



The AfCFTA

Africa's trade challenges

Blessing Chipanda and Jakkie Cilliers

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Trade in Africa is complex and expensive due to high tariff rates and significant non-tariff barriers (i.e. poor customs procedures, infrastructure, transport and logistics). This hinders trade flows across borders and often also contributes to smuggling and the growth of the shadow economy if borders are not well policed. Vast amounts of money can be made smuggling items such as petroleum and cigarettes where prices differ substantially between countries.

This is particularly characteristic of economies in West Africa, the Sahel, and North and Central Africa. For example, in Tunisia, the [informal and parallel economic sector](#) is substantially larger than the average for other low- and middle-income countries when measured as a proportion of the total economy. Many Tunisians are forced to engage in the informal sector despite their high levels of education — a situation that contributed to the overwhelming frustration that underpinned the Freedom and Dignity Revolution that commenced at the end of 2010 and ignited the subsequent Arab Spring.

But without the opaque insider/outsider economic system that constrains opportunity having sufficiently been displaced after 2010, Tunisia's large informal and parallel economy is not merely survivalist; it involves considerable [illicit activity](#). An important reason for the apparent low levels of intra-Africa trade is, therefore, that much of it is [informal and/or illicit](#) and not captured in formal trade statistics.

A 2019 report by the [IMF](#) lists the manifold economic benefits that would flow from regional integration in the Maghreb, including attraction of FDI, ease of movement of capital and labour, more efficient resource allocation and the extent to which it would make the region more resilient to external shocks and market volatility. Countries could, on average, add one percentage point to growth rates with regional integration. However, instead of increasing, trade openness has steadily declined in every country in the region (except for Morocco) and traders face significant hurdles.

In addition to the various structural reasons for Africa's poor growth, such as a declining [demographic dividend](#) until the late 1980s, its function as a proxy battleground during the Cold War, bad governance, poor policy and lack of implementation of agreements all played an important role. Structurally, the continent did not develop RVCs and hence did not form part of the GVCs in goods and services that developed between parts of Asia, North America and Europe since the 1990s. The lack of regional integration is a significant obstacle to economic diversification and growth for countries in the region.

The result of limited regional integration is that Africa is essentially not part of the global discussions on trade. Outside of Africa, analysis is no longer fixated only on the growth and structural change in individual economies but rather use the lens of RVCs and GVCs — the complex network that ties the flows of goods, services, capital and technology together across national borders — to evaluate the strength of economies.

Goods-producing value chains are becoming less trade intensive and trade in cross-border services is growing more rapidly than merchandised trade. In addition, goods-producing value chains are becoming more regionally concentrated, especially within Asia and Europe. In response to global tensions and concerns around carbon emissions associated with long transport routes, companies are increasingly locating their production facilities in closer proximity to the market rather than closer to cheap labour.

The general trend is towards [RVCs instead of GVCs](#) as trade integration in Asia gains momentum and Western countries step away from their previous heavy reliance on China and European dependence on oil and gas from Russia. This could offer advantages to Africa with its rapidly growing population and growing consumer base.

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About the authors

Dr **Blessing Chipanda** joined the African Futures and Innovation (AFI) programme in January 2023. Before joining the ISS he worked as an assistant lecturer/research assistant at the University of Pretoria, Department of Economics. He is particularly interested in tasks within the wider realm of international trade, development economics, public policy, monetary policy, and econometric modelling. Equally interested in economic and socio-economic activities that impact social welfare. Blessing has a PhD in economics from the University of Pretoria, South Africa.

Dr **Jakkie Cilliers** is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

About African Futures & Innovation

Scenarios and forecasting can help Africa identify and respond to opportunities and threats. The work of the African Futures & Innovation (AFI) program at the Institute for Security Studies aims to understand and address a widening gap between indices of wellbeing in Africa and elsewhere in the world. The AFI helps stakeholders understand likely future developments. Research findings and their policy implications are widely disseminated, often in collaboration with in-country partners. Forecasting tools inspire debate and provide insights into possible trajectories that inform planning, prioritisation and effective resource allocation. Africa's future depends on today's choices and actions by governments and their non-governmental and international partners. The AFI provides empirical data that informs short- and medium-term decisions with long-term implications. The AFI enhances Africa's capacity to prepare for and respond to future challenges. The program is headed by Dr Jakkie Cilliers.