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The AfCFTA

Priorities and Benefits of the AfCFTA

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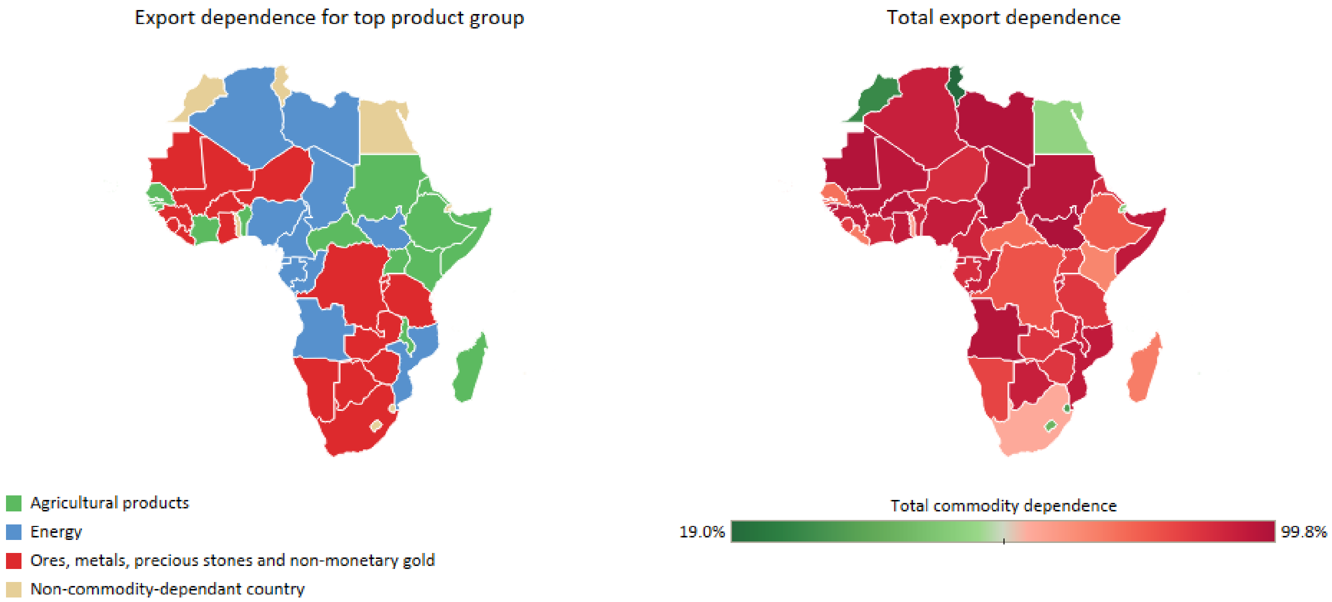
Africa is still struggling to detach itself from its colonial past characterised by the exportation of homogeneous goods (i.e. primary/commodity goods), and the importation of heterogeneous goods (i.e. machinery and equipment), (see Charts 2 and 3). Colonial rule had profound impacts on Africa's trade, African countries were structured to meet the demands of industrialising Europe by supplying primary inputs. African countries that heavily depend on primary exports tend to experience lower and more unstable economic growth than those that mostly export manufactured goods. Primary goods lack both economic and technological dynamism and are subject to volatile global prices.

Chart 2: Commodity dependence by export product group and commodity exports, average 2019-2021

