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Geoeconomic Fragmentation:  
Sub-Saharan Africa Caught  
between the Fault Lines

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## Geoeconomic Fragmentation: Sub-Saharan Africa Caught Between the Fault Lines

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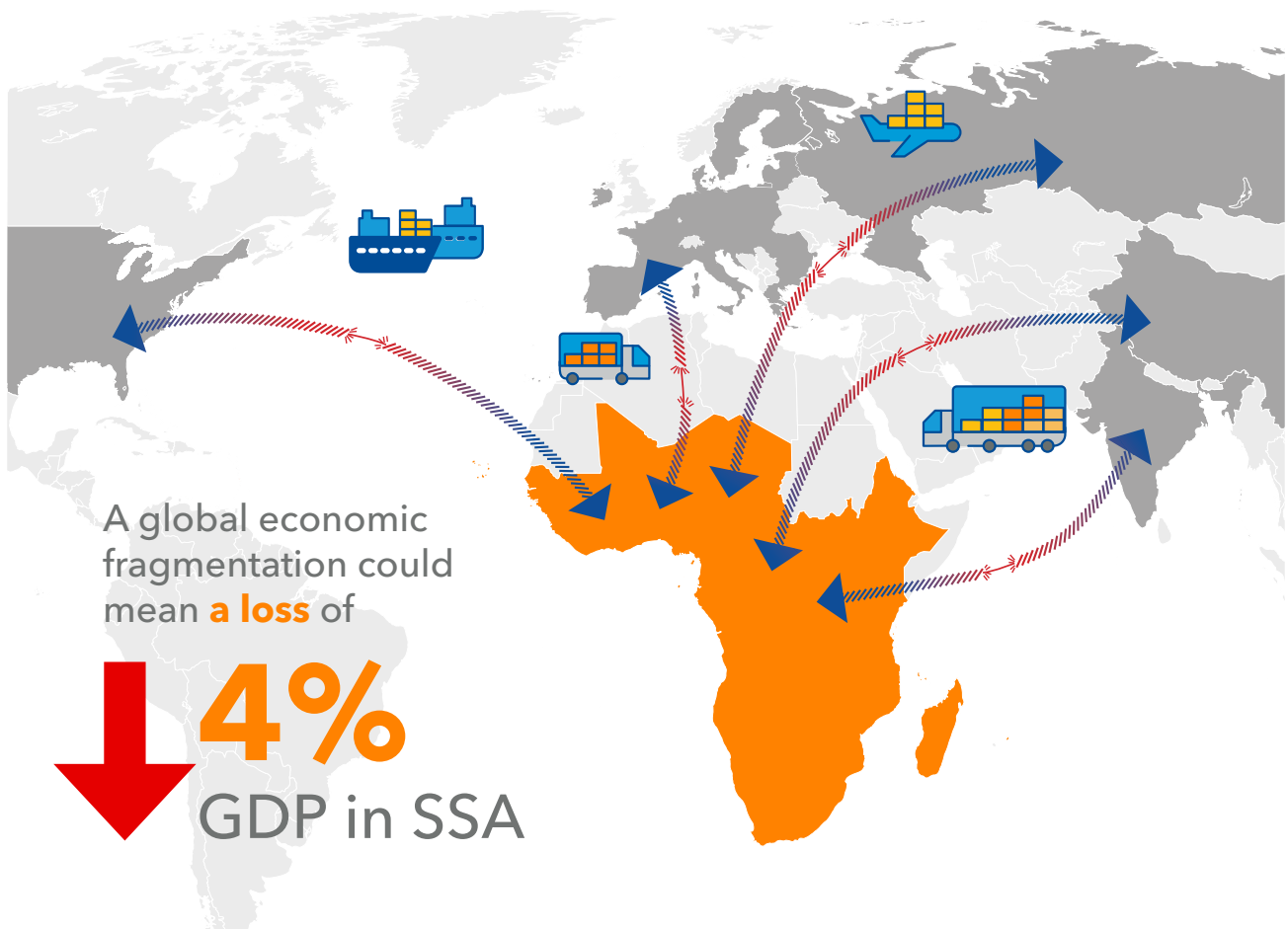
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# Geoeconomic Fragmentation: Sub-Saharan Africa Caught between the Fault Lines

