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An Afro-Arab Spring:
Socio-political trajectories to stem the Global Financial Crises

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1. Introduction

1.1. The US leading the crises

Looking around the world, you do not see many economies doing as well as the US's. In the inexhaustible capacity of its private sector to innovate, in its seemingly unquenchable desire to reinvent itself, the US still leads the world, and reaps the material rewards of that leadership. Its brand of capitalism appears to have something going for it—so it may seem churlish, even perverse, to wonder how much better a country as successful as this might do if it really tried. Yet it could indeed be doing better. That is right: Capitalism is not beyond improvement, the US markets in crisis may lead to the depression of the 1930s. Many reports about the current global credit crisis and its large, institutional victims have compared it to a hurricane; a better analogy might be an ill-constructed levee, filled to the brim with bad debt and breaching under the pressure of massive over-leveraging. (Wharton 2008) Despite rescues that may change the world of finance, the flood will not subside anytime soon.

Almost two years after problems in the U.S. mortgage market set in motion the biggest financial crisis since the Great Depression, global financial markets remain unsettled, and prospects for capital flows to the developing world are dim. The intensification of the financial crisis in September 2008 dramatically altered the world economic outlook. Unemployment, already soaring in industrial countries, will follow a similar path in the export-dependent economies of East Asia, as high-income countries reel from an unprecedented asset-market bust, and global investors retreat from emerging markets. The implications of these unfolding events for investment flows to developing countries have already been dramatic: total private capital flows dropped to 4.4% of total developing-country GDP), reversing the strong upward surge that began in 2003 and reached a pinnacle of in 2007 (8.6% of GDP). (World Bank, 2009)

1.2. Statement of the Problem:

The financial, economic and for many, the livelihood, crisis that erupted in September 2008 has become a global crisis for the real global economy. In both developed and developing countries, economic trajectories showed a cliffy downward abruptly trend unseen and unheard of in recent memory. Unemployment is on the rise, and poverty is set to increase in developing economies, bringing with it a substantial deterioration in conditions for the world's poor and most vulnerable. The outbreak of the financial crisis provoked a broad liquidation of investments, substantial loss in wealth worldwide, a tightening of lending conditions, and a widespread increase in uncertainty. Higher borrowing costs and tighter credit conditions, coupled with the increase in uncertainty provoked a global flight to quality, caused firms to cut back on investment expenditures, and households to delay purchases of big-ticket items. The study aims to answer the following questions. What are the trajectories of the recent financial, economic and livelihood crises? What is their impact on the global welfare? What options are there to stem the tide? The study objective is hence to identify the impact of the recent financial, economic and livelihood crises and options to stem the tide on the Afro-Arab continent.

1.3. The lecture is structured around the following sections:

Section I: what are drivers of the global economic and financial crises? The world of derivatives, Marx's critique of capitalism, financial shenanigans, greed and the credit crunch?
Section II: Globalization and the financial and economic crises -- Globalization, Doha and world trade, the global recession has deepened and crises could forge a new financial order;
Section III: Does the Crunch affect The Afro-Arab Region and what is to be done.

2. **How bad is the global financial crisis?**

The rescues, bankruptcies and dizzying write-downs signal a reckoning for Wall Street wizards who engineered the credit crisis with opaque securities based on risky subprime home loans and the assumption that housing prices would never decline. The liquidity capacity of these markets was overwhelmed. (Wharton, 2008)

"The market was primed for subprime. The pattern of ever-lowering interest rates, often laid at the feet of Alan Greenspan's Federal Reserve, helped along by international monetary pressures, arose from the tech stock bubble of the late 1990s. It made people very hungry for yield. With home prices rising -- and a cursory look at 75 years of data shows no period when housing prices declined, several panellists pointed out -- people suddenly thought, 'Well, let's go to the mortgage market.' The US Fed has been slashing short-term rates by hundreds of basis points. Those cuts were pushing "real interest rates deeper into negative territory". They were also driving U.S. yields even farther below yields offered in other countries. They forced the US dollar down dramatically and caused virtually every commodity price under the sun to soar. The lesson of the markets was loud and clear: *Stop cutting rates! Start focusing on what really matters*: The deterioration in the U.S. dollar ... the destruction on savers ... and loss of inflation-fighting credibility". Wharton (2008)

The interconnectedness and velocity of modern markets make this crash unique, but not all is lost yet: this is a time for cool heads and open minds. (Weyer, MV., 2008) "Former Federal Reserve Chair Greenspan said the current financial crisis is 'a once-in-a-half-century, probably once-in-a-century type of event', but he is wrong, because there has never been a situation like this; the global interconnectedness of today's markets, the speed of internet communication, and the extent to which markets impact on ordinary folks' pensions, savings...all make this utterly different to 1929 in New York or 1866 in London. The pace and reach of the contagion is astonishing"[1] as World Bank Global Economic Prospects (2009) report shows

2.1. The rapid increase in precautionary saving led to a sharp decline in global investment, production, trade, and GDP during the fourth quarter of 2008, a trend that continued in the first quarter of 2009. The sharpest declines in economic activity were concentrated among countries specialized in the production of durable and investment goods and in countries with serious pre-existing macroeconomic vulnerabilities. This suddenly very weak international environment accelerated the fall in commodity prices.[2] Policy reactions to the crisis have been swift and, although not always well coordinated, have so far succeeded in preventing a broader failure among financial institutions, and thereby avoided a much more severe collapse in production. In the absence of public-sector assistance, the massive losses suffered by investment banks and other institutions would have forced commercial banks to sharply reduce lending—forcing firms to cut back on investment and production even more forcefully. Instead, bank lending continued to grow, although much less rapidly than in the past.[3]

