Global Capital Flows and Developmental States in Africa: A Political Economy Analysis of External Financing and Domestic Policy Space

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Abstract

African states face a persistent development challenge in which the external finance required for industrialization often limits the policy autonomy needed to achieve sustainable economic transformation. This paper examines how successive waves of external financing Structural Adjustment Programmes (SAPs), Chinese infrastructure financing, and Eurobond borrowing have influenced Africa's policy space and developmental sovereignty. The study adopts a qualitative, interpretive approach based on secondary data from peer-reviewed literature and reports published by the United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF), African Development Bank (AfDB), Afreximbank, it further argues that recent debt crises, including Zambia's 2020 default and Ghana's debt restructuring, reflect both weaknesses in the global financial architecture and domestic governance challenges. Persistent illicit financial flows, estimated by UNCTAD at approximately US$88.6 billion annually, continue to undermine domestic resource mobilization and industrial development. The paper recommends strengthening domestic revenue mobilization, curbing illicit financial flows, improving debt management, and advancing international reforms of sovereign debt restructuring. It concludes that policy space is strengthened through effective institutions, sound governance, and strategic economic policymaking rather than external financing alone.

Keywords: *developmental state; policy space; external financing; sovereign debt; political economy of development*

INTRODUCTION

The question of how poor countries grow rich has never been settled, and Africa sits at the sharp end of it. Every serious account of late industrialisation Japan, South Korea, Taiwan, more recently China describes a state that did more than referee markets. It picked sectors, disciplined firms, channelled credit, and shielded infant industries long enough for them to stand (Amsden, 1989; Wade, 1990). Chalmers Johnson gave this arrangement its name in his study of Japan's economy ministry (Johnson, 1982), and the label "developmental state" has travelled far since. What travels less easily is the underlying condition: a government able to set its own economic course. That capacity, which the literature calls policy space (Chang, 2002)

The global picture looks generous. Capital moves across borders in volumes that dwarf anything available to earlier developers. Aid, foreign direct investment, portfolio flows, bilateral loans, bond issues an African finance minister in 2024 has, on paper, a wider menu than a Korean counterpart did in 1965. Yet abundance has not translated into autonomy. Much external finance arrives attached to conditions, collateral, or expectations that circumscribe how a government may act (UNCTAD, 2024; OSAA, 2024). The ladder that today's rich countries climbed, Chang (2002) argued, has been quietly pulled up behind them; the tools of tariff protection and directed credit that built industry in the North are now discouraged, and sometimes prohibited, for those still climbing.

Africa's post-colonial governments inherited economies structured for extraction, then spent the 1980s and 1990s under the tutelage of structural adjustment. The programmes, introduced across more than forty sub-Saharan states, made macroeconomic stabilisation and liberalisation a precondition of finance (Michigan Journal of Economics, 2024), and in the process constrained governments' ability to pursue independent development strategies. The Chinese financing wave that followed seemed, for a decade or so, to offer an alternative architecture infrastructure without the familiar Washington conditionalities (ODI, 2024). Whether it delivered greater agency or simply substituted one creditor's leverage for another's remains, in Kapoor and Vasishta's (2026).

Dependency theorists of the 1960s and 1970s described a world economy that reproduced African underdevelopment through unequal exchange, and their influence on how the continent's economists read external finance has never quite faded (Kapoor & Vasishta, 2026). The developmental-state scholarship of the following decades shifted attention from external structure to state capacity: what, concretely, did successful late developers do (Johnson, 1982; Amsden, 1989; Wade, 1990)? Evans's (1995) notion of embedded autonomy a bureaucracy connected to business yet not captured by it became the touchstone. The two literatures were, for a time, treated almost as rivals: one emphasising what the world system did to poor countries, the other what capable states could do within it.