Over the past two decades, sub-Saharan Africa has forged economic and trade alliances with new economic partners. While the region has benefited from increased global integration during this period, the emergence of geoeconomic fragmentation has exposed potential downsides. Sub-Saharan Africa stands to lose the most in a severely fragmented world compared to other regions, but there could also be potential benefits if fragmentation is limited. It is important for countries to build resilience against likely fallout from fragmentation and position themselves to benefit from possible changes in trade and capital flow patterns.

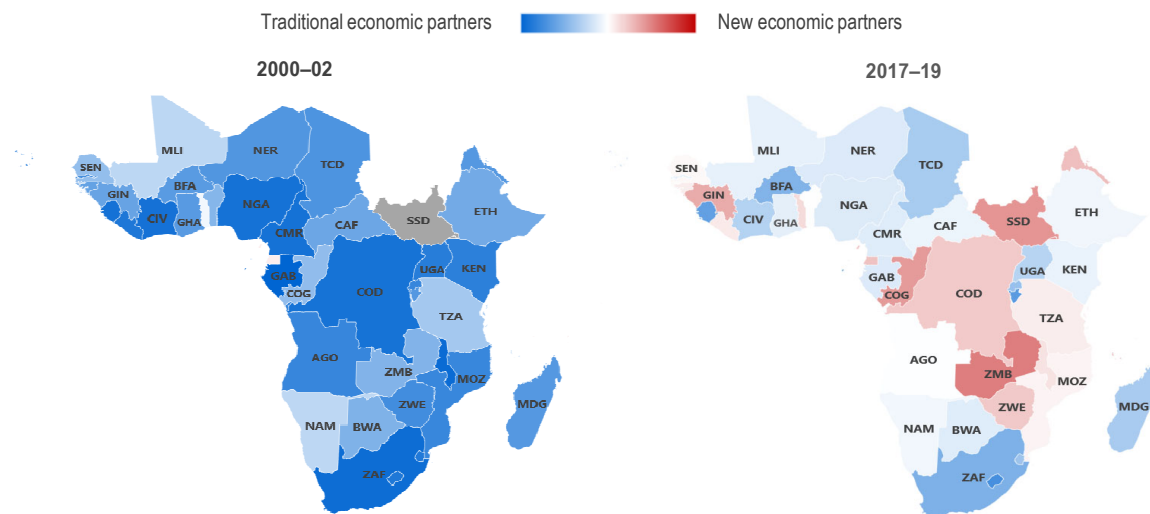


## Sub-Saharan Africa Has Benefited from the Expansion of Economic Ties over the Past Two Decades

The region has formed new economic ties with nontraditional partners in the past two decades. Riding on the tailwinds of China’s globalization since the early 2000s, the value of exports from sub-Saharan Africa to China increased tenfold over this period, largely driven by oil exports.<sup>1</sup> China has also emerged as an important source of external financing.<sup>2</sup> By contrast, the value of total external debt to the US and the European Union (EU) declined by about 30 percent relative to its peak levels in the mid-2000s. Meanwhile, aid flows—mostly from the US and the EU—have declined from peaks of about 6 percent of recipient GDP in the 1990s to an average of only 2½ percent in the past decade. The US and EU still supply most of the region’s foreign direct investment (FDI) stock, with China accounting for only 6 percent of it as of end-2020. Overall, sub-Saharan Africa is now almost equally connected with traditionally dominant (US and EU) and newly emerging (China, India, among others) partners (Figure 1).

