Global Financial Crisis and Development Drivers: A Review of the New Partnership for Africa Development (Nepad)

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Abstract

Finance is the process of channeling funds in the form of credit, loans or investable capital to those economic entities that need them most or can put them in the most productive use. Finance acts as midwife at the birth of an organization, which watches over its health during maturity and which sounds the warning knell when decay sets in; it is finance which often forces the final dissolution, throughout the life of the organization, its shape is fundamentally influenced by decisions which are largely financial. (Edame, 2009). Globalization has meant difference things to different people. Some view it a beneficially process with potential to boast productivity and standards of living everywhere. Others believe that it increases inequality within and between countries, threatens employment and standards of living, as well as thwarts social progress. There are no doubt many opportunities: global markets; exposure to new ideas, technology and products; economies of scale in production; gains inefficiency in the utilization of productive resources; greater specialization between nations; better quality products and wide option for consumers increased competitiveness and increased outputs; ability to tap cheaper sources of finance internationally. African countries need to embrace globalization in the full awareness of these opportunities as well as the attendant risks. It is only in this context that the new Inductive African Union and New Partnership for African development (NEPAD) will make the impact desired.

Key words: Financial Crisis, Globalization, NEPAD, Economic Development, Finance, Macro-Economic Policies, Trade and FDI.

I. Introduction

Finance is the process of channeling funds in the form of credit, loans for investable capital to those economic entities that need them most or can put them in the most productive use. The importance of finance in any area of human endeavour cannot be over emphasized as no reasonable investment can take place without funds. On the whole, finance is felt everywhere and its successfully management is dependant, largely on the availability of the right caliber of staff and economic policies. It is finance which acts as midwife at the birth of an organization, which watches over its health during maturity; and which sounds the warning knell when decay set or crisis sets in. it is finance which often forces the final dissolution, throughout the life of the organization, its shape is fundamental influenced by decisions which are largely financial (Edame, 2006). Globalization has become a very important issue for discussion in various fora. It is a worldwide phenomenon which refers to the growing interdependence of the world’s people. Globalization is about increasing interconnectedness and interdependences among the world’s regions, nations, governments, businesses, institutions, communities, families and individuals. Globalization fosters the advancement of a global mentality” and conjures the picture of a borderless world through the use of information technology to create partnerships to foster greater financial and economic integration (Evbuomwah, 2005:82) Economic globalization on the other hand, refers to the process of change towards greater international economic integration through trade, financial flow, exchange of technology and information, and movement of people. Openness and markets constitute the platform of globalization while trade, finance and investment, and entrepreneurs are the heart (Evuomwan 2005, Edame, 2006b & Soludo, 2008).
The current global financial crises is analogous to several earlier eruptions over the last 100 years; the panic of 1907, the summer market closing 1914, the August – October breakdown of 1929, the OPEC revolution and the stagflation of the 1970s, the short-lived stock market crash of 1987, the Asian currency crisis of 1997, the Russian debt default of August 1998 and the NASDAD-led stock market swan derive of 2000-2001. Each of these has produced some forms of “new thinking” or ‘reforms’ in thinking and action. The current crisis has witnessed an unprecedented, coordinated global bailout scheme with the US, Europe and other economies committing more than US$ 3.3 trillion, in additional to state interventions (nationalizations) and guarantees that have dump founded the free marketers, but have brought relief and cheering choruses of ‘I told you so’ by the new-leftists. Is this the end of free market economy as we know it? Is our knowledge or our tools obsolete and calling frameworks, or a choice among competing models? In other words, is economic science lagging behind the pace of the global economy? (Soludo, 208:13)

In view of the apparent state of emergency in the global economy and the challenge by the profession of economics I have decided to talk on Global Financial Crisis and Development drivers, a review of NEPAD.

II. Theoretical Issues on Financial Globalization.

Financial globalization, the phenomenon of rising cross-border financial flows is often blamed for the string of damaging economic crises that rocked number of emerging and markets in the late 1980s in Latin American and the 1990s in Mexico and a handful of Asian countries. The resulting bankruptcies and market turmoil prompted a rash of finger-pointing by those who suggested that developing countries had dismantled capital controls too hastily-leaving themselves vulnerable to the harsh dictates of rapid capital movements and market herd affects. Some were openly critical of international institutions they saw as promoting capital account liberalization without stressing the necessity of building up the strong institutions needed to steer markets through bad times.

