Chapter 3

Trade policies and regional integration in Africa

Accelerated growth in Africa since 2000 has increased the opportunities for enhanced trade while the continent is also looking to step up integration between its regions to further boost growth and job creation. This chapter looks at developments in trade, investment flows, integration and income convergence between regions and countries. It suggests ways for policy makers to spur growth and seize trade opportunities so that the income gap can narrow more speedily. The financial sector, infrastructure and new, bigger free trade areas are all analysed to see how they can help the effort.

In brief

Africa must embrace structural and regulatory reforms and enhance financial integration to accelerate efforts that have led to increased exchanges with emerging countries in the rest of the world and between its own countries and regions. Intra-African trade remains below levels seen in other parts of the world but there are ways to change this. While the European Union should remain Africa's main trade partner for the foreseeable future, an accord between three regional blocs, the Tripartite Free Trade Area, could change Africa's commercial landscape by increasing market size and creating economies of scale. The gains could also help narrow income gaps between African countries and enhance regional financial integration. African countries must foster macroeconomic stability and improve the investment environment to strengthen the role of pan-African banks in facilitating trade finance and boosting capital markets. Success in stimulating trade and growth depends on the policy and investment climate, depth of financial integration and commitment to reform.

Africa looks to turn strong growth into economic transformation

Africa has key factors for success

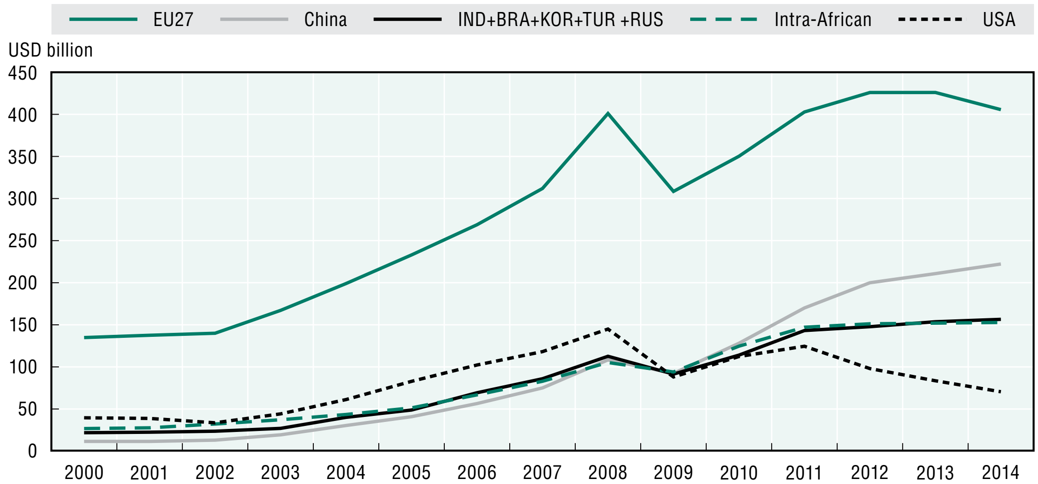
Growth has accelerated in Africa since 2000 at an average annual rate of 5%. Several factors explain this performance:

1. **Greater political stability**: The number of violent conflicts has decreased since the turn of the century, boosting political stability.
2. **Improved macroeconomic conditions**: Prudent fiscal and monetary policies and debt relief have helped contain fiscal deficits and lower inflation. Government reforms have also improved the business environment.
3. **Greater public investment in infrastructure**. This has helped some countries without natural resources, such as Ethiopia and Rwanda, to attain growth of 8% or more.
4. **High commodity prices**. During the 2000s, Africa's resource-rich countries have benefited from greater demand for commodities, especially from China and other emerging economies. The recent decline in prices has scaled back growth however.
5. **Foreign direct investment and other financial flows and domestic demand.** These factors have responded strongly to a good policy environment and together they have played a key role in Africa's growth. Yet, the potential of intra-African trade has not been fully exploited.

Trade increases despite a fall in US exchanges

Africa's trade with the rest of the world has remained high, except with the United States. From 2000 to 2008, Africa's trade increased by an annual average of 16%. Because of the 2008-09 global financial crisis, trade fell sharply by 24% from 2008 to 2009. Since 2010, Africa's exports have recovered, growing by an annual average of 8.5%. Trade with the United States has persistently declined however. In 2015, trade with the United States fell to USD 70.5 billion from a peak of USD 124.6 billion in 2011, an 11% decline (Figure 3.1). Historically, oil, gas and petroleum products have dominated US imports from sub-Saharan Africa. In 2007, these accounted for 93% of US imports. By 2013 the figure had declined to 67% as the United States stepped up its campaign for energy self-sufficiency and increased production of domestically produced oil to avoid imports.

