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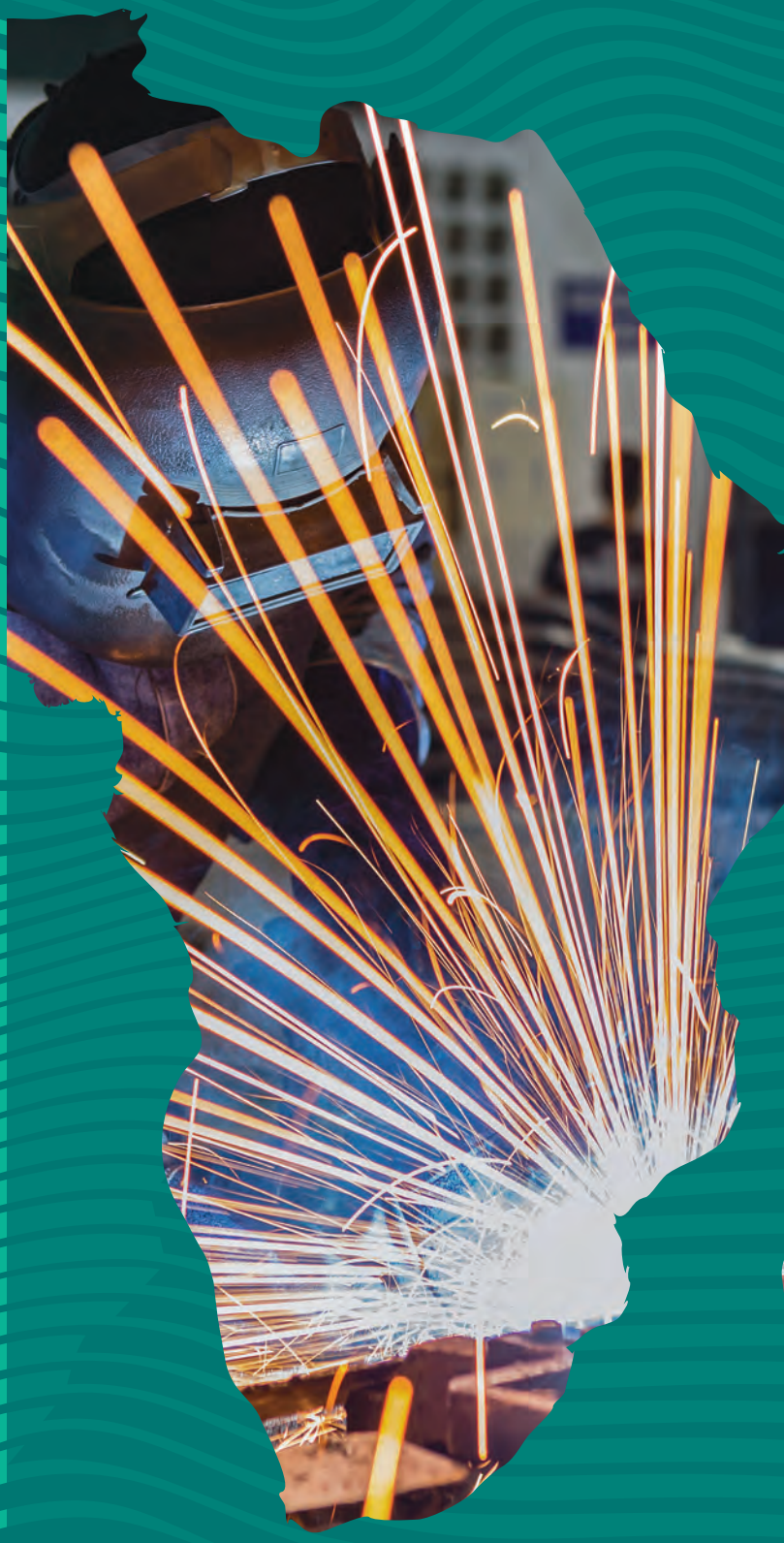

African Trade Report 2023

Export Manufacturing and Regional Value Chains in Africa under a New World Order

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Foreword

After an exceptionally strong post-pandemic recovery, with world output expanding by 6.2 percent and the volume of global trade rising by 9.4 percent in 2021, 2022 proved to be a difficult period. Global output growth decelerated sharply, with GDP expanding by just 3.4 percent and trade by only 2.7 percent.

That lacklustre growth was the consequence of an extremely challenging macroeconomic environment and the convergence of unprecedented risks and overlapping shocks. Mounting geopolitical tensions and the economic fallout from the COVID-19 pandemic set the stage for a "polycrisis" world. This was exacerbated by the Ukraine crisis and subsequent supply-chain disruptions, which pushed inflation to record highs through soaring food and energy prices.

What followed was the synchronised and aggressive monetary tightening by systemically important central banks, as they manoeuvred to bring inflation back to target and avert the entrenchment of inflationary pressures. Global volatility rose, with significant implications for emerging and developing market economies. Emerging markets' net issuance of hard currency debt was negative in 2022.

Notwithstanding this challenging global operating environment, African economies continued to demonstrate remarkable growth resilience. The region's merchandise trade increased by 20.9 percent. Its combined GDP expanded by 3.9 percent, slightly down from 4.1 percent in 2022, but above the global average.

Africa's growth resilience reflects several factors, including the asymmetric nature of shocks across the continent. Several countries, including tourism-dependent ones, enjoyed growth acceleration and showed their commitment to macroeconomic stability. Relatedly, African monetary authorities were in the vanguard of the global pivot to curb inflationary pressures. The region's growth resilience also reflects the effectiveness of timely counter-cyclical measures from multilateral and development finance institutions, exemplified by the African Export-Import Bank's (Afreximbank) Ukraine Crisis Adjustment Trade Financing Programme for Africa (UKAFPA).

Globally, the risk-mitigating nature of geographically-diverse African trade in a dynamic global environment, where countries in the 'Global South' have become leading drivers of global output, was equally growth-enhancing. So, too, was the burgeoning of manufacturing output, which is sustaining the expansion of intra-African trade.

Global supply chains (GSCs) are being realigned, hastened by shifting geopolitical tectonic plates, the push for near-shoring for greater supply-chain resilience and the prospects for structural transformation associated with the African Continental Free Trade Area (AfCFTA). These developments open opportunities to catalyse the maturation of regional value chains (RVCs), which will accelerate the diversification of sources of growth and boost manufacturing exports, further strengthening the foundation of growth resilience in Africa. Export diversification has set countries on a long-run growth trajectory through several positive spillovers, including by (i) engineering structural transformation and the recomposition of productive capacities; (ii) capitalizing on technology transfers and the development of RVCs for effective integration into GVCs; and (iii) mitigating exposure to global volatility, including the negative impact of terms-of-trade in primary commodities.

The AfCFTA is set to accelerate the development of RVCs and the transformation of African economies to enhance their integration into GVCs through backward activities as corporations take advantage of economies of scale. The agreement is expected to significantly boost Africa's share of manufactured goods, which currently comprise around 34 percent of total exports, against 74 percent for non-African low-and middle-income countries. Preliminary results from computable general equilibrium models are encouraging and show that the continental trade integration reform will greatly enhance African trade, with manufactured goods expected to see the most gains.

However, to successfully set the region on the path of export diversification in the emerging new world order hinges on overcoming several constraints. These include significantly raising investment rates; closing infrastructure deficits, both physical and digital; strengthening regional coordination and co-operation for the emergence of robust RVCs; and boosting financing of intra-African trade and improving trade facilitation. Afreximbank, which operates a robust trade facilitation programme to address non-tariff barriers and high costs of doing business in Africa, is working with other development finance institutions and partners to expand trade-enabling infrastructure and boost intra-African trade and investment in the AfCFTA era.

This report outlines various policies and initiatives to alleviate trade constraints and catalyse the emergence of vibrant RVCs in Africa. It shows that the confluence of GSC realignment under the new world order and the implementation of the AfCFTA provides a unique opportunity for accelerating manufacturing export growth in Africa. In particular, rules of origin that prioritize local value-addition across the region will induce technology transfer and long-term investment.

Another important feature of African trade that will drive export diversification is the stark contrast between the drivers of extra- and intra-African trade. While the former depends largely by primary commodities and natural resources, manufactured goods dominate the latter. Hence, intra-African trade and industrialisation are mutually reinforcing. Although intra-African trade expanded by more than 18.6 percent to account for 15 percent of total African trade in 2022, it remains relatively low compared to other parts of the world and will drive the growth of manufacturing output during the AfCFTA's implementation.

The report also reveals large untapped export potential in intra-African trade across all subregions, pointing to significant growth opportunities under the continental free trade area. South Africa, one of the most diversified economies in the region, has long been the leading driver of intra-African trade, accounting for 20.5 percent of the total in 2022. More broadly, the southern Africa region, despite recording a slight year-on-year decline of 4.2 percent, continues to contribute the lion's share of intra-African trade, accounting for 47.4 percent in 2022.

The resilience of extra-African trade, which grew by 22.4 percent last year in a challenging global environment of growth deceleration, was even more impressive. That growth was supported by the continued expansion of South-South trade (that between developing economies globally) and especially Africa's expanding trade ties with Asia, which further consolidated its position as Africa's foremost trading partner, accounting for more than 32 percent of extra-African trade. The much stronger growth of the region's merchandise exports enabled Africa to register a trade surplus in 2022.

This report advocates robust investment to close infrastructure deficits, improve the business environment and attract long-term capital. It also argues for a speedy conclusion of negotiations towards a full implementation of the AfCFTA, particularly in respect of the rules of origin. These are crucial steps for Africa to take as the region looks to integrate itself more into the global economy under a new and still-evolving world order.

Professor Benedict O. Oramah

President and Chairman of the Board of Directors

The African Export-Import Bank

Cairo, Egypt
June 2023

> The AfCFTA provides a unique opportunity to smoothen and remove the complexity of existing rules of origin to prioritize local value-addition across the region and further catalyse technology transfer and the development of Regional Value Chains (RVCs) in the continent.

Acknowledgements

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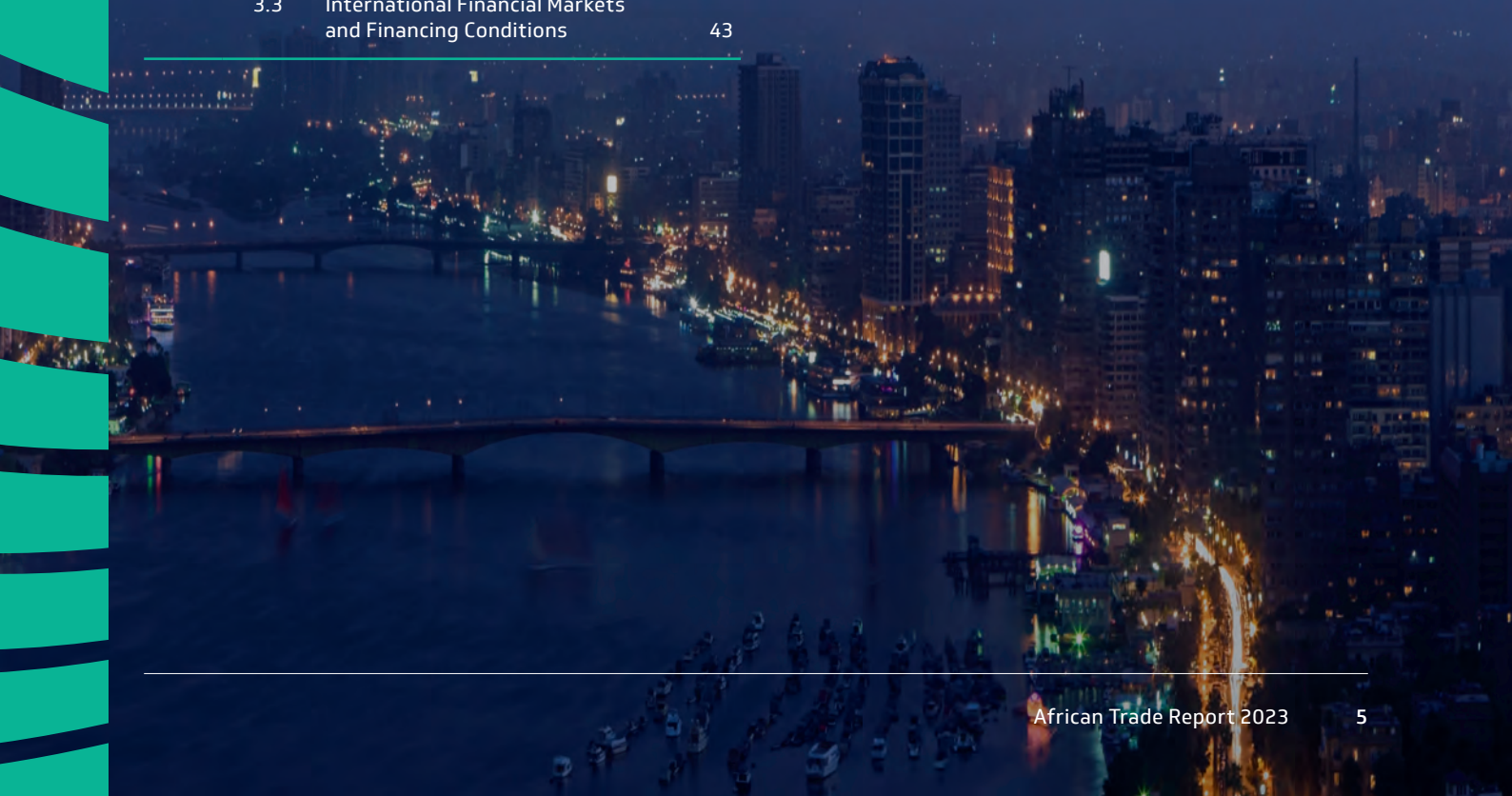

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AACI	Afreximbank African Commodity Index
AfCFTA	African Continental Free Trade Area
Afreximbank	African Export-Import Bank
AU	African Union
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
DSB	Dispute Settlement Body
EAC	East African Community
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GVCs	Global value Chains
IDB	Islamic Development Bank
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PAPSS	Pan African Payment and Settlement System
RCEP	Regional Comprehensive Economic Partnership
RVCs	Regional Value Chains
UKAFPA	Ukraine Crisis Adjustment Trade Financing Programme
UNCTAD	United Nation Commission on Trade and Development
WTO	World Trade Organization

Chapter One

Introduction & Executive Summary

The African Export-Import Bank's 2023 edition of the African Trade Report examines trade and economic development in Africa and other parts of the world during 2022, a year during which the world economy witnessed a sharp synchronised deceleration on account of a confluence of overlapping crises. These include the lingering effects of COVID-19, particularly in China, where the country's "zero-COVID" policy led to a sharp reduction in output; heightening geopolitical tensions stoked by the Ukraine crises; an increasing risk of fragmentation; and further disruptions in supply chains, which increased inflation to a record high. The aggressive tightening of global financial conditions in response to sharp price increases weakened global growth, with world gross domestic product (GDP) expanding by only 3.4 percent, down from 6.3 percent in 2021. Global trade growth decelerated as well, expanding by 2.7 percent, from 9.4 percent in the year prior.

TIn this challenging global economic environment, African economies continued to exhibit growth resilience. The region's merchandise trade increased by 20.9 percent and its combined GDP by 2.9 percent, reflecting the dividends of geographical diversification of its trading partners, its commitment to macroeconomic reforms, and the effectiveness of counter-cyclical support from development finance institutions.

After an impressive post-COVID-19 economic rebound, rising geopolitical tensions and macroeconomic policy malpractice in 2022 exacerbated the consequences of the pandemic downturn. Financial markets posted the worst performance since the 2008 global financial crisis, with the S&P index losing more than 20 percent of its value.

Several factors combined to produce synchronised global deceleration. The lingering effects of COVID-19 were devastating to growth, particularly in China, where the country's zero-COVID policy led to a sharp reduction in output and undermined global growth and trade. The Ukraine conflict, the intensification of trade wars, and the increasing risks of fragmentation led to further disruptions in global supply chains, pushing inflation to record-highs. The aggressive tightening of global financial conditions heightened global volatility and added to the uncertainty caused by rising geopolitical tensions.

Amidst this challenging global economic environment of overlapping crises, African economies continued to exhibit growth resilience, with the majority of countries enjoying growth acceleration. The region's merchandise trade increased by 20.9 percent, and its combined GDP rose by 3.9 percent.

The resilience of African economies in the midst of a synchronised global deceleration can be attributed to the confluence of several factors, including growing South-South trade, which has reduced the continent's excessive exposure to Europe, the region most affected by the negative spillovers of the Ukraine conflict. It also reflects the region's increasing commitment to macroeconomic reforms. African monetary authorities were in the vanguard of the global pivot to curb inflationary pressures and counter-cyclical responses by development finance institutions played a critical role in the continent's economic fortunes. One example is Afreximbank's Ukraine Crisis Adjustment Trade Financing Programme (UKAFPA).

Despite the growth resilience over the past two decades, Africa remains a marginal player in the global trade and economic arena. The COVID-19 pandemic downturn caused the region's first recession in the last 25 years. The combined output of Africa accounted for just about 2.8 percent of world GDP in 2022, and the region's contribution to global trade was less than 2.9 percent, having fallen from more than 5 percent in the decade following independence.

The continued marginalisation of Africa, reflected in the steadily declining share of its contribution to global trade, is largely the consequence of the colonial development model of resource extraction. Despite ongoing efforts to boost industrial production, Africa's growth continues to be highly correlated with the dynamics of commodity prices, in a world where global trade and growth have been largely driven by manufactured goods with increasing technological content. According to the most recent estimates, the average share of manufacturing value-added in Africa's GDP has remained very low, falling to 10.5 percent in 2021, compared with 24.8 percent in East Asia.

To raise its share of global growth and trade and foster its integration into the global economy, the continent must accelerate the diversification of its

+15.5 percent

Africa's merchandise imports grew to US$706 billion in 2022

+26.8 percent

Africa's merchandise exports grew to US$724.1 billion in 2022

145 percent

Africa's merchandise trade balance registered a surplus of US$18.1 billion in 2022

Introduction & Executive Summary

sources of growth and export by implementing proactive policies and investment that put countries on an irreversible path of increasing value addition and expanding manufacturing output. Notwithstanding the challenging geopolitical environment of expanding trade wars and increasing risks of fragmentation, several factors militate in favour of a successful export-led growth model in Africa, as the report shows. The COVID-19 pandemic exposed the limitations of globalisation of value chains (GVCs) and the just-in-time supply chain model amidst heightened geopolitical tensions. The resulting decentralisation of GVCs, most notably illustrated by the push for "friend-shoring" and "nearshoring," have the potential to fast-track the development of regional value chains (RVCs) within the continent. At the same time, the African Continental Free Trade Agreement, which has the potential to significantly boost the competitiveness of African economies to accelerate the process of structural transformation, could boost the growth of manufacturing content of African exports.

Against this global context of geopolitical realignment and structural transformation, enhancing continental trade and integration reform, the 2023 African Trade Report aptly focuses on Export Manufacturing and Regional Value Chains in Africa under a New World Order. Over the years, export diversification has set countries on a long-run growth trajectory through several positive spillovers, including by engineering structural transformation, capitalizing on technology transfer and the development of RVCs, and mitigating exposure to global volatility and adverse commodity terms of trade.

Even though GVC participation indicators suggest that the degree of regional integration in Africa remains very low, the report shows that a combination of external and internal drivers could boost export diversification and deepen regional integration. Intra-African trade and industrialisation are mutually reinforcing in Africa. By sustainably raising intra-African trade, as suggested by the empirical analysis, the new African Continental Free Trade Area (AfCFTA) could catalyse the development of RVCs and expand manufacturing output to improve the participation of African countries in GVC trade. According to the most recent available estimates, RVCs accounted for only 2.7 percent of Africa's global value chains participation in 2019, against 42.9 percent in developing Asia.

The report shows that the dynamics of labour costs in Asia could also catalyse ongoing efforts to reduce the concentration of GVCs for greater resilience. The impressive growth performance, which has lifted millions out of poverty in Asia, is associated with rising wages, which have eroded the competitiveness of the region's labour-intensive production. As China moves up the development ladder and invests in more sophisticated production, it opens a number of export markets for other developing economies.

The report shows that migration of labour-intensive production out of China, which has been the major export base for light manufacturing, has particularly been prominent for garments, footwear, and leather products. China reached the peak in the manufacturing of these highly labour-intensive products in the mid-2010s, unleashing a new wave of late-industrialisation and manufacturing exports. However, despite the aggressive push for "nearshoring" or "relocation" by advanced economies, these labour-intensive products from China have not migrated toward Europe or the United States; rather, the main beneficiaries have been a growing number of late-industrialisation countries in Asia. This suggests that reducing the concentration of global supply chains for greater resilience is not automatic.

More than 700 million additional workers will enter the labour market in Africa in the coming decade. Despite the projected abundance of cheap labour and improvement in the business and competitiveness environment in the AfCFTA era, the success of African countries at developing RVCs for export manufacturing-led growth depends on several factors. First, the report argues that countries across the region must increase their absorptive capacity (i.e., a developed productive base, sufficiently trained human capital, good quality infrastructure, and a properly functioning institutional system) to attract foreign direct investment (FDI), and boost capital and labour factors. Second, the report stresses the importance of improving trade facilitation beyond border issues to include developing RVCs and increasing manufacturing exports. Several empirical studies have established that the growth and development impact of the AfCFTA will be even more important if the elimination of tariff barriers is accompanied by the implementation of trade facilitation measures to address non-tariff barriers and the high cost of doing business in Africa. Third, developing the right institutional and regulatory framework that supports access to, and use of, digital technologies and market platforms is another key recommendation outlined in the report, to catalyze the development of RVCs and export-led growth. Developing the appropriate institutional framework is also critical for the implementation of the AfCFTA, considering the correlation between services trade and trade in goods. Fourth, the report argues that addressing the chronic energy deficit, which has been one of the major constraints to output expansion and

growth, will be critical to raise the competitiveness of the region in the ongoing realignment of global supply chains. Addressing the energy deficit is also critical for the development of robust RVCs, to deepen economic integration of African countries into the global economy. The region is well-positioned to draw on the abundance of both renewable and non-renewable sources of energy. Fifth, the report stresses the importance strengthening regional cooperation, which catalyse the process of structural transformation by optimizing the allocation of resources, specifically, by facilitating the identification of the most lucrative value chains based on regional competitive advantage. Regional integration will enhance the emergence of robust RVCs and a successful manufacturing-led growth model in the region.

> “In the context of the AfCFTA, rules of origin which prioritise local value-addition is key to catalyse technology transfer and the development of RVCs to diversify the sources of growth and enhance Africa’s integration and boost manufacturing for effective integration into the global economy under the new world order.”

The AfCFTA, which entered into force in 2021, provides the right framework for strengthening regional coordination and accelerating industrialisation under the new world order. To be successful, regional cooperation should be multidimensional and should involve all stakeholders. In this regard, and considering the constraints associated with financing of regional public goods, the report argues for greater cooperation among Africa’s development finance institutions.

The report shows that the benefits of a successful manufacturing-led growth model in Africa will be wide ranging, boosting both intra- and extra-African trade and mitigating the region’s exposure to adverse commodity terms of trade shocks, which have been largely responsible for Africa’s structural trade deficits and marginalisation in the global economic and trading arena.

Despite growing by 20.9 percent to reach US$1.43 trillion in 2022, Africa’s total merchandise trade remains marginal. In 2022, it accounted for less than 2.9 percent of world trade, slightly up from 2.7 percent. As a whole, the region registered a trade surplus of about US$18.1 billion in 2022, after a trade deficit of US$40 billion in the previous year, reflecting the region’s strong export performance during the review period. Asia, now Africa’s main trading partner, was the destination of about 32.1 percent of total African exports, against 23.6 percent for Europe, the continent’s historical trading partner.

The report also shows that intra-Africa trade grew sharply during the review period, expanding by 18.6 percent to reach US$197.2 billion in 2022. Consistent with previous years, South Africa was the leading intra-African trading nation, accounting for more than 20 percent of total intra-African trade in 2022. However, despite the strong performance, intra-African trade remains low even by developing country standards. At US$197.2 billion, it represented 13.8 percent of total African trade, down from about 16 percent in 2021. This compares unfavourably with Asia, where intra-regional trade is more than 55 percent of total Asian trade, and Europe, where intra-regional trade surpasses 70 percent.

The AfCFTA has the potential to catalyse the emergence of RVCs and a successful manufacturing-led growth model and thus, to significantly boost African trade and growth in the medium term. However, in the short term, the risks to global and African growth are tilted toward the downside. The report highlights that the combination of heightening geopolitical tensions, sustaining the trade war, and tight financial conditions in response to persistent inflationary pressures will continue to weigh on global growth and trade in the near term.

In terms of prospects, forecasts show that world output will expand by 2.8 percent in 2023, down from 3.4 percent last year. Similarly, world merchandise trade volume is projected to grow by 1.7 percent, down from 2.7 percent in 2022. These developments could weigh on the continent’s growth prospects in the short term, even though the geographical diversification of its trading partners and growing South-South trade will mitigate these risks.

Chapter Two

Export Manufacturing and Regional Value Chains in Africa under a New World Order

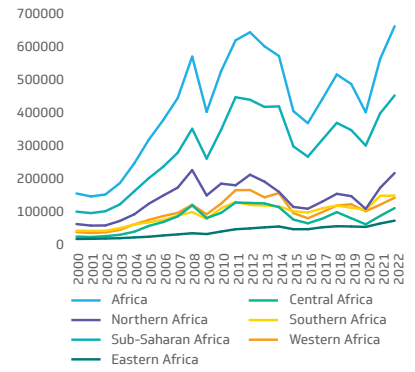
2.1 INTRODUCTION

This thematic study was conducted at a time when a growing number of studies (Rodrik 2013, 2022; Stiglitz 2021; Fofack and Mold 2021) had proclaimed that export manufacturing-led growth was no longer a valid model. However, the shifting geopolitical environment and prospects for structural transformation associated with the African Continental Free Trade Area (AfCFTA) will provide tremendous opportunities to catalyse the development of regional value chains (RVCs), which will accelerate the diversification of sources of growth for export manufacturing in Africa. RVCs are central to the mandate of the African Export-Import Bank (Afreximbank), which is actively supporting the implementation of the AfCFTA.

Against this backdrop, this study has two overarching objectives. First, it will show that the current African and global geopolitical environment is ripe for the development of RVCs for export-manufacturing-led growth in Africa. Second, it will reflect on the set of policies and initiatives that will enable African countries to leverage an emerging new world order to develop robust RVCs for a successful export-led growth manufacturing model in the era of climate change.

The African continent is the world's richest continent in natural resources, yet it is the poorest in terms of per capita gross domestic product (GDP). The impressive, combined growth performance of the continent before the COVID-19 pandemic was not sufficient to achieve the necessary catching up. Recent severe crises, including the pandemic, the war in Ukraine, and disruptions in food and energy supplies, in addition to the impact of climate change, have significantly slowed the pace of growth. Although African total merchandise trade[1] has more than tripled in the past two decades, its share of world merchandise trade represented only about 2.8 percent in 2022—down from 3.4 percent in 2012 (Figure 2.1).

Figure 2.1: Total merchandise trade of goods, per African region (2000-2022) (USD millions)



Source: African Development Bank statistics, 2023

The recent growing interest in the development of Africa is largely informed by the continent's potential, as stakeholders underscore the need for Africa to move away from supplying raw natural resources to focus on building infrastructure, digitalisation, agribusiness, retail, and services. These opportunities are based on its human resources, its regional integration potential including being part of the RVC, and its structural transformation (i.e., industrialisation and digitalisation).

With a population expected to reach 2.5 billion by 2050, Africa will become the world's largest workforce. This will create an opportunity for the continent to exploit the demographic dividend and become an exporter of labour-intensive products, particularly as wages in China have increased substantially (Lin, 2011).

Moreover, the implementation of the AfCFTA, which came into effect in 2021, presents another opportunity to move toward integrated markets, first for goods through the elimination of tariffs on intra-African trade and the reduction in non-tariff barriers (NTBs), then through the removal of barriers to trade in services. Both will favour the development of RVCs to accelerate industrialisation and diversify the sources of growth in Africa (Fofack 2018). In addition, the African Union (AU) has established an ambitious strategy for a prosperous Africa, called Agenda 2063–The Africa We Want, which is based on inclusive and sustainable development and aims to transform Africa into a global powerhouse.

While greenfield investment in Africa decreased in all sectors at the height of the pandemic between 2020 and 2021, information and communication technology (ICT) and internet industries doubled in 2021 compared with 2015 (AU and OECD 2022). This represents great growth potential for Africa toward service-oriented structural transformation, as it will normally trigger related manufacturing in all phases of production, from design and innovation to recycling and waste management. Unlike other sectors, services have not suffered from "slowbalisation."

These opportunities exist in a challenging global environment, where recent crises have led to protectionism, uncertainty, and heightened geopolitical tensions, as well as trade and technology wars. The COVID-19 crisis highlighted the strong dependence on Asia, particularly China, for the supply of intermediate goods. This geographical concentration was compounded by concentration in the number of producers. This awareness of the high risk of supply chain disruption prompted buyers to diversify their suppliers. In addition, environmental and social concerns, which are reflected in changes in consumer choices in developed countries and in the implementation of more restrictive social and environmental regulations, will have an impact on large companies' choices regarding both their industrial sites and the origin of their suppliers. Another striking fact of the last few years is the sharp increase in the cost

1 Total merchandise trade is the value of total merchandise exports and imports.

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of transportation, due to the (post-COVID) sharp rise in both the demand for intermediate goods particularly from China and the demand for container shipments (Attinasi et al. 2021).

The outcome should be a shortening of supply chains. In addition to diversification, countries are looking for closer sources of supply, "nearshoring," or "friendshoring." In fact, global value chains (GVCs) should become shorter both in terms of number of production stages and average geographic distance travelled by inputs (Augier et al. 2022; Miroudot and Nordstrom 2020). This trend—speed of deglobalisation—began after 2012, when the average distance travelled by inputs decreased by 9 percent through 2016. An acceleration of this trend is expected in the coming years. However, this does not necessarily indicate deglobalisation, but rather a restructuring of trade networks (away from China and toward new regions, such as Africa and Latin America). This restructuring, when combined with Africa's potential, including the AfCFTA, presents a unique opportunity for African development.

Against this backdrop, Africa's challenge is to find and exploit new and existing opportunities, given the precipitous increase in Africa's human resources, rising wages in China, digitalisation, attracting foreign direct investment (FDI). Countervailing trends that must be taken into account include the rise of protectionism (tensions between China and the United States) and the diffusion of new social norms and environmental regulations in the transition toward green growth.

The following sections tackle facets of this challenge and propose opportunities. First, they examine the trade performance of all African countries. They then assess the new world order, specifically, changes in the manufacturing industry and the export opportunities they create, and identify opportunities for Africa, which may be compromised by high dependency on imports from a few key producers and sectors of their economy. They then highlight the prerequisites for realising Africa's export potential, including RVC and GVC and the need for industrialisation, investment incentives, digitalisation, and transition to clean and renewable energy. The overview highlights the importance of regional coordination and cooperation for the emergence of robust RVCs and successful manufacturing-led growth model in Africa, including the role of development finance institutions. The overview concludes with suggested sets of national policies to promote vibrant export manufacturing Africa.

2.2 GLOBALISATION—EXPORT-LED GROWTH OF MANUFACTURING AND GLOBAL VALUE CHAINS

2.2.1 Overview of the Trade Performance of all African Countries

Among the performance challenges to be tackled by the continent to achieve export-led growth are the low percentage of exports of manufactured goods, the high concentration of manufactured goods, Africa's weak participation in supply chain trade.

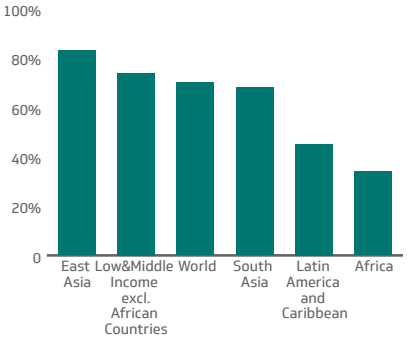
Africa exports few manufactured goods

The 54 countries of Africa combined account for only about 2.6 percent of global trade. This figure drops to 0.8 percent when only manufactured goods are considered (COMTRADE/UNSTAT 2023). The share of manufactured goods in total exports is only 34 percent for African countries, which is relatively low compared with 83 percent for East Asia, 74 percent for low- and middle-income countries excluding African countries, 68 percent for South Asia, 45 percent for Latin America, and 70 percent for the world average (Figure 2.2) (UN COMTRADE 2023).

