



Foreign Direct Investment and Intra-Africa Trade: The Role of African Governments in the Context of African Renaissance

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Introduction

As the 21st century gradually draws to a close, we contend that the twenty-first century, socio-economically, will most likely be remembered as one that firmly established the ascent of the Asian subcontinent and economies like the People's Republic of China, the Republic of Korea, the Socialist Republic of Vietnam, as well as the subsequent rise of South American and Latin nations (for example the Federative Republic of Brazil, the Republic of Chile and the United States of Mexico). The 22nd century is about 80 years away. In this context, the chapter takes forward an argument advanced in Gumede¹ that Africa needs a robust socio-economic development model as a foundation for capturing the 22nd century. The logic of the argument for a new or different socio-economic development model for Africa was first explained in Gumede.²

Given frequent debates about Foreign Direct Investment (FDI) and intra-Africa trade, the chapter explains that a deeper analysis into the contentious matter of FDI in Africa warrants that African governments should play a calculated role in the development of a new African socio-economic development narrative. The chapter advances a perspective that privileges an African Renaissance as the *motif force* to anchor Africa's socio-economic development agenda. Fifty years since the founding of the Organisation for African Unity (OAU), we argue that Africa has not had its own robust socio-economic development approach. Going forward, it is argued, intra-Africa trade and development should be prioritised, within the context of a new approach to socio-economic development in Africa. This is not to say that there have not been any initiatives to further advance socio-economic development in Africa. In fact, we discuss some of the previous initiatives as forming the foundation for our proposals.

It is important to note that the argument made in this chapter does not in any way suggest that the socio-economic shift in power will render the so-called old continent (Europe and the United Kingdom), the so-called new continent (United States of America and Canada) and other western hemisphere states redundant. The London School of Economics (LSE) professor, Robert Wade, recently acknowledged that a socio-economic shift in power is taking place, as observed in the rise to prominence of many developing economies. As Wade puts it:

Certainly, over the past decade many developing and transitional countries have grown faster than developed countries. The middle-income countries (including India as well as China) grew at 6 percent a year or more between 2005 and 2010, while the high-income countries grew at 2 percent or less. A growth-rate gap of this size in favor of developing countries is unprecedented.³

While acknowledging the rapid socio-economic rise of developing nations, Wade also points out that the rise in power of nations like the People's Republic of China or other developing economies shouldn't be over-exaggerated.⁴ Pulitzer Prize-winning journalist, Jim Yardley, in a New York Times article, argued that whilst developing nations (most notably the BRICS, that is, Brazil, Russia, India, China and South Africa) are growing economically, certain internal problems in those countries need to be resolved before those countries can surpass the United States (US), Germany and similar countries.⁵ Overall, however, there appears to be consensus that Asian, South American and even most African economies are strengthening and could ultimately challenge the established economies of the Western world.⁶

The next section discusses African Renaissance (AR) as a conceptual framework that could underpin Africa's development. It is followed by a discussion that addresses an often ignored question: To whom does the 21st century belong? Then follows a section that proposes what needs to be done to ensure that Africa puts in place a firm foundation in order to capture the 22nd century as *the* African century – we make proposals on what should be the roles of African governments, in the context of further advancing Africa's renewal.

African Renaissance as a Philosophy for Africa's Development

Cheik Anta Diop popularised the concept 'African Renaissance' in a seminal text titled *Towards the African Renaissance: Essays in Culture and Development, 1946-1960*. In

essence, the AR is a call and programme of action for the renewal of the African continent. One of the modern proponents of this concept is former South African president, Thabo Mbeki (2001), who argues that:

We speak about the need for the African Renaissance in part so that we, ourselves, and not another, determine who we are, what we stand for, what our vision and hopes are, how we do things, what programs we adopt to make our lives worth living, who we relate to and how.⁷

There have been debates about the concept or notion of African Renaissance.⁸ There have also been various applications of the meaning behind the term African Renaissance. Gumede, for instance, advances the notion of *African Economic Renaissance*.⁹ In the main, we argue that it is important to revisit Africa's rich historical narrative and analysis of socio-economic development. The continent has enough of an historical legacy to put together its own socio-economic development policies and institutions for purposes of advancing Africa's development. This argument is most articulately expressed by Mahmood Mamdani, who states:

Let us recall that every major development of historical significance must rethink and rewrite history, and thereby redefine its place in history so as to give itself a sense of self-worth and a renewed sense of agency. Only those who have little to hope for from historical change can refer to great movement for changes in consciousness as a 'brain-washing' exercise.¹⁰

We argue that African governments and citizens should play an active role in re-thinking Africa's future. As Mamdani¹¹ and others have argued, new socio-economic narratives or models need to be developed and implemented. It is for this reason that AR, as a philosophy, is critical to Africa's future development, as shall be deduced when we discuss the issues of FDI and intra-African trade and development.

