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Global Financial Crisis, African Trade and the Revival of African Economies

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ABSTRACT

The current crisis which began as a bursting of the U.S. housing market bubble has ballooned into a global financial and economic crisis, leading to the most severe global recession since the Great Depression of the 1930s. The crisis spilled further from the financial sector to the real economy, affecting economic, social, development, health, educational, agricultural, manufacturing and service sectors of different economies, including the already fragile 54 African economies, with its five regions (West, East, Central, South and North Africa) and less effective 13 Regional Economic Communities (RECs). In all cases, the crisis has swept away firms, jobs, revenues, and livelihoods in varying degrees. This paper, therefore, assessed the impact of the global financial crisis on African trade, in general, and African economies, in particular, with a view to identifying effective ways by which African economies can be revived to wax stronger, as well as, make significant contribution to the world economy. This paper used documentary data from the websites/databases of the International Monetary Fund (IMF), United States Department of Commerce, Organization for Economic Cooperation and Development (OECD), IMF Sub-Saharan Africa Regional Economic Outlook, Economic Commission for Africa (ECA) and African Development Bank (AfDB). The method is deemed suitable especially to enable assessment of the impact of the global financial crises on African trade by comparing pre-financial crisis, during financial crisis and after financial crisis economic and trade indicators of Africa. The data obtained were analyzed using inferential statistics. The paper finds that the global financial and economic crisis has had significant adverse effect on African economies, reducing economic growth for the region in 2009 by about 4 percentage points compared to the annual average growth rate for the period 2000–2007. Admittedly, some African countries responded effectively to the current crisis, thereby minimizing the potential adverse effects on the region. The paper concludes that even if the global economy is to rebound at the expected pace, the recovery of African economies might be gradual, as the full resumption of private capital and trade flows might lag behind the global recovery. Thus it recommends for increase trade between countries and the creation of regional organization like the World Trade Organization (WTO), which can help to define trade policy in the region, as well as the creation of three financial organizations, namely African Central Bank, African Investment Bank and African Monetary Fund to supplement considerable assistance of African Development Bank, which in turn will help to tackle future challenge.

Introduction

Africa is the second largest continent in the World. Africa's massive land mass of 30.3 million km2 makes it larger than the combination of China (9.6 million km²), the US (9.4 million km²), Western Europe (4.9 million km²), India (3.2 million km²), Argentina (2.8 million km²), and a number of other smaller countries. The continent consists of 54 countries with the population of over 900 million people (Kumo 2009). However, sadly, Africa's share in global wealth is insignificant. The combined GDP of the continent in 2007 was US$1.15 trillion (US $2.57 trillion based on Purchasing Power Parity (PPP)). This compares with the combined World GDP of US$65.6 trillion (PPP) and that of China US$6.99 trillion (PPP) in 2007. Africa's share in world trade is also minimal. This has declined further since recently following the global economic down turn. Africa's share in World trade fell to 3% in 2008 (Kumo 2009). Africa's share in global wealth (GDP) is less than 4% while its share in global population is nearly 16%. Africa's dismal economic performance has puzzled many analysts. Some emphasize historical factors such as slave trade, colonialism and its legacies, and geographical features as the root causes of Africa's development disaster (Kumo 2009).

The term financial crisis may be applied broadly to a variety of situations in which some financial institutions or banks suddenly lose a large part of their value, thereby bringing untold hardship to their stakeholders. In the view of Eichengreen and Portes (1987:10) "financial crisis is a disturbance of the financial markets characterizes by the fall in prices of credits and by the insolvency of debtors and intermediaries which is diffused by ramification in the financial system, destroying the capacity of markets to effectively affect the capital in the economy". Against this backdrop, it is worthy to stress that financial crises are the failures of banks, financial intermediaries, financial institutions and financial markets.

The current global financial and economic crisis has been described as the worst economic setback since the Great Depression of 1929-32 (McCarthy 2009). It has trapped up to 53 million more people in poverty in developing countries (Te-Velde 2008), and caused more businesses winding-up (Fosu and Naudé 2009) with increase in unemployment rate. It has exposed weaknesses in the functioning of the global economy and led to calls for the reform of the international financial planning. Africa's underdeveloped financial systems and relatively limited links to the global economy have not insulated the continent from the impacts of the financial crisis. The global financial crisis is impacting African economies in a variety of ways. The most significant are the decline in export prices and volumes. Largely as a result of falling prices and demand for their commodities, many countries have experienced sharp drops in primary commodity exports (Ali 2009). The impact of the financial crisis has been transmitted to African economies not through the credit crunches and liquidity freezes that are currently strangling advanced and emerging economies, but rather through the global recession that followed (Ali 2009). Financial crisis and economic crisis thus appear closely dependent, although the former is broader since it gathers all the financial accidents likely to extend to the global financial system and the whole economy. Against this backdrop, Ndambendia, Nkendah and Njoupouognigni (2010) find that real and financial sectors of Sub Saharan Africa (SSA) has been negatively affected by the crisis with consequences on economic activities and living conditions on households in the region.

Over the past decade, African economies have experienced many ups and downs, perhaps more than any economy of the world. African countries have witnessed years of pessimism, years of optimism and years of uncertainties. However, many African countries in the last decade experienced increased in economic activities in the areas of telecommunications, infrastructure, financial services, agriculture, trade, administration and social services. In addition, a number of countries have seen relative political stability, ushering in a new regime of relative peace and democratic stability, thereby attracting greater investment. However, the recent contraction in world trade in general and African trade in particular, clearly shows that trade was one of the casualties of the global financial crisis. African economies mostly do not have fully developed financial systems and are less integrated into the global financial market, hence the initial expectation in some circles that these economies would be isolated from the contagion of the crisis. International trade and capital flows serve as a transmission mechanism which clealy show that de-coupling between the developed and developing world may not be possible. There current crisis has established the practical utility of the Keynesian school of though over the Classical in economic management, and the greater "invisibility" of the invisible hands of the market. In the 1980s and 1990s, many countries in Africa adopted sweeping economic reforms that reduced the role of the State in the economy. This was rationalized on the grounds that the public sector was inefficient compared to the private sector and that markets were self-regulating and could ensure that output growth was close to potential. The current crisis has shown that these assertions have serious limitations and that the State has an important role to play in economic development. In particular, it has shown that, although the market mechanism provides a vital framework for economic activities, governments must provide appropriate oversight (UNCTAD 2010).

A number of academic research attempt to find the impact of the global financial crisis on Africa (Ali 2009; McCarthy 2009; Weiss and Jones 2009; AEO 2010; Arieff, Obayelu 2010), and its transmission mechanism (Ndambendia, Nkendah and Njoupouognigni 2010). Others have attempted to find the root causes of African underdevelopment and opportunities for revival (Kumo 2009). This is explained by the multi-faced implications of the global financial crisis on the African economy in particular and the world economy at large. This paper, therefore, prioritize investigation of the impact of the crisis on world trade and its resultant consequences on African trade with a view to suggesting effective strategies of reviving African economies. Precisely, this paper seeks to investigate the impact of the crisis on the real sector of the African economies with a view to suggestion effective strategies for reviving African economies and minimizing future occurrence.

