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### *Why Africa matters! – The economic crisis and Africa*

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It is only 4 years since Tony Blair declared the “Year of Africa” and the willingness to bring Africa back to the world economy. It was the culmination of a process that saw the African continent return to the top of the international agenda after years of relative neglect – a victim of the risk-aversion and general apathy of a Western world first basking in the post-Cold War ‘peace dividend’, then hit by the terrorist threat.

The scale of the economic, governance and security challenges in Africa has prompted Western governments and organizations to renew and bolster their commitments to the region, especially the EU.

This also reflected a shift in Western priorities, especially since the September 11, 2001 terrorist attacks, with a greater focus on the nexus between security and development. In an era when security of supply has become a major issue, Africa’s abundance of natural resources has also re-engaged Western – and non-Western – commitments in the region. Africa’s importance as an alternative to the volatile Middle East as a source of energy and raw materials made productive worldwide cooperation between Europe, the US and Africa even more urgent, especially given the rise of China as a major player on the continent.

In addition the combination of internal and external factors has put Africa in recent years directly back on the international agenda: the security-development nexus, new international development commitments, increasing competition from countries such as China, and the growing focus on natural resources and energy security.



### ***Will Africa suffer more than others from the crisis?***

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Nevertheless Africa has remained the ignored continent of the globalized world. And it is evident, that the continent will suffer as will other regions of the actual world economic crisis. Perhaps ironically, Africa's generally weak integration with the rest of the global economy may mean that many African countries will not be affected from the crisis, at least not initially. The wealthier countries on the poorest continent would be worst hit by the financial crisis because of their exposure to world markets.

The impact on Africa will probably not be as cruel as elsewhere because it represents such a small share of global markets, with 1.3 percent of world stock market capitalisation, 0.2 percent of debt securities and 0.8 percent of bank assets. Foreign direct investment, representing 4 percent of the world's total, was concentrated in resource-rich countries. All these elements suggest that for most African countries the direct turbulence in the United States will have a limited impact on the domestic financial markets.

Nevertheless, the recession in the developed countries will weaken the demand for African exports, and as a result the continent will suffer from the crisis. The wealthier ones (South Africa, Nigeria, Algeria) who do have some exposure to the rest of the world may however face even more problems. It is even feared, that in the medium and long run, foreign investment in Africa will reduce and as a result foreign aid, which is important for a number of African countries, is also likely to diminish. Therefore the developed world has to concentrate more on effectiveness of aid- (A whole separate issue.)

African countries could face increasing pressure for debt repayment. <sup>1</sup> 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 have already been reduced due to crises and policies from previous eras.

### ***Africa has to explain itself why the continent matters!***

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Nevertheless it is a question for Africa itself to give explanation to the World why the continent matters. If Africa matters, it is then only subsequently that the international community has to urge Africa to engage in a constructive dialogue in order to bring Africa back to the World Economy for the benefit of the continent itself but also for the World.

The aim of such a renewed dialogue and cooperation would be to finally elaborate a common consensus and understanding why Africa matters to the rest of the world,

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<sup>1</sup> <http://www.ipsnews.net/news.asp?idnews=44447>

especially to Europe but also to the US. This could help to give incentives to international investors to consider the African continent as a potential market.

The African continent is the second largest and second most populated continent with more than 900 millions habitants. However: The average poor person in sub-Saharan Africa is estimated to live on only 70 cents per day, and was poorer in 2003 than he or she was in 1973. These figures were published by the World Bank in August 2008 and unfortunately confirm that sub-Saharan Africa has been the least successful region of the world in reducing poverty; some 50% of the population living in poverty in 1981 (200 million people), a figure that rose to 58% in 1996 before dropping to 50% in 2005 (380 million people).<sup>2</sup>

The factors that have increasingly contributed to the marginalization of the continent in the global configuration of power structures are numerous, in general due to the political weakness in the last two decades and partly of the destabilizing effects of HIV/AIDS pandemic that have surely prevented Africans from enjoying the advantages of today's globalizing world.

Despite the actual worldwide economic crisis, globalization has raised the stakes for all countries, and should normally also be valuable for Africa. At the same time, however, countries not in a position to open up their economies, attract investment, or participate in world trade, and thereby join in the globalization process, run the risk of marginalization. Is that to be the fate of Africa?

Firstly, Africa has witnessed in this decade and in particular since 2004 an upturn in economic growth that is far more than a passing phenomenon – even if this was mostly due to the high prices in raw materials - and secondly Africa has in its power to move onward from this recovery to sustainable development provided that the industrialized world can work together to create a new kind of partnership.

