



OVERVIEW OF THE SEMINARS AND ADVISORY GROUP MEETINGS

TRADE AND ECONOMIC TRANSFORMATION

Meeting The Test of Relevance

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June 28, 2017



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“One key to African growth is what happens to commodity prices. Many African countries have long been and are still dependent on exports of “primary” commodities, mostly unprocessed minerals or agricultural crops. Botswana exports diamonds; South Africa, gold and diamonds; Nigeria and Angola, oil; Niger, uranium; Kenya, coffee; Cote d’Ivoire and Ghana, cocoa; Senegal, groundnuts; and so on. The world prices of primary commodities are notoriously volatile, with huge price increases in response to crop failures or increases in world demand and equally dramatic price collapses, none of which are easily predictable.”

—Angus Deaton, The Great Escape: Health, Wealth, and the Origins of Inequality

Outline of the Presentation

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Part 4

▪ **Anatomy of Africa's growth**

Part 5

▪ **Afreximbank and the test of relevance**

Part 6

▪ **Overview of 4-Days event and expected outcome**

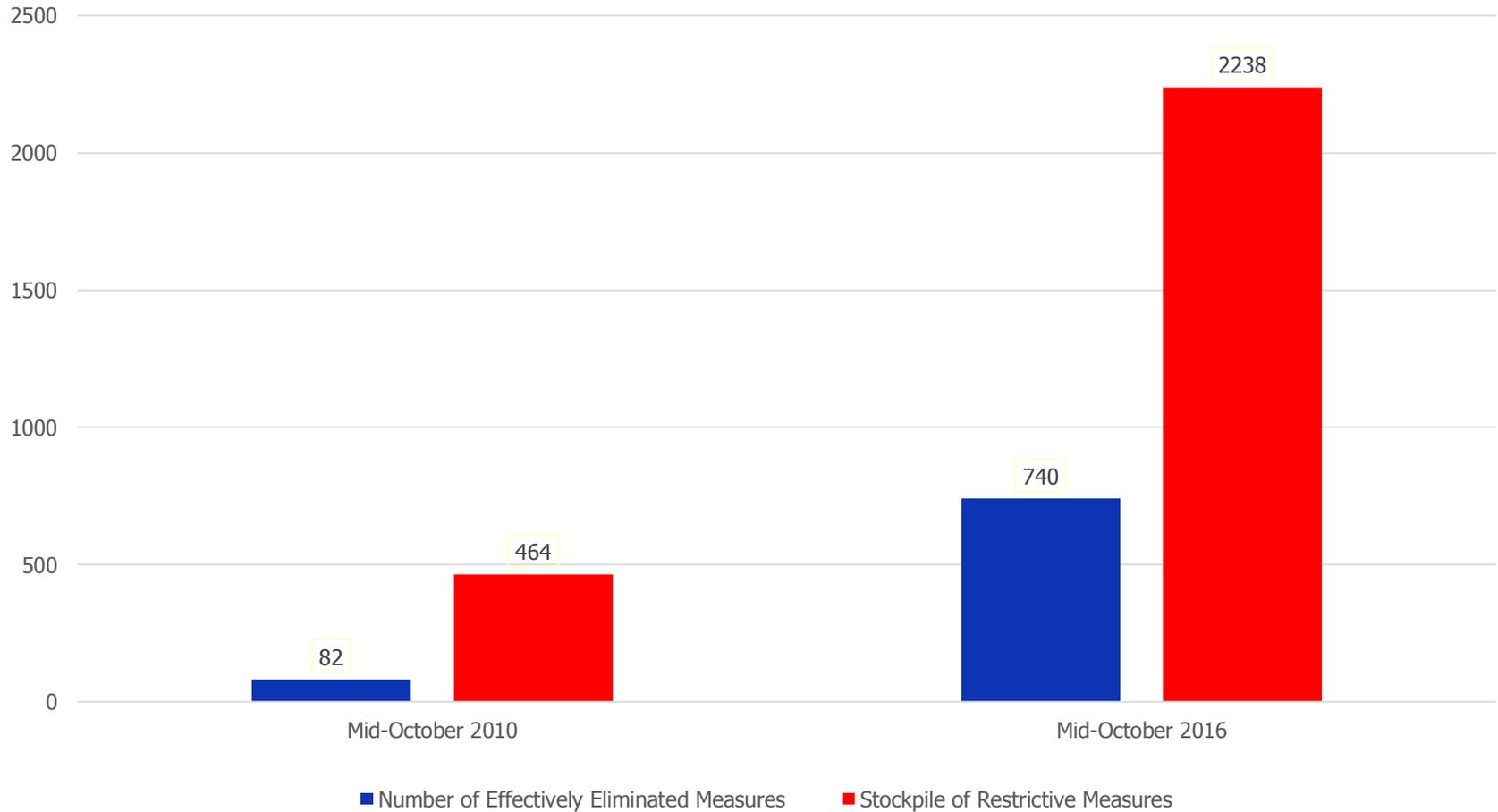
1. Background and Context

- **This year's AGM is organized against the backdrop of:**
 - Progress on the **WTO Trade Facilitation Agreement which entered into force in February 2017**, following ratification by two-thirds of WTO Members—implementing the agreement could increase global merchandise exports by up to US\$1 trillion a year and that developing countries will benefit strongly, capturing more than half the trade gains;
 - Progress on infrastructure—the Ethiopia–Djibouti railway modernization project (752.7 kilometre) is the first modern electrified railway line in East Africa and is expected to cut the time needed to transport a container from Addis Ababa to Djibouti from three days to 10 hours and slash the costs by a third;
 - The Economic Community of West African States (ECOWAS) has decided to reach **effective application of the common external tariff from 1 January, 2017** by all 15 member states—an important milestone in the establishment of a customs union and ECOWAS's integration programme;

