The AfCFTA

Impact of the AfCFTA scenario

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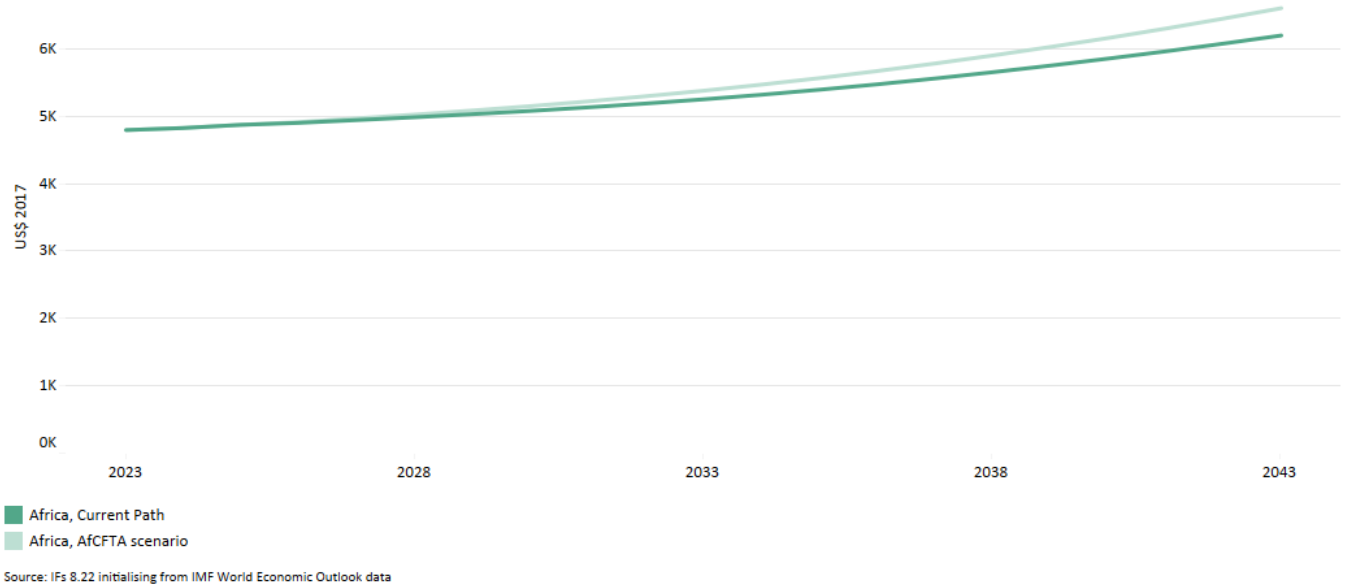
Impact of the AfCFTA scenario on economic size, income, extreme poverty and growth

The successful implementation of the AfCFTA will 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 envisioned and ensure it covers investment and competition policies and harmonises trade policies at the country, regional and continental levels.

In 2023, the size of Africa's economy measured in GDP at the market exchange rate (MER) was estimated at about US$2.7 trillion; by 2043, in the Current Path, it is forecast to reach about US$6.5 trillion, a 143% increase between 2023 and 2043. Following the implementation of the AfCFTA agreement, the size of Africa's economy will be 10% (equivalent to US$650 billion) larger than the Current Path in 2043.

The GDP per capita at the purchasing power parity (PPP) will be US$6 602, which will be US$406 larger than what it would be on the Current Path for a continent that would then be home to nearly 2.3 billion people in 2043 (see Chart 9). Higher living standards reduce fertility and maternal mortality rates and the result is a population size that is about 0.1 smaller compared to the Current Path, equivalent to three million fewer people. However, with the full implementation of the AfCFTA agreement, Africa's GDP per capita will remain far below the global GDP per capita average of US$22 310 by 2043.

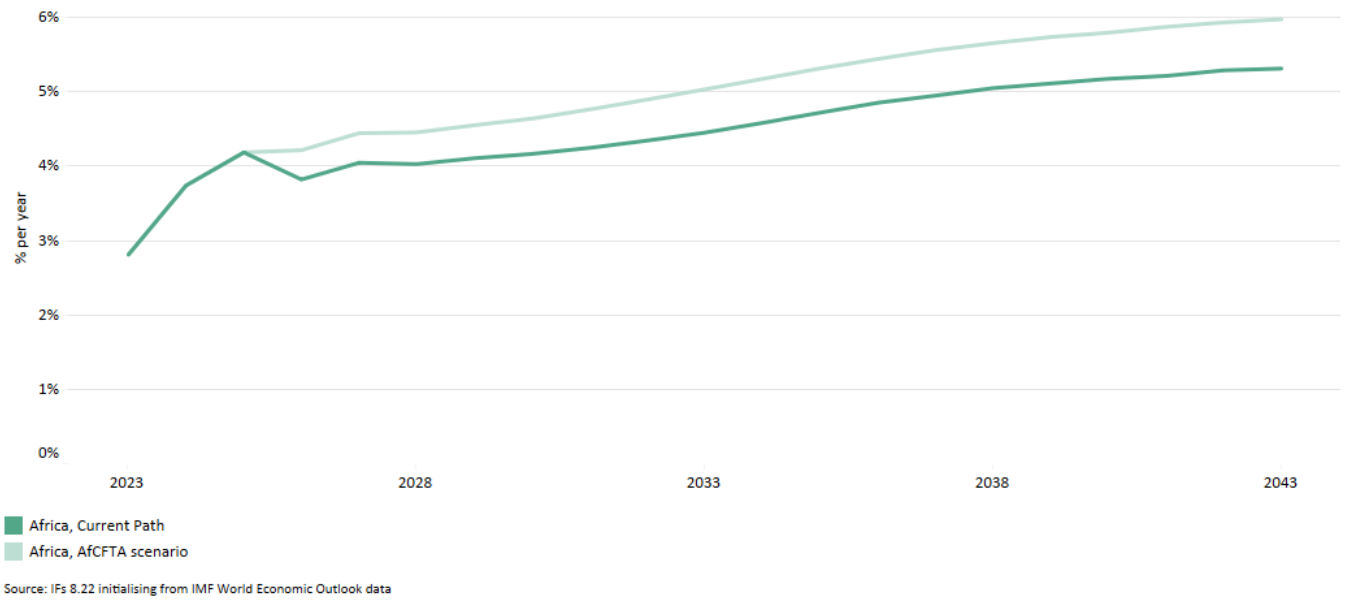
Chart 9: GDP per capita (PPP) in the Current Path and AfCFTA scenario, 2023-2043



