

CHAPTER 2

Shifts in Global Political Economy and Implications for Africa



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Introduction

- There have been **several shifts** within and outside of the continent since the publication of HLP report on Illicit Financial Flows (IFFs) 10 years ago.
- Different shifts have **different implications** on the African continent, IFFs in particular
- Geopolitical shifts experienced over the past ten years **present challenges but also opportunities** for the African continent
- The task for the African continent is not only to identify the challenges and opportunities arising from these shifts, but **to devise strategies to respond effectively to the challenges** and **take full advantage of the opportunities**.
- The chapter highlights on **six major factors** behind the Geopolitical shifts: Trade wars, Covid-19 Pandemic, Russia-Ukraine War, the Geopolitics of Climate Change and **dynamics within the continent**.

Trade Wars & Geoeconomic Fragmentation

- Heightened geopolitical tensions, leading to **geoeconomic fragmentation**
- Declining global trade, **slowbalisation** or even **deglobalisation**
- Import intensity of production (IIP) declined at an average annual rate of 3.7 percent between 2010 and 2019
- Intensifying **US-China rivalry**, manifested in many fields including technology, security concerns and access to critical resources
- While it is not clear what this entails for the future, there is no doubt that fundamental changes to the global order are occurring quite rapidly.
- Since the African continent is deeply integrated in global affairs, these tensions and geopolitical shifts have **implications on Africa**
- Understanding what the implications of these developments are can help the continent respond appropriately to the challenges as well as the opportunities this engenders

The Covid-19 Pandemic

- After-effects of Covid-19 have triggered geopolitical and economic shifts.
- The pandemic exposed the risks associated with the current global supply chains and production networks.
- MNCs and governments now focusing on reducing exposure to risks, vulnerabilities and unpredictable shocks like war, conflict and pandemics.
- Firms taking economic security and de-risking considerations, leading to growing trend of shortening supply chains.
- Countries/regions considering measures to boost “strategic autonomy” (E.g, France set up a High level Planning Commission to assess the country’s dependence on production of goods and services over which it has no control or influence)
- This has led to increased protectionism, cross-border restrictions, further fragmentation of not just global trade but other economic activities including investment and technology flows.
- The lesson is that the continent needs to take collective measures to strengthen it ‘s strategic autonomy in many sectors including health and finance

The Russia-Ukraine War

- This has triggered several dynamics, with significant implications for the African continent.
- It has induced a geopolitical re-alignment impacting on global trade, investments, capital flows, technological transfers and the global financial system.
- It highlights the **susceptibility of globally integrated supply and production networks** to geopolitical risks.
- Trade and investments have become sensitive to “geopolitical distance”.
- For the continent the war has several implications including **food supply shocks, declining Official Development Assistance, exposed the lack of a common voice among African countries**
- But it has created **opportunities for African countries - Africa as an alternative source of energy, dedolarisation** and potential for African countries to **strengthen continental integration**

