
Impact of the Global Financial Crisis on Trade and Economic Policy Making in Africa

Felix Fofana N'zue

African Center for Economic Transformation

1 Introduction

The financial crisis has inspired writings from many scholars since 2008. The orientation given in their different writings varies widely. Indeed, while some focused on the causes of the financial crisis, others have tried to assess its impact.

Although, at its onset, many thought that it will not have any bearing on Africa given the negligible connectivity of African markets to the world economy, time has now shown that those who made these initial statements were wrong. Indeed, the financial crisis hit the African economies both directly and indirectly and it has even been argued that African countries suffer and will continue to suffer more from the financial crisis and its aftershocks than other countries. This is so because according to a number of scholars, African countries are not only ill-prepared to resist the shock but also, they do not have the resources (financial as well as human) to bail out troubled companies and even if they did, could they sustain such actions if the crisis was to last longer than expected?

Despite these views on the incapability of African countries to seriously and effectively address possible impacts of the financial crisis, countries have taken measures (individually or collectively). The main objective of this paper is to contribute to the understanding of the impact of the financial crisis on African economies (especially trade) and how it was dealt with. More specifically, the paper assesses the impacts of the crisis then identifies measures taken to address / mitigate issues arising from the financial crisis (i.e. protecting their economies from the possible shocks emanating from the direct and indirect impacts) and identifies lessons that can be learnt from African policy makers' actions or inactions.

The paper is organized as follows: the next section presents an overview of the possible impacts of the financial crisis on African economies; section 3 presents the measures taken by different countries to address the challenges posed by the financial crisis with a brief analysis; section 4 draws possible lessons from the crisis and concludes the paper.

2 Brief overview of the possible impacts of the financial crisis

The impacts of the financial crisis on Africa are manifold. There are direct as well as indirect impacts. The impacts vary from one cluster of countries to another. In what follows, we look at the impacts of the financial crisis from different angles i.e. resource rich vs. resource poor.

2.1 Impact on resource-rich countries

Resource rich countries experienced rapid growth prior to the crisis (as a result of the commodity boom). It is argued that these countries are the one who suffered the most from the financial crunch due to terms of trade deterioration. Indeed, with global demand shrinking, prices of most commodities dropped to significantly lower levels. Exporting countries were therefore losing exports revenues and at the same time losing much needed foreign exchange. The consequences of such losses on the economy are huge. Indeed, as the IMF's World Economic Outlook Report in April 2008 stated, 1% point slowdown in global growth, which in turn shrinks global demand, can lead to an estimated 0.5 percentage point slowdown in Sub-Saharan African countries. In figure 1 below, resource-rich countries registered a sharp drop in their exports of goods and services from 2008 to 2009. Although these countries are expected to recover in 2010, this recovery is not expected to bring them up to their level before the crisis. These countries are therefore worse-off than before the crisis.

In addition to the above impacts, the financial crisis has built up pressure on developed countries. As a reaction to that pressure/stress, they have moved to tighten global credit availability and this has in turn hit trade finance and other capital flows to developing countries especially those in sub-Saharan Africa that rely heavily on these resources to finance their development plans and address poverty and employment related issues. The African Development Bank summarized some of these impacts in its policy briefs on the financial crisis in 2009. The relevant one to this work are presented below¹.

In South Africa for instance, the financial sector experienced a collapse of asset prices, dramatic increases in the cost of capital and a severe contraction in lending. This led to sharp downturns in the retail and manufacturing sectors. Between May 2008 and March 2009, South Africa's JALSH index fell by about 46% and the Rand depreciated by 23% against the dollar. The South African mining sector also experienced a large fall in output and employment as a result to lower world demand for commodities. About 32,000 mining workers were retrenched in the third quarter of 2008 in South Africa.

In Nigeria, investments, output and government revenues also fell significantly due to declining prices of hydrocarbons (oil and gas). In that country, oil and gas extraction accounts for 30% of the economy's GDP, over 90% of its exports and a large share of government revenues. Consequently, any significant drop of revenues emanating from oil/gas could be disastrous to the country's economic stance. The weak performance of the oil and gas sector caused a slowdown of the banking sector and the economy at large.

In Botswana, diamond exports represent about 35 to 50% of government revenues. The rapid fall in mineral revenues due to the financial downturn has limited the government's ability to finance economic recovery plans and increased the high vulnerability of the country's economy to external shocks. The consequences on the rest of the economy could be devastating since limited resources meant that social sectors (health and education) will face financial rationing (budget cuts). This can also lead to massive unemployment in the sector as companies are forced to adjust to the crisis for their own survival.

1 AfDB (2009), Policy Briefs on the Financial Crisis: Impact of the crisis on African Economies Sustaining growth and poverty reduction No 8.