The share of manufactured goods in Africa's total exports has remained relatively stable over the past decade, but this average share of 34 percent masks strong subregional heterogeneity (Figure 2.3). Three of the subregions have seen their share decrease over the period (South Africa with -19 percentage points, East Africa with -10 percentage points, and West Africa with -9 percentage points), while in two of the subregions, the share has increased significantly (+40 percentage points in North Africa and +22 percentage points in Central Africa). Moreover, these shares vary significantly. For the most recent period, 8 percent in West Africa, 19 percent in East Africa, 25 percent in Central Africa, 30 percent in South Africa, and 60 percent in North Africa).

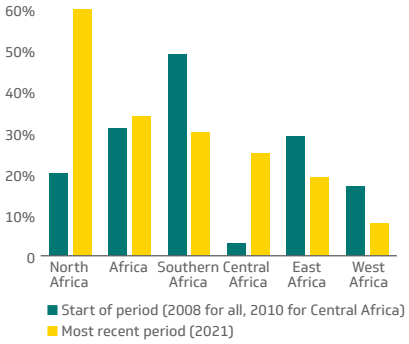
Figure 2.2 Share of manufacturing products in total exports, for Africa and main comparator groups (2021)

Figure 2.2: Share of manufacturing products in total exports, for Africa and main comparator groups (2021)



Source: COMTRADE (UNSTAT).
Calculations by authors.

Figure 2.3: Change in the share of manufactured products in total exports, by African subregions



Source: COMTRADE (UNSTAT).
Calculations by the authors.

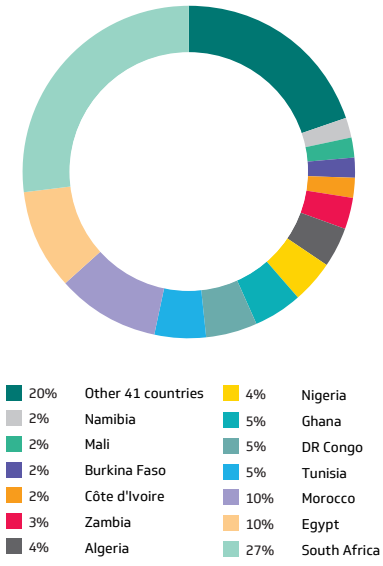
Manufactured goods exported by Africa are triply concentrated

Manufactured products exported by Africa are highly concentrated at three levels: in terms of countries that produce and export, in terms of sectoral affiliation, and in terms of destination markets.

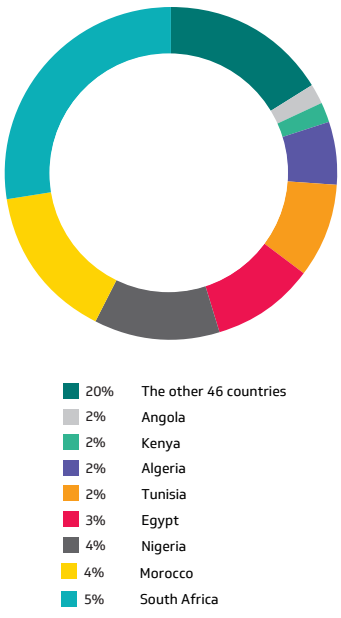
Regarding the countries that produce and export, if both fully transformed and semi-transformed goods are included in the manufactured products, Figure 2.4 (part 1) shows that about half of the manufactured products exported by the continent come from only three countries: South Africa (27 percent), Egypt (10 percent), and Morocco (10 percent). Thirteen countries out of 54 produce 81 percent of the manufactured exports. This concentration of export countries is even more pronounced when considering only fully transformed goods. Figure 2.4 (part 2) shows that three countries (South Africa, 28 percent; Morocco, 15 percent; and Nigeria, 12 percent) sell 55 percent of fully transformed product exports and that 84 percent of these exports come from only eight countries: South Africa, Morocco, and Nigeria, as well as Egypt (10 percent), Tunisia (9 percent), Algeria (6 percent), Kenya (2 percent), and Angola (2 percent).

Figure 2.4: Country-level composition of African exports of manufactured goods

Part 1: Share of countries in Africa's exports of fully processed and semi-processed goods



Part 2: Share of countries in Africa's exports of fully processed goods



Source: AU/OECD (2022)

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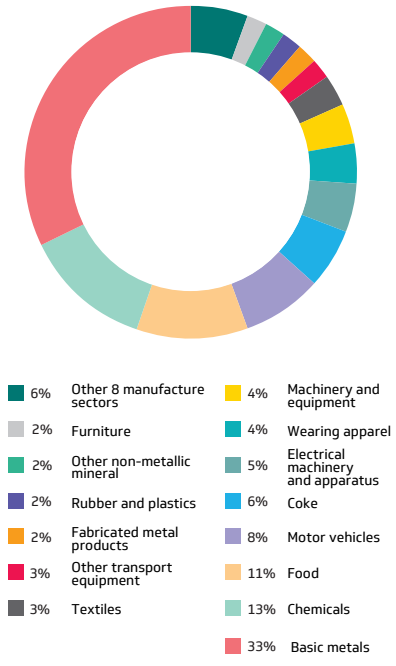
These manufactured product exports are concentrated in few sectors. The following four sectors account for 65 percent of the total exports (Figure 2.5): the manufacture of basic metals (33 percent), the manufacture of chemicals (13 percent), the food sector (11 percent), and the motor vehicles sector (8 percent). By adding only three sectors (manufacture of coke, 6 percent; electrical machinery and equipment, 5 percent; and manufacture of clothing, 4 percent), 80 percent of products exported from Africa are covered.

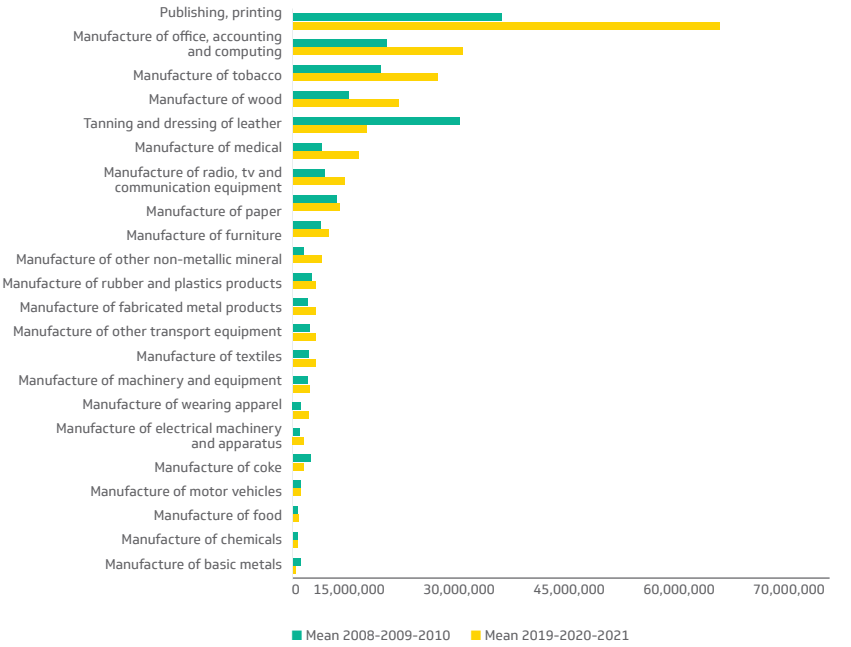
Figure 2.5: Sectoral distribution of manufactured goods exports (three-year average, 2019–2021)



Source: COMTRADE (UNSTAT). Calculations by the authors.

Note: The share in total manufactured exports in these eight sectors is less than or equal to 1 percent.

Figure 2.6. Change in export manufacturing sectors in Africa in the last decade (in US$ thousands)

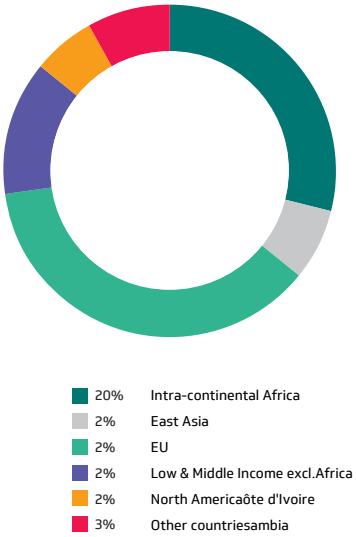


Source: COMTRADE (UNSTAT) and authors' calculations.

Over the last decade, the sectoral structure of manufactured product exports has changed slightly (Figure 2.6). Exports have increased sharply in the basic metals sector (+105 percent), chemicals (+81 percent), food products (+65 percent), the motor vehicle sector (+90 percent), electrical machinery and equipment (+134 percent), clothing (+62 percent), the other transport equipment sector (+172 percent), the manufacture of radios, televisions and communication equipment (+97 percent), and the manufacture of medical products (+66 percent). In the same period, the value of exports decreased in the printing and publishing sector (-67 percent), the manufacture of coke (-56 perce nt), and the tanning and leather sector (-37 percent).

Finally, regarding the destination of manufactured products, two-thirds of exports are sold in the European (37 percent) and African markets (29 percent). The other destinations are low- and middle-income countries excluding African countries (13 percent), East Asian countries (7 percent), and North America (6 percent) (Figure 2.7).

Figure 2.7. Destination of exports of African manufactured goods (average flows, 2019–2021)



Source: COMTRADE (UNSTAT) and authors' calculations.

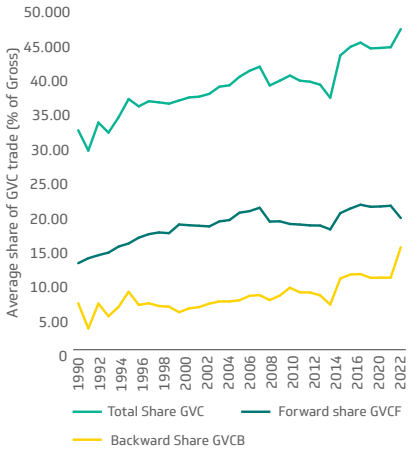
2.2.2 Africa's Participation in Supply Chain Trade: An Overview

In sharp contrast with other regions of the world, especially the countries that comprise the Association of Southeast Asian Nations (ASEAN), African exports have so far not been connected to regional supply chains.

GVC trade is defined as trade that crosses borders at least twice. The GVC participation rate is the share of a country's (or region's) exports that either makes use of value-added imported from another country (or region) or is exported to another country (or region) for further processing. This rate is expressed as a share of gross exports.[2] The participation rate is the sum of the backward and the forward GVC participation rates. Exports that participate in regional value chains (RVCs) are those that cross borders at least twice within the same defined region. In this context, backward participation measures the regional import content of exports from a member of region A, and forward participation measures the value-added in A directly exported to a member of region A then re-exported.

Figure 2.8 presents Africa's total GVC participation broken down into backward and forward participation. It shows an increase in Africa's GVC participation from 1990 to 2022. The import content of gross exports is relatively low, at around 15 percent, while the share of exports undergoing further processing at destinations before reaching the final consumer is higher throughout, in the 20–25 percent range. This pattern is not surprising, since many African countries export primary commodities that have undergone very little processing and undergo further processing in destination countries; hence the relatively low share of backward participation. However, between 2009 and 2014, following the 2008 financial crisis,[3] overall trade growth was weak. GVC trade actually contracted in 2015 when it dipped for a second time as geopolitical tensions picked up, notably US-China trade tensions. Since GVC measures are calculated at current prices, with backward linkages falling because of the price effect, overall GVC measures, like those displayed in Figure 2.8, will fall. The fall in the euro against the dollar reduces the weight of the European Union (EU) in supply chains and could be another factor behind the drop observed after 2010. In addition to these factors, the growth of robotics and the continued growth of economies like China and India where the stages of production are increasingly carried in the domestic economy have contributed to a slowdown in GVC activity. Between 2020 and 2022, forward participation fell slightly due to the COVID-19 crisis, but backward participation increased steadily, hovering around 15 percent.

Figure 2.8 Africa's participation in global value chains (1990–2022)



Source: Adapted from Melo and Solleder (2022b).

Figure 2.0 shows Africa's GVC performance compared with that of other regions using the UN classification of regions. This classification includes mixed countries at different stages of structural transformation. Figure 2.9 plots the GVC participation rate by major geographic regions in 1995 and 2022. All points are above the 45° line, confirming that increased fragmentation of production was a worldwide phenomenon. Several patterns can be observed. Eastern Europe, which is becoming closely integrated with Western Europe, together comprising "factory Europe," is displaying the highest degree of supply chain trade. Not surprisingly, Western Europe and Others, which includes North America, is the region with the greatest fragmentation of production and continues to increase its degree of specialisation. Regions of developing countries[4] started from lower levels of participation in supply chains

2 Value-added imported from another country or region is 'backward participation,' while exports for further processing is 'forward participation.'

3 The 2008 crisis was followed by a sharp decline in commodity prices starting in 2011.

4 Here includes: Africa, Asia Pacific and Latin American and Caribbean

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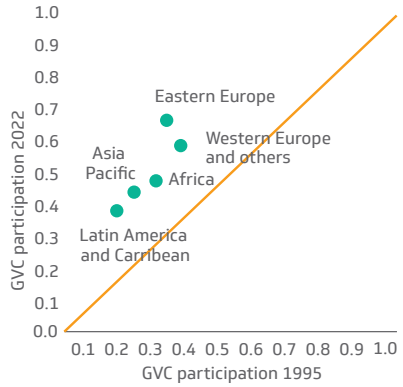
but increased their participation during the period of hyper-globalisation. The Asia-Pacific region increased participation the most between 1995 and 2022 (21 percentage points), closely followed by Latin America (19 percentage points). While Africa has increased its participation in supply chains by about 16 percentage points only (as both forward and backward GVCs increased by 8 percentage points each), it has recorded the highest share of GVC participation among developing regions in 2022, with 47 percent (compared with Asia Pacific at 45 percent, and Latin American and Caribbean at 39.6 percent)

Figure 2.9. Global value chain participation, by major geographic regions

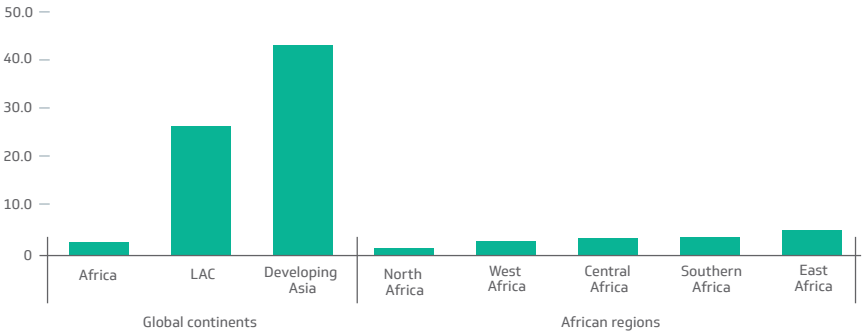


Source : Melo and Solleder (2022b).
Notes: EORA data. Asia-Pacific includes China, India and Japan. Western Europe and Others includes North America.

However, African producers remain marginal actors in global supply chain trade. Figure 2.10 shows that regional value chains only account for 2.7 percent of Africa's GVC participation in 2019, compared with 26.4 percent for Latin America and the Caribbean and 42.9 percent in developing Asia, often called 'factory Asia' to emphasise that supply chain trade remains within the region. Among the five AU regions, the participation rate is lowest for North Africa and highest for East Africa, at around 5 percent. This is why the AfCFTA has declared the development of RVCs a priority objective.

The GVC participation indicators show that among Asian and Pacific countries (excluding high-income countries), the degree of regional integration was almost six times higher than in Africa in 2019.

Figure 2.10. Share of participation in RVCs as a percentage of participation in GVCs by world and African regions (2019)



Source: AUC/OECD 2022. Africa's Development Dynamics 2022: Regional Value Chains for a Sustainable Recovery, Éditions OCDE, Paris, https://doi.org/10.1787/2e3b97fd-en.

2.3. THE NEW WORLD ORDER: A GLOBAL PERSPECTIVE AND POTENTIAL FOR AFRICA

The section examines the emerging new world order in terms of changes in manufacturing industry and export opportunities created. It then takes a deeper look at Africa's potential given its favourable demographic patterns. Finally, it examines how this opportunity can be challenged if African countries fall into the trap of heavy dependence of their imports on few producers and key sectors.

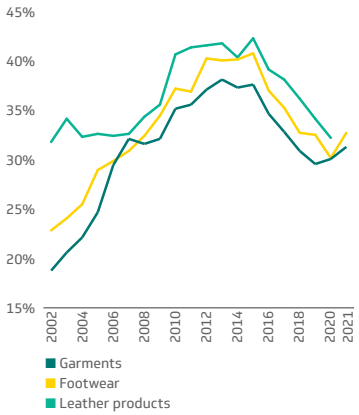
2.3.1. A New Wave of Changes in Global Manufacturing

The major change in global manufacturing in the past 30 years has been the explosive rise of China. It became the world's leading exporter in 2009, and in 2010 it overtook the United States, becoming the top producer of manufactured goods. Having been much poorer than most countries in Africa in 1980, by 2021 China had become a middle-income country with a per capita income of US$12,500, and its economy now ranks second in the world. The speed and the magnitude of China's growth caused a supply shock in global markets, as the country has rapidly increased its market share in labour-intensive industries. For instance, China's share in world exports reached 42 percent for "leather articles" in 2015, 47 percent in 2021 for "man-made filaments," 40 percent in 2015 for "footwear," and 38 percent in 2013 for "garments." Such rapid expansion reduced the opportunities for production and export growth for other developing countries.

A major engine of China's rapid export rise has been the absorption of its vast reserves of unskilled labour. As a consequence, China has experienced rapid wage growth in the manufacturing sector, rising from US$150 per month in 2005 to around US$350 in 2010 and about US$1000 in 2020-21 (Lin 2011), eroding the country's competitiveness in labour-intensive production. As a result, the world manufacturing industry has been engaged in a large restructuring process since the mid-2010s, in which the upgrading of China's manufacturing specialisation is a key component. China's investment in more sophisticated production has reopened several export markets for other developing economies.

In global markets, China apparently has reached the peak for several labour-intensive products. The fall in China's market shares in labour-intensive industries started in the mid-2010s (Figure 2.11). Its share of garment manufacturing in the world market decreased by 8 percentage points between 2013 and 2020 (from US$165 billion to US$125 billion in export value); its share in footwear exports fell from 40 percent to 30 percent between 2015 and 2020 (-US$18 billion of exports), and for leather products the decline was similar (- 10 percentage points; - $9 billion).

Figure 2.11. China's share of world exports in garments, footwear, and leather goods (2002–2021)



Source: International Trade Statistics Data (Intracen Data).

China's restructuring has unleashed a new wave of late-industrialisation and manufacturing exports, which can be illustrated by the following metric: 1 percentage point of world export accounts for US$5 billion in the garment industry, US$2 billion in the footwear industry, and US$1 billion in leather goods production.

2.3.2. Windows of Opportunity for Smaller Manufacturing Exporters in Labour-Intensive Industries

As a result of the decline in its market share, the cumulative value of China's export contraction amounted to US$244 billion between 2015 and 2020, in the three labour-intensive industries identified: HS 42 Leather products, HS 61 + HS 62 Garment, and HS 64 Footwear. Much of this export loss has been compensated by the fast growth of exports from a small number of developing countries. The countries whose labour-intensive exports have increased much faster than the developing country average are Bangladesh, Cambodia, Myanmar, Philippines, Vietnam, Indonesia, Pakistan, and Sri Lanka.

It is worth mentioning that in these industries, there has been no re-shoring or relocation to advanced economies, and the prospect for such a change is slim. Despite a recent wave of innovation, new manufacturing technology (automation, industry 4.0) will not cause a transfer of production from developing countries. Experts believe that new manufacturing equipment will not replace mass-production workers in most labour-intensive industries in the next decade (McKinsey 2019; Banga and te Velde 2018; Chang et al. 2016).[5] Export potential is opened up for a new generation of exporters.

5 McKinsey (2019) estimates that additive manufacturing could reduce goods trade by only 1 to 2 percent (or some $350 billion to $790 billion annually) by 2030.

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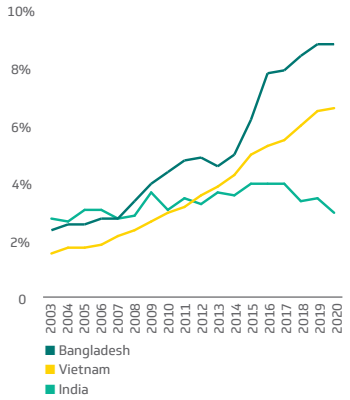
2.3.3. Africa: The Next Production Hub?

The new production will not come from China, the rest of East Asia, or Bangladesh, or from Latin America or Eastern Europe, where wages are already uncompetitive. They will most likely be located in the only countries and regions where a large supply of low-wage workers has remained available: India and Africa.

However, the expectation that India will replace China as a major export base for light manufacturing in the near future may be unrealistic. Despite the excitement around the "Make in India" government initiative launched in 2014, India's place in world manufacturing trade has not significantly improved. Its export performance in industries where it should benefit from a strong low-wage-based comparative advantage, such as garment (Figure 2.12), shows a clear lack of international competitiveness. Indian weaknesses include the legacy of past industrial policies, the lack of export incentives, the weight of the bureaucracy, and inefficient infrastructure constraints. (Lopez-Acevedo et al. 2015).

Figure 2.12. World export shares of garments

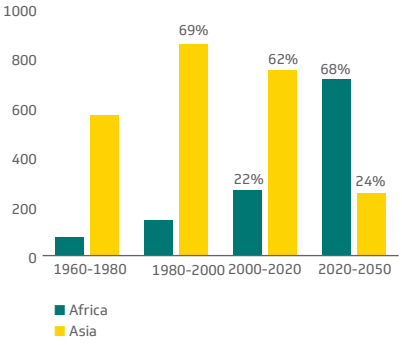


Source: International Trade Statistics Data (Intracen Data).

2.3.4. Employment Challenge in Africa and the Potential Demographic Dividend

In the coming decades, the bulk of world population growth will occur in Africa. Its population is expected to grow from 1.3 billion in 2020 to 2.5 billion in 2050 and 4.3 billion in 2100 (Figure 2.13). Whereas Asia has provided most of the workforce augmentation until now, in the next 30 years more than 700 million additional workers will enter the labour market in Africa. This demographic shock will impact both the demand and supply sides.

Figure 2.13. The African century: increase in the working-age population 1960–2050 (in millions, share of world increase)



Source: United Nations (2019). Median variant. Authors' calculations.

On the demand side, Africa's formal consumer markets have enormous potential for future growth, due to (i) population growth and urbanisation rates; and (ii) the fact that they are currently the least developed in the world. Household consumption in Africa grew at an average rate of 3.9 percent per year between 2010 and 2015, and it is expected to reach US$2.5 trillion by 2030 (Signé 2018). There is a huge potential for the expansion of intra-African trade if regional free trade is implemented and a single continental market, which will amount to 1.7 billion people in 2030, becomes operational (Fofacak 2021; World Bank 2021). By 2030, the largest consumer markets would include Nigeria, Egypt, and South Africa.

On the supply side, as China's wages have risen substantially and the supply of cheap Asian labour has rapidly declined, the opportunity to exploit this demographic advantage in Africa has become considerable. The demographic dividend potential is huge, and will increase, for most parts of Africa. The concept relies on the idea that economic growth is stimulated by an increase in the share of the working-age population. Changes in population structure follow a well-known pattern of demographic transition at the end of which, as fertility declines, population growth slows, and the share of the working-age population increases. That is, the dependency ratio, or the number of dependents under age 14 and over age 65 compared with the total population aged 15–64, decreases.

At this stage of the transition, productivity and per capita income increase in the economy. Potential economic output also rises because savings capacity increases, allowing more capital accumulation and technological innovation. Because of higher and growing household income, domestic markets can expand faster. In addition, the availability of critical public goods per capita (health services, primary education, etc.) increases thanks to the diminution of demographic pressure. Many Asian economies already experienced such a virtuous circle (Bloom and Williamson 1998).

However, the demographic transition does not deliver dividends automatically. Obtaining these benefits requires good public policies, sustained investment in human capital, and a favourable macroeconomic environment. Countries only get a demographic dividend if the

economy offers enough opportunities to young workers. To realise this potential, a dynamic labour market and a growing demand for workers are critical, which implies greater investment in the productive sectors.

To benefit from these opportunities, there is a need to adopt a balanced approach to the nature of imports, which are needed to grow manufacturing, and to avoid increased dependence on imports from a few countries, or even a few producers.

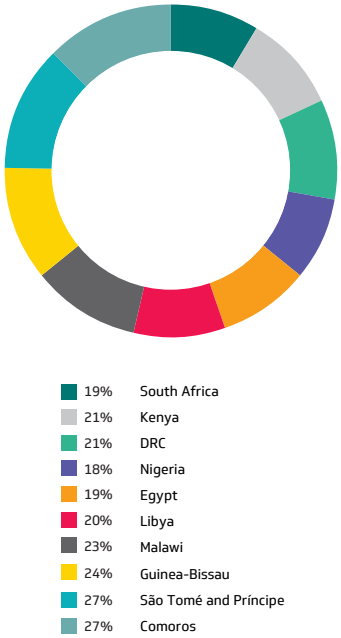
2.3.5. A Landscape of Risky Import Products for Selected African Countries

Africa is one of the regions most affected by the impact of the COVID-19 and the war in Ukraine. This has further affected its supply chain and makes it more vulnerable. This section takes a deeper look at the nature of imports by the African continent to identify those that have high dependency following certain criteria. These are called "risky products." The risky manufactures for nearly three decades (1995 to 2021) in Africa (49 countries) and selected African countries are as follows: large importers by subregion (South Africa-Southern Africa, Egypt-North Africa, Nigeria-West Africa, Kenya-East Africa and the Democratic Republic of Congo (DRC)-Central Africa) and small importers by subregion (Malawi-Southern Africa, Libya-North Africa, Guinea-Bissau-West Africa, Comoros-East Africa, and Sao Tome and Principe-Central Africa).

Size and types of risky imports in Africa

Between 9 and 15 percent of Africa's import products are risky. Low-ranked importers have more risky products than high-ranked importers. This analysis reveals that 12 percent of Africa's imports were classified as risky in 1995. The share oscillated at around 10 percent afterwards (1996–2011) and later steadily increased to 15 percent in 2021. This suggests that the continent's vulnerability has grown over time. Moreover, risky imports as a share of total import products varies across countries, with low-ranking importers having higher shares than high-ranking importers per subregion. This can be seen in Figure 2.14 where the average portion of risky imports in the total import products for the study period for Comoros and São Tomé and Príncipe (low-ranking importers) is roughly 27 percent, respectively, compared with 18 percent and 19 percent for Nigeria and South Africa, respectively, which are high-ranking importers.

Figure 2.14: Average share of risky imports, in total imports by volume in Africa (1995–2021)



Source: COMTRADE (UNSTAT). Authors' calculations.

The analysis also shows that risky products accounted for an average of 27 percent of Africa's import value between 1995 and 2021 (Figure 2.15). As for countries, only South Africa has less than 10 percent of its average share of risky products in the import values between 199 and 2021. The share is highest in São Tomé and Príncipe, at 37 percent. Overall, approximately a fifth of the current import value of African countries is from products that originate from a few places.

6 Risky products are identified using three criteria: (1) Market concentration: shows the skewness of the number of suppliers of a particular product. A product is considered concentrated if its Herfindahl-Hirschman Index exceeds 0.25. (2) Market relevance: is the importance of a product in African import trade by value. A product is considered relevant if its import value is greater than 0.001 percent of the overall import value of a specific year. (3) Substitutability shows the ease of changing a product for another. Risky products have a high elasticity of substitution such that their elasticity of substitution score exceeds the average elasticity of substitution of all products in a particular year.

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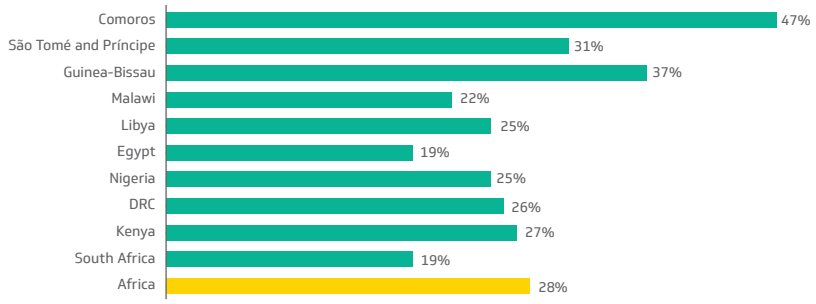
Figure 2.15. Average share of risky imports, in total import value in Africa (1995–2021)



Source: UN COMTRADE (UNSTAT). Authors' calculations.

Africa's risky imports are mainly machines and electronics in terms of both trade volume (number of products) and value. These two products dominate the import volume (19 percent) and value (24 percent) of risky import products in Africa. They also dominate the import baskets of low-ranking (such as Malawi and Sao Tome and Principe) and high-ranking (such as South Africa and Nigeria) African countries: 28–46 percent in terms of import volume and 32–55 percent in terms of import value. Other notable risky sectors are chemicals, transport, metals, textiles, and clothing. Examples of risky products include rare earth, semiconductors, lithium, aluminium, and nickel.

Half of the risky products are classified as intermediate in terms of volume and 37 percent in terms of value. At the country-level, between 43 percent and 54 percent of risky commodities are categorised as intermediate in terms of volume and 35 percent to 51 percent in terms of trade value. The dominance of intermediate goods in the category of risky products indicates the vulnerability of the continent's value chain trade since these commodities are associated with GVC trade.

In terms of the source of risky imports, about 40 percent of Africa's risky import products come from East Asia. Southern Africa is the leading exporter of risky products to Africa among the African subregions. Heterogeneity exists at the country level, as East Asia, the European Union, and West Europe feature as leading sources of Africa's risky import commodities. However, it is not the lead source of such goods in all countries when country-level analysis is considered. This research also reveals that East Asia is the highest source of Africa's risky products, accounting for an average of 40 percent of the import value of risky products for the study period (see Table 2.1). The European Union and West Europe follow with an average of 25 percent, while Southern Africa, with an average of 4 percent, is the leading subregion of Africa.

However, variation exists at the country-level: East Asia leads in Kenya, Nigeria, and South Africa. The European Union and West Europe lead in Egypt, Guinea-Bissau, São Tomé and Príncipe, Comoros, and Libya. Southern Africa leads in the Democratic Republic of Congo and Malawi. China accounts for more than a third of Africa's risky import products, followed by France and the United States, which accounted for an average of 7 percent and 6.6 percent, respectively, during the study period. Among African countries, the Democratic Republic of Congo and South Africa are the leading exporters of risky products to Africa. China is the leading source of risky imports in the Democratic Republic of Congo, Egypt, Kenya, Nigeria, Libya, and South Africa. Portugal is the main source of risky imports in Guinea-Bissau and São Tomé and Príncipe. France leads in Comoros, and South Africa dominates in Malawi.

Table 2.1: Share (%) of Africa's risky import products, by source region (1995–2021)

Sub region	Africa	DRC	Egypt	Kenya	Guinea-Bissau	Comoros	Libya
Caribbean	0	0	0	0	0	0	0
Central Africa	3	0	0	0	0	0	0
EU & West Europe	25	19	32	18	46	37	45
East Asia	41	27	25	41	18	18	23
East Europe & Central Asia	4	0	14	1	0	0	1
Eastern Africa	1	5	0	2	0	14	0
Middle East	5	2	8	5	3	20	14
North America	7	4	11	8	2	1	4
Northern Africa	1	0	1	1	1	0	6
Pacific	1	0	1	0	0	0	0
South & Central America	2	0	3	1	1	0	4
South Asia	4	5	3	11	9	6	1
Southeast Asia	3	1	2	2	5	1	1
Southern Africa	4	36	0	8	0	3	0
Western Africa	2	0	0	0	14	0	0

Source: COMTRADE (UNSTAT). Authors' calculations.

There is great potential for Africa to exploit opportunities offered by the global social and economic context and take advantage of its favourable demographic trends. This will, however, require a cautious approach as to the nature of its imports. There has never been a better context than that which exists now for this continent's economic take-off. However, in order to benefit from the new export potential, African countries must initiate profound structural changes.