Figure 3.1. **Africa's total trade flows, trade with selected partners and intra-African trade (USD billion), 2000-14**



Source: Authors' calculations based on UN COMTRADE, via http://wits.worldbank.org/wits/.
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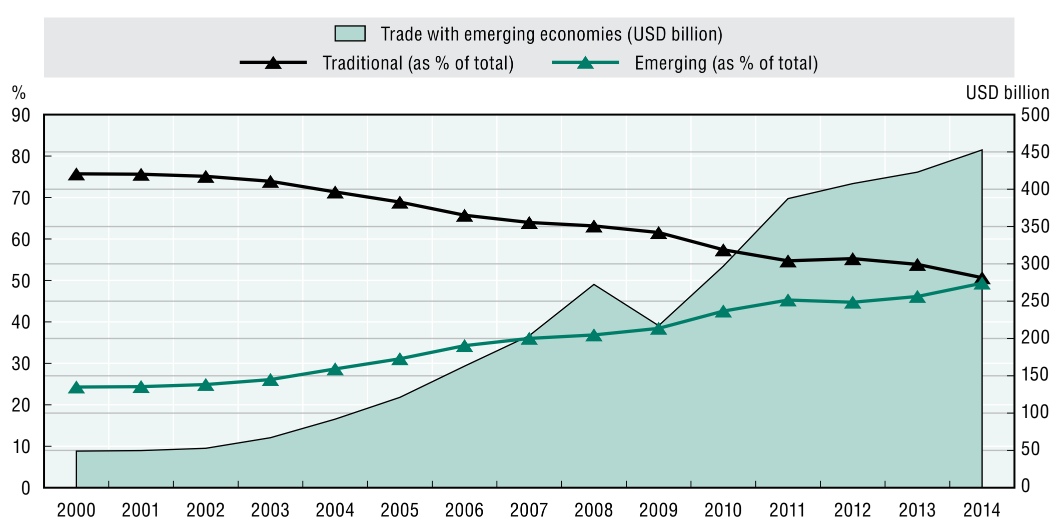
The European Union remains the key export market for Africa's products. However, since the financial crisis, euro area demand (72.5% of European Union gross domestic product [GDP]) has been weak, hurting demand for Africa's products. As a result, Africa's exports to Europe have increased by a modest 0.2% per year since the 2008-09 financial crisis. Africa has been helped by its diversified trade. Declining exports to the United States and the weak growth in Europe have given an increasing importance to Brazil, Russia, India and China (the BRICs countries), and other emerging economies (Figure 3.2). In 2009, only 24% of Africa's exports went to emerging countries. In 2014, the BRICs, Korea, Turkey and others accounted for nearly half of Africa's total exports to the world.

Figure 3.2. **Distribution of Africa's trade: Traditional versus emerging partners, 2000-14**



Source: Authors' calculations based UN COMTRADE, via http://wits.worldbank.org/wits/.
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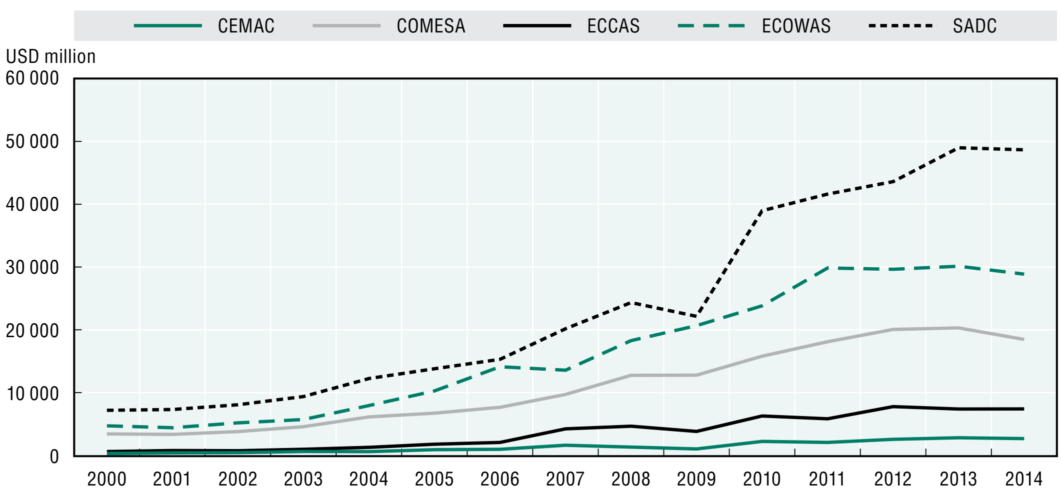
Africa's exports to emerging economies are dominated by China and mainly comprise oil, metals and other primary products. This exposes the continent to China's shifting economic model from investment and export to an economy based on domestic consumption and services. This could slow demand for Africa's products and affect long-term growth. Currently, China accounts for 27% of sub-Saharan Africa's global exports with primary commodities representing about 83% of exports to China (Pigato and Tang, 2015).

Trade between African regions is also growing, though it remains low compared to other parts of the world. In 2000, intra-regional trade accounted for 10% of Africa's total trade. In 2014, it was 16%. This trade is mainly in manufactured goods, which are less susceptible to price shocks. Manufactured products account for 60% of total regional trade (AfDB, 2015). Moreover, trade to other regions increased for all of Africa's regional economic communities except the six-nation Central African Economic and Monetary Community (CEMAC) (Figure 3.3).