1. Background and Objectives

- ❑ Progress towards the Continental Free Trade Area (CFTA) and the move towards the implementation of the Fifth Strategic Plan of the Bank: **Plan V which is dubbed *Impact 2021—Africa Transformed***;
- ❑ Improved economic outlook—after two years where growth forecasts have been consistently revised downward—global growth is projected to 3.5% in 2017, from 3.1% in 2016;
- ❑ Stabilization in commodity prices, especially oil price which according to latest estimates is at US\$46.16 pb, a 15.36% increase from the low of January 2016;
- ❑ These changes in global growth outlook reflect the slight improvement in global trade, despite the still challenging global economic and financial environment of increasingly less accommodative financing conditions and rising protectionism;

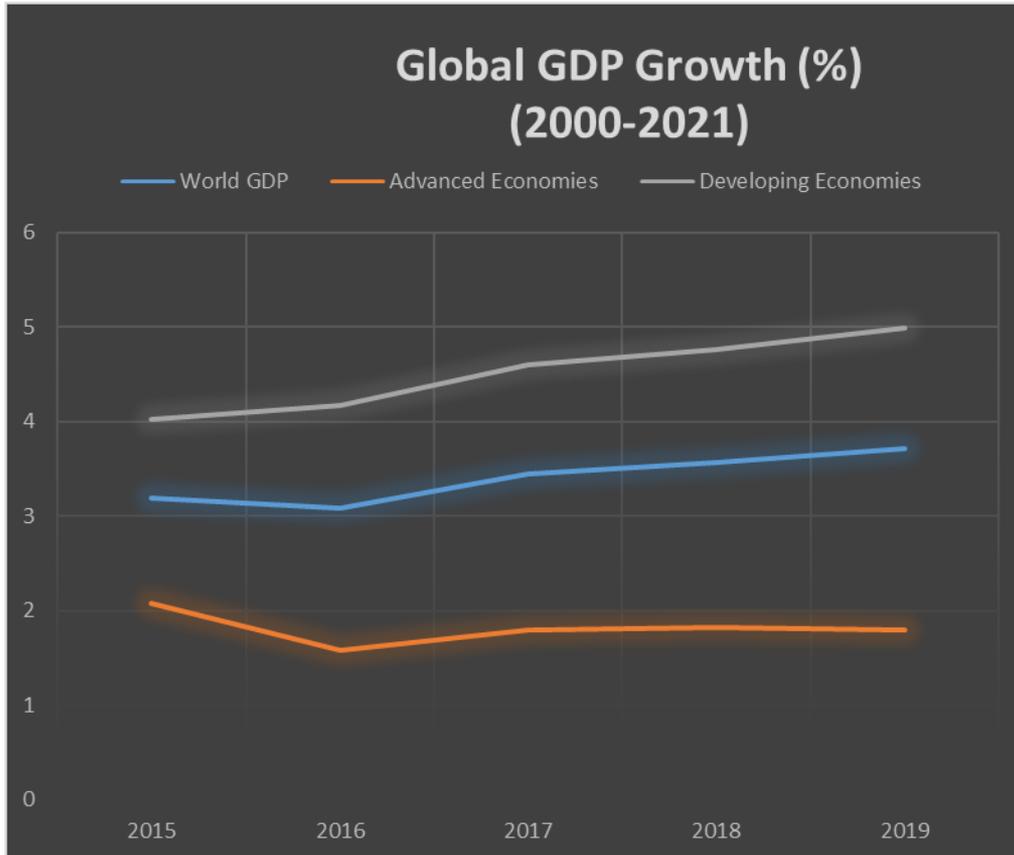
Stockpile of Trade Restrictive Measures, Mid-October 2010 versus Mid-October 2016



Source: IMF Direction of Trade Statistics (DOTS), 2016

- ❑ According to the WTO, since the since the onset of the global financial crisis in 2007/08 G20 nations have adopted and implemented an average of about four trade restrictive measures every week up to mid-October 2016;
- ❑ Most prominent among these measures are anti-dumping which were the most widely used in 2016;
- ❑ With less than 25 percent of all restrictive measures that had been added since 2008 having been eliminated, **the global stockpile of trade restrictive measures increased from 464 measures at the end of 2010 to 2,228 by mid October 2016;**
- ❑ **Interestingly, G20 economies account for about 57 percent of the trade restrictive measures in place globally;**

