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African Export-Import Bank
Banque Africaine d'Import-Export

African Trade Report 2024

Climate Implications of the AfCFTA Implementation

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Foreword

Over the years, the African Trade Report (the "Report"), one of the flagship publications of the African Export-Import Bank ("Afreximbank" or "the Bank"), has been a source and repository of information on matters of trade interest to Africa. As Afreximbank extends its footprints to the Caribbean and wider African Diaspora, the Report will increasingly assume a global perspective in addition to its geographical focus on the continent. The Global Africa approach will contribute to forging an African economy that is united and interconnected by trade and investments for the prosperity of Africans, wherever they may be.

The 2024 African Trade Report, titled ***"Climate Implications of the AfCFTA Implementation"***, acknowledges the significant threats climate change poses on African and other developing economies. Climate disasters have already eroded significant proportions of the Africa economy and 77 percent of African trade. This Report, which aligns with a broader technical study on ***"The Implications of Decarbonisation on Africa's Development Imperatives: Review of the Pathways and the Role of the African Continental Free Trade Area (AfCFTA)"*** commissioned by Afreximbank in 2023, suggests that abrupt decarbonisation could further erode African GDP and merchandise exports by 1 and 14.6 percent, respectively. The study highlights the potential of the AfCFTA to reduce carbon emissions through the domestication of value addition, which would cut emissions caused by shipments of primary commodities and re-imports of value-added goods back into the continent. The Report acknowledges and commends the unified continental response to the crisis in the form of Adaptation and Resilience. Climate considerations have become central to Afreximbank's operations. The Bank's climate-linked programmes aim to enhance access to financing and, more importantly, to ensure just transitions by fossil-dependent economies to green growth.

Besides the constraining effect of climate disasters, the world economy continues to grapple with the COVID-19 aftershock, the Ukraine crisis, and the Israel-Gaza conflict, which has elevated uncertainties in the Middle East and Commodity markets. These developments, combined with the ever-worsening trade and geopolitical tensions among major economies of the world, continue to pose severe demand and supply-side strains on global trade. Consequently, the World Trade Organisation estimated a 1.2 percent contraction of global trade relative to the 3 percent expansion in 2022. The contraction reflects the rising impacts of the trade protectionist measures and supply chain disruptions on account of this polycrises that have engulfed the world economy since 2020.

African economies that have been at the receiving end of these global shocks witnessed the sharpest contractions, with merchandise trade declining by 6.3 percent in 2023 after posting an impressive 15.9 percent expansion in 2022, owing primarily to the crisis-induced decline in crude oil prices and hence the value of exports of fuels. This further elevates the essence of the ongoing drive towards diversification and promotion of value addition across many African economies. The Report further shows that Africa's trade relations continue to shift as Asian economies become significant sources of global demand and growth. Between 2014 and 2023, the share of Europe in Africa's trade averaged 26.8 percent compared with about 48 percent in the 1990s, while China and India accounted for a combined share of about 23 percent of African trade in 2023, significantly up from just about an average of 8.53.2 percent in the 1990s. This shifting pattern of origin and direction of trade are likely to have wider implications for production and composition of African trade.

Despite the tumultuous global landscape, intra-African trade remained resilient, standing as a beacon of hope for sustainable development in Africa. It grew at 7.2 percent year-on-year, reaching US$192 billion, which accounted for 15 percent of total African trade in 2023, up from 13.6 percent a year ago. This resilience was a testament to the continued push to implement the AfCFTA, backed by AfCFTA-enabling initiatives, such as Afreximbank's Intra-African Trade Fair (IATF), the Pan-African Payments and Settlement System (PAPSS), and Intra-Champ Initiative. The Intra-Champ Initiative supports African businesses in executing projects and pursuing intra-African investments, as well as the expansion of investments in industrial infrastructure. These initiatives are not just fostering trade but also nurturing a sense of optimism for the future of African trade and development.

Looking ahead, this Report underscores the critical importance of the AfCFTA for Africa's future. It emphasises that it can play a dual role of saving lives and livelihoods, while saving the planet. It argues that the AfCFTA is a powerful tool for mitigating carbon emissions and climate change, promoting sustainable economic development, and enhancing industrial transformation across the continent. The urgency of this task cannot be overstated. African governments and all stakeholders must commit to finalising negotiations and installations of all pending protocols and creating the institutional structures necessary for the implementation of the Continental Trade Agreement. This is not just a trade agreement but a pathway to Africa's sustainable and prosperous future.

I commend the Bank's Research Team for preparing this Report and hope that readers will find it as informative as I did.

Professor Benedict O. Oramah

President and Chairman of the Board of Directors

The African Export-Import Bank

Cairo, Egypt
June 2024

> The AfCFTA is a powerful tool for mitigating carbon emissions and climate change, promoting sustainable economic development, and enhancing industrial transformation across the continent.

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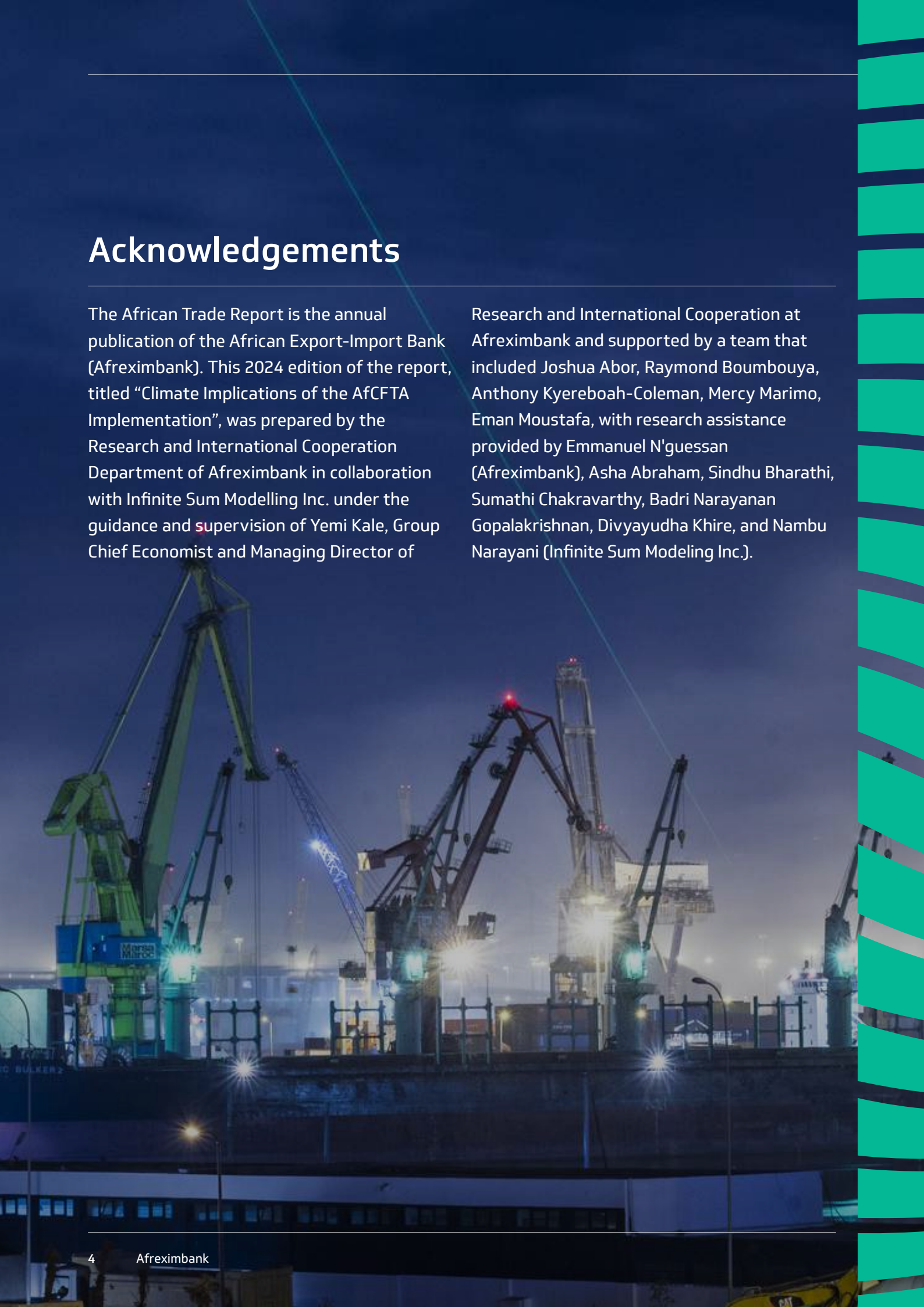

Contents

Tables, Figures and Boxes

TABLES

FIGURES

FIGURES (CONTINUED)

BOXES

List of Abbreviations

AACI	Afreximbank African Commodity Index
AfCFTA	African Continental Free Trade Area
Afreximbank	African Export-Import Bank
AEB	Africa Energy Bank
ATR	African Trade Report
AU	African Union
CANEX	Creative African Nexus
CES	Constant Elasticity of Substitution
CGE	Computable General Equilibrium
CO_2	Carbon dioxide
COMESA	Common Market for Eastern and Southern Africa
DOTS	Direction of Trade Statistics
DRC	Democratic Republic of the Congo
EIA	Energy Information Administration
EPC	Engineer, Procure and Construct
EPI	Export Potential Indicator
EU	European Union
FAO	Food and Agriculture Organization
GDP	Gross domestic product
GTAP	Global Trade Analysis Project
IATF	Intra-African Trade Fair
IDB	Inter-American Development Bank
IEA	International Energy Agency
IMF	International Monetary Fund
I-O	Input-output
ITC	International Trade Centre
KCCAF	Kenya Climate Change Adaptation Facility
LDCs	Least-Developed Countries
$MTCO_2$	Metric tons of carbon dioxide
Mmbtu	Million British thermal units
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PAPSS	Pan-African Payment and Settlement System
RCEP	Regional Comprehensive Economic Partnership
RoO	Rules of origin
SADC	Southern African Development Community
TCO_2	Tons of carbon dioxide
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WAEMU	West African Economic and Monetary Union
WDI	World Development Indicators
WITS	World Integrated Trade Solution
WTO	World Trade Organisation

Chapter One

Introduction and Executive Summary

The 2024 edition of the African Trade Report published by the African Export-Import Bank (Afreximbank) examines trade and economic development in Africa and other parts of the world during 2023, a year in which the global economy remained on a slow growth path on account of lingering effects of the COVID-19 pandemic, the ongoing Ukraine crisis and its associated disruption in energy and food prices, and the Gaza-Israel conflict, which continues to affect the flow of goods through the Red Sea. Global output expanded by 3.2 percent in 2023, a decline of about 0.3 percentage points compared with 2022. Amid escalating geopolitical tensions, rising global fragmentation, prolonged supply chain bottlenecks, and protracted trade and technological wars between the United States and China, global merchandise trade contracted at 1.2 percent in 2023, compared with an expansion of 3 percent in 2022.

Given the challenging operating environment, Africa recorded a growth rate of 3.2 percent in 2023. This was below the 4 percent growth of the previous year and the 5 percent average growth achieved between 2011 and 2019. This growth performance reflects several factors, including weather shocks, the general global economic slowdown, domestic supply bottlenecks, high costs of living that constrained consumption expenditure growth, debt accumulation and repayment burdens, high interest rates and cost of finance that contributed to narrowing the fiscal space, and heightening political instability and domestic and intra-regional conflicts in some parts of the region. The performance of the region also reflected output deceleration in the region's three largest economies, including Egypt, Nigeria, and South Africa. Nevertheless, despite slower growth in the region in line with declining global growth trends, output on the African continent expanded above the world average reflecting the continent's continuous resilience.

Notwithstanding the slowdown in global economic activity, global financial markets witnessed some recovery in 2023, with equity valuations attaining pre-pandemic levels. Global financing conditions, however, remained tight in 2023, driven largely by the tight monetary policy stances adopted by most countries aimed at tackling persistently high inflation in many countries.

Nevertheless, inflation continued trending downward in 2023, with both food and energy prices declining relative to their 2022 peak. While policy rate hikes by systemically important central banks generally slowed, they remained elevated by historical levels, amidst inflationary pressures and tight financial conditions. Accordingly, higher long-term bond yields and elevated credit spreads continued to fuel high external borrowing costs among developing economies including many in Africa.

In addition to geopolitical tensions, associated economic fragmentation, and supply chain disruptions, together with climate change and extreme weather-related conditions contributed to inflation and food insecurity challenges around the world, especially in developing economies.

As the adverse impacts of climate change mount, with devastating impact particularly in developing countries, reducing carbon emissions, and taking other steps to mitigate the effects of widescale changes in the global climate system has become a demanding global imperative.

On the African continent, extreme weather conditions driven by climate change has had significant impact, leading to loss of life and to significant recovery and rebuilding costs. In 2019, for example, Cyclone Idai hit Mozambique, leaving 2.6 million people in Mozambique, Malawi, and Zimbabwe in desperate need of humanitarian assistance. Considered one of the most devastating weather-related catastrophes in Africa in history, the cyclone displaced millions of people and caused billions of US dollars in damages. In April 2022, parts of South Africa were hit by severe rainstorms, creating human and economic catastrophe of a magnitudes not seen in decades. And in 2023 extreme drought inflicted significant human and economic costs in parts of Eastern and Western Africa.

While climate change has had a devastating impact on African countries, the continent's carbon emissions are, ironically, the lowest in the world. In a continent where most economies are commodities and natural resources dependent, how to decarbonize without undermining the region's economic development remains a key question.

-3.7 percent

Africa's merchandise imports contracted to US$676 billion in 2023

-9 percent

Africa's merchandise exports contracted to US$610.46 billion in 2023

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

Introduction and Executive Summary

Since the African Continental Free Trade Area (AfCFTA) was established in 2018, its developmental and economic benefits have been widely documented. Its impact on climate change, however, is still being debated. As the largest free trade area in the world, the AfCFTA connects 1.3 billion people across 55 countries with combined GDP of around US$3 trillion. The AfCFTA agreement, which came into force in May 2019, eliminates tariffs on 97 percent of goods traded between African countries, liberalizes the trade in services, and improves the infrastructure of regulation and trade. Whiles some experts contend that the AfCFTA will reduce or limit the increase of carbon emissions generated on the continent by increasing intra-Africa trade and reducing extra-Africa trade, through lowering the distances goods must travel others argue that that increased urbanization and industrialization associated with the AfCFTA will lead to an increase in carbon emissions.

It is in the context of this debate that the 2024 African Trade Report is themed "Climate Implications of the AfCFTA Implementation". The report therefore delves into the impact of the AfCFTA on carbon emissions using the Global Trade Analysis Project (GTAP)-E-Power model, a computable general equilibrium (CGE) model that details energy sector emissions. Furthermore, the report examines the relative climate impact of the AfCFTA under two scenarios. Scenario One simulates the impact of the AfCFTA on African economies and emission levels which involves introducing a 97 percent tariff reduction on the trade of goods and a lowering of non-trade barriers on the trade in services. Implicit in Scenario One is the assumption that the increase in intra-African trade driven by the implementation of the AfCFTA will lead to a reduction in extra-African trade.

Scenario Two introduces the same reductions in tariff and non-trade barriers above, but assumes extra-African trade remains at pre-AfCFTA levels.

The reports find that under the conditions outlined in Scenario One, emissions generated by nations on the African continent would increase only slightly as a result of the AfCFTA, specifically by 0.08 percent, which is driven mainly by an increase in imported products used as production inputs. The report also forecasts that under Scenario One the AfCFTA would lead to 0.91 percent increase in the continent's GDP, a 33.04 percent increase in intra-African trade, and an overall increase of 1.19 percent in the continent's output. Under the scenario, the report further shows a marginal decline in extra-African trade with implementation of the AfCFTA.

Our assessment further reveals that all African countries experienced an increase in their GDP in the context of the AfCFTA implementation with Côte d'Ivoire and South Africa posting the highest GDP increases of US$7.01 billion and US$4.42 billion, respectively. These countries also experienced the largest increases in trade on the continent, along with countries of South-Central Africa (Republic of the Congo, Democratic Republic of Congo, Angola, and São Tomé and Príncipe), and Morocco. Malawi, Mauritius, Mozambique, and Togo experienced the highest emissions increase by percentage on the continent, while Côte d'Ivoire, Egypt, Ethiopia, Guinea, Morocco, Nigeria, South Central Africa, and South Africa recorded emissions reductions.

Under Scenario Two, in which extra-African trade is held at pre-AfCFTA implementation levels, the report shows a relatively larger increase in GDP compared to Scenario one, of about 1.78 percent, across the continent. However, given that under the scenario extra-African trade is not allowed to decrease, the report shows a smaller increase of 24.06 percent in intra-Africa trade as compared to Scenario One, with emissions increasing by 0.76 percent, a significant rise. The increase in emissions in Scenario Two is observed to be larger than the increase in Scenario One. That is partly a reflection of the increase in shipping distances that would be necessary for the import and export of goods traded outside the continent and partly a reflection of increased extra-African imported inputs in the continent's production. This outcome strengthens the argument that by reducing shipping distances, the AfCFTA is likely to reduce the generation of carbon emissions across Africa.

As outlined in the report, the global trading environment remained fragile in 2023 due to escalating geopolitical tensions, rising global fragmentation, and prolonged supply chain bottlenecks exacerbated by protracted trade and technological wars between the United States and China. Overall, growth in the volume of global merchandise trade, after expanding by 3 percent in 2022, contracted in 2023 by 1.2 percent. The contraction was driven by the effects of the Ukraine crisis and by the Gaza-Israel conflict. The impacts of the two conflicts heightened geopolitical tensions and adversely impacted global supply chains, dampening Africa's trade prospects. Merchandise trade on the continent, after an impressive growth of 15.9 percent to reach US$1.4 trillion in 2022 from US$1.2 trillion in 2021, was significantly affected, contracting by 6.3 percent to US$1.3 trillion in 2023.

Despite the challenging global environment, high commodity prices, particularly of crude oil, positively impacted export receipts and balance-of-payments, reversing the downward trajectory of Africa's reserves position. Accordingly, foreign exchange holdings on the continent recovered to expand at an estimated 2.6 percent year-on-year to US$411.9 billion in 2023, compared to a contraction of 2.3 percent year-on-year to US$401.3 billion in 2022.

Intra-African trade grew by 3.2 percent in 2023, slowing significantly from 10.9 percent growth in 2022. Still, despite slow global growth and macroeconomic challenges experienced by several countries, intra-African trade displayed remarkable resilience in 2023, accounting for about 14.9 percent of total African trade, an improvement over 13.6 percent the previous year. This resilience followed concerted efforts on the continent, including the ongoing implementation of the AfCFTA, aimed at bolstering intra-African trade.

> The AfCFTA could act as a catalyst for industrialization and economic diversification of African countries

With intra-African trade of 14.9 percent, it, however, remains relatively low compared with other regions of the world.

The report also shows large untapped potential in intra-African trade in terms of products and across sub-regions. Products exhibiting the greatest potential for trade among African nations encompass machinery, electricity, motor vehicles and parts, food products, minerals, beauty products, chemicals, plastic and rubber, ferrous metals, pearls and precious stones, and fertilizers. Southern Africa emerges as the sub-region with the most substantial export potential, followed by Eastern Africa, Western Africa, Northern African, and Central Africa. At the country level, South Africa, with a well-diversified economy, accounted for 20.4 percent of total intra-African trade in 2023. This is reflected in the consolidated performance of Southern Africa as the highest regional contributor to intra-African trade, representing 41.1 percent of total intra-African trade.

Forecasts show that world output will continue to expand at a pace of 3.2 percent in 2024. The volume of global merchandise trade is projected to gather momentum, expanding by 2.6 percent, from a contraction of 1.2 percent in 2023. Amidst sluggish economic activity in developed economies the continent's growth prospects could be dampened in the short term, though geographical diversification of its trading partners and growing South-South trade could mitigate these risks. Accordingly, growth in Africa is expected to increase marginally to 3.5 percent in 2024, from 3.2 percent in 2023, with the volume of African trade forecast to rise. Estimates suggest Africa's exports will grow faster than those of any other region, at a rate of 5.3 percent in 2024, up from 3.1 percent in 2023.

The same estimates projects imports rebounding at 4.4 percent in 2024, after contracting by 2.4 percent in 2023. The recovery of African trade is expected to be driven by a combination of factors, including continuous dynamics in the commodity market, particularly the oil market, with oil prices expected to remain high.

Chapter Two

Climate Implications of the AfCFTA Implementation

2.1 INTRODUCTION

The African Continental Free Trade Area (AfCFTA) is the largest free trade area in the world, connecting 55 countries, covering about 1.3 billion people and accounting for a combined GDP of around US$3 trillion. The AfCFTA is one of the flagship projects of Agenda 2063: The Africa We Want, the African Union's long-term development strategy for transforming the continent into a global powerhouse. The idea to create a continent-wide free trade area first emerged as a proposal in 2012 and was signed by 44 countries at a summit of the African Union in Kigali, Rwanda, on 21 March 2018. The agreement officially entered into force in May 2019, with trading under the agreement commencing in January 2021.

The AfCFTA is expected to bring significant economic and development benefits to the continent. However, in the current era of decarbonisation, understanding its impact on emissions and climate change is of utmost importance. While some experts contend the AfCFTA provides a solution for decarbonisation in Africa, others argue otherwise. In this regard, the objective of this study is to examine the impact of the AfCFTA implementation on carbon emissions in Africa using CGE modelling.

2.2 CLIMATE CHANGE AND THE AFRICAN CONTINENTAL FREE TRADE AREA

Climate Change and Development Challenges in Africa

2.2.1.1 Climate Change in Africa

Africa occupies a unique position among global regions with respect to climate change. It is the least responsible for the phenomenon, yet the most vulnerable to it. Economies on the continent today contribute only about 3.78 percent to greenhouse gas emissions, while the economies of the United States and the European Union make up about 14 percent and 9 percent of global emissions, respectively. On a per capita basis, the average person in the United States or the United Arab Emirates generates more than ten times the amount of fossil fuel emissions, and the average person in the European Union more than five times, as the average person in Africa. In 2022, per capita emissions generated by African nations were 1.09 TCO2 (tons of carbon dioxide), significantly lower than 15.17 TCO2 generated by the United States, 6.17 TCO2 by the European Union and 25.83 TCO2 by the United Arab Emirates[1].

Despite their low contribution to emissions, African countries are among the hardest hit and the least resilient against the impacts of climate change. Africa is geographically prone to adverse climate events. It is the most vulnerable region in the world to droughts and the second most vulnerable to flood events. In Africa, temperatures are rising faster than anywhere else in the world and, by the end of the 21st century, could rise by as much as 6°C. At the same time, widespread poverty and the low level of economic development in many African countries mean that the ability of governments to respond to climate shocks is low, further intensifying the vulnerability of the continent (Mo Ibrahim Foundation, 2023).

2.2.1.2 Economic, Social and Development Challenges

In addition to addressing challenges posed by climate change, Africa must continue prioritizing development and socio-economic welfare. Thirty-three of the 46 least developed countries (LDCs) in the world are in Africa. While African countries make up more than 17 percent of global population, they contribute less than 3 percent to global GDP, about 3 percent to global trade, and less than 2 percent to global manufacturing output (Tayo 2023).

Economic growth among African nations is expected to increase to 3.5 percent in 2024 from 3.2 percent in 2023 (International Monetary Fund, 2024). Yet countries on the continent continue to face high rates of inflation, burdens of debt, and borrowing costs for development financing, amid geopolitical instability, infrastructure inadequacy, growing poverty, and food insecurity.

Inflation in Africa was high in 2023, with the regional average of 18.2 percent (International Monetary Fund 2024), leading to a significant increase in living costs. While inflation is expected to slow in most countries in the year ahead, it is expected to continue to remain in double digits in countries such as Angola, the Democratic Republic of the Congo, Egypt, Ethiopia, Ghana, Nigeria, Sudan, and Zimbabwe.

Food insecurity rose sharply in the continent in 2023, and it is estimated that 13 percent of the continent's population (160 million people) suffer from acute food insecurity. In terms of poverty, of the 1.1 billion people in the world classified as poor, about 38 percent live in Africa. The number of people in the continent living in extreme poverty increased from 36 percent of the population in 2022 to around 38 percent, or 462 million people, in 2023.

High debt burden exacerbates the continent's difficulty to financing development projects and adds to the region's economic challenges. In 2023, Africa's external debt was estimated at US$1.13 trillion and the average debt to GDP ratio was about 36 percent. The United Nations Development Program (UNDP) projects that in 2024, average debt service payments for African countries will be equivalent to about 12 percent of GDP.

1 Author's calculations based on data from Global Carbon Atlas.

Box 2.1: Climate Change and Climate Shocks in Africa and Policy Responses

2023: A Year of Extreme Weather Events

Flooding presents a major threat to Africa, causing substantial material damage and disproportionately impacting vulnerable populations that reside in informal settlements across the continent. Furthermore, African megacities located on coastlines are particularly susceptible to rising sea levels, while a high risk of drought affects a quarter of African cities. Global temperatures reached record highs in 2023. These conditions, intensified by the El Niño phenomenon and other natural hazards, affected more than 34 million individuals in Africa and tragically resulted in approximately 15,700 deaths (Pangea-Risk Insight Special Report, 2024).

Flooding: In 2023, the continent experienced more than 20 flooding incidents, which impacted several countries, including Libya, Burundi, Ethiopia, Kenya, Somalia, and Uganda. In early November, a particularly severe event occurred in Kenya, displacing 4,000 families, leading to the loss of approximately 1,000 animals, and destroying 97 hectares of cropland (Pangea-Risk Insight Special Report, 2024). Additionally, intense rainfall heightened the risk of floods, particularly in eastern Libya, where more than 11,300 individuals tragically lost their lives due to flooding caused by Storm Daniel in September (according to Voice of America). The storm breached two dams in the coastal city of Derna, resulting in extensive flooding that destroyed infrastructure, in addition to the deaths.

Tropical cyclones: The frequency of tropical cyclones has drastically increased, causing substantial damage to coastal and inland areas. Tropical Cyclone Freddy, for instance, persisted for an exceptional 34 days from February 2023, impacting Madagascar, Malawi, Mauritius, Mozambique, Réunion, and Zimbabwe (World Meteorological Organization, 2023). The cyclone was responsible for at least 860 fatalities, extensive destruction of homes and agricultural land, and triggered outbreaks of cholera in the affected areas (Pangea-Risk Insight Special Report, 2024).

Drought conditions: Countries in the Horn of Africa have been experiencing severe drought conditions, affecting more than 36 million people (UN Office for the Coordination of Humanitarian Affairs, 2022). These conditions are considered the most severe in approximately 40 years and have severely impacted agricultural and pastoral communities, leading to crop failures, water scarcity, and significant livestock losses.

Other extreme weather events across Africa: In 2023, the Southern and Northern Africa regions faced heat waves, droughts, and flooding, while in countries such as Algeria, the extreme heat led to wildfires. Tunisia grappled with water shortages, causing authorities to implement water rationing for several months, due to it being the fourth consecutive year of drought. Other countries, such as Egypt and Morocco, also have been experiencing more pronounced climate change effects, with hotter summers and increasingly drier wet seasons. Recent droughts in these regions are considered the most severe in 500 to 900 years (Cook and al. (2016)). Many countries are expected to face escalating environmental challenges, including extreme temperatures, unpredictable rainfall patterns, rising sea levels, land subsidence, coastal flooding, shoreline erosion, worsening soil salinity, and ongoing drought.

2024: Further Challenges

Temperatures in Africa are expected to be higher in 2024 than in 2023, potentially marking the first instance of global temperatures exceeding the critical 1.5°C threshold, according to the European climate service Copernicus. Additionally, the El Niño climate pattern, resurfacing after a four-year hiatus, is expected to peak in the first half of the year. Extreme weather conditions could lead to widespread food insecurity, exacerbated water stress, disrupted logistics, increased disease transmission, and heightened migration and political instability. According to the Notre Dame Global Adaptation Initiative country index, which evaluates a country's vulnerability to climate change, 28 of the most susceptible countries are located in Eastern and Southern Africa.

Policy Responses

Extreme weather events and increased climate change-related challenges in Africa have drawn multipronged responses at the local, regional, continental, and international levels.

Country level actions: in response to climate shocks, governments have prioritized immediate relief efforts. For instance, in 2022, Kenya's National Drought Management Authority distributed emergency cash transfers and food aid to millions affected by drought. In 2023, Mozambique launched a post-cyclone reconstruction program focusing on shelter, sanitation, and livelihood restoration. Recognizing the need for more sustainable solutions, some countries have implemented short-term adaptation measures. For instance, Ethiopia's Ministry of Agriculture has been distributing drought-resistant seeds and promoting water-harvesting techniques. South Africa's Department of Water and Sanitation has implemented water restrictions in major cities to conserve dwindling resources. In 2023, Senegal revised its national determined contribution under the Paris Agreement, outlining more ambitious plans for renewable energy and climate adaptation, and Malawi passed the Disaster Risk Management Act to shift focus from disaster response to preparedness and risk reduction.

The role of development partners: The international community of development partners, including African Export–Import Bank (Afreximbank), has been stepping up its efforts to address shocks and challenges related to climate change in Africa by providing emergency relief assistance and investing in long-term resilience. Recognizing the need to facilitate access to climate finance and to increase private and public sector collaboration in funding climate interventions, Afreximbank has deployed multiple innovative solutions. These include the recently introduced Climate Change Adaptation Facility, out of which US$800 million was allocated to Kenya. In 2023, the European Union launched a €1 billion initiative to support flood recovery and resilience building in Southern Africa. Multilateral organizations such as the African Development Bank have launched programs to support early warning systems, climate-smart agriculture, and infrastructure upgrades, while the International Monetary Fund has offered debt relief after climate disasters to countries such as Somalia and South Sudan, allowing them to increase long-term resilience.

The African Union (AU) and regional initiatives: The AU has been urging developed countries to increase financial support for climate action in Africa. It spearheaded the "Africa Needs" campaign at the 2023 United Nations Climate Change Conference (COP28) and also lobbied for a higher carbon pricing mechanism to incentivize emissions reductions. Additionally, the AU championed regional initiatives such as the Great Green Wall to combat desertification and promote sustainable land management practices across the Sahel region. The AU-sponsored African Risk Capacity Program illustrates the critical role the AU plays in increasing climate change resilience, as it provides member states with prearranged lines of credit to facilitate rapid response to climate disasters.

Civil society: Civil society organizations play an important role at the community level, acting as watchdogs to ensure that governments are held accountable for their responses. In South Africa, for instance, environmental justice groups sued the government in 2021 for creating plans to build new coal-fired power generation.

According to the Climate Policy Initiative (2022), Africa needs approximately US$2.8 trillion, or US$250 billion each year, between 2020 and 2030 to implement its nationally determined contributions. A critical challenge in building resilience to climate change lies in shifting from a focus on short-term emergency response towards one on long-term resilience building and capacity development, which requires a sustained financial commitment. Although developed countries should work on fulfilling their pledges on climate finance, African countries must continue strengthening governance and prioritizing climate adaptation in their national development plans. Civil society should also hold governments accountable and ensure transparency in resource utilization. Policymakers, development partners, private sector, and civil society actors can collaborate to further and better leverage global fora and platforms such as the United Nations Climate Change Conference and regional climate weeks.

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Climate Implications of the AfCFTA Implementation

Despite rich reserves of energy resources, there is widespread energy poverty in the continent. Almost 600 million people in Africa lacked access to electricity in 2022 and more than 950 million people lacked access to clean cooking fuels. Africa accounts for only 6 percent of total energy consumption in the world despite having 17 percent of the world's population. In 2021, Africa's per capita electricity consumption was just 0.636 MWh, compared with 5.92MWh in Europe and 10.82 MWh in North America. Growing population, increasing urbanization, supply chain disruptions, and increasing costs have further added to the energy crisis on the continent. In the absence of appropriate intervening measures, this is expected to worsen. By 2050, it is predicted that energy poverty will affect almost one billion people in Sub-Saharan Africa and 100 million in North Africa (Chukwuemeka et al. 2023).

2.2.1.3 Difficulties Reducing Fossil Fuel Usage

While reducing fossil fuel usage is of utmost importance to reducing emissions, most African countries depend on fossil-fuel sources to meet their basic energy needs. Africa has abundant oil and natural gas reserves. Some countries, including Namibia and Uganda have recently unearthed commercial quantities of crude oil reserves, while Algeria, Angola, Chad, the Democratic Republic of Congo, Egypt, Equatorial Guinea, Gabon, Ghana, Libya, and Nigeria, among others, depend on coal and crude oil as sources of growth and to meet their energy demands.

For major oil exporting countries, including Algeria, Angola, Equatorial Guinea, Gabon, Nigeria, and the Republic of Congo, fossil fuel also represents the main source of export earnings and fiscal revenues, job creation, fossil fuel-based power generation and supply, and power to fossil fuel-intensive industries. Divesting from fossil fuel could reduce GDP by as much as US$30 billion in Nigeria, US$22 billion in Algeria, US$19.3 billion in Angola and an aggregate of US$190 billion for the continent. The challenge for these countries and for the region will be how to fund development if they begin to divest from fossil fuels without first achieving robust economic diversification (Oramah 2022).

2.2.1.4 Balanced Approach Needed to Climate Change and the African Continental Free Trade Area

Given that Africa currently contributes very little to global emissions and remains highly dependent on fossil fuel to meet its energy and revenue needs, a balanced approach to climate change mitigation is in order. Globally, decarbonisation and a shift from reliance on fossil fuels is essential, but African nations must focus on meeting their development challenges, reducing energy poverty, and protecting their people and economies from damage caused by climate change-induced natural disasters.

It is in this context that the AfCFTA is essential. While the importance of the free trade area to address Africa's development challenges, trade, and industrialization goals has been widely documented, this report postulates that it will also help the continent address those challenges with minimal change in emissions contribution. Shipping is one of the main contributors to global carbon emissions. By increasing intra-continental trade and reducing the need to export to far flung locales, this report postulates that the implementation of the free trade area will lead to only a slight change in Africa's carbon emissions. This is discussed in detail under section 2.4.2.

2.2.1.5 Nairobi Declaration on Climate Change

At the Africa Climate Summit, a meeting of African leaders held in Nairobi, Kenya in September 2023, the African leaders endorsed the AfCFTA as a critical part of the strategy needed to combat climate change and promote economic development. At that summit the leaders passed the Nairobi Declaration on Climate Change and Call to Action. The declaration endorses urgent collective action at the continental and global level and lays out what Africa needs to achieve to foster sustainable growth and combat climate change. The declaration formed the basis of Africa's negotiating position at the COP28 climate summit held in December 2023. Among other measures to address Africa's dual challenges of development and climate change, the declaration calls for improving regional and continental grid interconnectivity and for accelerating the operationalisation of the AfCFTA.