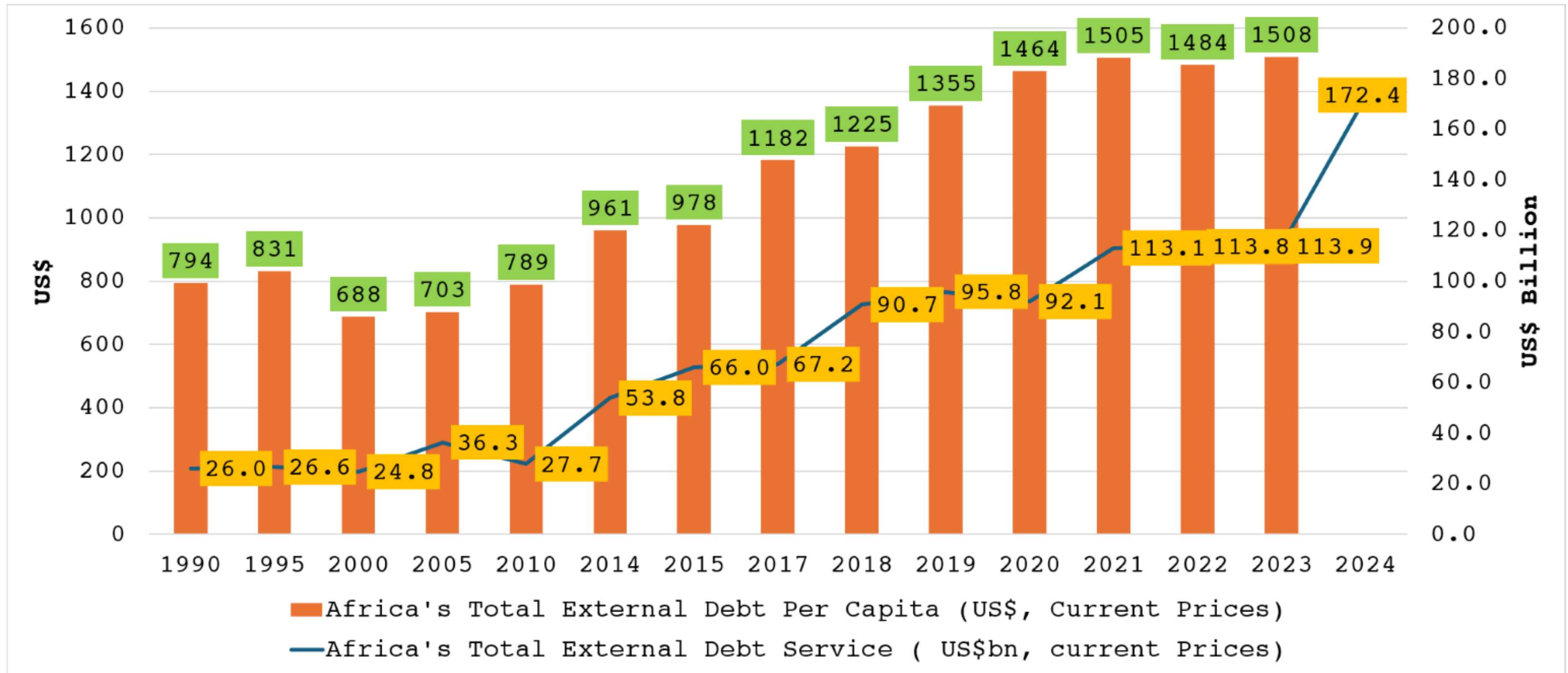
The Geopolitics of Climate Change

- Has created the race to control renewable energy resources as well the new technology required for the green economy
- There have been accusations and counter accusations defined along the major geopolitical fault lines
- The politics of climate change have “broader effect” on trade relations, finance and investment flows, scientific cooperation, official development assistance
- So far, the climate diplomacy approach has done little to create a global framework for promoting climate justice.
- It has led to the weakening of multilateralism, growing lack of trust and cooperation deficit between countries.
- For the continent, the challenge is that it bears the biggest climate change burden in terms of the negative effects such as “unpredictable weather events and patterns, including prolonged droughts, devastating flood
- Opportunities revolve around the continent’s huge renewable energy resources including a vast array of critical mineral and metals required for developing the green transition technology