2. Global economic developments and outlook



Source: IMF World Economic Outlook

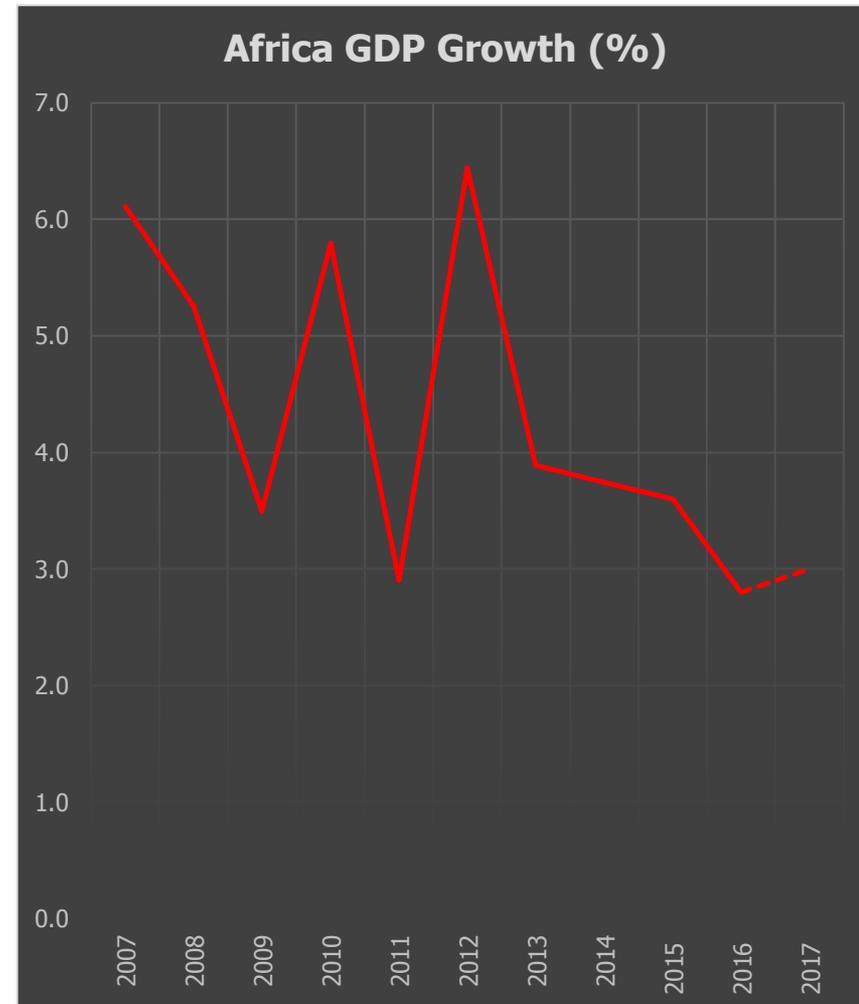
- After consecutive downward revisions of growth forecasts over the last two years, the growth outlook is projected to improve in 2017, both in advanced and emerging market economies;
- Global growth is expected to pick up moderately to **3.5% in 2017** from just over 3% in 2016, largely supported by growth in developing countries, expected to reach 4.5% in 2017 compared to the 4.1% in 2016;
- Growth in advanced economies has been revised up to 2% from an earlier forecast of 1.9% in 2017 compared to 1.6% in 2016;
- The WTO is forecasting that global trade will expand by 2.4% in 2017, up from 1.3% in 2016;

Factors affecting global growth

- **Recent improvements in the global economy have been due to a number of factors, including:**
 - Continued ease and accommodative financing conditions;
 - Slight rebound in commodities prices, and especially oil prices;
 - Improving global macroeconomic environment, especially following the gradual exit from the Euro fiscal and sovereign debt crisis;
 - **However, the current global economic environment is still fraught with downside risks, most notably the divergence of monetary policies could sustain and even accentuate capital outflows;**
 - And sustained **growth deceleration in China could further undermine global growth prospects and trade**, especially in a context of creeping protectionism;

3. African Economic Developments

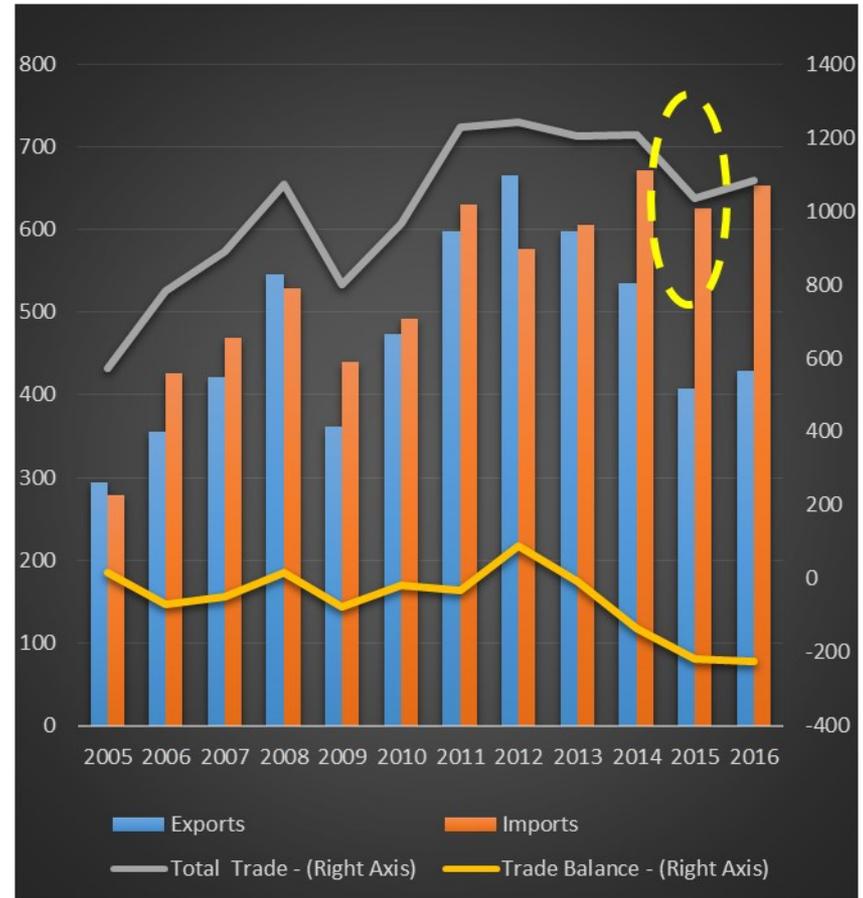
- ❑ Consistent with global economic forecasts of strengthening outturns and pick up in economic activity, the outlook points to a relative improvement **in Africa with the region now projected to grow at about 3% in 2017, up from about 2.8% in 2016**, but still far below the strong performance achieved by the region during the commodity super-cycle;
- ❑ Africa's growth is largely driven by a number of countries which are drawing on public investments in infrastructure to expand output, taking advantage of windfalls from oil prices;
- ❑ These countries include: Ethiopia, Cote d'Ivoire, Tanzania and Senegal;



