



Transforming Africa's Trade

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Africa's Trade and Investment Landscape

Africa's trade landscape has historically been characterised by heavy reliance on the export of raw materials - primary commodities and natural resources. The region's export basket is dominated by natural resources (oil, gas, and minerals) and agricultural products, while imports consist largely of manufactured goods and machinery. This dependence on natural resources and commodity exports has contributed to undue exposure and vulnerability of African economies to external shocks. Fluctuations in global commodity prices, particularly the recent sharp increase in oil prices due to ongoing conflict in the Middle East, have had substantial economic consequences for many African economies that are net-oil importers, notwithstanding the relative gains experienced by resource-rich countries such as Nigeria and Angola.

In response, initiatives, including the launch of the historic African Continental Free Trade Area (AfCFTA), have focused on diversifying Africa's trade base through policies that support industrialisation and development of regional value chains. Similarly, the African Union's Agenda 2063 aims to transform the continent through industrialisation, infrastructure and modernisation, and increasing regional trade to at least 50 percent of the continent's total trade by 2063. The AfCFTA is widely regarded as a game-changer with the potential to integrate small, fragmented markets across the continent and strengthen regional economic linkages to boost intra-African trade and productivity. Its implementation is projected to significantly expand intra-African trade, with estimates suggesting that exports within the continent could increase by more than 20 percent within a decade, alongside notable growth in the manufacturing sector.

Despite these ambitions, current economic conditions across many African countries present significant challenges. Manufacturing value added as a share of gross domestic product remains below 10 percent—the lowest among developing regions. Intra-African trade accounts for only 15-17 percent of total trade, while critical infrastructure necessary for industrialization—such as reliable energy supply, road networks, and rail transportation systems—remains weak or underdeveloped. Although Africa's trade in goods and services has increased over time, it has been marked by considerable volatility. The continent has remained at

the periphery of world trade with its trade accounting for just a paltry 3 percent of total global trade.

African trade is heavily influenced by external and macroeconomic factors. The region experienced sharp declines during the 2008–2009 global financial crisis and again during the end of commodity supercycle associated with plummeting prices between 2014 and 2016, especially falling oil prices and reduced trade in mineral products. Moreover, disparities persist in both intra-regional trade and trade with the rest of the world. During the COVID-19 pandemic, demand for Africa's primarily upstream exports declined significantly among major trading partners, including the European Union and China occasioned by weak global demand. As a result, the continent's economic recovery has been contingent on the pace of recovery in these partner economies.

The global trade environment remains fragile, due to escalating geopolitical tensions, increasing economic fragmentation, and persistent supply chain disruptions, driven in part by trade and technology wars between the United States and China. These tensions have disrupted global supply chains and negatively affected African trade.

Across many African countries, both domestic and foreign investment are increasing, although foreign investment continues to dominate. The rise of financial technology has contributed to growth in domestic investment. At the same time, Africa continues to attract foreign direct investment, though inflows are not uniform across sub-regions. Eastern and Southern Africa receive a larger share of foreign direct investment compared with Western and Central Africa. Investment flows originate from Asia, North America, Europe, and within Africa itself. Both the United States and China are expanding their investment presence over time.

Despite this generally promising outlook, several structural constraints continue to hinder trade and investment. Chief among these is inadequate infrastructure. Africa faces an annual infrastructure financing gap of approximately US\$100 billion, with deficiencies in energy, transportation, and communication networks hampering trade logistics and increasing the cost of doing business. Inadequate port facilities, poor road networks, and unreliable electricity

supply remain major impediments to investment. According to the Africa Finance Corporation 2024 report on Africa's infrastructure, 13 African countries south of the Sahara lack operational rail networks, and roughly half of these countries are landlocked. Access to water also remains below 60 percent. These infrastructure gaps undermine structural transformation and the expansion of cross-border trade. They make building specialisations in specific goods and services more challenging. And they also make the continent less competitive and attractive for investment.

Institutional challenges further complicate Africa's trade and investment landscape. Weak governance structures, and underdeveloped legal frameworks serve as impediment to investors from fully engaging in African markets. Regulatory barriers, including inconsistent and incoherent policy implementation, bureaucratic inefficiencies, and a lack of transparency have complicated trade and investment processes - contributing to delays and higher transaction costs. Political instability, manifested in conflicts and government overthrow in some countries, has led to economic uncertainty and poor governance, weakening investor confidence.

Climate change also poses a growing threat to trade and investment in Africa. Although the continent contributes relatively little to global carbon emissions, it is disproportionately affected by climate-related risks. These risks include disruptions to agricultural production, damage to infrastructure, and the increasing frequency of extreme weather events. Such challenges weaken supply chains, reduce investor confidence, and hinder long-term economic growth and development. In countries such as Ethiopia and Kenya, more frequent and severe droughts have reduced crop yields, affecting key exports such as coffee and tea. This disrupts trade, as these countries struggle to meet international demand. Additionally, the unpredictability of harvests lowers investor confidence in the agricultural sector, which relies on weather conditions. The increased risks associated with climate change make it harder for African countries to attract investment in agriculture and related industries, ultimately hindering economic growth.

Limited economic diversification is another major constraint. Many African economies continue to rely heavily on raw material exports, with limited value

addition and less competitive in global markets. While some progress has been made in processing natural resources, leading to higher product value and a stronger position in international markets, a significant share of exports remains in raw form. This dependence exposes African economies to price fluctuations and external shocks, which discourages long-term investment in higher-value industries and hinders sustainable growth.

Currency volatility and the limited convertibility of some African currencies present additional barriers to cross-border trade and investment. Exchange rate fluctuations discourage foreign investors, increasing uncertainty by reducing the value of returns on investments. Exchange controls in countries such as Zimbabwe and Angola exacerbate this issue by restricting access to foreign currencies, making it difficult for firms to repatriate profits or settle international payments. These challenges complicate pricing strategies, hinder effective financial planning, and create a high level of uncertainty for investors operating across African borders.

Access to financing, particularly for small and medium enterprises, remains a critical challenge. Many such enterprises struggle to secure the capital needed for growth due to underdeveloped financial markets, high interest rates, and a lack of venture capital. Financial constraints are cited as a key obstacle to participation in export trade. In countries such as Nigeria, South Africa, and Ghana, where small and medium enterprises form a significant part of the economy, high borrowing costs and strict collateral requirements limit the enterprises' ability to expand. Similarly, startups often face difficulty attracting investment due to perceived market risks. These constraints stifle innovation and economic diversification, while limiting the ability of small and medium enterprises to compete internationally.

Regional development finance institutions, including the African Export-Import Bank, the African Development Bank, and the International Finance Corporation, have increased support for intra-African trade through trade finance and related initiatives particularly by Afreximbank such as the Intra-African Trade Fair (IATF), Pan African Payment and Settlement System (PAPSS), the AfCFTA Adjustment Fund, the Border Markets Initiative, and the Collaborative Transit Guarantee Scheme. But significant gaps remain. Addressing these gaps will be essential to increase financing and unlocking Africa's full trade and investment potential.

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