2.2. The drop in economic activity, combined with much weaker capital flows to developing countries, is placing a large number of low- and middle-income countries under serious financial strain. Many countries are having difficulty generating sufficient foreign currency from exports or borrowing to cover import demand. Overall, borrowing needs for developing countries are expected to exceed net capital inflows by between $350 billion and $635 billion. Many countries are meeting this financing gap by drawing down on the international currency reserves they built up during good times. However, the sustainability of this strategy is uncertain.[4]

2.3. While some indicators that point to the beginnings of a recovery are stabilizing stock markets, modest improvements in exports, slightly growing consumer demand driven by possibly demand-boosting effects of discretionary fiscal stimulus measures; nevertheless, unemployment continues to rise throughout the world, housing prices in many countries are still falling in major economies, bank balance sheets need consolidation and recapitalization required. Hence, recovery in the global economy remains highly uncertain. Indeed, many countries are facing growing pressure on their currencies and banking sectors. Already several high-and middle-income developing countries have entered into special borrowing agreements with the IMF to prevent deteriorating external and fiscal positions from getting out of hand.

3. **Capitalism's challenges:**

3.1. **The world of derivatives:**

The subprime crisis is the most visible of economic derivatives that have spun out of control with homes losing their values at unprecedented rate in recent memory. According to the economist, derivatives are financial assets that derive their value from other assets such as an option to buy a share is derived from the share. Financial regulation bodies blame the growing use of derivatives for increasing volatility in asset prices, and for being a source of danger to their users. Economists believe derivatives will allow more precise pricing of financial risk and better risk management, while they concede that when derivatives are misused, the leverage that is often an integral part of them can have devastating consequences.

The world of derivatives is peppered with brainteaser lingo: a forward contract commits the user to buying or selling an asset at a specific price on a specific future. A future is a forward contract traded on an exchange. A swap is a contract by which two parties exchange the cash flow linked to a liability or an asset. An option is a contract that gives the buyer the right, but not the obligation, to sell or buy a particular asset at a particular price, on or before a specified date. An over-the-counter is a derivative that is not traded on an exchange but is purchased from, say, an investment bank. Exotics are derivatives that are complex or are available in emerging economies and plain-vanilla derivatives, are typically exchange-traded, relate to developed economies and are comparatively uncomplicated. *The poster child of the current crisis is the credit default swap, a kind of insurance policy.*[5] Credit default swaps and many mortgage-backed securities are so highly customised it is hard to assess their value from day to day. As the housing bubble burst -- and homeowners fell behind on payments -- swaps and mortgage securities tied to these payments lost value, but it was unclear by how much. Lenders, worried about unknown liabilities on borrower's books, became reluctant to lend, causing the credit crisis.

All parts of the accountancy profession - preparers, standard-setters, and auditors - must learn from the last year and strengthen the fair value model. They need to define the parameters where profits and losses are struck under fair value. Poor quality loans sliced, diced, and parcelled up in a new wrapping with an AAA sticker should not be accepted as assets worth billions of dollars. Banks balance sheets did not represent a 'true and fair' picture - and even other banks' willingness in early 2007 to buy them at a falsely high price does not change that fact. (ACCA 2008)

The market needs transparency and a better way to establish values as conditions change. That may be accomplished if the current over-the-counter trading system were replaced with a centralised exchange and a greater standardisation among these products.[6]

3.2. Marxian critique of capitalism: Marx argued that this alienation of human work (and resulting commodity fetishism) is precisely the defining feature of capitalism. Prior to capitalism, markets existed in Europe where producers and merchants bought and sold commodities. According to Marx, a capitalist mode of production developed in Europe when labour itself became a commodity. True, the capitalist mode of production is capable of tremendous growth because the capitalist can, and has an incentive to, reinvest profits in new technologies and hence the capitalist class to be the most revolutionary in history. But he also argued that capitalism was prone to periodic crises -- over time, capitalists would invest more and more in new technologies, and less and less in labour. Since Marx believed that surplus value appropriated from labour is the source of profits, he concluded that the rate of profit would fall even as the economy grew. When the rate of profit falls below a certain point, the result would be a recession or depression in which certain sectors of the economy would collapse.[7]

Many proponents of capitalism have argued that capitalism is a more effective means of generating and redistributing wealth than socialism or communism, or that the gulf between rich and poor that concerned Marx and Engels was a temporary phenomenon. Some suggest that self-interest and the need to acquire capital is an inherent component of human behaviour, and is not caused by the adoption of capitalism or any other specific economic system and that different economic systems reflect different social responses to this fact. Contemporary supporters of Marx argue most generally that Marx was correct that human behaviour reflects historical and social conditions. More specifically, they argue his analysis of social class and commodities is still very useful, that his critique of capitalism can easily be applied to the current global situation, and that alienation is still a problem.