Source: IMF World Economic Outlook
AfDB African Economic Outlook Database

3. African Trade developments

- ❑ Africa's total merchandise trade fell 14.3 percent to US\$1.03 trillion in 2015, from US\$1.21 trillion in 2014, but rebounded 4.1 percent in 2016, to US\$1.08 trillion;
- ❑ The challenging global environment in 2015, including the sharp decline in global commodity prices and the slowdown of the Chinese economy, were the main factors;
- ❑ The dramatic decline in crude oil prices, which fell below US\$30 per barrel in the fourth quarter of 2015, had heavy effects on trade performance that year;
- ❑ However, in 2016 the trend reversed, as growth of the continent's merchandise trade rebounded to an estimated 4.1 percent, largely because prices of major commodities began to rally on the back of weak supplies in the agricultural sector and robust demand, which boosted the prices of major metal and mineral commodities;

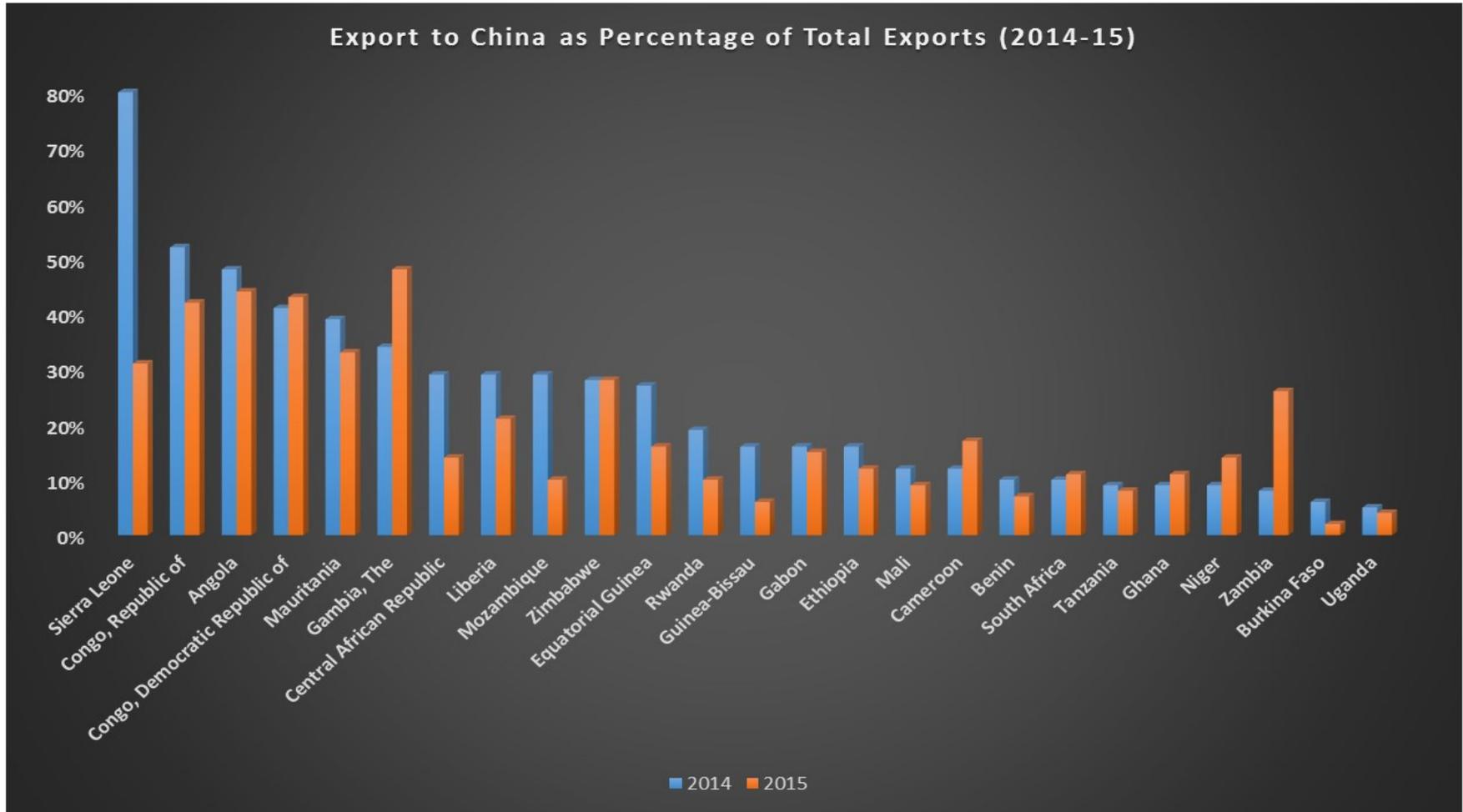


Source: IMF World Economic Outlook
AfDB African Economic Outlook Database

3. Factors affecting Africa's growth and trade

- ❑ Of the three factors that drove the solid growth performance achieved by the region over the last few years— **(i) improved business and macroeconomic environment, (ii) high commodity prices, and (iii) highly accommodative global financial conditions—the last two have become less supportive;**
- ❑ And since natural resources account for more than 75% of Africa's total exports and a significant share of fiscal revenues the impact of adverse commodity terms of trade shock have been significant for the region in terms of growth, trade and macroeconomic management;
- ❑ Although Africa's exports to China have grown significantly over the last 15 years, from US\$3.8 billion in 2000 to more than US\$ 36 billion in 2016, **it is largely dominated by natural resources and primary commodities which account for over 90% of total exports to China**—Oil alone accounts for more than 55% of Africa's exports to China;
- ❑ This deepening trade ties between the two regions is also a source of risk for the least diversified Africa region;
 - ❑ An IMF study has established that a 1% decline in China's domestic investment growth is associated with about 0.6% decline in African export growth to China;
 - ❑ And the potential decline is even more pronounced for natural resource-dependent economies in the region—about 0.8%;