Source: IFs 8.22 initialising from IMF World Economic Outlook data

Following implementation, Africa's economy will be steaming ahead at about 5.3% rate of economic growth in 2035, which is around 0.6 percentage points above the Current Path (see Chart 10). By 2043, Africa's economy will grow by 6% compared to 5.3% on the Current Path over the same period. Across the entire forecast horizon, from 2026 to 2043, the average economic growth rate for Africa would be about 0.6 percentage points above the Current Path. The user can view the GDP growth impact for each country using the drop-down menu.

Chart 10: GDP growth rate in the Current Path and AfCFTA scenario, 2023-2043

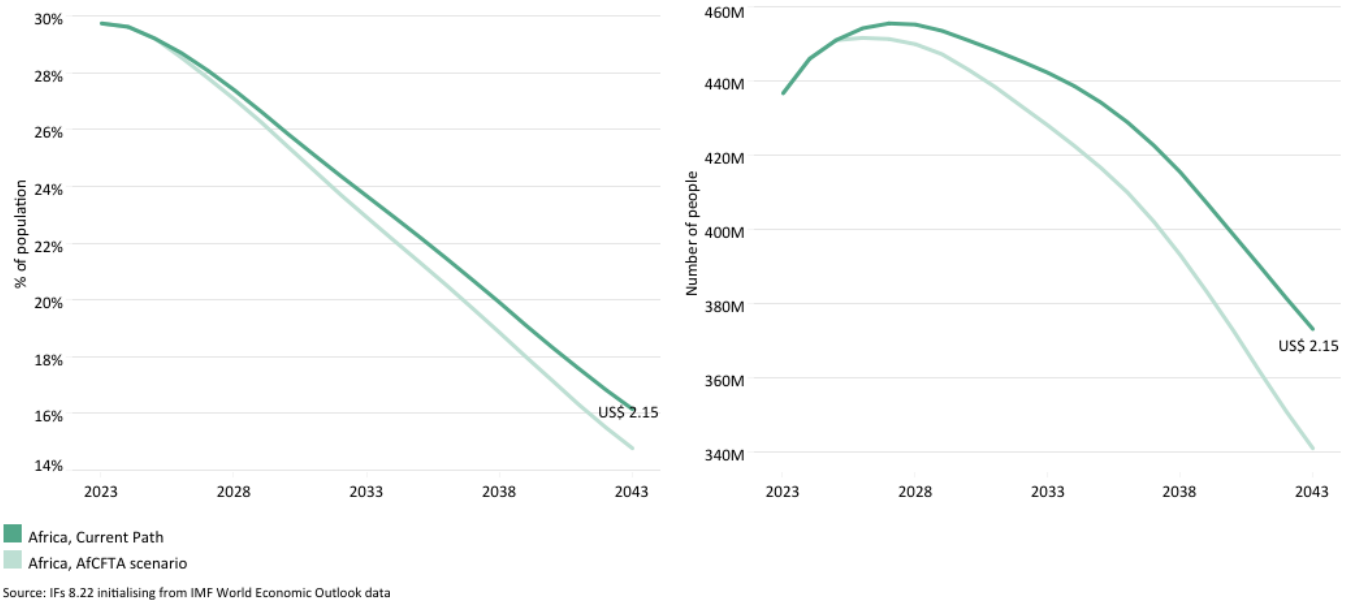


Source: IFs 8.22 initialising from IMF World Economic Outlook data

Chart 11 shows the scenario's impact on poverty compared to the Current Path. The result of the full implementation of the AfCFTA is that the African economy will be nearly US$650 billion (at market exchange rates), or about 10%, larger in 2043 than it would be on the Current Path. This growth translates into 32.1 million fewer people living in extreme poverty, i.e. living on less than US$2.15 per day in 2043. However, the initial impact of the AfCFTA is to increase extreme poverty, especially in low-income countries and countries with high income inequality as scarce resources are used towards capital-intensive projects that advantage higher skilled labour. The user can view the poverty trend for individual African countries using the drop-down menu and toggle to switch between absolute values and percentage changes in comparing the Current Path with the AfCFTA scenario.

