Liberalisation, Multilateral Institutions and Public Policies: The Issue of Sovereignty In Sub-Saharan Africa

De Boeck Université | Mondes en développement
2003/3 - no 123
pages 23 à 56
ISSN 0302-3052

Article disponible en ligne à l'adresse:


Pour citer cet article:

Liberalisation, Multilateral Institutions and Public Policies: The Issue of Sovereignty In Sub-Saharan Africa

Alice SINDZINGRE (*)

1. INTRODUCTION: CONCEPTS AND CAUSALITIES

What relationship between sovereignty, economic liberalisation or globalisation?

In analysing the possible relationships between globalisation and sovereignty, argumentation is blurred by the polysemy of these words. The concept of sovereignty is as vague as that of globalisation. Sovereignty is a quality - attached to a state or government - which defines two spaces: an interior and an exterior one. As an attribute of states, sovereignty is characterised by the same ambivalence as the concept of the state, a positive and a negative one; sovereignty has two inherent faces and which are the two faces of democracy. A positive face of sovereignty is its necessary support for democracy's aspiration to universality. The "bad face" of sovereignty is the one that supports a "regulating Idea", i.e. an indivisible state power exerting authority over citizens, the power of the state over individual life and over the rights and freedom of citizens. The concept of sovereignty includes connotations that assimilate spatial (inside-outside) and political realms, such as nationalism, state boundaries, and integrity of a state - its territory, institutions, civil society - against "external" threats that can be "outside" as well as within a country – then having to be removed, according to the organic conception of the nation. Sovereignty poses the question of the nature of political regimes that favour positive or negative economic outcomes, e.g. democracy, autocracy, predatory regimes.

Globalisation is a process affecting various levels: e.g. individuals, states, and sectors such as trade or finance. It refers to the exposure to flows of capital, goods, manpower, and information and technology, which result from global dynamics or rules from multilateral institutions. Globalisation differs from trade liberalisation - policy measures - and openness - the situation of an economy. Its effects on specific sectors use different channels: e.g. variations in prices, wages, exchange rates, productivity, reallocation of factors of production.

(*) Centre National de la Recherche Scientifique (CNRS, Paris)

1 As shown by Jacques Derrida: see Jean Birnbaum's review of Jacques Derrida (2003).
2 Voyous: deux essais sur la raison, Paris, Galilée, Le Monde, 14/2/2003, VII.
production. Agricultural sectors are exposed to globalisation through fluctuations in the prices of imported inputs or commodities export markets, while financial markets and industrial sectors are exposed to, e.g., international capital movements and the fluctuations of stock exchanges. Breach of sovereignty may be the outcome of a domestic process or a global one – e.g., migration, capital flight –, as well as of rules, policy measures, and reforms. The key question is the desirability or the feasibility of sovereign states policies, as well as of sub-states and supra-state institutions.

The sovereignty of sub-Saharan African states

The concept of sovereignty implies the concepts of boundaries and territory. It inherently defines external and internal domain and entities, as well as internal institutions and individuals, as legitimate objects in the exercise of this sovereignty. In SSA, precolonial history – the juxtaposition of various political structures, e.g., stateless and kingdoms - and colonial history made this concept problematic. The debate over sovereignty in SSA generally refers to the debate over the nature of African states - e.g., quasi-states, shadow states, weak, patrimonial, or predatory states. It is argued that SSA states do not possess genuine internal or external genuine sovereignty outside the sovereignty given by their formal recognition by multilateral organisations. The latter may be used by political regimes as a resource to claim an internal sovereignty over state core institutions, boundaries, and citizens. Such legitimacy is intrinsically flawed, as legitimacy results from endogenous processes and external recognition, rules or constraints cannot act as substitutes for it.

SSA state sovereignty is viewed as handicapped by structural problems: e.g., excess of space, unfavourable geography, low demography, internal instability. Colonisation implied a destruction of existing institutions, as well as a recomposition of institutions that may have been detrimental for economic development. One particularity of SSA is the continuation of dependence on foreign donors assistance after independence, in contrast with the East Asian countries that had explicit strategies of emancipation vis-à-vis external aid and technical assistance. Over the “longue durée” the economic colonial model has perpetuated the “small open colonial economy” based on the dependence on exports of commodities and imports of manufactured products from the colonising countries. The domestic and international political dimensions have inextricably combined with the structural and economic determinants of low development, although political sovereignty has to be differentiated from economic sovereignty.

4 Herbst (2000).
5 Acemoglu, Johnston and Robinson (2000).
7 As analysed by Hopkins (1973).
The paper explores the relationships between sovereignty, development and economic liberalisation in SSA according to three perspectives. It analyses the effects of the economic reforms prescribed from outside by the Bretton Woods institutions. It questions whether their impact on SSA sovereignty is negative for development, and whether sovereignty is a desirable or a feasible objective whatever the economic and political contexts (parts 2 and 3). Then it shows that SSA may alternatively be assessed as “over”- or “under-globalised” (part 4). It finally examines the impact of reforms on sovereignty in the three key domains of state capacities, financial sector, and external trade (parts 5 and 6). It concludes that there are no a priori relationships between sovereignty and development. Sovereignty may be a factor of anti-development in the cases of predatory regimes; the massive intrusion of external agencies and their reforms may be detrimental to growth as they may destabilise illegitimate rulers; SSA growth is crippled by its confinement into the post-colonial small open economy model and its dependence on the volatile commodity prices; liberalisation has been a positive opportunity for growth, while SSA’s relative marginalisation may have protected it against global financial instability. Asian developmental states reveal the complexity of the relations between autonomy and openness. Therefore, the key objectives are rather the re-building of SSA states and their integration into a more balanced multilateral trade and financial system.

2. THE PARADOXES OF THE CONDITIONALITIES OF MULTILATERAL FINANCIAL INSTITUTIONS: INTENTIONS VS OUTCOMES

Donors’ good intentions vs. the weakening of recipient states
The impinging on sovereignty may be the outcome of processes as well as rules and agreements. In SSA, the mechanisms that affect state sovereignty mostly originate from multilateral institutions and agreements, particularly the Bretton Woods institutions (BWIs) - the IMF, the World Bank -, as well as the WTO. BWI activity is based on conditional lending and prescribing policy reforms to recipient governments in exchange for external financing, within the theoretical framework of stabilisation and adjustment programmes.

The fluctuations of the terms of trade and the decline of the world prices of commodities in the late 1970s precipitated SSA countries into deep crisis, obliged them to seek help from the BWIs and to comply with their economic conditionalities in exchange for loans. The debt crisis in 1982 that dried up international private capital flows towards SSA, the recurrent failure of BWI programmes over the subsequent two decades, and the increasing erosion of credibility of SSA governments’ economic policies vis-à-vis international markets, all led to a massive dependence of SSA on official development
assistance and lending from the BWIs. BWI conditionalities have been repeated year after year, with recurrent policy reversals from reluctant governments - the so-called “ritual dance” of the exchange of financing for reforms that are delayed as soon as the loans are disbursed, resulting in tighter conditionalities that are less and less willingly accepted. The sovereignty of SSA states has been subjected to the supervision of the BWIs. Despite the decline of official development assistance, some SSA countries are massively dependent on aid for their budgets, investment, maintenance, infrastructure, health, and education: net ODA amounted to 8,1% of SSA GDP in 1998 (excluding Nigeria and South Africa), with some extreme cases, as Mozambique (27%), Guinea Bissau (47%), Burkina Faso (16%), in contrast with Nigeria (0,6%).

