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Economic Commission for Africa

# CITIES: GATEWAYS FOR AFRICA'S REGIONAL ECONOMIC INTEGRATION



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# **CITIES:** GATEWAYS FOR AFRICA'S REGIONAL ECONOMIC INTEGRATION

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# EXECUTIVE SUMMARY

## Background

Urbanization and regional trade integration are dual megatrends, and each is likely to have a powerful impact on African economies and broader economic development throughout the region. While African urbanization and African trade integration have both been extensively studied and are the subject of ongoing policy dialogue, the relationship between the two trends has yet to be examined in depth: the present report aims to address that knowledge gap. Understanding that relationship is critical if African countries are to maximize the benefits of regional trade, as the majority of value-added tradable goods are produced and consumed in cities. Indeed, the emerging opportunities stemming from regional trade are vitally important for African cities, where many are now trapped in precarious employment in unproductive and badly-paid non-tradable sectors.

African cities are expanding rapidly and urbanization is often touted as a driver of development. In fact, urbanization and income are highly correlated both in Africa and outside the continent. African countries are, however, urbanizing more rapidly and at a lower gross national income levels than other global regions, presenting major challenges for policymakers seeking to ensure that urban job creation and infrastructure development keep pace with population growth.

At the same time, regional trade is receiving increased attention, particularly with the signing of the Agreement Establishing the African Continental Free Trade Area. Trade under the terms of the Agreement began in 2021, and the Agreement is expected to increase trade among African countries by between 50 and 69 per cent, thereby boosting African gross domestic product (GDP) by up to \$44 billion, an amount similar to the GDP of Tunisia or the Democratic Republic of the Congo. It has been estimated, moreover, that full implementation of the Agreement provisions on non-tariff barriers and traded services could more than double the expected increase in continental GDP. Initial gains are expected to come, primarily, from increased trade in agriculture, food and manufacturing, with particular progress occurring in job-rich subsectors such as transport equipment, machinery, dairy products and textiles (African Union and Economic Commission for Africa (ECA), 2020; ECA, 2020b).

The economic benefits of trade are well established. Welfare gains from trade are associated with both exports and imports. But trade has not always benefitted Africa: colonial legacies are deeply embedded in the trade patterns linking Africa with the rest of the world and, while Africa exports its natural resources to countries outside the continent, it imports a large share of the finished goods and services that are needed to create urban jobs and drive economic development.

Intraregional trade is different, however. The combined power of proximity, which in the context of regional trade is further facilitated by shared cultures, identities and languages, and the potential for high growth rates make intraregional trade a promising engine for development, particularly as efforts are made to reduce the high tariff barriers that impede trade among African countries. Also promising is the composition of regional trade: the share of intra-African exports comprised of manufactured goods is three times higher than the share of African exports to the rest of the world that comprises those goods. Overall, African cities stand to reap significant benefits from implementation of the Agreement Establishing the African Continental Free Trade Area, both in terms of their consumption of imports and the production of goods for export.

## Key findings

- Cities, as centres of consumption and production, are likely to play a leading role in realizing the economic gains stemming from regional trade integration, as underpinned by the Agreement Establishing the African Continental Free Trade Area, which addresses trade in goods, trade in services and e-commerce;
- Regional trade integration has the potential to improve the well-being of Africans by connecting urban centres to both imports and exports, thereby expanding access to cheaper and a wider variety of final goods, services and intermediate inputs;
- Urban consumption can help drive the continent's economic transformation if demand is met via African production and regional trade;
- The spatial impact of regional trade could help transform the African continent's system of cities, contributing to the increase in importance of small and mid-sized cities, strengthening regional hubs, and connecting rural producers to markets for their products;
- Cities require increased policy support and targeted investment to realize their full potential as hubs for the production of regionally-traded manufactured goods and services;
- Enhancing connections with African cities, including to special economic zones and regional corridors, is a prerequisite for the development of robust regional value chains under the Agreement Establishing the African Continental Free Trade Area;
- Policies are needed to broaden the benefits of trade, by both minimizing spatial disparities stemming from the uneven distribution of trade gains within countries, and by leveraging the economic growth potential of least developed countries and countries that are poorly integrated into regional value chains.

## Key policy recommendations

### Implement trade policies with cities in mind

- (1). Align national strategies to promote implementation of the Agreement Establishing the African Continental Free Trade Area with urban consumption and production opportunities;
- (2). Fast track digital trade and e-commerce initiatives within the context of efforts to implement the Agreement Establishing the African Continental Free Trade Area, and improve national regulatory frameworks and digital infrastructure to foster the development of e-commerce.

### Invest in cities according to their role in regional trade

- (3). Integrate small cities into regional value chains, particularly in the agricultural and processed food sectors;
- (4). Support the role of mid-sized cities in labour-intensive manufacturing;
- (5). Scale up support to large cities to realize their economic potential, especially those that are poised to become regional trade hubs.

## Ensure that cities stand ready to take advantage of emerging trade opportunities

- (6). Connect urban-based exporters and consumers with rural producers;
- (7). Strengthen the connections between special economic zones and cities;
- (8). Expand the focus of transnational corridor programmes to cities and to urban activities;
- (9). Provide populations in isolated or marginalized areas with job and human development opportunities.

## Support decision-making with disaggregated data

- (10). Align trade policies with sectoral and spatial policies through the generation and use of spatially- and gender-disaggregated economic data.

The opportunities arising from the nexus of regional trade and cities will differ by country. The process of translating the above recommendations into actionable policies should begin with assessments of the particular trade contexts of individual Africa countries. A companion volume to this report, entitled “Cities: Gateways for Africa’s Regional Economic Integration – a policy toolkit”, provides guidance on assessing regional trade opportunities with relevance for urban consumption and production, locating those opportunities in a spatial context, and identifying key challenges to be addressed and the prerequisites for a spatially-grounded and cross-sectoral planning framework.

Furthermore, a set of guidelines developed by ECA to support the formulation of national strategies to promote implementation of the Agreement Establishing the African Continental Free Trade Area outline ways to identify key opportunities for and constraints impeding value addition and trade (ECA, 2020).

# I. INTRODUCTION

Urbanization and regional trade integration are dual megatrends, and each will have a powerful impact on the future of African economies and broader economic development throughout the region. Both hold major promise as “drivers of development” and could promote the creation of productive jobs and economic diversification across the continent if they are supported by appropriate policy frameworks tailored to the diversity of African economies.

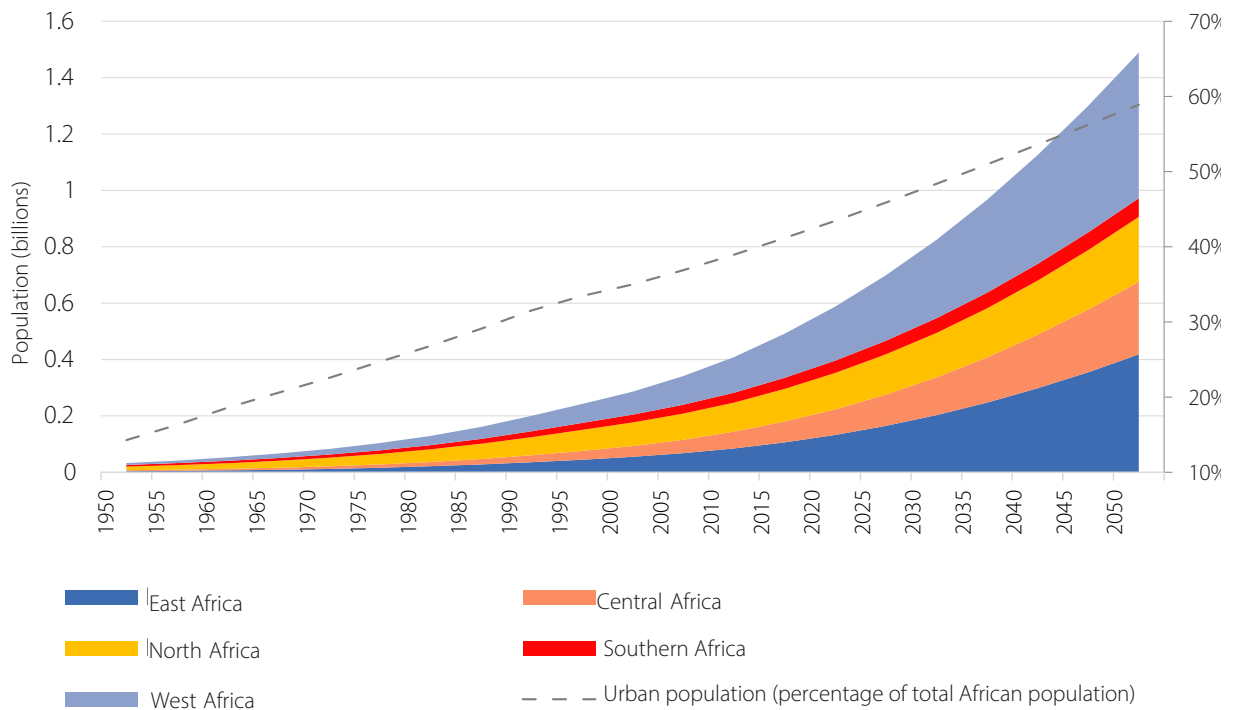
While African urbanization and African trade integration have both been extensively studied and are the subject of ongoing policy dialogue, the relationship between the two trends has yet to be examined in depth. How will the African continent’s shift toward cities impact regional trade integration? And how will regional trade integration affect the continent’s economic geography? These are key questions addressed in the present report.

This report is laid out as follows: the remainder of this introduction provides a brief background on urbanization and regional trade integration. A conceptual framework for assessing the relationship between the two trends is then described. Section II looks at the ways in which regional import consumption shapes urbanization and vice versa. Sections III and IV focus on links created by the production of traded goods and services: how regional trade affects urban economic geography (Section III); and how cities and economic geography shape regional trade integration (Section IV). Section V sets out a number of policy recommendations and potential policy entry points.

The focus of the present report is on the relationships between regional trade and economic geography, with particular attention given to the role of cities. The goal of the report is to examine the nexus between African trade integration and urban economic geography. The report touches on a number of relevant issues, including the likely impact of trade on spatial disparity among and within countries, but does not examine those issues in depth. Indeed, issues such as regional disparity, informality and e-commerce, and the impact of the ongoing coronavirus disease (COVID-19) pandemic on urban planning and trade will require further research. It is also important to deepen understanding of the relationship linking economic geography, cities and trade at the subregional and country levels in order to obtain more contextualized and data-driven insights into those phenomena and strengthen policy formulation.

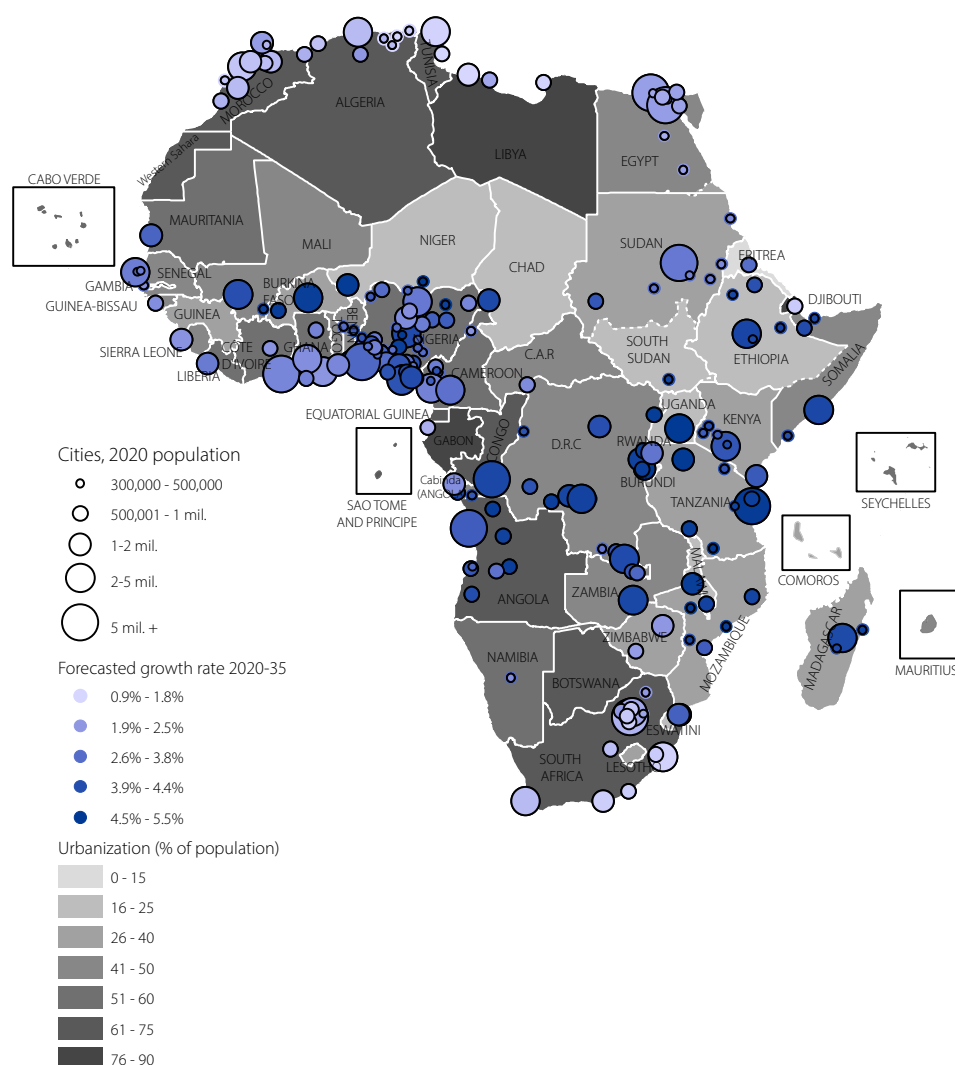
## Urbanization: background

Urbanization is a defining megatrend in Africa, with wide-ranging repercussions, including for economic growth and social development (ECA, 2017a). As illustrated in figure 1, Africa has added nearly 400 million people to its cities since 1990 and, by 2050, the continent is expected to add an additional 900 million. Urbanization is, perhaps, the most important structural transformation underway in the region. At its best, urbanization can be the essential motor of economic development, rapidly lifting societies out of mass poverty. At its worst, it results in concentrations of squalor and disaffection which ferment political fragility (Collier, 2016).

**Figure 1** Urban population of Africa, 1950–2050

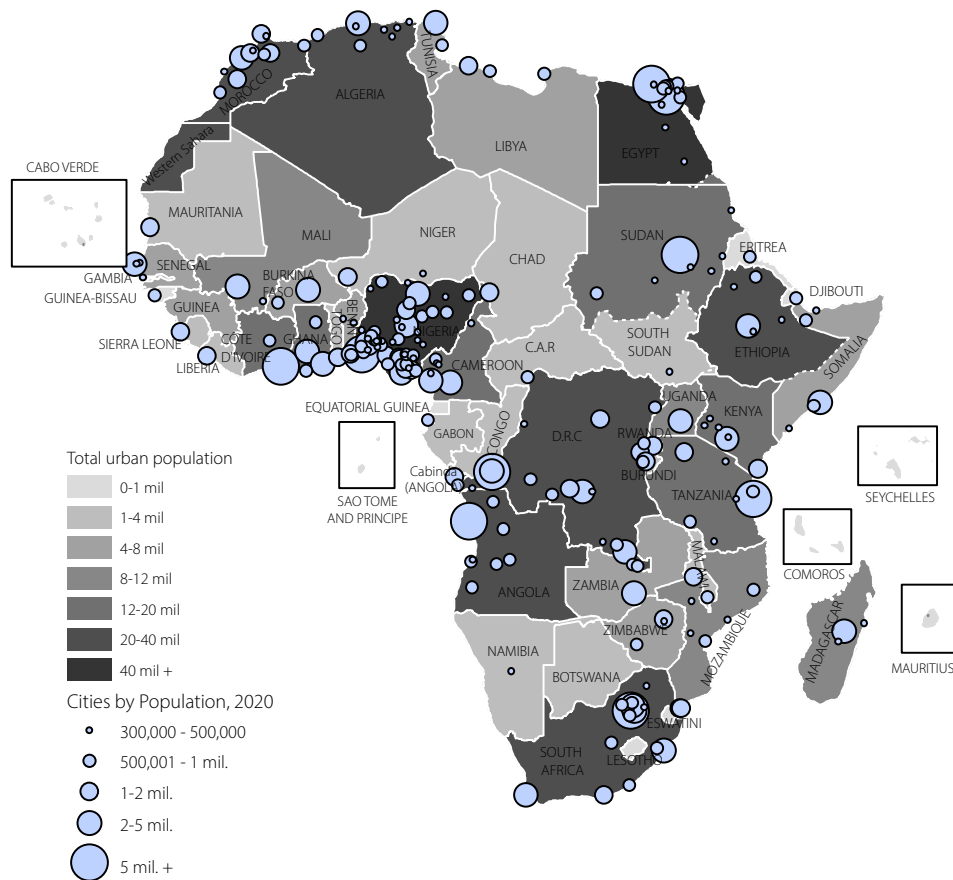
**Source:** Authors on the basis of data provided in DESA (2018).

While urbanization is a major force for change across the continent, there are significant differences among countries in terms of the extent and pace of urbanization. According to DESA, and as illustrated in figure 2, the percentage of the population living in urban areas in African countries as of 2020 ranges from 14 per cent in Burundi to 90 per cent in Gabon. By far the largest urban population is that of Nigeria, a country with over 100 million urbanites. As shown in figure 3, Egypt has the second largest urban population, followed by the Democratic Republic of the Congo and South Africa, with 44 million, 41 million and 40 million urbanites, respectively. Nigeria is also one of the fastest urbanizing countries, with urbanization of its population increasing by some 17 percentage points between 2000 and 2020 (DESA, 2018). In coming years, urban populations are expected to continue growing rapidly, with the fastest urban population growth rates in East, Central and West Africa.

**Figure 2** African urbanization levels, major cities and city growth rate forecasts to 2035

**Source:** Authors on the basis of data provided in DESA (2018).

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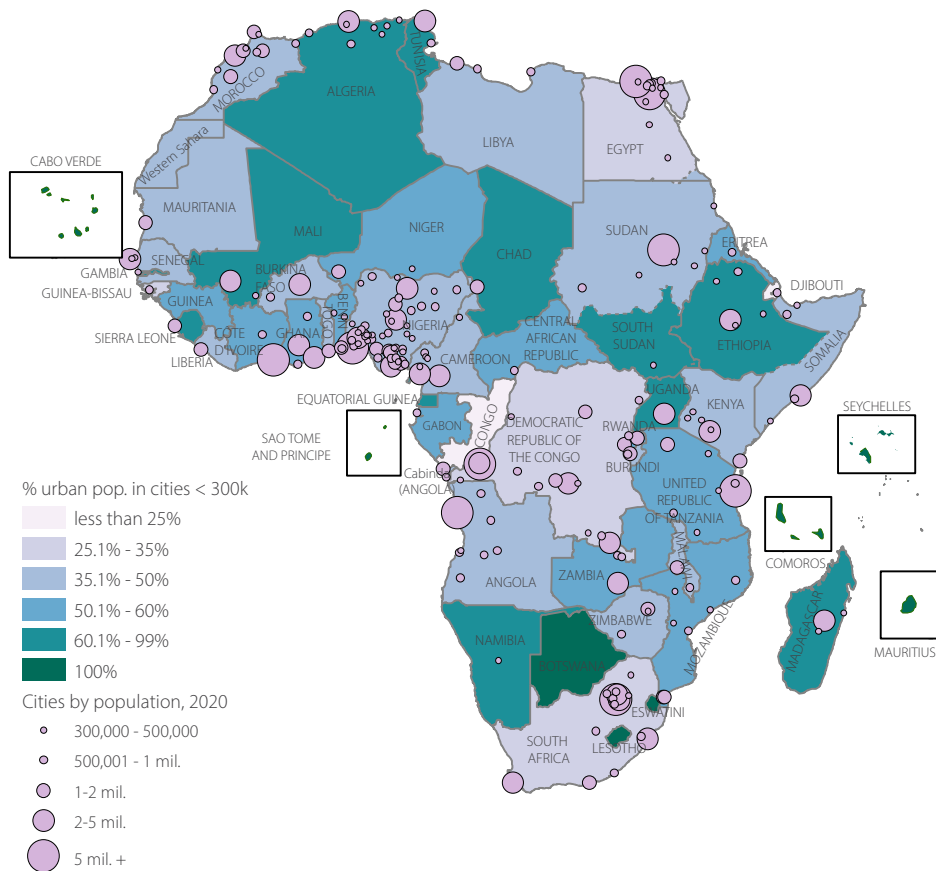
**Figure 3** Large cities in Africa and urban populations by country, 2020

**Source:** Authors on the basis of data provided in DESA (2018).

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African cities are relatively small compared to cities in other global regions (Collier and Venables, 2009). At the same time, the continent is characterized by high urban primacy. In African countries, a disproportionate percentage of the population live either in so-called prime cities or in small cities of under 300,000 people, while there are often few mid-sized cities (Henderson and Kriticos, 2017). As of 2015, 47 per cent of the urban population of Africa live in cities of under 300,000 people, but, as shown in figure 4, there is considerable variation among countries. Urban primacy, defined as the share of the urban population living in the largest city, tends to be higher in Africa (ECA, 2017). High primacy can be problematic for a number of reasons: the largest city becomes overcrowded and congested, while secondary cities are too small to be attractive to firms active in tradable economic sectors, which typically require the conditions created by agglomeration economies. As a result, firms are left without a variety of good urban location options and must endure the high costs associated with operating in the country's largest city (ECA, 2018). Without adequate urban public services, primacy reduces GDP (Castells-Quintana, 2017). The economic fragmentation of Africa into 54 countries is partly to blame for the challenges stemming from the continent's city-size distribution: large cities are more likely to be the largest in their own countries due to the small size of African countries, and smaller national economies are less likely to give rise to the emergence of a full range of mid-sized and large cities (Collier and Venables, 2009).<sup>1</sup>

<sup>1</sup> Reduced economic fragmentation through trade integration therefore has implications for the functioning of cities, as explored in more detail in section III of the present report.

**Figure 4** Percentage of the urban population living in cities of under 300,000 people

**Source:** Authors on the basis of data provided in DESA (2018).

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## URBANIZATION AND STRUCTURAL TRANSFORMATION

Across countries and over the course of history, urbanization and development have gone hand in hand. This holds true in African countries, where income is highly correlated with urbanization, although the relationship is not always straightforward, and rising GDP per capita does not always translate into broad-based and inclusive growth. The main economic rationale for the association between urbanization and income lies with agglomeration economies. In other words, productive advantages tend to emerge when firms and people cluster together. Those productive advantages are particularly critical in traded sectors and have a direct impact on firms' participation in regional trade.

The economic development process is characterized by structural transformation, which includes the urbanization of labour. Structural transformation is a process that increases incomes by making workers more productive. This happens via two channels: firstly, workers move from lower to higher productivity sectors. This is referred to as structural change and involves the movement out of agriculture and into industry and tradable services, activities that take place, primarily, in cities. Secondly, an economy grows as a result of within-sector productivity growth, when labour within a sector becomes more productive due to advancements in production methods, relevant know-how, technology or other inputs such as

fertilizers, improved seeds, higher-quality manufactured parts, enhanced marketing and more efficient distribution networks. As the agriculture sector becomes more productive, it sheds labour as a result of widescale mechanization. If workers are able to find productive jobs outside agriculture in cities, this generates structural change and a rise in GDP, as labour in Africa is, on average, some six times more productive outside the agricultural sector (McCullough, 2017).

There is an observable correlation between urbanization and GDP growth in Africa. As that urban growth is not accompanied by structural transformation, as has been the case in other global regions, poverty and inequality in Africa remain extremely high. This was particularly true in the 1980s and 1990s, leading to concerns regarding “urbanization without growth” (Fay and Opal, 2000). While more recent studies have revealed that positive structural change is taking place (Rodrik, McMillan and Verduzco-Gallo, 2014), there are still concerns regarding the weakness of the African manufacturing sector and what has been dubbed “premature deindustrialization” (Rodrik, 2015). African countries are, however, urbanizing more rapidly and at a lower gross national income levels than other global regions, presenting major challenges for policymakers seeking to ensure that urban job creation and infrastructure development keeps pace with population growth while mitigating the disruptions created by the economic transformation process (ECA, 2018).

The quality of cities matters. Urbanization is shaped both by the centripetal forces of clustering and by the centrifugal forces of dispersion arising from the added costs of crowding and competition for scarce land and resources in large and dense agglomerations (Fujita, 2007; ECA, 2017b). Similarly, the productive advantages of cities are shaped by the balance of economies and diseconomies of scale. If urban population growth is not supported by adequate infrastructure and effective urban management mechanisms, premature diseconomies of scale will arise, causing a loss of productivity at relatively small city sizes (ECA, 2017b). Moreover, quality of life is likely to deteriorate for urban residents, and particularly for the urban poor, while opportunities for building transit-friendly, climate resilient green cities (as explained in box 1) will be lost. The productivity of urban environments in turn shapes the potential of the wider economy to promote trade competitiveness, innovation and knowledge sharing, and its potential to attract foreign direct investment (FDI) and highly-skilled workers, all factors that are critical in economic performance.

**Box 1 Green and resilient urban growth**

The urbanization process can be environmentally beneficial or harmful, depending on the types of cities that emerge. Urban development in many African countries is still in its early stages and many of those countries therefore have an opportunity to chart a green course moving forward. In particular, they should endeavor to decouple the development of the infrastructure and industry that shape cities from a high-emissions trajectory in order to avoid lock-ins that will be costly to fix at a later date.

Similarly, the establishment of resilient cities will require careful urban development oversight. This will necessitate responsive planning approaches to guide and address private sector development needs, in addition to the prioritization of infrastructure investments with resiliency in mind. For example, investment projects for the development of streets should provide, *inter alia*, for the installation of adequate drainage systems, which will facilitate ongoing and future urban development.

Prioritization of low-cost strategies will be even more critical in countries urbanizing at relatively low gross national income levels. The development of public spaces, including streets, should be given priority attention. At early stages of urban development, providing and safeguarding a connected network of streets and public green spaces can ensure the viability of long-term high density housing projects, mass transit networks and non-motorized modes of transport, and can provide key social benefits for urban populations, including pandemic resilience.<sup>2</sup>

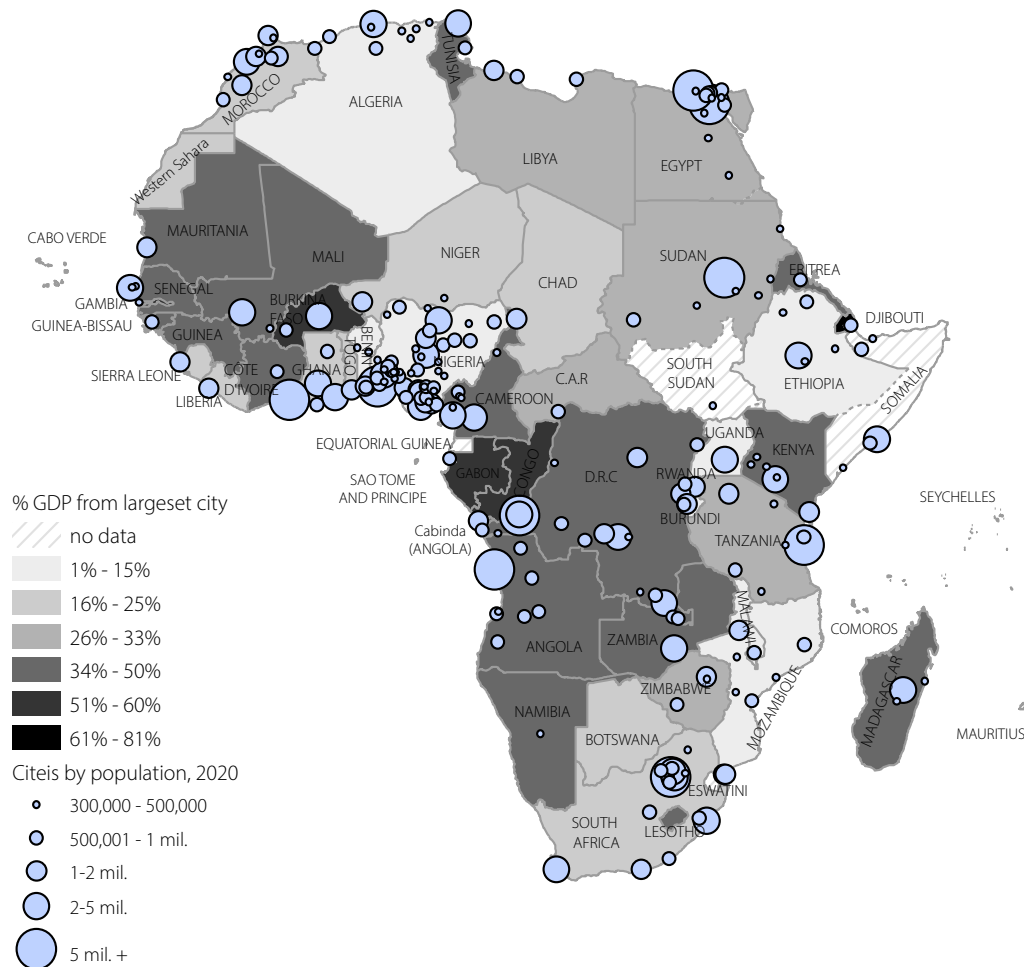
COVID-19 has shed light on the fragility of African supply chains, highlighting the urgent need to develop more robust and resilient regional value chains that can withstand future climate shocks. ECA projects that the African Continental Free Trade Area could boost intra-African trade by 52.3 per cent through the elimination of import duties. Although the Area is likely to offer new opportunities for tackling climate change in Africa, climate change also poses a significant risk to the benefits stemming from implementation of the Agreement itself. Critical linkages between trade and climate change must therefore be given priority consideration by policymakers.

In that connection, the African Trade Policy Centre (ATPC) is conducting a strategic environmental assessment of the African Continental Free Trade Area. The assessment includes: (a) the identification of environmental and climate change constraints and opportunities; (b) an evaluation of the potential environmental impact (both positive and negative) of the establishment of the Free Trade Area and policy trade-offs; (c) an analysis of performance indicators; (d) an assessment of institutional capacities at continental, regional and national levels to address environmental issues within the context of the Free Trade Area, and (e) an assessment of the feasibility of an environmental side agreement. The outcome of the assessment is expected to provide a basis for mainstreaming climate change in initiatives to promote implementation of the Agreement Establishing the African Continental Free Trade Area and in future negotiations on investment, competition policy, intellectual property rights and e-commerce.

There are significant differences among cities, both in terms of the quality of their infrastructure and services and in terms of their economic roles. Rapid urbanization is challenging, as illustrated by the prevalence of large poorly-serviced informal settlements in many African cities. According to information available in the World Development Indicators database, compiled by the World Bank, fewer than half those living in cities in Chad, Liberia, the Niger and South Sudan have access to electricity. At the same time, 100 per cent of the urban populations of Algeria, Côte d'Ivoire, Egypt, Libya, Morocco, Seychelles and Tunisia enjoy access to electricity. Similarly, urban productivity varies greatly among cities and among countries. According to estimates made by Oxford Economics, a forecasting and analysis company, and as illustrated in figure 5, the largest cities alone account for over half of national GDP in five African countries, and over a third of GDP in 16 more. However, the productivity of African cities is often constrained by poor land management and planning, low levels of human capital, fragmented spatial development, limited infrastructure and high prices (Lall, Henderson and Venables, 2017).

<sup>2</sup> More information on pandemic-resilient cities can be found in box 2.

**Figure 5** Percentage of GDP generated by the largest city in each African country and major cities by population, 2020



**Source:** Authors on the basis of data provided in Oxford Economics (2020) (% GDP generated in largest city) and DESA (2018) (cities by population).

**Disclaimer:** The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The final boundary between the Republic of the Sudan and the Republic of South Sudan has not yet been determined.

## REGIONAL TRADE INTEGRATION: BACKGROUND

The economic benefits of trade are well established. Indeed, it has been estimated that increasing the ratio of trade to GDP by 1 per cent raises per capita income by 0.5 per cent (Frankel and Romer, 1999). Trade increases economy-wide competitiveness, resulting in gains in productive efficiency and trade-induced innovation (Melitz and Trefler, 2012) and the mobility of factors to sectors and activities where countries exhibit comparative advantage (World Bank, 2018). Even when economies share similar production structures and factor endowments, as is often the case in Africa, trade-induced economic gains are realized through product differentiation among countries and economies of scale in production arising from a larger combined market size (Torre and Kelly, 1992).

Welfare gains from trade are associated with both exports and imports. Reducing barriers to exports through trade facilitation has been shown to have a positive impact on social welfare in Africa, (Sakyi, 2018). Trade gains also arise from consumption, in part because of the increased variety in available

goods and services. This has a welfare impact for consumers, who gain from a wider array of choices (Melitz and Trefler, 2012).

Trade has not always benefitted Africa, however. Colonial-era practices based on the export of African resources that provided little benefit to African workers are deeply embedded in regional infrastructure and institutions. Many African countries remain heavily dependent on exports of their natural resources, with primary commodities accounting for three quarters of the continent's exports.<sup>3</sup>

The natural resources sector tends to be job-poor, however, and overdependence on that sector can expose countries to market volatility. Imports are also skewed in ways that create few jobs, with finished goods comprising a large share of African imports. Intermediate and capital inputs account for 49 per cent of African imports, compared to 55 per cent in Latin America and 64 per cent in emerging Asian economies (United Nations Conference on Trade and Development (UNCTAD), 2019a). However, as discussed below, intraregional trade is different.

## WHY INTRAREGIONAL TRADE?

Regional trade is a powerful tool for transforming the economies of developing economies. The combination of proximity, growth potential, and opportunities for higher value-added exports differentiates intraregional trade from extraregional trade. For African economies, regional integration is more beneficial and transformative than trade with advanced economies, where trade remains particularly unbalanced (Rekiso, 2017).

Proximity is one factor differentiating intraregional trade from extraregional trade. It is typically easier and faster to trade with nearby countries, as illustrated in figure 8. Proximity cuts trade costs and enables exporters to meet just-in-time production demands, which are increasingly important due to the rise of international production networks. Gravity models predicting trade between countries highlight the importance of proximity. Typically, doubling the distance between locations halves the volume of trade between those locations (Venables, 2019). In Africa, however, cross-border trade costs are frequently very high due to inadequate infrastructure, inefficient customs processes and other border delays. Some studies have shown that it can be quicker and cheaper for African countries to trade with external partners than with nearby African countries (Longo and Sekkat, 2001; Longo and Sekkat, 2004). There is thus considerable potential for boosting trade among countries in close proximity to each other.

The impact of distance has remained strong even as transport and digital connectivity have improved. Geographic proximity is actually becoming more important for trade. This is because, while total global trade has increased, the trade between nearby countries has increased even faster. Empirical models suggest that the impact of distance is only slightly lower for services than for goods, and about one third lower for Internet commerce. Proximity is likely to remain an important factor, because, even when transport costs are reduced, shared cultures, identities and languages are unlikely to disappear: Indeed, as expressed by one researcher, "firms and traders are likely to have better information about nearby markets than remote ones, it is easier transacting in similar time zones, face-to-face contact is important for building trust in relationships, and so on" (Venables, 2019).

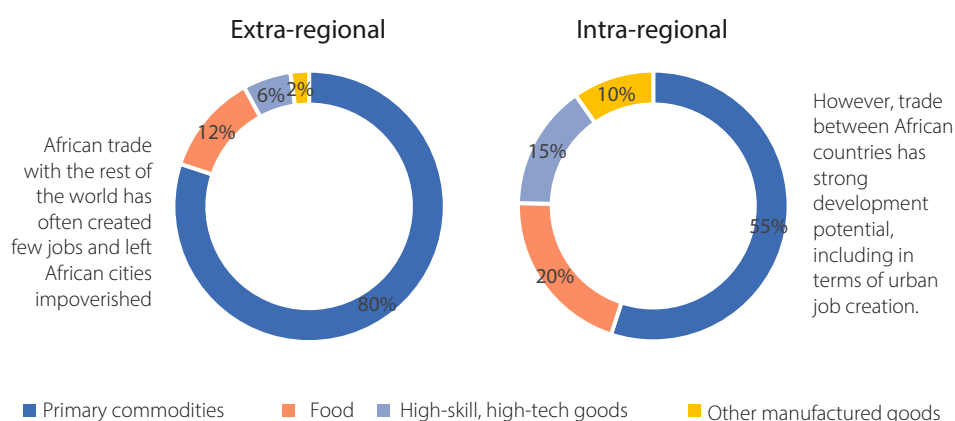
The development potential of intraregional trade also stems from faster growth rates among developing countries and the potential for faster growing export trade (Bernhart, 2016). As GDP increases, trade among countries that are geographically close to each other grows very quickly. This is expressed as follows by one researcher: "If two economies grow fast, their mutual trade will grow very fast. And if they

3 Averaged between 2015 and 2018, calculations based on data from UNCTADstat

are relatively close geographically, their mutual trade will quickly become a major part of world trade” (Krugman, 2007).

Intra-African trade also has a diversification impact, with exports characterized by a higher percentage of manufactured and high-technology goods than trade with countries outside Africa. African exports to countries outside the continent overwhelmingly comprise primary commodities (80 per cent). Intra-regional exports also include primary commodities (55 per cent), but include a much higher percentage of manufactured goods than extraregional trade (45 per cent as opposed to 20 per cent). As illustrated in figure 6, intra-African trade includes a higher proportion of food and high-skill, high-tech exports, sectors that tend to play key roles in development. According to data provided by UNCTADstat, growth in high-skill, high-tech exports within the region tends to be higher than growth in high-skill, high-tech exports to countries outside Africa. A study that compared the goods exported by five East African countries by destination found that those countries performed better in terms of their exports of technology-based products when they traded with regional partners than when they traded with countries outside Africa. (Na, 2019). Data on services exports are less extensive but suggests that, for Mauritius, South Africa and the United Republic of Tanzania, modern services<sup>4</sup> comprise a larger share of intra-regional service exports than extraregional service exports. (Visagie and Turok, 2019). Shifting toward the export composition of intra-regional trade would support diversification and job creation. When regional trade is focused on manufactured goods with higher value added and skill intensity, it leads to industrial upgrading (Bernhart, 2016).

**Figure 6** Composition of African country exports to markets within and outside Africa

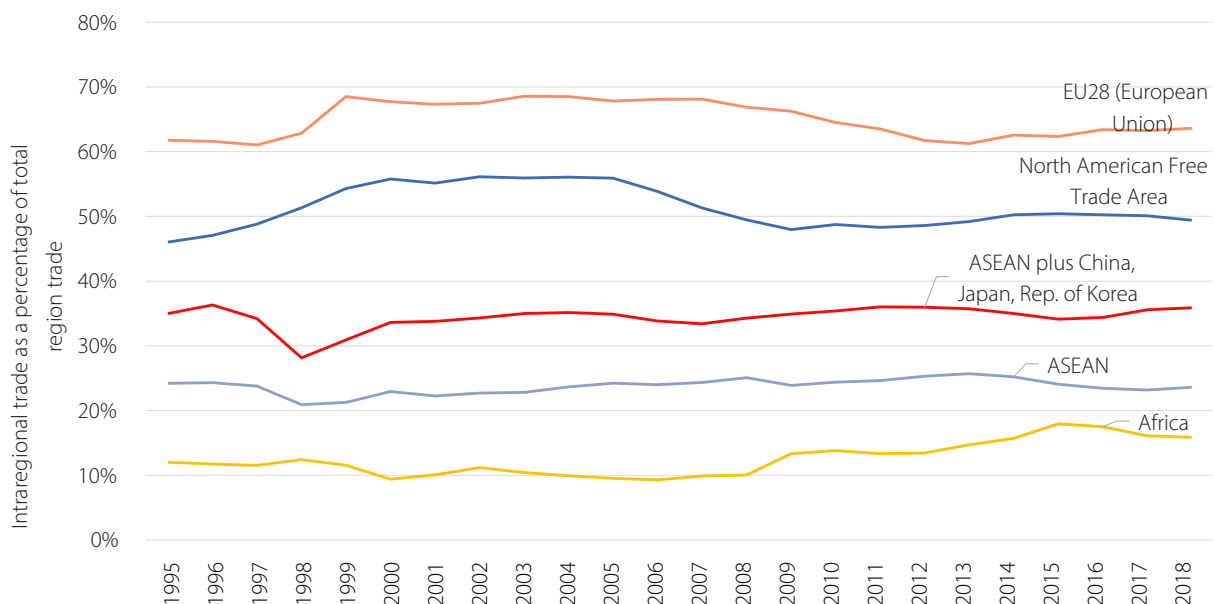


**Source:** Authors on the basis of UNCTADstat data for the period 2015–2019.

4 Modern services include telecommunications, information technology, construction, finance and insurance, and business services. Traditional services include the travel and transport sectors. Government services are those supplied to embassies, diplomats and military personnel (Visagie and Turok, 2019).

Africa is currently underrepresented in world trade flows, and while intraregional trade has increased, it remains low (Allard and others, 2016). The region has seen strong growth in trade in the last two decades, but that has not increased the continent's share of global trade. Increased regional trade has been a positive development however. Intraregional exports as a percentage of total African exports increased from 2 to 3 per cent of GDP over 20 years (Allard and others, 2016). Nonetheless, compared with other global regions, and as illustrated in figure 7, Africa is very poorly integrated, with intraregional trade accounting for just 16 per cent of total regional trade in 2018, compared to 24 per cent among members of the Association of South-East Asian Nations (ASEAN), 49 per cent among member countries of the North American Free Trade Area, and 64 per cent among member States of the European Union. Indeed, major gaps in skills, infrastructure and logistics continue to impede trade within Africa (ECA, African Union, African Development Bank and UNCTAD, 2019). As outlined in box 2, the COVID-19 pandemic has exacerbated barriers to regional trade, while at the same time increasing the urgency and importance of efforts to implement the Agreement Establishing the African Continental Free Trade Area.

**Figure 7** Intraregional trade within global trade blocs, 1995–2018



**Source:** Authors on the basis of UNCTADstat data.

**Box 2 The impact of the COVID-19 pandemic on intraregional trade in Africa**

The global COVID-19 pandemic has, unsurprisingly, had a very negative impact on trade within Africa. Almost all African countries have, at various times during the pandemic, suspended international flights, introduced 14-day quarantine for those entering their national territories and closed their land and maritime borders. Essential freight suppliers have often been exempted from those restrictions, but only under strict and burdensome testing, sanitizing, tracking and quarantining conditions (ECA, 2020d).

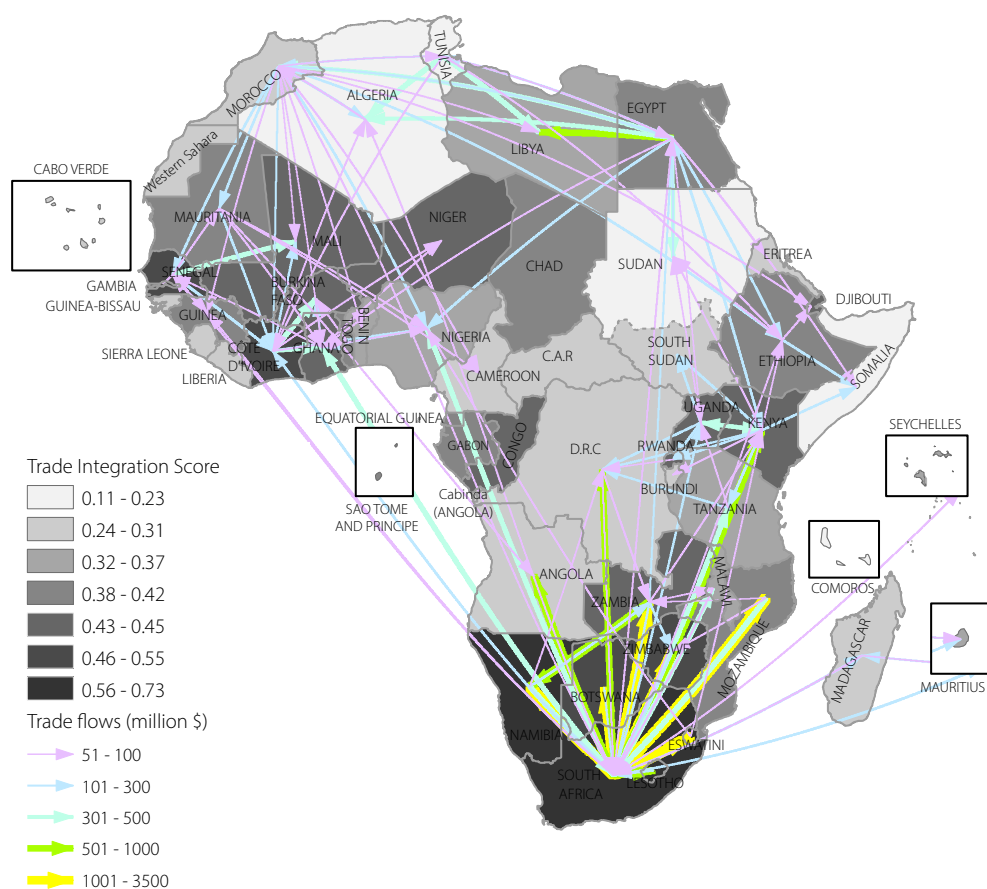
Informal cross-border trade, which accounts for between 25 and 75 per cent of countries' total intraregional trade, (African Export-Import Bank (AFREXIM), ECA, ATPC and Eastern Africa Grain Council, n.d.), has been hit particularly hard (ECA, 2020d), with a detrimental impact on household welfare. For example, at the Aflao–Kodjoviakope border crossing between Ghana and Togo, small traders have been compelled to aggregate their goods and pay high fees to truck drivers to facilitate cross-border transport and clearance. As a result, prices of key staples, including rice, tomatoes and peppers, have increased by approximately 50 per cent in local border towns in Ghana (Sommer, 2020).

The COVID-19 pandemic also continues to undermine African logistics networks, one of the key determinants of intraregional trade (International Monetary Fund (IMF), 2019). Immediate harm has been caused by the quarantining of cargo vessels, lost cargo capacity due to flight cancellations, slower customs clearance and border closures. Long-term logistics performance may suffer as a result of lost revenue, including both revenue from the public sector, such as port revenue, and revenue from the private sector, such as income earned by the freight forwarding industry (Lisinge, 2020).

According to forecasts made by the World Bank in 2020, without regional coordination to address significant intraregional trade bottlenecks, the COVID-19 pandemic may reduce GDP by an additional 0.7 per cent, with disproportionate harm inflicted on the poor and agricultural and informal sector workers.

Rapid and ambitious implementation of the Agreement Establishing the African Continental Free Trade Area is likely to accelerate economic recovery and improve the continent's resilience to future global shocks (ECA, 2020d). The protective effect of implementation has already been seen in subregions in which intraregional trade is already significant, including in East Africa, which is expected to be the least affected African subregion in terms of GDP loss due to the pandemic (World Bank, 2020). Digital trade solutions are another area where regional trade integration efforts have become particularly important in the context of the pandemic response. Steps taken by the East African Community (EAC) in that regard have included the implementation of contactless border controls, the use of electronic versions of proof of compliance, the adoption of mobile money payment options and electronic cargo tracking (ECA, 2020d). To address policy gaps with a view to responding effectively to the COVID-19 pandemic it is, moreover, critical that countries take into account the role played by and collect data on informal traders.

Trade integration varies widely across the region. South Africa is the largest hub for regional trade, accounting for some 34 per cent of all intraregional exports and scoring highest in terms of regional trade integration in the African Regional Integration Index. Indeed, as illustrated in figure 8, the Southern African subregion is more integrated than other subregions on the composite measure. Figure 9, however, illustrates that, if only the proportion of total trade made up of subregional trade is taken into consideration, East Africa is the most integrated subregion in Africa. Most trade flows in the region are to and from nearby countries rather than among subregions, highlighting the importance of proximity in trade. Outside South Africa, other hubs of regional trade include Côte d'Ivoire, Egypt, Kenya, Morocco and Nigeria.

**Figure 8** Regional trade integration scores and major trade flows in Africa

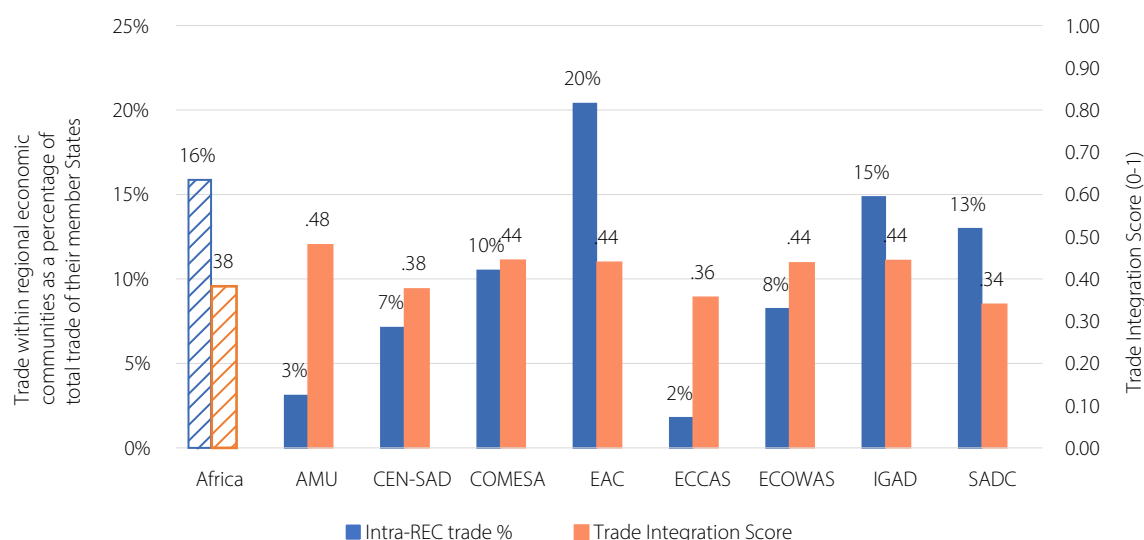
**Source:** Authors on the basis of Africa Regional Integration Index Trade Integration Score<sup>a</sup> and the International Trade Centre Trade Map.<sup>b</sup> Trade flows of less than \$50 million are not shown.