The paper reviews the ongoing discussions in the context of African economies and examines the impact of the global financial crisis on the real sector of African economies. The motivation underlying the focus on the impact of the crisis on trade and real sector of the African economies is rooted in previous academic literature, which, in this case, mainly focused on the impact of the crisis on African economies. To this point, issues connected to trade and revival of the African economies remains relatively under-researched. However, it is belief that these issues are also important, especially in view of the need to revive the African economies, most of which heavily depend on trade for survival, as the crisis, presents significant economic and social development challenges for African countries, governments, central banks and academic researchers worldwide.

The objective of this paper, therefore, is to assess the impact of the global financial crisis on African trade, in particular and African economies, in general, with a view to identifying effective ways by which African economies can be revived to wax stronger, as well as, make significant contributions to the world economy. Specifically, the study seek answers to the following questions: To what extent has the contraction in world trade as a result of the global financial crisis affected African economies? What are the variations in the impact of the crisis on various African economies? How is Africa to reposition itself to take care of the major economic challenges emanating of the current crisis? And, what do African countries need to do in order to revive their economies?

The rest of this paper is structure as follows. The next section presents the review of the related literature on the subject matter of the study. Then, the third section presents the methodological issues of the paper. Chapter four contains the results and discussions of the data generated for the study. While section five present conclusion and recommendations of the paper.

Literature Review

Financial crises are recurring and very old phenomenon. The current financial crisis is not the first and will not be the last notwithstanding the combined efforts of regulators. Economists agree to recognize today that effective financial system is an essential factor that can foster economic growth. The term financial crisis may be applied broadly to a variety of situations in which some financial institutions or banks suddenly lose a large part of their value, thereby bringing untold hardship to their stakeholders. In the view of Eichengreen and Portes (1987:10) “financial crisis is a disturbance of the financial markets characterizes by the fall in prices of credits and by the insolvency of debtors and intermediaries which is diffused by ramification in the financial system, destroying the capacity of markets to effectively affect the capital in the economy”. Against this backdrop, it is worthy to stress that financial crises are the failures of banks, financial intermediaries, financial institutions and financial market.

The academic literature contain a number of banking and financial crises since the great depression of 1929 and most of the crises including the present one shared some common feature of starting through a hasty process of financial sector reforms (Olivie 2009). The present crisis however differs from the previous ones in that, it broke out from the world most advanced economy, the USA and its effect spread very quickly to the entire globe than other crises. It is also characterized by a range of policy errors in the financial sector governance (Bilal, Draper and Te-Velde 2009). Contrary to the previous crises, where economies recovered quickly with a lot of employment in response to continued demand, the present crisis is marked by collapse in global aggregate demand making it difficult for industries to survive (Alberdi 2009). In addition, the present global financial crisis follows the footsteps of the food and energy crises and of the challenges posed by the impact of climate change where hundreds of millions of people all over the world are finding it difficult to survive (Alberdi 2009).

The current global financial crisis was ignited in the financial markets of the United States, spread to Europe and gradually spilled over to the entire parts of the world (Ali 2009; McCarthy 2009; Arieff, Weiss and Jones 2010; AEO 2010). Thereafter, it spilled further from the financial sector to the real economy, affecting economic, social, development, health, educational, agricultural, manufacturing and service sectors of different economies of the world (Ndambendia, Nkendah and Njoupouognigni 2010; Obayelu 2010). The crisis spread around the globe through various channels, namely shrinkage in global trade, a drop in investment, falling remittances from overseas workers, reduction in foreign aid, sharp adjustment of the commodity prices resulting to lower demand for raw materials, lower capital inflows and worsening of external debt indicators (Arieff, Weiss and Jones 2009; Ndambendia, Nkendah and Njoupouognigni 2010), thereby exercabarting pressures on financial institutions around the world to raise capital and withdraw funds to maintain liquidity (McCarthy 2009; UNCTAD 2009b). In other words, the factors that are responsible for the present crisis have widely been analyzed and dissected by researchers, finding that is caused by a complex mixture of interrelated factors (Felton and Reinhart 2008; Eichengreen, Mody, Nedeljkovic and Sarno 2009). The present crisis is characterized by lack of transparency and financial integrity which have resulted in excessive risk-taking; unsustainably high asset prices, irresponsible leveraging, and high levels of consumption that is fuelled by easy credit and inflated asset prices (Mshana 2009).

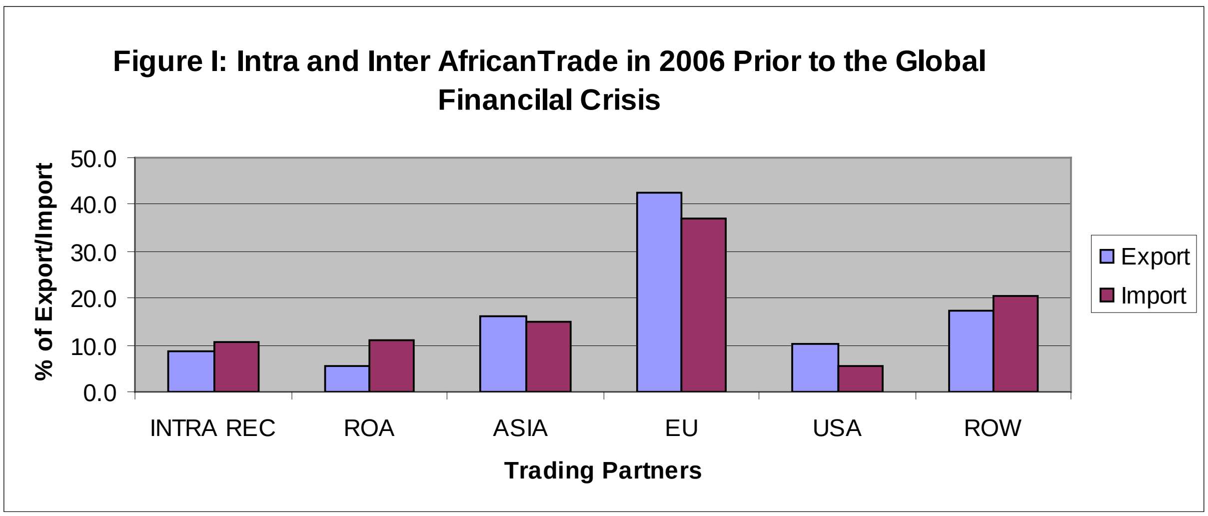
The African continent has been trading with the outside world (mostly the developed world) in large volumes since the turn of the 20th century; however formal intra-African trade has remained at a very low level compared to the continents trade with the outside world, constituting not more than 10 percent of total annual trade RECs on the average coordinated trade at regional level would help countries to face future crises. In fact, increasing trade between countries will save region to eventual external shocks. Furthermore, trade between oil importers and oil exporters in the region will help both parts to solve specific problem they face such as slump or rise in oil price and dependency on one product which might create “Dutch disease”. Trade in Africa in 2006 prior to the 2008 global financial crisis is as shown on table 1 and figure I.