Chart 1: Against the Odds.

Despite crisis in some emerging market countries, this group has out performed other groups over the past three decades. (Per capita GDP, weighted by purchasing power purity, 1970-100)
There is a growing consensus among academic economists that trade liberalization is, by and large beneficial for both industrial and developing economies, debate ranges among academic and practitioners about the costs and benefits of financial globalization. Some economists (Dani Rodrik, Joseph Stiglitz and Jagdish Bhagwati, 2007) view unfettered capital flows as disruptive to global financial stability, leading to calls for capital controls and other curbs on international assets trade. While, other economists like Stanley Fischer and Lawrence Summers argue that increased openness to capital flows has in general proved important for countries seeking to rise from lower to middle income status and that it has strengthened stability among industrial countries. This debate clearly has considerable relevance for economic policy, especially given that major economies such as China and India have recently taken steps to open up their capital accounts (Kose, Prasad, Rogoff and Shang-JinWei, 2007:9). Financial globalization appears to be neither a magic bullet to spear growth as some proponents would claim, nor an unmanageable risks, as others have sought to portray it.

**Chart 2: On the rise**
Emerging markets now attract more FDI than other types of flows (composition of gross flows to emerging markets, percent of total)

![Chart showing foreign direct investment (FDI), equity, and debt flows from 1980-84 to 2000-04.]


One of the features of globalization is the interconnectedness of national economies through technology, trade, capital and labour flows, as well as the increasing convergence of processes and rules all of which have significantly altered the way monetary policy is designed and implement. Global economy has income more complex in recent times, with cross-border financial flows, and the increasing interaction of financial system. Global export to GDP rations have reached about 20 percent; almost all countries have eliminated exchange controls affecting imports of goods and services; capital account has been liberalized (to varying degrees) in most countries and hundreds of millions of dollars move across national boundaries on daily basis; technology is being transferred at unprecedented rates and governments are increasingly bound by multilateral agreements.
Chart 3: Financial Globalization Yields Collateral Benefits--------

Traditional View

Financial Globalization  
More efficient international allocation of capital  
Capital depending international risk sharing  
GDP growth  
Consumption  
Volatility

The traditional view focuses on the importance of demands through which capital flows could directly increase GDP growth and reduce consumption volatility.

A different perspective

Traditional Channels

Financial Globalization  
Potential collateral benefits  
Financial development  
Institutional development  
Better governance  
Macroeconomic stability  
GDP /TFP \(^1\) growth  
Consumption  
Volatility

Here we acknowledges the relevance of the traditional channels but argues that the role of financial globalization as a catalyst for certain ‘collateral benefits’ may be more important in increasing GDP/TFP growth and reducing consumption volatility.

\(^1\) Total Factor Productivity.

One major feature of financial globalization is the (discretionary of forced) liberalization and deregulation of financial sectors and capital accounts in most countries thereby integrating them into the global capital markets. Globalization of such financial market and cross-border flows of assets opens up different kinds of dynamics in an open macroeconomic context, exposes the counting to higher external shorts and risks and complicates the design and implementation of stabilization policies in the following ways:

(i) Financial globalization leaves national authorities with very little margin for error of inconsistence in the conduct of monetary policy; as capital flows operate to effect adjustments and punish policies that are believed to be out of sync. Policies that otherwise could have been effective (whether expansionary or restrictive) in a relatively closed economy framework or without capital mobility, are no longer as effective as they once were. Such policies stimulate net capital inflows or outflows. This is worsened by the sometimes idiosyncratic, herd behaviour of market participants. These animal spirits as Keynes(1953) in (Soludo, 2008:27) put it, investors can cause heavy financial crises as have been witnessed in recent years. Market expectations can sometimes be irrational but they surely become self fulfilling. If the market expects a bank to fail, it surely will irrespective of whether or not it is social. Citing Guitian (1994:35) in Soludo; (2008:27), “The fundamental implication is that a powerful constraint has been placed on the scope for monetary policy implementation that is, on the room for discretionary maneuvering – as well as on the operation of policy rates. This constraint is, of course, market forces, which subject monetary management to market discipline either under rules or under discretion”
(ii) Financial globalization brings about financial boundaries that increase substitutability between domestic and foreign currencies. Monetary policy in a context where residents easily substitute from local to foreign currencies can complicate the conduct of monetary policy; for example, the dollarization of national economies;