The Declaration also calls for improving access to concessional loans to finance climate action, establishing a carbon markets initiative to fund renewable energy infrastructure, building climate resilient cities and urban centres, developing policies to attract investments in green growth, developing renewable energy, climate smart agricultural practices to ensure food security, protecting biodiversity, and ensuring inclusion of marginalized groups such as smallholder farmers, women, and indigenous tribes. It also calls for developed nations to fulfill their 14-year-old promise to mobilize US$100 billion annually for climate adaptation and mitigation.

2.2.2.1 Need for the African Continental Free Trade Area

The AfCFTA was born out of the need to boost intra-Africa trade. Historically high tariff and non-tariff barriers by African countries have been a major constraint, n contrast to countries in other regions of the world, from trading much with each other. Between 2018 and 2020, intra-African exports accounted for 15 percent, on average, of total exports by African countries. Intra-African imports accounted for about 18 percent of the total imports (Luke 2023). Over the same period, intra-regional trade makes up about 60 percent of Asia's trade, and accounts for about 70 percent of European trade (Wellisz 2022).

The free trade area could also act as catalyst for industrialization and economic diversification of African countries. Africa trades with other regions and countries in mostly commodities such as fuels and metals, which do not drive industrialization. Intra-African trade, in contrast, is driven mainly by manufactured products. For instance, while only 20 percent of Africa's exports outside the continent are manufactured goods, 45 percent of trade between African countries comprises manufactured goods. Providing a boost to intra-Africa trade will promote manufacturing and agricultural sectors on the continent.

2.2.2.2 Objectives and Features

The goal of the AfCFTA is the economic integration of Africa by the creation of a single, liberalized market for trade in goods and services on the continent, encouraging investments in Africa and improving the prosperity of Africans through job creation, poverty reduction, and improving gender equality.

The scope of the AfCFTA is ambitious. In addition to reducing tariffs on imported goods, it also liberalizes trade in services and covers policies regarding trade facilitation and regulatory measures such as sanitary standards and technical barriers to trade. By providing a continent-wide regulatory framework, it complements existing subregional economic communities and trade agreements. Further, it covers areas such as investment and intellectual property rights protection not covered in most subregional agreements in Africa (World Bank 2020).

The AfCFTA is being implemented in two phases. Phase I, which came into force in May 2019, provides a framework for the liberalization of trade in goods and services and a mechanism for dispute settlement (International Monetary Fund 2019). In terms of trade in goods, member countries are required to remove tariffs for 90 percent of tariff lines and after a specified period increase tariff free access to 97 percent of tariff lines. Table 2.1 compares AfCFTA tariff reduction requirements for LDCs and non-LDCs.

> “The AfCFTA has the potential to mitigate carbon emissions without undermining Africa's development imperatives.”

Table 2.1: Tariff Reduction under AfCFTA

	LDCs	Non LDCs
Non-Sensitive Products	90 percent of tariff lines 10-year phasedown period	90 percent of tariff lines 5-year phasedown period
Sensitive Products	7 percent of tariff lines 13-year phasedown (current tariffs can be maintained during the first 5 years and phase down starts in year 6)	7 percent of tariff lines 10-year phasedown (current tariffs can be maintained during the first 5 years and phase down starts in year 6)
Excluded Products	3 percent of tariff lines Value of imports in this category may not exceed 10 percent of total intra-African imports	3 percent of tariff lines Value of imports in this category may not exceed 10 percent of total intra-African imports.

Source: The Trade Law Centre NPC

Box 2.2: Role of AfCFTA in Meeting Climate Change and Development Challenges in Africa

Climate Change in Africa

Africa's unique position is the least responsible for climate change, yet the most vulnerable to it. The continent makes up only 3.78 percent of greenhouse gas emissions compared with developed economies like the USA and the European Union that contributes about 14 percent and 9 percent of global emissions, respectively. On a per capita basis, the average person in the USA or UAE accounts for more than ten times and the average person in EU accounts for more than five times the amount of fossil fuel emissions, than the average person in Africa. In 2022, per capita emissions in Africa as a whole was 1.09 tCO2, which is significantly lower than 15.17 tCO2 in the USA, 6.17 tCO2 in EU and 25.83 tCO2 in the UAE.

In spite of its low contribution to emissions, African countries are among the hardest hit and the least resilient to the impact of climate change. Africa is geographically more prone to adverse climate events. It is the most vulnerable region in the world to droughts and the second most vulnerable to flood events. In Africa, the rise in temperatures is faster than anywhere else in the world and, by the end of the 21st century, could rise by as much as 6°C. At the same time, widespread poverty, and low level of economic development in many African countries mean that the ability of governments to respond to climate shocks is low, further intensifying the vulnerability of the continent (Mo Ibrahim Foundation, 2023).

Economic, Social and Development Challenges

In addition to addressing challenges posed by climate change, Africa also needs to continue prioritizing development and socio-economic welfare. Africa has 33 out of the 46 Least Developed Countries (LDCs) in the world. Even though, African countries make up over 17 percent of the world's population, they contribute less than 3 percent to the world's GDP, around 3 percent to global trade, and less than 2 percent to global manufacturing output (Tayo, 2023).

Growth rate of African GDP is expected to increase to 3.5 percent in 2024 from 3.2 percent in 2023 (World Bank, 2024). However, the continent continues to face problems such as a high inflation rate, high debt burden, high borrowing costs for development financing, geopolitical instability, inadequate infrastructure, growing poverty and food insecurity.

Both food insecurity and poverty are rampant in the continent. Food insecurity had risen sharply in the continent in 2023. It has been estimated that 13 percent of the continent's population (160 million people) suffer from acute food insecurity. In terms of poverty, out of the 1.1 billion people in the world classified as poor, around 38 percent live in Africa. Further in 2023, the number of people living in extreme poverty in Africa increased from 36 percent of the population in 2022 to around 38 percent, representing about 462 million people.

High debt burden, which exacerbates the continent's difficulty to financing development projects, also adds to Africa's economic challenges. In 2023, Africa's external debt was estimated at USD1.13 trillion and the debt to GDP ratio in Africa was around 36 percent. It has been estimated that in 2024, African country's debt service payments will be equivalent to around 12 percent of GDP (UNDP, 2024).

Despite being rich in energy resources, there is widespread energy poverty in the continent. In 2022, almost 600 million people in Africa had no access to electricity and over 950 million people had no access to clean cooking fuels. Africa accounts for only 6 percent of the total energy consumption in the world despite having 17 percent of the world's population. In 2021, Africa's per capita electricity consumption was just 0.636 MWh, compared to 5.92MWh in Europe and 10.82 MWh in North America (IEA). Growing population, increasing urbanization, supply chain disruptions and increasing costs have further added to the energy crisis in the continent. In the absence of appropriate intervening measures, this problem is expected to get worse, and it has been estimated that energy poverty will affect up to 1 billion people in Sub-Saharan Africa and 100 million in North Africa by 2050 (Chukwuemeka et al, 2023).

Difficulties in Reducing Fossil Fuel Usage

While reducing fossil fuel usage is of utmost importance to reducing emissions, a majority of African countries depend on fossil-fuel sources to meet their basic energy needs. Africa has abundant oil and natural gas reserves. Some countries, including Namibia, and Uganda have recently unearthed commercial quantities of crude oil reserves, while others like Algeria, Angola, Chad, the Democratic Republic of Congo, Egypt, Equatorial Guinea, Gabon, Ghana, Libya, and Nigeria, among others, depend on coal and crude oil, both as sources of growth, and to meet their energy demands.

For major oil exporting countries, including Algeria, Angola, Equatorial Guinea, Gabon, Nigeria and Congo Republic, fossil fuels also represent the main source of export earnings and fiscal revenues, job creation, fossil-based power generation/supply and powering fossil intensive industries. For instance, divesting from fossil fuel could reduce GDP by as much as USD30 billion in Nigeria, USD22 billion in Algeria, USD19.3 billion in Angola and USD190 billion for the continent as a whole. The challenge for these countries will be how

to fund development if they move away from the oil industry without first achieving robust economic diversification (Oramah, 2022). The central argument by the continent has remained, how to decarbonize without compromising or undermining development aspirations.

Balanced Approach to Climate Change and AfCFTA

Thus, it is important for Africa to focus on meeting its development challenges, reducing energy poverty, and protecting its people and economy from damage caused by climate change induced natural disasters. Also, while decarbonisation and a shift from fossil fuels is an important global agenda, it has been shown that Africa currently contributes very little to global emissions and remains highly dependent on fossil fuels to meet its energy and revenue needs.

In this context, measures like AfCFTA become important. The benefits of AfCFTA, with respect to helping Africa meet its development, trade, and industrialization goals, have been widely documented and established. However, it is important to note that AfCFTA can do this with minimal impact on carbon emissions. Globally, shipping is one of the main contributors of emissions. By increasing intra-continental trade and reducing the need to export to/import from far away locations, it is expected that AfCFTA will only lead to a slight change in Africa's carbon emissions.

Climate Implications of the AfCFTA Implementation

Phase II of the AfCFTA will cover investment, intellectual property rights, competition policy, digital trade, and women and youth in trade. The Phase II protocols on Investment, Competition and Intellectual Property Rights have been concluded and were approved by the 36th Ordinary Session of the Assembly of Heads of State and Government of the African Union in February 2023 (AfCFTA Secretariat 2023).

According to the AfCFTA Secretariat, trade under the rules established by the agreement started in January 2021. However, commercially meaningful trade began only in October 2022 with the introduction of the Guided Trade Initiative. Under this initiative, seven pilot countries—Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, and Tunisia—started trading a set of goods on a duty-free basis to boost the implementation of the trade agreement and test the operational, institutional, legal, and trade policy environment under the agreement.

2.2.2.3 Socio-Economic Impact of the African Continental Free Trade Area

According to a World Bank study (The African Continental Free Trade Area – Economic and Distributional Effects 2020), by 2035 the AfCFTA will:

Contribute to lifting an additional 30 million people from extreme poverty and 68 million people from moderate poverty. Full implementation of the agreement could increase real income by 7 percent, or nearly US$450 billion.

Significantly boost intra-African trade, especially in the manufacturing sector. The study estimates that by 2035, the volume of total exports will increase by almost 29 percent with implementation of the trade agreement. Exports on the continent will increase by more than 81 percent, while exports to non-African countries would rise by 19 percent.

Increase manufacturing exports by 62 percent overall, with intra-African trade increasing by 110 percent and exports to the rest of the world rising by 46 percent. Smaller gains were estimated in agriculture—49 percent for intra-African trade and 10 percent for extra-African trade, and in the services trade—about 4 percent overall and 14 percent within Africa.

Grow regional output and productivity and lead to a reallocation of resources across sectors and countries. By 2035, total production of the continent is estimated to increase by US$212 billion with implementation of the trade agreement.

Help women by lowering the gender wage gap and help all workers by increasing decent employment opportunities. The study predicts that implementing the trade agreement would swell wages by almost 10 percent, and lead to larger gains for unskilled workers and women.

2.2.2.4 Impact on Climate Change and Emissions

Bengoa et. al (2021) analysed the impact of the trade agreement on the economy, on GHG emissions, and on as air pollutants using a customized version of the GTAP model. They found a notable macroeconomic gain, particularly in African LDCs, coupled with a marginal rise in CO2 emissions of 0.3 percent and a notable rise in non-CO2 emissions of 19.6 percent. However, they found a significant reduction in air pollutants of 21.5 percent, which they found was due to the reallocation of resources among different sectors with varying intensities of GHG and air pollutants. They concluded that while implementation of the pact is expected to lead to notable improvements in air quality by reducing air pollutants, it could also lead to increased emissions that would require concerted efforts by member countries to offset the adverse effects. They recommend that AfCFTA member countries support each other in efforts to reduce GHG emissions by investing in renewable energy infrastructure and establishing environmentally sustainable practices and incentives, such as increasing trade in renewable energy equipment.

Oramah (2020), on the other hand, found that successful implementation of the trade agreement represents an opportunity to reduce carbon emissions while also ensuring access to energy. Currently, Africa's raw materials are transported thousands of miles away from the continent to be processed and shipped back. Today, shipping is the third-largest contributor to climate change after China and the United States. By boosting intra-African trade and reducing the need to find far away markets for African exports, the AfCFTA can significantly reduce emissions arising from shipping. Oramah (2020) also finds emissions can be further reduced if new industrial capacities emerging to support African regional value chains (created as a result of the free trade area) could be configured to be more energy efficient than current production facilities in exporting countries. The report recommends Africa's fossil fuel-dependent economies redirect current fossil revenues into creating non-fossil-based industries while making a gradual-but-steady shift from fossil fuel as the source of fiscal revenues.

Fontagné et. al (2023) find that the implementation of the free trade agreement and Africa's climate objectives are compatible. They find that the agreement will have a positive impact on GDP, and particularly in increasing intra-African trade without further increasing GHG emissions. Using the Mirage Power computable generable equilibrium model, the study finds that, by 2045 the AfCFTA is expected to increase GHG emissions by just 0.2 percent and non-CO2 emissions by 0.1 percent.

The study concludes that the reason the AfCFTA will do little to increase emissions is that although it will lead to a significant increase in intra-African trade, this is an increase from a relatively small initial value of trade—the base effect. Similar to conclusions by Oramah (2020), Fontagné et. al (2023) postulate that with implementation of the trade agreement, intra-African trade would grow at the expense of some trade between Africa and the rest of the world, leading to a trade diversion effect. A decrease in trade between Africa and the rest of the world means a decrease in GHG emissions, resulting in a small net increase in GHG emissions due to the implementation of the trade pact.

By offering an opportunity for reinforced regional economic cooperation, in fact, the implementation of the AfCFTA might favour cooperation regarding environmental issues across the continent. The study estimates that the adoption of climate policies in parallel with the implementation of the agreement could lead to significant decreases in GHG emissions by African countries, assessed at between -11.1 percent and – 25 percent depending on the level of ambition of the climate reforms.

In an article in Africa Renewal, a United Nations digital magazine, Andrew Mold (2022), writes that establishing the AfCFTA is critical to shortening supply chains and producing more for the regional market. Like the other studies, he also posits that greater intra-regional trade will be less damaging to the global environment than long-distance value chains.

Mold cites Kenya and East Africa as examples. Kenya exports new clothing valued at more than US$350 million to the United States every year, while second-hand clothing is imported from the United States to Kenya, undermining the region's textile industry and adding to carbon emissions. Under the AfCFTA, regional textile factories might be more incentivised to sell new clothes in other African countries. Similarly, about 80 percent of vehicles in East Africa are used vehicles imported from Europe and Asia that do not meet modern emissions standards. Companies such as Volkswagen have expressed a desire to manufacture new cars in Africa that meet high emissions standards, but they are reluctant to do so until the continental marketplace is fully functional.

Mold also recommends that, along with the implementation of the free trade area, greater investments be made in developing renewable energy, increasing energy efficiency, and building stronger regional energy markets to promote trading in electricity generated from renewable sources and to encourage moving away from reliance on traditional fossil fuels.

While many studies have focused on the macroeconomic impact of the trade agreement and its subsequent emissions impact, few measure the emissions impact without assuming any climatic policies. Additionally, it will be important to study the global impact of the AfCFTA on emissions and trade. From the literature it can be hypothesized that it might have a relatively small or even positive impact on carbon emissions.

To further provide basis for an understanding of the climatic impact of the AfCFTA, we used the GTAP-E-Power model. The model provides the needed split of sectors to clearly study climate implications due to the implementation of the trade agreement and has all the capabilities of a computable general equilibrium model. The next section explains in detail the model and database used to perform our analysis.

2.3 METHODOLOGY, DATA AND SCENARIO DESIGN

Methodology

In this chapter, we first look at the modelling framework used to study the climatic implications of the AfCFTA on African economies. Then also provide an overview of how the database was prepared for the model. Finally, we talk about the two simulation scenarios implemented in this study.

The study makes use of a CGE model, which can capture direct and indirect linkages between different components of the economy. CGE models, customised for energy and emissions factors, provide a robust framework for examining the relationship between energy and the economy in relation to trade policy. Unlike sector-specific approaches, CGE modelling encompasses full economic links, providing a holistic view of policy shocks. CGE models are distinct from other models such as Input-Output models in that they can quantify impacts using real-time data and have theoretical consistency. This allows them to capture both supply and demand modifications.

As this study is focused on studying the climatic implications in the African economies in the purview of the AfCFTA, a model that can efficiently capture the energy-economy-environment-trade linkages is essential.

Climate Implications of the AfCFTA Implementation

We use the GTAP-E-Power model within the CGE framework. The standard GTAP model is a multiregional, multisectoral model and accounts for linkages between economic agents—including households, governments, and the rest of the world. It assumes perfect competition and constant return to scale. Production for every sector and every region is represented by a Constant Elasticity of Substitution (CES) function which is underpinned by Armington trade substitution. GTAP-E-Power model extends the standard GTAP model to account for emissions and energy substitution. GTAP-E-Power model further extends the model to account for inter-fuel substitution, fuel-factor substitution, and substitution between electricity generated from different power sources (including renewable and non-renewable sources) – is the most appropriate model for the study. The model can account for the reduction in carbon emissions, substitution of fossil fuel sources, and trade policy changes, providing a framework for capturing the economic, energy, and environmental nexus.

GTAP-E-Power model estimates the impact of a policy shock by comparing the state of the economy and climate parameters before and after the shock. A baseline in CGE models represents the current state of the economy and is considered the initial equilibrium state. The model optimizes to establish a new equilibrium when the policy shocks are introduced. The difference between the baseline and post-shock states shows the impact.

Database Preparation

The GTAP database is built from several internationally renowned data sources including national input-output tables from organizations including the United Nations Food and Agriculture Organisation, International Monetary Fund, International Atomic Energy Agency, and the Organisation for Economic Co-operation and Development. It also takes input from individual contributors who specialize in building input-output tables for their regions/countries. The most recent version of the GTAP database includes 160 regions and countries and 65 sectors. The GTAP-E-Power database extends the 65 sectors in the standard GTAP model to cover 76 sectors including the 12 disaggregated electricity sectors.

GTAP-E and GTAP-Power datasets are combined to create the GTAP-E-Power dataset. Figure 2.1 shows the detailed step by step database preparation process. In the final dataset for our model we have aggregated 160 countries and regions and 65 sectors to 39 countries and regions and 50 sectors. We retain the African countries, and the important energy and power sectors in the disaggregated format in our dataset.

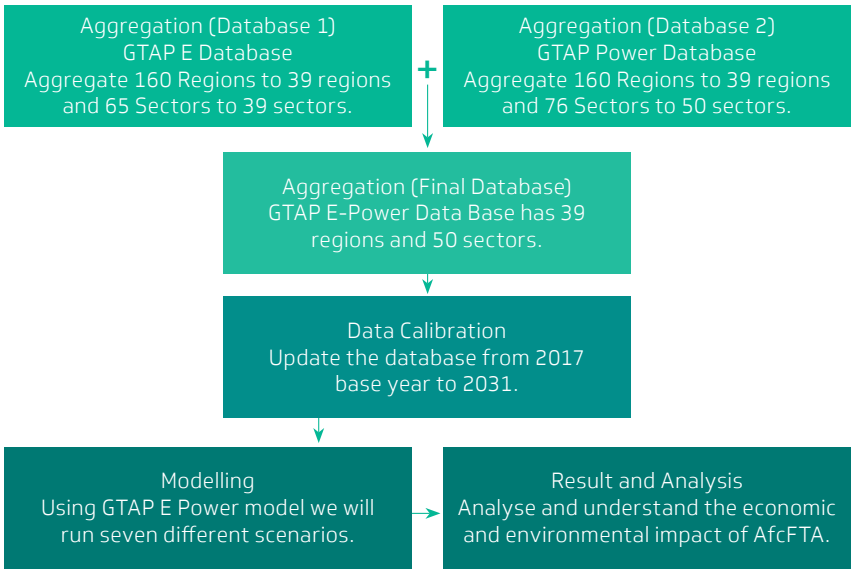
The GTAP-E-Power database has about 67 variables and headers. Of the 67 variables, 46 are from GTAP-Power, and others including CO2 emissions quota, carbon taxes, and other emission-related data headers are from the GTAP-E database. Similarly, the behavioural parameters in the GTAP-E-Power model are derived from the GTAP-E and GTAP-Power database.

Table 2.2 – Data sources: Global Trade Analysis Project database

Parameter	Source
2022 GDP	World Bank
Exports, Imports averaged over 2018-22	World Integrated Trade Solution
GTAP data sources	
Consumption, Investment, Gov Expenditure	World Development Indicators, World Bank
Agricultural Input-Output	United Nations Food and Agriculture Organisation Supply Utilization Statistics
Tariff data	Market Access Maps
Labour data	International Labour Organisation
Energy and emissions data	International Energy Agency

Source: GTAP Database, 2024

Figure 2.1: Steps in the model conception



Scenario Description

To assess the climate impact of the trade agreement, this report models two scenarios with different assumptions.

2.3.3.1 Baseline Preparation

The AfCFTA is expected to be fully in force by 2031. However, the GTAP database 11.0 is referenced to the year 2017. As a first step, using forecast GDPs of African countries, we update the GTAP database to the year 2031. This is the baseline scenario, which is a representation of Africa's economy and the global economy in the year 2031.

The 2031 GDP of African countries were forecasted using country level growth estimates published by the International Monetary Fund. Using estimated GDP values, we update the database using GTAPAdjust, a software program created by the Center for Policy Studies that rebalances the GTAP database after adjustments.

2.3.3.2 Scenario One

In Scenario one, we simulate the impact of the AfCFTA implementation on African economies. To do so, we introduce a 97 percent tariff reduction in the trade of goods and a lowering of non-trade barriers in the trade of services to the baseline. The impact on GDP, trade, and emissions (from production, consumption, and various sectors) is then presented and analysed.

2.3.3.3 Scenario Two

In Scenario two, we introduce the same reductions in tariff and non-trade barriers as in Scenario one. Here, we also assume that extra-African trade remains the same as the baseline.

> "Through the reduction in shipping distances required for extra-African trade, the AfCFTA has the potential to reduce carbon emission across the continent."

Climate Implications of the AfCFTA Implementation

2.4 ANALYSIS AND DISCUSSION OF RESULTS

Baseline Scenario

Using the baseline preparation methodology described in the previous section, we adjusted the GTAP database to the year 2031. Estimated values for GDP, imports, and exports of African countries for the year 2031 are given in Table 2.3:

Table 2.3: Macroeconomic estimates for the year 2031

Countries	GDP estimate	Exports	Imports
Benin	23.57	3.96	13.26
Botswana	25.09	9.91	8.49
Burkina Faso	24.96	5.46	6.19
Cameroon	54.52	7.69	10.91
Egypt	612.22	113.17	197.40
Eswatini and Lesotho	8.10	3.69	4.57
Ethiopia	176.27	11.24	47.30
Ghana	89.43	28.10	30.30
Guinea	27.92	18.21	12.79
Cote D'Ivoire	96.53	23.17	21.24
Kenya	148.51	17.36	36.17
Madagascar	19.33	6.80	6.34
Malawi	15.82	2.05	5.45
Mauritius	15.74	6.96	10.10
Morocco	154.25	53.61	67.70
Mozambique	26.47	13.29	20.45
Namibia	14.85	6.25	7.43
Nigeria	552.76	74.70	75.75
Rest of Central Africa	51.75	20.49	9.94
Rest of East Africa	86.14	9.29	14.59
Rest of North Africa	508.75	144.78	134.16
Rest of West Africa	76.84	29.31	41.27
Rwanda	18.96	2.20	4.00
South Central Africa	229.91	119.79	73.49
Senegal	38.72	9.70	17.89
South Africa	436.56	159.21	111.75
Tanzania	104.47	13.48	21.26
Togo	11.00	4.07	8.68
Tunisia	51.85	24.39	27.78
Uganda	62.73	8.04	15.73
Zambia	36.65	15.09	10.08
Zimbabwe	32.84	7.98	11.17

Scenario One

2.4.2.1 Impact of the African Continental Free Trade Area at the Regional Level

The impact of the AfCFTA on major macroeconomic parameters of Africa is shown in Table 2.4:

Table 2.4: Change in macroeconomic parameters at the regional level – Scenario one

Parameters	Percentage Change	Absolute change (in USD billions)
GDP	0.91	34.76
Total exports	2.21	21.49
Total imports	2.23	24.11
Intra-African trade	33.04	40.04
Exports from African countries to the rest of the world	-0.04	-10.65
Imports into African countries from the rest of the world	-0.03	-8.02
Total output	1.19	131.67
Total consumption	-0.59	-15.34

As a result of the AfCFTA, Africa's GDP is expected to increase by 0.91 percent, or US$34.76 billion. In terms of trade, while the implementation of the AfCFTA is expected to increase total exports and imports of African countries, from Table 2.4 there is a diversion of trade from other countries on the continent. Intra-African trade jumps 33.04 percent, while imports and exports with the rest of the world are expected to decline slightly by 0.04 percent and 0.03 percent respectively. Production on the continent is also shown to have increased under the AfCFTA by 1.19 percent. Since the model shows a reduction in total consumption, it can be concluded that the increase in production is driven by the increase in trade.

Table 2.5: Change in emissions at the regional level – Scenario 1

Parameters	Percentage Change	Absolute Change ($MtCO_2$)
Total emissions	0.08	1.02
Emissions from production	0.21	2.31
Emission from consumption	-0.60	-1.28
Emissions from use of domestic goods/services in production	-0.58	-4.31
Emissions from the use of imported goods/ services in production	1.92	6.63
Emissions from consumption of domestically produced goods/services	-0.12	-0.16
Emissions from consumption of imported goods/services	-1.32	-1.12

In Scenario one, we find a slight increase in total emissions of the continent of 0.08 percent or 1.02 MTCO2 (metric tons of carbon dioxide). However, it must be noted that the percentage increase in emissions is much less than the favourable increases seen in GDP, trade, and production in Africa.

Total emissions in the GTAP-E-Power model are calculated as the sum of emissions from production and consumption. Emissions from production are further split into emissions from the use of domestic goods and services in production and emissions from the use of imported goods and services in production. Emissions from consumption are split into emissions from consumption of domestically produced goods and services and emissions from consumption of imported goods and services. Table 2.5 also presents emissions from each of these sources.

The emissions resulting from the increase in Africa's production is 0.21 percent. As expected from the reduction in consumption seen in Table 2.5, emissions from consumption also declined. The Table also clearly shows that the increase in total emissions, due to implementation of the AfCFTA, is mainly from imported products used as inputs in the production process. It is important to note that even though intra Africa trade saw a significant increase, emissions only increased by a small amount due to the decrease in extra-African trade.

Figure 2.2: Change in sectoral emissions at the regional level – Scenario one

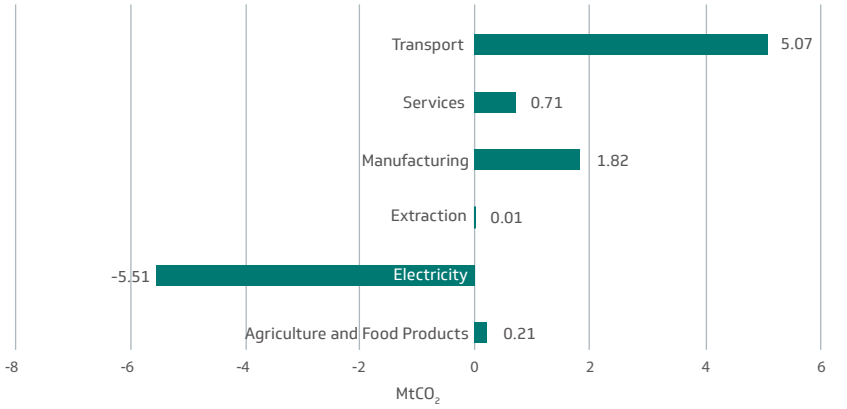


Figure 2.2 analyses emissions from different sectors. It shows that the highest increase in emissions is from the transport sector (increase of 5.07 MTCO2 or 1.73 percent) followed by the manufacturing sector (increase of 1.82 MTCO2 or 1.56 percent). The model shows manufacturing in the country to increase due to the implementation of the AfCFTA and to support the production there is an increased use of imported inputs. This leads to an increase in emissions from the manufacturing sector. The model also shows that the industrialization of the continent with the implementation of the AfCFTA will lead to a shift from the use of coal and gas and towards less emitting sources of energy. As seen from table 2.2, the model shows a decline in emissions from the electricity sector of 5.51 MTCO2, which is a decrease of 1.17 percent.

Climate Implications of the AfCFTA Implementation

2.4.2.2 Impact of the African Continental Free Trade Area at the Country Level

Table 2.6: Change in emissions – Scenario one

	Total Emissions		Emissions from Production		Emissions from Consumption	
Country	Percentage Change	Absolute change (in $MtCO_2$)	Percentage Change	Absolute change (in $MtCO_2$)	Percentage Change	Absolute change (in $MtCO_2$)
Benin	2.26	0.15	3.40	0.14	0.57	0.02
Botswana	1.13	0.09	1.59	0.11	-1.99	-0.02
Burkina Faso	0.02	0.001	-1.71	-0.06	3.59	0.06
Cameroon	0.64	0.04	0.67	0.03	0.53	0.01
Cote D'Ivoire	-0.18	-0.40	-0.38	-0.71	0.89	0.31
Egypt	-1.95	-0.08	-1.43	-0.05	-5.51	-0.03
Eswatini Lesotho	1.74	0.26	2.07	0.26	-0.21	0.00
Ethiopia	-0.50	-0.07	0.57	0.06	-4.09	-0.13
Ghana	0.41	0.02	0.45	0.01	0.17	0.0008
Guinea	-0.55	-0.06	-0.96	-0.09	1.19	0.02
Kenya	2.97	0.61	3.61	0.56	0.97	0.05
Madagascar	1.05	0.06	1.03	0.05	1.18	0.01
Malawi	3.37	0.04	3.26	0.03	5.11	0.00
Mauritius	3.69	0.18	3.94	0.17	2.00	0.01
Morocco	-0.45	-0.27	0.80	0.39	-5.38	-0.66
Mozambique	4.63	0.33	5.88	0.37	-3.99	-0.04
Namibia	2.77	0.12	3.21	0.11	1.08	0.01
Nigeria	-0.08	-0.07	-0.17	-0.12	0.17	0.04
Rest of Central Africa	0.11	0.01	0.14	0.01	-0.09	-0.001
Rest of East Africa	0.66	0.18	0.83	0.18	-0.002	-0.0001
Rest of North Africa	0.43	0.80	0.50	0.71	0.19	0.09
Rest of West Africa	3.38	1.28	3.68	1.28	0.02	0.00
Rwanda	1.07	0.01	1.09	0.01	1.03	0.00
South Central Africa	-2.25	-0.64	0.26	0.06	-10.35	-0.69
Senegal	2.19	0.19	2.51	0.19	0.04	0.0005
South Africa	-0.54	-2.36	-0.59	-2.33	-0.08	-0.03
Tanzania	1.08	0.12	4.19	0.34	-8.11	-0.22
Togo	5.20	0.12	6.62	0.12	-0.66	0.00
Tunisia	0.02	0.01	0.20	0.05	-0.74	-0.04
Uganda	3.22	0.14	3.47	0.14	-0.10	0.00
Zambia	0.67	0.04	1.26	0.07	-3.52	-0.03
Zimbabwe	2.23	0.22	2.77	0.24	-1.97	-0.02

All African countries show an increase in GDP with the implementation of the AfCFTA. The countries showing the highest increases, in absolute terms, are Côte d'Ivoire and South Africa, where GDP increases by US$7.01 billion and US$4.42 billion, respectively. These countries also have the largest increases in trade, along with South Central Africa,and Morocco.

In terms of emissions, the largest increases in percentage terms are seen in Mozambique, Togo, Mauritius, and Malawi, while Cote D'Ivoire, Egypt, Ethiopia, Guinea, Morocco, Nigeria, South Central Africa, and South Africa experience a reduction in emissions.

The emissions increase in Mozambique is driven by an increase in production. It is estimated that emissions from the use of domestic goods and services in production in the country will increase by 8.1 percent (an increase of 0.12 MTCO2) and from the use of imported inputs by 5.11 percent (an increase of 0.23 MTCO2) due to trade liberalization. The increase in emissions in domestic production comes mainly from the electricity sector, specifically electricity generated from natural gas. It should be noted that natural gas emits fewer emissions than other fossil fuels. Results of the model show that Mozambique reduced emissions from electricity generated from coal and oil after the implementation of the AfCFTA.

In Togo, the emissions increase is mainly due to an increase in the use of imported inputs in production. Emissions from this source increased by 6.63 percent (0.11 MTCO2) after the AfCFTA was established. Togo is a transit country, connected to big ports. Therefore emissions in Togo are driven by an increase in imports.

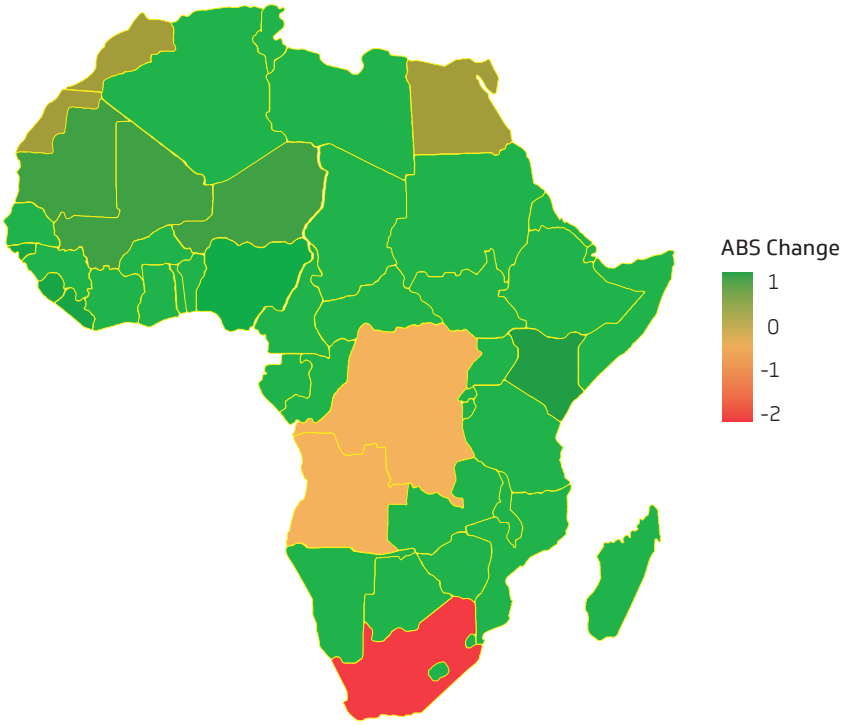
The largest percentage decrease in emissions were estimated to be from the countries of South Central Africa, and Egypt (-2.25 percent and -1.95 percent respectively). Emissions in this region are reduced by 0.64 MTCO2, mainly driven by a reduction in consumption. This region consists of some major oil producing countries on the continent. The model shows that the reduction in emissions in this region has also been driven by a reduction in emissions from the generation of electricity from oil and natural gas.

