
# The AfCFTA

## Thematic Futures

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In this entry, we describe the effect of trade on economic development and show how Africa can benefit from improved regional trade. We then present a Free Trade scenario that shows the impact of the full implementation of the African Continental Free Trade Area and discuss the implications.

## Summary

- Globalisation has made immense contributions to humanity's prosperity and development, although less in Africa despite several international agreements and measures designed to boost African trade volumes.
- Regional trade agreements (RTAs) can help African countries to implement domestic reforms and open up to global competitive market pressure at a sustainable pace, facilitating their economic integration into the global

economy.

- Most RTAs among developing economies failed because they were based on a regional form of import substitution. This inevitably led to conflict as each member country wanted a regional market for its inefficient industries.

- The African Continental Free Trade Area (AfCFTA) presents a unique opportunity to create an integrated, continent-wide market. It is a vital step towards building the 'Africa we want' in line with the aspirations of the AU Agenda 2063.

- Until recently, Africa has done little to increase its intra-regional trade.

- Currently, China is Africa's biggest trade partner. However, the large proportion of primary goods, rather than high-value goods, being exported is concerning.

- Well-considered and meaningful regional trade initiatives can boost trade volumes and value in Africa, given that Africans invest in the associated infrastructure and that both tariff and non-tariff barriers to trade are removed.

- The AfCFTA holds considerable promise for economic development in Africa, as modelled in the AfCTA scenario.

- Given Africa's fragmented geography, increased regional trade facilitated by trade agreements is imperative for building competitive productive capacity at scale.

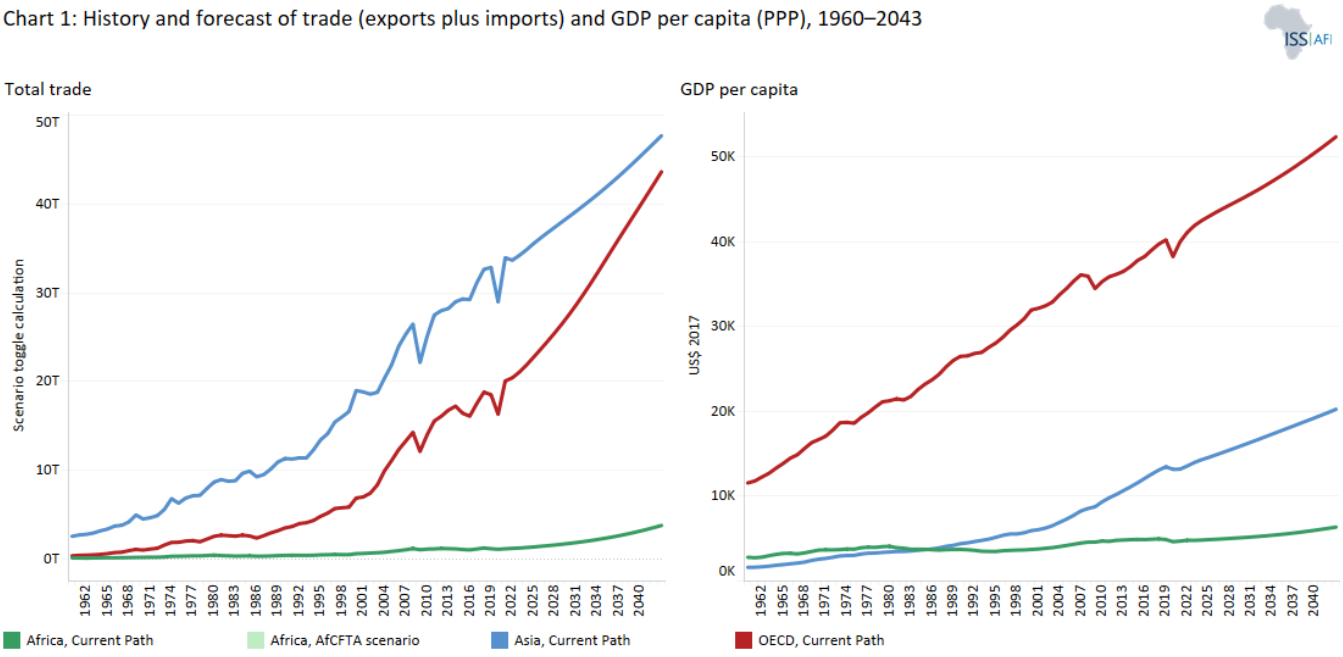
## Introduction

International trade theory predicts welfare gains from trade openness. Trade openness accelerates technology diffusion which improves productivity and innovation activities. The obvious evidence of the success of many developed countries today is related to globalisation. For example, the success of the economy of the United Kingdom (UK) is linked to its industrial revolution and export performance through foreign trade. The UK's industrial revolution subsequently provided the basis for industrial development in Western Europe, the United States (US), and other developed countries today, where conditions were favourable.[1] However, importing foreign technologies and knowledge must be complemented by connecting infrastructure, institutions, human capital and financial development.

Similarly, the economic welfare gains of East Asian countries, such as China, Japan, Hong Kong, Korea, Singapore and Taiwan, are all linked to foreign trade. These countries efficiently utilised the industrial technologies inputs from others that enhanced domestic productivity and innovation, expanding exports.[2]

Africa is failing to maximise globalisation and remains the poorer region of the world (see Chart 1). Although Africa has about 18% of the world's population, it has only about 2.9% of global GDP and only 2.2% of world exports. Its share of world exports has remained low, stagnant and heavily skewed towards primary goods, despite signing many trade agreements, including the African Growth and Opportunity Act (AGOA) with the United States, Economic Partnership Agreements (EPAs) with the European Union and various trade-investment agreements with China.

Chart 1: History and forecast of trade (exports plus imports) and GDP per capita (PPP), 1960–2043




Source: IFs 8.13 initialising from IMF World Economic Outlook

Most African countries fail to add value to their primary or commodity goods. For instance, countries like Ghana and Côte d'Ivoire produce about 53% of the world's cocoa. Yet, shops in these countries are stacked with chocolate imports from Switzerland and the UK.[3] Primary goods are characterised by volatile prices and lack both technological dynamism and local economic linkages; hence, over-dependence on primary goods translates into slow growth.

Intra-Africa trade and African participation in global value chains (GVCs) are very low relative to other world regions, hampered by high dependence on primary goods exports, barriers to trade and lack of competitiveness. The Global Competitiveness Index 2019,[4] only ranked 11 African countries among the top 100 most competitive countries in the world: Mauritius (52nd), South Africa (60th), Seychelles (76th), Morocco (75th), Tunisia (87th), Algeria (89th), Botswana (91st), Egypt (93rd), Namibia (94th), Kenya (95th) and Rwanda (100th).

Consequently, the African Continental Free Trade Area (AfCFTA) aims to remove trade barriers, unlock opportunities for regional value chains (RVCs) and increase the continent's global competitiveness in GVCs. It aims to reverse the continent's premature deindustrialisation and tap into its vast manufacturing opportunities, including agro-processing, mining, automotive, chemicals, clothing and footwear, and business machinery production. Thereby laying the foundations for a Made in Africa Revolution.[5]

Welfare gains will mostly come from increased efficiency driven by reduced non-tariff barriers[6] as intra-continental import tariffs are already low following existing intra-regional trade openness. Thus, potential economic welfare gains from the AfCFTA would require member states to substantially reduce non-tariff barriers such as quotas, embargoes, and licences. In addition, governments would need to reform customs procedures, rectify infrastructure gaps and reduce other trade-related transaction costs.

## Impact of regional trade agreements

For the last half-century, regional trade agreements (RTAs) have been a major and recurring means of eliminating trade barriers. The evolution of RTAs has tracked policy developments and has become an important feature through which to advance trade for almost all World Trade Organization (WTO) members. The number of RTAs and the global share of trade covered under them have substantially increased over the last three decades. The recent AfCFTA reflects this trend, which is the world's largest free trade area in terms of membership as it brings together 54 African countries and eight regional economic communities (RECs).

Promoting a free trade area following an RTA may help African countries implement domestic reforms and open up to competitive market pressures at a sustainable pace, thus facilitating their economic integration into the world economy. It would also benefit the multilateral process by promoting trade openness and competitive liberalisation of international trade relations.

Economic welfare gains from these preferential trade agreements (PTAs) stem from resources flowing to their most productive uses and lower consumer prices. However, creating a RTA does not necessarily guarantee the improvement of member states' welfare, as it may come at a cost. The preferential removal of tariffs may lead to trade diversion, where imports shift away from the most efficient supplier to the country receiving preferential treatment. Such diversion can generate an inefficiency in world production, leading to welfare losses for member and non-member countries. It can harm member states if the changes in consumer welfare gains are too small to outweigh the cost of inefficient production. In contrast, trade welfare gains are achieved when a RTA shifts production from inefficient domestic providers to efficient RTA members (trade creation).

## Waves of regional trade agreements

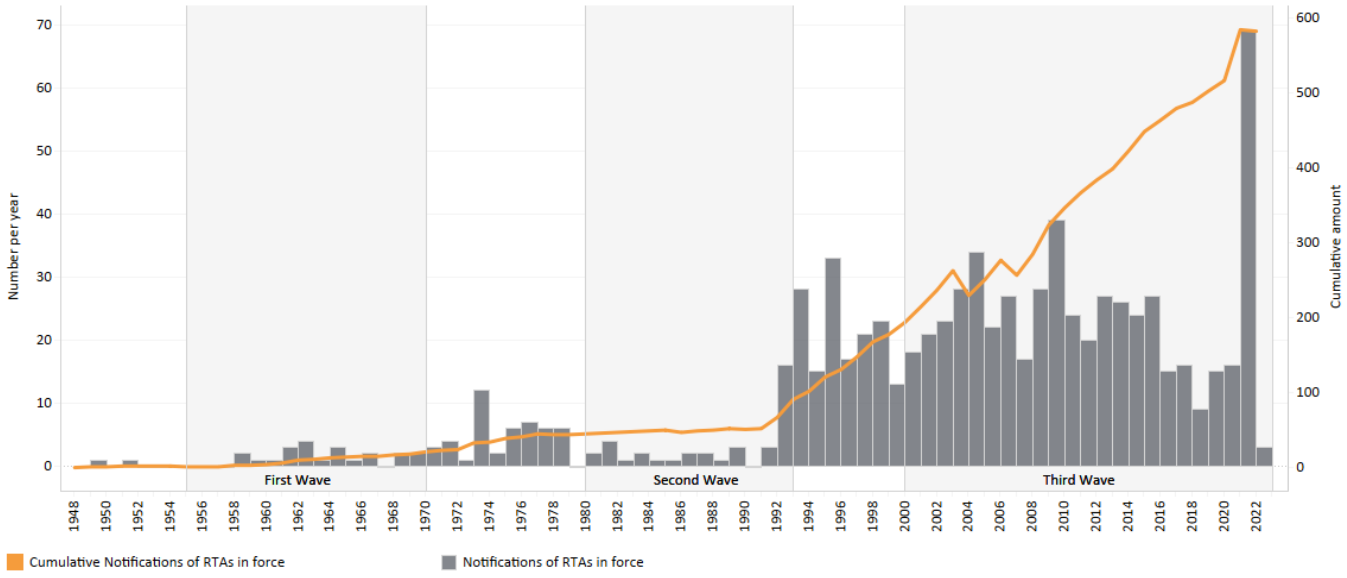
Since the signing of the General Agreement on Tariffs and Trade (GATT) in 1947, three waves of RTAs have swept through the global trading system The six Western European countries (Belgium, Luxembourg, France, Italy, Netherlands and Germany) led the first wave of regionalism in the late 1950s and 1960s, which founded the only substantial new customs union of the 1960s—the European Customs Union. Seven other European countries (Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom) formed the European Free Trade Association (EFTA) during the same period. The European Customs Union used preferential trading agreements to encourage future members and as a substitute for traditional foreign policy instruments.[7]

The union was subsequently used as a model by groups of developing economies in Africa, the Caribbean, Latin America and South America. The most promising of these agreements, the East African Community and the Central American

Common Market, however, eventually collapsed in the 1970s.[8]

These two agreement failed because they were based on a regional form of import substitution. Each member country wanted a regional market for its inefficient industries but was unwilling to buy the expensive or poor-quality import substitutes being produced by their partners. The European Customs Union had similar strains. However, in most instances (except for agriculture products), the least-cost supplier within the union was globally competitive. In addition, the political will for a greater economic union outweighed the perceived costs.[9]

Chart 2: Evolution of regional trade agreements, 1948–2022

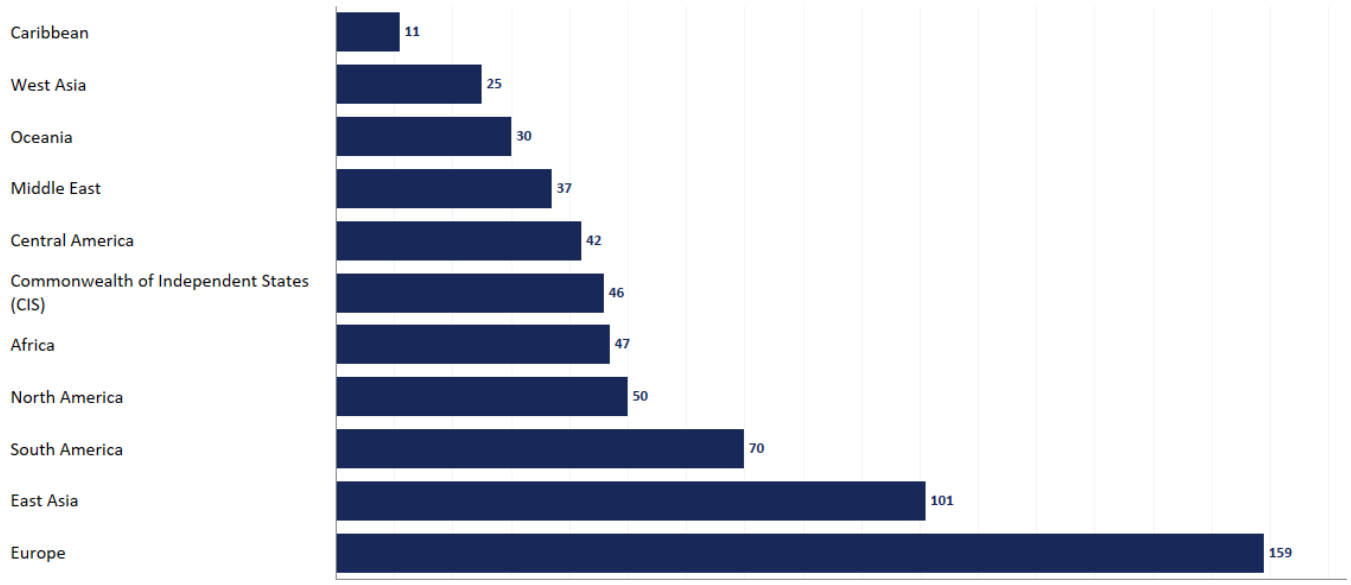



Source: RTA section of the WTO Secretariat, December 2022

The second wave was initiated by the US's departure from the GATT non-discrimination (countries cannot discriminate products from different trading partners) principle in the first half of the 1980s and peaked with the North American Free Trade Agreement (NAFTA) negotiations in the early 1990s, which coincided with the establishment of European Union's (EU) in 1993. It turned out that discriminatory trade policies posed less of a threat to the global trade system.

Although NAFTA was signed and implemented in 1994 and the EU established the year before, the major trading nations reaffirmed their commitment to the non-discrimination principle with the successful conclusion of the 1986–1994 Uruguay Round of multilateral trade negotiations and the establishment in 1995 of the WTO as the successor to the GATT. The practical outcomes of these RTAs were, however, minimal for much the same reasons as in the first wave: each partner was unwilling to grant other partners non-trivial preferential access to its own protected markets.

Chart 3: Regional trade agreements, participation by region, 1948–2022




Source: RTA section of the WTO Secretariat, December 2022

The third wave of RTAs began in the early years of the 21st century (the early 2000s) and was led by East Asian countries, partly stimulated by a perception that the global economic institutions let the region down in the 1997 Asian Crisis and the increase of China's economic power. The bilateral negotiations started with Japan and Singapore, whilst plurilateral (or multi-national) agreements were initiated between China and the Association of Southeast Asian Nations (ASEAN).