Table 1: African RECs and Intra/Inter Africa Trade (% of the RECs Total Exports/Imports)

S/N	REC	INTRA REC		REST OF AFRICA (ROA)		ASIA (Including China)		EUROPEAN UNION (EU)		USA		REST OF THE WORLD (ROW)	
		Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp
1	CEMAC	0.9	5.2	2.7	8.9	23.1	6.9	36.1	52.4	28.9	13.1	8.2	13.5
2	CENSAD	12.2	13.0	4.5	6.4	18.9	16.4	35.5	39.1	8.7	4.9	20.2	20.2
3	CEPGL	2.7	1.6	4.7	35.5	17.6	8.3	39.8	33.5	7.0	4.1	28.2	17.1
4	COMESA	8.7	11.1	8.6	17.2	12.6	16.8	41.5	26.3	8.1	4.7	20.5	23.9
5	EAC	12.6	18.7	7.2	9.9	17.3	15.2	30.4	24.5	3.7	4.8	28.8	27.0
6	ECCCAS	0.7	3.8	2.2	14.0	18.8	9.1	42.5	50.6	23.6	10.7	12.3	11.8
7	ECOWAS	13.9	15.8	5.5	5.2	20.7	17.3	40.4	40.7	7.3	4.3	11.7	16.6
8	IGAD	21.5	15.2	5.8	3.6	18.0	21.9	19.9	19.7	2.8	5.0	32.1	34.6
9	IOC	3.0	3.6	1.8	15.1	7.3	21.4	63.8	32.9	16.6	3.0	7.5	23.9
10	MRU	0.4	1.3	3.9	9.4	7.8	25.2	68.7	38.7	6.5	4.5	12.6	20.9
11	SADC	19.9	33.1	2.3	2.6	12.2	14.2	40.7	25.2	9.4	5.4	15.5	19.6
12	UEMOA	11.5	14.9	18.6	13.7	30.8	12.9	25.2	40.3	3.0	3.0	11.0	15.1
13	UMA	2.5	3.1	4.5	1.7	3.0	9.0	70.4	60.3	5.1	3.9	15.9	22.0
	Average	8.5	10.8	5.6	11.0	16.0	15.0	42.7	37.2	10.1	5.5	17.3	20.5

Source: ECA, compiled from IMF DOT 2006 In:Geda 2009

KEY:
Economic and Monetary Community of Central Africa (CEMAC)
Community of Sahel-Saharan States (CENSAD)
Economic Community of the Great Lakes Countries (CEPGL)
Common Market for Eastern and Southern Africa (COMESA)
East African Community (EAC)
Economic Community of Central African States (ECCAS/CEEAC)
Economic Community of West African States (ECOWAS)
Intergovernmental Authority on Development (IGAD)
Indian Ocean Commission (IOC)
Mano River Union (MRU)
Southern African Development Community (SADC)
West African Economic and Monetary Union (UEMOA)
Arab Maghreb Union (AMU/UMA)



Source: Developed by the Author from ECA, compiled from IMF DOT 2006 In: Geda 2009

Table 1 and figure I show the level of trade in Africa between and among the 13 Regional Economic Communities (RECs) and the rest of the world in 2006, prior to the 2008 global financial crisis. As depicted by table 1 and figure I, the percentage of intra-African REC trade, and intra-African trade in 2006 were very negligible, with which equal to only the percentage of trade between Africa and the United States of America (USA). The insignificance of intra-African trade even becomes more vividly clear when comparison is made between African trade with Asia, European Union and the Rest of the world. Impliedly, with this pattern of trade in 2006, one would expect that any economic or financial crisis emanating from other parts of the world, more especially the USA (the largest single trading partner with Africa), would have repercussion on African trade in particular, and the entire African economies, at large.

At the beginning of the crisis, the financial system of Sub-Saharan Africa countries seemed to be safe. This stability stem largely from several factors: weak integration to the global financial system, weak exposure to the complex financial instruments, high banking liquidity, weak dependency to the external financing and low getting into debt of financial institutions. As the crisis spreads across the global economy, the effects on Sub-Saharan Africa financial system become more severe through the contraction of credit, higher cost of credit due to difficult access of financing by financial institutions in the region. Natural linkage between financial assets of banks and their parents overseas could lead to increase the risk of investors if parents are going to be bankrupt. In this section, we present different financial channels through which the ongoing financial crisis has spread over the global economy and financial system in Sub-Saharan Africa countries.

As the rest of the world, African countries incur the effects of financial crisis. But, the channels through which these effects translate into global economy in Africa seem to be different to those of developed countries. The particularity of Sub-Saharan region which is the poorest in the world proves the difference of transmission channels of financial crisis between countries of the region and the rest of the world. Therefore, real channels and financial channels can be considered as the main channels through which global financial turmoil affects African economies. The important bailout in developed countries to sustain financial sector which is the support of real economy seems not to reduce the effects of the crisis on African economies as expected. Real channels through which Sub-Saharan Africa economies are affected concern primary industry, secondary production, service industry, external sector (exports and imports), foreign aid and public finance (Ndambendia, Nkendah and Njoupouognigni 2010). In spite of marginal contribution of SSA countries' financial system in international finance, any shock on this latter can affect global economy as well as African economy through some real channels. Thus, the effects of financial crisis on real economy are indirect.

Methodology

This paper used documentary data from the websites/databases of the International Monetary Fund (IMF), United States Department of Commerce, Organization for Economic Cooperation and Development (OECD), IMF Sub-Saharan Africa Regional Economic Outlook, Economic Commission for Africa (ECA) and African Development Bank (AfDB). The method is deemed suitable especially to enable assessment of the impact of the global financial crises on African trade by comparing pre-financial crisis, during financial crisis and after financial crisis economic and trade indicators of Africa. The data obtained were analyzed using inferential statistics.

