Is Africa's Economic Development Sustainable?

4

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Abstract

Although Africa is heavily affected by the Covid 19 crisis, the recent positive development seems to be sustainable. The governance structure continues to improve, and economic recovery and a continuation of the growth path are expected in 2021 and beyond. The federal government can support this process with a stronger focus on economic development, for example through more comprehensive investment promotion.

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T. Schmidt et al. (eds.), *Practical Handbook Business in Africa*,
https://doi.org/10.1007/978-3-658-42518-0_4

4.1 Africa in the Shadow of the Covid-19 Crisis

For several years, Africa has undergone a remarkable transformation that is still inadequately recognized in Germany. Since the beginning of the twenty-first century, the growth rates of the Gross Domestic Product (GDP) in Africa have consistently been higher than in other continents. There have been far-reaching reforms, and a middle class has emerged. Added to this were innovations in the field of mobile telephony, which led to numerous business ideas in health policy, financial markets, and market development for other sectors. Africa is likely to become the continent where decentralized energy supply will experience a significant boost (Müller, 2020, p. 71 ff.). In March 2018, all African countries (except Eritrea) founded the largest free trade zone in the world in Africa with the African Continental Free Trade Area (AfCFTA). In August 2020, the Secretariat in Accra, Ghana, moved into its new building, and from January 2021, the rules agreed so far have been applied (Draper et al., 2018).

This positive development has been abruptly halted. With the outbreak of the Covid-19 crisis, Africa has come back into focus, and again, most observers primarily see the dark sides. Indeed, the economic consequences of the Covid-19 crisis in Africa are strongly felt (IMF, 2020). Table 4.1 shows the enormous slump in growth in Africa, which will be highest in Mauritius with an estimated 14.2% for 2020. For the first time

Table 4.1 Annual GDP growth in sub-Saharan Africa: selected countries (in %, 2010–2021). (Source: IMF, 2020, World Bank (b))

Country	2010–2016	2017	2018	2019	2020*	2021*
Angola	3.6	−0.2	−1.2	−0.9	−4.0	3.2
Ethiopia	9.9	10.2	7.7	9.0	1.9	0.0
Botswana	5.3	2.9	4.5	3.0	−9.6	8.7
Ivory Coast	6.0	7.4	6.8	6.5	1.8	6.2
Ghana	6.6	8.1	6.3	6.5	0.9	4.2
Kenya	6.0	4.8	6.3	5.4	1.0	4.7
Malawi	4.2	4.0	3.2	4.5	0.6	2.5
Mali	4.1	5.0	5.2	5.1	−2.0	4.0
Mozambique	6.6	3.7	3.4	2.3	−0.5	2.1
Nigeria	4.7	0.8	1.9	2.2	−4.3	1.7
Rwanda	7.4	4.0	8.6	9.4	2.0	6.3
South Africa	2.1	1.4	0.8	0.2	−8.0	3.0
Tanzania	6.6	6.8	7.0	7.0	1.9	3.6
Uganda	4.9	7.3	6.1	6.7	−0.3	4.9
Zimbabwe	8.2	4.7	3.5	−6.5	−10.4	4.2

* estimated

in almost two decades, the continent is facing the danger that past successes could be reversed.

The International Monetary Fund sees problems in the near future primarily in external financing and in the willingness to reform, which will be necessary to strengthen the economy after the end of the Covid-19 crisis. It should be noted, however, that the infection process in Africa has been relatively well controlled.

But even against the backdrop of this crisis, it is worth looking at the continent from the perspective of the German economy. This is true both because of Africa's potential and because other traditional markets in Europe and some emerging countries do not seem to be as fruitful. Looking at China, it is already foreseeable that the political conflicts provoked by the increasingly authoritarian government in Beijing will make business in China more difficult for German companies (whether as an investor or exporter).

This contribution serves to draw a concise picture of Africa, its strengths and weaknesses, and its future potential from the perspective of globally operating companies. Of course, it must be taken into account that statements on a few pages are not detailed enough to serve as a guide. Rather, the appetite should be whetted to become better informed. So far, the German economy has imposed a hardly understandable restraint on the African continent. It will be shown that this restraint is at least partly unjustified.