Overall, the expansion and diversification of economic linkages has benefited the region during these past two decades. The region’s trade openness—measured as imports plus exports as share of GDP—doubled from 20 percent of GDP before 2000 to about 40 percent. This doubling, together with buoyant commodity prices, among other factors, contributed to the growth take-off during this period, boosting living standards and development before the commodity price crash of 2014–15 (see [April 2015 Regional Economic Outlook: Sub-Saharan Africa](#)).

**Figure 1. Sub-Saharan Africa: Aggregate Economic Linkages Index**



Sources: IMF, World Economic Outlook database; Coordinated Direct Investment Survey database; World Bank, International Debt Statistics database; Organisation for Economic Co-operation; Development Official Development Assistance; and IMF staff calculations.

Note: The index comprises three economic dimensions—trade openness, external flows (foreign direct investment inflows and official development assistance), and total external debt, each representing one-third of the total weight. Each dimension is calculated in percent of total linkages to China, the EU, India, Russia, Saudi Arabia, UAE, and the US, which are the main economic partners. The darker the color, the more strongly sub-Saharan Africa is linked with the respective group of partners; the lighter the color, the more equally the region is linked with each group.

<sup>1</sup> Oil exports represent more than half of the region’s total goods exports to China but make up only one third of the region’s goods exports to the rest of the world.

<sup>2</sup> In 2020, about 10 percent of sub-Saharan Africa’s total external debt (including public and publicly guaranteed debt, private debt, use of IMF credit, and short-term debt) came from China, according to the World Bank International Debt Statistics database. However, China is the largest official bilateral lender to the region, accounting for almost 60 percent of the region’s total official bilateral debt.

## The Recent Rise in Geopolitical Tensions Has Adversely Affected the Region

The downside of increased economic integration is that sub-Saharan Africa has become more susceptible to global shocks. With many countries relying heavily on imports of food, energy, and fertilizer, the region suffered one of the worst cost-of-living crises in decades when global commodity prices spiked in 2022 on the heels of the war in Ukraine and on top of the effects of the COVID-19 pandemic.

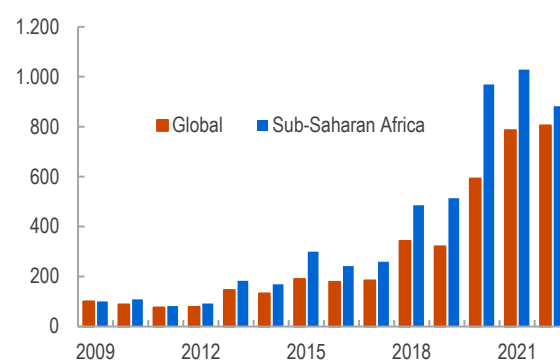
The rise in global tensions is spilling into the region.

The recent increase in protectionism, including in sub-Saharan Africa, is threatening to unravel earlier gains from integration (Figure 2). For several countries currently facing aggravated debt vulnerabilities, the road to debt restructuring has been marked by coordination problems among a diverse group of creditors that could worsen if geoeconomic fragmentation deepens.

But manifestations of geoeconomic fragmentation remain limited in the region, which is more of a bystander at this time.<sup>3</sup> Sub-Saharan African countries were split on the UN resolution following Russia's invasion of Ukraine, with half of the countries condemning the invasion while the other half did not or abstained. In select countries facing difficult security situations, including in the Sahel region, there have been reports of private security groups linked to Russia. For a few countries, this could potentially complicate the relationships with traditional political allies, such as France which withdrew its troops from Mali in 2022.

**Figure 2. Harmful Trade Restrictions Index**

(Index, 2008 = 100)



Sources: Global Trade Alert 2022; and IMF staff calculations.

