INTERNATIONAL TRADE UNION CONFEDERATION
AFRICAN REGIONAL ORGANIZATION

CONFEDERATION SYNDICALE INTERNATIONALE
ORGANISATION REGIONALE AFRICAINE

Hill (Off Ragati Road)
Box 67273 – Postal Code 00200
NAIROBI (Kenya)
Tel. (254-20) 244336/ 340046/2717308/2717324
Fax : (254-20) 215072/333078

# AFRICA-CANADA FORUM ANNUAL MEETING ON THE CHALLENGES ASSOCIATED WITH ECONOMIC DEVELOPMENT, PEACE AND ECONOMIC JUSTICE IN AFRICA

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## PANEL ON THE TOPIC "AFRICA IN THE TURMOIL OF THE GLOBAL FINANCIAL CRISIS"

**Paper by Boèvi Kouglo LAWSON BODY, Economist, Coordinator of the ITUC-Africa Economic and Social Policy Department**

**Introduction: The context of the global financial crisis**

This annual meeting of the Africa-Canada Forum (ACF) comes at a time of global economic and financial crisis preceded by three other crises—the climate, energy and food crises—which have consequences for workers in all countries and in all sectors. Major declines in GDP are being recorded the world over, leading to widespread deflation, decreased demand for exports, falling export prices, a global recession and millions of job losses.

This disaster is the direct result of the extreme neo-liberalism that has led to the complete deregulation of the economy—excessive deregulation—massive privatization and the flexibilization of labour. By means of this system, the multinationals have imposed a new economic and social order corresponding to their own strategy and interests, through the expansion of financialization based on an artificial economy and easy profits. The world has thus become the casino for a game of chance in which labour is a secondary force of production.

Given this chaos, the neo-liberal economy is no longer in any position to guarantee the right of all workers to employment. The world is at a historical turning point and is anxiously awaiting the implementation of the conclusions of the recent G-20 London Summit.

It is now clear that the political and economic order has changed and that the failure of ultra-liberalism has become a reality. Governments everywhere are resorting to formerly disparaged Keynesian policies, and neo-liberalism is on the wane. Colossal sums of money, most raised from taxes on the incomes of workers, are being used to fund these stimulus programs and packages.

The G-8 countries, the former guardians of liberal orthodoxy, have now become champions of interventionism. Here are some examples of the amounts allocated for 2009: US$816 billion in the United States, £20 billion in the United Kingdom, €30 billion for Germany and €26 billion in France. Are we going to plaster over the problem or witness the emergence of a new paradigm based on the actual and responsible regulation of economic activities?

By 2010, the outcomes of the recent G-20 London Summit envisage a fiscal expansion of US$5 trillion to stimulate growth and employment. They also provide for a US$1.1 trillion package to stimulate the financing of the global economy, including $750 billion for the IMF, $250 billion to stimulate world trade and $100 billion to support multilateral development banks such as the African Development Bank and the Asian Development Bank.

This crisis indicates that in the last resort governments are forced to come to the rescue of holders of capital, while labour is sacrificed through massive losses of jobs and income for workers. Given this new context, this annual meeting of the Africa-Canada Forum on the topic “the challenges associated with economic development, peace and economic justice in Africa” comes at just the right time. It offers an opportunity to examine the implications of the global economic crisis for the continent and to explore how stakeholders in African development can help to tackle the related challenges.

To facilitate these considerations, the remainder of this paper, with the exception of the conclusion, will be structured around three objectives:

- first, review the main channels through which the global crisis is transmitted to African economies;
- second, highlight the economic and social implications for the continent;
- third, identify the actions currently being taken by the ITUC and the international trade union movement.

## 2. The channels through which the global financial crisis reaches African economies

Though at first only slightly affected by the financial crisis resulting from the 2007 subprime mortgage crisis and the 2008 banking crisis, given the low level of financial integration in Africa, the continent can no longer escape the consequences nor their disastrous social implications for workers and populations. Since the African continent is part of the global market and the global economy, African countries are experiencing the effects of the crisis through the transmission of shocks in various markets, including the goods and services, financial, foreign exchange and labour markets.

