THE PROSPECTS AND CHALLENGES OF TRADE IN SUB SAHARAN AFRICA

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ABSTRACT

This article examines the prospects and challenges of trade in Sub Saharan Africa (SSA). Africa, according to the World Integrated Trade Solution (WITS) has 52 countries, six (6) are classified as North Africa whiles the remaining (46) as Sub Saharan Africa. In 2016, five leading exporters in SSA (Nigeria, South Africa, Angola, Côte d'Ivoire and Equatorial Guinea) were used as samples for this article; their balance of trade, export and import partners, products exported and imported etc. were discussed using tables and bar charts. The article also looked at the Regional Trading Agreements (RTA) in Africa. It was found out that there are more than 15 RTAs in Africa and on average every country is part of at least 3 RTAs making it difficult to commit to the objectives of the individual agreements. In terms of exports, SSA is blessed with abundant natural resources but due to the exportation of a lot of raw material and semi-finished products, it contribution to world trade is still very low. Factors such as low human capital, poor infrastructural development and social unrests are major challenges to trade in the sub region. If SSA wants to increase its share in the world trade and become more competitive, it should reduce or form one regional trading body like the European Union, diversify its exports, invest in human capital, technology and work towards political stability.

Keywords: Sub Saharan Africa, Regional Trade Agreement, Human capital, Natural resources, Political stability, Balance of trade.

INTRODUCTION

The past two decades has been seen as the greatest periods of instability in Africa. At the birth of the millennium, many people wondered if Africa would become “the doomed continent” .Crippled with civil and ethnic tension, predictions that Africa as a continent was about to enter the fastest growth period of its young fifty year history would have seemed impossible (Quenum, 2000).

Africa is blessed with abundant natural resources whose land mass is equivalent to Europe, the United States, China, India and Argentina combined. This means a lot of arable land for agricultural purposes but only about 10% of these lands are being cultivated. Africa’s borders also hold approximately 40% of earth's total gold reserves and 30% of its mineral deposits. It has vast unexploited reserves of oil and natural gas (10% of world’s reserves) and largely unexploited hydroelectric power. It is the home to vast gold, platinum, uranium, iron ore, copper and diamond reserves (Deborah and Songwe, 2012).

After attaining independence in most countries, there was a need to come together to form regional trading blocs that will ease trade within and outside Africa. The proposed agenda was for Africa’s integration into the Pan-African unity and continental industrialization by the division of Africa into Regional Economic Communities (RECs). Thus, these RECs

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would constitute a united economy, the African Economic Community (Adriana Boakyewaa Appau, 2013).

The objectives of these communities included elimination of customs duties, trade restrictions, establishment of a common customs tariff, and coordination of economics, industrial, and monetary policies. There were also plans for allowing the free movement of labour, goods, and capital on inter-community level with broad plans for economic, political, and monetary integration (ECOWAS report, 2015).

In Africa, trade agreements were established as mechanisms to simplify the continent's unity after colonization. Today, the majority of Africa's Regional Trading Agreements (RTAs) went beyond the economic objectives of industrialization and trade. RTAs aimed at promoting democracy, preventing regional conflicts, harmonizing institutional development, etc. According to Collier and Venables (2009), Regional Integration has the highest payoffs for landlocked countries that highly depend on resource-based exports. Martin et al. (2008**)** found out that an increased bi-lateral trade deters war because it increases the opportunity cost of war whereas multi-lateral trade has the opposite effect.

In SSA, trade is mainly constraint by costly "trade logistics", non-tariff barriers, bureaucracy and poor infrastructure. It costs companies an average of 95 days a year just to deal with trade bureaucracies. It is more expensive to ship goods between two Sub-Saharan African countries than to send goods from Sub-Saharan Africa to the USA or Europe. Such market disintegration is the consequence of the region's centralized state-led economic policies (The Economist, 2012).

SSA was perceived as an inaccessible region by many investors some decades ago but today, the continent is flowing with lots of investments. Net flows of foreign direct investment increased more than double from $14 billion in 2001 to $34 billion in 2008. Goods exported over the period from 2000 to 2008 grew by 18 percent per year as the continent became increasingly more open and globally connected to the rest of the world (Deborah and Songwe, 2012).

RESEARCH OBJECTIVES

The objective of this article is to look at the volume and patterns of trade in selected Sub-Saharan African countries as well as discuss the trading environment of the five leading exporters in Sub-Saharan Africa. It will also identify; Sub-Saharan Africa's volume of trade with the rest of the world, major trading partners and traded goods. Furthermore, the African RTAs will be looked into and an explanation into why conflicts among them exist. The Prospects for the future and current challenges to trade in the sub region will be identified.

