International Trade Centre

UNITED NATIONS UNCTAD

Unlocking Regional Trade Opportunities in Africa for a more Sustainable and Inclusive Future



6 December 2021

This paper has not been formally edited by the International Trade Centre.

About the paper

This paper studies how intra-African trade in the context of the African Continental Free Trade Area (AfCFTA) can help the continent progress towards the Sustainable Development Goals. It shows that intra-African trade favours sustainable and inclusive growth along several dimensions, including structural transformation and the economic participation of women. It identifies opportunities for increasing intra-African trade, both under current tariff conditions and under AfCFTA tariff liberalization, using the ITC Export Potential Methodology. Finally, it discusses how African countries can exploit existing untapped export opportunities, create further export potential and ensure that export-driven growth is transformative and inclusive.

Acknowledgements

This paper was prepared by the Trade and Market Intelligence section of ITC and the Division for Africa, Least Developed Countries and Special Programmes of the United Nations Conference on Trade and Development (UNCTAD).

Julia Seiermann (ITC) and Anja Slany (UNCTAD) drafted the paper. Maria Del Mar Cantero Guerrero (ITC), Chiara Maero (UNCTAD), Tinotenda Mataire (UNCTAD) and Sylvain Périllat (ITC) contributed statistical analysis and figures. Yvan Decreux (ITC) provided technical guidance. Junior Davis (UNCTAD) and Julia Spies (ITC) provided comments as well as general support and supervision.

ITC would like to thank Rajesh Aggarwal, Mondher Mimouni and Julia Spies (all ITC) for their support.

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Acronyms

Unless otherwise specified, all references to dollars ($) are to United States dollars, and all references to tons are to metric tons.

AfCFTA	African Continental Free Trade Area
EDD	Exporter Dynamics Database
GDP	Gross domestic product
HHI	Herfindahl-Hirschman Index
HS	Harmonized System
ILO	International Labour Organization
ISIC	International Standard Industrial Classification
ITC	International Trade Centre
LDC	Least developed country
SDGs	Sustainable Development Goals
UNCTAD	United Nations Conference on Trade and Development

Executive summary

African trade is more integrated than commonly thought

Intra-African trade represented 14% of African exports, on average, between 2015 and 2019. While this may appear small compared to other continents, it is considerable in light of the fact that Africa accounts for 3% of world imports and that complementarity between the continent's export and import products is relatively low.

Regional trade favours structural transformation and inclusiveness

Africa's exports to Africa are characterized by a higher level of processing, a higher share of technologically advanced products and a higher level of export diversification than exports to the rest of the world. Intraregional exports more often involve small firms and, due to their sectoral composition, are characterized by larger employment and participation of women.

There is an untapped intra-African export potential of $22 billion

There are numerous opportunities for African countries to increase trade with their neighbours. ITC's export potential methodology reveals untapped export potential of $22 billion within the region. More than one third of this potential export growth ($8.6 billion) could be achieved by eliminating trade frictions, while the remaining $13.3 billion would arise through future economic growth and related increases in demand and supply on the continent.

Full tariff liberalization on the continent would almost double export potential

If all African countries fully liberalized tariffs on all products within the next five years, intra-African export potential would increase by $19.8 billion. Under current AfCFTA rules, any country in a regional economic community with LDCs will only liberalize over a 10-year period. If tariffs on all products were reduced by half by those countries, and fully liberalized by the remaining AfCFTA members, export potential would increase by $9.2 billion within five years. However, the possibility of liberalizing 'sensitive products' more slowly and excluding others may be used by African countries to protect products with high most- favoured-nation tariffs, which could substantially lower the export potential gains.

With targeted trade policies, African countries can exploit existing export potential, create additional opportunities, and foster sustainability

To leverage existing export potential, countries need to identify and address frictions that prevent trade flows in the present and ensure sufficient investment to meet demand in the future. To create additional export potential, countries can reduce tariffs further than what the AfCFTA already requires and implement other policies to facilitate trade and improve the business climate. That could include increasing regulatory transparency, cutting red tape, investing in infrastructure, and similar measures. To target sectors for trade support, countries can focus on sectors that have export growth potential in the region and benefit structural transformation, inclusiveness, or both.

African countries are diverse, and so are opportunities for sustainable and inclusive regional trade

African countries are diverse and the sectors providing the best opportunities for transformative and inclusive growth differ from country to country. Analysis at the national level is required to identify the most promising opportunities. Export potential assessments, in combination with indicators for structural transformation and inclusiveness, can provide guidance for targeted trade policy for sustainable development through regional trade.

CHAPTER 1 BENEFITS OF INTRAREGIONAL TRADE FOR INCLUSIVE GROWTH

On 1 January 2021, a milestone in African regional integration was set when free trading officially started under the AfCFTA. Against that background, this technical paper assesses how expected intra-African trade gains can create transformative and inclusive development. The paper draws on the ITC Export Potential Methodology to identify untapped opportunities (see Chapter 2 for a full description of the methodology) and highlights sectors with strong potential for transformative and/or inclusive growth.

The analysis provides practical guidance on how the AfCFTA and national governments can exploit greater trade opportunities that create inclusive benefits for people. It focuses on policy recommendations related to market access but touches on additional policy areas needed to unlock regional trade.

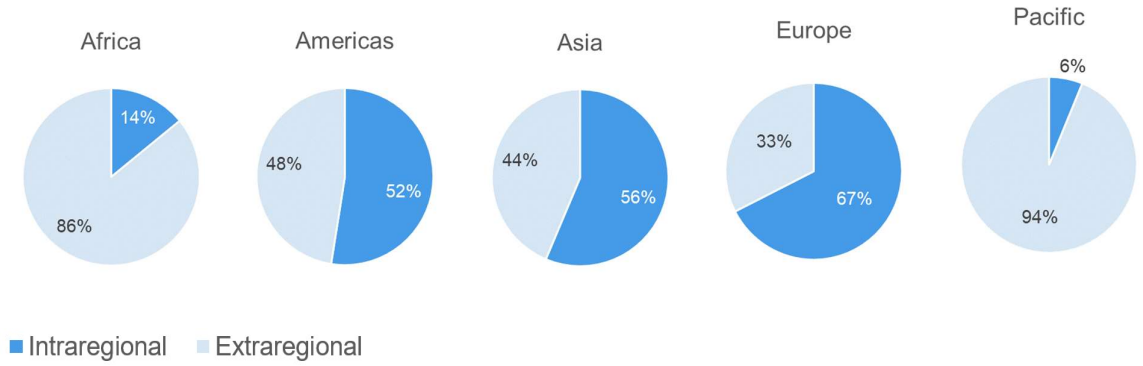
This chapter assesses Africa's regional trade performance, comparing the continent to other world regions. The analysis considers trade flows, but also indicators for transformative and inclusive growth.

Regional trade integration in Africa

Between 2015 and 2019, total goods exports from Africa amounted to an average of about $480 billion per year. Intra-African trade represented $67.4 billion. This corresponds to 14% of total exports, which is relatively low compared to the share of intraregional trade in other world regions, except the Pacific region. The Americas, Asia and Europe all carry out more than 50% of their trade within the region. Only the Pacific, with 6%, has a lower share of intraregional trade than Africa. When excluding mineral fuels (chapter 27 of the Harmonized System (HS) classification) from total trade, the relative share of intra-African trade rises to 17.5%.

Figure 1 Intra- and extra-regional exports (weighted yearly average, 2015-2019)

Intraregional exports represent 14% of Africa's total exports, less than in most other regions



Source: Authors based on ITC Trade Map.

The low share of African exports to African markets can be partially explained by the fact that the total import demand of Africa is relatively low, compared to that of other regions. The African market represents only 3% of world imports while Asia and Europe account for 37% each, the Americas for 22% and the Pacific for 2%.[1]

[1] In addition, official trade data underestimates intra-African trade as it does not include the large share of informal cross-border trade that takes place on the continent, especially in agricultural goods and household items

Box 1 Measuring regional integration

This paper uses a measure of regional integration, developed by ITC, that accounts for the size of each import market. It is defined as the ratio between the region's imports from itself over the rest of the world's imports from the region divided by the ratio of the region's imports from the rest of the world over the rest of the world's imports from itself. For example, for Africa, the measure is defined as

$$\frac{Imports_{Africa,Africa}/Imports_{Rest\ of\ the\ World,Africa}}{Imports_{Africa,Rest\ of\ the\ World}/Imports_{Rest\ of\ the\ World,Rest\ of\ the\ World}}$$

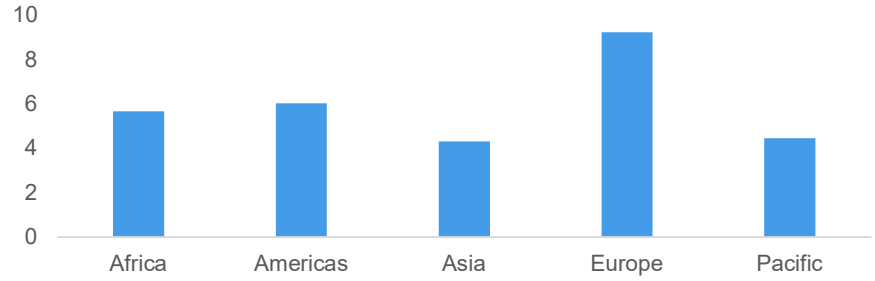
The indicator takes values above one if a region's share in imports from itself is higher than the region's share in imports from the rest of the world.

Figure 2 displays a measure of regional integration that accounts for the size of each import market (see details in Box 1).

For all world regions, the region's share of imports from itself is higher than the region's share of imports from the rest of the world. Most importantly, the results indicate that Africa's regional trade integration is comparable with that of most other world regions when accounting for market size.[2]

Figure 2 Regional integration measure, accounting for size of each import market, by world region (weighted yearly average, 2015-2019)

When accounting for import market size, Africa's degree of regional integration is comparable to that of most other regions



Source: Authors based on ITC Trade Map.

Complementarity

The fact that Africa displays a degree of regional integration similar to that of most other world regions when accounting for market size becomes even more remarkable when considering the extent of complementarity between African export supply and import demand. Figure 3 displays the complementarity of exports and imports of different world regions. The complementarity index measures the degree to which the export and import structures of two trade partners overlap.[3] It takes the value of one if every product accounts for the same share of an exporter's exports and its partner's imports, and zero if there is no correspondence between the products exported by one and those imported by the other. Africa's level of intraregional complementarity is significantly below that of the Americas, Asia, and Europe (figure 3). The fact that Africa's export profile does not overlap with its import basket as much as is the case in other continents makes it

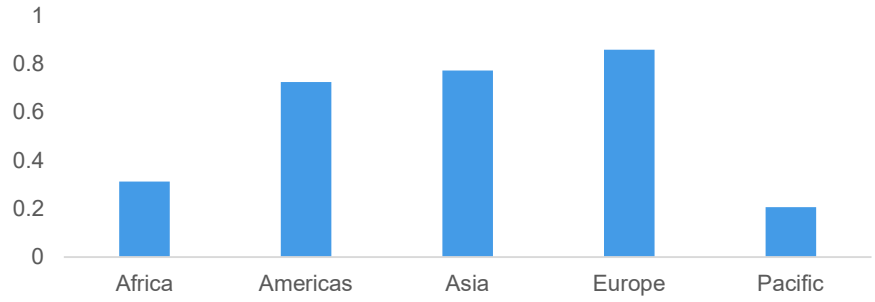
[2] It should be noted that, like any regional integration indicator based on international trade data, the regional integration indicator presented here is sensitive to the presence of very large countries within a region, as intranational trade is not accounted for. For example, Asia's regional integration would be significantly higher if China's intranational trade was included.

[3] For further details on the complementarity indicator, see for example ITC (2018b).

even more surprising that intra-African trade integration matches that of other regions. Increasing complementarity to ensure that a larger share of African supply matches African demand would require product diversification.

Figure 3 Complementarity of exports and imports within regions (weighted yearly average, 2015-2019)

African exports and imports are less complementary than those of most regions



Source: Authors based on ITC Trade Map.

This chapter goes on to explore the differences between intra-African trade and Africa's exports to the rest of the world in terms of several characteristics that are relevant tor inclusive growth – both at the macro and microeconomic level.

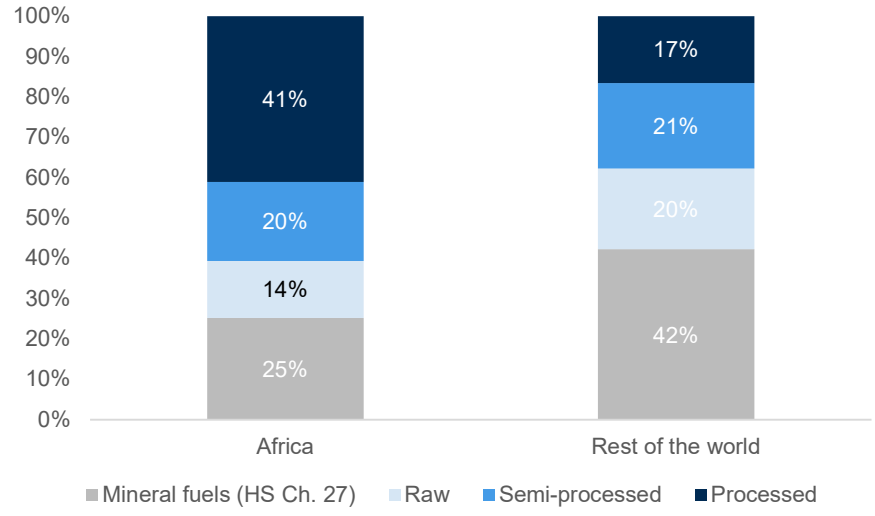
Macroeconomic indicators of transformative growth

A diversified export basket that contains transformed goods rather than raw commodities represents a solid basis for sustainable and inclusive economic growth. This section compares intra-African exports to African exports to the rest of the world in terms of several macroeconomic indicators that capture various dimensions of economic sustainability and structural transformation.

