

# Implications of global economic crisis for Africa

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# Lessons from Current Global uncertainties

- The current world is confronted with development challenges – not new though.
- ✓ **Institutional** – lack of trust in Governments, Market/Corporate abuse and vulnerable Civil Society
- ✓ **Ecological** - Energy/Climate Change/ economic transformations that are outpacing environmental capacity
- ✓ **Structural** - Sovereign debt crisis, record unemployment, unsustainable fiscal deficits, low growth etc.



# **Financial Crisis, and Trade in Africa**

**African Finance Ministers Spring Meeting,  
(WorldBank/IMF) 24-25 April 2009, Washington DC**

**Ransom Lekunze (PhD)  
South Centre**



# What is a financial crisis?

- A situation in which there is less liquidity b/c available money is withdrawn from banks, forcing banks either to sell other investments to make up for the shortfall or to collapse.
- A situation in which Financial institutions or assets suddenly lose a large part of their value observed by: banking panics, stock market crashes, Sovereign debt defaults

# What is an economic crisis?(recession, depression)

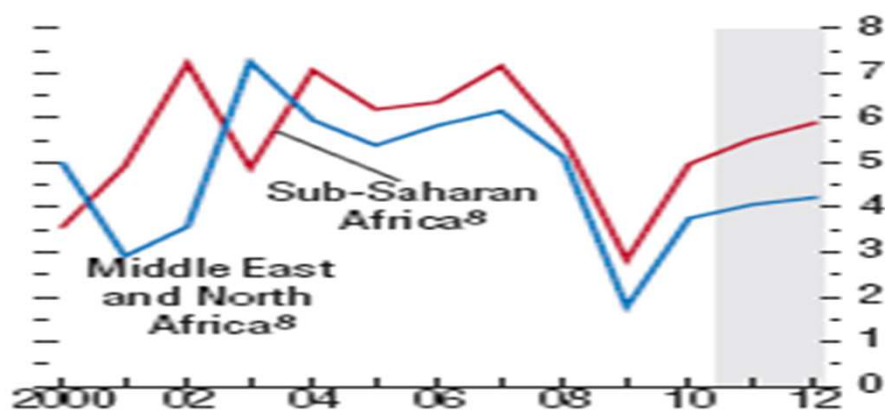
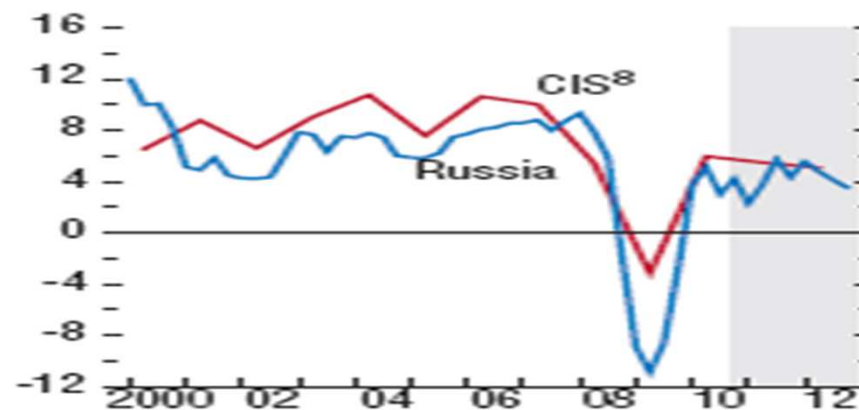
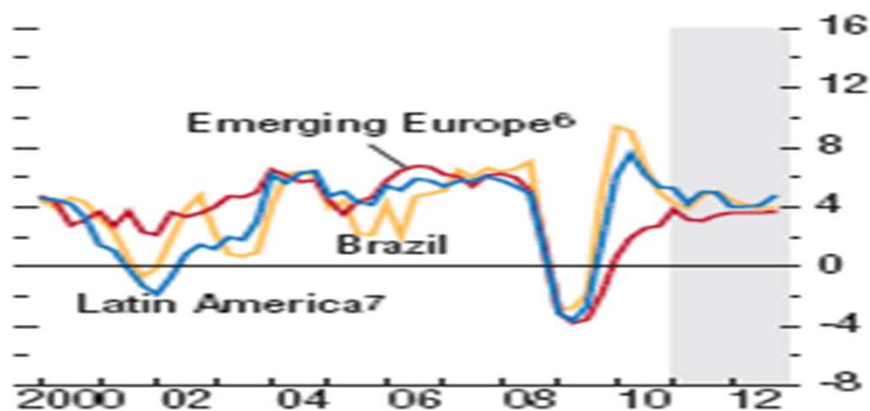
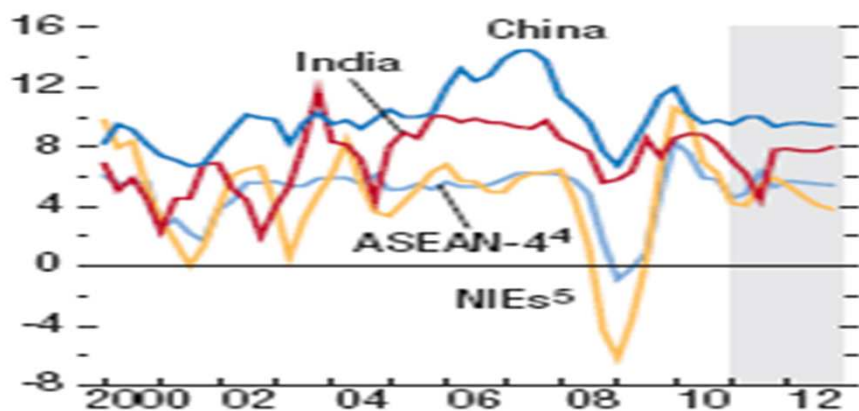
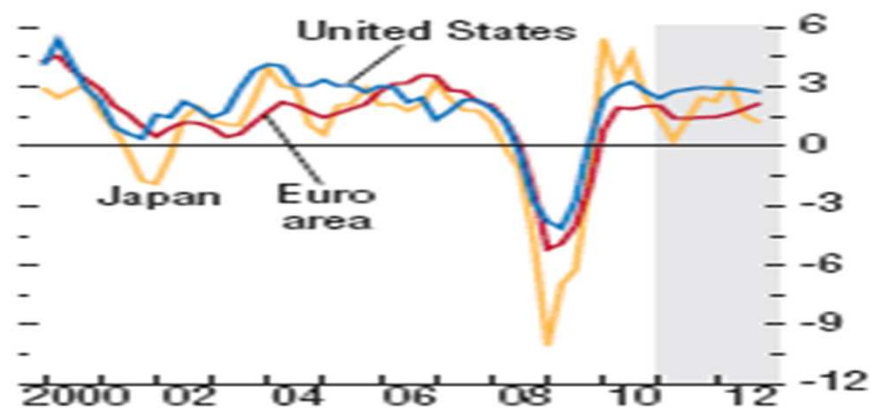
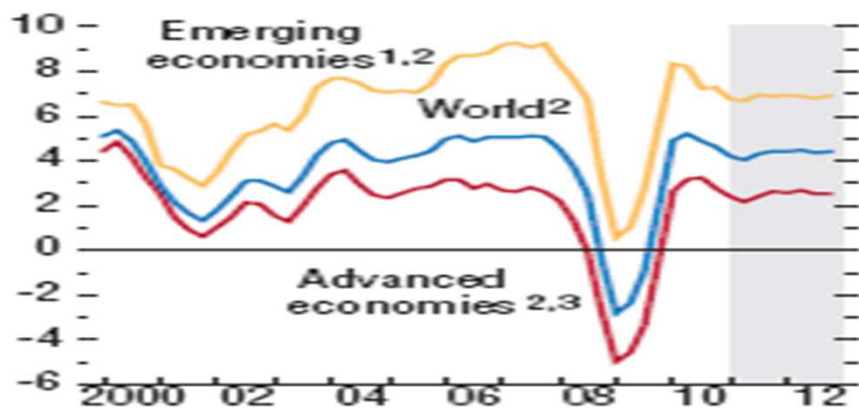
- A situation in which the economy of a country experiences a sudden downturn brought on by a financial crisis largely observed by:
  1. a falling GDP, (below 3%)
  2. a drying up of liquidity
  3. rising/falling prices due to inflation/deflation.