3.3. **Financial shenanigans - greedy capitalism**: The New York Times columnist, Paul Krugman, recently told Fortune large parts of the financial system will have to be reinvented. Moreover, there is no argument from me on that one. Nevertheless, so much of the financial system is broken that the question is where to even start? This kind of bad buck-passing went all the way to the top of some firms, many with familiar names. There in the ethereal reaches of the nice office buildings all over the world – let alone in the City or on Wall Street – the chief executives knew, or should have known, how risky the portfolios were becoming. However, these corporate worthies let it happen. The pressure to "make the numbers" was too much. The money was just too good. The bonuses were too sweet. Besides, there is always the old excuse that "everybody does it this way." Yet it was not for nothing that the ancients defined greed as a deadly sin. At each step of the ladder of financial deceit, people just let it slide. They should have known better, and maybe they did know better. Now looking ahead, we have a hell of a rocky road before us. Can we as a society really "regulate" our way out of that situation or is there a systemic problem with deeper roots?"

4. **Globalization, Doha and world trade**: (The Economist, 2008)

4.1. **Doha failure**:

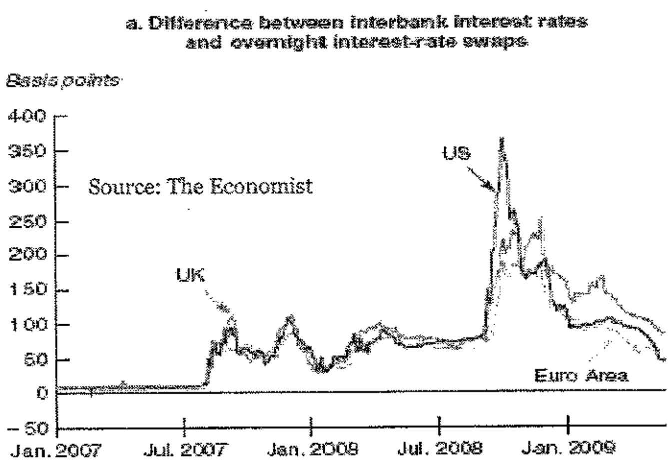
During a summer when the economic shadows darkened so dramatically, few paid attention to the collapse—yet again—of the Doha round of global trade talks. Champions of liberal trade, wrung their hands, but no one else cared much. The failure in Geneva, where the WTO is based, seemed something of a sideshow. In a global survey of business executives, conducted by the Economist Intelligence Unit, over half the respondents regarded the Doha round as minimally or not at all important, and only 10% thought it very important. One in ten saw protectionism as the biggest threat to the world economy, but far more were worried about recession, inflation, and the financial crisis. At a macroeconomic level, however, it is reasonable to fret about the growing clout of state-based investors, not least because most of this money will be held by a small group of (authoritarian) countries including China, Saudi Arabia and Russia. China is piling up foreign-exchange reserves so fast that if it were to put them into the US shares instead of bonds, it would already be buying more than all other foreigners put together. As the Council on Foreign Relations points out,

> *...concentrated ownership by authoritarian governments is a strategic as well as an economic concern. Both the risks of this new protectionism and the odds of it being countered depend heavily on the relationship between the US and the biggest emerging economies. As the Doha malaise has shown, active the US leadership, although no longer sufficient, is still necessary for multilateral progress. Yet the politics of trade has become increasingly difficult in the US, compromising the country's ability to take the lead. Support for more open markets is weaker than almost anywhere else in the world. The US's popular disillusionment has been accompanied by a growing intellectual one.*

Several US economists8 have begun to doubt whether globalisation is good for the US middle class. Rather than improving typical US living standards, they suggest, global integration may be causing wage stagnation, widening inequality and greater insecurity.

4.2. **The global recession has deepened:**

The tight links between global trade in durable, capital, and high-tech goods and the closely entwined investment spending that supports economic activity in both high-income and developing countries can be detected in the vicious circle that now operates between the financial and real sectors of the global economy. The difficulty of obtaining capital, together with uncertainty about future demand, has delayed investments and caused a collapse in demand for durable goods, resulting in a sharp contraction in the production of and global trade in manufactured goods.[9]



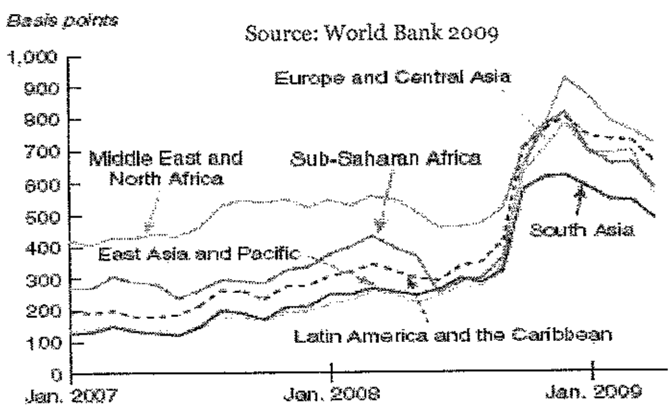
The simultaneous collapse in growth across high-income and developing countries cannot be explained solely by trade links, for the domestic economies of a large number of developing countries have been directly affected by the financial crisis. The reversal of capital flows, the collapse in stock markets, and the general deterioration in financing conditions have brought investment growth in the developing countries to a halt. In many developing countries, investment is falling sharply. For developing countries that are significant commodity importers, one of the few silver linings of the financial crisis is that commodity prices are down some 35% from their record levels of mid-2008, limiting current-account deficits and helping to quell the inflation produced by high food and fuel prices during the years leading up to the financial crisis. Lower commodity prices have also had the salutary effect of mitigating the impact of the current crisis on the poor.

