AFRICAN DEVELOPMENT BANK GROUP

African Economic Conference 2011

Global Economic Recovery – The Role of Differentiated Responsibilities

Card 1 - Introduction

Events like today's conference give us an excellent opportunity to reflect on the big picture, and forward to the future, at a time of great change affecting our continent.

With your indulgence, I would like to speak about the economic crisis that the world is currently facing.

I want to talk about the differentiated responsibilities that I think African politicians and policymakers have, together with their counterparts in the Developed World in the quest to dig the world out of the economic crisis.

And I'd like to say a few words about the particular responsibility that we have in Africa, to ensure that we create an economy that can sustain growth that is strong and inclusive.

Card 2 - The current global economic situation, and implications for Africa

Ladies and gentlemen, the dark clouds are gathering over the global economy once again.

People from outside our continent used to say that they only ever heard bad news about Africa. Well now it seems that it is Europe and the US that we only hear negative stories about. Bad news about the sovereign debt situation in Europe, which has been deteriorating rapidly since the summer. Bad news about European Banks. Bad news about the US economy.

Nine of the seventeen economies in the Eurozone are expected to show growth of less than 2% in 2011. The IMF's latest World Economic Outlook forecasts growth for the Eurozone as a whole of only 1.6% for the year (down from the June forecast of 2%), and the prospects for the coming year are even bleaker, with growth in the Euro area only inching above 1%.

These are stormy times indeed. And perhaps most worryingly of all, there seem to be doubts on the financial markets about the ability of policymakers to get us out of this mess.

Take for example the downgrading by Moody's credit rating agency of Italy's government bond rating, amid continuing uncertainty about the ability of the Eurozone countries to deal with the debt crisis. If countries like Italy or Spain were to default on their sovereign debt, then we are in really dangerous waters. These economies are far too big for the EU's European Financial Stability Facility to rescue and support effectively.

And in the US, we've seen political wrangling over budget reforms and stimulus measures, resulting in delays in tackling the deep-seated economic problems the US faces. If the situation isn't fixed quickly, we could see the US government being forced to make even more drastic spending cuts.

Growth forecasts for the US are already being dramatically downgraded. The US is now expected to manage only a sluggish 1.5% growth in GDP this calendar year - a whole percentage point lower than what was being projected in June.

It is perhaps premature to expect the worst. We've recently seen some small, tentative increases in consumer confidence in the US, for example. House prices have also been rising in the States over the past four months.

But these are like little flickers of light in a dark landscape. Most of the economic indicators that we have are pointing only one way.

According to recent surveys, business confidence in Europe's leading economies is at its lowest ebb since 2000. Unemployment remains stubbornly high in most of the advanced economies, with no sign of coming down any time soon. Stock markets around the world are jittery, with major volatility being triggered by the first whiff of bad news.

Card 3 - The effect on Africa

The question facing us all is how stagnating economies in the US and Europe will affect us here in Africa.

We at the African Development Bank estimate that a one per cent drop in GDP growth among the OECD countries translates into something close to a half a percentage point decrease in Africa's growth, and a ten percent decrease in Africa's export earnings. As consumers in hard-pressed economies rein in their spending, so demand for exports from Africa falls. The era of growing Official Development Assistance is gone. We also expect Africa's oil producers in particular to take a serious hit, as global oil demand is forecast to slow down.

Card 4 - Where will the momentum for growth come from?

So if we are to see a revival of growth in the world economy, where is it going to come from? The answer seems clear – while the economies of Europe and North America have stalled, the gloomy picture is by no means worldwide. The BRIC nations – Brazil, Russia, India and China – continue to forge ahead.

The Chinese economy is likely to continue with its phenomenal rate of growth: nine and a half percent this year, and nine percent in 2012.

In India, we're likely to see growth holding steady at around the seven and a half percent mark.

Russia looks on course to maintain growth above four percent, and Brazil is expected to dip only from 3.8 percent this year to 3.6 in 2012.

Clearly, then, it is the BRIC countries that we should be looking to, for potential to contribute to growth in Africa over the next few years.

Already, we have seen Africa's Emerging Partners in the BRICs countries becoming an increasingly important driver of Africa's growth. Our exports to the BRICs countries in 2009 were worth 114 billion US Dollars – nearly four times what they were at the start of the decade. That represents a total share of 32.4 percent of Africa's total exports, up from 21.7 percent in 2000.