Whose Century is the 21st Century?

South American countries will continue to progress in their socio-economic development trajectory in the coming decades, taking their place alongside Asian developing nations such as South Korea and China. And, while they might not experience spectacular economic development to the degree that certain Asian countries have, South American states stand

poised to close out this century or even begin the 22nd century as key figureheads in developmental discourse.

Asia

This chapter argues that when the 20th century is revisited, it will most likely be remembered as the century that saw the ascent of the Asian continent socio-economically. The ascent of Asian countries like India, Vietnam, Malaysia and certain Gulf States suggests that Africa should rethink its developmental approach. The Asian development approach suggests that an effective developmental state is critical and that democracy and economic growth do not always go together.

Before the economic rise of the Asian economies, it had become common practice, academically and intellectually, to envision the growth of nations and economies as being linked to market forces.¹² The rise of Asian economies and societies has proved to be a momentous shift in how economics is conceived and interpreted. It is now no longer taboo to argue for the state using its various apparatuses to lead economic development.¹³

Within the African context, Mkandawire contends that the state-led development model is neither new nor unheard of. Mkandawire argues that a thorough understanding of the early post-independence period shows that early African leaders/states made attempts to implement rudimentary development states.¹⁴ Argued differently, early (post-independent) African states succeeded in creating an early edifice of what subsequent Asian development states could look like. What the Asian developmental state model did differently was that Asian development states were able to successfully marry concepts like the following to their advantage: (1) government planning; (2) pre-planned economic development strategies and local population buy-in; and (3) tactical usage of human capital.¹⁵

As other scholars have propounded, the notion of a developmental state is not new. However, Asian states like Japan and Malaysia have been able to make the developmental state model function better than African states; hence Asian states captured the 20th century.

Another point is that the Asian development model will most likely be remembered for its ability to challenge the notion that democratic rule equates to economic growth and prosperity.¹⁶ Without a doubt, Asian countries have shown that economic growth and democracy are not always synonymous and that sometimes it is possible to improve the level

of citizens' socio-economic standards without having democratic institutions or practices. Rohwer argued that despite Asian states being able to produce an educated and economically vibrant middle class, the majority of this class is prepared to tolerate the non-existence of Western style democracies in exchange for positive economic gains.¹⁷

It is in this context, and also in the context of the notion of Asian developmental states, that we argue that the Asian continent will most likely be remembered as the continent that claimed the 20th century, ahead of Africa. Asian states have been successful at laying claim to the 20th century, in the main, due to their leaders and development models being able to construct an Asian narrative of development.

South America

Arguably, the reform of failed political and economic systems and the changing face of democracy in South America are the two main reasons for the ascent of South American countries.

Few regions or continents have experienced as tumultuous a history with the twin concepts of political and economic development as have South America and Africa. South America's recent rise to economic prominence has been drastically shaped by many years of military dictatorship (as exemplified by the cases of Chile¹⁸ and Brazil¹⁹) and by encounters with the failed neoliberal economic policies of the 1980s and 1990s.²⁰ It is worth noting that South American countries such as Brazil and Chile were once considered pariah states, in much the same way that certain African states have been viewed as patrimonial states.

A closer analysis of the development of South American nations, Bermeo²¹ explains, confirms that it is possible to transition from military dictatorship rule to a modern democratic state. Also, by virtue of historical circumstances, transitions from authoritarian rule to democratic practices (whether in South America, Africa, America or even Europe) can yield a peculiar citizenry and political system unique to that region or country.

Bermeo explains that from the beginning (and in South America in particular), 'state terror ... reduced all its opponents, generally on the left, but also many liberals, to their common denominator as unprotected and frightened human beings. Civil society was born out of this experience of fear ... and democracy began to emerge as a core value'.²² These experiences, we argue, have resulted in certain (if not most) South American citizens coming to understand that the '*democratisation*' process can operate in one of two ways: 1. home-grown

dictators can rise to power using undemocratic tools, like the military, to gain power; 2. Western democracies and their sponsors have the ability to delegitimise local democratic rules and choices, if they are not properly understood.

