Summary of Patterns of Africa-Asia Trade and Investment

Current Pattern of Africa’s Exports to Asia

Traditionally, African economies have strong trade relations with European countries (Figure 1). In contrast, exports to Asia are a small but increasing market for Africa in recent years. Africa’s exports to Asia grew significantly in both relative and absolute terms during the past 12 years. Of Africa’s total export earnings, which are estimated at about US$134 billion per year (2001–2003 average), 15 percent derive from sales to Asia.

Over the same period, Asia’s developing economies have increased their imports from African countries significantly. In fact, Asia’s imports from Africa outpaced its imports from other regions except from Asia itself (Figure 3). Economies such as India, China, and Taiwan (China) have significantly increased the overall volume of their African imports (Figure 4).

Figure 1: Destinations of African Exports (2001–2003)

![Pie chart showing the distribution of African exports by destination.]

Source: IMF Direction of Trade

The rate of increase in export values to Asia (10 percent per year) has been higher than the comparable rates for the European Union (EU) or United States (Figure 2).

Figure 2: Growth Rates of African Exports by Destination (1991-2003 annual average)

![Bar chart showing the growth rates of African exports by destination.]

Source: IMF Direction of Trade

Figure 3: Growth Rates of Asian Imports by Origin (1991–2003 annual average)

![Bar chart showing the growth rates of Asian imports by origin.]

Source: IMF Direction of Trade

Figure 4: Trend in Africa’s Exports to Asian Economies

![Line chart showing the trend in Africa’s exports to Asian economies.]

Source: IMF Direction of Trade

ASEAN 5 includes: Indonesia, Malaysia, Philippines, Singapore and Thailand
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Africa’s exports to Asia are mainly driven by primary commodities and related products. As with Africa’s EU and U.S. exports, oil and oil-related products account for a large share of the continent’s exports to Asia. However, other primary commodities, such as agricultural and fishery products and minerals and crude materials, are increasingly being exported to Asia. African exports to Asia of mineral fuels and other raw materials such as mineral and mining products have experienced strong growth because of rising manufacturing sectors in Asia, particularly in China, India, Korea, Taiwan, and the Southeast Asian countries such as Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Although only a limited number of African countries are endowed with mineral and mining resources, a wide range of non-oil-producing countries also benefit from other types of raw materials and processed raw materials, such as cotton, wood, and leather, as well as food and agricultural commodities, for expanding their export potentials. The growth in African exports of food and agricultural commodities to Asia can be explained by the large populations with growing income levels in Asian countries.

Sub-Saharan Africa’s share of exports, excluding exports from South Africa and exports of oil, is around 17 percent of total African exports to Asia. Albeit at a smaller scale, this segment of Africa’s exports—which is mostly agricultural commodities—has shown a similar growth pattern to that of minerals and mining products. These agricultural commodities tend to have dominant shares in each non-oil-exporting country. Thus, the significance of commodity demands in Asia is also applicable to non-oil-producing Sub-Saharan Africa countries, which are not necessarily strong in oil and other mineral exports.

**Figure 5: Africa’s Food Exports to Asian Economies: Historical Trend**

Figure 5 shows strong growth of food exports from Africa to developing Asian economies such as China, India, and the Association of Southeast Asian Nations (ASEAN) countries. Primary commodities such as coffee, cocoa, tea, and nuts are experiencing stronger demand in Asia than in the already saturated markets of developed countries. Figure 6 illustrates how coffee imports of Asian economies expand rapidly with growth in per capita income when the income level is low.

**Figure 6: Coffee Imports and Per Capita Income of Asian Economies**

Asia could thus become a strategic target in diversifying the markets of African products. Demand from Asian markets is a potentially good fit with the existing supply base of traditional primary commodities in Africa. Such linkages have been revealed on a country-to-country basis from the analysis of complementarity between the respective export
and import profiles of individual African and Asian countries. The scope of value-added processing in Africa is still limited, but by recognizing these linkages and developing consumer relations with Asian countries, African producers and exporters could significantly benefit from expansion of traditional primary commodities, which are Africa’s stagnated core business.

Market diversification is not the only benefit of deepened trade relations between the two regions. Asia can also contribute to Africa’s quest for product diversification in its export structure. South Africa has recently shown strong growth in its manufacturing exports to Asian countries. Although only a few African countries export manufactured goods to Asia, a wider range of countries have benefited from manufacturing-related imports from Asia. Asian countries are providing essential inputs to Africa’s growing manufacturing sector, most notably its textile and apparel sectors, and, in some cases, its automobile sector. As Figure 7 clearly indicates, there is a positive relationship between Africa’s growth in manufacturing exports to the EU and United States and growth in imports from Asia.