Significantly, many African countries are politically stable today compared with a decade ago. Then Africa's diversity needs to be borne in mind. In general, African countries are relatively weak players in the world economy and world politics, although as an "object" of international relations they have become more prominent in recent years. The public image is usually associated with hunger, poverty, disease and conflict, but this does not capture Africa's diverse reality. Africa's appeal stems from its strong market performance in recent years, driven by better regulatory regimes, structural reforms, higher growth rates, rising foreign direct investment and foreign exchange reserves, robust export performance, and lower debt levels. The origin of this new international strength was linked to the commodity boom and global value chains stretching from Africa to China and the EU, Japan and the US.

While this linking of security and development has widened the range of issues, it has also emboldened donor countries to be less reticent about attaching conditions to aid

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<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:21882162~pagePK:64165401~piPK:64165026~theSitePK:469382,00.html>

and trade with Africa, aimed in particular at encouraging good governance and democracy.

***Africa has to convert the current gains in durable stability!***

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There is a need for Africa to develop a strategy which allows it to convert the gains into durable economic stability and sustainable growth, something the continent failed to achieve in earlier decades.

The progress on the Millennium Development Goals is irregular, but generally there is an existing progress. One has to observe now during 2009 what the effects due to the world economic crisis will be.

On the political side, the African Union (AU) is a credible attempt at unity and integration, albeit without the pooling of sovereignty, a characteristic of the EU model for example. Some of the regional economic communities have become functional (ECOWAS), although others remain still "paper elephants" (EACU).

Many resource rich African countries are in a position of power, but this strength is at the mercy of the ups and downs of commodity prices. Such situations have existed in the past and not led to durable development in Africa. A key issue for those countries would be to emulate the diversification strategies and growth trajectory of other resource rich countries such as Malaysia or Norway, Australia and New-Zealand. This requires not only a real strategy for a countries' response to globalisation, but also strong economic and political governance.

The resource poor countries in Africa have very little to attract international political and economical attention if it is not their misery or conflict itself.

Furthermore: There is clear evidence that Africa is increasingly becoming the victim of the global governance system. What needs to change is the political and economic governance in Africa. But this is first and foremost an internal African problem. The entire international system of cooperation has tried for more than 30 years to assist, support and contribute to more democracy, better economic growth and good governance. Africa's inability to assume its fair place in the international system is first an internal problem of Africa "elites". It is still the case that political and economic leaders do not seem willing or capable to develop the potentials of the globalizing world for the continent.

On the global level, a functional multilateralism could provide opportunities for Africa as an emerging international actor to take a role in some of the challenges directly affecting it (which are for the time being dealt within institutions where African influence is marginal), while leaving the door open for a more comprehensive international transformation that may flow from the progressive African integration, economic growth and UN reform. Functional multilateralism does not require substantial yielding of sovereignty



Secondly there is also the structure of global governance that has held Africa hostage for many years and made it impossible for Africa to assume its rightful place in the international system. There is no doubt that China's renewed interest upon the continent and the nature of Chinese investment in Africa has raised some concerns in Europe and in the United States. Those concerns are manifestly a strong response to the question why Africa matters.

### ***Does Africa matter?***

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Can we really assume that Africa matters because of its strategic importance especially within the context of global politics of resources?

If there is no doubt that Africa is endowed with abundant natural resources, it is also true that Africa is still struggling to address the multiple challenges facing the continent, this includes poverty, under-development, protracted conflicts, environmental degradation, HIV/AIDS pandemic, tuberculosis and malaria. It has been suggested that all over Africa, poverty is a common denominator and it is not surprising that people's immune systems have been damaged. Reports on Africa's HIV/AIDS pandemic have all come to the conclusion that HIV/AIDS on the continent is closely associated to poverty. It is clear that the absence of technological investment and the contempting human resource capacity has prevented Africa from making optimal use of its abundant resources for the benefit of its people.

Nevertheless, the new scramble for natural resources in the continent is likely to create a new awareness of the geopolitical importance of the African region. Therefore, Africa remains a critical partner for the world's economic viability. However, for Africa to benefit more from its vast natural resources it must be finally enabled to add value to these products rather than export them raw to Europe and elsewhere in the developed world. Africa needs to be helped in manufacturing value-added products that yield higher profit and income to African economies.

In addition, there are, at least, five significant factors that provide a plausible explanation as to why Africa matters, especially concerning Europe:

*Firstly*, it is the history of Africa and its relationship with Europe. The history of Africa has been a history of integration into the European economy and markets. Therefore, Africa has historically held a significant place in the European economy, trade and investments. If Africa matters to Europe it matters also to the globalised world.