Figure 3.3. **Intra-African trade by regional economic communities (USD million)**



Source: World Trade Organization (2015).
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Mega trade blocs gain ground

In recent years, moves towards "mega" regional trade agreements, such as the proposed Transatlantic Trade and Investment Partnership (TTIP) between the United States and European Union, have gained momentum. The aim is to remove tariff and non-tariff trade barriers and restrictions on investment, in a wide range of sectors. The US-EU agreement, when completed, would combine the world's two largest economic entities. The TTIP could also jump-start discussions on the Doha Development Agenda and renew interest in trade liberalisation.

In Africa, the Tripartite Free Trade Area (TFTA) and the proposed Continental Free Trade Area (CFTA) are designed to spur intra-regional trade and investment. The TFTA takes in the 19-nation Common Market for Eastern and Southern Africa (COMESA), the five-country East African Community (EAC) and 15-member Southern African Development Community (SADC). This makes it the largest free trade zone in Africa's history, accounting for over 58% of continental output, 48% of its countries and 57% of Africa's population. The TFTA also accounts for 25% of intra-regional trade, where other blocs account for an average of 15%.

To boost regional trade, the TFTA focuses on i) harmonising existing regional trade agreements; ii) facilitating the flow of goods between countries and along transport corridors; iii) improving links between members by developing cross-border infrastructure; and iv) allowing free movement of business persons.

Reflecting the African Union's vision of enhanced regional co-operation, the main objective of the CFTA is to take the whole continent into an African Economic Community with a free market of more than 1 billion people that uses the growing middle class and associated demographic dividend. This initiative dates back to the 1991 Abuja Treaty that provided a roadmap for African regional integration. Negotiations for the establishment of the CFTA were officially launched in June 2015 during an African Union summit in Johannesburg, South Africa. The aim is to establish the CFTA by 2017. Given the fragmentation and small size of African markets, a continent-wide common market offers a unique opportunity to invest in cross-border infrastructure, to spur regional integration and to boost growth and employment creation. Once created, the African Economic Community's proposed continent-wide free trade area would reduce overlaps between Africa's regional communities.

It is difficult to assess the real impact of the CFTA. However from past experience, it brings benefits to members through "trade creation" rather than "trade diversion" (Freund and Ornelas, 2010).

Regional integration is an aid to income convergence

Regional integration aims to promote political and economic co-operation. Most Africans live in countries where domestic markets are too small and fragmented to achieve the economies of scale necessary to compete internationally. Closer integration is therefore crucial for the continent. Growth is a key aim for each country and so is the desire to narrow divergences in income, unemployment and other social outcomes. Despite compelling evidence that regional integration leads to income convergence (Camarero, Flores, Jr. and Tamarit, 2006; Jones, 2002), some studies have indicated there is no systematic relationship between trade integration and convergence (Milanovic, 2006; Sohn and Lee, 2006).

Convergence indicators across Africa show mixed patterns

Regional integration helps convergence between poor and rich economies through three key factors. First, integration encourages capital and labour mobility, which can increase output and productivity. Agreements, whether free trade areas or customs unions, offer potential benefits to all countries involved through increased trade volume. Finally, regional integration promotes the spread of technology through the exchange of goods, ideas and knowledge.

