

Key indicators

Share of people living on less than \$1 a day (2004)

World	18.4%	986 million
Sub-Saharan Africa	41.1%	298 million

World Bank Global Monitoring Report, 2007

Trade as a share of regional GDP

Sub-Saharan Africa	1998	2007
	59%	76% ▲

IMF WEO, April 2008

Commodity prices since end-2005

IMF food price index	72%	▲
Oil Brent Crude (US\$/bbl)	140%	▲

Development finance report due out today

Today in Cape Town the World Bank will release *Global Development Finance 2008*. The report suggests that, despite a period of slowing growth in the world economy, unsettled financial markets and heightened inflationary pressures, improved underlying structural factors are influencing overall economic performance. Such structural factors reflect the broader forces of globalisation, the internationalisation of the banking industry and the coming of age of the emerging-market asset class.

'Trickle down inadequate to reduce poverty'

"The trickling down mechanism has proved inadequate" to reduce poverty, said Arne Tostensen of Norway's Michelsen Institute during a session on growth and poverty reduction strategies. Thomson Kalinda of the University of Zambia said that there is a need to prioritise investment in areas that allow the majority of the population to gain from the benefits of growth.



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



The World Bank

Put people at the centre, says Mbeki

"To have any meaning, development economics must relate not to the logical integrity of theoretical paradigms, important as this might be, but to the central task to achieve human development," said South African President Thabo Mbeki as he opened the 2008 Annual Bank Conference on Development Economics (ABCDE) in Cape Town yesterday.

The 500 delegates present at the conference hail from more than 60 countries – including 228 delegates from Africa and 61 from Asia. This is the first time the global ABCDE is being held on the African continent.



South Africa's Minister of Finance, Trevor Manuel, and President Thabo Mbeki at the opening session on Monday.

Welcoming the participants, South Africa's Minister of Finance, Trevor Manuel, pointed out that the host city provides a stark illustration of the global economic and social divide. "Yesterday's newspapers reported with relish that a single apartment, not 1km from where we meet, was sold for R110 million (\$14 million), and not 10km away we see the poor scramble against each other for the most basic accommodation. This is the challenge of Cape Town, of South Africa and the world."

Manuel said that deliberations on sustaining growth momentum in the developing world and ensuring that the benefits of growth become more inclusive would be "framed by the reality of rapidly rising prices of food, fuel and finance – a convergence that threatens to roll back many recent gains".



World Bank chief economist Justin Lin

Justin Lin, the new chief economist of the World Bank, outlined the interrelated challenges flowing from the conference themes of People, Politics and Globalisation.

In his assessment of the global development dialogue, Mbeki stressed that African leaders are regularly advised to accept certain precepts, including limited state intervention in the economy, a minimalist state and "above all that we must take into account the fundamental demands of the global economy – privatise, deregulate, open up to free trade".

But delegates should go further, Mbeki said. "I am confident that the development economists and other participants present here today understand very well that the precepts I have mentioned do not fully address the themes of this conference."

Mbeki urged delegates to help answer some immediate, critical questions facing the African continent in its efforts to eradicate poverty and underdevelopment, including:

- What steps should African leaders take in response to rising food and fuel prices?
- How long will the commodity boom last, and how can Africa take advantage of this pattern to ensure sustainable development when prices inevitably decline?
- What can be done to strengthen the development of human capital?
- In the event of a global downturn that curtails African exports and inward investment, what measures should be taken?

The South African president closed by cautioning that solutions to these challenges would not wait for the resolution of intellectual discourse. "The poor are knocking at the gate," he said. 🌐

In brief

Size and fragmentation play a role in growth

Economic growth in Africa has been slower because African states are smaller, on average, than those in Asia, argued Tony Venables of Oxford University at a session on trade and investment.

The advantages associated with lower fragmentation include less political conflict, less government spending on arms, a higher quality of leaders and the ability to innovate in various regions through federalism. "These losses to the private and public economies are mutually reinforcing: low private incomes reduce state revenues and so compound the under-provision of public goods, while the lack of public goods further reduces private incomes," said Venables. Smaller countries receive fewer benefits of knowledge spillovers.