In this wave, the number of RTAs notified to the WTO reached an all-time high in the early 2000s. In Africa, evidence of the increased regionalism in the early 2000s was provided with the revival of the defunct EAC in 2001.[10] In Europe, further evidence of deeper regional integration is seen in the expansion of the European Union (EU) to 25 in 2004 and to 27 members in 2007 with Croatia becoming its 28th member in 2013, although the UK left in 2020. This wave continues many of the trends towards deeper regional integration that cover additional economic policies such as foreign direct investment (FDI), intellectual property rights and the environment in addition to trade.[11]

## The AfCFTA

In January 2012, the African Union (AU) announced its intention to embark on the AfCFTA as originally envisioned in the 1991 Abuja Treaty. The AfCFTA was signed in 2018, ratified in May 2019 and officially launched in January 2021. The main aim of the AfCFTA is to utilise trade as an engine of growth and sustainable development by:

- creating a single continental market for goods and services, with free movement of business persons and investments
- boosting intra- and inter-REC trade and intra-Africa trade
- enhancing competitiveness and supporting economic transformation, and
- promoting industrial development, through the elimination of tariff and non-tariff barriers to trade in goods and services.

The agreement presents a unique opportunity to create an integrated, continent-wide market. It is a vital step towards

building the 'Africa we want' in line with the aspirations of the AU Agenda 2063.[12]

The negotiations on the provisions and operationalisation of the AfCFTA are scheduled to take place in three phases:

- Phase I covers trade in goods and services, based on reciprocal concessions and subsequent agreements between state parties. The intention is that this will last for a limited period only.[13]
- Phase II covers intellectual property rights, investment and competition policy.
- Phase III covers e-commerce.

Each phase is captured in a legally binding protocol that forms part of the AfCFTA Agreement on adoption. Negotiations to finalise Phase I have been concluded and Phase II was planned to be concluded by the end of 2022, but still not finalised. And phase III negotiations are due to begin when phase II is finalised.

The plan is that by 2034 Africa will have achieved tariff liberalisation of 97% of goods in a staged manner. In Phase I, member states agreed to remove 90% of tariff lines (fully liberalised—zero tariff rate). The remaining 10% of tariff lines are divided into two categories: 7% are designated sensitive products and they will have a 10% tariff rate, and 3% of tariff lines are excluded from liberalisation entirely - to allow flexibilities for State Parties with particular sensitivities but will be subject to review every five years.[14]

Much work remains, however, as the agreement is essentially a framework to ultimately eliminate tariff and non-tariff barriers, liberalise trade in services and cooperate in matters of investment, intellectual property rights, and so on.[15] In accordance with the AfCFTA, an African Trade Observatory (ATO) will collect and analyse trade and trade-related data, establish a database for African trade, monitor implementation and evaluate the implementation process and the impact of the AfCFTA and the Action Plan for Boosting Intra-Africa Trade. It will also have a capacity-building function to equip national governments and businesses to analyse and use trade data.[16] Trade facilitation is funded by the AU, member states and external investors, and will address transport infrastructure, customs clearance, technical assistance and capacity building.[17]

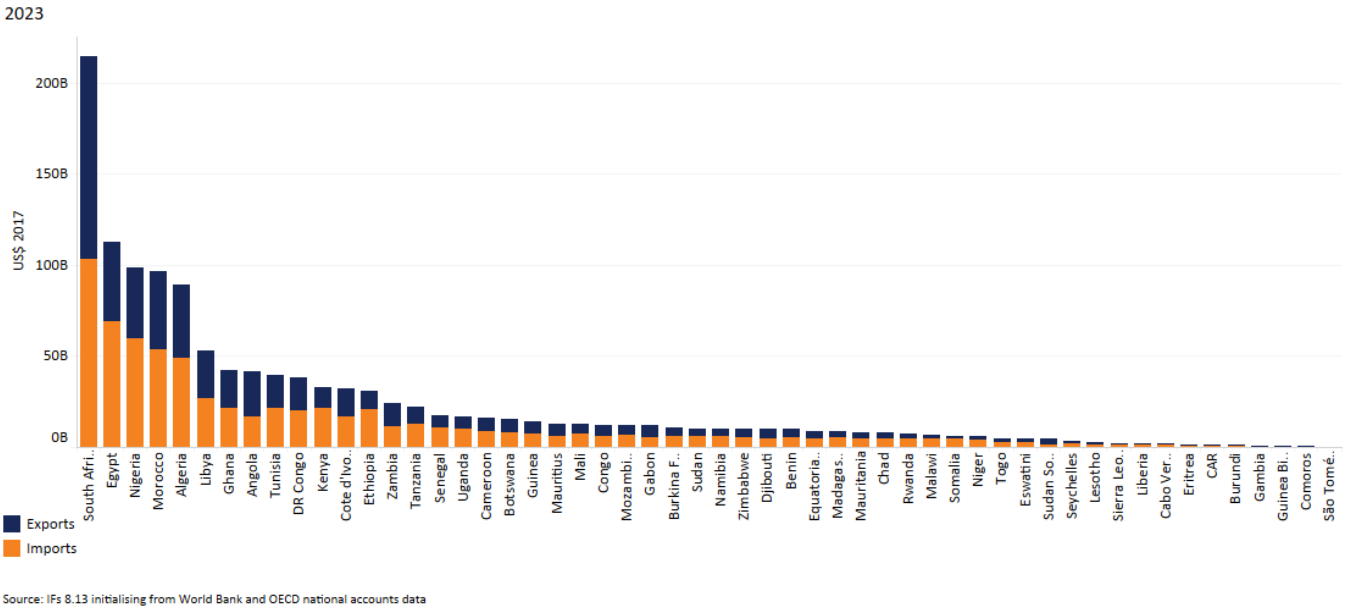
The AfCFTA enjoys considerable political support. Evidence in the literature also supports the view that the elimination of intra-continental barriers to trade can unlock economic potential. However, the heterogeneity of African countries could hinder member states' engagement and cooperation in implementing a RTA. African countries vary in size, level of economic development and diversification. For example, in terms of size, as of 2020, eight countries18 had populations of less than 1.5 million and only three countries[19] had populations of over 100 million.

The AfCFTA also includes member states with much bigger levels of income disparity than in blocs such as the Association of Southeast Asian Nations (ASEAN) and the Caribbean Community (CARICOM).[20] The experience elsewhere, particularly in Europe, is that the inclusion of member states at different levels of development tends to benefit the more advanced members, while the weaker ones fall further behind. Thus, the AfCFTA could bring additional competition to domestic markets leading to firm closures and possibly higher unemployment rates as investments may shift towards more competitive economies. This is particularly true for the 33 least developed countries (LDCs)[21] in Africa that are part of the negotiations towards the AfCFTA.

For example, under the AfCFTA, the export potential is highly concentrated in three major exporters, South Africa, Morocco and Egypt. In contrast, the 33 LDCs only account for just 16% of the export potential.[22] In addition, Egypt,

Nigeria and South Africa together account for over 50% of the continent's cumulative GDP, while the six sovereign island nations (Comoros, Madagascar, Mauritius, Seychelles, Cabo Verde and São Tomé and Príncipe) collectively account for just 1%.[23]

Chart 4: Export and import value per African country in the Current Path forecast, 2019 and 2043




Source: IFs 8.13 initialising from World Bank and OECD national accounts data

The 33 LDCs negotiating the agreement are small in scale, remote and have low productivity levels. They have weak domestic production capacities relative to firms in non-LDCs and often incur structural disadvantages related to natural endowments and geographic location. For example, 14 of the 33 LDCs are landlocked. Furthermore, trade reforms in Africa's LDCs are associated with the relatively slow implementation of regional agreements due to poor or weak institutional capacities.[24] As a result, the AfCFTA will most likely create winners and losers across countries and sectors.

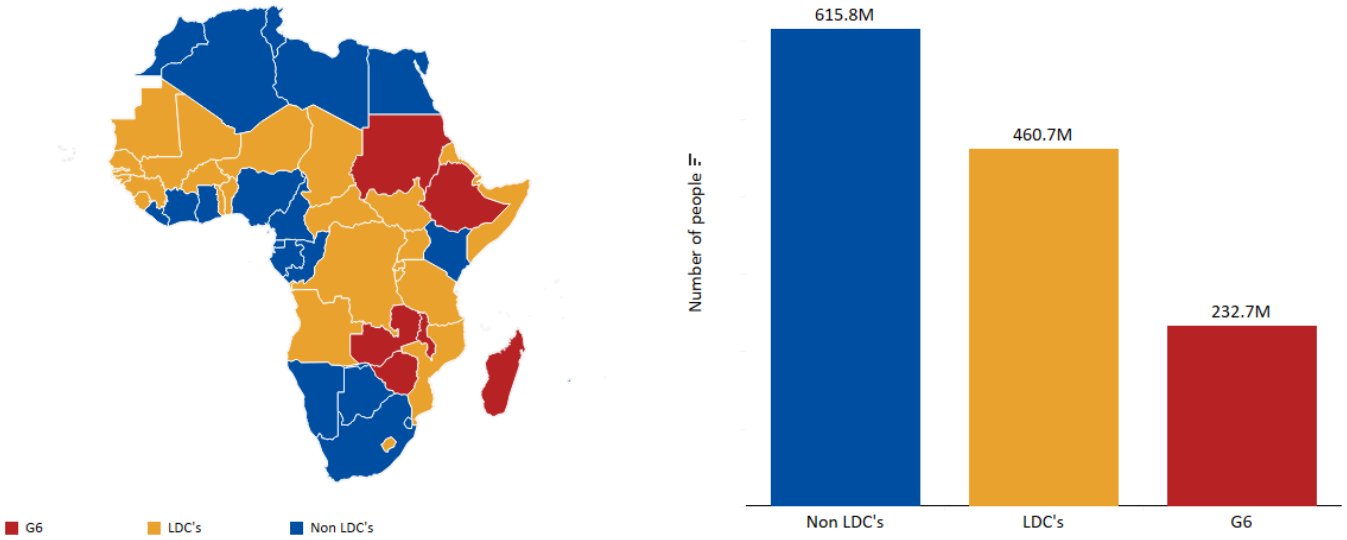
The implementation of the AfCFTA could be accompanied by substantial costs during the initial years, particularly for the LDCs. The benefits of eliminating their intra-Africa tariffs can accrue slowly over the years and even decades. These costs include fiscal revenue losses, higher income inequality and higher unemployment, mostly if the trade openness is not accompanied by reforms to make labour markets more flexible and employees more mobile to grasp new opportunities elsewhere within AfCFTA.[25] Not all member states are committed to the free movement of labour concept. At the signing of the AfCFTA and the Kigali Declaration, only 30 states signed the Protocol on Free Movement of Persons which seeks to establish a visa-free zone within AfCFTA. Major AfCFTA signatories Nigeria and South Africa have not signed the Protocol.[26]

Import tariffs remain an important measure to reduce import competition and so protect domestic industry.[27] Thus, the matter of tariff concessions is a sensitive one for the LDCs, although intra-Africa import tariffs are low relative to extra-trade tariffs. Intra-Africa trade tariff revenue is still an important source of most LDCs' revenue. They would see larger reductions to their government fiscal revenue and, hence, limited capacity to provide public goods and services. For instance, the Central African Republic, Chad, Comoros, and the Democratic Republic of the Congo (DR Congo) are all estimated to depend on intra-Africa tariffs for more than 5% of total government revenue.[28]

The reduction in tariff revenue is expected to arise from trade diversion owing to intra-Africa tariff elimination. Therefore, without exception, many states in the AfCFTA face challenges of creating jobs, developing their industrial sectors and diversifying their production capacity. Agreeing on tariff liberalisation schedules considering such large differences will require steadfast respect for special and differential treatment by all concerned. Due to the countries' different levels of

development, differential treatment for the LDCs and the non-LDCs was granted in the AfCFTA tariff negotiations, explained below.

Chart 5: Map of LDCs, non-LDCs and G6 countries
Population by grouping in 2019




Source: World Bank categorisation

However, the AU secretariat should provide additional support and assistance to the LDCs beyond tariff differential timelines. This means that AU cannot bridge the gap alone, private equity, debt finance, and local and regional banks must all play a part.  A special group of countries, the so-called Group of 6 (G6) (Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe), also argue that they face specific development challenges and require differential treatment.

The LDCs have 10 years to fully liberalise 90% of the non-sensitive products, while the non-LDCs have five years. The G6 managed to secure a 15-year phase-down period. The LDCs have 13 years to eliminate tariffs on sensitive products and may retain the status quo, starting liberalisation in year six, whereas the non-LDCs have the tariffs in 10 years and also maintain the status quo, starting liberalisation in year six. Both the LDCs and the non-LDCs may exclude 3% of tariff lines, but the excluded products may not account for more than 10% of their total trade (see Chart 6).

Chart 6: Schedule of liberalisation for the tariff on goods

| | Tariff reductions | | | |
|---|---|---|---|---|
| AfCFTA country classification | | 90% non-sensitive products | 7% sensitive products | 3% excluded products |
| | Non-LDCs | Fully liberalised over five years | Fully liberalised over 10 years (current tariffs can be maintained during first five years – phase down starting in year six) | No cut |
| | LDCs | Fully liberalised over 10 years | Fully liberalised over 13 years (current tariffs can be maintained during first five years – phase down starting in year six) | No cut |
| | Group of 6 (G6) | Fully liberalised over 15 years | Not yet determined | Not yet determined |

The existing RTAs and RECs act as the building blocks for deeper cooperation or as implementing agencies for the AfCFTA. They are also key AU partners in ensuring stability, peace and security, and crucial in the implementation of the Agenda 2063.[29] To that end the AfCFTA recognises eight RECs. These are:

- Arab Maghreb Union (AMU)
- Common Market for East and Southern Africa (COMESA)
- Community of Sahel-Saharan States (CEN-SAD)
- East African Community (EAC)
- Economic Community of Central African States (ECCAS)
- Economic Community of West African States (ECOWAS)
- Inter-governmental Authority on Development (IGAD)
- Southern African Development Community (SADC).

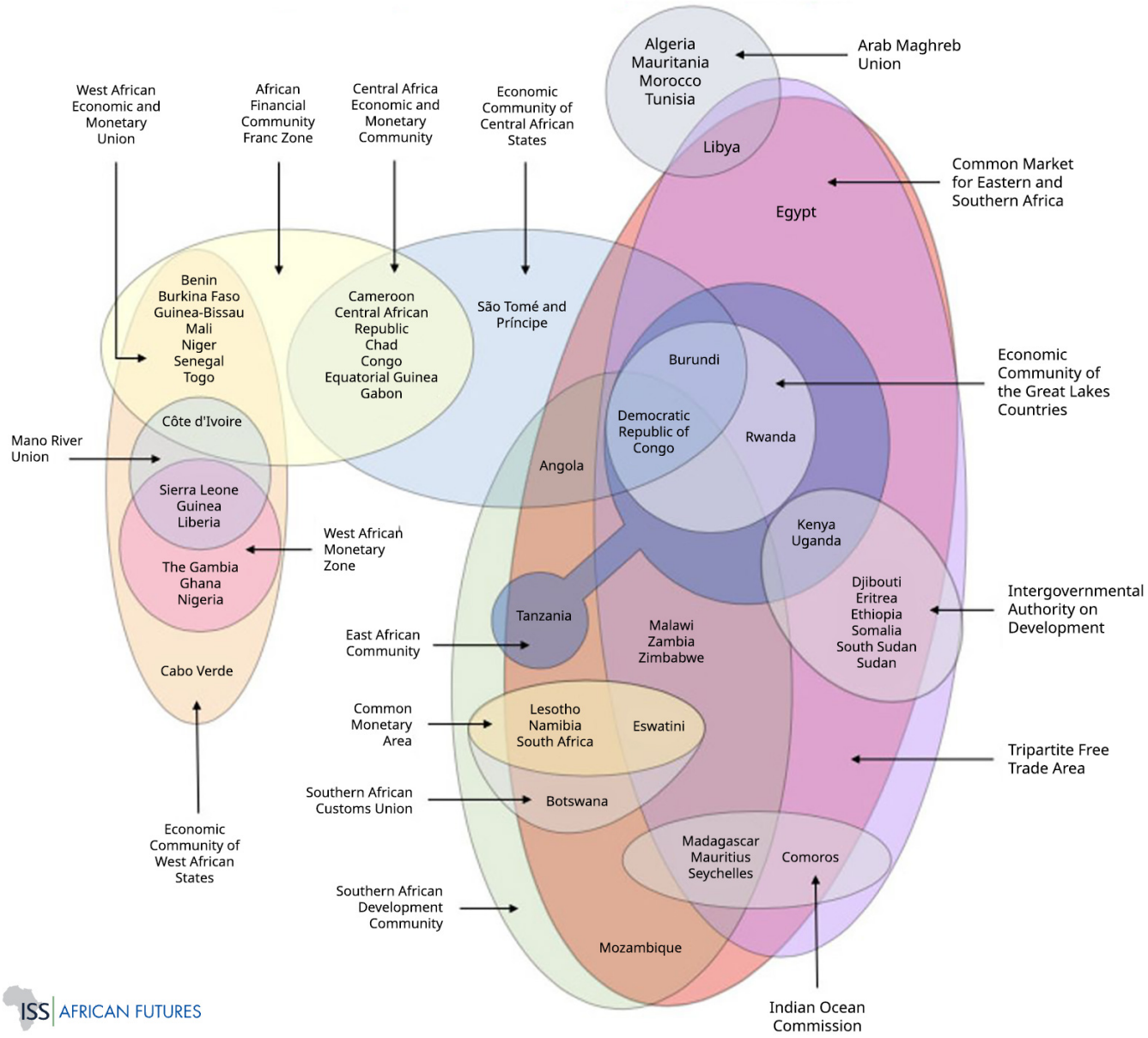
AMU, CEN-SAD, ECCAS and IGAD do not currently have own trade arrangements. In addition, custom unions like the Southern African Customs Union (SACU) will continue in terms of their own legal instruments.

