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Full Length Research Paper

The European Sovereign Debt and Its Impact on the Economic and Monetary Community of Central African States (CEMAC)

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At first, this study represents a theoretical analysis of the European community sovereign debt crisis and its economic and monetary impacts, on European foreign partners. The European sovereign debt appears to be one of major consequences of global economic downturn. The real estate market collapse subsequent to the subprime crisis, has deeply affected the European economy and the global financial system. Secondly, the weakening of European economic aggregates, as well as the drying of inter-bank liquidity and members States capability on sovereign debt repayment, the declining of social standard in Greece; in Portugal and Spain, sustain fear on productive investments in Europe and towards European foreign partners, such as countries of the Central African Economic and Monetary Community (CEMAC). Decreasing economic performances and the debt crisis in Europe, pose the problem of cyclical functioning. Moreover, the debt crisis and its increasingly state pose a direct threat towards the CEMAC States, which fear negative economic and monetary impacts on their developing community; as the result of maintained closer economic and monetary ties. The monetary agreement, between the European currency Euro and the Central African currency Xaf, established in 1998[1] following the French integration into the European Community; the European Council adoption of a fixed parity between Euro; Xaf and the Comorian francs, established the new fixed parity at:1 Euro equals 655.957 Xaf[2]. Finally, this prospective research topic aims to analyze the impact of the European sovereign debt crisis spreading from Europe and throughout the CEMAC, and jeopardizes the African community, newly acquired partnerships with emerging countries such as Russia, or China.

Keywords: Sovereign Debt; European Community; Central African Community; Xaf currency; Euro currency.

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[1] Stephen j. h. Dearde, CFA currency and the European Monetary Union, Manchester Metropolitan University: 14 th DSA study group on European development policy discussion, June 1999.
[2]The Central African franc currency codes XAF: ISO4217

INTRODUCTION

The insight within monetary ties between the European community (EU) and the Central African community (CAC) show that, these two entities are connected by a principle of a fixed exchange rate, the case which makes the African community worry and fill exposed to any economic crisis and its relevant effects on its younger and growing integrated zone. The financial and economic terms defined the sovereign debt or public debt as a total of debts which represents the engagement of a State. Sovereign debt includes all of the cumulative deficits of the State, to which is added the whole of the debts incurred by the institutions that depend on Local authorities, public institutions[3]…. The public or sovereign debt increases each time a public deficit is funded by borrowings. Public or sovereign debt represents the accumulation of the funds needs of successive periods of these administrations. The situation of the European sovereign debt crisis poses a direct threat and represents a real problem in both EU and CAC, because they have and are long times trading partners, but the effect might be much more dire and severe in the CAC, in particular on their agreements and engagements with others partners, and their ability to honor their engagement as well as to raise funds necessary to ensure the investment required to keep their economic and monetary community functioning.

Second, our research study relies on a theoretical approach; practical understanding and analysis of the impact of the European sovereign debt crisis and its negative effects within the CAC and their foreign partnerships other than the European community. The purpose of this research study, starting from the financial crisis of 2008, is to create the delicate relationship between the financial crises in prospect of the CAC to cope with the constraints of the world market under the threat of European sovereign debt[4]. Some definitions of the financial crisis and sovereign debt are provided in accordance with the existing literature. In these last years the world has experienced what many like to call the worst financial crisis since the great depression. Although this crisis started in early 2007, experts say that that the setting for a crisis began about a decade before and that the signs were there all along. The current crisis has been characterized by a threat of collapse of financial institutions, with governments moving in to provide bailouts to help these institutions survive. Several stocks exchange markets have suffered too, as some have been on the brink of total collapse due to huge losses and rapidly decreasing values of institutions and stocks. But it is not just financial institutions that have suffered, even other sectors of the economy have gone through tough times. The housing industry, for example, has suffered a great deal, both in the United States and in other parts of the World. Home values have dropped at unprecedented rates, leading to foreclosures and evictions. The level of unemployment has been on the rise throughout that period, effectively rendering a large part of the world population poor, and reducing consumer's wealth.

A financial crisis is defined as a variety of situations in which some financial assets suddenly lose a large part of their nominal value. In the 19th and early 20th centuries, many financial crises were associated with the banking panics, and many recessions coincided with these panics. Other situations that are often called financial crises include stock market crashes and the bursting of other financial bubbles, currency crises, and sovereign defaults[5]. Financial crises directly result in a loss of paper wealth but do not necessarily result in changes in the real economy. Many economists have offered theories about how financial crises develop and how they could be prevented. There is no consensus, however, and financial crises continue to occur from time to times. In contrast, the systemic banking crisis or banking panic is the event when banks suffer a sudden rush of withdrawals by depositors; this is called a banking crisis. Since banks lend out most of the cash, they receive in deposits, it is difficult for them to quickly back all deposits if these are suddenly demanded, so a run renders the bank insolvent, causing customers to lose their deposits, to the extent that they are not covered by deposit insurance. More, the much realistic scenario which the CAC fears is an international financial crisis from the EU, due to their insolvability towards foreign investors. The maintained fixed exchange rate between the Euro and Xaf might lead to a sudden devaluation process. Speculative attack on Greece and accumulations of sovereign default payment, several European States members being unable and failing to pay back their sovereign debt; investors anticipate a sudden stop in capital inflows or a sudden increase in capital flight.

[3] Gregory Mankiw, Macroeconomics, De Boeck,2003, P. 484

[4] Ids In Focus Policy Briefing 7.1 Global Financial Crisis, Developing Countries &Policy Responses March 2009 www.Ids.Ac.Uk

[5] Charles P. Kindleberger and Robert Aliber (2005), Manias, Panics, and Crashes: A History of Financial Crises Palgrave Macmillan, 2005

This is a likely situation which occurred between 1992-93, several currencies that formed the European Exchange Rate Mechanism, were forced to devaluate or withdraw from the mechanism. This likely scenario is real a threat to the CAC of CEMAC; knowing that, in the occurrence of event, country partners trading with this particular country or economic zone or community, will be adversely affected and impacted. However investors will also lose the value of their investments due to the fact that the currency they are using will depreciate and hold a much lower value[6].

The deterioration of the internal and external; economic and monetary environments of the EU in recent years, since the 2008 financial crisis, and the sovereign debt crisis prevailing, represent the significance of this research project aiming to analyze the impact of the European Sovereign Debt Crisis and its possible spread from Europe, towards foreign partners of the European community; in our case, into the Economic and Monetary Community of Central African States, through economic ties between supply and demand of goods, and monetary principles of a fixed exchange parity, between Euro and Xaf currencies, in such an event that, negative impacts on ongoing trade relations between the CAC and their emerging partners, such as China will direly suffer.

LITERATURE REVIEW

Experts have suggested many causes for the current crisis and the likely scenario. The weight given to each suggested cause varies with each expert. Some economists limit their outlook strictly to economic issues, while others have a much broader view, extending to social issues as well as political and historical ones. Skeptics of capitalism have also taken the time to claim that this crisis underscores the notion that capitalism was in fact disasters from the word go, and that it was only a matter of time before this would be realized. However, some of the causes put forward are common to most world economies.

Friedman and Schwartz (1963) as representatives of the Monetarist thought believe that the sovereign debt crisis is caused by monetary crisis due to panic that the banking crisis creates within households. This panic situation justifies the expectations of households who fear an economic crisis, which of course is still unavoidable.

Kindleberger C. (1978) and Minsky (1986), however share the same point of view, but according to them it is a sharp drop of assets prices, of major financial institutions and Companies and non-financial Companies that go bankrupt on the international market like Forex. The interruption of foreign exchange transactions; deflation or inflation, led in all cases to the financial crisis that most of the times follow the economic crisis.

Yuefen Li (2010); Olivares-Caminal et al. (2010) discussed on how the financial crises have affected the evolution of instruments and options for restructuring sovereign debt. They rely on the principle avoiding avoidable debt crises, using lessons from recent defaults.

Reinhart M.C. and K. Rogoff (2011), analyze the aftermath of the financial crisis which creates the sovereign debt crisis according to them, financial crises of all colors (banking, currency, inflation, or debt crises) leave deep marks on an economy. Deep economic contractions, both in output and employment, are systematic in the interim and in the aftermath of financial crises.

Andrew K. Rose (2004), have studied the reason why sovereign debtors have to repay their debts, helps to explain the relationship between the subprime crisis and the sovereign debt crisis. According to him, there are a number of reasons why international default may reduce trade in principle. First and most plausibly, trade credit may naturally shrink after default. Alternatively, creditors may wish to punish default with reduced trade benefits, in order to discourage future default, or default by third parties. We estimate the effect of sovereign debt renegotiation on international trade. Sovereigns may fear the trade consequences of default; because creditors deter default, or because trade finance dries up. I use an empirical gravity model of trade and a panel data set covering fifty years, over 150 countries, and other factors that influence bilateral trade. Debt renegotiation is associated with an economically and statistically significant decline in bilateral trade between a debtor and its creditors. The decline in bilateral trade is approximately eight percent a year and persists for around fifteen years.

The sovereign debt crisis may spread at a macroeconomic level through the banking system or commercial partnership ties, from one country to another and for which, the result might be a dire economic depression. In general, the surge in the prices of assets, be it a stock exchange or a real estate assets, tends to coincide with an acceleration

[6] Hyman P. Minsky (1986, 2008), Stabilizing an Unstable Economy.

of credit aggregates growth. These parallel developments can be mutually reinforcing during a period of expansion or contraction. In the case of mortgage credit, credit growth has promoted the rise of real estate prices and vice versa, because it is possible to borrow up to the value of the property.

