



AFRICAN DEVELOPMENT BANK GROUP

From Turning Point to Tipping Point

Remarks at the 8th African Economic
Conference

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Eight years ago the idea was floated to get African economic researchers, practitioners, think tanks, our own economists at the Bank and policy makers regularly together. Louis Kasekende our then Chief Economist was the sponsor of the idea. Since then this group has done quite a lot, to advance our understanding of the African economy and the international ramifications.

This time, you have selected a theme which is at the core of the work of the African Development Bank - Regional Integration.

In particular, ever since the collapse of Lehman Brothers, and the financial hurricane that came in its wake, there has been much scepticism among ordinary people about economists, bankers and experts associated with the World of finance.

I do believe nonetheless that at a time like this, what you have to say deserves attention.

As it so happens, there was an interview by Alan Greenspan (Former Chair of the US Federal Reserve) with the FT published this last weekend which, I am sure many of you will have read.

It was sobering to read a humbling assessment by this towering figure in the World of economics and finance articulating in a non-defensive way where he thinks he may have gotten things wrong. His assessment of risk modelling is particularly interesting. He cites his misplaced belief that complex mathematical models could forecast the behaviour, actions of individuals, households or business let alone explain the rationality of their actions under particular market conditions.

He goes on to say and I quote:

“The models failed at a time when we needed them most.

The Fed model failed.

The IMF model failed.”

And he concludes, “Today there are no easy answers or straightforward heroes or villains ...in a shifting landscape we all need to keep challenging our assumptions and prejudices”.

I have no doubt that in the next two days we will do just that, keep our minds open, challenge our assumptions. For my part, I have always followed this Conference proceedings closely, not simply out of intellectual curiosity, but as a practitioner, to discern the implications for what the Bank does.

I must therefore thank you all, researchers, think tanks, academics, Bank staff, sister institutions and co-sponsoring organisations for remaining committed to this enterprise. We



are proud to be partners.

The subject which brings us here today, the economic integration of Africa is not new. With the political liberation of the Continent achieved, Economic Integration is the main goal of the AU.

It is the reason for existence of the numerous regional Economic Communities and incidentally, for those who may not know it, the principal reason the African Development Bank was created!

Reflecting on this Conference, I looked at the map of South Africa, Africa's largest economy. This is a country with 9 provinces. The only country in Africa which straddles the Indian and the Atlantic Oceans. Many of those nine provinces have a GDP, a multiple of many countries in the rest of Africa. Not all. If the province in which we are now meeting (Gauteng) was a country, it would be Africa's fifth largest economy. I understand too that the smallest economic province (the Northern Cape) still has a GDP larger than many countries north of the Limpopo.

A thought always crosses my mind.

Just imagine for a second, that each of these nine, provinces, each one of them, had its own currency, passport, borders, investment laws, immigration barriers, let alone its army, Foreign Service.

I could go on.

The conclusion is a no brainer. Even with all the natural wealth, each one of them, would be probably poorer than it is today. So we all know the price our Continent pays for balkanisation.

We understand the impatience of the ordinary people, and the frustrations which businesses feel.

When the founding fathers of the OAU agreed to the intangibility of borders created by colonial partition, they at the same time agreed to the imperative of economic Integration. Progress to date is encouraging but highly variable. In East Africa, COMESA, ECOWAS, SADC, much is going on. In contrast, the pace is probably a little slower, in the North and the Centre. And where the pace is right the results are beginning to show: almost everywhere tariffs are no longer the big issue, but non-tariff restrictions remain a real impediment.

Intra-COMESA trade is up from USD 3bn in 2000 to USD 20bn in 2012. There has been a 50% increase in intra EAC trade since they adopted the Customs Union. Even for intra-African trade, if you add informal channels, the share is now probably close to 20%. While this is still far behind other Regions of the World it indicates the ground we have covered. {(For reference: ASEAN (30%), North America (40%), Europe (60%)}



As you probably know, the African Development Bank is the leading financier of infrastructure and regional corridors on the Continent. In the context of the Programme for Infrastructure Development in Africa (PIDA) we are involved in key transcontinental projects, connecting not only countries but Regions, building power pools. There is little doubt that as cross border transport improves (it often accounts for up to 15 % of final product price) trade outcomes will continue to get better. That is why we are big supporters of the Tripartite between: SADC, COMESA and EAC.

