

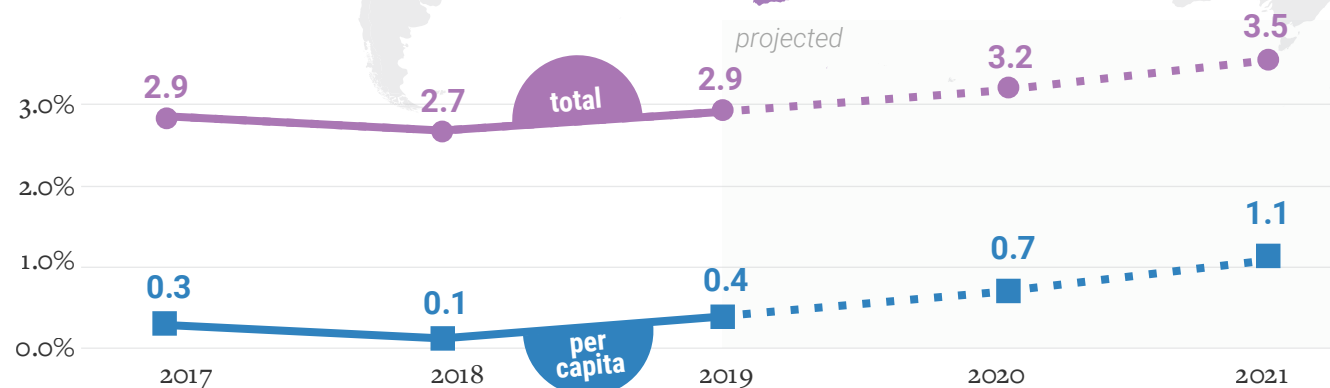
# World Economic Situation and Prospects



United Nations  
New York, 2020

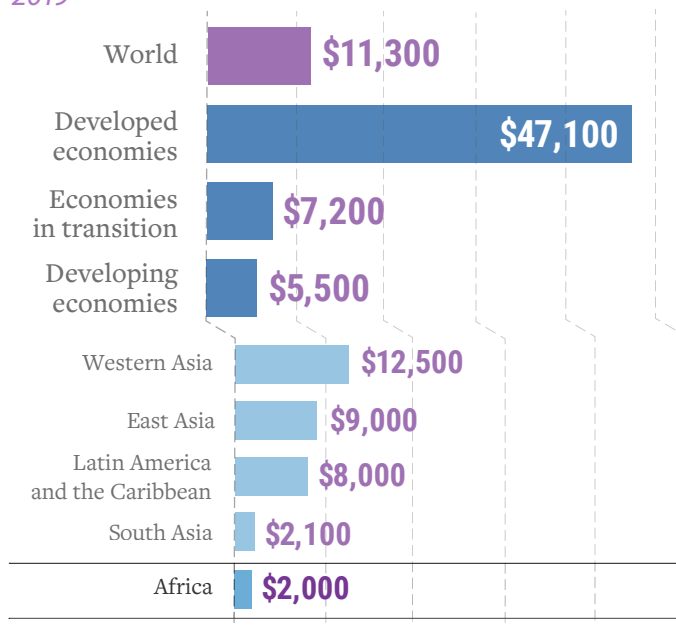
# Africa

## GDP Growth



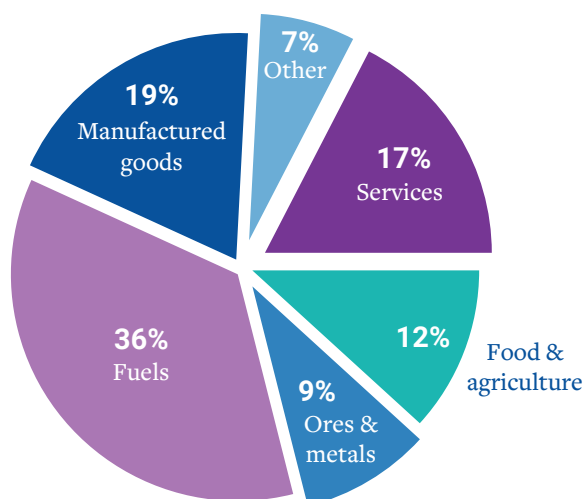
## GDP per capita

2019



## Export Structure

2018



The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined.