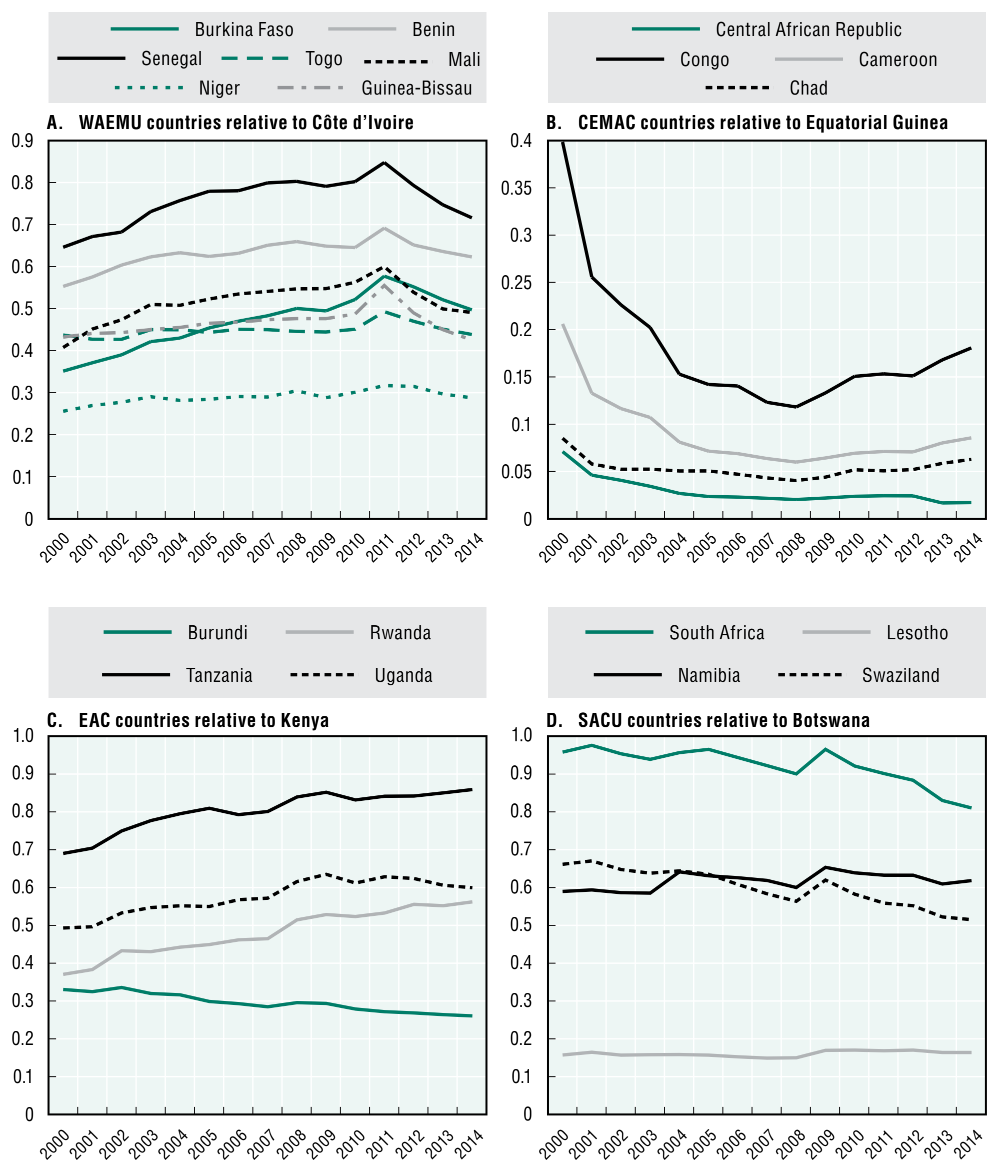
Forming regional economic communities has had a mixed impact on income convergence in Africa. The eight countries in the West African Economic and Monetary Union (WAEMU) show the highest income convergence rate. Incomes have narrowed at an average rate of 19.6% between WAEMU's richest and poorest countries over 15 years. As illustrated in Figure 3.4A, in almost all WAEMU countries, the per capita GDP has risen compared to Côte d'Ivoire, the region's leading economy. Benin and Senegal have caught up with Côte d'Ivoire, while Niger and Togo are still behind. This could mean that poorer countries grew faster than richer ones to narrow the gap. The convergence may also be explained by the slowdown of the Côte d'Ivoire economy during the country's political crisis of the early 2000s.

Incomes in the Economic Community of West African States (ECOWAS), which has 15 members, have also narrowed, though the convergence rate is lower at an estimated 11.4%. Countries like Ghana or Nigeria have been slowly catching up with Cabo Verde, the region's richest country. Over the past 15 years, per capita GDP in Nigeria and Ghana, relative to Cabo Verde, has increased by 21.6% and 5%, respectively. However, Côte d'Ivoire has lagged behind the leading countries. Since 2000, when its political crisis began, GDP per capita has declined 37% relative to that of Cabo Verde. In the CEMAC region, income convergence has been estimated at just 5.5%. Over the past five years, Congo has slowly been catching up with Equatorial Guinea while Chad has remained behind (Figure 3.4B).

The EAC had a convergence rate of 8.5%. This reflects rapid and sustained economic growth, although there are significant cross-country variations. Against Kenya, the richest country in the region, the GDP per capita of Rwanda and Tanzania grew by 50% and 24%, respectively, between 2000 and 2014. But the GDP per capita of Burundi, the poorest country, decreased by 26% compared to Kenya.

In the five-nation Southern African Customs Union (SACU), incomes have converged by 13.3%. While countries are globally falling behind Botswana, the richest economy in the group, Namibia is slowly reducing its gap with South Africa, the second richest. Still in Southern Africa, SADC countries show a slightly lower convergence rate, estimated at 11.2%. In COMESA, which includes countries in East and Southern Africa, the convergence rate is estimated at 14.8%.

Figure 3.4. **Gross domestic product per capita of selected African countries relative to the regional leading economy (USD), 2011**



Source: AfDB statistics.

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Income convergence in Africa remains low

African countries have made progress in removing some national obstacles to narrowing the income gap. However, income convergence is always going to be a long-term task and one carried out at different speeds. Table 3.1 illustrates the disparities within each regional economic community: with few exceptions, the richer economy is often smaller in size and a poor growth performer.