All these issues are quite familiar. We know the facts. We are aware of what has to be done. We even have target dates, road maps. So if we are here, it is not to make the case for Regional Integration. That case was made very long ago. So to the question as to, why are we here, rather than out there, getting the job done?

I can think of two reasons we are here today:

The first: the implications for Africa of the calamitous state of the global economy; the urgent need to build a stronger resilience against external shocks. To put it quite simply, it is now urgent and business as usual will not do.

The second: a strong conviction that although many countries have done well in the last decade, that momentum will be hard to sustain without a quantum leap on integration.

Let me explain:

First, Five years ago, the global economy went through a near death experience. It may have moved out from intensive care, but not out of the clinic. Anaemic recovery, unemployment, weak banks, massive debts and complex structural reforms politically difficult to execute.

To complicate the matter further the prolonged crisis has made agreements on multilateral solutions, such as on trade, climate which we need much more remote. As the acute economic problems moved from crisis to chronic, the impetus to cooperate has diminished.

Just take the case of the Doha Round. After a decade of stop and go, despite the energies and prodding that Pascal Lamy put into this Round; it is fair to say the Round is stuck. After ten years, it seems the way forward now is to scale down ambitions. I understand the meeting in Bali in December will seek to pick some low hanging fruits such as an agreement on trade facilitation. Trade facilitation, with or without Doha is of course critical issue.

According to the OECD it adds another 40 billion dollars to the global economy and boosts incomes everywhere by anything between 10 and 15%. Easing flow of goods across borders is vital for African countries, an agreement that would be very welcome. But when shall we see movement in other areas so key for Africa to trade her way out of poverty. Areas such many more. And by the way even areas around services, which for a country like South Africa now accounts for 65% of its GDP and 70% of employment.



Another element which Africa must watch is the mega trade partnership agreements that wealthy countries are negotiating among themselves.

Examples: the transpacific partnership; the transatlantic partnership.

The lesson Africa must draw from this, is that: with a sluggish global economy, a tough ride to multilateral solutions, building Africa's internal market cannot be business as usual, which brings me to my next point, the reason why we are here.

There is now a widespread celebration of Africa's performance. For many it is Africa rising, whatever that means. For others, this is a bubble waiting to burst: a cynical view we have got used to.

But take a careful more nuanced look. We are 54 countries with different endowments, starting point, and socio economic conditions. Some are endowed with rich natural resources: they export oil, gas or mining products. Others are low income net oil importers, several countries are conflict affected.

A number of African nations are large middle income open economies. Some are small middle income island economies. A good number are land locked.

So as I was saying at Brookings early this month, anyone can find evidence of whichever hypotheses or biases they wish to confirm. Whoever wants to show that Africa is not rising all they have to do is focus on the Horn of Africa, Central African Republic, the Sahel, youth unemployment, power problems, inequalities and more.

For those looking for the positive story, take a look at 20 countries growing at over 6.5% in the middle of this global slowdown; Look at the dramatic decline in infant mortality, the reduction in poverty headcount, the increase in Investment flows, not simply in the extractives but also agribusiness, manufacturing and services.

However, here is the point:

I am yet to meet a serious analyst who disagrees that Africa has turned a corner. At no time should we Africans make the mistake of confusing a "turning point" with a "tipping point".

At this moment a third of Sub Sahara African countries will see economic growth of over 6.5%. The remainder, exception made of those in conflict will hover around 5%. And contrary to popular affirmations this pattern of growth is well distributed, not simply only for countries rich with extractives.

But as the economies grow so does the population. It is running against a treadmill in the opposite direction.



Two factors are critical here: the infrastructure gap, which shaves off 2% of growth per year; getting our markets together.

This is what investors are looking for, this is what they tell us.

This is what it takes to join the higher levels of the global value chains.

That is what will create an internal market, robust, resilience to resist external shocks.