What changed the terms of the debate was the experience of the intervening decades. Structural adjustment seemed to many observers to vindicate the dependency reading — here was external finance explicitly reshaping domestic policy, with results that ranged from modest to damaging (Michigan Journal of Economics, 2024). Then the Chinese financing wave of the 2000s reopened the question of agency: here, apparently, was a creditor willing to fund infrastructure without the standard conditionalities, which some read as a genuine widening of choice and others as dependency in a new register (ODI, 2024; Kapoor & Vasishta, 2026). More recent work, including the volume edited by Moyo (2021) on African financial agency, has tried to fold these strands together, asking whether African states can construct developmental capacity under twenty-first-century financial conditions rather than whether structure or agency "wins." This paper positions itself in that synthesising conversation, and takes the recurrence of dependency across financing phases as its organising observation.

So, what is known, and what is missing? A good deal is known about the mechanics of each financing channel taken on its own the aid-effectiveness literature, the growing body of work on Chinese lending (CGD, 2024; China-Global South Project, 2026), and the debt-sustainability analyses that multilateral institutions produce in volume (IMF, 2024; World Bank & IMF, 2024). What appears less developed is a synthetic, political-economy reading that treats these channels as successive moments in a single relationship between external finance and domestic autonomy, rather than as separate policy problems. The problem addressed in this study can be summarized as follows: African countries require substantial external financing to bridge their infrastructure and development financing gaps, but the conditions attached to such financing often reduce the policy autonomy needed for sustainable industrialisation and economic transformation.

Successive financing models including Structural Adjustment Programmes (SAPs), Chinese infrastructure loans, and Eurobond borrowing have transformed rather than eliminated external dependency, exposing African economies to persistent debt vulnerabilities and financial instability. The growing debt burden, coupled with domestic challenges such as illicit financial flows and weak fiscal management, has constrained governments' ability to invest in critical sectors such as infrastructure, education, and healthcare, thereby undermining long-term development. The general objective of this study is to analyse how successive forms of external financing have shaped the domestic policy space available to African states in pursuing developmental goals.

Specific Objectives

i. To examine how the major forms of external financing Structure influenced domestic policy autonomy in African states

ii. To analyse the extent to which Africa's current debt distress reflects structural features of the global financial architecture rather than solely domestic policy failures.

iii. To assess the role of financial flows and other forms of resource leakage in undermining the fiscal capacity required for sustainable development in African countries.

Literature Review

The Developmental State

The developmental state is best understood as a particular configuration of state and economy rather than a regime type. Johnson (1982) coined the term in his study of Japan's Ministry of International Trade and Industry, describing an administration that treats economic development as its central purpose and builds the bureaucratic capacity to pursue it selecting industries, coordinating investment, and disciplining the firms receiving state support. The emphasis on discipline matters, and is often lost in casual usage: what distinguished the East Asian cases was less the volume of state support than the willingness to withdraw it from firms that underperformed.

Amsden (1989) and Wade (1990) filled in the mechanics through South Korea and Taiwan respectively. Subsidies were made conditional on export performance, which supplied an external benchmark that domestic political bargaining could not easily fake; credit was directed toward favoured sectors through state-influenced banking; and the state, in Wade's phrase, governed the market rather than deferring to it. Evans (1995) then added the relational insight that has proved most durable. A developmental bureaucracy, he argued, requires embedded autonomy dense ties to the private sector that supply information and reach, combined with sufficient independence to avoid capture by the firms it is meant to discipline. Too much distance yields ignorance; too little yields cronyism.

That balance is hard to strike and easy to lose, which may partly explain why the model has travelled less well than its early advocates hoped. Two further cautions are worth registering. The first is that the concept risks circularity: states are identified as developmental because they developed, which makes the category difficult to falsify. The second is that the original cases operated under external conditions Cold War market access, comparatively light conditionality that later developers have not enjoyed, a point taken up in 6.3 below. Recent African scholarship has accordingly treated the model less as a template than as an analytic, asking what developmental capacity would require under twenty-first-century financial conditions (Moyo, 2021).

