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


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