Countries that are in the same customs union or RTA with a common external tariff regime will continue to trade under the agreement and will implement the same liberalisation schedule in the AfCFTA. Therefore, some non-LDCs will liberalise according to the schedule for the LDCs. For instance, the four non-LDCs (Botswana, Eswatini, Namibia and South Africa) in

the SACU will implement the LDC liberalisation schedule as Lesotho (a SACU member state) is an LDC. One particular issue in this situation is that South Africa, for example, which is one of the largest and more developed economies in Africa, will be given longer tariff phase-down periods.

Chart 7 shows the web of intra-Africa trade agreements, including eight RECs recognised by the AU. The SACU and the EAC are the continent's oldest regional agreements formed in 1910 and 1919, respectively, and are among the most vibrant and successful RTAs in Africa.

**Chart 7: Regional trade agreements in Africa, 2019**




By 2019, there were over 15 RTAs in Africa and many states have overlapping memberships. These existing RTAs have to some extent facilitated the increase in intra-Africa trade. However, they underperform as they lack complementary domestic reforms to improve national supply responses and have low implementation levels.

The poor performance of the RTAs is mostly due to high non-tariff barriers such as non-tariff measures (i.e. quotas, embargoes, licences, foreign exchange restrictions, and import deposits), high administration requirements, poor customs

procedures, lack of connecting infrastructure, and other trade-related transaction expenses that kept trade costs high. Then there is an absence of strong institutions and associated policies to support the functioning of the RECs.[30] Therefore, to reap the full potential benefits of the AfCFTA, trade integration within RECs should remain a priority. Member states must address the long-standing challenges that negatively affected these RECs if they want the AfCTA to succeed.

What makes the AfCFTA stand out from the existing regional agreements is the depth of political will, the geographical and policy coverage, and the articulation of existing RECs under a single normative umbrella with a dispute settlement mechanism to ensure compliance and enforcement of commitments undertaken. This is a momentous commitment, signalling that each member state is indeed ready to embrace an international rules-based trade and investment system.[31]

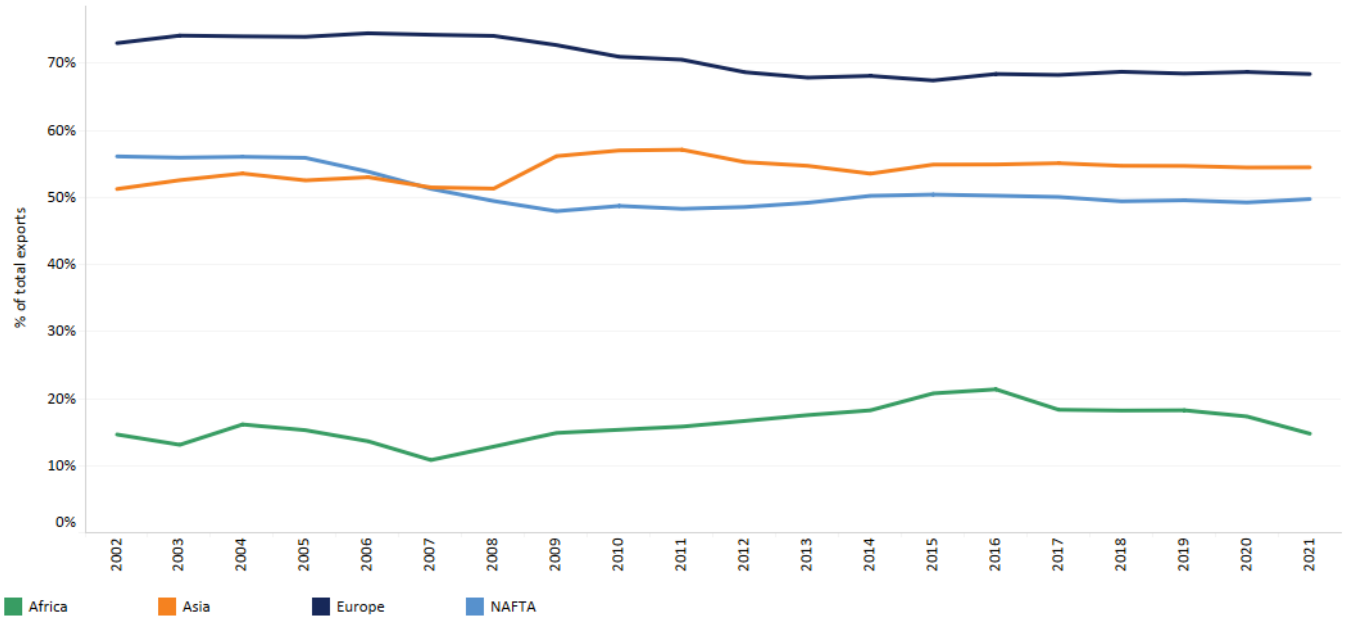
The advantages of the AfCFTA have long been recognised, yet real progress never materialised.[32] Neither the 1980 Lagos Plan of Action, which was essentially Africa's response to the World Bank's structural adjustment programmes, nor the treaty establishing the African Economic Community of 1991 (generally known as the Abuja Treaty) previously made much progress.

The African Union Development Agency–New Partnership for Africa's Development (AUDA–NEPAD) provides an overall integration and development framework for the continent, which again assumes regional integration as one of its core objectives. This time, the prospects for progress are more real in the context of the AfCFTA as it presents the best prospects for economic growth, given the advantages of proximity. Intra-Africa trade is far smaller relative to other world regions, and the continent heavily relies on external markets for both its exports and imports. The full implementation of the AfCFTA will be crucial to limit the impact of the current deglobalisation trend in Africa.

## Intra-Africa trade

Africa has, until recently, done little to increase its intra-continental trade (see Chart 8), and, as a result, has remained on the sidelines of GVCs, limited to upstream production mostly consisting of commodities. African countries need to increase trade with one another while steadily expanding their participation in RVCs and GVCs. In contrast to intra-continental trade in other world regions (68.4% in Europe, 54.5% in Asia and 49.8% in NAFTA), exports between African countries made up only 14.8% of the continent's total exports in 2021—a 3.5 percentage points reduction when compared to 2019. Much of the intra-continental trade has been driven by SADC and the EAC, which have the highest levels of intra-continental trade among regional groups.

Chart 8: Intra-Africa exports relative to other regions, 2002–2021




Source: ITC Trade Map data, 2023

However, the share might be significantly larger in reality than shown in official trade data. Informal intra-Africa trade may meet or even exceed formal intra-Africa trade. For instance, in a study by the International Food Policy Research Institute (IFPRI) in 2018, informal trade at a single border crossing between Zambia and Malawi was estimated at US$2.9 million per month, while formal trade at the same border crossing accounted for about US$1.6 million per month. A survey on smuggling between Benin and its neighbouring countries concluded that there were five times more smuggled goods from Benin to Nigeria than officially recorded exports.[33] Similarly, a study by the African Resource Centre in 2010 estimated the value of informal exports from Uganda to its neighbouring countries to be about 83% larger than the official export data.[34] Thus, if formal and informal trade data were to be added together, the share of intra-Africa trade would double or even triple.

The main cause of informal intra-Africa trade is the cost associated with formal trade. Monetary costs of formal trade include high tariffs on imports and exports, accompanied by high processing and clearance fees. Time costs include long waiting periods and inadequate border infrastructure that cause long delays at formal crossings.

African governments may encourage movement from informal to formal intra-continental trade by implementing economic policies that decrease the cost of formal trade. For instance, with the implementation of the AfCFTA, African governments may adopt single documentation for cross-border trade transactions, simplify the clearance of goods from customs, lower or remove trade-related fees/charges for trade procedures, eliminate custom brokers known for corruption, reinforce security at the borders, offer credit programmes for small traders and improve border infrastructure (i.e. storage and transportation infrastructure).

From 2000 to 2017, Africa's intra-continental exports were dominated by food and manufactured goods, which accounted for nearly 75% of total intra-continental trade. At the same time, oil, metals, minerals and other crude materials represented nearly 18% of total intra-continental exports.[35]

South Africa is the main intra-Africa exporter and importer, accounting for 37% of intra-Africa exports and 14% of intra-Africa imports in 2021. Other main intra-Africa exporters include Nigeria, Egypt, Zimbabwe, Morocco, Kenya, Tanzania

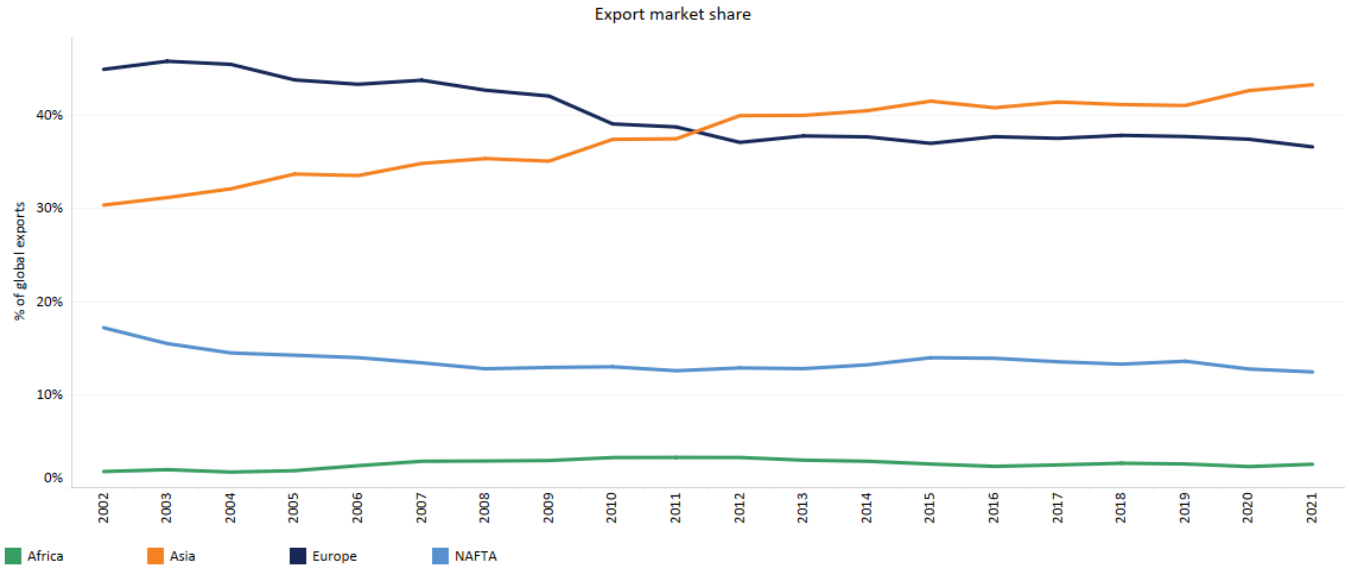
and Zambia, accounting for 71% of intra-Africa exports. Africa's total exports of cereals, soap, milling products, explosives and photographic equipment are mostly intra-continental trade.[36]

## Africa in world trade

Africa's participation in global trade is low and stagnant. The continent exports more homogeneous goods (i.e. oil, metals, minerals and other crude materials) and imports more heterogeneous goods (i.e. chemicals, machinery and equipment and other manufactured goods). Its share of world exports has declined over the years. Africa's global share of exports accounted for just 2.2% of exports in 2023—a 0.4 percentage points decline in market share relative to 2013, and an increase in market share by 0.2 percentage points relative to 2022. Chart 9 allows the user to toggle between Africa's export and import market share.

Africa's export performance is worse than that of other world regions such as Asia, Europe and NAFTA. Asia has the largest global export market share: its share increased from 31.9% in 2003 to 39.7% in 2023. Europe's share declined from 42.8% to 38.7% in the same period.

Chart 9: Africa's export and import market share in world trade, 2002–2021

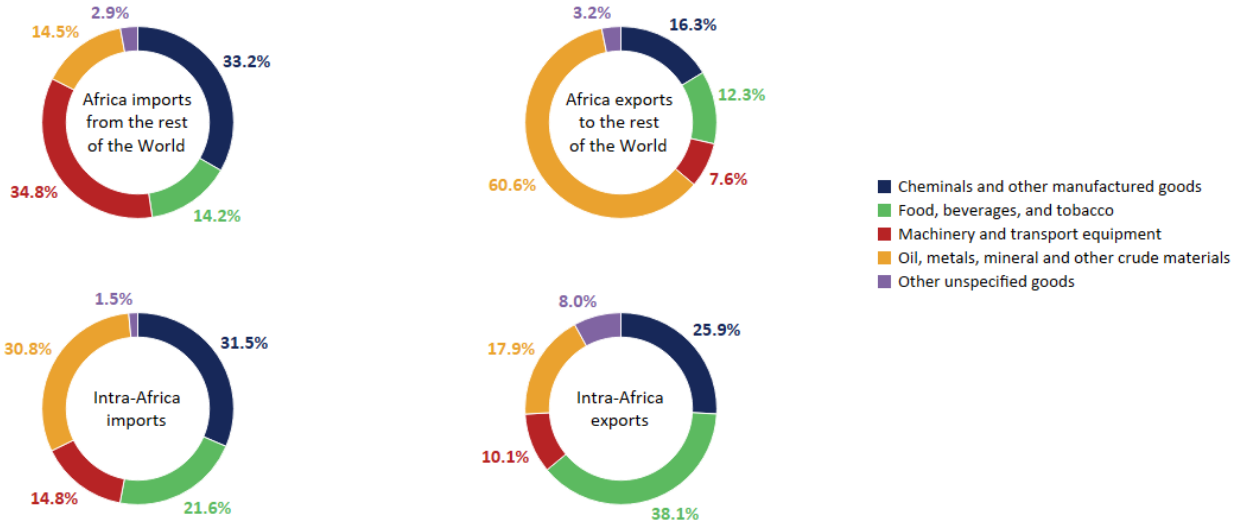



Source: ITC Trade Map data, 2023

Africa's global imports share has also remained marginal, increasing from 2.8% in 2003 to 3.3% in 2013, then declining to 2.5% in 2021, and then increase to 2.7% in 2023. Africa imports mostly manufactured goods.