(iii) With the deregulation, the cross border capital flows, the boundaries between banking and other financial activities have become blurred and this complicates the difficulty in identifying a monetary policy enable which is stable enough to act as a nominal anchor. Deregulation generally affects the stability of the demand for money function, and hence makes reliance on targeting monetary aggregates for monetary policy largely useless. Financial globalization, with increased cross border spillover effects makes the financial system prone to crises and he highly vulnerable developing countries have little instruments to manage such crises as being presently witnessed all over the world. This presents several paradoxes. Vulnerability to macroeconomic shocks raises the need for developing nations to be able to adapt at stabilization and yet, financial globalization has fundamentally altered and constrained the landscape for the conduct of monetary policy/stabilization in industrial nations. Contagion as earlier mentioned has become a key feature of crisis-prone financial globalization and yet there is no supranational agency for enforcing the coordination of national polices. Precisely, this is one of the reasons why the globalization economy is experiencing macroeconomic imbalanced (with the US running huge deficit, while China and other emerging markets are accumulating equally huge surpluses) within their economies.

The conduct of monetary policy in the developing countries can only become more, not less, complex. On the hand, while the Washington – consensus based upon market fundamentalism and globalization paradigms, appears to be the main stream framework for action and this has led to counter-attacks. Stihlitz et at (2006) and Serra and Stihlitz (2008) in Soludo (2008:28) in particular tried to amplify the heterodox framework as opposed to either the new Keynesian or the new classical perspectives (see, Sludo, 2008:28). Stiglitz et at (2006), Serra and Stiglitz (2008) and Soludo (2008) “reached a broad consensus that the Washington consensus has to narrow goals in relation to stabilization policies (focused on price stability), too few instruments (emphasizing monetary and fiscal policy), and an excessive focus on markets. The new framework focuses on real stability and long term sustainable, equitable growth, and stresses the importance of separating intermediate goals (such as inflation and final objectives (long-term equitable growth) (Stiglitz et at, 2006:18, and Soludo, 2008:29).

Chart 4: Threshold, conditions are a complication

<table>
<thead>
<tr>
<th>Above thresholds</th>
<th>Financial Globalization</th>
<th>Threshold conditions</th>
<th>GDP/TFP1 growth</th>
<th>Risk of crisis</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Financial market development</td>
<td>Institutional quality</td>
<td>Governance</td>
<td>Macroeconomic policies</td>
</tr>
</tbody>
</table>

Below thresholds

| GDP/TFP1 growth | Risk of crisis |

Financial globalization leads to better macroeconomic outcomes when certain threshold conditions are met. This generates tension because many of the threshold conditions are similar to the collateral benefits. \(^1\)Total Factor Productivity.
ISaid (2005:15) in Soludo (2008:31) argues: --- changes in the global environment have essentially produced two of the three theoretically possible ways of resolving the basic policy dilemmas. In particular, and attempt to return to an international monetary regime in which the key-currency countries gave exchange rate stability priority over domestic econometric stability (such as the international gold standard) or a system that essentially relied on controlling international capital flows (such as the Breton woods regime) would have little chance of succeeding today.

While, Eichengreen (1999:2) concludes strongly that--- international financial liberalization and growing international capital flows are largely inevitable and irreversible---- capital mobility is the wave of the future. This does not mean that capital account liberalization must be embraced before banks have upgraded their risk-management practices, supervisors have strengthened their over sight of financed institutions, and governments have corrected their macroeconomic policies; to the contrary there are compelling augments against precipitous liberalization. But greater capital mobility is coming like it or not.

The current financial crisis was essentially caused by some laxity in the United States. but the collateral damages have become global. Countries that have done everything prudently to keep their fundamentals sound are being imperiled and with no compassion merchandise from the US.

