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Post-Crisis opportunities:
Investing in a changing economy

AN OECD DEVELOPMENT CENTRE'S PERSPECTIVE

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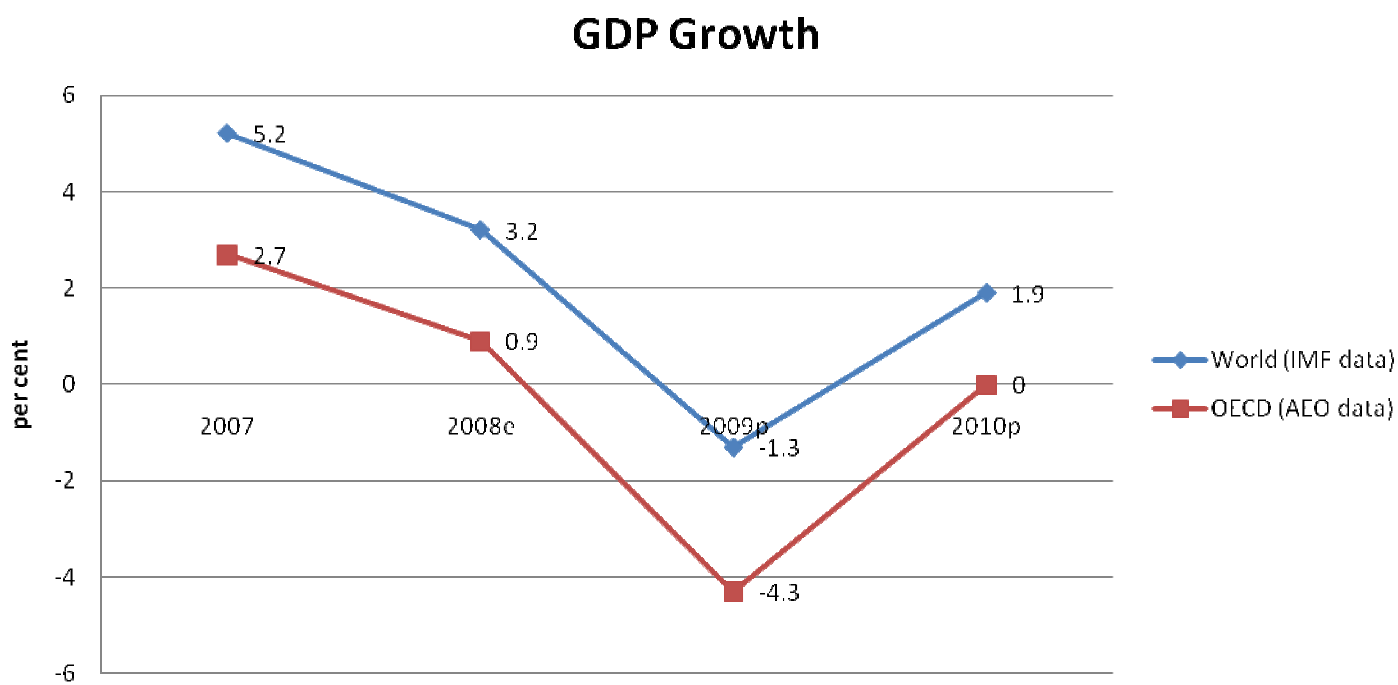
Post-Crisis opportunities: Investing in a changing economy

Outline

- Economic Outlooks
- The crisis: channels of contagion
  - ✓ Real economic activities in emerging and developing countries
  - ✓ Net capital flows: FDI, remittances
- Is shifting wealth creating new opportunities?
  - ✓ Trade portfolio diversification
  - ✓ South-South linkages
- Investing in a changing economy
  - ✓ Country profile: Morocco
  - ✓ R&D and Innovation
  - ✓ Green technology
  - ✓ Investing in Africa