And, contrary to what some might think, these exports aren't just raw materials such as oil, gas and copper, but manufactured goods too. The Emerging Partners took 34 percent of manufactured goods exported from this continent in 2009, up from 14 percent in 2000.

Increasingly, too, our Emerging Partners in the BRICs countries aren't just taking our exports, but investing in Africa. They accounted for more than ten percent of the total Foreign Direct Investment in the continent from 2005 to 2010. A recent survey shows that the Emerging Partners are highly effective in helping African countries to meet their development objectives, in terms of building infrastructure and encouraging innovation and technology transfer.

And we should not lose sight of the fact that we in Africa are very well placed to contribute to an emerging global economic recovery. We rode out the worst effects of the financial crisis of 2008 and 2009 remarkably well – GDP growth across the continent stayed positive during that extremely difficult period.

Our forecast growth of 5.8 percent for 2012, meanwhile – assuming that we see a quick return to stability in North Africa – makes this continent the only developing region that is expected to perform stronger next year than this year.

We've shown our resilience to crises. We've shown that we can continue to grow, even under the kinds of external pressure that have tipped other regions into recession. Macroeconomic management in Africa is much better than it was, the economic relations that African countries are involved in are much more diverse, and there is deeper regional integration between our national economies.

We can be part of the solution to the world's economic challenges, not part of the problem.

Card 5 - What needs to be done?

So what needs to be done to improve the global economic picture? I think we're looking at a situation where the responsibilities of different actors need to be clearly differentiated. We all have our role to play, but those roles are different in different parts of the world. But none of us will succeed alone. Global players need to co-ordinate their approaches to tackling the imbalances that underlie our current woes.

Let us start with the countries of the Eurozone. Now really is the time, I think, for Europe's leaders to show political will in implementing their plans to help the countries struggling with sovereign debt problems, and to safeguard the stability of the Eurozone as a whole. If they continue with a succession of partial measures, the risks of failure are high. The situation calls for a clear statement of political commitment to overcoming the crisis, to restore confidence in the Eurozone.

We need to see the worst-affected countries, such as Greece, Spain, Italy, Ireland and Portugal, really biting the bullet – tightening up their fiscal policy and restructuring their economies to make them more competitive.

But in contrast, the leading European economies, should avoid the temptation to follow suit. At this critical time, they should refrain from tightening up their fiscal policy and focus instead on growth and job creation.

And clearly the European Central Bank has a crucial role to play – it needs to loosen monetary policy, to allow debt-ridden economies to adjust. The fact that inflation rates are expected to be lower throughout 2012 should make this easier.

Turning to the US, it would be helpful if the policy makers and businesses could make progress in the creation of new jobs.

Over the medium term, the regulatory failures that first touched off the global financial crisis have not been addressed. We need international cooperation to increase the stability of the international financial system, by reducing systemic risks and enhancing capacity for counter-cyclical interventions.

This in turn calls for improved global economic governance. The G20 should continue to play a leading role, while allowing greater voice for developing countries.

The leaders of the BRICS also, I think, need to accept their share of responsibility. Their economic fortunes remain tied to those of the OECD countries, and they need to work together with them to find solutions to global economic challenges. They also need to continue to engage with us here in Africa and elsewhere by maintaining trade and investment. In particular, this is a time for investing some of the considerable currency reserves that they have built up over recent years.

And what of us here in Africa – what responsibilities do African policymaker have, as we attempt to build on our recent successes, and improve our economic performance in the coming years?

We need to do more towards managing the vast natural resources that we have on this continent, if we are to harness their potential for development. Just as important as investing in exploration technology, infrastructure and human capital are principles of good governance. We need transparency and accountability over the uses of natural resource wealth.

African policymakers also need to focus on mobilising resources for investment. There needs to be continuing effort to improve the business environment for international and national investors alike. While international flows are likely to be volatile for some time, African countries should make much better use of their own resources to fund development projects, in particular by increasing tax revenues. That doesn't necessarily mean putting tax rates up, but rather making the tax system more efficient and extending the tax base.

