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The AfCFTA
Introduction

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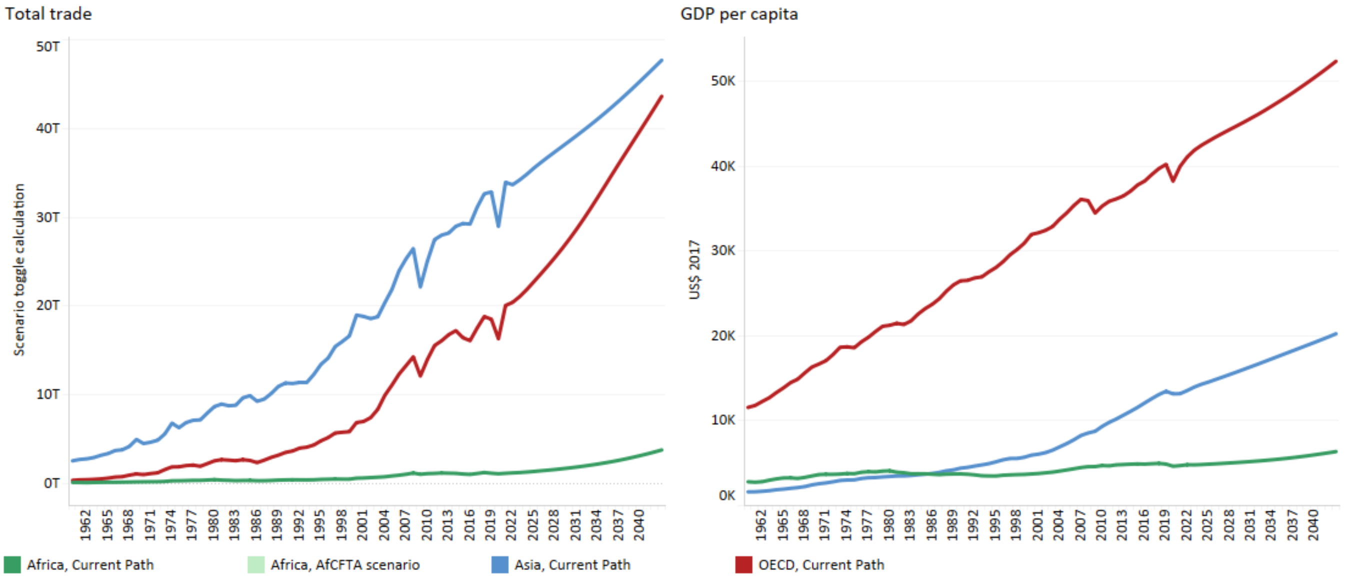
Introduction

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.

Endnotes

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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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