As such, it would seem that South American citizens have come to understand that finding and defining what course their democratisation process takes is as important as voting. This process has allowed unorthodox or populist leaders to occupy some of the highest political positions in society and also play an active role in reshaping the policy processes. Leaders like Evo Morales, Cristina Kirchner and the late Hugo Chavez embody this South American practice, which sees the state play an active developmentalist role in developing society socio-economically.

Political Reform

While we tend to focus on nations like Chile, Brazil and Mexico to a large degree, it is critical to understand that one can use these nations as generalised examples to make the argument that the political reform of South American states has, by and large, succeeded in them becoming more democratic.

However, Navia and Walker (2008) allude to the fact that South American citizens are prone to electing charismatic leaders, who they find to be a dangerous prospect: ‘Because we understand populism as personalistic leadership that weakens institutions, there is an obvious tension between the strength of institutions and the appearance of populism in Latin America.’²³ While Navia and Walker might be justified in worrying that elected populist leaders could become a danger to citizens (as were former military dictators such as Getúlio Dornelles Vargas (Brazil) or Fulgencio Batista Zaldívar (Cuba), we argue that South American citizens have come to understand their political history and problems in a nuanced manner and do factor in such concerns.

Notwithstanding the above criticism, we argue that what the South American political reform experience shows to other developing regions (like Africa) is that political development or even democratisation is a complex process. However, its complexities need not be understood through only trying to resolve them by using ‘the correct’ tools, as prescribed by the West or so-called established democracies. The crucial point is that democracy need not conform to some form of prescribed format and that any outcome of the democratic process should be

judged by the citizens. Arguably, countries should determine the kind of democracy that works for them.

Economic Reform

Much like the political arena, the economic policy domain in South America has had its ebbs and flows, depending on the leadership's goals and philosophical leanings. Dayton-Johnson, Londoño and Nieto-Parra explain that:

After the bankruptcy of the import-substitution model and the debt crisis in the 1980s, most Latin American governments embarked on a process of market liberalisation, often referred to as the Washington Consensus Reforms or the first-generation reforms. These growth-promising reforms [were] undertaken by both left-wing and right-wing governments ...²⁴

This period in the development of South American states like Venezuela, Brazil and Argentina resulted in many states coming to the realisation that economic policies (much like political decisions) require more localised pragmatism²⁵ – especially with the realisation that the Washington Consensus approach did not yield the intended results and that some of the goals of the Consensus are actually counter to what citizens need.²⁶ What this did for certain South American states was to encourage a shift in their thinking: some sought or saw economic development as a dynamic issue and attempted all manner of developmental models.²⁷

We do acknowledge that South America's economic rise won't mirror that of the Asian continent and we note that South America faces numerous socio-economic tensions and problems. It cannot, however, be denied that South America's social and economic indicators position it above the African continent and it therefore stands alongside Asia in being poised to capture the 21st century.

What has Foreign Direct Investment done in Africa?

Foreign Direct Investment (FDI) has become one of the key pillars on which the African development agenda has sought to build its economic development. The recent '*FDI in Africa*' report explains that:

Over the past two decades, Foreign Direct Investment (FDI) has become a vital source of economic development for the African continent. With an increase from

approximately US\$9 billion in 2000 to US\$18 billion in 2004 and US\$88 billion in 2008, FDI has become a major source of finance for Africa's development.²⁸

The increase in FDI has led more African countries to want to ensure they are seen by international investors as viable avenues of investment. Some of the steps taken by countries like South Africa, Angola, Burundi and Kenya have been to utilise the expert skills of continental and international institutions.²⁹ Despite the economic downturn that took place during 2008 to 2011, the African continent continues to attract FDI, as the 2013 United Nations World Investment Report indicates: 'FDI inflows to Africa grew to \$50 billion in 2012, a rise of 5 per cent over the previous year.'³⁰

The fundamental question that needs addressing, however, is whether or not FDI into Africa has been qualitatively and quantitatively measured, for the purpose of understanding how African states and societies have used FDI for socio-economic development purposes. In seeking to improve how knowledge of FDI should be approached to better improve African countries' chances of conquering the 20th century; it is critical to understand what the prevailing approaches have been. And one of the key issues that need to be understood, from a research point of view, is what has and is FDI being used for by African countries.

