Gabriel FELBERMAYR

Talking of Japanification, it is, of course, an issue that, in Africa, is very far away, and I would like to give the floor to Arkebe Oqubay. Ethiopia has been growing fast, and many areas in Africa have had very high growth rates; not just over the last years, but this has been going on for a while now. Could you help us understand the current situation of this region, and of your country particularly; what the outlook is and what are the big challenges you are facing?

Arkebe OQUBAY

Thank you, Moderator. Firstly, many thanks for your congratulations on the Nobel Peace Prize winner, our Prime Minister, which I believe is a prize for Africa and not just for Ethiopia.

Ethiopia has been navigating rapid economic growth, but, also, equitable growth. For the last 15 years the economy has grown by 10.5% annually and, in terms of shared growth, as an important indicator, average life expectancy has increased from 44 in 1991 to 66 years in 2016; this is a 21 year increase in average life expectancy, which is, on average, twice the average growth rate of Africa.

This morning I would like to talk on the broader picture, and my perspective will be that of a policy maker from a developing country with an African perspective. This topic is critical, and we can see two central issues here. Firstly, the world political and economic outlook, and the growth of African or other developing countries, will be determined and influenced not only by domestic policies, but also the broader global outlook; this is therefore central for developing countries. The second aspect is the rise of China, and this is quite critical because we are in a Sinocentric global order. It is not a hypothetical issue, and China, for good or for bad, is an important and critical player, so I will try and focus on this bigger picture. Some 200 years ago, the great Napoleon said, ‘China is a sleeping giant; let her sleep, for when she wakes, she will shake the world’. This was exactly 200 years ago, and China used to be the largest economy between 1500 and 1820, and since then, since the Opium War, China’s power and influence has declined. While it was the largest economy during that period, and now we see the rise of China in the global economic outlook. It is quite critical, without exaggeration or alarmist approach, we need to be realistic in the world that we are in.

The first point I would like to focus on is that since 2007, as Olivier indicated earlier, the global economy is in a slowdown mode; it has not yet been able to return to the growth rates that were observed a decade back before the financial crisis. This is quite worrying for developing countries because it limits what they can sell in the global market, it limits the growth space they can have, and the most critical issue is uncertainty, and this is quite important in terms of investment. Since 2007, for the last 10 years, FDI inflow has been, more or less, flat, about 1% increase every year, which, when compared with the demand for FDI growth, is quite an alarming issue because African countries, developing countries, need FDI for their growth.

I would also like to highlight that the increase in inequality is a critical issue, the marginalisation of developing countries, and the increase inequality, even in advanced economies, is a time bomb that shakes the stability of the economy as well as the political stability.

I would also like to raise the critical point of climate change. Climate change is a global issue that directly influences economic growth, and both developing countries and advanced economies need to bring this issue to the forefront and give it centrality. In the last 30 years, between 1990 and 2020, carbon emissions have increased by 50%, and by the end of the century, global warming will reach about 3°Celsius. This is a concern that I think advanced economies as well as developing countries should be looking at.

On the second theme, the rise of China, I would like to highlight that the rise of China is a reality; it is not a theoretical or debatable issue. China is a propeller of the global economy. About 30% of the annual global growth rate in the last
few years has been generated by China, so it has a significant influence in global economic growth. We have also seen China’s contribution to global GDP increase; in the year 2000, China’s GDP was only about US$ 1 trillion, and in 2020 China’s GDP is reaching US$ 15 trillion, which is 16% of global GDP. A total of 27% of global manufacturing is concentrated in China, which gives great impetus, in terms of influence, in trade, in investment, and in global order as well.

We have seen a significant improvement in the livelihood of the Chinese people, especially the contribution in terms of poverty alleviation, and this has contributed to improving the wellbeing of the global population.

On the green economy, the Chinese are making critical advances in this area. It may be debatable to say that China’s focus on building a sustainable environment, comes from the belief that climate change is a major global risk. However, the Chinese policymakers are working on the premise that the current strategy of consumption of significant material and the damage to the environment cannot be sustained. So, they are looking at enhancing their global competitiveness and China is becoming a renewable superpower. China now generates 700 gigawatts of renewable energy, which is the equivalent of the combined generation of renewable energy in the US, Germany, India, and Brazil, which is quite important in terms of building a circular economy. The China effect as a global public good is an important area we need to consider.

The last point I would like to focus on is the implication of these two critical issues: the global economic outlook and the rise of China. My perspective on this issue is, we are aware of the increased protectionism and the trade war that Olivier mentioned earlier, however, what we need to see is, there are two approaches we may need to consider, or two avenues. Who gets the biggest share from the existing cake is one issue, which is linked to the friction between China and the US or amongst advanced economies. However, there is a second way of looking at this issue, which is, how can we make the pie bigger, so that the economy grows faster, so that prosperity could be ensured, and we can prevent the looming crisis and recession? It is critical that thinkers and policy makers consider that a win-win position is going to be critical in our approach.

China is a critical player in Africa; it is one of the top four investors in Africa, along with the US, the UK, and France, it is Africa’s largest trading partner, and we have seen trade volume increase from US$ 10 billion in the year 2000 to US$ 220 billion in 2014, and it is also a major financier and largest contractor in infrastructure. These are quite critical and we, as Africans, do not see this as a scramble for Africa. We are engaged with our traditional partners, with Europe and the US, but Africa should also engage with China and try to exploit what could be generated positively.

We need to have a realistic optimism, and I do not think there is a need for being alarmist, but we also need to focus, and big powers and developing countries, I believe, should work on how to make the pie bigger, to see a win win situation where humanity can be saved and prosperity can be sustained.

Gabriel FELBERMAYR

Thank you very much. Olivier?

Olivier BLANCHARD

I was struck by the remark that Arkebe made about FDI, and I think that it links nicely to a point I made that may be useful. On the one hand, if you are a firm, you are reluctant to do FDI with another country because of the tariff uncertainty and so on, so you are going to pull back; at the same time, the fact that the interest rates are so low on bonds of major governments in advanced economies means that it is very attractive, from a financial point of view, to actually invest in countries which have their act together, like, Ethiopia. I suspect that if we look at FDI, it is probably the tension between the two, which determines whether there is FDI in a country or not, but clearly there are possibilities; low rates are potentially good for Africa.

Arkebe OQUBAY

This is an important point, actually; Ethiopia focussed on attracting FDI, particularly over the last six or seven years, and the prime focus has been on productive investment, especially in manufacturing. Between 2012 and 2017, FDI
inflow increased four fold, and its share in Africa's FDI inflow increased from 1% to 10%, and in East Africa it increased from 10%, close to 50% of FDI inflow. The indicators show that this is an area that we need to tap.