

Challenges of Economic Recession among Developing Countries: Africa in Perspective

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Abstract

As the recession bites, poverty reduction unravels and the middle classes worldwide are weakened, the risk is that social and political tensions will multiply. Economic growth in Africa continues to lose momentum, as it is buffeted by global, regional and internal headwinds. While many countries have embarked on a gradual process of economic diversification, with investment increasingly directed towards the manufacturing sector, the continent remains highly commodity-dependent. Given the low level of global commodity prices, export income in many countries dropped sharply in 2015 and may fall further this year. Many countries suffer from continued shortfalls in infrastructure such as energy supply and health-care facilities, leading to power shortages in countries such as Nigeria and South Africa and complicating progress towards economic and social development. The macro level factors and the micro level factors were used to examine the challenges of recession on Africa. The macro level factors considered were; growth, employment, livelihoods and while the micro level factors considered were; Decreased Demand and Consumption, Price Instability and Rising Costs, and Household Level Impacts. A cursory look of recession on some selected African countries was also done. Amongst others, it was recommended that African countries should strengthen its financial base through improved internally generated revenue and capital re-mobilization into more productive sectors that will yield more and quick returns, to her nation.

Keywords: *Challenges, Economic Recession & African Countries*

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Background to the Study

A recession is usually characterized by a state of negative economic growth spanning up to two consecutive financial quarters. The global financial crisis of 2008 is a major financial crisis the worst of its kind since the Great Depression of 1930 (Pells, 2008). As the recession bites, poverty reduction unravels and the middle classes worldwide are weakened, the risk is that social and political tensions will multiply. The macro level factors and the micro level factors were used to examine the challenges of recession on Africa. The impacts on macro level factor are; unemployment, reduced commodity prices, reduced trade, foreign aid, etc. While the micro level factors speaks on how these macro level factors have impact at the household and individual levels (Zulu, 2011).

Africa's relatively weak global linkages suggested to some that it would be spared the worst effects of the global crisis which hit many developed and emerging market economies from around September 2008 (Bakrania and Lucas: 2017). However the region as a whole has indeed been exposed to the downturn and growth estimates for the continent have been continuously lowered from 5 percent in 2008 to 1.7 percent in April 2009 (IMF, 2009). The main channel for this negative effect has been via the recession-induced slow-down in foreign financial flows of all types into Sub-Saharan African and the region's dependency on commodity based export growth (Padayachee, 2010).

At the Africa Group meeting of 20 March 2009, José Manuel Salazar- Xirinachs, Executive Director, Employment sector of the International Labour Organization (ILO), made two principal predictions with regard to the impact of the global recession. The first was that '2009 is a year in which labour markets around the world will be hit hard'. And the second was that '2009 will be the first year since the Millennium Development Goals were launched in which globally poverty will not be reduced but instead will increase' Salazar-Xirinachs, 2009:1).

The two predictions have far reaching consequences for the developing world as it is here that individuals and groups are most vulnerable to the vagaries of the economy. A dramatic decline in the labour markets saturates the informal economy adversely as, contrary to conventional economic wisdom, the informal economy cannot act as a cushion to the formal economy in times of a global recession as the data will show in the following sections of this paper. Secondly, adverse effects on the informal economy have dire consequences on poverty and consequently on food security.

Economic growth in Africa continues to lose momentum, as it is buffeted by global, regional and internal headwinds. While many countries have embarked on a gradual process of economic diversification, with investment increasingly directed towards the manufacturing sector, the continent remains highly commodity-dependent. Given the low level of global commodity prices, export income in many countries dropped sharply in 2015 and may fall further this year. Many countries suffer from continued shortfalls in infrastructure such as energy supply and health-care facilities, leading to power shortages in countries such as Nigeria and South Africa and complicating progress towards economic and social development. In addition, many parts of the continent have suffered from severe drought, which has decimated crops and livestock and severely curtailed agricultural production in affected regions. This has pushed up inflation, required higher imports of food staples, further reduced export earnings and put pressure on public finances, as basic foodstuffs are widely subsidized. Security concerns also continue to weigh on many parts

of the continent, undermining confidence and economic activity. GDP growth for the continent as a whole slowed to 3.0 per cent last year, and a further moderation to 2.8 per cent is expected in 2016 (World Economic Situation and Prospects 2016).