## Nature and causes of the current crisis

- Deepest of the last 60 years, exceeds:
  - 1<sup>st</sup> and 2<sup>nd</sup> oil price shocks of the 1970s,
  - Latin American debt crisis of the 1980s,
  - 1998 Asian financial crisis,
  - the 9/11 terrorist attacks.
- It all began in 2006, triggered by a **default in subprime mortgages** in the US, with top mortgage agencies (Fannie Mae and Freddie Mac) filing for bankruptcy. \$50 bn wealth of subprime loans lost.
- Went on to engulf mighty investment banks on **wall street** and spreading to financial centres around the world.
- By 2nd q 2008, major financial institutions & states in recession.



# Global Economic Outlook by region



# How did the world get here?

- **Leveraged investment / Greed and Quick gain** - over-speculation with the excessive uncertainties and risk involved, all Wall street big five (Bear Stearns, Lehman Brothers, Merrill Lynch, Goldman Sachs, Morgan Stanley) exhibited this problem
- **Asset-liability mismatch / Trading in money** (98%) rather than trading in real goods (2%) exposes the economy to manipulation by crooks and cranks





# Reactions:

## 1. Banking panics

- Commercial banks witness a sudden rush of withdrawal by depositors, this is called "bank run"
- Reduced liquidity
- Tightening of credits
- Lost of value and credibility

## ■ 2. Speculative bubbles- crash

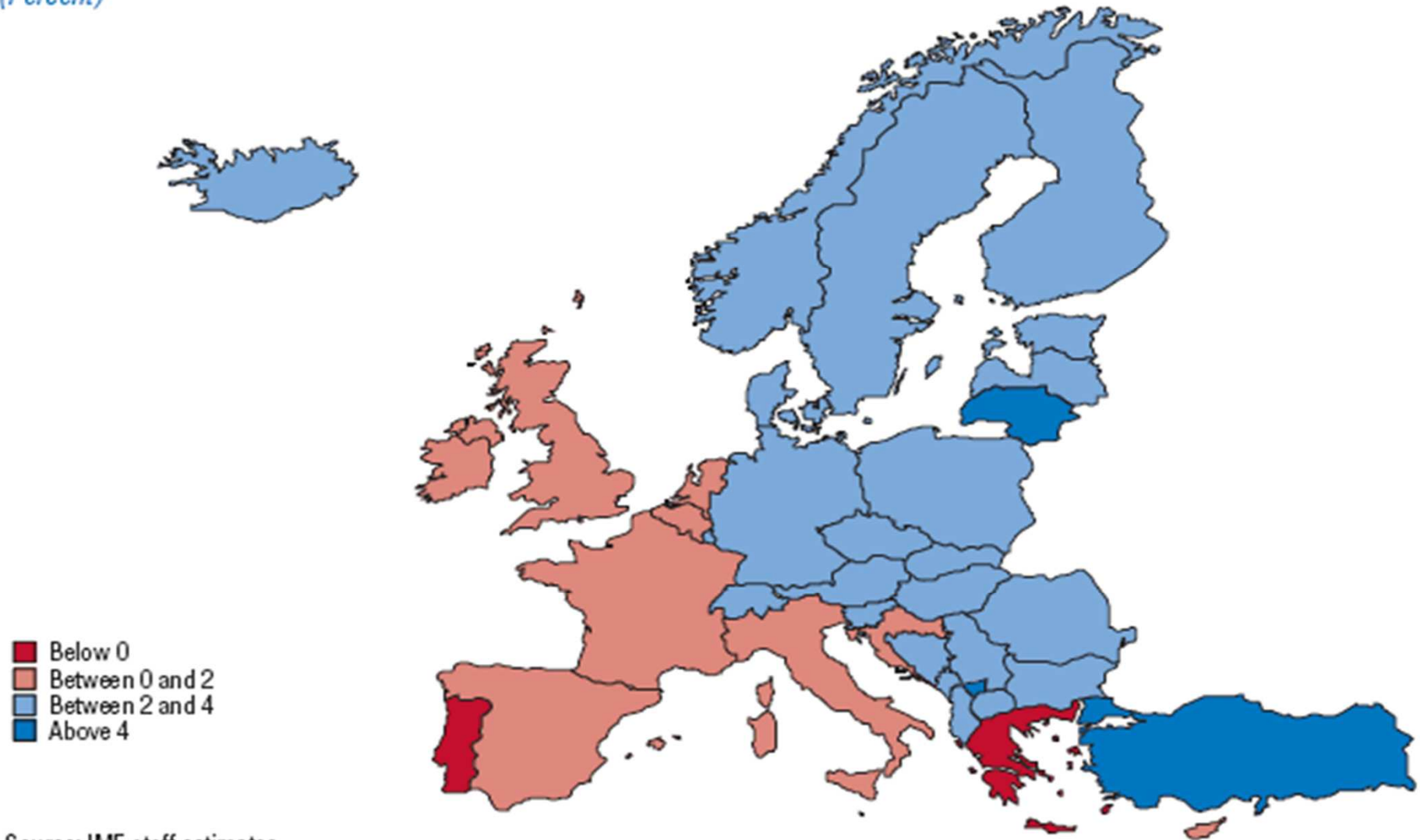
- A bubble exist when the price of stock exceed the value of the future income (such as interest or dividends) that would be received by owning it to maturity.
- Wall street crash of 1929
- Dot-com bubble 2000-2008
- US housing bubble 2008

# Indicators of financial crisis

- **Banking panics** - rush of withdrawal by depositors, "bank run"
- Reduced liquidity
- Tightening of credits
- Lost of value and credibility
- Increased unemployment
- Reduced consumer spending
- Increased indebtedness
- reduced exports
- slowed investment
- increased inflation
- failing commodity prices
- State defaults
- Fall in foreign reserves

# The current financial crisis in EU.

Figure 2.5. Europe: Average Projected Real GDP Growth during 2011–12  
(Percent)



Source: IMF staff estimates.