It is true that the individual countries and regions of Africa are very different. The International Monetary Fund (IMF, 2020) distinguishes, regardless of income, oil countries, middle-income countries, where the GDP per capita exceeded the sum of 1035 US$ between 2012 and 2014, poor countries with lower per capita income, and fragile states, whose income is usually also below this.

There are also large differences with regard to governance structures or institutions, i.e., the rules, norms, and values within an economy. Examples of these institutions are the extent of corruption, economic freedom, political rights, or the enforceability of law. These institutions are important not only to attract foreign exporters but also to be attractive for investments. This allows African companies and workers to integrate into transnational value chains.

From this perspective, various questions arise that are of particular importance for the future economic development in Africa. First, the macroeconomic fundamental data must be taken into account, i.e., the status and development of per capita income, but also its distribution and the question of whether a middle class is emerging that can contribute to developing a corresponding demand for German products directly or indirectly.

This development depends on where African or Africa-based companies and their employees can integrate into the transnational value chains. So far, African companies are too rarely active at the upper end of value creation. Their focus is on the sale of raw materials and the production of intermediate products. Only within Africa is there an intensive exchange of industrial goods (Draper et al., 2018).

The reasons for German restraint lie, on the one hand, in the high costs and risks associated with foreign trade or investment activity in Africa (Felbermayr et al., 2019).[1] These are caused by weaknesses in infrastructure, relatively high communication costs, and numerous export barriers. Secondly, a look at institutional indicators shows that there is often a lack of governance quality, which is why global companies tend to hold back and invest elsewhere. Finally, deficits in education, especially in cross-sectional knowledge such as language or management skills, are cited as the reason why integration into value chains is so difficult (Draper et al., 2015). There is hope that the establishment of the AfCFTA can remedy this situation.

4.2 Economic Development Since the Global Economic and Financial Crisis

Africa has come through the global economic and financial crisis relatively well. During the crisis, the continent was hit late (Freytag, 2010); the subsequent upswing was stronger than average on all other continents. For Sub-Saharan Africa, the average growth rate of real gross domestic product (GDP) was 4.6% from 2010 to 2016; it then decreased slightly. The forecasts for 2020 and 2021 are −3.0% and 3.1% respectively (IMF, 2015, p. 81).

However, these figures disguise the fact that the countries have developed very differently. For example, the oil countries recorded significantly higher growth rates during the first decade of the twenty-first century, led by Equatorial Guinea. Since 2010, the oil countries have been slightly worse off than the average, especially when South Africa is excluded from the average. The poorer countries and fragile states are expected to grow faster than the middle-income countries; South Africa, as mentioned, has been an outlier downwards for some time.[2]

The relatively high growth rates are relativized by the fact that the population in most countries is growing very quickly (The Economist, 2015b). As a result, real per capita incomes are growing much more slowly. This slower growth of per capita incomes must be viewed critically because it slows down the emergence and spread of a middle class[3]. Nevertheless, the middle class in Africa has grown; in South Africa, for example, it accounted for 36% of the population in 2014; in Ethiopia, however, only about 3%.

[1] This study primarily addresses the question of how German politics can promote investments in Africa more intensively and precisely. See also Chap. 5 in this volume.

[2] However, South Africa is of less relevance for this essay, as the German economy is very well informed and positioned there.

[3] Here, the middle class is defined as the population group with a disposable income of 10 to 20 US$ in purchasing power parity (PPP dollars), people with 20 to 50 US-PPP dollars of disposable income are considered to belong to the upper middle class (The Economist, 2015a).

Before 2004, there was no middle class in Ethiopia at all; the GDP growth rate there since 2010 has averaged just under 10% until 2019. The average per capita income on the African continent for 2019 was just under 4000 US$ (in purchasing power parity; PPP) Table 4.2 shows the data for the most important countries of the continent.

