

The economic significance of intra-African trade

Getting the narrative right

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Abstract

Hardly a presentation is made (or a paper written) on the topic of the African Continental Free Trade Area (AfCFTA) without starting with a lamentation about how intra-African trade is “abysmally low” compared to other continents, with the commonly cited figure of around 16 percent of total exports, compared with 59 percent in Asia and 69 percent in Europe. This paper argues that intra-African trade has greater economic significance than commonly believed. To make its case, the paper starts with a theoretical and empirical review of the drivers of trade growth globally, highlighting the role played by regional trade agreements. Because of econometric and methodological errors, earlier studies purportedly showing that previous regional integration efforts on the continent were ineffective are wrong: Recent research points to these agreements boosting intra-African exports by 27 to 32 percent on average. Moreover, contrary to received wisdom, there is nothing out-of-the-ordinary in the existing *levels* of intra-regional trade; indeed, by some metrics, parts of Africa display a stronger degree of trade integration than comparable regions elsewhere in the world. Finally, the paper provides a recalculation of the intensity of intra-African trade, taking into account structural economic differences and the prevalence of informal cross-border trade, to arrive at a set of new estimates. For non-oil resource-intensive and landlocked countries, the average share of exports already destined to the African market is as high as 38 to 42 percent of total trade, respectively. The paper ends by arguing that, as AfCFTA implementation begins, it is time to change the narrative and to start to “talk up” intra-African trade.

1. Introduction

On January 1, 2021, the African Continental Free Trade Area (AfCFTA) moved into its implementation stage. AfCFTA implementation entails the gradual dismantling of tariffs on 97 percent of intra-African trade over the next 13 years. Full implementation of the agreement is forecasted to boost intra-African trade by as much as 52 percent according to a widely cited study; Karingi and Mevel (2012), or by \$450 billion by 2035 according to a more recent World Bank (2020) study.

Yet, if mainstream narratives are to be believed, the starting point for this landmark agreement is less than auspicious. Hardly a presentation is made on the topic of the AfCFTA without starting with a lamentation about how intra-African trade is “abysmally low” compared to other continents, an argument also made *ad nauseum* in academic and policymaking circles (e.g., Yang and Gupta, 2005; Ngepah and Udeagha, 2018).¹ For instance, in an otherwise generally optimistic and evidence-led assessment, one recent textbook on African economic development (Cramer et al., 2020:65) claims that:

“Despite decades of negotiations and agreements within subregions and Regional Economic Communities in Africa, intra-African trade remains a tiny proportion of the continent’s overall trade ... Greater intra-African trade may be rhetorically appealing on grounds of economic nationalism or South–South solidarity, [but] as a blueprint for accelerated development it is a fantasy.”

Contrary to such views, this paper argues that intra-African trade has greater economic significance than is commonly believed. Rectifying this misconception matters because it affects our judgement with regard to the prospects for the AfCFTA—if the pessimists are right, the AfCFTA is effectively starting almost from scratch, and the challenge of accelerating the growth of intra-African trade will be all the more difficult. If, on the other hand, we find evidence of dynamism in existing levels of intra-African trade, then the prospects for the AfCFTA are much better, as there is something on which to build. It matters on a more fundamental level too; studies² have repeatedly acknowledged a much higher share of diversified products are exported to regional markets in Africa compared with products sent to global markets, which consist principally of commodities. Economic diversification is a major objective of policymakers across the continent, so clearly it makes strategic sense to prioritize regional trade. The prospects for success in such a strategy are correspondingly higher if intra-African trade is already buoyant and rising

To the layperson, it might seem strange to argue over such a proposition—surely, it could be argued, the statistics on the scale of intra-African trade are not debatable? On the contrary, this paper argues that the measurement of the extent of intra-African trade is affected not only by statistical errors, but also by a series of cognitive biases and omissions, of the kind spelled out by Rosling (2018).³ In addition, economists themselves are often surprisingly poor at gauging the relative importance of magnitudes (Chang, 2014) and do not always perceive the full extent of the limitations of many statistics that they use on a daily basis.⁴

1 Many other analysts and academics have questioned more widely the achievements of regional integration processes on the continent. See, for instance, Oyejide, 2000; Qobo, 2007; de Melo and Tsikata, 2014.

2 See, inter alia, Kassa et al. (2022), UNECA (2020), UNECA (2015).

3 Rosling (2018) draws attention to a series of ten cognitive biases—“gaps”—that impinge on our perceptions of data and data trends, including errors related to a proper appreciation of magnitudes, assumptions that things are worse than the data reveals, and the tendency to extrapolate in a linear manner from existing trends.

4 On the problems of trade data, see Ortiz-Ospina and Beltekian (2018), OECD/WTO (2012). “Double-counting” is a particularly serious problem and may result in an overvaluing of trade by around 25 percent. The treatment of re-exports is also a challenge. See Koopman et al. (2012). On the challenges specifically of intra-African trade statistics, see Yeats (1990) and Jeven (2014).

To make its case, this paper starts with a theoretical and empirical review of the drivers of global trade, highlighting the major role historically played by intra-regional trade (Section 2). Section 3 summarizes and debunks the theoretical arguments that South-South trade (of the kind promoted under the AfCFTA) is “defective” compared to “North-South” trade. Section 4 reviews earlier studies purporting to show that there was no net *trade creation* under African regional integration schemes and finds that the bulk of these studies were methodologically unsound; newer, more credible, studies show that such schemes were conducive to marked increases in intra-African trade. Section 5 of the paper presents the stylized facts of intra-African trade, highlighting the long-term trends and finding that, contrary to received wisdom, there is nothing out-of-the-ordinary in levels of intra-regional trade on the continent. Indeed, by some metrics, parts of the African economy perform better than comparable regions elsewhere in the world. Section 6 explains how these stylized facts have come to influence the orthodox narrative on the prospects of the AfCFTA. Three errors drive the misconception that intra-continental trade is low: i) the comparisons made with other regional blocs are frequently misleading and do not compare *like-with-like*; ii) the picture of intra-African trade is distorted by high-value commodity exports to destinations outside the continent; and iii) there is a systematic failure to recognize the scale of informal cross-border trade. Section 7 provides a recalculation of the intensity of intra-African trade, compensating for the aforementioned biases and arriving at a set of new estimates for the share of intra-African trade. Finally, Section 8 summarizes the main arguments and draws some policy conclusions, stressing the need, at the time of AfCFTA implementation for no longer “talking down” intra-African trade, but rather switching to a positive narrative and “talk up” intra-African trade.

2. Is trade driven by regional or global forces?

The phenomenal growth of global trade from the 1950s up until the global financial crisis of 2008-9 was an outstanding feature of the global economy. Between 1950-2008, world trade grew at almost twice the rate of output, leading to an increasingly integrated global economy.⁵ The growth of global trade was very much facilitated by new technologies—for instance, improvements in transportation, such as containerization, the development of commercial jet aircraft and the rise in air cargo, advances in communication technologies such as the internet—and the operations of transnational corporations that are reportedly responsible for around 70 to 80 percent of all global trade.⁶ More broadly, the adoption of more liberal trade regimes during this period best understood to be part and parcel of a process of “globalization”—i.e., the growing interdependence of the world’s cultures, political systems, populations, and economies. In the 1990s and early 2000s, the theme of globalization generated thousands of books and articles and, in an economic sense, became a form of shorthand for the reduction of economic distance, technological advancements, and the integration of global labor markets.⁷

5 There is a caveat here, however, and that was the evidence slowing down in both global trade and output growth, particularly since the mid-2010s. Data provided by Kitson and Mitchie (1995) also show that global trade growth slowed down post-1973, after the collapse of the Bretton Woods system of fixed exchange rates. Global macroeconomic stability became particularly pronounced after 1973, and financial crises more frequent (see Reinhart and Rogoff, 2011), showing that trade growth is heavily dependent on broader economic stability and predictability—an important lesson with regard to achieving the objectives of the AfCFTA.

