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A long journey towards an African Free Trade Area

Atradius Regional Economic Outlook Sub-Sahara Africa

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Executive summary

The African Continental Free Trade Area (AfCFTA[1]) that came into effect on January 1st, 2021 has raised opportunities for both African and non-African companies. The agreement could contribute to accelerating African growth rates after the negative impact of the Covid-19 pandemic. The impact of the pandemic was diverse across African economies, with most suffering economic contractions, while others managed to record small growth rates. The post-pandemic outlook is highly diverse and subject to high uncertainty. In the longer-run, the African Continental Free Trade Area (AfCFTA) could be a boost to Africa's growth potential as the agreement foresees a fundamental liberalisation of trade in Africa in the next few years. However, in the short-run there remains several challenges to the implementation of AfCFTA. These challenges include protectionist tendencies, insufficient capacity to expand cross-border infrastructure, political instability and weak government finances. Overall, we expect countries to benefit the most if they already have action plans and customs procedures in-place, next to relatively low barriers to trade with other African countries. This means that large countries, particularly South Africa, with a diversified economy and well-established trade links, will likely benefit most from AfCFTA. Other regional hubs like Kenya, Senegal and Cote d'Ivoire would also have a sound point of departure if AfCFTA will be implemented as currently planned.

Key points

- Economies across Sub-Sahara Africa (SSA) are recovering from the severe downturn of last year. However, this growth is uneven and moderate due to the limited room of governments to support their economies. On top of this, the limited availability of vaccines and the spreading of the new delta variant in many countries has jeopardized this year's forecasted recovery.
- Some of the more diversified economies fared relatively well through the pandemic and will show a stronger recovery than others. Nonetheless, many will still not return to the high pre-pandemic growth figures because of high government debt that constrains public investments.
- The AfCFTA could become the largest trade bloc in the world in terms of participating countries. Although the AfCFTA officially started on January 1, 2021, its full implementation is still a long way to go. Many countries would first need to establish the necessary customs infrastructure and required procedures to trade. So far, only Egypt, Ghana and South Africa have accomplished this.
- There are still many challenges to overcome in order for countries to reap the full benefit of the AfCFTA agreement. Protectionist tendencies in different countries, weak infrastructure, political uncertainty, weak government finances and weak banking sectors are among the factors that delay the required processes and limit the desired outcomes.
- Most African economies are expected to ultimately benefit from the AfCFTA. This applies particularly to the elimination of non-tariff barriers that would accelerate trade and growth in the region. The most open and diversified economies with already well-established trade links will benefit the most.

[1] The AfCFTA applies to the whole continent and is discussed in the second part of this regional economic outlook. The first part in this report refers to countries in Sub-Sahara Africa. North African countries will be discussed in the MENA regional economic outlook later this year.

A long journey towards an African Free Trade Area

Covid-19 aggravates weaknesses

Economies across Sub-Sahara Africa (SSA) are recovering from the severe downturn of last year. The Covid-19 pandemic has hit African countries hard on several frontiers (1) the drop in trade; (2) lower commodity prices; (3) fewer tourist arrivals; (4) lower remittances; (5) lower foreign investments. In addition, many African countries introduced strict lockdowns in the beginning of the pandemic, this had a negative impact on domestic economic activity. From the second half of 2020 the economic situation improved in many countries due to the recovery in global trade and more importantly, higher commodity prices. Many countries eased domestic Covid-19 restrictions because of the large negative impact it had on their economies. Such factors have resulted in a lower than initially expected recession last year. Nevertheless, the contraction of 1% witnessed last year was the highest ever recorded for the region, compared to an average annual growth rate of 4.3% since 2010.

The recovery that started last year will continue this year on the back of global economic recovery and the relatively high commodity prices. Economic growth is expected to reach 1.3% this year. A recovery deemed moderate and uneven. Especially, in comparison to other regions in the world the recovery in Africa is lagging. Reasons for this moderate recovery are for instance the limited room of many governments to support their economies and the slow vaccination rollout. One of the main short-term challenges is therefore the pandemic, which makes the economic outlook quite uncertain. A third wave in several African countries, partially due to the pervasiveness of the new delta variant, could jeopardize recovery. The World Health organization (WHO) has warned that the third wave could be worse than previous surges because of the new and rapidly spreading variant. In the beginning of July, 21 countries are experiencing a third wave and 10 of them being more severe. In Africa, infections have been especially rising in Uganda and Zambia lately. Not only the arrival of winter weather in southern Africa is contributing to the increase in infections but also public fatigue, a weak public healthcare, and the limited availability of vaccines have all played a contributing role. Most Covid-19 infections in SSA are registered in South Africa, followed by Ethiopia and then Kenya.

