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Summary

ARTICLES

Nearshoring of US manufacturing corporates' supply chains: exploring administrative and economic issues for their potential expansion across the Americas

Yoel Modesto González Bravo*

Abstract

This article explores the main issues in relation to the current trend towards the deglobalization of supply chains. Specifically, it investigates the nearshoring from China of manufacture activities, mostly intermediate industrial goods, by US corporates, and how the Americas can best take advantage of this trend. This relocation into the region represents an important opportunity to speed up its economic development. For this purpose, the regional economic and administrative readiness for this trend will be explored based on the CAGE model proposed by Ghemawat (2007) to identify key areas for further improvements to enhance the regional nearshoring potential.

Keywords: Nearshoring – CAGE model – manufacturing industry – special economic zones – Americas.

JEL Classification: F10, F23, F55, F63, O14, O51, O54.

* Professor at Center of Innovation and Entrepreneurship, Catholic University Andres Bello, Caracas, Venezuela. Email: ygonzale@ucab.edu.ve. Received: February 3rd, 2022; modifications: June 28th, 2022; accepted August 18th 2022.

Resumen

Este artículo explora los temas principales en relación con la tendencia actual hacia la desglobalización de las cadenas de suministro. En particular, analiza el proceso de *nearshoring* desde China de la manufactura de bienes industriales, principalmente intermedios, por corporaciones norteamericanas y cómo las Américas pueden tomar ventaja de esta tendencia de la mejor manera. Esta reubicación hacia la región representa una importante oportunidad para acelerar su crecimiento económico. Para este propósito, la adecuación económica y administrativa regional a esta tendencia será explorada basada en el modelo CAGE propuesto por Ghemawat (2007) para identificar áreas clave a mejorar con el fin de incrementar el potencial regional para el *nearshoring*.

Palabras claves: Nearshoring – modelo CAGE – industria manufacturera – zonas económicas especiales – las Américas.

Introduction

After the end of the 20th century, different companies worldwide massively procured to outsource several operating activities to third parties in an attempt to control their costs within a context of trade barrier reductions for foreign trade (Varma et al., 2006). This trend led many of them, as outsourcers, to transfer these activities to third parties, known as outsourcees, operating in countries with relatively much lower operating costs, in a process known as "offshore outsourcing". This foster a new trade pattern known as "trade in tasks" that was intended to be easily coordinated through improvements in transport and telecommunication technologies (Elia et al., 2014; Lewin et al., 2009; Manning et

al., 2008). Other companies preferred to keep full ownership of their displaced operations through "captive offshoring" (Gray et al., 2013). Within this trend, China and India emerged as leading destinations for these activities, with specialization trends in manufacturing activities in China and in business support services in India. However, these countries started to lose competitiveness with the rise in the cost of their human resources, lack of legal protection for sensitive issues such as intellectual property, transport and inventory costs, cultural and language barriers as well as coordination problems with outsourcers from Europe and North America due to time differences leading to delays in critical decisions as well as for concerns about excessive concentration of outsourcees in few jurisdictions (Minder, 2008).

In order to cope with what has been deemed as a high reliance on manufacturing suppliers from China, the United States (US) authorities have enacted legislation to bring back manufacturing activities, including a recent proposal for an initiative known as "Back to The Americas", mostly aimed at returning manufacturing activities from China and relocating some of them across the Americas (Cortiñas & Schechter, 2021). This trend represents a promising opportunity for developing countries across the Caribbean and Latin America to create new trade flows through knowledge transfers from North American corporates that are in the quest for outsourcing alternatives at lower costs, high efficiency, lower cultural barriers, shorter physical distances and time differences, in comparison to their traditional offshoring destinations. This is aimed at reducing coordination problems as well as supply chain waiting times and trade disruptions as it was evidenced in 2020 with international transport restrictions due to the COVID-19 pandemic crisis.

Furthermore, a traditional large outsourcing destination such as China has been able to establish entry barriers to players from

other markets willing to enter into the international outsourcing market. These barriers, based on administrative and economic factors, have been achieved through the benefits that the country has accumulated in terms of know-how reflected by the substantial rise in the number of local patent fillings, the settling of large industrial parks, modernization of its ports to improve their logistics for foreign trade as well as the massive training of their labor force. These strengths in China represent important challenges for Caribbean and Latin American countries that lag behind in those areas, with more limited infrastructure, financial and human resources to match the demands of massive nearshoring into the region.

From this perspective, the first section of this article is aimed at identifying different factors that may confer competitiveness to regional exports linked to US supply chains. For this purpose, the framework to assess the nearshoring potential proposed by Ghemawat (2007) under the CAGE (cultural, administrative, geographical, and economic factors) model is used. This model allows to further identify administrative and economic factors that may impact on the regional nearshoring capabilities. Taking this model into consideration, the second section assesses different strategies aimed at improving the regional positioning to take advantage of this new trend in nearshoring manufacturing by US corporates. Finally, conclusions and recommendations are included to remark the key policies that should be considered to foster a competitive nearshoring strategy in the Americas.

Nearshoring as an outsourcing trend

The increasing inclusion of risks in the offshoring decision-making process arises from concerns related to growing complexities facing supply chains in offshoring practices, reputational risks, production quality standards, loss of productive skills and core

capabilities in the outsourcers' home countries, delays in critical decisions due to significant time differences, cultural barriers in communications, larger inventories to save in transport costs, among other factors (Ashby, 2016). Ghemawat (2007) clustered these factors into the CAGE model, as detailed in Table 1, to explain nearshoring decisions.

Table 1. CAGE Model for nearshoring decisions

Factor	Cultural	Administrative	Geographical	Economic
Attributes of distance between outsourcers and outsourcees	- Languages - Religions - Social norms	- Colonial links - Economic unions - Political situation - Institutional weakness	- Physical distance / time zones - Common borders - Sea access - Infrastructure links	- Differences in consumer purchasing power. - Differences in cost/quality of: -Natural resources -Financial resources -Human resources -Infrastructure
Main drivers for the decision	Hidden costs related to language barriers, diverging cultural values, etc.	Corruption, custom tariffs and other trade barriers.	Logistical costs comprising transport, inventories, etc.	Production cost advantages (closer to traditional trade specialization theories by Ricardo and Heckscher-Ohlin).

Source: Ghemawat (2007)

Under the CAGE model, cultural distance includes cross-country differences in languages, religions, and social norms, which involve the costs of understanding communications and the acceptance of social behavioral patterns in the interactions among their nationals. The category of administrative distances correspond to factors such as historical colonial linkages among countries, for which they share common administrative practices as result of the metropole's rule under current or former colonies, shared practices across tied countries through economic unions, the intensity of local political conflicts related to political turmoil, wars and the alike that may affect the normal business operations, the political or ideological affinity between governments favoring mutual business deals between their respective nationals, among others. This may result in different degrees of cross-country perceived corruption as well as trade and investment barriers. Geographical distance category is related to physical distances, time differences, infrastructure linkages and transport connections impacting on logistical costs related to the handling of inventories. Finally, the economic factors, mainly involved in nearshoring decisions, comprise cross-country differences in their factor endowments (labor, natural resources, etc.) impacting on the cost structure of different economic sectors according to their factor intensities.

The factors expressed in the CAGE model are evidenced in the increasing international spread of corporates' supply chains, since their coordination has become more difficult, reducing their flexibility, and increasing waiting times in the production process, whereas demands for closer contacts with customers for their timely assistance contribute to reconsider nearer locations for previously offshored operations (Tate et al., 2014). Mears (2005) observes that companies can best tackle operating problems in their supply chains by sending staff to nearer locations to tighten their control, especially for those activities that are riskier or more sensitive.

Recently, US outsourcers have faced problems with the timely supply from outsourcees in China. Many Chinese outsourcees have decided to prioritize outsourcers from other jurisdictions whose governments keep a friendlier stance towards the current Chinese authorities, delaying orders from US outsourcers. This has been coupled with temporary transport disruptions under the COVID-19 pandemic, which has been handled by the Chinese authorities with highly restrictive measures, including recurrent lockdowns in large cities in a context of rising labor costs in the country (Disis, 2022; Donahue, 2021). The arising combative relationship between US and Chinese authorities is related to claims of US intellectual property misappropriation by Chinese corporates and authorities as well as unfair trade protective practices kept by Chinese authorities with their foreign exchange policies, among other practices leading to a trade war between both countries by raising bilateral trade tariffs among other practices (Laufman et al., 2021). In addition, concerns for a potential war conflict with China over Chinese claims on Taiwan may dissuade US outsourcers in keeping a high reliance on Chinese suppliers. A war scenario may abruptly disrupt trade flows from China and expose those flows to economic sanctions as currently evidenced with Russia after launching an invasion campaign in Ukraine in 2022 (Gabrielsen, 2022).

There is also an increasing concern for reputational risks related to corporate social responsibility policies mostly undertaken by outsourcers based in developed countries. This concern demands a nearer monitoring of outsourcers' operating activities as well as those of their outsourcees to meet growing demands for environmental sustainability, more business transparency and respect for human rights, which are costlier to oversee across more distant providers under jurisdictions with less strict legal controls and higher cultural distances (Kinkel, 2014).

Another area of concern relates to production quality. This can be compromised whenever quality standards differs across countries. In connection with this concern, the transportation of goods from distant locations through countries with weaker quality controls for their handling contributes to increase the incidence of defective items (Gray et al, 2013). A focus on closer engagements with providers for their development, training and monitoring might contribute to improve their quality controls to reduce this incidence (Gualandris et al., 2014).

In addition, the supply flows from distant offshore locations might require the maintenance of larger inventories to reduce the impact of transportation costs and waiting times within supply chains, however, the maintenance of low inventory levels is key to reduce losses related to product obsolesce in a context of increasing disruptive innovations in different economic sectors (Cagliano et al., 2008). From this perspective, nearer locations tend to be favored for the outsourcing of manufacturing activities to reduce transport costs and other handling complexities, taking advantage of more available distribution channels by air, land and sea with the outsourcer's country. In the case of services such as accounting, data entry, telemarketing, among others that can be delivered through telecommunication channels, they might be more feasible to be provided from more distant places since their transport costs, mostly through Internet, are relatively much lower, reducing their attractiveness for nearshoring (Salvador & Rungtusanatham, 2002).

The significant time differences between outsourcers and outsourcees might further expose outsourcers to delays in the implementation of critical time sensitive decisions to face increasing changes in their business context (Fratocchi et al., 2014). As an example, the COVID-19 pandemic crisis in 2020 took many corporates by surprise when different governments around the

world decided to lockdown their countries, causing transport disruptions in supply chains as well as in business travels in general, exposing outsourcers to large losses related to business interruption risks (Kearney, 2021). Furthermore, the massive offshoring over recent years has led to losses of human resources' productive skills in outsourcers' home countries, weakening their local know-how development (Martinez-Mora & Merino, 2014). This fact becomes an important political issue in the affected countries, as many local politicians claim that losses of these skills make their countries more dependent and vulnerable to other competing countries, generating significant local job losses that might encourage civil unrest.

In general, outsourcers prefer to be engaged with suppliers from low-risk countries for the provision of core activities or high-skill services that are more intensive in high-skilled human resources under better legal systems to protect intellectual property in comparison to low-skill activities for which the procurement of low labor costs is a key competitive factor (Dekkers, 2010; Dunning, 1998; Minder, 2008). Under this paradigm, Grossman and Rossi-Hansberg (2006) consider that the offshore outsourcing process is leading to a new pattern of foreign trade specialization in tasks rather than in goods and services.

Considering the shorter geographical distance and the relative closer cultural affinity between the US and countries across the Americas in terms of language and religion in comparison to more distant locations in Asia, it is important to explore how the administrative and economic factors under the CAGE model have been key determinants for the higher competitiveness of China. Hence, how this resulted in China as a preferred offshoring manufacturing destination for US corporates and how the Americas can explore these factors to improve their positioning

to attract nearshoring manufacturing opportunities from China (Towards Data Science, 2020).

The Latin American administrative and economic outlook for nearshoring manufacturing

Administrative factors

The region can exploit its capabilities to attract nearshoring manufacturing opportunities for the provision of intermediate goods for US corporate through two strategies previously identified. First, through exports by independent local outsourcees of items such as the ones stated in Annex I, and second, through captive offshoring by US corporates. The suitability of each country for these strategies relies on policies enacted to protect foreign investments as well as to encourage local exports.

As per the promotion of local exports by independent local outsourcers, the main aspects to consider involve the existence of preferential trade agreements with the US. Other relevant factors include trade finance facilities and policies in the US and in the exporting country to encourage trade flows related to nearshoring decisions in the region by US corporates. For the attraction of foreign investment into the region from the US to exploit a captive offshoring strategy, it is important to overview legal factors. Among these factor it becomes relevant the existence of bilateral or multilateral investment protection agreements with the US and the tax treatment of these investments, through agreements to avoid double taxation and other aspects related to their tax burden, the relative bureaucratic easiness to start and run businesses in each country as well as political risk insurance availability to cover investment engagements in those countries. To illustrate this point, Table 2, below, shows different administrative incentives for nearshoring opportunities of US corporates in the Americas.

Table 2. List of different administrative incentives to promote nearshoring opportunities by US corporates across different jurisdictions in the Americas.

Country	Bilateral Treaty with the US	Multilateral Treaty with the US	Double Taxation Treaty with the US	Ease of Doing Business World rank (2020)	Insurance Coverage by the DFC
Anguila	-	-	-	-	-
Antigua and Barbuda	-	CARICOM TIFA	-	113	-
Argentina	In force and TIFA	-	-	126	Available
Aruba	In force	-	-		-
Bahamas	-	CARICOM TIFA	-	119	-
Barbados	-	CARICOM TIFA	In force	128	-
Belize	-	CARICOM TIFA	-	135	Available
Bermuda	-	-	In force (only for the insurance sector)	-	-
Bolivia	-	-	-	150	-
Brazil	In force (ATEC)	-	-	124	-
British Virgin Islands	-	-	-	-	-
Canada	-	USMCA	In force	23	-
Caribbean Netherlands	In force (Bonaire, Saint Eustatius, Saba)	-	-	-	-

Cayman Islands	-	-	-	-	-
Chile	In force (FTA)	-	-	59	-
Colombia	In force (TPA)	-	-	67	Available
Costa Rica	-	CACM	-	74	Available
Cuba	-	-	-	-	-
Curacao	In force	-	-	-	-
Dominica	-	CARICOM TIFA	-	111	Available
Dominican Republic	-	-	-	115	Available
Ecuador	-	-	-	129	Available
El Salvador	-	CACM	-	91	Available
Falkland Islands	-	-	-	-	-
French Guiana	In force	-	-	-	-
Greenland	-	-	-	-	-
Grenada	In force	CARICOM TIFA	-	146	Available
Guadeloupe	In force	-	-	-	-
Guatemala	-	CACM	-	96	Available
Guyana	-	CARICOM TIFA	-	134	Available
Haiti	-	CARICOM TIFA	-	179	Available
Honduras	In force	CACM	-	133	Available
Jamaica	In force	CARICOM TIFA	In force	71	Available
Martinique	In force	-	-	-	-
Mexico	-	USMCA	In force	60	Available
Montserrat	-	CARICOM TIFA	-	-	-

Nicaragua	-	CACM	-	142	Available
Panama	In force and FTA	-	-	86	-
Paraguay	-	-	-	125	Available
Peru	FTA	-	-	76	Available
Puerto Rico	-	-	US low taxation	65	-
Saint Barthelemy	-	-	-	-	-
Saint Kitts and Nevis	-	CARICOM TIFA	-	139	-
Saint Lucia	-	CARICOM TIFA	-	93	Available
Saint Martin	-	-	-	-	-
Saint Pierre et Miquelon	-	-	-	-	-
Saint Vincent and the Grenadines	-	CARICOM TIFA	-	130	Available
Sint Marteen	In force	-	-	-	-
Suriname		CARICOM TIFA	-	162	Available
Trinidad and Tobago	In force	CARICOM TIFA	-	105	-
Turks and Caicos	-	-	-	-	-
US Virgin Islands	-	-	-	-	-
Uruguay	BIT In force and TIFA	-	-	101	-
Venezuela	-	-	In force	188	-

Source: IRS (2021), UNCTAD (2021), The World Bank (2020).

