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UN Economic Commission for Africa

Addressing the Need for Economic Diversification in Africa

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Economic Diversification in Africa

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Introduction:

Economic diversification is generally taken as the process in which a growing range of economic outputs is encouraged and eventually produced. It can also refer to the diversification of markets for exports or the diversification of income sources away from domestic economic activities (such as investments overseas, or finding more markets to sell goods).[1] The diversification of an economy can act as a buffer to economic shocks. In other words, when a source of economic revenue falls through, there are still other options to rely on for economic activity. Though it may seem like a simple conclusion on how to diversify an economy, this is a problem that many countries face – The question is: Why? Many of the countries who face this problem lack the guidance on how to properly divide sources of income and interestingly enough, many of the countries whom face this problem are rich in resources, though they rely on one single source of revenue heavily.

When looking at the continent of Africa, the need for a diverse economy is imperative as recently Africa has shown extreme vulnerability to economic shocks. As stated earlier, many of the countries who face the diversification issue are often resource rich and that stands true with Africa, as Africa's agricultural, mining, and energy resources could boost the continent's economic growth and pave the way for a

[1] UN. "Economic Diversification." United Nations Framework Convention on Climate Change. Accessed August 25, 2015. http://unfccc.int/adaptation/workstreams/nairobi_work_programme/items/3994.php.

breakthrough in human development[2]. Yet, for Africa to be able to develop into what it has the potential to, the right conditions are needed throughout the process.

Role of the United Nations:

The major actor of the UN in Africa is UNECA. Established by the Economic and Social Council (ECOSOC) of the United Nations (UN) in 1958 as one of the UN's five regional commissions, ECA's mandate is to promote the economic and social development of its member States, foster intra-regional integration, and promote international cooperation for Africa's development.[3] UNECA is the only UN agency mandated to operate at the regional and sub regional levels to harness resources and bring them to bear on Africa's priorities which enhances its impact and effectiveness.[4]

To go in depth here is the policy set forth by UNECA at UNECA.org, "ECA consistently advocates for a predictable and sound macroeconomic policy framework that is supportive of inclusive growth, private sector development, employment, value addition, economic transformation, and sustainable development. Through its publications, such as the Economic Report on Africa, the Commission disseminates best practices of specific aspects of economic management within Africa. ECA's policy research aims to share knowledge on various aspects of development strategy and planning in Africa, including policy coordination and implementation, and monitoring and evaluation. Its long-term approach focuses on tracking and analyzing trends in economic growth, finance, and governance, in countries of the region and making recommendations on measures for wealth creation and poverty reduction. Additionally, the Commission undertakes national and regional policy studies on economic reforms, domestic resource mobilization, international and illicit financial flows, external debt, and exchange

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[2] United Nations Development Programme. "African Economic Outlook 2013." African Economic Outlook, 2013.
Accessed August 25, 2015. http://www.undp.org/content/dam/rba/docs/Reports/African Economic Outlook 2013 En.pdf.

[3] "Overview." United Nations Economic Commission for Africa. Accessed September 12, 2015. http://www.uneca.org/pages/overview.

[4] "ECA Repositioning." In Repositioning ECA. United Nations Economic Commission for Africa, 2005.

rate management. ECA also supports the fostering of an enabling environment for the development of the financial sector, entrepreneurship, and private sector operations, and the reduction of the high incidence of poverty on the continent is one of the key Millennium Development Goals. To achieve the MDGs (and the successive Sustainable Development Goals), African countries must pursue strategies to promote sustainable and equitable growth and development. In that regard, ECA assists its member states in formulating and implementing related policies, as well as in monitoring progress towards the MDGs and the implementation of the Istanbul Programme of Action for Least Developed Countries."[5]

BACKGROUND:

