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EDITORIAL

Hochverrat, sagt ein Bonmot der Staatstreichsprofession, sei eine Frage des Datums. Mutatis Mutandis gilt dies auch für die Ursachen der Schuldenkrise in der Dritten Welt. Was gestern für die "Schwellenländer" Lateinamerikas noch als erfolgreiche, weil angeblich dem westlichen Vorbild folgende, Entwicklungspolitik galt, ist heute der Inbegriff wirtschaftspolitischer Verantwortungslosigkeit, wird aber für morgen bereits wieder zum non plus ultra ökonomischer Weisheit erklärt. Die Rede ist von der exportorientierten Wachstumsstrategie und ihrer Finanzierung um jeden Preis. In der zweiten Hälfte der 70er Jahre durfte das empfohlene Entwicklungskonzept als Milchmädchenrechnung gelten: Geld war billig zu haben und der Export florierte, der Schuldendienst ließ sich bequem aus den Ausfuhrerlösen finanzieren. Als die Tide kippte blieben die Schuldnerländer als die Schuldigen auf der Strecke. Anders und doch verwandt die Geschichte der armen Entwicklungsländer. Ihre Entwicklung finanziert sich aus zwei Quellen: aus den Rohstoffexporten und aus der Entwicklungshilfe.

Als die Krise in den Industriestaaten die Nachfrage und damit den Preis für Rohstoffe verdarb und zugleich die Entwicklungshilfe zu stagnieren begann, blieb als Alternative entweder gleich in Entwicklungsruinen zu hausen oder die Lücke mit Kapitalmarktmitteln zu füllen. Letzteres veränderte die Struktur der Außenverschuldung beträchtlich, die des Schuldendienstes aber enorm. Denn es macht einen Unterschied, ob man für Entwicklungskredite der Geberländer Zinsen zu leisten hat oder den dreifachen Zins für Kapitalmarktkredite.

Ein Bild der afrikanischen Arme-Leute-Verschuldung zeichnet der Aufsatz von Herbert Pönisch. Unstreitig haben Mißwirtschaft und Korruption ihren Teil am Fiasko: Mancher geliehene Dollar berührte gar nicht den Boden des Empfängerlandes sondern wurde von den defraudierenden Eliten und Herrschaftsklassen gleich auf ausländische Privatkonten transferiert. Aber die Vorstellung einer geteilten Schuld paßte nicht ins Konzept des internationalen Privatbankensystems, der westlichen Regierungen und des Weltwährungsfonds: Wenn die Entwicklungsländer die Zeche allein zahlen sollten - und das sollten sie - mußten sie auch die alleinigen Schuldigen sein. Daß dabei nicht die Verantwortlichen in der Dritten Welt, sondern die arme Bevölkerungsmehrheit die volle Wucht der Sanierungspläne und Austerityprogramme zu spüren bekam, störte dabei weniger. Schließlich war das schon immer so.

Die Mechanismen des internationalen Finanzkarussels beschreibt der Artikel von Claudia Dziobek. Immerhin brachten die Umschuldungsvereinbarungen mit den wichtigsten Schuldnerländern Beruhigung für das Privatbankensystem. Dementsprechend verkündeten westliche Zentralbanker und Finanzminister, einem modernen Neville Chamberlain gleich, auch ihr "financial peace in our time". Inzwischen beschleicht aber auch professionelle Optimisten eine Ahnung, daß damit die Schuldenbombe noch nicht entschärft sein könnte. Andre Gunder Frank hat schon Mitte vorigen Jahres auf den diesbezüglich verdächtigen Trend der Rezessionszyklen aufmerksam gemacht. Auf die Rezession der Jahre 1973 - 1975 hat die eskalierende Verschuldung der Dritten Welt - durch die kreditstimulierte Importexpansion der Entwicklungsländer - noch dämpfend gewirkt, hat aber die Rezession 1979 - 1982 - durch den Einbruch bei den Entwicklungsländerexporterlösen und der konsequenten Liquiditätskrise angesichts anziehender Zinssätze - bereits verstärkt. Die nächste, durchaus absehbare, Rezession wird das Schuldenproblem zur Insolvenzkrise eskalieren und, angesichts einer Massierung von Fälligkeiten Mitte der Achtzigerjahre, die Zeitbombe zünden. Daß dann aber auch die Industriestaaten mitgerissen werden können, ergibt sich aus dem dichten Geflecht weltwirtschaftlicher Interaktionen, die gemeinhin als Interdependenz bezeichnet werden, und die Jean-Philippe Platteau in seiner Studie beschreibt.