The erosion of sovereignty has even led to a substitution of local civil services by external donors when the BWIs considered that this was more cost-effective for their projects. In the 1980s-90s, the BWIs made 958 conditional loans. During the 1990s, 36 poor countries received 10 or more conditional loans. During these two decades of conditional lending, which aimed at an in-depth transformation of the core pillars of SSA governments – fiscal, monetary, social policies – the growth rate of income per capita was zero. State dimensions of sovereignty are defined by a series of key definitional attributes and associated public institutions: external boundaries – managed by the customs-credibility and prospects, expressed by interest rates and the banking system -, the extraction of wealth – expressed by fiscal capacities and redistribution – knowledge of the state of itself, expressed by statistics – and setting of norms and rules, embodied in the judicial system. In most SSA countries, external donors projects focus on these core state institutions and support their functioning through financial flows and technical assistance. They have progressively penetrated the activities of SSA civil services, leading to a further weakening of national sovereignty on economic and political decisions, as well as civil service capacities, and a overburden of public services often functioning mostly to implement the projects of the external aid agencies. This intrusion of external donors is such that, in the 1990s, more than 400,000 projects have been undertaken and some 80,000 projects are currently being implemented, corresponding to an average of 20 or 30 competing or parallel projects in a particular sector, which require time-consuming reports and other burdensome requirements.

State sovereignty has been further weakened because aid flows are unpredictable, and even more volatile than domestic fiscal revenues, particularly in highly aid-dependent countries - uncertainty and volatility that are obviously welfare-reducing.

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12 Hamman and Buiter (2001).
The assessment of BWI intervention on developing countries’ sovereignty is a complex exercise because of the disjunction of intentions and consequences. When the BWIs condition their financing on a series of reforms, it is in the name of development and growth, on a contractual basis, and with good intentions\(^\text{13}\). Privatisation and liberalisation are said to break the rents that are fuelled by marketing boards, state-owned-enterprises and other public entities and which benefit only local elites and politicians, hurt the poor, and increase inequality. With the replacement of adjustment programmes by new ones in 1999 - the World Bank PRSPs and IMF PRGF\(^\text{14}\), the good intentions of the BWIs are even more explicitly claimed. Their official objectives are building polities, enhancing domestic governance, improving local ownership and participation, and revamping social services - such as health and education. Such beneficial goals obviously attract widespread consensus. Likewise, in the orthodox theoretical framework used by the BWIs, financial liberalisation is said to break the rents and the relationship-based systems recurrent in many developing countries, where foreign investor contracts cannot be enforced because there is no rule of law, where power relationships substitute for contracts, and personal networks mix politics and business ties. Hence, foreign investors do not come, or they only invest in deals that provide short term returns\(^\text{15}\). Thus, the goal of the BWIs is the transformation – implicitly, the “modernisation” – of the existing systems in the name of equity and efficiency, as networks and clientelism suppress the signals provided by prices and misallocate external capital inflows.

The credibility of these objectives has been weakened, however. In a non-transparent way the BWI reforms left rents and corrupt practices untouched in some countries, whereas they broke existing rents in others. The BWIs mandate relies on the recognition of state sovereignty – states are their members and clients – and leave the states with the responsibility of implementing the reforms and managing their consequences\(^\text{16}\). BWI agreements prohibit interference into the internal political affairs of the client country, via the justification that the BWI are apolitical institutions. But standardised and apparently technical conditionalities leave some room to the BWIs in terms of the timing of reforms and concomitance with political cycles. The respect of client states’ sovereignty is variable and openly influenced by the foreign policy of the BWI’s most powerful stakeholders: the US, European countries, and Japan. Powerful member states such as the US use the BWIs if they support their interests and attack them otherwise. The limitation of state

\(^{13}\) Zornel (1996).
\(^{14}\) Poverty Reduction Strategy Papers, Poverty Reduction and Growth Facility, Enhanced Structural Adjustment Facility.
\(^{15}\) Rajan and Zingales (1998a).
\(^{16}\) Kingsbury (1999).
sovereignty represented by multilateral institutions is therefore threatened by some states, as in limiting it for all states it reduces sovereignty of the most powerful and protects the weakest. At a global level, sovereignty is therefore to be analysed along two dimensions that impinge on one another, i.e. the infringement of developing state sovereignty by multilateral institutions and rules, and the infringement of sovereignty of multilateral institutions - the legitimacy of which relies on theoretical and technical “truths” -, by particular states and their interests.

The intrinsic asymmetry of the aid relationship

The relationship between the powerful lenders in Washington and the SSA countries is not symmetric, even if some studies insist on possible exit options, the so-called “power of the weak”, the “voice of the poor”, and the room for manoeuvre that stems from the various tactics of recipient governments, such as foot dragging, policy reversals, games on the expectations that donors and lenders always come back, etc. Such reactive - and rational - mechanisms do not rebalance the asymmetry and power that are inherent in the aid relationship. Asymmetry is accentuated by donors’ "cross-conditionality": agreements with the BWIs condition the financing of most of the other multilateral and bilateral donors and the lack of compliance of a government vis-à-vis one donor has negative consequences on its relationship with the other donors. Multilateral and bilateral donors, and their technical assistance and reforms - liberalisation, privatisation, deregulation - represent a deep intrusion into countries that is not so different from what colonial powers strove to do in their time: e.g. to civilise, transform, and rebuild. Since the 1997 Asian crisis the power of the Fund has been denounced by many academics, including orthodox economists, as it uses crises as opportunities to force structural reforms, whatever their benefits for growth. The Fund’s technical competence in dealing with sovereign countries and its bypassing legitimate domestic political institutions have been called into question. The SSA countries’ need for short-term financing does not mean that the IMF’s technical judgments should be substituted for the outcome of political process17.

With PRSPs asymmetries are even larger than with structural adjustment programmes. Their insistence on poverty and social issues does not limit them to price adjustments, as in structural adjustment programmes, but to seek the transformation of the core pillars, which historically cemented the formation of SSA states, allowed their anchoring within their societies, and shaped their functions. Linked to the PRSPs, the HIPC debt relief initiative includes more constraining conditionalities – the obligations to reach “decision points”, before the “completion points” – and is explicitly conditioned on the implementation of the BWI’s reforms. The PRSPs’ focus on social

17 As highlighted by Feldstein (1998).
achievements, poverty reduction, and rehabilitation of social services is perhaps more consensual and developmental but entails the risk of limiting even further the sovereignty functions of states because of the obligation to give priority to the objective of poverty eradication. PRSPs constitute more intrusive prescriptions into domestic sovereignty, as they penetrate into the social choices of governments and societies. They depoliticise public policies: governments are not supposed to make political decisions according to a legitimate hierarchy of priorities on the allocation of their public expenditures. Yet their priorities may differ or go beyond social sectors. Moreover, Western states did not historically build, develop or consolidate around “altruistic” premises, social objectives, or the welfare of their citizens as their key priorities. PRSPs perpetuate a top-down stance from an external agency vis-à-vis developing countries, with the remarkable feature of a wider consensus, as none would criticise the goal of reducing poverty.