6 See Hill (2009), Dicken (2015). Of the large share of global trade accounted for by multinational firms, it is estimated that half is actually intra-firm trade, i.e., trade of goods and services between affiliates of the same company group. The implication of this is important—that FDI is a major driver of global trade growth.

7 For a review of the globalization literature, see Michie (2011).

However, there is considerable debate on the extent to which trade growth was also policy-driven, i.e., through deliberate policies to dismantle trade barriers and restrictions. There is no doubt that the post-war period up until the global financial crisis of 2008-2009 saw a rapid removal of many existing policy impediments to trade. The question is through what mechanism? Was this the result of unilateral action by countries convinced of the merit of mainstream arguments about the economic benefits of openness to international trade? Or was it rather through membership of regional blocs like the European Union, the North American Free Trade Agreement (NAFTA), or the East African Community? Or principally through multilateral processes of trade liberalization through membership of the General Agreement on Tariffs and Trade (GATT) (or its successor the World Trade Organization (WTO))? Most trade economists tend to endorse the latter explanation.⁸

Yet against a backdrop of IMF and World Bank “Structural Adjustment Programmes” (SAPs) that were applied from the late 1980s onwards, there are reasons to believe that, for African countries at least, unilateral processes played a greater role in the liberalization of trade regimes. It is, thus, best seen not as a voluntary process, but rather as part and parcel of the terms of agreements reached with the international financial institutions during that period. In their assessment of African trade performance, Ackah and Morrissey (2007) observe:

“Since the 1980s, and especially in the 1990s, almost all African countries liberalized their trade regime to some extent, and many countries reduced trade barriers significantly (especially restrictions on imports). In most cases, these trade policy reforms were undertaken *unilaterally* under the auspices of a World Bank programme. Although the vast majority of African countries signed the Uruguay Round Agreement in Marrakech in December 1994 and therefore were members of the WTO at its establishment, the WTO has not been the driving force for trade liberalization in the continent.” (emphasis added).

Although there have been plenty of dissenters (e.g., Chang, 2009; Wade, 2014), and others have tried to strike a middle ground (e.g., Rodrik, 1998; Stiglitz and Charlton, 2007), the economics profession has been generally extremely supportive of the liberalization of trade regimes. Economists generally believe that tariffs and import quotas necessarily reduce economic welfare, whereas trade liberalization is usually welfare improving (see, inter alia, Feenestra, 2015; Winters, 2004). However, there is much debate about the mechanisms through which trade liberalization leads to faster growth of trade (Sala-i-Martin, 1997; Slaughter, 1998) as well as doubts concerning whether the benefits accrue equally to low-income economies or whether, conversely, there is some kind of threshold of per capita income and development that needs to be reached to be able to enjoy those benefits (Achah and Morrissey, 2007; Rodrik and Rodrigues, 2000; Santos-Paulino and Thirlwall, 2004), with a consensus emerging that poorer economies are often not well placed to take advantage of new opportunities created by opening up under trade liberalization.⁹

At a time of the implementation of the AfCFTA, it is also important to note that trade economists have traditionally been antagonistic to regional trade agreements (RTAs), instead preferring multilateral or unilateral liberalization.¹⁰ The only circumstance under which those experts anticipate positive benefits from a regional process of integration is if it is accompanied by a decline in external tariffs

⁸ See, for instance, Bhagwati, Krishna and Panagariya (2014), who claim that “from the viewpoint of facilitating trade, the WTO has been a huge success” (page 6).

⁹ Fosu and Mold (2008) query the extent to which further multilateral liberalization will provide further gains for the African continent.

¹⁰ See Panagariya’s (2000) review article on theoretical perspectives on this issue.

with third parties—the thinking being that this will diminish any risk of trade diversion effects (Baghwati, 1992; Winters, 1999). Even then, however, the degree of hostility to RTAs among mainstream trade economists has been palpable in the past, with the traditional argument running that RTAs represent a serious impediment to the “preferred” option of multilateral liberalization. In Baghwati’s (1991) famous phrase, RTAs are considered more “stumbling blocks” than “building blocks” towards global trade liberalization.

However, there has been a marked shift in positions over the last two decades, with several empirical studies suggesting the phenomenal growth of global trade up until the global financial crisis of 2008-2009 was driven essentially by *regional* rather than *global* dynamics. In a much-cited paper, Rose (2004) throws the first proverbial spanner in the works to challenge the notion that multilateral liberalization has been the main driver of global trade growth. Using a large panel data set covering 175 countries over the period 1948-1999, Rose finds, econometrically, that there had been little relationship between WTO/GATT membership and subsequent trade expansion. Even though the econometric robustness of that study has been debated,¹¹ the paper shook the presumption that trade growth was necessarily driven by multi-liberalization alone. Instead, deeper regional drivers might be at play.

Moreover, despite the initial academic backlash, Rose’s analysis proved to be robust. A recent paper (Esteve-Pérez et al., 2019), using data on 200 countries over the period 1948-2013 and a more reliable PPML estimator better suited to econometrically estimating trade “gravity models,” vindicates Rose’s finding of no significant evidence that GATT/WTO accession had been a significant driver of trade growth. Pointedly, the authors also find strong support for the positive effect of regional trade agreements and currency unions on bilateral trade flows.

In a complementary line of analysis, Chortareas and Pelagidis (2004) examine the extent to which trade growth over the period 1960-92 was driven by either regional processes or global processes. Using both descriptive indicators and formal analysis of convergence, they find that the degree of “openness” to trade converged faster among countries of a given region compared with the global average, concluding that trade integration was more of a “regional” phenomenon than a “global” one. This paper was updated by Arestis et al. (2011), who repeated the analysis on more recent patterns of global trade. They find that, although the contribution of regionalism remained resilient, in the 1990s and the 2000s, globalization had started to outpace regionalism in terms of its contribution to trade growth. Taken together, the findings from these studies remind us that trade expansion can be achieved through all three modes of liberalization—unilateral, multilateral, and regional—but that in the recent past regional processes have been playing a major role. Why might this be?

- First, over the last two decades, faith in the multilateral system has waned.¹² This trend partly reflects the failure of the WTO to produce significant results. In the 23 years since the Uruguay Round, the WTO’s only tangible success has been the conclusion of the *Trade Facilitation*

11 For example, Subramanian and Wei (2005) found that membership of the WTO increased world trade by as much as 120 percent of additional world trade. They did, however, concede that the impact was uneven, with industrial countries benefiting more than the developing countries. Kim (2010) analyzed the effects of the WTO on only the sectors that were covered by the agreement. The study found that the GATT/WTO increased trade by approximately 30 percent for member countries. Note that neither of these studies used the PPML estimators, meaning that the findings are not robust. For further discussion, see Afesorgbor (2016). For Rose’s own defense of his original findings, see Rose (2007), which provides a list of reasons why the GATT/WTO impact on global trade has been extremely limited.

12 There is, however, also a less prosaic but more profound explanation: The fact that RTAs are better suited to deal with the issues of “deep integration” related to the development of global value chains than the WTO. See Pomfret (2021). On the reasons for the demise of the multilateral trading system, see Rodrik (2018).

Agreement, which came into force in 2017. Although under the leadership of Ngozi Okonjo-Iweala things seem to be moving in a more positive direction. In essence, the organization has been unable to make much progress on its core mandate on developing and ensuring compliance with the rules that govern international trade.

- Second, we can point to the proliferation of free trade agreements (FTAs) over recent decades, as reflected in the number of RTAs registered with the WTO under Article XXIV.¹³ At the beginning of the 1990s, the WTO recognized just 40 discriminatory trade arrangements among member countries; 30 years later, as many as 350 regional trade agreements (RTAs) were in force (as of October 15, 2021; WTO, 2021). Notably, there has been an upsurge of RTAs between developing countries: In the late 1970s, South-South RTAs represented only 20 percent of the total but, by 2010, two-thirds were South-South (de Melo and Tsikata, 2014).
- Third, in addition to their ubiquity, RTAs often entail higher levels of economic integration than simple trade liberalization—which may explain their increasing popularity. For instance, they may include clauses or protocols related to things such as the harmonization of policies towards FDI, labor migration, or a common competition policy, etc. The AfCFTA is one such agreement: Despite its name, it is much more than a “free trade agreement” and aims for a deeper level of economic integration, including the free movement of capital and people.