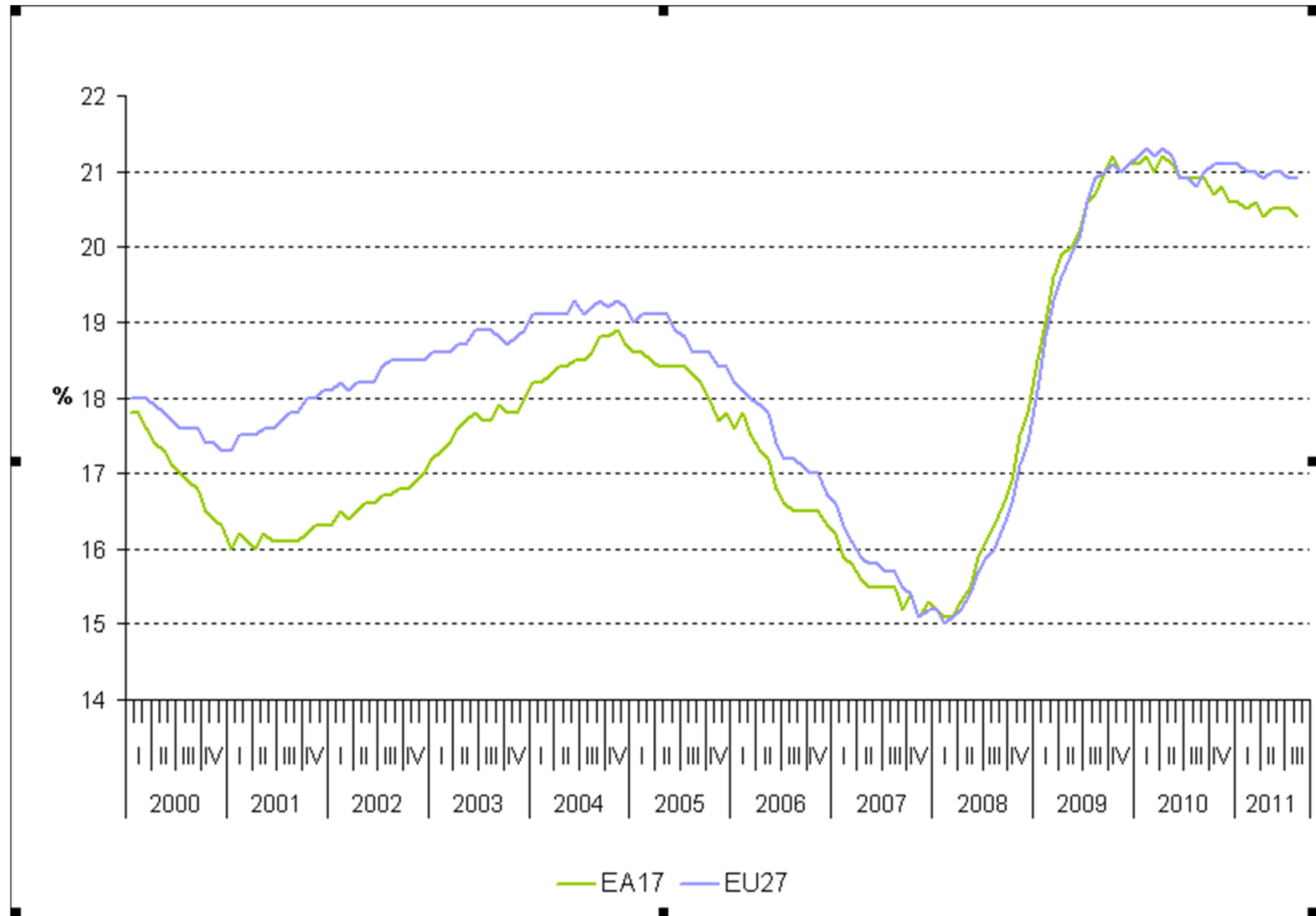
# EU unemployment rates 2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>EU-27</b>	8.7	8.5	8.9	9.0	9.1	9.0	8.2	7.2	7.1	9.0	9.6
<b>Euro area</b>	8.5	8.1	8.4	8.8	9.0	9.1	8.5	7.6	7.6	9.6	10.1
<b>Belgium</b>	6.9	6.6	7.5	8.2	8.4	8.5	8.3	7.5	7.0	7.9	8.3
<b>Bulgaria</b>	16.4	19.5	18.2	13.7	12.1	10.1	9.0	6.9	5.6	6.8	10.2
<b>Czech Republic</b>	8.7	8.0	7.3	7.8	8.3	7.9	7.2	5.3	4.4	6.7	7.3
<b>Denmark</b>	4.3	4.5	4.6	5.4	5.5	4.8	3.9	3.8	3.3	6.0	7.4
<b>Germany</b>	7.5	7.6	8.4	9.3	9.8	11.2	10.3	8.7	7.5	7.8	7.1
<b>Estonia</b>	13.6	12.6	10.3	10.0	9.7	7.9	5.9	4.7	5.5	13.8	16.9
<b>Ireland</b>	4.2	3.9	4.5	4.6	4.5	4.4	4.5	4.6	6.3	11.9	13.7
<b>Greece</b>	11.2	10.7	10.3	9.7	10.5	9.9	8.9	8.3	7.7	9.5	12.6
<b>Spain</b>	11.1	10.3	11.1	11.1	10.6	9.2	8.5	8.3	11.3	18.0	20.1
<b>France</b>	9.0	8.3	8.6	9.0	9.3	9.3	9.2	8.4	7.8	9.5	9.7
<b>Italy</b>	10.1	9.1	8.6	8.4	8.0	7.7	6.8	6.1	6.7	7.8	8.4
<b>Cyprus</b>	4.9	3.8	3.6	4.1	4.7	5.3	4.6	4.0	3.6	5.3	6.5
<b>Latvia</b>	13.7	12.9	12.2	10.5	10.4	8.9	6.8	6.0	7.5	17.1	18.7
<b>Lithuania</b>	16.4	16.5	13.5	12.5	11.4	8.3	5.6	4.3	5.8	13.7	17.8
<b>Luxembourg</b>	2.2	1.9	2.6	3.8	5.0	4.6	4.6	4.2	4.9	5.1	4.5
<b>Hungary</b>	6.4	5.7	5.8	5.9	6.1	7.2	7.5	7.4	7.8	10.0	11.2
<b>Malta</b>	6.7	7.6	7.5	7.6	7.4	7.2	7.1	6.4	5.9	7.0	6.8
<b>Netherlands</b>	3.1	2.5	3.1	4.2	5.1	5.3	4.4	3.6	3.1	3.7	4.5
<b>Austria</b>	3.6	3.6	4.2	4.3	4.9	5.2	4.8	4.4	3.8	4.8	4.4
<b>Poland</b>	16.1	18.3	20.0	19.7	19.0	17.8	13.9	9.6	7.1	8.2	9.6
<b>Portugal</b>	4.0	4.1	5.1	6.4	6.7	7.7	7.8	8.1	7.7	9.6	11.0
<b>Romania</b>	7.3	6.8	8.6	7.0	8.1	7.2	7.3	6.4	5.8	6.9	7.3
<b>Slovenia</b>	6.7	6.2	6.3	6.7	6.3	6.5	6.0	4.9	4.4	5.9	7.3
<b>Slovakia</b>	18.8	19.3	18.7	17.6	18.2	16.3	13.4	11.1	9.5	12.0	14.4
<b>Finland</b>	9.8	9.1	9.1	9.0	8.8	8.4	7.7	6.9	6.4	8.2	8.4
<b>Sweden (1)</b>	5.6	5.8	6.0	6.6	7.4	7.7	7.1	6.1	6.2	8.3	8.4
<b>United Kingdom</b>	5.4	5.0	5.1	5.0	4.7	4.8	5.4	5.3	5.6	7.6	7.8
<b>Croatia</b>	:	:	14.8	14.2	13.7	12.7	11.2	9.6	8.4	9.1	11.8
<b>Turkey</b>	:	:	:	:	:	9.2	8.7	8.8	9.7	12.5	10.7
<b>Norway</b>	3.2	3.4	3.7	4.2	4.3	4.5	3.4	2.5	2.5	3.1	3.5
<b>Japan</b>	4.7	5.0	5.4	5.3	4.7	4.4	4.1	3.9	4.0	5.1	5.1
<b>United States</b>	4.0	4.8	5.8	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6

(1) Break in series, 2001.

