



ITUC-AFRICA /ASSBIFI SEMINAR

Lomé, 12th November 2009

GLOBAL ECONOMIC MELTDOWN AND OPTIONS FOR SUSTAINABLE INDUSTRIAL HARMONY A Contribution to the Debate

K B LAWSON BODY /ITUC-AFRICA



Presentation Outline

1. Introduction: The Crisis overview
2. How the Global Financial Crisis spread to the African Economies
3. Socio-economic Impact on the Continent
4. Impact on trade unions and responses by ITUC-AFRICA
5. Conclusion : How to promote sustainable industrial harmony in Africa?



1. Introduction

- Overview: the **Global Financial Crisis** was preceded by a threefold crisis (**climatic, energy, and food crises**)
- These crises are the consequence of the neo-liberal system carried to the extremes.
- The global recession (chaos) has tolled the bell for this system – Evidence:
 - Interventionism by countries which, in the old days, used to be the advocates of the free market economy (**United States of America, United Kingdom, Germany and France**)
 - The recommendations made by the G20 in London (**USD 5,000 billion for growth and employment, and a program worth USD 1,100 billion to finance the world economy**)
 - **However the African States' response is still timorous.**
 - This seminar is an opportunity to initiate the reflection on the effects of the crisis in Africa and explore some avenues on what should be the response of the African Trade Union Movement on industrial harmony matters.



2. How the Global Financial Crisis Spread to African Economies

■ Four ways:

- ❖ Goods and services markets (with significant dependency upon foreign countries, $X+M/GDP > 50$ at 75% and a concentration of exports for 1 to 3 products)
- ❖ Capital Markets
- ❖ Money Market
- ❖ Labour Markets



Goods and Services Market

- **Crisis** → Drop in global demand for most goods and services → in Africa, Fall off in demand for African exports → Fall of prices.
- ❖ Some examples of fall in goods prices between end of July 2008 and end of March 2009.
 - **Coal: 66%, Barrel of oil: 60%**
 - **Platinum: 36%, Diamond: 30%, Silver: 24%**
 - **Robusta Coffee: 32%, Arabica Coffee: 21%, Cotton: 11% , Cocoa: 9%**
- ❖ **For services: reduction in tourist arrivals.**



Capital Markets

- Significant impact of the crisis on some financial markets in comparison with those of the North (USA, Japan, France)
- ❖ Some examples of asset value reduction on markets between end of July 2008 and end of March 2009 for seven African countries and three G8 countries.
 - Morocco (24.8%); South Africa (25%); Côte d'Ivoire (38.3%); Mauritius (39%); Kenya (44.5%); Egypt (55%); Nigeria (62.5%).
 - USA (31.71%); France (35.3%); Japan (35.5%).
- ❖ Therefore a Nigerian (or an Egyptian) investor who had USD 10,000 at the end of July 2008, found him/herself, in March 2009, with only USD 3,750 against USD 6,829, 6,270 or 6,250 respectively for an American, a French or a Japanese investor



Money Market

- **More significant depreciation of African currencies especially against the US dollar or Euro.**
- ❖ **Some examples of exchange rate depreciation between end of July 2008 and end of March 2009:**
 - **Countries of the CFA Zone (12.6%); Tunisia (14.2%); Botswana (16.2%); Algeria (16.3%); Kenya (17.2%); Ghana (18.1%); Namibia (20.6%); Nigeria (21.2%); Uganda (22.1%) ; Zambia (36.2%) ; DRC (38.7%); Sierra Leone, South Africa (21.8%) ; Seychelles (50.9%).**
- ❖ **In general, the depreciation of most of these currencies was said to be due to the impact of the financial crisis on the prices of raw materials and foreign exchange reserves.**
- **For the same period, the euro depreciated by 13% in comparison with the dollar, whereas the yen appreciated by 10%**



Labour Market

- **Crisis** →
- **Massive job losses in host countries** (Namely North America and Europe) for African migrant workers and deterioration of their working conditions in terms of human rights.
- **Reduction of prospective job opportunities** (E.g. the current situation on the Spanish labour market)
- **Serious consequences, due to the reduction of remittance by migrant workers, on:**
 - **Governments** (Resource deficits)
 - **Populations** (Revenue loss for the poorest families living among the underprivileged groups)
 - **And the private sector** (funds drop)



Labour Market

- Evidence of the spread of the phenomenon on African economies →
- Recent estimates of money transfer made by African migrants to the continent amounted to USD 20 billion in 2008: 77% from USA and Western Europe.
- According to the official channels of the World Bank, the first ten countries that benefited from these funds are :
 - a. In 2007 (in billion dollars) : Nigeria (3.3), Kenya (1.3), Sudan (1.2), Senegal (0.9), Uganda (0.9), South Africa (0.7), Lesotho (0.4), Mauritius (0.2), Togo (0.2), Mali (0.2).
 - b. In 2006 (in GDP percentage) : Lesotho (24.5 %), Gambia (12.5 %), Cap-Verde (12 %), Guinea-Bissau (9.2 %), Uganda (8.7 %), Togo (8.7 %), Senegal (7.1 %), Kenya (5.3 %), Swaziland (3.7 %), Benin (3.6 %).