It shows that one of the poorest countries at the beginning of independence, namely Botswana, has caught up significantly and is ahead of South Africa in US dollars at purchasing power parity. However, this is relativized because the South African rand has lost considerable value against the US dollar (as well as against the euro) since 2008, which reduces incomes there in dollars.

Inflation traditionally poses a secondary problem on the African continent. For 2020, the average inflation rate in Sub-Saharan Africa is estimated at around 10.6%, with a range again: The result is also driven by the very high inflation in Zimbabwe estimated at over 660% in 2020; the West African CFA franc zone continues to show a high degree of price level stability with an estimated 2.1% inflation in 2020. Compared to Latin America, Africa traditionally has fewer monetary problems.

Finally, saving and investment activity is of interest, also against the background of the increased and much-discussed Chinese commitment in Africa (Draper & Freytag, 2013). The gross saving rate in the African average of the 2010s is about 16% of GDP,

Table 4.2 GDP per capita (PPP) in sub-Saharan Africa: selected countries (2011–2019). (Source: World Bank (a))

Country	2011	2019
Angola	6710.75	6929.68
Ethiopia	1134.78	2311.70
Botswana	14,252.71	18,502.82
Ivory Coast	2404.04	5455.36
Ghana	3379.48	5636.95
Kenya	2437.88	4509.32
Malawi	1062.95	1103.64
Mali	1826.65	2423.83
Mozambique	1023.07	1333.512
Nigeria	4922.70	5348.34
Rwanda	1457.12	2318.49
South Africa	12,172.31	12,999.12
Tanzania	2228.71	2770.68
Uganda	2241.12	2271.65
Zimbabwe	2101.83	2953.48

but the differences and fluctuations over time are large.[4] It is noteworthy that the saving rate has fallen, while the investment rate has remained almost constant since 2004, leading to a so-called "current account reversal", i.e. a passivation of the current account.[5] In a study on such "current account reversals", du Plessis and Freytag (2014) were able to show that their effects on employment, investment and growth in Africa are small.

It makes sense in principle that capital-poor countries import net capital (and then show current account deficits). Nevertheless, their own savings are important for the countries in order to be independent of foreign capital and to be able to repay the debts. Savings in developing and emerging countries are positively dependent on economic institutions—the higher the economic freedom and the lower the bureaucratic hurdles, the higher the savings (Freytag & Voll, 2013). For about 12 years, Africa as a whole has been a net capital importer. A significant contribution to foreign direct investment in Africa is made by Chinese companies, which, however, regularly invested absolutely less in Africa than their American competitors (Felbermayr et al., 2019).

In this respect, the fear of the "Chinese dragon" (Draper & le Pere, 2005) seemed somewhat exaggerated for a long time. After all, investments are being made and infrastructure is being created that would not exist without Chinese commitment. However, it is also true that Chinese companies apparently have fewer scruples about disregarding moral standards or have fewer requirements in this regard than their European competitors. Foreign economic relations are clearly a strategic instrument of China's diplomacy. This aspect is becoming increasingly apparent in the so-called "Belt and Road initiative".

It is therefore only consistent that many African decision-makers wish for more European, specifically German, commitment in Africa, because investors who take into account workers' rights and environmental quality can contribute to an improvement of the institutions.[6] The conditions on site play a decisive role for such a commitment.

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[4] However, (as with investments) the data are generally not very trustworthy. The values fluctuate strongly over time and across countries; in some cases between −20% of GDP to over +20 just a few years later.

[5] If the statistics are correct, the identity: "savings minus investment equals the export surplus" must always apply. The decline in saving rates in Africa since 2004 was compensated by net capital imports, which in turn led to trade or current account deficits.

[6] Against this background, the debate on the so-called supply chain law in Germany, which was intensively conducted in 2019 and 2020, is to be interpreted. Ultimately, it is about the question of whether German investors and exporters are deterred from investing in developing countries by new legal regulations, so that the actual goal, namely the promotion of human and civil rights as well as equality and sustainability, is not achieved (Freytag, 2020).