Selected Country Exports to China



Source: IMF Direction of Trade Statistics (DOTS), 2016

3. Factors affecting Africa's growth and trade

- ❑ **The growth and economic fortunes of African countries are particularly tied to the dynamics of oil prices**—in a region where oil-exporting countries account for about half of GDP and more than 55 percent of exports;
- ❑ Over the years, the excessive dependency of the region to natural resources and primary commodity has exposed the region to recurrent adverse terms of trade shocks and acted as a major driver of growth volatility;
- ❑ In effect, the correlation between commodity prices and growth has made it extremely difficult to sustain growth episodes in the continent;
- ❑ In effect, a recent IMF review of stylized facts of growth turning points—(i) **growth acceleration** (up-breaks), (ii) **growth deceleration** (down-breaks), and (iii) **sustained growth episodes** (growth spells) is very instructive;
- ❑ It shows that Africa's growth engine has been less robust—far less robust than in other regions, especially over the decades preceding

4. Anatomy of Africa's Growth

- ❑ In effect growth turning points are very common in **Africa—a region where growth has been characterized by shifts between expansions and contractions**, although the region has experienced fewer down-breaks since 2000;
- ❑ Moreover on the positive side, **growth spells in the region have tended to be more shorter than elsewhere**;
 - ❑ The median length of complete growth spells in Africa has been 6 years, compared to 10 years for other developing countries and 8 years for emerging developing economies;
 - ❑ Only one out of three spells in Africa lasts at least 10 years, compared to more than half of the spells in the developing world and about 80% of spells in industrialized economies;
- ❑ Furthermore, growth spells start from worse growth positions and typically end in more **“hard landings”** compared to spells elsewhere;

4. Anatomy of Africa's Growth

- ❑ In this context, engineering and sustaining growth over long periods has been and remains one of the major challenges facing Africa on its development trajectory;
- ❑ In part the rather high frequency of growth turning points and shorter length of growth spells is due to a host of factors, and key among these include:
 - ❑ The inability of the region to rapidly adopt new technologies to sustain productivity growth and enhance its integration into the global economy;
 - ❑ The challenges of sustainably increasing investment and net inflows of FDI;
 - ❑ **The challenge of raising trade openness (moving from passive globalizer to active globalizer)**—both in terms of extra— and intra-African trade—an increase in trade openness raises the expected length of the spell by six years;

4. Anatomy of Africa's Growth

- ❑ **The challenges of increasing the ratio of credit to the private sector**—expressed as a percentage of GDP, average credit to the private sector is **26% in the region, compared to 143% in Asia and 102% in Europe;**
- ❑ **The deficit of economic diversification which should have increased the resilience to shocks by generating new sources of growth within the region is another key factor likely to extend the length of growth episodes in the region**—in line with findings that export concentration hampers the level of economic growth;
- ❑ There are some exceptions and positive development on the path to diversification in the region, however;
- ❑ Most recent evidence suggests that the strong growth from EAC countries during the last decade is explained by the step-up in output and export diversification and by the increase in sophistication and quality of exports;
- ❑ A number of countries (Botswana, Cabo Verde, Lesotho, Mauritius and Rwanda) increased the share of manufactures as a proportion of their exports while experiencing sustained growth episodes;

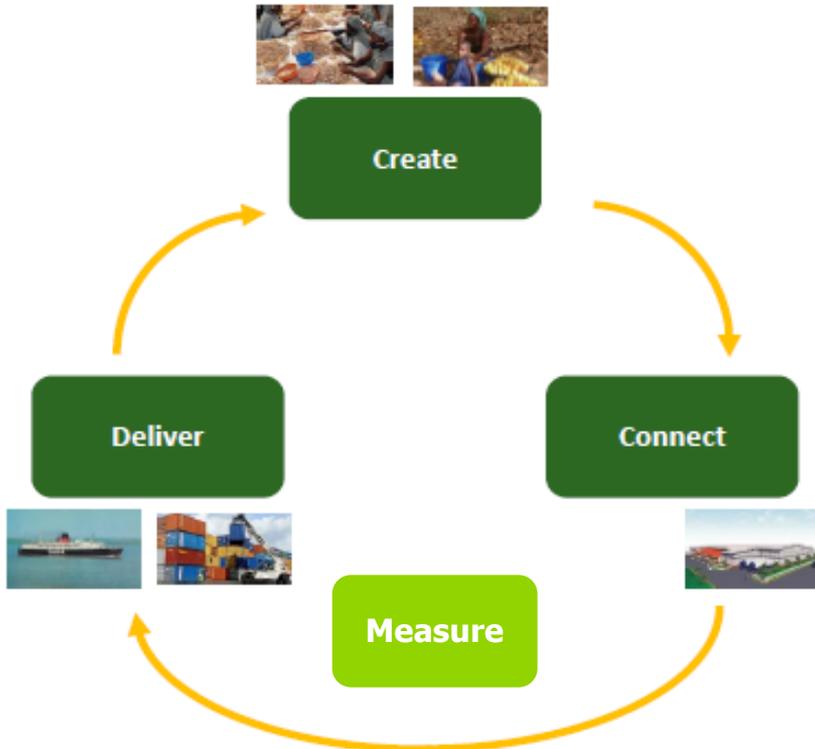
5. Afreximbank and the Relevance Test

- ❑ **Afreximbank Fifth Strategic Plan V: *Impact 2021—Africa Transformed*** is very germane and timely, it is key to addressing both old and new challenges facing African countries on their development path;
- ❑ In particular, the first two pillars of the strategy—**Promoting Intra-African Trade and Industrialization and Export development** will support the process of economic diversification and trade openness singled out as key for attaining and sustaining growth spells;
- ❑ Under the first pillar the Bank intends to expand African trade by raising the share of intra-African trade which at 15% of total trade has remained very low, even by developing countries standards, 53% in Asia;
- ❑ That first leg is anchored on three key pillars—**Create, Connect, Deliver**, and one ancillary driver—**measure** (CCDm) and aims to expand aggregate output, boost intra-African trade and diversify African trade;
- ❑ Likewise the second leg—is anchored on three key pillars—**Catalyze, Produce and Trade**;