3. Is South-South regional integration “defective”?

Despite their evident popularity, in the past there has been a general hostility in mainstream literature towards South-South integration projects like the AfCFTA (see, *inter alia*, Park, 1995; Schiff, 1997; Yeats, 1998; Schiff and Winters, 2003; Yang and Gupta, 2005). This opposition was voiced principally on theoretical grounds, stemming in part from Jacob Viner’s (1950) framework about evaluating the welfare impact of forming a regional bloc by analyzing *net trade creation* and *net trade diversion* effects. That is to say, measuring the extent to which the formation of a preferential bloc favors the creation of new trade flows between the signatories, discounting the amount of trade that has been re-directed away from lower cost suppliers outside the bloc.

From this theoretical perspective, it is commonly argued that RTAs with low initial levels of intra-regional trade are more likely to be *net trade diverting*, not *net trade creating*, and thus produce negative welfare effects (Yang and Gupta, 2005; Park, 1995). African RTAs are not expected to significantly increase bilateral trade because their constituent economies often display similar patterns of comparative advantage (they export a limited and similar range of products) and possess similar supply structures (i.e., relatively undiversified economies). It has even been argued that RTAs among small developing countries may damage their prospects for industrialization by inducing the replacement of cheaper imports from the rest of the world with more expensive intra-RTA products, thereby undermining the competitiveness of regional industry (Yeats, 1998).

From such a perspective, Schiff and Winters (2003) insist that “North-South” agreements like the North American Free Trade Area (comprising of Canada, Mexico, and the United States), or the EU’s Economic Partnership Agreements (between the EU and groups of developing countries in Africa and

¹³ Article XXIV of the World Trade Organization (WTO) allows countries to form customs unions (CUs) or free trade agreements (FTAs) under two conditions: First, members should eliminate (substantially) all internal barriers to trade inside the union; second, external trade barriers should not be increased on average. See Mrázová et al. (2018).

elsewhere) would be preferable for poorer economies than “South-South” agreements, essentially because North-South agreements allow low-income economies to specialize along Heckscher-Ohlin lines—more in sectors where they already had a comparative advantage (in primary commodities, agriculture, and low-tech manufacturing), while allowing the higher-income partner to focus on technologically more advanced sectors in manufacturing and services. In essence, this type of agreement locks the poorer, developing-country partner within the FTA into a subservient pattern of economic specialization. Pointedly, it did not work out well for Mexico, and some studies suggest the same will be true for the EPAs.¹⁴

Moreover, such reasoning is very much built on the notion of *static comparative advantage*. However, static comparative advantage is a slippery and contestable concept. Mangeni and Juma (2018) argue that this kind of theorizing is particularly inappropriate in the African context, noting that Vinerian theory was formulated with the integration of developed countries in mind and, thus, cannot be applied *ad verbum* to developing countries. The theory was concerned with pre-existing levels of trade as well as with efficiency in use of resources, whereas in Africa, from a *Hirschmanian* (1958) perspective, the concern is with getting underutilized resources mobilized for developmental purposes: greater investment, economic diversification, and employment creation.¹⁵

From this standpoint, an interesting theoretical extension of the traditional trade creation and diversion arguments of Viner (1950) was made in an oft-overlooked article by Coopers and Massell (1965). They argue that an RTA may be worth creating *even if trade diversion is larger than trade creation provided* the extra dollars of intra-regional trade are valued more highly by policymakers than the dollars made by extra-regional trade. This may be the case, for instance, if the intra-regional trade is in industrial goods rather than primary commodities, and there is a dynamic comparative advantage in the industrial goods sector that may not currently exist but that can be built up over time.¹⁶

In consonance with these arguments, there is a growing consensus in the literature that what matters for long-term developmental prospects is not the possession of static comparative advantages at all but rather *dynamic comparative advantages* (e.g., Lin and Chang, 2009; Stiglitz and Noman, 2012)—that is to say, there is a need to identify which sectors have the potential to drive an economy in the future, rather than basing sectoral policies on existing strengths. In the parlance of political economists, rather than adopting *Ricardian strategies* (which accept a country’s existing position in the global division of labor and try to maximize growth and consumption based on their existing portfolio of exports), it implies embracing *Kaldorian strategies*, the objective of which is to try to change a country’s position in the global division of labor and shift to higher-value-added production through increasing investment and exports (at the cost of constraining current spending) (Kaldor, 1967; Schwartz, 2018). Acceptance of this premise has several major consequences, including the renewed importance of having well-articulated industrial policies (Odjijie, 2018; Soludo, Ogbu and Chang, 2004; Cimoli et al. 2009). It also cedes a major role for regional diversification, as it allows developing countries to “experiment” and test out new products and services in neighboring regional markets rather than immediately expose new sectors to the competition in the saturated and highly competitive markets of the industrialized North (Morris and Kaplinsky; 2019).

14 On Mexico, see Mold and Rozo (2005), Ahmed and Malkin (2017). On the EPAs, see Morrissey et al., (2007).

15 Rodrik (2018; page 3) makes a similar point.

16 In a recent empirical analysis, Shepherd (2021) shows that standard measures of “revealed comparative advantage” can be completely misleading and are, in practical terms, useless in subsequently determining areas of specialization.

Over the last three decades, the traditional Vinerian framework for analyzing the economic impact of RTAs has been further compromised by the rapid expansion of trade in intermediates and the development of global value chains. “New trade theory” (much associated with the work of Paul Krugman) purports that there is a rationale for trade between countries with similar endowments, taking the form of intra-industry trade (Feenstra, 2015; Krugman, 1980; Krugman 1991).¹⁷ This insight leads to a whole new understanding of the economic geography of regional economies. In a global analysis of patterns of trade in intermediates, for instance, Baldwin and Lopez-Gonzalez (2015) observe that nations with advanced technology and high wages (especially Japan, Germany, and the U.S.) have tended to offshore certain stages of production to nearby low-wage nations (“the factory economies”). Supply chains, thus, tend to develop in intermediate goods that are regional, not global, in nature.

In Asia, Li Meng and Wang (2019) note that, over the last two decades, China has rapidly supplanted Japan’s position and become the Asian supply hub of value-added exports.¹⁸ Thus, the “*Made in China*” in reality should be more appropriately labelled “*Made in East Asia*.” Again, these geographic realities reinforce our perceptions of the regional nature of a large share of global trade.¹⁹ Through their analysis of disaggregated trade data, Baldwin and Lopez-Gonzalez (2016) conclude that, over recent decades, three distinct geographic blocs have emerged in the global economy where there is a high intensity of intra-industry trade in intermediates—*Factory Asia*, *Factory North America*, and *Factory Europe*. What is clearly missing from this description is a “*Factory Africa*.” Resolving the problems associated with the disarticulated nature of Africa’s regional industry (Odijie, 2018) and thereby creating a “*Factory Africa*” is both a major objective of and challenge for the AfCFTA.

4. What the existing empirical studies reveal

Despite the evidence reviewed in Section 2 that regional integration has been one of the main drivers of global trade, until recently a lot of published research argued that South-South RTAs (particularly on the African continent) have had a negligible impact on trade flows.²⁰ Partly as a consequence, pessimism on the prospects for African trade integration became commonplace. However, this earlier generation of empirical studies did not always provide credible estimates of the impact of RTA formation on intra-regional trade and, thus, created a narrative that was misleading. Afesorgbor (2016) provides a comprehensive review of the main methodological and econometric errors of the early empirical studies. The two main econometric concerns relate to: (1) the lack of a *multilateral resistance term* (MRT) and (2) the treatment of zero trade flows. The MRT captures the fact that trade between two countries is not influenced only by bilateral variables relating to these two countries, but

17 In the case of Africa, this may involve greater cross-border trade in low/medium tech manufactured products or varieties of agricultural commodities (Afesorgbor, 2016; Weeks, 1995).

