

Introductory remarks by

**H.E. Prime Minister Meles Zenawi
at the Fourth African Economic Conference**

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Your Excellencies, Honorable Guests, Ladies and Gentlemen.

I would like to welcome you all to the Fourth African Economic Conference which is organized by the African Development Bank in collaboration with the ECA. I would also like to thank the ADB and the ECA for making it possible for experts and policy makers to get together and discuss topical issues.

I have been asked today to make introductory remarks on fostering development in an era of financial and economic crisis. In doing so the first question that comes to my mind is: Is it possible to foster development when we have a whole era of economic crisis ahead of us? In other words is there anything in the nature and cause of the current crisis that opens up such a possibility. I am going to suggest today that while it is probable that Africa will not be able to foster development in the current era, it is nevertheless possible to do so.

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There was a very interesting discussion on the causes of the current crisis and a large degree of consensus in the recent G-20 Summit in Pittsburgh. Clearly many participants felt that the financial sector was operating under rules that allowed it to appropriate super profits when the going was good, and pass on the losses to everyone but themselves when the going was not good. Clearly such a financial sector could not but be rapacious, highly speculative and very unstable. It was natural therefore that many did insist that the rules of the game would have to be radically overhauled if we are to avoid extreme volatility and instability in the global financial system. I fear it is very unlikely that there will be such a radical overhaul and therefore the instability in the financial and commodity markets related to speculation are likely to be with us for some time.

What I felt was more interesting than the discussion on the financial sector was the debate on the structural causes of the current economic crisis. There was a significant degree of consensus among the participants that global imbalances, particularly the imbalances between nature and the current trajectory of growth and the imbalance between the poles of growth and savings and poles of consumption were the key structural causes of the crisis. The implication was that we need to address these imbalances to achieve sustainable growth and that even if we were to immediately embark on addressing these global imbalances it will take time to do so, and that therefore the global economy is entering a more or less protracted period of low growth, in some ways similar to what Japan went through for a decade.

Industrialization based on the voracious and unsustainable consumption of the fruits of nature in general and carbon based energy in particular appears to have reached a dead end. Climate change and global warming that have become so apparent are clear signals that unless we change the trajectory of our development the current era of crisis will be followed not by sustainable growth but by environmental catastrophe that will generate death and misery rather than growth and welfare. 150 dollars per barrel oil is a clear indication that there is not enough of it to sustain the current trajectory of growth even if we were to ignore its environmental impact. Clearly speculators played and are playing a major part in keeping oil prices high but it is the unsustainability of carbon based industrialization that is creating the fertile ground for massive speculation. Oil prices are around \$70 per barrel when the global economy is in the doldrums. One can imagine that as soon as the global economy begins to grow significantly oil and other commodity prices will jump to such an extent as to take the life out of it.

Clearly therefore there can be no hope for sustained and substantial global economic growth unless the imbalance between nature and our current trajectory of growth is decisively redressed. Even if we were to begin to decisively redress this imbalance it will take time to do so and in the meantime it is likely that the global economy will stay in the doldrums.

Asia and in particular China but also Japan and countries in the Arabian Gulf have accumulated trillions of dollars of surplus savings that they are unable to consume or invest in their countries. The US has hitherto served as the consumer of last resort and helped to maintain the unsustainable division of labor and division of production and consumption. It is no longer able to do it and this is the main cause of the current crisis. We have to find a sustainable way of investing and consuming this massive surplus savings if we are to overcome the lack of effective demand that has depressed the global economy. Even if we were to embark on redressing this imbalance today it would take time to adequately redirect the surplus savings. In the meantime the global economy will be hobbled by lack of effective demand and continue to be depressed.

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For several decades now, we Africans and our partners have done everything we can to alleviate poverty. We have developed our poverty reduction strategies. The appropriate policies designed to alleviate or reduce poverty have been put in place. The resources required to achieve the objective have more or less been made available. During the decade or so before the current crisis, these circumstances had enabled us to do rather well in managing chronic poverty in Africa. For several decades now managing chronic poverty was the name of the economic game in Africa and in recent years we had begun to do well in that regard, although there were significant and tragic exceptions to it.

Our strategy for managing chronic poverty came under serious challenge in early 2008 as commodity prices particularly that of cereals and oil shot up dramatically creating massive inflationary pressures and balance of payment crisis in a number of

countries. This was followed by the global economic crisis which threatens to push our economies over the precipice.

The current environment of protracted crisis and low growth on the one hand and high volatility in commodity prices with a more or less permanent hike in oil prices on the other is the worst possible scenario for Africa. Low global growth means that our exports have come down and the opportunities for revival appear to be remote. Remittances, which in many countries were much higher than development aid, have been reduced dramatically. Development aid, particularly bilateral aid is under enormous pressure and will continue to be so; volatility in commodity prices and high oil prices will continue to threaten our macro-economic stability. Extraordinary weather events associated with climate change are threatening the very survival of African agriculture, the mainstay of our economies. The limited FDI that we used to attract has continued to shrink. All these negative trends, or at least most of them, are likely to persist throughout the current era of crisis and stalled global growth. So long as these negative trends persist, the circumstances that allowed us to do rather well in managing chronic poverty will have changed for the worse. The current era of economic crisis thus makes our strategy of managing chronic poverty unviable.

