



AFRICA EXPORTS COMPETITIVENESS INDEX

Background

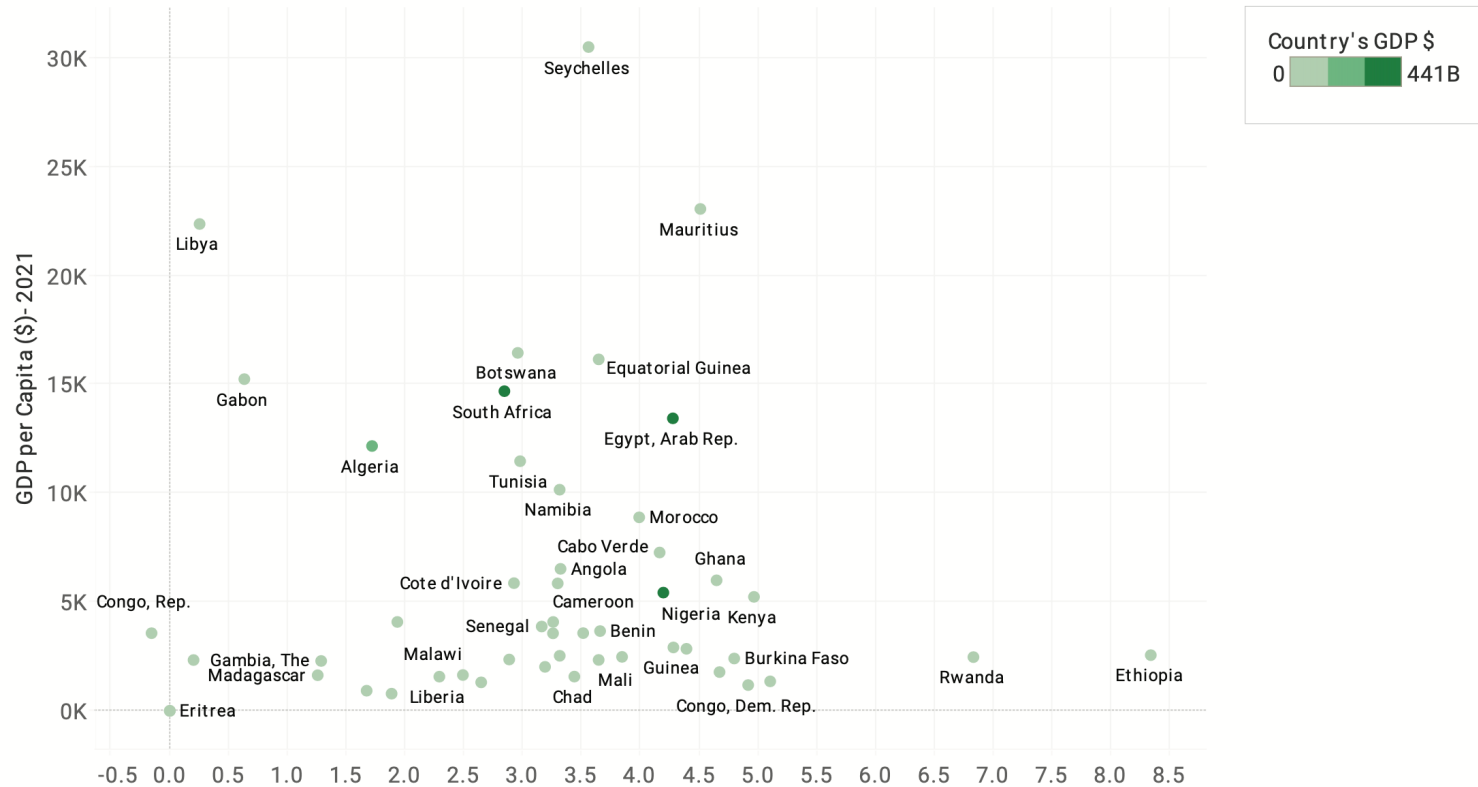
- The Africa Export Competitiveness Index, which assesses the export readiness and export performance of individual countries, provides valuable context-specific insights and strategies to promote and enhance exports.
- The AEC ranks the nations based on their performance and index scores, providing a clear understanding of their export potential and capabilities.
- The AEC analysis sheds light on both opportunities and bottlenecks within each region, facilitating the formulation of tailored strategies aimed at bolstering the export competitiveness of individual countries.
- By utilizing AEC insights, African nations can make informed decisions, promote export growth, and contribute to the overall economic development of the continent.

Africa : At a Glance

- Africa is the second largest continent in the world encompassing 20% of world's total land area and home to 1.4 billion people i.e. 18% of the world population.
- Africa is enriched with natural resources as it holds 20% of the global hydrocarbon reserves, 8% of the global natural gas reserves, and 30% of the global mineral reserves. It also holds 10% of the world's internal renewable pure water source and 65% of the world's total arable land.
- However, high natural abundance has not translated to economic prosperity as its combined national income only stands at \$2.8 trillion, translating to an average per capita income of \$1,976, only one-sixth of the global average.
- Out of the 48 LDC's in the world, 33 belong to the African continent.
- The low economic performance has also led to 424 million people living in extreme poverty in the continent.