The map represents countries and/or territories or parts thereof for which data is available and/or analysed in *World Economic Situation and Prospects 2020*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

## Developing economies

### Africa: growth rates are insufficient for meaningful development progress

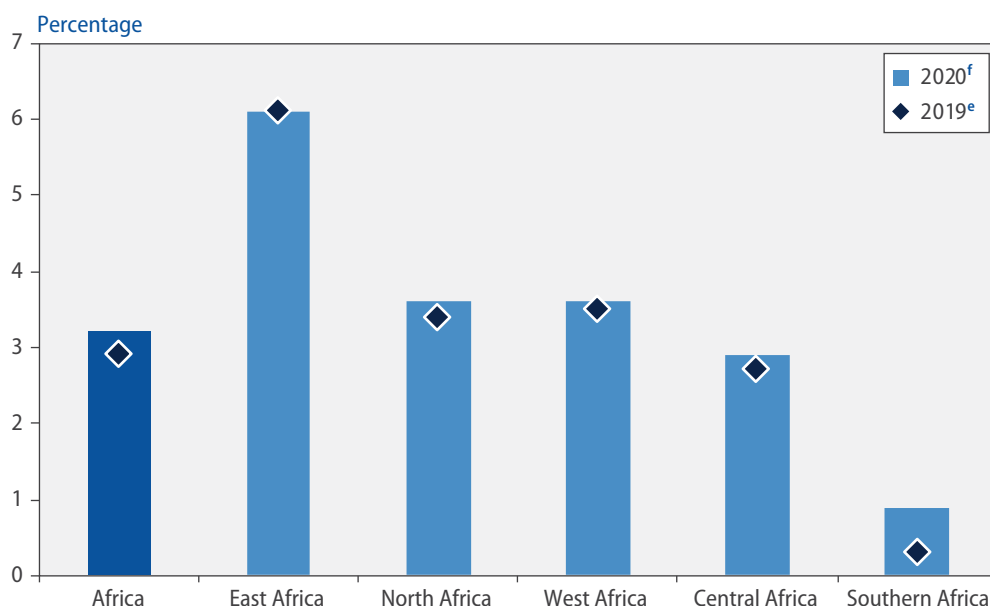
- GDP growth is inching up in Africa but is inadequate to meet development needs in most subregions.
- In GDP per capita terms, the continent has experienced a decade of near stagnation.
- Rising numbers of people in extreme poverty, elevated public debt and the lack of export diversification are key medium-term challenges.

The economic situation in Africa remains challenging amid the slowdown in the global economy, lingering effects from the collapse in commodity prices (see figure I.5), and protracted fragilities in some large countries. Situations are widely divergent across subregions, however. While economic conditions remain robust in East Africa and are improving in North Africa, growth in West, Central and Southern Africa remains inadequate to meet mounting development challenges. GDP growth for the region as a whole is projected to increase moderately from 2.9 per cent in 2019 to 3.2 per cent in 2020 (see figure III.6) and is set to accelerate to 3.5 per cent in 2021, contingent on the implementation of effective reforms and subject to large downside risks.

Africa continues to face difficulties in achieving the more robust and sustained growth path that is needed to enhance living standards across the continent. GDP per capita growth is unlikely to reach much above 1 per cent in the near term. More broadly, this decade is ending with average GDP per capita growth of only 0.5 per cent—well below the average growth of the previous decade and only marginally higher than average per capita growth in the 1980s and 1990s (see figure III.7). A step change in the rate of economic growth is needed if the region hopes to make meaningful progress towards achieving the Sustainable Development Goals.

**Growth remains subdued amid persistent fragilities in many commodity-exporting countries**

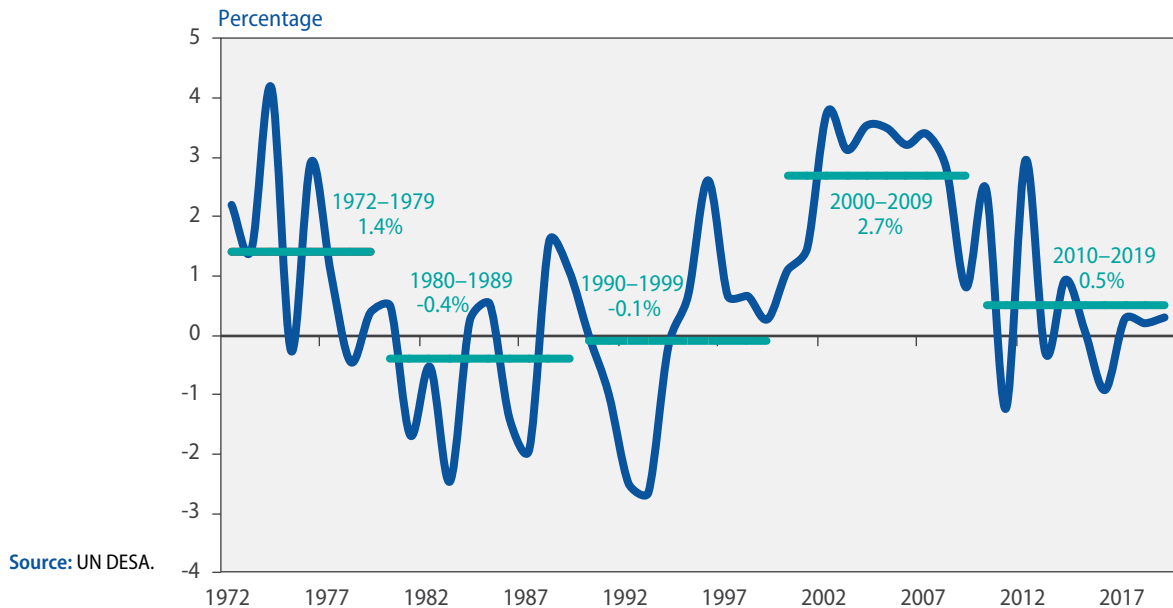
Figure III.6  
Real GDP growth in Africa, by subregion, 2019 and 2020



