TAX JUSTICE NETWORK

# TAX JUSTICE FOCUS

# BLACK LIVES SHATTERED


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## BLACK LIVES SHATTERED

*editorial by* **Dara Latinwo**

*"Many of those hurrying to hashtag their 'allyship' with one hand, are also hiding their wealth in tax havens with the other."*

*Economically empowering the continent with the most black lives is a key step to ensuring that they matter – in every sense – around the world. Guest editor Dara Latinwo introduces this issue dedicated to Africa, and argues that sympathy for the oppressed must translate into support for material change if it is to be more than an empty gesture.*

In a year plagued by pandemic-driven loss and lockdowns, the death of George Floyd did the seemingly impossible and pierced sharply into the global consciousness of 2020, sparking fervour that fuelled worldwide protests against racial injustice and police brutality.

Keen to keep up with those marching in the streets, corporations and celebrities were quick to claim solidarity on social media,

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showcasing their support for 'The struggle' and displaying their donations on blacked out Instagram accounts. However, wading through this deluge of diversity-themed tweets and posts left me uneasy. After all, many of those hurrying to hashtag their 'allyship' with one hand, are also hiding their wealth in tax havens with the other.

These secretive repositories starve governments of vital resources that could be used to improve the lives and prospects of millions of people like George Floyd. (Whether those governments would use the resources in this way is a question for another editorial.) Moreover, by harnessing havens for their own benefit, individuals and organisations prop up structures that serve as the final destination for funds stolen from public coffers across Africa – the region with the most black lives.

As long as Africa remains economically hobbled by these exploitative global financial flows and systems, it will not just be capital that flees from the continent but, increasingly, its desperate population too, hungry for basic opportunities to develop and dignify itself. However, more often than not, these economic evacuees find only a frosty reception on reaching foreign shores: described and dismissed as 'migrants', they end up at the bottom of yet another pile. With this being the case, it is no surprise – but no excuse either – that the black diaspora finds itself particularly vulnerable to the sort of prejudices that led the store owner to call the police on Floyd last summer and Chinese authorities to hound African expats out of their homes last spring.

For this reason, any debate or discussion that is serious about tearing down racial injustice, rather than just statues, must include Africa. As the competition between actual and aspiring superpower states intensifies, it is imperative that African countries enhance their economic and geopolitical heft on the world stage, especially as other governments have few, if any, scruples about strengthening themselves at Africa's expense.

Hence, the decision to commission this special edition of *Tax Justice Focus* which spotlights Africa and explores the international dimension to racial inequity buried in the continent's past, playing out in its present, and looming over its future.

*"As long as Africa remains economically hobbled by exploitative global financial flows, it will not just be capital that flees from the continent but, increasingly, its desperate population too."*

In the first article **Dr Ndongo Samba Sylla**, a former technical adviser at the Senegalese Presidency and current research & programme manager at the Rosa Luxemburg Foundation, explores the colonial past and neo-colonial present of West and Central Africa's monetary system. Tracing the origins of the region's economic entanglement with France, Dr Ndongo illustrates how technocratic control over monetary policy has helped Paris keep its former possessions in a state of underdevelopment long after the end of formal empire.

Pulling the reader into the present with the second article is **Léonce Ndikumana**, a director at the Political Economy Research Institute (PERI) and a UN Development Committee member. His piece follows the trail of devastation left by illicit financial flows, all the way to the poisoned paradises of modern-day tax havens – the temporary homes for ill-gotten gains siphoned from the continent. Casting a glance back at some of the financially hollowed-out African nations, Léonce's contribution highlights the human cost of havens and the systemic corruption they contaminate countries with.

**Gyude Moore,** a former Minister of Public Works in Liberia and current senior policy fellow at the Center for Global Development, uses the third article to peer more closely at Africa's relationship with

*“Any debate or discussion that is serious about tearing down racial injustice, rather than just statues, must include Africa.”*

China in order to present a more nuanced picture of this oft-discussed commercial and political ‘partnership’. Looking ahead to an uncertain post-pandemic future, Gyude offers practical policy recommendations on how Africa can strategically navigate its way along this second incarnation of the ‘Silk Road’.

The final feature article in this edition, written by **Fadhel Kaboub**, Associate Professor of economics at Denison and President of the Global Institute for Sustainable Prosperity, seeks to grapple with the question of what a sovereign and sustainability-focussed African continent could look like and convincingly maps out the journey there. In so doing, Fadhel persuasively lays out for readers what it would take for Africa to wake up as a real-life Wakanda.

The issue concludes with a review of Tom Bergin’s *Free Lunch Thinking*, a reminder that underdevelopment in Africa is in part the culmination of a steady process of intellectual decay in Europe and North America.

Although the heady ‘Africa rising’ narratives, which have waxed and waned over the years, strive to create compelling visions of a strong, self-determining Africa that exists beyond a Marvel film fantasy, these narratives often miss a central truth: that Africa did rise. Indeed, its proud pre-colonial past is a testament to this rarely revealed reality.

Thanks to curious history hunters, such as broadcaster Zeinab Badawi with her BBC *History of Africa* series and the musician Akala with his lectures on ancient and medieval Africa, new light is being shed on the array of technological advances made by sophisticated African civilisations before transatlantic slavery and colonialism shattered the continent’s sense of self and confidence.

Social media support, mingled with sympathy, for black communities across the world ultimately rings hollow without an accompanying readiness to rethink and remove the economic and financial strangleholds that have enfeebled the African continent. This edition of *Tax Justice Focus* represents an attempt to loosen some of these so that Africa can, one day soon, rise again.

*Dara Latinwo is a One Young World (OYW) ambassador who was selected by the ICAEW to attend the 2017 OYW annual summit, held in Bogotá, Colombia. Having lived and worked across four different continents, she is passionate about rethinking and redesigning the paradigm within which organisations operate, such that sustainability – economic, environmental and societal – sits at the heart of solutions and strategies proposed for the future.*

# THE CFA FRANC AS A VIVID SYMBOL OF COLONIAL CONTINUITIES IN FRANCOPHONE AFRICA

*Monetary policy in Africa has been dominated by a consensus formed in Europe and the United States. In France's former colonies in West and Central Africa this has helped preserve the substance of empire long after its formal end.*

feature

**Ndongo Samba Sylla**

The history of money and finance in the former French colonies south of the Sahara presents remarkable continuities, despite the political and institutional changes that occurred with the decolonisation process in the 1960s. The most obvious symbol of these continuities is no doubt the CFA franc. The acronym of this currency created in 1945 by the French provisional government originally stood for franc of the French colonies in Africa. It still circulates in eight countries in West Africa and six countries in Central Africa without its founding principles having been altered.

To have a proper sense of the history of French monetary imperialism in Africa, one has to go back at least to the mid-19th century. With the abolition of slavery in France in 1848, the French state had to compensate French slave owners for the loss of their "movable" property. Part of the financial compensation had been used to set up colonial banks under the authority of the Bank of France. This was the case of the Bank of Senegal, created in 1853 by a decree of Louis Napoleon. Unlike the other colonial banks whose headquarters were located in metropolitan France, the Bank of Senegal was based in Saint-Louis, in the north of Senegal. It started in 1855 as a loan and discount bank. Being under the financial control of the Bordeaux trading houses, its role was to promote their export and import activities to the detriment of their local rivals who suffered discrimination in accessing credit. Following its dissolution in 1901, the Bank of Senegal was succeeded by the Bank of West Africa, a private bank that had a monopoly on the issuance of francs in the French colonial empire south of the Sahara.