3. Social and Economic Impact on the Continent

- **Three-fold impact:**
 - ❖ Economic and social Impact;
 - ❖ Impact on income, poverty and development;
 - ❖ Impact on African Trade Unions.



Economic and Social Impact

Foreign Trade

- ❖ The fall of the growth rate was more significant in exports **7%** than imports **4.7%** → **deterioration of trade balance.**
- ❖ Therefore, from a trade balance which was generally positive in 2008 (**2.9%**), the continent will suffer a **4%** deficit of its GDP current account in 2009
- ❖ Some examples:
 - Burkina Faso: deterioration of the balance of payment due to the drop in agricultural production and export of cotton.
 - Botswana: **50%** drop in diamond production due to **30%** of price fall on the international market.
 - Zambia: the **65.8% reduction of coal price**, lead to a significant reduction of reserves.



Economic and Social Impact

■ Growth

- ❖ Reduction in growth rate on the continent: from **5.4%** in 2008 to **3.3%** in 2009
- ❖ Some examples for South Africa, Angola, Kenya and DRC.
- ❖ Respectively **1.8%**, **6.3%**, **2.1%** and **1.7%** growth rate expected in 2009
- ❖ Against **5.1%**, **21%**, **6.3%** et **6.5%** realised in 2007 for the above-mentioned countries.



Economic and Social Impact

- The situation of public finance
 - ❖ The crisis will lead to the degradation of public finance.
 - ❖ In general, Africa will drop from a 1.8% GDP budget surplus in 2008 to -5% deficit in 2009.
 - ❖ Oil exporting countries will record -7% GDP deficit in 2009 whereas in 2008, the budget surplus was 4%.
 - ❖ This situation will have a negative impact on State Programmes at all levels (functioning and investment)



Economic and Social Impact

Financial and Monetary Flows

- ❖ Generally, the falling trend should be noted in reduction of Foreign Direct Investment (**FDI**), Portfolio Investments, remittance by Migrant workers and Official Development Assistance (**ODA**)
- ❖ According to AfDB, no treasury bond was issued in foreign currency in 2008 on behalf of African countries. Investments have been dropping in Ghana, Kenya and Nigeria. **As a matter of fact, Kenya and Ghana had to postpone their issuance of bonds valued at 800 million dollars.**
- ❖ Official remittance by African migrants for a number of selected countries shall drop from USD **1,100 million** in 2008, to USD **800 million** in 2009; this is a drop of USD **300 million (about 27%)**.



Economic and Social Impact

Economic Activities and employment

- ❖ Most industries are affected, however, the most affected ones seem to be mining, tourism, textile, agriculture, and manufacturing.
- ❖ Substantial job losses have been recorded, having direct negative impact on the living conditions of workers.
- ❖ Some examples in 2009:
 - 20% revenue reduction for tourism in Tanzania
 - Reduction of more than 20% of investments in the tourism industry in Mozambique
 - Fall of hotel occupancy rates in Kenya, Tanzania and North Africa
 - Of the thousands jobs losses and the closings of enterprises in the Wood industry in Cameroon, in RCA and to Gabon



Economic and Social Impact

- **Economic Activities and Employment (continued)**
- ❖ Some examples in 2009 (continued)
 - **More than 400,000** job losses in DRC
 - **36,500** job losses in the automobile industry in South Africa.
 - **5,000** job losses in the diamond industry in Botswana.
 - More than **3,000** jobs lost in the copper industry in Zambia –
 - More than **100,000** TV channel subscriptions cancelled leading to a loss of **11,000** jobs in 22 African countries.
 - **1,500** jobs are threatened in the mining sector of Liberia



Impact on Income, Poverty and Development

■ Income and poverty :

