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# Africa's regional and global integration: introduction to the special issue

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Africa is at a crucial crossroads in its journey toward deeper regional and global economic integration. While remaining the most isolated region from the global economy, Africa has realized continuous progress towards a closer and more active integration, both from within and beyond the continent's borders.

The recently introduced African Continental Free Trade Area (AfCFTA) is a cornerstone of Africa's regional integration agenda, aiming to be the world's largest free trade area by population. The AfCFTA is essential because it provides a framework to unlock Africa's immense economic potential by addressing the continent's fragmentation. It has the potential to boost Africa's income, driven by increased trade, foreign direct investment (FDI) and industrialization. Meanwhile, closer international ties beyond Africa, including China's infrastructure investments and the European Union's trade agreements, have offered new pathways for global integration, including via participation in global value chains (GVCs).

Regional integration is essential for Africa's economic development because it addresses the structural challenges that fragment the continent's economies and limit their global competitiveness. Africa is characterized by small, disconnected markets with significant trade barriers. Infrastructure deficits, weak institutional frameworks, and uneven productivity continue to hinder Africa's ability to leverage these opportunities for inclusive and sustainable growth.

Regional integration, by reducing tariffs, harmonizing regulations, and improving connectivity, helps create larger, more efficient markets that are attractive to investment and capable of supporting more diversified economic activity. Trade facilitation measures, such as improving port efficiency and reducing non-tariff barriers, are vital to unlocking Africa's export potential.

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The drivers and effects of these developments remain insufficiently understood. To address the remaining research gaps the German Institute of Development and Sustainability (IDOS) and the Kiel Institute for the World Economy (IfW) jointly organized the conference “Africa’s regional and global integration – Lessons from the past and implications for the future”, taking place at IDOS in Bonn on 17/18 November 2022 with financial support from the Federal Ministry for Economic Cooperation and Development (BMZ). This conference formed the basis for this special issue. Selected papers from the conference and additional contributions are combined in a collection of eleven papers on Africa’s regional and global economic integration to shed light on Africa’s promise and pitfalls in promoting economic integration and development.

The articles in the special issue can be clustered into three main subthemes based on their focus:

1. **GVCs and Regional Integration:** Articles focusing on the role of GVCs, infrastructure, and trade agreements in enhancing economic development.
2. **Trade Policy, Trade and Productivity:** Articles that explore the impact of trade integration, trade policies and efficiency measures on export diversification and overall productivity growth.
3. **FDI and Labor Market Outcomes:** Articles that analyze the implications of foreign direct investment and multinational corporations on local employment.

Five papers relate to the first subtheme of GVCs and regional integration. *Amen-dolagine et al.* examine the impact of Chinese lending on African countries’ participation in GVCs. Employing data from 37 African countries between 2000 and 2018, the authors find that Chinese loans, particularly for infrastructure projects, are positively linked to increased GVC participation, unlike World Bank lending. The study suggests that infrastructure investments reduce trade costs, facilitating long-term GVC integration, especially in downstream sectors. This increased participation is expected to drive export growth and improve productivity. In a case study for Egypt, *Aly and Zaki* investigate the relationship between deep trade agreements, institutional quality, and GVC participation. Using data on Foreign Value-Added (FVA) exports and deep trade agreements, the study finds a positive link between the depth of trade agreements and GVC participation, although low institutional quality can diminish this effect. Sectoral analysis shows significant variation, with human-capital and technology-intensive sectors responding more to deep agreements, suggesting that agreement depth is crucial for export upgrading. The findings underscore the importance of deepening trade agreements to enhance Egypt’s and other African countries’ GVC integration. *Owusu* analyzes the impact of GVC participation on aggregate labor productivity growth in 46 developing countries, comparing Africa with other regions. The study finds that GVC involvement significantly boosts productivity, with the strongest effects seen in Asia and Latin America. GVCs improve labor productivity primarily through efficient resource reallocation within sectors, but not across sectors. Both backward and forward GVC participation contribute to these gains, though forward participation shows stronger positive effects. This highlights GVCs as a key pathway for enhancing productivity in developing economies.