Overall, results show that intra-African trade is characterized by a higher level of processing, more technologically advanced goods and a higher level of product diversification.

Figure 4 Level of processing, by market (weighted yearly average, 2015-2019)

Intra-African trade has a larger share of processed products than exports to other regions



Source: Authors based on ITC Trade Map.

Level of processing

Figure 4 displays the distribution of African exports by market and processing level. Products are classified according to three levels of processing: raw, semi-processed and processed. Chapter 27 of the HS classification (Mineral fuels) is presented separately. With 41%, the share of processed goods is substantially higher in intra-African trade than in exports to other countries (17%). Africa's exports to the rest of the world are dominated by mineral fuels and raw products, which together account for 62% of exports. In contrast, 61% of intra-African trade consists of semi-processed and processed goods.

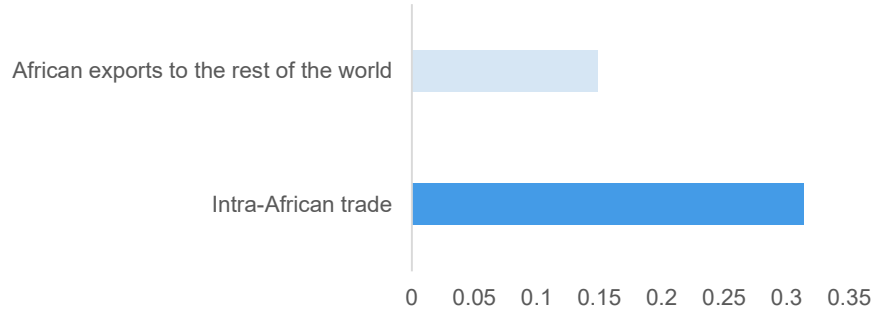
Technological advancement

Technological advancement is measured at the exporter-product level. It compares the exporter's gross domestic product (GDP) per capita with that of other exporters of the product. A product is termed 'technologically advanced' if the GDP per capita of the poorest country exporting the product with comparative advantage[4] and positive trade balance is at least as high as the exporter's GDP per capita. In addition, the product must be transformed (i.e. not be in a raw state).

While 31% of African exports within the continent are technologically advanced, this is only the case for 15% of African exports to other markets (figure 5). In other words, intracontinental trade offers more opportunities for African exporters to climb the technological ladder than trade with the rest of the world.

Figure 5 Share of technologically advanced trade in African exports, by market (weighted yearly average, 2015-2019)

Intra-African trade has a larger share of technologically advanced products than exports to other regions



Source: Authors based on ITC Trade Map.

Diversification

Diversification has long been recognized as a key element of sustainable and stable export-driven growth as it can help to overcome export volume and price volatilities and stabilize export revenues. Increasing diversification is also among the 2023 targets for inclusive growth and economic diversification of the African Union (African Union, 2015).

Figure 6 displays export concentration for all continents.[5] African exports are significantly less diversified than American, Asian, and European exports, and even slightly less diversified than those of the Pacific region. While Africa's low export diversification is partially driven by its raw material exports, diversification only increases slightly when natural resources and other products not suitable for export promotion are

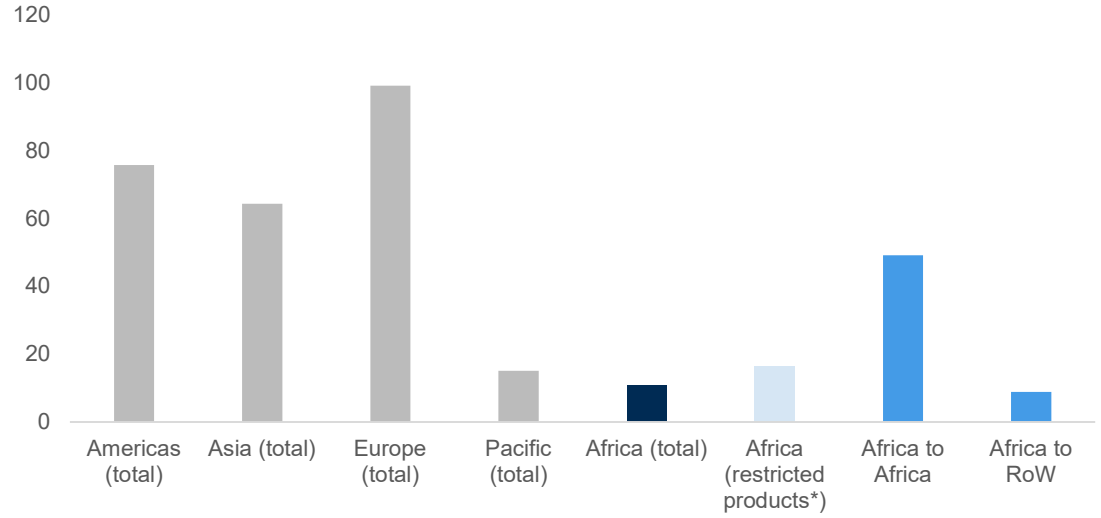
[4] Comparative advantage is measured using a Balassa index corrected for tariff advantages.

[5] Concentration is calculated using the inverse Herfindahl-Hirschman index, which can be interpreted as 'equivalent products': the number of products that would yield the given level of concentration if export value was divided evenly across products. Africa's exports reach a value of 11 equivalent products. This implies that Africa's export diversification is as high as it would be if the continent was exporting 11 products at equal shares.

excluded.[6] Africa's exports to other countries are highly concentrated, but intra-African trade is much more diversified.

Figure 6 Export diversification

African exports are less diversified than those of most other regions; intra-African trade is more diversified than exports to other regions



Source: Authors based on ITC Trade Map.

Microeconomic indicators of trade inclusiveness

Inclusiveness implies that the benefits of economic development are shared equitably throughout society. A key element of inclusive growth is to increase participation in economic activity across income levels, by promoting entrepreneurship and employment of marginalized groups.

This section uses export data at the firm level obtained from the Exporter Dynamics Database (EDD)[7] and information on micro-level characteristics of exporting firms from the World Bank Enterprise Surveys of 45 African countries. The selection of indicators of inclusiveness is guided by the Agenda 2063 targets of the African Union and the 2030 Agenda of the SDGs. Overall, results show that intra-African trade is less skewed towards dominating firms and occurs in sectors with higher employment creation and more opportunities for women.

[6] Excluded products: Chapter 24 (tobacco and related products such as machinery and paper used in tobacco manufacturing and consumption); 26 (ores, slag and ash); 93 (arms and ammunition, and related products such as tanks, are completely excluded); Chapters 25 (sulphur; earths and stone) and 27 (mineral fuels) are mostly excluded, as are waste products and products for which increased extraction cannot be guaranteed. (e.g. unworked precious metals and stones or antiquities); and products not suitable for export promotion such as monetary gold or used postage/revenue stamps.

[7] The EDD covers exporter transactions obtained from customs agencies for 22 African countries from 1998 to 2014. The measures in the EDD cover the basic micro-characteristics of the export sector such as the number of exporters; their size, and their growth; the degree of concentration and of diversification of exporters; their dynamics in terms of entry, exit, and survival; and the average unit prices of the products they trade.

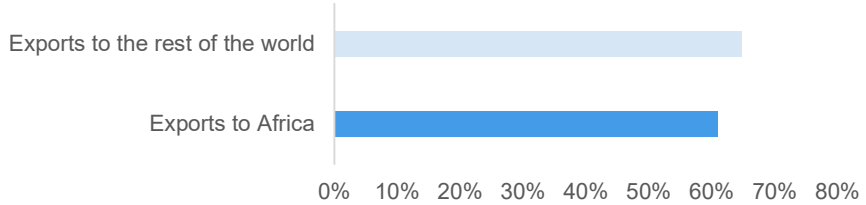
Firm-level concentration of exports

Ensuring equal opportunities and reducing inequalities is a central element of the SDGs, in particular SDG 10.2[8] and 10.3.[9] One way to measure potential inequalities in export opportunities is by looking at the firm-level concentration of export values. A more equal distribution of exports across enterprises is associated with higher equality, and thus inclusiveness. Lower market concentration means that the economy's output is shared between a larger number of enterprises (e.g. Freund and Pierola, 2020), and competition in markets is associated with lower prices and improvements in farmers' livelihoods (Porto et al., 2011).

Figure 7 displays the share of total exports of the top 5% of exporters in a market. In terms of this measure, exports to Africa display a similar degree of concentration as exports to the rest of the world (60% versus 65%). However, the World Bank's EDD excludes exports of mineral fuels (HS chapter 27), a sector with high firm-level concentration. As mineral fuels represent 25% of exports to Africa and 42% of exports to the rest of the world, concentration of exports as reported by the EDD is likely to be an underestimate, and exports to the rest of the world are likely to be more concentrated than exports to Africa.

Figure 7 Share of top 5% exporters in total exports (excluding mineral fuels), 2010-2012 average

The share of the top 5% of exporters in intra-African exports is comparable to their share of exports to other regions



Source: Authors based on World Bank EDD.

Figure 8 illustrates alternative measures to capture aspects of firm-level concentration and opportunities: the overall mean and median export value per exporter to each destination. These measures present a more complex, but also more nuanced view of firm-level export concentration by destination. First, the mean value of exports to Africa per exporter is only one third of the mean export value to the rest of the world. Moreover, despite large variation across sectors and countries, the average number of exporters (at the sector level) supplying the African market is more than twice the number of exporters exporting to the rest of the world. This indicates that exporting to Africa is more accessible to small companies than exporting to other continents.

Further, for exports to Africa, the mean export value per exporting firm is 53 times larger than the median value, while it is 97 times larger on average in exports to the rest of the world, reflecting that exports to the rest of the world are more skewed towards dominating firms than exports inside the continent. Such large differences in export values within countries are confirmed in Freund and Pierola (2020), showing that mean values are on average 44 times larger than median values per exporter for the sample of 40 developing countries, including African countries.[10]

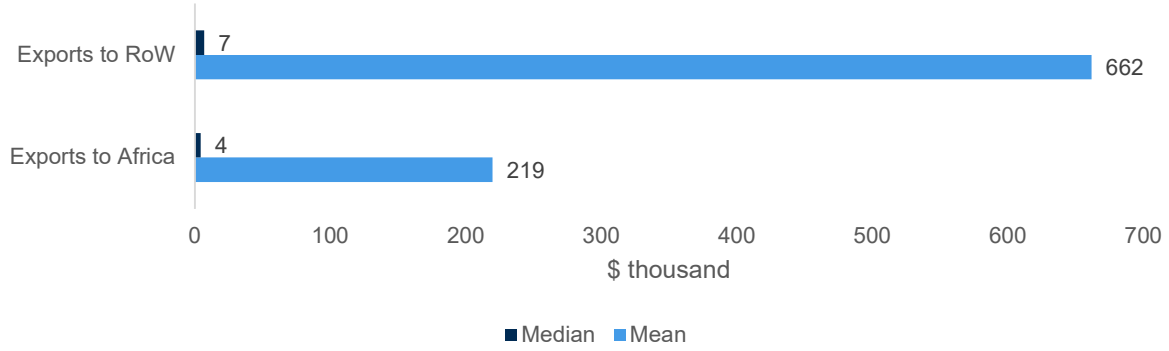
[8] 'By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status' (https://sdgs.un.org/goals/goal10).

[9] 'Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard'.

[10] It must be noted, however, that there are large differences across sectors and countries, which is why an in-depth analysis of firm-level concentration at the sector and country level is necessary to guide sectoral policies to make exporting more inclusive across firms. This is beyond the scope of this paper.

Figure 8 Export value in $ thousand, median and mean value, average 2010-2012

Intra-African exports are less skewed towards dominating firms than exports to other regions



Source: Authors based on World Bank EDD

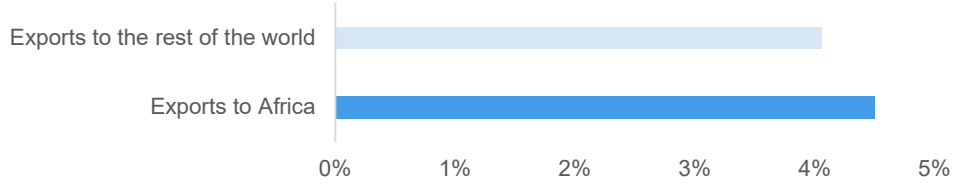
Employment creation and promotion of gender equality

Formal employment – using International Standard Industrial Classification (ISIC) two-digit level data from International Labour Organization (ILO) employment statistics – is higher in the sectors prevalent in the export basket to Africa compared to exports to the rest of the world, indicating that regional trade is more beneficial to employment creation.[11] The difference is driven by a lower share of exports of mineral fuels in exports to Africa (25%; rest of the world: 43%) and a higher share of agricultural produce (9%; rest of the world: 6%) and manufacture of food and beverages (8%; rest of the world: 3.9%). The latter account for a higher share of employment in African countries.

With regards to gender equality, SDG 5, in particular 5.5, envisages to '[e]nsure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life'. We use information on ownership by gender from the World Bank Enterprise Surveys as an indicator of women's participation. Results show that only 7% of enterprises in the manufacturing sector are owned by women, while 81% of enterprises are owned by men and the rest (12%) by men and women. The share of firms that export is similar when comparing firms fully owned by women and firms fully owned by men (15.9% versus 16.3%). Comparing manufacturing exports by destination (figure 9) shows that the share of enterprises owned by women, weighted by each sector's share in regional trade, is slightly higher in exports to Africa (4.5%) than in exports to the rest of the world (4.0%).