On the one hand, regarding the protection of US investment in the Americas, these investments can be protected under different bilateral and multilateral investment agreements subscribed by these countries, with the exception of the cases of Bolivia, Cuba, Dominican Republic, Paraguay, and Venezuela. For those territories in the region that remain controlled by European countries (such as France, Denmark, The Netherlands and the United Kingdom), investment protection is granted under provisions included in different Friendship, Navigation and Commerce Treaties with the US (Chang and Boos' Canada – US Immigration Law Center, 2021). On the other hand, with respect to the conditions to conduct businesses, most jurisdictions in the region should improve their conditions to ease the incorporation of new businesses and remain competitive for them. This suggestion is raised after observing that only nine countries (Canada, Chile, Colombia, Costa Rica, Panama, Mexico, Panama, Peru, and Puerto Rico) in the region are placed in the first half of 190 assessed countries in the World Bank's Ease of Doing Business rankings.

In relation to treaties to avoid double taxation, few jurisdictions across the Americas maintain these kinds of treaties with the US. It may be highlighted the cases of Canada and Mexico as the largest regional economies that report this kind of treaty with the US. Even though US investments across the Americas are covered against political risks such as confiscation, expropriation and other property depriving measures under different treaties and political risk insurance programs such the ones run by the U.S. International Development Finance Corporation (DFC), there is a relatively low number of treaties to avoid double taxation on profits and other rent distributions, raising the tax burden in a context of increasing use of arm's length transaction pricing

between related parties, decreasing the attractiveness of captive nearshoring under the current regional tax context[1].

A further incentive for foreign direct investments into the Americas for nearshoring purposes consists in the promotion of Special Economic Zones (SEZs) and Free Points providing total or partial tax and duty waivers for companies that establish operations in some jurisdictions. These zones can be aimed at promoting exports and substituting imports and are fostered by around 30 American nations and territories, generating more than one million direct jobs by approximately 10,200 companies. Table 3 shows the distribution of SEZs and Free Points in the Americas.

Table 3. Special economic zones and free points in the Americas, 2018

Country	SEZs by law	SEZs in process	SEZs by functionality				Free Points	SEZs in plans
			Logistics	Multi-function	Specia-lized	Inno-vation Driven		
Antigua and Barbuda	2	1	0	1	1	0	..	..
Argen-tina	14	..	12	1	0	1	0	..
Aruba	2	1	0	2	0	0	..	..
Bahamas	6	0	1	0	5	0	..	..
Barbados	0	0	0	0	0	0	..	0
Belize	4	..	1	3	0	0	..	..
Bolivia	7	..	0	7	0	0	0	..
Brazil	32	6	1	25	6	0	0	..
Cayman Islands	6	..	0	0	6	0	0	..
Chile	4	1	2	2	0	0	0	..

1 Insurance coverage available with priority for low and lower-middle income countries and may consider specific projects in upper-middle countries. In all cases, these countries are not subject to economic sanctions by the US government.

Colombia	39	2	1	36	2	0	72	..
Costa Rica	49	..	0	47	1	1	82	..
Cuba	1	..	0	1	0	0	0	..
Curaçao	2	..	1	1	0	0	0	..
Dominica	..	..	..	..	..	..	..	..
Dominican Republic	73	..	0	52	21	0	144	..
Ecuador	12	3	2	6	3	1	0	..
El Salvador	17	..	0	16	1	0	0	..
Grenada	0	0	0	0	0	0	..	..
Guatemala	18	1	0	18	0	0	1 396	..
Guyana	0	0	..	..	..	..	..	1
Haiti	13	6	0	9	4	0	0	2
Honduras	39	..	0	39	0	0	0	..
Jamaica	17	6	0	17	0	0	38	3
Mexico	17	..	12	5	0	0	6 188	3
Nicaragua	52	..	0	51	1	0	0	..
Panama	15	..	0	13	1	1	0	5
Paraguay	2	..	0	2	0	0	108	..
Peru	4	..	0	4	0	0	0	3
Saint Kitts and Nevis	..	..	..	..	..	..	..	..
Saint Lucia	1	..	0	1	0	0	2	..
Saint Vincent and the Grenadines	0	0	0	0	0	0	..	..
Suriname	..	..	..	..	..	..	..	..

Trinidad and Tobago	1	..	0	0	1	0	17	..
Uruguay	23	..	8	7	6	2	0	6
Venezuela, Bolivarian Republic of	14	1	2	9	3	0	0	1

Source: UNCTAD (2019).

The setting of SEZs can be used as an initial step to liberalize economic activities in countries with weak governance where the launching of economic reforms covering whole countries might be difficult. The number of SEZs in Latin America and the Caribbean has grown over the last years, reaching 486 by 2018, but well behind the number reported by other competing offshoring regions such as China, India and South-East Asia with 2,543; 373 and 737 SEZs respectively (UNCTAD, 2019). Most SEZs in Latin America and the Caribbean were initially intended to provide logistics and warehousing, evolving to manufacturing and services as the political and economic conditions of most countries in the region have tended to stabilize. The system of Free Points is relatively more popular in the region in countries such as Colombia, Dominican Republic, Guatemala, and Mexico, which involves the granting of SEZ incentives to companies regardless their geographical location in the country to encourage their operations in many economically depressed areas. By contrast, the model adopted in Asia has been more focused on the clustering of companies in specific geographical areas to take advantage of agglomeration economies by sharing services and resources.

In order to assess a strategy of manufacturing outsourcing with local producers, the US report free trade agreements with 20 countries in the Americas, including agreements with Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador,

Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru. Other countries that have subscribed preferential trade agreements with the US comprise Australia, Bahrain, Israel, Jordan, Morocco, Oman, Singapore, and South Korea. As it can be evidenced, most agreements subscribed by the US have been with neighboring countries, contributing to diversify nearshoring jurisdictions for US corporations and enhancing their bargaining power with local authorities rather than focusing on a specific jurisdiction at risk of being progressively dependent on any particular local authority. It must be noticed that many preferential trade agreements are not bilateral, but include various trade partners, such as the USMCA (United States, Mexico and Canada Agreement) which include Canada and Mexico, and the CAFTA-DR (Dominican Republic - Central America Free Trade Agreement) that since 2006 established a framework for relations with Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. The use of regional agreements may contribute to increase the bargaining power of small countries with the US.

In addition to free trade agreements, most countries in the Americas report special temporary import regimes for those items that are used to be transformed for their further export, providing their re-exporters with duty drawbacks among other incentives. This regime is of key importance for nearshoring decisions related to manufacturing as it contributes to save on custom tariffs and other charges levied on semi-final products within outsourcers' supply chains. US outsourcers can take advantage of this trade incentive for both nearshoring strategies in Antigua and Barbuda, Argentina, Bahamas, Barbados, Brazil, Belize, Bolivia, Canada, Colombia, Costa Rica, Chile, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Paraguay, Peru, Saint Lucia, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Surinam, Trinidad and Tobago, Uruguay, and Venezuela (ITA, 2021).

After this review, the nearshoring with local independent outsourcees, as producers, can be seen as the most competitive nearshoring strategy for US corporates. Under this strategy, outsourcers limit their exposure to potential political and other risks in the region to only trade flows, whereas local outsourcees could take advantage of incentives related to tax and duty drawbacks. At the same time, local outsourcees are expected to be more acknowledgeable of local administrative practices and enjoy easier access to local social capital to protect their trade deals with US outsourcers through lobby practices, among others. Regional economies can improve their bargaining power for their foreign trade frameworks with the US through regional rather bilateral free trade agreements, since regional treaties allow them to gather their economic strengths to ask for the reduction of trade barriers in their exchanges with US partners, improving their perspectives for more export flows to the US arising from nearshoring processes.

Economic factors

For the assessment of the relative competitiveness of different Latin American countries in the trade of intermediate products within US corporates' supply chains, their Revealed Comparative Advantage index (Balassa, 1965) will be used. The RCA is determined considering the trade flow between the US and Latin American countries for the period 2010 – 2019 as expressed in (1) below:

(1)

Where:

$$RCA_{Ai} = \frac{\frac{X_{Ai}}{\sum_{j \in P} X_{Aj}}}{\frac{X_{Wi}}{\sum_{j \in P} X_{Wj}}}$$

P: Set of all intermediate goods *j* considered for nearshoring purposes in country A.
X_{Ai}: Export of intermediate good *i* from country A to the US.
$\sum_{j \in P} X_{Aj}$: Total exports of intermediate goods considered for nearshoring purposes from country A to the US.
X_{Wi}: Export of intermediate good *i* from the rest of the world, W[2], to the US.
$\sum_{j \in P} X_{Wj}$: Total exports of intermediate goods considered for nearshoring purposes from W to the US.

According to this index, a country A has a revealed comparative advantage in product *i* if the ratio of its exports of intermediate good *i* towards the US in relation to its total exports of intermediate goods towards the US is higher than the same ratio for the rest of world, W. In this case $RCA_{Ai} > 1$.

The extent of offshoring practices by the US industry can be more easily identified through imports of intermediate goods rather than final goods, whose level of offshored manufacturing cannot be easily tracked by official statistics (Geishecker, 2006; Cadarso et al., 2008; Michel & Rycx, 2012). Given this limitation, this analysis will be focused on the RCA_{Ai} as reported by exports of these goods towards the US from near countries in the Americas as the target region for nearshoring relocations as goals under the Back to The Americas initiative and currently pursued by development institutions such as the Inter-American Development Bank. After processing official data corresponding to US imports for the period 2010 to 2019 from the Americas, specific competitive exports of manufactured intermediate goods into the US have been identified through their RCA_{Ai} (Table 4).

2 Rest of the world (W): excluding the US.

Table 4. Intermediate manufactured exports to the US from American countries reporting $RCA_{Ai} > 1$ for the period 2010 to 2019

Export	Countries of origin
Automotive tires and tubes	Brazil, Chile, Costa Rica
Bodies and chassis for passenger cars	N.D
Bodies and chassis for trucks and buses	Canada
Engines and machine parts (carburetors, pistons, rings, and valves)	Brazil, Canada, Mexico,
Generators, accessories	Brazil, Mexico, Saint Kitts and Nevis
Marine engines, parts	N.D.
Military aircraft and parts	Canada
Motorcycles and parts	N.D.
Nonfarm tractors and parts	Brazil
Other parts and accessories of vehicles	Canada, Honduras, Mexico, Nicaragua
Parts – civilian aircrafts	Canada
Synthetic rubber – Primary	Argentina, Brazil, Canada

Sources: Author's own elaboration from statistics reported by ITA (2021).

As it is shown in Table 4, 12 intermediate manufactured items have been clearly identified within the import trade flows from the rest of the world to the US. Countries from the Americas revealed comparative advantages in nine out of twelve of these items in their exports towards the US. Only three of these countries report comparative advantages in more than one item, namely, Brazil, Canada and Mexico. Most intermediate items are related to the automotive sector (cars, buses, motorcycles, nonfarm tractors) totaling eight items.

These patterns can be explained, for the cases of Canada and Mexico, since both countries have entered into a regional free trade agreement with the US, easing trade barriers such as tariffs, etc. and have advantages in transport costs to the US due

to their physical proximity. Brazil reports a highly diversified and sophisticated set of exports in comparison to other countries in the Americas according to its Economic Complexity Index (ECI) for 2019, which scored 0.10, being overpassed by Mexico (1.31), Canada (0.69), Costa Rica (0.38), Panama (0.24) and Trinidad & Tobago (0.13)[3]. From these results, Canada emerges as the main competitor for developing countries in the Americas as nearshoring location for US outsourcers of intermediate manufactured goods. By contrast, China did not reveal a permanent comparative advantage in the items stated in Table 4 for 2019, as this country has been transitioning from exports of intermediate goods to final goods, at the same time that the offshoring manufacturing of parts has been progressively migrating from this country.

In order to assess the potential for new nearshoring opportunities in the region, it is also important to identify whether the capabilities employed in the production of current exports can be deployed in the production of new sophisticated intermediate items that are not exported to the US. This measurement can be tracked by exploring the Complexity Outlook Index (COI) as a proxy index to this potential[4]. Table 5 reports the ECI and COI across the Americas.

Table 5. Economic Complexity Index and Complexity Outlook Index for countries in the Americas and China in 2019

Country	ECI world ranking	ECI	COI world ranking	COI
China	16	1.35	43	0.6
Mexico	17	1.31	42	0.6

3 Economic Complexity Index (ECI): is an index that indirectly infers the productive capabilities required to produce its competitive exports. Least complex countries are placed at the bottom of the ECI since these countries export fewer products that are produced in more countries in comparison to more sophisticated exports.

4 Complexity Outlook Index (COI): is an index that quantifies the 'opportunity value' for a country considering the level of complexity of products that are not being produced weighted by how close these products are to the country's current exports in terms of complexity. A higher value for the COI means that current exports are closer to more products as well as to more complex ones.

Canada	36	0.69	12	1.41
Costa Rica	44	0.38	51	0.29
Panama	48	0.24	68	-0.17
Trinidad and Tobago	51	0.13	99	-0.84
Brazil	53	0.1	31	0.85
El Salvador	54	0.09	54	0.17
Colombia	55	0.09	66	-0.07
Uruguay	62	0.01	76	-0.33
Dominican Republic	69	-0.18	75	-0.32
Chile	71	-0.21	77	-0.34
Argentina	73	-0.24	53	0.26
Jamaica	74	-0.24	91	-0.74
Guatemala	79	-0.32	38	0.72
Paraguay	85	-0.45	95	-0.79
Honduras	90	-0.57	74	-0.32
Cuba	94	-0.69	113	-1.1
Peru	100	-0.8	69	-0.23
Bolivia	102	-0.83	101	-0.86
Nicaragua	104	-0.88	89	-0.65
Ecuador	117	-1.11	110	-1.09
Venezuela	128	-1.49	130	-1.28

Source: The Growth Lab and Harvard University (2021).

After reviewing the ECI and COI rankings, most countries in the Americas perform in the second half of 133 assessed countries worldwide, below place 67th for both indexes. As per the ECI, nine countries are included in the first half comprising Mexico, Canada, Costa Rica, Panama, Trinidad & Tobago, Brazil, El Salvador, Colombia, and Uruguay. In relation to the regional potential to produce and export new sophisticated items based on local capabilities, eight countries are reported as promising destinations at the top first half of assessed countries worldwide according to their COI, including Canada, Brazil, Guatemala,

Mexico, Costa Rica, Argentina, El Salvador, and Colombia. For the ECI, countries in the region scored below China, however Mexico reports complexity levels very close to those reported by China, whereas four counties performed better than China in their COI, namely, Brazil, Canada, Mexico, and Guatemala. Based on the complexity of current exports from the top regional countries according to their ECI and COI, several opportunities for new nearby goods to their current export capabilities with the highest likelihood of success in their production are displayed in Annex I[5]. The different items displayed in Annex I require productive capabilities that match the ones used to produce items reported in Table 4, mostly related to the automotive sector such as glasses, paintings, parts of iron or steel, etc., across Latin American countries, such as Argentina, Brazil and Mexico.

A strategic approach for nearshoring in the Americas

The most distinctive approach across the Americas to attract FDI into the manufacturing sector, particularly in Latin America, has been through the promotion of Free Points. By contrast, in China, as well as in other Asian countries, the main strategy to attract FDI for the same purpose has been through SEZs.

The main competitive advantage of SEZs for manufacturing offshoring is focused on the presence of agglomeration economies in these zones, where clusters of enterprises with forward and backward linkages manage to gather pools of suppliers, human resources, social networks, shared infrastructures, reduction in transportation costs, among other elements that contribute to reduce their average costs as explained under the new economic

5 Considering nearby products with a complexity higher than 3 (in the scale of 0 as less complex to 5 as most complex) with a closeness to the use of current productive capabilities equal or higher than 3 (in the scale of 0 as more distant to 5 as less distant).

geography models (Krugman, 1991; Marshall, 1890). However, there are limits for the potential growth within SEZs, including the emergence of environmental externalities and inflationary pressures related to congestion levels in these zones (Grazi et al., 2016). From this perspective, Free Points contribute to dispersion economies by reducing pressures on local resources such as labor and land, leading to relatively lower inflationary levels, easing their competitiveness cost (Polenske, 2005).

