The Global Economic and Financial Crisis: An Overview of the Effects on African Countries

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ABSTRACT

In the wake of the current global financial crisis, experts and analysts agreed that the initial effects on African financial sectors will be minimal because of the limited exposure to the international financial markets. However, African countries are more integrated than before with the world economy through the following transmission channels: international trade, foreign direct and portfolio investments, foreign aid flows, private remittances, and tourism; and since they are predominantly primary commodity exporters, their economies will be negatively affected by the current recession in many developed countries due to the sharp decline in world demand for commodities and in their prices. This paper takes the view that African countries are more susceptible to external shocks than other developing regions of the world because of their flawed macroeconomic fundamentals, but more importantly, the transmission channels emphasize the extent of the region's vulnerabilities.

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I. Introduction

At the onset of the global economic and financial crisis in late summer of 2008[1], opinions seemed to vary among experts and policy analysts as to how the crisis will affect African economies. To some, Africa countries appeared poised to escape relatively untouched because they have underdeveloped financial sectors, tight regulatory oversights by the supervisory authorities in some countries which restricted foreign ownership of banks, and the fact that "virtually no banks or other financial institutions outside South Africa held United States or European subprime mortgage-backed securities or other risky derivative securities." According to other experts and analysts, African economies may weather the initial effects of the financial crisis in developed markets because of the weak integration of their financial markets into the global financial systems; however, they argued that their export demand and access to international finance could be adversely affected.

Given the varied opinions of experts and analysts and based on the unfolding economic events worldwide, it is apparent that the insulation of the financial sectors in African countries from the global financial crisis is not a strong enough *raison d'être* to prevent the real sectors of their economies from the shocks of the global recession. Granted that their financial sectors may not be well integrated into the complex global financial system, but current data show that they are suffering from the indirect effects of the financial crisis which has transformed into a global recession. The transformation of the global economic and financial crisis into a global recession

[1] Some political and media pundits are very critical of the fact that economists failed to predict the financial crisis, but more importantly, that they failed to recognize that the United States economy was in a recession since the last quarter of 2007 (see for example, Robert Samuelson, July 6, 2009).

means that there are other transmission channels through which African economies will be affected if not directly through their financial sectors.

The rest of this paper is organized as follows. The next section discusses the causes of the financial crisis, which many believed shared common characteristics with previous crises. Section III gives a brief synopsis of both the international and domestics perspectives of the effects of the crisis on African economies. It is important to provide a brief discussion of what experts around the world say, then and now, about how the crisis will affect Africa economies. Section IV discusses the vulnerability of the region to external shocks vis-à-vis other developing regions, and provides reasons for the region's vulnerability. Section V is devoted to the examination of the various channels, both direct and indirect, through which the global economic and financial crisis could impact African economies. Section VI is devoted to concluding remarks and discusses some policy implications-questions with respect to the region.

II. Causes of the Financial Crisis

The prevailing opinion in the United States was that the subprime mortgage business was the epicenter of the current financial crisis. According to many analysts, the financial markets in the United States and other developed countries in Europe and Asia pumped up the real estate bubble such that the resultant housing and stock market wealth spurred excessive consumer spending, and the losses on subprime mortgage securities triggered a collapse in consumer confidence (Samuelson, July 6, 2009). In a published commentary early this year, this author argued that the subprime mortgage crisis had the same common characteristics as the commercial real estate crisis of the 1980s. In the case of the current financial crisis, one can argue that mortgage lenders and borrowers engaged in "symmetric" adverse selection, and moral hazard, while the lenders employed securitization[2] to back-up their excessive speculative behavior. The term "symmetric" adverse selection is used to address the issues of the creditworthiness of some mortgage borrowers that lenders knew about, nonetheless, the mortgage lenders ignored these marginal credits and proceeded to give these risky mortgage loans because they could easily transfer the risks to the nation's largest mortgage buyers such as the U.S. Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). Simply stated, the conditions that prevailed in the United States housing market, before the crisis, encouraged the "urge" to "purge" with respect to mortgage loans.[3]

In a recent study, Rajan (2009) argued that the financial crisis was related to the wave of past crises that swept through emerging markets in the 1990s such as the Asian financial crisis or contagion in 1997, the Russian financial crisis of 1998, the Argentine economic crisis of 1999-2002, as well as those in Brazil and Turkey. Rajan (2009) attributed the crisis to four major factors (a) "the U.S. financial sector misallocated resources to the real estate, financed through the issuance of exotic new financial instruments, (b) a significant portion of these instruments found their way, directly or indirectly, onto commercial and investment bank balance sheets, (c) these investments were financed largely with short-term debt, and (d) the mix was potent and caused large-scale disruption in 2007." He argued that housing prices were much higher relative rent or incomes in Ireland, Spain, the Netherlands, the United Kingdom, and New Zealand than

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[2] Securitization was a financial innovation that allowed banks to pool their various loans into sellable assets, thereby off-loading risky loans to others - one of the greatest forms of financial innovations in the 20th century.

[3] By "urge" to "purge," it means that loans could quickly be originated with the originating lenders selling these loans to other lenders before the mortgagors, in many cases, could make their first mortgage payments.

the United States, but the housing bubble surfaced in the U.S. because of its exotic financial innovation[4] which drew more marginal mortgage borrowers into the housing market.

III. Perspectives of the Impact of Global Financial Crisis on Africa

This section provides some chronology, even though not completely exhaustive, of two perspectives with respect to the impact of the crisis on African economies. On the one hand, we have the international perspectives, which were clearly articulated by many experts in different panel discussions in the United States and Europe. These objective assessments provide critical insights about how the crisis would impact African economies. On the other hand, we have the African perspectives, which were also well articulated as far back as the third and fourth quarters of 2008, and in subsequent panel discussions and various position papers, and communiqués by the African Development Bank[5]. The dichotomy in perspectives not only provides a composite prism with which to view the transmission channels of the impact of the crisis on African economies, but more importantly, it addresses some pertinent questions:

- Did experts' perspectives in the U.S. and Europe as to how the crisis might impact African economies lure policymakers into actions or inactions?
- Did policymakers in the African region downplay the effects of the crisis on their economies since some analysts postulated that Africa may become a safe haven for foreign investment?

[4] In an earlier paper, Rajan (2005) cautioned that financial development could make the world riskier.
[5] For more, see "Recent Financial Crisis related Events" at http://www.afdb.org/en/topics-sectors/topics/financial-crisis.

When the crisis first surfaced in the summer of 2008, Stephanie Hanson interviewed Shantayanan Devarajan[6] based on the opinions he expressed in his blog. In the interview, Devarajan (a) expressed that the current global financial crisis posed no threat to Africa's banking systems because African banking systems differed remarkably from the banking system in the United States, but that the region could experience significant decrease in private investment flows which may have negative impact on the funding of much needed infrastructure projects, (b) speculated that Africa could become a haven for capital flows due to the losses experienced in the United States and Europe because "risks in Africa were somewhat uncorrelated with risks in Europe and the United States," (c) felt that the current climate of uncertainty may lead to a pull back in financing vital infrastructure projects even though such projects still have high rates of profitability, and (d) expressed the readiness of the World Bank to provide "just-in-time advice" to governments in the region on how to manage the crisis–with financial assistance to supplement private capital inflows, and increased lending for agriculture.

In early November last year, Antoinette Sayeh, Director at the African Department of the IMF addressed the 14th Conference of Financial Institutions Second Generation Financial Sector Reforms. In her speech, she identified three principal transmission channels and suggested three key guiding principles for economic policymakers in the region to consider during difficult times. By mid-November, the World Bank put out a background paper that acknowledged that "the poorest countries, including many in Africa, will be significantly affected by the crisis even though the channels of transmission are likely to be quite different from those operating in emerging markets." It further acknowledged that "the poorest countries will be harmed through slower export growth, reduced remittances, and lower commodity

[6] Stephanie Hanson is an Associate Director and Coordinating Editor at the Council on Foreign Relations and Shantayanan Devarajan is the Chief Economist of the World Bank's African Region. See "Africa and the Global Financial Crisis," at http://www.cfr.org/publication/17551.

prices, which will reduce incomes in commodity exporters." In another related expert brief by Anthony Holmes for the Council on Foreign Relations, he articulated the same points as Devarajan.[7] According Holmes, "Africa looked poised to escape relatively unscathed" from the effects of the first round of the financial crisis because the remoteness and small size of African financial systems shield them from the underlying problems of the meltdown; but that the effects on their real economies could be severe due to shocks from a prolonged global recession.