Economic Outlook: Global GDP

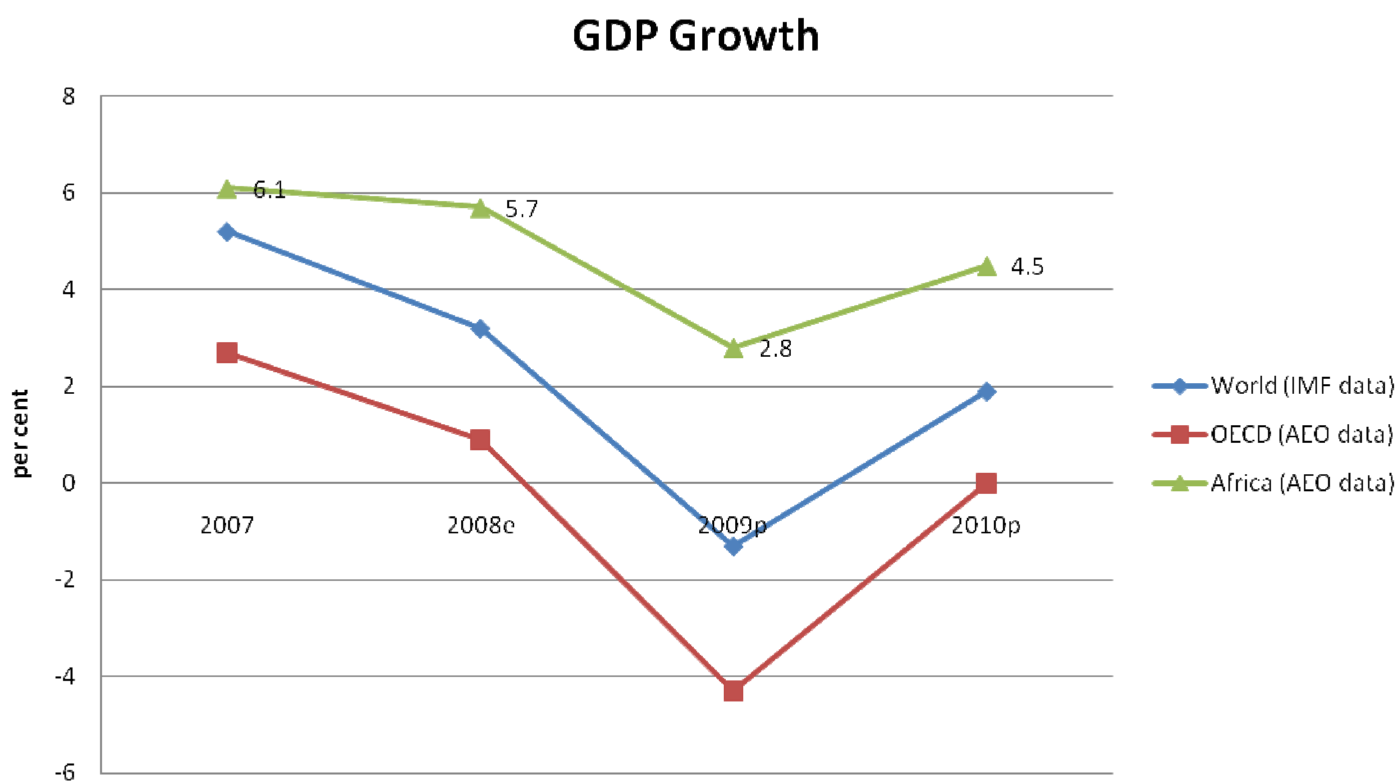
GDP growth in OECD countries to contract by **4.5% in 2009**



(Source: *African Economic Outlook 2009*; OECD Development Centre/African Development Bank)

Economic Outlook: African GDP

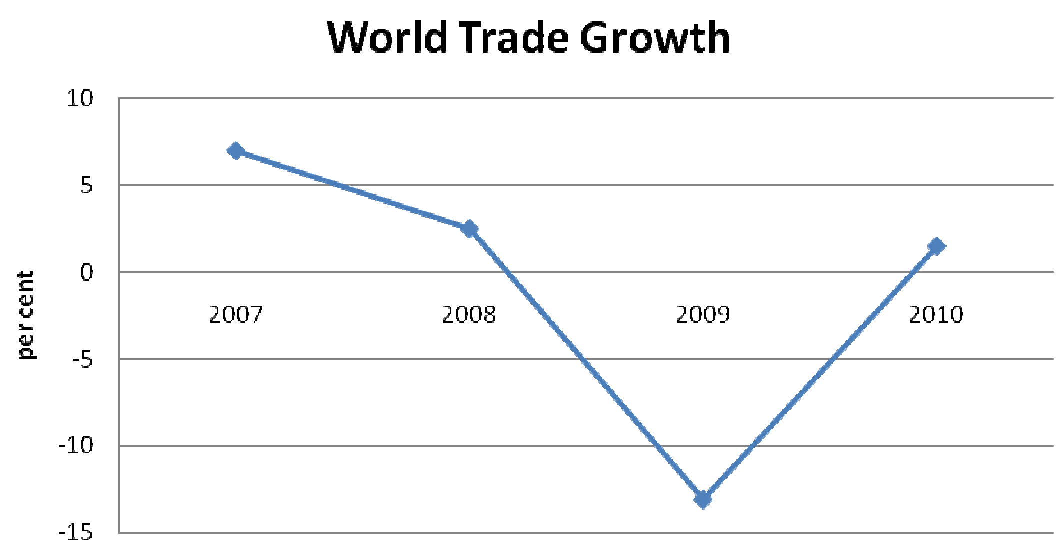
GDP growth in Africa to be **2.8% in 2009**, less than half of last year's level



(Source: *African Economic Outlook 2009*; OECD Development Centre/African Development Bank)

Outlook: Global Trade and Investment

World trade to contract by **13.1% in 2009**, first decline in world trade in 60 years



→ **Global Foreign Direct Investment (FDI)** decreased by 20% in 2008

(Source: *AEO 2009*)