That is where jobs are.

That is where transformation begins, the global value chains.

And that begins next door.

That is the tipping point.

At a time like this of weak global demand, with so much volatility, so many unknowns. The real cushion, the engine is Africa's internal market.

As I mentioned earlier, we are the largest external financier for infrastructure, both national and regional. 20% of our concessional window is ring fenced for regional integration, about USD 1.8 bn a year to support seamless regional markets (SLIDE 1). Of the USD 7 bn we committed last year, 60% was for infrastructure.

Connecting countries



SLIDE 1

In trying to discern why sometimes progress is slower than it should have been, what are the lessons that we have drawn over time?



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Let me share a few. (SLIDE 2)

But it is more than infrastructure...



SLIDE 2

This is a picture taken at a border within the COMESA region, but it could be anywhere. The slow movement you see here, the pile up is not due to lack of infrastructure.

To the contrary a brand new multi country highway had just been completed, funded by us. The pile up is paper work, immigration, customs, security, phytosanitary inspectors, each with, several paragraphs of questionnaire to fill, several signatories multiplied two times for both countries.

So lesson 1, not surprising; hard infrastructure on its own is simply an enabler. Unless followed by swift action on such non-tariff barriers and restrictions both direct and indirect costs savings cancel out.

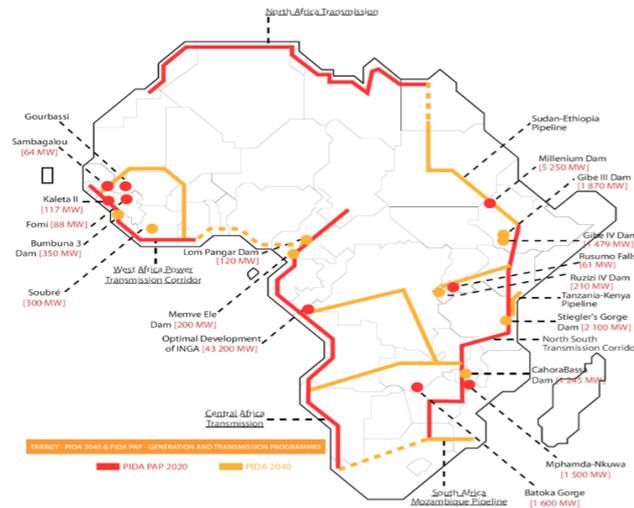
As experts in these issues tell me, there is a whole range of issues to deal with at that point; behind the border, at the border and beyond the border. This is why efforts by Governments to promote simpler documentation, single border posts are very much to be applauded.

Let me give another example on cross country power interconnection, the power pools, in which the Bank is a key player. (SLIDE 3)



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Powering the future of Africa



SLIDE 3

At this moment there is a power crisis in almost every country. As economies rapidly expand, demand for power has outstripped supply. It is not so much the lack of energy sources that is a problem. The Continent has a good capacity in hydropower, geothermal, other renewables and of course fossil fuels including the ongoing large gas discoveries. The Power sector requires a lot of public investments, from production and transmission.

But it is clear that public sources alone will not suffice.

We know too that private investors, as they did in the 1990s, after telecom deregulation are poised to be involved, provided reliable institutional regional arrangements around regulation are in place; provided national power utilities are solvent and not bankrupted by inefficient power subsidies; provided independent regulators are independent in law and in fact.

That is why I applaud the ongoing reforms in the power sector across the continent, from South Africa to Tanzania, to Kenya, Nigeria, Ghana and more. Courageous decisions have been taken to remove line subsidies and replace them with targeted subsidies to those who need them, the poor. This is what will enable countries where the energy potential is geographically located to produce and export power to the Neighbours creating an energy market we need.