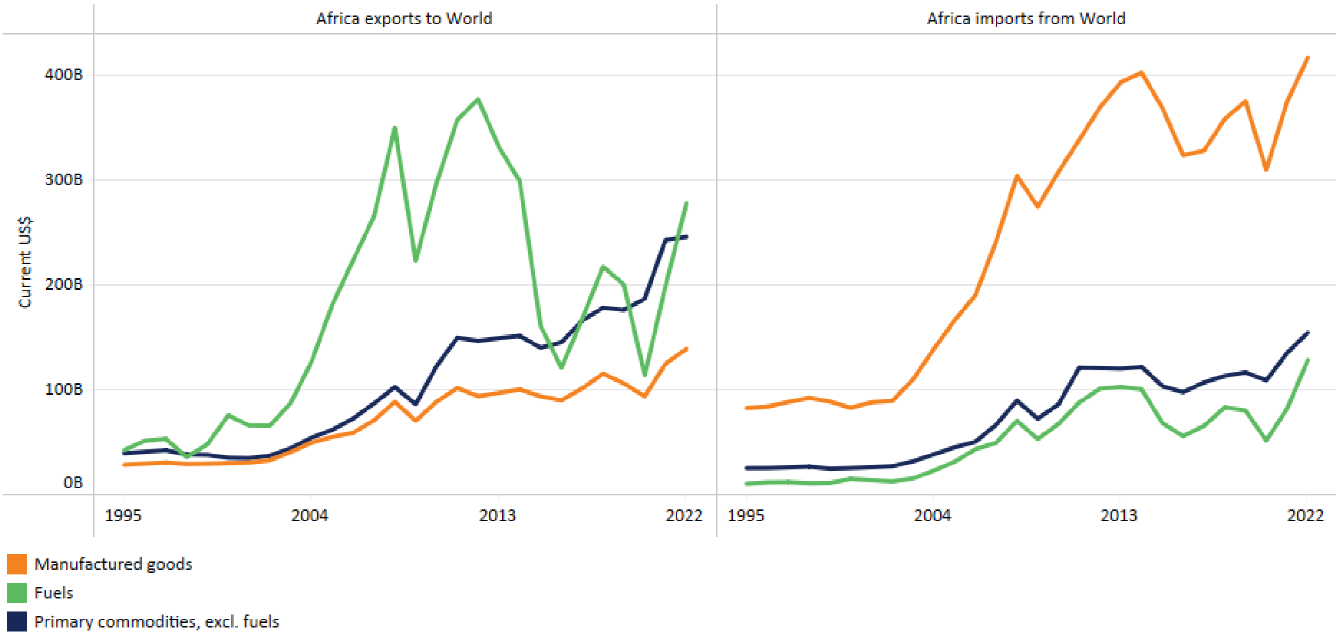
Toggle to view change in dependence between 2012/2014 and 2019/2021



Source: UNCTAD State of Commodity Dependence report 2023

Africa's limited manufactured exports are centred around resource-based goods, which are also subject to volatile global prices. As a result, Africa's contribution to GVCs is largely upstream production, characterised by the supply of primary goods. This overreliance on a narrow range of primary and resource-based products has, over time, made the continent vulnerable to external demand and supply fluctuations with enormous implications for development and poverty reduction efforts. Chart 3 shows Africa's intra- and extra-trade composition for the period 1995-2022.

