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AFRICAN TRANSNATIONAL ENTERPRISES (ATNEs), COLLECTIVE PLANNING AND ECONOMIC COOPERATION

AFRICAN TRANSNATIONAL ENTERPRISES (A.T.N.E.s.), COLLECTIVE PLANNING AND ECONOMIC COOPERATION

This paper is about approaches to establishing African Transnational Enterprises: public, private or mixed. However, given the African countries' stage of development, social, political and economic organisation, a major portion of the initiative towards establishing such enterprises falls on African governments, whether individually or collectively, directly or indirectly. Governments not only have the power to initiate public bus enterprises, but can also foster greatly both public and private enterprises through its regulatory and policy setting powers.

In this paper the scope, framework and launching pad suggested for the A.T.N.E. is the African Economic Community prescribed by the Lagos Plan of Action. It is argued here that the Community should firstly be immediately established since it is highly unlikely that it would materialize as a culmination of the evolution of present sub-regional economic cooperation groupings; secondly, it should take a new course based on the launching of autonomous A.T.N.E.S. with emphasis on production. This is in sharp contrast with the present arrangements based on intergovernmental bodies, and trade liberalization. It is argued that this latter approach can only complement the former.

To achieve the goals of the paper, the approach, combines an analysis of economic development in Africa with an assessment of regional cooperation and industrial organization. It pinpoints the potential pivotal role of A.T.N.E.s in future cooperation and development in Africa.

The paper is divided into two parts. Part I highlights the pattern of growth - macro and structural - of the African Economy since the early 1970's. It points out that growth has been decelerating and internal and external imbalances rising to an unsustainable level. A substantial reorientation is becoming more imperative than ever. In this regard it is suggested that there is a need for enhancing the role and contribution of domestic markets to overall economic growth. But given the structure of the African economies, their small size, factor endowments, complementarity, etc., sub-regional and regional cooperation becomes a basic component for achieving the above goal.

Part II provides a discussion of the highlights of the present sub-regional arrangements, and potential projects. It concludes by pointing out their inherent inadequacy taken by themselves, and suggests the need for a reorientation and a new complementary approach based on joint enterprises and cooperation in production via the establishment of A.T.N.E.s.

This is followed up by a discussion of the prescribed A.T.N.E.s. It also assesses potential sources of financing them and their management systems.

I - MACRO BALANCES AND STRUCTURAL CHANGE

Proper analysis of economic development in Africa requires a comprehensive view. The continent - a young one comprising many states who acquired political independence only recently. Therefore, it is not only the production sector which is undergoing change but so are the social, political and governmental systems with major consequences for both the socio-economic organization of production and - accordingly - of economic policies. Given the fact that many African countries gained their independence in the 1960s and that the development of their superstructures was arrested and often lagged behind production and physical infrastructures, of the primary sector, the post 1960s have been characterized by a rapid pace of socio-political changes. This naturally affects the economy and explains occasional inadequacies in policies and economic performance in general.

Statistical evidences regarding past growth show that since the early 1970s the rate of growth of real output has been steadily declining. Compared with a base line rate of growth of over 5.0% per annum during the period 1960-73, growth declined to an average of 3.0% in 1973-79, and with the turn of the 1980s it declined one more to less than 1%. This is in contrast with a steadily rising population growth reaching a rate of over 3% since the turn of the eighties.

The declining rate of output growth was also accompanied by worsening external and internal imbalances. During the period 1970-82, the balance of trade shifted from a surplus of $1.0bn in 1970 to a deficit of $15 bn in 1982. The internal imbalance increased pari passu with the external one through declining savings. The share of national savings in GDP dropped from over 13% in the early 1970s to less than 7% in recent years.

The external and internal deficits were financed through varying combinations of external borrowing and deficit financing. Accordingly, the long-term external public debt alone increased from less than $10.0 bn. in 1973 to $127 bn. in 1982, and $118 bn. in 1983. The debt service reached a level of $17 bn in the same year.

