



**“Africa’s Role in an Inclusive Global Economy”**

Remarks by

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**(CHECK AGAINST DELIVERY)**

## **Introduction**

[Thanks to Dan Sloan, President of the Foreign Correspondents Club of Japan, and the board of the FCCJ]

It is always a pleasure for me to visit Japan and talk about one of the fundamental challenges of our century—the challenge of building an inclusive global economy that creates opportunities for people of every region.

I am especially pleased to have the opportunity to give this talk in Tokyo, because of the central role that Japan plays in the global economy and in international development assistance. It is, as you know, the world's second largest provider of bilateral aid, and enjoys a strong presence across the developing world, thanks to the remarkable work of agencies like JICA and JBIC.

Japan is also the second largest shareholder in the World Bank Group, and a very important partner in our mission to fight global poverty. We are grateful to the people of Japan and their leadership for their continued support.

## **Progress in Fighting Poverty**

Since I joined the World Bank Group one year ago, I have had the privilege of visiting three continents and talking with policymakers, entrepreneurs, civil society leaders, farmers, and school children in 23 countries.

I have become increasingly convinced from these exchanges that not only do we face a daunting challenge to eradicate poverty, but we also have an unprecedented opportunity to make a difference.

The achievements of the last half century prove that: Over the last quarter century, the number of people worldwide living on less than \$1 a day fell by 500 million. [If current trends continue, by 2015, another 400 million people will escape poverty.]

In China, in 1990, 375 million people lived on less than \$1 a day. Three years ago, the number of poor fell by half 180 million. By 2015, this number is expected to drop even further to 16 million in 2015. Think about that—from 375 million to 16 million.

South Asia, led by India, is expected to cut the number of poor people from 462 million in 1990 to 232 million in 2015.

These numbers reminds us that reducing poverty isn't just a hope—it can become a reality with partnership, vision and investments inside and outside developing countries.

Investors, policymakers and analysts in cities like Tokyo have a critical role to play, and so do their counterparts in cities like Ouagadougou and Nairobi.

### **Africa: Opportunities and Challenges**

For the international community, Africa presents a unique development challenge. For one thing, Africa did not benefit from the declining trend in poverty that swept other parts of the world.

In fact, Africa is the one region where the numbers go the other way. Between 1981 and 2002, the number of people trapped in poverty nearly doubled from 164 million to 303 million. By 2015, this number is expected to rise to 336 million.

For all the difficulties it faces, there is another face to Africa besides despair and pessimism. A recent Gallup survey of 50,000 people across the world found that Africans are the most optimistic people in the world. Asked whether 2006 would be better than 2005, 57 percent of the Africans said 'yes'. Europeans are more prosperous but less hopeful.

This suggests that Africans themselves see opportunities as well as needs in Africa, and that is indeed the real picture.

[In a recent article in *Le Monde* newspaper, Jean Dassiam Fiauoumo, an African journalist, reminds us that Africa is not just about poverty, famine and disease. It is also a land of stock exchanges, skyscrapers, internet cafes and a growing middle class. It is home to one of the world's best performing stock exchanges [in Ghana]. And it offers among the best returns to foreign investors. ]

['Let us not add to the problems of Africa through the injustice of our words,' he tells us.]

In that spirit, let me share with you some less well-known aspects of Africa:

Since 1995, fifteen African countries—excluding those with oil resources—had a median growth rate of 5.3 percent. These countries represent 35 percent of Africa's population.

Enrollment rates in primary education have shot up from 73 percent in 1990 to 93 percent in 2004.

And in Ghana, the literacy rate among people over the age of 15 jumped from 58 percent in 1990 to 74 percent in 2002.

African entrepreneurs, too long marginalized, have begun to show that they too can connect constructively to world markets, through successful ventures in exporting cut flowers, vegetables and clothing.

Since a peak in 2002, there has been a steady decline in the number of African conflicts, from 16 to 6. We are seeing countries like Mozambique emerging from civil war and making encouraging progress.

These transitions to peace include some of the longest-running civil wars, such as the 21-year conflict between North and South Sudan, and the protracted wars in Angola and Liberia which have long hampered progress in those countries.

### **International Community Responds**

Africa's global partners are moving as well. At the G-8 Summit in Gleneagles, the largest industrialized nations agreed to increase aid to Africa by \$25 billion a year by the year 2010. This is more than double the 2005 levels. They also agreed to extend and deepen debt reduction. The Multilateral Debt Relief Initiative that came out of this agreement will cancel about \$37 billion in debt in 17 of the world's poorest countries, 13 of them in Africa.

