THE AID VERSUS TRADE DEBATE: ARE WE ASKING THE RELEVANT QUESTIONS?

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Abstract

This paper reviews the aid versus trade debate and argues that the debate seems not to be well placed. The paper argues that the issue is not aid versus trade, rather the paper maintains that, though both aid and trade have failed to induce growth and enhance welfare in sub Saharan African (SSA) countries, both aid and trade are required by SSA countries. The paper argues further that the main questions are how to make aid and trade to be effective, growth inducing, and welfare enhancing, and how to make the transition from aid-dependency to trade dependency. Aid and trade should be seen to be complementary rather than substitutes. To this end, the paper proposes certain measures that can enhance the effectiveness of aid and ensure that the benefits from trade can be realized by a vast majority of the people of the continent.

Keywords: Aid, Trade, sub Saharan Africa.
JEL Classification F10, F35

1. INTRODUCTION

That countries use trade to achieve rapid economic growth and reduce poverty is not new in development literature and was made popular by the Scottish economist, Adam Smith, in his 1776 classic work.[1] The experiences of some South East Asian countries since the 1970s have demonstrated that countries can use trade to climb out of low income status. Of course, production is the bases for trade, an economy that intends to participate in the global trading system needs to have a sound production base. Thus, if the issue of trade for growth has been around for the past four centuries or so one might ask, "what is the big deal?" Why do we need further discussion on the issue of trade and aid?

Since the late 1970s, Africa, particularly sub Saharan African (SSA) countries, have been net receivers of western financial aid. There are several reasons for the huge financial aid directed towards African countries in the 1970s and 1980s. First, the late 1970s marked the beginning of the collapse of the prices of major primary commodities traded by African countries. With worsening terms of trade, many African countries require financial support. Second was the effect of the 'cold-war'. The west and the east pumped money into Africa to gain alliances and allegiances. Many African dictators capitalized on this.

Third was the blatant mismanagement of the various economies by ruthless political elites which saw the erosion of the production base of many countries. Many of the African leaders acted in economically irrational ways and there was limited domestic capacity for capital accumulation and utilization. Of course, we should not forget the external debt issue. With mounting foreign debt and limited servicing capacity due to poor export performance, many

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countries, the so called ‘Dutch disease’ was already entrenched.

With the end of the cold war, emergence of new and attractive markets, and rapid financial globalization, Africa was faced with a new reality—the drying up of aid inflows. To attract further financial assistance from donor countries, agencies, and multilateral lending institutions, African countries were required to ‘structurally adjust’. The adjustment process and financial assistance came with some very stringent conditions attached to it. It was called “conditionalities.”

After over two decades of adjusting, many countries have observed that the social cost, and in some cases the political cost, of adjustment is high. The much expected export boost seems to be a mirage while international commodity prices continued their downward journey. Aid flow to Africa is also on the decline (compared to other part of the developing world). The continent is now faced with deteriorating trade balance and declining aid inflow—double calamity. This has led to the debate about what Africa needs to restore growth and get out of the low income status. In general, many analysts are of the opinion that, given recent experiences, trade (and not aid) is the answer. In fact the debate has turned to “trade versus aid” which, this paper argues, should not be so.

This paper sets out to re-examine the debate in the context of contemporary development strategy in Africa and posit that in the short run, both aid and trade are required in jump-starting many economies in Africa. However, the long run sustainable growth strategy would be a transition from aid-dependency to trade-dependency, which requires concerted efforts by both the donors and the recipient countries in order for this to be achieved. The paper further agues that aid should be channeled to enhancing the productive and trade capacity of the African countries. The paper concludes by pointing out that the ultimate challenge rest with African countries which are required to be more pro-active and innovative in exploring alternative sources of development financing and devising mechanisms for optimal allocation and use of resources.

The subsequent sections of the paper are as follows. First I discuss the basic theoretical relationship between aid and trade on the one hand and growth on the other. I then present some stylized facts on aid, trade, and growth in SSA countries. The paper then goes ahead to discuss some of the important reasons why aid and trade have failed to impact on growth and welfare in SSA countries and make some realistic suggestions on the way forward. The final section concludes the paper.