4.3 "Institutions Matter!"—On Africa's Institutional Catch-up Process

The aforementioned importance of the middle class for the development of a country is essentially based on two pillars. On the one hand, the middle class forms the backbone of civil society. Its members recognize the value of, for example, governance structures, education, health, or environmental protection. After fulfilling the most important material desires, they will also be the ones to demand democratic rights and political freedoms. Secondly, they form a potent buyer group for exports from other countries. The African middle class, as already mentioned, has grown since 2004.

Regarding the institutions, it should be noted that Africa has also caught up here. Let's start with corruption, which is regularly calculated by Transparency International (a). Corruption is harmful to economic development in the vast majority of cases, as it distorts decisions to the disadvantage of efficient companies and increases the transaction costs of economic activity, e.g. when goods cross borders. Only when the administration does not function at all and other governance structures are weak can corruption act like a lubricant.

Africa is the continent with the largest corruption problem worldwide, although it is overall slightly decreasing. The average value of the Corruption Perception Index (CPI) of the country sample has significantly increased, as documented in Table 4.3.

Table 4.3 Corruption in sub-Saharan Africa: selected countries (2004–2019). (Source: Transparency International (a))

Country	CPI2004	CPI2007	CPI2011	CPI2014	CPI2015	CPI2019	CPI 2020
Angola	2.00	2.20	2.00	1.90	1.50	2.60	2.70
Ethiopia	2.30	2.40	2.70	3.30	3.30	3.70	3.80
Botswana	6.00	5.40	6.10	6.30	6.30	6.10	6.00
Ivory Coast	2.00	2.10	N/A	3.20	3.20	3.50	3.60
Ghana	3.60	3.70	3.90	4.80	4.70	4.10	4.30
Kenya	2.10	2.10	2.20	2.50	2.50	2.80	3.10
Malawi	2.80	2.70	3.00	3.30	3.10	3.10	3.00
Mali	2.30	2.70	2.80	3.20	3.50	2.90	3.00
Mozambique	2.80	2.80	2.70	3.10	3.10	2.60	2.50
Nigeria	1.60	2.20	2.40	2.70	2.60	2.60	2.50
Rwanda	n.a	2.80	5.00	4.90	5.40	5.30	5.40
South Africa	4.60	5.10	4.10	4.40	4.40	4.40	4.40
Tanzania	2.80	3.20	3.00	3.10	3.00	3.70	3.80
Uganda	2.60	2.80	2.40	2.60	2.50	2.80	2.70
Zimbabwe	2.30	2.10	2.20	2.10	2.10	2.40	2.40

Table 4.4 Economic freedom in sub-Saharan Africa: selected countries (2004–2018). (Source: Fraser Institute (a))

Country	EF 2004	EF 2007	EF 2010	EF 2012	EF 2014	EF 2016	EF 2018
Angola	4.25*	4.67	5.39	5.45	5.02	5.39	4.75
Ethiopia	5.30*	5.47	5.33	5.25	5.29	5.49	5.61
Botswana	7.27	7.20	7.03	7.33	7.43	7.50	7.60
Ivory Coast	5.81	5.71	5.67	5.61	5.88	5.95	6.09
Ghana	6.29	7.07	6.91	6.69	6.31	6.60	6.65
Kenya	6.80	7.28	7.02	7.18	7.20	6.96	6.84
Malawi	5.13	5.78	6.17	6.09	5.95	5.98	5.79
Mali	5.53	6.14	6.04	6.06	5.77	5.85	5.93
Mozambique	5.74	5.73	5.44	5.75	5.60	5.55	5.94
Nigeria	5.65	6.38	6.17	6.42	6.65	6.87	6.93
Rwanda	6.05	6.46	7.10	7.26	7.25	7.23	7.39
South Africa	6.81	6.88	6.86	6.87	6.81	6.67	6.73
Tanzania	6.21	6.23	6.67	6.60	6.75	6.74	6.73
Uganda	6.92	7.28	7.43	7.31	7.41	7.40	7.55
Zimbabwe	2.80	3.18	4.34	5.08	5.80	5.72	5.12

* Values for 2005

While the CPI was on average 2.91 in 2004, it had reached an average value of 3.51 in 2019.[7]

The same applies to economic freedom. Overall, the continent has gained in economic freedom. In our country sample, economic freedom, as measured by the Fraser Institute (a), increased on average by 0.6 points between 2004 and 2019.[8] Only Botswana and Uganda can be considered as nearly free; South Africa has rather slightly lost freedom over time (Table 4.4).