Chart 3: Africa's intra- and extra-trade composition, 1995-2022

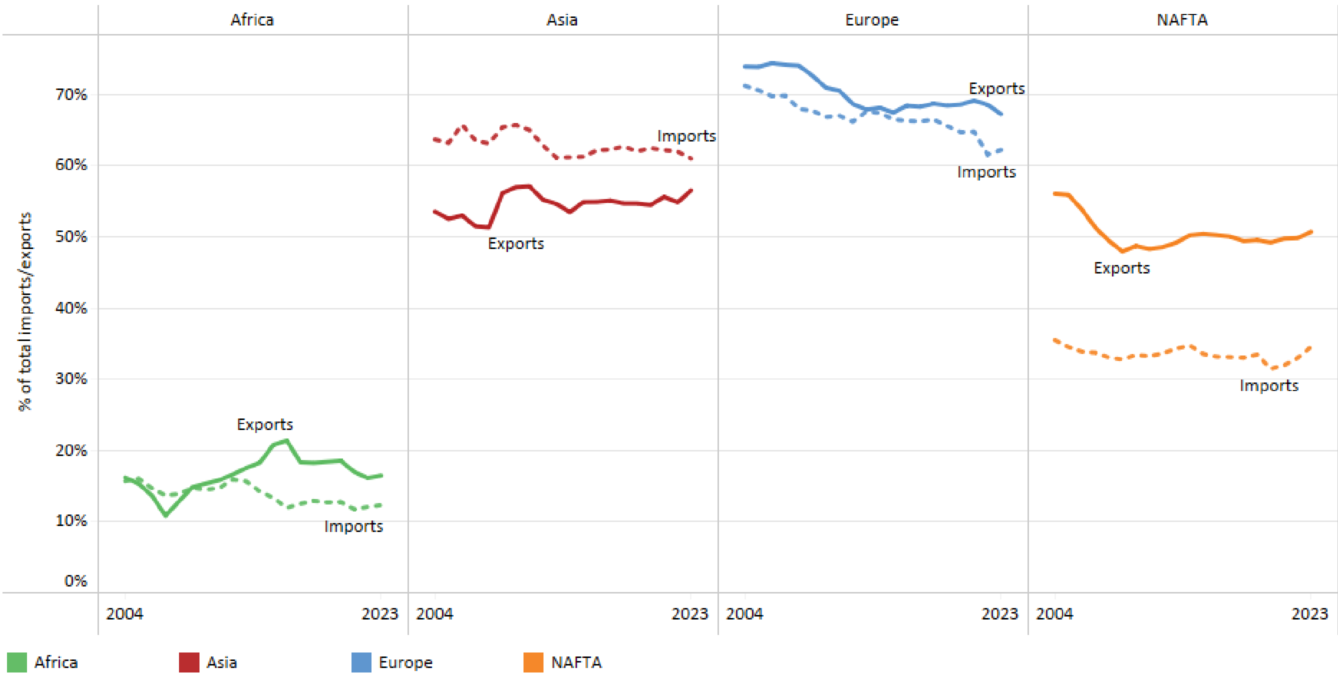


Source: UNCTADstat

The continent trades more with the rest of the world than internally, and its participation in global trade has remained low and stagnant. 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 point decline in market share relative to 2013 and an increase in market share by 0.2 percentage points relative to 2022. Its global import 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 increasing to 2.7% in 2023.

Chart 4 shows Africa's share of intra-export compared to the share of other world regions. A paltry 14.8% of Africa's trade is internal, compared to 54.5% for Asia and 68.4% for Europe in 2021. The continent heavily relies on external markets for both its exports and imports. For Africa, the full implementation of the AfCFTA will therefore be crucial to limit the impact of the current trend towards deglobalisation. Until recently, the continent has done little to increase trade among its members, much of internal trade in Africa has been driven by the Southern African Development Community (SADC) and the East African Community (EAC), which have the highest levels of internal trade among regional groups. 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.

Chart 4: Intra-region trade as % of total imports/exports, 2004-2023



Source: ITC trade map data

However, once informal intra-African trade is included, the share of internal trade in Africa is likely significantly larger than shown in official trade data. 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. Similarly, a 2010 study by the African Resource Centre estimated the value of informal exports from Uganda to its neighbouring countries to be about 83% larger than the official export data. 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.

The AfCFTA should decrease the cost of trade and encourage the formalisation of trade. For instance, with the AfCFTA agreement, to help overcome non-tariff barriers, an online portal has been set up through which traders can report problems. Non-tariff barrier challenges and problems are to be handled by nominated government officials who are meant to take action to remove the barriers.

