productivity growth.

Measures were introduced in all these areas to

- co-ordinate investment decisions
- direct investment to sectors with greater potential for learning and productivity growth
- prevent investment races, and
- control external borrowing.

They were supplemented by restrictions on luxury consumption through import control and progressive taxation, and by measures designed to close unproductive channels of wealth accumulation and speculation. High retention ratios resulted in relatively equitable personal income distribution. Rapid accumulation and job creation provided social justification for high profits.

Such policies have not been fashionable in recent years in many parts of the developing world. The scope for managing profits and accumulation is also severely restricted by WTO rules, conditionalities attached to multilateral lending by the Bretton Woods institutions (BWIs), and liberalisation of the capital account. These, together with the neglect of accumulation and employment in macroeconomic and financial policies, explain in large part why investments now generate more profits than previously, but profits generate less investment.

FINANCIAL BOOM-BUST CYCLES

With few exceptions, macroeconomic policy has not been directed towards maintaining a high and stable level of employment and rapid capital accumulation either in developed or in developing countries. In the developed world, there have been persistent inconsistencies in the mix and stance of monetary and fiscal policies, which served not only to dampen growth, but also to generate global imbalances and instability. In many developing countries, the scope to use monetary and fiscal policy for macroeconomic management has largely been restricted by financial liberalisation and increased public indebtedness. Policy stance has generally been pro-cyclical, aggravating boom-bust cycles in economic activity associated with rapid surges and exits of capital, thereby contributing to instability in key relative prices that affect investment decisions, such as interest and exchange rates.

Until the recent bouts of financial boom-bust cycles in industrial and developing countries, it was generally believed that price stability was both necessary and sufficient for economic and financial stability. However, in many countries in East Asia as well as in the industrial world, asset-price bubbles, excessive credit creation and currency gyrations all occurred under conditions of price stability. In the more extreme cases, as in Latin America, disinflation has been achieved at the cost of increased financial fragility and instability, through exchange rate-based stabilisation programmes relying on unstable capital flows.

Not only have financial markets become the single most important source of instability, but the influence of financial developments over economic cycles has increased significantly. This is particularly so in the developing world where financial instability associated with greater mobility of capital has been mirrored by sharp changes in economic activity.

Both theoretical and empirical literature show that high volatility has an adverse effect on long-term economic growth and that financial liberalisation tends to strengthen the trade-off between growth and volatility. On the one hand, growing uncertainties created by sharp and unexpected swings in key relative prices such as interest rates, exchange rates and real wages, as well as increased fluctuations in the level of demand, increase the risks associated with irreversible investment decisions, shorten planning horizons and promote defensive strategies.

On the other hand, the greater opportunities for quick capital gains presented by a high degree of asset price volatility encourage speculative behaviour. These exert a significant influence on the pace and pattern of capital accumulation and the conditions in the labour market.

With rapid financial liberalisation, boom-bust cycles have become common features of both currency and asset markets. These reflect abrupt and unexpected changes in markets' assessment of risks that cannot always be attributed to policy shifts.

Booms generated by improved opportunities for profitable investment lead to an underestimation of risks, over-expansion of credits and over-indebtedness. Excessive risk-taking eventually results in a deterioration of balance sheets and increases in non-performing loans. Lenders respond by reassessing risks and sharply cutting credits, which in turn leads to credit crunch, debt deflation and defaults. While crises are almost always associated with a certain degree of financial fragility, they can also take place in the absence of serious economic weaknesses, due to "self-fulfilling prophecies" and debt runs associated with herding behaviour and collective action problems.

CRISES IN DEVELOPING ECONOMIES

In developing countries, domestic financial cycles have often been associated with sharp swings in external capital flows and exchange rates. It is very rare that currency crises in developing countries are contained without having a significant impact on domestic financial conditions, economic activity and living standards. The greater vulnerability of domestic financial conditions to currency instability is due primarily to the existence of large stocks of public and/or private debt denominated in foreign currencies – the so-called "liability dollarisation".

Global financial conditions were the dominating factors in the two post-war boom-bust cycles in such flows to developing countries. The first boom started in the early 1970s, driven by the rapid expansion of international liquidity associated with oil surpluses, and facilitated by financial deregulation in industrialised countries and rapid growth of Eurodollar markets. Excess liquidity was recycled in the form of syndicated bank credits, and this was encouraged by the Bretton Woods Institutions' (BWI) fear of a collapse of global demand. It ended with a debt crisis in the 1980s as a result of the hike in US interest rates, global recession and a sharp cutback in bank lending.

The second boom came in the early 1990s, after almost ten years of suspension in private lending to developing countries. It was encouraged by the success of the Brady Plan for sovereign debt restructuring, liberalisation and stabilisation in developing countries, and rapid expansion of liquidity in the United States and Japan in conditions of economic slowdown. Unlike the first boom, a large proportion of private inflows were in equity investment rather than international lending, attracted by prospects of quick capital gains and short-term arbitrage opportunities. It again ended with a series of crises in Latin America, East Asia and elsewhere.

These cycles were thus driven by temporary and special factors beyond the control of recipient countries, including monetary and financial policies in industrial countries. Aggregate flows to developing countries have manifested a degree of instability not justified by changes in the underlying fundamentals in the recipient countries. For instance, in the last cycle, total annual net private capital inflows fell from more than $200 billion in 1996 to less than $20 billion in 2000-2001. After the East Asian crisis and until 2002, nett international private lending to developing countries was negative. These swings in the volume of private capital are also mirrored in sharp changes in their terms. Booms tend to be associated with the underestimation of risks and relatively low spreads, while crises lead to overpricing of risks, generalised increases in spreads and shortening of maturities.

Just as counter-cyclical fiscal policy should start in the boom, the prevention of unsustainable booms in capital inflows and currency appreciations holds the key to greater financial stability in developing countries. Monetary policy on its own is quite ineffective.

A third boom now appears to be under way, driven by a combination of highly favourable conditions, including historically low interest rates, abundant international liquidity, oil surpluses, strong commodity prices and buoyant international trade. Total inflows to developing countries are currently above the peak of the previous boom, and almost all emerging markets have shared in this recovery. But, as noted by the IIF (2005: 4), "there is a risk that the pickup in flows into some emerging market assets has pushed valuations to levels that are not commensurate with underlying fundamentals." A combination of tightened liquidity, rising interest rates, slowing growth and persistent global trade imbalances can reverse the boom, particularly hitting countries with weak fundamentals and incomplete self-insurance.

INVESTMENT VOLATILITY

Almost all financial bubbles give rise to excessive investments in certain sectors that will lose their viability with the return of normal conditions, leading to prolonged under-utilisation and even destruction of production capacity. Such investment is concentrated not only in areas susceptible to speculative influences, such as housing and commercial construction, but can also be in machinery and equipment.

This is true both for industrial and developing countries but, in the latter, the abrupt change of economic regime, particularly in the sphere of money and finance, has made it difficult for investors to identify underlying trends and separate them from cyclical developments. Their long-term decisions – affecting the balance sheets of corporations through acquisition of assets and assumption of liabilities – based on favourable cyclical conditions have thus resulted in increased financial fragility and waste of resources.

Increased volatility of investment resulting from financial cycles has two adverse consequences for capital accumulation and job creation. First, investment tends to fall a lot faster under financial busts than it rises during financial booms; that is, the average investment rate over the cycle tends to be lower. Second, financial booms distort the composition of investment, increase its speculative components and lead to excessive expansion of productive capacity in certain sectors.

Clearly, these two phenomena are related. Financial busts result not only in sharp declines in investment but also in the waste of existing productive capacity which becomes unviable with changed conditions.

BUBBLES, CRISES AND JOBLESS RECOVERIES

Any adverse effect of financial instability on capital accumulation and economic growth would no doubt be transmitted to the labour market. But boom-bust cycles also generate dislocations and instability in employment and wages independent of their impact on capital accumulation.

Booms can temporarily lift employment and wages above their long-term levels, while crises depress them significantly on a more durable basis. In recoveries from deflation-*cum*-recessions, both employment and wages tend to lag considerably behind income growth. While this is also true for industrial countries, the boom-bust cycles driven by capital flows in developing countries are particularly harmful for labour, causing large adverse shifts in unemployment, wages, income distribution and poverty.

Investments now generate more profits than previously, but profits generate less investment.

The experience of the United States in this respect is quite revealing. As noted above, the periods of expansion in the 1980s and 1990s were both characterised by excessive investments in certain sectors, asset-price inflation and increased private indebtedness while the recessions that followed involved widespread financial difficulties and debt-deflation. In both episodes, recoveries were commonly described as jobless. In the first, the recovery that started in the course of 1991 was not felt in the labour market until well after several years of growth.

In the second cycle, the economy went through a short recession in spring 2001. The recovery that followed was the worst in recent United States history for employment creation. A combination of falling wages and employment with surging profits not only worsened income distribution, but also increased poverty.

Financial excesses at times of expansion were an important reason for jobless recoveries in both cycles, but above all, after the more recent downturn following one of the US's strongest post-war expansions driven by the "dot-com" bubble. In both cases, deflation-*cum*-recessions exposed financial fragility and over-indebtedness, and during recoveries corporations focused on restoring the health of their balance sheets. Increased profits were used either for industrial restructuring or for debt reduction, rather than expansion of production capacity and employment. Downsizing and labour-shedding resulted in a combination of falling employment with rising labour productivity and profits.

In emerging market economies, jobless recoveries from recessions triggered by crises are even more marked. The impact of financial crises on the labour market and social conditions lasts much longer in these economies because of financial difficulties created by liability dollarisation and the external constraint. Even after income recovers to levels prevailing before the crisis, both employment and wages tend to lag – remaining well below not only their pre-crisis (boom) levels, but also their pre-boom levels.

At times of a surge in capital flows, real wages generally rise alongside the appreciation of the currency, but what happens to employment depends on a host of factors. If the boom is driven by consumption, and productivity growth is sluggish, employment tends to fall in traded goods sectors while rising in services. When investment is strong and currency appreciation is limited, industrial employment can remain relatively stable or even rise despite loss of competitiveness. Under such circumstances, financial booms would be associated with falling unemployment rates.

Available evidence suggests that, in almost all emerging market economies that went through boom-bust cycles in the 1990s, real wages rose rapidly at times of surges in capital inflows and financial booms, but employment changed in different ways in different episodes. At times of crisis, wages fell almost everywhere.

In emerging market economies, as in industrial countries, productivity and profits tend to rise during recovery, while wages and employment remain depressed compared to their long-term sustainable levels. Because of the impact of currency collapses and pro-cyclical monetary and fiscal policies, the dislocations created by crises in the balance sheets of banks and corporations in developing countries are much greater than those generated by asset-price deflations in industrial countries. This is a major reason why recessions are deeper, and recoveries are slower in generating jobs.

POLICY PRIORITIES

A number of conclusions can be drawn from the recent experience of developed and developing countries with respect to economic stability and growth. First, while macroeconomic stability may be necessary to sustain rapid accumulation and growth, it is certainly not sufficient. Second, price stability on its own cannot secure stability in key macroeconomic aggregates and relative prices, since it is not sufficient to secure financial stability. Accordingly, the source of macroeconomic instability now is not instability in product markets but asset markets, and the main challenge for policy makers is not inflation but unemployment and financial instability.

At the national level, a reorientation of policy would need to focus on three areas in developing countries:

- fiscal policy would need to be employed in a counter-cyclical way, with a view to combining stability with a high level of economic activity
- a whole array of policy instruments would need to be redeployed to reduce financial instability and prevent boom-bust cycles in capital flows
- in most countries at intermediate stages of industrialisation, action needs to be taken at the sectoral level in order to directly influence the volume and composition of investment.

Bringing back fiscal policy as an instrument for macroeconomic management calls for restoring fiscal autonomy, which, in turn, requires the elimination of chronic structural deficits. This should be possible through a reform of taxation and primary spending. In some countries it would be necessary to act directly on the stock of public debt, notably the domestic debt, as the single most important determinant of fiscal sustainability.

Using fiscal policy in the Keynesian tradition for macroeconomic management implies that governments should run deficits at times of contraction, but generate surpluses during upturns so that, over the full cycle, the budget should be balanced or in a small surplus. If the revenue and expenditure structures are appropriately designed, much of the task would be done by automatic stabilisers. But there would often be a need for discretionary fiscal action according to the strength of underlying contractionary and expansionary impulses.

It is particularly important to pursue counter-cyclical fiscal policy in the boom in order to have adequate fiscal space during contractions. This should be undertaken mainly by adjustments in spending on public works, which is also politically easier to control than current spending. There may be adjustments on the revenues side, including value-added taxes or financial transaction taxes, which can also be particularly effective in checking consumption and credit booms while providing additional revenues.

How should the budget be balanced? In one view, the cycle revenues from taxes and charges for public services should balance total expenditures, including both current and capital spending. This implies that any debt incurred during recessions should be repaid by surpluses generated during expansions. However, there may be a sound rationale for the public sector to incur debt across the cycle, provided that it is used to finance productive investment.

An alternative way of conducting fiscal policy is to make a distinction between current and capital spending and use the "golden rule" of public finance: governments should be able to borrow to invest, but not to finance current spending. This old idea has recently been revived in the debate over fiscal constraints imposed by IMF conditionalities and the European Stability and Growth Pact.

Such an approach would have the advantage of preventing the burden of adjustment falling disproportionately on public investment. It would also imply that analyses of fiscal sustainability should not focus on gross public debt alone, but also consider assets built up on the other side of the balance sheet.

Just as counter-cyclical fiscal policy should start in the boom, the prevention of unsustainable booms in capital inflows and currency appreciations holds the key to greater financial stability in developing countries. Monetary policy on its own is quite ineffective.

Traditional prudential regulations can help prevent excessive risk-taking, credit creation and borrowing at times of economic expansion. Rules governing provisions, capital requirements, collateral valuation and other measures affecting conditions in credit and asset markets could be employed in a counter-cyclical manner, tightened at times of boom and loosened during contractions.

There are limits to what such measures can do to check excessive risk-taking and the increase of fragility in developing countries, particularly when arbitrage opportunities are large and market perceptions are highly favourable. They need to be supplemented by direct and indirect controls over capital inflows of the kind extensively used in industrial countries in the post-war era until as recently as the 1980s. Taxes on capital inflows would be effective; not only because they would reduce or eliminate arbitrage margins, but also because they would facilitate counter-cyclical fiscal policy.

None of these may guarantee prevention of financial crises, even in economies with good track records in macroeconomics and development.

The policy response by most emerging market economies facing such situations has generally involved pro-cyclical fiscal and monetary tightening designed to restore market confidence, combined with IMF interventions to bail out international creditors and investors. This often failed to prevent financial meltdown and, in fact, deepened crises. A more viable and equitable alternative, which would also facilitate counter-cyclical macroeconomic policies, would be to impose temporary debt standstills and suspension of capital account convertibility, as implemented successfully by Malaysia during the 1997–98 crisis.

A third key area of policy intervention concerns measures affecting the volume and composition of investment, since macroeconomic stability as such would not be enough to secure a rapid pace of productive capital accumulation.

The space to use some of these policy measures has no doubt been narrowed down by global economic integration and multilateral rules and practices in trade and finance. Nevertheless, taxes and certain financial instruments could still be effectively used to ensure that allocation of profits and credits favour productive investment rather than luxury consumption or unproductive forms of wealth accumulation. Furthermore, policies at sectoral levels may need to be so designed as to lessen the uncertainties associated with investment decisions.

INTERNATIONAL POLICY

There can be little doubt that such policies at the national level would need to be supported by international policies. This task falls to multilateral financial arrangements and institutions, notably the IMF. So far, the intensive policy surveillance by the Fund has not prevented boom-bust cycles in capital flows to developing countries. The standard policy measures recommended to prevent unsustainable surges in capital inflows and exchange rate appreciations are not only ineffective, but they also entail large costs.