4.3. **Private capital flows are shrinking at an unprecedented rate:**

While the global economic cycle has always coloured the emerging-market asset class, the current downturn has been especially noteworthy in its impact on asset valuation in equity markets and liquidity conditions in primary bond markets. Relative to their peers in mature markets, corporate and sovereign bond issuers in emerging markets have been particularly affected by liquidity concerns and risk aversion among investors. There was virtually no issuance between mid-September and mid-December 2008, in the wake of the collapse of Lehman Brothers. Local stock markets, meanwhile, experienced the worst yearly decline in recent history, as the MSCI Emerging Market Index sank 55% during the year, erasing some $17 trillion in market valuation. Investors' flight from perceived danger contributed to the sharp drop in capital flows to the developing countries, a trend that is very likely to persist through the end of 2009. Although interest-rate spreads in developing countries have not widened by as much as in past crises, the decline in private capital flows to developing countries is expected to set a record.

Net private debt and equity flows are projected to decline from a record high of 8.6% of GDP in 2007 to just over 2% in 2009, exceeding the peak-to-trough drop during the Latin American debt crisis in the early 1980s and the combined East Asian and Russian crises of the late 1990s. Unlike in these past crises, however, the decline in inflows has hit every developing region. The most affected region is emerging Europe and Central Asia, which also experienced the largest expansion of inflows between 2002 and 2007. Net private inflows to the region were an estimated 6.4% of GDP in 2008, down from 15.1% in 2007. [10] The agreement by the G-20 to augment the lending capacity of the IMF and multilateral development banks will help high-income emerging-market and middle-income countries meet their external financing needs. However, little of such financing can be made available to low-income countries that have limited borrowing capacity, whose ability to meet their external financing needs will depend largely on the extent to which firms can roll over their maturing debt.[11]

c. Increased spreads on developing-country sovereign debt



Sources: World Bank; JP Morgan-Chase; Thomson Datastream.

4.4. Could the crises forge a New Financial Order:

In the middle of a battle, it is hard to know what the landscape will look like after the smoke clears. Nevertheless, as the government wrestles with the credit crisis, economists and finance experts are starting to make some predictions. Individuals and businesses will have a harder time getting loans in coming years, but also may be less eager to take on debt. There will be more financial regulation or better regulation, but definitely not less regulation. There will be intense efforts to see what is going on inside previously opaque areas like hedge funds, derivative markets and subsidiaries set up to evade restrictions. Instruments like credit default swaps, which helped bring down big financial institutions, are likely to become more standardised, allowing them to be traded on centralised exchanges so that values will be easier to fix.[12]

4.4.1. A system needs to be designed where participants cannot threaten the safety of the economy - this crisis is bad enough that it has rung some alarm bells, and there's a better chance of doing something right ... than there has been for decades. The most obvious change in the financial markets is the government's new role as a major owner of the nation's banks. While such partial nationalisation is meant to be temporary, even its proponents are uneasy about excess government power in business.

4.4.2. Most experts believe the current crisis is an extraordinary situation rather than an exaggerated plunge in the normal business cycle. To assess risks building up in the system, regulators are sure to demand more transparency. That will include a clearer look at how leverage is used and by whom, and which institutions are accumulating big positions in volatile derivatives like credit default swaps. What we need to know is how much macro risk is taken by various organisations and pools of funds that could, in a crisis, turn out to harm the economy. We need to bring transparency to the credit default swaps market and the derivatives market. While transparency is valuable, it is hard to get it just right. Reports on total derivatives holdings might make a firm look very risky, while some holdings actually may offset risks of others, he says. I do not think anybody has figured this one out.

4.4.3. Oversight of different types of securities needs to be more consistent, noting that bets on individual stocks can now be made in various ways -- by purchasing the stocks themselves, or through futures, options, or swaps contracts based on those stocks. The swaps market, often involving individually tailored contracts, has virtually no regulation. All securities that rise or fall according to the health of an underlying company should be treated the same. If it has payouts the same as equity but we call it a swap, it is probably equity. I always think of derivatives as something like very sharp knives. They are very good at parsing risk. Used properly, they are very valuable, and there should not be anything to prohibit that parsing of risk. In the current markets, however, the regulations have not kept up with these new tools.[13]

5. How does the Afro-Arab world deal with the crises?

5.1. Is China The Afro-Arab Region's answer:

With the spectacular Olympic Games held recently and the collapse of the WTO talks, due to its defiance of Western positions, China has projected itself into the world stage for a second time; since it acquired the status of a nuclear power. Its influence on The Afro-Arab Region has also been steadily growing. Sino-Afro-Arab trade has increased rapidly, rising to a towering $75 billion last year. Its economic might and tolerance of abuses by The Afro-Arab Region polities has contributed to Beijing's highly successful diplomatic move in The Afro-Arab Region. WTO came into force with new set agreements, negotiated, for the most part, without effective Afro-Arab participation. The IMF, the World Bank, and the WTO have evolved a common understanding and strategy about the movement and management of international financing between them within the framework of the Washington Consensus. This is true particularly with those related to trade liberalisation and FDI that have found their way into the WTO articles of association. The complexities involved and the pains that await The Afro-Arab Region countries are reflected by the increasing numbers of disputes referred to WTO; that included allegations of contravention of the national treatment provision of GATT - Article III.[14]