The crisis: channels of contagion

Expect the unexpected in terms of the channels of contagion

In emerging economies

→ **Singapore**'s economy shrunk at an annualised rate of 17% in 2008

→ **Chinese Taipei**'s economy may contract by 11% in 2009

→ **India** reported a year-on-year trade decline of 15% for October 2008

In low income countries

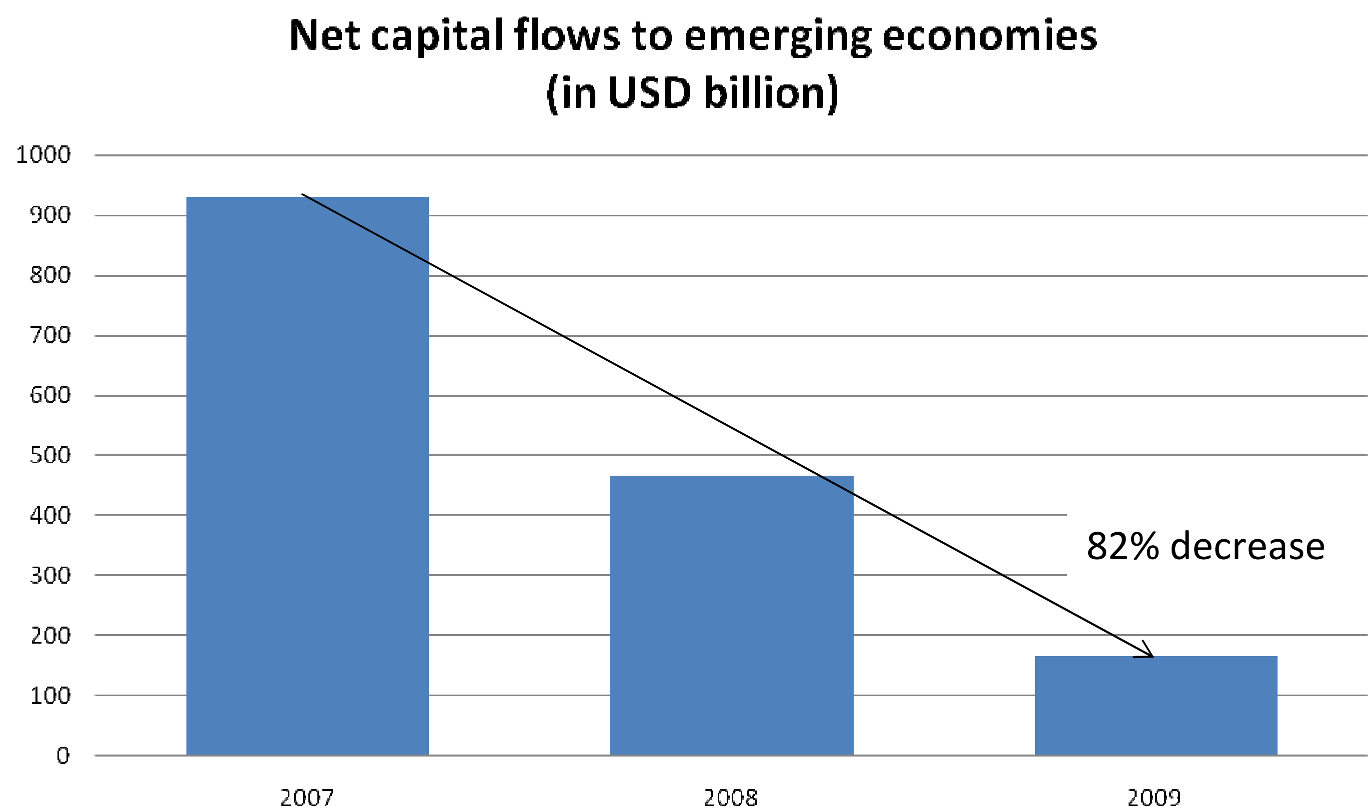
→ **Ethiopia** is vulnerable to a slowdown in international air-traffic (Ethiopian Airlines being one of the country's main earners of foreign exchange)

→ **Cambodia's** textile industry reportedly orders are down 60%

→ **Mozambique** could be adversely affected by the decline of the automobile industry (Alumina being its leading export)

The crisis: channels of contagion

Net capital flows to emerging economies are estimated to decrease by 82% in 2009

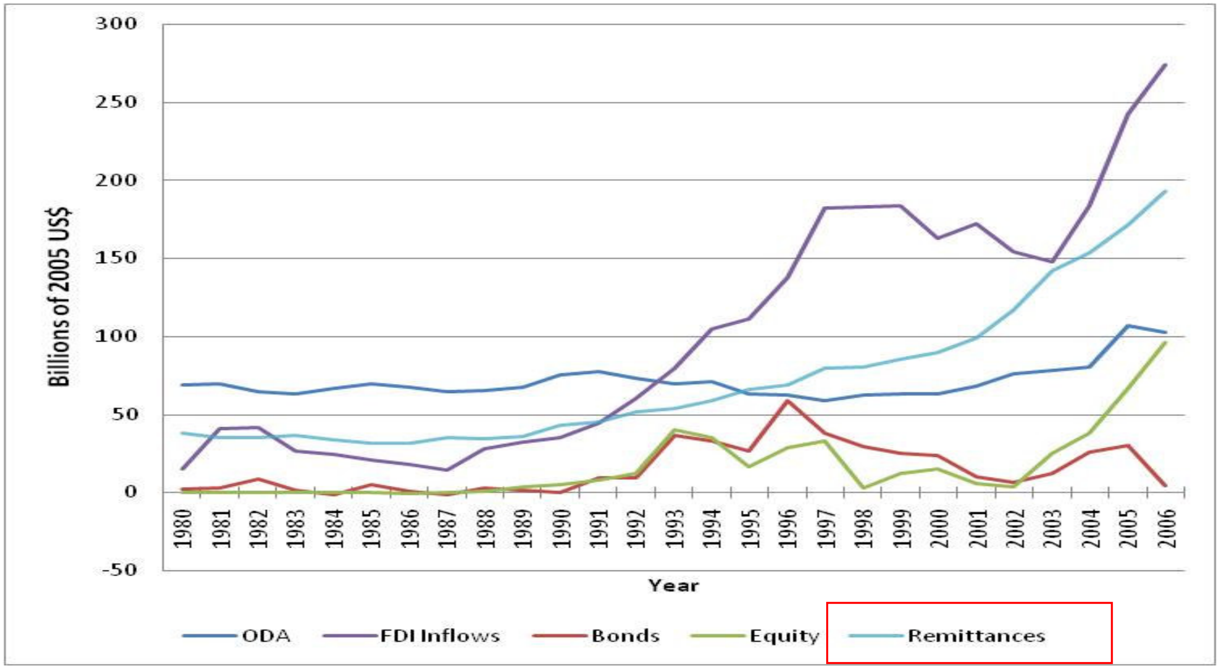


(Source: Insitute of International Finance)