<sup>a</sup> The Africa Regional Integration Index Trade Integration Score is a composite index that combines data on the following: share of interregional trade; tariffs on regional imports; intraregional exports as a percentage of GDP; intraregional imports as a percentage of GDP; and whether the country has signed and ratified the Agreement Establishing the African Continental Free Trade Area.

<sup>b</sup> Trade flows include goods only and exclude trade in services.

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**Figure 9** Intraregional trade and Africa Regional Integration Index Trade Integration Scores, African regional economic communities



**Data:** Authors on the basis of UNCTADstat data on trade in 2018 and Africa Regional Integration Index Trade Integration Score (data from 2019).

**AMU:** Arab Maghreb Union; **CEN-SAD:** Community of Sahelo-Saharan States; **COMESA:** Common Market for Eastern and Southern Africa; **EAC:** East African Community; **ECOWAS:** Economic Community of West African States; **IGAD:** Intergovernmental Authority on Development; **SADC:** Southern African Development Community.

## EMERGING OPPORTUNITIES AND THE AFRICAN CONTINENTAL FREE TRADE AREA

There are a number of ongoing regional and subregional initiatives to increase African intraregional trade, including initiatives by the eight regional economic communities, which are striving to enhance subregional cooperation and reduce trade barriers. Those efforts have met with varying levels of success, resulting in different levels of trade integration. The East African Community scores highest in terms of the percentage of trade that occurs within the relevant regional economic community. As illustrated in figure 9, however, the highest scoring regional economic community in terms of a composite trade integration metric<sup>5</sup> is the Arab Maghreb Union

To date, the most significant multilateral initiative to promote African regional trade integration is the African Continental Free Trade Area. The landmark Agreement Establishing the African Continental Free Trade Area was signed in March 2018 by representatives of 44 African Governments. Currently, 54 of the 55 African Union member States have signed the Agreement, and 36 have ratified it. Trading under the terms of the Agreement began officially on 1 January 2021. In practice, however, trading under the preferential terms of the Agreement remains limited due to a number of outstanding issues that still need to be resolved. These include:

- The finalization of tariff schedules for trade in goods, namely lists of 90 per cent of non-sensitive product lines, 7 per cent of sensitive items and 3 per cent of excluded products;
- Commitments on the five priority services sectors, namely transport, communications, financial services, tourism and business services;

5 The Arab Maghreb Union scores well on this metric because total trade as percentage of GDP in that trading bloc is higher than the equivalent figures for other regional economic communities.

- The finalization of rules of origin, namely the rules that determine the percentage of national components in goods that are granted tariff concessions within the African Continental Free Trade Area, including, in particular, sugar, edible oils and textiles and wearing apparel;
- With the exception of Egypt, Ghana and South Africa, which have already put in place required customs arrangements, the establishment of key customs infrastructure to facilitate preferential trading under the terms of the Agreement.

When fully implemented the Agreement Establishing the African Continental Free Trade Area will create an integrated African market of some 1.2 billion people, almost equal to the size of the Indian market, and the world's biggest single market for goods and services by number of countries. The Agreement was drawn up with a view to removing tariffs on 97 per cent of goods traded among African States over a period of between 5 and 15 years from its entry into force. (African Union and ECA, 2020).

The Agreement Establishing the African Continental Free Trade Area also includes annexes on customs procedures and trade facilitation measures, including measures to reduce or eliminate non-tariff barriers, which have even higher potential for enhancing trade integration than action on tariffs (Abrego and others, 2019). The Agreement will require efforts to enhance the ease of trade, including through: the simplification, harmonization and computerization of customs documents and procedures; the online publication of export and import procedures, fees, forms and laws; the adoption of mechanisms for pre-arrival processing and electronic payments; the establishment of "single windows" for all trade and transit procedures; the establishment of national committees on trade facilitation; and the establishment of institutional structures to facilitate the elimination of non-tariff barriers.

Implementation of the Agreement Establishing the African Continental Free Trade Area is likely to have a major positive impact on regional trade, investment and GDP, primarily as a result of an increase in the trade in manufactured goods. The Agreement was drawn up with a view to leveraging the region's size and reducing fragmentation, thereby consolidating the African continent's \$2.5 trillion market. Lower trade barriers will have a positive impact on trade activity and are likely to attract additional FDI. Modelling by ECA shows that intra-African exports of industrial products are likely to increase by between 25 and 30 per cent, with the largest increases in textiles, transport equipment, electronics and other manufactured goods (African Union and ECA, 2020). Trade in agricultural and food products is expected to increase by between 20 and 30 per cent, while trade related to energy and mining is expected to increase by between 5 and 11 per cent by 2040 (ECA and ATPC, 2018b). The cumulative effect of the increase in trade could boost African GDP by up to \$44 billion, and that figure could double once full implementation of the provisions of the Agreement on non-trade barriers and the liberalization of the trade in services is complete (African Union and ECA, 2020). In that connection it should be underscored that the formulation and implementation of national implementation strategies will determine the full impact of implementation.

Economic gains in income, productivity and consumer welfare substantially outweigh lost tariff revenues. According to a recent study by the World Bank, income gains of some 2.4 per cent are likely at the continental level as a result of tariff liberalization and lower non-tariff barriers, while full implementation of the Agreement would boost those gains by a further 7 per cent. Furthermore, the reallocation of resources across sectors and countries as a result of liberalized trade would increase the region's output by some \$212 billion by 2035, with the natural resources and services sectors witnessing a 1.7 per cent increase, and manufacturing seeing a 1.2 per cent increase compared to baseline (World Bank, 2020c). Those gains far outweigh lost tariff and tax revenues, with lost tariff revenues amounting to less than 1.5 per cent for 49 out of 54 countries, and lost tax revenues amounting to less than 0.3 per cent in 50 out of 54 countries. Reducing trade barriers for intermediate goods would result in additional welfare gains

as “lower trade barriers allow firms to import more intermediate goods to produce final goods at a lower cost and expand product margins and varieties” (Abrego and others, 2019).

Lowering barriers to intraregional trade has significant potential to improve the situation of women and informal traders. A large share of intraregional trade, (between 20 and 75 per cent, depending on the country), is informal, and women comprise more than 60 per cent of informal traders (AFREXIM, ECA, ATPC and Eastern Africa Grain Council, n.d.; Sommer, 2020). Elimination of tariffs and streamlining border controls can help bring these traders out of the shadows and reduce their risk of harassment and extortion at borders. Clear and inclusive dissemination of information about new laws and procedures will be required to ensure that all traders benefit.

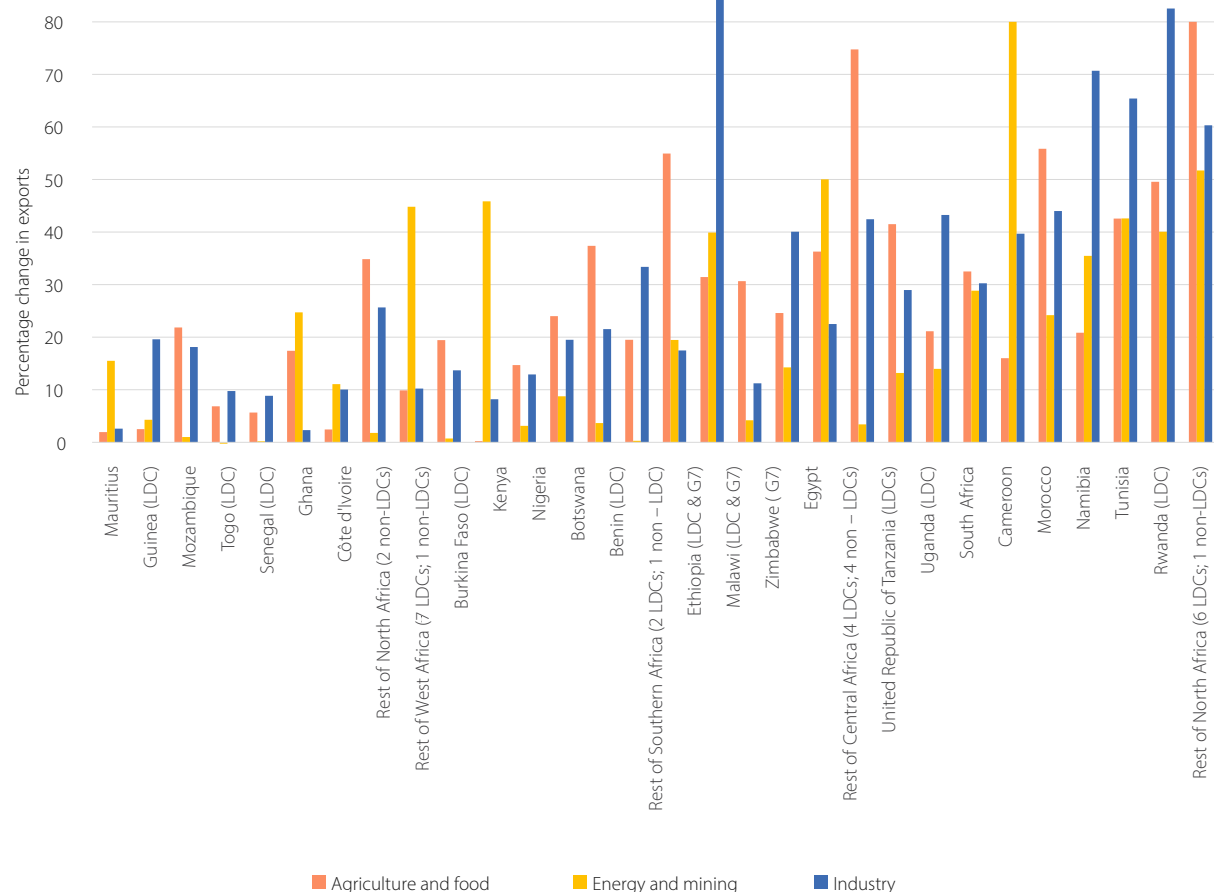
There is significant potential for leveraging intra-African trade in services in order to create jobs and promote economic development and negotiations on the liberalization of services are expected to be completed in June 2021. Initial negotiations on services will focus on five sectors, namely business services, communications, financial services, tourism and travel-related services, and transport services, with all other services sectors addressed in subsequent negotiations. Phase 2 issues will include competition policy, intellectual property rights and investment, and negotiations on phase 3 issues, which pertain to e-commerce are expected to be completed in December 2021.

Significant policy gaps remain with regard to the trade in services. Agreements on the trade in services are constrained by data availability and the general absence of national-level policies and frameworks to support trade in services beyond tourism, finance and information and communications technology (ICT). In general, export and investment promotion strategies have also not focused on the services sector, despite its importance and contribution to GDP growth (ECA, African Union, African Development Bank and UNCTAD, 2019). Facilitating trade in services would have a broad impact on large firms, numerous small and informal enterprises and the manufacturing sector, where service inputs are often critical (Dihel and Goswami, 2016). Job growth in traded services can be beneficial for gender equity, and, as has been illustrated by recent development in India and Pakistan, women are more likely to benefit from the expansion of the trade in services than from the expansion of manufacturing (Brenton, Gamberoni and Sear, 2013). Expanding trade in modern services in particular, such as ICT and marketing, would also have a beneficial impact on other sectors, improving their competitiveness and viability in new markets. The promotion of modern services could promote the development of the manufacturing sector, and could help countries move up value chains into positions typically occupied by powerful lead firms, including those controlling branding and marketing (Visagie and Turok, 2019). Expanding the trade in digital services is, moreover, a recommendation prescribed in numerous COVID-19 recovery policies (ECA, 2020b), providing an additional rationale for the sector to receive increased attention.

Trade liberalization under the Agreement Establishing the African Continental Free Trade Area would increase intraregional trade in all signatory countries, although to differing degrees. Unsurprisingly, established regional trade hubs are expected to witness the largest increase in exports under the terms of the Agreement, with Egypt, Nigeria and South Africa accounting for between 44 and 47 per cent of total intra-African export gains. However, a more equitable picture emerges when attention is given to the percentage increase in exports. Importantly, least developed countries (LDCs) would see intraregional export increases at percentages similar to those of non-LDCs: 20 per cent in a moderate ambition scenario compared to 21 per cent for non-LDCs, and 21 per cent in a high ambition scenario compared to 23 per cent among non-LDCs. (ECA, 2020b). While industrialized countries are better positioned to take advantage of new opportunities and increasing demand for manufactured products, countries with a large share of their populations employed in agriculture will also be able to take advantage of sector-specific opportunities arising from the regional trade in food products and increasing demand

for food imports (African Union, ECA and African Development Bank, 2017). Nonetheless, and as shown in figure 10, industrial exports are projected to increase across the continent and, with the exception of Ghana and Mauritius, all African countries are expected to achieve gains of 8 per cent or more in terms of their industrial exports, with some 50 per cent of African countries achieving gains of more than 30 per cent.

**Figure 10** Expected percentage change in exports by sector and country by 2040 under the African



**Source:** ECA (2020b). ECA calculations based on MIRAGE, a computable general equilibrium model for trade policy analysis. LDC: least developed country; G7: Group of 7 with longer tariff timelines.

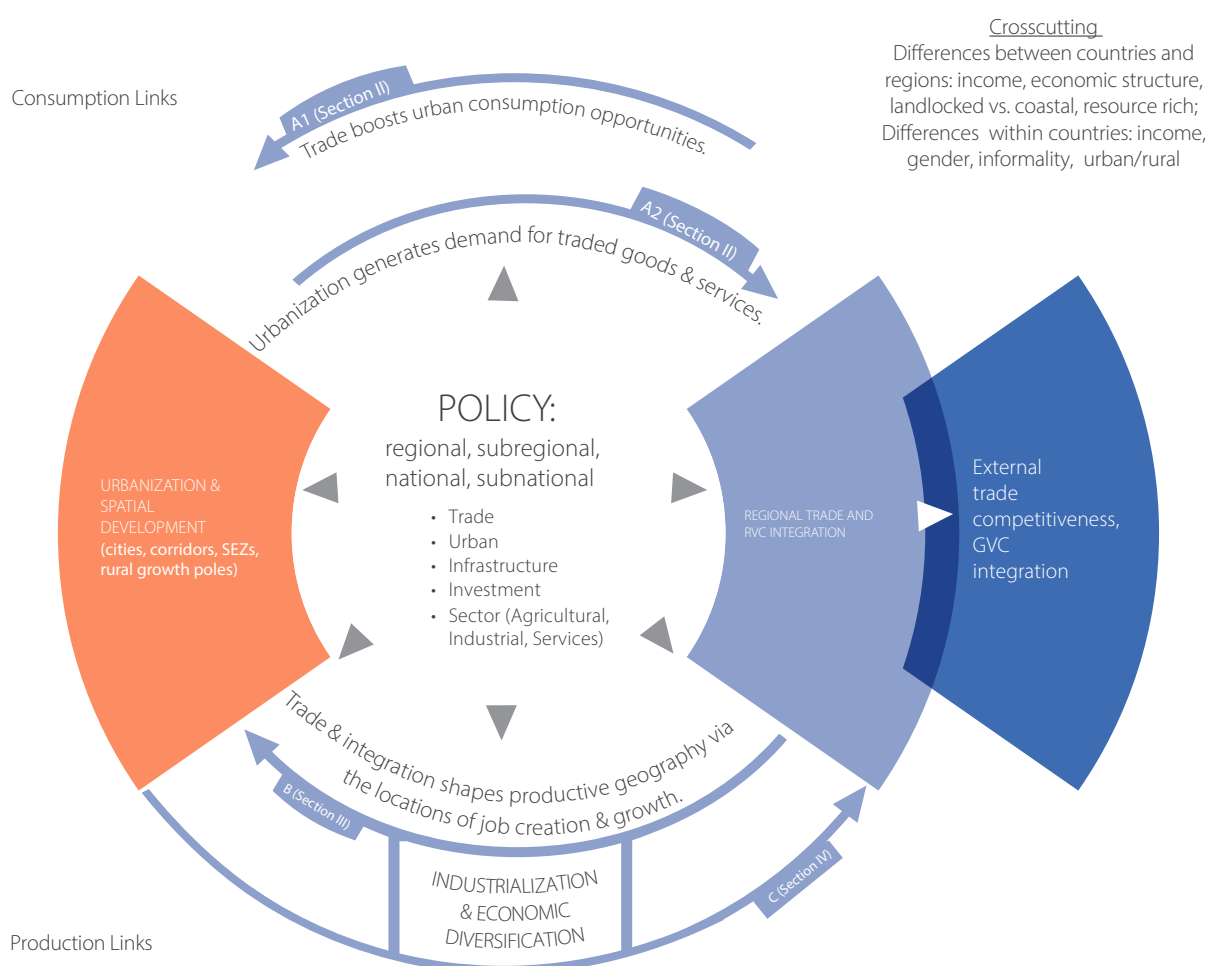
In order to reap the expected economic benefits stemming from the establishment of the African Continental Free Trade Area, swift implementation of the Agreement on the establishment of the Area and complementary measures are required. Rapid implementation of the Agreement, including its provisions relating to the elimination of non-trade barriers will boost intraregional trade and strengthen regional value chains. African countries should strive to ensure full implementation before extraregional trade agreements enter into force. Indeed, if global agreements on trade enter into force before the African Continental Free Trade Area is fully operational, Africa countries are likely to lose market share through preference erosion and competitiveness pressures (ECA, ATPC and Overseas Development Institute, 2017). In addition, the success of the Area will depend on the enactment of complementary measures, including policies to promote and facilitate investment, and measures to increase productive capacity. These include industrial policies, sector-specific strategies and services sector development programmes (ECA, African Union, African Development Bank and UNCTAD, 2019). The Area is likely to reshape production and trading hubs across countries and regions, as well as urban geography through

economies of agglomeration, with economic benefits stemming from the density of economic actors in a specific urban space and, potentially, the clustering of businesses. To capitalize on opportunities in manufacturing and the trade in services, African cities will need to play a major role.

## CONCEPTUAL FRAMEWORK

The relationship between African regional trade integration and cities is bidirectional. Indeed, “Geography matters for trade, and trade matters for shaping economic geography” (Venables, 2019). Figure 11 sets out a conceptual framework summarizing that relationship and sets the stage for the next three sections of the present report: the bidirectional links between regional trade and urban consumption (A1 and A2 in the figure, and Section II), the impact of regional trade on economic geography (B in the figure and Section III), and the impact of urban geography on regional trade participation (C in the figure and Section IV).

**Figure 11** Conceptual framework schematic



**Source:** Graphic by authors.

A caveat is in order, however: consumption and production processes are not truly separate. This framework presents the consumption and production components of trade separately only for analytical purposes and to help explain spatial or urban aspects and implications. They are otherwise part of the same development process. Trade and urban agglomeration economies are mutually reinforcing. In line with the theory of “new economic geography” and in a context of sufficient heterogeneity of goods

and services, a three-way interaction among increasing returns (at the individual firm level), transport costs (broadly defined) and migration of workers (consumers) creates a circular causation leading to the agglomeration of both consumers (or users) and suppliers of these goods and services (Fujita, 2007a). In addition, reduced trade barriers or lower trade costs increase competition in importing countries and among exporting countries. This results in increased industrial productivity through the rising market share of productive firms, whose productivity gains stem, in part, from access to cheaper and better quality intermediate imported inputs and from incentives to invest in technology. The overall result reflects benefits to both consumers and producers located in cities.

Consumption of traded goods and services creates a causal and bidirectional pathway between regional trade and urbanization. As illustrated in A1 in figure 12, consumption of regionally traded goods and services facilitates urbanization by meeting growing demand for consumer products, and for intermediate and capital goods that facilitate urban manufacturing and service provision. The rapid pace of urbanization is made possible by the trade in food, which has helped to address constraints related to natural geography and soil quality (Fox, 2012), and has enabled workers to transfer out of agriculture and into urban manufacturing and services sectors. Imports of consumer goods also promote urbanization, particularly in natural resource-rich countries, sometimes without accompanying formal sector job growth. However, imports, and particularly intraregional imports, can create welfare impacts for urban populations by lowering the cost of goods and expanding consumer choice.

At the same time, and as illustrated in A2 in figure 12, cities create demand for traded goods, including those traded intraregionally. As countries move up the income ladder as they urbanize, not only is a growing share of demand generated in cities, but also demand is increasingly characterized by growth in discretionary income, a reflection of prosperity and a growing consumer class. Increasing population density and urban agglomeration enable cities to provide a range of amenities and services, some of which can be traded. Public goods, including health and education services, become increasingly accessible from remote locations, while e-commerce can expand access by urban consumers to distant markets. Even at lower income levels, a shift in consumption patterns providing new opportunities for trade can be traced back to the growth of cities, which results in increasing demand for basic manufactured goods, including processed foods, beverages, and sanitary products. Urban demand is also generated through investment in urban infrastructure, which is expected to increase rapidly in the next few decades. Rising demand created by urban population growth and the shift toward the consumption of manufactured goods and processed foods can boost African industrialization through regional trade.

The production of traded goods accounts for another set of bidirectional links. As illustrated in B in figure 12, job creation in tradable sectors influences the growth of cities, and determines, to a great extent, which cities will grow most. Economic theory and empirical evidence show that as transport and transactions costs fall, the spatial concentration of traded goods production increases, with that process continuing until transport and transactions costs are very low. Traded sector firms spatially sort themselves into different cities based on differing preferences, leading them to concentrate or disperse depending on their sensitivity to agglomeration economies and factor prices. The impact of regional trade on economic geography depends, in part, on which sectors experience growth. In addition, improved connectivity among regional cities may go hand in hand with increasing participation in regional value chains, whereby firms in different cities, regions and countries collaborate through production networks. The growth of individual cities may therefore be influenced by their role in the broader regional urban system.

Concurrently, the characteristics of urban geography, including agglomeration economies arising from clustering and the linkages among urban nodes, facilitate the production of traded manufactured goods and services, as illustrated in C in figure 12. Manufacturing and tradable services typically require an urban environment characterized by agglomeration economies. Cities offer access to large product and labour markets, facilitating the sharing of intermediate suppliers and knowledge (Puga, 2009). The quality of cities matters for export performance, however, and many African firms are constrained by poor infrastructure. For example, 28 per cent and 41 per cent of exporting firms report major constraints in transport and electricity, respectively.<sup>6</sup> Such infrastructure bottlenecks, when compounded by institutional deficiencies, limit productivity and deter investment. Inadequate logistics and transport connections to markets and other locations of production are also critical impediments, and African firms face significant barriers when seeking to access markets and suppliers. Connecting African cities more effectively is therefore a prerequisite for establishing those cities as competitive regional trade hubs.

Policies on trade, infrastructure, industry and urbanization can have a significant impact on all linkages. In particular, trade and urban policies influence the relationship between cities and regional trade, as do policies impacting the physical, digital and economic connections among cities. It is therefore fundamental to provide adequate support for economic activities that take place within cities and along the value chains of those activities, and to enhance logistics networks that ensure that goods and services are made available in regional markets.

Cross-cutting issues will also influence those processes and their impact. Differences among countries, including in terms of whether or not they are landlocked, their gross national income and industrialization levels and their resource endowments, will affect the role of cities within regional trade mechanisms. At the same time, differences within countries also merit consideration. Not all locations and groups of people within a given country will find it easy to take advantage of opportunities arising from enhanced regional trade. Understanding the impact of trade and urban development policies on key social groups and economic sectors, including women, those employed in the informal economy and those living in rural areas, will be necessary if policymakers wish to ensure that the economic benefits stemming from enhanced regional trade are enjoyed by the majority of Africans.

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6 Estimates made on the basis of World Bank Enterprise Survey data.

## II. THE BIDIRECTIONAL LINKS BETWEEN REGIONAL TRADE AND URBAN CONSUMPTION

Urbanization generates demand, expanding opportunities for regional trade. At the same time, increased consumption of goods and services provided by regional imports facilitates urbanization. Trade holds potential benefits for both consumers (through welfare effects arising from cheaper and more varied final goods and services) and producers (through access to cheaper inputs and larger export markets that allow exporting firms to reap the benefits of economies of scale). By removing tariff and non-tariff barriers, the Agreement Establishing the African Continental Free Trade Area will bolster the capacity of African economies to respond to rising demand through regional production. Cities, both as centres of consumption and production, play a leading role in facilitating trade flows and the generation of associated economic benefits.

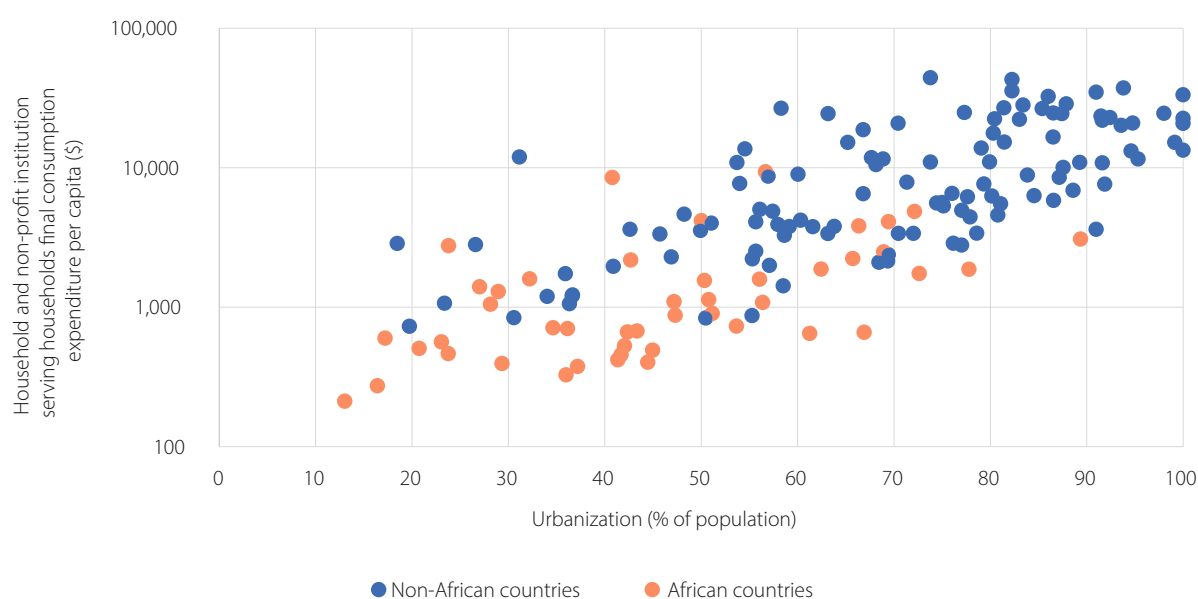
As countries urbanize, and people concentrate in cities, demand for consumer goods expands, driving imports. Large cities attract firms, and firms attract consumers and workers in a self-reinforcing cycle (Fujita, 2007a). The following section examines the relationship between the consumption of regional imports and urbanization, posing a number of key questions and underscoring the following main messages:

Key questions	Main messages
<ul style="list-style-type: none"> <li>• How does the consumption of regional imports affect urbanization?</li> <li>• In which sectors are the opportunities associated with urban consumption concentrated in Africa?</li> <li>• How does urbanization affect the consumption of regional imports and where are associated opportunities likely to occur?</li> <li>• How will e-commerce affect urban consumption?</li> </ul>	<ul style="list-style-type: none"> <li>• African countries with the fastest consumer market growth are those that are rapidly urbanizing while growing in population and GDP.</li> <li>• Urbanization generates strong demand in sectors where regional trade is likely to be competitive, including the processed food, construction and services sectors. Long-term opportunities are likely to arise in those sectors.</li> <li>• Imports can contribute to urbanization within importing countries, even without an increase in their share of urban-based exports. In general, in resource-rich countries, imports accelerate urbanization, while in economically-diversifying countries, rising and urbanizing incomes drive imports. However, even in the resource-rich countries, when there is a shift toward intraregional imports, consumer welfare improves, including in consumption cities.</li> <li>• E-commerce expands market access, including for tradable services, particularly in urbanized middle-income economies with reliable digital infrastructure. Emerging evidence suggests that this can contribute to narrowing disparities in consumer market access between large and small cities, with long-term implications for the attractiveness of smaller cities.</li> </ul>

## Cities and regions in rapidly urbanizing and growing economies drive consumption

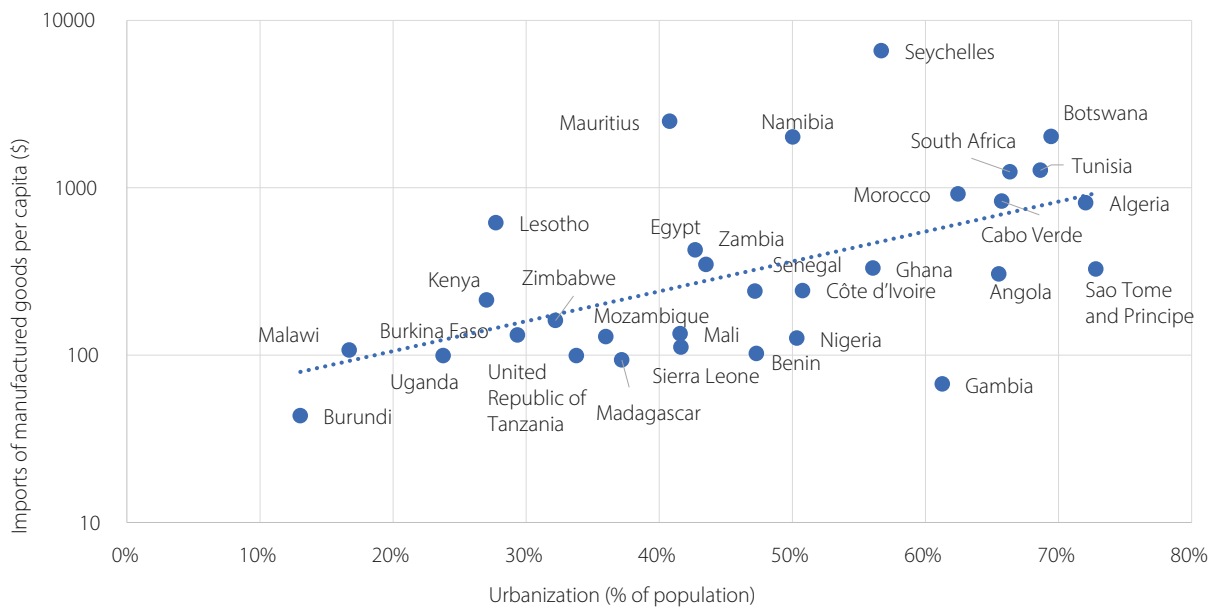
As illustrated in figure 12, urbanization and consumption are positively related and, as illustrated in figure 13, there is a clear positive relationship between urbanization and imports in Africa, and imports of manufactured goods in particular. But this relationship is not independent of the relationship between urbanization and income. In fact, African economies have lower consumption for a given level of urbanization, a reflection of the fact that Africa is urbanizing at a lower income level than has been the case in other global regions. Nevertheless, those living in African cities are on average richer and consume more than the national average. In Africa, overall urban GDP growth is higher than the national average by half a percentage point, driving consumption spending capacity (Oxford Economics, 2020). Investors are beginning to see this growing urban consumption in Africa as an opportunity, particularly in populous, economically diversifying<sup>7</sup> and fast growing African economies. But turning those potential opportunities into tangible gains requires targeting the right type of sectors and building the productive capacity of cities: themes that are discussed in subsequent sections of the present report in the context of regional trade integration. Successfully leveraging those opportunities will depend on how well cities, countries and regions respond to growing consumer demand and markets, particularly in the context of the recently-established African Continental Free Trade Area, and how well they can exploit the efficiency gains and economic growth that stems from increased trade.

**Figure 12** Urbanization and household consumption, African and non-African countries



**Source:** Authors on the basis of World Development Indicators data for 2018.

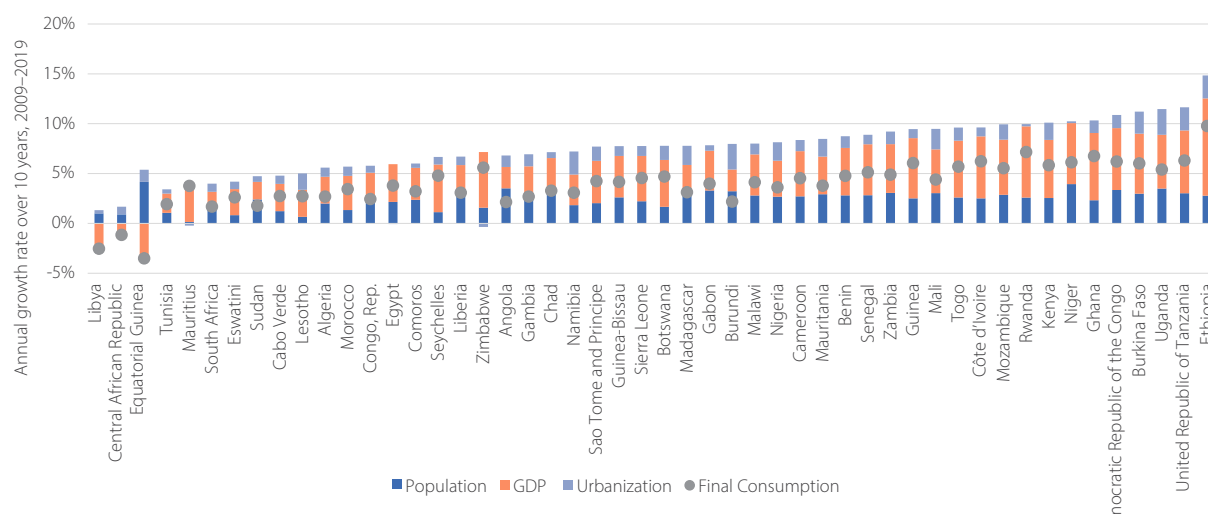
<sup>7</sup> Although natural resources continue to attract foreign direct investment flows in many African countries, including Kenya, Ethiopia, Morocco and Tunisia, investment flows are increasingly being channelled into the services and industrial sectors (UNCTAD, 2019b). Furthermore, surveys by investment agencies reveal that the primary motivation for foreign direct investment flows into manufacturing is access to the African continent's expanding consumer markets (Chen and others, 2015).

**Figure 13** Urbanization and imports of manufactured goods, African countries

**Source:** Authors on the basis of World Development Indicators data for the period 2017–2018.

African urban markets are projected to grow rapidly. In aggregate, consumption in African countries is far lower than in developed and emerging economies. Although Kenya and South Africa have similar population sizes, consumer spending in Kenya is only one third of consumer spending in South Africa. Ethiopia is more populous than Germany, but consumption in the latter is 33 times more than in the former (Oxford Economics, 2020). However, consumer market growth in Africa is among the fastest in the world (Signé, 2018). Indeed, according to Oxford Economics (2020), between 2020 and 2024, consumption in Côte d'Ivoire and Senegal, for example, is expected to grow twice as fast as in Nigeria (4.2 per cent) and South Africa (4.4 per cent), the two largest and the most developed African economies. As illustrated in figure 14, the fastest consumption growth in the last 10 years has tended to be in those countries with the most rapid growth in terms of urbanization, GDP and population, with Ethiopia, Rwanda, Ghana, the United Republic of Tanzania and Côte d'Ivoire topping the list in terms of the fastest consumption growth. Consumer spending during the period 2020–2024 is forecasted to be highest in these countries, and also particularly high in Cameroon, Egypt, Kenya, Senegal and Uganda.<sup>8</sup>

<sup>8</sup> Oxford Economics (2020) forecasts the region's top consumer markets on the basis of three growth metrics, namely urbanization, GDP and population.

**Figure 14** Final consumption growth rate and contributing factors, African countries, 2009–2019

**Source:** Authors on the basis of World Development Indicators data.

Large cities are leading the pack as potential consumption hubs. Large cities are ahead of smaller cities in terms of levels of consumption due to their relatively high average incomes and populations. For example, the average monthly per capita consumption in the Kenyan capital, Nairobi, is more than twice the national average, about one and three quarter times that of the country's third largest city, Kisumu on Lake Victoria, and seven times that of the remote town of Wajir, located in the economically disadvantaged northeast of the country (Gadzala, 2017). The GDP of each of the four largest cities in the United Republic of Tanzania, namely Arusha, Dar es Salaam, Dodoma and Mwanza, is projected to grow by between 7 and 8 per cent per annum in the next five years. The cities of Douala (Cameroon), Yaoundé (Cameroon), Abidjan (Côte d'Ivoire), Abuja (Nigeria), Nairobi (Kenya), and Luanda (Angola) are each projected to see market growth of one billion dollars in the next five years (Oxford Economics, 2020). Mid-sized cities that are establishing themselves as manufacturing hubs, such as Arusha in the United Republic of Tanzania, Jinja in Uganda or Kumasi in Ghana, are not far behind in terms of market access, however. Supermarkets and retail outlets tend to first open in capital cities and gradually expand to other urban centres, while trade and consumption tends to follow manufacturing and employment. (Gadzala, 2017). This growth in consumption and its spatial concentration in large cities and urban areas with economic dynamism creates an opportunity to meet demand through regionally-produced goods and services.

The narrative of African cities as hubs for a growing consumer class (or middle class as sometimes labelled) should, however, be seen in perspective and viewed with caution. Indeed, rapid urbanization and demographic change make Africa a large and growing market, and with implementation of the Agreement Establishing the African Continental Free Trade Area underway, the prospects are even more promising. However, estimates about the size and growth of consumer classes in African countries vary widely and are contentious. The recent experience of certain multinational corporations suggests that the realities on the ground are much more complex.<sup>9</sup> Africa's consumer class has been estimated at some 34 per cent of the continent's total population, or approximately 355 million people (African Development Bank, 2011). But this is an estimate of all individuals with a daily income of between \$2 and \$20, of which 60 per cent fall into a so-called "floating class" with a daily per capita expenditure of between \$2 and \$4. A large segment of that class is liable to slip into poverty during economic downturns

<sup>9</sup> According to a survey conducted by Frontier Strategy Group of 20 multinational corporations in 49 sub-Saharan countries, 6 struggled to hit their sales targets, while others also mentioned disappointing results (Attwell, 2017).

or shocks, and this has been the case in many countries during the ongoing COVID-19 pandemic. Taking a daily income of \$10 or more as the criteria, the Pew Research Center classified only 6 per cent of the continent's total population as middle income. Furthermore, informality plays a dominant role in the economy and there is a great deal of socioeconomic and sociocultural heterogeneity. As a result, the market is bifurcated into the entry-level majority, which is starting to shop in the continent's growing number of supermarkets, and the small segment of consumers with significant disposable income (Gadzala, 2017). There is also heterogeneity among African countries. Some researchers have suggested that a composite index of different variables, such as a country's rate of formal job creation, education levels, and welfare provisions should be used as a proxy to measure consumer market potential and growth in Africa. In that regard, a study conducted on the basis of one such composite index, namely the Consumer Class Conditions Index, ranked Mauritius, Seychelles, South Africa, Botswana, Namibia, Cabo Verde, Rwanda, Kenya, Ghana and Senegal among the top twenty countries (Attwell, 2017).

## Regional trade confers welfare gains, and urban consumers are the main beneficiaries

Trade is welfare-increasing.<sup>10</sup> Trade cost reduction increases both consumer and producer welfare, through its effect on consumer expenditure, investment and factor prices. Trade-induced consumer gains have been large for developed countries and continue to be large for developing countries (Melitz and Trefler, 2012). Trade cost reductions increase foreign competition and, indirectly, domestic competition, thus increasing the supply and variety of consumer goods or the availability of cheap inputs, making domestically produced final goods less expensive (Cherif and others, 2020). As the result, factors move to their most productive use and firms reduce their markup, both of which benefit consumers through price reductions that impact domestic goods. Consumers benefit from lower prices made possible due to imports of goods in their consumption basket, while also enjoying greater consumer choice.

Urban consumers are the main beneficiaries. A review of studies conducted to assess the overall welfare effect of trade for developing countries, including African countries, found that welfare gains from trade are larger for households that live in urban areas or are closer to national borders (Marchand, 2017). Moreover, welfare gains resulting from price reductions of consumer goods or income changes due to shifting production tend to be pro-poor in developing countries, and households participating in export sectors may experience additional economic benefits. The scale and distribution of welfare gains among producers and consumers and among different income groups is an empirical question, however, and is contingent on forces shaping market competition, production efficiency and workers' spending capacity. In the context of Africa, maximizing consumer welfare, particularly among poor households, depends on increasing their expenditure on traded goods. The majority of African consumers are entry-level consumers who buy and trade in informal and fragmented markets, and include a diverse range of occupation and income groups, such as wholesalers and retailers, drivers, manufacturers, construction workers, chefs, delivery couriers, technicians and small-scale entrepreneurs. They shop with cash, in small amounts and with high frequency and spend the lion's share of their income on basic goods, particularly foodstuffs, perishables and other necessities, and on items such as cosmetics and toiletries. Those consumers could, however, drive sustained growth due to their large numbers and the pent

<sup>10</sup> In a context of trade agreements among countries (bilateral, regional or multilateral), welfare gains are realized when trade is created, not diverted. Trade creation takes place when trade increases or shifts consumption from a high-cost to a low-cost producer, while trade diversion takes place when trade shifts consumption from a low-cost to a high-cost producer. According to Balassa (1963) a rise in the ratio of the growth rate of total (intra-area and extra-area) imports to that of GNP should be taken to represent trade creation, and a decrease in the corresponding ratio for extra-area imports should be considered trade diversion.

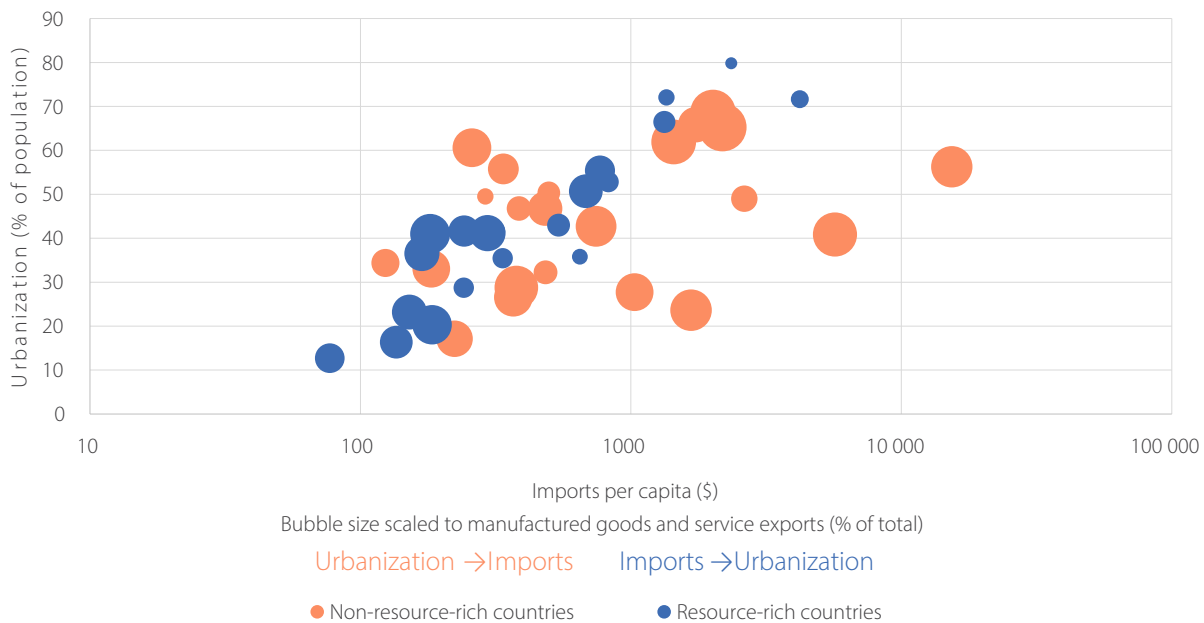
up demand that would be unleashed with changes in their income, tastes and lifestyles. Thus, it is not growth per se, but the quality of growth that will determine the outcome and impact of trade via consumption (Gadzala, 2017).

African regional trade integration is likely to have a significant impact on welfare. A simulative study (Abrego and others, 2019) on the impact of the establishment of the African Continental Free Trade Area put the estimated total welfare effect in Africa excluding North Africa at between 2.1 and 2.6 per cent, 80 per cent of which is attributable to reductions in non-tariff barriers. Another study that considered scenarios in which a range of tariff and non-tariff barrier reductions were made, concluded that the establishment of the Area could potentially yield up to 3.15 per cent growth in GDP and a 1.94 per cent increase in per capita household utility (AFEXIM Bank, 2018). A more recent study by the World Bank estimates real income gains due to full implementation of the Agreement Establishing the African Continental Free Trade Area at 7 per cent by 2035, or nearly \$450 billion at 2014 prices and market exchange rates, with benefits ranging from 2 per cent to 14 per cent between low- and high-performing countries (World Bank, 2020).

The consumption welfare gains arising from regional trade integration are realized through imports, and imports are associated with urbanization across African countries. The relationship between urbanization and imports features a marked difference between resource-rich and resource-poor countries, however. In countries whose earnings are dependent on exports of oil and non-oil natural resources, primarily to countries outside Africa, the availability of imports drives urbanization, particularly in the largest cities, some of which are sometimes referred to as “consumption cities”. Commodity exports crowd out urban-based export sectors with higher value added and job-creation potential. This phenomenon has been dubbed the “Dutch disease”. Cities such as N’Djamena (Chad), Kinshasa (Democratic Republic of the Congo), Brazzaville (Congo), Bangui (Central African Republic), and Accra (Ghana) are all situated in countries in which more than 10 per cent of GDP comes from natural resources and which spend more than 30 per cent of GDP on imports. At the same time, those cities rank among the 100 most expensive cities in the world, with the cost of living comparable with upper-income cities such as Geneva, London, Washington D.C., Rome and Seattle. The combination of high poverty and high prices has a detrimental effect on urban well-being.

In countries that are not heavily dependent on natural resource exports, urbanization is associated with export diversification in job-creating sectors. The two groups of countries are shown in figure 15, with natural resource exporters in blue and other countries in orange. In natural resource exporters, import-driven urbanization is not associated with urban job creation; the percentage of manufacturing and service exports is actually lower in those countries towards the top of the imports and urbanization distribution (smaller bubbles in blue). The reverse is true in non-resource-rich countries: urbanization occurs in conjunction with (and partly because of) economic and export diversification. As these countries urbanize, a higher share of their exports comprises manufactured goods and services (larger orange bubbles towards the top). The average non-resource-rich country has a share of manufactured goods and services in exports that is 170 per cent higher than the average resource-rich country, despite the fact that they have similar levels of urbanization. Both types of urbanization, namely import-driven and diversification-driven, are associated with rising imports, but by a different direction of causality: in resource-rich countries, import availability drives urbanization. In economically-diversifying countries, rising and urbanizing incomes drive imports.

**Figure 15** Imports, urbanization and export diversification, African countries



**Source:** Authors on the basis of World Development Indicators data for the period 2016–2018.

Even in resource-rich countries, African consumers stand to gain from the establishment of the African Continental Free Trade Area. African-produced goods are likely to be cheaper and better matched to consumer preferences than goods produced outside the continent. This is because trading between neighboring counties is easier. Indeed, firms and traders are likely to have better information about nearby markets than remote ones, it is easier transacting in similar time zones, face-to-face contact is important for building trust in relationships, and so on (Venables, 2019). Such gains are particularly important for populations that are heavy consumers of imports, such as those residing in consumption cities. While the establishment of the African Continental Free Trade Area will not lead to a reduction in the cost of luxury goods produced outside Africa and consumed by higher-income households, the urban poor will benefit from reduced costs of regionally-traded goods such as foodstuffs. It is thought likely that the urban poor in resource-rich countries will benefit disproportionately from the Free Trade Area, but this has yet to be empirically tested.

