Most economists see structural transformation as one of the main routes to Africa s sustainable development. What it means is changing the share of agriculture, manufacturing and services in an economy. It is a central aim of the African Union s Agenda 2063.

With this aim in mind, economists and policymakers need to know what determines structural transformation. They have flagged factors like demand for goods and services, trade policies, financial development, institutional quality and economic integration.

But researchers haven t closely examined the way economic integration through trade and finance influences structural transformation.

I therefore set out to study African countries integration with the rest of the world and the effect of that integration on their structural transformation. This study provides fresh evidence about whether integration is good for Africa. It also unearths the right levels of integration necessary to increase structural transformation.

Trade and financial integration are both about countries exporting to and importing from each other. The two are often referred to as economic integration. Opening national borders to trade has a number of potential benefits which can promote development. For example it creates comparative advantage, access to external finance and opportunities for risk sharing. It also enables technology transfer. Local firms serving larger foreign and domestic corporations can acquire knowledge and skills and transfer them to the rest of the economy.

All these benefits are essential for structural transformation. But excessive openness and integration may also come at a cost, largely from distortions around trade policy. For instance, if certain local industries have been protected, local firms may not be fit enough to compete with foreign counterparts. Opening these industries to competition may harm them.

Balancing the potential benefits and dangers of integration is a pressing policy issue now that African countries have signed the African Continental Free Trade Area agreement, which aims to foster integration.

Policy makers need to know whether there is an ideal level of trade and financial integration that will change economies in the desired ways.

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