

SEPTIEMBRE 2014

Current Economic and Financial Development in Africa

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Mr. Chairman,

Your Excellencies, the African Ambassadors to Argentina, Ladies and Gentlemen, Let me begin by expressing my thanks to Dr. Adalberto Rodríguez Giavarini, President of CARI, as well as to Their Excellencies the African Ambassadors to Argentina who have given me this opportunity to open the discussion on the present situation in Africa, with an emphasis on economic and financial issues.

In doing so, I will try to describe what Africa is in my view today and how it came to where it stands at present, before addressing its perspectives and closing by a few words on the relationship between Africa and Latin America, and between my own country, Morocco, and the rest of the African continent, as well as Latin America. Africa is indeed a big, fascinating continent. It is a mosaic of peoples, ethnicities, languages and religions. It has a young population of more than one billion people and is uniquely endowed with huge natural resources, including oil and most of the minerals.

Its 2013 GSP is around USD 2,300 billion, representing 2 per cent of the world GDP. Northern Africa, Nigeria and South Africa represent close to 70 per cent of the continent's GSP. It is to be noted that African GDP is probably underestimated, because of the big size of the informal sector and due to deficiencies in statistics, as demonstrated recently in the Nigerian case.

Africa's share in world trade is also 3 per cent, while intra-Africa trade is only 10 per cent, which is very low compared to the situation in the other continents.

* Lecture held at the Argentine Council for International Relations on September 22nd 2014.

While these figures seem low, they do not reflect the positive evolution of the continent and the continuous interest of the international community in it.

It is true that the continent, after regaining its independence in the late 50s and early 60s, went through three lost decades in terms of development. Misguided policies heavily centered on demand without the resources to back them and absence of productive investment led to deep crisis and loss of confidence in the continent, which was seen as growing only during the short periods of commodity prices booms, as happened in the mid-seventies.

This has started to change in the mid-nineties and more clearly in the early 2000s, when GDP growth registered increases averaging almost continuously 5 per cent, except in 2009 when the world financial crisis hit. This was accompanied by increases of 2-3 per cent in per capita GDP growth.

Large fiscal deficits which were widespread have improved until 2009, but turned to negative generally on account of investments, whose rate hovers around 23-24 per cent of GDP, while gross national savings stand around 20 per cent. The external accounts are consequently negative, but remain manageable. Government debts, after the implementation of HIPC debt

initiatives and reschedulings remain also, with a few exceptions, manageable.

Foreign direct investment has picked up, representing 2-3 per cent of GDP and foreign reserves average 4-5 months of imports of goods and services. Terms of trade have improved and exchange rates are generally more consistent with market conditions.

All these developments, presented in averages, mask diverse situations between, for example, oil and non-oil countries, middle-income and IDA countries and do not do justice to the issue of distribution of wealth which is seriously affecting our continent.

Mr. Chairman,

I believe it interesting to look at how Africa succeeded in registering this remarkable turnaround.

First of all, most African countries, with the support of the international community, undertook during the eighties and part of the nineties a heavy regimen of adjustment which, with a few exceptions, helped them redress as we have seen, their macroeconomic indicators. It is to be noted that initially this was mostly limited to the so-called first generations of reforms.

Later, other issues like those related to governance, development of the private sector and financial systems have been addressed with diverse results. African countries are also addressing and giving priority to the issue of poverty. As we all know, the proportion of population living in poverty in Africa is the highest in the world. The continent has bad indicators in terms of education, health, access to water, sanitation, life expectancy, women equality, environment, etc. Also topping the agenda is the high unemployment rate, especially of the youth, including the educated among them.

Governments are trying hard to address these issues and working on the attainment of the Millennium Development Goals (MDGs), aiming at cutting by half the poverty rate by 2015.

It is unfortunate to note that with the exception of Northern Africa, South Africa and a few other countries, most of African countries will not, on present trends, reach this goal. To be sure some of them will reach some of the targets but will miss others.

Mr. Chairman,

Another contributing factor to the improvement in Africa's situation is the notable abatement in

the number of conflicts. At some point in the past, these conflicts numbered sixteen. They have come down to a fewer number.