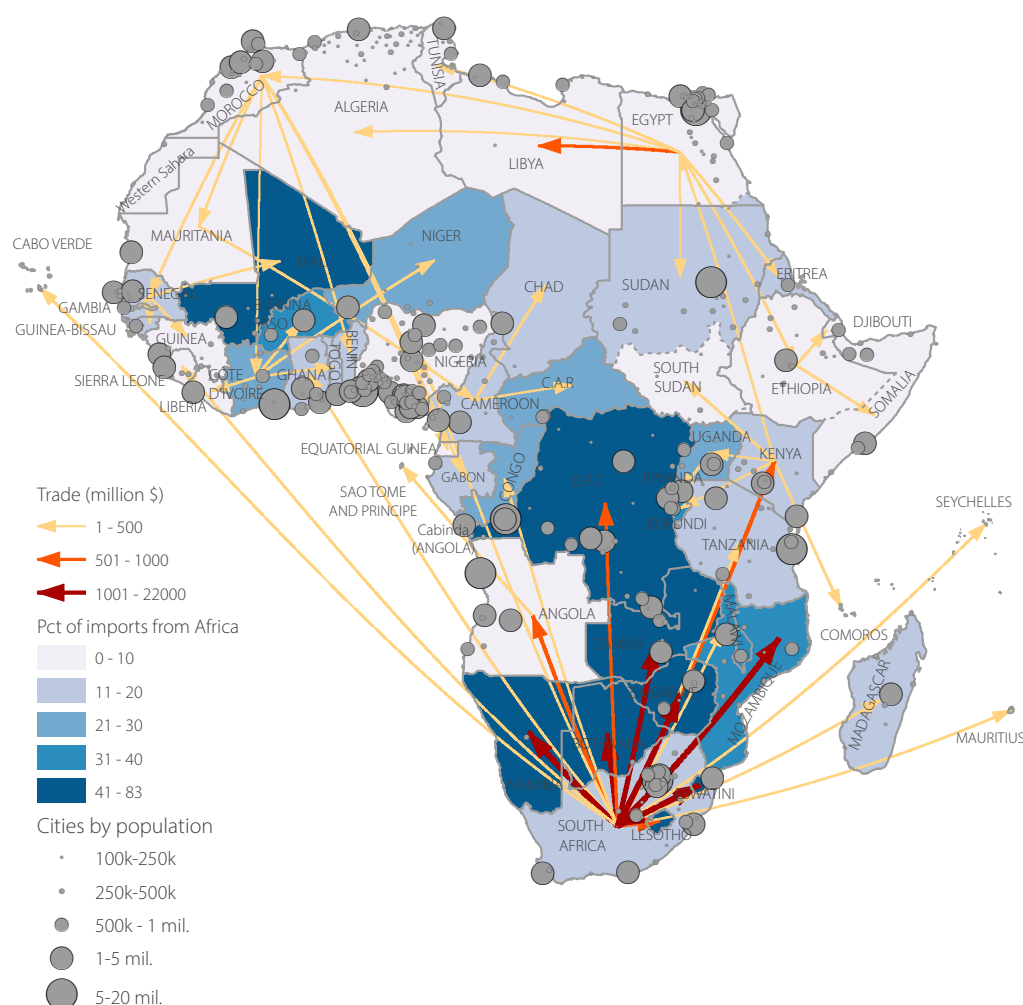
## Urban demand can drive regional trade

The scale and pace of urbanization in Africa makes cities drivers of regional trade. The continent's urban population currently stands at some 587 million, and the region is projected to add some 900 million additional people to its cities between now and 2050, with major implications for consumption, including the consumption of imports. Urban consumers tend to purchase more manufactured goods and processed food (ECA, 2017b), of which imports comprise a large share. Indeed, Africa currently imports roughly one third of the processed goods it consumes, compared to 20 per cent among ASEAN member States and 10 per cent among member States of the Southern Common Market (MERCOSUR) in South America. With regard to manufactured goods, including cars and chemicals, 60 per cent of the continent's supply is imported, twice the proportion of the figure for MERCOSUR countries (Signé, 2018). It is not just the African urban middle class that is likely to drive a surge in consumption: poor households, too, consume imported goods, especially low-

cost consumables, including regionally-traded food in many countries. In addition, the public sector in many African countries is investing in infrastructure and services as urbanization gathers pace, and this requires the purchase of goods and services. Urban firms, including those in the manufacturing sector, also purchase intermediate goods and services, which are often imported.

The degree to which rising consumption will be reflected in intraregional trade will vary by country. As illustrated in figure 16, countries in Southern Africa obtain a larger share of their imports from within the Africa region, but aren't necessarily witnessing the continent's fastest urban or consumption growth. Based on the largest source of imports for each country (the trade flows shown in figure 16), South Africa, Egypt and Morocco appear poised to take greatest advantage of rising African consumption. It should, however, be underscored that many smaller trade flows that are not shown in the figure are important at the per capita level for both GDP and livelihoods.

**Figure 16** Intra-regional share of imports and trade flows from each country's top source of African imports



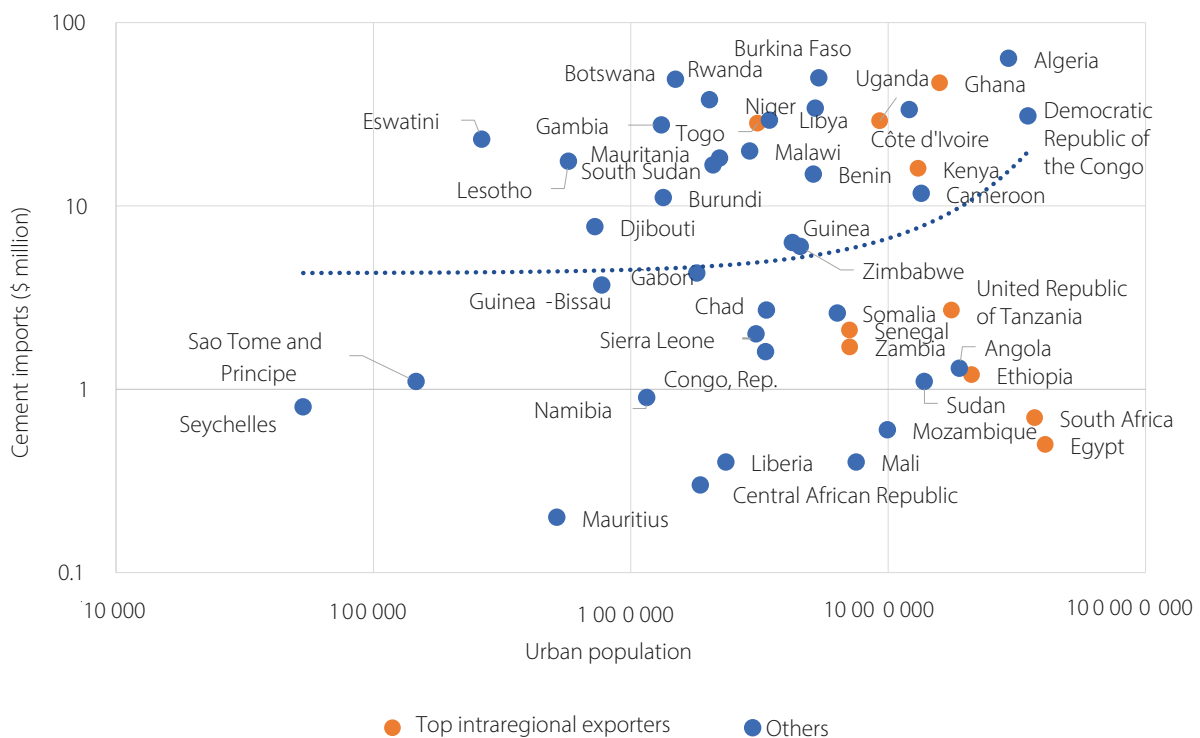
**Source:** Authors on the basis of the International Trade Centre Trade Map (trade flows), UNCTADstat data (percentage imports) and the Atlas of Urban Expansion, published by the New York University Urban Expansion Program, the United Nations Human Settlements Programme (UN-Habitat) and the Lincoln Institute of Land Policy.

**Disclaimer:** The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The final boundary between the Republic of the Sudan and the Republic of South Sudan has not yet been determined.

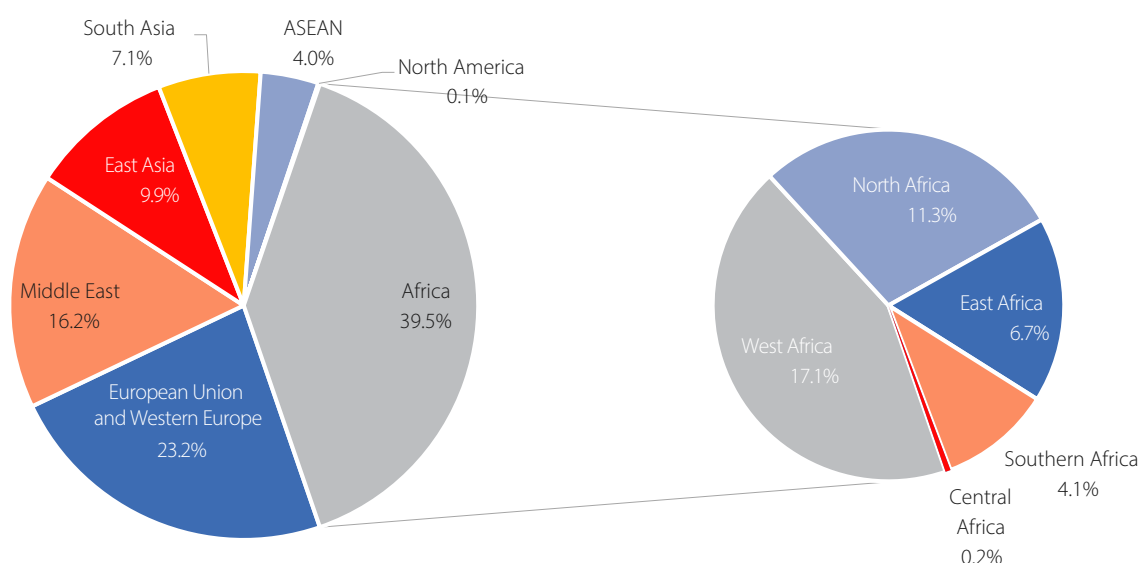
Urbanization generates strong demand for a variety of goods in sectors where regional trade is likely to be competitive, due to proximity or resource endowments. Cement is one illustrative case in point. With more than half of African urban development yet to take place, the need for infrastructure and housing will be massive, creating major opportunities for African countries to produce and trade cement and other building materials. Cement is heavy to transport, and nearby markets should therefore have an advantage due to lower associated transport costs. However, poor quality logistics, which continue to undermine intra-African trade, have meant that the intraregional share of African cement imports remains far below potential (Ligthart, 2014) and, overall, African countries import a higher percentage of their cement than ASEAN or MERCOSUR member States (Signé, 2018).

Cement imports are correlated with the size of urban populations except in countries producing large quantities of their own cement, which, as illustrated in figure 17, are therefore able to import a lower proportion of the cement they require. Furthermore, as shown in figure 18, African countries import approximately 40 per cent of their cement and clinkers from within Africa. The African cement market is projected to grow at a compound annual growth rate of 5.9 per cent compared to 5.2 per cent for the broader global market (Business Wire, 2019). Growth varies among subregions, however. For example, the market is projected to grow at a compound annual growth rate of 7.5 per cent by 2023 in East Africa, the fastest urbanizing subregion (Globe Newswire, 2018).

**Figure 17** Urban population and cement imports, African countries



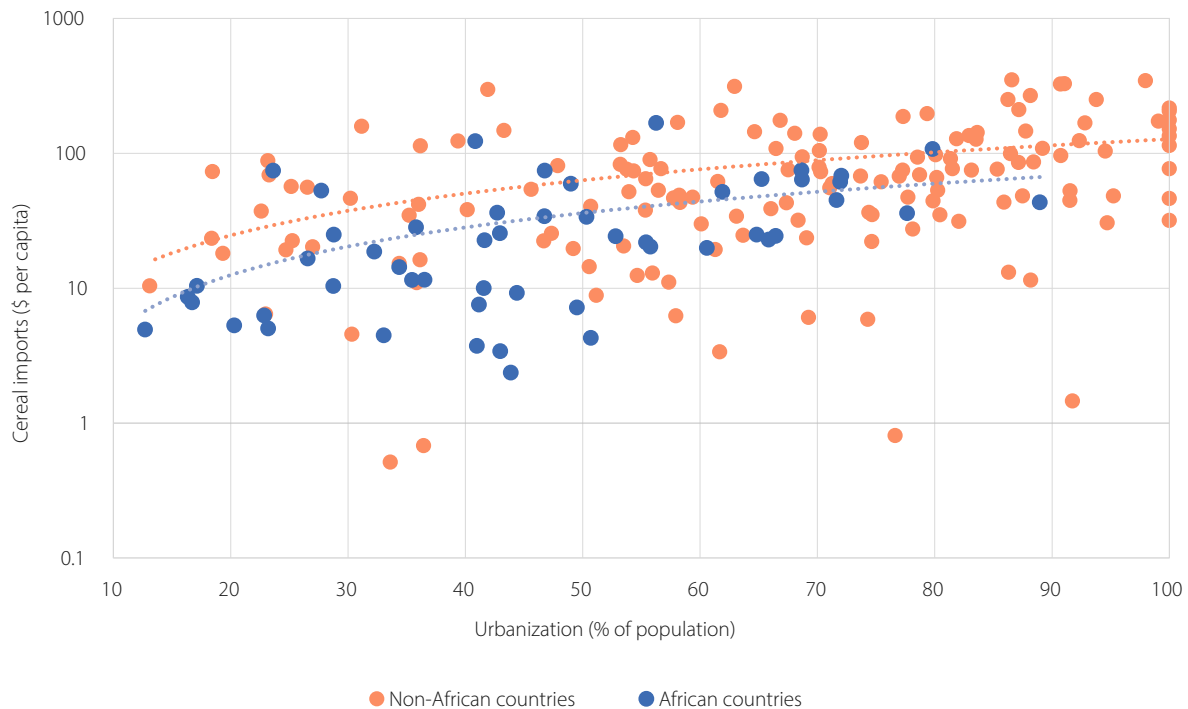
**Source:** Authors on the basis of the International Trade Centre Trade Map (cement imports) and DESA (urban populations) Figures used are averages for the period 2015–2019. Cement imports include cement clinkers, portland cement and white portland cement. Top exporters export at least \$10 million in cement exports intraregionally. Trend line does not include top exporters.

**Figure 18** Sources of cement imports to African countries

**Source:** Authors on the basis of the International Trade Centre Trade Map. Figures used are averages for the period 2015–2019. Eastern Europe, Central Asia and Latin America and the Caribbean account for less than 0.1 per cent of cement imports to Africa. Charts include cement clinkers, portland cement and white portland cement.

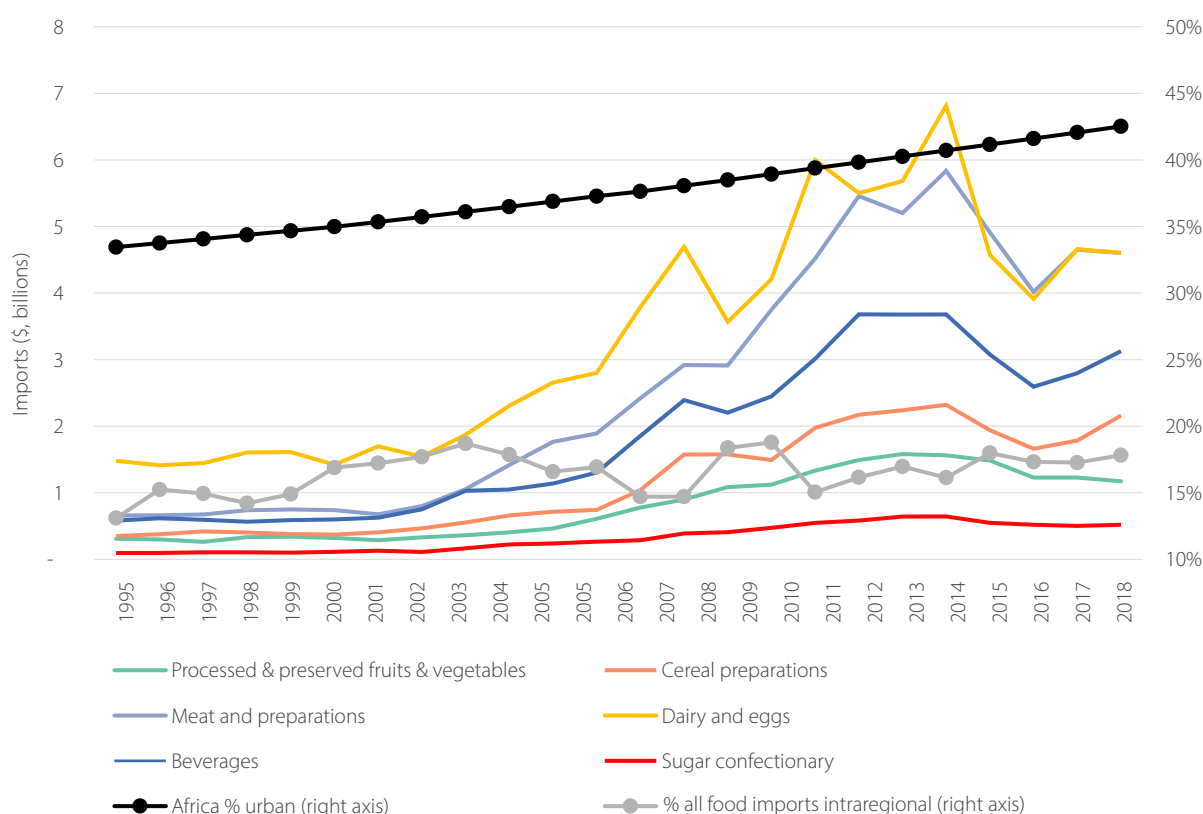
Food products provide another example of expanding import consumption associated with urbanization, and the causation is bidirectional: urbanization increases demand for purchased food, and food imports allow for the movement of population to cities. In 2016, food and beverages, along with tobacco, accounted for two thirds of the region's total retail market of \$1.4 trillion (Signé, 2018). The potential for trade is therefore significant. Many African countries have comparative advantages in food and agriculture due to their natural endowments, and proximity is particularly important in the trade in perishable goods. This is another area in which there is substantial untapped potential and considerable scope for gains stemming from the removal of intraregional trade barriers.

Food imports facilitate urbanization, especially when urbanization is constrained by inadequate domestic food supplies. Supplies of food made available for purchase are important for urbanization because urban populations usually purchase food rather than grow their own. Using data from Asia for the period 1993–2010, two researchers found that there is a positive correlation between cereal imports and urbanization, and concluded that importing agricultural products while exporting non-agricultural products could be a key driver of urbanization in poor countries. (Yuan and Guanghua, 2015). As illustrated in figure 19, there is a clear correlation between cereal imports and urbanization, both in Africa and beyond. Between 1980 and 2007, net food imports to Africa grew by approximately 3.4 per cent per year in real terms, with carbohydrates (derived, primarily, from cereals) driving most of that increase. Indeed, cereals accounted for the largest share of the intraregional food trade (Rakotoarisoa and others, 2011). Food imports may partly explain the explosion of poor megacities in developing countries that has been observed since 1960. (Glaeser, 2014). It is, moreover, very likely that the food trade will continue to expand in Africa. Furthermore, in 2013, the United States Department of Agriculture projected that the middle class in Africa (excluding North Africa) would increase in size by some 80 per cent by 2022, a growth rate faster than in any other global region with the exception of Asia and the Pacific. It also projected that food sales in Africa would increase by nearly 60 per cent over the following decade, a growth only surpassed by South Asia (United States Department of Agriculture, 2013). Cities are the key drivers of that growth, particularly in terms of the impetus they provide for increasing cereal imports (Bricas and Tchamda, 2017).

**Figure 19** Urbanization and cereal imports per capita, African and non-African countries

**Source:** Authors on the basis of the DESA and UNCTADstat data. Figures used are averages for the period 2016–2018.

Food consumption patterns are also changing, with domestically grown staples comprising a smaller share compared with imported cereals, meat and processed food. Rice, which was widely considered a luxury or holiday food only a few decades ago, is now the second most important source of calories after maize, replacing roots and tubers (mainly cassava), millet, and sorghum in many sub-Saharan African countries (Nigatu, 2017). As shown in figure 20, the proportion of imports comprising dairy products, meat and beverages is increasing relative to the proportion accounted for by cereals, underscoring the ongoing changes in consumption patterns and dietary preferences that accompany an increase in the number and relative share of middle-class households within the general population. Those consumption and dietary changes are taking place, first and foremost, in cities, where income and consumption levels, and household spending on food are generally above the national average. In the United Republic of Tanzania, 39, 44 and 31 per cent of food consumption in Dar es Salaam, Arusha and Mwanza, respectively, is accounted for by imports. By some estimates, processed foods in urban areas in East and Southern Africa, account for over 60 per cent of food budgets (twice that of rural areas) and continue to rise (Lara and others, 2019).

**Figure 20** Imports of processed food products, 1995–2018, all African countries

**Source:** Authors on the basis of UNCTADstat data (imports) and DESA World Urbanization Prospects, 2018 (percentage of Africans living in urban areas).

Africa imports far more food from the rest of the world than from within the region, suggesting that a number of barriers continue to impede intra-African trade and that there is still considerable potential for increasing intraregional trade in food.<sup>11</sup> As illustrated in figure 20 above, African food imports increased from \$15.8 billion to \$65.3 billion between 1995 and 2018, while the intra-African share of food imports remained low, increasing only from 13 to 18 per cent over the same period.<sup>12</sup> African trade patterns have historically been shaped by colonial economic models, which focused on the export of cash crops, including cocoa, fruits and nuts, coffee, tea and spices, and on imports of basic food products such as cereals, vegetable oils, sugar, meat and dairy products, largely from outside the region. African economies still import wheat and dairy products primarily from Europe, rice and palm oil from Asia, and maize, poultry and beef from Latin America (Food and Agriculture Organization of the United Nations (FAO), 2020).

Consumer welfare gains from increased intraregional food trade could be substantial. According to one study on the costs of staple cereal grains in Africa excluding North Africa, lowering freight costs on traded goods to match an international benchmark would result in a 46.4 per cent reduction in the average prices of staple grains, with welfare gains equivalent to 2.17 per cent of GDP (Porteous, 2019).<sup>13</sup>

11 The Agreement Establishing the African Continental Free Trade Area includes provisions addressing these barriers.

12 Estimate made on the basis of UNCTADstat data.

13 In the food and agriculture sector, a number of strategic corridors linking ports with key market hubs appear to have a disproportionate impact: according to one study, 88 per cent of potential aggregate welfare gains could be achieved by lowering the fees and other costs associated with ports and along targeted value chains comprising a mere 18 per cent of the trade network. Reducing trade costs through ports and along the proposed trans-African highway network could achieve up to 75 per cent of aggregate welfare gains (Porteous, 2019).

The impact on the welfare of the urban poor in African cities could be significant, particularly as African cities are 31 per cent more expensive than cities in countries with comparable income levels (Nakamura and others, 2016), and food in Africa excluding North Africa accounts for some 44 per cent of consumer expenditure (Porteous, 2019).

African cities also have major untapped potential in the tradable services sector. The services sector is large and growing but is dominated by non-tradable and informal economic activity. Indeed, the informal economy accounts for over 80 per cent of employment in many African cities, and is estimated to employ some 76 per cent of the urban workforce in the region as a whole (Chen and Beard, 2018). In the absence of a strong manufacturing base and given the continent's rapid urbanization, its increasingly educated young population and growing access to ICT, many researchers believe that the services sector could play an increasingly prominent role in the structural transformation of Africa (Newfarmer and others, 2018). In the context of trade, the digital economy has a prominent role to play in modernizing and opening up the service economy, which includes the transport and hospitality industries, accounting, health and education, and in improving efficiency in a host of areas, including logistics and customs procedures, in improving payment systems and financial inclusion, including through mobile money and banking, and in expanding market access for both consumers and businesses through the adoption of e-commerce platforms that are particularly well-suited to micro-, small and medium-sized enterprises (Vera, 2019).

### Box 3 The digital economy in Africa

The digital economy in Africa is estimated at a mere 3.9 per cent of the continent's GDP, equivalent to some \$100 billion. At the same time, the digital economy is worth around 18 per cent of GDP in advanced economies. The digital economy is a term that is usually used to describe:

- The digital infrastructure needed for the establishment and operation of computer networks;
- The digital transactions that take place using an online platform;
- The content that digital economy users create and access.

Many young people in Africa are unlikely to achieve their full potential because of the limited opportunities offered to young entrepreneurs on the continent.

Cell phone subscriptions provide a clear example of the potential for economic growth on the continent, however. Cell phone subscriptions in Africa increased rapidly from 87 million in 2005 to 760 million in 2017, growing at a rate of some 20 per cent annually. As such, the growth in subscriptions in Africa outpaced subscription growth in all other global regions (African Development Bank, 2018). At the same time, just 22 per cent of Africans had Internet access in 2017, compared to 80 per cent in more developed regions (World Bank, 2017), underscoring that, despite the progress achieved by African countries in recent years, an ongoing digital divide means that enormous growth opportunities in innovation and job creation remain untapped. The current COVID-19 pandemic has exacerbated that challenge, as a mere 39 per cent of university students in Africa have reported being able to attend their classes online.

The African Continental Free Trade Area is expected to offer new opportunities for tech start-ups and e-businesses, which, according to the African Development Bank, may be able to generate as much as \$600 billion in GDP. For that to happen however, Africa needs to significantly improve its existing ICT infrastructure, promote the use of ICT by micro- small, and medium-sized enterprises, which employ some 60 per cent of young Africans and mostly operate in the informal sector, and redouble its efforts to push forward the digital transformation of Africa through the adoption of a shared vision and common policies and measures to support pan-African digital integration.

Increased policy support in the area of services is needed, however, particularly as the African services sector remains relatively small in global terms and lacks the dynamism of services sectors in other developing regions. During the decade to 2017, commercial service exports grew by 4.5 per cent per year on average in Africa, compared with 5.8 per cent in East Asia and the Pacific, 5.2

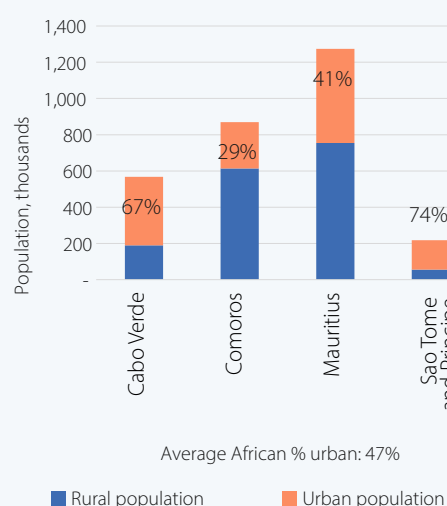
per cent in Latin America and the Caribbean and 8 per cent in South Asia. The African continent's trade in services has seen rapid growth in recent years, but only from a relatively low base. Between 2017 and 2018, for example, African trade in services grew by 9.4 per cent, or slightly faster than the trade in services at the global level, but the share of global services provided by African companies remains miniscule. There are significant subregional variations, however, with North Africa trading ten times more than Central Africa (UNCTAD, 2019). The attractiveness of African cities to service exporters should improve as a result of increasing demand in urban areas and the home market effect, with the position of African cities further strengthened by implementation of the Agreement Establishing the African Continental Free Trade Area, including in particular its provisions on the trade in services. There are increasing opportunities for the development of more resilient subsectors, including computer services, finance, consulting, engineering and business support. This is particularly critical given that tradable services in many African countries are dominated by the travel and tourism sector, which is particularly vulnerable to external shocks, as has been revealed by the COVID-19 pandemic.

Traded services will be instrumental in the production of other urban goods. Cost reductions in services will have a positive impact on all other sectors in which traded services provide inputs. The impact of the African Continental Free Trade Area is therefore likely to be substantial. For example, about 80 per cent of the final price of Ethiopian roses exported to European markets, and up to 75 per cent of the final price of teff (the staple food of urban and rural Ethiopia) is accounted for by services sector inputs. Meeting regional demand in services will therefore affect the supply, price, variety and quality of consumer goods across multiple sectors and product groups. The spillover effect of services such as telecommunications will undoubtedly be wide ranging, with repercussions likely on education, health, taxation and procurement (ECA, 2017b; Dihel and Goswami, 2016).

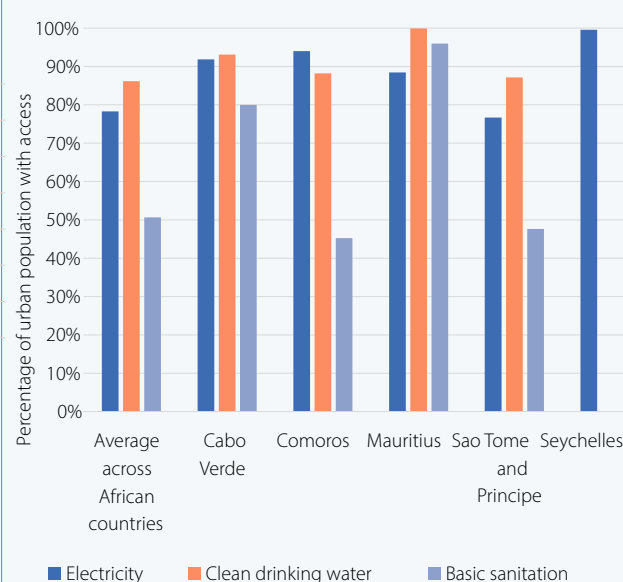
Small economies with a large and growing share of GDP generated by the services sector, including in particular, several African small island States, stand to benefit from the impending liberalization of trade in services pursuant to implementation of the Agreement Establishing the African Continental Free Trade Area. With their low populations, the island economies of Mauritius and Seychelles have been relatively successful because of their relatively open economies and well-established trade networks, which in 2018 accounted for 98 per cent and 181 per cent of GDP, respectively (Sienaert, 2018). Both economies lead the region in terms of exports of services per capita. Business and telecom service exports are also important for Cabo Verde, Comoros and Sao Tome and Principe. Service exports account for some 30 per cent of GDP on average in the continent's five small island States, compared to 5 per cent on average in the rest of the continent. Furthermore, and as illustrated in box 4, international tourism receipts are especially important for Cabo Verde and Seychelles. With their nearest neighbours hundreds of kilometers away, and given their growing dependence on the services sector, those countries stand to benefit significantly from increasing demand for services in Africa. Furthermore, expanding regional demand for services and the income generated through regional trade mean that those States will be able to mobilize the resources they will need to sustain their investments in human capital, particularly in the areas of health, education and social assistance, and promote long-term development.

**Box 4 Small island developing States – basic statistics and special considerations**

Five of the African continent's 54 countries, namely Cabo Verde, Comoros, Mauritius, Sao Tome and Principe, and Seychelles, are small island developing States. As illustrated in figure 21, four of those five States have populations of under one million, and the population of the remaining State, Mauritius, is only 1.3 million. While those States have urbanized to varying degrees, none enjoys the economic advantages available in many large cities. Mauritius, however, is frequently cited as a successful example of economic structural transformation, having leveraged its sugar industry to attract FDI before developing a domestic manufacturing base and finally transitioning into high-value services (McMillan and others, 2017). Seychelles also enjoys relatively high income levels, with some 39 per cent of GDP generated by the country's tourism sector. Three other States, namely Cabo Verde, Mauritius and Sao Tome and Principe, have established tourism sectors that generate more than 15 per cent of GDP. The COVID-19 pandemic poses a particular risk to the tourism sector in all those countries, however. Overall, the contribution to GDP generated by tourism in African small island developing States is almost two and a half times the world average, making those countries particularly vulnerable during the ongoing pandemic. Indeed, the effect of declining earnings from tourism, combined with their heavy dependence on food and oil imports has exacerbated the overall economic situation of African small island developing States, and this makes the role played by the African Continental Free Trade Area in accelerating economic diversification and expanding market access to basic consumer goods particularly important (DESA, 2020).

**Figure 21** Population and urbanization, African small island developing States

**Source:** Authors on the basis of data for the year 2020 provided in DESA World Urbanization Prospects.

**Figure 22** Urban access to basic services, African small island developing States

**Source:** Authors on the basis of World Development Indicators data for 2018.

The small size and geographic location of African small island developing States create a unique set of challenges and opportunities in terms of urbanization and regional trade. While small cities in small island developing States have limited potential to establish agglomeration economies, particularly those that are innovation-intensive and tend to be successful in very large urban areas, they often require lower levels of investment and, as illustrated in figure 22, their inhabitants are often better able to access basic services than those living in non-island States. Mauritius has had success in the labour-intensive garment export industry, highlighting the fact that smaller cities tend to be associated with more competitive labour costs, which are particularly important to labour-intensive exporters.

As illustrated in table 1, all African small island developing States are members of relevant regional economic communities and are expected to benefit to varying degrees from implementation of the Agreement Establishing the African Continental Free Trade Area. Due to their size, small island States tend to be more dependent on trade than other countries. Of the African small island developing States, Mauritius is currently the most dependent on intraregional exports and is unlikely to witness significant changes in that regard as a result of implementation of the Agreement.

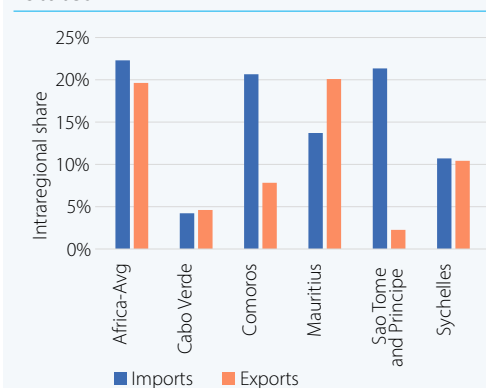
As illustrated in figure 23, however, Mauritius still imports 14 per cent of goods from within Africa, while both the Comoros and Sao Tome and Principe import more than 20 per cent of goods from within the region, and all those countries should benefit from the lower import duties envisaged under the Agreement. Importantly, second stage negotiations, which cover services, should help African small island developing States even more than the arrangements prescribed by the Agreement. This is due to the fact that, as illustrated in figure 24, they tend to generate a substantial share of GDP from tourism and the wider services sector.

**Table 1** Regional trade links of African small island developing States

Country	Top regional source of imports (goods)	Top regional market for exports (goods)	Regional economic community memberships
Cabo Verde	South Africa	Angola	CEN-SAD, ECOWAS
Comoros	Kenya	Mauritius	COMESA, CEN-SAD, SADC
Mauritius	South Africa	South Africa	COMESA, SADC
Sao Tome and Principe	Angola	Angola	CEN-SAD, Economic Community of Central African States (ECCAS)
Seychelles	South Africa	Mauritius	COMESA, SADC

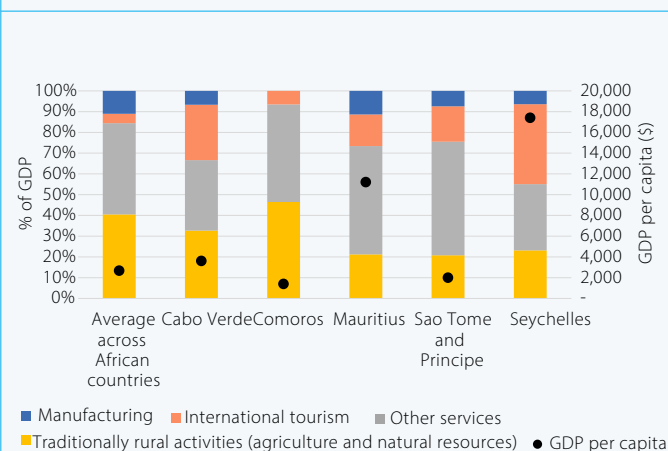
**Source:** Authors on the basis of the International Trade Centre Trade Map (top partners) and Africa Regional Integration Index (regional economic community memberships)

**Figure 23** Intraregional share of trade of goods, African small island developing States



**Source:** Authors on the basis of UNCTADstat data for the period 2016–2018.

**Figure 24** Sector composition of GDP, African small island developing States



**Source:** Authors on the basis of World Development Indicators data for 2018

Rising consumption and the expansion of markets as a result of deepening regional integration should boost the attractiveness of African cities, and especially of large cities, for FDI. Export industries have an incentive to base production in locations with high home market consumption patterns in order to benefit from economies of scale and reduce transport costs on the goods they produce. FDI flows to Africa grew fivefold between 2000 and 2010 (Signé, 2018) and that trend is projected to continue. Large African cities with good connections to global markets, including Cairo, Johannesburg, Lagos and Nairobi, attract a large share of FDI, while Kigali, Abidjan and a number of other African capitals have emerged as cities with above-average growth in FDI (UN-Habitat and Institute for Housing and Urban Development Studies (IHS), 2018). Looking ahead, it is anticipated that FDI will continue to grow more rapidly in the manufacturing and services sectors than in natural resource sectors. According to McKinsey (2015),

successful FDI entrants to Africa have “targeted the fastest-growing cities or city clusters – urban centers where per capita income and consumption spending far exceed the national average. Per capita income in Nairobi, for instance, is three times that in Kenya; Lagos residents on average earn twice as much as Nigerians overall. The capital city of Luanda accounts for 45 per cent of total consumption in Angola. In 2025, almost 60 per cent of consumption spending in Africa will come from the 20 largest cities” (Agyenim-Boateng, Benson-Armer and Russo, 2015). Urban-based sectors such as ICT, food processing, real estate and healthcare are identified as promising for FDI growth (UN-Habitat & IHS, 2018). Housing should be of particular interest. Countries that lead housing demand with investment show higher FDI inflows as a percentage of GDP than countries in which investment lags housing demand (Dasgupta and others, 2014). The establishment of the African Continental Free Trade Area should amplify those FDI opportunities, but countries still need to invest in cities and improve their business environments.

Implementation of the Agreement Establishing the African Continental Free Trade Area is expected to facilitate investment in transboundary projects critical for boosting urban development and intra-African trade. The investment policy landscape in Africa is currently characterized by a “spaghetti bowl” of overlapping bilateral and regional treaties with inconsistent provisions. This encroaches upon the policy space needed for development. With investment included as a phase II issue for negotiation, the launch of the Free Trade Area provides a unique opportunity to establish a transparent and predictable regulatory environment. Regulatory convergence on investment issues under the terms of the Agreement is expected to facilitate access by both African and foreign investors to a broader African market.

## **E-commerce has the potential to expand market access and accelerate regional trade integration**

E-commerce boosts consumption and expands market access. In developed economies, e-commerce has transformed retailing by cutting costs associated with intermediation, logistics and shipping, and by saving consumers time and the expenditure associated with visiting traditional brick and mortar stores, which, in the United States of America, is comparable to the costs associated with commuting to work. Welfare gains stemming from e-commerce also include access to a greater variety of goods and services. Thanks to digital connectivity, manufacturers and e-retailers are not only able to deliver goods and services more efficiently, but are also able to address consumer demand and preferences more effectively by exploiting advances in big data technologies and computing power to cater to differences among individuals in terms of their tastes and lifestyles.

Potentially important spatial effects may arise from e-commerce, provided that it is adopted widely. E-commerce is more likely to be adopted in big urban centres or metropolitan areas than in smaller cities or rural areas because urban populations tend to be relatively well educated, have higher income levels and are more likely to use the Internet on a regular basis. It has also been argued, however, that those living in non-metropolitan areas or in smaller cities tend to adopt e-commerce more rapidly, because e-commerce can bridge the spatial disparities in market access between large and small cities. While both are plausible, the latter entails extensive investment in Internet connectivity, logistics and freight transport. Major Internet services and fulfillment facilities, in addition to freight companies, are likely to be based in large cities, which tend to have human capital and infrastructure advantages, but some trading activities, and even the final stage of manufacturing may be dispersed.

If adopted widely, e-commerce can play a role in expanding market access and can soften the impact of economic concentration in large cities. It has been argued that, assuming urban diseconomies of

scale, e-commerce, through its price levelling role across space, can soften the negative repercussions of urban agglomeration economies, which in the two sector, two regions model of the new economic geography, are associated with a concentration of economic activities linked to differentiated products. Dispersion forces in that context can favour both consumers and producers. On one hand, digital deepening facilitates the reorganization of production and the rise of major multinational firms (Fujita, 2007a), which may fragment production and decentralize business activities in order to take advantage of locational differences, while, on the other hand, narrowing disparities in terms of urban amenities and consumer market access make urban residential dispersion possible.

Evidence is emerging that there is a differential benefit for small cities in developing countries stemming from e-commerce: this is particularly relevant to Africa. A study that looked at the rapid growth of e-commerce in cities in China concluded that e-commerce promises to reduce the spatial consumption inequality between large and small cities. Welfare gains in small cities are 0.94 percentage points higher than in large cities, although the impact varies greatly over the socioeconomic spectrum and may also have substantial repercussions for the local economy, including the traditional retail, transportation and logistics sectors (Fan and others, 2018). Furthermore, in India, where e-commerce is still in its infancy, tier 2 and 3 cities are emerging as the drivers of e-commerce.<sup>14</sup> As was illustrated in figure 4, many urban dwellers in Africa reside in cities of under 300 000 people. Internal connectivity (both in terms of transport and digital connectivity) will be important for leveraging the purchasing power of those urban populations and ensuring that they are able to reap the welfare benefits associated with access to regional imports. As digital connectivity improves, e-commerce is likely to play an increasingly important role in enhancing consumer choices for the many Africans living in small cities

E-Commerce in Africa is still in its infancy, but is growing rapidly. Less than 5 per cent of sub-Saharan Africans currently shop online. In some countries, however, including Kenya, Mauritius, Namibia and South Africa, the share is more than 8 per cent. Mobile phone penetration has empowered a growing share of consumers to search and shop online. African e-commerce companies, including Jumia, Konga and Kilimall, are broadening the range of goods they offer for sale, and now offer clothes, electronics, and beauty products (Gadzala, 2017). As of 2017, “264 companies were engaging in e-commerce activities in 23 African markets, in various subsectors of online sales, including capital goods, clothing, taxi services and travel. By 2025, e-commerce could account for 10 per cent of retail sales in the continent’s largest economies, which would translate into roughly \$75 billion in annual revenue” (Sommer and Macleod, 2019). Other projections show e-commerce growing by 17.1 per cent annually and generating some \$37.3 billion in revenue by 2024.<sup>15</sup> Furthermore, according to a 2018 study, 62 per cent of e-commerce shoppers in South Africa shop cross-border some or all of the time. This compares with 34 per cent of e-commerce shoppers in the United States of America, 57 per cent in Western Europe, and 49 per cent in Asia and the Pacific. Globally, price, including shipping costs, is the most important determinant of whether e-commerce shoppers buy outside their own country (PayPal, 2018), suggesting that as intraregional trade costs fall, it is likely that increasing numbers of African consumers will use e-commerce platforms to shop in regional markets.

Africa has an opportunity to leapfrog other global regions, but faces a steep curve of learning and investment in connectivity infrastructure. An e-trade readiness assessment conducted by UNCTAD in 27 least developed countries identified gaps and barriers in ICT infrastructure, payment solutions, skills, delivery logistics and legal frameworks, and underscored the need to build consumer confidence in online trading. Africa has a “leapfrog opportunity” to harness digital connectivity, and use e-commerce

<sup>14</sup> Tier 2 and 3 cities account for a large and growing share of e-commerce, which is handled through the country’s major online shopping platforms, including Flipkart, Amazon and Snapdeal.

<sup>15</sup> See for example projections by Statista, available at: [www.statista.com/outlook/243/630/ecommerce/africa](http://www.statista.com/outlook/243/630/ecommerce/africa)

to augment physical trade and expand market access for consumers, both in large and small cities. Given the size distribution of African cities,<sup>16</sup> African countries have an opportunity to unleash the consumer markets of small and secondary cities. Empirical studies indicate that narrowing the gap in access to modern ICT and e-commerce applications will boost trade flows from African countries to the rest of the world. Indeed, according to one study, a 10 per cent increase in e-commerce Internet usage in developing countries leads to an increase in business-to-business and business-to-consumer trade flows from the developing global South to the developed global North by 0.985 and 0.089 percentage points respectively (Xing, 2018).

In the long term, e-commerce can power the informal economy. E-commerce within the informal economy is in its initial stages, but its growth potential is significant. Online e-commerce platforms such as the Kenya-based Chochote (the Swahili word for “everything”) and the Nigeria-based Kaymu, which connects buyers and sellers across 14 African countries, show how technology can not only bolster the consumer market, but can also increase the participation of informal operators in formal markets. The increasing penetration of the Internet, the adoption of regulatory frameworks and expanding access to finance, including through mobile money platforms, could expand markets significantly (Gadzala, 2017). Many Africans are considered unbankable and have limited access to financial resources and are therefore largely excluded from many markets. Access to finance is critical if African countries are to bring millions into the formal economy. Mobile technology and regulatory reforms have enabled African countries to reduce the share of people who have no access to credit. In that connection, the expansion of activities by savings and credit cooperatives, the growth in digital financial services supported by government online services, increasing numbers of bank branches in rural areas, increasing numbers of automated teller machines in urban areas and increasing numbers of bank agents in remote locations, have in recent years enabled Kenya, Rwanda, the United Republic of Tanzania and Uganda to reduce the share of people without any form of financial access to 17 per cent, 11 per cent, 28 per cent and 15 per cent, respectively (Ndungu, 2016).

Realizing the full potential of e-commerce will require the development of the e-commerce ecosystem. Technology and infrastructure are the backbone of the e-commerce system and require investment. Building digital platforms and developing capacities for handling data, payments, sales and after sales service is also necessary. As trade volume and geographic spread increases, the physical supply chain and logistics services, including warehousing, transport and delivery systems, become increasingly critical. In the context of regional and global trade, collaboration at the regional level among African Governments is necessary, not only to promote investments in connectivity infrastructure, but also to facilitate cross-border trade by establishing interoperable payment systems and by harmonizing trade procedures and transit regimes. Countries can also collaborate at the global level on issues ranging from data protection and security to taxes (Kituyi, 2020).

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<sup>16</sup> As mentioned previously, some 47 per cent of the African continent’s urban population live in cities of less than 300,000 people.

### III. REGIONAL TRADE INTEGRATION SHAPES ECONOMIC GEOGRAPHY

Regional trade will facilitate structural transformation, with cities playing a critical role in that regard. Regional trade and the implementation of the Agreement Establishing the African Continental Free Trade Area is expected to accelerate industrialization and structural transformation in view of the fact that urbanization is an inherent component of that process. Traded industry and modern services are largely based in cities so that firms can take advantage of agglomeration economies. Agriculture, however, also contributes to urbanization as it modernizes and mechanizes, shedding labour that often moves into urban livelihoods. Implementation of the Agreement is expected to result in major gains in both manufacturing and agriculture, thereby increasing the momentum of urbanization.

Not all cities will experience the same level of growth from increased intraregional trade. Growth will depend on which economic sectors expand production most, and the locational preferences of those sectors. Different types and sizes of cities are best suited to different industries. Competitive trade facilitates the movement of factors into sectors where countries, cities and regions enjoy a comparative advantage. The economies of scale generated through trade allow firms to invest in human and physical capital, in innovation and in technology. Different sectors have different spatial or location requirements, however, and trade, through firm location decisions, therefore affects the spatial distribution of economic activity, and determines which cities will experience most growth and how fast that growth will be. The following section examines the ways in which regional trade shapes economic geography, posing a number of key questions and underscoring the following main messages:

Key questions	Main messages
<ul style="list-style-type: none"> <li>• Which urban economic sectors offer export growth opportunities due to regional trade integration in Africa?</li> <li>• How will the size distribution of African cities change in response to increased intraregional trade, and which types of cities will grow in terms of their share of the country's population and production?</li> <li>• Which cities will become major hubs in terms of intraregional trade and in regional value chains?</li> <li>• How will increasing intraregional trade affect spatial equity among and within countries?</li> </ul>	<ul style="list-style-type: none"> <li>• Intraregional trade will bolster the economic role of cities and urban–rural linkages due to opportunities in manufacturing and food exports, with the services sector and intra-industry opportunities emerging in the long term.</li> <li>• Small, secondary and mid-sized cities are poised to increase in terms of their share of the urban population due to a combination of existing trends, manufacturing export growth and the emerging role of small and mid-sized cities within subregional economic systems. However, large subregional and regional hubs are likely to emerge within countries that currently play a prominent role in regional trade. Those hubs are likely to include cities in Côte d'Ivoire, Egypt, Kenya, Morocco, Nigeria and South Africa, and may also include cities in Cameroon, Ethiopia and Senegal.</li> <li>• Increasing intraregional trade will benefit both industrialized and least developed countries. Within countries, trade benefits will be spatially concentrated rather than dispersed, and lagging regions will need support to mitigate disparities.</li> </ul>

## Manufacturing and agroprocessing are likely to benefit from regional trade integration

Regional trade integration has a strong spatial impact because of the location choices of firms and sectors. Identifying the sectors that are likely to benefit from implementation of the Agreement Establishing the African Continental Free Trade Area, outlining their potential spatial needs and identifying the characteristics of cities where investment is likely to be directed is therefore critical if relevant stakeholders are to understand and predict future urban growth trends. Moving forward, African cities are likely to play a range of economic roles, with different types of cities attracting businesses operating in specific economic sectors.

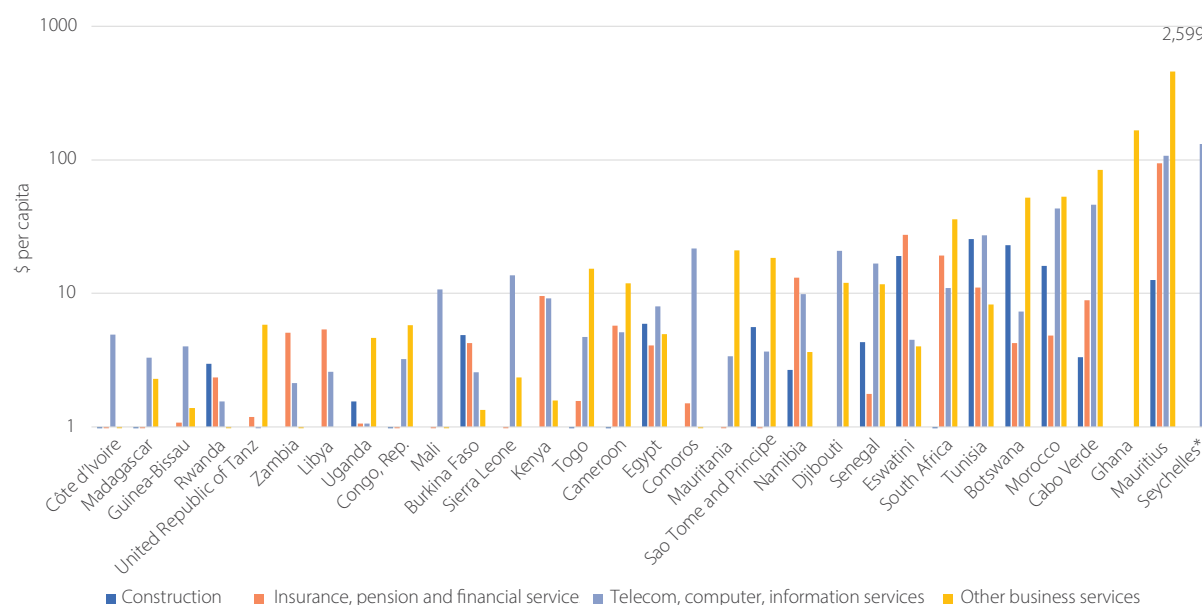
Manufacturing exports are expected to show particularly high growth as a result of implementation of the Agreement Establishing the African Continental Free Trade Area. Although African manufacturing lags behind manufacturing in other global regions, a substantial share of intraregional trade in Africa is in manufactured goods, which accounts for some 45 per cent of intraregional exports as opposed to approximately 20 per cent of extraregional exports. According to modelling exercises by ECA, implementation of the Agreement is likely to increase intra-African exports of industrial products by between 25 and 30 per cent, increasing the value of intra-African exports by between \$36 billion and \$43 billion (African Union and ECA, 2020). Furthermore, the IMF estimates that 60 per cent of the total increase in income generated pursuant to the Agreement will come from higher manufacturing output (Abrego and others, 2019). The World Bank estimates that manufacturing exports will increase by some 62 per cent following implementation of the Agreement, with intra-Africa trade increasing by some 110 per cent, far higher than the anticipated 81 per cent increase in total exports, and that exports of manufactured goods to the rest of the world will increase by some 46 per cent (World Bank, 2020). Specifically, growth in exports of manufactured goods is expected to be greatest in apparel, textiles, vehicles and transport equipment, wood and paper, leather and consumer electronics (African Union and ECA, 2020). McKinsey & Company, a consultancy firm, estimates that by 2025, revenue from agroprocessing, clothing and footwear will increase by \$122 billion, \$27 billion and \$72 billion, respectively (Signé, 2018). This will have a positive impact on much-needed urban job creation (ECA, 2018; Rodrik, 2015) and the continent will see a net increase in the proportion of workers in productive manufacturing sectors (World Bank, 2020). That impact is likely to vary substantially among countries, however.