African people had for a long time resisted the imposition of the French currency. For their trade, but also for religious purposes, they used currencies like the cowries, a shell from the Indian Ocean, and the manilla (a bracelet). They were aware that

*"If you no longer have control over your currency as a nation, you no longer have control over what you produce, consume and exchange."*

the acceptance of the colonial currency would disrupt their trade and more importantly would make them economically subordinated to the diktats of their colonial masters. If you no longer have control over your currency as a nation, you no longer have control over what you produce, consume and exchange. As the ban on the import of cowries and the obligation to pay taxes in the colonial currency were not always effective, colonial administrators were often obliged to use legal sanctions and physical force. Their sense of masculinity often suffered from the defiant attitude of African women who did not want to use the franc in their daily trade. Only the creation of the CFA franc would end decades of resistance from ordinary people against the French imperial monetary order.

The Bank of West Africa was replaced in 1955 by two public issuing institutions that four years later became the Central Bank of West African States and the Central Bank of Equatorial African States and Cameroon, renamed the Bank of Central African States. These two central banks each separately issue a currency whose acronym is the CFA franc: the franc of the African financial community in the first case; the franc of financial cooperation in Central Africa in the second. In the mid-1970s their headquarters were moved to Dakar (Senegal) and Yaounde (Cameroon) respectively. Their staff was 'Africanised' in the same process.

The 'Africanisation' of the management of the Central Bank of West African States and the Bank of Central African States did not put an end to the colonial character of the monetary system. The CFA franc still functions according to the same principles and purpose established during the colonial period. Its rigid peg to the French currency (franc then euro, from 1999) and the freedom of transfers between France and countries using the CFA franc were not abolished after independence. Similarly, the French government's direct control over monetary and exchange rate policy is still exercised through its representation in the organs of the two central banks with a veto power that has become implicit over time, and the obligation for the latter to deposit part of their foreign exchange reserves with the French Treasury (50 percent since the mid-2000s).

The purpose of this 'monetary arrangement' from its origin to the present day is to maintain satellite economies that are 'complementary' to the French economy. That is, economies that serve as cheap sources of raw material supplies and captive outlets.

The fixed parity reduces transaction costs and protects French companies (and now all foreign companies operating in euros) from exchange rate risk. The structural overvaluation of the CFA franc, the artificially high level of its value against the reference currencies, tends to favour imports, including luxury goods, to the detriment of exports.

The fixed parity thus constitutes a kind of trade preference granted to the euro zone, since African countries cannot use their exchange rate as an instrument to boost at times the price competitiveness of their exports. Finally, it deprives the Central Bank of West African States and the Bank of Central African States of the possibility of using the exchange rate to absorb shocks. Thus, in the event of a crisis, the need to defend the peg implies a reduction in public expenditure and credits to the economy, as well as an increased dependence on external financing flows.

As for the freedom of transfer, it allows for the free investment and disinvestment of French capital as well as the repatriation of profits, dividends, etc. In resource-rich CFA countries, this freedom is often associated with significant financial bleeding. For example, over the period 1970–2008, illicit financial flows from Côte d'Ivoire and Cameroon are respectively estimated in 2008 US dollars at 66.2 billion and 33 billion, which was 6 times and 13 times higher than their respective stock of external debt.

In addition to the handicaps resulting from an overvalued exchange rate and the outward transfer of local economic surpluses, the behaviour of the banking sector retains its colonial character.

In CFA countries, credits to the economy remain low, with short maturities and prohibitive interest rates. Loans are mainly oriented towards the trade sector to the detriment of investment in agriculture and manufacturing. Bank loans are primarily targeted at large companies and governments to the detriment of SMEs in general. The decline in the market share of French banks in CFA countries has not changed this general observation. The banking landscape has become less oligopolistic but is still largely dominated by foreign banking groups. In Senegal, for example, the latter control more than 90 percent of banking assets.

*"The 'Africanisation' of the management of the Central Bank of West African States and the Bank of Central African States did not put an end to the colonial character of the monetary system."*

*"The CFA franc still functions according to the same principles and purpose established during the colonial period."*

Thus, domestic production in CFA countries is penalised on the one hand by the low level and inadequacy of the credits to the economy and on the other by the overvaluation of the exchange rate. This pattern is aggravated by trade liberalisation policies and those dictated by the ideology of fiscal austerity.

The persistence of neo-colonial monetary and financial relationships has favoured neither structural transformation nor regional integration, and has done even less for the economic development of the CFA countries, 9 out of 14 of which are among the Least Developed Countries. In terms of health and education achievements, CFA franc using countries occupy the lowest ranks worldwide. Among a total of 189 countries, Niger, Central African Republic and Chad had the lowest score on the 2020 Human Development Index. Looking from a long term perspective, average real incomes have stagnated or declined in five of the biggest CFA franc using economies: Cote d'Ivoire, Cameroun, Gabon, Senegal and Congo Republic.

If this monetary bond did not prevent the commercial and financial decline of France in its sphere of influence, it has nonetheless contributed to the institution of centralised political regimes that are more responsive to the priorities of the French government, French companies and foreign investors than to the interests of their citizens. For example, in oil-exporting CFA countries such as Chad, Gabon, the Republic of Congo and Equatorial Guinea, the 'president for life' model remains the norm, notwithstanding the frequent organisation of formal elections with a foregone conclusion.

In other words, the CFA franc's existence favours a particular type of political leadership. Those who can aspire to lead CFA countries are those who will not question its limitations. It is these leaders who have enjoyed the active solidarity and support of the French government over the last six decades.

In the face of growing protests against this colonial relic led by pan-Africanist social movements and intellectuals, France, in alliance with Côte d'Ivoire, decided in December 2019 to soften its stance on the West African CFA franc. As with previous CFA franc reforms, the current one is very limited in scope. Its motivation is to tackle the embarrassing symbols - the name of the currency, French representation within the Central Bank of West African States and the control of the French Treasury over the latter's foreign exchange reserves - while ignoring the points that African economists criticise: the existence of a formal link of monetary subordination between France and the CFA countries, the fixed parity with the euro, the freedom of transfers, and also the existence of two monetary unions that have no other foundation than colonial history.

While the abolition of the CFA franc does not in itself guarantee that its member countries will develop more equitably and rapidly, extending its life expectancy cannot but hinder any prospect of political and economic emancipation of African peoples.