In the last 15 years, Africa, with help from outside of its borders, has made great progress despite the economic catastrophe of 2008/2009. Prior to Africa stabilizing its own economy, it was long a land of exploitation. Africa is very rich in natural resources and many major powers took advantage of this, and this historical truth applies today (see China). Europe in particular owes much of its industrialization to Africa; and Africa owes much of its economic decimation to its exploiters. Once Africa gained its independence, political mediocrity and unsustainability left many African economies in shambles for a long period of time. During the late 20th century, many African countries became dependent upon oil revenue and with the OPEC crisis in 1973, many African economies fell through as the price to export nearly quadrupled. Examples like this show the importance of a diverse economy. Yet, these problems still exist today. There was an IMF report that noted that some African countries are among the most at risk from the fall in oil prices because of their degree of dependence on oil exports. Oil exports account for 40-50 percent of the GDP for Gabon, Angola, and the Republic of the Congo, and 80 percent for Equatorial Guinea. Similarly, in Angola, the Republic of Congo, and Equatorial Guinea, oil accounts for 75 percent of government revenues[6]. Obviously, relying so heavily upon Oil for economic activity has its pros and cons. By these countries focusing upon the advancement of oil exports in a world where oil has become popular commodity, their economies have the potential to grow exponentially. On the other hand, by relying heavily upon oil these countries are putting

[5] "About Macroeconomic Policy." United Nations Economic Commission for Africa. Accessed September 14, 2015. http://www.uneca.org/pages/about-macroeconomic-policy.

[6] Sy, Amadou. "Falling Oil Prices and the Consequences for Sub-Saharan Africa." The Brookings Institution. December 23, 2014. Accessed August 25, 2015. http://www.brookings.edu/blogs/africa-in-focus/posts/2014/12/23-oil-prices-exports-africa-sy.

themselves at a great risk of collapsing. If anything goes wrong with oil production, or say for instance some other form of resource became the replacement for oil, these economies almost immediately are in danger of total collapse. The need for a buffer zone is necessary in any economy but, more importantly in Africa because of the great risk many of their countries are being put in. Not only has Africa put itself at risk with oil, but there are many countries in Africa that adhere to monoculture. A monoculture is a dependence on a single crop that is raised expensively, and many African states heavily rely on coffee, tea, or coco monocultures for export. Due to changing climates, the risk of disease destroying a genetically similar crop, and the volatility of crops, planting only one crop for trade and consumption is a huge risk. Africa's history of monoculture can be traced back to the 1500's, and the transition from this dependence is a heavy task. With the efforts set forth by UNECA, Africa has begun its transformation to modernity.

Current Situation:

A way to promote diversification would be intra-Africa trade. Africa, however, at the moment, does not have the means to cement a solid trade policy. According to UN.org, "The problem is partly the mismatch between the high political ambitions African leaders hold and the harsh economic realities they face. Case in point: they have set up no less than 14 trading blocs to pursue regional integration. Yet they have shown "a distinct reluctance to empower these institutions, citing loss of sovereignty and policy space as key concerns,""[7] Looking specifically at North Africa, The high volatility of raw materials prices, coupled with the recent year's crises, had slowed down the economic growth and showed a high vulnerability of North African economies to shocks, despite their low level of integration into the global markets, stressing the need of a structural transformation.[8]

In East Africa, there has been a decline in poverty and a strong economic growth rate. Though, the region is still experiencing low productivity, and the region remains highly dependent upon foreign aid as a source of foreign exchange.[9] In an attempt to stimulate economic growth

[7]Tafirenyika, Masimba. "Intra-Africa Trade: Going beyond Political Commitments | Africa Renewal Online." UN News Center. August 1, 2014. Accessed August 27, 2015. http://www.un.org/africarenewal/magazine/august-2014/intra-africa-trade-going-beyond-political-commitments.

[8] "Diversification and Sophistication as a Lever for the Structural Transformation of North African Economies." United Nations Economic Commission for Africa. http://www.uneca.org/publications/diversification-and-sophistication-lever-structural-transformation-north-african.