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While thus the era of financial and economic crisis that is upon us has made our decades-long strategy for managing chronic poverty unviable, I would argue it has also opened a window of opportunity for us to breakout of poverty.

Let us suppose that the world is serious about climate change and decides to take effective measures to combat it. I know it is highly improbable that this would indeed be the case, but no one can say that such an outcome is completely impossible. If the decision to tackle climate change effectively were to be made, then Africa with its vast sources of renewable energy: solar, wind, hydropower, bio-energy etc., would have an important niche in the global market. This could become an important source of long-term growth and transformation for Africa.

Such an agreement on climate change would also of necessity mean that Africa would get substantial and reliable sources of funding to adapt to climate change. Such funding could then enable us to bring about sustained growth in agricultural productivity through, among other things, effective soil and water conservation, environmental rehabilitation and improvement in agricultural productivity. Such a revival of the bed-rock of Africa's economies would in the short-run revitalize our strategy for managing chronic poverty while laying the basis for overall economic transformation in the long-run.

Let us again suppose that the international community in general and the countries with massive surplus savings in particular recognized that Africa is an important part of the solution to the problem of lack of adequate global demand and decided to invest part

of their surplus savings in Africa. I know it is improbable that they would do so but no one can say that it is totally impossible.

It is after all quite possible to imagine that the Chinese will shift a significant part of their surplus savings to domestic investment and consumption which would in turn accelerate the increase in labor cost in China. It is possible to imagine such a possibility because it is to a certain extent already happening. Such a shift and the associated acceleration in labor cost would mean that some of the labor intensive manufacturing in China would increasingly become unviable. As a result some of the Chinese companies engaged in the sector and FDI in China engaged in the sector would have to relocate out of China. Again this is already beginning to happen. If a significant part of this relocation were destined to Africa, there would be a massive spurt in industrialization reversing the trend of de-industrialization that has taken place in Africa since the 80's of the last century. We would begin to become part of the global chain of production and consumption rather than the continental ghetto on the periphery of the chain that we currently are.

It is possible to imagine that the Chinese will decide to redirect some of their surplus savings to infrastructural development in Africa. It is possible to do so because to some extent it is already happening. Such a shift would mean 10s of billions of dollars per annum invested in African infrastructure again opening the opportunity for the transformation of the overall economy. Indeed it is not only possible but also highly probable that the Chinese will take the steps that would widen the window of opportunity for Africa.

The Japanese with the highest surplus savings after the Chinese may also think of repeating what they did in South East Asia, here in Africa. They have, particularly since the 80's of the last century, helped to radically improve infrastructure in South East Asia and done so in tandem with extensive relocation of their manufacturing sector to the region. They have avoided imposing ideologically driven policies in return for their support and have given the South East Asian countries the policy space needed to design strategies of economic transformation that work. Partly as a result of such concerted Japanese effort, much of South East Asia has followed the Japanese goose and flown in a flying geese formation for several decades now. It is highly improbable that they would engage Africa with the same scope and intensity but it is possible that they could pay significantly more attention to Africa than has been the case hitherto.

It is also possible to imagine that the Gulf state would shift a small part of their massive surplus savings to Africa and that the Indians will do what the Chinese are already doing as they make progress in their extraordinary development activities. All of the above are in other words possible although some are more probable than others.

Let us once more use our imagination and consider the possibility of African states recognizing the opportunities outlined above and taking the necessary steps to capitalize on them. Given the fact that neo-liberalism and the associated strategy of managing chronic poverty were largely imposed on Africa and given the fact that they

have now become thoroughly discredited, it is possible, indeed probable that at least some African states will discard the straight jacket of neo-liberalism and managing chronic poverty and come up with strategies for economic transformation that work. It is possible to imagine that Africans will act in unison to bring about the changes in global direction that we have outlined, and that open windows of opportunity for us. It is even possible to imagine that at least some African countries will build the capacity that will enable them to adequately exploit the opportunities created by the current global conjecture.

While it is possible that there will be effective global response to climate change, and that re-allocation of some of the massive surplus savings to Africa, and adequate policy and capacity building response on the part of African states will happen, it is difficult to imagine all of them happening at the same time to make a real change to the prospects of economic transformation in Africa. That is why I suggest while the possibilities of fostering development in the current era of financial and economic crisis are there the probability of these possibilities materializing is rather low.

I would therefore suggest that designing strategies to foster development in the current era should focus on making the possible probable. We need to design strategies that would promote effective global response to climate change including adequate funding for adaptation by African countries. We need to design strategies to encourage the flow of some of the surplus savings in Asia for infrastructural development in Africa and to promote relocation of labor intensive manufacturing to our countries. We need to design strategies to enable African states to design and implement strategies for economic transformation and to capitalize on the possibilities opened by the current global conjecture. It is going to require more than one conference to do so but I am confident we will make significant progress in that direction during this conference.

I wish you success in your endeavors, and thank you for your kind attention.