Padayachee (2010) deposed that the anatomy of the global recession in developing countries vis-à-vis African countries follows a simple logic. Developing countries rely mostly on exporting unprocessed goods, mainly minerals and agricultural produce. Because of reduced financial flows in the developed world, there is a decline in trade leading to reduced demand. This immediately leads to a decline in commodity prices and, in the words of the ILO Global Crisis Observatory, 'reduced liquidity and tightening of credit markets affecting both public and private sectors, reduced flows of remittances, a drop in Foreign Direct Investment (FDI), exchange rate depreciation, and declining flows of Official Development Assistance (ODA). It is against the back drop of the foregoing that the paper examined the challenges of economic recession among developing countries, with focus on Africa.

Macro level factors of Economic Recession

The macro level factors of economic recession according to Zulu (2011), bothers on the following:

Growth

Economic recession has put at risk Africa's growth and development prospects. The consequences of shrinking growth would express in increased unemployment, a reduction in the states' capacities to provide social services and almost no social security safety nets as is the case in almost all Sub-Saharan African states; and forcing precariously placed workers into an already large informal economy.

Africa's economic fate, for instance, is closely interlinked into the global economy through five key sectors:

1. Exports of raw materials from mining and agriculture;
2. Exporting human resources which results in remittances from the host to the guest countries;
3. Capital inflows through foreign investment and bank loans;
4. Earnings from tourism; and
5. Foreign aid.

The ongoing recession has affected all the above factors in various ways leading to reduced revenues in all respects.

Employment

Recession has increased the number of unemployment greatly. What exacerbates the impact of job losses in the formal economy is the increase in vulnerable employees (unpaid family workers and own account workers as a share of total employment). The ILO Observatory noted that in Africa the ratio of vulnerable employees had increased by 5 percentage points between 2007 and 2009 pushing the figure up to 81.8 percent. In absolute numbers this represents 28 million persons or an additional 36 million persons earning less than US\$1.25 per day. This translates into 67.2 percent classified as the extreme working poor. This has a severe impact on growth, poverty and job creation.

Livelihoods

There are two ways in which the global recession impacted on the generation of livelihoods in developing countries. The first was a decline in direct investment, and the second was in transfers through tourism and remittances. Activities such as tourism which fall within the small sector suffered as a result of the global recession. For instance, between January and June 2009 the Tanzania Association of Tour Operators reported a drop of between 30 and 50 percent in American and European tourists. In Kenya hotel and bed occupancy declined by between 20 and 30 percent. Another sector that was hit is the NGO sector which relies largely on international donors mostly from Europe and North America. Most NGO work is in the social economy (co-operatives and self-help groups funded from foreign humanitarian aid agencies) and as sources of funding diminished in donor countries, less reached the developing world thus reducing NGO activity. Finally, as the recession hit the developed world most, guest workers were the first to lose jobs and with this, remittances to the home countries fell thus reducing livelihood opportunities.

Micro level factors of Economic Recession

The micro level factors of economic recession as deposed by Zulu (2011) impacts on household, personal level and groups in the following areas:

Decreased Demand and Consumption

Recession has had a marked impact in African countries especially on informal workers. Decreased demand resulting from a decline in export trade and direct investment as well as from shrinking commodity prices has caused a slump in both the formal and informal sectors. Inside the poor countries the buying power of local consumers declined thus reducing demand. Retrenched and underemployed workers have had to curb their own consumption.

Price Instability and Rising Costs

Recession brought about an increase in production costs while stifling the selling price of goods produced. There is an increase in the prices of both raw materials and ready-made goods. These constitute inputs in the informal business, informal sector practitioners had thus to absorb these costs against declining selling prices. In addition, utility costs for gas, electricity and transportation rose.

Rising production costs against depressed local demand brought about a vicious cycle. Either producers' have to increase the selling price against low sales volumes or increase their production and bank on the economies of scale. Where practitioners dealt in non-durable or perishable goods there were few if no options. In a majority of instances practitioners decreased their selling prices (41%) while almost a third (29%) adjusted their prices upwards while another third (31%) kept their prices the same. With decreased profit margins the only alternative was to increase working hours in order to increase production. This reduced parenting and nurturing tasks thus introducing a negative social dimension to family life.

Household Level Impacts

The recession precipitated a rise in commodity prices including food and transportation costs. It is common cause that in poor households an inordinate portion of the budget is spent on food and transport. There has been a drop in the quantity and quality of household food. This entailed a reduction in the number of meals taken per day from three

to two and some others from two to one. Others sacrifice 'luxury' items such as meat and milk from their meals and substituting them with relatively cheaper items such as eggs and offal or 'guts'. In some instances adults forewent their meals in favour of their children. Some sacrifice items such as leisure and clothing in favour of basics such as children's education, food and shelter (Zulu, 2011).