2.4. PREREQUISITES TO ACHIEVE EXPORT POTENTIAL, REGIONAL VALUE CHAINS, AND GLOBAL VALUE CHAINS: INSTITUTIONAL AND POLICY REQUIREMENTS

Increasing exports of manufactured goods, joining GVCs, and developing RVCs require a structural transformation of the productive capacity of African countries. This will require an increase in both domestic and foreign investment and more involvement of the private sector. At the same time, a series of measures must be taken to further improve factors that determine the degree of trade facilitation between countries, including procedures, transport, and logistics, among others. This industrial turnaround must be based on digitalisation and the provision of services needed for trade and structural change. The African structural transformation must be deployed and adapted to new global contexts, not only in terms of needs, but also in terms of environmental and energy requirements.

2.4.1 The Industrialisation of Africa is a Necessary Step

Regional value chains are poorly developed on the African continent. Intra-African trade remains dismally low, accounting for about 13 percent of total African trade. However, increasing trade between African countries, creating RVCs and integrating into GVCs other than through primary goods will require the continent to increase its exports of manufactured goods and, hence, develop an industrial base (Fofack 2021). Africa's structural transformation must be based on industrialisation. Without this structural transformation, overall productivity cannot increase, job creation will remain far below the needs of the countries and living standards will stagnate.

Figure 2.16 shows that the African continent has a long way to go to achieve structural transformation: the average share of manufacturing value-added in Africa's GDP has remained very low, and has even fallen slightly in just over a decade (Fofack and Mold 2021). This share in 2021 amounts to 10.8 percent in Africa, compared with 14.5 percent for South Asia, 16 percent for Latin America and the Caribbean, 16.6 percent for the world as a whole, 21.3 percent for low- and middle-income countries and 24.8 percent for East Asia. Industrialisation is a pre-requisite for productivity growth.

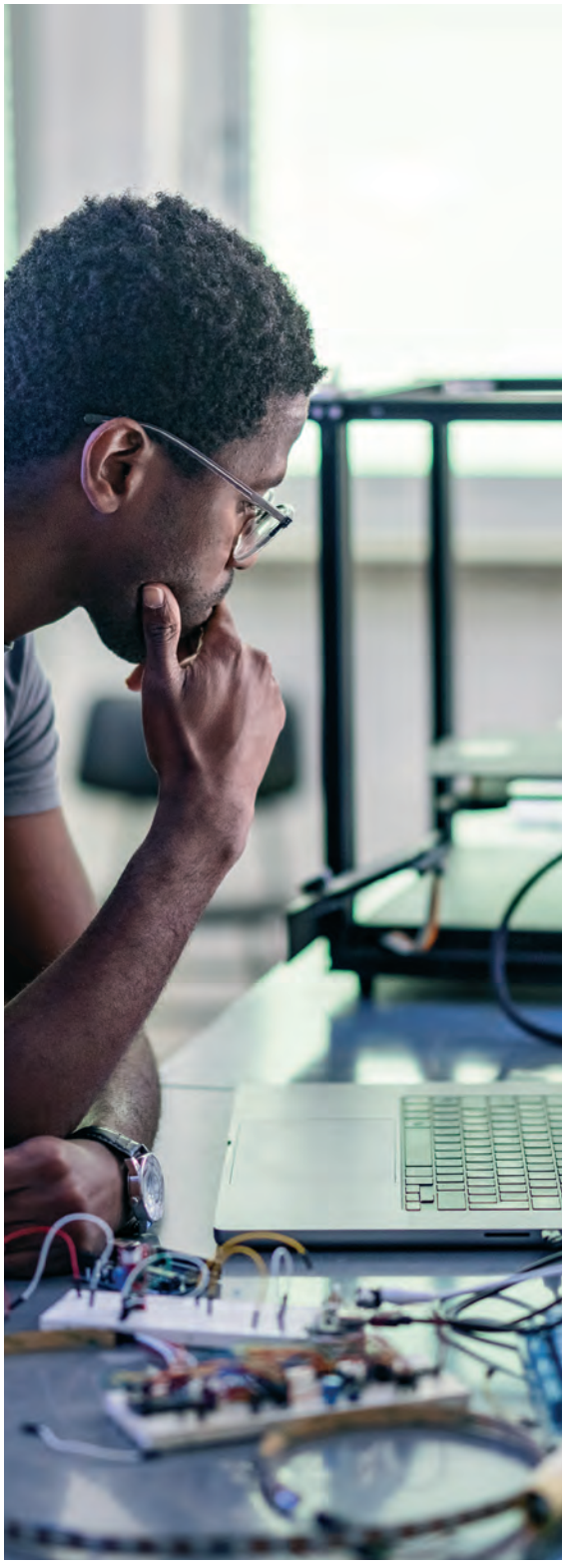


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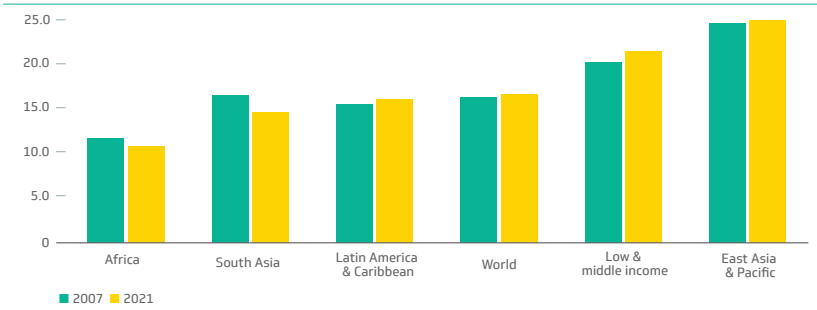
Figure 2.16. Share of manufacturing value-added for Africa compared with other regions (percent of GDP)



Source: World Development Indicators, World Bank. Authors' calculations.

2.4.2. More Incentives for Domestic and Foreign Investment

Investment is a necessary condition for industrialisation and the expansion of manufactured exports. Investment has a major role in the growth process and in the industrial takeoff of countries. It is a condition for the development of a diversified, solid, and job-creating productive structure. Economic theory and history have confirmed the key role of investment in fostering economic growth. Countries that have had enjoyed sustained growth over a long period, such as Hong Kong, Singapore, Korea, Taiwan, Malaysia, Thailand, and China, have had high investment rates (between 30 percent and 40 percent) at the time of their takeoff (Krueger 1995; Diao, McMillan, and Rodrik 2019). Investment is also necessary to improve the competitiveness of African products, which is a necessary condition to increase manufacturing exports and integrate Africa into global value chains.

The impact of private investment on growth depends to a large extent on the support provided by public investment to reforms adopted by countries and by significant progress in regional collaboration. Without an improved business environment, not only will the private sector have less incentive to invest, but the amounts invested will have less of a positive effect on growth and job creation. This synergy between private investment, public investment, national reforms, and regional and international cooperation is fundamental for the African continent to accelerate wealth creation and achieve efficiency gains. This synergy can also help attract the FDI that all countries on the continent need.

Attracting FDI is not enough. Countries must also put the conditions in place to capitalise on the positive effects of FDI. The positive effects of foreign investment are short term: FDI increases the capital and labour factors in the host country, which automatically leads to an increase in production and employment (direct effect of FDI induced by extensive growth).

On the other hand, the medium- to long-term effects induced by intensive growth (i.e., that linked to productivity improvements) are not automatic. In order to observe positive medium- to long-term impacts on the productivity and competitiveness of local firms, the host country must have sufficient absorptive capacity, that is, a developed productive base, sufficiently trained human capital, good quality infrastructure, properly functioning institutions, and an environment that is conducive to the smooth operation of firms. One of the objectives of African countries should be to improve its absorptive capacity, notably by developing its productive base and further improving the overall business environment.

Foreign investment is needed in the short term to boost investment and increase GDP and employment, and in the medium term to support the development of the African private sector and facilitate the integration of countries into GVCs. But increased FDI should not be achieved at the expense of domestic private investment, first, because the sustainable development of an economy cannot rely primarily on foreign investment and, second, because increased FDI and its beneficial effects on the economy depend on a sufficiently developed and robust domestic private sector. One cannot happen without the other.

2.4.3. The Importance of Improving Trade Facilitation

Improving trade facilitation is essential but not sufficient to increase manufacturing exports. Many African countries are small markets. In this context, it is essential to defragment countries in order to attract foreign investment, improve the profitability of domestic investment, and increase the competitiveness of products. Some of the market defragmentation measures are country-specific reforms and actions, and others are regional decisions. It is clear that the AfCFTA will contribute to this defragmentation if this regional cooperation instrument succeeds in removing all barriers to trade—both tariff and non-tariff measures—and in improving connectivity between countries, including logistics, secure transport, development of rail transport, and others.

While these measures are essential for the sustainable economic development of the continent, countries must also pursue active and innovative industrial policies to build a manufacturing production base. The actions should be both cross-cutting (i.e., measures to promote the creation and development of enterprises) and targeted to encourage and support the emergence of strategic sectors, including the digital sector. These strategic sectors should be defined according to the specific strengths and comparative advantages of each country.

2.4.4.Digitalisation and Services Trade: Keys to Successful Re-Shoring and Export-led Manufacturing Growth

Digitalisation, or the use of digital technologies and digitised data, impacts how work gets done and transforms how customers and companies engage and interact. For African and other developing countries, digitalisation is considered essential for successful structural transformation. Successful digitalisation will require institutional and regulatory frameworks that support access to and use of digital technologies and market platforms accessible for micro, small, and medium-sized enterprises.

Digital transformation outcomes

The shift of value creation from capital to knowledge is often described as the services transformation.[7] It is conveniently summarised as digitalisation. Figure 2.17 shows that it is complex, multifaceted, and uncertain. On the input side, it involves combining 'DigiTech' (soft infrastructure) with ICT (hard infrastructure).

Digitalisation is only starting to reach countries in Africa, even though COVID-19 accelerated digitalisation everywhere. To cite an example, industrial robots have proliferated since 2010, though not yet in many developing countries.[8] Moreover, the growth of additive manufacturing through frontier 3D systems and computer assisted design/computer assisted manufacturing (CAD/CAM) technologies in developing countries depends on the expiry of core patents and remains expensive because of the high cost of capital. These digital technologies, as well as big data, cloud computing, and access to artificial intelligence (AI), are expected to become widely accessible in developing countries by 2025 (Mayer 2018).

> "Attracting FDI is not enough. Countries must also put in place the conditions to make the positive effects of FDI significant."

7 According to Baldwin and Forslid (2020), this shift took place in the industrialised countries in the early 1970s when many manufacturing tasks were automated. It is only starting now in developing countries. As pointed out by Sturgeon (2019), updating technology systems in the midst of ongoing operations is akin to "changing a tire while the car is moving."

8 Banga and Te Welde (2018) estimate that in the furniture industry, robots will become cheaper than labour in the United States in 2023 but only in 2034 in Kenya.

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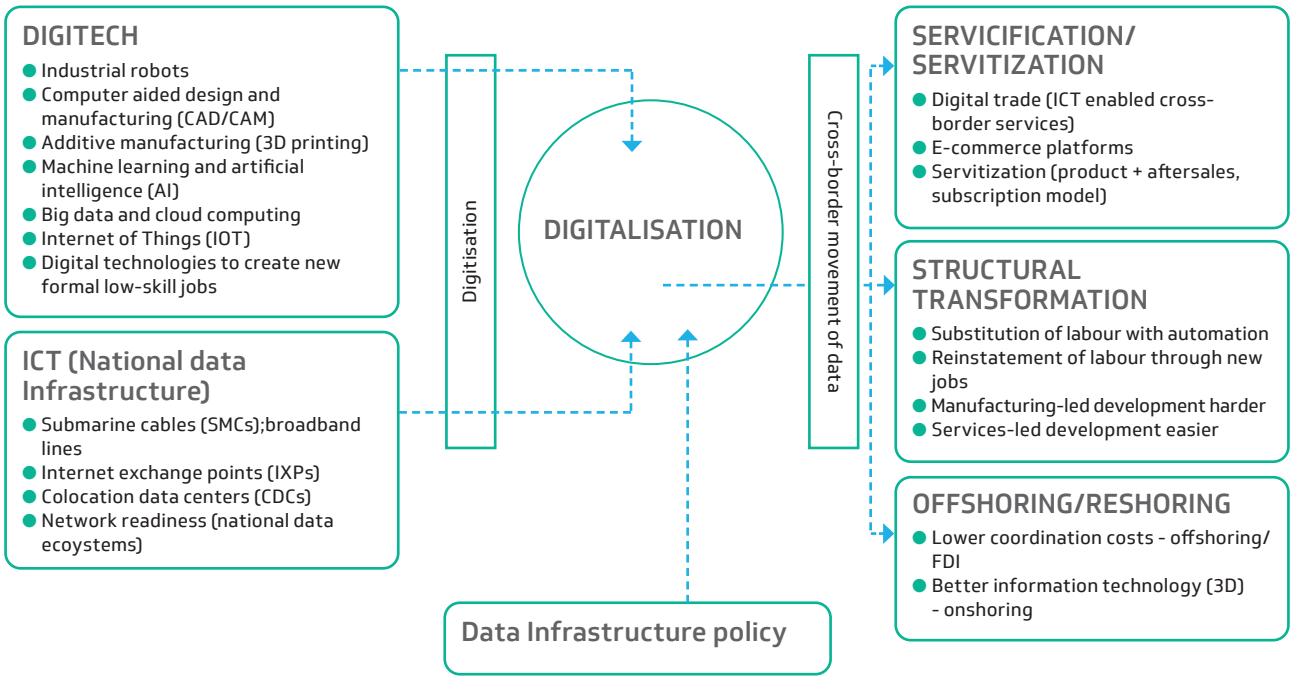
Figure 2.17 Inputs and outcomes of digitalisation



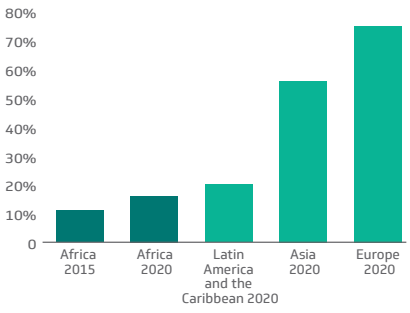
Source: Authors' elaboration.

The need to improve national data ecosystems across Africa

Performing connectivity (bandwidth, latency, and affordability) is crucial for a successful transition to digitalisation. Major connectivity gaps remain, resulting in high costs for transit of data packets across Africa.

Figure 2.18 shows that Africa's intra-regional bandwidth has increased from 11 percent of total bandwidth in 2011 to 16 percent in 2020, but it is still far behind other world regions, such as Asia, with 56 percent. Low bandwidth across Africa has stunted the development of e-commerce. In 2019, regional business to consumer (B2C) turnover generated US$22 billion, compared with US$1.1 trillion in Asia (Lemma et al. 2022).

Figure 2.18: Intra-regional internet bandwidth, by continent (2020)



Note: Data reflect traffic and bandwidth utilisation over Internet bandwidth connections across international borders. Data as of mid-year.

Source: AU/OECD 2022. Africa's Development Dynamics 2022 : Regional Value Chains for a Sustainable Recovery. https://doi.org/10.1787/2e3b97fd-en.

Connecting Africa's national digital economies through a seamless cross-border data flow will generate economies of scale and attract investment in critical areas such as colocation data centres (CDCs). Several mechanisms, all entailing some subsidiarity (i.e., delegation of decision making to a supra-national entity), would increase bandwidth. Among others, these could include plurilateral arrangements to harmonise approaches to cross-border data flows, incorporating more e-commerce- related provisions in the AfCFTA. Addressing major connectivity gaps is critical to optimizing the benefits of the AfCFTA.

Looking ahead for the digitalisation

Until the advent of the ICT revolution, services were plagued by a 'cost disease' due to the importance of face-to-face interactions. Service providers could not break the curse of the domestic market through international trade. Digitalisation breaks this curse. Services exports can now become the engine of structural transformation in developing countries, provided that high costs do not constrain the use of tele-robots. For Baldwin and Forslid (2020), with machine learning, "it is only a matter of time before the face-to-face and face-to-machine constraints are relaxed." However, while a relatively slow pace of adoption of robots will slow structural transformation, it gives breathing space for countries to exploit their comparative advantage in low-skill activities, which in Africa translates to low-skill manufactures.[9]

However, evidence suggests that performing national data ecosystems is becoming increasingly important. Estimates of the intensity of aggregate bilateral trade show that an increase in telecom subscriptions in North Africa and Sub-Saharan Africa had a stable direct positive effect on the intensity of GVC trade flows (as captured by shares of backward and forward measures of GVC participation) and an indirect effect through a decrease in trade costs (Melo and Solleder 2022a).

Access to internet platforms give small and medium-sized enterprises (SMEs) the opportunity to enter export markets, as they pay lower fixed export costs. Fixed costs of indirect exporting fall at a higher rate than fixed costs of direct exporting. Using eBay data, a study shows that the internet provides access to exporting and that access to platforms is associated with a decline in the export shares of the largest firms in bilateral trade (Lendle and Olarreaga 2017). Similarly, another study shows that greater access to the internet reduces the share of the top 5 percent, or 25 percent of exporters, in bilateral trade at the HS6 level (Meng Sun 2021).

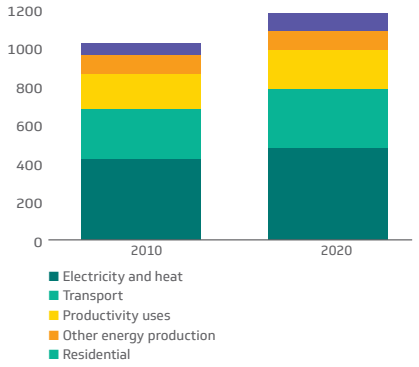
2.4.5. An Energy Transition in the Context of Increasing Demand

It is widely reported that Africa is a minor contributor to global emissions. The continent contributes no more than 4 percent of cumulative global energy-related carbon dioxide (CO2) emissions. Africa´s share of emissions rises to almost 10 percent when including non-energy emissions and all greenhouse gases, but still has the lowest per capita emissions in the world (International Energy Agency 2022).

Greenhouse gas (GHGs) emissions from Africa's manufacturing sector come mainly from five industries: cement, coal-to-liquids, petroleum refinery, ammonia production, and iron and steel. Moreover, four countries (South Africa, Egypt, Algeria, and Nigeria) are responsible for 75 percent of manufacturing-sector emissions due to their higher level of industrialisation, the size of their economy and their population (McKinsey 2021).

Considering rapid population growth, expected economic performance, and rapid urbanisation in Africa, the overall amount of emissions is likely to increase. CO2 emissions related to electricity and heat, residential consumption, transport, and other energy production are likely to increase accordingly (Figure 2.19). Despite this future trend, Africa will remain relatively a minor contributor to global emissions, but yet the continent needs to do far more than other regions to adapt to climate risks. According to the Africa Energy Outlook 2022, the global average temperature rise is likely to reach 2°C with current policies. The increase in temperature in Africa exceeds this average growth, and this is expected to continue (International Energy Agency 2022).

Figure 2.19. Figure 2.19 Energy-related CO2 emissions, by sector in Africa (MtCO2)



Source: Adapted from Africa Energy Outlook (2022).

Africa is already experiencing widespread damage attributable to climate change, including prolonged droughts, sea level rise, coastal flooding and erosion, salinity in low-lying cities, biodiversity loss, heavy rains, and reduced food production, among other shocks that will intensify in the next decade. Losses in economic growth, migration, and regional instability are additional negative effects of climate change on the continent. Amid all these effects, Africa is taking action in climate resilience and adaptation, with initiatives such as the Africa Adaptation Acceleration Program (AAP), an African-owned and Africa-led initiative.

9 Data over 2000-2014 on the stock of industrial robots from the international Federation of Robotics shows a stock of 1127 robots in advanced, emerging and transition economies and 52 in the rest of the world. The share of Africa (all countries included) was about 2 percent of world sales in 2015, 15 times lower than its share in world GDP (Banga and Te Velde 2018, Figure 9).

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Balancing the need for climate adaptation and just energy transition

Climate adaptation, or the process of adjusting to current or anticipated climate change effects, is a pressing issue for Africa. However, expanding energy access to close the energy gap is also a pressing need, as is the need to expand energy production to facilitate industrialisation.

Energy transition is a complex process. It involves moving toward renewable energy sources as well as ensuring that the benefits are shared equally by all members of society. This holistic approach of balancing the need for energy access and the development impact with the tempo of energy transition of the developed countries is referred to as part of a just energy transition (JET).

Africa's path to a JET includes not leaving behind the communities that are tied to high-emitting energy industries (e.g., coal) when transitioning to low emissions industries and ensuring that energy transition projects do not lead to forced displacements. It is also concerned with balancing the growing need for energy for industrialisation with achieving universal access to energy at affordable prices.

The expansion of reliable and affordable electricity supplies for households is a key driver of economic activity, higher income, and employment. Expanding electricity supply can foster entrepreneurial opportunities by providing power for small appliances. Some studies estimate that 4 million energy-related jobs could be created by 2030, more than half of which will come from the provision of universal access to modern and affordable energy to households in Africa (IEA 2022).

In July 2022, the African Union Commission (AUC) adopted a common position regarding JET, in collaboration with other pan-African institutions (AU 2022). It proposes that the continent deploy all forms of its abundant energy resources, both renewable and non-renewable, for industrialisation. According to the common declaration, natural gas, green and low-carbon hydrogen, and nuclear energy are meant to play a critical role in the short and medium term and enhance the uptake of renewables for the long term. This position adopted by the AUC and endorsed by other pan-African institutions including the African Export-Import Bank is based on a gradual energy transition, preferring an incremental rather than a leapfrog approach toward renewables. Other alternative visions highlight many co-benefits of an accelerated climate action in this decade, such as improved air quality and health, limiting damages for humans and ecosystems, decreasing cost-escalation, improving agricultural productivity, and innovation and food security, among others (IPCC 2023).

What is common ground in a highly integrated world economy is that the potential for economic growth in Africa cannot be separated from global developments. It is to be expected that energy transition in many countries will contain a share of fossil fuels in the coming decades, along with a progressive expansion of green energy access through renewables and clean technologies. The International Energy Agency predicts that, in a Sustainable Africa Scenario (in which Africa implements all climate pledges and achieves universal access to modern energy services by 2030), trends will be different across African regions. In this scenario, renewables will grow everywhere, but oil and gas will continue to dominate energy use in North Africa, and coal will predominate in South Africa, due to local availability of resources. Renewables will become the predominant fuel category in the remaining regions, their share rising from one-fifth of energy sources today to more than half by 2030 (IEA 2022).

The required changes are numerous, and they must be carried on at the national, regional, and international levels. Many of the issues at stake are expected to be addressed through regional cooperation.

2.5. IMPORTANCE OF REGIONAL COORDINATION/COOPERATION FOR THE EMERGENCE OF ROBUST REGIONAL VALUE CHAINS AND A SUCCESSFUL MANUFACTURING-LED GROWTH MODEL

Regional cooperation is a key economic and political ambition in Africa. It is believed to be essential to overcome common challenges, including facilitating cross-border production and climate change mitigation measures as well as improving integration into the value chain (Fofack 2021). The advantages of regional cooperation are numerous, among which are the opportunity to identify the most valuable value chains based on regional comparative advantages, regional branding, and more resource mobilisation. At the regional and sub-regional levels, African countries have established organisations and institutions to support this objective, such as regional economic communities (RECs).

The main purpose of RECs is to facilitate regional economic integration. They have also often been engaged in security agendas. RECs are the official pillars of the African Economic Community, established by the 1991 Abuja Treaty, which foresees a future implementation of a common market, a common external tariff, and establishing an African Monetary Union, among other provisions. In addition, the institutional umbrella that RECs provide can facilitate coordination and guidance. In recent years, RECs have been setting strategies to define road maps for strengthening regional value chains, although the achievements and initiatives vary between regions (Annex I).

The African Union officially recognises eight RECs, with different levels of progress achieved. These are the building blocks of the AfCFTA Agreement. In an AU evaluation of the progress made by each REC, the best scores are in the dimension of free movement of persons and trade integration (interval between 0 and 1) (Table 2.2).

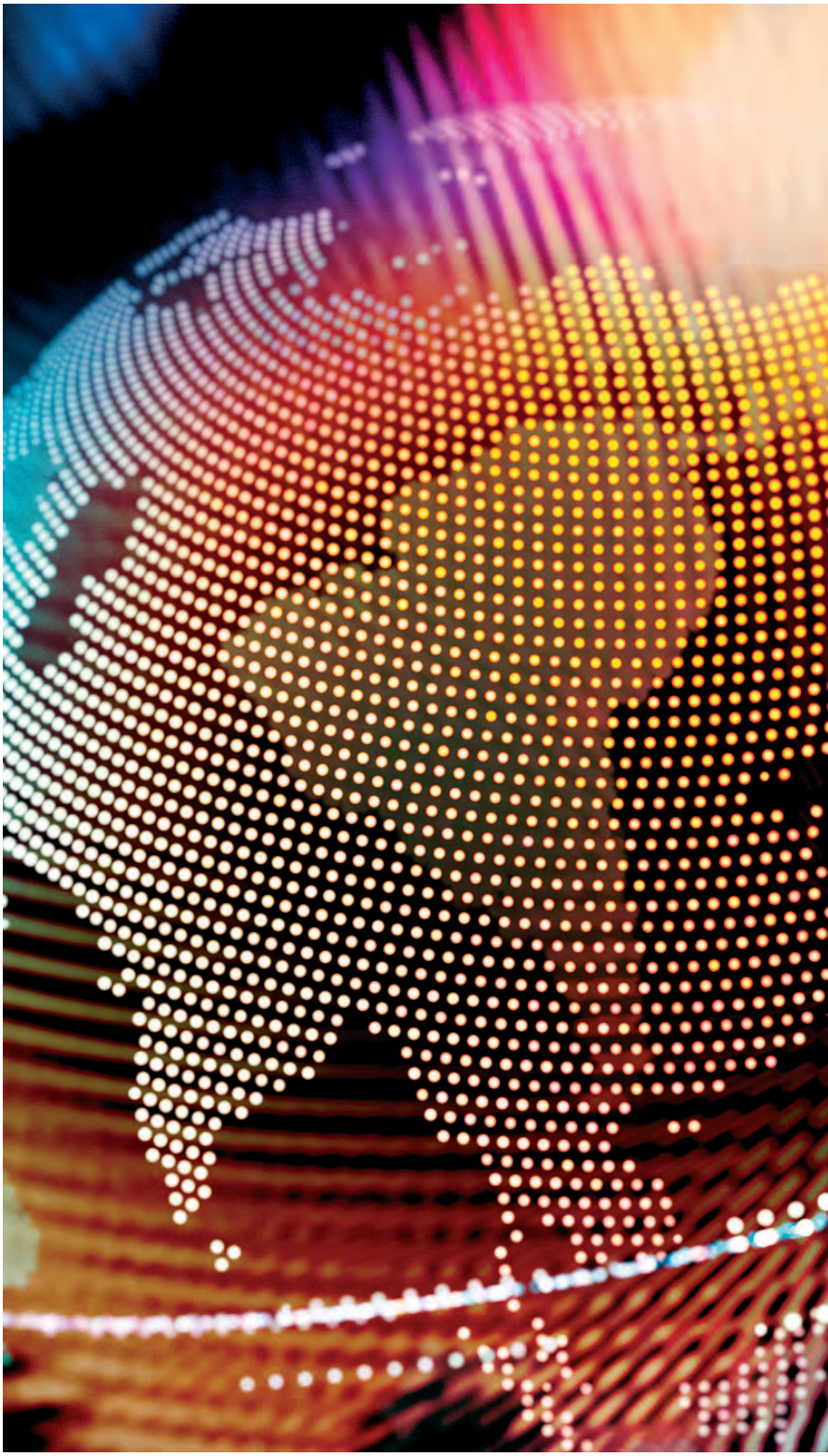

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Table 2.2: Achievements of regional economic communities, by dimension (2022)

REC	Overall	Free Movement Of Persons	Social Integration	Trade Integration	Financial Integration	Monetary Integration	Infrastructure Integration	Environmental Integration	Political And Institutional Integration
ECOWAS	0.74	1.00	0.79	0.84	0.60	0.56	0.53	0.67	0.93
EAC	0.73	0.96	0.79	0.85	0.66	0.65	0.70	0.58	0.77
COMESA	0.68	0.67	0.60	0.79	0.73	0.60	0.66	0.62	0.73
ECCAS	0.62	0.62	0.58	0.64	0.55	0.58	0.62	0.75	0.60
SADC	0.61	0.58	0.59	0.67	0.81	0.65	0.70	0.67	0.46
CENSAD	0.54	0.53	0.41	0.50	0.51	0.62	0.66	0.51	0.55
IGAD	0.53	0.56	0.42	0.49	0.46	0.63	0.61	0.65	0.53
AMU	0.52	0.62	0.48	0.51	0.44	0.56	0.58	0.47	0.52

Source: Brookings Institution (2022), based on African Union, African Integration Report (2022).

It is important to note that overlapping memberships in many RECs pose a challenge for deeper integration, but the potential of RECs to coordinate regional and continental progress is also recognised. Delivering public goods, for example, is key for successful African integration (Melo and Byers 2021).

The past few years have witnessed an increase in the cost of intra-Africa trade due to non-tariff barriers, weak infrastructure, and poor trade-related logistical services. The AfCFTA will help strengthen ties among African countries and create new opportunities to accelerate their structural transformation (World Bank 2021; IMF 2029).

2.5.1.Implementing the Ambitious AfCFTA Agenda

The AfCFTA will contribute to the acceleration of structural transformation across African countries. The agreement is set up in two phases: Phase I includes protocols covering trade in goods, trade in services, and dispute settlement mechanisms. Phase II includes protocols—some still under negotiation—covering intellectual property rights, investment, competition policy, digital trade, and women and youth (described in Annex II). This ambitious two-phase agenda is needed to move toward a single market for goods and toward integrated markets for financial services and intra-continental labour mobility, all of which are key for boosting manufacturing-led export growth.

The AfCFTA's programme is fully justified by the large potential gains from full market access. Its implementation will contribute to defragmenting Africa. Currently intra-African trade is about 15 percent of global African trade, against 67 percent intra-Asia trade in 'factory' Asia and 72 percent in 'factory' Europe.

Thanks to the drastic reduction in information and communication costs, the AfCFTA Secretariat has put several tools in place to accelerate defragmentation. By registering on the AfCFTA Hub, African enterprises that wish to take advantage of export opportunities across the continent can develop the trust and goodwill necessary to build effective partnerships in new markets.

The bulk of the AfCFTA benefits will be realised if state parties efficiently manage and eliminate NTBs. Online reporting, monitoring, and elimination mechanisms, where traders can file a complaint on a specific trade obstacle they have encountered during the process of moving goods and services across borders, should speed up the elimination of NTBs.

In addition, the AfCFTA Secretariat has also put in place dispute resolution mechanisms for the swift and transparent resolution of possible conflicts. The AfCFTA Dispute Settlement Mechanism comprises vital institutions such as the Dispute Settlement Body, the Adjudicating Panels and the Appellate Body for second-tier review and other appropriate avenues for seeking redress.

2.5.2. Fully Implement the Trade Facilitation Agreement

The Trade Facilitation Agreement (TFA) signed in 2013 with entry into force in 2017 is the first multilateral agreement since the creation of the World Trade Organisation (WTO) with the participation of all WTO members. The TFA employs a 'bottom up' approach where low-income countries have extensive leeway in implementing the agreement. In the case of the AfCFTA, where intra-African trade costs are still relatively high (Melo et al. 2020), slow implementation will mean that trade costs will not fall as rapidly as under full implementation.[10]

Implementing the TFA will enable progress to be monitored relatively easily and is therefore the easiest challenge to concretise the objectives of the AfCFTA.

10 Minor and Wamsley (2017) suggest that if African countries (or LDCs) delay implementation, customs revenues will be less than if they avoid implementation delays because they will attract less FDI, which would raise customs revenues.

Unlike negotiations on tariffs and rules of origin, negotiations on the TFA do not involve rent transfers across countries.

2.5.3. Adopt Simple Rules of Origin

Rules of origin (RoO) are key to fostering or hindering intra-REC trade. Their provisions vary throughout African RECs. While the AfCFTA will not replace the existing RECs, it has the capacity to smooth and remove the complexity of existing RoO. Although there is a high degree of heterogeneity, harmonisation may be complicated, but not impossible, as there is a degree of convergence among existing schemes, such as similar "wholly obtained" rules (Tosowou and Davis, 2021).

To become fully operational, AfCFTA signatories must submit their tariff concessions to the African Union. Signatories must also harmonise RoOs across Africa's RECs to arrive at a common set of continental RoOs. As of the latest publicly available information (December 2021), agreement has been reached on 87 percent of harmonised systems (HS) tariff lines.