Discussion of Results

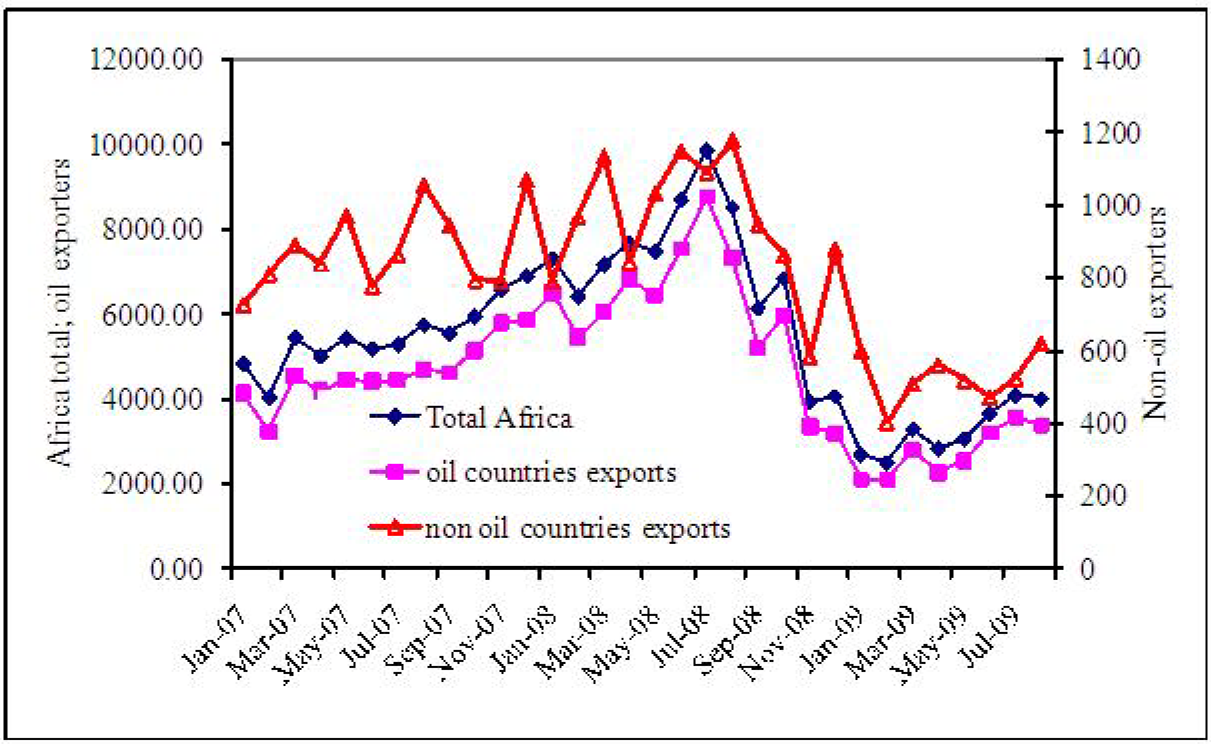
Table 2: African Export to United States of America (1997-2010) in Million US Dollars

Year	Export	Change
1997	11,389.10	--
1998	11,166.80	-222.30
1999	9,880.10	-1,286.70
2000	10,965.90	1,085.80
2001	12,119.30	1,153.40
2002	10,663.10	-1,456.20
2003	10,612.60	-50.50
2004	13,202.10	2,589.50
2005	15,309.50	2,107.40
2006	18,582.80	3,273.30
2007	23,425.80	4,843.00
2008	28,392.70	4,966.90
2009	24,329.50	-4,063.20
2010	20,143.70	-4,185.80

Source: Computed U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, D.C. 20233(www.census.gov/foreign-trade/balance/c0013.html).

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted.

Figure II: African Exports to the US, January 2007-August 2009 ($ million)



Source: US Department of Commerce In: Kandiero and Ndikumana, 2009

Increasing participation in the world economy has been a vital strategy for countries that have developed. It will also be crucial for Africa's development. Africa's relative performance in the global market has reached drastically low levels in the past thirty years. Although total levels of merchandise trade have increased for all African countries, sub-Saharan Africa's share of US trade (an important trading partner to Africa) declined sharply as a result of the global financial crisis from 2007 to 2010. Africa's increased marginalization in the world economy becomes even more apparent. In other words, deteriorating US trade performance means opportunities lost. The World Bank estimates that Africa's decline in trade represents a loss equivalent to $70 billion annually – five times the $13 billion received in aid and 21 percent of GDP. The fall in US demand for African products has especially affected oil exporters namely, Nigeria, Angola, Chad, Equatorial Guinea, Republic of Congo, Gabon, Côte d'Ivoire, Cameroon, and the Democratic Republic of Congo (Kandiero and Ndikumana 2009).

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Table 3a: Middle-Income African Countries' Exports to EU, US, Japan and China, 2008 to 2009 (% change)

Country	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Algeria	47.35	58.23	34.38	-17.76	-25.93	-46.01
Egypt	17.18	27.44	45.53	6.67	-14.58	-39.82
Kenya	25.43	28.76	4.89	-2.25	-13.52	-16.76
Mauritius	-0.08	13.97	-5.25	-4.17	-19.32	-16.76
Morocco	11.09	33.33	26.67	-16.34	-33.47	-38.12
Nigeria	53.40	67.12	50.08	-23.95	-62.67	-57.55
South Africa	23.25	34.89	18.93	-6.62	-35.17	-42.53
Tunisia	31.82	30.49	31.60	-24.58	-30.64	-35.66
United Republic of Tanzania	-13.49	-6.63	6.24	-2.49	-1.64	12.13

Source: ITC calculations based on National Government Statistics In: Kandiero and Ndikumana, 2009

Table 3b: Lower-Income African Countries' Exports to EU, US, Japan and China, 2008 to 2009 (%
change)

	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2
Angola	96.69	120.82	111.79	-6.04	-51.39	-59.38
Burundi	-53.78	-37.35	-51.66	-36.22	128.46	94.53
Cape Verde	58.56	-26.15	178.45	-9.07	-21.36	1.46
Ethiopia	-3.71	29.44	26.57	19.74	14.18	8.26
Rwanda	-3.77	4.65	43.04	30.21	12.76	-5.49
Seychelles	-4.28	25.75	29.40	-11.81	0.07	-17.63
Sierra Leone	-10.02	-19.05	-15.14	-18.11	-26.78	-17.64
Uganda	58.33	30.23	25.32	9.32	-24.76	-14.75

Source: ITC calculations based on National Government Statistics In: Kandiero and Ndikumana, 2009