*Secondly*, there is also the inherent link between environment and sustainable development. While the history of Africa and its integration into the European economy is clearly defined by historical circumstances, the environmental aspects are not clearly discernible. Environmentally, Africa matters to the world because it provides the largest capacity in the world necessary for maintaining equilibrium in the biosphere and avoid further depletion of the ozone layer. At



the same time the raid of depletion of Africa's biodiversity including its tropical forests, medicinal plants remain threatened by the levels of poverty on the continent. Africa's most prevailing source of energy is biomass which means depletion and an exponential raid of its forestation. If this is left to continue, the World will suffer serious climate change which is likely to erode its socio-economic prosperity and a consequent negative impact to its population. This is an area which needs a strong partnership with the rest of the world, to protect its environment and avoid further depletion of the ozone layer.

*Thirdly*, Africa matters because it still provides easy market access to Europe, the US and China and can give, in some cases, extraordinary investment opportunities with high rates of return. With the changing political climate in the continent towards democracy, respect for the rule of law and protection of human and people's rights the investment climate in Africa could rapidly change.

The historical and cultural links, geographical proximity, and deep knowledge and understanding of the continent gives international European investors a comparative advantage over Northern America and Asia, including China. With these investments the average rate of growth in Africa has been increasing most significantly in most African countries ranging from 3% to 7% in many countries during recent years.

The income disparities in the continent have been narrowing and the purchasing power parity increasing. This, coupled with the population of the continent, provides a market with huge potential especially for European goods. Indeed, any visitor to Africa would quickly realize that there is still a very significant quantity of European products traded in the continent.

However, if you are in Europe you can hardly see the presence of African products on the market. This is mainly because Africa cannot compete in the European market either because of European subsidies or other protectionist measures that stifle Africa's competitiveness and ability to sell in the European market. This problem needs to be addressed to ensure the sustainability of African-European partnership.

*Fourthly*, Africa matters because of its abundance nature of human resources which provided the back-bone of industrialisation in Europe. Africa is a rich continent and not as poor as it is depicted elsewhere in the world. Africa is richly endowed with mineral reserves. The continent ranks first in terms of the amount of global reserves of bauxite, chromites, cobalt, diamond and gold. It also ranks first in terms of palladium, phosphates, platinum group metals, titanium minerals, vanadium and zircon. Africa was, and still is, among the world's largest exporters. An ecological survey realised by the mineral industries of Africa has estimated that production in Africa alone accounts as much as 80 % of the world's platinum group metals, 55% of chromites, 49 % of the palladium, 45% of the vanadium and up to 55 % of the world's gold and diamond. Moreover, Africa has emerged as a



critical exporter of cheap and skilled labor that has been instrumental in moving Europe's economy forward.

*Fifthly*, with a view to cooperation with China, a dialogue on Africa already began on an ad hoc basis which could be intensified and move beyond the level of senior officials. Besides obvious differences of interests, the political problems often result from mutual ignorance and diverging perspectives. Thus they can only be solved by intensified coordinated dialogue with China and the AU which as yet, exists only punctually. China has signaled its preparedness for such a dialogue. Of course, this is clearly insufficient. Therefore, Europe in particular should go on the offensive in these dialogues, making demands with a view to the governance and human rights areas cited in China's own documents on Africa and combine this with concrete proposals for Chinese participation in European initiatives.

***Africa's need to become a legitimate interlocutor in a multipolar world!***

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To conclude, it has been shown that the African continent, despite its relative isolation in world trade organization in terms of amount exchanged, could be considered as a future major economic and political actor in the world economy. From an economic point of view, its position, in terms of quantities produced and exported, is remarkable. From a political point of view, it seems clear that Africa will be expected to move from being an "object" of international relations in order to become a legitimate interlocutor in a multipolar world.

However, to regard Africa as a single actor could be misleading. Indeed, it appears huge discrepancies between countries, both in terms of economic development and political governance. Nevertheless, one should not treat these two aspects separately. As presented earlier, the strategic importance of Africa within the context of global politics of resources is both a political and economic matter. In this era, questions are interrelated; on the one hand, the relations implemented between Africa, China, USA and the EU, and, on the other hand, in the way the economic and social cohesion is coordinated within and between each African country.

Indeed, if donor countries should be less reticent attaching requirements regarding social policies and industrial strategies to aid and trade to Africa, the same kind of mistakes made during the 80's and 90's concerning "structural adjustments" should not be repeated. As put forward frequently, African countries should be induced to direct their investments towards spending on infrastructure and high added-value productions. From a social and political point of view, it must now be said, given also the weight attached to the HIV/AIDS pandemic in the development of poverty, that healthcare protection should be considered as a public good.

Africa used to be important for "cold war" matters, it has to become a solid and strategic international actor, and to pioneer in the implementation of coherent and inclusive development plans for the new polarization of the world.