Chart 11: Extreme poverty in the Current Path and AfCFTA scenario, 2023-2043

% of population and number of people (log scale)



Source: IFs 8.22 initialising from IMF World Economic Outlook data

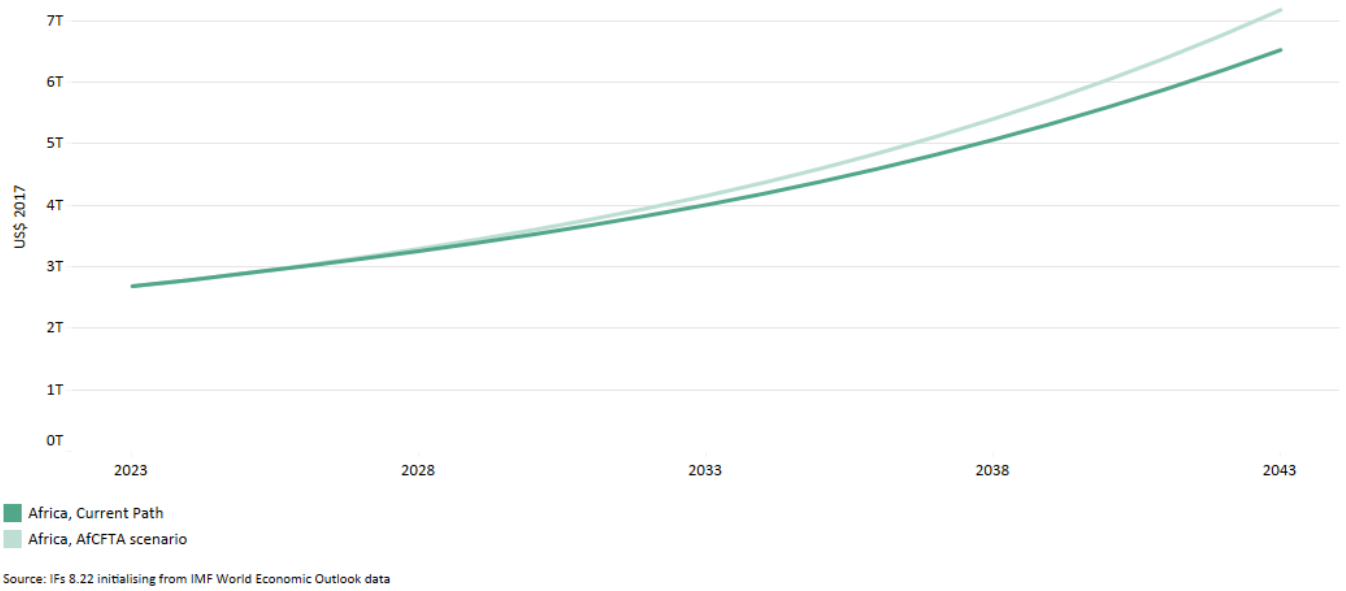
If the AfCFTA is fully implemented, Nigeria, DR Congo, Sudan, South Sudan and Tanzania will have the largest number of people lifted out of extreme poverty (at US$2.15 per day) relative to the Current Path in 2043, given the fact that the first two have the largest number of poor people in Africa. About 5.9 million Nigerians will be lifted out of extreme poverty in 2043, which is 1.5 percentage points lower relative to the Current Path. DR Congo is projected to have about 4.2 million fewer poor people relative to the Current Path, which will be 2.2 percentage points below the Current Path.

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 Nigeria, South Africa, Egypt, Kenya and Angola.

Nigeria's GDP would increase by about 8.4% (equivalent to US$78.1 billion) relative to the Current Path in 2043. The size of South Africa's and Egypt's economies will be about 11.6% and 5.7% larger (equivalent to US$76.3 billion and US$48.2 billion) than the Current Path in 2043, 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$1 billion relative to the Current Path. These include Burundi, South Sudan, Liberia, Cabo Verde, Lesotho, Eritrea, Central African Republic, Gambia, Seychelles, Comoros, Guinea Bissau, and Sao Tome and Principe. However, when considering the per cent increase in the size of the economy by 2043, Rwanda, Somalia, Angola, Eswatini and Chad gain the most (a more than 15% increase in the size of their economies), while the size of the economies of Malawi and Mali increase by less than 5%.

Chart 12: GDP (MER) in the Current Path and AfCFTA scenario, 2023-2043



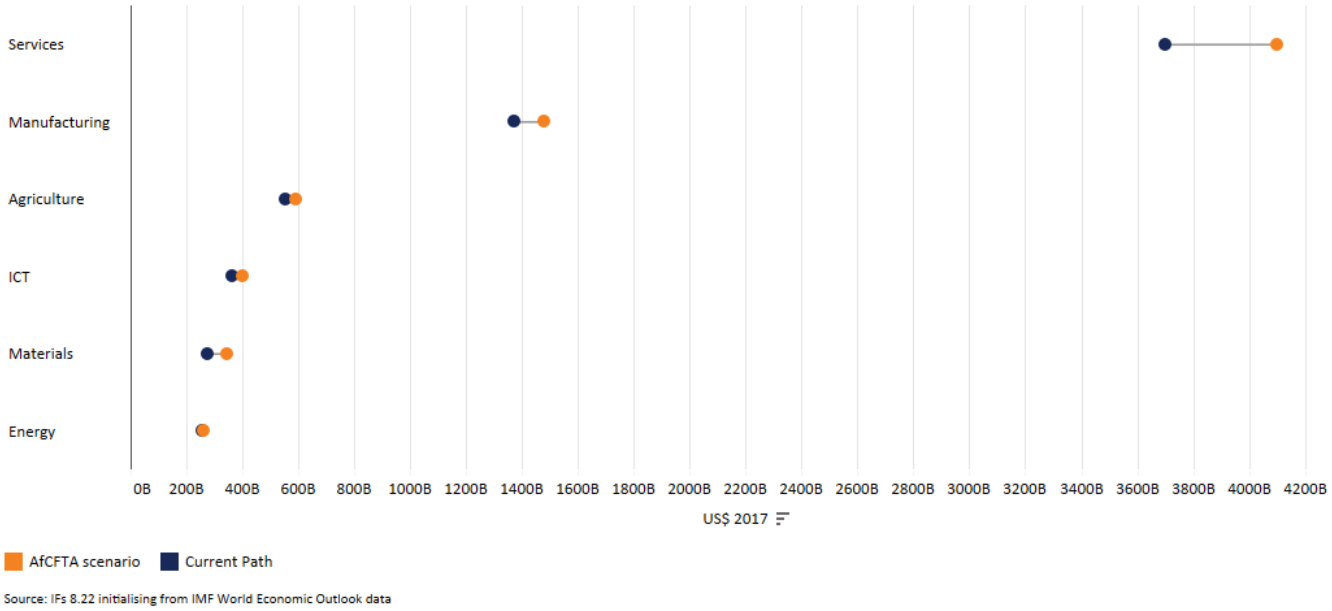
Source: IFs 8.22 initialising from IMF World Economic Outlook data

