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# The AfCFTA

## Conclusion: Advancing Africa's trade

Blessing Chipanda and Jakkie Cilliers

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## 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.[1]

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.[2]

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,[3] 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.[4]

In other words, trade liberalisation works only to the benefit of countries when they actively manage levels of openness to trade.[5] For this reason, the support of national governments that invest in the quality of institutions and provide policy certainty is important.[6] 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.[7] 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.[8]

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

## Endnotes


1. Only five African countries have a GDP of more than US$100 billion (Nigeria, South Africa, Egypt, Algeria and Morocco)
2. However, given the intervening reality of the Sahara Desert, the natural trading relationship for North Africa is with Europe and the Middle East rather than sub-Saharan Africa. Similarly, one could also speculate that the Horn of Africa is likely more closely linked to the Arabian Peninsula and with emerging India than with the rest of Africa, given access to ocean-based transport and the currently limited rail and road infrastructure in the region
3. Z Donnenfeld, J Cilliers, S Kwasi and L Welborn, Emerging giant: Potential pathways for Ethiopia to 2040, Institute for Security Studies, 17 January 2020
4. J Somé, African Economic Conference 2018: Industrial policy, institutions and performance of the manufacturing sector in Africa, Kigali: United Nations Development Program, Economic Commission for Africa and the African Development Bank, 2018
5. P Zahonogo, Trade and economic growth in developing countries: Evidence from sub-Saharan Africa, *Journal of African Trade,* 3:1–2, 2016, 41–56
6. J Somé, African Economic Conference 2018: Industrial policy, institutions and performance of manufacturing sector in Africa*,* Kigali, July 2018
7. Currently there are 'no tariff schedules, no Annex on rules of origin, nor rules for specific services sectors to regulate such trade [...]. These are sensitive and technically complicated matters; especially when 55 countries at very different levels of economic development are involved.' See: G Erasmus, Where does the AfCFTA process stand and what happens next?, 23 January 2019
8. A Ogunniyi et al, African Economic Conference 2018: Regional economic integration, governance quality and tax revenue in sub-Saharan African countries: Linkages and pathways, Kigali, July 2018


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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 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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