1.1 Theoretical Considerations

1.1.1 The Aid-Growth Relationship

Generally speaking the development literature is not clear about how aid is suppose to affect economic growth however, researchers have justified the aid-growth relationship by resorting to the
famous ‘two-gap’ model of Chenery and Strout (1966) which itself is an extension of the famous Harrod-Domar model of growth.[2] The model develops from a simple national income identity as follows:

$$Y = C+I+X-M \qquad (1)$$

Y is GDP (gross domestic product). Here note that government expenditure, G, is included in consumption, C, (private and government) and investment, I, (private and government). X and M are, respectively, export and import of goods and services. The gist here is that to reach the desired GDP growth rate (g), I and net exports (X-M) must reach certain levels. Domestic savings, S, is required to finance I, and M is required to make certain imported capital goods

$$Y-C-I = X-M \quad (2)$$

If we let S=Y-C, then we can write equation (2) as;

$$(S-I) = (X-M) \quad (3)$$

Here come the savings (S-I) and external (M-X) gaps. Note that these gaps are not additive. In other words, the government should do its best to cover the largest of the two gaps (whether the domestic or foreign gap), once the largest gap is covered, the other will not form a problem. If the government successfully determines the larger of the two gaps and the required amounts to cover it,

2 It is important to state that the famous Economist Walt Rostow in his 1960 book also described how aid can be imperative in mobilizing savings to generate sufficient investment for growth, thus reducing domestic capital constraint (Newark 1995: 228).

then the means to finance must be found. The most commonly used are foreign borrowing and foreign direct investment (FDI).

Over the years, African countries, particularly SSA countries, have relied on foreign borrowing to cover for the gap. Foreign direct investment flow to Africa in general has been very poor. FDI flow is mainly to the mineral extractive sub-sector. With mounting debt burden, poor export performance, and poor FDI flow, the only way to finance an external gap is through foreign aid.

1.1.2 The Trade-Growth Relationship

The trade-growth relationship is anchored to the general Ricardian framework/model of international trade. This model suggests that, given technology and preferences, under perfect competition, trade will lead to growth and improved welfare based on comparative advantage.
Comparative advantage can come from different sources such as productivity, technology, cost, factor endowment, and so on. I will not pursue this issue further here.[3] What is to be noted is that the pure theory of trade suggests that, under certain conditions, trade is growth inducing and welfare enhancing.

It is a well known fact that SSA countries' capacity to export has not improved significantly in the past 30 years since 1970. Coupled to this is the collapse of international commodity prices. Hence, SSA countries are faced with worsening terms of trade. This implies that, over the years, many SSA countries could not finance their external gap (X-M) through export, thus, the increasing reliance on external debt and foreign aid to finance the gap.

a. Aid to Growth

Several empirical studies have been carried out to examine the impact of aid on growth. Due to severe data limitations, most of the studies done in the 1960s, 1970s, and 1980s were very inconclusive. There was also the problem of specifying correctly the mechanism through which aid impact on growth. An extensive review of the literature can be found in Hansen and Tarp (2000) and Clemens et al. (2004). It should be emphasized that recent interest in the subject was sparked by the work of Boone (1996) which observed that aid finances consumption rather than investment suggesting that aid is not effective in stimulating growth. The paper introduces some political variables as determinants of aid thus avoiding the issue of reverse causation. Burnside and Dollar (2000) study examine some of the skepticism observed in Boone (1996) and also attempt to forge a consensus. Researchers that have shown interest in this subject include Hansen and Tarp (2001), Dalgaard and Hansen (2001), Guillamont and Chauvet (2001), Collier and Dehn (2001), Lensink and White (2001), Collier and Dollar (2002), and Easterly (2003). Essentially, the studies were some kind of variant of the Burnside and Dollar (2000) by introducing additional variables such as the square of aid, terms of trade shocks, variability of agricultural output and exports and such other variables as interactive term combining aid with terms of trade shocks.

It should be observed that some of the studies confirm the position of Burnside and Dollar that aid is effective only under a good policy environment, while others studies observed that when some other variables are introduced into the model, the coefficient on the interaction between aid and some policy variables approaches zero and in many cases becomes statistically insignificant. However, Easterly (2003:26) points out that "This literature has limitations: how to choose the appropriate specification without guidance from theory, which often means there are more plausible right-hand side variables than there are data points in the sample." In a recent study, Rajan and Subramanian (2007) found little robust evidence of a positive (or negative) relationship between aid inflows into a country and economic growth. The paper also found no evidence that aid works better in better policy or geographical environments, or that certain forms of aid work better than others. The study concludes by suggesting that for aid to be effective in the future, the aid apparatus will have to be rethought. In sum, recent studies are also inconclusive about the impact of aid on growth.