Now we have to make sure that these new commitments will really be delivered, and delivered effectively. Donors also promised to harmonize and align their development programs, to lower the transaction costs for countries, and to make aid flows more predictable.

Most importantly, we are focusing our efforts not on sums of money moved from rich capitals to developing economies—but on real results. We are talking about having more children in schools, fewer malaria deaths, higher levels of exports.

**At the Bank, we launched an Africa Action Plan** that sets very specific targets for countries on everything from closing the infrastructure gap and rolling back malaria to cutting through regulations that stifle businesses.

### **What is Needed from Here: Trade, Access, Agriculture**

Let me turn to four challenges that are being addressed by the Africa Action Plan and which Africa and its international partners need to confront, if Africa is to turn the corner. **The first is trade.** Sub-Saharan Africa would see an increase in real incomes of \$4.8 billion from deep reform of merchandise trade.

Meaningful global trade reform in just one sector—cotton—would boost Africa's cotton output by \$2.2 billion a year by the year 2015.

Last summer I visited Burkina Faso, where the average citizen earns \$350 a year, and where two out of five children are underfed. Yet Burkina's cotton farmers would be competitive on an international scale—if it weren't for the trade-distorting subsidies that far richer nations like the United States maintain for their cotton farmers. It is estimated that U.S. cotton subsidies cost West African economies \$150 million a year.

For Africans, 78 percent of the gains from a liberalized trade environment are tied to agriculture, where most Africans still earn their livelihoods. We have seen from the growth experiences of countries like Chile and Brazil, farm exports can play an enormous role in growth, and poverty reduction.

We are seeing some clear indications of this potential in Africa. Roses from Kenya are flown to London nightly and are sold at the counters of Marks & Spencer. Cherry tomatoes from Senegal are packaged and refrigerated outside Dakar and flown to French supermarkets. Ghana's non-traditional exports have surged by 60 percent since 2000.

But African exporters are too often penalized with cascading tariffs when they process or add value to their agricultural products. In Asia, tariffs for cocoa powder, for example, are nearly four times those for cocoa beans. The penalty is even worse for turning oil seeds into vegetable oil.

The international community needs to level the playing field, and create an environment that supports broader development objectives through a successful Doha Round. Rich nations must make this a high priority and be prepared to take decisive steps in liberalizing their farm sector.

### **Homegrown Barriers**

However, some of the biggest obstacles to greater export success in Africa fall inside the borders of African countries. This brings me to the **second area that Africa needs to focus on—creating a business-friendly environment.**

Every year, the World Bank Group issues a *Doing Business* report that identifies regulatory obstacles faced by investors and ranks countries according to their business environment.

In this year's report, nine of the ten countries in the world judged as having the most difficult environment for starting a business were in Africa. Consider the time requirements alone: it took 155 days to launch a company in the Democratic Republic of Congo, compared 31 days in Japan or only two in Australia.

In Burkina Faso, for example, it takes an entrepreneur more than 45 days and one-and-a-half times their per capita income to register and start a business. When the income for a Burkinabe is only \$350, these costs are stifling enough to prevent new businesses from taking off.

The World Bank has conducted Investment Climate Assessments in more than a dozen countries that identify specific reforms governments can adopt to encourage higher levels of investment and faster job growth.

The payoffs can be significant. In Madagascar, a garment exporter estimated that if port clearance were reduced to one day, it would cut total costs by as much as 30 percent of the wage bill.

Surveys show that poor roads, inefficient ports, and power outages hold back African entrepreneurs' efforts to compete in global markets.

Rwandan farmers, for example, who are making great strides in exporting coffee, receive only 20 percent of the price of their coffee as it is loaded onto ships in Mombassa. The other 80 percent disappears into costs of transportation—a combination of poor roads and administrative hurdles—between Rwanda and Kenya.

African firms can no longer afford these setbacks.

### **Infrastructure: The Bridge to Growth**

Strengthening Africa's infrastructure is a third challenge.

Of the 6.3 billion people in the world today, 1.6 billion do not have access to basic energy services. 500 million of them live in Sub-Saharan Africa.

And nearly 90 percent of Africa's population relies on biomass for energy. They need support for sustainable forest management and improved cooking stoves and fuels to reduce the air pollution inside their homes.