In Egypt the reduction in emissions is also mainly due to a reduction in consumption. Another major source of emissions reduction by Egypt is from the generation of electricity from natural gas, which is driven by a reduction in emissions from the extraction of gas.

Other major countries in Africa that must be analysed include Nigeria, and South Africa. Nigeria only experiences a very small reduction in emissions of -0.08 percent, driven by a small reduction in emissions from the consumption of domestic goods/services and use of domestic goods/services in production. The rest of countries in north Africa comprising Algeria, Libya, and Western Sahara. In effect, north Africa experiences one of the highest increases in emissions in absolute terms of 0.8 MTCO2 (an increase of 0.43 percent), driven mainly by the increased emissions from the use of imported products in production (an increase of 1.06 percent. The transport sector in this region, air transport in particular, shows the highest increases in emissions.

South Africa has one of the biggest economies on the continent. In absolute terms, South Africa shows the largest reduction in emissions of 2.36 MTCO2 (0.54 percent). South Africa is Africa's biggest producer of coal. The model estimates the implementation the of AfCFTA will lead to a significant reduction in emissions from generation of electricity from coal in the country, a reduction of 4.3 $MTCO_2$.

Figure 2.3: Changes in Total Emission at Country Level – Scenario one



As has been shown, Scenario one leads to a slight increase in total emissions. However, it can be seen from the analysis of emissions and output that trade liberalization on the continent leads not only to an increase in GDP, trade, and production, but also makes it easier for countries to trade in electricity and energy-related services, resulting in lower emissions.

Scenario one also shows the increase in emissions has resulted mainly from increased use of imported inputs in the production process. In addition, due to the decrease in extra-African trade after the AfCFTA is implementation, this increase in emissions was very slight. The effect of extra-African trade on emissions is examined further in Scenario two.

Climate Implications of the AfCFTA Implementation

Scenario Two

Scenario two also simulates the effect of the implementation of the AfCFTA on the economies of the African continent. But this scenario assumes that extra-African trade remains constant at the baseline level. The results from this scenario are analysed and compared below with Scenario one.

2.4.3.1 Impact of the African Continental Free Trade Area at the Regional Level

Table 2.7: Change in macroeconomic parameters at the regional level – Scenario 2

Parameters	Percentage Change	Absolute change (in USD billion)
GDP	1.78	68.35
Total exports	2.53	24.65
Total imports	2.76	29.88
Intra-African trade	24.06	29.16
Total output	1.14	106.97
Total consumption	-0.02	-0.74

In Scenario two, GDP for Africa as a whole increases by 1.78 percent or US$68.35 billion, which is larger than the GDP increase in Scenario 1 (0.91 percent). It is important to note that this scenario, assumes a liberalization of trade on the continent, while extra-African trade is maintained at a higher level than in Scenario 1 (we assume extra-African trade remains at the baseline level). Due to this increase in overall trade as compared to Scenario 1, it can be expected that the increase in GDP will also be higher.

Under Scenario two, both the imports and exports of African countries increase by 2.53 percent and 2.76 percent respectively. Again, this is a higher increase than in Scenario 1. Intra-Africa trade, on the other hand, shows an increase of just 23.6 percent, lower than the 33.04 percent increase in Scenario 1. Since we held extra-African trade constant in this scenario, the model sacrificed some of the increase in intra-Africa trade seen in Scenario 1. The increase in total output on the continent is also slightly less than the increase in Scenario one.

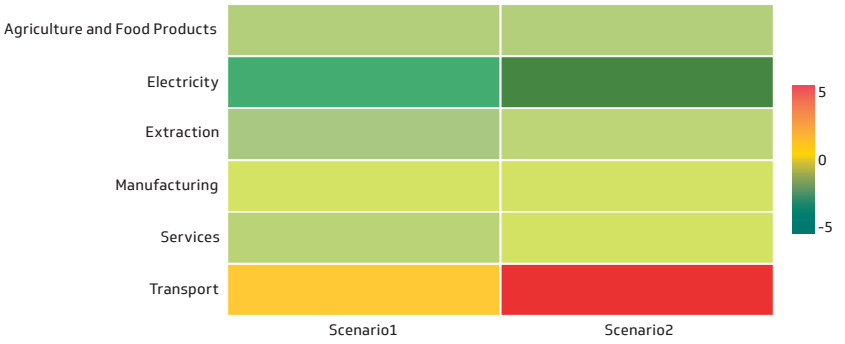
Table 2.8: Change in emissions at the regional level – Scenario two

Parameters	Percentage Change	Absolute Change ($MtCO_2$)
Total emissions	0.76	9.88
Emissions from production	0.81	8.74
Emissions from consumption	0.53	1.14
Emissions from use of domestic goods/services in production	-0.52	-3.81
Emissions from the use of imported goods/services in production	3.64	12.55
Emissions from consumption of domestically produced goods/services	0.83	1.07
Emissions from consumption of imported goods/services	0.09	0.07

In Scenario two, the increase in total emissions is much greater than in Scenario one. Emissions increase by 9.88 MTCO2 (0.76 percent), compared with the 1.02 MTCO2 (0.08 percent) increase in emissions in Scenario 1. This is mainly due to the increase in extra-African trade. Table 2.8 shows that the main source of emissions is from the use of imported goods and services in production.

Increased shipping and travel distance to export and import goods from outside the continent causes greater emissions. This can also be seen in the sectoral analysis of carbon emissions shown in Figure 2.4. The transport sector is the main source of emissions. Emissions from the sector increased by 8.27 MTCO2 in Scenario 2 as compared with an increase of 5.07 MTCO2 in Scenario one.

Figure 2.4: Change in sectoral emissions at the regional level – Scenario 2 vs Scenario 1



2.4.3.2 Impact of the African Continental free Trade Area at the Country Level

Table 2.9: Change in emissions at the country level – Scenario two

	Total Emissions		Emissions from Production		Emissions from Consumption	
Country	Percentage Change	Absolute change (in $MtCO_2$)	Percentage Change	Absolute change (in $MtCO_2$)	Percentage Change	Absolute change (in $MtCO_2$)
Benin	2.67	0.18	3.89	0.16	0.86	0.02
Botswana	4.87	0.37	5.31	0.35	1.96	0.02
Burkina Faso	1.73	0.091	2.48	0.09	0.19	0.00
Cameroon	1.22	0.08	1.17	0.06	1.38	0.02
Cote D'Ivoire	-0.13	-0.29	-0.23	-0.43	0.40	0.14
Egypt	-0.82	-0.03	-0.20	-0.01	-5.11	-0.03
Eswatini Lesotho	3.39	0.50	3.89	0.49	0.45	0.01
Ethiopia	-3.85	-0.53	-0.68	-0.07	-14.39	-0.46
Ghana	1.66	0.06	1.70	0.05	1.39	0.006
Guinea	-0.16	-0.02	-0.45	-0.04	1.08	0.02
Kenya	4.50	0.92	5.29	0.82	2.00	0.10
Madagascar	1.41	0.08	1.35	0.06	1.78	0.01
Malawi	1.44	0.02	1.48	0.02	0.84	0.00
Mauritius	5.15	0.25	5.03	0.22	6.01	0.04
Morocco	-0.30	-0.18	1.55	0.75	-7.59	-0.93
Mozambique	6.36	0.45	7.92	0.49	-4.38	-0.04
Namibia	3.12	0.13	3.11	0.10	3.13	0.03
Nigeria	0.39	0.37	0.11	0.07	1.14	0.29
Rest of Central Africa	0.30	0.03	0.16	0.01	1.20	0.02
Rest of East Africa	2.42	0.66	2.47	0.53	2.27	0.13
Rest of North Africa	0.79	1.47	0.94	1.33	0.30	0.14
Rest of West Africa	5.69	2.15	6.14	2.13	0.66	0.02

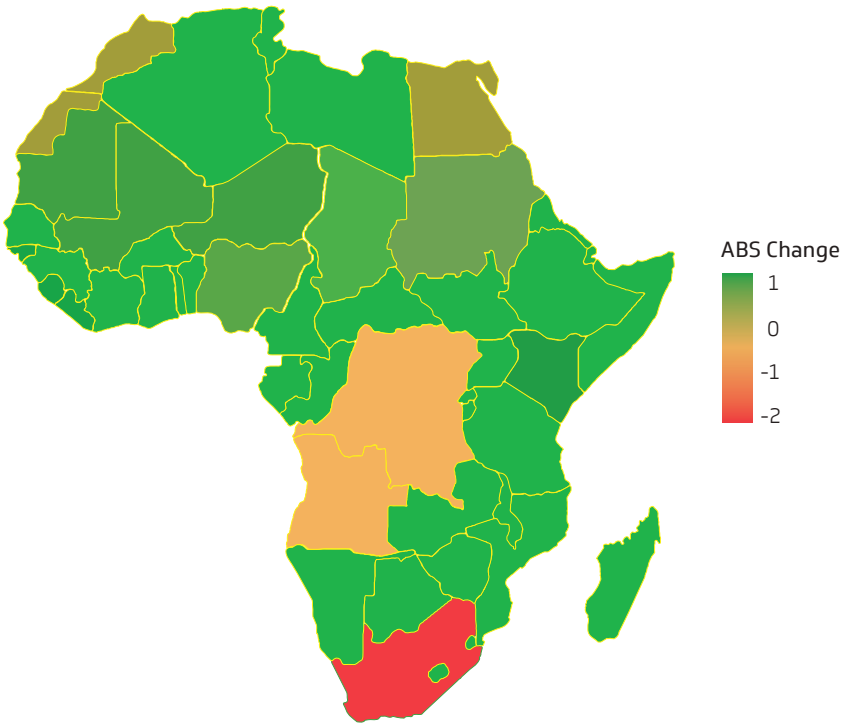
> Several African countries will witness a significant reduction in carbon emissions on account of the AfCFTA implementation.

Climate Implications of the AfCFTA Implementation

	Total Emissions		Emissions from Production		Emissions from Consumption	
Country	Percentage Change	Absolute change (in $MtCO_2$)	Percentage Change	Absolute change (in $MtCO_2$)	Percentage Change	Absolute change (in $MtCO_2$)
Rwanda	1.58	0.02	2.00	0.01	0.65	0.00
South Central Africa	0.85	0.24	-1.01	-0.22	6.86	0.46
Senegal	2.15	0.19	2.35	0.18	0.77	0.008
South Africa	0.25	1.08	-0.04	-0.17	2.97	1.25
Tanzania	0.29	0.03	4.78	0.38	-12.99	-0.35
Togo	6.20	0.14	8.26	0.15	-2.33	-0.01
Tunisia	0.39	0.11	-0.45	-0.10	4.00	0.22
Uganda	24.95	1.06	24.86	0.98	26.11	0.08
Zambia	-0.11	-0.01	0.95	0.05	-7.61	-0.06
Zimbabwe	2.80	0.27	3.38	0.29	-1.70	-0.02

As in Scenario one, all countries experience an increase in GDP in Scenario two. The highest increases in GDP are in South Africa and Cote D'Ivoire. This is also similar to Scenario one. Both countries, however, experience a larger increase in GDP in this scenario of US$11.63 billion and US$8.19 billion respectively. In terms of trade, the greatest increase in exports is in South Central Africa and Côte d'Ivoire, while South Africa experienced the biggest increase in imports.
Carbon emissions were the highest in the Rest of West Africa, the Rest of North Africa and Kenya (an increase of 1.28 MTCO2, 0.80 MTCO2, and 0.61 MTCO2 respectively). South Africa, South Central Africa, Côte d'Ivoire, Egypt, Ethiopia and Guinea all showed a reduction in emissions. South Africa showed the largest emission reduction of 2.36 MTCO2 driven mainly by a reduction in emissions from production.

Figure 2.5: Changes in total emissions at the country level – Scenario two



Overall, it is important to note that, as in Scenario one, the increase in emissions in Scenario two is driven mainly by emissions related to import of inputs. However, because Scenario 2 assumes extra-African trade will remain the same as the baseline and does not allow it to decrease, this increase in emissions is much larger than in Scenario one. This gives credence to the argument that a reduction in shipping distances with the establishment of the AfCFTA is critical in reducing emissions across the continent.

2.5 AFREXIMBANK AND CLIMATE INTERVENTIONS

Established more than 30 years ago, the mission of African Export-Import Bank (Afreximbank) is to mitigate climate change while promoting commerce within and across Africa, diversifying the continent's economy, and increasing Africa's global influence. Acknowledging the necessity of all-encompassing interventions, the Bank supports continental and national efforts by implementing a range of tools and programmes to address development and climate-related issues. This chapter describes Afreximbank's efforts and commitments to address the continent of Africa's development and climate imperatives.

2.5.1 Climate Commitments

Afreximbank is aware of the problems confronting the African continent, including a dearth of policy balance, climate vulnerability, and insufficient development funding. The Bank commits to addressing these through addressing loss and damage, mitigating climate change, and coordinating efforts with development objectives and climate resilience.

2.5.1.1 Climate Adaptation

The launch of country-specific climate adaption finance facilities is a commitment made by Afreximbank to prioritise climate adaption. The purpose of these facilities is to assist member nations in funding climate adaptation initiatives and building infrastructure that is resilient to climate change. As it supports national governments in implementing initiatives like nature-based solutions, promoting food security, ensuring sustainable water supply, and climate-related disaster management, the bank also intends to gather financial resources through blended financing structures and green bonds.

2.5.1.2 Climate Mitigation

Afreximbank acknowledges that Africa depends on fossil fuels for development and energy access, and pledges to mitigate climate change by supporting projects for a “Just Transition" of the continent's energy sector. The Bank places strong emphasis on developing renewable energy resources, battery minerals, and maximising the potential of natural gas as a transition fuel. It is in favour of creating a framework for a voluntary carbon market and utilising Africa's carbon sinks. African Export-Import Bank has also strongly encouraged the development of the African Continental Free Trade Area, which facilitates industrialization throughout the continent while lowering shipping distances and carbon emissions.

2.5.1.3 Loss and Damage

Afreximbank promotes reparations within the loss and damage framework of COP28, highlighting the necessity of significant financial contributions from the Global North to redress climate change-related harms on the African continent.

2.5.2 Intervention Mechanism

Through a variety of financial and non-financial tools, including the deployment of climate finance instruments like green bonds, strategic partnerships with development institutions, the establishment of specialised agencies to advance climate finance and development goals, and the support of policy advocacy and research on the impacts of climate change in Africa, Afreximbank addresses the challenges of climate change and development.

2.5.3 Key Climate Initiatives

The establishment of the Kenya Climate Change Adaptation Facility and cooperation on the Battery Precursor Manufacturing Initiative in Zambia and the Democratic Republic of the Congo are two of Afreximbank’s major climate efforts. The Bank partners with groups like the World Food Programme and the AfCFTA Secretariat to improve agricultural value chains. The bank also suggests creating the African Energy Bank to assist the oil and gas sector. Afreximbank also looks at implementing Biodiversity Credits as part of the African Carbon Market Initiative and supports youth-led start-ups through the Africa Youth and Climate Programme. Through its Intra-African Engineering, Procurement and Construction Contract Promotion Initiative, the bank supports sustainable energy projects.

Box 2.3: Impact of AfCFTA on Carbon Emissions in Africa: A CGE Analysis

The African Continental Free Trade Area (AfCFTA) is the largest free trade area in the world connecting 55 countries, covering about 1.3 billion people and accounting for a combined GDP of around USD3 trillion. AfCFTA is expected to bring significant economic and developmental benefits to Africa. However, in the current era of decarbonisation, the imperatives of understanding its impact on emissions and climate change are enormous. While a school of thought contends that the AfCFTA provides a solution for decarbonisation in Africa, others argue otherwise.

In this section, we estimate the impact of AfCFTA on carbon emissions in Africa using a Computable General Equilibrium (CGE) model called the GTAP E Power model. The implementation of AfCFTA is expected to be finished by 2031. Using forecasted estimates of GDP growth rates published by the IMF, we first update the data in the model to the year 2031. We then analyse the impact of AfCFTA on carbon emissions under two scenarios.

In scenario 1, we simulate the impact of AfCFTA on the updated database by introducing a 97 percent tariff reduction in the trade of goods and a lowering of non-trade barriers in the trade of services. In scenario 2, we introduce the same reductions in tariff and non-trade barriers as in scenario 1, while holding extra African trade constant at the pre AfCFTA level. This is done to analyse the impact of extra African trade on emissions levels. Results of the model are presented below.

Macroeconomic Impact of AfCFTA

Table B2.3.1 Change in macroeconomic parameters.

	Scenario 1		Scenario 2	
Parameters	Percentage Change	Absolute change (in USD billions)	Percentage Change	Absolute change (in USD billions)
GDP	0.91	34.76	1.78	68.35
Total exports	2.21	21.49	2.53	24.65
Total imports	2.23	24.11	2.76	29.88
Intra-African trade	33.04	40.04	24.06	29.16
Exports from African countries to the rest of the world	-0.04	-10.65	–	–
Imports into African countries from the rest of the world	-0.03	-8.02	–	–
Total output	1.19	131.67	1.14	106.97
Total consumption	-0.59	-15.34	-0.02	-0.74

The implementation of AfCFTA is estimated to have a positive macroeconomic impact on the continent. In scenario 1, the table shows that GDP is expected to increase by 0.91 percent, total exports by 2.21 percent and total imports by 2.23 percent. Intra Africa trade sees a huge jump of 33.04 percent, while imports and exports with the rest of the world are expected to see a slight decline of 0.04 percent and 0.03 percent, respectively.

Scenario 2 does not allow this reduction in extra African trade to happen (we assume extra African trade remains at the pre AfCFTA level). As can be expected, due to the higher level of trade in this scenario, we see a larger increase in GDP and total trade. However, intra African trade does not increase as much as in scenario 1. The increase in total output on the continent is also shown to be slightly less than the increase seen in scenario 1.

Impact of AfCFTA on Carbon Emissions

Table B2.3.2: Change in emissions.

	Scenario 1		Scenario 2	
Parameters	Percentage Change	Absolute change (in USD billions)	Percentage Change	Absolute change (in USD billions)
Total emissions	0.08	1.02	0.76	9.88
Emissions from production	0.21	2.31	0.81	8.74
Emission from consumption	-0.60	-1.28	0.53	1.14
Emissions from use of domestic goods/ services in production	-0.58	-4.31	-0.52	-3.81
Emissions from the use of imported goods/services in production	1.92	6.63	3.64	12.55

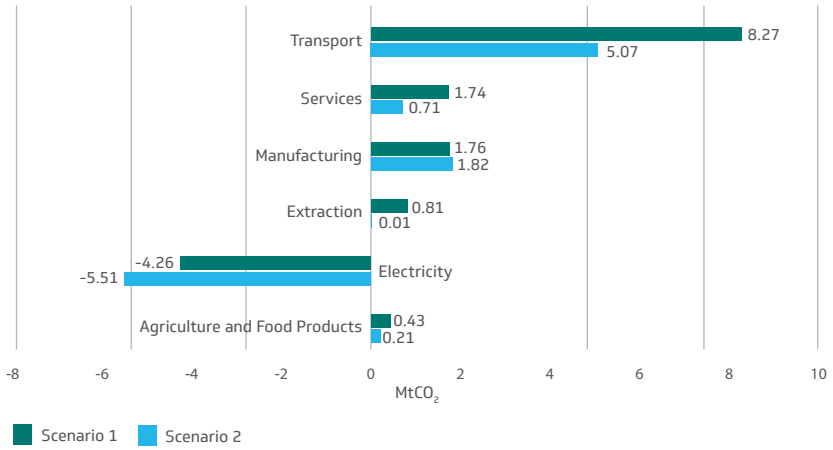
In scenario 1, total emissions only show a slight increase of 1.02 MtCO2 (0.08 percent), while scenario 2 sees a much larger increase of 9.88 MtCO2 (0.76 percent). In both scenarios, the main reason for the increase in emissions is the use of imported goods/services in production. Again, the increase in emissions from this source is much larger in scenario 2.

This is because scenario 2 holds extra African trade constant at the pre AfCFTA level and does not allow it to reduce. Globally, shipping is one of the main sources of emissions. Due to increased shipping and travel distances, exporting/importing goods from outside the continent causes greater emissions. Even though intra African trade saw a huge increase in scenario 1, the increase in emissions was only slight due to the decrease in extra African trade.

The contribution of trade to emissions can further be seen in the sectoral analysis shown in Figure 1. The transport sector is the main reason for the increase in emissions after the implementation of AfCFTA. In scenario 2, the increase in emissions from the transport sector was estimated to be much higher than in scenario 1 (8.27 MtCO2 or 2.83 percent in scenario 2 as compared to 5.07 MtCO2 or 1,73 percent in scenario 1).

The model also expects that the industrialization of the continent as a result of AfCFTA will lead to a shift from the use of coal and gas and towards less emitting sources of energy. As seen from Figure 1, the model shows a decline in emissions from the electricity sector of 5.51 MtCO2 in scenario 1 and 4.26 MtCO2 in scenario 2.

Figure B2.3.1: Change in sectoral emissions

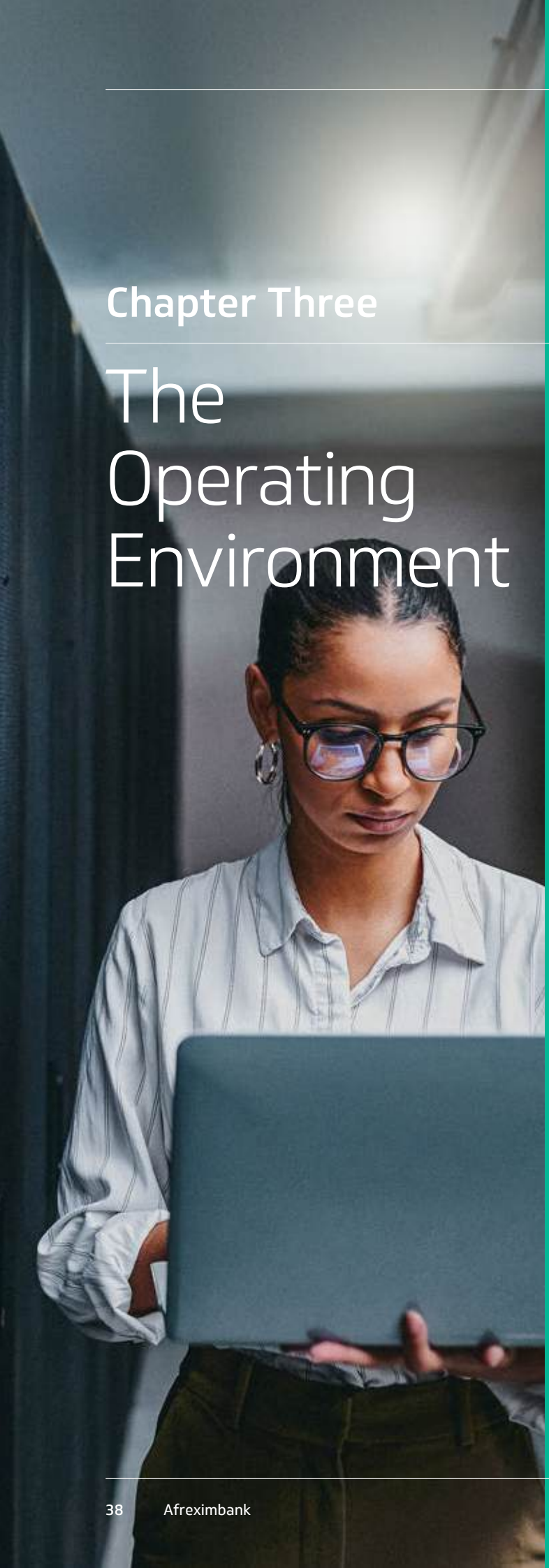


Climate Implications of the AfCFTA Implementation

2.6 FORWARD-LOOKING PERSPECTIVES

Using the GTAP-E-Power model and a GTAP-based database we study the impact of AfCFTA on Africa's macroeconomic and environmental parameters. The use of GTAP-E Power gives us the opportunity explore renewable and non-renewable sources. The macroeconomic results in both scenarios—reduction in extra-African trade with the implementation of the AfCFTA and holding extra-African at pre-AfCFTA levels —are mostly encouraging, with an overall increase in GDP (by about 1 percent) for Africa and an increase in intra-Africa trade (of about 33 percent). To study the environmental impacts, we mainly look at carbon emissions. The carbon emissions are expected to increase marginally in Scenario 1. Scenario 2 leads to increased emissions and a slight increase in GDP in comparison to Scenario 1. This is mainly because emissions generated by increased output in the transportation sector to support global trade. In the first scenario trade automatically diversifies from extra-Africa regions to intra-Africa regions. The emissions generated by the transportation sector in Scenario 1 are relatively lower than Scenario 2. Between the two scenarios, the natural implementation of AfCFTA can be highly effective to support Africa's current developmental goals while providing the continent a gradual path towards the trading of various electricity sources, including renewable energy sources.

Based on the analysis and the current African economic and environmental landscape, we recommend the following policy inferences. Africa should focus on moving forward full steam to implement the AfCFTA, given its urgent need to develop and grow. This will not only help liberalize trade within Africa, but also provide an opportunity to reduce emissions through reducing shipping distances and sharing electricity derived from various energy sources. Africa should also focus on ensuring countries highly dependent on oil and gas are provided with investments through the trade agreement to improve infrastructure to support energy sharing for gradual pathways towards renewable sources. And finally, given Africa's current developmental issues such as food security and energy poverty, it is important for the AfCFTA to provide a platform for African nations to easily share these commodities with the goal of making a better tomorrow. It is important for African countries to focus on the complete implementation of the AfCFTA as quickly as possible to reap the benefits of improved trade and long-term environmental betterment. The AfCFTA can also include investment strategies to help build infrastructure in LDCs to support long-term growth on the African continent.



Chapter Three

The Operating Environment

3.1.1 Global Output Developments

The global economy remained on a slow growth trajectory in 2023, with output expanding by 3.2 percent, a decline when compared with 3.5 percent in 2022 (Table 3.1 and Figure 3.1a). This is despite stronger than anticipated growth in the second half of 2023 (International Monetary Fund 2024). While the slowdown was observed in both advanced and developing economies, the deceleration was more pronounced in developed economies, especially those in the eurozone. Major drivers included the lingering effects of the COVID-19 pandemic, the ongoing Ukraine crisis and its associated disruption in energy and food prices, and the more recent geopolitical tension in Israel and Gaza, which continues to affect the flow of goods through the Red Sea. Also contributing to the sluggish growth were extreme weather events and a bullish monetary policy stance by many countries to tame inflation.

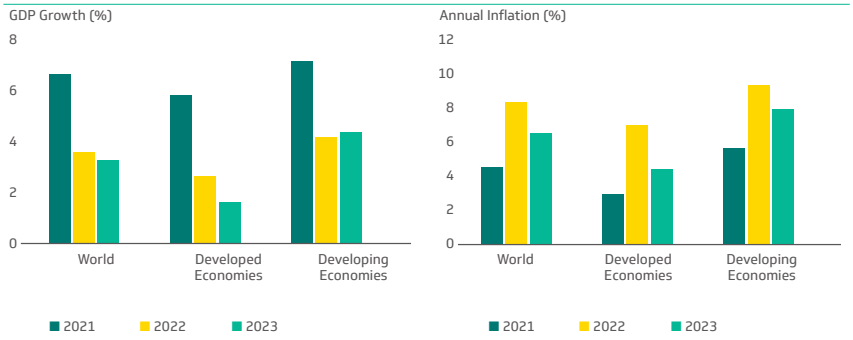
Among advanced economies, average GDP growth slowed to 1.6 percent in 2023 from 2.6 percent in 2022. This was not the case in the United States, the world's largest economy, where real GDP expanded at 2.5 percent in 2023, up from 1.9 percent the previous year. That growth represented by far the strongest recovery among the major economies (Table 3.1 and Figure 3.1b). The strong growth performance in the United States was supported by increased consumption and investment expenditure, growth in exports, a boost to disposable incomes from one-off tax adjustments, and an expansionary fiscal policy.

Table 3.1 Developments in Global Output, 2021-23

	Real GDP growth (annual percent change)			Inflation rate (annual percent change)		
	2021	2022	2023	2021	2022	2023
WORLD	6.5	3.5	3.2	4.7	8.7	6.8
DEVELOPED ECONOMIES	5.7	2.6	1.6	3.1	7.3	4.6
US	5.8	1.9	2.5	4.7	8.0	4.1
UK	8.7	4.3	0.1	2.6	9.1	7.3
France	6.3	2.5	0.9	2.1	5.9	5.7
Japan	2.6	1.0	1.9	0.2	2.5	3.3
Italy	8.3	4.0	0.9	1.9	8.7	5.9
Canada	5.3	3.8	1.1	3.4	6.8	3.9
Germany	3.2	1.8	0.3	3.2	8.7	6.0
EU	6.1	3.6	0.6	2.9	9.3	6.3
DEVELOPING ECONOMIES	7.0	4.1	4.3	5.9	9.8	8.3
Africa	4.9	4.0	3.2	12.7	14.2	18.2
Emerging and Developing Asia	7.7	4.4	5.6	2.3	3.9	2.4
Latin America and the Caribbean	7.3	4.3	2.3	9.8	14.0	14.4
Emerging and Developing Europe	7.5	1.2	3.2	9.6	27.8	19.4

Sources: IMF World Economic Outlook Database, April 2024; Bloomberg.

Figure 3.1a. Global output and inflation 2021-2023 (percent)



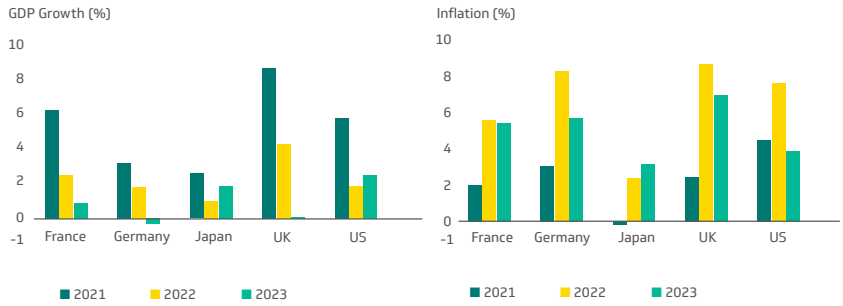
Sources: International Monetary Fund, World Economic Outlook (April 2024); Afreximbank Research.

Among advanced economies, stronger than anticipated growth in the United States was offset by weak growth in the eurozone. The region was severely affected by the impact of a contractionary monetary policy and a cost-of-living crisis, particularly high energy costs spurred by the conflict in Ukraine. Growth in the eurozone slowed sharply to 0.6 percent in 2023 from 3.6 percent in 2022, with several economies in the region impacted by weak household spending and limited investment activity growth, particularly in the manufacturing sector.

The Operating Environment

Within the eurozone, growth performance varied. In Germany, which relies heavily on Russian gas, the economy contracted 0.3 percent in 2023 after expanding at 1.8 percent the year prior. At 2.5 percent, Spain recorded one of the strongest growth performances in the region in 2023, supported by increased household spending and improved activities in the travel and tourism sectors. Overall, the outlook for the region is positive, with the impact of the Ukraine crisis expected to subside. Given this, household consumption is expected to improve while inflation declines.

Figure 3.1b. Output and inflation in key advanced economies 2021 to 2023 (percent)



Sources: International Monetary Fund, World Economic Outlook (April 2024); Afreximbank Research.

In the United Kingdom, economic growth slowed significantly to 0.1 percent in 2023 from 4.3 percent recorded in 2022. The sharp deceleration reflected a tighter monetary policy stance as the Bank of England sought to curb inflation. As with other advanced economies, the British economy was impacted by high energy prices, which continued to slow economic recovery, disrupt aspects of the economy, and ensure low investment expenditure.

Japan, the second largest economy among the group of developed economies, recorded a strong output expansion of 1.9 percent in 2023, up from 0.9 percent the year prior. Economic activity was buoyed by pent-up demand, a surge in inbound tourism, and accommodative policies. The resumption of auto exports that had been held back by supply chain disruptions also played a key role in driving economic activity in the medium term.

Despite the synchronous global growth decelerations, developing economies remained resilient, with steady output expansion estimated at 4.3 percent in 2023, from 4.1 recorded in 2022. Weak activity in China was offset by modest aggregate growth in some key countries, which witnessed improved domestic demand and trade. Even though the outturn was below the region's average performance of more than 5 percent in the decade prior to the pandemic, it remained well above the global average of 3.2 percent.

Consistent with trends over the past decade, Asia has continued to be the leading driver of global growth, with real GDP in the region expanding at 5.6 percent in 2023 from 4.4 percent in 2022 (International Monetary Fund, 2024). In addition to increased government spending on capacity building against natural disasters and resilience in domestic demand, the output expansion reflected strong growth in India, which recorded 2023 growth of 7.8 percent in 2023. The contribution of the region to global growth reflects the strong influence of the economies of India and China. With traditionally the fastest growing economy in the region, China recovered from low economic performance in 2022, when output expanded at 3 percent, to rebound at 5.2 percent in 2023, despite a real estate crisis.

3.1.2 Price Developments

Despite the generally challenging global environment, inflationary pressures subsided in 2023 following positive supply-side developments and the tightening of monetary policy executed by many central banks around the world.

The global inflation rate fell to 6.8 percent in 2023 from decades-high of 8.7 percent in 2022. In advanced economies, the inflation rate eased markedly to 4.6 percent in 2023 from 7.3 percent in 2022 (Table 3.1 and Figure 3.1b). In the United States, interest rate hikes by the Federal Reserve in 2022 and easing energy prices in 2023 led to a decline in the annual inflation rate from 8 percent in 2022 to 4.1 percent in 2023. Annual average inflation in the eurozone dipped significantly to 6.3 percent in 2023 from 9.3 percent in the previous year. After a series of interest rate cuts by the Bank of England, inflation in the United Kingdom moderated to 7.3 percent in 2023 from 9.1 percent the year prior. The inflation rate in the United Kingdom fell at a slower pace than in the United States, due mainly to the slow pass-through effects of rate hikes and price lags between wholesale costs and consumers.

Inflationary pressures have somewhat receded in developing economies, though at a slower pace compared with developed economies, with variations across regions. Easing energy costs reduced price pressure, especially in developing Europe. In China, inflation decreased due to weak domestic demand and a troubled housing market. The annual inflation rate in China fell to 8.5 percent in 2023 from 9.8 percent in

2022. Going against the generally declining trend in developing economies, inflation on the African continent reached 18.2 percent in 2023, significantly up from 14.2 percent in 2022. The soaring inflation was due to high food prices arising in part from shortages and the sharp devaluation or depreciation of local currencies, which increased the prices of imported goods.