***Good and services markets*** – One of the manifestations of the crisis and the global recession is the significant decline in worldwide demand for most products (goods and services). In Africa, this is reflected in the decline in foreign demand for agricultural and mining raw materials, and in the drop in the prices of most of these products. For example, the price of a barrel of oil has fallen by more than half, tumbling from US$125.73 at the start of the financial crisis to approximately US$50 in March 2009. Over this same period, downward trends have been observed in prices for the following products: coal (66%), diamonds (30%), silver (24%), platinum 36%), cotton (11%), cocoa (9%), arabica coffee (21%), robusta coffee (32%).
In terms of services, the most significant impact on African countries has been in the tourism sector, with most countries recording a major decline in the number of visitors.

***Financial markets*** – Despite the low level of financial integration of African economies, the impact of the financial crisis has been very strong in those African countries that do have markets. Generally speaking, contagion and interdependence have had considerable repercussions on most financial markets on the continent.
Between the end of July 2008 and year-end 2009—with the exception of the Tunis Stock Exchange (Tunisia), which lost only 1.5% of the value of its assets—the decline in the following seven countries ranged from 24.8% to 62.5%: Morocco (24.8%), South Africa (25%), Ivory Coast (38.3%), Maurice (39%), Kenya (44.5%), Egypt (55%), Nigeria (62.5%). For certain African markets, such as Côte d'Ivoire, Mauritius, Kenya, Egypt and Nigeria, the impact was greater than that observed on markets in certain developed

countries such as the United States (31.71%), France (35.3%) and Japan (35.5%). So over a six-month period, African investors in general, and Egyptians and Nigerians in particular, lost more than half of the capital they had invested as of the end of July 2008. This decline in wealth represents more significant losses than those incurred by American, French and Japanese investors.
Moreover, similar downward tends are also expected to be recorded with regard to the movement of international private and public capital, given the decline in inward direct investment (IDI), investment capital flows and official development assistance (ODP).

***Money market*** – In most African countries, the crisis has been accompanied by falling exchange rates, particularly vis-à-vis the US dollar and the euro. For example, here are the percentage declines in the value of the currencies of the following countries between the end of July 2008 and the end of March 2009: Morroco (10.9%), Tanzania (11.8%), African Financial Community countries (12.6%), Tunisia (14.2%), Botswana (16.2%), Algeria (16.3%), Kenya (17.2%), Ghana (18.1%), Namibia (20.6%), Nigeria (21.2%), Uganda (22.1%), Zambia (36.2%), CD (38.7%), Sierra Leone (XX.X%), South Africa (21.8%), Seychelles (50.9%). Generally speaking, the depreciation of most of these currencies can be attributed to the impact of the financial crisis on prices of raw materials and on foreign exchange reserves.

***Labour market*** – The enormous strains on labour markets caused by job losses will have a major impact on African migrant workers. In host countries, most of them will be the first to lose their jobs. Furthermore, those who had seasonal job opportunities are likely to face recurring frictional unemployment (the situation currently confronting African workers in the Spanish market is an indication of what's to come).

## 3. The implications of the global financial crisis for African economies

The repercussions are already being felt on all levers of economic activity: the production and exports of cash crops, the main sources of sources of currency for African countries; employment; economic financing; household income; the fiscal situation; and the living conditions of workers and populations.

### *3.1 The social and economic implications*

***Foreign trade*** – In terms of foreign trade, the global recession has led to a decline in the prices of raw materials exported from Africa. Indeed, as the crisis has intensified in the developed world and China, the decline in raw materials prices has accelerated and threatens to wipe out all the gains made in recent years. This drop will have several consequences, including lower foreign exchange reserves and export earnings, a loss of profitability for certain oil wells and ore deposits, a reduction in the financing capabilities of governments, and the cancellation or postponement of certain investments in extractive industries that are greatly dependent on direct foreign investment.

