



# **THE EMERGENCE OF THE GULF OF GUINEA IN THE GLOBAL ECONOMY**

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(\*) The ideas expressed in this document are those of the author and do not necessarily represent the views of the IMF.

**Thank you, Mr. Chairman**

**It is a great pleasure and honor to be part of this briefing group and discussion. I would like to thank and congratulate the eminent members of the Congress for their leadership in bringing issues related to Africa and its Diaspora before us. The Gulf of Guinea has been of particular concern in my work as an economist since 1972. As Executive Director in one of the Bretton Woods Institutions, I have taken all opportunities given to me to contribute to the ongoing debate on the implications of the growing importance of the Gulf of Guinea in the world economy.**

**It was a great pleasure to me to discover and read the recent publication of the Congressional Black Caucus Foundation, titled “Breaking the Oil Syndrome” and the recent article in the GWEST and First Energy’s complementary on U.S. Energy Security and west Africa’s Recognized Power Status. Both publications join my earlier presentation at the Black Chamber of Commerce in Negril, Jamaica, last year, and my intervention at the Global Development Network in Dakar early this year. All these studies emphasize the COMPARATIVE ADVANTAGE OF THE GULF OF GUINEA, which includes:**

**- First, abundance of natural resources, notably oil, natural gas, forestry and fishery.**

- Second, openness to the sea and relative closeness to the main consuming markets of the globe (North America and western Europe), with important economic implications such as cost advantage in oil transportation.
- Third, unlike other oil-supplying regions, the Gulf of Guinea benefits from the absence of transit chokepoints, these narrow maritime lanes such as the Panama Canal, the Straits of Hormuz or the Suez Canal. Therefore, oil carried in tankers is less susceptible to blockades, attacks and accidents.
- Fourth, the region's potential from natural gas, which is being little exploited, is substantial. However, the levels of gas flared or vented (therefore lost) during crude oil extraction are among the highest in the world (about 50%). We have found that, for the whole region, the gains in gas production in 2002 would have amounted to \$2.2 billion if gas flaring were reduced to 20%, and \$3 billion if flaring were brought down to 10%. These represent tremendous opportunity costs to the region. To achieve gains, important investments are needed to reduce natural gas flaring.

Mr. Chairman,

Despite this remarkable potential, the Gulf of Guinea faces numerous **CHALLENGES TO THE SUSTAINED DEVELOPMENT OF THE REGION.** These include:

- **First, development strategies and public expenditure frameworks based on overoptimistic assumptions, resulting in procyclical expenditures, overspending, and inefficiencies.**
- **Second, indicators of good governance produced by the World Bank show that oil-producing countries in the Gulf of Guinea far underperform the world average. In particular, the rule of law and the fight against corruption are the areas where oil producers of the region perform the worse. Also, comparisons with other countries show that the Gulf of Guinea's oil producers trail their counterparts not only from the region but also the rest of sub-Saharan Africa.**

**The question that comes to mind is what the United States and the international community, which have important energy security interests, should and can do to help those countries cope with these problems, so as to ensure safe, adequate and reliable supply of energy on the one hand, and benefit the region's populations on the other hand.**

**Mr. Chairman,**

**Before answering this question, I would like to mention that countries in the Gulf of Guinea have made considerable progress towards transparency, through their adhesion to the Extractive Industries Transparency Initiative (EITI) and numerous conferences and fora in**

which good governance and macroeconomic stability are recognized as crucial to their growth and development. These countries have engaged in this debate openly, without taboo.

Now, what can the United States and the international community do to support these efforts?

- First, the donor community, including the international financial institutions, should do a better job in helping those countries set the appropriate fiscal stabilization instruments that will prevent natural resource-related boom-bust fiscal policies and that will strike the proper balance between ensuring intergenerational equity and answering the present daunting developmental needs, that is between Funds for Future Generations and today's infrastructure and capacity needs.
- Second, the United States and others must help put that region on a more solid ground for strong, long-run economic growth. This requires committed efforts to improve accountability, government effectiveness, strong regulatory frameworks, respect for the rule of law, fight against corruption. In this vein, political encouragement and technical assistance from mature countries are highly needed.
- Third, the exposure of poor countries to oil market shocks such as price volatility, should also be tackled through the development of strong local private sectors. This includes the question of their

economic diversification and leads to the issue of access of their products to developed country markets. In addition, lasting global prosperity requires stable oil markets and prices. To this end, major oil consumers like the United States must help countries of the Gulf of Guinea expand their oil production and capacity. There must also be a constant dialogue, with the view to improve oil market information and transparency, which will curb speculative movements.

To conclude, I want to CALL FOR AN INCREASED INVOLVEMENT OF THE AFRICAN DIASPORA to complement the efforts I just outlined. The large African Diaspora should participate in the development of the Gulf of Guinea, which would benefit not only the United States and the Gulf of Guinea countries, but also spill over and benefit the whole African continent. The actions of the Diaspora should take multiple forms:

- First, political and economic lobbying to induce foreign direct investment to the region, especially in the mining, manufacturing, tourism, and urban development sectors;
- Second, the African Diaspora should be encouraged to participate in joint-venture businesses on the continent;

- **Third, remittances, that is the transfers by the Diaspora of funds to families and communities in Africa, should be encouraged. These flows have proved a major and stable source of capital to Africa;**
- **Fourth, the business community of the Diaspora should use its valuable experience and know-how to develop service industries in Africa, especially financial services, which are presently lacking;**
- **Finally, I strongly encourage the Diaspora to make well-informed aid and business decisions by making more frequent trips to the region.**

**It is urgent and of vital importance that the United States and other donors contribute to the development of this region.**

**\*\*\*\* Thank you for your attention \*\*\*\***