And African leaders need to keep a steady hand in managing their economies, especially to combat inflation. Inflation rates in some East African countries have more than doubled over the last year. We don't want to see a return of the spectre of hyperinflation. As we found in the 2008 crisis, prudent macroeconomic management creates more fiscal space to cushion against external shocks. It also leaves African governments in a position to offer safety nets to the firms and households most directly affected by the global crisis.

Finally, I believe it is absolutely essential that policymakers in Africa, and around the globe, avoid the temptation to slip back into protectionism, as a short-term fix for our economic problems. On the back of current market turmoil, the prospect of a trade-war between US-China would be nothing short of suicidal. If anything, now is the time to open up our economies by liberalising trade in goods and services. The current crisis should be yet another wake-up call to the world's advanced economies, telling them that they need to conclude the Doha Round.

Even restrictions on labour mobility in OECD, though perhaps understandable in political terms, are ultimately self-defeating.

Card 6 - Promoting sustainable growth. In the final part of my talk, I want to discuss the importance of a transition to a green economy on the continent of Africa – ensuring that as we continue to develop, it is not at the expense of the natural environment.

In Africa, we know what it is like to be on the receiving end of climate change. Africa contributes only around four percent of global greenhouse gas emissions, yet we continue to suffer from more than our fair share of the harmful effects of global warming. In a continent that is so reliant on agriculture, where water scarcity is an issue in many parts, and where extreme weather events such as cyclones, drought as well as flooding are a constant threat, we are particularly vulnerable to climate change.

In recent months we've seen a disastrous drought in the Horn of Africa, while the last five years have seen a new era of fluctuations in food prices as crops have failed. The price volatility of rice is up more than 70 percent over this period, while that of wheat has more than doubled.

What needs to be done? First, African economies need better access to the sources of international funding that are out there, to help them create more sustainable economies. African countries have not been well served in this respect – over the last four years, we in Africa have received only twelve percent of the global funds available for adaptation to climate change.

We at the African Development Bank invest some twelve billion US Dollars in Africa's development every year. And already we have been encouraging green growth, through the Climate Investment Funds that were set up in 2008, and which help African countries access international climate change financing. The Funds, which are worth 6.4 billion US Dollars, help to support sustainable development and attract additional investment for environmentally friendly projects.

In 2008 we also adopted our Climate Risk Management and Adaptation Strategy, which now shapes everything we do. The Strategy looks especially at ways of 'climate-proofing' investments, to ensure that development projects are protected from the impact of climate change, and to increase knowledge on climate change and how to deal with it. And we now have a dedicated Energy, Environment and Climate Change Department within the Bank, to promote green growth in Africa.

Among the mitigation initiatives that we have supported in recent times are the creation of a thermo-solar station in Morocco, a scheme to tackle desertification in Mali, and a number of projects promoting sustainable management of the Congo Basin forest.

Much more remains to be done, however. And adaptation and mitigation come at considerable cost. Recent estimates put the price of setting Africa on the path to low-carbon growth at between 22 and 31 billion US Dollars a year by 2015.

With such a huge price tag, current methods of financing just aren't adequate to the task of creating a green economy.

That is why we believe that there needs to be a climate change fund that is specific to Africa. This African Green Fund, as we are calling it, would provide the financial leverage that is needed if we are to develop a low-carbon and climateresilient economy in Africa. It will help us to play our role as a key partner in the global fight against the effects of climate change.

Card 7 - Challenges for the years ahead

In conclusion, I believe that all of us in this room have our various responsibilities, differentiated responsibilities, for meeting the many challenges that face us in the years ahead. For the policy makers, these include the challenge of keeping a grip on inflation in Africa. The challenge of managing our natural resource wealth so as to promote development. The challenge of mobilising our own national resources for development, and reducing our dependence on external sources of investment finance. And above all, the challenge of making development sustainable.

For those of you supporting Africa's development from within our academies, we look to you for help in developing an agenda for Africa's development that is homegrown and speaks to our own needs and interests. I invite you to continue identifying success stories from within your own countries and regions, and feeding them to a wider audience. And we need Africans to be exercising a stronger voice in international debates on how to meet global economic and environmental challenges.

What is at stake is nothing less than the lives and livelihoods that our children will enjoy in the future. I hope that through this conference, we can keep building momentum in support of such a worthy cause.

Thank you.