Some researchers have also found that industrial concentrations in specific locations, as proposed under the SEZs model, may cause disadvantages to their member firms. This occurs when these companies have to face fast technological changes, especially when these concentrations are sector-specialized, since these specialized firms tend to be excessively information-focused and less exposed to information flows and social capital related to sectors where these changes might emerge. This has been evidenced with the economic decline of places like Detroit in the US, strongly associated with changes in the automobile industry worldwide. These deficiencies may make them less innovative and more resistant to these changes (Glasmeier & Sugiura, 1991; Harrison, 1994).

In order to attract FDI under a nearshoring strategy, it is important to analyze the usefulness of SEZs as Export Processing Zones (EPZs) and Free Points under the assumption that US outsourcers are expected to consider the use of both to produce intermediate goods within their supply chains. This type of use typically reports backward linkages in local economies but more limited or almost inexistent local forward linkages, being characterized as economic enclaves.

The effectiveness of EPZs within a context of SEZs has been generally assessed under the framework of the 'enclave model'

proposed by Warr (1989) that uses cost/benefit analysis for this purpose. For Warr, the key element to determine the effectiveness of EPZs in terms of local social welfare is based on the surplus of actual payments at market prices over the opportunity costs of the respective local resources that are used. As an example, there will be a net benefit if actual paid market wages exceed the social opportunity cost of employees (shadow wages) in EPZs. On the contrary, if governments subsidize the use of local resources by firms operating in EPZs to pay market prices below their opportunity costs, then, there would be a net loss.

Following the analysis proposed by Warr, Jayanthakumaran and Weiss (1997) the economic net benefit/cost (NBC) in any year t for an EPZ may be express as:

$$NBC_t = (MW_t - SW_t)L + (DP_t - MSC_t)Q + T_t + NP_t - K_t - A_t \quad (2)$$

Where:
MW_t : Market wage.
SW_t : Shadow wage.
L : Number of employed local workers.
Q : Number of purchased local inputs.
DP_t : Domestic price of local purchased inputs.
MSC_t : Opportunity cost of local purchased inputs.
T_t : Tax payments to local and national authorities.
NP_t : Net profits to local shareholders.
K_t : infrastructure cost of the EPZ.
A_t : Administrative cost of the EPZ.

In the case of an EPZ, their promoting authorities face an annualized infrastructure cost of K_t equivalent to their investment in infrastructure to develop the zone as well as annual administrative costs, A_t, to keep it running. These costs are due to be recovered through the imposition of annual taxes equivalent to T_t,

levied on the users of the EPZ. It is expected that the developed infrastructure within the EPZ contributes to the achievement of agglomeration and scale economies by firms located within the zone, increasing their net profits before taxes, hence, T_t should be higher than their levels without the achievement of these economies, T_t^*:

$$T_t > T_t^* \quad (3)$$

The same pattern related to higher corporate profits through these economies should yield levels of NP_t higher than those without the exploitation of these economies, NP_t^*:

$$NP_t > NP_t^* \quad (4)$$

In addition, for a positive impact in local welfare, the following relationships should hold:

$$MW_t - SW_t > 0 \quad (5)$$

$$DP_t - MSC_t > 0 \quad (6)$$

The net present value of these annual NBC_t should be positive for the EPZ project to be viable.

By contrast, the promotion of Free Points[6] does not require the undertaking of investments in infrastructure and their related administrative costs to be further recovered through taxes levied by governments. These points can be promoted to reduce congestion levels in big cities as well as for exports promotion, job opportunities in areas of high unemployment, among others. Firms operating under a Free Points scheme are unable to achie-

6 Free Points also known as 'Single Company Free Zones'.

ve the same levels of agglomeration economies, as compared to those operating in EPZs, reducing their relative operating profits. Governments with limited access to resources to finance EPZs' infrastructure might prefer the promotion of Free Points in exchange for lower tax burdens on firms operating as Free Points. For simplicity, assuming that the level of taxation in a EPZ is just enough to yield revenues to cover infrastructure and administrative costs $T_t = K_t + A_t$ and a total waiver of taxes might be granted to firms operating as Free Points, then, the government will end up with no revenues under both strategies. Moreover, the higher dispersion of firms as Free Points might reduce demand pressures on local workers and inputs in comparison to EPZs, leading to surplus levels $MW_t^* - SW_t$ and $DP_t^* - MSC_t$ such as:

$$MW_t^* - SW_t < MW_t - SW_t \quad (7)$$

$$DP_t^* - MSC_t < DP_t - MSC_t \quad (8)$$

The only way for Free Points to be as attractive as EPZ in terms of general welfare levels implies that the reduction in taxes and inflationary pressures leads to NP_t^* levels much higher than NP_t such as:

$$(MW_t^* - SW_t)L + (DP_t^* - MSC_t)Q + NP_t^* > (MW_t - SW_t)L + (DP_t - MSC_t)Q + NP_t \quad (9)$$

From the previous relation:

$$NP_t^* - NP_t \geq (MW_t - MW_t^*)L + (DP_t - DP_t^*)Q \quad (10)$$

Expression (10) should hold to guarantee that Free Points are at least as attractive as EPZs. However, the granting of tax incentives to Free Points has to be compliant with regulations of the World Trade Organization (WTO). The incentives provided

for firms operating under both schemes should comply with the Agreement on Subsidies and Countervailing Measures (ASCM) limiting the use of exemptions on direct taxes and custom tariffs on imports of capital goods that are not re-exported as well as non-admitted exemptions to indirect taxes, waivers in social welfare payments, among others. Some countries in the Americas such as the members of the MERCOSUR bloc have provided some of those incentives that do not comply with the ASCM and must be adjusted (Gari, 2011).

The WTO agreements allow EPZs in Least Developed Countries[7] to exempt their member firms from indirect taxes on exports (sales taxes) and on imports by grating duty drawbacks from imports used to produce exports as well as exemptions on border taxes such as consular fees. These countries are also exempt from compliance with the ASCM unless these countries overpass a GNP per capita for USD 1,000 over a period of three consecutive years.

From this perspective, US outsourcers, willing to use a nearshoring strategy in Free Points across the Americas, should consider the availability of local resources and their bargaining power with their suppliers to achieve higher levels of profits in comparison to EPZs, which might have a higher local welfare impact whenever local shareholders are involved in nearshoring undertakings, so authorities might be more prone to promote Free Points schemes.

The nearshoring of more sensitive areas in supply chains requires the training of a high-skilled labor force and the encouragement of ventures as potential outsourcees to handle complex cognitive tasks. Some of the competencies required for these tasks are internationally assessed among students as future employees

7 As classified by the United Nations.

and entrepreneurs by the Programme for International Student Assessment Tests (PISA tests) applied in 79 countries, covering areas such as mathematics, reading and sciences. The results for the Americas (except for the US) and China in 2018, are reported in Table 6.

Table 6. PISA Test results for the Americas and China. 2018.

Country	Reading	Mathematics	COI world ranking
Argentina	63	71	65
Brazil	57	70	66
Canada	6	12	8
Chile	43	59	45
China	1	1	1
Colombia	58	69	62
Costa Rica	49	63	60
Dominican Republic	78	78	78
Mexico	53	61	57
Panama	71	76	76
Peru	64	64	64
Uruguay	48	58	54

Source: Schleicher (2019).

From Table 6, it can be evidenced that the results from the Americas lag behind the ones from China in 2018. Canada emerges as the best regional performer with scores for reading, mathematics and sciences ranking the country in the 6th, 12th and 8th places respectively, overpassing the Latin America with scores for reading ranging from Chile in the 43rd place to Dominican Republic in the 76th place, for sciences ranging from Chile in the 45th place to Dominican Republic in the 78th place and for mathematics ranging from Uruguay in the 58th place to Domini-

can Republic in the 78th place whereas scores from China rank the country in the 1st place in the three areas (Schleicher, 2019)[8]. In other to foster these skills to sustain a competitive advantage across the region, it is important to reform the educational system, particularly in Latin America and the Caribbean, to improve the performance of students in base competencies required for those tasks as well as to enhance the access of the regional population to an educational system of higher quality, more focused on these competencies, reducing the current cognitive overload in most educational programs in the region (Paul, 2019).

In comparative terms, it is important to stress out, from the previous PISA tests results, that the educational system across the region reveals a higher performance for sciences among students, which are useful in economic sectors such as the pharmaceuticals and medical equipment one. This sector's supply chain scores as the most sensitive according to the Supply Chain Sensitivity Index by Euromonitor International in 2019, requiring a closer clustering to reduce its sensitivity, which might be achieved through its nearshoring into the Americas by US corporates, whereas the automotive sector' supply chain scores as the third most sensitive one in which some countries in the region reveals a high competitiveness according to their revealed comparative advantages as previously discussed (Liuima, 2020). Table 7 reports the top ten selected manufacturing sectors according to their supply chain sensitivity indexes.

8 Ten countries from Latin America took part in the 2018 PISA Tests, including: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Panama, Peru, and Uruguay.

Table 7. Selected top ten manufacturing industries according to their Supply Chain Sensitivity Index by Euromonitor International in 2019

Sector	Rank
Pharmaceuticals and Medical Equipment	1
Agriculture	2
Automotive	3
Hi-tech Goods	4
Machinery	5
Food Products	6
Aerospace	7
Textiles	8
Beverages	9
Chemical Products	10

Source: Liuima (2020).

In general, the improvement of the regional perspectives for nearshoring in these sectors requires that governments across the Americas address skills-jobs mismatches by developing systems to detect them. It is also important to encourage the involvement of employers in the detection of these mismatches as well as the upskilling and reskilling of the regional labor force, particularly through relevant technical training programs at the workplace as well as at training institutions by matching the employers' needs to compensate for the deficiencies of the traditional educational system. Some regional experiences to solve this mismatch have been evidenced in Brazil and Chile with the development of labor information systems run by sector skills councils such as the mining and wine councils in Chile to detect skill shortages. Other countries, such as Mexico and The Bahamas, are starting to run apprenticeships and dual education models backed by employers to address labor skills shortages (Pages-Serra, 2017).

Conclusions

The nearshoring by US Corporates into the Americas for manufacturing purposes requires a strategic international positioning of the region. For this purpose, the region needs to exploit its current regional productive capabilities mostly used in competitive exports, to encourage a wider basket of goods whose production involves the use of already developed regional capabilities in sectors such as automotive, food, tourism, among the most relevant ones. The sustainability of these capabilities demands a permanent training of the local labor force in the skills and capabilities required by these sectors, improving the access of the wider population to these training opportunities through more training institutions, more flexible training funding sources, permanent knowledge transfers initiatives with more developed markets, the encouragement of local innovative entrepreneurial initiatives linked to those sectors coupled with more availability of suitable funding for these initiatives such as venture capital, business accelerators and incubators, among others, improving the perspectives for captive offshoring as well as for dealings with local outsourcees.

Different jurisdictions across the region could also improve their perspectives for nearshoring by entering into more agreements with the US to reduce double taxation in order to enhance the feasibility of nearshoring dealings. Given the frequent political and economic instability in different underdeveloped jurisdictions in the Americas, US corporates should start their nearshoring into the region by limiting their exposure to only trade deals through the outsourcing with local producers, who are expected to be more acknowledgeable of local practices and with easier access to local social networks for lobby purposes to protect their business deals with their US partners. As the region tends to report a more stable outlook, then, US corporates could begin to use a captive

offshoring approach, which could be fostered though bilateral or multilateral treaties to protect the flow the US investments against political risks related to expropriation, confiscations, among other related risks.

Finally, the promotion of Free Points in the Americas complying with international trade agreements might contribute to speed up nearshoring processes, given the more constraint current regional resources to invest in the infrastructure required for EPZs, which should be later encouraged once more financial resources might be available for their development to foster agglomeration economies that contribute to enhance the regional competitiveness in international markets, which has been a key factor in the success of traditional nearshoring jurisdictions in Asia.

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Annex I. Opportunities for nearby products based on current country capabilities (from the country by highest ECI ranking)

Country	Current exports (2019)	Manufacturing opportunities (2019)
Mexico	Cars (9.11%), petroleum oil & crude (7.16%), parts of motor vehicles (5.68%), computers (5.59%), motor vehicles for transporting goods (5.23%), travel and tourism (4.80%), non-specified commodities (3.55%), insulated electrical wire (2.65%), monitors and projectors (2.23%), telephones (2.16%), medical instruments (2.05%), tractors (1.93), transmission apparatus for radio, telephone and TV (1.88%), seats (1.42%), electronic boards (1.14%), electronic integrated circuits (1.09%).	Based on its current exports, the country gathers capabilities to explore new manufacturing opportunities in items related to industrial machinery and apparatus (optical, medical, etc): platinum clad metals, pickling preparations for metal surfaces, grindstones, parts and accessories for office machines, amino-resins, drafting tables and machines, parts and accessories for metal working machines, instruments for physical or chemical analysis, screws and similar articles of iron or steel, electric soldering machines, machines n.e.c, chains of iron or steel, furnace burners, gaskets or similar joints of metal, transparent paper, machinery for making paper, measuring instruments.

Canada	Crude petroleum oils (12.50%), cars (7.41%), non-specified (7.06%), travel and tourism (5.13%), non-specified commodities (4.02%), gold (2.94%), transport (2.56%), ICT (2.55%), petroleum oil refined (2.26%), insurance and finance (1.93%), parts of motor vehicles (1.93%), petroleum gases (1.71%), packaged medicaments (1.30%), other aircraft and spacecraft (1.25%), gas turbines (1.22%), Wood sawn lengthwise (1.15%), wheat and meslin (1.01%).	Antifreezing preparation, electrical signal and traffic controls, whey, multiple-walled insulating glasses, newspapers/journals and periodicals, other plastics plates/sheets, glass fiber, railway track fixtures, photographic paper, parts of railways locomotives, tractors, other parts for machines and appliances, packed medicaments, vulcanized rubber plates, vehicle bodies, centrifuges, safety glass, other articles of iron or steel, machinery for making printing components, hydraulic fluids, central heating boilers, aluminum plates, orthopedic appliances, non-aqueous pigments, dish washing machines, lubricants, furnace burners, filter blocks of paper pulp, instruments for physical or chemical analysis, machinery for soldering, serums and vaccines, enzymes, prepared culture media for microorganisms, flat-rolled products for other alloy steel, automatic regulating instruments, amino-resins, thermometers/hydrometers, parts and accessories for metal working machines, pumps for liquids, knives and blades for machines, equipment for temperature change of materials, transmission shafts, acrylic polymers, instruments for measuring properties of liquids and gases, radar, pickling preparations for metal surfaces, machine tools for forging and molding metals, polyamides.

Costa Rica	Unspecified (20.68%), travel and tourism (17.47%), medical instruments (13.23%), bananas and plantains (5.92%), avocados, pineapples, mangos, etc. (5.44%), orthopedic appliances (3.50%), transport (2.16%), food preparations n.e.c. (1.75%), coffee (1.16%), ICT (1.13%), commodities not specified according to kind (1.07%).	The country reveals competitiveness in apparatuses (medical, optical, etc) and travel and tourism products. Among the related products: other printed matter, structures and their parts of iron and steel, books/brochures and related material, refrigerators, freezers, trailers and semi-trailers, finishing agents, newspapers/journals/periodicals, other uncoated papers and paperboard, packaged medicaments, baths/sinks, acyclic hydrocarbons, make-up preparations, anti-freezing preparations, machinery for soil preparations and cultivation, harvesting and agricultural machinery, mineral wools and insulating material, electric signals and traffic controls, pharmaceutical goods, parts for use with hoist and excavation machinery, wire used for welding, other articles of iron or steel, vulcanized rubber tubes, felt, work trucks, centrifuges, parts for electrical apparatus, wadding/gauze/bandages, railway track fixtures, flat-rolled iron, other engines and motors, central heating boilers, multiple-walled insulating glass, other breathing appliances and gas masks, other articles or copper, other agricultural machinery, other lifting machinery, radar, parts of motor vehicles, cars, dish washing machines, springs of iron or steel, sprays and powder dispensers, instruments for physical or chemical analysis, lubricants, equipment for temperature change of materials, parts and accessories for metal working machines, appliances for thermostatically controlled valves.

