Financial Crises and Growth Prospects of African Economies

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Abstract
This work takes a cursory look at different aspects of African economies and their potentials for growth within the context of financial crisis. Financial crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value due to lot of factors. The history of financial crisis in the world could be traced back to sovereign defaults which were the form of crisis prior to the 18th century. However, the bursting of the South Sea Bubble and the Mississipi Bubble in 1720 is regarded as the first modern financial crises. Other crises have followed culminating in the recent global financial crisis which was as a result of the bursting of the housing bubble in the United States in August, 2007. The crisis caused a serious setback for Africa because it took place at a time when the region was making some progress in economic performance and management. Most, if not all the economies in Africa are faced with several problems: underdeveloped agricultural and manufacturing sectors, policy somersault, monoculture, inadequate infrastructures, corruption and the like, among others. This work suggests possible solutions (including alternatives to existing paradigms) on how African countries could navigate through various aspects of financial crisis.
Keywords: Financial Crises, Growth Prospects, African Economies

1. Introduction

Many African countries have come through the recent financial crisis not only better than they did in past turbulent economic times but also better than many other countries throughout the world. Rich in energy resources and raw materials, Africa is one of the world's fastest-growing regions as six of the world's ten fastest-growing economies over the last decade were in Africa - Angola, Nigeria, Ethiopia, Chad, Mozambique, and Rwanda (Eckblad, 2011). The global financial crisis greatly impacted on the region as it strived to consolidate its economic gains and meet the Millennium Development Goals (MDGs) linkages through capital flows, stock market investment, and stable exchange rates. It presented significant challenges for African countries as it exposed varied weaknesses in the functioning of the global economy.

Although the present crisis was triggered by events in the United States housing market, it spread to most regions of the world with dire consequences for global trade, investment and growth. It took place at a time when the region was making progress in economic performance and management indicators. The region, according to a UNECA/AU 2009 report, had an average growth rate of real output above 5 per cent and inflation did decline to single digits since 2000. Significant improvements were observed in governance as witnessed by peaceful transition from one government to another in most Africa countries, reduction in armed conflicts, making the region more attractive for private capital flows as net private capital flows to Africa increased from $17.1 billion dollars in 2002 to $81 billion dollars in 2007 (UNECA and APF, 2008), however, the financial and economic crisis threatened to reverse these gains in economic performance and management.

According to Broadman (2009), the impact of the recent financial crisis in Africa came through three channels; "(i) a shift in demand for African products where almost 60 percent of African exports goes to the U.S. and the EU combined, and these economies were the ones hit by the crisis which led to decline in import volumes in 2009 by 2 percent in the U.S. and 5 percent in the EU; (ii) global decline in commodity prices in the last year as oil demand declined to about 15 percent and copper declined to about 15 percent, in addition to decline in the prices of coffee, cocoa and cotton; and (iii) reallocation of financing flows to Africa as portfolio or passive foreign investment curtailed" Thus, the mechanisms through which the crisis affected Africa included a contraction in global trade and a collapse in primary commodity exports, on which many African countries were dependent; loss of foreign investment and reduced migrant worker remittances. Africa's most powerful economies proved particularly vulnerable to the downturn while South Africa experienced a recession for the first time in nearly two decades. Nigeria and Angola reported significant revenue shortfalls due to fall in global oil prices (Broadman, 2009).Only very recently has been the financial crisis involving some members of the European Union such as Portugal, Greece, Spain, Ireland, Italy, among others.

It is against this background that this paper examined financial crises and growth prospects of African

economies. The remainder of this paper is structured as follows; in section two the recent financial crises and its impact on Africa economies are discussed. In section three, we examined the nature of African economies and their inherent challenges. Section four appraises conflicting paradigms to growth of African economies while section five highlights financial crises and growth prospects of African economies with section six concluding the paper.

2. The Recent Financial Crises and Its Impact on African Economies

The term, financial crisis, is often applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. In the 19th and early 20th centuries, most financial crises in the world were associated with banking panics; however other situations that are often called financial crises include stock market crashes and bursting of other financial bubbles; currency crises, and sovereign defaults. The bursting of the South Sea Bubble and Mississippi Bubble in 1720 is regarded as the first modern financial crisis in the world. A recent survey by Reinhart and Rogoff (2009) traced the history of financial crisis back to the sovereign default by most countries prior to the 18th century, class debasement of currency and hyperinflation.

