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Creating a disruption-proof supply chain in Africa

By theafricalogistics October 18, 2022


The impact of the pandemic on global supply chains has prompted governments around the world to look at ways to fix the broken links. In Africa, the launch of African Continental Free Trade Area (AfCFTA), has provided the continent with new opportunities to strengthen its regional supply chain.

Virusha Subban, Head of Indirect Tax at Baker McKenzie in South Africa, explains that there were massive breakages in key links in global supply chains during and after the pandemic, with issues including, among many other things, route congestion and blockages, manufacturing shutdowns, a deficit of skilled labor, a global shortage of key logistics components including shipping containers, a lack of space in warehouses, a spike in transportation costs and substantially increased demand for goods around the world, post-lockdown. As a result, countries have been looking at ways to relink broken chains.

In February 2021, [President Biden addressed this issue](#) by signing an Executive Order on America's supply chains. He ordered federal agencies to review and identify vulnerabilities in key US supply chains and develop policies to ensure those supply chains would be more resilient to future shocks.

Similarly, the European Union Policy Department for External Relations issued a report on [Post Covid-19 value chains: options for reshoring production back to Europe in a globalised economy](#). The report noted that, against the background of both supply shortages due to the pandemic, and the shift in global trading patterns, reshoring of production, the process of bringing production activities home, had become a topical issue in recent EU policy debates.

Last year, the African Union African Peer Review Mechanism 2020 published a report on [Africa's governance response to COVID-19](#), supply chain challenges and overreliance on foreign

continent boost its manufacturing capacity to build a strong African supply chain that could not be weakened by global blockages. 

Marc Yudaken, Partner and Head of the IMT Sector Group at Baker McKenzie in Johannesburg, notes that supply chains in Africa were already under pressure before the pandemic, due to inadequate infrastructure, corruption and security issues, poor trade logistics, overreliance on foreign imports, onerous regulatory requirements and complex customs procedures.

He explains that a recent Baker McKenzie report – [A License to be Bold: Transforming Industrials](#) outlined areas of post-pandemic focus for supply chains in the IMT sector, which included being able to adapt to new markets, embrace digitalization and enable the disruption-proofing of supply chains. The report noted that disruption arising from COVID-19 accelerated trends already apparent in the industrials market, particularly digitalization and trade volatility, and transformation has now gone from a “nice to have” to a necessity.

Yudaken notes that due to the global supply chain disruption, many African countries have begun looking at ways to improve their manufacturing capacity so that they can produce local components that don't need to be imported and that can be traded within the continent.

“Reliable transport and utilities infrastructure is vital in terms of ability of the IMT sector to scale up production for regional export and to develop its manufacturing bases. To improve transport infrastructure in Africa, large projects have been announced or are in progress, including, for example, the Trans-Maghreb Highway in North Africa and the North-South Multimodal Corridor, connecting extensive parts of Southern Africa, as well as the Central Corridor project and the Abidjan-Lagos Corridor Highway project. Further, Africa needs an adequate supply of water and electricity to increase production capacity and incentivize foreign companies to set up facilities on the continent – energy and utilities infrastructure is direly needed across African jurisdictions. Domestic policy changes that address these issues are therefore playing a crucial role in disruption-proofing Africa's supply chains at present.”

Subban agrees that improving manufacturing capacity is a key way to remove reliance on global supply chains. A Baker McKenzie report, with Oxford Economics, AfCFTA's USD 3 trillion Opportunity (AfCFTA report) looked at African imports from outside the continent and revealed that manufactured products industrial machinery and transport equipment constituted over  needs.

Currently, Africa's external imports account for more than half of the total volume of imports, with the most important suppliers being Europe (35%), China (16%) and the rest of Asia including India (14%). By contrast, imports from other parts of Africa account for only 16% of total merchandise imports.

Manufacturing GDP represents on average only 10% of GDP in Africa. This means that limited production capabilities within Africa are currently being compensated for through foreign imports. This manufacturing deficit could be eventually satisfied within the continent and enabled by AfCFTA.

"Further, in terms of rapid global digitization, a sophisticated legal and regulatory framework that enables digital transactions is vital for full participation in global digital trade, which is expected to play a leading role in a post-pandemic trade environment.

"The trade in services, for example, is an especially pertinent area of focus for all countries in Africa and could represent a way to overcome the current production and supply chain limitations that threaten to hold up the Africa-wide trade in goods. Because a service can either be traded directly or serve as an input into the production process of a product, the liberalization of trade in services is not as hindered by current infrastructural or logistic deficits as the trade in goods. In this way, Africa's service trade sector can benefit from bypassing the industrialization phase," she says.

The AfCFTA report shows that the trade in services in general currently accounts for over half of gross value added in Africa. In order to fully realize its benefits, however, there needs to be a better understanding among policymakers of the important role that services can play in regional value chains. This will allow the continent to address the structural constraints on growth in these sectors. The report notes that easing restrictions on foreign government policy throughout the continent will increase the flow of service trade between countries. For example, allowing more access to the information and telecommunications systems would encourage companies to enter new markets. Further, lowering the cost of access and usage of communication and fortifying network security will encourage businesses to set up or ramp up operations in the continent

"Addressing infrastructure shortfalls, boosting manufacturing capacity, and leveraging the benefits of digitization will add strong links to Africa's regional supply chain, ensuring it can withstand breakages and disruption," adds Subban.

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