Trends in Economic Growth Among African Nations

GDP per capita

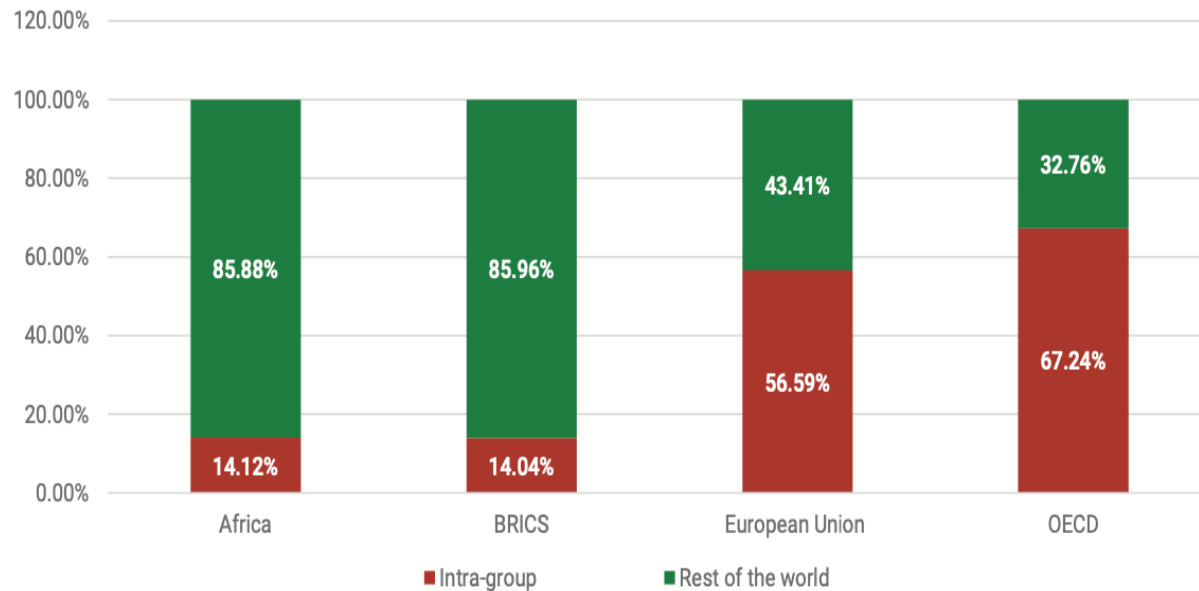


Source: World bank

- In 2021, Seychelles, Libya, and Mauritius boasted the highest per capita GDP levels in the African continent.
- Over the last 20 years, many African countries have seen an increase in GDP per capita.
- Ethiopia and Rwanda registered the highest CAGR of per capita GDP i.e. 8.33 and 6.83 per cent respectively, during 2000-2021 showing positive signs for the region.
- Throughout the designated years, countries such as the Democratic Republic of Congo, Eritrea, and Libya experienced either negative or marginal per capita GDP growth, highlighting that the benefits of increased prosperity are not uniformly distributed among all nations.

Boosting Intra-African Trade: AfCFTA as a Catalyst for Growth

Share of Intra Africa Trade in Total (%)