A few examples: in South Africa, exports plummeted in 2008, following the same trend as precious metals, one of the country's main sources of wealth; in Burkina Faso, the balance of payments position became much weaker as a result of declining agricultural production and a drop in cotton lint exports; in Botswana, a 50% reduction in diamond production followed a 30% decline in prices on world markets; in Zambia, a 65.8% drop in the price of coal led to a considerable reduction in reserves.

Globally, the growth rates for exports and imports are estimated to have fallen by 7% and 4.7% respectively, which will have an adverse effect on the balance of trade. After recording an overall surplus of 2.9% in 2008, the continent will have to contend with a current account deficit of -4% of GDP in 2009. Also, the large surplus of 8.8% of GDP for oil-exporting countries will become a deficit of -4% of GDP. This is the direct result of the anticipated decline in oil revenues.

***Economic growth***- Prior to the crisis, African countries were recording some of the highest growth rates in the world. But the IMF and the ADB have already revised their forecasts for 2009. The continental growth rate is expected to fall by 5.4% for 2008 and by 3.3% in 2009. According to the ADB, provisional forecasts point to a 3.7% decline in growth for oil-exporting countries in 2009 and a 1% reduction in growth for oil-importing countries. For the first time since the early years of this century, oil-importing countries are expected to post higher rates of growth (3.4%) than oil-exporting countries (2.9%).

A few examples: South Africa, Angola, Kenya, CD; growth rates of 1.8%, 6.3%, 2.1% and 1.7% forecast for 2009 compared with rates of 5.1%, 21%, 6.3% and 6.5% respectively in 2007.

***Government finances***– The crisis will lead to a deterioration of the financial positions of governments. On a continent-wide basis, Africa will go from an overall budget surplus of 1.8% of GDP in 2008 to a deficit of -5% in 2009. Oil-exporting countries will record a deficit of -7% of GDP in 2009 compared with a budget surplus of 4% in 2008. The deficits of oil-importing countries will also deepen (increasing from -1.7% to -2.1%).

***Capital movement***- In the long run, the crisis is expected to decrease flows of private capital as well as inward direct investment (IDI) and migrant remittances. According to the ADB, no foreign currency bonds were issued by African countries in 2008. Declines in investment have been reported in Ghana, Kenya and Nigeria. This is of particular concern because many countries use private capital inflows to cover their current account deficits. Made up of migrant remittances—which, according to recent studies, have a decisive impact on poverty reduction—official transfers of funds by migrant African workers will fall from 1.1 million dollars in 2008 to 800 million dollars in 2009, for a total decline of 300 million dollars (approximately 27%).

Despite the intentions articulated by donor countries and multilateral institutions at the recent summit in London, the same trends are likely to impact official flows unless African countries work together to establish the effective governance required to optimize the movement and use of official capital.

***Economic activities and employment-*** Globally, the sectors most affected by the economic crisis are mining, tourism, textiles and manufacturing. Business closures and project postponements or cancellations are frequent in African countries. Substantial job losses have been recorded, leading to direct negative effects on the living conditions of workers.
For example, tourism revenues in Tanzania have fallen by 20%, investment in the tourism industry in Mozambique is down by 20%, hotel occupancy rates are off in Kenya, 300,000 jobs have been lost in CD, there have been job cuts in the automobile industry in South Africa, 5,000 jobs have been lost in the diamond industry in Botswana, over 3,000 jobs have been lost in the Zambian copper industry, and over 100,000 subscriptions to television channels have been cancelled, leading to 11,000 job losses in 22 African countries.

### *3.2 The impacts on incomes, poverty and development*

***Incomes and poverty*** – The analysis of the economic and social impacts of the crisis reveals that it will have a negative effect on income distribution and poverty rates in African countries. More specifically, recent simulations based on a quantifiable general equilibrium model make it possible to isolate the impacts on household income, government revenues, employment and well-being of 20% or 10% decreases in three indicators shocked by the crisis: prices of cash crops on the world market, the supply of foreign capital and transfers receivable from the rest of the world (ROW).