The global system according to Soludo (2008:33) is probably operating as a defacto Optimum currency area, but without the requisite institutions – a common currency, a central bank, a financial system regulator, etc. furthermore, Eichengreen (1999:3) accepted that in a world of global financial markets, there is an argument by analogy for an international lender of last resort, although, there are questions as to whether the IMF or any other candidate for this role has either the capacity to carry it out or the ability to contain the moral hazard that results. And if there are good political reasons why there will be no international lender of last resort, then countries need to take measures to protect themselves from the consequences of its absence.

In response to the current financial crisis, the world has witnessed an unprecedented coordination of monetary policy by major central banks (USA), Japan, China, European Union (EU) India, and Brazil among other. Over and over again, the global system has risen up to fundamental challenges to craft a new financial regime. Eichengreen (2007) have indicated that today, we have largely undervalued Asian currencies and Asian surpluses with an overvalued dollar and the USA deficits. In the current order, there is no mechanism to correct the imbalances except by talking about it, or advising the deficit countries to live within their means and the surplus countries to revalue their currencies. Imaging common currency schemes in the world of the European; with a Chinese currency zone; yen area around Japan; USA around Brazil. With the economic power of the developing countries (now accounting for about 50 percents of the world GDP, a financial crisis would, in such a scenario, become a currency crisis easily; with many countries migrating from one reserve currency to another (see Soludo, 2008:35).

**4. The New Partnership or Africa’s Development (NEPAD)**

The New Partnership for Africa’s Development focuses on the provision of essential regional public goods (such as transport, energy, water, ICT, environmental preservation, provision of regional research capacity and eradication of diseases), as well as the promotion of intra-African Trade and investments (See Edame, 2006b).

The New partnership for Africa’s Development is pledge by African leaders, based on common vision and a firm and shared conviction, that they have a pressing duty to eradicate poverty and to place their countries, both individually and collectively, on a pat of sustainable growth and development and a the same time to participate actively in the world economy and body politic. The programme is anchored on the determination o Africans to extricate themselves and the continent from the malaise of under-development and exclusion in a globalization world (Evbuomun, 2005: 89 and Edame, 2006b)

The NEPAD will give priority to capacity building in order to enhance the effectiveness of existing regional structures and the rationalization of existing regional organizations. The African development bank is expected to playa leading role in financing regional studies, projects and programmes. The current programmed covered by the sectors include he areas of priority.
Health, Agriculture, Human resources including (education, skills development and reversing the brain drain), infrastructure especially (information and communication technology (ICT) and energy), Access to the markets of developing countries for African exports.

The objective of each of the sectors is to bridge the existing gaps between African and the developed countries so as to improve the continents international competitiveness and enable her participant in the globalization process. The new partnership for African Development is a framework of interaction with the rest of the world including industrialized countries and Multi-lateral organizations. It is based on the agenda set p by African peoples through their own initiatives and their own volition, to shape their destiny.

The role of NEPAD in the global financial crisis can therefore be seen by the African leaders through the joint responsibilities in the under listed areas.

i. Promote the development of infrastructure, Agriculture and its diversification in the agro-industries and manufacturing to serve both domestic and export markets;

ii. Restoring and maintaining macroeconomic stability, especially by developing appropriate standards and targets for fiscal and monetary policies, and introducing appropriate institutional frameworks to achieve these standards;

iii. Instituting transparent legal regulatory frameworks for financial markets and auditing of private companies and the public sector;

iv. Promoting and protecting democracy and human rights in their respective countries and regions by developing clear standards of accountability, transparency and participatory governance at the national and sub-national levels.

v. Strengthening mechanism for conflict prevention, management and resolution at the regional and continental levels, and to ensure that these mechanisms are used to restore and maintain peace;

vi. Revitalizing and extend the provision of education, technical training and health services with high priority given o resolving the problem of HIV/AIDS, malaria and other communicable diseases;

vii. Building the capacity of the states in Africa to set and enforce the legal framework as well as maintaining Law and Order;

viii. Promoting the role of women in social and economic development by reinforcing their capacity in the domains of education and training by the development of revenue generating activities through facilitating access to credit; and by ensuring their participation in the political and economic life of African nations (see Igudia, 2004, Evbuomwan, 2005 and Edame, 2006)

Hence, Nigerian’s membership of and active participation in the African Union (AU) and the new partnership on African Development (NEPAD) is a welcome development and an action in the right direction that will help to solve the problem of global financial crisis as it affect the African countries.

