TRADE, DEVELOPMENT AND POVERTY REDUCTION IN AFRICA

Remarks at the 2004 ECA Ministerial Conference on “Mainstreaming Trade Policy in National Development Strategies”

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Introduction

Mr. Chairman,
The Executive Secretary of the United Nations Economic Commission for Africa
Honorable Ministers,
Governors of Central Banks,
Ladies and Gentlemen,

Permit me to begin by expressing my appreciation to my good friend and colleague, Mr. K.Y. Amoako, the Executive Secretary of the United Nations Economic Commission for Africa, for the kind invitation he extended to me to address the closing session of your Conference. For the second consecutive year, the ECA and the ADB are holding their annual meetings back-to-back, and we are also co-organizing this year’s Symposium on Promoting Gender Equality in Africa. These arrangements not only signify the greater cooperation that now exits between our two regional institutions, but also our desire to enhance them in the future.

The topic chosen for this conference “Mainstreaming Trade Policy in National Development Strategies” is obviously a critical issue for Africa’s development. Indeed our African Development Report this year is devoted to the topic of ‘Africa in the Global Trading System’. I therefore welcome this opportunity to share with Your Excellencies our perspectives on the matter, the policy options that our countries could consider, and the types of support that the African Development Bank provides its regional member countries.

Trade and Development

Mr. Chairman,
Your Excellencies,

As reflected in your discussions, trade and development are intrinsically tied. Trade has historically served as an important engine of growth for countries at different stages of development. This is increasingly the case in our globalized economy where the growth of world trade in the last two decades has outstripped the growth in global output. Yet, it must also be recognized that the gains from trade are not necessarily automatic, nor is the distribution always equitable. Much depends on the types of goods a country produces and trades, the domestic economic policies it pursues, the trading regime it adopts, as well as the external constraints that it faces.
For Africa, trade is obviously central to enable the region to achieve its development goals. It is the most important vehicle for earning the foreign exchange required for financing critical investments. Indeed, as the experience of emerging market economies and, more recently, China have shown, changing the patterns of trade and promoting the growth of exports of goods that have a high demand in international markets are one of the best ways to achieve rapid economic growth. And at a time when the debt sustainability of low income countries and their ability to shoulder loans -- even on concessional terms -- is being questioned, increasing revenues from exports is critical to ensure their access to international finance in the medium to long term.

For a variety of reasons that Your Excellencies are well aware of, Africa has been unable to take advantage of the enormous growth in world trade during the last 20 years. As a consequence, and as is generally know, its share in world trade has continuously declined from about 5 percent in 1980 to 2 percent in 2001. Further, its exports remain heavily concentrated in a few products, principally agricultural products and minerals.

We believe that the deterioration in Africa’s global market share is accounted for by two factors. First, it has failed to maintain its traditional comparative advantage in primary commodities. And second -- with the exception of a few countries such as Mauritius, Morocco, South Africa, and Tunisia -- it has had limited success in diversifying its exports into manufactures which command a larger and increasing share of world trade.

**Promoting African Trade: Policy Options**

Mr. Chairman,

Your Excellencies,

Clearly, African countries have to give much higher priority to trade issues and, as the ECA has emphasized, trade policy needs to be mainstreamed into the development strategies of all our countries. And given the pervasive impact that trade policies have on the whole spectrum of economic activities, careful analysis on both the positive and adverse impacts of trade policy changes will need to be undertaken. In considering the various policy options open to our countries, it is perhaps useful to look at their national, regional, and international dimensions.

The many advantages of opening up to regional and international trade through reduction of tariffs and the removal of non-tariff barriers in the context of internationally agreed rules are now generally accepted. However, as several studies have indicated the pace and sequencing of trade
liberalization will need to be carefully planned. And, as in the past, developing countries will need special and differential treatment from developed countries -- as well as adequate time -- to enable them to build up their capacity to compete globally. But while African countries must necessarily be fully engaged in WTO negotiations to achieve such goals, they must at the same time give equal weight to developing their capacity to take advantage of existing opportunities, as well as new ones that may be opened up through future international agreements.

A central concern for all countries must be putting in place the policy framework and investing the required resources to encourage the growth of exports, both traditional and non-traditional. In this regard, our countries have come a long way in dismantling the mix of trade and exchange rate policies that used to discriminate against exports. Nonetheless, the implementation of such policies and their impact on a country’s trade must necessarily be kept under constant review to ensure that they do indeed promote and not hinder the growth of exports. In addition, it is critical that countries avoid policy instability and reversals. Further, reasonable exchange rate stability should be maintained, while ensuring that over-valued rates do not hinder export competitiveness.

The adoption of trade-promoting policies should also be accompanied by efforts to remove the many other constraints that producers face in increasing their output and exports. A central concern, in this regard, must necessarily be upgrading infrastructural services and reducing their costs. In addition, strengthening the financial sector is essential to improve the access of producers to both production and trade finance.