The composition of Africa's extra-trade differs from its intra-trade. From 2000 to 2017, the continent's exports to the rest of the world were dominated by primary goods (see Chart 10), which accounted for about 60% of total exports, while imports of chemicals, other manufactured goods, machinery and equipment accounted for nearly 70% of total imports. In contrast, intra-Africa trade was dominated by manufactured goods and food.[37]

Chart 10: Africa's exports and imports composition, 2000–2017 averages

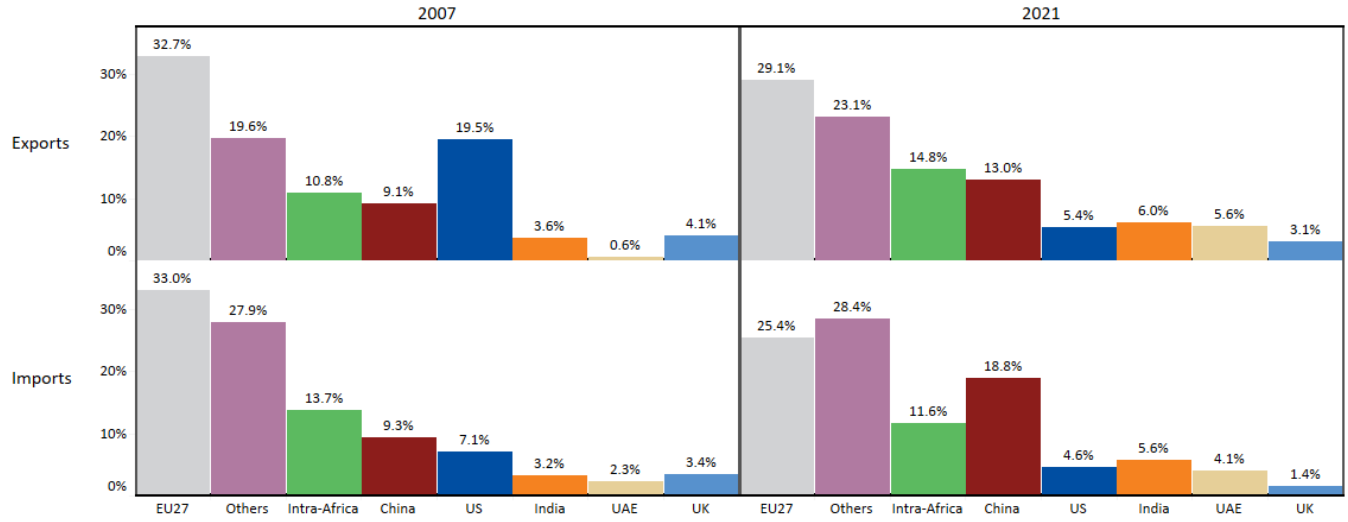



Source: International Monetary Fund, 2019

The continent lacks a regional-wide trading hub. Unlike in Asia, Europe and North America, Africa does not have a hub economy. Apart from South Africa, which operates somewhat as a trading hub for Southern Africa, the continent lacks a systemic global exporter that imports value-added from within Africa.[38]

Chart 11 shows Africa's exports and imports shares with its main trading partners. In 2009, China became Africa's largest single-country trading partner and in 2020 it was responsible for 13% of exports and 18.8% of imports, respectively. As China and India increase in size, they are dragging Africa along. The continent has been able to maintain its relative trade position with both, albeit with an increased commodity content as opposed to higher-value goods and services.[39] These numbers are considerably less than Africa's trade with the EU-27 countries, although, in 2018, Asia also overtook the EU-27 as Africa's largest regional trading partner, accounting for 42.4% of total African trade in 2021 (compared to 27.1% with the EU-27).

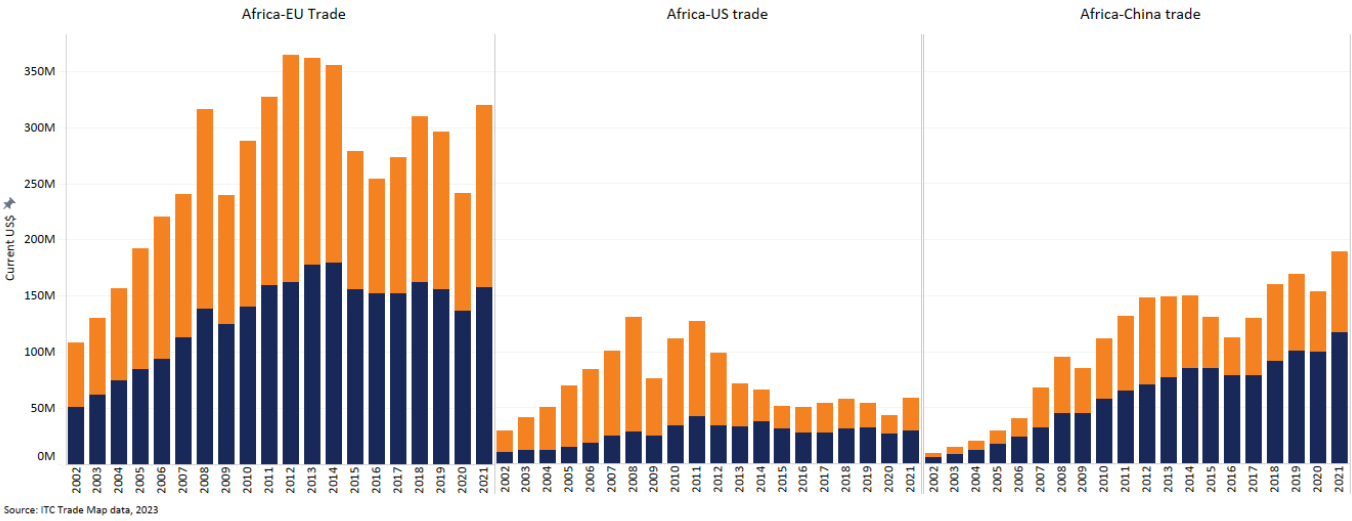
Chart 11: Africa's main trade partners, 2007 and 2021




Source: ITC Trade Map data, 2023

As a group the EU-27 is Africa's first trading partner and its largest export market, ahead of China, India, the UK and the US. Trade between the two regions is fairly balanced, with a surplus in Africa's favour from 2002 to 2008 and from 2010 to 2013, with a slight surplus in the EU's favour of nearly US$3.9 billion (current prices) in 2021 (see Chart 12).

Chart 12: Africa trade trends with EU, US and China, 2002–2021




Source: ITC Trade Map data, 2023

In 2021, about 29.1% of Africa's total exports went to the EU-27 markets, representing a nearly 2.6 percentage points increase from 2020. The share of Africa's exports to the EU highlights the benefits of various preferential trade regimes. Those include PTAs between the EU and 18 African countries. Five EPAs are being applied to 14 countries in sub-Saharan Africa[40] and four Association Agreements with countries in North Africa.[41] In addition, 34 African countries benefit from the EU's General Scheme of Preferences – Everything but Arms (GSP/EBA).[42]

Through these PTAs, more than 90% of Africa's exports enter EU markets (of 450 million consumers) free of import duties. Compliance with EU standards simultaneously creates opportunities for other potential markets and makes their products more competitive and of better quality. EPAs in particular are important tools of the EU's comprehensive strategy with

Africa, promoting sustainable development through enhanced trade relations and regional economic integration. Differerent to the AGOA, EPAs are permanent arrangements that encourage a progressive shift from more traditional aid towards trade and investment as engines of growth, jobs and poverty reduction. EPAs are reciprocal in nature, entailing rights and obligations for EU and African countries.[43]

Another positive outcome of the trade agreements between Africa and the EU has been the growing diversification of African exports, as the bulk of exports from Africa to the EU was historically composed of raw materials. In recent years, African exports have increased in value to include machinery and transport equipment, manufactured goods and agri-food products.[44]

Africa is the EU's fourth largest trading partner, after the US, China and the UK, and it is an attractive and growing market for EU trade and investment. Africa's imports from the EU (or EU exports to Africa) have been on an upward trend since 2002, with a small decrease in 2016, and between 2019 and 2020. In 2021, Africa's imports from the EU amounted to US$157.9 billion (at current prices)—about 25.4% of Africa's total imports from the world.

When it comes to Africa/US trade the impact of the collapse of oil imports from Africa is particularly evident from 2015, following the shale revolution in the US and the reduction in imports from countries such as Angola and Nigeria.

AGOA has modestly stimulated foreign direct investment (FDI) flows to Africa as foreign investors produce in Africa and export to EU and US markets. For example, exports from AGOA countries to the US rose from about US$8 billion in 2000 to roughly US$54 billion in 2011. The duty-free entry of apparel into the US has been AGOA's largest success. But the limits of unilateral arrangements such as AGOA became evident when quota restrictions on apparel from China and other Asian countries were phased out in 2005, eroding its impact.[45]

Before the shale revolution (as discussed in Infrastructure and Leapfrogging ), Africa–US trade registered a trade surplus for Africa, mostly because of oil or petroleum-based exports from countries such as Angola and Nigeria. But the US has largely lost economic interest in Africa since, except as an arena to assist in confronting Islamic terror and to compete with China. In 2021, the US did approximately US$28.8 billion worth of trade in goods with the region, down from US$31.8 billion in 2019, which is less than 1% of all US trade in goods. The downturn reflects long-standing biases and preconceived notions about the region, a lack of consistent and accessible support from the US government and real concerns about navigating enabling environments in the region.[46]

Despite the various efforts of the EU and the US to improve trade with Africa, China has been Africa's largest single bilateral trading partner since 2009, having signed bilateral trade deals with more than 40 African countries. Africa's political orientation will inevitably follow those shifts in economic power and influence, despite the uncomfortable reality that most of Africa's exports to China consist of unprocessed commodities, particularly crude oil, minerals ores, tobacco and wood. In contrast, China's export composition to Africa largely consists of high-value goods and it is no wonder that the continent's largest trade deficit is with China.

Early in 2019, commentators forecasted Africa–China bilateral trade to surpass US$300 billion in the next three to five years,[47] although the widening trade deficit was noted as a concern.[48] Before the COVID-19 pandemic, more than 40 African countries ran a trade deficit with China, with Kenya's being particularly large. The largest volume of China–Africa trade is with South Africa, the country that is also the largest African investor in China. Trade with the DR Congo, Mozambique and Zambia grew most rapidly before the pandemic.[49]

From a political perspective, Africa is significantly more important to China than the 4% of trade suggests, given the sheer size of the African bloc in the context of multilateralism. The problem is the declining value added to Africa's exports. The share of manufacturing in total African exports was close to 30% two decades ago, but it declined for several years before

again increasing from 2012 to around 27% by 2016. Generally, the value of commodity exports has increased in line with the commodities supercycle (as discussed in Current Path ).[50]

## Africa's structural challenges

Africa's intra-regional borders rank as some of the most restrictive globally when measured by the cost of cross-border trade. These costs arise from higher tariff rates and non-tariff barriers (i.e. poor customs procedures, infrastructure, transport and logistics). This hinders trade flows across borders and often also contributes to smuggling and the growth of the shadow economy if borders are not well policed. Vast amounts of money can be made smuggling items such as petroleum and cigarettes where prices differ substantially between countries.

This is particularly characteristic of economies in West Africa, the Sahel, and North and Central Africa. For example, in Tunisia, the informal and parallel economic sector is substantially larger than the average for other low- and middle-income countries when measured as a proportion of the total economy.[51] Many Tunisians are forced to engage in the informal sector despite their high levels of education—a situation that contributed to the overwhelming frustration that underpinned the Freedom and Dignity Revolution that commenced at the end of 2010 and ignited the subsequent Arab Spring.

But without the opaque insider/outsider economic system that constrains opportunity having sufficiently been displaced after 2010, Tunisia's large informal and parallel economy is not merely survivalist; it involves considerable illicit activity.[52] An important reason for the apparent low levels of intra-Africa trade is, therefore, that much of it is informal and not captured in formal trade statistics.[53]

In addition to the various structural reasons for Africa's poor growth, such as a declining demographic dividend until the late 1980s (as discussed in Demographics ), its function as a proxy battleground during the Cold War, bad governance, poor policy and lack of implementation of agreements all played an important role. Structurally, the continent did not develop RVCs and hence did not form part of the GVCs in goods and services that developed between parts of Asia, North America and Europe since the 1990s. The lack of regional integration is a significant obstacle to diversification and growth for countries in the region.

A 2019 report by the IMF lists the manifold economic benefits that would flow from regional integration in the Maghreb, including attraction of FDI, ease of movement of capital and labour, more efficient resource allocation and the extent to which it would make the region more resilient to external shocks and market volatility. Countries could, on average, add one percentage point to growth rates with regional integration. However, instead of increasing, trade openness has steadily declined in every country in the region (except for Morocco) and traders face significant hurdles.[54]

The result of limited regional integration is that Africa is essentially not part of the global discussions on trade. Outside Africa, analysis is no longer fixated only on the growth and structural change in individual economies but rather uses the lens of RVCs and GVCs—the complex network that ties the flows of goods, services, capital and technology together across national borders—to evaluate the strength of economies.

Goods-producing value chains (VCs) are becoming less trade intensive and trade in cross-border services is growing more rapidly than merchandised trade. In addition, goods-producing VCs are becoming more regionally concentrated, especially within Asia and Europe. Companies are increasingly locating their production facilities in closer proximity to the market rather than closer to cheap labour.

The general trend is towards RVCs instead of GVCs as trade integration in Asia gains momentum and Western countries step away from their previous heavy reliance on China and European dependence on oil and gas from Russia. This could,

in time, offer advantages to Africa with its rapidly growing population and growing consumer base.[55]

## The need for connecting infrastructure

Africa's lack of connecting infrastructure such as roads and railways between neighbouring countries increases transport costs and creates delays. Poor infrastructure and bad maintenance of existing infrastructure reduce the competitiveness of businesses and undermine much-needed investment flows. In some East African countries, for example, transport costs are estimated to be about five times more than in European countries and North America.[56] As many states are landlocked (e.g. Ethiopia, Uganda, Rwanda, Burundi, Lesotho, Eswatini, Zimbabwe, Malawi, Uganda, Burundi, Rwanda and South Sudan), they are dependent on their neighbours for access to the sea.

According to the African Development Bank, Africa has an annual infrastructure funding gap of US$130 billion to US$170 billion, with an annual financing gap of US$68 billion to US$108 billion.[57] The numbers speak for themselves. Africa has an average of 204 km of roads per 1 000 $km^2$, of which only one-quarter is paved. This average lags far behind the world average of 944 km of roads per 1 000 $km^2$, of which more than half is paved. Most of the continent's paved roads can also be found in a single country — South Africa — where they are seriously degrading due to corruption and lack of maintenance.[58]

The Yamoussoukro Declaration of 1988 and the subsequent Yamoussoukro Decision of 1999, both named after the Ivorian city in which it was agreed, commit its 44 signatory countries to deregulate air services and promote regional air markets open to transnational competition. Although the Yamoussoukro Decision became binding in 2002, it was largely ignored. Then, in 2018, 23 countries created the Single African Air Transport Market (SAATM) to allow for the full liberalisation of African air travel and a true open-skies agreement.[59] But progress remains painfully slow.

In 2015, the International Air Transport Association (IATA) estimated that cross-border deregulation among just 12 African countries would create 5 million new passengers, US$1.3 billion in annual GDP growth and 155 000 jobs. Instead, Africa's aviation sector remains constrained by excessive bureaucracy, high costs and a lack of an accommodating regulatory environment. Instead of facilitating business and tourism, access by air is a constraint, as many African countries restrict access to their skies to protect the share held by inefficient state-owned air carriers—with the lone exception of the thriving Ethiopian Airlines.[60] Most African countries, such as South Africa, remain wedded to the notion that a national air carrier, owned by the government, is a non-negotiable signpost of independence instead of looking to the most cost-efficient way to connect.

However, there has been recent progress in building and financing infrastructure projects. This was largely spurred by the excess capacity to build infrastructure that became available from China some years ago as its economy was restructured towards domestic consumption. In the process, China effectively exported the excess infrastructure-build capacity, which was eventually packaged as its Belt and Road Initiative, which intends to connect China to the rest of Asia, Africa, and even Europe. Various aspects relating to connecting infrastructure is the theme on infrastructure.

## The challenge of non-tariff barriers

In addition to Africa's infrastructure deficit, non-tariff barriers are a notable constraint to trade in Africa and African trade with the rest of the world.