**Figure 7: Growth in Manufacturing Exports to EU and US and Imports from Asia**

![Graph showing growth in manufacturing exports and imports](image)

*Source: UN COMTRADE*

### Trade Regimes and Market Access

Some developed countries have pursued various preferential trade initiatives with Africa, such as tariff- and quota-free access. Notably, the textile benefits afforded under the U.S. African Growth and Opportunity Act (AGOA), combined with the Multi-Fiber Arrangement (MFA) quota system, have triggered visible changes in the apparel exports of some African countries. Still, it should be noted that these preferential measures are often time-bound and redundant with the existing Generalized Systems of Preference (GSP). Although continuation and expansion of well-targeted preferential treatment is desirable for many African countries, these measures alone do not guarantee the full benefits of sustainable export expansion. The response of African countries is critical. Successful African exporters must work proactively to improve their business environment in terms of governance, infrastructure, and industrial capacity and to strengthen their supply-response capacity to seize on such opportunities arising from the external environment as preferential trade agreements. Successful countries tend to have consolidated and carefully targeted initiatives for providing an enabling environment for potential industries.

Tariff rates for processed commodities tend to stay higher than rates for raw materials, which typically is a discouraging factor for the value-added activities in the countries producing the raw materials. In Asia, this issue of tariff escalation on resource-based products is generally more visible within low and middle income countries where higher growth of raw material demand has been observed. With the expansion of global trade and with more links in supply chains, tariff escalation has become an issue not only in North–South trade but in South–South trade as well.

### Integration of Trade and Investment

Sectoral analysis of the foreign direct investment (FDI) of several Asian countries in Africa shows that relations between Asian investors and host countries in Africa are deeply motivated by trade. Asian investment in Africa takes the following three forms:

- The first type is investment targeted to products to be sold in Asia; this typically involves natural resources and processed raw materials (such as food), both of which are in high demand by Asian manufacturers and consumers. Macroinstabilities in African host countries have often hampered this kind of investment in the past, but, driven by growing demand from Asia, there are signs that such investment may gain momentum.
- The second type of investment targets Africa’s domestic markets. Such investment has been constrained by the small size of local markets and the high transaction costs resulting from a lack of efficient infrastructure. With lowered tariffs, foreign investors in African production have found it difficult to compete against low-cost imports from other regions. Effective regional
integration and adequate infrastructure services are essential in promoting this type of investment.

- The third investment type is targeted to the global market, typically third party countries such as the EU or United States. This type of investment effectively integrates production activities in Africa with global supply chains. Investment in less developed countries tends to focus on the textile and apparel sectors, motivated largely by the low labor costs and favorable trade regimes provided by the host country. The notable development in countries such as South Africa has attracted more sophisticated manufacturing and service investment; such investment is genuinely attracted to the productivity increase in these countries.

Compared with the synergies that emerged among Asian countries in the course of trade expansion, intraregional dynamism in Africa is still weak. African countries could better benefit from export opportunities by improving the intraregional mobility of goods and services. Improvement of the regional transportation and telecommunication systems must also be addressed to enhance the supply-response capacity of African countries.

**Next Steps**

The trade data indicate the existence of a significant potential for expanding trade relations between Africa and Asia. To realize the full benefits of such trade expansion, initiatives must be strengthened in the following three directions: the Asian market, the African market, and the international market. Based on the above analyses and discussions, next steps for public and private players to take are listed below, each categorized by its main targeted markets as explained in the key findings:

- For the Asian market, potential products are natural resources, agricultural, and other commodities in which African countries already have a solid supply basis. African commodity exports to Asia could accelerate on their current trends if transaction costs could be reduced and the business information gap between Africa and Asia could be narrowed. Stronger processing capacity in African countries is desired. In this context, the tariff escalation in many Asian countries should be reviewed, which would give more motivation for Asian businesses to invest in such areas. Also, good governance and the honoring of codes of conduct in extractive/commodity industries are critical.

- For the African market, intraregional integration must be enacted to provide a minimum market size to capture economies of scale. Realistic and substantive regional integration schemes must be implemented. Efficient intraregional transportation and other logistics systems are necessary to promote dynamic commercial flows. The creation of merchant networks in intraregional business activities is also essential. Fostering alternative arrangements such as franchising and licensing could be the key to success in building credible and mutually beneficial business relationships, along with trade in actual products.

- For the global market, a continuation of preferential measures for manufactured imports from Africa, such as textiles and apparel as well as automobiles, needs to be considered in order to foster industrial development in African countries. Development of local and regional backward and forward linkages in such industries is instrumental in achieving this goal. Improvement of local and intraregional logistics systems is also essential. Sectoral capacity building is vital in facilitating the transfer of knowledge and skills that accompany investment flows. Asian businesses could provide effective resources in this area.

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