3.2 THE AFRICAN ECONOMIC ENVIRONMENT

3.2.1 Output Developments

The region's strong rebound after the COVID-19 pandemic downturn was followed by consecutive growth decelerations in 2022 and 2023. Real GDP decelerated at 3.2 percent in 2023 after a 4 percent output expansion recorded in 2022 (Table 3.1). This was below the average about 5 percent growth from 2011 to 2019, and reflected several factors, including worsening weather shocks, the general global slowdown, domestic supply bottlenecks (most notably in the energy sector), high costs of living that limited consumption growth, escalating debt burdens, interest rates that contributed to narrowing fiscal space, and heightening political instability in parts of the region. The performance of the continent also reflected growth deceleration in key economies, including Egypt, Nigeria, and South Africa. While the region's growth deceleration is in line with declining global growth, its output expanded above the world average.

In a world of compounded shocks, the observed growth resilience on the continent was underpinned by several factors, including a commitment to macroeconomic stability, the strong performance of some economies, the role of countercyclical support from development finance institutions such as the Afreximbank, and the increasing power of intra-regional trade in mitigating the exposure of the region to adverse global shocks.

3.2.2 Regional Variations

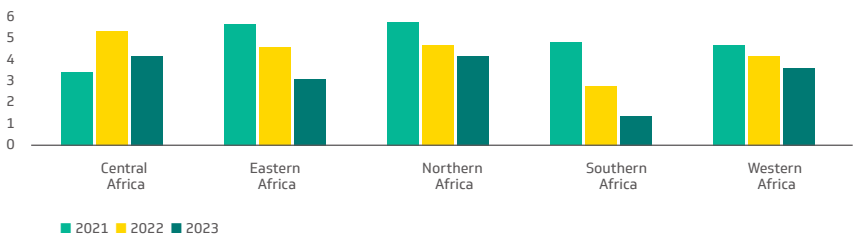
The continent's economic performance in 2023 masks variations across sub-regions and countries. Northern Africa emerged as the joint fastest-growing sub-region on the continent, with average real GDP growth of 3.9 percent in 2023, a marginal decline from 4.4 percent in 2022 (Table 3.2 and Figure 3.2). Growth in the region was supported by strong recoveries in Libya and Morocco. The combined economic growth of these countries was high enough to offset the slowdown in Algeria, Egypt, and Mauritania.

Despite emerging as the joint fastest growing sub-region, real GDP growth slowed in **Central Africa**. Output expansion at 3.9 percent in 2023 was slower than the 5 percent in 2022. While most Central Africa countries recorded strong output growth during the year under review—4 percent by Cameroon, 4 percent by Republic of the Congo, and 6.1 percent by Democratic Republic of the Congo —the sub-region's output performance was also influenced by Equatorial Guinea, where GDP contracted by 5.9 percent due to ageing oil wells. Most economies in the sub-region are dependent on commodities and natural resources. Overall, the sub-region's growth performance was affected by the war in Ukraine and its associated impact on the cost of living.

Real GDP growth in **Western Africa** declined to 3.4 percent in 2023 from 3.9 percent in 2022. The region showed some resilience, reflected in the strong growth of countries such as Benin (5.5 percent), Burkina Faso (4.4 percent), The Gambia (5.6 percent), Mali (4.5 percent), Togo (5.4 percent), Cote D'Ivoire (6.2 percent), and Senegal (4.1 percent). Nigeria, the region's largest economy, recorded GDP growth of just 2.9 percent, reflecting poor performance of the oil sector and slow growth in the non-oil sector.

Growth in **Eastern Africa** decelerated for the second year running, falling to 2.9 percent in 2023 from 4.3 percent the year prior. Even though the production structure in the region is relatively diversified, most countries in the region are net importers of commodities and were adversely impacted by high commodity and food prices. Output performance in the region was also affected by recurrent climate shocks, such as drought. The combination of these shocks, exacerbated by disruptions to global supply chains, contributed to the region's poor economic performance. Tight monetary and fiscal policy to curb inflation, which constrained consumption expenditure and was compounded by contractions in

Figure 3.2. Africa output development by region, 2021 to 2023 (percent)



Sources: International Monetary Fund, World Economic Outlook (January 2024); Afreximbank Research.

Box 3.1: Addressing Africa's Sovereign Debt Challenges: The Role Of African Multilateral Financial Institutions

Africa has faced numerous challenges in managing its sovereign debt in recent years, with many countries experiencing mounting vulnerabilities characterized by high levels of sovereign debt accumulation. A combination of factors has exacerbated this trend, including weak fiscal management, low commodity prices, a lack of appropriate financing to address infrastructure gaps, urgent need to undertake responses measures to the impact of the COVID-19 pandemic, and more recently, the economic disruptions linked to the Russia–Ukraine conflict. These have led to a sharp decline in revenues at a time when public expenditure requirements are surging, leading to increased borrowing needs and susceptibility to external shocks. Africa's debt burden has grown significantly, especially since the 2007–08 global financial crisis, increasing by 259 percent from US$510 billion in 2008 to US$1.83 trillion in 2022, according to computation by the UN Global Crisis Response Group, based on IMF World Economic Outlook (April 2023 database). Africa's debt stock has also exhibited episodic tendencies with debt levels spiking amidst global shocks (e.g., the 2007–08 global financial crisis; the commodity price slump of 2014–16; 2019–20 COVID-19 pandemic downturn, and 2022 Russia–Ukraine conflict). Accordingly, the continent's aggregated debt-to-GDP ratio surged from 31.2 percent in 2008 to 68.6 percent in 2023. The expansion of loans from private creditors over the past decade, to meet the needs of governments' financing of budget deficits in many countries, has contributed to the rise in debt stock across the region. At the end of 2023, debt from the private creditor sources accounted for 54.3 percent of total sovereign debt, outpacing those from bilateral and multilateral lenders. Tight monetary policy in response to high and persisting inflationary pressures has led to a prohibitively high cost of borrowing, with debt service accounting for about one-fifth of domestic revenue in 2023. In the context of escalating debt levels and heightening vulnerability, many African countries have had increasing challenges in accessing international capital markets in the post-pandemic period. Eurobond issuances only resumed in early 2024, led by Benin, Côte d'Ivoire, and Kenya, albeit with higher-than-historical interest rates. The rising accumulation of sovereign debt across Africa is raising concern over financial sustainability and the implications on economic growth. At the end of 2023, most of the sustainability indicators deteriorated and entered the risky zones. The deterioration in debt sustainability contributed to some sovereign defaults, which reached the highest record in three decades with US$149.4 billion impaired loans in 2022. The risk of a potential "contagion effect" to other sovereigns in debt distress is concerning.

To address these challenges, bilateral and multilateral creditors, such as the Paris Club and the International Monetary Fund (IMF), have traditionally provided debt relief and restructuring assistance, allowing concerned sovereigns to regain fiscal sustainability. However, these solutions have their limitations, particularly in the context of African countries. For instance, this approach is often too slow, restrictive, and inflexible, focusing mainly on debt owed to official creditors while overlooking private-sector debt, all of which may hinder growth prospects. Lessons drawn from the COVID-19 pandemic and a recent round of climate negotiations underscore the need to effectively manage exposure to external financing, especially given the associated risk of volatility. In fact, Africa is becoming less relevant for traditional official creditors while their investment and profitability motives are beginning to drive commercial creditors.

As the continent strives to address the growing debt challenge, African Multilateral Financial Institutions (AMFIs) play a key role. These institutions have a deep understanding of Africa's economic and financial landscape, and thus are in a unique position with the capacity to provide tailored solutions for each country. They offer financial support of all sorts, technical expertise, and policy guidance to help countries improve their debt management practices and achieve debt sustainability. In addition, AMFIs promote debt transparency and accountability, helping countries improve their reporting practices and strengthen their debt management institutions, to enhance transparency and reduce the risk of debt distress. The following are examples of the role AMFIs are playing and can still play in the context of the ongoing debt sustainability challenges confronting African economies:

1. **Financing**: AMFIs are helping African countries address their infrastructure financing gaps, promote economic diversification, and finance post-COVID-19 recovery. Through alternative sources of financing, AMFIs can reduce the reliance on external commercial borrowing, which has been a significant driver of debt accumulation in recent years.

2. **Debt restructuring and management**: AMFIs provide technical assistance to countries in debt distress, helping them negotiate with creditors and develop comprehensive debt management strategies. In addition, AMFIs facilitate debt swaps, where debt is exchanged for investments in critical sectors such as health, education, and infrastructure. Going forward these activities can be expanded.

3. **Advocacy**: AMFIs advocate for better debt management practices both nationally and internationally. They promote debt transparency, responsible borrowing, and lending practices, while encouraging the adoption of debt sustainability frameworks. Through a unified voice, AMFIs push for changes to address sovereign debt challenges.

4. **Capacity building**: AMFIs encourage capacity building through training programs, technical assistance, and knowledge-sharing platforms on debt management best practices, debt restructuring, and debt negotiation skills. By bolstering the capacity of

African governments to manage their debt effectively, these institutions contribute to promoting transparency, accountability, and good governance across the continent. Moreover, AMFIs promote regional cooperation and coordination on debt issues through initiatives such as the African Debt Sustainability Initiative (ADSI) and African Union's Agenda 2063. These initiatives aim to enhance debt transparency, facilitate dialogue among countries and creditors, and support efforts to achieve sustainable debt levels. By fostering collaboration and knowledge-sharing, AMFIs create an environment conducive to addressing sovereign debt challenges collectively and sustainably.

Afreximbank, a leading AMFI, supports African countries in facing these challenges, especially in times of crisis. For example, in 2015 it introduced the Countercyclical Trade Liquidity Facility (COTRALF), designed to help eligible member countries manage more effectively the adverse effects of economic shocks, commodity price shifts, or terrorism related events that led, or may lead, to significant shortages of foreign exchange earnings. Afreximbank has disbursed over US$10 billion to African central and commercial banks, enabling beneficiaries to adapt and adjust in an orderly manner to the commodity price shocks which constrained their export earnings and created liquidity and balance-of-payments crises. Similarly, in 2020 the Bank launched the Pandemic Trade Impact Mitigation Facility (PATIMFA) in response to the economic, social, and financial fallout of the COVID-19 pandemic. By the end of 2021, Afreximbank disbursed an aggregate of about US$8 billion, and in 2022 it introduced the Ukraine Crisis Adjustment Trade Finance Programme for Africa (UKAFPA), a programme of credit facilities developed to manage the impact of the Ukraine crisis on African economies and businesses. As of December 2022, the Bank had distributed more than US$9 billion through the programme, while the outstanding loans under the programme stood at US$8.44 billion at the end of the year.

In terms of strategic interventions, AMFIs must develop strategic measures to address Africa's risk perception with a view to addressing its so-called perception premiums. With more than US$108 billion in assets, AMFIs can significantly influence the continent's financial landscape, increasing strategic investments in projects related to infrastructure development, trade facilitation, financial inclusion, and climate resilience. AMFIs should also help change the narrative about the elevated risks of African sovereigns by bringing more flexibility to private lending in terms of borrowing cost and loan maturity. AMFIs can also develop facilities that will reinforce trade and economic resilience, especially during economic and financial crises. AMFIs can further offer instruments including risk transfer and risk sharing mechanisms to mitigate risk perception. Such strategy should contribute to curbing rising borrowing costs. AMFIs can foster the growth of local currency debt capital markets and use these as mechanisms to reduce foreign currency denominated debts in meeting critical infrastructure and other financing needs.

Building stronger institutions with sound fiscal and debt management strategies is critical in the quest for creditworthiness and an attractive private sector. Accordingly, technical assistance and specialized training programs empower African countries to build sustainable frameworks for effective debt management. Moreover, further capacity building in terms of debt management, fiscal planning, domestic resource mobilization, and economic governance will help countries adopt fiscal discipline. AMFIs should also support countries in monitoring the debt position through periodic assessments of debt sustainability to inform their lending decisions.

To strengthen Africa's position in an evolving global financial architecture, in February 2024, a group of AMFIs launched the Alliance of African Multilateral Financial Institutions, dubbed the *Africa Club*,[2] under the auspices of the African Union Commission. The alliance fosters collaboration, cooperation, and coordination among its member institutions by actively engaging them in debt management, restructuring, and negotiation processes. More specifically, it acts as a mediator, advocating for borrowing conditions in line with each country's economic development and debt-carrying capacity.

AMFIs have a pivotal role to play in addressing Africa's sovereign debt challenges. Through adequate and innovative financing mechanisms, debt management processes, and capacity-building programs, AMFIs can play a transformative role in securing a sustainable economic future for African countries. Furthermore, through the Africa Club, AMFIs could guide members on accessing capital markets, while at the same time encouraging best practices in terms of debt management and paving the way for a more resilient and prosperous Africa.

2 The Club's founding members include Africa Finance Corporation (AFC), Afreximbank, Trade and Development Bank Group (TDB Group), African Reinsurance Corporation (Africa Re), African Trade and Investment Development Insurance (ATIDI), Shelter Afrique Development Bank (SHAFDB), and PTA Reinsurance Co. (ZEP – RE).

The Operating Environment

Table 3.2: Africa: Real GDP Growth, 2021- 2023 (annual percent change)

Country	2021	2022	2023
Algeria	3.8	3.6	4.2
Angola	1.2	3.0	0.5
Benin	7.2	6.3	5.8
Botswana	11.9	5.8	3.2
Burkina Faso	6.9	1.8	3.6
Burundi	3.1	1.8	2.7
Cabo Verde	5.6	17.1	4.8
Cameroon	3.6	3.6	4.0
Central African Republic	1.0	0.5	0.7
Chad	-0.9	3.1	4.4
Comoros	2.0	2.6	3.0
Congo, Democratic Republic	6.0	8.8	6.1
Congo, Republic	1.1	1.8	4.0
Côte d'Ivoire	7.1	6.9	6.2
Djibouti	4.5	3.9	7.0
Egypt	3.3	6.7	3.8
Equatorial Guinea	-0.4	3.2	-5.9
Eritrea			
Eswatini	10.7	0.5	5.1
Ethiopia	6.3	6.4	7.2
Gabon	1.5	3.0	2.3
Gambia	5.3	4.9	5.6
Ghana	5.1	3.1	2.3
Guinea	5.6	4.0	5.7
Guinea-Bissau	6.4	4.2	4.2
Kenya	7.6	4.8	5.5
Lesotho	1.7	1.6	1.9
Liberia	5.0	4.8	4.6
Libya	28.3	-8.3	10.2
Madagascar	5.7	4.0	3.8
Malawi	4.6	0.8	1.6
Mali	3.1	3.5	4.5
Mauritania	0.7	6.4	4.8
Mauritius	3.4	8.9	6.9
Morocco	8.0	1.3	3.0
Mozambique	2.4	4.4	6.0
Namibia	3.5	4.6	3.2
Niger	1.4	11.9	1.4
Nigeria	3.6	3.3	2.9
Rwanda	10.9	8.2	6.9
São Tomé and Príncipe	1.9	0.1	-0.3
Senegal	6.5	4.0	4.1
Seychelles	0.6	15.0	3.7
Sierra Leone	4.1	3.5	3.4
Somalia	3.3	2.4	2.8
South Africa	4.7	1.9	0.6
South Sudan	5.3	-5.2	-0.1
Sudan	0.5	-2.5	-18.3
Tanzania	4.8	4.7	5.0
Togo	6.0	5.8	5.4
Tunisia	4.6	2.6	0.4
Uganda	5.5	6.3	4.8
Zambia	6.2	5.3	4.3
Zimbabwe	8.4	6.5	5.3

Source(s): International Monetary Fund, World Economic Outlook (WEO) Database, April 2024, Afreximbank Research

agriculture and manufacturing activities, also undermined economic and business activities.

GDP growth in **Southern Africa** was 1.3 percent in 2023, lower than the 2.6 percent growth recorded in 2022. Output performance in the region reflected persistent weaknesses in the economy of South Africa, the region's largest economy and main trading partner. A challenging global environment, energy constraints characterized by persistent and rotational load shedding, and logistical constraints undermined economic activities. These factors contributed to underperformance of key sectors including agriculture, manufacturing, and construction, and a sharp deceleration in output growth. The real GDP of South Africa grew at 0.6 percent in 2023, down from 1.9 percent in 2022. Growth deceleration in the region was also influenced by muted growth in Angola, where GDP grew by 0.5 percent in 2023, a sharp decline from 3 percent growth the previous year.

3.2.3 Price developments

Driven by elevated food and energy prices, African countries continued to grapple with inflationary pressures. The region's inflation rate reached 18.5 percent in 2023, a record high, up from 14.3 percent in 2022. Other factors contributing to heightened inflationary pressures on the continent included deprecation of local currencies against the US dollar, removal of subsidies, recurrent electricity blackouts constraining manufacturing output in some countries, and floods and other extreme weather events. These developments masked price disparities across countries in the region, with 18 countries posting inflation rates in the double digits.

Table 3.3 Africa: Inflation, 2021-2023 (annual percent change)

Country	2021	2022	2023
Algeria	7.2	9.3	9.3
Angola	25.8	21.4	13.6
Benin	1.7	1.4	2.8
Botswana	6.7	12.2	5.1
Burkina Faso	3.9	13.8	0.9
Burundi	8.3	18.9	27.0
Cabo Verde	1.9	7.9	3.1
Cameroon	2.3	6.3	7.2
Central African Republic	4.3	5.6	3.2
Chad	-1.6	6.9	2.7
Comoros	0.0	12.4	8.5
Congo, Democratic Republic	9.0	9.3	19.9
Congo, Republic	2.0	3.0	4.5
Côte d'Ivoire	4.2	5.2	4.4
Djibouti	1.2	5.2	1.8
Egypt	4.5	8.5	24.4
Equatorial Guinea	-0.1	4.9	2.5
Eritrea			
Eswatini	3.7	4.8	4.9
Ethiopia	26.8	33.9	30.2
Gabon	1.1	4.3	3.6
Gambia	7.4	11.5	17.0
Ghana	10.0	31.7	37.5
Guinea	12.6	10.5	7.8
Guinea-Bissau	3.3	7.9	7.2
Kenya	6.1	7.6	7.7
Lesotho	6.0	8.3	6.3
Liberia	7.8	7.6	10.1
Libya	2.9	4.5	3.4
Madagascar	5.8	8.2	9.9
Malawi	9.3	20.8	30.3
Mali	3.8	9.7	2.1
Mauritania	3.6	9.6	4.9
Mauritius	4.0	10.8	7.0

Table 3.3 Africa: Inflation, 2021-2023 (annual percent change)

Country	2021	2022	2023
Morocco	1.4	6.6	6.1
Mozambique	5.7	9.8	6.1
Namibia	3.6	6.1	5.9
Niger	3.8	4.2	3.7
Nigeria	17.0	18.8	24.7
Rwanda	0.8	13.9	14.0
São Tomé and Príncipe	8.1	18.0	21.2
Senegal	2.2	9.7	5.9
Seychelles	9.8	2.6	-1.0
Sierra Leone	11.9	27.2	47.7
Somalia	4.6	6.8	6.1
South Africa	4.6	6.9	5.9
South Sudan	30.2	-3.2	40.2
Sudan	359.1	138.8	171.5
Tanzania	3.7	4.4	4.0
Togo	4.5	7.6	5.1
Tunisia	5.7	8.3	9.3
Uganda	2.2	7.2	5.4
Zambia	22.0	11.0	11.0
Zimbabwe	98.5	193.4	667.4

Source: International Monetary Fund, World Economic Outlook Database, April 2024

The **West Africa** sub-region's 2023 inflation rate of 16.6 percent, up from 14.9 percent the year before, was the highest on the continent. The elevated rate was driven in part by the struggles of several large economies in the region, which experienced record-high inflation during the year. Ghana and Nigeria recorded annual average inflation rates of 42.2 percent and 25.1 percent, respectively. Inflation of 42.9 percent in Sierra Leone further increased pressure on prices in the sub-region.

The annual inflation rate in **Northern Africa** almost doubled during the review period, surging to an estimated 14.1 percent in 2023 from 8.1 percent in 2022. The surge reflects high inflation in Egypt, the largest economy of the sub-region, of 23.5 percent.

The **Central Africa** sub-region recorded the smallest increase in the rate of inflation among the three sub-regions that experienced an increase in their inflation rates. The sub-region's inflation rate increased by 0.6 percentage points, to 7.1 percent in 2023 from 6.5 percent in 2022. With most countries in Central Africa members of the Central African Economic and Monetary Community, the peg of their common currency, the CFA franc, to the euro helped enhance price stability.

In contrast to the generally upward trajectory of inflation in most regions, two of the five sub-regions, Eastern and Southern Africa, experienced declines in inflation rates. In **Eastern Africa**, annual average inflation rates fell to 14.9 percent in 2023 from 15.9 percent in 2022, largely due to low-price growth in several countries including Djibouti (1.2 percent), Kenya (7.7 percent), Mauritius (7.8 percent), Tanzania (4 percent), and Uganda (5.8 percent).

Despite triple-digit inflation recorded in Zimbabwe (314.5 percent) due to compounded economic challenges, and double-digit inflation in a few other

The Operating Environment

countries in **Southern Africa**, including Angola (13.1 percent), Malawi (27.7 percent), and Zambia (10.6 percent), inflation in the sub-region was 8 percent in 2023, down from 9.8 percent in 2022.

3.3 INTERNATIONAL FINANCIAL MARKETS AND FINANCING CONDITIONS

3.3.1 Financial Markets

Global financial markets recovered in 2023, with equity valuations reaching pre-pandemic levels. Since the start of the year, equity prices in the United States have increased more than 10 percent. The Dow Jones Industrial Average recorded year-to-date appreciation of 13 percent compared with a fall of 9 percent in 2022, while the Standard & Poors 500 (S&P) ended the year under review with a 24 percent gain, compared with a loss of 20 percent in 2022. The NASDAQ index also gained 53.8 percent during the review period, its best performance since 1999, compared with a significant loss of about 33 percent in 2022.

The United States bond market rebounded in 2023, bolstering the confidence of fund managers whose portfolios had been hit by inflationary pressures and an appreciating US dollar that made bonds unattractive to investors. The S&P Treasury Bond Index posted a return of 4.4 percent in 2023, up from a negative return of 10.7 percent in 2022. The 30-year United States Treasury bond recorded a return of 4 percent compared with a negative return of 35 percent in 2022. Global corporate bonds rallied after April 2023, with spreads constricting below long-term averages with respect to the high-yield segment. Spreads outperformed in the consumer cyclical and technology sectors, consistent with equity performance. This reflected strength in the household sector and artificial intelligence-related investor enthusiasm, even though, the narrower spreads did not fuel corporate funding costs. The S&P 500 bond index (which tracks performance of corporate bonds) recorded a return of 8.4 percent, up from a negative 14.2 percent in 2022. That return reflected easing inflation, a resilient economy, and the prospects of policy rate cuts.

Stock prices in other regions of the world also climbed in 2023. European shares closed 2023 with annual gains of almost 13 percent in anticipation of softer monetary policy from major central banks the subsequent year. The European share benchmark did recover from poor performance in March, when global financial markets were rattled by the collapse of Credit Suisse in Switzerland and Silicon Valley Bank in the United States. The Pan-European Stoxx 600 ended 2023 posting returns of 12.6 percent, compared with a fall of 12.8 percent in 2022. Rate-sensitive technology stocks were among the best performers. The United Kingdom's Financial Times Stock Exchange 100 Index also ended 2023 up by 3.8 percent but trailed rival markets in Europe and the United States. Coupled with heightened geopolitical tensions, the struggles of the British economy weakened investment and led to a gloomy economic outlook. The top 40 index of Africa's largest stock exchange, the Johannesburg Stock Exchange, posted nine percent returns at the end of 2023.

In 2023, stocks performed better across developed and emerging economies as inflation eased, despite geopolitical tensions in some parts the world. With inflation projected to ease further in 2024, investors are increasingly upbeat about interest rate trends, which have remained high across the globe to curb inflation.

Global risk aversion due to heightened geopolitical tensions shifted investors' preference towards safe-haven assets, leading to sharp appreciation in the US dollar against most currencies. A cycle of aggressive interest rate hikes initiated by the Federal Reserve in 2022 also drove the strength of the US dollar. However, with inflation easing, investors are focused on possible rate cuts in 2024. These sentiments have already affected both bond and equity markets. The euro appreciated in value by 3.2 percent and the British pound by 5.3 percent in 2023 against the US dollar. Many emerging market economies had the best-performing currencies in 2023, offering higher interest rates than even the US dollar. For example, central banks in Brazil, Hungary, and Mexico pursued more aggressive policy hikes than the United States Federal Reserve in 2023 in response to rising inflation. The tighter monetary policy stance contributed to preventing countries from experiencing sudden capital outflows despite rising United States interest rates.

Key currencies in Africa suffered large losses against the US dollar in 2023. The Nigerian naira depreciated by 42.6 percent, the Egyptian pound by 30.7 percent, the Ghanaian cedi by about 27.8 percent, the Kenyan shilling by more than 21 percent, the South African rand by 7.5 percent, and the Sudanese pound by more than 5 percent.

3.3.2 Financing Conditions

Global inflation continued a downward trajectory, with both food and energy prices declining relative to 2022 peaks. The persistence in core inflation, however, slowed the pace of disinflation. Policy rate hikes by global inflation continued a downward trajectory, with both food and energy prices declining. The persistence in core inflation, however, slowed the pace of disinflation. While policy rate hikes by major central banks slowed, they remained elevated amidst tight financial conditions. Higher

long-term bond yields and elevated spreads continued to fuel high external borrowing costs among developing economies. In general, gradual disinflation continued as a result of tighter monetary policy pass-through to core inflation.

The strained global financial conditions were driven largely by tight monetary policy stances, with core inflation remaining persistently high in many countries. Elevated policy rates kept long-term bond yields relatively high amidst stable spreads. Lending standards also tightened, and demand for loans dropped in many advanced economies due primarily to heightened uncertainty in the global economy, along with increased borrower risks and more challenging bank funding conditions. Elevated spreads and higher long-term bond yields kept external borrowing costs significantly high for developing economies. Higher policy rates, long-term bond yields, and the renewed strength of the US dollar may continue to keep financing conditions tight.

The peak in the tightening cycle was anticipated, however, toward the close of 2023 or beginning of 2024 as central banks signalled the possibility of gradually easing policy rates. Progress made in bringing down inflation and the expectation of an end to the tightening cycle supported the equity market rally.

In April 2023 the United States Federal Reserve increased the target range for the Federal funds rate by 50 basis points to 5.25 to 5.50 percent. The European Central Bank hiked policy rates by 100 basis points, with the deposit facility rate at 4.0 percent—the highest increase in the bank's history. After initially staying put, the Reserve Bank of Australia and the Bank of Canada, in the second quarter of 2023, hiked policy rates in the second half of the year. The Bank of England, Norges Bank, Sveriges Riksbank, and the Swiss National Bank followed suit, tightening policy rates by 25 basis points each.

The Bank of Japan maintained its short-term policy rate in negative territory. The bank committed to continuing yield curve control with the goal of ensuring its price stability target of 2 percent is achieved.

From a historical perspective, the tightening cycle has been unusual. The United States had continued to experience negative real federal funds rates in the first quarter of 2022, despite pursuing one of the most aggressive hiking cycles for decades. A similar situation occurred in other advanced economies, driven in part by continued elevated inflation in many countries.

Developing economies have witnessed significant increases in real policy rates since 2021, with inflation declining during 2023, leading investors to factor in substantial rate cuts in pricing for 2024. Inflation has moderated in many developing economies, especially in Latin America, despite survey-based expectations. This trend suggests inflation may stay above target levels through 2024 in Colombia, Hungary, Poland, and Romania. The early and aggressive policy tightening in developing economies has pushed real rates significantly higher on both ex-ante and ex-post basis in many countries. Developing market economies seem to have reached the natural peak in their hiking cycle, with monetary policy rates and real interest rates staying at or near historical highs.

Globally, lending conditions continued to tighten as standards and terms became more restrictive. In the United States, the eurozone, and some developing economies, loan standards tightened.

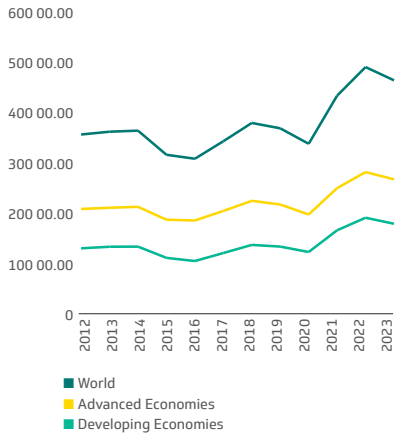
Chapter Four

Global Trade and Trading Environment

4.1 GLOBAL TRADE

The global trade environment remained fragile in 2023 due to escalating geopolitical tensions, rising global fragmentation, and supply chain bottlenecks. These challenges were exacerbated by protracted trade and technology wars between the United States and China, the world's two largest trading economies. As a result, the most recent estimates from the World Trade Organisation (WTO) show that growth in the volume of global merchandise trade contracted by 1.2 percent in 2023, after expanding by 3 percent in 2022. Trade in current US dollar terms is estimated to have declined to about US$47.2 trillion in 2023, from US$49.8 trillion in 2022, weighed down in part by low global demand for manufactured goods arising from still-high energy prices and inflationary pressures.

Figure 4.1 Trends in global merchandise trade (US$billion)



Source: International Monetary Fund, Direction of Trade Statistics (2024).

In developed economies, the volume of merchandise exports, which recovered strongly with an increase of 7.3 percent in 2021, decelerated sharply for two consecutive years, to an estimated 3.8 percent in 2022 and 2.0 percent in 2023. Merchandise imports contracted by 0.95 percent in 2023 from about 5.3 percent in 2022, after a strong rebound to 10.5 percent in 2021. In North America, the volume of merchandise exports lost steam, decelerating by 3.6 percent in 2023 from 4.2 percent in 2022. Merchandise imports contracted by an estimated 1.2 percent in 2023 from their robust expansion of 6 percent in 2022. In Europe, growth in the volume of merchandise exports trended downward to 0.4 percent in 2023 from 3.4 percent in 2022, after an impressive 8 percent recovery in 2021. Merchandise imports contracted by 0.7 percent in 2023 from a sturdy expansion of about 5.7 percent in 2022.

Developing economies, which have been the major drivers of global growth and trade, also continued to feel the impact of the challenging global environment. As a group, their volume of merchandise exports expanded at a modest growth rate of just about 1.2 percent in 2023, significantly down from the 2.9 percent growth witnessed in 2022. Their merchandise imports were also affected, with growth expanding by an estimated 3.2 percent in 2023, down from the 4.6 percent achieved in 2022. Asia's performance was particularly affected, with merchandise exports expanding modestly by 0.6 percent in 2023 from 0.4 percent in 2022. The year was also difficult for imports, which contracted by 0.4 percent in 2023 from a contraction of 0.5 percent in 2022.

In South and Central America, merchandise imports contracted by 1 percent in 2023 after growing by 3.6 percent in 2022. Merchandise exports slackened by an estimated 1.7 percent in 2023 compared with 2.2 percent growth the year prior due to volatile commodity prices and weak demand from several of the region's major trading partners, most notably the European Union, the United States, and China. As a result, exports from Argentina, Bolivia, Colombia, and Uruguay contracted by 25.3 percent, 21.6 percent, 13.7 percent, and 19.2 percent, respectively, weighing down the region's overall export performance during the review period (Inter-American Development Bank 2024).

4.2 GLOBAL TRADE ENVIRONMENT

In 2023, the global environment faced multiple headwinds. The review period was particularly difficult for global trade as the protracted Russia-Ukraine war and the eruption of the Gaza-Israel conflict heightened geopolitical tensions and adversely impacted global supply chains. At the same time, rising climate change and its associated disruptions further constrained global supply chains. Stubbornly high inflationary pressures compelled most central banks around the world to maintain a tight monetary policy. These pressures undermined investment and growth, with significant dampening effects on global demand and international trade. Moreover, moderate growth and depressed domestic demand in China arising from a prolonged downturn in its property sector put further pressure on global demand and trade.

The review period witnessed other trade tensions between several members of the WTO. For instance, the trade tensions between the United States and China over restrictions on semiconductors, known as the "tech war," continued to escalate in 2023. As a backdrop to the tensions over technology between the two countries, in August 2022, the United States Congress passed the CHIPS and Science Act, a law that approved the provision of subsidies and tax breaks to boost the production of advanced semiconductors in the United States. Following that Act, the Biden Administration imposed restrictions on exports of chips and chip-making technology to China. These prompted China to file a complaint in December

Global Trade and Trading Environment

2022, contending that these restrictions violate several WTO agreements, including those related to the General Most-Favoured-Nation Treatment and the General Elimination of Quantitative Restrictions. China has requested consultations with the United States under the WTO dispute settlement mechanism. While the United States has notified the chair of the Dispute Settlement Body that it has accepted to enter consultations with China, it has also indicated that the measures are about national security and therefore are not subject to review or subject to resolution by the WTO dispute settlement process (WTO 2023).

While the issue remained unresolved, tensions between the two countries heightened in 2023, as China instructed official institutions in the country to refrain from using personal computers and servers equipped with microprocessors developed by Advanced Micro Devices, Inc. and Intel. Corporation, two of the largest semiconductor companies in the United States. This decision by the Chinese Authorities aims at strengthening the country's domestic semiconductor autonomy. Accompanying these restrictive measures, the Chinese authorities published a list of 'safe and reliable' processors and operating systems that have been authorised for use in the country—all developed by Chinese companies. In response, the US Department of Commerce blacklisted a number of Chinese semiconductor companies including Huawei, Semiconductor Manufacturing International Corporation, and Shanghai Micro Electronics. The tensions between the two countries are likely to escalate, with potential dampening effects on their technology industries.

There were also renewed trade tensions between the European Union (EU) and Indonesia in 2023 over the imposition by the EU of countervailing duties of between 8 and 18 percent on imports of subsidised biodiesel from Indonesia. The measures were imposed for five years, from December 2019 to December 2024, after the EU Commission's investigation revealed that the subsidises allowed Indonesian biodiesel producers to access cheap raw materials at below-market prices, which makes EU producers less competitive. Indonesia is the world's largest palm oil producer, and the EU is its third biggest market for palm oil, and also an important export destination for its biodiesel, a product derived from palm oil. Since the imposition of countervailing duties, biodiesel exports to the EU from Indonesia have been adversely affected, dropping by more than 95 percent, with a significant dampening effect on Indonesia's aggregate biodiesel exports. As a result, in August 2023, Indonesia requested WTO dispute consultations with the EU, arguing that the duties imposed by the bloc along with the investigation that led to those duties were inconsistent with WTO provisions. In December 2023, the WTO dispute settlement body agreed to establish a panel to review and discuss the validity of the duties.