Since there is now increased consensus that crisis prevention requires the prevention of unsustainable booms, and that full capital account convertibility is not an appropriate objective for most developing countries, a major task for the Fund is to help these countries to manage capital inflows. It is necessary to specify circumstances in which the Fund should recommend the imposition or strengthening of capital controls over inflows. The Fund should also develop mechanisms to separate capital account from current account transactions, to distinguish different types of capital flows as to their sustainability and economic impact, and to provide policy advice and technical assistance at times when such measures are needed.

In the same vein, the Fund should stop promoting pro-cyclical policies in countries facing payment difficulties as a result of trade and financial shocks. For poorer developing countries facing export shortfalls, this would mean providing more current-account financing and demanding less adjustment. Many of these countries would also need considerably increased amounts of development finance – but multilateral development banks rather than the IMF should undertake this task.

For emerging market economies facing rapid exit of capital, the policy of combining pro-cyclical macroeconomic tightening with bail-outs is counter-productive, because it deepens crises, creates moral hazard and leads to an inequitable distribution of the costs of crises between debtors and creditors. The Fund should develop orderly debt workout mechanisms for crisis management and resolution, including temporary standstills and capital account restrictions, and provide international liquidity, not to bail out creditors, but to support economic activity in the countries concerned.

While global economic and financial conditions affecting developing countries are shaped primarily by policies in the major industrial countries, the IMF surveillance over these countries has lost its meaning with their graduation from the Fund and the breakdown of the Bretton Woods arrangements for exchange rates. Initiatives taken at various occasions to achieve greater co-ordination and coherence of macroeconomic policies between the United States, the European Union and Japan have not been successful in removing trade imbalances and bringing about a more stable system of payments and exchange rates.

Because of political leverage exercised by its major shareholders, there are serious political difficulties to strengthening IMF policy surveillance over these countries and making the Fund a symmetrical organisation of creditors and debtors. Any reform that sought to secure greater international economic and financial stability would need to address not only the policies and operational modalities of the Fund, but also the shortcomings in its governance structure.

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DOES FDI PROMOTE ECONOMIC DEVELOPMENT?

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The paper "Rethinking foreign investment for development" examines case study and statistical evidence about the impacts of foreign direct investment (FDI) in developing countries on economic growth, technology spillovers and environmental performance. We find that there is no consistent relationship: the impact of FDI on each variable has been found to be positive, neutral, or even negative. Key variables are domestic policies, capacities and institutions.

Foreign direct investment is a financial investment in a domestic enterprise by which a foreign investor gains a significant equity stake in the firm. In most national accounting systems, FDI is defined as an equity share of 10 percent or more.

In the 1990s, foreign direct investment came to be seen as a "miracle drug" – a jumpstart to economic growth and sustainable industrial development, especially in developing countries. Policies to attract FDI became the centrepiece of both national development strategies and supra-national investment agreements.

The major players in FDI are transnational corporations (TNCs). The world's hundred largest TNCs held nearly $2 trillion in foreign assets at the end of the 1990s, and employed over six million people in their foreign affiliates. All of the top 10 and nearly 90 percent of the top 100 TNCs are from the United States, Japan and the European Union. Given the predominance of TNCs, a conventional definition of FDI is: a "form of international inter-firm cooperation that involves significant equity stake and effective management decision power in, or ownership control of, foreign companies". (De Mello 1999:135)

FDI, in short, is more than a flow of capital. It is a cross-border expansion of production undertaken primarily by large corporations. The internationalisation of production is at the heart of the process of globalisation.

The pursuit of FDI as an engine of growth is prescribed by mainstream economic theory, as well as the IMF and other global development organisations. "The overall benefits of FDI for developing country economies are well documented," claims a 2002 report undertaken for the Organisation of Economic Cooperation and Development (OECD)'s Committee on International Investment and Multinational Enterprises. Based on consultations with OECD member governments and business, labour and NGO advisors, the report, titled *Foreign Direct Investment for Development, Maximising Benefits, Minimising Costs*, nicely sums up conventional wisdom about the promise of FDI:

> "Given the appropriate host-country policies and a basic level of development, a preponderance of studies shows that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries."

In addition, the report goes on, FDI "*may* help improve environmental and social conditions in the host country by, for example, transferring 'cleaner' technologies and leading to more socially responsible corporate policies". (emphasis added)

The more qualified endorsement of FDI's social and environmental benefits likely stems from the OECD's own commissioned work in this area, including by one of the authors of this paper, which shows that the environmental impacts of FDI may be positive, negative, or neutral, depending on the industrial and institutional context.

But caution is also warranted in assessing the relationship between FDI and economic development. An examination of recent studies shows that, in this case too, the benefits of FDI are far from well-documented.

EFFICIENCY SPILLOVERS: IS KNOWLEDGE "CONTAGIOUS"?

FDI generates rents to transnational corporations by virtue of their possession of superior technology, management and/or access to global markets. According to economic theory, host communities get "spillover" benefits of the superior asset(s). Indeed, "efficiency spillovers", which occur through the transfer of technologies and management practices, are increasingly seen as the primary way in which to gauge the contribution of FDI to economic growth. Dubbed a "contagion" effect, efficiency spillovers can occur through several routes, including the copying of TNC technology by local firms and the training of workers who then find employment in local firms or start their own.

The most important conduit, however, is the linkage between TNC affiliates and their local suppliers. TNCs generate spillovers when they:

- help prospective suppliers set up production facilities
- demand that suppliers meet high quality standards and develop capacities for product innovation – and provide training to enable them to do so
- provide training in business management
- help suppliers find additional markets, including in sister affiliates in other countries.

To what extent do TNCs actually undertake these activities in developing countries? Studies have been of two types:

1) statistical studies that examine trends in key macro-variables, such as domestic investment (gross fixed capital formation) and productivity;
2) case studies of particular industries, such as automotive and high-tech.

In developed countries, limited evidence suggests that the productivity of domestic firms is positively correlated with the presence of foreign firms, though one study found no independent growth effect of FDI. However, some studies found the magnitude of spillovers to be very small. Moreover, tax policies and other incentives to attract FDI distort firm technology and investment choices and generate *negative* spillovers—a loss in the efficiency of local firms.

For developing countries, the evidence is mixed. Overall, of the eleven studies reviewed for this paper, only three found unequivocally that FDI generates efficiency spillovers in developing countries. Two found the opposite, while six found that FDI may or may not generate spillovers, depending on local productive policy or financial conditions. The evidence suggests that there is no automatic or consistent relationship between FDI and efficiency spillovers, either for developing countries as a whole or for all industries within a country. Realising the promise of FDI to transfer technology and diffuse knowledge requires conducive policy, institutional and market environments.

Like the benefits of FDI itself, however, there is little consensus on what constitutes a "conducive" policy.

CROWDING IN – OR CROWDING OUT – DOMESTIC INVESTMENT?

The central promise of FDI is that it promotes economic growth, not only through efficiency spillovers but by stimulating, or "crowding in", domestic investment. By increasing the productivity and efficiency of local firms, spillovers themselves can help to stimulate domestic investment.

On the other hand, TNCs may undermine local savings and "crowd out" domestic investment by competing in product, service and financial markets and displacing local firms. The loss of domestic firms can undermine market competition, leading to inflated prices and lower quality products.

There is no evidence that TNCs drive a "race to the top" – or to the bottom. Rather, the chief insight is that local norms and institutions are of central importance in determining TNC practices.

Taken together, the risk is that FDI could lead to an overall contraction, rather than an increase, in domestic investment and economic growth. Indeed, in a study that generally argues for the potential benefits of FDI, Moran (1998:2) cautions that "the possibility that FDI might lead to fundamental economic distortion and pervasive damage to the development prospects of the country is ever present".

What is the more likely "face" of FDI? A host of studies over the past decade have examined the nature of economic benefits and the conditions under which they are – or are not – captured. Moran (1998) reports on the findings of three separate "net assessments" of the impact of FDI covering 183 projects in some 30 countries over the past 15 years. Two studies found that FDI had a positive impact in 55 to 75 percent of the projects they studied. But one study found that FDI had "a clearly negative impact on the economic welfare of the host" in an astonishing 75 percent of the projects studied. (Moran 1998:25)

Economy-wide studies generally have found both positive and negative impacts of FDI on domestic investment. Of the twelve studies reviewed for this paper, three found positive links between FDI and economic growth, while one found a negative link and eight studies found that "it depends". Like efficiency spillovers, the positive benefits of FDI on domestic investment and growth depend largely on domestic policies, capabilities and institutions.

FDI AND THE ENVIRONMENT

In the last decade, a surge of regional and bilateral investment agreements have promoted the liberalisation of investment regimes. These agreements expand the rights of foreign investors but, with few exceptions, articulate no environmental or social responsibilities of either investors or governments. Many in the sustainable development community are concerned that, without an environmental framework, liberalisation will accelerate environmental degradation.

The impacts of FDI on the environment can be traced through three routes:

- environmental performance of TNCs
- impacts of economic growth on scale and composition of industry
- impacts on national and global environmental regulation.

PERFORMANCE OF TNCS

Two critical strategic and management decisions of TNCs affect their environmental performance. First is the choice of technology, that is, whether to invest in newer, cleaner "best available" or to "dump" older, dirtier technologies. In most industries, a range of technologies is in use. Efficiency and "cleanness" may be a function as much of industry sector as of company choice: some industries are more technologically dynamic than others.

The second decision has to do with management practice, that is, whether the corporate parent has implemented an effective EMS (environment management system) and required the same of its overseas subsidiaries and suppliers. NGO advocacy campaigns have increasingly demanded that TNCs adopt "voluntary initiatives" to go "beyond compliance" in global operations.

One of the promises of FDI for sustainable development is that TNCs, especially from the OECD, will help to drive up standards in developing countries by transferring both cleaner technology and/or better environmental management practices. The evidence for such a trend, however, is mixed.

A recent study that examined environmental performance of TNCs in India had nuanced findings (Ruud 2002). On the one hand, TNCs were found generally to be transferring state-of–the-art production (though not necessarily pollution control) technologies, rather than dumping older and dirtier technologies. In addition, TNC affiliates were strongly influenced by corporate parents to improve environmental management. On the other hand, there was no evidence that better environmental management practices were diffused by TNC affiliates to local partners, suppliers or consumers.

The author concludes that there is no evidence that TNCs drive a "race to the top" – or to the bottom. Rather, the chief insight is that local norms and institutions are of central importance in determining TNC practices and therefore, "FDI inflows do not automatically create a general improvement in environmental performance". (Ruud 2002: 116)

Many developing countries, especially the poorest, lack the capacity and/or political will to enforce environmental oversight of industry. In this context, TNCs are largely able to "self-regulate" and have three choices:

1) follow local practice and norms;
2) adopt company-wide global standards based on home country standards; or
3) adopt international standards or "best practice" norms for corporate social responsibility.

Companies make different choices, depending on company culture and the industry they are in. In the petroleum and mineral industries, case studies suggest that TNCs have tended to follow – or even to worsen – local practice. In many parts of the world, mining operations have generated severe environmental degradation and pollution, including the discharge of toxic substances into river systems, large-volume waste disposal, the inadequate disposal of hazardous wastes, and the long run impacts of poorly planned mine closures. Multinational oil companies have been the target of protest and criticism for widespread pollution and human rights violations in the Amazon region, Nigeria, Indonesia and, increasingly, the Caspian region.

In the high tech sector, on the other hand, American and European TNCs tend to adopt either company-wide standards or international "best practice" for environmental management and community consultation. Within the industry, however, there are "leaders" and "laggards".

SCALE AND COMPOSITION EFFECTS

One of the potential, if not automatic, benefits of FDI is that it stimulates economic growth. Without adequate global and national regulation, however, economic growth is likely to accelerate environmental degradation through scale effects – even if TNCs are good performers. The experience of East Asia, often described as an "economic success story", provides a tragic example. According to the Asian Development Bank's 2001 *Asian Environment Outlook*, resource degradation and environmental pollution in both East and South Asia is so "pervasive, accelerating, and unabated" that it risks human health and livelihood.

The scale impacts of economic growth on the environment derive largely from unsustainable production and consumption patterns. If FDI were channelled into sustainably produced and sustainably transported goods and services, then the overall impact – even of rapid and high growth – on the environment would presumably be neutral or low. To date, however, rapid growth, in developing and developed countries alike, has tended to be associated with an increase in unsustainable production and consumption patterns.

Potential environmental benefits of FDI may flow from changes in the structure, or "composition", of industry. In theory, FDI flows to more efficient companies and industries. Greater economic efficiency translates into greater environmental efficiency via reduction per unit output of productive inputs such as energy, water, and materials, as well as reductions in wastes. The "pollution intensity" of an economy overall, in other words, can be reduced by a change in the relative mix of industries, as well as by changes in the "eco-efficiency" of companies within industries.

While acknowledging that environmental impacts can worsen with an increase in the rate of growth, some economists argue that, over time, economic growth generates environmental improvements. One account, known as the "environmental Kuznets curve" posits that environmental quality first worsens and then improves as per capita income (GDP) rises.

Development policymakers evoked the theory for decades to argue that inequality could be ignored in the short term. More recently, empirical evidence has faded, leading economists to conclude "there is no empirical tendency whatsoever in the inequality-development relationship". (Fields 1995)

Another concern is that a positive relationship between income and environmental quality in one country or region might mask a relocation of dirty industry to another country or region, resulting in an overall neutral or even negative global environmental impact.

ENVIRONMENTAL REGULATION: STUCK IN THE MUD?

The asymmetric bargaining power of TNCs *vis-à-vis* local governments is most troublesome in the context of the intense competition for FDI. Given the absence of global environmental standards, would-be host governments seeking to attract FDI may be reluctant to make higher-than-average environmental demands on individual TNCs. They may even be tempted to offer lower-than-average environmental demands to enhance the attractiveness of an overall package.

Dubbed the "stuck in the mud" problem, the impact of intense global competition for FDI is thus likely to inhibit the rise of environmental standards. The problem afflicts both developed and developing countries: efforts in the 1990s to put a modest tax on carbon were roundly defeated in both the US and Australia by worries that investment would move offshore.

There is some evidence that, despite regulators' fears, high environmental standards do not, in fact, deter investors and, in some cases, are even preferred by investors. Moreover, with the rise of the global corporate social responsibility movement, TNC and host-government expectations may be changing.

Overall, an examination of all three of the channels linking FDI and the environment suggests there is no determinate trend: FDI can improve, worsen or have no impact on environmental quality. Other factors – government regulation, the rate of economic growth, company culture, the particular industry in which the FDI takes place, the rules that govern FDI – are key variables.

There is also a disjunction between the globally-integrated and the domestic parts of the economy and, as a result, hoped-for employment and income benefits have not materialised. Most worrisome, FDI has not stimulated backward linkages or increased the endogenous capacity for innovation.

In addition to its economic role, the capacity for innovation is crucial to reducing the environmental impacts generated by increasing the scale of economic activity.

CONCLUSIONS

The overwhelming evidence makes it easy to conclude that FDI is no "miracle drug". What needs fleshing out are the subtle and difficult questions that flow out of this analysis:

- What kinds of local policies would best capture the potential growth benefits and efficiency spillovers of FDI?
- Are the poorest, least developed countries better off without FDI?
- How much "room to move" do developing countries have to shape local policies towards FDI, given the constraints on national policy in regional and bilateral (and potentially global) investment agreements?
- Can voluntary TNC practices raise the probability that FDI will deliver environmental, social and economic benefits to host communities and countries?
- To best garner the potential development benefits of FDI, how should investment be governed at the supranational level?