Financial crises in Africa and in most countries, according to Arief, *et. al.* (2009) could be attributed to strategic in complementarity; leveraging to finance an investment; asset-liability mismatch; investment mistakes caused by lack of knowledge or the imperfections of human reasoning; regulatory failures on the part of governments when traces of crises occur; fraud and contagion. Globalization and integration of African economies with the rest of the world helped fuel the crisis to Africa as African economies were open to shocks elsewhere especially from the United States and European countries.

However, the impact of the crisis on economic indicators in Africa could be seen in several aspects of African countries' economies. A cursory look at the Nominal GDP of the top fifteen economies of African countries and the GDP per capita as shown in Tables 1 and 2 and Figures 1 and 2 shows the impact of the crisis on African economies. It could be observed from Table 1 that ten (10) out of fifteen top African economies observed a fall in nominal GDP in 2009 as a result of the financial crises (Nigeria 18.5%, Algeria 17.9%, Angola 10.3%, Libya 32.2%, Sudan 3.84%, Tunisia 3.0%, Kenya 1.91%, Ghana 8.90%, Cote d'Ivoire 2.55% and Cameroon 8.06%), while the nominal GDP of South Africa, Egypt, Morocco, Ethiopia and Tanzania did not fall, however in 2010. In 2010, the economies of most African countries had a rebounded as observable from Table 1 except Ethiopia and Cote d'lvoire, whose nominal GDP fall by 7.85% and 0.4% respectively. Figure 1 is a graphical illustration of table 1

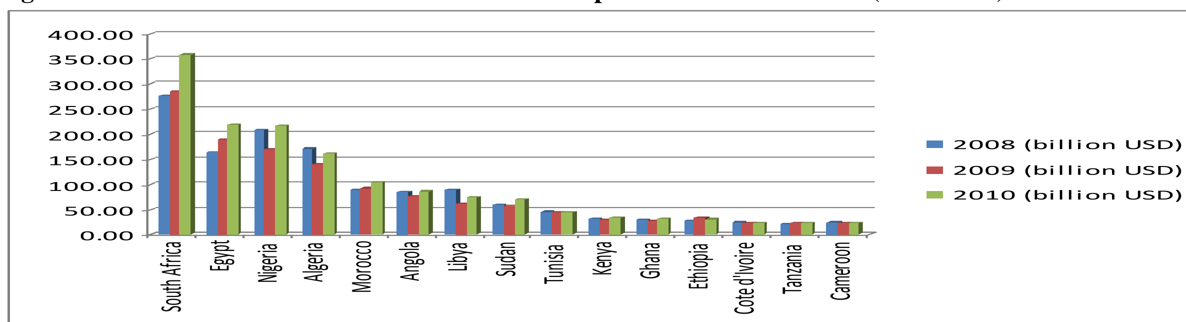
Table 1: Nominal Gross Domestic Product of the Top 15 African Economies (2008-2010)

Rank	Country	2008 (billion USD)	2009 (billion USD)	% Change 2008/09	2010 (billion USD)	% Change 2009/10
1	South Africa	275.60	283.977	3	357.259	25.8
2	Egypt	162.435	188.608	16.1	218.466	15.8
3	Nigeria	207.116	168.846	-18.5	216.803	28.4
4	Algeria	170.228	139.763	-17.9	160.27	14.7
5	Morocco	88.879	91.374	2.8	103.482	13.3
6	Angola	84.178	75.508	-10.3	85.312	13
7	Libya	88.888	60.239	-32.2	74.232	23.2
8	Sudan	58.028	55.802	-3.84	68.441	22.6
9	Tunisia	44.878	43.523	-3	44.29	1.8
10	Kenya	30.031	29.394	-1.91	32.163	9.4
11	Ghana	28.528	25.988	-8.9	31.084	16.4
12	Ethiopia	26.642	32.249	7.85	29.717	-7.85
13	Cote d'Ivoire	23.508	22.909	-2.55	22.823	-0.4
14	Tanzania	20.668	22.159	7.2	22.671	2.3
15	Cameroon	23.508	21.82	-8.06	22.478	3

Source: IMF Economic Report (2008, 2009, 2010)

The GDP per capita shown in table 2 reveals that between 2008 and 2009, the estimates of GDP per capita for fifteen economies in Africa showed that their high 2008 per capita income dropped in 20009 as follows: Equatorial Guinea by (41.4%), Libya (33.9%), Gabon (25.8%), Seychelles (20.3%), Botswana (20.6%), South Africa (0.9%), Angola (20.3%), Algeria (16.8%), Tunisia (5.0%), Cape Verde (1.3%) and Republic of the Congo (22.2%) while four countries, Mauritius, Namibia, Morocco and Swaziland experienced growth in their GDP per capita increased by (3.99%), (1.47)%, (0.71%) and (2.745%) respectively. Figure 2 illustrates graphically, the situation in table 2.