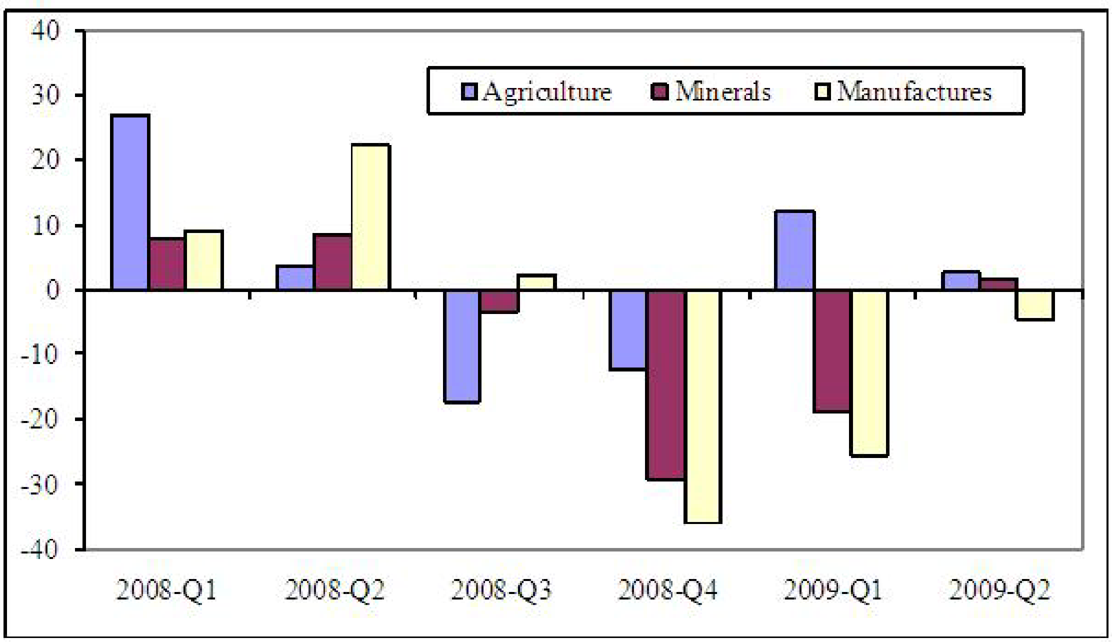
Table 3a presents the trends in exports from middle-income African countries to the main global markets (European Union, US, Japan and China), indicating that Algeria, Egypt, Morocco, Nigeria and South Africa experienced the sharpest deterioration in exports, starting in the fourth quarter of 2008, when the impact of the financial crisis on the real sector became evident. South Africa suffered a sharp decline in manufacturing products and precious metals, such as gold and platinum. With the increases in the price of gold and platinum of around 14%

and 19% respectively, in the first quarter of 2009, the sector has started showing signs of early recovery. As an exporter of mainly agricultural products, Tanzania was spared, with an increase in exports of 12.13% in the second quarter of 2009.

For low-income countries the largest contractions were experienced in Angola, Rwanda, the Seychelles, Sierra Leone and Uganda. Table 3b shows that oil importing countries, such as Angola, were hit the most compared to countries that are mainly exporters of agricultural products. Angola's exports (mainly oil) declined by 59.3% in the second quarter of 2009. Countries such as Burundi and, to some extent, Ethiopia, experienced substantial growth in exports during the financial crisis, with exports in the second quarter of 2009 growing at 94.5% and 8.3% respectively.

Figure II shows that the impact on African exports becomes evident as global markets entered a recession in 2008 Q3. Not surprisingly, manufactured goods from Africa contracted by 36% as consumers' demand shrunk, due to declining incomes and expectations of a worsening global economic condition. Likewise, mining exports also followed with a decline of 25%. The impact lessens in the second quarter of 2009, with mineral exports showing resilience as the price started to rebound for key products such as oil and gold. The agricultural sector was the least directly affected by the financial crisis.

Figure III: Exports of African Countries to Major Global Markets



Source: ITC calculations based on National Government Statistics In: Kandiero and Ndikumana, 2009

The global economic crisis brought to a sudden end a period of relatively high economic growth in Africa. Economic growth was slashed from an average of about 6% over the period 2006-08 to 2.5% in 2009 with per capita Gross Domestic Product (GDP) growth coming to a near standstill, while poverty and unemployment, especially among the youth, escalated. The global crisis of 2009 had its strongest effect on Southern Africa, where growth was slashed (from the average over the preceding three years) by almost 8 percentage points to negative growth of around 1%. East Africa and North Africa proved to be the most resilient regions.

While in most African countries GDP continued to grow in 2009, albeit at a lower rate, in 10 of the 50 African countries covered in the AEO 2010, output declined. In half of the countries, per capita GDP stagnated or fell (AEO 2010).

Manifestly, Sub-Saharan Africa economies are affected by the crisis through declining of commodity prices that are the main export products of the region. Recession in car industry and falling of rubber price has affected the exports of some African countries producing that inputs. Concerning the falling of cotton, cocoa, coffee, and wheat prices, situation is similar to that of rubber where the industries in developed countries, which are specialized in the products including those commodities as inputs, facing the effects of financial crisis have reduced their production which affects export revenues in African countries that are exporters of those commodities. As illustration, it has been noted by IMF that weak demand for diamond has heavily affected growth in Botswana. Likewise, the falling of copper price has reduced economic growth in Zambia. Moreover, fall in price have been severe for wheat and rubber. Wheat price has fallen by 36% in the first half of 2009 compared to the same period in 2008. Drop in rubber price has been more pronounced in the same period (46%). By contrast, fall in cocoa and coffee prices follows the same trend but with slight magnitude (Kandiero and Ndikumana 2009). Given the fact that some of Sub-Saharan Africa countries are oil exporters, falling of the oil price has effects on export revenues which affect tax yields and policy investment of government.

Because recent growth in Africa was driven in part by commodity exports to China, Africa is particularly vulnerable to fluctuations in China's economic growth. In 2007, China was the destination for some 13% of Africa's exports and the source of roughly 10% of Africa's imports. These figures represent a long trend of increased Chinese trade and commercial ties with Africa, particularly with countries rich in natural resources. China's trade with Africa greatly increased in recent years; reportedly growing to $74 billion in the first eight months of 2008, a 62% increase over the previous year.47 Even with the impact of the crisis in the second half of 2008, total Sino- African trade for the year was reportedly $106.8 billion, a significant increase from 2007. This trade has spurred Chinese investment in large infrastructure projects in Africa, which in some cases are thought to have helped alleviate constraints on economic competitiveness.

Table 4a: Africa's Real Growth Rate, Inflation and External Debt (2000-2009)

Variable	A 2000-2007 (Annual Average) **Before GFC**	B 2008 **During GFC**	C 2009 **After GFC**	C-A Effect **Before minus After**	C-A/A*100 Effect (%)
Real Growth Rate (%)	5.6	5.18	1.69	-3.91	-70
Inflation (%)	8.3	10.25	9.05	0.75	09
External Debt (% of GDP)	46.2	22.37	25.37	-20.83	-45

Source: Computed from World Economic Outlook Database, International Monetary Fund (IMF), October 2009.

From Table 4a, it can be seen that Africa's real growth rate was 5.6 per cent on the average from 2000-2007 (before the global financial crisis), and declined sharply to 1.69 in 2009 (after the crisis), indicating a decrease in growth rate by about 70 per cen. Similarly, the global financial and economic crisis has had significant adverse effect on inflation rate and external debt of African economies. While inflation increased by 9 per cent from 2007 to 2009, external debt as a percentage of Gross Domestic Product (GDP) decreased by 45 per cent, from 46.2 per cent in 2007 to 25.37 in 2009.