Fully developed answers to these questions are beyond the scope of this paper. What our analysis does suggest, however, is that a first step is to eschew the search for a miracle drug and to embrace the need to develop more complete, domestically-oriented development strategies. Moreover, our analysis makes clear that structuring investment regimes solely around the interests and concerns of foreign investors will not necessarily deliver economic, environmental or social benefits to host communities.

The centrepiece of a more sustainable development strategy should be the nurturance of endogenous capacities for production and innovation. Rather than skew policies towards attracting foreign investment, macroeconomic policies should aim to enhance the overall climate for investment, both domestic and foreign. Rather than encouraging FDI to flow towards export platforms for the assembly of imported inputs, industry and technology policies should aim to develop local skills, local markets, and solid, world-class domestic firms. With the right set of local – and global – policies, FDI could potentially help in that process.

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NUCLEAR WEAPONS AGAINST IRAN "GRAVELY IRRESPONSIBLE", CHARGE US PHYSICISTS

BY KIM MCDONALD

The author is the director of science communications at the University of California, San Diego. This article was posted at physorg.com

Thirteen of the Unites States' most prominent physicists wrote a letter to President Bush in April 2006, calling reported US plans to use nuclear weapons against Iran "gravely irresponsible" and warning that such action would have "disastrous consequences for the security of the United States and the world."

The physicists included five Nobel laureates, a recipient of the National Medal of Science and three past presidents of the American Physical Society, the nation's pre-eminent professional society for physicists.

Their letter was prompted by articles in the *Washington Post*, the *New Yorker* and other publications claiming that one of the options being considered by Pentagon planners and the White House in a military confrontation with Iran includes the use of nuclear bunker busters against underground facilities. These reports were neither confirmed nor denied by White House and Pentagon officials.

The letter was initiated by Jorge Hirsch, a professor of physics at the University of California, San Diego, who in 2005 had put together a petition signed by more than 1 800 physicists that repudiated new US nuclear weapons policies that include pre-emptive use of nuclear weapons against non-nuclear adversaries (http://physics.ucsd.edu/petition/). Hirsch also published 15 articles in recent months (http://antiwar.com/hirsch/) documenting the dangers associated with a potential US nuclear strike on Iran.

"We are members of the profession that brought nuclear weapons into existence, and we feel strongly that it is our professional duty to contribute our efforts to prevent their misuse," says Hirsch. "Physicists know best about the devastating effects of the weapons they created, and these eminent physicists speak for thousands of our colleagues."

"The fact that the existence of this plan has not been denied by the administration should be a cause of great alarm, even if it is only one of several plans being considered," he adds. "The public should join these eminent scientists in demanding that the administration publicly renounce such a misbegotten option against a non-nuclear country like Iran."

The letter, which is available at http://physics.ucsd.edu/petition/physicistletter.html, points out that "nuclear weapons are unique among weapons of mass destruction," and that nuclear weapons in today's arsenals have a total power of more than 200 000 times the explosive energy of the bomb that levelled Hiroshima, which caused the deaths of more than 100 000 people.

It notes that there are no sharp lines between small and large nuclear weapons, nor between nuclear weapons targeting facilities and those targeting armies or cities, and that the use by the United States of nuclear weapons after 60 years of non-use will make the use of nuclear weapons by others more likely.

"Once the US uses a nuclear weapon again, it will heighten the probability that others will too," the physicists write. "In a world with many more nuclear nations and no longer a 'taboo' against the use of nuclear weapons, there will be a greatly enhanced risk that regional conflicts could expand into global nuclear war, with the potential to destroy our civilisation."

The letter echoes the main objection of the 2005 physicists' petition, stressing that the Nuclear Non-Proliferation Treaty will be irreversibly damaged by the use or even the threat of use of nuclear weapons by a nuclear nation against a non-nuclear one, with disastrous consequences for the security of the United States and the world.

"It is gravely irresponsible for the US as the greatest superpower to consider courses of action that could eventually lead to the widespread destruction of life on the planet. We urge the administration to announce publicly that it is taking the nuclear option off the table in the case of all non-nuclear adversaries, present or future, and we urge the American people to make their voices heard on this matter."

The 13 physicists who co-authored the letter are: Philip Anderson, professor of physics at Princeton University and Nobel Laureate in physics; Michael Fisher, professor of physics at the Institute for Physical Science and Technology, University of Maryland and Wolf Laureate in physics; David Gross, professor of theoretical physics and director of the Kavli Institute of Physics at the University of California, Santa Barbara and Nobel Laureate in physics; Jorge Hirsch, professor of physics at the University of California, San Diego; Leo Kadanoff, professor of physics and mathematics at the University of Chicago and recipient of the National Medal of Science; Joel Lebowitz, professor of mathematics and physics, Rutgers, The State University of New Jersey and Boltzmann Medalist; Anthony Leggett, professor of physics, University of Illinois at Urbana-Champaign and Nobel Laureate in physics; Eugen Merzbacher, professor of physics, University of North Carolina at Chapel Hill and former president, American Physical Society; Douglas Osheroff, professor of physics and applied physics, Stanford University and Nobel Laureate in physics; Andrew Sessler, former director of Lawrence Berkeley Laboratory and former president, American Physical Society; George Trilling, professor of physics, University of California, Berkeley, and former president, American Physical Society; Frank Wilczek, professor of physics, MIT and Nobel Laureate in physics; Edward Witten, professor of physics, Institute for Advanced Study and Fields Medalist.

The physicists sent copies of their letter to their elected representatives, requesting that the issue be urgently addressed in the US Senate and House of Representatives.

INDIAN STOCK MARKET MELTDOWN: QUESTIONS ON THE ROLE OF FOREIGN INSTITUTIONAL INVESTORS

BY PRASENJIT BOSE

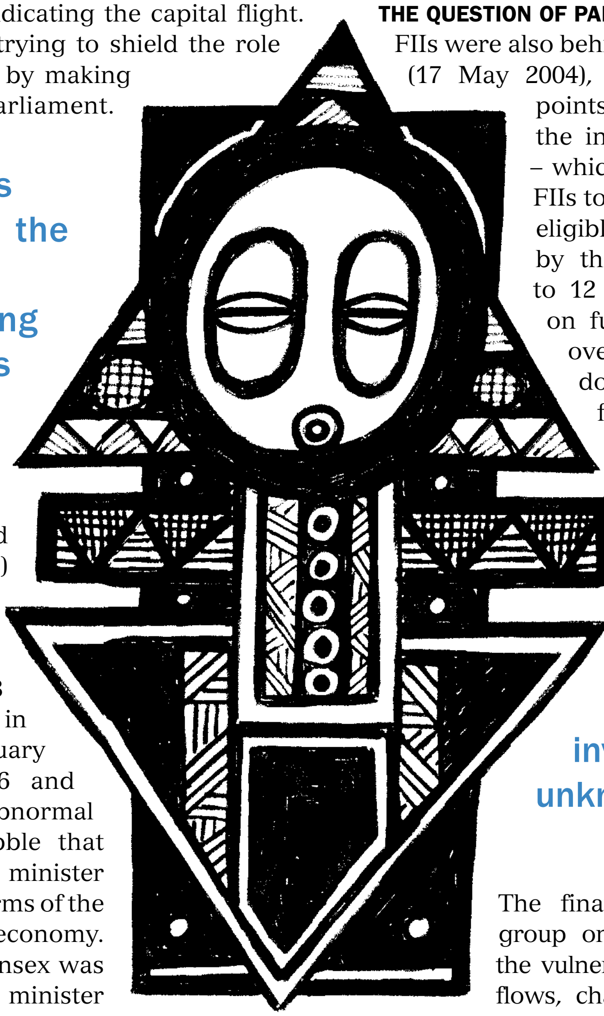
This article was published by MacroScan.com, the alternative economics web-centre, on 30 May 2006

The May 2006 market crash in India stands out both in its magnitude as well as its specific underlying causes. It is clear from the data that heavy selling by FIIs caused the market meltdown.

The Indian stock market experienced its biggest intra-day fall ever on May 22 2006, with the BSE Sensex (Bombay Stock Exchange) sliding by 1 111.70 points. Trading had to be suspended for an hour due to the sharp fall: the index-based circuit breakers came into play. After some reassurances from the finance minister, the Securities and Exchange Board of India (SEBI) and the RBI (Reserve Bank of India), the market recovered and finally closed at 10 481.77, which still meant a net fall of 456 points. This comes after a fall of 826 points on May 18 and a 452 points fall on May 19. This was the biggest stock market meltdown experienced in India. Although a further decline could be prevented, mainly on account of buying by the public financial institutions like the Life Insurance Corporation of India and Unit Trust of India, as well as mutual funds, the stock markets continue to witness gyrations. On May 24, the finance minister issued a statement in parliament, titled “Recent developments in the stock market”, where he sought to downplay the market crash and reiterated that the rise in the interest rate in the US due to inflationary expectations and a global fall in metal and other commodity prices were the prime reasons for the market meltdown. These factors have no doubt contributed to the crash. It is also true that stock markets globally have witnessed downturns over the past week. However, the market crash in India stands out both in its magnitude as well as its specific underlying causes.

The finance minister’s statement says: “Data from the markets received yesterday confirm that mutual funds have been net buyers. Even FIIs (foreign institutional investors) have been overall net buyers with large purchases in the derivatives market.” The question naturally arises that if both the FIIs as well as the mutual funds, who are the main movers of the stock market, were net buyers, then why did the crash occur at all? Which were those entities whose heavy selling led to the crash? The fact of the matter is that the FIIs may have invested large sums in the futures and options segment (derivatives) on May 22, as claimed by the finance minister, but they were net sellers in the stock market.

Data from the SEBI show that FIIs' net investment stood at -2 200.30 crore rupees (crore = 10 million) for the month of May up to the 23rd. FII net investment on May 22, i.e. the day of the crash, was -1 361 crore rupees. It is clear from the data that heavy selling by the FIIs caused the market meltdown. This is further corroborated by the fact that the exchange rate has declined continuously in the month of May in keeping with the withdrawal of funds by the FIIs. The rupee, which stood at Rs44.90 against the dollar on May 2, slid to Rs45.73 by May 24, indicating the capital flight. The finance minister is clearly trying to shield the role of the FIIs in the market crash by making misleading statements in parliament.



The finance minister is clearly trying to shield the role of the FIIs in the market crash by making misleading statements

The stock market has experienced an unprecedented bull run since the United Progressive Alliance (UPA) government came into office. While the Sensex was around 4 500 in May 2004, it crossed 7 000 points in June 2005, 8 000 in September 2005, 9 000 in November 2005, 10 000 in February 2006, 11 000 in March 2006 and 12 000 in April 2006. This abnormal price appreciation was a bubble that kept growing, with the finance minister justifying and celebrating it in terms of the strong "fundamentals" of the economy. In December 2004, when the Sensex was above 6 000 points, the finance minister had said: "I don't react. As long as the Sensex is driven by the fundamentals of the economy, I am very happy." In July 2005, when the Sensex had crossed 7 000 he said: "If the Sensex crosses 8 000, then I think that I would be concerned." In September 2005, after the Sensex crossed 8 000 he said: "We are looking at the price-earnings (PE) ratio (of Sensex and Nifty index). At this level, they look comfortable." In December 2005, when the Sensex had crossed 9 000 he said: "I expect the Sensex to rise with investor and business confidence rising. However, SEBI and I watch the movement carefully to see if there is any manipulation… My impression is that mutual funds are quite active in the markets, meaning thereby that small investors are putting their money in the mutual funds." When the Sensex went down by 463 points on May 16, the finance minister said: "I will put it as a correction provoked by reasons which are quite understandable. All metal prices are down and there is some impact of cement prices... and increases in the US Fed rate. All markets are doing the same." On May 18, when the Sensex had experienced a sharp fall, he remarked: "Everyday movement in the stock markets does not require a comment." After the crash of May 22, the finance minister is seen to be desperately advising investors not to panic and "stay invested". It is obvious that the public financial institutions are being instructed to buy heavily in the stock market in order to prevent any further fall of the indices.

THE QUESTION OF PARTICIPATORY NOTES

FIIs were also behind the market crash of "Black Monday" (17 May 2004), when the Sensex had fallen by 565 points. Inquiry into the crash revealed that the instrument of participatory notes (PNs) – which are like contract notes issued by the FIIs to overseas clients who are otherwise not eligible for investing in India – was misused by the FIIs. The SEBI had issued notices to 12 FIIs for not complying with its rules on furnishing details about PNs issued to overseas investors. However, it could pin down only one FII, UBS Securities Asia, following its probe into the stock market crash of 17 May 2004 and imposed a ban on its issuing PNs for a year. Despite efforts, the SEBI could not get details of the other FIIs and investors who had withdrawn huge funds and contributed to the market crash.

More than half of the beneficiaries of FII investments in India are unknown overseas entities.

The finance ministry had set up an expert group on encouraging FII flows and checking the vulnerability of capital markets to speculative flows, chaired by Dr Ashok Lahiri, in order to suggest concrete measures to meet the objective of encouraging FIIs while reducing the vulnerability of the financial system to the flow of speculative capital as laid down in the National Common Minimum Programme. In its report, submitted in November 2005, the expert group observed:

Participatory notes (PNs) are instruments used by foreign funds, not registered in the country, for trading in the domestic market. They are a derivative instrument issued against an underlying security, which permits the holder to share in the capital appreciation/income from the underlying security… PNs are used as an alternative to sub-accounts by ultimate investors generally based on considerations related to transactions costs and record-keeping overheads. In recent times, the anonymity afforded by the PN route has led to concerns about the desirability of PNs. With effect from

February 3, 2004, overseas derivative instruments, such as PNs against underlying Indian securities, can be issued only to regulated entities and further transfers, if any, of these instruments can also be to other regulated entities only. FIIs/sub-accounts have been required to ensure that no further downstream issuance of such derivative instruments is made to unregulated entities. The expert group recommended: "The current dispensation for PNs may continue. SEBI should have full powers to obtain information regarding the final holder/beneficiaries or any holder at any point of time in case of any investigation or surveillance action. FIIs may be obliged to provide the information to SEBI."

The Reserve Bank's representative in the expert group disagreed with this view. In his comments, he wrote:

The Reserve Bank's stance has been that the issue of participatory notes should not be permitted. In this context, we would like to point out that the main concerns regarding issue of PNs are that the nature of the beneficial ownership or the identity of the investor will not be known, unlike in the case of FIIs registered with a financial regulator. Trading of these PNs will lead to multi-layering, which will make it difficult to identify the ultimate holder of PNs. Both conceptually and in practice, restriction on suspicious flows enhances the reputation of markets and leads to healthy flows. We, therefore, reiterate that issuance of participatory notes should not be permitted.

This abnormal price appreciation was a bubble that kept growing, with the finance minister justifying and celebrating it in terms of the strong "fundamentals" of the economy.

The opinion of the RBI, however, has been ignored and the proportion of PNs in total FII investments has been allowed to rise from 40 percent in 2005 to 52 percent by April 2006. This implies that more than half of the beneficiaries of FII investments in India are unknown overseas entities. In the wake of the current stock market meltdown, which has been precipitated through heavy selling by the FIIs, it is important to probe whether there has been any misuse of the PN route. The SEBI should immediately institute an enquiry into the matter and make all the relevant facts public.

THE QUESTION OF TAXATION AND DOUBLE TAX AVOIDANCE

Another important aspect of the stock market crash is the role of a Central Board of Direct Taxes (CBDT) circular containing instructions to assessing officers to help them distinguish between share traders and investors. The prospect that taxes will rise by four times caused panic among the FIIs. Since then, the finance minister has made a statement clarifying that the CBDT circular is not meant for FIIs and that the FIIs are outside the purview of such taxation since they do not have any permanent establishment in India. The finance minister has further stated that the CBDT circular was put out only to elicit public views.

