

African Economic Integration, the Millennium Development Goals and African Reform Challenges in View of the Global Financial Crisis

Dr. Arno J. van Niekerk

Abstract

The impact of the global financial crisis (GFC) on Africa's economies has left considerable doubt about the way forward for Africa in terms of its economic integration. Not only, for instance, is policy reforms even more under scrutiny as a result of the crisis, but policy coordination among African countries has now become more problematic. The continent's strong aims regarding economic integration and the Millennium Development Goals (MDGs) are being seriously challenged by the 'new economic normal' situation that is taking shape as the worst of the GFC is dissipating. By investigating the changed, crisis-induced context of these key African priorities, the paper will assist in policy decision-making, taking current conditions into consideration and providing perspective on reform requirements for progress in regional economic integration and the MDGs. In the wake of the GFC, Africa is certainly at a crossroads regarding its progression, especially in deciding on the strategy it will follow to promote both intra-integration among its economies and inter-integration with external partners, with both presumably leading to an improvement in Africans' quality of life. The decisions Africa will make now will have a momentous impact on closing the divide between itself and most of the rest of the world – i.e. arguably its last window of opportunity.

Keywords: African economic integration, global financial crisis, African reform, MDGs

1. Introduction

Since the start of the global financial crisis (GFC) with the subprime crisis in August 2007, economic conditions in Africa have deteriorated alarmingly. Its six leading economies (out of 53) – accounting for 65% of the continent's gross domestic product (GDP) – are primarily the ones that have felt the brunt of this impact, mainly due to them being the most integrated into global financial markets. South Africa (SA), Nigeria, Algeria, Egypt, Morocco and Angola have all experienced a significant weakening in their GDP growth rates – even up to 99% in the case of Angola (from 2007 to 2009) as global trade collapsed (IMF, 2009:90). For Africa as a whole its real GDP growth rate has declined by over 70%, from 6.3% in 2007 to 1.7% in October 2009. In global terms, the GFC has caused world output to fall from 5.2% real GDP growth in 2007 to -1.1% in 2009, a reduction of 121%. World trade, in terms of volume, has fallen by 11.9% from 2008 to

2009 (IMF, 2009:184, 169). The GFC's impact has particularly been felt by countries' current accounts and fiscal balances, resulting in 'twin-deficits'. Regions with current account surpluses experienced a reduction in these surpluses since 2008, namely Japan and developing Asia, including China (ECA, 2009:2). Latin America has moved from a small surplus to a small deficit, while the Middle Eastern countries are experiencing the highest current account surpluses due to high oil revenues. These are, however, expected to decline in line with the falling oil price. The fiscal balance deteriorated in Industrialised countries as a whole and in all major countries and regions. This is mainly driven by lower revenues due to the growth slowdown and higher expenditure as countries dealt with the effects of the GFC – both developed and developing economies.

In view of increasing globalisation, or perhaps rather triadisation among the three centers of global economic power (the United States (US), Europe and Japan (and now also China and India)), of particular concern for Africa is how the GFC will affect two key focus-areas which are regarded as essential for Africa's efforts to catch up with the rest of the world: achieving the Millennium Development Goals (MDGs) and deeper regional and economic integration on the continent. Africa's progress towards the MDGs, and especially the reduction of poverty (Goal 1), are in serious jeopardy due to the GFC. So also are the plans of the African Union (AU) to intensify African economic integration and to implement, by 2021 (or eventually), a single African currency (Jefferis, 2007:83). The paper investigates the impact of the GFC on Africa's economic progress, with specific emphasis on the implications it could have for Africa's aspirations to achieve the dual aims of (1) reaching the MDGs by 2015 and (2) deepening African economic integration *en route* to 2021 (for instance). It firstly aims to explore what challenges Africa's crisis-affected economic conditions are now posing as regards attaining these dual aims, and secondly, to examine what economic reform requirements are among those most essential for achieving the dual aims. Comprising of sections three to four, this will be preceded by section two, which provides vital background through succinctly considering Africa's historical experience with factors like globalisation, dictating actions and ideological influences, and especially African regionalisation – all factors that are now particularly in the spotlight due to the GFC and its impact on the two focus-areas (dual aims) mentioned.

2. Historical context: Africa and globalisation, reform and regional integration

After what is known as ‘European scramble for Africa’ at the Berlin Conference in 1884, colonialism forced Africa’s primary role in the global economy, of acting as a reservoir of human and natural resources to continue to enrich the economy of the colonial center at its own expense, upon itself (Shrestha *et al.*, 2008:4). This set Africa on the path of underdevelopment as the capitalist class in Europe used their control of international trade to ensure that Africa specialised in exporting captives (Rodney, 1974:91). Only after World War II, when it became enormously difficult and costly for the European colonisers to maintain their colonialism, and when rising tides of anti-colonialism across Africa were taking its toll on the imperium, did the bell of independence began to rang during the 1950s. As Africa was the last continent to be colonised, it was also the last to be politically free from the clutches of colonialism. Ever since this period, when the slave trade had a most devastating effect on the continent, Africa has struggled with the issue of colonisation: its origins, its earlier justification and its after-effects, resulting in an innate resistance to any form of Western dominance/influence – often to their own detriment as in the case of globalisation. For many Africans globalisation is a modern-day version of colonisation that must be desisted. With this inertia-approach, plus a general lack of competitive ability, many African countries have robbed themselves of the opportunity to react quicker and reap more of the benefits of globalisation.

