Nepad: What's in it for **labour?**

Notoriously, unions and the other major groups in civil society argue that they have been largely left out of the Nepad process. ***Cosatu's Policy Unit*** *analyses Nepad's proposals on governance and economics.*

This analysis relates to the Nepad base document (from late 2001), which was formally presented to Cosatu in May 2002.

The great strengths of Nepad are its claims as an initiative originating in Africa, and its insistence on democracy. The labour movement has been at the receiving end of too many repressive regimes – including in Swaziland and Zimbabwe – to reject that position.

Despite these strengths, however, Nepad still seems to aim primarily at engaging overseas donors. Indeed, its core strategy appears to be a trade off, in which Africa offers improved economic and political governance in return for increased foreign aid and investment. This trade off also lies at the heart of the World Bank's current strategies. An effective development strategy would have to do much more to mobilise and empower Africans both politically and economically.

Nepad's overall strategy

As it stands, the Nepad base document essentially argues that economic stagnation and poverty in Africa result from low foreign investment, which in turn results because of weak states. Following colonialism, Nepad says, African states were too weak – mostly due to 'a shortage of skilled professionals and a weak capitalist class' – to bring about development. Nepad argues specifically that many African countries 'lack the necessary policy and regulatory frameworks for private sector-led growth'. In other words, the strengthening of the state is to strengthen capital, not to restructure it or give a voice to the majority.

Nepad's strategies therefore start with proposals to strengthen capitalist democracy and end conflicts. The governance proposals focus on strengthening the state so that it can protect property rights in a sustainable way, which in turn requires a sufficient degree of democratic rights (free speech and elections) as well as measures to address the worst effects of poverty. The state should also provide key public goods – Nepad stresses infrastructure, education, healthcare and support for smallholders in agriculture.

To strengthen the state itself, the Nepad base document focuses quite narrowly on improving public finances. It does not, however, specify how improved public financial management will be measured. Instead, it proposes

GUY STUBBS

a task team of central bankers and ministries of finance to review national policies and establish standards and codes of good practice.

The risk here is that the composition of the task team is narrow, and composed of leaders

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whose main aim is to control government spending and avoid inflation. That means the team may call for inappropriately restrictive policies. In contrast, making economic governance responsive to developmental needs requires the involvement of those engaged in carrying out developmental tasks – ministers of agriculture, trade and industry and welfare, for instance.

In short, Nepad's focus on good governance could in theory lay a basis for more equitable development. In practice, faced with fiscal restraints governments typically end up cutting anti-poverty programmes, while continuing to free up markets. The net impact can be highly negative for the poor and ultimately for sustainable development.

Nepad's economics are notoriously vague. Beyond setting ambitious targets for growth and poverty alleviation, they provide little more than to set agriculture and infrastructure as priority sectors, and call for regional integration. In other words, there is almost no detail on how the growth target will be achieved, except through increased foreign aid and debt relief. There is certainly no clear strategy for restructuring African economies to ensure growth and development. Thus, the main proposal for manufacturing is to establish national standards bodies – certainly a worthy aim, but one hardly likely to bring about rapid industrialisation.

A major concern for Cosatu is the emphasis on privatisation as the route to expand infrastructure. Most countries in Africa have even less regulatory capacity than South Africa. In these circumstances, where the poor cannot pay for services, the private sector will not provide them. Infrastructure can then become, not a motor for broad development, but a luxury for the rich and foreign investors.

It seems the reason the economic proposals are so vague is that the real focus of the programme is not on the underlying economic issues, but on how to attract foreign funds through better governance.

In sum, despite some ringing anti-colonial rhetoric, Nepad ultimately seeks primarily to make Africa more attractive to foreign capital. The positive side of its strategy is that it recognises the need for a strong, democratic and non-corrupt state that can undertake anti-poverty measures. The negative aspect is that strong limits are set on that state, by restraining its ability to spend as well as by looking increasingly to the private sector to provide basic services.

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At an analytical level, the fundamental problem with the Nepad governance and economic strategies lies in the unquestioning assumption that development must start by strengthening capital. That assumption has two basic flaws.

First, it is true that strong capital is needed to develop a capitalist economy. But different fractions of capital play very different roles in the economy. Simply strengthening business, without defining which groups are needed for development, can have a highly negative effect. In South Africa, for instance, supporting the dominant mining and finance groups seems likely to lead to greater movement of capital out of the country, as they explore options abroad, rather than to higher investment or rising living standards for the poor. As the article on foreign investment in SA indicates, when the economy is not growing very rapidly, foreign investment may actually undermine and weaken local capital.

Second, strong capitalist countries also need strength in other classes. Nepad refers only fleetingly to labour, smallholders in agriculture, micro producers in the towns, and the professional classes. Yet these groups must play a central role in any effective, popular development strategy. Leaving them out means there is precious little incentive for the majority of Africans to mobilise to support Nepad.

Finally, the very vagueness of the Nepad document underscores a question about how far continental initiatives can go. We need to develop practical proposals for dealing with the problems of Southern Africa. If we can make the sub-region work, then we will have a far better chance at addressing the problems of the continent as a whole.

Toward an alternative

A more effective development strategy would focus more on empowering the majority of Africans both politically and economically. From this standpoint, the main obstacles to development are massive inequality and repressive states. That effectively gives real power to foreign capital and a few local, often corrupt, allies. Moreover, mass poverty; combined with small populations in most countries, means there is little incentive to invest to meet domestic needs.

