

**AFRICAN DEVELOPMENT REPORT**  
**2004**

**AFRICA IN THE WORLD ECONOMY**  
**AFRICA IN THE GLOBAL TRADING SYSTEM**  
**ECONOMIC AND SOCIAL STATISTICS ON AFRICA**

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# FOREWORD

The *African Development Report*, a staff report prepared by the Development Research Department of the Bank, has over the years become an important source of analysis and information on developments in the African economy. Each year it provides an update on key macroeconomic and sectoral developments and provides an in-depth analysis of an important development topic critical for Africa's development prospects. In keeping with this tradition, the first part of this year's report is devoted to an analysis of the African economy in 2003, viewed from continental, regional and national perspectives. The second part examines in detail Africa's position in the global trading system.

As discussed more fully in the report, Africa's economic performance registered some marked improvements in 2003. Despite the fragile recovery of the world economy, initial estimates point to an increase of the growth rate of real GDP in Africa from 2.9 percent in 2002 to 3.7 percent in 2003, with some 18 countries achieving growth rates in excess of 5 percent (compared to only 10 in 2002), and 16 others registering rates between 3 and 5 percent. Inflation has largely stabilized, with some 40 countries achieving single-digit levels. The fiscal deficit also declined from 3.4 percent in 2002 to 3.0 percent in 2003, while the external current account improved, with a positive trade balance for the fourth year in a row.

Several factors account for the continent's improved performance: the strengthening of

the domestic macroeconomic environment; the recovery of non-fuel commodity prices; favorable weather conditions; and debt relief under the enhanced HIPC Initiative. It is gratifying to note that most countries have continued to follow prudent fiscal and monetary policies, resulting in improved macroeconomic stability. In addition, important structural reforms continued to be implemented, including further price liberalizations, privatization of state-owned enterprises, and the strengthening of regulatory frameworks. A large number of countries also enhanced their Poverty Reduction Strategy Papers (PRSPs) to serve as a comprehensive framework to reduce poverty, promote economic growth, and coordinate donor support.

A favorable external environment supported the domestic reform efforts. The price of oil continued to rise and the price of non-oil commodities increased significantly. In addition, the trend decline in the debt burden of African economies has continued, with the ratio of debt to GDP declining to 47.6 percent, and the ratio of debt service to exports also falling to 15.2 percent.

While developments in the African economy were on the whole positive in 2003, the difficulties that some countries continued to face should not be overlooked. Although a number of long-standing conflicts, such as those in the Great Lakes Region, came to an end and the prospects for ending others are promising, many of the affected countries

have yet to launch effective reconstruction and rehabilitation programs. Others continue to face political instability and civil strife, resulting in a contraction of their economies. Clearly, the international community will need to bolster its efforts to find peaceful solutions for countries in conflict and to provide the much-needed assistance to post-conflict countries.

While the improvement in the performance of the African economy in 2003 is most welcome, it needs to be stressed that on current trends, growth is still inadequate in most countries, particularly with respect to achieving the Millennium Development Goals (MDGs). The only exceptions are South Africa and the countries of North Africa. Other countries therefore need to redouble their efforts and put in place the required policies and structures to accelerate and sustain growth rates in the order of 6-8 percent. A few countries, such as Mozambique, have demonstrated the possibility of doing so. And for its part, the international donor community needs to continue to provide the requisite assistance in terms of increasing ODA flows, reducing external debt to sustainable levels, and improving market access for Africa's exports.

Indeed, Africa's future economic performance will in large part be determined by its trade relations with the rest of the world. As the findings in this report make clear, Africa has fared quite poorly in its international trade performance over the last two decades. Its share in world exports has declined to 2 percent in 2002, compared to 3 percent in 1990, and to 6 percent in 1980.

To reverse this trend, African countries need to pursue a development strategy that is

export-oriented while at the same time seeking to transform their production and exports base. Such a strategy must necessarily start with strengthening Africa's comparative advantage in traditional exports, where the continent has lost market share in primary commodities such as coffee, cocoa and cotton. In addition, enhanced diversification programs should start by strengthening the linkages between agriculture and the industrial sector, as the comparative advantage of many African countries may initially lie in the processing of agricultural goods. Further, African countries should exploit the potential that exists in the export of services, including the substantial comparative advantage that they enjoy in tourism. These sectors should be given high priority while African countries seek to build up their comparative advantage in manufacturing.

Successful promotion of exports and diversification will require that domestic policies do not discriminate against exporters and that the physical and marketing infrastructure required to help African producers become more competitive in the global market be developed. In most countries, there is an urgent need for investments to reduce key constraints such as inefficient transportation and marketing systems.

Export diversification also requires the scaling-up of local capacity with the support of foreign firms. Partnerships with foreign capital create access to the needed technologies as well as access to managerial and marketing know-how. In addition, African countries will continue to require technical assistance from their development

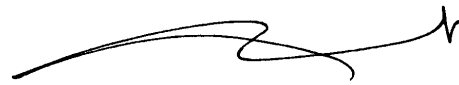
partners in such critical areas as capacity development in exports promotion, industrial research, information management, and quality control.

Africa's quest to increase and diversify its exports will also necessitate the support of its development partners to put in place a development-oriented international trade regime. In this regard, important steps such as the *Everything but Arms* (EBA) initiative of the European Union and the Africa Growth and Opportunity Act (AGOA) of the United States are yielding positive results. These initiatives will, however, need to be broadened to cover other important trade-related issues such as agricultural subsidies, quotas, and non-tariff barriers.

The Doha Development Agenda of the WTO sought to address these issues within a negotiated multilateral framework. The failure of the Ministerial talks at Cancún in 2003 therefore represents a major setback for

African and other developing countries. It is evident that the international community needs to re-commit itself to pursuing a rules-based global trading system that takes full account of the needs of poor countries. It is for this reason that we urge the resumption of the Doha Round and its timely conclusion.

This year's *African Development Report* provides a rich and extensive discussion of these and other trade-related matters that are likely to have a major impact on Africa's development prospects. I am confident that policy-makers, researchers, as well as representatives of civil society and the private sector, both in Africa and elsewhere, will find the analysis useful.



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