Theoretical beliefs: forgetting autonomy and diversification
In the orthodox economic framework economic sovereignty is not a relevant notion in terms of growth and welfare: this is the well known theoretical stance that “openness is good for growth”\(^1\), be it trade or financial liberalisation. A vast literature based on cross-country econometrics supports the argument that openness is associated with higher growth rates and/or productivity. There are disagreements, however\(^2\): other policies, such as stable and non-discriminatory exchange-rate systems and prudent monetary and fiscal policies also promote economic growth. Benefits have been affirmed in an excessive way\(^3\) by the BWIs as well as the by WTO, and particularly for SSA. Despite low wages the comparative advantages of SSA are still tenuous. The low average level of education and technical skills, low productivity, small size of the markets, and weak purchasing power blur these theoretical hypotheses and are essential factors as to why investors and international capital markets have forgotten the continent. The costs of openness are viewed theoretically as the costs of transitional adjustment to more efficient reallocations of resources, capital and labour from protected and ineffective economic sectors, but the length of these “transitions” may be long.

During the two decades of structural adjustment the theoretical stance of the BWIs remained uncharged however it was contradicted by facts and came to resemble more a system of beliefs than one of scientific attitudes\(^4\). Interestingly enough, the BWI’s positions evolved in the case of emerging countries – e.g. those in Asia –, particularly over the appropriate reforms of the

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\(^2\) E.g. Rodriguez and Rodrik (1999); Harrison and Hanson (1999).

\(^3\) Even “extravagant”, according to Rodrik (2001a).

\(^4\) Sindzingre (2002a).
financial sectors. The BWIs initially refused criticism of their standardised package – openness, raising interest rates, devaluation, reducing the fiscal deficit - during the Asian crisis in 1997-98 and denied that the opening of the capital account could create instabilities and be harmful for growth. They progressively accepted the critiques in view of the geostrategic importance of the countries involved and the academic weight of the critics. SSA does not exhibit such an importance, neither geostrategic nor academic. This partially explains the inertia of the BWI’s policy packages despite their poor outcomes and the fact that developed countries themselves did not practise liberalisation policies nor open their markets to developing country imports, which is the major cause of the latter’s non-development.

Structural adjustment and trade liberalisation that were implemented in the 1980s consistently forced SSA countries to lower protectionist barriers and to encourage exports. This resulted in a deepening of the colonial commodity export model. SSA countries have not diversified the structure of their exports despite two decades of structural adjustment and some now export more primary products in the 2000s than they did two decades ago: 95.3% of SSA exports were primary commodities in 1980 (oil and non-oil); they were still at 81.3% in 1997. In 1990 oil represented 90% of Nigerian exports, and 97% in 1999. In 1990 agricultural raw materials represented 62% of the exports of Mali and 94% in 1999. Since the 1970s primary commodities have been marked by both a downward trend in relative prices vis-à-vis manufactured goods and by a higher volatility, much more than the terms of trade for exports in other regions, such as East Asia (twice as much) or industrial countries (4 times as much). Structural adjustment may have contributed to the deindustrialisation of SSA, with the SSA potential for industrialisation being a debated issue. To say the least, however, the BWIs reforms did not reduce SSA weakness in terms of acquiring a greater autonomy vis-à-vis global shocks and instability, of escaping the secular primary commodity model or diversifying exports into manufactured products.

Diversification is a shield against excessive instability and volatility of international prices. This volatility has been shown to be one of the key factors of the economic stagnation of SSA. In their external trade and financial relationships, commodity-exporting countries reveal a high level of dependence on a limited number of low-value-added commodity exports, an unsustainable external debt burden and enmeshment within the aid/debt service system: in short, they are commodity-dependent, debt-relief-dependent and aid-dependent.

24 World Bank, World Development Indicators 2001, table 4.5.
dependent. Each element of this nexus of external trade and finance relationships reinforces the others.

These external relationships are intensified by poverty and they in turn reinforce the domestic causes of poverty. The BWIs liberalisation reforms did not address the root causes of SSA under-development, i.e. the dependence of primary commodities and the associated poverty trap, and did not help SSA economies to diversify their economies.

3. GLOBAL ASYMMETRIES, ILLIBERAL POLITICS: WHICH SOVEREIGNTY?

There is an unambiguous negative side of a diminished sovereignty. Sovereignty is a valuable good as it may be threatened by hegemonic objectives, which openness conditionalities may serve. As always, the key criteria are intentionality, as contrasted with the face value of proposals and their effective use. The erosion of sovereignty is desirable when it means lesser arbitrary power, while it is to be deplored when a developed country uses it for the domination of developing countries, which has been more or less the rule since the end of colonialism and during the Cold War, when rich countries sought client states in the developing world. After the fall of the Berlin Wall and the emergence of a US unilateralism, the reorganisation of geostrategic stakes did not change the patterns of penetration of poorest countries’ sovereignty, even if in a less strategic SSA control of sovereignty is more “multilateralised” - implemented more by multilateral institutions via policy conditionalities than by crude military or mercantilist strategies. The recurrent failures of the extended BWIs prescriptions of “good governance” and top-down democratisation are partially explained by the use of similar frameworks of asymmetric power relationships. More national sovereignty in appearance – as embodied in democratisation does not mean more autonomy or less dependence when it does not meet the necessary condition of being an endogenous institutional process.

Economic sovereignty as a desirable objective? Global vs. domestic equity and ethics

The impact of globalisation on sovereignty works at the levels of both domestic and global forces. Dependence is usually viewed as a negative feature for a state, whereas sovereignty and autonomy are usually viewed as positive attributes. The stance of external donors is that sovereignty is not per se an economic value and their reforms, though intrusive, are welfare-enhancing: if equated with closeness, sovereignty is said to impede economic growth. For orthodox economics, countries must lower trade barriers and follow their

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27 UNCTAD (2002a).
comparative advantage as determined by their natural endowments. These stances constitute ideas, beliefs, in parallel with facts that may or may not be interpreted as their confirmation.

These are, however, not only politico-economic beliefs with uncertain factual proofs; global integration may erode sovereignty while it may also uphold this sovereignty. They also involve normative questions: i.e. whether the encroachment of state sovereignty is a desirable state of affairs. There may be positive effects in the infringement of sovereignty by global processes or institutions in the matter of global political ethics. It may be desirable that sovereignty is diminished or destabilised in states that are “privatised” by interest groups or are undemocratic, anti-developmental, criminal, corrupt, and oppress the majority of citizens, or that have “collapsed” – SSA being among these. External pressure may introduce new legal and political institutions via openness, financial incentives, aid, conditionalities, or threats. Claiming sovereignty may allow a regime to maintain a lack of accountability and protect itself from external judgement, either at the domestic level, vis-à-vis its civil society, or vis-à-vis the international community. Some SSA states retain only the formal attributes of stateness and consist mainly of juxtaposed predatory interest groups or criminal networks engaged in the siphoning off of some tradable resource. Often only external events, incentives or coercion, have the capacity to put an end to these kinds of political structures, since local civil societies or political organisations are too weak, poor, or repressed. Although originating from external entities like the BWIs, economic conditionalities may make public political predation or unacceptable inequality.