At the end of 2023, WTO membership remained unchanged at 164 members, covering 98 percent of global trade. Despite the challenging global environment characterised by the Russia-Ukraine and Gaza-Israel wars and geopolitical tensions, trade tensions, and disputes, countries continued to maintain their membership in the organisation. Twenty-four countries, including nine African countries (Algeria, Comoros, Equatorial Guinea, Ethiopia, Libya, São Tomé and Príncipe, Somalia, South Sudan, and Sudan), continued negotiating their accession to the WTO. Eritrea is the only African country not a member or observer not negotiating for WTO membership.

The review period 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, several countries expressed interest in membership of the RCEP, with three countries, namely Bangladesh, Hong Kong, and Sri Lanka, applying for accession to 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 trading 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 it. This brought the number of countries having ratified the AfCFTA to 47 by the end of 2023.

Other key milestones in the implementation of the AfCFTA were also achieved during the review period. The negotiations for the Protocol on trade in goods and services made significant progress in 2023, with 48 tariff concessions, representing 87 percent of the African Union membership having been submitted, 46 of which have been approved by the Council of Ministers. Regarding negotiations on rules of origin (RoO), progress has also been encouraging, with negotiations with relevant partners having led to an

agreement on the RoO for over 92.3 percent of the traded goods, as of end of 2023. While an agreement is yet to be reached regarding negotiations on the RoO for the automative and textile and clothing sectors, steps are being taken to expedite the process. For instance, the AfCFTA Council of Ministers created an Automotive Task Force and adopted an automotive strategy to reach consensus between the negotiating parties.

Afreximbank continues to provide support to the AfCFTA through products and initiatives to facilitate implementation. During November 2023, Afreximbank, in collaboration with the African Union Commission and the AfCFTA Secretariat, held the third edition of the Intra-African Trade Fair (IATF) in Cairo, hosted by the government of Egypt.

This edition, which saw significant growth in the number of exhibitors, visitors, and speakers, facilitated trade and investment deals of around US$43 billion. In addition, IATF 2023 dedicated special sessions, including the Creative Industries, Trade and Investment Forum, and an Automotive Show, as part of Afreximbank's efforts to promote African economic integration and intra-African trade, in support of implementation of the AfCFTA.

Other products and initiatives developed by the Bank to support implementation of the AfCFTA include the Adjustment Facility Fund established by the AfCFTA Secretariat and Afreximbank to support African countries and the private sector to effectively participate in the new trading environment established under the AfCFTA. The 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 opportunities created by the AfCFTA.

The Pan-African Payment and Settlement System (PAPSS), the Bank's flagship initiative, developed in collaboration with the African Union, had also achieved important milestones as of end of 2023, with a total of 13 central banks, 114 commercial banks, and 10 switching service providers across the continent having become members of the initiative. The Bank has also established strategic partnerships with several commercial banks and other financial institutions to accelerate implementation of PAPSS and boost 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. This will reduce the challenges posed by liquidity constraints, 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 Bank's signing 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

With more than 36 percent of export earnings of African countries derived from oil revenues, commodity prices are important in shaping the performance of exchange rate and external reserves. Despite the challenging global environment, high commodity prices, particularly crude oil, positively impacted export receipts and balance of payments, reversing the downward trajectory of Africa's reserves position in 2022. Africa's foreign exchange holdings, which contracted by 2.3 percent year-on-year to US$401.3 billion in 2022, expanded by an estimated 2.6 percent year-on-year to US$411.9 billion in 2023 (Table 4.1).

Oil prices remained elevated in 2023, due in part to oil production cuts by members of OPEC. Several major oil-exporting countries in the region were among the main beneficiaries, as export revenues increased. The effect was an increase in their foreign exchange reserves. These countries include Algeria (13.9 percent), Angola (3.9 percent), Cameroon (28 percent), Chad (83.6 percent), the Republic of Congo (59.7 percent), Equatorial Guinea (32.3 percent), and Libya (1.9 percent). In addition to the price of crude oil, an increase in the price of base metals and agricultural commodities boosted Africa's stock of reserves. Several non-oil exporting African countries saw their reserves increase, including Botswana (9.3 percent), Cabo Verde (22.8 percent), Morocco (12.2 percent), Rwanda (15.5 percent), South Africa (8.2 percent), Tunisia (28.1 percent), and Uganda (8.7 percent).

Apart from commodity prices, continued capital inflows further boosted the continent's reserve position, driven by greenfield projects, support from multilateral and regional development finance institutions and bilateral partners, and improved tourist arrivals and remittances. These positive developments helped raise (though modestly) the region's average import cover to 5 months in 2023, up from 4.7 months in 2022, above the IMF threshold of 3 months.

These developments contributed to a remarkable upturn in the performance of many currencies in 2023, a significant improvement over the year prior, with many of them appreciating against the US dollar. Algeria and Cabo Verde recorded the largest appreciation of their currencies, posting gains of 4.3

Global Trade and Trading Environment

Table 4.1 Reserve Position of African Countries, 2021–23 (UPDATES) (US$ billion, unless otherwise indicated)

	Reserves in Billion US$			Growth (%)			Months of Import Cover		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Algeria	46.1	61.7	70.3	-5.8	34.1	13.9	11.6	15.9	16.5
Angola	14.5	13.5	14.0	5.0	-6.9	3.9	10.1	6.4	7.7
Benin	1.7	1.8	1.8	3.0	11.8	-1.7	5.3	4.2	3.9
Botswana	4.8	4.7	5.1	-2.8	-2.1	9.3	7.9	5.7	10.1
Burkina Faso	1.9	1.0	0.5	22.4	-50.0	-45.5	4.4	1.9	0.9
Burundi	0.3	0.2	0.1	198.8	-35.7	-51.2	2.9	1.4	0.7
Cabo Verde	0.7	0.6	0.7	-3.2	-17.8	22.8	7.2	5.3	6.3
Cameroon	4.3	4.3	5.4	7.2	-1.2	28.0	6.5	5.0	6.4
Central Africa Republic	0.5	0.3	0.5	16.5	-28.1	35.9	8.4	5.3	7.0
Chad	0.4	0.4	0.8	-16.8	18.7	83.6	1	1.7	1.7
Comoros	0.3	0.3	0.3	12.1	-20.2	9.5	10.2	6.6	7.1
Congo Dem. Rep.	3.5	4.4	4.7	363.7	27.9	6.3	2.2	2.0	1.7
Congo Republic	0.8	0.5	0.7	10.8	-43.7	59.7	2	0.9	1.2
Côte d'Ivoire	10.6	9.1	8.5	11.8	-14.0	-6.5	9.5	6.0	5.6
Djibouti	0.6	0.5	0.6	-15.9	-10.3	20.5	1.8	1.0	1.4
Egypt	35.1	27.1	25.5	2.9	-22.8	-5.8	5.8	3.8	4.7
Equatorial Guinea	0.0	1.2	1.5	-22.2	2569.7	32.3	1.3	3.7	7.3
Eritrea	0.2	0.2	0.2	34.8	-10.6	30.1	2.1	1.6	3.4
Eswatini	0.6	0.5	0.6	4.9	-4.3	14.1	4.4	2.5	3.2
Ethiopia	1.8	1.0	0.7	-40.7	-42.3	-30.3	1.9	0.5	0.3
Gabon	1.3	1.7	1.3	-14.0	30.5	-23.0	5.4	3.2	2.5
Gambia	0.7	0.6	0.6	68.6	-15.5	7.9	10	7.6	7.7
Ghana	9.4	6.0	5.4	27.9	-36.0	-10.8	4.7	2.8	2.8
Guinea	1.7	2.2	2.1	14.4	30.8	-8.5	4	4.1	5.0
Guinea, Bissau	0.5	–	-	4.6			15.3	10.4	8.2
Kenya	9.5	8.1	8.6	14.4	-14.8	6.0	5.5	4.0	4.2
Lesotho	0.7	0.6	0.8	5.3	-5.3	35.3	4	3.1	4.6
Liberia	0.6	0.4	0.6	5.9	-22.9	43.4	6.5	2.9	3.5
Libya	75.4	79.2	80.7	3.6	5.0	1.9	38.6	28.9	34.1
Madagascar	2.3	2.2	2.4	17.9	-4.8	7.1	7.7	4.5	4.6
Malawi	0.4	0.4	0.4	-28.0	-13.4	7.6	2.8	1.2	1.7
Mali	2.1	1.1	1.1	23.2	-50.0	6.9	4.3	2.1	1.8
Mauritania	2.0	1.9	1.7	36.5	-8.4	-9.6	6	4.5	3.6
Mauritius	7.8	5.5	5.9	19.9	-30.0	8.3	15.9	12.0	10.1
Morocco	34.4	31.0	34.8	-0.9	-9.7	12.2	7.5	5.5	5.9
Mozambique	3.6	2.6	3.4	-7.8	-27.5	32.3	4.3	2.1	3.3
Namibia	2.8	3.0	2.7	27.3	9.3	-10.8	5.9	4.8	3.6
Niger	1.9	1.8	0.8	7.5	-0.8	-55.0	6.8	5.5	3.7
Nigeria	40.2	37.3	27.4	9.5	-7.4	-26.5	7	5.7	5.7
Rwanda	1.9	1.7	2.0	4.9	-7.7	15.5	5.6	4.1	4.2
São Tomé and Príncipe	0.1	0.0	0.1	-28.5	-48.7	105.4	8.1	2.3	3.8
Senegal	4.2	4.3	4.4	32.9	2.1	3.0	5.6	3.9	4.2
Seychelles	0.7	0.6	0.7	25.5	-8.7	10.5	4.5	3.5	3.7
Sierra Leone	0.9	0.7	0.6	33.7	-28.1	-11.8	6.7	4.3	3.6
Somalia	–	–	-				–	–	
South Africa	50.3	53.2	57.6	6.1	5.9	8.2	6.4	5.8	6.4
South Sudan	1.0			442.3			1.2		
Sudan	1.0	0.5	0.2		-50.0	-50.0		0.6	0.4
Tanzania	6.4	5.2	4.9	33.9	-18.9	-6.0	7.1	3.7	3.6
Togo	2.4	2.2	2.0	41.4	-8.2	-7.8	9.5	7.7	7.6
Tunisia	8.4	6.9	8.8	-10.4	-18.3	28.1	4.3	2.8	3.8
Uganda	4.3	3.6	3.9	12.6	-17.8	8.7	4.8	3.9	3.4
Zambia	2.8	3.0	3.0	128.8	8.9	0.0	5.7	4.8	3.2
Zimbabwe	0.8	0.5	0.2	2519.8	-37.7	-63.5	1.1	0.6	0.3
Total	410.9	401.3	411.9	6.4	-2.3	2.6			
Average							6.5	4.7	5.0

† Growth rates are Afreximbank staff calculations. Blank-Not available

Table 4.2: Africa: Exchange Rate Developments, 2020–2023 (per US$, unless otherwise indicated)

						Percentage change between			
	2019	2020	2021	2022	2023	(4) & (3)	(5) & (4)	(6) & (5)	(7) & (6)
	(3)	(4)	(5)	(6)	(7)				
Algeria – dinar	119.44	126.75	135.00	142.11	135.96	6.13	6.50	5.27	(4.33)
Angola – kwanza	364.83	578.26	624.74	460.57	684.95	58.50	8.04	(26.28)	48.72
Benin – franc	585.96	575.59	554.70	623.76	606.60	(1.77)	(3.63)	12.45	(2.75)
Botswana – pula	10.76	11.46	11.09	12.37	13.60	6.51	(3.22)	11.56	9.92
Burkina Faso – franc	585.96	575.59	554.53	623.80	606.60	(1.77)	(3.66)	12.49	(2.76)
Burundi – franc	1,845.62	1,915.05	1,975.90	2,034.31	2,564.30	3.76	3.18	2.96	26.05
Cabo Verde – escudos	98.50	96.80	93.26	105.53	101.80	(1.73)	(3.65)	13.16	(3.54)
Cameroon – franc	585.96	575.59	554.50	623.76	606.60	(1.77)	(3.66)	12.49	(2.75)
Central African Republic – franc	585.96	575.59	552.40	623.76	605.90	(1.77)	(4.03)	12.92	(2.86)
Chad – franc	585.96	575.59	552.40	623.76	605.90	(1.77)	(4.03)	12.92	(2.86)
Comoros – franc	439.47	431.69	414.30	467.82	455.00	(1.77)	(4.03)	12.92	(2.74)
Congo, Dem. Rep. – Congo franc	1,647.76	1,851.12	1,989.50	2,011.12	2,337.59	(1.90)	(3.57)	1.09	16.23
Congo, Rep. – franc	585.89	574.76	554.24	622.43	606.00	12.34	7.48	12.30	(2.64)
Côte d'Ivoire – franc	585.96	575.59	552.40	623.76	605.90	(1.77)	(4.03)	12.92	(2.86)
Djibouti – franc	177.72	177.72	177.72	177.72	177.70	–	–	–	(0.01)
Egypt – pound	16.82	15.82	15.70	19.21	30.67	(5.97)	(0.75)	22.39	59.67
Equatorial Guinea – franc	585.96	575.59	554.70	623.76	605.90	(1.77)	(3.63)	12.45	(2.86)
Eritrea – nakfa	15.08	15.08	15.08	15.08	15.08	–	–	–	0.03
Eswatini – lilangeni	14.44	16.46	14.78	16.37	18.44	14.02	(10.23)	10.75	12.66
Ethiopia – birr	29.07	34.93	43.82	52.01	54.87	20.15	25.46	18.69	5.49
Gabon – franc	585.96	575.59	554.50	623.76	605.70	(1.77)	(3.66)	12.49	(2.90)
Gambia – dalasi	50.06	51.50	51.22	54.92	60.84	2.87	(0.55)	7.23	10.77
Ghana – cedi	5.21	5.59	5.80	8.27	11.01	7.28	3.73	42.48	33.21
Guinea – Guinea franc	9,183.88	9,565.08	9,814.00	8,782.62	8,625.00	4.15	2.60	(10.51)	(1.79)
Guinea-Bissau – franc	585.96	575.59	554.10	623.76	606.57	(1.77)	(3.73)	12.57	(2.76)
Kenya – shilling	101.99	106.45	109.64	117.87	139.90	4.38	2.99	7.51	18.69
Lesotho – loti	14.45	16.46	14.77	16.36	18.36	13.92	(10.26)	10.74	12.27
Liberia – Liberia dollar	186.43	191.52	166.10	152.93	175.20	2.73	(13.27)	(7.93)	14.56
Libya – dinar	1.40	1.40	4.48	4.81	4.82	(0.02)	220.74	7.34	0.06
Madagascar – ariary	3,618.32	3,787.76	3,841.00	4,096.12	4,423.20	4.68	1.41	6.64	7.99
Malawi – kwacha	745.54	749.53	804.10	941.39	1,164.80	0.53	7.28	17.07	23.73
Mali – franc	585.96	575.59	554.50	623.76	605.70	(1.77)	(3.66)	12.49	(2.90)
Mauritania – ouguiyas	36.69	37.19	36.20	36.30	36.80	1.36	(2.66)	0.28	1.38
Mauritius – rupee	35.47	39.35	41.55	44.18	45.24	10.92	5.60	6.34	2.39
Morocco – dirham	9.62	9.50	8.99	10.16	10.13	(1.25)	(5.35)	13.04	(0.30)
Mozambique – meticals	62.50	69.50	65.46	63.90	63.90	11.20	(5.82)	(2.38)	–
Namibia – namibia dollar	14.45	16.46	14.78	16.36	18.45	13.94	(10.22)	10.66	12.82
Niger – franc	585.96	575.59	554.53	623.76	605.70	(1.77)	(3.66)	12.48	(2.90)
Nigeria – naira	306.42	356.32	398.87	423.32	644.00	16.29	11.94	6.13	52.13
Rwanda – franc	899.35	943.28	988.90	1,030.31	1,160.00	4.88	4.84	4.19	12.59
São Tomé and Príncipe – dobra	21.88	21.51	20.89	23.29	22.75	(1.73)	(2.87)	11.49	(2.32)
Senegal – franc	585.96	575.59	554.70	622.42	605.90	(1.77)	(3.63)	12.21	(2.65)
Seychelles – rupee	14.03	17.62	16.83	14.27	13.88	25.53	(4.46)	(15.19)	(2.75)
Sierra Leone – leone	9,010.22	9,829.93	10,394.20	14,047.67	21,416.20	9.10	5.74	35.15	52.45
Somalia – shilling	–	–	–						
South Africa – rand	14.44	16.46	14.78	16.37	18.44	14.02	(10.23)	10.75	12.66
South Sudan – pound	–	–	–						
Sudan – pound	45.77	54.00	372.10	500.44	596.80	17.98	589.13	34.49	19.26
Tanzania – shilling	2,288.21	2,294.15	2,297.78	2,303.01	2,383.00	0.26	0.16	0.23	3.47
Togo – franc	585.96	575.59	554.70	623.76	606.60	(1.77)	(3.63)	12.45	(2.75)
Tunisia – dinar	2.93	2.81	2.79	3.10	3.11	(4.16)	(0.65)	11.09	0.08
Uganda – shilling	3,699.24	3,710.71	3,580.64	3,682.41	3,725.86	0.31	(3.51)	2.84	1.18
Zambia – kwacha	12.89	18.34	20.17	16.94	20.03	42.31	9.96	(16.03)	18.26
Zimbabwe – Zimbabwean dollar	8.50	51.30	86.40	374.70	3,679.09	503.53	68.42	333.68	881.88

Sources: IFS, 2021; EIU, 2023, † Growth rates are Afreximbank staff calculations. Blank-Not available

Global Trade and Trading Environment

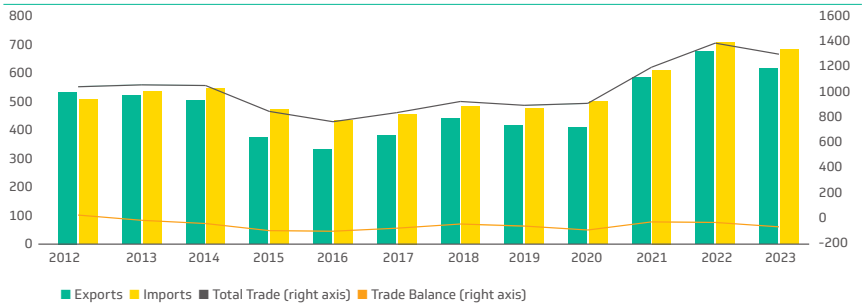
percent and 3.5 percent, respectively, during the review period. In addition to these two currencies, other good-performing currencies were generally those pertaining to members of monetary unions. The CFA franc, the common currency of fifteen francophone countries, which is pegged to the euro, appreciated by about 2.8 percent (Table 4.2).

Other currencies also suffered significant losses, depreciating steeply against the US dollar, largely due to low levels of foreign exchange reserves, capital outflows, the prohibitive cost of servicing external debt, and widening fiscal and current account deficits. For instance, while the Zimbabwean dollar lost a record 881.9 percent of its value during the review period, the scale of depreciation was also significant in relatively larger economies such as Angola, Egypt, Ghana, and Nigeria. The Angolan kwanza lost 48.7 percent of its value during the review period. The Egyptian pound suffered a 59.7 loss of its value. The Ghanaian cedi and the Nigerian naira depreciated by 33.2 percent and 52.1 percent, respectively.

4.4 AFRICA'S TRADE

Major African exporting countries felt the impact of the challenging global environment of heightening geopolitical tensions, weak global demand, and slow global growth. The continent's merchandise trade, which achieved an impressive growth of 15.93 percent to US$1.4 trillion in 2022, up from US$1.2 trillion in 2021, was significantly affected, contracting by 6.3 percent to US$1.3 trillion in 2023 (Figure 4.2 and Table 4.3).

Figure 4.2 Trends in Africa's merchandise trade (US$ billion), 2012–2023



Sources: International Monetary Fund Direction of Trade Statistics,2024; Afreximbank Research.

The drop in the growth rate of Africa's merchandise trade is attributable to several factors, including escalating geopolitical tensions, reflected by the protracted war in Ukraine and the recent breakout of the Israel-Gaza conflict. These conflicts have fuelled policy uncertainty, with persistently high interest rates weighing on investments. These, along with slow growth in China and in some major advanced economies, dampened global demand for commodities and depressed the continent's merchandise exports (Figure 4.2).

With oil accounting for more than 36 percent of the region's export basket, volatility in crude oil prices, which contracted by more than 17.2 percent to about US$82.62 a barrel in 2023 from about US$99.82 a barrel in 2022, adversely affected trade performance during the review period (Table 2.6). Much of the impact was felt by leading oil exporters, particularly Angola, Equatorial Guinea, Gabon, Libya, and Nigeria. For instance, Nigeria, Africa's largest oil exporter and the largest economy on the continent, suffered a 19.08 percent decline in its total merchandise trade, from US$126.7 billion in 2022 to US$102.53 billion in 2023. The decline in revenues from oil exports, which account for more than 70 percent of total exports, contributed to a 16.94 percent drop in Nigeria's merchandise exports in 2023.

Similarly, Angola, Africa's second-largest oil exporter, saw its merchandise trade decline by 10.51 percent in 2023, after expanding by 45.09 percent in 2022, driven by a 21.35 percent contraction in merchandise exports in 2023. A similar trend was also recorded in Equatorial Guinea, where total merchandise trade contracted by 31.86 percent, due to a 36.36 percent drop in merchandise exports in 2023. With the sharp drop in export revenues in these countries, the group of net oil exporters saw their exports shrink by about 19.11 percent in 2023 after their impressive growth of about 38.39 percent in 2022.

Weak global demand for other major commodities of export interest to Africa constrained Africa's total merchandise exports. This was especially true in the agricultural and metal/mineral sectors, including coffee, cotton, maize, soybean, palm oil, copper, lead, tin, and aluminum, arising largely from challenges in some advanced and developing economies in 2023. Compared to 2022, African merchandise exports contracted by 9.03, from US$617.03 billion to US$610.46 billion in 2023.

With a few exceptions, the largest economies contributed the most to the drop in Africa's merchandise exports. Specifically, five of Africa's seven largest trading economies, namely Algeria, Angola, Egypt, Nigeria, and South Africa, which account for about 49.3 percent of the continent's total exports, contributed over 85.14 percent of the decline in the continent's aggregate exports. The exports of these countries contracted by 11.89 percent, 21.35 percent, 18.54 percent, 16.94 percent, and 10.42 percent, respectively, in 2023.

On the import side, Africa also suffered a decline in 2023 after recording robust performance in 2022. As shown in Table 2.6, the region's merchandise imports, which expanded by about 15.9 percent to US$702.11 billion in 2022, reversed in 2023, contracting by 3.72 percent to US$676 billion. The decline in Africa's merchandise imports in 2023 can be attributed to several factors, including most notably, difficult access to trade finance, liquidity constraints, exchange rate risks, high inflationary pressures, a surge in debt service cost, alongside falling foreign exchange reserves which have been exacerbated by depreciation of national currencies. These challenges constrained the import capacity of many African countries.

The group of net oil exporters suffered the largest losses, with their merchandise imports contracting by 5.95 percent to US$137.1 billion in 2023 from US$145.8 billion in 2022, led by substantial declines in Libya (26 percent) and Nigeria (21.3 percent). Net oil importers showed more resilience, with their aggregate imports declining by just about 3.1 percent during the year. The lower decline in imports of the group of net-oil importers resulted from sturdy expansion in many countries in the group, including Uganda (31.5 percent), Côte d'Ivoire (13.3 percent), Tanzania (7.5 percent), the Democratic Republic of Congo (6.4 percent), and Ghana (5.4 percent). The larger contraction in exports recorded by the region, compared to imports, put pressure on its trade deficit, which widened to US$65.5 billion in 2023, significantly up from the 2022 figure of US$31.1 billion.

Despite years of continuous efforts including through policies and initiatives to improve its position in world trade, Africa remains a marginal player in trade on the global stage. Its share of global trade has stagnated at around 2.8 percent during the last three years. Therefore, it is critical to implement practical policies and measures, including incentives and investment aimed at improving trade-related infrastructure and logistics, as well as increasing processing and manufacturing capacity to broaden the sources of growth and shift the patterns of African trade. These will be important, especially in the current context of implementation of the AfCFTA, to help accelerate the development of regional value chains and Africa's integration into the global economy dominated by manufactured products.

Regarding export destinations, Africa has historically traded more with Europe, particularly with the EU, than with any other region. However, over the years, that trend has been gradually shifting with the rise of developing countries, led by China and India, which has enabled African countries to deepen the geographical diversification of their trading partners across the South. At the same time, growth stagnation in Western Europe, precipitated by the 2008-09 global financial crisis, exacerbated by the sovereign debt crisis, and heightening geopolitical tensions reflected by the protracted Russia-Ukraine conflict, has significantly dampened Europe's demand capacity for Africa's commodities in recent years. Accordingly, the share of Africa's merchandise exports to the EU, which averaged around 47.8 percent during the 1990s, has been steadily but gradually declining, averaging around 31.8 percent in the decade 2004-2013 and 26.8 percent in 2014-2023. In contrast, Asia's share has witnessed a spectacular increase, from a paltry 4.5 percent to over 16.1 percent and 26 percent, respectively, during the same period (Figure 4.3).

Global Trade and Trading Environment

Table 4.3 Africa: Merchandise Trade, 2021-23 (in US$ billion unless otherwise indicated)

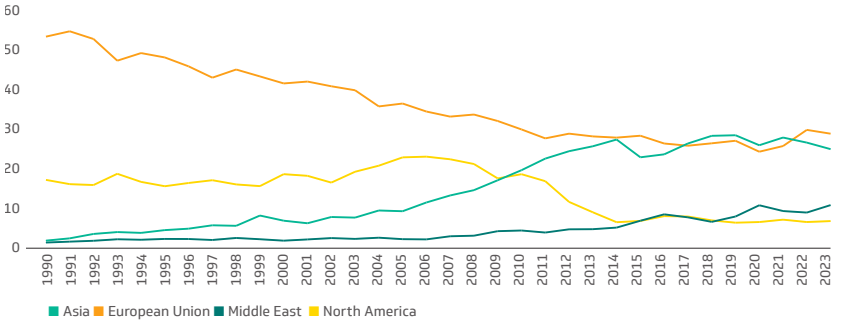
	Merchandise Exports (US$ Billion)			Growth Rate (Percentage)			Share of Merchandise Exports (Percentage)			Merchandise Imports (US$ Billion)			Growth Rate (Percentage)		
	2021	2022	2023	2021	2022	2023	2023	2021	2022	2021	2022	2023	2021	2022	2023
Algeria	38.43	65.10	57.36	75.30	69.38	-11.89	6.64	9.70	9.40	39.43	40.91	44.56	5.41	3.73	8.95
Angola	35.12	51.44	40.46	66.87	46.49	-21.35	6.07	7.67	6.63	11.52	16.23	20.10	23.39	40.80	23.85
Benin	1.03	0.91	1.05	21.91	-11.44	15.94	0.18	0.14	0.17	3.19	3.65	3.91	19.44	14.39	7.07
Botswana	7.11	8.14	5.41	90.54	14.38	-33.57	1.23	1.21	0.89	7.60	7.90	6.30	21.56	3.93	-20.34
Burkina Faso	5.04	4.54	4.12	15.06	-9.87	-9.30	0.87	0.68	0.67	4.61	5.54	5.87	11.60	20.11	5.94
Burundi	0.15	0.19	0.17	-2.86	27.61	-11.99	0.03	0.03	0.03	0.90	1.12	1.06	15.88	24.79	-5.34
Cabo Verde	0.05	0.04	0.05	-16.70	-7.77	15.33	0.01	0.01	0.01	0.77	0.84	0.94	-33.54	9.26	11.54
Cameroon	4.41	6.30	4.53	35.88	42.86	-28.13	0.76	0.94	0.74	7.18	8.78	8.91	22.24	22.34	1.52
Central African Rep.	0.06	0.12	0.13	45.91	96.53	10.00	0.01	0.02	0.02	0.50	0.68	0.59	-11.05	36.03	-12.93
Chad	2.44	4.09	3.85	66.00	67.98	-5.99	0.42	0.61	0.63	1.11	1.28	1.40	6.34	14.73	9.64
Comoros	0.04	0.06	0.05	65.81	45.77	-2.85	0.01	0.01	0.01	0.33	0.39	0.39	42.16	19.80	-1.17
Congo, Dem. Rep.	21.57	15.82	15.11	56.40	-26.65	-4.48	3.73	2.36	2.48	9.78	14.09	16.70	-17.59	44.09	18.57
Congo	2.40	3.55	4.60	-52.56	48.30	29.36	0.41	0.53	0.75	2.45	2.97	3.61	20.35	21.12	21.70
Côte d'Ivoire	29.27	34.73	39.92	119.74	18.68	14.92	5.06	5.18	6.54	13.99	18.09	19.90	26.97	29.33	10.03
Djibouti	0.33	0.38	0.47	-13.73	17.09	21.87	0.06	0.06	0.08	1.48	1.75	1.85	10.68	18.84	5.21
Egypt	40.70	48.40	39.28	51.70	18.93	-18.84	7.03	7.21	6.43	73.78	80.14	74.69	22.38	8.62	-6.81
Equatorial Guinea	4.76	7.41	4.72	69.05	55.66	-36.36	0.82	1.10	0.77	0.92	1.19	1.14	-1.83	28.73	-3.77
Eritrea	0.49	0.59	0.47	-60.05	19.06	-18.96	0.08	0.09	0.08	0.36	0.51	0.49	2.79	40.50	-3.16
Eswatini	2.09	2.03	2.22	17.40	-2.73	9.38	0.36	0.30	0.36	2.17	2.44	2.32	31.69	12.40	-4.93
Ethiopia	4.04	5.12	4.29	13.71	26.90	-16.34	0.70	0.76	0.70	13.66	13.26	13.78	0.00	-2.96	3.94
Gabon	8.10	12.13	9.67	8.30	49.85	-20.31	1.40	1.81	1.58	3.82	4.51	5.07	-1.59	17.96	12.51
Gambia	0.03	0.05	0.06	2.70	62.14	20.66	0.00	0.01	0.01	0.72	0.72	0.76	28.18	-0.46	5.41
Ghana	19.44	20.86	25.29	-13.17	7.31	21.27	3.36	3.11	4.14	17.68	15.90	13.43	8.07	-10.04	-15.53
Guinea	5.11	5.11	4.02	25.06	-0.07	-21.21	0.88	0.76	0.66	4.17	5.16	5.41	4.27	23.84	4.80
Guinea-Bissau	0.50	0.51	0.46	-0.59	0.96	-8.32	0.09	0.08	0.08	0.23	0.24	0.26	29.23	6.18	7.34
Kenya	7.33	7.27	7.43	21.58	-0.81	2.22	1.27	1.08	1.22	20.54	22.05	20.09	32.41	7.33	-8.87
Lesotho	1.07	1.05	0.97	18.14	-1.32	-8.35	0.18	0.16	0.16	1.83	1.80	1.70	4.60	-1.65	-5.49
Liberia	0.61	0.73	0.72	39.49	18.83	-1.34	0.11	0.11	0.12	1.48	1.72	2.64	34.47	16.27	53.34
Libya	30.97	38.22	25.13	266.81	23.39	-34.23	5.35	5.70	4.12	14.96	16.13	11.94	34.75	7.83	-25.99
Madagascar	2.71	3.55	3.65	38.93	30.98	3.00	0.47	0.53	0.60	4.37	5.51	5.21	36.18	26.18	-5.49
Malawi	1.06	0.96	0.95	30.23	-9.64	-1.07	0.18	0.14	0.16	3.18	1.63	1.72	17.52	-48.92	5.81
Mali	4.91	4.65	4.48	1.41	-5.16	-3.78	0.85	0.69	0.73	7.67	7.69	8.66	15.64	0.22	12.55
Mauritania	3.29	3.81	3.24	15.52	15.59	-14.85	0.57	0.57	0.53	3.95	5.27	5.06	40.42	33.57	-3.94
Mauritius	1.82	1.65	1.63	8.63	-9.29	-1.05	0.31	0.25	0.27	5.28	4.78	4.52	16.62	-9.44	-5.40
Morocco	36.53	42.00	41.83	31.22	14.97	-0.40	6.31	6.26	6.85	58.63	72.65	71.12	31.27	23.90	-2.10
Mozambique	5.79	8.42	9.34	52.56	45.36	10.95	1.00	1.25	1.53	9.00	14.90	12.84	34.74	65.68	-13.88
Namibia	5.48	4.90	5.69	39.50	-10.68	16.31	0.95	0.73	0.93	7.53	6.84	7.43	48.57	-9.16	8.61
Niger	0.74	0.43	0.52	1.19	-41.91	22.51	0.13	0.06	0.09	2.96	3.92	2.61	-5.55	32.46	-33.37
Nigeria	55.61	64.13	53.26	40.99	15.33	-16.94	9.61	9.56	8.72	54.52	62.57	49.26	37.09	14.75	-21.26
Rwanda	1.20	1.56	1.22	-27.16	30.55	-21.67	0.21	0.23	0.20	3.34	3.74	3.66	-20.83	12.03	-1.95
São Tomé and Príncipe	0.02	0.02	0.09	-12.05	-11.14	410.26	0.00	0.00	0.02	0.17	0.20	0.15	21.20	17.06	-21.98
Senegal	5.19	5.88	4.81	32.25	13.15	-18.15	0.90	0.88	0.79	9.68	12.48	10.28	23.87	28.96	-17.63
Seychelles	0.63	0.61	0.62	-34.53	-3.39	2.29	0.11	0.09	0.10	1.86	2.14	2.97	-9.50	14.85	38.54
Sierra Leone	0.41	0.48	0.52	29.94	17.53	8.62	0.07	0.07	0.09	1.83	2.02	2.02	42.77	10.13	0.32
Somalia	0.38	0.64	0.83	-26.11	70.89	29.72	0.06	0.10	0.14	3.66	4.25	4.03	0.25	16.13	-5.14
South Africa	122.35	123.39	110.53	42.48	0.84	-10.42	21.14	18.39	18.11	98.44	117.27	113.23	35.44	19.13	-3.45
South Sudan	0.53	0.53	0.63	-32.93	1.30	18.65	0.09	0.08	0.10	1.14	1.32	1.29	11.78	15.99	-2.71
Sudan	12.21	9.87	11.70	14.28	-19.15	18.53	2.11	1.47	1.92	8.56	11.62	5.76	-10.19	35.66	-50.41
Tanzania	6.43	6.90	8.21	6.01	7.31	18.97	1.11	1.03	1.34	11.17	16.04	16.45	31.20	43.58	2.52
Togo	1.07	1.39	1.01	9.42	30.27	-27.76	0.18	0.21	0.17	2.63	2.86	2.19	20.98	8.81	-23.40
Tunisia	16.68	18.56	20.30	20.86	11.30	9.35	2.88	2.77	3.32	22.47	26.66	25.88	22.39	18.63	-2.91
Uganda	3.97	3.59	5.61	-4.35	-9.70	56.37	0.69	0.53	0.92	9.49	10.24	12.57	8.30	7.89	22.73
Zambia	11.14	11.65	10.54	42.54	4.54	-9.51	1.92	1.74	1.73	7.10	9.04	10.02	33.43	27.43	10.77
Zimbabwe	6.04	6.59	7.23	37.35	9.10	9.71	1.04	0.98	1.18	5.86	6.50	7.26	37.67	11.01	11.66
Total	**578.83**	**671.03**	**610.46**	**42.66**	**15.93**	**-9.03**	**100.00**	**100.00**	**100.00**	**605.65**	**702.11**	**676.00**	**22.10**	**15.93**	**-3.72**