To start with, the 2013 United Nations World Investment Report explains that:

... increase in FDI inflows translated into increased flows to North Africa, Central Africa and East Africa, whereas West Africa and Southern Africa registered declines. FDI from developing countries is increasing. There is a rising interest in FDI by private equity funds in Africa, but the level of investment is still low. FDI oriented to African consumers is becoming more widespread in manufacturing and services but will remain relatively limited in the near term.³¹

Whilst this information is later explained, using a numerical breakdown of each region's FDI inflow, we find the UNCTAD³² narrative problematic for purposes of trying to understand whether or not FDI entering African countries has aided or impeded socio-economic development. It is unhelpful to simply conclude that the FDI that enters a country ends up being absorbed into the tax department of African countries or that African countries seek to want to create flexible tax programmes to attract FDI.³³

If African countries are to take their place alongside Asian and South American nations, more research needs to be done in documenting whether or not a clear visible narrative exists on whether or not FDI has resulted in socio-economic development. We argue that to simply have academics or publications advocating or exploring what makes FDI enter Africa (for example good governance, stable financial institutions, a skilled workforce and so on and so forth) tells only one part of the narrative of development.

While we agree with the narrative that assumes that FDI is a welcome variable of development in Africa, we don't subscribe to the notion that it is the panacea for the socio-economic development of African countries. Furthermore, this chapter contends that more research should be pursued in order to better ascertain what FDI means to Africa's future development. One other reason for the need to have more directed research regarding FDI is that certain conflicting reports about FDI in Africa would be better understood. Research should be able to allow Africa and African governments to formulate policies and models to better ensure FDI works for them, in the same way it assisted certain Asian governments.

Intra-Africa Trade and Development

Assessing the state of affairs pertaining to Africa's trade and investment environment can be viewed in one of two ways: the first perspective explains that 'the level of intra-African trade has grown in nominal terms, rising from \$45.9 billion in 1995 to \$130.1 billion in 2011 ... It [Africa] experienced positive growth in all years except for 1998-2001 and 2009. Such negative growth spells coincided with world recessions...'.³⁴ This perspective seeks to explain a narrative that suggests that Africa is on the rise economically and that this rise is premised on its economic performance. The second narrative contends that 'over the period from 2007 to 2011, the average share of intra-African exports in total merchandise exports in Africa was 11 per cent compared with 50 per cent in developing Asia, 21 per cent in Latin America and the Caribbean and 70 per cent in Europe'.³⁵ This line of argument acknowledges that certain African countries have made strides economically. However, it argues that for Africa to progress to the level needed, Africa needs sustainable socio-economic development and growth, and the key to this is an increase in intra-Africa trade and investment.

Africa should vigorously pursue intra-Africa trade. If African countries fail to promote intra-trade and investment, Africa will continue to lag behind their Asian and South American counterparts. It thus becomes imperative that long-running continental plans, like the Lagos Plan of Action and the Abuja Treaty, not be discarded. Rather, these plans need to inform new initiatives like the African Union's (AU) 2063 Agenda. Building on the Lagos Plan of Action, the Abuja Treaty and other continent-wide initiatives should assist in ensuring that Africa captures the 22nd century. This view is informed by an understanding that the Lagos Plan of Action and the Abuja Treaty (in particular) present well considered perspectives regarding regional integration in Africa. Intra-Africa trade has been a standard thread in many of the continental programmes, such as the Lagos Plan of Action and the Abuja Treaty. In addition, the Abuja Treaty (in particular) committed the continent to infrastructural initiatives and the utilisation of educational processes and systems.³⁶

Revisiting the role of African governments

We argue that the role of African governments needs to be re-imagined in order to take the continent forward. The role of African governments needs to be an active one in matters pertaining to socio-economic development within Africa. This viewpoint has not been readily accepted by mainstream economic theorists and philosophers like Milton Freidman, Friedrich Hayek and Adam Smith, among others, who argue for socio-economic development predicated on a dominant role for the free market (*laissez faire* capitalism), rather than state involvement.³⁷ However, as we have argued, in the context of South America, governments can and do have the ability and instruments to develop their countries socio-economically and improve the lot of citizens.

The experiences of some South American and Asian countries indicate that African governments should decide, per locality, what each government and country can and should do economically. Secondly, African governments must link any discussion of FDI and national socio-economic policy to regional African development. Finally, and most importantly perhaps, African government plans/policies need to privilege and construct their development initiatives around the concept of intra-Africa trade and development. As stated earlier, intra-Africa trade and development have been increasing. While the increase in intra-Africa trade is laudable, more work needs to be done in order to assist (more practically and economically) African government's coffers to grow in order to convince citizens that intra-African trade and development is in their best interest and a viable developmental tool.