Lawrence Edwards of the University of Cape Town argued that African manufactured exports have not performed as well as those of other developing countries because the continent is not sufficiently integrated with the world economy. Tariffs have also played a role in reducing exports.

To spread the benefits of economic growth, higher education institutions must not only meet the changing human capital needs of the economy, but also meet the needs of an increasingly diverse student population, said Professor Jose Alberto Nunes Ferreira Gomes at a session on access, equity and success in higher education.

Goolam Mohamedbhai, president of the International Association of Universities, said tertiary enrolment is extremely low in sub-Saharan Africa, while gender inequality is rife. There is a need for national planning, recognising the importance of growth in the number of public institutions and the need for a differentiated system, focusing on rural areas. Affirmative action can help promote gender equity.

Speaking on regional integration, Peter Holmes of the University of Sussex argued that one should distinguish between the integration of markets and the integration of institutions, with the former referring to the merging of value chains and production networks, and the latter alluding to common policies and reductions in national sovereignty in favour of a regional supranational body. The majority of the gains from regional integration would come through the integration of markets, he asserted.

'High food prices an opportunity for African farmers'



World Bank chief economist Justin Lin (left) and Michael Spence during yesterday's press conference

At a press conference yesterday, Commission on Growth and Development Chair Michael Spence said that high food prices globally represent a "huge opportunity" for African agricultural economies. World Bank chief economist Justin Lin added that localised technologies are vital to reap these benefits.

While "nobody likes high food prices", said Spence, they do represent an opportunity to boost agricultural productivity.

Technology to increase agricultural production is key to securing the advantages of high food prices, but this must be developed in an environment of better infrastructure and systems that can ensure the delivery of produce to markets, said Lin. This should be accompanied by the upgrading and sustainable use of other inputs, turning agriculture into an engine of growth.

Economic growth not an end, but an enabler

To ensure higher sustained economic growth, strategies have to be set at country level and be tailored to local conditions, says Michael Spence, chair of the Commission on Growth and Development.

During a presentation yesterday, Spence added that the commission, which recently released its findings after a two-year study, did not identify a universal template for growth. However, it did find certain common features.

All these economies maintained macroeconomic stability, which is critical to sustain investment that supports high growth. They were also characterised by very high levels of saving and investment – as much as 25% or above for overall savings and investment and 5% to 7% of GDP on the public sector side. The high-growth economies were also marked by openness, exploitation of global demand, "reasonable definitions of property", and market mechanisms where price signals determined resource allocation, Spence said.

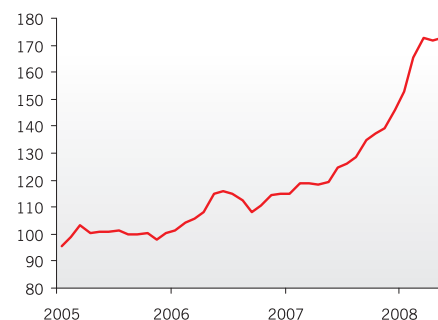
Spence and Lin agreed that US and European agricultural subsidies have market-distorting qualities. Lin remarked that any decision on their removal – in the current climate of high prices – should be taken "under consideration".

He added that it is important to push for the conclusion of the Doha development round of world trade negotiations, and to reach a point at which market incentives can be restored to the global agricultural market.

Overall, worldwide economic growth this year is expected to slow, said the World Bank chief economist, to about 6.5 percent, compared with 7.8 per cent last year.

This slowdown is expected to be felt more sharply in high-income countries, he added. 🌐

Rising global food prices (2005 = 100)



Source: IMF food price index

The commission looked at a group of countries that had shown sustained growth of 7% over several decades in the post-World War 2 period, and examined the various elements that contributed to growth. Putting it into context, he said that at that kind of growth rate, outputs and incomes would double every 10 years.

Thirteen countries or territories fell into this category: Botswana, Brazil, China, Hong Kong (China), India, Japan, Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand.

The commission was acutely aware that economic growth is not an end in itself, but rather is an "important enabler" that allows the majority of people to experience human progress in a way that is meaningful to their lives.

And political leadership, he said, is an "absolutely crucial" element of the growth process: a pragmatic, effective and – when needed – "activist government". 🌐