Experts in the News

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Trade in Sub-Saharan Africa. Where next?

The nations of Sub-Saharan Africa would become more prosperous if they increased their trade with each other. The question is, how should they go about this?

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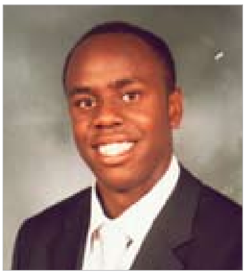

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As the world economy slows down and countries slip into recession, some regions are faring better than others. Sub-Saharan Africa (SSA) is one of them. It is less prone to the economic downturn because it is less integrated into the global economy. Even so, the region has not been immune and has to cope with lower export volumes, weakening currencies, production cut-backs, and widening budget and trade deficits.

Sub-Saharan Africa (SSA) consists of the countries that are partially or fully located south of the Sahara desert. SSA's biggest trading partners are the traditional ones of Europe and North America, plus the large and booming emerging economies of China, India and various Asian countries. However, the time is now right for SSA countries to increase their trade with fellow SSA countries. Regional trade shields countries from economic conditions outside of that region. It also acts as a catalyst to economic development by broadening markets for locally produced goods, which with time improves local industries' ability to compete globally.

Trade within SSA (Intra-SSA trade) is, admittedly, at low levels and easy to ignore. But it has great growth potential. If properly recognised and exploited, it could not only protect SSA from the global market shocks we are experiencing, but also propel SSA to the next level of economic prosperity.

Sub-Saharan Africa's overall trade trends

SSA's share of global trade in 2007 was only 1.7%. That was marginally higher than the 1.4% recorded in the late 1990s, but way below the high of more than 5% in the 1950s. GDP growth per head in the region was negative for most years between 1981 and 1997. This long-term decline can be explained primarily by countries becoming independent, which knocked colonial trade into reverse, and the civil wars that followed. It's a sad story to tell, but the reality is that SSA has been "below the curve" in terms of its share of global trade and GDP growth.

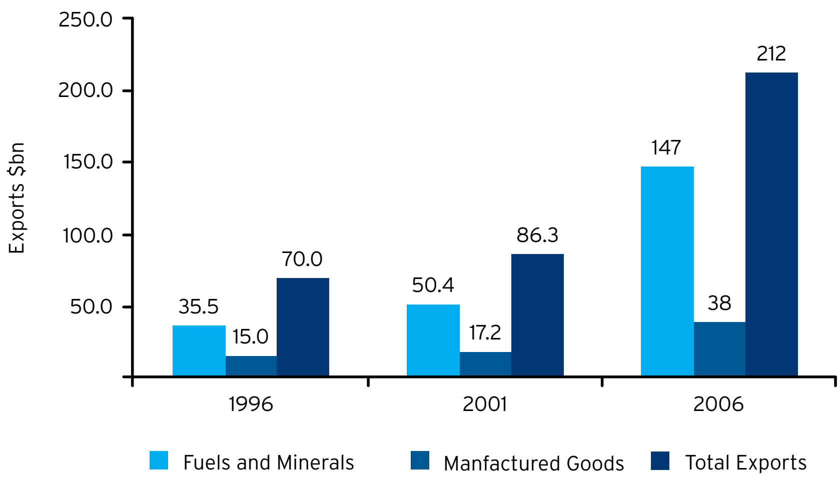
Thankfully, the past decade has seen a big improvement. Exports and imports have been growing exponentially, in tandem with the relatively high economic growth seen in the region.

GDP growth per head in SSA has risen by an average of more than 2% a year in the last 10 years, reaching a high of 3.9% in 2007. Trade has recovered due to rapid global economic growth fuelling demand for Africa's commodity exports – minerals, fuels and food.

In turn, much of the proceeds from these exports have been spent by African nations on imports of manufactured goods. High demand for minerals and fuels has led to a scramble for Africa's resources, which has resulted in high foreign direct investment, mainly in the mining industry.