Chart 12 depicts the income gains from the AfCFTA scenario compared to the Current Path in 2043. Whereas the GDP and GDP per capita will increase for all African countries, extreme poverty (at US$2.15 per day) will increase by 25 thousand people in Lesotho and in Congo by seven thousand people in 2043. The results for these countries where the AfCFTA scenario increases extreme poverty 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 is likely a safety net programme.

Impact of the AfCFTA scenario on economic sectors

Our modelling uses a sixfold distinction in considering the composition of economies to allow for more flexibility in scenario development. In addition to agriculture, manufacturing, services, the IFs platform initialises from GTAP data to isolate materials, ICTech and energy. The composition of these sectors is listed in the technical page. Given the 0.7 percentage points increase in the size of the African economy by 2043, all six sectors increase in size by 2043 when compared to the Current Path. Chart 13 allows the user to toggle between the absolute numbers and percentage changes for Africa, regions, income groups and countries.

Chart 13: Value added by sector in the Current Path and AfCFTA scenario, 2043



Source: IFs 8.22 initialising from IMF World Economic Outlook data

In summary, the successful implementation of the AfCFTA would be particularly beneficial to the continent's services, manufacturing and materials sectors. The additional gains from the services sector will be US$397.6 billion (or 10.7%) larger than the Current Path. In comparison, the manufacturing sector gains will be US$110.3 billion (or 8.1%) larger, while materials will be US$66.5 billion larger (or 24.2%) relative to the Current Path in 2043.

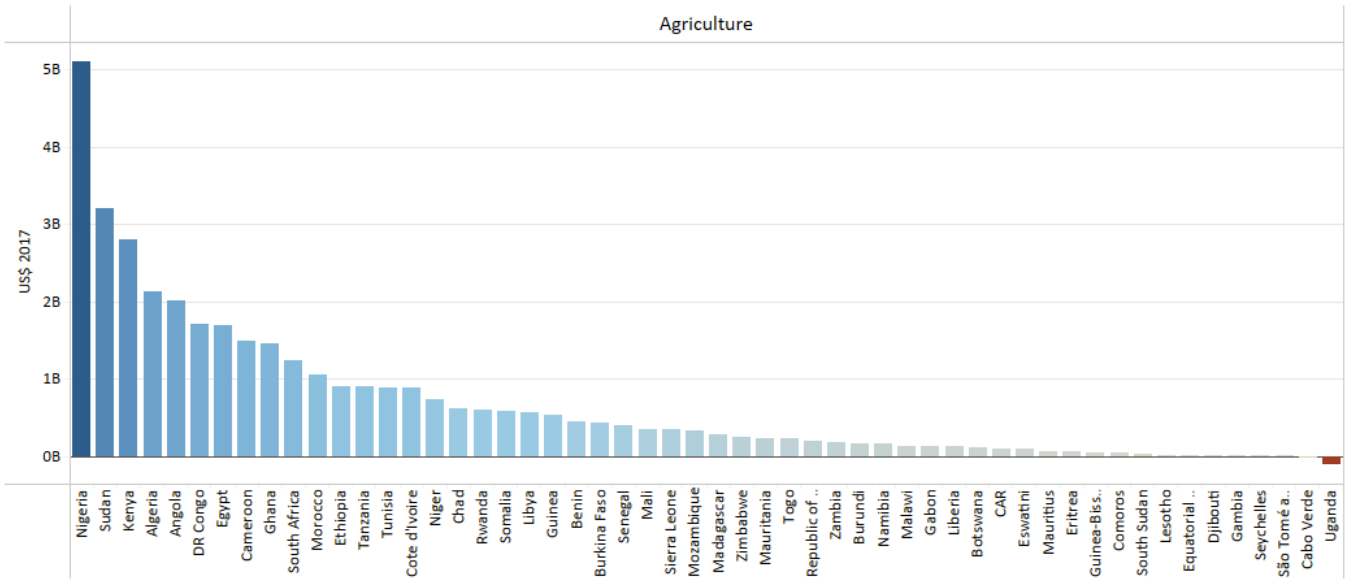
The performance of the energy and agriculture sectors is less impressive, however, the size of the energy sector would increase by just US$4.4 billion or (1.7%). In comparison, the gains from the agriculture sector would increase by US$35.9 billion (6.5%) relative to the Current Path in 2043.

The contribution to GDP of the materials sector, which includes mining, would increase by about 0.5 percentage points to nearly 4.8% and services by about 0.4 percentage points to account for about 57.2% 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 since the African economy will be significantly larger in 2043 than otherwise expected. These sectoral shifts follow the natural and expected evolution of economies that become more productive over time.

Chart 14 presents the AfCFTA gains in each sector for each country by 2043 relative to the Current Path. The chart allows the user to toggle the value-add and percentage gains for each of the six sectors.

