LEARNING THE LESSONS OF GLOBAL ECONOMIC DEVELOPMENT

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Many of these lessons of economic development of the past 30 years are painful. Yet African countries have learnt the lessons well, not least because their experiences have been learnt at home.

Various efforts have been made to launch growth. Not one of them has solved the problem of growth and poverty reduction.
This has led us to realise that nothing we have done has been enough.

Perhaps the most important lesson is that to pull in international investment we need to generate our own investment. Despite their enormity, aid flows and one-off investments in natural resources are simply insufficient to raise our living standards and growth rates.

Economic growth is impossible without an active, capable and well-governed state and private sector, just as poverty reduction is impossible without growth that benefits more than a tiny elite.

Focussing on what Africa must do to pull in investment from abroad is critically important, but we must recognise that we are small and mostly open economies subject to shifts in investor sentiment and economic conditions in the rest of the world.

Although the global recovery is expected to continue in the second half of this year, growth will be weaker than expected.

There is little evidence of a sustained rise in global investment, largely due to increased risk aversion among investors, fed by uncertainty about the prospects for the developed industrial economies. This uncertainty is primarily created by the outlook for the US, where the large current account deficit, poor corporate governance, volatility in equity markets and the medium-term fiscal outlook remain of concern.

Developing economies have been affected by the contagion arising in Argentina and now spreading to Brazil and Uruguay. The International Monetary Fund (IMF) may have acted quickly enough to prevent the further spread of Latin America's woes, but additional concerns arise from the Middle East, as reflected in higher oil prices.

It might have been expected that investors would put their money in comparatively higher-yielding developing country as sets. Unfortunately, this has not been the case, suggesting that in a global downturn the better performance of developing economies is not a safeguard against volatile capital flows.

Developing countries remain at risk from destabilising capital flows, particularly those caused by changes in macroeconomic variables in developed regions. In large part, this global problem stems from our collective unwillingness to recognise financial imbalances,

especially those caused by excessive financial speculation in information and communication technology.

This speculation reaches such proportions that it wreaks havoc on markets and economies across the globe. We do not have the multilateral financial architecture to address it – and that means high levels of risk aversion and investor uncertainty will remain for some time.

Important steps to rebuilding a multilateral financial architecture could include:

- Increasing the representation of important developing countries in key international forums;
- Increasing the representation of developing countries in the governance of the IMF and World Bank by increasing the number and importance of basic votes;
- Reforming the method of determining quotas to reflect sound policy, progress in policy reform and openness, not just gross domestic product (GDP) per capita;
- Improving the Contingent Credit Line in order to increase the attractiveness and automaticity of this facility;
- Establishing a formalised debt restructuring framework;
- Coordinating national macro-economic policies better, through cross-regional annual meetings like the G8 and Latin America, the G8 and Africa; and
- Better regulating global financial and capital markets, and improving regulation of domestic financial systems through new proposals by the G20, working with the IMF on appropriate capital account policy and supervising capital flows.

I noted a few months ago that a top US telecommunications firm wrote off $30 billion worth of investment – more than 12 percent of all foreign investment in developing countries in 2000.

Unfortunately, corporate malpractice and irrational investment decisions seem to go together. And while they are not endemic to the industrial economies, this corruption has been of sufficient scale to bring the probity of corporate governance and behaviour more widely into question.

Clear reforms, transparency, accountability and effective implementation must guide corporate reform in all countries. In South Africa, we have initiated a process of reform, beginning with a general acceptance of an independent code of corporate governance – the King Code of Corporate Governance very similar to the outcome of the Cadbury report in the UK.

In some ways, the era of corporate reform and accountability that we are entering has been presaged by developments in Africa. As Africans we have recognised that sound economic governance must be a cornerstone for mobilising domestic and cross border investment.

The capital flows initiative of the New Partnership for Africa's Development (Nepad) is intended to provide opportunities for African economies to benefit from improved economic governance by setting up clear instruments for drawing in higher levels of investment.

While Nepad represents a major step forward in terms of improving conditions for investment and growth in Africa, I believe that it is only fair to recognise that Africa has already made great strides in this area. Most of this progress has gone unnoticed by the international investment community, which tends to focus on the negatives.

For example, while many countries remain too vulnerable to price shocks, such as those hitting coffee and cotton, GDP growth is projected to pick up to 4.2 percent next year.

Growth averaged 3.2 percent in sub-Saharan Africa from 1994 to 2000, the same rate as in the advanced economies.

Since the mid-1990s, macro-economic stability has improved, with inflation expected to fall to single-digit levels this year, largely due to much-improved fiscal performance. This improvement reflects a series of reforms by African countries in the 1990s. but we cannot ignore the reality that there is much further to go, and very serious challenges to face.

Poverty reduction will require cures for low investment and savings, and for the effects of conflict and disease, weak institutions and infrastructure, poor governance and low life expectancy.

Net private capital flows to developing countries were $230 billion in 2000, but 90 percent of this went to a few middle-income emerging markets, such as China.

The Commonwealth Business Council points out that by 1999, foreign direct investment flows into the 49 least developed countries account for 11 percent of total investment.

Clearly, the current global economic environment is not favourable for major increases in investment flows to developing countries in the absence of a decline in investor's risk aversion. This is especially regrettable since the investment opportunities in many developing countries are exceptional.

The Commonwealth Business Council has made a variety of thought-provoking suggestions on how to increase investment in developing countries.

While these proposals would go some way to inducing greater investment, I remain concerned that in the absence of broader changes to the international financial and developmental architectures, they will have only marginal effects.

In part, the marginal impact is due to the fact that some of the proposals ask developing countries to provide guarantees that they can ill afford. This serves to reinforce, not resolve, the critique of private investment, which is that it is "cowardly" fearing to tread where risk may be high.

I urge the Commonwealth Business Forum and the private sector more broadly to lobby developed country governments to live up to the commitments that they have made to improve the international economic environment. These commitments would raise the potential growth rate of developing countries far more than marginal investment incentives.

So, for your lobbying efforts, I would request that you focus on:

- Ensuring that the Heavily Indebted Poor Countries Trust Fund is fully funded, and that provision is made for topping up when exogenous shocks impact on countries's debt sustainability
- Pushing developed countries to meet their aid commitments of 0.7 percent of gross national product as rapidly as possible.
- Placing special emphasis on the governments of developed countries to reduce tariff and non-tariff barriers on exports from developed countries, especially on agriculture and textiles.

It is about time that we changed the global mind-set that it is okay for developed economies to spend $350 billion a year on agricultural subsidies while total education spending in developing countries amounts to only $250 billion a year.