The AfCFTA

Africa in world trade

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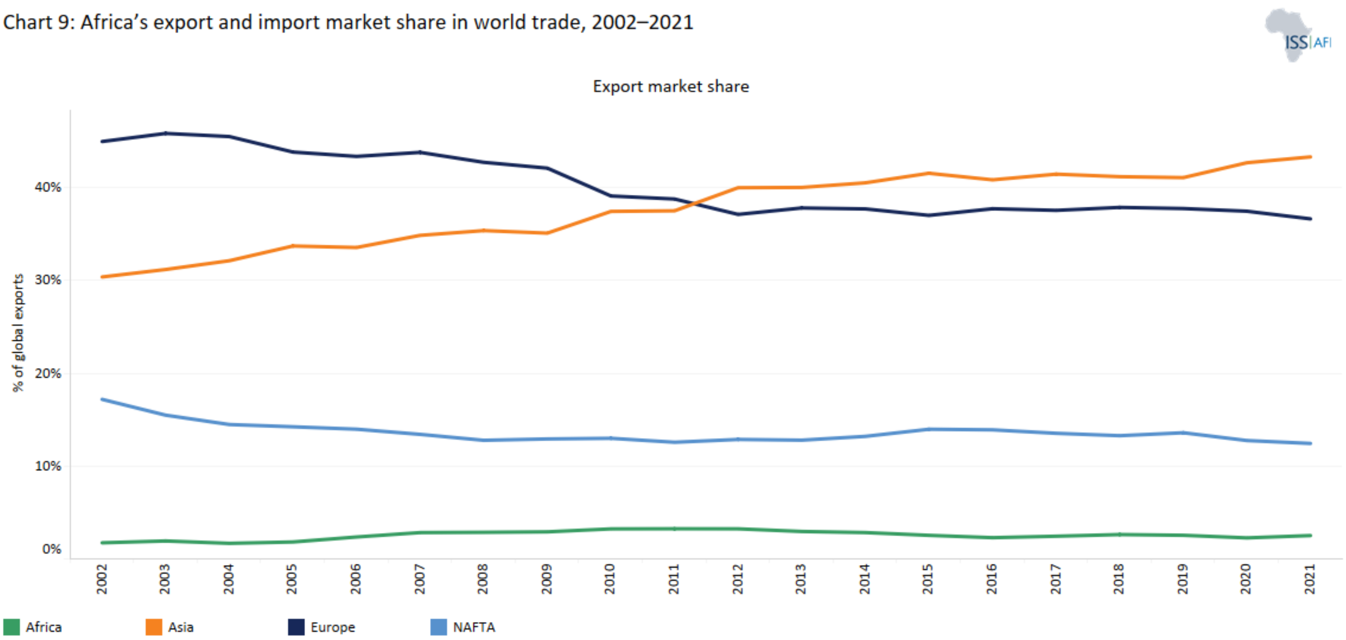
Africa's participation in global trade is low and stagnant. The continent exports more homogeneous goods (i.e. oil, metals, minerals and other crude materials) and imports more heterogeneous goods (i.e. chemicals, machinery and equipment and other manufactured goods). Its share of world exports has declined over the years. Africa's global share of exports accounted for just 2.2% of exports in 2023—a 0.4 percentage points decline in market share relative to 2013, and an increase in market share by 0.2 percentage points relative to 2022. Chart 9 allows the user to toggle between Africa's export and import market share.

Africa's export performance is worse than that of other world regions such as Asia, Europe and NAFTA. Asia has the largest global export market share: its share increased from 31.9% in 2003 to 39.7% in 2023. Europe's share declined from 42.8% to 38.7% in the same period.