*Dr. Ndongo Samba Sylla is a Senegalese development economist and researcher at the West Africa Office of the Rosa Luxemburg Foundation. He is the co-author, with Fanny Pigeaud, of* Africa's Last Colonial Currency: The CFA Franc Story *(London: Pluto Press, 2021).*

# CAPITAL FLIGHT FROM AFRICA: RESOURCE PLUNDER AND THE POISONED PARADISES IN TAX HAVENS

*Africa's rich natural resources have drawn in outside powers for thousands of years. European colonialism vastly accelerated the rate of plunder.* ***Léonce Ndikumana*** *is a globally renowned expert in the dynamics of exploitation that continue to sustain injustice, impunity and corruption throughout the global system.*

*feature*

***Léonce Ndikumana***

## Africa's financial haemorrhage, a paradox

While Africa has emerged as one of the fastest growing regions since the turn of the century, capital flight has, ironically, accelerated in a period marked by improvement in political and macroeconomic stability. The continent loses more than US$50 billion per year through capital flight.

Why would capital flee from a 'continent on the rise'? What do resident individuals and corporations know that foreign investors flocking into the continent do not know? Most likely, capital flees Africa in search of protection from prosecution about the origins of the money and to evade taxation. Thus, owners of illicitly acquired wealth are happy to accept negative rates of return on their money in safe havens, in exchange for protection from legal nuisance.

The problem of capital flight is even more critical now as the continent faces protracted recession and long-lasting scarring effects from the Covid-19 pandemic. As fiscal space is threatened by declining exports and tourism receipts, African governments may be forced to cut development expenditures, which undermines provision of vital public services and derails progress in poverty reduction. The haemorrhage of wealth through capital flight means more lives lost due to lack of healthcare, more children denied education, and stunted private sector development for lack of transport, power and telecommunication infrastructure.

African resource-rich countries are particularly exposed to capital flight through embezzlement of export proceeds and export misinvoicing. Moreover, resource-rich countries lose large amounts of tax revenue through manipulation of transfer

*"The problem of capital flight is even more critical now as the continent faces protracted recession and long-lasting scarring effects from the Covid-19 pandemic."*

pricing by multinational corporations that take advantage of tax havens. Oil-rich African countries account for over 55 percent of total capital flight from the continent (Ndikumana and Boyce 2018). On the top of the list is Nigeria, which lost a staggering $467 billion through capital flight between 1970 and 2018.[1] The key channels of capital flight are leakages through the Balance of Payments (money that enters the country but cannot be traced in the recorded uses of funds) and trade misinvoicing (underinvoicing of exports and overinvoicing of imports). Money borrowed by governments or raised through resource exports often goes missing; public infrastructure projects are executed at inflated costs, with the difference being pocketed by politicians and channelled abroad as capital flight. As of end of 2018, Angola lost as much as $103 billion through capital flight.[2] This is a country where 76 percent of the rural population lives in extreme poverty below $1.90 per day. The national poverty rate in Angola has risen from 34 percent to 52 percent in the past decade, and the number of poor people more than doubled from 7.5 to 16 million (World Bank). For the ordinary Angolan, capital flight means more hunger and more destitution.

1 Ndikumana, L. And Boyce, J.K. 2021. Updated estimates of capital flight from Africa 1970–2018. PERI Report, forthcoming.

2 Ndikumana, L. And J.K. Boyce (2021). *On the Trail of Capital Flight from Africa: The Takers and the Enablers*. Oxford University Press, forthcoming

A key mechanism of capital flight is embezzlement of the proceeds of oil extraction and tax evasion to the benefit of multinational corporations and the Angolan elite. For example, the former President's daughter, Isabel dos Santos has amassed massive wealth and established a global business empire by exploiting her influence in state enterprises such as Sonangol. The January 2020 'Luanda Leaks' report by the International Consortium of Investigative Journalists (ICIJ) identified more than 400 companies in Isabel dos Santos' business empire, including 94 in recognised tax havens (Shaxson 2021). Thus, Angola's wealth has served to lubricate financial systems in the West, not only in the usual offshore financial centres, but also in the 'supposedly onshore countries' like Portugal (Shaxson 2021).

Angola is not alone; and wealth capture is not limited to oil. For example, Côte d'Ivoire is better known for cocoa. As of end of 2018, the country had lost $55 billion through capital flight since 1970. Côte d'Ivoire is the world's top cocoa producer, accounting for 40 percent of global supply. Yet the country receives only 5–7 percent of the profit generated globally by cocoa (Merckaert 2020). Cocoa farmers get little reward for their hard labour. Most of the value of cocoa accrues to local intermediaries, international export and processing corporations, and powerful politicians. This system has been preserved by successive political regimes; everyone that matters gets their cut; the Ivorian people lose, but they have no means to change the system. As the country's wealth is expropriated through capital flight, the Ivorian people lack basic services. Less than 40 percent of the population have access to clean sanitation facilities.

*"Angola's wealth has served to lubricate financial systems in the West, not only in the usual offshore financial centres, but also in the 'supposedly onshore countries' like Portugal."*

South Africa, another richly endowed country, has suffered from capital flight orchestrated by an intricate network of players and enablers connected to both the domestic political system and the international financial system (Ndikumana, Naidoo and Aboobaker 2020). From 1970 to 2018, South Africa lost a staggering $329 billion through capital flight. The proceeds of massive misinvoicing of mineral exports, embezzlement of state resources in the context of 'state capture' by powerful and politically connected individuals and corporations, and corporate tax evasion have fuelled the accumulation of private wealth in offshore financial centres. The inability to take full advantage of its own resources is a major reason for the slow progress in poverty reduction in 'the most unequal country in the World'.[3] The top 10 percent richest of the population own 51 percent of the country's wealth; the bottom 10 percent hold less than 1 percent.

## Capital flight, a reincarnation of colonial resource plunder

Capital flight from Africa is a modern-day reincarnation of the colonial state-led plunder of the continent's natural resources. In this new scramble for Africa, multinational corporations replay the Berlin Conference of 1884-85 and compete for a slice of the African cake. In a world with weak corporate sector regulation, multinational corporations capture Africa's resources for cheap and repatriate profits, leaving behind an impoverished population and a devastated environment.

Modern-day plunder of African resources operates along a sophisticated criminal enterprise value chain (Ayogu 2020), from the predicate crime (origins of the illicit funds), to the illicit cross-border transfer of funds, all the way to the concealment of the proceeds in the poisoned paradises called tax havens. The plunder of Africa's wealth is aided by an intricate transnational takers network that takes advantage of structural flaws in the international regulatory system.

3 Pomerantz, K. 2019. The Story Behind TIME's Cover on Inequality in South Africa. *Time*, 2 May,

The wealth of High Net Worth Individuals, corporations, and politicians is channelled through safe havens with the help of custodian banks and an industry of enablers comprised of law firms, accounting firms, audit firms, and other deal makers. Thus, the origins of the wealth are disguised, and the true beneficial owners are made 'invisible' with the stroke of a pen. Hence, financial crime is separated from the criminals; impunity prevails.

## So, what to do about it?

From a micro perspective, evidence suggests that capital flight is not primarily the outcome of normal portfolio choice by African wealth holders (Ndikumana, Boyce and Ndiaye 2015). Therefore, while policies aimed at increasing returns to domestic investment in Africa are desirable, they are not effective in deterring capital flight. A better strategy is to strengthen the human and technical capabilities and effectiveness of specialised national institutions such as customs services, financial intelligence units, and anti-corruption agencies, to increase the capacity to detect fraud, embezzlement of public resources, illicit financial transactions, and trade misinvoicing, and to increase penalties for financial crimes. In other words, the key is to ensure that financial crime does not pay; whoever does the crime must do the time.

