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**OPENING REMARKS BY MR FERHAT LOUNES
VICE PRESIDENT, AFRICAN DEVELOPMENT BANK
AT THE CONFERENCE ON
"ACCELERATING TRADE AND INVESTMENT IN AFRICA".**

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X VICE PRESIDENT, AFRICAN DEVELOPMENT BANK
AT THE CONFERENCE ON
"ACCELERATING TRADE AND INVESTMENT IN AFRICA".

(Addis Ababa, Ethiopia, 5-8 May 1997)

Mr. Chairman

Mr. Salim Ahmed Salim, Secretary General, OAU

Mr. K. Y. Amoako, Executive Secretary, ECA

Honorable Ministers

Your Excellencies

Distinguished Guests

Ladies and Gentlemen,

Permit me first, on behalf of the African Development Bank and on my own behalf to congratulate the United Nations Economic Commission for Africa (ECA) for this most timely initiative which concentrates on an issue of vital importance to our social and economic development, namely "Accelerating Trade and Investment in Africa". I would also like to express my sincere thanks both for the kind invitation to address you and for the opportunity to continue the involvement and collaboration of the African Development Bank with the OAU and the ECA for the betterment of African countries.

You would all agree with me that the issues involved in the theme of this conference are both vast and complex. I would, therefore, confine my opening remarks to some selected concerns covering the interrelations between trade and investment; the importance of export expansion in the process of economic growth; the status of Africa's competitiveness in the international market; Africa's opportunities and challenges in view of the Post-Uruguay system of trade; and I will finish by making some remarks on policy implications.

countries with diverse problems, challenges and opportunities. The required strategies and policies would, therefore, vary according to each country's circumstances. Mindful of this, I would like to bring to your consideration and deliberation in this conference five broad strategic axioms. These are:

- * the need to draw on our cultural attributes to promote our development culture;
- * the need to adopt visionary planning;
- * the use of agriculture as the take-off base; ~~apply~~
- * the reorientation of regional integration from a trade-focused approach to production-focused approach; *and,*
- * the adoption of a "piecemeal approach" to transform our production toward more industrialization.

Permit me to dwell on each of these ^{five}~~three~~ axioms, if only briefly.

On the first issue, I would like to submit that public and private production units are not built in a vacuum; they are rather based on the cultural attributes of the society. Just as many triumphant countries in East Asia have called upon their value-systems to model their production relations, we in Africa can also aspire to convert our deep-rooted social values, which are sometimes viewed as binding constraints, into driving forces. Our communitarian attributes, our extended-family systems, if guided in the right direction, can be used to transform the working force into social builders. Related to this is the issue of strategic and visionary planning.

Mr. Chairman,

It is high time that African countries go beyond the present state of crisis management and fire fighting to the stage of visionary planning for long-term development. This process would need to be guided by the notion that comparative advantage is not static but dynamic and can be modified, made and acquired by visionary governments and private sector strategies. The basic message I am trying to ~~deliver~~^{drive} home is that government visionary planning and government assistance to specific private sector industries can play a more crucial role in transforming Africa's production pattern by creating new advantages of the acquired kind. This does not mean that nature-given comparative advantage should be discarded. Understandably, the least developed African countries should not go for computer production just yet. But the very identification of their current comparative disadvantages is the first step towards overcoming them.

This leads me to the third strategic axiom which is the use of agriculture as the take-off base. While it is true that no country can attain significant levels of development without industrialization, many African countries would have to use agriculture as the take-off base. Owing to its importance in the structure of African economies, the agricultural sector must play a crucial role in any industrial development. The agricultural sector must provide, in a large measure, the inputs for industry and food for the urban industrial population. It must also generate demand for industrial goods and earn the foreign exchange to purchase the imports of capital goods and raw materials for industry. Increasing the productivity of agriculture is, therefore, an indispensable factor for any long-term industrial strategy.