The crisis: channels of contagion

Remittances as a source of foreign exchange reserve likely to decrease

Net Capital Flows to Developing Countries, 1980-2006



Source: Authors, based on World Bank and OECD data

The crisis: channels of contagion

High share of banking sector in foreign ownership likely to pull-out

Share of banking assets held by foreign banks with majority ownership, 2006

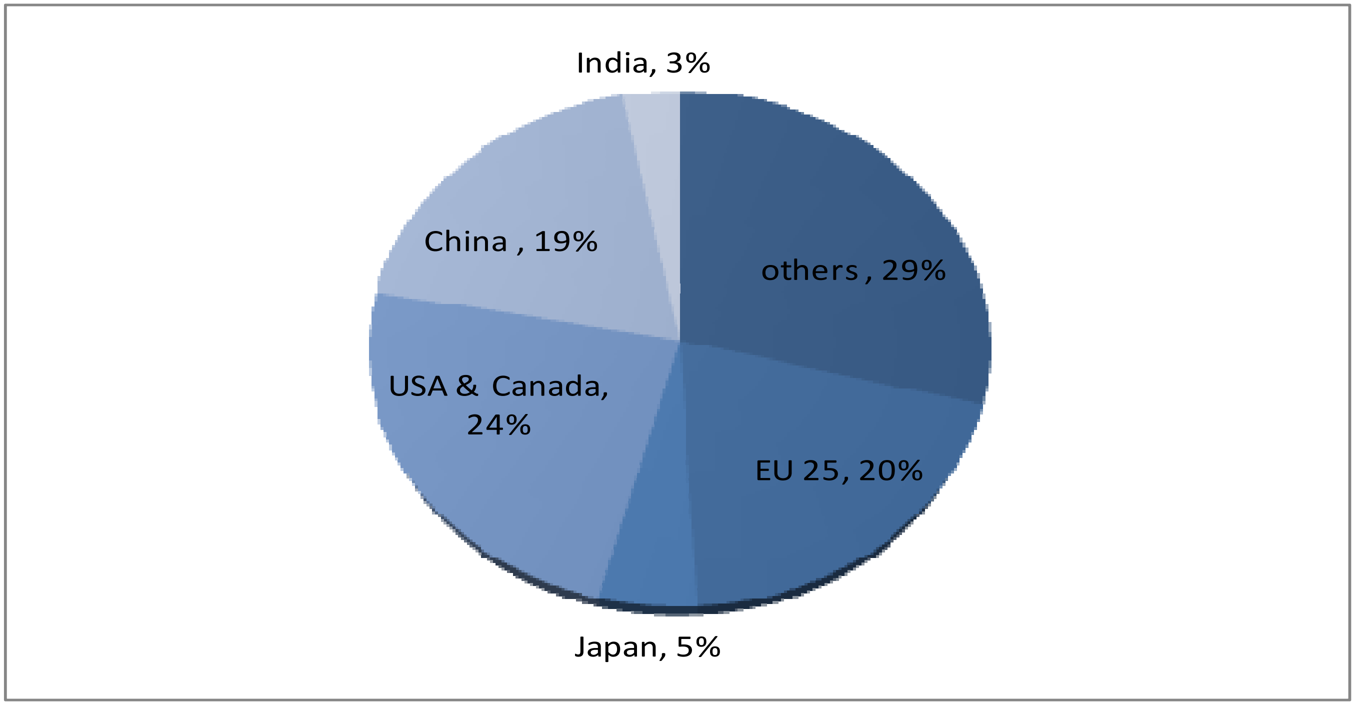
Country	50-70%	Country	70-100%
Rwanda	70	Madagascar	100
Côte d'Ivoire	66	Mozambique	100
Tanzania	66	Peru	95
Ghana	65	Mexico	82
Burkina Faso	65	Uganda	80
Niger	59	El Salvador	78
Mali	57	Botswana	77
Zimbabwe	51		

Modified from World Bank, Global Development Finance (2008)

Shifting wealth and new opportunities?

Trade portfolios are being diversified

Destination of exports in Least Developed Countries, 2006



Source: UNCTAD Least Developed Countries Report

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Shifting wealth and new opportunities?

Can South-South linkages compensate for the economic slowdown in the North?