At the macro level, while macroeconomic stability and growth are desirable, they are not a sufficient deterrent of capital flight. Macroeconomic policies aimed at raising the returns to investment such as high interest rates are unlikely to stem capital flight, even as they suffocate domestic investment (Fofack and Ndikumana 2015). No interest rates can be high enough to persuade criminals to leave stolen money within the reach of the legal authority.

*"While the costs of capital flight are shouldered by African economies, the gains from stemming capital flight and improving international financial transparency will be shared globally."*

Africa needs strong rules and institutions that keep private and public sector corruption in check. At the national level, African governments must establish strong legal frameworks on transparent and accountable management of natural resources. This involves notably systematic publication of records on domestic and foreign investments in extractive industries, tax payments by corporations operating in these industries, as well as open legal proceedings of prosecutions of economic crimes. The African public has the right to know who operates in extractive industries, how much is produced, how much is exported, and how much revenue accrues to government coffers. Only then can African people hold their governments accountable, and eventually reap the gains from natural resource exploitation in the form of social development outcomes.

At the global level, the key is to increase transparency in trade and finance, especially breaking the tradition of banking secrecy, and combatting trade misinvoicing and abusive transfer pricing. The worst culprits of banking secrecy are not necessarily remote islands in the tropics, but rather major financial centres in advanced economies notably the United Kingdom and its territories, the United States, Switzerland, the Netherlands and others (Tax Justice Network, Financial Secrecy Index 2020). These are also Africa's leading donors. They could increase the effectiveness of their aid to the continent by helping to plug the leakage of Africa's wealth by denying a home to illicit flows from the continent. The adoption of universal automatic exchange of tax information is a major step in combatting trade misinvoicing, abusive transfer pricing and concealment of private wealth abroad. In addition, a shift to unitary taxation of multinational corporations, which would end the practice of considering subsidiaries of an MNC as separate independent entities for tax purposes, would greatly help in combatting corporate tax evasion (ICRICT).

Building national and global support for policies against capital flight requires shifting the conversation from capital flight being an African or developing countries problem to being a global problem. In this respect, it is important to emphasise that while the costs of capital flight are shouldered by African economies, the gains from stemming capital flight and improving international financial transparency will be shared globally.

*Léonce Ndikumana is a Distinguished Professor at the University of Massachusetts Amherst where he directs the* African Development Policy Program *at the Political Economy Research Institute. He is also a member of the Independent Commission for the Reform of International Corporate Taxation* (ICRICT)*. He is the author and editor of books including* Capital Flight from Africa: Causes, Effects and Policy Issues *(with Ibi Ajayi),* Africa's Odious Debts: How Foreign Loans and Capital Flight Bled a Continent *(with James Boyce), and dozens of academic publications.*

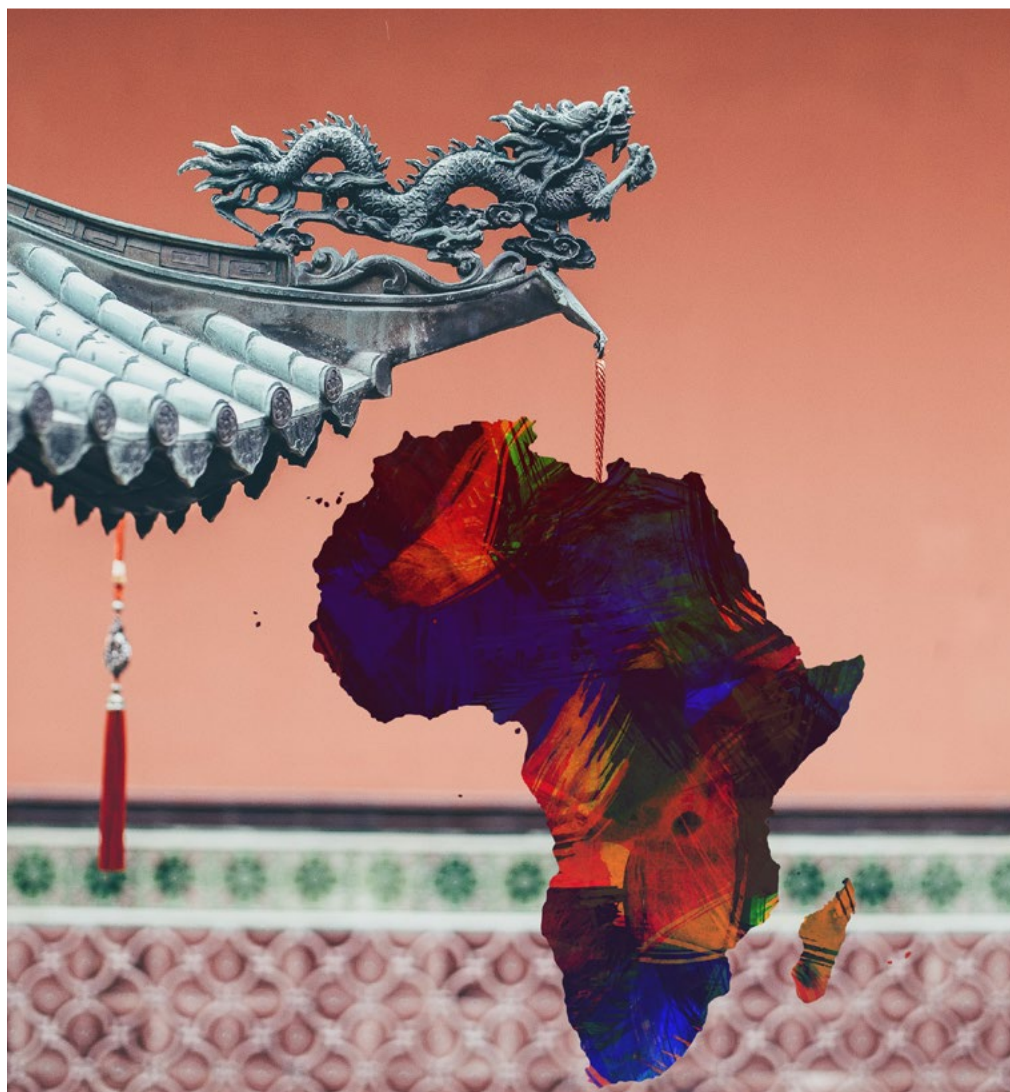
# CHINESE ENGAGEMENT IN AFRICA: BEYOND THE CARICATURE

feature

**W. Gyude Moore**

*Western commentary on China's engagement with Africa often treats it as new form of colonialism. In this article* ***W. Gyude Moore*** *looks beyond this simplistic framework to analyse China's approach on its own terms, and sets out some of the ways in which African countries can secure greater leverage in their negotiations with all of the great powers.*

China's emergence as a competitor to the United States and its Western allies has evoked hyperbolic descriptions about its motives and methods in Africa. Chinese debt to African countries has been caught in Western accusations of China's alleged 'debt trap' diplomacy. These conversations have both elided the context in which China's relationship emerged and failed to address the staying power of the colonial nature of Africa's trade and commercial ties with all external actors, including China. This discussion attempts to explore the actual origins and nature of Chinese engagement in Africa and draw attention to the change required in Africa's relationship with the world.