Table 3.1. **Comparison of the richest country in a regional economic community (REC) with regional figures**

	Real GDP per capita growth (2005-14)	GDP, PPP 2011 USD (2014), billion	Total GDP, PPP 2011 USD of the REC (2014), billion	Population (2014), million	Total population of the REC (2014), million
Equatorial Guinea (CEMAC)	0.81	27.2	181	0.82	48.20
Côte d'Ivoire (WAEMU)	1.44	68.9	204	22.00	110.00
Cabo Verde (ECOWAS)	3.63	3.2	1340	00.51	340.00
Kenya (EAC)	2.54	126.0	342	45.00	157.00
Botswana (SACU)	3.32	34.1	744	20.20	62.00
Seychelles (SADC)	4.48	2.3	1050	0.09	297.00

Source: Authors' calculations based on World Bank (2015).

Policy makers need to quickly address three key issues to bolster income convergence in Africa's regional communities. First, there are huge differences within and between Africa's regions. Intra-African trade remains the lowest among all the continents. In 2014, trade between regions accounted for approximately 16% of Africa's total (Table 3.2). For Asia, Europe and the Americas, intra-regional trade represented, on average, about 61%, 69% and 56%, respectively, of their total trade in 2014.

There are also differences between Africa's regions. CEMAC has the lowest proportion of intra-regional trade, a commonly used measure of regional integration, at just 2.1% in 2014. This is mainly because of the limited trade integration in this economic zone. The EAC and SADC are Africa's most integrated regional communities. In 2014, the SADC had the highest proportion of intra-regional trade at 19.3% of its total trade followed by the EAC at 18.4%. WAEMU and SACU had intra-regional trade proportions of 15.3% and 15.7%, respectively.

Table 3.2. **Intra-regional trade in Africa's regional economic communities as a percentage of total trade**

	2000	2010	2014
CEMAC (Economic and Monetary Community of Central Africa)	1.19	2.74	2.08
COMESA (Common Market for Eastern and Southern Africa)	4.82	7.36	11.00
EAC (East African Community)	17.73	18.65	18.37
ECOWAS (Economic Community of West African States)	8.91	8.27	8.92
SACU (Southern African Customs Union)	2.56	14.47	15.67
SADC (Southern African Development Community)	11.73	18.18	19.34
WAEMU (West African Economic and Monetary Union)	15.24	12.70	15.30
North Africa	2.52	3.69	5.32
Africa	**9.18**	**13.80**	**15.71**

Note: WAEMU includes Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo; CEMAC includes Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon and Republic of the Congo; COMESA includes Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Libya, Madagascar, Malawi, Kenya, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe; SADC includes Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe; and ECOWAS includes Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.
Source: Authors' calculations based on WTO(2015).

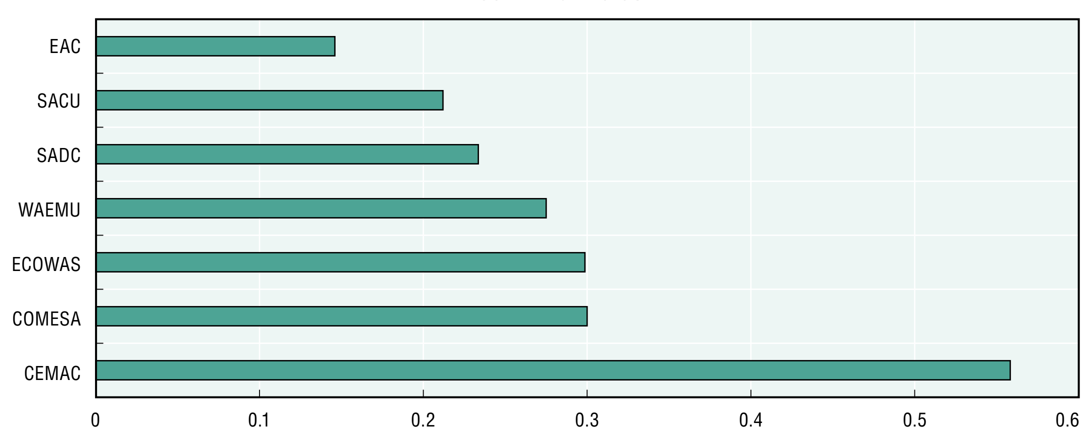
Second, lack of economic diversification has limited trade between African countries and regions. For a majority of countries, production and exports are concentrated in oil and gas, minerals and agriculture raw materials. As a result, there is no scope to capitalise on the comparative advantage associated with those products. The most diversified economies are in East and Southern Africa, while West Africa and Central Africa are among the least diversified. The CEMAC countries are the least diversified. SACU is the second most diversified economic community.

In terms of export diversification strategy, differences also exist. Some countries are trying horizontal diversification by producing new products. Kenya, Ethiopia and Uganda have, for example, moved into cut flowers. This supplements or partially replaces traditional exports such as coffee and tea (Yokoyama and Alemu, 2009) and the new products help counter the volatility of global commodity prices. Other countries are trying vertical diversification, moving up the manufactured products value chain. Madagascar, for example, is capturing vertical value chains in clothing and apparel. This strategy requires more sophisticated processing and marketing.