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

Share of Merchandise Imports (Percentage)			Total Merchandise Trade (US$ Billion)			Growth Rate (Percentage)			Share of Total Merchandise Trade (Percentage)			Trade Balance Value (US$ Billion)		
2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
6.51	5.83	6.59	77.87	106.01	101.92	31.23	36.14	-3.85	6.57	7.72	7.92	-1.00	24.20	12.80
1.90	2.31	2.97	46.64	67.67	60.56	53.50	45.09	-10.51	3.94	4.93	4.71	23.59	35.22	20.36
0.53	0.52	0.58	4.21	4.56	4.96	20.03	8.10	8.84	0.36	0.33	0.39	-2.16	-2.74	-2.85
1.26	1.13	0.93	14.72	16.04	11.70	47.34	8.98	-27.05	1.24	1.17	0.91	-0.49	0.23	-0.89
0.76	0.79	0.87	9.65	10.08	9.99	13.38	4.45	-0.93	0.81	0.73	0.78	0.43	-0.99	-1.75
0.15	0.16	0.16	1.05	1.31	1.23	12.78	25.19	-6.30	0.09	0.10	0.10	-0.75	-0.93	-0.89
0.13	0.12	0.14	0.82	0.89	0.99	-32.75	8.27	11.73	0.07	0.06	0.08	-0.72	-0.80	-0.89
1.19	1.25	1.32	11.59	15.08	13.44	27.10	30.15	-10.87	0.98	1.10	1.04	-2.77	-2.48	-4.39
0.08	0.10	0.09	0.56	0.80	0.72	-7.18	42.50	-9.55	0.05	0.06	0.06	-0.44	-0.57	-0.46
0.18	0.18	0.21	3.55	5.37	5.25	41.18	51.29	-2.28	0.30	0.39	0.41	1.32	2.82	2.45
0.05	0.06	0.06	0.36	0.45	0.44	44.30	22.50	-1.38	0.03	0.03	0.03	-0.29	-0.34	-0.33
1.61	2.01	2.47	31.34	29.91	31.82	22.18	-4.58	6.38	2.65	2.18	2.47	11.79	1.73	-1.59
0.40	0.42	0.53	4.85	6.52	8.21	-31.61	34.55	25.87	0.41	0.47	0.64	-0.05	0.58	0.98
2.31	2.58	2.94	43.26	52.82	59.82	77.75	22.12	13.25	3.65	3.85	4.65	15.28	16.65	20.01
0.24	0.25	0.27	1.80	2.14	2.31	5.26	18.52	8.20	0.15	0.16	0.18	-1.15	-1.37	-1.38
12.18	11.41	11.05	114.48	128.54	113.97	31.40	12.28	-11.34	9.66	9.36	8.86	-33.08	-31.74	-35.40
0.15	0.17	0.17	5.69	8.60	5.86	51.32	51.29	-31.86	0.48	0.63	0.46	3.84	6.23	3.58
0.06	0.07	0.07	0.85	1.09	0.97	-46.08	28.15	-11.62	0.07	0.08	0.08	0.13	0.08	-0.02
0.36	0.35	0.34	4.26	4.47	4.54	24.28	4.99	1.56	0.36	0.33	0.35	-0.09	-0.41	-0.10
2.26	1.89	2.04	17.70	18.38	18.06	2.83	3.86	-1.71	1.49	1.34	1.40	-9.62	-8.13	-9.49
0.63	0.64	0.75	11.92	16.64	14.74	4.92	39.62	-11.41	1.01	1.21	1.15	4.27	7.62	4.59
0.12	0.10	0.11	0.75	0.77	0.81	26.98	1.93	6.33	0.06	0.06	0.06	-0.69	-0.67	-0.70
2.92	2.26	1.99	37.11	36.76	38.73	-4.20	-0.95	5.35	3.13	2.68	3.01	1.76	4.96	11.86
0.69	0.74	0.80	9.28	10.27	9.43	14.77	10.67	-8.13	0.78	0.75	0.73	0.94	-0.06	-1.39
0.04	0.03	0.04	0.73	0.75	0.72	7.08	2.58	-3.29	0.06	0.05	0.06	0.28	0.27	0.21
3.39	3.14	2.97	27.87	29.32	27.52	29.38	5.19	-6.12	2.35	2.13	2.14	-13.21	-14.78	-12.66
0.30	0.26	0.25	2.90	2.85	2.67	9.21	-1.53	-6.55	0.24	0.21	0.21	-0.76	-0.75	-0.74
0.24	0.24	0.39	2.09	2.45	3.35	35.90	17.02	37.10	0.18	0.18	0.26	-0.87	-0.99	-1.92
2.47	2.30	1.77	45.93	54.34	37.07	135.01	18.32	-31.78	3.88	3.96	2.88	16.02	22.09	13.20
0.72	0.79	0.77	7.08	9.06	8.86	37.22	28.02	-2.16	0.60	0.66	0.69	-1.66	-1.97	-1.56
0.53	0.23	0.25	4.24	2.58	2.67	20.46	-39.11	3.26	0.36	0.19	0.21	-2.12	-0.67	-0.77
1.27	1.10	1.28	12.58	12.34	13.13	9.64	-1.88	6.39	1.06	0.90	1.02	-2.77	-3.04	-4.18
0.65	0.75	0.75	7.24	9.08	8.31	27.88	25.39	-8.51	0.61	0.66	0.65	-0.65	-1.47	-1.82
0.87	0.68	0.67	7.09	6.43	6.15	14.46	-9.40	-4.29	0.60	0.47	0.48	-3.46	-3.13	-2.89
9.68	10.35	10.52	95.16	114.64	112.95	31.25	20.47	-1.48	8.03	8.35	8.78	-22.10	-30.65	-29.29
1.49	2.12	1.90	14.79	23.32	22.17	41.20	57.72	-4.92	1.25	1.70	1.72	-3.21	-6.49	-3.50
1.24	0.97	1.10	13.01	11.73	13.12	44.61	-9.80	11.82	1.10	0.85	1.02	-2.05	-1.94	-1.73
0.49	0.56	0.39	3.70	4.35	3.14	-4.28	17.63	-27.86	0.31	0.32	0.24	-2.22	-3.49	-2.09
9.00	8.91	7.29	110.13	126.70	102.53	39.03	15.04	-19.08	9.30	9.23	7.97	1.08	1.56	4.00
0.55	0.53	0.54	4.53	5.30	4.89	-22.61	16.92	-7.76	0.38	0.39	0.38	-2.14	-2.17	-2.44
0.03	0.03	0.02	0.19	0.22	0.25	16.38	13.97	14.96	0.02	0.02	0.02	-0.15	-0.18	-0.06
1.60	1.78	1.52	14.87	18.36	15.09	26.67	23.44	-17.79	1.26	1.34	1.17	-4.48	-6.60	-5.47
0.31	0.30	0.44	2.49	2.75	3.59	-17.45	10.25	30.54	0.21	0.20	0.28	-1.24	-1.53	-2.35
0.30	0.29	0.30	2.24	2.50	2.54	40.24	11.48	1.92	0.19	0.18	0.20	-1.42	-1.54	-1.50
0.60	0.61	0.60	4.04	4.89	4.86	-2.97	21.23	-0.57	0.34	0.36	0.38	-3.28	-3.61	-3.20
16.25	16.70	16.75	220.79	240.66	223.75	39.25	9.00	-7.02	18.64	17.53	17.39	23.92	6.12	-2.70
0.19	0.19	0.19	1.67	1.85	1.92	-7.64	11.36	3.42	0.14	0.14	0.15	-0.61	-0.79	-0.66
1.41	1.65	0.85	20.77	21.49	17.46	2.74	3.44	-18.74	1.75	1.56	1.36	3.65	-1.74	5.94
1.84	2.28	2.43	17.60	22.94	24.66	20.72	30.33	7.47	1.49	1.67	1.92	-4.74	-9.14	-8.24
0.43	0.41	0.32	3.70	4.26	3.20	17.39	15.02	-24.83	0.31	0.31	0.25	-1.56	-1.47	-1.19
3.71	3.80	3.83	39.15	45.22	46.18	21.73	15.51	2.12	3.30	3.29	3.59	-5.79	-8.09	-5.58
1.57	1.46	1.86	13.46	13.83	18.18	4.23	2.70	31.46	1.14	1.01	1.41	-5.52	-6.65	-6.96
1.17	1.29	1.48	18.24	20.69	20.56	38.85	13.45	-0.65	1.54	1.51	1.60	4.05	2.60	0.52
0.97	0.93	1.07	11.90	13.09	14.49	37.51	10.04	10.68	1.00	0.95	1.13	0.18	0.08	-0.04
100.00	**100.00**	**100.00**	**1,184.49**	**1,373.14**	**1,286**	**31.35**	**15.93**	**-6.31**	**100.00**	**100.00**	**100.00**	**-26.82**	**-31.08**	**-65.54**

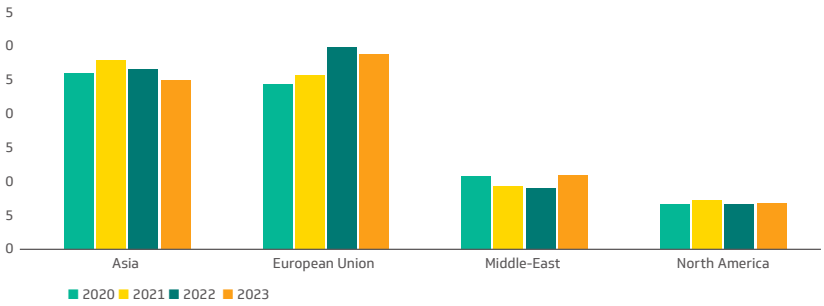
Global Trade and Trading Environment

Figure 4.3 Africa's export destinations (%)



Source: International Monetary Fund (Direction of Trade Statistics), 2024.

Figure 4.4 Africa's export destinations by region (%)

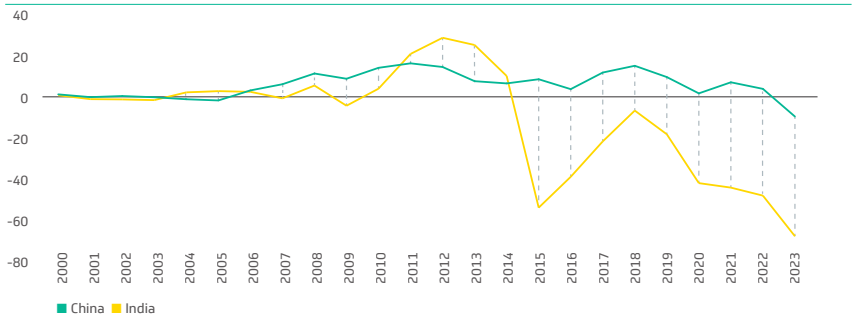


Source: International Monetary Fund (Direction of Trade Statistics), 2024

China and India have been the leading drivers of the rising trade relationships between Africa and Asia. Africa's merchandise exports to Asia reached US$171.9 billion in 2023, from US$200.4 billion in 2022 and US$171.7 billion in 2021. Of these, the share to China has remained significantly high, increasing to 63.7 percent in 2023, from about 58.7 percent in 2022, and 60.95 percent in 2021. At the same time, China's share of Africa's aggregate merchandise exports to the world has remained above 15 percent, increasing to 15.8 percent in 2023 from 15.5 percent in 2022, and 16.9 percent in 2021, consolidating its position as Africa's single largest trading partner (Figure 4.3). The increase in imports from China put pressure on Africa's trade deficit, which widened to US$66.6 billion in 2023 from a deficit of US$47.2 billion in 2022 (Figure 4.5).

India's share of Africa's exports to Asia has also remained substantial over the last few years, though it declined to US$21.3 billion in 2023 from 26.5 percent in 2022 and 25.96 percent in 2021. Its share of Africa's total merchandise exports to the world remained firm, even though it fell slightly to about 6 percent in 2023, from about 7 percent in 2022 and 7.2 percent in 2021. While Africa enjoyed a trade surplus with India from 2006 to 2022, that trend reversed as the continent suffered a trade deficit of about US$9.6 billion in 2023, from a trade surplus of about US$3.6 billion in 2022 (Figure 4.5). The combined share of China and India in Africa's total merchandise exports to Asia remained significantly high, stabilising around 85 percent in 2022 and 2023, though slightly down from the 86.9 percent recorded in 2021. Likewise, their combined share in Africa's total exports to the world remained substantial, even though it trended down marginally during the last three years, from 24 percent in 2021, to 22.5 percent in 2022 and 21 percent in 2023, consolidating their position as Africa's single largest trading partners.

Figure 4.5 Africa's trade balance with China and India (US$ billion)



Source: International Monetary Fund, Direction of Trade Statistics, 2024.

A similar trend is also observed in the sourcing of imports of African countries. While the EU has historically been Africa's largest import market, its share of total African imports has declined steadily. In contrast, Asia's share has been rising. Reflecting these contrasting trends, the gap between the EU and Asia had been narrowing until it closed in 2015, when Asia's share of Africa's imports reached 25.7 percent, exceeding for the first time the share of the EU which stood at 25.4 percent, down from 25.5 in 2024. Asia, which has become Africa's largest import market since 2015, consolidated its position as the primary source of goods for the continent. The gap between Asia and the EU has been widening, with Asia's share trending up steadily to 32.9 percent in 2023 up from 30.8 percent in 2022, while the EU's share has been trending down to 21.6 percent from 21.4 percent during the same period (Figure 4.6).

Figure 4.6 Africa's import sources by region (%)

Source: International Monetary Fund, Direction of Trade Statistics, 2024.

The increasing geographical shift in Africa's sources of imports is due most notably to prolonged economic difficulties within the EU, characterised by stagnating growth and sustained decline in industrial production and manufacturing output, exacerbated by the eruption of numerous counter shocks in recent years. At the same time, strong economic growth in Asia, boosted by rapid technological advancement 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, electronics, mineral fuels and oil, vehicles, and plastic materials, with a combined share of 64.9 percent in 2023, up from 52.9 percent in 2022 (Figure 4.7).

Notwithstanding its declining shares of Africa's imports over the years, the EU has remained an important source of machinery and mechanical appliances, mineral fuels and oil, vehicles and parts, and pharmaceuticals for the African continent. During the last three years, Africa's imports from Asia have exceeded its exports, creating deficits of US$74.2 billion in 2023, up from US$43.6 billion in 2022 and US$39.3 billion in 2021.

North America, historically Africa's third-largest export destination, has lost its position during the last few years even though its share of the continent's exports grew by 8.03 percent in 2023 (up from 6.5 percent in 2022) to US$47.13 billion. Since 2019, the Middle East has become Africa's third-largest export destination, with its share expanding by 10.8 percent (from 8.9 percent) to about US$74.7 billion in 2023. The weakening of North America's position has been driven in part by a steady decline of Africa's exports to the United States, as the rise in shale oil production put the country on a path to energy independence, dramatically cutting the need to import oil from African countries. In contrast, strengthening trade and economic cooperation between Africa and Middle East, especially with members of the Gulf Cooperation Council, contributed to strengthening the Middle East's position.

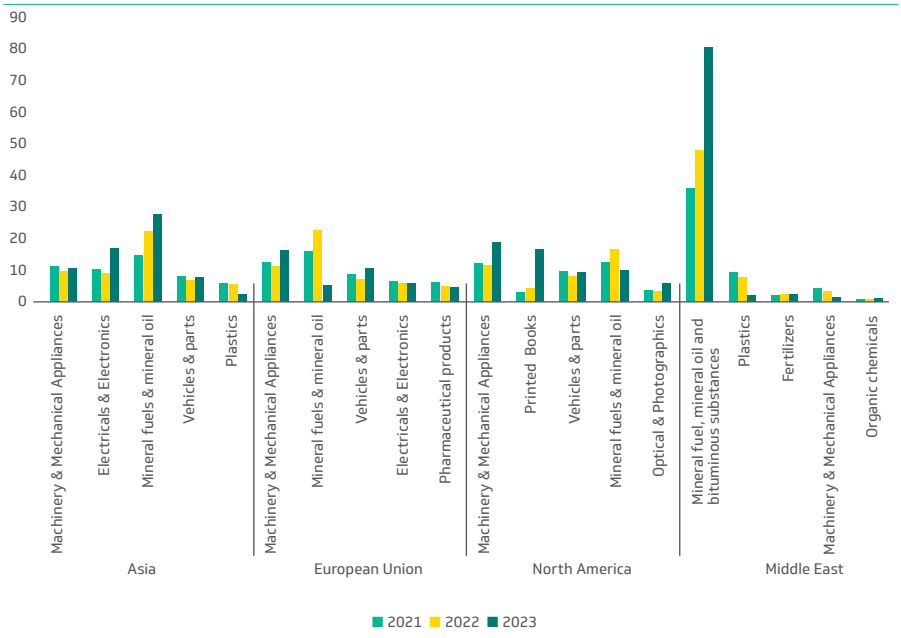
On the import side, the Middle East maintained its position as the third-largest import market for Africa, with its share expanding by 8.2 percent in 2023 (though slightly down from 9.4 percent in 2022) to US$61.5 billion. The Middle East thus remained the leading source for Africa's import products related to mineral fuels, bituminous substances, fertilisers, and plastics. In 2023, Africa's exports to the Middle East exceeded imports, resulting in a trade surplus of US$13.2 billion, from a trade deficit of US$5.8 billion in 2022. North America's share of Africa's imports decelerated by

Global Trade and Trading Environment

4.4 percent in 2023 (slightly down from 4.6 percent in 2022) to US$32.9 billion. Africa's imports from North America are dominated by machinery and mechanical appliances, printed books, vehicles and parts, mineral fuels and oils, and optical and photographic-related products (Figure 4.7). Africa's exports to North America exceeded its imports, enabling the region to enjoy a trade surplus of US$14.1 billion in 2023, down from US$14.7 billion in 2022.

The challenging global economic and trading environment characterised by lingering geopolitical tensions, conflicts and trade wars, and weak global demand resulted in a contraction of 6.3 percent in total African merchandise trade in 2023, in line with a 1.2 percent contraction in global trade, weighed down by the prolonged effects of high inflationary pressures and tight monetary policies. However, global trade is expected to improve, with forecasts pointing to a 2.6 percent recovery in 2024 and strengthening by 3.3 percent in 2025, on the back of moderating inflation and rising global demand. These trends are expected to have a positive impact on African trade.

Figure 4.7 Africa's sources of imports, by region and product group (%)



Sources: International Monetary Fund, Direction of Trade Statistics (2024); International Trade Centre Trade Map (2024).

Chapter Five

Developments in Commodity Markets

5.1 DYNAMICS IN COMMODITY MARKETS

Commodity prices remained relatively weak during the first half of 2023, continuing a deceleration that began in the second half of 2022, after a strong recovery from the COVID-19 pandemic. The recovery was supported by marked improvements in exports across the main subclasses, reflecting positive developments in production and easing supply chain disruptions. For example, the Black Sea Grains Initiative (the Ukraine grain deal) facilitated seaborne supply of a significant amount of grain from Ukrainian ports. Mild winter weather encouraged high energy storage levels. In addition, easing operational disruptions enhanced mining activities, resulting in improved availability of metals, particularly base metals.

Several factors led to heightened price fluctuations during the final six months of the year. Precious metals performed strongly, with gold offering safe-haven stability among myriad global uncertainties. Oil prices increased during the third quarter amidst production cuts, but declined in the last quarter as macroeconomic headwinds outweighed supply concerns. Base metals and agricultural commodity prices generally weakened, exhibiting high volatility. A combination of factors drove mixed price movements, including restrictive monetary policy by systemically important central banks, impressive performance of the US dollar, increasing global geopolitical tensions, and China's macroeconomic headwinds.

Brent crude futures returned to pre-Ukraine crisis levels, with spot prices averaging US$75 per barrel during the first half of 2023, due to perceived weakening of global economic conditions, persistent inflation, and downside risks in the global banking sector. During the third quarter of the year, Brent crude futures surged, with crude oil prices exceeding US$90 per barrel as Russia and Saudi Arabia extended their voluntary production cuts, trimming 1.3 million barrels of global crude supply. Conversely, oil prices tumbled to levels below US$75 per barrel during the fourth quarter of 2023, as deteriorating macroeconomic indicators outweighed supply chain concerns. Sluggish manufacturing activity in the world's two largest consumers of oil, China and the United States, stoked fears of weakening demand for energy, and prices remained under pressure over the last quarter.

During the first half of 2023, natural gas prices plummeted by more than 60 percent to below US$2.2 per million British thermal units (MMBtu). This was down from a multiyear peak of US$9.7/MMBtu reached in August 2022 as production in the United States, the world's largest gas producer, reached record highs of 102.5 billion cubic feet per day in May 2023, complemented by increased gas exports from Canada. According to International Energy Agency data, United States utilities added 110 billion cubic feet of storage, surpassing expected inventory volumes. Gas consumption decreased by 2.4 percent over the same period due to reduced consumption in commercial and residential sectors amidst mild winter weather.

Natural gas futures rose sharply to US$3.8 per MMBtu in October 2023 at the outset of the Gaza crisis, reflecting price sensitivity to any event that could affect gas supply, particularly to Europe. However, prices eased to close the year around US$2.5/MMBtu amidst record gas production, abundant storage levels, and muted industrial and heating demand due to mild winter weather. According to the United States Energy Information Administration (EIA), gas stockpiles peaked at 3.779 trillion cubic feet at the end of October 2023, representing an 8.4 percent increase over the same period in 2022. A similar trend was observed for the end of November, with inventories peaking at 3.836 billion cubic feet. The EIA also reported an unexpected net injection into storage, 10 billion cubic feet during the last week of November, in contrast to market expectations of 12 billion cubic feet of gas withdrawals.

Agricultural commodity prices were mixed throughout the year, with consistent gains in cocoa, coffee, and sugar, while losses were recorded for wheat, corn, and palm oil. Cocoa futures were generally bullish during the first half of 2023, reaching six-year highs of more than US$3,000/tonne. Underpinned by supply tightness in the top growing region of West Africa, cocoa prices soared, reaching 46-year highs of US$4,478 per tonne by December 2023. During the last quarter of the year, port arrivals of cocoa in Côte d'Ivoire were just under 600,000 metric tonnes, falling 35 percent behind the same period the previous year. Port arrivals in Ghana declined by 51 percent during the same period, due to poor weather conditions in the region. Exceptionally heavy rains, driven by the El Niño phenomenon, led to soil leaching and the rampant spread of black pod disease. Heavy rains also affected cherelles (young cocoa pods), disrupted farming activities, hampered haulage logistics, and affected fermentation due to limited sunshine. Côte d'Ivoire and Ghana together account for more than two-thirds of the world's cocoa output.

Coffee prices remained on an upward trajectory, which began in 2021 because of unfavourable weather conditions. Lower production reflects the effects of the excessively wet El Niño weather phenomenon endured across the top coffee-growing regions of South America. Socio-political unrest in South American coffee-growing regions such as Cajamarca, Junín, and San Martín also

Developments in Commodity Markets

contributed to declines in production, especially in the first half of 2023. According to the International Coffee Organization, combined exports from Brazil, Colombia, and Peru decreased by roughly 17.9 percent in March 2023 to 4.13 million bags compared to the corresponding period the previous year. Coffee exports from Africa decreased as well, mainly driven by declines in exports from Côte d'Ivoire and Kenya.

Coffee futures rose sharply during the second half of the year due to persistent supply constraints from most parts of the world. According to the International Coffee Organization, South America, driven by Brazil and Colombia, increased coffee production by 4.8 percent. This increase was offset by the shrinking supply base from the rest of the world. Adverse weather conditions led to declines in coffee production by 4.7 percent to 50 million bags and 7.2 percent to 18 million bags in Asia and Oceania and Africa, respectively. Côte d'Ivoire, Indonesia, Uganda, and Vietnam continued to experience heavy rains due to El Niño weather conditions. World coffee production increased marginally by 0.1 percent to 168.2 million bags in the 2022 to 2023 growing season, driven by a 1.8 percent increase in Arabica coffee, mostly grown in Brazil, and a 2 percent decrease in Robusta coffee, mostly grown in Vietnam, supported by the rest of the world.

After Russia's withdrawal from the Black Sea Grain Initiative on 17 July 2023, wheat futures rallied to levels above $7.50 per bushel within a week. But prices tumbled and remained depressed from their July highs through the end of the year as abundant global supplies outweighed supply chain concerns. During this period, Ukraine established trade routes that were less vulnerable to Russian attack, and grain exports to neighbouring countries continued via Danube River routes.

While Ukrainian wheat exports decreased by about 12 percent during the review period, traders remained confident in the viability of new trade corridors through Romania and Bulgaria. Wheat production in Russia remained robust, reaching a record high of 90 million tonnes, and making more wheat available for export. Strong wheat harvests and seasonal production increases in Australia, Argentina, Brazil, Canada, and Turkey added to the bumper output, and exports exceeded expectations.

During the first half of 2023, cotton production on the African continent fell by about 20 percent, driven mainly by declines in leading cotton producers Benin, Burkina Faso, Chad, and Mali and in other West African cotton-growing countries, due to parasitic invasion by a new species of leafhopper. Benin, Burkina Faso, Chad, and Mali produce about 50 percent of the continent's cotton. According to the United States Department of Agriculture, the parasitic invasion hit Côte d'Ivoire the hardest, with production declining by 47 percent to 269,000 tonnes. Mali and Senegal recorded a 30 percent drop in production, and Chad's harvest was down 18 percent.

Cotton futures remained stable during the second half of the year, with prices increasing just 0.99 percent. Consumption in the textile industry is heavily dependent on discretionary spending. In addition to rising global macroeconomic uncertainties, the demand for cotton remained subdued. The existing 25 percent tariff imposed on US cotton imports by China, the world's largest cotton consumer, weighed down global consumption. The lingering impact of COVID-19 containment measures also contributed to the weakening demand for textiles.

Pressure on the prices of base metals continued in 2023 amid challenges in the Chinese property and construction sectors. Declines in zinc prices were supported by improvements in smelter production, resulting in increased zinc stocks at the London Metal Exchange of 53,500 tonnes in April, up from 15,600 tonnes in February. Production increased, particularly in China and India, as new mines opened, and some existing mines restarted after a long shutdown period caused by the COVID-19 pandemic.

Abundant supplies of zinc led to a decline in futures of the metal to below US$2,300 in the second half of 2023. Zinc stockpiles on the London Metal Exchange were close to two-year highs. Aluminum futures declined to an average price of US$2,150 per tonne during the year. Aluminum sales plunged significantly, leading to production cuts by China, the top global producer. China accounts for about 60 percent of global aluminum output, followed by Australia and Russia.

Copper prices weakened in 2023, trading mostly below US$4 per pound amidst abundant supply. Global copper production was 4 percent higher compared to the same period the previous year, supported by higher copper concentrate production in the Los Pelambres and Centinela mines and an additional US$2 billion supply stockpile in the Democratic Republic of the Congo. Chile accounts for more than 30 percent of the world's copper production, followed by Peru. In Africa, the Democratic Republic of the Congo and Zambia are among the top producers of copper.

Gold prices soared during the year, reaching all-time highs of US$2,150 per ounce in December 2023, driven primarily by heightened global uncertainty. The collapse of three banks in the United States—First Republic Bank, Signature Bank, and Silicon Valley Bank—and the ensuing problems with Swiss bank Credit Suisse shifted sentiment toward safe-haven assets as investors became wary of potential contagion risk in the global financial system. The robust performance was driven by heightened market turbulence, propelled by lingering inflationary pressures, an aggressive monetary policy environment, significant geo-economic uncertainty, and escalating geopolitical tensions.

Firmer gold prices were also supported by central banks, which bought gold at an unprecedented pace. According to the World Gold Council, demand for the metal surged during the third quarter of the year to 1,147 tonnes, 8 percent higher than its five-year average. By the end of the year, central banks had purchased an accumulated 800 tonnes of gold over a nine-month period, the highest amount on record over the comparable period in previous years.

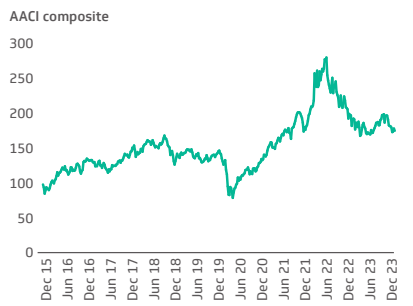
5.2 AFREXIMBANK AFRICAN COMMODITY INDEX AND ITS DYNAMICS

Despite ongoing efforts to diversify the sources of growth, the patterns of GDP across Africa remains highly correlated with the dynamics of commodities. The continent's excessive dependence on commodities is also reflected in the composition of African exports—primary commodities and natural resources account for about 80 percent of total African exports.

More generally, and according to UNCTAD's "State of Commodity Dependence Report," 48 out of 54 African countries, or 89 percent of them, remain heavily dependent on commodities (UNCTAD 2021). But the commodity dependence and the crisis it causes, 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 example, 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 revenues and 85 percent of total exports.

Reflecting the continued importance of commodities for African trade and growth, the Bank has developed an index called the Afreximbank African Commodity Index (AACI). The AACI reflects the dynamics of 14 key commodities of export interest to Africa. It is used to monitor the movements of commodity prices with a view to effectively mitigating risks associated with volatility.

Figure 5.1: AACI Composite Index (2016=100)



Sources: Afreximbank Research, Bloomberg.

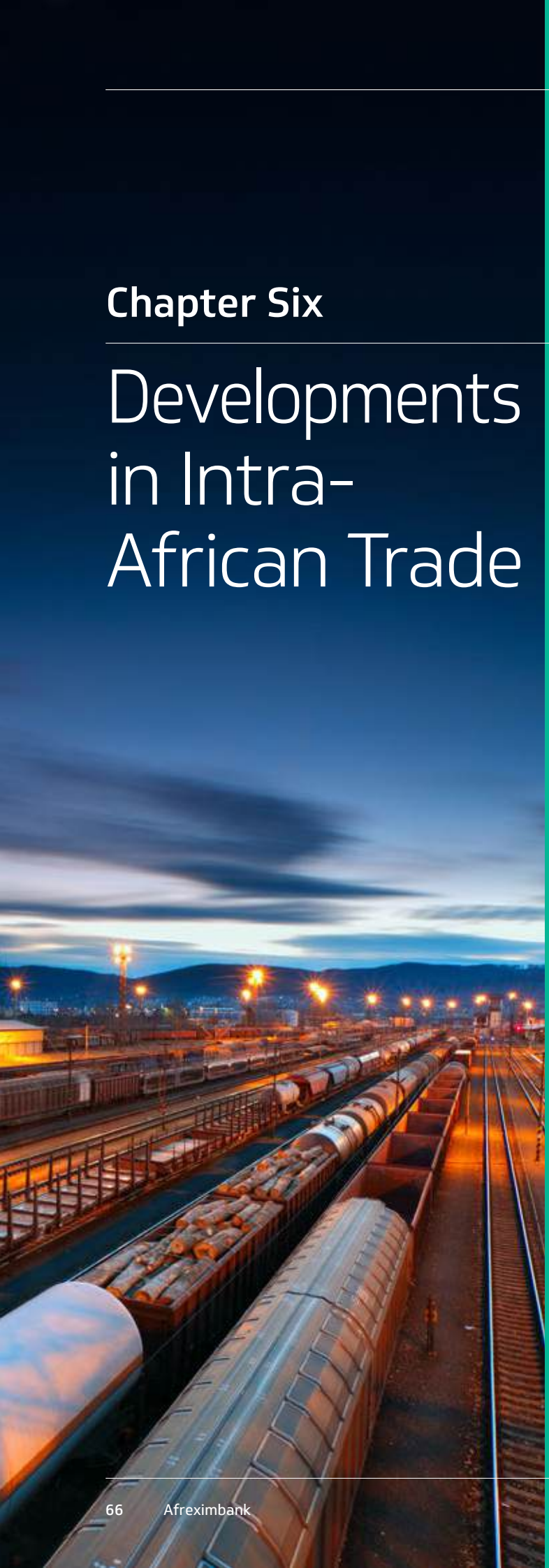
The commodity list is divided into three main categories: seven agricultural (cocoa, coffee, cotton, corn, sugar, wheat, and palm oil), five metal (aluminum, cobalt, copper, gold, and zinc), and two energy (crude oil and natural gas). The AACI composite index in Figure 5.1 shows aggregate price movements on commodity markets since 2016.

During H1-2023, commodity markets experienced marked improvements in exports across the main sub-classes, reflecting positive developments in production and easing supply chain disruptions. For instance, the Black Sea Grains Initiative (the Ukraine grain deal) facilitated seaborn supply of a significant amount of grain from Ukrainian ports; favourable weather conditions enabled better harvests globally; and mild winter weather encouraged high energy storage levels. In addition, mining activities were enhanced by easing operational disruptions, resulting in improved availability of metals, particularly base metals. As of June 2023, the AACI composite index declined by more than 25 percent year-on-year, driven mainly by the energy subindex, which shed ground significantly.

Several factors dictated heightened price fluctuations during the six months ending in December 2023. Precious metals performed strongly, with gold offering safe-haven stability among myriad global uncertainties. Oil prices increased during the third quarter of 2023 on production cuts but declined in the last quarter as macroeconomic headwinds outweighed supply concerns. Base metals and agricultural commodities generally weakened and exhibited high volatility. Mixed price movements were driven by a combination of factors, including restrictive monetary policy by the systemically important central banks, strong performance of the US dollar, increasing global geopolitical tensions, and China's macroeconomic headwinds.

Chapter Six

Developments in Intra-African Trade



The promotion of intra-African trade is a central tenet of Afreximbank's strategy. It encompasses the exchange of goods and services within African borders and with the diaspora. This commitment is entrenched as the primary focus of the Bank's Sixth Strategic Plan, known as Plan VI- Extending the Frontiers, which is a continuation of its predecessor, Plan V, Impact 2021- Africa Transformed. The Sixth Strategic Plan and aligns closely with the core principles of the AfCFTA as outlined in the Boosting Intra-African Trade Action Plan.