As the financial crisis widened and spilled over to the real sectors of the economies where it originated, analysts saw the same broadening taking shape in Africa. In a panel discussion by the Export-Import Bank of the United States, three expert panelists discussed the impact of the global financial on Sub-Saharan Africa. Once again, one the panelists identified "three channels through which the economic impact of the crisis affecting advanced countries reaches sub-Saharan Africa" namely (a) through a shift in demand for African products since almost 60 percent of African exports go to the United States and the European countries – the major economies that have been severely affected by the crisis, (b) global decline in commodity prices, with oil and copper prices declining by about 15 percent over the past year, and (c) reallocation of financing flows to Africa due to the cutback in portfolio or foreign investment. In another related study, Moss (2009) also identified three major channels of transmission: global trade, capital flows, and policy responses, but more importantly, he pointed out that the IMF projects that real GDP growth rate for the region will fall below two percent this year (see, Center for Global Development)[8].

Within the continent, perspectives of the effects of the financial crisis on Africa vary across the economic and socio-political spectrum. From the economic front, an early perspective of

[7] See, Anthony Holmes, "Africa Dodges the Financial Bullet, but Recession Is Another Matter," Council on Foreign Relations, December 3, 2008.
[8] For the essay, see, http://www.cgdev.org/content/publications/detail/1422072.

experts within Africa as to how the crisis would affect the region was aptly captured in an email interview of Louis Kasekende, AfDB Chief economist, in late September 2008. Alistair Thomson (2008) summarized the salient features of the email interview succinctly as follows:

- Africa unlikely to suffer first-round effects of crisis
- African growth to average 5.9 percent over the next two years
- Middle-income countries with portfolio exposure worst hit
- Countries with sovereign wealth funds more exposed
- Crisis likely to reduce financial investments in Africa (see, Thomson Reuters Foundation AlertNet: September 25, 2008)[9].

From the socio-political end, the African Center for Gender and Social Development (ACGSD) provided two intriguing perspectives of the effects of the crisis on Africa, namely: (a) the impact on economic development, and (b) the impact of the crisis on social development including health. While the argument with respect to the impact on economic development echoed the same issues addressed at different panel discussions, which we mentioned earlier, the social development-health dimension looked at the impact from both the supply-side and demand-side effects. According to the ACGSD, the supply-side effects come from the decrease in the supply and delivery of health care and other social services due to the cutbacks in foreign and domestic assistance, reduction in investment in the health sector which is already in a state of comatose in many African countries, and the inability to import essential medical equipment and life-saving drugs. As for the demand-side effects, ACGSD argued that household characteristics and its ability to demand for health care services change as incomes change. Simply put, the ACGSD believes the current global and financial crisis will further worsen the

[9] For a transcript of the interview, see http://www.alertnet.org/thenews/newsdesk/LP429148.htm.

paralysis in the health care sectors in African countries. In some countries, the health sectors are already paralyzed if judged by the minimum standards of World Health Organization.

Given the vulnerability of the region, the email interview and other interviews elsewhere, along with subsequent panel discussions organized by the African Development Bank (AfDB), the creation of the Committee of Ten in Tunis in November 2008, several communiqués, and various position papers such as "African Perspectives and Recommendations to the G20,"[10] the 14th Conference of Financial Institutions Second Generation Financial Sector Reforms in November in Arusha, and other conferences across the region, and as well as the perspectives of the ACGSD articulated in its position paper, all showed that there were region-wide initiatives to understand the scope of the financial crisis and how to mitigate its impact on Africa in the event of a prolonged economic downturn in the United States and European countries.

IV. Vulnerability of the African Region

Since no region of the world is untouched by the on-going global economic and financial crisis, a pertinent issue for analysis and discussion is the vulnerability of the African region vis-à-vis the other developing regions of the world. This is important in order to help address key issues or questions:

- Is the African region more vulnerable to external shocks vis-à-vis the other developing regions of the world?

[10] For more, see some of the various papers put out by the African Development Bank: "Committee of Ten Discusses Financial Crisis," "The African Development Bank Group Response to the Economic Impact of the Financial Crisis," "AfDB President Lauds G-20 Summit," "Abuja-Meeting of the Committee of Finance Ministers and Central Bank Governors (Committee of Ten)," "Communiqué of the Meeting of the Committee of African Ministers of Finance and Planning and Governors of Central Banks," "Pittsburgh G20 Summit: Multilateral developments bank are more needed than ever," "AfDB Chief Economists Addresses Seminar on 'Looking Beyond Financial Crisis.'"

- If so, what are the reasons?

The answers to these questions are well couched in the remarks made by José Manuel Salazar-Xirinachs, the Executive Director of the International Labor Organization (ILO), that "the crisis has affected developing countries surprisingly quickly and strongly, through multiple channels: reduced trade flows, decline in commodity prices, reduced liquidity and tightening of credit markets affecting both private and public sectors, reduced flows of remittances, a drop in Foreign Direct Investment (FDI), exchange rate depreciation and uncertainty, and declining flows of Official Development Assistance." In his assessing how the crisis might have affected "regional developments and challenges," he alluded to the -3.9% contraction that the newly industrialized Asian economies, such as China and India, will experience, even though they were projected to have high positive growth rates. He considered "the scale and speed of the downturn is breathtaking and broader in scope than in the financial crisis of 1997-98."

As for Latin American countries, Salazar-Xirinachs pointed out that the crisis has wiped out all the conditions (e.g. the growth of exports, the high prices of commodities, abundant financing and low interest rates) that propelled the region to faster economic growth in the last six years; however, he considered Latin America to be better prepared to face the current crisis than in the 1980s because they have much lower levels of inflation, domestic and external indebtedness, and fiscal deficits, and that they have much higher international reserves. From his perspective, these conditions provide the fiscal space with which countries in the region could respond to the crisis. According to his assessment, the ILO employment scenarios for Latin America showed possible increase in the unemployment from 7.2 percent in 2007 to 8.3 percent for 2009, but more importantly, he indicated that the global economic and financial crisis will contribute to rising extreme poverty (which decreased from 22 percent in 1999 to less than 10 percent in 2007) in the region by about 2 percentage points in 2008-09 – an increase he considered to be more favorable in comparison to other developing regions.

As for the African region, Salazar-Xirinachs surmised that all the engines of growth in the region are either gone or seriously disrupted to the point that the major sectors (such as mining, tourism, and manufacturing) that have contributed to faster and steadier economic growth in the past decade have been forced to decrease production and lay off their workers. According to the most recent ILO's labor market information for Sub-Saharan Africa, the region is distinguished for its extremely harsh labor market conditions, and this is appropriately captured in the following findings by the ILO:

(a) unemployment will increase to 8.5 percent this year, and this would lead to an additional 3 million people joining the ranks of the unemployed.

(b) vulnerable employment (which the ILO defined as self employed plus contributing family workers) will increase significantly – from 77.4 percent in 2007 to 82.6 percent in 2009 – this means a 5.2 percentage point that would lead to the addition of 28 million people into the ranks of vulnerable employment in comparison to 2007.

(c) the ranks of those classified as "extremely working poor in Sub-Saharan Africa" will also increase. Pre-crisis, almost three fifths of the employed were classified as "extremely working poor" in the region, and due to the current crisis, there could be additional 36 million people earning less than USD 1.25 per day when compared to 2007, and that despite the slight decline in the past decade, the rate could increase from 58.3 percent in 2007 to 67.2 percent in 2009.

In comparing the African region to the other regions, Salazar-Xirinachs indicated that "the impact of the crisis in Africa vary very significantly across countries depending on the economic structure, policy constraints and other specificities, and that some countries are more vulnerable than others. But clearly these figures suggest that it is very likely that the crisis will reverse the modest gains of many African countries in terms of growth, poverty reduction and job creation. These developmental impacts may be large and may outlast the crisis." He concluded that a number of African countries are highly vulnerable because they have a more constrained fiscal space with which to respond to the crisis due to their: (a) high current account deficits, (b) high levels of debt and fiscal deficits; and sadly, many countries in the region "can be classified as high risk countries on the basis of these macroeconomic balances considerations, as done in a recent report by the African Development Bank."