b. Trade to Growth

The literature on trade and growth is enormous and I will not attempt to review all here. However there are some influential papers on the subject which I would like to discuss their major findings. First, it should be pointed out that, though related, there is a clear distinction between trade policy (openness/liberalization) and trade itself. However, in many studies, this distinction is blurred. I would like to maintain the distinction in this paper. A good survey of the literature on openness and growth through the late 1980s can be found in Edwards (1993) which argues that much of the studies have been plagued by empirical and conceptual problems. Furthermore, the paper argues that the issues of endogeneity and measurement errors are not well dealt with in most of the studies making the results very fragile, unconvincing, and inconclusive. Berg and Krueger (2003) provide a more recent survey of the literature. The paper poses two important questions—is trade openness an important determinant of growth and is the growth that is associated with trade liberalization particularly pro- or anti-poor? Rodríguez and Rodrik (2000) argue that a large body of literature provides an affirmative answer to the first question. Berg and Krueger (2003) also demonstrate that increases in openness to trade are an important contributor to growth. Other influential contributions to the subject include Dollar (1992), Sachs and Warner (1995), Edwards (1998), Frankel and Romer (1999), Lee (1993), Harrison (1996), and Wacziarg (1998).

In general, many of the studies examining the differences across countries in the level of output per endogeneity is taken into consideration. Most of these studies are based on cross-country and panel regressions. Some other influential ones with the same submission include Barro (1997), Alcala and Ciccone (2001), Barro and Lee (1994), Easterly and Levine (2001), Dollars and Kraay (2001), Dollar and Kraay (2002), Irwin and Tervio (2000), Islam (1995), Sala-i-Martin (1997), Hall and Jones (1997), Frankel and Rose (2000), and Greenaway et al. (1998).

In terms of trade per se (as against openness), some influential studies include Frankel and Romer (1996, 1999) and Levine and Renelt (1992) who have found modest positive correlations between growth in per capita income and trade share and interpreted the correlation as causation. Barrows (2004) argues that the simultaneity bias issue is a major draw back of many of these studies which can make OLS estimations to overstate the effect of trade on growth of per capita income. The Frankel and Romer (1999) study instrument for trade using geographic characteristics of a country. However, Barrows (2004) argues that omitted variable problem could still exist if growth is determined by these geographic factors.

Due to the inconclusiveness of the literature and the barrage of criticism trailing many of the adopted methodologies and manner of measuring the various variables, there seems to be a qualification of the findings of the openness/trade and growth relationship. The submission now is that, generally, more exposure to international trade may cause faster economic growth, but does not always and necessarily do so, and the determinants of whether trade is good or bad for growth are institutions and other economic policies (Whao!).

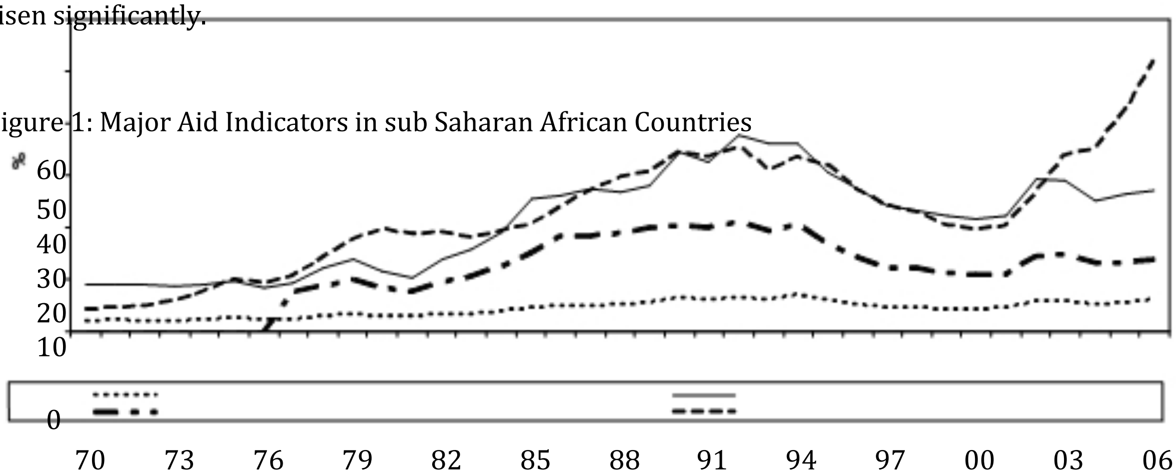
The qualification is suggesting that if a country is getting other manners of (socio-political and) economic policies basically right, and has reasonably well-functioning government and institutions, then we should expect trade (liberalization) to enhance growth and development thus raising the quality of life for many more people than it harms. However, if a country only liberalizes trade and does not get things right in terms of other policies, increase trade liberalization by itself could make many more people worse off than it makes better off. This line of argument can now be found in more recent literature such as Wacziarg and Welch (2003), Baldwin (2003), Bolaky and Freund (2004), Chang et al. (2005) and Balat and Porto (2005) among several. There submission is that trade liberalization in itself cannot ensure growth unless some other complementary policies are up and running well.