[9] "Regional Value Chains in East Africa." International Growth Centre. Accessed August 27, 2015. http://www.theigc.org/project/regional-value-chains-in-east-africa/.

this region continues to export raw materials to industrialized powers. Though, the fact that countries in this region export the same goods highlights the lack of diversification in the region. Another point to be brought up is that this monoculture diminishes intra-trade. Intra-regional trade, stands between 10% and 12% of Africa's total trade. Comparable figures are 40% in North America and roughly 60% in Western Europe.[10] If Africa were able to integrate their economies, the possibilities for economic growth become much more optimistic. An example of economic regional partnerships in Africa can be seen in the Economic Community of West African States (ECOWAS). This organization constitutes a few of the most heavily primary economic sector (extractive industries like agriculture, oil drilling, logging, or mining) dependent states like Ghana, Côte d'Ivoire, and Nigeria.

Another topic that needs to be taken into consideration is the effects of monoculture. In Africa there has been a historic pattern of the monoculture of the corn crop. The reason for this is that since the increase demand for oil and gasoline, the price of corn has doubled which would in turn increase profits. Thus, the demand for ethanol, which can be produced from "corn biomass through industrial fermentation", increased rapidly as it is a solvent that is often added to gasoline. To understand why this puts Africa at a deep risk for failure, one has to understand the corn crop. "Corn is a particular plant. It does not thrive in dry environments and in tropical areas, it is subject to rot. Corn monocultures are particularly vulnerable to weather patterns, water shortages, and lack of nitrogen in the soil. Corn's sensitivity to water shortages is of special importance in parts of East Africa that suffer from periodic drought. Ethiopia, Kenya, and Somalia are recognized to be in a food security crisis. Eighty five percent of Ethiopia's rural population are subsistence farmers living on less than 1USD a day, and nearly ten percent of Ethiopians rely on food aid. Corn monocultures in areas subject to drought are disastrous to farmers and local markets, but unfortunately, they are more common than not."[11] For example, In Malawi, corn takes up 90% of cultivated land and in South Africa 60% of land is used for corn. Situations like these make Africa "vulnerable to environmental shocks (climate change) and global market demand for their produce."[12] A solution to this would be switching to permaculture which would vastly increase the potential for the African economy. "Permaculture gardening promotes biodiversity. It seeks to maximize the number of productive species of plant

[10] Tafirenyika, Masimba. "Intra-Africa Trade: Going beyond Political Commitments | Africa Renewal Online." UN
News Center.

[11] "Africa's Corn Monocultures and the Global Commodities Market." The Sojourner Project: Research & Writing
on Gender, Development, Land, and Labor in Africa. June 16, 2011. Accessed September 12, 2015. https://thesojournerproject.wordpress.com/2011/06/16/africas-corn-monocultures-and-the-global-commodities-market/.

[12] "Africa's Corn Monocultures and the Global Commodities Market."

within a plot, not only to offer the gardener a diverse and vibrant number of crops to harvest for the kitchen, but also so that the ecosystem is itself is strong, with different plants performing different functions so that all can thrive. Permaculture design seeks to avoid any one thing – be it a species of insect, a ground cover plant or an extreme weather event –

becoming too influential on a site, to the detriment of the other valuable parts of the ecosystem."[13]

becoming more services-oriented, in particular through retail and wholesale trade, real estate, information, and communication.[14]

Yet, some countries such as Angola whose economy will suffer from significantly lower oil prices, with GDP growth expected to decelerate to 3.8% in 2015 and 4.2% in 2016, down from the 4.5% registered in 2014[15]. Below is a table of the GDP of Angola before and after the hit from the lower oil prices. As one can see, there has been a steady decline since 2013.