Source: UN DESA.

Note: e=estimates; f=forecast

Figure III.7  
Real GDP per capita growth in Africa



**Growth in North Africa  
is expected be driven by  
domestic demand in 2020**

The economic situation in North Africa is improving slightly. GDP growth is underpinned by resilient domestic demand, which is counteracting the impact of weak commodity prices and feeble external conditions, including stagnating demand from Europe, the region's largest export destination. After an estimated expansion of 3.4 per cent in 2019, GDP growth in North Africa is projected at 3.6 per cent in 2020 and 3.7 per cent in 2021. Egypt is enjoying relatively strong growth, estimated at 5.5 per cent for 2019 and projected at 5.8 per cent in 2020, owing to a robust recovery of domestic demand and easing balance-of-payments constraints. By contrast, GDP growth in Algeria is projected to be only 2.0 per cent in 2019 and 2.3 per cent in 2020 amid subdued private consumption and investment demand. The recovery in oil and gas production has helped to stabilize growth in Libya, and in Mauritania the economy is projected to grow by 4.2 per cent in 2019 and 4.6 per cent in 2020 due to a consistent expansion in investment, though growth is falling short of what is needed to alleviate poverty, which is exacerbated by progressive desertification. In Tunisia, tightening macroeconomic policies restrained growth in 2019, but a modest improvement in the balance-of-payments constraints is expected to support a recovery in GDP growth to 2.0 per cent in 2020. The economy of Morocco is projected to grow by 2.8 per cent in 2019 and 3.0 per cent in 2020, supported by stable domestic demand.

**The economic outlook  
in East Africa is largely  
favourable**

East Africa remains the fastest-growing subregion, and the economic outlook remains favourable, underpinned by vigorous domestic demand and public investments in infrastructure. In addition, the recent peace agreement signed by Djibouti, Eritrea, Ethiopia and Somalia after decades of hostilities is expected to unlock new investment, trade and business opportunities in the Horn of Africa. Growth is projected to remain stable at 6.0 per cent in 2020. In Ethiopia, economic growth is forecast to exceed 7.0 per cent in 2020 and 2021, driven by rising private investment, robust public investment and growing business confidence as a result of economic reforms; nevertheless, it is essential that Ethiopia address macroeconomic fragilities, including low levels of foreign reserves and currency shortages, high levels of debt, and an elevated current account deficit. The economic outlook in Kenya

is moderately positive. GDP growth is projected at 5.5 per cent in 2020 amid robust private consumption, higher credit growth, and rising public and private investment; in addition, rapid urbanization and further regional integration will likely continue to open up investment opportunities. Nonetheless, Kenya needs to address structural obstacles, including infrastructure gaps, skill shortages and low export diversification. In the United Republic of Tanzania, growth is projected to decelerate slightly from 5.8 per cent in 2019 but to remain relatively high at 5.5 per cent in 2020. Economic activity is expected to be underpinned by robust domestic demand and investments in infrastructure, supported by foreign investments and an expansionary fiscal stance.