Source: Eurostat (une\_rt\_a)

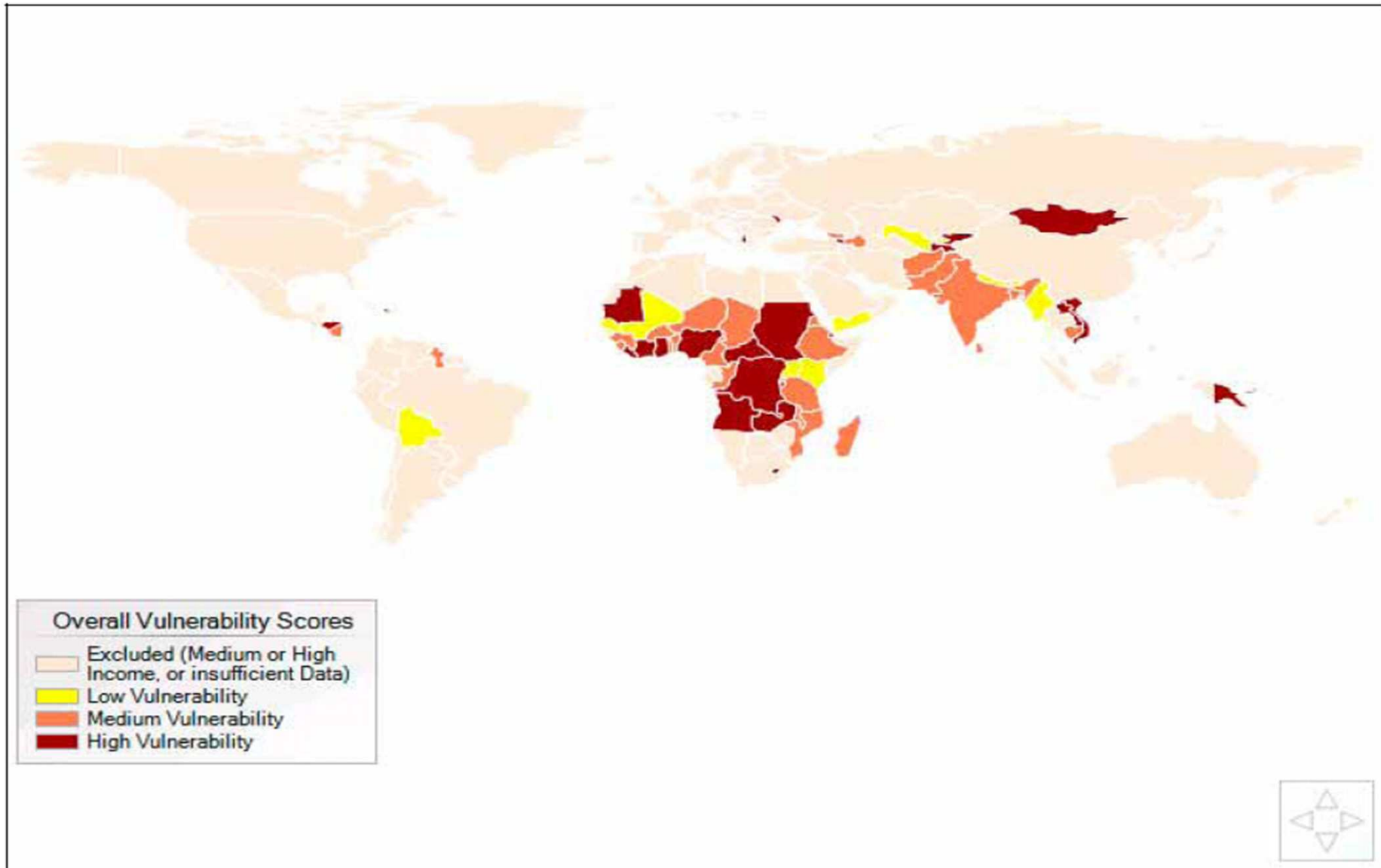
# Youth unemployment rates – EU.



# The financial crisis and Africa: African vulnerability much higher

- African vulnerability is high because export–GDP measures are much higher than the average of the same measures for industrialized economies
- Initially, the hypothesis was that Africa will be protected against the crisis b/c of its low integration into the global financial system.
- But, the analysis in 2009 was different: Africa's econs growth, est. at 4.8% in 2008, fell to about 2,8% in 2009 (AfDB, 2009) e.g of Botswana.

Figure 2: Overall Country Vulnerabilities<sup>1</sup>



Source: Economist Intelligent Unit (EIU), 2008

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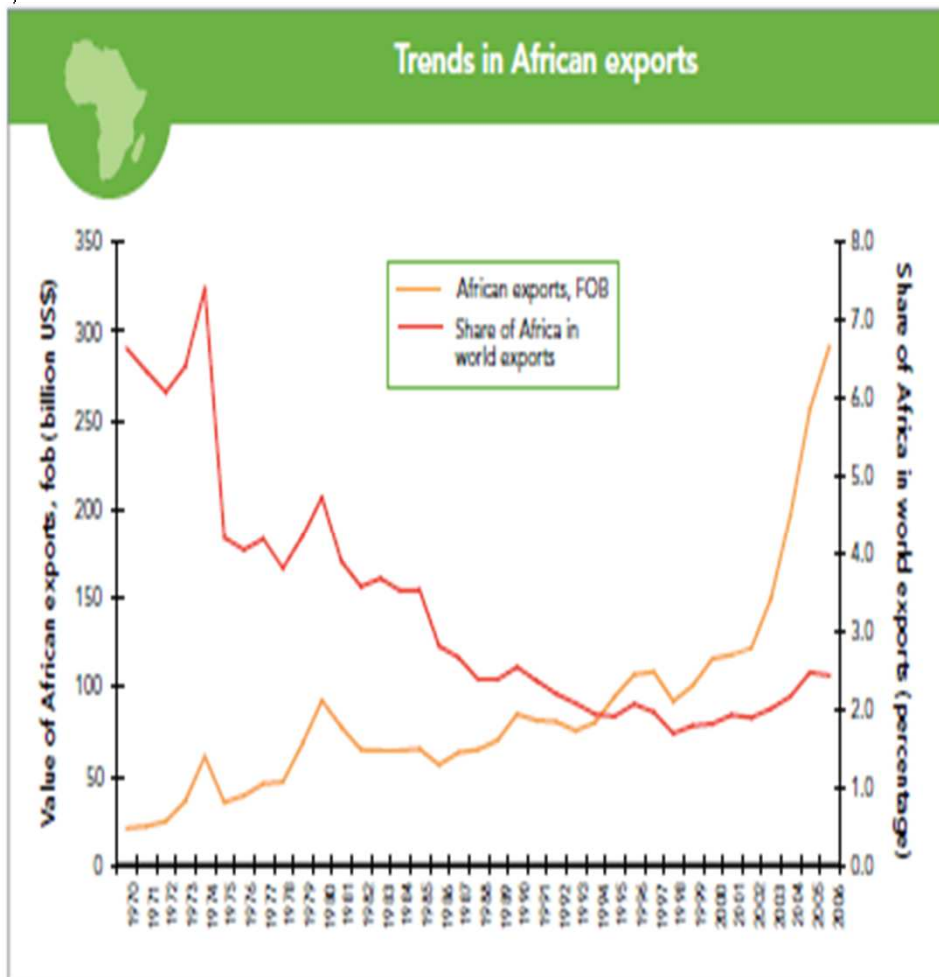
Proof is that Africa is more integrated than before with the world economy through trade, FDI, and remittances.