Given the vulnerabilities of the region to external shocks vis-à-vis the other developing regions, it is possible to argue that the Asian and Latin American regions coped much better with respect to susceptibility to external shocks because both regions gained from the crises they experienced in the 1990s.[11] This argument may appear valid if one is to absorb the region in terms of its inability to weather external shocks, by the same token, one can also argue that this was not their first time experience either. For example, in the aftermath of the Asian financial contagion, studies by Hussain, *et.al* (undated) and Moolakkattu (undated) provided African perspectives of the crisis with lessons and policy implications.[12] However, rather than ask whether or not African countries learned any lessons from the crisis, it is better to know the channels through which the current financial crisis exposes the vulnerabilities of the region to

[11] As we may recall, the 1997 Asian financial crisis, started in Thailand and spread to Indonesia, South Korea, the Philippines, Hong Kong, Malaysia, and Singapore. It is also important to remember that there were two economic crises in Latin America during the past two decades: the 1994 economic crisis in Mexico, and the 1999-2002 Argentine economic crisis.

[12] For more details on lessons and policy implications, see Hussain, et.al "Global Financial Crisis: An African Perspective," AfDB Research Paper; and John Mookakkattu, "Global Financial Crisis and Developing Countries: An African Perspective, University of KwaZulu-Natal.

external shocks if policymakers hope to craft meaningful macroeconomic policies to solve the problems.

V. The Transmission-Vulnerability Channels

Based on the discussions from the previous sections, this section identifies two-rounds of effects and considers the different channels of transmission-vulnerability through which the effects of global economic and financial crisis impact African economies. Initially, everyone assumed that if African economies were to be affected by the crisis, the effects would be direct through the financial channels. In the case of African countries, the financial channels of transmission are not easily identifiable because the low degree of financial integration of African financial sectors into the complex global financial markets, and the tight capital controls in some of these countries helped to moderate the initial round of effects. In other words, African banking systems have little or no direct exposures to the complex financial instruments used in the United States and other advanced countries, but more importantly, the relatively high bank liquidity coupled with limited reliance on foreign funding, and the low leverage in their financial institutions helped to minimize the risks of potential financial losses.

The effects experienced throughout the region emanate from the global recession, and these show that while the financial markets of African countries may be insulated from the complex global financial systems, the real sectors are fully linked into the world economy; therefore, the global recession impacts African economies through the following channels: (a) global trade, (b) foreign direct investment and portfolio investment inflows, (c) private remittances, (d) foreign aid flows, (e) tourism, and (f) macroeconomic policy responses. The negative effects of the global recession through these channels of transmission cause imbalances in the real sectors of the African economies with spillovers into the financial sectors, which had hitherto been insulated from the financial meltdown. Simply put, these are indirect channels through which the weakened real sectors can affect the balance sheets of banks because when borrowers are unable to meet their debt obligations due to the weakened real sectors of the economy, pre-crisis well performing loans become nonperforming loans thereby causing financial problems within the banking systems.

Before we discuss each of the channels of transmission, we can also add, on the basis of earlier discussions, two secondary channels of transmission: (1) the health care sectors, and (2) the labor markets. Even though we did not identify them as such in the discussions in sections III and IV, respectively, nonetheless, they should be seen as channels of transmission. In this section, we exclude them from further discussion of the primary channels of transmission in order to conserve on space. Now, let us turn to the discussion of each of the primary channels in the order listed above.

(a) Global Trade

Over the past decade, international trade has become a major source of the much touted economic growth in African countries. As primary commodity exporters, over 60 percent of African exports go to the United States and the European Union, and since these are the economies most affected by the financial crisis where imports are projected to fall by 2 percent and 5 percent, respectively, and given the global decline in commodity prices of oil, copper, coffee, and cotton, African countries are particularly very vulnerable. Africa's vulnerability is further compounded by the fact that commodities have very low price and income elasticities; therefore, a decrease in the global demand for African exports due to the recessions in United States and in the European countries will not only decrease commodity prices and government revenue – thus weakening their fiscal positions, it will also impact the growth rates of real GDP and further worsen their current account balances. [13]

[13] For many African countries this was a double-edge problem because they were still recovering from the increase in food and fuel prices of 2007, and then, the global economic and financial crisis struck.

Table 1: Exports of African Countries, Real GDP Growth Rates, CAB as Percent of GDP, and Membership in UNWTO

Country	Exports	Real GDP Growth 2008	Real GDP Growth 2009†	Real GDP Growth 2010†	CAB as % of GDP 2008	CAB as % of GDP 2009†	CAB as % of GDP 2010†	Tourism
Algeria	Gas, Oil	3.0	2.1	3.7	23.2	2.7	7.3	√
Angola	Coffee, Diamonds, Fish, Oil, Timber	13.2	0.2	9.3	7.5	-3.4	2.2	√
Benin	Cotton, Palm Oil	5.0	3.8	3.0	-8.2	-9.7	-9.1	√
Botswana**	Beef, Copper, Diamonds, Nickel	2.9	-10.3	4.1	7.0	-7.6	-16.3	√
Burkina Faso	Animal Products, Cotton, Gold	5.0	3.5	4.1	-10.9	-10.8	-11.6	√
Burundi	Coffee, Cotton, Sugar, Tea	4.5	3.2	3.6	-14.2	-10.9	-8.3	√
Cameroon	Aluminum, Cocoa, Coffee, Cotton, Crude Oil, Petroleum Products, Timber	2.9	1.6	2.7	-1.0	-7.2	-4.6	√
Cape Verde**	Bananas, Clothes, Fish, Hides, Shoes	5.9	3.5	4.0	-12.4	-18.5	-15.4	√
Central African Republic	Coffee, Cotton, Diamonds, Timber, Tobacco	2.2	2.4	3.1	-9.8	-9.5	-9.7	√
Chad	Coffee, Livestock, Oil, Textiles	-0.2	1.6	4.6	-12.2	-20.8	-7.5	√
Comoros	Cloves, Copra, Perfume Oil, Vanilla	1.0	1.0	1.5	-11.3	-8.0	-10.4	*nm*
Congo, Democratic Rep.	Cobalt, Coffee, Copper, Crude Oil, Diamonds	6.2	2.7	5.4	-15.3	-14.6	-23.7	√
Congo, The Republic	Cocoa, Coffee, Diamonds, Oil, Plywood, Sugar, Timber	5.6	7.4	12.2	-1.9	-11.2	2.1	√
Côte d'Ivoire	Cocoa, Coffee, Petroleum, Tropical wood	2.3	3.7	4.0	2.4	24.6	1.1	√
Djibouti	Coffee, Hides and skin	5.8	5.1	5.4	-39.2	-17.1	-17.5	√
Egypt	Cotton, Petroleum, Petroleum Products	7.2	4.7	4.5	0.5	-2.4	-2.8	√ √ *nm*
Equatorial Guinea	Cocoa, Petroleum, Timber	11.3	-5.4	-2.8	9.9	-5.3	0.0	√
Eritrea	Hides, Livestock, Salt, Livestock, Textiles	1.0	0.3	1.4	0.8	-3.7	-3.3	√
Ethiopia	Beeswax, Coffee, Hides, Oil seeds, Sugarcane	11.6	7.5	7.0	-5.6	-5.6	-9.3	√ √
Gabon	Crude Oil, Manganese, Timber, Uranium	2.3	-1.0	2.6	17.1	2.8	6.8	√
Gambia, The	Cotton lint, Fish, Palm Kernels, Peanut	6.1	3.6	4.3	-16.7	-17.1	-17.6	√
Ghana**	Aluminum, Bauxite, Cocoa, Diamonds, Gold, Manganese Ore, Timber, Tuna	7.3	4.5	5.0	-18.7	-12.7	-15.4	√
Guinea	Agricultural Products, Aluminum, Bauxite, Coffee, Diamonds, Fish, Gold	4.9	0.0	2.7	-12.0	-1.7	-4.4	√
Guinea-Bissau	Cashew Nuts, Palm Kernels, Peanuts, Sawn Timber, Shrimps	3.3	1.9	2.5	-3.3	-3.1	-4.5	√
Kenya**	Coffee, Horticultural Products, Petroleum Products, Tea	1.7	2.5	4.0	-6.8	-8.1	-6.3	√ √
Lesotho	Clothing, Food, Livestock, Mohair, Wool	3.5	-1.0	3.1	-4.0	-15.1	-21.2	√
Liberia	Cocoa, Coffee, Diamonds, Iron Ore, Rubber, Timber	7.1	4.9	6.3	-25.9	-41.8	-60.7	√
Libya	Crude Oil, Petroleum Products, Natural Gas	3.4	1.8	5.2	40.7	16.7	24.0	*nm*
Madagascar	Chromium, Cloves, Coffee, Fabrics, Petroleum Products, Seafood, Vanilla	7.1	-0.4	0.9	-24.2	-18.7	-17.3	√
Malawi	Cotton, Tea, Tobacco, Sugar	9.7	5.9	4.6	-7.8	-4.1	-5.5	√ √
Mali	Cotton, Gold, Livestock	5.1	4.1	4.5	-8.4	-7.3	-7.6	√
Mauritania	Fish and Fish Products, Iron Ore, Gold	2.2	2.3	4.7	-15.7	-9.0	-16.4	√
Mauritius**	Clothing, Jewelry, Sugar, Tea	6.6	2.1	2.0	-8.7	-9.3	-10.6	√
Morocco	Citrus Fruits, Minerals, Seafood Products	5.6	5.0	3.2	-5.4	-5.5	-4.7	√ √
Mozambique**	Cotton, Seafood	6.8	4.3	5.2	-11.8	-12.1	-12.2	√
Namibia**	Copper, Diamonds, Gold, Lead, Livestock, Uranium, Zinc	2.9	-0.7	1.7	1.8	-1.0	-2.1	√
Niger	Livestock Products, Uranium	9.5	1.0	5.2	-13.3	-21.2	-22.0	√
Nigeria**	Cocoa, Peanuts, Petroleum, Petroleum Products, Rubber	6.0	2.9	5.0	20.4	6.9	13.8	√
Rwanda	Coffee, Hides, Tea, Tin Ore	11.2	5.3	5.2	-5.5	-6.8	-9.6	√
São Tomé and Principe	Cocoa	5.8	4.0	4.5	-29.0	-31.1	-28.0	√ √
Senegal	Cotton, Fish, Peanuts, Petroleum Products, Phosphates	2.5	1.5	3.4	-12.3	-11.7	-10.8	√
Seychelles**	Cinnamon Bark, Copra, Fish, Petroleum Products	-1.9	-8.7	4.0	-50.2	-24.2	-32.5	√
Sierra Leone	Cocoa, Coffee, Diamonds, Fish, Retile	5.5	4.0	4.0	-9.0	-9.1	-8.6	√
Somalia	Bananas, Fish, Hides, Livestock	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	*nm*
South Africa	Cars, Diamonds, Gold, Machinery, Metals and Minerals	3.1	-2.2	1.7	-7.4	-5.0	-6.5	√ √
Sudan	Cotton, Gum Arabic, Hides, Livestock, Oil, Sesame	6.8	4.0	5.5	-9.0	-11.2	-9.1	√
Swaziland	Minerals, Sugar, Wood Pulp	2.4	0.4	2.6	-5.4	-6.6	-7.1	√
Tanzania**	Cashew Nuts, Cloves, Coffee, Cotton, Minerals, Tobacco	7.4	5.0	5.6	-9.7	-9.9	-9.1	√ √
Togo	Cocoa, Coffee, Cotton, Phosphates	1.1	2.4	2.6	-6.6	-6.9	-8.2	√
Tunisia	Agricultural Products, Oil, Textiles	4.6	3.0	4.0	-4.2	-3.8	-2.9	√
Uganda**	Beans, Coffee, Corn, Cotton, Fish and Fish Products, Tea, Tobacco, Sesame	9.0	7.0	6.0	-3.2	-5.5	-5.7	√ √
Zambia**	Copper, Minerals, Tobacco	5.8	4.5	5.0	-7.2	-3.9	-2.9	√ √
Zimbabwe	Agricultural Products, Cotton, Gold, Minerals, Tobacco	-14.1	3.7	6.0	-29.5	-21.4	-19.9	√ √
Africa		**5.2**	**1.7**	**4.0**	**2.5**	**-3.1**	**-1.7**	