With regard to structural changes, there has been no significant changes towards diversification of production and trade. Primary production continues to dominate, accounting for circa 50% of GDP while the share of manufacturing is less than 10%. The structure of exports reflects that of production with primary exports constituting more than two-thirds of total exports and exports of manufactured goods accounting for less than 10%.

No less important is the pattern of spatial growth. One of the major problems of the African countries is the skewed spatial pattern of production and population allocation in relation to other resources. Population concentration has, in particular, led to intensive agricultural land cultivation, soil erosion and a decline in agricultural land productivity in the presently cropped areas, while new cultivable lands lay fallow. This along with unfovable climatic factors underly the witnessed trend towards decline in production and dependency on food imports. Developments in the last fifteen years have not, in any substantive way, contributed to a better spatial allocation of resources and utilization of resource capacity.

The macro underpinnings of the above-described patterns of growth and structural change could, in historical retrospect, be briefly described as follows. The oil price rise beginning in 1973 coincided with rising international food prices and an inflationary trend. This led to an unprecedented rise in import prices of African countries and declining terms of external trade in general. The income effect of the worsening external terms of trade was prevented from running its full course thus leading to internal price rises, declining income and consumption levels, and rising production costs and prices. In certain cases, it would have reduced the standard of living and consumption by one-half, which was felt to be politically not desirable. Governments absorbed the external shock through a massive programme of subsidization. This naturally led to a multiplication of budget deficits on current account and a decline in aggregate savings.

The case of African oil-exporting countries - mostly in North Africa with only Nigeria and Gabon in sub-saharan Africa - was different. The rise in import prices was more than compensated for by the rise in oil export prices and earnings. However, while the oil sector's surplus allowed for accelerated capital formation, it likewise led to rising wages in the face of declining labor productivity, consumerism, rising imports and a host of production bottlenecks. It was not long before their external balances started, once again, to show deficits.

As for the majority of African oil-importing countries, as well as other external resources were available to finance the emerging and internal imbalances. The petro-dollar surpluses of the oil-exporting countries were recycled through the international financial system - including commercial banks - towards financing the external deficits of the LDCs including the African ones. This was supplemented by increased external official development assistance and, to a lesser extent, foreign direct investment. The outcome is a surging external indebtedness with an accumulated long-term debt amounting to circa 50% of the continent's aggregate GNP.

The above-described developments culminated in the emergence of a New African Economic Order and set of policies which are unsustainable. Namely, production, trade, income distribution and consumption structures as well as a set of underlying policies emerged and are based on massive external resource inflows. A widened gap between productivity, wages and income on the one hand, and between consumption, investment and domestic resources on the other, made the newly emerging economic order unsustainable. This is particularly so in the light of the present world economic contraction and underlying policies.

The crisis in the international economy, has led to declining financial resource allocations to LDCs, including African ones. The recession in OECD countries as well as a trend towards policy retrenchment reduced official development aid (at least in real terms). The drying up of oil surpluses accentuated by the recent decline in oil prices has also led to a parallel drying up of OPEC aid. Lastly, the economic crisis in Africa and the future uncertainties clouding the African economies, resulted in absolute declines in foreign direct investment.

Reversing the above negative trends, which are by no means sustainable as mentioned earlier, would require a complete reorientation of the African economy at both aggregate and structural levels. To achieve such goals, major efforts to mobilize both internal and external resources, and to rationalize economic policies in keeping with objectives became inevitable.

With regard to augmenting external resource inflows, the international environment does not seem to be favorable. The end of the recession in OECD countries, particularly Europe, is nowhere in sight. Furthermore, the policy objectives of these countries seem to be moving away from reflationary policies for fear of their inflationary consequences aiming instead at a moderate growth.

It is therefore warranted to conclude that the brunt of adjustment to the new internal and external conditions besetting the African countries will have to fall on internal policy adjustments rather than on augmented external resource inflows. This is the case - at least for the short and medium runs. This may incidentally be for the better given the continent's proclaimed commitment to greater self-reliance as called for in the Lagos Plan of Action and other African pronouncements.