This is why conditionalities are sometimes used by the political opposition to attack predatory regimes and as an opportunity for achieving a more equitable society.

A “global preference” - from “global civil society” or the “international community” - for economic or political justice, equity, and efficiency may be equated with a preference for the limitation of sovereignty against extended prerogatives of states. The dilemma appears immediately. State integrity may be a value, a desirable objective for the international community, especially as orthodox theory and structural adjustment policies aim at minimal government in the name of economic efficiency and as states may represent more equity and protection of domestic labour or capital. However, international interventions may contribute to enhanced equity for domestic capital or labour, which governments do not protect if they express particular interests.

The international community may also insist on the desirability of objectives that delegitimise national sovereignty, when it claims that it has a “better” concept of states, i.e. more democratic or more efficient, which legitimises

29 As in the warlord states or “shadow states” analysed by William Reno (1998).
transformation and external intervention. These issues refer to well-known political and ethical dilemmas: universalism vs. relativism, not judging sovereign regimes, and even anti-developmental vs. the imposing of "ethical" politics from above or from outside a country.

Assessments of the virtues of maintained or reduced sovereignty in terms of justice then depend on the nature of the dominant groups - employers, elites, workers, and of the social groups that benefit from openness. Another key issue here is the type of state, which is an ex post judgment. Developmental Asian states are said to have insulated their technocrats, so in this sense politicians have voluntarily refrained the exercise of their political sovereignty over them for the sake of efficiency. This is explored through debates on optimal political institutions and limits of public vs. private spheres, i.e. the optimal extent of intrusion of the state into non-state activities, e.g. citizens' private activities and the various mechanisms of voluntary delegation of state power – such as representation and independent agencies of restraint. Asian developmental states have reactivated the classical debate on the virtues of politicians vs. technocrats.

For the public choice approach the ideal state is a depoliticised one, managed by technocrats who are better able to promote the valued goal of efficiency.

Among other examples of "superior" global preferences over national ones – whether of governments or social groups - are global asymmetries in the domains of social justice and equity. E.g., transnational corporations are the vectors of integration and dependence but also simultaneously of responsibility in enhanced social conditions of labour in developing countries. Core labour rights can be deemed simultaneously as global values legitimate enough to limit sovereignty, promote international justice and equity through unions struggling for universal ideals, and as expressions of national interests - e.g. US government or rich country workers. This is reflected by the ambivalence of the BWIs, which after seeing unions and labour rights as obstacles to equity and protection of the better off workers now supports them as factors of social cohesion and growth.

Transparency vs. secrecy, interference vs. independence
Another important concept is transparency and its relationship with economic growth. Sovereignty may be opposed to transparency, which is a key feature of economic growth in the neoclassical theory of asymmetries of information.

30 Joseph Stiglitz had similar positions when he was at the World Bank, e.g. Stiglitz (1998) on the virtues of economic as a social transformation.
31 Williamson (1994).
32 Jenkins et al. (2002), Sindzingre (2002b).
A feature of “good corporate governance” - especially since the Asian crisis - transparency is viewed as preventing global financial crises and favouring foreign investment. As such it is a global public good. Sovereignty is therefore related to the concepts of secrecy, both transparency and secrecy being, as shown by Georg Simmel, the two attributes inherent to any political device and power: the transparency of a given institution allows the secrecy of another one. External forces modify these internal equilibria.

Sovereignty is also closely associated with the concept of independence - the independence of a state -, which is usually considered as a valued dimension, or of an institution within a state. Independent national policy-making is not necessarily per se better than the internationalist formula. In the neoclassical framework of minimal state intervention, the existence of independent institutions vis-à-vis governments may be beneficial for development - the so-called “agencies of restraint” - SSA states are stagnating because they lack independent institutions vis-à-vis the intrusion of political clienteles in their functioning, which could contain political demands and the use of public resources for private interest that routinely characterises weak states. The growing number of new states and regional arrangements show the relevance of statistic references but is associated with the shifting of the state’s attributes towards the political arena, while other functions, such as economic and monetary functions, are carried out by other bodies, e.g. regional unions. Asian developmental states have also highlighted autonomy as an ingredient of economic growth, with the autonomy of competent technocrats in this case being “encapsulated” from political pressures.

These tensions can be found in the debate over the independence of core state agencies from political power, which is supposed to provide an efficient response to dynamic inconsistencies, better credibility and signals of credible commitments of governments to their policies - central bank independence being the paradigmatic example. Influenced by the public choice view of states as the expression of interest groups, adjustment programmes often included independent agencies tying the hands of governments in the financial and monetary sectors, such as currency boards. The CFA Franc Zone device, which delegates the monetary sovereignty of a group of West African states to a foreign entity, the French Treasury, has been considered as one of such hand-binding mechanisms and some studies found that it may have been more favourable to development than monetary sovereignty. The idea of independent agency is currently revamped with the notion of global public

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33 Gelos and Wei (2002).
34 Simmel (1906).
36 Alesina et al. (2000).
37 Since e.g. Kydland and Prescott (1977).
good, which presents treaties, agreements and conditionalities as mechanisms of hand-tying and delegation of national sovereignty that transfer international credibility and public goods to developing states unable to provide them to their citizens due to their patrimonial character or poverty. Delegation of sovereignty and limited degrees of liberty over domestic policies are said to be beneficial because they strengthen the capacity to commit governments – i.e. the credibility of their policies – and prevent policy reversals in the short term. Since lack of credibility reduce growth and investor confidence, the BWIs consider that the impinging of reforms on national sovereignty promotes development.

However, the independence of institutions vis-à-vis governments under the justification of “policy credibility” is a questionable mechanism. Firstly, in SSA this independence is in fact an “ex ante constrained autonomy” by history – credibility is not restored and investors are not convinced, and few of the latter end up coming. Secondly, this concept depoliticises the core attributes of the state. Independent institutions or technocrats are not accountable to citizens, they may be easily manipulated by political or business interests, or reflect particular economic beliefs that may prove harmful - e.g. orthodox inflation targeting, reduction of fiscal deficits – while governments are deprived of an “escape route”. Such criticisms have been addressed to the European Central Bank or the Maastricht Treaty, generating reflections on a “right of interference”. Global integration under its aspect of easier movements of people and information and more pressure from international institutions, may have developmental aspects: domestic policies are placed under global scrutiny and potential intervention from the “global community”. A condition for better equity, however, is that decision-making within multilateral entities is itself balanced and does not express particular interests. This is notoriously not the case of the BWIs - the US having 17% of the voting power within the IMF, then Japan 6%, Germany 6%, and so on, with the whole SSA having around 4,5%. The delegation of national sovereignty to multilateral agencies for the sake of development makes crucial the question of “who supervises the supervisor”, as well as its own impartiality or genuine objectives of justice.

4. GLOBAL INTEGRATION AND ITS ECONOMIC IMPACT ON SSA SOVEREIGNTY

Despite a huge literature the consequences of the integration of SSA into world markets remains a matter of debate Is SSA an open region and with diminished

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41 Smithin and Wolf (1999).
sovereignty, or is it an “under-globalised”, marginal region which is bypassed by international flows of trade and finance but protected from global crises? The conclusions depend on one’s perspective.