Domestic demand is also underpinning GDP growth in West Africa, where the rate of economic expansion is expected to remain steady at 3.5 per cent in 2019 and 3.6 per cent in 2020. Robust growth in the member countries of the West African Economic and Monetary Union (WAEMU)<sup>4</sup> is offset by sluggish economic activity in Nigeria. Growth in Nigeria is estimated to have picked up to 2.1 per cent in 2019 as oil production trended upwards and private sector sentiment improved. In 2020, growth is projected to rise slightly to 2.3 per cent, but in per capita terms the economy will continue to contract in the absence of major structural reforms. Furthermore, the medium-term outlook is limited by severe infrastructure deficiencies and a weak macroeconomic policy environment, including multiple exchange rates, high inflation and low non-oil revenues. The outlook in Ghana remains positive amid vigorous private consumption and buoyant government expenditure. GDP growth is projected to slow in 2020 but to proceed at a healthy pace of 6.0 per cent. In Côte D'Ivoire, GDP growth is decelerating slightly after the expansion of 7.4 per cent in 2019 owing to lower external demand and the negative impact of volatile commodity prices on industrial production, but growth is expected to remain robust at 7.1 per cent in 2020. Growth is also projected at about 6 per cent or more in Benin, Burkina Faso, Niger and Senegal.

The economic situation in Central Africa is challenging, as recovery from the collapse of oil prices in 2014/15 remains fragile amid security instability in some countries. GDP growth stood at 1.6 per cent in 2018 and is projected at 2.7 per cent for 2019 and 2.9 per cent in 2020, supported by rising oil production in several economies. In terms of per capita growth, however, the subregion remains largely stagnant. The economy of Cameroon expanded at a solid pace of 4.0 per cent in 2019, driven by higher gas production and continued growth in construction and services. Growth is projected to pick up to 4.2 per cent in 2020 due to rising exports as new projects in the gas sector progress. Solid growth of about 4.6 per cent in 2019 and 4.8 per cent in 2020 is expected for the Central African Republic, reflecting improving security conditions, rising investment in infrastructure and better standards of policy management. The pace of growth in Chad is projected to accelerate from 3.8 per cent in 2019 to 5.5 per cent in 2020, underpinned by rising oil production due to new oilfields coming on stream and more efficient extraction policies. Meanwhile, the economy of Gabon is projected to expand by 2.5 per cent in 2019 and 2.8 per cent in 2020, reflecting rising oil production and emerging green shoots of non-oil growth.

The economic situation in Southern Africa deteriorated in 2019, with several economies stagnant or in recession amid weak investment, energy shortages, high unemployment and catastrophic weather. After an estimated expansion of only 0.3 per cent in 2019, GDP growth is projected at 0.9 per cent in 2020 before gradually recovering to 1.9 per cent in 2021. In per capita terms, economic activity in the subregion will continue to contract until

**Growth in West Africa is expected to remain stable but below potential in 2020**

**Mild economic expansion will likely occur in Central Africa as oil production rises**

**Many countries in Southern Africa are experiencing subdued growth**

<sup>4</sup> The eight WAEMU members include Benin, Burkina Faso, Côte D'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

at least 2021. In South Africa, growth is estimated at 0.5 per cent for 2019, remaining well below potential amid weak investment, energy shortages and high unemployment. Prospects for a vigorous recovery are feeble, as the economy will likely continue to be negatively affected by policy uncertainties, weak business sentiment and limited fiscal policy space. Consequently, GDP per capita growth is projected to remain in negative territory in 2020. Meanwhile, the economic recession in Angola is expected to continue amid declining oil output and difficulties in attracting foreign investments. GDP growth is projected to enter positive territory only in 2021, though in per capita terms it will continue to contract for the seventh consecutive year. The economy of Zimbabwe is experiencing a severe crisis amid foreign currency shortages, elevated public debt and uncontrolled inflation. One exception in the subregion is Malawi, which is projected to expand by more than 4 per cent in 2020 and 2021. Economic activity will be underpinned by an improving business climate, better access to credit, and the rebuilding of infrastructure destroyed by Cyclone Idai.

**Africa faces downside risks on both domestic and external fronts**

The short-term risks across African subregions are tilted to the downside. On the domestic front, agricultural output is highly exposed to weather-related shocks, with potential for dire economic and social consequences. In addition, political conflicts, social instability and security concerns are major downside risks across the continent and can affect the short-term outlook in many countries in the region. There is also an elevated risk that difficult economic conditions in some countries in Southern Africa could become more entrenched, leading to more prolonged recessions in Angola, Namibia and Zimbabwe. The upsurge in external sovereign bond issuances has also raised debt sustainability concerns in some countries, which could be exacerbated by external or domestic shocks, including slippages in fiscal management.