It is noteworthy that the comptroller and auditor general of India (CAG), in a report tabled in parliament on 5 May 2005, had suggested that the income of FIIs and their sub-accounts from stock market activities should be treated as business profit and taxed accordingly. The report said that the income of FIIs/sub-accounts was often being "erroneously categorised as capital gains and being exempted from tax by routinely invoking the double taxation avoidance agreements (DTAAs)." The CAG suggested that "the board (CBDT) may issue necessary clarifications to ensure correct and proper taxation of income arising to FIIs/sub-accounts." It specifically sought clarification on whether sub-account arrangements would constitute a "permanent establishment" under tax treaty. The CAG recommended that the CBDT should strengthen the mechanism of co-ordination with regulatory bodies such as the SEBI and the RBI so that vital information relating to the income of FIIs/sub-accounts is obtained regularly and acted upon promptly by assessing officers with a view to bringing the same to tax. It also said that legislative amendments, if necessary, could also be opted for to achieve this objective.

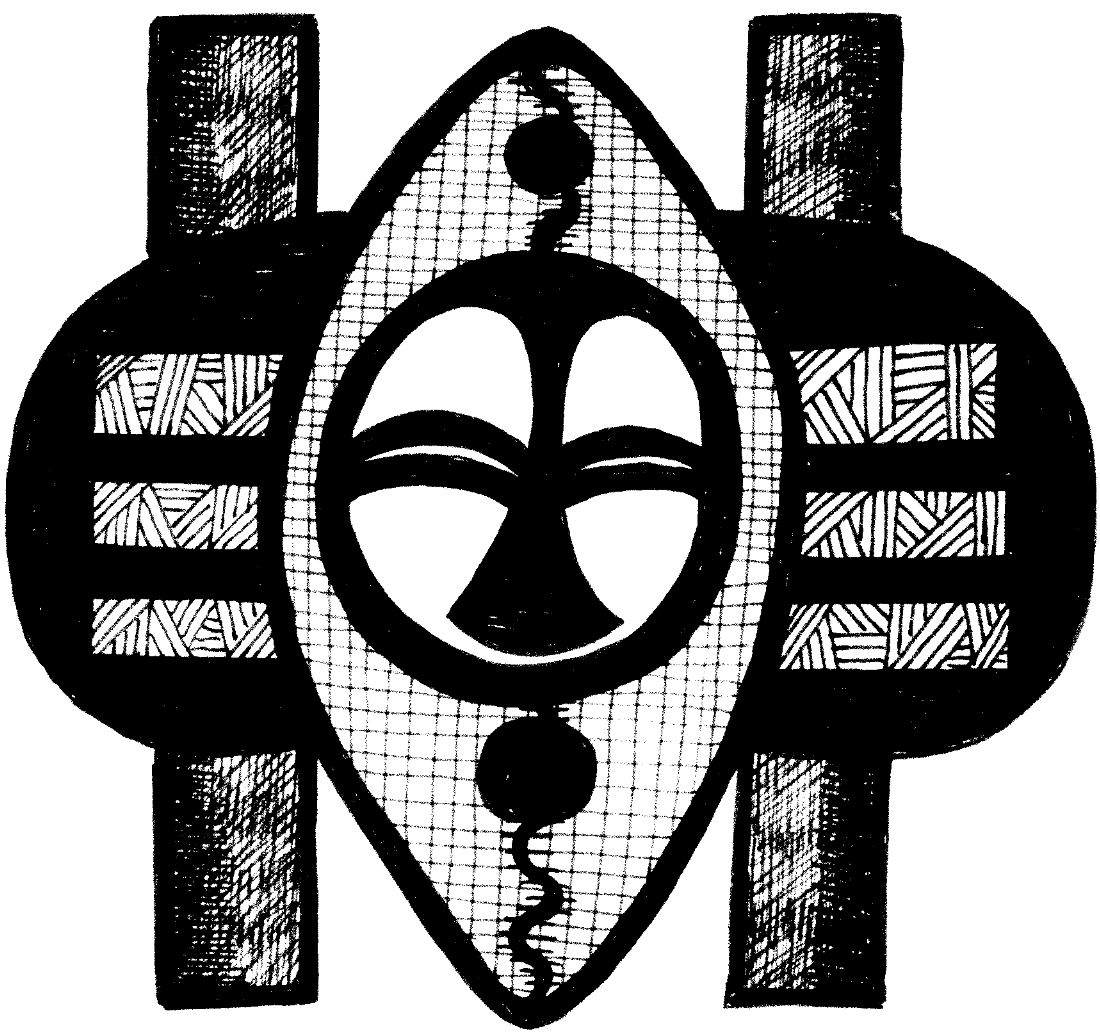
Inquiry into the crash revealed that the instrument of participatory notes (PNs) – which are like contract notes issued by the FIIs to overseas clients who are otherwise not eligible for investing in India – was misused by the FIIs.

The CAG report noted that the income tax department did not have any centralised or alternative effective mechanism to correlate or utilise the details available with SEBI relating to inflows and outflows of FIIs. The CAG has also been given to understand from SEBI that applications for registration did not have details of an agent as provided under the Income Tax Act and no details such as local address were available relating to FIIs. Further, the CAG has recommended that the CBDT should ensure that a database of FIIs/sub-brokers relating to all entities operating in India be prepared and their "liability to be taxed examined critically so that benefits of DTAA are availed only by those actually and rightfully entitled to the same." While highlighting that cost-benefit analysis of DTAAs had not been conducted, the CAG report recommended that DTAAs be examined critically through a phased and well-monitored programme so that the interests of the revenue are safeguarded and one-sided concessions are avoided. The CAG suggested that the board may "assess the costs and benefits from each DTAA transparently and objectively, especially as DTAAs are not placed before Parliament."

It is evident that the CBDT circular is in keeping with the eminently reasonable recommendations of the CAG. It is also clear that the effort to bring the enormous profits reaped by the FIIs within the tax net has led to this capital flight. The effort is to blackmail the government into giving up any effort to tax such speculative gains. Media reports suggest that the Investment Company Institute, the association of the US mutual fund industry, had written to the Indian Revenue Department about a month earlier questioning the notices sent to several US mutual funds by the Indian Income Tax department. The tendency of the government, of course, is to surrender before the FIIs, as is evident from the clarifications issued by the finance minister. This should not be allowed to happen. The CBDT should go ahead with the recommendations of the CAG, especially with regard to a cost-benefit analysis of the DTAAs. Moreover, the government should reintroduce the long-term capital gains tax in order to correct the pro-speculation bias in the existent tax policy.

Although not a cause of immediate concern, potentially the most dangerous fallout of the stock market meltdown, particularly if it continues over a period of time with the FIIs pulling out of the market progressively, is its impact on the exchange rate. A secular depreciation of the rupee, against the backdrop of the continuing rise in international oil prices, is bound to cause inflationary pressures in the economy and hit the common man hard. The RBI has to remain vigilant in this regard.

The government should also realise that the introduction of capital account convertibility, which was enthusiastically advocated by the prime minister a few weeks ago, amidst the volatility that is being currently experienced by the capital market would be a sure recipe for large-scale capital flight and currency crisis. This move should be abandoned forthwith.



BRIEFING

PARLIAMENTARY ODA OVERSIGHT PILOT PROGRAMME

EXECUTIVE SUMMARY

A great deal of debate is taking place internationally about the value of Official Development Assistance (ODA). This is due in large part to the lack of coordination and partnership between donor and recipient countries about the policies behind ODA disbursement, and whether ODA is used for the purposes intended. The scale of duplication is now negative to the performance of ODA and many donor institutions are calling for harmonisation and coordination between donors. It is universally recognised that these discrepancies can not continue, and commitments to this effect have been made in the Paris Declaration on Aid Effectiveness (2005), by the G8 Leaders at Gleneagles (2005), and most recently by the World Bank and IMF (2007).

It is also internationally agreed that, as representatives of the people and overseers of the public purse, democratically elected parliamentarians have a crucial role to play in the monitoring of ODA policy and spending. Effective parliamentary oversight in both donor and recipient countries will reduce the mismanagement and corruption of ODA, and parliamentary partnerships between the North and South will help to align and harmonise aid policy. Entrusting parliaments with this responsibility will also strengthen them as institutions, and as the guardians of democratic governance.

In response to this, the NEPAD Contact Group of African Parliamentarians and AWEPA, the European Parliamentarians for Africa, are joining forces to develop the following Parliamentary ODA Oversight Pilot Programme.

NEPAD Contact Group of African Parliamentarians

AWEPA – Association of European Parliamentarians for Africa

1. BACKGROUND

1.1 Political Context

The need for harmonisation and ownership

The Paris Declaration on Aid Effectiveness, adopted by ministers of developed and developing countries in March 2005, committed signatories to work towards the key aid principles of ownership, alignment, harmonisation, managing for results and mutual accountability.[1] This statement of resolve, which took forward the commitments made in the Monterrey Consensus of 2002, set an unparalleled standard for both donor and partner countries to aim towards in the field of aid effectiveness.[2] Donors normally define ownership as an executive branch relationship, but increasingly parliaments must be consulted on alignment with Poverty Reduction Strategies and National Development Plans. The Paris Declaration recognised that the chaotic and opaque world of aid has to reform to enable development to succeed, and to improve its reputation.

It is clear, however, that the imperative harmonisation and coordination of Official Development Assistance (ODA) is a long way from being achieved. A February 2007 report on aid architecture by the International Development Association of the World Bank emphasised the importance of achieving complementarity across national, regional and global development priorities and programmes to combat increasing fragmentation and costly confusion.[3]

G8 donors committed themselves at the 2005 Gleneagles Summit to a massive increase in ODA flows, with a particular emphasis on aid to Africa, in an effort to achieve the Millennium Development Goals by 2015. It is estimated that in 2010 OECD countries' aid to developing countries will have increased by $50 billion per year in 2010 compared to 2004, and that half of this would go to Africa.[4] In light of this it is increasingly important that these enlarged amounts of ODA are adequately coordinated and effectively monitored.

The role of parliaments in accountability

Both donor and recipient governments are accountable to the public, and ultimately to parliamentarians as the elected representatives of the people, for their ODA policies and spending. The allocation of ODA by donor governments, and the relationship between donor and recipient governments, is also fundamentally a political issue, and as such requires parliamentary scrutiny.

The Paris Declaration recognised the importance of engaging parliaments in the monitoring of aid effectiveness:

> ***Partner countries*** *commit to: Strengthen as appropriate the parliamentary role in national development strategies and/or budgets.*
> ***Donor countries*** *commit to: Provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.*

In 2005, the first *Mutual Review Report on Development Effectiveness in the Context of NEPAD* was published.[5] This initiative was commissioned by the NEPAD Heads of State and Government Implementation Committee (HSGIC) and developed by the Economic Commission for Africa and the OECD. It serves as a consultation mechanism between African and OECD countries to monitor progress in the implementation of commitments and to track action agendas. Performance benchmarks for the second report (to be published in 2007) are also given. The report underlines the importance of capacitating parliaments to perform their core functions, invigorating parliamentary oversight of budget processes and enhancing parliament's ability to provide effective accountability.

Increasing the detailed parliamentary oversight of ODA policies and spending in both donor and recipient countries will reduce the mismanagement and corruption of resources, and provide transparency and accountability to the public. In addition, entrusting this enhanced responsibility to parliaments will both lead to the strengthening of parliaments as institutions, and reinforce the democratic governance of the country. This holds especially when parliaments are consulted early on, and are involved in the targeting as well as monitoring of ODA spending.

Proper monitoring of aid harmonisation, policy areas and ODA spending can only be achieved by collaboration and information exchange between parliaments in both donor and recipient countries. Such links will provide unique coordination platforms between the North and South. By facilitating this parliamentary communication the basis of a real and meaningful partnership, which is mutually beneficial, fruitful and sustainable, can be established.

1.2 Problem Outline

A number of European governments have changed the language of their ODA from "development assistance" to "partnership", largely as a result of the Paris Declaration. Two crucial areas of these partnerships are, however, still lacking:

1. Coordination between the development policies of the donor country which drive decisions about the allocation of ODA (e.g. to which country, or programme) and the Poverty Reduction Strategy Papers and National Development Plans of the recipient countries.
2. Comparative information exchange between donor and recipient countries to analyse ODA statistics and ensure that the aid disbursed by donors is received and used for its intended purposes.

These two central problems are compounded by the following other issues:

- In recent years there has been a proliferation of the number of bilateral and multilateral donors interacting with recipient countries (the average number of donors per country in 2005 was 33, and there are also over 230 international organisations, funds and programmes, as well as NGOs and other civil society organisations). This causes confusion, high transaction costs, and a greater risk of duplication.
- A large amount of aid is tied by donor governments and international bodies to specific projects and organisations. The decisions behind this ear-marking, which could potentially skew a recipient country's economic programme, are made by government departments or embassies without parliamentary discussion or approval.
- In some donor countries there is more than one agency responsible for disbursing ODA. This leads to confusion in recipient countries if projects are funded by the same government, but by different and sometimes non-cooperating departments, and also to a blurred overview of total ODA spending within the donor country. This is not conducive to effective parliamentary oversight.
- Although an overview of ODA disbursement is presented to donor parliaments and in some cases to recipient parliaments, the detail, which is the

most important aspect, is not referred to parliament on either side of the equation. The facilitation of full parliamentary scrutiny may be time-consuming, but it is a necessary exercise if proper oversight of development policy and spending is to be achieved.

- Budget support paid directly into the recipient's national treasury is a common method of ODA disbursement, and it is reported on using the recipient's normal procedures. There are, however, often reporting inconsistencies as the incorporation of budget support into national revenue and expenditure figures is unclear. Parliaments must be involved in monitoring budget support to check that the funds were received and spent appropriately, and to root out corruption and mismanagement.
- In 2005 extensive commitments were made by donor countries to increase ODA, especially to Africa, and subsequently ODA reached a record high in 2005. However, a large proportion of this increase was due to heightened debt relief operations, particularly to Nigeria and Iraq, and not due to increased financing for development projects. This is evident in the 5.1% reduction in total ODA from 2005 to 2006, as debt relief was reduced.6 It is vital that donor governments are held to account by their parliaments for their ODA commitments to ensure that the promised extra financing does materialise.

Parliaments, as the key overseers of government policy and expenditure, have a central role to play in the monitoring of development aid. This programme aims to strengthen relationships between donor and recipient parliaments in order for this to take place.

1.3 Programme Origins

In mid-2006 the NEPAD Contact Group of African Parliamentarians and the Association of European Parliamentarians for Africa (AWEPA) began initial work to track the ODA disbursed in 2006 by a pilot group of four European countries (Finland, Ireland, Sweden and the UK), to a group of six African countries (Egypt, Mali, Nigeria, Uganda, Tanzania and South Africa). To initiate this process, data was collected from development officials in the four European countries, with the support of AWEPA members, who were also asked questions about the decisions behind ODA policy. The data was then distributed to NEPAD Contact Group members in the 6 African countries, with the intention that they would use this data to exercise parliamentary oversight of ODA.

The project has received endorsements from the NEPAD Secretariat, the Pan-African Parliament, and the ACP-EU Joint Parliamentary Assembly. The North-South Centre of the Council of Europe and the Parliamentary Network of the World Bank are also supportive.

Efforts thus far have been carried out on an ad-hoc basis, without dedicated funding. As the programme developed, and parliamentarians in both Africa and Europe have voiced their support for its aims, it has become evident that concerted efforts are needed from both parliamentarians and staff to develop it further and ensure its success. Such a realisation led to the production of this proposal document, which will be sent to a wide number of potential donors and interested parties to garner support.