Sub-Saharan Africa: Real GDP Growth Correlations – 1980-2007

Rest of the World [1]	0.60
European Union	0.32
United States	0.01
Developing Countries [1]	0.54
Asia	0.30
Latin America	0.32

[1] Excluding Sub-Saharan Africa

Source: IMF Regional Economic Outlook: Sub-Saharan Africa April 2008

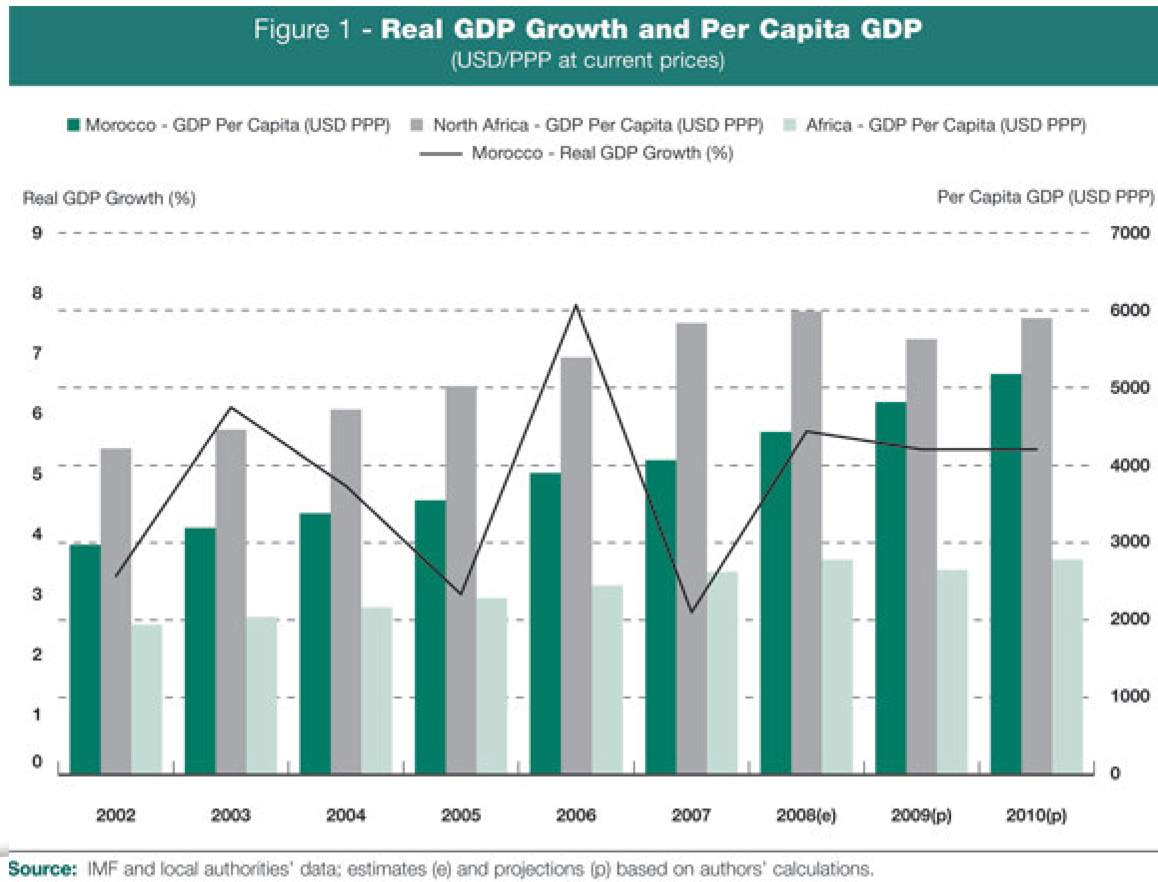
- Correlation of growth rates in SSA with growth rates in Latin America and Asia is just as high as the correlation with its traditional trading partners in Europe

- Correlation of growth rates in SSA with growth rates in the US amounts to only 0.01

Country profile: Morocco

Morocco's economy has been resilient to the crisis, growing at a rate of **5.7% in 2008**

→ Morocco's growth rate for 2009 and 2010 is projected to decline slightly to 5.4%



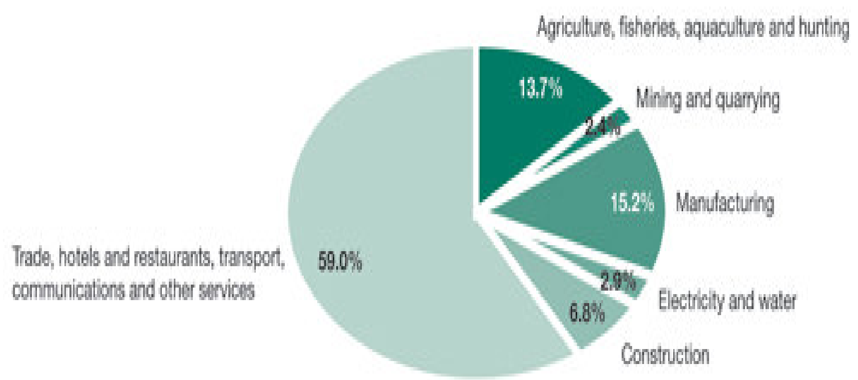
(Source: AEO 2009)

Country profile: Morocco

Increasingly **diversified investment portfolio:** more resilient to exogenous shocks

- Primary sector: 16.1 %
- Secondary sector: 24.9%
- Tertiary sector: 59.0%

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Directorate of Statistics data.

