

Africa's growing role in global trade dynamics

By  Virusha Subban

8 Jan 2024

Africa's role in global trade is trending. According to a recent report by Standard Chartered - Future of Trade: Africa, Africa's total exports will reach almost \$1tn by 2035.



Virusha Subban, partner and head of Tax in Baker McKenzie's Tax Practice Group in Johannesburg

The World Bank recently reported that the African Continental Free Trade Area (AfCFTA) is predicted to increase intra-African trade volumes by 81%, boosting the continent's income by \$450bn by 2035. In addition to AfCFTA's notable role in boosting trade, the continent's stance as a key trade region is being bolstered by major global players looking to diversify their supply chains due to geopolitical challenges.

Important recent developments regarding AfCFTA's protocols, rules and procedures on trade, simplified customs procedures as well as dispute resolution mechanisms, have all been aimed at creating a single legal framework for the continent, making it easier to trade and invest across borders. The ultimate aim is to eliminate tariffs on intra-African trade, reduce unemployment, increase infrastructure development and create a more competitive yet sustainable environment for cross-border trade.

Financing trade

Banks such as Afreximbank and the African Development Bank (AfDB) have sought to stay on top of market developments and provide sustainable solutions to boost intra-African trade. These institutions have been bridging Africa's trade finance gap through increased lending and alternative products to support market participants.

For example, it was recently announced that Afreximbank would increase intra-African trade funding to \$40bn by 2026, up from \$20bn in 2021. This will be in the form of an AfCFTA Adjustment Fund to facilitate and provide support through financing, technical assistance, grants and compensation to state parties and private enterprises to effectively participate in the AfCFTA.

Since the establishment of AfCFTA, there have been other significant developments for intra-African trade, including the launch of the Transaction Guarantee Instrument, the Pan African Payment and Settlement System and the Base Fund of the AfCFTA Adjustment Fund.



#BizTrends2024: Legal insight into banking and finance for 2024

Alison Mellon and Thomas Erskine 9 Jan 2024



The US

The African Growth and Opportunity Act (AGOA), which provides eligible sub-Saharan African countries with duty-free access to the United States market for over 1,800 products, is expected to either evolve or be replaced soon. This will likely cause some shifts in trade dynamics, especially regarding the preferential treatment of small and medium enterprises, and women- and youth-owned businesses in Africa. Further, smaller African countries that have so far not benefited from AGOA might soon also be able to capitalise on the trade preference programme's benefits.

The US and Africa have a strong trade relationship. The US recently announced its intention to invest \$55bn in Africa over the next three years and that \$15bn would be deployed in "two-way trade and investment commitments, deals, and partnerships that advance key priorities, including sustainable energy, health systems, agribusiness, digital connectivity, infrastructure, and finance."

China

Africa's trade relationship with China, its largest trading partner, continues to grow. Increased commodity prices and China's intention to promote African imports increased trade substantially to \$282bn in 2022, according to Chinese customs authorities.

A recent Economist Corporate Network report, supported by Baker McKenzie and Silk Road Associates (BRI Beyond 2020), showed that 97% of the exports of 33 of Africa's poorest jurisdictions into China qualified for tariff- and duty-free trade.

The report further outlined how bilateral trade between the regions was still mainly focused on China's import of Africa's natural resources, but to counter this, China has, in recent years, increased the import of manufactured goods from more diversified African economies.



#BizTrends2024: Legal complaints in South African advertising will stay unique and conservative

Gail Schimmel 9 Jan 2024



Critical minerals

The rising demand for critical minerals, driven by the energy transition, has positioned Africa as a pivotal player due to its vast mineral base. Countries including South Africa, Namibia, Ghana, and Zimbabwe are assessing how they can sustainably process critical minerals locally to maximise returns.

Africa's mineral resources are currently mostly exported as offtakes, which limits profits. Major players, including the European Union and the US, have highlighted the importance of mitigating commodity supply chain risks and developing strategic agreements with countries possessing responsibly sourced critical minerals.

The forecast for African trade is exciting, but addressing infrastructural gaps, ensuring sustainable practices and navigating evolving trade relationships will be essential to realising the continent's immense trade potential. If challenges can be resolved, Africa's pivotal role in global trade dynamics is almost certain.

ABOUT VIRUSHA SUBBAN

Virusha is a partner and head of Tax in Baker McKenzie's Tax Practice Group in Johannesburg. She has over 20 years' experience in tax matters relating to customs, excise and international trade.

- #BizTrends2024: Africa's growing role in global trade dynamics - 8 Jan 2024
- Increasing quota for frozen chicken imports as SA prices rise - 17 Apr 2023
- Africa's impact: US Vice President Kamala Harris visits Ghana, Tanzania and Zambia - 31 Mar 2023
- An update on free trade in Africa - 17 Nov 2022

[View my profile and articles...](#)

For more, visit: <https://www.bizcommunity.com>