United Nations
Economic Commission for Africa

CHECK AGAINST DELIVERY

Eighth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the ECA Conference of African Ministers of Finance, Planning and Economic Development

Statement by

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Addis Ababa, Ethiopia

Your Excellency, Prime Minister Hailemariam Desalegn

Your Excellency, President Paul Kagame

Your Excellency, Dr. Nkosazana Dlamini-Zuma, Chairperson of the African Union Commission,

A welcome note to the former heads of states who are here with us

Mr. Moctar Ould Diayi, Minister of Finance, Mauritania

Honourable Ministers,

I am pleased to welcome you to this joint Conference of Ministers of Finance, Planning and Economic Development.

Allow me to take this opportunity to express my sincere gratitude to Prime Minister Hailemariam Desalegn, the Government and people of Ethiopia for their usual warm and kind hospitality. It has been impressive to witness the socioeconomic transformation of Ethiopia up close and be inspired by the energy and drive of this country's reforms.

I recognize with deep appreciation the strategic partnership between the Economic Commission for Africa, the African Development Bank and the African Union. The AU-led Agenda 2063 process is enabling us, under the leadership of the Chairperson of the Commission Dr. Dlamini-Zuma, to make a meaningful contribution for future generations.

I also wish to thank the numerous United Nations colleagues who have come for the Annual Regional Coordination Meeting at a time when it is so vital that we converge in providing coherent support for a focused pan-African strategy.

A major outcome of the consolidation journey upon which ECA embarked in 2013 is to serve better our member States' policy priorities and capacity development needs. In this respect, we continue to improve our interventions, aiming at a higher level of policy influence in support of Africa's transformation. This last year has been marked by the high-quality, evidence-based and "good fit" policy research carried out in industrial policy, macroeconomic forecasting, gender, progress towards the MDGs, inequality, domestic resource mobilization, private sector development, trade, climate change, and the socioeconomic impact of the Ebola virus disease. This contribution is testimony to the Commission's commitment to continue its journey based on a new narrative and, where necessary, to propose disruptive thinking. The country profiles initiative is a tangible contribution to our collective effort.

While the last 15 years have seen relatively high levels of growth driven by a commodity super-cycle and strong internal demand from a growing middleclass, Africa is still dependent on commodities for most of its export earnings. There is now broad consensus that, without diversified economies, Africa will remain prone to exogenous shocks and trapped in the paradox of high growth rates, coexisting with high levels of unemployment and extreme poverty. It is for this reason that the last four issues of the *Economic Report for Africa* have investigated the fundamental policy questions and challenges facing the transformation process and endeavoured to shed light on, and bring coherence to, policy priorities at national, regional and continental levels. This new thinking on the way forward chimes well with the African Union's Agenda 2063 and the Common African Position on the Post-2015 Development Agenda.

Strengthened by our policy research, we continue to call for accelerated industrialization as key to the structural transformation of African economies. The deep focus on industrialization in Africademonstratesour commitment to ensure that policy research and statistics are strategically relevant to African governments' priorities. The new industrial policies being developed by several member States and regional economic communities have greatly benefited from the research, statistics and debates generated by our focus on this critical subject.

The key factors constraining trade and industrialization in Africa are related to Africa's narrow production and export base, which is dominated by low-value products such as raw materials and primary commodities. This is compounded by very high trade costs, tariffs and non-tariff barriers to intra-African trade and Africa's access to international markets. We have no alternative but to increase our share of global exports. While in the 1970s, Africa accounted for 4.99 per cent of world trade and East Asia 2.25 per cent, by 2010, we had regressed to 3.33 per cent, while East Asia had soared to 17.8 per cent. Limited by poor infrastructure and inefficient logistics, lack of adequate skills and quality inputs, insufficient provision of credit and financial services, ours has become a story of lost opportunity. The time has come for us to awake. Africa's current trade policy plays a major role in our inability to excel.

The 2015 edition of the *Economic Report for Africa* suggests that our trade and industrial policies are now delinked from each other. As a result, African countries exhibit high levels of protectionism with no tangible benefits in terms of productivity improvements. This is exacerbated by rent-seeking behaviourwhich precludes the harnessing of dynamic comparative advantages. Accordingly, tariff structures often do not reflect industrial policy considerations, but are the unsystematic result of successive rounds of reforms. If one looks more closely at imported inputs, it is clear that tariffs are weighing very heavily on the competitiveness of African countries. They stimulate neither the supply responses upstream nor the competitiveness of downstream industries. When properly applied, tariff structures are an instrument for a coordinated strategic approach and for consistency between trade and industrial policy frameworks. I like to call such approach "smart protectionism" – better defined as making the rules work for you. Everybody wants it, but we have not succeeded in making it happen.