18 It should, however, be noted that value added in China itself is actually often very low, as the country has become heavily dependent on intermediate imports from the rest of Asia (Schwartz, 2018; Dollar and Kidder, 2017).

19 In fact, economists have been suggesting for a long time that the main feature of the global economy is the “regionalization” of production networks, not globalization. Thus, for instance, Kozul-Wright and Rowthorn (1998) noted that patterns of FDI tend to suggest strong neighborhood effects, with multinationals finding predominantly preferring locations close to home.

20 Among those, we can cite Foroutan and Pritchett (1993), Elbadawi (1997), Longo and Sekkat (2004), Kirkpatrick and Watanabe (2005), and Geda and Kebret (2008). Part of the explanation of the weak impact of South-South RTAs found in these studies may be because many South-South RTAs were incomplete and were yet to fully implement their tariff elimination schedules. Note also that there were also some discrepant econometric studies that suggested that South-South RTAs were net trade creating (e.g., Cernat, 2001; Mulisa, 2005).

also by their economies' relative position in the world (see, for example, Anderson and van Wincoop, 2003).

The omission of MRT in early empirical studies of AfCFTA's prospects resulted in biased estimates due to possible endogeneity. The second concern is linked to the measurement of trade flows: Intra-African trade flow data are characterized by a considerable number of zeros, arising either from missing data or the absence of any trade in many product lines (since the average African country trades in only a small number of products). In 2004, Longos and Sekkat put the percentage of zero flows in African bilateral trade at around 25 percent. However, there can be an even higher proportion of zero flows when considering intra-African trade flows over long time periods. In fact, in his study covering 47 African countries over the period 1980-2006, Afesorgbor (2016) reports the proportion of zero flows at 55 percent.²¹ Previous studies account for these zero flows by: (1) simply omitting the zero values; (2) replacing them with arbitrary small values; and/or (3) using the Tobit estimator. Unfortunately, none of these strategies are wholly effective and still produce inconsistent parameter estimates.

Thankfully, other statistical methods have since become available. In an important methodological contribution to econometrically estimating gravity models, Santos Silva and Tenreyro (2006) proposed the PPML estimator as a better alternative to the linear logarithmic transformation used in earlier studies. PPML estimators have been confirmed by other studies as both consistent in the presence of heteroskedasticity and well-behaved when the proportion of zero flows is large (e.g., Head and Mayer, 2014; Shepherd, 2016). PPML has become the workhorse of trade economists in modelling RTAs, leading to a new generation of empirical studies on the trade impact of processes of regional integration.

What has this new generation of studies revealed? Studies that use the PPML tend to produce results that are much more favorable to South-South regional integration. For instance, using data from 1981 to 2008, Macphee and Sattyanwat (2014) studied the impact of 12 different RTAs from various regions of Asia, Africa, and the Americas on trade creation and trade diversion. Of the three African RTAs included in the study (ECCAS, EAC, and SADC),²² only one (ECCAS) failed to have a net positive impact on trade creation.²³ Intra-SADC trade was estimated to have increased by a staggering 208 percent due to the formation of the RTA. Deme and Ndrianasy (2016) find that, despite being economies with low initial shares of bilateral trade, economic integration is welfare-improving and has a particularly robust trade-creation effect on small low-income countries. Afesorgbor (2016) carries out a careful meta-analysis of combining 14 previous studies covering the period from 1980-2006 and finds that, on average, the formation of African regional blocs boosted bilateral trade by about 27 to 32 percent.

Emphasis is often placed (e.g., UNECA, 2015; Signé, 2019) on regional integration and the AfCFTA as a vehicle for catalyzing industrialization on the continent. In this context, Mukwaya (2019) makes particularly interesting contribution to the literature: Using the PPML on intra-African trade data over the period 1990-2015, his study focuses exclusively on African manufacturing trade during that period. He finds that existing RTAs in Africa have led to a large impact on intra-regional manufacturing

21 Note that this problem also plagues CGE analyses of intra-African trade, with the large number of non-zeros leading to potentially large underestimates of trade expansion under an RTA. For a discussion, see Nilsson (2019).

22 ECCAS = Economic Community of Central African States; EAC = East African Community; SADC = Southern African Development Community

23 To close observers of the African economy, the poor results for ECCAS are not surprising, as it is a region dominated by oil exporters and countries with little incentive to engage in more intense intra-regional trade. See, for instance, Byiers (2017).

trade—a 72 percent increase within 12 years of ratification of the regional agreements.²⁴ These findings bode well for the ability of the AfCFTA to accelerate industrial development and catalyze the structural transformation of African economies. In sum, this new generation of studies very much correct the negative narrative on processes of South-South integration like the AfCFTA. So, why then does skepticism remain widespread?

5. The stylized facts of intra-African trade

This section of the paper looks at what can be understood about the dynamics of intra-regional trade on the African continent from data on formal sector merchandise trade. Before analyzing the trends in intra-African trade, let us establish how well Africa has been performing in terms of its total exports (in aggregate).²⁵ It is well-established that Africa as a continent has been gradually marginalized from global trade. Africa’s share of global exports declined from around 5 percent of the global total in the 1970s to just 2.1 percent in 2020 (Figure 1). Notably, the major decline in its share of global trade occurred in the 1980s and 1990s, when the continent suffered its “lost decades” of growth and was confronted by sharply adverse prices for its main commodity exports. According to a World Bank study published in the 1990s, the export collapse incurred an income loss of income equivalent to 21 percent of regional GDP (cited by Jomo and von Arnim, 2011:519). The net barter terms of trade for sub-Saharan Africa fell by as much as 50 percent between 1980-1998 (Stein, 2003:256). Indeed, such was the scale of the commodity price collapse and its impact on Africa’s export values that Iliffe (1995: 253) declared that “tropical Africa’s share of world trade probably fell to its lowest point in a thousand years.”

There was a subsequent reprieve from the early 2000s, in the context of a strong revival in commodity prices (Farooki and Kaplinsky, 2012). The African share of global trade climbed back up to over 3 percent just prior to the global financial crisis of 2008-2009, only to fall back again from around 2013. Note however that even this fleeting increase in the 2000s was driven largely by improved prices for the continent’s exports, not because of expanding volumes of exports, which only improved weakly over the course of the 2000s (see Mold and Prizzon, 2015 and Figure 2).

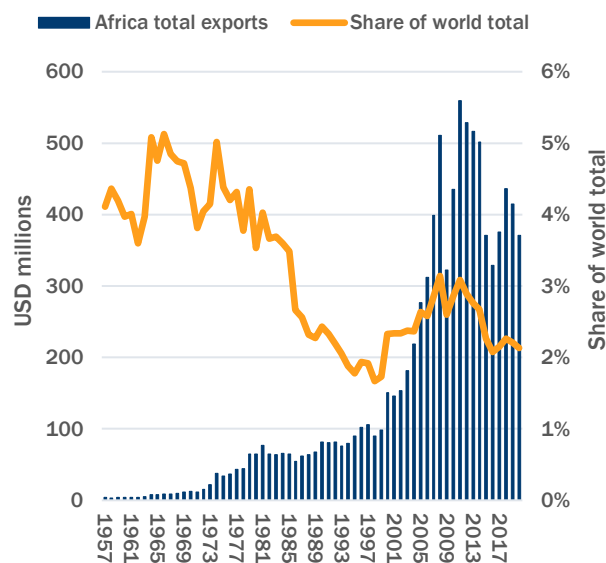
The nature and scale of Africa’s trade “collapse” in the 1980s and 1990s has been open to interpretation. Authors such as Helleiner (2002) and Rodrik (1997) stressed that Africa’s “marginalization” from the global economy was not due to poor trade performance *per se*, but rather because of a wider “development failure,” given that, in the aftermath of the debt crisis and harsh structural adjustment programs, the African economy contracted, and GDP fell during this period too (Fosu, 2012). Such narratives are supported by the fact that there is no sense in which Africa systematically “under-trades”; average trade-to-GDP ratios are higher than the global average (56 percent versus 51 percent), structurally higher than in the Americas and comparable even with those of Asia (UNCTAStat, 2022). In fact, it may surprise many to know that only Europe has a significantly higher propensity to trade than Africa (Asia’s trade-to-GDP ratio is similar to Africa’s). In consonance with this data, econometric studies confirm that Africa actually *overtrades* compared with other

²⁴ As a caveat, Mukwaya does also note that the increase is based on the low existing levels of manufacturing trade among African countries and, in addition, manufacturing exports constitute a small portion of Africa’s overall manufacturing output. He concludes that while deeper regional integration is welcome, on its own it may not be enough to accelerate industrialization on the continent.