Case Studies of Some Selected African Countries' Challenged of Economic Recession

Nigeria

The global economic crisis has impacted on the Nigerian economy through several channels, namely, the decline in oil prices, the fall in Foreign Direct Investment (FDI) inflows, net outflows of portfolio investment and falls in credit availability from the banking sector, that taken together, have led to a reduction in aggregate demand and a decline in foreign exchange reserves. The economy is dependent on oil and gas for 95 per cent of exports (2007), 85 per cent of government revenue and 52 per cent of GDP (Ogwumike, 2009). The fall in oil prices in 2008 led to foreign exchange shortages and a devaluation of the naira by about 24 per cent between December 2008 and March 2009.

The manufacturing sector is relatively small and dominated by the production of light consumer goods and is heavily import dependent (hence devaluation, other things being equal, raises the costs in naira of imported intermediate inputs). The sector accounts for less than 10 per cent of employment and over the past decade the sector has accounted for a falling share of commercial bank loans and with a declining share going to SMEs. Structural problems constraining the sector include inadequate infrastructure, erratic power supplies, high unit costs and limited demand for locally made consumer goods. Some improvements in performance have been witnessed since 2004 (when a number of reforms were introduced, including the reform of the capital market, a campaign against corruption and improvements in the business environment, together with the write off of a large proportion of external debt), but in general the manufacturing sector can be characterized as a sector beset by structural problems suffering from long term stagnation if not actual decline. Between 1991 and 2003, the share of manufacturing in GDP fell from about 6 percent to about 4 per cent. The crisis has thus hit an already weak, high cost, uncompetitive sector, with exports confined largely to the regional market. The Manufacturing Association of Nigeria (MAN) is on record as arguing that the effects of the crisis are very severe (Ogwumike, 2009), citing poor infrastructure, high import costs, lack of credit and import liberalization. The textile industries, and presumably other sub-sectors are facing serious problems owing to a "turbulent industrial climate characterized by decaying infrastructure, obsolete machinery, high power and labour costs, poor product quality, inadequate local raw materials supply, declining investment or disinvestment in the sector, smuggling and inconsistency in government fiscal policies, etc"(Ogwumike, 2009). It is difficult to see how the short-term response of the Government to the global crisis can bring any immediate improvement to this situation.

South Africa

Despite the level of economic development and an advanced social security system, South Africa did not escape the negative impact of the recession. Padayachee (2010:4) states: "The country's Gross Domestic Product growth dropped to 1.8 percent in the last quarter of 2008, and then plunged to -6.8 percent in the first quarter of 2009, and to -3.2 percent in the second quarter. So the country fell into a technical recession already at the end of the

first quarter of 2009'. In addition, '484,000 workers lost their jobs in the third quarter of 2009, the largest number in manufacturing (about 150,000): the total job losses were more than the combined totals of the first two quarters of that year.

Padayachee goes on to draw on policy implications of the recession and selects one of the main pillars of South Africa's post-apartheid restitutive policies – Black Economic Empowerment (BEE) which the country considers as an imperative in the transformation of the economy. BEE deals use money loaned from merchant banks to finance the purchase of shares by blacks from existing companies. As he puts it, 'The lack of finance in the quantum needed for BEE deals creates not only a heavy reliance on the “once empowered”, the merchant bankers and others (the real beneficiaries) who just lie below the surface of these deals' (Padayachee, 2010:11). However, what is critical in this instance is that the financial crisis has affected the number and character of deals and thus impacting on the country's social policy, and probably the stability of the social transition.

Padayachee contends that a number of companies 'have cut back on dividends' thus 'straining the environment for empowerment deals'. He cites the Financial Mail of April 3, 2009 as saying: 'This creates the danger that the banks that funded the deals will call up the debt, forcing the black investors out of the company' (Zulu, 2011).

Cameroon

The sub-Saharan economies, although accounting for a small percentage of global trade, are not immune to the economic crisis. Cameroon is a relatively small, open economy, dependent on the export of a limited range of primary commodities – crude oil, wood and wood products, cocoa beans, coffee, raw cotton, raw rubber and raw aluminium [sic]. Export volumes and values fell in 2008 for a number of commodities including crude oil, coffee and raw cotton. Thus Cameroon is dependent on a limited number of primary commodity exports, with a high degree of market concentration, with the EU (especially Italy, Spain and France) and East Asia (China and Taiwan Province) dominating, and is highly vulnerable to short run price fluctuations.