The article will also be useful to future researchers on trade in SSA and will guide investors in their investment decision based on resource endowment in various countries.

RESEARCH QUESTIONS

The main research questions of this article are; i) does natural resources endowment determine product exported in the selected countries in Sub Saharan Africa? ii) Why is SSA world trade volume still low? And what are the prospects and challenges to trade in SSA?

METHODOLOGY

The sources of data for this article are from the World Intergraded Trade Solution and the World Bank database. Data analysis covered trade figures in 2016 because the paper intends to

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focus mainly on analyzing the prospects and challenges of trade in Sub Saharan Africa and not an in-depth econometric analysis.

Africa according to the World Trade Organization has 52 countries. Forty six (46) countries are classified as Sub Saharan countries and six (6) as North Africa. A sample of the ten (10) leading exporters in Africa (representing 76.6 percent of Africa's total exports) were identified out of which six (6) countries from SSA (represent 49.9 percent) were sampled for this article. The selected Sub Saharan countries included South Africa, Nigeria, Angola, Cote d`viore, Ghana and Botswana. They were selected as leading exporters in SSA based on their higher percentage of trade share in SSA.

Trade volume and figures were both analyzed quantitatively in the form of tables and charts. The prospects and challenges to trade were identified as well as policy measures that could boast Sub Saharan Africa's trade competitiveness.

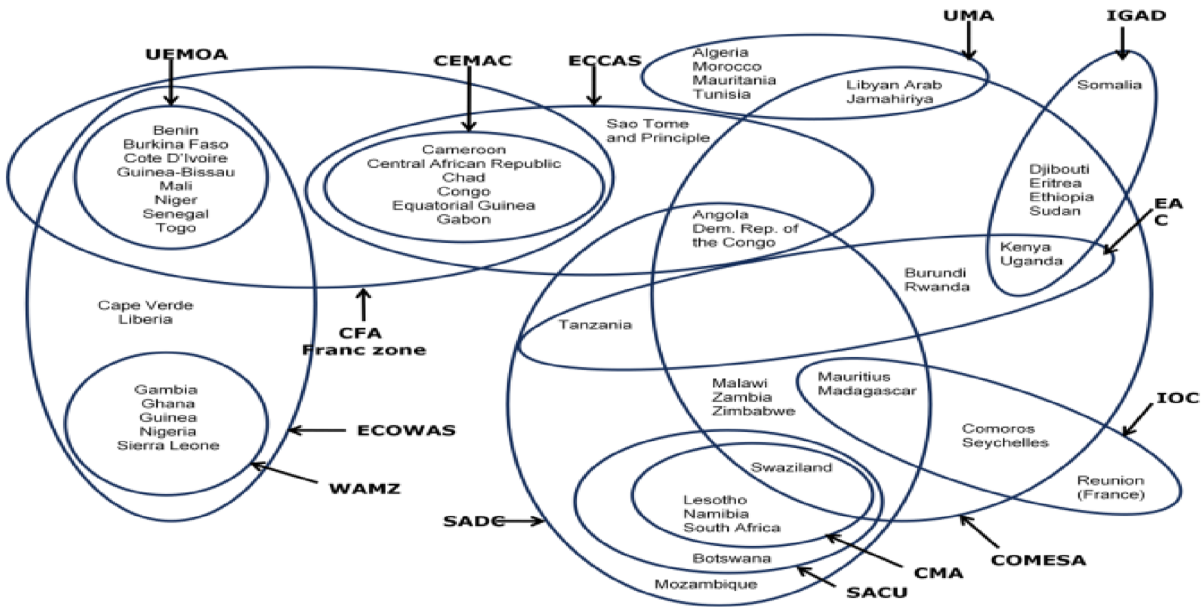
RESULTS AND DISCUSSION

Regional Trade Agreements in Africa

Africa is home to more than 15 regional trade arrangements (RTAs). On average, every African country belonged to at least three RTAs (World Bank, 2004). RTAs come in the form of free trade area, custom union, common markets, economic union etc.

The figure 1 below shows the network of RTAs in Africa. In SSA alone there are more than eleven RTAs and most countries belonged to more than three (3) RTAs making it difficult to fulfil trading agreement. Some countries do not have mineral resources discovered yet and others are landlocked, thus they obtain a lot of revenue from custom and tax, it is therefore very difficult to honor most RTAs (For example Gambia has no discovered mineral resources and Mali a landlocked country).