Panama	Transport (40.21%), travel and tourism (25.76%), insurance and finance (7.67%), refined petroleum oils (4.53%), copper ore (2.48%), bananas and plantains (1.67%), oils etc. from high temperature coal tar (1.60%), cargo ships and similar vessels (1.38%), packaged medicaments (1.37%), commodities not specified according to kind (1.08%).	Photographic cameras, other parts of machines and appliances, ink, polishes and creams, therapy appliances, non-aqueous paints and varnishes, electric sound and visual signaling apparatus, other plastic plates, sheets, etc, other printed matter, electric resistors, semiconductors devices, books/brochures, etc, make-up preparations, orthopedic appliances, newspapers/journals/periodicals, optical fibers, thermometers/hydrometers, etc., wadding/gauze/bandages, other breathing appliances and gas masks, electrical apparatus, work trucks, parts for use with hoists and excavation machinery, machinery for making printing components, parts and accessories for office machines, electronic integrated circuits, electrical capacitors, non-aqueous pigments, diagnostic or laboratory reagents, tube or pipe fitting of iron or steel, centrifuges, electrical machines with individual functions n.e.c., other articles of plastic, instruments for measuring electricity, radars, printers and copiers, other lifting machinery, unsaturated acyclic monocarboxylic acids, sprays and powder dispersers.

Trinidad and Tobago	Petroleum gases (29%), acyclic alcohols (12%), crude petroleum oils (10%), ammonia (9%), refined petroleum oils (7%), ferrous products from the reduction of iron ore (5%), travel and tourism (4.83%), nitrogenous fertilizers (3.37%), Parts for use with hoists and excavation machinery (2.25%), commodities not specified according to kind (1.83%), transport (1.78%), insurance and finance (1.10%).	Organic composite solvents and thinners, non-aqueous paints and varnishes, woods carpentry for construction, glaziers' puty, bobbins/spools/cops of papers, ferrocerium and other pyrophoric alloys, chocolates, other plates of plastic non-cellular not reinforced, structures and their parts of iron or steel, other plastic plates/sheets, other fermented beverages, other printed matter, acyclic hydrocarbons, books/brochures, glass fibers, machinery for soil cultivation and preparation, trailers and semi-trailers, antifreezing preparations, packaged medicaments, newspapers/journal/periodicals, mineral wools and insulating materials, other parts for machines and appliances, machines for making printing components, aluminum plates, harvesting or agricultural machinery, work trucks, electric signal and traffic controls, non-aqueous pigments, other agricultural machinery, railway track fixtures, flat-rolled iron, other articles of iron or steel, multiple-walled insulating glass, centrifuges, other lifting machinery, natural or abrasive powder, textile articles for technical use, springs of iron or steel, parts of motor vehicles, thermometers/hydrometers, machinery parts not containing electrical features n.e.c., machines, lubricants, prepared culture media for micro-organisms, parts and accessories for metal working machines.

Brazil	Soya beans (9.98%), Iron ores and concentrates (9.89%), crude petroleum oils (9.34%), unspecified (7.34%), corn (2.78%), chemical woodpulp, soda or sulfate (2.76%), poultry (2.45%), travel and tourism (2.39%), transport (2.21%), solid soybean residues (2.06%), frozen beef (2.05%), sugarcane & sucrose (1.99%), refined petroleum oil (1.96%), coffee (1.67%), commodities not specified according to kind (1.48%), cars (1.47%), gold (1.44%), other aircraft and spacecraft (1.30%), ferroalloys (1.21%), semifinished products of iron or non-alloy steel (1.03%).	Mechanical woodpulp, malt, oleum sulfiric acid, casein, hydrochloric acid, oats, other uncoated papers and paperboard, nickel unwrought, oils from high temperature coal tar, polymers of ethylene, bobbins, spools, cops of paper, propellant powders, coin, zinc powders, sulfonitric acids, other fermented beverages, antifreezing preparations, sodium hydroxide, whey, polymers of vinyl chloride, other animal fats and oils, parachutes, pharmaceutical goods, parts of railway locomotives, rye, mineral wools and insulating materials, aluminum oxide, flat-rolled iron, electrical insulators of any materials, polymers of styrene, other agricultural machinery, other coloring matter, newsprint, other engines and motors, multiple-walled insulated glass, compression-ignition internal combustion piston engines, enzymes, railway track fixtures, phenol alcohols, flat-rolled products of stainless steel, lubricants, textile articles for technical use, amino-resins, transmission shafts.

El Salvador	Travel and tourism (16%), ICT (11.92%), knit T-shirts (7.33%), transport (6.01%), knit sweaters, pullovers, sweatshirts etc. (5.58%), knit socks, stockings, etc., (2.54%), packaging lids (2.15%), sugarcane & sucrose (1.93%), electrical capacitors (1.93%), toilet paper (1.87%), knit men's undergarments (1.87%), packaged medicaments (1.69%), commodities not specified according to kind (1.54%), insurance and finance (1.46%), flavored or sweetened waters (1.41%), bakery products (1.36%), coffee (1.14%), brassieres (1.04%), other knitted fabrics (1.01%).	Packaging boxes, builders' plastic ware, aluminum containers, prefabricated buildings, glaziers' putty, wood carpentry for construction, other paints and varnishes, aluminum structures, other furniture and parts, ferrocerium and other pyrophoric alloys, particle board and similar board, refrigerators, freezers, baths, sinks, chocolates, polishes and creams, quilted textile products, new pneumatic tires of rubber, other uncoated paper and paperboard, other articles of iron and steel, stoves and similar non-electric appliances of iron or steel, glass fiber, electric heaters, books/brochures, other articles of aluminum, electric sound or visual signaling apparatus, wire used for welding, other articles of vulcanized rubber, parts for use with electric generators, synthetic monofilament, machinery for soil preparation or cultivation, vulcanized rubber tubes, trailers and semi-trailers, flat-rolled iron, machinery for making printing components, felt, parts for use with hoists and excavation machinery, safety glass, electrical transformers, electric signal and traffic controls, other articles of zinc, aluminum plates, central heating boilers, electric motors and generators, railway track fixtures, natural or abrasive powder, parts of motor vehicles, dish washing machines, other lifting machinery.

Colombia	Crude petroleum oils (26%), travel and tourism (14%), coal (9.86%), transport (5.14%), refined petroleum oils (4.80%), coffee (4.21%), gold (3.52%), cut flowers (2.26%), bananas and plantains (2.01%), ICT (1.45%), coke (1.42%), commodities not specified according to kind (1.22%).	Aluminum containers, packing boxes, organic composite solvents and thinners, sausages, non-cellular and not reinforced other plates of plastics, other printed matter, structures and their parts of iron or steel, non-aqueous paints and varnishes, glaziers' putty, tanks in iron or steel, acyclic hydrocarbons, trailers and semi-trailers, packaged medicaments, pharmaceutical goods, machinery for soil cultivation or preparation, antifreezing preparation, newspapers/journals/periodicals, motor vehicles for transporting goods, machinery for making printing components, other parts for machines and appliances, harvesting or agricultural machinery, aluminum plates, whey, non-aqueous pigments, other articles of iron or steel, mineral wools and insulating materials, electric signal and traffic controls, work trucks, flat-rolled iron, other articles of copper, other articles of plastic, other agricultural machinery, multiple-walled insulating glass, orthopedic appliances, railway track fixtures, central heating boilers, parts suitable for use with spark-ignition engines, cars, other lifting machinery, parts of motor vehicles, textile articles for technical use, amino-resins.

Uruguay	Travel and tourism (16.07%), ICT (11.92%), knit t-shirts (7.33%), transport (6.01%), knit sweaters, pullovers, sweatshirts etc., (5.58%), knit, Socks, stockings, etc. (2.54%), packing lids (2.15%), sugarcane & sucrose (1.93%), electrical capacitors (1.93%), toilet paper (1.87%), knit men's undergarments (1.87%), insulated electrical wire (1.72%), packaged medicaments (1.69%), commodities not specified according to kind (1.54%), insurance and finance (1.46%), waters, flavored or sweetened (1.41%), bakery products (1.36%), coffee (1.14%), brassieres (1.04%), other knitted fabrics (1.01%).	Malt extract, casein, packing boxes, aluminum containers, sausages, aqueous paints and vanishes, non-aqueous paints and vanishes, poultry, other fermented beverages, other printed matter, coin, rapeseed/colza/mustard oil, harvesting or agricultural machinery, acyclic hydrocarbons, other plastic plates/sheets, machinery for soil cultivation or preparation, book/brochures, antifreezing preparation, pork, peptones, newspapers/journals/periodicals, packaged medicaments, other parts for machines and appliances, pig and poultry fat, mineral wools and insulating materials, other agricultural machinery, other breathing appliances and gas mask, electric signal and traffic controls, diagnostic or laboratory reagents, work trucks, tractors, enzymes, lubricants, newsprint, textile articles for technical use, other lifting machinery, vehicle bodies, prepared culture media for micro-organisms, instruments for physical or chemical analysis, serums and vaccines, spark-ignition reciprocating internal combustion piston engines.

Argentina	Commodities not specified according to kind (11.44%), solid soybean residues (10.25%), unspecified (7.33%), corn (7.13%), travel and tourism (6.65%), soya beans (4.08%), motor vehicles for transporting goods (3.93%), soybean oil (3.88%), wheat and meslin (2.67%), gold (2.58%), frozen beef (2.48%), transport (2.34%), cars (1.55%), crude petroleum oils (1.45%), crustaceans (1.32%), ICT (1.31%), refined petroleum oils (1.01%).	Fuel wood, raw or processed flax, milk, food preparations n.e.c., rape or colza seeds, extracts and juices of meat or fish, particle board and similar board, cleaning products, polymers of propylene, hydrochloric acid, aqueous paints and varnishes, wooden railway ties, chocolates, other uncoated paper and paperboard, sausages, tall oil, other plates of plastic non-cellular and not reinforced, tar distilled from coal and lignite, flat-rolled iron, acyclic hydrocarbons, sodium hydroxide, special purpose motor vehicles, peptones, rapeseed/ colza/mustard oil, radiators for central heating of iron or steel, harvesting or agricultural machinery, antifreezing preparation, machinery for soil preparation and cultivation, non-aqueous paints and varnishes, pig and poultry fat, other animal fats and oils, other plastic plates and sheets, other printed matter, polyacetals, mineral wools and insulating materials, tractors, other agricultural machinery, rendered pig and poultry fat, newspapers/journals/ periodicals, railway track fixtures, electric signal and traffic controls, work trucks, non-aqueous pigments, vehicle bodies, lubricants, acrylic polymers, fork-lift trucks.

Guatemala	Bananas and plantains (8.40%), travel and tourism (8.22%), unspecified (7.11%), ICT (5.08%), coffee (4.38%), sugarcane & sucrose (4.23%), nutmeg (3.86%), knit, sweaters, pullovers, sweatshirts etc. (3.54%), transport (3.22%), knit T-shirts (2.49%), palm oil (2.33%), melons and papayas (1.57%), ferroalloys (1.55%), electrical energy (1.53%), packaged medicaments (1.40%), commodities not specified according to kind (1.21%), women's suits and pants (1.17%), insurance and finance (1.14%), legumes (1.08%), other knitted fabrics (1.05%).	Fermented milk products, milk, plaster articles, cheese, prefabricated buildings, strips and other pieces of wood, tanks in iron or steel, fowl, wadding of textile materials, fiberboard of wood, aluminum bars, other paints and varnishes, other plastic plates/sheets, wire of iron or non-alloy steel, seats, chocolates, aluminum structures (bridges, towers, etc.), other cast articles of iron or steel, chalk, other furniture and parts, articles of cement/concrete/artificial stones, asbestos-cement or cellulose-fiber cement, other uncoated paper or paperboard, baths/sinks, new pneumatic tires of rubber, books/brochures, other fermented beverages, glass fiber, other articles of vulcanized rubber, machinery for soil preparation or cultivation, packaged medicaments, newspapers/journals/periodicals, electric sound or visual signaling apparatus, other articles of iron or steel, trailers and semi-trailers, other articles of aluminum, parts for use with electric generators, vulcanized rubber tubes, machinery for making printing components, harvesting or agricultural machinery, parts for use with hoists and excavation machinery, non-aqueous pigments, other articles of plastic, railway track fixtures, central heating boilers, natural or artificial abrasive powder, parts of motor vehicles, other lifting machinery.

Source: The Growth Lab and Harvard University (2021).

Linkages between foreign direct investment, trade openness and economic growth in South Africa: Does exchange rate regime choice matter?*

Thobekile Qabhobho**
Edmund Vincent Nyarko Amoah***
Isaac Doku****

Abstract

This paper investigates the linkages between FDI, trade openness, and economic growth, and the role of exchange rate regime choice. To achieve this objective, the study used a secondary data set for the period 1995 - 2018 for South Africa. The study employed the ARDL and Granger causality test. The results showed no Granger causality between GDP and FDI. Uni-directional Granger causality was found to flow from GDP to trade openness and FDI to exchange rate. A bi-directional causality was established between GDP and exchange rate, and between trade openness and exchange rate. A Gregory-Hansen cointegration test was introduced to handle the concept of regime changes in the current study. Findings from the

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** Corresponding author. Department of Economics, Nelson Mandela University, South Africa. Email: Thobekile.Qabhobho@mandela.ac.za Received: December 1st, 2021; modifications: August 23rd, 2022; Accepted: August 26th, 2022.

*** Department of Economics, Nelson Mandela University, South Africa. Email: edmundvincento@gmail.com

**** Department of Economics Education, University of Education, Winneba-Ghana. Email: isaacoberkoh27@gmail.com

ARDL with a known structural break for exchange rate regime choice revealed that exchange rate had a significant positive impact on economic growth in the short-run, whereas it had a significant negative impact on economic growth in the long-run. This implies that, during the initial stages of an exchange rate policy, the South African rand appreciated, leading to a boost in economic growth. A change from managed float exchange rate regime to a free float exchange rate regime caused a 1.49% increase in economic growth. This may be interpreted as an indication that the free float exchange rate is a better choice compared to a managed float exchange rate. To conclude, the paper discusses policy implications and suggestions to policymakers in South Africa.

Keywords: Economic growth – exchange rate regimes – foreign direct investment – trade openness – South Africa.

Resumen

Este artículo analiza los vínculos entre la IED, la apertura comercial y el crecimiento económico, y el papel de la elección del régimen cambiario. Para lograr este objetivo, el estudio utilizó un conjunto de datos secundarios para el período 1995 - 2018 para Sudáfrica. El estudio empleó la prueba de causalidad ARDL y Granger. Los resultados no mostraron causalidad de Granger entre el PIB y la IED. Se encontró una causal de Granger uni-direccional del PIB a la apertura comercial y entre la IED al tipo de cambio. Se estableció una causalidad bidireccional entre PIB y tipo de cambio, y entre apertura comercial y tipo de cambio. Se introdujo una prueba de cointegración de Gregory-Hansen para manejar el concepto de cambios de régimen en el análisis actual. Los hallazgos del ARDL con una ruptura estructural conocida para la elección del régimen cambiario revelaron que el tipo de cambio tuvo un impacto positivo significativo en el crecimiento

económico a corto plazo, mientras que tuvo un impacto negativo significativo en el crecimiento económico a largo plazo. Esto implica que, durante las etapas iniciales de una política de tipo de cambio, el rand sudafricano se apreció, lo que generó un impulso en el crecimiento económico. Un cambio de un régimen de tipo de cambio de flotación administrada a un régimen de tipo de cambio de libre flotación provocó un aumento del 1,49% en el crecimiento económico. Esto puede interpretarse como una indicación de que el tipo de cambio de flotación libre es una mejor opción en comparación con un tipo de cambio de flotación administrada. Para concluir, el artículo analiza las implicaciones políticas y las sugerencias para los formuladores de políticas en Sudáfrica.

Palabras claves: Crecimiento económico – regímenes cambiarios – inversión extranjera directa – apertura comercial – Sudáfrica.

Introduction

After the end of apartheid rule in 1994, South Africa as a developing economy has embarked on many changes in its economic strategies. For this purpose, the country adopted economic policies to attract foreign direct investment (FDI) inflows and promote international trade, factors that foster a country's integration into the world. As a result, South Africa has seen a remarkable increase in FDI inflows from R1.3 billion in 1994 to R3.5 billion in 1996. Following this, and after the partial privatisation of the State-own enterprise Telkom, FDI inflows rise to R17.6 billion in 1997 (Masipa, 2018). This peak in FDI was followed by another eventful increase of 671% in 2005, after the acquisition of ABSA by Barclays (Thomas and Leape, 2005). In 2000, South Africa also transitioned from a managed floating to a free-floating exchange rate regime, in order to facilitate trade and attract more inward FDI. This policy was supported by a reduction of trade and investment barriers aiming to attain sustainable growth (Qabhobho, Wait, and Le Roux, 2019).