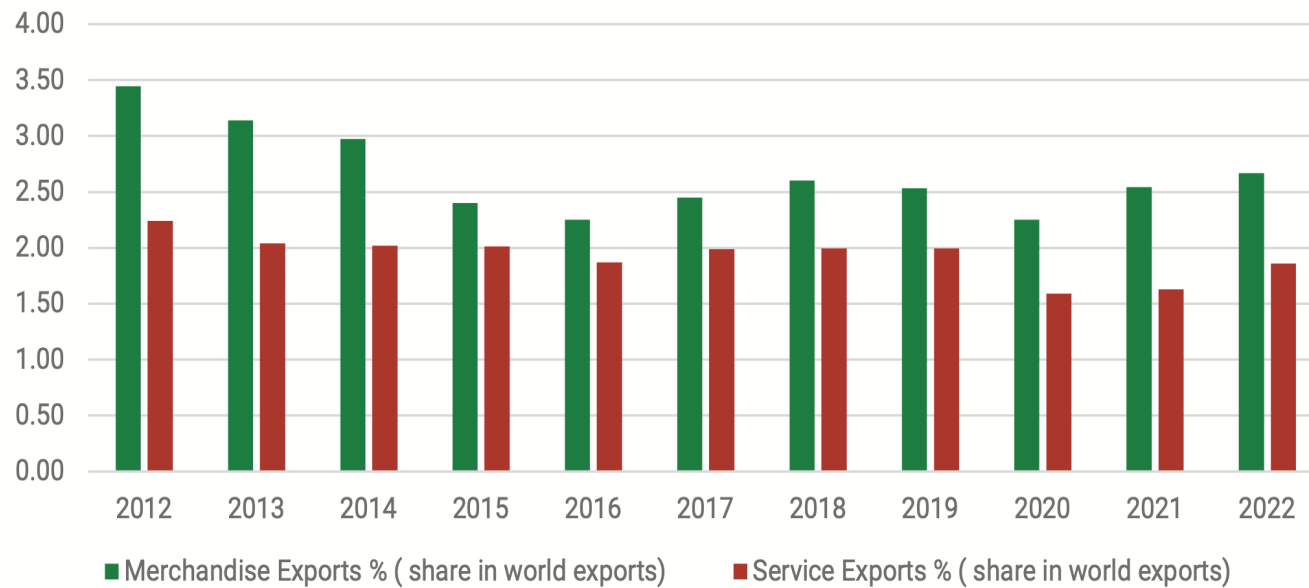
Source: UNCTAD calculations

- Intra Africa trade stands at only 14.12% of the total exports for the continent which is significantly lower, compared to 56.59% in European Union and 67.24% in OECD.
- Intra Africa trade is still dominated by primary products but has a higher percentage of knowledge products as compared to extra-African trade
- African Continental Free Trade Agreement (AfCFTA) is a direct response to the historic lack of intra-Africa trade. AfCFTA, which stands as the largest free trade agreement after the WTO, includes 54 out of the 55 nations and nation-states in Africa.
- Its primary goal is to boost intra-Africa trade, primarily through the reduction of tariffs, elimination of non-tariff barriers, and the implementation of various liberalization measures.

Africa and the World

Trends

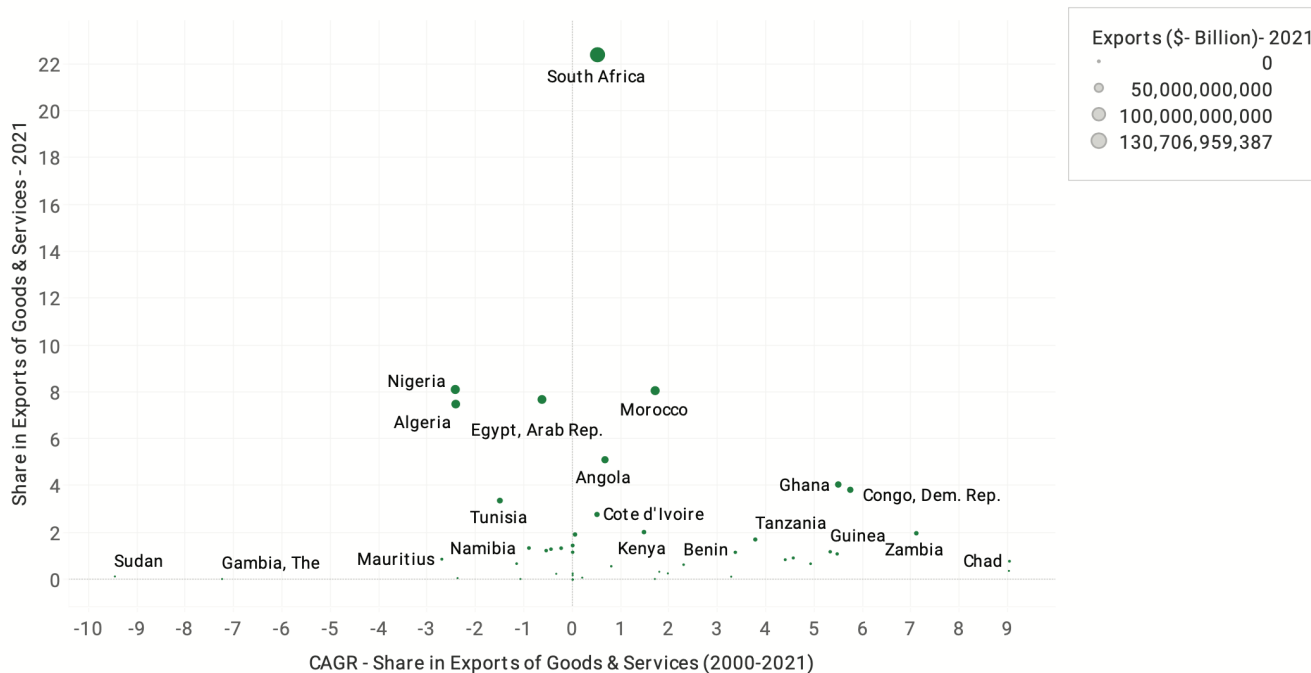
Trends for Africa (2012-2022):
Merchandise & Service Exports share (%)



- The value of merchandise exports by Africa in the year 2022-23 was 665.4 billion dollars, a 16.8% increase from the year 2021-22.
- Share of Africa in total merchandise exports has not crossed the level of 3% since 2014, standing at a mere 2.67% as of 2022. In the last 10 years, Africa has exported merely 2.84% of the total merchandise exports in the world on average.
- Share of services exports of Africa as its share has not been able to cross the threshold of 2% since 2016 and has averaged 1.90% in the last 10 years.
- Intra Africa trade stands at only 14.12% of the total exports for the continent which is significantly lower, compared to 56.59% in European Union and 67.24%