Jonathan Eaton (1996) developed a model in which sovereign debtors repay debt in order to maintain a reputation for repayment. Repayment gives creditors reason to think that the debtor will suffer adverse consequences if it defaults, so they continue to lend. I compare a situation in which competitive lenders earn a zero profit on each loan with one in which they can make long-term commitments to individual borrowers, so that the zero-profit condition applies only in the long run. In many circumstances a borrower benefits, ex ante, if lenders commit to denying credit to a borrower in default even if at that point a subsequent loan is profitable. Furthermore, a "debt overhang," while possibly altering credit terms, does not cause profitable investment opportunities to go unexploited.

Irving Fischer (1933), in his famous Econometrical journal, agreed that, these processes can cause an excessive debt and a deflationary spiral when the bubble bursts. There is a tendency to ignore or underestimate these risks during periods of expansion. But the risk of spread of financial instability to the real sphere exists. In fact, most of the cyclical fluctuations of high magnitude and, moreover, deeper recessions than the European countries have known during the last two decades have been associated with cycles of asset prices.

Meltzer (2001) found that the growth of the monetary base has had a significant impact on consumption, even taking into account the effect of the interest rate. This indicates that household liquidity can reach a level of saturation.

King (1999), however noted, it is difficult to know by what process a change in monetary base may have an effect on production and prices while interest rates are low. An explanation may be related to changes in other assets risk premiums, as suggested by King, or other mechanism may be at work.

Ben Shalom Bernanke (1995), recently, research on the causes of the Great Depression has shifted from a heavy emphasis on events in the United States to a broader, more comparative approach that examines the interwar experiences of many countries simultaneously. Central banks implement monetary policy by controlling the money supply through several mechanisms. Typically, central banks take action by issuing money to buy bonds (or other assets), which boosts the supply of money and lowers interest rates, or, in the case of contractionary monetary policy, banks sell bonds and takes money out of circulation. Usually policy is not implemented by directly targeting the supply of money. Banks continuously shift the money supply to maintain a fixed interest rate target. Some banks allow the interest rate to fluctuate and focus on targeting inflation rates instead. Central banks generally try to achieve high output without letting loose monetary policy creates large amounts of inflation. Conventional monetary policy can be ineffective in situations such as a liquidity trap. When interest rates and inflation are near zero, the central bank cannot loosen monetary policy through conventional means. Central banks can use unconventional monetary policy such as quantitative easing to help increase output. Instead of buying government bonds, central banks implement quantitative easing by buying other assets such as corporate bonds, stocks, and other securities.

African economists claimed that, the impact of the European sovereign debt crisis in a relatively short period, does not affect the functioning of the CEMAC community. But we must pay a special regard to long term period, where the evolution of the international economy needs the development of a financial policy which is more cautious to limit the impact of negative effects of debt crisis. Some economists gave a theoretical explanation: the increase in public expenditure promotes savings of economic agents (in anticipation of future taxes) and that this effect renders ineffective stimulus policies (principle of Ricardian equivalence).However, this theoretical conclusion does not unanimity among economists, particularly because, other economists refer to the theory of rational expectations, whereas economic agents don’t know well economic laws or some basic data, which makes them (apparently) non-rational. As a result, some suggest that the Ricardian equivalence must be handled carefully and cannot be used systematically as a reason to not use public or sovereign debt.

Vitraulle Mboungou (2012), the spread of the debt crisis from in and outside European borders is the likely scenario that many dread for years, such as international institutions and major powers like the United States. Indeed, economic forecasts published these years on the EU bring worries about consequences of possible economic and monetary contagion towards African States and on the other major economies of the World. A globalization of the crisis would be possible, if the debt crisis in Europe currently located in peripheral European members

States, should last and continue to extend to the hard core economies of the European community; which would necessarily affects the CAC and have significant disturbances in the international financial stability worldwide.

RESEARCH METHODOLOGY

The methodology conceived in our research project is designed to be consistent with the objectives of this research project. The use of documents; analysis methods based on a hypothetical-deductive approach were to build an empirical response from the existing economic; monetary; historical and modern literatures on international trade; international financial system and the Banking system. To achieve our objectives, we adopted a multiple linear regression model, and graphical representation and analysis. Data analysis and synthesis and questions samples handled to national authorities in charge of international trade in the central African and regional traders and entrepreneurs; accredited foreign residents in the central African States members community and regional academic scholars. The documentary collection aimed to collect the maximum of information which set the regulatory of economic; and monetary agreements on international trade between the EU and the CAC; their prudential ratios and newest intakes implementations within their historical and nowadays partnerships as the international economic and monetary environments are gradually modified by newly emerging countries of BRIC. Interviews and field survey; helped collect information and data on the functioning of the international trade casual practices between these two communities and their overall economic and monetary agreements; the imports and exports taxations and implications on the balance of payment; international requirements on traceability and quality appliance on raw materials and manufactured goods; international economic and monetary implications on prices and multiples existing risks. Trading partnerships National and international convertibility of currencies. African views and thoughts on the community prevailing trend in accordance with the European debt and their suggestions to new possibility and challenges. Summits report acquisition from the community financial Ministers summits on futuristic economic and monetary policies capable of preserving the community to collapse.

Indicators used, was adopted also, from many sources such as the European Central bank; Institute of Statistics: Eurostat; the Chinese Institute of Statistics; the CAC central bank; the African International Evaluation; International Monetary Fund and the World bank, aiming to get precise ideas and views of the ongoing partnerships between the European and central African communities and, overall implications in regard to the modifying worldwide economic and financial environments.

We have adopted a macroeconomic model based on the principles of the Mundell-Fleming model from the beginning of the 1960s, Robert Mundell and Marcus Fleming[7] suggested a variant of IS-LM for an open economy that trade with foreign countries. Our model focuses on two major levers available to public authorities, namely budgetary policy and monetary policy, in an open economy, the mobility of capital and the exchange-rate mechanism in a fixed exchange system or in a flexible exchange rates system. This model is therefore an extension of the IS-LM model to open economies and take into account an additional variable, the balance of payments BP, which expresses an overall external balance on trade and capital movements.

OVERVIEW ON THE EUROPEAN COMMUNITY

The European Union (EU) is an economic and monetary community of twenty eight European States, which delegate or transmit the exercise of certain authority (Rights and Liabilities) by treaty to joint bodies. Geographically, it extends over an area of 4,493,712 km^2, and populated by over 507 million inhabitants and it is actually the first World Economic Power. The European Union is governed by the Treaty of Lisbon, since December 1st, 2009, the treaty states the functioning of the European Union, in their current version[8]. Its institutional structure is partly supranational, and partly intergovernmental: the European Parliament is selected by a direct universal suffrage; while the European Council and the Council of Ministers are composed the representatives of States members. The European Commission is selected by the Parliament on a proposal from the European Council. The Court of justice is responsible for ensuring the application of the European Union regulations (Law).

[7] Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates, 1963

[8] The European Union, market power [archive], report of the European Commission

The euro zone or the Economic and Monetary Union (EMU), is a monetary zone, that includes the European Union (EU) countries, which have adopted euro (EURO, €), as the single currency. On the twenty eight members States, eighteen use euro as their currency. These eighteen countries representing nearly 324 million people are part of the Euro Zone, from January 1st, 2014. Created in 1999, by eleven countries, which were: France, Germany, Austria; Belgium; Spain; Finland; Ireland; Italy; Luxembourg; Netherlands; and Portugal joined by Greece in 2001, Slovenia in 2007, Cyprus and Malta in 2008. Others countries like: Slovakia in 2009; Estonia in 2011andLatvia in 2014.

Bank notes and coins circulating, since January 1rst, 2002, were manufactured from January 1rst, 1999 by those eleven founding States. Several criteria needed to join the Euro Zone, were set and nominated as prudential criteria: a public deficit must be below 3% of GDP; a sovereign debt not exceeding 60% of GDP; a controlled inflation rate; the independence of the Central Bank of the joining country and a stable national currency; at least two years after joining the common European currency. The interest rates in the Euro Zone are fixed by the European Central Bank, since December, 2011. With the outbreak of the Greek sovereign debt crisis, the Euro Zone had entered a period of turbulence and instability. After numerous meetings and summits; the European Council; the overall architecture of the Euro Zone has known profound changes. In 2014, six countries have a nomination and recognized membership: Albania; Iceland; Turkey; Macedonia; Montenegro and Serbia. Moldova announced its application for membership which will be submitted in 2015[9].

THE SOVEREIGN DEBT CRISIS IN EUROPEAN STATES MEMBERS

The sovereign debt crisis in the Euro Zone begins with the Greek debt crisis and continues with the Irish crisis, Portuguese and Spanish. In these last two cases, it was a crisis of private debt and the banking system which; by the interventions of States become a sovereign debt crisis. In all cases, this sovereign debt crisis represented inadequacies of the architecture of the European Union, and in particular the lower level, on the monitoring of macroeconomic imbalances between member States[10].