Hence, not surprisingly, China has become the voices for the poor nations and their most audacious financier. The China ExIm bank has facilitated loans to the tune $10 billion to The Afro-Arab Region, albeit, on more commercial terms. While well managed economies have earned IMF's blessing to take-on more debt even on commercial terms, badly managed economies have moved on to China, which is prepared to ignore such conditionalities. China bestowed $800m to Sudan in 2005 and a similar amount last year—as Sudan queued up to have its multilateral debts written off". When The Afro-Arab Region nations went into internal political and military crises, China saw this as an opportunity to expand its influence. New aid grants soon rolled in, followed by bank credits for Chinese companies, which have today become a dominant force, building highways and bridges, power stations, mobile-phone networks, and exploring for oil"...[15] *Indeed, 2006 was billed as "The Year of Africa" in China that culminated with* *the China-Africa summit focused on securing the region's natural resources for its rapidly growing economy, market expansion for its cheap goods and gaining international political legitimacy with almost all African countries supporting Chinese positions on literally all issues in the UN General Assembly. Beijing has come up with the answers and has moved in rapidly with the necessary resources for infrastructure development that have so far been the subject of lengthy negotiations, many times at the cost of project redundancy, which hitherto marked Afro-Arab relations with global funders.* (The Economist May 17th 2007)

5.2. **There is a reasonable chance that Afro-Arab world may survive the crisis:**

5.2.1. **The Afro-Arab Region:**

Many countries have been helped by better macro-economic management and big inflows of Western aid, investment and debt relief—as well as by more unquantifiable investments from Asia, particularly China, and the Middle East. Moreover, there is a reasonable chance that The Afro-Arab Region may survive the world financial crisis less bruised and battered than some other parts of the world. The very factors that damaged the continent in the past may now be working in its favour. Take the banking sector. Businesspersons and budding entrepreneurs have always moaned about the excessive regulations and conservatism of The Afro-Arab Region banks. Controls on foreign exchange often prevent them raising more money by investing in exciting financial instruments in the West. Foreign ownership of banks is unusually limited (to less than 5% in Nigeria and South Africa).

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Now, however, this very de-linkage from the Western financial system has turned out to The Afro-Arab Region's advantage. Its banks have almost no exposure to the subprime market causing such havoc elsewhere in the world. No one doubts that The Afro-Arab Region will feel the effects of the crisis eventually. As world trade contracts, so will the demand for The Afro-Arab Region's oil and minerals, the main commodities behind its current boom. Beyond GDP growth, performance anatomy is perhaps the most subtle trait of all economies - the interactions between leadership and strategy, innovation and technology, and human quality development and meritocracy that are critical to defining a high-performance market–driven development.

Addressing the various regulatory failures, bank governance shortcomings, and macroeconomic imbalances that contributed to the crisis has been another focus of the international policy response. Bad lending and poor investment decisions stemmed from lax regulation and overconfidence and euphoria associated with low real interest rates and ample liquidity. "Therefore, new measures are needed that embrace all important financial institutions that strengthen international accounting standards to improve transparency and asset valuation. In charting the course ahead, policy makers in developed and developing countries should give priority to four tasks. (1) following up on the G-20's promise to restore domestic lending and the international flow of capital, (2) addressing the external financing needs of emerging-market sovereign and corporate borrowers, (3) reaffirming pre-existing commitments to the MDGs, and, (4) unwinding state high stake ownership in banks and re-establishing fiscal sustainability".[16]

5.2.2. **Building confidence and strengthening policy coordination for recovery:**

Among government officials, policy makers, and key market observers, calls to restore confidence in the global financial system have become an international mantra. Governments have, by and large, "walked their talk" through a furious combination of unilateral and multilateral actions, drawing on a broad range of conventional and unconventional monetary policy, fiscal stimulus, and government guarantee programs to shore up the banking industry. Such actions have achieved some easing of liquidity conditions in global interbank markets, have supported a narrowing of credit risk premiums, and have underpinned a tentative revival of equity markets. However, the policy agenda for stabilizing financial markets and for global economic recovery is broad and complex, and major challenges remain.

Several overarching themes will remain salient for policy makers over the next few years: The global nature of the financial crisis places a premium on policy coordination. The deep international economic linkages among countries that provide the channels for negative spillovers across borders also enhance the scope for beneficial policy coordination. Indeed, efforts to stimulate aggregate demand through expansionary monetary and fiscal policies, to recapitalize insolvent financial institutions, and to restore the functioning of credit markets through the provision of liquidity are more likely to be taken— and are more likely to be effective— if there is broad agreement among the major governments on policy direction.

Governments' willingness to coordinate their policies can help re-establish confidence by ruling out beggar-thy-neighbour responses to the crisis. The danger of special interests using trade policy to protect particular industries is especially severe in a downturn. As for financial policies, measures taken to recapitalize commercial banks with public funds have introduced pressures for banks to concentrate lending activity on the domestic market (the so-called home bias in lending practices), at the expense of cross-border lending. In the years leading up to the crisis, a defining feature of global finance in developed countries was the escalating integration of the household sector into capital markets. Excessive credit creation, made possible through the technology of asset securitization, yoked consumer spending to the expansion and profitability of the banking industry, with both serving as engines of economic growth.[17]

While the case for fiscal policy coordination is weak in normal times—because countries normally face very different challenges and priorities— it is called for today, as all countries are facing the same prospect of inadequate global demand. Stimulating aggregate demand through fiscal expansion is in everyone's interest now.[18] *A balance must be struck between national and international mechanisms for improved regulation. In designing and implementing reforms to strengthen financial markets and regulatory regimes, the first line of responsibility lies with regulators, while international cooperation among regulators is an unavoidable imperative.*[19]