- ❖ It emerges from the analysis of the economic and social impact that the crisis will negatively affect the income distribution and level of poverty in various countries.
 - ❖ Some simulations recently carried out using a computational model, enabled us to clearly see the impact of a **10% reduction** on household income, government income, employment and welfare :
- **Global prices of cash crops**
 - **Flows of foreign capitals**
 - **Remittances from the rest of the world (RW).**

Impact of a 10% Reduction on the Global Prices of Cash Crops

| Indicators | Variation in % |
|--|-----------------------|
| Production of cash crops | -0.88 |
| Export of cash crops | -10.4 |
| Nominal income of households | -0.16 |
| Available income of households | -4.45 |
| Demand of informal work in agriculture | -2.58 |
| Variation in the welfare of households | -6.81 |

Impact of a 10% Reduction on Remittances from the Rest of the World

| Indicators | Variation in % |
|--|-----------------------|
| Total Added value | -0.12 |
| Nominal income of households | -0.67 |
| Available income of households | -5.16 |
| Demand in informal work | -0.12 |
| Variation in the welfare of households | -6.56 |
| Government savings | -29.25 |

Impact of a 10% Reduction on the Flow of Foreign Capitals

| Indicators | Variation in % |
|--|-----------------------|
| Total Added value | -0.92 |
| Nominal income of households | -0.67 |
| Available income of households | -4.67 |
| Demand in informal work | -1.38 |
| Variation in the welfare of households | -6.42 |
| Government savings | -29.32 |



Impact on Income, Poverty and Development

■ Development :

- ❖ Africa, with about **13%** of the world population, contributes only **2%** of the global GDP and less than **1%** of the global industrial added value. Barely **2%** of exports come from developing countries.
- ❖ As far as the international trade is concerned, Africa is both marginalised, (**less than 5%** of FDI flow) and highly indebted (the foreign debt ratio over GDP is over **80%**)
- ❖ Out of the 49 least advanced countries, **34** of them are in Africa.
- ❖ The extent and persistence of poverty are high with an average of **35 to 60%** people living below the poverty line according to individual countries; they experience **poor access** to essential social services and public services (**health care, illiteracy, education, water and sanitation, electric power, internet**).



Impact on Income, Poverty and Development

■ Development (continued)

- ❖ The employment situation is worrying in most countries. Unemployment in those countries has become **endemic** with **high rate of precarious** jobs and **glaring inequalities, which do not favour women and the youth**. Depending upon the countries, unemployment affects between **20 and 40 percent** of the labour force.
- ❖ As for governance, except a few cases, there are still many challenges to administrative, economic, judicial, political and social governance. Some of the manifestations of these challenges are: **lack of democracy, non-transparent elections, lack of transparency when it comes to managing public affairs, malfunctioning of public institutions, corruption, embezzlement, impunity and lack of political will to organise social elections**.
- ❖ **This financial crisis may only worsen the situation and bring out the degradation of living conditions of both people and workers in Africa – the proof :**



Impact on Income, Poverty and Development

■ Development (end)

- ❖ The prospects of achieving the MDG by 2015 seem to be undermined as far as the objectives and targets are concerned.
- ❖ According to ILO, 50 million people could lose their jobs in 2009 in Africa. The number of poverty stricken people in 2009 may exceed the 90 million predicted before the crisis.
- ❖ According to the World Bank, the food crisis and the new global financial crisis annihilates the progress achieved in the fight against hunger and malnutrition. Prior to the food crisis in 2007, some 850 million people in developing countries did not have enough food. This figure rose to 960 million in 2008 and should exceed 1 billion in 2009.
- ❖ In poor countries, the school performance and rates of school attendance also tend to decrease during the economic crisis, especially among girls.



4 - Impact on Trade Unions and ITUC-Africa's responses

- Previous crisis had already affected negatively the trade unions, leading to :
 - **Membership decline** in many countries.
 - **Splitting of** trade union organisations which used to be strongly represented in the formal economy.
- The financial crisis **threatens to exacerbate** the problems facing the African Trade Union Movement.
- However, ITUC-Africa is aware of the marginalisation of Africa as well as the challenges ahead.
- ITUC-Africa is aware that the **low involvement or even the absence** of the key stakeholders, including **workers and trade union organisations** in developing and implementing the economic development policies, is one of the most significant reason why this situation is prevailing in Africa²⁴



African TU and ITUC-Africa's responses

- That is why, to fill this gap, ITUC-Africa has undertaken **capacity building activities** in the socio-economic field for its affiliates and secretariat in order to be able to consider the alternative development strategies at the neo-liberal policies.
- In this respect, ITUC-Africa initiated a sensitization and training programme on the global financial crisis.
- Hence, ITUC-Africa organised this year for its affiliates, **in collaboration with ILO and FES** (Friedrich Ebert Stiftung), forums, seminars and workshops :
 - April and May, Nairobi, Kenya
 - May, Abuja, Nigeria
 - August, Lokossa, Benin
 - August, Kribi, Cameroon
 - September, Lomé, Togo, etc.