Africa's regional communities can lay the foundation for diversification by creating common markets, pooling resources and providing a framework for the regional management of infrastructure such as transportation corridors. They can also strengthen human resources capacity, health, security, the environment and services across the regions. In addition, harmonising technological standards and regulations, and reforming customs and border controls will improve Africa's business climate.

Africa's improved investment climate has provided opportunities for increased investment from inside and outside Africa. Benin, Kenya, Mauritania, Senegal and Uganda were among the top 10 most improved economies in 2014-15 in areas tracked by the World Bank's Doing Business 2016 survey. Together, they implemented 39 regulatory reforms making it easier to do business. Sub-Saharan Africa accounted for about 30% of the regulatory reforms making it easier to do business in 2014-15, followed by Europe and Central Asia.

Figure 3.5. **Economic diversification in selected African regional economic communities**



Note: Lower values mean higher diversification.
Source: Yameogo et al. (2014).
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Economic transformation can help create sustained growth and other benefits. However, structural change is needed to bring lasting results. Countries need to reallocate labour from low to high productivity activities and to use their relative demographic advantage.

Third, sufficient and efficient infrastructure is critical for the promotion of inclusive and sustainable growth and income convergence in regional communities. African economies can set a course for deep integration if infrastructure networks are designed to link production centres with distribution hubs across the continent. Such infrastructure will enable Africa to compete effectively, tap into regional markets, benefit from globalisation through investment and trade and therefore achieve income convergence (AfDB et al., 2013). The Programme for Infrastructure Development in Africa estimates that Africa will need to spend up to USD 68 billion annually until 2020 on capital investment and maintenance.

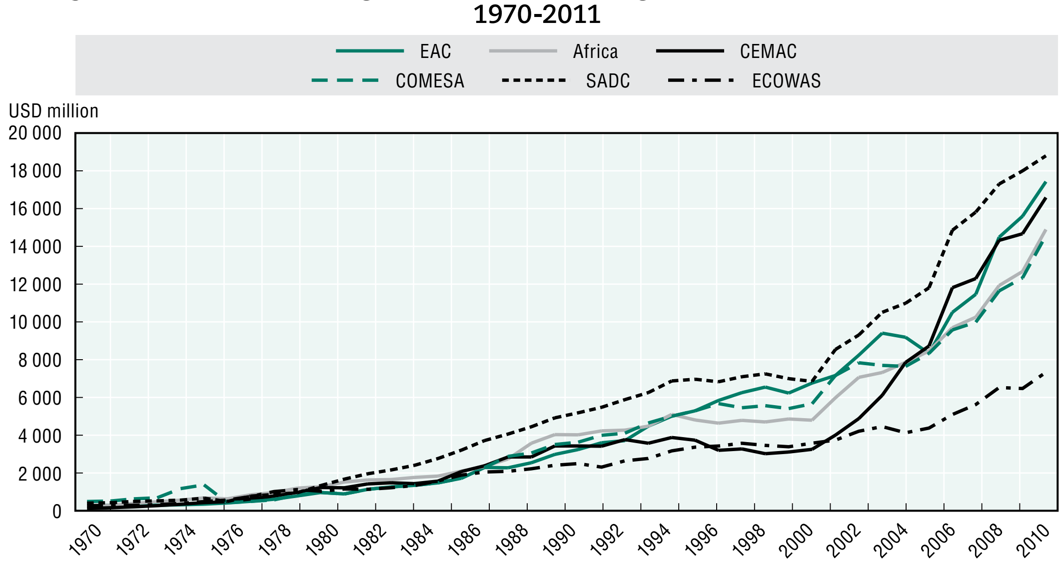
Countries have made notable progress at a regional level developing cross frontier infrastructure. The Ethiopia-Kenya Power Interconnector and the Zambia-Tanzania-Kenya Power Interconnector will link the Southern Africa Power Pool and the East Africa Power Pool and create a large regional electricity market. The Grand Inga Hydro Power Plant on the banks of the River Congo in the Democratic Republic of the Congo, when fully developed, could have a power generation capacity exceeding 44 000 megawatts – half of Africa's current installed electricity capacity.

Other major projects include the multinational Mali-Côte d'Ivoire Road Development and Transport Facilitation Project on the Bamako-Zantiebougou-Boundiali-San-Pedro Corridor. This will help open up production areas in the two countries, improving competitiveness, economic diversification and poverty reduction in the participating countries. The network will turn the port of San Pedro in Côte d'Ivoire into a key transit point for neighbouring landlocked countries such as Mali and Burkina Faso.

Integrated financial markets open a path to accelerated income convergence

Deeper financial integration should speed up income convergence. Africa has already seen 15 years of high economic growth. Better integration of financial markets could spur more growth and speed up income convergence by setting favourable conditions for better risk sharing and the phasing out of constraints, such as low competition and high transaction costs. Regional financial integration could enlarge domestic market size, broaden and deepen financial systems, achieve economies of scale, and make resources more available and more efficiently allocated. Countries and regions with lower growth rates would have a better chance to add growth and reach higher living standards.