(Source: AEO 2009)

Country profile: Morocco

Policies to promote **private sector development** and generate domestic demand

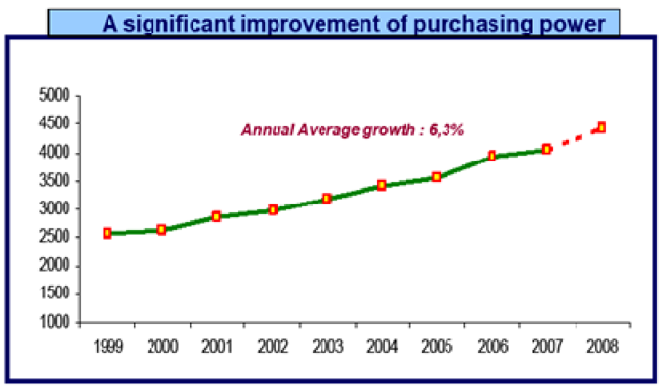
Emergence Plan 2005 → Streamlining business creation and import-export procedures 2007 → Integrated industrial platforms of excellence 2008

(Source: AEO 2009)

- Measures to support **household purchasing power**:
  - ✓ Minimum wage raised in July 2008
  - ✓ Public and private sector wages and salaries revised
  - ✓ Family allowances and minimum old-age pensions readjusted

→ **Domestic demand remains the main growth driver**

GDP per capita (purchasing power parity)



(Source: Ministry of Economy and General Affairs, Morocco)

Country profile: Morocco

Long-term strategies: **Green initiatives**

- Morocco ratified the **Kyoto Protocol**
- Adoption of the **UN Clean Development Mechanism** in 2006
- USD 5 billion **waste treatment programme** to cover the entire country by 2015
- **Policy to combat overfishing and pollution** of the sea-coast in 2008
- Large-scale reform on **integrated management of water resources**: increasing the sustainability of investments in irrigated areas and extending access to safe drinking water supply to cover the entire country
- **Launch of the Green Morocco Plan** in 2009 to boost agriculture: expected to generate 1000-1500 projects and raise agricultural outputs by USD 9 to 13 billion

(Source: AEO 2009)

Investing in a changing economy

Investment in **R&D** is as important for economic growth as investment in tangible assets

- Investments in R&D and innovation are a priority in many stimulus packages:
  - ✓ Finland: 4% of GDP on R&D
  - ✓ Norway: NOK 1.8 billion (USD 280 million) for R&D and innovation
  - ✓ Sweden: SEK 8 billion (USD 1 billion) for university and public R&D
  - ✓ Germany: EUR 900 million for R&D in medium-sized enterprises
  - ✓ Spain: focus on human resources and advanced training, improving the transfer of research results, establishing R&D consortia, providing R&D tax credits
  - ✓ Japan: focus on R&D on stem cells and regenerated cells
  - ✓ Korea: focus on green technology and fusion industries
  - ✓ Canada: CAD 750 million (USD 662 million) for updating research infrastructure

(Source: OECD's strategic response to the financial and economic crisis, March 2009)

Investing in a changing economy

Invest in infrastructure and institutional frameworks that underpin **innovation**

- Government interventions to support R&D and innovation should consider:
  - ✓ Innovation in both **young and innovation-oriented firms** (venture enterprises)
  - ✓ Tangible and intangible infrastructures for **knowledge creation**, diffusion and use
  - ✓ **High-tech component** in physical infrastructure (transportation, buildings)
  - ✓ **High-speed broadband networks**, accompanied by regulatory frameworks which support open access and competition in the market
  - ✓ Financing for well-designed **public-private partnerships**: minimise the risk of capture by 'strong players' and ensure that public funds reach new and small players
  - ✓ Open and competitive procurement to support R&D

(Source: OECD's strategic response to the financial and economic crisis, March 2009)

Investing in a changing economy

Think in **sustainable long-term growth strategies**

- Invest in **green technologies** by putting in place the right incentives:
  - ✓ Public infrastructure: *Korean stimulus package is focused on green technologies, which hopes to create 1 million jobs over the next 4 years*
  - ✓ Energy-efficient systems: *Sweden is proposing loan guarantees directly linked to supporting more environmentally-friendly production systems*
- Remove expensive and environmentally-harmful policies:
  - ✓ Remove subsidies to fossil fuel-based energy production and consumption
  - ✓ Cut trade barriers to climate-friendly goods
  - ✓ Address market failures that prevent improvement of energy efficiency of buildings
  - ✓ Assess carefully polices to support renewables, ensure they are cost-effective
- Improve the **efficiency of limited resources used in agriculture** (energy and water)

(Source: OECD's strategic response to the financial and economic crisis, March 2009)

Investing in a changing economy

African trade and investment

- **Diversify trade portfolio** in terms of partners and sectors
- Invest in **service industries** and **higher value-added sectors**
- Invest in common **infrastructure** within the continent
  - ✓ Integrate innovation and ICT policies into broader strategies
  - ✓ Improve regulatory systems to allow competition and private investment
  - ✓ Evidence suggests that ICT investment in Africa will be less affected by the crisis
- Create more **South-South investments** (however not without risks!)
  - ✓ Liberia and China Union agreement to extract iron ore: USD 2.6 billion
  - ✓ Petrobas (Brazil) to invest USD 2 bil in Nigeria and USD 800 mil in Angola

(Source: AEO 2009)

Thank you

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Outlook: African Trade and Investment

Demand for African exports expected to remain low in 2009

Trade

- Growth of demand for African exports: 7.9% in 2007 → **5% in 2008(e)**
- **Intra-African trade** constitutes **only 9.5%** of total merchandise exports in 2007 (USD 424 billion)
- N. America and EU still the major trading partners: 61% of cumulative share of exports
- African exports to Asia grew by nearly 50% in 2005-2007 (78% fuels and mining products)

→ *Weak continental integration*

(Source: *AEO 2009*)