5.3. **The Arab oil money and potential for investing them in Africa:**

5.3.1. **Corruption in the Afro-Arab Region**: *attempts to repatriate laundered assets by deposed Arab regimes have "highlighted the inadequacy of current international efforts against corruption". Drawing from Switzerland's new law to maintain its reputation as a haven for legitimate financial assets, the author argues that "the United States and its allies should capitalize on such reputational sensitivities by promoting mutually enforced anticorruption standards and exposing those countries that fail to cooperate." The article cites the 2005 United Nations Con-*

vention against Corruption as a potential framework for such action. Other obstacles to repatriating funds will remain, including removing corrupt regimes and establishing evidence for illicitly obtaining state funds. A World Bank statistic in the piece estimates that while corrupt regimes steal $20–$40 billion from developing countries each year, only $5 billion has been returned over the past 15 years. (Stuart Levey, 2011)

5.3.2. **Size of Sovereign Wealth Funds (SWF) in the Arab Region:** Assets under management of SWFs increased to $4.7 trillion in July 2011, increase of $700 billion from 1 year ago.[9] There was an additional $6.8 trillion held in other sovereign investment vehicles, such as pension reserve funds, development funds and state-owned corporations' funds and $7.7 trillion in other official foreign exchange reserves. Countries with SWFs funded by commodities' exports, primarily oil and gas exports, totalled $2.7 trillion at the end of 2010. Non-commodity SWFs totalled $1.5 trillion. Non-commodity SWFs are typically funded by transfer of assets from official foreign exchange reserves, and in some cases from government budget surpluses and privatisation revenue.

Afro-Arab SWF Country	**US $ Billions**
United Arab Emirates, ADIA	712.4
Saudi Arabia, SAMA	439.1
Kuwait KIA	202.8
Qatar QIA	85
Libya LIA	70
Algeria RRF	56.7
Iran OSF	23
Bahrain MHC	9.1
Oman SGRF	8.2
Saudi Arabia PIF	5.3
Nigeria ECA	0.5

Country	**Forex reserves** (USD Millions)
Saudi Arabia	**456,200**
Libya	**107,300**
Iraq	**45,680**
Nigeria	**43,360**
Egypt	**27,812**
Morocco	**23,638**
Kuwait	**22,420**
Qatar	**22,410**
Tunisia	**7,804**

Asian countries account for the bulk of such funds. An important point to note is the SWF to Foreign Reserve Exchange Ratio which shows the proportion a government has in investments relative to currency reserves.

According to the SWF Institute, most oil producing nations in the gulf have a higher SWF to Foreign Exchange Ratio. The list here is based on IMF data - when available; Otherwise, CIA data are indicated. *For consistency, forward currency swap contracts are not included in this list until they mature, figures that include them may be higher or lower than those listed here.* IMF or other outstanding loans are not shown here, and if accounted for many nations would list lower.

All these resources and more that are FROZEN in the hands of Western banks in the US and Europe could have been invested in Africa.

5.4. **Governments must re-establish fiscal sustainability:**

Recent measures by central banks in the developed nations to purchase private and government debt as a way of unfreezing credit markets have led to a significant expansion of their balance sheets and rapid growth of the monetary base. This has replaced, to a large extent, the accumulation of foreign exchange reserves by other central banks as the main engine of global liquidity. Rising public debt levels and the rampant expansion of central banks' balance sheets will pose considerable challenges to economic stability once the recovery gets under way. The major industrial countries began the crisis with moderate debt-to-GDP ratios. However, the unprecedented amounts spent to bail out financial firms have already substantially inflated those ratios, and governments have taken on contingent liabilities in connection with various financial guarantees, the potential effects of which on government debt are unknown.

Discretionary fiscal stimulus, as well as the operation of automatic stabilizers, will further increase debt ratios, perhaps doubling them in some countries if the downturn turns out to be as severe as is now envisaged. Government commitments will have to be financed, if not through taxation, then through the issuance of debt obligations. As the fiscal implications of such commitments are factored in, interest-rate expectations will be adjusted upward, raising the cost of capital for all borrowers, including those in developing countries.

5.5. **State corporate plans:**

Attempts that have been initiated across The Afro-Arab Region in response to the elements of the **Washington Consensus** that envisaged bringing about a total reversal in the mode of socio-economic management from a centrally planned economy to that of a free-market competitive economy have failed. Nevertheless, so far, entrepreneurial sector participation in national investment has not been as significant as expected due to corruption-driven undefined core business of the state, lack of competent economic management and managed restructuring of the state[20] and political stability. This has resulted in inefficient public services and infrastructure and under capacity for policy development and coordination. Nevertheless, there are lingering questions:

- Does financial management enter Afro-Arab processes as an external ideology, constructing and deploying its concepts in sterile abstraction to local beliefs and values?
- In the struggle over the establishment of rules of engagement, do leading stakeholders equate the articulation of their ideas and agenda with the production of broad-based concepts, norms, and goals, which should govern the direction of development?
- Do participatory governance processes signify change in terms of the transformation of the immediate stuff of stakeholder-specific partisan agenda of co-evolutionary activity - an activity mediated and guided by objective and critical policy analysis and management standards, rules and principles?