Figure1: Regional Trade Agreement in Africa



Source: Adapted from UNCTAD, 2009a.

Trade Volume of SSA

According to the World Intergraded Trade Solution (WITS) 2016, SSA had 4,617 imported products with 231 import partners. Exported products totaled 4,553 with 224 partners. The volume of imported goods totaled approximately $161,657 million while exports were valued at $121,457 million. On average, trade represented about 58.59% of GDP and it takes approximately 30 days to imports goods into or export goods from SSA.

Table one (1) show the 10 leading exporters in Africa out of which six (6) countries were from SSA. From the analysis of table 1, it was found out that majority of Africa's exports comes from these 10 countries. These 10 countries below represented 76.60 percent of Africa's total exports in 2016 of which six were Sub-Saharan countries representing 49.9 percent while the remaining Northern Africa accounted for only 26.7 percent.

The ten (10) leading exporters in Africa based on their share in exports and corresponding export values in 2016. Algeria is the leading exporter in North Africa followed by Morocco, Egypt and then Tunisia as shown below:

Table 1. Africa's Export Leading Countries (2016)

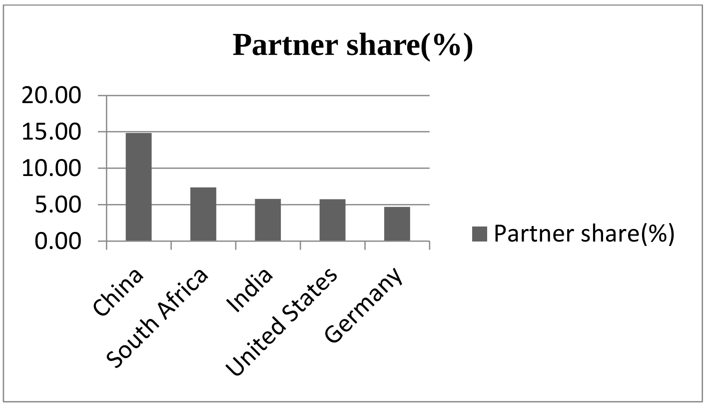
Exporters	Exports Values	Africa's Total per cent	Region
South Africa	$74.1 billion	22.60%	Sub Saharan
Nigeria	$35.5 billion	10.80%	Sub Saharan
Algeria	$28.9 billion	8.80%	North Africa
Angola	$27.3 billion	8.30%	Sub Saharan
Morocco	$22.8.8 billion	7.00%	North Africa
Egypt	$22.5 billion	6.90%	North Africa
Tunisia	$13.3 billion	4.00%	North Africa
Côte d'Ivoire	$9.9 billion	3.00%	Sub Saharan
Ghana	$9.8 billion	3.00%	Sub Saharan
Botswana	$7.3 billion	2.20%	Sub Saharan

Source: World top export.com, 2016.

Sub-Saharan Africa mainly traded with Europe based on the historical relationship however; current statistics has shown that SSA's trade with Asia has been growing rapidly. Intra Africa trade has been growing extremely fast over the years, thus providing member states local markets for their products in line with work done by Tsitsi Effie Mutambara in 2013.

The region's major exporter partners were China and India. South Africa was the largest receiver of export from SSA as evident in its participation in a lot of regional trade agreements. The Bar chart in figure 2 shows Sub Saharan Africa's major export partners. China's share of trade in SSA represent approximately fifteen percent while United States and German represented approximately six and five percent respectively.

Figure 2: A Bar chart showing Sub Saharan Africa's major export partners



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Source: World Intergraded trade solution (WITS), 2017

Table 2 below shows that Sub-Saharan Africa's major exported products were raw materials and intermediate goods. However, due to natural resources abundance in SSA, its importation of raw materials was very low compared to other continents. Major imports included consumer and capital goods probably due to developing human capital, rising population and under industrialization of its economy.