1. Promote Intra-African Trade

Afreximbank's Intra-African Trade Strategy centers on three core pillars; Create, Connect and Deliver, and one ancillary pillar; Measure

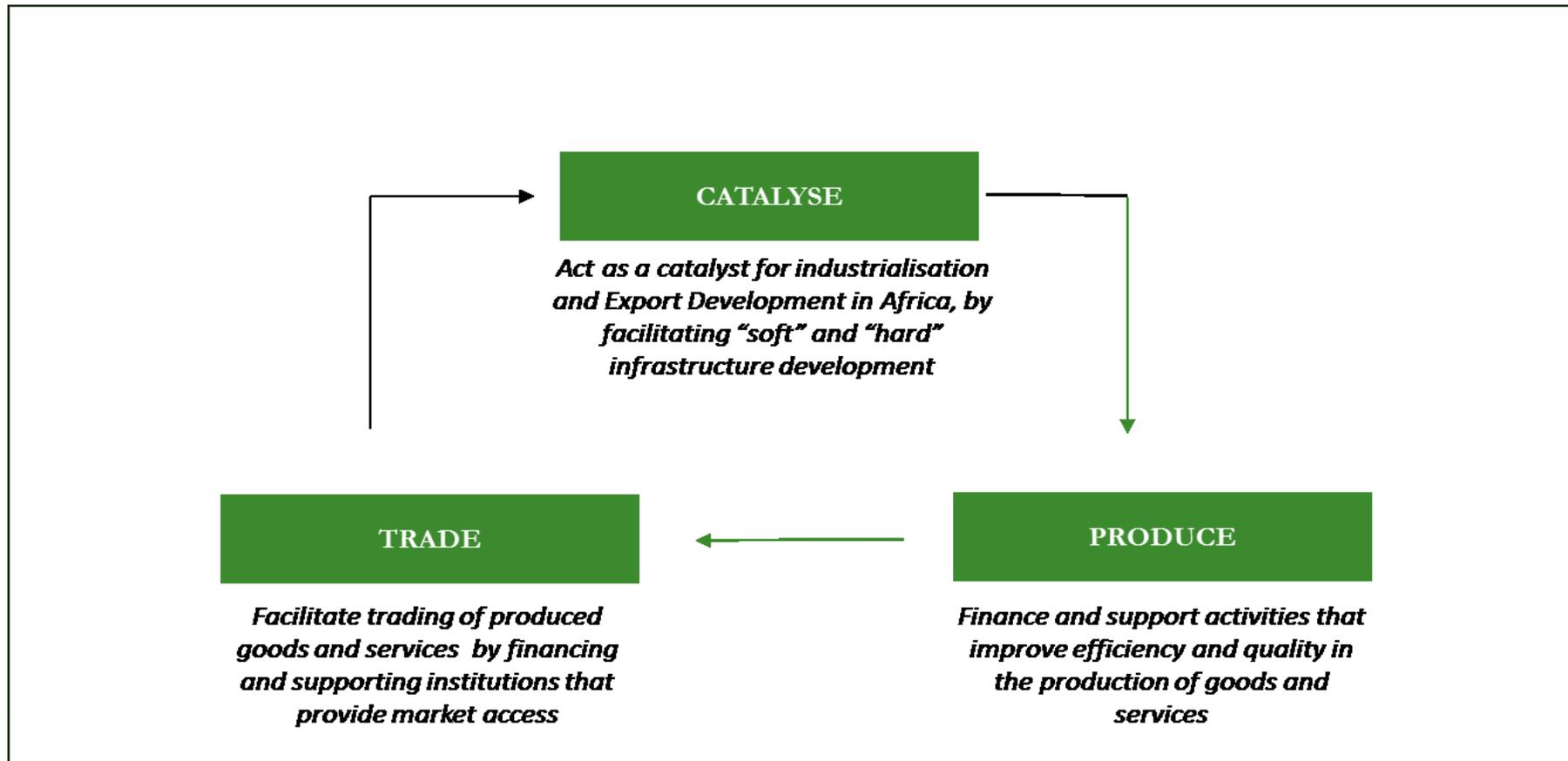
Pillars of the Trade Strategy



Philosophy and Outcome

- The Strategy to address the challenges and to exploit the opportunities in intra-African trade is conceived around 3 Pillars: Create, Connect and Deliver (CCD)
- The philosophy behind CCD is that building robust domestic and continental supply chains in Africa would facilitate a seamless flow of goods across borders
- CCD would bring together in one whole: the farmer, the processor, manufacturer, the market, financiers, logistics providers and policy makers