II. AFRICAN TRANSNATIONAL ENTERPRISES AND ECONOMIC COOPERATION

A. Regional Economic Cooperation and the Lagos Plan of Action

The Lagos Plan of Action spelled out certain growth targets for the Continental African economy. These are:

Sectors	Annual Rates of Growth % (at constant prices)
Agriculture	4.0
Manufacturing	9.5
Exports	7.0
Imports	8.2
Total GDP	7.2

It also emphasized two underlying policy principles and orientations, namely national and collective self-reliance and regional cooperation. The latter - i.e., cooperation - is an instrument of the former, and both are prerequisites for the achievement of the stated growth targets.

The Plan also identified certain selected guiding principles for the achievement of its targets and policy orientations. It envisaged a flexible process whereby African countries would, individually and collectively, gradually operate through an iterative process towards achieving the Plan's goals. With regard to regional cooperation, it prescribed the establishment of a continental "African Economic Community" by the year 2000.

The analysis in Part I showed that the growth performance of the African economy since 1980 moved in the opposite direction of what the Lagos Plan called for. It also indicated that resuming or accelerating growth requires substantial adjustments and restructuring.

Major obstacles stand in the way of the requisite adjustment prominent amongst which is the small size of most African countries markets and lack of complementary resources. The majority of African countries have populations of less than 5 million - with many under 1 million, also many are included amongst the world's Least Developed Countries with an income per capita of less than $300. Furthermore, their primary exports, their major source of foreign exchange, are declining in both quantum and price.

Given this situation, the hope for any significant acceleration of growth and adjustment rests on achievements in the area of regional cooperation. There is a general recognition that past performance with regard to intra-African economic cooperation at the sub-regional and regional levels has not been satisfactory. This naturally raises the question as to why this is so? Could the poor past performance be reversed? If so, through what means?

An earlier study[1/], provided a preliminary assessment of the present network of regional and sub-regional cooperation arrangement in Africa: its objectives, structures, processes and operationality. The study pointed out to certain flows in the underlying philosophy, machineries and policies of these arrangements which made them inadequate. The study suggested a supplementary approach based on the establishment of African transnational enterprises.

1/ See Essam Montasser, Establishment of an African Economic Community, Dakar, UN/African Institute for Economic Development and Planning (IDEP), 1982.

With regard to the genesis and philosophy of the present regional arrangements, the following is to be noted:-

(1) Their basic infrastructures hard and soft are geared more to linking member countries to their European metropoles rather than to each other. Major reorientations are required if they are to satisfy their present redefined objectives.

(2) The dominant present approach to regional cooperation is based on trade liberalization. While almost all agreements of present sub-regional groupings include articles related to joint planning, programming and projects, they have rarely been implemented. The underlying theory of the trade liberalization approach is that through intra-regional elimination of tariffs and the resulting market widening, greater incentives to trade and investment would be provided.

Needless to say, the theory assumes a neoclassical perfectly competitive system and is based on its underlying assumptions which on the whole do not hold in Africa. The more pertinent theory in the case of Africa is that of development with its emphasis on dynamic structural changes in both production and trade. Customs unions, common markets and other models of trade liberalization cannot bear any fruit in the African context without: (a) substantial growth and diversification of production to create exportable surplus; and (b) harmonization of the heterogeneous exchange, monetary, fiscal and other policies regulations. That is not to mention the need for stable and harmonious political relations. Lack of such basic prerequisites make changes in tariffs and their impact on relative prices and profits and accordingly on investment decisions a very long term endeavour.

Most African markets are small in size and embryonic. They are heavily protected, and their organization is monopolistic. This is a natural outcome of their small size and high external tariff walls. Furthermore, their institutional structures are incomplete and their macro-policies are dominated by their relations with the more industrialized countries. There is no exportable surplus worth mentioning at present and production is either for subsistance or for the international markets. Physical infrastructures linking African countries together are still rudimentary and so are the institutional and policy networks.

