AFREXIMBANK

Contemporary Issues in African Trade and Trade Finance

CIAT

Volume 6 • Number 1
December 2020

Africa after COVID-19: De-globalisation and Recalibrating Nations' Growth Prospects

COVID-19 SPECIAL ISSUE

INSIDE

–

Dani Rodrik
Africa after COVID-19: De-globalisation and Recalibrating Nations' Growth Prospects

–

ISSN 2409-3688

Africa after COVID-19: De-globalisation and Recalibrating Nations' Growth Prospects

Dani Rodrik

Ford Foundation Professor of International Political Economy at Harvard University's John F. Kennedy School of Government; Co-Director of the Economics for Inclusive Prosperity network; President-Elect of the International Economic Association

Three trends will shape the world economy in the post-COVID-19 era. First, we will see a rebalancing of the relationship between markets and the state, with a much stronger role for governments and public regulation. Second, there will be a parallel rebalancing away from hyper-globalisation and towards greater national sovereignty and autonomy. Third, we will be transitioning into an era with lower economic growth potential, in which political leaders and their publics will need to scale down their growth ambitions.

The pandemic has highlighted the inadequacy of our existing market arrangements in the face of challenges that demand collective action, as well as the importance of state capacity to respond to crises. It is leading nations to prioritise resilience and dependability in production over cost savings and efficiency through global outsourcing. The economic costs of lockdowns, the associated supply shocks and the reduction in global trade have been felt particularly acutely in low-income countries, such as those in Africa, where living conditions were already precarious to begin with.

All three trends have been in place for some time. And while they could be viewed as posing significant dangers to human prosperity, they may instead be harbingers for a more sustainable, more inclusive global economy. The question is whether African leaders will be able to deploy the needed adjustments in policy and institutions.

First, consider the role of the state. The neoliberal-market fundamentalist consensus has been in retreat for some time. Designing a larger role for government in responding to inequality and economic insecurity has become a priority for economists and policymakers alike. In the advanced economies of North America and Western Europe, the trend is towards greater state responsibility. The

same will likely be true for developing nations – the question, then, is what form this will take?

While we cannot rule out a return to an old-style state dirigisme that achieves few of its intended results, it is possible that the move from market fundamentalism takes a genuinely inclusive form focused on a green economy, good jobs and the rebuilding of the middle class. Such a reorientation will need to be adapted to current economic and technological conditions, and not simply mimic interventionist policy instincts of an earlier era.

The return of the state will be attended by the renewed primacy of nation states. De-globalisation, decoupling, supply-chain repatriation, reducing dependence on foreign supplies and prioritising domestic production and finance have become recurring themes. The US and China, invariably, are the nations that set the tone. The retreat from hyper-globalisation can lead us down the path of trade wars and rising ethno-nationalism, damaging economic prospects for all. But it need not do so.

It is possible to envisage a more sensible, less intrusive model of economic globalisation that focuses on areas where international co-operation truly pays off – global public health, international environmental agreements, global tax havens and other beggar-thy-neighbour policies – but otherwise leaves nations unencumbered to prioritise their domestic economic and social problems. Such a global order would not be inimical to the expansion of world trade and investment. It might even facilitate it insofar as it opens space for restoring domestic social bargains in the advanced economies while enabling developing nations to craft their own, appropriate growth strategies.

Designing a larger role for government in responding to inequality and economic insecurity has become a priority for economists and policymakers alike.

For African nations, perhaps the most damaging medium-term prospect the world faces is a significant reduction in the possibilities of economic growth. On the whole, Africa had a few good years before the pandemic, with reductions in poverty and improvement in education, health and other social indicators. But much of this growth was based on unsustainable demand-side factors, in particular public-investment and natural-resource booms. COVID-19 accentuates a pre-existing growth problem.

The fundamental challenge is that export-oriented industrialisation, the most reliable vehicle for long-term development, has run its course. Employment in manufacturing peaks at much lower levels today than in

previous decades, due to a combination of demand shifts towards services, intensified global competition and skill-biased technological changes.