These policies were expected to impact economic growth, poverty reduction, job creation, and injection of funds into the economy. However, the current trends of economic growth and unemployment statistics are rather disappointing. Currency depreciation and insignificant skills development inversely impact the country's growth. These indicators raise the question about the linkages between FDI, trade openness, and economic growth, and the role of exchange rate policies implemented in the country in the last decades. Therefore, the objective of this study is to examine the linkages between FDI, trade openness, economic growth, and the role of exchange rate regime choice.

The paper is organized as follows. After this introduction, the second section provides the literature review. In the third section a

discussion on data issues and research methodology is presented. The fourth section presents, discusses and analyses the results of the study. Finally, the fifth section provides the conclusions and the implications of the study.

Literature review

The surge in FDI inflows has motivated research regarding its linkages with economic growth. Moreover, the research on the effects of trade openness on economic growth has also gained attention in the field of economic growth. Some research examines the effects of both FDI and trade openness on economic growth in a single study. However, these studies produced mixed results and disregarded the role of exchange rate regimes in facilitating interlinkages. Thus, this study attempts to contribute towards the closure of this gap. In this section, we provide a brief literature review on the interactions between FDI, trade openness, and economic growth.

Masipa (2018), using a vector error correction model, examines the association between FDI and economic growth in South Africa, showing a positive association between FDI and economic growth. A study by Makhoba and Zungu (2021) on the relationship between FDI and economic growth in South Africa, using a vector autoregressive model also found a positive relationship between these variables. This research concludes that host countries receive the necessary human capital development required for economic growth, as well as technological know-how and managerial expertise which are also required for economic development. Gunby, Jin, and Reed (2017) found contradicting results when they assessed the interactions between FDI and economic growth for the case of China, concluding that FDI has no significant impact on the Chinese economy. They further argued that in countries where FDI exerts positive impact, the

pre-existing conditions such as experience with foreign firms, the ownership structure of domestic firms, the source country of FDI, and a moderate technology gap play an important role in FDI's effectiveness.

Another glut of recent empirical research focussed on trade openness-economic growth nexus. Zahonogo (2017) examined the effects of trade on economic growth in sub-Saharan Africa using a pooled mean group estimation approach, finding a positive impact. Using an autoregressive distributed lag (ARDL) model for the case of South Africa, Malefane and Odhiambo (2018) found that trade openness has a positive impact on economic growth. Udeagha and Ngepah (2021) using the nonlinear autoregressive distributed lags (NARDL) model while examining the trade-economic growth nexus in the case of South Africa, found that trade openness has both short-run and long-run positive effects on economic growth. Asamoah, Mensah, and Bondzi (2019) assessed trade openness, FDI, and economic growth linkages in sub-Saharan Africa, using a structural equation modelling (SEM) approach. Their results also reveal a significant positive relationship between trade openness and economic growth.

Different from the above studies, Jakob (2016) conducted a research on the impact of the exchange rate regime on economic growth using a cross-sectional regression model across 36 developed and 38 developing countries. The findings from the study suggest that a fixed exchange rate regime stimulates economic growth. The author argues that a fixed exchange rate regime promotes stability, because the rate between a currency and its peg does not vary based on market conditions. Therefore, fixed exchange rate regimes create favourable business environment for investors and traders, while, with a floating exchange rate regime, central banks exercise uninterrupted monetary policy, which controls economies in times of crisis.

Based on the literature, the following hypotheses are formulated for the study.

H_0: There is no direct relationship between FDI, trade openness, and economic growth.

H_1: There is a direct relationship between FDI, trade openness, and economic growth.

H_0: There is no effect of exchange rate regime choice on FDI, trade openness and economic growth.

H_1: There is an effect of exchange rate regime choice on FDI, trade openness and economic growth.

Data issues and methodology

Variables description and data sources

For this study, annual time series data for the period 1995-2018, for FDI, trade openness, economic growth, and exchange rate regime in South Africa was used. The secondary data was sourced from the South African Reserve Bank (SARB), International Financial Statistics (IFS) of the International Monetary Fund (IMF), and World Bank. The selection of this time span allows to include the interactions between the variables, which can be compared between two periods of interest. first, the period from 1995 to 2000, where managed floating exchange rate regime was in place, and 2001 to 2018, when South Africa adopted a free floating-exchange rate regime (Mtonga, 2011). The selection of 1995 as a starting year was considered ideal for the study, as South Africa gained independence in 1994 and most economic restrictions were lifted after this period. Moreover, South Africa

was able to adequately trade (trade openness) with other countries across the world after the apartheid period.

Model specification

As stated in the introduction, the objective of this research is to determine the linkages between FDI, trade openness, economic growth, and the role of exchange rate regime choice. For this purpose, a functional form model is specified as:

$$LGDPt = ß0 + ß_1 LFDIt + ß_2 LTRADE\ OPENNESSt + ß_3 LEXRt + et \quad (1)$$

Where GDP is the gross domestic product, FDI is foreign direct investment inflows, trade openness is calculated as export plus import divided by GDP, and EXR represents the exchange rate. et is the stochastic error term. $ß_1$, $ß_2$, $ß_3$ and $ß_4$ represent the parameters to be estimated. All variables are log-transformed.

Priori expectations

In the context of this study, FDI to trade openness and economic growth linkages are expected to be positive. On the one hand, even though pegged and floating exchange rate regimes have significant implications for growth, each regime poses some degree of restrictions (Jakob, 2016). On the other hand, fixed exchange rate provides a volatility-free environment, which encourages investment and trade (Akani & Temitope, 2017). A fixed exchange rate discourages trade openness and promotes protectionist behaviour. However, the floating exchange rate regime allows industries to compete in production, encourages openness, and boosts economic growth (Adjei, Yu & Nketia, 2019). Literature provides contradictory views on the influence of trade openness. However, Kurihara (2013) argues that trade openness influences

inflation and economic growth. Thus, increasing trade openness will cause a rise in the quantity of capital flows into an economy, which will boost economic growth, but cause the general price level of goods and services to increase (Haque & Amin 2018). A lower tax rate is expected to boost economic growth in the short-run but increase foreign direct investment in the long-run (Howard, 2019).

Unit root test in presence and absence of structural breaks

In time series analysis, it is necessary to test data for stationarity. To cope with spurious problems, the current study performed the conventional unit root tests, Augmented Dickey-Fuller (ADF), and Phillips-Perron tests. In addition to the traditional tests, the study applied the alternative tests developed by Zivot & Andrews (1992) for one structural break, and by Clemente, Montanes & Reyes (1998) for two structural breaks. These alternative tests are necessary since the conventional tests are ineffective in cases where there are structural breaks as they result in a type-two error (Baimaganbetov et al., 2021).

Gregory-Hansen cointegration test

The concept of change in regime for the current study was handled differently using the Gregory-Hansen test. Gregory and Hanson (1996) define regime shifting as a change in both intercept and trend. The study made use of three models of the Gregory-Hanson test, such as intercept shift, intercept shift with the trend and intercept shift with slope. For a co-integration model, the Gregory–Hansen test (1996) was used to determine one unknown structural break. The null hypothesis is that there is no co-integration at the breakpoint against the alternative of co-integrating relationship, despite the break. If the absolute value

of the Zt statistic is higher than the 5% significant level, the null hypothesis is rejected.

ARDL bound test

This study adopts the ARDL test to test short-run and long-run causality relationships. The ARDL bounds test was used based on the assumption that the variables are I(0) or I(1). This model was adopted due to several features, which sets it apart from other models. First, ARDL can be applied, irrespective of whether the underlying variables are I(0), I(1), or a combination of both (Dantama et al., 2012). Second, the error correction model (ECM) can be derived from the model through a modest linear transformation, which incorporates short-run changes with long-run equilibrium without misplacing long-run data (Dantama et al., 2012). Third, small samples in the ARDL model are superior when compared to other cointegration models (Dantama et al., 2012). Pesaran and Shin (1999) claim that the ARDL model has fewer endogeneity concerns because it is free of residual correlation. Thus, the appropriate lags are corrected for both serial correlation and endogeneity problems. Lastly, the ARDL model can distinguish between dependent and explanatory variables in the model (Dantama et al., 2012).

Before using this test measure (ARDL bound test), the order of integration of all variables was ascertained by comparing the results of the Akaike Information Criterion (AIC) and the Schwarz Bayesian Criterion (SBC). The ARDL co-integration procedure will begin by determining the bound test for the null hypothesis of no co-integration, i.e., H_0: $\delta_1 = \delta_2 = \delta_3 = \delta_4 = \boldsymbol{O}$, against the alternative hypothesis of $\delta_4 \neq \boldsymbol{O}$. The ARDL bound test model is written as:

$$\Delta GDPt = a + \sum^{m}i=1\beta_1 i\Delta LGDPt\text{-}1 + \sum^{m}i=1\,\beta_2 i\Delta LFDIt\text{-}1 + \sum^{m}i=1\,\beta_3\Delta TRADE\ OPENESSt\text{-}1 + \sum^{m}i=1\,\beta_4\Delta LEXRt\text{-}1 + \delta_1 iGDPt\text{-}1 + \delta_2 iFDIt\text{-}1 + \delta_3 iTRADE\ OPENESSt\text{-}1 + \delta_4 iEXRt\text{-}1 + \mu t \quad (2)$$

Where, Δ represents first change, ^{m} is the lag length, a is the drift component, μt is the random error term, and δi (i=1,…,4) denotes the long-run coefficients, and βi (i=1,…,4) are short-run dynamic coefficients of the ARDL model. The F statistic was used to establish the presence of a long-run relationship. The null hypothesis indicates that there is no long-run relationship among the variables, and the alternative hypothesis indicates that there is a long-run relationship.

Error correction term (ECT)

The error correction term assesses the swiftness at which the dependent variables return to equilibrium after variations in other variables (Grant & Lebo, 2016). ECT assists in testing the short-run dynamics of the variables. Therefore, when utilizing a stationary process using time series data, some degrees of freedom may be lost (Scott-Joseph & Turner, 2016). Error correction term was used as a preventive measure in the current study and was specified as:

$$\Delta GDPt = a + \Delta GDPt\text{-}1 + \sum^{m}i=1\beta_2 i\Delta FDIGt\text{-}1 + \sum^{m}i=1\,\beta_3 i\Delta Trade\ Openess\ t\text{-}1 + \sum^{m}i=1\,\beta_4 i\Delta EXRt\text{-}1 + yECt\text{-}1 + \mu t \quad (3)$$

Where Δ is the first difference operator, $ECt\text{-}1$ is the error correction term, y denotes the speed at which the variables return to equilibrium. μt represent the random error term, and βi (i=1,…,4) are short-run dynamic coefficients of the ARDL model.

Results

Descriptive statistics

The results for the main descriptive statistics of the data used in the research are shown in Table 1. The descriptive statistics includes the mean, median, maximum, minimum, standard deviation, Jarque-Bera, and probability of each variable. In terms of Jarque-Bera, the test investigates whether data samples have skewness or kurtosis matching a normal distribution. Relating to the current study, the test statistics for GDP, FDI, trade openness, and exchange rate are all greater than zero. This is an indication that the variables are not normally distributed. The results indicate that the data is very close to the mean, as the mean value produces the lowest number of errors from all other values in a data set. The lowest mean score occurred for trade openness, while FDI attracted the highest mean score. As for the range of the data, on the one hand, the minimum values ranged from 0.088 to 20.12 for trade openness and FDI, respectively. On the other hand, maximum values ranged from 1.35 to 23.01, which occurred for trade openness and FDI, respectively.

Table 1. Descriptive statistics

	GDP	FDI	TRADE OPENNESS	EXCHANGE RATE
Mean	10.805	21.652	0.732	2.052
Median	10.860	21.774	0.828	2.009
Maximum	10.924	23.014	1.351	2.688
Minimum	10.624	20.126	0.088	1.289
Sd	0.113	0.944	0.465	0.361
Jarque-Bera	11.440	7.400	11.950	0.060
Probability	0.003	0.024	0.002	0.968

Lag lengths selection

Table 2 presents the identification and selection of lag length for the study. Based on the results for AIC, HQIC, and SBIC, the study shows a maximum lag length of 1.

Table 2. Selection of lag length

Table 2. Selection of lag length

Lag	LogL	LR	Df	p	FPE	AIC	HQIC	SBIC
0	-788.192				3.0e+29	79.2192	79.2581	79.4184
1	-733.576	109.23	16	0.000	6.6e+27	75.3576*	75.5519*	76.3533*
2	-718.711	29.728*	16	0.019	9.3e+27	75.4711	75.821	77.2635
3	-708.331	22.761	16	0.120	3.0e+28	75.9331	76.4385	78.522
4			16		-8.9e+14*			

Note: * Indicates lag order selected by criterion. *LR: sequential modified, FPE: Final prediction error, AIC: Akaike information criterion, SBIC: Schwarz information criterion, HQIC: Hannan-Quinn information criterion.*
Source: Computed by authors.

Analysis for unknown structural break

This subsection presents and discusses the results of the unit root test, unit root with unknown structural breaks, Gregory-Hansen cointegration test, error correction model, and stability test results.

Unit root tests

Before the data analysis, a less robust unit root test using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests were carried out for the variables. These tests were carried out by levels and, in first difference, to formally establish their order of integration. To be sure of the order of integration, a general model with constant and trend was carried out. However, if no trend is detected, a unit root test invariant to the mean will be carried out with only the constant intercept and no time trend, and then with both intercept and time trend in the model. From the results presented in Table 3, it becomes clear that all the variables are not stationary at levels for both ADF and PP, apart from FDI. At I(1), all variables were stationary for both methods employed, apart from GDP that showed a 1% significance level when including constant, both under ADF and PP; but not significant for I(1) for both methodology when including constant and trend.

Table 3. ADF and PP unit root results

	ADF TEST				PP TEST			
	I(0)		I(1)		I(0)		I(1)	
Variables	Constant	Constant and trend	Constant	Constant and trend	Constant	Constant and trend	Constant	Constant and trend
GDP	-1.698	0.118	-2.570*	-2.784	-1.497	-0.418	-2.590*	-2.776
FDI	-4.002***	-4.767***	-8.489***	-8.300***	-4.027***	-4.768***	-9.840***	-9.673***
TRADE OP.	-0.677	-1.896	-4.306***	-4.202***	-0.673	-2.032	-4.298***	-4.185***
EX. RATE	-1.669	-2.084	-3.283**	-3.208*	-1.699	-2.283	-3.251**	-3.176*

Note: ***, ** and * represent 1%, 5%, and 10% critical levels, respectively.

Unit root with unknown structural breaks

Results of the Zivot-Andrews (Zandrews) structural break trended unit root test are presented in Table 4. The results indicate that apart from FDI that showed a structural break in 2007-significant at 1 percent- the rest of the variables show no structural break. The reason is that, although the rest of the variables showed breaking point figures, they were not statistically significant to affirm the existence of unit root in them.

Table 4. Zivot–Andrews structural break trended Unit Root Test

VARIABLES	I(0)		Critical Values		
	t-statistics	Time break	1%	5%	10%
GDP	-2.306	2004	-5.34	-4.8	-4.58
FDI	-6.031***	2007	-5.34	-4.8	-4.58
TRADE OPENNESS	-3.465	2004	-5.34	-4.8	-4.58
EXCHANGE RATE	-3.546	2003	-5.34	-4.8	-4.58

Note: ***, ** and * represent 1%, 5%, and 10% significance levels.

A major setback of the Zivot-Andrews strategy is its inability to account for more than one break in a time series. To address this problem, the Clemente-Montanes-Reyes unit root test (Clemao) is proposed, because it allows two events within the observed history of a time series. Table 5 presents the results of the Clemao unit root test. Interestingly, the Clemao results shows that the variables are significant with various structural breaks. As per

the results applies the Gregory-Hansen test for co-integration with structural breaks.

Table 5. Clemente-Montanes-Reyes unit root test

Variables	t-statistic	Break
GDP	5.107***	2009
FDI	3.368***	2004
Trade Openness	10.732***	2005
Exchange Rate	4.542***	2014

Note: ***, ** and * represent 1%, 5%, and 10% significance levels, respectively.