Export Dynamics Among African Nations

Export Dynamics: Unravelling African Countries' Shifting Share in Total Exports

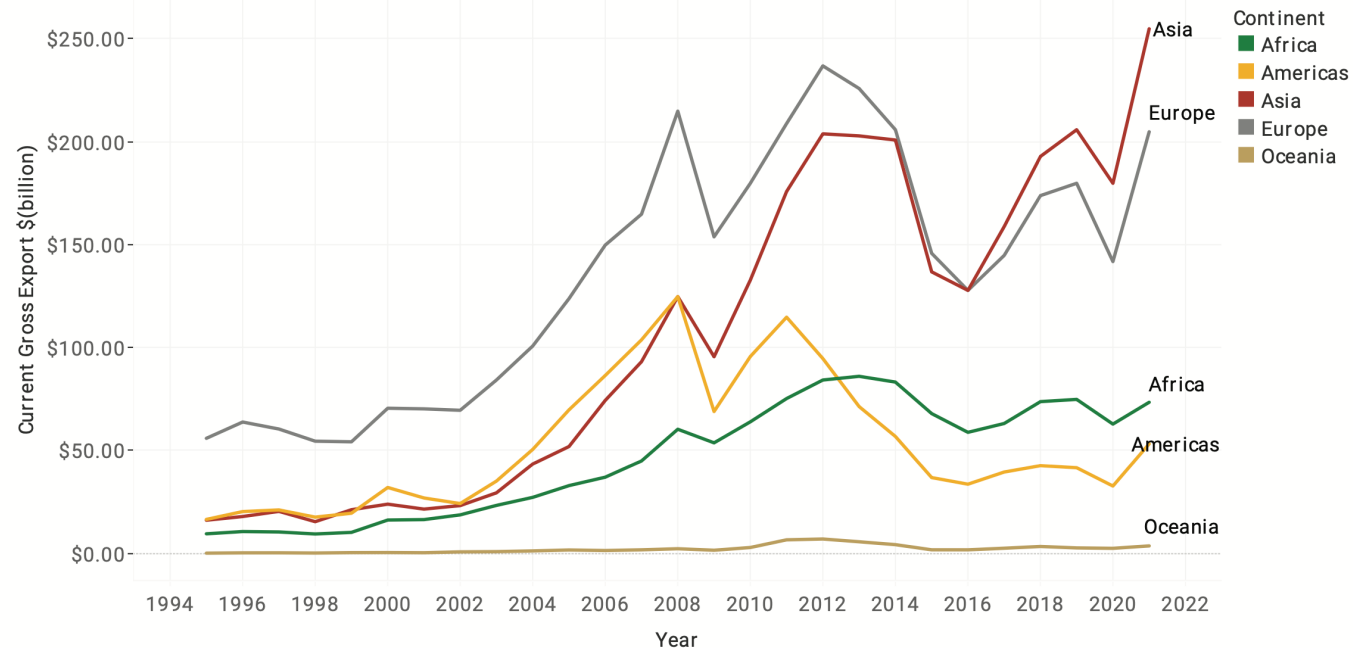


Source: World Bank

- Over the years, South Africa, Morocco, and Nigeria have emerged as the dominant players in Africa's export dynamics, accounting for a significant share of total exports.
- There is an overarching theme of high concentration of export volumes among a select few countries within the region, as the combined share of the top five exporting nations consistently exceeded 50% of the region's total exports.
- Throughout the years spanning 2000 to 2021, South Africa, as the primary contributor to African exports, maintained a positive CAGR in the share of African exports, registering an increase of 0.51%. This enduring trend affirms South Africa's sustained dominance as the highest exporter of goods and services over the specified period.
- During the same time period, Chad and Zambia experienced the most significant increase in their export share, while Sudan recorded the lowest growth rate in export share.