Despite the positive trend of two important governance indicators shown here, the conclusion remains that Africa still suffers from institutional weaknesses that overall form a growth brake. An example that is not so easy to quantify is the absence of a cadastre. This makes it difficult for African entrepreneurs to prove their land ownership and subsequently to be able to mortgage it (de Soto, 2002). In this way, the resources of the continent are not used appropriately. Directly related to this are administrative

[7] The value ranges from 0 (maximum degree of corruption) to 10 (minimum). The leading Scandinavian countries are at a value of around 9.

[8] The index measures economic freedom as an average of 23 indicators in five groups (size of government, security of property rights, access to stable money, regulation, and freedom of foreign trade) between 0 (low freedom) and 10 (high freedom).

weaknesses, e.g. in tax administration. This also results in a gap in tax revenues, which ultimately leads to an inefficient generation of public revenues, namely through tariffs. In this way, efficient resource allocation is prevented and the potential productivity gains from foreign trade are not exploited.

4.4 Infrastructure as a Bottleneck in Africa

This—trade policy—problem directly ties into another weakness of the continent, namely a gap in infrastructure. Firstly, there is a lack of transport infrastructure, i.e., there are insufficient navigable waterways, roads, and railway lines that could overcome the large, in some cases sparsely populated, areas in Africa. Air traffic also continues to underutilize its potential, partly hindered by governments (The Economist, 2016). The airlines are in poor condition, and there are hardly any direct connections within Africa. This requires considerable intra-African detours, and some African destinations can only be reached via Europe or the Arab "hubs".

Not much better, but at least with a rising trend, is the situation with regard to the entire road network. On average, in our country sample, the countries had a road network of an average length of 110,000 km in 2013, although with the outlier South Africa (almost 750,000 km).[9] The growth rate is interesting; the network outside South Africa grew by about a fifth between 2004 and 2013.

The supply of electricity and water is the biggest bottleneck, which not only has negative effects on economic development but also causes social problems. Particularly, constant power outages prevent foreign direct investments.

The development of mobile telephony is positive. From 2000 to 2015, the number of mobile phones in Africa grew from 16.5 million to 650 million, in 2015 there were 350 million internet-capable phones in circulation, and the growth in demand for smartphones was estimated at around 40% at the beginning of 2015 (Handelsblatt, 2015). This growth has continued since then. The really interesting thing about this development are the applications of mobile telephony in healthcare, education, market creation and observation, and in finance. Many innovations in this field come directly from Africa.

The number of internet connections has grown even more rapidly, namely by almost 2600% in the 10 years between 2004 and 2013 in the country sample; there were further increases after that.[10] This rapidly increases people's connection to the global markets, and e-commerce solutions are now possible that were previously unthinkable, although the importance of electronic commerce should not be overestimated. The growing internet access also potentially affects governance structures, as people can learn and put pressure on their governments. Overall, this is a positive development (Table 4.5).

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[9] For comparison: Germany has a road network of 645,000 km in length.

[10] The data are not very accurate and fluctuate greatly. However, the trend is sustainable and impressive.