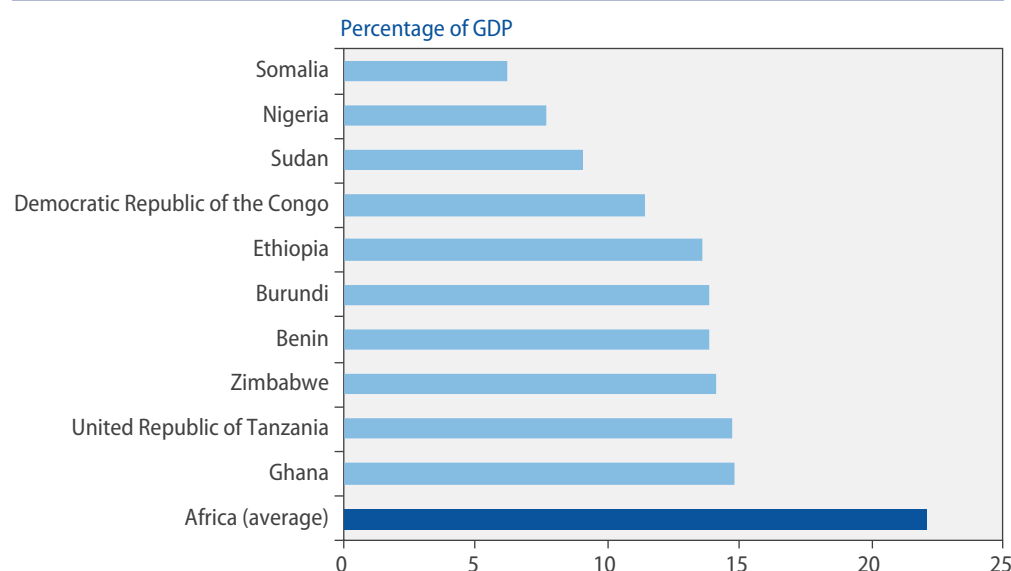
On the external front, a further deterioration in global growth (driven by China or the European Union, for example) could significantly affect the outlook in Africa through several channels, including reduced demand and commodity prices, lower capital inflows and FDI, and lower income from remittances and tourism. In North Africa, a substantial slowdown in capital inflows may tighten balance-of-payments constraints in those countries with chronic current account deficits. Similarly, some Central and West African economies are particularly vulnerable to oil price volatility, and lower oil prices could significantly worsen their fiscal positions (see figure II.6).

**Fiscal consolidation is ongoing across much of the African continent**

Fiscal consolidation continues in most parts of Africa. In 2019, the aggregate fiscal deficit is estimated to have declined moderately due to expenditure cuts, especially in oil-importing countries. However, fiscal deficits among oil exporters widened as a result of the slower-than-expected increase in oil prices. In North Africa, Egypt, Morocco and Tunisia have seen a modest improvement in fiscal positions. In East Africa, fiscal deficits are elevated in many countries, as government spending is a key driver of economic growth. However, there is significant heterogeneity among countries; Ethiopia shows a relatively contained fiscal deficit, though debt levels are relatively high, while Burundi, Djibouti and Eritrea have elevated deficits. Fiscal consolidation is moving forward in Central Africa through deliberate reforms such as measures to increase non-oil tax revenues, expenditure prioritization, and significant reductions in expenditures, including public investment. WAEMU members are striving to adhere to the regional fiscal deficit convergence criterion of 3.0 per cent of GDP, with efforts including curbing tax exemptions and enforcing regional tax policy directives. Given rising expenditures, the fiscal deficit is expected to widen in some countries, including Ghana. Meanwhile, in Southern Africa fiscal deficits are deteriorating as a result of difficult economic conditions in Angola, South Africa and Zimbabwe and lower-than-expected oil prices in Angola.

With average general government revenues at only 22 per cent of GDP (see figure III.8), increasing domestic revenue mobilization constitutes a major challenge across Africa (see box III.2). In many countries, fiscal accounts are weak and volatile and are subject to fluctuations in commodity prices, especially oil. It is imperative for hydrocarbon exporters such as Algeria, Angola, Chad, Equatorial Guinea, Gabon, Nigeria and Sudan to diversify fiscal revenues. Recent reforms such as those in Nigeria have so far fallen short of significantly increasing non-oil revenues. Notably, tax revenues in Africa remain low (under 15 per cent of GDP in several countries) relative to the continent's potential and to what is required for implementing countercyclical, redistributive and inclusive fiscal policies aligned with the 2030 Agenda.

Figure III.8  
**General government revenues in selected countries in Africa**



Source: UN DESA, based on data from IMF, World Economic Outlook database, October 2019.

Note: Data refer to the average of 2017–2019.