Chart 9: Africa's export and import market share in world trade, 2002–2021

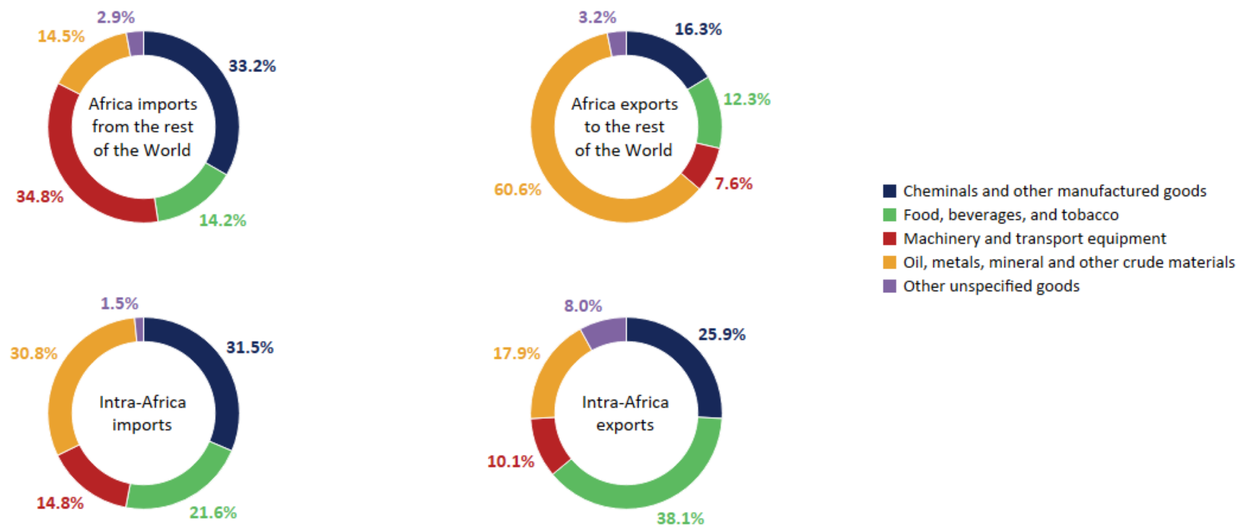


Source: ITC Trade Map data, 2023

Africa's global imports share has also remained marginal, increasing from 2.8% in 2003 to 3.3% in 2013, then declining to 2.5% in 2021, and then increase to 2.7% in 2023. Africa imports mostly manufactured goods.

The composition of Africa's extra-trade differs from its intra-trade. From 2000 to 2017, the continent's exports to the rest of the world were dominated by primary goods (see Chart 10), which accounted for about 60% of total exports, while imports of chemicals, other manufactured goods, machinery and equipment accounted for nearly 70% of total imports. In contrast, intra-Africa trade was dominated by manufactured goods and food.[1]

Chart 10: Africa's exports and imports composition, 2000–2017 averages

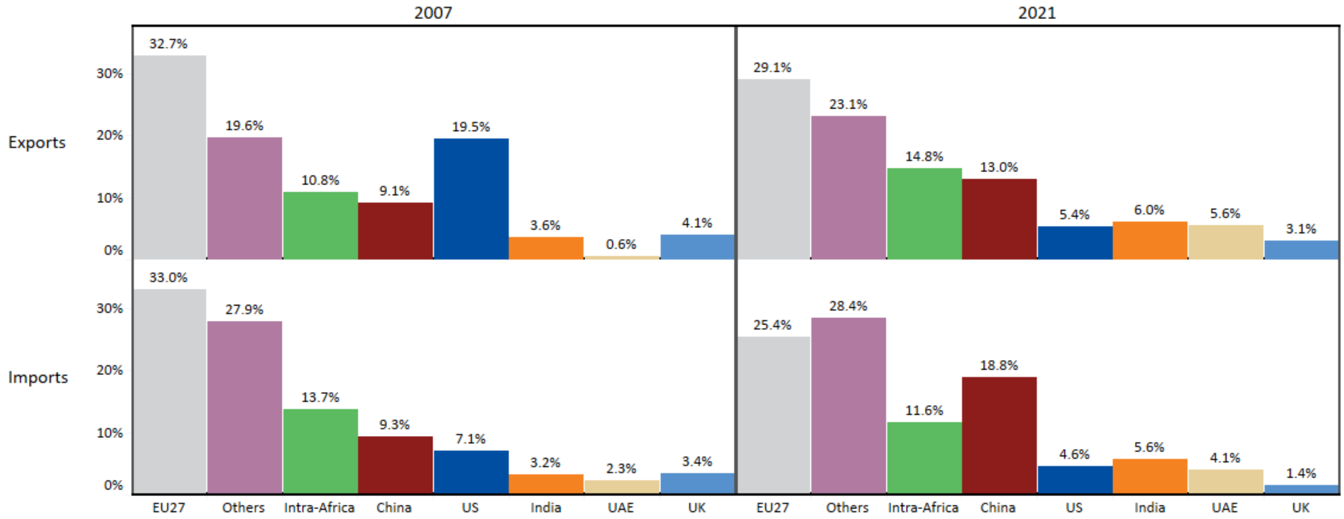


Source: International Monetary Fund, 2019

The continent lacks a regional-wide trading hub. Unlike in Asia, Europe and North America, Africa does not have a hub economy. Apart from South Africa, which operates somewhat as a trading hub for Southern Africa, the continent lacks a systemic global exporter that imports value-added from within Africa.[2]

Chart 11 shows Africa's exports and imports shares with its main trading partners. In 2009, China became Africa's largest single-country trading partner and in 2020 it was responsible for 13% of exports and 18.8% of imports, respectively. As China and India increase in size, they are dragging Africa along. The continent has been able to maintain its relative trade position with both, albeit with an increased commodity content as opposed to higher-value goods and services.[3] These numbers are considerably less than Africa's trade with the EU-27 countries, although, in 2018, Asia also overtook the EU-27 as Africa's largest regional trading partner, accounting for 42.4% of total African trade in 2021 (compared to 27.1% with the EU-27).