Other factors have to do with the emergence of a strong civil society, which is vocal and active on issues that were dealt with before solely by governments, as well as on economic and social activities.

Moreover, the technological revolution, particularly the introduction of the mobile phone and internet has clearly allowed a leapfrogging in terms of development.

Lastly, migrant transfers and tourism receipts also played a positive role.

Mr. Chairman,

The turnaround in Africa's economic condition was also due to the greater involvement of the international community, although its interventions fall short of expectations.

The G-8 commitments are stagnating at around USD120 billion and are even on a decreasing trend. More importantly, with the exception of four countries, we are very far from the 0.7 per cent of GDP agreed at the UN.

More progress was achieved on debt reduction

thanks to three debt initiatives which reduced sizably the official debts of many sub-Saharan African countries. The interesting point in this operation is that the released resources were to be used in the tight against poverty, particularly in the education and health sectors.

It is on trade that the least progress was made. However, after agreeing in Doha on the link to be made between trade and development, the negotiations stalled.

This being said, some African countries benefit from preferences granted by the EU as well as from the US AGOA initiative which is supposed to be renewed next year.

Last but not least, the cooperation with the BRICS countries, particularly China, has played a major role in the promotion of trade and investment.

Mr. Chairman,

Starting from this relatively comfortable situation, what are the prospects for Africa?

According to most international analyst, Africa will continue its growth path around 5-6 per cent per year. The interesting thing is that this applies to all categories of countries. Now, this should be put in perspective. First, this is not enough to reduce poverty. Higher growth rates

are needed. Second, we are starting from a low base and 5 per cent, especially in smaller countries, is not significant in terms of per capita income. Third, as we said before, distributional problems affect the continent and more is to be done to make growth inclusive.

Without pretending in any way to give lessons, I wish to make some observations and suggestions.

According to demographic projections, Africa could see its population double to 2 billion by 2030 and even quadruple to 4 billion by the end of the century. This is indeed a good sign for future economic development, provided it can address all related issues.

These increases in population, mostly in sub-Saharan Africa, which will be accompanied by greater urbanization will put pressure on already heavily taxed systems of education, health and environment. Reforms of these systems and their financing should be looked at very carefully.

This brings us back to the problematic of growth. Agriculture should be given top priority if imports of food are to be avoided and nutritional problems of population addressed.

Infrastructure, including transportation,

telecommunication, roads, electricity, water, sanitation, as well as infrastructure in the cities will also have to be high on the agenda.

Trade and regional integration: as we said before, Africa's share of trade is 3 per cent only and intra-Africa trade is 10 per cent. The intra-Africa trade should receive attention, building on the successful experience in other parts of the world. To do so, there is a need for "intensive investment in manufacturing industry that could add value to Africa's raw materials", as recommended by UNECA, which also recommends "skill development and productivity enhancement support programs". Regional integration is a must. While some regions have made good progress, others, like Northern Africa, are missing important opportunities and additional growth.

Financial systems should be modernized and more linked to international networks. Here too, regional integration could help.

The private sector should be developed further and practices of doing business should be improved. Investments, including private foreign investment, should receive incentives and, whenever possible, public-private partnerships should be encouraged.

Mr. Chairman,

While this agenda is indeed very demanding and raises a number of difficulties, external observers including international organizations are confident that Africa is the "new frontier" for the future. It is now for example amply admitted that the better performance of Africa is not due only to commodity price booms.

This being said and if African governments succeed in their difficult task at reforming, there remain risks of external nature that could affect them. Those risks are mainly related to the evolution of growth in emerging countries that could affect African exports and to the possible tightening of financial conditions by major nations which could make it more difficult for African countries to attract capital flows and make their financing conditions less favourable. Security conditions like in the Sahel region could also affect the performance of some African countries.

Mr. Chairman,

Let me now turn to the relationship between Africa and Latin America. The latter is also a region with vast natural resources and young people. Its economic performance and

prospects are good. There is then every reason to believe those two regions of the world can develop a fruitful relationship.

Bilateral trade is at levels that are not yet commensurate with this noble objective and with the strong will of governments and populations are evidenced by the launching of the Africa-South America summit process in 2006.

This has elevated the relationship to a strategic level. A number of initiatives have been taken to strengthen it, at all levels: legal, commercial, cooperation between private sectors, etc.