Figure 3.6. **Financial integration in different regional economic communities, 1970-2011**



Note: The median of the sum of assets plus liabilities in USD.

Sources: Lane and Milesi-Ferretti (2006), and authors' calculations.

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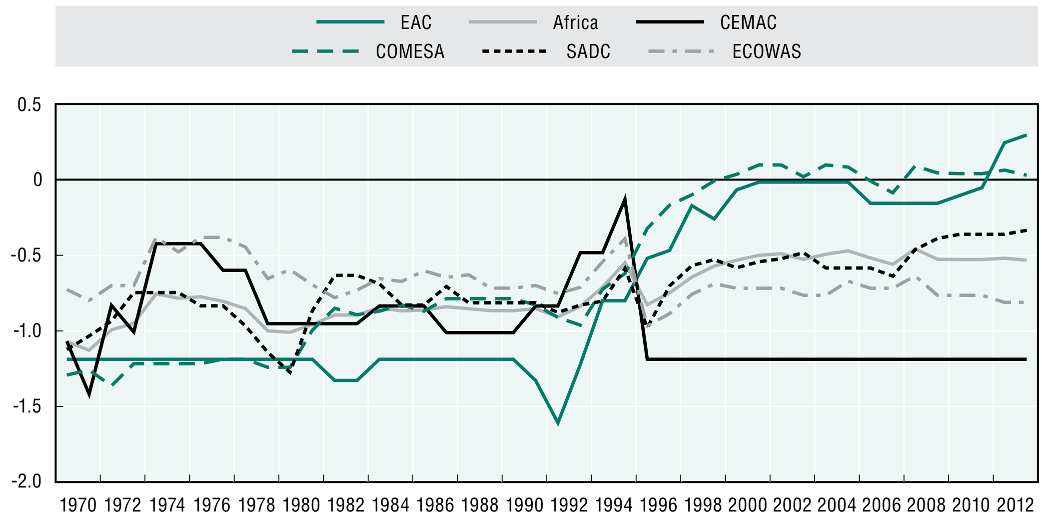
Africa's financial integration has progressed rapidly over the past 15 years. The stock of assets and liabilities, a good indicator of financial integration, has increased uniformly across Africa's sub-regional communities (Figure 3.6). One reason could be the increase in Africa's international trade. From the mid-1990s up to the 2008-09 financial crisis, the sum of merchandise trade (exports plus imports), a sign of trade openness, has increased sustainably and since 2009 has grown at an annual average rate of 2.6%.

Also, since the early 2000s, African countries have implemented macroeconomic, financial and structural policies to remove impediments on external financial activities. From the mid-1990s, the financial account became more open (Figure 3.7) to cross-border transactions, except in the CEMAC area.

Figure 3.7. **Financial account openness in Africa's regional economic communities, 1970-2013**



Notes: Higher values mean higher financial integration.
Sources: Chinn and Ito (2006) and authors' calculations.
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Banking systems in Africa have boomed, as reflected in the expansion of pan-African banks. Many African countries traditionally depend on bank financing (Sy, 2015) and in the last decade, some large African banking groups have widened their regional footprint. This reflects progressing economic and financial integration in Africa. Ecobank, a leading pan-African bank which has its headquarters in Lomé, Togo, increased its affiliates from 11 to 36 countries while Bank of Africa, based in Nigeria, increased from 1 to 19 countries and Attijariwafa Bank of Morocco from 1 to 12 (Beck et al., 2014). However the expansion of these banks raises regulation and supervision issues given that cross-border banking may increase the likelihood of financial contagion. Consequently, harmonised regulation and supervision frameworks are crucial. Furthermore, since most African countries still use the Basel I international banking regulations, regulatory and supervisory rules will have to be brought in line with Basel III guidelines.

Mobile banking and other financial innovations have become a challenge to conventional ATM cash machines and electronic bank payments. Expanding mobile communication networks and access to mobile phones in Africa has led banks to work with telecommunication companies to pioneer mobile banking systems that bring financial services closer to clients. For example, from its home market in Senegal, the WARI money transfer payment service has expanded to 24 African countries.

Thus, beyond the traditional GDP indicators of financial development such as domestic credit to the private sector or bank deposits, electronic payments are of growing importance and need to be taken into account to show the growing size and sophistication of Africa's financial systems.

International and domestic sovereign bond issues are on the rise. Although banks remain the main financial sector players in Africa, bond markets have developed over the last decade. Many countries have issued bonds on international markets in recent years, reflecting the desire to diversify sources of financing. In 2006, African countries raised USD 200 million from global capital markets through bonds. In 2015, this figure rose to USD 6.25 billion. However the move by the United States to end its quantitative easing monetary policy, which has stoked a rise in interest rates and appreciation of the US dollar, could push up borrowing costs and the size of external debt in domestic currency terms.