Sources: Column 2 adapted from P.N. Osakwe's Table 1, African Trade Policy Centre, Work in Progress, No.61 and compiled by the author based on data obtained from IMF's *World Economic Outlook* (October 2009), *Regional Economic Outlook* (April , 2009), IMF's Directory of Trade (various issues), and United Nations World Tourism Organization (UNWTO). **Notes:** ** = Frontier emerging markets; CAB = Current Accounts Balance; *nm* = Non-membership in UNWTO; † = IMF projections; and √ √ = Top tourist destinations.

Table 2: Impact of Global Economic and Financial Crisis on Real GDP Growth Rates, CAB as Percent of GDP, and Aid as Percent of GDP for African Countries

Country	Impact on Real GDP Growth 2008	2009+	2010+	Impact on CAB as % of GDP 2008	2009+	2010+	Aid as % of GDP	Rank[a]
Algeria	0.0	-0.9	1.5	0.6	-21.5	4.6	0.3	110
Angola	-7.1	-13.0	9.1	-8.4	-10.9	5.6	3.5	56
Benin	0.4	-1.2	-0.8	1.7	-1.5	0.6	11.0	29
Botswana**	-1.5	-13.2	14.4	-7.3	-14.6	-8.7	0.6	99
Burkina Faso	1.4	-1.5	0.6	-2.6	0.1	-0.8	15.3	18
Burundi	0.9	-1.3	0.4	1.5	3.3	1.6	13.5	21
Cameroon	-0.4	-1.3	1.1	-0.2	-6.2	2.6	4.3	52
Cape Verde**	-1.9	-2.4	0.5	-3.7	-6.1	3.1	16.9	14
Central African Republic	-1.5	0.2	0.7	-3.6	0.3	-0.2	7.9	37
Chad	-0.4	1.8	3.0	-1.6	-8.6	13.3	9.3	33
Comoros	0.5	0.0	0.5	-4.6	3.3	-2.4	9.2	34
Congo, Democratic Republic	-0.1	-3.5	2.7	-13.8	1.3	-9.1	1.0	88
Congo, The Republic	7.2	1.8	4.8	7.5	-9.3	9.1	n.a.	n.a.
Côte d'Ivoire	0.7	1.4	0.3	3.1	22.2	-23.5	3.8	55
Djibouti	0.7	-0.7	0.3	-13.6	22.1	-0.4	12.9	23
Egypt	-0.1	-2.5	-0.2	-5.2	-2.9	-0.4	1.3	76
Equatorial Guinea	-10.1	-18.8	2.6	5.6	-15.2	5.3	1.6	71
Eritrea	-0.3	-0.7	1.1	1.5	-4.5	-0.4	29.0	3
Ethiopia	0.1	-4.1	-0.5	-1.3	0	-3.7	10.8	31
Gabon	-3.3	-3.3	3.6	3.4	-14.3	4.0	0.2	115
Gambia, The	-0.2	-2.5	0.7	-3.3	-0.4	-0.5	11.6	26
Ghana**	1.6	-2.8	0.5	-6.7	6.0	-2.7	11.7	25
Guinea	3.1	-4.9	2.7	-3.2	10.3	-2.7	5.1	47
Guinea-Bissau	0.6	-1.4	0.6	-12.8	0.2	-1.4	37.3	2
Kenya**	-5.4	0.8	1.5	-2.7	-1.3	1.8	4.9	49
Lesotho	-1.6	-4.5	4.1	-16.7	-11.1	-6.1	4.6	50
Liberia	-2.3	-2.1	1.4	2.0	-15.8	-19.9	n.a	n.a.
Libya	-4.1	-1.6	3.4	0	-24.0	7.3	n.a.	n.a
Madagascar	0.9	-7.5	1.3	-9.6	5.5	1.4	8.3	36
Malawi	1.1	-3.8	-1.3	-6.2	3.7	-1.4	26.2	6
Mali	0.8	-1.0	0.4	-0.6	1.1	-0.3	15.7	17
Mauritania	1.1	0.1	2.4	-4.3	6.7	-7.4	22.7	10
Mauritius**	2.4	-4.5	-0.1	-0.7	-0.6	-1.3	0.5	106
Morocco	2.9	-0.6	-1.8	-5.3	-0.1	0.8	1.3	76
Mozambique**	-0.2	-2.5	0.9	0.4	-0.3	-0.1	23.3	9
Namibia**	-2.6	-3.6	2.4	-7.3	-2.8	-1.1	4.4	51
Niger	6.2	-8.5	4.2	-5.5	-7.9	-0.8	11.6	26
Nigeria**	-1.0	-3.1	2.1	1.6	-13.5	6.9	0.4	108
Rwanda	3.3	-5.9	-0.1	-3.1	-1.3	-2.8	17.9	13
São Tomé and Principe	-0.2	-1.8	0.5	0.9	-2.1	3.1	75.2	1
Senegal	-2.2	-1.0	1.9	-0.5	0.6	0.9	9.7	32
Seychelles**	-9.2	-10.6	12.7	-26.8	26.0	-8.3	3.0	59
Sierra Leone	-0.9	-1.5	0	-5.6	-0.1	0.5	28.7	4
Somalia	n.a	n.a.	n.a.	n.a.	n.a	n.a.	n.a.	n.a.
South Africa	-2.0	-5.3	3.9	-0.1	2.4	-1.5	0.4	108
Sudan	-3.4	-2.8	1.5	3.5	-3.2	2.1	2.0	65
Swaziland	-0.9	-2.0	2.4	-0.7	-1.2	-0.5	0.9	90
Tanzania**	0.3	-2.4	0.6	-0.7	-0.2	0.8	n.a.	n.a.
Togo	-0.8	1.3	0.2	-2.7	-0.3	-1.3	5.7	43
Tunisia	-1.7	-1.6	0.6	-1.7	0.4	0.8	1.1	83
Uganda**	0.6	-2.0	-1.0	-0.1	-2.2	-0.2	13.3	22
Zambia**	-0.5	-1.3	0.5	-0.6	3.3	1.0	27.3	5
Zimbabwe	-21.0	17.8	2.3	-18.8	8.5	1.5	2.4	63
Africa	**-1.1**	**-3.5**	**2.3**	**-0.4**	**-5.6**	**1.4**		