Non-tariff barriers include onerous regulatory procedures, expensive visa requirements, corruption and inefficiency. They include import prohibitions, quotas, export subsidies, export restrictions, technical barriers to trade (such as regulations, standards and assessment procedures) and rules about food safety and animal and plant health standards.[61] Whereas free trade agreements are subject to long and drawn-out processes associated with the negotiations, removing non-tariff

barriers results from unilateral efforts and bilateral cooperation between neighbours. The power of removing non-tariff barriers was illustrated by a study from the Trade and Law Centre (tralac), which found that reducing the time it takes to move goods across borders by just 20% would be more economically advantageous for Africa than removing all import tariffs.[62]

At Beitbridge border post, for example, it takes a truck an average of 35 hours to clear the border from South Africa into Zimbabwe. In response, the South African cabinet adopted a One-Stop Border Framework in 2018 and prospects of improvements may be on the horizon. Significant progress has already been made in East Africa, where border crossing times have reduced from several days to about three to six hours as part of the reforms associated with the EAC — a demonstration of potential progress possible elsewhere.[63]

The World Bank's Ease of Doing Business Index for 2019 includes only nine African countries in the top 100.[64] The COMESA–EAC–SADC Tripartite Free Trade Area website lists examples of 25 non-tariff barriers to trade, which range from import bans and product classification to corruption. However, progress in eliminating these barriers is slow, as each non-tariff barrier reflects a vested interest or a local practice along a border region, sometimes spanning several generations, on which the livelihoods of communities may depend.[65]

In an effort to regulate such standards, the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures came into force in 1995. The agreement provides uniform rules for all laws, regulations and requirements regarding how a product is produced, processed, stored and transported to ensure that its import does not pose a risk to human, animal or plant health. Sanitary measures are aimed at safeguarding human and animal health, while phytosanitary ones are intended to protect plants.

Imported goods should be from disease-free areas, inspected before export and should not exceed maximum levels of pesticide or insecticide use. Health risks from fresh foods and agricultural goods include salmonella poisoning, foot and mouth disease and plant pests.

The agreement is also meant to prevent countries from using rules and regulations simply to block trade, stating explicitly that the measures cannot be employed in a manner that would constitute a disguised restriction on international trade. But although importing countries are encouraged to use existing international standards, they are nevertheless allowed to adopt stricter regulations if they can scientifically justify their actions.

## The AfCFTA scenario

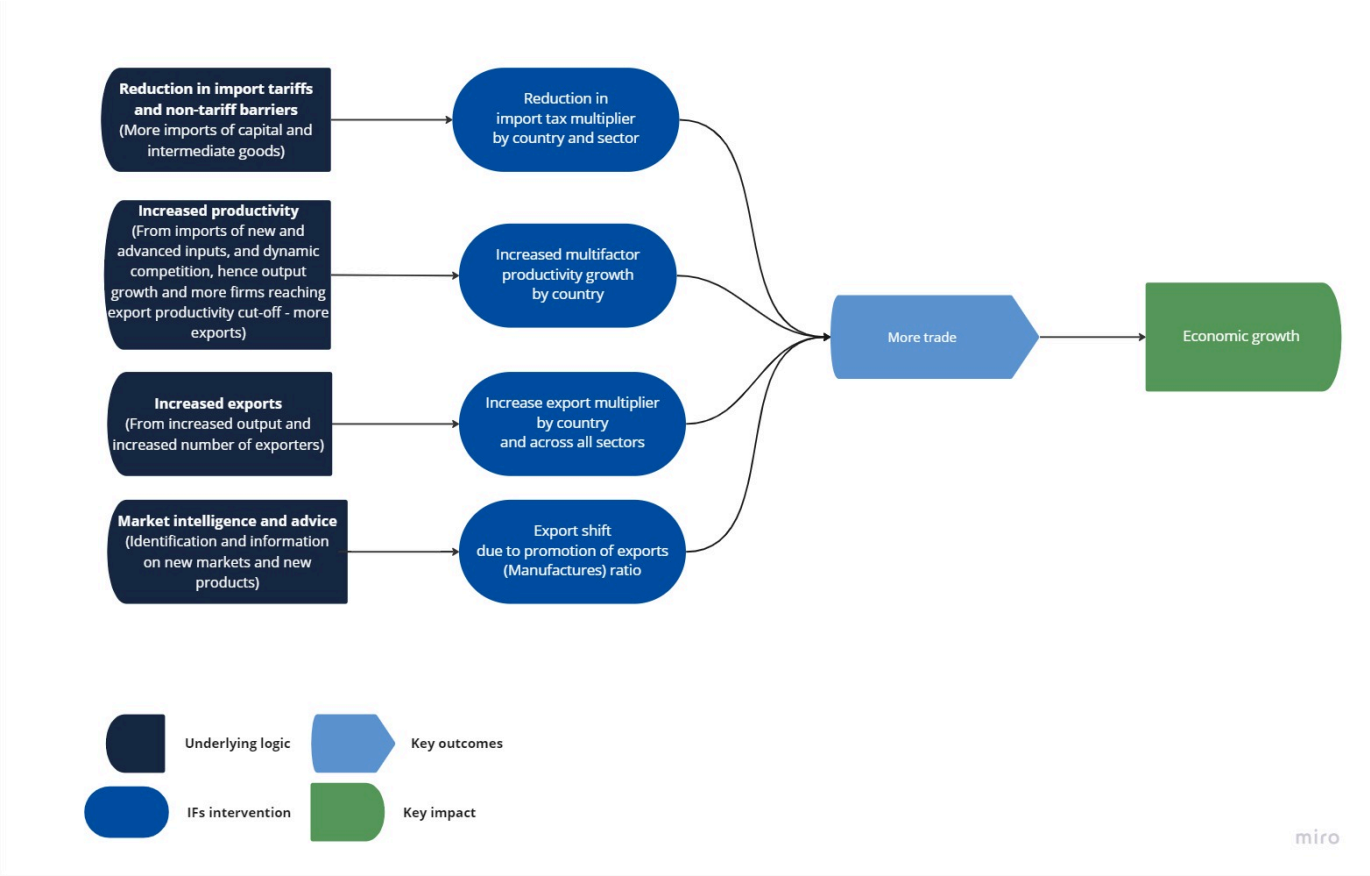
Much hope has been placed in the AfCFTA as a vehicle to boost trade and assist in the transformation of African economies towards the production of higher-value goods and services. It is expected to increase both international exports and intra-Africa trade, unlocking greater opportunities for local and global businesses to enter into and expand throughout new markets across the continent. In the annexure , we list the estimations and calculations on its potential impact from the African Development Bank, the African Export-Import Bank, the UN Conference on Trade and Development (UNCTAD) and others.

The AfCFTA scenario below using the International Futures (IFs) forecasting platform and those done by others reveal an unprecedented opportunity for local and global businesses to invest in African countries and to the development of crucial local and regional value chains in the continent.

Modelling trade in IFs presents a number of challenges. The most important is that it uses a pooled model for trade, meaning that countries each trade with a pool that reflects the rest of the world and not directly with one another. The current version of IFs does not allow us to model the impact of the AfCFTA scenario specifically at the intra-continental

level. Based on the theoretical and empirical literature, we rely on various proxies to emulate the impact of expanding trade in Africa, as presented in Chart 13 below.

Chart 13: The AfCFTA scenario




We calibrate the combined impact in accordance with the lower end of the modelling in the trade literature and the interventions differ by country. Collectively, these four interventions (reduction in import tax multiplier, increase in multifactor productivity, export multiplier and export shift) simulate the impact of the full implementation of the AfCFTA, if imperfectly so.

Our AfCFTA scenario assumes that the implementation of the AfCFTA starts earliest in 2024, hence allowing for the impact of the COVID-19 pandemic to ease and that tariffs are reduced over the subsequent agreed time periods for the LDCs, the non-LDCs and the G6 countries, in line with current expectations. Since the time period for eliminating the tariffs under the sensitive and excluded products is not yet determined, we apply the same time as for their non-sensitive products. The interventions in IFs, therefore, ramp up from 2024 to 2035 and is then maintained to 2043.

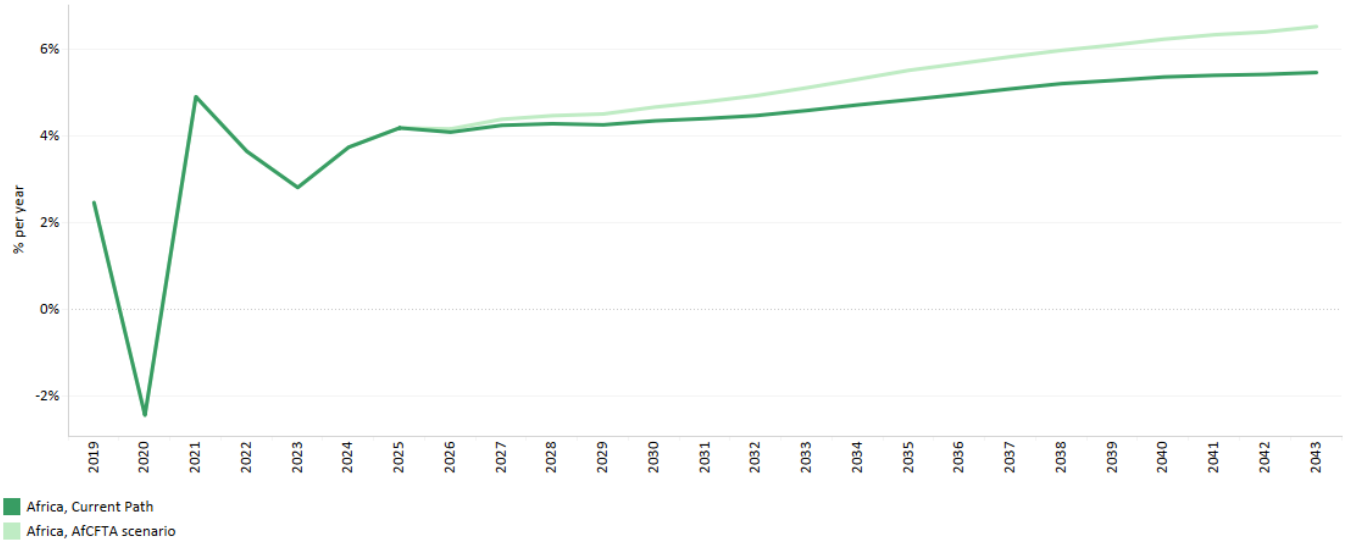
This is an exceptionally optimistic forecast for an agreement as complex and politically fraught as the AfCFTA. However, if leaders manage to stick to their commitments and take African citizens, businesses, labour and other stakeholders along with them, the impact will be substantial.

## Impact of the AfCFTA scenario on Africa's income and growth

The successful implementation of the AfCFTA is projected to have multiple positive spillover effects across various economic growth and development indicators. To reap the full potential gains from the AfCFTA, member states should conclude the agreement as planned and ensure the agreement covers investment policies, competition policies and harmonises trade policies at the country, regional and continental levels.

Following implementation Africa's economy is projected to be steaming ahead at about 6.5% rate of economic growth in 2043, which is around 1.1 percentage points above the Current Path forecast (see Chart 14). Across the entire forecast horizon, from 2024 to 2043, the average economic growth rate for Africa would be about 0.5 percentage points above the Current Path forecast.

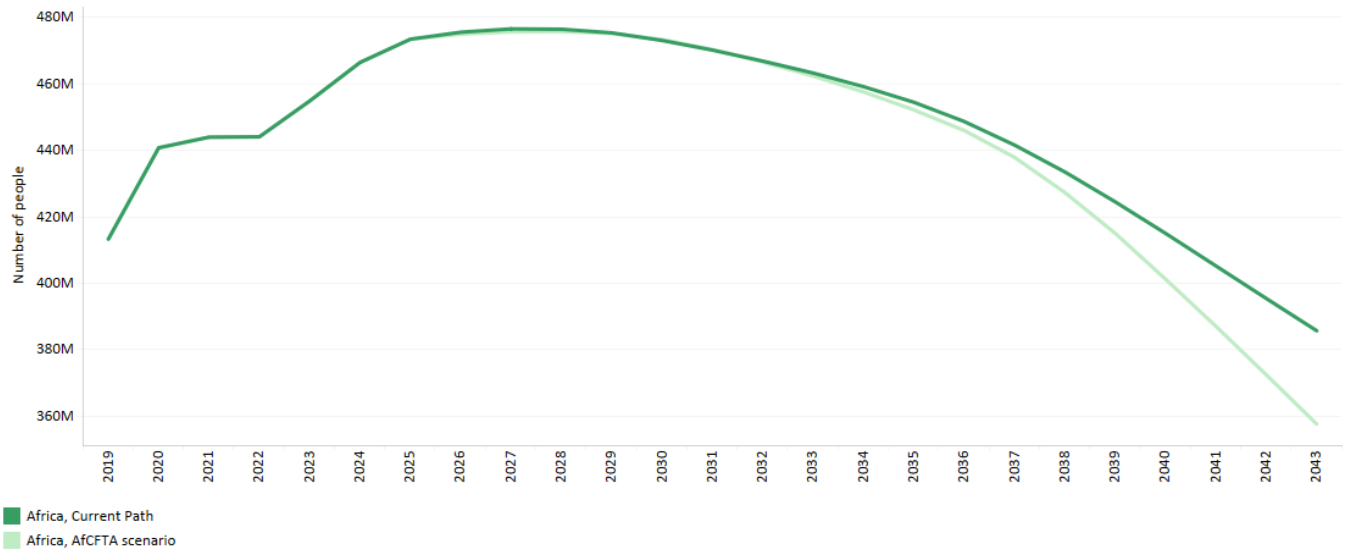
Chart 14: Growth rates in AfCFTA scenario and Current Path, 2019–2043




Source: IFs 8.13 initialising from IMF World Economic Outlook

The result is that the African economy will be nearly US$690 billion (at market exchange rates), or about 10.3%, larger in 2043 than it would be on the Current Path forecast (at nearly US$6.7 trillion). This growth translates into 28.1 million fewer people living in extreme poverty, i.e. living on less than US$2.15 per day in 2043 (see Chart 15). However, evident from the forecast, the initial impact of the AfCFTA is to increase extreme poverty, with large country-to-country variations.

Chart 15: Extreme poverty in AfCFTA scenario and Current Path, 2019–2043




Source: IFs 8.13 initialising from UNPD Population Prospects estimates, WDI population data and PovcalNet World Bank data

In 2043, Africa's GDP per capita (at purchasing power parity) is projected to be about US$426 higher relative to the Current Path forecast for a continent that would then be home to nearly 2.3 billion people, about 2 million fewer people relative to the Current Path forecast. Higher living standards reduce fertility and maternal mortality rates and the result is a population size that is about 1% smaller relative to the Current Path forecast.

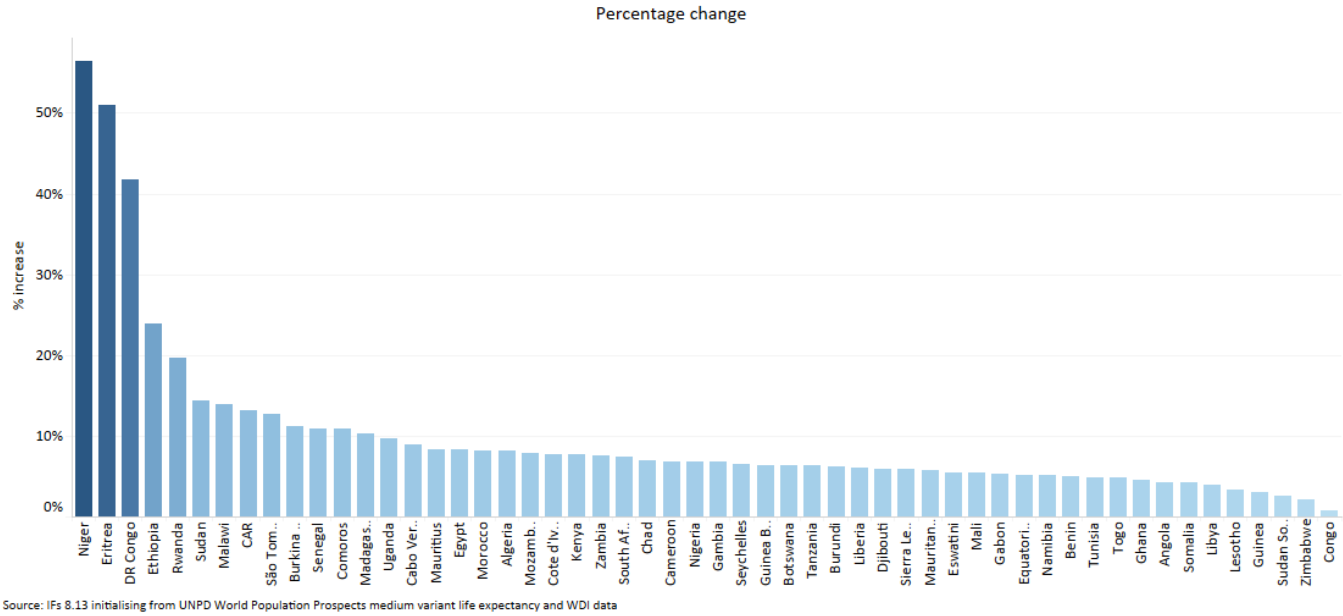
Disaggregating the data by country reveals the heterogeneity of the impact of the AfCFTA scenario across countries. The income gain from the AfCFTA scenario is mainly driven by income gains from Ethiopia, DR Congo, Nigeria, Egypt and South Africa. Chart 16 allows the user to toggle to switch between absolute values and percentage changes.

