Challenges of globalization for Africa

Offmann, Kari A.
Boston University
Challenges of Globalization for Africa
Delivered by His Excellency K.A. Offmann
APARC-HBCU Collaborative: ATLANTA
September 23, 2004; 12:00 pm
Morehouse College

Ladies and Gentlemen,

It gives me great pleasure to bring to you very warm and cordial
greetings from the Republic of Mauritius.

Since assuming office as the current Balfour African President-in-
Residence at the African Presidential Archives and Research Center of
Boston University, I have been very much looking forward to my visit at
Morehouse College with which APARC has a long-standing collaborative.
At the very outset, may I convey to the Management of Morehouse College
my deepest appreciation of the very warm welcome extended to me and to
my delegation at this historic and prestigious seat of learning and for the
opportunity given to me to share with you some of my views on
globalization.

Major developments are on-going in all parts of the planet. The world
economy has entered a new phase of transition with the emergence of
market economies. The international economic order is taking a new
direction characterized by free trade and globalization.

Globalization is first and foremost a result of the expansion,
diversification and deepening of trade and financial links between countries,
especially over the last ten years. This reflects above all the success of
multilateral tariff reduction and trade liberalization efforts. Economic
thought itself has evolved over time, toward the general acceptance of the
fact that outward-oriented and open economies are more successful than
closed, inward-looking ones. More than at any time previously, individual
countries in all parts of the world are liberalizing their exchange and trade
regimes in the conviction that this is indeed the best approach for growth and
development. There is a deeper commitment of national authorities
throughout the world to sound macroeconomic policies, and to creating a
more stable environment for investment and the expansion of economic
activity. Finally, with the increasing liberalization of financial markets, and
their growing sophistication, capital markets have become integrated, and
capital flows are now largely driven primarily by considerations of risk and
return.

While globalization raises the rewards of good policy, it also
accentuates the costs of poor policy. Credibility of economic policy, once
lost, has become more difficult to regain. What is now critical is the perception of markets that economic policy formulation and implementation is consistent and predictable. This underscores the importance of flexible and well-informed policy-making, of solid, well-governed institutions, and of transparency in governance. Countries with a poor or inconsistent policy record will inevitably find themselves passed by, both from expanding trade and from private capital flows for development. These are the countries that run the risk of marginalization.

The question of what policies are needed to benefit from globalization has preoccupied economic thinking in recent years. Studies reveal that success is closely linked to an appropriate combination of policies with three main objectives: (i) achieving and preserving macroeconomic stability; (ii) promoting openness to trade and capital flows; (iii) and limiting government intervention to areas of genuine market failure and to the provision of the necessary social and economic infrastructure.

The challenge facing the developing world, and African countries in particular, is to design public policies so as to maximize the potential benefits from globalization, and to minimize the downside risks of destabilization and/or marginalization. None of these policies is new, and
most African countries have been implementing them for some time. In particular, sub-Saharan Africa has made substantial progress toward macroeconomic stability:

- there has been continued improvement in overall growth performance. Average real growth has increased from less than 1 percent in 1992 to over 5 1/2 percent in 1996, and this positive trend is expected to continue;
- there has been some success in bringing down inflation--many countries have already achieved single digit inflation rates. The average for Africa is expected to fall from the peak of 60 per cent in 1994 to 15 per cent in 2005;
- countries have also reduced their internal and external imbalances. The external current account deficit has fallen from an average of 15 1/2 percent of GDP in 1992 to about 9 percent projected for this year.

African governments have also made considerable strides in opening their economies to world trade. Most countries have moved ahead with trade and exchange liberalization, eliminating multiple exchange rates and non-tariff barriers, and also lowering the degree of tariff protection.
The restructuring of many African economies is gaining momentum. Throughout the continent, government intervention in economic activity is on the wane. Administrative price controls are being reduced and agricultural marketing has been widely liberalized. The process of restructuring and privatizing state enterprises has been underway for some time in most countries, though with varying speed and degrees of success. And finally, fiscal reform is gaining ground--African countries are taking firm steps to rationalize their tax systems, to reduce exemptions, and to enhance administrative efficiency. At the same time, they are also reorienting expenditures away from wasteful outlays towards improved public investment and spending on key social services, particularly health and basic education.

However, it is essential to achieve the right combination of policies. While Africa is clearly on the right track, there is still some way to go. There are five main areas where African countries need to achieve greater progress in order to speed up their participation in globalization:

- maintaining macroeconomic stability and accelerating structural reform
The emphasis must be to maintain economic stability and to reinforce the implementation of structural policies that will make the economies more flexible, encourage diversification, and reduce their vulnerability to exogenous shocks. These include further reforms in the areas of public enterprise activity, the labor markets, and the trade regime. Governments must also ensure that public services--including transportation networks, electricity, water, and telecommunications, but also health services and education--are provided in a reliable and cost-efficient fashion.

- ensuring economic security

Establishing the right framework for economic activity addresses the second requirement of policy--removing the sense of uncertainty that still plagues economic decision-making in most of Africa. The direction and orientation of future policy must be beyond question. This requires the creation of a strong national capacity for policy formulation, implementation and monitoring. Moreover, the transparency, predictability and impartiality of the regulatory and legal systems must be guaranteed. This goes well beyond the respect of private property rights and the enforcement of commercial contracts. It also involves the elimination of arbitrariness, special privileges, and ad-hoc exemptions.
• **reforming financial sectors**

It is generally believed that an open and liberal system of capital movements is beneficial to the world economy. However, rising capital flows place additional burdens on banking regulation and supervision, and require more flexible financial structures. This aspect of globalization thus confronts developing countries with a new challenge--to accelerate the development and liberalization of their financial markets, and to enhance the ability of their financial institutions to respond to the changing international environment. Much remains to be done to reform and strengthen Africa's financial systems, many of which are weak and poorly managed.

• **achieving good governance**

National authorities should spare no efforts to tackle corruption and inefficiency, and to enhance accountability in government. This means eliminating wasteful or unproductive uses of public funds and providing the necessary domestic security. Many African countries will also have to undertake a comprehensive reform of the civil service, aimed at enhancing its efficiency. In short, governments must create confidence in their role as a valued and trusted partner of private economic agents.
Finally, African governments will need to actively encourage the participation of civil society in the debate on economic policy, and to seek the broad support of the population for the adjustment efforts. To this end, governments will need to pursue a more active information policy, explaining the objectives of policies and soliciting the input of those whom the policies are intended to benefit.

With closer economic integration, each country has an interest in ensuring that appropriate policies are followed in its partner countries. This could be achieved by coordination the relevant national policies within a regional context. Throughout the continent, African governments are coming together to coordinate components of their policies, and virtually all countries are now members of regional organizations. Efficient regional cooperation allows the economies of Africa to overcome the disadvantages of their relatively small size and, by opening access to larger markets, to realize economies of scale. The obligations of membership in some of these organizations also make it easier for each individual country to achieve further progress in regulatory and judicial reform, or to develop the mutual economic infrastructure, as in the SADC. Enhancing the
trade links among themselves naturally also strengthens their ability to participate in trade on a global scale, and could lead toward further progress in the direction of non-discriminatory multilateral trade liberalization.

The challenge for the future will be to ensure that these regional organizations are perceived as effective vehicles for the integration of African countries into the world economy, providing mutual support to their members in their reform efforts. Common regional objectives should be set in terms of international best practices. And the regional organizations should seek to push through reforms in the areas of the legal and regulatory frameworks, financial sector restructuring, labor and investment code reform, and exchange and trade liberalization that seek to reach international standards as quickly as possible.

Thank You.