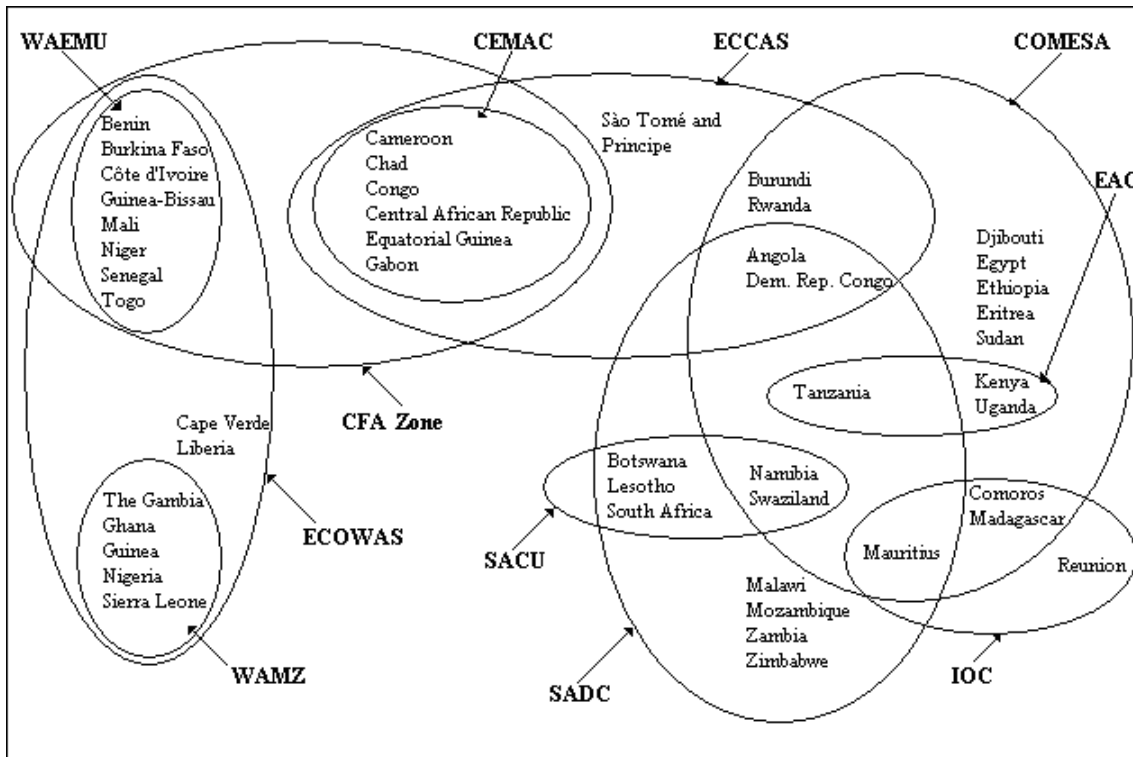
Later, during the 1980s, when reforms through the structural adjustment programmes (SAPs) were less than successful in many African countries, mainly due to their lack of taking country-specific conditions sufficiently into consideration, it became evident that its economies had gained little in terms of becoming more globalised (Clapham, 2006:7). It was from this experience, primarily, that the duality between African marginalisation and globalisation developed. Leys (1994:46) conclude that the failure of World Bank and International Monetary Fund (IMF) austerity policies in Africa has moved the continent from “crisis” to “tragedy”. In response to the failure of the SAPs, even in 1989, the Economic Commission for Africa (ECA) initiated the African Alternative Framework to Structural Adjustment Programme for Socio-Economic Recovery and Transformation (AAF-SAP). Being on the whole concerned with ‘adjustment with transformation’, AAF-

SAP stressed the need for capital investment for economic growth in Africa (Loots, 2006:4). After the Washington Consensus¹, during the 1990s, when neo-liberal policy approaches got deeper ingrained in prescriptions, African economies became even more vulnerable as the winds of increased globalisation became icier and Africa's global competitiveness waned (Collier, 2007:14). There is no doubt that the continent presents a challenge to globalisation's advocates. Today, in light of the GFC, the hegemony of neo-liberal policy approaches and popularised American-style capitalism – for many the true roots of the crisis – are under serious scrutiny. Ironically, Africa had arguably paid the highest price for these partly flawed policy approaches, into which its economies, even those who initially resisted it like Nigeria and Tanzania, was forced via conditionality.

In combination with these developments, over the past century, Africa has consistently attempted to promote regional integration. Perhaps the word most frequently used in African political discourse is 'unity', signifying a deep-seated desire by Africans to join forces in order to compete better in an increasingly globalised economy. Regional economic cooperation in Africa dates as far back as the beginning of the last century. By 1919 an East African Currency Board (EACB) was created by Kenya, Uganda and Tanzania (then Tanganyika) to help facilitate monetary integration. The cooperation primarily focused on the facilitation of international trade and payments, as well as infrastructure. In the process of deepening cooperation, African countries have formed (and evolved) a number of regional economic communities (RECs) with overlapping memberships, which essentially ended up in the 'galaxy' as shown in Figure 1 below. However, the presence of these groupings is yet to translate into a substantial increase in trade within the continent (ECA, 2008:183). Although the share of African countries' exports to other African countries grew from about 4% in the 1980s to 12% in the first half of the 2000s, this growth is very low compared to other regional groupings outside the continent: 66% in Western Europe, 50% in Asia-Pacific and 40% in North America (Siddiqi, 2006:25). More efforts are needed to promote trade within the various RECs. Furthermore, there has been very little manufacturing or intra-industry trade, with petroleum, cotton, livestock, maize and cocoa accounting for most of the trade within Africa.

¹ Later the Santiago (1998) and Monterrey (2002) Consensuses followed with second-generation reforms.

Figure 1: The African galaxy – overlapping regional groupings



Source: Yang & Gupta, 2005:9

Note: See full list of these regional groupings' abbreviations and dates in Appendix A.

Makinda and Okumu (2008:13) make an interesting observation that a large part of the reason why there is an inherent desire by Africans to unite is because of their colonial heritage, and more specifically, the collective humiliation that they endured. It, in fact, “helped to give them an identity” in which the interests of liberation and integration were closely tied. Colonialism thus helped the pan-African cause that culminated, under the inspiration of Kwame Nkrumah, in the establishment of the Organisation for African Unity (OAU) in Addis Ababa, Ethiopia, on May 25, 1963 by the political leaders of 31 African countries. However, the OAU had mainly three weaknesses that seriously limited its success in terms of improving the living standards of the African people and creating intra-African cooperation: it often behaved like a mutual preservation club (discounting good governance and coddling some of the world’s worst dictators); its failure to make clear the OAU’s relationship with the RECs (a symptom, perhaps, of not dealing with underlying sub-regional power struggles, e.g. between Nigeria and Ghana, culminating in

increased competition between their respective sub-regional blocs); and its failure to pursue vigorously the economic goals and principles stipulated in its Charter (which Nkrumah emphasised as essential – for economic cooperation to complement regional integration). The OAU co-existed with a number of RECs, including SADC and ECOWAS, while the EAC existed before its emergence. So also did the United Nations (UN) ECA, whose lead was later followed by the OAU (with its headquarters also in Addis Ababa) as it began to cede the power for economic decision-making to the ECA. Hence, the OAU took part in negotiations on major economic initiatives, including the discussion on the New International Economic Order and the Lomé Conventions. Other key economic initiatives that the OAU took, but could not deliver on, was the Lagos Plan of Action in 1980 and the Abuja Treaty of 1991, both of which called for the strengthening of existing RECs as a basis for integrating Africa. Even though the OAU tried to harmonise policies between regional organisations, it did not prevent an uncontrolled proliferation of RECs during the 1970s and 1980s that created serious inefficiencies, duplication, unintended overlap, and even dissipating efforts and scares resources.