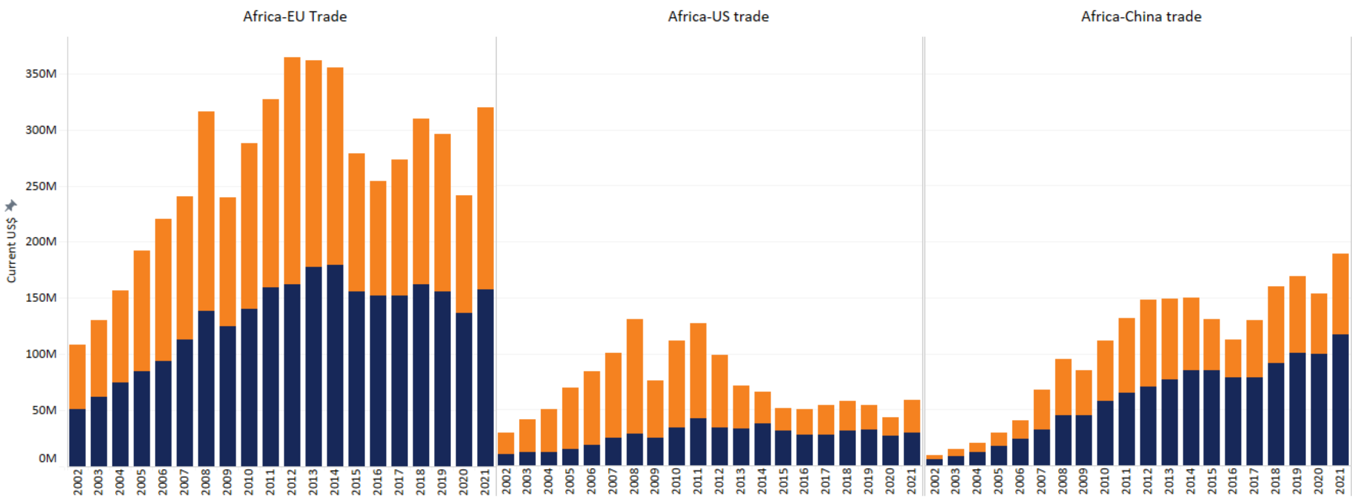
Chart 11: Africa's main trade partners, 2007 and 2021



Source: ITC Trade Map data, 2023

As a group the EU-27 is Africa's first trading partner and its largest export market, ahead of China, India, the UK and the US. Trade between the two regions is fairly balanced, with a surplus in Africa's favour from 2002 to 2008 and from 2010 to 2013, with a slight surplus in the EU's favour of nearly US$3.9 billion (current prices) in 2021 (see Chart 12).

Chart 12: Africa trade trends with EU, US and China, 2002–2021



Source: ITC Trade Map data, 2023

In 2021, about 29.1% of Africa's total exports went to the EU-27 markets, representing a nearly 2.6 percentage points increase from 2020. The share of Africa's exports to the EU highlights the benefits of various preferential trade regimes. Those include PTAs between the EU and 18 African countries. Five EPAs are being applied to 14 countries in sub-Saharan Africa[4] and four Association Agreements with countries in North Africa.[5] In addition, 34 African countries benefit from the EU's General Scheme of Preferences – Everything but Arms (GSP/EBA).[6]

Through these PTAs, more than 90% of Africa's exports enter EU markets (of 450 million consumers) free of import duties. Compliance with EU standards simultaneously creates opportunities for other potential markets and makes their products more competitive and of better quality. EPAs in particular are important tools of the EU's comprehensive strategy with

Africa, promoting sustainable development through enhanced trade relations and regional economic integration. Differerent to the AGOA, EPAs are permanent arrangements that encourage a progressive shift from more traditional aid towards trade and investment as engines of growth, jobs and poverty reduction. EPAs are reciprocal in nature, entailing rights and obligations for EU and African countries.[7]

Another positive outcome of the trade agreements between Africa and the EU has been the growing diversification of African exports, as the bulk of exports from Africa to the EU was historically composed of raw materials. In recent years, African exports have increased in value to include machinery and transport equipment, manufactured goods and agri-food products.[8]

Africa is the EU's fourth largest trading partner, after the US, China and the UK, and it is an attractive and growing market for EU trade and investment. Africa's imports from the EU (or EU exports to Africa) have been on an upward trend since 2002, with a small decrease in 2016, and between 2019 and 2020. In 2021, Africa's imports from the EU amounted to US$157.9 billion (at current prices)—about 25.4% of Africa's total imports from the world.