**De Melo and Solleder** use the EORA Multi-Region Input-Output (MRIO) data over 1995–2022 to present new, more comprehensive measures of participation in supply chains at several levels: across countries, regions, and sectors. Compared with other regions, African countries mostly engage in supply chain trade with countries outside Africa, displaying low values of Regional Value Chain (RVC) indices. The paper then explores the determinants of participation in supply chains. For Africa, low tariffs and FDI are positively associated with regional supply chain activity, indicating that AfCFTA implementation should stimulate intra-African trade. The paper by **Krantz** deals with the East African Community's (EAC) integration into global and regional value chains (GVCs and RVCs) using detailed trade data and MRIO models. It first highlights key trends in EAC members' participation in global and regional trade at various levels, revealing moderate integration but no clear trend toward greater involvement. Regional integration is advancing in agriculture and food processing, with Kenya emerging as a key regional supplier of manufactured goods. The second part provides causal evidence that deeper integration, especially through forward GVC linkages in manufacturing, enhances economic development, with regional linkages offering more benefits than global ones.

The second subtheme comprises another three papers. **Kornher et al.** address the question of how improving port efficiency and service quality can enhance agricultural exports in Ghana, particularly by helping firms meet food trade standards. The authors develop a theoretical model suggesting that exporters are willing to pay for better port services if the benefits from reduced border rejections outweigh the costs. Using data from 120 agri-food exporters, the study finds that about two-thirds of firms are willing to pay to reduce port handling time and spoilage risks. The findings highlight the critical role of trade facilitation in boosting agricultural exports and reducing poverty among smallholder farmers. **Vogel** examines the determinants of export diversification in African countries. Applying Bayesian Model Averaging (BMA) to analyze 46 drivers across 47 African countries and 123 trading partners from 1995 to 2018, the study finds that structural factors, such as institutions and education, play a key role in shaping Africa's concentrated export baskets. Trade policies, particularly tariffs and regional integration, are also crucial in promoting diversification, with the AfCFTA having the potential to support this. Additionally, non-trade factors like financial development and exchange rate stability are significant, highlighting that different policies may be needed for diversification across sectors and contexts. **Hoekman et al.** examine how trade participation affects firm productivity across all sectors in Uganda, using detailed administrative records. The study finds that firms involved in trade, particularly through importing, experience a productivity boost, while exporting firms show higher productivity only in the manufacturing sector. Contrary to expectations, increased use of service inputs does not strengthen the link between trade and productivity. In fact, a higher share of spending on services may weaken this relationship, suggesting that the quality of available services may not meet the standards needed for global competitiveness.

The remaining three papers explore the link between FDI and employment. **Men-dola et al.** investigate whether multinational enterprises (MNEs) create local job opportunities in Sub-Saharan Africa. Analyzing data on multinational affiliates and individual labor supply over more than a decade, the study finds that proximity to

a multinational affiliate increases employment by about 4%. Foreign multinational affiliates are associated with a shift toward off-farm jobs and a reduction in on-farm employment. Additionally, female employment and “good jobs” rise near foreign affiliates. These results indicate that MNEs play a role in local labor market transformation. Looking at the case of Ghana, *Benfratello et al.* study how FDI drives shifts in the employment shares of the industries in which they operate. To this end, the authors match data on greenfield FDI with individual-level information on workers employed in different industries. Their results show that FDI increases the share of workers employed in services across all service industries, but especially in retail trade. The effect is more pronounced for educated workers, particularly women, pointing at education as a key factor to match the labor demand of foreign firms. They do not find that FDI increases the size of the manufacturing sector; rather, there are indications of a displacement effect. FDI may thus have contributed to premature deindustrialization in Ghana. *Lakemann et al.* analyze the direct and indirect employment effects of greenfield investment, the most common form of FDI in Africa. They construct a comprehensive, Africa-wide project-level dataset on greenfield FDI for the period 2013 to 2020. Based on this novel – and publicly available – dataset, they show that the total number of greenfield FDI projects in Africa is much larger than suggested, for example, by UNCTAD’s flagship World Investment Report. Descriptive analyses based on the new database and ILO employment data suggest that direct job creation in greenfield projects may be an important driver of formal employment creation in services and manufacturing in selected countries. However, direct greenfield job creation is small relative to total job creation, and indicative regressions even hint at potential crowding-out of formal employment in domestic firms.

Overall, the collection of papers in this special issue provides a combination of cross-country and case study evidence that broadens our understanding of Africa’s regional and global economic integration. While research designs and methodological approaches vary considerably, all studies share a focus on data analysis using quantitative methods. Future research could rely more strongly on qualitative methods, for instance delving deeper into sector-specific impacts of GVC participation, particularly in emerging sectors such as renewable energy, or the importance of different service sectors such as finance and IT for economic integration. There is also a need for further comparative studies between African countries and other developing regions to illuminate the unique challenges and opportunities African nations face in economic integration and development.

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