African Export-Import Bank
Banque Africaine d'Import-Export

Transforming Africa'sTrade

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Digital Transformation and Implications for African Trade

Digital technologies are integrating all aspects of organizations and business processes and dramatically altering systems of payment and the delivery of goods and services around the world. Globally, the digital payments followed by the physical or digital delivery of goods and services have ballooned over the last few years, with global e-commerce transactions reaching US$2.86 trillion in 2018. Leading economies with strong manufacturing bases and high quality digital and physical infrastructures are reaping the bulk of the benefits of this digital revolution. Today, China is the world's largest business-to-consumer e-commerce market, posting US$617 billion in e-commerce transactions in 2018, followed by the United States, with US$612 billion.

In Africa, digital trade, estimated at US$5.7 billion, remains low even by the standards of most developing countries. The continent's consumer e-commerce market makes up less than 0.5 percent of its combined GDP, compared with a global average of 4 percent. This is the result of several constraining factors. Dominant global e-commerce platforms tend to source digitally traded goods primarily in their home markets, predominantly the United States, China and other leading Organisation for Economic Co-operation and Development (OECD) countries. Combined with the poor quality of digital infrastructure in much of Africa, the deficit of physical infrastructure for delivery of digitally traded goods, the continued dominance of primary commodities and natural resources in African trade, and liquidity risks in a region where cross-border trade is largely carried out in foreign currency, and it is no wonder that Africa still finds itself on the wrong side of the increasingly broad global digital divide.

Notwithstanding those challenges, digital trade is on the rise in Africa, with online shoppers growing by more than 18 percent annually since 2014, a trend that should be further strengthened as the African Continental Free Trade Area (AfCFTA) Agreement goes into force. Countries with sophisticated production structures, high rates of mobile phone subscriptions, and higher Internet penetration are leading the way. These include Egypt, Ghana, Kenya, Nigeria, Rwanda, Senegal, South Africa, Tanzania, and Uganda. In those countries in particular, but across the continent as well, a growing number of African web-based platforms and portals are using cutting-edge electronic applications to facilitate savings and investment, health services, and the exchange of goods between African manufacturers, merchants, and consumers and to promote regional cross-border digital trade.

The African Export-Import Bank is providing support for the growth of cross-border digital trade in Africa. In 2018, the Bank launched a Virtual Trade Fair as part of the inaugural Intra-African Trade Fair (IATF2018), allowing exhibitors to showcase their products and services and engage with potential clients in a digital environment. And the Bank's Pan-African Payment and Settlement System (PAPSS) will provide a digital payment infrastructure to facilitate trade payments and settlements in national currencies. Designed to reduce liquidity risk and the cost of trading, PAPSS will foster intra-African trade and economic integration, while at the same time formalising the growing component of informal trade not always accounted for in national statistics.

Blockchain Technology and Trade

Technological progress and innovations have been the main drivers of economic transformation and trade since the first industrial revolution. In recent years, the process of digitalisation made possible by advances in information and communication technologies has pushed the boundaries of innovations in the financial services industry. A digital currency is no longer a farfetched idea, especially with the emergence of blockchain technology, which promises a secure and efficient method of exchanging and validating information.

A blockchain is a secure, decentralized, and distributed record, or "ledger," of information stored in a permanent and unalterable way across a network of participating computers amenable to manipulation by any single party. Authentication of transactions is done through cryptographic and mathematical consensus protocols. Participants with no trust in one another can collaborate without having to rely on a trusted third party. Optimally, the technology is designed to guarantee systematic transparency and traceability of transactions and information. It offers a wide range of business applications, with the potential for changing the trajectory of business costs and competition.

In the trade finance and insurance industries, the application of blockchain technology has enabled easier and faster processing of documentation and reduced cross-border payment costs. The adoption of this new technology is already a source of large efficiency gains. Global management consultant Bain & Company reports that the first trade finance transaction undertaken using blockchain technology was completed in less than 24 hours, in contrast to the typical 5 to 10 days for conventional, paper-based transactions. Blockchain-based know-your-customer (KYC) solutions enable data collection from multiple providers and authorities to automate veracity controls and store them in a single, encrypted database. By lowering trade costs, increasing transparency, and automating verification and operations, blockchain technology is also optimizing supply chains.