Figure 9 Share of enterprises fully owned by women, weighted by share of sector in goods exports, ISIC 15-36, latest available survey years

Female ownership shares are slightly higher in intra-African exports than in exports to other regions



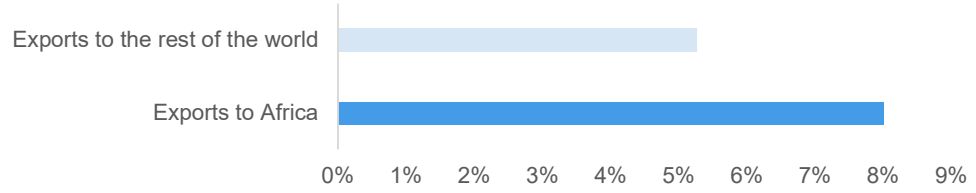
Source: Authors based on World Bank Enterprise Surveys (ISIC-Rev. 3.1) and ITC Trade Map.

[11] For this comparison, each sector's share in formal employment is weighted by its share in exports to Africa and the rest of the world.

Similar findings are obtained when analysing female employment by sector as a share of total employment using ILO employment statistics. Excluding services (due to the lack of reliable formal trade statistics), women are dominantly employed in agriculture (65%), manufacture of food and beverages (10%) and textiles and apparel (7%). Since these sectors also represent a higher share of exports to Africa than to the rest of the world, the weighted employment share of women is higher in exports to Africa (figure 10).

Figure 10 Female employment sector share, weighted by share of sector in exports, agriculture and manufacturing sector ISIC 1-36, 2017-2019 average

Intra-African exports are more concentrated in sectors with higher female employment than exports to other countries



Source: Authors based on ILO labour force statistics (Employment by sex and economic activity) and ITC Trade Map.

Overall, women are less likely to be formally employed than men: women only account for one quarter of total employment on average across African countries. Only manufacture of food products and beverages (ISIC 15), manufacture of wearing apparel (ISIC 18), as well as some services sectors,[12] employ more women than men. In agriculture (ISIC 01) and manufacture of textiles (ISIC 17), the share of female employment is close to 50%. Based on the dominant sectors in exports to Africa as compared to exports to the rest of the world, the relative employment of women is larger in exports to Africa, indicating that intraregional trade in Africa is more favourable to female employment.

Discussion of results

Intra-African exports are characterized by a higher level of processing, a higher share of technologically advanced products and a higher level of export diversification than exports to the rest of the world. The macro-level analysis therefore indicates that exports to Africa have an important role to play in promoting transformative growth.

The micro-level analysis of inclusiveness yields less-pronounced differences between intra-African exports and exports to the rest of the world. The export concentration analysis suggests that exports to other continents are more skewed towards dominating firms, while exports to Africa more often involve small companies. In addition, regional trade seems to favour female employment and labour, and displays a slightly larger share of women-owned enterprises than exports to other continents.

In sum, regional trade can play an important role in contributing to the transformation of African exports and to inclusive growth on the continent.

[12] Retail trade (ISIC 52), education (ISIC 80), health and social work (ISIC 85), and activities of private households as employers of domestic staff (ISIC 95).

CHAPTER 2 OPPORTUNITIES FOR INCREASING REGIONAL TRADE

Despite the challenges discussed in the previous chapter, opportunities exist for African countries to increase trade with their neighbours. This chapter identifies such opportunities using ITC's export potential methodology. It highlights sectors with opportunities for export growth under current tariff conditions and sectors in which new opportunities will arise with tariff reductions under the AfCFTA. The analysis also looks at each sector's performance in terms of two indicators introduced in Chapter 1 – share of processed goods and participation of women – to assess the potential of export growth to spur transformative growth and wider inclusion.

AfCFTA scenarios

Export potential is computed with a time horizon of four to five years, and accounts for current and future tariffs. This chapter calculates export potential under current tariff conditions and with tariff reductions expected under the AfCFTA if all 55 member states of the African Union ratify the agreement in 2021.

Exact tariff reductions through the AfCFTA are not known at the time of writing.[13] The AfCFTA foresees different liberalization schedules for LDCs and non-LDCs. While non-LDCs will fully liberalize tariffs within five years, LDCs will do so within 10 years. However, countries belonging to the same regional economic community will implement the same liberalization schedule. Therefore, some non-LDCs will liberalize according to the LDC schedule and vice versa. Full liberalization will apply for 90% of tariff lines. Another 7% of tariff lines can be considered 'sensitive products', which countries are allowed to liberalize over a longer period (10 years for non-LDCs and 13 years for LDCs). Also, 3% of tariff lines, which should represent not more than 10% of a country's total exports, can be excluded from tariff liberalization. Product lists are not yet known.

Therefore, we assume a differential liberalization scenario in which countries liberalize tariffs on all products equally. They liberalize according to their LDC status or the LDC status of other countries in their regional economic community. Countries liberalizing as non-LDCs do so fully within five years, while countries liberalizing as LDCs liberalize tariffs by 50% within five years. An overview of regional economic communities by LDC status is presented in the Appendix (Table 1).

Furthermore, for comparison purposes, we compute a scenario in which all African countries liberalize tariffs on all products within five years.

Table 1 Scenarios for the export potential assessment (horizon: five years)

Scenario 1: Current tariff conditions	Scenario 2: Differential liberalization according to LDC status	Scenario 3: Full liberalization within five years
• "Pre-AfCFTA" tariffs • No further liberalization within five years	• Liberalization according to LDC status of the country or its Regional Economic Community (overview in Appendix, Table 1) • Non-LDC status: full liberalization within five years • LDC status: 50% liberalization within five years • Countries liberalize tariffs on all products equally	• Full liberalization within five years, regardless of LDC status • Countries liberalize tariffs on all products equally

[13] At date of writing, 41 countries had already submitted tariff concession (tralac, 2021). A complete list of tariff concessions of the Economic Community of Central African States was available, as well as 90% of concessions of the Economic Community of West African States and the East African Community.

Source: Authors.

In 2019, the simple average intra-African tariff rate stood at 5.25% and the trade-weighted average tariff rate at 2.51%, ranging from 0.01% in Namibia and 20.97% in Equatorial Guinea. There is still considerable room for tariff liberalization, especially between African countries that are not members of the same regional economic community. The sector with the highest intra-African trade-weighted average tariff rate is preparations of meat (HS 16) with 10.61%, while the lowest tariff rate, 0.07%, is applied to ores, slag and ash (HS 26). Comparing country-sector combinations, the highest trade-weighted tariff rates were tobacco and manufactured tobacco substitutes (HS 24: 60%) applied by Angola, and essential oils, perfumery and cosmetics (HS 33: 59.95%) applied by Egypt. Overall, African LDCs applied trade-weighted average tariffs of 3.79% while non-LDC African countries levied 1.71%. This gap widens when grouping countries as LDCs/non-LDCs according to AfCFTA tariff concessions: countries liberalizing as LDCs in the AfCFTA have a trade-weighted average tariff rate of 4.31% while countries liberalizing as non-LDCs stand at 0.7%.

Export potential methodology

Methodology and key concepts

The export potential methodology, developed by the ITC, quantifies a country or region's export potential across products and markets through an assessment of detailed trade and market access information. It identifies potential export values based on supply capacities in the exporting country, demand conditions in the target market and bilateral linkages between the two.

The export potential indicator is computed for products a country already exports.[14][15] It uses a weighted average of the last five years for which trade data is available to ensure that the export potential results are based on a sustainable past performance. The underlying trade data, sourced from ITC's Trade Map, has undergone thorough treatment to ensure that results are not driven by misreported trade flows, measurement errors or wrong attribution.

The export potential indicator computes expected values of trade for each exporter-importer-product combination by summing information on the exporter's projected supply capacity for a given product, the importer's projected demand and the ease of trade between the two trading partners. Results are computed on a time horizon of five years to account for future developments and provide a realistic time frame for governments and for companies to take action and realize existing opportunities.

Supply is captured by the exporter's global market share in the product and demand by the market's imports of the product. The data are augmented by forecasts of GDP and population growth over the next five years to provide a forward-looking assessment that accounts for the expected evolution of supply and demand. Revenue elasticities of demand are computed at the HS2-digit level, separately for developed and developing countries. Furthermore, current tariff conditions and future tariff changes (if applicable) are introduced to account for differences in market access conditions. Geographical distance is equally accounted for, using a product-specific distance correction. Finally, a revealed measure of ease of trade between exporter and importer captures their overall trade relationship. It compares actual trade between them to the hypothetical trade that would occur if the exporter had the same share in the importing country as it has in the world market. If a country exports more to a specific importer than expected, ease of trade is high, and vice versa.

Any gap between a country's export potential and its actual exports is interpreted as an opportunity for future export growth. This so-called unrealized export potential can result from two types of factors: First, future

[14] The list of products considered excludes products covered by international conventions on waste, pollutants, arms and ammunitions, tobacco, extractive industries, products that cannot be produced (e.g., antiques) or are irrelevant for market intelligence (e.g. commodities n.e.s.).

[15] A second indicator, product diversification, identifies opportunities for diversification into new export products. The product diversification indicator is not used in the analysis presented in this report.

economic growth in the country itself or demand growth in the target market (dynamic, or growth-based export potential), and second, trade frictions. Frictions can be very different and include lacking information about the rules and regulations of the target market; difficulties in complying with such regulations or meeting the (quality) preferences of its consumers; and lacking business contacts. [16]

Box 2 Key export potential concepts

- **Export potential**

Potential export value of a product supplied by a country to a market, in dollars. It accounts for demand, supply, ease of trade between the countries, tariffs and expected GDP and population growth over the next five years. The estimated dollar value serves as a benchmark for comparison with actual exports and should not be interpreted as a ceiling. The actual trade value may be below or above the potential value.

- **Unrealized (untapped) export potential**

This value captures the extent to which export potential is not yet utilized for this product, market, or supplier. It is measured at the most disaggregated level, by country, product, and market. At this level, whenever actual exports are smaller than export potential, unrealized export potential equals the difference between export potential and actual exports. Where actual exports exceed export potential, unrealized export potential is zero. Unrealized export potential can be static or dynamic.

- **Static unrealized export potential**

Static unrealized export potential is the part of unrealized export potential driven by frictions that inhibit *current* trade.

- **Dynamic unrealized export potential**

Dynamic unrealized export potential is the part of unrealized export potential driven by expected growth of demand and supply in the *future*. It is estimated according to expected GDP and population growth, and with a time horizon of five years.

- **Additional export potential through AfCFTA**

Export potential accounts for information on tariffs between trading partners. To assess the impact of trade policies, it can be computed according to alternative tariff scenarios. Additional export potential through the AfCFTA is obtained by comparing export potential under expected AfCFTA tariffs to export potential under current tariffs. This is done for a partial liberalization scenario and for a full liberalization scenario, as described in the previous section.

* At the aggregate level (e.g., export potential in a regional market or by sector), there may be unrealized potential even though aggregated actual exports exceed potential exports. This occurs when individual exporter-product-market combinations still hold underutilized potential that should not be masked by the fact that others have exceeded their potential.

Products covered under export potential

The export potential methodology excludes products that are hazardous or irrelevant for export promotion. This includes products that have been classified as pollutants or waste, dangerous to human life or health, sectors deemed to have no export promotion value (such as antiques) and – most importantly for African exporters in terms of value – extractive resources and derivates. Excluded products represented 32% of the region's total exports between 2015 and 2019, and 28% of total exports for covered oil and gas.

[16] For more details on the Export Potential methodology, please refer to Decreux and Spies (2016).

Interpretation and policy recommendations

Unrealized export potential can be used by policymakers and the private sector to identify opportunities for countries to increase their exports of specific products to specific markets. The presence of static export potential indicates the existence of frictions that need to be identified and addressed to liberate the underlying export potential. In the export potential framework, frictions are specific to the exporter-importer-product relation in question. Identifying frictions generally requires sector expertise and dialogue with businesses. The presence of dynamic export potential indicates opportunities for export growth that is expected to occur 'naturally' if no major changes affect the sector, producer, and market in question. To benefit from these opportunities mainly requires ensuring that investments in additional production are sufficient to meet additional demand. At the same time, policymakers and businesses should of course remain vigilant to any changes that are either unexpected or cannot be accounted for in the quantitative model and that might affect the sector, producer, or market in question.

Export potential accounts for supply and demand given expected GDP and population growth. It is important to highlight that results computed for all countries are normalized to ensure that total export potential remains realistic at a global scale. The export potential methodology identifies gaps between actual and potential exports for specific exporter-importer-product combinations.

The results of the methodology therefore indicate the room for increased exports that exists even if no broad policy changes occur. The actions needed to unlock these opportunities are specific to exporter-importer-product combinations. For example, a company exporting a given product from a specific country can consider new markets for this product, or a government institution can support producers in complying with non-tariff measures in a given market. Broader policy changes, for example a reform that increases the overall competitiveness of a country or sector, could yield even more export opportunities than those identified by the export potential methodology.

Export potential results

Scenario 1. Untapped export potential under current tariff conditions

Under current tariff conditions, African exporters have the potential to export an extra $22 billion worth of products to African markets. This potential represents the sum of numerous opportunities.

More than one third of the current export growth potential consists of static potential. In other words, $8.6 billion in intra-African exports is currently not realized due to frictions. The remaining $13.3 billion consists of dynamic export potential that will materialize through economic growth in the continent in coming years. Exploiting static potential requires identifying and addressing frictions that currently hinder trade for specific exporters, importers and products. To benefit from dynamic potential, it is critical to ensure sufficient investment to meet increasing demand while sustaining the quality and other characteristics of the product. Growth-driven export potential, while not an automatism, may therefore be more straightforward to unleash than export potential that is currently inhibited by frictions.

Figure 11 presents the sectors with the highest export potential under current tariff conditions. The vehicles sector has the highest untapped export potential ($1.4 billion), followed by sugar ($1.3 billion). Other top sectors include fish and crustaceans ($1.1 billion), plastics ($931 million), essential oils, perfumery and cosmetics ($877 million) and copper ($867 million).

