AFRICA-CHINA POVERTY REDUCTION AND DEVELOPMENT CONFERENCE

“THE AFRICAN MOMENT: SEIZING THE OPPORTUNITY FOR TRANSFORMATIONAL DEVELOPMENT”

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Distinguished Representatives.

Thank you for the opportunity to be here with you and for the honour to address you. As Africans, this is an important moment to learn collectively about the nature of the developmental challenge; to take stock of what has been achieved, and, perhaps even more importantly, what is yet to be achieved. We have to agree to the measures and the metrics. We are privileged that we can draw on the quality of partners we have in the UNDP, the IPRCC and the Government of Ethiopia.

This is a rare moment in world economic history. The crisis in the global economy is not over – the talk of a double-dip recession still looms; and the imbalances have now found an outlet in huge currency swings. These currency swings have pushed huge appreciations in the traded currencies of emerging markets (including that of South Africa) creating new uncertainties amongst exporters and concerns about the future trend of the currency. As Justin Yifu Lin reminded us in a recent paper[1], "for developing countries, in the midst of a financial and economic turmoil that was not of their own making, the road ahead is likely to be rocky".

Because of the sluggish recovery in high income countries and the heavy cost of the crisis there (lower growth, high unemployment and rising public debt) and the increasing cost of capital, they will have to confront a more difficult global environment for their exports and financing conditions. Yet, in order to continue tackling the enormous challenge of poverty and achieve convergence, they must return to the pre-crisis path of dynamic growth.

So, it is to a better understanding of the African pre-crisis growth that we must return, in order to appreciate what we need to do. For as long as uncertainty exists somewhere on the globe, we must grasp the moment in the interest of Africa.

Africa has had a great decade with rapid growth accompanied by rising investment and falling rates of poverty. The positives include improved political governance, fewer conflicts, sound public finance, sensible monetary policies, rising investment

[11]Growth Identification and Facilitation, Justin Yifu Lin and Celestin Monga, May 2010

in mining, infrastructure and tourism and increased openness. There are, however, no guarantees of continued growth and neither can we be certain that development and poverty reduction will continue.

There are still problems in the architecture of development that give cause for concern. These include insufficient investment in infrastructure, over-reliance on single commodities and single markets, insufficient investment in education, no strategy to diversify economic development and high costs of doing business because of regulatory knots. If we deal systematically with these issues, Africa can indeed have a momentous decade ahead and this can translate into even faster employment growth and social development.

A quote from the recent World Bank paper by Go, Arbache and Page[2] entitled "Is Africa's economy at a turning point?" reflects this juncture best: "Indeed, the growth diagnostics show that more and more African countries have been able to avoid mistakes with better macropolicy, better governance, and fewer conflicts; as a result, the likelihood of growth decelerations has declined significantly. Nonetheless, the sustainability of that growth is fragile, because economic fundamentals, such as savings, investment, productivity, and export diversification, remain stagnant."

Africa has grown impressively in recent years. According to the African Economic Outlook (2010) the average real GDP growth rate between 2000 and 2008 was 5.3%. FDI inflows grew from USD 20 billion in 2003 to USD 87 billion in 2008. Much of what accounts for the economic growth, FDI inflows and trade is the improvement in infrastructure.

[22] Is Africa's Growth at a Turing Point" Arbache, Go and Page, February 2008.

Annual GDP growth was a sluggish 2.9 percent in the 1980s and 1.7 percent during 1990–94. Since 1994, however, the pace of economic expansion has approached the threshold of moderate growth of 5 percent a year. Even if the record is measured more conservatively with regard to per capita income, the shift is perceptible. From 2004 to 2006, the annual growth in GDP and per capita income, when weighted by each country's GDP, approaches 6 and 4 percent, respectively. Although improvement in aggregate output does not necessarily indicate broad economic development of the region, the current growth episode has nonetheless lasted 12 years altogether, a period that is neither trivial nor brief.

The number of countries with economic declines dropped from 15 to 18 in the early 1990s to about 2 to 5 countries in recent years. Only one country has significant economic contraction—Zimbabwe. In contrast, about 40–45 countries have positive growth, and 14–19 countries are growing by more than 5 percent a year. In 2007, oil exporting countries grew at 8.1% while oil importing countries grew 5%.