Blockchain technologies are changing the nature of production and trade in a growing number of countries and regions across Africa. They are improving market efficiency in the agricultural sector in Kenya through better linkages between farmers, vendors, and markets. They are connecting millions of households to solar power in Uganda. Blockchain-based land registries are also improving governance systems for land ownership in Ghana and Rwanda. In the Democratic Republic of the Congo, Ford Motor Company and its partners are using blockchain technology to trace the supply of metals and foster transparency and ethical behaviour in the mining industry.

Globally, the impact of blockchain technologies has been particularly significant in the financial industry, specifically with the rise of the digital currencies known as cryptocurrencies. There are now more than 1,000 cryptocurrencies, with a combined market capitalization of US$400 billion. These digital currencies provide an electronic payment system—paperless transactions secured with cryptography. In a continent where the shortage of liquidity has been a major constraint to trade, blockchain technologies that reduce transaction costs and offer a secure and efficient method of exchange and validation of information could have tremendous implications for trade and investment.

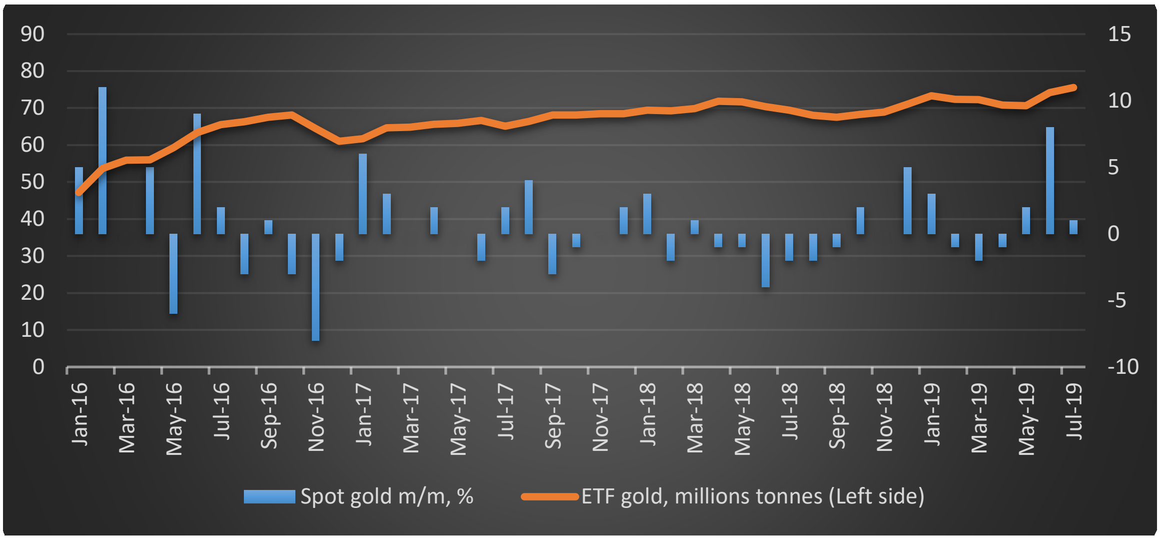
However, reaping the full benefits associated with blockchain technologies across Africa will require significant investment to close the continent's physical and digital infrastructure gap. Furthermore, issues around the scalability and standardization of blockchain technologies across a vast array of industries remain. Moreover, the regulatory environment within the region and globally may be a defining factor in whether the technology ultimately promotes, rather than stymies, extra- and intra-African trade.