5.6. **Democratic regime change and institutions:**

5.6.1. **Institutionalisation of rules:**

The consolidation of democracy involves the institutionalisation of rules for the political game that fully guarantee political participation and political competition. (O'Donnell, G and Schmitter, P., 1986) The approach builds on the observation that democracy requires the permanent construction of an array of countervailing political institutions within both state and society. It also draws directly on formulation of participation and competition as the defining characteristics of regimes, characteristics that are jointly maximised only under *polyarchy,* a real world analogue of the democratic ideal. Thus, political rules and institutions that simultaneously promote participation and competition are distinctively democratic. Elections, which empower ordinary citizens to choose among contestants for top political office, clearly meet its dual standard.

- Impartial and independent electoral bodies are vital to cement good governance.
- The Bill of Rights must be firmly entrenched in the Constitution.
- The Judiciary is said to be the last hope against tyranny. Hence, the judiciary must be independent of the Legislature and Executive, in theory and practice.
- Political parties are vehicles through which democracy is practised. In re-adopting the multi-party pluralist system, protesters have vowed against the one party system and underscored that democracy is best practised where power is not concentrated in the ruling party or under the one-party state. Hence, it is necessary to evolve the political culture required by rules and institutions of democracy in the Afro-Arab world.

5.6.2. **Political rules and institutions:**

Democracy will survive as long as multiparty elections continue to be held in which voters are free to exercise meaningful choices. One should not underestimate the difficulty of democratic consolidation. So far, only a few have satisfied even the most minimal conditions set by the *two turnover test*. In all political regimes, the meaning of incumbent victories is more difficult to interpret than the meaning of historic voter realignments. Where the influence of *big men* continues to loom large over electoral and other political processes, it is rarely clear whether the re-election of an incumbent constitutes the extension of a leader's mandate or the resignation of the electorate to an inevitable dominance. For these reasons, the meaning of Africa's second and third elections will necessarily be murkier than the watershed contests of the early 1990s.

When all is said and done, however, the fact that intense political struggles are being waged is proof positive that the institution of elections is beginning to matter to confront head on **fake elections, greed and corruption, the impact of the Washington Consensus and exporting terror**. The central hypothesis is therefore that

> *The relative strength of political organisations determines the rules of the political game that are installed. Democratisation requires a plural set of political organisations which promote and protect rules of peaceful political participation and competition. Together, democratic institutions (plural organisations plus rules of accountability) ensure control of the state executive.*

All told, it is people, not only the temperamental young and labour, but women, mothers, girls; who had never seen a protest, that were pouring into the streets. Amal Sharaf, a 36-year-old mother, handed out fliers in the days leading up to the first major protests on Jan. 25, when people filled Tahrir Square (Newsweek, 2011) and history changed its course not only in the Middle East but elsewhere where tyranny prevails, especially in Africa.

5.6.3. **International cooperation:**

With so much at stake, there is an urgent need for the international financial community to take a hard look at recent developments, assess the vulnerabilities and risks that are the unintended products of current policy interventions and market changes, and evaluate the likely effects of those interventions and changes on development finance. Most of the available resources to be provided by IMF are likely to be devoted to high-income emerging markets. In this climate, as stated in the G20 meeting in London, low-income countries that are already under strain deserve special attention. A combination of policy and market failures has restricted their participation to occasional project finance deals, largely in extractive industries, and to the short-term loan market, mostly bank loans for trade financing.

That sobering fact should reinforce the importance of broad international agreement to mobilize the necessary resources to achieve the MDGs. After several decades of debt rescheduling through the mechanisms of the Paris Club, the sequence of official debt relief programmes initiated under the HIPC initiative of 1996 and culminating in the launch of the Multilateral Debt Relief Initiative stand out as a remarkable exercise of multilateralism and sound economic sense.

With fewer resources now available in low-income countries to service external debt, it is important to build on them.

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Endnotes

[1] The US insurance giant AIG, an icon of financial sophistication, went from rumour to rescue in 24 hours. Trafficking in that kind of risky arbitrage sent prices down further than it was thought possible, and not just on triple-A rated tranches of subprime securitisations- where triple-A rated commercial mortgage-backed securities fell to record low levels. The market for credit default swaps foundered, and co-movement on other debt instruments spiked dramatically. The interbank markets froze".[1] The real risk is in Europe that might turn out to be a blip if things turn sour for Switzerland's two big banks, UBS and Credit Suisse -- the value of the assets held by those banks is six times the gross domestic product of their home country.

[2] *By end-May 2009, oil prices were down 60% from their peak and non-oil commodity prices, including internationally traded food commodities, were off 35%. Lower food and fuel prices have cushioned the poverty impact of reduced activity to a degree and helped to reduce the pressure on the current accounts of oil-importing developing countries, even as they reduced surpluses among developing oil-exporters by as much as 17% of GDP.*

[3] *These policy measures have not been costless. Fiscal balances in 2009 are expected to deteriorate by about 3% of GDP in high-income countries, and by about 4.4% of GDP in developing countries. Longer term, increased high-income country indebtedness may raise borrowing costs, potentially crowding out developing-country private and public-sector borrowers.*

[4] *Since September 2008, 16 countries have consumed 20% or more of their foreign reserves and the current stock of reserves covers less than 4 months of imports in 18 countries. The challenges of widening current-account deficits and deteriorating fiscal positions are most acute in the Europe and Central Asia region.[4] If, as appears likely, financing is not fully forthcoming for these economies, heavy compression of domestic demand and exchange-rate*

[5] Like auto insurance, the buyer makes regular payments to the seller, which pays a claim if a given event occurs, like a specific company defaults on its debt payments or goes bankrupt. A buyer that has lent the company money, or a business awaiting payment from that company, can use a credit default swap to buy coverage in case the company fails to meet its obligations. You probably do want some capital requirements.

