Yandraduth Googoolye: Renewed protectionist tendencies - some implications for macroeconomic policy in Africa

Speech by Mr Yandraduth Googoolye, Governor of the Bank of Mauritius, at the Continental Seminar of the AACB for the year 2019, Balaclava, 6 May 2019.

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Deputy Governors

Mr Papa Lamine Diop, Executive Secretary of the AACB

Delegates from member central banks

Ladies and Gentlemen

Members of the media

Good Morning and a warm welcome to you all in Mauritius for this 2019 AACB Continental Seminar. This is the first time that the Bank is hosting this event. We are pleased to have participation from 24 member central banks and 12 institutions. I am given to understand that we have about 70 participants. The large turn-out demonstrates the importance of the chosen theme.

The Bank of Mauritius has participated actively in AACB meetings and activities over the past years. Mr Diop, who is with us today, can bear testimony to this. We hosted the Governors' meetings of the AACB Eastern Africa sub-region in July 2007 and July 2008 and we also hosted the AACB Annual Meetings in August 2013 in our capacity as Vice – Chair of the Association. Last year, as Chair of the sub-region, the Bank hosted for the third time the Governors' meeting for the Eastern Africa sub-region.

The theme for this 2019 Continental Seminar: '*Renewed Protectionist Tendencies: Some Implications for Macroeconomic Policy in Africa'* is highly pertinent and topical. In its latest Regional Economic Outlook for sub-Saharan Africa, the IMF has estimated growth to pick up from 3 percent in 2018 to 3.5 percent in 2019.

The economic recovery under way is a positive development. However, one can reasonably argue that current and expected growth levels are somewhat inadequate to lift millions of people out of poverty and provide decent jobs to an estimated 20 million new entrants to labour markets each year.

The IMF has also cautioned against downside risks stemming from heightened trade tensions, slower growth in China, lower commodity prices, and tighter global financial conditions, which could lower growth in sub-Saharan Africa by 2 percentage points this year. As expected, the impact would be more pronounced for commodity exporters and countries with stronger links to China and global markets.

A review of the performance of African countries with respect to the African Monetary Cooperation Program criteria in recent years indicates clearly that African countries are not building adequate fiscal and external buffers to cope with a range of shocks – both internal and external. Our economies rely too much on mineral resources and agriculture. They also face significant infrastructural gaps and have fragmented markets. Regional integration is also relatively low.

Africa is far more dependent on overseas trade than any other economic region or global player. The fact is that Africa is integrated asymmetrically in global trade. Originating mainly from resource-rich countries, African exports are concentrated in raw materials and agricultural products. These range from crude oil, gold and diamond to cocoa and timber, fruits and nuts, copper, natural gas, cotton, iron ore, uranium, just to name a few of these. Imports are mainly dominated by capital goods.

Openness to trade brings many benefits to the supply side of the economy. That is why we cannot but welcome the African Continental Free Trade Area agreement which, once completed, will establish a market of 1.2 billion people with a combined GDP of 2.5 trillion dollars. The agreement could significantly boost intra-African trade whilst promoting foreign direct investment and technology transfers. This can potentially raise the competitiveness of African economies and enhance their integration into the global economy.

Before the global financial crisis, trade growth has been a major engine of global growth and an enhancer of living standards worldwide. The integration of economies into global trade, notably through participation in global value chains, has improved incomes. It has also moved millions of people out of poverty. Since the crisis, trade has generally lagged behind output growth.

Some economies have borne the brunt of open trade. A number of them have been running a persistent trade deficit and have been facing intense competition. We have also witnessed scenarios of protectionism resulting in an increase in non-tariff barriers. The anti-globalisation sentiment which emerged since the crisis has been gradually cemented through what has been termed a “trade war", leading to a broader reversal of globalisation. Some economies have even announced retaliatory measures.

Recourse to trade protectionism has been posited to foster recovery from economic downturns. This, by creating barriers aiming at protecting the economy from the negative impacts of open trade and improving their trade balances.

Ladies and gentlemen, protectionist measures impact on the free movement of goods and services and they obviously affect economic performances across the world. Higher tariffs have an effect on growth and inflation whilst influencing financial conditions, expectations and confidence in the near to medium term.

For us central bankers, such elements can influence the conduct of monetary policy. Higher tariffs could translate into higher import prices and these could increase firms’ production costs. This could ultimately reduce households’ purchasing power. Ultimately, depending on the severity of these impacts, they would weigh on consumption, investment and employment, which could negatively affect the GDP performance.

The uncertainty about growth prospects is bound to postpone investment decisions. This is something that we would never wish to see. Barriers to trade would also cause both productivity and potential output to decline. What this means is that protectionism does matter for central bank policy. And that is why this Seminar will enable our participants to ponder on the implications of protectionism.

Before I end, allow me to quote former US President Barrack Obama… I quote: “*There are legitimate concerns and anxieties that the forces of globalisation are leaving too many people behind – and we have to take those concerns seriously and address them. But the answer isn’t to turn inward and embrace protectionism. We can’t just walk away from trade*”. Unquote.

Ladies and gentlemen, there cannot be winners in trade wars. Protectionism is not the right answer to the economic challenges that some economies are witnessing.

On this thought, I wish you all fruitful deliberations.

I look forward to your report for consideration of Governors at the 2019 AACB Annual Meeting scheduled on 01 August 2019 in Kigali, Rwanda.

Thank you.