Source: Computed by the author from Table A12 of *World Economic Outlook*, October 2009; ** = frontier emerging markets; + = calculations based on projections; impact is defined as the percentage difference; Rank[a] = ranking among 120 aid recipient countries (aid as percent of GDP).

In Table 1, we show some of the country-specific primary commodities, real GDP growth rates for 2008 and the projections for 2009 and 2010, current account balances as percent of GDP for 2008 as well as the projections for 2009 and 2010. Also, we indicate those countries which belong to the United Nations World Tourism Organization with emphasis on the top tourist destinations in Africa. It is important to note that these countries also depend on the importation of food, fuel, and raw materials, which serve as intermediate goods for their manufacturing sectors. Either as primary commodity exporters or raw material importers, they are susceptible to all the vagaries in the international markets. As column 4 of Table 1 indicates, most of the oil-exporting countries (Algeria, Angola, Côte d'Ivoire, Egypt, Equatorial Guinea, Gabon, Libya, and Nigeria) in the continent were able to maintain current account surpluses in 2008 and are projected to remain so in 2009 and 2010, except for Angola and Equatorial Guinea where projections have both with current account deficits in 2009, and Egypt in 2009 and 2010.

As for the oil-importers in the region, the current account deficits deteriorated in 2008 due to the collapse in commodity prices, falling export volumes, low remittances, and tourism revenues; and they are projected to continue with the worsening current account deficits in 2009 and 2010. From the data in Table 1, one can conclude that the crisis may have contributed to the change in the current account positions of Botswana, Eritrea, and Namibia – from a position of current account surplus in 2008 to current account deficits in 2009 and 2010. Overall, the African region is projected to have worsening current account deficits in 2009 and 2010. As for the impact on real GDP growth rates, eight countries (Chad, Comoros, Congo Republic, Côte d'Ivoire, Kenya, Mauritania, and Zimbabwe) are projected to have positive growth rates in 2009 and 2010 higher than 2008. If this holds true for Zimbabwe, it would mean a remarkable turnaround from -14.1 percent in 2008 to 17.8 percent change in real GDP growth rate in 2009 (see Table 2). Similarly, projections show eight countries (Botswana, Equatorial Guinea, Gabon, Lesotho, Madagascar, Seychelles, and South Africa) with negative real GDP growth rates in 2009 – a significant change from 2008. For the continent as a whole, Botswana appeared to be the most affected in terms of real GDP growth rate – from 2.9 percent in 2008 to -10.2 percent for 2009. Overall, real GDP growth rates are projected down, from 5.2 percent in 2008 to 1.7 for 2009 and slightly more than double for 2010.[14]

According to a study by the IMF that used a dynamic fixed-effect panel with variables that captured the income effect of changes in oil and non-oil commodity prices, it found from its regression estimates that "1 percentage point slowdown in GDP growth in the rest of the world leads on the average to an estimated 0.5 percentage point slowdown in Sub-Saharan Africa. Part of the effect is felt contemporaneously (0.2 percentage) and part in the following year (0.3 percentage point)." [15] To put this result succinctly, there is a direct relationship between GDP growth rates of countries that receive African exports and the demand for its exports.

(b) Foreign Direct Investment and Portfolio Investment Inflows

First, it is important to point out that portfolio investment inflow, unlike foreign direct investment (FDI), is much more volatile than FDI (see Figure 1). The credit crunch in the advanced countries due to the global financial crisis led to significant reversal in portfolio investment inflows into Africa in 2008. As a matter of fact, many of the "frontier" emerging markets[16] recorded negative portfolio investment inflows from their domestic markets. This

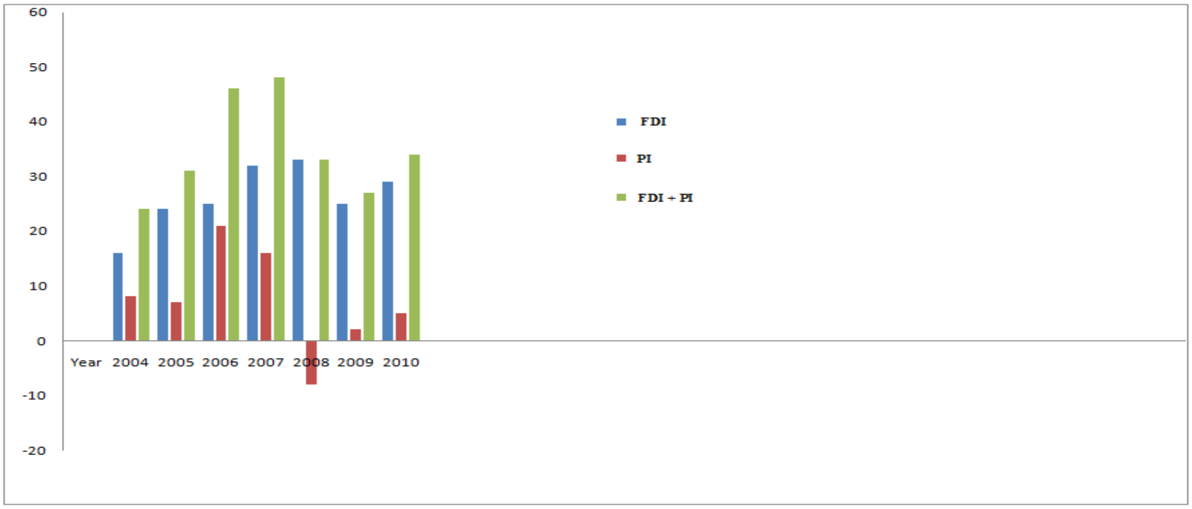
[14] The real GDP growth rates pale in comparison to real per-capita GDP growth rates for all countries. In 2008, five countries recorded negative growth rate in real per-capita GDP, but 16 countries are projected to record negative growth rates in real per-capita GDP for 2009 with Botswana (-11.5 percent) and Seychelles (-10.0 percent) being the hardest hit in the continent (see Table SA3, p. 68, *Regional Economic Outlook: Sub-Saharan Africa,* April 2009).

[15] For more details, see Box 1.1. The Impact of the Global Slowdown on Africa, *Regional Economic Outlook: Sub-Saharan Africa,* April and October issues, 2009; and *World Economic Outlook*, April and October issues, 2009.