Indeed, what makes it a particularly problematic crisis was that these States including Greece, Portugal and Spain, they all have had inflation rates higher than others States of the North of Europe; and their foreign attractiveness and results are contrasted; lower for these States and higher for the northern countries of Europe. Their competitiveness led to an imbalance of the external balance, which weighs on growth making the repayment of sovereign debts even more difficult. Solutions a deflation, or perhaps more accurately in this case an internal devaluation and the structural reforms needed to remedy what caused inflation and increase growth potential were painful and arouse strong resistance to implement. At an institutional level, the crisis led to profound transformations within the Euro Zone, which; from the European Summit of March 25th and 26th , 2010 Angela Merkel stressed the need and showed " the European Union (EU), determination to rewrite economic rules of the Economic Union Book, even if it requires a long and grueling battle[11]".

The establishment of the European Union and the creation of Euros as common currency correspond to the implementation of budgetary discipline, in accordance with Article 126 statement on the Treaty of the functioning of the European Union. Community texts, therefore want to manage the sovereign debt issue as well as others common issues faced by all member States. The Community approach is a comprehensive (holistic approach), that will integrate all public administrations and prohibits any transfer between public administrations. The four convergence criteria are defined in its Article 121 of the Treaty[12] establishing the European Union Community. Convergence criteria are stated as follows: member States have to keep under control their inflation rates; their public deficits and their sovereign debts; they have to ensure, between their exchange rates and interest rates the convergence stability. They have to implement measures to meet these thresholds: - the public deficit should not exceed 3% of the GDP; - the sovereign debt should exceed 60% of the GDP. Warnings accompany these thresholds in case of public deficit or approximation procedure. These thresholds require a member State to make proposals and keep its thresholds at the required levels, so that the sovereign debt could be sustainable. In the event of failure, legal sanctions could be applied by the European Union Commission of experts.

[9] The World Economic Journal – Jun 24th, 2011
[10] Pisani-Ferry 2011, p. 144
[11] Castle 2010
[12] Member States of the Euro Zone

Unless otherwise noted, countries data were estimated for the European Union, from 2009 to 2010. Records may vary according to the definitions of sovereign debts. Data published were in U.S. dollar, the conversion was made for an exchange average rate of one (1) € Euro equals (1.4) $ U. S. dollars[13].

Eighteen countries member states of the EU are using a common currency which is Euro (€). These countries have accumulated sovereign debts at countrywide scale and their global sovereign debt has reached 5900 billion Euros in 2009. The sovereign debt represents a real threat to the Euro Zone and its States partners. The sovereign debt

TABLE 1: The European member states sovereign debt in 2009

Countries	Debt in % of GDP	Total Debt in billion Euros €
Italy	115, 20	1450
Germany	72,10	1450
France	77,50	1150
Spain	53,20	500
Belgium	97,60	340
Greece	113,40	250
Portugal	76,90	125
Malta	69,40	7
Austria	66,40	150
Netherlands	60,90	290
Cyprus	56,20	9
Finland	44,00	56
Slovakia	37,10	30
Slovenia	31,80	12
Luxembourg	6,60	2
Ireland	64,80	80
Estonia	7,10	1
Total Euro Zone		5900

Source: International Monetary Fund (IMF) – report 2009

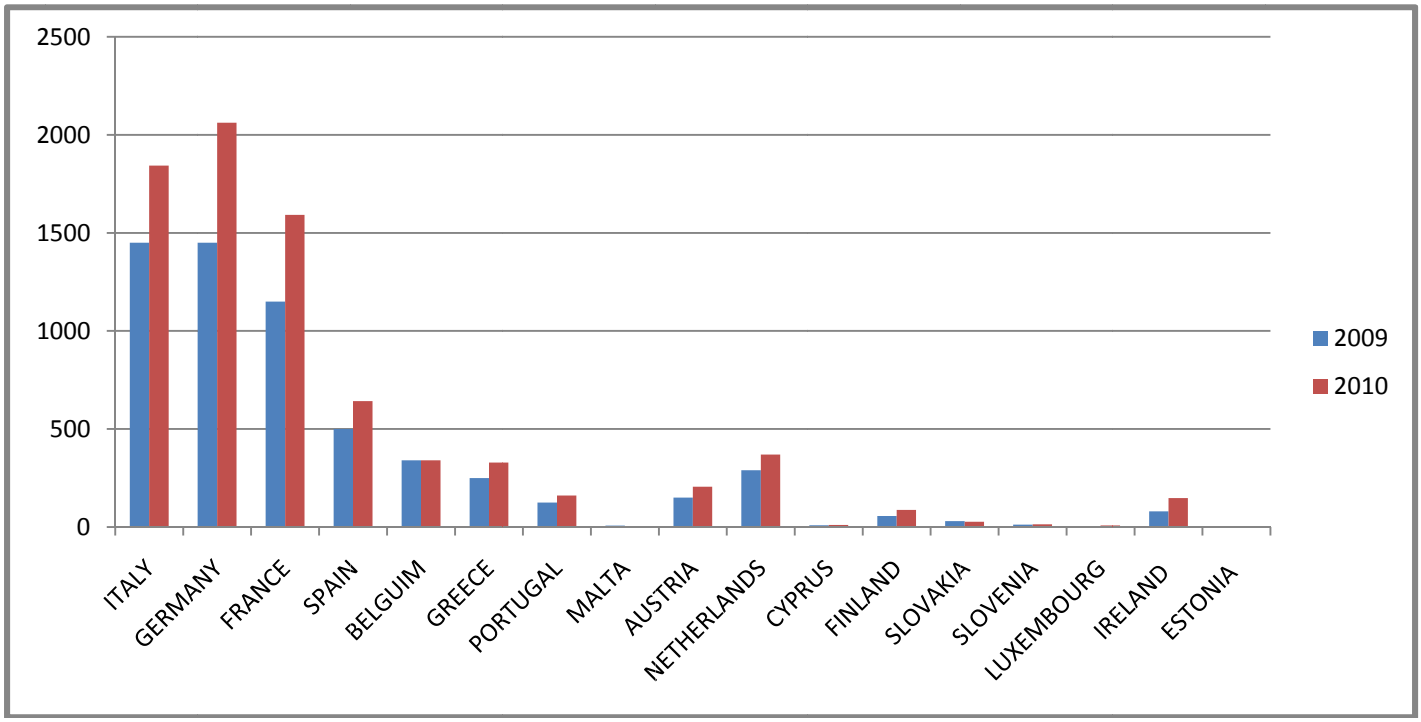
TABLE 2: The European member states sovereign debt in 2010

Countries	Debt in % of GDP	Total Debt in billion Euros €
Italy	118,4	1842.8
Germany	83,2	2061.8
France	82,3	1591.8
Spain	61	641.8
Belgium	96,2	340
Greece	144,9	329.4
Portugal	93,3	161.3
Malta	69	4.3
Austria	71,8	205.6
Netherlands	62,9	369.9
Cyprus	61,5	10.7
Finland	48,3	87.0
Slovakia	41	27
Slovenia	38,8	13.7
Luxembourg	19,1	7.7
Ireland	94,9	148.0
Estonia	6,7	1.0
Totale Euro Zone		7822.4

Source: International Monetary Fund (IMF) - report 2010

[13] The world (table on the Euro Zone) - January 2008

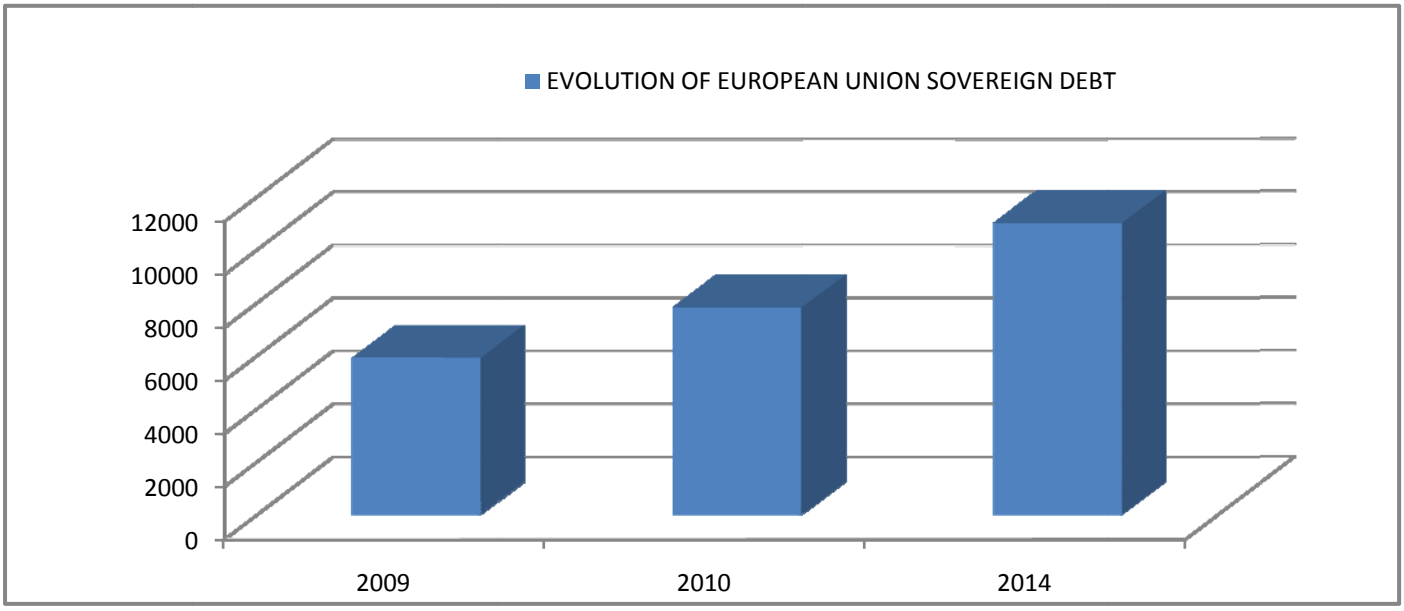
FIGURE 1: Evolution of the European member states sovereign debt from 2009-2010 in billion euros



crisis in the EU has become a real subject of concern in foreign States partners particularly in Economic and Monetary Community of Central Africa (CEMAC), located in the franc zone.