**SSA as marginally involved in global flows**

The current extent of global integration is a new phenomenon, as 19th century economic policies relied on the framework of the state more than on liberalisation. It mostly involves the three blocs in the developed world - the USA, Europe and East Asia - and excludes developing countries even more than in previous waves of globalisation. Despite the spectacular reduction in transport costs and time, constraints of distance and spatial interactions are still determining factors and which lead to cumulative processes that explain the uneven development of the different regions in the world. Foreign direct investment is highly concentrated in a small number of Asian and Latin American countries.

Liberalisation is therefore not the main determinant nor culprit of poor economic performance. From the point of view of the global flows - trade and financial - SSA is marginal. Its degree of openness or closure and associated reflections on its sovereignty have little relevance, except for particular sectors such as oil and some primary commodities where it is a global player, like cocoa. SSA is characterised by a disintegration vis-à-vis world trade, a situation that seems worse in French-speaking Africa than in English-speaking Africa. It accounted for less than 1% of world exports in 1999, a share that is falling even further (from 3.5% in 1970). The share of imports dropped from 4.5% to 1.5% during the same period. The figures are just as low for FDI: SSA share of the global stock of FDI declined from 5.3% in 1980 to 2.3% in 2000. The increase in the volume of FDI flows to SSA did not keep pace with the flows to the other regions of the world. FDI flows averaged 2% of annual global FDI flows in 1989-94, then declined to 0.7% in 2000. SSA share of FDI flows to developing countries has declined from an annual average of -6.7% in 1989-94 to 4.5% over the 1995-2000 period. FDI is geographically highly concentrated in a few countries, e.g. South Africa and Angola, and is mainly due to multinational firms operating in extractive sectors (mines, petroleum) or investing in privatising firms such as utilities – the types of transaction that are not likely to be repeated. Other investments are often speculative and do not focus on the medium-size manufacturing sector. The weakness of control

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43 Baldwin and Martín (1999) show that 63% of FDI went to developing countries in 1913, compared to 28% in 1996.
47 Basu and Srinivasan (2002).
administrations and porous borders are sadly one of the comparative advantages of certain regions of SSA, as they allow for trafficking in drugs, arms, counterfeit articles and the like, thereby transforming SSA into the “bargain basement of the world markets”.

Globalisation of business activity also impinges on the economic sovereignty of nation states. For global TNCs, which are now the engine of international integration, SSA is marginal, especially in the domain of the knowledge-based economy, which is currently the major factor of growth and trade. TNC activity, which is an indicator of the penetration of state economic sovereignty, is highly spatialised and involves the US, the EU and Japan, which trade among themselves and in their immediate neighbourhood. Competitiveness has strong geographical features. Benefits derived from participation in global production networks at the local level are uneven and the transnational production networks put entry barriers into the profitable and service-intensive activities of global value chains.

**SSA as fully permeated by global flows**

In contrast, SSA can be looked upon as the most “globalised” region in the world. From the point of view of the economies themselves, SSA economies are open in term of domestic economic structure, with international trade - imports and exports - representing significant portions of countries’ GDP.

During the two decades of adjustment since the 1980s, SSA countries significantly opened their economies, even if governments often resisted liberalisation and only partially implemented it. SSA economies are obviously not as open as a trade hub like Singapore (in 2000, imports and exports representing more than 300% of GDP). In 2000, however, with imports and exports representing 32% and 32% of GDP respectively, SSA as a region has become more open than the US (imports and exports being 13% and 11% of GDP) and as open as the EU (33% and 34%).

E.g., it is the region that trades the most outside itself, with Europe, America and Asia. European countries trade more with themselves. The SSA transnationality index, measuring the ratio of foreign assets, sales and employment to total assets, sales and employment respectively is even above the developing countries average, 41% vs. 31% in 2000 - although it also reflects other aspects like the small size of markets or the weight of South Africa. SSA countries’ fiscal and redistributive capacities - and hence their

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48 Shatz and Venables (2000).
49 Mkandawire (2002).
50 World Bank, World Development Indicators 2002, table 4.9.
51 Melchior et al. (2000).
52 UNCTAD (2002b, table IV.16).
existence as states, their legitimacy and credibility - strongly depend on their external trade.

The resilience of their post-colonial budgetary structure makes them highly dependent on taxes levied on international trade. SSA countries have always been open, due to the colonial model of "small open economies", but the global movement of trade liberalisation in the 1990s has accelerated this trend, as have BWI conditionalities\textsuperscript{53}, although SSA economies did not derive advantages in terms of growth. The share of trade (merchandise exports plus imports) in the GDP of SSA has increased from 38 to 43% between 1988-89 and 1999-2000, although this did not prevent the decline of the SSA share in world trade\textsuperscript{54}.

SSA is also the most open region of the world in terms of the brain drain of its human capital - its most skilled manpower -, which at the same time is replaced by costly and often inefficient technical assistance from developed countries, which often relies on BWI borrowing\textsuperscript{55}. There were some 40000 technical assistants residing in SSA at the end of the 1980s, in addition to thousands of temporary consultants\textsuperscript{56}. SSA lost 30% of its qualified manpower between 1960 et 1987, particularly medical doctors, and with the obvious effects on public health\textsuperscript{57}; 60000 doctors, engineers, academics left SSA between 1985 et 1990\textsuperscript{58}. SSA fully participates in global flows of people and migration. Reflecting low income levels, these "exports" of human capital are as strategic as its exports of commodities. The remittances sent by emigrants represent a significant source of wealth, as a higher proportion of SSA GDP than in developed countries - although this is also the case for non-SSA developing countries: remittances are estimated at $4 billion in 2002, as compared to $10 billion of bilateral grants and $2.4 billion of net debt flows from the BWIs\textsuperscript{59}. In countries that do not receive substantial external aid, remittances represent important flows - e.g., in Nigeria, 7 times more than aid. In the 1994-99 period, remittances, aid and FDI in Southern and Eastern Africa represented respectively 9%, 44%, 27% of GDP, and in West Africa, respectively 21%, 59%, 23%\textsuperscript{60}, figures that show the extent to which SSA is permeated by global flows.

SSA functions less as a close and sovereign region than a wide exchanger of human flows in both directions. This can also be said of aid and debt flows, where what comes in goes away and SSA resembles a hub transforming official

\textsuperscript{53} UNCTAD (2000).
\textsuperscript{54} UNCTAD (2001); Sindzingre (2003).
\textsuperscript{55} Ul Haque and Khan (1997).
\textsuperscript{56} Berg (1993).
\textsuperscript{57} Schiff (2000).
\textsuperscript{58} Botchwey (1999).
\textsuperscript{59} World Bank (2003, table A.28).
\textsuperscript{60} Gammeltoft (2002).
financial flows into official and private ones. SSA transforms global official flows: according to the World Bank, 31 cents of every additional dollar of grants and concessional loans is used to finance principal repayments of foreign loans and 50 cents of every additional dollar of grants is used for the same purpose. SSA also transforms official global flows into private ones. Estimates of capital flight from 25 low-income SSA countries in the period 1970-1996 show an accumulated stock of $285 billion, while their combined external debt stood at $178 billion in 1996. Taking capital flight as a measure of private external assets and net external assets as private external assets minus public external debts, SSA appears to be a net creditor vis-à-vis the rest of the world. The same authors show that external borrowing is positively related to capital flight: capital flight is fueled by debt: for every dollar of external borrowing in SSA, 80 cents flowed back as capital flight in the same year, which is obviously detrimental to SSA growth.

