The AfCFTA

Annexure

Blessing Chipanda and Jakkie Cilliers

Last updated 19 April 2024 using IFs v7.84

Table of contents

Annexure

Estimations on the impact of the AfCFTA

A number of organisations have released estimations on the potential impact of the AfCFTA. For example:

- During the African Economic Conference 2018 in Kigali, the African Development Bank indicated that it expected the AfCFTA to boost intra-Africa trade by up to US$35 billion per year reflecting a 52% increase in trade by 2022 and a US$10 billion decrease in imports to Africa.[1]

- The African Export–Import Bank, in 2018, estimated the export potential of intra-Africa trade at more than US$84 billion, which if tapped would take total intra-Africa trade to US$231 billion. The untapped proportion consists of sectors that are known to be internationally competitive and have good prospects for export success in regional markets. These included mineral commodities, machinery, food products, motor vehicles and parts, and plastics and rubber. At US$53 billion, most of the total untapped figure of US$84 billion sits in Southern Africa. This is followed by North Africa (US$13.4 billion), West Africa (US$9.5 billion) and East Africa (US$7.8 billion). Central Africa comes in last (US$840 million).[2]

- The UN Conference on Trade and Development (UNCTAD) modelled two scenarios reflecting full and partial elimination of tariffs in 2018 and concluded that employment rates grew most in the manufacturing industry and the service and agriculture sub-sectors, which is in line with the objective for structural transformation and industrialisation set out by the Continental Free Trade Area.[3]

- In 2018, the UN Economic Commission for Africa estimated that the AfCFTA has the potential to boost intra-Africa trade by 52.3% through eliminating import duties, and by over 100% through the elimination of non-tariff barriers.[4]

- In a 2019 scenario that emulates the full AfCFTA implementation, where all tariffs are eliminated, UNCTAD estimates that the net welfare gains could be in the region of US$16 billion and almost 1% more rapid GDP growth than would otherwise be the case. Total employment improves by slightly more than 1%, intra-Africa trade is forecast to grow by one-third and Africa's total trade deficit is cut in half.[5] Trade tariffs in Africa are actually already quite low and the short-term revenue losses that governments may suffer owing to tariff reductions (one estimate is US$4.1 billion) will be wiped out within a few years as trade increases and economies expand. UNCTAD concludes that 'with adequate flanking policies and social safety measures, the AfCFTA has an immense potential to promote equitable and inclusive growth.'[6]

- The African Economic Outlook 2019 presented a scenario where, if current bilateral tariffs are eliminated, Africa would gain US$2.8 billion in real income and intra-Africa trade would increase by 15%. In addition, removing non-tariff barriers could increase total real income gains by US$37 billion and intra-Africa trade by 107%.

- In its 2019 estimate of the impact of the AfCFTA, the UN Department of Economic and Social Affairs (UNDESA) finds that growth in Africa could accelerate by 0.3 to 0.6 percentage points by 2040 compared to the baseline scenario. However, these forecasts likely substantially underestimate the economic benefits of the AfCFTA, as they do not take into account the impact of liberalisation in other areas, such as service and investment.[7]

- The Foresight Africa 2019 projects that the AfCFTA would increase the value of intra-Africa trade by between 15% (or

US$50 billion) and 25% (or US$70 billion), depending on the liberalisation efforts in 2040, relative to a situation with no AfCFTA in place. It also projects the share of intra-Africa trade to increase by nearly 40% to over 50%, depending on the ambition of the liberalisation, between the start of the implementation of the reform, 2020, and 2040.[8]

- In a 2020 IMF study, long-term income gains would be at least 2.1% with increased investment, innovation and knowledge diffusion, with significant expansion of intra-regional trade and limited adverse effects on trade with non-member countries (trade diversion). About US$60 billion could be added to African exports.[9]
- According to the World Bank in 2020, the AfCFTA is projected to raise income growth by 7% (above the baseline without the AfCFTA) by 2035 and lift 30 million people out of extreme poverty (i.e. people living on less than US$1.90 per day) and increase the income of 68 million other people who live on less than US$5.50 per day. It projects that the AfCFTA has the potential to bring significant economic and social benefits in the form of faster economic growth, higher incomes and less poverty. It would help Africa diversify and industrialise its economy and reduce its reliance on exports of a few primary goods, such as copper, oil and coffee.[10]
- In 2021, the Frederick S. Pardee Centre for International Futures reported that intra-Africa trade is expected to increase to 40% of African total trade by 2063.[11]