With the belief in getting strength out of unity and regional integration not having died – even to this day – the process of deepening OAU relations with RECs was pursued with vigor from the 1990s, especially after African leaders concluded, in the aftermath of the Cold War, that the challenges of persistent conflict, underdevelopment, poverty and globalisation could best be addressed through integration (Onimode, 2004:193). Hence, in recognising the structural weakness that had prevented the OAU from responding effectively to fratricidal intrastate conflicts, the African Union was formed in Durban, SA, on July 8, 2002. Africa needed a new organisation that could take risks and responsibility in promoting development, peace and security. With Mbeki becoming the first Chair of the AU, he pursued the ideals that Nkrumah had enunciated, especially that of establishing African unity through economic cooperation. For this he proposed the African Renaissance and New Partnership for Africa's Development (NEPAD) initiatives. NEPAD, with its support for a peer review mechanism, was regarded as an appropriate governance tool for debt-ridden Africa, and with its integrated agenda and specific policy options, it was seen as a strong instrument to help harmonise policies and

engender socio-economic transformation. Although, unlike the AU, NEPAD does not enjoy universal support in Africa, the G8 responded at its Kananaskis Summit in 2002, strongly confirmed it through its *G8 Africa Action Plan*. Notably, the principles of the AU (e.g. socio-economic development, good governance and social justice, gender equality) and the ideals of NEPAD (e.g. attracting foreign investment for African wealth creation) significantly correspond with the MDGs, which the UN proposed in 2000. This shows how interrelated, even in their progression, the development path sketched out by both African economic integration through the AU and the RECs, and the MDGs are.

Throughout the progression of African economic integration there were always efforts towards monetary integration. Apart from the well-known CFA Franc (now euro) zone and the EACB, which was terminated in 1967, a monetary system similar to that of East Africa, was established as the Southern Rhodesia Currency Board in 1938 by a colonial Act, but was replaced by a currency board in 1954 and later dissolved in 1963. Another initiative was the Rand Monetary Agreement in 1974, with the rand as the only legal tender in Botswana, Lesotho, Swaziland and SA. The rand zone, which was amended in 1986, was strikingly similar to the euro zone in terms of the sharing of seigniorage and the flexibility of the peg *vis-à-vis* the outside world (ECA, 2008:187). Eventually, it came to be that most of the RECs in Figure 1 have initiated some form of monetary cooperation arrangement that is focusing on establishing macroeconomic convergence criteria.

Following the success of the European Monetary Union (and since the AU has largely been modeled on the European Union (EU)) and the desire to strengthen the continental integration agenda, the AU has adopted, as a formal objective, the creation of a single currency and central bank by 2021 to establish continent-wide monetary integration. This is in the hope that a common currency would protect African countries from contagious or correlated capital movements and financial crises. Hence, plans are clearly set in motion to complete African integration – a ‘United States of Africa’, as envisioned by Nkrumah. Whether this will help Africa to become more globalised, only time will tell. Ultimately, in view of the continent’s historical pathway, it is entirely plausible to postulate that Africa will prove to be the final frontier of globalisation in the global economy.

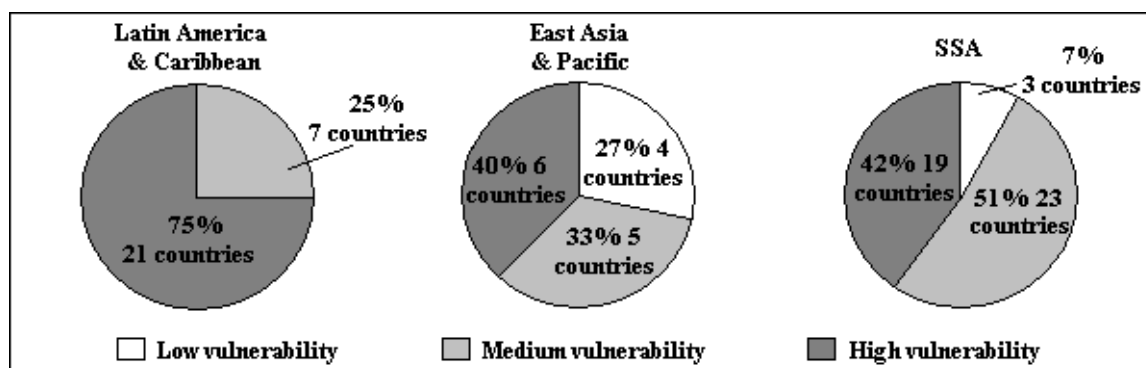
3. Impact of the global financial crisis on Africa's economy

Notwithstanding the current global recession, the economic situation in Africa has improved in recent years. Impressive growth rates and increasing levels of foreign direct investment (FDI) supported an economic resurgence over the past decade: between 2001 and 2008, Africa experienced an annual growth rate of 5.9% in GDP. This was helped by improvements in Africa's macroeconomic environment as well as better governance and a reduction in levels of armed conflict. High economic growth helped to reduce poverty, and agricultural growth, in particular, contributed to enhancing food security as well as reducing hunger and malnutrition (Kirk & Puetz, 2009:10). However, it is also true that, even before the GFC had affected Africa, the continent has – in view of globalisation – increasingly been fighting an uphill battle to gain recognition as a competitor in the global economy. Africa has more states than any other continent. Its small, fragmented, and shallow markets do not offer economies of scale. 40% of Africans live in landlocked countries, many of which are amongst the world's poorest performing economies (World Bank, 2009a:56). Contributing to this, though, the GFC did make matters worse for Africa as global demand – of especially African merchandise (and their prices) – fell to exceptionally low levels, reducing export-earnings dramatically as the balance on Africa's current account fell from US\$32,4 billion in 2008 to US\$-37,1 billion in October 2009 (a staggering 214% reduction) (IMF, 2009:186). Despite a lack of demand, the current GFC has also affected other growth drivers of Africa such as capital inflows that are falling and promises of increased aid that have not materialised yet. Africa therefore faces serious uncertainties over its growth and development prospects as questions are increasingly raised about whether its pre-crisis growth performance can be sustained.