2. AID, TRADE AND GROWTH IN SSA COUNTRIES: SOME STYLIZED FACTS

In this section, I make a brief presentation of the trend in major aid, trade, and growth indicators in sub Saharan Africa countries. I attempt to match the behavior of the indicators with major findings in the empirical literature.

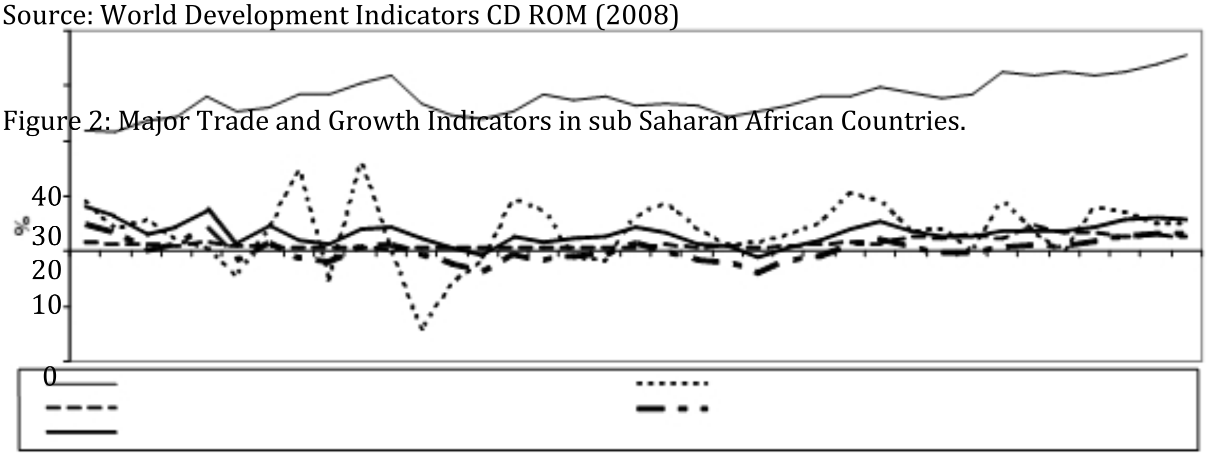
Figure 1 shows the trends in major aid indicators in sub Saharan Africa from 1970 to 2006. The data includes figures for Nigeria and South Africa. It can be observed that since the late 1970s when the international prices of primary commodity exports collapsed, through the structural adjustment
program (SAP) era and up till the late 1990s, all the major aid indicators suggest massive aid flows to SSA. Of interest is the fact that aid per capita has continues to rise since 2000 while other indicators tend to have stabilized. Though aid as a percentage of gross national income (GNI) has not been too high, the figure has approached about 8 percent since the mid-1980s. Aid as percentage of import of goods and serves have averaged about 17 percent since the mid-1980s,
while aid as a percentage of gross capital formation as averaged about 28 percent since the mid-
1980s. Of course the figures are averages as there are both upper and lower outliers. However, a tentative conclusion here is that since the late 1970s, on the average, aid flow to SSA countries has risen significantly.

Figure 1: Major Aid Indicators in sub Saharan African Countries



Source: World Development Indicators CD ROM (2008)

Figure 2: Major Trade and Growth Indicators in sub Saharan African Countries.



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Exports of goods and services (% of GDP) Exports of goods and services (annual % grow th)
Foreign direct investment, net inflow s (% of GDP) GDP per capita grow th (annual %)
GDP grow th (annual %)

Source: World Development Indicators CD ROM (2008)

Figure 2 presents trends in major trade and growth indicators in sub Saharan Africa. It can be observed that export of goods and services as a percentage of gross domestic product (GDP) has been relatively stable since the 1970s. A major reason for this is that the structure of production and export has not changed significantly in these countries. SSA countries have continued to produce and export those (primary) commodities they have been exporting since independence in the 1960s. Figure 2 shows further that the growth of export of goods and serves has been very volatile over time and on the average it has been close to the x-axis (meaning close to zero growth rates). A similar pattern can be found for GDP growth and GDP per capita growth. Foreign direct investment as a percentage of GDP shows a trend that is similar to the others.