²⁵ It is particularly important from the perspective that, as the denominator of the share of intra-African trade, it will directly impact in any calculation.

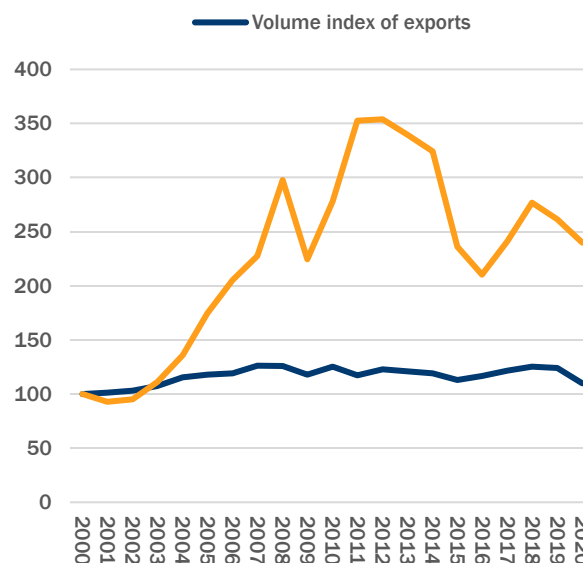
developing regions once controlling for per capita income and other structural characteristics. (Bouet et al. 2008; Coe and Hoffmaister, 1999; Foroutan and Pritchett, 1993),

Figure 1. Africa’s share in global exports, 1957-2020



Source: IMF DoTs, 2021

Figure 2. Volume vs. unit value index (2000=100) of African exports, 2000-2020

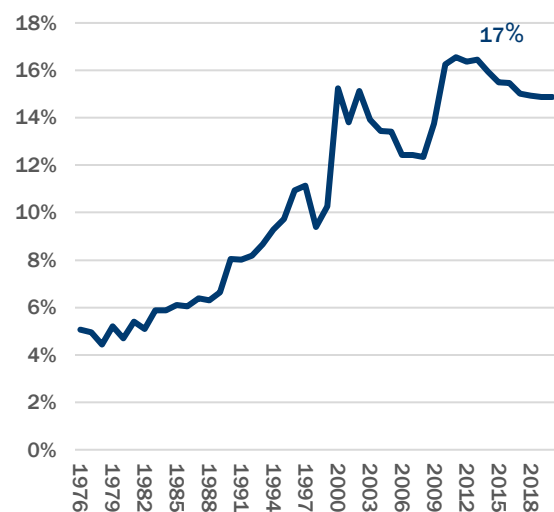


Source: UNCTADStat, 2022

Having established important caveats to arguments about Africa’s perceived export failure, how has intra-African trade fared? The long-run, complex story starts with colonization. During colonial times, intra-continental trade was truncated as a result of (1) the balkanized nature of respective colonies; (2) the fact that each colony’s trading system was oriented towards bilateral trade with their colonizing country (Austin, 2014; Frankema, 2015); and (3) the extremely low interaction between francophone and anglophone economies (Akyeampong, 2017). As a consequence, at the beginning of the process of decolonization in the late 1950s, intra-continental trade stood at just 3 percent of total African trade (Figure 3). It then grew in intensity during the early years of independence before falling back during the global economic crisis of the 1970s and 1980s. Since the 1990s, intra-continental trade has been on a gradual recovery, but experienced a setback during the global financial crisis of 2008. As noted above, the broad trends in intra-African trade shown in Figure 3 need to be contextualized against broader shifts in the value of total exports, which clearly have been strongly correlated with commodity prices (Figure 4).²⁶

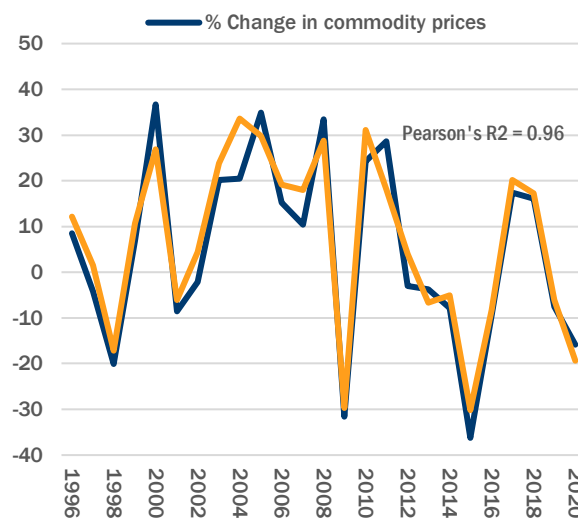
26 On interpreting these historical data trends, it is important to stress the extent to which shifts in the share of intra-African trade depends on the denominator—total African exports. The denominator is volatile because commodities account for the majority of the continent’s exports. For instance, in 2015 alone, total African exports declined by more than 30 percent principally because of falling commodity prices. As a result, the share of intra-African trade can change dramatically, not because of any change in the underlying amount of intra-African trade, but simply because the denominator has fallen or risen sharply. Unfortunately, this is often forgotten when looking at long-run trends in intra-African trade.

Figure 3. Intra-African trade as a percentage of total trade, 1957-2020



Source: Calculated from IMF Dots

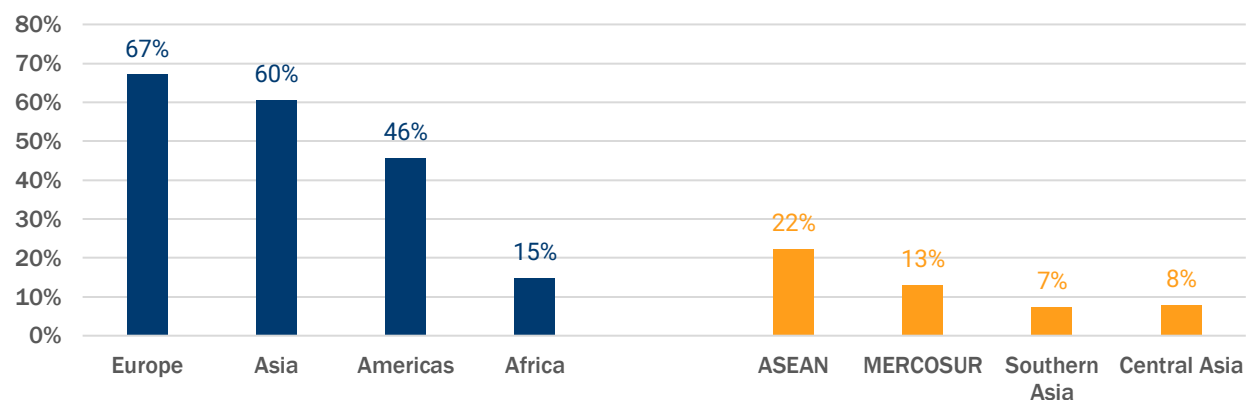
Figure 4. Correlation between export growth and shifts in commodity prices, 1996-2020