Despite adoptions and upgrading of implementations on prudential policies, the European Union watches its sovereign debt evolve to reach 7822.4 billion Euros in 2010. In June 2014 the European Union has over 11000 billion Euros of sovereign debt, which represents approximately 90% of its nominal GDP.

FIGURE 2: The overall evolution of the European Sovereign Debt from 2009-2014 In Billion Euros



OVERVIEW ON THE CENTRAL AFRICAN COMMUNITY

In a little more than a year; after their independence, the central African countries (Republic of Congo; Gabon; Cameroon; Chad; the Central African Republic and Equatorial Guinea), took the initiative to set up an international Cooperation and mutual assistance between the United customs zone and France. The alliance gained independence in 1960 with a self-governance. But in reality, this customs union aimed to strengthen colonial domination, and the strengthening of relations between members States of Customs Union and countries of Equatorial African zone (UDE). Four years later, in December 1964, heads States meeting in Brazzaville led to the signature of a treaty marking the birth and the creation of an Economic and Customs Union of Central Africa, under the acronym (UDEAC), in replacement of the Customs Unions of Equator (UDE), the Treaty entered in force in 1966[14].

In order to facilitate the proper functioning of the united institution, these countries signed two cooperation agreements on national currencies in which an agreement was intended to harmonize the relationship between these countries and another agreement to coordinate their relations with France. After signing these two agreements, the possibility of common currency was in preparation: the CFA franc of cooperation. Three years after its implementation, the common institution has obtained positives results; due to economic crisis during1980 and 1990; the leaders of the common institution (UDEAC), discussed once more ways to stimulate the process of economic and social integration, and strengthen mutual cooperation within their institutions, so that the economic and financial efficiencies to be improved and become more dynamic. In this context, on March 14th 1994, the N'Djamena meeting in Tchad saw the adoption and implementation of the Treaty on the creation of an Economic and Monetary Community of Central African States (CEMAC). According to several observers African and European, the economic integration made by these States was a good initiative, and it is essential for Africa's economic development.

Originally created in 1939, just before the starting of World War II, and implemented on December 19th 1945, the day that France ratified the Bretton Woods agreements and conducted its first declaration of parity at the International Monetary Fund (IMF); the CFA franc was designated as "the currency of the French African colonies". It was then issued by the French Overseas Central Fund. It came to restore the French monetary authority in these territories, which were isolated from the metropolis, during the Second World War; suffered from scarcity of exchanges and had sometimes created local programs supported and adopted other currencies like the French franc (FF) or currency (for instance the US dollars), or even accepted fanciful by armed troops programs, or accepted the currency of occupants. This was the case for protectorates and French territories in Asia, however, these territories and local financial institutions; public and private had managed their external debt at the end of World War II. The rules on money speculation and exchanges were simple: tickets name and various graphics with a fixed respective value to parity were to circulate in all members States. A CFA franc or a Comorian worth, was therefore always and everywhere equal to a French centimes one (1) French franc (FF), was therefore equal to fifty (50) CFA francs or Comorian francs. The CFA franc had a "free convertibility", making constantly possible exchange for this course between other foreign currencies. This CFA franc "free convertibility" became a double-edged weapon, because, printing the CFA franc was equivalent to create the French franc. The Bank of France was tasked to monitor more closely the monetary policies of these three Central Banks, African and Comorian. This rule goes through the commitment of the Bank of France to supply currency needs these three Central Banks, if they deplete their reserves in fact; it was committed to meet monetary additional needs claimed by its colleagues Central Banks (BEAC; BCEAO; and Comorian Issuing Institution). For efficient control, the Bank of France was centralizing foreign exchange reserves from the French Treasury, which therefore holds a "transaction account", on behalf of each of these three Central Banks. These transaction accounts could be receivable or payable, and they generate movements on interest. For a long time, balances have always been roughly balanced, and the system cost not much currency to France, particularly because the Bank of France intervened at a last resort and it encouraged the indebted countries of any economic zone to negotiate in priority, time to make additional payments to their foreign creditors, before asking the French coverage of monetary umbrella.

In 1958, Xaf known as the CFA franc became the "franc of the French community in Africa", with their independence, a first review of "ideological" nature

[14] Bank of France: Annual reports of the Franc Zone - Overview (Edition - 2012)

through the Franc Zone; according to its critics, the mechanism of Xaf perpetuates relations exceeded between the newly independent countries and their former colonial metropolis. African States were deprived of their real monetary power, which is a cog of a real independence.

This was conviction, which explained the departure of Mali in 1962 and Madagascar in 1973[15]. However, short after, these two countries found themselves, with serious economic difficulties and Mali eventually re-entered the system in 1984. This experience, ultimately served to strengthen the cohesion of member States, which they saw as a monetary freedom which especially could become a "freedom towards bankruptcy".

Economic projections in 2013, on the central African community as sown the following outlook on these six member States which are the Republic of Congo; Cameroun; the Central African Republic; Gabon; Equatorial Guinea and the Tchad Republic; all sharing a common currency: Xaf. Their main exported products are the following: crude Oil; Cocoa; Coffee; Cotton-fiber…; and derivatives Wood-logs; Timbers; sawn wood and derivatives; Aluminum-crude and derivatives; Natural rubber; Banana; Diamonds-gross and pruned; Gold; Tobacco; Petroleum products; Eucalyptus logs; Sugar; Manganese; Uranium; Methanol and other gases; Livestock[16]. The countries have economic and monetary ties with the European Union, whose facing a severe sovereign debt crisis, and questions have been rising to point out the danger of such crisis in Europe and its eventual negative impacts on the CAC in partnership with China.

DISCUSSION ON THE EUROPEAN DEBT IMPACTS ON THE CENTRAL AFRICAN COMMUNITY

The Economic and Monetary Community of Central African States (CEMAC), has lots of ties with the Western and Asian parts of the World; particularly with the European Union. These ties stand from the military; economic; monetary and throughout till the civilian cooperation; they are multiform and plural. Today the closest partnership between the EU and the CEMAC community threats the proper functioning of the CEMAC community, following the sovereign debt crisis, prevailing in Europe.

Macroeconomic Modelling

Based on macroeconomic principles of the IS-LM-BP model of the open market economy, we have adopted Keynesian theoretical approach and by extension the neoclassical economic minds. The model adopted does not rely on a microeconomic analysis, but focus directly in terms of national aggregates whose dependencies are determined empirically. In our model, we had integrated three markets: the goods market – IS; the money or assets market – LM and the capital market – BK^L through the balance of payments BP.

The Market of Goods and Services – IS

$$Y=C+I+G;\ C=(Y-T)-S;\ T=tY;\ S=si\ ;\ I=-ai+I_o\ ;BP=BC^E+BK^L\ .$$

$$BC=X-M\ ;\ BK^L=K^d-K^O,\ \rightarrow BP=(X-M)\ (E;\ Y)+(K^L-K^O)\ \Delta i\ .$$

$$BC^E=(X-M)\ (E;\ Y)\ \rightarrow BC^E=X(\mathrm{E}_{euro}^{xaf})-M\{\mathrm{E}_{eur}^{xaf};Y\}$$

$$Tf(Y)\ ;\ Sf(i);\ \ Cf(Y-T)\ ;\ If(i;a);\ Xf(\mathrm{E}_{euro}^{xaf});\ Mf\{\mathrm{E}_{eur}^{xaf};Y\}.$$

where: *BP*, represents the external balance between: the balance of trade: BC^E which concerning exports *X* and imports *M* of goods and services and the capital account balance: BK^L. The marginal propensity on consumption $0<c<1; c=\frac{\Delta C}{\Delta Y}$. The marginal propensity onsavings $0<s<1;\ s=\frac{\Delta S}{\Delta i}$. The marginal propensity on taxation $0<t<1; t=\frac{\Delta T}{\Delta Y}$.

a: represents the sensitivity of (investors) towards the prevailing interest rate; represents a negative function. I_o represents a set, of all possible investment projects and, i represents the interest rate.

The Keynesian approach of IS market in globalized economy or an open market economy, such as, the Central African economy; the macroeconomic equilibrium on goods and services market is set by the following equation:

$$VA+M=FC+GFFC+X$$

Value added + Imports =Final Consumption + Gross Formation of Fixed Capital + Exports.

Where: $VA=PIB=Y;\ FC=C+I+G;\ GFFC=I=S;\ G=G_o,$ implies that:

$VA+M=CF+FBCF+X \ <=>Y+M=C+I+G+X.$ The net domestic product (NDP) of the whole economy becomes:

$$C=c(Y-T)+C_o-S\ ;S=si\ \rightarrow C=c(Y-T)+\ C_o-si\ ;\ Y=C+I+G$$

[15] The zone franc Gautam Hubert (author) published by L'Harmattan

[16] http://www.cemac.int/statistiques-cemac/vue-densemble-de-la-sous-r%C3%A9gion

$Y=C+I+G$ in an open market economy; becomes:

$Y+M=C+I+G+X$,

therefore:

$Y+M=c(Y-T)+C_o-si-ai+I_0+C_0+G_0+X\rightarrow$

$Y+M=cY-cT-si-ai+I_0+C_0+G_0+X\rightarrow$

$(1-c)Y=-cT-(s+a)i+I_0+C_0+G_0+X-M\rightarrow$

Net Domestic Product=

$$Y=\frac{1}{(1-C)}\text{-}cT\text{-}(s+a)i+I_0+C_0+G_0+X\text{-}M$$

The Money or Assets Market – LM

On money or assets market, the Keynesian macroeconomic equilibrium is set when; the monetary mass supply equals its demands.

