The AfCFTA

Africa's structural challenges

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Africa’s intra-regional borders rank as some of the most restrictive globally when measured by the cost of cross-border trade. These costs arise from higher tariff rates and 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.[1] 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.[2] An important reason for the apparent low levels of intra-Africa trade is, therefore, that much of it is informal and not captured in formal trade statistics.[3]

In addition to the various structural reasons for Africa’s poor growth, such as a declining demographic dividend until the late 1980s (as discussed in Demographics), 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 diversification and growth for countries in the region.

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.[4]

The result of limited regional integration is that Africa is essentially not part of the global discussions on trade. Outside Africa, analysis is no longer fixated only on the growth and structural change in individual economies but rather uses 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 (VCs) are becoming less trade intensive and trade in cross-border services is growing more rapidly than merchandised trade. In addition, goods-producing VCs are becoming more regionally concentrated, especially within Asia and Europe. 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, in time, offer advantages to Africa with its rapidly growing population and growing consumer base.[5]

Endnotes

1. S Kwasi, J Cilliers and L Welborn, The rebirth: Tunisia's potential development pathways to 2040, Institute for Security Studies, 31 August 2020

2. About 25% of fuel consumed in Tunisia is estimated to be smuggled from Algeria, where fuel is cheaper. See: L Ayadi, N Benjamin, S Bensassi and G Raballand, Estimating informal trade across Tunisia's land borders, Washington, DC: World Bank, 2013; S Quillen, Informal economy presents Tunisia with thorny issue, *The Arab Weekly*, 30 June 2017

3. 'The low level of intra-African trade is a consequence of largely unrecorded informal cross-border trade, a prominent feature in intra-African trade not accounted for in the balance of payment and national account statistics.' See: Africa Export–Import Bank, African Trade Report: Informal cross-border trade in Africa in the context of the AfCFTA, Cairo: Afreximbank, 2020, 11

4. AP Kireyev et al, Economic integration in the Maghreb: An untapped source of growth, Washington, DC: International Monetary Fund, 2019, vii, 7

5. S Lund et al, Globalization in transition: The future of trade and value chains, New York: McKinsey Global Institute, 2019, 1

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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 of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the ISS. 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.

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