## The beginning of Africa-China engagement

In 2000, African Presidents, dozens of ministers from China and Africa, and representatives from various international and regional organizations met in Beijing for the first Forum on China-Africa Cooperation. Over the next twenty years, the Forum would become the key mechanism for Chinese engagement on the continent. Held every three years, the Forum on China-Africa Cooperation culminates in an announcement of ever increasing amounts available for loans and aid to African countries. Beginning with $1 billion in 2000 and rising to $60 billion in 2015 and 2018.

During this time China's engagement has superseded that of other external actors on the continent. Construction companies spread across the continent building railways (over 6,000 kilometres), roads (over 6,000 kilometres) ports (about 20), and power plants (over 80). China's seemingly insatiable appetite for African commodities fuelled a boom and delivered growth across the continent's many resource-dependent economies.

But questions arose about China's true intent in Africa. Was the goal to replace the Washington Consensus with the Beijing Consensus?[1] Was this a new form of colonialism?[2] These questions, usually raised in Western press, were never based on evidence since China's undertaking was never coherent and cohesive enough to be called a consensus and the voluntary nature of its bilateral relationships was a far cry from colonialism.

*"But questions arose about China's true intent in Africa. Was the goal to replace the Washington Consensus with the Beijing Consensus? Was this a new form of colonialism?"*

## So how did China come to be such a dominant actor in Africa in just two decades?

An *Economist* piece from five months before the first Forum on China-Africa Cooperation offers an insight into the West's own consensus on Africa's prospects in 2000. In a piece called 'Hopeless Africa', the authors use Sierra Leone as a stand-in for the entire continent, writing that the country "is an extreme, but not untypical, example of a state with all the epiphenomena and none of the institutions of government" and that "it has poverty and disease in abundance, and riches too: its diamonds sustain the rebels who terrorise the place."[3] Nothing in this passage is technically inaccurate. An HIV-AIDS pandemic had ravaged parts of central and southern Africa. The continent's plethora of civil wars had precipitated humanitarian catastrophes that sent refugees streaming across borders. Africa's external debt profile had worsened considerably such that by the end of 1990s the region's debt had skyrocketed to $271.9 billion.[4] To address the low income countries' debt crisis, the High Indebted Poor Countries Initiative (HIPC) was launched in 1996. In 2000, the UN launched its Millennium Development Goals, with Africa central to the campaign against extreme poverty. For many in the West, Africa was perceived as a problem to be solved and not a partner for business.

For China however, which was solidifying its place as the world's factory, Africa provided an opportunity free of rivals. For a continent lagging behind every other region in infrastructure and labour productivity, locked out of international financial markets, and facing borrowing constraints, the Chinese engagement was a gift from the gods. Beyond financing and construction projects, China's lack of concerns about rights violations, corruption, or poor public financial management suited African autocrats. Chinese loan agreements with undisclosed terms and no-bid contracts blossomed in countries with weak accountability systems. Without guardrails to protect against cost inflation or public debate about debt terms, these deals sowed the seeds of the modern criticism of Chinese lending in Africa.

But efforts to describe Chinese-financed projects as debt traps are not backed by evidence. As my colleagues at the Center for Global Development note, "It is a myth that massive Chinese lending has only supported white elephant projects and bridges to nowhere. In reality, evidence suggests that Chinese financed infrastructure projects have had positive economic effects for many developing countries."[5]

## Africa's Relationship with the Rest Today

What has gotten lost in accusations of debt traps and neo-colonialism is the underlying, unchanging pattern of African trade with the rest of the world. The arrival of China has not altered the colonial origins and character of this pattern. Africa remains trapped in trade dynamics – where the continent exports raw materials and imports finished goods – that were first developed during the colonial era when Africa served as a feedstock to advanced economies.

These dynamics have important effects today. In a study of world merchandise exports between 1948 and 2015, no African country was among the top 30 exporters of goods and services. With Africa's exports skewed towards primary commodities, the continent is vulnerable to price shocks. The maintenance of this extractivist model is responsible for the widening income gap between Africa and the rest of the world and it has sustained the exodus of Africans looking for opportunities elsewhere.

Africa's engagement with the rest of the world has always been from a position of weakness. In some ways, Africa-China engagement today continues this trend, with China setting and announcing the Forum on China-Africa Cooperation agendas.[6]

It is important not to minimise the impact of the suboptimal decisions and political distortions wrought by Africa's leaders. There is no substitute for local leadership and unless the quality of governance improves, it is difficult to imagine how Africa will ever improve the terms of its loan or trade agreements. No external actor,

1 https://dealbook.nytimes.com/2011/01/28/what-is-the-beijing-consensus/

2 https://www.theguardian.com/cities/2018/jul/31/china-in-africa-win-win-development-or-a-new-colonialism

3 https://www.theatlantic.com/international/archive/2021/02/china-debt-trap-diplomacy/617953/

4 https://www.econstor.eu/bitstream/10419/140384/1/v28-i01-a07-BF02928100.pdf

5 https://www.cgdev.org/publication/chinas-role-developing-countries-resetting-us-policy-3-cs-agenda

6 https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1844079.shtml

*"Africa remains trapped in trade dynamics – where the continent exports raw materials and imports finished goods – that were first developed during the colonial era when Africa served as a feedstock to advanced economies."*

bilateral or multilateral, will assume more responsibility for the continent's future than its citizens.

## What can be done

COVID-19 has plunged the continent into its first recession in 25 years and recovery will be difficult, but Africa's partners can help. By the end of the pandemic, government spending (a significant portion across the developed world) and private borrowing to mitigate the pandemic's effects had risen by $24 trillion dollars.[7] It is an indication that the developed world has the economic wherewithal to assist Africa in breaking out of colonial patterns. With 54 votes in international forums, African states must begin to collectively advocate in both multilateral and bilateral relationships, an agenda that seeks to break free from this pattern. At summits like the Forum on China-Africa Cooperation, they need to influence the agenda to reflect this objective. Below are three recommendations for what this new agenda would entail:

1. A truce on the developing Great Power competition in Africa: The scale of Africa's infrastructure and social services funding gap means that the continent will need both the United States and China and must not be pushed into selecting one over the other. The Chinese will remain dominant in infrastructure financing and continue to find willing partners in Africa, and the West needs to accept it. But agreements that lack transparency and need better governance undermine long-term growth. Africa needs its Western partners for continued investment in education, training, health, and soft infrastructure, like border systems and customs control, that make integration possible. Africa needs the unique competences of these external actors and cannot afford to have a single partner of choice.

2. Provide support for industrial policy in Africa. The pandemic has made clear the impact of the lack of industrial capacity. Without industrial policy, the much-needed process of both sophistication and diversification of exports will stall.[8] Whether at the WTO, World Bank or IMF, Africans need to push for an international system that supports industrial policy. Multilateral institutions set the global agenda for development policy and their ambivalence or hostility to industrial policy undermines African growth and development.