Source: Calculated from UNCTADStat (2021)

As noted in the introduction to this paper, the African continent is frequently compared in a poor light against other continents in terms of the extent of intra-regional trade. At first sight, this assertion seems true given the low percentage of intra-African trade of the region's total trade (Figure 5). However, on closer examination and if we focus on sub-groupings within continental blocs, other continents' intra-regional trade figures are suddenly not so impressive. Compared to the Asian average, *Central and Southern Asia* are relatively less prosperous regions with less industrialized and diversified economies. Notably, the Association of Southeast Asian Nations (ASEAN) includes countries with highly diverging levels of income, economic diversification, and economic integration into the global economy. For instance, so successful has Vietnam been in terms of increasing its exports to the global market (particularly the United States) that only 9 percent of its trade is currently with other ASEAN member states (UNCTADStat, 2021). Europe clearly has the highest intensity of intra-regional trade. However, that achievement must be put into its proper context: The continent's dense network of intra-regional exchange is a historical feature of the European economy. Economic historians have estimated that 68 percent of Europe's trade was already internal in 1830 (Bairoch, 1989; Woodruff, 1966, cited by Amsden, 2001; page 183), a fact that, if it were more widely known, would put into perspective the achievements of the European Union—at least in terms of trade integration (basically, the share of intra-regional trade has not increased in nearly two centuries!). By contrast, Asia's high average level of intra-regional trade is related to the fact that the continent now accounts for nearly 60 percent of the world's population and nearly half of global GDP (expressed in purchasing power parities). *Ceteris paribus* the larger the definition of a "region," the more economic activity it encompasses and the higher the probability of greater intensity of 'intra-regional' trade. Evidently, our perceptions about the intensity of intra-regional trade are very much tied up with how a "region" is defined.

Figure 5. Intra-regional trade (imports and exports) as a percentage of total trade, 2019



Source: UNCTADStat (2021).

Africa’s intra-regional trade performance can also be gauged by seeing how the share of intra-regional trade within each economic or political groupings has changed overtime (Table 1).²⁷ This data again gives some reasons for optimism, as several African RECs are among the regional groupings where intra-regional trade has increased the most over the last two decades (including the IGAD and SADC). This is clearly not the face of stagnant or declining intra-African trade. While Europe has clearly achieved very high levels of intra-group trade (over 60 percent), its share has declined marginally over the period in question.²⁸ Moreover, it has only managed to sustain its intra-group trade over the period by increasing its membership—if we hold constant the number of members of the EU over the full period to fifteen (which was the number of constituent member between 1995 and 2004), we see that the EU experienced the second-largest decline of any of the regional blocs. Finally, MERCOSUR, and Latin America in general, display the worst performance, with sharp declines in intra-regional trade since the mid-1990s. It is no coincidence that, despite enjoying higher per capita incomes on average than on the African continent, much of Latin America is still highly dependent on the export of commodities.

²⁷ A word of caution here is that changes can also be true to changes in membership over time.

²⁸ Intra-European trade was already at a relatively high level prior to the signing of the Treaty of Rome in 1957: In 1956, intra-European trade already stood at 45 percent of total EU trade. It rose quickly until 1966, reaching 56 percent, but thereafter stagnated for nearly two decades, only surpassing 60 percent in 1991. Perhaps most remarkably of all, although the Single Market Programme (SMP) was implemented in 1993, by 2020 intra-EU trade was actually lower as a share of total trade than it had prior to the implementation of the SMP.

Table 1. Intra-regional trade shares (percent) by selected regional groupings, 1996-2020²⁹

	1996-2000	2001-2005	2006-2010	2011-2015	2016-2020	1996-2020 (% change)
OPEC	3.0	4.6	4.7	7.0	12.2	9.3
IGAD	11.6	10.7	7.7	10.8	20.4	8.8
SADC	13.5	12.0	12.6	19.0	20.8	7.3
AU	11.3	10.5	11.1	14.9	17.0	5.7
GCC	6.3	6.5	5.9	7.7	11.6	5.3
CACM	18.1	20.0	18.6	18.2	22.9	4.8
COMESA	7.2	6.8	6.5	8.6	10.3	3.1
ECO	7.0	6.6	8.4	10.3	9.3	2.3
ECCAS	1.6	1.4	1.9	2.3	2.7	1.0
EU	56.8	60.3	60.5	56.6	57.7	0.9
EAC	17.6	18.3	18.3	18.4	18.4	0.8
ASEAN	22.0	22.6	24.4	25.0	22.7	0.8
AMU	3.3	2.8	2.5	3.5	3.3	0.0
ECOWAS	10.4	9.8	8.1	7.7	9.4	-1.0
CAN	8.6	9.3	7.7	7.4	7.3	-1.3
APEC	71.3	72.0	67.1	68.3	69.7	-1.6
NAFTA	51.5	55.8	50.3	49.3	49.8	-1.7
CARICOM	16.1	14.2	13.1	12.1	12.7	-3.5
EU15	59.0	61.0	57.7	51.9	51.0	-7.9
MERCOSUR	20.3	12.4	14.1	13.8	11.9	-8.4

Source: Calculated from UNCTADStat (2021).

Note: Regional blocs are ordered by 1996-2020 percent change.

Africa's relatively strong performance comes through even more clearly when trade data is broken down by *geographic* (rather than *political*) regions (Table 2). While Central Africa appears to be the least geographically integrated sub-region in the world, Central America, Central Asia, and Southern Asia do not fare much better and perform poorly when compared to Western, Central, and Eastern Africa. When broken down by geographic sub-region, the performance by Europe no longer looks so impressive either: Southern Europe is barely more integrated than Eastern Africa, and Northern Europe performs only marginally better than the whole of sub-Saharan Africa.

29 OPEC (Organization of Petroleum Exporting Countries), IGAD (Intergovernmental Authority on Development), SADC (Southern African Development Community), AU (African Union), GCC (Cooperation Council for Arab States of the Gulf), CACM (Central American Common Market), COMESA (Common Market for East and South Africa), ECO (Economic Cooperation Organization), ECCAS (Econ. Community of Central African States), EU (European Union (2020 ...)), EAC (East African Community), ASEAN (Association of Southeast Asian Nations), AMU (Arab Maghreb Union), ECOWAS (Econ. Com. of West African States), CAN (Andean Community), APEC (Asia-Pacific Economic Cooperation), NAFTA (North American Free Trade Agreement), CARICOM (Caribbean Community), EU15 (European Union 1995...2004), MERCOSUR (Southern Common Market).

Table 2. 5-Year averages of the share of intra-regional exports by sub-region, 1996-2020*

	1996-2000	2001-2005	2006-2010	2011-2015	2016-2020
Central Africa	1.6	1.4	1.9	2.2	2.4
Central America	3.1	3.4	4.2	4.2	4.2
Northern Africa	3.6	3.5	3.5	4.8	5.1
Central Asia	9.5	5.3	4.5	4.5	6.7
Southern Asia	5.2	6.0	8.2	8.3	9.0
Western Africa	10.7	9.8	8.2	7.8	9.5
Caribbean	8.4	8.1	10.4	12.0	12.2
Southern Africa	6.5	2.4	5.2	14.6	13.6
Latin America & Caribbean	19.3	17.2	20.4	18.8	15.7
Eastern Africa	12.9	14.6	13.7	13.4	16.1
Southern Europe	16.3	18.1	18.7	15.8	16.4
South America	25.2	19.4	20.3	19.2	16.8
Western Asia	8.6	9.9	10.2	12.5	18.0
Sub-Saharan Africa	14.0	13.6	14.4	17.6	19.9
Northern Europe	22.4	22.8	23.7	21.8	20.5
Eastern Europe	24.1	20.9	23.0	21.4	20.8
South-eastern Asia	22.0	22.6	24.4	25.1	22.8
Northern America	37.8	40.3	35.0	31.7	30.2
Western Europe	36.1	38.0	37.7	35.2	33.4
Eastern Asia	33.8	38.4	37.5	37.7	35.2