Under such circumstances what can intra-regional tariff reduction achieve in the short and medium runs. One can also add that trade flows and financial flows go hand in hand. Most African countries are not capital exporters, and have no financial surpluses or institutional networks to finance intra-regional trade on a substantial scale. Lastly, market prices are often distorted, unstable and their processes of change are not well defined. Depending on marginal changes in relative prices to change investment patterns and scope towards regional integration is to say the least a heroic assumption at present.

(3) Lastly, with regard to the various groupings' objectives (ends), instruments (means) and machineries (organisations), they suffer from major inadequacies. Objectives are ambitious relative to means, and are stated in vague general terms which make them elusive as regards implementation. The secretariats of the various groupings are neither endowed with capacity nor resources for the requisite programming or implementation of the stated objectives. They are also of an inter-governmental type with all that this entails including being influenced by political considerations of a short-run nature.

In the light of the above, it has therefore been suggested in the "African Economic Community" study that: (a) the Community should be set up immediately since it will not materialize as a result of the evolution of the present sub-regional arrangements; (b) the community could itself play a role in reorienting the present sub-regional groupings and in coordinating them; (c) the community would have to follow a more appropriate operational design and approach based mainly on projects, enterprises (Joint Ventures) and cooperation in production in general. This would then create the base for fruitful and functioning trade liberalization.

B. The African Economic Community and African Transnational Enterprises

The prescribed approach and design of the new African Economic Community is based fundamentally on its serving as a base and launching pad for a new type of enterprises, namely African Transnational Enterprises. These enterprises would be complementary with one another and would create the foundation for a third sector in the African economies: an intra-African regional or sub-regional one. Both the Community and its satellite projects would have to be endowed with a certain degree of antonomy and operationality.

Given this overall orientation, the suggested model of the Community and its enterprises is based on the following interrelated building blocs.

(1) With regard to the organizational hierarchy of the Community, it is envisaged that it would be under the auspices of the OAU and would, in fact, constitute its economic arm. The Community's organs would consist, aside from its President, of a Board of Directors and a Board of Auditors. The President and both the Boards of Directors and Auditors would be appointed by the OAU Summit. However, the appointees would be selected from amongst prominent Africans and in their personal capacity, i.e., not as government representatives. They would also report to the OAU Conference of Ministers and to the OAU Summit.

(2) Functionally, the Community consists of two bodies: a policy and project planning unit and an operations unit. The former would be staffed by a small but highly qualified set of planners. Its task would be mainly to identify multilateral joint-ventures related to all sectors of the African economy and prepare preinvestment studies for them. It would also prepare background country and sectoral studies and make suggestions as to policy means of coordinating and strengthening regional and sub-regional cooperation.

As for the operations unit, it would consist of an investment-holding fund. Its major goals would be the creation and launching of A.T.N.E.s. It would be empowered to incorporate and promote such affiliated or associated enterprises. The capital of these enterprises would be subscribed to by African states, para-statal institutions and companies (public or private) as well as individuals with the operation unit (fund) constituting their holding companies. External entities, including international multinationals, would be allowed to acquire capital shares as long as their shares do not exceed 49%.

The capitals of the holding companies themselves would be subscribed to by the African states - at least those who would be willing to do so. The subscribing countries would receive income on their capital investments. At the same time, the operational cost and current budget of the Community would be financed from its operations unit earnings and would not be dependent on annual member countries' budgetary contributions as is the case with the present regional and sub-regional groupings.

(3) The affiliated enterprises' profits would be allocated as follows:- A certain percentage would be allocated to capital owners as dividends. The rest would be retained by the holding companies for reinvestment. This feature constitutes a built-in mechanism for capital accumulation and growth in the Community. Its pattern of growth and investment would aim at creating the foundations of the sought after intra-African regional sector in both production and infrastructural sectors including trade.