Figure 1: Nominal Gross Domestic Product of the Top 15 African Economies (2008-2010)



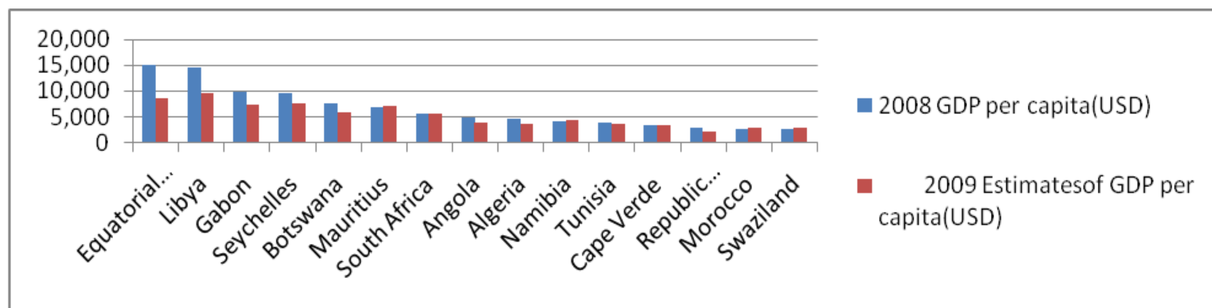
Source: Source: IMF Economic Report (2008, 2009, 2010)

Table 2: Gross Domestic Product per capita of 15 African Economies (2008-2009)

Rank	Country	2008 GDP per capita(USD)	2009 GDP per capita(USD)	% Change
1	Equatorial Guinea	14,941	8,759	-41.4
2	Libya	14,479	9,570	-33.9
3	Gabon	9,998	7,414	-25.8
4	Seychelles	9,640	7,683	-20.3
5	Botswana	7,554	5,995	-20.6
6	Mauritius	6,872	7,146	3.99
7	South Africa	5,685	5,635	-0.9
8	Angola	5,054	4,027	-20.3
9	Algeria	4,588	3,816	-16.8
10	Namibia	4,278	4,341	1.4
11	Tunisia	3,995	3,794	-5
12	Cape Verde	3,464	3,419	-1.3
13	Republic of the Congo	2,952	2,298	-22.2
14	Morocco	2,827	2,847	0.71
15	Swaziland	2,778	2,854	2.7

Source: IMF Economic Report (2008, 2009)

Figure 2: Gross Domestic Product per capita of 15 African Economies (2008-2009)



Source: IMF Report (2008, 2009)

While Africa's recent growth was driven by the global commodity boom, many other factors contributed as well. In many countries, productivity increased and domestic investment improved in part due to remittances from African workers overseas. Domestic demand also grew, with particularly significant gains seen in mobile phone services (IMF, 2008). The growth was also aided by policy reforms; increased private investment which led to greater macroeconomic stability. Other factors are international debt relief programmes to African countries, and the decrease in rate of armed conflict which had made some countries in the region more attractive to foreign investment.

The foreign exchange markets of African countries also came under enormous pressure as a result of the crisis according to UNECA (2009) in the first quarter of 2009, the Ghanaian Cedi depreciated against the US dollar by 14 percent and the Nigerian Naira declined by 10 percent. The Zambian Kwacha also lost 13 percent of its value relative to the US dollar over the same period. The crisis increased the unemployment rate as firms reduce production and shut-down factories. The International Labor Organization (ILO) estimated that in 2009, unemployment rate for Africa increased by about 0.6 percentage points relative to the 2008 rate. This implies an increase of 3 million in the number of unemployed people between 2007 and 2009 (UNECA, 2009).