Essentially, what Figure 2 is showing is that over time output growth, output per capita growth, export growth, and FDI share in output have all been very low in SSA countries. This definitely implies that external gap in SSA countries can only be covered by borrowing or aid flows, as export performance have been very poor and erratic. Despite the massive aid flow since the late 1970s, GDP per capita growth and GDP growth have remained poor. Trade itself has not improved significantly. Thus, one can safely conclude that BOTH aid and trade failed to impact significantly on growth and enhance welfare of majority of the citizens in SSA countries. Why? This is the kind of question we should be asking and providing answers to. This I turn to presently.

3. WHY HAVE AID AND TRADE FAILED IN SUB SAHARAN AFRICA?

First, I would like to briefly present some of the main expected common benefits/drawbacks of both aid and trade before evaluating some of the plausible reasons why both have failed in SSA countries. The list is by no means exhaustive.
Aid in Africa

- Expected Common Benefits

  - During or after calamities (and emergencies) such as wars, earth quacks, floods, droughts, and so on, it is a quick way of saving lives and can offer a quick solution to the problem.

  - Experience since independence shows that it is a subtle way of demonstrating cares—champions of the underdog—thus encouraging friendly relations.

  - Aid can and has been used by many countries to cover fiscal gaps and even external gaps.

  - Aid has been given to group of countries to ensure and maintain regional security.

  - The recent Chinese approach shows that aid may be used to achieve long-term growth (and may be effective if it is without conditionalities), thus aid can be a 'win-win exchange' and of 'mutual benefit.'

- Common Drawbacks

  - First, it should be noted that aid comes at a cost to the donor countries/institutions. How sustainable this can be is debatable.
  - Experience over time has shown that the potential for mismanagement by the recipient country is high. This is responsible, in part, for the various conditionalities.
  - Grants and no-interest forms of aid can easily amplify the dependence relationship of the recipient country on the donor country.
  - It can be used as a tool by the donor countries for (international) political leverage.
  - The amount of aid that a country can have access to is supply-constrained. This implies that the donor countries decide how much you get, how you get it and when you get it.
  - With several SSA countries cap-in-hand, aid cannot go round—first come, first served, thus there is no guarantee that a country will get it.

Trade with Africa

- Expected Common Benefits

  - In a competitive market system, it represents an efficient method of resource allocation.
  - It is a sustainable way of financially empowering the populace.
  - With sustained growth in trade, it lessens dependence upon aid, thus reducing the effect of the drawbacks of aid.
  - It can be a 'win-win' relationship, thus leading to equitable relationships among countries.
  - A sustainable tool for achieving growth (and equitable distribution of income).

- Common Drawbacks

  - To trade, you have to first produce, and given the nature of goods produced by SSA countries, benefits may take a long time to materialize.
  - Trade usually requires large amount of capital (production, export, and standard).
  - The risks are sometimes enormous—price collapse, crop failure, income fall, and so on. The effect of such phenomena can sometimes be economy-wide and lasting.
  - It is not a veritable tool for assisting all the disadvantage people in the society (there are always domestic losers and winners in trade and trade policy reform).

Now I turn to address the issue of why aid and trade tends to have limited impact on growth in SSA countries. First on the issue of aid, the following can be observed:

- One can safely argue that the main and underlying aim of giving aid (in the absence of catastrophes and urgencies) is to help create and promote sustained growth and bring about structural transformation of the economies of the recipient countries (Salam, 2008). However, Salam (2008) was quick to point out that in most, if not all cases, both the donor and recipient countries have conflicting interest and both interest further contradict the aim of giving aid, and as a result aid fails. As it is generally said 'there is no free lunch', thus there are usually economic and political motivations for donations. This is why some analysts doubt the political and economic 'neutrality' of Chinese aid to SSA countries (the one-china position is an example).

- Most of the subtle conditionalities attached to aid are actually inimical to growth in SSA export of the donor country, easy access to raw materials, and opportunity for FDI. The investment made by firms from the donor countries are actually investment in the mineral extractive industries and other areas that supply raw materials to the donor countries. These kinds of aid and investments have little or no impact on technology transfer, sectoral linkages, and employment in the host country. The rapid growth of China implies huge demand for raw materials and other inputs. This, some analysts claim, explains the need for the romance between China and SSA countries.[4] Easy access to domestic market by foreign exporters of final consumer goods will make nonsense of any industrialization drive of SSA countries.

- What aid actually finances? Many studies have attempted to provide answers to this question. The nature of aid utilization is very important. First, many analyst argue that the fund itself does not leave the donor countries as it is used to make purchases in those countries (and even service exorbitant personnel cost of expatriates attached to aid projects). Second, where it is used to off-set fiscal gap of the recipient country, the gap itself was created by expenditures on unproductive activities like prosecuting wars and conflicts, financing final consumer imports, maintaining dictators in power, financing the consumption behavior of local elites, and so on. Thus, aid finances activities that are not growth-inducing or welfare enhancing.