Ethiopia's GDP would increase by nearly US$115.4 billion relative to the Current Path forecast in 2043. The size of DR DR Congo's and Nigeria's economies will be about US$101.3 billion and US$73.9 billion larger than the Current Path forecast, respectively—these are, of course, also Africa's largest economies.

At the low end, several smaller economies would see income gains of less than US$500 million relative to the Current Path forecast. Theseinclude Gambia (US$453 million) Cabo Verde (US$431 million), Comoros (US$291 million), Guinea Bissau (US$232 million), Congo (US$220 million), Seychelles (US$188 million), South Sudan (US$150 million), Sao Tome and Principe (US$136 million), and Lesotho (US$119 million). However, when considering the per cent increase in the size of its economy by 2043, Niger, Eritrea, DR Congo, Ethiopia, and Rwanda gain the most (a more than 12% increase in the size of their economies), while the size of the economies of South Sudan, Zimbabwe and Congo increase by less than 3%.

**Chart 16: Income gains from the AfCFTA scenario relative to the Current Path, 2043**

Toggle % change vs absolute change

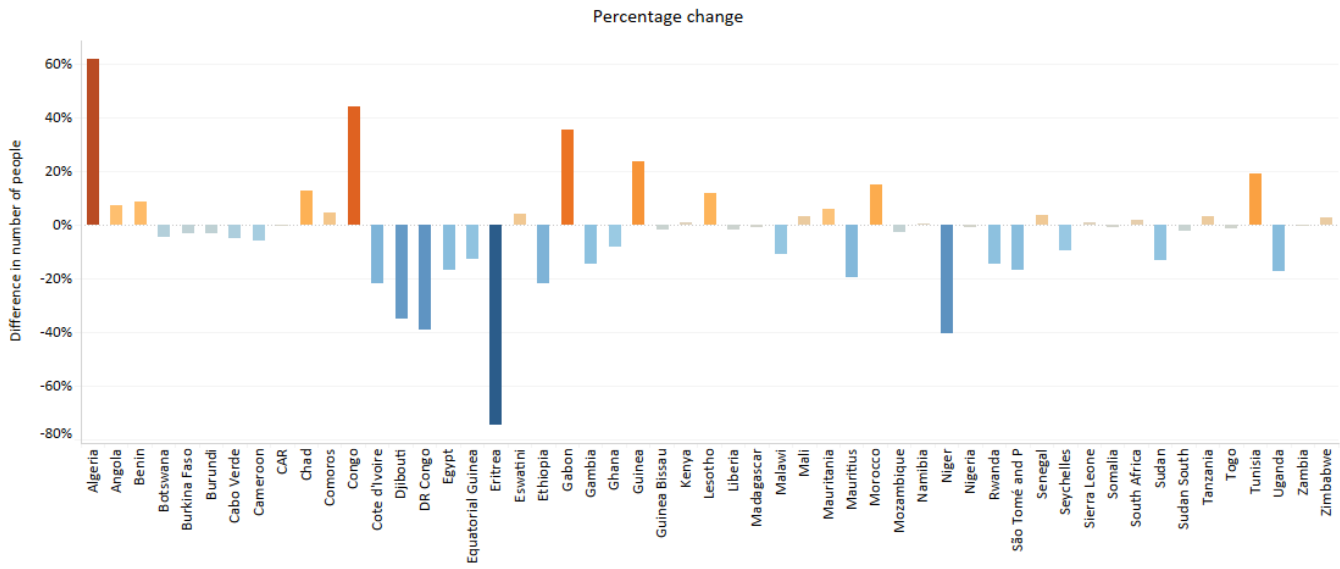



Source: IFs 8.13 initialising from UNPD World Population Prospects medium variant life expectancy and WDI data

The reduction in extreme poverty at the country level is presented in Chart 17 - allows the user to toggle to switch between absolute values and percentage changes. The left-hand side vertical axis shows the number of people living in extreme poverty (less than US$1.90 per day) and the right-hand side vertical axis shows the proportion reduction relative to the Current Path forecast.

Chart 17: Reduction in poverty in AfCFTA scenario relative to the Current Path, 2043

Toggle between % change vs absolute change




Source: IFs 8.13 initialising from UNPD Population Prospects estimates, WDI population data and PovcalNet World Bank data

If the AfCFTA is fully implemented, DR Congo, Niger, Malawi, Ethiopia and Uganda are projected to have the largest number of people lifted out of extreme poverty (at US2.15 per day) relative to the Current Path forecast in 2043, given the fact that the two have the largest number of poor people in Africa. About 14.6 million Congolese will be lifted out of extreme poverty in 2043, which is 39.1 percentage points lower relative to the Current Path forecast. Niger is projected to have6.1 million fewer poor people relative to the Current Path forecast, which is 40.5 percentage points below the Current Path forecast.

Whereas the GDP per capita will increase for all African countries, extreme poverty (at US$2.15 per day) will increase by more than 0.5 million people in Chad (1 million people), Angola (571 thousand people), and Tanzania (521 thousand people) by 2043.

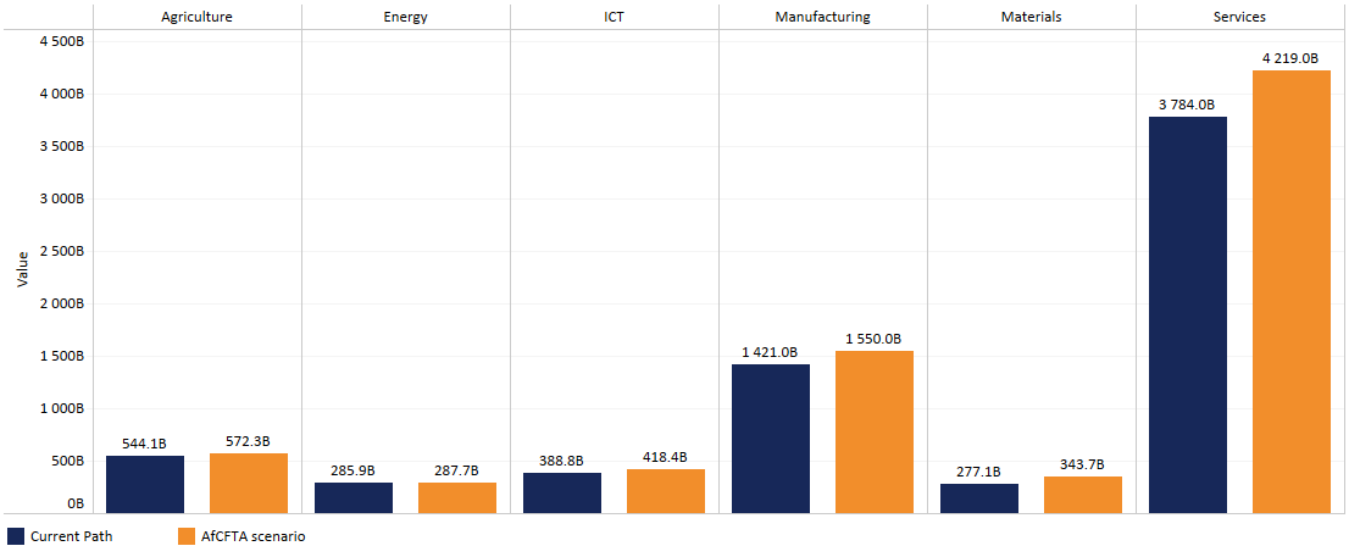
The results for these countries where the AfCFTA scenario increases extreme poverty, particularly in Chad, reflect the countries' numerous development challenges across all sectors and the challenges they would experience in participating and gaining from the full implementation of the AfCFTA. In these countries, trade openness must be accompanied by the right domestic complementary policies to make the growth gain from the AfCFTA more inclusive. The short-term solution will be a safety net programme.

## Impact of the AfCFTA scenario on Africa's economic sectors

The IFs forecasting platform uses a sixfold distinction in considering the composition of economies and, given the 10.3% increase in the size of the African economy by 2043, all six sectors increase in size by 2043 when compared to the Current Path forecast. Chart 18 allows the user to toggle between the absolute numbers and percentage changes for Africa, regions, income groups and countries.

Chart 18: Size of economic sector in AfCFTA scenario and Current Path, 2043

Toggle between US$ 2017 and % of GDP




Source: IFs 8.13 initialising from UNPD World Population Prospects medium variant life expectancy and WDI data

In summary, the successful implementation of the AfCFTA would be particularly beneficial to the continent's services and manufacturing sectors. The additional gains from the services sector would be US$435 billion (or 11.5%) larger than the Current Path forecast. In comparison, the manufacturing sector gains would be US$129.4 billion (or 9.1%) larger relative to the Current Path forecast in 2043. The manufacturing sector would increase by about US$286.7 billion (or 15.6%) relative to the Current Path forecast in the same year.

The performance of the energy and agriculture sectors is less impressive, however. The size of the energy sector would increase by just US$1.7 billion or (0.6%). In comparison, the gains from the agriculture sector would increase by US$28.2 billion (5.2%) relative to the Current Path forecast in 2043.

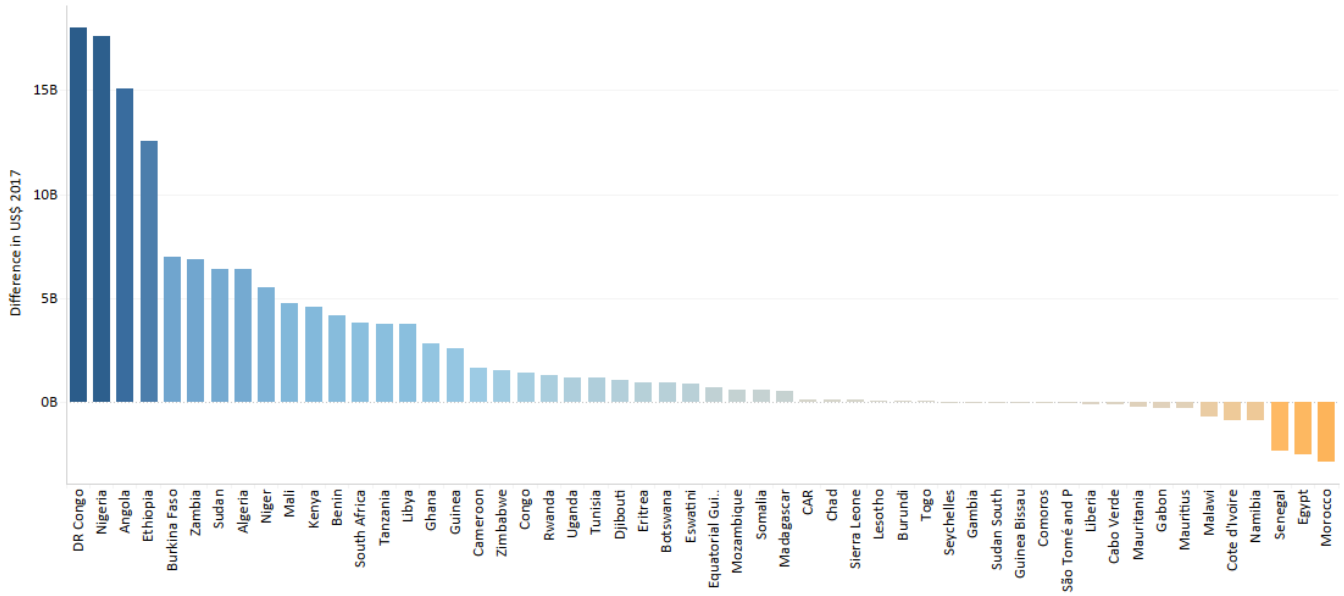
The share contribution to GDP of the materials sector, which includes mining, would increase by about 0.2 percentage points to nearly 4.6% and services by about 0.8 percentage points to account for about 57.1% of the continent's GDP in 2043. The agriculture, energy, manufacturing and ICT sectors, however, would decline in the contributions that they make to GDP, but not in absolute values as by 2043 the African economy will be significantly larger than otherwise expected. These sectoral shifts follow the natural and expected evolution of economies that become more productive over time.

## African countries manufacturing and agricultural value-added gains

The gains in the manufacturing sector in the AfCFTA scenario relative to the Current Path forecast in 2043 are presented in Chart 19, the chart allows the user to toggle the value-add gains for each of the six sectors within IFs forecasting platform.

Chart 19: Sector gains in AfCFTA scenario relative to Current Path, 2043

Toggle between sectors




Source: IFs 8.13 initialising from UNPD World Population Prospects medium variant life expectancy and WDI data

DR Congo and Nigeria would have the largest increase in the size of their manufacturing sectors relative to the Current Path in 2043. DR Congo's manufacturing sector would increase by US$18 billion (or 30.5%) relative to the Current Path. In contrast, Nigeria's would increase by US$17.6 billion (or 9.2%). A number of countries would witness a decrease in the manufacturing value added relative to the Current Path forecast, namely Morocco, Egypt, Senegal, Nambia, Cote D'Ivoire, Malawi, Mauritius, Gabon, Mauritania, Cabo Verde, Liberia, Comoros, and Sao Tome and Principe.

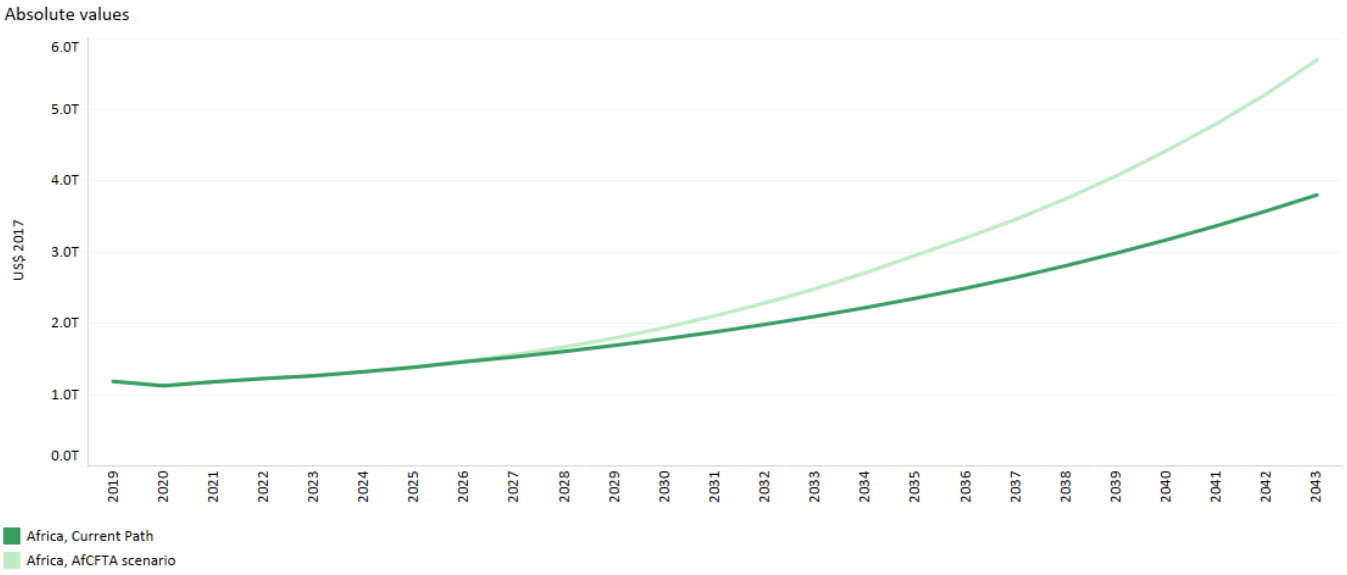
In the agriculture sector, Ethiopia is projected to have the largest increase in size, followed by DR Congo, Sudan, Nigeria and Niger. Ethiopia's agriculture sector would increase by US$4.7 billion relative to the Current Path forecast in 2043. For DR Congo, Sudan and Nigeria, it would increase by US$3.7 billion, US$3.5 billion and US$2.4 billion, respectively, relative to the Current Path forecast. At the low end would be Uganda and Cabo Verde with US$348 million and US$6 million (respectively)decrease in the size of their agriculture sector value.