Note: Harmful trade restrictions include measures that deter international trade, including contingent trade-protective measures, subsidies (excluding export subsidies), tariff measures, non-automatic licensing, quotas, and trade-related investment measures. "Global" is the total number of harmful restrictions implemented in the world. "Sub-Saharan Africa" is the total number of global harmful trade restrictions that affect at least one country in the region. Both totals were normalized to 100 in the base year 2008.

## Sub-Saharan Africa Stands to Lose the Most in a Severely Fragmented World

In the severe scenario of a world fully split into two isolated trading blocs, sub-Saharan Africa would be hit especially hard because it would lose access to a large share of current trade partners. About half of the region's value of current international trade would be affected in a scenario in which the world is split into two trading blocs: one centered around the US and the EU (US/EU bloc) and the other centered around China (Figure 3). In this scenario, countries that trade more with the US than with China are assigned to the US/EU-centered bloc, and those that trade more with China are assigned to the China bloc. For the purposes of illustration, under this severe "geoeconomic fragmentation" scenario, trade flows would adjust over time. But as the region loses access to key export markets and experiences higher import prices, the median sub-Saharan African country would be expected to experience a permanent decline of 4 percent of real GDP after 10 years relative to a no-fragmentation baseline (Figure 4). Estimated losses are smaller than the losses during the COVID-19 pandemic but larger than those during the global financial crisis. Declines are larger in countries that are more integrated into global trade and in countries that initially traded more with the bloc from which they are severed.

Disruptions to capital flows and technology transfer could bring additional losses. Separately from the trade simulation results, in a world where countries were to cut off their capital flow ties with either bloc consistent with the preceding severe scenario, the region could lose about \$10 billion of FDI and official development

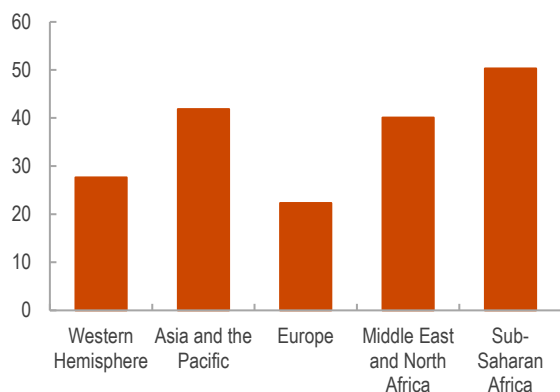
<sup>3</sup> Geoeconomic fragmentation is defined as a policy-driven reversal of integration, often guided by strategic considerations (IMF 2023).

assistance inflows, equivalent to about half a percent of GDP a year, based on an average 2017–19 estimate. In the long run, trade restrictions and a reduction in FDI could also hinder much needed export-led growth and technology transfers.

However, not all is bleak, and some milder scenarios of shifting geopolitics may create new trade partnerships for the region. In a scenario in which ties are cut only between Russia and the US/EU while sub-Saharan African countries continue to trade freely (referred to as “strategic decoupling”), trade flows would be diverted partly towards the rest of the world and intra-regional trade in sub-Saharan Africa may increase. Because some African countries benefit from access to new export markets and cheaper imports, the region as a whole would not incur a GDP loss relative to the baseline (Figure 4). Oil exporters supplying energy to Europe would especially gain in such a scenario.

**Figure 3. Trade at Risk of Geoeconomic Fragmentation**

(Percentage of total international trade)

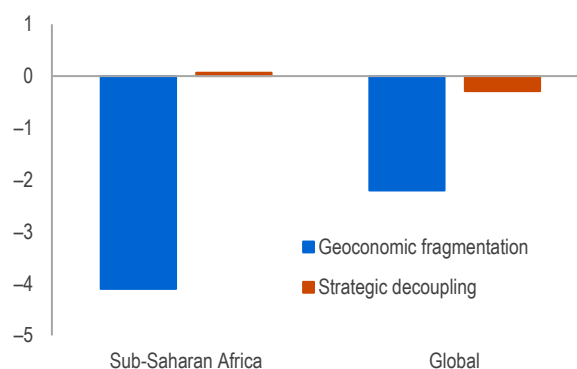


Sources: Eora Global Supply Chain database; and IMF staff calculations.