- Related to the above is the issue of out-right embezzlement and mismanagement by all those local officials responsible for administering the aid. This is a common phenomenon in SSA countries. Simple put, the money just goes down the drain. Efforts to institutionalize transparency and accountability in the usage of aid have met with stiff resistance from the local bureaucrats.

- As it is evident from the empirical literature, the recipient countries do not (and are not willing to) put in place complementary policies and measures that would make aid work better.

- Limited domestic capacity to absorb and administer aid. It is the case that after such crisis as wars, conflicts, and so on, donor countries rush aid to the affected countries to help in reconstruction. However, such countries emerging from wars do not have the required administrative and institutional capacity to manage the funds. Those were actually what the war had destroyed.

- The 'cold-war' was another major reason why aid was not effective in SSA countries. Donor countries pumped huge amount of money into Africa just to gain alliances and allegiances and not for the genuine development needs of the sub continent. Of course, this represents a cheap source of funds for irresponsible leadership style that pervaded the continent at that time (and up till now?) Thus, many countries spent the funds frivolously knowing that more would come. With the end of the cold war, we might think that things would change. The current 'aid-challenge' that China is given to the traditional western donors might bring about a subtle 'aid-competition' reminiscence of the cold war type. Again, this is good for SSA countries, but would we learn from history?

In terms of trade, there are several reasons why trade and trade policy reforms have not translated to rapid growth in SSA countries. The profound ones can be discussed as follows:

- IIn any policy reform measure, there are winners and losers. The questions here are which group is the major loser and how strongly are the members of the group affected? The inability of policy makers to provide answers to these questions has made trade and trade policy reforms to have limited impact on majority of the people. In SSA countries, it is paradoxical that the vast majority of the poor are the main losers from trade and trade policy reform. The benefits of trade hardly trickle down to the majority of the people. The ruling elites are the major beneficiary of the gains from trade.

- The state of institutions, markets, infrastructure, and integration. There exist fundamental institutional and market imperfections in SSA countries which retard the growth of trade among African countries and further diminish the chances of reaping the potential benefits from trade and trade policy reform. The poor state of infrastructure and existence of major market imperfections have made SSA countries less competitive globally and impaired intra-African trade. In many cases business and labor regulations do not attract the necessary investment that would promote production and export.

- One important question that would readily come to mind is what are SSA countries actually exporting? Analysis of SSA export shows that most countries rely on one or few primary commodities for foreign exchange earnings. These commodities (or minerals) are explored, extracted, processed and exported by multinationals in which the host country has little or no interest. The prices of these primary commodities are further determined outside the control of the exporting countries. There is little or no value-added in the process of extraction and exportation. In most cases, the level of trading becomes largely determined by prices rather than volume. For example, the substantial growth rates SSA countries recorded from 1997 to 2007 were largely due to favorable commodity prices rather than increase in trade volume. In fact, the growth was driven largely by the major oil exporting countries.

- Also, due to poor infrastructure and low value-added, SSA countries have had to contend with the issue of market access. The advanced economies, due to one reason or the other, have imposed stringent standard to be met by exporters from SSA countries. Basically these standards are as a result of the nature of goods exported by SSA countries. Countries that rely on export of primary agricultural produce are worst affected.

- Role of the state/government. In general, societies work hard to create what is usually referred to as development-oriented states. It is debatable if this is the case in most SSA countries. Recent empirical literature on trade and growth suggest that complementary policies are required if the gains from trade are to be realized by SSA countries. However, the basic issue here is why governments of SSA countries are reluctant to put in place those complementary policies. Bureaucratic bottlenecks, inconsistent policy stance, compromised judiciary, corruption, and so on, are major attributes of the state in many SSA countries. It can be argued that with well-functioning complementary policies to promote trade, the 'economic rent' enjoyed by some public officials would disappear. Hence, even when governments know what to do, they are reluctant to do it. For instance, one wonders why many SSA countries still retain certain business and labor regulations that are inimical to trade and investment. Of course, there are bound to be some opposition to reforms, for ensure that losers are protected/compensated in some ways.