Pursuing trade reforms in a strategic manner is a means of promoting and strengthening a country's competitiveness and creating favourable conditions for enhanced participation in value chains.

Where global value chains are concerned, there is a growing body of research that points to the relevance of the services sector in terms of both contribution to value addition and employment creation. Put differently, a dynamic services sector – think for instance of financial services or ICT – can exert wide-ranging spill-overs that lift productivity and enhance value along the chain. Within Africa, however, trade in services is still restricted by a number of (mainly regulatory) barriers.

Against this background, it is vital that negotiations for the continental free trade area also encompass intra-African trade in services. This would not only contribute to improve the scope for the emergence of regional value chains, but also ensure that the gains stemming from the creation of the Continental Free Trade Area are more fairly distributed among African countries, particularly those economies that are developing significant service hubs.

In addition, harnessing trade strategically means that African countries ensure that the sequencing of trade liberalization is consistent with their transformative agenda and commitment to regional integration. In other words, the sequencing of trade liberalization should prioritize the reduction of tariffs and removal of non-tariff barriers within Africa. The fact is that intra-African exports often face higher levels of protection vis-à-vis Africa's exports to the rest of the world, and the situation may worsen. Our goal should be to have tariffs reduced between regionaleconomic communities, in order to avoid offering lower tariffs to Europe than those within Africa, which could become one of the consequences of the Economic Partnership Agreements in the absence of an ambitious Continental Free Trade Area Agreement. Other limiting factors, such as non-tariff barriers, remain particularly pervasive and add to the burdens weighing on the competitiveness of African producers, as these barriers remain particularly high between regional economic communities.

Unilateral trade preferences alone can hardly enable the conditions required for the development of regional value chains. I beg you, honourable participants: let us all realize that we can no longer afford to negotiate trade agreements as if industrialization does not matter to Africa.

We need to keep before us, as our lodestar, the message that trade can indeed support industrialization, but that harnessing this opportunity requires a coherent policy framework.

Trade does not solve our need for financial innovation to propel transformation.

Our domestic resources will increase by undertaking necessary equitable tax reforms. These reforms must address tax collection, closing loopholes and widening the tax base. Moreover, our fiscal policies ought to address poverty and incentivize increased domestic savings. In addition, we need to build partnerships to exploit locally or regionally the potential of our extractive resources and industries. In doing so, we should strive to have regulatory frameworks that enhance our competitiveness and economic environment. As such, illicit financial flows will become a surmountable challenge and we will be more capable of preserving capital in Africa.

Private equity is also another source of wealth that is reducing Africa’s reliance on traditional means of funding. In addition, the evolving development finance landscape – which witnessed the emergence of new actors and innovative aid modalities – offers scope for us to move beyond traditional dichotomies.

By the time we meet again in July 2015 in Addis Ababa, for the Third International Conference on Financing for Development, decisive steps would have been taken to sow the seeds of the continental free trade area as an essential pillar of Africa’s structural transformation. The continental free trade area negotiations are not cost-free. African governments should take the necessary steps to meet these costs, including by ensuring that the negotiating teams from each country are well resourced. Hence, we need to make sure that our contribution and concerns are adequately reflected in our determination to alter the current course. The world will not stand by and wait for African countries to catch up with industrialization.

African countries need to be smart and to explore the linkages between political decisionsand their coherence with trade and industrial policies and development strategies. Ebola was a brutal reminder to us of the fragility of our standing, as misperceptions threatened to erode the foundations that we have fought so hard to establish.

It is all about risk. On the one hand, risk may be defined as the potential to lose something of value. On the other, taking risks can bring us potential value: physical health, social status, emotional well-being, financial gain or prosperity. Risk can be an intentional and managed interaction with uncertainty, unpredictability, and immeasurability. Given these considerations, it is vital that Africa shed the perception of risk as a purely subjective judgement that may or may not be valid and that it learn to take its own risks.

I thank you.