The experience of the relatively simple ASEAN rules of origin (usually a 40 percent regional value content with some choice about the rule to claim) is relevant to the likely outcome of the ongoing AfCFTA negotiations. Econometric estimates suggest that ASEAN RoO have moderately restrictive effects with an average tariff equivalent in the range 2–3 percent. That is, the RoO deny preferences by an amount comparable to one-fourth of the tariff preference margins (Cadot and Ing 2016).

2.5.4. The Role of Development Finance Institutions

Development finance institutions (DFIs) can play an important role in supporting economic development and structural transformation. As a group of bilateral, regional, and multilateral financial institutions that specialise in investing in private sector firms, DFIs aim to promote developmental impacts and invest in areas with the most impact. Among the areas that relate to the transition in Africa where DFIs could make an effective contribution are regional infrastructure, climate-related projects, and the transition to green economies.

In Africa, cross-border transport and energy infrastructure present significant constraints to leveraging regional value chains. Therefore, multi-country infrastructure projects are considered a key category of regional public goods (RPGs), because of the close association with the intra-regional trade agenda and economic growth. Network infrastructures to facilitate the trade of goods and services between African countries offer significant multi-country externalities, but also pose a challenge in terms of financing.

DFIs have traditionally played a leading role in attracting private sector finance to Africa, acting as gateways to international capital and as lenders of last resort. An example is their role in the COVID-19 pandemic. The response of the continent's DFIs was robust, and investor confidence in these institutions remains strong. Therefore, in the current context of low investment in the continent, cooperation among Africa's DFIs is critical for the achievement of the infrastructure for industrialisation and to leverage the potential gains of RVCs (Afreximbank 2017). Partnerships are needed to mobilise long-term financing required not only to deliver RPGs, but also to boost economic transformation.

In this context, African DFIs can also contribute to development outcomes and the achievement of the Sustainable Development Goals on the continent. Specific ways that DFIs can contribute are increasing employment and incomes, contributing to environmental sustainability by investing in clean energy, considering contributions to the International Labour Organisation's Decent Work agenda, addressing the gender gap, implementing higher safety standards through their investments, and contributing to skill development. A recent report suggests that aligning investment by DFIs with national development plans and toward priority sectors is key for contributing to development, but it is also important to avoid duplication and overlap with other existing financial flows (Stockholm Environment Institute 2022). Some investment tools are being developed to scale up funding and attract more private sector climate-resilient investments to help African DFIs lend to projects undertaking climate-related actions (AFAC 2021).

One example of a DFI is the Afreximbank, which provides support toward the transformation of the trade structure of Africa with respect to diversification, promoting value-added and encouraging intra-African trade, with a vision to be the "Trade Finance Bank of Africa." In 2022, the Board of Directors of the Bank approved a US$1 billion facility to operationalise the AfCFTA Adjustment Funds, which consist of the Base Fund, the General Fund, and the Credit Fund. This fund will be used as a supportive tool in a wide range of activities, from supporting countries that incur losses following tariff reductions, to supporting the public and private sector including SMEs, youth, and women to adjust to the new trading environment arising from the AfCFTA.

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2.5.5. The Way Ahead for the AfCFTA

On average, each African country is a member of three RECs.[11] Typically, each REC includes resource-rich and resource-poor countries, coastal and landlocked countries, and large and small countries with differing population densities. The resulting differences in interests point to an 'integration trilemma.' This could make it challenging to implement the ambitious Prosperous Africa 'Agenda 2063.' Even if integration were to progress smoothly within each REC, Africa cannot be at all three vertices simultaneously.

Deep integration, as envisaged under the AfCFTA, calls for some delegation of authority to a supra-national entity. The necessary level of trust is difficult to build under any circumstances, but particularly so under Africa's diverse landscape. Moreover, the establishment of supranational entities depends on implementation capabilities, also in short supply across Africa.

By choosing Pan-African solidarity to get all countries to participate, AfCFTA phase I will not deliver the full benefits of a single market (not all intra-African tariffs set to zero), nor deep integration with obligations beyond WTO scope (i.e., WTOX, which includes removal of non-tariff barriers to trade in services and harmonisation of competition policy). This implies that some of the efficiency gains from removing substantial barriers to trade have been de facto sacrificed, at least in the short term.

However, there are several promising instruments set up under the aegis of the AfCFTA secretariat to assist with the defragmentation process. Taking full advantage of the opportunity offered by the obligations of the TFA would help reduce the thickness of African borders, as would the adoption of simple and transparent RoO.

11 The eight AU-recognised RECs (number of countries in parenthesis) are: Arab Maghreb Union (5), COMESA (21), Community of Sahel-Saharan States CEN-SAD (23), EAC (7), Eastern Community of Central African States - ECCAS (10); ECOWAS (15); Southern African Development Community – SADC (16), West African Economic and Monetary Union – WAEMU (8).

2.6. NATIONAL POLICIES FOR THE EMERGENCE OF VIBRANT EXPORT MANUFACTURING AND REGIONAL VALUE CHAINS

In this context of a low level of manufacturing across the continent, relevant policy measures are needed, first at the national level, and then at the regional level, to ensure optimisation of the promise of the AfCFTA. Here, we suggest three dimensions:

- A the macro level, African governments must:
  - Promote, and provide, **stable and predictable political and macro-economic environment;**
  - Provide the **minimum energy, transport, administrative infrastructures, and basic public goods,** without which private producers cannot expect to become competitive in export markets;
- At the trade policy and logistics level, provide **free and cheap access to competitive inputs**. Therefore:
  - **Tariffs on imported inputs must be removed.** Removing import duty on inputs in light manufacturing industries (first on fabrics for garment making) would not cost much in terms of tax revenue. It will allow African producers to fully exploit their labour-cost advantage because they will be able to rely on the world's most competitive inputs. After the Asian newly industrialised countries, China widely exempted export producers from duties on imported inputs to strengthen their competitiveness. Under the US African Growth and Opportunity Act preferential trade scheme, African countries that export garments to the United States can already use fabric of any origin (single transformation) and still benefit from preferential access. In this case, at the national level, the loss of input duties can be offset by imposing an excise tax, if needed.
  - **Hard and soft trade logistics must be improved, and national and international transaction costs in Africa must be reduced:** (i) African countries should use regional integration to develop hard logistics and infrastructure such as ports, business corridors, and road networks, and they should consolidate energy supply; (ii) To increase connectivity and reduce trade costs, African governments should improve trade governance and regulation to harmonise and improve customs, simplify procedures, and reduce corruption.
- Last but not least, it will not be possible to accelerate the growth of manufacturing exports without the **effective design and efficient implementation of industrial policies**. The growth of private investment in new export sectors depends on the set of incentives provided by national states, including public investment support. Without an improved business environment, the private sector will have few incentives to invest, and the amounts invested will have a scant effect on growth and job creation. Thus, African countries must devise active and innovative industrial policies to stimulate manufacturing investment and enlarge their productive base. The following two actions are particularly critical:
  - **Improving the private producers' access to investment financing**. Financial resources must be made available to potential private investors in new manufacturing projects. Fiscal incentives will not be sufficient to initiate an increase in manufacturing investment.

Innovative financial tools should be developed with the banking sector and/or development partners to target funds for export-oriented production.

- **Developing strategic cooperation between state's economic agencies and the private sector**. So far, most initiatives were based on a top-down approach. These have fallen short of expectations, illustrating the shortcomings of this approach and the lack of engagement with the private sector by the institutions. Two recommendations are suggested:
  - Adopt an adaptive and problem-driven approach for cooperation between the public and private sectors. This implies that adopting a bottom-up process driven by the private sector helps sustain the needed political momentum while better identifying the priorities (Byiers et al. 2021).
  - Improve supra-national coordination. Governments should also help scale up solutions in trade-related services, logistics, and trade finance. African countries also need to respect AfCFTA's protocol.

Adopting these recommendations will make it possible to identify priorities, bottlenecks and other challenges, as well as to target specific sectors and products for export promotion.

These national-level policies must be combined with **regional integration** measures to ensure the development of trade corridors between the five African subregions, including developing African infrastructure and transport channels and lowering transaction costs. While African countries and institutions have carried out many programmes to develop RVCs, including the recent AfCFTA, it will be crucial to ensure their proper implementation, including appropriate coordination and harmonisation toward integration. The AU/OECD (2022) report on RVCs for a sustainable recovery review the many strategies and programmes at the regional and continental levels, draw lessons, and propose policies to support the development of RVCs It concludes with a list of promising value chains for the five regions in the AU. In addition, the African continent needs to grasp opportunities toward **international cooperation**, going beyond membership in the WTO agreement (44 out of 55 African countries are members) and strengthening cooperation with the EU, the United States, and other potential trading blocs.

Taking advantage of the **synergies between national reforms, regional and international cooperation**, and private investment is vital for African countries to accelerate wealth creation and achieve efficiency gains. Improving the business environment and expanding investment in manufacturing will help attract the FDI the continent needs. It will also lead to increased domestic private investment. These changes will also strengthen host country absorptive capacity and will increase the spill-over effects of investment.

Under its sixth strategic plan (Plan VI - 2022-2026) dubbed "Impact 2026: Extending the Frontiers" the African Export-Import Bank (Afreximbank) has identified Industrialisation and Export Developmentto play catalytic role in accelerating the continent's industrialization process and facilitate the structural transformation of its economies. The Bank's industrialization and Export Development agenda aims at facilitating the development of both "soft" and "hard" infrastructure development across the continent. As part of this strategy, the Bank is supporting the establishment of Industrial Parks (IPs) and Special Economic Zones (SEZs) across Africa. Through the IPs/SEZs initiative, which is deployed via a programmatic approach, Afreximbank in collaboration with strategic partners assists African governments, private investors, zone developers with planning, developing, financing, and managing commercially sustainable IPs and SEZs. In supporting the establishment of IPs/SEZs, Afreximbank's interventions cuts across supporting the development of:

i. Hard infrastructure for IPs/SEZs to strengthen the development of regional value chains and increase value addition, broaden market access and promote export development to support the structural transformation of the economies of its Member States;

ii. Export Trading Companies (ETCs) to ensure that goods produced within IPs/SEZs are traded and accessible to both regional and international markets; and

iii. African Quality Assurance Centers (AQACs) for product testing, inspection and certification to ensure compliance with international technical regulations.

Under the strategy, Afreximbank has financed the development of multiple IPs/SEZs across the continent, notably in Gabon, Benin, Togo, with projects ongoing in Côte d'Ivoire, Kenya, Democratic Republic of Congo, Zambia, Republic of Congo, and Malawi. The Bank is also working with relevant governments and institutions to develop and expand IPs/SEZs in a number of countries, including two in Malawi and one in Côte d'Ivoire, while at the same time, talks are ongoing to develop similar infrastructure in Botswana, and Rwanda.

Chapter Three

The Operating Environment

3.1 THE GLOBAL ECONOMIC ENVIRONMENT

3.1.1 Output Developments

While global output rebounded impressively in the immediate aftermath of the COVID-19 pandemic, expanding by more than 6.3 percent, it experienced a sharp deceleration in 2022 at an estimated 3.4 percent (IMF 2023; Fofack 2023). The slowdown affected developed and developing countries alike. Even China, the leading driver of global growth for the past decade, suffered a sharp decline in growth in 2022, with its GDP expanding a mere 3 percent. With the exception of 2020, this was the slowest growth experienced by China since the mid-1970s.

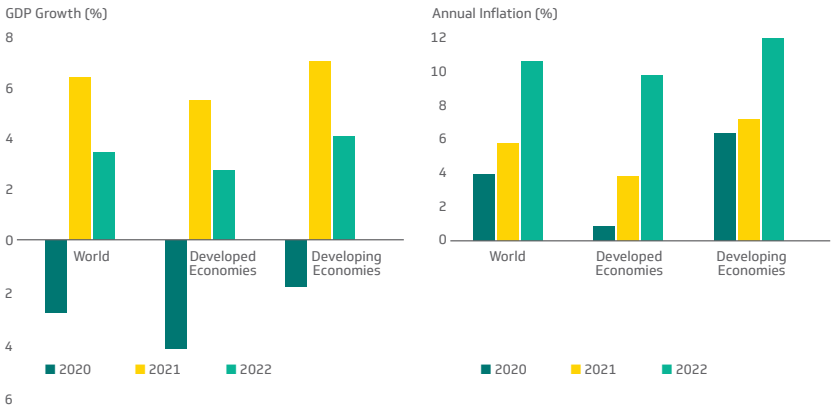
The synchronised sharp deceleration in growth was the result of a confluence of global crises. The most significant were the lingering effects of COVID-19, particularly in China, where the country's zero-COVID policy led to a sharp reduction in output; heightened geopolitical tensions and the resulting risk of fragmentation; and the persistence of trade and technology wars between the world's two leading economies. In addition, the Ukraine conflict disrupted global supply chains, while record-high inflation and tightening global financial conditions have increased the risk of debt crises, especially in low-income and developing market economies that have limited options for refinancing.

Growth in aggregate output masks important variations among regions and countries. Some European nations, severely hit by the impact of the Ukraine war, experienced particularly sharp decelerations in growth in 2022. For example, after expanding by 6.8 percent in 2021, growth in France fell to an estimated 2.6 percent last year.

Growth in advanced economies slowed by half from 2021 to 2022, from 5.4 percent to 2.7 percent (IMF 2023). Supply chains disruptions, energy crises, inflation, tightening financial conditions, and rising geopolitical tensions all contributed to the sharp downturn.

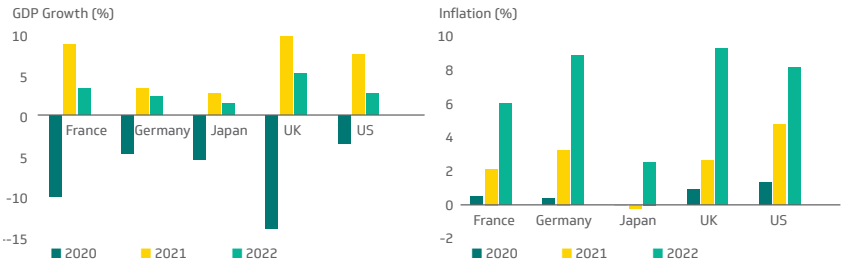
In the United States, initial concerns about an economic recession after the yield curve inversion receded, with aggregate output expanding by 2.1 percent in 2022, significantly down from 5.9 percent in 2021 (Table 3.1 and Figure 3.1b). The sharp slowdown was driven by the decline in real disposable income, as the Federal Reserve embarked on a series of jumbo rate hikes in response to record-high inflation. The rate hikes negatively impacted both residential investment and domestic consumption, which account for the lion's share of US growth.

Figure 3.1a. Global output and Inflation 2020-2022 (%)



Sources: IMF, World Economic Outlook (April 2023); African Export-Import Bank Research.

Figure 3.1b. Output and inflation in key advanced economies, 2020-2022 (%)



Sources: World Economic Outlook (April 2023); African Export-Import Bank Research.

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Growth in the Eurozone in 2022 proved more resilient than anticipated, with the region's combined GDP expanding by 3.7 percent in 2022, down from 5.6 percent in 2021 (IMF 2023) (Table 3.1). The region's growth resilience, however, masks significant variation across member countries. For instance, Germany, which relies heavily on Russian gas, was significantly affected by the crisis in Ukraine. Its output expanded by 1.8 percent in 2022. Over the same period, Spain recorded one of the strongest rates of growth, with its GDP expanding by 5.5 percent. Growth decelerations within the Eurozone reflect supply chain disruptions, especially in the energy sector, sharp increases in energy prices, and tightening financial policies imposed by the European Central Bank, which ended its net asset purchases programme and resorted to interest rate hikes.

Outside the Eurozone, the United Kingdom's economy proved to be more resilient to the challenging global economic environment. Its output expanded by 4 percent in 2022, down from 7.6 percent in 2021. This was the fastest pace of growth among advanced economies, perhaps reflecting the positive impact of fiscal stimulus extended by the government in the second half of the year (IMF 2023).

Growth in Japan—the second-largest economy among the group of advanced economies—moderated, increasing an estimated 1.1 percent in 2022, from 2.1 percent in 2021. This reflects both a negative shift in the terms of trade from higher energy import bills and lower domestic consumption, as inflation eroded household purchasing power.

Negative spillover from the Ukraine conflict also led to slower growth among developing economies over the review period, with their combined output expanding by 4 percent in 2022 from 6.9 percent in 2021 (IMF 2023). This was well below their annual average of about 5 percent from 2011 to 2019. The impact of the conflict more than offset any near-term boost to some commodity exporters from higher energy prices. The subdued growth was also underpinned by declines in investment and domestic demand, with household purchasing power severely impacted by higher food and energy prices and central banks embarking on aggressive interest rate hikes to contain inflation.

Asia continued to be the leading driver of global growth, with output in the region expanding by 4.4 percent in 2022. Although this was significantly lower than the 7.4 percent growth in 2021, the region still accounted for about 40 percent of global growth in 2022 (IMF 2023). The region's large contribution to global growth reflects the strong influence of the Indian economy, which expanded 6.8 percent and accounted for 10 percent of worldwide economic expansion in 2022, up from about 8 percent in 2021. China, traditionally the fastest-growing economy in the region, posted one of the lowest growth rates in recent decades (excluding 2020, the year of the COVID-19 pandemic outbreak). Its GDP expanded by 3 percent, with the government continuing to contend with the impact of COVID-19 pandemic and with a real estate market crisis sparked when Beijing cracked down on developers' high reliance on debt for growth (IMF 2023).

3.1.2 Price Developments

The review period was characterised by both heightened price uncertainty and increasing inflationary pressures, with persistent supply chain bottlenecks exacerbated by both the Ukraine conflict and China's zero-COVID policy. Inflation soared to multi-decade highs, prompting swift monetary policy tightening, squeezing household budgets just as fiscal support that had been imposed in response to the COVID-19-pandemic waned.
Amid these volatile conditions, global inflation soared to 8.7 percent in 2022, from 4.7 percent in 2021. In advanced economies, inflation reached 7.3 percent in 2022, higher than at any time since 1982, and up from 3.1 percent in 2021 (Table 3.1 and Figure 3.1b). In the United States, inflation to a 40-year high at 8 percent, up from 4.7 percent in 2021. The Eurozone posted an average annual inflation rate of 9.3 percent in 2022, up from 2.9 percent in 2021. In the United Kingdom, annual inflation in 2022 was even higher, at 9.1 percent, up from 2.9 percent posted in 2021.

High inflation affects developing economies the hardest, with most countries observing a sharp deterioration in general welfare. This is because half of household consumption expenditure is on food, and sharp devaluation and/or depreciation of local currencies further increased the price of imported goods. For developing economies, including those in Africa, inflation reached 9.8 percent in 2022, up from 5.9 percent in 2021 and the highest rate since 1999. In some countries in Africa and the Middle East, domestic shortages and export bans also drove significant increases in food prices.

3.2 THE AFRICAN ECONOMIC ENVIRONMENT

3.2.1 Output Developments

After rebounding strongly from its first recession in 25 years, the region's GDP decelerated slightly at an estimated 3.7 percent in 2022, from 4.8 percent in 2021, in the aftermath of the COVID-19 pandemic downturn (Table 3.1). Fofack (2023) posits that notwithstanding the fact that the region's combined output expanded above the global average, the growth deceleration is consistent with global trends and reflects its exposure to its main trading partners, most notably its single largest trading partners, China, and Europe. Together, China and Europe account for about 70 percent of total African trade.

The growth resilience exhibited by the region amidst the global recession and debt crisis is a combination of several factors, including the asymmetric nature of commodity terms of trade shocks, the commitment to macroeconomic stability, the strong performance of key economies, the increasing role of countercyclical support from development finance institutions such as the African Export-Import Bank, and the increasing role of intra-regional trade in mitigating the region's exposure to adverse global shocks (Fofack 2023).

The dramatic increase in energy prices on the back of the Ukraine conflict was a major boon for leading oil-exporting countries such as Nigeria and Angola. Both countries showed strong growth resilience in 2022, with their GDP expanding by 3.3 percent and 2.8 percent, respectively. In South Africa, the region's second-largest economy, the services sector was the key driver of the recovery, and GDP expanded by 2 percent. Egypt continued its pattern of resilience, expanding its output by 6.6 percent in 2022.

Table 3.1 Developments in Global Output, 2020-22

	Real GDP Growth (annual percent change)			Interest Rate (3-month) (end of period, percentage)		
	2020	2021	2022	2020	2021	2021
WORLD	(2.8)	6.3	3.4	3.2	4.7	8.7
DEVELOPED ECONOMIES	(4.2)	5.4	2.7	0.7	3.1	7.3
US	(2.8)	5.9	2.1	1.3	4.7	8.0
UK	(11.0)	7.6	4.0	0.9	2.6	9.1
France	(7.9)	6.8	2.6	0.5	2.1	5.9
Japan	(4.3)	2.1	1.1	0.0	(0.2)	2.5
Italy	(9.0)	7.0	3.7	(0.1)	1.9	8.7
Canada	(5.1)	5.0	3.4	0.7	3.4	6.8
Germany	(3.7)	2.6	1.8	0.4	3.2	8.7
EU	(5.6)	5.6	3.7	0.7	2.9	9.3
DEVELOPING ECONOMIES	(1.8)	6.9	4.0	5.2	5.9	9.8
Africa	(1.7)	4.9	3.8	10.6	12.8	14.5
Developing Asia	(0.5)	7.5	4.4	3.2	2.2	3.8
Latin America and the Caribbean	(6.8)	7.0	4.0	6.4	9.8	14.0
Developing Europe	(1.6)	7.3	0.8	5.4	9.6	27.9

Sources: IMF World Economic Outlook Database - April 2023

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Table 3.2: Africa: Real GDP Growth, 2020- 2022 (annual percent change)

Country	2020	2021	2022
Algeria	(5.1)	3.4	2.9
Angola	(5.6)	1.1	2.8
Benin	3.8	7.2	6.0
Botswana	(8.7)	11.8	6.4
Burkina Faso	1.9	6.9	2.5
Burundi	0.3	3.1	1.8
Cabo Verde	(14.8)	7.0	10.5
Cameroon	0.5	3.6	3.4
Central African Republic	1.0	1.0	0.4
Chad	(2.1)	(1.1)	2.5
Comoros	(0.2)	2.1	2.4
Congo, Democratic Republic of the	1.7	6.2	6.6
Congo, Republic	(6.2)	1.5	2.8
Côte d'Ivoire	1.7	7.0	6.7
Djibouti	1.2	4.8	2.5
Egypt	3.5	3.3	6.6
Equatorial Guinea	(4.2)	(3.2)	1.6
Eritrea	(0.5)	2.9	2.6
Eswatini	(1.6)	7.9	0.5
Ethiopia	6.1	6.3	6.4
Gabon	(1.9)	1.5	2.8
Gambia, The	0.6	4.3	4.4
Ghana	0.5	5.4	3.2
Guinea	4.9	4.3	4.3
Guinea-Bissau	1.5	6.4	3.5
Kenya	(0.3)	7.5	5.4
Lesotho	(3.9)	2.1	2.1
Liberia	(3.0)	5.0	4.8
Libya	(29.5)	28.3	(12.8)
Madagascar	(7.1)	5.7	4.2
Malawi	0.9	4.6	0.8
Mali	(1.2)	3.1	3.7

Table 3.2: Africa: Real GDP Growth, 2020- 2022 (annual percent change)

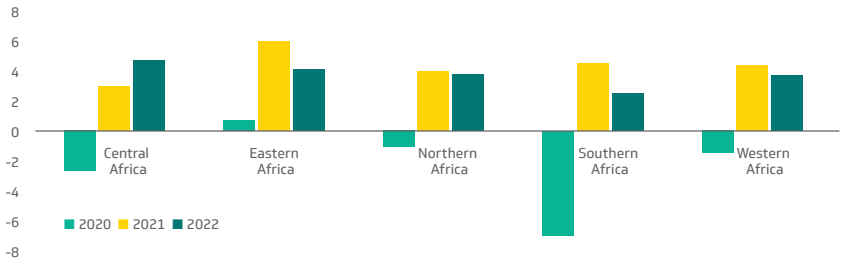
Country	2020	2021	2022
Mauritania	(0.9)	2.4	5.0
Mauritius	(14.6)	3.5	8.3
Morocco	(7.2)	7.9	1.1
Mozambique	(1.2)	2.3	4.1
Namibia	(8.0)	2.7	3.8
Niger	3.6	1.4	11.1
Nigeria	(1.8)	3.6	3.3
Rwanda	(3.4)	10.9	6.8
São Tomé and Príncipe	3.0	1.9	0.9
Senegal	1.3	6.1	4.7
Seychelles	(7.7)	7.9	8.8
Sierra Leone	(2.0)	4.1	2.8
Somalia	(0.3)	2.9	1.7
South Africa	(6.3)	4.9	2.0
South Sudan	(6.5)	5.3	6.6
Sudan	(3.6)	0.5	(2.5)
Tanzania	4.8	4.9	4.7
Togo	1.8	5.3	5.4
Tunisia	(8.8)	4.4	2.5
Uganda	(1.3)	6.0	4.9
Zambia	(2.8)	4.6	3.4
Zimbabwe	(7.8)	8.5	3.0

Source(s): International Monetary Fund, World Economic Outlook (WEO) Database, April 2023; Afreximbank Research

3.2.2 Regional Variations

The continent's economic performance in 2022 masks variations across regions. Central Africa emerged as the fastest-growing subregion on the continent, with average real GDP growth estimated at 4.7 percent in 2022, up from 3 percent in 2021 (Table 3.2 and Figure 3.2). The performance was supported by high commodity prices for a region which includes net-exporters of crude oil, minerals, and other commodities. The Democratic Republic of Congo and Equatorial Guinea recorded strong real growth in 2022, with their GDP expanding by 6.6 percent and 1.6 percent, respectively. This contributed significantly to the economic fortunes of the subregion, especially considering that the GDP of Equatorial Guinea had contracted over the previous two years (Fofack 2023).

Figure 3.2. Africa's output development by region, 2020-2022 (%)



Sources: IMF, World Economic Outlook (April 2023); African Export-Import Bank Research.

Eastern Africa was among the subregions that avoided recession in 2020, due to better performance in agriculture, sustained public spending on large infrastructure projects, and increased regional economic integration (Afreximbank 2021). Two years later, it continued on the same strong path, emerging as the second-fastest-growing subregion on the continent, with an estimated real output expansion of 4.1 percent in 2022. However, this represents a sharp deceleration of 2 percentage points, reflecting the exposure of the subregion to adverse shocks, including commodity terms of trade and climate change-induced drought, especially in the Horn of Africa.

In **Northern Africa**, GDP growth dipped to an estimated 3.8 percent in 2022, from 4 percent in 2021. This was primarily a reflection of the sharp contraction in Libya and the effects of drought in Morocco, where growth decelerated sharply from 7.9 percent in 2021 to 1.1 percent in 2022. In contrast, Egypt's growth doubled from 3.3 percent in 2021 to 6.6 percent in 2022, boosted by expanded infrastructure investments, higher gas production, and increased vessel traffic through the Suez Canal. Similarly, Mauritania posted strong growth, estimated at 5 percent in 2022, from 2.4 percent in 2021, boosted by rebounding household consumption, greater production of iron ore, and gold, and increased investment in natural gas and renewable energies.

Real GDP growth in **Western Africa** declined marginally to an estimated 3.7 percent in 2022, from 4.4 percent in 2021. The region's growth resilience reflected outputs in key countries during the year under review. Nigeria, the region's largest economy, recorded GDP growth of 3.3 percent, whilst Ghana posted a growth rate of 3.2 percent. The resilience of the region was also supported by strong growth in other countries including Cote d'Ivoire, 6.7 percent, Sénégal, 4.7 percent, Niger, 11.1 percent, Benin, 6 percent, The Gambia, 4.4 percent, and Togo, 5.4 percent.

Southern Africa's output growth fell by an estimated 2.5 percent in 2022, from 4.5 percent in 2021, mainly reflecting persistent weaknesses in South Africa, the region's largest economy and main trading partner. South Africa's real GDP growth more than halved to 1.9 percent in 2022 from 4.9 percent in 2021, due to subdued global demand, recurrent power outages, and devastating floods that constrained industrial production in the KwaZulu-Natal area. Increased inflationary pressures also affected household expenditures. Real output in Angola, the region's second-largest economy, expanded by 2.9 percent in 2022, supported by high prices of oil and other minerals.

3.2.3 Price Developments

In line with global developments and an increasingly challenging operating environment of supply-demand imbalance, global supply chain disruptions, and rising food and energy prices, average consumer price inflation in Africa inching up to 14.5 percent in 2022, from 12.8 percent in 2021, the highest in more than a decade. Currency depreciation also heightened inflationary pressures across the region. Price development showed some variations and was particularly pronounced in a few countries, rising to double digits in 19 African countries (IMF 2023).

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Table 3.3 Africa: Inflation, 2020-2022 (annual percent change)

Country	2020	2021	2022
Algeria	2.4	7.2	9.3
Angola	22.3	25.8	21.4
Benin	3.0	1.7	1.5
Botswana	1.9	6.7	12.2
Burkina Faso	1.9	3.9	14.1
Burundi	7.3	8.3	18.9
Cabo Verde	0.6	1.9	7.9
Cameroon	2.5	2.3	5.3
Central African Republic	0.9	4.3	5.8
Chad	4.5	(0.8)	5.3
Comoros	0.8	0.0	12.0
Congo, Democratic Republic of the	11.4	9.0	9.0
Congo, Republic	1.4	2.0	3.5
Côte d'Ivoire	2.4	4.2	5.2
Djibouti	1.8	1.2	5.5
Egypt	5.7	4.5	8.5
Equatorial Guinea	4.8	(0.1)	5.0
Eritrea	5.6	6.6	7.4
Eswatini	3.9	3.7	4.8
Ethiopia	20.4	26.8	33.9
Gabon	1.7	1.1	4.3
Gambia, The	5.9	7.4	11.5
Ghana	9.9	10.0	31.9
Guinea	10.6	12.6	10.5
Guinea-Bissau	1.5	3.3	7.9
Kenya	5.3	6.1	7.6
Lesotho	5.0	6.0	8.2
Liberia	17.0	7.8	7.6
Libya	1.5	2.9	4.5
Madagascar	4.2	5.8	8.2
Malawi	8.6	9.3	20.8
Mali	0.5	3.8	10.1

Table 3.3 Africa: Inflation, 2020-2022 (annual percent change)

Country	2020	2021	2022
Mauritania	2.4	3.6	9.6
Mauritius	2.5	4.0	10.8
Morocco	0.6	1.4	6.6
Mozambique	3.1	5.7	9.8
Namibia	2.2	3.6	6.1
Niger	2.9	3.8	4.2
Nigeria	13.2	17.0	18.8
Rwanda	7.7	0.8	13.9
São Tomé and Príncipe	9.8	8.1	18.0
Senegal	2.5	2.2	9.7
Seychelles	1.2	9.8	2.7
Sierra Leone	13.4	11.9	27.2
Somalia	4.3	4.6	6.8
South Africa	3.3	4.6	6.9
South Sudan	24.0	30.2	17.6
Sudan	163.3	359.1	138.8
Tanzania	3.3	3.7	4.4
Togo	1.8	4.5	7.6
Tunisia	5.6	5.7	8.3
Uganda	2.8	2.2	6.8
Zambia	15.7	22.0	11.0
Zimbabwe	557.2	98.5	193.4

Source: International Monetary Fund, World Economic Outlook Database, April 2023

Within the **Eastern African** subregion, annual average inflation increased from 9 percent in 2021 to an estimated 25.3 percent in 2022, largely driven by record-high price growth in Sudan (138.8 percent), Ethiopia (33.9 percent), and Burundi (18.9 percent).

In **West Africa**, price growth in the CFA franc countries was relatively low. The currency peg to the Euro was a stabilizing factor, keeping the regional average price growth to 16.8 percent in 2022 (up from 5.9 percent in 2021), despite double-digit inflation in Ghana (31.9 percent) and Nigeria (18.8 percent), the region's two largest economies.

Although Zimbabwe recorded a triple-digit inflation rate (193.4 percent), driven partly by markup pricing of imports as the economy continued to grapple with prolonged economic challenges, the **Southern Africa** subregion ranked third, with an overall average inflation rate of 13.2 percent in 2022 (lower from the 14.3 percent reached in 2021).

Inflation rates remained in single digits in **Northern Africa**, at an estimated 8.1 percent. This was largely a reflection of relatively low inflationary pressures in the largest economies during the review period, most notably, Egypt (8.5 percent) and Algeria (9.3 percent).