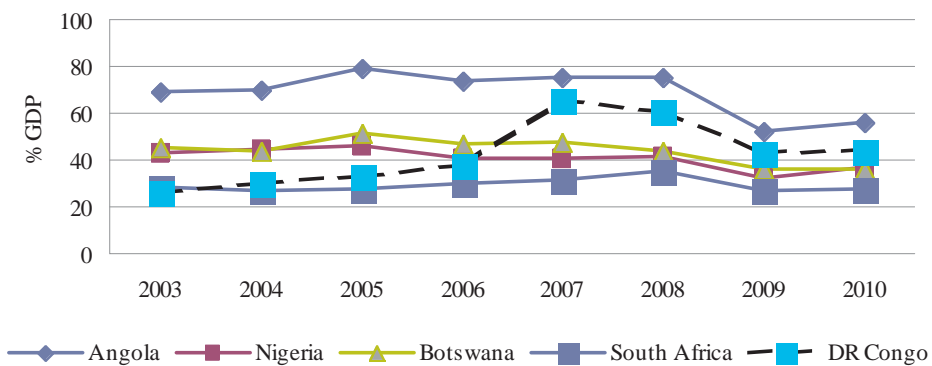
In the Democratic Republic of Congo, around 61 foreign mining companies have been forced to scale back, postpone or abandon their investment plans. These mining companies have taken various actions for their survival including the suspension of operations and / or the withdrawal of exploration agreements. Figure 1, shows a sharp decline of the country's exports of goods and services from 2007 onward. By December 2008, the DRC Ministry of Mines had reported that more than 200,000 jobs had been lost in the sector and further 200,000 were expected to be lost in 2009 (African Development Bank 2009-1). The victims of this retrenchment will surely inflate the poverty profile of the country in the coming year. It is good to also mention that as a result of the financial crisis foreign reserves in that country were down and could barely cover one month of imports of goods and services in 2008.

In Angola, an oil-producing country, government revenues are on the decline due to falling oil price. This can be observed on figure 1, where we have a sharp drop of the country's exports of goods and services from 2008 to 2009. The non-oil sectors (construction, manufacturing and services) heavily dependent on public sector demand are also experiencing slowdowns leading to global slowdown of the economy which is expected to contract by 7% following a growth rate of 15.8% in 2008.

In Sudan, oil accounts for about 65% of government revenue and 90% of exports. The decline in oil exports certainly exert pressure on investments and put at risk expenditures on social sectors including health and education.

The negative terms of trade shock to commodity exporters will continue to widen their current account deficit although it will be done at a slower pace. This will exercise constraint on their external accounts. Indeed, as the figure 2 on external account shows, the resource-rich countries experienced a worsening of their external account balance from 2007 to 2009. Although the oil producing countries i.e. Angola and Nigeria will be recovering in 2010 due to recent rising price of oil. The depression is expected to continue for the other resource-rich countries. Similar trend is observed for their fiscal balance (see figure 3). Indeed, with the exception again of the Oil producing countries (Nigeria and Angola) that are expected to recover in 2010, the others will continue to feel the impact of the financial crisis on their fiscal balance.

Figure 1 Exports of goods and services from 2003 to 2010 for resource-rich countries (% GDP)



In total, it results from the above that for all the resource-rich countries, the crisis has underscored the imperative need for export diversification in reinforcing the resilience of their economies to external shocks.

2.2 Impact on resource-poor countries

Although resource-poor countries benefited from falling oil prices, these gains were largely offset by declining prices of other commodities such as cotton, cocoa, and coffee (just to cite a few), declining tourism earnings, foreign direct investments and declining remittances thereby negatively affecting foreign exchange reserves in these countries. In Burkina Faso for example, export growth dropped from 6.9% in 2007 to 3.5% in 2008, following the fall in cotton production and the decline in lint cotton export. The balance of trade sharply deteriorated under the combined impact of falling agricultural production and declining lint cotton export (Kasekende et al., 2009).

Figure 2 External account including grants for resource-rich countries (% GDP)

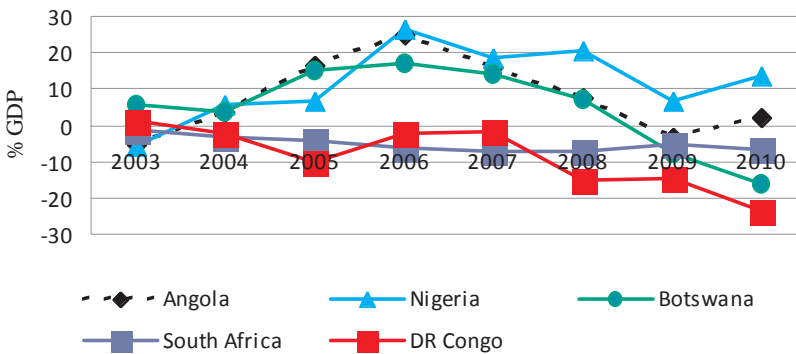


Figure 3 Overall fiscal balance including grants for resource-rich countries (% GDP)