A 2022 World Bank report in association with the AfCFTA Secretariat indicated that the full implementation of the AfCFTA scenario could increase intra-Africa exports by up to 109% and global exports by 32% by 2035, lift 50 million people out of poverty and raise overall income by 8% by 2035. Other benefits that could accrue include FDI, which is expected to bring new capital, fresh technology and additional skills to raise the standard of living and reduce African dependence on primary and commodity exports. Women and skilled workers are expected to see the biggest wage gains from the AfCFTA. The wages of female workers are expected to be 11.2% higher in 2035 and male workers' wages could grow by 9.8%.[12]

The AfCFTA scenario

This scenario used IFs version 7.84. All interventions start in 2024, interpolate to 2033 and then are maintained at that level unless indicated otherwise.

Interventions and parameters	Adjustment in IFs	Benchmark/Justification/Notes
Reduction in import tariff tax multiplier by sector and country group (mtarifftaxrm)	Agriculture: G6: Interpolate from 1 in 2029 to 0.1 in 2044 (15 years). LDC: Interpolate from 1 in 2029 to 0.1 in 2042 (13 years). Non-LDC: Interpolate from 1 in 2029 to 0.1 in 2039 (10 years). Materials G6: Interpolate from 1 in 2023 to 0.01 in 2038 (15 years). LDC: Interpolate	In the AfCFTA, agriculture products are considered sensitive products and have a fixed 10% tariff. Current tariffs can be maintained during the first five years with phase down starting in year six.[13] Non-sensitive products have a 100% tariff reduction under the AfCFTA. A few material products are included in

	from 1 in 2023 to 0.01 in 2033 (10 years). Non-LDC: Interpolate from 1 in 2023 to 0.01 in 2028 (5 years). Energy, service and ICT sectors G6: Interpolate from 1 in 2023 to 0 in 2038 (15 years). LDC: Interpolate from 1 in 2023 to 0 in 2033 (10 years). Non-LDC: Interpolate from 1 in 2023 to 0 in 2028 (5 years). Manufacturing G6: Interpolate from 1 in 2023 to 0.05 in 2038 (15 years). LDC: Interpolate from 1 in 2023 to 0.05 in 2033 (10 years). Non-LDC: Interpolate from 1 in 2023 to 0.05 in 2028 (5 years).	the 3% of the excluded products, e.g. corrugated flat-rolled steel; thus, the 99% reduction in material tariffs. Energy, service and ICT goods are all under non-sensitive products, and they have a 100% tariff reduction. A number of manufactured products are excluded from the non-sensitive list, e.g. most goods and passenger vehicles; thus, a 95% tariff reduction.[14]
Increase in export shift as a result of promotion of exports (Manufactures) ratio (xshift)	Interpolate to 0.008	In the World Bank policy research paper, export promotion agencies for developing countries will have an elasticity of 8%.[15] In the World Economy paper, each additional export promotion agency increases exports by 6–10%.[16]
Increase in multifactor productivity growth additive factor (mfpadd)	Angola (0.007), Benin (0.007), Botswana (0.01), Burkina Faso (0.007), Burundi (0.007), Cameroon (0.007), Central Africa Republic (0.007), Côte d'Ivoire (0.007), Egypt (0.008), Eswatini (0.007), Gabon(0.007), Kenya (0.008), Lesotho (0.007), Mauritania (0.008), Mauritius (0.008), Morocco (0.008), Mozambique (0.008), Namibia (0.009), Niger (0.007), Nigeria (0.007), Rwanda (0.007), Senegal (0.007), Sierra Leone (0.007), South Africa (0.009), Sudan (0.007), Tanzania (0.007), Togo (0.006), Tunisia (0.008), Zambia (0.008), Zimbabwe (0.007), Algeria (0.011), Cabo Verde (0.007), Chad (0.008), Comoros (0.007), Congo (0.007), DR Congo (0.007), Djibouti (0.008), Equatorial Guinea (0.007), Eritrea (0.007), Ethiopia (0.008), Gambia (0.008), Ghana (0.005), Guinea (0.007), Liberia (0.007), Libya (0.007), Madagascar (0.007), Malawi	Calculations or adjustments were based on annual average growth rates for the period 2010–2018 using the Penn World Tables data - TFP at current PPPs (USA=1).