The agriculture and food sectors are also expected to be beneficiaries of increased intraregional trade. IMF modeling reveals that agriculture is likely to generate some 16 per cent of overall income growth following implementation of the Agreement. (Abrego and others, 2019). Intra-African exports of agriculture and food products are forecast to increase by between 20 and 35 per cent (or between \$10 billion and \$17 billion) by 2040. Estimates by the World Bank put the potential increase in intra-regional and extra-regional agricultural exports at 49 per cent and 10 per cent, respectively, with employment increasing in 60 per cent of countries (World Bank, 2020). Gains are expected to be particularly pronounced for exports of meat products, milk and dairy products, sugar, beverages and tobacco, vegetables/fruit/nuts, and paddy and processed rice (African Union and ECA, 2020).

In the long term, trade in high-value services may benefit from regional integration. Implementation of the Agreement is initially expected to have only a modest impact on exports of services. According to World Bank estimates, overall gains and gains in terms of Africa trade in services are 4 per cent and 14 per cent respectively (World Bank, 2020), but the wider impact of trade on the services sector and the long-term opportunities arising from its transformation and linkages to other sectors are significant. Tradable services sector activities have high value addition and are urban-based. As illustrated in figure 25, the

African countries with the highest business service exports tend to be those already playing a major role in intraregional trade, including Egypt, Morocco, Senegal, South Africa and Tunisia. At the same time, and as outlined in box 4 above, African small island developing States are often heavily reliant on trade in services, including, in particular, the international tourism subsector. The broader services sector is the fastest growing sector in most African countries and the region, but trade in services tends to be unproductive and takes place, primarily, in the informal economy. Trade in services is not addressed in the Agreement Establishing the African Continental Free Trade Area. The first round of services sector negotiations will address business services, communication services, financial services, tourism and travel-related services, and transport services, with other subsectors addressed in subsequent rounds (African Union and ECA, 2020). To promote the establishment of more resilient African health supply chains for a post-COVID-19 world, ECA has called for health services to also be considered as a matter of priority. Similarly, education services, with a focus on the health education subsector, should be prioritized. As regional trade in manufacturing and the strength of regional value chains increases, traded services, which are critical inputs in the production of high value manufactured goods, are also likely to increase. Services are already a component of African exports and a source of export diversification in many African countries, with commercial service exports accounting for the equivalent of over 10 per cent of GDP in the Gambia, Ghana, Morocco, and Togo as of 2018.

**Figure 25** Exports of services per capita (\$), 2016–18 average



**Source:** Authors on the basis of UNCTADstat data. Other business services include research and development services, professional and management consulting services and technical, trade-related services.

Intra-industry trade is also likely to play a growing role in long-term regional integration, with African cities playing a key role in the development of regional value chains. Regional value chains present opportunities for African economies to specialize in individual components of complex goods that would otherwise be extremely difficult for them to manufacture, such as automobiles or ICT equipment. As illustrated in box 5, that model has been championed by ASEAN member States, and regional value chains have been a source of technological upgrading (Allard and others, 2016). A study on the impact of the establishment of the COMESA-EAC-SADC Tripartite Free Trade Area revealed that trade increased significantly in intermediate goods, which accounted for 24 per cent of net gains, after industry (34 per cent of gains), and followed by agriculture and consumer goods, (18 per cent and 15 per cent, respectively

(Pasara and Dunga, 2019). Intra-industry trade, mainly in components and parts, is a major growth driver in developing regions (Deichmann and Gill, 2008), because a reduction in the costs associated with the trade in intermediate goods has a direct impact on the cost of production of final products, and can therefore have a cascade effect through value chains, increasing industry-wide productivity.

FDI sector patterns confirm a shifting trend towards manufacturing and urban-based service activities. According to a survey conducted in 2019 by Ernst & Young, a multinational professional services network, the industry and services sectors account for the majority of projects and jobs, with services accounting for two thirds of the total. Although more than one third of FDI capital went to extractive industries, services sectors such as telecom media technology, consumer products retail, real estate, hospitals and construction, and financial services, have gained prominence. Growth is also taking place in manufacturing, including chemicals, automotive and diversified industrial products, suggesting positive signs of convergence among trade opportunities and investment flows. Those trends suggest the growing role of urbanization and demand for consumer products and business and personal services, including in finance, real estate, media and technology, in influencing the landscape of FDI. Through its impact on market size and its creation of economies of scale, the African Continental Free Trade Area is poised to amplify and sustain that trend.

In summary, manufacturing and agro-industries are expected to make a significant contribution to income growth under the terms of the Agreement Establishing the African Continental Free Trade Area. There is also potential in e-commerce, the services sector and intra-industry trade within regional value chains. The following section explores the spatial preferences of those sectors and their potential impact on urban growth patterns.

## **Regional trade will impact the size distribution of African cities**

Accurate predictions regarding the impact of regional trade integration on urban growth patterns are impossible to make, but an analysis of the spatial impact of the sectors discussed above and of other factors, may provide some insights in that regard. The location decisions of business enterprises are determined through the interaction of three elements, namely (a) the added productivity arising from proximity to inputs, labour and markets, (b) product market competition and (c) input prices. The first element gives rise to agglomeration, and the latter two elements give rise to dispersion (Venables, 2006). Agglomeration economies can affect a wide variety of sectors and subsectors, but in a range of ways, and, as outlined in table 2, sector characteristics also determine firm location preferences in terms of city size.

**Table 2** Spatial preferences of sectors benefiting from regional trade integration in Africa

Sector	Spatial preference	Type of urban geography
First stage agro-processing	<ul style="list-style-type: none"> <li>Proximity to input suppliers (agricultural areas), particularly for perishable goods;</li> <li>Proximity or high-quality transport link to purchasers and consumers;</li> </ul> Access to low-cost labour and service inputs such as logistics.	Small market towns, peripheral urban areas, or locations along major transport links.
Light industry, such as in textiles, apparel and leather	<ul style="list-style-type: none"> <li>Localization economies: benefits arising from same-industry clustering;</li> <li>Access to a large, low-cost labour pool (a low urban cost of living);</li> <li>Access to low-cost land.</li> <li>Domestic connectivity is critical, especially when value chains are locally integrated, such as from cotton to garment, as is international connectivity (both for imports of intermediate goods and for exports of final products)</li> </ul>	Mid-sized cities, the periphery of large cities, or special economic zones.
Intermediate goods in sectors such as vehicle and transport equipment, and electronics <sup>17</sup>	<ul style="list-style-type: none"> <li>Proximity and facilitated access to markets (domestic, regional or international), including low trade barriers and logistics to enable rapid shipment;</li> <li>Connectivity to international airports, seaports or trunk roads, especially when production is part of regional and global value chains;</li> <li>Access to skilled workers;</li> <li>Localization economies: specialized clusters</li> </ul>	Large cities, urban corridors, and export processing zones with good quality connectivity infrastructure.
Traded services and knowledge-intensive activities;	<ul style="list-style-type: none"> <li>Access to ICT and international connectivity;</li> <li>Access to a skilled workforce and a large pool of labour, which facilitates skills matching;</li> <li>Urbanization economies: diversity of activities clustered together;</li> <li>Proximity to a network of suppliers, inter-industry linkages and specialized services.</li> </ul>	Large cities
Consumer goods and services	<ul style="list-style-type: none"> <li>Access to key consumer markets characterized not only in terms of market size, but also in terms of sophistication as a result of diverse market and demographic segments, lifestyles and taste preferences;</li> <li>Personal and business support services, including in the areas of finance, transport, warehousing, retail, and communications.</li> </ul>	Large metropolitan cities or cities with fast growth in terms of jobs and population.

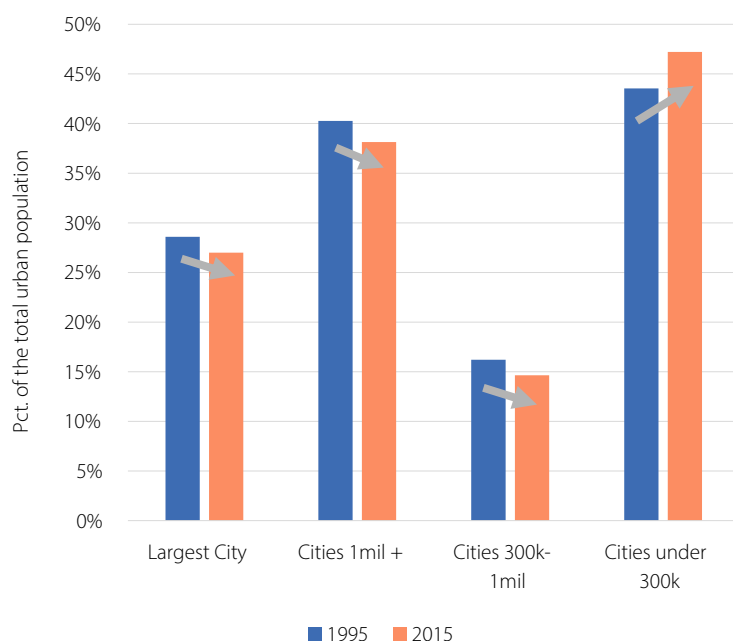
**Source:** Authors on the basis of ECA data, 2017.

Increases in regional agriculture and food trade under the terms of the Agreement Establishing the African Continental Free Trade Area suggest that the share of the urban population living in cities of under 300,000 people is likely to grow rapidly in the near term, particularly in countries where agricultural trade is likely to benefit substantially from implementation of the Agreement. While individual large cities are likely to see the largest overall increase in traded sector activity, small cities as a group are likely to capture a larger share of urban population growth, and some may also grow faster on a percentage basis. As illustrated in figure 26, this means that current trends, whereby urban growth in Africa is shifting towards small cities of under 300,000 people, is likely to continue. In the two decades between 1995 and 2015, 51 per cent of the continent's urban population increase was in cities with populations of fewer than 300,000 people. Only 25 per cent of the urban population increase during that period was in prime cities. If African cities follow the trend line established by ASEAN member States, declining primacy will continue, even as prime cities grow in population and in terms of the GDP they generate. That shift is not just reflective of the growth in population of existing small cities and towns, but also

<sup>17</sup> Intermediate goods are particularly important in production fragmentation, in which regional and global value chains can provide opportunities for vertical specialization, whereby individual countries produce specialized components or inputs (Venables, 2006)

reflects the emergence or reclassification of new cities as a result of population growth, urbanization and the establishment there of emerging economic activities, including first stage agro-processing. Urban-rural linkages will be important to add value to rural products prior to export under the terms of the Agreement Establishing the African Continental Free Trade Area, and are likely to strengthen the key role played by small agriculturally-linked cities.

**Figure 26** Shifts in urban population share by city size category, 1995–2015, weighted average of 45 African countries



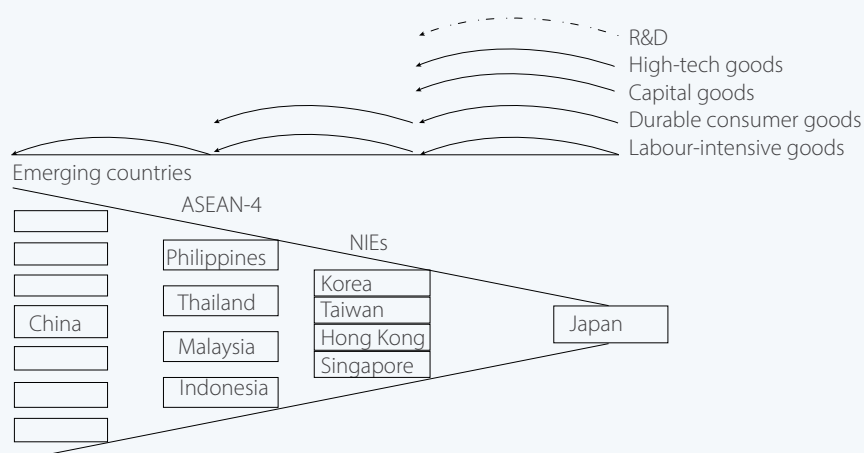
**Source:** Authors on the basis of data provided in DESA World Urbanization Prospects, 2018.

#### Box 5 Trade in intermediate goods catalyzes regional and global value chains – the case of ASEAN

The ASEAN experience of industrialization by leveraging regional value chains demonstrates the ways in which regional trade in intermediate goods and FDI within international production networks can shape the economic role of cities. The ASEAN free trade area was established in 1992. ASEAN membership has expanded from an original group of five Asian nations and now includes 10 countries. The global trade share of ASEAN member States is similar to that of certain East Asian economies known for their stellar export performance. Indeed, the share of global trade of the five original ASEAN members States is now similar to the share of global trade of Japan or China as individual States (Fujita, 2007).

The spatial structure of the ASEAN economy is dependent on the industrial development process and trade patterns of East Asia. The so-called “flying geese” development pattern is one such process. As illustrated in figure 27, as countries like Japan moved up the value chain and started to manufacture more sophisticated products, ASEAN countries successfully stepped up their production of relatively less sophisticated inputs and goods, starting with labour-intensive goods, and moving into durable consumer goods and capital goods. Since the 1990s, ASEAN countries have also benefited from the rapid industrial expansion of China, which has allowed them to strengthen their participation in global value chains (Chen and others, 2017).

**Figure 27** The “flying geese” pattern of economic development in East Asia, which characterized development in the region until the early 1990s



**Source:** Fujita, 2007

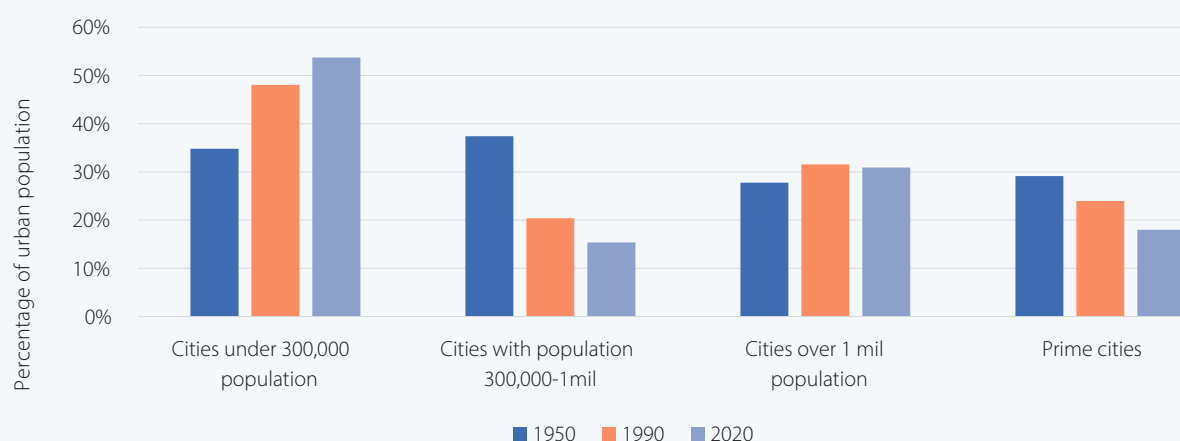
Industrial upgrading has contributed to rapid urbanization, with founding ASEAN countries shifting from an average of 19.1 percent urban in 1950 to 58.2 percent urban in 2020 and from a total urban population of 19.3 million to 273 million over the same time period. As of 2010, urban areas in Southeast Asia accounted for nearly 80 per cent of regional GDP, and major cities have grown rapidly on the back of strong manufacturing growth accompanied by a burgeoning services sector, which have both leveraged the agglomeration economies centred on large cities (Economic and Social Commission for Asia and the Pacific (ESCAP) and UN-Habitat, 2010).

Intraregional trade in components and parts within the context of regional and global value chains is a key element of the industrial diversification strategy adopted by ASEAN. A mere 25 per cent in the 1960s, intraregional trade now stands 50 per cent, and trade in components and parts is central to that trade. Compared to 25 per cent in other regions, ASEAN intraregional trade in parts and components is estimated at between 33 to 40 per cent of total intraregional trade, an important aspect of the functional integration linking production, trade, technology and investment (Dent, 2017). Indeed, the share of heavy intermediates is relatively large for many member States, including Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Thailand, and Viet Nam. The machinery sector accounts for a large share of trade for the founding ASEAN member States, with the exception of Indonesia (Maria and others, 2017). A key driver of the intraregional trade in components and parts are multinational firms and industry leaders such as Sony and Toyota, which draw on the relative comparative advantages of ASEAN countries to build regional supply chains that feed into global markets. Intraregional trade continues to grow, while ASEAN trade with the rest of the world has also expanded and the trading block is increasingly integrated into global value chains. ASEAN countries continue to successfully compete for tasks outsourced by developed economies and levels of extra-regional openness are higher among ASEAN member States than among the majority of States in other global regions (Dent, 2017).

FDI in major industries is instrumental in facilitating regional integration, and decisions regarding where to locate production can have a strategic impact on industry efficiency and integration. Because foreign direct investments are made within the context of international production networks, cities hosting firms benefitting from FDI inflows are, by default, part of a global trade and production system, and their performance has wider regional implications. The emergence of intra-industry supply chains has been facilitated through networks of cities and urban agglomerations that have emerged as industrial and trade hubs. Organizations such as the Asian Network of Major Cities 21 have arisen in the context of an increasing number of economic interactions and deepening regional trade integration. In the case of Toyota, for example, the establishment of a subsidiary in Bangkok was part of the company's strategy to expand its production network throughout East Asia and the Thai Government's efforts to promote the country as an automobile production hub for Southeast Asia. This was then followed by investments by Toyota in India and Pakistan, creating a huge complex transnational business system of intra-firm trade and investment involving a large number of factories and countries, as well as various tiers of networked supplier firms across the whole region. Such configurations of regionalized production and trade is evident in all major manufacturing industries, and nowhere is this more comprehensively developed than in East Asia (Dent, 2017).

Experience by ASEAN member States reveals that progress in interregional trade, which is driven by intra-industry trade, is accompanied by evolving changes in urban structure and city size distribution. Initial regional integration efforts saw significant shifts in intraregional trade, which increased from less than 5 per cent of total regional trade in 1950 to more than 20 per cent in the 1990s (Capanelli, Lee and Petri, 2010). Over the same period, and as illustrated in figure 28, the share of the urban population living in smaller cities increased while the share living in mid-sized cities of between 300,000 and 1 million people sharply decreased, even though the populations of most mid-sized cities also increased. The share of ASEAN country urban populations living in prime cities also decreased, although large cities of over 1 million people, which gained a total of 79 million people between 1950 and 2020, maintained a fairly steady urban population share. The ASEAN secretariat forecasts that mid-sized cities with between 200,000 and 2 million inhabitants are likely to grow more rapidly than other cities and estimates that they will account for nearly 40 per cent of the region's near-term GDP growth (ASEAN, 2016).

**Figure 28** Share of urban population by city size category, 1950–2020, founding ASEAN member States



**Source:** Authors on the basis of data provided in DESA World Urbanization Prospects, 2018.

The urban population share of mid-sized cities is currently decreasing, but it is possible that that trend will reverse. Urban population trends in Africa are currently similar to earlier trends in ASEAN cities, and particularly to trends early on in the ASEAN regional integration process. The African continent's "missing middle", namely the troubling lack of mid-sized cities whose economies are based, primarily, on manufacturing (Christiaensen and Todo, 2013) may become a less pressing issue if manufacturing sector trade opportunities are supported through strategic interventions in mid-sized cities; but this is a long-term endeavor. In the case of ASEAN, along with deepening regional integration and industrial upgrading, there has been a sharp shift toward smaller cities, but that process has slowed in recent decades, and in the decade to 2030, mid-sized cities of between 200,000 and 2 million inhabitants, rather than small cities, are expected to experience the fastest growth and contribute 40 per cent of the GDP growth in their countries (ASEAN, 2016). Currently, one third of African countries have no mid-sized cities with populations between 300,000 and 1 million, while a quarter of African countries have only one. In some cases, secondary cities in Africa are smaller than the 300,000-person threshold, and have significant potential for growth and for supporting the trade in manufactured goods. In other countries, the best prospects for an expansion in manufacturing are in the urban periphery of large cities.

Large cities with populations of more than one million will continue to be hubs of productive economic activity, and an emerging trade in services will likely contribute to their long-term growth. In Ethiopia, for example, which has been relatively successful in developing manufacturing in secondary cities, Addis Ababa still accounts for nearly five times more manufacturing employment than the next ranking city in size, even as Addis Ababa's share of the urban population has slowly declined over the last four decades. Growth in large cities will be supported by implementation of the modalities on services envisaged within

the context of the Agreement Establishing the African Continental Free Trade Area, the development of regional value chains, and expanding linkages among tradable services and other sectors. Even as large cities grow, primacy will likely continue to decline in many countries. It is not the case that prime cities will shrink, however, but rather that economic diversification will allow complementary urban areas to gain in share in terms of the country's urban population.

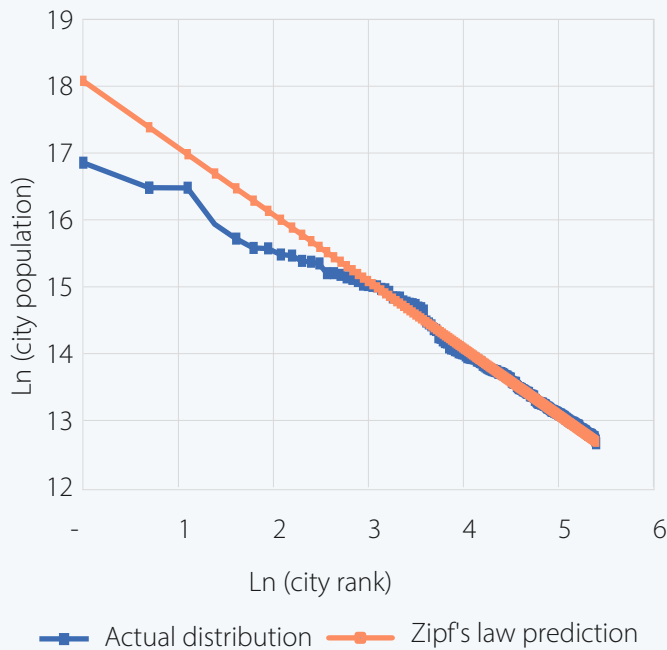
Trade integration may shift the size distribution of African cities to a pattern common for a unified market, initially shifting the share of urban growth towards small and mid-sized cities, but substantially increasing the share of the region's largest 6 to 20 cities in the longer term. Indeed, continental integration may result in a substantial increase in the population share of the largest cities. The size distribution of cities within a given country commonly follows a statistical distribution known as Zipf's Law, whereby the population size of each city when ranked largest to smallest declines in size by a predictable figure: the second largest city is half the size of the largest city; the third largest city is a third of the size of the largest, and so on. As elaborated in box 6, applying the rank-size distribution of Zipf's Law to plot the distribution of over 200 African cities with more than 300,000 inhabitants suggests that continental economic integration could increase the size of the largest cities in the region relative to other cities. However, if regional integration is particularly successful among member States of subregional groups, in line with existing trade patterns (as is more likely in the short term), mid-sized cities could grow faster than large cities, and smaller cities could grow even faster than mid-sized cities.

#### **Box 6 The rank-size distribution of African cities and Zipf's Law**

Economists have observed that, within many countries, cities follow a similar distribution when lined up by population size. The rationale for that characteristic of urban systems is not fully understood but various explanations include the randomness of exogenous shocks on sector-specific and city-specific productivity, the balance between forces of agglomeration stemming from clustering and forces of dispersion stemming from high costs, the sorting of the labour force and individual preferences according to those forces, or simply a common statistical distribution which is naturally the product of complex systems (Arshad, Hu and Ashraf, 2018).

Potentially, Africa offers huge economies of scale. To date, these have remained untapped due to the fact that the population of Africa is dispersed across 54 poorly-integrated States. The Agreement Establishing the African Continental Free Trade Area was adopted with a view to addressing the physical and trade barriers that impede the creation of economies of scale. In their research, Collier and Venables (2008) asked what the size distribution of African cities would be if African countries were fewer in number and larger in terms of their populations. After looking at the relationship between the size and population of countries and their cities using world city and population data, they concluded that doubling country population and area would lead to a 75 per cent increase in the size of the largest city. This could have a significant impact on African productivity in manufacturing. According to that model, promoting the economic integration of small countries would result in the emergence of much larger cities at the top of the city distribution curve, slightly fewer cities with populations of around 3 million, and more mid-sized to large cities with populations of between 1 and 2 million.

This study pursued a similar thought experiment to predict the impact of regional integration on the city size distribution of African cities by comparing the current distribution of cities to the distribution predicted by Zipf's Law. Figure 29 shows those two distributions, plotting the natural log of the population of each city against the natural log of that city's rank in the distribution. Taking the natural log of both rank and population results in a Zipf's Law distribution with slope of -1. The prediction curve was shifted to align with approximately the midpoint of the actual curve, which enabled a prediction to be made regarding the cities that will grow most if the region begins performing as a single market. According to that prediction, the top ranked (largest) cities in the distribution would grow the most so as to coincide with the prediction line. According to that scenario, the largest 6 cities in Africa would more than double their size and 13 more would increase in population by at least 10 per cent. Interestingly, the region's top cities are fairly evenly distributed among subregions (with the exception of Central Africa), implying that a degree of city hierarchy may already be emerging at the subregional level.

**Figure 29** African city rank-size distribution

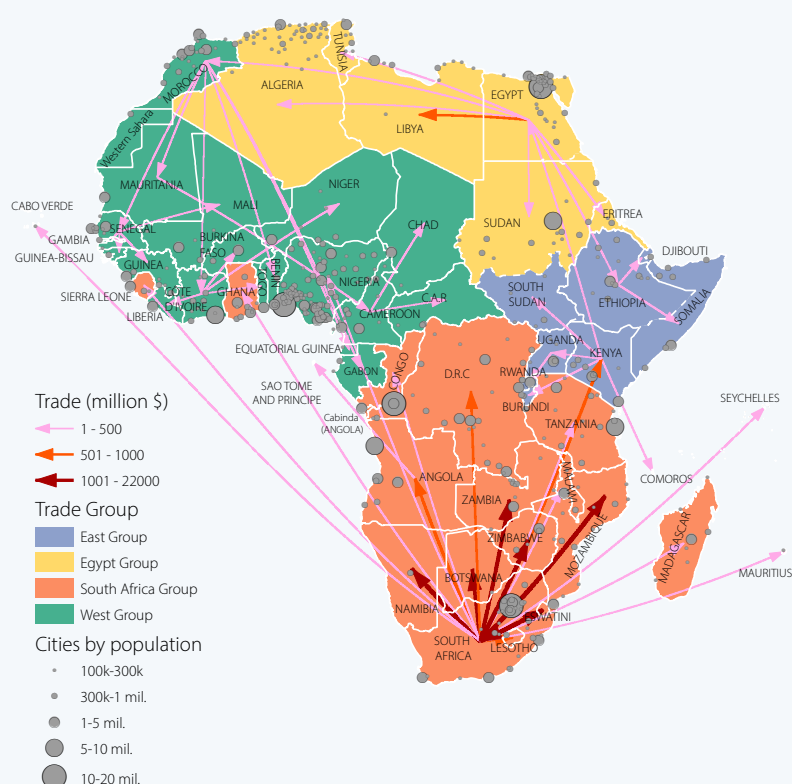
*Ln* = natural log

**Source:** Authors on the basis of data provided in DESA World Urbanization Prospects, 2018.

The idea that major subregional hubs will emerge as regional integration gathers momentum mirrors what is already seen in terms of trade flows among African countries. The predicted increase in major cities will, in reality, be nuanced because of subregional dynamics. For example, Dar es Salaam, the largest city in the United Republic of Tanzania, is one of the top six cities predicted to grow the most in that scenario, based solely on its population. Based on regional trade competitiveness and other factors, however, one could envision Nairobi or Addis Ababa outcompeting Dar es Salaam as a subregional hub. In fact, it is likely that African cities will conform to a rank-size distribution based not on the integration of the entire continent, but rather on the integration of subregional groups, where more frequent trading tends to occur, at least in the near term. The latter scenario was therefore tested and obtained very different results than those shown in figure 29.

In order to examine the idea of a Zipf's Law distribution of cities at the subregional level rather than at the regional level, the African region was split into four subregional groups of countries based on current trade patterns. Figure 30 shows the trade flow from each country's top source of regional imports. Further to that analysis, countries were clustered on the basis of their top source of imports, with the four groups summarized in table 3.

**Figure 30** Trading groups in Africa and import flows from each country's top source of intraregional imports



**Source:** Authors on the basis of the International Trade Centre Trade Map (import flows).

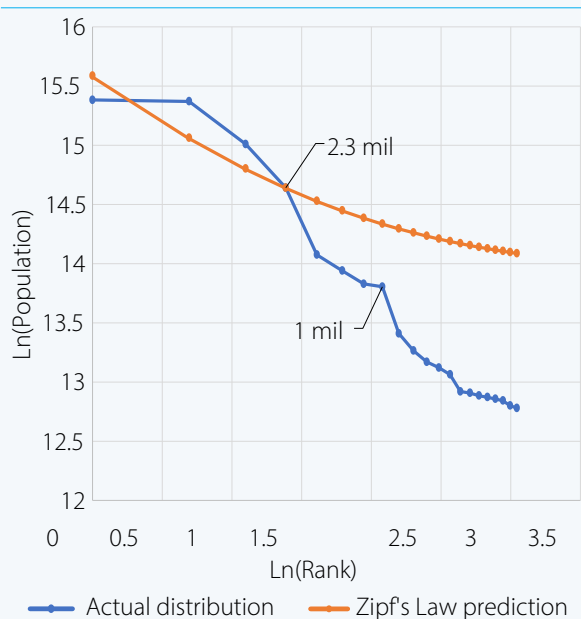
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**Table 3** Subregional trading groups and their top sources of imports from within the subregion

Group	Top sources of imports	Number of countries	Number of cities with a population of more than 300,000	Total urban population
East Group	Ethiopia, Kenya	9	21	60 189 632
Egypt Group	Egypt	6	34	101 705 081
South Africa Group	South Africa	20	73	178 730 979
West Group	Cameroon, Côte d'Ivoire, Morocco, Nigeria, Senegal	19	93	201 691 025

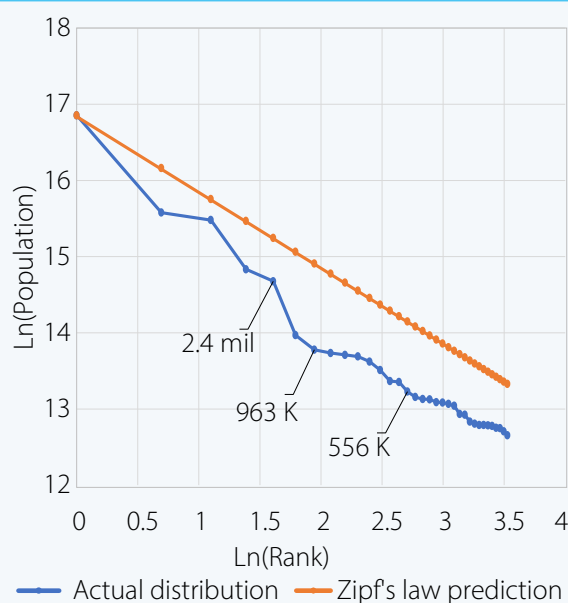
**Source:** Table and analysis by authors

A Zipf's Law analysis by subregional trading group reveals that cities with a population of less than 2 million are likely to grow faster than larger cities, and that smaller cities are likely to grow faster still. The exception to that trend is the Egypt Group, in which mid-sized cities in the 500,000 to 1 million population range are likely to grow fastest. As illustrated in figures 31 to 35, there may be some adjustments among large cities in the East and West Groups, with some cities gaining in population share, perhaps as they solidify their roles as subregional trade hubs and gateways to external markets.

**Figure 31** City rank-size distributions: East Group


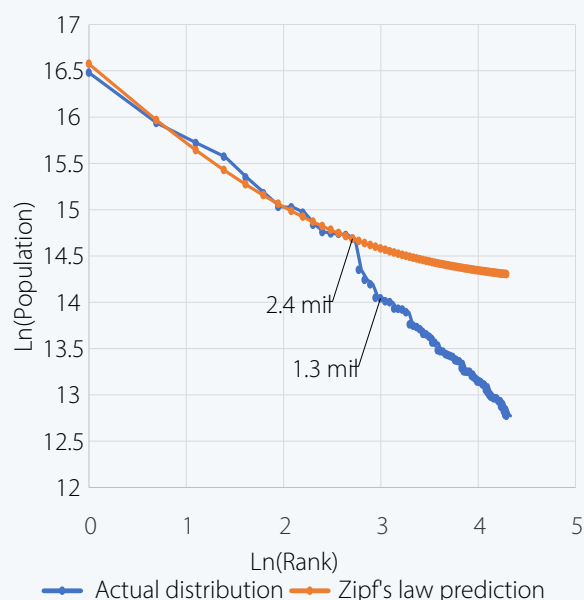
$\ln$  = natural log

**Source:** Authors on the basis of data provided in DESA World Urbanization Prospects, 2018.

**Figure 32** City rank-size distributions: Egypt Group


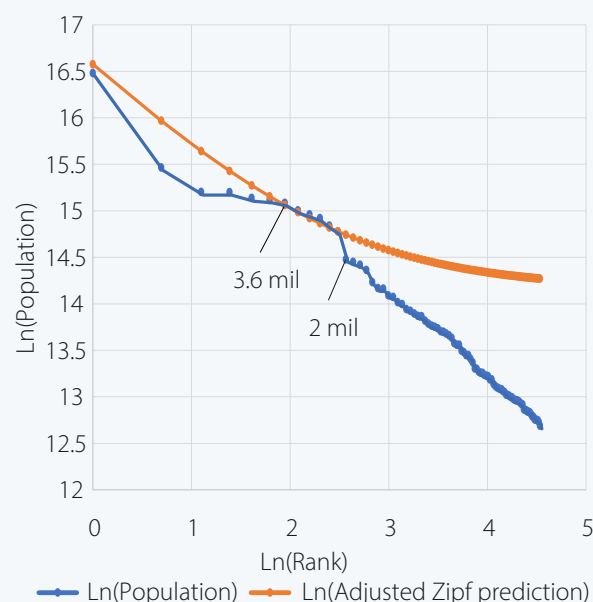
$\ln$  = natural log

**Source:** Authors on the basis of data provided in DESA World Urbanization Prospects, 2018.

**Figure 33** City rank-size distributions: South Africa Group


$\ln$  = natural log

**Source:** Authors on the basis of data provided in DESA World Urbanization Prospects, 2018.

**Figure 34** City rank-size distributions: West Group


$\ln$  = natural log

**Source:** Authors on the basis of data provided in DESA World Urbanization Prospects, 2018.

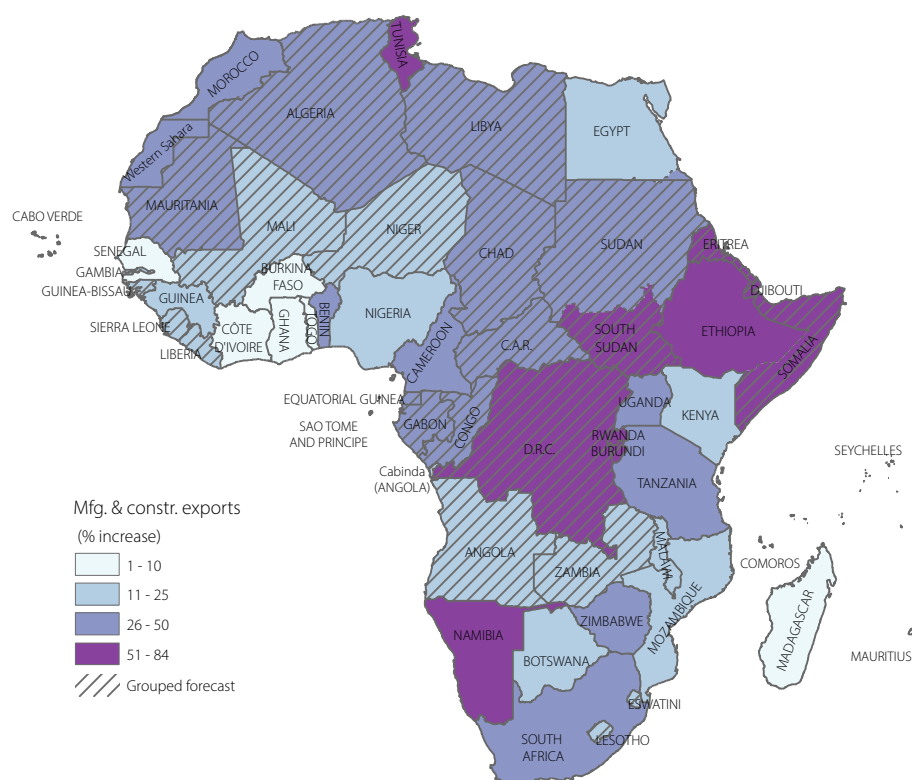
It may be the case that subregional integration and the rapid growth of small cities may take place in the near term, while broader continent-wide integration and the rise of very large regional hubs may occur in the medium to long term. Under both scenarios, it appears that regional economic integration could catalyze the role of mid-sized cities, and could, potentially, lead to the emergence of multiple cities as economic hubs. Given their special role in facilitating manufacturing, an increase in the number of mid-sized cities should be a boon for African economic diversification. But a caveat is in order: as Venables (2007) notes, this exercise is highly speculative and there are many factors at play that could either strengthen or undermine the role played by African cities in terms of facilitating regional and subregional trade.

Along with city size, location will play a major role determining which cities experience the greatest growth as a result of trade integration. Distances to international gateways, including major seaports or border crossings are extremely important, especially for export-intensive firms. In that context, border towns that have traditionally experienced significant trade-related transit may have new opportunities to grow as a result of the recent implementation of the Agreement Establishing the African Continental Free Trade Area. Indeed, the Organisation for Economic Co-operation and Development, (OECD) estimates that the population base for border cities could be 14 per cent larger if border crossings did not impact the flow of goods and people and 12 to 50 per cent larger without roadside checkpoints. In Benin, the Niger and Nigeria, an analysis of the condition of the road network shows that the combined population base of eight border cities would increase by one third if there were no delays at borders (OECD, 2019).

## **Some cities are poised to become regional trade hubs and gateways to external markets**

At a regional scale, the impact of implementation of the Agreement will help determine how and where expanded regional trade might contribute most to urban growth. South Africa, Egypt and Nigeria stand to gain the largest total increase in regional trade from implementation, and together are expected to account for between 44 and 47 per cent of total intra-African export gains (ECA, 2020b). Those countries already have three of the four largest urban populations in the region. However, a number of other countries are poised to see rapid expansion of their regional manufacturing exports, including Ethiopia and Rwanda, which are expected to expand regional manufacturing exports by more than 80 per cent by 2040. Namibia, Tunisia, and certain Central Africa States are also forecast to experience growth in their regional manufacturing exports of more than of 50 per cent. Potential gains are illustrated in figure 35. As shown in figure 36, agriculture and food exports are also expected to increase sharply. (ECA, 2020b).

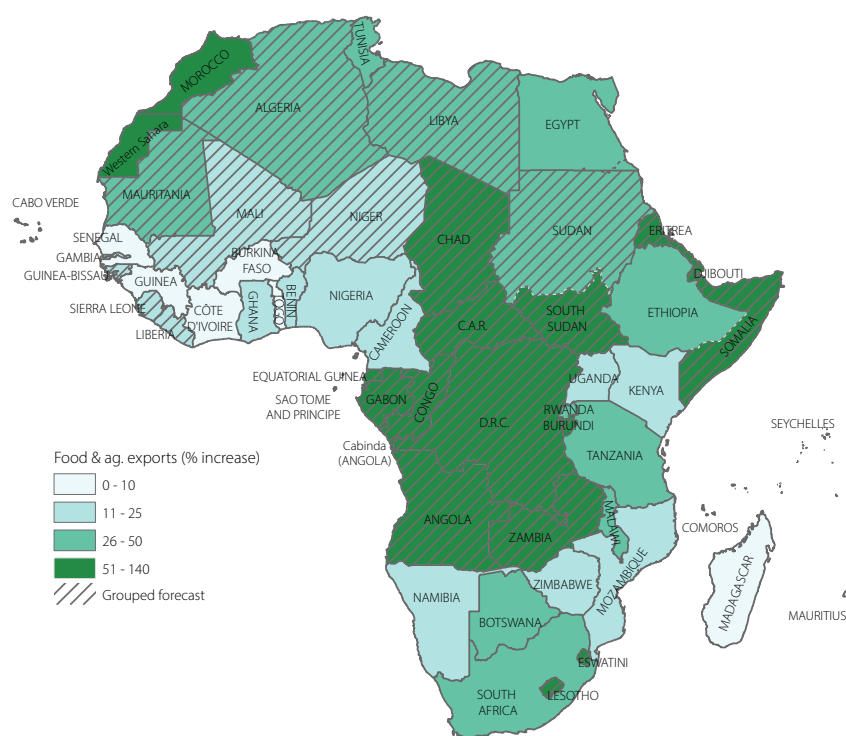
**Figure 35** Anticipated changes in regional exports of manufactured goods and construction services to 2040 pursuant to the Agreement Establishing the African Continental Free Trade Area



**Source:** Authors, on the basis of data provided in ECA (2020b).

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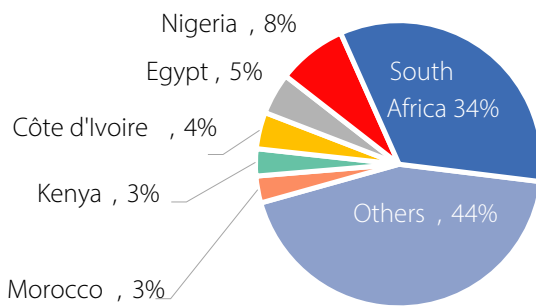
**Figure 36** Anticipated changes in regional exports of food and agricultural products to 2040 pursuant to the Agreement Establishing the African Continental Free Trade Area



**Source:** Authors, on the basis of data provided in ECA (2020b).

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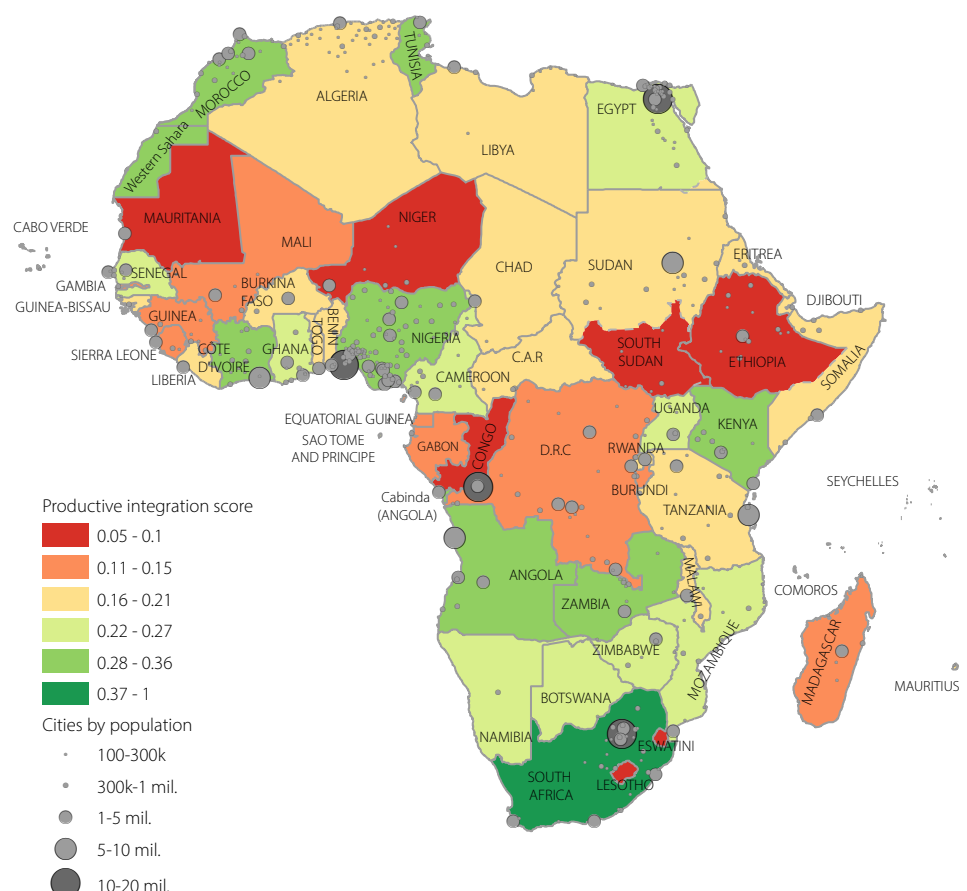
The geography of current trade flows offers additional insights regarding which countries and cities are likely to emerge as regional trade hubs. As illustrated in figure 37, the top intraregional exporters currently comprise South Africa, which generates 34 per cent of intraregional exports, and a second tier of countries which together contribute an additional 23 per cent, namely Nigeria, Egypt, Côte d'Ivoire, Kenya and Morocco. Examining the top source of regional imports for each African country, it is clear that there are a number of additional regional trade hubs, including Cameroon, Ethiopia and Senegal, which, together, generate another 3 per cent of intraregional exports. The nine countries together account for some 60 per cent of intraregional exports and significantly shape African intraregional trade. This same group of countries has some of the highest untapped export potential in manufacturing and processed food, and relatively large urban populations, which suggests that cities in those countries are likely to expand tradable sector activities significantly as a result of implementation of the Agreement Establishing the African Continental Free Trade Area and complementary policies.

**Figure 37** Share of intraregional exports in Africa by country

**Source:** Authors on the basis of the UNCTADstat data. Figures given are averages for the period 2016–2018.

There is significant untapped potential in intra-industry trade and regional value chains, where future progress will, to a large extent depend on the performance of the cities involved in the production and distribution of goods and intermediate inputs. Because the cost of information for differentiated products is higher than the cost of information for standard products, proximity is associated with more extensive intra-industry trade, but that dynamic has not yet been realized in Africa. Intra-industry trade, defined as the simultaneous import and export of goods in the same industry, remains low in Africa and averaged a mere 14 per cent between 2005 and 2010. During that period, only Egypt, Kenya and South Africa achieved relatively high intra-industry trade indexes, at 0.30, 0.21 and 0.37 respectively, but their index scores were still low when compared with those of emerging economies, such as Brazil, China and India. Interestingly, of the three African countries mentioned, only Kenya featured a relatively high intra-industry trade index for its trade within the area now covered by the African Continental Free Trade Area. Its score reflected its relatively high share of intraregional trade in manufacturing (19 per cent) compared to that of Egypt (4 per cent) and South Africa (7 per cent). The establishment of the African Continental Free Trade Area should reduce the region's intra-industry trade deficit, and African countries should be able to exploit emerging trade opportunities, inter alia, in textiles and clothing, processed agricultural products and processed mineral products such as iron and steel (Sandrey and Fundra, 2012). Trade integration trends in other regional blocs, including in Europe and East Asia, suggest that intra-industry trade (within the context of intraregional trade), will increase rapidly in Africa in tandem with deepening trade integration and liberalization, especially in areas with notable product differentiation and economies of scale (Widodo, 2009).

Furthermore, some cities are poised to become gateways to the global market, linking regional value chains with external markets. Regional integration can become a bridge to global markets by reducing fragmentation and catalyzing the emergence of growth centres in favourable coastal locations, thereby generating spillover effects in neighboring economies (Deichmann and Gill, 2008). While regional value chains are still in their infancy in Africa, some countries stand out as having achieved a comparatively high level of productive integration, with a focus on intermediate imports and merchandise complementarity, indicators of high regional value chain potential. As illustrated in figure 38, South Africa stands out as having by far the highest level of productive integration and could, potentially, anchor the region's integration into global value chains (Allard and others, 2016), thereby acting as a "lead goose" if Africa experiences major regional value chain development, a role played by Japan in Southeast Asia. Egypt shows similar potential. For example, in the regional food and agriculture trade, Egypt imports raw cotton from Burkina Faso and the Sudan, and exports some \$1.5 billion in apparel globally. It also imports live animals from Ethiopia, and exports processed cheese globally.