Chart 14: Increase in value added by sector in AfCFTA, 2043

% increase and absolute change



Source: IFs 8.22 initialising from IMF World Economic Outlook data

In value terms, South Africa, Nigeria, Algeria and Egypt (respectively) would have the largest increase in the size of their manufacturing sectors relative to the Current Path in 2043. South Africa's manufacturing sector would increase by US$35.6 billion (equivalent to a 28.6% gain) relative to the Current Path. In contrast, Nigeria's would increase by US$18.1 billion (equivalent to a 9.4% gain). A number of countries would witness a decrease in the manufacturing value added relative to the Current Path, namely Seychelles, Cabo Verde, Liberia, Madagascar, Malawi, Mauritania, Guinea, Namibia, Ethiopia, Zimbabwe and Mauritius. This will be mainly due to their manufacturing sectors being small and less competitive.

In percentage gain terms, South Africa will still be the winner, followed by South Sudan, Chad, Eswatini and Congo. South Sudan's manufacturing sector will increase by 22.7% relative to the Current Path in 2043, while Chad, Eswatini and Congo sectors will increase by 20.6%, 20% and 18.9%, respectively.

In the agriculture sector, Nigeria will have the largest increase in size, followed by Sudan, Kenya and Algeria. Nigeria's agriculture sector would increase by US$5 billion relative to the Current Path in 2043. For Sudan, Kenya and Algeria, it would increase by US$3.2 billion, US$2.8 billion and US$2.1 billion, respectively, relative to the Current Path. At the low end would be Uganda and Cabo Verde with US$98 million and US$2 million (respectively) decrease in the size of their agriculture sector value.

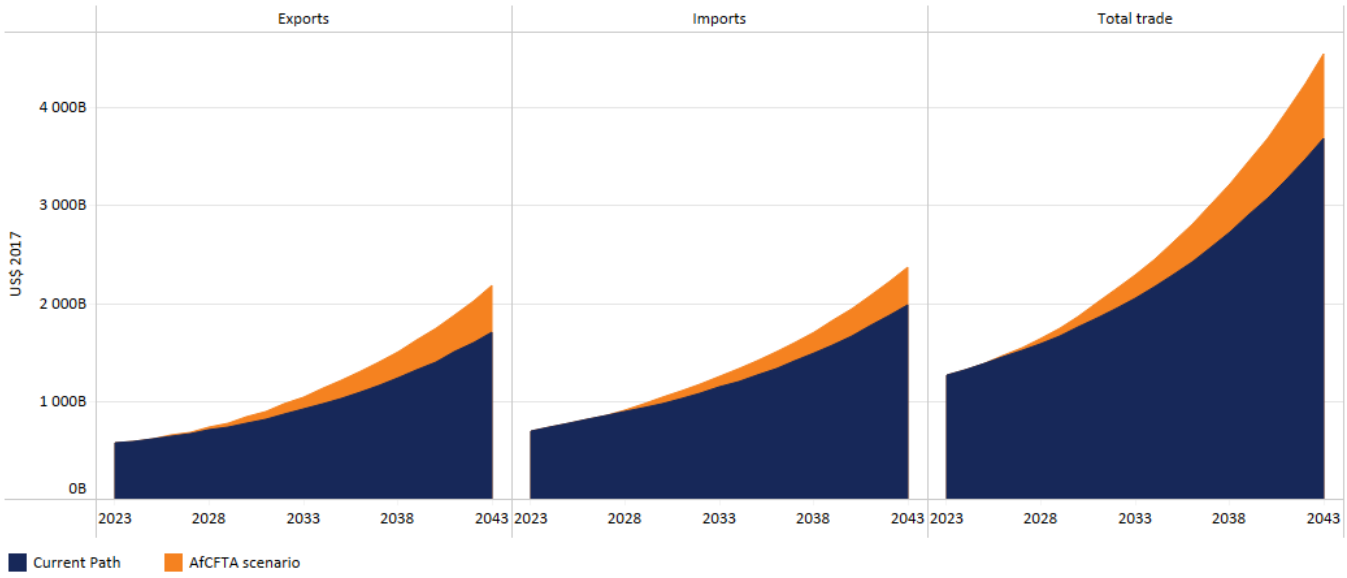
Impact of the AfCFTA scenario on trade values

The full implementation of the AfCFTA would significantly boost Africa's trade values, affecting both exports and imports, reflected in Chart 15 that allows the user to toggle between import and export values for Africa, regions, income groups and countries. Total imports in the AfCFTA scenario would be about US$2.4 trillion in 2043 — an increase of 19.5% relative to the Current Path while total exports would be about US$2.2 trillion, an increase of 27.7%. Africa would still have a trade deficit but it would be significantly lower.

The continent's total trade would represent 4.6% of global total trade, 0.8 percentage points above the Current Path in 2043. However, the gains are dominated by the increase in imports as the African economies go up the value-curve and

integrate into GVCs. Africa's imports in the AfCFTA scenario would be about US$2.4 trillion in 2043 — an increase of about 19.5% relative to the Current Path while total exports would be about US$2.2 trillion, an increase of 27.7%. Africa would still have a trade deficit but it would be significantly lower.