Economic growth is necessary for development even if it is not a perfect indicator of progress (Fosu and Naudé 2009). In the early stage of the financial crisis, there was a widely held view that the impact on African countries would be minimal probably because of their low integration into the global economy. But at present, there is enough evidence of the negative effects of the crisis in the continent. The crisis is posing a serious setback for Africa because it is taking place at a time when the region is making progress in economic performance and management. The impacts of the global financial crisis come on the heels of the food and fuel price shocks of 2007-08. The growth of the global economy that was average 4.1 percent drastically dropped after the inception of the crisis in 2008 (Truman 2009). The sudden drop in African economic growth rate is threatening the prospect of the region to meet one of the Millennium Development Goal of halving the number of people living on less than one dollar a day. African countries need economic growth of around 7 percent per annum in order to meet this goal but none of African countries has its economy growing at this rate. The percentage change of gross domestic product per capita became worsen in 2009 (Fosu and Naudé 2009). The inflation estimate for 2008 (10.4 percent) was higher than 2007 (7.4 percent), due particularly to the sharp increase in oil prices and food during the first half of 2008. The 10.4 percent inflation in 2008 was also 3 percentage points above projections made prior to the financial crisis. This is an indication of the negative effect of the crisis on African economies. The fall in economic growth rate has been attributed to direct outcome of falling export demand and tourism receipts, declining commodity prices, reductions in the availability of credit and trade finance, less inflows of remittances, private portfolio flows and foreign direct investment (Ratha and Xu 2007), higher unemployment and poverty, increases in infant mortality, and adverse coping with long-lasting impacts such as higher school drop-out rates, reductions in healthcare, environmental degradation, and political instability (Naude and Fosu 2009).

Table 4b. Real GDP Growth and Inflation: Before, During and After the Crisis (percent)

	Inflation			**Real DGP Growth**		
	Before 2007	**During 2008**	**After 2009**	**Before 2007**	**During 2008**	**After 2009**
Africa	7.37	10.37	8.69	6.07	5.75	3.18
North Africa	6.93	8.22	8.15	5.52	6.03	4.04
Sub-Saharan Africa	7.67	11.91	9.07	6.45	5.55	2.58
By oil production						
Oil-exporting	7.11	9.64	9.33	6.64	6.71	2.94
Oil importing	7.66	11.20	7.94	5.42	4.64	3.46
By income						
Middle-income	6.81	11.82	9.87	4.98	4.43	3.03
Low-income	6.95	11.36	7.86	6.51	6.09	5.06
Fragile Countries	9.04	13.33	9.22	4.00	3.90	4.50
By region						
Central Africa	2.89	7.67	6.11	3.99	5.45	3.82
Northern Africa	6.84	8.11	8.30	5.32	5.78	3.67
Southern Africa	9.29	12.35	9.80	7.05	5.28	0.38
Western Africa	5.35	10.58	8.62	5.36	5.40	4.29

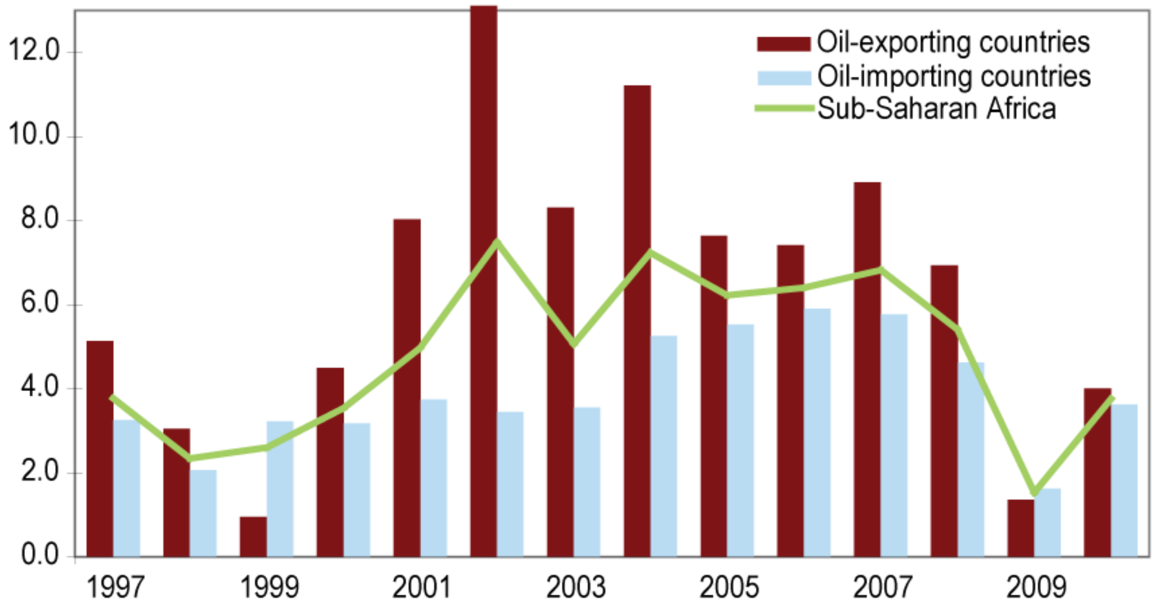
Sources: AfDB (2009) and African Economic Outlook 2009

Table 4c. Remittance flows to Africa: Before, During and After the Crisis (Million US $)

Region	A 2007 Before-GFC	B 2008 During GFC	C 2009 After GFC	C-A Effect Before less After	C-A/A*100 Effect (per cent)
Central Africa	193	193	190	-3	-1.5544041
East Africa	4,681	4,875	4,620	-61	-1.3031404
North Africa	18,240	20,356	19,415	1175	6.44188596
Southern Africa	1,919	1,943	1,785	-134	-6.9828035
West Africa	11,817	12,767	12,320	503	4.2565795
Africa	36,850	40,134	38,331	1481	4.01899593

Source**:** AfDB, Development Research Brief; No 4, May 2009 In:Obayelu 2010

Figure IV. Economic Growth in Africa Percentage Change in GDP (Year-on-Year)



Source: IMF Sub-Saharan Africa Regional Economic Outlook Database, April 2009.
Note: Oil exporting countries are Angola, Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon, and Nigeria. All other African countries are net oil importers.