[16] According the classification by the IMF, Botswana, Cape Verde, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, Tanzania, Uganda, and Zambia are referred to as "frontier" emerging markets.

means that those countries with relatively more developed financial markets including South Africa were adversely affected, in 2008 (see Figure 1), by the global economic and financial

Figure 1: Trends in Foreign Direct Investment and Portfolio Investment Inflows, 2004-2010 (*Billions of U.S. Dollars*)



Source: IMFs' *World Economic Outlook* and *Regional Economic Outlook*, 2009

crisis because risk aversion reduced and reversed the portfolio inflows as foreign investors sought more liquid and safer assets. With respect to FDI, its flows to Africa in 2008 were not significantly affected because these were investment projects already in the pipelines and not funding them, due to the crisis, would have been imprudent. According to IMF projections, FDI flows are projected to decline somewhat in 2009 with improvement expected in 2010 (see, *World Economic Outlook*, April and October issues, 2009).

(c) Private Remittances

Over the past two or more decades, international migrants have remitted significant sums of money to their relatives in order to help them cushion the economic hardships at home. Private remittances now constitute an important external source of income not only to the poor but also contributing significantly to the economic growth in many African countries. In 2007, an estimated US$19 billion was remitted to Sub-Saharan Africa, and this represented about 2.5% of the regional GDP – an amount equal to the Official Development Assistance (ODA) the region received (see *Regional Economic Outlook: Sub-Saharan Africa*, April issue, 2009, p. 17). As shown in Figure 2, Sub-Saharan Africa is among the top three recipients of remittances, but more importantly, Figure 3 shows remittances to be one of the significant components of the GDP in 25 countries in the region. As we can see (Figure 3), remittances as percentage of GDP in 2008 vary widely across the countries in the region – from a low of about one percent of GDP in Côte d'Ivoire and Mozambique to more than 25 percent of GDP in Comoros and Lesotho. To these

Figure 2: **Remittances by Region, 2007** ***(As Percent of GDP)***

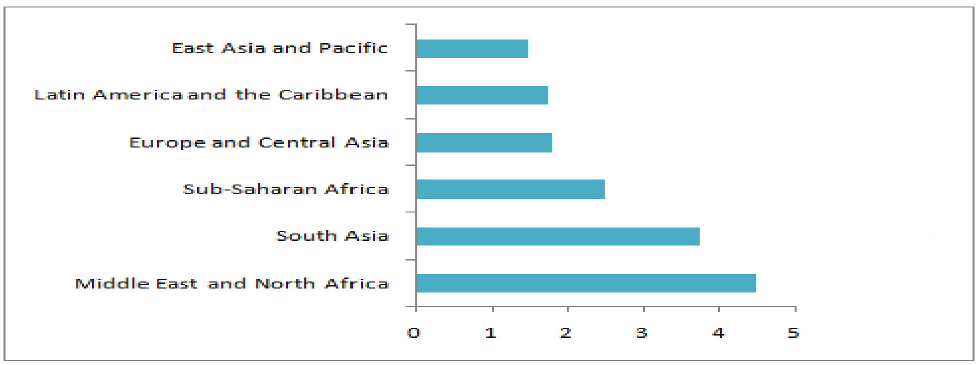
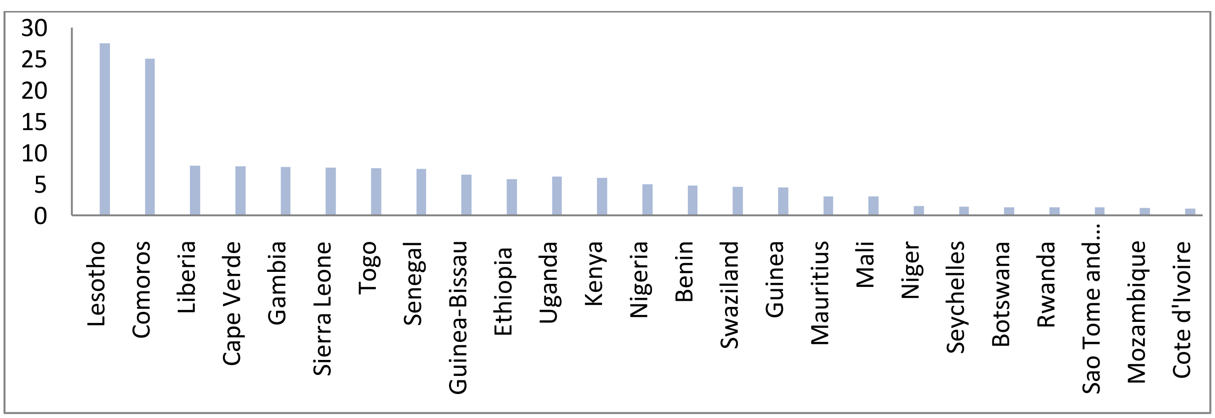


Figure 3: **Top 25 Recipients of Remittances in Sub-Saharan Africa, 2008**
(As Percent of GDP)



Source: Adapted both Figures 2 and 3 from Box 1.3. The Global Slowdown and Remittances to Africa, *Regional Economic Outlook: Sub-Saharan Africa*, April 2009; and World Bank's "*Migration and Development Brief 10*," July 13, 2009.

countries, remittances form a significant part of their economic growth process, and if the current global economic and financial crisis should persist much longer, this would have more adverse impact on their economies.

The pro-cyclical nature of remittances means that remittances will increase during economic booms and decline in recessions in host countries; therefore, as private remittances dwindle due the global economic and financial crisis, households' consumption expenditures will continue to be adversely affected in sub-Saharan Africa. Due to the recession in advanced countries, many African migrants in the United States and other European countries are losing their jobs, and because of this, private remittances are projected to decline both in 2009 and 2010. According to a study conducted by the IMF, "a 1 percentage point decline in growth of host countries would lead to a 4 percent decline in remittances" (see *World Economic Outlook*, October issue, 2009). The bright side of the private remittances issue for African countries is that there are no "*reverse remittances*" recorded as of date.

(d) Foreign Aid Flows

Despite the past and current controversies[17] about the usefulness of foreign aid inflows into Africa, one cannot refute the fact that poverty-reducing initiatives across the continent have contributed to sizeable increase in foreign aid inflows over the past decade. At the 2005 G8 Summit in Gleneagles, Scotland, member countries pledged to "double the total aid volume by 2010 compared to 2004, and that half of this increase should be allocated to Sub-Saharan

[17] van Wijnbergen (1985) argued that large foreign aid inflows impede Africa's export competitiveness and diversification. For current debate on foreign aid inflows, see Dambisa Moyo's interview with Aida Edemariam of *The Guardian*, Thursday 19 February 2009, "Everybody knows it doesn't work" at www.guardian.co.uk/society/2009/feb/19/dambisa-moyo-dead-aid-africa, and her subsequent article "Why Foreign Aid Is Hurting Africa," in *Wall Street Journal*, March 21, 2009 at http://online.wsj.com/article/SB123758895999200083.html; and Jeffrey Sachs and John W. McArthur's response, "Moyo's Confused Attack on Aid for Africa," at www.huffingtonpost.com/jeffrey-sachs/moyos-confused-attack-on_b_208222.html.

Africa." According to a recent study by The Nordic Africa Institute, aid to Sub-Saharan Africa increased by about 23 percent between 2005 and 2006, and that most of the increase was due to

Figure 4: **Top 30 Foreign Aid Recipients in Africa, 2008** ***(As Percent of GDP)***