Early indications are that the global economic downturn is much deeper than expected, and the recovery will be gradual and uncertain (World Bank, 2009b:23). Having originated in the developed world, the GFC – for which there has been no equal in over 70 years – grew into an economic crisis and is now becoming an unemployment crisis, i.e. a human and social crisis. Sparing no country or region, it has spread quickly and inexorably to the developing world. The poor countries are especially vulnerable as they lack the resources to respond with ameliorative actions. This poses serious threats to the

hard-won gains in boosting the economic growth of many developing countries, particularly Africa, as well as achieving progress toward the MDGs. The confluence of weak economic activity, drastic swings in commodity prices, steep declines in foreign exchange reserves, and financial market instability, coupled with an intensified adverse feedback loop between the slowdown in the real economy and financial markets, is causing increasing vulnerabilities in developing countries, most notably in Africa. As Figure 2 illustrates, in Sub-Saharan Africa (SSA) 93% of countries are in either the high or medium vulnerability categories. Although the situation in Latin America and the Caribbean might be worse, less countries are affected, which is also the case in East Asia and the Pacific. This poses a threat to global recovery, because developing countries can provide a growth platform to help the global economy pull out of the crisis. Some of the key factors that contribute to Africa's high vulnerability are considered below.

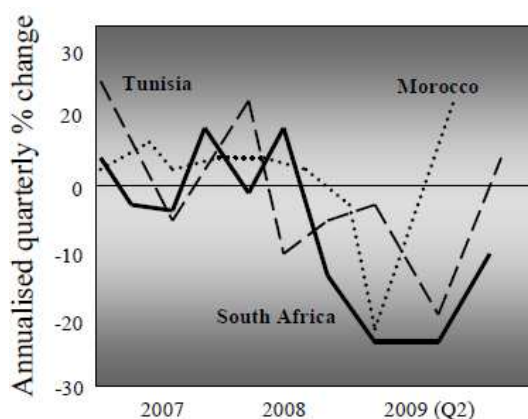
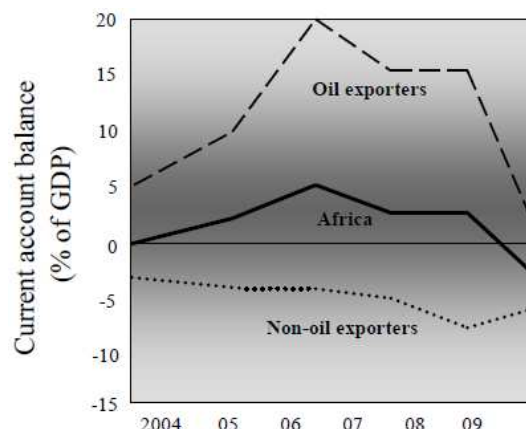
Figure 2: Vulnerabilities in SSA compared to other developing regions



Source: World Bank, 2009b:32

3.1 Impact on trade and capital flows – two key engines of economic growth

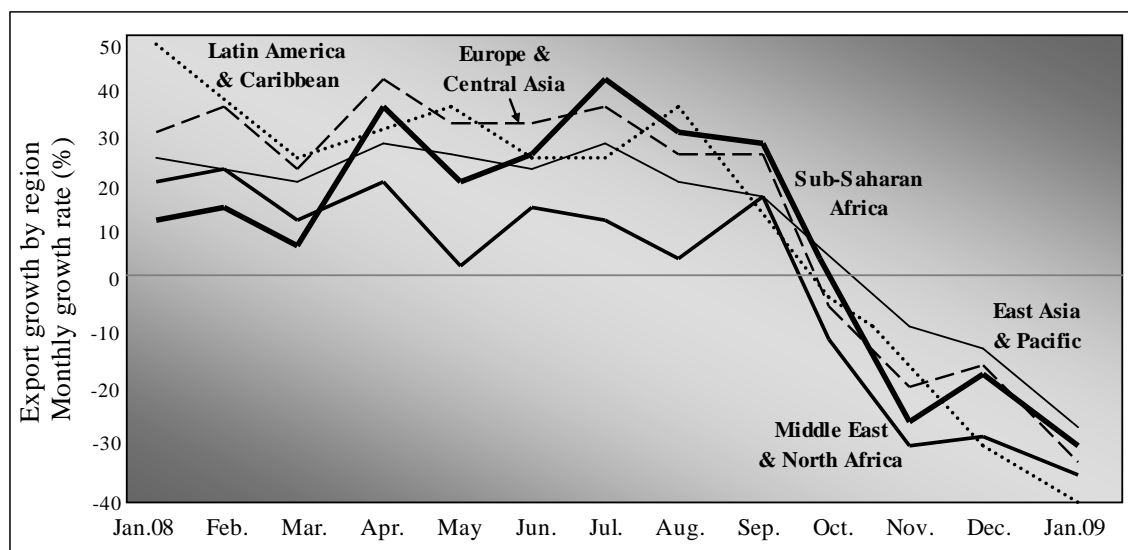
Although the effect of the global recession was initially felt most strongly in those African economies more highly integrated into global financial markets (e.g. SA, an oil importer), the impact of the fall in financial flows spread to oil exporters (including Algeria, Angola, Libya, Nigeria), manufacturing exporters (Morocco and Tunisia), and commodity exporters (Botswana) as global trade collapsed. This is illustrated in Figures 3 and 4 below. In the case of the latter, Africa's current account fell to -3% of GDP, of which SSA's has fallen from -8% of GDP in 2008 to over -10% in 2009 (IMF, 2009:34).

