



**Longmark**  
Securities



## Global Industry Leaders Series - II

HOW CAN AFRICAN COUNTRIES BUILD BETTER AND STRONGER ECONOMIES POST THE COVID-19 PANDEMIC?

### Discussion points

1. **Long term shifts and short-term shocks.**
2. **The Shift:** the radical reset of global economic opportunities and how Africa fits in.
3. **The Shock:** COVID as an example of uncertainty and how to respond to it. What works and what fails?
4. Why there are no longer 'safe' investment options.
5. Safety as diversification and contextual knowledge.
6. Implications for South African business and national economic strategies.

## Preface

Longmark Securities hosted a webinar with renowned economist Professor Paul Collier, on 29 October 2021, titled:

### ***How can African countries build better and stronger economies post the covid-19 pandemic?***

Below are the key takeaways from the webinar.

#### **Summary**

- ❖ Investment opportunities are defined by longer-term shifts and short-term economic shocks.
- ❖ The significant shifts resetting global economic opportunities are demographics, climate change and reshoring.
- ❖ Africa has the youngest population globally, thus making the continent the biggest beneficiaries of these shifts.
- ❖ Climate change is likely to hurt Africa's economy, given the continent's focus on agriculture. African societies need to adapt to a more urban environment and build economic clusters that can plug into global value chains to combat climate change.
- ❖ Reshoring of supply chains to reduce the dependence on East Asia is a response to the backlash to globalisation which favours Africa.
- ❖ Economic shocks like COVID-19 are difficult to predict or prepare for in advance. The best way to deal with economic shocks is to run multiple experiments in parallel and assimilate information quickly.
- ❖ There are no longer safe assets. Developed market safe-haven assets are overpriced, while regulatory uncertainty in major emerging markets like China means that investors have limited options when it comes to safe assets.
- ❖ Safety will come from diversification and contextual knowledge.
- ❖ The current economic shifts make Africa a great place to invest.
- ❖ Given the complexities of investing in Africa, superior contextual knowledge of Africa gives South African companies a distinct advantage in Africa over their competition (the Chinese, Europeans and Americans).

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## 1. Introduction

Investment opportunities are defined by longer-term economic shifts and short-term economic shocks.

- **Economic shifts** are long-term forces that go unnoticed but change society's economic opportunity set over the longer term.
- **Economic shocks** are events that are difficult to anticipate or are difficult to act on even if they can be anticipated.

## 2. The shifts

There has been a radical reset of global economic opportunities due to ongoing shifts, and these shifts have significant implications for African businesses. The shifts are outlined below:

Demographics are probably the most important shifts that we have experienced in the last few decades

- Regions with a young and expanding population are likely to be the biggest beneficiaries of the demographic shifts we are currently experiencing.
- Africa has the largest population of young people globally and is thus well-positioned to benefit from these shifts.
- Young workers are extremely good at adopting new ideas and adapting rapidly to change.
- On the contrary, young people aren't usually good at things/activities that require judgement and experience. The tragedy of Africa is that the continent wants to put this young population to work in small farm agriculture, which requires a lot of experience where youth is a distinct disadvantage.
- China has a demographic challenge, with a declining young worker population.
- The demographics of Japan and Europe are also unfavourable. Traditionally, the firms in Western Europe sourced young workers from Eastern Europe, but this trend is changing as the demographics in Eastern Europe is looking as challenged as that of their Western European counterparts. In addition, most of the young workers in Eastern Europe have already moved to Western Europe.
- America has less of a demographic problem, but that is also changing as it sourced a large proportion of its young workers through immigration which is now politically unpalatable.
- Africa is best positioned to take advantage of these demographic shifts.

## The backlash from globalisation

- The backlash from immigration has produced mutinies in most western democracies, with BREXIT being a prime example.
- A similar backlash from immigration and globalisation is taking place in most western democracies.
- This backlash to globalisation has given rise to reshoring.
- Countries and companies in the west are reducing the dependence of their supply chains on East Asia and China. They are moving their supply chains to regions of the world that will be less susceptible to trade restrictions.
- Africa is in an excellent position to get good trade deals with Europe and North America as it is unlikely to face the kind of trade restrictions that China is likely to face over the coming years.
- We are already seeing this play out with Chinese companies moving into countries like Ethiopia to circumvent potential trading restrictions.

## Climate change

- Climate change is another shift that is going to make some regions more productive than others.
- Climate change is likely to have a significant adverse impact on Africa considering the region's dependence on agriculture.
- To combat the effects of climate change, African societies need to adapt to a more urban environment as agricultural societies are more vulnerable to climate change.
- South Africa is fortunate to have some viable cities that can get into value chains - cities that can bring clusters together and get into value chains.
- Successful economies create clusters and insert themselves into global value chains.

## 3. The shocks

An example of a shock is the current COVID-19 pandemic. But COVID-19 is by no means the first shock the global economy has experienced. For instance, in 2008, the global economy experienced the global financial crisis, which was also an immense shock.

## How to respond to shocks

### What works

When faced with a situation where there is limited information, the best approach is to recognise the lack of information and move quickly to learn as much as possible from what others are doing. In addition, one needs to conduct multiple experiments in parallel and assimilate the information quickly.

### What fails

An approach that assumes that resilience can be built by being pre-prepared for a shock usually doesn't work. For example, in 2019, a consortium of health researchers, led by the Gates Foundation, compiled a list of the top 20 countries best prepared to deal with a health pandemic like COVID-19. On the list, Britain emerged as the most prepared, followed by America. In reality, this list turned out to be a good predictor of excess deaths thus demonstrating how difficult it is to prepare for shocks given that it is difficult to have information about a shock before it happens. In summary, what works is rapid learning, multiple experiments in parallel, and communicating a new purpose to citizens.

## 4. Why there are no longer safe investment options

- Investments traditionally considered safe investment options like German government bonds can no longer be considered safe, as they have become too expensive to offer investors any meaningful level of protection. The same is true for other developed market government bonds.
- Globally, equity markets are also reflecting high valuations, thus suggesting that future returns are likely to be muted.
- Amongst emerging markets, investing in countries like China is becoming increasingly risky due to increased regulatory uncertainty.
- Thus, given the current context, investors have limited options when it comes to safe investments.
- Going forward, safety will come from geographical diversification and contextual knowledge.

## 5. Implications for South African business

- Africa is well-positioned to benefit from the economic shifts taking place – Africa has favourable demographics, a young and expanding workforce, and growing demand.
- Africa is exceptionally complicated and is full of shocks and shifts. As an example, Africa has had four military coups in 2021.
- Given the complexities of investing in Africa, superior contextual knowledge of Africa gives South African companies a distinct advantage in Africa over their competition (the Chinese, Europeans and Americans).
- Zambia is one country that presents significant investment opportunities at the moment.