

The Global Slowdown Worsens: Can Africa (and Ghana) Craft a Grand Bargain?

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The news from Main Street and Wall Street, from the US, the EU and Japan, continue to worsen. The emerging additional poles of the new world economy are not better: both China and India are also witnessing significant slowdowns in their economies, and the rest of Asia is faring even worse. Commodity exporters like Brazil, and the oil exporters, are for now the only economies still buoyant. In the meanwhile, inflationary fears are rising as fuel, food and metal ore prices continue to escalate. The specter of stagflation from the 70s is here, compounded by a frightening credit crunch that threatens to go into a downward spiral, reminiscent of the 1930s. How do these different tendencies stack up for Africa?

This article addresses three related questions with a focus on non-oil exporting African countries like Ghana: (1) Are commodity exporters safe, or are they just the next dominos in an ever worsening trend? (2) Beyond the immediate risks, where do the strongest medium term prospects reside? And (3) What is the single most important external strategic policy initiative that African leaders, including Ghana's next President, should focus on to attain a **grand bargain** in a slowing and realigning world economy?

I. The Commodity Boom: Prospects and Implications

The commodity boom of the last six years has been unprecedented. Commodity prices are at an all time high, and have not been at these real levels since the early 60s for non-oil commodities, and the seventies for oil. Part of the rise is due to the falling value of the dollar, with euro prices being more stable. As stock markets around the world have lost much of the gains of the last year, be it in New York, Mumbai or Shanghai, investor sentiment has got more pessimistic. The only assets that are thriving today are commodities: particularly gold, oil, and metals. The reason for each is different. Gold is seen as a store of value as currencies fall and fluctuate. Oil prices reflect demand especially from China and India ("Chindia"), the declining dollar and refinery capacity constraints. And metals reflect primarily demand from Chindia. Three questions arise: (a) how robust are commodity prices? (b) if they were to fall, what pattern might we see? (c) and what would the impact on Africa and Ghana be?

(a) Commodity prices have historically reflected the ups and downs of the developed economies. The structural change in demand due to "Chindia's" emergence as major global economies has changed the commodity price cycle. But we do not know by how much. This is in part because the centre of gravity of the global economy is shifting east towards Asia. It is also because domestic demand in "Chindia" is growing, and obviously not directly linked to demand from the developed countries. This partial "decoupling" of "Chindia" from the developed countries has also meant that other developing countries, especially commodity exporters such as Brazil, Chile and metal ore exporting African

countries such as Ghana, Zambia, etc. too are getting partially decoupled, though by far less than in Asia. The resilience of commodity prices suggests that the global slowdown may not be passed through fully to commodity exporters. There is a downside risk that is very real though: as inflation rises in “Chindia”, these countries may themselves reduce domestic demand, and that will lead to a reemergence of the old commodity price cycle. What pattern would a decline in commodity prices exhibit? And what would happen to African countries if indeed commodity prices turned downwards?

(b) It is difficult to predict the pattern of possible commodity price declines, but we can venture some informed guesses. First, oil prices are likely to be the most robust, given that “Chindia’s” growth, even at “low” rates of 6-8%, would still be highly energy intensive. Second, food prices are likely to also remain robust or even rise, as the demand for biofuels rises in line with oil prices. Third, metal prices may decline somewhat, because they are used to produce durable goods, whose demand falls quickly in recessions. And fourth, non-basic agricultural products such as cocoa, coffee, flowers, cotton, etc are likely to show the greatest decline, because they are non-essentials.