GDP growth also varied between oil-exporting countries and oil-importing countries. On average, oil-exporting countries grew more strongly than the oil-importing countries. Some oil-importing countries, six in total (Djibouti, Ethiopia, Malawi, Morocco, Rwanda and Uganda), also withstood the effects of the crisis relatively well, posting GDP growth of more than5 per cent (ERA 2009). The variations in economic growth were more perceptible when comparing regions or countries within regions. East Africa was the best-performing region (3.9 per cent), while Southern Africa posted the worst growth performance of all the five regions. Similarly, economic activity slowed down considerably in Central Africa, with GDP growth dropping from 4.5 per cent in 2008to 0.9 per cent in 2009. GDP contracted in Equatorial Guinea and Gabon owing to lower oil volumes and prices, resulting in reduced government earnings and constrained government spending. Similar developments also contributed to the severe deceleration of economic growth in Angola, which fell from the two-digit levels sustained over the last five years up to 2008, to only 0.2 per cent in 2009. Also, the pace at which the Cameroonian economy grew in the recent past slowed, as oil prices and production weakened and timber and industrial outputs faltered (ERA 2009). Other countries in Central Africa experienced moderate growth acceleration. The economies of Chad and the Central African Republic (CAR) started to recover slowly, although from a low base. Economic growth reached 1.6 per cent in Chad, helped by government infrastructure projects, while the GDP of CAR rose modestly to 2.4 per cent in 2009. The rise was supported by increased donor funding and rising investment in the mining sector. The Republic of the Congo was the only country where growth not only accelerated but also exceeded 7 per cent in 2009, bolstered by rising oil production (ERA 2009).

East Africa weathered the effects of the global financial crisis relatively well. GDP growth, while declining, remained relatively robust, posting 3.9 per cent in 2009 compared to the hefty 6.4 per cent achieved in 2008. Ethiopia continued to be the fastest-growing economy in the region, with its GDP rising by 7.5 per cent in 2009 due to the strong performance of the non-agricultural sector, particularly services and robust government spending. GDP growth reached 5 per cent or more in Djibouti, Rwanda and Uganda. Such robust growth was sustained by continued strong investment associated with infrastructure development in Djibouti and solid performance in the industrial and services sectors in Uganda and Rwanda. Growth also softened in Burundi, declining from 4.5 per cent in 2008 to 3.2 per cent in 2009, given the modest performance of the manufacturing sector driven in part by power outages. Elsewhere in the region, economic activity moderated considerably. In the Democratic Republic of the Congo (DRC), decreased mining export earnings and the related spillovers hampered output growth, with GDP expanding by 2.7 per cent in 2009, down from the 6. 2 per cent witnessed in 2008. Weak agricultural output dampened Eritrea's GDP growth, which stood at 0.3 per cent in 2009. The prospects for the Kenyan economy, rebounding in the aftermath of the post-election violence, were nipped in the bud by the effects of the global slowdown. Kenya's GDP recovered only haltingly, growing by 2.5 per cent. GDP contracted by 0.4 per cent in Madagascar due to political instability and civil unrest. Despite progress in unwinding the unsustainable macroeconomic imbalances that had constrained growth in Seychelles, economic activity continued to contract in 2009, with GDP shrinking by 8.7 per cent owing to the poor performance of the services.

North Africa withstood the impact of the crisis relatively well compared to many parts of the continent. Although economic growth declined in all North African countries, the pace at which this occurred remained modest by continental and international standards. The region's GDP grew by 3.5 per cent in 2009, down from the 4.1 per cent recorded in 2008. This performance largely reflects the remarkable resilience of the Egyptian and Moroccan economies, which expanded by 4.7 per cent and 5.3 per cent, respectively. In both countries, weak external demand was largely offset by strong domestic demand, which was aided by well-targeted countercyclical fiscal measures and loose monetary conditions. From the supply side, exceptionally high agricultural output sustained growth in Morocco whereas strong activity in construction and telecommunications drove economic expansion in Egypt. Other North African countries witnessed modest GDP growth. The Libyan Arab Jamahiriya, Mauritania, Sudan and Tunisia grew by 3 per cent or less, for a variety of reasons. On the one hand, growth tapered off to 1.8 per cent in the Libyan Arab Jamahiriya, and to 2.1 per cent in Algeria, owing in part to weak oil output. On the other hand, a significant drop in manufacturing output and tourism activity in Tunisia and the reduction of iron ore production in Mauritania, all largely instigated by weak global demand, acted as drags to GDP growth in these countries. As a result, GDP rose by 2.3 per cent and 3 per cent in Mauritania and Tunisia, respectively. Sudan's economy grew by 3.5 per cent in 2009, down from the 7.6 per cent in 2008, owing to the decline in FDI flows and weak activity in the construction sector (AER 2009). Despite the general decline in GDP seen, some dynamism could be discerned in some North African countries, particularly in the oil-dependant ones. A major example has been the vitality of the non-hydrocarbon sector, which consistently expanded at robust rates in recent years due in part to bold public investment programmes.

Southern Africa was the region hardest hit by the global economic and financial crisis. It's GDP contracted by 1.6 per cent in 2009. The economy of South Africa, by far the largest in the region, shrunk by 2.2 per cent as the direct and indirect spillover effects of the crisis unfolded. These effects resulted in weakening of private demand. Later, reduced demand for South African exports, both manufacturing goods and commodities, depressed export earnings, thus depriving the country of another growth engine, external demand. Because of the intensive trade and financial linkages between South Africa and neighbouring countries, particularly those belonging to the Southern African Customs Union (SACU), the slowdown in South Africa had regional dimensions. GDP decreased in Lesotho and Namibia and grew at a very negligible rate in Swaziland, in part due to reduced exports to and financial inflows from South Africa. Significant decline in mining and textile outputs in Lesotho and severe contraction of the mining sector in Namibia held back economic growth, which shrunk by 1 per cent and 0.7 per cent, respectively. In Swaziland, GDP grew by a mere 0.4 per cent, due to a contraction in manufacturing and mining. GDP in Mauritius slid from 5.7 per cent in 2008 to 2.1 per cent in 2009, reflecting reduced export earnings, tourism receipts and FDI. The deceleration was especially evident in Botswana, where GDP slumped by 10.3 per cent, the largest contraction of economic activity in Africa in 2009, due to a severe decline in the production and prices of diamonds. Botswana's decelerated growth illustrates well the consequence of over-dependence on a narrow range of exports as international conditions deteriorate. The economic situation, however, was not uniformly bleak across the region. After a prolonged period of severe decline, the economy of Zimbabwe finally showed signs of incipient recovery. GDP expanded by 3.7 per cent, the strongest rate in more than a decade, up from a contraction of 12.6 per cent in 2008. This economic recovery was underpinned by improvement in economic policies and by credit expansion, which was aided by capital inflows and post-hyperinflation re-monetization. The economy of Mozambique continued to show some strength, rising by 4.3 per cent, a rate that fell short of the average of 8 per cent recorded over the past seven recent years (ERA 2009).