Programme Partners

NEPAD Contact Group of African Parliamentarians

The NEPAD Contact Group of African Parliamentarians was formed in Nairobi, Kenya in August 2003 as the result of a request by Prof. Nkuhlu, then head of the NEPAD Secretariat, and a group of concerned parliamentarians who wanted to ensure that all parliaments in Africa are fully engaged in the NEPAD process. With a membership of engaged parliamentarians across Africa, the NEPAD Contact Group is a unique initiative which meets to report back on parliamentary actions on NEPAD in regional and national parliaments, and which keeps members informed about NEPAD and development issues through regular information bulletins.

Association of European Parliamentarians for Africa, AWEPA

AWEPA is an international non-governmental organisation that supports parliaments in Africa and works to keep Africa high on the political agenda in Europe. It has some 1 500 current and former parliamentarians from across the political spectrum as members from almost all EU member states, plus Norway, Switzerland, Romania, Bulgaria and the European Parliament. AWEPA works in Africa from a development perspective to strengthen the core functions of parliaments: oversight, representation and legislation. In Europe, AWEPA members work to increase the commitment among parliamentarians and other political leaders towards important issues in Africa. For more information please see HYPERLINK "http://www.awepa.org" www.awepa.org

2. PROGRAMME INTERVENTION AND IMPLEMENTATION

2.1 Overall Objective

To strengthen partnerships between donor and recipient parliaments in order to improve the harmonisation and coordination of development aid, and to support parliamentary democracy by increasing the oversight capacity of parliaments.

2.2 Programme Purpose

To improve parliamentary oversight of ODA policies and disbursement by facilitating information exchange and dialogue between donor and recipient parliaments.

2.3 Programme Implementation

The programme will build on the initial work already carried out by the NEPAD Contact Group and AWEPA in the four European (Finland, Ireland, Sweden and UK) and six African (Egypt, Mali, Nigeria, Uganda, Tanzania and South Africa) countries. Activities will continue to focus on these pilot parliaments; however the lessons learnt will be applicable in the future to all ODA relationships. The programme will be implemented and managed by AWEPA staff in Cape Town and Amsterdam, in close partnership with the NEPAD Contact Group. It is intended that the pilot programme will run for two years, from 2007–2009.

2.4 Target Groups

- African parliamentarians in the pilot countries through parliamentary committees on finance and other committees where appropriate
- European parliamentarians in the pilot countries through parliamentary committees on international development or foreign affairs
- Other African and European parliamentarians through the NEPAD Contact Group and AWEPA networks
- Other interested groups such as international institutions, civil society organisations and academics.

3. RESULT AREAS AND ACTIVITIES

3.1 Result 1

"Enhance parliamentary oversight of ODA spending in Africa"

This will involve lobbying parliamentary committees on finance in the pilot recipient countries, and other committees where appropriate, to request detailed information from the government about ODA spending, and to encourage parliamentarians to advocate for greater involvement in the decision-making behind the allocation of ODA.

Activities for Result 1:

- Visits to the six African pilot parliaments by NEPAD Contact Group members
- Part-time project and research officer based in Cape Town

3.2 RESULT 2

"Enhance parliamentary oversight of ODA disbursement and policy making in Europe"

This will involve lobbying parliamentary committees on international development or foreign affairs in the pilot donor countries, to request more detailed information from the government about ODA disbursement, and to encourage parliamentarians to advocate for greater involvement in the decision-making behind ODA policies.

Activities for Result 2:

- Visits to the four European pilot parliaments by AWEPA executives
- Two visits to Europe by leaders of the NEPAD Contact Group to gain support for the programme
- Part-time project and research officer based in Europe

3.3 Result 3

"Strengthen partnership between donor and recipient parliaments"

This will create a platform for information exchange and dialogue between donor and recipient parliaments on ODA policies and disbursement in order to strengthen and deepen partnerships for development.

Activities for Result 3:

- Parliamentary seminar for selected members and staff of involved committees from the donor and recipient pilot countries
- Information exchange and network building between parliaments during the programme

3.4 Result 4

"Inform parliamentarians in Europe and Africa about progress in the European development field and prepare them for informed debate on ODA and Africa policies"

This will involve publication of an annual *European Development Policy Tracking Mechanism* to inform both European and African parliamentarians about the latest development in European aid policies, and to act as a reporting tool on the progress of the Parliamentary ODA Monitoring Programme. Information materials and relevant documents will also be collected for parliamentarians, and made available on the internet.

Activities for Result 4:

- Publication of the *European Development Policy Tracking Mechanism* in both English and French

3.5 Intended Pilot Programme Outcomes

- ODA disbursement information is sent to parliamentary committees in the six recipient countries and compared to government ODA figures
- Parliamentary committees in the four donor countries receive detailed information about ODA disbursement to the six recipient countries
- Comparison reports on ODA received and spent by recipient countries are discussed in both donor and recipient parliaments
- Partnerships between donor and recipient parliaments are developed which lead to information exchange on ODA policies and priorities, development project achievements, Poverty Reduction Strategies and National Development Plans
- ODA policy decisions are introduced into parliamentary procedures
- Parliamentarians gain knowledge about ODA and development issues and subsequently initiate questions and debates within parliament
- Millennium Development Goals and NEPAD priorities are supported
- Informal information exchanges regarding joint policies between parliamentarians in Africa and Europe increase.

3.6 Sources of Verification

These will include:

- visit reports
- seminar reports
- committee reports
- parliamentary journals
- parliamentary questions
- interviews with participants
- media coverage
- monitoring and evaluation reports

3.7 Indicative Budget

The estimated budget for the Parliamentary ODA Oversight Pilot Programme for the period 2007-2009 is €340.000. The indicative budget is included below:

	ACTIVITY	AMOUNT (€)
	Result 1: Enhance parliamentary oversight of ODA spending in Africa	
1	Visit to six African parliaments by NEPAD Contact Group members	€65.000
2	Part-time project and research officer based in Cape Town	€25.000
	Result 2: Enhance parliamentary oversight of ODA disbursement and policy making in Europe	
3	Visits to the 4 European pilot parliaments by AWEPA executives	€25.000
4	Two visits to Europe by NEPAD Contact Group leaders	€60.000
5	Part-time project and research officer based in Amsterdam	€40.000
	Result 3: Strengthen partnership between donor and recipient parliaments	
6	Parliamentary seminar for MPs and staff from donor and recipient pilot countries	€100.000
	Result 4: Inform parliamentarians in Europe and Africa about progress in the European development field	
7	Publication of the European Development Policy Tracking Mechanism	€25.000
	TOTAL	€340.000

4. THE WAY FORWARD

The partners are confident that at the end of the pilot programme, the successes and lessons learnt can be used to expand and replicate the programme in other donor-recipient parliamentary relationships. Participating parliaments will themselves ensure the sustainability of the programme outcomes through the maintenance and continuation of the partnerships formed.

It is also expected that the results of the programme will be used to contribute to the review of the Paris Declaration in Accra in 2008, to the ongoing Mutual Review of Report on Development Effectiveness by the OECD and the ECA, and to the work of the Africa Partnership Forum which monitors the achievement of G8 commitments.

The NEPAD Contact Group and AWEPA will distribute this proposal for the pilot programme widely in order to gain support from potential donors, parliaments, international institutions, civil society organisations, academics, and other interested parties.

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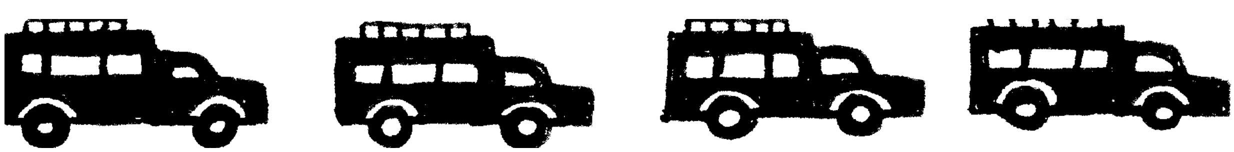
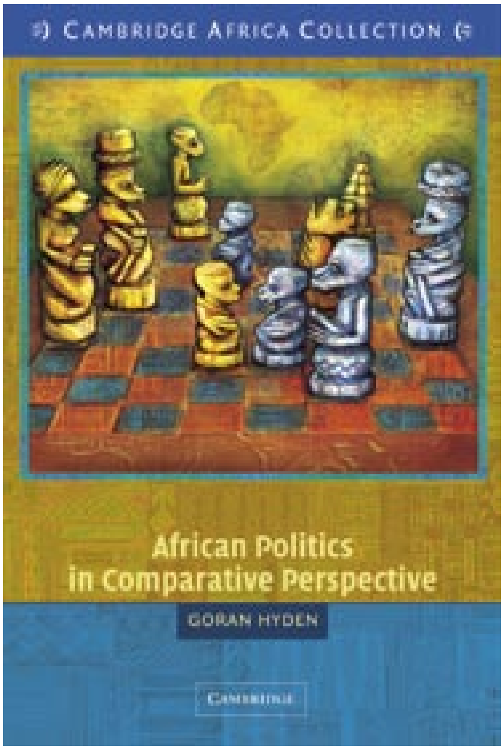


REVIEWS EDITOR : HELEN DOUGLAS

AFRICAN POLITICS IN COMPARATIVE PERSPECTIVE

GORAN HYDEN

Cambridge University Press: Cambridge, 2006. 306 pp



REVIEWED BY THIERRY M LUESCHER

Goran Hyden is among the foremost of American political scientists who specialise in African studies. Having pre-occupied himself through much of the 1990s with regime transitions and the quest for good governance in Africa, Hyden has more recently turned his attention to assessing and consolidating the contribution of Africanists to comparative politics.

His latest book aims to review fifty years of research on African politics. The book is thematically organised, with core chapters discussing key dimensions of Africanist scholarship and their related conceptual contributions. The chapter themes make a useful catalogue of what is apparently different about politics in Africa: the predominance of movements over political parties in African politics; the weak and soft nature of African states; the subordination of formal rules and roles to informal institutions and *clientelist* networks; big man rule; the tendency of policies to be wish-lists rather than realistic political programmes; cultural obstacles in the way of emancipation of women in African politics; ethnicity and its relation to politics and civil conflicts; and the key role of external donor funding and international organisations.

Hyden's macro-narrative of African politics could be summed up in the following way: in spite of the ubiquitous development rhetoric, over the last fifty years political leaders in Africa have been anxiously preoccupied with ensuring internal peace and stability but, held hostage by a network of internal informal relations and external obligations, they have failed to transform the inherited colonial state and its crippling legacy into a political and economic framework that would have allowed Africans to determine their own futures.

The book reviews in some detail political developments in a number of countries. The references to Tanzania under Julius Nyerere profit especially from Hyden's first-hand knowledge of politics in East Africa. However, this is not its purpose. The book is not meant to present a guide to the political history of Africa. Readers from the southern African region, and South Africa in particular, will be disappointed to find that their region's political history, the experience of the frontline states, South Africa under apartheid, and the experience and impact of the liberation of these late-comers to freedom and majority-rule hardly feature in the book. (There are, however, many striking parallels to local politics in the text.)

It is only for illustrative purposes that the author grounds his arguments in specific empirical cases, clarifies them further with related examples, and points to the contrary or exceptional case for conceptual delineation. The scarlet thread which runs through the book and serves to relate and integrate the contributions of Africanist scholars to understanding politics in sub-Saharan Africa is a reworked version of Hyden's complex notion of an "economy of affection" which, he argues, characterises African political as well as social and economic life.

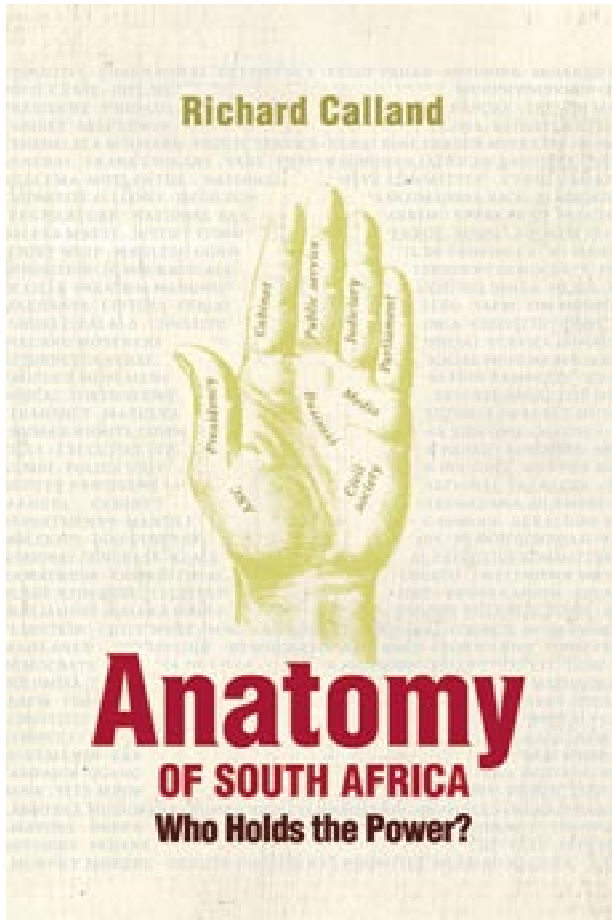
Sadly, the book fails its promise to put African politics into a comparative perspective; references to the work of political scientists specialised in other area studies are scanty. Moreover, local African scholarship on politics in Africa and many recent studies seem to have eluded the attention of the author. So, if this is not a book on *African Politics in Comparative Perspective*, what is it then? As Jeffrey Herbst notes in his praise for the book: it is "the valedictory of a senior Africanist". It is a book where Hyden's many, varied and important contributions to Africanist scholarship are placed within the context of the thinking of his peers.

ANATOMY OF SOUTH AFRICA: WHO HOLDS THE POWER?

RICHARD CALLAND

Struik: Cape Town, 2006. 304 pp

REVIEWED BY KGABO MASEHELA (RESEARCH AND INFORMATION SERVICES, LIMPOPO LEGISLATURE)



Richard Calland's book ushers in a new level of discourse on South African politics. His writing style will captivate anyone interested in South African politics. In my view, if William Gumede's book was groundbreaking, Calland's is ground-clearing.

Who holds the power in South Africa? This is explicated broadly, covering everything from the "super civil servant" directors-general through ministers, treasury, parliament and legislatures to the ways in which stakeholders such as COSATU and SACP influence the design and development of policies.

Calland employs a useful analytical matrix to guide his audience where each stakeholder stands in regard to the presidency. However, he does not examine the fluidity and shifting power relations operating within and between stakeholders. Matrices place human beings in boxes and conceptually undermine the diversity of individuals in organisations. Human beings do have the ability to think outside the box and thus defy crude categorisation.

The power that traditional leaders hold in the African context is not appropriately positioned in the matrix. This demonstrates that Calland's historical background from Westminster and London chases him even in his sleep, and will certainly chase him to the grave. Traditional leadership plays an important role in the political landscape. In my view, he ignored not only the influences that underpin traditional leadership in Africa, but has unconsciously or consciously characterised African practices in terms of European models.

The danger of presenting data from one particular source turns this book into an autobiography of justice committee chairperson Johnny De Lange, who is presented as "a remarkable member of parliament", "a truly great parliamentarian – in the Victorian sense" and "hard worker". These superlatives blur the judgment of any objective reader.

The weakness of this book is its failure to include the "other" voices from the African media. The author acknowledges that he can't communicate in African languages. There are many talk shows on African radio that have a huge impact on the perceptions of the African masses. A gifted researcher of Calland's nature should have considered utilising black junior researchers. Generally, young black researchers in South Africa continue to be relegated to data collection and fieldwork. Implicitly, through this book, we learn that the political agenda of exclusion is furthered by an ambiguous intellectual class, which continues to work and justify itself to Africa while preserving the values of western discourse.