Klaus Derkowitsch

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Herbert Pönisch

DOES AFRICA'S INDEBTEDNESS MATTER ?

As the other contributor on this topic of the Third World debt has pointed out in her essay the Latin American countries certainly rocked the international financial boat when some of the big debtor countries ran into difficulties servicing their debts. As we all know once the boat started rocking the former all powerful creditor banks realized that they were in the weaker position when some big debtors threatened to default on their debts pushing the banks to the brink of bankruptcy. To paraphrase a now well known insight, "when you owe banks $700 million (like some heavily indebted African country) you have the problem; when you owe banks $70.000 million the banks have the problem".

Does this, however, mean that this smaller amount is less of a problem for the particular country concerned ? Viewing the debt problems from the northern hemisphere one gets a distorted view because our main concern is the stability of the international financial system and not for individual countries; to put it another way we are concerned about the stability of the galley-boat but not about the welfare of some of the less privileged people on board doing the hard work.

This contribution will focus on the poorer crewmembers of our financial boat and how they were affected by the rough times of financial crises.

Section 1 will present their different starting positions, their current comparative strength and their role in the international division of labour. Section 2 will look at their financial position with particular emphasis on their ability to generate income to service their debts. Finally, section 3 will try to give an outlook on the policy options open to these countries.

1. The internal situation of Africa today

Recent months have shown the plight of global development strategies which are drafted in airconditioned conference rooms by globe jetting international bureaucrats discussing the needs of the world's underpriviledged population over lavish lunches: Africas threatening starvation. "The outlines of the nightmare are by now familiar. Ten million people have abandoned their normal homes in search of food and water: 20 countries have been "critically" affected by drought; and 30m lives in all may be in danger".[1)]

1.1. General characteristics of the African region

Looking at the overall figures for 1980 Africa's share of the total world population was about 11 percent whereas their share of the world GNP amounted to only 3.7 percent. This makes Africa the poorest continent, apart from Asia including China, with a per capita income of $760. To put it in more striking contrast the 1980 GNP of the whole of Africa was just as large as Italy's.[2)] It has to be added, however, that the monetization of the economy is not very advanced in Africa and other criticism of such a crude measure can ce added, nevertheless the yardstick of $GNP does give some idea of the magnitudes involved. Furthermore the Sub-Saharan African region[3)] does not only include some of the poorest countries in the world-Chad with a per capita GNP of $80 and Ethiopia with a per capita GNP of $140 in 1981 - but also some oil rich countries like Gabon with a per capita income of $3810 in 1981, comparable to the per capita income of Cyprus. Another oil exporting country-Nigeria-with a population of 80m people (almost a quarter of the total population of the region), produces some 44 percent of the regional output.

Nevertheless there is considerable homogeneity within the region. African economies are mostly small with low average incomes and small populations. Of the 45 countries in the region 24 have populations of fewer than 5m people. African economies are open and foreign trade typically accounts for about a quarter of the GDP. They are specialized economies, most of them agricultural, dependent on the export of two or three primary commodities. The bulk of the population - rarely less than 70 percent-work in agriculture and subsistence-oriented production still accounts for half or more of the total agricultural output. Out of the urban population of about 20 percent modern wage employment absorbs a small proportion of the labour force, often less than 10 percent.[4)]

Furthermore other characteristics in common are: low adult literacy rates and a scarcity of people educated for modern technological progress, the dominance of land-extensive agricultural systems, an extreme ethnic diversity and consequent political fragility. All countries except Liberia and Ethiopia have recently emerged from colonial rule. The climate in most countries-except Lesotho and Swaziland-is tropical and the population is growing faster than in other regions of the world.[4)]