The proportion of static and dynamic export potential differs notably between sectors, with the share of dynamic export potential ranging from 38% (copper) to 88% (mineral oils and fuels). For the two top sectors, vehicles and sugar, the share of dynamic export potential is around 55%. Besides minerals oils and fuels, sectors with particularly high shares of dynamic export potential include miscellaneous edible preparations (77%), fish and crustaceans (73%), essential oils, perfumery and cosmetics (73%) and beverages, spirits and vinegar (72%). To tap into these opportunities, investments in sectors with growth opportunities must be sufficient for supply capacity to match demand. In addition, identifying and addressing frictions can open considerable opportunities for trade growth in most sectors as well.

Figure 11 below also displays information on sustainable and inclusive growth.[17] First, the share of processed goods in a sector is used as an indicator of its transformative growth potential. Export sectors with at least 90% processed goods are indicated with a green dot. Industries that comprise at least 50% processed goods are represented by an orange dot, and all remaining industries with a red dot. Low levels of processing mainly occur in fresh agricultural products and mineral and ores. Second, participation of women is used as a measure of trade inclusiveness. The indicator for women's participation uses information on women-owned businesses (see Chapter 1, Figure 9). Green dots indicate that the share of women-owned businesses is above the African average for the manufacturing sector (7%). Yellow dots symbolize sectors in which the share of women-owned businesses is at least 70% of the average, i.e. at least 5%. Red dots stand for sectors in which less than 5% of businesses are owned by women, which is the case for most sectors with a high level of technological advancement and a high share of processed goods. Data on women-owned businesses from the World Bank Enterprise Surveys is not available for the agriculture sector. The indicator is replaced by formal female employment to assess whether agriculture, forestry and fishing[18] favour the participation of women.[19]

The vehicles sector, which holds the largest untapped export potential of all, has a high share of processed goods, but low participation of women. The sugar sector, second in terms of export potential, offers opportunities for women. However, the share of processing is limited in sugar, as it is in fish, the third sector in terms of export opportunity. Among the top 18 export sectors with room for growth, as displayed in figure 11, six perform well (green dots) or neutrally (yellow dots) in both sustainable and inclusive growth indicators: miscellaneous edible preparations, animal or vegetable fats, apparel and clothing, preparations of cereals, soap, washing preparations, and beverages.

The maps in figure 12 display untapped export potential of exporters and markets. The shade of each country on the map represents the share of total export potential that is still untapped. A dark shade implies a large share of untapped potential. The bubbles represent the absolute size of each exporter or market in terms of untapped export potential.

The share of untapped export potential to Africa varies strongly between exporters. For some exporters, more than 80% of their total export potential remains untapped (South Sudan, Cabo Verde, Equatorial Guinea and the Gambia). For others, untapped export potential represents less than 30% of their total export potential to Africa (Zambia, Ethiopia, Guinea-Bissau). In absolute terms, South Africa is by far the exporter with the largest untapped export potential to Africa ($7.9 billion). It is followed by Egypt ($3.3 billion), Morocco ($1.3 billion), Côte d'Ivoire ($1.1 billion) and Tunisia ($1 billion).

On the import side, existing untapped potential ranges from two thirds and more in the most promising markets for intra-African export growth (Cabe Verde, Togo, Sierra Leone, Liberia, Benin and Sao Tome and Principe) to values below 25% in markets in which export potential is to a large extent already realized (Zambia, Lesotho, Zimbabwe, South Sudan and Eswatini). The largest markets on the continent with untapped export potential for African exporters in absolute terms are South Africa ($1.7 billion), Kenya (1.5 billion) and Namibia ($1.2 billion). They are followed by Mozambique ($965 million), Nigeria ($945 million) and Botswana ($944 million).

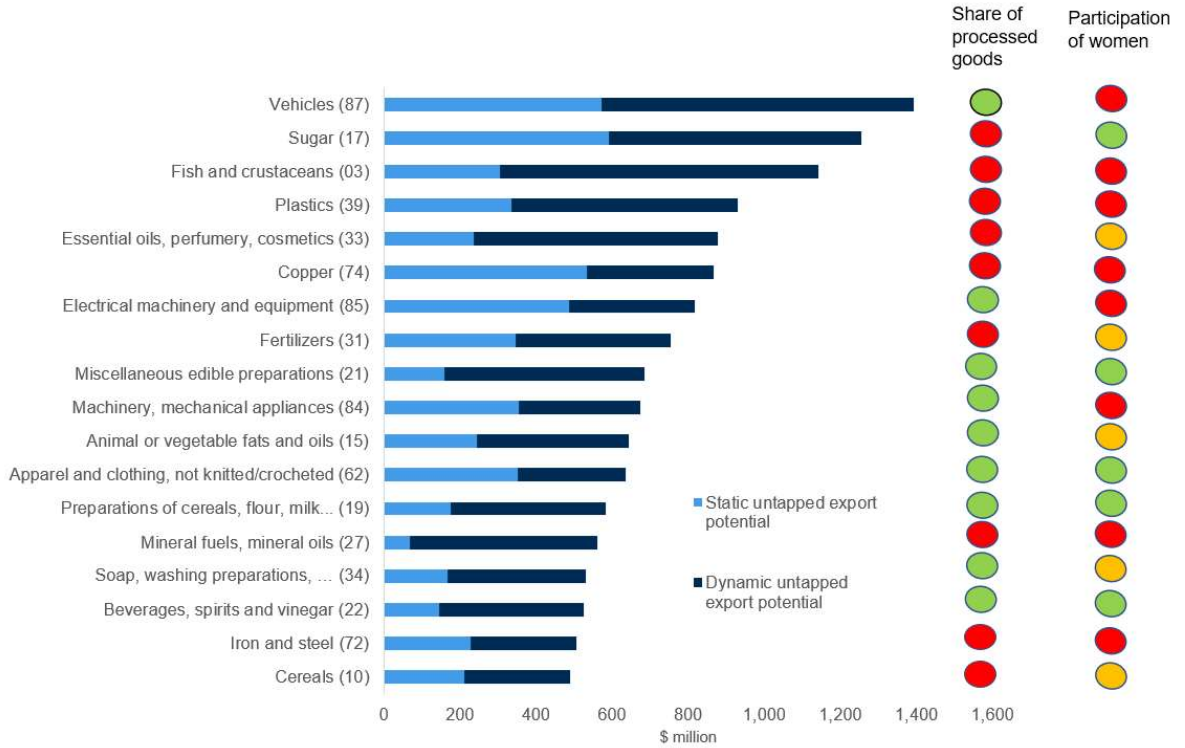
[17] This approach is close to ITC (2021), in which sector-level female employment compared to the national average is used as an indicator for inclusive trade.

[18] ISIC 01, 02 and 05.

[19] Using formal female employment data from ILO statistics, a sector favours the participation of women (green) when it employs more women than men, or at least as many women as men. It is neutral (yellow) if the share of employed women is at least one third of total employment, and a sector does not favour the participation of women (red) if female employment is less than one third of total employment in that sector.

Figure 11 Unrealized intra-African export potential under current tariff conditions, top sectors

Under current tariff conditions, sectors with high export growth potential include vehicles, sugar, and fish



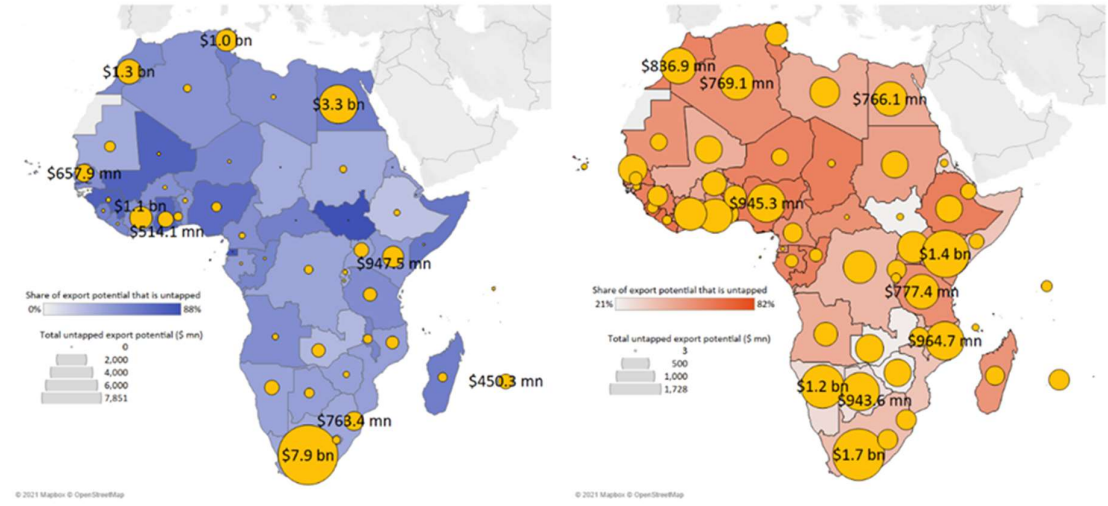
Note: Products in HS chapter 27 covered in the export potential analysis include petroleum jelly (271210), paraffin way (271220 and 271290) and electrical energy (271600).

Source: Authors based on ITC Export Potential Map, ITC Trade Map, World Bank Enterprise Surveys, ILO Labour force statistics.

Note: Share of processed goods: more than 90% – green; between 50% and 90% – yellow; below 50% – red. Women's participation: share of women-owned businesses above 7% – green; between 5% and 7% – yellow; below 5% – red. (For agriculture: share of women employed at least 50% of total employment –green; at least one third of total employment – yellow; below one third of total employment – red.)

Figure 12 Unrealized export potential by exporter and importer

Untapped export potential exists for all African exporters and markets; however, its share varies



Source: Authors based on ITC Export Potential Map.

Scenario 2. Additional export potential through AfCFTA (differential liberalization)

Under the differential liberalization by LDC status described above, intra-African export potential would increase by another $9.2 billion.

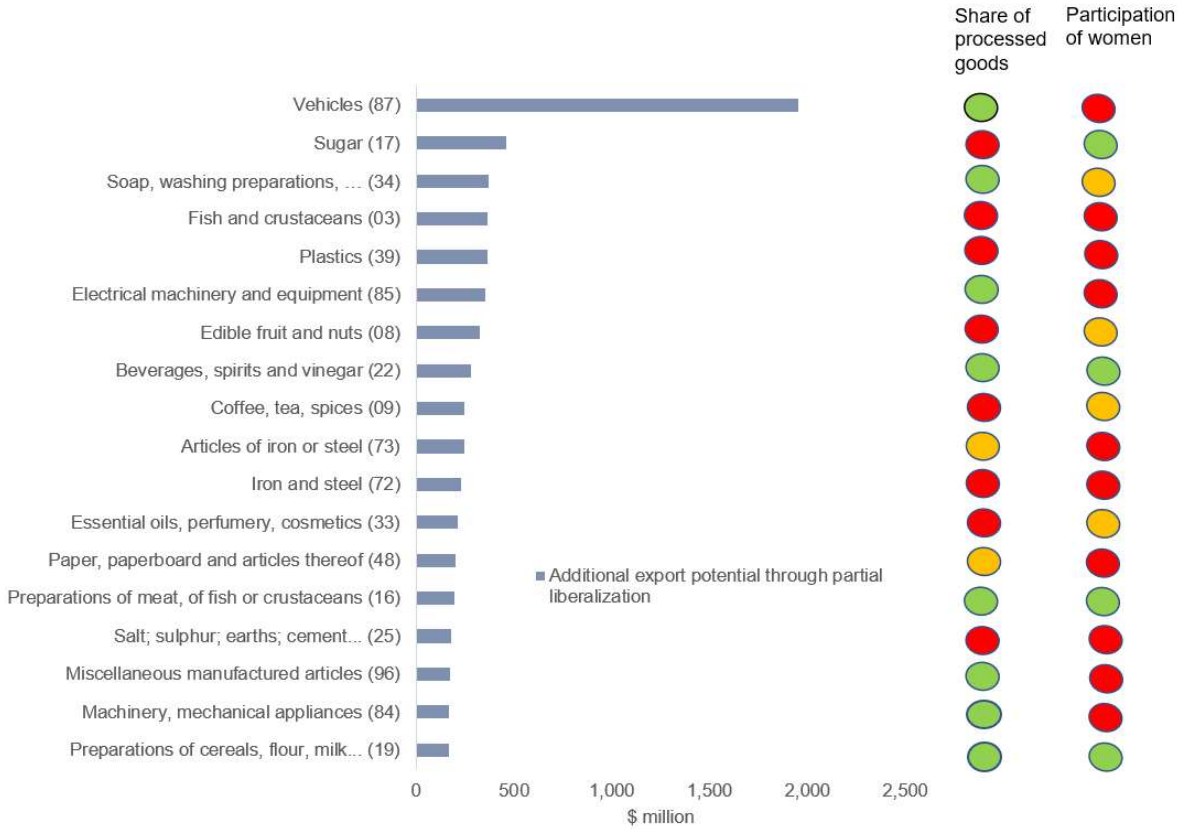
The sector with the highest export potential growth in this scenario is vehicles, with almost $2 billion. It is followed by sugar ($463 million); soap, washing preparations; fish and crustaceans; and plastics and electrical machinery and equipment (all between $350 million and $375 million). While the high potential increase in exports of sugar and soap, washing preparations, and fish and crustaceans may be explained by their relatively high initial trade-weighted average tariff rates (8.9%, 4.48% and 6.45%), plastics and electrical machinery and equipment have comparably lower initial tariff rates (2.3% and 3.1%). While they were not among the top sectors with export potential under current tariff conditions (scenario 1), edible fruits and nuts, coffee, tea, and spices show a large increase of export potential through partial tariff liberalization due to high current intra-African tariff rates (7.48% and 7.77%, respectively).