**Figure 38** Productive Integration Index scores, African countries

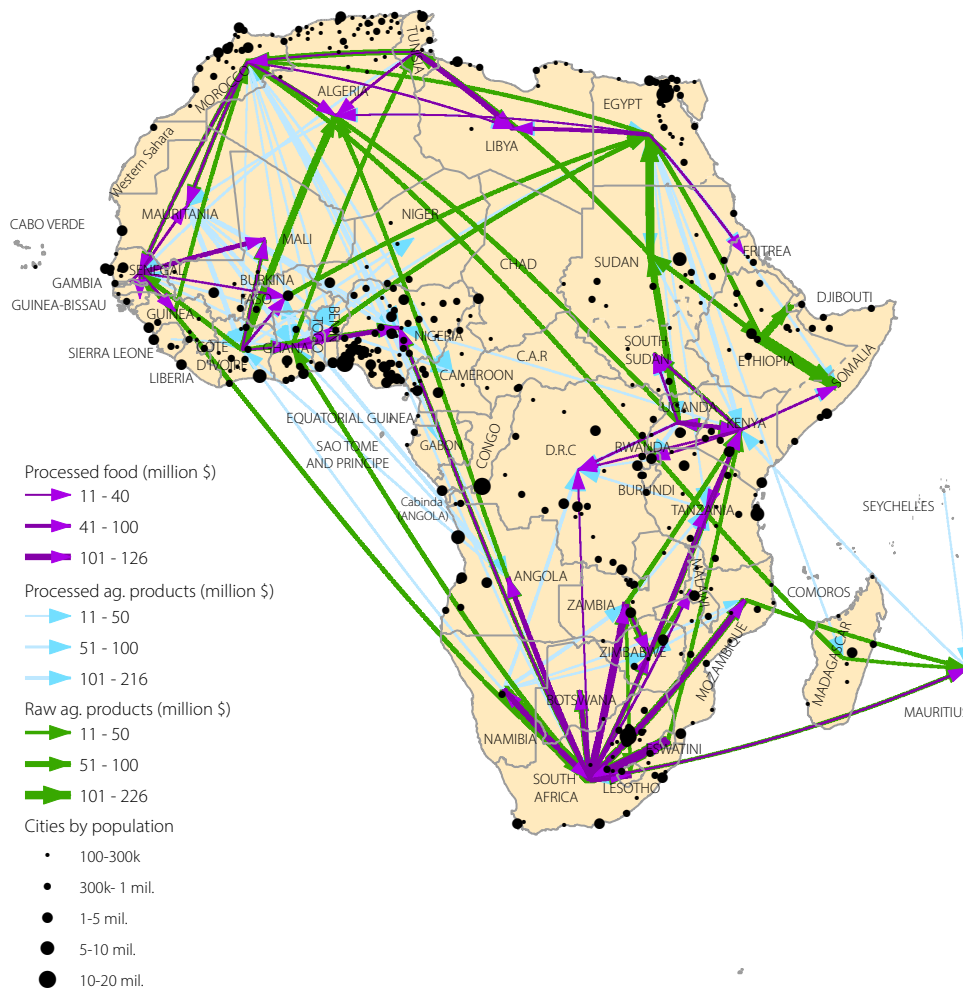
**Source:** Authors on the basis of Africa Regional Integration Index data for 2019. Productive integration scores are based on each country's (a) share of intraregional intermediate exports; (b) share of intraregional intermediate imports and; (c) merchandise trade complementarity index.

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The potential for regional value chains and links through gateway cities to external markets is apparent, for example, if one looks closely at intraregional trade in agricultural commodities and processed food. In that connection, and as illustrated in figure 39, South Africa imports live cows, sheep and goats from Namibia (worth \$149.4 million) and exports dairy produce and processed meat to other African countries (worth some \$218.4 million and \$47 million, respectively). Mauritius imports raw cotton from Mozambique (\$10 million), and exports apparel to South Africa (\$129.9 million). Interestingly, in contrast to the processed food trade, which appears to be relatively concentrated within the subregions, trade in raw agricultural goods takes place among countries in different subregions, and may take place over long distances, perhaps due to unique climate-based comparative advantages for raw agricultural goods. Both rapidly-urbanizing agrarian countries, which are often net exporters, and food-deficit countries with growing urban populations have an opportunity to expand their participation in the regional food trade, with implications for rural economies, urban dispersion and urban-rural linkages in exporting economies. Development of regional value chains in food and agriculture processing can also have a positive economic impact on women: through value addition, regional value chains can

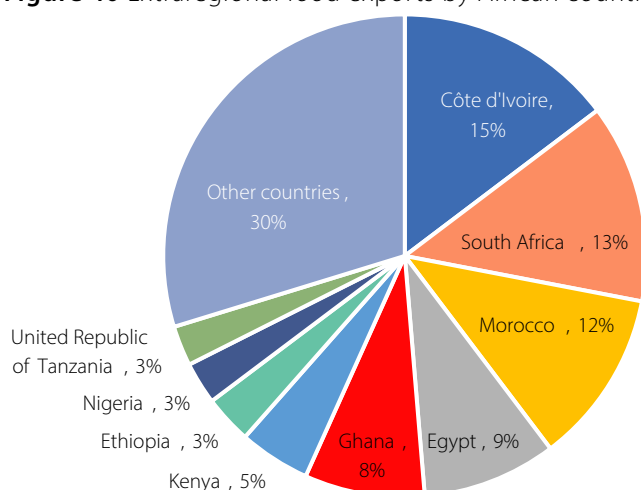
increase guaranteed market access for women in farming and food trading activities and have a positive impact on their incomes, while also diversifying and expanding employment opportunities along supply chains linking farms to firms. As illustrated in figure 40, the African countries with the greatest share of extraregional food exports, an indicator of potential gateway status, are, in declining order, Côte d'Ivoire, South Africa, Morocco, Egypt, Ghana, Kenya, Ethiopia, Nigeria and the United Republic of Tanzania.

**Figure 39** Intraregional trade in Africa in raw agricultural products, processed agricultural products and processed food



**Source:** Authors on the basis of the International Trade Centre Trade Map. Figures shown are the 2015–2019 averages. Trade flows of less than \$10 million are not shown. Raw agricultural products include unprocessed fruits, vegetables, cereals, animals and cotton (goods produced mostly in rural areas). Processed agricultural products include any agricultural product that has undergone first stage processing, which is likely to occur in small towns and rural agglomerations. Processed foods include processed products with ingredients from multiple sources, more typically produced in urban areas. Cities are likely to be both producers of processed foods (purple flows) and consumers of all agriculture and food trade products. Trade flows (arrows) are between countries and not between individual cities.

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**Figure 40** Extraregional food exports by African country (percentage of total extraregional exports)

**Source:** Authors on the basis of the UNCTADstat data. Figures given are averages for the period 2016–2018.

## Trade-related forces that tend to concentrate firms in one location may exacerbate regional disparities within countries

As trade costs decrease, firms may agglomerate, leading to spatially unequal growth, but the process is dynamic and context specific. With reduced barriers to transport and trade, firms tend to form clusters in order to benefit from home market access and the productivity benefits arising from larger cities. However, with further declines in trade costs on the one hand, and increasing factor costs resulting from the overconcentration of firms in large cities on the other, the forces of dispersion become stronger, driving some firms, and particularly those engaged in labour- and land-intensive activities, to small and mid-sized cities. The spatial shift may be gradual and may, initially, be largely to the peripheries of big cities (Fujita 2007a). Furthermore, as trade costs decline, regions are likely to specialize on the basis of locational advantages and factor endowments, leading to further differentiation among national regions. In the spatial landscape of development, which is often characterized by the uneven distribution of firms, growth and employment resulting from trade openness or regional integration is context specific, as highlighted through the country examples outlined in box 7.

**Box 7 Does trade increase or decrease spatial concentration?**

Trade openness affects subnational regions in a variety of ways. The size and pattern of cities in different regions and their response to trade liberalization (that is to say whether they agglomerate or disperse), is a key factor determining whether trade increases or decreases disparities among subnational regions. The examples of Indonesia, Colombia and Italy are presented below:

**Indonesia:** A study that looked at the economic geography of manufacturing between 1980 and 1996, the period immediately after the adoption of trade liberalization measures, confirmed that trade liberalization in Indonesia had not decreased spatial concentration. Jakarta had continued to expand, owing to its agglomeration economy and relatively well-developed infrastructure. Even enterprises engaging in international trade, which imported some of their inputs and exported some of their outputs, remained spatially concentrated (Sjöberg and Sjöholm, 2002).

**Colombia:** Trade openness has had a significantly greater effect in cities in the Cordillera and Coastal regions, which have higher income levels, than the comparatively poorer Orinoquia and Amazon regions. In fact, in the latter two inland regions, trade openness has led to weakening of the home market effect of big cities and exacerbated dispersion. Big cities in the Cordillera region have attracted greater numbers of people and firms because of their economies of scale and backward and forward linkages resulting from trade openness. In addition to the home market effect, the main cities in Coastal region benefited from their proximity to foreign markets, thus agglomerating even further due to trade openness (Guevara-Rosero, 2017).

**Italy:** In the context of European regional integration, northern Italy has benefited from its geographic location and proximity to the rest of Europe, leveraging regional integration for its economic growth and industrial development. The advantages enjoyed by the north initially stemmed from its abundant water resources, which were used intensively in silk production, and later from domestic market access, which became increasingly important as European integration gained pace. The proximity of the north of Italy to wider European markets encouraged specialization, and northern cities focused on industrial sectors in which they had an established comparative advantage, including metal products, agricultural and industrial machinery, mechanical and electromechanical equipment, electrical machinery, automobiles, textiles and oil refining. Specialization and growth in manufacturing accelerated structural change, with a shift of labour from agriculture to industry. The increasing concentration of firms in northern cities, continued until the mid-1950s or early 1960s, when it started to decline. This was due to a host of factors, including the impact of government policies, the actions by labour market institutions and other historically contingent features of the Italian economy, including the establishment of industrial districts and the activities of organized criminal organizations. (A'Hearn and Venables, 2011).

Although increased trade will benefit most, if not all cities, firms and associated economic gains are likely at first to be concentrated in major urban agglomerations, and large cities will continue to enjoy an economic advantage over small and mid-sized cities. In that regard, two questions are key: firstly, which cities have existing or expanding agglomeration economies, and secondly, how far are they from coastal cities or to other gateway cities that provide access to global markets. Economic incentives and policies tend to be of greatest benefit to agglomeration economies, and agglomeration forces are self-reinforcing, thus widening, rather than narrowing disparity. Cities featuring both high economic density and low economic distance from regional and global markets have considerable momentum to grow, but the vast majority of cities lack those characteristics and it will take them some time to catch up or benefit as much as other cities from regional trade opportunities.

Mitigating the risk of deepening spatial disparity resulting from the uneven spatial distribution of trade benefits, while also promoting the concentration of economic activity in key areas where economies of scale and access to global markets can best be exploited is a policy challenge. Schroeder, Lall and Schmidt (2015) considered the tradeoffs between spatial efficiency and equity by looking at the situation in Uganda. They concluded that infrastructure investments in major urban agglomerations produce the highest returns because those locations offer access to a broad range of producer and consumer services, including business, legal and financial services, and are therefore associated with compelling advantages that are not available in other urban or rural areas. Those factors are outlined in box 8. Investing in cities and regions that are already growing in importance in terms of trade is important in order to maximize trade benefits. It is, however, also critical to mitigate the economic hardship faced

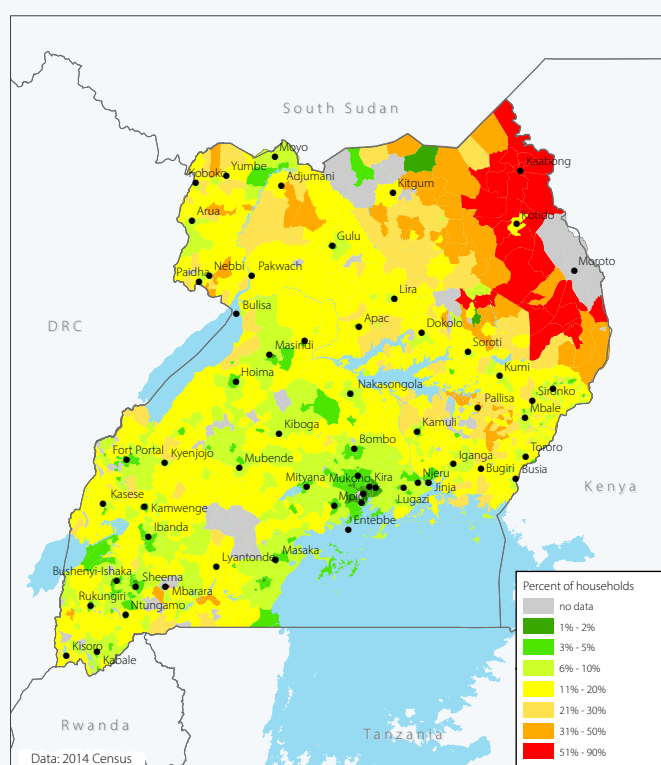
by those living in disadvantaged regions through local labour market interventions and investment in human and connectivity infrastructure (Pavcnik, 2017). Factor mobility and the more equitable provision of social services is also necessary. According to one study, the wages of unskilled workers are projected to grow faster than for skilled workers, and the wages of women are projected to grow slightly faster than for men. This is likely to accelerate poverty reduction and equitable growth, but final outcomes will depend on sector and labour market performance in different countries (World Bank, 2020).

#### Box 8 The economic growth vs. spatial equity trade-off in Uganda

African national Governments have difficult choices to make with regard to where investment should be targeted, especially as regional trade integration has the potential to increase inequities within countries. There is therefore a need to consider trade-offs between the social equity benefits of investing in lagging regions and the economic benefits of investing in more competitive locations.

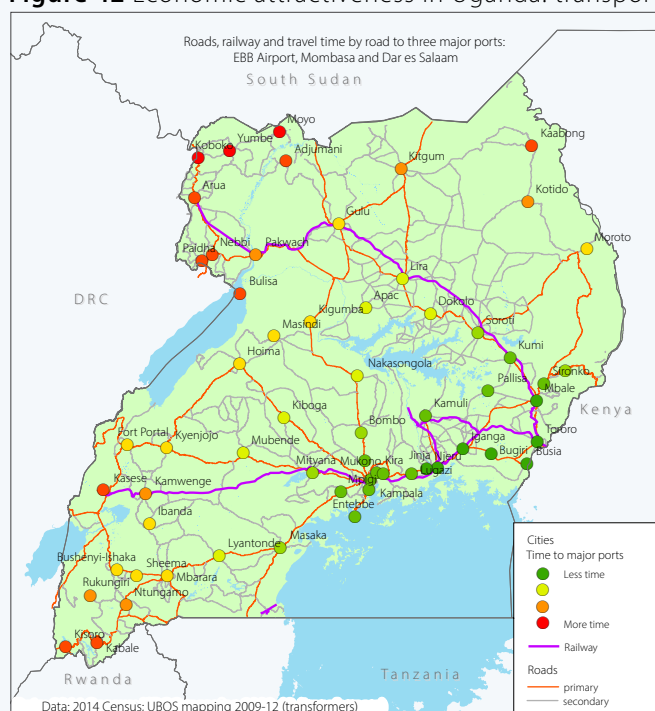
Uganda is a country that has had to make difficult decisions in that regard. Social deprivation is particularly pronounced in the north of the country. Meanwhile, areas along the shores of Lake Victoria and close to Kampala are more likely to attract FDI inflows, exporters and tradable sector firms for reasons that include higher literacy levels, more reliable electricity supplies and good transport connections to regional markets. An overview of those factors is provided in figures 42 to 45. Figure 45 illustrates that the majority of manufacturing firms are located in areas near Lake Victoria, underscoring its attractiveness as a location for economic activity.

**Figure 41** Social deprivation in Uganda: percentage of households eating less than two meals per day



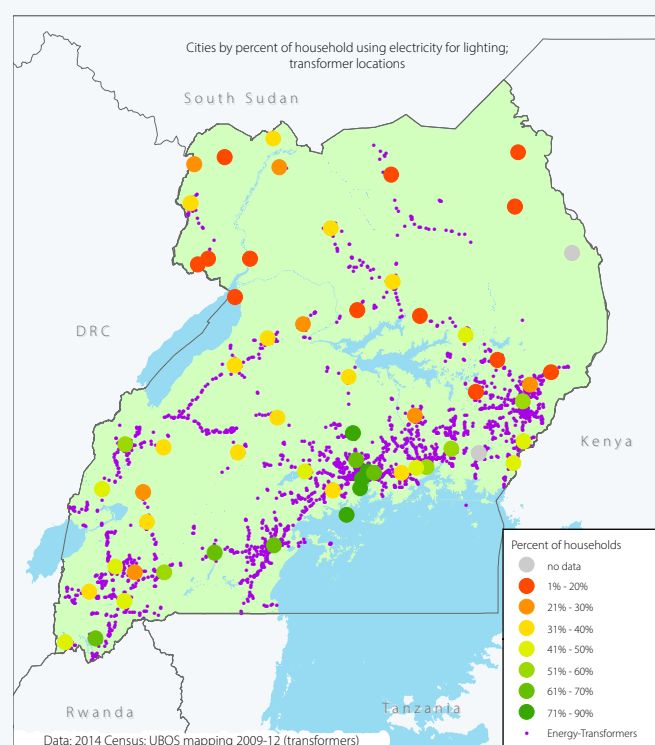
**Source:** Authors in the basis of data provided by the Ugandan Bureau of Statistics, 2014.

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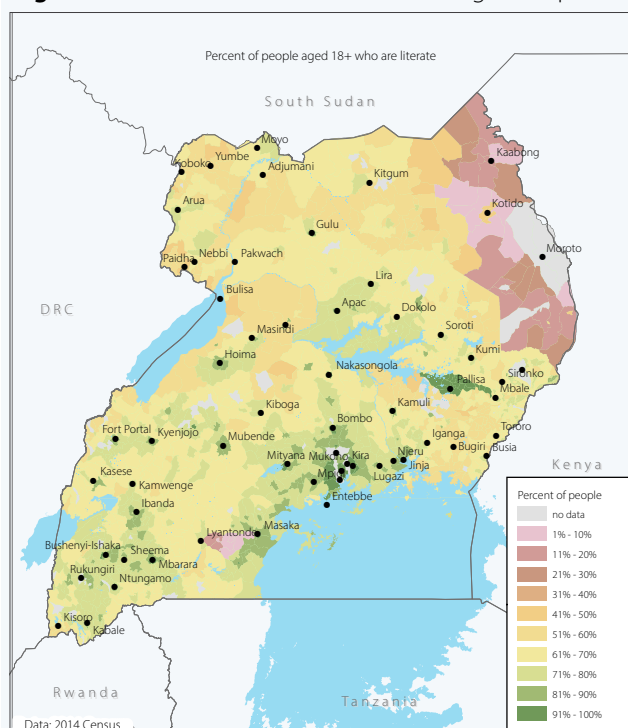
**Figure 42** Economic attractiveness in Uganda: transport links and market access

**Source:** Authors in the basis of data provided by the Ugandan Bureau of Statistics, 2014.

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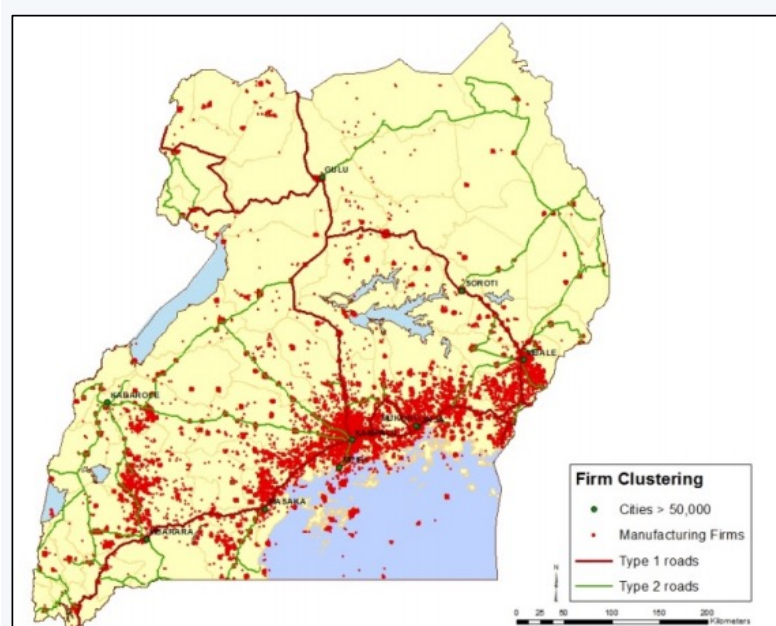
**Figure 43** Economic attractiveness in Uganda: electricity access by city and transformer locations

**Source:** Authors in the basis of data provided by the Ugandan Bureau of Statistics, 2014

**Figure 44** Economic attractiveness in Uganda: percentage of the population who are literate

**Source:** Authors in the basis of data provided by the Ugandan Bureau of Statistics, 2014.

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**Figure 45** Spatial distribution of manufacturing firms in Uganda

**Source:** Schroeder, Lall and Schmidt (2015).

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Clustering is both a response to underlying economic variables, including electricity supplies, human capital and transport links, and its own source of attractiveness, especially in traded manufacturing sectors (Glaeser and Xiong, 2017). Therefore, existing locations of economic activity tend to give rise to a self-reinforcing cycle that is hard to break (Fujita, 2007). Indeed, one study of economic geography in Uganda concluded that manufacturing firms locate in areas with a high stock of human capital and a diverse range of economic activity, namely in existing major urban agglomerations, and that public investment in marginalized areas is unlikely to trigger private industrial investment (Schroeder, Lall and Schmidt, 2015).

Despite persistent inequality within Uganda's economic geography, inequality in human development is a key policy issue that could be easily addressed. Policies that provide social services in areas that offer few tradable sector jobs should be one key ingredient. Another is policies to promote the more equitable development of human capital and to encourage labour mobility to job-rich locations.

Improving the productivity of the informal economy is also a critical condition for narrowing disparities that exist even within economically vibrant cities and regions that stand to benefit from trade. Informality accounts for between 30 and 90 per cent of total non-agricultural employment, and contributes between 25 and 65 per cent of GDP (IMF, 2017). Although many people work in multiple informal jobs, as governments make it easier for them to do business in the formal sector through the adoption of accommodative policies and regulations and by providing access to services, the structure of the economy is likely to change (Gadzella, 2017). There is also significant potential for fostering linkages among informal and formal firms, particularly in the manufacturing sector. Those linkages could be established among individual firms or within subsector production arrangements and value chains, whereby firms with market knowledge and power, the most competitive firms in the subsector or leading national or international firms determine the rules of the game (Chen, 2007).

The gender dimension of disparity is also an important policy concern. Improving financial access and tax regimes and regulations for informal enterprises operated by women, including women-run home-based businesses, and informal cross-border traders, the majority of whom are women, is likely to have a positive impact on gender inequality, with huge implications for overall economic productivity and poverty reduction. Reducing income and gender inequality to the levels currently observed in the fast-growing economies of southeast Asia, namely Indonesia, Malaysia, the Philippines, Thailand and Viet Nam, could boost annual real per capita GDP growth in Africa excluding North Africa by an average of close to 1 percentage point a year. (Dieterich and others, 2016).

## **Trade integration is unlikely to exacerbate existing inequalities among countries**

While steps should be taken to address spatial disparity within countries, the uneven distribution of trade benefits across countries is also a concern. Countries with gateway cities or major hubs are likely to benefit more from increased trade than other countries. Urban gains from trade will depend in part on broader national macroeconomic contexts. However, as has been the case in Europe, and as outlined in box 9, trade integration in Africa is likely to lead to a convergence of incomes across countries, although income disparities within African countries may remain as is or even worsen.

The creation of the African Continental Free Trade Area is expected to narrow the economic distance separating member countries from regional and global markets, and, as illustrated in figures 36 and 37, regional trade integration is likely to boost the intraregional exports of countries typically left out

of regional trade flows, including landlocked countries in Central Africa. Compared with other African subregions, Central Africa stands out as a trade desert which, according to UNCTADstat data, accounts for less than 7 per cent of intraregional exports. The subregion stands to benefit significantly from implementation of the Agreement, however, with Central African countries expected to experience an increase in intraregional exports of some 32.7 per cent by 2040 (ECA, 2020b). Along similar lines, Burundi, Rwanda and Uganda, the three landlocked EAC member States are home to some 40 per cent of the population of that regional economic community and about 30 per cent of its economic activity. There is, however, a significantly greater economic distance to those major markets than to coastal countries, because transport by sea is much less expensive than by land or air (World Bank, 2012). Those landlocked countries stand to gain from regional integration because, as stated by Brulhart (2011), regions with inherently less costly access to foreign markets stand to reap the largest gains from trade liberalization.

Generally speaking, more industrialized countries will be better able to seize new opportunities under the Agreement and attract FDI flows (African Union, ECA and African Development Bank, 2017) but significant industrial gains are also likely to be made by least developed countries. Country size and industrialization levels matter, however, and higher productivity is usually seen in large cities and in regional hubs. Large consumer markets often attract the lion's share of FDI (Signé, 2018). Less industrialized countries can, however, still contribute to regional value chains. Less industrialized countries will require support in order to participate effectively and reap maximum benefit from implementation of the Agreement, including infrastructure and capacity-building support, and direct support to small businesses to help them exploit trade opportunities (African Union, ECA and African Development Bank, 2017). That said, it is least developed African countries that are likely to experience the greatest boost to industrialization, with three quarters of their gains in intra-African exports likely to comprise industrial goods (African Union and ECA, 2020). Many African least developed countries are already experiencing rapid urban growth. Job creation and multipliers arising from gains in the regional trade in manufactured goods will be an economic boon to cities in those countries, and, concurrently, will help highlight the need to address urban investment deficits in infrastructure and services.

Countries with a large share of employment in agriculture are well-positioned to exploit emerging agro-industry opportunities. Significant productivity and development gains can be made, especially if agricultural products are linked to value addition in cities. The trade in perishable goods will undoubtedly benefit from faster customs and streamlined trade regulations, and the percentage increases in intraregional food and agricultural product exports are expected to be high in many countries following implementation of the Agreement. Africa is currently a net food-importing region, but with significant untapped potential in terms of the regional food trade. In order to realize that potential, complementary regional and national initiatives will be needed (African Union, ECA and African Development Bank, 2017). Stronger urban-rural linkages, supported through transport and logistics, buyer-supplier relationships, finance and mobile money, labour reforms and the transfer of knowledge are essential to promote well-being and prosperity in urban and rural areas simultaneously in countries with natural advantages and large workforces in agriculture. By simultaneously striving to boost agricultural productivity and promote urban employment, African Governments can make the structural transformation process, including urbanization, less disruptive.

Countries that currently impose barriers to value-added exports also stand to benefit from regional trade integration. Resource-rich countries that have found it challenging to diversify their exports are likely to enjoy increased export opportunities under the terms of the Agreement Establishing the African Continental Free Trade Area (African Union, ECA and African Development Bank, 2017). Similarly, landlocked countries, which, on average trade 30 per cent less and have weaker GDP growth than

non-landlocked countries, stand to benefit from the impact of implementation of the Agreement on their relationships with neighbouring countries. Furthermore, for conflict-affected and post-conflict States, expanding regional trade offers additional benefits, as trade with neighbours has been found to reduce conflict by providing a platform for cooperation and assistance. However, conflict-affected States already tend to have weak trade relations, and will need additional measures beyond the Agreement to promote their trade with other African States (African Union, ECA and African Development Bank, 2017).

In summary, cities in many African countries stand to benefit from regional trade integration. Cities in some countries will undoubtedly benefit more than others, with associated national and subnational repercussions. Nevertheless, with the right complementary spatial and economic policies in place, inequality among countries is unlikely to be exacerbated. According to predictions made regarding the impact of the creation of the African Continental Free Trade Area, manufacturing and food sector growth will not be limited to a single subregion or income level (ECA, 2020b). Indeed, while large economies will see large overall gains in regional trade, least developed countries are likely to see similar or higher percentage gains.

### Box 9 Convergence and divergence among and within countries – the case of European integration

Since the founding of the European Economic Community in 1957 with six member States, to the establishment of the current European Union of 27 members, European economic integration has deepened and undergone successive rounds of enlargement. As illustrated in figure 46, European economic integration has been accompanied by decreasing inequality among countries, but not within countries (Venables, 2007; Puga, 2001). European inequality among countries slowly but steadily decreased between 1980 and 2000. However, inequality within countries remained fairly steady between 1980 and 2000, and even increased slightly in the late 1990s. By the turn of the century, about 25 per cent of citizens of the European Union lived in regions below 75 per cent of the average European Union income level and were eligible for assistance. Unemployment rates in the ten subnational regions with the highest unemployment were more than twice the European Union-wide average (Puga, 2001).

**Figure 46** Inequalities among and within European Union countries, 1982–1995



Source: Puga (2001)

Countries specialize to reap the benefits of trade integration. During the 1970s, European countries became more similar in their distribution of industries, but in the two decades that followed, there was increasing divergence in production, suggesting growing specialization. Indeed, between the early 1970s and early 1980s, 7 out of 15 countries became more specialized, while between the early 1980s and the late 1990s/early 2000s, all countries except the Netherlands experienced an increase in specialization. That is, they became increasingly different from the rest of the European Union (Venables, 2007).

Along with specialization, however, inequalities within countries increased due to the growing importance of the variation and density of activities. Cities with the requisite clustering of activities grew faster than other locations. A study that looked at the relationship between geography (location and density) and spatial patterns of income in European regions during the periods 1980–1983 and 1997–2000, concluded that density significantly affected income and income growth, while the effect of location at the regional level significantly diminished, suggesting the importance of within-country variations in density in explaining subnational income differences (Venables, 2007).

Regional integration and labour demand are among the probable factors driving that polarization. Unemployment outcomes of individual regions are more likely to resemble the outcomes of neighboring regions (both within the same country and in neighbouring countries) than to the average outcomes of other regions within the same member State, blurring country borders and suggesting a weak role for national circumstances. Neighborhood effects and changes in the spatial distribution of labour demand (which is associated with industrial specialization and location) in the context of low mobility of labour in Europe appear to be key drivers of polarization (Puga, 2001).

Regional policies in Europe involve training, the provision of subsidies to business enterprises and infrastructure investment. In the absence of mobility and wage differentiation however, investment in infrastructure may not necessarily help poorer regions catch up, and may even widen regional disparities. For example, the reduction of transport costs between northern and southern Italy in the 1950s, which exposed firms in the south to increased competition, is considered a critical factor that exacerbated the de-industrialization process in southern Italy (Puga, 2001). Remote and service-deficient areas, if not connected through efficient networks and capacitated to develop endogenously, may become hollowed out and difficult to turn around.

In summary, while convergence has occurred among countries in the European Union, persistent subnational inequalities remain. The forces that promote clustering within cities and large metropolitan areas create hotspots of economic growth for the wider region, leaving behind those locations that lack such forces. That regional differentiation in income is associated with the process of industrial specialization and firm location. In the absence of mobility, investments in infrastructure may not necessarily help poorer regions catch up.

## IV. URBAN GEOGRAPHY INFLUENCES PARTICIPATION IN REGIONAL TRADE AND REGIONAL VALUE CHAINS

The geography of cities and their linkages play a role in how and whether African countries take advantage of the opportunities stemming from regional trade. Urbanization does not automatically result in exports of high-value manufactured goods and services. The quality of cities themselves, and their national and regional connectivity, determine whether they are a productive environment for firms. Trade, investment and sectoral policies all have a bearing on urban productivity, and spatial development initiatives such as special economic zones and corridor projects are sometimes used to concentrate limited investment resources and trigger the creation of agglomeration economies.

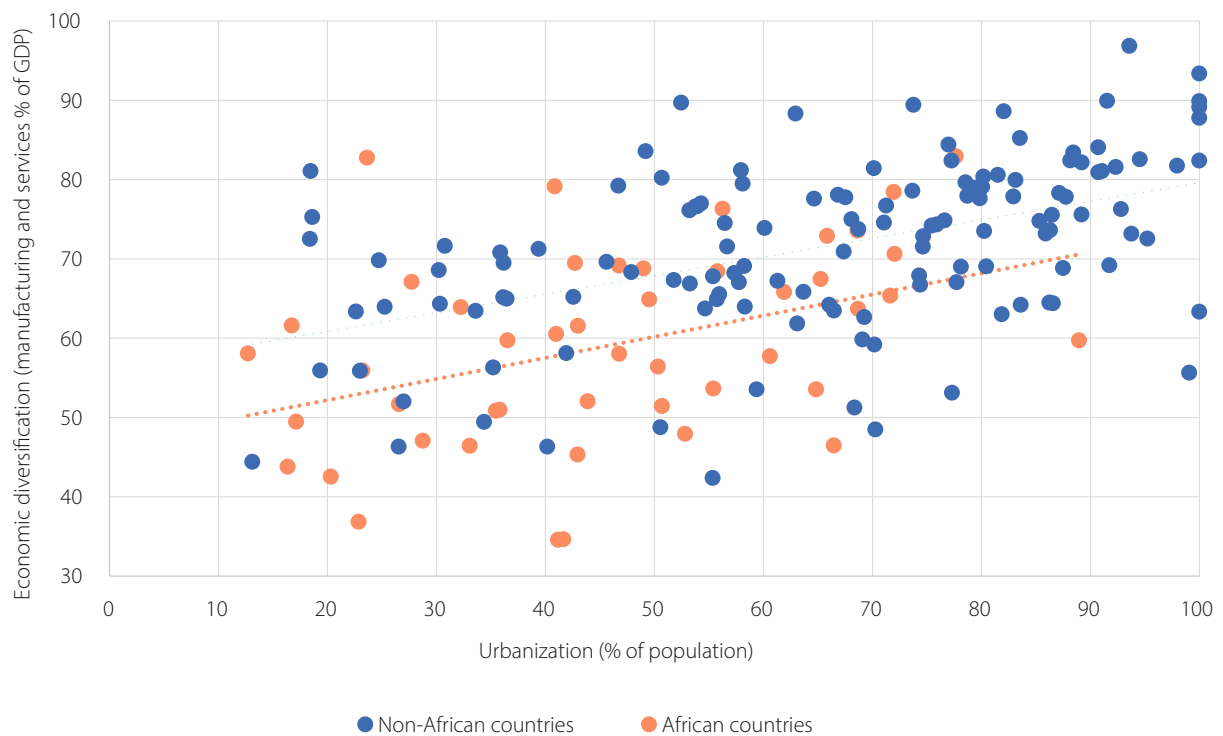
The impact of trade on urban geography is increasingly well understood, but the impact of economic geography on trade and comparative advantage is less well documented (Levey and Moscona, 2020). The following section examines that issue through the lens of industrialization and economic diversification, posing a number of key questions and underscoring the following main messages:

Key questions	Main messages
<ul style="list-style-type: none"> <li>• What role do cities play in export diversification?</li> <li>• What are the prerequisites for ensuring that cities can leverage regional trade-related opportunities?</li> <li>• What impact do cities have on rural participation in regional trade?</li> <li>• How can special economic zones strengthen the relationship between cities and regional trade?</li> <li>• How can trade corridors support the role of cities in regional value chains?</li> </ul>	<ul style="list-style-type: none"> <li>• Cities can facilitate the intraregional trade of manufactured goods and services due to their promotion of agglomeration economies</li> <li>• Cities need increased support to be competitive hubs of production. Investments made to leverage the export potential of African cities should include investments in institutions, infrastructure, urban planning and human capital. Cities must also be well connected to the broader spatial system, including other hubs of production (both cities and rural areas) and trade gateways.</li> <li>• Cities and towns, through their role in logistics, processing and value addition and consumption enable connections with regional markets that enable subsistence farmers to boost their production and transition out of subsistence.</li> <li>• Special economic zones are tools for boosting intraregional exports and, under the right conditions, can simultaneously: (a) leverage the productive potential of cities; (b) help overcome deficits in the urban business environment within a limited geography; (c) meet the specific needs of exporters. Special economic zones must, however, be well connected to cities.</li> <li>• There is untapped potential to use corridor development programmes to strengthen the regional trade connections among African cities. Those efforts should go beyond transportation infrastructure and strengthen the coordination of logistics, trade facilitation measures and urban improvements and should provide support to specific economic sectors.</li> </ul>

## Urban economic geography and export diversification are linked, but the quality of cities matters

Export diversification is a development goal for many countries. The concentration of exports, and particularly exports of commodities whose prices are subject to significant market volatility, can potentially undermine economic growth. Diversification into manufacturing and services helps to provide decent-wage jobs to urban populations, and can also support the expansion of the middle class. Economic development is associated with rising export diversification (Alaya, 2012). Urban geography enables economic diversification into manufacturing and productive services. Across countries, urbanization is associated with economic diversification, and, as illustrated in figure 47, that relationship holds among African countries. Manufacturing and tradable services typically require an urban environment due to the need for agglomeration economies, which serve as a force for clustering and therefore incentivize firms to establish themselves in close proximity to each other and rewarding those who do so with a productive dividend.

**Figure 47** Urbanization and economic diversification, African and non-African countries

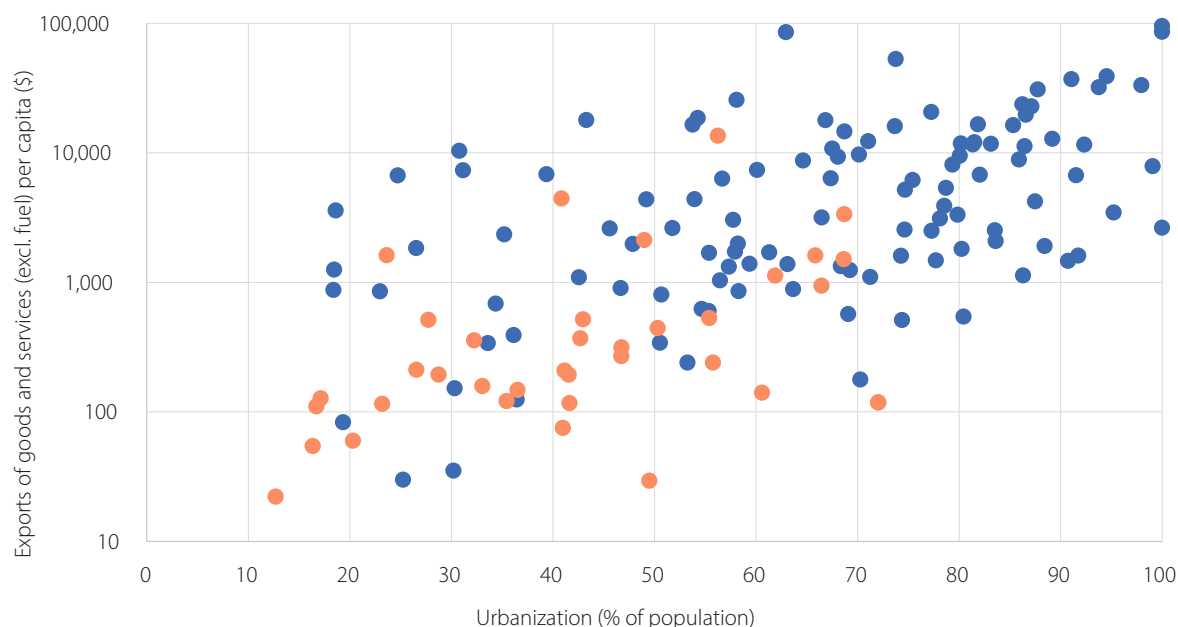


**Source:** Authors on the basis of World Development Indicators data for the period 2016–2018.

As illustrated in figure 48, there is a strong positive correlation between exports per capita and urbanization, but greater export diversification is associated with slower urbanization in countries whose economies are heavily reliant on the exploitation of their natural resources. The link between urbanization and export diversity is complicated because urbanization arises in response to consumption and to natural resource earnings from commodity exports (see Section II). Therefore, there is a negative correlation between urbanization and export diversification in natural resource exporting countries. However, as shown in figure 48, a positive correlation is apparent between urbanization and export diversification in countries in which less than 10 per cent of GDP is derived from natural resource rents. Figure 49

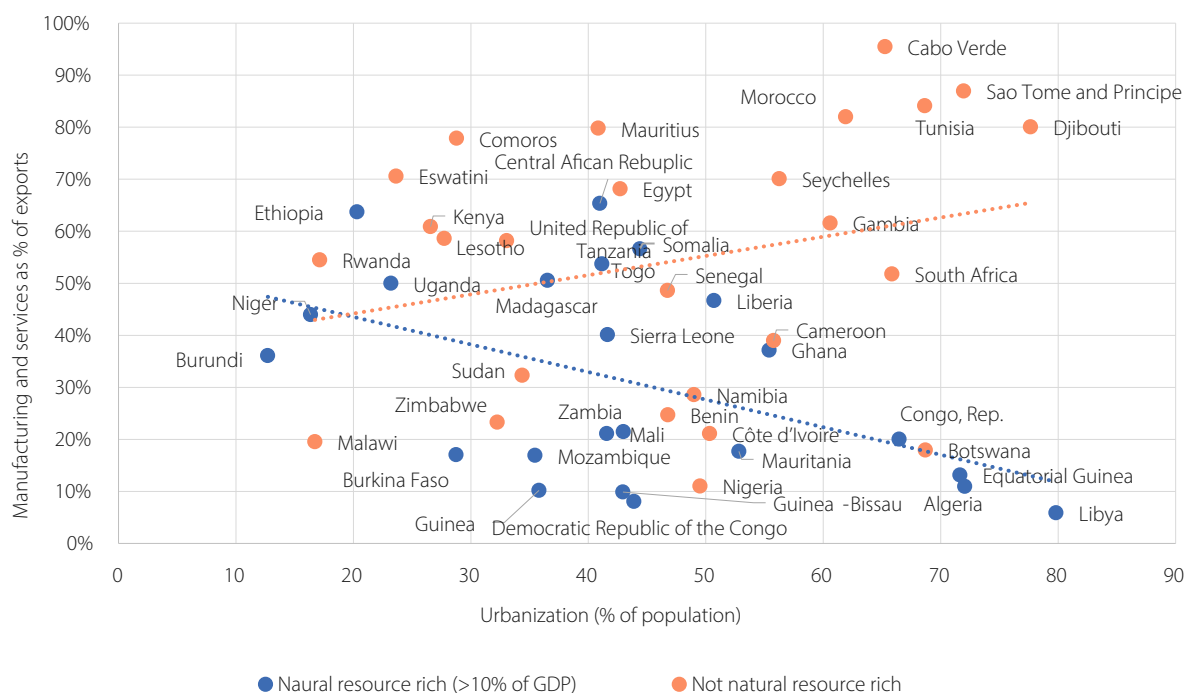
shows that high productivity exports, such as high-tech merchandise and business services, are strongly associated with urbanization.

**Figure 48** Urbanization and exports of goods and services, African and non-African countries

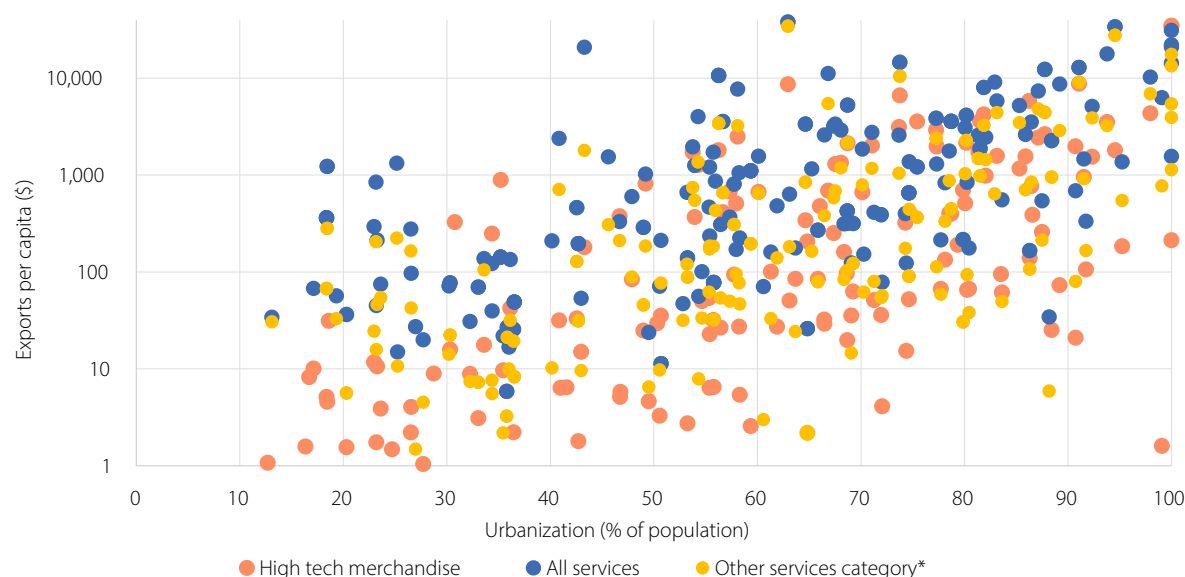


**Source:** Authors on the basis of the DESA and UNCTADstat data. Figures used are averages for the period 2016–2018.

**Figure 49** Urbanization, export diversification and natural resource rents, African countries



**Source:** Authors on the basis of World Development Indicators data (urbanization and natural resource rents) and UNCTADstat data (manufacturing and services as a percentage of exports) for the period 2016–2018.

**Figure 50** Urbanization and high-productivity exports, all countries with relevant data

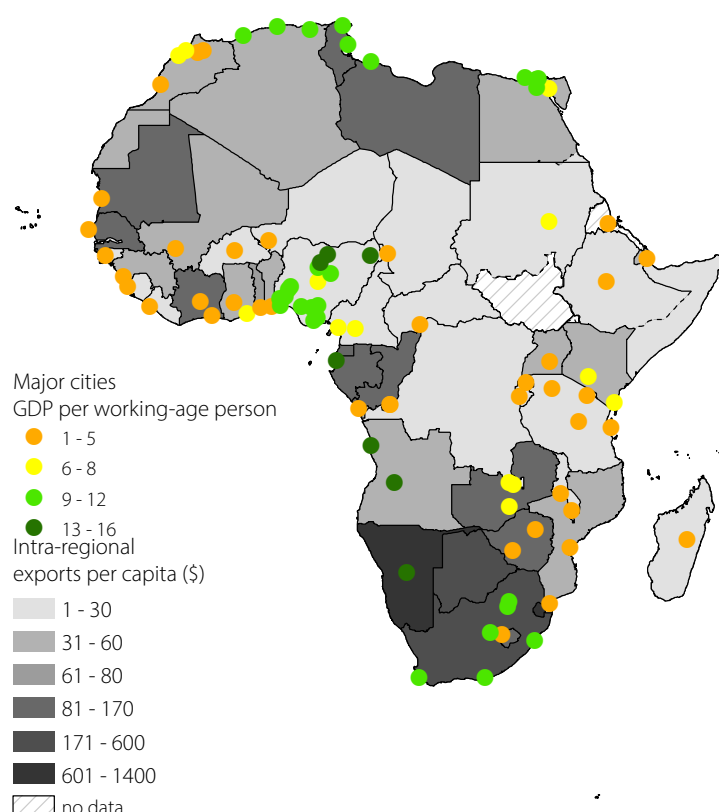
**Source:** Authors on the basis of the DESA and UNCTADstat data. Figures used are averages for the period 2016–2018.

\* Excludes transport, travel and goods-related services. Includes construction, insurance and pension services, financial services, charges for the use of intellectual property not included elsewhere, telecommunications, computer and information services, other business services, personal, cultural and recreational services, government goods and services not included elsewhere, and services not allocated to any other category (UNCTADstat).

The business environment of cities has a significant impact on trade. Cities convey productive advantages and disadvantages upon the firms located there. Firms and workers in urban settings are more productive than those elsewhere, and cities increase in productivity as they get bigger. In African countries in which natural resource rents comprise more than 10 per cent of GDP, the largest city is on average 90 per cent more productive than the rest of the country. In some African countries, however, that figure can be as high as 122 per cent. There is a strong correlation between city size and GDP per working-age person, although that correlation is weaker for natural resource exporters.

Not all cities of the same size are similarly productive. In fact, there are a number of “downsides to density”, including the increased prevalence of certain contagious diseases, traffic congestion, higher rates of crime and high housing costs (Glaeser and Xiong, 2017). If cities are not well managed, the costs of density can overwhelm the benefits early on, choking off the productivity gains that would occur if constraints on urban growth were removed (Harvey, 2009; ECA, 2017b). In order to address those downsides, governments must tackle a number of key issues, including the quality of city institutions, infrastructure, land administration mechanisms and human capital (Lall, Henderson and Venables, 2017; ECA, 2018).

Exporters are particularly sensitive to the productivity of the city in which they are located due to their need to compete in regional and global markets. When production and transport are costly and the benefits of agglomeration, such as thick markets for labour and inputs, and knowledge spillovers, are constrained, potential exporters are at a disadvantage compared to exporters located in better-functioning cities. Factors curtailing the productivity of African cities harm the bottom line for enterprises producing local goods and services, but for exporters that can locate production elsewhere, low urban productivity may be a deal-breaker. As illustrated in figure 51, urban productivity as measured by GDP per working-age person is correlated with exports per capita, although the correlation is far from perfect, with a notable outlier being Nigeria, where cities are associated with far lower exports than would be expected.

**Figure 51** Urban productivity and intraregional exports of all goods, African countries

**Source:** Authors on the basis of data provided in Oxford Economics (2020) (city GDP) and UNCTADstat data (intraregional exports per capita). Figures used are averages for the period 2016–2018.