Growth was uniformly moderate in West Africa in 2009, ranging from 0 per cent in Guinea, the worst-performing economy in the region, to 4.5 per cent in Ghana, the fastest-growing West African country. The majority of countries lie in-between, expanding by about 3 per cent. Ghana's GDP growth softened to 4.5 per cent in 2009, down from the impressive 6-7 per cent it has averaged in recent years. Growth was supported by robust gold export earnings, thanks to buoyant international prices for gold, and by increased agricultural and industrial outputs. At the other end of the spectrum, Guinea experienced GDP stagnation in 2009, as the mining and construction sectors contracted owing mainly to weaker bauxite export receipts and the drying up of aid and private inflows in the context of increased political instability. Nigeria, the largest economy in the region, suffered from the fallout of the global financial crisis more than the other West African economies. Growth slowed down in 2009, due to weak public demand in the face of declining government revenue and tightened monetary conditions that resulted in significant reduction in credit to the private sector. However, these effects were somewhat attenuated by the continued impressive dynamism of the non-oil sector, particularly agriculture and telecommunications. The slowdown in Nigeria's GDP growth seems to have had spillover effects beyond its borders, particularly on Benin and to a lesser extent, Niger, all relying on trade flows with Nigeria. Côte d'Ivoire and Togo were the only countries where economic growth picked up, although moderately. A broad-based economic recovery, albeit timid, was observed in Côte d'Ivoire in 2009. GDP rose by 3.7 per cent, the highest rate in more than a decade, sustained by high agricultural, hydrocarbons and mining production as well as by an incipient recovery in the services sector. The economic rebound benefited from improvement in the political and security situation, following the signing of the Ouagadougou Accord by all major parties involved in the Ivorian crisis. Growth also resumed in Togo, accelerating from 1.1 per cent in 2008 to 2.4 per cent in 2009. The economic recovery in Togo was rather muted because of weak export earnings (ERA 2009).

Africa, as part of the global economy is not insulated from the crisis. Hence, the effects of financial crisis on the continent manifested itself through drying up of liquidity and capital inflows, aids programmes and trade, due to difficulty in sourcing capital from the global economy, low interest on foreign reserve, decline in revenue from exports, low commitment to rural development and the escalation of the crisis of the four Fs (fuel, fertilizer, finance and food). The impact of the financial crisis on Africa became more evident in 2009. These effects took the form of weakened demand and lower prices for exports of goods and services, decreased remittances and reduced private capital inflows to much of the continent. As a result, GDP expanded by a mere 1.6 per cent in 2009 compared to 4.9 per cent in 2008, breaking six consecutive years of economic growth of 5 per cent or more and low employment generation (Ali 2009; McCarthy 2009; AEO 2010; Arieff, Weiss and Jones 2009; Obayelu 2010).

Africa's GDP growth trended downwards in 2009. Disparities among countries persisted and even increased in some cases. In 2009, 29 countries grew by 3 per cent or less, 17 managed to record GDP growth rates in the range of 3 to 5 per cent and 2 (Ethiopia and Republic of the Congo) expanded by 7 per cent or more. This was a marked deterioration compared to the performance recorded over the past two years when the majority of countries witnessed GDP growth of more than 3 percent (ERA 2010; UNCTAD 2010). The food and fuel price shocks of 2007–08 that preceded the current global financial crisis weakened the external position of net importers of food and fuel, caused inflation to accelerate, and dampened growth prospects of African economies.

The global financial crisis greatly compounds the policy challenges confronting the region as it strives to consolidate its economic gains (IMF 2009). In other words, the global recession has affected most African countries through a variety of mechanisms, or channels, including a decline in global trade, a drop in investment, falling remittances from overseas workers, and possible cuts in foreign aid. These channels are largely connected to Africa's "real" economy, rather than its financial sector (Arieff, Weiss and Jones 2009). The downturn in global growth, the decline in most commodity prices, and tighter credit has significantly worsened the economic outlook for sub-Saharan Africa. Risks are rising and it is uncertain how long the crisis will last (IMF 2009; UNCTAD 2010). In most African countries the agricultural sector benefited from good harvests due to favourable weather, although in some countries, bad harvests exacerbated the effect of the global crisis. Overall, the African continent has shown a remarkable resilience to the global crisis. While in many other regions output levels declined in 2009, growth in Africa remained positive and Africa has also emerged from the crisis faster and more robustly than in the past and than most other regions. Unlike in previous crises, some African countries responded decisively to the current economic turmoil through counter-cyclical monetary, fiscal and financial policies (UNCTAD 2010). They also adopted measures at the regional level such as the establishment of a financing facility by the African Development Bank and the setting up of the Committee of Ten Ministers of Finance and Central Bank Governors to monitor the crisis and suggest ways to cushion its impact in the region. These national and regional actions have helped in limiting the adverse effects of the crisis in the region (UNCTAD 2010).

Conclusion and Recommendations

The global financial and economic crisis has had significant adverse effect on African economies, reducing economic growth for the region in 2009 by about 4 percentage points compared to the annual average growth rate for the period 2000–2007. Admittedly, some African countries responded effectively to the current crisis, thereby minimizing the potential adverse effects on the region. The main challenge facing African countries now is how to position themselves for post-crisis recovery as well as ensure that policy responses to the crisis do not lead to medium- and long- term problems of debt sustainability. An effective response to this challenge requires that African countries build robust regional markets, unleash the potential of local business and entrepreneurs for development, and build resilience to shocks. With depleted or no reserve, crisis will continue to deepen. The crisis has also shown that global problems require comprehensive, coordinated and timely responses. In the early months of the crisis, response by the advanced countries was basically at the national level with very little coordination across countries. Even if the global economy is to rebound at the expected pace, the recovery of African economies might be gradual, as the full resumption of private capital and trade flows might lag behind the global recovery.

In this regard, African countries need to position themselves to take advantage of the recovery phase of the crisis and should consider adopting the following policy actions with a view to reviving their economies:

(i) **Building robust regional markets**: The development of regional markets is necessary for African countries to exploit economies of scale, enhance export competitiveness and integrate effectively into the global economy.

(ii) **Unleashing the potential of private entrepreneurs for development**: The private sector has a role to play in the recovery process and every effort should be made by African governments to address barriers to private sector development.

(iii) **Building resilience to shocks**: Africa's vulnerability to internal and external shocks has adverse consequences for macroeconomic stability and growth. Consequently, policymakers in the region should seize the opportunity of the crisis to build resilience to shocks through developing productive capacities and managing revenue from commodity booms in a manner that creates room for conduct of counter-cyclical policies in the future.

(iv) **Creation of policy space**: African countries therefore need to have policy space to respond to adverse shocks. In particular, it has shown that an active fiscal policy is necessary to cushion the effects of shocks on output.

(v) **Increase intra African trade and creation of regional trade organization**: increase trade between countries and the creation of regional organization like the World Trade Organization (WTO), which can help to define trade policy in the region, as well as the creation of three financial organizations, namely African Central Bank, African Investment Bank and African Monetary Fund to supplement considerable assistance of African Development Bank, which in turn will help to tackle future challenge.

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