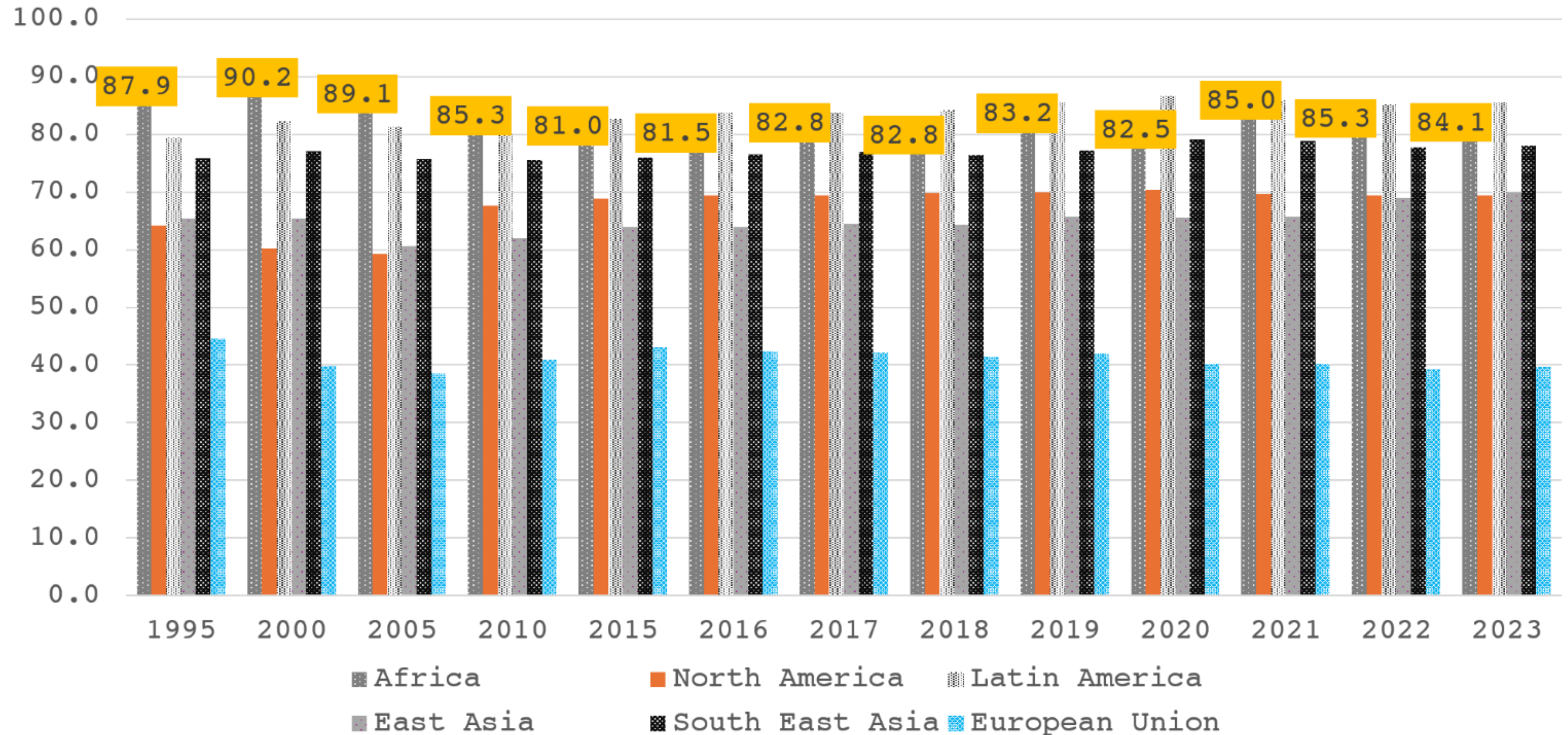
Shifts within the Continent

- Coming into operation of the **African Continental Free Trade Area (AfCFTA)** in 2021.
- **Growing dependence on extractives**, making the continent more vulnerable not just to commodity price volatility but also to **IFFs which are strongly correlated with commodity export**.
- Growing calls to strengthen the African financial system to promote economic sovereignty, resilience and reduce risks.
- **Vulnerability to geopolitical risks** is evident in the high extra- Africa export ratio, which ranges between 80 and 90 percent since 1995.
- Emerging RVCs have the potential to contribute to creating a resilient African food system, deepen intra-Africa trade, the diversification of African economies and the creation of resilient regional supply and production networks.
- The African market has expanded rapidly due to population growth, urbanisation and rising levels of average income.
- Growing **external public debt** has become unsustainable in several countries.