Chart 15: Trade in the Current Path and AfCFTA scenario, 2023-2043
Absolute change and % of world trade



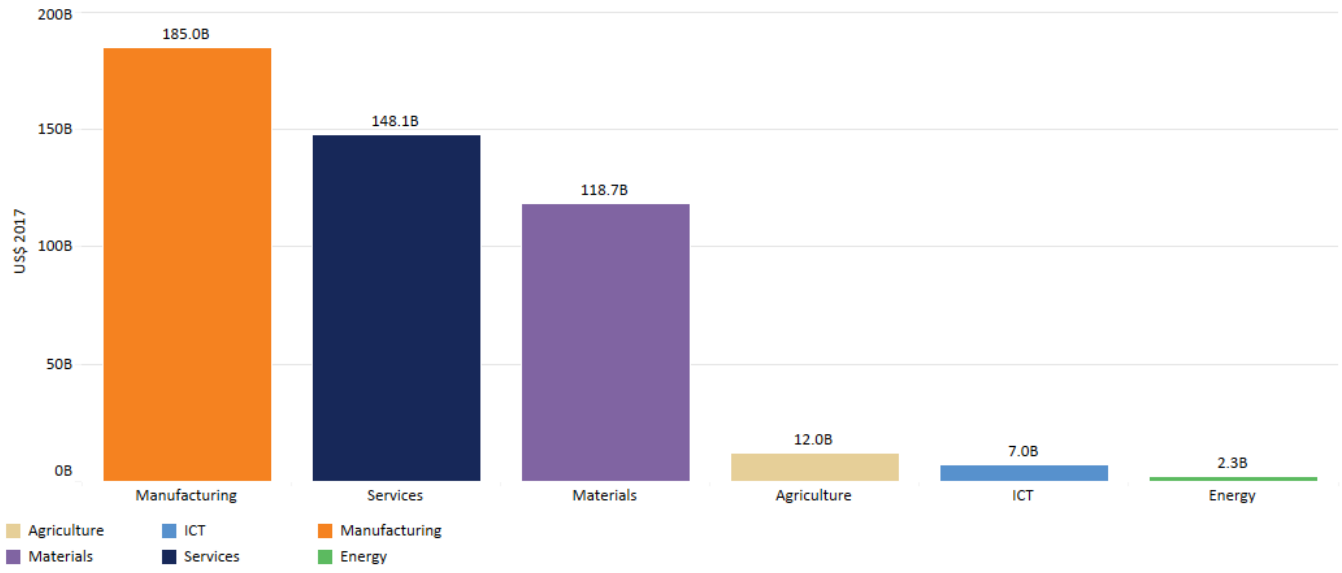
Source: IFs 8.22 initialising from World Bank and OECD national accounts data

The successful implementation of the AfCFTA would significantly boost Africa's exports, particularly in the manufacturing and service sectors. The value of Africa's exports of manufacturing goods will be US$98.9 billion larger than the Current Path in 2043. Service exports would account for about 25.8% of total exports, nearly US$106.8 billion more relative to the Current Path.

Chart 16 allows users to toggle between export values and percentage changes per sector for Africa, regions, income groups and countries. In 2043, Africa's exports would be highly concentrated in manufactured goods — about 48.2% of total exports in the AfCFTA scenario. This finding reinforces the contribution that the full implementation of the AfCFTA would make to industrialisation and reduction of Africa's dependence on commodities exports.

Chart 16: Increase in export values by sector in the AfCFTA scenario, 2043

% increase and absolute change



Source: IFs 8.22 initialising from IMF World Economic Outlook data

Most African countries depend on energy imports to meet their domestic energy demand. Even countries that export oil and gas such as Algeria, Nigeria and Angola, subsequently import the refined product. At the continental level energy exports would decrease by about US$11 billion (7.5% lower) relative to the Current Path in 2043 as Africa's growing economy and population requires the continent's energy exporters to reorientate production to domestic use. The share of energy exports in total exports would remain stagnant at around 8.6% of Africa's total exports in 2043. See the theme on energy for more detail.

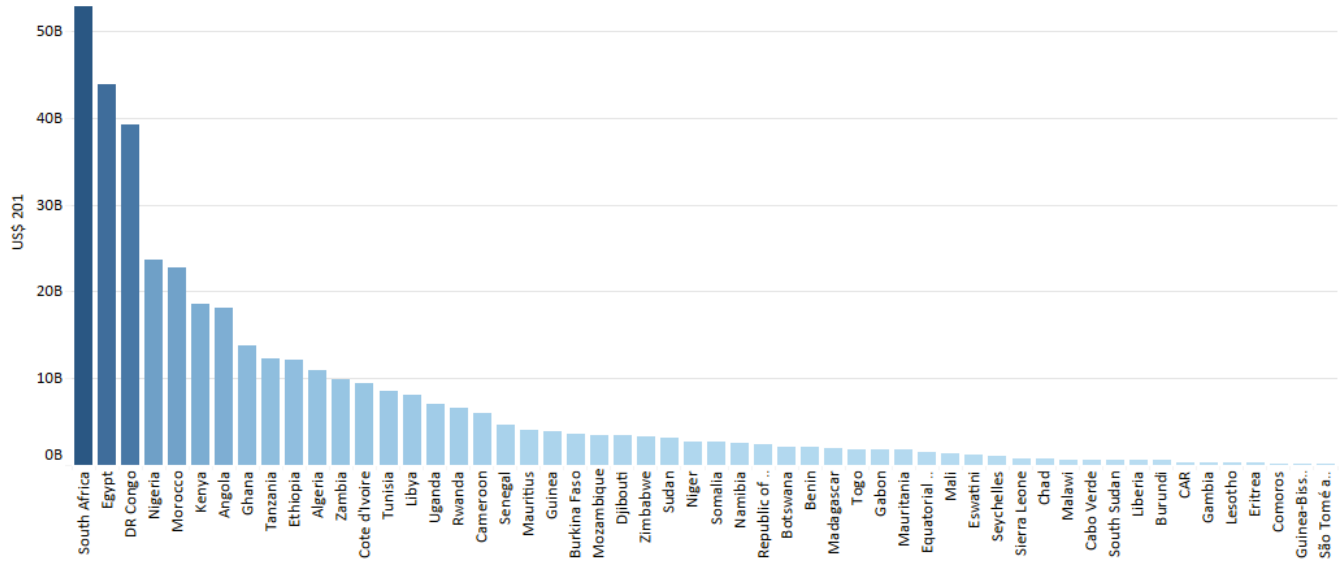
Impact of the AfCFTA scenario on exports and imports at country level

