

FOSTERING INTERNATIONAL TRADE FOR AFRICA'S INTEGRATION INTO GLOBAL MARKETS

*Samuel Igbatayo, Professor of Economics,
Afe Babalola University, Nigeria*

1.0 Introduction

International trade can be aptly defined as an exchange involving goods or services between two or more countries (Igbatayo, 2022). The exchange comprises imports and exports. While the former refers to goods and services purchased and brought into the domestic economy, the latter are those sold and delivered to a foreign country. International trade is critical for economic growth and development, allowing countries to compete in global markets, while consumers can access goods and services, which otherwise may not be available in the domestic market. It also fosters efficient allocation of resources, as global consumers can access goods and services at competitive prices. International trade arises when a country enjoys a comparative advantage in the production of a certain good or service, usually accompanied by a lower opportunity cost, which the country enjoys over other countries. Three critical factors drive international trade: climate, factor endowment and technology (CFI, 2024). While developing countries rely on climate and factor endowment to support international trade, developed market economies leverage technology to dominate international markets. International trade has propelled the global economy for rapid growth, technological progress and poverty reduction over the past few decades. While global trade has slowed down in recent years, fueled by the COVID-19 pandemic, geopolitical tensions, weak demand from developed market economies, and declining commodity prices; indications are that it is set to recover in the foreseeable future. A report by UNCTAD (2023) reveals that global trade had trended negatively since mid-2022, driven largely by significant decline in goods trade, which continued to contract over the first three quarters of 2023. The report further reveals that global trade in 2023 was projected to fall to less than US\$31 trillion, or a decline of about US\$1.5 trillion, compared to the 2022 record high. Additionally, trade in goods was projected to drop by nearly US\$2 trillion in 2023, or 7.5%, while services trade should rise to about US\$500billion, or

7%. While international trade slowed down around the world in 2023, the trend was particularly sobering in Africa, which accounts for a paltry 2.6 % of annual global trade. The UNCTAD (2023) report for the region shows an annual decline of 5%, 12%, and 1% for imports, exports, and intra-regional trade in 2023, respectively. The major objective of this paper is to shed light on Africa's international trade activity as a tool for integration into global markets. It also features the region's challenges and opportunities associated with international trade.

2.0 The State of Africa's International Trade

Africa plays a marginal role in global trade, with its share of annual global exports declining from 4% in the 1980s to 2.5% in recent times (AFREXIM Bank, 2022). The trend in Sub-Saharan Africa is particularly sobering, at 1.7%. It is however, interesting to note that in many countries in Sub-Saharan Africa, foreign trade, measured by the value of imports and exports of goods and services, represents more than 50% of Gross Domestic Product (GDP). The situation in these countries often reveals a greater dependency on imports, which are not adequately supported by corresponding exports and leading to negative terms of trade. Schmieg (2016) reveals that in Mozambique, trade represented 96% of GDP and exports only 26%, while in Rwanda, the corresponding data are 45% to 15%, and in Kenya, 50% to 16%. However, the trend was more balanced in South Africa, with 64% to 31%.

Africa's external trade has fluctuated over the past several decades, constrained largely by macro-economic externalities. For example, African exports fell sharply in the wake of the 2008-09 global economic downturn, declining again in 2012-16 in response to the drop in commodity prices. The trend was repeated with the emergence of COVID-19 pandemic in 2020. However, after declining by 13.6% in 2020, Africa's aggregate merchandise imports spiked by 24.3% in 2021, while the region's exports performed even better, rising by 40%. This follows its contraction by 19% in the previous year. The value of Africa's international trade rose by 31.4% in 2021, at US\$1,180.45 billion, against the backdrop of a sharp decline of 16.2% in 2020 (AFREXIM Bank,

2022). Indications are however that the level of African trade is trending upwards. The 2023 Africa Trade Report by AFREXIM Bank (2023) reveals that African trade is projected to remain well above the global average of 2.7%, with estimates showing that the region will emerge with the second-fastest import growth of 5.6% in 2023, surpassed only by the Commonwealth of Independent States.

In addition, the value of intra-African trade grew by 18.2% in 2021, rising from a decline of 7.3% in 2020. It also grew further in 2022, with value of trade climbing to US\$ 193.17 billion and growing by 18.6% in 2022, compared with a growth rate of 13.42% in 2021 (AFREXIM, 2023). This is still a sharp contrast to 31.2% in Asia and 45% in Latin America during the period in view. Table 1 shows Africa's merchandise trade in selected countries between 2020 and 2022.