	(0.007), Mali (0.007), São Tomé and Príncipe (0.007), Seychelles (0.008), Somalia (0.007), Sudan South (0.007), Uganda (0.007), Guinea Bissau (0.007)	
Increase in export multiplier (XSM)	Agriculture: Interpolate to 1.22 Services: Interpolate to 1.2 ICT: Interpolate to 1.1 Materials: Interpolate to 1.1 Energy: Interpolate to 1.05	

Endnotes

1. tralac, AEC2018: Africa must focus on its big resource – its young people, experts urge, 4 December 2018
2. African Export-Import Bank, Africa Trade Report 2018: Boosting Intra-African Trade: Implications of the African Continental Free Trade Area Agreement, 2018, 28
3. M Saygili, R Peters and C Knebel, African Continental Free Trade Area: Challenges and opportunities of tariff reductions, Geneva: UNCTAD, 2017
4. United Nations Economic Commission for Africa, African Continental Free Trade Area: Questions & Answers, Addis Ababa: UNECA, 2018
5. United Nations Department of Economic and Social Affairs, World Economic Situation and Prospects 2019, New York: United Nations, 2019, 124
6. L Abrego et al, The African Continental Free Trade Area: Potential economic impact and challenges, Washington, DC: International Monetary Fund, 2020, 7; United Nations Department of Economic and Social Affairs, World Economic Situation and Prospects 2019, New York: United Nations, 2019, 124
7. United Nations Department of Economic and Social Affairs, World Economic Situation and Prospects 2019, New York: United Nations, 2019, 124
8. V Songwe, Intra-African trade: A path to economic diversification and inclusion, January 2019
9. L Abrego et al, The African Continental Free Trade Area: Potential economic impact and challenges, Washington, DC: International Monetary Fund, 2020, 7
10. JD Moyer et al, Conditions for Success in the Implementation of the African Continental Free Trade Agreement, Frederick S. Pardee Center for International Futures, 2021
11. World Bank, The African Continental Free Trade Area: Economic and distribution effects, Washington, DC: Word Bank, 2020
12. R Echandi, M Maliszewska and V Steenberg, Making the most of the African Continental Free Trade Area: Leveraging trade and foreign direct investment to boost growth and reduce poverty, World Bank Group, 2022
13. tralac, African Continental Free Trade Agreement (AfCFTA) – Comparative analysis of tariff offers, 2021
14. tralac, African Continental Free Trade Agreement (AfCFTA) – Comparative analysis of tariff offers, 2021
15. D Lederman, M Olarreaga and L Payton, Export promotion agencies: What words and what doesn't, World Bank Policy Research Working Paper 4044, Washington, DC: World Bank, 2006
16. AK Rose, The foreign service and foreign trade: Embassies as export promotion, *The World Economy*, 30:1, 2007, 22–38

Donors and sponsors

Hanns Seidel Foundation

Sweden Sverige

AUDA-NEPAD AFRICAN UNION DEVELOPMENT AGENCY

Cite this research

Blessing Chipanda and Jakkie Cilliers (2024) The AfCFTA. Published online at futures.issafrica.org. Retrieved from https://futures.issafrica.org/thematic/08-afcfta/ [Online Resource] Updated 19 April 2024.

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.

About African Futures & Innovation

Scenarios and forecasting can help Africa identify and respond to opportunities and threats. The work of the African Futures & Innovation (AFI) program at the Institute for Security Studies aims to understand and address a widening gap between indices of wellbeing in Africa and elsewhere in the world. The AFI helps stakeholders understand likely future developments. Research findings and their policy implications are widely disseminated, often in collaboration with in-country partners. Forecasting tools inspire debate and provide insights into possible trajectories that inform planning, prioritisation and effective resource allocation. Africa's future depends on today's choices and actions by governments and their non-governmental and international partners. The AFI provides empirical data that informs short- and medium-term decisions with long-term implications. The AFI enhances Africa's capacity to prepare for and respond to future challenges. The program is headed by Dr Jakkie Cilliers.