Source: Calculated from UNCTADStat (2021). *data ordered by 2016-2020 averages

To summarize, conclusions on intra-regional trade are partly contingent on how a “region” or “sub-region” is defined. This section has highlighted the fact that, over the last 25 years, different regional blocs have experienced markedly different fates regarding their ability to promote intra-regional trade. Looked at in its proper perspective, Europe has performed rather poorly, and Asia’s experience has been mixed, depending on the part of the continent that is measured. Latin America has generally been struggling in its regional integration efforts (Herrerros, 2019). Thus, Africa is far from being an outlier in terms of the underlying dynamics and trends. In fact, some of its sub-regional economic communities have done well in expanding the level of intra-regional trade.³⁰

30 This conclusion concurs with an analysis by Arizala et al. (2019), who conclude that the average level of regional trade integration in sub-Saharan Africa is broadly in line with other developing and emerging market economies in other regions. Sub-Saharan Africa exhibits the

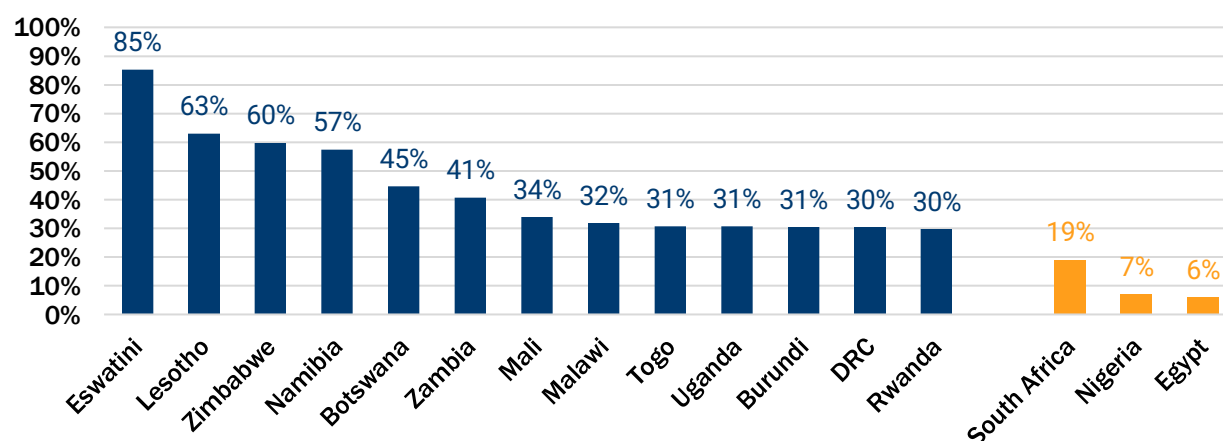
6. Why is the economic significance of intra-African trade underestimated?

Earlier sections of this paper have established that, notwithstanding the bold estimates regarding the potential trade impacts of fully implementing the AfCFTA, outdated theoretical frameworks, methodological problems, and misconceptions about South-South trade have led to generalized pessimism regarding the prospects for regional integration in Africa. The perceived economic significance of intra-African trade is further distorted by a number of additional factors, namely:

i) **Some of Africa’s largest economies are less oriented towards the continental market.**

Certain sub-sets of African countries (particularly the smaller, landlocked, and more open economies) have significantly higher levels of dependence on intra-continental trade (imports plus exports) than others (Figure 6). In many countries, intra-regional exports are also large relative to the size of the economy. This is the case for certain countries in SADC (e.g., Zimbabwe, Botswana, Lesotho, and Namibia) where intra-regional exports represent about 20 percent of GDP, and some Western Africa Economic and Monetary Union (WAEMU) countries (Côte d’Ivoire, Guinea, Senegal), where they constitute close to 10 percent of GDP (Arizala et al., 2019).

Figure 6. Intra-African imports + exports as percentage of total trade, 2019, selected countries³¹



Source: UNCTADStat (2021).

However, the African average of intra-regional trade is dragged down by the continent’s larger economies—especially Egypt, Nigeria, and (to a lesser extent) South Africa. The explanation for their low dependence on the African market varies: Egypt has long-standing market access agreements with the EU and, in the past, has prioritized the markets of the Middle East and Europe; Nigeria’s lower dependence reflects the dominance of its oil and gas exports, principally to Europe and Asia ; for South

highest share of intra-regional trade integration, measured as a share of total exports, among emerging and developing economics, followed by Middle East and North Africa and emerging and developing Asia. Their study also confirms the upward dynamic of intra-Africa trade since the early 1990s and note that it was faster for small countries in the region.

³¹ Even though 2021 trade data is available, the 2019 figures are used here to avoid the disruption to more normal patterns of trade caused by the global financial crisis. It is also the case that the most recent trade data is less reliable and likely to undergo substantial revisions. It should be noted that the figures for intra-regional trade vary according to the source that is used. For instance, data from the International Trade Centre and IMF DoTs give a rather different picture of the share of intra-regional trade than from UNCTADStat. In principle, this is puzzling because all three sources make use of COMTRADE data. It does, however, point to certain inconsistencies in directional trade data.

Africa, historical reasons related to its apartheid economy make its economy less dependent on its regional neighbors' markets than would otherwise have been the case.³²

ii) Data is distorted by high levels of commodity exports of a few countries.

A corollary of the previous point is the extreme dependence on commodity exports of a small but significant minority of African countries. As is common for resource-rich regions,³³ the bulk of the continent's natural resources are destined for markets outside the continent, which drags down the share of intra-continental exports. Africa finds itself possessing a high proportion of global mineral reserves (e.g., 60 percent of manganese and cobalt; 75 percent of phosphates and diamonds; 80 percent of chrome; and as much as 85 percent of platinum—and is responsible for nearly 10 percent of global oil and gas production) (Morris et al. 2012). Angola is a case in point: Oil and its sub-products comprise more than 90 percent of its exports—most of which are destined for China. Strip out that trade, and, suddenly, the importance of intra-African exports for Angola jumps to *around three-quarters of the country's total exports*.³⁴ Moreover, while the continent is rightly regarded as “resource rich,” this categorization is not accurate for many African countries—in fact, about a third are actually net commodity *importers* (not exporters).³⁵ Unsurprisingly, those countries—in contrast to main commodity exporters—tend to have a higher dependence on the continental market.

iii) Informal cross-border trade is highly prevalent across Africa.

Finally, the prevalence of *informal cross-border trade* (ICBT) means the real extent of intra-regional trade is much higher than can be gleaned from official trade data alone. Many African borders are extremely porous; indeed, the sheer length of their borders often inhibits tight controls (Golub, 2015). While informal cross-border trade is a global phenomenon,³⁶ studies tend to concur that it is much more widespread on the African continent than in other regions (e.g., FAO, 2020; Afreximbank 2020). Koroma et al. (2017) note that “informal cross border trade generates nearly \$18 billion annually and accounts for over two-thirds of the trade flows in some African countries.” Almost all informal trade is, by definition, intra-continental because it happens in goods between neighboring countries. Table 3 provides estimates of its scale relative to formal sector exports, from a diverse range of studies. ICBT is most intensive in smaller landlocked countries. It is also higher in certain sub-regions, at around 30 to 40 percent of total trade within the SADC and Common Market for Eastern and Southern Africa (COMESA) (Sommer and Nshimbi, 2018). Summarizing the existing studies, Harding (2019) concludes that intra-African trade is systematically underreported by anything between 11 percent and 40 percent, although other authors put this tally even higher, at nearly half of formal sector trade (Bridges, 2018).

32 In absolute terms, it should be stressed that South Africa is by far the most important trader on the African continent, accounting for 15 percent of total imports in 2019. But is also better integrated into global markets than the African average and hence the intra-African share is only around the average for the continent as a whole. From the perspective of attaining higher levels of intra-African trade, this is a pity because, given its primary role as a hub for intra-regional trade in southern Africa, in principle it could push up the continental intra-African share.