Figure 1 shows SSA's global exports between 1996 and 2006, and how they have grown at an average annual rate of about 24% over the past five years. In 2006, fuels and minerals made up 69% of total exports ($147bn out of $212bn), up from 51% in 1996 ($35.5bn out of $70bn). By contrast, manufacturing's contribution to total exports fell from 21% in 1996 to 18% in 2006, although in absolute terms manufactured exports rose from $15bn to $38bn.

Figure 1
Global SSA Exports



Source: UNCTAD Handbook of Statistics 2008

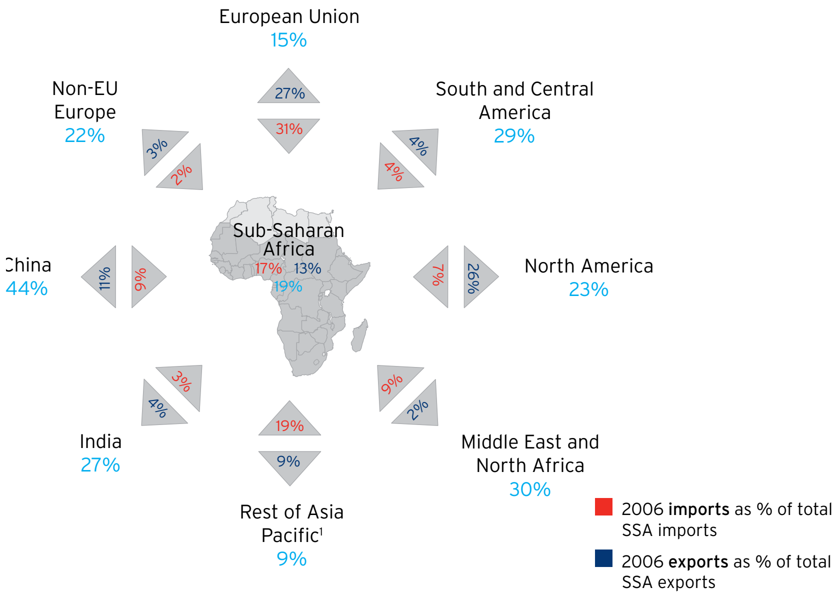
The contribution of fuel and mineral to SSA's total exports has been high and growing, while the contribution of the manufacturing sector has been low and shrinking.

Trading partners – out with the old, in with the new?

Two-thirds of SSA's imports are from the EU, Asia and North America, mainly manufactured goods. Just under two-thirds of the region's exports are to North America, the EU and China, mainly fuels and minerals. These are also the fastest growing import sources and export destinations. Figure 2 gives a more detailed breakdown. Should we therefore conclude that SSA businesses should continue to focus on them, along with other big trading partners such as India and Far Eastern countries?

It's a simple question, but a complex answer, for several reasons. First, with the global economy faltering, trade with these large partners is slowing down. Second, for the developing economies of SSA to become mature economies, they must eventually import fewer manufactured goods and boost their own manufacturing sectors. Third, SSA countries should look more closely at trade opportunities within their own region. Currently, intra-SSA trade accounts for only 13% of total SSA trade (Figure 2). Yet many of the world's most successful economies conduct most of their business within regional trading blocs – the European Union being the best example – and this is an example SSA countries should aim to follow.