Figure 3: Industrial production**Figure 4: Current account balance**

Source: IMF, 2009:89

International trade continued to decline in 2009, from 2008 (see Figure 5 below), for the first time in 27 years (World Bank, 2009b:139). Declining demand has been compounded by a contraction in the available finance for trade flows. As Figure 5 shows, the second half of 2008 saw a sharp slowdown in merchandise trade – most notably for SSA. For the year as a whole, growth in the volume of world trade moderated to 3.4% in 2008, from an average of 7.9% during 2003-07. The world trade volume in goods and services contracted over 6% in 2009, with a noticeably sharper decline in trade volumes of manufactured goods. Total trade in services – not one of Africa’s strengths – appeared to be more resilient than in manufactures. For Africa, oil and mineral exports have suffered the largest losses. Nigeria and Angola alone experienced a combined shortfall of about \$76 billion in export receipts, while for mineral exporters, Zambia and the Democratic Republic of the Congo (DRC), together it amounts to approximately \$6 billion (ADB, 2009a:2). By the first quarter of 2009, a number of African countries recorded major declines in key commodity exports. In Uganda, coffee exports were 34% lower than the year before. Having benefited from the earlier primary commodity boom, Africa experienced a loss of almost 50% of its exports value in 2009 (ADB, 2009b:20). Making the situation worse, losses in export growth rates have not been compensated for by decreasing import growth rates in value terms, resulting in a deterioration of trade balance for most African countries. However, the decline in food prices should mitigate the impact of the GFC on African countries, especially on the balance of payments and government budget.

Figure 5: Export growth by region during 2008



Source: World Bank, 2009b:139

According to the IMF (2009:90), many low-income countries in Africa that have more diversified commodity exports seem to be weathering the global recession fairly well and may quickly return to higher growth paths. However, as the African Development Bank (ADB) (2009b:8) points out, for the majority of Africa's economies, the adverse impact of the GFC on export commodity prices (although price increases are already taking place) and resource inflows threatens to reverse the gains from the recent economic performance. Key consequences include: declining foreign reserves, non-profitability of some oil fields that have high extraction costs, reduction in government funding capacity and cancellation or postponement of a number of investments in extractive industries that are highly dependent on FDI. Furthermore, a significant implication of declining trade flows is trade taxes that fall dramatically. In 2009, Africa suffered a shortfall in trade tax of roughly \$15 billion, representing 1% of GDP and 4.6% of government revenue (ADB, 2009a:2). These trade tax shortfalls may grow even larger as the crisis deepens.

As far as capital flows are concerned, the GFC threatens to reverse Africa's recent progress in attracting public and private capital inflows. The shortage of liquidity and increased risk (and deteriorating risk perception of African markets) are causing a decline in badly needed capital inflows and curtailing the availability of trade finance (ADB,

2009c:2). With the seizing up of the global financial markets in 2008, emerging market countries were the first among developing countries to feel the impact of the GFC, given their heavier reliance on private capital flows. Private capital flows to the developing world are seeing their sharpest decline ever, with net flows turning negative in 2009 – a more than \$700 billion fall from the peak in 2007 (World Bank, 2009b:1). Many low-income countries are also affected by the private credit crunch; private flows to these countries, including several in Africa that had increased in several years, are now falling. Even remittances, which have become a major source of external financing for African countries, have, according to the ADB (2009b:11), been negatively affected by the slowdown in developed countries. In some African countries, remittances exceed official development assistance (ODA) as a source of external financing. For countries such as Lesotho and Comoros where remittances account for over 20% of GDP, the effect of the crisis could be more devastating if the trends continue. Remittances between African countries have fallen following job cuts and the decline in activity in the mining sector.

Table 2: Africa: Capital flows (2005-08) (billions of US \$)

| Type of capital flow | 2005 | 2006 | 2007 | 2008 |
|-------------------------------|-------------|-----------|-----------|-----------|
| FDI: net inflows | | | | |
| Africa [% of World total] | 26.8 [2.4%] | 38 [2.6%] | 51 [2.3%] | 62 [4.4%] |
| Developing economies | 272.3 | 348.2 | 501.7 | n/a |
| Developed economies | 836.4 | 1097.4 | 1617.6 | n/a |
| World | 1116.3 | 1457 | 2139.3 | 1408 |
| Net foreign direct investment | 21.6 | 21.4 | n/a | n/a |
| Portfolio investment | 10.8 | 15.5 | 15.7 | 5.9 |
| ODA | 35.2 | 43.1 | 38.2 | 44.4 |

Source: WDI, 2009:1; IMF, 2009:89; ADB, 2009c:3

Somewhat surprisingly, as Table 1 confirms, whereas global FDI declined sharply by about 21% in 2008 (to \$1.4 trillion, and is expected to be worse in 2009), FDI inflows to Africa increased by 16.8% from 2007 to 2008 (ADB, 2009b:20). However, there are large discrepancies across countries: while Morocco and Egypt respectively reported a

decline -7% and -5.6%, FDI in SA more than doubled in 2008. The recent rise in capital flows to SA is expected to contribute to a recovery, particularly given the recent upgrade in its sovereign credit rating (IMF, 2009:90). Although capital inflows to SA² increased further in 2009, it is the exception to the rule as far as the African economy as a whole is concerned as the ADB (2009c:2) already indicated that FDI is projected to decline by about 18% in 2009, from \$62 billion to \$50.8 billion, with severe implications on private sector activity. This could well increase the region's financial marginalisation as growth in foreign capital dependent sectors such as natural resources are undermined. Portfolio flows have already decreased by 62%, from \$15.7 billion in 2007 to \$5.9 billion in 2008. Notably, these declines in capital flows point to a financing gap that will further slow down Africa's recovery prospects, given the strong reliance on FDI and portfolio flows to cover current account deficits. The ability of governments to mobilise capital on global markets has been severely affected by the GFC. Since October 2008, sovereign debt spreads have been on the increase. Thus, several African countries, including Tanzania, Tunisia, Uganda and Kenya, decided to postpone bond issue in global financial markets to mobilise resources for financing growth, turning in stead to weakened local markets.