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Those arguing that African countries have significant export potential emphasize the low cost of labour and production on the continent. In reality, however, African cities tend to be disproportionately expensive compared to cities at similar GDP levels, and may be as much as 31 per cent more expensive (Nakamura and others, 2016). The cost of living in New York City is the highest in the United States of America due to the city's productive advantages, but Luanda in Angola, Kinshasa in the Democratic Republic of the Congo and N'Djamena in Chad all have higher costs of living than New York City (ECA, 2017b). High costs of living lead to high labour costs and costs per worker are as much as 190 per cent higher in Africa than would be expected based on African countries' GDP levels, and when African firms are foreign-owned, labour costs per worker are, on average, 32.7 per cent higher than in locally-owned firms, even controlling for levels of labour sophistication (Gelb and others, 2020). Those high costs are a likely deterrent to FDI inflows. African firms lose the equivalent of 13 per cent of sales due to the inefficiencies arising from poor infrastructure services, burdensome credit markets, and unpredictable regulatory environments. Based on comparative calculations of direct, indirect and invisible costs, Africa is some 19 per cent less competitive overall than East Asia and 18 per cent less competitive than South Asia (Iarossi, 2009).

Investments made to leverage the export potential of African cities should address issues of particular importance for the productivity and competitiveness of those cities, namely institutions, infrastructure, spatial layout and human capital.<sup>18</sup> Each of those issues is discussed in table 4. Furthermore, as outlined in box 10, interventions to support competitive cities can simultaneously help achieve a number of social and environmental goals.

**Table 4** Characteristics of well-functioning, productive cities

	Well-functioning cities bolster productivity	Poorly functioning cities reduce the urban productive advantage
Institutions	<ul style="list-style-type: none"> <li>• A well-functioning property market allows firms to find an optimum location to do business;</li> <li>• Permits, taxes and regulations are clear, fast and easy to navigate;</li> <li>• In general, markets function effectively, thereby ensuring that the supply of land, housing, goods and services meets demand;</li> <li>• The public sector is attuned to the needs of the private sector and crowds in investment through well-targeted policies.</li> </ul>	<ul style="list-style-type: none"> <li>• Land with a clear title is difficult to find;</li> <li>• Permits, taxes and regulations are time-consuming, costly and difficult to navigate;</li> <li>• Public investments are ineffective at meeting the needs of the private sector;</li> <li>• The convergence of many constraints on economic activity lead to high transaction costs and a limited supply of land, housing, goods and services. This results in disproportionately high costs of living and of labour compared to cities at similar income levels.</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>• Firms gain access to electricity and other utilities easily. Power supplies are reliable;</li> <li>• Commutes are easy owing to good transit networks, connected roadways and space for non-motorized modes of transport. Firms and labour are well connected;</li> <li>• Freight transport is fast and efficient with easy access to transport hubs and ports.</li> </ul>	<ul style="list-style-type: none"> <li>• Power outages and poor access to basic services raise production costs;</li> <li>• Commutes are long, unpredictable or costly, raising the cost of labour;</li> <li>• Freight transport is costly owing to congestion and to difficulties in accessing transport hubs and ports.</li> </ul>
Spatial layout/urban form	<ul style="list-style-type: none"> <li>• Clustering of firms allows for knowledge spillovers and business cross-fertilization, resulting in high rates of innovation and the rapid adoption of global competitiveness standards;</li> <li>• Residential density increases in line with rising incomes. Housing at all income levels is constructed on a well-connected street grid with adequate public space to allow for long-term connectivity and densification;</li> <li>• Social mixing allows for labour mobility and the economic mobility of households;</li> <li>• Connectivity reinforces accessibility, allowing firms to gain access to larger markets for purchases and sales.</li> </ul>	<ul style="list-style-type: none"> <li>• An unplanned, disconnected street grid creates congestion and inaccessibility, undermining all elements of agglomeration economies;</li> <li>• Land for industrial clustering is either too far removed from the thick urban labour and input markets or simply not available;</li> <li>• Social segregation creates poverty traps and despair</li> </ul>

<sup>18</sup> There is extensive literature on those issues. Recommended publications by lead economists and institutions include Bertaud (2010), Collier (2016), Duranton and Puga (2004), Lall, Henderson and Venables (2017), Turok (2013), ECA (2017b), ECA (2018) and UN-Habitat (2015).

Human capital	<ul style="list-style-type: none"> <li>• Firms can access a large and diverse labour market with an abundance of adequately-skilled workers, facilitating the matching of skills and industry needs;</li> <li>• Workers can easily access a variety of jobs from conveniently-located, well-connected housing;</li> <li>• Local quality of life is high enough to retain highly-skilled workers;</li> <li>• Human health is protected through adequate health services, basic infrastructure (water and sanitation) and accessible public space.</li> </ul>	<ul style="list-style-type: none"> <li>• Workers are not adequately skilled for available jobs;</li> <li>• Locational problems and badly-coordinated transportation networks reduce the size of the accessible labour market for firms.</li> <li>• Low quality of life arising from congestion, crime and poorly-functioning institutions drive highly-skilled workers away or force employers to pay more to keep them;</li> <li>• Overcrowded conditions, a lack of public space and limited or absent basic services (water and sanitation) lead to both endemic poor health and increase citizens' vulnerability to disease.</li> </ul>
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**Source:** Authors, on the basis of ECA (2018).

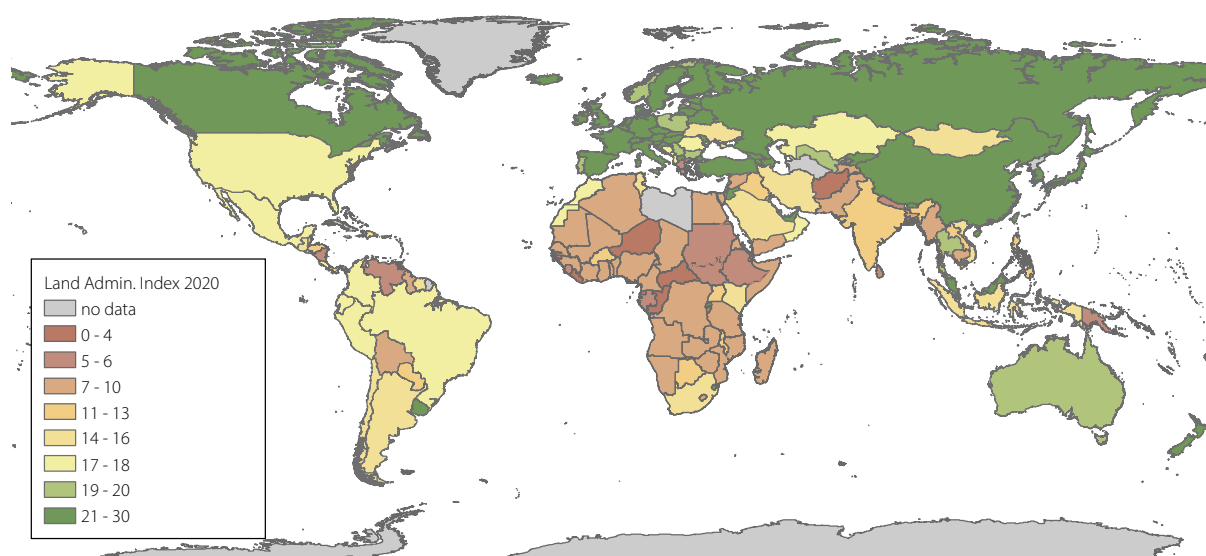
### Box 10 Investing in sustainable cities

Cities have a unique role to play in promoting what have been dubbed the “three Es” of sustainability, namely environment, economy and equity. Interventions that improve urban productivity are well suited for simultaneously achieving environmental and social objectives.

- Green public utilities can significantly reduce the urban carbon footprint of cities while also meeting the needs of firms and households. Investments in green energy, one of the largest constraints on traded-sector firms, can leverage climate finance to improve the business environment and reduce emissions. At a more local level, waste management is a sector with a variety of green innovations that can provide local jobs while improving urban liveability.
- Urban density is a key policy prescription from environmentalists and urban planners alike as a tool for curtailing the social and environmental costs of sprawl by reducing transport distances and reducing the destruction of habitats as a result of sprawling development. Density is also fundamental to agglomeration economies. In African countries, regulations to encourage density can inadvertently drive up costs and create informality. Counterintuitively, reducing sprawl will likely be more successful if an adequate amount of well-connected buildable land is provided for employment and housing that can be easily integrated into the existing urban fabric.
- Multi-modal urban transportation is one of the most effective ways to achieve the “three Es” of sustainability. Multi-modal transportation includes mass transit, pedestrian infrastructure and, in some cases, biking infrastructure if climate and cultural factors allow. Freight is not frequently discussed in that context, but road freight transport shares the same transportation infrastructure as buses and cars. If roads are overloaded with commuters who lack viable options to walk or take public transit, freight also suffers.
- Green freight can minimize pollution and the ecological footprint that is likely to result from a growing logistics and transport sector. Cities produce significant freight-related emissions, especially where they slow freight traffic. Prioritizing freight transport in and through cities can therefore have both economic and ecological benefits.

Urban institutions, including those responsible for planning and land administration, play a key role in guiding and facilitating the urban development process. Well-planned cities are not necessarily those with top-down oversight of who builds where, but rather those that allow density, a mixture of uses and incomes, and adequate buildable and serviced land at a scale that can accommodate growth without driving up prices and creating informality. Responsive urban planning should consider the components of agglomeration economies in relation to the specific needs of priority export sectors, specifically the need for diverse interactions in the case of knowledge-intensive sectors (or same-sector clustering in the case of most traded manufactured goods), the need to access specific inputs, and an adequately-skilled labour force. At a more basic level, the administration of land rights and the land market are fundamental components for productive urban development (ECA, 2018) and have been identified as a critical barrier to the competitiveness of tradable sectors in African cities (Lall, Henderson and Venables, 2017), with African economies generally scoring lower on the World Bank Land Administration Index than economies in other global regions, as illustrated in figure 52. There are, of course, differences among African countries. Rwanda scores the highest in the region (28.5 out of 30), followed by Mauritius (22.5), Seychelles (21) and Eswatini (20.5). That top tier of countries reflects the relative ease of creating and maintaining a land registry in geographically-smaller countries that have less land to manage. The next highest scoring group include Morocco, South Africa and Kenya, which all score 15 or above. All three are hubs of regional trade in their respective subregions. The gender gap in land rights and ownership in those countries remains significant, however.

**Figure 52** World Bank Land Administration Index scores, 2020



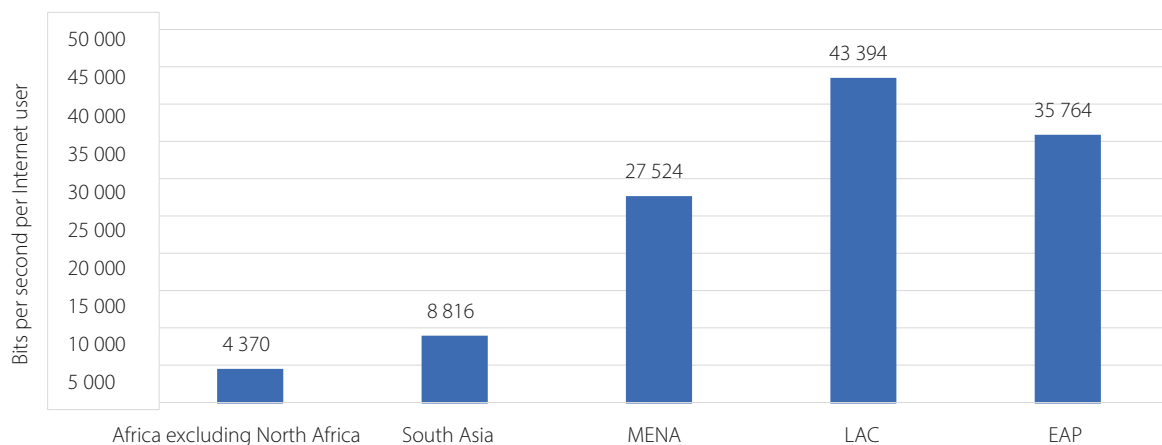
**Source:** Authors on the basis of data available in *Doing Business 2020*, a World Bank flagship publication.

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When it comes to urban infrastructure, the productivity dividends of agglomeration economies depend upon the ease of interactions among firms and between firms and workers, which are, to a large extent, facilitated by connectivity. Transport infrastructure is therefore a critical ingredient in urban productivity. Transport is cited by 28 per cent of African exporters as a constraint. Urban transport is particularly important for gender equity and women's participation in the workforce. Women spend a higher percentage of their income on transport than men, are less likely to own a car, and

are more likely to walk or use public transportation. Both pedestrian infrastructure and public transit are often inadequate, disproportionately disadvantaging women (Higgins, 2012; Uteng and Turner, 2019). Electricity is also critical, with 41 per cent of African exporters citing it as a major constraint. Digital connectivity is another important factor for African firms, particularly exporters. As shown in figure 53, telecommunications infrastructure is much less developed in sub-Saharan Africa than in other parts of the world, although it is now developing rapidly. World Bank Enterprise Survey data also reveal that exporters are much more likely to interact with clients and suppliers by email than non-exporters in nearly every African country. Globally, Internet penetration rates have a strong positive correlation with the number of products exported and the number of markets served, and are negatively correlated with export concentration. High Internet penetration rates help countries reap the benefits of trade agreements (Lopez González and Ferencz, 2018). Digital connectivity also improves market information, a key condition for expanded trade participation, particularly for women and small and medium-sized enterprises (ECA, 2020a), but care must be taken to design gender-sensitive technology solutions, recognizing that there is sometimes a digital divide with women at a disadvantage compared with men in terms of access to technology and digital literacy. Digital connectivity has been shown to benefit exports that have traditionally been produced in cities, including electrical equipment, machinery and vehicles, more than exports that tend to be produced in rural areas, such as minerals, wood products and vegetables, emphasizing the importance of digital connectivity in African cities.

**Figure 53** Quality of telecommunications infrastructure by global region, 2015

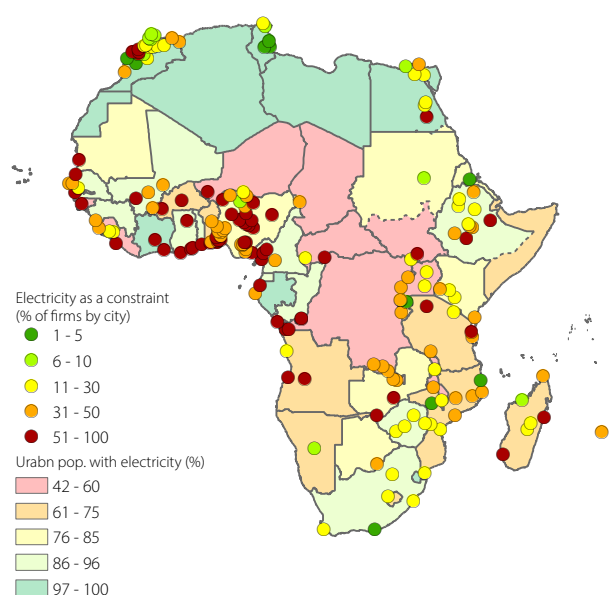


MENA = Middle East and North Africa; LAC = Latin America and the Caribbean; EAP = East Asia and the Pacific

**Source:** World Bank (2017).

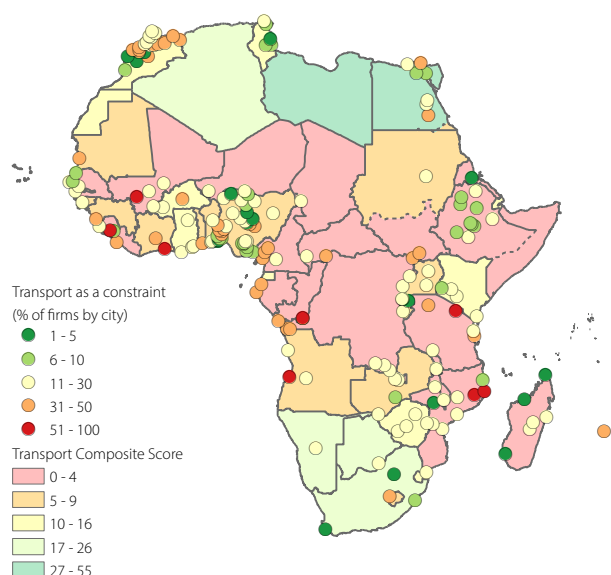
Putting access to electricity, high-quality transport and Internet connectivity on the map reveals a common pattern. At the national level, Central Africa, and especially landlocked countries and marginalized areas fare particularly badly, just as they fare relatively badly in terms of their participation in regional value chains. The situation of African countries in that regard is illustrated in figures 55 to 57. However, the pattern among cities is slightly different. For example, cities in the North and Southern Africa, regions that are urbanizing at a relatively slow pace, have established more effective urban services, whereas cities in Central, East and West Africa, which are urbanizing rapidly, are struggling to keep pace with an increasing need for urban services. While urban agglomerations typically gain in productivity as they grow in population, failure to support that growth with adequate infrastructure will undoubtedly negatively affect the competitiveness of urban-based traded sectors.

**Figure 54** Percentage of the urban population that enjoys access to electricity by African country and percentage of firms identifying electricity as a constraint by city



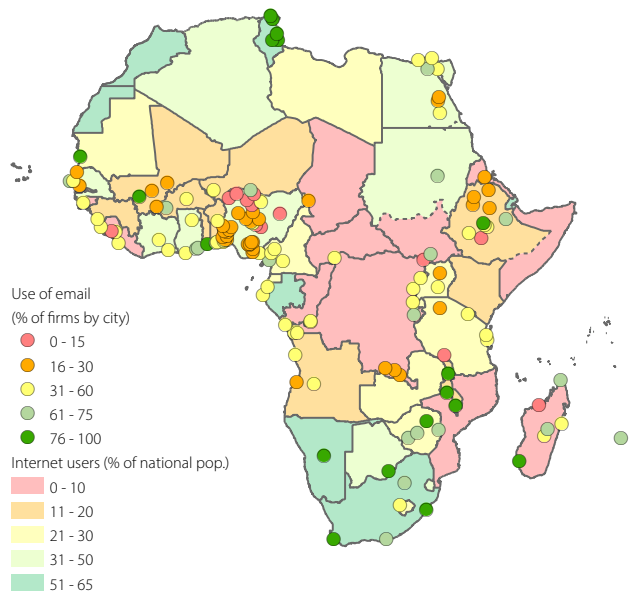
**Source:** Authors on the basis of World Bank Enterprise Survey data for 2018 (percentage of urban population with access to electricity) and most recent World Development Indicators data (percentage of firms in each city identifying electricity as a constraint). **Disclaimer:** The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The final boundary between the Republic of the Sudan and the Republic of South Sudan has not yet been determined.

**Figure 55** African country Transport Composite Index scores and percentage of firms identifying transport as a constraint by city



**Source:** Authors on the basis of the most recent World Bank Enterprise Survey data (percentage of firms in each city identifying transport as a constraint) and African Development Bank Infrastructure Development Index data for 2020 (Transport Composite Index scores).

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**Figure 56** Internet penetration by African country and firms' use of email by city

**Source:** Authors on the basis of the most recent World Bank Enterprise Survey data (percentage of firms in each city that make use of email) and World Development Indicators data for 2017 (Internet penetration rates).

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Another critical urban constraint on trade and FDI is inadequate land administration and urban form, which undermine the capacity of African cities to conduct business. Lall, Henderson and Venables (2017) examined the reasons why African cities produce few traded goods and services for international markets, concluding that urban form, or “how cities are built and spatially organized” is often a major factor impeding production in Africa. At a basic level, cities need a system of land use and connectivity that facilitate the establishment of agglomeration economies. Density cannot be forced through building codes and high-rises especially when the majority of the urban population is still poor (Bertaud, 2010), but it can be facilitated through adequately surveyed and serviced land. Moreover, the key factor that determines whether a city is dangerously overcrowded and or densely productive is the presence or absence of public planning mechanisms that facilitate the establishment of a well-connected grid of streets (UN-Habitat, 2015). In African cities, a sparse grid of arterial roads and private or informal settlements established prior to the establishment of a well-connected street grid have often resulted in a disconnected patchwork of urban areas. Some cities are more successful than others in that regard, however. Indeed, while some African cities, such as Kampala, have a very fragmented street network, others, such as N'Djamena and Kairouan, have a high degree of urban connectivity and a street pattern that will continue to facilitate connectivity in the long term. The differences between fragmented and well-connected urban areas are illustrated in figures 58 to 60.

**Figure 57** A fragmented street network in Kampala, Uganda



**Source:** Google Earth.

**Figure 58** A well-connected street grid in Kairouan, Tunisia



**Source:** Google Earth.

**Figure 59** A well-connected street grid in N'Djamena, Chad



**Source:** Google Earth.

The distinction between productive density and overcrowding is, moreover, critical in efforts to bolster the pandemic resilience of cities. As the COVID-19 pandemic spread globally, urban density became a concern as it was believed that crowded urban areas would accelerate diffusion of the virus. However, emerging evidence from cities indicates that COVID-19 infection rates are related to poverty, rather than to density. Crowded housing, low incomes and segregation are all strongly correlated with infection rates, (Chen and Krieger, 2020; Dedousis, 2020; Lall and Wahba, 2020). Indeed, the COVID-19 pandemic has helped highlight the ways in which overcrowding and a lack of basic services can undermine public health, which can have significant economic repercussions. To address pandemics effectively, cities should, inter alia, take action to safeguard public areas, including green space, public recreational areas and pedestrian space, amend regulations to provide more housing and more floor space to combat overcrowding, and strengthen the capacity of local governments to provide water and sanitation services in informal housing areas and limit air pollution with a view to improving respiratory health (Dedousis, 2020; Lall and Wahba, 2020). Actions to make cities pandemic-resilient will add to or complement strategies to make urban space productive for tradable sectors.

Informal settlements are a central issue for African cities. Informal settlements, often known as slums, are characterized by overcrowded housing, unplanned and extralegal development and a lack of basic infrastructure, putting both human health and productivity at risk. To some extent, informal settlements are a symptom of poverty and improve as incomes rise (Lozano-Garcia and Young, 2014). Intervention in housing markets is also important, however. Housing markets must work efficiently to overcome shortages and keep costs low. Access to land and to urban public services, a well-functioning construction value chain and access to housing finance are all components of the housing market that the government can influence. Nonetheless, the poorest households will still require subsidies to be able to access decent housing (ECA, 2017b). Laying out a street grid in advance of informal development is one way to improve slum conditions, allowing for easier upgrading as incomes rise, and protecting one of the basic components of urban productivity, namely a connected street network (ECA, 2018).

Investing in measures to establish equitable cities will help ensure that the benefits of regional trade integration are also equitable. Workers from low-income households must be able to access traded sector jobs; this requires prioritizing both hard infrastructure such as mass transit linkages among neighborhoods and soft infrastructure such as training and job market information systems. Women are often less able

than men to take up traded sector employment, and the obstacles they face must be tackled to ensure that the opportunities arising from trade integration are equitably distributed. The involvement of women in decision-making in urban governance and economic development is a first step in that process. Additional actions should include assessing and prioritizing the provision of support to traded sectors where women are likely to find job opportunities, ensuring that urban infrastructure and services address the needs of women, such as by installing better street lighting and establishing safer and more efficient transit networks, and reducing barriers to education and child care so that women who wish to work outside the home are not constrained by the need to look after children and other family members.

Improving urban workforce skills and linking them more effectively to emerging job opportunities can help serve the dual aim of facilitating traded sector growth and broadening its benefits. Exporters are more likely to identify workforce education as a major constraint than non-exporters, with an average of 23 per cent of exporters reporting the issue across 43 countries.

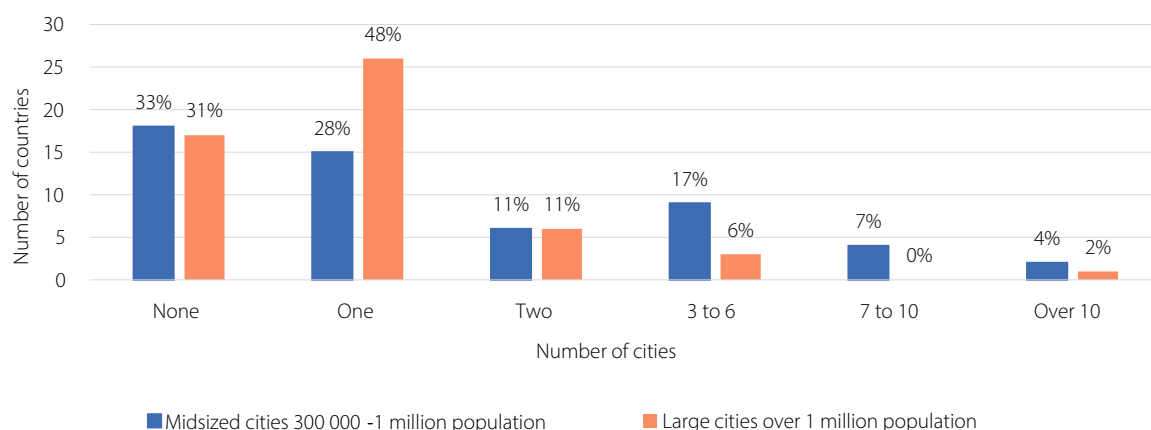
In Djibouti City for example, where trade and FDI are major economic drivers, a lack of skills among Djibouti nationals contributes to an overreliance on imported labour, leaving many in informal sector employment and creating a dualistic economic system in which some benefit and some are left behind. Workforce skills gaps are compounded by other labour market challenges, including barriers to formal employment for the country's large refugee population, bias among employers against women in high-skill jobs, and the lack of a common platform for exchanging job information and applications. Labour market interventions to link the urban workforce to jobs in traded sectors should tackle skills as one component of a more comprehensive and gender-sensitive strategy.

Investments to boost productivity and realize the export potential of African cities should not be directed exclusively towards those cities. Urban-based exporters need connections to markets via ports, including airports, seaports and border crossings, connections to inputs which may be produced in other cities or rural areas, and access to utilities generated via national infrastructure, including reliable electricity supplies and ICT infrastructure. The present report now analyses the broader spatial system linking cities and regional trade.

## **The broader spatial system and its connectivity also shapes regional trade**

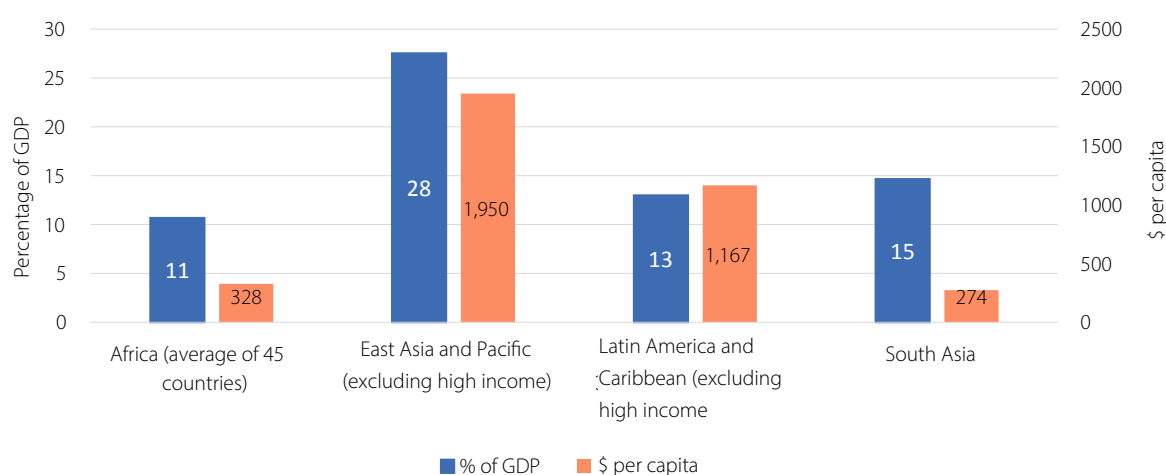
Not all firms benefit from the same economic geography, and not all exporters wish to be located in a large city. Some sectors and firms are more sensitive to operational costs that rise as cities increase in size, while others rely more heavily on the benefits of agglomeration economies and are more successful in larger cities. Therefore, the presence, variety and connectivity of a country's cities will affect its capacity to produce a variety of exports.

Many African countries have few or no mid-sized cities and a weak manufacturing base: those two issues are related. Some 8.5 of the population of Africa live in non-prime cities with populations of more than 1 million people. That figure is significantly lower than the global average for lower-middle-income countries, which stands at approximately 26 per cent (Henderson and Kritikos, 2018). As illustrated in figure 60, of the 54 countries in Africa, 18 have no mid-sized cities with populations of between 300,000 and 1 million, while 15 countries have only one mid-sized city of that size. Overall, a disproportionate share of Africans live in prime cities or in small cities of under 300,000 people. Indeed, much of the continent's rapid urban growth has been concentrated in prime cities, and while those cities tend not to be large on a global scale, they still pose major challenges for African Governments striving to build adequate infrastructure and promote institutional development. Those gaps tend to make urban primacy an income-reducing factor (Henderson and Kritikos, 2018).

**Figure 60** Number of African countries by number of mid-sized and large cities

**Source:** Authors on the basis of DESA World Urbanization Prospects data for 2020.

At the same time, manufacturing is developing slowly, generating, on average, only 11 per cent of GDP in African countries, compared to 13 per cent in Latin America and the Caribbean, 15 per cent in South Asia, and 28 per cent in East Asia and the Pacific (excluding certain high-income countries). The performance of Africa compared with other global regions in terms of manufacturing value added is illustrated in figure 61. This presents a chicken-or-egg problem: it is difficult to develop a strong manufacturing sector without high-quality mid-sized cities, and at the same time, it is difficult to develop high-quality mid-sized cities without a manufacturing sector to help them grow. As urbanization, rising GDP and a growing middle class create regional demand for manufactured goods, urban geography that lacks mid-sized cities is likely to constrain the ability of African countries to promote much-needed manufacturing export growth.

**Figure 61** Manufacturing value added by global region

**Source:** Authors on the basis of World Development Indicators data for 2017.

The lack of manufacturing clusters in mid-sized African cities is likely partly due to path-dependency and coordination challenges. African mid-sized cities are characterized by considerable agricultural activity (Henderson and Kritikos, 2017), while manufacturing firms face suboptimal conditions, including overcrowding and higher than average costs in prime cities. Agglomeration is self-reinforcing: large cities have a productive advantage, so firms tend to move there. In comparison, smaller cities and rural areas that lack a cluster of manufacturing firms are unlikely to be competitive (Cohen and others, 1979;

ECA, 2017b). Path-dependency means that the future location of production is highly dependent on current economic geography, even if new economic trends take hold (Venables, 2007). At the same time, the first-mover problem applies in many African countries, namely the difficulty of establishing new activities in new places, which creates obstacles to economic development. Coordinated action by many firms could achieve economies of scale, but weak coordination may mean that a location remains trapped in a low-level equilibrium (Venables, 2019). That analysis is the basis for models of local economic development policy that aim to coordinate the establishment of several firms simultaneously through marketing and location-specific incentives. The establishment of special economic zones can also help overcome the inability of individual firms to coordinate the establishment of a cluster by coordinating their entry into a specific location.

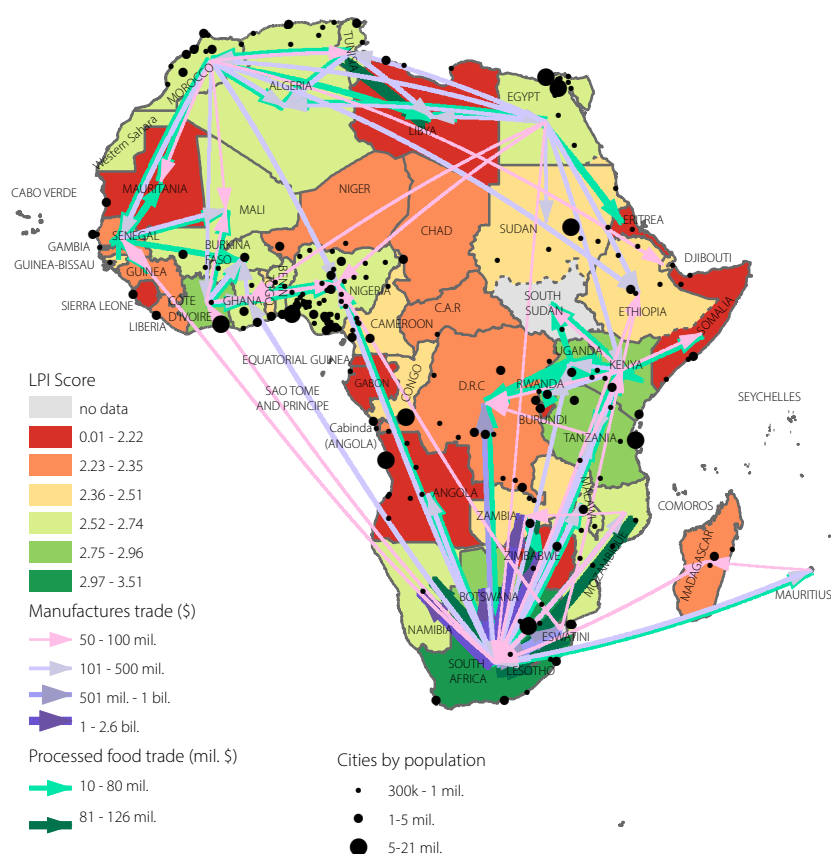
Sector-specific location preferences imply that attempts to grow specific export sectors must be supported by coordinated spatial policies to improve the presence, productivity and connectivity of associated locations of production. Measures taken to promote knowledge-intensive exports could thus be complemented by policies to improve urban productivity in a country's largest city. Similarly, labour-intensive manufactured good exports will likely benefit from efforts to establish manufacturing clusters in mid-sized cities. In that regard, box 11 provides an overview of the impact of the establishment of special economic zones on mid-sized Ethiopian cities. Countries with comparative advantages in certain agricultural sectors will benefit from investments in smaller agriculture-linked cities. Not only could that promote exports, it could also foster job creation in other sectors for those departing the agriculture sector as it gains in productivity.

Spatial policymakers should also take into consideration the connectivity among cities and other geographies. Globalization and fragmentation of production into stages has situated the specialization of firms, cities and countries within regional and global value chains. The forces of economic geography play a key role in the spatial arrangement of the various value chain activities (Antràs and Gortari, 2017). Regional value chains are underpinned by the geographic relationship among nodes of production, namely their proximity and transport linkages, and the obstacles impeding movement.

Transport infrastructure and logistics are critical barriers to the trade performance of African cities. Inadequate transport infrastructure means that trade costs in Africa are the highest in the world, stifling interregional trade (Graff, 2018). Logistics is a more powerful predictor of regional trade performance than tariffs, and is currently a critical barrier (ECA, African Union, African Development Bank and UNCTAD, 2019). Overall, Africa underperforms all other global regions in terms of logistics performance, as illustrated in figure 62, although, as illustrated in figure 63, there are notable differences among individual African countries. Exports of products typically produced in cities, namely manufactured goods and processed foods, flow more freely where logistics performance is good. Those countries scoring poorly on logistics performance tend to import urban-produced goods, but do not tend to be major intraregional exporters of those goods.

**Figure 62** Logistics Performance Index scores, averages by global region

**Source:** Authors on the basis of Logistics Performance Index, data for 2018

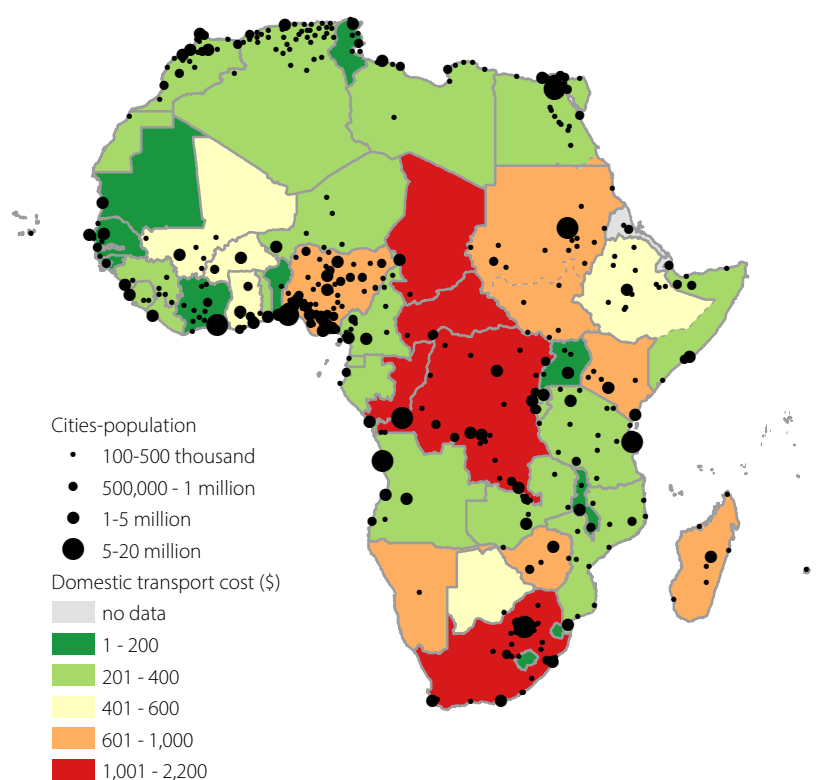
**Figure 63** Logistics Performance Index scores and intraregional trade flows of urban goods (i.e. manufactured goods and processed food), African countries

**Source:** Authors on the basis of the UNCTADstat and International Trade Centre Trade Map data (trade flows), DESA World Urbanization Prospects, 2018 (cities by population) and the Logistics Performance Index. Trade flows of less than \$10 million and \$50 million are not shown for processed food and manufactured goods, respectively.

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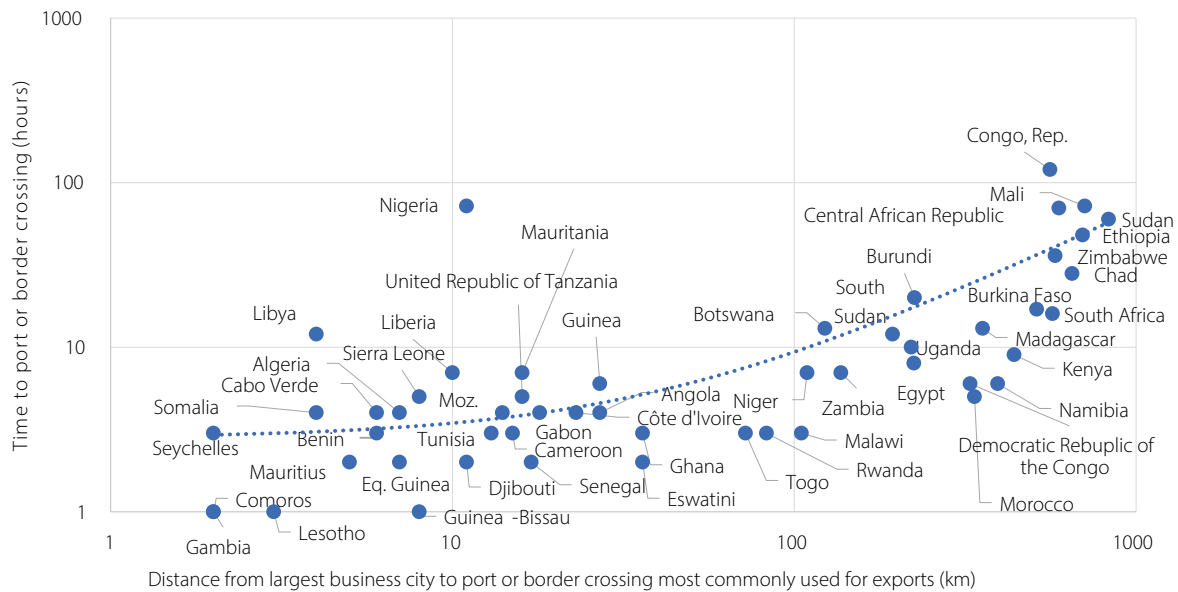
Trade costs are, to some extent, a function of the African continent's geography. As illustrated in figure 64, long distances to ports, especially for landlocked countries, drive up costs. Furthermore, the African region scores poorly in terms of the implementation of measures to facilitate the rapid transit of goods and reduce procedural delays, which are of particular importance for landlocked countries whose exports need to cross other countries to reach major ports (ECA, 2021 forthcoming). Furthermore, the time required to transport traded goods is much longer in some countries than can be explained by mere distance, as illustrated in figure 65. Those countries falling above the trend line in that figure require extra time for domestic shipping, above that which would be expected due to the distance between cities and relevant ports or border crossings. Those falling below the line require less time than would be expected. Some countries suffer from extreme delays. For example, in some cases, domestic transport over a distance of only 11 kilometres in Nigeria can require 72 hours. In the Republic of the Congo, the domestic transport of exports requires 120 hours to Pointe-Noire port, which is only 560 km from Brazzaville. In such situations, transport congestion and delays within cities themselves are major contributors to domestic shipping delays, undermining the competitiveness of their exports. Concerted action to implement the Agreement Establishing the African Continental Free Trade Area, including its annexes on customs procedures, non-trade barriers and trade facilitation measures, must be paired with complementary measures to improve transport infrastructure in order for African cities to fully leverage their regional trade potential.

**Figure 64** Average domestic transport costs associated with African country exports, 2019



**Source:** Authors on the basis of data available in *Doing Business 2020*, a World Bank flagship publication (domestic transport costs) and the *Atlas of Urban Expansion*, published by the New York University Urban Expansion Program, the United Nations Human Settlements Programme (UN-Habitat) and the Lincoln Institute of Land Policy (cities – population).

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**Figure 65** Domestic transport distance vs. time for exports, African countries

**Source:** Authors on the basis of data available in *Doing Business 2020*.

Better connecting all cities to regional markets, while desirable, is not feasible in the near term given African countries' limited resources. Prioritization is therefore necessary. Connecting large and mid-sized cities, which often act as hubs for both consumption and production of traded services and manufactured goods is an obvious starting point, and interventions can be further tailored to leverage the untapped potential of regional trade and regional value chains, for example, through corridor programmes, as discussed below. Improved domestic connections linking small cities and rural areas to larger cities where processing and value addition can take place is also necessary, particularly in countries with a large agricultural workforce or significant natural resource endowments.

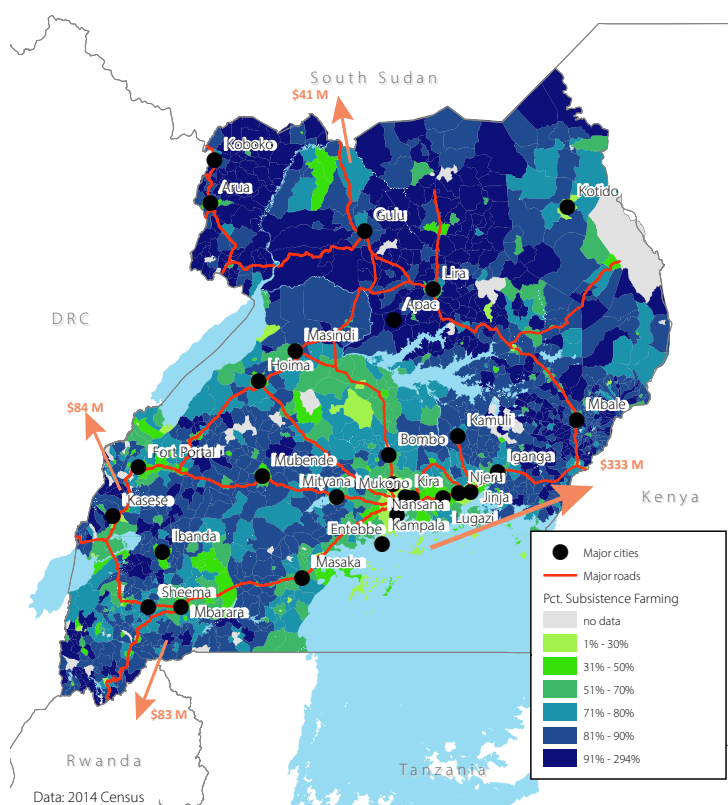
Emerging regional trade opportunities, such as those stemming from the adoption of the Agreement Establishing the African Continental Free Trade Area, present major opportunities for agriculture and agricultural value chains. Africa is currently a net food importer, but there is significant untapped export potential in the many African countries that have yet to fully exploit their comparative advantages in agricultural production. For example, according to International Trade Centre estimates, Mauritania and Namibia have \$240 million and \$216 million, respectively, in untapped seafood export potential. Uganda has \$186 million in untapped cereals and pulses export potential, and Côte d'Ivoire, Senegal and Ghana have \$250 million, \$171 million and \$149 million, respectively, in untapped processed food export potential. Perishable goods will particularly benefit from faster customs and trade processes. For those countries in which a large proportion of the population is employed in agriculture, emerging trade opportunities are also a major development opportunity, with significant potential productivity gains available through scale and knowledge-sharing effects. Intra-regional trade has accounted for over half of the growth in African processed food and beverage exports since 2000 (African Union, ECA and African Development Bank, 2017). Value chain linkages connecting rural and urban areas support food value added and are a mechanism for improving agricultural productivity.

Cities enable farmers to connect to regional value chains. Urban household food consumption is dominated by processed foods at all income levels, accounting for between 50 and 70 per cent of all food spending. This compares with less than 30 per cent of food spending in rural areas. In particular, the share of high-value processed foods such as breakfast cereals, canned food and beverages, rises with

income (Tschirley and others, 2013). To meet rising demand for processed food, rural-urban regional value chains are likely to come increasingly into play, with significant benefits likely to be reaped by farmers. Many regional agricultural value chains are already in operation. For example, a survey conducted between 2004 and 2007 in Botswana, Namibia and Zambia showed that over 80 per cent of processed foods sold in supermarkets were imported from South Africa, and that sales to supermarkets had a positive impact on small-scale farmers' incomes compared to those who supplied traditional markets (Emongor and Kirsten, 2009).

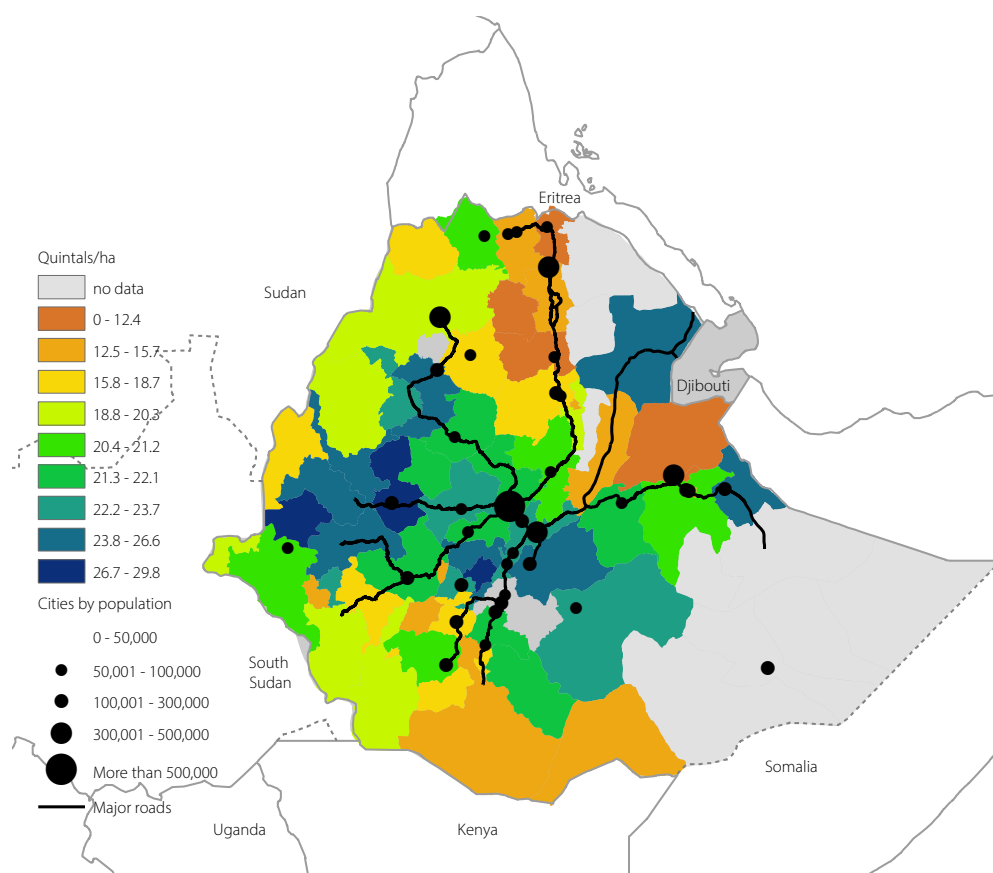
When farmers have access to an urban market, they are less likely to be subsistence-oriented and often intensify agricultural production. That phenomenon extends to access to regional urban markets. Urban markets provide incentives for implementing productivity-enhancing technologies and approaches, such as the use of improved seeds, fertilizers and agricultural machinery, and farming areas located close to large cities are more likely to adopt modern technologies (Vandecasteele and others, 2018). As illustrated in figure 66, that phenomenon is particularly apparent in Uganda, where livelihoods are predominately in subsistence agriculture, but much less so in close proximity to major cities and regional trade routes. Ethiopia provides another example, where grain yields are higher in proximity to cities, as shown in figure 67.

**Figure 66** Percentage of households with subsistence farming as their main livelihood, Uganda (orange arrows illustrate agricultural trade flows to neighboring countries)



**Source:** Authors on the basis of data provided by the Ugandan national census of 2014 (percentage subsistence farming) and the International Trade Centre Trade Map (agricultural trade flows).

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**Figure 67** Grain yields by district and cities by population, Ethiopia

**Source:** Authors on the basis of data provided by the Ethiopian Central Statistical Agency Agricultural Sample Survey 2015/16.