In the context of Africa capturing the 22nd century, intra-African trade and development could be a possible catalyst for African governments to finally launch Africa into the 22nd century. Africa and African governments already have the necessary foundation, particularly in the context of the initiatives discussed above (such as the Lagos Plan of Action and the Abuja Treaty). Furthermore, developmental institutions like the African Development Bank could be used to advance intra-Africa trade and development initiatives and projects. Africa should also think creatively and innovatively about different modalities for accelerating continental integration and intra-Africa trade.

Conclusion

Fifty years since the founding of the OAU, intra-Africa trade is still very low. Also, although FDI has been pouring into many African countries, it would seem that FDI has not contributed to Africa's development or that FDI has not been effective in terms of Africa's renewal. Intra-Africa trade and development should be prioritised, within the context of a new approach to Africa's socio-economic development. For Africa and its citizens to capture the 22nd century, a dominant and relevant *motif force* needs to be the AR philosophy. It is encouraging that various initiatives under the auspices of the African Union appear to be informed by the AR philosophy. A critical aspect, however, of renewal of the African continent, is African unity, which appears to continue to elude Africa. If the continent was better united, most likely there would not be a need to make the argument for intra-Africa trade, as we do in this chapter and as others have done.

In short, we have argued that more continent-based research needs to go into tracking what effect FDI has on the continent's developmental agenda. We have used the AR philosophy and argued that Africa should accelerate intra-Africa trade and development. To do this, African governments should be more hands-on in pursuing socio-economic development in Africa. Admittedly, the chapter has not dealt with other related topical issues, such as the modalities or methodologies for increasing intra-Africa trade. Similarly, the highly debated issue of illicit financial flows falls outside the scope of this chapter. Suffice it to say though that African unity should assist in addressing challenges such as illicit financial flows and also guide the modalities for accelerating intra-Africa trade. In the main, we are of the view that Africa can learn from the recent development experiences of the Asian and South American regions. Essentially, in the quest for an effective developmental model for Africa, aspects of African pre-colonial socio-economic life should be better understood so as to see

what worked well and to deduce that which could be applied in the current context, perhaps in a modified form, to ensure that Africa indeed captures the 22nd century as *the* African century.

Lastly, Africa needs to revisit some of the proposals – from various leading African scholars – regarding what should be done to further advance Africa’s development. Some of the proposals made a while back and repeatedly, for instance Samir Amin’s delinking hypothesis, can be an answer to the further renewal of the African continent³⁸ – Amin (1990: 70-71), in one of his latest works on the delinking hypothesis, explains that ‘delinking is the refusal to submit to the demands of the world-wide law of value, or the supposed rationality of the system of world prices that embody the demands of reproduction of world capital. It, therefore, presupposes the society’s capacity to define an alternative range of criteria of rationality of internal economic options’.

Similarly, concepts such as Africanity, as espoused by Archie Mafeje³⁹, should guide our thinking and interventions to taking the continent forward – Mafeje (2000: 66-71) argues that ‘Africanity is an assertion of an identity that had been denied; it is a pan-Africanist revulsion against external imposition or refusal to be dictated to by others. In this sense, it is a political and ideological reflex which is meant to inaugurate an African renaissance...As [combative] ontology; it is inseparable from the projected African renaissance. It is a necessary condition for the mooted African renaissance’. Arguably, both the delinking hypothesis and the pursuit of Africanity, among other views and or proposals, should be revisited and or reconsidered with the view of further advancing Africa’s development.

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⁴*Ibid.*, p.6.

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⁶ Some of the most notable publications advancing these views include: Uri Dadush and William Shaw's *Juggernaut: How the Rise of Developing Countries Is Reshaping the World Economy*; McKinsey and Company's *What's driving Africa's growth*; Deloitte's *The Rise and Rise of the African Middle Class*; and the numerous Reports of many Africa-based institutions, such as the United Nations Economic Commission for Africa and the African Development Bank.

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¹¹ In advancing his argument, Mamdani looks at the South African higher education sector. Mamdani's main argument is that ideas/narratives can be negative or powerful agents for socioeconomic development. Therefore, African scholars and societies need to develop their own narratives and models for the continent's socioeconomic development – Mamdani, M. 1999. There can be no African Renaissance without Africa-focused intelligentsia. In Makgoba, M.W. (ed.), *Africa Renaissance*. Johannesburg: Mafube Publishing Limited.

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