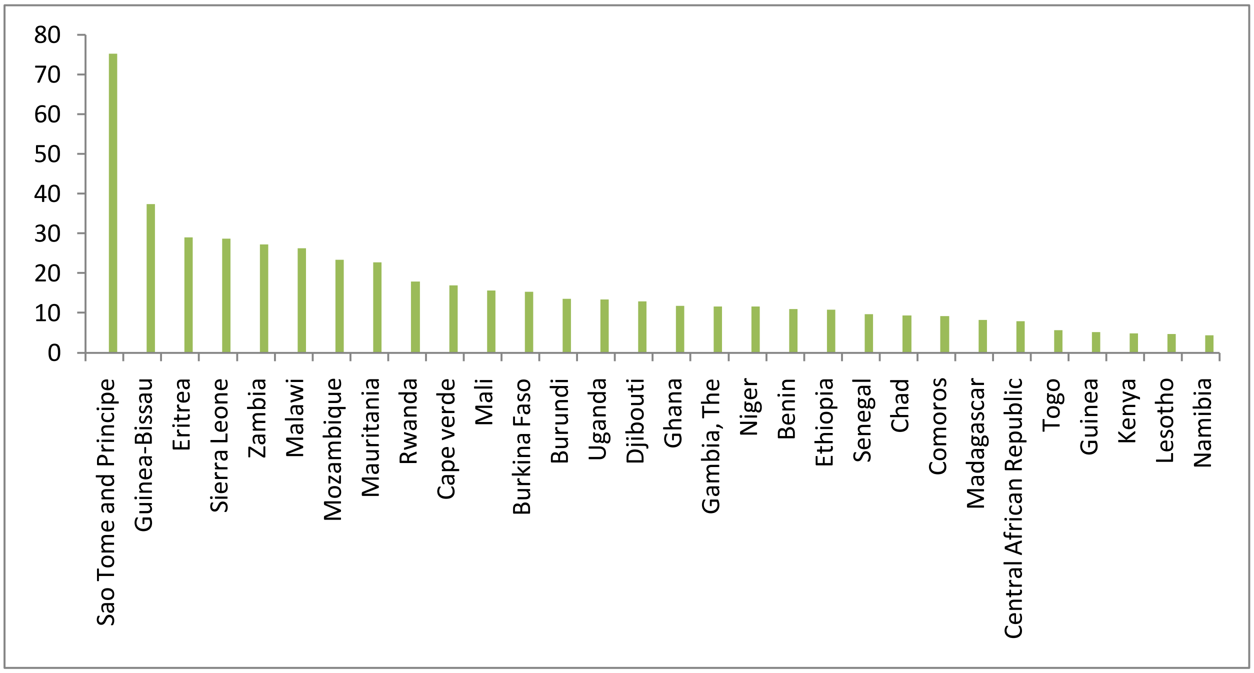


Table 3: Foreign Aid as Percentage of Gross Capital Formation, Selected periods

Region	1980-1984	2000-2004	2005†
Sub-Saharan Africa	15.42	26.81	27.3
Latin America and Caribbean	1.7	1.53	1.2
South Asia	6.56	3.80	3.0
East Asia and the Pacific	2.81	1.16	0.8

Source: World Bank, 2006 and 2009, † = latest available data.

the debt relief to Nigeria and other countries in the region, and that if we exclude the debt relief to Nigeria, foreign aid to the rest of the region remained at its 2 percent level in 2004.

As one can observe from the last column of Table 2, all African countries, except the Republic of Congo, Liberia, Libya, Somalia, and Tanzania, are in the group of 120 aid recipient countries. This may explain why in early September of 2008, African leaders launched a pre-emptive warning, perhaps in anticipation of the adverse consequences of aid reduction to the region, that they may fall short of meeting their United Nations goals of reducing poverty and the Millennium Development Goals (MDGs) if advanced countries use the financial crisis as the basis to slash foreign aid commitments to Africa. As Figure 4 (or column 4 of Table 2) and Table 3 indicate, Sub-Saharan Africa is the largest foreign aid recipient, either as percent of GDP or as percent of gross capital formation, among the developing regions of the world. According to the most recent IMF projections, foreign aid to low income countries (mostly in Africa) has started to decline in 2009, and this would have adverse impact on the top 30 foreign aid recipient countries in the region where foreign aid as percent of GDP range from a low 0.3 percent in Algeria to a high of 75.2 percent in Sao Tomé and Principle – the number one aid receiving nation as percent of GDP.

(e)Tourism

Tourism is one of the major sources of income in some African countries, and it is one of the channels through which the current global economic and financial crisis will impact the some of the tourist-dependent economies. The magnitude of the effects of a decline in tourism on these countries varies just as the volume/value of tourism as percentage of gross domestic product[18] (GDP) varies across the countries in the continent, who are members of the United Nations

[18] For example, *Arusha Times* of October 11, 2008 at http://www.afrika.no/noop/page.php?p=Detailed/17380 reported that the tourism industry contributes about 17.2 percent to Tanzania's GDP, and it is the second most important activity after agriculture.

World Tourism Organization (UNWTO). As indicated in the last column of Table 1, nearly all African countries belong to the 153-member nations of the UNWTO, unfortunately though, no African country is listed among the top ten tourist destinations in the world.[19] Despite not having an African country among the top, there are reputable tourist destinations (Kenya, Zimbabwe/Zambia, Egypt, Mali, South Africa, Morocco, Ethiopia, Uganda, Rwanda, and Tanzania) in Africa as well. Among these top tourist destinations, only Rwanda reported an increase of 11 percent in tourist revenues in the first quarter of 2009. Even though the first quarter of 2009 showed positive increase in tourist revenue, the Rwanda Development Board (RDB) was still apprehensive that foreign direct investment into the sector would be adversely affected by a prolonged global crisis. This pessimistic outlook was captured in the statement of the principal deputy CEO of RDB that "Dubai World's planned $230 million investment, which includes two luxury hotels, could be at risk."[20]

(f) Macroeconomic Policy Responses

Both the food and fuel crisis of 2007 and the financial crisis of 2008 have stretched the fiscal policy capacity of many countries in Africa to the point that debt sustainability cannot be ignored because the recession and the reduction in global trade will impact fiscal policy directly. For example, in response to the rising prices of food and fuel in the earlier part of 2008, about 75 percent of the countries in the region applied fiscal policy measures that involved tax decreases and/or increased subsidies on food, fuel, and agricultural products or used outright transfers to cushion the effects of the crisis.

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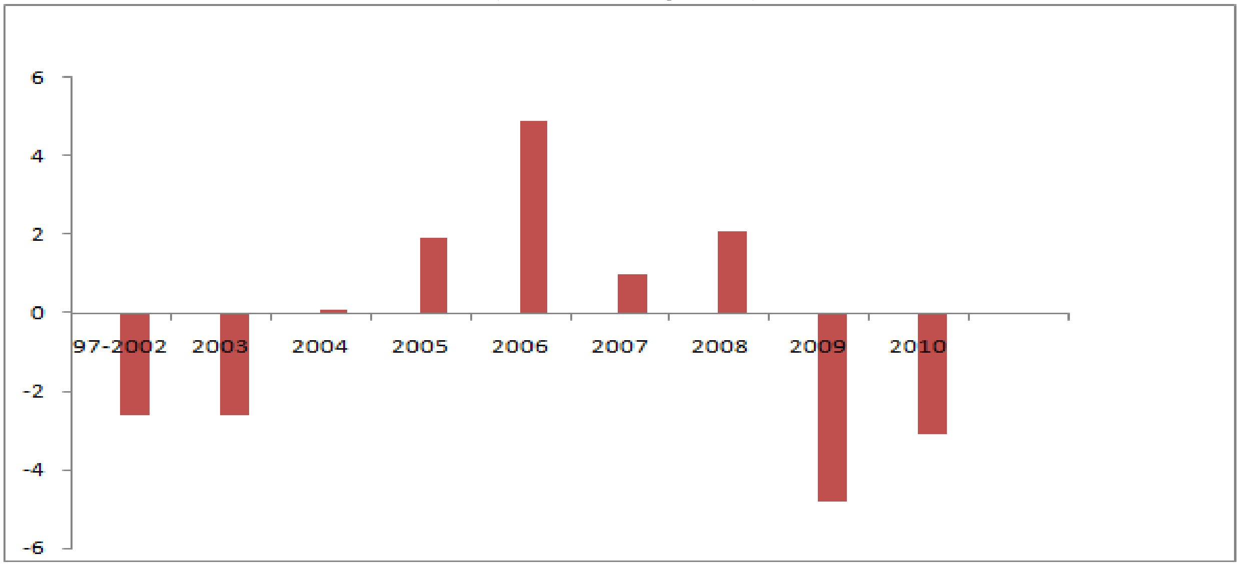
[19] According to the United Nations World Tourism Organization, the top 10 tourist destinations in the order of magnitude are: France, Spain, United States, China, Italy, United Kingdom, Germany, Mexico, Austria, and the Russian Federation. For African member states in the UNWTO, see http://www.unwto.org/states/reg/en/afr.php.

[20] See, "Rwanda's tourism up despite global financial woes" at http://www.afrigoodnews.com/travel-and-tourism/rwanda-tourism-up-despite-global-financial woes.