Table 2. Summary of Sub Saharan Africa's major traded products (2016)

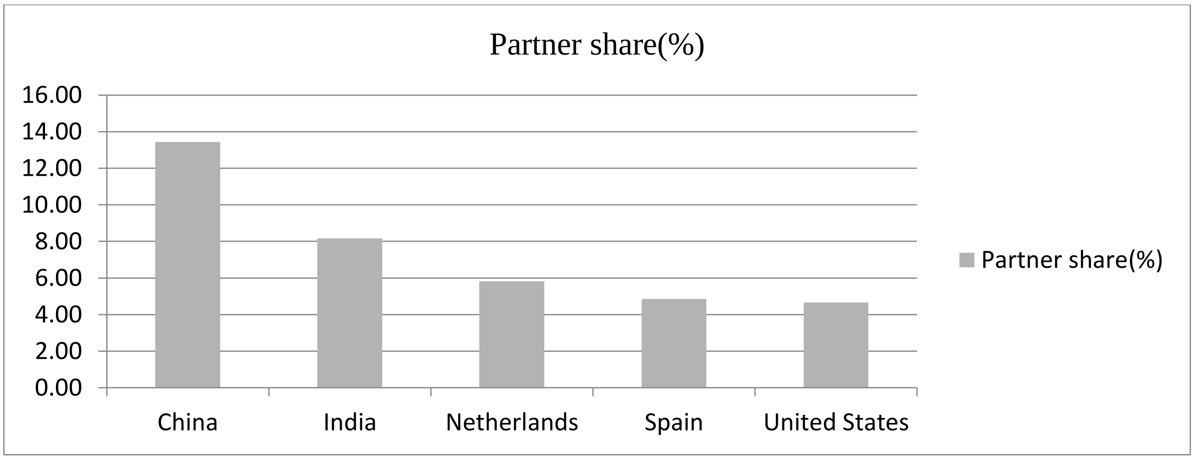
	EXPORT SECTOR		IMPORT SECTOR	
Product	Export (US$ mil)	Product share (%)	Import (US$ mil)	Product share (%)
Raw materials	198,810	58.01	42,455	13.9
Intermediate goods	63,013	18.39	64,877	20.15
Consumer goods	55,575	16.22	115,526	30.4
Capital goods	24,221	7.07	85,857	26.67

Source: World Intergraded trade solution (WITS), 2017

The main imported commodities into Sub Saharan Africa are machinery and equipment, chemicals, petroleum products, scientific instruments and foodstuff. Although the region is endowed with lots of petroleum, its import of petroleum products is the highest among its imported products. This is due to the fact that most of the petroleum products are exported as semi-finished products as the region lacks the technical knowhow, resources and equipment to process petroleum into finished products.

The Bar chart in figure three (3) shows Sub Saharan African's major importers and corresponding partners share on imports.

Figure 3: A Bar chart showing Sub Saharan Africa's major import Partners



Source: Source: World Intergraded trade solution (WITS), 2017

Just like its exporters, China was Sub Saharan Africa's major importer. China's share of Sub Saharan imports is approximately 13 percent while India, Netherlands, Spain and US registered 8, 6, 5 and 5 percent respectively in 2014.

The main exports from Sub Saharan Africa were; petroleum oil, gold and diamonds, copper and iron ore, oil, cocoa, timber etc. Imports on the other hands comprised of mainly refined petroleum oil, bitumen, medicament and automobiles as shown in Table 3. Nigeria had the world's largest oil reserves and Africa's largest oil producer. With its resources, Nigeria had the potential to produce 3.2 million barrels/day. However, it only produced an average of 2.21 million barrels/day (economywatch, 2015).

Table 3. Sub Saharan Africa's major exported and imported products (2014)

Exported Products	(US$ M)	Imported Products	(US$ M)
Petroleum oils and oils obtained from bituminous	138,675	Petroleum oils (excl. crude)	36,817
Petroleum oils (excl. crude)	14,490	Petroleum oils and oils obtained from bituminous	209,623
Natural gas, liquefied	9,058	Other medicaments of mixed or unmixed products	4,514
Diamonds non-industrial unworked	8,697	Automobiles with reciprocating piston engine di	4,150
Gold in other semi-manufactured forms	7,170	Spelt, common wheat and meslin	3,730

Source: World Intergraded trade solution (WITS), 2017.

Leading Exporters in Sub Saharan Africa

1. Nigeria

Nigeria, with a population of 177.5 million (2014), GDP of $568 billion and an approximate total export of $103 billion representing 18.44 percent of its GDP. According to World Intergraded Trade Solution 2014, Nigeria registered a trade surplus of approximately $56 billion representing 12.5% of its GDP.