Among the top sectors displayed in figure 13, four perform well or are neutral in terms of women's participation and level of processing: soap and washing preparations, beverages, preparations of meat, and preparations of cereals). Tariff liberalization under the AfCFTA could promote exports especially of food products. Of the 18 top sectors, seven alone are fresh or processed agro-based products. Traditionally, agricultural and food products are highly protected through tariffs (e.g. preparations of meat show an intra-African trade-weighted average of 10.61%, sugar 8.9%, and cocoa and cocoa preparations (8.07%), which is why the gradual removal of tariffs affects them more than other sectors.

As of June 2021, available tariff offers submitted by regional economic communities suggest that tariff reductions may be lower in some of the top sectors, particularly in sugar, soap and washing preparations, and coffee, tea, and spices. Sugar has traditionally been a protected sector, and sugar confectionery especially is expected to be excluded from tariff liberalization on in the continent. Soap is excluded from liberalization according to Economic Community of Central African States tariff offers and will continue facing a most-favoured-nation tariff of 30%. Therefore, export potential gains through the AfCFTA are likely to be smaller than the estimates in this report.

Figure 13 Additional export potential through partial tariff liberalization, top sectors

Partial tariff liberalization under the AfCFTA within the next five years could increase export potential in key sectors, most importantly vehicles



Source: Authors based on ITC Export Potential Map, ITC Trade Map, World Bank Enterprise Surveys, ILO Labour force statistics.

Note. Share of processed goods: more than 90% – green; between 50% and 90% – yellow; below 50% – red. Women's participation: share of women-owned businesses above 7% – green; between 5% and 7% – yellow; below 5% – red. (For agriculture: share of women employed at least 50% of total employment – green; at least one third of total employment – yellow; below one third of total employment – red.)

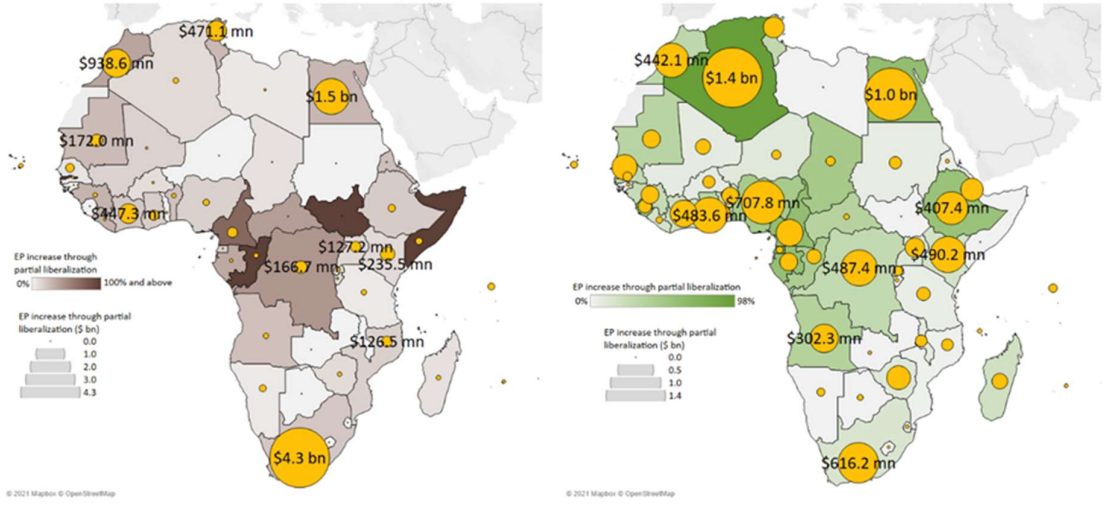
The maps in figure 14 display the additional export potential expected to arise through a partial tariff liberalization scenario in exporters (left) and markets (right). The shade of each country represents the percentage increase in export potential, the bubbles represent the absolute increase in export potential through partial liberalization.

A number of exporters are expected to increase their export potential to Africa by more than 100%. This is the case for Cabo Verde, Somalia, South Sudan, Sao Tome and Principe, the Gambia, and the Congo. This may be driven by considerably high initial tariffs, particularly in the case of Cabo Verde (facing the highest initial tariff of 21.67% on its exports), Somalia (facing 12.31%) and Sao Tome and Principe (facing 14.7%), Still, South Sudan, Gambia, and the Congo face significantly lower initial trade-weighted tariffs of 1.53%, 3.97% and 1.49% respectively. It must be noted that these tariff rates are trade-weighted and that South Sudan, for example, faces a simple average tariff rate of 12.38% on its exports to African countries. However, due to export dependence on mineral fuels, which face low intra-African tariffs rates, the trade-weighted tariff average is low. For others, export potential is not expected to increase in the partial liberalization scenario. For Botswana, Eswatini, Malawi, Sudan, Lesotho, Niger, Zambia, and Sierra Leone, export potential is even expected to decline, albeit slightly (by up to 6%). For these countries, the export potential that remains unrealized due to trade frictions could be a main source of tariff gains rather than tariff liberalization since these countries face initial tariff rates lower than 5% (e.g. Botswana 0.18%, Eswatini 3.12%, Malawi 0.93%).

Additional export potential by market ranges from values approaching 100% (Algeria) to less than 1%. The countries with less than 1% additional export potential by market impose significantly lower initial tariff rates: Mauritius (0.08%), Namibia (0.01%), Eswatini (0.03%), Botswana (0.01%), Lesotho (0.01%), Zambia (0.03%), Somalia (n/a), South Sudan (n/a), and Libya (0%). In absolute terms, Algeria is expected to present the largest additional opportunities for African exporters ($1.4 billion), followed by Egypt ($1 billion), Nigeria ($708 million) and South Africa ($616 million). While, on average, African exporters to Algeria, Egypt, Nigeria, and South Africa currently face trade-weighted tariffs of 8.35%, 1.91%, 6.6%, and 0.2%, respectively, African LDCs face a much higher tariff on their exports to Algeria (23.56%), and lower tariffs to Egypt (0.46%), Nigeria (3.57%) and South Africa (0.06%).

Figure 14 Additional export potential under partial liberalization, by exporter and importer

Partial tariff liberalization increases export potential for some exporters more than for others



Source: Authors based on ITC Export Potential Map.

Scenario 3. Additional export potential through AfCFTA (full liberalization)

If all African countries fully liberalized tariffs on all products within the next five years, intra-African export potential would increase by $19.8 billion, i.e. $10.6 billion more than under the differential liberalization scenario. The fact that the benefits from full liberalization are more than twice as large as those from partial liberalization can be explained by the fact that not only LDCs with small markets, but also non-LDCs and/or countries with relatively large markets liberalize as LDCs under the AfCFTA. Furthermore, countries liberalizing as LDCs, and hence only partially over the next five years, apply significantly larger trade-weighted tariffs than those liberalizing as non-LDCs.

Figure 15 displays the increase in export potential through full liberalization by sector, along with indicators for the share of processed goods and participation of women. As in the partial liberalization setting, the vehicles sector would show the highest increase in export potential through full liberalization: about $4.2 billion. Sugar, plastics, and soap, washing preparations (34) are again among the sectors with the highest export potential growth (between $900 million and $1 billion). They are followed by electrical machinery and equipment ($853 million) and fish and crustaceans ($758 million).

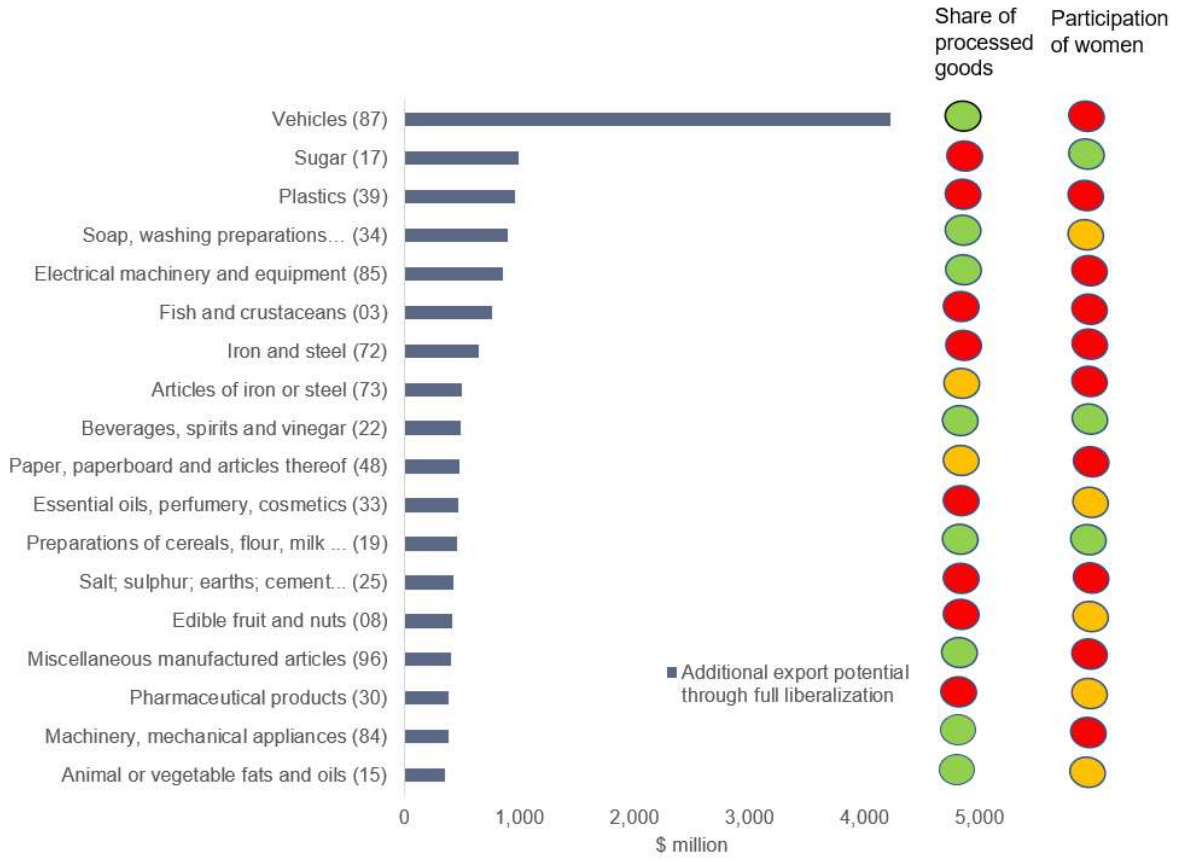
In the vehicles sector, a weighted tariff rate of 3.04% is charged on intra-African trade. However, while African LDCs charge a weighted tariff of 3.72%, non-LDC countries charge 2.5% on imports. The gap widens when considering LDCs according to the AfCFTA tariff concessions: countries liberalizing as LDCs show a tariff of 4.78% and those liberalizing as non-LDCs a tariff of 0.88%. This comparison highlights that some of the non-LDCs which currently impose high tariffs are able to enjoy preferential treatment due to their membership in customs unions (e.g. Nigeria charged a weighted tariff rate of 13.95% on imports from Africa and Kenya 7.94%). That explains why the export potential in the vehicles sector in scenario 3 is more than twice as high as in scenario 2. A similar pattern is observed in sugar trade. While African LDCs impose on average a tariff

of 12.74% (LDCs according to AfCFTA concession: 16.42%), non-LDCs charge on average 7.06% (non-LDCs according to AfCFTA concession: 0.73%).

In scenario 3 (as in scenario 2), four of the top export potential sectors perform well or are neutral in terms of inclusiveness indicators. These are soap and washing preparations, beverages, preparations of cereals, and animal or vegetable fats.

Figure 15 Additional export potential through full tariff liberalization, top sectors

Partial tariff liberalization under the AfCFTA within the next five years could increase export potential in key sectors, most importantly vehicles



Source: Authors based on ITC Export Potential Map, ITC Trade Map, World Bank Enterprise Surveys, ILO Labour force statistics.

Note. Share of processed goods: more than 90% – green; between 50% and 90% – yellow; below 50% – red. Women's participation: share of women-owned businesses above 7% – green; between 5% and 7% – yellow, below 5% – red. (For agriculture: share of women employed at least 50% of total employment – green; at least one third of total employment – yellow; below one third of total employment – red.)

The maps in figure 16 display the additional export potential expected to arise through full tariff liberalization in exporters (left) and markets (right). The shade of each country represents the percentage increase in export potential; the bubbles represent the absolute increase in export potential through full liberalization.