When it comes to Africa/US trade the impact of the collapse of oil imports from Africa is particularly evident from 2015, following the shale revolution in the US and the reduction in imports from countries such as Angola and Nigeria.

AGOA has modestly stimulated foreign direct investment (FDI) flows to Africa as foreign investors produce in Africa and export to EU and US markets. For example, exports from AGOA countries to the US rose from about US$8 billion in 2000 to roughly US$54 billion in 2011. The duty-free entry of apparel into the US has been AGOA's largest success. But the limits of unilateral arrangements such as AGOA became evident when quota restrictions on apparel from China and other Asian countries were phased out in 2005, eroding its impact.[9]

Before the shale revolution (as discussed in Infrastructure and Leapfrogging), Africa–US trade registered a trade surplus for Africa, mostly because of oil or petroleum-based exports from countries such as Angola and Nigeria. But the US has largely lost economic interest in Africa since, except as an arena to assist in confronting Islamic terror and to compete with China. In 2021, the US did approximately US$28.8 billion worth of trade in goods with the region, down from US$31.8 billion in 2019, which is less than 1% of all US trade in goods. The downturn reflects long-standing biases and preconceived notions about the region, a lack of consistent and accessible support from the US government and real concerns about navigating enabling environments in the region.[10]

Despite the various efforts of the EU and the US to improve trade with Africa, China has been Africa's largest single bilateral trading partner since 2009, having signed bilateral trade deals with more than 40 African countries. Africa's political orientation will inevitably follow those shifts in economic power and influence, despite the uncomfortable reality that most of Africa's exports to China consist of unprocessed commodities, particularly crude oil, minerals ores, tobacco and wood. In contrast, China's export composition to Africa largely consists of high-value goods and it is no wonder that the continent's largest trade deficit is with China.

Early in 2019, commentators forecasted Africa–China bilateral trade to surpass US$300 billion in the next three to five years,[11] although the widening trade deficit was noted as a concern.[12] Before the COVID-19 pandemic, more than 40 African countries ran a trade deficit with China, with Kenya's being particularly large. The largest volume of China–Africa trade is with South Africa, the country that is also the largest African investor in China. Trade with the DR Congo, Mozambique and Zambia grew most rapidly before the pandemic.[13]

From a political perspective, Africa is significantly more important to China than the 4% of trade suggests, given the sheer size of the African bloc in the context of multilateralism. The problem is the declining value added to Africa's exports. The share of manufacturing in total African exports was close to 30% two decades ago, but it declined for several years before again increasing from 2012 to around 27% by 2016. Generally, the value of commodity exports has increased in line with the commodities supercycle (as discussed in Current Path).[14]

Endnotes

1. L Abrego et al, The African Continental Free Trade Agreement: Welfare gains estimates from a general equilibrium model, IMF, WP/19/124, 2019
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6. European Commission, The European Union and Africa: Partners in trade, 2022
7. European Commission, The European Union and Africa: Partners in trade, 2022
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9. According to the WTO Agreement on Textiles and Clothing. See: AM Fernandes, H Maemir, A Mattoo and AF Rojas, Are trade preferences a panacea? The Export Impact of the African Growth and Opportunity Act, World Bank Group, 2018. Before the agreement took effect, a large portion of textiles and clothing exports from developing to developed countries was subject to quotas under a special regime outside of normal GATT rules. Under the agreement, WTO Members committed to remove the quotas by 1 January 2005 by integrating the sector fully into GATT rules. See: World Trade Organization, Textiles Monitoring Body (TMB) The Agreement on Textiles and Clothing
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About the authors

Dr Blessing Chipanda joined the African Futures and Innovation (AFI) programme in January 2023. Before joining the ISS he worked as an assistant lecturer/ research assistant at the University of Pretoria, Department of Economics. He is particularly interested in tasks within the wider realm of international trade, development economics, public policy, monetary policy, and econometric modelling. Equally interested in economic and socio-economic activities that impact social welfare. Blessing has a PhD in economics from the University of Pretoria, South Africa.

Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the ISS. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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