Transforming Africa’s export baskets will also require upgrading the technological capabilities of small and medium enterprises (SMEs). As the experience of other countries has shown, SMEs could become important sources of growth for new manufactured exports. Linked to this is the need to build human capacity and enhance manpower skills. One important lesson that we could draw from the East Asia experience is the emphasis countries placed on improving the quality of education and on developing the vocational skills, essential for technological change and growth.

National policies to promote trade would also need to be accompanied by efforts to strengthen regional cooperation and integration arrangements. The advantages of larger groupings in terms of creating bigger markets that allow producers to benefit from economies of scale are well known and I need not go into them in detail. I wish however to point out that the adoption of policies that are now known as ‘open regionalism’ have the added advantage of enabling African producers to develop the know-how and capacity to compete on the global market.
As Your Excellencies are aware, much has been achieved in recent years in reducing tariff barriers and in strengthening regional economic communities. And the NEPAD initiative is clearly giving much impetus to such efforts. Yet as the ECA study shows and as our research also points out, many non-tariff barriers that hinder both trade and investment still exist. These need to be addressed urgently.

The efforts of our countries to develop their international trade will of course need the support of the industrialized countries. Critical issues of market access, non-tariff barriers, tariff escalation, and agricultural subsidies remain severe impediments for the exports of many African countries. Substantial reduction, if not elimination, of these various barriers should facilitate the expansion of Africa’s exports. This is evidenced by the response of African exporters to the market opportunities created by the US *Africa Growth and Opportunity Act* and the *Everything but Arms* initiative of the European Union. We thus call on all concerned to resume the Doha Round of WTO negotiations and conclude them as soon as possible.

**The Support of the African Development Bank Group**

Your Excellencies,
Ladies and Gentlemen,

Permit me now to present to you briefly the support that the African Development Bank provides to its regional member countries as they seek to formulate and implement sound trade policies at the national, regional and international levels.

As Your Excellencies are aware, the Bank Group has, for some time now, provided support to policy reforms, including both economy-wide and sectoral adjustment programs. The broad purpose of such programs is to remove price distortions, enhance macroeconomic stability, and implement the required structural reforms to improve the competitiveness of national economies. Often trade policy reforms have been part of such reform programs as well as financing investment in key sectors such as infrastructure. The Bank Group will continue to provide such support, particularly those that aim at enhancing the capacity of countries to compete in the global market.

In addition the Bank will continue to provide direct financing, through its private sector window, to national enterprises, with the goals of supporting job creation, national capacity development, and production for export. In recent years, such investment financing has increased considerably, accounting
for about a quarter of all lending through our ADB window. A major component has been the loans provided to both private and public banks for on lending to SMEs. We believe such loans are critical for providing medium to long term financing, which is often lacking in many of our countries.

At the regional level, the Bank Group continues to support regional cooperation and integration efforts by financing multinational projects, and by helping to strengthen regional economic communities. Our activities have in the last few years been boosted by the NEPAD initiative and the lead role we have been asked to play in banking and financial standards and in infrastructure. In banking and financial standards, the framework, which had been developed earlier, and which, as you will recall, African Central Bankers had endorsed, has been incorporated into the design of the African Peer Review Mechanism (APRM).

In infrastructure, the Bank has prepared a short-term action plan that is under implementation, with four projects already approved in 2003. Work is also proceeding in preparing 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.

Projects and programs identified in the short-term action plan are estimated at $8 billion. Under our ADF window, some $500 million had been earmarked for multinational projects – of which close to $200 million was committed in 2003. We are using these resources to help mobilize additional resources for multinational projects. In addition, our Board of Directors has approved the creation of a dedicated facility to assist regional economic communities and countries in the preparation of bankable infrastructure projects. The fund was seeded with a grant of C$10 million from the Canadian government and work is underway to make it a multi-donor facility to assist countries in infrastructure development under NEPAD.

One other important area of activity that I wish to refer to before I conclude is our work in trade-related capacity building. As Your Excellencies may be aware, we have started a program of training in close cooperation with the WTO and the ECA to enhance the capacity of senior policy makers and officials. Following our recent consultations with the WTO -- and the obvious need to expand such capacity building efforts -- we plan to develop this program further. We are also planning to have the Joint Africa Institute (JAI), the institution we established with the IMF and the World Bank in 1999, become more engaged in such training activities.
Concluding Remarks

Mr. Chairman,

Your Excellencies,

Ladies and Gentlemen,

Permit me to conclude by stressing once again the importance of developing and implementing coherent national, regional and international trade policies. And as the ECA has rightly argued, trade policy must be seen as an integral part of development policy and needs to be mainstreamed into the development strategies of our countries. Trade and export promotion has underpinned the rapid economic growth of the countries of East Asia. There is no reason why it cannot play a similar role in the development efforts of our countries.

I thank you for your kind attention.