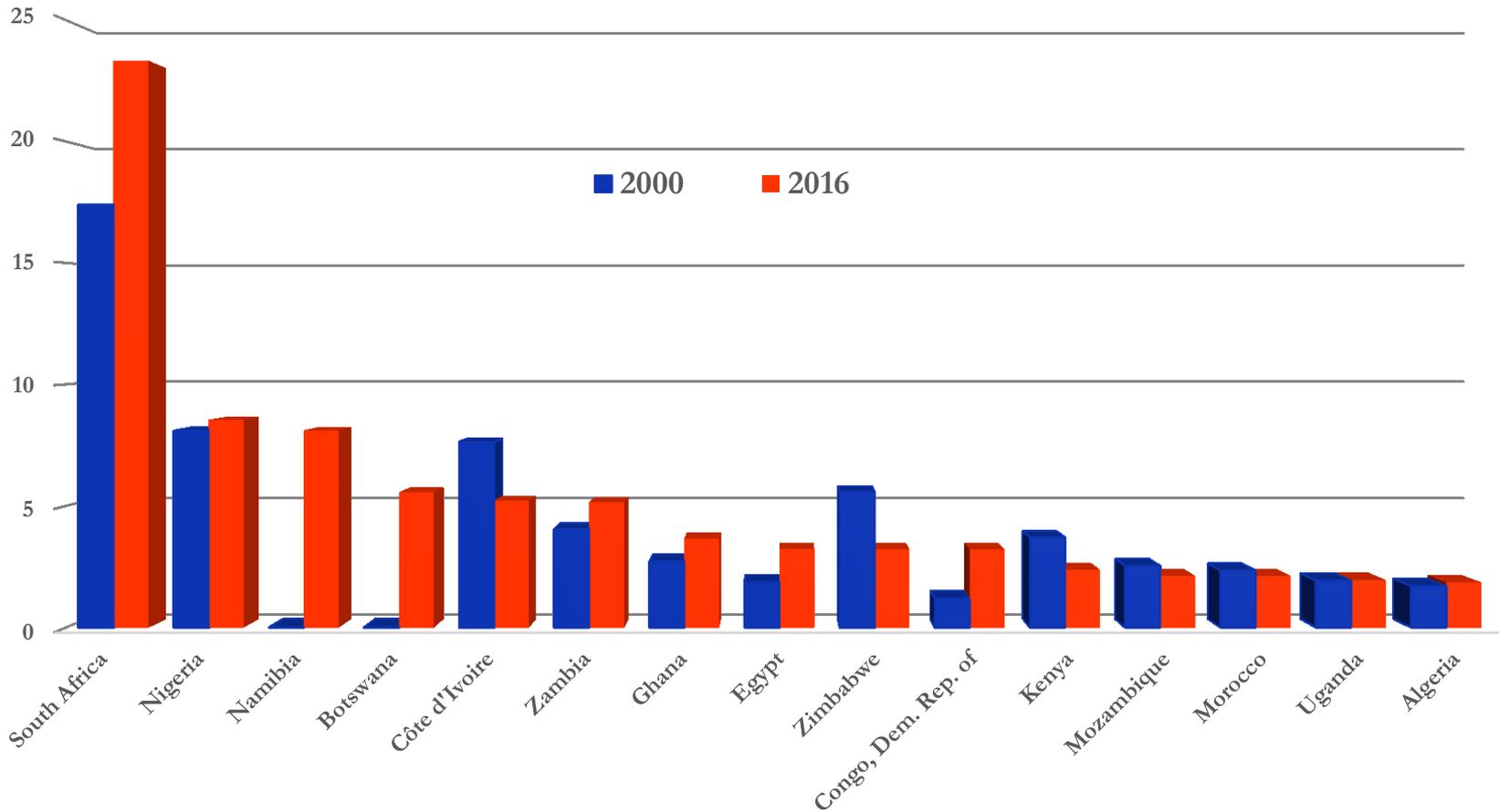
Afreximbank's Industrialization and Export Development Strategy is conceived around three pillars: Catalyze, Produce and Trade