$M=M_d$ such as, $M_d=M_1+M_2$

$M=M_o$; $M_df(Y;i)/M_1f(Y)$; $M_2f(i)$; $K^Lf(i_{XAF}-i_{EURO})$; $Ef(\frac{p}{p'})$

$BP=BC^E+BK^L \rightarrow BK^L=(K^d-K^O)\ (i_{XAF}-i_{EURO}) \rightarrow BK^L=(K^d-K^O)\,\Delta i$

$$E_{EURO}^{XAF}=\frac{P_{XAF}^i}{P_{EURO}^i};\ P_{XAF}^i=\frac{\sum_i^n p_{XAF}^i}{N};\ P_{EURO}^i=\frac{\sum_i^n p_{EURO}^i}{N}N=\sum_i^n ni;$$

where: E_{EURO}^{XAF}, represents a fixed exchange rate between Xaf and Euro, quotes on uncertainty. P_{XAF}^i, represents the general index on prices in the Central African Community (CEMAC) and;P_{EURO}^i represents the general index on prices in the EU.

$M=M_o$, represents the monetary mass supply, which is exogenous. $M_d=M_1+M_2$, represents the monetary mass demand; depending on the interest rate *(i)* or the revenue*(Y)*; thus M_d is endogenous.BK^L: represents the capital account balance, which concerns the capital supply K^O and demand K^d.

The European sovereign debt crisis has severe impacts on the CAC; these have been integrated and analyzed accordingly to macroeconomic modelling.

The impact on the fixed parity between Xaf and Euro Currencies

On long-term runs, currencies are theoretically closer to balance parities obtained from structural parameters based on the concept of early profitability on foreign currency deposits. Economists determine their application from different currencies depending on the cost-effectiveness that they anticipate, on those currencies. A fixed exchange rate or a constant exchange system with a referral currency (usually the US dollar or Euro), by decision of the State issuing the concerned currency. The currency exchange rate could then be amended by the only decision of the issuing institution (central bank) of the concerned State. A State might not however decide to adopt any exchange rate of its currency, and then let it free on daily fluctuations on the market so that, the market could determine its exchange rate every day. The fixed exchange parity between Xaf and Euro, doesn't not allow the possibility to the CAC, Central Bank to adjust its interest rates accordingly to the prevailing economic state in the CAC, due to Euro daily fluctuations which have negative effects on its monetary and macroeconomic functioning. These African Central Banks are subordinated to the French Treasury and its monetary and budgetary policies on interest rates. Similarly, the activity of an economic agent depends on its relationship with its banker (overdrafts and other loans). Thus, the four factors of bank liquidity reflected in the balance sheet of these two central banks are in assets: Currency – Refinancing – Treasury; and in liabilities: Money supply in circulation – Reserves – Treasury. Depending on the upwards or downwards fluctuations of Euro and policies implemented by the European central bank; the CAC central bank for protective measures and the preservation of a fixed exchange rate between Euro and Xaf, increases or reduces its reserves (Special Drawing Rights) detained at the French treasury, and reduces or increases the monetary mass or the money supply in circulation in the CAC; regardless to the trending economic state and the interest rate. In accordance with our macroeconomic model, the money or assets market of the CAC is impacted. The Keynesian[17] monetary equilibrium being: $M=M_d$ such as, $M_d=M_1+M_2$ where: the money supply, exogenous equals the money demand endogenous, depending on revenue M_1 and the interest rate M_2.

When the CAC central bank reduces the money supply $M=M_o$ the speculative money demandM_2 increases due to the rise of the interest rate$i$. Long term investments are penalized and productive activities; in favor of short term speculative activities.

$$Y=\frac{1}{(1-C)}\text{-}cT\text{-}(s+a)i+I_0+C_0+G_0+X\text{-}M$$

[17]The Tract on Monetary Reforms

the net domestic product decreases also, due to limited completion in all possible investments projects I_0.The money demand for precautionary motiveM_1 decreases and the assets market loses its balance at last. This imbalance on the capital market will be so severe, in the extent that the raised domestic interest rate will attract foreign speculative capital $K^L f(i_{XAF} - i_{EURO})$ and serve a greater interest on speculative assets in the CAC than in the EU. The capital market $BK^L=(K^d-K^O)\ (i_{XAF} - i_{EURO})$ will also lose its balance; because supply on capital will be superior to the needs of the CAC in capital and their only motive will be relying on speculative opportunities, resulting in an eviction effect on productive savings. As consequences the CAC domestic consumption *C* and public administration expenses *G* will lower and its export Xwill decrease and lose it external competiveness due to the limitation of productive activities. Its import M will increase, following the Xaf appreciation trend compared to foreign currencies other than Euro.

When the CAC central bank increases the exogenous money supply $M=M_o$, the domestic interest rate i decreases, speculative capital $BK^L=(K^d-K^O)(i_{XAF}–i_{EURO})$ capital market faces an increased demand on capital and speculative money demandM_2 lower, in favor of long term investments M_1;economic agents now could easily access loans necessary to realize effective production and all possible investments projects get realize I_0. The net domestic product of the CAC

$$Y=\frac{1}{(1-C)}\text{-}cT\text{-}(s+a)i+I_0+C_0+G_0+X\text{-}M$$

increases, as well as household's consumption *C*; public expenses *G*; export X.Imports M relatively decreases accordingly to the depreciating trend of Xaf compared to other currencies and the revenue increase. But the decreasing European demand, on exported raw materials and other resources from the CAC doesn't allow an economic growth at a normal speed. Many productive sectors in the CAC are declining due to demand limitation and other related European requirements. The presence of the Keynesian liquidity trap worsens the impact of the European debt on the CAC. The predominance of indirect finance; the lack of productive activity expressing fund's needs, put the CAC banking system into the excess of liquidity.

An extension to the classical theory of purchasing power parity on goods and services market-IS, Gustav Cassel (1918) has shown that long-term exchange rate between two currencies should be equal to the general price level report; because the purchasing power of the currency is inversely proportional to the general price level. The theory of purchasing power parity therefore predicted that the exchange rate at uncertainty is:

$$E_{EURO}^{XAF}=\frac{P_{XAF}^{i}}{P_{EURO}^{i}};$$

where: $P_{XAF}^{i}=\frac{\sum_i^n p_{XAF}^{i}}{N};P_{EURO}^{i}=\frac{\sum_i^n p_{EURO}^{i}}{N}N=\sum_i^n ni.$

The money supply $M=M_o$ reduction by CAC central bank in favor of external reserve (Special Drawing Rights) creates the monetary mass shortage which penalizes productive loans (consumption; investments…). The monetary mass shortage leads a sudden failing of the general index on prices within CAC $P_{XAF}^{i}=\frac{\sum_i^n p_{XAF}^{i}}{N}$ which creates Xaf appreciation; compared to other foreign currencies other than Euro. The CAC household's real purchasing power is therefore modified and their exports *X* drop as well as its external competitiveness and imports *M* increases. In contrast, when the CAC central bank increases the money supply $M=M_o$ regardless to the prevailing macroeconomic state tends to increase of the general index on prices within CAC $P_{XAF}^{i}=\frac{\sum_i^n p_{XAF}^{i}}{N}$ and therefore the depreciation of Xaf when compared to any foreign currency. At last, inflationist tensions appear and the same, the CAC household's real purchasing power is therefore modified; except the fact that, this time their *X* external competitiveness is increased and imports *M* lower. Nevertheless, demands on exported goods and resources are limited. More, the neoclassical monetary approach of the exchange rate, based on the structural adjustment mechanism in the balance of payment, Jacob Frenkel Jacob (1978) showed that if the balance of payments in an open economy is a monetary phenomenon; in this case, the exchange rate which is a price also becomes a monetary phenomenon in the balance of payments. The macroeconomic equilibrium could be written such as: $M=PkY \rightarrow \frac{M}{P}=kY$; where *M* is exogenous and represents the money supply; *PkY* represents the money demand; *P* represents the general index on prices; *Y* the net domestic product; *k* the cash ratio, determined rationally; it represents the income proportion that agents wish to retain in cash; . According A.C. Pigou the change in the money supply, all other things being equal, will change the real value of cash balances held by the agents. They

will then consider that the real balance $\frac{M}{P}$ is above the normal level; to maintain the value of their holdings, they will increase their spending. This is known as the wealth effect of Pigou. Any increase of the monetary supply $M=M_o$ by the CAC central bank results in imports M increase and external deficit which weakens the central African economic growth

The impact on the transaction account or the monetary key agreement

The most important clause on the largest monetary cooperation agreement, formerly between France and the CAC relied on the "free convertibility" of Xaf currency. Free convertibility of Xaf as a sub-regional currency is guaranteed by the Transaction account or Operation account, through the French Treasury, account on which the central African community central bank (BEAC), has a drawing unlimited right in the event of depletion of its foreign exchange reserves. In return, for its drawing unlimited right, the central African community Central Bank (BEAC), had and have deposited into its Operation account at the French Treasury at least 65% (of every State member of the central African communication) of the external revenue (foreign reserves). This clause deprives the CAC of necessary financial resources and funds to economic development and honors their foreign engagements with their foreign partners.