While the improved political governance in Africa is a well known fact, allow me to explore some of the other factors that have contributed towards rising growth. The major changes during growth accelerations occur in investment and savings rather than consumption. Similarly, FDI is much higher during accelerations.

Another World Bank study[3], found that "infrastructure contributed over half of Africa's improved growth performance" and contributed "99 basis points to per capita economic growth from 1990 to 2005".

[3] World Bank (2010) Africa's Infrastructure: A Time for Transformation.

Professor John Luiz (2010) from Wits University and Kenneth Button (2002) from George Mason University observed at different times, that infrastructure acts as a "lubricant to economic activity".

To make an obvious point, the more diversified an economy is, the most stable its growth performance has been. This is an important policy consideration, given that a significant portion of growth is driven by higher commodity prices.

Macroeconomic management appears to be an important factor in both good times and bad times. Decelerations are accompanied by high inflation. There is a positive correlation between inflation and the frequency of growth decelerations. Trade is substantially lower during decelerations. Exports and especially imports drop sharply. Correlations indicate that countries that trade less are more exposed to volatility in growth.

The external environment has certainly been a feature of Africa's recent growth. The prices of all commodities (except cotton) have increased. Between December 2002 and December 2009, the terms of trade for oil-importing countries went from 100 to 200 in this index.

Despite these positives, growth cannot be taken as a given. Furthermore, the conditions for translating economic development to social development are still fragile. These conditions largely deal with employment, human capital development and infrastructure.

In a recent study, "*Explaining African Growth Performance: A Production-Frontier Approach*" researchers, Oleg Badunenko, Daniel Henderson, and Romain Houssa (2010) found that physical and human capital accumulation are the factors that drive productivity growth at country level for all the countries they studied. While improvements in infrastructure and human capital development explain the growth experienced in recent years, the weaknesses in the same factors explains Africa's relatively weak performance compared to other regions of the globe.

Despite improvements in primary school enrolment and rising spending on school education, it is not yet clear that these gains are being translated into improving quality of education and the platform for rising productivity. Of concern is that we are not seeing a sufficient flow through from primary into high schools. Similarly, health expenditure remains low and health outcomes are poor.

Though there has been some progress, intra-African trade remains very low (10% of total exports) compared with ASEAN (60% of total exports) and NAFTA (56% of total exports). Factors that contribute to low trade performance include among others poor institutional policies; weak infrastructure; weak financial and capital markets. These points were centre-stage at the ADB's Fifth African Economic Summit in Tunis, just last week.

The history of economic development is incomplete without reference to the contribution of infrastructure, especially transport infrastructure. Yet Africa's infrastructure lags behind other developing as well as developed nations. In addition, Africa's geography does not help – extremely low densities, difficult topography, long distances, and too many borders (Ndulu, *et al 2005*).

To illustrate the point: Africa's infrastructure services are twice as expensive as elsewhere; low income countries in Sub-Saharan Africa have a paved-road density of 31km per 100 square kilometres of arable land compared with 134 kilometres in other low income countries (World Bank, 2010); rail coverage as a proportion surface area is 0.4 for most of the African continent compared with 1.21 for OECD countries (Luiz, 2010); low population density (35 people per square kilometre) compared to South Asia (318 people per square kilometre) (World Bank, 2009);

Because of the poor connectivity and institutional barriers, it is estimated that a journey of 3000 kilometres from Kolwezi in the Democratic Republic of Congo border to the port of Durban in South Africa takes – 38 days (World Bank, 2010). These delays impose undue costs to business and the economy generally.

The *World Development Report 2009* (World Bank, 2009) marshals a large body of evidence spanning a century about how development has happened using new economic geography lenses. It concludes that the development process can be explained using a 3D framework namely density, distance and division. In simple terms, growth has tended to occur where there are greater densities of populations and economic activity; shorter distances between production inputs, production sites and markets; and low or no physical, political and language barriers. Unfortunately, Africa has more of these impediments to growth than any other region. The World Development Report goes on to provide guidance and policy instruments that can be used to address these challenges at regional, national and sub-national scale.