Nigeria exported a lot of agricultural products and was ranked world 36th exporter of explosives. Its major export partners included India, Netherlands, Spain, South Africa and United States contributing approximately$15 billion, $10 billion, $9 billion, $5 billion and $4 billion respectively. Major import included oil and mineral fuel amounting to approximately $8 billion. This was followed by machinery which is approximately $7 billion, seafood $1 billion and sugar and confectionary $959,838,865

Nigeria's major challenges to trade included falling crude oil prices, persistent policy uncertainty, security threats such as "Boko Haram", religious conflicts, corruption, fuel and power shortages among others.

2. South Africa

Since the end of apartheid (1970s) in South Africa, foreign trade had increased following the lifting of several sanctions and boycotts that were imposed as a means of ending apartheid. In 2014, South Africa had a population of 54 million and a GDP of $350.1 billion (WTO, 2015).

South Africa was ranked 38th in export and 32nd in imports out of the 136 countries sample countries in 2014. It imported mainly oil and mineral fuel, motor vehicle and parts, plastic, pharmaceutical and chemical products.

In 2014, South Africa's import value was approximately $9 billion more than imports resulting in a balance of payment deficit. It was the second largest producer of gold and the world's largest producer of chrome platinum, magnesium, vanadium and vermiculite.

Like Nigeria, South Africa's major export partner was china with trade volume amounting to almost $9 billion. The United States and Japan were the second and third largest importers from South Africa valuing $6 and $5 billion respectively. It exported mainly precious stones,

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ores, motor vehicle and parts, iron steel and industrial machinery. South Africa also exported agricultural products, aluminum and plastics.

With the rising of new countries on gold exportation such as Ghana, Zimbabwe and so on, there is need for South Africa to add value on its export and diversifyfy its products to maintain competitiveness.

3. Angola

Angola was ranked 54th leading exporter in the world whose export was valued at $54.6 billion and import volume of $25.9 billion in 2014.

The major exports of Angola in 2014 were crude petroleum ($52.2 billion), diamond ($809 million), refined petroleum ($703 million), petroleum gas ($586 million) and scrap iron ($63.8 million). Its top imports were special purpose ships ($1.71 billion), refined petroleum ($980 million), furniture ($660 million, and Car ($581million).

The top exports destinations of Angola were China ($27.7 billion), the US (5.1 billion), India ($5.07 billion), Spain ($3.25 billion) and South Africa ($2.03 billion). It imports from china ($5.96 billion), Portugal ($4.22 billion), South Korea ($1.8 billion) US ($1.6 billion) and South Africa ($1.49 billion).

Angola is a low human developed country and still recovering from civil war that ended in 2002. It has large oil and gas resources, diamond and rich agricultural land which when put into full capacity can boast both its economy and increase trade competitiveness. Angola is also challenged by corruption and public sector mismanagement, particularly in the oil sector which account for 50% of its gross domestic product.

4. Cote D'Ivore

Cote d'Ivoire is the world's largest producer and exporter of cocoa beans with a GDP per capita of $3,258 (2014) and a population of 22 million (2014). Its major trading partners were Nigeria, France and Netherlands. In 2014, Cote d'Ivoire had a trade surplus of $1.8 billion.

Cote d'Ivoire was also involved in the exportation of ships and boats, motor vehicles and spare parts. Its exports of cocoa alone were approximately 40 per cent of its 10 major exports in 2014.

Like most French colonies in West and Central Africa, Cote d'Ivoire uses the Cfa franc as its currency. The value of the CFA franc is pegged to the euro whose monetary policy is set up by the European Central Bank. This makes it difficult for these countries to be resistant to the fluctuation of their currencies.

Cote d'Ivoire has potentials. There is a need to mechanize agriculture and in order to become resistantt to fluctuation of the CFA franc, there is need for it to have its own currency rather than using a currency whose value is determined externally.

5. Equatorial Guinea

Equatorial Guinea is an industry (80 per cent) base economy which contributes more to GDP than the service and agricultural sector. The industrial sector consists of petroleum and natural gas.

Major export partners are Japan, China, France, US and Netherlands. Its import is mainly petroleum sector equipment, construction materials and vehicles from China, US, France, Cote d'Ivoire and Italy.

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Equatorial Guinea has experienced rapid economic growth as a result of the discovery of huge offshore oil reserves, and within the last decade became Sub Saharan Africa's third largest oil exporter. Notwithstanding the country's economic windfall from oil production, resulting in a massive increase in government revenue in recent years, the fall in global oil prices has placed significant strain on the state budget.