Recent Developments in the Bullion Market

After trading within a narrow range for most of the year, gold prices have rallied over 11 percent since the end of May, with gold bullion currently trading at US$1,441 per troy ounce, its highest level since 2013. The rally in the bullion market is occurring as the US Federal Reserve eases monetary policy, further reducing the opportunity cost of holding gold.
The dual nature of gold as both a commodity and a currency—it can be lent and can earn interest—is an important consideration in understanding recent dynamics in the bullion market. The currency-linked market looks to arbitrage opportunities, principally in US dollar funding, while the commodity-linked market looks to capture the resilience of gold as a store of value. Four main drivers typically influence demand—and therefore prices—in the gold market. These are jewellery, investment, central bank and technology demand. According to the World Gold Council, the market development organisation for the gold industry, between 2007 and 2016 jewellery and investment demand accounted for the bulk of demand in the gold market. Demand for gold bars, coins and financial instruments, especially gold-backed exchange traded funds (ETFs), accounted for about 30 percent of gold demand during that period. Investment demand for gold is most sensitive to dynamics in financial markets, including changes in currency, equity prices, volatility across asset prices and investor sentiment and monetary policy across central banks.

Investment demand has been the main driver of the current rally in the bullion market, with a growing number of investors turning to gold as a safe haven asset in the challenging global environment of heightening uncertainty and global growth deceleration. Gold-backed ETFs have expanded by 4.8 tonnes to their highest levels since April 2013, according to data compiled by Bloomberg L.P. Strong demand for short-term gold liquidity could encourage gold rich countries to consider gold swaps as a way of minimizing their funding costs.

Figure 1: Gold prices have been boosted by strong investor demand



Source(s): Bloomberg, Afreximbank Research

The current dynamics in the bullion market are welcomed by leading African gold producers, especially Ghana, South Africa, Tanzania, Mali, Burkina Faso, Zimbabwe, Guinea, Ethiopia and Côte d'Ivoire. Ghana, now the continent's top producer of gold, mined 4.8 million tonnes of gold in 2018 compared with South Africa's 4.2 million tonnes. Ghana's gold industry benefitted from more investor friendly policies—including mining tax reforms, lower-cost mines and new development projects. While such reforms to promote investment at the national level are welcome, a continental approach to mining reforms that sets minimum requirements related to the extraction of natural resources is preferable to mitigate against a race to the bottom over the long term.

ECO: Deepening trade in West Africa through the single currency

As part of its plan to make Africa a more integrated continent, the 55th Ordinary Session of the Authority of Heads of State and Government of the Economic Community of West African States (ECOWAS) committed to achieving a monetary and currency union by 2020 and adopted the name 'ECO' for a planned single currency to be used in the Regional Economic Community (REC). Eight ECOWAS countries (Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo) currently use the CFA franc which is pegged to the Euro under a fixed exchange rate system, while the remaining seven member countries, including Cabo Verde, Ghana, Guinea, Liberia, Nigeria, Sierra Leone and The Gambia have their national currencies. ECOWAS will be working with the West African Monetary Agency (WAMA), the West Africa Monetary Institute (WAMI) and central banks to speed implementation of a road map for the proposed single currency.

Adoption of the ECO could contribute significantly to deepening trade and investment flow within ECOWAS, a region where intra-REC trade has remained stubbornly low at 11 percent, well below the continental average of 16 percent and significantly lower than the average of 22 percent within the Southern African Development Community (SADC). In addition to deepening trade and investment flows to mitigate against adverse global shocks, the ECO can bring discipline to macroeconomic management within ECOWAS. Eliminating exchange rate risk, along with harmonisation of trade regimes and other relevant aspects of a monetary union, could significantly boost trade and investment flows, with the potential to accelerate the development of regional value chains to drive the process of structural transformation.

The pooling of foreign exchange reserves among ECOWAS member countries would also reduce individual countries' exposure to capital flow volatility, with positive implications for macroeconomic management. ECOWAS countries also stand to benefit from the "halo" effect emanating from membership to the monetary and currency union. One or more strong anchor countries with a strong track record of reforms and macroeconomic management could have positive spillover effects on other countries, most notably in terms of risk perception and reduced borrowing costs.