1.2. Important Indicators of Africa's Development

1.2.1. Population Indicators

Turning first to the population development and characteristics in Africa in relation to other regions it is rather surprising that the net population growth rate in the seventies compared with the sixties was on the increase in Africa from 2.4 percent per annum to 2.8 percent per annum, whereas the population growth rate for all developing countries declined somewhat from 2.3 percent per annum to 2.2 percent per annum. The comparable rates for Latin America are 2.5 percent (2.8 percent 1960-1970) and for the Far East and the Pacific, 1.7 percent (2.2 percent 1960-1970); even South Asia maintained its growth rate at 2.4 percent.[5)]

Turning to the population growth in urban centres and the countryside from 1950 to 1980, low income Africa has the highest growth rate of the urban population at 7 percent per annum compared with 2.5 percent per annum for the rural population. The respective values for middle-income Sub-Saharan Africa were 3.1 and 1.1 percent respectively. During this period China showed rates of 2.5 and 1.8 percent and India 3.2 and 1.8 respectively. For the period 1980 to 2000 the World Bank expects the African population growth rates to decline to 5.8/1.5 percent in the low-income African countries and to 2.9/1.7 percent in the middle-income Sub-Saharan African countries.[6)]

The rapid population increase will not only lead to a precarious food supply situation but also require the creation of many more jobs as the labour force is expected to increase by 3 percent or more in some African countries between now and the year 2000. As these countries cannot possibly increase investment with their own resources at a rate to match this growth rate, the need for further borrowing from abroad arises from these projections, in particular for the very poor countries.

Although a gap still exists between health and education in Africa, in other regions there certainly has been progress in this field. In Sub-Saharan Africa life expectancy has increased from 39 years in 1960 to 47 years at the end of the seventies, an increase of 21 percent. As far as education is concerned student enrollment has increased since 1960 at the primary level from 36 to 63 percent, at the secondary level from 3 to 13 percent and at university level from virtually zero to 1 percent. Nevertheless highly trained technicians, professionals and managers remain in short supply.[4)]

1.2.2. Economic Indicators

Having briefly surveyed the worrying population prospects we face a similarly dire situation when we look at the recent development of the supply for basic needs in the African region. Whereas the index of per capita food production (1969-1971=100) increased to 105 by the end of the seventies in all low-income countries and to 107 in all middle-income countries, the amazing feature about Africa is that its per capita food production dropped to 91 resp. 95. Because of the importance of agricultural production in the total output, GDP growth has declined in the Sub-Saharan African low-income countries from 3.7 percent during the sixties to 1.7 percent during the seventies. In the middle-income countries of the region growth has declined from 4.5 to 3.1 percent per annum. In other low-income countries growth has accelerated somewhat during that time and in middle-income countries it has declined somewhat.[4)]

Looking at the structure of production the general picture is what can be expected, i.e. for the whole Sub-Saharan region a decline of the share of agriculture in the GDP from 49 percent in 1960 to 32 percent in 1979, which was matched by increases in the share of industry from 16 to 31 percent and in the services sector from 34 to 37 percent. Curious, however, is the fact that in some countries the share of agriculture has increased markedly, e.g. in Chad from 52 to 70 percent and in Ghana from 41 to 66 percent[4)].

When considering the structure of the distribution of the GDP one notices the following significant shifts between 1960 and 1979: for the low-income countries of the region an increase in the share of public consumption from 11 to 15 percent coupled with a decline in the savings ratio from 9 to 6 percent and a worsening in the "resource balance" from -2 to -9 percent, corresponding to the current account balance. For the middle-income oil importing countries of the region the picture is roughly the same, with the current account sliding from a balance to -4 percent[4)].

As far as inflation development is concerned progress has been made in recent years when the change in consumer prices could be slowed down again to abt. 15 percent in 1984 after having accelerated sharply since 1977. Inflation topped in 1981 reaching 28.2 percent (after an average of 8.6 percent in the years 1967 to 1976). The question of the origin of price rises will be dealt with in the following section on foreign trade[7)].