External Financing

External financing covers the several channels through which foreign capital reaches African states: concessional aid, foreign direct investment, portfolio and bond flows, and bilateral loans, including the large volume of Chinese official and commercial lending (ODI, 2024; Daniel & Ojobi, 2020). Each channel carries a distinct logic. Concessional aid is priced below market and often earmarked by sector; foreign direct investment brings equity rather than debt, though in Africa it has concentrated heavily in extractive industries rather than the manufacturing a developmental strategy would prioritise, with inflows falling by roughly 3 per cent in 2023 to some USD 53 billion (UNCTAD, 2024). Commercial bond issuance offers speed and few conditions attached, but prices sovereign risk pro-cyclically cheap when markets are calm, prohibitive when they are not (CGD, 2024).

The distinction that matters for this paper is not the accounting category but the political one: how much each channel constrains the borrower's subsequent choices. A concessional loan carrying binding policy conditions and a collateralised commercial loan may sit in different columns of the balance of payments while imposing comparable limits on autonomy. Structural adjustment lending made liberalisation an explicit precondition of disbursement (Michigan Journal of Economics, 2024); Chinese infrastructure finance attached fewer policy conditions but accumulated dollar-denominated obligations whose servicing later narrowed fiscal room by other means (OSAA, 2024; ODI, 2024). The form of leverage differed; the effect on the room to govern was, in the end, not so different.

Two further features of the concept deserve noting. First, denomination matters as much as source. Because most African external debt is dollar-denominated, currency depreciation alone accounted for over 70 per cent of the continent's debt increase in 2023 (OSAA, 2024), a constraint that arises from the architecture of global finance rather than from any lender's intent. China's recent move toward renminbi-denominated lending (CGD, 2025) alters this exposure without removing it, trading one vulnerability for another. Second, external financing should be read alongside external outflows. UNCTAD (2020) estimates that roughly USD 88.6 billion leaves the continent annually through illicit channels, an amount comparable to aid and FDI combined; a concept of external financing that counts only what arrives will overstate the resources actually available.

Theoretical Framework

Dependency theory emerged in the 1950s and 1960s as a challenge to modernisation accounts of development. Where modernisation theory treated poverty as a starting condition that poor countries would grow out of by following the path already taken by the industrialised West, dependency theorists argued that underdevelopment was not a stage but an outcome one actively produced by the way peripheral economies were integrated into the world system. The relationship between rich and poor countries, on this reading, is relational rather than sequential. The core develops partly through the periphery's subordination, extracting surplus through unequal exchange in trade, investment, and finance. Frank and Amin developed the framework in Latin American and African contexts respectively, while Rodney applied it most directly to the African case, tracing the continent's structural position to colonial extraction and its persistence beyond formal independence (Kapoor & Vasishta, 2026; Adah et al., 2025).
Three claims follow that bear on this study. First, the terms of integration matter more than the volume of engagement: a country deeply connected to world markets may be more constrained, not less, if that connection is structured around commodity export and capital import. Second, external finance is not neutral. Aid, loans and investment enter the periphery on terms set elsewhere, and their conditions explicit policy conditionality, collateral requirements, or the discipline of foreign-currency obligations tend to reproduce the dependence they nominally relieve. Third, what leaves matters as much as what arrives, which makes the scale of illicit outflows from Africa, estimated at roughly USD 88.6 billion annually and comparable to aid and FDI combined (UNCTAD, 2020), a central rather than incidental fact.

The tradition's principal weakness is equally well known and should be acknowledged rather than glossed. In its stronger versions, dependency theory leaves little room for agency, treating states as effects of structure rather than actors within it. This determinism, along with the empirical difficulty posed by East Asian industrialisation which occurred within the world system that the theory suggested would preclude it contributed to the approach's marginalization in mainstream development economics from the 1980s. Its diagnostic claims about the terms of African integration, however, have proved durable, and recent scholarship has revived the framework in qualified form, anchoring accounts of policy autonomy in the structural relation between external financing and domestic constraint (Kapoor & Vasishta, 2026).