Despite significant implications of a single currency for trade and economic development, not just for ECOWAS member countries but for the continent as a whole, the success of the project hinges on a commitment to broaden risk sharing in a region where countries at different stages of economic development are often confronted with asymmetric shocks. In addition to differences in size and levels of economic development, as well as the structure of their economies, ECOWAS member countries have different monetary policy frameworks, varying among fixed and flexible exchange rate regimes. The region will need to put in place appropriate mechanisms to address these challenges, including ensuring flexible product and labour markets, labour mobility across countries, wage flexibility within countries, mechanisms for sharing risk, and a fiscal transfer system. A strong institutional and operational structure is also necessary to build credibility in monetary policy operations of the new central bank, especially as member states will be required to cede a degree of sovereignty to the regional institution.

These steps by ECOWAS member countries to develop a roadmap for the currency union augurs well. History is also instructive. For instance, while theoretical preconditions for an optimal currency union were never fully met within Europe, that did not prevent the adoption of the Euro as the single currency within the Euro zone. A strong political commitment to achieving a currency and monetary union by 2020, accompanied by a clear roadmap that includes convergence and central bank financing criteria, bodes well for the ECO, which could not have come at a more opportune time with the entry into force of AfCFTA. The realisation of this vision will contribute significantly towards deepening intra-African trade among ECOWAS countries, promote investment flows, and accelerate the process of structural transformation. It could also lay the foundation for monetary and financial integration at the continental level and smoothen the transition toward the final stage of African economic integration underpinned by fiscal policy harmonisation and a monetary union.

The Second Belt and Road Forum: An Overview

Chinese President Xi Jinping in April hosted leaders of 37 countries and delegates from over 150 countries at the second Belt and Road Forum in Beijing. Launched in 2013, the Belt and Road Initiative (BRI) consists of two main components: an overland Silk Road Economic Belt which would connect China with Central Asia and beyond, and an ocean-based 21st Century Maritime Silk Road to China's south. The vision is to create a vast network of railways, shipping lines, energy pipelines, highways, and streamlined border crossings. In addition, China plans to build fifty special economic zones across countries participating in the initiative.

The second forum saw multiple bilateral and multilateral agreements signed by the various stakeholders related to investment, financing, and other forms of cooperation geared towards a smooth implementation of the BRI. Agreements on Belt and Road cooperation were signed between the government of China and Equatorial Guinea and Liberia. Cooperation plans were signed between the government of China and many partners including the United Nations Commission for Africa (ECA), the African

Union, and the governments of Serbia, Papua New Guinea, Djibouti, Ethiopia, and Mozambique.

In addition to US$64 billion of deals signed, China pledged to provide an additional US$14 billion to the Silk Road Fund, while the China Development Bank and China Exim-Bank will work on the establishment of new lending facilities—estimated at US$36.2 billion and US$18 billion, respectively—for the financing of Belt and Road projects. Developed countries also continued to be attracted by the BRI, and the forum saw the endorsement of Austria, and Switzerland, which joined Canada, France, Australia, Spain, Netherlands, Belgium, and Italy and agreed to help finance infrastructure projects in developing countries.

China is already Africa's single-largest trading partner and the BRI, which is expected to intensify economic cooperation between the two parties, could find them consolidating that pole position. In a region where trade and infrastructure financing gaps continue to constrain intra-African trade, growth and economic development; the development of the BRI could not have been more opportune, especially given the recent entry into force of the AfCFTA. Expanding transnational and cross border infrastructure, not just for productivity growth but also to boost intra-African trade, will go a long way to enhance the growth and development impact of the AfCFTA.

In a world of increasing protectionism and rising geopolitical tensions, the support of BRI by a growing number of countries, including OECD countries, was one of the main outcomes of the second BRI Forum. Another interesting development with significant implications, especially for Africa, was the commitment of these countries to use the BRI framework as platform for co-financing of infrastructure projects in developing countries. Transcending current geopolitical tensions and global uncertainty to deliver on these commitments in the aftermath of the Second BRI Forum will be the main challenge going forward. The BRI monitoring framework will track progress in the lead up to the third BRI forum.

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