3. Nature of African Economies and Underdevelopment

The economy of Africa comprises mainly of trade, natural resources and people. As of 2006, approximately 922 million people were living in 54 different countries of the continent (UN, 2006). Though parts of the continent have made significant gains over the last few years as of the 175 countries reviewed in the United Nations' Human Development Report, 2003; 25 African nations ranked lowest amongst the nations of the world. This may be partly due to its turbulent history. In contrast, in terms of development between Africa and the rest of the world's economy, the United Nation Africa Economic Outlook report (2010) indicates that Africa's trade multiplied by 10% annually from 2001-2009 because of it trade with new partners such as China and India, reaching over USD 100 billion in 2008. The economies of China and India also grew rapidly within the same period, while Latin America experienced moderate growth, lifting millions above subsistence living.

Under development in African countries is a complex process rooted in the colonial period. The African continent was divided up between European empires that exploited the people and their resources to further the development of Europe and North America; with the US becoming a global power, and joining its European partners in seeking out the resources found in Africa; a process that has never completely ended, and trade with African nations is still dominated by sale of the natural wealth of the continent (Irogbe, 2009).

The economic development of many developing countries especially African economies has not been even with the rest of the world. In order to achieve the desired development and growth which in future would booster African economies, there must be renewed interest in industrialization of African economies. The renewed commitment to promoting industrial development in Africa is timely (UNIDO/UNCTAD, 2011). Recent researches re-suggest that economic development requires structural change from low to high productivity activities and that the industrial sector is a key engine of growth in the development process (Lall, 2005; Rodrik, 2007; Hesse, 2008). Virtually all cases of high, rapid and sustained economic growth in modern economic development have been associated with industrialization, particularly growth in manufacturing production (Szirmai 2009). This has led to calls for structural change concerning industrialization in Africa. If African countries are to achieve substantial poverty reduction and also the Millennium Development Goals (MDGs), they have to go through a process of structural transformation involving a decrease in the share of agriculture and an increase in the share of industry and modern services in output, with a shift between and within sectors from lower productivity to higher productivity activities (UNIDO/UNCTAD, 2011).

4. Conflicting Paradigms to Growth of African Economies

Specifically, growth policy involves both explanations of growth trends and normative judgments about how the growth process should be carried out. An important decision which must be made is deciding on the growth process. In this vein, there have been conflicting paradigms on how best African economies can grow in the future. These paradigms are often based on theories of growth such as modernization and dependency theories of economic growth. While the modernization theory consists of three parts which involve identification of the type of societies, and explanation of how those designated as modernized or relatively modernized differ from others; specification of how societies become modernized, comparing factors that are more or less conducive to transformation and generalizations about how the parts of a modernized society fit together, involving comparisons of stages of modernization and types of modernized societies with clarity about prospects for further modernization (Bagchi, 1982), the dependency theory is the body of theories by various intellectuals, both from the third world and the first world, that suggest that the wealthy nations of the world need a peripheral group of poorer states in order to remain wealthy.

Dependency theory states that the poverty of the countries in the periphery is not because they are not integrated into the world system, but because of how they are integrated into the system. The consensus in Africa these days is that for African countries to develop there must be a total commitment by all concerned to industrialize the region. The emphasis on industrialization was based on the political conviction by African leaders that it is necessary to ensure self-reliance and reduce dependence on advanced countries. Furthermore, there is the expectation that industrialization would hasten the transformation of African countries from agricultural to modern economies, create employment opportunities, raise incomes as well as living standards, and reduce vulnerability to terms of trade shocks resulting from dependence on primary commodity exports (UNIDO/UNCTAD, 2011).

During the 1970s, with successive oil shocks and an emerging debt problem, it started to become clear that import substitution industrialization was not sustainable. With the introduction of structural adjustment programmes in the 1980s, African countries curtailed specific policy efforts to promote industrialization and focused on removing anti-export biases and furthering specialization according to comparative advantage. It was expected that competitive pressures would revitalize economic activity by leading to the survival of the fittest. But whilst these policies were certainly intended to have structural effects, the conventional view is that they did not boost industrialization in the region (Soludo, *et. al*., 2004).

5. Financial Crises and Growth Prospects of Africa Economies

Economic growth could be described as the increase of per capita gross domestic product (GDP) (more especially increase in gross national product per capital) or other measures of aggregate income, typically reported by the annual rate of change in real GDP. Economic growth is primarily driven by improvements in productivity, which involves producing more goods and services with the same inputs of labour, capital, energy and materials. Economists draw a distinction between short-term economic stabilization and long-term economic growth. The long-run path of economic growth is one of the central questions of economics. Despite some problems of measurement, an increase in GDP of a country greater than population growth is generally taken as an increase in the standard of living of its inhabitants.