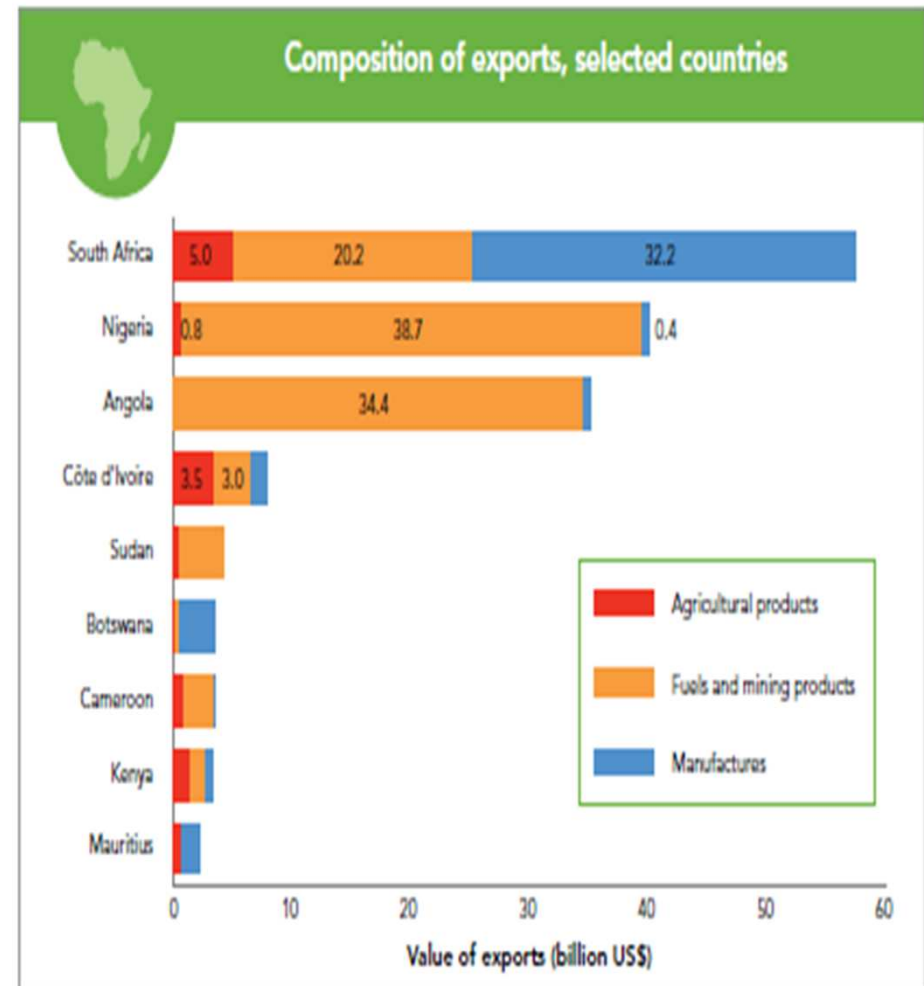
# Trade-related transmission channels

- volatile commodity prices,
- export-driven investment that distorts economies and societies,
- infrastructure and debt sustainability,
- macroeconomic imbalances,
- exchange rate fluctuation,
- trade finance, and credit for export-oriented production

Crisis preceded by a trade boom in Africa:  
 However, it failed to lay strong foundations for  
 financial stability and capital accumulation

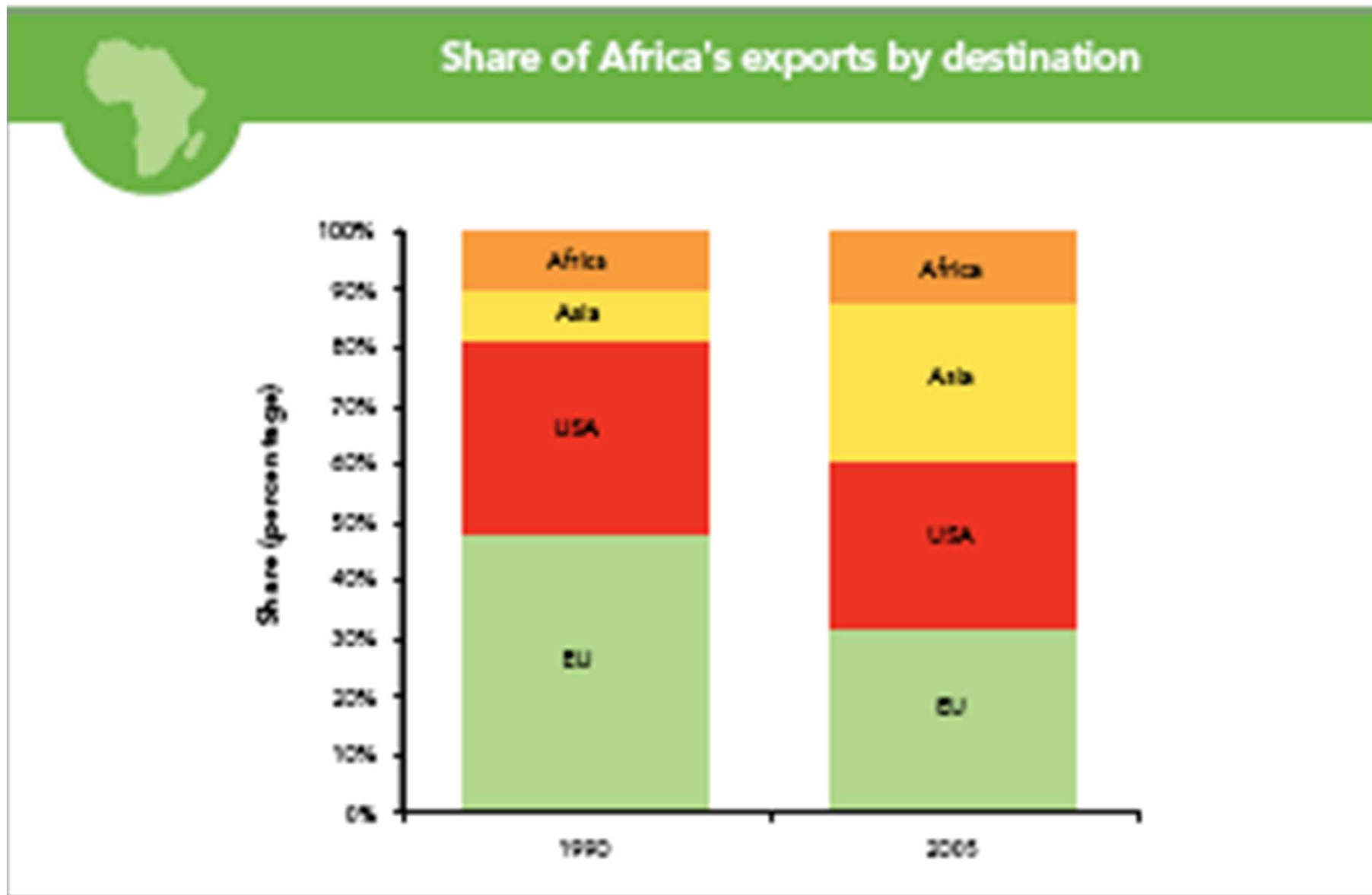


Source: IMF, 2007.



Source: WTO Statistics Database, 2008.