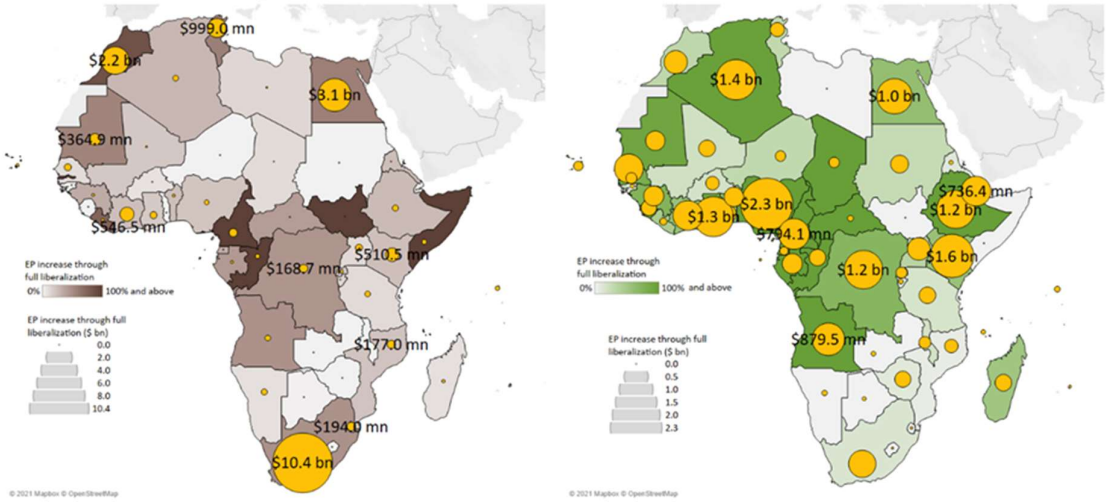
The exporters who stand to benefit most from the full liberalization scenario are essentially the same as those benefiting from partial liberalization: Cabo Verde, Sao Tome and Principe, Somalia, South Sudan, the Congo, the Gambia, and Cameroon are all expected to see their export potential rise by 100% or more. For some exporters, benefits from full liberalization are significantly larger than those from partial liberalization. Eswatini, for example, is not expected to gain under partial liberalization – however, under full liberalization, its export potential would increase by almost $200 million. These effects are driven by the different tariff rates

countries' exporters face when exporting to markets liberalizing early (as non-LDCs) and markets liberalizing late (as LDCs). For instance, Eswatini faces a weighted tariff rate of 0.01% on its exports to non-LDCs (according to AfCFTA concessions) but 13.58% to LDCs (according to AfCFTA concessions, see Table 2 in the Appendix) and 2.65% on exports to actual LDCs. In the partial liberalization scenario, Eswatini's export potential does not increase much, as the country already benefits from preferential access to part of the countries liberalizing early and does not trade much with the others. In the full liberalization scenario, it benefits from tariff reductions and thus additional export potential in markets liberalizing late. Similar examples include Cameroon (from $109 million under partial liberalization to $163 million under full liberalization) and Namibia (from $46 million to $91 million). While less pronounced than for Eswatini, the difference between exports to markets liberalizing as LDCs and exports to markets liberalizing as non-LDCs may explain those cases.

While the largest relative increase of export potential to a specific market was less than 100% in the partial liberalization scenario, values increase up to 250% with full liberalization. Several countries that only increased export potential to their markets by 37% to 68% when liberalizing according to the LDC schedule (in scenario 2) would experience an increase of more than 100% under full liberalization by 2025. In absolute terms, Nigeria and Kenya replace Algeria and Egypt as the top markets with additional opportunities for African exporters under full liberalization. Ghana, the Democratic Republic of the Congo, and Ethiopia also grow in importance, surpassing Egypt.

Figure 16 Additional export potential under full liberalization, by exporter and importer

Full tariff liberalization within the next five years would create larger export potential than partial liberalization, as more markets, some of them large, would reduce tariffs faster



Source: Authors based on ITC Export Potential Map.

Sector-level analysis

This section provides a more in-depth analysis of three sectors of particular interest: vehicles, soap and washing preparations, and preparations of cereals. While vehicles is the top sector in each scenario, soap and washing preparations and preparations of cereals are the only two sectors (apart from beverages) that are among the top sectors in each scenario and, at the same time, perform well in terms of inclusiveness indicators. For each of the three sectors, the analysis will address the question of whether and to what extent intra-African trade in this sector can support sustainable and inclusive growth.

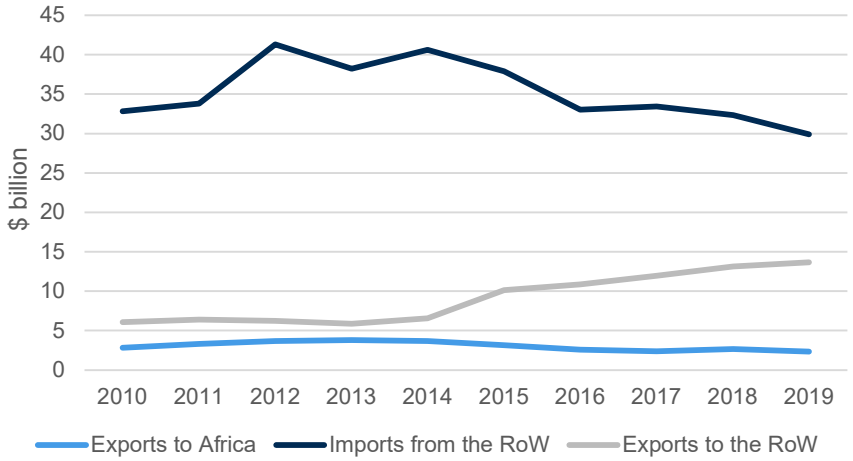
Vehicles

The vehicles sector, as captured by chapter 87 of the HS classification, comprises both fully assembled cars and parts and accessories. During the last decade, African exports to the rest of the world outpaced exports

to Africa, growing faster after 2014. In 2019, 15% ($2.4 billion) of African exports went to African countries. The trade deficit with rest of the world has decreased from $34 billion to $16 billion since 2014.

Figure 17 Trade with Africa and the rest of the world, in $ billion, 2010-2019

While intra-African trade in vehicles declined slightly, exports to other continents increased and imports declined, reducing the trade deficit



Source: Authors based on UN Comtrade.

The vehicles sector has the largest untapped export potential of all sectors under current tariff conditions. More than 50% of untapped export potential is driven by expected GDP growth, and related demand increases. Intra-African export potential in the sector is expected to increase more than proportionally through AfCFTA tariff liberalization, in both the partial and the full liberalization scenarios.

While the trade-weighted, intra-African tariff rates stands at 3.04%, the simple average is 5.32%. Countries liberalizing as LDCs under the AfCFTA charge on average higher tariffs on vehicles (6.11%; weighted average: 4.78%) than those liberalizing as non-LDCs (3.07%; weighted average: 0.88%). Initial tariff rates vary strongly across reporter and partner countries. For instance, the largest African importer of vehicles, Nigeria, charges on average (trade-weighted) 17.08% on vehicles (87) imports. Kenya, also one of the top-10 vehicles importers on the continent, has a weighted tariff on imports from Africa of 12.03%. The positive effect of tariff reductions in the sector on export potential is reinforced by a relatively high price elasticity of demand.

Current tariff concessions suggest that fully assembled vehicles (87.03) may be considered a sensitive good by some African markets, and therefore liberalized only over a longer period. Nevertheless, the export potential of the sector would remain large.

Overall, vehicles is the most promising sector in terms of economic size and dynamism. In addition, the sector holds promises of transformative growth given its high share of processed goods. However, participation of women is low, which limits its potential to contribute to inclusive growth. According to data from the World Bank Enterprise Survey, only 1.1% of enterprises are owned by women. The vast majority of companies are owned solely by men (89%).

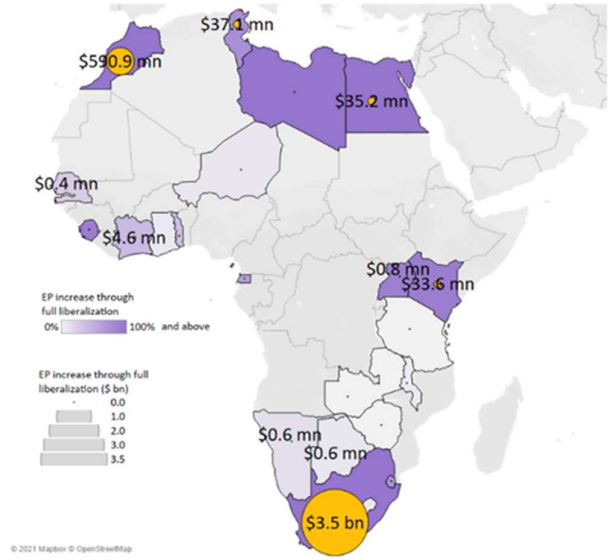
Furthermore, while 21 African countries have export potential in the vehicles sector, opportunities are highly concentrated. As illustrated in figure 18, under a full liberalization scenario, South Africa alone accounts for 88% of total export potential in the sector, and Morocco for another 8%. Tunisia, Kenya, and Egypt hold between 0.9% and 1.5% of export potential each, while the other 16 countries stand at 0.3% or below. The eight LDCs with export potential in vehicles together account for less than 0.1% of total potential.

In sum, the vehicles sector holds significant opportunities for intra-African export growth and structural transformation. However, in the short-to-medium run, these opportunities are restricted to a small set of African exporters, most of them non-LDCs. In addition, women's participation in the sector is still low. To fully

harness vehicles' transformative potential, countries should consider measures to increase women's participation in the medium-to-long run.

Figure 18 Additional export potential in vehicles under full liberalization, by exporter

Opportunities for export growth in the vehicles sector are concentrated in few countries



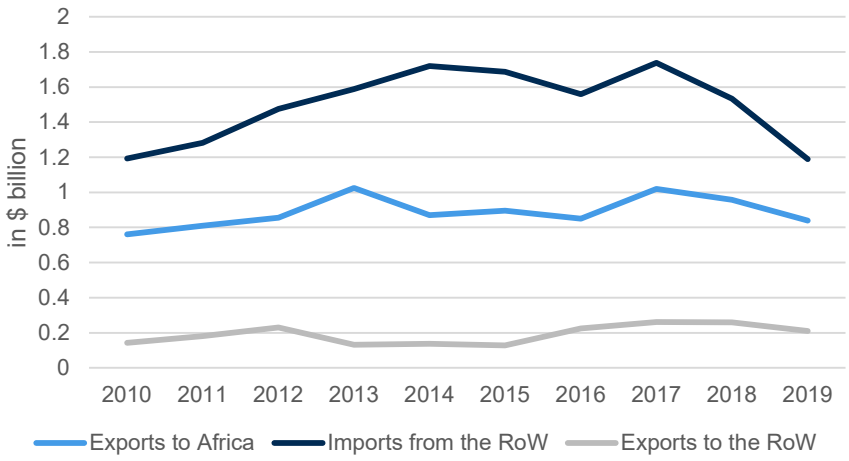
Source: Authors based on ITC Export Potential Map.

Soap and washing preparations

Due to population growth, urbanization, and a rising middle class, African demand for soap and washing preparations has nearly doubled over the last decade (GlobalTrade, 2020). Total imports increased from $1.6 billion in 2010 to $2.3 billion in 2017 but declined to $1.6 billion again in 2019 (figure 19). Regional production increased, indicated by an overall rise in exports from $904 million in 2010 to $1.05 billion in 2019, of which 80% went to African countries. The trade deficit with the rest of the world, however, remained at $980 million.

Figure 19 Trade with Africa and the rest of the world in $ billion, 2010-2019

Trade in soap and washing preparations to and from Africa increased over the last decade, but slightly declined between 2017 and 2019



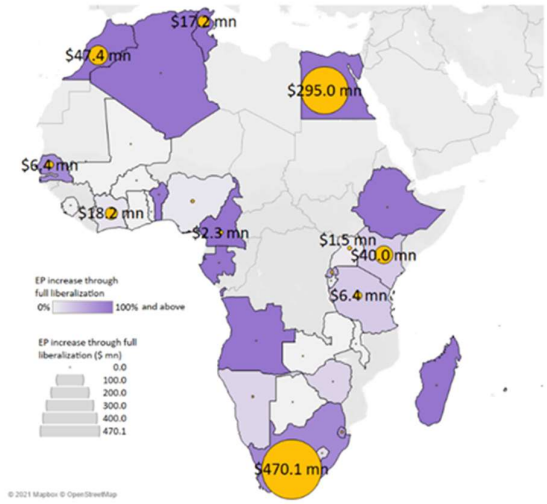
Source: Authors based on UN Comtrade.

With an untapped intra-African export potential of $530 million, soap and washing preparations ranks 15th under current tariff conditions. Intra-African trade in the sector could experience remarkable growth if tariffs were reduced. Under the partial liberalization scenario, export potential in the sector could increase by $372 million, and under the full liberalization scenario, by $901 million, making it 4th among the sectors that would benefit most from the AfCFTA.

Export potential in soap and washing preparations exists in 32 African countries. Opportunities are concentrated, but less than in vehicles. South Africa, which has the largest export potential, would account for about 50% of African export potential under full tariff liberalization, followed by Egypt (20%), Côte d'Ivoire (10%) and Kenya (9%). Among the African countries that stand to increase exports in the sector, 16 are LDCs. Together, they account for 5% of export potential after full liberalization.

Figure 20 Additional export potential in soap and washing preparations under full liberalization, by exporter

Opportunities for export growth in soap and washing preparations exist in 32 countries, among them 16 LDCs



Source: Authors based on ITC Export Potential Map.

Manufacture of soap and washing preparations fall under manufacture of chemical and chemical products (24) in the ISIC economic activity classification. With an average of women-owned enterprises of 5.3%, it is more inclusive of women than most manufacturing activities. In the sector of chemical products as a whole, women are still disadvantaged compared to men in terms of formal employment. But job opportunities are significantly greater than in other manufacturing sectors, except for textiles and wearing apparel, and the food processing industry.

While heavy manufacturing such as the vehicles industry is only feasible for few African countries, light manufacturing can be a stepping stone towards economic transformation. Sectors such as soap and washing preparations can foster inclusive participation due to relatively low entry barriers. Case studies on the soap industry in South Africa and Zambia suggest that there are many small firms in consumer chemicals, and that the sector is a source of employment of low-skilled labour (Bosiu et al., 2017). In addition to the socio-economic opportunities the sector presents, a strengthening of the industry can also positively impact health (SDG 3): demand further increased during the pandemic.

At date of writing, a complete list of tariff concessions was available from the Economic Community of Central African States and 90% of concessions of the Economic Community of West African States and the East African Community. These lists suggest that within HS chapter 34, most products falling under 34.01 (soap) and 34.02 (organic surface-active agents excluding soap) are likely to be excluded or liberalized over a longer period (up to 13 years). For the Economic Community of Central African States, the current external tariff rate on excluded products within 34.01 amounts to 30%. This would reduce the calculated export

potential and related opportunities to increase intra-African trade in a sector with potential for inclusive and transformative growth.

