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Remarks by Omar Kabbaj,
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Africa’s Emerging Advantages in World Trade

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Mr. Chairman,
Distinguished Participants,

Let me first express my appreciation to the Institut Aspen France for inviting me to this Sixth International Europe-Africa Conference and, also, for inviting me to say a few introductory remarks at this afternoon’s session. I wish to commend the Institut for organizing, every two years, this important conference on Africa’s development challenges. They have become important fora for discussing Africa’s development prospects and its relations with the rest of the world. The conferences have also become important venues for exchanging views among policy makers and development practitioners from Africa, Europe, and elsewhere. I therefore very much welcome this opportunity to share with you our views on recent economic developments on the Continent and to engage in dialogue with so many distinguished personalities.

By way of introducing this afternoon’s topic “Africa’s New Economic Advantages” in global trade, I would, first, like to outline the improving economic conditions in most African countries, as a result of the implementation of economic reform programs in the last decade and half. I would also like to touch on the recent convergence of developments leading to a more favorable external environment for African countries. This is evidenced by improving prices for primary commodities, increased debt relief through the HIPC initiative, and new trading arrangements represented by important initiatives such as Africa Growth and Opportunity Act (AGOA) of the United States and the Everything but Arms initiative (EBA) of the European Union.

While these improving domestic and external conditions do indeed give us hope for enhancing Africa’s economic performance and its external trade, I should stress at the outset that these are, at present, largely brighter prospects and potentials. Their full realization will depend on two important sets of actions: first, on the actions that African countries will take on the domestic front to continue to create the conditions necessary for rapid economic growth and expanding trade; second, on the support that Africa’s development partners will
continue to provide, particularly with respect to official development assistance (ODA), debt relief, and, most importantly, trade.

**The Improved Domestic Policy Environment in Africa**

As you are all aware, most African countries have in the last decade and half implemented far-reaching economic reform programs supported by international financial institutions such as the IMF, the World Bank, and the African Development Bank. These programs have had two essential goals: bringing about a measure of macroeconomic stability and pushing through essential structural reforms to create the conditions for the resumption of economic growth. Critical components of such reforms included: reducing government intervention and promoting markets; liberalizing and opening economies to foreign trade; and re-orienting government spending and diversifying the sources of revenues.

While these stabilization and structural adjustment programs have been controversial in the past, I believe there is much consensus now that they have, on the whole, yielded positive results in an increasing number of countries. The stabilization programs have led to the adoption of more prudent fiscal and monetary policies by an increasing number of countries. These have, in turn, been reflected in much reduced inflation rates, and lower fiscal and current account deficits. Africa’s average inflation rate that had peaked at over 40 percent in the early 1990s has continuously declined such that it averaged 13.3 percent in 2003, with some 40 countries achieving single-digit inflation levels. Similarly, fiscal deficits have been halved from an average of 6 percent of GDP in the first half of the 1990s to 3.3 percent in the 1996-2003 period, and reaching 2.4 percent in 2003. Clearly, the basic conditions for growth and expanding trade are being laid in an increasing number of countries.

Much progress has also been recorded with respect to the implementation of structural reforms, although, it must be admitted, much remains to be done. Most prices have been decontrolled and exchange rates are increasingly market determined. The pace of privatization of state-owned enterprises has, on the other hand, been somewhat uneven. While some governments have succeeded in reducing government involvement in production to negligible levels, others continue to remain major players. Similarly, while progress has been made in terms of improving the legal and regulatory environment, much, remains to be done in terms of strengthening public sector management, reforming commercial laws,
providing adequate protection to property rights, and timely enforcement of contracts. Progress on this front is crucial, and, in particular in legal and judicial reforms, if private investors – both domestic and foreign – are to take full advantage of the improving macroeconomic situation to mobilize both domestic and foreign capital to enhance investment levels in these countries.