| **Impacts of a 20% decrease in global prices for cash crops** | |
|---|---|
| Indicators | % variation |
| Production of cash crops | -0.88 |
| Exports of cash crops | -10.4 |
| Nominal household income | -0.16 |
| Disposable household income | -4.45 |
| Demand for informal agricultural labour | -2.58 |
| Variation in household well-being | -6.81 |

| | Impacts of a 10% reduction in transfers receivable from the ROW | Impacts of a 10% reduction in the supply of foreign capital |
|---|---|---|
| Indicators | % variation | % variation |
| Total value added | -0.12 | -0.92 |
| Nominal household income | -0.67 | -0.43 |
| Disposable household income | -5.16 | -4.67 |
| Demand for informal labour | -0.12 | -1.38 |
| Variation in household well-being | -6.56 | -6.42 |
| Government savings | -29.25 | -29.32 |

These simulations clearly show that for certain African countries a decrease in world prices for cash crops will lead to lower production and exports of these crops, the reduction of nominal and disposable household income, increased unemployment in the agricultural sector and the deterioration of household well-being—in other words, to a higher incidence of child poverty. This holds true for decreases in transfers receivable from the ROW and in the supply of foreign capital, which can be expected to lead to declines in national economic value added, household income and government savings, as well as to increased unemployment and a deterioration in household well-being.

***Development*** – The current financial crisis will only aggravate the economic and social situation of an Africa still striving to recover from the disastrous effects of the food and energy crises, which had placed it in a very vulnerable position. So the continent was already characterized by a high incidence of poverty and unemployment, significant underemployment, striking inequality in terms of gender-based and regional disparities, a high level of marginalization, unfair globalization and deplorable ecological conditions.
With approximately 913 million inhabitants, Africa is currently home to 12% of world's population but accounts for only 2% of global GDP and less than 1% of global industrial value added. Africa's share of worldwide exports amounts to less than 2% of the exports of developed countries. In terms of international trade, Africa is marginalized, as it receives less than 5% of foreign direct investment (FDI) flows. Debt is a burden for Africa. As a proportion of GNP, its foreign debt represents over 80%. Of the 49 least developed countries, 34 are in Africa, and most of these are classified as low human development countries. So in terms of economic activities and trade, Africa does not appear to play a very active role in the global economy. The consequences of these circumstances include the extent and persistence of poverty, with an average of 35 to 60% of inhabitants living below the poverty line depending on the country, and limited access to essential social and public services (health, literacy, education, water, sanitation, electricity,

Internet). Moreover, the employment situation in most of these countries is worrying. Unemployment has become endemic, with a high level of job insecurity and major disparities in employment opportunities that place women and young people at a strong disadvantage. Depending on the country, unemployment affects 20 to 40% of the active population.

In terms of governance, despite the official declarations of African leaders, there are still many obstacles to political, economic, social and political governance made manifest by: the absence of democracy, non-transparent elections, the absence of transparency in the management of public affairs, the ineffectiveness of public institutions, corruption, misappropriation, impunity, the absence of the political will to hold public elections, etc.

### *3.3 The implications for African unions*

This situation had already begun to accentuate the decline in union membership in Africa and to lead to the fragmentation of labour organizations, which were largely concentrated in the informal sectors of the economy. The financial crisis threatens to exacerbate the problems confronting the African union movement. The fragmentation of unions makes them less representative, less effective and less able to propose concrete solutions to workers' problems. ITUC-Africa must refuse to succumb to chaos in the face of the litany of problems afflicting working men and women in Africa, as a result of the expansion of the informal economy, increasing job insecurity and the development of migrant labour.
The organization is aware that African marginalization clearly has numerous causes, but the low level or even absence of involvement of key stakeholders, particularly workers and unions, in the development and implementation of economic development policies, is one of the most fundamental. This is due to, among other factors, the limited capacity of unions to address problems in relation to socioeconomic, financial and commercial issues, international trade agreements and practices, economic integration processes and mechanisms, the lethargy of governments with regard to obstacles to the achievement of the Decent Work Agenda and the absence of any real political will on the part of these governments to include workers' representatives in the consideration of development issues.

For these reasons, ITUC-Africa has embarked on initiatives designed to strengthen its socio-economic capabilities so as to facilitate relevant analyses and the formulation of development strategies that can serve as alternatives to neo-liberal policies.