Chart 17 presents African countries' total export gains and increases in imports in the AfCFTA scenario in 2043. The chart allows the user to toggle between per cent and values in US$. In the AfCFTA scenario, South Africa would gain the most in total export value with an increase of about US$85.2 billion relative to the Current Path in 2043. The continent's potential export would be heavily concentrated in five major exporters (South Africa, Egypt, DR Congo, Nigeria and Morocco, respectively) in 2043. These top five exporters would account for about 40% of the continent's total exports in the AfCFTA scenario, while the top 10 exporters would account for about 61% in 2043. The bottom five exporters (Burundi, Sao Tome and Principe, Central African Republic, Comoros and Guinea Bissau, respectively) would account for only 0.1% of Africa's total potential exports, while the bottom 10 would account for just 0.8%.

In terms of export percentage gains, Nigeria will have the largest percentage increase. Its total exports will increase by 49% relative to the Current Path in 2043, while for South Africa, Angola, Burundi and Kenya will increase by about 43%, 38%, 38%, and 37%, respectively.

Chart 17: Export/import gains in the AfCFTA scenario, 2043

% increase and absolute change



Source: IFs 8.22 initialising from World Bank and OECD national accounts data

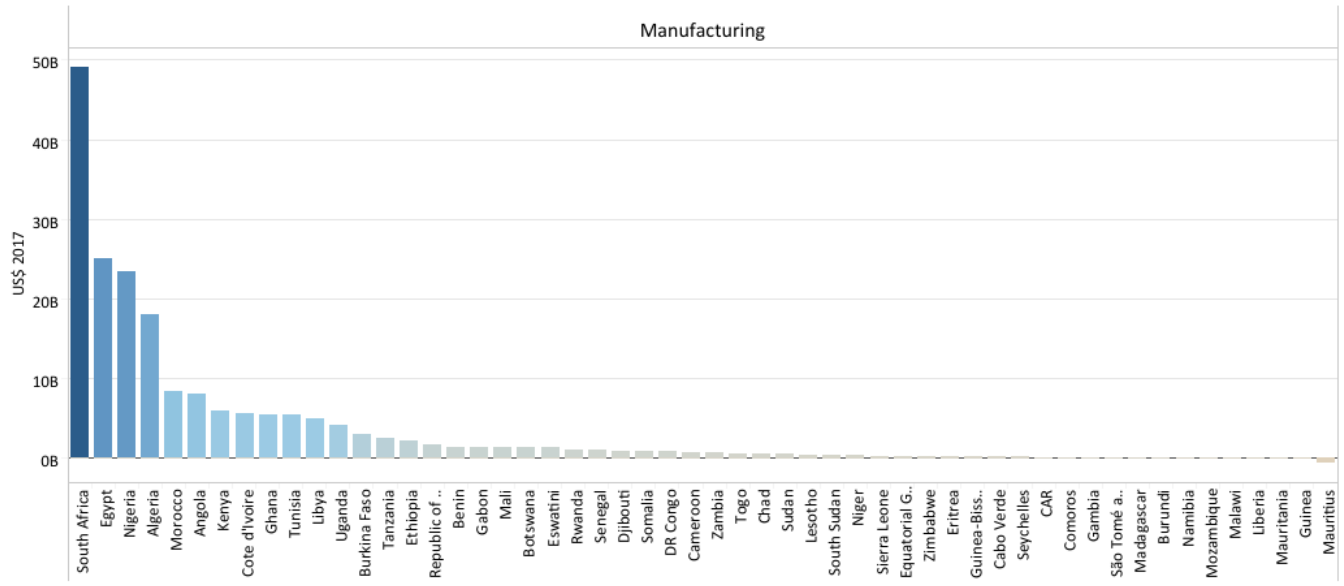
The top five importers (South Africa, Egypt, DR Congo, Nigeria and Morocco) will account for 32% (equivalent to US$756.7 billion) of the continent's total imports in the AfCFTA scenario by 2043, while the top 10 (that including Ethiopia, Algeria, Cote D'Ivoire, Ghana and Kenya will account for 48%. In terms of percentage increase, Mauritius's imports will increase the most, increasing by about 35.5% relative to the Current Path in 2043. Mauritius import growth will be followed by Seychelles (32.1%), DR Congo (28.3%), Angola (28.2) and Kenya (26.9%) relative to the Current Path.

Disaggregating the trade data by sector also reveals the differential impact of the AfCFTA scenario across countries and sectors. Chart 18 allows the user to toggle import/export values and percentage change for each of the six sectors within the IFs forecasting platform.

What a country imports matters for its growth. Advanced manufactured imports have a positive effect on developing countries' technological export composition. Advanced manufactured goods (i.e. industrial goods) are embodied with technologies that improve manufacturing firms' productivity, and more productive firms are more likely to become exporters. Most African countries are far removed from the technological frontier, and they can experience export composition diversification by importing advanced manufactured goods. Egypt will experience a significant increase in manufactured imports by 2043, increasing by about US$32.4 billion relative to the Current Path. Egypt's manufactured import growth will be followed by South Africa (US$21.8 billion), Nigeria (US$19.4 billion), Morocco (US$14.4 billion) and Kenya (US$13.6), relative to the Current Path.

South Africa would experience the most significant increase in manufacturing exports at about US$49.1 billion relative to the Current Path in 2043, followed by Egypt, Nigeria, Algeria and Morocco. At the low end, Namibia, Mozambique, Malawi, Liberia, Mauritania, Guinea and Mauritius would see manufacturing exports loss relative to the Current Path. Currently, the manufacturing sector of most of these economies is small and weak.