The reform efforts of individual African countries have, in recent years, been boosted by the NEPAD initiative. NEPAD represents, first and foremost, a determination by African countries to pursue sound domestic economic policies and improves systems of governance with a view to boost economic growth and development. In this respect, the establishment of the African Peer Review Mechanism (APRM), to which some 23 countries have already signed up, holds the promise of becoming an important mechanism for encouraging African countries to achieve NEPAD’s goal.

As importantly, NEPAD also promises to boost regional cooperation and integration efforts. Noticeable progress is also being made on this score. For example, in the area of regional infrastructure, in which the African Development Bank has been asked to take a leadership role, a short-term action plan, estimated to cost $8 billion, has been prepared. The plan focuses on priority physical investments accompanied by policy, regulatory, and institutional measures aimed at improving efficiency of the existing infrastructure on the continent. Work has also started on the preparation of a medium to long-term action plan in close collaboration with the regional economic communities and in cooperation with the World Bank and the European Union.

In brief, in recent years the national and regional economic situation in much of the continent has shown considerable change and improvement. This is particularly the case in those countries that have sustained and deepened their reform efforts and avoided policy reversals. These countries have achieved and sustained growth rates exceeding 5 percent per annum. And although, on average this is still below the 6-8 percent required to achieve the Millennium Development Goals, it is, nonetheless, considerably above the levels recorded in earlier years. Indeed, the long-term foundations for economic growth are being led and the prospects for these countries expanding their trade with the rest of the world has improved considerably.
A More Favorable External Environment for Africa

Mr. Chairman,

The improved domestic environment for growth and trade in Africa has in recent years been complemented by an improving external environment. This is reflected in improving prices for Africa’s export commodities, the recent upturn in ODA levels, substantial debt relief under the HIPC program, and important new trade arrangements such as AGOA with the United States and the EBA initiative of the European Union.

Despite the slow pace of the economic recovery in Africa’s main trading partner – Europe – the prices of Africa’s major export commodities have shown some improvement in the last few years. This is in part accounted by strong demand from China and other Asian countries such as India. The rise in commodity prices has contributed to Africa’s improved GDP growth rate of 3.7 percent in 2003, up from 2.8 percent in 2002. With forecasts that the prices of commodities will hold up in the coming few years, Africa’s GDP growth is projected to reach 4 percent in 2004 and 2005.

While the higher commodity prices are welcome, we should, however, not lose sight of the long-term trend of declining commodity prices that has now been observed for some time. While taking advantage of these temporary increases, African countries should therefore strive to diversify their economies and move into the production of higher-valued export commodities, particularly manufactures.

As well as increases in commodity prices, African countries have, for the first time in over a decade, also benefited from rising official development assistance (ODA). In 2002 – the last year for which complete data is available -- net ODA to Africa stood at $21.2 billion up from $15.7 billion in 2001, although much of it was accounted by debt relief. The DAC estimates that this increase has continued in 2003 and given the pledges made by many donors -- in line with the commitments made at Monterrey in 2002 -- the prospects for higher ODA look promising. But as welcome as this development is, we should, however, also note that the actual and projected increase in ODA levels fall quite short of most estimates of Africa’s needs for external assistance to meet the Millennium Development Goals (MDGs).
An increasing number of African countries have also benefited from the HIPC debt relief program, with twenty-three countries having qualified so far. The total amount of debt relief extended to these countries amounts to $24.8 billion in NPV terms. And as part of this international debt relief program, the Bank Group has been an active participant extending debt relief amounting to $2.6 billion in NPV terms to these 23 African countries. Nine other African countries – mostly countries in conflict or emerging out of conflict – are eligible to benefit from the program but have yet to qualify.

The debt relief under the HIPC program together with bilateral debt cancellation measures has contributed to an improved external debt situation for Africa as a whole. After having reached a peak of 74 percent of GDP in 1994, the external debt stood at 48 percent of GDP in 2003. The debt service has also shown a similar fall, reaching 15 percent in 2003.