Africa's infrastructure may have supported economic growth reasonably well through the 1960's and 1970's. But high population growth combined with rapid urbanization has led to a severe mismatch between the need for infrastructure and its supply.

By most estimates, African countries need to invest about 9 percent of their GDP—roughly \$40 billion per year—in building new infrastructure and maintaining old facilities if they want to meet the Millennium Development Goals. This is more than twice what they have spent over the past 40 years.

Partnerships will be crucial. African leaders in government and the private sector can identify the key infrastructure constraints that are holding back growth. But the challenge of financing infrastructure improvements will require a broad international commitment.

World Bank Group investment in infrastructure in Africa is increasing from \$600 million in 2000 to a projected \$2.4 billion in 2008. We also are working as part of the Africa Infrastructure Consortium in collaboration with bilateral and multilateral partners.

### **Effective Governments**

Fourth and finally, one of the most daunting challenges facing Africa today is weak governance. According the UK Commission for Africa, government's inability to deliver to their people and their lack of accountability has hampered progress in Africa over the last fifty years.

[Across widely divergent regions and political cultures, it is powerfully clear that people want governments that work...governments that are honest and capable.]

Over the next decade, Sub-Saharan African governments will bring in over \$200 billion in oil revenues alone. This represents an incredible opportunity to help finance badly needed investments in health, education and infrastructure.

Yet, without effective, transparent and accountable states, the opportunity may be lost. That is why I am greatly encouraged to see more and more resource-rich countries in Africa embrace the Extractive Industries Transparency Initiative. It brings more visibility to the management of natural resource revenues. And it gives citizens access to vital information on how these revenues are being spent.

We are counting on partners such as Japan to support this plan and to bring needed technical expertise in making it work.

At the World Bank Group, we are expanding our anticorruption work at the country level.

We will increase our investments in such key areas as judicial reform, civil service reform, the media, and freedom of information and decentralization of public service delivery. We also are implementing a new system for minimizing the risk of corruption in World Bank-funded projects.

## **Japan's Role in Africa's Development**

Japan of course has a crucial role to play in closing the infrastructure gap that holds back African enterprise. We have seen the indispensable role of the private sector in East Asia's rapid development, its speedy recovery from the 1998 financial crisis, and of course the tremendous gains in poverty reduction in China and India. Japan can help fuel that engine of growth in Africa.

Between 2002 and 2004, Japanese foreign direct investment in Sub-Sahara Africa was worth \$415 million. That's just 0.4 percent of Japan's total foreign direct investment of \$108.5 billion during that period. And of that \$415 million, \$183 million was invested in South Africa—largely in the automotive industry—and \$169 million went to Liberia and its maritime industry. So these two countries accounted for \$352 million—or 85 percent—of Japan's total direct investment in Africa between 2002 and 2004.

The same is true when you look at the trade picture. African goods and services represented less than two percent of Japan's total imports in 2003 and 2004, and most of that was in the form of low-value added imports like fuels, ores and metals, and agricultural raw materials.

The picture is little better when you turn to the foreign aid. Around 10 percent of total Japanese overseas development assistance in past years goes to Africa. I am pleased that Prime Minister Koizumi has pledged to increase Japan's ODA by \$10 billion over the next five years and that ODA to Africa will be doubled in the next three years.

## **Conclusion**

While aid is important, trade and investment are critical to generating jobs and creating opportunities for people in developing countries. Certainly, the conditions for all three have to be conducive. There has to be good governance, sound financial management, and robust public institutions to ensure that this support is used effectively to realize opportunities.

But increasingly across Africa, the leadership is emerging. As Prime Minister Koizumi said during his recent trip to the continent, Africa is becoming the 'home of self-endeavor'.

You may ask why should an economic superpower like Japan care about a struggling continent on the opposite side of the world. One answer is that Japan's leadership brings with it responsibilities. It is not just a regional power, it is also a global power. Today, many African countries are where Japan was 50 years ago. These countries could learn a great deal from Japan's experience.

We can no longer afford to live in a world where half of the 600 million people in the African sub-continent live in despair. We all have a stake in helping it move towards progress and prosperity.

With the support and partnership of global players like Japan, we should—in ten years' time—be able to see a global economy that is more inclusive, and an African Continent no longer on the wrong side of a global divide.

We will then be able to understand why in 2005, Africans emerged as the most optimistic people in the world.

Thank you.