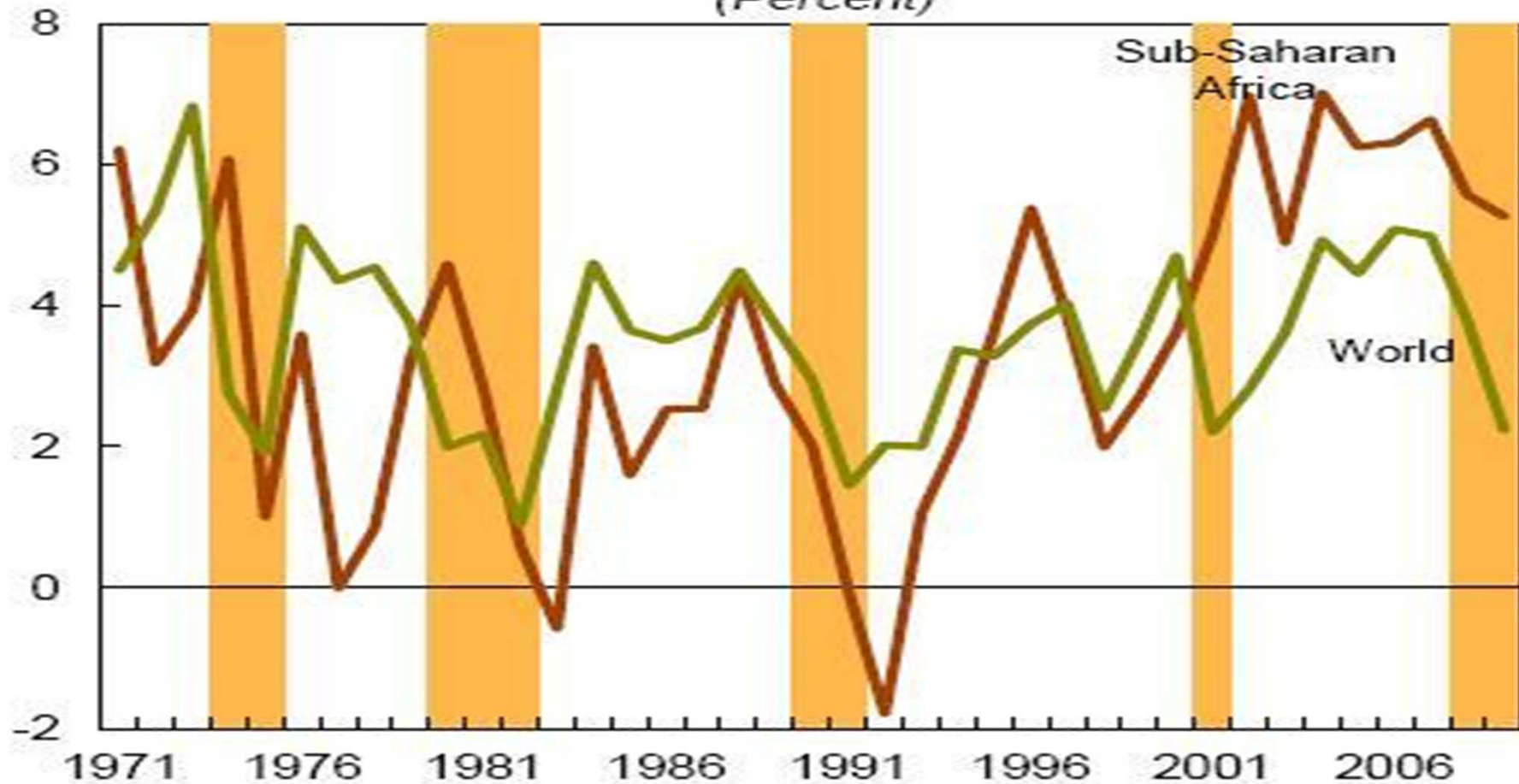
# Exports: Asia a growing partner



Source: World Bank, 2006.

# Pre-financial crisis Africa

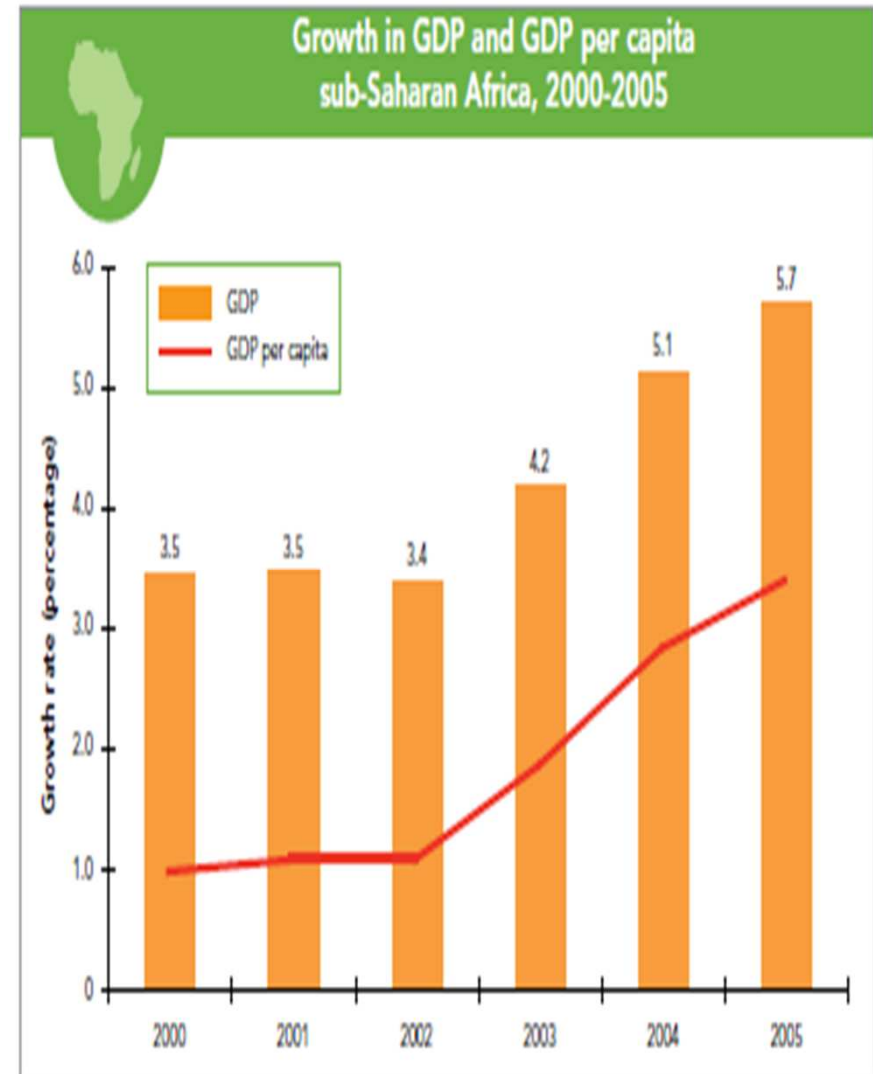
**Sub-Saharan Africa and the World: Real GDP Growth<sup>1</sup>**  
(Percent)



Source: IMF, *World Economic Outlook*.