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Attention is needed to ensure that women, young people and small and medium-sized enterprises are not left behind in the process of trade adjustments affecting agriculture. Agriculture is labour-shedding as it becomes more productive, in the process creating higher-wage agricultural jobs. Women are more likely than men to work in lower-value agricultural subsectors with lower trade potential, however, and trade adjustments could further exacerbate the gender wage gap (African Union, ECA and African Development Bank, 2017). Only 48.7 per cent of countries have implemented trade facilitation measures in agriculture (ECA, 2021 forthcoming). Moreover, with informal trade accounting for between 20 and 75 per cent of total intraregional trade, depending on the country, and women accounting for more than 60 per cent of informal traders (AFREXIM, ECA, ATPC and Eastern Africa Grain Council, n.d.; Sommer, 2020), policies to integrate small farmers and informal traders into value chains are needed so that the transition to larger scale supermarket purchasing does not leave them behind. In addition, trade facilitation measures should address issues to improve women's safety, such as the need for improved storage facilities, accommodation, illuminated border areas, hygiene facilities and transport corridors (African Union, ECA and African Development Bank, 2017). While many countries report having adopted trade facilitation measures to support women, women are often not represented on trade facilitation committees and their interests are not always addressed in trade facilitation policies (ECA, 2021 forthcoming).

Agricultural value chains are an important area for complementary trade measures to tackle, including through aligned sector policies and infrastructure investments (ECA, ATPC and Overseas Development Institute, 2017). Specifically, agriculture, a major contributor to intra-African trade, should be embraced in industrial policy in the context of building productive capacity; a poor road network and electricity supply shortages are among the key impediments to the establishment of agroprocessing industries (ECA, African Union, African Development Bank and UNCTAD, 2019). Policy interventions such as corridor programmes launched with a view to expanding agricultural value chains or “agrocorridors” link hard and soft infrastructure to enhance the functioning agricultural value chains. Needed interventions include the building of connective transport infrastructure, interventions to prevent last-mile delays arising in destination cities and ports that can spoil perishable goods, the adoption of policies to support inclusive buyer-supplier relationships and contract farming, and capacity-building for suppliers to enhance their capacity to meet quality and sanitary standards (Gálvez Nogales and Weber, 2017).

## **Spatial development initiatives can leverage the power of cities to accelerate regional trade integration**

Spatial development initiatives are policies aimed at achieving growth in a specific spatial location; they often comprise multiple mutually-reinforcing development projects, including those aimed at specific economic sectors or linkages (Hope and Cox, 2015). Spatial development initiatives can be powerful tools for policymakers when it comes to coordinating investments to boost regional trade. Special economic zones and corridor programmes are two types of spatial development initiative often used to expand export industries and strengthen regional value chains. In Africa, both special economic zones and transnational corridors have, however, often lacked an urban focus and have sometimes failed to leverage the power of cities and agglomeration economies. The following section looks in more detail at special economic zones and transnational corridors and considers their potential for leveraging urban geography to promote regional trade integration.

Well-designed special economic zones tailor urban economic potential to exporter needs and leverage the positive spillover effects of FDI and export firms to boost the potential of urban economies. Special economic zones earned a place among economic development and trade tools in the 1980s with the advent of the so-called “miracle of Shenzhen,” where a special economic zone began to transform the region into what became known as the “world’s factory” and served as a major catalyst for rapid economic development in China. Since then, the number of special economic zones worldwide has ballooned from 176 in the 1980s to an estimated 5,383 in 2018, including 237 in Africa. As shown in figure 68, Kenya has the region’s highest number of special economic zones (61), followed by Nigeria (38), Ethiopia (18) and Egypt (10). Many zones aim to expand export-oriented manufacturing and promote structural change through multipliers and demonstration effects (Aggarwal, 2006; UNCTAD, 2019b; ECA, 2019). Special economic zones often aim to attract FDI and increase exports by creating a strong business environment. Often special economic zones are associated with strong regional trade performance, but that is not always the case. For example, the regional trade hubs of Egypt, Morocco, Nigeria and South Africa all have more than the regional average number of special economic zones, while Côte d’Ivoire and Tunisia, also strong performers, do not. (Côte d’Ivoire has established only one special economic zone, and Tunisia has none).

Number of SEZs

/// no data

0

1 - 5

6 - 15

16 - 40

41 - 61

Special economic zones are established, primarily, to improve the business environment and concentrate investment in a localized “island of excellence” when the broader upgrading of an entire city is not immediately feasible (Asian Development Bank, 2015; African Development Bank, 2018; UNCTAD, 2019b; ECA, 2017b). As cities grow, so do costs associated with land, road congestion and overcrowding. Without adequate investment and good urban management, diseconomies of agglomeration will reduce productivity and the attractiveness of cities to firms. This is particularly a challenge for African cities, because African countries are urbanizing faster and at lower income levels than countries in global regions that urbanized earlier (ECA, 2019). Rapid urbanization at a low-income level poses major challenges for cities and they may find it difficult to mobilize the investments required for infrastructure development and the provision of key services. In the short term, improving infrastructure and the business environment within a smaller geographical area is often more feasible than upgrading an entire city.

19 Special economic zones typically fulfil the following three conditions: (a) they are clearly demarcated geographical areas, (b) they are subject to regulatory regimes that are distinct from the rest of the economy (most often in terms of customs and fiscal regulations, but sometimes in terms of other relevant rules and regulations, such as foreign ownership rules, and access to land or employment rules), and (c) they are provided with infrastructure support (UNCTAD, 2019b.)

on textile and apparel exports to the United States (UNCTAD, 2019b). Special economic zones could also facilitate efforts by African countries to leverage opportunities arising from the recently established African Continental Free Trade Area.

The success of special economic zones established in Africa has been mixed, and many zones have faced significant challenges. On the positive side, there is evidence that special economic zones have helped to attract FDI and do not crowd out other investment (Asian Development Bank, 2015; UNCTAD, 2019b). Special economic zones may also facilitate the participation of firms in global value chains (UNCTAD, 2019b). They generate a large share of exports in some countries: 60 per cent of net non-oil exports in Morocco, 25 per cent of exports in Egypt, and nearly 10 per cent of exports in Kenya and Ghana (UNCTAD, 2019b). However, one review of special economic zones in Africa concluded that African zones underperform compared with those in Asia and Latin America due to a range of factors, including inadequate infrastructure, political constraints and poor location (Farole, 2011). In addition, some special economic zones have exacerbated the gender wage gap.

In identifying measures that can help ensure the success of special economics, it is important to consider both the specific needs of exporters and the specific deficits of African cities. Exporters in most value-added sectors (manufacturing and tradable services) need to be based in cities due to their agglomeration benefits, and research has shown that proximity to a large city is important for the success of special economic zones. Table 5 outlines other factors that have been identified as important for the success of special economic zones, which could also help address challenges faced by many African cities.

**Table 5** Needs of exporters, variables and challenges faced by African cities and factors that can promote the success of special economic zones

Needs of exporters	City variables and challenges	Special economic zone success factors
		<ul style="list-style-type: none"> <li>• Policy or programme in green</li> <li>• Hard infrastructure in purple</li> <li>• Locational consideration in pink</li> </ul>
Same-sector clustering (most manufacturing); cluster of diverse economic activities (knowledge- or innovation-intensive sectors)	Density and number of firms (varies by city and neighborhood); the need for efficient and effective transportation infrastructure, land administration mechanisms; the need for coherent and supportive industrialization policies.	Strategic specialized sector focus, larger zone size, and effective investment promotion to trigger clustering; Proximity to dense urban areas for knowledge-intensive sectors; Designed and supported to facilitate proximity and linkages to local suppliers
Large pool of adequately-skilled labour	Size of labour pool (varies with city size) skill sets and levels.	Proximity to large or mid-sized cities; mass transit links; associated job training and education
Adequate and reliable infrastructure	Infrastructure quality	Fast, low-cost connections to reliable utilities
Proximity to port of export	Proximity to ports (varies by location) and the need for high-quality national transport infrastructure.	Proximity to major ports (airports/seaports); transport links to foreign markets (rail, highways)
Expedited and streamlined regulatory procedures and trade facilitation measures	Ease of regulatory burdens	Expedited regulatory processes, trade facilitation mechanisms, and one-stop-shops to facilitate approval processes

**Source:** Authors.

Policymakers who are keenly aware of the urban challenges impeding business activity have often been tempted to locate special economic zones far from cities. In some cases, the rationale for establishing zones in such locations is to stimulate marginalized parts of the country or to reduce overcrowding in cities. The Special Economic Zone Act of Liberia, for example, specifies that one of the purposes of special economic zones is to reduce overcrowding in densely-populated cities (UNCTAD, 2019b). Locational considerations for special economic zones should proceed with sector-specific requirements in mind, however. Agro-industrial parks require good accessibility to production areas (Picard, Coulibaly and Smaller, 2017), and specialized border zones can draw upon advantages from multiple countries; for example, the firms in the Mae Sot special economic zone in Thailand use Thai inputs and cheaper day labour from Myanmar (UNCTAD, 2019b). However, most export firms require the benefits of urban agglomeration, and proximity to cities should therefore be a primary consideration for zone location. Furthermore, evidence from Africa reveals that special economic zones are not a particularly effective tool for promoting development in marginalized or disadvantaged areas. (Altbeker, McKeown and Bernstein, 2012; Farole, 2011).

It is well established that proximity to a large city is a success factor for special economic zones (Collier, 2016, Frick, Rodríguez-Pose and Wong, 2019). This is the case both globally and in Africa, where special economic zones that are close to large consumer markets, an adequate pool of labour and suppliers are more successful than zones that are relatively isolated (Farole, 2011). The failure of many special economic zones has often been related to their location in remote locations, far from large urban pools of labour (UNCTAD, 2019b). Proximity to a large city and to urban amenities is important in attracting labour, particularly as special economic zones move up the development ladder (Asian Development Bank, 2015). Zone location also factors into capital costs: distant special economic zones typically require more financial resources to be spent on transportation infrastructure than those established near an urban agglomeration (UNCTAD, 2019b). In that regard, and as outlined in box 11, Ethiopia has successfully leveraged the economic potential of cities by developing industrial parks on the outskirts of both the capital and secondary cities, with manufacturing employment strongly correlated to the economic activity in those industrial parks.

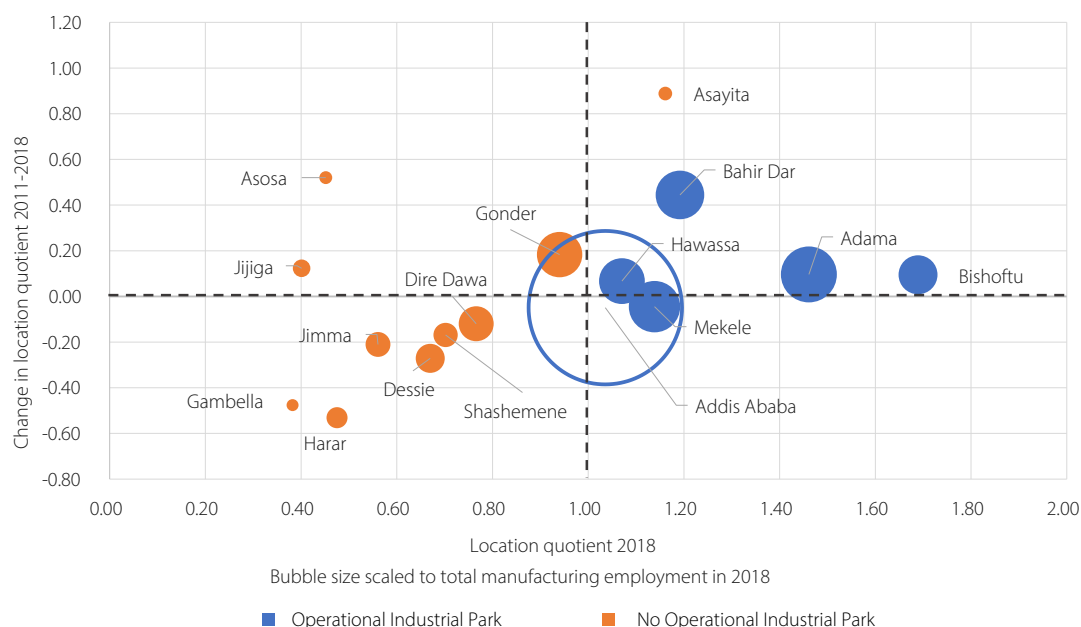
### Box 11 Linking industrial parks and urban development in Ethiopia

Ethiopia has used industrial zones to leverage its growing urban potential, invest in a diverse system of secondary cities and expand manufacturing. Vision 2025, a development strategy launched by the Ethiopian Government, and the country's successive Growth and Transformation Plans have charted a course of inclusive economic growth that began with agricultural development and has shifted toward manufacturing. The second Growth and Transformation Plan, which covered the period 2015/16 to 2019/20 aimed to increase the share of manufacturing in GDP to 15 per cent, up from just 4.4 per cent in 2015. That was an ambitious goal and the emphasis on manufacturing marked a major shift in strategy away from agricultural development-led industrialization, which had been emphasized in the previous Growth and Transformation Plan (Shiferaw, 2017). Aligning economic and social policies is a priority for the country, as evidenced by recent efforts in the area of spatial planning by the National Planning Commission. In order to support manufacturing-led growth, Ethiopia needs to invest in its cities. Currently, Addis Ababa is the only city with a population of more than 1 million people. The number of manufacturing jobs in Addis Ababa far exceeds the number of manufacturing jobs in any other city in the country and Addis Ababa-based firms are likely to lead the manufacturing sector for the foreseeable future (Kebede and Gauntner, 2019).

Urban primacy and the rapid growth of Addis Ababa is a major concern for Ethiopian policymakers, who have made secondary city development a key part of their development agenda. While Ethiopia does not currently exhibit excessive urban primacy, in part due to the country's size, and the share of the country's urban population residing in Addis Ababa has fallen to 19 per cent from a peak of 31 per cent in the early 1980s, Ethiopia's large size presents both an opportunity and a need for urban diversification. Although it is centrally located in the country, Addis Ababa remains very distant from a large segment of the country's population, who would undoubtedly benefit from access to a closer large metropolitan area.

Industrial parks are a key component of the Government's strategy to promote manufacturing, both in Addis Ababa and in secondary cities. Already nine parks are operational, two have recently been inaugurated, and five more are under construction (Cepheus Research and Analytics, 2019). An assessment of comparative manufacturing competitiveness in Ethiopia's major cities reveals that, as illustrated in figure 69, total manufacturing employment, competitiveness in terms of location quotients<sup>20</sup> and the change in competitiveness over time are all correlated with the presence of industrial parks (Kebede & Gauntner, 2019). Another study has confirmed that Ethiopian industrial parks are successfully attracting FDI in labour-intensive sectors and have a poverty-reducing effect, although they have not yet produced same-sector spillover effects outside the special economic zones (Tsehay and others, 2019).

**Figure 69** Manufacturing employment, city location quotients in 2018, and quotient changes between 2011 and 2018, key Ethiopian cities



**Source:** Authors on the basis of Ethiopia Urban Employment Unemployment Survey data. Addis Ababa bubble has been left transparent for visual clarity. Bishoftu does not technically host an industrial park, but industrial parks in Dukem and Mojo are immediately adjacent. As of 2018, there were two operational industrial parks in Addis Ababa.

<sup>20</sup> Location quotients are calculated by comparing the share of sector employment in a city to the share of sector employment nationally. A quotient higher than one indicates that the local share is higher than the national share, a sign of local competitiveness.

Secondary city development has been supported by investments in connective infrastructure. The road network has been developed under a series of road sector development programmes, the first of which was launched in 1997, when the total road network was only 26,550km, of which only 22 per cent was in good condition. By 2010, 56 per cent was in good condition, and the total road network reached 110,414 km in 2015 (Shon, 2017). Nonetheless, large parts of the country are still inadequately serviced by high-quality road networks, and priority consideration has therefore been given to road construction and upgrading. There are also plans to connect the country via a network of railways, starting with the Addis Ababa to Djibouti line, which was completed in 2016. The completed line connects the Ethiopian capital to Djibouti Port as well as to a number of important secondary cities, namely Adama, Bishoftu and Dire Dawa.

The results in terms of manufacturing growth and regional trade have been positive. Ethiopia has experienced some of the fastest growth rates in the region when it comes to regional exports of food and manufactured goods.<sup>21</sup> Ethiopia is one of only a few African countries that has significantly increased foreign value addition in exports, and specifically in agriculture, a clear sign of the country's increasing integration into global value chains (Allard and others, 2016). Ethiopia also stands out as a country that has succeeded in keeping costs low and has become attractive to manufacturing FDI, in part due to the Government's strategic investments in industrial parks (Gelb and others 2020). At present, Ethiopia is only 21 per cent urbanized<sup>22</sup> and most urban growth have yet to take place. Ongoing investments to extend urban infrastructure and services, particularly in Addis Ababa and secondary cities, will therefore be needed to keep crowding-related price effects from impeding FDI flows before industrialization takes off.

The broader economic impact of special economic zones stems from their linkages to the broader economy, including to domestic urban firms. Where special economic zones function as enclaves, indirect jobs are estimated at 25 per cent of direct jobs, but where zones are better linked to the domestic economy, indirect jobs tend to be closer to 200 per cent of direct jobs (UNCTAD, 2019b). More importantly, knowledge spillovers often happen through vertical relationships and connections that create learning and catalyze broader development. In Mauritius, for example, which established the continent's first special economic zone in the 1970s, initial investment was nearly 100 per cent from abroad, but eventually those working in and with firms located in the zone used the knowledge they were gaining to set up their own firms. By 2000, domestic capital accounted for half of special economic zone equity. Government learning also took place, enabling improvements to the business environment of the country as a whole (Altbeker, McKeown and Bernstein, 2012). Ghana has also used special economic zone policies to facilitate knowledge spillovers. Zone authorities overseeing the Tema Free Zone, for example, created a multipurpose industrial park within the zone for domestic firms, allowing them in, but not offering them zone incentives. This has enabled forward and backward linkages with foreign firms. Matchmaking programmes and training initiatives for domestic firms are also ways to support such linkages (UNCTAD, 2019b).

Intraregional trade in manufactured goods and services relies upon cities and the linkages among them. One policy tool for placing strategic focus on intraregional nodes and links is through corridor development programmes. Corridors are defined as the combination of transportation networks and the centres of economic activity that they connect. They can be in a linear configuration, but can also take the form of tree-shaped or hub-and-spokes networks (Gálvez Nogales and Weber, 2017). When corridors extend over more than one country and connect economic activities across borders, they are sometimes referred to as trade corridors, regional corridors or transnational corridors. While such

21 According to UNCTADstat data.

22 As of 2019, according to the World Development Indicators database.

corridors may arise through the natural emergence of hubs of economic activity and the flow of goods and services among them, corridors may also be promoted through spatial development initiatives by national and regional entities attempting to leverage trade for development. Importantly, a corridor “project” is really a combination of spatially aligned projects aimed at supporting the development of economic activities occurring in the areas spanned by the corridor.

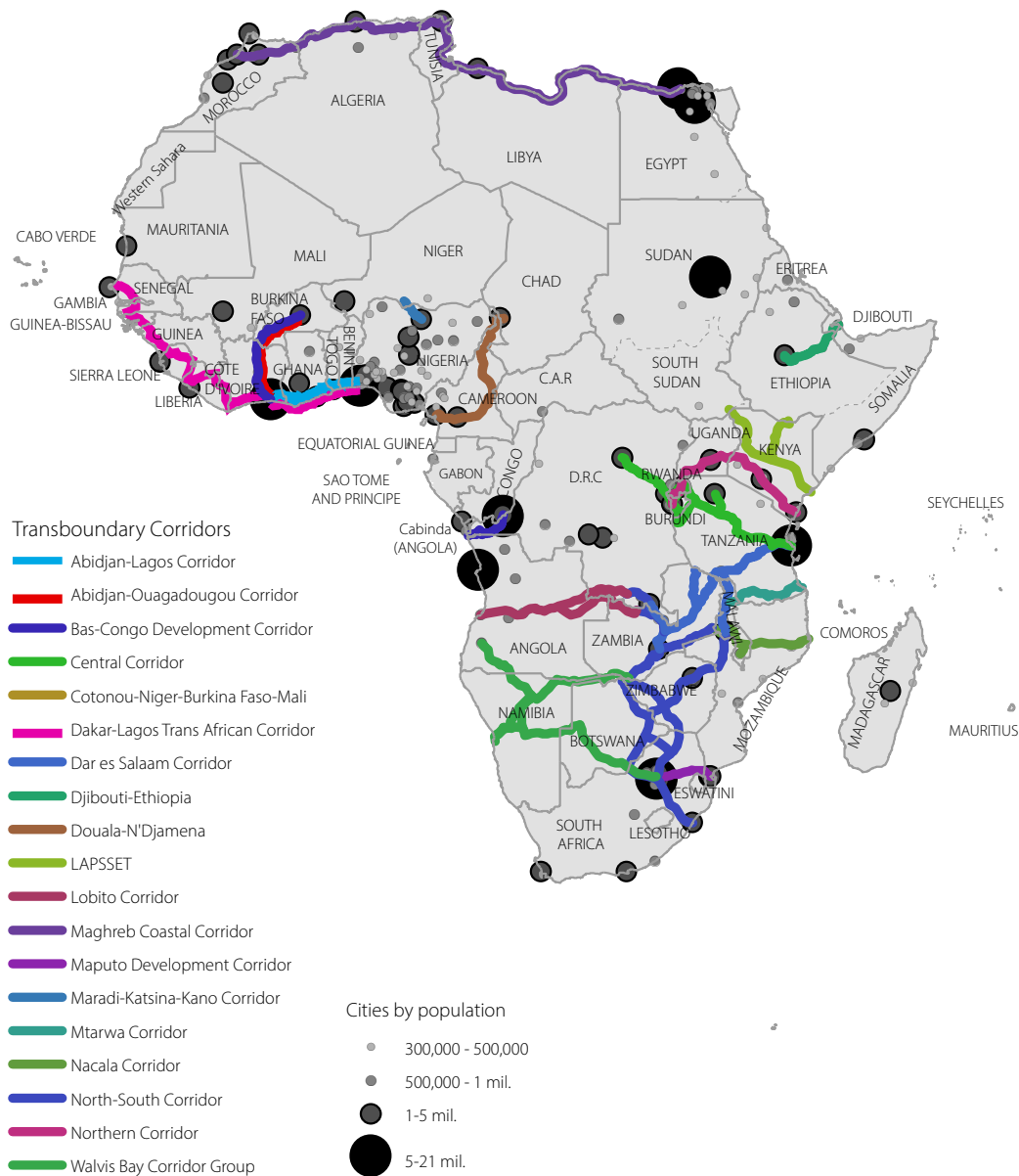
The first generation of corridor development programmes focused on infrastructure connectivity, but a new generation of programmes promote value chain development (Dannenberg and others, 2018). One example is the Southern Agricultural Growth Corridor of Tanzania, which was designed to improve and expand agricultural export value chains. The corridor programme was established to promote infrastructure development in areas other than transport, including storage and electricity, the engagement of smallholder farmers and the conclusion of agreements with major food purchasing and processing firms (Dannenberg and others, 2018). The best known and perhaps the most successful African corridor programme is the Maputo Development Corridor programme (Mulenga, 2013). The programme initially focused on infrastructure and, through a public-private partnership, facilitated improvements to the road linking Gauteng Province in South Africa with Maputo, Mozambique. The programme then focused on economic development initiatives to support training, job creation, the establishment of small and medium-sized enterprises, and the expansion of industries supporting the Mozal aluminum plant in Matola, Mozambique. The Maputo Development Corridor programme also supported tourism development, leading to an expansion of cross-border retail. Local urban economic development initiatives within the Maputo Development Corridor have been less successful than other components, such as the large scale investments in the Mozal aluminum plant and the increased use of Maputo Port for South African exports (Roodt, 2008).

There is a common development path for most corridor projects, with the following stages: (a) the establishment of a transport corridor with transport infrastructure and services; (b) the establishment of a logistics corridor, adding logistics coordination; (c) the establishment of a trade corridor, adding trade facilitation; (d) the establishment of an economic corridor, attracting investment in other economic dimensions beyond trade, and; (e) the establishment of a growth corridor (or development corridor), which facilitates the coordination of non-economic elements such as health, education and cultural opportunities (Gálvez Nogales, 2014). While some corridor projects are designed to achieve all five stages, others aim to achieve only the initial one or two.

There is a long list of existing and potential corridors in Africa at varying levels of conceptualization, planning and implementation. The African Corridor Management Alliance lists 38 African corridors in its strategy document, 33 of which involve multiple countries (African Corridor Management Alliance, 2017). Some transport projects are supported through the Programme for Infrastructure Development in Africa. Gálvez Nogales (2014) identifies 14 corridors in Africa, 10 of which are transnational. If corridors are defined as economic nodes linked by transport networks, many more African corridors are apparent. Figure 70 shows 19 of the currently recognized transnational African corridors based on the publications listed above. Some, such as the Lamu Port–South Sudan–Ethiopia Transport Corridor, are still in their early stages, with little infrastructure development having taken place. Others have only recently been established, such as the Djibouti–Ethiopia corridor, along which a new railway line has been built, and a full analysis of their urban development impact has yet to be undertaken. Still others, such as the Douala–N’Djamena and Maradi–Katsina–Kano corridors, have arisen on the basis of market-driven trade and without high-level planning and investment to align economic nodes, value chains and trade and transport networks. In that connection, the Trans-African Highways Programme was launched

to promote the construction of highways along some of the most important corridors in Africa, with intergovernmental agreement on relevant norms and standards.

**Figure 70** Transnational corridors in Africa

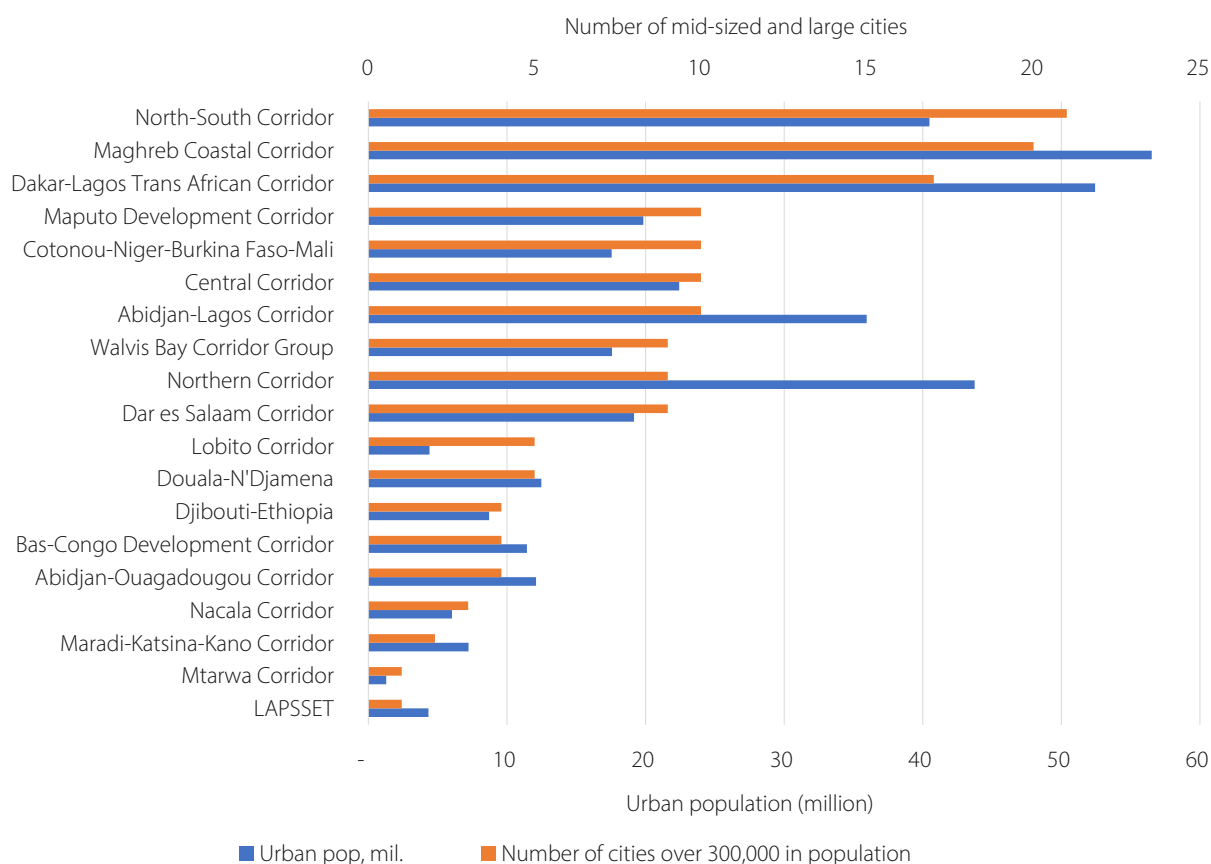


**Source:** Authors, Cities by population data from DESA World Urbanization Prospects, 2018.

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Significantly, those corridors feature varying levels of urbanization, and varying potential for linking smaller cities and rural areas. Corridors connecting a large number of mid-sized and large cities could conceivably have the highest impact in terms of trade-linked agglomeration and urban specialization. However, the potential of transnational corridors for linking smaller cities and rural areas to regional value chains is high and has not yet been comprehensively examined in Africa. The size of the urban population and the number of mid-sized and large cities situated on the main transnational corridors in Africa are shown in figure 71.

**Figure 71** Urban population and number of mid-sized and large cities situated along key African transnational corridors



**Source:** Authors. Urban populations were calculated on the basis of data for 2015 made available by Africapolis, a research and data visualisation tool used to map, analyse and understand urbanisation and urban growth in Africa.

Much emphasis on African corridor programmes has been placed on the trade in agricultural products and minerals and the linking of production areas to ports. Little focus has been placed on urban production, however. The Southern Agricultural Growth Corridor of Tanzania, for example, is being established to expand agricultural production, while a key component of the Lamu Port–South Sudan–Ethiopia Transport Corridor is a crude oil pipeline. Meanwhile, the Nacala Corridor has been established to facilitate coal exports. These are not urban activities, nor are they necessarily aimed at intraregional trade or leveraging emerging opportunities in manufacturing created by the establishment of the African Continental Free Trade Area. At the same time, numerous economic megaprojects with significant implications for urban growth are proceeding in the absence of adequate city planning or oversight. Kribi Port in Cameroon, for example is being developed without adequate oversight of, or investments in, the urban expansion of Kribi city. The opportunities for economic transformation created by expanding regional trade may require a more deliberate urban focus in corridor programmes. African cities are also major hubs of consumption, another reason to consider the urban impact of corridors.

The scant literature on “urban corridors” discusses them not as a type of spatial development initiative, but rather as a type of newly-evolving spatial pattern brought about by increasing urban populations and expanding urban space (Georg, Blaschke and Taubenböck, 2016). UN-Habitat (2010), defines urban corridors as cases in which two or more large urban cores are located along a single connection trunk line, with regular flows of goods, services and people between those urban nodes. Many are national (for example the Dakar-Touba Corridor in Senegal), but some are becoming transnational and are helping to

strengthen regional integration.<sup>23</sup> An empirical assessment of urban corridors based on satellite imagery of night lights (Georg, Blaschke and Taubenböck, 2016) finds only three urban corridors in Africa, and of those, only the Greater Ibadan-Lagos-Accra corridor is transnational.

Meanwhile, corridor programmes that connect a larger number of major cities have not necessarily been conceived of as “development corridors” targeting regional value chains, but rather transport corridors with an infrastructure focus. This is the case for the top six corridors listed in Figure 72, with the exception of the Maputo Development Corridor.<sup>24</sup> While the North-South Corridor and Central Corridors have been conceived of as multimodal transport corridors (TradeMark Southern Africa 2012; TFA4Africa, 2020), the Maghreb Coastal Corridor and those in West Africa, namely the Dakar–Lagos corridor and the inland corridor from Cotonou to Mali, are focused primarily on road linkages comprising the Trans-African Highways Programme rather than broader economic development or value chain orientation, and while the objectives for most of the Trans-African Highway Programme corridors include deepening trade and regional integration, their implementation has not typically focused on facilitating trade among cities. Transport linkages are a first step toward trade and economic development, and in the commonly recognized phases of corridor development, physical transport comes first, before logistics, economic, and finally social corridor components (Mulenga, 2013). Nonetheless, it is of note that projects to establish corridors to link the continent’s major cities tend to focus on transport and sometimes logistics, and place only limited emphasis on the economic goals of regional value chain development.

Transnational urban corridors have the potential to strengthen the dynamics of urban agglomeration specialization and diversity by facilitating market access. The dynamic potential of African cities is currently constrained by economic fragmentation or, in other words, the small size of countries and the trade barriers impeding economic activity among them, which limit the gains that can be achieved from the establishment of economies of scale and through specialization. Improving connections among African cities by reducing transport and trade barriers and strengthening logistics and value chain linkages has the potential to boost their productive dynamism. Furthermore, just as improving connections within the national urban system in a country can accelerate role differentiation among large cities, mid-sized cities and small towns, regional urban connectivity can accelerate agglomeration in a country’s largest cities. It can, moreover, also bolster the role of mid-sized cities, which often fare poorly due to economic fragmentation. There are already several examples of cross-border agglomeration stemming from corridor development. For example, along the Walvis Bay Corridor, small and mid-sized cities have seen increased agro-processing, manufacturing and tourism activities (Dannenberg and others, 2018). As outlined in box 12, focusing corridor development on locations with significant untapped trade potential in manufactured goods and processed food, outputs that have traditionally been produced in cities, holds particular promise for urban development.

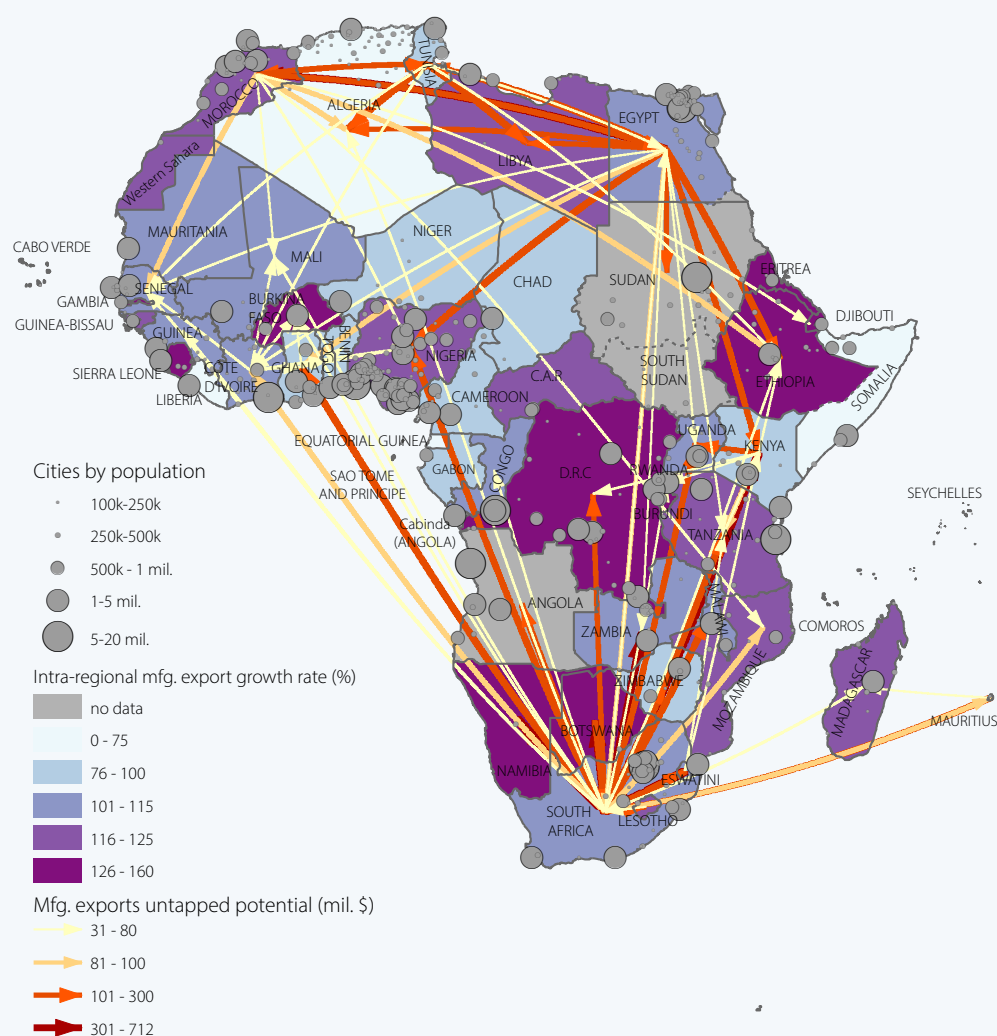
23 Ten African transnational urban corridors are discussed in UN-Habitat (2010): Beira (Zambezi) Development Corridor; Bobo-Dioulasso-Korogho Corridor; Greater Ibadan Lagos-Accra Corridor; Limpopo Development Corridor; Luanda-N’Djamena Corridor; Maputo-Gauteng Development Corridor; Maradi-Katsina-Kano Corridor; Nile Valley Corridor; North-South Corridor; and Southern Mediterranean Coastal Region Corridor.

24 The Abidjan-Lagos Corridor is also predominately a highway project. The African Development Bank did, however, commission a study in March 2020 on the Corridor that included an analysis of markets, logistics, and trade and transport facilitation measures, paving the way for corridor development to proceed to the next developmental phase. The study is expected to be completed in 2024 (African Development Bank, 2020).

**Box 12** Major trade routes where transnational urban corridors could be developed or strengthened

Looking specifically at untapped regional trade potential in manufactured goods and processed food, it is possible to identify geographic areas where transnational urban corridor programmes could boost regional trade and economic development. As African cities become home to a growing share of tradable firms, population and GDP, linking them through urban corridor projects could leverage new regional trade opportunities. The recently-established African Continental Free Trade Area is projected to have a major impact on industrialization by boosting the trade in manufactured goods and processed food, two sectors that are largely concentrated in urban areas. Figure 72 illustrates the continent's untapped intraregional manufacturing trade potential, while Figure 73 shows its untapped potential in processed food.

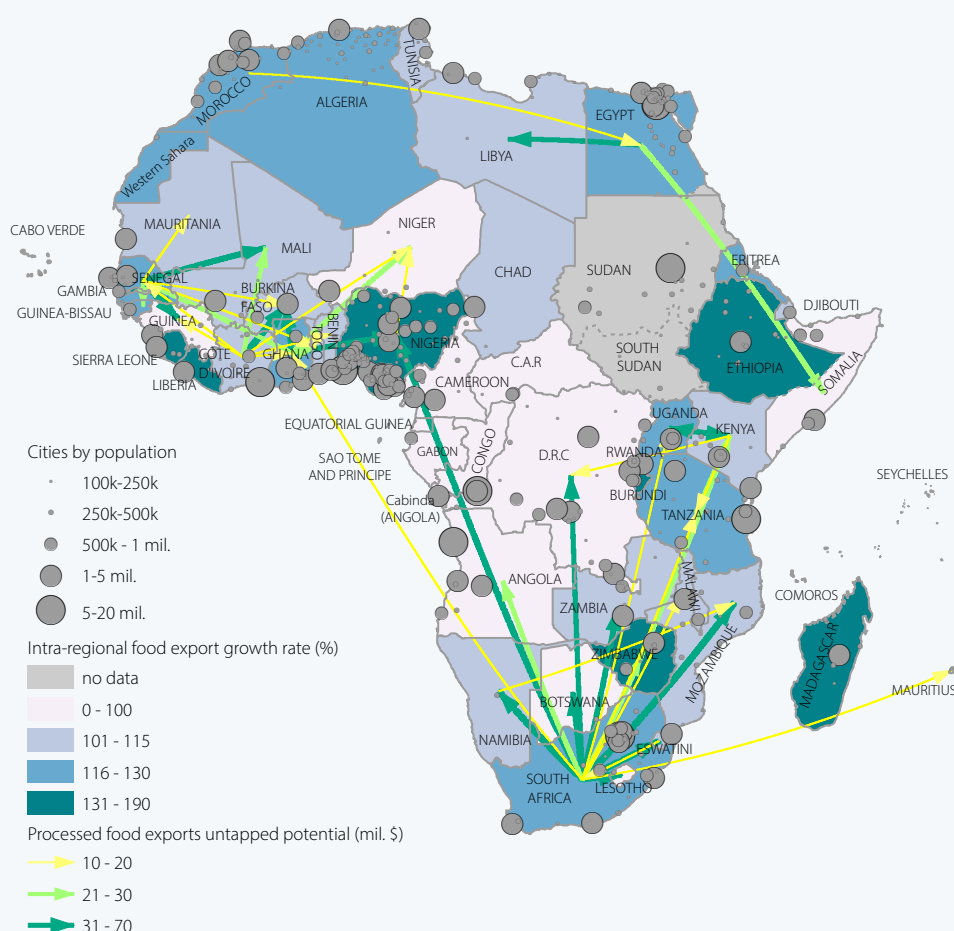
**Figure 72** African intraregional manufacturing exports, 10-year compound annual growth rate (2006–2008 to 2016–2018) and the continent's untapped potential in terms of exports of manufactured goods



**Source:** Authors on the basis of UNCTADstat and International Trade Centre data (intraregional manufacturing exports growth rate) and DESA World Urbanization Prospects, 2018 (cities by population); Trade flows less than \$30 million are not shown; Data on untapped potential are the 2015–19 average.

**Disclaimer:** The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The final boundary between the Republic of the Sudan and the Republic of South Sudan has not yet been determined.

**Figure 73** African intraregional processed food exports, 10-year compound annual growth rate (2006–08 to 2016–18) and the continent's untapped potential in terms of exports of processed foods



**Source:** Authors on the basis of UNCTADstat and International Trade Centre data (intraregional processed food exports growth rate) and DESA World Urbanization Prospects, 2018 (cities by population); Trade flows less than \$30 million are not shown; Data on untapped potential are the 2015–19 average.

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An analysis of the trade flows outlined in figures 73 and 74 highlights the four following major trade routes where urban corridors could be created or strengthened:

- Between major cities in South Africa and Accra, Ghana. Within South Africa, most manufacturing production takes place in three provinces: Gauteng (including the cities of Johannesburg and Pretoria), KwaZulu-Natal (including Durban), and Western Cape (including Cape Town), which together contribute more than three quarters of national manufacturing value addition.<sup>25</sup> Major trade routes connect those cities with Windhoek (Namibia), Luanda (Angola), Pointe Noire and Brazzaville (Congo), Kinshasa (Democratic Republic of the Congo), Libreville (Gabon), Douala and Yaoundé (Cameroon), Port Harcourt and Lagos (Nigeria), Cotonou (Benin), Lomé (Togo), and Accra (Ghana). Some corridor initiatives have already been launched along this route, namely the Greater Ibadan Lagos Accra Corridor (Lagos–Accra), the Trans-Cunene Corridor and the Bas-Congo Development Corridor.

However, no larger project links the entire group of cities. Strengthening those corridors and the links between them would benefit major urban-based trade flows in both processed food and manufactured goods and enhance linkages among major consumption cities, which, as discussed in Section II of the present report, are particularly dependent on the welfare effects of trade.

- Between Southern Africa and East Africa, including Durban and Johannesburg (South Africa), Harare (Zimbabwe), Lusaka (Zambia), Lilongwe (Malawi), Mwanza and Dar es Salaam (United Republic of Tanzania), Bujumbura (Burundi), Kigali (Rwanda), Bukavu (Democratic Republic of the Congo), Kampala (Uganda) and Nairobi (Kenya). This network is already mostly integrated into the North-South Corridor, the Central Corridor, and the Northern Corridor. Strengthening connections among those cities could help leverage the power of their rapidly-growing populations to support both consumption and production of regionally-traded goods.
- Among major cities in North Africa and cities in the Sudan and Ethiopia. That corridor would start in Morocco, which has four cities with populations of more than one million people, and link Oran and Algiers (Algeria), Tunis and Safaqis (Tunisia), Tripoli (Libya), Alexandria and Cairo (Egypt), Khartoum (the Sudan) and Addis Ababa (Ethiopia). This follows the same path as the Maghreb Coastal Corridor, but also incorporates cities in the Sudan and Ethiopia, thereby connecting an emerging major regional trade hub (Ethiopia), with the established major hubs of Egypt and Morocco.
- Among major urban areas in West Africa and extending from Senegal to Nigeria. That corridor would include cities in 11 coastal countries in addition to cities in Burkina Faso, Mali and the Niger. Some of the corridor would incorporate the Dakar–Lagos Trans African Corridor and the Cotonou–Niger–Burkina Faso–Mali Corridor, but additional links could be added and strengthened. The network has particularly high potential for trade in processed food, and links three key trade hubs in West Africa, namely Côte d'Ivoire, Senegal and Nigeria.

Effective corridor development requires interventions to address transport links and the needs of economic hubs, and to support associated economic activities. One example of multisectoral corridor development is in the Greater Mekong Subregion, as explained in box 13. Corridor development is likely to face a number of challenges, and it is critical that relevant stakeholders coordinate policy actions in order to address those challenges in a coherent manner. Those challenges include:

- Inadequate transport infrastructure and procedural delays: Africa must still address major impediments to regional trade arising from inadequate transport infrastructure: indeed, trade costs in Africa are the highest in the world and continue to stifle commerce (Graff, 2018). Procedural barriers to fast and efficient trade along corridor links is also a concern, with delays arising from customs and large numbers of checkpoints that must be negotiated by lorry drivers. For example, to reach Douala Port in Cameroon, which handles 90 per cent of the trade of Chad by weight, lorry drivers leaving the N'Djamena, the Chadian capital, must pass through 55 checkpoints, with procedures at each checkpoint taking an average of 26 minutes to complete (a total of some 24 hours) (Ministry of Commerce and Industry of Chad, 2013). While some delays occur at borders and along main roads, major delays can also arise in cities, undermining the efficiency of freight routes.
- Inadequate urban infrastructure and services: With a new generation of corridor projects focusing on value chain development, it is important to carefully consider the problems faced by production hubs and address key challenges impeding trade, including unreliable electricity supplies, weak workforce skills, and the limited land available for industrial clustering. Averaged across African countries, only 12.8 per cent of exporters identify either transport or trade regulations as their biggest obstacle, while others list issues such as obtaining access to finance, unreliable electricity supplies, high taxes, corruption, weak workforce skills, difficulties in obtaining required permits and access to land.<sup>26</sup> This suggests that a focus on corridor links must be complemented by sector-specific support to production hubs to tackle challenges related to issues other than transport
- Support to private sector operators: Improving infrastructure and services will not be enough to expand intraregional trade along African corridors. Enterprises engaged in the production

26 On the basis of recent World Bank Enterprise Survey data from 42 African countries.

of and trade in goods and services, including transport logistics and inputs, often need tailored assistance. This may include access to low-cost finance, information on market opportunities and new trade processes under the terms of the Agreement Establishing the African Continental Free Trade Area and legal support for buyer-supplier relationships. As highlighted in box 14, informal traders, who conduct a significant share of cross-border trade, face some of the biggest hurdles. Communication with the private sector, including with small and informal traders, will be critical if that support is to be tailored appropriately.

#### **Box 13** Corridor development in the Greater Mekong Subregion

The Greater Mekong Subregion provides an example of how multinational collaboration can transform transport corridors into trade and economic corridors (Hope and Cox, 2015). Indeed, the Subregion provides one of the most high-profile and successful examples of regional coordination (Gálvez Nogales and Weber 2017). Economic cooperation in the Subregion was initiated by the Asian Development Bank in 1992 and involves the economies of Cambodia, the Lao People's Democratic Republic, Thailand, Viet Nam, and two Chinese provinces. Three growth corridors have been established in the Subregion. Corridor projects have included major investments in multimodal transport, including in rail, roads, air and waterways, but also in logistics and trade facilitation mechanisms. Significantly, those projects have also resulted in investments in urban centres, mobilized, inter alia, through the Greater Mekong Subregion Urban Development Taskforce, established to develop cities and special economic zones along the corridors. Interventions have also included sector-specific agricultural and tourism projects, and the creation of a subregional power market (Dannenberg and others, 2018; Hope and Cox, 2015).

Among the more developed economies in the region, namely China, Thailand and Viet Nam, the trade in manufactured goods, and particularly the intra-industry trade in machinery and transport equipment, textiles and chemicals, has benefitted from corridor development (Srivastava and Kumar, 2012). Cross-border consumption in the form of retail has also expanded (Gálvez Nogales and Weber, 2017). The less developed countries in the region, namely Cambodia, the Lao People's Democratic Republic and Myanmar, mostly export primary products to the other countries, and are not yet integrated into regional value chains for manufactured goods. However, continued collaboration is expected to help integrate them into production networks and help them move up the value chain (Srivastava and Kumar, 2012).

Among the less developed economies in the region, the agricultural sector has benefitted and resulted in significant poverty reduction. The trade in agricultural produce and cross-border agricultural activities have increased. Thai and Chinese firms are engaged in cross-border contract farming in cash and biofuel crops, maize, soybeans and sugar cane, resulting in the transfer of technology with potential spillover effects for Cambodia and the Lao People's Democratic Republic. While farmers provide the land and labour, traders provide technical support, inputs and market linkages (Gálvez Nogales and Weber 2017). As a result, poverty reduction has been highest in the least well-connected countries in the Greater Mekong Subregion (Dannenberg and others, 2018). For example, the incomes of farmers located along the East-West Economic Corridor have risen by 20 per cent since the completion of the main road along the Corridor (Gálvez Nogales and Weber, 2017).

**Box 14 Barriers to informal cross-border trade**

Informal cross-border trade accounts for as much as 42 per cent of trade between some countries in West Africa, and up to 80 per cent between some countries in East Africa. Informal cross-border trade is often a continuation of longstanding pre-colonial relationships, especially within ethnic groups that are now divided by national borders, and it continues to foster peace and solidarity among border communities.

Informal cross-border trade is a significant generator of employment, particularly in situations where there are limited formal employment opportunities. It often provides a source of income for vulnerable populations and is a major contributor to nutrition and food security in the region. Refugees and internally displaced persons, in particular, depend on informal cross-border trade, especially in East and Central Africa. The majority of informal cross-border traders are women, and it has been estimated that female traders are responsible for some 61 per cent of informal cross-border trade transactions. Women are much more likely to carry food and agricultural goods across borders, and only slightly more likely to carry manufactured goods than men, and thus often carry heavier loads of lower-value goods across borders.