In the area of trade, we have also observed some favorable developments, although Africa’s longer-term trade prospects -- like those of other developing countries -- would depend much on the outcome of the current Doha Round of WTO trade negotiations. As I noted earlier, the two most important developments in this respect are AGOA and EBA. AGOA provides duty free access to US markets for products originating from African countries. To dates some 37 countries have qualified for preferential treatment under AGOA and Africa’s trade with the United States, particularly in non-traditional exports, has witnessed a dramatic increase. Similarly, EBA ha removed all tariffs and quotas on all imports from the least developed countries with the exception of a few products. Although a full assessment of the impact of EBA has yet to be made, it is expected to result in significant income gains for Africa’s exporters as they seek to take advantage of the increased opportunities for exports that it allows.

**Taking Advantage of Emerging Opportunities**

Mr. Chairman,

Clearly, Africa is today at a considerably more favorable historical conjuncture with respect to its development prospects. A historic opportunity to enable African countries to escape the specter of marginalization would appear to be opening up and it is important that
African countries and their development partners seize this opportunity to promote high and sustained economic growth and expand their trade relations. Let me briefly indicate some of the policy measures that African countries and their partners could consider in this regard.

For African countries that have implemented economic reforms and that have achieved reasonable macroeconomic stability, the challenge now is to implement second-generation reforms. These should aim at creating the conditions for the emergence of a more dynamic private sector that can take advantage of both domestic and global market opportunities. Towards this end, governments will need to give greater attention first to maintaining sound macroeconomic policies to deepen investor confidence; and second, to improving the investment climate for both domestic and foreign investors.

In addition, African governments should also consider intensifying their regional cooperation and integration efforts. These should pursue policies related to what has become known as “open regionalism”. This approach would focus on creating larger and open economic spaces by encouraging greater convergence in macroeconomic policies, the harmonization of business rules and regulations, and larger investments in regional infrastructure projects. These should provide opportunities for taking advantage of economies of scale, thus facilitating greater flows of both domestic and foreign capital.

We are confident that policy measures along these lines will encourage both domestic and foreign investors to take advantage of the improving national and regional economic environment. Given Africa’s comparative advantage in the agriculture sector, the private sector should be encouraged to invest in the sector and modernize it. This should aim at both deepening Africa’s traditional comparative advantage in certain food and industrial crops as well as take advantage of emerging opportunities in the agro-business sector. Moreover, closer linkages with the industrial sector should be promoted so that more of Africa’s exports take the form of processed goods rather than raw materials. Sound economic policy, along with key investments to remove current supply-side constraints, could enable African producers to become more competitive and take advantage of the emerging trade opportunities in the global market.

African entrepreneurs should also be encouraged to establish closer links and establish joint ventures with foreign investors to increase the volume of manufactured
exports. As the AGOA experience in the export of textiles and clothing has shown, foreign investors are willing to invest in Africa once the investment climate improves, the appropriate incentive structures are created, and the infrastructural constraints are removed. Indeed as wages rise in other developing regions and Africa’s competitiveness improves, African countries could become attractive destinations for foreign investment.

A third area where African countries could create greater comparative advantage is in the services sector, particularly in the tourist sector as much of Africa’s tourist potential remains untapped. In addition, as the initial favorable experience of some countries has shown, there is also a great potential for providing various types of outsourcing services to organizations in the developed countries.

**Concluding Remarks**

Mr. Chairman,

In conclusion, it is evident that Africa’s economic advantages have improved considerably in recent years due to the implementation of more appropriate national economic policies and because of the confluence of more favorable external developments. African countries thus have a greater opportunity today to engage in greater investment and trade relations with the rest of the world. This potential can, however, only be realized if African countries continue to pursue sound domestic economic policies and create a more favorable investment climate for both domestic and foreign investors.

Africa’s ability to take advantage of these emerging opportunities will also depend on the support it will receive from its development partners. In particular, it is crucial that the increasing trend in ODA to finance key investments is maintained and Africa’s external debt is reduced to sustainable levels. As importantly, it is critical that the Doha Round of WTO negotiations are brought to a successful conclusion, particularly as it relates to agricultural production and export subsidies. We are confident that the combination of domestic economic reform measures and adequate external support from Africa’s development partners will indeed result in a reversal of the declining role of Africa in global trade relations.