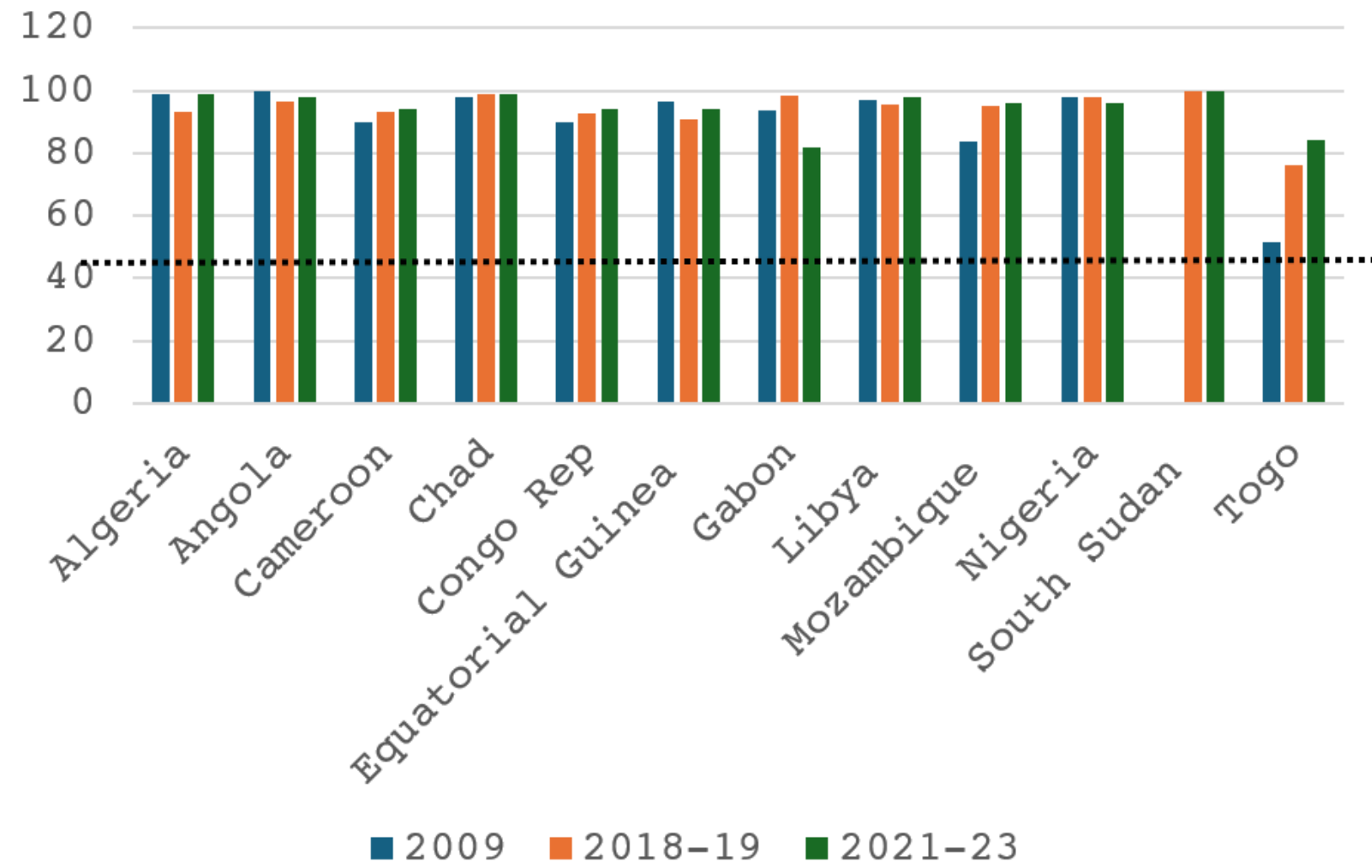
Africa's Total External Debt and Debt Service