Figure 5: Overall Fiscal Balance of Central Government, 1997/2002 – 2010
(*As Percent of GDP*)

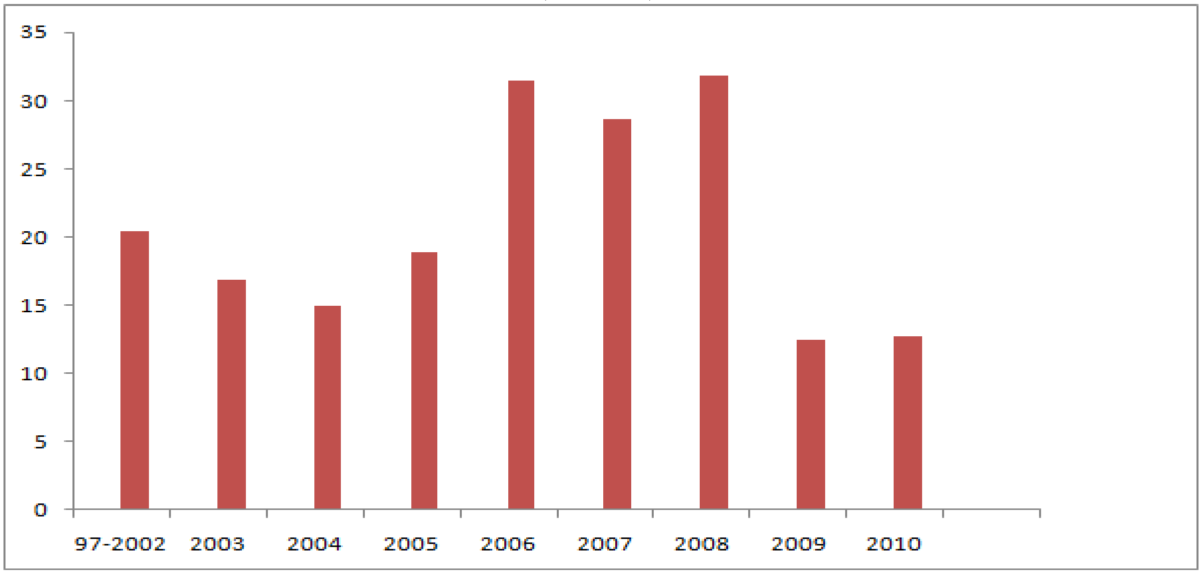


Source: Compiled from Table SA8 of IMF's *Regional Economic Outlook: Sub-Saharan Africa*, April and October issues, 2009.

The fiscal policy responses to the high food and fuel prices in addition to the financial crisis vary depending on the fiscal capacity of each country in the region. This also holds true with respect to the effects of both crises across the countries in the region. While the oil-exporting countries in the region gained from the high fuel prices with significant improvement in their fiscal positions, the oil-importing countries were under pressures to use fiscal policy to mitigate the effects of both crises, and as a result, their fiscal conditions worsened. In spite of the fiscal pressures on the oil-importing countries, the overall fiscal balance for the region, which was one percent of GDP in 2007 improved to 2.1 percent of GDP in 2008, and it is now projected to deteriorate to -4.8 percent and -3.1 percent of GDP in 2009 and 2010, respectively (see Figure 5).

As for the use of monetary policy, most central banks in the region tightened their policy targets in response to the increase in the global food and fuel prices of 2007, and as inflation abated in the second and third quarters of 2008, pre-financial crisis, some central banks reversed their tight monetary policy stance; and in some countries such as the Democratic Republic of Congo and Malawi, the central banks maintained the same monetary policy throughout. As

Figure 6: Broad Money Growth for Sub-Saharan Africa, (1997-2002 – 2010) (*Percent*)



Source: Compiled from Table SA13 of IMF's *Regional Economic Outlook: Sub-Saharan Africa*, April and October issues, 2009.

we can see in Figure 6, for the entire region, the growth rate of broad money hovered around 30 percent between 2006 and 2008, but it is projected to drop below 15 percent in 2009 and 2010.

VI. Conclusions and Policy Implications-Questions

It is important to point out that the current global economic and financial crisis could be a rare opportunity for African countries to examine or re-examine their economic structures. From the analysis provided in this paper, we show through the transmission channels that even though African countries may not be completely integrated into the complex global financial markets, we cannot dispute the fact that their economies are linked to the global economy in different ways. This statement is affirmed by the global economic and financial crisis, which began as a result of the collapse in the housing market in United States and quickly became a global recession from which the African region is still reeling from its aftermath.

The general consensus among international as well as African analysts and experts was that the financial crisis in the United States and other European countries would have no direct effects on the financial sectors in the region; however, they all agreed that there are other different channels through which the global economic and financial crisis could impact African countries. We identified and analyzed six transmission-vulnerability channels, and obvious from the analyses of these channels is the realization of the depth of the region’s susceptibility to external shocks. For example, with respect to global trade, African countries are predominantly primary commodities exporters, and given the vagaries in the world market and coupled with the fact that primary commodities have very low price and income elasticities, the region will always remain highly vulnerable to external shocks. As illustrated through tables and some pertinent diagrams, it is apparent that African countries are particularly vulnerable with respect to the transmission channels we analyzed. It is important to note that Africa is not the only continent plagued with these problems. Other developing regions shared the same vulnerabilities with Africa during the 1960s and 1970s, but they managed to transform their economies through export diversification and through meaningful and long lasting structural reforms.

Obviously, the global economic and financial crisis poses serious challenges to governments and policymakers around the world. Analysts’ proffered policy recommendations or solutions vary widely depending on the prism with which each one views the global problems and challenges. Some of the policy recommendations for both developed and developing countries include: (1) the coordination of fiscal and monetary policies or the use of available fiscal space, (2) restoring stability in the financial systems through prudent regulations, (3) global coordination and cooperation in terms of (i) fiscal stimulus and global imbalances, (ii) strengthening global trade in order to promote economic growth in all countries, (iii) foreign aid and provision of additional resources, and (iv) adequate labor market and social policy responses that will mitigate job losses and restore proper health care and delivery services. These are laudable recommendations, but for African countries, they not only fall short in addressing the vulnerabilities, they overlook Africa's flawed macroeconomic fundamentals. Instead of adding to the litany of suggested recommendations[21], let me use some of the transmission-vulnerability channels, not in any particular order as discussed earlier in this paper, to address these flaws.

First, let us look at the global trade channel. As mentioned earlier, African countries are predominantly dependent on export of primary commodities, and these are goods that are characterized with very low price and income elasticities. In the 1960s and 1970s, Africa shared this reliance on commodity exports with other developing regions, however, over the years; these regions went through structural transformation via export diversification – from primary commodities exports to dynamic manufactured exports. Until African countries can duplicate the success stories of Latin America and the Caribbean as well as Asia, this will continue to be a major source of the region's vulnerability. With respect to trade, this analysis would remiss if it failed to ask two key questions for policymakers in the continent to mull over: If the Asian and Latin American regions (two regions with whom Africa shared the same characteristics in the 1960s and 1970s) could achieve export diversification and structural transformation of their economies, how can the African region achieve exports diversification and meaningful structural transformation within a decade or two so that its economies would be less susceptible to external

[21] For example, one can find a compendium of papers on strategies and recommendations from institutions within Africa, e.g AfDB, see, http://www.afdb.org/en/topics-sectors/topics/financial-crisis

shocks? How long would it take to acknowledge that African exports of commodities are not dynamic with respect to the terms of trade?

Second, according IMF publication, an estimated $19 billion was remitted to Africa in 2007, and this was equivalent to the total official development assistance the region received. This “unconstrained aid” is an indication of the purchasing power of African migrants in advanced countries. Again, rather than give recommendations as is often done over the years, this paper asks: How can the African region harness the vast resources of its citizens abroad with the needs of the region to build a shock-absorbing economy? Why must Africa be the only continent where its leaders fire foreign-aid salvoes to the G8 and/or G20 Summits? Third, since tourism is now a major percentage of GDP in some countries, the issue for discussion is whether there are policy efforts to promote not only international tourism but also intra-continent tourism without engaging in price discrimination. This is an important issue because in some of the top tourist destinations in East Africa, non-East Africans pay same rates as North Americans and other Europeans. This type of pricing policy, not found in top tourist destinations in Europe, cannot promote intra-continent tourism. In addition, it is not a stretch to say that the visa policies of many African countries discourage tourism. This is analogous to requiring a benevolent visitor coming to your compound/estate for the purpose of spending thousands of dollars to pay admission fee before entrance. The question is: Can the benevolent visitor go elsewhere unimpeded to spend the largesse? Finally, let us look at one of the top policy recommendation by nearly all international organizations: use available fiscal space. We close by asking a very pertinent question: How long can African countries with extremely weak tax base or structure continue to use available fiscal space without worsening fiscal positions? These are just a few of the issues for contemplation.

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