Destination of African Exports

Destinations of African exports have changed drastically since 1994

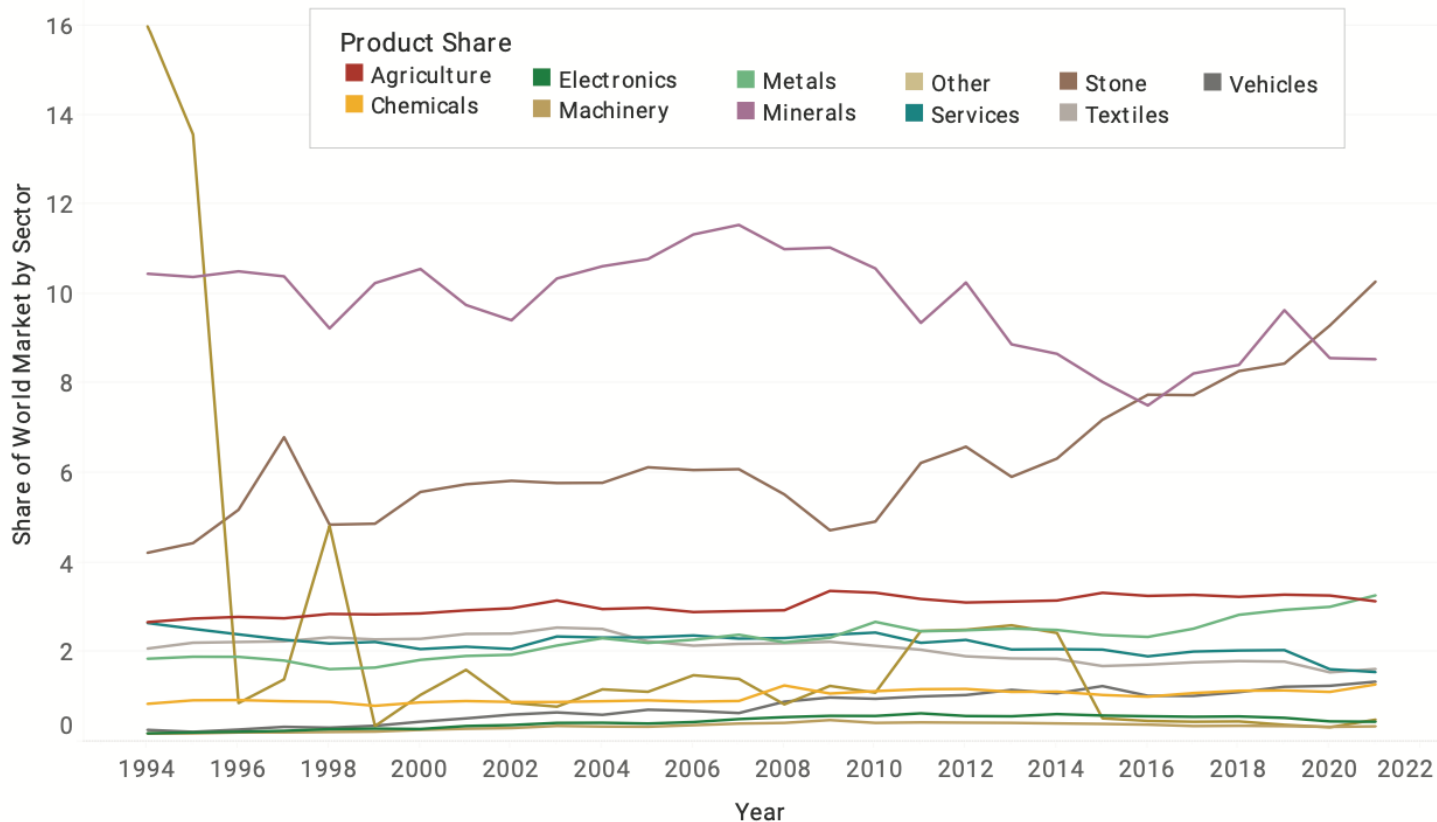


Source: [The Growth Lab at Harvard University. The Atlas of Economic Complexity](#)

- The destination of African exports has also changed significantly over the years as dominance of Europe as a favoured destination since the early 2000's came to an end as Asia emerged as the biggest importer of African exports since 2017.
- On a country level a similar trend is seen as China overtook USA as the biggest importer of African exports since 2012 with UAE emerging as the second biggest importer in the year 2021.
- Although Intra-Africa exports initially comprised a small portion of total African exports, they have exhibited a promising trend with their share steadily increasing over the years. In 2012, Intra-Africa exports surpassed those to the Americas, and this upward trajectory has persisted ever since.

Composition of Africa's Merchandise Exports

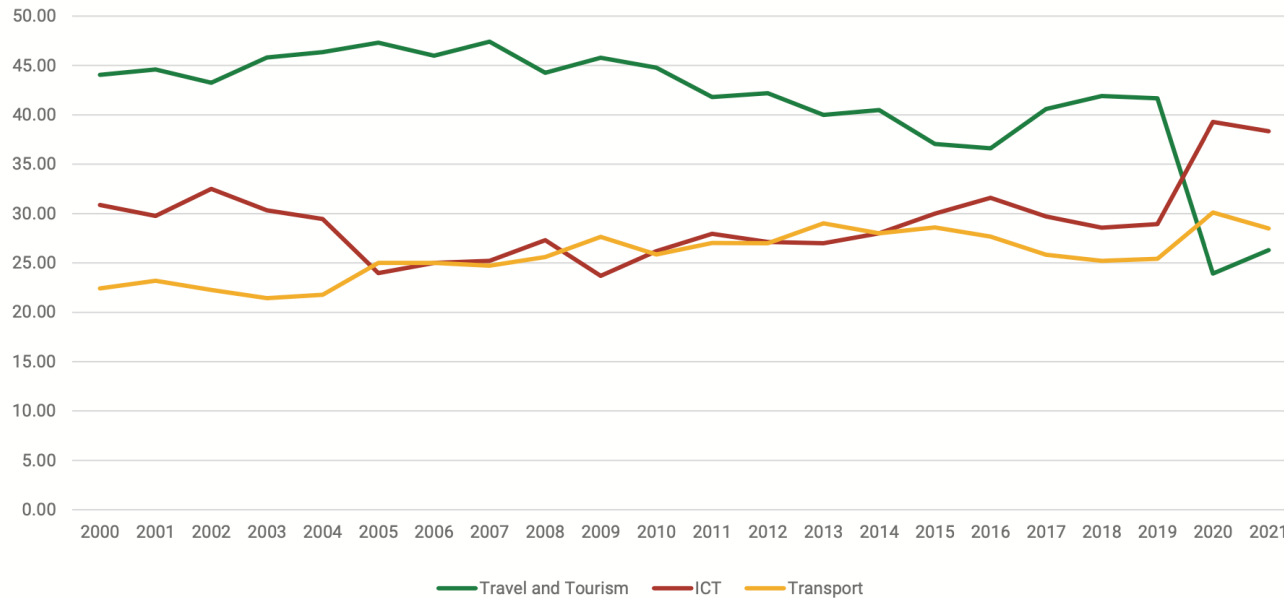
Africa's Global Market Share, 1995 – 2021



- In 2021, 39.57% of all the merchandise exports were minerals, followed by precious stones at 17.82%. The agricultural products stood at 12.91% and metals gathered had a share of 8.63 in merchandise exports for Africa.
- Mineral products have always been the most exported product category in the continent since 1995 whereas stones have seen the highest increase in its share since 1995. but its share dropped from 54.64% in 2014 to 42.98% in 2015 owing to the oil price plunge in the year 2014.
- The share of stones in the merchandise export basket has seen significant and continuous increase in its share in the export basket rising from 7.53% in 2000 to 17.82% in 2021.

