

# AFRICA: REFLECTING ON THE GLOBAL ECONOMIC CRISIS AND THE WAY FORWARD

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Prime Minister Meles, Mr. Chairman, Mr. Ping, Mr. Janneh, Ladies and Gentlemen; Good morning.

Welcome to this Economic Conference. This will mark the fourth time that the African Development Bank and its two sister institutions bring together Africa's best in the economic domain, our economists, our think tanks and researchers in the diaspora, to deliberate on the issues of the day.

We have come a long way since our first attempt in 2006. I therefore take this opportunity to express my thanks to each and every one of you for making it possible.

As a Bank, as a development finance institution, our fundamental mission and our core function is that of financing long term projects by deploying our concessional and non concessional resources to promote socio-economic development in Africa.

But our role is more than financing development. It is also understanding development (assuming development can be fully understood!). What is it that works? And under what conditions? How can we deploy best practices in economic management to better influence the African Economic condition?

You will therefore, appreciate our strong attachment to knowledge generation, in general, and to events such as this one. Four years ago, we created the Office of the Chief Economist ably led by Louis Kasekende which has proven its mantle.

Let me at this juncture thank our partners who have supported us in this endeavor. I would like to express a special appreciation to Canada and South Korea for their generous technical and financial support for this event.

As always, this Conference has been a combined effort of many stakeholders, and especially the three African Institutions. We have worked closely together with Mr. Ping, Mr. Janneh and their teams – and I thank them all.

But I must express a special appreciation to you Prime Minister Meles. You have, if my memory is right, been present at every such Conference when held in Addis. You have played a major role, as Chair of NEPAD, projecting Africa's voice internationally in the G20 throughout these turbulent times for which you merit our commendation.

To you the professional economists, the experts, the resource persons, the think tanks, researchers in the diaspora, it is your scientific contributions which have made this possible.

I gather nowadays that the economics profession has a lot to atone for. But let the truth be said, the weight and depth of your papers at this Conference show that economic analysis remains a powerful tool in understanding, in part at least, today's complex economic and financial interrelationships. That we have a lot to learn in understanding human economic behavior goes without saying. That the profession did not see the crisis coming and initially had no clue what to do about it is a charge we can only plead guilty to – in part!

In human history – once in a lifetime – there are those events, those defining moments which irreversibly shape the world. Over the last few days we have all been mesmerized by the stories of 1989 fall of the Berlin Wall – both physically and ideologically – as told by the major actors of the time: Gorbachev, Helmut Kohl, George Bush Sr., Shevardnadze, Jaruzelski and many others.

Like many of you in the room, I hope to be around and hear what will be said in 2028; about September 2008 and the aftermath of the fall of the Lehman Brothers!

As you will recall at that time, at that moment of the financial earthquake, when we convened in Tunis, the big questions were:

- What does this crisis mean for us?
- What was going to be our internal response?
- How could we influence the evolving global discussions on the issues to get our voice heard?

Now all that is (almost history) you would say. There is no need to repeat here what has been said about the causes and the impacts of the crisis in different parts of the world.

Suffice to say:

- 1<sup>st</sup> Of course Africa was (badly) affected, especially directly through revenue losses and indirectly via automatic stabilizers as economic activity slowed down.
- 2<sup>nd</sup> Affected in different ways, because of different economic structures, with mining sectors suffering the most unemployment and lower investments.
- 3<sup>rd</sup> We have shown stamina, unimaginable a decade ago.
- 4<sup>th</sup> As of now, we seem to be gradually emerging – somewhat bruised – but with our prospects quite encouraging. 2010 looks less somber and much more optimistic, perhaps a real GDP growth of 5%. But it is still fragile; it is too early to seriously use the word “recovery” until we are in the neighborhood of 7%.

Over the last one year, I have been asked many questions in respect to this crisis. Just a sample:

- In this globalization process, where is the “insurance” in the event that in the future the actions of the few – in the rich countries – undermine the welfare of the many – especially the low income countries?

- After two decades of applying the Washington Consensus, is there need for a new paradigm? A change of direction or at least a change of gear?
- You might guess what my answers were: Of course there are several ways of approaching the issues raised here and they are not straightforward.

That is why a conference of eminent economists like you gathered in this room can help us understand some of the pertinent issues. Let me just point out a few, some of which remain till today enigmatic:

- 1<sup>st</sup> In spite of the bruises, the Continent, at the macroeconomic level would seem to be pulling out of the crisis in a better shape than expected. This is generally attributed to the stamina, firmness of purpose, in staying the course on sound policies. But is it really only because of our policies? What other factors might have played a role? Might it be that lower import prices (overall) – but especially oil and food – which eased inflationary pressures, reduced business costs and minimized damage to the current accounts, played a bigger role?
- 2<sup>nd</sup> What have been the distributional effects? How have firms and households responded at that microeconomic level? What have been the coping mechanisms and the impact on the social safety nets? Anecdotal evidence has been quite intriguing.
- 3<sup>rd</sup>. What has been the role of regional trade as global demand receded? And here I mean both recorded and unrecorded trade in goods and services.
- 4<sup>th</sup> And finally, what is the extent and what is the risk that in contrast to what happened in mature economies where financial crisis led to an economic crisis, the reverse happens, a prolonged economic crisis leading to a financial crisis?

As the crisis struck, after some hesitations, global leaders jumped into action, bold, inclusive – at least inclusive of the emerging markets. They

formed the G20 – all but abandoned the G8. Keynes almost buried by monetarism and neo classical doctrines was resurrected. The Pittsburg Summit said “It worked.”

