



The AfCFTA

Conclusion: Advancing Africa's trade

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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.

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.

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 and poor infrastructure that keeps countries from trading with their neighbours — is important, as is the requirement to improve the quality of Africa's human capital. Also, imported critical inputs in Africa face relatively high tariffs and other cost-increasing factors, making them more expensive in the domestic market compared to other regions. The AfCFTA will not significantly alleviate this tariff burden, as most critical inputs are sourced from higher-income non-member countries. Therefore, establishing trade agreements with countries outside Africa that produce these essential inputs for Africa's manufacturing industry will be vital to fully leveraging the potential of the AfCFTA. African countries need to invest in education 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 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 policy adjustment.

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.

In other words, trade liberalisation works only to the benefit of countries when they actively manage levels of **openness** to trade. For this reason, the support of national governments that invest in the quality of **institutions** and provide policy certainty is important. China is the poster child when it comes to successfully managing 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.

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. 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- and medium-term pain (loss of tariff income and increase in poverty, especially in countries with higher inequality) 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 higher income would also reduce extreme poverty and more revenue. But in the immediate future, governments will have to work hard to get domestic buy-in once the pain from increased poverty and loss in tariff income becomes evident.

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. 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 will also be required.

If the political will exists to overcome the initial tariff losses, the biggest structural challenge to the implementation of the AfCFTA 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.

African governments must

- Find solutions to the rules of origins provision, tariff phasedowns, and the treatment of excluded sensitive products, and conclude the AfCFTA as planned.
- Harmonise trade policies and ensure the agreement covers investment and competition policies.
- Enhance complementary national trade, industrial and competition policies to increase productivity and value-added manufacturing
- Promote sustainable infrastructure and industrial development to facilitate commercially meaningful trade with the AfCFTA.
- Consider the effects of the expected increase in trade volumes on carbon emissions. Should prioritise the development of green value chains of goods and services.
- Promote the importation of industrial technologies (i.e., through reduction or elimination of tariffs) from advanced economies (non-AfCFTA states) to facilitate downstream beneficiation of endowed natural resources, thereby boosting sustainable and inclusive industrialisation.
- Prioritise the AfCFTA compensation funds towards actions that promote inclusive growth (reduce poverty and inequality), i.e., supporting the participation of small-scale, cross-border traders and smallholder farmers.
- Mitigate and compensate for losses that individuals and firms could experience during the early years of the AfCFTA.

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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 office 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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