The **Central African Region** recorded the lowest rate of inflation across the five subregions for the fourth consecutive year, with the average inflation rate increasing from 3.9 percent in 2021 to 7.3 percent in 2022 (IMF, 2023). As with the group of French-speaking country members of the West African Economic and Monetary Union, the CFA franc peg to the Euro enhanced price stability in the subregion during the review period.

3.3 INTERNATIONAL FINANCIAL MARKETS AND FINANCING CONDITIONS

3.3.1 Financial Markets

Financial markets around the globe posted the worst performance in 2022 since the 2008 global financial crisis. The Dow Jones index fell by about 9 percent, the S&P 500 lost 20 percent of its value, and the tech-heavy NASDAQ index suffered the largest loss during the review period, falling by more than 33 percent (Financial Times 2023).

The US bond market also performed poorly in 2022, hit by inflationary pressures and an appreciating dollar that made bonds unattractive to investors. The return on the S&P US Treasury Bond Index was negative 10.7 percent in 2022, and the 30-year US Treasury bond posted its worst return in a century, closing the year at negative 35 percent. In the corporate world, the return on bonds issued by S&P 500 companies was negative 14.2 percent. Reflecting poor performance of the market across the board, the Bloomberg Aggregate U.S. Bond Index posted its worst results since its inception in 1977.

The extremely poor performance of the US financial markets is a combination of several factors. These included inflationary pressures, heightening global volatility and uncertainty associated with increasing geopolitical tensions, the increasing risk of fragmentation reflected in tech and trade wars that set the stage for persistent disruption in global supply chains, and limited access to key natural resources and minerals. In addition to limiting economic growth, record-high inflation reduced corporate profits.

This trend also hit technology industries, whose productivity-driving innovations have made them the leading drivers of growth in recent years. One example of the slowdown among tech giants is Tesla, the auto-tech company that has been the global leader in new energy vehicles. Its growth plummeted by 70 percent in 2022, the worst performance of the year. Amazon, Apple, Microsoft, and Meta, the parent company of Facebook, which have been staples for investors, also took major hits. Meta's growth was down 64 percent in 2022.

The only silver lining in the US financial markets was the energy sector, which made up almost the entirety of Wall Street's gains. Excluding energy, the S&P 500, which grew by 5.1 percent in 2022, well below its average annual increase of 8.5 percent over the last decade, would have fallen by 1.8 percent (Financial Times 2023).

The heightening global volatility and uncertainty exacerbated by the Ukraine war and the globally synchronised acceleration of inflation also affected the performance of financial markets in other regions of the world. The Pan-European Stoxx 600 closed the last trading day of the year down by 12.8 percent, matching its worst performance since 2018 (Financial Times 2023). Whilst the United Kingdom's FTSE 100 Index closed with a yearly gain of 1.2 percent, the more domestic-focused FTSE 250 Index lost 19.5 percent, posting its biggest annual loss since 2008. Across Africa, the Johannesburg Stock Exchange Index, the largest on the continent, posted somewhat better returns, with its top 40 index closing the year down only 0.25 percent.

Growing global risk aversion shifted the preference of investors to safe-haven assets. In this context the US dollar appreciated sharply against most currencies. For example, for the first time in two decades, the dollar was stronger than the Euro. Developing market economies suffered large losses. For instance, against the US dollar, the Egyptian pound depreciated by about 22 percent, the Ghanaian cedi by more than 40 percent, the Nigerian naira by about 6 percent, the South African rand by about 11 percent, and the Sudanese pound by more than 35 percent, in 2022. Cross-currency-basis swap spreads also widened to their highest level in 2022, especially for the euro and the yen, due to the high premium investors had to bear to access funding underpinned by the US dollar.

3.3.2 Financing Conditions

With inflation at multi-decade highs in both advanced and developing economies in 2022, monetary authorities aggressively shifted their policies toward normalisation, with some, especially among systemically important financial institutions, resorting to jumbo rate hikes. Russia and Brazil led the hawkish monetary policy early in the first quarter of 2022 as inflation in both countries spiralled to double digits (Financial Times 2023). In February 2022, the Central Bank of the Russian Federation imposed a 135 percent rate hike to contain the inflationary shock brought on by the crisis in Ukraine and the stiff sanctions imposed on Russia by the United States and European powers. However, as Russian inflation slowed from its peak of 17.9 in April 2022, the Bank delivered steep policy rate cuts to pre-Ukraine conflict levels by July 2022 and held the rate steady at around 7.5

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percent through the end of the year. In Brazil, easing inflation led to a decision by the country's central bank to decrease its policy rate to 13.75 percent from June 2022 through year-end.

Around the globe, aggressive monetary policy slowed price growth during the review period and may even have prevented inflationary pressures from becoming entrenched (IMF 2023). The US inflation rate eased to 8 percent by the end of 2022, considerably lower than at the start of the year, but still well above the 2 percent target rate sought by the US Federal Reserve. This was consistent with global trends, particularly in the Eurozone, where the average inflation rate closed the year at 9.3 percent. As long as the inflation rate in inflation-targeting countries remains above the desired rate for maximum employment and price stability, most central banks are likely to continue in tightening modes in 2023, albeit at a steady rate.

The US Federal Reserve tightened its policy rate aggressively in 2022 to prevent inflationary pressures from becoming entrenched. The Federal Reserve Funds target rate rose by 75 basis points consecutively on four occasions within six months to November 2022. Cumulatively, the US policy rate increased by a considerable 425 basis points over the year, from 0.25 percent in January to 4.5 percent in December 2022.

Similarly, financing conditions tightened within the Eurozone during the year, a region that was particularly affected by fallout from the Ukraine crisis. The European Central Bank trailed behind the US Federal Reserve and the Central Bank of England in delivering aggressive policy. To quell the historic inflation surge, the European Central Bank only commenced policy rate hikes in July 2022 and delivered four hikes totalling 250 basis points for its main refinancing operations during the second half of the year.

In China, where growth was decelerating sharply amid the lingering effects of COVID-19 and lockdowns that affected domestic economic activity and consumption, the government and monetary authorities had difficulty catalysing output growth. The People's Bank of China cut the Required Reserve Ratio for financial institutions in April and December 2022 by 25 basis points in each case, to release long-term capital of ¥530 billion and ¥500 billion, respectively (Financial Times 2023).

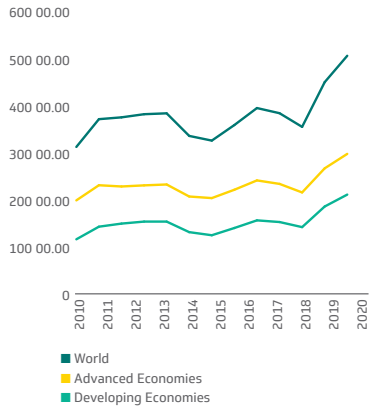
Chapter Four

Global Trade and Trading Environment

4.1 GLOBAL TRADE

The trade impact of the challenging operating environment of heightening global volatility, geopolitical tensions, and persistent supply chain disruptions was aggravated by trade and technological wars in 2022. Rising trade restrictions hit a new record. As a result, the most recent estimates from the World Trade Organisation (WTO) show that while growth in the volume of global trade had rebounded by 9.4 percent in 2021, from a contraction of 5.1 percent in 2020, it lost momentum in 2022, decelerating by 2.7 percent. Trade in current US dollar terms is estimated to have increased to about US$49.88 trillion in 2022, from US$44.32 trillion in 2021, boosted in part by rising commodity prices and generalised inflation pressures (Figure 4.1).

Figure 4.1: Trends in Global Trade (US$ billion)



Source: International Monetary Fund, Direction of Trade Statistics (2023)

In developed economies, the volume of merchandise exports, which had recovered strongly, increasing by an estimated 7.2 percent in 2021, decelerated sharply to just about 2.6 percent in 2022. Merchandise imports followed a similar trend, decelerating by 7 percent after rebounding by 10.3 percent from the COVID-19 pandemic downturn in 2022. In North America, the volume of merchandise exports lost pace, slowing by 3.4 percent in 2022 from a strong recovery of 6.5 percent in 2021. Merchandise imports also decelerated but remained robust at about 8.5 percent, from 12.3 percent in 2021. In Europe, the volume of merchandise exports expanded at a modest rate of 1.8 percent, significantly down from the 7.9 percent recovery witnessed in 2021, while merchandise imports decelerated by 5.4 percent from an 8.3 percent expansion over the same period.

The developing world, which has been the major driver of global growth and trade, also felt the impact of the challenging global environment. The volume of their collective merchandise exports, which had expanded by about 5.2 percent in 2021, decelerated by 3.9 percent in 2022. Growth in their merchandise imports was also affected, expanding by just about 2.7 percent in 2022, significantly down from the 5.4 percent achieved in 2021. Asia's performance was particularly affected, with merchandise exports falling sharply by about 2.9 percent in 2022, from a strong expansion of 13.3 percent in 2021. Imports also slackened sharply by an estimated 0.9 percent, compared with a robust growth of 11.1 percent in 2021.

In South and Central America, merchandise imports softened by an estimated 5.9 percent in 2022, after a steep jump of about 25.4 percent in 2021. Likewise, merchandise exports slowed to 1.6 percent from an expansion of 5.6 percent the year prior. This was due to subdued demand from a number of the region's major trading partners, most notably the European Union and China, whose economy suffered considerable consequences from its zero-COVID policy stance. As a result, exports from Argentina, Chile, Paraguay, and Peru contracted by 2 percent, 1.9 percent, 19.6 percent, and 4.6 percent, respectively, weighing on the region's overall export performance during the review period (IDB, 2023).

Geopolitical tensions, supply chain disruptions, and the protracted effects of the COVID-19 significantly undermined the volume of global merchandise trade during 2022. Slow demand arising from slow growth due largely to high energy prices in Europe, aggressive monetary tightening in the United States, and production disruptions in China due to lingering effects of COVID-19, also dampened global trade during the review period. Downside risks remain, especially related to persistent geopolitical tensions, stubbornly high inflation, tighter monetary policy, and financial market uncertainty, given the recent turmoil in the banking sector.

4.2 THE GLOBAL TRADE ENVIRONMENT

The global environment in 2022 was dominated by several headwinds. The review period was particularly challenging for global trade as the outbreak of the Ukraine conflict increased geopolitical tensions, and the resulting Western-led sanctions against Russia exacerbated disruptions to supply chains with the blockade of several major trade routes. Heightened inflationary pressures triggered aggressive tightening of monetary policy. These pressures adversely affected investment and growth, with considerable dampening effects on global demand and international trade. At the same time, the lingering effects of COVID-19 in China put further pressure on global demand and trade.

There were other trade tensions between several members of the WTO in 2022. One of the most talked-about trade tensions, which has been labelled a "tech war," was the standoff between China and the United States over semiconductors. In

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August 2022, the US Congress passed the CHIPS and Science Act, a law that approves the provision of subsidies and tax breaks to boost the production of advanced semiconductors in United States. Following this Act, the Biden Administration imposed restrictions on exports of chips and chip-making technology to China. In December 2022, China complained that the restrictions violate several WTO Agreements, including those related to the General Most-Favoured-Nation Treatment and the General Elimination of Quantitative Restrictions. Therefore, China requested consultations with the United States under the WTO dispute settlement mechanism. The United States has notified the Chair of the Dispute Settlement Body (DSB) that it has accepted to enter consultations with China but without prejudice to the United States' view that the measures concern national security and therefore are not subject to review or capable of resolution by the WTO dispute settlement process (WTO 2023). The issue is still unresolved and continues to create tensions between the two countries.

The review period also witnessed trade tensions between the European Union (EU) and the Republic of South Africa over the EU's importation of citrus fruits from South Africa. The tensions arose as the EU imposed phytosanitary requirements on citrus imports from South Africa. The measures meant to keep false codling moth, a citrus pest believed to originate from South Africa, from entering the EU region. On July 2022, South Africa requested consultations with the EU regarding the measures under the WTO DSB, arguing that that they were inconsistent with several articles of the WTO Sanitary and Phytosanitary (SPS) Agreements. The SPS measures are considered a major blow to the South Africa's citrus industry, as they are likely to considerably disrupt the country's exports. South Africa is the world's second-largest citrus exporter, with the EU accounting for about 41 percent of its export market. The measures could also have significant adverse effects on the country's agriculture, as citrus accounts for about 25 percent of agricultural exports.

At the end of 2022, WTO membership remained unchanged at 164 members, covering 98 percent of global trade. Despite the challenging global environment characterised by the Ukraine war and geopolitical tensions, trade tensions, and disputes, countries continued to maintain their membership in the organisation. Seventeen countries, including nine African countries (Algeria, Comoros, Equatorial Guinea, Ethiopia, Libya, Sao Tome and Principe, Somalia, South Sudan, and Sudan), continued negotiating their accession to the WTO. Eritrea remained the only African country not a member or observer not negotiating for membership of the Organisation.

The year 2022 also saw continued negotiations and steps toward implementation of regional and preferential trade agreements amongst and between countries, including the Regional Comprehensive Economic Partnership (RCEP). Major steps have been taken to operationalise the Agreement. RCEP entered into force on 1 January 2022 as planned, with 15 countries as active members including Australia, New Zealand, Brunei Darussalam, Cambodia, China, Japan, Laos, Singapore, Thailand, and Vietnam. Throughout the review period, the ratification process continued with three countries—Korea, Myanmar, and Malaysia—ratifying the Agreement. RCEP offers about 92 percent tariff elimination for goods traded amongst members and allows businesses to benefit from additional preferential market access for products, including mineral fuels, plastics, chemical products, miscellaneous food preparation, and beverages. When fully implemented, RCEP could connect about 30 percent of the world's population, contribute 30 percent of global output, and add about US$500 billion to world trade by 2030, making it the largest trade bloc in history.

African countries also continued to make progress toward implementation of the AfCFTA despite the challenges that shaped the review period. Following the official start of trading under the AfCFTA in January 2021, progress has been made, with six countries ratifying the Agreement. This brought the number of countries having ratified the AfCFTA to 47 by the end of 2022.

Other key milestones in the implementation of the AfCFTA were also achieved during the review period. In October 2022, the AfCFTA Secretariat launched the Guided Trade Initiative, a platform for participating State Parties to identify and share best practices, success stories, and lessons learned in implementing the AfCFTA. The Initiative will encourage trade under the Agreement and increase opportunities for small and medium enterprises, youth, and women in trade, ultimately contributing to the establishment of a sustainable and inclusive economic development model for the continent. AfCFTA also launched the E-Tariff Book and Rules of Origin Manual as major tools to accelerate trading. Specifically, the E-Tariff Book provides information on tariff schedules and applicable tariffs rates for all AfCFTA participating State Parties. It facilitates access and publication of information on the rates of duty applied by AfCFTA State Parties under their schedule of tariff concessions. The Rules of Origin Manual explains how to determine the origin of goods and helps understand the mechanisms under which preferential tariff treatments to goods apply.

The Afreximbank continues to provide support to the AfCFTA through products and initiatives to facilitate implementation of the Agreement. The Afreximbank and the AfCFTA Secretariat signed an agreement in February 2022 for the management of the Adjustment Fund

in February 2022. This is an important milestone in the implementation phases of the AfCFTA, as the Fund supports African countries and the private sector in effectively participating in the new trading environment established under the AfCFTA. The Adjustment Fund has three components. The Base Fund consists of contributions from State Parties, grants, and technical assistance funds to address tariff revenue losses as tariffs are progressively eliminated. The General Fund aims to mobilise concessional funding, while the Credit Fund mobilises commercial funding to support both the public and private sectors, enabling them to adjust and take advantage of the opportunities created by the AfCFTA.

The commercial launch of the Pan-African Payment and Settlement System (PAPSS), the Bank's flagship initiative, developed in collaboration with the African Union, is another important milestone for boosting intra-African trade in line with the objectives of the AfCFTA. Specifically, PAPSS will enable intra-African trade and commerce payments to be made in African currencies, thereby reducing the challenges posed by liquidity constraint, a major barrier in the promotion of African trade and economic growth. PAPSS will also reduce transaction costs in intraregional trade and formalise a significant portion of informal cross-border trade. The Bank is also implementing the Africa Collaborative Transit Guarantee Scheme, which facilitates the movement of goods across borders under the AfCFTA using a single technology-enabled transit bond. The signing by the Bank of the Instrument of Accession to the Inter-Surety Agreement for the Implementation of the COMESA Regional Customs Transit Guarantee/ Bond Agreement paves the way for the implementation of the US$1 billion Continental Transit Guarantee Scheme, about US$200 million of which is earmarked for the COMESA region.

4.3 AFRICAN EXTERNAL RESERVES AND EXCHANGE RATE DEVELOPMENTS

The fallout from the Ukraine conflict and China's zero-COVID policy adversely affected global demand and supply. Weak global demand and trade performance undermined the current account and put pressure on the balance-of-payments. Consequently, Africa's foreign exchange reserves, which had expanded by 6.4 percent year-on-year to US$410.9 billion in 2021 from US$386.1 billion in 2020, contracted by an estimated 2.3 percent year-on-year to US$401.3 billion in 2022 (Table 4.4). Despite the generalised spikes in commodity prices, slow global demand, along with high import bills driven by a combination of food and energy prices, put significant pressure on the reserve holdings of most countries across the continent. Except for a few countries whose reserves increased, including Algeria (34.1 percent), Benin (11.8 percent), Gabon (30 percent), and the Democratic Republic of Congo, most countries in the region, including oil-exporting countries and oil-importing countries, suffered significant losses in foreign exchange reserves. These countries included Burkina Faso, Mali, and Sudan where foreign reserves contracted by 50 percent, Sao Tome and Principe (48.7 percent), the Republic of Congo (43.7 percent), Ethiopia (42.3 percent), Zimbabwe (37.7 percent), Ghana (36 percent), and Mauritius (30 percent).

Other factors weighing down the region's reserves were capital flow reversals arising mainly from sharp interest rate hikes by systematically important central banks in response to record-high inflation and heightening uncertainties, and depreciation of local currencies against major hard currencies. Moreover, tightening financing conditions and soaring inflation raised borrowing costs and undermined governments' ability to service their external debt. This undermined confidence and hindered FDI inflows into the region. At the same time, high borrowing costs made it difficult for African countries to access international capital markets. This had a significant dampening effect on the level of foreign reserves during the year. Accordingly, average import cover fell sharply to 4.7 months in 2022, from 6.5 months in 2021, but remained above the IMF threshold of three months of imports.

Most currencies depreciated against the US dollar, which became the safe-haven asset par excellence during the review period (Table 4.5). In addition to the strengthening US dollar, currency depreciation in most African countries was exacerbated by several other factors, including large-scale capital outflows and sudden stops. The prohibitively high cost of servicing external debt widened fiscal and current account deficits.

Still, the performance of national currencies varied across countries. While the Zimbabwean dollar recorded the sharpest depreciation, losing 333.7 percent of its value during the review period, the scale of depreciation was also relatively large in other countries, including in strong-performing economies such as Egypt, Ghana, and Nigeria. The Egyptian pound lost 22.4 percent of its value during the review period. The Ghanaian cedi depreciated by 42.5 percent, and the Nigerian naira by about 6.1 percent. Going against the global trend, four countries recorded a sharp appreciation of their currencies. The three currencies posting the largest appreciation were the Angolan kwanza (26.3 percent), the Seychelles rupee (14.9 percent), and the Zambian kwacha (17.3 percent).

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Table 4.1 Reserve Position of African Countries, 2020–22 (UPDATES) (US$ billions, unless otherwise indicated)

	Reserves in Billions US$			Growth (%)			Months of Import Cover		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Algeria	48.9	46.1	61.7	-22.8	-5.8	34.1	13.8	11.6	15.9
Angola	13.8	14.5	13.5	-15.6	5.0	-6.9	11.8	10.1	6.4
Benin	1.6	1.7	1.8	56.1	3.0	11.8	5.1	5.3	4.2
Botswana	4.9	4.8	4.7	-19.9	-2.8	-2.1	8.1	7.9	5.7
Burkina Faso	1.6	1.9	1.0	-8.7	22.4	-50.0	3.8	4.4	1.9
Burundi	0.1	0.3	0.2	-19.5	198.8	-35.7	1.1	2.9	1.4
Cabo Verde	0.7	0.7	0.6	-0.5	-3.2	-17.8	8.7	7.2	5.3
Cameroon	4.0	4.3	4.3	8.0	7.2	-1.2	6.0	6.5	5.0
Central Africa Republic	0.4	0.5	0.3	9.2	16.5	-28.1	6.8	8.4	5.3
Chad	0.4	0.4	0.4	291.4	-16.8	18.7	1.1	1	1.7
Comoros	0.3	0.3	0.3	45.8	12.1	-20.2	10.3	10.2	6.6
Congo Dem. Rep. of	0.7	3.5	4.4	-37.4	363.7	27.9	2.2	2.2	2.0
Congo Republic	0.7	0.8	0.5	-24.4	10.8	-43.7	0.6	2	0.9
Côte d'Ivoire	9.5	10.6	9.1	28.0	11.8	-14.0	8.7	9.5	6.0
Djibouti	0.7	0.6	0.5	36.8	-15.9	-10.3	2.4	1.8	1.0
Egypt	34.1	35.1	27.1	-16.2	2.9	-22.8	6.4	5.8	3.8
Equatorial Guinea	0.1	0.0	1.2	56.7	-22.2	2569.7	0.3	1.3	3.7
Eritrea	0.2	0.2	0.2	-20.0	34.8	-10.6	1.8	2.1	1.6
Eswatini	0.5	0.6	0.5	23.9	4.9	-4.3	3.9	4.4	2.5
Ethiopia	3.0	1.8	1.0	2.2	-40.7	-42.3	2.1	1.9	0.5
Gabon	1.5	1.3	1.7	10.1	-14.0	30.5	3.6	5.4	3.2
Gambia	0.4	0.7	0.6	50.6	68.6	-15.5	6.7	10	7.6
Ghana	7.4	9.4	6.0	3.0	27.9	-36.0	3.7	4.7	2.8
Guinea	1.5	1.7	2.2	22.1	14.4	30.8	2.8	4	4.1
Guinea, Bissau	0.5	0.5	–	–	4.6	–	12.9	15.3	10.4
Kenya	8.3	9.5	8.1	-9.0	14.4	-14.8	5.6	5.5	4.0
Lesotho	0.6	0.7	0.6	-19.8	5.3	-5.3	3.7	4	3.1
Liberia	0.5	0.6	0.4	54.1	5.9	-22.9	5.6	6.5	2.9
Libya	72.8	75.4	79.2	-7.8	3.6	5.0	48.2	38.6	28.9
Madagascar	2.0	2.3	2.2	17.0	17.9	-4.8	6.3	7.7	4.5
Malawi	0.6	0.4	0.4	-27.5	-28.0	-13.4	2.4	2.8	1.2
Mali	1.7	2.1	1.1	45.7	23.2	-50.0	3.4	4.3	2.1
Mauritania	1.5	2.0	1.9	45.2	36.5	-8.4	4.9	6	4.5
Mauritius	6.5	7.8	5.5	-3.2	19.9	-30.0	16.7	15.9	12.0
Morocco	34.7	34.4	31.0	36.8	-0.9	-9.7	9.3	7.5	5.5
Mozambique	3.9	3.6	2.6	4.2	-7.8	-27.5	5.9	4.3	2.1
Namibia	2.2	2.8	3.0	5.9	27.3	9.3	5.7	5.9	4.8
Niger	1.7	1.9	1.8	9.4	7.5	-0.8	6.4	6.8	5.5
Nigeria	36.7	40.2	37.3	-4.2	9.5	-7.4	6.1	7	5.7
Rwanda	1.8	1.9	1.7	23.3	4.9	-7.7	6.1	5.6	4.1
São Tomé and Príncipe	0.1	0.1	0.0	59.7	-28.5	-48.7	7.9	8.1	2.3
Senegal	3.2	4.2	4.3	8.9	32.9	2.1	4.3	5.6	3.9
Seychelles	0.6	0.7	0.6	-3.6	25.5	-8.7	5.0	4.5	3.5
Sierra Leone	0.7	0.9	0.7	32.9	33.7	-28.1	5.6	6.7	4.3
Somalia	–	–	–	–	–	–	–	–	–
South Africa	47.4	50.3	53.2	-3.1	6.1	5.9	8.4	6.4	5.8
South Sudan	0.2	1.0	–	–	442.3	–	0.1	1.2	–
Sudan	–	1.0	0.5	-100.0	–	-50.0	–	–	0.6
Tanzania	4.8	6.4	5.2	-14.4	33.9	-18.9	6.3	7.1	3.7
Togo	1.7	2.4	2.2	24.6	41.4	-8.2	8.7	9.5	7.7
Tunisia	9.4	8.4	6.9	23.8	-10.4	-18.3	5.6	4.3	2.8
Uganda	3.8	4.3	3.6	18.8	12.6	-17.8	4.5	4.8	3.9
Zambia	1.2	2.8	3.0	-16.9	128.8	8.9	2.5	5.7	4.8
Zimbabwe	0.0	0.8	0.5	-78.8	2519.8	-37.7	0.1	1.1	0.6
Total	386.1	410.9	401.3	-4.6	6.4	-2.3	–	–	–
Average							6.3	6.5	4.7

† Growth rates are Afreximbank staff calculations.

Table 4.2 Africa: Exchange Rate Developments, 2020–2022 (per US$, unless otherwise indicated)

							Percentage change between			
	2017	2018	2019	2020	2021	2022	(2) & (1)	(3) & (2)	(4) & (3)	(5) & (4)
Algeria - dinar	110.97	116.59	119.44	126.75	135.00	142.10	5.06	2.44	6.13	6.50
Angola - kwanza	165.92	252.86	364.83	578.26	624.74	460.60	52.40	44.28	58.50	8.04
Benin - franc	580.66	555.45	585.96	575.59	554.70	622.50	(4.34)	5.49	(1.77)	(3.63)
Botswana - pula	10.35	10.20	10.76	11.46	11.09	12.37	(1.42)	5.45	6.51	(3.22)
Burkina Faso - franc	580.66	555.45	585.96	575.59	554.53	623.80	(4.34)	5.49	(1.77)	(3.66)
Burundi - franc	1,729.06	1,782.88	1,845.62	1,915.05	1,975.90	2,036.12	3.11	3.52	3.76	3.18
Cabo Verde - escudos	97.81	93.41	98.50	96.80	93.26	104.70	(4.49)	5.44	(1.73)	(3.65)
Cameroon - franc	580.66	555.45	585.96	575.59	554.50	623.76	(4.34)	5.49	(1.77)	(3.66)
Central African Republic - franc	580.66	555.45	585.96	575.59	552.40	628.50	(4.34)	5.49	(1.77)	(4.03)
Chad - franc	580.66	555.45	585.96	575.59	552.40	628.50	(4.34)	5.49	(1.77)	(4.03)
Comoros - franc	435.49	416.58	439.47	431.69	414.30	471.30	(4.34)	5.49	(1.77)	(4.03)
Congo, Dem. Rep. of - Congo franc	1,464.42	1,622.52	1,647.76	1,851.12	1,989.50	2,013.20	10.80	(63.89)	(1.90)	(3.57)
Congo, Rep. of - franc	580.66	555.45	585.89	574.76	554.24	622.42	(4.34)	196.66	12.34	7.48
Côte d'Ivoire - franc	580.66	555.45	585.96	575.59	552.40	628.50	(4.34)	5.49	(1.77)	(4.03)
Djibouti - franc	177.72	177.72	177.72	177.72	177.72	177.70	-	0.00	-	-
Egypt - pound	17.78	17.77	16.82	15.82	15.70	19.21	(0.09)	(5.34)	(5.97)	(0.75)
Equatorial Guinea - franc	580.66	555.45	585.96	575.59	554.70	622.50	(4.34)	5.49	(1.77)	(3.63)
Eritrea - nakfa	15.08	15.08	15.08	15.08	15.08	15.08	-	-	-	-
Eswatini - lilangeni	13.32	13.23	14.44	16.46	14.78	16.36	(0.67)	9.12	14.02	(10.23)
Ethiopia - birr	23.87	27.43	29.07	34.93	43.82	52.06	14.93	5.98	20.15	25.46
Gabon - franc	580.66	555.45	585.96	575.59	554.50	623.76	(4.34)	5.49	(1.77)	(3.66)
Gambia - dalasi	46.61	48.15	50.06	51.50	51.22	55.40	3.31	3.97	2.87	(0.55)
Ghana - cedi	4.35	4.59	5.21	5.59	5.80	8.27	5.40	13.73	7.28	3.73
Guinea - Guinea franc	9,088.32	9,011.13	9,183.88	9,565.08	9,814.00	8,778.80	(0.85)	1.92	4.15	2.60
Guinea-Bissau - franc	580.66	555.45	585.96	575.59	554.10	623.80	(4.34)	5.49	(1.77)	(3.73)
Kenya - shilling	103.41	101.30	101.99	106.45	109.64	117.87	(2.04)	0.68	4.38	2.99
Lesotho - loti	13.32	13.23	14.45	16.46	14.77	16.36	(0.67)	9.18	13.92	(10.26)
Liberia - Liberia dollar	112.71	144.06	186.43	191.52	166.10	156.30	27.81	29.42	2.73	(13.27)
Libya - dinar	1.39	1.36	1.40	1.40	4.48	4.81	(2.07)	2.44	(0.02)	220.74
Madagascar - ariary	3,116.11	3,334.75	3,618.32	3,787.76	3,841.00	4,090.10	7.02	8.50	4.68	1.41
Malawi - kwacha	730.27	732.33	745.54	749.53	804.10	942.10	0.28	1.80	0.53	7.28
Mali - franc	580.66	555.45	585.96	575.59	554.50	623.80	(4.34)	5.49	(1.77)	(3.66)
Mauritania - ouguiyas	35.79	35.68	36.69	37.19	36.20	36.96	(0.33)	2.84	1.36	(2.66)
Mauritius - rupee	34.48	33.93	35.47	39.35	41.55	44.30	(1.59)	4.54	10.92	5.60
Morocco - dirham	9.69	9.39	9.62	9.50	8.99	10.16	(3.16)	2.46	(1.25)	(5.35)
Mozambique - meticals	63.58	60.33	62.50	69.50	65.46	63.90	(5.12)	3.60	11.20	(5.82)
Namibia - namibia dollar	13.31	13.23	14.45	16.46	14.78	16.38	(0.59)	9.18	13.94	(10.22)
Niger - franc	580.66	555.45	585.96	575.59	554.53	623.76	(4.34)	5.49	(1.77)	(3.66)
Nigeria - naira	305.79	306.08	306.42	356.32	398.87	423.30	0.10	0.11	16.29	11.94
Rwanda - franc	831.55	861.09	899.35	943.28	988.90	1,030.31	3.55	4.44	4.88	4.84
São Tomé and Príncipe - dobra	21.74	20.75	21.88	21.51	20.89	23.53	(4.55)	5.46	(1.73)	(2.87)
Senegal - franc	580.66	555.45	585.96	575.59	554.70	622.50	(4.34)	5.49	(1.77)	(3.63)
Seychelles - rupee	13.65	13.91	14.03	17.62	16.83	14.32	1.93	0.88	25.53	(4.46)
Sierra Leone - leone	7,384.43	7,931.63	9,010.22	9,829.93	10,394.20	14,031.20	7.41	13.60	9.10	5.74
Somalia - shilling	23,097.99		–	–	–	–				
South Africa - rand	13.32	13.23	14.44	16.46	14.78	16.37	(0.67)	9.12	14.02	(10.23)
South Sudan - pound	113.65	141.39	–	–	–		24.41	#VALUE!		
Sudan - pound	6.68	24.33	45.77	54.00	372.10	504.50	264.02	88.12	17.98	589.13
Tanzania - shilling	2,228.86	2,263.78	2,288.21	2,294.15	2,297.78	2,303.01	1.57	1.08	0.26	0.16
Togo - franc	580.66	555.45	585.96	575.59	554.70	622.50	(4.34)	5.49	(1.77)	(3.63)
Tunisia - dinar	2.42	2.65	2.93	2.81	2.79	3.10	9.40	10.87	(4.16)	(0.65)
Uganda - shilling	3,611.22	3,727.07	3,699.24	3,710.71	3,580.64	3,682.79	3.21	(0.75)	0.31	(3.51)
Zambia - kwacha	9.52	10.46	12.89	18.34	20.17	16.68	9.89	23.25	42.31	9.96
Zimbabwe - US dollar*	1.00	1.00	8.50	51.30	86.40	374.70	-	750.00	503.53	68.42

Sources: IFS, 2023; EIU, 2023, † Growth rates are Afreximbank staff calculations.