Services Export Composition of Africa

Composition of service exports of Africa
has changed drastically since 2019



- During the years 2000-19, the continent's service exports were largely reliant on traditional sectors, with Tourism and Transportation accounting for two-thirds of overall exports.
- The onset of the COVID-19 pandemic, lead to worldwide lockdowns, highly affecting the tourism and transportation sectors and a major disruption in the trend for service exports in the continent.
- In the year 2020 & 2021, Information technology services emerged as the leader of services export in the region encompassing a share of 39.28% and 38.35% amidst the growing demand for technological services in the world.

Source: [The Growth Lab at Harvard University. The Atlas of Economic Complexity](#)

What is Competitiveness ?

- The definition of the term 'Competitiveness' varies significantly from being measured as the ability to achieve a high standard of living or economic growth to achieve specific economic outcomes like employment generation, foreign direct investment, or exports.
- This is different from the view that a region's competitiveness depends on its availability of natural endowments and resources.

What are determinants of Competitiveness?

- Porter (1990) and Council on Competitiveness redefined competitiveness as something that underpins wealth creation and economic performance, making competitiveness connected to productivity.
- Porter (1990) distinctly focuses on created prosperity and use of productivity (measured as GDP/ Labour force participant) as the fundamental cause leading to an increase in the overall prosperity in any region.
- Various factors are used to explain the regional differences in productivity; however, the emphasis on output per potential worker over output per current worker is broader. It shows the dual role of workforce participation and output per worker in determining a nation's standard of living.

Competitiveness Framework

The project will apply the competitiveness framework developed by Prof. Porter to gain a comprehensive perspective on the multiple factors that drive the performance of the African economies