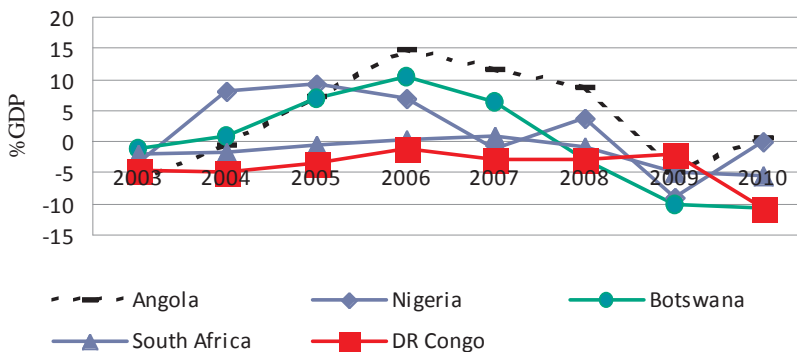
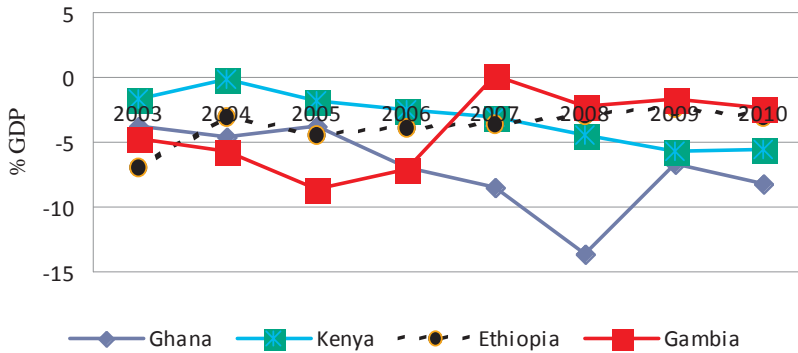


Figure 4 Overall fiscal balance including grants for resource-poor countries (% GDP)



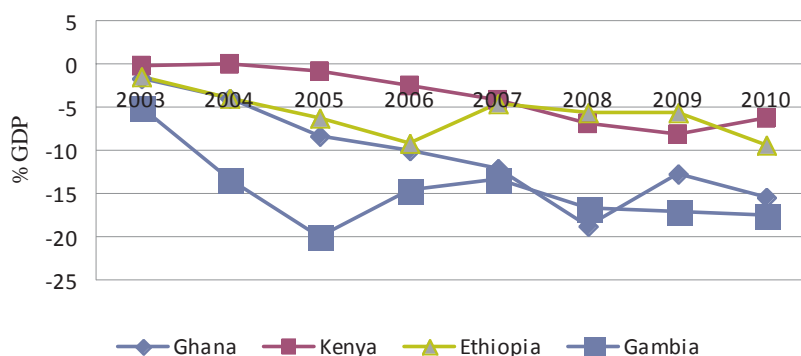
The financial crisis has also amplified the impacts of the food crisis. Indeed, the depreciation of national currencies against major reserves currencies as a result of the financial crisis has raised the cost of food imports and this is harder on economies (mostly resource-poor countries) that have large deficits in food trade. In these countries, attempts to subsidize food and oil prices have proved unsustainable due to low government revenues and falling exchange reserves.

In Ethiopia for instance foreign reserves have been reduced and credit to private sector is declining considerably as government increased its domestic borrowing to finance the oil subsidy bill. In Kenya, total usable reserves (official plus commercial banks holding) fell from \$5,287 million to \$4,726 million in just six months (August 2008 to February 2009). By the end of February 2009, the Kenyan Shilling had depreciated by 15.7% against the dollar². With the exception of Ethiopia, figure 4, below shows that fiscal balance of Ghana, Kenya and the Gambia registered a sharp decline from 2007 onward. Ghana recovered a bit in 2009 after a continuous widening of its fiscal balance but that recovery is not expected to last.

Countries where the tourism sector is one of the drivers of growth also suffered from the financial crisis. These countries experienced declines in tourism arrivals and receipts, hotel bookings and air travel. They include Kenya, Tanzania, and Tunisia, etc. In Kenya, tourism receipts were down 13% in the 4th quarter of 2008 compared to 2007. Kenya Airways reported a decline in profits by 62.7% for the six months ending September 2008. In 2008 the number of tourist arrivals dropped to 1.1 million compared to the 2 million arrivals registered in 2007 (Kenya 2010). Although this drop was primarily due to the post election violence in that country, the financial crisis also added its toll in the later part of 2008.

For these countries, the decline in the tourism sector is reversing recent gains thereby undermining the countries efforts to build up their foreign exchange reserve base. It is clear that any slowdown of the tourism sector directly affects the employment situation in these countries since this is a sector with very high job creating potential. Reduced tourist arrivals also threatened tourist dependent economies like Djibouti and the Gambia. With the exception of Ghana where 2009

² Report from the Committee of African Finance Ministers and Central Bank Governors established to monitor the crisis (march 2009).