Global Trade and Trading Environment

4.4 AFRICA'S TRADE

Despite the challenging global environment, Africa's total merchandise trade grew by 20.9 percent to US$1.430 trillion in 2022, above the world's average, although the increase was lower than the 32.6 percent achieved in 2021 (Figure 4.2 and Table 4.1). The surge in global commodity prices, particularly oil prices, which reached record highs during the year, significantly contributed to the growth of merchandise trade enjoyed by the region during the review period. The growth in trade was also supported by an increase in the demand for Africa's energy, as escalated geopolitical tensions and trade restrictions forced several European countries to make Africa a major alternative source of energy. In a region where oil accounts for more than 36 percent of exports, the dynamics in the energy market greatly affected export performance. Accordingly, oil-dependent African countries enjoyed a 40.1 percent growth in their merchandise trade in 2022, from 27.3 percent increase in 2021. Over the same period, oil-importing countries also saw their total merchandise trade increase by 13.1 percent. These developments raised the value of Africa's merchandise trade in 2022.

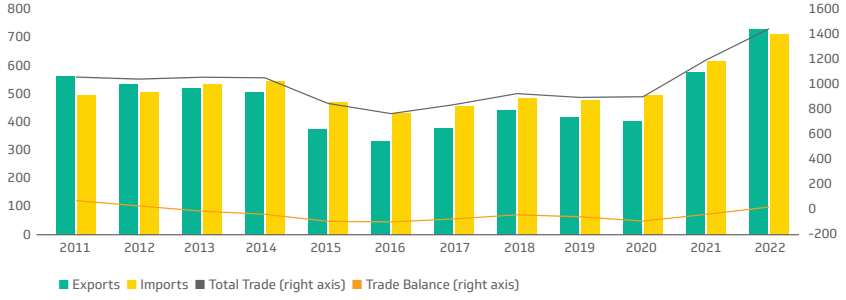
While the surge in oil prices was largely driven by supply chain bottlenecks resulting from geopolitical tensions and trade restrictions, the agreement among Organisation of Petroleum-Exporting Countries (OPEC) and non-OPEC members to maintain their schedule of gradual production increase gave further impetus to oil prices, which ended the year averaging around US$99.8 per barrel, from about US$70.4 per barrel the previous year. These developments, alongside record-high prices of several non-energy commodities monitored by the Bank, including aluminium, coffee, copper, maize, palm oil, platinum, gold, soybeans, and tin, significantly contributed to the expansion of Africa's exports during the review period.

While several smaller economies posted strong growth in their exports, the five largest economies, namely Algeria, Angola, Egypt, Nigeria, and South Africa, contributed significantly to the increase in Africa's exports. These five countries account for more than 49 percent of the continent's total exports. The growth in the exports of leading oil-producing countries, namely Algeria (73.4 percent), Angola (59.4 percent), and Nigeria (10.7 percent), was a major driver of the overall increase in the continent's total exports.

Africa's total merchandise imports grew by about 15.5 percent to US$706 billion in 2022, though down from the 24.2 percent growth posted in 2021. The increase in merchandise imports was largely driven by the generalised inflationary pressures led by the energy and food sectors. Oil exporters saw their imports increase by 14.7 percent to US$230.5 billion in 2022 from US$200.9 billion in 2021, driven by strong import growth in Angola (55.8 percent), and Congo (30.3 percent), Equatorial Guinea (23.5 percent), and Gabon (26.9 percent). The group of oil importers performed slightly better, with their imports expanding by about 15.9 percent to US$475.6 billion from US$410.4 billion. This performance was led by the sturdy growth of several medium to large economies, including Morocco (22.0 percent), Sudan (72.0 percent), Tanzania (18.9 percent), Zambia (22.7 percent), and South Africa (19.1 percent), the region's second-largest economy. While merchandise imports grew by 15.5 percent, exports had a stronger performance, expanding by about 26.8 percent. This enabled the region to enjoy a trade surplus of about US$18.1 billion in 2022 after a trade deficit of US$40 billion the previous year (Afreximbank 2023).

Although Africa's merchandise trade exhibited solid performance growing by 20.9 percent, the continent remained a marginal player on the global trade stage, with its share of global trade standing at just about 2.9 percent in 2022. While that share is a slight improvement over the 2.7 percent achieved in 2021, it remains dismally low. It calls for bolder, sustained policies and strategic initiatives at the national and continental levels to diversify the sources of growth and enhance Africa's integration into the global economy where trade is increasingly dominated by processed and manufactured goods with high technological content. While the start of trading under the AfCFTA in January 2021 was a major step toward these goals, it is critical to accelerate and conclude outstanding negotiations on different protocols of the Agreement to ensure successful implementation. This will incentivise the development of regional value chains and accelerate the continent's integration into global value chains.

Figure 4.2 Trends in Africa's Merchandise Trade (US$ billion), 2011-22



Sources: IMF Direction of Trade Statistics (DOTS), 2023, Afreximbank Research

Global Trade and Trading Environment

Table 4.3 Africa: Merchandise Trade, 2020-22 (in US$ billion unless otherwise indicated)

	Merchandise Exports (US$ Billion)			Growth Rate (Percentage)		Share of Merchandise Exports (Percentage)			Merchandise Imports (US$ Billion)			Growth Rate (Percentage)	
	2020	2021	2022	2020	2021	2022	2021	2022	2020	2021	2022	2021	2022
Algeria	19.62	37.55	65.10	91.35	73.39	4.91	6.57	8.99	34.02	35.11	40.91	3.20	16.52
Angola	21.04	33.86	53.99	60.91	59.44	5.27	5.93	7.46	9.34	11.37	17.71	21.71	55.79
Benin	0.85	1.02	1.30	20.94	26.82	0.21	0.18	0.18	2.66	3.19	3.64	19.68	14.17
Botswana	3.73	7.11	8.42	90.54	18.38	0.93	1.25	1.16	6.26	8.03	7.73	28.34	-3.72
Burkina Faso	4.38	5.07	22.18	15.84	337.16	1.10	0.89	3.06	4.12	4.72	4.56	14.41	-3.36
Burundi	0.16	0.11	0.12	-30.25	4.84	0.04	0.02	0.02	0.91	0.98	1.04	7.94	5.52
Cabo Verde	0.06	0.07	0.06	20.98	-12.69	0.01	0.01	0.01	1.13	1.16	1.27	2.84	9.37
Cameroon	3.48	4.38	5.96	25.92	35.87	0.87	0.77	0.82	6.04	7.71	8.98	27.75	16.43
Central African Rep.	0.04	0.05	0.05	12.17	7.43	0.01	0.01	0.01	0.55	0.58	0.93	6.13	60.22
Chad	1.47	2.46	4.20	67.09	70.86	0.37	0.43	0.58	1.03	1.08	1.15	4.76	6.51
Comoros	0.02	0.04	0.04	70.92	9.05	0.01	0.01	0.01	0.27	0.44	0.48	65.43	7.88
Congo, Dem. Rep.	13.79	27.95	40.29	102.72	44.15	3.45	4.89	5.56	11.86	14.81	19.97	24.83	34.82
Congo	4.90	2.37	3.73	-51.56	57.05	1.23	0.42	0.52	1.91	2.35	3.07	23.24	30.32
Côte d'Ivoire	12.53	15.49	16.68	23.60	7.74	3.14	2.71	2.30	10.56	13.83	17.62	31.03	27.35
Djibouti	0.31	0.28	0.81	-6.98	182.96	0.08	0.05	0.11	1.48	1.60	1.60	7.49	0.14
Egypt	26.81	40.70	48.76	51.78	19.82	6.71	7.12	6.73	60.88	73.78	80.13	21.19	8.61
Equatorial Guinea	2.82	4.69	7.67	66.16	63.48	0.71	0.82	1.06	0.89	0.81	1.01	-8.17	23.50
Eritrea	1.18	0.49	0.58	-58.20	17.52	0.29	0.09	0.08	0.35	0.35	0.52	-0.29	48.99
Eswatini	1.75	2.06	2.01	17.87	-2.62	0.44	0.36	0.28	1.62	2.14	2.43	32.24	13.49
Ethiopia	3.27	3.22	3.72	-1.36	15.45	0.82	0.56	0.51	16.12	16.18	14.98	0.37	-7.42
Gabon	3.98	5.17	7.36	29.92	42.18	1.00	0.91	1.02	2.24	2.28	2.89	1.44	26.88
Gambia, The	0.03	0.03	0.05	0.85	67.68	0.01	0.01	0.01	0.55	0.71	0.70	28.06	-0.53
Ghana	18.76	18.46	19.57	-1.60	6.01	4.70	3.23	2.70	11.09	13.88	12.85	25.23	-7.43
Guinea	3.73	5.10	5.28	36.70	3.65	0.93	0.89	0.73	3.68	3.85	4.88	4.55	26.87
Guinea-Bissau	0.18	0.21	0.30	12.49	46.48	0.05	0.04	0.04	0.28	0.33	0.41	16.83	23.37
Kenya	6.02	6.73	8.32	11.68	23.69	1.51	1.18	1.15	15.53	19.74	21.70	27.09	9.93
Lesotho	0.90	1.07	1.79	18.51	67.43	0.23	0.19	0.25	1.75	1.85	1.71	5.51	-7.52
Liberia	0.28	0.45	0.28	62.09	-39.29	0.07	0.08	0.04	1.53	1.91	1.72	24.76	-10.17
Libya	10.74	36.51	45.03	240.07	23.32	2.69	6.39	6.22	12.79	17.82	21.07	39.34	18.19
Madagascar	1.95	2.70	3.55	38.74	31.16	0.49	0.47	0.49	3.21	4.40	5.51	37.16	25.28
Malawi	0.79	1.08	1.08	37.53	-0.58	0.20	0.19	0.15	2.73	3.15	3.50	15.60	10.83
Mali	4.20	4.18	5.91	-0.44	41.25	1.05	0.73	0.82	6.60	8.86	6.68	34.34	-24.60
Mauritania	2.86	3.29	3.53	15.03	7.34	0.72	0.58	0.49	2.74	3.86	4.95	40.88	28.23
Mauritius	1.67	1.68	1.65	0.32	-1.79	0.42	0.29	0.23	4.53	5.34	4.78	17.87	-10.40
Morocco	28.70	37.74	42.69	31.51	13.12	7.19	6.61	5.90	44.65	58.84	71.75	31.79	21.95
Mozambique	3.46	5.12	7.35	47.98	43.59	0.87	0.90	1.02	6.44	8.65	9.78	34.32	13.07
Namibia	5.65	6.40	6.34	13.35	-1.01	1.41	1.12	0.88	6.83	8.35	9.60	22.27	14.97
Niger	0.63	2.35	0.41	272.72	-82.51	0.16	0.41	0.06	3.05	3.92	4.76	28.51	21.59
Nigeria	41.15	57.28	63.41	39.20	10.70	10.30	10.03	8.76	40.75	56.28	62.55	38.10	11.14
Rwanda	1.64	1.56	1.56	-4.89	-0.02	0.41	0.27	0.22	4.21	3.74	3.74	-11.34	0.04
São Tomé and Príncipe	0.02	0.02	0.03	-12.32	41.92	0.01	0.00	0.00	0.14	0.17	0.19	20.33	15.39
Senegal	3.95	5.13	5.71	29.98	11.30	0.99	0.90	0.79	7.82	9.71	12.06	24.16	24.31
Seychelles	0.83	1.06	1.05	26.73	-0.46	0.21	0.18	0.15	1.49	1.22	1.71	-18.56	40.50
Sierra Leone	0.21	0.26	0.49	21.87	87.81	0.05	0.05	0.07	1.12	1.80	1.96	60.56	9.13
Somalia	0.61	0.64	0.65	3.59	2.82	0.15	0.11	0.09	3.26	3.52	3.95	8.21	12.20
South Africa	85.88	122.35	123.39	42.48	0.84	21.50	21.42	17.04	72.68	98.44	117.27	35.44	19.13
South Sudan	0.78	0.81	0.53	3.63	-35.28	0.20	0.14	0.07	1.00	1.11	1.32	10.24	19.48
Sudan	10.21	9.67	17.65	-5.34	82.62	2.56	1.69	2.44	9.54	8.43	14.50	-11.64	71.98
Tanzania	6.07	6.39	10.01	5.35	56.69	1.52	1.12	1.38	8.52	10.91	12.98	28.10	18.94
Togo	0.98	1.08	3.07	10.35	184.26	0.25	0.19	0.42	2.17	2.88	5.58	32.45	93.79
Tunisia	13.93	16.82	18.33	20.69	8.99	3.49	2.94	2.53	18.95	23.21	24.80	22.44	6.85
Uganda	4.14	3.95	3.52	-4.41	-11.00	1.04	0.69	0.49	8.53	9.23	9.59	8.16	3.92
Zambia	7.82	11.14	22.46	42.54	101.56	1.96	1.95	3.10	5.32	7.10	8.71	33.41	22.74
Zimbabwe	4.40	5.82	6.06	32.41	4.14	1.10	1.02	0.84	4.50	5.58	6.18	24.10	10.71
Total	**399.37**	**571.25**	**724.07**	**43.04**	**26.75**	**100.00**	**100.00**	**100.00**	**492.21**	**611.25**	**706.02**	**24.18**	**15.50**

Share of Merchandise Imports (Percentage)			Total Merchandise Trade (US$ Billion)			Growth Rate (Percentage)		Share of Total Merchandise Trade (Percentage)			Trade Balance Value (US$ Billion)		
2020	2021	2022	2020	2021	2022	2021	2022	2020	2021	2022	2020	2021	2022
6.91	5.74	5.79	53.64	72.65	106.01	35.45	45.91	6.02	6.14	7.41	-14.40	2.44	24.20
1.90	1.86	2.51	30.38	45.23	71.70	48.86	58.52	3.41	3.82	5.01	11.70	22.49	36.28
0.54	0.52	0.52	3.51	4.21	4.94	19.98	17.25	0.39	0.36	0.35	-1.82	-2.16	-2.34
1.27	1.31	1.09	9.99	15.14	16.15	51.59	6.66	1.12	1.28	1.13	-2.52	-0.91	0.69
0.84	0.77	0.65	8.50	9.79	26.74	15.14	173.15	0.95	0.83	1.87	0.26	0.36	17.63
0.18	0.16	0.15	1.07	1.09	1.15	2.17	5.45	0.12	0.09	0.08	-0.75	-0.87	-0.92
0.23	0.19	0.18	1.19	1.23	1.33	3.69	8.17	0.13	0.10	0.09	-1.08	-1.10	-1.21
1.23	1.26	1.27	9.52	12.10	14.93	27.08	23.47	1.07	1.02	1.04	-2.55	-3.33	-3.02
0.11	0.09	0.13	0.59	0.62	0.98	6.56	56.30	0.07	0.05	0.07	-0.50	-0.53	-0.88
0.21	0.18	0.16	2.50	3.54	5.35	41.42	51.23	0.28	0.30	0.37	0.44	1.38	3.05
0.05	0.07	0.07	0.29	0.48	0.52	65.84	7.97	0.03	0.04	0.04	-0.25	-0.41	-0.44
2.41	2.42	2.83	25.65	42.76	60.26	66.70	40.92	2.88	3.62	4.21	1.92	13.14	20.33
0.39	0.38	0.43	6.81	4.73	6.80	-30.60	43.75	0.76	0.40	0.48	2.99	0.02	0.66
2.14	2.26	2.50	23.09	29.32	34.30	27.00	16.99	2.59	2.48	2.40	1.97	1.65	-0.93
0.30	0.26	0.23	1.79	1.88	2.40	5.01	27.83	0.20	0.16	0.17	-1.18	-1.31	-0.79
12.37	12.07	11.35	87.69	114.48	128.89	30.54	12.59	9.84	9.68	9.01	-34.07	-33.08	-31.36
0.18	0.13	0.14	3.71	5.51	8.68	48.40	57.57	0.42	0.47	0.61	1.94	3.88	6.67
0.07	0.06	0.07	1.53	0.84	1.10	-44.95	30.57	0.17	0.07	0.08	0.83	0.14	0.06
0.33	0.35	0.34	3.37	4.21	4.44	24.78	5.59	0.38	0.36	0.31	0.13	-0.08	-0.42
3.27	2.65	2.12	19.38	19.40	18.70	0.08	-3.62	2.17	1.64	1.31	-12.85	-12.95	-11.26
0.46	0.37	0.41	6.23	7.45	10.24	19.66	37.51	0.70	0.63	0.72	1.74	2.90	4.47
0.11	0.12	0.10	0.58	0.74	0.75	26.73	2.13	0.07	0.06	0.05	-0.52	-0.68	-0.66
2.25	2.27	1.82	29.85	32.34	32.42	8.36	0.24	3.35	2.74	2.27	7.68	4.58	6.72
0.75	0.63	0.69	7.41	8.94	10.16	20.73	13.64	0.83	0.76	0.71	0.05	1.25	0.40
0.06	0.05	0.06	0.46	0.53	0.71	15.12	32.24	0.05	0.05	0.05	-0.10	-0.12	-0.11
3.16	3.23	3.07	21.56	26.47	30.02	22.78	13.43	2.42	2.24	2.10	-9.51	-13.01	-13.38
0.36	0.30	0.24	2.65	2.92	3.50	9.93	19.99	0.30	0.25	0.24	-0.85	-0.77	0.09
0.31	0.31	0.24	1.82	2.37	2.00	30.53	-15.75	0.20	0.20	0.14	-1.25	-1.46	-1.44
2.60	2.92	2.98	23.53	54.34	66.09	130.94	21.63	2.64	4.60	4.62	-2.06	18.69	23.96
0.65	0.72	0.78	5.16	7.10	9.06	37.76	27.52	0.58	0.60	0.63	-1.26	-1.70	-1.97
0.55	0.52	0.50	3.52	4.24	4.57	20.52	7.92	0.39	0.36	0.32	-1.94	-2.07	-2.42
1.34	1.45	0.95	10.80	13.04	12.59	20.81	-3.49	1.21	1.10	0.88	-2.40	-4.68	-0.78
0.56	0.63	0.70	5.60	7.15	8.48	27.68	18.62	0.63	0.60	0.59	0.12	-0.57	-1.42
0.92	0.87	0.68	6.20	7.01	6.43	13.14	-8.34	0.70	0.59	0.45	-2.86	-3.66	-3.13
9.07	9.63	10.16	73.35	96.58	114.44	31.68	18.50	8.23	8.17	8.00	-15.95	-21.09	-29.06
1.31	1.42	1.39	9.90	13.77	17.13	39.09	24.42	1.11	1.16	1.20	-2.98	-3.53	-2.43
1.39	1.37	1.36	12.47	14.75	15.93	18.23	8.03	1.40	1.25	1.11	-1.18	-1.94	-3.26
0.62	0.64	0.67	3.68	6.26	5.17	70.32	-17.41	0.41	0.53	0.36	-2.42	-1.57	-4.35
8.28	9.21	8.86	81.90	113.56	125.96	38.65	10.92	9.19	9.60	8.81	0.39	1.00	0.85
0.86	0.61	0.53	5.86	5.30	5.30	-9.53	0.02	0.66	0.45	0.37	-2.57	-2.17	-2.17
0.03	0.03	0.03	0.16	0.19	0.22	15.53	18.35	0.02	0.02	0.02	-0.11	-0.15	-0.16
1.59	1.59	1.71	11.76	14.84	17.77	26.11	19.81	1.32	1.25	1.24	-3.87	-4.57	-6.35
0.30	0.20	0.24	2.33	2.27	2.76	-2.34	21.47	0.26	0.19	0.19	-0.66	-0.16	-0.66
0.23	0.29	0.28	1.33	2.06	2.45	54.35	19.11	0.15	0.17	0.17	-0.90	-1.53	-1.47
0.66	0.58	0.56	3.87	4.16	4.61	7.48	10.77	0.43	0.35	0.32	-2.64	-2.89	-3.30
14.77	16.10	16.61	158.56	220.79	240.66	39.25	9.00	17.78	18.67	16.83	13.20	23.92	6.12
0.20	0.18	0.19	1.79	1.92	1.85	7.34	-3.68	0.20	0.16	0.13	-0.22	-0.30	-0.80
1.94	1.38	2.05	19.76	18.10	32.16	-8.38	77.66	2.22	1.53	2.25	0.67	1.23	3.15
1.73	1.78	1.84	14.58	17.30	22.99	18.64	32.88	1.64	1.46	1.61	-2.45	-4.52	-2.96
0.44	0.47	0.79	3.15	3.96	8.65	25.59	118.46	0.35	0.33	0.60	-1.20	-1.80	-2.51
3.85	3.80	3.51	32.89	40.02	43.12	21.70	7.75	3.69	3.38	3.02	-5.02	-6.39	-6.47
1.73	1.51	1.36	12.67	13.18	13.11	4.05	-0.56	1.42	1.11	0.92	-4.40	-5.28	-6.07
1.08	1.16	1.23	13.13	18.24	31.16	38.84	70.89	1.47	1.54	2.18	2.50	4.05	13.75
0.91	0.91	0.88	8.90	11.40	12.24	28.21	7.36	1.00	0.96	0.86	-0.10	0.24	-0.12
100.00	**100.00**	**100.00**	**891.58**	**1,182.49**	**1,430.09**	**32.63**	**20.94**	**100.00**	**100.00**	**100.00**	**-92.85**	**-40.00**	**18.05**

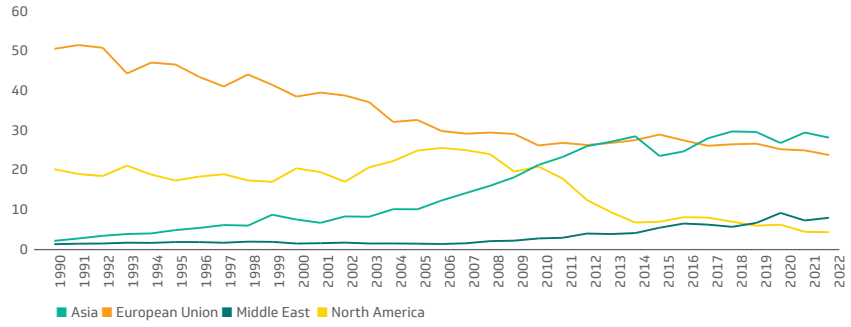
Sources: International Monetary Fund Direction of Trade Statistics, Afreximbank Research, 2023.

Global Trade and Trading Environment

Regarding export destinations, African nations have historically traded more with Europe, particularly with EU member states, than with any other region or trading bloc. However, that trend has been changing with the rise of the developing world, especially Asia, led by China and India, enabling African countries to accelerate the geographical diversification of their trading partners (Afreximbank 2022). At the same time, growth stagnation in Western Europe largely triggered by the 2007-08 global financial crisis and exacerbated by the sovereign debt crisis and Ukraine conflict, have reduced Europe's demand capacity for Africa's commodities. Accordingly, the share of Africa's merchandise exports to the EU, which averaged around 45.7 percent during the 1990s, has been steadily declining, averaging about 29.6 percent from 2003 to 2012 and 26.2 percent from 2013 to 2022. In contrast, Asia's share has seen a remarkable increase, from just about 4.97 percent to 15.9 percent and 28.1 percent, respectively, during the same periods (Figure 4.3).

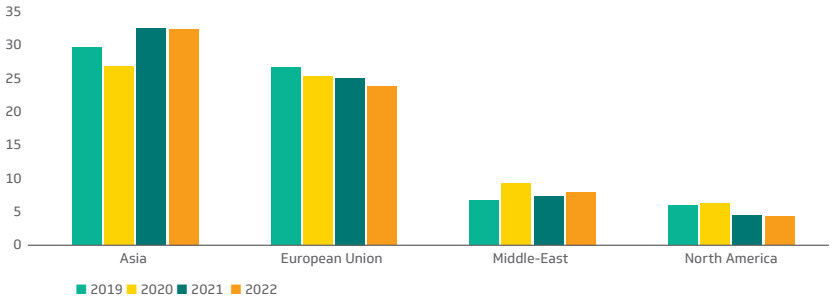
The growing trade ties between Africa and Asia reached a historic turning point in 2013, when Africa's exports to Asia reached 26.9 percent, exceeding for the first time the share of Africa's exports to Europe—26.6 percent. Despite the slight growth deceleration observed in 2015 and 2016, Africa-Asia trade rebounded and is steadily converging toward trend. In 2017, Asia's share reached 27.78 percent, exceeding once again that of the EU (Afreximbank, 2022). That trend continued, with deepening trade ties between Africa and Asia, and decreasing African exports to Europe. The gap between Asia and the EU in terms of their share of Africa's exports has been narrowing since the 1990s, and Asia overtook the EU which had been Africa's largest trading partner for decades in 2012. Asia was the destination of about 32.2 percent of total African exports in 2022, slightly down from 32.2 percent in 2021. The EU share of Africa's exports, which has been decreasing steadily fell, further in 2022 to 23.6 percent, down from 24.8 percent in 2021 (Figures 4.3 and 4.4).

Figure 4.3 Africa's Export Destinations (%)



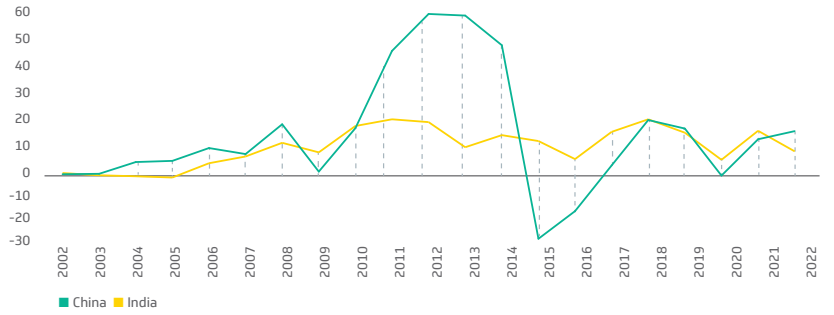
Source: International Monetary Fund Direction of Trade Statistics (2023)

Figure 4.4 Africa's Export Destinations by Region (%)



Source: International Monetary Fund Direction of Trade Statistics (2023).

Figure 4.5 Africa's Trade Balance with China and India (US$ billion)



Source: International Monetary Fund Direction of Trade Statistics (2023).

China and India have been the main drivers of the growing trade ties between Africa and Asia (Afreximbank, 2022). Africa's merchandise exports to Asia expanded by 17.5 percent to US$190.1 billion in 2022, up from US$161.9 billion in 2021, and US$109.6 billion in 2020. Of these, the share to China has been the highest even though it decelerated slightly, to 59.6 percent in 2022, from 61.4 percent in 2021, and 64.3 percent in 2020. At the same time, China's share of Africa's total merchandise exports to the world also expanded by 16.7 percent in 2022, consolidating the country's position as Africa's single largest trading partner. Africa's exports to China have generally exceeded its imports, except during the 2015/16 commodity crisis and the outbreak of the pandemic in 2020, when the region's imports exceeded exports. The stronger increase in Africa's exports to China (14.0 percent) than its imports (12.9 percent) enabled Africa to enjoy a trade surplus of US$13.3 billion in 2022, up from US$10.8 billion in 2021 (Figure 4.5).

India's share of Africa's exports to Asia has also sustained an upward trend over the last three years, strengthening by 26.1 percent in 2022, from 25.5 percent in 2021 and 23.5 percent in 2020. Even though the share of India in Africa's total merchandise exports to the world decelerated slightly due to supply chain disruptions, it still stood around 7.3 percent in 2022, from 7.4 percent in 2021 compared with 6.3 percent recorded in 2020. Since 2006, Africa's exports to India have exceeded imports, enabling the region to enjoy a trade surplus of US$7.1 billion in 2022, down from US$13.4 billion in 2021 (Figure 4.5). The combined share of China and India in Africa's exports to Asia remained high, expanding to 85.8 percent in 2022, 86.9 percent in 2021 and 87.7 percent in 2020. Their combined share in Africa's exports to the world has averaged around 24.3 percent over the last three years, consolidating their position as Africa's single largest trading partners.

A similar trend is also observed in the sourcing of imports by African countries. Even though the EU has historically been Africa's largest import market, its share of total African imports has been trending down steadily, while that of Asia has been trending upward. Reflecting that contrasting trend, the EU accounted for 23.6 percent of total African imports in 2022, down from more than 45 percent in the 1990s. Asia, which has become Africa's largest import market since 2019, consolidated its position as the primary source of goods for the continent. It accounted for 32.1 percent of Africa's total imports in 2022, virtually unchanged from the 32.1 percent recorded in 2021 (Figure 4.6).

Global Trade and Trading Environment

Figure 4.6 Africa's Import Sources by Region (%)

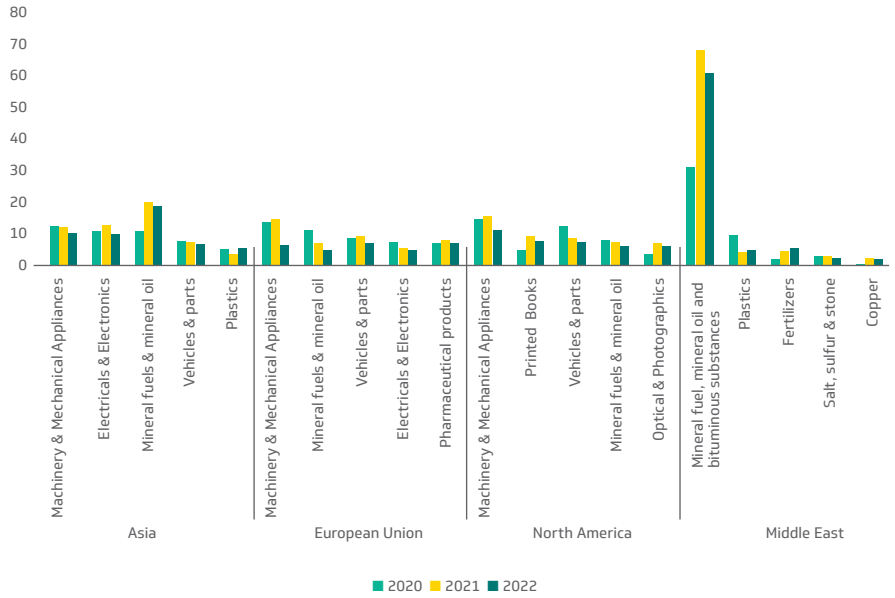
Source: International Monetary Fund Direction of Trade Statistics (2023).

The sustained increase in the geographical shift in Africa's import sources is due largely to prolonged economic difficulties within the EU, characterised by stagnating growth and decline in industrial production and manufacturing output with rising South-South trade. In contrast, strong economic growth in Asia, boosted by rapid technological progress and expanding manufacturing output, has turned the region into an industrial powerhouse and the world's factory. Africa's imports from Asia are increasingly dominated by machinery and electrical appliances, mineral fuels and oil, vehicles, electronics, and plastic materials, with a combined share of 50.7 percent in 2022, up from 49.2 percent in 2021 (Figure 4.7).

While EU's shares have been declining, the bloc remained an important source of machinery and mechanical appliances, mineral fuels and oils, vehicles and parts, pharmaceuticals, and electronics for Africa. In the last three years, Africa's imports from Asia have exceeded its exports, creating a deficit of US$22.5 billion in 2022, up from US$20.7 billion in 2021.

North America, historically Africa's third-largest export destination, has lost its position during the last three years even though its share of the continent's exports increased by 6. 4 percent to US$43.6 billion in 2022 from US$37.6 billion in 2021. Since 2019, the Middle East has become Africa's third-largest export market, with its shares expanding by 9 percent (from 8.8 percent) to about US$61 billion in 2022 from US$48.6 billion in 2021. The weakening of North America's position has been driven in part by a steady decline of Africa's exports to the United States, where the rise in shale oil production put the country on a path to energy independence, cutting its imports of oil from African countries. At the same time, the Ukraine conflict and sanctions against Russia have made the United Sates a major source of the shale oil market to the EU. Strengthening trade and economic cooperation between Africa and Middle East, especially with members of the Gulf Cooperation Council, continued to drive the rising position of the Middle East.

Figure 4.7 Africa's Sources of Imports, by Region and Product Group (%)



Sources: International Monetary Fund Direction of Trade Statistics (2023); International Trade Centre Trade Map (2023).

Despite the challenging global economic and trading environment characterised by heightening geopolitical tensions and trade wars, Africa's merchandise trade expanded by 20.9 percent in 2022. Rising commodity prices in a context of geopolitical realignment led to a significant increase in demand for Africa's energy from Europe. While trade restrictions and supply chain disruptions undermined global trade volumes, rising prices more than offset the losses in volumes, enabling an increase in the value of global trade by about 12 percent in 2022.