No reliable figures, however, are published on unemployment rates in Africa but one can assume from the divergent trends of the increasing labour force supply and the slowing down of GDP growth that unemployment has increased or alternatively underemployment has become more widespread.

2. Africa's Foreign Economic Relations

After having surveyed the domestic economic situation in the region without embarking on the search for domestic causes of the present malaise the emphasis is going to be centered on the question as to what extent the domestic deterioration has resulted from external shocks. It is certainly common knowledge to list factors like the two oil price shocks, the inflation in industrial countries, the recession in the developed world, rising interest rates and spreading protectionism but the effects of these factors on the Sub-Saharan African region will be quantified in the following section.

For assessing the future debt service burden it is practical to distinguish between earned income (which will also include gifts) and borrowed resources.

2.1. Earned income

Turning first to the merchandise trade in the years 1976-78 the commodities with the highest share of Sub-Saharan African exports were (in the order of their significance): petroleum (43.5%), Coffee (10.7%), Cocoa (7.1%) and Copper (6%). If one takes the value of the three principal export commodities as a percentage of total exports one obtains the following ratio for the low-income countries of the region-79.6% and for the middle-income oil importers 62.8%. Thus one gets an idea of the concentration on a few commodities which are not only subject to fluctuations in demand in industrial countries (which still buy about 80% of Africa's exports), but also to high tariffs on partially processed commodities[4].

Some examples of this striking discrimination against processed commodities from Africa are: Whereas raw cotton is not subject to tariffs in the EEC, Japan and to a low percentage in the USA, the rates levied on cotton clothes are 13.7% in the EEC, 13.2% in Japan and 8.8% in the USA; Cocoa beans can be sold to Japan and the USA without tariff and to the EEC at 3%, but chocolate is subject to 27% in the EEC, 27.4% in Japan and 6.5% in the USA. Similarly, bauxite is not subject to tariffs in the three markets, but wrought aluminium is levied with 9.7% in the EEC, 11.7% in Japan and 2.9% in the USA. How are the African countries expected to invest in industries processing their export commodities if they face such tariffs in industrial markets[4].

All African countries have not only suffered from protectionism but also from the recession in industrial countries which is clearly reflected in the growth rates of their export volumes: these dropped sharply from 4.8% in 1979 to 1.8% in 1980 and actually shrunk in 1981. Since then they have recovered slowly and reached a new peak of 6.6% in 1984. Imports certainly reflect the difficulties on the export side with a time lag as, for developing countries, it is difficult to sustain import levels when the current income declines and loans are available only at high interest rates.

The trade prices certainly reflect the oil price increases, the inflation in industrial countries and the exchange rate developments, in particular that of the US Dollar. Export prices fell from 1980 onwards reflecting slack demand for African exports and a sharp rise of the US Dollar on the foreign exchange markets. Import prices increased markedly in the late seventies as a result of the inflation in industrial countries and the second oil shock, but since 1980 have declined due to the successfull anti-inflation policies in industrial countries and also due to the rise in the US-Dollar, lowering the Dollar value of imports denominated in other currencies. On the whole, the terms of trade have deteriorated since 1977, with the exception of 1979 and the improvement in 1984.

As a result of these developments the trade balance has deteriorated markedly since 1977 and only last year took a turn for the better with the trade deficit improved to $ 1.8bn. The balance on the account of services and private transfers also deteriorated, largely as a result of the sharply rising interest payments. Interest payments, which were less than $ 3bn in 1977 have been running at about $ 8-9bn every year since 1980. This single item has led to a sharp deterioration of the balance on current account from a deficit of less than $ 7bn in 1977 to twice that amount in 1981. Since then it has receeded somewhat but unchanged interest payments pushed the current account deficit close to the $ 10bn mark in 1984. The net official transfers lead to a constant inflow of about $ 3-5bn every year[7]. The main component of this flow is foreign aid. "The per capita foreign aid has on average been eight times higher in Africa than in India and one-third higher than in Bangladesh, despite the fact that incomes per head are lower in India than in 32 out of the 39 African countries, while Bangladesh comes second only to Chad in the list of the world's poorest countries[8]. Nevertheless, ODA (official development aid) from DAC countries, i.e. the flows which were directed to Africa, have slowly declined since 1980 from $ 10.7bn to $ 10.0bn in 1983, a fact which is deplored by the DAC in view of the crisis in Africa[9].