## 4. The current initiatives of ITUC-Africa and the international trade union movement

Since the 1980s, African unions have consistently mobilized at the international level to denounce the hindrances and abuses of ultra-liberalism and have called on governments, major powers, and international and multinational financial and economic institutions to rein in the excesses of globalization. That is why, since the

first signs of this crisis, ITUC-Africa has been working with the ITUC and the international trade union movement to not only define the extent of the crisis but above all to formulate potential solutions and to mobilize its members.
Since the G-20 Washington Summit in November 2008, the actions of the international trade union movement have been sustained and regular. However, the two high points remain the union declarations responding to the G-20 Washington Summit on November 20, 2008, and the London Summit on April 2, 2009. In both cases, these declarations were the result of collective, participatory effort involving the various regional components of the CSI, Global Unions and the Trade Union Advisory Committee (TUAC) to the OECD.

**The Global Unions Washington Declaration –** In advance of the Washington G-20 Summit, the union movement, following intense and coordinated effort, submitted a declaration proposing approaches and initiatives designed to curb the crisis, stimulate the global economy, create jobs, secure the social safety net and ensure equity in relation to the four following pillars:

- A coordinated recovery plan for the real economy
- Reregulating global financial markets
- A new international system of economic governance
- Combatting the crisis of distributive justice.

Before the work even began, an assessment of the Summit Declaration was conducted by the union movement using an analysis grid based on the union declaration. This assessment revealed that with regard to certain aspects associated with the regulation and control of markets and global governance, the concerns of the union movement and workers were ***to a certain extent*** taken into account. However, with regard to stimulating the global economy through the creation of decent jobs, the transparency of banking institutions, the improvement of social justice in terms of access to housing, community-based financial services and the implementation of distributive justice, their concerns ***were ignored.***
**The Global Unions London Declaration -** After Washington, given on the one hand the mixed results obtained in terms of the recovery of the global economy, the poor prospects for decent jobs and the implementation of redistributive justice, and on the other hand the lack of a strong commitment on the part of the international community to introduce rigorous and effective controls to regulate financial markets and the international financial system, and the absence of appropriate mechanisms to finance humane and equitable development on a global scale, the union movement pursued its monitoring efforts at all levels. On the eve of the London Summit, the union consultations continued and even intensified. This led to the adoption of a draft Union Declaration for the London G-20 Summit on the economic and financial crisis on April 2, 2009.
As was the case during the preparations for the Washington Summit, the draft Union Declaration was circulated, amended and adopted. On March 19, 2009, all of the affiliated members were encouraged to undertake actions, as of March 23, 2009, targeting governments throughout the world, based on the materials distributed by the ITUC.

Essentially, through this Union Declaration, the international trade union movement called on the G-20 leaders to implement a more just and viable global economic strategy for future generations, based on five axes or pillars, in collaboration with other countries and institutions. The five main axes of this strategy are:

- a coordinated international recovery and sustainable growth plan ***(a)***
- investments guaranteed to shift the world economy onto a low-carbon growth path ***(b)***
- new rules for global financial markets ***(c)***
- effective and accountable global economic governance ***(d)***
- a fairer world in which to work and live ***(e)***.

During this debate and these consultations, ***ITUC-Africa developed proposals pertaining to three of these five axes:*** (a), (d) and (e).

With regard to axis ***(a),*** the organization highlighted the risks of job losses, the aggravation of migration-related tensions and the degradation of governance associated with the crisis, while emphasizing the urgency of introducing adequate provisions and measures to limit these risks so as to support growth and promote development in Africa.

With regard to axis ***(d),*** attention was drawn to the necessity of establishing equitable voting rights. This voting system should be based not only on economic criteria but also on demographic, social and geopolitical ones, so as to allow Africa as well as Asia and Latin America to participate effectively in global economic and financial governance.

With regard to axis ***(e),*** the implementation of regulatory and compensatory mechanisms for basic commodities was deemed to be indispensible. These mechanisms would be designed to guarantee stable prices for commodities, the main products exported by African countries and their main sources of foreign currency and budgetary resources.

