AFRICAN ECONOMIC INTEGRATION

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Africa is the poorest region in the world, with real per capita incomes averaging one-third less than those in South Asia, the next poorest region. Sub-Saharan Africa's per-capita GNP is only one tenth that of Latin America. Therefore, the promotion of economic development remains the major challenge confronting the continent today. However, it is widely accepted that economic development goes beyond the mere maximisation of economic growth. The distributional consequences of economic growth are of paramount importance.

Given their potential to address both the growth and distributional concerns of economic policy, it is imperative that appropriate attention is given to the promotion of SMEs. The presentations and deliberations at this conference cover many important aspects pertinent to the development of SMEs. It is widely accepted that macroeconomic stability is a pre-requisite for sustainable economic growth. If this is the case, then what has been the African experience to date?

Recent macroeconomic developments in Africa

In the past three years, real GDP growth in sub-Saharan African countries remained surprisingly resilient in spite of the slowdown in advanced economies. GDP growth in the sub-Saharan African region (excluding South Africa) was 3,1 percent in 2002, compared to 3,8 percent in 2001. Subdued economic activity in 2002 was due to the weak global economy, the slower-than-expected rebound in world trade, droughts, and political and armed conflicts in some parts of the continent.

The latest IMF forecast released in September 2003 projects that GDP growth in sub-Saharan Africa (excluding South Africa) will rise to 3,6 percent in 2003, mainly as a result of the expected global recovery, improved macroeconomic policies, rising commodity prices and the debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

While the economic growth rate in Africa compares quite favourably with those of developed countries, it is significantly less than those in other emerging countries, most notably in Asia. A reasonable benchmark for the evaluation of Africa's economic development, is the progress being made towards the achievement of the Millennium Development goals. The world's leaders adopted the UN Millennium Declaration in September 2002, committing their countries to reduce poverty, improve health and promote peace, human rights and environmental sustainability. Eight Millennium Development Goals, with specific targets to be achieved by 2015, dealing with key development challenges emerged from the Declaration.

According to the 2003 Human Development Report, sub-Saharan Africa will not meet any of the goals by 2015 at the current rate of progress - the only region for which this is the case. In order to meet the Millennium Development Goal of halving poverty between 1990 and 2015, the IMF has estimated that growth in sub-Saharan Africa should be around 7 percent a year. IMF. 2003. World Economic Outlook: 51 2003: 51. Only six African countries achieved growth rates above 7 percent in 2002.

There is little doubt that monetary policy has been successful in bringing down inflation in Africa. The rate of increase in prices has declined from an average of 14,3 percent in 2000 to 9,3 percent in 2002. Contributing to the low inflation environment has been the fiscal prudence apparent in the macroeconomic policies of a number of African countries since the late 1990s. The development challenges that confront the continent today, demand that both the quantity and efficiency of government expenditures are kept in check.

While global FDI inflows declined 21 percent between 2001 and 2002, the inflow of FDI to Africa declined dramatically by more than 40 percent, according to the 2003 World Investment Report. In addition, Africa's share of foreign direct investment into developing countries has dropped from 25 percent in the early 1970s to just 5 percent in 2000. To compound matters further, an estimated 40 percent of Africa's own private savings are invested outside the continent. The more effective pursuit of political and macroeconomic stability, the implementation of structural reforms, greater geopolitical stability and a more supportive stance by the international community to addressing the concerns of Africa, would go a long way towards making Africa a preferred destination for FDI inflows.

International trade

International trade has been an important engine of growth, and will continue to play a vital role, in promoting economic development and alleviating poverty in Africa. According to the United Nations Economic Commission for Africa (UNECA), Africa's share of world exports has fallen from 4,6 percent in 1980 to 1,8 percent in 2000. The international community has recognised the importance of closer economic co-operation as an impetus for economic growth in the world economy. The Fourth Ministerial Conference of the World Trade Organization held at Doha in November 2001, the International Conference on Financing for Development held in Monterrey, Mexico in March 2002, and the World Summit on Sustainable Development, held in Johannesburg in September 2002, collectively defined a new global partnership for development between developed and developing countries.