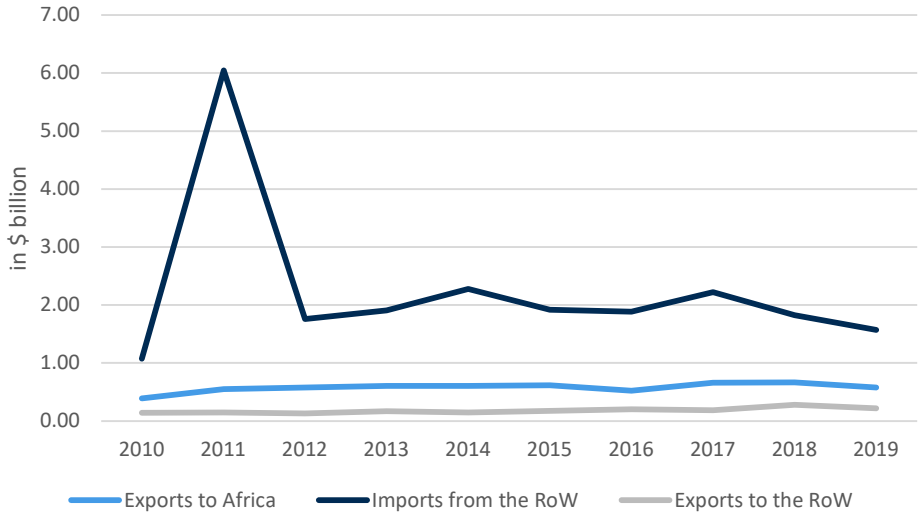
In sum, intra-African trade in the soap and washing preparations sector holds opportunities for structural transformation. However, the full potential of the sector can only materialize if tariffs are liberalized under the AfCFTA. Full tariff liberalization has considerably larger effects than partial liberalization, which is why the sector could experience significant growth in the medium-to-long run.

Preparations of cereals

Among the top sectors with export potential, several food processing sectors hold great promise in terms of sustainable and inclusive growth. Preparations of cereals (HS chapter 19) are among the top 20 sectors in all three scenarios. While African exports to the world increased from $526 million in 2010 to $793 million in 2019, imports increased even more, widening the trade deficit from $772 million (2010) to $1.1 billion (2019) (Figure 21).[20] Of 2019 exports, 73% ($578 million) went to meet African demand.

Figure 21 Trade with Africa and the rest of the world, in nominal $ billion, 2010-2019

While African exports of preparations of cereals to Africa and the rest of the world have increased, imports from the rest of the world outpaced this trend, widening the trade deficit



Source: Authors based on UN Comtrade.

Current untapped intra-African export potential in the sector amounts to $584 million. 70% of this is driven by expected growth, indicating the sector's dynamism. Under partial liberalization, export potential could increase by $170 million, and under full liberalization, by $452 million. Intra-African export potential in preparations of cereals exists for 36 African exporters. Opportunities in this sector are less concentrated than for vehicles and soap and washing preparations. The country with the largest export potential under full tariff liberalization would be South Africa (38%), followed by Egypt (16%). Ghana, Côte d'Ivoire, Senegal, and Tunisia each account for 7%-8%. In the sector, 18 African LDCs have export potential and they would constitute 2.4% of total intra-African export potential under full liberalization.

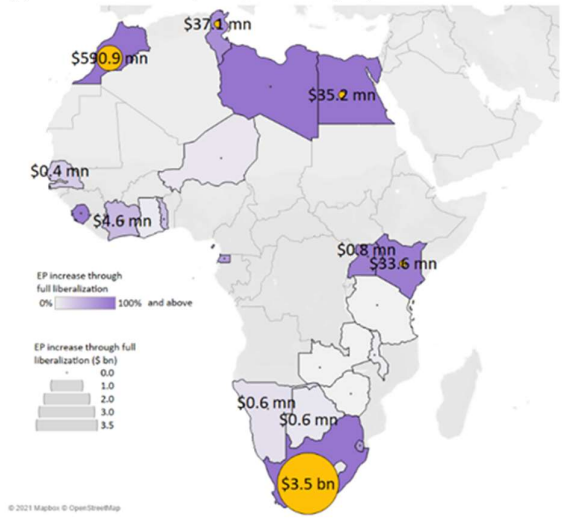
The sector offers good opportunities for women's participation. It comprises a large share of processed products and can be understood as a strategic sector to promote transformative growth due to its strong linkages to agriculture and services in the value chains, and its role in promoting food security (UNCTAD, 2021). Cereal grains are the most important ingredients in preparations for bakers' wares and infant use, bakery products, breakfast cereals or pasta. Within the continent, there is an untapped export potential in

[20] The peak in imports from the rest of the world in 2011 is mainly explained by an increase in global food prices (Fox and Jayne, 2020).

cereals of $490 million, of which $212 million is static and could be unlocked in the short term by tackling trade frictions. However, high-quality affordable inputs, especially of cereals, are not always available in the region, and a lack of convergence in prices indicates that regional trade frictions remain.[21]

Figure 22 Additional export potential in preparations of cereals under full liberalization, by exporter

Opportunities for export growth in preparations of cereals exist in 36 countries, among them 18 LDCs



Source: Authors based on ITC Export Potential Map.

In manufacture of food products and beverages itself, the main obstacles for exporting firms are electricity, and access to finance (figure 23) according to the World Bank Enterprise Survey. The lack of electricity and adequate logistics (e.g. cold chains) not only reduces African countries' competitiveness in processed goods but particularly limits the potential for higher intra-African trade in those goods.

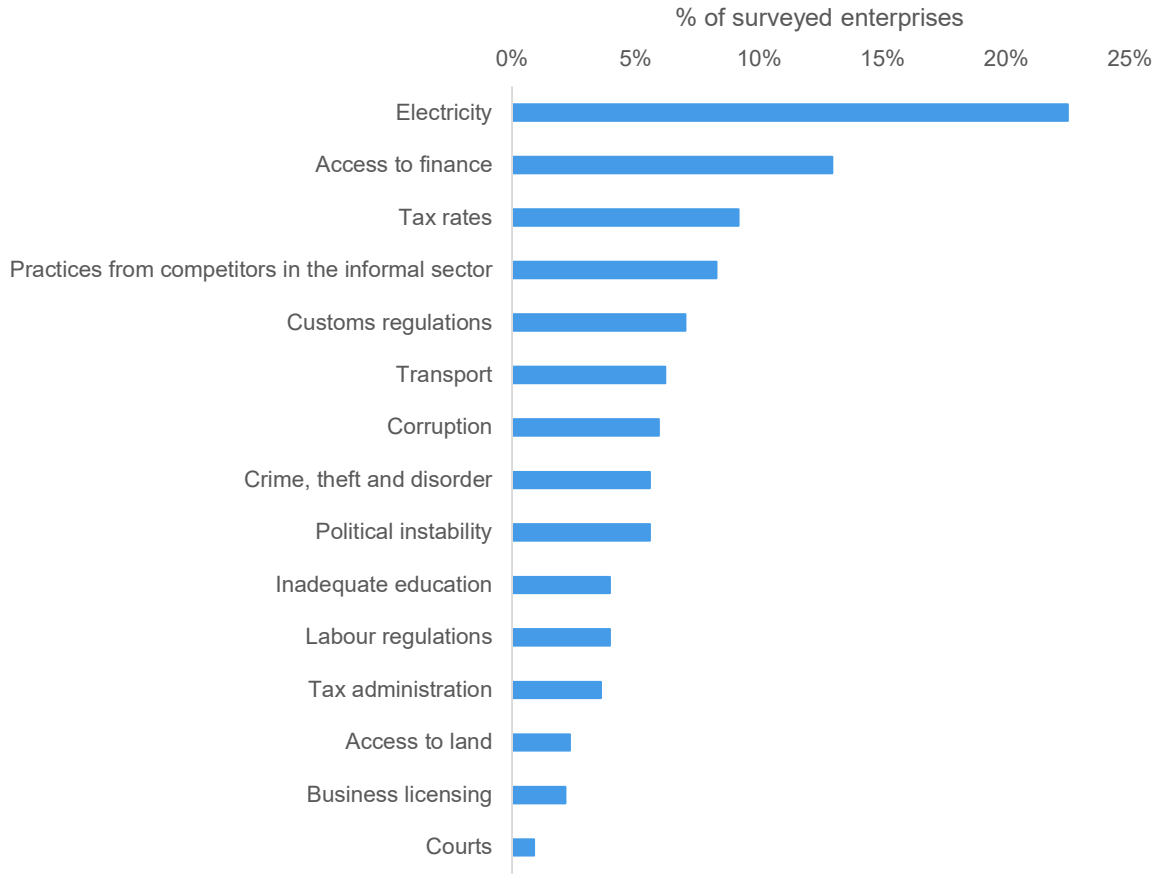
According to available tariff concessions at the date of writing, most product groups under preparations of cereals are expected to be sensitive products or even excluded, which would limit export potential. For the Economic Community of Central African States, for instance, pasta products without eggs (1902.19), which face a tariff rate of 30%, are excluded. Among key ingredients to preparations of cereals, maize and rice can be expected to remain protected, hence hindering access to inputs when supply within a country or regional economic community is exhausted.

Preparations of cereals present opportunities for structural transformation and increased economic participation of women through intra-African trade. While partial liberalization is expected to increase export potential, the effect of full liberalization would be almost three times larger. As for soap and washing preparations, the sector's full potential can only be achieved if tariffs are liberalized. In addition, liberalizing key ingredients such as cereals, would increase the opportunities for regional value chains.

[21] As regards the East African Community member states, price data on maize obtained from the Food and Agriculture Organization of the United Nations suggests large differences, ranging from $0.16 per kg in Uganda to $0.49 in South Sudan and $0.58 in Burundi (UNCTAD, 2021).

Figure 23 Major obstacles for exporting firms in manufacture of food products and beverages, various years, % of surveyed firms

The most common obstacle for African exporters of food and beverages is electricity, followed by access to finance



Source: Authors based on World Bank Enterprise Survey.

CHAPTER 3 TURNING POTENTIAL INTO REALITY

As demonstrated in the previous analysis, intra-African trade holds significant opportunities for transformative and inclusive growth on the continent. Export growth opportunities exist for all African exporters and markets and across a variety of products and sectors. The AfCFTA will further increase intra-African export potential, especially once tariffs are fully liberalized.

This chapter discusses what African governments and businesses can do to leverage the existing export growth potential, create further opportunities, and ensure that increasing trade holds its promise of bringing about structural transformation and inclusive development.

Although this paper focuses on trade in goods, the liberalization of trade in services through the AfCFTA is a key element in order to create additional inclusive trade opportunities. In particular, financial liberalization and technology-enabled innovation in financial services could become a motor of financial inclusion (UNCTAD, 2021) and promote access to finance for SMEs.

Realize existing trade opportunities

As discussed in Chapter 2, African exporters have an unrealized export potential of $22 billion to African markets under current tariff conditions. Of this export potential, $8.6 billion remains untapped because of frictions, while $13.3 billion is driven by expected growth.

To benefit from growth-driven export potential, businesses need to ensure that they increase production to meet additional demand while maintaining product quality and other characteristics. Ramping up production is expected to be sufficient to reap the benefits of growth-driven export potential under current conditions. Nonetheless, businesses should remain alert to any new developments in their sector, such as innovation, changing consumer tastes, new competitors, etc. Governments need to ensure that the business environment allows companies to increase their investment and operations, which includes aspects such as access to finance, electricity and business services, skills, and knowledge.

To benefit from export potential resulting from eliminating frictions requires targeted trade promotion by governments, trade support organizations and businesses. Frictions are specific to each exporter-importer-product combination.

Frictions can include, but are not limited to, the following:

- difficulties in complying with regulatory requirements (e.g., non-tariff measures) for specific products in specific markets;
- price/quality positioning not in line with market demand;
- lack of market intelligence or business contacts;
- any other problem that affects an exporter's ability to sell a specific product in a specific market.

Non-tariff measures

NTMs cover technical measures (e.g., technical barriers to trade, sanitary and phytosanitary measures) and non-technical measures (e.g., quantitative restrictions, rules of origin) (UNCTAD, 2021). Globally, non-tariff measures present a greater barrier to trade than tariffs (Saygili et al., 2018; Abrego et al., 2020; Vanzetti et al., 2016), and the regulatory burden tends to affect small businesses with limited knowledge and financial resources disproportionately (Fugazza et al., 2017; Nicita and Murina, 2017; Nicita and Seiermann, 2017). Unrealized export potential can exist when exporters are able to export their product to some markets but are not able to comply with the non-tariff measures the same product faces in other markets.

ITC's NTM business surveys assess firms' experience with regulatory trade barriers, differentiated by trading partners. For example, in the East African Community, where business surveys were conducted in four of

the six member states, enterprises in Uganda (2015-2016) and Tanzania (2019-20) reported that stringent technical regulation and conformity assessments made exports to Europe particularly difficult, while enterprises interviewed in Kenya (2011), Tanzania (2012-2013), and Rwanda (2010-2011) all felt that East African Community regulations were more burdensome (ITC, 2014a, 2014b, 2014c, 2018a). It is possible that regional efforts to increase transparency within the region reduced the regulatory costs of NTMs within the regional economic community between 2011-2012 and 2015-2020.

Price/quality positioning

If the price/quality positioning of a product does not correspond to demand in a potential export market, businesses need to assess whether they can produce at the price/quality preferred by consumers in that market, and whether it would be economically beneficial for them to do so. If specific constraints are preventing businesses from increasing exports, there may be an enabling role for the government or business associations.

Market intelligence and business contacts

An important first step in leveraging the benefits of tariff liberalization and the removal of non-tariff barriers through the AfCFTA is raising awareness of the agreement. According to a survey conducted in Nigeria, only 36% of firms in manufacturing, and only 3% in agriculture are aware of the AfCFTA (Madden, 2021).