In this subsection, the study further conducts a Gregory-Hansen co-integration test to determine the possible existence of a structural break. Three main models of the Gregory-Hansen test are carried out. First, with intercept shift, second, intercept shift with the trend, and third, intercept shift with the slope. The test has a null hypothesis of co-integration for the 1(1) series in the presence of structural break applied to it. As shown in Table 6, the findings indicate that a long-run relationship exists among GDP, FDI, trade openness, and South African exchange rate. It points out that co-integration is established under the assumption of intercept shifts with slope at a 5% level of significance, the shift occurs in 2010 with minimum SIC. The result indicates that the linear combination of the variables exhibits stable properties in the long term, yet with structural breaks.

Figure 1 shows a line graph for GDP from the Gregory-Hansen cointegration. If a structural break is established in 2010, as depicted in Figure 1 and Table 6, then the indicator function to be estimated using autoregressive distributed lags (ARDL) will be zero for 1995-2009. Thus, the indicator function will be equal to

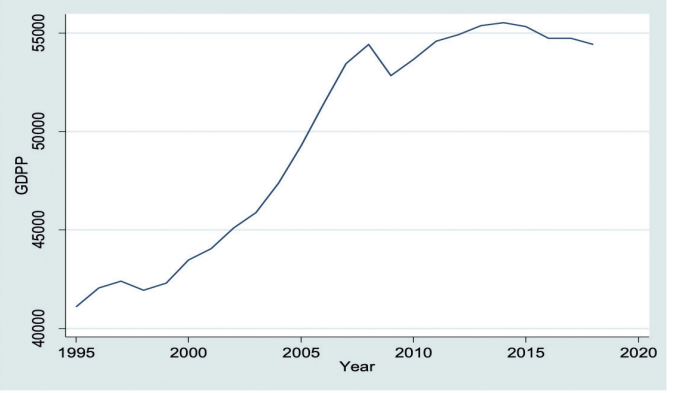
1 for periods after 2009. The break of 2010 is significant because South Africa's economy was bolstered due to the FIFA World Cup that it hosted. History has it that, all countries hosting the FIFA World Cup see a big jump in the tourism subsector of the services sector; pushing up the economic growth of such countries.

Table 6. Gregory-Hansen test for co-integration with regime shifts

	ADF			Z_t			Z_a		
Gregory-Hansen Models	**Statistic**	**Breakpoint**		**Statistic**	**Breakpoint**		**Statistic**	**Breakpoint**	
Intercept Shift	- 4.59	2010		-4.74	2010		-27.45	2010	
Intercept shift with trend	-5.20	2010		-5.31	2010		-29.18	2010	
Intercept shift with slope	-6.05**	2010		-6.30**	2010		-29.98	2010	
Asymptotic Critical Values	1%	5%	10%	1%	5%	10%	1%	5%	10%
Intercept Shift	-5.77	-5.28	-5.02	-5.77	-5.28	-5.02	-63.64	-53.58	-48.65
Intercept shift with trend	-6.05	-5.57	-5.33	-6.05	-5.57	-5.33	-70.27	-59.76	-54.94
Intercept shift with slope	-6.51	-6.00	-5.75	-6.51	-6.00	-5.75	-80.15	-68.94	-63.42

Note: ** represents a 5% level of significance. Stata routine ghansen is used with optimal lag structure chosen by BIC.
Source: Authors' computation.

Figure 1. Line graph for GDP (dependent variable). Gregory-Hansen cointegration.



ARDL analysis with unknown structural breaks

In this section, the ARDL error correction model (ECM) is applied. This is based on Engel and Granger (1987), who asserted that the variables could be modelled with a dynamic ECM model

if a co-integration relationship exists among them. Results of the long-run estimates taken into consideration the break dummies are presented in Table 7, with the short-run estimates shown in Table 8

Table 7. Estimation of long-run coefficients

Variable	Coefficient	St. Error	P-value
Speed of adjustment	-0.950***	0.2768816	0.006
FDI	-.0018108	0.0071672	0.805
Trade openness	.2465753***	0.0120604	0.000
Exchange rate	.1009979***	0.013632	0.000
Z	.3776504**	0.1638744	0.042
Z FDI	.0010835	0.0087266	0.903
Z Trade openness	-.1981323***	0.0479301	0.002
Z Exchange rate	-.0965338***	0.0277142	0.005
R-squared	0.8949		
Adjusted R-Square	0.7899		
Breusch-Godfrey Test of autocorrelation(*P-value*)	0.1380		

Note: ***, **, * denotes the rejection of the null hypothesis at the 1%, 5%, and 10% significance levels, respectively.

The long-run estimates depicted in Table 7 show that trade openness and exchange rate policies have significant impact (1% significance) on economic growth for South Africa. The part that considers the break dummies indicated a good result. This suggests that a percentage increase in the exchange rate and trade policy increases economic growth by 0.10% and 0.24%, respectively. This indicates an inelastic response of trade openness and exchange rate policy on economic growth. However, FDI did not show any significant impact on economic growth, both in the short-run (Table 8) and long-run estimates. The short-run estimates (Table 8) showed that there is no significant impact of FDI, trade openness, and exchange rate on economic growth. The error correction term, which shows the speed of adjustment to the long-run is 0.950; this indicates that about a 95% adjustment from the short-run to the long-run is made within a year. This explains why the short-run estimates are not significant. The findings indicate that structural breaks should be considered when looking at how trade and exchange policy influence economic growth in South Africa.

Table 8. Short-run estimation results

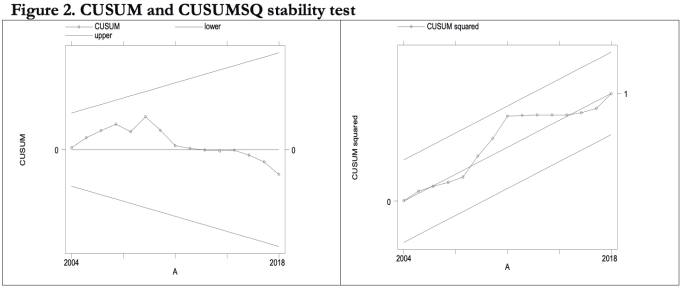
Dependent variable: D (GDP)			
Variable	Coefficient	Std. Error	t-Statistic
D (FDI)	-.0001247	.0037305	0.974
D (TRADE OPENNESS)	-.062062	.049238	0.234
D (EXCHANGE RATE)	-.0191967	.0354002	0.598
Constant	9.962624***	2.827213	0.005

Note: ***, **, * denotes the rejection of the null hypothesis at the 1%, 5%, and 10% significance levels, respectively.

Stability test result

The cumulative sum of recursive residuals (CUSUM), and the cumulative sum of the squares of recursive residuals (CUSUMSQ) tests proposed by Brown et al. (1975) were carried out to ascertain the stability of the economic growth function over the study period, estimated using ARDL-ECM. If the recursive residual of the estimated economic growth function is located outside the boundaries of the two critical lines, then there is evidence of parameter instability in that period. As shown in Figure 2, both CUSUM and CUSUSMSQ tests show that the economic growth function is stable, since the recursive residual function is located within the boundaries of the two critical lines. The result shows that the parameters are stable both during the pre and post FIFA 2010 World Cup hosted by South Africa.

Figure 2. CUSUM and CUSUMSQ stability test



ARDL bound test

Table 9 presents the ARDL bounds test result regarding the existence of long-run relationships between the variables under study. Due to the small nature of the sample size (between 1995-2018), and to achieve precision in results, the study employed critical values as presented by Pesaran, Shin, and Smith (2001). The result in Table 9 shows that the value of F-statistic from the ARDL model is greater than the critical values, to indicate the existence of a long-run relationship between the variables. The speed of adjustment is significant and shows that short-run disequilibrium adjusts quickly to the long-run by over 100%.

Table 9. Pesaran-Shin-Smith ARDL bounds test

H0: no levels relationship F = 6.396
t = -6.349

Table 9a: Critical values (0.1-0.01), F-statistic, case 3

	(I_0) L_1	(I_1) L_1	(I_0) L_05	(I_1) L_05	(L_0) L_025	(I_1) L_025	(I_0) L_01	(I_1) L_01
K_7	2.03	3.13	2.32	3.50	2.60	3.84	2.96	4.26

Accept if F < critical value for I(0) regressors; Reject if F > critical value for I(1) regressors.

Table 9b: Critical values (0.1-0.01), t-statistic, case 3

	(I_0) L_1	(I_1) L_1	(I_0) L_05	(I_1) L_05	(L_0) L_025	(I_1) L_025	(I_0) L_01	(I_1) L_01
K_7	-2.57	-4.23	-2.86	-4.57	-3.13	-4.85	-3.43	-5.19

Accept if t > critical value for I(0) regressors; Reject if t < critical value for I(1) regressors.

ARDL analysis with known structural break for exchange rate regime choice

South Africa, from 1995 to 2018, underwent two main exchange rate regimes: unitary exchange rate regime under managed float and free floatation. In this section, the study segregates the period under study into two subperiods: 1995-2000 for unitary exchange rate regime under the managed float, and 2001-2018 for unitary exchange rate regime under free float. A dummy variable

was created, taking value 1 for 2001-2018 and 0 for the period 1995-2000, to capture the exchange rate regimes in the data set. Next, the dummy variables interacted with the independent variables (FDI, exchange rate, and trade openness) of the study. The findings were then compared to the managed float regime (1995-2000) to serve as a reference period.

To estimate the ARDL model with a known structural break, first, it is necessary to perform a VAR model to identify the optimal lag length between the variables. This was earlier done, and results are shown in Table 2, establishing that there is a maximum lag length of one. Further steps were taken to validate the ARDL model based on the bounds test to check the coefficient stability of the model.

Table 10 presents the results of estimates of the ARDL short-run and long-run exchange rate regime choice structural break. The results indicated that the exchange rate shows a positive significant impact on economic growth in the short-run, whereas a significant negative impact on economic growth, in the long-run, is seen. This implies that, during the initial stages of an exchange rate policy, appreciation of the South African Rand translates into higher economic growth. With time, depreciation of the Rand rather manifests economic growth. The dummy variable, interacted with exchange rate policy to take care of the free float exchange rate regime (2001-2018), showed a positive significant (5% significance) impact on economic growth. A change from managed float exchange rate to a free float exchange has caused a 1.49% increase in economic growth. This points out that the free float exchange rate is a better choice compared to a managed float exchange rate.

Trade openness showed a significant negative impact on economic growth in the short-run for the free float exchange rate

regime, but no long-term relationship is established. This finding aligns with the study conducted by Khobai and Mavikela (2017) who argue that fluctuations in trade openness exclusively impact the trend of product specialization, but not the long-term rate of economic growth. Thus, a negative short-term relationship shows that as import reduces in the short-term under the free float exchange regime, economic growth will also increase compared to the managed float exchange regime. This indicates that if South Africa projects to enjoy economic growth benefits from their current exchange rate regime, they must reduce imports to make the Rand stronger against the major trading currencies.

Further, FDI showed a significant positive influence on economic growth, both in the short-run and long-run for the free float exchange regime. The findings support a study conducted by Buhari et al. (2020) who confirmed that FDI impacts positively on economic growth. However, FDI, for the whole study period indicated a significant negative impact. This implies that FDI better promotes economic growth under the free float exchange rate regime compared to the managed float regime.

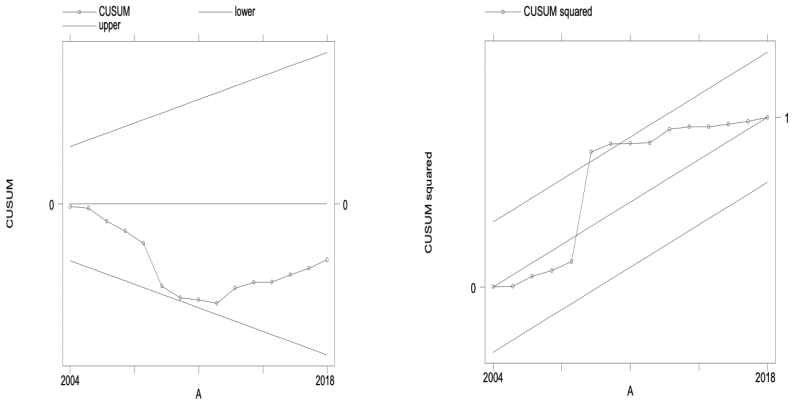
Table 10. Estimates of the ARDL for exchange rate regime choice structural break

Variable	Coefficient	St. Error	P-value
Short-run			
Exchange rate	0.00050***	0.00010	0.001
Dummy	22.0541**	6.9740	0.010
Dummy_Trade openness	-27.4809***	6.1652	0.001
Dummy_FDI	0.3856*	0.1852	0.064
Speed of adjustment	-1.0321***	0.1625	0.0000
Long-run			
FDI	-1.23e-09***	3.09e-10	0.003
Trade openness	-.0000362	0.0001	0.774
Exchange rate	-1.7578***	0.4501	0.003
Dummy	-11.8633	10.6078	0.290
Dummy_FDI	2.7775***	0.8169	0.007
Dummy_Trade openness	2.5842	7.4104	0.735
Dummy_ Exchange rate	1.4949**	0.4914	0.012
Constant	16.8813*	7.8137	0.056
R-squared	0.9198		
Durbin-Watson	1.77068		
Breusch-Godfrey Test of autocorrelation(*P-value*)	0.6879		

Note: ***, **, * denotes the rejection of the null hypothesis at the 1%, 5%, and 10% significance levels, respectively.

Figure 3 looks at the stability of the model. On the left of the figure, the result for CUSUM is presented, to indicate that the model is stable. However, as seen on the right panel, for the CUSUM of squares, indicates that the model is relatively stable.

Figure 3. CUSUM and CUSUM squared for Exchange rate regime



Granger causality

Finally, the study carried out a Granger causality Wald test to find out whether there is a unidirectional or bidirectional causality among the variables under study, or not. The results are presented in Table 11. The results show no Granger causality between GDP and FDI. Uni-directional Granger causality is found to flow from GDP to trade openness, FDI to trade openness, and FDI to exchange rate. A bi-directional causality is established between GDP and exchange rate, and between trade openness and exchange rate. FDI rakes into South Africa more foreign currency that has the potential to make the Rand stronger and more stable. This will help bolster productivity and hence engineer growth. The

FDI effect on growth is felt more under the current exchange rate regime compared to previous ones.

Table 11. Granger causality Wald tests

Equation	Excluded	chi2	Df	Prob > chi2
GDP	FDI	2.0609	1	0.151
GDP	Trade openness	2.4674	1	0.116
GDP	Exchange rate	3.2726	1	0.070
GDP	All	4.7375	3	0.070
FDI	GDP	1.8036	1	0.179
FDI	Trade openness	.16359	1	0.686
FDI	Exchange rate	2.2255	1	0.136
FDI	All	14.807	3	0.002
Trade openness	GDP	10.829	1	0.001
Trade openness	FDI	3.9873	1	0.046
Trade openness	Exchange rate	3.0995	1	0.078
Trade openness	All	14.824	3	0.002
Exchange rate	GDP	8.9098	1	0.003
Exchange rate	FDI	2.842	1	0.092
Exchange rate	Trade openness	10.362	1	0.001
Exchange rate	All	13.88	3	0.003

Conclusion

This study investigated the linkages between FDI, trade openness, and economic growth and the role of exchange rate regime choice in South Africa. To accomplish this objective, an ARDL analysis was carried out in two ways. The first approach was to allow the system to determine a break period for analysis. The second approach segregated the data into unitary exchange rate regimes under the managed float (1995-2000) and free float (2001-2018) regimes, making 2000 the known break period for analysis. These two regimes existed during the period under investigation. Using the Gregory-Hansen co-integration test for unknown structural breaks, the study established that a long-term relationship exists between GDP, FDI, trade openness, and the South African exchange rate. A structural break was established in 2010. Based on the known structural breaks for exchange

rate regimes in South Africa, the results revealed that there is no Granger causality between GDP and FDI. Uni-directional granger causality was found, however, to drift from GDP to trade openness, FDI to trade openness, and FDI to exchange rate. The bi-directional causality was found between GDP and exchange rate, and between trade openness and exchange rate.