## Impact of the AfCFTA scenario on Africa's trade values

The full implementation of the AfCFTA would significantly boost Africa's trade values. Chart 20 allows the user to toggle between import and export values for Africa, regions, income groups and countries. In 2043, total trade (exports plus imports) gains from the AfCFTA scenario would increase by about US$1.9 trillion (49.8%) relative to the Current Path forecast. The continent's total trade would represent 5.6% of global total trade, 1.8 percentage points above the Current Path forecast in 2043. However, the gains are dominated by the increase in imports.

Chart 20: Africa trade in AfCFTA scenario and Current Path, 2019–2043

Toggle between imports, exports and total trade, in absolute values and as % of world

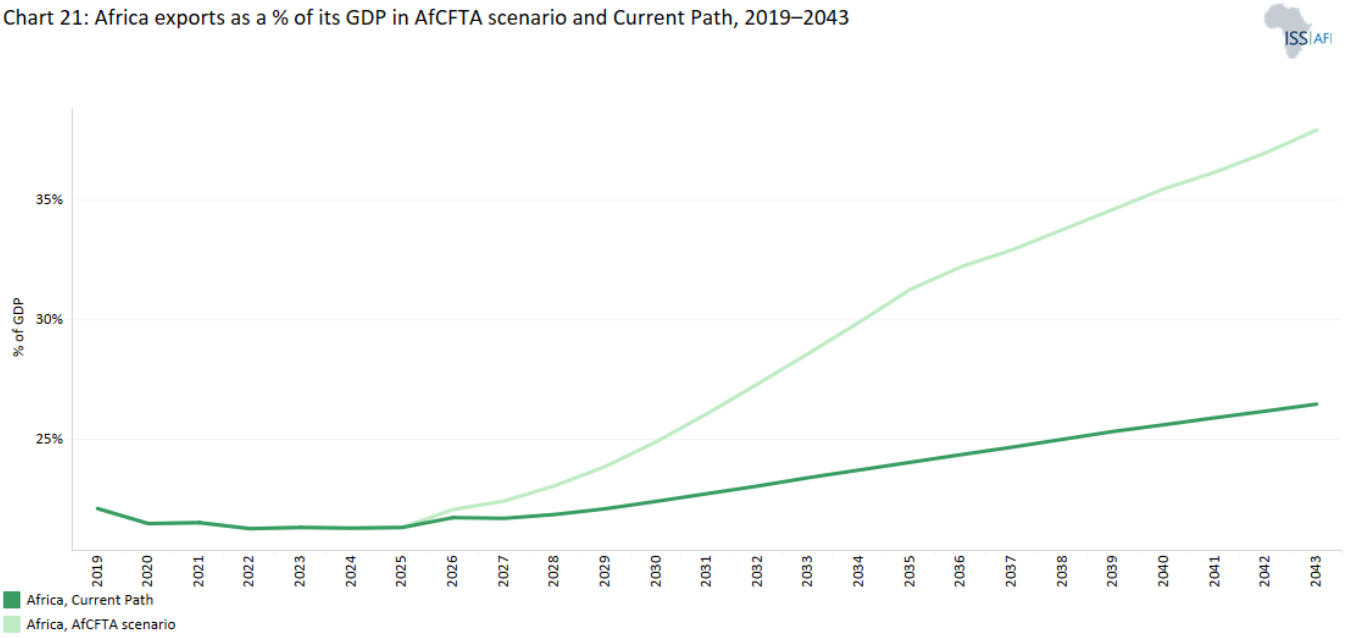



Source: IFs 8.13 initialising from the World Bank and OECD national accounts data

Africa's total imports in the AfCFTA scenario would be about US$2.9trillion in 2043—an increase of about 42.7%relative to the Current Path forecast. Africa's total exports would increase by about US$1 trillion (or 58%) relative to the Current Path forecast in the same year, reflecting a continuous but lower trade deficit for the continent in the AfCFTA scenario.

Chart 21 allows the user to toggle exports as a share of GDP for Africa, regions, income groups and countries. In 2043, Africa's exports as a share of its GDP would be about 37.9% in the AfCFTA scenario—nearly 11.6percentage points of GDP above the Current Path forecast. The increase in the share of Africa's exports in its GDP would be mainly driven by the manufacturing and service sectors.

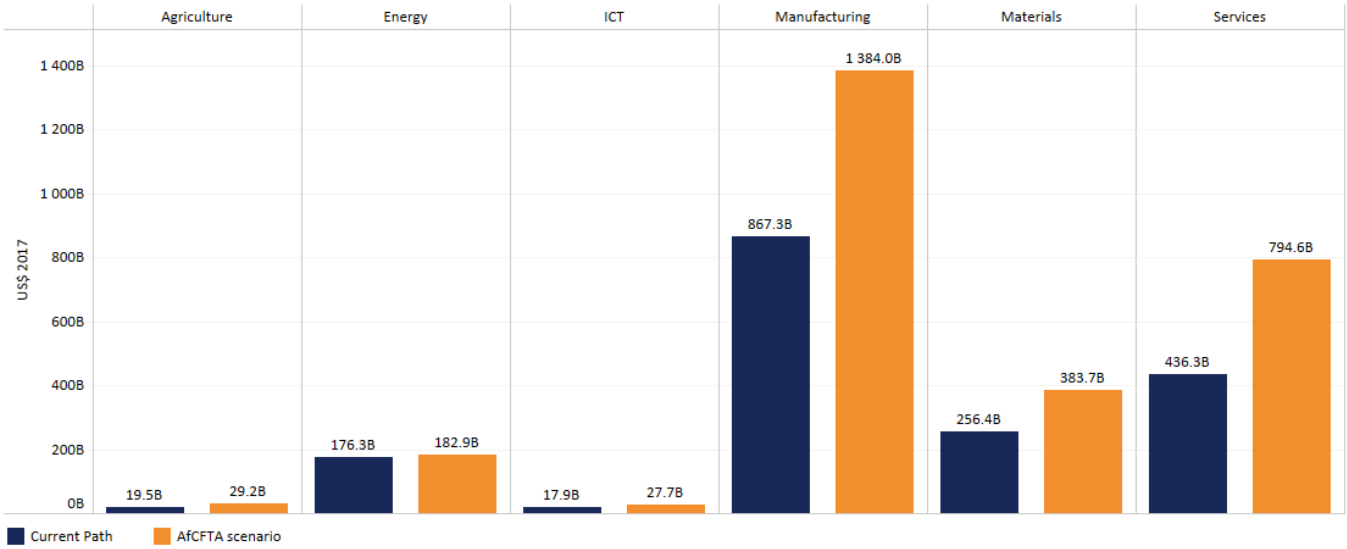
Chart 21: Africa exports as a % of its GDP in AfCFTA scenario and Current Path, 2019–2043




Source: IFs 8.13 initialising from the World Bank and OECD national accounts data

The successful implementation of the AfCFTA would significantly boost Africa's exports, particularly in the manufacturing and service sector. Chart 22 allows users to toggle between export values and percentage changes for Africa, regions, income groups and countries. In 2043, Africa's exports would be highly concentrated in manufactured goods—about 49.4% of total exports in the AfCFTA scenario. This finding reinforces the contribution that the full implementation of the AfCFTA would make to industrialisation and reduce Africa's dependence on commodities exports. The value of Africa's exports of manufacturing goods is about US$427.9 billion larger than the Current Path forecast in the same year in 2043. Service exports would account for about 28.3%of total exports, US$313.3 billion more relative to the Current Path forecast.

Chart 22: Africa exports values by sector in AfCFTA scenario and Current Path, 2043



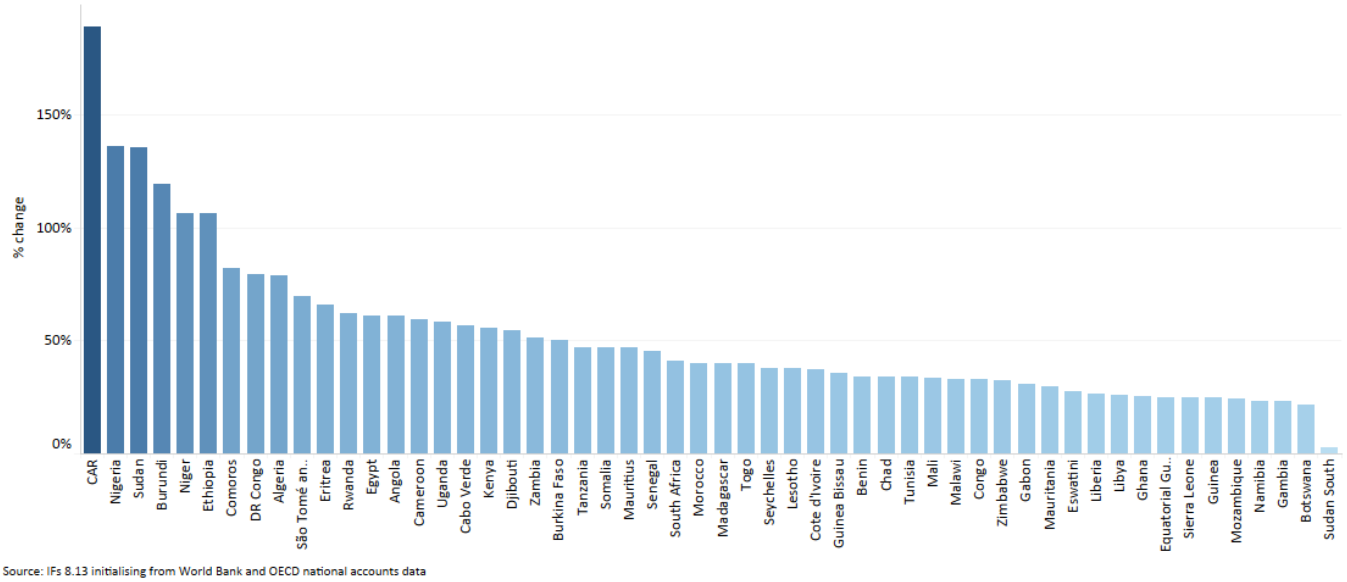

Source: IFs 8.13 initialising from World Bank and OECD national accounts data

At the low end would be the energy sector. Energyexports would decrease by about US$11.6billion (6% lower) relative to the Current Path forecast in 2043. The share of energy exports in total exports would decrease from about 6.9%, in the Current Path forecast, to about 6.5%of Africa's total exports in 2043.

## Impact of the AfCFTA scenario on African countries' exports

Chart 23 presents African countries' total exports gains in the AfCFTA scenario in 2043. In the AfCFTA scenario, Nigeria would gain the most in total exports with an increase of US$152.4billion relative to the Current Path forecast in 2043. The continent's potential export gains would be heavily concentrated in five major exporters (Nigeria, Egypt, South Africa, DR Congo and Ethiopia) in 2043. These five exporters would account for about 41.7% of the continent's potential total exports in the AfCFTA scenario, while the top 10 exporters would account for about 62.6% in 2043.

Chart 23: Export gains in AfCFTA scenario relative to the Current Path, 2043



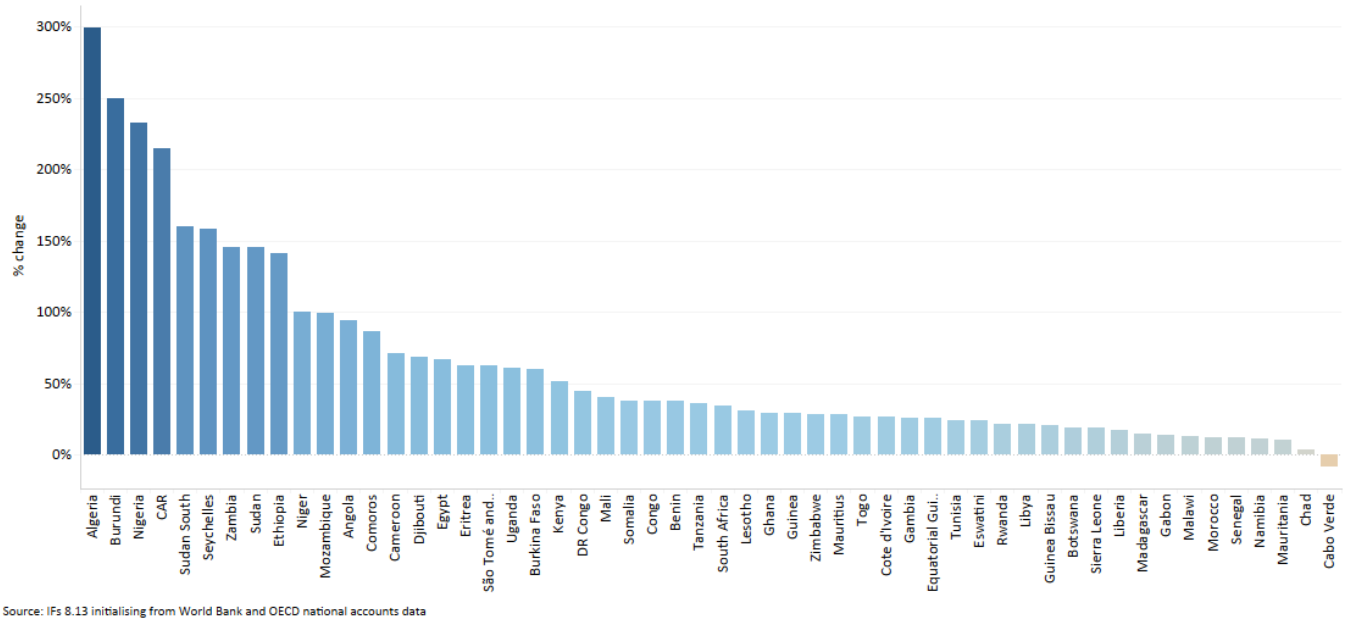

Source: IFs 8.13 initialising from World Bank and OECD national accounts data

The bottom five exporters (Burundi, Sao Tome and Principe, Central African Republic, Comoros and Guinea Bissau) would account for only about 0.2% of Africa's total potential export gains in the AfCFTA scenario in 2043, while the bottom 10 would account for just 0.7%.

Disaggregating the export data by sector also reveals the differential impact of the AfCFTA scenario across countries and sectors. Chart 24 allows the user to toggle export values and percentage change for each of the six sectors within the IFs forecasting platform. Nigeria would experience the most significant increase in manufacturing exports at about US$102.1 billion relative to the Current Path forecast in 2043, followed by Algeria, Egypt and South Africa. At the low end, Cabo Verde would see manufacturing exports loss relative to the Current Path forecast. Currently, the manufacturing sector of most of Cabo Verde is small and weak.

Chart 24: Sectoral export gains by sector relative to the Current Path forecast, 2043

Toggle between sectors, and absolute and % change




Source: IFs 8.13 initialising from World Bank and OECD national accounts data

Agricultural exports gains relative to the Current Path forecast in 2043, which would be highly concentrated in the top six exporters (Nigeria, South Africa, Ethiopia, Tanzania, Angola and Kenya Each would gain over US$0.5 billion, accounting for about 33.4% of the continent's total agricultural exports in the scenario.

-Nigeria would gain the most as its agricultural exports would increase by about US$1.3 billion relative to the Current Path in 2043. South Africa would have the second largest agricultural export gains relative to the Current Path with its agricultural exports increased by nearly US$1.2 billion in 2043. At the low end, the agricultural exports of Sudan, Central Africa Republic, Chad, Gambia and Sao Tome would decrease relative to the Current Path forecast in 2043.

