Rethinking risk in an integrated Africa

Christopher Wood, a Researcher in the Economic Diplomacy Programme at SAIIA – South African Institute Of International Affairs, looks at the impact of major new regional integration efforts on the continent

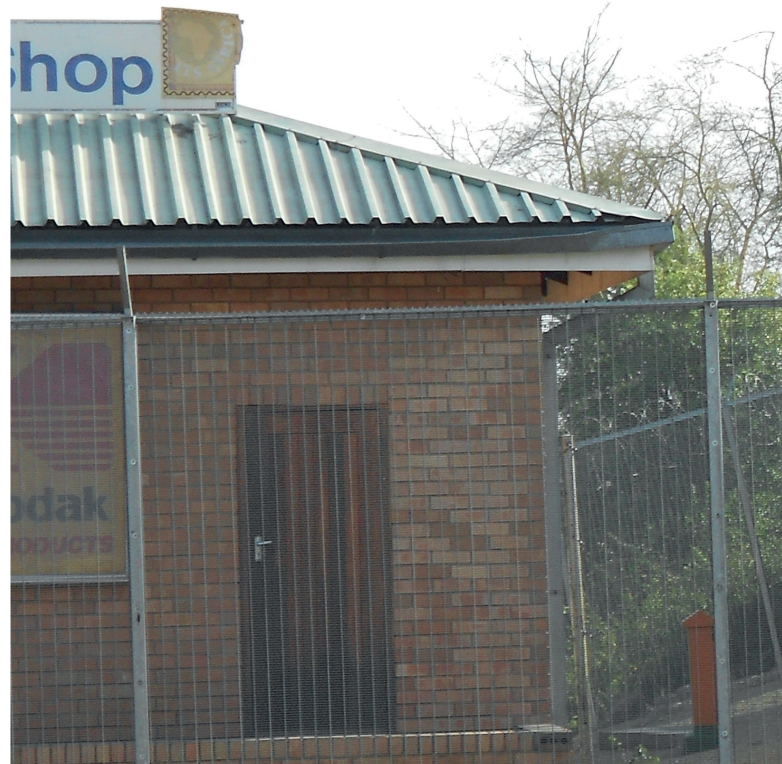
There are 850 kms between Johannesburg and Bulawayo, a 9 hour straight shot for a freight truck, on nicely tarred roads all the way. Zimbabwe's second city is closer than Cape Town, and should be considered as much a part of the South African marketplace as local destinations. And yet halfway into that drive, trucks reach the Beitbridge border post, the busiest and most notorious border crossing in Southern Africa. Wait times at Beitbridge average 3 days, at the cost of $400 per day. Crossing the border means overcoming a complex two-step customs process, beset by corruption, and supported by inadequate infrastructure that offers unstable power supply and internet connectivity. Once the border has been crossed, exhausted truck drivers still need to rest, and must plan their onward journey for the safety of daylight hours.

Beitbridge is a nasty reminder of the reality of African regional trade, in which practical barriers to trade - like inefficient border posts and under-developed infrastructure - can be insurmountable for all but the largest firm. It is a long way, in every sense, from Sharm-el-Sheik, where African leaders recently gathered to officially launch the Tripartite Free Trade Agreement. The TFTA is an ambitious initiatives to unites three regional economic blocs - the Southern African Development Community, the East African Community, and the Common Market for Eastern and Southern Africa - to form a 26 country free trade zone that includes 6 of the continent's 10 largest economies. The final details of the agreement are yet to be concluded, but once complete it aims to minimize formal barriers to trade, and form a united in efforts to speed up border efficiency and improve transport infrastructure.

The potential of the TFTA is immense. The 800 million person bloc includes large emerging economies like Ethiopia and Kenya, dynamic smaller economies like Rwanda, resource-rich economies like Angola and the Congo, and the continent's traditional economic hub of South Africa. The greater potential, however, is evidenced in future trends. Total population is expected to surpass 1.3 billion people by 2050, with the working age population more than doubling, and half of the total population settling in cities. The TFTA consumers of the future are expected to be younger, richer, and more middle class - and are the target of ever more concentrated attention from the European Union and United States, both of which have made efforts to secure access to some of the last untapped emerging markets.

Even more exciting, the TFTA is to form a stepping stone towards the completion of Continental Free Trade Agreement. The CFTA has been an aspiration for decades, but has remained in the realm of political rhetoric, until now. The African Union has agreed principles governing negotiations towards the creation of a continental deal and seem eager to press ahead as quickly as possible. Those negotiations will be extremely difficult and will take a decade at best, but hold the mouth-watering potential of the addition of Africa's largest economy, Nigeria, and a range of dynamic West and North African countries to the mix.

High growth rates, a demographic boom, and deepening integration are good stories for Africa to tell, from a continent that has had far too little positive news in the past, but there are headwinds on the horizon.



The slump in emerging economies is bad news for the continent, as growth in the likes of China was vital to feeding the commodity boom that supercharged African growth in the last decade. Rising interest rates in the United States, and a return to normality in the Northern parts of Europe will lure risk-averse investors away from the continent. Most African economies remain undiversified and over reliant on commodities, which look set to enter a period of prolonged depression.

Decreasing commodity prices and a political environment that emphasises industrialisation have triggered a turn to investment in manufacturing and agribusiness, with countries like Ethiopia targeting jobs leaving China in the face of higher wages. But these efforts may be hindered by increasing government debt loads and depress tax revenues, and by the threat of currency instability. The lack of diversification may also limit the benefits of the TFTA, and is often identified as the central reason for low regional trade: commodity-dominated economies just don't make products that other African countries want to buy.

On the trade side, practical barriers like those encountered at Beitbridge will undermine the effectiveness of grand regional integration efforts. Smaller technical rules are also a problem, with little alignment of certification or labelling regulations, and a diverse set of rules governing freight and distribution. Weak infrastructure remains a problem. Road and port infrastructure have improved dramatically, but rail networks remain very poor, and regional air travel is amongst the most expensive in the world. Domestic constraints, most noticeably the weak supply of energy, continue to put the brakes on growth. The good news is that there is unprecedented finance flowing towards addressing these issues, and various plans in place to put that money to work, but actual implementation remains slow and unpredictable.

"Africa is too large a market to ignore. The base facts of the continent's resource wealth, consumer profile, and untapped industrial potential are hard to deny"

Africa is too large a market to ignore. The base facts of the continent's resource wealth, consumer profile, and untapped industrial potential are hard to deny. But there are many problems, and while there is progress, it will remain a difficult market in which to operate for the foreseeable future.

For potential investors, the central question facing them is temporal. Investing earlier will mean facing more of the barriers found at the Beitbridge's and bottlenecks across the continent. Investing too late, however, might mean struggling to compete with established firms that have learned to do business in Africa. A more integrated continent is useful in many ways, but to investors facing this question, it should first and foremost be understood as a shock-absorber.

Africa is too often imagined as a single destination, rather than as a continent that is six times larger than Western Europe. Political instability and barriers to doing business never exist on a continental level, they exist in certain countries and areas. A deeply integrated continent should offer a large enough pool of business opportunities to allow space to adjust in the case of problems in one area. Careful observation of the state of regional integration efforts may just hold the answer on whether to take the dive into the last frontier in emerging markets. ■

Beitbridge border post