Table 1: Africa's Merchandise Trade in Selected Countries, 2020-22 (in US\$ billion unless otherwise indicated)

	Merchandise Exports			Merchandise Imports		
	(US\$ Billion)			(US\$ Billion)		
	2020	2021	2022	2020	2021	2022
Algeria	19.62	37.55	65.10	34.02	35.11	40.91
Angola	21.04	33.86	53.99	9.34	11.37	17.71
Benin	0.85	1.02	1.03	2.66	3.19	3.64
Cameroon	3.48	4.38	5.96	6.04	7.71	8.98
Egypt	26.81	40.70	48.76	60.88	73.78	80.13
Ethiopia	3.27	3.22	3.72	16.12	16.18	14.98
Kenya	6.02	6.73	8.32	15.53	19.74	21.70
Nigeria	41.15	57.28	63.41	40.75	56.28	62.55
South Africa	85.88	122.35	123.39	72.68	98.44	117.27
Zimbabwe	4.40	5.82	6.06	4.50	5.58	6.18

Source: Adapted from AFREXIM Bank, 2023

Trade in Africa is undergoing a paradigm shift, driven by globalization and the imperatives of economic integration into the global economy. Trade across the continent has grown modestly

over the past few decades, rising from 49% of GDP in 2000 to 53% in 2019 (IMF, 2023). Over the period, about 60% of African countries witnessed an increase in non-commodity merchandise and services openness and 36% experienced a rise of more than 10%. The share of manufactured goods remained stable, at about 35% of GDP. The overall pattern of Africa's trade with rest of the world reveals domination by primary commodities, while being more diversified with more value-added goods within the region.

Services accounted for a relatively low share of total African exports (16% compared to 25% worldwide), while services trade, as a proportion of GDP, remained largely unchanged over the previous two decades, according to the IMF (2023) report. Traditional Services, such as travel and transport largely accounted for the bulk of service export, at 78%. However, indications are that Africa's trade structure is undergoing a transformation into intermediate goods. In a recent report, the World Trade Organization (WTO) (2023) reveals Africa's growing participation in global supply chains. Its data covering 2010 to 2021 show a rise in Africa's exports and imports of Intermediate Goods (IGs), with a high concentration of exports to a few economies and a narrow band of products, illustrated in figure 1.

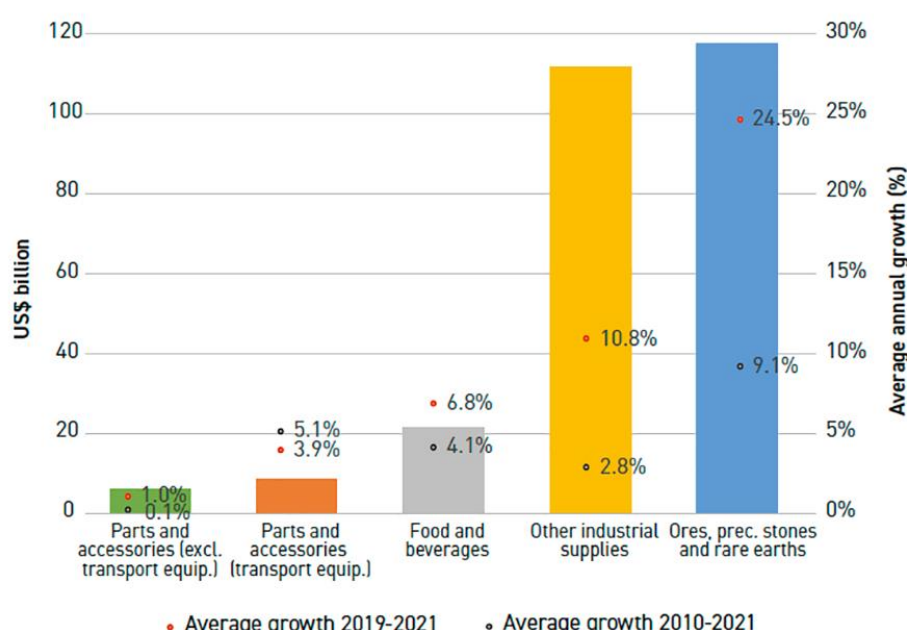


Figure 1: Africa's Exports and Imports of Intermediate Goods, 2019-2021

Source: World Trade Organization, 2023

Africa's exports of IGs stood at US\$265 billion in 2021, rising at an average of 15% per annum from 2019 to 2021. IGs comprise inputs (excluding fuels) used to produce a final product. According to the IMF (2023) report, Africa's IG exports amounted to three-quarters of its total merchandise exports in 2021. On the other hand, the region's imports of merchandise goods amounted to US\$284 billion, with an annual average growth of 5% between 2019 and 2021. This is in contrast to the 5% and 2% average increases for IG exports and imports, respectively, for 2010-2021. It should be noted however that Africa's IG exports are largely concentrated among a handful of economies, led by South Africa, which accounted for 30.5% of the region's IG exports during the period in view. In addition, the share of intra-Africa trade in total IG export, a proxy for trade in regional supply chains, was estimated at 13% in 2021.