Figure 5 External account including grants for resource-poor countries (% GDP)

registered a slight recovery (which could be due mainly to the visit of the American President Obama to the country), other non resource-rich countries will continue to experience widening deficit of the external account (see figure 5).

Other areas of impact include remittances and foreign direct investment (FDI) although their importance varies considerably across the continent. Countries (mostly resource-poor) with high dependency on remittances (as percentage of export earnings) include Lesotho (60%), Uganda (40%), Senegal, Guinea Bissau, Togo, Benin and Burkina Faso (15-25%). Workers' remittances are important source of household income and key in poverty alleviation strategies in these countries. Remittances to Africa were estimated to about \$25 billion in 2008 (African Development Bank 2009.). Since these remittances originated from migrant workers in developed countries, the mounted pressure of the financial crisis on these countries has resulted in a slowdown in remittances flow. Indeed, as global demand shrinks, so does the demand for unskilled labor (mostly migrant) a survival strategy but aiming also at protecting domestic jobs. Resource poor countries suffered the most from such slowdown although due to the absence of alternative sources of income to compensate for the losses. The drying up of remittances also affects countries that are not necessarily resource-poor. For instance in Egypt remittances represent more than 32% of total service receipt in the balance of payment account (AfDB 2009).

Although the bulk of remittances to Africa originate from Europe and North America, Intra-African remittances are not negligible especially in countries sharing borders with mineral rich countries. These intra-African remittances are also declining due to losses in the mining sector. Indeed, the decline in prices of commodities such as Gold, Platinum and Diamonds has affected demand for labor which led to the laying-off of migrant workers from neighboring countries, thereby reducing remittances flow to countries of origin. Declines in remittances contribute to foreign exchange shortages and increased poverty, as some of the most vulnerable and poorest populations lose a significant source of income (Ali, 2009).

For FDI and Aid, it is clear that with the pressure of the financial crisis on developed countries they are less inclined to generosity. Thus, international Aid flow has dropped as a consequence to the crisis. Moreover, the tightening of global credit has led to a significant reduction in private investment flows and bank financing, resulting in reduced capital flows and a curtailing of the availability of trade finance

and also reduced foreign direct investment (Balchin 2009). The reduction of FDI has a medium and long term impact on infrastructure investments in African States. Indeed, investments were stalled in many countries (DRC, South Africa just to cite a few).

It results from the above that the financial crisis has caused (although some other factors also contributed to it) decline of domestic demand in both resource-rich and resource-poor countries. This in turn has reduced income and inhibited efforts for job creation thereby endangering prospects for sustainable growth. Since a significant reduction in growth will reverse the modest gains made over the past years which will worsen the poverty situation. It is critical that actions are taken to mitigate the impacts of the financial crisis on these economies. What are some of these actions taken?

3 Policymakers' reaction and brief analysis of measures taken

Although, at the onset many scholars thought that Africa was protected from the impact of the financial crisis and that there was nothing to fear, the empirical evidence gathered show that after all Africa was not immune. As the impacts started to be felt policymakers did not stay idle. Indeed, a number of African governments took initiatives to mitigate the impact of the financial crisis despite their limited and inadequate resource endowment in relation to the scale of the impact. Central Banks in Africa (BCEAO for the CFA zone, Central Bank of Nigeria just to name a few) and the African Development Bank including some governments set up special units to monitor and identify the advance of the crisis and formulate targeted policy responses. The range of intervention was very wide going from stimulus package to regulations in the banking sector, capital and exchange controls, budget revision etc. The main measures taken as a response to the financial crisis are presented below with a brief analysis.

3.1 Stimulus packages

Following the footsteps of developed and emerging economies, some African countries implemented fiscal stimulus plans when others were forced to undertake contractionary fiscal policies. The countries that opted for stimulus plans include (but not limited to) the following: Mauritius, Nigeria and South Africa.

In Mauritius, the Government announced a package worth 10.4 billion of Mauritian Rupees (US\$ 0.3 billion), approximately 3% of Mauritius GDP to boost domestic demand and increase job creation.

In Nigeria, the Central Bank adopted a 400 billion naira (US\$ 2.7 billion) bail out for 5 banks after sacking the CEOs and executive directors of the banks (*Measure #0386 | Published 18 Aug 2009*)³. The banks are Oceanic bank, Intercontinental bank, Finbank, Union Bank and Afribank. Acting CEO's were immediately appointed and the central bank has guaranteed foreign loans and corresponding banking lines of the banks. The five banks account for 40% of banking sector credit in the country. In

3 For details of this and subsequent measures cited, see <http://www.globaltradealert.org>.

addition, the Central Bank injected 200 billion naira (US\$ 1.3 billion) into four banks that an investigation revealed were in a "grave situation." The four banks were: Spring Bank Plc, Equatorial Trust Bank Ltd., Wema Bank Plc and Bank PHB Plc. A fifth bank, Unity Bank Plc, was found to have insufficient capital for its current level of operations but has a healthy liquidity position and no indication of poor corporate governance practices.