Certainly, some low-income countries still have a little headroom to expand manufacturing. A certain degree of import substitution, localisation of manufacturing and deeper regional integration within Africa can help somewhat. But the reality is that manufacturing will not be able to supply the bulk of the jobs that Africa's young, urban population desperately needs. Most African nations will have to rely on new growth models. The pandemic is a wake-up call to recalibrate growth prospects and stimulate the broader rethink that is needed.

Where will the jobs come from, if not from manufacturing? Non-traditional agriculture and traded services can help, but only so much. There are clearly unexploited opportunities in Africa's agricultural sector – the region contains more than 60% of the world's remaining arable land, yet spends billions of dollars annually on food imports. But it is hard to imagine a scenario whereby agriculture can continuously absorb the excess labour force. Where agricultural modernisation and the development of non-traditional export crops have been successful – as in Latin America – the process has not been labour-intensive. The same is true for natural resource-based growth spurts, which are unreliable and produce major economic imbalances. In all likelihood,

the new jobs will have to be created in urban areas to which young people still flock.

In services, Africa has had some successes. Mobile telephony and mobile banking are the examples that come immediately to mind. However, services traditionally have not acted as an escalator sector like manufacturing. The problem is that those services that have the capacity to act as productivity escalators tend to require relatively high skills. The classic case is information technology, which is a modern, tradeable service. Long years of education and institution building are required before farm workers can be transformed into programmers or even call centre operators. By contrast, little more than manual dexterity is required to turn a farmer into a production worker in garments or shoes, raising his/her productivity by a factor of two or three.

The bulk of productive jobs in Africa will have to come from less glamorous, mostly non-tradeable services such as retail, education, health and a variety of personal services that have the greatest potential to absorb the continent's relatively less-skilled labour force. That, in turn, will require an economic strategy much less fixated on international trade and foreign investment and much more focused on the health of domestic markets.

Governments must work both on the supply and demand sides of the internal market. On the one hand, they must enable the steady and broad-based accumulation of capabilities in human capital, institutions and governance that are critical to productivity. They must work with small- and medium-sized enterprises to facilitate both their employment growth and productive development. This will have to be a different kind of 'industrial policy' – focusing on services and on firms that serve the home market and draw on economies of scale associated with the African Continental Free Trade Area to boost productivity and competitiveness. And on the demand side, they must install tax and incomes policies that ensure sustained growth of the middle class. The focus on poverty reduction must be accompanied by policies oriented towards the middle class, which has long been neglected in developing countries.

We are unlikely to experience growth miracles in Africa. But moderate and steady growth, in the range of 2%-3% per capita, remains achievable. The key will be to reorient policies towards what matters: the creation, in sufficient quantities, of good jobs for Africa's labour force.

The pandemic is a wake-up call to recalibrate growth prospects and stimulate the broader rethink that is needed.

African Export-Import Bank
Banque Africaine d'Import-Export

Headquarters – Cairo

72B El-Maahad El-Eshteraky Street
Roxy, Heliopolis, Cairo 11341, Egypt

info@afreximbank.com
T+(202) 2456 4100/1/2/3/4

Abuja Branch

No. 2 Gnassingbe Eyadema Street
Off Yakubu Gowon Crescent
Asokoro, Abuja, Nigeria

PMB 601 Garki, Abuja, Nigeria

abuja@afreximbank.com
T+(234) 9 460 3160

Abidjan Branch

3ème Etage, Immeuble CRRAE-UMOA,
Angle Boulevard Botreau Roussel –
Rue Privée CRRAE-UMOA
Abidjan, Côte d'Ivoire

abidjan@afreximbank.com
T+(225) 2030 7300

Harare Branch

Eastgate Building, 3rd Floor
(North Wing), Sam Nujoma Street
Harare, Zimbabwe

P.O. Box CY 1600
Causeway, Harare, Zimbabwe

harare@afreximbank.com
T+(263) 24 2 700 904/941

Kampala Branch

Rwenzori Towers,
3rd Floor Wing A
Plot 6 Nakasero

Postal Address: P.O. Box 28412
Kampala, Uganda

kampala@afreximbank.com
T+(256) 417 892 700
+(256) 312 423 700

Transforming Africa's Trade
afreximbank.com

ISSN 2409-3688