Theoretical analyses underscore the pivotal role of intra-regional trade and the resulting economies of scale in fostering regional infrastructure development, thereby facilitating integration, stimulating industrialization, and fostering employment opportunities for Africa's burgeoning population. Concurrently, the deepening of intra-regional trade holds immense promise as a buffer against external shocks and global volatility (ATR 2023).

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

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

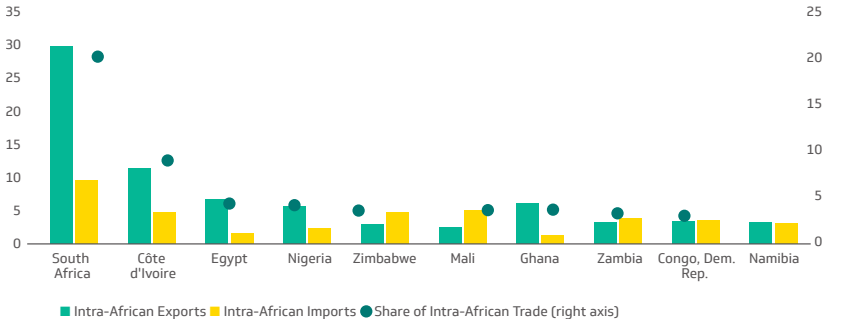
In 2023, the value of intra-African trade increased to US$192.2 billion, marking a 3.2 percent growth compared with the impressive growth rate of 10.9 percent in 2022 (Table 6.1). Despite the backdrop of global growth deceleration and macro challenges faced by several nations, intra-African trade demonstrated remarkable resilience. Its share of total African trade reached 14.9 percent in 2023, an improvement over the 13.6 percent achieved in 2022. This uptrend reflects the concerted efforts across the continent, including the ongoing implementation of the AfCFTA, aimed at bolstering intra-African trade.

However, the aggregate figures mask significant regional disparities. With its remarkable growth rate of 41.1 percent in its trade with neighbouring countries, Southern Africa reinforced its position as the leading driver of intra-African trade in 2023. West Africa also solidified its position as the second-largest intra-African trading subregion, accounting for 25.7 percent of total intra-African trade. East Africa emerged as the third-largest intra-African trading subregion, contributing 14.1 percent. North and Central Africa accounted for about 12.4 percent and 6.6 percent, respectively, of total intra-African trade. (Figure 6.1).

6.1 INTRA-AFRICAN TRADE CHAMPIONS

The resilience of intra-African trade in 2023 highlights the critical role played by regional champions in fostering cross-border commerce across the continent. Maintaining its status as the foremost intra-African trading nation (Figure 6.2), South Africa recorded a total intra-African trade value of US$39.2 billion, slightly lower than the US$39.9 billion reported in 2022. This dip can be attributed largely to the resurgence in the price of oil, which constituted a significant portion of South Africa's imports from other African nations. In 2023, South Africa's share of total intra-African trade stood at 20.4 percent, down from 21.4 percent in 2022 (ATR 2023). While Africa remains a significant source of imports for South Africa, accounting for 9.6 percent of the country's total imports in 2023, the continent is an even more critical export destination. During the review period, over 29.6 percent of South Africa's total exports found their way to African markets. Among South Africa's primary African trading partners are countries within the Southern African Customs Union and the Southern African Development Community. Notably, Mozambique emerges as South Africa's largest bilateral trade partner within the region, followed by Botswana, Zimbabwe, Namibia, and Zambia.

Figure 6.2: Top 10 contributors to intra-African trade, 2023, %



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

Developments in Intra-African Trade

Table 6.1 Intra-African Trade, 2020-23 (in US$ billion unless otherwise indicated)

	Intra-African Exports				Growth rate (%)			Country share of total intra-African exports (%)				Intra-African imports			
Country	**2020**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**
Algeria	1.67	1.95	2.39	**2.69**	16.38	22.55	12.59	2.30	2.05	2.26	**2.44**	1.13	1.15	1.63	**1.94**
Angola	0.39	1.41	0.68	**0.53**	259.39	-51.90	-22.07	0.54	1.49	0.64	**0.48**	0.67	1.22	0.84	**1.17**
Benin	0.12	0.16	0.19	**0.20**	34.36	13.27	7.28	0.17	0.17	0.18	**0.18**	0.54	0.50	0.56	**0.74**
Botswana	0.66	0.87	1.07	**0.86**	31.30	22.51	-19.30	0.91	0.92	1.01	**0.78**	4.20	4.74	5.66	**4.92**
Burkina Faso	0.36	0.44	0.63	**0.61**	22.14	42.57	-3.25	0.50	0.47	0.60	**0.55**	1.14	1.21	1.47	**1.81**
Burundi	0.06	0.07	0.08	**0.08**	6.73	19.23	3.41	0.09	0.07	0.07	**0.07**	0.27	0.31	0.34	**0.36**
Cabo Verde	0.00	0.00	0.00	**0.00**	-75.57	-37.83	-58.53	0.00	0.00	0.00	**0.00**	0.02	0.04	0.08	**0.08**
Cameroon	0.31	0.42	0.67	**0.55**	37.49	57.43	-17.01	0.42	0.45	0.63	**0.50**	0.77	0.79	1.01	**0.91**
Central African Rep.	0.01	0.01	0.01	**0.01**	-33.02	69.56	-12.23	0.01	0.01	0.01	**0.01**	0.17	0.23	0.31	**0.20**
Chad	0.03	0.01	0.01	**0.01**	-61.29	-30.29	28.94	0.04	0.01	0.01	**0.01**	0.21	0.28	0.39	**0.33**
Comoros	0.00	0.01	0.01	**0.01**	416.28	4.29	-1.31	0.00	0.01	0.01	**0.01**	0.02	0.02	0.03	**0.03**
Congo, Dem. Rep.	3.77	6.56	3.62	**3.34**	74.02	-44.76	-7.79	5.17	6.90	3.43	**3.03**	4.62	1.67	2.97	**3.55**
Congo, Rep.	0.52	0.72	0.80	**0.70**	39.00	11.10	-12.96	0.71	0.76	0.76	**0.63**	0.30	0.46	0.41	**0.49**
Côte d'Ivoire	2.88	6.19	9.00	**11.38**	114.91	45.54	26.40	3.95	6.51	8.53	**10.31**	2.60	2.71	4.07	**4.70**
Djibouti	0.22	0.20	0.24	**0.25**	-9.28	19.17	4.42	0.30	0.21	0.22	**0.22**	0.12	0.13	0.14	**0.13**
Egypt	3.81	5.13	5.57	**6.61**	34.71	8.57	18.69	5.23	5.40	5.28	**5.99**	1.20	1.44	1.87	**1.63**
Equatorial Guinea	0.03	0.11	0.15	**0.14**	273.69	33.80	-6.27	0.04	0.12	0.14	**0.12**	0.12	0.18	0.27	**0.18**
Eritrea	0.00	0.00	0.00	**0.04**	-21.00	-11.03	3532.41	0.00	0.00	0.00	**0.04**	0.03	0.02	0.02	**0.02**
Eswatini	1.61	1.92	1.88	**1.97**	19.13	-2.06	4.82	2.22	2.02	1.78	**1.79**	1.20	1.60	1.64	**1.69**
Ethiopia,	0.84	0.82	1.07	**0.89**	-1.82	30.17	-16.77	1.15	0.86	1.01	**0.81**	0.42	0.88	0.50	**0.76**
Gabon	1.55	1.91	2.53	**1.80**	23.74	32.01	-28.53	2.12	2.01	2.39	**1.64**	0.27	0.30	0.39	**0.40**
Gambia	0.02	0.02	0.03	**0.04**	-26.54	99.75	25.36	0.03	0.02	0.03	**0.04**	0.11	0.31	0.30	**0.31**
Ghana	3.94	4.02	4.73	**6.02**	1.82	17.89	27.23	5.42	4.23	4.48	**5.46**	1.04	1.44	1.46	**1.33**
Guinea	0.29	0.27	0.28	**0.26**	-6.25	5.14	-7.22	0.39	0.28	0.27	**0.24**	0.30	0.29	0.38	**0.40**
Guinea-Bissau	0.05	0.04	0.01	**0.03**	-23.90	-72.28	153.94	0.07	0.04	0.01	**0.03**	0.04	0.07	0.09	**0.09**
Kenya	2.31	2.79	2.59	**2.66**	20.56	-7.22	2.74	3.17	2.93	2.45	**2.41**	1.68	2.08	2.30	**2.11**
Lesotho	0.40	0.45	0.47	**0.34**	12.40	5.09	-28.68	0.55	0.47	0.45	**0.30**	1.35	1.46	1.55	**1.40**
Liberia	0.00	0.00	0.00	**0.02**	59.58	-17.11	837.61	0.00	0.00	0.00	**0.02**	0.22	0.25	0.55	**0.90**
Libya	0.11	0.11	0.15	**0.05**	5.67	30.51	-68.28	0.15	0.12	0.14	**0.04**	1.10	0.73	0.08	**0.02**
Madagascar	0.13	0.16	0.22	**0.22**	28.73	32.22	0.05	0.17	0.17	0.20	**0.20**	0.40	0.49	0.56	**0.70**
Malawi	0.27	0.38	0.38	**0.38**	42.35	-0.86	0.52	0.37	0.40	0.36	**0.34**	0.91	0.90	0.42	**0.53**
Mali	2.65	2.67	2.32	**2.52**	0.75	-13.00	8.30	3.64	2.81	2.20	**2.28**	3.36	4.12	4.35	**5.03**
Mauritania	0.24	0.26	0.57	**0.44**	5.63	120.65	-22.51	0.33	0.27	0.54	**0.40**	0.21	0.44	0.49	**0.53**
Mauritius	0.42	0.47	0.53	**0.43**	11.29	13.59	-19.02	0.57	0.49	0.50	**0.39**	0.55	0.63	0.81	**0.79**
Morocco	2.25	2.88	3.52	**3.78**	28.17	22.18	7.39	3.08	3.03	3.33	**3.42**	1.48	2.21	2.54	**1.82**
Mozambique	1.13	1.48	1.71	**1.93**	30.66	16.15	12.53	1.55	1.55	1.62	**1.75**	2.23	2.68	2.72	**3.23**
Namibia	1.43	2.07	2.62	**3.15**	45.42	26.17	20.22	1.96	2.18	2.48	**2.85**	3.58	4.81	3.32	**3.12**
Niger	0.36	0.47	0.23	**0.29**	32.12	-50.06	23.79	0.49	0.50	0.22	**0.26**	0.52	0.61	0.61	**0.42**
Nigeria	3.71	4.74	5.20	**5.63**	27.89	9.64	8.18	5.09	4.99	4.93	**5.10**	1.96	2.58	2.96	**2.36**
Rwanda	0.72	0.75	0.80	**0.75**	5.33	5.68	-5.90	0.98	0.79	0.76	**0.68**	1.72	0.91	1.15	**0.98**
São Tomé and Príncipe	0.00	0.00	0.00	**0.08**	2.00	2.87	4626.16	0.00	0.00	0.00	**0.07**	0.03	0.04	0.07	**0.03**
Senegal	1.69	2.07	2.25	**1.90**	22.91	8.65	-15.79	2.31	2.18	2.13	**1.72**	1.12	1.30	1.43	**1.17**
Seychelles	0.03	0.03	0.03	**0.03**	1.37	4.88	6.75	0.03	0.03	0.03	**0.03**	0.09	0.40	0.17	**0.15**
Sierra Leone	0.04	0.06	0.05	**0.05**	51.53	-16.75	-9.00	0.06	0.07	0.05	**0.04**	0.11	0.19	0.24	**0.28**
Somalia	0.04	0.04	0.05	**0.04**	16.52	9.63	-17.84	0.05	0.05	0.05	**0.04**	0.78	0.72	0.82	**0.72**
South Africa	19.83	25.98	30.01	**29.61**	30.99	15.52	-1.34	27.23	27.34	28.42	**26.83**	7.33	9.08	9.86	**9.59**
South Sudan	0.00	0.00	0.00	**0.00**	54.80	6.96	157.06	0.00	0.00	0.00	**0.00**	0.66	0.77	0.93	**0.86**
Sudan	1.19	1.41	2.58	**2.98**	18.88	82.39	15.60	1.63	1.49	2.44	**2.70**	0.99	0.89	1.21	**0.60**
Tanzania	2.30	2.51	2.64	**3.13**	9.19	5.15	18.29	3.16	2.65	2.50	**2.83**	0.86	1.21	1.61	**1.63**
Togo	0.70	0.76	0.76	**0.53**	8.33	0.09	-30.81	0.96	0.80	0.72	**0.48**	0.35	0.41	0.50	**0.38**
Tunisia	1.38	1.70	1.96	**1.99**	22.86	15.56	1.30	1.90	1.79	1.86	**1.80**	1.39	1.34	2.34	**2.40**
Uganda	1.42	1.78	2.23	**2.38**	25.22	25.61	6.75	1.95	1.87	2.11	**2.16**	3.02	2.54	1.71	**3.44**
Zambia	1.65	2.15	2.89	**3.17**	30.24	34.57	9.47	2.27	2.26	2.74	**2.87**	2.43	3.17	4.16	**3.75**
Zimbabwe	3.30	3.57	3.18	**2.90**	8.21	-11.02	-8.64	4.53	3.76	3.01	**2.63**	2.91	4.01	4.43	**4.73**
Total	**72.83**	**95.01**	**105.58**	**110.36**	**30.45**	**11.13**	**4.53**	**100.00**	**100.00**	**100.00**	**100.00**	**64.85**	**72.99**	**80.71**	**81.85**

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

Growth rate (%)			Country share of total intra-African exports (%)				Total intra-African trade				Growth rate (%)			Country share of total intra-African exports (%)			
2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2021	2022	2023(f)	2020	2021	2022	2023
2.15	41.45	**18.77**	1.74	1.58	2.02	**2.36**	2.80	3.10	4.02	**4.62**	10.65	29.57	**15.09**	2.04	1.85	2.16	**2.41**
80.40	-30.54	**38.80**	1.04	1.66	1.05	**1.43**	1.07	2.63	1.52	**1.70**	146.34	-42.02	**11.66**	0.77	1.56	0.82	**0.88**
-6.82	11.30	**31.68**	0.83	0.69	0.70	**0.90**	0.66	0.67	0.75	**0.94**	0.78	11.79	**25.59**	0.48	0.40	0.40	**0.49**
12.88	19.42	**-13.17**	6.48	6.50	7.01	**6.01**	4.86	5.61	6.73	**5.78**	15.39	19.90	**-14.14**	3.53	3.34	3.61	**3.00**
5.75	21.28	**23.62**	1.76	1.66	1.82	**2.21**	1.51	1.65	2.10	**2.42**	9.70	26.99	**15.53**	1.09	0.98	1.13	**1.26**
15.57	9.29	**7.59**	0.41	0.42	0.42	**0.44**	0.33	0.37	0.42	**0.44**	13.90	11.05	**6.79**	0.24	0.22	0.22	**0.23**
152.51	98.35	**1.69**	0.03	0.06	0.10	**0.10**	0.02	0.04	0.08	**0.08**	137.82	97.45	**1.57**	0.01	0.02	0.04	**0.04**
2.26	27.63	**-9.87**	1.19	1.08	1.25	**1.11**	1.08	1.22	1.68	**1.46**	12.31	38.03	**-12.71**	0.79	0.72	0.90	**0.76**
33.08	33.26	**-33.91**	0.27	0.32	0.38	**0.25**	0.18	0.24	0.32	**0.21**	29.36	34.32	**-33.11**	0.13	0.14	0.17	**0.11**
33.48	37.99	**-14.01**	0.32	0.38	0.48	**0.41**	0.24	0.29	0.40	**0.34**	21.01	35.11	**-13.07**	0.18	0.17	0.21	**0.18**
3.81	27.53	**-0.95**	0.03	0.03	0.04	**0.04**	0.02	0.03	0.04	**0.04**	38.65	20.22	**-1.05**	0.02	0.02	0.02	**0.02**
-63.91	78.07	**19.53**	7.12	2.28	3.68	**4.33**	8.39	8.22	6.59	**6.89**	-1.94	-19.86	**4.52**	6.09	4.89	3.54	**3.58**
53.86	-12.15	**21.86**	0.46	0.63	0.50	**0.60**	0.82	1.18	1.21	**1.19**	44.45	2.02	**-1.26**	0.59	0.70	0.65	**0.62**
4.36	50.27	**15.53**	4.00	3.71	5.04	**5.75**	5.47	8.90	13.07	**16.08**	62.49	46.98	**23.02**	3.98	5.30	7.02	**8.37**
15.48	3.82	**-5.30**	0.18	0.18	0.17	**0.16**	0.33	0.33	0.37	**0.38**	-0.74	13.01	**0.84**	0.24	0.20	0.20	**0.20**
20.14	29.79	**-12.62**	1.85	1.97	2.32	**2.00**	5.01	6.57	7.44	**8.25**	31.22	13.22	**10.83**	3.64	3.91	4.00	**4.29**
46.48	54.03	**-31.86**	0.18	0.24	0.33	**0.22**	0.15	0.28	0.42	**0.32**	91.11	46.26	**-22.87**	0.11	0.17	0.22	**0.17**
-19.08	-21.38	**21.11**	0.05	0.03	0.02	**0.03**	0.03	0.03	0.02	**0.06**	-19.17	-20.88	**210.01**	0.02	0.01	0.01	**0.03**
33.81	2.32	**3.21**	1.85	2.20	2.03	**2.07**	2.81	3.53	3.52	**3.67**	25.39	-0.07	**4.07**	2.04	2.10	1.89	**1.91**
109.70	-43.02	**52.33**	0.64	1.20	0.62	**0.93**	1.25	1.70	1.57	**1.65**	35.35	-7.62	**5.24**	0.91	1.01	0.84	**0.86**
9.34	29.22	**3.09**	0.42	0.41	0.48	**0.49**	1.82	2.21	2.91	**2.21**	21.57	31.63	**-24.32**	1.32	1.32	1.56	**1.15**
185.00	-3.45	**3.06**	0.17	0.43	0.38	**0.38**	0.13	0.33	0.34	**0.35**	149.54	1.64	**5.22**	0.10	0.20	0.18	**0.18**
38.59	1.88	**-9.31**	1.60	1.97	1.81	**1.62**	4.98	5.45	6.20	**7.35**	9.46	13.67	**18.61**	3.62	3.24	3.33	**3.82**
-2.89	32.05	**5.20**	0.46	0.40	0.48	**0.49**	0.59	0.56	0.67	**0.67**	-4.54	19.11	**-0.07**	0.43	0.33	0.36	**0.35**
58.97	27.29	**4.14**	0.07	0.09	0.11	**0.11**	0.09	0.11	0.10	**0.12**	13.58	-9.25	**20.93**	0.07	0.06	0.05	**0.06**
23.95	10.41	**-8.08**	2.59	2.85	2.85	**2.58**	3.99	4.87	4.88	**4.77**	21.99	0.32	**-2.35**	2.90	2.90	2.62	**2.48**
7.69	6.36	**-9.52**	2.09	2.00	1.92	**1.71**	1.75	1.91	2.02	**1.74**	8.76	6.06	**-13.98**	1.27	1.13	1.09	**0.90**
17.02	118.34	**62.03**	0.33	0.35	0.69	**1.10**	0.22	0.26	0.56	**0.92**	17.34	116.94	**65.07**	0.16	0.15	0.30	**0.48**
-33.41	-88.43	**-81.29**	1.69	1.00	0.10	**0.02**	1.20	0.84	0.23	**0.06**	-29.91	-72.38	**-72.99**	0.87	0.50	0.13	**0.03**
24.18	13.43	**24.12**	0.61	0.68	0.70	**0.85**	0.53	0.66	0.78	**0.91**	25.28	18.09	**17.43**	0.38	0.39	0.42	**0.47**
-1.45	-53.13	**26.23**	1.41	1.23	0.52	**0.65**	1.18	1.28	0.80	**0.91**	8.47	-37.60	**14.09**	0.86	0.76	0.43	**0.47**
22.44	5.65	**15.48**	5.19	5.64	5.39	**6.14**	6.01	6.79	6.67	**7.54**	12.88	-1.68	**12.98**	4.37	4.04	3.58	**3.92**
108.48	12.36	**7.13**	0.33	0.60	0.61	**0.65**	0.45	0.70	1.06	**0.97**	53.43	52.26	**-8.70**	0.33	0.41	0.57	**0.50**
13.65	29.94	**-3.11**	0.85	0.86	1.01	**0.96**	0.97	1.09	1.34	**1.22**	12.63	22.96	**-9.38**	0.70	0.65	0.72	**0.63**
49.67	14.99	**-28.32**	2.27	3.02	3.15	**2.22**	3.72	5.09	6.06	**5.60**	36.69	19.06	**-7.59**	2.70	3.03	3.25	**2.91**
20.28	1.19	**18.80**	3.44	3.68	3.37	**3.94**	3.36	4.16	4.43	**5.16**	23.77	6.49	**16.37**	2.44	2.48	2.38	**2.68**
34.38	-30.85	**-6.21**	5.51	6.58	4.12	**3.81**	5.00	6.88	5.94	**6.26**	37.53	-13.65	**5.43**	3.63	4.10	3.19	**3.26**
18.20	-1.27	**-31.39**	0.80	0.84	0.75	**0.51**	0.88	1.09	0.84	**0.71**	23.86	-22.41	**-16.00**	0.64	0.65	0.45	**0.37**
31.90	14.48	**-20.10**	3.02	3.54	3.66	**2.89**	5.67	7.33	8.16	**7.99**	29.27	11.35	**-2.07**	4.12	4.36	4.38	**4.16**
-46.93	25.95	**-15.02**	2.65	1.25	1.43	**1.19**	2.44	1.67	1.95	**1.73**	-31.57	16.78	**-11.29**	1.77	0.99	1.05	**0.90**
16.29	68.40	**-50.72**	0.05	0.06	0.08	**0.04**	0.04	0.04	0.07	**0.11**	15.67	65.87	**60.95**	0.03	0.02	0.04	**0.06**
16.08	10.10	**-18.12**	1.73	1.78	1.77	**1.43**	2.81	3.37	3.68	**3.07**	20.19	9.21	**-16.70**	2.04	2.01	1.98	**1.60**
346.35	-57.95	**-12.29**	0.14	0.55	0.21	**0.18**	0.12	0.43	0.20	**0.18**	270.72	-54.18	**-9.68**	0.08	0.25	0.11	**0.09**
64.74	25.54	**17.15**	0.18	0.26	0.29	**0.34**	0.16	0.25	0.29	**0.32**	61.16	14.76	**12.31**	0.11	0.15	0.16	**0.17**
-7.76	14.59	**-12.46**	1.20	0.99	1.02	**0.88**	0.82	0.76	0.87	**0.76**	-6.65	14.31	**-12.75**	0.59	0.45	0.47	**0.40**
23.93	8.57	**-2.78**	11.30	12.44	12.22	**11.71**	27.16	35.06	39.87	**39.19**	29.08	13.72	**-1.69**	19.73	20.87	21.40	**20.39**
16.25	21.51	**-7.74**	1.02	1.05	1.15	**1.05**	0.66	0.77	0.93	**0.86**	16.30	21.48	**-7.47**	0.48	0.46	0.50	**0.45**
-10.19	35.66	**-50.41**	1.53	1.22	1.50	**0.73**	2.18	2.30	3.79	**3.58**	5.65	64.31	**-5.49**	1.58	1.37	2.03	**1.86**
41.02	32.67	**1.78**	1.32	1.66	1.99	**2.00**	3.16	3.72	4.25	**4.76**	17.83	14.09	**12.05**	2.30	2.22	2.28	**2.48**
17.87	19.78	**-24.51**	0.54	0.57	0.62	**0.46**	1.05	1.17	1.26	**0.90**	11.52	7.05	**-28.32**	0.76	0.70	0.67	**0.47**
-3.35	74.00	**2.79**	2.14	1.84	2.89	**2.93**	2.77	3.04	4.30	**4.39**	9.73	41.34	**2.11**	2.01	1.81	2.31	**2.28**
-15.80	-32.82	**101.92**	4.65	3.48	2.11	**4.21**	4.43	4.32	3.94	**5.83**	-2.68	-8.77	**47.99**	3.22	2.57	2.11	**3.03**
30.37	31.29	**-9.82**	3.75	4.34	5.16	**4.59**	4.08	5.32	7.06	**6.92**	30.32	32.62	**-1.91**	2.97	3.17	3.79	**3.60**
37.88	10.30	**6.76**	4.49	5.50	5.49	**5.78**	6.21	7.58	7.60	**7.63**	22.12	0.26	**0.32**	4.51	4.51	4.08	**3.97**
12.55	10.57	**1.42**	**100.00**	**100.00**	**100.00**	**100.00**	**137.68**	**168.00**	**186.29**	**192.22**	22.02	10.89	**3.18**	**100.00**	**100.00**	**100.00**	**100.00**

Developments in Intra-African Trade

In West Africa, Côte d'Ivoire witnessed a significant expansion in its trade with the continent in 2023, surging by 23.0 percent to reach US$16.1 billion, up from US$13.1 billion in 2022. This propelled Côte d'Ivoire's share of total intra-African trade to about 8.4 percent in 2023, up from 7.0 percent in 2022, making it the second-largest intra-African trading nation that year. This growth was primarily driven by exports, which surged by 26.4 percent to US$11.4 billion in 2023, up from US$9 billion in 2022. Key products dominated Ivorian exports, including cocoa and its derivatives, petroleum products, raw gold, and natural rubber, collectively constituting 70.1 percent of total exports. By the third quarter of 2023, Côte d'Ivoire's exports accounted for 55.6 percent of total sales within the West African Economic and Monetary Union (WAEMU). Mali and Burkina Faso were the primary destinations for Ivorian exports in 2023, a trend largely attributed to the commercial sanctions imposed on these countries, which were lifted only in February 2024. Imports also improve notably, growing by 15.5 percent in 2023. Côte d'Ivoire's imports were mainly comprised of crude oil, petroleum products, mechanical machinery, iron, and rice. Nigeria and Togo emerged as the main import partners for Côte d'Ivoire in 2023.

In 2023, Nigeria experienced a 2.1 percent decrease in its trade with the continent, totalling US$8.0 billion, down slightly from US$8.2 billion in 2022. This led to a marginal decline in the country's share of total intra-African trade in 2023, decreasing to about 4.2 percent from 4.4 percent in 2022. Notwithstanding, Nigeria remained the fourth-largest intra-African trading nation that year. Around 5.1 percent of Nigeria's exports are directed to African countries, with Côte d'Ivoire, South Africa, and Senegal emerging as the top three destinations for Nigerian exports within the continent. Nigeria's imports from the rest of the continent remained relatively low, constituting less than 2.9 percent of its total imports.

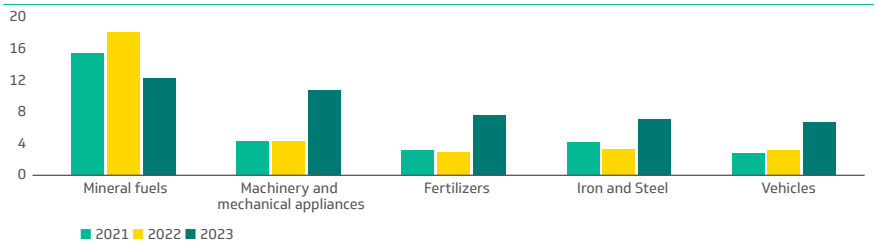
In North Africa, Egypt has emerged as the foremost intra-African trading nation and the third-largest intra-African trading nation overall. Its trade with the continent expanded by 10.8 percent to reach US$8.3 billion in 2023. About 6.0 percent (US$6.6 billion) of Egypt's total exports are directed toward African countries, while 2.0 percent (US$1.6 billion) of its total imports originate from Africa. Egypt's exports to Africa were primarily driven by marble, cement, polyethylene, and phosphate fertilisers. Continuing efforts by Egyptian authorities to enhance trade with the rest of Africa are evident. The government announced its aim to increase trading with Africa by 20 percent by 2029, targeting a total of US$145 billion by 2030, as per a cabinet press release outlining the government's goals for the president's new term. Egypt maintains active membership in the Pan-Arab Free Trade Area, which facilitates the removal of import duties to bolster intra-African trade. Additionally, Egypt has ratified the AfCFTA. Traditionally, Egypt's largest export partners on the continent have been within North Africa (Algeria, Libya, Morocco, and Sudan), but exports to Côte d'Ivoire, Ghana, Kenya, and Nigeria have been on the rise, supported by improvements in logistics infrastructure and incentives associated with the elimination of tariffs under the AfCFTA.

Other significant contributors to intra-African trade, which are among the top 10 countries, include the Democratic Republic of the Congo, Ghana, Mali, Namibia, Zambia, and Zimbabwe. Together, these nations accounted for 22.2 percent of total intra-African trade in 2023. The collective contribution of these countries was bolstered by Ghana, Mali, and Namibia, which saw substantial gains in their trade volumes, marked by robust growth rates of 18.6 percent, 13.0 percent, and 5.4 percent, respectively.

6.2 DRIVERS OF INTRA-AFRICAN TRADE

Intra-African trade encompasses a diverse array of primary and manufactured goods. Over the years, there has been a notable uptick in trade across broader categories such as fuels, machinery, vehicles, ores, slag and ash, and iron and steel (see Figure 6.3). Manufactured products exchanged within the continent tend to have high-skill and technology-intensive features. This aligns with findings suggesting that intra-African trade boasts relatively higher industrial and value-added components compared to extra-African trade, potentially fostering technological advancement (ATR 2023). Despite the elevated value-added and technological aspects of cross-border trade, primary commodities, particularly mineral fuels, remain dominant within intra-African trade dynamics (see Figure 6.3), with champions emerging from within the continent.

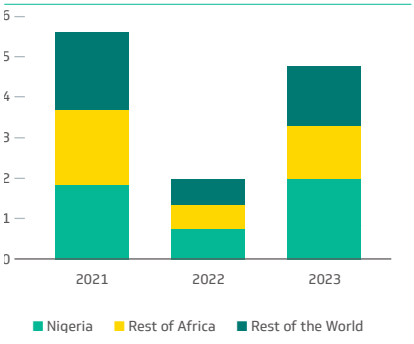
Figure 6.3 Top five intra-African exports, 2023 (US$ billion)



Sources: International Trade Centre Trade Map, Afreximbank Research.

In Southern Africa, South Africa relies on the continent for about 63.8 percent of its crude oil imports, with 47.9 percent sourced from Nigeria. Surprisingly, Nigeria surpasses Saudi Arabia as the primary global supplier of crude oil to South Africa. Energy products constitute a significant portion, about 55 percent, of South Africa's imports from Africa, showcasing a heavy reliance on this sector. Conversely, South Africa's exports to the continent are more diversified, reflecting the complexity of its industrialised economy. Machinery, vehicles, and nuclear reactors dominate its exports, alongside fuel and fuel products, precious stones, and machinery to key regional partners like Mozambique and Botswana. Plastic products are also significant exports to countries like Nigeria. In contrast, Mozambique and Botswana primarily export pearls, live animals, machinery, meat, fish, and dairy products, comprising around 60 percent of their exports to South Africa. Notably, over 35 percent of Zimbabwe's exports to South Africa include mineral fuels, tobacco, salt, and coffee.

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



Sources: International Trade Centre, Trade Map, Afreximbank Research.

In Central Africa, the Democratic Republic of the Congo primarily exports inorganic chemicals, precious metals, copper, and vehicle parts to South Africa. Conversely, its imports from South Africa are mainly comprised of mineral fuels, machinery, and salt. The Democratic Republic of the Congo holds significant potential in supplying mineral resources crucial for industrial and manufacturing sectors, fostering the development of regional value chains, and supporting agricultural and agro-processing value chains. In the era of the AfCFTA, the Democratic Republic of the Congo can emerge as a pivotal player in driving intra-African trade. Notably, the influx of copper from the DRC into Zambia has notably enhanced Zambia's position in intra-African trade dynamics. South Africa serves as the primary source of machinery and mechanical appliances for the Democratic Republic of the Congo, along with being an important supplier of pharmaceutical products. However, the pharmaceutical market still relies heavily on imports from Europe and Asia. Initiatives by institutions like Afreximbank to bolster intra-African trade, particularly by providing high-quality health services and promoting local production of pharmaceuticals post-pandemic, are poised to enhance cross-border trade in medical services and pharmaceutical products in the medium to long term.

In West Africa, Nigeria's exports to other African nations consist primarily of crude oil, but there is a noticeable shift occurring in the composition of its cross-border trade. While only 2.9 percent of Nigeria's total imports are sourced from the continent, there has historically been a vibrant informal cross-border trade network involving light manufactured products and agricultural commodities within the Economic Community of West African States region and neighbouring Central African countries. Côte d'Ivoire primarily imports crude oil from Nigeria, which it refines and then exports to regional trading partners such as Burkina Faso, Ghana, and Mali– countries that also happen to be Côte d'Ivoire's top trading partners within Africa.

In North Africa, Egypt has demonstrated its commitment to aiding other African nations in enhancing their capacity as they strive to elevate and foster the growth of higher-productivity sectors such as manufacturing and high-end services. Egypt primarily exports plastics, salt, sulfur, electric machinery, and mineral oils to other African countries, while importing copper, coffee, tea, cotton, and live animals from the continent.

6.3 DEVELOPMENTS IN THE AFRICAN CONTINENTAL FREE TRADE AREA

The remarkable progress made in implementing the AfCFTA since it came into force on 1 January 2021 was a key achievement in efforts to boost intra-African trade in 2023. The trade agreement is based on legally implementable and reciprocal tariff schedules and concessions, with agreed rules of origin and customs documentation. Complex, protracted negotiations on rules of origin have delayed meaningful trade under the AfCFTA. This notwithstanding, significant progress was achieved in 2023. Three more countries ratified the agreement, bringing the total to 47. The seven countries yet to ratify it are Benin, Liberia, Libya, Madagascar, Somalia, South Sudan, and Sudan. Eritrea remains the only African Union member state that has yet to sign the agreement. Negotiations on the Protocol on Trade in Goods achieved significant milestones in 2023. To date, 48 tariff concessions have been submitted by countries representing 87 percent of African Union membership.

Developments in Intra-African Trade

Negotiating partners have agreed on the rules of origin for 92.3 percent of traded goods, with the exception of the automotive, textile, and clothing sectors. In July 2022, state parties also approved the AfCFTA Rules of Origin Manual. The manual provides simple, easy-to-apply directives to state parties on requirements for the effective implementation of the Rules.