5. GLOBALISATION AND SOVEREIGNTY

Impact on state capacities

States maintain a series of prerogatives and sub-state conflicts retain the state as a reference. Multilateral organisations remain within the statist framework: states are their constituencies and “clients”, even though global negative externalities — financial crises, environmental problems, pandemics — oblige them to reflect on “global public goods” or “global governance”. On the other hand, trade liberalisation erodes state capacity, which is low in SSA, contrary to the premises of adjustment programmes. The ratio of the number of civil servants/total population is lower than in developed countries or other developing countries. In 1996, it was 1% compared to 3% in other developing countries, and 1.5% on a sample of 20 SSA countries, compared to 2.6% in Asia (11 countries) or 3% in Latin America and the Caribbean (9 countries).

At the beginning of the 1990s, the world average of the public workforce accounted for 4.7% of the population, and 7.7% in the case of OECD countries. In developed countries, government employment grew from an average of 12.3% of total employment in 1960 to 18.4% in 1994.

Liberalisation has generated transaction, adaptation and information costs.

61 Devarajan, Rajkumar and Swaroop (1999).
63 Ndjikumana and Boyce (2002).
68 Schiavo-Campo et al. (1997a, 6), including local government, education and health.
69 Tanzi and Schuknecht (2000, table II.2).
which are often higher than the gains in poor countries\textsuperscript{70}, and are managed by a staff insufficient to follow the complexity of international rules. In theory, openness has complex effects on income distribution, depending on initial conditions and existing institutions, and taking advantage of the opportunities it offers necessitates governments that exist and institutions that function.

The erosion of states and the standardisation of different varieties of capitalism may be factors of political instability that combine with economic instability\textsuperscript{71}, especially if state credibility is affected by a lower capacity of redistribution, provision of welfare, and uncertainty. This is still worse if governments are not considered as legitimate by the majority, as is often the case in SSA. Leaders give priority to the means for staying in power by manipulating the reforms of external agencies. Domestic political rationalities of governments prevail over demands arising out of the international environment or those of the BWIs, even if both can sometimes coincide, leading to a “double-edged diplomacy”\textsuperscript{72}.

For regimes confronted with openness, the weak institutionalisation of political mechanisms and - since the early 1990s - democratic demands may encourage the continuation of past methods, such as clientelism. According to specific historical trajectories, leaders have the option of making a few concessions or subverting democracy with the old authoritarian methods. Liberalisation can intensify political cycles - e.g. populism - and aggravate their consequences when it increases dependency on short-term capital flows, as in the case of financial liberalisation\textsuperscript{73}. In SSA, the expulsion of autocrats following major economic crises, as in Latin America or Asia, is more difficult because of the strong hold of repressive regimes and their security services, which is in proportion to the weakness of democratic institutions.

The impact of globalisation on state fiscal and redistributive capacities

Integration into global markets reduces national sovereignty in taxation in several forms, such as market-induced pressures to lower taxes. Current tax rules created after the WWII were appropriate for a world of relative autarchy. Trade openness induces a “fiscal squeeze”, in lowering tariffs that are a key source of fiscal revenues in SSA\textsuperscript{74}. The BWI reforms recommend schemes aimed at attracting investors, thus intensifying competition between developing countries for these resources, which may be viewed as a fallacy of composition, i.e. what is a good policy for one country is a harmful one for many. Countries therefore seek to be as attractive as possible for foreign direct investment by

\textsuperscript{70} Rodrik (2000).

\textsuperscript{71} Wade (2001), quoting Garrett (2000).

\textsuperscript{72} Expression of Evans et al. (1993); on double-edged diplomacy in Ghana, Sindzingre (2000), in Côte d'Ivoire, Sindzingre with Conte (2002).

\textsuperscript{73} On the case of Turkey, Alper and Onis (2001).

\textsuperscript{74} Rao (2001).
offering tax exemption schemes to multinational firms\textsuperscript{75}, which is another variation on the "race to the bottom" - in this case not based on labour conditions but on budgets\textsuperscript{76}. Trade liberalisation is also associated with a decrease in fiscal revenues and therefore opportunities for recruitment in public services and investment budgets, while the social sectors, health and education have to maintain minimum levels, especially within the PRSPs. The important role played by financial services (e.g. revenues, statistics, customs) in implementing the reforms constrain the external aid agencies to continue giving them aid, but this extends the dependency of administrations on external assistance.

Globalisation imposes greater demands on fiscal policies, especially those aimed at redistribution and equity\textsuperscript{77}, while it may diminish state capacities in terms of social protection\textsuperscript{78}, and therefore state economic and political credibility. Such processes particularly affect the poorest countries, with middle-income countries deriving more benefits out of globalisation. The main instruments for social security, taxation, regulations and public expenditures, cannot provide social protection at the same level as in previous decades\textsuperscript{79}. With declining fiscal capacities, some countries have been unable to pursue their social policies\textsuperscript{80}.

Yet openness is accompanied by a higher demand for social protection, as it modifies the distributive profile of a country and may induce greater inequality - in developed as well as in poorer countries - because it increase the gap between wages of skilled and unskilled workers. This is denied by orthodox theories, for which trade barriers have contributed to maintaining inequalities between different regions of the world and the economic stagnation of SSA being due to inept political regimes rather than to globalisation\textsuperscript{81}.

Open economies have bigger governments, but this relationship is threatened by the international mobility of capital\textsuperscript{82}. An efficient management of openness is associated with the capacity of governments to make significant expenditures to cope with it, as well as with the existence of strengthened and efficient domestic institutions to regulate social conflicts. These institutions help them

\textsuperscript{75} Epstein (2000).
\textsuperscript{76} This attraction through a reduction of taxation seems efficient: existing studies find an average elasticity of the taxation rate of \(-3,3\), i.e. 1% of reduction of taxation increases FDI in the host country by 3,3%, De Mooij and Ederveen (2001).
\textsuperscript{77} Pollin (1998), Hobshawm (1996).
\textsuperscript{78} Deacon (2000).
\textsuperscript{79} This is even recognised by the IMF former head of the Fiscal Affairs Department, Tanzi (2000).
\textsuperscript{80} For example in Zimbabwe, Berg and Taylor (2000).
\textsuperscript{81} Lindert and Williamson (2001).
\textsuperscript{82} Rodrik (1996), Garrett (1999).
to better resist external shocks and the volatility of international prices of commodities, as well as its direct effects on the budgets and income of producers. Despite their weak presence in SSA, trade unions not only cushion external shocks but also reduce domestic inequality. Thus in South Africa, the salaries of white workers are 5 times higher than black workers, but membership of a trade union results in wages for black workers that are 145% higher than for workers who are not members.