The role of Nigeria in the development of the programme is critical and the leadership of the former president Olusegun Obasenjo in association with president Mbeki, president Wada and president Boutelfika has been key at the global and continental level to ensure that all African countries have come to the NEPAD table. With the former President of Nigeria being the then chairman of the Global Implementation Committee of NEPAD and also chairman of the Heads of State Steering Committee this singular honour done to Nigeria coupled with the fact that NEPAD was formalized in 2001 at Abuja, the Nigerian’s federal capital; give some indication as to the pivotal role Nigeria is expected to play in the process and the country’s record of engagement on the continent. Nigeria also has been the chairman of the steering committee on economic and corporate governance and the committee on capital flows. Nigeria has also been the vice chairman of the committee on infrastructure and as such has been involved in the development of the detailed regional and transcontinental infrastructure priority projects which it is hoped will transform Africa (see Evbuomwan, 2005 and Edame, 2006b).

5. Summary, Conclusion and Recommendations

In strengthening of the policy and institutional environment in Africa, it is required to improve the regions competitiveness, accelerate its integration into the world economy, promote rapid economy growth and make a remarkable dent to poverty. Sound macroeconomic policies that can play a very role in determining the extent to which countries can draw from the benefits of global economic integration for economic growth is essential.
As globalization enhances the reward for good policies it is necessary to have in place sound macroeconomic, sectoral and structural policies in order to improve macroeconomic stability, ensure external sector viability, make the economies more flexible, encourage diversification, reduce vulnerability to external stocks, and increase overall economic growth.

Furthermore, for African nations to achieve the International Development Targets set for 2015, essentially, the target of reducing extreme poverty and significantly improving social conditions, they need to raise their real GDP growth rates significantly to 7-8 percent performance, on a sustained basis.

There is also, the need for each African nation’s to design an appropriate economic and social strategies as well as policies that recognize and respect its scientific needs and circumstances and to promote sustainable economic and social development that spreads its benefits to all sections of the society. The design should be based on its political and economic realities, notably, stakeholders, namely, transnational corporations, international banks and financial intermediaries, and multilateral international financial institutions, in the direction of an all encompassing process of financial globalization, particularly, financial liberalization which needs to be done cautiously against the background of required preconditions being met.

It is important for African nations to be prepared to meet the challenges of globalization by putting their houses in order by transforming and revitalizing their ailing economies with policies relating to pragmatic liberalization in the context of outward-oriented growth, complementary macro and micro economic policies, promotion of manufactured exports, regional integration, human capital development, promotion of foreign direct investment inflow, raising the level of domestic savings and investment, development of technology, infrastructures, etc. Furthermore, a number of basic things must be put right for financial globalization to yield significant results for poor nations and within the SSA.

Finally, in order to meet these challenges; the support of the industrial economies of the world is required. While African nations progress on the path of enhancing their integration into the global economy, through policy reforms, the industrial nations would need to open their markets or easy access to the products of interest to those nations. The industrial nations need to remove tariffs and monetary barriers on import of goods in which African nations have the greatest comparative cost or advantage, example, textiles and other manufactured/processed products, agricultural products, leather products, etc. Generally, use of labour and environmental standards, antidumping, and countervailing duty to target the exports of the more successful exporting LDCS need to be stopped. Industrialized economies can further support the integration and development efforts of LDCS economies through:

- Technical aid and support, especially concessional aid flows which has been declining in recent years now;
- Significant external debt relief. The huge external debt burden has hurt domestic investment and growth so much, in the LDCS, and slowed down the return to external viability.
- Assist to end conflicts and civil strives in the continent. This has been crucial to complement appropriate economic policies
- Assist the globally marginalized poor countries and their communities to become globally competitive and in attracting and retaining quality private capital; and
- Substantial assistance to fight the spread of the HIV/AIDS pandemic in Africa.

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