3.2 Implications for reaching the MDGs

There are just five years to go to the deadline set by the international community for achieving the MDGs. The trouble is, as the Organisation for Economic Cooperation and Development (OECD) (2009:31) pointed out, it appears that no SSA-country will achieve all the goals by 2015. Undermining gains in poverty reduction, the triple jeopardy of the food, fuel and the financial crises brought new challenges to the continent. The rise in food prices between 2005 and 2008 pushed an estimated 160 million to 200 million more people worldwide into extreme poverty, of which most are African. The GFC has amplified the impact of the food crisis, especially on the urban poor and the rural population. For food-importing countries (e.g. Lesotho (67% reliance on food imports), Gambia (82%), Mauritania (32%) and Malawi (31%)), the GFC has further weakened current account and fiscal balances, and accelerated the depreciation of currencies. This has

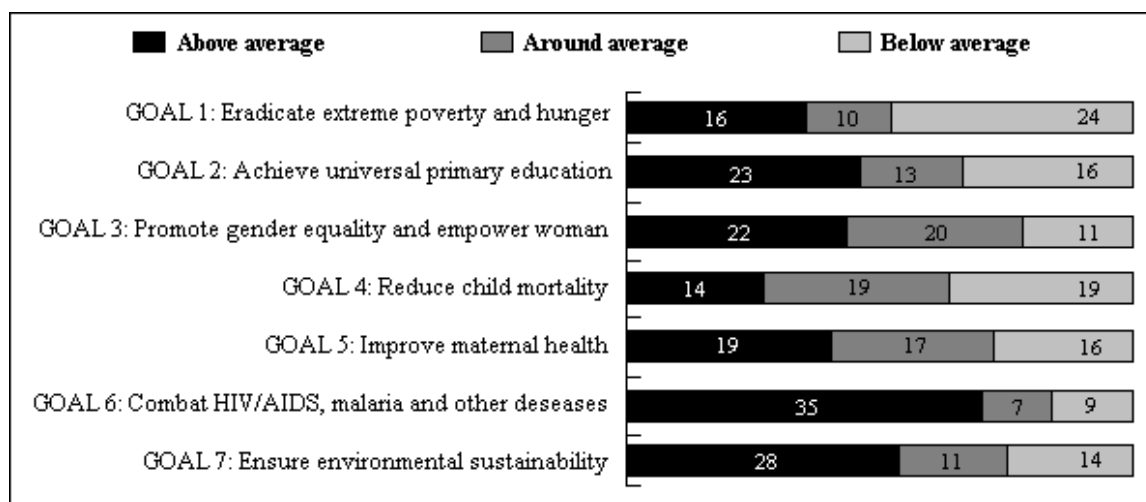
² This by no means suggests that the SA economy was not severely scarred by the GFC. While inflation fell to 5.8% in 2009, real GDP growth was negative (-1.8% in 2009, compared to 3.7% in 2008), manufacturing production was down about 40% from mid-2008 and trade volume was down over 40% (SARB, 2009:29).

worsened food insecurity and together with the growth slowdown will add to the poverty impact of high food prices. In Rwanda, it is estimated that poverty would have decreased from its 2005 level of 53% to 33% in 2015 if food prices had changed at the same pace as the Cost Price Index (CPI) (ADB, 2009a:8). The reduced growth in SSA will cost the 390 million people living in extreme poverty about 20% of their per capita income (or \$46 per person), according to the UN Educational, Scientific and Cultural Organisation (UNESCO) (2009:3). Furthermore, the percentage of workers earning less than \$2 per day will increase from 82.2% in 2007 to 86.6% in 2009 in Africa, representing 27 million new poor people in 2009. The unemployment rate in SSA could also increase to 8.5% in 2009, that is an additional 3 million unemployed. The extractive industry has been hit the hardest. In the DRC, the closure of 40 mines led to the loss of 300 000 jobs, while in Zambia, 3000 jobs have been lost since December 2008 as copper mines and smelters ceased operation (ADB, 2009a:9). Given that three out of five SSA-workers are considered 'extreme working poor', such rises in unemployment (not to mention manufacturing, construction and service), have profound implications for poverty conditions. Having to create 2.4 million more new jobs per year to make any impact on poverty rates, Africa's current situation detracts severely from any MDG-achievement.

The UN (2009:6) indicated that SSA lags on all MDGs and is unlikely to fully achieve much of the goals, based on current trends. With decreasing incomes and soaring food prices, the poor are forced to allocate more income to food and reduce expenditures on health and education. Poor children will be particularly affected. Child malnutrition and infant mortality is expected to increase dramatically in 2009, by between 200 000 and 400 000 additional deaths (UNESCO, 2009:7). Low-income African countries which have made efforts to improve universal primary education will suffer setbacks as governments are unable to finance subsidised educational programs, while poor households are not in a position to pay fees. Moreover, food insecurity is amplified by the decline in food aid. Out of the \$12.3 billion that was pledged in June 2008, only \$1 billion was disbursed by donors by February 2009 (ADB, 2009a:8). It is thus essential that donors deliver on their commitments to increase foreign aid to Africa to help slow, or even avert, people sliding back into poverty. A new push is now required to counter the

threat the crisis poses to some of the progress Africa has already made. As can be seen in Figure 6, almost half of Africa's countries find themselves 'below average' as far as Goal 1 is concerned, while a third are in this category for four more goals (Goals 2, 4, 5 and 7).

Figure 6: Missed goals: Distribution of African countries' status by MDG (2008)



Source: OECD, 2009:87

3.3 Implications for African economic integration

It is now certain that reaching the MDGs by 2015 and intensifying African economic integration to the extent that it is ready to establish a continent-wide monetary union by 2021 is now under real threat. Even prior to the GFC, African regional integration was slow, with a persistence of under-funded regional and sub-regional organisations, lack of political will and slow progress in creating infrastructure linking land-locked countries and remote regions of coastal countries to the centers of demand and to ports (Kirk & Puetz, 2009:4). The GFC has slowed the drive towards African regional integration as the focus shifted to global concerns (e.g. the credit crunch) and country-specific economic challenges. At the regional level, according to the ADB (2009d:3), the crisis has dampened prospects for intra-regional trade by worsening financing constraints for the RECs. African governments have not been able to fully provide for the financial requirements of RECs during the growth periods. The GFC have compounded the inability of these countries to meet their financial obligations to RECs, undermining their ability to effectively carry out their mandates. The poor condition of infrastructure and trade facilitation in

Africa are among the main factors contributing to lower intra-African trade. The drying up of external financing is having an adverse impact on the implementation of large projects, including large infrastructure projects that are critical for regional integration. In SSA, infrastructure projects that have been delayed or cancelled amount to \$1.35 billion.

Over the past decades, financial integration programs in various African RECs have been underpinned by progress in macroeconomic and financial sector reforms, leading to stable exchange rates, reductions in inflation rates, the strengthening of the banking systems as well as sustainable fiscal balances (Jefferis, 2007:89). With the GFC, macroeconomic convergence, which many RECs have made a core aspect of their financial integration programs, is threatened by weakening national economies (ADB, 2009c:3). The risk arises that, because African countries may respond differently to the crisis, economic structures may begin to diversify, thus negating previous efforts towards convergence and heightening countries' vulnerability to asymmetric shocks. The crisis has complicated policy choices in the sense that regional and country interests are now at times in conflict. Increased impediments is thus a grave concern as regional integration is vitally important for Africa's ability to withstand the shocks and integrate into the global economy, notably through market expansion, improved competition and gains for economies of scale.