(c) How would such a decline affect African countries? Already threatened by the global slowdown, African countries would be doubly hit if commodity prices were to fall significantly. A recent study by the World Bank throws light on this question: it asks how robust recent African growth has been, and in particular, how much of this has been due to economic fundamentals, and how much to commodity prices. Its conclusions are sobering: there has been modest improvement in the economic fundamentals, but the evidence suggests that growth was strongly favored by commodity prices. A decline in commodity prices thus would have a significant negative effect on growth, perhaps by as much as 2%, reducing the average of 6% growth to an average of 4% growth per annum. Within Africa, the oil exporters would be least affected, countries like Zambia next least affected, while the exporters of non-basic agricultural foods such as Kenya, Malawi, Burkina Faso, Rwanda, Senegal, etc. would be most affected. In between would be countries like Ghana, Mali and Tanzania, which have a mix of metal and non-basic agricultural exports. **Overall, but for the oil exporting countries, most African countries would be at modest to severe risk.**

II. Medium Term Global Trends: Back to the Future?

Before the Industrial Revolution, three hundred years back, “Chindia” dominated production in the global economy. In 2007, for the first time in centuries, “Chindia” plus Russia, together, accounted for just over 50% of global output. If current trends continue, and they are being reinforced by faster growth in other parts of the developing world such as Brazil and Korea, then the developing world will again take a growing and dominant share of global output. This does not mean a new “unipolar” world, centred in Asia. It does mean a “multipolar” world, with centres of production and productivity in both West and East, in a complex interplay of division of labor across countries. The

developed countries, especially the US, remain a storehouse of managerial capacity, technological prowess, innovation hot beds and technical skills. But developing countries are unmistakably clawing back a major role. This “back to the future” scenario is increasingly seen as the most likely scenario for the 21st century.

African countries are not spectators in this new play. They are being courted by both China and India, each in their own way. Two questions arise here: (a) are African countries currently not minor players in their approach to the overtures from “Chindia”? and (b) how can African countries become major players and beneficiaries in these new global developments?

(a) “Chindia’s” overtures to African countries have been dramatic. In November 2006, the China-Africa Summit held in Beijing was a rare spectacle. China’s leaders welcomed 51 of Africa’s leaders in Beijing’s Great Hall, and amidst spectacle and pomp, offered a historic partnership among developing countries. Aid, debt relief, preferential loans, infrastructural technical and financial support, and education agreements were signed with individual leaders. In April 2008, New Delhi plans, under the auspices of the African Union, to host 14 African leaders, and to offer its panoply of development partnerships covering trade, investment, education, agriculture, mining and infrastructure. China has investment commitments of about \$8 billion in Africa (excluding the troubled Angola program), while India’s total is about \$2 billion. Africa-China trade in 2007 was around \$32 billion, and India’s around \$20 billion. Both countries see themselves as offering win-win bargains for African countries: development knowhow and concessional financing, plus markets while getting, in return, secure commodity supplies.

It is often said that while “Chindia” have an Africa policy, Africa does not have a “Chindia” policy. The win-win bargain is, potentially, an interesting one for African countries. But it can only be potentially so, as long as the bargain is being defined by our suitors in “Chindia”. As I observed each of the 51 African leaders interact with their Chinese hosts at the **China-Africa Summit**, I could not help wondering why the AU had not helped coordinate an Africa position. Together, all African leaders would at least have been more weighty than each one was in isolation. The **India-Africa Summit** has been cast with the AU as a partner, and is a good step forward. To date, it appears that the only African country that has a China policy is South Africa, which has negotiated voluntary export restraints on textiles, joint ventures across Chinese investments in South Africa and in coal-to-oil conversion and beer manufacturing in China. Not only must other African countries have their own definition of win-win and seek to negotiate it into reality. The African Union must also help pull together African countries to negotiate a “grand bargain” with “Chindia”! “Chindia is the future of the global economy, and their interest in Africa is a unique opportunity for Africa to do what Asia itself did when it worked with the US and the West to propel its own growth between the 60s and the 90s.

III. A Grand Bargain for Africa: How can Africa (and Ghana) secure this?

“Chindia” are becoming new poles in the global economy, and their growth is forcing a structural change in the nature of global economic—and political—relationships. Their interest in Africa – in part because of their need for resource supplies and security, and in part to gain global political standing by supporting the development of African countries—is an opportunity for Africa to win a grand bargain for herself. This will be a long process, and it will require differentiated approaches to China and India. It will also require each African country to develop its own “Chindia” policy. But for maximizing the gains for Africa, it would be best if this were done under an AU Umbrella Framework, which would embody key principles to ensure that the whole is greater than the sum of the parts. Getting a grand bargain will require that African countries negotiate from a position of knowledge, strength and leverage. Further, many of Africa’s development challenges require sub-regional or regional solutions. This is patently true for infrastructure, but also for large manufacturing investments in for example, pharmaceuticals, construction materials, resource processing, and for selected areas in health and education.