Chapter Five

Dynamics in Commodity Markets

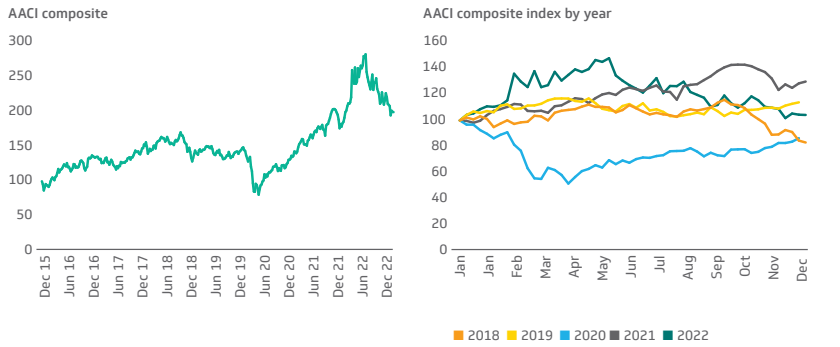
5.1 AFREXIMBANK AFRICAN COMMODITY INDEX AND ITS DYNAMICS

Despite ongoing efforts to diversify the sources of growth, the patterns of GDP across Africa remain highly correlated with the dynamics of commodities. The excessive dependence on commodities is also reflected in the composition of African exports—primarily commodities and natural resources. They accounted for 80 percent of total African exports in 2022.

More generally and according to the report of the United Nations Commission on Trade and Development (UNCTAD) entitled State of Commodity Dependence, 48 out of 54 African countries, or 89 percent, remain heavily commodity dependent (UNCTAD 2021). The commodity dependence and the inherent crisis—notably the excessive exposure to recurrent adverse commodity terms of trade shocks—is further exacerbated by the composition of African exports. Most countries rely heavily on a narrow range of commodities for export earnings and government earnings (UNCTAD 2021). For instance, in Nigeria, the world's 12th largest producer of oil and the largest in Africa, the oil and gas industry contributes about 65 percent of government revenue and 85 percent of total exports.

The Bank has developed an index, the Afreximbank African Commodity Index (AACI) (Afreximbank 2021), which reflects the dynamics of 14 key commodities of export interest to Africa. It has been used to monitor the movements of commodity prices with a view to effectively mitigating risks associated with volatility. The commodity list is divided into three main categories: agriculture (cocoa, coffee, cotton, corn, sugar, wheat, and palm oil), metals (aluminium, cobalt, copper, gold, and zinc) and energy (crude oil and natural gas). The AACI composite index in Figure 5.1 shows aggregate price movements on commodity markets since 2016.

Figure 5.1: AACI Composite Index (2016=100)



Sources: Afreximbank Research, Bloomberg.

5.1 AFREXIMBANK AFRICAN COMMODITY INDEX AND ITS DYNAMICS

The combination of supply chain disruptions, trade restrictions following the implementation of sanctions against Russia, heightening global tensions, and tightening monetary policy in response to record-high inflation contributed to major shifts in investor sentiment and led to steep increases in commodity prices during the first half of 2022. Energy and agricultural commodities posted the sharpest growth. Oil prices increased by 28 percent in the four months following the outbreak of the Ukraine crisis. Wheat prices increased by 25 percent over the same period.

However, commodity prices declined sharply in the second half of the year owing to softening demand in a context of sharp global growth deceleration, especially in China and Europe, the leading drivers of global trade. Commodities such as gold and cobalt gained momentum in the last quarter of the year on account of a slow recovery as energy prices stabilised.

Supply chain imbalances drove the exceptional growth in the energy commodity market, aggravated by the Ukraine conflict, especially in the first half of 2022. The dynamics of oil and gas prices were consistent throughout the year. After reaching a decade-high record of US$110 per barrel in May 2022, brent crude oil prices declined sharply in the second half of the year, reaching $76.6 per barrel in the second week of December. This was also supported by easing supply chain bottlenecks as countries in Europe secured alternative sources of energy, especially from the United States.

Similarly, gas price reached a record high of US$9.3 per million British thermal units (MMBtu) in June 2022, representing a 166 percent increase over the same period the previous year. The spot price reached a peak of US$9.7/MMBtu in August before declining to US$3.9/MMBtu by the end of December 2022. Several factors contributed to the decrease in the price, including the emergence of alternative sources of energy that are increasing production and easing supply chain bottlenecks.

Dynamics in Commodity Markets

Agricultural commodities posted contrasting performance between the first and second half of 2022. After the strong commodity price tailwinds from the Ukraine conflict in the first quarter of the year, the agricultural commodity market weakened during the second half of the year, driven by marked price declines in palm oil, cotton, wheat, corn, coffee, and cocoa.

During the first half of 2022, wheat futures soared significantly, slightly exceeding price levels reached at the height of the 2008 food crisis. The Ukraine conflict adversely affected the most vulnerable countries, which are highly dependent on wheat imports. However, from an all-time peak of US$1,088/Bu in May 2022, Chicago wheat futures plummeted by 35 percent in the second half of 2022, reflecting easing supply chain disruptions.

Further, the UN-brokered Black Sea Grain Initiative, which was extended for another four months in the last quarter of the year, spurred strong supplies from the top global exporters. For instance, 11 million tonnes of Ukrainian wheat were shipped between August and December 2022. In addition, a record-high harvest in Russia supported by favourable growing conditions was estimated to be in excess of 90mt at the end of the growing season. Prior to the war, Russia and Ukraine together accounted for roughly 30 percent of global wheat exports, followed by the United States and Canada.

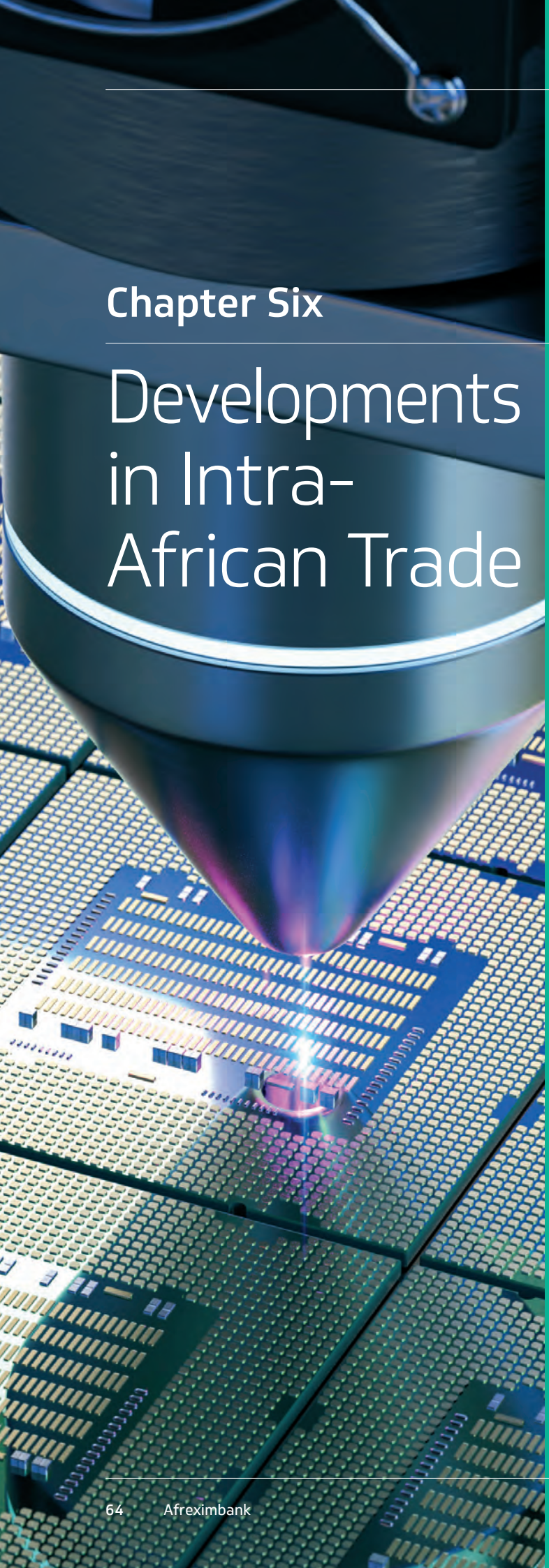
Coffee prices soared to decade highs of US$2.50 per pound during the first half of 2022, as bean shortages rattled the global coffee market. Adverse climate events exacerbated supply chain turmoil and logistics complications that emerged from the pandemic. Drought and frost in 2021 damaged the Arabica coffee plants in Minas Gerais, the top growing region of Brazil, and ruined the beans that were ready for harvest.

Conversely, coffee prices plunged to 16-month lows of US$1.5 per pound in the second half of 2022 amid abundant global supplies. This led to a sharp increase in world exports, which reached 10.88 million bags in December 2022, up from 9.90 million bags in August. The weakening real encouraged exports from Brazil, the top producer of Arabica, which accounts for 40 percent of global coffee supply. Vietnam, the largest producer of Robusta coffee, reported a 56 percent surge in exports month-on-month between October and November 2022 and a year-on-year increase of 15.74 percent from October 2021.

Supply and demand imbalances affected cocoa prices, triggered by a combination of several factors. Flash floods in West and Central Africa and a dock workers' strike in Côte d'Ivoire negatively affected cocoa bean transportation from farms to ports. The International Cocoa Organisation reported a decline of 23 percent year-on-year in port arrivals, from 452,000 tonnes to 348,000 tonnes as of November 2022. Elevated cost of inputs and the outbreak of black pod in some cocoa-growing regions also squeezed production. As a result, prices spiked to about US$2,600 per tonne during the last quarter of 2022, up 18 percent from US$2,200 in July.

In addition to supply-demand imbalances, price increases were also driven by policies to boost farmers' income in cocoa-growing countries. These include measures to increase producer prices with a view to bolstering a sustainable, resilient, and lucrative cocoa industry in Ghana and Côte d'Ivoire. These two countries account for more than 60 percent of global output. The governments in both countries are committed to assisting farmers by providing farm inputs such as fertilizer and crop chemicals and instituting pest and disease control programs designed to improve the quality and quantity of cocoa beans.

After the sterling performance in the first quarter of 2022, which was dominated by heightened global volatility and a sharp appreciation of the US dollar, gold prices plummeted, closing the year at US$1,820, down 11 percent from the 19-month highs of US$2,050 per ounce in March 2022. However, the recovery witnessed in the last quarter of the year could see gold regain its position as a safe haven asset.

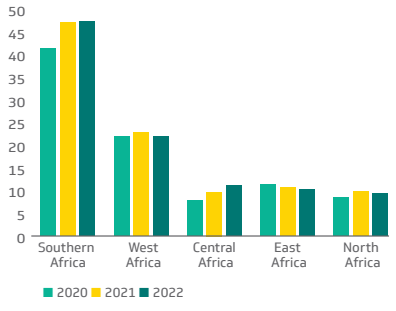


Chapter Six

Developments in Intra-African Trade

The promotion of intra-African trade, which includes the flow of goods and services between African countries as well as between continental Africans and the diaspora, is a cornerstone of the Afreximbank's strategy. Intra-African trade is firmly embedded as the first pillar and projected as the arrowhead of the Bank's Sixth Strategic Plan, Plan VI, Extending the Frontiers. This position was inherited from the predecessor Plan V, Impact 2021—Africa Transformed, and one of the core tenets of the AfCFTA agreement, captured in the Boosting Intra-African Trade Action Plan. Theoretically, it has been demonstrated that intra-regional trade and inherent economies of scale provide the basis for investment in regional infrastructure development, which in turn facilitates integration, promotes industrialisation, and creates employment opportunities for the continent's growing population (IMF 2019; Fofack and Mold 2021). At the same time, deepening intraregional trade offers tremendous potential as a mitigant against adverse external shocks and global volatility (Fofack 2020).

Figure 6.1: Contribution of the five regions in Intra-African trade (%)



Source: International Monetary Fund Direction of Trade Statistics (2022), Afreximbank Research.

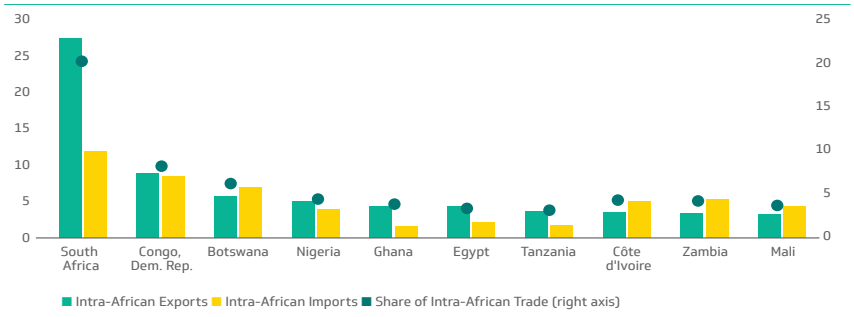
In 2022, the value of intra-African trade reached US$193.17 billion, growing by 18.6 percent in 2022 compared with a growth rate of 13.42 percent in 2021. Despite the resilience of intra-African trade in a context of a sharp global growth deceleration, it represented about 13.8 percent of total African trade in 2022, slightly lower than the 14.4 percent in 2021. This was partly a reflection of the stronger growth of extra-African trade, which increased by 22.4 percent in 2022.

However, the aggregate value of intra-African trade, which expanded to reach US$193.17 billion in 2022, masks important regional variations. Recording the most impressive growth rate with its trade with other countries around the region expanding by 47.4 percent, South Africa consolidated its leading position as the main driver of intra-African trade in 2022 (Figure 6.1). West Africa also strengthened its position as the second intra-African trading subregion, accounting for 22 percent of total intra-African trade. As the third intra-African trading subregion, Central Africa accounted for 11 percent. East and North Africa's contributions to total intra-African trade were about 10.3 and 9.3 percent, respectively.

6.1 INTRA-AFRICAN TRADE CHAMPIONS

WIncreasingly apparent in the resilience of intra-African trade in 2022 is the enabling role of regional champions in promoting cross-border trade on the continent. Across the continent, South Africa maintained its position as the leading intra-African trading nation in 2022, with a total intra-African trade value of US$39.63 billion, up from US$34.83 billion in 2021. This was largely due to the rebound in oil prices, which accounted for the lion's share of South Africa's imports from the rest of the continent. South Africa accounted for 20.5 percent of total intra-African trade in 2022, compared with 21.4 percent in 2021 (Afreximbank, 2022). While Africa is an important source of South Africa's imports, accounting for 11.8 percent of the country's total imports in 2022, the continent is an even more important export destination for South Africa. During the review period, Africa was the destination of more than 27 percent of total South African exports. South Africa's main African destination markets are the countries of the Southern African Customs Union and the Southern African Development Community. Mozambique is South Africa's largest bilateral trade partner within the region, followed by Botswana, Namibia, Zimbabwe, and Zambia.

Figure 6.2: Top 10 contributors to intra-African trade, 2022, %



Source: International Monetary Fund Direction of Trade Statistics (2022), Afreximbank Research.

Developments in Intra-African Trade

In Central Africa, the Democratic Republic of Congo (DRC) remains the largest intra-African trading nation and the second-largest in Africa, trading more with its Southern African Development Community partner countries than with its counterpart country members in the Economic Community of Central African States. Its share of total African trade increased by 35.7 percent, from US$12.19 billion in 2021 to US$16.53 billion in 2022. As a result of this strong recovery, the DRC became the second-largest intra-African trading nation, reverting to its second spot after falling to fourth in 2020. South Africa remains its major bilateral trade partner in Africa, accounting for the bulk of its imports from the continent. The government of the DRC remains committed to regional integration and is strengthening cooperation across the continent by expanding trade with neighboring countries, including members of the Economic Community of Central African States. In that regard, the DRC and other member countries maintained the momentum on their regional integration agenda by ratifying a revised treaty among the member states.

In West Africa, the value of Nigeria's trade with the continent expanded by 5.1 percent to US$8.70 billion, up from US$8.27 billion in 2021. Nigeria's share of total intra-African trade decreased slightly in 2022 to about 4.5 percent, from 5.1 percent in 2021, lowering its overall standing as the fourth largest intra-African trading nation in 2022. About 5 percent of Nigeria's exports are to African countries, with South Africa, Togo, and Côte d'Ivoire being the top three destinations of Nigerian exports to the rest of the continent. Nigeria's imports from the rest of the continent remained relatively low, accounting for less than 3.87 percent of its total imports.

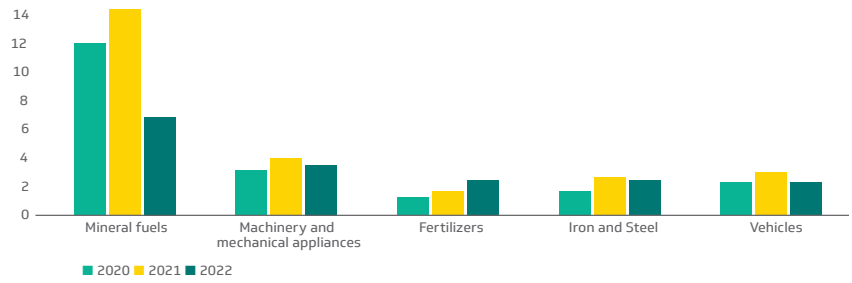
In North Africa, Egypt emerged as the leading intra-African trading nation and the sixth leading intra-African trading nation. Its trade with the continent increased by 13.5 percent to US$6.39 billion in 2022. About 5 percent (US$4.68 billion) of Egypt's total exports went to African countries, while 2.1 percent (US$1.71 billion) of its total imports were sourced from Africa. Authorities in Egypt continued to make efforts to boost trade with the rest of Africa (Afreximbank, 2022). The country remains an active member of the Pan-Arab Free Trade Area, under which import duties are removed to boost intra-African trade. Egypt has also ratified the AfCFTA Agreement. Egypt's largest export partners on the continent traditionally have been in North Africa (Algeria, Libya, and Morocco), but exports to Kenya, Nigeria, and Sudan have been on the rise. Meanwhile, Kenya, Zambia, and Sudan also are finding a growing market in Egypt, aided by the improving logistical infrastructure and incentives associated with the elimination of tariffs under the AfCFTA.

Other important contributors to intra-African trade, which are among the top 10 countries, are Botswana, Ghana, Tanzania, Côte d'Ivoire, Zambia, and Mali. Together these countries accounted for 24.1 percent of total intra-African trade in 2022. Their contribution was boosted by Botswana, Zambia, and Tanzania, which recorded big gains in their trade volume with strong growth of 113.3 percent, 47.9 percent, and 47.1 percent, respectively.

6.2 DRIVERS OF INTRA-AFRICAN TRADE

Intra-African trade involves both primary and manufactured products. Generally, trade in the broader primary and manufactured product categories, including fuels, machinery, fertilizers, iron and steel, and vehicles, has been rising over the years (Figure 6.3). In terms of the technical intensity of the exports, manufactured products traded on the continent are dominated by high-skill and technology-intensive manufactures. This dovetails with the evidence that intra-African trade has relatively higher industrial and value-added content than extra-African trade and could further the process of technological upgrading (UNCTAD, 2021).

Figure 6.3: Top 5 intra-African exports, 2022 (US$ billion)

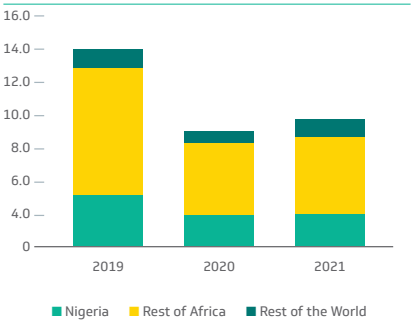


Source: International Trade Centre Trade Map (2022), Afreximbank.

Although the value-added and technological content of cross-border trade is higher than in extra-African trade, primary commodities (mineral fuels), largely from intra-African trade champions, continue to dominate intra-African trade (Figure 6.3).

In Southern Africa, South Africa imports about 64.59 percent of its crude oil from the continent, 48.59 percent of which comes from Nigeria. Nigeria is the leading global supplier of crude oil to South Africa, ahead of Saudi Arabia. While energy dominates South African imports from Africa, accounting for about 55 percent of all imports from the continent, the country's exports to the rest of the continent are more diverse. The profile of South African trade with the rest of Africa reflects the complexity of its economy as the most industrialised. The product mix of this trade profile is heavily biased in favour of manufactured exports, including machinery, vehicles, aircraft and vessels, and prepared foodstuffs. It exports fuel and fuel products, precious stones, vehicles, and machinery to its largest bilateral regional trading partners, such as Botswana, Namibia, and plastic products to other trade partners, such as Nigeria. By contrast, around 60 percent of Namibia's and Botswana's exports to South Africa consist of pearls, live animals, machinery, meat, fish, and dairy products. Meanwhile more than 35 percent of Zimbabwe's exports to South Africa consist of mineral fuels, tobacco, salt, and coffee.

Figure 6.4: South Africa's crude oil imports (US$ billion)



Source: International Trade Centre, Trade Map (2022), Afreximbank Research.

In Central Africa, the main exports of the DRC to South Africa are inorganic chemicals, refined copper, and vehicle parts. Its imports from South Africa consist primarily of mineral fuels, machinery, and salt. The DRC can play a key role in providing mineral resources for industrial and manufacturing output and development of regional value chains, supporting agricultural and agro-processing value chains, and emerging as a major driver of intra-African trade in the AfCFTA era. The inflows of copper from the DRC into Zambia heavily boosted the latter's standing in intra-African trade. South Africa is also the top supplier of machinery and mechanical appliances to the DRC and an important supplier of pharmaceutical products. However, the market for pharmaceutical products is still dominated by imports supplied from Europe and Asia. Efforts by the Afreximbank to promote intra-African trade in the provision of world-class health services and increase local production of pharmaceutical goods in the post-pandemic should further boost cross-border trade in medical services and pharmaceutical products in the medium and long term.

In West Africa, crude oil still dominates Nigeria's export to the rest of Africa, but the composition of its cross-border trade is changing. Although only 3 percent of total imports into Nigeria emanate from the continent, historically, there has been a thriving informal cross-border trade in light manufactured products and agricultural commodities within the Economic Community of West African States region and with neighboring countries in Central Africa. Côte d'Ivoire's imports from the rest of the region are mostly crude oil from Nigeria, which is refined and exported to regional trading partners like Mali and Burkina Faso, which are also Côte d'Ivoire's top trading partners on the continent.

In North Africa, Egypt has indicated its commitment to help build capacity among other African countries as they seek to upgrade and promote the development of higher-productivity sectors, including manufacturing and high-end services. Egypt is mainly exporting plastics, salt, and sulphur, electric machinery, and mineral oils and importing copper, coffee and tea, cotton, and live animals from the rest of the continent.

Developments in Intra-African Trade

6.3 DEVELOPMENTS IN THE AfCFTA

One of the key achievements in ongoing efforts to boost intra-African trade in 2022 was the progress made in the implementation of the AfCFTA, which entered into force in January 2021. To date, 54 of the 55 African Union member states have signed the AfCFTA agreement. Parliaments of African Union (AU) member states have to ratify the agreement in order to adapt national laws and domesticate the new rules of trade under the AfCFTA. Once instruments of ratification are deposited at the African Union Commission, the AU member state is recognised as a "State Party" of the AfCFTA. Forty-four member states have deposited their instruments of ratification to date, while 10 AU member states are in the process of ratification, namely: Benin, Botswana, Comoros, Liberia, Libya, Madagascar, Mozambique, Somalia, South Sudan, and Sudan. Only one AU Member State is yet to sign the AfCFTA, namely Eritrea.

For the Protocol on Trade in Goods, negotiations on schedules of tariff concessions and rules of origin continue. To date, 46 countries have submitted provisional schedules of tariff concessions, either individually or as part of a customs union. Currently, more than 88 percent of tariff lines have been agreed, with textiles and clothing and automotives accounting for the remaining 11.9 percent of tariff lines still under negotiation. Under the Protocol on Trade in Services, 47 initial service offers have been submitted in the five priority sectors of business services, financial services, communication, transportation, and tourism. Negotiations on trade in services will continue based on the these and other submissions received from AfCFTA signatories.

Significant progress was achieved in several areas. In July 2022, State Parties also approved the AfCFTA Rules of Origin Manual. Among others, the Manual is intended to simplify the AfCFTA Rules of Origin for practical application by State Parties and give guidance on the organisational requirements for the effective implementation of the AfCFTA Rules of Origin.

Phase II protocols covering investment, competition and intellectual property rights have been completed and were adopted during the extraordinary session of the AU Assembly held on 25 November 2022 in Niamey, Niger. However, the Protocols on Digital Trade and Women and Youth in Trade are in the design stage.

In July 2022, the Council of Ministers of the AfCFTA invited countries to participate in the Guided Trade Initiative (GTI), a program that will allow selected African countries to commence commercially meaningful trade under preferential rules of the AfCFTA, provided they have submitted their schedules of tariff concessions and expressed interest in trading. In October, Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania, and Tunisia agreed to start commercially meaningful trade under the AfCFTA for at least 96 products including, among others, ceramic tiles, batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits, and sisal fiber. The key benefit behind launching GTI is to test the operational, institutional, legal, and trade policy environment under the AfCFTA. It is also sending an encouraging message to African economic operators as well as countries that have been reticent to submit their schedules of tariff concessions. The next round of participation in the AfCFTA Facilitated and Guided Trade Initiative is expected to cover all State Parties who meet the criteria with the ambition to institutionalise the initiative at the national and regional levels through national Trade Support Institutions and AfCFTA-based enterprises. It is also envisaged that the initiative will cover trade in services in future.

The Afreximbank is working closely with the African Union Commission and the AfCFTA Secretariat to support the implementation

of the AfCFTA through several strategic initiatives (Oramah 2021). These include the Intra-African Trade Fair, the Pan-African Private Sector Trade, and Investment Committee (PAFTRAC), an advocacy platform to enhance African private sector participation in trade negotiations and investment policy formulation, and the Pan-African Payment and Settlement System (PAPSS), which became operational on January 13, 2022, following a successful operational pilot in six West African countries. PAPSS is facilitating the clearing and settlement of intra-African trade transactions in African currencies, lifting the liquidity constraints to enhance the growth of intra-African trade.

The Bank is also working with the AfCFTA Secretariat on several products, including the AfCFTA Adjustment Facility, to enable countries to adjust in an orderly fashion to sudden significant tariff revenue losses owing to the implementation of the agreement. In addition, the Interstate Transit Guarantee is offered as part of the Afreximbank's overall objective of facilitating and promoting intra-African trade by reducing some of the bottlenecks associated with the movement of goods across borders within Africa. The Bank is also supporting the establishment of Africa Quality Assurance Centre (AQAC).

6.4 ESTIMATING INTRA-AFRICAN TRADE POTENTIAL

Using the export potential assessment methodology developed by the International Trade Centre (ITC), this section assesses products with the greatest export potential in intra-African trade. The methodology highlights sectors with opportunities for export growth under current tariff conditions and sectors in which new opportunities will arise with tariff reductions under the AfCFTA. Export potential is computed with a time horizon of four to five years, and accounts for current and future tariffs. The AfCFTA foresees different tariff liberalisation schedules for African economies classified as least developed countries (LDCs) and those which are not. While non-LDCs will fully liberalise tariffs within five years, LDCs will do so within 10 years. Full liberalisation will apply for 90 percent of tariff lines. Another 7 percent of tariff lines can be considered sensitive products. Also, 3 percent of tariff lines, which should represent not more than 10 percent of a country's total exports, can be excluded from tariff liberalisation. Therefore, the methodology assumes three differential liberalisation scenarios.

Scenario 1: Current tariff conditions

- Tariffs
- No further liberalization within five years

Scenario 2: Differential liberalization according to LDC status

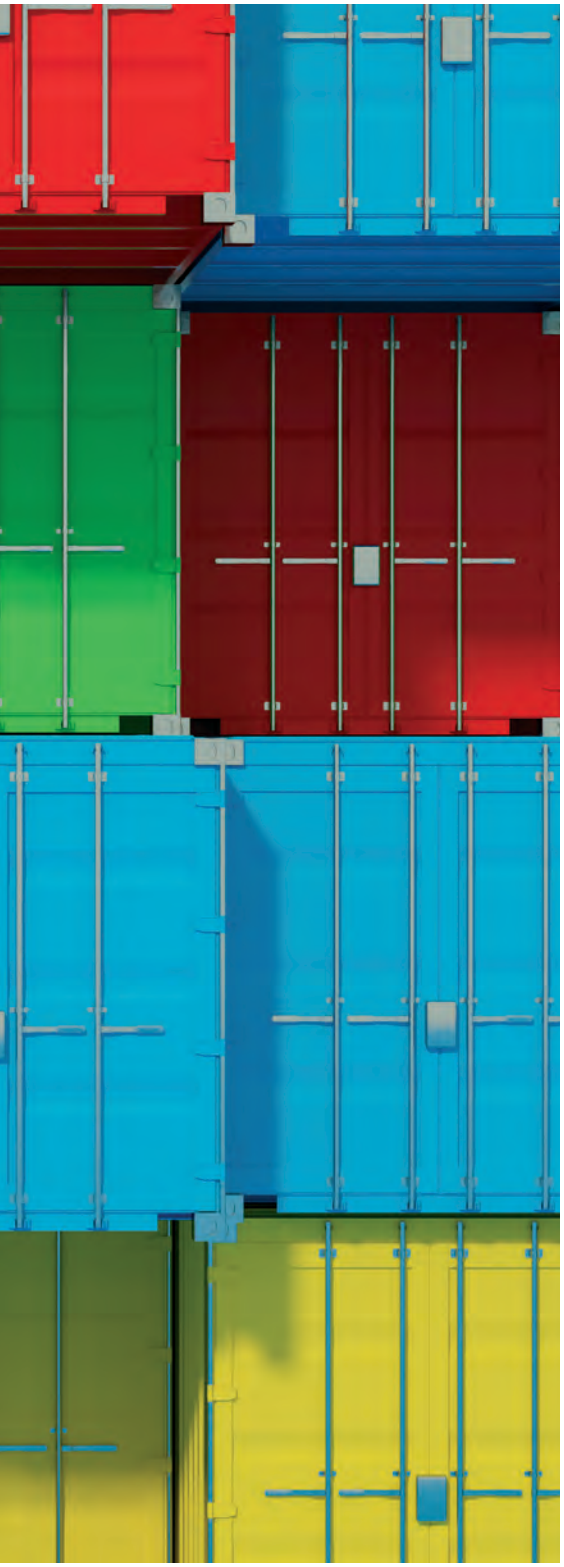
- Liberalization according to LDC status of the country or its regional economic community
- Non-LDC status: full liberalization within 5 years
- LDC status: 50 percent liberalization within 5 years
- Countries liberalize tariffs on all products equally

Scenario 3: Full liberalization within 5 years

- Full liberalization regardless of LDC status
- Countries liberalize tariffs on all products equally

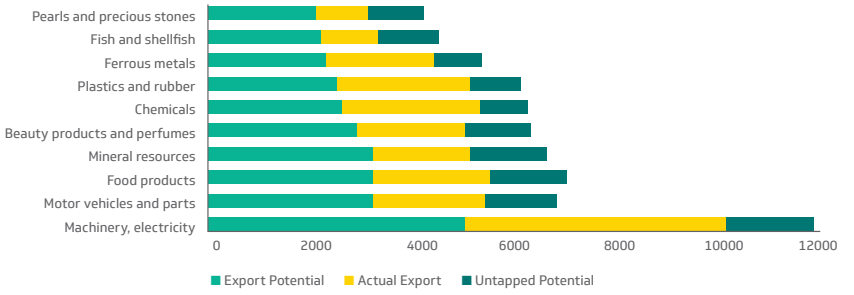
The scenario 1 reveals untapped export potential of US$22 billion on the continent. More than one-third of this potential export growth (US$8.6 billion) could be achieved by eliminating trade frictions, while the remaining US$13.3 billion would arise through future economic growth and related increases in demand and supply. Under the differential liberalisation by LDC status of Scenario 2, intra-African export potential would increase by another US$9.2 billion. If all African countries fully liberalised tariffs on all products within the next five years, under Scenario 3, intra-African export potential would increase by US$19.8 billion.

Developments in Intra-African Trade



Overall, based on the export potential assessment and considering proven ability to export and products that have good prospects for intra-African trade, the export potential for intra-African trade is estimated to exceed US$57.20 billion. This could significantly raise the current level of intra-African trade to US$250.98 billion, hypothetically accounting for 30 percent of total intra-African trade, all other conditions remaining the same. The products with the greatest export potential from Africa to Africa are machinery, electricity, motor vehicles and parts, food products, minerals, beauty products, chemicals, plastic and rubber, ferrous metals, fish and shellfish, and pearls and precious stones. Machinery, electricity shows the largest absolute difference between potential and actual exports in value terms, leaving room to realise additional exports worth US$1.7 billion. These collectively account for more than 50 percent of the total intra-African export potential (Figure 6.5).