There is no doubt that the global measures taken by the G20, have been at that level quite positive for the world economy as a whole in:

- Stimulating global demand;
- Ensuring better global financial governance;
- Initiating serious discussions on voice and global imbalances; and
- Boosting the resources of the IMF and increasing its flexibility in its instruments, which has proved useful even for low income countries – at least in so far as balance of payments are concerned.

But two puzzles –if you will– remain.

- As confidence rebuilds, economies recover, financial damage is repaired –in so far as rich countries are concerned– a much more intractable problem emerges: long term unemployment.
- The question is: is there a wasted opportunity here to deal with unemployment at home by extending the same Keynesian stimulus to low income countries?
- If today China and India get to double digit growth, that is beneficial to the entire global economy.
- But why leave out the potential offered by a good proportion of Africa’s 1 billion consumers? After all remember, after the crash of 1929, eventually Keynesian stimuli were extended to post World War II Europe and the Far East.

During the crisis, much focus has gone to addressing global imbalances, stimulating global demand, etc. Not much discussion has gone into the domain of development finance.

MDBs such as ourselves have been requested to ratchet up our activities, to increase our lending, and we have. We at the AfDB have doubled, in some

cases tripling and bypassing the \$8 billion cap. We have innovated in new areas such as trade finance and we have significantly improved on our process and response time and reactive capability.

I believe our actions (and other MDBs) have minimized damage for many in Africa.

Nonetheless, institutions such as ours created in the 1960s, were meant to operate in “normal” times. The crisis has demonstrated the paucity of crisis response instruments which require remedial steps.

I believe that the AfDB ability to scale up its operations to such a level, in such a short time period and so flexibly has demonstrated the need for strong African institutions. We have given proof that we are on the way to a World Class institution of which Africa can be proud.

The G20, in urging us and all MDBs to scale up our activities, undertook to provide additional capital and concessional resources. I welcome that and I indeed look forward to a general capital increase for the AfDB. We are working tirelessly towards that objective.

Now that the G20 is a proxy for a quasi World Government, I believe this renewed legitimacy –of the G20– gives its power and indeed the responsibilities to address all sources of global imbalances and tensions, the main two being:

- Financial imbalances
- Climate change

Today, one can discern three zones of economic activity among the so called systemically important economies responsible for these imbalances:

- The OECD countries;
- The emerging markets such as China, India, Brazil, Russia (the BRICs);  
and
- The oil exporting (capital surplus) countries.

On the other hand, even if the one billion people of Africa may not be living in what is termed “systemically important countries” they are part of the solution.

I am tempted here to refer to an excellent article by John Lee of Sydney University which appeared in the Times of November 16, 2009 drawing on a provoking book by Vijay Mahajan, *Africa Rising*, which some of you may have read.

To paraphrase:

Much of the World still views Africa as a basket case continent with the only assets coming from its land or beneath it. Once it was ivory, now it is oil and minerals! Completely bypassing the untapped golden opportunity offered by a growing number of millions of African consumers and an even bigger number of those aspiring to own mobile phones, motors, cars. The legitimate and urgent focus on the bottom half living in abject poverty has sometimes led to an underestimation of the potential of a rising Africa.

I am reminded here of a discussion I was having with an Indian entrepreneur in Bangalore on the so called India 1 and India 2; rather like the “Belindia” of the time (Brazil in the 1970s), referring to the fact that India still has more poor people than Sub-Saharan Africa.

I retorted that while it was true that India and Africa have the same population (one billion people) and about the same level of reserves, about USD280 billion, India has an advantage: it is a Federation. While Africa is a balkanized 53 member state, with as of now growing but still limited economic integration.

As we continue to call for a strong voice on the international agenda, that must grow on the basis of a strong internal agenda, able to generate an endogenous agenda on all pertinent issues.

Going forward, we at the AfDB are determined to reaffirm ourselves, less of an aid conduit but more of a Development Finance Institution, which looks at the integral needs of our economies.

We tried to do so during this crisis. I think we are beginning to get it right. Not only by positioning national challenges in their contexts, focusing our action on individual countries but also on regional growth engines.

Let me end by saying the following: this crisis has again exposed our Achilles heel: commodity dependence. Those economies with diversified sources of inflows; ODA, commodities, investment, migrant transfers have fared better, not surprising.

While we will continue to call on rich countries to meet commitments, I believe, I hope I am wrong, we are entering an era perhaps which is sometimes labeled - post-Gleneagles: where rich countries facing rising debt and deficit, unemployment are tempted to look after their own rather than looking after the neighborhood.

It is a call to us for action, but perhaps a different type of action. A Conference such as this must help us better understand. Just a thought: How come diversification and adding value on our products remains a challenge after 50 years? In the 1960s, agriculture accounted for over 50% of GDP in India, I am now told it is less than 18% of GDP.

With or without the crisis that Achilles heel remains; we know what must be done. We on our part at the AfDB are making our modest contribution, scaling up infrastructure (energy, water, transport) higher education and scientific capability, governance and regional integration.

I see the merit of this Conference as stepping back and reflecting on such issues as: what to do and do better before the next crisis comes. I remain convinced that while this crisis has been a major setback, the fundamentals for our economies remain in relative good shape to re-take off when global

recovery durable recovery comes. Our task is to be prepared, and this conference is part of that discourse.

Thank you and I wish you a successful Conference.