Monetary policy stances eased in many African countries throughout 2019 amid lower inflationary pressures, greater exchange rate stability and higher levels of reserves. Interest rates were cut in about a dozen economies, including Angola, Botswana, Egypt, the Gambia, Ghana, Malawi, Mauritius, Mozambique, Nigeria, South Africa and Uganda.

There are some exceptions across the region, however. The central banks of Tunisia and Zambia tightened their monetary policy stances due to high inflationary pressures and the depreciation of domestic currencies. Some countries in West Africa, such as Sierra Leone, might also find more limited monetary space in the near term owing to currency pressures, food price shocks and higher international commodity prices. The regional central bank of the Central African Economic and Monetary Community (CEMAC), the Bank of Central African States, maintains a relatively tight monetary stance, which is helping to improve the external position in CEMAC countries and has supported a moderate increase in regional reserves. Against the background of elevated debt and subdued growth in many countries, monetary policies in Africa need to strike a delicate balance between promoting growth, limiting the depreciation of domestic currencies, and maintaining a manageable level of debt-servicing costs.

**With some heterogeneity, monetary policy stances eased in many countries in 2019...**



## Box III.2

**Financing sustainable development in Africa: domestic revenue mobilization**

In 2015, African countries committed to two important development agendas. The Sustainable Development Goals, which constitute the core of the 2030 Agenda for Sustainable Development, aim to leave no one behind, and the African Union Agenda 2063 establishes a blueprint for the “Africa we want”. With only a decade remaining to realize the Sustainable Development Goals, the region’s countries continue to search for policy approaches to facilitate and accelerate the achievement of key targets and create prosperity for all.

For many countries, financing remains the single greatest challenge. According to UNECA estimates, Africa will need to raise an additional 11 per cent of GDP per year for the next 10 years to close the financing gap and achieve the Goals.<sup>a</sup> Tax revenue in Africa, at 15.2 per cent of GDP in 2018, remains low relative to the continent’s potential and in comparison with what is collected in other regions, where the corresponding proportions for 2018 were 18 per cent in Oceania, 16.5 per cent in Latin America, and 25 per cent in Europe.

The UNECA *Economic Report on Africa 2019* identifies some policy reforms through which African countries can maximize domestic revenue mobilization. The *Report* highlights the following six key findings on fiscal policy in Africa (UNECA, 2019, pp. xvii–xix):

- Fiscal policy can be an anchor for macroeconomic stability and a key tool for achieving the Sustainable Development Goals;
- Corporate tax reductions offer little incentive for investments;
- Indirect taxes have been the main source of tax revenue;
- Improving the efficiency of revenue collection could greatly increase non-tax revenue;
- Leveraging the use of information technology could tighten compliance and lower administrative costs;
- Base erosion and profit shifting are major sources of revenue leaks.

African countries have the potential to increase government revenues by as much as 12–20 per cent of GDP through the adoption of policies to strengthen revenue mobilization in six key areas:

- **Countercyclical fiscal policy.** Countries can preserve macroeconomic stability by aligning fiscal policy with the business cycle, raising taxes and reducing spending during economic booms while lowering taxes and increasing spending when economic activity slows. Countries that have implemented countercyclical fiscal policies, such as Morocco, have enjoyed higher revenue on average (19.6 per cent of GDP between 2010 and 2015, in comparison with an average of 15.1 per cent for Africa as a whole during the same period).
- **Tax policy.** Broadening the tax base can be achieved by bringing hard-to-tax sectors such as agriculture, the informal economy, the digital economy and the natural resources sector into the tax net. In particular, “limiting the use of tax incentives in agriculture and natural resources sectors could stem tax leakages and enhance revenue collection” (UNECA, 2019, p. xix). A number of African countries have adjusted tax rates to encourage investment. In Lesotho, for example, the standard corporate income tax rate was lowered from 35 to 25 per cent and the tax rate for manufacturers from 15 to 10 per cent in 2006; as a consequence, “revenue from corporate income taxes rose from 1.7 per cent of GDP in 2006 to 2.1 per cent of GDP in 2007 and to 4 per cent of GDP in 2009” (ibid., p. 57).
- **Non-tax revenue.** “Investing in better data collection methods and implementation could strengthen monitoring of non-tax revenue collection and non-reporting” (ibid., p. xix). Non-tax revenue contributes significantly to government revenue in Africa, averaging 4.5 per cent of GDP for the region as a whole. However, the majority of countries collect below their potential; the average non-tax-revenue effort index for low-collecting countries is 0.64.<sup>b</sup> Improving collection efficiency in these countries could boost average non-tax revenue from the current 2.6 per cent of GDP to 4.5 per cent of GDP—which would also have a significant impact on the regional average.