As highlighted in UNCTAD (2021), industry associations (including women's trade associations) should be supported to facilitate the linkages and reduce potential mismatches between demand and supply. The support of intermediaries, and joining forces to conduct business, is especially important for small-scale farmers and small enterprises with limited access to knowledge and resources. Linking buyers to sellers – e.g. through contractual arrangements between enterprises along the value chain, or support to participation in business fairs and similar events – can increase access to inputs and technology, sometimes just through the provision of market information and technical knowledge. A positive impact from contractual arrangements on production and income can be established empirically (Dihel et al., 2018), mainly through fixing prices, increasing profits, improved access to markets and diminished risk, and lower transportation and transaction costs.

Other frictions

Export potential can remain untapped due to the above-mentioned reasons, but also because of any other specific exporter-importer-product friction. The existing data is insufficient to understand what is preventing exports in a particular situation. Therefore, it is important for governments and development partners to engage in regular exchanges with the private sector (and, potentially, other experts) and ask which frictions are currently inhibiting specific trade flows. At the same time, it is important to inform the private sector of any regulatory or institutional changes or improvements to enable them to conduct their business operations efficiently.

Create additional trade opportunities

Export potential represents trade opportunities under current trade and market access conditions. However, export potential does not constitute an upper limit – with the right policies, African countries could create opportunities beyond current potential. Doing so requires improving market access to ensure African goods reach African markets easily; but also improving overall competitiveness to ensure businesses can operate well and produce quality goods at the right prices in Africa.

The World Economic Forum's Global Competitiveness Index allows the comparison of countries' overall competitiveness by aggregating 103 indicators on the following pillars: institutions, infrastructure, adoption of information and communications technology, macroeconomic stability, health, skills, product market, labour market, financial system, market size, business dynamism, and innovation capability.

Figure 24 shows that Africa has a low level of competitiveness compared to other continents. Africa has room for improvement in all pillars. Only 11 African countries were among the top 100 countries in 2019. At

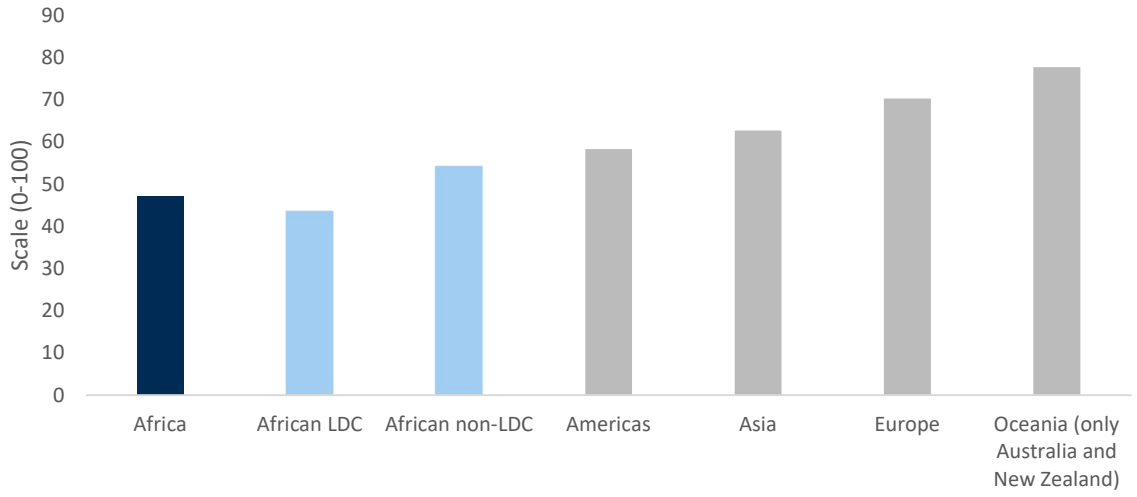
the bottom, 21 out of the 25 worst-performing countries were in Africa. African LDCs' competitiveness score (median score of 43.7) is about 20% lower than that of African non-LDCs (median score of 54.3), and this number might still be overestimated since 13 of the African LDCs are not included in the Global Competitiveness Index.

Over time, the continent appears to be converging with other world regions, albeit slowly. Sub-Saharan Africa and North Africa and the Middle East were the regions that progressed most between 2018 and 2019 (World Economic Forum, 2019). While sub-Saharan Africa's competitiveness increased in most pillars, it fell in three of them: institutions (-1.2%), infrastructure (-2.9%), and product market (-2.3%).

Good institutions[22] are valuable to any type of economic activity but infrastructure (consisting of transport and electricity and water infrastructure in the Global Competitiveness Index) and product market conditions, (i.e. domestic competition and trade openness), are particularly important in international trade in goods. As these were also the two pillars with the largest decline, the remainder of this section will discuss them in more detail, focusing on aspects related to international trade.

Figure 24 Global Competitiveness Index (scale 0-100), by region, 2019

Africa is less competitive than other regions and African LDCs' competitiveness is about 20% lower than that of African non-LDCs



Source: Authors based on World Economic Forum Global Competitiveness Index.

Note: The Global Competitiveness Index covers 141 countries, including 38 African countries. The group of African LDCs includes 20 of the official 33 African LDCs.

Concerning product market conditions, tariff reductions under the AfCFTA are expected to create significant intra-African export potential, as outlined in Chapter 2. Under full tariff liberalization, intra-African export potential would increase by $19.8 billion by 2025. As the countries expected to liberalize within 10 instead of five years comprise several large markets, export potential growth will be significantly slower under partial liberalization. If all products were liberalized equally, export potential would grow by $9.2 billion by 2025. The choice of sensitive and excluded products can further limit export potential gains through the AfCFTA. African governments need to ensure that the tariff concessions are in line with the ambitions of the AfCFTA to unleash its full potential.

[22] The institutions pillar of the Global Competitiveness Index covers security, social capital, checks and balances, public sector performance, transparency, property rights, corporate governance, and future orientation of the government.

With regards to non-tariff measures, addressing country- and product-specific constraints can help realize existing export potential. However, more general measures to simplify and harmonize non-tariff measures will have a broader impact and create additional export possibilities. A stronger regulatory framework of NTMs could increase consumer confidence in African products and stimulate their exports to the region and to the world (Cadot et al., 2018).

Returning to the East African Community, ITC's NTM surveys suggest that it is not so much the technical requirements themselves as the conformity assessments that are most burdensome for companies (ITC, 2014a, 2014b, 2014c, 2018a, forthcoming). Rules of origin and obtaining related certificates is another major burden on all East African Community countries.[23] Moreover, exporters often find the procedures related to regulatory requirements more burdensome than the regulations themselves. These so-called procedural obstacles often occur at home. For instance, 30% of Ugandan exporters report obstructive national procedures. Most often mentioned are delays in obtaining the necessary certifications, fees and charges, and limited facilities to obtain certificates (ITC, 2018a). Similarly, 44% of all procedural obstacle cases in Kenya refer to delays in administrative procedures 'at home' (ITC, 2014a).

The role of national authorities in reducing the burden of procedural obstacles can be supported by regional harmonization and a common single window. The implementation of a single window and one-stop border posts should be a priority to facilitate documentary compliance and streamline trading across borders, especially for female small-scale traders, who face higher structural barriers in accessing information (UNCTAD, 2021). In ITC's most recent NTM survey in Tanzania (2019-20), businesses expressed positive experiences thanks to improvements made on the single window front and in digitalization (ITC, forthcoming). In addition, the adoption of an African system of electronic certification of rules of origin should be supported to reduce the administrative burden on SMEs (UNCTAD, 2021).

With the launch of Phase 1 of the AfCFTA negotiations, five operational instruments have been established to govern and facilitate the liberalization of markets (see Box 3). They are expected to improve different aspects of market access.

Another pillar of competitiveness that is key to realizing export potential under the AfCFTA is access to infrastructure and, in particular, transport and electricity. With regards to transport infrastructure, UNCTAD (2021) finds that, in Africa, intra-continental transport costs are higher than extra-continental costs in all the examined transport modes (air, sea and road). For road transport, the estimates suggest that transport costs account for 29% of the trade value (of goods traded over a distance of 10,000 km) in intra-African trade, but only 7%in the case of goods exported to other continents. Although there are scale effects at play when trading over larger distances, this highlights why investments in infrastructure must be targeted towards improving intra-continental transport corridors.

Electricity has been identified as the most common obstacle for African exporting firms in the food and beverages sector (see figure 23). While 77.9% (2019) of urban populations in sub-Saharan Africa have access to electricity, according to World Development Indicators, only 28% of rural populations do. This gap must be closed to create inclusive trade opportunities. The AfCFTA, if effectively implemented, can play a key role in fostering investments in infrastructure as it goes beyond the liberalization of goods and services.

Greater economic and political cooperation, harmonization of regulations and administrative rulings under the AfCFTA are expected to create investment opportunities in regional transport and power infrastructure (Adeniran et al., 2021). The second phase of the AfCFTA negotiations on cooperation on investment, intellectual property rights and competition policy have the potential to spur continental investment and support existing investment programmes such as the Programme for Infrastructure Development in Africa. These are only some areas where regional cooperation benefits Africa's competitiveness and promises additional trade opportunities. However, to ensure that these opportunities also promote transformative and inclusive development, national governments must improve the quality of their institutions and be more pro-

[23] Rules of origin have caused many businesses to pay most favoured nation tariffs rather than taking advantage of preferential tariffs available under regional trade agreements (see Gillson, 2010 for the example of the Southern African Development Community).

active to attract investments into sectors which have the highest potential for transformative and inclusive growth.

Box 3 AfCFTA operational instruments

The AfCFTA comprises five operational instruments which, once implemented, may enable African countries to realize untapped export potential and create additional trade opportunities:

1. **Rules of origin**: Rules of origin determine the conditions under which a product or service can benefit from AfCFTA tariff preferences. Simplifying and harmonizing those rules would reduce hurdles for businesses and favour the development of African value chains. Negotiations on rules of origin are still ongoing.

2. **Tariff concessions**: As discussed in Chapter 2, the choice of sensitive and excluded products will affect the creation of new trade opportunities under the AfCFTA. Negotiations on tariff concessions are still ongoing.

3. **Online mechanism on monitoring, reporting and elimination of non-tariff barriers**: The mechanism allows companies to report obstacles to intra-African trade. Government authorities follow up on the complaints. A similar mechanism in the Tripartite Free Trade Area between the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community has helped resolve more than 700 complaints since 2004.

4. **Pan-African Payments and Settlement System**: This centralized payment and settlement infrastructure, developed by the African Export-Import Bank, is expected to simplify financial transactions for intra-African trade and commerce, and reduce their costs.

5. **African Trade Observatory**: This trade information portal aims to improve transparency in intra-African trade. By providing real-time and reliable data, it equips African businesses with trade intelligence on trends, opportunities, and market access conditions. It allows government agencies and policymakers to monitor the AfCFTA implementation process and evaluate its impact on their economies.

Making growth transformative and inclusive – focus on sector characteristics

The analysis of sector- and firm-level indicators has demonstrated that intra-African trade holds major opportunities for transformative and inclusive growth. However, growth through intra-African trade that is both transformative and inclusive will not materialize automatically.

When devising trade policies and trade support, African governments must ensure that the sectors receiving support hold significant growth opportunities and are in line with their sustainable development priorities. Industrial policies to foster trade and attract investment should target sectors that show strong linkages to the local economy, include a higher share of processed goods, and create economic opportunities for women and other disadvantaged groups.

While this report provides an overview on promising sectors at a continental level, African countries are diverse. The sectors providing the best opportunities to achieve transformative and inclusive growth differ from country to country. Analysis at the national level is required to identify the most promising opportunities. The methods applied in this report – export potential assessments in combination with indicators such as those discussed in Chapter 1 – can serve as guidelines for an assessment of a sector's potential to drive transformative and inclusive growth through regional trade.

APPENDIX

Table 2: List of non-LDCs and LDCs for tariff scenarios

Non-least developed countries	Least developed countries (non-LDCs liberalizing as LDCs in italics)
Botswana, Eswatini, Lesotho, Namibia, South Africa	Economic Community of Central African States: Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, and Gabon
Algeria, Egypt, Libya, Morocco, Tunisia	East African Community: Burundi, Kenya, Rwanda, Tanzania, South Sudan, and Uganda
Mauritius, Seychelles, Zimbabwe	Economic Community of West African States: Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Côte d'Ivoire, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo
	Angola, Comoros, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Madagascar, Malawi, Mauritania, Mozambique, Sao Tome and Principe, Somalia, Sudan, Zambia
Non-sensitive goods: 5 years linear tariff elimination Sensitive goods: 10 years	Non-sensitive goods: 10 years linear tariff elimination Sensitive goods: 13 years
Scenario: By 2025 complete tariff elimination across all product lines	Scenario: By 2025 - 50% of tariff elimination across all product lines

Table 3: Correspondence of ISIC Rev. 4, Rev. 3.1 and HS data at 2-digit level

			Sections ISIC-Rev. 4	Divisions	Sections ISIC-Rev. 3.1	Divisions	HS Chapters
Agriculture, forestry and fishing			A	01-03	AB	01, 02, 05	1-15
Non-agriculture	Industry	Manufacturing	C	10-33	D	15-37	16-24; 28-97
		Construction	F	41-43	F	45	
		Mining and quarrying; Electricity, gas and water supply	B, D, E	05-09; 35; 36-39	C, E	10-14, 40,41	25-27 (+ 310410, 71021, 71031)
	Services	Market Services (Trade; Transportation; Accommodation and food; and Business and administrative services)	G, H, I, J, K, L, M, N	45-82	G, H, I, J, K	50-74	
		Non-market services (Public administration; community, social and other services and activities)	O, P, Q, R, S, T, U	84-99	L, M, N, O, P, Q	75-99	
Not elsewhere classified			X				

Source: Concordance based on https://wits.worldbank.org/product_concordance.html

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