In South Africa, the Department of Trade and Industry made loans available to distressed companies in manufacturing sectors identified in the National Economic Development and Labor Council (Nedlac) Framework Agreement, as distresses. The sectors included: Automotives, Clothing and Textiles, Capital Equipment, Transport Equipment and Metals Fabrication. In addition, the Industrial Development Corporation (IDC) made 6 billion rand available over two years to a number of firms in different sectors and has approved loans to 11 companies to the value of 644 million rand.

These measures although criticized to some extent (especially the Nigerian decision to bail out 5 banks) enable these countries to harness trust and confidence in their business environment and demonstrated if need be that African policymakers can be up to the task of taking difficult decisions when challenged.

3.2 Budget revision

Unlike the above countries that opted for stimulus plans, a number of other countries preferred to revise their budget thus:

In Zambia, the Budget was revised to address issues related to changes in some taxes and VAT treatment of certain items to stimulate growth and ensure the availability of adequate funds for government (*Measure #1047 | Published 29 Dec 2009*). The measures included: an increase in income tax rate on profits from export of cotton to 35% from 15%; Reduction of excise duty on clear beer from 75% to 60% to prevent tax evasion; Increase in export levy on cotton-seed from 15% to 20%; Increase in customs duty on cellular phone handsets from 5% to 15%; in the mining sector, the Government removed the windfall tax and retained the variable profit tax and increased capital allowance to 100% as an investment incentive. The Government also reduced customs duty on heavy fuel oil from 30% to 15% and removed customs duty on copper powder, copper flakes and copper blisters. For developers and investors in the Multi-Facility Economic Zones (MFEZ) and Industrial parks, the Government agreed to the removal of withholding tax on management fees, consultancy fees and interest re-payments to foreign contractors; Zero rate supplies to developers of MFEZ and industrial parks; Foreign suppliers to the MFEZ and industrial parks were exempted from reverse VAT charge; Equipment and machinery imported for the development of MFEZ and industrial parks were exempted from customs duty. The Government removed import duty and zero-rated insecticide-treated curtains for VAT purposes and customs duty on cranes and garbage dumpers to encourage investment in keeping the country clean

In Namibia, the Government adopted a new budget that lowered Corporate tax for non-mining operators from 35% to 34%; increased excise duties on Malt beer (increased by 7 cents to 79 cents per 340ml can), on unfortified wine (increased by 14 cents to N\$1.98 per liter), on fortified wine (increased by 32 cents to N\$3.72 per liter),

on spirits (increased by N\$3.21 to N\$25.05 per 750ml) and on cigarettes (increased by 88 cents to N\$7.70 per packet of 20"), with the view to generating additional revenue (*Measure #0251 | Published 13 Jul 2009*).

In Tanzania the 2009/10 budget included i) zero-rating for certain services when exported; ii) zero-rating VAT on locally manufactured bags; iii) exempting import duty on hand hoes and other imported agricultural inputs; iv) exempting VAT on the services of loading and unloading into local vessels of incoming cargo from outside the country provided that the initial service of unloading the cargo from a foreign going ship at the first point of disembark was charged VAT; v) increasing prices of beer made from local un-malted cereals from shilling 194 per liter to shillings 209 per liter, other beers from shillings 329 per liter to shillings 354 per liter, wine produced with more than 25% imported grapes from shillings 1,053 per liter to shillings 1,132 per liter"; vi) increasing excise duty on cigarettes made with less than 75 percent domestic tobacco content ; vii) reviewing all tax exemptions granted to private companies (*Measure #0373 | Published 17 Aug 2009*). These measures are clearly discriminatory and aim at protecting companies using more domestic input content.

In Zimbabwe the 2010 budget included the following measures: i) Reduction in corporate tax rate from 30% to 25%; ii) Increase in mineral royalties on precious metals such as gold and platinum from 3% to 3.5%; iii) Export tax rate of 15% on exports of unprocessed chrome to foster domestic processing of chrome ore; iv) Extension by six-months the suspension of duties on imported foodstuffs, until mid-2010; and v) Reduction in duty on small imported motor vehicles from 40% to 25% (*Measure #0994 | Published 3 Dec 2009*).

In the Gambia the 2010 budget restored a 5% sales tax on imported rice (*Measure #1046 | Published 29 Dec 2009*). In Ghana, the 2010 budget rationalized import duty on imported textiles and poultry products to check dumping of these goods on the Ghanaian market and increased royalty payment to 6% as an initial step in re-engaging all mining companies to review the mining industry's fiscal regime (*Measure #0973 | Published 26 Nov 2009*).