Africa is the world's poorest continent. But for the first time in a generation amid all the bad news, there is hope for change. An increasing number of countries in Africa are showing signs of economic progress, reflecting the implementation of better economic policies and structural reforms. These countries have successfully cut domestic and external financial imbalances thus enhancing economic efficiency (World, Bank, 2011).

Recovery in exports, especially in African export revenues, which fell to some 51% during the crisis, had almost recovered by November 2010, reaching 93 percent of earlier peaks periods (World, Bank, 2011). Much of the increase was due to the surge in commodity prices as in volume terms. Among the biggest winners from the terms of trade changes were the oil exporters in the region, with incomes gains of upwards 10 percent of GDP in Angola, Congo, and Gabon. Among oil importers in the region, the picture was mixed. In general, exporters of commodities whose price increases were higher than the increase in crude oil prices also benefitted. This includes exporters of metals such as copper (Zambia), as well as exporters of agriculture products such as rubber (Liberia), and cotton (Burkina Faso, Benin, and Mali). However, even though the prices of the principal merchandise exports of many oil importing African countries improved in 2010, they still suffered deterioration in their terms of trade, as in general, the recovery in prices was not sufficient to compensate for the sharp rebound in oil prices. Nonetheless, the impact of terms of trade changes on growth in 2010 remains mixed as stronger growth was associated with countries that recorded both favorable as well as unfavorable terms of trade changes, implying that there is more to the African growth story than developments in commodity prices (World Bank, 2011).

Though, natural resources and energy are the most important destination for African FDI by value, when combined, they represent only 16 percent of the total number of new FDI projects (IMF, 2010). Thus, motivated by higher GDP growth rates, fast growing populations and a rising middle class, the bulk of new investment projects in Africa was in the non-natural resources sector such as developments in the telecommunications and retail sectors which epitomize the interest in non-extractive industries in the region.

As concluded from the World Bank report (2011), the recovery from the unprecedented global recession that followed the September 2008 financial crisis has gathered strength, and, despite significant tensions and hurdles ahead, it appears likely to continue to mature over the coming three years. While the dynamic of recovery appears well established and has spread from developing countries to high-income economies, significant challenges and risks remain (see World Bank report, 2011),

6. Conclusion

To remain stable and self reliant, African countries, while pursing the capitalist mode of economic activity, must embark on real industrialization. Governments in the relevant economies must build or set-up industries and then sell to the private sector or engage in public-private partnerships in order to build manufacturing industries. Contradictory policies (such as promotion of importation of consumer goods and at the same time, promoting domestic industries that produce similar goods) will never work. Again, over dependence on the private sector to lead manufacturing activity can only work in exceptional circumstances. This is because the private sectors in many of these countries lack adequate financial muscle to embark on the establishment and management of heavy and intermediate (often machine tools) companies necessary for real industries. Even complimentary light industries might not be easy to come by.

Reliance on private sector alone will take a long time to materialize. In Nigeria for instance, the government has been practicing democracy under a new dispensation since 1999. If the government had established two large-scale firms (manufacturing) every four (4) years (capable of employing at least 200 staff) which use local materials, by 2011, the number of manufacturing firms in Nigeria would have risen tremendously. These would have had linkage effects that would promote financial stability and reduce poverty. These would have also helped in refocusing governments in the promotion of industries. African countries' governments can also compel multinationals companies (MNCs) selling goods in their countries to establish subsidiaries that will produce such goods that are in high demand (example, automobile) in their African countries. Those with the political will to compel MNCs to do so would have done a lot to promote economic stability in their countries. Nonetheless, it appears developments from the local environments appear better.

However, as observed by the World Bank (2011) report on growth prospect in Africa the future looks bright for African economies. But, in order to avert the detrimental effect of financial crises; appropriate responses will be critical. Such response will include deepening the domestic capital and foreign exchange markets which will enhance African economies capacity to handle external financial volatility over the long term; building robust regional markets; the government revisiting the development role of the state by unleashing the potential of local business and entrepreneurs for development; strengthening of crisis contingency planning and preparedness; maintenance of prudential regulations as well as more communication among regulatory authorities across borders; instituting market-conform mechanisms to preserve access to finance, especially for small and medium scale enterprises etc. It is only when these measure and others are pursued at the highest level of governance that African countries can come through financial crisis, better off.

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