Figure 2
SSA's Trading Partners



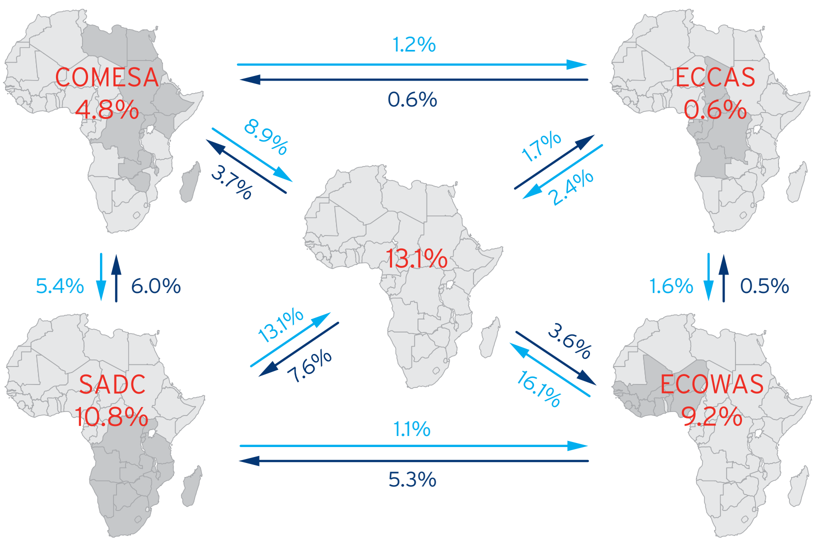
I Asia Pacific Excluding China, India and the Middle East

Source: UNCTAD Handbook of Statistics 2008

Figure 3

SSA's Regional Economic Communities -

Percentage growth of intra regional Trade



Source: UNCTAD Handbook of Statistics 2008

Intra-regional trade: a foundation for prosperity?

Growth in intra-regional trade has been found to contribute significantly to the prosperity of member countries by broadening markets. Mercosur (for a number of South American states), NAFTA (North American Free Trade Area for the US, Canada and Mexico) and of course the EU are notable examples of regional economic communities that have stimulated trade and wealth.

More than 67% of the EU's exports, for instance, are to EU countries. The comparable figure for SSA exports is only 13.1% (Figures 2 and 3). This is low, but it has been growing – from 4% in 1985 to 6.2% in 1990, to 8.7% in 1996, to 12.7% in 2001, to 13.1% in 2006. This shows that intra-SSA trade could very well be the next big thing: it has the potential to be.

Most of SSA's countries fall into four major Regional Economic Communities (RECs): the South African Development Commission (SADC), the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of Central African States (ECCAS) and the Economic Community of West African States (ECOWAS).

All the RECs have experienced good annual GDP growth rates of between 5.3% and 7% over the five-year period from 2002 to 2007. Exports have grown by even larger amounts. As Figure 3 shows, the RECs generally trade more within themselves (intra-REC trade) than between themselves (inter-REC trade). The reasons vary according to proximity, pre-colonial trade ties, tax treaties, language barriers, convertibility of currencies, over-dependence on the West (and lately the East as well), and to plain ignorance of the opportunities.

However, compared to other RECs – such as Mercosur, NAFTA and the EU – the level of trade within the SSA RECs (intra-REC trade) is very low, ranging from 10.8% in SADC to 0.6% in ECCAS. There is therefore a lot of scope for growth in intra-REC trade (i.e. within individual SSA RECs), as well as inter-REC trade (i.e. between SSA RECs) - all of which combined equates to intra-SSA trade (i.e. within SSA).

Furthermore, as intra-SSA exports are generally more manufacturing based than fuels and minerals based (see Figure 4), an increase in intra-SSA exports would create more economic prosperity than an increase in global exports, because a strong manufacturing sector contributes a lot more towards sustainable long-term economic growth than a strong commodities sector.

You can extrapolate from that further. If SSA were eventually to trade globally the way it trades regionally, it would export more manufactured goods to the world and fewer fuels and minerals, and create even more prosperity.

But how to boost intra-SSA trade?

I have shown that intra-SSA trade is developing. I have also outlined the benefits. The big question, though, is what do SSA countries have to do to capitalise on these regional opportunities?

The issue is already being tackled, and on several fronts. Plans to form Africa's largest trading area have gained momentum, with leaders of three African trading blocs, COMESA, SADC and the East African Community, agreeing to create a free trade zone of 26 countries with a GDP of an estimated $624bn, 58% of the Africa Union's output. Agreement was reached at a summit in Kampala, Uganda, in October 2008.