In Uganda the 2009 budget included provisions to i) remit import duties on specially designed tourist vehicles imported by licensed tourist operators; ii) remit import duties on spare parts of certain industrial machinery imported by registered manufacturers, under the condition that the parts in question are not resold or used for any other commercial purpose other than the replacement of a worn-out part; iii) remit import duties on equipment and other inputs imported by licensed firm engaged in oil, gas, or geothermal exploration; iv) exempt from import duty heat insulated milk tanks; v) remit import duties on film equipment; and vi) remit import duty from 25 percent and apply 10 percent for trucks of carrying capacity of 5 tons and above, for one year for Uganda, Tanzania and Rwanda (*Measure #0390 | Published 19 Aug 2009; Measure #0393 | Published 20 Aug 2009*).

It is clear from the above sampled countries that the concern of policymakers in the different countries was to generate additional revenue no matter whether the proposed actions hurt trade in neighboring countries or not (with the exception of the EAC countries).

3.3 Targeted assistance to sectors

In addition to budget revisions several countries implemented targeted assistance plans to support sectors that they considered to be driving their economic performance.

In Sierra Leone the Government imposed a 15% export tax on diamonds worth more than US\$50,000. The tax took effect on December 28 2009 in addition to an already existing increase in taxes on diamonds from 5% to 6.5% and an increase in taxes on gold and other minerals from 4% to 5%. A ban has also been imposed on the transport and export of logs. This is in a bid to crackdown on illegal logging in the country (*Measure #1103 | Published 20 Jan 2010; Measure #1104 | Published 20 Jan 2010*).

In a similar move the Gabonese Government imposed a ban on unprocessed logs beginning January 2010. The ban is aimed at encouraging the local processing of wood and exportation of finished and semi-finished wood products (*Measure #1120 | Published 2 Feb 2010*).

In Ghana, the Government re-introduced airport tax for international travel outside West Africa and increased it from US\$50 to US\$75. The purpose of this increase is to raise revenues and pay for improvements in security at the airport (*Measure #0255 | Published 13 Jul 2009*).

In Nigeria, possible lifting of ban on foreign ownership of banks is being considered. In addition, the Customs Service has introduced a uniform import duty rate on imported vehicles based on ex-factory prices. The uniform import duty rate is to do away with variances in the calculation of duty on vehicles (*Measure #0307 | Published 23 Jul 2009*). Also, a progressive reduction in import duty on vehicles ranging from 3 months in age to four years and above was introduced. Moreover, the Government has increased tariffs on imported tires from 10 percent to 40 percent (*Measure #0290 | Published 21 Jul 2009*).

To encourage local production of cement, the Nigerian government approved a series of measures. In addition to the reinstatement of the policy of banning the importation of bagged cement and restrictions on the issuance of cement import licenses, the following measures were introduced: i) A levy of 500 naira (US\$3.37) per ton on all cement imports to assist in the development of local capacity through the establishment of a cement training institute in Nigeria (*Measure #0807 | Published 21 Oct 2009*); ii) Reinstatement of tariff incentive for imported spare parts and machinery to cement manufacturers; iii) Two to three years duty-free period of importation for machinery, equipment and spare parts to cover the plant building phase and the first two years of commencement of production; iv) Tax deductible incentives on investments in system conversion to coal firing; v) Removal of all forms of restrictions on the importation of gypsum; vi) Reduction of import duty on gypsum to a maximum of 5% until local production on commercial basis is achieved.

The Central Bank through a circular signed on 13 November 2009 has banned with immediate effect the importation of aluminum roofing sheets less than 0.50mm in thickness and cold roll steel of less than 0.20mm thickness.

In Cote d'Ivoire the Government reduced export taxes on cocoa (its highest foreign exchange earner) in the 2009/10 season by 5% from CFA francs 220/kg to CFA francs 210/kg to meet the debt relief terms of the World Bank (*Measure #0308 | Published 23 Jul 2009*).

In South Africa, the Treasury has relaxed exchange controls in an effort to lower the cost of doing business, while managing risks in a volatile international environment and to contribute in making South Africa an attractive investment destination. The measures adopted include: i) Removal of various restrictions on rand conversion of export proceeds and advance payments for imports; ii) Increases in the rand thresholds applicable to outward investments by South African companies; The rate of duty on shovels and spades with a maximum blade width of 150mm but not more than 200mm have been increased from free of duty to 20% ad valorem. Anti-dumping duties have been imposed on stainless steel sinks imported from or originating in the People's Republic of China. Depending on the export company, the duties could be either from 10.84%, 20.62% or 62.41%. If the stainless steel sinks are imported from or originating from Malaysia, depending on the export companies the anti-dumping duties could be either from 10.74% or 95.86%. In addition to the above, the International Trade Administration Commission of South Africa has recommended a reduction in the rate of duty on synthetic filament yarn classified under tariff heading 54.01 and 54.02. The rate of duty has been reduced from 15% ad valorem to free of duty. Description of items under the tariff heading include: Sewing thread of synthetic filament, high tenacity yarn of polyester and textured yarn of polyester.