3. Support the continent's effort at regional integration. On January 1st, 2021 the continent began trading under the Africa Continental Free Trade Area. Its progress will be long and difficult but as a single market, Africa's leverage in negotiations and ability to attract investment will improve. Yet China,[9] the UK,[10] and the US are pursuing bilateral trade agreements diverting attention and resources from the continental model.

4. Provide support for climate resilience and adaptation. As the development community discusses building back better and greener post-COVID-19 it is imperative that support be provided for Africa. The region is disproportionately affected by climate change and yet accounts for just 3 percent of cumulative $CO_2$ emissions.[11] Without real, material support for climate resilience and adaptation, the current climate trajectory could force 100 million people into extreme poverty by 2030.[12]

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7 https://www.iif.com/Portals/0/Files/content/Global%20Debt%20Monitor_Feb2021_vf.pdf

8 https://republic.com.ng/october-november-2020/unprofitable-diseases/

9 https://www.scmp.com/news/china/diplomacy/article/3116198/china-mauritius-free-trade-deal-creates-model-beijings-trade

10 https://www.dw.com/en/uk-africa-trade-what-will-brexit-change/a-56262464

11 https://www.energyforgrowth.org/blog/what-happens-to-global-emissions-if-africa-triples-down-on-natural-gas-for-power/

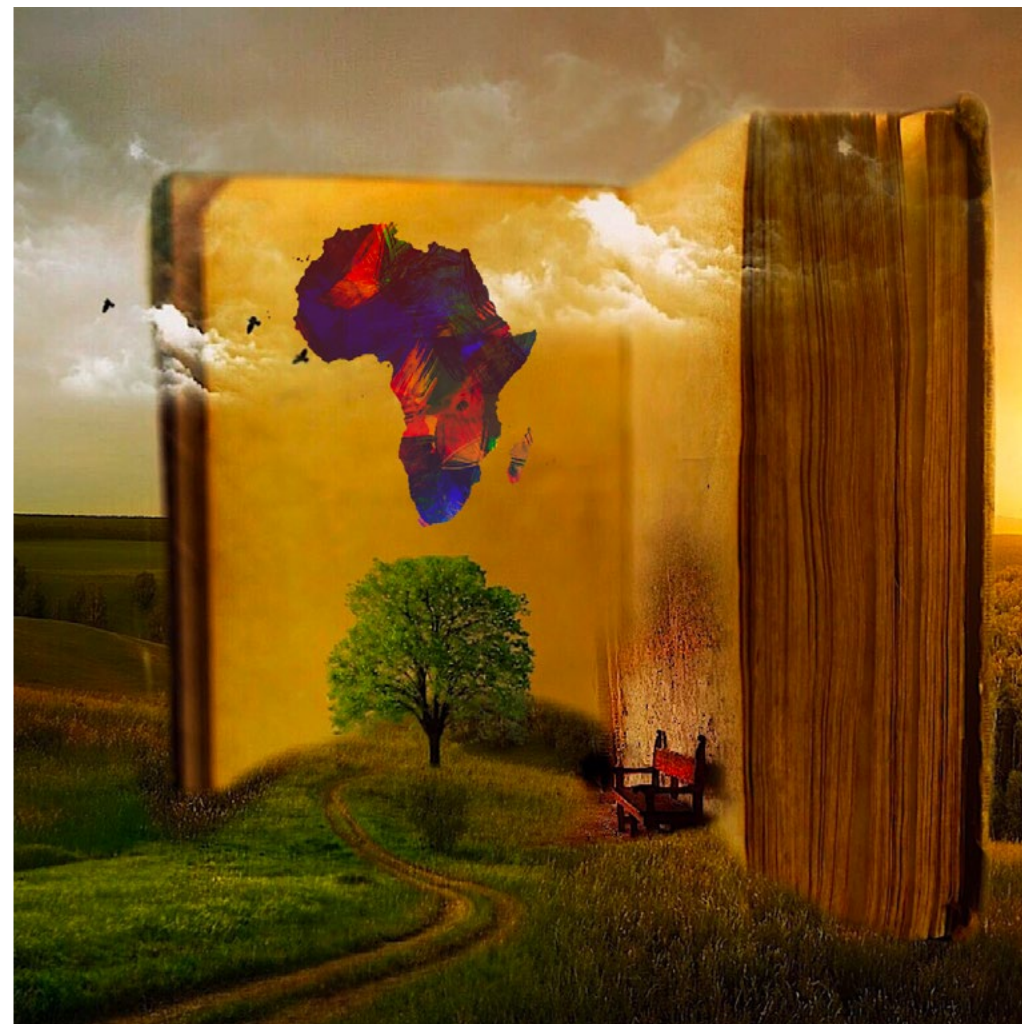
12 https://www.brookings.edu/research/africa-can-play-a-leading-role-in-the-fight-against-climate-change/

# AFRICA'S PATH TOWARDS RESILIENCE AND SOVEREIGNTY – THE REAL WAKANDA IS WITHIN REACH

feature

**Fadhel Kaboub**

*Colonialism stripped Africa of agency and confidence as well as material resources. In this article* ***Fadhel Kaboub*** *sets out a path towards independence and prosperity. He calls for a thorough-going rejection of the policy prescriptions offered by the former colonial powers, a renewed faith in the energy and creativity of Africa's peoples, and a step-by-step programme to build sovereignty through the expansion of domestic production in energy, food and value added goods.*



Africa was not colonised because it was poor, but because it was, and continues to be, very rich. Colonialism was fundamentally about extracting natural resources and labour power. But it was also about establishing an economic, political, legal, educational and cultural ecosystem that institutionalised its abusive power structure, presented that structure as the only model of economic development, and persuaded the natives to embrace and reproduce it long after the colonisers left. Colonial institutions were not just administrative, bureaucratic, organizational, and legal codes. They were also habits of thought and routines of behaviour that were deeply embedded within the social fabric.

So how can African nations undo these colonial and neocolonial shackles and mobilise their resources to achieve higher quality of life, prosperity, equity, and justice for their people? First, we need to undertake a detective-like analysis to reveal the origins of these neocolonial shackles. Second, we must acknowledge that we need a coherent long-term vision for a comprehensive, multipronged, and sustained policy framework that cannot be interrupted by short-time political calculations. Third, we need to establish a rigorous financing mechanism that is transparent, just, and sustainable. In what follows I argue that a real-life Wakanda is actually within reach and that we have a realistic policy framework to achieve it.

*"Colonial institutions were not just administrative, bureaucratic, organisational, and legal codes. They were also habits of thought and routines of behaviour that were deeply embedded within the social fabric."*

## Root Causes and Quagmires

African countries acquired territorial sovereignty after independence but they never developed a high degree of monetary sovereignty because of three structural deficiencies: the lack of food sovereignty, lack of energy sovereignty, and the low value-added content of exports relative to imports. Higher degrees of monetary sovereignty allow a country to be more resilient to external shocks, more economically independent, and more able to mobilise domestic resources for the public good without additional external debt burdens or inflationary pressures.