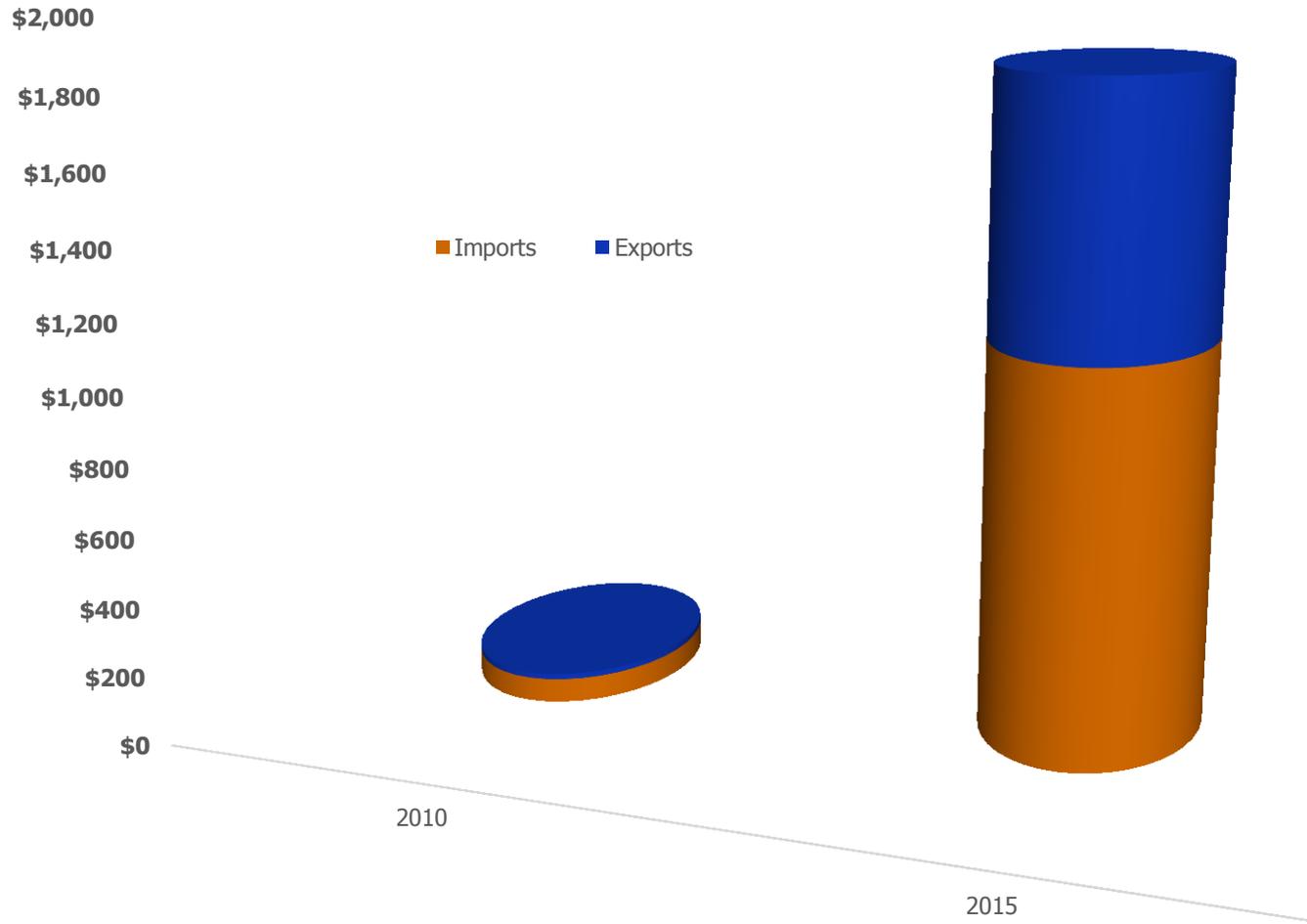
5. Afreximbank and the Relevance Test

- ❑ **The two pillars—industrialization and export development and promoting intra-African trade are related;**
- ❑ Industrialization enabled countries and corporate entities to diversify the composition of exports—hence **avoid the product concentration trap which has undermined the growth of intra-African trade;**
- ❑ The link between the two pillars has been illustrated by **the rise of re-export model in the region, whereby intra-African trade is supported by the re-exports of goods that are imported within the continent for further processing before being sent to the rest of the world;**
- ❑ Under that emerging re-export model a growing proportion of goods is moving from the **intra-African to the extra-African trade path;**
- ❑ The model is fundamentally changing the dynamics of intra-African trade, with a number of smaller African countries becoming leaders in the intra-African trade space;

Country Share of Total Intra-African Trade (in %)



Total Trade between Botswana and Namibia (USD million)



6. Afreximbank and the Relevance Test

- ❑ The relevance is also reflected in the overarching theme of the 2017 Annual General Meetings and sub-themes;
- ❑ **Trade and Economic Transformation** is the main theme, in part reflecting both the need to achieve the process of structural transformation of African economies to enhance their integration into the global economy and the role that trade could play in that process, not least by sustaining the demand beyond Africa's shores and drawing on global technology to sustain productivity growth and competitiveness;
- ❑ The Seminars will be used to among others:
 - ❑ Produce a set of recommendations on how to accelerate the process of structural transformation of African economies to diversify their exports;
 - ❑ Highlight emerging best practices without and within Africa for accelerating industrialization under infrastructure constraints;
 - ❑ Discuss options for deepening regional integration and boosting intra-African trade which could both enhance the integration of African countries into the global economy through regional value chains and by acting as an efficient absorber of global shocks;
 - ❑ Exploring options for sustaining African trade in a world of rising protectionism;
 - ❑ Ensure that the Bank remains at the frontier of knowledge and research in the area of trade and economic development;



7. Overview of the Annual General Meetings and Seminars

- The events are organized into four parts:
 - Today's event is a Seminar on **"Trade as a Catalyst for Industrializing Africa"**;
 - Thursday June 29, the Seminar will focus on **"Boosting Intra-African Trade for Regional Integration"**;
 - On Friday June 30, 2017 the Advisory Group Meeting on Export Development and Trade Finance in Africa will focus on the following theme **"Expanding African trade in a world of rising protectionism"** and the session will be followed the Investment Forum and Trade Exhibition under the theme **"Investment Opportunities to deepen integration within the East African Community"**;
 - On Saturday July 1, 2017, the Shareholder meeting will be preceded by a number of key sessions, including a **"Reflection on the Path to a Continental Free Trade Area (CFTA) by HE President Paul Kagame"**;



Expected Outcome

- ❑ At the end of the 4-days of events, it is expected that:
 - ❑ Sufficient policy recommendations are generated to enhance dialogue between the Bank and governments in the quest for African development;
 - ❑ At the Bank level, recommendations from the deliberations will be collated and deployed to shape or focus the Bank's medium term strategy formulation for greater relevance and impact;
 - ❑ In particular the deliberations will inform the choice of the theme of the next African Trade Report;
 - ❑ Foster new and strengthen existing partnerships in support of African trade and economic development—**taking into account the strategic emphasis on intra-African trade and industrialization;**

Albert Sarraut (1872-1962), the Colonial Minister for France from 1920s captured the structure and intent of the colonial economy.

“Economically, a colonial possession means to the home country simply a privileged market whence it will draw the raw materials it needs, dumping its own manufactures in return. Economic policy is reduced to rudimentary procedures of gathering crops and bartering them. Moreover, by strictly imposing on its colonial dependency the exclusive consumption of its manufactured products, the metropolis prevents any efforts to use or manufacture local raw materials on the spot, and any contact with the rest of the world. The colony is forbidden to establish any industry, to improve itself by economic progress, to rise above the stage of producing raw materials, or to do business with the neighboring territories for its own enrichment across the customs barriers erected by the metropolitan power”



Thank you.



The Trade Finance Bank for Africa