# African fears as the crisis unfolds

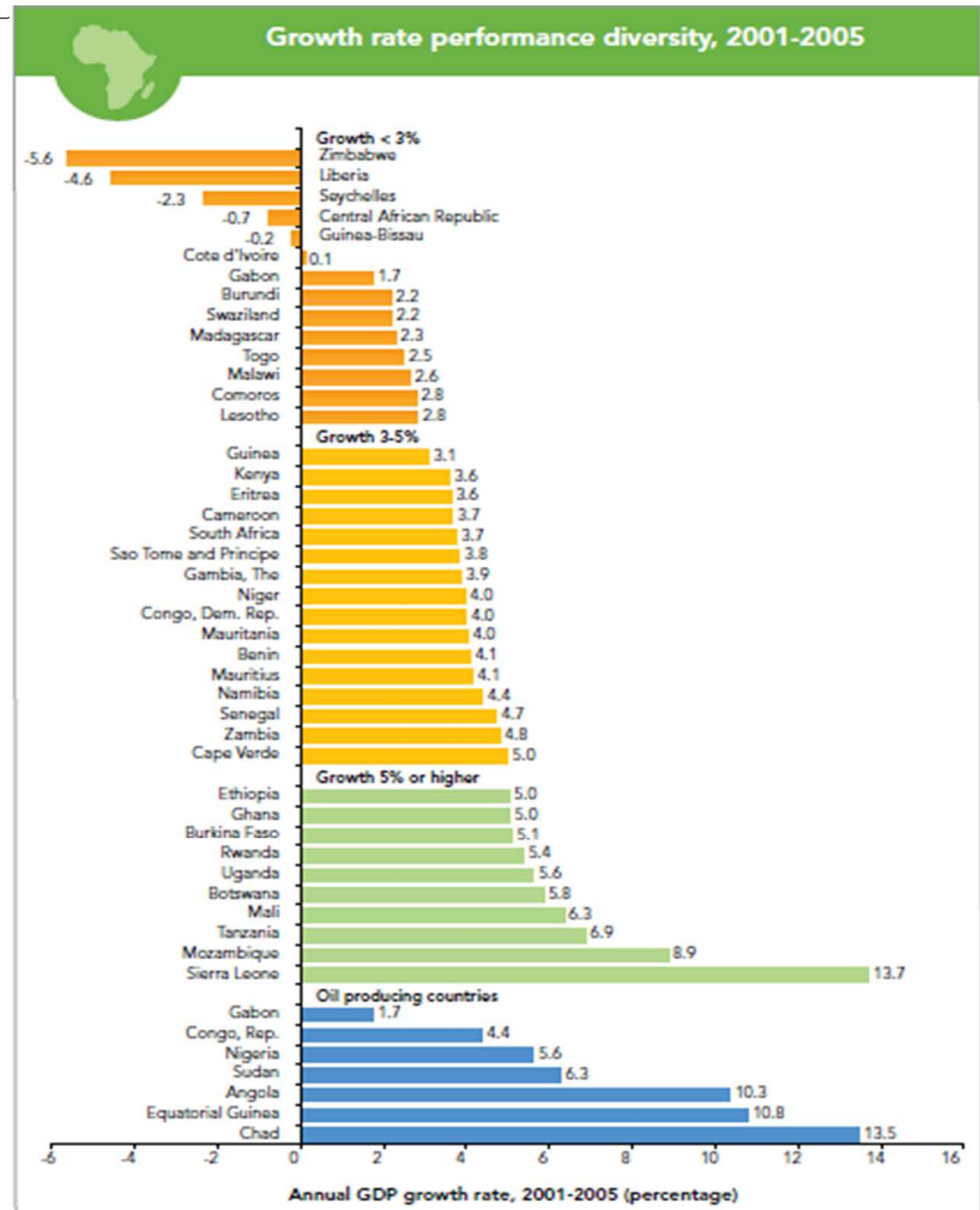
- Financial Crises risk undermine hope for growth resurgence, about 5.8% average growth rate in the 5 years prior to crisis.
- Drivers of Growth: ↑ global dd for commodities, economic reform, ↑ private capital flows and debt relief through the HIPC initiative.
- A combination of a favourable business env` t attracted increasing amounts of foreign capital, with FDI rising by 16.8% in 2008
- New discoveries of oil – Ghana



Source: World Development Indicators 2007.

## Diversity in growth: even for agric economies

From 2001 to 2005, 10 non-oil producing countries like Burkina, Ethiopia, mali, Uganda, and tanzania have registered GDP growth rates of above 5%.



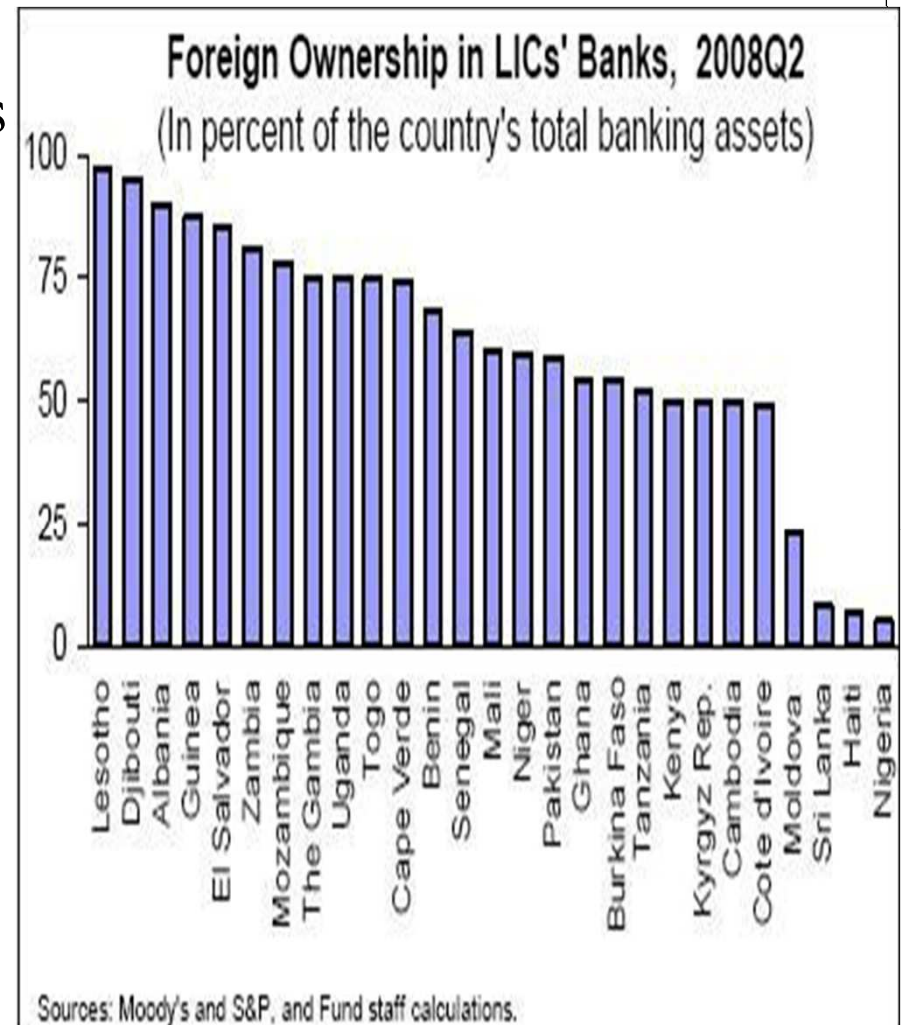
Source: World Development Indicators 2007.

# Implications for Africa: Through Trade-related channels

- Eco crisis to reverse best decade of growth for Africa, 13 African countries most vulnerable, recovery kicked-in in 2010.
- ↓ in capital flows to Africa,
- ↓ in private finance to Africa,
- ↓ credit from banks,
- ↓ export dd, ↓ commodity prices,
- ↓ in investment flows,
- ↓ in tourism revenue,
- ↓ in remittances from Africans abroad.

# 1. Capital (income) flows to Africa and banks

- Private finance to developing countries to fall by 20% in 2009, cutting funds to \$US500bn (IMF,2009)
- SSA highest foreign-owned banks in the world, their ability to response to FC is limited
- Increasing outflows of capital.





## 2. Commodity trade (Cocoa, coffee, Tea, bananas etc)

- Africa still highly dependent on commodity exports
- Ag = 34% of the GDP of WA (UNECA, 2007), largest employer.
- Terms of trade deteriorated, reflecting the sharp drop in commodity prices

## Responses failed to address trade-related issues

- As measures for the recovery took hold, state policy tended to neglect trade problems. These include:
- Market access,
- Halting protectionism,
- WTO's controversial 2001 Doha Agenda,
- The lack of meaningful reforms to internal and external financial structures that support trade.