4. WAY FORWARD AND AGENDA FOR ACTION

As it is widely reported, aid has produced so few successes and so many mistakes. In this paper, I have tried to argue that the issue is not aid versus trade, but rather SSA countries require both aid and trade. The basic issue is how to make aid and trade beneficial to the vast majority of the people. How can SSA countries use both aid and trade to get out of the poverty cycle? How can aid and trade be growth inducing and welfare enhancing for the vast majority of the citizenry? After all, if the Marshal Plan can work in Europe, why not Africa? There is no doubt that many SSA countries do not have the internal capacity to mobilize resources for investment. Infrastructure is poorly developed, markets are small and underdeveloped, and institutions are weak and fragile, then it becomes difficult to neglect the role of aid in jump-starting many economies in Africa. It must be pointed out that most SSA countries have many incentive packages to attract investment and promote trade. However, investment and trade are not responding appropriately. Most foreign investments are directed to the extractive mineral and the telecommunication sub sectors. So what must be done to make aid and trade growth-inducing and welfare-enhancing? First, I discuss aid.

- Learning from history. A growing consensus in the empirical literature is that aid works better when the recipient country puts in place complementary policies that ensure genuine commitment to and pursuance of sound economic management. Without this, aid will be wasted. Aid succeeded in Botswana due to the entrenchment of sound economic management measures. Aid failed in Zambia due to the absence of such measures. Sound policies and institutions increases the chances of aid being effective. Such measures include, but not limited to, fiscal discipline and transparency, pursuance of low inflation, liberal trade and exchange rate system, investment-friendly business regulations, sound judiciary, and labor laws that are not discouraging to investors. It should be observed that just having good policies is not sufficient to ensure success. The policies must be soundly administered and managed. Aid should complement rather than crow-out private investment.

- Rethinking aid priority. In the absence of emergences, what should be the long term aim or goal of aid? Donors should make growth, wealth creation, and poverty reduction their priorities. It makes no sense for donors to distribute millions of dollars of free religious books and material and think such aid would stimulate growth and reduce poverty. With the end of the cold war, strategic considerations for giving aid should be relegated to the background. The largest recipient of American aid in Africa is Egypt—simple because it recognizes Israel. In many cases in SSA countries, aid usually favors allies and ex-colonies.

- Research and appropriate aid-targeting. In many cases, aid flows to African countries have been badly targeted either due to deliberate foul-up by donors or absence of proper research on the needs of the recipients. In the late 1990s, it was reported that starving Somalis were given heartburn pills. There are records showing that Mozambican peasants have been presented with high-heeled shoes. It is also on record that a fish farm built in Mali from aid was built on a canal that is dry for half of the year.[5] Poor or lack of research has made aid to be wrongly managed and targeted.

- Rational economic decision-making process. It is no news that most governments of most SSA countries act in economically irrational ways in aid and economic management.

5 The Economist (2006). www.er.uqam.ca/nobel/r16374/teaching/Lausanne/Docs/Economist_OnAid.pdf

Corruption, dishonesty, incompetence, and outright irrational economic policy measures have contributed in no small way in making aid ineffective in Africa.[6] The machinery for receiving, administering, monitoring, and evaluating aid needs to be improved upon. More transparency and accountability are required. The Chinese approach of project-aid is an encouraging sign. In many cases, instead of cash gift, China engages in construction of dams, agricultural projects, roads, rail lines, and so on. This is likely to increase the 'winwin' situation. Emphases should be on sustainable aid projects. In the long run, the recipient countries must improve on their administrative, institutional, and human abilities to manage aid and the overall economy effectively.

- Inclusive and participatory growth strategy. SSA countries should ensure that all the members of the society are included, participate, and benefit from the growth process. This will reduce the chances of agitation, conflicts, and wars which are likely to make aid ineffective. It is on record that a large consignment of vaccines was destroyed in the Democratic Republic of Congo due to sabotage activities of Rebels who cut the power supply to Kinshasa thus shutting down the refrigerators where the medicines were stored.
  Prosperous countries like Cote d'Ivoire and Kenya are trying to recover from some unwarranted domestic conflicts. Somalia seems to be a permanent tragedy. Wars and conflicts would only reverse any gains from aid.

- Ownership of development process. It is important that the poor people in the recipient countries be made the driving force of their own development. The various community members know the projects that would benefit them more and if they are part of the implementation, the success rate would be higher. It becomes imperative that donors should not tie aid to measures that benefit themselves over the poor people they are expected to help. Coupled to this, donors need to eliminate those stringent and harmful conditions placed on aid. Of course, this will be easy to achieve when recipient countries better manage the funds given.

Next, I discuss some issues that are important in making trade growth-inducing and welfareenhancing in SSA countries:

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- Trade to achieve what? Trade should be targeted at getting the vast majority of the people out of poverty and be development-oriented. In other words, SSA countries should aim at promoting trade in what the poor produce and ensure fair returns to the (poor) producers.
  The absence of this, is in large, responsible for the continued high poverty rates in most oil (and solid mineral) producing SSA countries. They trade in commodities that are not produced by the vast majority of the (poor) citizens, thus making the political and economic elites to be the main beneficiaries of trade.