3.0 Africa's Emerging Trading Partners

African countries have engaged with a diversified array of trading partners in contemporary times, even before the era of colonialism. From the 15th century, Portuguese merchants have engaged with African traders along the West African Coastlines, trading in goods and slaves. At the same time, Arab traders, operating along the trans-Saharan trade routes, travelled across the Sahara Desert into the tropical zones of West and Central Africa, exchanging dates, war horses, textiles, spices, and others for salt, ivory, timber products and later slaves. Also, Arab traders from the Middle East engaged with African traders in East Africa, exchanging a variety of goods. However, in the 19th century, European empires, including Britain, France, Germany, Belgium, Italy, Spain and Portugal, deepened trade with the continent as colonial powers. This was particularly evident in the late 19th century, during the 'Scramble for Africa', when European empires divided the African continent along European spheres of influence, without the consent or participation of Africans.

Entrenched trade ties between European and African countries endured throughout the twentieth century, driven by colonial relationships. However, the continent is witnessing a transformation of its trading partners. The share of emerging market economies in African trade is rising rapidly, presenting a paradigm shift around the region. Apart from China, other emerging market economies with rising trade profiles with Africa include India, Brazil, Malaysia, Thailand, Indonesia, Turkey, Russia, etc. In a report on Africa's trade, Luke and MacLeod (2023) reveals that the EU is Africa's most important trade partner, accounting for 26% of both Africa's exports and imports; followed by China, which accounts for 16% of the region's imports and 15% of its exports. The United States also accounts for 5% of Africa's imports and exports. This trend contrasts sharply with Africa's paltry trade with the rest of the world. Its trade with the EU is estimated at 2.2% of EU's trade, 3.9% of China's trade, and 1.1% of US trade, creating a highly imbalanced power dynamic. In a report by Statista (2021), Europe, China and the United States have emerged as Africa's major trading partners. As of October, 2021, the European Union accounted for 23% of total trade across the continent, while China accounted for 22% and India, 6%. In addition, Europe accounted for 35% of Africa's total exports, with China accounted for 20%. The United States, which is also Africa's traditional trade partner, accounted for a paltry 6% of the region's total exports (emerging Africa Online, 2024).

4.0 Conclusion

While Africa is abundantly endowed with natural resources, its participation in international trade is low, accounting for a paltry 2.6% of annual global trade. The region's trade with global markets is dominated by primary commodities, comprising agricultural and mineral resources. However, the region's trade profile is undergoing a transformation from primary commodities into intermediate goods, strengthening its participation in the global supply chains. In recent times, Africa has witnessed a rising engagement by new trading partners. While Europe and the United States dominated trade with Africa since the colonial era, emerging market economies, led by China, are rapidly increasing their share of trade with Africa. This development is deepening

Africa's integration into global market, with benefits for economic growth and poverty reduction across the continent.

References

African Export-Import Bank (AFREXIM) 2023: African Trade Report 2023. Available at:

https://media.afreximbank.com/afrexim/AFRICAN_TRADE_REPORT_2023.pdf/

Accessed: 7/06/2024

African Export-Import Bank (AFREXIM) 2022: African Trade Report 2022. Available at:

<https://media.afreximbank.com/afrexim/AFRICA-TRADE-REPORT-2022.pdf/> Accessed:

15/04/2024.

Corporate Finance Institute (CFI) (2024): International Trade. Available at:

<https://corporatefinanceinstitute.com/resources/economics/international-trade/> Accessed:

15/04/2024.

Emerging Africa Online (2024): Exploring Africa's Trading Partners: Opportunities and Challenges. Available at: <https://emergingafrica.online/exploring-africas-trading-partners-opportunities-and-challenges/> Accessed: 16/04/2024.

Igbatayo, S. (2022): Globalization and Economic Integration into the Twenty First Century. Afe Babalola University Press. Nigeria.

International Monetary Fund (IMF) (2023): Trade Integration in Africa. Unleashing the Continent's Potential in a Changing World. Washington, D.C.

Luke, D., and J. MacLeod (2023): A New Trade Deal for Africa, Please! Global and Regional Order. Friedrich Ebert Stiftung. Available at: <https://library.fes.de/pdf-files/international/20258.pdf/> Accessed: 7/06/2024.

Schmieg, E. (2016): Global Trade and African Countries. Working Paper. RD EU/ Europe 2016. SWP Berlin.

Statista (2021): Main Trade Partners of Africa 2019-2021. Available at: <https://www.statista.com/statistics/1234977/main-trade-partners-of-africa/> Accessed: 16/04/2024.

United Nations Conference on Trade and Development (UNCTAD) (2023): Global Trade Update.

Available at: <https://unctad.org/system/files/official-document/ditcinf2023d3.pdf/> Accessed: 15/04/2024.

World Trade Organization (WTO) (2023): New WTO information note reveals changing pattern in Africa's trade in intermediate goods. Available at: https://www.wto.org/english/news_e/news23_e/miwi_15dec23_e.htm. Accessed: 16/04/2024.