Many analysts and policymakers, particularly those in developing countries, had hoped that the commitment of the developed countries would be operationalised at the WTO talks in Cancun, Mexico. However, as you are aware, this did not materialise. It is therefore not surprising that great disappointment followed the failure of the recent World Trade Organisation talks at Cancun to reach agreement on the lowering of agricultural subsidies in developed countries.

While, there is little doubt that increased trade between Africa and the developed world will increase Africa's chances of achieving it's economic and social objectives, it is imperative that attention is also given to the promotion of intra-Africa trade. Despite four decades of integration efforts, intra-African trade as a percentage of total trade remains low. For example, the United Nations Economic Commission for Africa (UNECA) estimates that intra-African trade has increased only marginally from 8 percent in 1989 to 12 percent in 2002. It is therefore not surprising that current account deficits in many countries remain relatively high. The low level of African exports can be partly explained in terms of issues related to market access, inadequate infrastructure and other structural impediments to economic diversification in the various economies. In addition, low productivity and high costs of doing business have been often cited as the main factors undermining Africa's competitiveness.

Initiatives promoting African economic development

Many initiatives have been undertaken to promote economic development in Africa. Article 44 of the Abuja Treaty calls for the harmonisation of economic policies across the African continent. The Treaty emphasises two important pillars of economic integration across the African continent: the promotion of intra-Africa trade and the enhancement of monetary co-operation. The African Monetary Co-operation Programme (AMCP) seeks to operationalise the monetary co-operation mandate of the Abuja Treaty. In the main, this involves a single monetary area, encompassing a common currency and a common central bank by the year 2021.

The SADC countries have already undertaken many initiatives which are aligned with the objectives of the AMCP. For example, the harmonising of payment, clearing and settlement systems has already begun. Some SADC central banks are successfully implementing real time gross settlement systems (RTGS). And the strengthening of banking supervision has already begun in the region.

A Memorandum of Understanding (MOU) on Macroeconomic Convergence has also been agreed to by SADC member states. This MOU forces members to pursue economic policies that would ensure macroeconomic stability. For example, by 2008, SADC member states are required to have single digit CPI inflation rates; ensure that the nominal value of public and publicly guaranteed debt, as a ratio of GDP, does not exceed 60 percent; ensure that the public budget deficit as a ratio of GDP does not exceed 5 percent; and have sustainable current account deficits - meaning 3 percent of GDP or less.

In addition, Africa has embraced the New Partnership for Africa's Development (NEPAD) to confront the challenges facing the continent. It is a strategic development plan that addresses the economic, political and dimensions of Africa's future development. NEPAD is a clear demonstration of the willingness of the continent to take responsibility for its own actions and for its future. It is a new start for Africa to meet the Millennium Development Goals and targets. Crucially, the vision and way forward include, building political consensus and the necessary institutions as well as determining the pace of implementation of the programme. NEPAD aims to reduce poverty by significantly increasing economic growth throughout the continent.

It is within this context that small and medium enterprises can emerge and flourish and support African economic development, employment creation and poverty reduction.

However, we must remember that the global environment of the 21st century is an important determinant of industrial and economic success. Globalisation demands improved competitiveness. Increased competition presents new challenges and opportunities for African enterprises. As the world economy is being deregulated and liberalised, enterprises that are competitive in national markets have to be competitive in world markets as well. A pre-requisite for survival and success requires a winning combination of competitive strengths.

Conclusion

There is little doubt, then, that there have been major changes in economic policy in many African countries in the recent past. Many of these changes have been advocated in support of the African Renaissance. These changes have entailed a transition towards more open, market-oriented regimes. On the political front, there has been a move towards multi-party democracy, and high priority being given to issues of governance and transparency in the policymaking process. The foundation is being laid. We now have to ensure that the policy intentions are realised. While the road to success may not guarantee a smooth ride, it is imperative that we ensure that it is not a long one.

The increasingly important role of SMEs in this process should not be underestimated. The awards that will be presented at this conference are evidence of that. SMEs can play a vital role in job creation and in strengthening competition in domestic market. The challenge is however to ensure that individual success at the level of the firm, contributes towards the competitiveness of the national economy. I congratulate all the award-winners.