- Value-added and Diversification. The trade base of SSA countries is very narrow. SSA countries need to increase both the range and quality of the products they export. There are significant benefits to be reaped from moving from exporters of few raw minerals and primary agricultural produce to exporters of varied semi-industrial, agro-allied, and who can add value to primary commodities. Diversification has the added advantage of minimizing the effect of terms-of-trade volatility. Thus, Africa requires faster growth across the agriculture and manufactured goods sectors. This can only come about with appropriate macroeconomic policy framework and environment. SSA countries do not necessarily have to manufacture a whole industrial good, e.g. a car, rather they can specialize in manufacturing high-quality components of the whole.

- Building Trade (and trade-related) capacity. Available evidence suggests that Africa's share of world exports declined from 4 percent in 1980 to 1 percent in 2003. Why? The main reason is diminished capacity to produce and export due to factors like poor infrastructure, institutional weaknesses, and commodity dependence, among several. A part solution is aggressive and major investments in trade-related capacity building, infrastructure and improvements to the investment climate.[7] Furthermore, most of the aid being given to African countries can be used to enhance trade capacity—aid for trade. This is the focus of Chinese relationship with Africa. The role of wars and civil conflicts in the destruction of infrastructure in the last 3 decades cannot be overstated. Enhancing value-added in agriculture in particular requires well-functioning infrastructure like electricity, storage, transportation, communication, and so on.

- Regional Integration: From talk to walk. Not only has Africa's share of world trade declined significantly since the 1980s, intra-African trade has also suffered major decline due to lack of infrastructure and poor integration. Africa countries are only paying lip-service to the whole issue of regional integration. With increasing competition from Asia and South America in traditional European markets, African countries may need to rethink the whole idea of the current rhetorical approach to regional integration and get more serious.

- Support of the West. In order for African countries to add-value to trade and encourage diversification it requires the advanced countries to reduce and subsequently eliminate some of the obstacles they impose on African countries, such as deliberate tariff escalation, strict rules of origin, subsidies, and standards. Western countries promises to change trade rules and boost aid that helps African countries trade should be fulfill. They need to grant African countries greater access to their markets.

- Above all, Africa must wake up and start doing what it is expected to do—become more pro-active and innovative in resource mobilization and utilization.[8] Africa must start to vigorously explore other sources of development financing, e.g. micro-credit. Africa should learn to be more prudent in resource allocation, utilization, and economic management, ensure policy consistency, increase quality of governance, stop the politics of marginalization and exclusion, and invest in human and social capitals. After all, a people cannot develop above their level of knowledge and mentality.

5. CONCLUDING REMARKS

Sooner or later, with task completed and well-done, donors would have to pack their bags—it is already happening in Botswana. But before then, aid is needed in Africa at least into the medium term. Sustained growth and development would depend on moving from aid-dependent to trade-dependent economies. The effective use of aid and eventual reliance on production and trade to drive growth and development would depend largely on the commitment of the recipient

To trade, you need to make productive investment in plant and equipment. The basic questions are how do African countries make aid and trade growth inducing (and welfare enhancing)? How do SSA countries move rapidly from aid to trade? How do SSA countries make the necessary investment that would lead to beneficial trade? African countries need to be more pro-active and innovative in resource mobilization and utilization. Economic management has become very scientific and global in outlook, thus requiring sound judgments from economic managers. African countries cannot afford to have the leadership styles they witnessed in the 1960s to the 1990s (which is continuing in many countries). Already, the continent is behind in meeting the Millennium Development Goals (MDGs) and the current global economic slowdown is an indication of what to expect. Western donors are experiencing severe domestic economic slowdown that is putting much pressure on public resources implying that aid commitments would definitely not be fully fulfilled. Thus, any little assistance given must be judiciously utilized. In as much as funds are needed for development so are good ideas, advices, and best economic management practices. The quality of governance needs to be urgently improved so that African states can rapidly become development-oriented states. Human capacity building for sound economic management can take a long time to develop, however, Africa can make use of her citizens in the Diaspora. This requires that the right environment should be created so that they can contribute their quota in the development process and make investment opportunities to abound. One cannot but ask—would Africa lose this century?

7 There would be substantial benefit if Africa can, once again, reach its 1980 level of world export share.

8 It is hoped that the current global financial crisis would force this imperative on African countries. The cris implies that aid budgets of donors would definitely not be met.

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