2.2. Borrowed Resources

When we now turn to the debt creating flows into Africa attention will first focus on the magnitude of the outstanding debt, in particular in comparison to Latin America and the Caribbean.

Then the structure of debt - creating flows will be compared and finally the significance of some debt related indicators will be assessed.

Table: **Comparison of indebtedness (public/publicly guaranteed debt and private non-guaranteed debt) in Sub-Saharan Africa and Latin America and the Caribbean at the end of 1983 in bn US$[10]:**

	Latin America + Caribbean	(in % of ttl)	Africa	(In % of ttl)
Total debt	282.3	(100.0)	58.5	(100.0)
of which:				
public/publ.guaranteed	217.4	(77.0)	55.6	(95.0)
of which				
official multilateral	21.9	(7.7)	12.9	(22.0)
official bilateral	22.6	(8.0)	20.3	(34.6)
financial markets	165.5	(58.6)	20.0	(34.2)
Total debt per capita	814.0		1275.0	

Source: World Debt Tables 1984-85: The World Bank, 1985

The above figures show that although the debt of Latin America and the Caribbean is nearly five times that of Sub-Saharan Africa, the per capita debt is only about two-thirds of Africa's level because of the relatively smaller population.

Another striking feature is the much higher share of financing through the banks in Latin America, whereas in Africa the official flows (multilateral as well as bilateral) make up this share of total borrowing.

Looking at the development of the outstanding debt over time, in Latin America and the Caribbean as well as in Africa the fast growth rates of the second half of the seventies, when the amounts trebled between 1974 and 1979 in both regions have since not been recorded again. In Latin America and the Caribbean the increase showed a marked slowdown in 1982 but growth rates in Africa have steadily declined since 1979. A further sharp decline of net external borrowing for current account financing in the years 1984 to 1986 is forecast for both regions.

When considering some debt indicators, the astonishing result is that the figures for Africa are not much worse than the ones for Latin America and the Caribbean. Putting the total public/publicly guaranteed debt in relation to exports of goods and services, we arrive at 201.0% for Latin America and the Caribbean and at 197.2% for Africa. Alternatively if one puts the same debt aggregate in relation to the GNP, the percentage for Latin America and the Caribbean is 35.1 and 32.1 for Africa. The debt service ratio according to the traditional definition of total debt service in relation to exports of goods and services amounts to 26.1% for Latin America and the Caribbean and to 20.3% for Africa[10].

Comparing the terms of borrowing, Africa does enjoy more favourable terms from official creditors; their interest rate at 5.8% is lower than Latin America's 9.1%. The maturity of 24.3 years for Africa is also more favourable than 17 years for Latin America: Africa also enjoys longer grace periods of 6.1 years compared with Latin America's 4.2 years. Finally, African official borrowing includes a substantially higher grant element of 33.2%, whereas Latin America's grant element amounts to only 6.7%.

Terms from private creditors are slightly more favourable on the interest side for Africa but less so on maturities and grace periods than for Latin America. As compensation for the less favourable terms for Africa it is certainly noteworthy that the proportion of debt at variable interest rates is only a third of the proportion of the Latin American debt[10)].

As the transactions of developing countries with the World Bank are included in the statistics under multilateral official credits one has to add the transactions with the IMF to round off the picture. This also gives an opportunity to look at the stand-by programmes concluded between African countries and the IMF. At the end of 1984 Africa used IMF credit to the amount of SDR 7,121.4m, which is about 165.4% of their joint quota. In comparison, Latin America and the Caribbean used IMF credit to the amount of SDR 11.752.1m, which is about 178.3% of their quota[11)]. Of the 30 countries which had valid stand-by arrangements with the IMF on April 30th, 1984 the African region was represented by 14 countries and out of 5 extended arrangements Malawi was the only African country among them[12)].