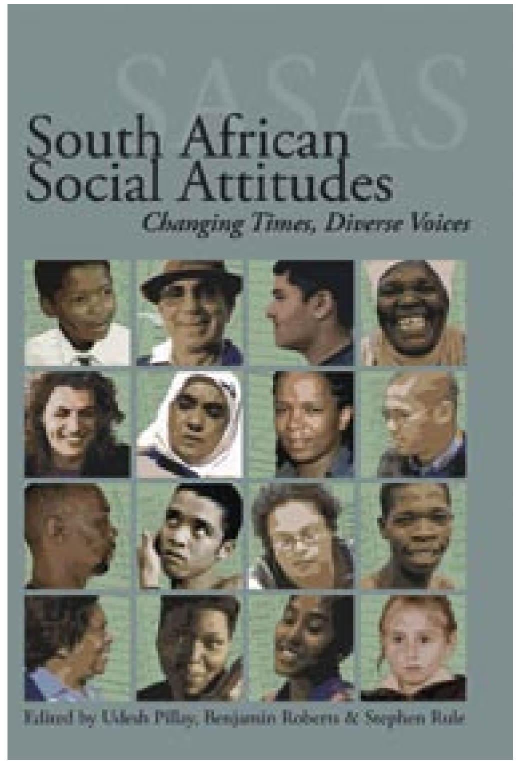
Against this backdrop, I find Calland's work a truly remarkable initiative. His project captures and illuminates issues of power relations and misogyny. It brings into the public domain the work of parliament and its committees. He sheds new light on what it means to be a South African president. Like a committed intellectual, he has successfully explained and interpreted South African politics so that we begin to understand and demystify the present preconceptions around the question "who holds the power?" The book is best suited for an international audience, but I recommend every South African to read it.

SOUTH AFRICAN SOCIAL ATTITUDES: CHANGING TIMES, DIVERSE VOICES

UDESH PILLAY, BENJAMIN ROBERTS AND STEPHEN RULE (EDS)

HSRC Press: Cape Town, 2006. 391 pp

REVIEWED BY ANNIE LEATT (DOCTORAL FELLOW: WISER))



What do South Africans think about government and the society we live in? The "South African Social Attitude Survey", an initiative by the HSRC, is starting to map public opinion in order to give voice to those whose don't usually have a chance to influence policy. The authors, mostly HSRC staff, argue that public opinion is essential to policy-making and to democracy.

The data for the first annual survey was collected in 2003, but only published in 2006. The baseline included nearly 5 000 respondents from a nationally representative sample.

The chapters chart a fascinating tour through our opinions on race, class and politics (democracy, voting, and the determinants of party political support); poverty, inequality and service delivery (the digital divide, water services, health and education); and societal values (capital punishment, abortion, homosexuality, premarital sex).

Just a few snippets from this dense volume:

- national identity was found to be strong in South Africa, and co-exists with other identities based on race and language
- there is growing trust in public institutions, including courts, the IEC, SABC, national government and parliament. Local government and the police are significantly less trusted
- nearly 45 percent of adults consider their income insufficient to meet basic household needs, and 87 percent think incomes are too unequal in South Africa
- there were significantly lower levels of support for practical policies of redress, such as BEE, land reform and affirmative action, particularly amongst the wealthy and white.

On what the authors called the "moral questions": despite a progressive constitution, "South Africans still come across as deeply conservative – racist, homophobic, sexist, xenophobic and hypocritical."

There is a very good chapter by Roberts on poverty and inequality and perceptions of satisfaction and opportunities, and an excellent chapter on interruptions and cut-offs in water services by Hemson and Owusa-Ampomah. The chapter attempts to quantify the extent of the problem of water cut-offs for non-payment – nearly 1.2 million people over the course of the year preceding the survey – providing a very useful contribution to current debates. The domestic violence chapter by Dawes and colleagues includes a good review of evidence, and the first attempts to quantify the extent of domestic violence from a nationally representative sample in South Africa. They find that 10 percent of women in relationships are abused each year.

Sometimes there are unlikely results. For example, "Black African residents of the poorer of South Africa's nine provinces recorded the highest levels of satisfaction (with democracy)", and some 62 percent of adult South Africans report never having a drink. Some of the early chapters are overly sympathetic to the government, suggesting that, given their impressive record of services, the government would be quite right to be disappointed with some public opinions.

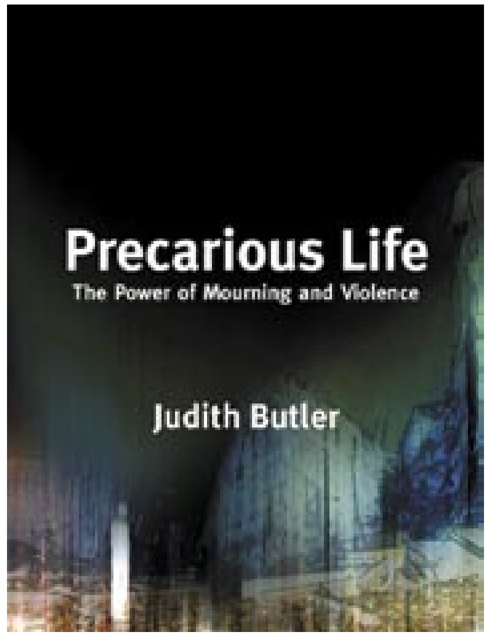
It's a volume filled with interesting and sometimes intriguing insights into what we think of ourselves and others, and is a great contribution to understanding some of our contradictions in this double transition to democracy and participation in the global economy.

PRECARIOUS LIFE: THE POWERS OF MOURNING AND VIOLENCE

JUDITH BUTLER

Verso: London and New York, 2004. 189 pp

REVIEWED BY HELEN DOUGLAS



Judith Butler's deceptively slim *Precarious Life: The Powers of Mourning and Violence* includes five essays that were written after 11 September 2001 and in response to American reactions since the attacks of that day. It's a book for which – I discovered while reading it – I have been waiting a very long time.

Butler's starting point is that the US missed an opportunity to "redefine itself as part of a global community when, instead, it heightened nationalist discourse, extended surveillance mechanisms, suspended constitutional rights, and developed forms of explicit and implicit censorship". Instead of last century's "war to end all war", they now talk of "a war without end".

Imagining another response to vulnerability and loss, she asks, "what, politically, might be made of grief besides a cry for war?"

Rather a lot, it turns out: the exposure of our fundamental dependency on others; the question of how unjustly that vulnerability is distributed in the world; the way a disruption of First World privilege can refocus the question of how violence might be minimised.

But that's the big project. The essays here explore different aspects of the current terrain of American intellectual engagement (such as it is, in these conditions) to try to begin this imagining. The first, "Explanation and Exoneration, or What We Can Hear", considers the censorship brought to bear against Americans who drew connections between the attack on the US and US foreign policy. She then turns to consider how some lives are grievable while others are not, and what can and cannot be "heard" in the aftermath of violence. The second essay, "Violence, Mourning, Politics", continues these ideas toward the question of how they lead to political organisation, such as feminist opposition to militarism.

"Indefinite Detention", the longest piece here, "considers the political implications of those normative conceptions of the human that produce, through an exclusionary process, a host of 'unliveable lives' whose legal and political status is suspended". She uses Foucault's delineation of sovereignty and governmentality to great effect here.

We return to the question of censorship and self-censorship in "The Charge of Anti-Semitism: Jews, Israel and the Risks of Public Critique". Harvard president Lawrence Summers stated that any criticism of Israel was effectively anti-Semitic. Butler rejects this as a position that incorrectly conflates Israel and Jews and goes on to acknowledge progressive Jewish resistance (in Israel and the diaspora) to the current Israeli state. However, the position of Jewish critics of Israel during an international resurgence of anti-Semitism is an increasingly difficult one. She also mentions a developing new Jewish "post-Zionist" movement, which sounds full of possibility.

The final essay returns to the idea of non-violent ethics, this time through the work of the French-Jewish philosopher, Emmanuel Levinas. It is Levinas, who wrote always in the shadow of the Holocaust, who gives us an ethics based on the precariousness of life – a realisation that arises from the vulnerability expressed in the face of an other and from the responsibility we bear for each other. Our contemporary political discourse of liberation, based on rights or identity, often loses sight of its alternate signification – as the expression of a responsibility beyond simple solidarity, for justice and for the lives of others. Butler takes this up here in terms of representation and humanisation.

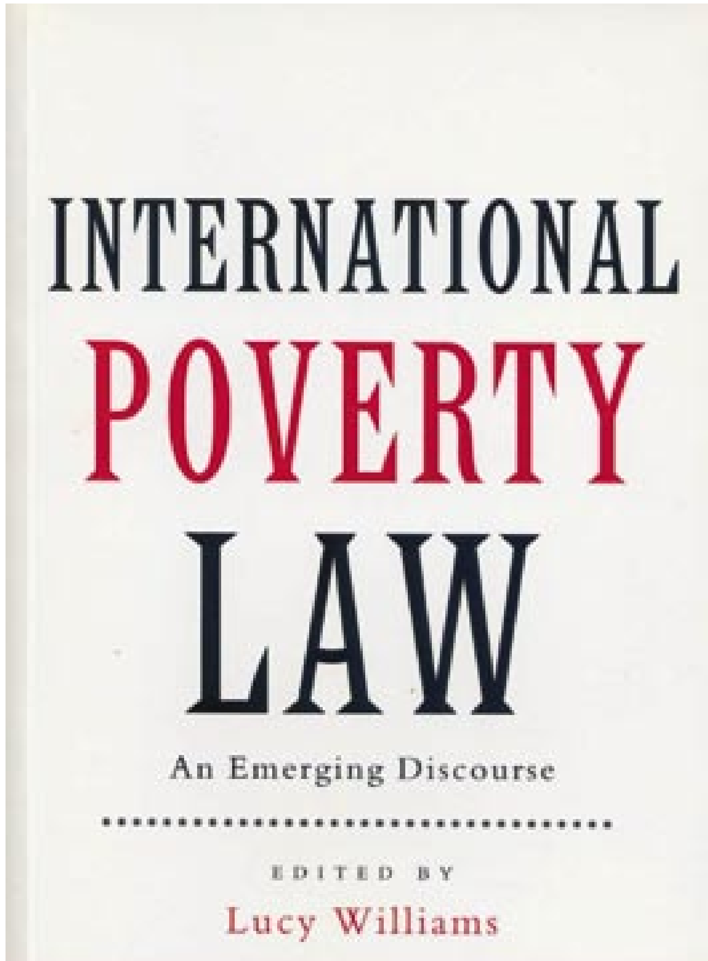
Much of the material in this book may seem familiar, but few writers can set it out with the lucidity Butler demonstrates. This is a work of careful courage, not just to be read, but to be engaged with, and even changed by.

INTERNATIONAL POVERTY LAW: AN EMERGING DISCOURSE

LUCY WILLIAMS (ED)

Zed Books: London, 2006. 250 pp

REVIEWED BY JONATHAN GROSSMAN (SOCIOLOGY, UCT)



This work is another in the series produced by the Comparative Research Programme on Poverty (CROP.) Its focus is the development of a relatively new area of law: international poverty law (IPL). The first two chapters are styled as "a framework within which to position the theoretical development (of IPL)". The chapters following explore "specific international human rights initiatives that address a particular aspect of poverty". Chapters focus on international intellectual property law as applied to biological processes and the ways in which this undermines food security; the right to food and the significance of the UN Special Rapporteur; the role of international human rights instruments in relation to South African poverty law; child labour in India; the role of corporate codes; and the role of the UN in the establishment of international poverty law.

In considering the emerging discourse of IPL, the editor argues that it is "common knowledge that legal rights on the books, whether enforceable by action, do not automatically translate into acquired rights on the ground." She cautions that IPL will fail to address poverty reduction if there is no challenge to the "background rules of markets" which "bear significant responsibility for causing and/or perpetuating gross inequality". In her view, "we must also understand and position our work within the global economy by immersing ourselves in and challenging the structures of international finance, production, and trade, which perpetuate poverty on a world scale."

While these points are clear, they are not always evident in the approaches of the chapter authors. One of the authors, for example, argues the advantages of the World Trade Organisation (WTO) over the International Labour Organisation (ILO) in relation to a labour clause. Many readers would view the WTO as central in the promotion and perpetuation of patterns of poverty and inequality. At another point, the solution lies with the UN. At another, with parts of the UN. Elsewhere, with international businesses. There is a jarring juxtaposition: recognition of the problem of the existing structures of power and inequality which promote poverty and obstruct its alleviation and eradication; moderation of suggestions about law based on recognition of those structures of power and governance; then a sidestepping of the fact that it is often exactly those structures of power and governance which are responsible for obstructing even the severely moderated suggestions for reduction, let alone eradication.

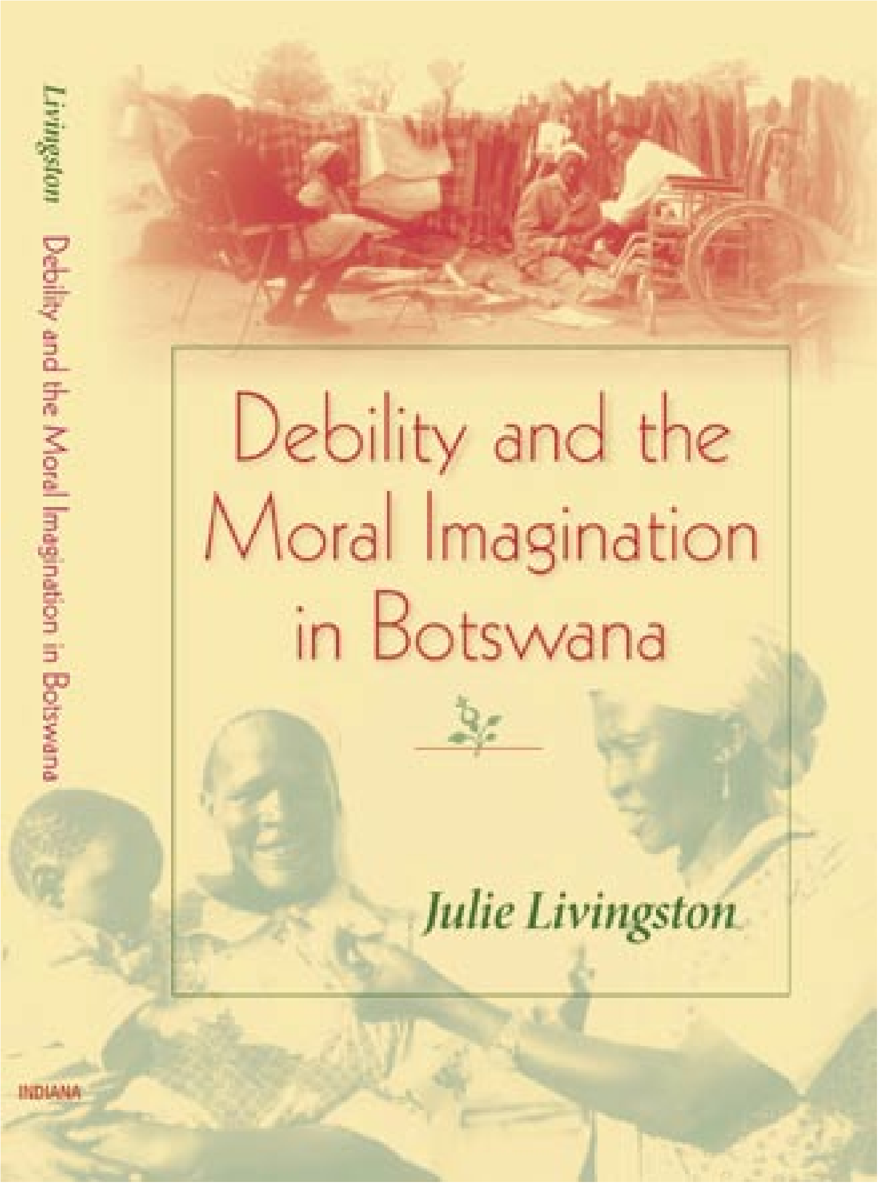
I would like to have seen more focus on the interfaces between the development of law and the lived experience of poor people – not primarily of poverty, but rather the lived experience of struggle on the ground to alleviate and eradicate it .The poor here are either victims or potential beneficiaries of what others could and should do. The book works well in taking the relatively uninformed reader into the "discourse of international poverty law". I would read it for that reason, and look beyond it and its "dominant discourse" to deal with questions of agency, struggle and solutions in the context of the "background rules of markets" and poverty internationally.