6. SOVEREIGNTY, FINANCIAL INTEGRATION, WTO RULES

Financial deregulation and foreign direct investment
IFI reforms promoted openness of financial sectors and capital accounts, financial systems that were more market-oriented than bank-oriented, and international capital flows - portfolio flows and foreign direct investment. The orthodox theoretical justification is that financial deepening has a key role in the allocation of resources, enhances competition, and therefore fosters growth, particularly in developing countries, which suffer from shortages of finance, domestic and foreign, and a lack of credibility since the debt crisis of 1982. Financial liberalisation results in the limitation of the sovereignty of states, in their authority to rule and capacity to exercise this rule. Sovereignty is not necessarily in itself a government’s most valuable priority, but as shown by a vast literature – since Keynes, disintermediation, freeing capital inflows and outflows, and the domination by global financial markets over national monetary, financial and macroeconomic policies, induces systemic instability, financial volatility, sudden capital inflows, capital flight, investment misallocation, and/or exchange rate misalignment. Extreme capital mobility and financial liberalisation leads to the breakdown of barriers between financial markets, the increase in their interdependence, and thus the contagion of volatility across markets and worldwide risks against which national policies are powerless, national monetary sovereignty facing currency deterritorialisation.

Financial crises may also be associated with trade crises, e.g. through exchange or interest rates, or non performing bank loans. Developmental Asian states maintained cautious policies regarding capital accounts and protected specific sectors from foreign competition or entry, e.g. in the banking sector, as in

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86 As shown by the post-Keynesian economists; see Pollin (2002), Felix (1998), Palma (2002).
87 Eatwell and Taylor (2000).
89 Finger and Schuknecht (1999).
Korea during the period of the building of the developmental state. In Korea in the early 1990s, financial liberalisation led to huge flows and a risky mismatch - banks borrowing short and lending long to local firms –, which led to the crisis in 1997\(^9\).

In SSA, when crises occurred in the late 1970s governments responded with controls on imports and foreign exchange. Their failure facilitated the structural adjustment conditionalities that were focused on financial sector restructuring, devaluations, bank liquidations, interest rates and exchange rate liberalisation. In SSA, however, the effects of financial liberalisation are not comparable with East Asia. Despite liberalisation, SSA remains weakly integrated into international private capital markets, as it is perceived as a risky region. In the CFA Franc Zone for example, following the crises of the 1980s, private banks became excessively risk-averse and reluctant to lend to local entrepreneurs - except to well-known TNCs - and prefer to deposit in monetary markets. The number of stock markets is limited, as is market capitalisation, except in a few countries : Zimbabwe, and above all, South Africa (163% of GDP in 2000, to be compared with, e.g., 13% in Côte d’Ivoire or 12% in Kenya). Financial depth remains modest: in 2000, the domestic credit provided by the banks represented 26% of GDP in Côte d’Ivoire, 48% in Kenya, South Africa again being the exception (162% of GDP), to be compared with figures much above 100% in East Asia and high income countries\(^9\). In the domain of investment, the attraction of portfolio investments and FDI have aspects that are beneficial to SSA development. Many state-owned-enterprises were plagued by cronyism, fixed prices policies and social objectives leading to inefficiencies or corruption. Privatisations have sometimes been clearly associated with better service provision or transfer of technology\(^9\). However privatisations and foreign direct investment are generally associated with dependence, especially on the TNCs. The objectives of TNC organisation according to horizontal and, more commonly, vertical integration – e.g. assembly activities - are not the development of recipient countries\(^9\).

The marginal situation of SSA may have been not entirely negative. The 1997-98 Asian crisis that followed the opening of the capital account in the countries of the region has shown that large amounts of short-term capital flows are not always positive and make economies vulnerable to the uncertainties of international capital flows. Likewise, FDI flows - which are considered to be beneficial, stable sources of external finance, and explicitly sought by reforms - appear not to be necessarily positive signals regarding the prospects of an

\(^{90}\) E.g., Agosin (2001), Chang and Yoo (1999).
\(^{91}\) World Bank, *World Development Indicators 2002*, tables 5.3 and 5.4.
\(^{92}\) Birdsall and Nellis (2002).
\(^{93}\) As shown by UNCTAD (2002b).
economy\textsuperscript{94}, even if most SSA countries suffer from problems well upstream of these questions and still have a low capacity to attract such flows. Many SSA states have cushioned these impacts by resisting the requisites of trade liberalisation and not only in order to protect the predatory practices of bureaucracies. Both types of openness, of short-term capital flows and investment, have led to increased financial volatility and instability. Financial liberalisation leads to financial dependence, which may have negative effects on growth\textsuperscript{95} and on the capacity of firms to respond to global shocks, even if it offers more opportunities. The increased volume of capital flows from developed to developing countries did not have the impact predicted by economic theory - specialisation, lower cost of capital, and the development of the financial sectors: very few developing countries have demonstrated that growth could result from investment.

After years of dismissal, the IFIs admit that financial liberalisation exposes developing countries to the volatility of global financial markets and which they are not equipped to handle\textsuperscript{96}. In the late 1990s, the globalisation of financial instability following the Asian crisis affected also the developed countries and therefore obliged the IFIs to start rethinking the issue of global financial regulation, delegation of powers, and surveillance of states’ sovereignty as well as the power of multilateral institutions: the “international financial architecture”. Significantly, among its key dimensions are the increase in transparency – “new golden rule”\textsuperscript{97} and information disclosure both from the states’ financial agencies and IFIs. As for structural adjustment or the WTO, however, the delegation of sovereignty to multilateral institutions is viewed as legitimate only if the multilateralism is perceived as balanced. The international financial architecture has political limits and is a matter of heated debate between the BWIs - their powerful member states with their parliaments and their private firms - and the emerging countries’ governments - an example being the IMF’s role in sovereign debt restructuring. As often in the IFIs responses, the poor outcomes of financial reform are still explained by the governments’ “bad policies”, “weak corporate governance”, lack of transparency, and inappropriate measures preventing them to “reap the benefits” of financial integration, and rarely by the irrelevance of the BWIs interventions.

**Impact of trade liberalisation on state sovereignty**

Countries’ sovereignty is affected by their integration into global trade flows. Since they received independence in the 1950s-60s, developing country

\textsuperscript{94} Hausmann and Fernandez-Arias (2000); warnings were made by Epstein (2000), Hanson (2001).

\textsuperscript{95} Among many others, Rajan and Zingales (1998b).

\textsuperscript{96} Prasad et al. (2003).

\textsuperscript{97} Kahler (2000).
governments oscillated from protectionist, import-substitution and state-led policies to outward-oriented and export-led growth policies. Immediately after independence, the predominant theoretical paradigm was the “big push” by the state and the protection of infant industries, which was reinforced by the weakness of the national industrial sector. Therefore in the 1990s the increased power of multilateral institutions and supra-state rules governing the world trade and financial activities meant for developing countries a radical change in the model of domestic accumulation and regulation. With WTO membership and the obligations of trade liberalisation included in its Agreements, states have less leeway.
for their development strategies. Their sovereignty is restricted by “global
governance”, i.e. the strengthened interaction between multilateral entities,
especially the WTO and the BWIs. SSA states are also members of several
other multilateral and regional arrangements - e.g. the Cotonou Agreement
linking the EU and the ACP countries, or the CFA Franc Zone. They modify
or add new rules onto existing ones, which represent significant costs in human
resources necessary to handle them.