Indeed, internationally, social development and economic growth have occurred only where governments have intervened extensively to bring about greater

equality in incomes and wealth as well as rising skill levels. Central to achieving this objective are consultative policy making on the economy in the context of a strong state-driven strategy to support domestic investment and production.

Critical aspects of an effective development strategy thus include:

- Norms for greater popular participation in policy-making as well as mass mobilisation around key projects. Nepad needs to address the closed and oppressive nature of the inherited state structures, as well as the nature of the capitalist class itself. The establishment of consultative structures like Nedlac would be a step in the right direction.
- Programmes to ensure more equitable control of productive assets. That requires a stronger public sector as well as support for a co-op movement, skills development, land reform and assistance to small and micro enterprise. It also needs more consultative policy-making on the economy, so that governments cannot be captured by a clique of big businesses, most of which are based overseas.
- Strategies to raise living standards for the poor, through government spending on social services and basic infrastructure as well as measures to encourage production of basic necessities. This approach would require a clear commitment to ensuring that fiscal strategy is sufficiently relaxed to support growth and development, without leading to unsustainable debt. In that context, the issue of debt relief becomes critical, since many countries have had to cut back radically on spending already as a result of excessive debt-service costs. Nepad does call for debt relief, but does not link it to its fiscal proposals. LB

Foreign investment
The Record

Nepad is largely premised on the argument that Africa needs foreign investment in order to achieve the targeted 7% growth rate. Similar hopes for foreign capital underlie much of South Africa's domestic policy. ***Cosatu's*** *policy unit looks at the trend in SA.*

Foreign investment in South Africa has been highly unreliable since 1994, with a devastating and still unexplained decline in 2000 and very low inflows since then. Foreign investment by South African companies, meanwhile, has climbed, contributing to depressed domestic investment. Foreign investment, at least in manufacturing and services, has in several cases been associated with de-industrialisation and job losses.

As the table on pg 34 shows, in nominal terms, foreign investment in South Africa climbed steadily from 1994 to 2000 – at which point, it dropped from R84b to R28b. The fall was fuelled by a massive decline in portfolio investment, from R83b to R12b. (Portfolio investment is investment in shares and bonds not expected to give the investor control over productive assets.)

The reasons for the decline in foreign investment after 1999 remain unclear. Although foreign investment has risen since 2000, the net inflow remains far smaller than for most of the 1990s. The quarterly figures for the second half of 2001 and the first quarter of 2002 show sharply lower investment into South Africa compared to 1999.

The figures on foreign investment for the second quarter of 2001 are heavily distorted by the unbundling of Anglo American, affecting the 2001 annual results. The Anglo transaction involved the listing in London of

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Foreign capital flows into and out of South Africa

	1994	1999	2000	2001	First quarter 2002
Foreign investment into SA					
direct	1.3	9.2	6.2	57.2	1.6
portfolio	10.3	83.9	11.8	-24.0	4.4
other	-1.6	-9.3	10.8	-18.1	13.7
total	10.1	83.7	28.8	15.1	19.7
Investment by SA abroad					
direct	-4.4	-9.7	-1.9	28.7	-1.0
portfolio	-0.3	-31.5	-25.6	-43.6	-5.7
other	-1.1	-1.0	0.9	-11.2	0.7
total	-5.7	-42.2	-26.6	-26.1	-6.0
Net capital inflows					
direct	-3.0	-0.5	4.3	85.9	0.6
portfolio	10.0	52.3	-13.8	-67.6	-1.4
other	-2.6	-10.4	11.8	-29.3	14.4
total	4.4	41.5	2.2	-11.0	13.7

Note: Negative figures indicate a capital outflow.

Source: Calculated from, South African Reserve Bank, Quarterly Economic Review June 2002, p S-90.

Anglo American, leading to equity (portfolio) investment abroad; and the purchase of De Beers, which appears as foreign direct investment into South Africa.

As disconcerting as the extraordinary fluctuations in foreign inflows in the past few years are the figures on outflows due to South African investment abroad. Between 1994 and 2000, direct investment by South African companies outside the country totalled R50b – while foreign investment into the country came to R45b. In the same period, portfolio investment abroad rose dramatically, although until 2000 it was offset by even larger inflows. In the past three years it levelled out at around R30b a year.

But the numbers do not tell the whole story. Labour has also experienced at first hand the reality that foreign investment is not always positive in the longer run.

Specifically:

· The repatriation of profits can mean that foreign investment leads to a net outflow of resources from the country. While investment inflows fluctuated, the outflow of profits rose steadily. In 2001, South Africa lost almost R50b in profits repatriated abroad, compared to R10b in 1994.

· When the domestic economy is only growing slowly, increased foreign investment to meet local demand may just displace local production. That may bring down some domestic prices. But the cost may be high. For one thing, the domestic producer often loses jobs. Even more dangerous is that local production becomes subordinated to the international strategy of the foreign investor. If the foreign company wants to increase their exports to Southern Africa, they may cut domestic production. We have seen this situation in dairy, pharmaceuticals and engineering, with local subsidiaries of overseas firms reduced to warehouses for foreign products.

Obviously, this does not mean all foreign investment is bad. In the auto industry, South Africa has seen rapid growth as a result of our industries' position in the international strategies especially of German producers.

Still, our experience since 1994 points to the dangers of basing our development strategy on foreign investment. A more effective approach would focus on mobilising local savings for growth, rather than putting our faith in the uncertain prospect of foreign capital. LB