One special comment should be devoted to IDA which stepped up its lending to Africa from $0.9bn in 1981 to $ 1.2bn in 1983, thus increasing the share of Sub-Saharan Africa from 27 to 37 percent[13)]. Furthermore the World Bank has recently (end of January 1985) succeeded in setting up a Special Facility for Africa with total available means of $ 1.1bn to be lent on IDA like conditions from July 1985 onwards. The USA has opened its Economic Policy Initiative which includes four African countries for the first year's expenditure[8)].

3. Outlook and Summary

This essay has so far tried to collect the main points so as to be able to assess the future external borrowing requirement of the African region. As far as domestic issues which will affect the need for further borrowing abroad are concerned a lot of analysis has been done by the well informed international organizations, in particular the World Bank. However sound the underlying statistical material and methods of analysis are, there were creeds which were inserted

before work was started, the result of which is then appropriately called "gospel" by the Financial Times correspondent. The original report, as quoted under note 4) in the bibliography to this essay, was sharply criticized from within Africa and was subsequently followed by a progress report on the original, "Agenda for Action", noting "that the developments since 1980 warrent greater concern with the external economic circumstances confronting African countries; in almost all of them, the externally determined foreign exchange situation has become a major constraint"[13)].

This key verdict supports the thesis of this essay which is that external factors have contributed substantially to the plight the African continent is in at the moment. The dire situation most of the region is in today manifests itself to the outside world in the following alarming signals:

i) The population growth is increasing which not only puts a strain on the existing food supply but poses a grave employment problem in the not too distant future.

ii) Food production has not been able to keep up with rapid population growth and has turned out to be still extremely vulnerable to weather conditions.

iii) Foreign trade and the drain on resources from interest payments have had their immediate impact on growth and the welfare of the poorest members of society.

In view of the famine in parts of Africa conclusions like this look rather facile as anybody visiting these aereas can witness. However, the only chance for Africa to raise its voice is by sending drastic reports from the regions concerned which of course arrive too late for preventive action. Whether it is on the level of the popular press or of a more substantial report like this one the message is the same: we cannot turn a blind eye on what happens on the "lower decks of our galley-boat" about which I was writing before. Latin America has managed to make its voice heard because of its hold over our banking system-that is a real threat. Africa can only offer pictures of starving millions-which is only a moral threat.

Whichever the threat, long term goals are useful to keep in mind, but in the short run the most urgent requirements as far as external financial resources are concerned are to:

i) reduce international interest levels which at present only help to transfer resources from south to north,

ii) ensure the flow of adequate financial means on reasonable terms to enable the borrowing country or region to overcome adverse external developments without excessive cutback of their standards of living,

iii) let the developing countries earn their way into the modern industrial age by giving them a chance to learn and to sell their output at fair prices at the end of the day.

However the division of labour on our galley-boat is justified we shall all benefit from healthier and happier crewmembers propelling the boat forward.

Notes:

1) Remark on the composition of the African region:
Wherever available, data on Africa refer to data for the Sub-Saharan African continent comprised of countries listed in the sources and definitions of various World Bank publications. In case data for this particular composition were not available, a different classification for Africa was used.

2) Remark on figures in $:
This refers to the US Dollar

Footnotes:

1) The famine in Africa: As much a man-made as a natural disaster... by: Anatole Kaletsky. In: Financial Times, April 3rd, 1985.

2) The World Bank: 1983 World Bank Atlas

3) Composition of Sub-Saharan Africa: cfy source 10 page xxxiv

4) The World Bank: Accelerated Development in Sub-Saharan Africa. An Agenda for Action, Washington D.C. 1981, various tables used.

5) The World Bank: Annual Report 1984, Washington D.C. 1984.

6) The World Bank: World Development Report 1984, Washington D.C. 1984, various tables used

7) IMF: World Economic Outlook, Occasional paper No. 27, Washington D.C. 1984, various tables used

8) Wanted: a revolution in economic thought. By: Anatole Kaletsky. In: Financial Times, April 15th, 1985.

9) OECD(DAC): Development Cooperation, Paris 1984.

10) The World Bank: World Debt Tables, 1984-85 Edition, Washington D.C., 1984, various tables used.

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