Opening Statement by Omar Kabbaj, President of the African Development Bank Group, at the Sino-African Seminar on Economic Reform and Development Strategies

Beijing, China
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Introduction

Your Excellency Mr. Tang Jiaxuan, State Councilor of the People’s Republic of China,
Your Excellency Mr. Zhou Xiaochuan, the Governor of the People’s Bank of China and the
Governor of the African Development Bank for the People’s Republic of China
Your Excellencies African Minister of Finance, Planning, and Development,
Your Excellencies African Ambassadors and Senior Officials Accredited to the People’s
Republic of China,
Distinguished Participants,
Ladies and Gentlemen,

It is for me an honor and a privilege to visit the People’s Republic of China once again and to be invited to address this important Sino-African Seminar on Economic Reform and Development Strategies. Permit me at the outset to express to the Government of the People’s Republic of China my deep appreciation for the gracious hospitality that you have extended to us since our arrival in Beijing. Let me also take this opportunity to congratulate you on the spectacular success of your people and Government in launching the first Chinese astronaut into space.

Today’s seminar is a symbol of China’s continued support for Africa’s development and we do indeed warmly welcome it. Sino-African relations are now well established and are based on the principles of interdependence, solidarity, and respect for a rules-based international order. These values were reaffirmed at the October 2000 Ministerial Conference in Beijing when the course of Sino-African cooperation in the twenty-first century was clearly mapped out. Indeed, the relations between China and Africa, underpinned by a significant expansion of economic and trade relations in recent years, represent one of the more outstanding examples of South-South cooperation.

In the last two decades, the People’s Republic of China has pursued far-reaching domestic reforms and has opened up its economy. These initiatives have resulted in remarkably high economic growth rates and in an enormous expansion of its external trade. There is therefore much that African countries can learn from China’s valuable experience
as they continue to pursue their own reform efforts. We therefore look forward to the discussions and deliberation in the next two days.

In my opening remarks, permit me to share with you our perspectives on Africa’s recent record of economic reforms and the main challenges that lie ahead. I will also highlight some of the major lessons that I believe we have learned, as well as others that African countries could profitably emulate from China’s immense experience. I will conclude by discussing the role that the African Development Bank -- supported by its regional and non-regional shareholders such as the People’s Republic of China -- is playing to assist the reform and development efforts of African countries.

Africa’s Record of Economic Reform and Future Challenges

Mr. Chairman,
Your Excellencies,

The beginnings of the economic reform efforts that have been underway in Africa for some time now can be traced back to the mid-1980s, when, following a decade of economic decline, many African countries began to implement extensive economic reforms. These programs put greater reliance on the market for the determination of prices and for the allocation of resources, and on the private sector for generating economic growth. They further stressed the importance of prudent macroeconomic policies and structural reforms to create a more predictable and favorable environment for investment – both domestic and foreign.

An important plank of the reform process has also been the great stress that has been placed -- particularly in recent years -- on improving systems of governance. Governments are increasingly aware that rapid economic growth is highly dependent on creating institutions that foster the rule of law and promote transparency and accountability in public affairs.

The Continent’s quest to improve its economic performance and integrate itself in the global economy is now symbolized by the New Partnership for Africa’s Development (NEPAD). This initiative, which has been endorsed by the African Union, seeks to improve
Africa’s international competitiveness and to facilitate its effective participation in the globalization process.

The reforms that most African countries have implemented have begun to yield promising results, particularly with respect to stimulating economic growth and creating a more stable macroeconomic environment. Economic growth for the region as a whole has averaged 3.6 percent since 1996 as compared to 1.6 percent in the first half of the 1990s. Similarly, the average inflation rate has been halved from 28 percent during the first half of the 1990s to 14 percent in the last five years, and to less than 10 percent in 2002. And fiscal deficits have declined from a high of 7 percent of GDP in 1993 to an average of 3 percent in the last five years.

I should add further that a clear divide is emerging in Africa between those countries that have consistently pursued and deepened their reforms and those that have yet to implement them. The first group of some 20 countries has seen an acceleration of its economic growth rate to above 5 percent in the last five years – with some countries even achieving growth rates of between 6 and 9 percent. By contrast, countries that have yet to implement reforms have seen their growth rates lag and indicators of social well being decline.

As promising as these results are, it needs to be emphasized that Africa’s prospects for sustained and accelerated economic growth and achieving the Millennium Development Goals (MDGs) will require the continued support of the international community. In particular, it will require: first, increasing significantly the level of official development assistance (ODA) and improving the quality of its delivery, in line with the pledges made at Monterrey in 2002; second, ensuring that Africa’s external debt burden is reduced to sustainable levels; and third, improving market access for Africa’s exports.

With respect to trade, I wish to express our deep disappointment by the failure of the recent WTO Ministerial talks in Cancun. The breakdown of these important multilateral talks will undoubtedly hurt the development prospects of all countries, particularly those in Africa. We therefore call on all parties to resume negotiations as soon as possible and to make every effort to advance the Doha Development Round.
Policy Lessons from Africa’s and China’s Recent Economic Experience

Mr. Chairman,
Your Excellencies,

Given this recent record of Africa’s economic performance important questions that we could pose to ourselves are: What policy lessons can we learn from Africa’s recent development experience? And what does China’s economic reforms and opening up hold for Africa? I believe there are five major policy lessons that clearly stand out.