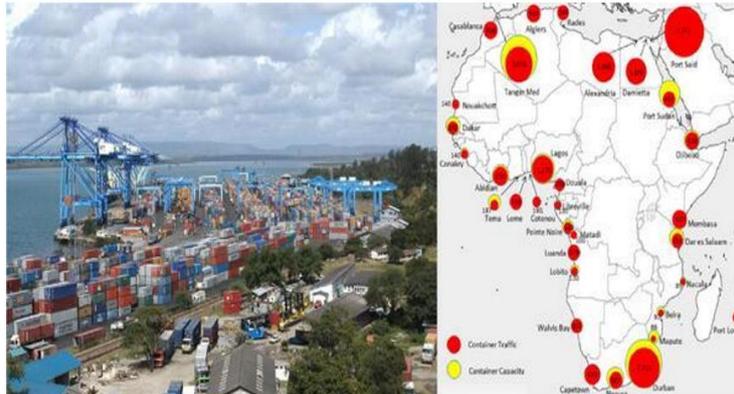
Recently, I commissioned an evaluation of the maritime port capacity around Africa. Not surprisingly outside South Africa, Egypt and Morocco, all our ports are now reaching capacity.

They require massive investments (SLIDE 4).



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Growth is constrained by maritime port capacity



SLIDE 4

As we have done recently, supporting port development in Djibouti, in Togo, in Senegal and Namibia. Many more are coming up.

Take a look at this (SLIDE 5).

The AfDB – Connecting countries and people...



SLIDE 5

This port though located in Namibia is for all intent and purpose a regional facility. It serves all the countries of SADC and beyond. So any inefficiencies at such ports are external costs imposed on all the user countries and the regional economy at large. This is one area Regional Economic Communities must now focus, and we are prepared to assist.



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Africa50, a game changer



SLIDE 6

There is no disagreement that many of the cross border transformational projects Africa needs will continue to require public money, national resources, capital markets and Development Finance Organisations.

You have heard the numbers before.

From all the above sources we can raise about 50 billion dollars a year. That leaves a gap of 42 billion dollars. A way therefore must be found to attract private investors in commercially viable infrastructure.

We have seen the experience with undersea cables, energy projects. Private capital is looking for opportunities.

But it requires that such projects are brought to the level of bankability; that they are de-risked through a whole range of instruments; that an appropriate structured financial vehicle exists.

This is what the African Development Bank is doing with AFRICA 50 of which you will hear more at this Conference. With the Bank as the anchor investor, we are calling upon African Institutional Investors to build our Continent with our own savings while earning decent return.

The Bank's track record in private sector development, in PPPs, will be brought to bear to support such a vehicle take off, and taking a key role in the de-risking of such projects.

At this time, when many countries are accumulating huge amounts of surpluses from natural resource discoveries and huge amounts of rent, it is time for Africa to invest in Africa for Africa.



Not in low return or loss making propositions, but in safe, high return assets that build our economies too.

Let me end where I began.

We are not here to make a case for Regional Integration. That case was made long ago.

We are here because of our determination to convert the turning point into the tipping point.

That should be the clarion call.

It is urgent. It is urgent because of the parlous state of the global economy that calls on us to build internal resilience, unlock Africa's one billion market, creating conditions for joining the global higher value chains.

For those who will say, but this requires vast amount of financial resources, I would agree. But Africa is investing its half a trillion dollar savings abroad from its newly discovered wealth, oil, gas etc., and under current market conditions, it gains limited returns.

It is an opportunity in a generation, to get it right this time, avoiding mistakes of the past in how we manage natural resources. But, in any case things we have to do for the deeper Integration of Africa do not always need money.

Rather the implementation of the commitments we entered into, from movement of people, and shared services to joint Centres of excellence. These are times for strategic decisions on where Africa goes next.

Who does not decry the complexity, the difficulties, and the costs of flying within Africa?

But we have the Yamoussoukro agreement to deregulate the aviation sectors. That single act alone would most likely bring more investors in the sector, driving down the flying costs, probably as much as 40%.

I will not say much about free movement of skilled and business persons.

At the end of the day, if we are to go faster in deepening Integration, countries will have to rethink zero sum calculus, "you will gain I will lose", escape from a sort of prisoners dilemma, as to what the other side will do if I am the first to go.

Evidence is ample that along the way it is a win-win for each and every one.

And as we can see from the Euro zone variable geometry comes with costs which Africa cannot afford.

I look forward to your deliberations and I thank you for listening.