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The Challenge of Globalization in Africa

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President Biya, Your Excellencies, Ladies and Gentlemen:

Thank you very much for the invitation to participate, on behalf of the International Monetary Fund, in this conference on globalization. It is a pleasure and an honor to be here. But I must confess to a certain difficulty in speaking on the second day of the conference, for almost everything that should be said has already been said, especially in the excellent speeches at the opening session. Nonetheless, let me try to give a perspective from the IMF, starting with a few general points.

First, globalization is multi-faceted, with many important dimensions - economic and social, political and environmental, cultural and religious - which affect everyone in some way. Its implications range from the trade and investment flows that interest economists, to changes that we see in our everyday lives: the ease with which we can talk to people all over the world; the ease and speed with which data can be transmitted around the world; the ease of travel; the ease with which we can see and hear news and cultural events around the world; and most extraordinarily, the internet, which gives us the ability to access the stores of knowledge in virtually all the world's computers. Equally remarkable, as was said yesterday, internet technology is not particularly expensive or capital intensive - but it is human capital intensive, and therein lies one of the implications of globalization for economic and social policy.

Second, globalization is not new. Economic globalization is as old as history, a reflection of the human drive to seek new horizons; globalization has usually advanced, though it has sometimes receded - most importantly, during the 1930s, the prelude to World War II. The pace seems to have picked up in recent decades, thanks to three driving forces: improvements in technology; the lowering of barriers to trade and capital flows - reflecting the acceptance by economists, citizens and policymakers that this is the way to greater prosperity; and the questing human spirit. We are indeed moving towards becoming one world - but thankfully we shall never get there, for all humans and societies like also to retain their particularity.

Third, the past half century has seen not only intensifying globalization, but also historically spectacular growth. This relationship validates the vision of the founders of the post-World War II economic system built around the IMF, the World Bank, and what eventually became the WTO. But many of the world's poorest countries - many of them in Africa - have not seemed to benefit. Globalization seems to have passed them by.

Even so, fourth, there is no point in asking whether we should be for or against globalization. The problem is summarized in one of the signs seen at last year's demonstrations against the Bretton Woods institutions: "Worldwide coalition against globalization". Globalization is here to stay: the reality is that we already live in a global economy - where flows of trade, capital and knowledge across national borders are not only large, but also are increasing every year. Countries unwilling to engage with other nations risk falling farther behind the rest of the world in terms of both income and human development. That way lies the very real threat of marginalization.

Rather, the right set of issues to raise is how best to take advantage of the opportunities presented by the growth and growing openness of the world economy; how best to live with the unavoidable difficulties that globalization may bring; and how to modify the system to make it operate better. I shall concentrate on economics, even though I suspect that much of the emotional reaction to globalization derives from its non-economic aspects. And I shall concentrate on Africa.

Economic Policies for a Globalized World

What should policymakers, especially African policymakers, do to reap the benefits of economic globalization? I could now embark on an IMF list, including sound macroeconomic policies, better governance, legal and financial reform, privatization, price liberalization and infrastructure investment. These are all critically important, but you know what I would say about them without me saying it.

So let me just talk briefly about two priorities: trade liberalization and effective social spending. First, trade liberalization, which helps open economies up to competition and deepens their integration into the world economy. Sub-Saharan Africa is less open to international trade than other developing regions. Several studies have shown that liberalization should improve the region's trade performance significantly and thereby spur the growth of productivity and incomes.

Some African countries have made major progress in liberalizing trade over the past several years. For example, in recent years there has been important progress in adopting a common trade policy and a relatively open customs union in CEMAC. This will contribute not only to trade liberalization within the region but also to a considerable reduction and simplification of the region's external tariff structure. Such progress could now be strengthened and extended to other parts of sub-Saharan Africa - and the recent decisions in ECOWAS, as well as the revival of the East African trade bloc are also promising. Given the number of overlapping trade blocs in Africa, rationalization of their structure would be desirable. In light of the small size of many African economies, the impulse to regional integration is extremely important - but regional integration will help increase long-term growth only where it is truly trade increasing and not an attempt to erect new protectionist blocs.

Progress on trade liberalization in Africa should be matched by the opening of advanced country markets to the exports of African producers. In particular, the advanced economies should lower the effective protection on goods of interest to sub-Saharan African countries, such as clothing, fish, processed foods, leather products, and agricultural products more generally. The IMF will continue to make this case vigorously whenever and wherever it can.

Second, let me talk about the importance of effective social spending. Globalization delivers its economic benefits in part by promoting change, the rise and fall of different industries and economic activities. The process is not a painless one. Economists talk in the abstract about labor moving from low productivity to high productivity uses. But it is individuals and families who have to do the moving. If they feel threatened and unable to cope with the process of change, they will resist it and the economic benefits will be lost.

The answer is to invest in the human capital of the poor - increasing their access to health, education and economic opportunity - as well as to provide a cushion during the process of adjustment, in the form of efficient social safety nets. In the past the IMF perhaps paid too little attention to this need, but I believe we have now given it the right priority in the programs we support through our Poverty Reduction and Growth Facility, in partnership with the World Bank. One result is that when poor countries need to get their budgetary house in order to ensure the sustainability of the growth on which long-term poverty reduction depends, we take very seriously indeed the need to protect productive social spending from budget cuts.