Outlook: African Trade and Investment

Despite global FDI fall in 2008, flows to Africa have remained resilient

Investment

•FDI inflow growth: 47.2% in 2007 (USD 53 billion) → **16.8% in 2008** (USD 62 billion)

•Mergers and acquisitions: rose by an estimated 157% to USD 26 billion in 2008

•Africa's share of global FDI: 2.9% in 2007 → 4% in 2008

•**Rate of return of FDI: 12.7% in 2007**

•Investment in primary sector remains the main focus of FDI

•Service-sector investment rose in N. Africa but remain negligible in SSA

→ *Attracting FDI into diversified and higher value-added sectors remains difficult*

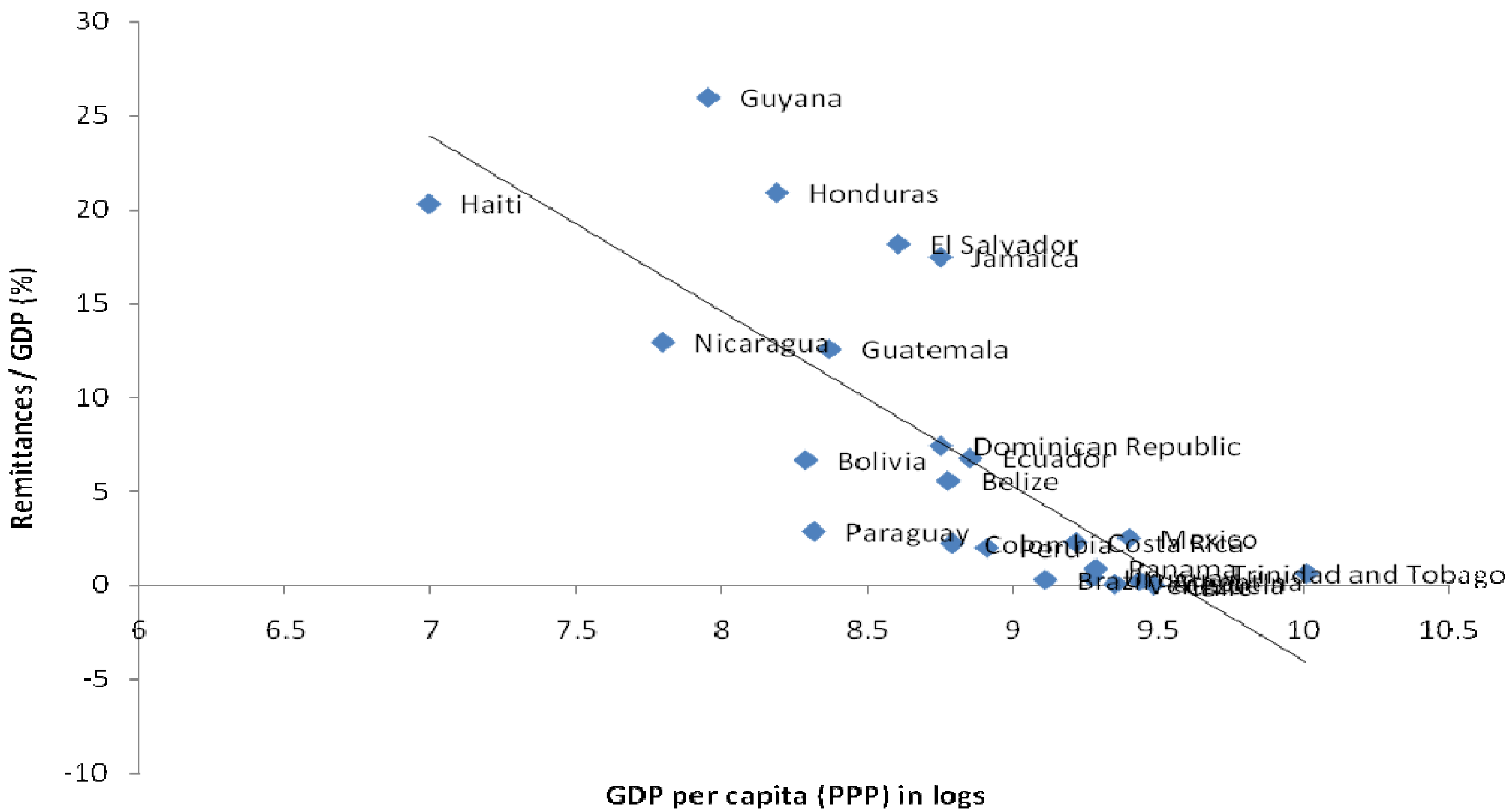
Top African destinations for FDI in 2007:

Nigeria
Egypt
South Africa
Morocco
Libya
Sudan

(Source: AEO 2009)