DEBILITY AND THE MORAL IMAGINATION IN BOTSWANA

JULIE LIVINGSTON

Indiana University Press: Bloomington, 2005. 310 pp

REVIEWED BY SUREN PILLAY (POLITICAL STUDIES, UWC)



We can learn much about a society from how it treats those most vulnerable in it, for example, refugees, the homeless, the ill or animals. This particular study, by anthropologist Julie Livingston, focuses on those who are considered to have a debility, in particular, a group of people in the southern and eastern parts of Botswana. Livingston uses "debility" to refer to those who face disabilities, such as physical and mental impairments, which might be due to a range of causes, whether at birth or as a result of chronic illness or of the aging process. The book is based on her doctoral research, conducted while working for the Cheshire Foundation of Botswana, an NGO that facilitated the intimate connections she was able to establish with local people in need of assistance.

The book is largely about "caring": about how people care for those who are ill, disabled, or dying, and how they narrate this caring. It traces carefully the myriad networks involved in caring, and the constellation of people who attend to the sick, the ill or the disabled; from family members to NGOs, doctors, the public healthcare system and, more broadly, the state. It is a sensitive portrayal of the politics of vulnerability that is distinctly attentive to how local communities engage with, understand, and translate different bio-medical discourses of care into their own cosmologies of meaning. In this case, Livingston is interested in how the Batswana think of care, and how their concepts of illness, disability or dying mesh with the often incongruent advice and injunctions they get from doctors, nurses and others trained in what we call "western" medicine.

What emerges quite powerfully in the study are the effects of HIV/AIDS on the rural communities in which she stayed, and the ways these communities deal with the prevalence of infection, care for those who are ill, deal with the death of community members, and cope with the living who are orphaned by these deaths. In the face of health pandemics, other debilities and the effects of the broader changes in the political economy, Livingston traces the reordering of social networks and the making of new meanings and understandings of self and personhood. This important study shows the capacity of sustained, ethically aware, on-the-ground ethnographic research to illuminate important social and political questions of broad significance.

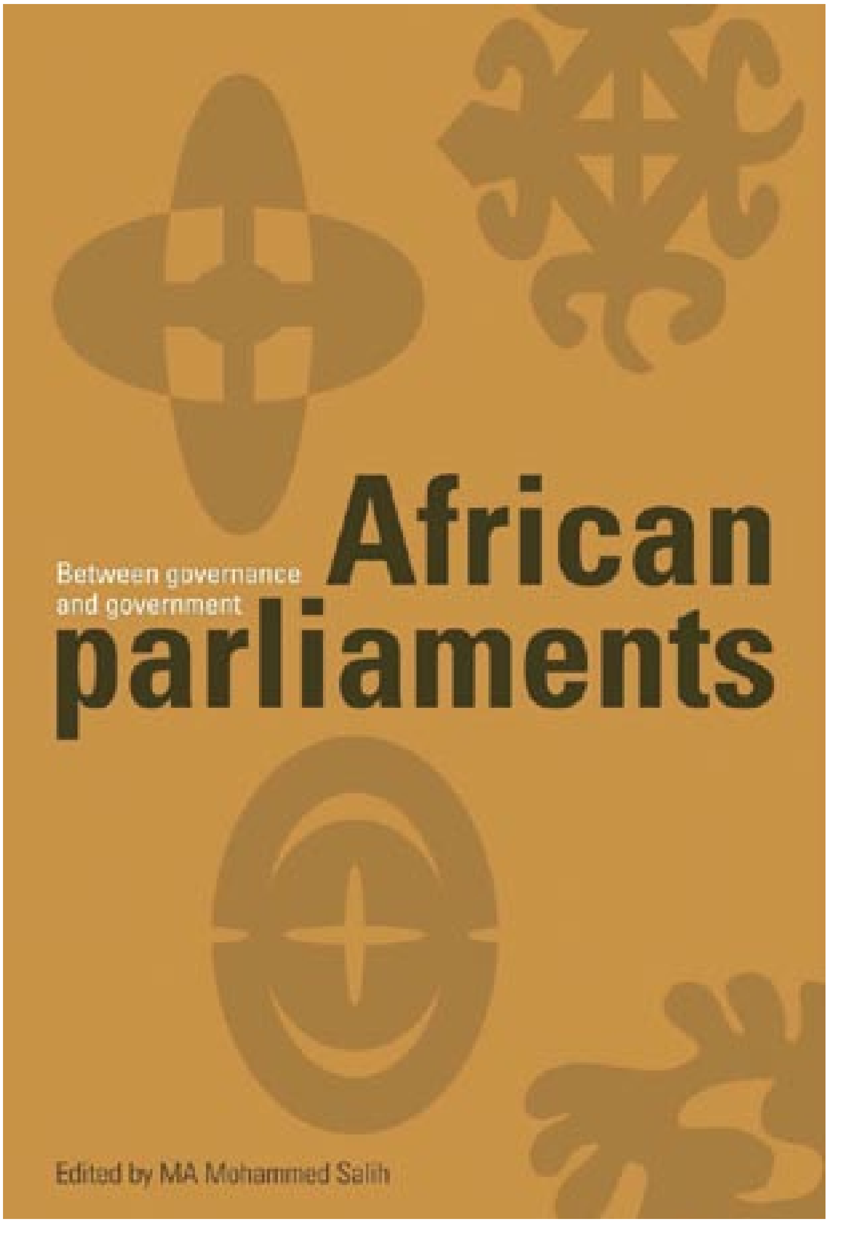
AFRICAN PARLIAMENTS: BETWEEN GOVERNANCE AND GOVERNMENT

MA MOHAMMED SALIH (ED)

HSRC Press: Cape Town, 2006. 286 pp

REVIEWED BY HELEN DOUGLAS

Parliaments have two related charges: governance and government. "Governance" concerns the institutional rules, frameworks and practices of citizens and officials. "Government" has to do with legitimacy, with the responsibility to represent the public and to maintain effective oversight of the executive. In his introduction, Salih writes: "Informed by the tension between legislature and executives, the objective of this volume is to offer a broad perspective analysing and explaining African parliamentary developments and their changing governance fortunes emanating from straddling the contested arena between government and governance."



The first part of the book features five well-documented chapters on the social and political contexts in which African parliaments function today, including the increasing presence of women parliamentarians; popular opinion and support for parliaments in different countries; local democracy and assemblies; and comparisons of African parliaments within the continent and with other developing countries.

The second part deals with political-historical developments. "The historical depth of these chapters is deliberately intended to avoid the mishaps... (of the scholarly trend that) assumes that African democratic institutions... are products of the recent democratisation processes." These are followed by case studies from Tanzania, Malawi and South Africa that examine whether and how parliaments have been able to hold their executives to account. In the South African case, Tim Hughes reviews the role of parliament's standing committee on public accounts (SCOPA) in the arms-procurement deals of the late 1990s.

As editor, Professor Salih provides a great service to both contributors and readers. His introductory chapter sketches the history of African democratic assemblies, their various forms and the issues currently facing them. Even better – and why doesn't this happen all the time in these edited collections? – is his conclusion, which catches up all of the threads presented in the chapters and responds to several substantive issues that arise.

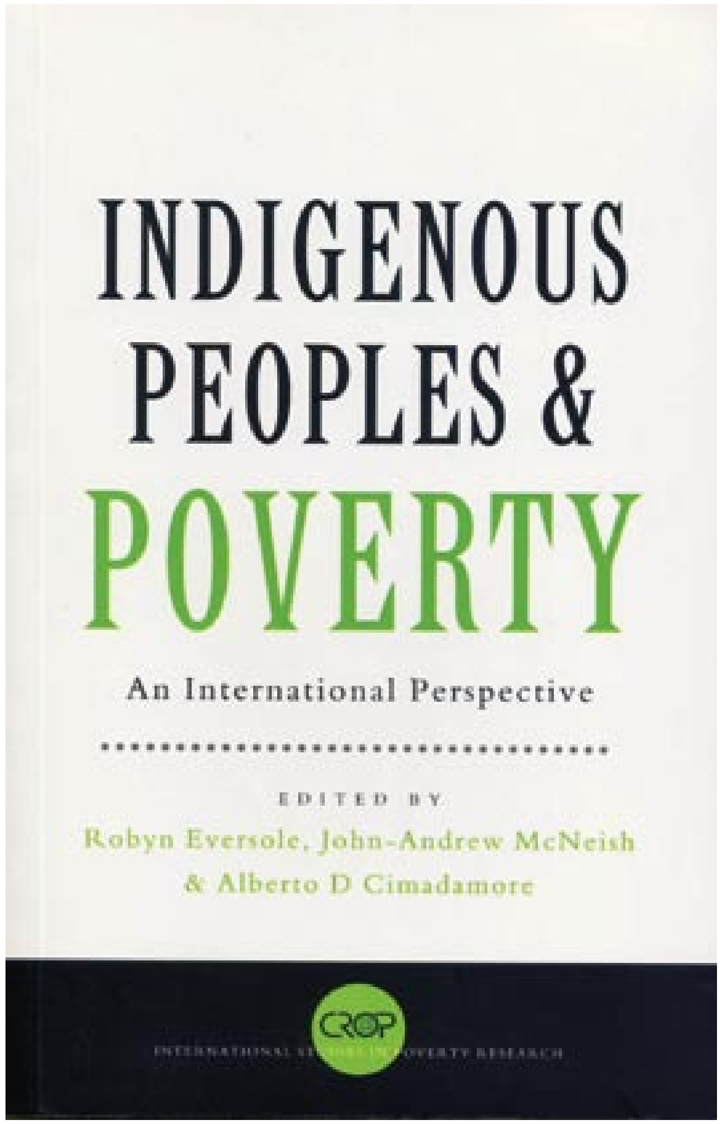
This noteworthy collection of up-to-date information and analysis from every region of the continent will be useful to anyone working in comparative politics, African politics and legislative studies.

INDIGENOUS PEOPLES AND POVERTY

ROBYN EVERSOLE, JOHN-ANDREW MCNEISH AND ALBERTO D CIMADAMORE (EDS)

Zed Books: London, 2005. 311 pp

REVIEWED BY JONATHAN GROSSMAN



The work is one of a series produced by the Comparative Research Programme on Poverty (CROP), whose declared aim is "to produce sound and reliable knowledge that can serve as a basis for poverty reduction." Their target audience is defined as "policy makers and others responsible for poverty reduction." Poverty *reduction* is clearly a conscious choice – they also recognize that "in recent years, poverty alleviation, poverty reduction *or even the eradication and abolition of poverty* (my emphasis) has moved up the international agenda".

The book is organised in three sections, with illuminating overview introductions in each. The first part covers the theme of "indigenous poverty" with a set of papers dealing with indigenous women in Chiapas, Mexico; an indigenous community of Taiwanese; and "children of the Americas". The theme of the second part is indigenous peoples in nation states, focusing on rights, citizenship and self-determination. Papers deal with Russia, Southeast Asia, Colombia and the Anglophone countries of Australia, New Zealand, Canada and the United States. The last section is presented as indigenous people's perspectives on development, and deals with central America and Mexico, Australia, and the Nordic countries.

Outside of the overview, there is a striking absence of material on Africa. However, anyone with even a limited knowledge of local poverty will recognise a sameness in issues and patterns, regardless of site specificities. There is recognition of the fact that the very notion of "indigenous people/s" is itself problematic and contested. Despite that, the book convinced me, in the first pages of the introduction and then repeatedly through the work, of its central message: "around the world, in vastly different cultures and settings, indigenous peoples are nearly always disadvantaged, relative to their non-indigenous counterparts. Their material standard of living is lower, their risk of disease and early death is higher. Their educational opportunities are more limited, their political participation and voice more constrained, and the lifestyles and livelihoods they would choose are very often out of reach."

Beyond that, the question is, surely, what to do about it. The focus is on different sites of "indigenous peoples' poverty". Whatever the details of each site, I think that there is a general acceptance by the writers that the poor must play a central role in providing solutions to poverty. But if the poor are to play that role, is it going to be as separate and distinct "poors"? On the one hand, conflating all poor people into a single category flies in the face of the evidence presented in the book. On the other, we see housing and other struggles around us sometimes characterised by a debilitating and even reactionary competition amongst different groups of poor people to establish who has primary rights over whom. The core of the problem of the poverty of indigenous peoples is surely that it is historically systemic, and that it is wrong, existing when it need not and should not. In that, it is essentially similar to poverty imposed anywhere.

CHARTING PROGRESS, MAPPING THE FUTURE: RESTORATIVE JUSTICE IN SOUTH AFRICA.

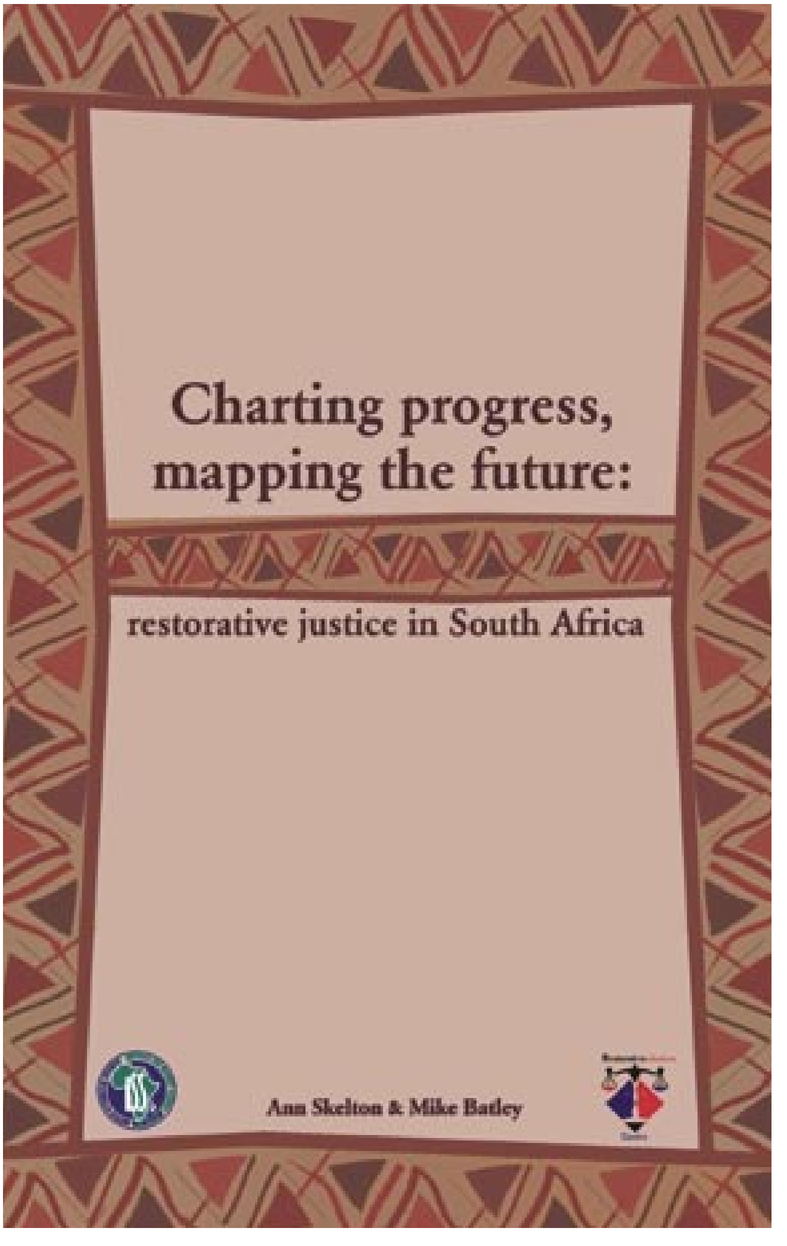
ANN SKELTON AND MIKE BATLY

Restorative Justice Centre: Pretoria, 2006. 155 pp

REVIEWED BY RICHARD RECORDS (CENTRE FOR THE STUDY OF VIOLENCE AND RECONCILIATION)

Restorative justice is often considered as being a backward-looking approach to past offences. While the book reviewed seems to follow this approach in its mapping of restorative justice initiatives within the South African context, it also considers "the way forward" and indicates that restorative justice can be forward-looking.