The first is the cardinal importance of ensuring political stability and the imperative of avoiding civil conflicts and wars. As we have seen all too often, the economic costs of political instability, civil conflicts and wars are enormous, having led in a number of cases to the reversal of hard-won economic and social gains.

A second lesson is the need for countries to assume ownership of their development programs. This is essential if a country is to succeed in mobilizing its human and financial resources behind its reform efforts and if it is to develop effective institutions to implement them. In this respect, China’s pragmatic approach and the manner in which it has continuously adapted its policies and institutions to meet the demands of sustained economic growth is highly instructive.

A third lesson is the importance of ensuring macroeconomic stability. Governments should follow prudent fiscal and monetary policies to keep inflationary pressures in check and implement the necessary structural reforms to garner the confidence of the private sector. Reforms should also be sequenced in the right order, as some -- such as liberalizing capital accounts at too early a stage -- could have destabilizing effects. Much could also be learnt from China’s experience in this regard. For it is evident that prudent fiscal, monetary, and exchange rate policies, as well as their effective implementation and adaptation, underpinned the remarkable economic and export growth in the last decade.

A fourth lesson is the importance of creating an attractive investment climate for both domestic and foreign investment. This requires an effective and transparent public administration system, a well-functioning legal framework, and a predictable regulatory structure. Adequate
levels of investments in infrastructure – transport, communications, water and sanitation – will also need to be undertaken. In this regard, the measures that China has implemented to improve its investment climate and the remarkable success it has had in attracting very large flows of direct foreign investment holds important lessons that African countries could profitably emulate.

A fifth lesson, I believe, is the importance of devising effective strategies to meet the challenge of globalization. In the case of African economies this would include enhancing their competitiveness by investing in social and physical infrastructure and encouraging the diversification of the production base. Here again much can indeed be learned from China’s experience. China has adopted creative solutions to the challenge of globalization based on engagement rather than isolationism. Further, China’s negotiated accession to the WTO is a signal of its readiness to engage with other nations on the basis of internationally agreed rules.

The African Development Bank Group and Africa’s Development Challenges

Mr. Chairman,
Your Excellencies,

Permit me, before closing, to say a few words on the support that the African Development Bank Group provides its regional member countries, as they implement their economic reform programs and as they face the many internal and external development challenges before them.

The overarching objectives of the Bank Group, in line with the Vision it adopted in 1999, are to reduce poverty and to promote sustainable economic growth on the African continent. It does so by mobilizing funds and making these available to finance projects and programs in its regional member countries. For this purpose, the Bank has three windows: the African Development Bank for its credit-worthy countries – mostly in Northern and Southern Africa; and its two concessional windows -- the African Development Fund and the Nigeria Trust Fund -- for low-income countries. I am delighted to note that the People’s Republic of China is both a shareowner of the Bank and a contributor to the African Development Fund.

The ADB window is active in the international capital markets and now enjoys the highest rating issued by all the major rating agencies. In the last two years, the Bank’s annual approvals to its credit-worthy countries have averaged around $1.3 billion. These funds have been used to
finance key reform projects and programs to improve the competitiveness of their economies. In addition, a principal focus has been support to the private sector, involving direct loans to private enterprises as well as public sector loans to help improve the investment climate. I may add that private sector lending has increased significantly in recent years, reaching close to $300 million in 2002.

In the low-income countries that only qualify for concessional loans and grants, the focus of the Bank Group’s operations has been on poverty reduction by financing projects and programs in such key sectors as agriculture, health, and education. In addition, the Bank Group has supported key reforms to encourage the emergence of a strong and vibrant private sector. The lending and financing operations through its concessional windows has average $1.5 billion over the last two years.

In addition to its lending and technical assistance programs, the Bank has also extended debt relief under the HIPC initiative to the 23 countries that have to date qualified. The total debt relief so far approved or being processed stands at over $3 billion. In this connection, I would like to express my appreciation to the decision by China to reduce or cancel, in the context of this initiative, the debts owed to it by low-income African countries.

In the coming years, a principal focus of the Bank will not only be to maintain and augment its financial and technical support but also to enhance the effectiveness of its operations on the ground. Towards this goal, it has adopted a strategy that relies on three fundamental principles: first, country ownership of development programs and project; second, the use of participatory approaches to empower all stakeholders; and, third, closer cooperation and collaboration with key bilateral and multilateral partners.

In this regard, the close working relations that we have established with the Government of the People’s Republic of China exemplifies the types of relations that we wish to develop with all our partners. China has contributed significant resources to the African Development Fund to help support our interventions in low-income countries. It has also established a Technical Cooperation Fund with the Bank to finance specific technical assistance projects in a number of countries. In the coming years, we hope to build on these relations as well as develop new areas of activity. In particular, we expect to give high priority to capacity building programs to help African countries improve the management of their economic reform programs.
Concluding Remarks

Mr. Chairman,
Your Excellencies,
Distinguished Participants,

Permit me to conclude by thanking once again the Government of the People’s Republic of China, and in particular the People’s Bank of China, for organizing this important Seminar and for the kind invitation extended to us to take part. The topics chosen are timely and relevant and I am confident that the exchange of views in the next two days will enable us to learn valuable lessons from China’s experience.

In this endeavor -- and the broader effort to support the development efforts of African countries -- I would like to assure our esteemed hosts, as well as the many African Ministers and Ambassadors present here today, that you will find a willing and capable partner in the African Development Bank.

I thank you for your kind attention.