Structure is taken to condition the range of available choices rather than to eliminate choice altogether. Where African governments have selected among creditors, negotiated restructuring terms, or pursued domestic reform, these are read as genuine exercises of agency operating within limits they did not set. Kapoor and Vasishta's (2026) framing of African underdevelopment as a historical continuum, shaped by the long-term interaction of political, economic and institutional factors, captures this reading, and the study proceeds on it.

Empirical Studies

Structural adjustment. The evidence here is extensive and broadly critical. Adjustment programmes reached more than forty sub-Saharan states through the 1980s and continued into the 1990s, with IMF stabilisation functioning as a prerequisite for World Bank and bilateral lending alike (Michigan Journal of Economics, 2024). Easterly's (2005) cross-country assessment found limited and uneven policy improvement across repeated adjustment loans, a finding that sits awkwardly with the volume of lending involved. Kentikelenis, Stubbs and King (2016) supply the most direct measurement of the policy-space question, tracking IMF conditionality from 1985 to 2014 and documenting how binding conditions expanded into domains well beyond macroeconomic stabilisation. Recent syntheses describe the legacy as mixed and context-dependent, with limited structural transformation despite decades of reform, and a documented erosion of state capacity and policy autonomy as conditionality displaced domestic strategy (Michigan Journal of Economics, 2024).

The Chinese Loans to Africa Database records 1,319 loan commitments worth USD 180.87 billion to 49 African governments and seven regional institutions between 2000 and 2024 (Yue, Morro, Capirone & Qi, 2025). The trajectory matters more than the aggregate: commitments peaked at USD 28.82 billion in 2016, fell below USD 1 billion by 2022, recovered to USD 4.61 billion in 2023, then declined again to just under USD 2.1 billion in 2024 (Engel & Hwang, 2024; Yue et al., 2025). Sectoral composition shifted alongside volume, with 2024 lending concentrated in transportation, energy transmission, water and sanitation, and financial services — sectors that struggle to attract private investment (Yue et al., 2025). ODI (2024) reads the retreat as reflecting Chinese domestic financial pressures and risk aversion rather than disengagement, and argues that Chinese lending was a contributing but frequently overplayed factor in African debt accumulation. Aderinto and Joseph (2026) note a further inflection: African countries collectively repaid more to China than they received in new loans by 2024, turning a net inflow into a net outflow.

Commercial markets and debt distress. This phase is well documented but comparatively under-theorised. The record includes Zambia's 2020 default, with external arrears reaching 26 per cent of GDP by end-2023 (World Bank & IMF, 2024); Ghana's 2022 default and subsequent restructuring, involving a haircut of roughly 37 per cent on USD 13 billion of bonds (IMF, 2024; UNDP, 2025); and Ethiopia's stalled negotiations after private creditors rejected a proposed payment (UNDP, 2025). By April 2024, around twenty African countries were in external debt distress or at high risk of it (CGD, 2024), while projected continental debt service reached roughly USD 74 billion, against USD 17 billion in 2010 (ISS African Futures, 2024). A structuralist reading of the Zambian case attributes the default less to profligacy than to an extractive economic inheritance and a financial architecture that compels dollar accumulation (Georgetown Journal of International Affairs, 2025).

Resource leakage. Running beneath all three phases is an outflow the developmental literature often brackets. UNCTAD (2020) estimates that approximately USD 88.6 billion leaves the continent annually through illicit channels around 3.7 per cent of GDP, and close to the combined total of aid and FDI with roughly 65 per cent originating in multinational commercial practices such as transfer mispricing and trade misinvoicing (ISS African Futures, 2024). The developmental cost is measurable: countries with high illicit outflows spend markedly less on health and education than those with low outflows (UNCTAD, 2020). Inward investment offers limited compensation, having fallen by about 3 per cent in 2023 to some USD 53 billion, concentrated in a few large recipients and weighted toward extractive rather than manufacturing sectors (UNCTAD, 2024; Daniel & Ojobi, 2020).