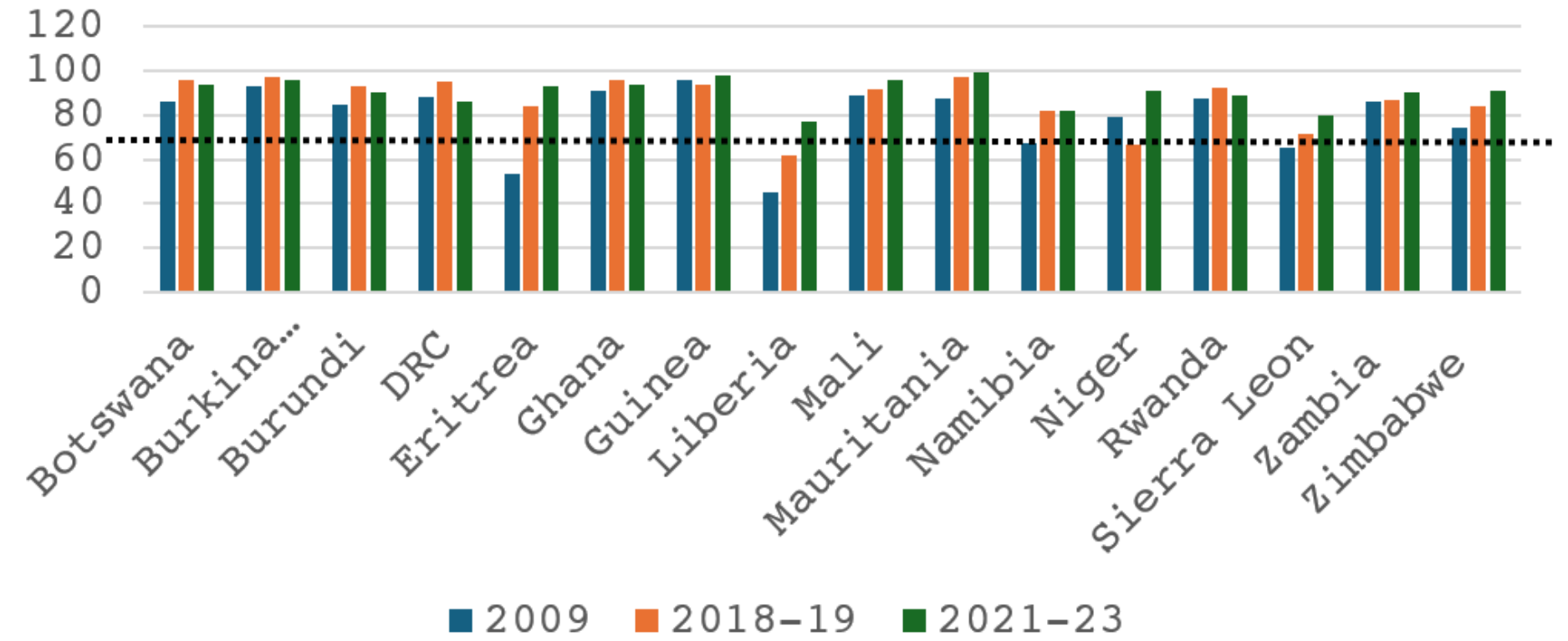
Extra-Region Export Ratio by Region 1995-2023