African TUs and ITUC-Africa's responses

- Within the framework of this programme and considering the main trends within the African context, the recommendations made by ITUC-Africa, take into account **three major characteristics** :
 - ❖ **The need for a paradigm shift** in order to steer development policies and strategies in Africa.
 - ❖ **The need for** good governance in African countries.
 - ❖ **The need for a true reform of the global governance** to enable the African States to set themselves free from domination of international institutions, Western powers and emerging powers.
 - ❖ However, to ensure that the implemented policies will lead to productive and decent job creation, **ITUC-Africa is of the opinion** that **economic recovery plans** to be implemented in the African countries should take into two important pillars: **The global jobs pact (GJP) and decent work agenda (DWA)** (cf ITUC-Africa Statement on Global crisis, September 2009).



5. How to promote sustainable industrial harmony in Africa

- For ITUC-Africa “The Global Jobs Pact and Decent Work should be at the heart of economic restructuring and investment development in order to satisfy the basic needs of the peoples”
- So, following ITUC-Africa view, the GJP and DWA are the main elements which contribute **to promote sustainable industrial harmony in African work places**
- A decent work agenda (DWA) is based on 4 elements : **Rights, Employment, Protection and Dialogue**
- The Global Jobs Pact (GJP) is ILO’s response to the global financial and economic crisis. The GJP was adopted by the 2009 International Labour Conference in June.



How to promote sustainable industrial harmony in Africa

- The GJP is a framework for the period ahead and a resource of practical policies for the multilateral system, governments, workers and employers
- It was designed to guide national and international policies aimed at stimulating economic recovery, generating jobs and providing protection to working people and their families.
- The GJP consists of three main parts:
 - ❖ Principles for promoting recovery and development;
 - ❖ Decent work responses,
 - ❖ The way forward: shaping a fair and sustainable globalization;



Principles for promoting recovery and development

- Priority to **employment and building social protection** as part of international and national action to aid recovery and development.
- Enhancing support to **vulnerable** women and men hit hard by the crisis including youth at risk, low-wage, low-skilled, informal economy and migrant workers;
- **Maintaining employment and facilitating job transitions** and access to labour market for jobless, e.g. through public employment services, skills development;
- **Avoiding protectionist solutions**, including wage deflation and undercutting labour standards;
- **Social dialogue, tripartism and collective bargaining**;
- **Economic, social and environmental sustainability**;
- Effective and efficient regulation of market economies to enable **sustainable enterprises and employment**;
- **Strengthened policy coherence** including increased development assistance to least developed and countries with restricted



Decent Work responses

- **Active Labour Market Policies** - Full and productive employment and decent work should be at the heart of crisis responses, including macroeconomic stimulus packages
- **Building social protection** – Sustainable social protection can prevent increased poverty, address social hardship, stabilize economy and promote employability
- **Rights** - International labour standards create and support rights at work
- **Dialogue** - Strengthen respect for, and use of, mechanisms of social dialogue, including collective bargaining, as an invaluable mechanism for design of policies and building commitment of employers and workers to joint action with governments



Shaping a fair and sustainable globalization

1. Global Policy Priorities:

- ❖ Building a stronger, more globally consistent, supervisory and regulatory framework for financial sector, so that it serves the real economy, promotes sustainable enterprises and decent work and better protects savings and pensions of people;
- ❖ Promoting efficient and well-regulated trade and markets that benefit all and avoiding protectionism. Varying development levels of countries must be taken into account in lifting barriers to domestic and foreign markets; and
- ❖ Shifting to a low-carbon, environment-friendly economy that helps accelerate the jobs recovery, reduce social gaps and support development goals and realize decent work.



Shaping a fair and sustainable globalization

2. Counteracting threat to development and poverty reduction by:

- Making international resources available for countercyclical action, keeping commitments to increased aid, including budgetary support,
- Prioritizing decent work opportunities in systematic, well-resourced, multidimensional country programmes, e.g., by:
 - promoting sustainable enterprises, diversify production,
 - providing vocational and technical training and entrepreneurial skills development especially for **unemployed youth**;
 - addressing informality, invest in agriculture, rural infrastructure, industry and employment,
 - building up a basic social protection floor.



Thank you for your attention!