Challenges to Trade in Sub Saharan Africa

Sub Saharan Africa’s export was dominated mainly by unrefined petroleum and raw materials, mining products as in the case of Nigeria, South Africa and Angola. These made the contribution to trade of SSA very low. In other to become competitive, countries should look at ways of diversifying their export by exporting not only semi-finished products but also finished products.

Low human capital development of its labour force is perhaps a major setback leading to low quality of its products or value added. SSA still uses manual rather than mechanized labour in its production process. This has reduced efficiency and increase cost making competition with rivals very difficult.

Political Conflict and social unrest such as war, corruption and terrorism also affect exports. Nigeria, the leading exporter in SSA is affected by terrorism and social unrest around the Niger delta and “Boko Haram” affected area.

Regional trade arrangements (RTAs) in Africa had been unsuccessful in promoting trade and foreign direct investment. High external trade barriers and low resource complementarity among member countries limit both intra and extra regional trade. Poor transport facilities, small market size and high trading costs make it difficult for African countries to obtain the potential benefits from RTAs.

Poor infrastructure such as roads, bridges and ports, unreliable access to energy, underdeveloped telecommunications systems and modern technology to be used in industries are significant barriers to trade and investment.

Frequent outbreak of diseases in poor and resources abundant nation such a Guinea Bissau, Democratic republic of Congo and Sierra Leon hinders productivity. Other challenges included Low technical knowhow, different accessing local, regional and global markets.

Prospects for Improvement on Trade in Sub Saharan Africa

In general, improvement in trade volume in 2014 in the Sub Saharan can be attributed to: political stability, strong global demand for the main export commodities of SSA especially crude oil and cash crops such as cocoa, better macroeconomic policies, rapid recovery of post conflict countries, and new mining ventures.

For many years, one or two products dominated the export list of most SSA countries. Economic growth and rapidly growing consumer markets have resulted in the diversification of SSA economies. New industries and products have in turn brought new trade opportunities and governments are investing heavily in infrastructural projects. New roads and rails links, expansions of airports and harbors assist trade. The substantial capital investments of these infrastructures are internationally financed, demonstrating confidence in these economies.

Organizations such as the international finance Corporation, the African Development Bank and the African Export-Import Bank are increasingly assisting trade finance directly through letters of credit, or indirectly by helping commercial banks provide credit or loans to traders. The perceptions of trade risk are diminishing compared to the past when traders in SSA have

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to pay for imports in advance, or are paid only once their exported goods have been received. This view of high risk is easing as Africa develops sophisticated trade finance instruments and risk alleviating products,

Improved technologies and payment systems give comfort to clients that are about to engage in new markets. World class clearing system newly developed in the region includes South African, southern African and East African payment systems. SSA also lacks efficient postal services and many bank products are channeled using mobile technology to authorize payment or enable clients to request loans.

CONCLUSION

The presence of many regional trade agreements makes trading complicated. In the Southern part of Africa alone, there are more than six (6) trading agreements. This makes control and management of RTAs very difficult and therefore member countries sometimes charges tariff for goods passing through their borders.

SSA is blessed with abundant natural resources such as natural gas, petroleum, gold, diamond and rich arable land for agricultural purposes. Trade in SSA is therefore based on factor endowment theory and comparative advantages in the case of some products in Nigeria and South Africa. SSA leading trade partner is China both in terms of imports and exports. SSA mainly exports raw materials and agricultural product without value addition.

Challenges to trade in SSA include political conflicts, underdeveloped technology and human capital, Infrastructural problems and a lot of RTAs. The region has improved on its payment systems, reduced perceptions of trade risk and ADB support are all prospects for future trade in SSA

RECOMMENDATIONS

1. For SSA to increase its shares in international trade there is need to promote product diversification, inclusive growth, efficient utilization of abundant natural, mineral and human resources as advocated in the Economic Report on Africa (ERA).
2. SSA should massively invest in human capital formation, research and development, technological and entrepreneurship development as well as innovation.
3. Infrastructural development such as good roads, railways, ports, ICTs should be built. These can boost its energy production and distribution networks, so as to close the competitiveness gap faced by SSA firms.
4. There is a need to reduce bureaucracy and enhance access to credit and transfer of skills and technology. Incentives should be given to foreign firms to encourage them train local employees.
5. Knowledge spillover and technology transfer should also be encourage and facilitated by leading exporters such as Nigeria, South Africa etc. to the rising economies like Ghana, Tanzania, Kenya etc. so that production can be done efficiently and effectively.
6. There is a need to have a single RTA in Africa as a whole that will monitor and control trade in SSA.

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