(4) The above outlined model for the African Economic Community represents a holistic and programmed approach to the creation of A.T.N.E.s in a consistent complementary fashion. It is this aspect which distinguishes it from individual joint-ventures emerging here or there without any particular links or interrelations. This certainly facilitates the task of regional and sub-regional cooperation, and accelerates its pace significantly.

(5) If this could not be achieved an alternative second-best approach to regional cooperation and the initiation of A.T.N.E.s would be to reverse the above suggested order. The process could start by creating A.T.N.E.s on a bilateral or multilateral sub-regional bases. In fact, the present sub-regional and regional groupings could serve as a bases for the subregional transnationals. But for these groupings to undertake such a task, it would require a reorientation of their approaches and a restructuring and strengthening of their organizations. In this case, one could foresee a process whereby these sub-regional transnationals or joint ventures gradually coordinating with one another and thus converging. In due time, the basis for an African Economic Community could materialize.

Naturally, this second best approach is going to be slower. Furthermore, given its evolutionary partial approach it would be less equitable and sectorially balanced than the former, in terms of both spatial and sectoral allocations.

(6) The analysis here makes the distinction between multinational enterprises with which we are mainly concerned here, and national enterprises which are transformed into transnationals via the creation of external affiliates in the form of Joint Ventures following the pattern of a "product life-cycle" type. The multinationals referred to here are created as multinationals from the outset.

(7) There are great benefits to be reaped from a mutually beneficial relationship between the A.T.N.E.s and the international multinationals. This is particularly so in areas such as finance, technology (soft and hard), trade, etc.. In fact, it is difficult to conceive of the A.T.N.E.S' achieving the hoped for progress without reaching a minimum modusvivendi with the prevailing transnationals who possess the requisite technologies and finance.

In the past (and, in certain cases, until now), the balance sheet of the multinationals has been quite negative. This is testified for by many evidences and has been elaborated on and built in a number of development theories. However, the balance of power has now changed to a large extent. It is in the hands of many African countries, institutions and enterprises to utilize their relationship with the transnationals to their advantage. Slower growth in the industrialized countries, the great development potentials of the LDCs, whether in the form of resources or markets, coupled with their rising weight and power on global scale, constitute a new situation at great variance with the previous one. The multinationals have a vested interest in such cooperation.

The multinationals could also be a major source of finance. They would be interested, other things being equal, to contribute to financing A.T.N.E.S not only for the potential direct return to such investments but also for indirect returns in the form of the exporting of goods and services, securing sources of raw materials, participating in construction works, etc..

(8) As for the management system and guiding principles of the A.T.N.E.s, one can point out the following:-

- The enterprises would operate in accordance with economic rules;
- Majority ownership of capital should, in principle, be for African countries, institutions and nationals. This is essential if they are to perform their role as a tool of collective self-reliance and the creation of autonomous regional and sub-regional economies.
- The new enterprises would concentrate, at least initially, on the development of primary sectors, particularly food and agriculture;
- Major portions of the enterprises' income would be channelled towards reinvestment.

CONCLUSION

To conclude, A.T.N.E.s constitute a superior approach to combining development with cooperation in accordance with the Lagos Plan prescriptions. It avoids all the obstacles standing in the way of these two interrelated objectives whether of political or economic nature such as distribution of gains from trade, differing levels of development, size, lack of essential complementary resources, scarcity of finance and managerial capacity, etc.. It also serves as a mechanism for technology transfer and the mobilization of financial resources.

However, a successful growth of A.T.N.E.s requires internal and external policy changes. Internally, we have emphasized earlier the need for proper adjustment policies and stability. Externally, there has to be a greater commitment to assisting and promoting this approach. Such assistance could take the form of allocating a greater portion of official development aid to financing such enterprises.

It is strongly felt that the above outlined model for an African Economic Community could usher in a new pattern of development and cooperation. It could also constitute a major step towards collective self-reliance at home and interdependence in the international arena.