<sup>a</sup> A survey carried out on required financing for the Sustainable Development Goals in Africa indicates that incremental financing needs amount to approximately 11 per cent of GDP (UNECA, 2019, table 2.1, p. 29).

<sup>b</sup> Non-tax revenues “include royalties, fees for mining rights, dividends on government investments in State-owned enterprises and in stock portfolios, sovereign wealth funds and government shares in joint ventures with private operators” (ibid., p. 78).

(continued)



- **Tax administration.** “Reforming tax administration systems through digitization and other information technologies could increase revenue mobilization” (ibid., pp. xix-xx). “South Africa introduced e-filing in 2003 for the VAT and pay-as-you-earn taxes, expanding it in 2006 to cover corporate and personal income taxes. Tax compliance costs dropped 22.4 per cent and time to comply for the VAT dropped 21.8 per cent” (ibid., p. 113).
- **Natural resource sector policy options.** Strengthening “oversight of the natural resources sector” and closing loopholes to “thwart base erosion and profit shifting” could increase tax revenues for African countries. Countries could “consider a more equitable and less administratively challenging approach to assessing what share of multinational corporations’ profits to tax, ... or they could base taxes on variables that are harder to manipulate than corporate income” (ibid., p. xx).
- **Debt policy.** “The new dynamics of public debt in Africa call for adapting debt sustainability strategies and frameworks to current debt portfolios. That includes improving revenue mobilization to enhance debt servicing and reduce long-term borrowing. ... [B]etter debt management strategies underpinned by increased deepening of domestic capital markets and reliance on local currency-denominated debt instruments” will be imperative [ibid., p. xx].

Finally, stable FDI and limited international aid budgets “mean that African countries need to look inward for financing, particularly through prudent fiscal policy. Coordinating fiscal and monetary policy is vital, since both tools must work together as stabilizers if they are to be effective in achieving the triple goals of growth, employment and stability. Taxation and spending must take the business cycle into account. It is imperative to understand the sources of government revenue and how countries can ramp up their revenue collection to support development” (ibid., p. 163).

Box III.2 (continued)

Source: This box draws from UNECA (2019).

Inflation is projected to remain relatively stable, declining slightly from 9.1 per cent in 2019 to about 8.2 per cent in 2020 and 7.3 per cent in 2021. In North Africa, average inflation is expected to remain below 10 per cent. In Egypt and Tunisia, inflation declined recently amid improving balance-of-payments conditions. Most of the economies in other parts of Africa also exhibit comparatively stable inflation rates.

In a number of countries, however—particularly those with severe macroeconomic imbalances—inflation is elevated. In Zimbabwe, economic and financial conditions have deteriorated substantially, prompting the return of hyperinflation. In South Sudan and Sudan, inflation remained above 50 per cent in 2019 amid the monetization of fiscal deficits and elevated balance-of-payments constraints. Inflation is also in the double digits in West African countries such as Liberia and Sierra Leone, which have suffered sharp depreciations or have larger fiscal deficits.

Such cases notwithstanding, inflation has visibly receded across the continent in recent decades, and elevated inflation is increasingly the exception. For instance, the economic and monetary unions of West and Central Africa have their currencies pegged to the euro, which gives them higher credibility frameworks. In some other countries, reformed monetary frameworks have given more independence to central banks, while inflation-targeting regimes have been introduced in Ghana and Uganda.

Africa faces major challenges in the medium term. Poverty levels remain high, making it increasingly unlikely that the region’s Governments will achieve Sustainable Development Goal 1—or any related Goals or associated targets—within the next decade. Although the poverty headcount ratio declined from above 55 per cent in 2002 to about 36 per cent in 2019, the pace of reduction has stagnated in recent years, and the poverty gap—defined as the mean income of the poor relative to the poverty line—remains very high. The numbers of people living in extreme poverty (those subsisting on less than \$1.90

...as inflation figures remain relatively stable in most economies

In Africa, the goal of eliminating extreme poverty by 2030 is moving further out of reach

per day) continue to rise in sub-Saharan Africa and currently account for more than half of the extreme poor globally. The Democratic Republic of the Congo, Ethiopia and Nigeria are among the five countries with the largest populations living in extreme poverty and are home to about 23 per cent of the world's poor. The poverty situation has been exacerbated by the growth slowdown since the collapse in commodity prices in 2014/15. Worryingly, recent UN DESA estimates indicate that extreme poverty levels may continue to rise over the next decade, even in some of the fastest-growing economies of East and West Africa, amid rapid population growth (United Nations, 2019b).