Local bond markets could be an alternative but this must accompanied by macroeconomic stability and rationalisation of government borrowing to reduce interest rates. This would in turn crowd in private sector bond issuance which is essential in deepening the domestic capital markets and hence expand financing sources. The corporate bond market in Africa is underdeveloped. Few countries have an outstanding bond to GDP ratio higher than 5%. In 2014, the total outstanding African debt securities in local currency amounted to USD 486 billion.

To help develop local bond markets, the African Development Bank Group launched the African Financial Markets Initiative (AFMI) in 2008. The AFMI seeks to enhance the medium-to-long term development of African bond markets so governments can improve the terms at which they borrow in domestic financial markets, reducing dependence on foreign currency denominated debt.

Local bond markets would also increase corporate financing options, act as a catalyst for the development and stability of financial markets, boost regional financial market integration and improve the availability and transparency of African fixed income data.

The size of an economy and the development of stock markets are strongly linked. But lack of stock market integration is holding back Africa's financial integration. Africa has more than 25 stock markets. However, many are fragmented, illiquid and little active. A major exception is the Johannesburg Stock Exchange (JSE) which accounts for nearly 65% of Africa's total market capitalisation. There have been initiatives to merge some to benefit from economies of scale. The CEMAC group is a monetary union with two stock markets, yet with only four listed companies. The total market capitalisation is less than 0.5% of CEMAC's total GDP.

However, some economic zones like ECOWAS are actively encouraging securities listings. Rules on some individual and cross-border stock exchanges – notably the Bourse Régionale des Valeurs Mobilières (BRVM), which covers eight West African countries, the Nigerian Stock Exchange and the Ghana Stock Exchange – allow foreign companies to have multiple and cross-border listings.

Stock markets could learn from the model of the new generation of pan-African banks helping financial integration and investment within regions and across the continent. The number of stock markets will have to be rationalised to allow the right regulatory and supervisory framework for pan-African stock markets.

Intra-African investment is rising, driven by increased regional integration

Investment between Africa's regions could be a crucial driver of financial integration, but so far it is limited. Foreign direct investment into Africa has risen from about USD 10 billion in 2000 to about USD 55 billion in 2015. Investment within Africa has played a key role in this expansion.

In terms of project finance, intra-African investment accounts for 19% of total investment in Africa (EY, 2015).

Intra-African investment is less targeted at the extractive sector, helping recipient countries to diversify away from the volatile resources industries.

Investment within Africa has been led by South Africa, Nigeria and Kenya, mainly in banking, retail and telecommunications. Morocco, through banking and insurance companies such as Attijariwafa and Saham Insurance, has become a major investor but mainly in French-speaking countries. South Africa is the top investor in its region. About 80% of foreign investment into Botswana, Lesotho, Namibia and Swaziland comes from South Africa (World Bank, 2016). For some small countries such as Benin and Guinea-Bissau, finance from other African countries accounts for more than 30 % of their foreign inflow.

The African investment flow is growing but is not yet the torrent that many countries want. The potential is much higher and other regions of the world generate a lot more of their own investment. Intra-African investment accounts for only 12% of Africa's total foreign investment. In Asia, intra-regional investment makes up 33% of the continent's total.

Two reasons may explain why Africa is not investing in itself. Despite recent trade liberalisation, Africa still has high tariff and non-tariff barriers that hinder foreign investment. Africa also has regulatory and structural impediments. Goods and financial markets are fragmented. This prevents the leveraging of cross-border investment opportunities. Africa's financial integration needs co-operation between financial regulators in different countries to harmonise their rules.

There are signs of change. The growth of pan-African banks in recent years has revolutionised Africa's financial sector. They now account for a large share of investment between African regions. The resilience of Africa's growth performance, supported by strong consumer demand, could also be a launchpad for intra-African investment in consumer-focused areas such as financial services and telecommunications. Current initiatives to rationalise and bring together Africa's regional communities could dismantle obstacles to bigger markets. The creation of the TFTA, in particular, could boost intra-African trade and investment.

Increased trade finance can help integration and job creation

Despite the increase in Africa's internal trade in recent years, it remains confined. Limited finance is devoted to intra-African trade. Banks operating in Africa account for about one-third of Africa's total value of trade finance, estimated at USD 320 billion (AfDB, 2014). However only 19% of bank trade finance is devoted to intra-African trade and this is not uniformly distributed across Africa. With 6%, North Africa has the lowest proportion of bank intermediated trade finance. In East and Southern Africa, around 27% each of bank intermediated trade finance is devoted to intra-regional trade, the highest in Africa.

The expansion of Africa's trade finance could strengthen regional integration and foster job creation. Africa's total exports comprise 80% raw commodities and 20% manufacturing. In contrast, 60% of intra-Africa trade is manufactured products, against 40% for primary commodities. Manufacturing is a good driver of productive employment and would push Africa further up the global value chain.

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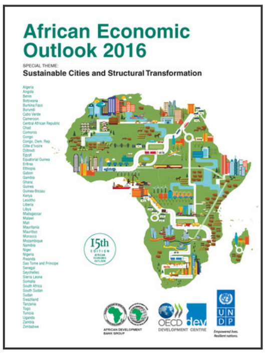

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