Chart 18: Export/import gains by sector in the AfCFTA scenario, 2043
% and absolute change



Source: IFs 8.22 initialising from IMF World Economic Outlook data

Agricultural exports gain relative to the Current Path in 2043, which would be highly concentrated in the top six exporters (Angola, South Africa, Tanzania, Kenya and Nigeria). Each would gain over US$0.5 billion, accounting for about 26.9% of the continent's total agricultural exports in the scenario.

Angola would gain the most as its agricultural exports would increase by slightly over US$1.5 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$1.5 billion in 2043. At the low end, the agricultural exports of Central Africa, Gambia, Niger and Sudan would decrease relative to the Current Path in 2043.

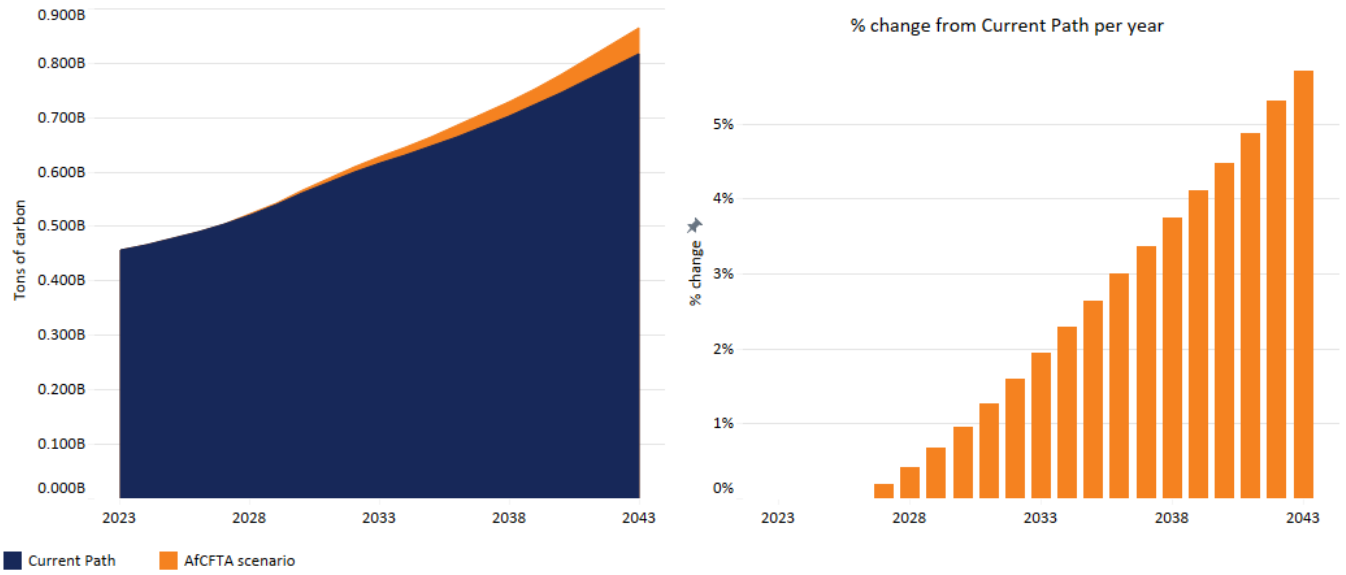
Overall, the AfCFTA scenario affirms that the full implementation of the agreement could significantly contribute to diversifying African economies and promoting inclusive growth on the continent. However, the gains from the AfCFTA will vary across states depending on their institutional frameworks, the structure of their economies, their domestic policies and their levels of development, etc. The implementation of the AfCFTA will, however, initially increase extreme poverty in many countries as the gains will be accrued disproportionately across member states. This will happen between countries, within countries, between firms and among the population. Pre-existing inequalities mean that better-developed African countries, cities, manufacturing firms and economic elite will benefit the most from the increased trade. Additionally, in all African countries, cities and urban areas are better integrated into trade value chains than rural areas, without comprehensive policies, inequalities will increase, widening the gaps between urban and rural areas especially when the AfCFTA agreement leads to diversification away from primary/commodity exports.

Without comprehensive policymaking and preferential treatment of Africa's LDCs, the AfCFTA could be a source of divergence rather than integration. The AfCFTA arguably has the highest income disparities among its member countries than any other FTA. 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.

Impact of the AfCFTA scenario on carbon emissions

The successful implementation of the AfCFTA agreement will boost Africa's trade volumes, however, the increased production associated with the implementation of the AfCFTA as well as the movements of goods across borders by trucks, ships and trains will contribute to an increase in carbon emissions. Chart 19 shows an overall upward trend of carbon emissions in Africa. Currently, African countries account for less than 5% of the world's total carbon emissions. The AfCFTA scenario will increase Africa's carbon emissions from fossil fuels by 5.8% relative to the Current Path in 2043. The implementation of the agreement should therefore not be separated from environmental policy. The AfCFTA agreement should prioritise the adoption of low-carbon technologies to mitigate its environmental impacts.

Chart 19: Carbon emissions in the Current Path and AfCFTA scenario, 2023-2043



Source: IFs 8.22 initialising from IMF World Economic Outlook data

In the scenario, Egypt will be the biggest emitter, followed by Nigeria, South Africa, Algeria and Ethiopia. These five top emitters will account for 54.6% of the continent's total world carbon emissions in 2043. Egypt's carbon emissions will increase by 3% relative to the Current Path, while South Africa's will increase by 5.3% compared to the Current Path in 2043 although the latter has considerable potential to reduce its significant emissions from coal.

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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. He currently serves as chair of the ISS Board of Trustees, head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute, and is an extraodinary professor at the University of Pretoria. 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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