A full blueprint of what would ensure a grand bargain for Africa with “Chindia” will be needed.. Let me highlight three critical points that must be part of Africa’s end of the bargain: (a) **preferential trading arrangements;** (b)**joint ventures;** and (c)**educational and technological partnerships.**

(i) **Preferential trading arrangements** have helped jump start growth in many countries. The best African example was Mauritius, which used its sugar preferences into EU markets to generate surpluses for investments in other sectors, and remains one of Africa’s success stories. “Chindia” have the fastest growing markets today. Access to their markets can be a big boon. In particular, both countries have “tariff escalation” on commodity based exports that are even worse than those of the EU and US. This means raw materials have low import duties and as they are processed, they attract higher and higher duties. For commodity exporters par excellence such as most African countries, this means exports do not move up the value chain. Thus, cocoa, coffee, copper, cotton, and many other exports rarely get processed in African countries. Part of the problem is that processing often involves high capital intensity and/or economies of scale, both of which imply that African countries will need to make regional or sub-regional investments in such plants. Negotiations with “Chindia” must focus on preferential access to their markets, accompanied by **tariff de-escalation.**

(b) “Chindia” are both interested in investments in African countries. These encompass oil, mining, as well as manufacturing such as in pharmaceuticals and services such as information technology and railways. It is essential that these investments be in the form of **joint ventures.** Direct foreign investments do have positive spillovers through technological emulation, labor skills upgrading, etc. But these spillovers are far greater in joint ventures. Equity needs will be higher, but these can be negotiated through production-sharing type arrangements, or by using creative

approaches such as the domestic stock markets and pension funds. China, Malaysia, Thailand, Brazil etc. have all made good use of joint ventures, sometimes even with state participation (with corporate independence) as in Singapore and China.

(c) **Educational and technological partnerships** are the most important benefits that can be made available to African countries. India, especially, because of its English and democratic traditions, can both supply educators to supplement the strong educational programs in many African countries, and can also provide technical support in key areas such as information technology, pharmaceuticals and railways, all of which she has excelled in. China can provide technical partnering in construction of infrastructure, and in any manufacturing areas that, on a sub-regional basis, African countries have a comparative advantage in.. For example, production of generic artemisin–based anti-malaria drugs. The history of technical cooperation with traditional Western partners has not been a happy one: most of the benefits have ended up with the partners themselves. With “Chindia”, a new model, based on genuine partnerships, twinning, and sunset clauses on the use of foreign expertise, can be negotiated. And, given their recent development experiences, they are likely to be more understanding of the need for this new model, which in any event will need to be closely monitored by African countries themselves.

IV. Conclusions

As the global economy worsens, both the short- and medium-term prospects of the “Chindian” economies appear to offer African countries the best option for leveraging themselves towards more sustainable growth. There is an opportunity for strong win-win outcomes if each African country, following South Africa’s example, can develop and negotiate its customized “Chindia” policy. . Beyond that, there is an even bigger prize: a grand bargain can be achieved if African countries can negotiate with “Chindia” under an AU Umbrella Framework. In particular, working jointly to obtain preferential trading arrangements, including tariff de-escalation, would be a key goal. Another goal would be to foster joint ventures and find creative ways of generating the needed equity. And perhaps most importantly, would be to foster a new model for technological and educational partnerships in these areas.

The twentieth century scramble for Africa was largely a losing proposition for African countries, in which today’s developed economies gained needed raw material supplies for their industrialization. This time, there is a chance not just for a win-win outcome but for a grand bargain. Will Africa’s leaders rise to this challenge to build the foundations for shared and sustainable growth ? Will President Kufour begin Ghana’s efforts to develop a “Chindia” policy? Will the next President build on this? Will both work to support an AU Umbrella Framework for these negotiations? There is no other option: rarely does history offer a second chance to get it right.