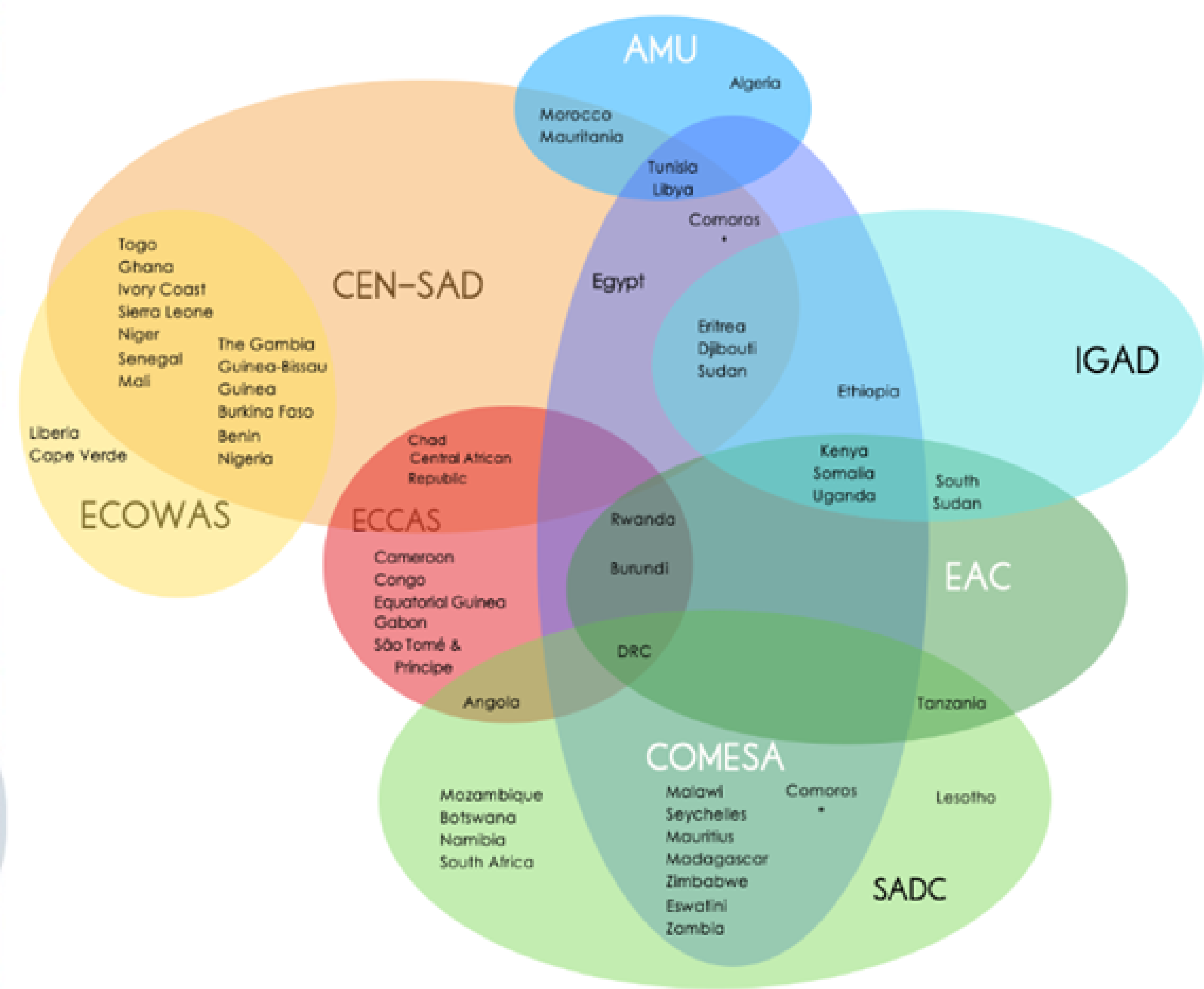
By fostering intra-African trade and RVCs, the AfCFTA is a critical driver in the structural transformation and industrialisation of Africa, with the potential to help reduce the continent's vulnerability to external shocks, enhance export diversification and boost economic performance. With the RVCs that are being developed under the AfCFTA, member states have the opportunity to also boost global competitiveness, pursue export diversification and increase exports of high-value-added manufactured goods. This has the advantage of helping African countries lower imports and dependency on goods that could be produced and traded within the continent with an important knock-on effect on the balance-of-trade of countries.

The AfCFTA agreement prioritises industrialisation of the agri-business, automotive, pharmaceuticals, transport, and logistics sectors based on the potential for import substitution and existing production capacities on the continent. These sectors have a higher potential for boosting local value addition, job creation and economic growth, with positive implications for poverty reduction.

The AfCFTA agreement expects participating member states to progressively eliminate restrictive measures hindering cross-border supply, consumption abroad, commercial presence, and temporary movement of persons. Member states agreed to start with five priority service sectors: business, communication, financial, transport and tourism services. Some of the service sectors to be liberalised later include construction and related engineering, distribution, educational, environmental, health-related and social services.

The eight Regional Economic Communities (RECs) and their bilateral and multilateral trade agreements recognised by the AU will continue to exist under the AfCFTA agreement. The agreement will provide an Africa-wide regulatory framework to harmonise intra-trade. What makes the AfCFTA stand out from the existing RECs is the extent of political will, the geographical and policy coverage, and the articulation of existing RECs under a single legal umbrella with a dispute settlement mechanism to ensure compliance and enforcement of commitments undertaken.

Chart 5: Regional Economic Communities in Africa recognised by the African Union, 2023



With these priorities and associated benefits, the AfCFTA presents a unique opportunity for Africa to realise its long-held vision of an integrated, continent-wide market. If successfully implemented it will transform African economies and significantly raise Africa's share of global trade to position the region as a dynamic force in the international arena.

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About the authors

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. 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 Institute. 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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