**A much stronger link between economic growth and job creation is needed to reduce poverty**

Reducing extreme poverty requires a substantial acceleration in economic growth and a much stronger connection between such growth and job creation, together with reductions in high levels of inequality and the effective implementation of social protection systems. Job creation is a major concern, particularly given the significant youth bulge across the continent. It is estimated that 10 million to 12 million individuals join the labour force each year, and the numbers are expected to rise over the next decade. While this can potentially yield enormous benefits, translating the youth bulge into a demographic dividend will depend on the capacity of countries to create a sufficient number of productive jobs.

Youth unemployment and underemployment rates remain high in Africa, and many young people end up in vulnerable occupations, self-employed or in the informal sector. Large numbers of university graduates struggle to find jobs because of a lack of employable skills or skill mismatches with market requirements. In North Africa, youth unemployment rates exceed 25 per cent in Algeria, Egypt and Tunisia. The highest youth working poverty rates—averaging around 70 per cent—are found in sub-Saharan Africa. Youth unemployment has also risen in some large economies recently. In Nigeria, youth unemployment surged from less than 15 per cent in 2015 to above 35 per cent in 2018, with more than half of the country's young people unemployed or underemployed.

**Public debt remains elevated in a number of African countries**

Elevated public debt is a challenge in several African countries, limiting the capacity to implement countercyclical and socially inclusive policies. Public debt levels exceed 100 per cent of GDP in countries such as Cabo Verde, the Congo, Djibouti, Eritrea, Mozambique and Sudan. Some economies with lower debt ratios, including Zimbabwe, face increasing repayment burdens. Over the past decade, the rise in public debt has been driven by expansionary fiscal policies and knock-on effects from the commodity price shock of 2014/15, while search-for-yield behaviour among investors has encouraged external borrowing. The expansion of debt is gradually moderating as a result of fiscal consolidation efforts; however, there are large variations among countries. In 2019, several countries continued to issue Eurobonds. South Africa raised \$5 billion in its largest bond issuance to date, while Benin, Egypt and Ghana collectively raised more than \$7.6 billion. The recent upsurge in the issuance of foreign currency-denominated bonds has raised concerns regarding debt sustainability, as the growth outlook remains fragile. In addition, servicing debt can become problematic for countries with high currency and maturity mismatches (for example, where bonds with short-term maturities are used to finance long-term infrastructure projects).

**Africa needs to balance financing an ambitious development agenda with sustainable debt levels**

Caveats notwithstanding, generating resources through external borrowing and domestic revenue mobilization is essential for financing productivity-enhancing investments. As recent external bond issuances tend to come with longer maturities, financing costs can stay relatively low. The challenge in Africa—taking into account low tax revenues, limited foreign equity investments and stable aid budgets—is to balance the urgent need to finance an ambitious development agenda with sustainable levels of debt that do not constrain macroeconomic policymaking. First, however, there is a need to improve

debt management, which requires transparency and information-sharing among borrowers and lenders. This is becoming increasingly difficult with the expansion of non-traditional private lenders and more complex types of debt financing; it is essential that steps be taken to enforce responsible lending in such contexts, as the codes of conduct from the Group of 20 (G20) and OECD are binding only for traditional lenders.

Economic diversification is a top priority but has yet to gain much traction in Africa. As growth continues trending with commodity price cycles, the need for a systematic diversification of the productive structure is clear. Industrialization lies at the heart of this transformation. However, other than in Egypt and South Africa, economic diversification across the continent remains low, though recent improvements are evident in a few countries, including Ethiopia, Morocco and Rwanda, as a result of proactive industrial policies. Also, global value chains tend to bypass the continent, as most African countries still export mostly raw or minimally processed goods.

There is some cause for optimism, however, as last year witnessed one of the most relevant policy developments in recent years. The Agreement Establishing the African Continental Free Trade Area (AfCFTA) was adopted in 2018 and entered into force in 2019. The AfCFTA—on track to launch in mid-2020—will create a single market for goods and services covering 1.2 billion consumers with aggregate income of close to \$2.5 trillion. The Free Trade Area is expected to promote regional trade and investment integration, which has so far remained disappointing. This will likely encourage the diversification of export markets, as trade costs have been shown to be a decisive factor in firms' decisions (see box I.1). Since a significant portion of intra-African trade occurs in manufacturing, there are also expectations that the AfCFTA can promote industrialization and the creation of higher-paying productive jobs. However, these benefits are contingent on the strengthening of productive capacities. For this, a much broader and more strategic set of policies is needed for the development and support of key areas such as infant industries, FDI, innovation, science and technology, and labour markets.

**Diversification requires proactive industrial policies in Africa**