[6] *"The problem is we have no idea how large the [swap] market is, and there's no oversight of it. Would it be so terrible to have these instruments traded through organised exchanges? While there is some talk of doing this, it is not clear whether the marketplace will do it on its own or needs to be prodded by regulators. When things become commoditised they tend to gravitate towards a central trading place, and credit derivatives are becoming commodities. If the government facilitates that [move to exchange-based trading], it is great. Either way, it is likely these instruments will not continue to create the hazards that they have recently, because investors and issuers who were burned will be more careful. Indeed, the business world and financial markets are likely to become considerably more conservative and cautious. I daresay that for the next few years, we are not going to have excesses in the financial markets - the markets are going to repeat the same follies that we have had in the last few years.* Ibid. Wharton 2008

[7] Marx believed that this cycle of growth, collapse, and growth would be punctuated by increasingly severe crises. Moreover, he believed that the long-term consequence of this process was necessarily the enrichment and empowerment of the capitalist class and the impoverishment of the proletariat. He believed that were the proletariat to seize the means of production, they would encourage social relations that would benefit everyone equally, and a system of production less vulnerable to periodic crises. Marx thought that peaceful negotiation of this problem was impracticable, and that a massive, well-organised and violent revolution would in general be required, because the ruling class would not give up power without violence.

[8] including Paul Krugman, a professor at Princeton and prominent *New York Times* columnist, Alan Blinder of Princeton and Larry Summers, a Harvard economist and former treasury secretary,

[9] World industrial production declined by an unprecedented 5% in the fourth quarter of 2008 (or 21% at an annualized rate). Output continued to decline in the first quarter of 2009, reducing the level of industrial production in high-income countries by 17.3% in March 2009, relative to its level a year

before, and in developing countries by 2.3% relative to March 2008.[9] GDP growth in developing countries is projected to slow sharply but remain positive in 2009, moving from 5.9% to 1.2%. Nevertheless, developing countries, as a whole will outperform by a sizeable margin high-income countries, whose aggregate GDP is projected to fall 4.5% in 2009.

[10] Unlike portfolio equity and bond investments, FDI decisions are made with long-term horizons in view. They express the intention to build productive manufacturing facilities, exploit natural resources, or diversify export bases. Thus, FDI flows are less likely to be liquidated or reversed in times of crisis.

[11] Some 700 corporations based in developing countries issued international bonds during the boom years of 2002–07, and almost 3,000 borrowed in the international syndicated bank loan market. Those corporations account for the bulk of outstanding short-term external debt and around three-quarters of the medium-and long-term private debt coming due in 2009.

[12] The US Economic Crisis: 10 Proposals, Dr. Johan Galtung. Posted by czelizer on September 27, 2008 at 11:06am in Policy Issues Related to Peace, Conflict and Development accessed Oct. 2008

[13] Some firms hedged the risks inherent in such trading, even while swimming in the same waters as those that drowned. Goldman Sachs, for instance, is still standing because it had one division that shorted the market for securitized mortgage bonds, specifically to offset the other Goldman Sachs divisions that bought them.

[14] "Threats, deception and manipulation are the underhand negotiating tactics used by rich countries such as in the current round of global trade talks", warns ActionAid in a new report, 'The Doha Deception Round: How the US and EU cheated developing countries'. "Power politics, exclusive meetings, diplomatic arm-twisting, and 'take-it-or-leave-it' ultimatums would have lead to a final trade deal that could have a devastating impact on millions of people worldwide. Hardball tactics are undermining the very goal of the current trade talks which is supposed to have the interests of poverty and development".

[15] The Wall Street Journal, March 30th, 2005

[16] Ibid. World Bank. (2009) Rapid progress on these fronts will make it easier for low-income countries to cope with the crisis. Already under severe strain, low-income countries face increasingly grave economic prospects if the dramatic deterioration in their capital inflows from exports, remittances, and foreign direct investment (FDI) is not reversed in 2010.

[17] *As household ownership of equities and bonds increased, households' wealth and income became more closely linked to capital markets, forging closer linkages between the real economy and financial markets—and increasing the likelihood of political intervention when trouble appears.*

[18] Ibid. World Bank. (2009) but each country will be reluctant to undertake it on the necessary scale because some of the expansionary effects will spill over to other countries, and because any country that acts alone—even the United States—may reasonably fear that increases in government debt will cause investors to lose confidence in its fiscal sustainability and so withdraw financing. Both of these constraints will be lessened by an international commitment to coordinate a fiscal expansion globally.

[19] Ibid. World Bank. (2009) although changes in national regulations have begun to improve transparency and thwart excessive risk taking, today's highly integrated financial markets necessitate close coordination among authorities in order to bolster market confidence and avoid regulatory arbitrage. The international spillovers of the crisis in the financial area presently provide a powerful incentive for harmonization, because concerns over stability temporarily outweigh the urge to seek advantages for the "home team."

[20] privatizing and commercializing activities, state corporate plans and performance management, fiscal sustainability requirements, measures to promote entrepreneurship including enterprise-level support and sound information systems on markets, and technology transfer and adaptation