The fourth strategic axiom is the need to shift our regional integration paradigm from the present narrow trade-focused approach to a broader production-focused approach. There are three observations that may justify this shift. First, the trade-creation effect of regional integration in Africa is constrained by the very structure of African economies. African countries tend to have similar export baskets

and, hence, there is a limited possibility for trade liberalization to generate substantial inter-African trade. Second, the commitment of most African countries to economic integration ^{derives} ~~drives~~ mainly from the perception that it is a means to pool resources for investment and industrialize efficiently by taking advantage of the opportunities of scale which large markets would make available. Third, the wave of unilateral trade liberalization among African countries, the trade liberalization rules of the World Trade Organization (WTO) and the relentless market-driven globalization of production structures, tend to render the orthodox approach of "integration through trade liberalization" virtually redundant. Such observations lead to the conclusion that if economic integration is to have much impact under the present conditions of African economies, it would need to go beyond the simple idea of trade liberalization and envisage ~~a~~ a more comprehensive production-based approach through the promotion of regionally-based projects. Increased trade among member countries, in this context, would be the result of the development of integrated production structures rather than the cause.

The fifth strategic axiom that I would like to stress is the need to adopt a "piecemeal transformation approach". The general idea of this approach is to promote the traditional and a modern export sectors simultaneously. The traditional sector, employing traditional technology and labor-intensive techniques, is to be promoted to meet, as much as possible, basic needs of the people including food, clothing and shelter. The modern sector, which necessitates a shift to high knowledge-intensive production techniques, can be spearheaded by Export Processing Zones (EPZs). The main objective of such zones is to promote processing and manufacturing, aiming to advance certain manufacturers into a renowned market niche; encourage and host foreign investment; and act as the vehicle which pulls the overall economy to higher growth rates and as a window through which the country can acquire technological knowledge and managerial know-how.

There are two main justifications for advocating this piecemeal approach. First, that the process of transformation through industrialization requires huge

investment in infrastructure and other production-servicing facilities that many African countries may not be able to provide country-wide. The available meager resources can be devoted to the provision of these facilities within a small confined area, the EPZ. Second, the effective application of country-wide export incentives, such as exemption or tax rebate systems, requires a high level of technical and administrative capacity. There is also the risk of abuse of these systems, with duty-free inputs not being used for export production and with exemptions and rebates provided to unqualified firms. An EPZ is meant to avoid these costs and risks, since the use of duty-free imports and the provision of other incentives are more easily monitored in a confined EPZ.

It is worth noting that variants of this piecemeal approach has been successfully implemented by some developing countries in Asia and Africa. In Asia, for instance, the reforming economy of China moved to higher and sustained growth rates in the last decade, through the promotion of the so called "Special Economic Zones" and the "Costal Area", in which the country adopted an outward-oriented strategy. Between 1980-1996, these special areas recorded an average real growth rate of about 15 per cent while ~~the~~ China's economy as a whole grew by an average real rate of 9 per cent. In Africa, Mauritius engineered major impetus to growth, through the promotion of an Export Processing Zone which relied heavily on manufacturing exports and foreign investment. During the last decade, the output growth in the Export Processing Zone averaged about 19 per cent while the Mauritian economy grew at an average real rate of 8 per cent.

Mr. Chairman

Ladies and Gentlemen,

Permit me to conclude my remarks by postulating that the path to recovery lies not only in the pursuit of adjustment but also in the quest for economic transformation. This requires African nations to take up the challenge of processing locally, aiming to advance, within a carefully conceived national or regional strategic

vision, certain manufacturers into a renowned market niche. This process is governed basically by two rules: the development of man-made comparative advantage as opposed to nature-given comparative advantage and the promotion of high quality for price. Economic transformation requires, among many other factors, steady and adequate financial resources to tide the Continent over the initial phases of change. This points to the need for the international community to take resolute actions to support the transformation efforts and development prospects of African countries. For, it is my strong conviction that the case for an accelerated growth and development in Africa is as much a concern to Africa's policy makers, as it is to the rest of the world. This is not only because faster growth rates in Africa is now a matter of an urgent and pressing concern, but also because an accelerated growth in Africa will help to shatter the chains that fetter the expansion of trade and the growth of output and employment in the rest of the world.

Ladies and Gentlemen,

I thank you for your kind attention.