# The Responses: G-20

- Unprecedented **unilateral** and coordinated **multilateral response** to the crisis at national, regional & global levels.
- **Bank bail-outs**
- **Stimulus packages**
- The G-20 - forum -
  - Washington Sept 2008
  - London, April 2009
  - Pittsburg, sept 2009

## Government Support, Including Guarantees, to Banks, 2008–09, Europe.

*(Percent of GDP; as of April 15, 2009)*

Less than 0.5%

5-20%

More than 50%



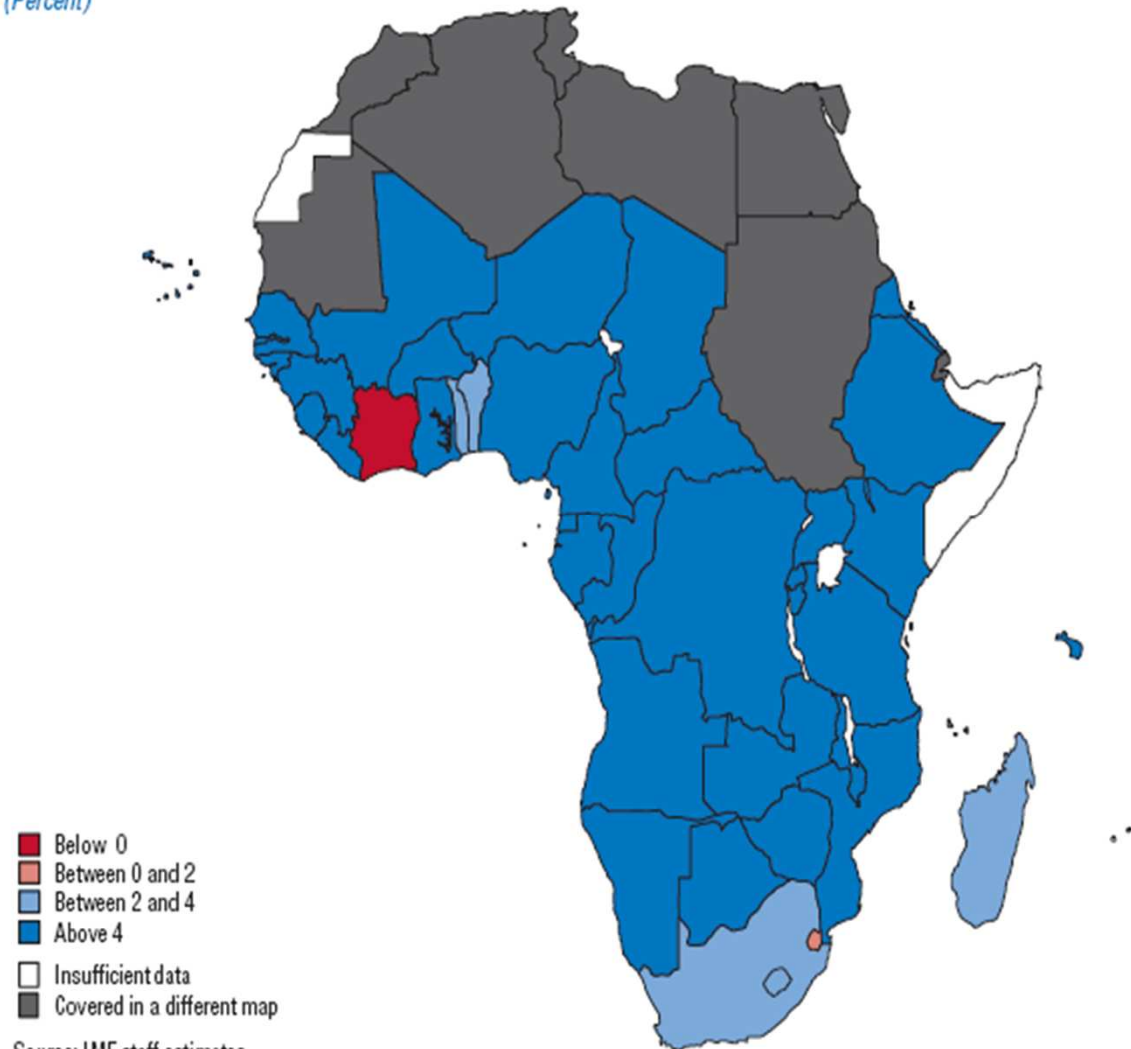
# The current financial crisis and Africa

*The EU is expected to grow at 0.7 per cent in 2012, and the euro area at a mere 0.4 per cent.*

*Even with the lacklustre global backdrop, Africa's economic outlook is quite positive, with growth of 5.1 per cent expected in 2012.*

*Source: UNECA 2012*

**Figure 2.13. Sub-Saharan Africa: Average Projected Real GDP Growth during 2011–12 (Percent)**



Source: IMF staff estimates.

## Taking advantage of the crisis: strengthen trade

- Africa has been growing at an average of over 5% per annum since the turn of the Millennium, there is a realization that trade, especially intra-Africa trade, which is a paltry 12% of its overall trade, can further boost growth and ultimately development.
- Strengthen advocacy for trade, at the national level and continental level, trade needs to be brought back to the centre of the development agenda.

1) Main trade characteristics and constraints in Africa today

- Low share of African exports in total world exports (in %)

2000	2010
2.3	3.0

Source: COMTRADE 2010

1) Main trade characteristics and constraints in Africa today - cont'd

- Low share of intra-trade for Africa as compared to other regions  
(in %)

	2009
Intra-European trade	72
Intra-Asian trade	52
Intra-North American trade	48
Intra-South and Central American trade	26
<b>Intra-African trade</b>	<b>11</b>

Source: 2010 International Trade Statistics of the World Trade Organization



# Trade agreements in Africa



Source: Ernst & young 2011

# South Africa's leading trade partners:

Regional trade trends improving

TOP 10 EXPORT DESTINATIONS: 2006		ZAR (bn)	TOP 10 EXPORT DESTINATIONS: 2010		ZAR (bn)
1	Japan	40.90	1	China	58.50
2	United States	40.30	2	United States	51.30
3	United Kingdom	31.30	3	Japan	46.30
4	Germany	26.30	4	Germany	42.50
5	Netherlands	17.30	5	United Kingdom	26.10
6	China	13.60	6	India	22.20
7	Switzerland	10.20	7	Netherlands	17.10
8	Spain	9.90	8	Switzerland	16.70
9	Belgium	9.90	9	Zimbabwe	14.90
10	Italy	9.30	10	Mozambique	13.70

Source: Department of Trade and Industry, SA , 2011

1) Main trade characteristics and constraints in Africa today - cont'd

- High concentration of African exports in primary products (in %)

Agricultural and food products	9.4
Primary products	36.3
Other industrial products	35.4
Services	18.9

Source: UNECA 2011

1) Main trade characteristics and constraints in Africa today - cont'd

- High non-tariff barriers to trade within the continent

	Average Time to Export*	Average Time to import*
OECD high income	10.5 days	10.7 days
Latin America & Caribbean	17.8 days	19.6 days
Middle East & North Africa	19.7 days	23.6 days
East Asia & Pacific	21.9 days	23.0 days
Eastern Europe & Central Asia	27.0 days	28.8 days
<b>Sub-Saharan Africa</b>	<b>31.5 days</b>	<b>37.1 days</b>

*\*Average time for inland transport + customs procedures + port handling*

*Source: World Bank Doing Business, Trading Across Borders 2012*

# Some trade policy recommendations

- **Continental Free Trade Area** - an Action Plan agreed at the AU Summit in January 2012 to boost intra-African trade to be established in 2017 is good for growth and boosting development
- The need to have **coherence of trade** at the regional level in order to help advance regional integration and overcome the effects of Africa's trade asymmetries.
- **Reduce non-tariff barriers and improve trade infrastructure:**
  - reduce high transaction cost associated with moving goods across borders,
  - improving weak infrastructure,
  - improving institutional policies
  - abolition of road blocks; use of one-stop border posts;
  - harmonization of rules of origin to simplify compliance and transactions costs.
- **Trade diversification** in a broader range of better quality goods and in that regard, they need an understanding of their productive resources, entrepreneurial capabilities and productive linkages.

Thank you!!!

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