In fact, among the low-income countries that have received IMF support since 1985, per capita spending on both health and education has risen by more than 4 per cent a year on average. But this masks big variations by country and for much of that period gains in education spending in Africa were much smaller. We are doing more, and we intend to do more yet, for there is still more to be done.

In this globalizing, rapidly changing world economy, investment in education takes on special significance. The new technologies are knowledge and skill intensive, and there is a need to train people to work with those technologies. But the training cannot be too narrow, for adaptability to change is another key to success in the modern world. The generation gap in dealing with computers is obvious to every parent, and the benefits of starting where possible with young schoolchildren are obvious. Of course, this requires money, and here there is a special role for donors.

The HIV/AIDS pandemic is exacting a heavy toll in human lives. It is not only a humanitarian tragedy on an extraordinary scale, but it is also a potentially massive economic disaster for the continent. All the more reason, then, to seek to reduce the incidence of HIV/AIDS through public health policies that have worked in several African countries, including Uganda.

As important as the amount of money spent is the way it is spent. This underlines the importance of good expenditure management, so that poverty reduction priorities are addressed within a well-run overall budget. Uganda's Poverty Action Fund has been one successful approach, channeling extra resources into primary education, primary healthcare and tackling AIDS. In Cameroon, public spending on education and health are to be increased steadily in coming years, with the proceeds of debt relief under the HIPC initiative being targeted to six poverty reduction priorities. But the authorities have wisely chosen to use the windfall from higher oil prices to repay debt and build reserves, in effect saving for social spending in the future as greater administrative capacity is put in place and the money can be used more productively.

There are useful lessons here for the beneficiaries of the HIPC initiative. Twenty two countries - 18 of them in Sub-Saharan Africa - are already at the point at which they are beginning to receive debt relief under the initiative. On average it is reducing their debt service obligations by half. It is essential that these resources be used effectively for poverty reduction, both for its own sake, but also because waste will play into the hands of those who argue that aid flows are squandered and should be reduced.

The Role of Industrial Countries

Turning now to how to make globalization work better, the international community has a responsibility to provide an external environment that will allow Africa to fulfill its potential. The industrial countries bear a particular responsibility in four areas:

- First, as already mentioned, by guaranteeing African exporters unfettered and tariff-free access to their markets, especially for agricultural products.

- Second, to support countries that are trying to boost growth and tackle poverty by increasing aid flows and guaranteeing them over longer periods.
- Third, by doing more to help Africa bring peace to its war-torn regions. In addition to direct efforts to resolve and prevent conflict, this means restraining arms sales and countering the smuggling of raw materials and natural resources to finance wars.
- Fourth, by helping the continent fight the spread of the HIV/AIDS epidemic.

I am tempted to add a fifth responsibility: to maintain steady, low-inflation, growth in the industrialized countries and thus in the world economy, and to seek to avoid major economic disturbances that would damage the developing countries. But since this is a responsibility that all countries do their best to fulfill, there seems to be no case for listing it as a separate responsibility related to globalization.

International Institutions

The IMF, the World Bank, and the GATT and WTO, were set up as part of an implicit bargain: that countries that elected to play by the rules of the international system, would be helped both by the basic pro-growth design of the system, and by loans and other assistance when in special need. That is one of the reasons why the IMF's Managing Director, Horst Köhler, reaffirmed the role of the IMF in its poorest member countries through the PRGF shortly after he took office last May. It is also why we have worked so resolutely with our World Bank colleagues in trying to ensure eligible countries gain access to debt relief under the enhanced HIPC initiative as soon as possible, provided of course we can give assurances to our Executive Board that the debt relief will be used to fight poverty.

That is also why we in the IMF have been so intensively engaged in seeking to improve the ability of the Fund and the international economic system to prevent massive crises of the types seen in the last decade, and to mitigate them when they occur. This is not the place to go into details, but much has been done, including an ongoing shift to more flexible exchange rate arrangements.

The issue of the representation of developing countries in the international institutions has been raised. With regard to the IMF, let me note first that, given that the Executive Board prefers to work by consensus, the quality of the representation and the number of voices, as well as the share of votes, are important. With regard to the quality of African representation, the Exectuve Directors from sub-Saharan Africa are first rate representatives of their constituencies. However, their constituencies have many members, and consideration could be given to providing each of them with extra resources to deal with the exceptionally heavy workload.

Conclusions

Let me conclude by reiterating that promoting growth and reducing poverty are best achieved by embracing the global economy, improving policies and strengthening institutions. This will be a difficult task, but one that can be accomplished, provided that policymakers in Africa and the international community alike are ready to do their part.

That is what the IMF believes. But some ask whether Africa is different. Pessimists claim that the continent is predestined to endure low growth, in part because it is tropical and suffers from systemic diseases such as malaria; because the quality of its soil is poor; and because many of its countries are landlocked.

We do not share this pessimism. The success of countries around the world that have managed to make serious inroads into poverty - in Asia and elsewhere - suggests that others, including African countries, can do likewise. Indeed, some countries in Africa have already shown that it is possible to sustain rapid growth, notwithstanding seemingly unfavorable conditions. In recent years, we have seen more and more countries adopt prudent, market-based economic policies, seeking integration into the world economy, and thus conducive to growth and poverty reduction - many of them with IMF and World Bank advice and support. This strategy is beginning to show encouraging results; and we in the IMF, working closely with our colleagues in the World Bank, are committed to doing everything we can to help you strengthen and deepen these results.

Thank you.

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