But quoting from a SELA report, "little headway has been made so far on the economic dimension and economic cooperation is still showing low levels of activity". The report cites as reasons for this situation: the "lack of information and knowledge, competitive rather than complementary structures, focus on third party markets, lack of preferential conditions for mutual trade and investment relations and barriers to transport and logistics".

It is to be hoped that further work will be undertaken both at the regional level, as well as at specific countries' level, in order to enhance and upgrade this relationship. My own country – which has developed its relationship with a number of countries in Latin America–

constitutes a good example in this regard.

Morocco has an observer status with a number of Inter-American organizations, including the Organization of American States (OAS), SEGIB, STCA, CARICOM and Parlandino, and regularly participates in meetings held by those organizations. Moreover, Morocco is an active participant in South America / Arab States (ASPA) and South America / Africa (ASA).

Morocco can be a useful partner for Latin-American countries in developing their relationship with Africa. Strong links have always existed between Morocco and its sister nations. They have been bolstered in the recent past thanks to a strong leadership provided by HM King Mohammed VI who, through numerous official trips and ongoing contacts with African Heads of State has succeeded in elevating those relationships to a very effective level.

The Moroccan private sector is now very active in many parts of the continent. Major investments were made in a number of vital sectors of the African economy: banking, communications, insurance, mining and public works.

The official cooperation is also noteworthy in the fields of energy, water, irrigation,

infrastructure, health, etc.

Thousands of African students have been admitted with scholarships to Moroccan universities. The Moroccan carrier has developed a big network of flights to a number of African countries.

Morocco has also opened a free financial center in Casablanca (CFC Casablanca Finance City), which was devised to be a hub for the continent. Lately, the African Development Bank (AfDB) decided to establish in that center a fund called Africa 50, which is designed to finance the much needed infrastructure in the continent.

Morocco has concluded free trade agreements with the EU, the USA and with a number of Middle-East countries, which could constitute a good reason to invest in it.

Finally, the country, endowed with sizable resources, particularly phosphates and agriculture, enjoys peace and stability, with a well recognized democratic system under the leadership of HM KING Mohammed VI.

Mr. Chairman,

Your Excellencies, the African ambassadors to Argentina,

Ladies and Gentlemen,

Let me conclude, before giving you the floor for a welcome discussion, by saying that Africa is a continent which, after a difficult start, is on its way to becoming a meaningful partner in the world economy. Its laudable performance during the last 20 years, under difficult circumstances and major external crises, is a testimony to its capacity to become indeed the “new frontier”.

To do so, it needs to consolidate its hard-won performance on macro-economic issues and to make its growth more inclusive. It also needs to carry on with the reforms in vital sectors, like education and health, but also to promote and encourage its private sector to help enhance its competitiveness in the globalized world. It should also give more attention to regional integration.

The international community, despite its own present difficulties, needs to continue supporting Africa, particularly in the fields of trade and investment, and providing Official Development Assistance (ODA), where still needed.

Latin America, with its young population and natural resources, its mature stage of development, can play a meaningful role by cooperating with the African continent. While

this cooperation is still at a nascent stage, it should be further developed. The political initiatives taken so far, like the convening of South America / Africa summits should provide the necessary guidance for such a noble endeavour.

Thank you for your attention.

Omar Kabbaj / Mr. Omar Kabbaj is Advisor to King Mohammed VI of Morocco since 22 June 2006. He served as the Chairman of the Board of African Development Bank and served as President from August 26, 1995 to September 1, 2005. Before that, he was a member of the board of the International Monetary Fund (1980–1993) and member of the Board of Directors of the World Bank (1979–1980) and Minister Delegate to the Prime Minister of Morocco, in charge of affairs Economic, from 1993 to 1995. Omar Kabbaj is also a Knight of the Order of the Throne of Morocco.

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Para citar este artículo:

Kabbaj, Omar (2014), "Current Economic and Financial Development in Africa" [disponible en línea desde septiembre 2014], Serie de Artículos y Testimonios, N° 95. Consejo Argentino para las Relaciones Internacionales. Dirección URL: <http://www.cari.org.ar/pdf/at95.pdf>