The three structural deficiencies mentioned above are typically the key pressure points that produce large trade deficits, which subsequently put downward pressure on the exchange rates of African currencies relative to major currencies like the US dollar and the euro. A weak exchange rate means that imports of basic necessities such as food, fuel, and medicine will be more expensive. This type of inflation often leads to social and political instability, which governments typically avoid by subsidizing the price of basic necessities, and by artificially keeping their exchange rate strong via the accumulation of debt denominated in foreign currencies. This external debt accumulation is believed to be a solution when it's in fact a quagmire. Prioritizing debt payments often means reducing budget allocations for education, health, and critical infrastructure investments. Furthermore, the policies that are designed to increase foreign currency earnings to pay off the debt end up deepening the quagmire.

For instance, policies that encourage tourism end up increasing food and fuel imports to feed, transport, house, and entertain millions of tourists. Policies that encourage exports end up leading to more imports of fuel, capital equipment, and intermediate inputs. Policies that promote foreign direct investment (FDI) end up increasing imports of fuel for energy production and transportation. Policies that encourage outbound immigration in order to increase remittances of foreign currencies end up promoting brain drain. Policies that promote the liberalization of financial services end up hurting domestic investors and inviting speculative attacks from abroad. All of these policies masquerade as solutions when they make the problem worse. The damage these policies do is made worse by a global race to the bottom that forces most developing countries into lower labour and environmental standards, more regulatory and fiscal concessions to foreign investors, and ever more dependence on the Global North. These structural traps are the result of the so-called Washington Consensus, whose structural adjustment policies are often the precondition for any World Bank of IMF loans.

This analysis suggest that the only way out of these traps is to invest in sustainable agriculture and renewable energy, and to invest in education, vocational and technical training, research and development, and basic infrastructure in order to accomplish higher degrees of food and energy sovereignty as well as an industrial basis focused on higher value-added content.

## A United African Vision: A Real-Life Wakanda

If Africa doesn't have a coherent and unified long-term vision for itself, it is certainly going to continue being part of someone else's vision (i.e. Europe, the U.S., and China). A real-life Wakanda is not going to be imported from, or delivered by, the Global North; it will be built by Africans, for Africans. That requires a collective vision and commitment to sustained efforts over the next three to five decades focused on three core pillars: food, energy, and high value-added manufacturing.

African economic sovereignty implies resilience to external shocks that often lead to counterproductive policy priorities such as agricultural policies that are aimed for increasing export revenues to favour export crops while undermining domestic food security. Allocating the most precious water resources and the most fertile land to the production of export crops like strawberries is the most inefficient and unsustainable use of resources.

Ensuring food sovereignty begins with sustainable agricultural strategies to restore soil health and to reallocate land and water use to enhance food security. These policies should be supplemented by localised investments in aquaponics farming which produces 100% organic leafy greens and high quality proteins, while using 90% less water compared to traditional agricultural techniques, no fertile soil, and no chemical fertilizers.

We cannot have a prosperous economy without adequate energy production capabilities. Africa has tremendous potential for renewable energy production including solar, wind, tidal, and geothermal energy. The goal is to build a resilient and carbon-free electric grid to power the entire continent via a network of national and regional grids, supplemented by microgrids, and energy storage capabilities. The manufacturing, installation, and maintenance of this critical infrastructure will create millions of well-paid jobs and will improve access to electricity, reduce pollution, improve health outcomes, and boost overall quality of life across the continent.

Africa's industrial strategy cannot prioritise the needs of the Global North by continuing to serve as the source of cheap raw

materials and assembly line for low-paid workers. The obsessive focus on economic growth for its own sake, and the myth of "catching up" and competing in the global economy are two of the most destructive habits of mind in the Global South. The alternative is a South-South regional trade and cooperation industrial strategy that promotes competition among equals, complementary and strategic collaboration in heavy industry, and resilience-focused industries such as energy, health, broadband internet, and transportation. The South-South trade model leverages complementary resources from multiple countries, allows for specialization, shared responsibility, research and development, job creation, and access to a larger consumer base in the entire region, which allows for economies of scale to kick in and makes industrialization profitable.

The guiding principles of this vision cannot be the traditional metrics of economic growth and export revenues, but rather a broad dashboard of environmental, social, and economic indicators focused on quality of life and resilience.

## How to Pay for it?

The Global South hands $2 trillion to the Global North every year. And yet even if Africa's external debt was to be cancelled today, the neocolonial mechanisms of extractive finance would quickly build up more. This financial extraction is compounded by the relentless extraction of natural resources and brain power. A real-life Wakanda cannot be built unless both these forms of extraction are reversed.

The policies suggested above are necessary but they may not be sufficient to restore an economic, social, and ecological balance quickly enough.

In order to accelerate the transition to a real-life Wakanda, there is a case to be made for a substantial transfer of financial and technological sources from the Global North to the Global South. This is not a plea for help or charity. This is a call for climate, colonial, and neocolonial reparations. The Global North is responsible for the vast majority of $CO_2$ emissions since the industrial revolution; that is a climate debt. The existing economic deficiencies in the Global South can be directly traced back to extractive colonial and neocolonial policies. There is also a case to be made for decades worth of colonial and post-colonial debts to compensate Africans for abuse, violence, genocide, cultural appropriation, and biopiracy.

*"A real-life Wakanda is not going to be imported from, or delivered by, the Global North; it will be built by Africans, for Africans."*

Debt cancellation and reparations (both financial and in-kind technology transfers) are the first step in an economic, social, and ecological restorative justice process. This is the pre-requisite for acquiring a higher degree of monetary sovereignty for African nations, which can then be leveraged to build productive capacity, invest in research and development, indigenous technologies, eco-housing, eco-tourism, cultural heritage preservation, and adequate care for people and nature. African governments can use a Job Guarantee program as a policy platform that mobilises domestic labour resources to invest in strategic resilience areas such as food and renewable energy production. All government spending takes the form of domestic currency injections into the economy. It does not requires "external financing" from international creditors. The key is to make sure that whatever the domestic workers plan to purchase with their hard-earned income is either available domestically or can be purchased from abroad without putting too much pressure on the exchange rate.

Since we know what the average workers spend their income on (food, shelter, clothing, transportation, entertainment, etc.), we can easily anticipate how much additional demand will be created, so we can introduce strategic investments to boost productive capacity in those areas in order to prevent inflation and reduce dependence on imports, which ultimately reduces the country's external debt burden and strengthens its economic and monetary sovereignty. However, it is important to emphasise that there are abusive forces that suffocate the spending capacity of African governments. Corruption, exclusive market shares, and abusive price-setting behavior (often sanctioned via corrupt practices) are the real domestic constraints that democratic governments must tax and regulate out of existence.

Once we settle climate, colonial, and neocolonial debts and unshackle African nations from those grips, African governments will be able to mobilise their own resources to promote full employment and price stability by building the productive capacity needed for a real-life Wakanda. A Wakanda-like system cannot be governed by corrupt elites that are influenced by domestic and foreign corporate power. A Wakanda-like participatory democracy must be a government of, by, and for the people. The reality of an economically sovereign, resilient, prosperous, just, and equitable African continent is within reach, and it begins by educating, organizing, and mobilising millions of Africans to decolonise their economies, their educational systems, and every aspect of post-colonial institutions.