Negotiations on trade in services, intellectual property, competition policy, and investment also progressed in 2023. Forty-eight initial service offers were submitted in the five priority sectors of business, financial services, communication, transportation, and tourism. Twenty-two Schedules of Specific Commitment were adopted in the five priority sectors, and 26 offers in the five priority sectors are still under negotiation and review. Negotiations on trade-in services will continue based on these and other submissions received from AfCFTA signatories. Phase II negotiations include the protocols on intellectual property rights, competition policy, and investment. The 36th Session of the African Union Assembly of Heads of State and Government adopted the three protocols, which are now in effect. Negotiations for Phase III Protocols on digital trade and women in trade are at an advanced stage and are expected to be adopted by the Assembly of Heads of State and Government of the African Union in 2024.

The Assembly adopted as its 2023 theme the "Year of AfCFTA: Acceleration of the African Continental Free Trade Area Implementation." The theme was designed to convey a strong political message on the commitment of African nations and specialised agencies of the African Union Commission to fast-tracking implementation of the AfCFTA as one of the flagship programs under the African Union Agenda 2063: "Africa We Want."

Afreximbank continues to work closely with the African Union Commission and the AfCFTA Secretariat to support implementation through several strategic initiatives. These include the IATF, the Pan-African Private Sector Trade and Investment Committee, 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), launched on 13 January 2022, following a successful operational pilot in six West African countries. The PAPSS is facilitating the clearing and settlement of intra-African trade transactions in African currencies and lifting 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 AfCFTA. In addition, the Interstate Transit Guarantee is offered as part of Afreximbank's overall objective of facilitating and promoting intra-African trade by reducing bottlenecks associated with the movement of goods across borders within Africa. The Bank also opened the first African Quality Assurance Centre in Ogun State, Nigeria on 21 December 2022. This is part of its initiative to develop world-class quality assurance centres across Africa. The initiative is aimed at ensuring that products made in Africa comply with international standards and technical regulations to promote exports and facilitate intra-African trade.

6.4 ESTIMATING INTRA-AFRICAN TRADE POTENTIAL

The International Trade Centre (ITC) has devised an export potential and diversification assessment methodology to meet countries' demands for identifying and leveraging export opportunities. This method, grounded in the exporting nation's supply conditions and the demand and market access conditions of target markets, enhances transparency and supports informed decision making in selecting projects for export promotion activities. It focuses on products already competitively exported by a country through the Export Potential Index or on products with potential for diversification via the Product Diversification Index.

Export potential assessments, conceptually structured around country-product, product-market, and country-market factors, provide a nuanced understanding to formulate effective policy recommendations. These assessments resemble a gravity equation at the product level but allow for detailed interpretation. Leveraging meticulously treated data to mitigate the influence of misreported trade flows, measurement errors, or misattribution ensures the robustness of the analysis.

Empirical validation underscores the efficacy of the export potential indicator (EPI). It serves as a predictive tool, indicating the likelihood and volume of future trade in both established and prospective markets. Overall, the performance of the EPI demonstrates its capacity to effectively pinpoint markets and sectors ripe for additional exports. This section applies the ITC's export potential assessment methodology to evaluate products with significant export potential within intra-African trade, discerning sectors poised for growth under existing tariff conditions and those set to benefit from opportunities arising from tariff reductions under the AfCFTA.

The assessment, spanning a four- to five-year timeframe, accounts for both current and anticipated tariff structures, with differentiated liberalization schedules for African economies, distinguishing between least-developed countries (LDCs) and others.

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

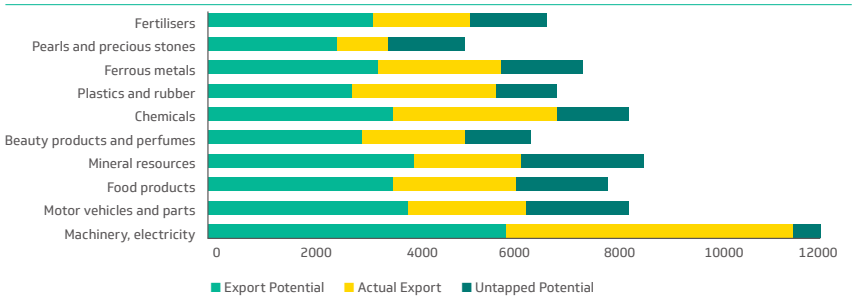
- Full liberalization regardless of LDC status
- Countries liberalize tariffs on all products equally

In light of the export potential assessment and considering both established export capabilities and products with promising prospects for intra-African trade, the estimated export potential for intra-African trade surpasses US$69.4 billion as of 2023. This projection holds the potential to substantially elevate the current level of intra-African trade to US$261.6 billion, hypothetically constituting 36 percent of total intra-African trade, assuming all other conditions remain constant. The products exhibiting the greatest export potential from Africa to Africa encompass machinery, electricity, motor vehicles and parts, food products, minerals, beauty products, chemicals, plastic and rubber, ferrous metals, pearls and precious stones, and fertilizers.

Developments in Intra-African Trade

Among these, machinery and electricity have the largest absolute difference between potential and actual exports in terms of value, indicating considerable room for realising additional exports worth US$2.2 billion. Collectively, these sectors represent more than 16 percent of the total intra-African export potential, as illustrated in Figure 6.5. This analysis underscores the untapped opportunities within intra-African trade, highlighting key sectors where strategic interventions could yield significant economic benefits and foster regional integration and development.

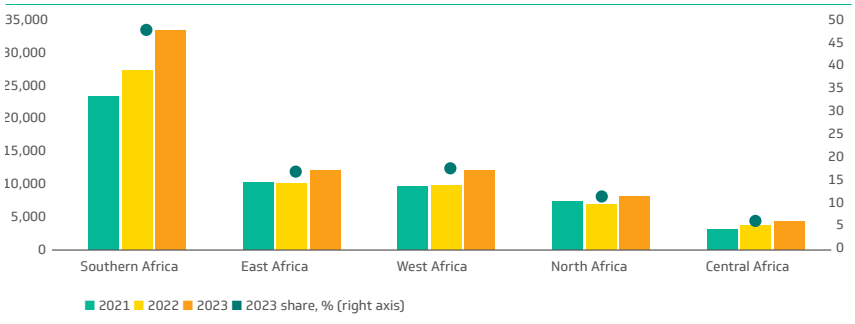
Figure 6.5: Products with greatest intra-African export potential, 2023 (US$ million)



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

An analysis of 40 products showcasing the highest intra-African export potential, selected based on each subregion's demonstrated international competitiveness and favourable prospects for export success, indicates varying degrees of export potential across the continent. Southern Africa emerges as the subregion with the most substantial export potential, estimated at US$33 billion, followed closely by Eastern Africa and Western Africa, each boasting an export potential of US$12 billion. North Africa demonstrates export potential of approximately US$8.1 billion, while Central Africa's export potential is around US$4.3 billion (see Figure 6.6). The heightened export potential observed in Southern Africa predominantly reflects the complexity and sophistication of the South African economy. Within this region, industrial products and manufactured goods serve as primary drivers of cross-border formal trade. This underscores the significance of industrialization and diversification efforts in unlocking the export potential within Southern Africa and beyond. Additionally, it highlights the critical role of regional cooperation and integration initiatives in fostering economic growth and trade expansion across the continent.

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



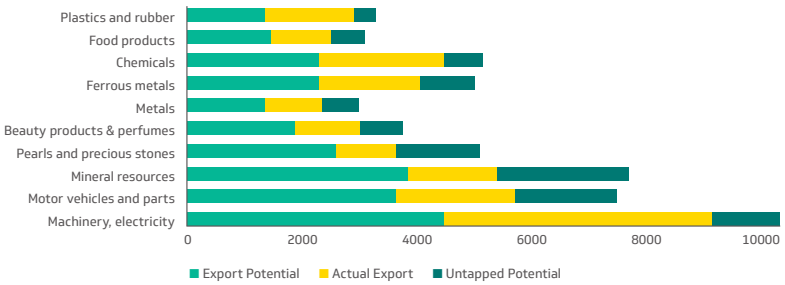
Sources: International Trade Centre Export Potential Map, Afreximbank Research.

6.4.1 Southern Africa Export Potential

Southern Africa boasts an export potential to the rest of the continent valued at approximately US$33 billion. The products exhibiting the greatest export potential are primarily industrial goods, including machinery, electricity, motor vehicles and parts, minerals, pearls and precious stones, beauty products, metal products, ferrous metals, chemicals, food products, and plastics and rubber. Together, these products collectively represent about 73.3 percent of the region's total export potential, as illustrated in Figure 6.7. This emphasis on industrial products underscores the region's capacity for intra-African trade and highlights the importance of diversifying export portfolios.

The dominance of South Africa's economy is particularly notable, accounting for almost 47.6 percent of the subregion's total export potential. This prominence reflects the composition of intra-African trade within the region, which is largely characterised by the exchange of manufactured goods. South Africa's industrial prowess and diversified manufacturing sector position it as a key player in driving intra-regional trade and economic integration efforts within Southern Africa and across the continent. Efforts to leverage this export potential can further strengthen regional economic cooperation and promote sustainable development initiatives.

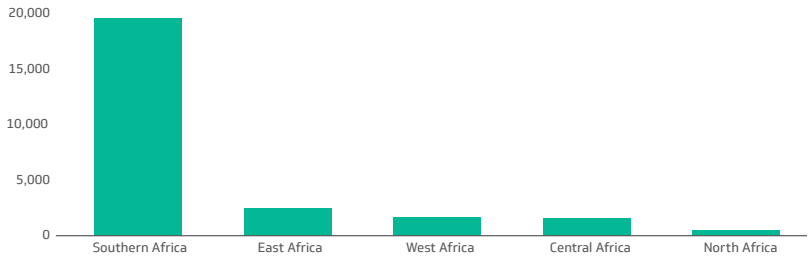
Figure 6.7 Southern Africa's export potential, leading products, 2023 (US$ million)



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

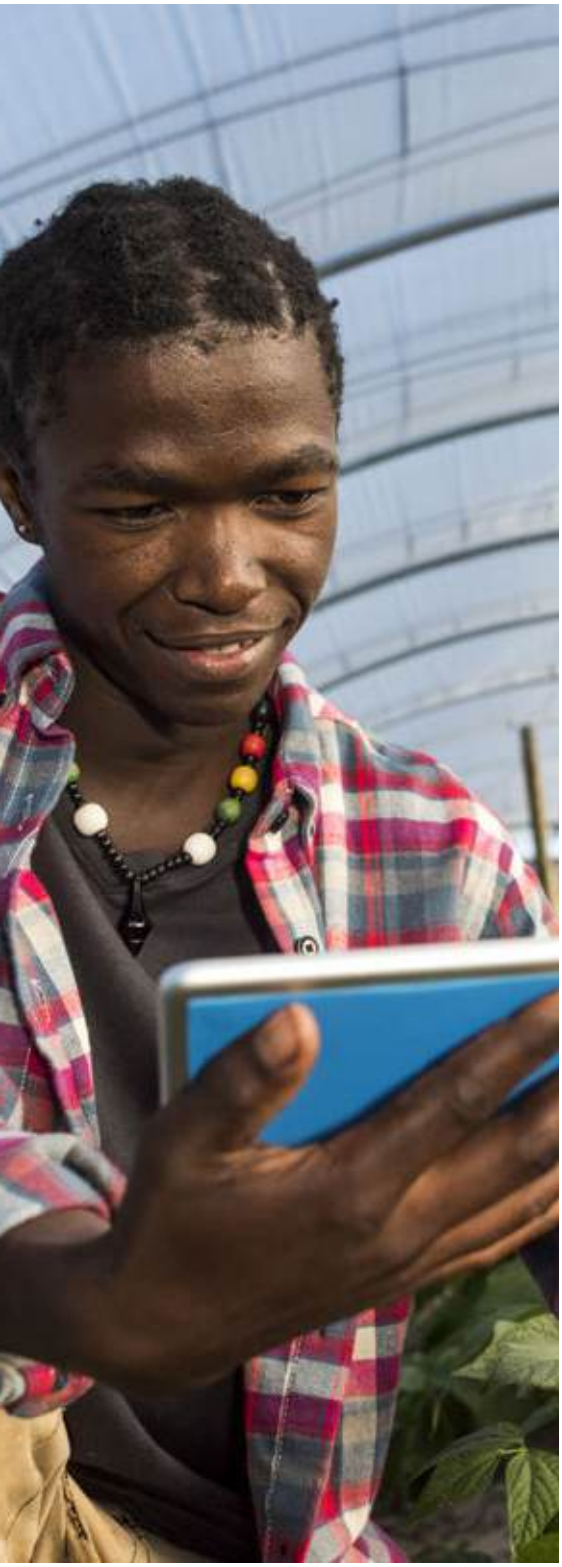
Southern Africa's export potential is primarily propelled by the Southern African region itself, estimated at a staggering US$29 billion (see Figure 6.8). This figure underscores the deepening process of economic integration within the Southern African Development Community. Key products driving this export potential include electrical energy, unrefined copper, and mixtures of odoriferous substances used in food and drink, reflecting the region's diverse export portfolio. East Africa emerges as the second-highest potential market for Southern African exports, with an estimated value of US$3.7 billion. Prominent products in this trade corridor include apparel, beauty products and perfumes, and fish and shellfish. Following closely behind, West Africa presents the third-greatest export potential for Southern Africa, valued at US$2.5 billion, while Central Africa follows with an estimated US$2.4 billion. Notably, North Africa demonstrates the lowest export potential, estimated at US$674 million. These figures highlight the varied opportunities for Southern African countries to expand their export footprint within and beyond the continent, fostering regional economic cooperation and growth.

Figure 6.8 Southern Africa's export potential, by subregion, 2023 (US$ million)



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

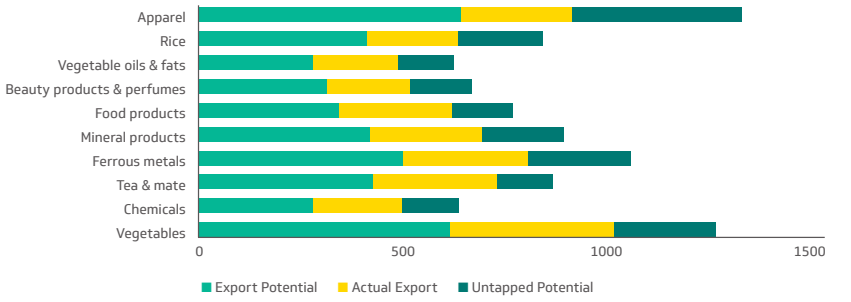
Developments in Intra-African Trade



6.4.2 East Africa Export Potential

East Africa possesses significant potential for export to the rest of the continent, estimated at US$12 billion, or around 17.3 percent of the total intra-African export potential. Among the products demonstrating the highest export potential are vegetables, chemicals, tea, ferrous metals, mineral products, food products, beauty products, vegetable oils, rice, and apparel. Together, these products collectively contribute to about 70 percent of the region's total export potential, as depicted in Figure 6.9. While the products with the greatest export potential exhibit similarities across regions, one standout product in East Africa is tea. Kenya, Malawi, and Rwanda, and are prominent global producers of tea, with nearly 75 percent of their product exported outside of Africa. This analysis suggests that the expanding African market for tea could represent the next frontier for growth opportunities in this sector. As such, strategic investments and initiatives aimed at leveraging the region's tea production capabilities could yield significant economic benefits and foster regional trade integration and development.

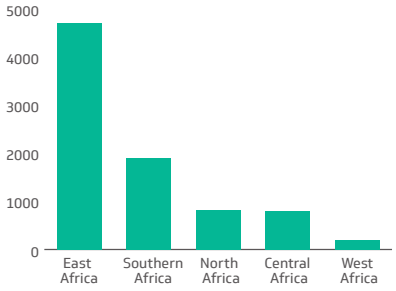
Figure 6.9: East Africa's export potential, leading products, 2023 (US$ million)



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

In line with export potential trends observed in other subregions, the primary market for East African exports lies within the East African region itself, with an estimated value of US$4.7 billion (see Figure 6.10). This figure represents approximately 39.2 percent of the total export potential for East Africa. Key products with significant export potential within the region include vegetables, ferrous metals, and sugar, reflecting the diversified export profile of East African countries. Southern Africa emerges as the second-largest potential market for East African exports, estimated at US$1.9 billion. Prominent products in this trade corridor include tea, pulses, nuts, spices, oil seeds, and leather products. North Africa demonstrates the third-highest export potential for East Africa, valued at US$811 million, followed closely by Central Africa, estimated at US$793 million. Interestingly, West Africa exhibits the lowest export potential for East Africa, estimated at US$193 million. These insights shed light on the diverse export opportunities within and across African regions, emphasising the potential for deeper regional economic integration and trade cooperation.

Figure 6.10: East Africa's export potential, by subregion, 2023 (US$ million)

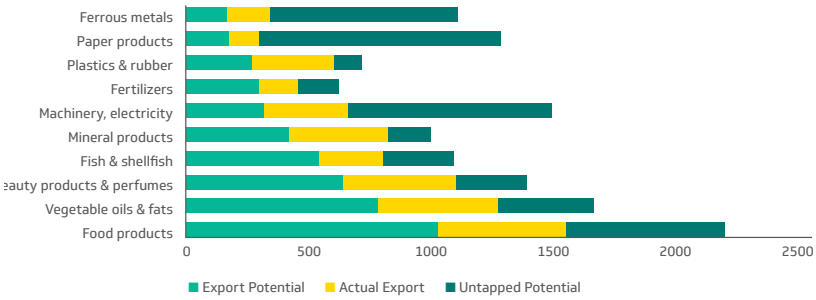


Source: International Trade Centre Export Potential Map, Afreximbank Research.

6.4.3 West Africa Export Potential

West Africa possesses substantial export potential to the rest of the continent, estimated at US$12 billion, representing approximately 17.3 percent of the total intra-African export potential. Among the products demonstrating the highest export potential are food products, vegetable oils and fats, fish and shellfish, beauty products, mineral products, machinery and electricity, plastics and rubber, ferrous metals, fertilisers, and paper products. Together, these products collectively contribute to about 37.5 percent of the region's total export potential, as depicted in Figure 6.11.

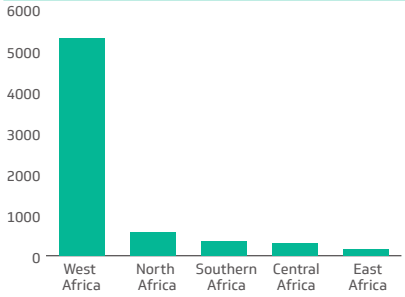
Figure 6.11: West Africa's export potential, leading products, 2023 (US$ million)



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

The primary market for West African exports is the West African region itself, with an estimated value of US$5.3 billion (refer to Figure 6.12). This figure represents approximately 44.2 percent of West Africa's export potential to the rest of Africa. Key products with significant export potential within the region include cocoa beans and products, vegetal textile fibres, and coffee, reflecting the rich agricultural resources and production capabilities of West African countries. North Africa emerges as the second-largest potential market for West African exports, estimated at US$562 million. Following closely, Southern Africa and Central Africa present the third and fourth greatest export potential for West Africa, estimated at US$364 million and US$307 million, respectively. Additionally, East Africa demonstrates the potential for West African exports, estimated at US$163 million. These insights underscore the diverse export opportunities within and across African regions, emphasising the potential for deeper regional economic integration and trade cooperation.

Figure 6.12: West Africa's export potential, by subregion, 2023 (US$ million)



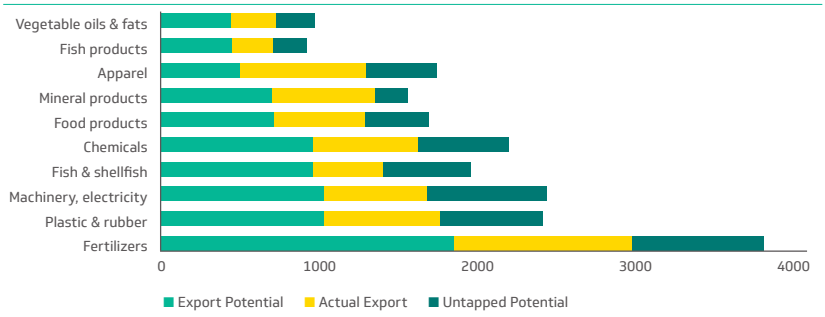
Sources: International Trade Centre Export Potential Map, Afreximbank Research.

Developments in Intra-African Trade

6.4.4 North Africa Export Potential

North Africa exhibits substantial export potential to the rest of the continent, estimated at US$8.1 billion. Among the products demonstrating the highest export potential are fertilisers, plastics and rubber, machinery and electricity, fish and shellfish, chemicals, food products, mineral products, apparel, fish products, and vegetable oils. Together, these products collectively account for approximately 97 percent of the region's total export potential, as depicted in Figure 6.13. Similar to Southern Africa, the sophisticated nature of products with export potential in North Africa reflects the dominance of the Egyptian economy. Egyptian export potential contributes approximately 45 percent to the subregion's total export potential. This underscores Egypt's pivotal role in driving intra-African trade within North Africa and highlights the significance of its diversified and advanced industrial base.

Figure 6.13: North Africa's export potential, leading products, 2023 (US$ million)

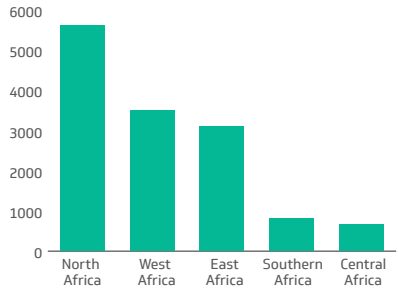


Sources: International Trade Centre Export Potential Map, Afreximbank research.

The primary market for North African exports lies within the North African region itself, with an estimated value of US$5.6 billion (refer to Figure 6.14). This figure highlights the significant intra-regional trade potential within North Africa. Key products with substantial export potential in this region include machinery, electricity, plastics and rubber, and chemicals, reflecting the advanced industrial capabilities of North African countries. West Africa emerges as the second-largest potential market for North African exports, estimated at US$3.5 billion. Prominent products in this trade corridor include fish and shellfish, fertilisers, and fish products, underscoring the importance of agricultural and fisheries products in trade relations between North Africa and West Africa. Following closely, East Africa demonstrates the third-highest export potential for North Africa, estimated at US$3.1 billion, while Southern Africa follows with an estimated US$816 million.

Notably, Central Africa exhibits the lowest export potential for North Africa, estimated at US$665 million. These insights reveal the varied export opportunities within and across African regions, highlighting the potential for deeper regional economic integration and trade cooperation.

Figure 6.14: North Africa's export potential, by subregion, 2023 (US$ million)

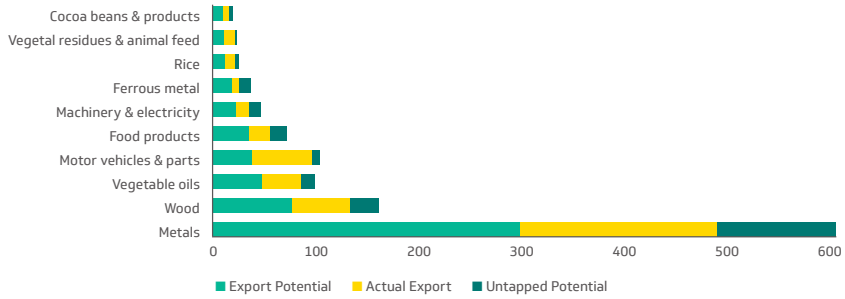


Sources: International Trade Centre Export Potential Map, Afreximbank Research.

6.5.5 Central Africa Export Potential

Central Africa has significant potential for export to the rest of Africa, estimated at US$4.3 billion. Interestingly, while countries across Africa tend to engage in less intracontinental trade compared to trade with the rest of the world, this external orientation of trade is particularly pronounced within Central Africa when compared to other subregions. Among the products demonstrating the highest export potential in Central Africa are metals, wood, vegetable oil, motor vehicles and parts, food products, machinery and electricity, ferrous metal, rice, vegetal residues, and cocoa beans. Collectively, these products contribute to approximately 20 percent of the region's total export potential, as illustrated in Figure 6.15.

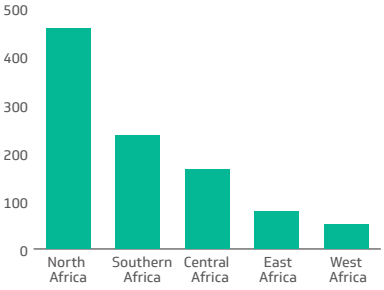
Figure 6.15: Central Africa's export potential, leading products, 2023 (US$ million)



Sources: International Trade Centre Export Potential Map, Afreximbank research.

In contrast to other subregions, Central Africa's greatest export potential does not lie within its own region but rather in North Africa, estimated at US$458 million (see Figure 6.16). This figure represents about 10.7 percent of Central Africa's total intra-African export potential. Key products with significant export potential to North Africa include metals, wood, vegetal residues, and animal feed. Southern Africa emerges as the second-highest potential market for Central African exports, estimated at US$236 million. Following closely, Central Africa itself presents the third-greatest potential, estimated at US$165 million, followed by East Africa, with an estimated US$78 million. Notably, West Africa has the lowest potential as an export market for Central Africa, estimated at US$51 million. These insights underscore the varied export opportunities within and across African regions, highlighting the potential for deeper regional economic integration and trade cooperation.

Figure 6.16: Central Africa's export potential, by subregion, 2023 (US$ million)



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

Chapter Seven

Prospects

7.1 GROWTH

A combination of factors, including heightening geopolitical tensions and associated economic shifts, restrictive monetary policies, the end of fiscal stimulus, and general low productivity growth, are expected to hinder global growth below the historical average of 3.8 percent recorded during 2000-2019. Accordingly, the pace of global output expansion, which was 3.2 percent in 2023, is expected to remain at 3.2 percent in 2024 and 2025. The projected growth performance will be supported by a marginal increase in the rate of growth in advanced economies on account of strong recovery in the euro area. This is particularly the case in the United Kingdom, where GDP output is expected to increase from 0.1 percent in 2023 to 0.5 percent in 2024 and 1.5 percent in 2025 on the back of waning lagged negative effects of high energy prices and improvement in financial conditions for investment promotion. The outlook masks variation across countries and regions.

Asia, which has been the leading driver of global growth, is expected to witness a marginal decline in output expansion in 2024. Accordingly, the region's GDP growth is forecast at 5.2 percent in 2024, slightly down from 5.6 percent recorded in 2023. Developing Asia's growth deceleration reflects growth moderation in both India and China, the leading drivers of growth in the region. In these countries, GDP growth, albeit strong, is expected to decline to 6.8 percent in 2024, from 7.8 percent in 2023, and to 4.6 percent in 2024, from 5.2 percent in 2023, respectively.

Africa is projected to witness strong growth in 2024 and 2025, with combined output forecast to expand by about 3.5 percent in 2024 and 4.2 percent in 2025, up from the 3.2 percent growth recorded in 2023. The forecast output expansion is expected to be driven by improved economic activity across the continent as the growth-limiting effects of weather shocks subside, supply bottlenecks gradually improve, and energy reliability for manufacturing output improves. Other factors contributing to stronger growth include a sharp rebound in infrastructure investment spending, a recovery in tourism arrivals after the COVID-19 pandemic, and the benefits of economic diversification.

Africa's growth forecast is also expected to be anchored on the performance of three of its largest economies: Angola, Nigeria, and South Africa. These countries are forecast to remain on a steady growth path despite ongoing macroeconomic management challenges, especially exchange rate volatility, high and rising inflation, and weak demand. Nigeria's GDP is forecast to expand by about 3.3 percent in 2024, on the back of ongoing reforms to restore macroeconomic stability to spur growth. Growth in South Africa is, however, expected to remain muted at 1 percent in 2024, from 0.6 percent in 2023, while Angola's growth is forecast to expand by 2.1 percent from 0.5 percent in 2023 to 2.6 percent in 2024.

7.2 TRADE

After contracting by 1.2 percent in 2023 from an expansion of 3 percent in 2022, the volume of global merchandise trade is projected to gather momentum and recover, expanding by 2.6 percent in 2024 and strengthening by 3.3 percent in 2025. Factors contributing to the contraction include pressure on output arising from heightened geopolitical tensions and conflicts, rising global fragmentation, prolonged supply chain disruptions exacerbated by persistent trade and technology wars between the United States and China, alongside high energy prices and inflation weighing on demand. The main factors underpinning the recovery of global trade include increasing demand for manufactured goods arising from improving real incomes resulting from easing inflationary pressures. At the same time, receding inflation and expectations of interest rates cuts are expected to drive investment and boost trade. Higher output growth in most advanced economies combined with stable growth in many developing economies will also support global demand and trade.

The volume of African trade is also projected to rise, consistent with the global trend of stable output and accelerating trade. The WTO estimates that Africa's exports will grow faster than those of any other regions, at 5.3 percent in 2024, up from 3.1 percent in 2023. According to WTO estimates, a similar trend is expected on the import side, with the continent's import volume rebounding by 4.4 percent in 2024 after contracting by 2.4 percent.

The recovery of African trade is expected to be driven by a combination of factors, including continuous dynamics in the commodity market, particularly the oil market. Oil prices are expected to remain high in 2024, averaging above US$88 a barrel. In addition, expected improvement in the growth of most advanced economies and the stable growth forecast in Asia, which has become Africa's main trading partner, will boost demand for the continent's commodities. Sustained increase in demand for Africa's energy as prolonged geopolitical tensions and trade restrictions continue to force several European countries, especially the ones in the EU, to make Africa a major alternative source of energy, with Algeria, Angola, and Egypt becoming top suppliers of liquefied natural gas to the EU bloc, will further support Africa's trade.

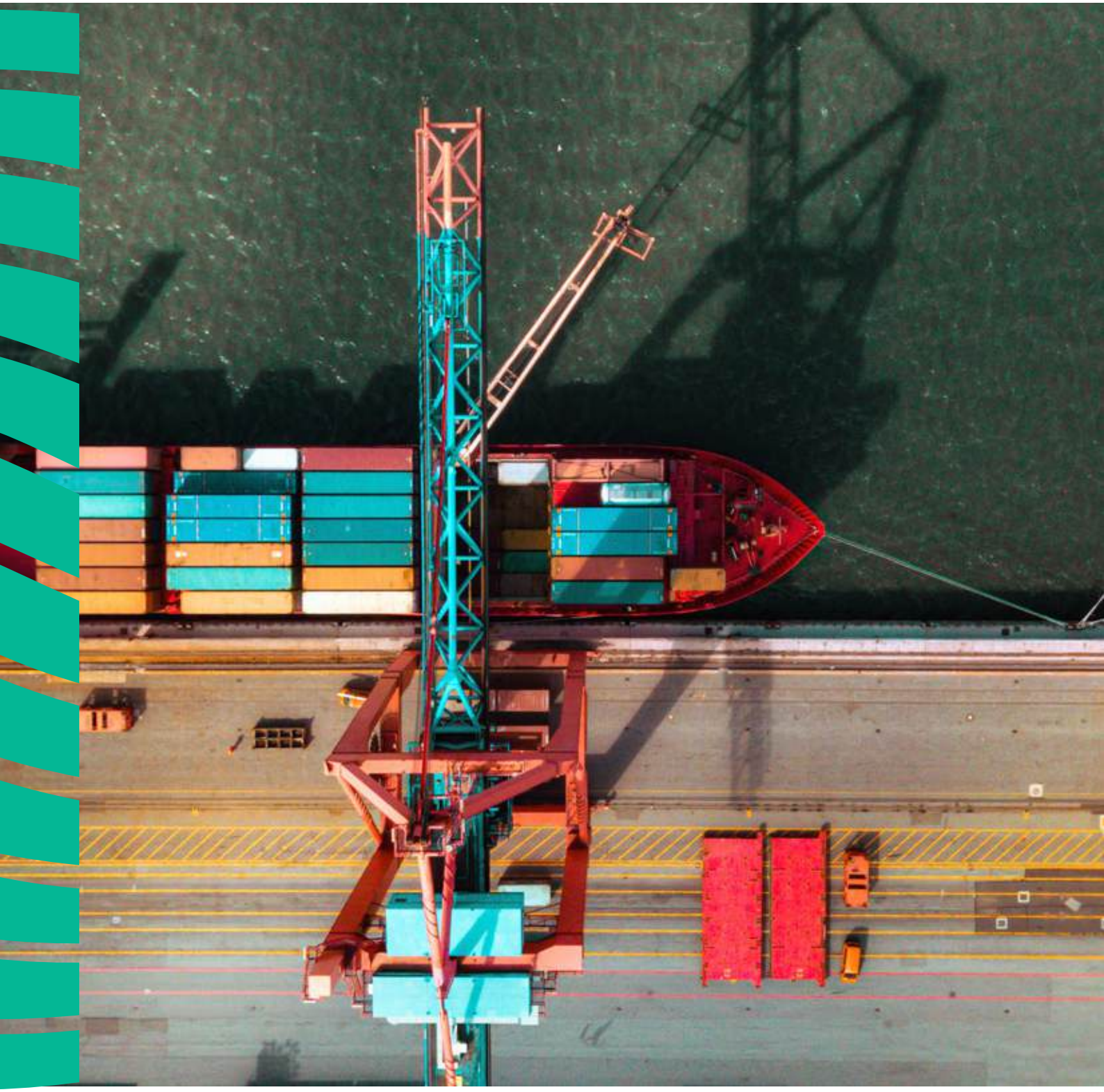
Africa's trade will also benefit from continued support from development finance institutions, including through their counter-cyclical response mechanisms, in a region where the perennially large trade finance gap has been a major hindrance to the expansion of extra- and intra-African trade.

Prospects

For instance, through its Ukraine Crisis Adjustment Trade Financing Program for Africa (UKAFPA), Afreximbank is helping its member countries cope with the impact of the Ukraine conflict 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, freeing cashflow for use in meeting urgent needs, such as critical food and fertiliser imports and debt servicing.

The projected growth of African trade is supported by ongoing implementation of the AfCFTA, which will accelerate the diversification of the continent's sources of growth. Afreximbank is directly supporting AfCFTA implementation efforts, including through its robust trade facilitation programme, including the development of industrial parks and special economic zones to help its partner countries take advantage of growth opportunities arising from geopolitical realignment. Intra-African trade is also set to increase, with the gradual removal of trade barriers and increasing efforts to expand cross-border transport corridors.

Notwithstanding the projected expansion, there are downside risks, including persistently high inflationary pressures, which may delay interest rate cuts, slow growth, and push more countries into a recession, which could dampen global demand and trade. Heightening geopolitical tensions and conflicts could exacerbate this risk by further disrupting global supply chains and sustaining high interest rates and inflation above target, constraining consumer demand and access to trade finance.



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