4. Africa's dual-aim challenge: Key economic reforms required at a critical time

The GFC has brought Africa at a crossroads in terms of identifying what areas of economic reform are, given the 'new crisis-induced reality', most critical for successfully addressing the (now increased) challenge of enhancing both its economic development (to reach the MDGs) and to facilitate deeper economic integration through improved policy coordination and coherence. Complicating matters, these two important focus-areas are certainly reinforcing towards each other in terms of their outcomes, but not necessarily/always so in terms of their respective requirements for achievement. This is a serious challenge on the continent's road of progress that, if not managed well, from a regional perspective, has the potential to actually intensify the friction among African states in stead of deepening cooperation – especially now that countries will be scampering to try and make up as much as possible of the economic loss caused by the GFC. In view of

the limited time available for Africa to catch up with the rest of the world, economic-wise – while the global drive towards a recovery speeds up – and given the priority that Africa gives to the MDGs and regional economic integration as primary vehicles for aligning itself with the rhythm of progress of leading economies, it is proposed that at least three areas of economic reform and management actions be urgently attended to by all African countries. However, before examining this, important context is necessary to stress Africa's delicate task/response at hand. As Clapham (2006:8) aptly observes, the escalation of globalisation, primarily due to more and more countries adopting neo-liberal policy approaches, has undoubtedly contributed to increased global systemic risk and contagion, which, after a series of crises³, culminated in the current GFC – the worst since the Great Depression. Given the policy-uncertainty (and -confusion) that this is now creating for an appropriate response, the challenge (and pressure) is so much greater for Africa to now address the right areas to progress economically and help safeguard itself against crises.

1. Macroeconomic stabilisation. Although there has been a marked improvement in Africa's macroeconomic policy environment the past decade, the GFC has severely strained policy instruments. It is now crucial that African countries maintain supportive macroeconomic policies, at least until the recovery is on a firm footing. Arguably the most important of these is preserving and strengthening endogenous growth drivers. The gains through structural reforms should be consolidated and not slide back on economic reforms and avoid the build-up of unsustainable debt. The challenge is that African countries must do so while simultaneously avoiding drastic cuts in public expenditures (in cooperation with development partners). Growth driven by domestic investment and consumption should be promoted. In the face of declining and volatile external flows, domestic resource mobilisation must be improved, notably by enhancing the development of domestic and regional bond markets. This will help reduce aid-dependence. Supply-side bottlenecks must be alleviated, especially by increasing investment in infrastructure (new infrastructure and maintenance of existing stocks) and increasing access to credit for the local private sector. Regional economic integration should also be fostered through a greater role for regional actors, including pan-African institutions and regional

³ The 1994 Mexican crisis, the 1997 Asian and Japanese financial crises and 1998 Russian financial crisis.

financial institutions. They can provide budget support and balance of payments support to as short-term measures to address resource constraints for African countries (ADB, 2009c:4). It is critical that African countries harness these growth drivers to move back to closer to 7% growth rates, which is required for achieving the MDGs. It is vital that economic growth is supported in a way that keeps inflation under control, as most African countries have already taken steps to stimulate economic activity through expansionary monetary and fiscal policies, and further stimulus may be needed in 2010. This is also key for harmonising countries in African RECs' agreed-upon macroeconomic convergence targets, so as to keep progression as regards monetary integration in tact. This not only serves the purpose of supporting the process of monetary integration, it also reflects a broader aim of achieving macroeconomic stabilisation in the region as a whole.

2. Strengthening financial sector regulations and improving the investment climate.

African financial systems are significantly more stable than before and have largely been insulated from the worst of the GFC due to their limited international exposure. However, Africa's financial systems are still characterised by shallowness, their high costs (as exemplified by high interest rate spreads), and by limited access to finance. Although the GFC has not fully exposed these weaknesses, it has heightened the need to strengthen Africa's financial sector regulations, especially in relation to incentive-compatible banking surveillance and supervision. Better risk assessment and monitoring as well as adequate capital adequacy requirements are fundamental. This will facilitate savings mobilisation and encourage private sector lending while minimising credit risk (ADB, 2009a:12). African countries also need to pursue prudent capital control strategies to promote private capital flows while minimising the risk of abrupt capital reversals that are detrimental to currency stability. Moreover, African countries should design measures that encourage foreign capital allocation diversification across sectors. This would particularly promote those activities with the highest potential for employment creation and export diversification. To make Africa a more attractive investment destination, apart from lessening restrictions in the business environment and consolidating political stability through increased regional cooperation, it needs to deepen its financial sector. It cannot reach the MDGs without sufficient capital. Sophisticated capital markets are inseparable from eco-

conomic progress. One suggestion for capital market deepening is for African governments to adopt a sub-regional approach to the support and development of capital markets, so as to strengthen their catalytic role in mobilising savings. Regional integration – together with further macroeconomic and structural reforms – could help African capital markets develop and overcome the impediments related to size and liquidity (Anyanwu, 2006:65). African governments should support developing African regional and continental stock exchanges because this will facilitate the development of more efficient and competitive markets throughout Africa. Multiple listings and cross-border trade in securities, for example, could be an option in setting up sub-regional stock markets. In addition, it is critical that African stock markets be made more effective. In this regard, four essential requirements that are geared towards attracting more investment include: (1) a set of substantive legal rules that meets a set of clear, well-functioning, and reliable securities laws; (2) improved trading infrastructure; (3) increased participation by local institutions, and (4) increased market liquidity combined with promising future listings.

