GLOBAL FINANCIAL TAKE IN AFRICA.

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While much mainstream media attention is on the details of the financial crisis, and some of its causes, it also needs to be put into context (though not diminishing its severity).Almost daily, some half of humanity or more, suffer a daily financial, social and emotional, crisis of poverty. In poorer countries, poverty is not always the fault of the individual alone, but a combination of personal, regional, national, and—importantly—international influences. There is little in the way of bail out for these people, many of whom are not to blame for their own predicament, unlike with the financial crisis. On the global financial crisis (which predominantly affects the wealthy and middle classes), the effects of the global food crisis (which predominantly affects the poorer and working classes) seems to have fallen off the radar. The two are in fact inter-related issues, both have their causes rooted in the fundamental problems associated with a neoliberal, one-size-fits-all, economic agenda imposed on virtually the entire world. Perhaps ironically, because of Africa's generally weak integration with the rest of the global economic system, as reported by Reuters, it is believed many African countries will not be affected from the crisis, at least not initially.

The wealthier ones who do have some exposure to the rest of the world, however, may face some problems. In the long run, it can be expected that foreign investment in Africa will reduce as the credit squeeze takes hold. Furthermore, foreign aid, which is important for a number of African countries, is likely to diminish. In recent years, there has been more interest in Africa from Asian countries such as China. As the financial crisis is hitting the Western nations the hardest, Africa may yet enjoy increased trade for a while. African countries could face increasing pressure for debt repayment, however. As the crisis gets deeper and the international institutions and western banks that have lent money to Africa need to shore up their reserves more, one way could be to demand debt repayment. This could cause further cuts in social services such as health and education, which are already lacking in funds. Much of the debts owed by African nations are odious, or unjust debts, as detailed further below, which would make any more aggressive demands of repayment all the more worrisome.

The Bretton Woods system of international finance devised by the 44 nations after the Second World War, mostly represented by the IMF, World Bank, was designed to help reconstruct and bring stability to a post-war global economy. In the 70s, the purpose of these international financial institutions (IFIs) shifted towards a neoliberal economic agenda, championed by Washington, (also known as the Washington Consensus). It was at this time that policies such as structural adjustment started to be pushed to much of the developing world, following a "one size fits all" prescription of how economies should be structured, which had disastrous consequences for much of the world's population.

THE CONTEXT

Africa is unlikely to suffer from the first round effects of the crisis because of its weak integration into the global financial system, Some analysts have warned of possible swings in some emerging markets from the financial crisis, especially as failing U.S. banks like Lehman Brothers or other troubled institutions unwind positions in specific markets. However African economies have become more flexible than in the past, and are in a better position than before to absorb shocks. Estimates show that GDP growth in Africa will average about 5.9 percent over the next two years, African growth was 5.7 percent in 2007. However, the recession in developed countries may eventually weaken the demand for African exports, suggesting that the continent may suffer the second round effects of the crisis. Other analysts have argued that, African governments should more than ever sustain credible macroeconomic frameworks. In particular, overvaluation of currencies vis-a-vis the U.S. dollar should be avoided. Africa's wealthier countries will be worst hit by the financial crisis because of their exposure to world markets. That most of Africa's middle income countries may be affected. We should expect the capital markets in these economies to exhibit greater volatility and uncertainty. Also, countries relying on portfolio inflows to finance the current account are also vulnerable, as those flows tend to be highly volatile. The crisis facing major international financial institutions is likely to reduce their investments in Africa, negatively affecting the availability of financial resources in other sectors as well. Most of Africa's middle income countries may be affected. We should expect the capital markets in these economies to exhibit greater volatility and uncertainty. Also, countries relying on portfolio inflows to finance the current account are also vulnerable, as those flows tend to be highly volatile. The crisis facing major international financial institutions is likely to reduce their investments in Africa, negatively affecting the availability of financial resources in other sectors as well. But the risk of a "sudden reversal of foreign private capital" for African banks is low because most is in the form of direct rather than portfolio investment. Though, countries such as, Algeria, Angola, Libya and Nigeria, which have established sovereign wealth funds with oil revenues, would be more exposed to market turbulence through their investments in developed countries' financial sectors.

The services sector too is likely to be affected because it is very vulnerable to the slowdown of economic activity and inflation as well as to financial turbulence. Driven by financial services liberalisation, this sector has been one of the fastest growing sectors on the continent. Other services sectors like tourism also risked being hit by reduced demand as visitors from rich countries rein in their luxury spending due to the downturn.

DEBT

Crippling third world debt has been hampering development of the developing countries for decades. These debts are small in comparison to the bailout the US alone was prepared to give its banks, but enormous for the poor countries that bear those burdens, having affected many millions of lives for many, many years. Many of these debts were incurred not just by irresponsible government borrowers (such as corrupt third world dictators, many of whom had come to power with Western backing and support), but irresponsible lending (also a moral hazard) from Western banks and institutions they heavily influenced, such as the IMF and World Bank. Despite enormous protest and public pressure for odious debt relief or write-off, hardly any has occurred, and when it does grand promises of debt relief for poor countries often turn out to be exaggerated. One recently described "historic breakthrough" debt relief was announced as a $40 billion debt write-off (though turned out to hardly be that). To achieve this required much campaigning and pressuring mainstream media to cover these issues, and so on.

In contrast, the $700 billion bail out as well as bailouts by rich other country governments were very quick to put in place. The money then seemed easy to find. Talk of increasing health or education budgets in rich countries typically meets resistance. Massive military spending, or now, financial sector bail out, however, can be done extremely quickly.

And, a common view in many countries seems to be how financial sector leaders "get away" with it. For example, a hungry person stealing bread is likely to get thrown into jail. A financial sector leader, or an ideologue pushing for policies that are going to lead to corruption or weaknesses like this, face almost no such consequence for their action other than resigning from their jobs and perhaps public humiliation for a while.

Structure of IFI,s

Many people are now calling for fundamental reforms of the financial systems, internationally. This includes international banking and finance, to reform of international financial institutions such as the World Bank and IMF. Part of the reform suggestions also include giving more voice and power to poor countries, who typically have little say in how the global economy is shaped. Traditionally powerful countries have resisted these calls (that have been voiced for decades, not just during this crisis). This crisis however has seen even powerful countries contemplate changes that would be more favorable to emerging nations. Whether these changes can happen is hard to predict.

The IMF and World Bank have even admitted their policies have not always worked. For example, back in 2003, they warned that developing countries face an increasing risk of financial crisis with increasing globalization because effects in one part of the world can more easily ripple through an inter-connected world. “Financial integration should be approached cautiously,” they warned. In addition, they admitted that it was hard to provide a clear road-map on how this should be achieved, and instead it should be done on a case by case basis. While former chief economist for the World Bank, Joseph Stiglitz is now a well-known critic of the IMF/Washington Consensus ideological fanaticism, others at the IMF have also started to question things, noting that developing countries have not benefitted from following these ideologies so rigorously. Fast forward a few years to this financial crisis and there are more calls for reform of the global financial system, perhaps with a difference: the crisis now seems to be so deep and affecting rich countries as well that even some rich countries that benefited from the inequality structured into the global order are now calling for reform. In addition, although developing countries had called for reform many times before, they now have a slightly stronger voice that in the past.