Table 1: Macroeconomic indicators	2013	2014(e)	2015(p)	2016(p)
Real GDP growth	6.8	4.5	3.8	4.2
Real GDP per capita growth	3.7	1.4	0.7	1.1
CPI inflation	8.8	7.4	8	8.7
Budget balance % GDP	0.3	-2.2	-10.6	-7.7
Current account balance % GDP	5.8	2.7	-5.9	-2.2

According to the Economic Outlook of Africa 2015, the economy has enjoyed sustained economic growth for a decade, with annual real GDP increasing by around 7%; it was 6.3% in 2014. The non-oil sector has been the main driver of growth, with services contributing about 57%, while manufacturing and agriculture contributed about 9% and 21% respectively. The economy is thus diversifying and is

Country and Regional Cases:

Several countries in Africa are situations that call for dire actions, and

[13] "Africa's Corn Monocultures and the Global Commodities Market."

[14] "Nigeria." African Economic Outlook 2015, 2015. Accessed August 28, 2015. http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/Nigeria_GB_2015.pdf

[15] Angola." African Economic Outlook. Accessed August 25, 2015. http://www.africaneconomicoutlook.org/en/country-notes/southern-africa/angola/.

others show a level of economic integration and international cooperation to be promoted, a few will be shown below.

African Economic Community:

Signed into existence in 1992, African Union member states created the AEC to promote free trade agreements, create a single African market, and to by 2028 create an African central bank and Monetary Union. The AEC established 8 pillar organizations to best carry out the goals of the community on regional levels, these organizations include the Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA), the Community of Sahel-Saharan States (CEN-SAD), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Intergovernmental Authority on Development (IGAD), the Southern African Development Community (SADC), and the Arab Maghreb Union (UMA). Many of these organizations share members, and some of the organizations, like ECOWAS for example, have promoted regional cooperation between several non-economic sectors, principally security. Initiatives in these organizations, and members of each of these organizations, represent existing economic and political ties between countries in Africa on regional levels.

Gabon:

Gabon is a country mainly supported by extractive industries, and therefore is a perfect example of a prosperous country highly at risk as a result of its dependence on its extractive industries. Major dependencies on oil and fine timber production drive the economy, and a collapse in the petroleum driven global economy would deliver devastating effects on Gabon. Timber production in Gabon is an export driven activity, with hardwoods cut in the country and shipped internationally. 12% of the Gabonese economy is supported by the exporting of raw timber. Heavy dependence on these two revenue sources spells disaster for Gabon and economies like it in Africa.

Essential Questions on Further Action:

Despite the need for government infrastructure and foreign aid, there should still be optimism for the potential of Africa. Though, many questions still exist. Exactly how bad is the situation in Africa? Can one determine the parts of Africa most in danger? How far is the drop-off between how Africa integrates its economies to promote intracontinental-trade? Can UNECA install programs to help African governments? How much more aid will Africa need? How does Africa begin a transition to permaculture? Is there a way to prevent crops from the inevitable change of weather, i.e. keeping crops safe out of season? Can it be made sure that while Africa becomes more diverse, they can continue to feed their people? How and where should value chains be developed? These can be vital in avoiding food crises. What key barriers are preventing intra-Africa trade?

Points to Consider:

- The most important issue is finding out how to pay for anything put forth. As an estimate on aid received, in 2012 the United States sent nearly 12 billion in aid to Africa.[16] However, this number can fluctuate. Getting aid from other countries could be more ideal.
- Establishment of more Regional Value Chains (RVCs), this can help to provide structure to African economies. The basis for trade, as in what items to trade where, has yet to be seen.
- Switching to Permanent Agriculture (though by which process)
- Installing government programs to increase cohesiveness and to promote intra-Africa trade.

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[16] Bonasso, Danial. "US Foreign Aid to Africa: What We Give and Why." The Borgen Project RSS2. August 21, 2013. Accessed September 15, 2015. http://borgenproject.org/us-foreign-aid-to-africa-what-we-give-and-why/.

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United Nations Development Programme. "African Economic Outlook 2013." African Economic Outlook, 2013. Accessed August 25, 2015. http://www.undp.org/content/dam/rba/docs/Reports/African Economic Outlook 2013 En.pdf.