In Angola the Government banned banana and vegetable imports from Kenya, Uganda, Burundi, Democratic Republic of Congo, Republic of Congo, Ethiopia, and Rwanda with the aim of containing a bacterial wilt disease affecting bananas in these countries (*Measure #0879 | Published 5 Nov 2009*).

In Uganda the National Bureau of Standards introduced a pre-export verification of conformity (PVoC) of imported used vehicles into the country. Fees to be paid upon inspection are dependent on the country of origin: Japan (US\$ 145), Singapore (US\$180), United Kingdom (125 pounds), and South Africa (1685 Rand), Dubai-UAE (US\$125). There is a penalty of 15% CIF value on used vehicles entering the country without an inspection certificate and then an inspection takes place.

In Kenya, Ports Authority made the following changes in fees associated with the Port of Mombasa: i) Elimination of payments for scanning, verification, inspection and associated stripping or stuffing currently set at Sh5,850 (\$75) and Sh8,580 (\$110) for 20 foot and 40 foot containers, respectively; ii) Reduction in license fee for private mooring, buoys and jetties from Sh39,000 (\$500) to Sh15,600 (\$200) per annum; and iii) Free storage period will be 5 and 11 consecutive days for domestic and transit containerized traffic respectively (*Measure #0224 | Published 8 Jul 2009*). The Kenyan Government also adopted a ban on the export of raw cashew nuts in a bid to revive the industry (*Measure #0334 | Published 6 Aug 2009*).

In Sudan the Government imposed an import tariff equivalent to 12 Egyptian pounds per square meter on ceramic tiles from Egypt. Ceramic tiles from Egypt are said to represent 10% of Egypt's exports to Sudan (*Measure #1033 | Published 16 Dec 2009*).

At the regional level, the East African Community (EAC) agreed to i) Exempt import duty on heat insulated milk cooking tanks for dairy industry; ii) Tanzania to continue the stay of application of CET rate of 35% and apply 10% on wheat grain of HS codes 1001.90.20 and 1001.90.90 for 1 year as the wheat production in the region cannot meet demand; iii) Tanzania to remove the 10% import duty on

pharmaceuticals and start applying the CET rate of 0% like other EAC Partner States; iv) Tanzania to remove the 10% import duty rate on crude palm oil and start applying CET rate of 0% like other EAC Partner States; v) Exempt import duty on industrial spare parts subject to conditions that will be developed by the Secretariat of the EAC in collaboration with the partner states. The measure intends to reduce the cost of production and promote investment in the industrial sector; vi) Exempt import duty on four wheel drive vehicles specially designed and built for tourist purposes in order to promote tourist business in the region; vii) Exempt import duty on equipments and inputs, excluding motor vehicles, imported by a licensed company for direct and exclusive use in oil, gas or geothermal exploration and development upon recommendation by a competent authority of a Partner State; viii) Exempt import duty on raw materials used for the manufacture of sanitary towels and tampons in order to enable users to get these hygienic products at affordable price; ix) Reduce import duty rate from 25% to 0% for asbestos fibers of HS codes 6812.80.00 and 6812.99.00 used for manufacture of brake linings and pads as these inputs are not available in the region; x) Reduce import duty rate from 25% to 0% on television cameras, digital cameras and video camera recorders of HS code 8525.80.00 in order to promote filming industry and create employment and income for the youth; xi) Reduce import duty rate on worn clothing from 45% or US\$0.30 per kilo to 35% or US\$0.20 per kilo whichever is higher for a period of 1 year; xii) Increase import duty rate on yoghurt and other buttermilk of HS codes 0403.10.00 and 0403.90.00 from 25% to 60% to protect the dairy sector from stiff competition arising from importation of these products; xiii) Grant duty remission on raw materials for use by paper and paperboard mills; xiv) Reduce import duty rate on light trucks of at least 5 tons carrying capacity under HS code 8704.22.90 from 25% to 10% for a year for Uganda, Rwanda and Tanzania. Also remove import duty on heavy trucks of more than 20 tons carrying capacity under HS codes 8704.23.90 for one year for Tanzania, Uganda and Rwanda while verification mission is being undertaken to establish Kenya's capacity and price competitiveness in manufacturing of trucks in relation to demand and usage in the region; xv) Remove import duty rate on synthetic yarn in order to reduce production costs to the producers who uses synthetic yarn for blending with cotton yarn.

The above are number (not exhaustive) of actions taken by individuals countries as a reaction to the financial crisis. All these measures whether of the stimulus type or of budget revision type aimed at designing ways to enable government mobilized additional financial resources to compensate for the losses caused by the financial crisis. In most cases governments succeeded to some extent (although a full evaluation is yet to be undertaken) to mitigate the effects of the financial crisis on the economies.

