

Digitization and e-commerce as potential enablers of structural transformation in Africa



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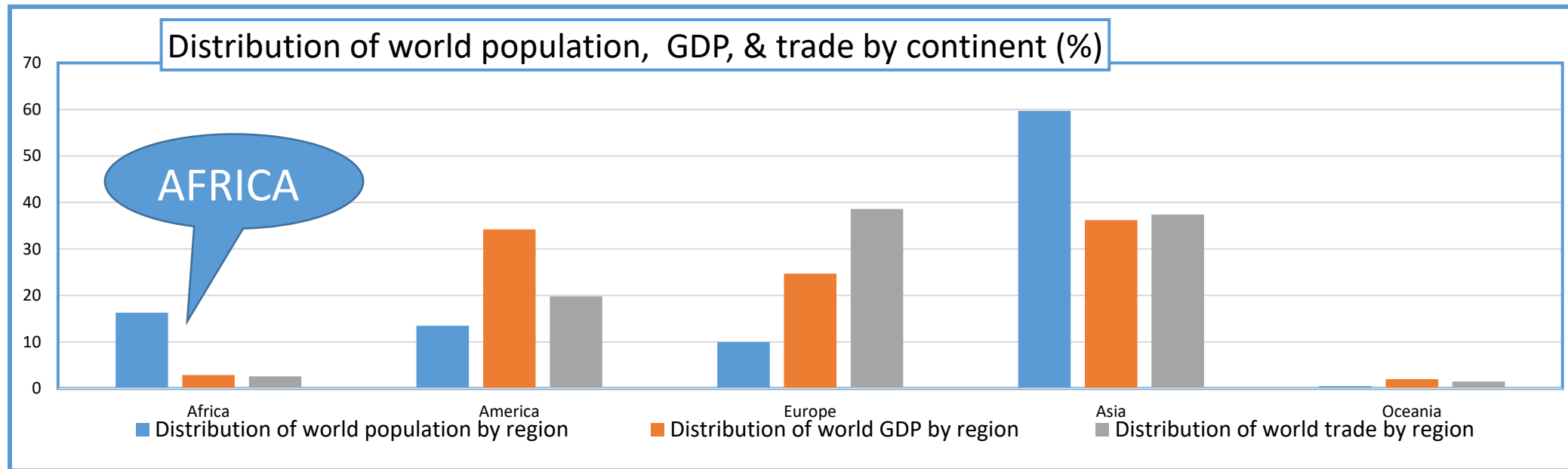
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Some stylized facts on trade and structural transformation in Africa



- Trade is an engine of development and transformation – Africa lags behind
 - Countries with higher shares of world trade have also higher shares of per capita incomes
 - Africa’s population is 16.3% of global population but contributes only **2.9% of GDP** and **2.6% of world trade**



- While the share of Africa’s world trade is low, the share of trade to its GDP remains very high
- Africa’s intra-regional trade is limited (14.4% in 2021)
 - creates vulnerabilities to global demand and supply shocks, e.g. **weather, covid-19, geopolitics, exchange rate fluctuations etc**

Technology as a driver of structural transformation



- *Diffusion of technology & innovation in **production** and **services** critical for competitiveness, upgrading along value chains, and structural transformation*

Positive spillovers of agglomeration and economies of scale in manufacturing requires efficient and high-quality services – logistics, communications, finance and insurance, testing and certifications, etc

The structure of industrial establishments in Africa (largely micro, small and medium, less complex basic manufacturing) has limited capital and technology intensity- thus low productivity, diversification, and low trade competitiveness

The 4th industrial revolution, driven by digitization and frontline innovation in services in the North and in Southeast Asia has widened digital divide, and threaten industrial transition based on labour-intensive advantages in Africa

Harnessing transformation opportunity through digitization and e-commerce



- Digitization and e-commerce have revolutionized trade in the world
 - Reduced the cost of trade
 - Rise of tech-based multinationals, de-concentrated wealth from industrial clusters
 - Increased compliance with standards through monitoring, verification and testing
- But digital trade and e-commerce requires
 - High productive capacities
 - Supply capacity to respond to market demands
 - Conformity to quality and standards in global value chains, often buyer-driven
 - Right infrastructure, technology and institutions (laws and regulations)
- The two critical requirements are largely inadequate in LDCs, particularly in Africa
 - 6% in LDCs shop, compared to 62% in advanced economies (UNCTAD, 2023 e-trade readiness report)
 - Digitization has progressed, albeit slowly
 - financial inclusion through transactional services, not full financial services for enhancing productivity
 - Information to farmers- eHakiki for inputs verification, eSoko for market information
 - E-services and platform economy (uber, etc.) – but utilization in LDCs limited by connectivity and regulatory issues

Harnessing transformation opportunity through digitization and e-commerce -2



- Key barriers to digitization and e-commerce in Africa
 - Legal and regulatory framework
 - Trade facilitation and logistics
 - Electricity
 - Quality control
 - Shipping and packaging
 - Payment systems
 - ICT penetration
 - Internet connectivity
 - Literacy and Skills
 - Affordability
 - Access to finance
 - Technology is expensive to acquire and maintain
 - absence of economies of scale limits the ability of the private sector

Implications



Digitalisation and e-commerce offer potential pathways for structural transformation through trade

But Africa's structural endowments remain too low and within country and intra-regional NTBs too high

More investment is urgently needed to close the infrastructure & technology gap for Africa to catchup

Digital divide can exacerbate poverty & inequality, truncate learning, and increase the share of non-tradeable informal services

Policy support & international cooperation are essential for digitization and e-commerce to emerge as potential enablers of structural transformation in Africa