More the sovereign debt crisis raging into the European Union poses a direct threat on CEMAC countries to lose their major portion of external assets realized on the World Market; stored at the French Treasury, in the event, that Euro Zone had to lose control over this debt crisis and faces an economic crisis.

More, given the fact that, the CAC monetary system, relies on principles of an indebted economy that is characterized by a situation in which economic agents have low self-financing capacity (50% lower) which forces to resort to bank credit. The preferred method of financing is bank credit; refinancing by the central bank is direct and obligatory. The interest rates are inflexible and administered; the credits are indeed the principal mode of funding productive activities. There's a predominance of indirect finance. Commercial banks have little excess reserves from which they can distribute credits. The central bank is forced to refinance the banks of the second row; otherwise the latter would be unable to balance their balance sheet. The CAC has two scales of indebtedness; corporates are indebted from the banking system and the banking system itself is indebted at the CAC's central bank.

When the CAC central bank for preservative measures on fixed exchange rate: $E_{EURO}^{XAF} = \frac{P_{XAF}^{i}}{P_{EURO}^{i}}$ due to the European deteriorating macroeconomic environment and for protective measure adopts the increase of the money supply: $M=M_o$ circulating in the CAC; in the event that the prevailing interest rates are already low. An expansionist monetary policy creates the Keynesian liquidity which specifies that, the interest rate has a minimum for which all the investors expect an increase, where the demand for money is then infinitely elastic (usually for an interest rate between 0% and 1%). Economic agents will prefer holding money when the interest rate is low; anticipating that it can only go up later. The banking system refuses to fund productive activities and will soon find itself in a financial liquidity excess and resulting in capital flight abroad.

The classical theory on real purchasing power indicates that the money supply should be based and meets the growth level of productive activity. Monetary supply should grow in proportion to the real income, and facilitates economic operations and macroeconomic balances. When increasing the money supply $M=M_o$to preserve the fixity of the exchange rate; the CAC central bank (BEAC), has a negative impact on prices, at the real market of goods and services IS, leading to macroeconomic imbalance. Prices: $P_{XAF}^{i} = \frac{\sum_i^n p_{XAF}^{i}}{N}$ on the market increase to keep the real purchasing power untouched. The only consequence is inflation tensions which appear. The normal macroeconomic functioning is destabilized as well as productive activities and the net domestic product:

$$Y = \frac{1}{(1-C)} \text{-}cT\text{-}(s+a)i + I_0 + C_0 + G_0 + X\text{-}M.$$

The impact on supply and demand of goods and resources of the Central African Community

The EU absorbs most of the CAC exports$X$ on raw materials; agricultural products and other resources contributing to the major part of the central African community external revenue, largely in nominal terms. Actually, the central African community export towards the EU are decreasing mainly because of the European demand limitation subsequent to the sovereign debt prevalence and negative macroeconomic records during these recent years. The CAC export per State member from 1995 to 2010 expresses the reality of the new commercial

deal carried out. This new deal undermines the CAC productive capability limits its external revenue regardless to its real financial needs and macroeconomic objective. As it is, the market of goods and services IS, in accordance with our model give us the following view:

$C=c(Y-T)+C_o-S$;$S=si \rightarrow C=c(Y-T)+ C_o-si$; $Y=C+I+G$

$Y=C+I+G$ in an open market economy; becomes: $Y+M=C+I+G+X$,

therefore:

$Y+M=c(Y-T)+C_o-si-ai+I_0 + C_0 + G_0 + X \rightarrow$

$Y+M=cY-cT-si-ai+I_0 + C_0 + G_0 + X \rightarrow$

$(1-c)Y=-cT-(s+a)i+I_0 + C_0 + G_0 + X-M \rightarrow$

Net Domestic Product=

$$Y= \frac{1}{(1-C)} -cT-(s+a)i + I_0 + C_0 + G_0 + X-M$$

The limitation made on CAC net domestic product *Y* shows a sub-regional macroeconomic recession, affecting consumption *C*; taxation *T*; savings *S*; investments *I*; public expenses *G*; exports *X* and imports *M*. The CAC, being so deeply affected is struggling to find and build new partnership with South-south countries and developing countries of BRIC; Brazil; Russia; India and China. Nevertheless the CAC still exports sufficient quantities of raw material and resources towards industrialized countries, such as the United States, and their exports to Europe, remain constant. Table 3 & figure

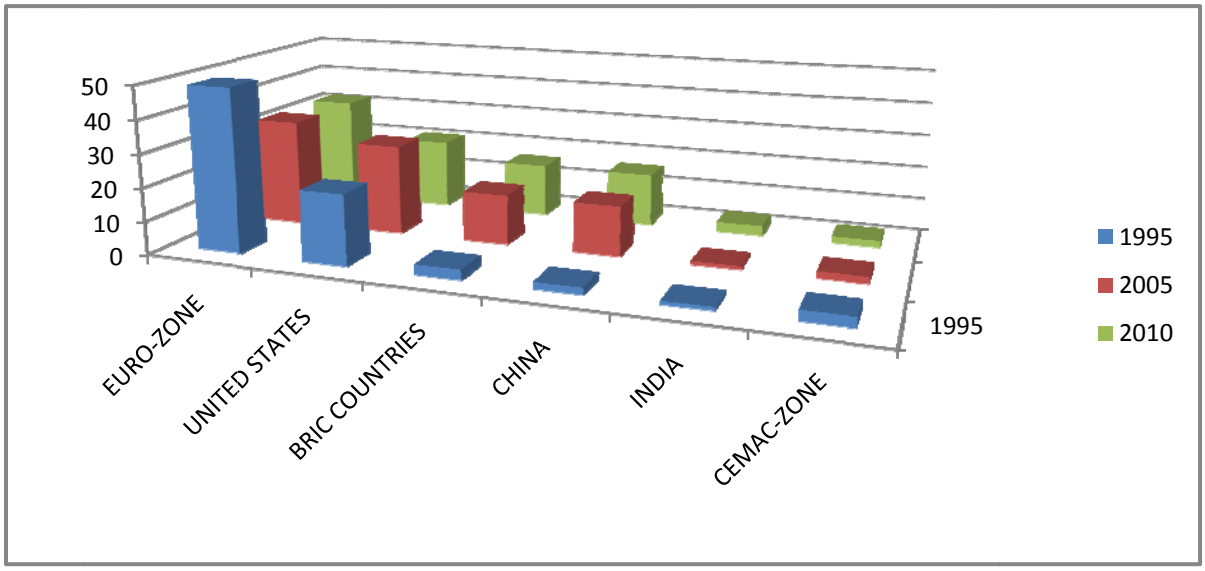
Due to Geopolitical tensions, Oil prices increased in 2011, according to the International Monetary Fund (IMF) Statistics survey, the World Demand growth on petroleum products had increased by 1% and the decreased proportion of the European

TABLE 3: The CEMAC Community trade flux in percentage of total and trade partners from 1995-2010

Countries	1995	2005	2010
Euro-Zone	49	31.5	32.2
United States	20.9	26.9	21.2
BRIC countries	2.1	14.7	16.4
China	2.1	14.7	16.4
India	0.2	0.9	3
CEMAC-Zone	2.4	1.1	1.2

Source: International Monetary Fund (IMF) – Report on trade statistics of African countries

FIGURE 3: The CEMAC community trade flux in percentage oftotal and trade partners from 1995-2010



demand on petroleum products led the fall of Oil prices in 2012 and this continued until 2013. However, high Oil prices had positive effect on CEMAC member States trading and local currencies. Despite the drop in economic activity in the Euro-Zone triggered by a mechanical effect, prices remained at a high level, thus limiting negative impacts generated by the Euro-Zone sovereign debt crisis upon the CEMAC community. Changes on raw materials market and generally on trade related to a case of overall global demand remained unchanged in the short term. However, in a long term run, the economic and monetary community of Central Africa (CEMAC) could not escape negative impacts of the European sovereign debt crisis on their economy and monetary sectors; threatening their financial sustainability to honor their engagements towards others foreign partners such as BRIC countries[18].