As for financial liberalisation, the question is the one of the “second best”: i.e.
whether a diminution of sovereignty by a global process is worse than one by
global rules and institutions, or whether multilateralism is to be defended as a
preferable infringement of sovereignty which restores equity in a very unequal
world, though its content should be improved. Liberalisation leads not only to
“winners” but also to “losers”98. Since its creation in 1995, the WTO’s mandate
is to integrate countries into the global trading system, relying on the concept
that liberalisation breeds competition and hence fosters growth. It aims at
countering the secular temptation of the richest countries to conduct
protectionist, mercantilist and unilateral trade policies, and at shielding the
vulnerable countries from the major powers that see global regulations as a
hindrance. Poor and small states do not have the means to pursue unilateral
policies and it is in their interest to be integrated into a system based on rules
that imposes obligations on all member countries, rich as well as poor. Poor
countries have been granted periods of adaptation, such as the Special and
Differential Treatment.

For SSA the breach in sovereignty by the WTO’s rules add to a two decade
history of trade openness, while, on the other hand, WTO rules do not
necessarily translate into an effective breach of sovereignty. Trade liberalisation
has been initiated before, which has then has been implemented in parallel with
the rules of the WTO, which may have less of an effect on the trade
performances of countries than what it is claimed by its critics99. SSA trade
liberalisation has been mostly unilateral, implemented as part of structural
adjustment packages, and not the result of binding and reciprocal liberalisation
processes as in GATT/WTO negotiations. Tariff levels in SSA are much lower
than the levels at which they are “bound” in the WTO100.

Initiated in the 1980s, liberalisation in SSA is therefore a multiple tier process,
stemming from different multilateral organisations and affecting various
sectors, industry, finance, trade.

98 This is even recognised by the World Bank (2001).
99 Rose (2002).
100 Elbadawi and Helleiner (1998).
WTO constraints: global imbalances and limited sovereignty over domestic policies

A main criticism of the WTO is that its system of rules is inherently unbalanced and works to the advantage of the wealthiest and most powerful countries. On paper, rules are neutral, as they apply equally to each member state, and in this sense, they act as protective devices for the weakest ones. The WTO’s key mechanism, the Dispute Settlement Body, is, however, used mostly by the developed countries – this bias coming from the fact that small developing countries often do not have the resources or the ability to employ existing dispute settlement mechanisms effectively. As for the other types of multilateralisms, critics highlight the lack of transparency and accountability of the WTO. Moreover, the absence of credible retaliatory threats does not work in favour of the poorest countries. Likewise, some types of rules are used to maintain protection against the products of the developing countries, such as anti-dumping rules. The WTO does not address one of the main flaws in the global trade rules: i.e., while the IFIs constrained the poorest countries to open their markets and lower their trade barriers, the rich countries – the EU and the US - maintained protectionist barriers and limited market access. As highlighted above, the World Bank has “good intentions” and sometimes points to the real determinants of uneven global development; it does not purely reflect the interests of its main stakeholders, i.e. the US and other OECD countries. Against the US and the EU, and in a manner consistent with its prescriptions, the Bank repeatedly insists that rich countries must open their markets to developing countries, as the cost of their protectionist policies goes far beyond their official development assistance – i.e. hundreds of billions dollars - and is extremely harmful for developing countries’ growth.

Another recurrent criticism is that WTO membership and acceptance of its rules imposes severe limitations on the domestic policies of developing country governments, and mainly on political and social policies: on the particular social choices or social contracts that define societies, states, and their mutual relationships. The agreements and the disputes that they trigger penetrate into strategic domains of national economic and social activity, such as production or labour markets. Poor countries cannot compete with products coming from dumping or surpluses from rich countries. With the WTO, the former preferences enjoyed by SSA are eroded and SSA exports face increased competition from other developing countries. The lowering of tariffs will decrease the preference margin from the EU and other OECD countries. The end of the domestic room for manoeuvre is also at the centre of the controversy on the “Singapore issues”, i.e. investment, competition, or market access, and the complex issue of the inclusion of labour rights into the WTO trade rules.

Jebuni and Wangwe (1997).
Selective trade and industrial policies underpinned the spectacular growth of North East Asian developmental states, i.e. Japan, Korea, Taiwan. Industrial policies are a typical expression of economic sovereignty, e.g. sovereignty on instruments like the exchange rate and interest rates, subsidies, preferential lending and barriers to foreign entry into specific economic sectors, or the choice of bank-based financial policies, exploiting bank-firms linkages, rather than market-based policies. WTO rules restrict the use of similar trade and industrial policies, which were significantly coined as “seclusion policies” except in specific domains. This is one of the stakes of the WTO Doha Round negotiations on investment. In SSA, the BWI and the WTO not only do not contribute to the edification of sovereignty, but infringe on its ability to be exercised. In the case of natural-resource abundant states, East Asian post-colonial economies have been able to exit from the primary commodity model at a time where they were not captured by the constraints of BWI adjustment and the erratic sentiments of the international capital markets. Despite their obvious diversity, Asian states optimised the combination of political features – the so-called benevolent dictators -, policies - investment in infrastructures, physical, institutional, educational -, the Cold War international context associated with massive assistance from the US to Taiwan and Korea, and geographic effects stemming from the proximity of Japan and its regional driving effect. In contrast, the assistance to SSA by the former colonial powers has not been developmental and its articulation with domestic features did not result in economic growth.

The key question is the creation of a coherent global system. Trade and financial issues are addressed by different multilateral institutions, although they cannot be dissociated. Developed countries continue to defend domestic liberalisation, competition, and transparency, which are supposed to allow an optimal contribution of capital inflows to economic development. For developing countries – as well as UNCTAD -, the WTO is not an appropriate forum for discussing internal policy issues.

Fluctuations of commodity prices, of exchange rates and interest rates, are the inter-related reasons for global financial instability. Developing countries’ systemic problems and long-term financing needs have not been solved by reforms at the national level associated to a global financial *laissez faire*, and require an integrated, multilateral trade and financial perspective.

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102 Amsden (2001), Bora et al. (1999)
CONCLUSION

There is no a priori relationship between sovereignty and development. Sovereignty can be a factor of anti-development, the intrusion of external agencies can be detrimental to growth, and liberalisation can be a positive opportunity for growth. Asian developmental states are a reminder of the complexity of the relationship between autonomy, sovereignty, dependence, openness, and economic performance. The important issues are the singularities of the formation and the potential re-building of SSA states, as well as their integration into a more balanced multilateral trade and financial system. In different domains, state capacity, public policies, finance, trade, similar tensions and ambivalences characterise the dilemma between sovereignty of states vs. liberalisation.

The link between global trade, finance and reforms that are supported by a development-oriented international rules-based system is a limitation on sovereignty that is demanded by developing countries. In contrast, the actual power relationships and theoretical a priori in the WTO constitute a breach that has no legitimacy for developing countries. In the nexus of global finance and trade, many voices recognise the gains of interdependence, e.g. in technology and learning, and they ask not for fewer rules but for different “global rules of the game”\textsuperscript{103}. This means international regulation and the rebalancing of sovereignty of, respectively, states, markets and multilateral institutions\textsuperscript{104}. This also means reformed multilateral institutions, which use an economic framework that address the root causes of under-development rather than the prejudices of neoclassical theories, in terms of intervention - strengthening developing states rather than supporting illegitimate states -, as well as a more equitable representation of the interests of developing countries.

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