## 5. Conclusion

The London Summit has just ended and resulted in agreement by all stakeholders on four key orientations:

i. the mobilization of means to prevent financial collapse, including the allocation of $1.1 trillion to restore the global financial system;
ii. sanctions against tax havens and stricter controls for performance funds;
iii. the strengthening of the means and powers of international institutions such as the IMF, the Financial Stability Forum (FSF), the institutional organ of central banks
iv. the involvement of new players in geopolitics and decision-making.

These orientations are outlined in the Summit communiqué, which focuses on five axes for action:

- Restoring growth and jobs, including the allocation for the year 2010 of $5 trillion in public spending to stimulate the global economic machine;
- Strengthening supervision;
- Strengthening global financial institutions;
- Rejecting protectionism;

- Ensuring a fair and sustainable recovery.

These measures and provisions are clearly just intentions, and as such do not bring the crisis to an end. The real work begins now for unions and civil society organizations in Africa and elsewhere around the world. Joint action must continue, not only to assess these measures and their implementation but above all to ensure that the concerns about employment and social protections for workers are indeed taken into account. To this end, the ITUC and the Trade Union Advisory Committee (TUAC) to the OECD have just published a detailed evaluation of the outcome of the G-20 London Summit. In this document, they underline the importance that the Summit leaders placed on employment and social issues, as well as their support for the idea of debating a new charter designed to bring about a new global consensus on the values and basic principles to be reflected in sustainable economic activities. This document also analyses all of the key elements of the Summit communiqué. Moreover, the ITUC has launched a new Web page gathering all union articles, statements, press releases and opinions on the financial crisis, its causes and consequences, as well as union responses.[1]

ITUC-Africa, in keeping with its strategic plan and the actions provided for by its component aimed at "Strengthening the political, economic and social interventions of ITUC-Africa" intends to pursue its awareness and training initiatives with African unions regarding issues associated with the financial crisis and its impacts on Africa. Since the goal is to define the actions and mobilization strategies of unions to ensure that they are able to not only call on African governments as well as regional and sub-regional authorities to endeavour to find solutions to the serious problems afflicting workers in underdeveloped countries on the continent, but also to subsequently propose solutions in their respective countries as part of the social dialogue on the financial crisis and the search for solutions facilitating economic recovery. To this end, ITUC-Africa recently launched, on April 15, 2009, in Nairobi, its union training program on the financial crisis by organizing in collaboration with the ILO a workshop for its members in the East African Community (Burundi, Kenya, Uganda, Rwanda and Tanzania).

The political and economic orientations recommended by ITUC-Africa within the framework of this program reflect three major themes:

i. the need for a new paradigm to serve as a guide for politics and development strategies in Africa, which involves the rejection of ultra-liberalism and the recognition of the crucial role of governments as guarantors of social justice and promoters of human development and solidarity in all African countries
ii. the need for good governance in all African countries, it being a recognized fact that its absence is a constant threat to economic, environmental and social balance and to the future of African working men and women
iii. the genuine reform of global governance to allow African governments to free themselves from domination by international institutions as well as Western and emerging foreign powers.

Africa is rich but is nevertheless characterized by the extent and persistence of poverty. In the current context, the world has become a global village, a sort of

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[1] 1. For more information about the recent initiatives of the union movement, consult the ITUC and Trade Union Advisory Committee (TUAC) sties: www.ituc-csi.org and www.tuac.org.

battlefield where new peoples are emerging. In such a theatre, it is important to be well prepared, to be determined to win, to move swiftly, to be willing to go on the offensive and to have the right allies. Are we up to the task?
In light of the fact that the strategic objectives defined in the Africa-Canada Forum Platform for Action 2009-2011 and the topic of this meeting are in entirely in keeping with the Millennium Development Goals and ITUC-Africa's vision of "shaping a democratic, independent and united regional trade union organization for the well-being of all African workers in a world where everyone can achieve their full potential in conditions of freedom, democracy, good governance, equality and social justice," it is possible to answer this question in the affirmative.