Charting progress, mapping the future: Restorative justice in South Africa is divided into three parts. The first considers the theoretical underpinnings of restorative justice, indicating a necessary paradigmatic shift in thought from the current criminal justice (Western conceptions of justice) to restorative and more indigenous forms of justice. Further, the fit of restorative justice within the current criminal justice is considered in terms of diversion, reparations and sentencing. However, the theoretical conception does not indicate much in terms of restorative justice as a method of conflict resolution between an offender and the offended.



The second and largest portion of the book tracks a number of initiatives for restorative justice throughout South Africa. Most of these initiatives are civil organisations, with state initiatives in the departments of justice, social services and community safety (Western Cape). Many of these initiatives deal with victim-offender conferencing, perhaps creating the impression that this is the only model of restorative justice implementation.

The last part continues with discussions of the way forward for restorative justice, in terms of the necessity for practice standards, restorative justice's contribution to bridging social capital, and arguments relating to restorative justice practice being situated within the state or civil society.

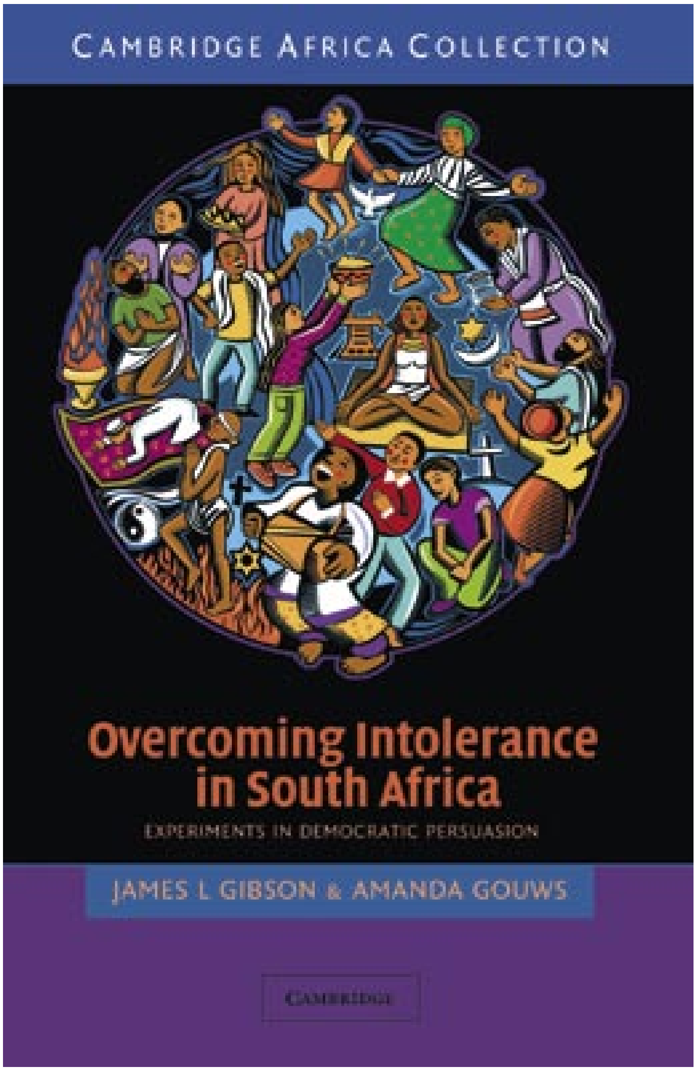
The book is a good resource of past initiatives, but does not indicate whether they are still ongoing. The list of initiatives is a handy resource for referrals. Due to limitations, which are indicated in the book, other aspects are neglected, such as other initiative models (family conferencing, for example) and other state departments that are attempting to implement restorative justice, such as the department of correctional services.

OVERCOMING INTOLERANCE IN SOUTH AFRICA: EXPERIMENTS IN DEMOCRATIC PERSUASION

JAMES L GIBSON AND AMANDA GOUWS

Cambridge University Press: Cambridge, 2003. 262 pp

REVIEWED BY SUREN PILLAY (POLITICAL STUDIES, UWC



This collaborative study by Stellenbosch University's Amanda Gouws and American James Gibson is firmly situated within a sub-field of political science that seeks to understand, through empirical survey-based research, the prospects for "democratic consolidation". This generally refers to the possibility of entrenching liberal democracy in societies that are "in transition", away from authoritarian rule of one form or another. Here, Gouws and Gibson focus on South Africa after apartheid and the prospects of democratic consolidation. They use one particular value, "tolerance", as a measure of democratic sensibility, with the assumption that the more "tolerant" a society is of those who hold radically different viewpoints, the greater the chance that a "democratic culture" exists and will not be threatened by potentially authoritarian actions.

The authors set out to address a number of related questions, like, "to what degree does the political culture of South Africa – the beliefs, values and attitudes towards politics held by ordinary people – impede or promote the development of democratic institutions and processes and the consolidation of democratic reform?". They note at the outset that, "if South Africa succeeds in establishing a thoroughly democratic political system, it will do so against all odds, and its success will be virtually unprecedented in the history of the development of democratic government throughout the world." As one quickly realises, the book therefore begins with the assumption that tolerance is in short supply and, not surprisingly, concludes that "tolerant South Africans are a distinct minority". This conclusion is arrived at through an impressive range of tabulations drawn from the survey research done. Within this genre of work and its particular methodological approach, it is a more than competent analysis.

However, as is often the case with empirical studies of this kind, the problems are not so much with what is said but with what is left out or assumed. The first assumption operative in the work is that "liberal democracy" is simply democracy. The second is that democracy unfolds in a teleological fashion, with a developed form (the West) and developing forms (the rest). The idea is that we are heading towards a particular model and we measure ourselves by what we do not have: in this case, adequate levels of "tolerance". These assumptions have been thoroughly taken to task by a range of scholars, and unfortunately it seems these criticisms have not been taken seriously by the authors.

With a particular image of what "a developed democracy" looks like, one can only see "distortions" when a situation doesn't conform to what you are looking for. Hence there is little discussion of what democracy might mean in an African or Latin American or Asian context, where one cannot counterpoise group identities to individual identities as a measure of "democratic culture". The picture, as it were, is always more complicated and always needs to be historicised and understood in its particular context, which survey research often cannot adequately address.

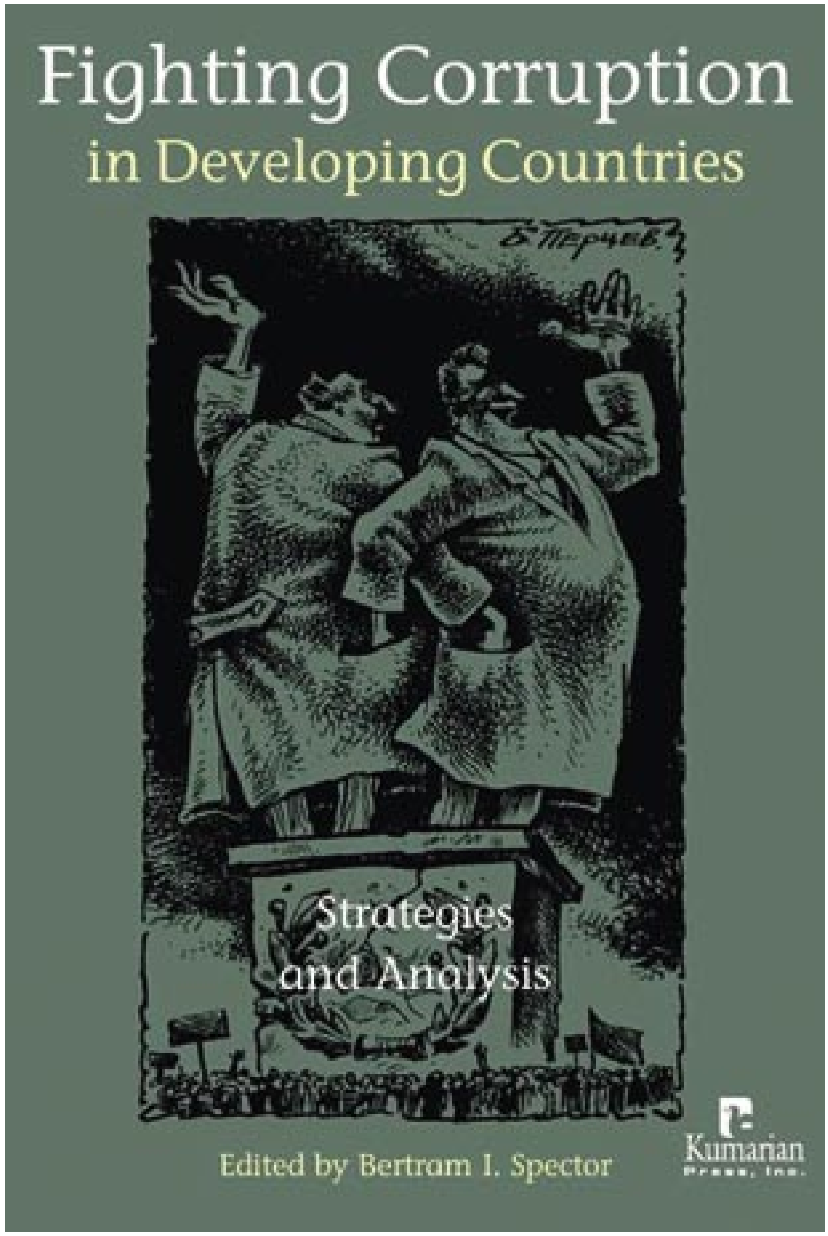
This brings me to my last point, which is on the question of "tolerance". In the "developed" democracies themselves, the authors should note there are a range of communities who longer believe that "tolerance" is an adequate democratic value, since to be "tolerated" feels quite condescending. They are allowed to be different, but their difference always remains marginal to the identity of the society. They want to shape and be shaped by the societies they live in, and this requires a different ethical relationship to difference than mere "tolerance" provides.

FIGHTING CORRUPTION IN DEVELOPING COUNTRIES: STRATEGIES AND ANALYSIS

BERTRAM I SPECTOR (ED)

Kumarian Press: Boomfield, CT USA. 2005 (via Anglia Books, Knysna SA) 300 pp

REVIEWED BY SAM KOMA (REGENESYS SCHOOL OF PUBLIC MANAGEMENT)



It goes without saying that corruption remains a perennial and endemic problem facing numerous developing countries. The issue of corruption has indeed taken the centre stage, dominating the mainstream media, public life, forums and conferences.

Fighting Corruption in Developing Countries provides comprehensive analytical insight and reflections on corruption related to nine sectors: education, agriculture, energy, environment, health, justice, private business, political parties and public finance. The nine authors, specialists in their respective sectors, have sought to critically examine the scourge of corruption in terms of its nature and manifestations coupled with its impact on service delivery, economic growth and development in general.

The authors emphasise the importance of transparency, accountability, access to information, and strong disincentives for engaging in corrupt behaviour. Corruption must be prevented in a variety of ways, some sequenced, some simultaneous; some sector-based, some universal. Significant advances can be made in the fight against corruption provided there is the requisite political will, competent and well-trained public sector staff and effective and civic-minded leadership.

To this end, the book is worth recommending to public representatives, practitioners, academics and researchers interested in the consolidation of sound democratic and ethical values at all levels of government. One further hope is that relevant leaders will take the specific and sector-based anticorruption strategies elucidated into account, with a view to effective implementation.

AFRICA CONFLICT, PEACE AND GOVERNANCE MONITOR 2005 AND 2006

ADEBAYO ADEDEJI (ED)

African Centre for Development and Strategic Studies (ACDESS) and Dokun Publishing: Nigeria, 2005 and 2006

REVIEWED BY BEN TUROK

This volume of essays by some of Africa's best academics is Africa's response to foreign calls for "good governance". Editor Adebayo Adedeji, former head of the United Nations Economic Commission for Africa and current member of the African Peer Review Mechanism panel, is the doyen of African development economics, continuing to influence politics and economics across the continent long after his official retirement from the UN.

In this second annual monitor of conflict and governance, the focus is on politics: "Once the politics is put right and the culture of democracy becomes engrained, economic crisis will begin to ameliorate." This is a paradoxical reflection of Nkrumah's call to seek the political kingdom whereafter all else will follow. But one also recalls the despair of Nyerere bemoaning the fact that the Tanzanian government could stop things happening in the economy, but could not start anything, because the bulk of the economy was not in its hands.

Whether this volume's argument about the primacy of good governance is sound will no doubt be debated a great deal. It runs against much of the literature that seeks the source of Africa's desperate plight in economic subjugation by external forces under the systems of neo-colonial exploitation and globalisation. Many analysts focus on Africa's unfavourable terms of trade, the continuing extraction of primary commodities and other negative features of the global economy to explain the condition of the continent.

Be that as it may, the focus here on the "persistent political crisis of instability, poor governance and lack of accountability" is a major resource for scholars, analysts and policy makers alike. There are country studies on Liberia, Côte d'Ivoire, Zimbabwe, Central African Republic, Burundi and Angola, each examining a different dimension of politics and security. The next section looks at regional and international dimensions in southern Africa, the Great Lakes region and West Africa, including ECOWAS. A major section deals with the Horn of Africa, focusing on Sudan and Darfur. The transition to democracy in the Democratic Republic of Congo is also well covered.

In the 2005 Monitor, the focus was more on the nature and extent of conflict across the continent and the "glaring lack of success" in overcoming conflict. It deplored the lack of participatory democracy and popular empowerment and expressed an urgent need for political leadership across the continent. This reflects Adedeji's continuing preoccupation with the lack of democracy and disempowerment of the people.

Many articles deal with the origins of armed conflict and political instability, with systematic data on where and how conflict occurs. The coverage is also very wide and the case studies provide detailed analysis of many of the most severe conflicts across Africa. The student of conflict and˜põlitics will find a great deal of valuable material.

It may be possible for ACDESS to produce a monitor that would provide an integrated overview of Africa's condition, linking conflict, politics and economics in their interrelated workings. After all, development economics and political economy have been very important in African studies both on the continent and abroad, and it could be very helpful for this important initiative to bring these ideas together as a basis for uncovering a better future.

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Interested reviewers please contact Helen Douglas at mwnewagenda@mweb.co.za

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