Overall, the AfCFTA scenario affirms that the full implementation of the agreement could significantly contribute to diversifying African economies and promoting inclusive growth on the continent. However, the gains from the AfCFTA will vary across states depending on their institutional frameworks, the structure of their economies, their domestic policies and their levels of development, etc.

Without comprehensive policymaking and preferential treatment of Africa's LDCs, the AfCFTA could be a source of divergence rather than integration. It is, therefore, important that the LDCs build efficient and effective institutional frameworks. To alleviate the negative impacts, dynamic industrial policies must be put in place to encourage productivity, diversification and fair and healthy competition, especially concerning small and medium enterprises (SMEs) and manufacturing.

## Conclusion: Advancing Africa's trade

This theme sets out the reasons why African countries need to intensify trade agreements with one another to grow trade, develop and diversify their economies, and progress up the value-added ladder. Most African economies are too small and the continent is currently too fragmented to build competitive productive capacity at scale or to offer sufficiently large markets to attract substantive foreign investment without such agreements.[66]

Intra-Africa trade is limited, with the result that countries trade more with the outside world than among themselves. This

is ironic, as trade potential in goods inevitably diminishes with distance. African countries are best served by first trading with other countries on the continent.[67]

Eventually, the success of the AfCFTA will be determined by RVCs with frictionless trade, fast customs procedures and cost-efficient multimodal transit corridors. Success will ultimately come down to the actions of leadership and interests at the country level, as well as the leadership ability and capacity to coordinate and harmonise trade policies and regulations at national, regional, continental and global levels.

That said, the extent to which Africa will be able to leapfrog to higher-end value in exports will depend on the investments in education , technology and selected, well-targeted infrastructure  that can support competitive industries and sectors in industrial parks and export-processing zones linked to regional and global markets. But more is required. Removing non-tariff barriers—the bureaucracy that keeps countries from trading with their neighbours—is important, as is the requirement to improve the quality of Africa's human capital.

For example, a recent study on the future of Ethiopia,[68] globally one of the fastest-growing economies in the last decade, found that the average of 2.7 years of education of the adult population over the age of 15 is still one of the lowest in the world. Along with low levels of overall attainment and poor-quality outcomes, there is also a very pronounced gender gap in Ethiopia's education system, with men receiving more than double the amount of schooling than women. Structurally, Ethiopia and other African countries need to unlock this constraint, the first and most severe blockage in its education pipeline, if they want to improve their human capital endowments and the productive structure of their economies.

Digital technologies can help overcome Africa's large infrastructure deficit but will likely dampen trade in goods while further fuelling the growth in service trade. The trend towards GVCs becoming more focused on services and less on goods is well established. A smaller share of the goods rolling off the world's assembly lines is now traded across borders, while cross-border services are increasing more rapidly as GVCs become more knowledge-intensive and reliant on higher-skilled labour.

Trade integration can help African countries to prioritise investment in sectors where they have a comparative advantage. Comparative advantage is dynamic and changes over time, within and among sectors, and such an approach will require ongoing vigilance and adjustment of policies.

Trade increases for many reasons. The concentration of the production of some goods in a particular country may benefit from the increasing returns that come from large-scale production, limiting the range of items produced in a country. As a result, trade may reflect increasing returns driven by economies of scale rather than specific country advantages. Irrespective of their comparative advantage, African countries need to enhance export diversification and reduce their vulnerability to external shocks by trading regionally and eventually globally. In addition, regional integration would improve the diversification of goods and the technology content of Africa's exports.[69]

In other words, trade liberalisation works only to the benefit of countries when they actively manage levels of openness to trade.[70] For this reason, the support of national governments that invest in the quality of institutions and provide policy certainty is important.[71] China is the poster child when it comes to successfully manage access to its large domestic market, protect and nurture its infant industry, and demand technology transfer from foreign companies. Today it is the world's factory.

Going up the product and service complexity curve requires that national and regional value chains are established where national and regional economies can collaborate on a cost-competitive basis in bringing together diverse skills to produce ever more valuable products and services.

The AfCFTA is, therefore, crucial for growth and prosperity in Africa. It has the potential to trigger a virtuous cycle of expanded trade on the continent, which will, in turn, drive the structural transformation of economies. Negotiations are, however, likely to take a long time, and many uncertainties, for instance, about tariff schedules, remain.[72] For this reason, the EAC, the SADC, ECOWAS and the Tripartite Free Trade Area and other existing RTAs should continue to pursue trade facilitation reforms and integration. To date, progress has been very slow.

Many countries (e.g. the UK, the US and China) are entering into bilateral free trade agreements with individual African countries. For Africa, the goal must be a more rapid diversification of African economies, and the following three questions should be kept in mind:

- Do these agreements provide African countries with sufficient support for developing agricultural and industrial value creation?
- Do they offer sufficient protection for Africa's infant industries?
- Do they help or obstruct the implementation of the AfCFTA?

The major obstacles to regional trade in Africa are often political. They are shaped by the short-term and medium-term pain (loss of tariff income) that is required before the long-term gains (higher growth) offset these losses. Regional integration will eventually increase revenues as more rapid growth owing to increased efficiency would translate into more government revenues. Furthermore, higher consumption from increased imports and income would also lead to more revenue. But in the immediate future, governments will have to work hard to get domestic buy-in once the pain from loss in tariff income becomes evident.[73]

The condition for success would be for national leadership to mitigate and compensate for losses that could be experienced by countries, firms and individuals that are relatively disadvantaged. The AU secretariat should provide additional support to LDCs beyond tariff elimination schedule period. Limiting negative employment effects will require increasing formal labour market flexibility. Mitigating adverse income distribution effects requires broader and more efficient social safety nets. Training and retraining programmes to adapt workers' skills to new needs may also be required.

If the political will exists to overcome the initial tariff losses, the biggest structural challenge will be integrating extremely unequal partners, such as upper-middle-income South Africa or Botswana, with surrounding low-income countries, such as Mozambique, Eswatini and Lesotho.

Chart 25: Key recommendations

## African governments must

1. proactively participate, find consensus and conclude the AfCFTA as planned.
2. harmonise trade policies and ensure the agreement covers investment and competition policies.
3. build broad public support, increase the role of private sectors and provide certainty for businesses to expand operations.
4. promote sustainable infrastructure and industrial development to facilitate commercially meaningful trade with the AfCFTA.
5. enhance complementary national trade, industrial and competition policies to increase productivity and value-added in manufacturing.
6. promote the importation of industrial technologies from advanced economies to facilitate downstream beneficiation of endowed natural resources, thereby boosting sustainable and inclusive industrialisation and subsequent industrial development.
7. support the participation of small-scale cross-border traders and smallholder farmers particularly women and youth, as it is crucial to maximise the AfCFTA impact on boosting trade and export capacities of the formal and informal sectors.
8. mitigate and compensate for losses that individuals, firms and countries could experience during the early years of the AfCFTA

## Annexure



## Estimations on the impact of the AfCFTA

A number of organisations have released estimations on the potential impact of the AfCFTA. For example:

- During the African Economic Conference 2018 in Kigali, the African Development Bank indicated that it expected the AfCFTA to boost intra-Africa trade by up to US$35 billion per year reflecting a 52% increase in trade by 2022 and a US$10 billion decrease in imports to Africa.[74]

- The African Export–Import Bank, in 2018, estimated the export potential of intra-Africa trade at more than US$84 billion, which if tapped would take total intra-Africa trade to US$231 billion. The untapped proportion consists of sectors that are known to be internationally competitive and have good prospects for export success in regional markets. These included mineral commodities, machinery, food products, motor vehicles and parts, and plastics and rubber. At US$53 billion, most of the total untapped figure of US$84 billion sits in Southern Africa. This is followed by North Africa (US$13.4 billion), West Africa (US$9.5 billion) and East Africa (US$7.8 billion). Central Africa comes in last (US$840 million). [75]

- The UN Conference on Trade and Development (UNCTAD) modelled two scenarios reflecting full and partial elimination of tariffs in 2018 and concluded that employment rates grew most in the manufacturing industry and the service and agriculture sub-sectors, which is in line with the objective for structural transformation and industrialisation set out by the Continental Free Trade Area.[76]

- In 2018, the UN Economic Commission for Africa estimated that the AfCFTA has the potential to boost intra-Africa trade by 52.3% through eliminating import duties, and by over 100% through the elimination of non-tariff barriers.[77]

- In a 2019 scenario that emulates the full AfCFTA implementation, where all tariffs are eliminated, UNCTAD estimates that the net welfare gains could be in the region of US$16 billion and almost 1% more rapid GDP growth than would otherwise be the case. Total employment improves by slightly more than 1%, intra-Africa trade is forecast to grow by one-third and Africa's total trade deficit is cut in half.[78] Trade tariffs in Africa are actually already quite low and the short-term revenue losses that governments may suffer owing to tariff reductions (one estimate is US$4.1 billion) will be wiped out within a few years as trade increases and economies expand. UNCTAD concludes that 'with adequate flanking policies and social safety measures, the AfCFTA has an immense potential to promote equitable and inclusive growth.'[79]

- The African Economic Outlook 2019 presented a scenario where, if current bilateral tariffs are eliminated, Africa would gain US$2.8 billion in real income and intra-Africa trade would increase by 15%. In addition, removing non-tariff barriers could increase total real income gains by US$37 billion and intra-Africa trade by 107%.

- In its 2019 estimate of the impact of the AfCFTA, the UN Department of Economic and Social Affairs (UNDESA) finds that growth in Africa could accelerate by 0.3 to 0.6 percentage points by 2040 compared to the baseline scenario. However, these forecasts likely substantially underestimate the economic benefits of the AfCFTA, as they do not take into account the impact of liberalisation in other areas, such as service and investment.[80]

- The Foresight Africa 2019 projects that the AfCFTA would increase the value of intra-Africa trade by between 15% (or US$50 billion) and 25% (or US$70 billion), depending on the liberalisation efforts in 2040, relative to a situation with no AfCFTA in place. It also projects the share of intra-Africa trade to increase by nearly 40% to over 50%, depending on the ambition of the liberalisation, between the start of the implementation of the reform, 2020, and 2040.[81]

- In a 2020 IMF study, long-term income gains would be at least 2.1% with increased investment, innovation and knowledge diffusion, with significant expansion of intra-regional trade and limited adverse effects on trade with non-member countries (trade diversion). About US$60 billion could be added to African exports.[82]

- According to the World Bank in 2020, the AfCFTA is projected to raise income growth by 7% (above the baseline without the AfCFTA) by 2035 and lift 30 million people out of extreme poverty (i.e. people living on less than US$1.90 per day) and increase the income of 68 million other people who live on less than US$5.50 per day. It projects that the AfCFTA has the potential to bring significant economic and social benefits in the form of faster economic growth, higher incomes and less poverty. It would help Africa diversify and industrialise its economy and reduce its reliance on exports of a few primary goods, such as copper, oil and coffee.[83]

- In 2021, the Frederick S. Pardee Centre for International Futures reported that intra-Africa trade is expected to increase to 40% of African total trade by 2063.[84]

A 2022 World Bank report in association with the AfCFTA Secretariat indicated that the full implementation of the AfCFTA scenario could increase intra-Africa exports by up to 109% and global exports by 32% by 2035, lift 50 million people out of poverty and raise overall income by 8% by 2035. Other benefits that could accrue include FDI, which is expected to bring new capital, fresh technology and additional skills to raise the standard of living and reduce African dependence on primary and commodity exports. Women and skilled workers are expected to see the biggest wage gains from the AfCFTA. The wages of female workers are expected to be 11.2% higher in 2035 and male workers' wages could grow by 9.8%.[85]

## The AfCFTA scenario

This scenario  used IFs version 7.84. All interventions start in 2024, interpolate to 2033 and then are maintained at that level unless indicated otherwise.

| Interventions and parameters | Adjustment in IFs | Benchmark/Justification/Notes |
|---|---|---|
| Reduction in import tariff tax multiplier by sector and country group (mtarifftaxrm) | Agriculture:<br>G6: Interpolate from 1 in 2029 to 0.1 in 2044 (15 years). LDC: Interpolate from 1 in 2029 to 0.1 in 2042 (13 years). Non-LDC: Interpolate from 1 in 2029 to 0.1 in 2039 (10 years).<br><br>Materials<br>G6: Interpolate from 1 in 2023 to 0.01 in 2038 (15 years). LDC: Interpolate from 1 in 2023 to 0.01 in 2033 (10 years). Non-LDC: Interpolate from 1 in 2023 to 0.01 in 2028 (5 years).<br><br>Energy, service and ICT sectors<br>G6: Interpolate from 1 in 2023 to 0 in 2038 (15 years). LDC: Interpolate from 1 in 2023 to 0 in 2033 (10 years). Non-LDC: Interpolate from 1 in 2023 to 0 in 2028 (5 years).<br><br>Manufacturing<br>G6: Interpolate from 1 in 2023 to 0.05 in 2038 (15 years). LDC: Interpolate from 1 in 2023 to 0.05 in 2033 (10 years). Non-LDC: Interpolate from 1 in 2023 to 0.05 in 2028 (5 years). | In the AfCFTA, agriculture products are considered sensitive products and have a fixed 10% tariff. Current tariffs can be maintained during the first five years with phase down starting in year six.[86]<br><br>Non-sensitive products have a 100% tariff reduction under the AfCFTA. A few material products are included in the 3% of the excluded products, e.g. corrugated flat-rolled steel; thus, the 99% reduction in material tariffs.<br><br>Energy, service and ICT goods are all under non-sensitive products, and they have a 100% tariff reduction.<br><br>A number of manufactured products are excluded from the non-sensitive list, e.g. most goods and passenger vehicles; thus, a 95% tariff reduction.[87] |
| Increase in export shift as a result of promotion of exports (Manufactures) ratio (xshift) | Interpolate to 0.008 | In the World Bank policy research paper, export promotion agencies for developing countries will have an elasticity of 8%.[88]<br><br>In the World Economy paper, each additional export promotion agency increases exports by 6–10%.[89] |
| Increase in multifactor productivity growth additive factor (mfpadd) | Angola (0.007), Benin (0.007), Botswana (0.01), Burkina Faso (0.007), Burundi (0.007), Cameroon (0.007), | Calculations or adjustments were based on annual average growth rates for the period 2010–2018 using |

| | | |
|---|---|---|
| | Central Africa Republic (0.007), Côte d'Ivoire (0.007), Egypt (0.008), Eswatini (0.007), Gabon(0.007), Kenya (0.008), Lesotho (0.007), Mauritania (0.008), Mauritius (0.008), Morocco (0.008), Mozambique (0.008), Namibia (0.009), Niger (0.007), Nigeria (0.007), Rwanda (0.007), Senegal (0.007), Sierra Leone (0.007), South Africa (0.009), Sudan (0.007), Tanzania (0.007), Togo (0.006), Tunisia (0.008), Zambia (0.008), Zimbabwe (0.007), Algeria (0.011), Cabo Verde (0.007), Chad (0.008), Comoros (0.007), Congo (0.007), DR Congo (0.007), Djibouti (0.008), Equatorial Guinea (0.007), Eritrea (0.007), Ethiopia (0.008), Gambia (0.008), Ghana (0.005), Guinea (0.007), Liberia (0.007), Libya (0.007), Madagascar (0.007), Malawi (0.007), Mali (0.007), São Tomé and Príncipe (0.007), Seychelles (0.008), Somalia (0.007), Sudan South (0.007), Uganda (0.007), Guinea Bissau (0.007) | the Penn World Tables data - TFP at current PPPs (USA=1). |
| Increase in export multiplier (XSM) | Agriculture: Interpolate to 1.22<br>Services: Interpolate to 1.2<br>ICT: Interpolate to 1.1<br>Materials: Interpolate to 1.1<br>Energy: Interpolate to 1.05 | |

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**Dr Blessing Chipanda** joined the African Futures and Innovation (AFI) programme in January 2023. Before joining the ISS he worked as an assistant lecturer/ research assistant at the University of Pretoria, Department of Economics. He is particularly interested in tasks within the wider realm of international trade, development economics, public policy, monetary policy, and econometric modelling. Equally interested in economic and socio-economic activities that impact social welfare. Blessing has a PhD in economics from the University of Pretoria, South Africa.

**Dr Jakkie Cilliers** is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the ISS. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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