The crisis: channels of contagion

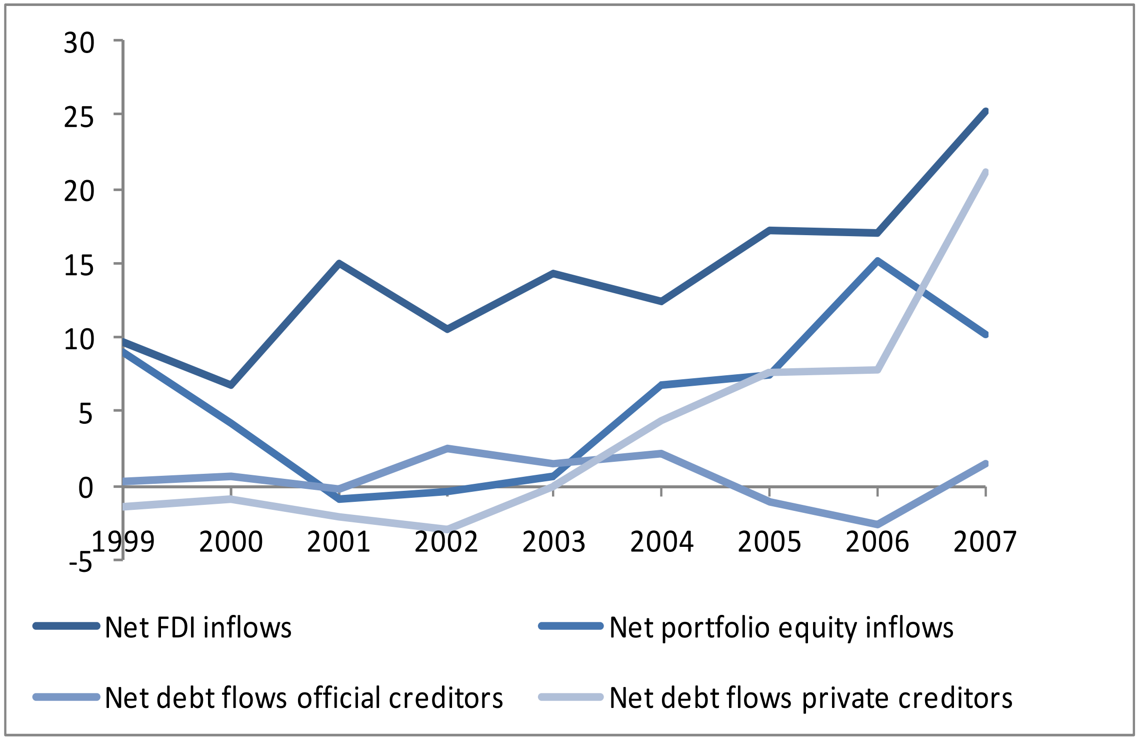
There is correlation between poverty and reliance on remittances



The crisis: channels of contagion

Dependence on FDI as a major form of capital flow

Net flows (in USD billions) to Sub-Saharan Africa,1999-2007



Source: World Bank, Global Development Finance, 2008

• Global FDI inflows fell by about 21 per cent in 2008 and likely to fall further in 2009.

• Resource seeking FDI projects could suffer from the decline in world demand and in prices.

• In times of crisis, due to profit remittances, FDI can be an expensive form of financing.

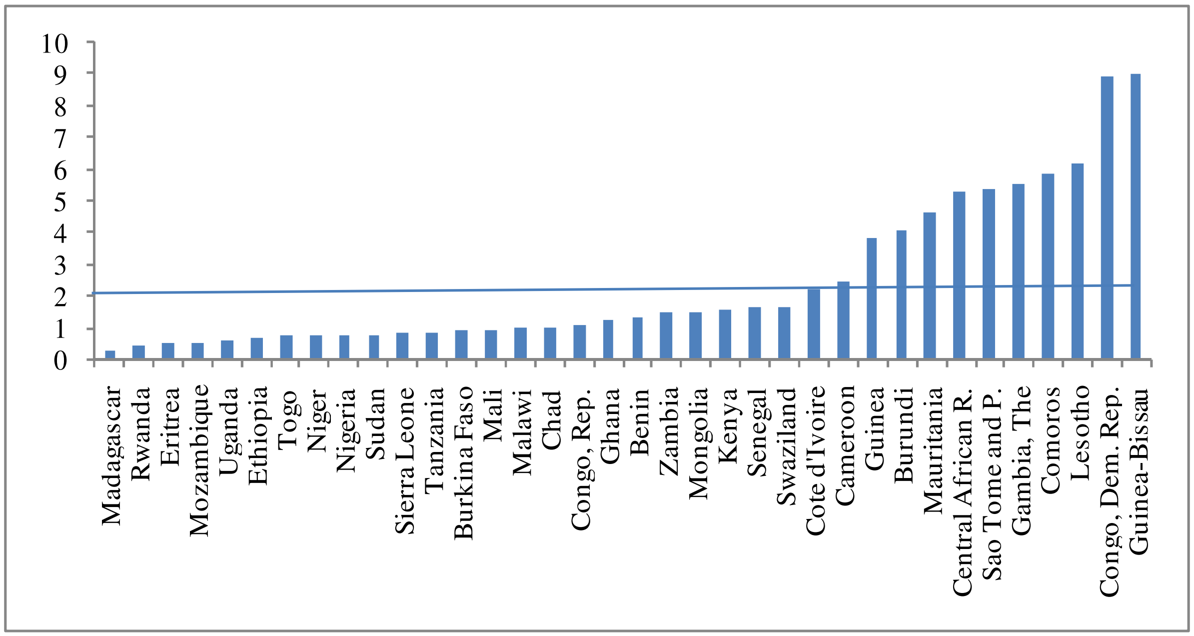
• FDI investors may easily pull out financial resources.

(Source: UNCTAD)

The crisis: channels of contagion

Decreasing capital flows will make it difficult to service debt

Debt service to GDP ratio (%)



Source: World Bank Global Development Finance (2008)

→Due to a combination of:

1) Endogenous debt dynamics:
- USD appreciation
- Drop in export revenues
- Need to increase social spending

2) Debt relief process slow down

3) Closing down of new channels of financing: Sovereign bond issues