Microeconomic Competitiveness

Quality of Business Environment

State of Cluster Development

Sophistication of Company Operations and Strategy

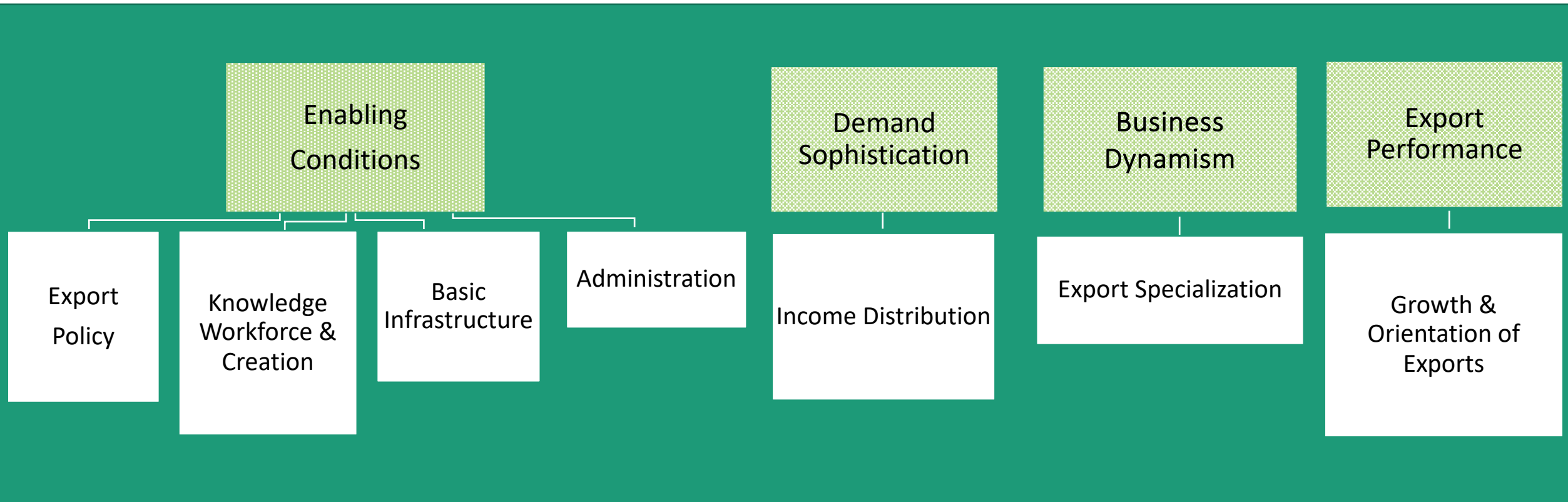
Macroeconomic Competitiveness

Sound Monetary and Fiscal Policy

Human Development and Effective Public Institutions

Endowments

Framework: Africa Export Competitiveness Index



Pillars	Rationale
<p>Enabling Environment</p>	<p>The "Enabling Environment" pillar within the index is vital for assessing export competitiveness. It encompasses export policy, basic infrastructure, knowledge creation, and administration, all of which collectively shape a country's ability to facilitate and enhance its export activities, driving economic growth and global market success.</p>
<p>Demand Sophistication</p>	<p>Demand Sophistication reflect home market demand for industry’s products and services. Forces that influence the spending or demand by households on goods and services like income and demographic profile are encapsulated in this pillar. Countries can gain competitive advantage in industries that give companies a clearer picture of emerging buyers’ needs and further pressure them to innovate faster, to achieve more sophisticated competitive advantages than their competitors.</p>
<p>Business Dynamism</p>	<p>"Business Dynamism " dimension plays a central role in determining the export competitiveness of countries. Boosting business dynamism is key to driving economic growth through international trade. The pillar underlines the importance of improving financial accessibility, administrative efficiency, manufacturing growth, and FDI attraction are all integral components for enhancing a nation's capacity for fostering export competitiveness and driving economic growth through international trade.</p>
<p>Export Performance</p>	<p>The "Export Performance" dimension offers a comprehensive snapshot of how well various African countries are faring in terms of their export performance . The Export performance examines the reach of export footprint and diversification across all countries in the African continent. The dimension of export performance, comprises several crucial indicators of export performance , including exports by the top 10 clusters, market penetration, service exports as a percentage of the total, merchandise exports as a percentage of the total, and the proportion of high-tech exports relative to the overall exports .</p>

METHODOLOGY

01

Identification of Indicators

35 indicators, which were considered imperative for the Africa export competitiveness index , were first identified by a team of Institute for Competitiveness, India.

Furthermore, the credibility of sources and data availability were also considered.

02

Collection of Data

The Africa Export Competitiveness Index is using all reliable sources of data. All the data has been collected from reports published by the TRP, World Bank , WID , IMF , Harvard Business school

This report uses actual economic and social indicators (secondary data) and does not collect primary data through surveys.

03

Analysis and computation of Index

The indicators are assigned weights after being categorized under specific heads used to make the index more robust. For calculating the weights of indicators within a pillar, we used Principal Component Analysis (PCA). Parameters were then run through PCA to check for a fit between the indicators.

INDICATORS OF AEC 2023

Pillar	Sub Pillar	Indicators
Enabling Environment	Export Policy	Existence of an Export Promotion Plan
		Number of Regional Trade Agreements
		Claiming a Duty Drawback on Import Duties Paid on Intermediate Goods
		Share of Tariff with international peaks
	Basic Infrastructure	Access to Electricity
		Fixed Broadband Subscriptions (per 100 people)
		Cost to export : Border compliance
		Air Transport , freight (million per km)
		Liner Shipping Index
		Road Density
		Commercial Bank Branches per million population
	Knowledge Workforce and Creation	LFPR (15-64)
		Tertiary School Enrollment (%)
		Human Development Index
		Patent applications by Residents per million population
		Trade Mark applications by Residents per million population
	Administration	Rule of law
		Control for corruption
		Government Effectiveness
		Regulatory quality

INDICATORS OF AEC 2023

Pillar	Sub-Pillar	Indicators
Demand Sophistication	Income Distribution	Urban Population
		Top 10% share wealth- Net personal wealth
		Top 10% share- Pre-tax national income share
Business Dynamism	Business Environment	Cost of Starting business
		Time required to start business
		Manufacturing Value added (annual growth rate)
		FDI inflows Increment %
		Gross fixed capital formation growth
		Domestic Credit to Private Sector (% of GDP)
Export Performance	Growth and Orientation of Exports	Exports by top 10 clusters
		Market Penetration
		Service exports %
		Merchandise exports %
		High Tech Exports % (total Exports)
		Bio trade as Percentage of total exports

Index Calculation - Alpha & KMO Values

Pillar	Sub Pillar	Alpha	KMO
Enabling Environment	Export Policy	0.69	0.65
	Basic Infrastructure	0.86	0.74
	Knowledge workforce and creation	0.85	0.72
	Administration	0.97	0.86
Demand Sophistication	Income Distribution	0.60	0.49
Business Dynamism	Business Environment	0.71	0.68
Export Performance	Growth and Orientation of Exports	0.86	0.71

- Alpha was developed by Lee Cronbach in 1951 to provide a measure of the internal consistency of a test or scale; it is expressed as a number between 0 and 1 (Tavakol & Dennick 2011).
- Internal consistency describes the extent to which all the items in a test measure the same concept or construct and hence it is connected to the inter-relatedness of the items within the test. Internal consistency can be employed for research or examination purposes to ensure validity. An applied practitioner's rule of thumb is that the alpha value should be above 0.7 for any logical grouping of variables (Cortina, 1993).
- The goodness of fit is evaluated using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. The KMO index ranges from 0 to 1, as a rule of thumb, KMO scores should be above 0.5 (Williams, Onsman, & Brown 2010).
- The results of this analysis are shown in the adjacent table. It is noted that certain sub-pillars have KMO/alpha less than the threshold. We acknowledge this shortcoming, but it is important to keep some indicators in the index due to their importance in the export competitiveness landscape of Africa.

AEC REPORT FINDINGS

Enabling Conditions

The "Enabling Environment" pillar within the index is vital for assessing export competitiveness. It encompasses export policy, basic infrastructure, knowledge creation, and administration, all of which collectively shape a country's ability to facilitate and enhance its export activities, driving economic growth and global market success.