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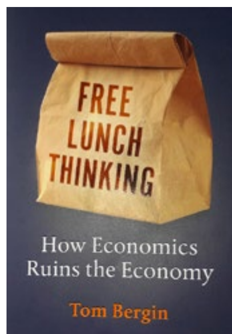
# book review




## Free Lunch Thinking: How Economics Ruins the Economy

Tom Bergin

Random House Business, 2021

In October 2000 I went climbing in the Trossach mountains with Margaret Thatcher's supply-side economics guru, Patrick Minford. He was fascinated by tax havens, waxing on about how tax competition forces governments of other countries to lower taxes on capital and substitute consumption taxes like VAT, which he considered somehow 'fairer'. Low taxes, he enthused, encourage wealthy people to invest more, while also encouraging 'wealth-creators' to work harder. Better still, tax cuts yield increased government revenues thanks to a mysterious alchemy called the Laffer Curve. What could be more seductive than that? Politicians on both right and centre-left lapped up these supply-side nostrums, which by now, as Tom Bergin notes in this excellent book, have become "so embedded in the DNA of classical and neoclassical economic theory that (they are) difficult to shift."

Shift they must, however, because despite all the enthusiasm of supply-side theorists, their ideas simply don't reflect observable reality. In practice, business surveys from the 1960s onwards have shown that tax rates have no or minimal influence on investment in new equipment, or research, or training, or anything to do with the productive economy. Nor is there evidence to support the idea that high taxes deter people from working. Nor for that matter, has slashing corporate tax rates led to higher wages for workers (disproving the half-baked 'incidence' arguments touted by the Oxford Centre for Business (non)Taxation, a lobby group).

A cottage industry of economic modellers has purported to show that low taxes generate rapid growth and high taxes lead to stagnation. For decades, supply-side economists waited for really existing neoliberalism to prove them right. But the evidence suggests otherwise, and the models have been quietly abandoned.

But lack of evidence has never deterred the corporate shills or snake-oil economists, and Art Laffer's ideas live on, for example in Prime Minister Johnson's enthusiasm for re-introducing freeports to the UK, another idea carried forward from the 1980s despite plentiful evidence that they really didn't work back then. Still, as Einstein argued, it takes madness to repeat an experiment in the expectation of a different result second time round.

*Free Lunch Thinking* is a fascinating deep dive into the history of how the economics of tax policy has been (mis)shaped by supply-side thinking. An early experiment in radical tax-cutting by US Treasury Secretary Andrew Mellon, a banking tycoon, serves as a fine example (or a horrible warning!) of how tax cuts play out in the real economy. Over the course of the 1920s Mellon slashed income tax rates for wealthy Americans; stockbrokers jived down Wall Street, and tax revenues rose. Vindication for the supply-siders? Well, as everybody knows, it didn't end well, and Mellon's reputation for economic acumen was trashed as a result.

In the decades following the Wall Street crash, the ideas of British economist John Maynard Keynes came to the fore. Keynes was concerned with demand, and saw the state as a key agent in regulating economies to avoid boom and bust. According to Keynesians, Mellon got things completely out of synch: when the economy was booming in the mid-20s he should have raised taxes to withdraw demand from the economy. When Wall Street went bust he should have injected demand by increasing expenditure at ground level. In economics-speak, he exacerbated the crisis by applying pro-cyclical rather than counter-cyclical measures. Mellon is mainly remembered for catastrophic mismanagement.

Yet come the 1970s, Keynesian demand management policies struggled with both weak growth and rising inflation, a combination known as 'stagflation', and as the OPEC-induced oil crisis caused private investment in both the UK and USA to slump, supply-siders waiting in the wings pushed hard to rehabilitate Mellon's ideas. At that time, supply-siders were widely dismissed as "charlatans and cranks", and in 1980 Vice President George H.W. Bush famously described Laffer's curve as "voodoo economics". Ronald Reagan, however, and successors such as Donald Trump, thought otherwise.

Indeed, Trump took advice from Art Laffer before and during his Presidency and awarded him the Presidential Medal of Freedom, the United States' highest civilian honour, in 2017. That same year Trump made the Tax Cut and Jobs Act the centrepiece of his economic policies. Biden, of course, must reverse that act without delay to avert disaster in the coming years.

Despite scepticism among most economists, since the 1980s supply-side ideas, and tax cuts in particular, have become the mainstay of conservative economic thinking. Even in the face of the catastrophic banking crash of 2008, the conservative response was to impose austerity on the poor and tax cuts

# book review (continued)

for the rich. Needless to say, the promised private investment-led recovery was feeble, real wages continued to stagnate, private and corporate debt rose steeply, and inequality reached alarming peaks.

So is Bergin justified in arguing that economics has ruined the economy? I mulled this question as I walked across the snowbound Chiltern hills this morning. On reflection I think his accusation stacks up. Pre-Covid, supply-side thinking remained the dominant narrative and heterodox economists, including me, struggled to persuade politicians and the wider public that tax policies need a comprehensive rethink. The pandemic might prove a game-changer in this respect.

As you'd expect from an award-winning journalist, Bergin combines evidence and anecdote into a rich and highly readable book about the theoretical underpinnings of tax injustice, making this an invaluable read for the tax justice community. Make space for it alongside your other lockdown reading.

**John Christensen**

# news in brief...

## Tax Justice Network, Annual Conference

Co-organised by the Association for Accountancy & Business Affairs, City University of London, the Tax Justice Network and the Tax and Gender Working group of the Global Alliance for Tax Justice, this year's virtual conference is the latest in an annual series dating back to 2003. The events bring together researchers, academics, journalists, civil society organisations, consultants and professionals, along with elected politicians and their researchers, and officials from national governments and international organisations. The purpose is to facilitate research, open-minded debate and discussion, and to generate ideas and proposals to inform and shape political initiatives and mobilisation.

The organisers wish to invite original, high quality papers for presentation, in the broad field of human rights and the 4Rs of tax justice: revenues, redistribution, repricing and representation. More details can be found at https://www.taxjustice.net/2021/02/17/call-for-papers-human-rights-and-the-4-rs-of-tax-justice-tax-justice-network-annual-conference

## Nobel Prize Nomination for the Tax Justice Movement

Three Norwegian politicians have nominated the international tax justice movement for the Nobel Peace Prize. The nomination is shared by the Global Alliance for Tax Justice and the International Consortium of Investigative Journalists.

The Tax Justice Network was formally established in 2003, and began to build a global network of experts and civil society organisations. The Global Alliance for Tax Justice was spun out of the Tax Justice Network in 2013 as the umbrella body for mass mobilisation organisations working on tax justice around the world.

## Landmark United Nations Study Published

The UN High-Level Panel on International Financial Accountability, Transparency and Integrity (the FACTI panel) was launched in March 2020 to study the impact of tax abuse, money laundering and illicit financial flows on the ability of states to meet the UN's Sustainable Development Goals by 2030. It reported in Feburary 2020 and calls for powerful, specific policies to be implemented, in respect of both tax transparency and international tax rules. It also envisages sweeping reforms to the global architecture. In each area, a raft of tax justice proposals are adopted.

The Tax Justice Network's chief executive Alex Cobham comments that 'it's not often that you can celebrate an outright, global triumph for the advocacy efforts of a movement.' This report's publication is one such rare moment.