

Differential Impact of the Global Financial Crisis on the Arab and Sub-Saharan Regions and the Prospects for Mutual Protection

Abstract

The purpose of the research project is to analyze the differential impact that the recent global financial crisis had on two regions with distinct natural resource endowments, degrees of integration into the world trade and finance sectors, and different levels of development: The Arab Region and the Sub-Saharan Africa Region. For each region a separate assessment of the impact will be carried out through analysis of a number of economic variables that include financial and monetary, real sector and external indicators. It is hypothesized that Arab and SSA countries can benefit from increased trade and investment because their corresponding economic variables are uncorrelated, which gives scope for geographic diversification that partly shields Arab Region economies from full-blown adverse effects that arise from their high degree of exposure to the global economy. Given the large economic potential of African countries that is expected in the coming year, the potential gain of Arab countries from investment in SSA will be estimated under different scenarios under a mean-variance investment selection criterion.

It is also hypothesized that SSA countries stand to gain from two perspectives. Arab investment will increase the general level of capital formation for countries that have historically been marginalized as investment destinations, which could help boost their aggregate output and enhance their human capital. One of the consequences of the global crisis is the reduced access of African governments to international sources of finance, especially sovereign loans, given the global liquidity crunch and increased risk aversion. By reverting to domestic borrowing, they crowd out their domestic private sector and cause economic contraction at home. Arab investment in SSA serves as a substitute for reduced credit market for the African domestic private sector and helps maintain a higher level of economic activity than would otherwise be the case.

A number of statistical tests and econometric estimations will be used for empirical verification of the hypotheses spelled out in the conceptual two-region model of growth in the presence of global adverse shocks using an efficient (mean-variance space) resource allocation strategy

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