❖ **Export Policy:**

- Only 10 out of 30 countries have scored above the sub-pillar average for Export policy.i.e. 37.63 with Mauritius and Egypt scoring the highest at 92.73 and 87.68 respectively.
- As per the Trade Policy Review Body's latest documents, only 11 out of 30 countries assessed have an export promotion policy.
- Mauritius is a part of the highest number of Regional Trade Agreements (10) with Mauritania, a party in zero Regional Trade Agreements.
- Mauritius, the Seychelles, and Egypt are the only countries whose share of tariff in international peaks is lower than 15%.

❖ **Basic Infrastructure**

- The average score of this sub-pillar is 17.15 which is among the lowest. Only 12 countries out of 30 have scored above average in this dimension.
- Egypt(38.63) and Seychelles (33.12) have scored the highest in this sub-pillar.
- The inadequate African infrastructure is evident with half the population lacking access to paved roads, only 36% having access to broadband internet and just 28.4% of the possessing bank accounts.

Enabling Conditions

❖ **Knowledge Workforce and creation:**

- The average score of countries on this pillar is 15.46 and only 9 countries out of 30 have scored above the average score.
- Mauritius (47.51), Seychelles (43.30) , Morocco (28.61) and South Africa (26.88) have scored high on this sub- pillar with most countries scoring high on labour force participation but low on Tertiary school enrolment showcasing low level of knowledgeable workforce in the continent.
- The low level of knowledge creation can be attributed to the low share of R&D expenditure attributing to only 1.3% of the world 'share, thus resulting in only 2% of the world's research output contributed by Africa.

❖ **Administration:**

- Out of 30 countries, 12 have scored above pillar average i.e. 38.29.
- Mauritius (91.78), Seychelles (86.54) and Botswana (82.62) have scored the highest in this sub-pillar.
- Burundi (1.87) and Nigeria (7.92) have scored the lowest among the countries owing to high incidence of criminal activities and political unrest.
- Strong governance and administration lead to a more competitive export sector and strong governance need to be developed by African nations.

Demand Sophistication

“Demand Sophistication” assesses the income distribution and sophistication of countries by considering several key indicators of income distribution.

- 18 out of 30 countries have scored above the average score for the pillar i.e. 61.58, showing a better performance of the countries in this pillar.
- Amongst 14 out of 30 countries, the rate of urbanisation is higher than 50% with top 10% of the population possessing 60% of the wealth and 50% of the national income in their nations.
- Most of these countries are characterised by a significant preponderance of wealth and income inequality, as evidenced by the high proportion of the share of top 10% in national income and wealth.
- High level of income inequality in the region can be assessed by looking at South Africa where top 10% of the population holding 85% of the country’s wealth and 65.41% of the national income.
- High concentration of wealth may induce demand for more luxury products raising the quality of goods demanded in the region but also reflects the lack of economic capacity for majority of the population to demand for highly sophisticated products.

Business Dynamism

The pillar underlines the importance of improving financial accessibility, administrative efficiency, manufacturing growth, and FDI attraction are all integral components for enhancing a nation's capacity for fostering export competitiveness.

- 17 out of 30 countries have scored above pillar average i.e. 49.92, reflecting the need to improve business dynamism.
- Mauritius (65.59) and Morocco (64.90) have scored the highest whereas Gambia and Mozambique has scored the lowest in this pillar at 28.44 and 33.57 respectively.
- The countries that have demonstrated an increment in the parameters assessed based on growth rates for the percentage of FDI inflow increment, manufacturing value added, and gross fixed capital formation are limited to Madagascar, Angola, Tanzania, Uganda, Tunisia, and Seychelles.
- Mauritius and Morocco have performed well on following parameters being assessed: Cost of Starting business, domestic Credit to Private Sector (% of GDP), time required to start business and manufacturing Value added (annual growth rate).

Export Performance

The "Export Performance" dimension offers a comprehensive snapshot of how well various African countries are faring in terms of their export performance . The Export performance examines the reach of export footprint and diversification across all countries in the African continent

- The average score on this pillar stands at 7.72, representing the lowest score across all the dimensions under consideration. Notably, only 11 out of 30 countries have managed to surpass this average score.
- South Africa (23.72) is the best performing country in this pillar attributing to a strong market penetration, a notable share of service exports, and a substantial contribution from high-technology exports to their export basket.
- Lower-performing countries in this pillar face substantial challenges characterized by low market penetration, limited proportions of high-technology exports, and a reliance on primary product concentration.
- Challenges of overdependence on primary products and limited technological exports need to be addressed by the African nations to improve their export performance.

The Way Forward

To enhance the competitiveness of African exports, it is imperative for countries across the continent to implement or improve the following key measures.

❖ **Enhance Export Promotion Strategies:**

Address the lack of comprehensive export promotion plans and strategies in African nations to facilitate the development and diversification of export sectors.

❖ **Invest in R&D and Knowledge Creation:**

Overcome the hindrance caused by the absence of robust research and development (R&D) activities by fostering knowledge creation and technology transfer to promote high-quality, technologically advanced exports.

❖ **Improve Export Infrastructure:**

Bolster the export ecosystem by investing in export infrastructure, with a focus on improving transport connectivity, access to reliable power, and widespread internet access to ensure smoother trade operations.

❖ **Promote Export Diversification:**

Encourage diversification in the export basket of many countries, reducing reliance on primary products, by offering incentives and support for the development of new export sectors.

Thank You