Connective infrastructure (including roads, railways, and telecommunications) and associated rules and regulations are one of the most effective ways to overcome these impediments.

The case for why infrastructure is important for the growth process is clear and compelling. However, it is estimated that Africa needs USD93 billion per year to address infrastructure needs (including maintenance) (World Bank, 2010). This is 45% more than the estimate in the NEPAD base document and more than double the previous estimate by the Commission for Africa. The present level of spending is about $45 billion a year, of which about $30 billion is sourced domestically and R15 billion for foreign sources (what is not said in the report is that South Africa is spending about $25 billion a year already).

In developed countries, spending on infrastructure maintenance ranges between 3 and 5% of the value of total capital stock. In Africa, this ratio is less than 1%, despite low levels of capital stock.

The lack of maintenance comprises one of the biggest inefficiencies in economic performance relative to other regions. Maintenance must be seen as an investment.

In developed countries, telecommunications and transport logistics comprise about 3% of GDP whereas in Africa this can typically account for over 10% of GDP. Even in infrastructure-rich South Africa it accounts for almost 7% of GDP.

Given the capital constraints on the continent, there is a need to find different ways of financing and delivering infrastructure involving the domestic and foreign private investors. This calls for an improvement in the cost of doing business generally if Africa is to attract private investment. In particular the governance and institutional aspects that relate to property rights, contract management and dispute resolution mechanisms need attention.

Infrastructure constraints are only part of the reason for the low level of intra-African trade. Countries seem particularly unwilling to reduce trade barriers between African countries. In general, old colonial relationships still dominate the trade environment. Even within a region such as Francophone West Africa, with a common language, currency and fiscal structure, regional trade is low.

What needs to be done to unlock Africa's potential for development is within African countries' direct control. The opportunity for "transformational development" is within its reach. The biggest catalyst for this is to improve the conditions for private sector investment in infrastructure (including the setting of effective and transparent regulatory institutions). To avoid being overwhelmed by the enormity of the task ahead, it is important to identify a few areas of reforms that will have the biggest impact and pursue them with determination.

There is no newfangled magic in this. WW Rostow, in his classic "The Five Stages of Growth" wrote, "revolutionary changes in agricultural productivity are an essential condition for successful take-off; for modernization of a society increases radically its bill for agricultural products. In a decade or two both the basic structure of the economy and the social and political structure of the society are transformed in such a way that a steady rate of growth can be, thereafter, regularly sustained." In Africa, we have to act collectively to negotiate significantly improved market access; we must undertake the necessary and agreed upon land reforms and we have to get the infrastructure developed to liberate inaccessible land. These are the elements of what Rustow called "The Take off". It is about unlocking our moment.

Let me return to Justin Yifu Lin and Celestin Monga's paper (published by the World Bank, no less) where they argue, "Historical evidence shows that all countries that have successfully transformed from agrarian economies to modern advanced economies – including those old industrial powers in western Europe and North America, as well as the newly industrialized economies in East Asia – had governments that played a pro-active role in assisting individual firms in overcoming the coordination and externality problems in the process of their structural transformation. In fact, the governments in high-income countries today continue to play that role. However, the sad fact is that almost every government in the developing world has attempted, at some point in its development process, to play that facilitating role but most have failed."

So, in accepting that in some parts of the continent development can best be described as "pre-agrarian", but we are a mixed bag. We know that it is not state support that is wrong, but the inappropriate measures of state support, as Justin and Celestin remind us. Unlocking Africa will require significant investments in infrastructure, especially in its cross-border variant. The pro-active push to properly organise regional economic communities, the diversification of the economic base of each country and of groups of countries, the accumulation of pools of savings, and the formation of competent tax authorities should all be immediate acts of governments. These measures should be the call to action.

In conclusion, the economic prospects indeed look better than they have in decades. Our challenge is to consolidate these gains and to build on them through a second phase of reforms aimed at making the growth more sustainable, diverse and robust.

In addition, countries have to consciously think through the linkages between growth and human development. The link is not always an automatic one.

Thank you.