3. Trade diversification, human capital development and fostering regional integration. It is critical that African countries reduce their vulnerability to international shocks (e.g. a deceleration of global demand) through economic diversification and improved management of income from natural resources. With over 75% of Africa's exports still primary commodities dominated by crude oil, natural gas, precious and base metals and agricultural produce (specifically cocoa, coffee and tea), the concern remains the relatively low levels of manufactures and total merchandise trade (Siddiqi, 2006:24). Africa's trade diversification should primarily focus on these areas to ensure not only an increase in export earnings and competitiveness, but also the enhancement of the continent's production capacity (also through the utilisation of more skilled workers) to ensure sustainable growth regarding exports' contribution to economic growth and development. A high premium is thus placed on human capital development (for knowledge-intensive production and diversification) through education and training to be able to make better (and at a broader scale) use of available modern technologies. To move beyond the constraints for agro-industrial development, the development of regional value chains for agriculture should be pursued more. With over 60% of African workers employed by the

agricultural sector, and with three-fifths of African farmers being subsistence farmers, advancement in agriculture can make an instant impact on living standards. According to the ECA (2009:151), intra-African trade data show that a growth strategy for higher-valued products destined for domestic and regional markets as well as non-African markets could revitalise agriculture in all regions of Africa. Instead of raw agricultural commodities and related jobs and processing industries being exported, the expansion of forward-linked agribusiness and agro-processing could substantially increase employment and non-farm incomes for rural populations in many African countries. Hence, the development of such intra-regional African markets would contribute to rapid job creation, food security and poverty reduction – all essential for attaining the MDGs.

NEPAD has identified an ‘infrastructure gap’ and regards it as one of the main factors that constrain economic growth and job creation in Africa. Given its importance for facilitating trade and it being a main determinant of competitive advantage of African goods in local and international markets (e.g. by affecting product prices), bridging the infrastructure gap has become a critical element of promoting regional integration. Trade within Africa would significantly benefit from more investment in transport and telecommunications infrastructure. Intra-African trade would also benefit from improving the regulatory environment (customs reform) so that – unlike as is currently the case – it is not more affordable and less time-consuming to ship cargo to Japan than transiting through a neighboring African country. Furthermore, to improve Africa’s connectivity to global markets by bridging the infrastructure gap, Aid-for-Trade is becoming increasingly valuable as a long-term strategy. It is essential, though, that it involves predictable aid flows which can be fed into African countries’ budgeting processes. As regards external trade relations, China and India have shown particular interest in emerging African countries in the 21st century. Investment in Africa by China and African trade with China have increased dramatically in recent years, even regardless of the GFC. Opportunities to gain bargaining power has now arisen for Africa in that increased investment in Africa by China has attracted the attention of the EU and US and has provoked talks of competitive investment. This is an ideal opportunity for the AU to provide leadership as far as enhancing African trade relations through strategic decision-making are concerned.

5. Conclusion

Although African economies are less linked to global financial markets than other parts of the world, the region has not been spared from the fall-out of the GFC. The balance of risks has firmly shifted from inflation to financial instability and deteriorating growth. In fact, the easing of inflationary pressures is probably the only positive that has come out of the GFC. However, it is particularly in attempting to achieve the dual aims of the MDGs by 2015 and continent-wide monetary integration by 2021 (or just deeper regional integration), that the impact of the GFC on Africa has been most wounding. With a historical background of colonialism, despotism, SAPs as well as the tendency to always return to integration-efforts despite conflicts, the region has increasingly been marginalised to the periphery of global economic activity. To date, the challenge posed by globalisation has simply been too demanding for Africa. In recent years, however, Africa has shown remarkable economic growth (6.1% from 2002-07), albeit from a low base. The GFC have had a severe impact on Africa as key drivers of economic growth such as export-earnings and capital inflows fell drastically, donor support faded and its economies became more vulnerable. It has also affected countries differently. African countries with accumulated reserves from the recent commodity boom now had to use these reserves to boost domestic demand and mitigate the impact of the GFC on their economic and social development (ECA, 2009:38). Countries with limited reserves and high dependence on donor support have suffered the most, making it much harder for these low-income countries to make any MDG-progress.

Currently, it appears that the GFC has started to retard the whole of Africa's progress towards the MDGs (UN, 2009:48). This impact is felt on all MDGs, but especially the goals for poverty reduction and human development. Most of Africa's economies are seriously at risk of falling behind as they are highly vulnerable to shocks and have very little capacity to respond with ameliorative actions. The growth slowdown is a particular concern for poverty, which has already started to increase as African unemployment levels rose sharply in a number of sectors – most notably extractive and manufacturing. As a result of the GFC, African regional integration now has more challenges as countries' reserves have been depleted and donor support has started to decrease. It has

also become more difficult for countries in African RECs that pursue monetary integration, to harmonise macroeconomic convergence targets. Yet, the dream of a United Africa, which is over 100 years old, still lives strong. It is an opportune time, in the wake of the GFC, for the AU, the most ambitious stage of Pan-Africanism, to take the lead in terms of stimulating regional cooperation and assisting in policy coordination. To become the central-figure-organisation that it envisions, it must now step up to the forefront and provide much-needed direction to African countries. Since regional integration is seen, by not only Africa but also the international community, as a priority instrument for promoting economic growth and poverty reduction, it has to be pursued fastidiously. To avoid being trapped in a cycle of inertia and procrastination, policy-makers have to react swiftly to the challenges exacerbated by the GFC and its implications for reaching the dual aims. Central among the reforms African policy-makers should consider is:

- *Ensuring macroeconomic stabilisation* by limiting the widening of the twin deficits of current account and budget deficits without building up unsustainable debt. Growth drivers must be strengthened by regional cooperation to fight poverty.
- *Strengthening financial sector regulations* through better risk assessment and monitoring to mobilise savings and create a more attractive investment environment.
- *Diversifying trade and production* to reduce African countries' vulnerability to external shocks and increase export earnings and competitiveness as well as skills.

Finally, it should be underlined that, to ensure economic success, Africa requires strong leadership (the AU, RECs and governments) and political will to make the right policy-decisions now and ensure their sustainable impact through intensive management. The slogan of an African disability group '*nothing about us without us*' is very apt and should be adopted by all African leaders, policy-makers and managers as it suggests that Africans must play a decisive part in any initiative that determines Africa's progress.

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Appendix A: Abbreviations and establishment dates for African regional groupings

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| CEMAC | Economic and Monetary Community of Central Africa | 1999 |
| CFA zone | African Financial Community | 1945 |
| EAC | East African Community | 1967 |
| ECCAS | Economic Community of Central African States | 1966 |
| ECOWAS | Economic Community of Western African States | 1975 |
| COMESA | Common Market for Eastern and Southern Africa | 1994 |
| IOC | Indian Ocean Commission | 1984 |
| SACU | Southern African Customs Union | 1910 |
| SADC | Southern African Development Community | 1980 |
| WAEMU | West African Economic and Monetary Union | 1994 |
| WAMZ | West African Monetary Zone | 2000 |