These strands describe a pattern that individually they stop short of naming. Studies of aid dependency, Chinese lending, and sovereign debt each identify constraints on policy autonomy within their own domain, and several explicitly flag the integration problem. Aderinto and Joseph (2026) observe that existing work has tended to examine either the economic effects of external financing or its political implications in isolation. Kapoor and Vasishta (2026) treat as open the question of whether multipolarity expands African policy space or merely redefines dependency. UNDP (2025) documents restructuring difficulties without offering a general account of why the pattern recurs. What is missing is an integrated political-economy explanation of how external financing, across its several forms and successive phases, conditions domestic policy space over time which is the space this paper occupies.

Methodology

This study adopts a qualitative research design based on secondary data. It relies on peer-reviewed literature, books, and reports from international organisations to examine the relationship between external financing and policy autonomy in Africa. An interpretive approach is used to synthesise existing evidence and identify recurring patterns across different financing models. As a conceptual study, it does not establish causal relationships or generate primary data. It also acknowledges the limitations of secondary sources, including potential institutional bias and the uncertainty surrounding estimates of illicit financial flows.

Findings

The study produced three major findings; which are successive forms of external financing have reshaped rather than eliminated dependency. Structural Adjustment Programmes (SAPs), Chinese infrastructure financing, and Eurobond borrowing each constrained Africa's policy autonomy in different ways. While the financing models changed over time, dependence on external finance continued, limiting governments' ability to pursue independent development policies.

Africa's current debt crisis reflects structural weaknesses in the global financial system as well as domestic challenges. Factors such as dollar-denominated debt, rising debt-servicing costs, volatile international financial markets, and slow debt restructuring mechanisms have contributed significantly to debt distress, indicating that the crisis extends beyond poor domestic policy decisions.

Illicit financial flows and weak domestic revenue mobilisation undermine Africa's developmental capacity. Large-scale capital flight, corruption, and tax leakages continue to erode government revenues, reducing the fiscal resources available for investment in infrastructure, education, healthcare, and industrial development

Conclusion

This study concludes that Africa's policy space is shaped by the interaction between the global financial system and the institutional capacity of African states rather than by the actions of external creditors alone. The findings show that successive forms of external financing Structural Adjustment Programmes (SAPs), Chinese infrastructure financing, and Eurobond borrowing have altered but not eliminated external dependency, with each model imposing different constraints on domestic policy autonomy.

The study further finds that Africa's development challenges are influenced by both external and internal factors. While the global financial architecture contributes to debt vulnerability, domestic issues such as illicit financial flows, weak tax mobilisation, and governance challenges also reduce governments' capacity to finance sustainable development. Therefore, expanding policy space requires strengthening domestic institutions alongside reforms to the international financial system. The study argues that Africa's long-term development depends not on identifying a more favourable source of external finance, but on building resilient institutions, improving domestic resource mobilisation, and creating a more equitable global financial environment that supports sustainable and autonomous development.

Recommendations

Based on the findings of this study, the following recommendations are made:

i. Strengthen domestic resource mobilisation by broadening the tax base, improving revenue administration, and enhancing public expenditure efficiency to reduce dependence on external financing and expand policy space.

ii. Reduce illicit financial flows through stronger anti-corruption measures, improved financial transparency, and enhanced international cooperation to prevent capital flight and increase domestic resources for development.

iii. Reform the sovereign debt architecture by promoting faster, more transparent, and coordinated debt restructuring mechanisms, while encouraging greater use of local-currency financing to reduce exposure to exchange-rate risks.

iv. Promote regional cooperation and institutional capacity through the African Union (AU), the African Continental Free Trade Area (AfCFTA), Afreximbank, and other regional institutions to strengthen Africa's bargaining power, improve policy coordination, and support sustainable developmental financing.

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