Table 4.5 Internet connections in sub-Saharan Africa: selected countries (2004–2018). (Source: CIA (a))

Country	Internet_2004	Internet_2007	Internet_2010	Internet_2013	Internet_2018
Angola	41,000	100,000	606,700	3,700,000	4,350,000
Ethiopia	75,000	291,000	447,300	1,600,000	19,118,470
Botswana	60,000	80,000	120,000	283,500	1,057,100
Ivory Coast	n/a	n/a	550,000	6,300,000*	12,295,200
Ghana	170,000	650,000	1,297,000	5,000,000	10,960,000
Kenya	400,000	3,000,000	3,996,000	16,500,000	9,129,200
Malawi	36,000	139,500	716,400	387,500	2,734,300
Mali	25,000	100,000	249,800	12,400,000	2,395,900
Mozambique	50,000	200,000	613,600	1,400,000	2,855,700
Nigeria	750,000	10,000,000	43,989,000	66,600,000	85,450,100
Rwanda	25,000	100,000	450,000	1,100,000	2,653,200
South Africa	3,100,000	5,100,000	4,420,000	24,800,000	31,107,100
Tanzania	250,000	400,000	678,000	7,400,000	13,862,800
Uganda	125,000	2,000,000	3,200,000	6,000,000	9,620,700
Zimbabwe	500,000	1,351,000	1,423,000	2,700,000	3,796,600

* 2016

There is no question that the deficiencies in infrastructure are serious and must be eliminated. Against this background, they are both an obstacle and an opportunity for the German economy, which can offer numerous solutions for infrastructure projects. This also offers an opportunity for cooperation between the economy and the actors of development cooperation (DC), as DC funds are probably best invested in infrastructure.

4.5 Conclusion: African Companies Underrepresented in Global Value Chains, but Not Without Opportunities

As a consequence of what has been said so far, it must be noted that African countries are not sufficiently utilizing their potential for integration into transnational value chains. They are not often enough found at higher levels of the value chains, globally active companies (so-called *first tier firms*) are too rarely active in Africa. Reasons lie in the mentioned deficits in infrastructure, governance, and education (Draper et al., 2015). The Covid 19 crisis is likely to have worsened the situation for African companies. This also presents an opportunity for the German economy in cooperation with development cooperation (EZ).

South Africa, occasionally referred to as the gateway to Africa, deserves special attention in this context. This function could mean that companies wanting to invest in Africa do so by settling in South Africa and from there moving to other countries, partly with the support of local companies. South African companies, in turn, could cause spillovers through direct investments in other African countries; positive experiences from Asia in the 1960s and 1970s are available for this (Draper et al., 2016). For this, the country would need to make itself even more attractive to investors from third countries.

When the end of apartheid was realized in 1994, the country experienced a major boost in all important governance indicators; political and economic freedom increased. After this one-time boost, not much has been moved for the better—on the contrary: The country became less free, corruption increased (and began in the presidential office). Education and health are still inadequate for large parts of the population, the electricity supply is very unreliable due to corruption. President Cyril Ramaphosa, who has been in office since early 2019, has since made considerable efforts to curb corruption and make the public sector more efficient. These efforts are yet to be rewarded.

In addition, the country still has an excellently developed (and slightly growing) middle class, motivated workers, good transport infrastructure, and a world-leading financial system. Added to this is the fact that opposition to the African National Congress (ANC), which has been in power since 1994, is expanding. There is still hope that South Africa can once again become the engine of development for sub-Saharan Africa.

In this context, there is an opportunity for the German industry to invest both via South Africa, where the German industry is strongly represented, and directly in target countries. This opportunity is being used sporadically, but by no means sufficiently (Felbermayr et al., 2019). There are some examples of German engagement in innovative areas of water supply (see the issue of aw—afrika wirtschaft from January 2016). German companies are also well positioned in the—conventional and renewable—energy supply. The federal government indirectly supports these efforts with its National Hydrogen Strategy. In addition, there is a growing demand from Africa for German quality—not least thanks to the obvious quality deficiencies of many Chinese investments and products.

The German economy should not miss the opportunities arising from the steady improvement of Africa's institutional and economic situation. However, for this to work, the help of the government is needed. Instead of further increasing the bureaucratic hurdles of engagement in Africa for the German economy, the EZ should rather help to mitigate the risks in Africa in an unbureaucratic way (Freytag & Liebing, 2020). The ruthlessness of other governments in gaining advantages for their economy in Africa should also be taken into account.

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