TABLE 4: CEMAC community major raw materials prices fluctuations from 2008-2012

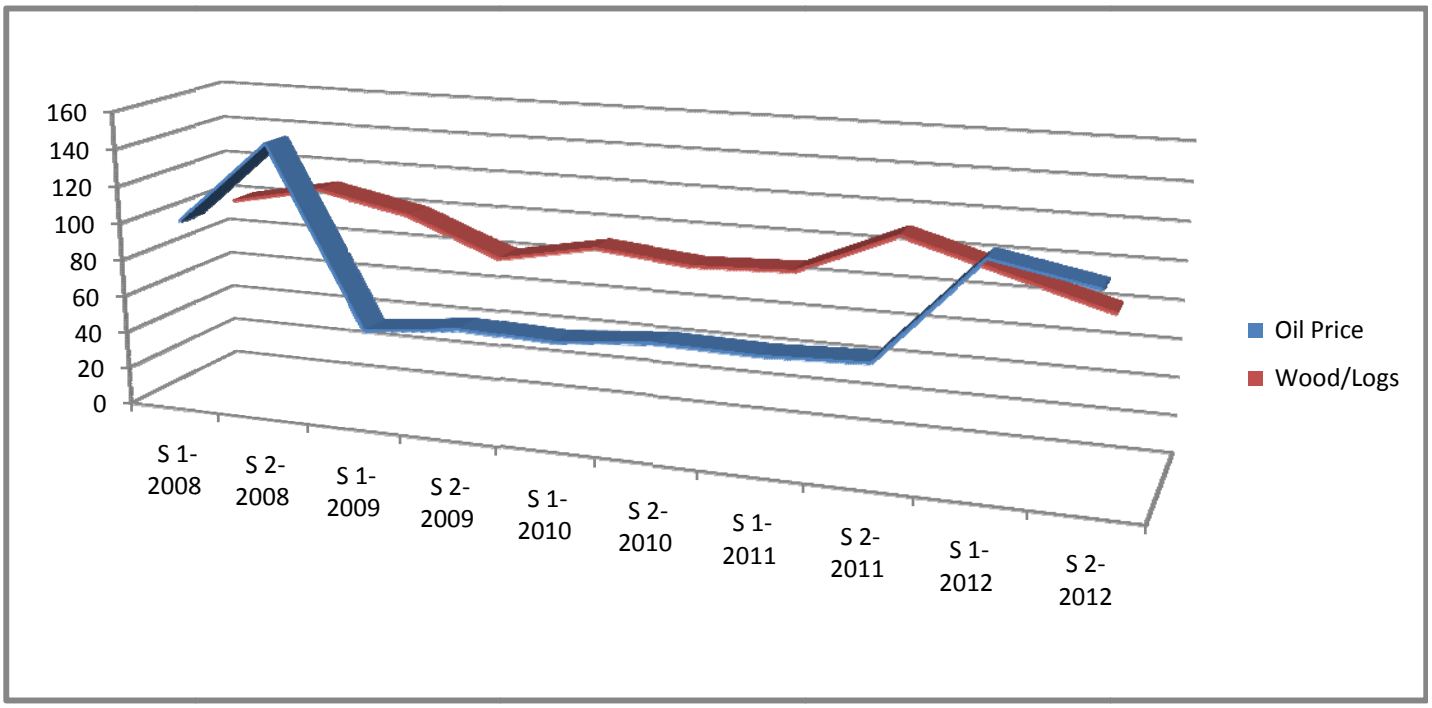
Periods	Oil Price	Wood/logs
Semester1-2008	100	100
Semester2-2008	145	110
Semester1-2009	49	100
Semester2-2009	55	80
Semester1-2010	53	90
Semester2-2010	58	85
Semester1-2011	57	87
Semester2-2011	59	110
Semester1-2012	115	95
Semester2-2012	105	80

Source: International Monetary Fund (IMF) –report on raw materials markets statistics

The impact on Central African Community Official Development Assistance

The Official Development Assistance[19] (ODA) means, all financial aid, provided within the state budget, and transferred to developing countries. The ODA was born during decolonization in order to preserve the influence of the former colonial powers in the geopolitical context of the Cold War. Described as "investment for the future" for rich countries it gave them opportunities to open new markets by reducing poverty and promoting sustainable development, and "pursuit of foreign policy" of the great powers, highlighting their generous picture.

FIGURE 4: CEMAC community major raw materials prices fluctuations from 2008-2012



[18] http://www.itto.int/fr/annual_review/
[19] Sylvie Brunel 2004. Africa: a continent in reserve development, pp. 75

The goal was a rebalancing of the respective levels of development. In theory, these financial flows were directed towards the development of practical and sustainable projects, critical infrastructure, actions against hunger, health, education, etc. During the 1970s, the energy (Oil) shock had plagued many States member of the CAC and the cost for ODA was high. The data from that period shows that France had spent 0.7% of its Gross Domestic Product (GDP) the same period. The increasingly deteriorating economic state of several European States members during the first productive semester of 2014; France; Italy and the United Kingdom have reduced their budget on ODA. According to the European Organization of Cooperation and Development (OCDE) European countries have dominated the World market of ODA and for the first time the European have fell and have been down ranked for the first time; their budget has fell by 2.7% in 2011. Economic decline in most of the European countries affected by the sovereign debt crisis and States members such as Greece (-39.39%); Spain (-32.75%) reduced their Official Developing Assistance towards African continent; these facts are particularly evident. The French ODA decreased also, by 5.6% in 2011. The ODA is not only important but very crucial to the CAC States members, because their limited domestic revenue has been for decades included into their annual functional public budget and their own production doesn't cover Countrywide's financial economic and social needs.

The sudden decrease in ODA subsequent to the European sovereign debt has a catastrophic impact in the CAC.

In accordance with our macroeconomic model, the ODA decrease has a direct impact on the CAC net domestic *Net Domestic Product:*

$$Y = \frac{1}{(1-C)} \text{-}cT\text{-}(s+a)i + I_0 + C_0 + G_0 + X\text{-}M$$

the public expenses G_0 which depends entirely on the public budget; depending itself from the ODA,

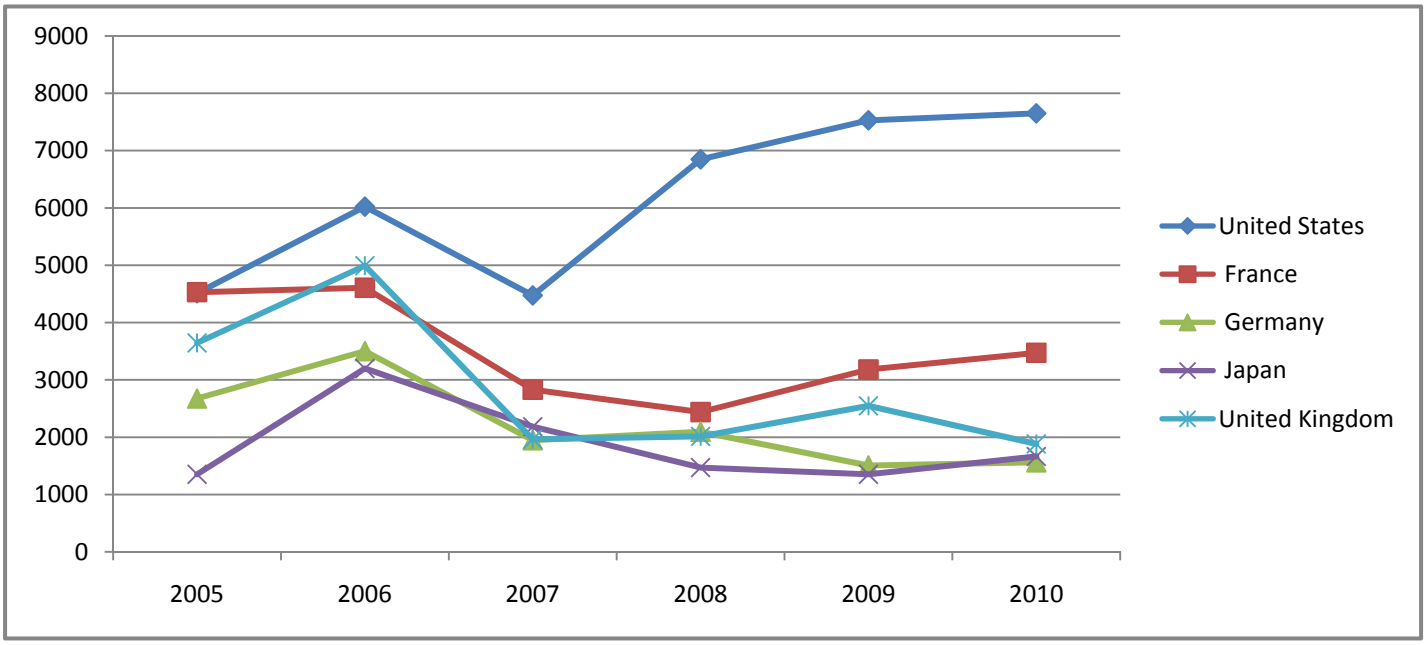
TABLE 5: Various types of Official Development Assistance (ODA) provided to the CEMAC community from 2005-2010

Countries	2005	2006	2007	2008	2009	2010
United States	4512	6024	4473	6848	7529	7651
France	4531	4608	2828	2437	3180	3472
Germany	2674	3502	1947	2095	1505	1561
Japan	1352	3199	2183	1470	1352	1664
United Kingdom	3645	4993	1964	2013	2546	1882

Source: International Monetary Fund (IMF)

has declined and, the public expenses social goals such as education and public health coverture for poor households with low incomes have failed apart.

FIGURE 5: Various types of Official Development Assistance (ODA) provided to the CEMAC community from 2005-2010



The domestic revenue on which depends productive activities for the purpose of final consumption *FC=C+I+G* is weakening and the threat of economic recession is seen as the likely scenario. ODA limitation and shortage make the CAC vulnerable to epidemic outbreak and other social crisis.

THE PARTNERSHIP BETWEEN THE CENTRAL AFRICAN COMMUNITY AND EMERGING PARTNERS: THE CHINESE DIRECT INVESTMENTS

The Chinese offensive in Africa has a positive note from the African despites criticism made upon its manufactured products and items; profound changes had happened and today the Chinese partnerships at in international and diplomatic level are seen as a potential solution towards a State partner, facing divers' issues at domestic or international levels. Actually, China has improved its investment offers towards the CAC States members. For the period starting from 1992 to 2010, the overall Africa has benefited by 29% of its total foreign direct investments on the same period; thus ranking second after Central Asia: Russia 47%. This highlights the strategic role of African continent in security energy supply policy.