Note: Trade at risk refers to exports and imports to and from another bloc under a scenario of “Geoeconomic Fragmentation” where all trade is cut off between countries in US/EU- and China-centered blocs. Countries that trade more (imports and exports in 2019) with the US than with China are put in the US/EU-centered bloc, and vice versa.

**Figure 4. Estimated Real GDP Impact Under Two Scenarios**

Percent



Sources: Bolhuis and others 2023; and IMF staff calculations.

Note: Bars highlight annual losses for median country after 10 years relative to a no-fragmentation baseline. Under a severe “Geoeconomic Fragmentation” scenario, all trade is cut off between countries in US/EU- and China-centered blocs. Countries that trade more (imports and exports in 2019) with the US than with China are put in the US/EU-centered bloc, and vice versa. Under a less severe scenario of “Strategic Decoupling”, trade ties are cut only between Russia and the US/EU, and all trade ceases between the US/EU and China in high-tech sectors, leading to some diversion of trade flows towards Africa.

## Building Resilience against the Potential Fallout from Fragmentation

Building resilience requires strengthening regional integration and expanding the pool of domestic resources to counter potential external shocks:

- **Strengthening the ongoing regional trade integration under the African Continental Free Trade Area** could help build resilience amid external shocks (ElGanainy and others forthcoming). Greater integration will require reducing tariff and non-tariff trade barriers, strengthening efficiency in customs, leveraging digitalization, and closing the infrastructure gaps. Prioritizing improvements in the quality of institutions, especially the regulatory framework, is an effective way to help promote private participation in infrastructure.

- **Deepening domestic financial markets** can broaden the sources of financing and lower the volatility associated with excessive reliance on foreign inflows. By upgrading domestic financial market infrastructure—including through digitalization, transparency and regulation, and expanding financial product diversity, sub-Saharan African countries can expand financial inclusion, build a broader domestic investor base, and increase attractiveness to a larger set of external investors.
- **Improving domestic revenue mobilization** is critical to reducing the share of commodity-linked fiscal revenues and alleviating constraints on social and infrastructure expenditures. Successful revenue mobilization efforts require both revenue administration and tax policy reforms, such as expanding the base for value-added taxes and leveraging digitalization in tax collection.

Countries in the region can also position themselves strategically to **benefit from trade diversion and potential new FDI flows**. This positioning is very country-specific given the region's heterogeneous ties to world powers and some countries' reliance on commodity exports.

- **Creating the right environment to attract FDI** would allow countries to take advantage of *friendshoring*, whereby countries reconfigure global supply chains by choosing like-minded partners. These efforts could be supported by improvements in the business environment such as lowering entry, regulatory, and tax barriers. **Reducing domestic policy uncertainty** including by improving governance could reduce the country's perceived risk level and help attract more foreign capital investment.
- **Identifying and nurturing the sectors that may benefit from trade diversion** could help countries maximize their chances to reap benefits. For instance, commodity exporters in the region could potentially displace much of Russia's **energy market** share in Europe, although countries will need to use the potential revenue windfalls wisely and build buffers, as the world gears towards the green transition. Countries can also rely on **trade promotion agencies** to help identify potential opportunities, build the necessary skills and capacity for exporters, and eventually re-orient production to take advantage of new trade flows. The region can leverage its **abundant labor force and agricultural resources** to become the world's factory and food exporter, if the necessary investments are undertaken in human capital and sustainable agriculture practices.

Lastly, **multilateral institutions need to ensure that economic integration continues to act as a growth catalyst for all countries**. They can facilitate the dialogue promoting the gains of global integration, stress the costs from protectionist practices, and push for multilateral cooperation in areas of common interests, including food security, climate change, and debt resolution.

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