

Business as usual in post-pandemic recovery will only reinforce economic hardship

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Africa's low level of economic diversification is a leading factor in the continent's economic fragility. Further, the Covid-19 pandemic has magnified the risks of countries' over-dependence on a single natural resource such as oil.



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Natural resources

Africa is endowed with abundant natural resources, including minerals, and revenues from their export constitute a major source of income for many countries.

Algeria, Angola, Libya and Nigeria together produce a substantial portion of the world's crude oil; South Africa and several other African countries are a major source of the world's gold output.

Botswana, the Democratic Republic of the Congo (DRC) and Sierra Leone are major sources of diamonds. Other strategic minerals such as chrome, coltan, bauxite and manganese are found in several African countries. In addition, the continent produces a good proportion of the world's tropical hardwood, coffee, cocoa and rubber.

Relying on one economic activity or on a narrow range of exports and imports is detrimental to a national economy. The United Nations has strongly advised against African countries' over-reliance on extractive commodities and for them to diversify their economic base.

The World Bank forecasts that due to the Covid-19 pandemic, sub-Saharan African economies could experience recession with GDP growth expected to fall from 2.4% in 2019 to between -2.1% and -5.1% in 2020.

In a paper titled *African Competitiveness: What do Natural Resources have to do with it?* Shanta Devarajan, a former World Bank economist, James Cust and Pierre Mandon, also economists, maintained that natural resources do not necessarily cause the traditional Dutch-disease (the paradox of a natural resource harming a country's broader economy); rather, they posit that natural resources lead to a boom in government spending that in turn significantly negatively affects competitiveness.

Devarajan's theory explains why the resource curse has been pervasive in African economies.

His paper—and other research papers on the topic —was published by the African Economic Research Consortium (AERC), a research and capacity-building institution.

The AERC's goal is to bring policymakers in Africa up to speed on global knowledge in how to manage natural resources under sustainable conditions.

Economic diversification

Africa has made socioeconomic progress in the last two decades, but economic diversification would have laid a more solid foundation for accelerated development. Economies that are not diversified experienced a decline in growth, accompanied by weak institutions, as well as stunted efforts at structural and economic transformation.

Economies weakened by a lack of diversification are susceptible to global crises such as a pandemic. Poor healthcare systems and food insecurity are major concerns in under-developed regions.

The International Institute For Environment and Development (IIED), a policy and research organisation focusing on sustainable development, emphasises that, "African nations are among those caught off guard [by the pandemic], constrained by chronically weak health infrastructure and reliance on global value chains."

The IIED further warns that currency depreciation driven by increasing current account deficits will create complications for countries that rely heavily on imports for food and oil.

Economic diversification post-Covid-19

Therefore, countries, especially those most at risk, must implement evidence-based policies and strategies that promote economic diversity.

One such strategy is financial inclusion driven by the digital revolution to foster market integration and production activities at a much lower transaction cost. Digital platforms can also boost agricultural productivity through prompt payments for produce, information sharing and agro-industrial activities.

Research and innovation must play a pivotal role in increasing economic resilience

Another strategy is to remove restrictive barriers to especially intra-African trade as well as trade with other regions. Barriers to trade include cumbersome import and export policies, trade taxes and complicated customs processes. Fortunately, implementation of the African Continental Free Trade Area (AfCFTA) is expected to address these obstacles.

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Also, increased local manufacturing, particularly by agro-industries, will tackle disruptions caused by over-reliance on food imports from out of the continent. Each country can optimise its comparative advantage and expertise.

Institutional capacity building and resorting to renewable resources are steps countries can take. Renewables will help reduce the exploitation of raw materials used to generate energy through gas and oil power plants.

These strategies require increased investment and capital injection—from private, public sector, and foreign direct investment—into a range of economic and infrastructural development that will lower transaction costs and provide a space for the private sector to make profits.

It is advisable to adopt a progressive approach in implementation to weather the shocks of future crises.

It is true that several African countries have adopted strategic visions to chart their development paths. However, some have failed to implement appropriate policies and strategies to realise their visions, consequently losing the trust of citizens and the private sector.

The importance of economic diversification and structural economic transformation is no longer an issue for debate. Business as usual in post-pandemic recovery will only reinforce economic hardship.

The critical question is how quickly countries can formulate and implement policies to aid rapid recovery as well as insulate against future fragility. History has shown that it is easy to introduce reforms during a crisis like the current one. African must act fast.

ABOUT THE AUTHOR

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