33 For example, after nearly three decades of existence, the share of MERCOSUR's trade that is intra-regional is still lower than the African average. This outcome is largely because the bloc is dominated by one of the world's largest commodity exporters—Brazil—and the principal demand for its commodities comes from outside the region.

34 According to author's calculations based again on the UNCTADStat (2021) dataset.

35 According to UNCTADStat data (2022), in 2020 19 African countries were net commodity importers. A further 12 countries are only marginally net commodity exporters (i.e., less than \$400 million a year).

36 There are informal sector trade “hot-spots” across the world, for instance, between Bolivia and Paraguay in Latin America, or Cambodia and Laos in Asia.

Table 3. Estimates of informal sector exports, by country (latest surveys)

Country	Year of estimates	Percentage boost to intra-African exports by informal exports
Kenya	2011	12 percent
Nigeria	2013-2014	27 percent
Rwanda	2015-2018	51 percent
Tunisia	2013	76 percent
Uganda	2015-2018	35 percent

Source: Author's calculations using Ayadi et al. (2014); Central Bank of Nigeria (2013-2014), KNBS (2011), BNR (2016-2018) and BoU (2015-2018).

7. Recalculating the true extent of intra-African trade

Previous sections have shown the extent to which intra-regional trade data is ultimately dependent on the way those regions are defined, as well as the structural characteristics of the countries in question. Its economic significance is also underestimated due to the failure to take into account the vibrancy of informal sector trade on the continent. Proximate calculations, based on the distinction between *landlocked countries*, *oil exporters*, and *other resource-intensive countries*³⁷ and which compensate for these biases and omissions, provide a very different picture of the economic significance of intra-African trade to the standard narrative (Table 4).

Table 4: Recalculations of the share of intra-African exports in total African exports, 2019

	Intra-African exports (USD millions)	Total exports (USD millions)	Percent of Intra-African trade	With ICBT at 30 percent	With ICBT at 50 percent
Landlocked countries	11,217	40,125	28 percent	36 percent	42 percent
Other resource intensive	40,184	160,180	25 percent	33 percent	38 percent
Africa excl. oil exporters	65,965	302,173	22 percent	28 percent	33 percent
Intra-African trade	80,316	482,125	17 percent	22 percent	25 percent
Oil exporters	14,351	179,952	8 percent	10 percent	12 percent

Source: Own computations from UNCTADStat (2021).

Consistent with the arguments in the preceding section, the breakdown in Table 4 demonstrates how data is distorted by high levels of commodity exports of a few countries. For instance, Africa's nine oil exporters only sent 8 percent of their total exports to other African countries in 2019, compared to the continental average of 17 percent (and let us recall here that total fuel exports in that year accounted for \$200 billion, or 41 percent of all continental exports). The dependence on the African market for the continent's landlocked countries, on the other hand, is three and half times higher, at 28 percent. Excluding the major oil-exporting economies, intra-African trade rises to 22 percent. Adding 30 percent to account for informal cross-border trade (an arbitrary figure, but well within the range of Harding's estimates) gives us an intra-African trade figure of 28.4 percent as a continental average (vis-à-vis

37 See the Annex for the classifications of different African economies.

16.7 percent using formal sector trade data for the 55 economies of the continent). Results of surveys suggest that ICBT could be as high as 50 percent for smaller, landlocked economies. Applying this higher figure, the average share of intra-African relative to extra-African trade for landlocked countries becomes 42 percent. These approximations serve to give us a better grasp of the magnitude of intra-African trade relative to the official trade figures commonly in circulation.³⁸ It would be hoped that, in light of such figures, in the future presenters and researchers would think twice about lamenting the (imagined) low levels of intra-African trade.

8. Conclusions and policy implications

This paper covers a lot of ground but has a simple objective: To correct the standard narrative that intra-African trade is an aberration and is structurally lower than in other parts of the world. The paper has shown pessimistic claims about the potential of intra-African trade do not stand much scrutiny—in many parts of the continent, intra-African trade is already vibrant and rising. This current state provides a promising starting point from which to launch the AfCFTA: For African countries, no longer is it a case of fighting against an inherent tendency to not trade with each other but rather to leverage trends that are already well established.

Given the evident potential of intra-continental South-South integration for Africa, it begs the question: Why are popular perceptions of intra-African trade so negative? An easy response to this question is that the story has gained gravitas simply through repetition, and for whatever reason few economists have taken the time to verify the figures. A more convoluted argument could be that international institutions and the donor community prefer to promote the continued dependence of the African economy on the higher-income countries, and therefore underplay the viability of the intra-African economy.³⁹ Regardless of the roots of the misconceptions over the economic significance of intra-African trade, the correction of stylized facts described in this paper has several important implications at a time when trading under the AfCFTA has already begun.

First, the impression of sluggish intra-African trade is wrong: Across most of the continent, it represents a high share of total African trade and is usually the more dynamic—and certainly the more diversified—component of a typical African country’s exports. This fact disarms the excessively simplistic but widespread myth that “African countries have nothing to trade with each other.”

Second, there have been a number of recent efforts to persuade African countries to sign up to bilateral trade agreements with high-income countries. Yet the stylized facts presented in this paper suggest that economic integration on the African continent should be prioritized over bilateral trading opportunities, such as the U.K.’s efforts to replicate EPA-type agreements across the continent. Another example of such efforts were the U.S. negotiations with Kenya and Ghana to establish free

³⁸ It does also belie the contention that “even if ICBT is included, the total level of intra-African trade is not likely to be more than 20 percent of the total trade” (AUC, 2012).

³⁹ There is certainly a degree of inconsistency between those that stress simultaneously that formal sector trade is very low, while exaggerating the developmental potential of ICBT. It is a kind of argument that resonates with the stance taken by de Soto (1986 – in English 2002), about the alleged vibrancy of the informal sector, which is contrasted against the stagnancy of the formal sector – an argument that was soundly rebutted by, inter alia, Bromley (1990).

trade agreements (May and Mold, 2021:40). Importantly, at a time of continental integration, such bilateral agreements risk detracting African governments' attention from the more pressing continental agenda of the AfCFTA. National trade strategies need to be consistent with the stylized facts highlighted in this paper—and prioritize intra-African economic integration, rather than expend political capital in prolonged free trade agreement negotiations with extra-African trading partners.

There is a final implication of the analysis. It is estimated that about 80 percent of all intra-Africa trade flows within existing regional economic communities and only 20 percent flows between regional economic communities (Kassa et al., 2022). One of the AfCFTA's 12 core principles, stated in its founding agreement, is that the regional economic communities should serve as “building blocks” for the AfCFTA. This paper has highlighted the fact that, in purely economic terms, those achievements should not be gainsaid, with the formation of regional blocs leading to significant boosts in intra-regional trade. To put the AfCFTA on a firm footing, there is a need to build on what has been achieved by the existing regional economic communities.

40 In July 2022, in an apparent change of tack, the Office of the U.S. Trade Representative and the government of Kenya announced a new trade partnership, promising advances in digital trade and collaboration against climate change, but stopping short of a full-fledged free trade agreement sought by the former Trump administration.

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9. Annex: Country classifications

Oil exporters	Other resource intensive	Landlocked
Angola, Cameroon, Chad, Congo Republic, Equatorial Guinea, Nigeria, South Sudan, Libya, Algeria	Botswana, Burkina Faso, Central African Republic, Democratic Republic of Congo, Ghana, Guinea, Liberia, Mali, Namibia, Niger, Sierra Leone, South Africa, Tanzania, Zambia, Zimbabwe	Botswana, Burundi, Central Africa, Chad, Lesotho, Malawi, Mali, Niger, Zimbabwe, Rwanda, Swaziland, Uganda, Burkina Faso, Zambia, Ethiopia, and South Sudan.

Source: Classification according to IMF (2019).