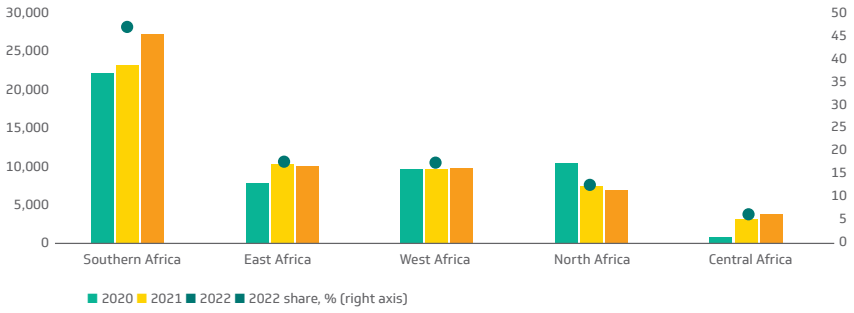
Figure 6.5: Products with greatest intra-African export potential (US$ million)



Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

An examination of 40 products with the greatest intra-African export potential—based on each subregion's proven ability to be internationally competitive and which have good prospects for export success—reveals that the subregions with the greatest export potential are Southern Africa, with export potential more than US$27 billion, followed by Eastern Africa and Western Africa, with export potential of US$10 billion and US$9.7 billion, respectively. Northern Africa holds export potential of about US$6.8 billion, while Central Africa's export potential is about US$3.7 billion (Figure 6.6). The greater export potential enjoyed by Southern Africa largely reflects the complexity and sophisticated nature of the South African economy in a region where industrial products and manufactured goods are the leading drivers of cross-border formal trade.

Figure 6.6. Intra-African export potential, by subregion (US$ million)

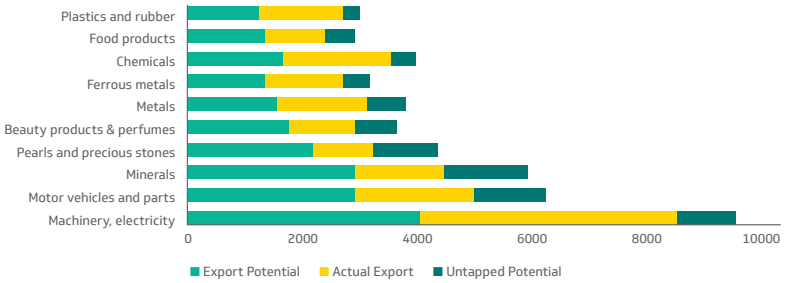


Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

6.4.1 Southern Africa Export Potential

Southern Africa's export potential to the rest of Africa is estimated at approximately US$27 billion. The products with the greatest export potential are primarily industrial products and include machinery, electricity, motor vehicles and parts, minerals, pearls and precious stones, beauty products, metal products, ferrous metals, chemicals, food products, and plastics and rubber. Collectively these products account for about 75 percent of the region's total export potential (Figure 6.7). The dominance of South Africa's economy—which accounts for almost 50 percent of the subregion's total export potential—reflects the composition of intra-African trade, dominated by manufactured goods.

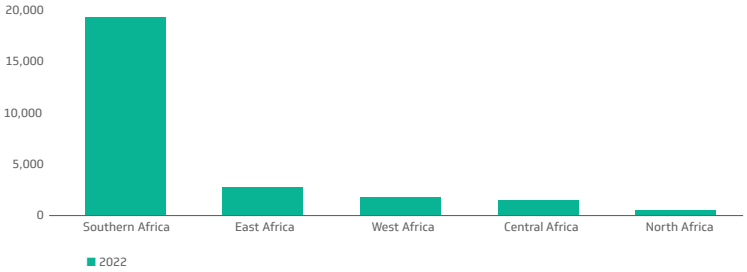
Figure 6.7: Southern Africa's export potential, leading products (US$ million)



Sources: International Trade Centre Export Potential Map (2021), Afreximbank Research.

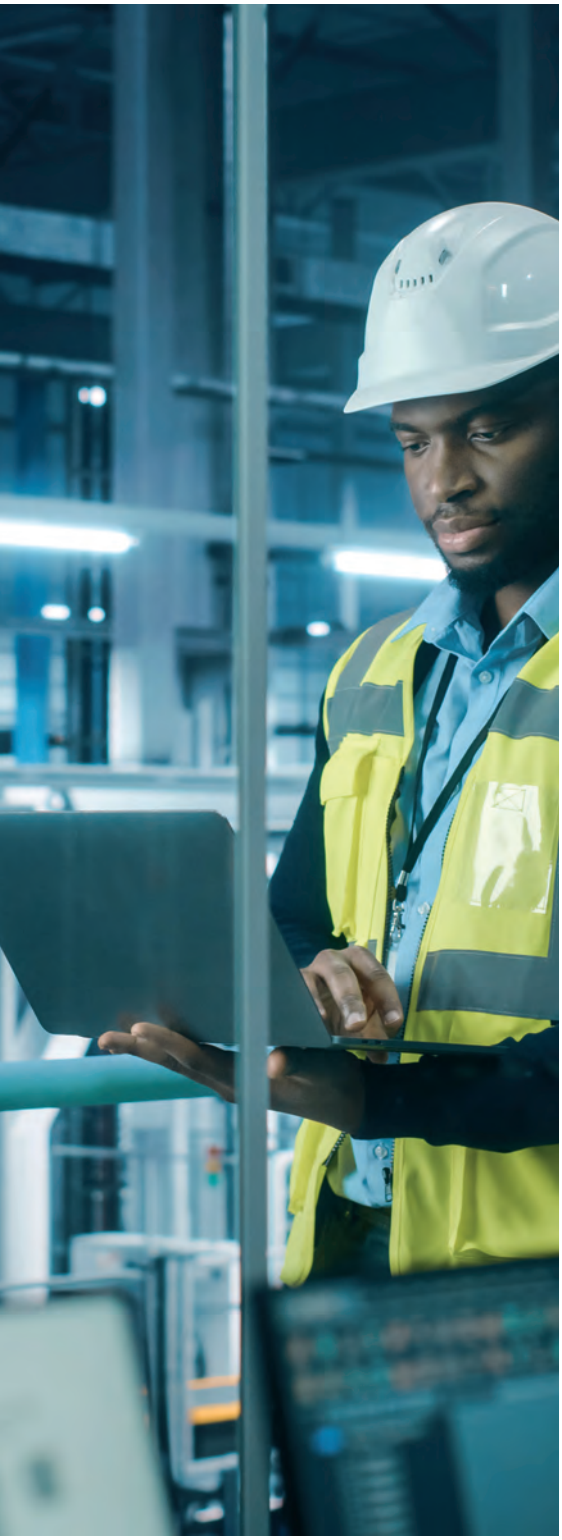
The greatest driver of Southern Africa's export potential is the Southern African region itself, estimated at US$24 billion (Figure 6.8), which reflects the deepening process of economic integration within the Southern African Development Community. The products with the greatest export potential for Southern Africa are electrical energy, unrefined copper, and mixtures of odoriferous substances used in food and drink. East Africa presents the second-highest potential for Southern African exports, estimated at US$3.4 billion. The products with the greatest export potential are apparel, beauty products and perfumes, and fish and shellfish. West Africa has the third-greatest export potential for Southern Africa, estimated at US$2.2 billion, followed by Central Africa, with an estimated US$1.9 billion. North Africa has the lowest export potential, estimated at US$644 million.

Figure 6.8: Southern Africa's export potential, by subregion (US$ million)



Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

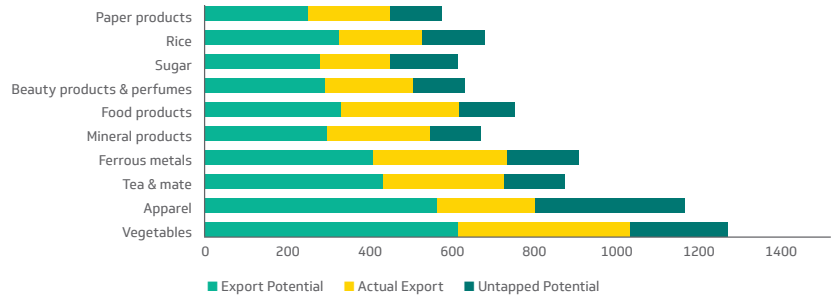
Developments in Intra-African Trade



6.4.2 East Africa Export Potential

East Africa's export potential to the rest of Africa is estimated at US$10 billion, about 17 percent of total intra-African export potential. The products with the greatest export potential include vegetables, apparel, tea, ferrous metals, mineral products, food products, beauty products, sugar, rice, and paper products, which collectively account for about 40 percent of the region's total export potential (Figure 6.9). While the products with the greatest export potential are similar across regions, one East African product that stands out is tea. Kenya, Uganda, Malawi, and Rwanda are leading producers of tea globally, with almost 75 percent of their product exported outside of Africa. This analysis suggests that the expanding African market for tea could be the next frontier for growth opportunities in this sector.

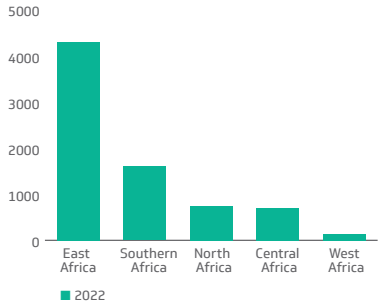
Figure 6.9: East Africa's export potential, leading products (US$ million)



Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

Consistent with the export potential in other subregions, the greatest export potential for East African exports is the East African region itself, estimated at US$4.3 billion (Figure 6.10), accounting for about 43 percent of total East African export potential. The products with greatest export potential are vegetables, ferrous metals, and sugar. Southern Africa presents the second-highest potential for East African exports, estimated at US$1.6 billion. The products with greatest export potential are tea, pulses, nuts, spices, oil seeds, and leather products. North Africa has the third-greatest export potential for East Africa, estimated at US$740 million, followed by Central Africa, with an estimated US$695 million. West Africa has the lowest export potential, estimated at US$142 million.

Figure 6.10: East Africa's export potential, by subregion (US$ million)

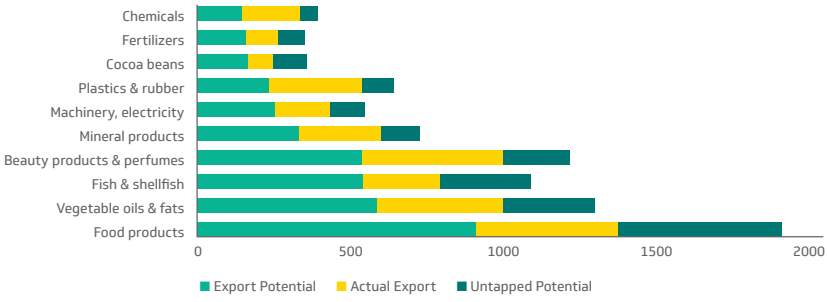


Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

6.4.3 West Africa Export Potential

West Africa's export potential to the rest of Africa is estimated at US$9.7 billion, about 17 percent of total intra-African export potential. The products with the greatest export potential include food products, vegetable oils and fats, fish and shellfish, beauty products, mineral products, machinery and electricity, plastics and rubber, cocoa beans, fertilizers, and chemicals, which collectively account for about 40 percent of the region's total export potential (Figure 6.11).

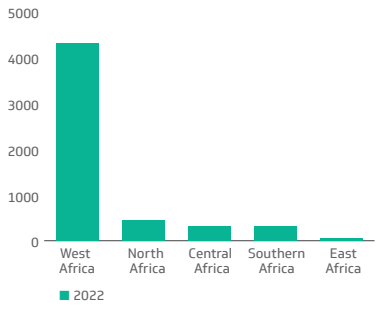
Figure 6.11: West Africa's export potential, leading products (US$ million)



Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

The greatest export potential for West African exports is the West African region itself, estimated at US$4.3 billion (Figure 6.12), accounting for about 44 percent of West Africa's export potential to the rest of Africa. North Africa presents the second-highest potential for West African exports, estimated at US$458 million. The products with greatest export potential are cocoa beans and products, vegetal textile fibers, and coffee. Central Africa and Southern Africa have the third-greatest export potential for West Africa, estimated at US$311 million, followed by East Africa, estimated at US$50 million.

Figure 6.12: West Africa's export potential, by subregion (US$ million)



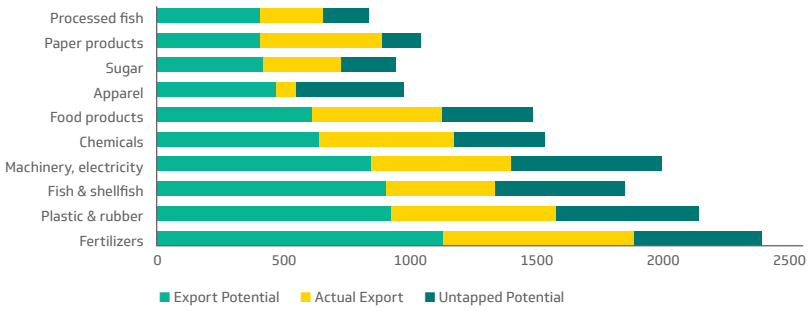
Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

Developments in Intra-African Trade

6.4.4 North Africa Export Potential

North Africa's export potential for the rest of Africa is significant, estimated at US$6.8 billion. The products with the greatest export potential include fertilizers, plastics and rubber, fish and shellfish, machinery and electricity, chemicals, food products, apparel, sugar, paper products, and processed fish, which collectively account for about 97 percent of the region's total export potential (Figure 6.13). Much like Southern Africa, the sophisticated nature of products with export potential reflects the Egyptian economy's dominance. Egyptian export potential accounts for about 44 percent of the subregion's total export potential.

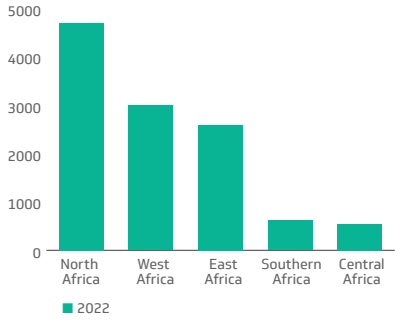
Figure 6.13: North Africa's export potential, leading products (US$ million)



Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

The greatest export potential for North African exports is the North African region itself, estimated at US$4.7 billion (Figure 6.14). The products with greatest export potential for North Africa are machinery, electricity, plastics and rubber, and chemicals. West Africa presents the second-highest potential for North African exports, estimated at US$3 billion. The products with greatest export potential are fish and shellfish, fertilizers, and fish products. East Africa has the third-greatest export potential for North Africa, estimated at US$2.6 billion, followed by Southern Africa, with an estimated US$619 million. Central Africa has the lowest export potential, estimated at US$549 million.

Figure 6.14: North Africa's export potential, by subregion (US$ million)

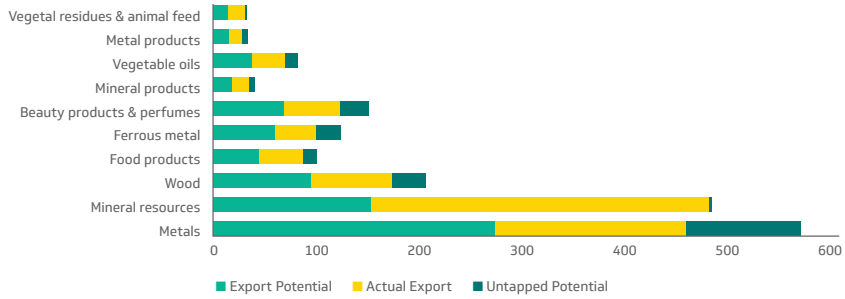


Source: International Trade Centre Export Potential Map (2022), Afreximbank Research..

6.5.5 Central Africa Export Potential

Central Africa's export potential to the rest of Africa is estimated at US$3.7 billion. While countries across Africa tend to trade less with each other than with the rest of the world, the external nature of trade has been more prevalent within Central Africa than in other subregions. The products with the greatest export potential include metals, minerals, wood, food products, ferrous metal, beauty products and perfumes, mineral products, vegetable oil, meta products, and vegetal residues, which collectively account for about 20 percent of the region's total export potential (Figure 6.15).

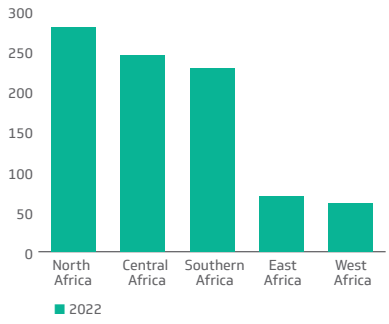
Figure 6.15: Central Africa's export potential, leading products (US$ million)



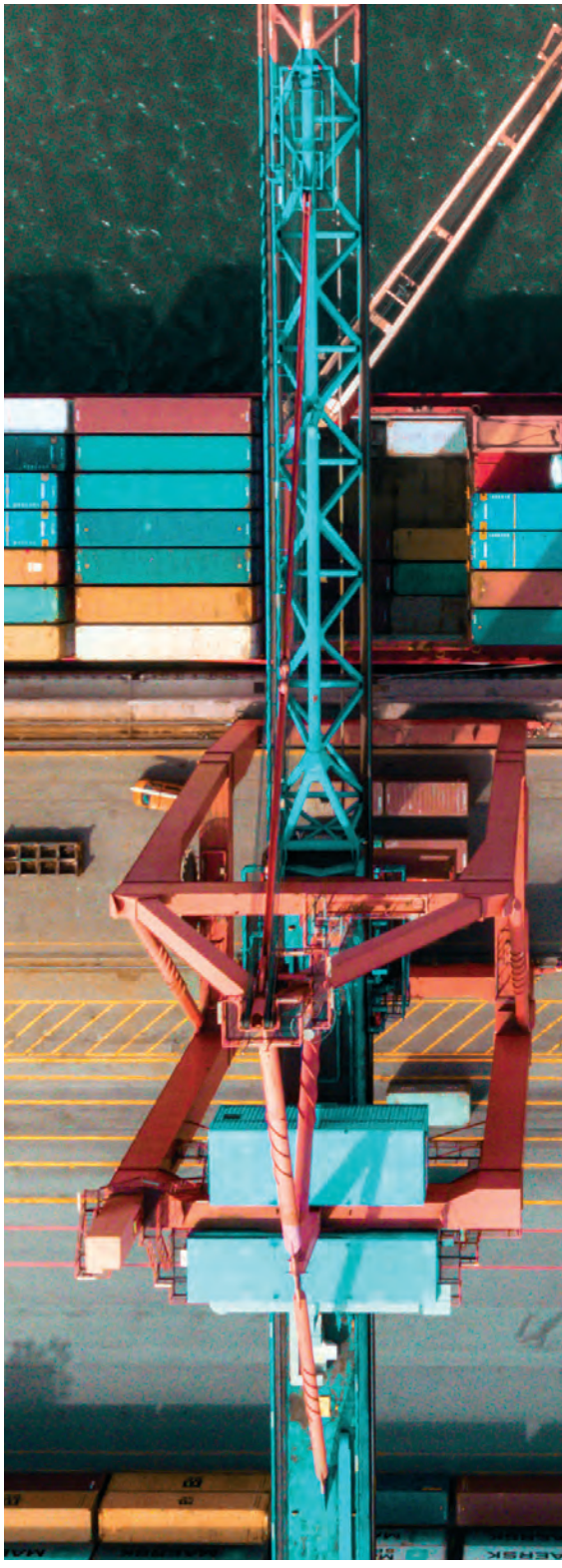
Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.

In contrast to other subregions, the greatest export potential for Central African exports is not their home region, but rather North Africa, estimated at US$280 million (Figure 6.16), which represents 8 percent of total intra-African export potential enjoyed by Central Africa. The products with the greatest export potential to North Africa are metals, wood, and vegetal residues and animal feed. Central Africa has the second-highest potential, estimated at US$245 million. Southern Africa has the third greatest potential, estimated at US$228 million, followed by East Africa, with an estimated US$69 million. West Africa has the lowest export potential, estimated at US$61 million.

Figure 6.16: Central Africa's export potential, by subregion (US$ million)



Source: International Trade Centre Export Potential Map (2022), Afreximbank Research.



Chapter Seven

Prospects

7.1 GROWTH

In the context of the challenging global economic environment characterised by heightening geopolitical tensions, intensification of trade wars, increasing risk of fragmentation, disruptions in global supply chains, financial market volatility, and tight financial conditions in response to stubbornly high inflation, the global economy is expected to stay on a path of slow growth momentum, with average GDP growth decelerating by 2.7 percent in 2023, lower than the 3.4 percent posted in 2022. With increasing risk of recession in Germany, the largest economy within the Eurozone, and anaemic growth in other advanced economies, the forecast output expansion is largely driven by the growth resilience in emerging and developing market economies, especially Asia. The Asia and Pacific region will account for about 68 percent of global growth this year.

While the Asia region as a whole will enjoy growth acceleration, with GDP forecast to expand by 4.6 percent this year, up from 2.8 percent in 2022, the impressive contribution of Asia as the leading driver of global growth is primarily driven by the performance of India and China. The two countries are forecast to account for about 50 percent of global growth in 2023. China, the second-largest economy in the world, will account for about 35 percent of global growth, and India for about 15 percent.

After expanding by 3 percent in 2022 —the second-lowest growth rate since 1976—China is forecast to enjoy strong growth acceleration this year. Its GDP is projected to expand by 5.3 percent in 2023, supported by the reopening boost from the end of its zero-COVID policy, as well as monetary and fiscal stimulus as the country continues to ride the wave of low inflation.

In a sign of increasing growth resilience against a backdrop of slow growth deceleration in advanced economies, Africa is projected to observe robust growth, with combined output forecast to expand by about 4.1 percent in 2023, a marginal increase from the 3.9 percent posted in 2022. The projected output expansion is expected to be broad-based, with both large and smaller economies, resource-rich and resource-poor, predicted to enjoy growth acceleration. Net-energy exporting countries are expected to benefit from commodity price tailwinds, as oil prices are expected to remain buoyant on account of strong rebound in China and pending the realignment of energy-sector supply chains triggered by the Ukraine war. For instance, after four consecutive years of recession, GDP growth in Angola is forecast to accelerate from 2.9 percent in 2022 to 3.5 percent in 2023.

Some net oil-importing nations, including Morocco, are expected to enjoy strong growth acceleration following growth slowdown caused by drought, rising energy prices, and weak growth in the EU, a key trading partner. For instance, Morocco's GDP is forecast to expand by more than 3.1 percent in 2023, significantly higher than the 0.8 percent recorded in 2022. That uptick will also be supported by a strong recovery in the services sector, especially tourism, as well as the continued growth of fixed capital accumulation, a rebound in manufacturing output, and the implementation of structural reforms to boost private sector operations.

The recovery of the tourism industry will also provide a major boost to small island nations across the region. These countries, which have high levels of trade openness and a sizable proportion of their exports concentrated in tourism, were particularly affected by lockdowns and other COVID-19 containment measures.

Africa's growth resilience is also expected to be supported by the performance of two of its three largest economies, Egypt and Nigeria. Both countries are forecast to remain on a strong growth trajectory despite contending with various macroeconomic management challenges, especially sharp exchange rate depreciation and inflationary pressures. For instance, Nigeria's GDP is forecast to expand by about 3.2 percent on the back of improved security and oil production, as well as a recovery in the agricultural sector, after devastating floods slashed agricultural production last year. On the other hand, Egypt, consistently one of the leading drivers of African growth, is projected to expand by more than 3.7 percent in 2023. Strong growth in both countries could compensate for tepid growth expected in South Africa, where GDP expansion is set to decelerate sharply at less than 0.5 percent in 2023, from 2.1 percent in 2022, as the rainbow nation continues to struggle with energy crises and load or power shedding.

7.2 TRADE

With the pressure on global output triggered by the confluence of shocks, including the Ukraine conflict, heightening geopolitical tensions, persistence of trade and technological wars, forecasts point to a slowdown in the growth of global merchandise trade in 2023. According to WTO forecasts, global trade growth will slow to 1.7 percent in 2023, down from 2.7 percent expansion in 2022. The main factors weighing on global merchandise trade include disruptions to supply chains triggered by the Ukraine war and the resulting stubbornly high inflationary pressures, tighter monetary policy which is slowing growth and domestic consumption, rising debt levels, and financial market uncertainty illustrated by the recent turmoil in the banking industry, with the collapse of banks in the United States and the bailout of banks in Europe.

Prospects

Consistent with the global trend of decelerating output and trade, the growth of African trade is also forecast to decrease overall. However, African trade is projected to remain well above the global average of 2.7 percent, with WTO estimates showing that Africa will post the second-fastest import growth of 5.6 percent in 2023, surpassed only by the Commonwealth of Independent States.

The resilience of African trade on a firm growth trajectory is a combination of several factors, including dynamics in commodity markets, geopolitical diversification of African trade, rising South-South trade, and supportive measures extended by domestic finance institutions (DFIs). Despite slowing global demand, commodity prices will remain high in 2023, with oil prices expected to average higher than US$80 per barrel. Also, the still strong forecast growth in Asia, which has become Africa's main trading partner across all regions, will also act as a catalyst, sustaining the demand for African commodities, including fourth industrial revolution markets. Furthermore, through their counter-cyclical response mechanism, DFIs are supporting the growth of African trade, extending financing in a region where the large trade financing gap has been a major constraint to the expansion of both extra-and intra-African trade. For instance, through its UKAFPA, the Afreximbank is helping its member countries address the impact of the Ukraine war on their economies and businesses. The program includes import re-order cost adjustment financing to help member countries meet immediate import price increases, pending domestic demand adjustments. It also includes oil and metals buy-back financing to refinance collateralised loans in the context of high oil and metal prices, releasing freer cashflow for use in meeting urgent needs, including paying for critical food and fertiliser imports and servicing the rising cost of debt.

In the medium term, the forecast expansion of African trade is supported by two additional factors: ongoing implementation of the African Continental Free Trade Agreement, which is set to accelerate the diversification of sources of growth, will boost both extra- and intra-African trade. The improved business environment and competitiveness landscape under the new trade area will position the region as an attractive location in the realignment of global supply chains for greater resilience under the new world order. The Afreximbank is directly supporting these efforts, including through its robust trade facilitation programme, to enhance implementation of the trade pact and the development of industrial parks and special economic zones to help its partner countries take advantage of growth opportunities associated with ongoing geopolitical realignment.

Despite the forecast expansion, the outlook for global growth and trade is fraught with downside risks. The response of systematically important central banks to stubbornly high inflation could put a hard break on growth and push more countries into a recession, slowing global demand and trade. At the same time, this risk could be exacerbated by heightening geopolitical tensions that could further disrupt global supply chains, which would sustain inflation above targe and raise the economic cost of fragmentation.

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Appendixes

Appendixes

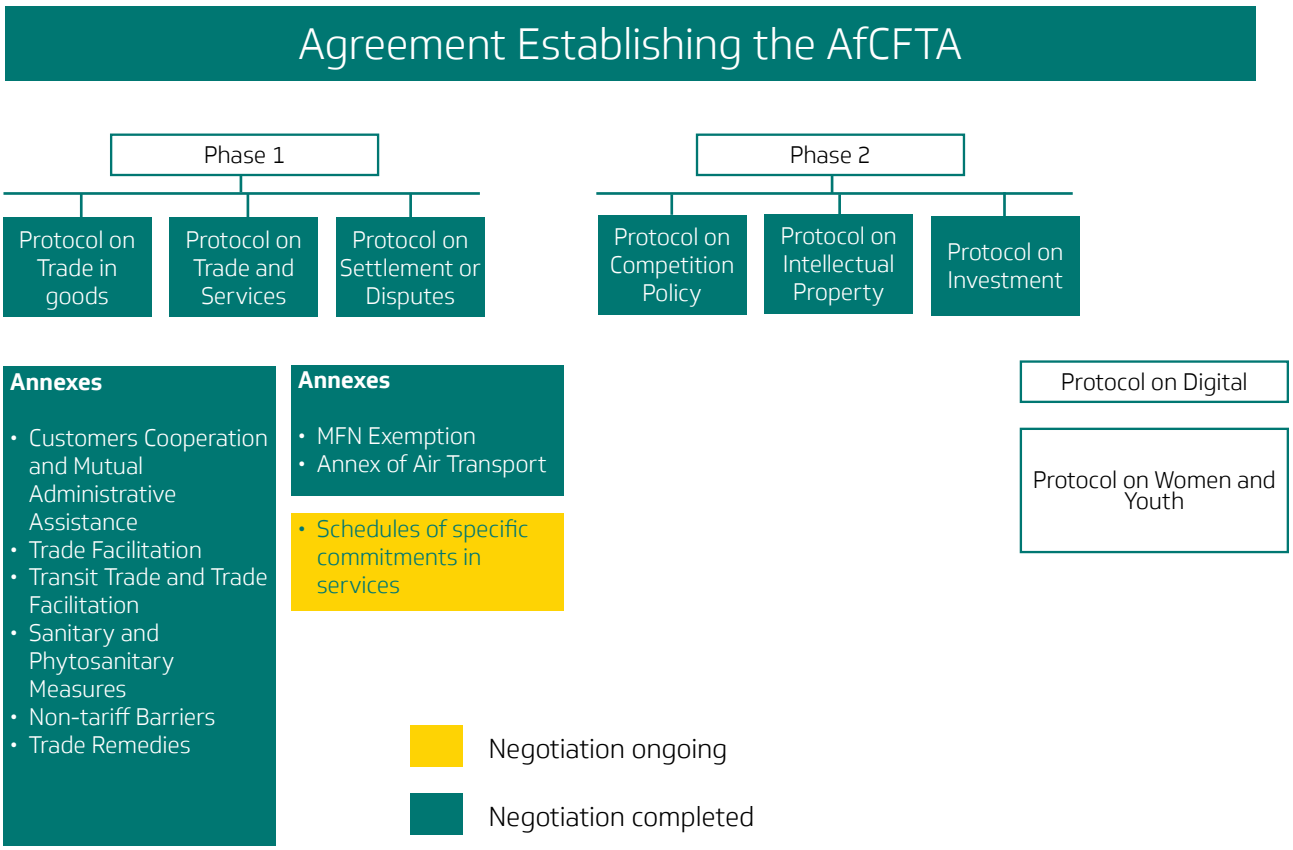
Appendix I: Selected Regional Initiatives to Foster Global and Regional Value Chains

		Climate change or renewables considered yes = ✔ No = ✖
Common Market for Eastern and Southern Africa (COMESA)	COMESA Regional Blue Economy Strategy (draft 2022): programme for enhancing sustainable fisheries management and aquaculture development in Africa.	✔
	COMESA Leather: working in partnership with the International Trade Centre (ITC), has developed a Strategy for the leather sector whose main objective is to transform the sector from the production and marketing of raw materials to value-added products	✖
Southern African De-velopment Community (SADC).	SADC Industrialization Strategy and Roadmap (2015-2063): the focal point of the Strategy is participation in regional and global value chains. It aims to develop six regional value chains (agro-processing, minerals and mining, pharmaceuticals, other consumer goods, capital goods, and services.	✔
East African Community (EAC)	EAC Industrialisation Strategy 2012-2032: identifies six priority sectors in the region (agro-processing; fertilisers and agro-chemicals; iron-ore and other mineral processing; pharmaceuticals; petro-chemicals and gas processing; and energy and bio-fuels-) Industries under these scheme will be classified as strategic regional industries when (among other requirements) have presence in at least more than one Partner State and contributing to backward and forward linkages in the region (www.eac.int)	✔
	EAC Fruits and Vegetables Value Chain Strategy and Action Plan 2021-2031	✔
	EAC Cotton, Textiles and Apparel Strategy (2020-2030): provides a framework for the rapid development and transformation of the cotton value chain	✔
Economic Community of West Afri-can States (ECOWAS)	West Africa Competitiveness Programme (WACOMP): aims to support value chains at the national and regional level so as to promote structural transformation and better access to regional and international markets. Some selected value chains are: cassava, textile and garment, mango, Information and Communications Technology, onion, pineapple, hides, skin and leather.	✔

Source: own elaboration form COMESA, SADC.int, UNECA, EAC and ECOWAS
*The 26 member countries of the Tripartite Arrangement (COMESA-SADC-EAC) seek to strengthen coordination in industrial policy. This includes developing and upgrading Regional Value Chains (RVCs), which would enhance production capacity and competitiveness.

Annexes

Appendix II: The AfCFTA Agreement and its Appendices



Source: Afrexim, extended from Signé and van der Ven "Keys to success for AfCFTA negotiations"

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