Chinese investments in Africa are closely linked to commercial assistance and economic development, but it is judicial to note that Chinese investments on infrastructures remain the most important and the most beneficial towards the African people, because this sector directly contributes and facilitates local activities which in turn participate to economic growth. So far, more than thirty five African countries are now engaged in partnership with China for long term infrastructures building, especially in CAC member States. However the Chinese direct investments widely differ from one State member to another as well as, from different African geographic zones.

The main preoccupation of the CAC remains at an international level, which is mainly reflected in governmental actions and prudential policy and

TABLE 6: The Chinese Direct Investments in the CEMAC Community from 2003-2010

Countries	2003	2004	2005	2006	2007	2008	2009	2010
Cameroon	5.73	6.98	7.78	16.46	18.51	20.34	25.05	59.61
Central African Republic	-	-	2.00	3.98	3.98	3.98	16.77	46.54
Chad Republic	-	-	2.71	12.78	13.53	25.36	76.71	46.54
Congo-Brazzaville	-	5.65	13.32	62.90	65.40	75.42	115.17	135.88
Equatorial Guinea	8.64	10.21	16.56	30.44	44.63	40.62	61.50	86.25
Gabon	24.05	31.27	35.36	51.28	55.59	88.14	100.05	125.35

Source: China Foreign Direct Investments - Annual Bulletin 2010

FIGURE 6: The Chinese Direct Investments in the CEMAC Community from 2003-2010

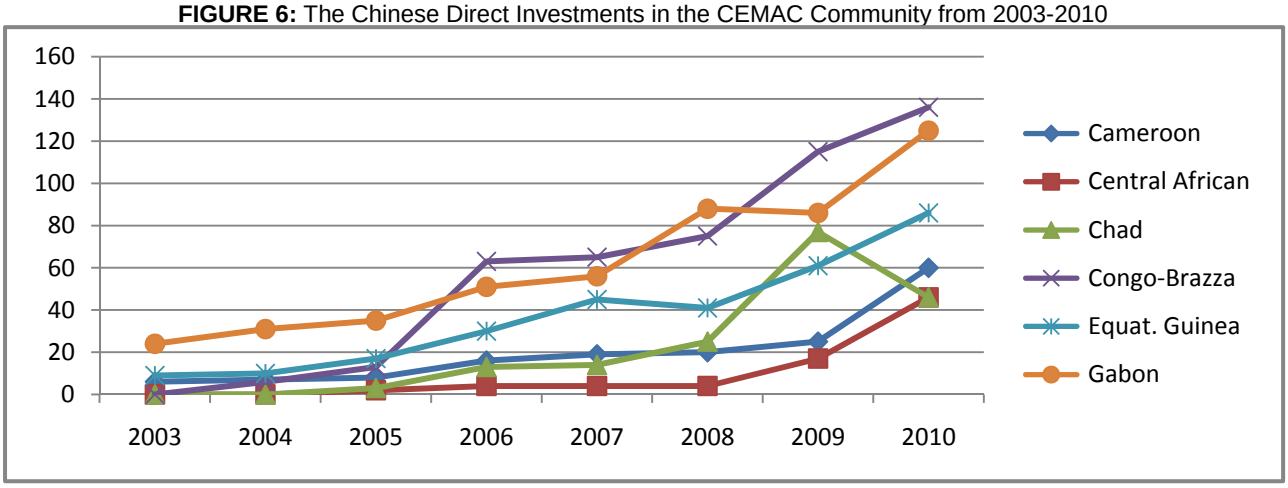


TABLE 7: The European Union Sovereign Debt and public deficit from 2010-2014

The European Union Member States	Sovereign Debts in 2013	Sovereign Debts Evolution 2010-2013	Public Deficits in 2010	Public Deficits in 2011	Public Deficits in 2012	Public Deficits in 2013	Deficits Forecasts in 2014
Italy	132,6%	▲13,7	4,5%	3,8%	3,0%	3,0%	2,6%
Germany	78,4%	▼2,7	4,1%	0,8%	-0,2%	0,0%	0,0%
France	93,5%	▲10,5	7,1%	5.3%	4,8%	4,3%	3,9%
Spain	93,9%	▲33,3	9,7%	9,4%	10,6%	7,1%	5,6%
Belgium	101,5%	▲4,9	3,8%	3,7%	3,9%	2,6%	2,6%
Greece	175,1%	▲27,9	10,7%	9,5%	10,0%	12,7%	1,6%
Portugal	129,0%	▲33,8	9,8%	4,4%	6,4%	4,9%	4,0%
Malta	73,0%	▲5,2	3,6%	2,8%	3,3%	2,8%	2,5%
Latvia	38,1%	▼1,9	8,1%	3,6%	1,2%	1,0%	1,0%
Austria	74,5%	▲2,8	4,5%	2,5%	2,5%	1,5%	2,8%
Netherlands	73,5%	▲12,6	5,1%	4,5%	4,1%	2,5%	2,8%
Cyprus	111,7%	▲54,3	5,3%	6,3%	6,3%	5,4%	5,8%
Finland	57,0%	▲4,4	2,5%	0,8%	1,9%	2,1%	2,3%
Slovakia	55,4%	▲13,3	7,7%	5,1%	4,3%	2,8%	2,9%
Slovenia	71,7%	▲24,6	5,9%	6,4%	4,0%	14,7%	4,3%
Luxembourg	23,1%	▲5,3	0,9%	0,6%	0,9%	-0,1%	0,2%
Ireland	123,7%	▲32,3	30,8%	13,4%	7,6%	7,2%	4,8%
Estonia	10,0%	▲3,3	-0,2%	-1,2%	0,3%	0,2%	0,5%
Total Euro Zone	92,6%	▲10,7	6,2%	4,2%	3,7%	3,0%	2,5%

Source : Eurostat Statistics – 2014

commitments against the prevailing issues in European community. The CAC has implemented safeguard economic viability to meet the Millennium Development Goals (MDGs), thus to ensure food security and their partnerships with BRIC States as long as the European economic and monetary states are not at safety.

CONCLUSION

Given the great diversity of States members of the CAC, the consequences for each country are different, but significant at the community level. Indeed, some States members are major hydrocarbons exporters, others are specialized on raw materials, and others again are emerging from very poor state. Highly specialized or diversified the CAC annual development assistance continues to reduce as the intensification of the European debt still prevails; leading many European States members to revise downwards their financial assistance; demand on raw materials; Oil and others resources supplied by the CAC. In the aftermath of financial crisis, Europe sees its banking system and its financial system weakened, the prevailing debt crisis in its community, actually affects its foreign partners. The CAC or CEMAC community was hit since 2008 and still faces negative and diverse effects of the European debt crisis. For instance in 2011, the official development aid (ODA) has declined for the first time in fifteen years. Greece (-40%), Spain (-33%), France has also decreased its aid, thus making it fall to fourth rank of global development aid towards the African continent. The tourism sector of the CAC is direly hit, and remains affected; this state confirms under develop infrastructures and freezing outstanding projects. However, it is difficult to distinguish precisely the level at which, the European debt crisis and the Arab spring affect this flourishing sector.

Foreign direct investments in the CAC remain affected and limited, in regard to the CAC resources. Indeed, foreign direct investments are almost focus on hydrocarbons and minerals States members producers; these foreign direct investments are intended only to develop, existing infrastructures or creating new ones. Unevenly distributed, they are

mainly decreasing, coming from Europe and increasing by Chinese inflows since 2008. Other factors such as, economic crisis; political tensions and drops in Oil prices led to their general decrease and the limitation of external revenues for the CAC.

The CAC should not rely on Europe as a major partner for its development; with the decline in export earnings. The current account from several States members of the CAC has begun to deteriorate seriously; because revenues related to custom duties still occupy an important place in countrywide finances. Economic activities are less dynamic, the trading balance of these countries decrease also, which reduces their ability to cope with an extension of economic degradation. The European common currency depreciation imply exports decline for the CAC; due to reduced European demand, and an increase of imports cost, in accordance with dollar's appreciation, all leading to balance terms deteriorations for the CAC. Exporters of raw materials and hydrocarbons do not present the same problem as these activities ensure financial receipts relatively stable and high. The current situation of the CAC stresses the importance of diversifying economic and financial partners, despite the fact that, the EU is very much the first commercial partner of the CAC, and accounts for almost 40% of the CAC exports. Indeed, economic difficulties faced by the traditional partners of the continent, are starting to be felt sometimes harshly. Within this framework, it should be noted the increased importance that China enjoys in the continent's economy. Indeed, while trade between the continent and China amounted to 10 billion dollars in 2000, and currently higher than 120 billion. Projections estimate that China could receive 25% of African exports by 2060, compared to 5% nowadays, thus, China will represent as much as the United States and Europe combined. India and Brazil are also seeking to increase their economic interests in the community's regions. The CAC has implemented opening and harmonized policy towards these countries for mutual and closer win-win partnerships. Europe has suffered a lot and now faces a new financial turmoil that threatens its entire community. European members States Greece; Spain; Portugal and Ireland, have seen their so-called long-term ratings; degraded by ratings agencies. These same agencies have degraded two major French banks, Societe Generale and Credit agricole. The financial shock wave of autumn-winter 2008 is therefore far from delivered all its secrets. If the worst has been avoided, European countries which had responded well to the crisis of these past six years appear to have potential growth prospects strongly declining. The challenges which are set at the level of each nation remain to this day significant and unresolved.

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