Cameroon has a poorly developed manufacturing sector. It is argued (Monkam, 2009) that the sector was already in recession prior to the impact of the crisis, with enterprises suffering from a variety of problems, including intensive competition from imports, unreliable power supply, poor infrastructural facilities, limited credit availability, especially for SMEs, and high unit costs. The crisis has affected three sub-sectors in particular: wood and wood products, construction materials, metallurgy and foundries and printing and publishing. It would appear that SMEs and companies serving the domestic market have been less adversely affected by the crisis than larger, export oriented companies which are finding access to export credit a particular problem.

Egypt

Egypt is a middle income country with a relatively diversified economy but heavily dependent on tourism, migrant labour remittances and Suez Canal revenues (all of which have fallen as a result of the recession), and the export of hydrocarbons. Since 2004, the government has pursued a set of pro-business policies supporting export-oriented manufacturing activities which have led to some diversification, both with respect to markets served and the commodity composition of exports. The manufacturing sector's share of GDP in current prices fell from 18.3 per cent in 2004 to 16.3 per cent in 2008 (although the sector grew in absolute terms) and accounted for 13.1 per cent of the labour force in 2007 (Kourouian, 2009).

Exports of manufactured goods were 30 per cent lower in the fourth quarter of 2008 as compared to the same period in 2007, with further falls in February 2009 compared to February 2008. Manufactured exports most affected included: ready-made garments, chemicals, furniture and processed foodstuffs. Increased import competition led to the cessation of domestic automobile glass production. Pressure on employment has been exacerbated by the return of an estimated half a million migrants. The Egyptian Government has responded to the crisis with a series of measures, including maintaining lending to SMEs, lower tariffs on a limited range of intermediate and capital goods imports and the selected use of export subsidies. The private sector has been campaigning for a devaluation of the Egyptian currency to restore competitiveness to manufactured exports (Alcorta and Nixon, 2011).

Conclusion

Economic growth in Africa continues to lose momentum, as it is buffeted by global, regional and internal headwinds. The anatomy of the global recession in developing countries vis-à-vis African countries follows a simple logic. Developing countries rely mostly on exporting unprocessed goods, mainly minerals and agricultural produce. Because of reduced financial flows in the developed world, there is a decline in trade leading to reduced demand. This immediately leads to a decline in commodity prices and, in the words of the ILO Global Crisis Observatory, 'reduced liquidity and tightening of credit markets affecting both public and private sectors, reduced flows of remittances, a drop in Foreign Direct Investment (FDI), exchange rate depreciation, and declining flows of Official Development Assistance (ODA). Hence, the macro level factors and the micro level factors were used to examine the challenges of recession on Africa.

Recommendations

In order for African Countries to move out of economic recession, the following strategies should be adopted:

1. African countries should strengthen its financial base through improved internally generated revenue and capital re-mobilization into more productive sectors that will yield more and quick returns, to her nation.
2. the adoption of a well disciplined and people centered budgetary policy as well as the consistent and strategic partnership with the private sector
3. Given the current account imbalances that facilitated the global financial crisis, external account considerations are likely to be central to confronting today's challenges. Hence, the goal of global rebalancing should not be simply to bring down the U.S.'s current account deficit but also to adjust the imbalances at minimum cost to developing countries vis-à-vis African countries while providing them with a robust growth and consumption capacity. Likewise, because of the cost of global rebalancing and the inherent burden spilling across countries, there is a need for global coordination. Indeed, given that the living standards of many poor folk in Africa make them an accident waiting to happen. Therefore, global coordination is absolutely essential when it comes to too-large-to-fail African countries.
4. African central banks will need to remain focused on anchoring inflationary expectations and ensuring medium-term price stability. We need to adopt a pragmatic approach in response to these developments. For example, excessive capital inflows at times may need to be met with appropriate sterilized interventions. Monetary policy is a blunt tool to tackle asset price inflation

pressures, but a combination of prudential and administrative measures to prevent excess liquidity from fueling asset price bubbles could be employed in a complementary way. The most appropriate response will, of course, vary across different African countries, putting into consideration, the peculiarity of their environment.

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