Since South Africa is currently using a free float exchange rate regime, policy makers should consider minimizing economic restrictions to attract genuine foreign investors to make an impact on the economy. Using the free float exchange rate regime choice, FDI is revealed to promote economic growth. Therefore, high economic growth will avert unemployment in the country. South Africa should also condition foreign investors to provide special training in skills development to South Africans who are employed within their organisation. This will enhance in the long term, knowledge, technological transfer, and human capital in the form of capacity building. Additionally, to promote economic growth under the free float regime choice, South Africa should significantly reduce importation of goods and services. This can be done by imposing high tariffs on imported products that are locally manufactured.

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The African Continental Free Trade Area Agreement (AfCFTA): Possible benefits for women and youth in Africa

Thusi Xolani*
Victor H. Mlambo**
Nkosingiphile Mkhize****

Abstract

This paper intends to analyze the potential economic benefits of the African Continental Free Trade Area Agreement (AfCFTA) for African women and youth population. Women and youth population in Africa live in poverty and are unemployed, resulting in high crime rates and increased dependence on social services. The fact that more people in Africa depend on the government's social services has placed a burden on government resources. The African Union Summit in Kigali, Rwanda, in March 2018 witnessed the signing of the AfCFTA by the heads of state of 44 African nations. So far, 36 of Africa's 54 nations have signed the treaty. The AfCFTA will establish a single market for goods and services, making it simpler for individuals to move across the continent and foster trade development. It will also help economic growth and contribute to a more prosperous and equitable society. It is worth mentioning that Africa has the world's youngest population, with women constituting half of the continent's population. Based on this premise, this research analyzes how

* Corresponding author. University of Free State, Department of Public Administration. Qwaqwa Campus. Email: xolanithusi@icloud.com. Received: May 7th, 2022; modifications: August 29th, 2022; Accepted: September 8th, 2022.

** School of Public Management, Governance and Public Policy.

*** University of Free State, Department of Public Administration.

the AfCFTA might benefit women and youth population, utilizing a qualitative research approach and a review of the current literature. The article highlights the potential benefits from the AfCFTA for both women and youth population.

Keywords: AfCTA – Women – Youth – Development – Poverty – Trade – Unemployment.

Resumen

Este documento pretende analizar los beneficios económicos la Zona de Libre Comercio Continental Africana (AfCFTA, por su sigla en inglés) para las mujeres y los jóvenes africanos. Las mujeres y los jóvenes en África viven en la pobreza y están desempleados, lo que genera altas tasas de criminalidad y una mayor dependencia de los servicios sociales. El hecho de que más personas en África dependan de los servicios sociales del gobierno ha supuesto una carga para los recursos del gobierno. La Cumbre de la Unión Africana en Kigali, Ruanda, en marzo de 2018 fue testigo de la firma del AfCFTA por parte de los jefes de Estado de 44 naciones africanas. Hasta el momento, 36 de las 54 naciones africanas han firmado el acuerdo. AfCFTA creará un mercado único para bienes y servicios, lo que facilitará que las personas se muevan por todo el continente y consoliden el desarrollo comercial. También ayudará al crecimiento económico y contribuirá a una sociedad más próspera y equitativa. Vale la pena mencionar que África tiene la población más joven del mundo, con mujeres que constituyen la mitad de la población del continente. Con base en esta premisa, esta investigación analizará cómo el AfCFTA podría beneficiar a las mujeres y los jóvenes. Finalmente, utilizando un enfoque de investigación cualitativa y una revisión de la literatura actual, el artículo destacará los posibles beneficios de AfCFTA para las mujeres y los jóvenes.

Palabras claves: AfCFTA – Mujer – Juventud – Desarrollo – Pobreza – Comercio – Desempleo.

Introduction

Making the African Continental Free Trade Area Agreement (AfCFTA) work for the youth and women presents the tale of the AfCFTA's promise from the viewpoint of African producers, merchants, policymakers, and regulators. Within the framework of the agreement, African Union Member States have pledged to strive toward attaining gender parity and expanding the export potential of African women and young people (Ogo, 2020). On this basis, this paper seeks to assess how AfCFTA would benefit African women and the youth. Undeniably, most Africans are young, and the economic marginalization of women and African youth has contributed to the challenges the continent is presently facing.

Joblessness is one of the most pressing global development issues confronting governments worldwide. Moreover, 60% of the continent's population is under the age of 25, making it the youngest and fastest-growing continent (Onah & Okwuosa, 2016). Page (2019) indicated that between 2015 and 2035, Africa's working-age population would increase by around 450 million individuals at nearly 3% each year. The continent would be composed of 362 million young people aged 15 to 24 by 2050. Youth unemployment is perhaps one of Africa's most complex and critical development issues. While globally, the current financial and economic crisis has increased the number of unemployed young people, even before the crisis, the unemployment of young people was already a big policy concern in the region.

Africa's young population, which today reaches 200 million people, accounts for around 37% of the overall labor force in the region (Ackah-Baidoo, 2016). Youth unemployment continues to be a major political and economic worry throughout the continent. (Baah-Boateng, 2016). Particularly, in Africa youth

unemployment is aggravated by the added obstacles of a much larger youth population than in other regions, poor national labor markets, and high poverty levels. In all African nations, the population's median age is less than 20 years, meaning that more than half of the population is under the age of 21, and up to a fifth is between the ages of 15 and 24 (Awogbenle and Iwuamadi, 2010). The International Labour Organization (ILO, 2016) estimates that the forecast for youth (15-24 years old) unemployment in the major countries in the region remains rather diverse, ranging from 1.8% in Benin to 54.4% in South Africa. The ILO (2017) further states that in South Africa, the continent's most developed economy, more than 50% of all economically proactive youth were without a job in 2017. Reflecting on youth unemployment rates in Sub-Saharan Africa, the rates in Tanzania (5.4%), Nigeria (8.5%), the Central African Republic (10.8%), Ghana (11.5%), Mozambique (41.7%), and Namibia are lower than in South Africa (43.8%).

According to Ilesanmi (2018), issues regarding women's discrimination in African policymaking continue to dominate the global discussions around gender inclusivity. These issues are often the result of restrictive legislation, cultural differences and customs, institutional hurdles, and unequal access to healthcare, education, and resources. Reversing these biased behaviors can be accomplished by implementing the necessary procedures throughout the continent. According to projections based on current economic growth, Sub-Saharan Africa would only decrease severe poverty from 33.5% to 24% by 2030. If the present poverty trend continues in Sub-Saharan Africa, 86 to 90 percent of the world's severely poor will reside in the continent by 2030.

The most serious problem is that Sub-Saharan African women seem to be more impacted than their male counterparts due to the growing volume of Sub-Saharan African women who are

single moms, exacerbating the cycle of poverty. According to Statistics South Africa (2017), women are the most susceptible to poverty among most South Africans. This is exacerbated by ingrained cultural attitudes and practices that exclude women from different decision-making processes. Cheteni, Khamfula, & Mah (2019) pointed out that women and girls are more likely to be impoverished than men, since they earn 24% less. This has the potential to result in an unequal allocation of power in a household. Power disparities are obvious in rural/tribal regions where cultural roles favor men. Consequently, women have the greatest risk of poverty exposure because culture consolidates the reliance on men. Women risk greater gender violence as a result of their poverty. High poverty reduces women's productivity and diminishes their purchasing power, depriving them of access to education, healthcare, and basic services (Mukaila et. at, 2022).

Ending poverty in all its manifestations is of the highest priority in the global development agenda, and policymakers throughout the globe have prioritized steps to reduce it. However, the emphasis has mostly been on males, with the need to economically emancipate women been overlooked (Leal Filho et. al, 2022). Existing customary and statutory regulations in Africa restrict women's access to land and other forms of property, leaving them vulnerable and impoverished. Consequently, female-headed families have higher poverty rate, a trait all developing nations share (Nyathi & Thobejane, 2018). The world's total population below the international poverty line accounts for 654.9 million people, with 51.3% or 302.7 million people residing in Sub-Saharan Africa. Worldwide, women make up for 330 million of the poor, whereas males make up 49.7% (325 million) (Munoz Boudet et. al, 2018).

Taking into consideration the abovementioned information, this paper acknowledges that although African youth and wo-

men constitute most of the continent's population, they are often overlooked and excluded regarding economic benefits. This has had a significant influence, resulting in this demographic group turning to illicit activities to survive and avoid poverty while also carrying the burden of being parents. Therefore, this paper is guided by the following question: How might the African Continental Free Trade Area Agreement (AfCFTA) develop or open economic possibilities for Africa's youth and women? To answer the guiding question of this paper, secondary sources (through the literature review) were used. Literature relevant to the concept of the AfCFTA and its possible benefits for women and youth in Africa was consulted. This approach aimed to broaden the understanding of the underlying concept of the AfCFTA and examine the possibility of it contributing to the socio-economic inclusion of women and the youth in Africa's developmental posture. Due to its novelty, there have been debates and arguments around the inclusive aspects of the agreement regarding women (considering their marginalization) and the youth (considering that youth unemployment has become a pandemic on its own in Africa). Therefore, it becomes important to examine whether the agreement will contribute to the socio-economic emancipation of women and the youth. While relevantly new, various scholars have tried to understand the concept of the AfCFTA, presenting rich sources of information. Though some of these sources may not comprehensively speak directly to AfCFTA, women, and youth, they nonetheless offer views on the subject matter which will be utilized to enrich the paper.

After this introduction, this paper is structured as follows. First, the second section presents the findings related to women. Following, the third section will describe the opportunities related to youth population. The fourth section will analyze the link between the AfCFTA and the Africa Agenda 2063. From here, some projections on employment and opportunities for women

and youth will be presented. To conclude, the final remarks and policy recommendations will be drawn.

The African Continental Free Trade Area Agreement: Possible benefit for women in Africa

The AfCFTA can help women informal cross-border merchants in three ways, all of which will increase their involvement in trade. First, through the improvements to physical infrastructure and informal cross-border traders' unrestricted movement. Second, by non-tariff obstacles and tariff reductions. Third, giving assistance for the formalization of informal cross-border trade (ICBT). Despite ICBT is not explicitly stated in the AfCFTA or the African Union Protocol on Free Movement of Persons, the AfCFTA may indirectly help informal cross-border commerce. For this, it must be stated that women's informal commercial activities represent a large percentage of African trade. In order to reinforce the idea that women informal merchants are key clients of trade ministries and RECs, their formalization must be addressed in mainstream trade policy. If these and other gender-specific barriers are overcome, ICBT can become a viable micro-enterprise that can help reduce poverty and promote food supply and women's empowerment in Africa (Macheng, 2021).

In its Preamble, the AfCFTA says that gender equality is important in international trade and economic cooperation. So far, there is no specific chapter on trade and gender in the AfCFTA. Article 3(e) highlights that one of the main goals of the AfCFTA is to ensure that women have the same opportunities as men. The AfCFTA presents a significant potential instrument for African nations to rely on their current national development goals, align them with the AfCFTA's rules, and execute them with a gender perspective (Parshotam, 2019).

The establishment of the AfCFTA is anticipated to transfer factors of production, including labor and capital, across sectors toward those with rising exports and within industries to more export-oriented enterprises. It is critical to examine the long-term adjustment costs of this transformation, particularly when these costs fall on disadvantaged or sensitive groups such as small-scale farmers, women, informal merchants, and the youth. Because most women in the area participate in lower-value subsistence crops rather than cash commodities for export, their possibilities to gain from the AfCFTA's export trade development are limited. Furthermore, women account for nearly 70% of informal cross-border merchants, making them susceptible and benefiting less from the AfCFTA (Seid, 2021). It is important to note that female participation in intra-African commerce is critical to the broader AfCFTA goal and that there is a need for focused assistance for women engaging in cross-border trade within African regions (Asiedu, 2021). It is anticipated that adopting the AfCFTA would boost intra-African trade by 81% by 2035, while increasing overall African exports by 29% (World Bank, 2020).

The AfCFTA is projected to support Africa's structural transformation by increasing intra-African trade and strengthening regional value chains and industrial networks. Implementing the AfCFTA might result in a 10% boost in earnings, with unskilled employees and women benefiting the most. An increase in work opportunities for women and a reduction in the continent's gender pay gap are expected to result from freer trade under the AfCFTA. Since the AfCFTA has this potential, it is being promoted as Africa's stimulus package to fight COVID-19's devastating impact on Africa's economic growth (Apiko, Woolfrey, & Byiers, 2020). Ogo (2020) indicated that women might profit from enhancements to the obstacles they encounter as small-scale, cross-border merchants. More than 70% of Africa's informal cross-border trade is believed to be conducted by women. As a result, they are

more vulnerable to harassment and abuse. By cutting tariffs, the AfCFTA makes it more affordable for informal traders to do business via official channels, which provides greater protection. To enable the participation of these groups, AfCFTA implementation must be followed by REC's-supported measures like streamlined trade regimes and better customs cooperation to lower trade costs and encourage their transition to formality. One example is the Improved Trade Regulation in the Common Market for Eastern and Southern Africa (COMESA). It is critical to emphasize the necessity of including gender concerns in discussions about the AfCFTA and its procedures, which are a fundamental element.

Women and youth in Africa stand to gain from increased trade in services, but only if African governments take a more open attitude. This includes ensuring that women may participate in the business sector and get higher-skilled service jobs in the priority service industries and providing avenues for women to participate in the enhanced continental market access. Gender equality is one of the many issues nations address as part of their national AfCFTA implementation strategy (Apiko, Woolfrey, & Byiers, 2020). Household-level analyses of AfCFTA's effects show that male and female-headed families benefit from the agreement to varying degrees in various nations. However, changes to informal cross-border merchants' barriers, particularly for women, may be beneficial.

The reason for focusing on women, youth, and small and medium-sized firms (SMEs) is because they constitute most of the continent's economically active population and are the engines of trade, both within and beyond borders. Women represent 70% of informal cross-border merchants, while SMEs account for 80% of the region's companies, according to often cited data (Ncube, 2022). The AfCFTA can help women and young people become more powerful and achieve gender equality, which can help achie-

ve national, continental, and global sustainable development goals. The AfCFTA will open up new trading and business opportunities for women in agriculture, manufacturing, and service industries, as well as other industries. Manufacturers who make things to sell outside their countries will look for supplies from small businesses run by women across borders. This will make it easier for women to participate in trade through rearranged regional value chains and to meet the standards of continental markets because more people will be able to move goods across borders (Songwe, Macleod, & Karingi, 2021). There are also more job chances on the continent, which has a thriving young population. There is increased potential for trade integration for nomadic merchants, businesspeople, and women who now operate on an informal basis, allowing for simpler movement throughout the continent with lower expenses for border fees, transportation costs, insecurity, and harassment, particularly for women. The deal would promote freer and safer mobility and trade for women throughout the continent. With lower tariffs, the AfCFTA will make it more inexpensive for informal merchants to operate via legal channels, providing better protection against harassment, robbery, and seizure of products than the existing system. It is also planned to simplify the clearance process while lowering import charges for women's trade (Onuka & Oroboghae, 2020). The final barrier is the AfCFTA's impact on relative pricing and poverty. The agreement might lift 6.3 million people out of poverty by raising domestic expenditure (Maliszewska, 2019).

The African Continental Free Trade Area Agreement: Possible benefit for youth in Africa

Youth unemployment is a major issue in Africa, particularly among young females and in the north African area. At the same time, while Sub-Saharan Africa's average jobless rate is slightly higher than the OECD average (14% vis-a-vis 12%), the aggre-

gated average masks significant variations across nations. The situation is even bleaker at the national level, with frighteningly high young unemployment rates in several African nations (Eswatini 56%, Botswana 36%, Namibia 46%, and South Africa 54%). This raises the potential of political instability and greater informality, given that informal occupations are sometimes a last, if risky, resort for survival (Lungu, 2019). People under the age of 35 presently constitute three-quarters of the population of Africa, making it the continent with the youngest population in the world. The AfCFTA has as one of its primary objectives the expansion of economic opportunities for young people (Brown, 2019).