Informal cross-border traders face major barriers, which tend to be worse for women. Limited access to finance and credit is one of the most challenging issues they face, with traders often borrowing money to purchase goods and repaying it the same day once goods are sold. This exposes them to significant risk if they are unable to sell their inventory. Reliance on cash-based transactions and informal currency exchanges also pose financial hurdles. Inadequate infrastructure is another barrier, including a lack of warehouse facilities and storage space for perishable goods, poor transport infrastructure and low-quality mobile networks. A poorly functioning logistics sector worsens those deficits.

Non-tariff barriers include customs procedures and documentary requirements, including those relating to technical, sanitary and phytosanitary measures. Those barriers impose disproportionately high costs on informal traders. Policy incoherence and a lack of harmonized procedures among African regional economic communities compound the difficulties they face and gives rise to a sense of uncertainty in trade processes. Informal cross-border traders, and particularly female traders, may also be subjected to extortion and harassment by border officials. They may also be targeted by criminals or insurgent groups.

Addressing the barriers impeding informal cross-border trade must be a central component of efforts to promote implementation of the Agreement Establishing the African Continental Free Trade Area. Facilitation measures should be enacted in tandem with formalization processes, the provision of support to informal traders, and incentives to encourage informal traders to become part of the formal economy. Importantly, the compilation of data on informal trade, which are largely nonexistent,<sup>27</sup> should be made a priority so that the needs of informal traders can inform the design of trade and complementary policies.

**Source:** AFREXIM (2020).

Corridor development is not without risks to balanced growth and social equity. Corridor projects connecting two neighboring countries tend to bestow more benefits upon the country that is economically stronger due to the home market effect, as predicted by new trade theory (Gálvez Nogales and Weber, 2017; Venables, 2019), and transit countries may take advantage of their position by imposing high transit fees and additional costs on freight crossing their territory. Corridor projects should examine and mitigate potential inequities, particularly as corridors that are poorly managed may cause major spatial imbalances in areas outside those corridors. This is bound to result in spatial and functional gaps, particularly in the absence of transit towns capable of diverting for their own benefit some of the opportunities stemming from trade activity in cities located along the corridor (UN-Habitat, 2010). Land grabbing and environmental degradation are also issues arising in some corridor projects, especially those established to strengthen agricultural value chains. Those projects often stimulate agricultural land consolidation, but this may result in the displacement of marginalized communities (Dannenberg and others, 2018; Gálvez Nogales, 2014). While corridor projects can benefit farmers and have been documented to do so, for example, in the Southern Agricultural Growth Corridor of Tanzania and the Greater Mekong Subregion in Southeast Asia, in some corridors, such as the Walvis Bay Corridor, while investment and value chain linkages have benefitted farmers, the regions along the corridor remain some of the poorest regions in their respective countries (Dannenberg and others, 2018).

27 Rwanda and Uganda are the only African countries that collect data on informal cross-border trade on a regular and systematic basis.

## V. POLICY RECOMMENDATIONS

Both regional trade integration and urbanization hold major economic development potential for Africa, but there is an even more powerful development nexus between them. Policies to leverage regional trade for development will be incomplete without considering their urban and spatial implications. Similarly, policies to leverage the economic power of the continent's growing cities should be centred on the growth of tradable sectors and should recognize the opportunities presented by regional trade integration. The 10 policy recommendations set out below speak to that development nexus and address the topics of the preceding three sections of the present report: leveraging the opportunities associated with urban consumption of regionally traded goods, the impact of trade on economic geography, and the impact of cities on trade. Section V concludes with policy entry points, next steps, and areas for future research.

The 10 recommendations have multiple policy entry points. As trade begins under the terms of the Agreement Establishing African Continental Free Trade Area, implementation strategies at the national level and through regional economic communities will be a starting point for addressing the role of cities in regional trade, and powerful urban opportunities should be central to those strategies in many countries. At the same time, it is clear that the full benefits of implementation of the Agreement rely on complementary policies to strengthen the economic environment, including the economic environment provided by cities. The recommendations therefore go beyond trade policy and recommend the alignment of areas of regional trade opportunity with policies affecting the economic role of cities, with implications for national development and spatial planning, national urban policies, industrial, agricultural and service sector policy formulation, local economic development plans and public expenditure priorities.

A caveat to overarching policy recommendations is that they must be tailored to the diverse country contexts of the region, and be informed by data on the specific opportunities and challenges at hand for a given city, country, or set of countries. A companion volume to this report, entitled “Cities: gateways for economic integration in Africa – a policy toolkit”, provides a methodology for gathering and analysing data, prioritizing strategies, and moving toward implementation. The key features of the toolkit are outlined towards the end of this section.

### Implement trade policy with cities in mind

As the African Continental Free Trade Area consolidates the continent's large and growing consumer market, major opportunities for leveraging regional trade for development will arise. Both regional import and export flows are likely to have significant welfare repercussions, particularly in cities. The purchase of regional imports can benefit consumers through their access to a larger variety of cheaper goods, including basic goods such as food, which is purchased by people at all income levels within cities. The production of regional exports has the potential to create urban jobs and foster economic structural transformation, particularly as intra-African trade comprises a more diverse and job-rich set of goods than extraregional exports.

Swift implementation of the Agreement Establishing the African Continental Free Trade Area will undoubtedly increase intraregional trade and help Africa States realize the full economic benefits stemming from the Agreement, including the creation of trade-induced investment opportunities.

In addition, the rapid urbanization of the continent makes the next few decades critical in terms of leveraging the economic power of cities for growth and job creation. At the same time, the need to reset the continent's economic growth following the COVID-19 pandemic and its aftermath makes accelerating implementation of the Agreement an urgent priority.

**Recommendation 1: Align national strategies to promote implementation of the Agreement Establishing the African Continental Free Trade Area with urban consumption and production opportunities**

The Agreement Establishing the African Continental Free Trade Area holds tremendous potential for African populations, with the majority of both consumption and value-added production opportunities located in cities. Viewing implementation of the Agreement through an urban and spatial lens will enable policymakers to formulate effective policies to help African countries fully realize that potential. Well-targeted trade policies and complementary investments in transport infrastructure, logistics and export sectors will help to meet rising consumer demand in cities. In sectors such as food and building materials, extraregional goods should not be outcompeting African goods in many instances, but major barriers to intra-African trade continue to undermine the potential of Africa to meet rising urban demand in the region, resulting in a lost development opportunity. Implementation of the Agreement should promote the consumption of goods in which the region enjoys a competitive advantage. It should be underscored that the development impact on cities and rural areas of regional value chains could be substantial.

Trade in services is another area of opportunity that could support structural transformation and long term urban job creation, capitalizing on rising demand in African cities. The establishment of the African Continental Free Trade Area could be a catalyst in that process if services are prioritized in negotiations on implementation and complemented by supportive policies in sectors benefitting from initial service liberalization under the terms of the Agreement, namely business services, communications, financial services, tourism and travel-related services, and transport services.

**Recommendation 2: Fast track digital trade and e-commerce initiatives within the context of efforts to implement the Agreement Establishing the African Continental Free Trade Area,<sup>28</sup> and improve national regulatory frameworks and digital infrastructure to foster the development of e-commerce**

Although e-commerce is still in its infancy in Africa, it has significant potential to expand market access for urban consumers, including in small and secondary cities, facilitate the provision of low-cost and specialized inputs for manufactured goods, and boost trade within the region and with the rest of the world.

At the national level, four priority actions must be taken to leverage e-commerce. Firstly, efforts must be made to provide reliable Internet connectivity and expand the use of digital technologies at affordable prices. Countries have a long way to go in that regard, not only in terms of installing the required physical infrastructure, but also in terms of promoting competition with a view to ensuring that access is affordable. Secondly, supportive regulatory and tax policies must be enacted, particularly as many African country legal frameworks and tax regimes currently impede digital trade. Steps to harmonize trade documentation among countries in order to facilitate electronic exchange and paperless trade are also needed. Thirdly, digital trade should be harnessed creatively and with careful consideration being

<sup>28</sup> A decision has now been made to frontload phase III e-commerce negotiations so that they take place alongside phase II negotiations on competition policy, intellectual property rights and investment.

given to potential negative impacts, particularly in the short and medium term, on small retail businesses, the informal economy, and the transport and manufacturing sectors. Fourthly, African Governments and other stakeholders seeking to promote e-commerce should adopt a broad policy perspective that encompasses business-to-business trade, which could perhaps give rise to more immediate and tangible benefits for firms in the manufacturing and services sectors and promote the integration of small firms into global markets and supply chains. There is a need to include digital trade in national strategies, but in synch with complementary policies supportive of industrial and small business development and the needs of the informal economy.

## Invest in cities according to their role in regional trade

The urban spatial implications of trade policy are consequential. Trade amplifies agglomeration economies and contributes to the spatial concentration of production, and regional trade integration will likely add to the dynamics of urbanization. It should be emphasized, however, that the impact of increased trade will vary among African cities, with the specific impact depending on the size, location and economic structure of cities. The impact of trade can be planned for and supported through strategic policies. Countries experiencing rapid growth in labour- and resource-intensive manufacturing exports, for example, such as Ethiopia and the United Republic of Tanzania, would do well to invest or continue investing in supportive infrastructure and services in mid-sized cities where the cost of doing business is low. Countries with rapidly expanding high-skill, high-tech manufacturing sectors should place extra emphasis on improving the productivity of their large cities. Border towns significantly affected by implementation of the Agreement Establishing the African Continental Free Trade Area will require investments to be made in connectivity and the trade and logistics sectors.

The spatially differentiated repercussions of regional trade integration should also inform policies to crowd in traded sectors and generate multipliers. In particular, the provision of support to the manufacturing sector, whose contribution to trade is forecast to increase as implementation of the Agreement proceeds, should be complemented by investments in urban areas. Agglomeration economies arise from the clustering of firms, and suffer wherever there is a coordination failure; national industrial policies can help mitigate that threat if incentives for clustering are provided in specific locations.

Beyond support to traded sectors, investment is needed for cities to accommodate and facilitate urban population growth occurring as trade increases. Many cities, even when relatively successful in terms of tradable sector job creation, fail to accommodate growth or become prematurely overcrowded because of a lack of planned urban investment prior to anticipated development. Urban planning in line with anticipated urban growth rates and the establishment of a connected grid of streets to forestall unplanned expansion is critical for long-term connectivity and mobility. Cities that expand in an unplanned manner will give rise to disconnected and inefficient highway-side linear development that undermines competitiveness. In the fastest growing cities in Africa, planning has rarely preceded development. As discussed in Section IV of the present report, however, a number of established cost-effective mechanisms for guiding the sustainable expansion of cities are available to African countries.

As an increasing share of the population, GDP and trade opportunities become urban, investments in cities must be scaled up and given higher priority in national budgetary process. To be productive, African cities need coordinated investment on a number of fronts, including infrastructure, institutions, workforce skills, the connectivity of emerging urban form, and connectivity to the broader spatial system, including other hubs of production, including both cities and rural areas, and gateways for trade. Those

interventions could reduce the currently high cost of production and trade facing African cities. They should be designed and implemented with the input and involvement of various groups, including, in particular, women traders and informal sector enterprises, in order to ensure that benefits arising from trade integration are enjoyed by as many people as possible.

**Recommendation 3: Integrate small cities into regional value chains, particularly in the agricultural and processed food sectors**

Africa is characterized by a large number of small cities that are gaining an increasing share of countries' urban populations. That trend is likely to continue as regional trade integration proceeds. Investments in transport are needed to ensure that small cities enjoy good connections to regional trade routes so that they can take advantage of the welfare impacts arising from regional trade. Small cities also need support to facilitate their participation in agricultural trade mechanisms and food processing and to take advantage of the opportunities arising from implementation of the Agreement Establishing the African Continental Free Trade Area and the continent's rising urban demand for food. Because of the large number of small cities in Africa, many countries will struggle to provide comprehensive national support. Capacity-building support and adequate funding of subnational (regional, district and local) governments could help bridge that gap. Targeting small cities with high trade potential for expanded support in tradable sectors, including through corridor programmes, will also be important. In the longer term, coordinated action by multiple countries can help connect small towns to emerging regional value chains.

**Recommendation 4: Support the role of mid-sized cities in labour-intensive manufacturing**

Regional trade integration is likely to create new opportunities for expanded production in mid-sized and secondary cities, a much-needed development that will require policy support. Spatial analysis suggests that regional integration will support faster population growth in mid-sized and secondary cities compared to large and prime cities, and the creation of the African Continental Free Trade Area is expected to boost the exports of light manufacturing and agro-industries, sectors that benefit from locating in high-quality mid-sized and secondary cities. Those cities offer the benefits of same-sector clustering (localization economies) without the costs associated with overcrowding, a significant challenge in very large cities. A lack of non-prime mid-sized manufacturing cities in Africa, dubbed the "missing middle" phenomenon, is a barrier to industrialization, and African countries should therefore take well-targeted and concerted policy actions to integrate mid-sized cities into regional manufacturing value chains.

**Recommendation 5: Scale up support to large cities to realize their economic potential, especially those that are poised to become regional trade hubs**

Large cities will continue to drive productive economic activity and the emerging tradable services sector. Some will become strengthened as regional trade hubs, especially in the longer term. However, their competitiveness is at risk without adequate investment. Policy interventions are needed to ensure that the needs of specific high-opportunity tradable sectors are met. To capitalize on trade and economic development opportunities in large cities, African economies should invest more, and not less, in large cities.

## Connect cities with the opportunities of trade

African cities are poised to become productive hubs of increasing intraregional trade, but this will not be automatic. Cities need policy support, and this includes not solely investments in cities themselves, but also investments to link cities via quality transport and logistics networks to ports, rural production areas and, in some cases, to special economic zones.

### **Recommendation 6: Connect urban-based exporters and consumers with rural producers**

Urban-rural linkages underpin some of the value chains with greatest potential for intraregional trade. Urban-rural linkages go beyond farm-to-market roads and include policy support for supplier quality and skills, purchase agreements concluded by farmers, processors and large retailers, and the development of key components in the food value chain, including road transport, wholesale, warehousing, cold storage and first and second stage processing. Farmers benefit from access to urban markets, even when those markets are across a national border, and the potential of that dynamic is likely to increase as implementation of the Agreement Establishing the African Continental Free Trade Area reduces the barriers associated with cross-border trade. Urban-rural value chain development can be a successful component of corridor programmes, as has been shown in the Greater Mekong Subregion, with benefits for farmers and agricultural trade. Trade policies must be aligned with agricultural and agro-industry sector policies. They must, moreover, be spatially targeted so that they support specific connections among locations associated with agricultural production, urban agro-industry and trade.

### **Recommendation 7: Strengthen the connections between special economic zones and cities**

Special economic zones can be used as a mechanism to meet the needs of exporters located within a limited geographical area that is easier to upgrade than an entire city. Regional trade integration is expanding market opportunities associated with those zones. They must, however, be established and managed not as enclaves but rather as part of urban systems, drawing upon the productive advantages of agglomeration and catalyzing broader economic upgrading through knowledge spillovers and forward and backward linkages. That will require deliberate efforts to connect urban suppliers, including small and medium-sized enterprises, and labour markets with the activities conducted within special economic zones. This can be achieved through the implementation of policies on connectivity (both in terms of proximity and transport) and on the provision of support to urban firms and workers to promote skills upgrading, access to finance, and the sharing of information regarding zone-related market and employment opportunities.

### **Recommendation 8: Expand the focus of transnational corridor programmes to cities and urban activities**

At the regional and subregional levels, transnational corridor development projects present opportunities for multinational, multisectoral and spatial coordination aimed at boosting regional trade and regional value chains. Transnational corridor programmes are an excellent tool for the implementation of the Agreement Establishing the African Continental Free Trade Area. They have often been prioritized on the basis of agricultural and mining exports and have untapped potential for targeting intraregional trade among cities in manufactured goods and services. Corridor programmes should not only facilitate trade and strengthen transport networks, but should also strengthen the production and consumption hubs that they connect.

### **Recommendation 9: Provide populations in isolated or marginalized areas with job and human development opportunities**

Increased regional trade may exacerbate spatial disparities within countries, a key challenge for policymakers. Income equalization among subnational regions is often difficult to achieve, and attempts to achieve it may undermine growth. Investments in locations with existing trade advantages are more likely to succeed and crowd in private investment. Public infrastructure investments in marginalized areas are likely to attract few traded sector private investors, and are likely to pose an economic efficiency–equity trade-off. At the same time, investment in a combination of digital and physical connectivity could promote functional specialization and the decentralization of economic activities, from which some smaller cities and marginalized regions may benefit.

An ideal policy mix therefore involves promoting growth in productive agglomerations while also pursuing wider investment in social services and human capital and removing barriers to factor mobility and the smooth functioning of the labour market. Increased labour mobility has a beneficial impact on productivity and enables a broader segment of the population to benefit. This is the case even as economic activity becomes increasingly concentrated, as workers can migrate to jobs in economically successful areas and send remittances and transfer knowledge to their home communities.

Governments also need to monitor the distributional impact of trade across space and between skill, social and demographic groups, and design appropriate regional development and safety net programmes. Investments to reduce poverty and expand human development are critical, even in locations that will never become competitive locations for tradable sector growth. Locations that do not benefit significantly from trade integration can be compensated through national policies. If countries are able to achieve the GDP gains expected to stem from implementation of the Agreement Establishing the African Continental Free Trade Area, estimated at between \$28 billion and \$44 billion by 2040, some of these gains should be used to subsidize key poverty reduction policies.

## **Support decision-making with disaggregated data**

In order to bring a spatial lens to trade and sector policies, spatially disaggregated data are needed, including economic data on various economic activities and sectors within subnational and urban geographies. At the same time, spatially disaggregated data that are also disaggregated by gender are needed for gender-responsive policymaking. Some national statistical offices, including those in Ethiopia and South Africa, are already making those data publicly available, but many African Governments either do not compile or do not make public economic or gender-disaggregated data at the subnational and urban levels.

### **Recommendation 10: Align trade policies with sectoral and spatial policies through the generation and use of spatially- and gender-disaggregated economic data**

Disaggregated data are particularly important for aligning economic sector and spatial policies with trade opportunities and the needs of areas enjoying a comparative advantage. The coordination of industrial and key complementary measures is also required if trade policies are to be successful. The opportunities created by regional trade are sector-specific: within each sector, both production and markets are location-based, requiring the spatial coordination of multiple policy interventions. Too often, economic policies in Africa have lacked a spatial component, and institutional silos have given rise to coordination failures.

Importantly, inclusive implementation of the Agreement Establishing the African Continental Free Trade Area must be carried out in a gender-sensitive manner and with particular attention given to the needs of the informal sector. Women made up a larger share of the workforce in certain economic sectors than in others, and thus barriers and their disproportionate impact on women should be carefully considered to ensure that policies are both inclusive and effective. A large share of cross-border trade is informal, and the majority of informal traders are women. At the same time, the urban production of regionally-traded goods is likely to have an impact on gender parity in employment, wages, and value chains, including in African countries' large urban informal sectors. Policy attention to those areas should begin by addressing data gaps on informal activities, promoting the generation of gender-disaggregated statistics, and giving women and informal operators a voice in policy formulation.

## Policy entry points

The above policy recommendations are grounded in a number of global and regional frameworks, including the Sustainable Development Goals, the New Urban Agenda, and Agenda 2063: The Africa We Want, of the African Union. An overview of those frameworks is provided in box 15. The recommendations should be conceived and implemented at various levels of governance and scale and should build on existing national and regional policy platforms. Rather than creating yet another agency or policy, countries can strengthen and more effectively coordinate existing sector, trade and spatial policies and investments through a dedicated coordination mechanism. That mechanism could, for example, be conceived as a one-off policy process to bring relevant agencies together and align and coordinate the formulation and implementation of urban, sectoral, spatial and trade policies, or as an intersectoral working group that meets on a regular basis. A number of policy entry points could be adopted in order to address the nexus of regional trade and the economic role of cities. Those policy entry points are outlined in table 6.

### Box 15 Global and regional frameworks supporting the role of cities and intraregional trade in development

The Sustainable Development Goals provide an overarching framework with broad policy targets that should be contextualized and localized through both national and city-level policies. Many of the Goals have a strong link to the policy topics discussed in the present report in that they emphasize the need to expand the reach of infrastructure (Goals 6, 7 and 9), economic growth, diversification and productive employment (Goal 8), industrialization (Goal 9), and sustainable urbanization (Goal 11).

The New Urban Agenda emphasizes the need to embrace sustainable urbanization in order to develop cities that truly address the needs of their residents. The core principles of the New Urban Agenda lay the groundwork for productive cities that can attract and create decent jobs in traded sectors.

Agenda 2063: The Africa We Want emphasizes African unity as a means to achieve inclusive and sustainable economic growth and development. The establishment of African Continental Free Trade Area is an integral part of the Agenda's first ten-year implementation plan, for the period 2013–2023. Agenda 2063 calls for investment in areas central to the nexus of regional trade and urbanization, including agricultural and commodity value addition and manufacturing-based industrialization.

National development plans, which many African countries have formulated in recent years with a view to outlining long-term visions for industrialization and structural transformation, provide an entry point for coordinating urban, spatial, trade and sectoral policies. National development planning is an apt tool for holistically considering policy actions on cities and regional trade, addressing issues of urbanization and regional integration together within the context of a single development-focused policy framework.

Some countries have drawn up national development plans in tandem with spatial development frameworks in order to provide a spatial lens to their national development policies. Spatial development frameworks are particularly well-suited to addressing the links between cities and regional trade. They

should be updated to address the spatial implications of regional trade opportunities and to target cities and urban geographies with strong growth potential, with different population sizes and with different economic roles. At the same time, social safety net policies will be critical for supporting people and localities that fail to reap the benefits stemming from increased regional trade.

Strategies to accelerate implementation of the Agreement Establishing the African Continental Free Trade Area, at both the national and subregional levels, are central to the ultimate success of the Area, and can be targeted to exploit opportunities associated with increasing urbanization. By adding an urban and spatial frame of reference to those strategies, they can be even more powerful as development tools.

Effective industrial, agricultural and targeted traded sector policies are needed to complement implementation of the Agreement by fostering enabling conditions for trade in those sectors. Exporters often benefit from the agglomeration economies of cities through urban production or urban-rural value chains and it is therefore useful to align policies on specific sectors with policies on trade and cities.

National infrastructure plans, including plans regarding transport, energy, and digital infrastructure will be fundamental in ensuring that cities can contribute to and participate in the opportunities arising from regional trade. Education and training policies will be just as critical for both traded sector firm productivity and worker participation in regional value chains. In the light of the growing role played by technology in economic activity and the growing importance of technical skills in a wide range of economic sectors, including e-commerce, agriculture, health and education, it is crucial to promote vocational education and training, including in the so-called STEM subjects, namely science, technology, engineering and mathematics.

National urban policies, which are given particular prominence in the New Urban Agenda, should be updated to reflect the potential and needs of regionally-traded sectors with a view to fostering a productive urban business environment. National urban policies can strengthen national mechanisms in support of sustainable urban expansion that maximizes the benefits of agglomeration economies for traded sector firms. The urban regulatory environment will also play a critical role in the economic sustainability of expanding urban areas and development initiatives.

Local economic development plans are another tool that can be used by subnational governments to take advantage of the opportunities stemming from the creation of the African Continental Free Trade Area. Plans should be formulated with a view to providing targeted support to sectors and value chains with strong export potential and supporting the consumption of regional goods by local populations. Countries should also strengthen the mandates of subnational authorities in the area of economic development and provide them with adequate financial and capacity-building support.

Policies at the subregional level, implemented by the continent's regional economic communities and corridor management agencies will prove critical in the years ahead, particularly in the context of the African Continental Free Trade Area, and can provide an operational platform for action that transcends country borders, including in areas such as the removal of non-tariff barriers and or the promotion of cross-border trade. In addition to promoting trade liberalization, African regional economic communities can play an important role in enhancing the underlying productive and supply capacities of participating countries through regional infrastructure investment programmes. Regional programmes on trade facilitation or corridor development should focus, in particular, on the trade corridor or border town infrastructure gaps that undermine the overall effectiveness of regional trade networks.

National and subnational budgeting and expenditure plans are of high and cross-cutting importance to all recommendations and policy processes. Without adequate, strategically-prioritized and efficient

funding, plans and policies will fail. It will therefore be of fundamental importance to align budgetary priorities with overarching national development priorities, with particular attention given to the nexus of cities and regional trade.

**Table 6** Report questions, main messages, policy recommendations and policy entry points

Section II: The bidirectional links between regional trade and urban consumption	Questions	Main messages	Policy recommendations	Policy entry points
	How does urbanization affect the consumption of regional imports and where are the opportunities associated with urban consumption likely to occur?	African countries with the fastest consumer market growth are those countries that are rapidly urbanizing while growing in terms of their population and GDP.	Recommendation 1: Align national strategies to promote implementation of the Agreement Establishing the African Continental Free Trade Area with urban consumption and production opportunities.	Strategies for the implementation of the Agreement Establishing the African Continental Free Trade Area and other trade policies
	In which sectors are the opportunities associated with urban consumption concentrated in Africa?	Urbanization generates strong demand for a variety of goods in sectors where regional trade is likely to be competitive, such as processed food and cement, and in the services sector, which offers a range of long-term opportunities.	Recommendation 1: Align national strategies to promote implementation of the Agreement Establishing the African Continental Free Trade Area with urban consumption and production opportunities.	Strategies for the implementation of the Agreement Establishing the African Continental Free Trade Area and other trade policies
	How does the consumption of regional imports affect urbanization?	Imports can contribute to urbanization within importing countries, even without an increase in their share of urban-based exports. In general, in resource-rich countries, imports accelerate urbanization, while in economically-diversifying countries, rising and urbanizing incomes drive imports. However, even in the former, when there is a shift toward intraregional imports, consumer welfare improves, including in consumption cities.	Overarching recommendation: Connect cities with the opportunities of trade.  Increased access to regional imports will benefit urban populations.	Strategies for the implementation of the Agreement Establishing the African Continental Free Trade Area and other trade policies; national development plans; national urban policies; national infrastructure plans
	How will e-commerce affect urban consumption?	E-commerce expands market access, including for tradable services, particularly in urbanized middle-income economies with reliable digital infrastructure. Emerging evidence suggests that this can contribute to narrowing disparities in consumer market access among large and small cities, with long term implications for the attractiveness of smaller cities.	Recommendation 2: Fast track digital trade and e-commerce initiatives within the context of efforts to implement the Agreement Establishing the African Continental Free Trade Area, and improve national regulatory frameworks and digital infrastructure to foster the development of e-commerce.	Strategies for the implementation of the Agreement Establishing the African Continental Free Trade Area; national infrastructure plans

Section III: Regional trade integration shapes economic geography	Questions	Main messages	Policy recommendations	Policy entry points
	<p>How will the size distribution of African cities change in response to increased intraregional trade, and which type of cities will grow in terms of their share of a country's population and production?</p> <p>Which cities will become major hubs for intraregional trade and regional value chains?</p>	<p>Small, secondary and mid-sized cities are poised to increase their share of the urban population of countries due to a combination of current trends, manufacturing export growth and the emerging role of small and mid-sized cities within subregional economic systems. Large subregional and regional hubs will, however, likely emerge in cities in countries currently leading regional trade, including in Côte d'Ivoire, Egypt, Kenya, Morocco, Nigeria and South Africa, and possibly in Cameroon, Ethiopia and Senegal.</p>	<p>Recommendation 3: Integrate small cities into regional value chains, particularly in the agricultural and processed food sectors;</p> <p>Recommendation 4: Support the role of mid-sized cities in labour-intensive manufacturing;</p> <p>Recommendation 5: Scale up support to large cities to realize their economic potential, especially those that are poised to become regional trade hubs.</p>	<p>National development plans; national urban policies; spatial development frameworks; local economic development; industrial and other sectoral policies; education and training policies; urban regulatory frameworks; national infrastructure plans.</p>
	<p>How will increasing intraregional trade affect spatial equity among and within countries?</p>	<p>Increasing intraregional trade will benefit both industrialized and least developed countries. Within countries, trade benefits will be spatially concentrated rather than dispersed, and marginalized regions will need support in order to mitigate socioeconomic disparities.</p>	<p>Recommendation 9: Provide populations in isolated or marginalized areas with job and human development opportunities.</p>	<p>Social safety net policies; education and training policies; spatial development frameworks; local economic development.</p>

Section IV: Urban geography influences participation in regional trade and regional value chains	Questions	Main messages	Policy recommendations	Policy entry points
	What impact do cities have on the participation of rural areas in regional value chains?	Cities and towns, through their role in logistics, processing, value addition and consumption foster connections with regional markets that enable farmers to intensify production and transition out of subsistence.	Recommendation 6: Connect urban-based exporters and consumers with rural producers.	Agricultural and other sectoral policies; national infrastructure policies; spatial development frameworks.
	How can special economic zones support the role of cities in regional value chains?	Special economic zones are tools for boosting intraregional exports that can simultaneously achieve three objectives under the right conditions: (a) leverage the productive potential of cities; (b) help overcome deficits in the urban business environment within a limited geographic area, and (c) meet the specific needs of exporters. Special economic zones must, however, be well connected to cities.	Recommendation 7: Strengthen the connections between special economic zones and cities.	Industrial policies; national urban policies; spatial development frameworks; local economic development.
	How can trade corridors support the role of cities in regional value chains?	There is considerable untapped potential for using corridor development programmes to strengthen regional trade connections among African cities. Efforts in that regard should go beyond transportation infrastructure and include logistics, trade facilitation and urban improvement programmes, with particular support extended to key economic sectors.	Recommendation 8: Expand the focus of transnational corridor programmes to cities and urban activities.	Regional economic community and corridor management agency policies; spatial development frameworks; industrial and other sectoral policies; national infrastructure policies; local economic development.

## Next steps

The regional trade opportunities stemming from growing urban consumption, the spatial impact of regional trade, and the spatial requirements of regionally-traded sectors will all differ by country. There is therefore a need to align the recommendations made in the present report with national circumstances and the process of translating the above recommendations into actionable policies should begin with assessments of the particular trade contexts of individual Africa countries. A companion volume to this report, entitled “Cities: gateways for economic integration in Africa – a policy toolkit”, provides guidance on assessing regional trade opportunities with relevance for urban consumption and production, locating those opportunities in a spatial context, and identifying key challenges to be addressed and the prerequisites for a spatially-grounded and cross-sectoral planning framework. That process comprises three stages:

- **Diagnostics stage.** The toolkit provides a methodology and guidance on data sources that can be used to identify opportunities to (a) increase urban consumption of regional imports, and (b) increase urban production of regional exports. Within each of these two areas, key questions revolve around the identification of high-opportunity economic sectors, the geographic

locations and connections for those sectors, and major sector-specific and location-specific barriers that need to be addressed. The majority of referenced data is from secondary sources and freely available;

- Stakeholders' workshop. The recommended workshop is designed to facilitate decision-making on sectoral, spatial, policy and investment priorities. The key issues covered in the workshop are strategy prioritization, with activities based on information obtained during the diagnostics stage, and action planning;
- Implementation stage: This stage takes action planning to a deeper level through programming, project formulation and the implementation of a monitoring and evaluation system. Implementation will be highly contextual and based on prior decisions rather than on any pre-established criteria.

ECA is providing guidance on the development of national and regional strategies to promote implementation of the Agreement Establishing the African Continental Free Trade Area, including on the identification of key opportunities for and constraints on value addition and trade (ECA, 2020). For countries that have not yet developed national implementation strategies, the process outlined in the policy toolkit can proceed in parallel to and in conjunction with the development of their implementation strategies. In countries that have already developed implementation strategies, the urban and spatial dimension is a logical next layer of analysis and policy alignment. ECA can provide technical assistance to States to facilitate their efforts to launch or conduct the process outlined in the toolkit with a view to implementing the recommendations set out in the present report.

## Strengthening the policy agenda by expanding the evidence base

In the light of the preceding analysis, several areas for future research are apparent.<sup>29</sup> One major area is further country-specific and city-specific analysis of the impact of and opportunities stemming from regional trade integration. Much of the data presented above can and should be examined in depth in order to contextualize the overarching findings and policy recommendations presented in this report. This is particularly important for assessing the actions that must be taken to capitalize the opportunities stemming from implementation of the Agreement in job-rich and transformative sectors. Overall, many of the constraints on production are clear, including those curtailing the potential of African cities. But for specific sectors and value chains, and in specific cities, priorities differ.

Another area for future research regards the regional and bilateral opportunities for expanding trade in services. The services sector will undoubtedly expand in almost all African countries, but repercussions for the broader economy have yet to be fully assessed. There are still only limited data on the trade in services, and while intraregional opportunities undoubtedly exist, improved data and analysis would provide a clearer picture and more actionable findings.

E-commerce offers significant potential, but its growth is constrained by multiple barriers, including those related to connectivity, payment systems, logistics and regulatory frameworks. The COVID-19 pandemic and the launch of the African Continental Free Trade Area will no doubt stimulate research and policy debate on the topic. There is, in fact, an increasing volume of work focusing on the growing appetite for e-commerce (the demand side), and on the barriers limiting growth (the supply side), but few analyses are truly data driven or country specific. Besides investigating in detail the demand and

29 Although some research has been conducted in all the areas mentioned here, much of it recent and cutting edge, there are still opportunities to deepen its specificity, widen its coverage and increase its applicability.

supply sides of e-commerce at the country level, two issues are important for future research: firstly, who are the winners and losers in e-commerce? In that regard, particular attention should be given to the situation of retail traders, the jobs in retail that may be destroyed, and the new supply chain, logistics and last-mile delivery system jobs that may be created in the long term, and; secondly, how much can consumers and small businesses outside large urban areas benefit from e-commerce, and what will it take to ensure that those potential benefits are truly realized?

Informal trade and production also present significant data challenges, and a large share of trade is not recorded in official statistics due to its informal nature. Informal trade remains vital, however, for the livelihoods and economic prosperity of a vast number of Africans. Underestimates in the data on small and medium-sized enterprises and on women, who comprise a large share of informal traders, means that they are unlikely to be given adequate attention by researchers and policymakers. Insufficient focus on the situation of small and medium-sized enterprises and women traders means, on one hand, that trade benefits stemming from informal trade are likely to be underestimated, and on the other hand, that policy measures targeting the informal sector, whether through formalization, trade facilitation measures or other means, may fall short of what is required. Deepening understanding of the nature and needs of the informal sector should therefore be made a research priority.

More research on special economic zones and trade corridors in Africa is also needed. In particular, the role of special economic zones in intraregional trade is a critical area of needed research. There are also significant research and data gaps with regard to transnational corridor programmes, including, in particular, the role played in those corridors by African cities. There is not even an agreed-upon list of transnational corridor programmes in Africa nor any compilation of their official geography beyond what is presented in this report. A more thorough study of corridor programmes, assessing the progress and effectiveness of each, would contribute greatly to the field.

Lastly, more comprehensive and up-to-date information on regional infrastructure, including the locations, infrastructure quality and travel times associated with transport linkages across the continent is needed. Data in that regard are often fragmented by country or outdated, presenting a hurdle to strategic policymaking aimed at improving intraregional transport linkages.

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# ANNEX

## Glossary of terms

**Agreement Establishing the African Continental Free Trade Area:** this landmark treaty was signed in March 2018 by representatives of 44 African Governments. Currently, 54 of the 55 African Union member States have signed the Agreement, and 36 have ratified it. The Agreement provides for the removal of tariffs on 90 per cent of regionally traded goods by 2025, with an additional 7 per cent of goods deemed to be sensitive seeing tariffs reduced over a period of between 10 and 13 years. A small group of “G6” countries will undergo slower tariff reduction over 15 years (African Union and ECA, 2020). The Agreement also includes annexes on customs procedures, trade facilitation measures and reducing non-tariff barriers. Services are slated for the second phase of negotiations on the modalities of the Free Trade Area.

**Agglomeration economies:** this is an umbrella term for a variety of economic advantages arising from clustering in a specific location. The result is that “workers are more productive on average in large cities than in small cities, and in small cities than in rural areas,” (Duranton, 2014). Agglomeration economies arise through several mechanisms, including:

- Specialization in the production of intermediate products;
- More options, leading to better matches between workers and skills requirements and between inputs and production requirements;
- Education, knowledge and mimicking, including for example the diffusion of ideas among workers and among firms (Quigley, 2008);
- Pure agglomeration, namely spreading the fixed costs of infrastructure over a larger number of taxpayers (Harvey, 2009).

Clustering allows for collective action to reduce barriers related to infrastructure and the regulatory environment (McCormick, 1999). Venables (2019) describes agglomeration economies as “generated by close and intense economic interaction and have the effect of raising productivity in affected areas and activities. [Agglomeration economies] arise through several different mechanisms. Thick labour markets enable better matching of workers to firms’ skill requirements. Better communication between firms and their customers and suppliers enables knowledge spillovers, better product design, and timely production. A larger local market enables development of a larger network or more specialized suppliers. Fundamentally, larger and denser markets allow for both scale and specialization.” (See related terms: localization economies, urbanization economies, diseconomies of agglomeration).

**City:** an urban agglomeration defined by the clustering of population and economic activities. Cities may be administratively defined by municipal boundaries. Functionally, however, cities often exist at a scale beyond municipal boundaries. A full urban, suburban and peri-urban agglomeration may be referred to as a metropolitan area, with functional boundaries defined by a single labour market (ECA, 2018).

**Consumption city:** an urban agglomeration that has emerged in part due to natural resource rents and the availability of imported goods rather than growth in productive urban-based economic sectors. Such cities typically have high inequality and informality and a high cost of living.

**Diseconomies of agglomeration:** the costs arising as cities become larger, including higher prices, overcrowding, congestion and crime. (See related term: agglomeration economies).

**Dutch disease:** a phenomenon whereby the growth of an extractive or other natural resource-based industry crowds out other tradable sectors of the economy due in part to the impact of that industry on currency exchange rates. Foreign exchange inflows from commodities leads to a rising currency value, thus undermining the competitiveness of other tradable sectors. The term was initially coined in reference to the discovery of natural gas by the Netherlands in 1959 and the resulting real exchange rate appreciation that adversely affected Dutch manufacturing (Corden, 1984).

**E-commerce:** according to the World Trade Organization (WTO), e-commerce involves the “production, distribution, marketing, sale or delivery of goods and services by electronic means” (WTO, 1998). An OECD report on the subject emphasizes the ordering process, which is defined as “the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders” (OECD, 2019b). E-commerce takes place between businesses (B2B), between consumers (C2C) and between businesses and consumers (B2C). Digital trade is a related concept that emphasizes data as the lifeblood of e-commerce and encompasses both digitally- and physically-delivered goods and services (OECD, 2019a).

**Economic geography:** according to a definition developed by the Geography Department at the University of Florida, the term economic geography refers to the spatial variation of economic activities, namely production, consumption, and exchange, with an emphasis placed on resource endowments, international trade and commerce, population growth, settlements, development, interaction and interdependencies, and regional supply and demand. Urban economic geography refers to specific spatial patterns of economic activities among and within cities, including the distribution and function of cities in a country or region. (See also: human geography; urban geography).

**Extraregional trade:** trade with countries outside the region (in this case, Africa), i.e. exports from Africa to countries outside Africa, and imports to Africa from countries outside the region.

**Gateway city:** a major urban hub or large agglomeration that plays a key role in the export of regionally-produced goods and services to the global market.

**Global value chain:** this term refers to the organization of production into different segments and activities, and their dispersion in different locations. The significant reduction in transport and communications costs and the expansion of global markets in recent years has enabled firms to disperse different segments of their activities, including design, production, marketing and distribution. This allows firms to offshore and outsource production activities around the world, exploiting differences in factor prices, endowments and locational advantages. By incorporating different cities and countries into a web of production and vertical specialization, multinational firms are well-positioned to exploit economies of scale. (See related term: regional value chain)

**Home market effect:** the idea that countries or cities with a large domestic market for particular goods will be attractive to exporters due to economies of scale and potential reductions in transport costs. The home market effect is a key tenet of new trade theory and new economic geography, and key to understanding exporter location decisions. Economies of scale spur a firm to concentrate production of any one product in a single location; given this incentive to concentrate, transport costs are minimized by choosing a location close to the largest market, and this location then exports to other markets. The concept is also central to trade in differentiated goods, where countries specialize in order to take

advantage of the presence of demand for heterogeneous and high-quality products, a phenomenon particularly characterizing trade between rich economies (Krugman, 2009).

**Hub:** a large city with a dominant share of export production.

**Human geography:** the spatial arrangement of people and their relationships with each other. Human geography is a broad topic that includes urban geography and economic geography.

**Industrialization:** the shift to manufacturing as the locomotive of the economy. Industrialization also refers to the use of mechanical, chemical and electrical sciences and technological applications to organize production, increase productivity and improve social and urban services, such as in health, education and transport, leading to higher levels of productivity, rising living standards, population growth and urbanization (O'Brien, 2001). According to Kuznets (1973), the reallocation of resources typically begins with a shift from agriculture to industry, and then continues with a reallocation of resources from agriculture and industry to services. Industrialization is one of the main characteristics of modern economic growth, which also includes high per capita growth rates, a rise in productivity, urbanization and the increased power of technology, particularly in transport and communications. The sustained productivity growth experienced by European States and the United States of America, the subsequent division of nations into the rich and poor world, and the catching up or convergence achieved by a number of countries, including Japan, Korea and Taiwan, is attributed to industrialization (Rodrik, 2015).

**Informal trade:** trade occurring in the absence of legal or social safeguards outside institutional processes and legal approval mechanisms.

**Intraregional trade:** trade within a single region. For African countries, intraregional trade refers to goods and services exported from one African country and imported by another African country.

**Large cities:** there is no broadly accepted definition of cities by size classification. For the purposes of this report, large cities are those with more than 1 million inhabitants. (See related terms: small cities, mid-sized cities, and prime cities).

**Localization economies:** the component of agglomeration economies arising from the clustering of firms within the same economic sector. Localization economies tend to be important in the manufacturing sector and can support economies of scale and the sharing and matching of inputs, including labour.

**Logistics:** all processes involved in the movement of goods from one location to another, including goods acquisition, transportation, storage, trade and customs procedures, tracking and delivery. Both public sector factors, such as customs procedures and transport infrastructure, and private sector factors, such as the efficiency of freight companies, have an impact on logistics. The World Bank Logistics Performance Index incorporates indicators that measure the quality of customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness.

**Mid-sized cities:** there is no broadly accepted definition of cities by size classification. For the purposes of this report, mid-sized cities are those with between 300,000 and 1 million inhabitants. In some cases, and where this is specifically noted, cities of up to 2 million inhabitants are considered to be mid-sized as their performance is similar to that of other cities in the mid-sized category. (See related terms: small cities and large cities)

**Modern services:** these includes telecommunications, information technology, construction, finance and insurance, and business services. Modern services do not include services provided in the travel and transport sectors, which are considered traditional services, nor government services supplied to embassies, diplomats and military personnel (Visagie and Turok, 2019).

**Non-tariff barriers:** these include regulatory and procedural barriers to trade and comprise protectionist policies and measures designed to impede foreign trade, such as prohibitions, quotas, licences and discriminatory taxes. Restrictive customs procedures can also function as non-tariff barriers, as can the unjustified and/or the improper application of sanitary and phytosanitary measures and other technical barriers to trade. In annex 5 of the Agreement Establishing the African Continental Free Trade Area, non-tariff barriers are defined as: “a) government participation in trade and restrictive practices tolerated by governments; (b) customs and administrative entry procedures; (c) technical barriers to trade; (d) sanitary and phytosanitary measures; (e) specific limitations; and (f) charges on imports”.

**Primacy:** the percentage of a country’s urban population living in its largest city. Primacy tends to be higher in African countries than in countries in other global regions, in part due to the fragmentation of the region into many small countries. Primacy can dampen economic growth if infrastructure and services in the largest city does not keep pace with population growth.

**Prime city:** the largest city in a given country. Prime cities are often large cities, but may in some cases be mid-sized or even small cities, especially in countries with very small urban populations. (See related terms: secondary cities, small cities, mid-sized cities, and large cities).

**Productivity:** a measure of the amount of output generated, compared with inputs such as labour, capital and land. Productivity is a central component of economic growth and GDP. Labour productivity, the amount of output per worker or per hour worked, is the basis for wages and in part determines (along with income distribution) whether or not the working population will be rich or poor. Productivity can also describe a set of conditions that enable firms to be productive. For example, a productive city reduces costs to firms such as those associated with transportation and energy, while providing an environment in which markets function efficiently and innovative ideas are shared. The result is that firms located in a productive city can produce more output at lower cost than firms in cities that are less productive (ECA, 2018).

**Regional integration:** the degree of connectedness among economies within a region, and the absence of barriers to trade and movement. The Africa Regional Integration Index<sup>30</sup> measures regional integration in five categories. Trade integration refers to the amount and ease of trade with other countries in the region. Productive integration refers to the connectedness of regional value chains and the regional sourcing of inputs for goods and services. Macroeconomic integration refers to the free movement and convertibility of capital among economies in the region. Infrastructural integration refers to connections by road, air, water and digital communication. Free movement of people refers to the absence of restrictions on travellers, workers and students moving among countries in the region.

**Regional value chain:** a global value chain with production occurring in various countries in a single region (in this case, Africa). Final goods or services may be exported either within the region or globally. (See related term: global value chain).

30 The Index is available at: [www.integrate-africa.org](http://www.integrate-africa.org).

**Resource-rich countries:** countries for which a significant share of income is derived from natural resources. For the purposes of this report, resource-rich countries are countries with natural resource rents, such as oil rents, natural gas rents, coal rents (both hard and soft), mineral rents, or forest rents, that generate more than 10 per cent of GDP.

**Secondary cities:** relatively large cities in a given country that are smaller than that country's prime city. (See related term: prime city).

**Small cities:** there is no broadly accepted definition of cities by size classification. For the purposes of this report, small cities are cities with fewer than 300,000 inhabitants. (See related terms: mid-sized cities and large cities).

**Spatial development initiative:** an investment strategy aimed at achieving growth in a specific spatial location, likely to be comprised of multiple mutually-reinforcing development projects, including those aimed at specific economic sectors or linkages (Hope and Cox, 2015). Special economic zones and corridor projects are both spatial development initiatives. (See related terms: special economic zone and transnational corridors).

**Special economic zone:** an umbrella term covering export processing areas, free trade areas, industrial zones, multi-facility economic zones or any location designated by the government to benefit from special policies designed to attract target firms and private investment (ECA, 2018).

**Structural transformation:** this process accompanies the process of economic growth and is characterized by (a) a declining share of agriculture in the economy; (b) a rising share of urban-based activities, namely, industrial and services sector activity; (c) an increasing share of the population living in urban areas as a result of increased rural-to-urban migration and (d) demographic transition from high fertility and high mortality rates to low fertility and low mortality rates. The movement of labour out of agriculture and into industry and the services sector, or what is narrowly defined as structural change, signifies not only a composition change of outputs in the economy, but also a rise in productivity and income, and hence the well-being of society at large. Simon Kuznets (1971) identified sectoral change from agriculture to industry and services as one of the six features of modern economic growth and underscored that it involves social and institutional changes, such as the occupational status of labour and the structure of consumption and firms (ECA, 2018).

**Tradable:** refers to goods and services that can be sold across borders. Tradable sectors can tap into demand outside the local economy and therefore have the potential to contribute significantly to economic growth. Tradable sectors are also more likely than other sectors to have a level of productivity that converges with levels in other countries, and higher productivity contributes to economic growth and higher wages.

**Transnational corridors:** the combination of transportation networks and the centres of economic activity that they connect, when those economic centres and networks span across more than one country. Transnational corridors can be linear but can also take the form of tree-shaped or hub-and-spokes networks (Gálvez Nogales and Weber, 2017).

**Urban geography:** The spatial arrangement of cities and urban activity, including the locations, sizes, spatial characteristics (density) and functions of cities, and their relationship to each other in space. (See also: economic geography and human geography).

**Urbanization:** the percentage of the national population living in cities or, alternatively, the process by which that percentage increases (ECA, 2018).

**Urbanization economies:** the component of agglomeration economies arising from clustering of firms in a diverse array of sectors. Urbanization economies are more prevalent in large cities and can facilitate innovation, the emergence of new firms, and the reallocation of capital through the process of firm birth and death. (See related terms: agglomeration economies and localization economies).

**Welfare effect:** trade affects households through wage income and consumption. Sectors benefiting from economies of scale tend to expand, resulting in increased wage income. Sectors may also benefit from cheaper or more differentiated imports, which, as intermediate inputs, lead to reduced production costs of domestic products, or, as consumer goods, result in increased spending capacity and household consumption. The overall welfare effect of trade depends on the direction and magnitude of both consumption and income effects (Marchand, 2017). Regional trade agreements, by reducing tariff and non-tariff barriers, (and provided the effects of trade diversion are not larger than trade creation) offer welfare gains to consumers and producers of participating countries, although the distribution of those gains may be uneven.

**Zipf's Law:** A common statistical distribution arising from processes characterized by some degree of randomness. Zipf's Law has, inter alia, been observed by some researchers to apply to the size distribution of cities within a given country or integrated region. According to Zipf's Law, a city's size and its corresponding rank in the city size distribution follow a rank-size rule, whereby the second largest city is half the size of the largest city, the third largest city is one third of the size of the largest city and so forth. This rule does not explain why a certain city size distribution behaves the way it does, but, in general, tends to reflect patterns and trends of urban systems in many countries, particularly developed economies with mature systems of cities. The application of Zipf's Law in developing countries is ambiguous or mixed, with some studies confirming the validity of Zipf's Law while others failing to do so. Nonetheless, Zipf's Law offers a benchmark or reference point and can provide distinct insights into the changes in population distribution among cities (Bajracharya and Sultana, 2020).