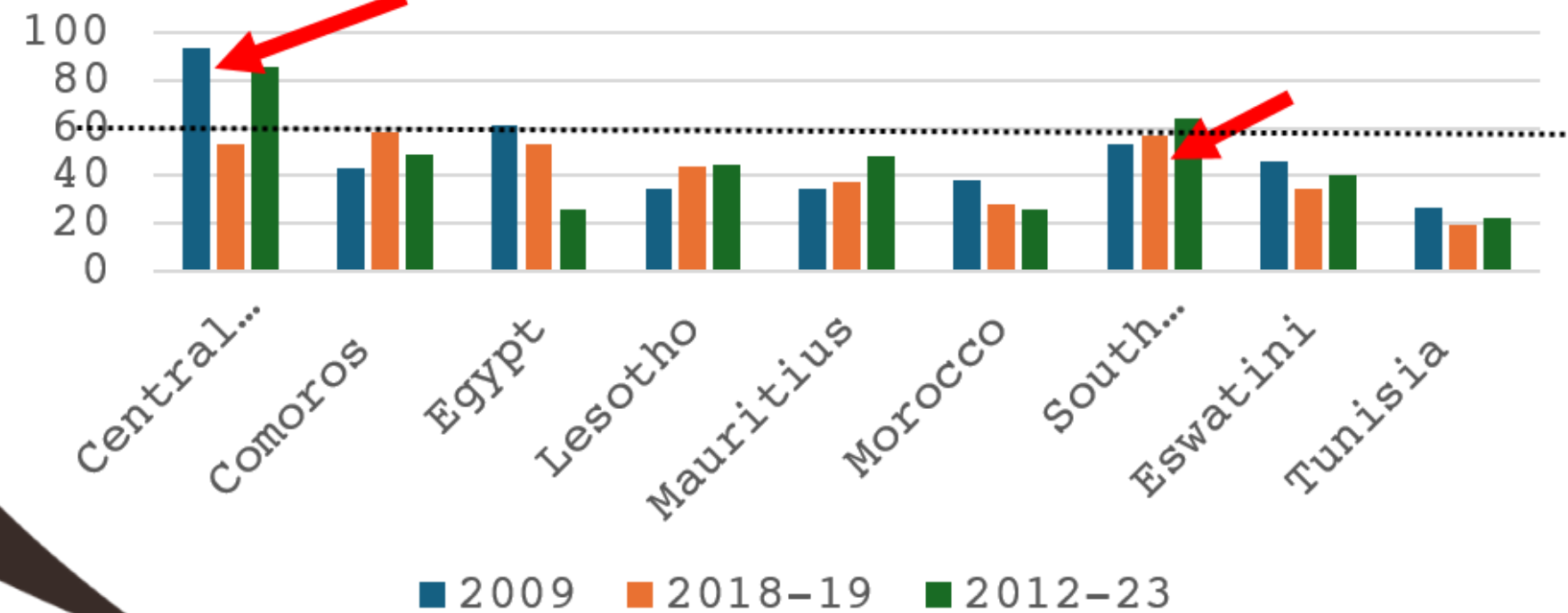
Fuel Dependent Countries



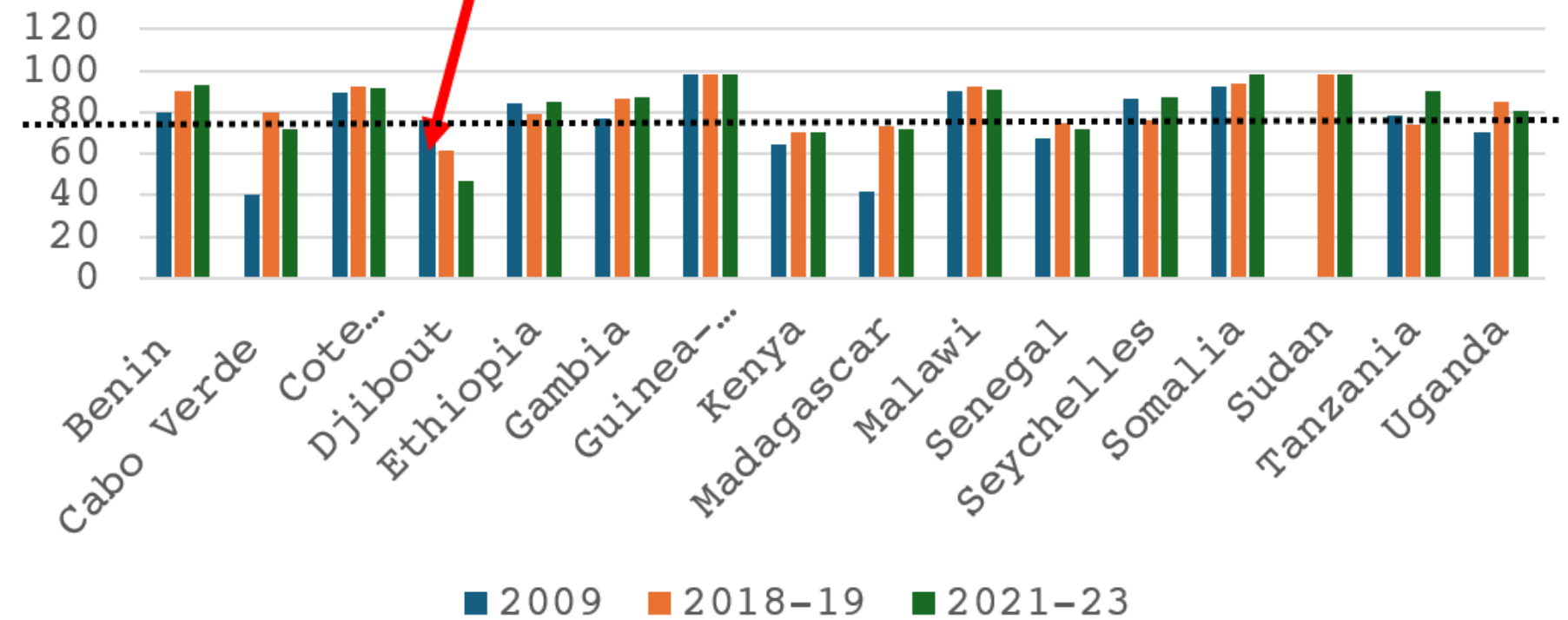
Mineral and Metal Ores Dependemnt Countries



Non-Commodity Dependent Countries



Agricultural Products Dependent Countries



Conclusion

- Ongoing Geopolitical shifts have present **challenges** but also **opportunities** for the continent.
- Geopolitical and economic transformations have significant implications on capital flows including IFFs on the continent.
- African governments have to understand the nature of the challenges as well as the opportunities.
- To take advantage of the opportunities, requires coordinating key strategies which **strengthen resilience** and **strategic autonomy** in different areas.
- There are existing examples of how **coordinated African responses** to the geopolitical risks can be effective in protecting and advancing the interests of African people.
- Addressing the challenges associated with IFFs is one area **where little progress has been made**, though there room to do better.

**THANK
YOU!**