It is critical to recognize that the AfCFTA, as a single merged intra-African market, would alleviate many of the continent's difficulties if adequately implemented. According to some authors, the AfCFTA can lift 30 million people out of extreme poverty and increase the income of 68 million Africans living on less than $5.50 per day. The protocol on human mobility, right of residence and establishment will make conducting business and intra-Africa migration easier for many of the continent's youth population, potentially boosting the continent's economy and further reducing unemployment, which now stands at 60% (Hollington, 2021). The AfCFTA Protocol requires States parties to incorporate youth in achieving the agreement's goals. However, only Article 27(2) (d) of the Protocol tackles that subject, by stating that all service providers must improve their export capabilities, whether formal or informal. Women and youth service providers, as well as those in small and medium-sized companies, are included.

Similarly, Article 24 of the Protocol on Trade in Goods seeks to protect small and medium-sized firms (SMEs) engaged in goods production and their workers (Nanjira, 2020). Africa's youth are also a potential risk to regional projects like the AfCFTA if nothing is done to: (1) solve the unemployment crisis; (2) increase quality

job creation; and, (3) transform the youth training paradigm and encourage science, technology, engineering, and math (STEM). To begin with, the AfCFTA is designed to revolutionize the economies of 55 African nations today; hence the incorporation of the AfCFTA within the African Governance Platform (AGP) institutions enables the young to realize their entrepreneurial potential. The youth are organized in various ways, including student unions, religious organizations, political parties, and environmental organizations. These national-level organizations are reproduced as regional networks, generally on a theme basis, where they advocate and campaign for policy reforms at the regional level to have a more significant influence. These organizations and theme networks' hierarchy makes it simpler to connect with AGP institutions, yet issues persist with inclusion along the gender, rural-urban, professional, and religious divides. National youth forums may mobilize most young voices, and input can be channeled via national legislatures (Chikwanha, 2020).

Linking the African Continental Free Trade Area Agreement and the Africa Agenda 2063

The AfCFTA was launched in 2010 and signed into law in 2019, while the African Union's (AU) Agenda 2063 was launched in 2012 and signed into law in 2015. There is a strong connection between AfCFTA's goals and those of the AU's Agenda 2063. An essential tool for positioning Africa to benefit from its vast trade and investment possibilities and contribute to the structural expansion of African economies and the elimination of poverty is the free trade area, which aligns with the Agenda 2063 initiative goals (Aniche, 2020). One of Agenda 2063's goals is to promote intra-African trade, develop a single market and regional financial institutions, and ensure the free movement of people and goods across Africa's borders. Given the significance of trade in regional integration and economic progress, to boost intra-African trade

and structural transformation via industrialization, socio-economic development, and regional integration, African leaders signed the AfCFTA agreement in 2018 to ratify it (Offei, Asare-Nuamah, & Masinde, 2020).

According to the African Union (2020), the AfCFTA would give economic possibilities that will boost African industrialization per the Agenda 2063 through the following mechanisms:

1.- The AfCFTA will cover trade between the continent's 55 countries. This market will have 1.2 billion people and a GDP of $2.5 trillion. AfCFTA will be the world's most significant free trade area since the World Trade Organization was established.

2.- It is a fast-paced and ever-changing market. There will be 2.5 billion Africans by 2050, making up 26% of the working-age population of the globe, with an economy expected to expand twice as fast as the rest of the industrialized world.

3.- Businesses now face greater duties when exporting inside Africa than when exporting outside of it, with average levies of 6.1%. AfCFTA would gradually abolish tariffs on intra-African trade, allowing African enterprises to trade inside the continent while catering to and benefiting from the region's burgeoning market.

4.- Consolidating this continent into a single trade zone opens up new prospects for African trading companies, businesses, and consumers, as well as the opportunity to assist sustainable development in the world's least developed region. According to ECA, AfCFTA can potentially increase intra-African trade by 52.3% by removing

import taxes and quadrupling this trade if non-tariff obstacles are also lowered.

5.- Agenda 2063, the AU's development plan, includes the AfCFTA as a critical component. Agenda 2063 has been endorsed by the AU Summit as an urgent program that should be implemented immediately to reap immediate benefits, positively influence social and economic development, and increase Africans' faith in and dedication to Agenda 2063.

6.- The AfCFTA will help fulfill the UN 2030 Agenda, especially the Sustainable Development Goals. The UN 2030 agenda is also linked to Africa agenda 2063.

7.- AfCFTA may assist lessen Africa's dependency on foreign resources by promoting industrialization and economic growth. This would help Africa fund its development.

Almost all African nations believe that industrialization and structural change are priorities under the AU's Agenda 2063. Promoting industrialization in Africa should increase intra-African commerce in manufactured products and reduce the continent's reliance on imported manufactured goods and commodities. Over the previous ten years, the AU's Agenda 2063 implementation plan has achieved significant progress. It is expected to substantially impact the continent's integration, encourage intra-African commerce, and assist Africa's economy in industrializing. These include a single African air transport market, an integrated high-speed rail network linking African capitals and significant economic areas, and the establishment of continental financial institutions (Moyo, 2020).

The AfCFTA provides the legal foundation for a greater emphasis on gender. The 2017 Joint Declaration on Trade and Women's Economic Empowerment on the Occasion of the World Trade Organization Ministerial Conference in Buenos Aires (Declaration) was hailed as a watershed moment in putting gender on the trade agenda, and gender is also a major focus of the AU Agenda 2063. Although soft law mechanisms with no enforceable requirements, they provide the groundwork for more extensive work worldwide and under regional trade agreements such as the AfCFTA (Kuhlmann, 2021). In reiterating its resolve to pursue integration, the AU reviewed all of its objectives and initiatives over the last 50 years since the foundation of the OAU. The evaluation created a new strategy while retaining the goal of an integrated, wealthy, and peaceful Africa. This effort resulted in the creation of Agenda 2063, which seeks to foster African integration similar to AfCFTA (Owiro & Akoth, 2021). The AfCFTA, with a GDP of $2.2 trillion to $3.4 trillion, goes beyond the traditional FTA in its focus on cross-border movement of products, people, and services, as well as investment and improved connectivity among Africa's one billion people.

Furthermore, the AfCFTA complements the African Union's Agenda 2063 and the United Nations' Sustainable Development Goals. It is essential for encouraging equitable development via industrialization and extending possibilities for African residents (Amadichukwu, 2021). The AFCFTA can help accomplish Agenda 2063 and the UN Sustainable Development Goals for Africa as part of its efficient implementation and oversight (Sommer, 2019). Youth involvement and inclusion and the creation of new possibilities for them across all sectors are critical to Africa's long-term development. The AfCFTA is an open trading regime bolstered by assertive critical civil society organizations (CSOs) supporting and driving the democratic-building initiative in the region. Creating a safe, peaceful atmosphere in which young people may realize

their full potential might help Africa move toward peace and prosperity by 2063 (Chikwanha, 2020).

Women and youth population employment prospects

There are several problems in Africa's sustainable growth in employment and social inclusion. While women have long been seen as the most vulnerable individuals in the workforce worldwide, this is especially true in Africa, where women are underrepresented in official economic sectors (Asongu, et. al, 2020). Another challenge will be assessing the impact on women's employment. Suppose other changes addressing labor mobility and equality of opportunity are implemented. In that case, the agreement will enhance productivity in sectors with a high share of female workers, resulting in a 0.07% rise in their relative pay. However, engaging women in AfCFTA implementation via capacity-building and sensitization remains difficult (Agarwal, Kweka, & Velde, 2022).

Regarding the drivers of young employment in Africa, real GDP growth, domestic investment rates, credit availability, education, and infrastructure all influence job creation. The AfCFTA is predicted to enhance net real income by $2.8 billion to $100 billion, based on the extent of liberalization, and spur more significant local investment, particularly in infrastructure, which will create job opportunities for youth in Africa (African Development Bank Group, 2019). The AfCFTA is intended to improve intra-regional trade and expand production, resulting in job creation, particularly for Africa's burgeoning young population (UNECA, 2019).

The AfCFTA will have a significant impact on women's economic empowerment. Because of AfCFTA, it is hoped that more women and youth would be able to work in the trade industry.

Increasing the economic and commercial participation of women and young people is a crucial goal of the Protocol on Goods Trade and Services Trade. Africa's operational transformation language and narrative emphasize the importance of gender equality and women's enablement.

However, a slew of non-tariff barriers stand in the way of women being able to participate fully in the global economy and contributing to inclusive development. Adopting the AfCFTA will improve employment chances and wages for low-income workers while also helping to reduce the gender pay gap. The unemployment and impoverished concentration levels are among black Africans (32%), followed by women (31%). The AfCFTA will provide new possibilities for women in economically concentrated industries such as agriculture, manufacturing, and services trade, but the benefits will not be immediate. To guarantee that women have access to these opportunities, AU members must make a concerted effort to develop and implement gender-sensitive regulations and specific supplementary measures. Substantial efforts must be taken to encourage women and youth entrepreneurship. This might be accomplished via national efforts such as gender-sensitive education, women-training courses, financial help for female entrepreneurs, and the creation of tax breaks for women-owned businesses. Women make up a significant proportion of the labor force, and their inclusion in the economic and trade structures will promote cross-border trade and economic advancement while lowering poverty and unemployment rates (Woode, 2021).

Furthermore, the AfCFTA's inclusive implementation may aid in achieving women's empowerment and small business development objectives by leveraging trade possibilities for inclusive growth and employment (Sommer, 2019). In terms of expectations, the AfCFTA has much to live up to. Prospects for trade and

investment may lead to greater export diversification, productivity gains, and hence higher value-added and employment, which raises incomes and expands the market size. Aside from services, industrial trade is one of the most potential sectors of economic development (Apiko, Woolfrey, & Byiers, 2020).

The African Continental Free Trade Area Agreement future prospects for woman and youth focus

Much work has been done in the five years since the AfCFTA negotiations began in June 2015. As of 2022, there have been 23 AfCFTA negotiating forums, 16 meetings of African trade ministers, and several technical working group meetings. The AfCFTA's tarde operations began on January 1, 2021, as planned, but much work has to be done if the Agreement is to fulfil its full potential for Africa's growth (Songwe, Macleod, & Karingi, 2021). The pre-AfCFTA continental programs promoting economic growth among youth and women are ineffective owing to their incapacity to address current economic issues such as free movement and intellectual property protection. On the other hand, the AfCTA and its protocol seek to address this by facilitating the free movement of people and money, encouraging investment, and enhancing intra-African commerce. These trade liberalization measures will help the continent's young women as SME owners or via informal cross-border trading (Nanjira, 2020). The AfCFTA, which is predicted to increase aggregate and long-run welfare, is expected to transfer factors of production, including labor and capital, across sectors toward those with rising exports and within sectors to more export-oriented enterprises.

It is critical to examine the long-term adjustment costs of this transformation, mainly when these costs fall on disadvantaged or sensitive groups such as smallholder farmers, women, informal merchants, and youth (Seid, 2021). Governments must establish

buyer-supplier networks that link small and medium-sized producers, especially smallholder farmers, to customers on a local and regional scale. Women and young people must be included in these activities (Haile-Gabriel, 2021). Increased investment in digital capacity development and trade facilitation is needed to upskill and reskill Africa's rapidly growing population, focusing on youth, women, and SMEs training programs (Chivunga, 2021). Supporting youth organizations in forming agreements with necessary authorities to exert supervision on cross-border engagement channels is a must for the effective inclusion of all youth, urban and rural. Gender-responsive youth desks at AfCFTA offices would be a valuable activity, and AGA institutions may urge accountability via regular monitoring reports. This would help to reduce gender inequalities in the entrepreneurial mindset, boost activity levels, stimulate company start-up facilities, and build sustainable lifecycles for young entrepreneurs (Chikwanha, 2020).

The AfCFTA has the potential to increase the African market, stimulate industrial growth, and convert Africa into an internationally competitive continent. The potential contribution of the AfCFTA to the transformation of youth and women's livelihoods is a reason for worry. The problem that has to be addressed at this point is the equitable distribution of opportunities created by the continental free trade zone across all demographic groupings on the continent. First, it is sufficient to state that the African youth bulge is already confronted with a high percentage of unemployment: 14%. Second, concerns must be made about whether women will profit equally from the possibilities provided by the AfCFTA, given their disproportionate access to cash, resources, skills, and political power (Mude, 2020). If the AfCFTA is implemented, intra-continental exports will rise, poverty will be reduced, and the continent will become more economically connected. The AfCFTA's success will not be guaranteed only by

being positive. For the AfCFTA's bright future, it is essential to thoroughly examine the possible challenges and disputes (Kang, 2020). One cannot argue that women are still very much suppressed in African society, and governments have not done enough to reduce their suffering poverty.

The AfCFTA aims to ensure that gender equality can be sustained through economic development and trade integration. This paper, therefore, supports the notion that trade integration in Africa will likely result in more gender equality and socio-economic inclusion. We argue that if trade can be consolidated in Africa, women can be supported and given the opportunities they need to play a role in trade. Nevertheless, African governments do not know what comes in and goes out of their borders. Therefore, formalizing women in cross-border trade becomes a key process in the quest for inclusive development. Golub (2015) argues that a significant amount of trade occurs on the border because borders are porous and largely unregulated, and countries should leverage this for development. Despite the need for trade policies that favor women and youth development, it becomes imperative to ensure that cooperation between members of the agreement is built on a strong foundation and characterized by trust and determination from all sides. Additionally, Africa's development level is greatly skewed; hence, it becomes important to observe how ACTFA will navigate this unequalness to promote gender and youth development through increased trade integration. However, it is important to argue that Africa is still a patriarchal continent, where men dominate all aspects of society (Babtunde, 2021).

While trade integration can contribute toward women's empowerment, there needs to be greater levels of support for women to remove gender discrimination and ensure that culture and tradition do not hamper women's developmental potential in trade. The OCED (2021) argues that trade can contribute to

women's empowerment, however, policies need to be supported by action, post-monitoring, and evaluation to ensure their effectiveness. Trade can dramatically improve women's lives, creating new jobs, enhancing consumer choices, and increasing women's bargaining power in society. African governments should go beyond the mere need to consolidate women in trade. Rather they should invest in training and networking skills and give them the educational and financial resources they need to run fully fledged businesses, thus empowering and at the same time contributing to economic development. It is acknowledged that inclusive trade policies can contribute to advancing gender equality and women's economic empowerment. AFCTA should revolutionize trade in Africa and ensure that women (like in countries such as Vietnam, the Philippines, Indonesia, or China) are at the forefront of trade integration (Gentle, 2017). Empowering women means empowering society because women play an important role in society. However, they continue to remain at the peripheries regarding collaborative development.

Concluding remarks

The AfCFTA aims to lower tariffs and non-tariff obstacles while promoting the free movement of persons, the right of residence, and the ability to start businesses and invest. Tariff reductions under the AfCFTA make it more inexpensive for informal merchants to operate via legal channels, which provide additional protection as a result of the agreement. Since women account for around 70% of informal cross-border merchants in Africa, this would benefit them. The AfCFTA Agreement highlights the significance of gender equality in its preamble and general goals, which include inclusive trade opportunities for women and young people. The Protocol on Trade in Services expressly calls for enhancing the export capability of women and young people. This is imperative since youth in Africa is about 70% of

the region's population, and many of Africa's small businesses are run by women and young people. They play a significant role in the countries' economic growth, as they make up for about 80% of all businesses in the region.

The AfCFTA has as one of its primary objectives the expansion of economic opportunities for young people, which will create jobs for youth in Africa. This is important because most African youths are unemployed, contributing to political insecurity, high crime rates, and a higher public debt burden in African countries. Before the AfCFTA, women and young merchants were less likely to have the requisite skills, technology tools, and money to benefit from trade and trade liberalization. Consequently, they endured invisibility, stigma, abuse, and harassment, as well as deplorable working conditions and a lack of recognition for their economic efforts. The AfCFTA aims to encourage, develop, and protect young and female traders to build Africa as a global trade powerhouse and improve the lives of all Africans. If the African continental free trade area is implemented effectively, undoubtedly, it will contribute to youth development through increased trade, employment, and entrepreneurship opportunities. With Africa having such a vast number of young people, the agreement will help facilitate youth integration and reduce unemployment, inequality, and migration. However, for this to happen, the youth must be given the resources needed to leverage the ACFTA for their development, primarily educational and entrepreneurial support. Women at the center of informal trade in Africa will benefit significantly as the agreement will open a new market and simplify trading through reduced tariffs and the diversification of goods. AfCFTA will expand business prospects for women-led businesses by integrating informal SMEs into the continental markets.

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