4 Lessons from the crisis and concluding remarks

What lessons could be learnt from the review of impacts and the sample of measures taken by African countries? Several lessons could be learnt:

1. In the face of world economic challenges, Africa needs to be pro-active and engage in serious home-based research and macro as well as micro simulations

to ascertain impacts of possible external shocks. The financial crisis showed that without rigorous analysis and sound home-based research, decision - makers could be misled (as illustrated by initial writings arguing that Africa was protected from the financial crisis because of its insufficient connection with the world economy).

2. Although African countries do not have resources to the size of developed countries that enabled them bail out troubled companies, initiatives taken by some African countries showed that the impacts of an external shock could be mitigated with well thought targeted measure. These targeted measures could take different forms including but not limited to stimulus package, budget revision, specific short run tariff and/or non tariff barriers.
3. The crisis brought to the spotlight the fragility of regional groupings. Indeed, apart from the EAC's initiative to bring its members to agree on possible actions, the responses of African countries in general have been country specific. Here it is clear that countries could have achieved better results in terms of mitigating the impact of the financial crisis and also in terms of increasing intra-African trade if decisions were taken within the regional economic communities (RECs). This calls therefore for a re-dynamization of the RECs.

It results from the above analysis that African countries were severely hit by the financial crisis. The impacts included: for resource rich-countries i) falling exports of minerals and other natural resources due shrinking global demand, leading to loss of export revenues and foreign exchange; ii) Loss of jobs due to retrenchment in the extractive resource sector; iii) Widening fiscal deficit; iv) Declining investment putting at risk socio-economic infrastructural projects in these countries. For resource-poor countries i) an amplification of the food crisis; ii) declining tourism earnings; declining FDI; declining remittances; and declining foreign exchange reserves.

Some of the impacts are cross cutting and not limited to a given cluster of countries. In their responses, African countries used measures spanning from stimulus package to specific targeted measures and budget revision. Although, it is quite early to assess the effectiveness of the measures taken, it could be argued that these measures provided some kind of cushion to the countries that adopted them. It resulted from the analysis that African countries need to be pro-active to prevent their economies to suffer a full blow of external shocks. Moreover African countries need to put the existing RECs to play in dealing with these external shocks rather than engaging in solitary actions.

References

- Ali Shimelse (2009), Impact of the financial crisis on Africa, *International Economic Bulletin*,
- African Development Bank (2009-1), Impact of the Financial Crisis on African Economies: an interim Assessment, *Policy Briefs on the Financial Crisis* N°1.
- African Development Bank (2009-2), The Global Financial crisis and Fragile States in Africa, *Policy Briefs on the Financial Crisis* N°9.

- Balchin Neil (2009) The Impact of the Global Financial Crisis in Africa, Africa Growth Agenda, July-September.
- Global Trade Alert (2009), <http://www.globaltradealert.org>
- Global Trade Alert (2010), <http://www.globaltradealert.org>
- Holmqvist Goran (2008) How is Africa affected by the financial crisis and by the global recession? Nordic Africa Institute (May).
- International Monetary Fund (2009), *World Economic Outlook* (October 2009): Sustaining the Recovery, Publication Services 700 19th Street, N.W., Washington, D.C.
- International Monetary Fund (2008), *World Economic Outlook* (April 2008), Publication Services 700 19th Street, N.W., Washington, D.C.
- Kenya (2010), Kenya Tourism Report, <http://www.bharatbook.com/Market-Research-Reports/Kenya-Tourism-Report.html> (consulted on 24/03/10).
- Kasekende Louis, Ndikumana Léonce, Rajhi Taoufik (2009), Impact of the Global Financial and Economic Crisis on Africa, Working Papers Series N° 96, African Development Bank, Tunis, Tunisia. 36 pp
- Osakwe, N. Patrick (2008) Sub-Saharan Africa and the Global financial crisis, *Trade Negotiations Insights* Vol. 7 N° 10
- UNECA (2009), *Economic Report on Africa: Developing African Agriculture through Regional Value Chains*

About the author

Felix Fofana N'zue is a Senior Research Fellow at the African Center for Economic Transformation (ACET). Prior to joining ACET, he was the Manager of Collaborative Research Projects at the African Economic Research Consortium, Nairobi (AERC) from January 2008 to June 2009. He was the Director General of Employment in the Ministry of Public Service and Employment of Cote d'Ivoire from 2004 to 2007. He chaired the Scientific Committee of the Presidential task force set up to reflect on the re-institution of a National Civic Service. He was the Technical Advisor on Employment and Professional Training Policies of the Office of the Prime Minister of Cote d'Ivoire from 2002-2004. He also worked for the International Labour Organization as a Senior Expert in Agriculture and Rural Employment from 1999 to 2001. He is a permanent member of the research community of the Ivorian Center for Social and Economic Research (CIRES).