Kenya's President, Mwai Kibaki, who chairs COMESA, said: "Increasing intra-Africa trade is crucial to facilitating rapid growth of our economies. The establishment of regional trading blocs has played an important role in enhancing trade amongst our countries… We should therefore be steadfast in supporting our desire for a bigger regional bloc that can finally culminate into an

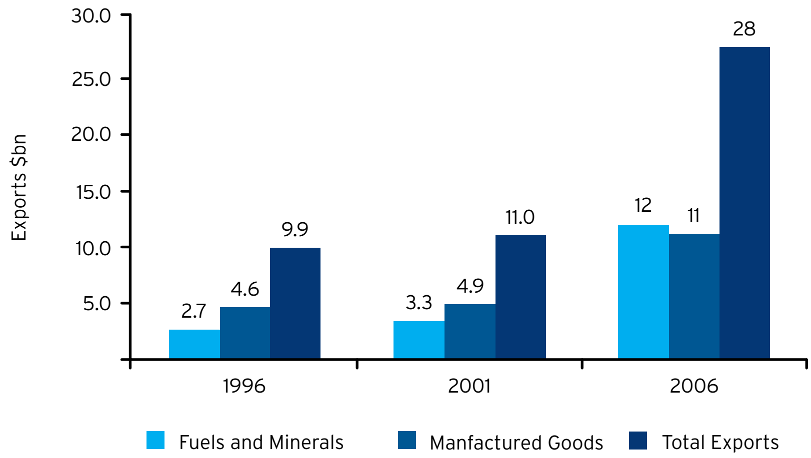
African Economic Community." Such a community would seek to remove tariff and non-tariff barriers to trade for member states.

More needs to be invested in infrastructure, such as roads, airports, seaports, railways, telecommunications and power. Businesses need to be made more competitive. The financial integration of economies needs to be improved to make it easier for payment and capital flows to move from one part of the continent to another, for businesses to raise equity and debt funding, and for banks to provide cross-border services. The non-convertibility of most currencies needs to be addressed. And regulations must be made more business-friendly and harmonised.

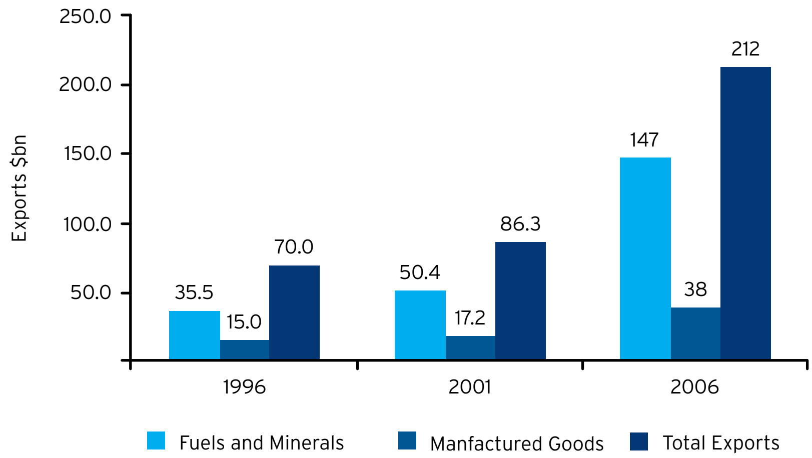
This would still leave many challenges for SSA, not least a relative lack of business experience and acumen; widespread ethnic, cultural and linguistic diversity; and high levels of political instability. Nonetheless, African leaders believe that more intra-SSA trade is the key to sustainable growth and are taking steps to stimulate that trade. The question now is, how long it will take for this trade to realise its full potential.

Figure 4

Intra-SSE Exports



Global SSE Exports



Source: UNCTAD Handbook of Statistics 2008

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