However, in the midst of all, a long-term opportunity has risen. The official start of the African Continental Free Trade Area (AfCFTA) as of January 1, this year. So far implementation is slow, but when fully implemented, trade and economic growth is foreseen to increase in the coming years.

Debt sustainability in danger zone

The impact of the pandemic was clearly visible on government finances. Across the region, countries recorded high budget deficits and increased public debt. The extra expenditures on medical and social services, and the extended financial support for households and companies, combined with lower government revenues has resulted in surging budget deficits. In South Africa, Ghana and Seychelles deficits increased to above 10% of GDP. The large deficits further pushed the already high levels of public debt in some countries, reaching worrying levels and increasing the risk of having unsustainable debt. A few countries saw their successful fiscal consolidation and downward trend in public debt abruptly reversed. Since the start of the pandemic, Zambia has been recorded as the first country to default on a payment of the Eurobond. The situation in Zambia was however already severe before the impact of Covid-19 on the economy.

Due to high budget deficits and high public debt, African countries have hardly any fiscal room to increase or continue their support. Therefore, the economic recovery will be subdued this year.

International community provide financial support

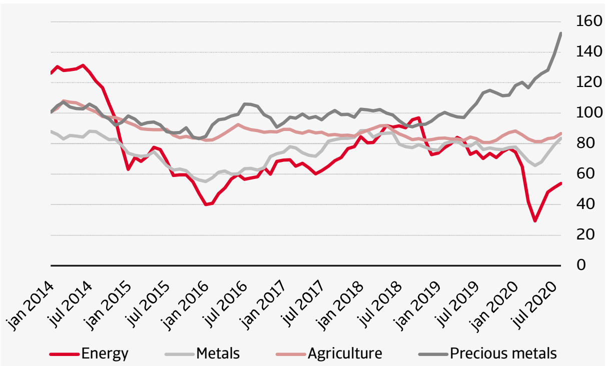
To help African governments mitigate the negative impact on their economies, support is also coming from the international community. Both the IMF and the World Bank have increased their financial support last year and will continue to do so this year. More than 30 African countries received an IMF emergency financing facility, a Rapid Financing Instrument (RFI) or a Rapid Credit Facility (RCF) for a quick one off financing. South Africa has also turned to the IMF for support for the first time in almost forty years. Besides, bilateral donors have provided medical and financial assistance. The IMF provided debt service relief for the poorest countries through the Catastrophe Containment and Relief Trust (CCRT) and the G20 introduced the Debt Service Suspension Initiative (DSSI) last year. The DSSI through suspension of debt service payments to official bilateral creditors has helped in freeing up resources to increase health spending and limit the economic costs. This initiative will expire at the end of 2021. About 30 countries, like Senegal, Cote d'Ivoire and Kenya, participate in the DSSI. The DSSI is only a short-term solution that focuses on liquidity issues, since the suspended debt service payments have to be eventually repaid. Therefore, the G20 have introduced the Common Framework (CF) last year. It takes the DSSI a step further as it actually tackles the solvency issue. Participating countries receive a debt restructuring in case they have an unsustainable public debt. All creditors, including private ones, are being urgently asked to participate in this Initiative. However, it is still unclear if they will.

So far, only three African countries (Chad, Ethiopia and Zambia) are participating in the CF. Many others are reluctant to do so, since they do not want to endanger their access to international capital markets. The latter could happen if participation in CF results in a downgrade by the external ratings agencies. When Ethiopia applied to the CF in February 2021, Fitch immediately downgraded the country's external rating, soon followed by S&P and Moody's. Such a downgrade would in turn raise financing costs and worsen access to international capital markets.

Commodity prices support recovery

After a sharp drop in the commodity prices in the beginning of the Covid-19 pandemic a recovery took place since the second half of 2020. The increasing trend for most commodities continued throughout the first months of 2021 supported by the global recovery, a promising outlook, increasing demand from China, and supply factors for some commodities (oil, copper) since June 2020. In particular, metal exporting countries Guinea and Botswana have benefited most from the higher prices of iron ore and copper. South Africa too, where the contraction last year was lower than initially expected because of the higher commodity prices in 2020H2. This year's higher export prices will support the second largest economy of SSA, South Africa, but the recovery will only be gradual due to its economy's structural weaknesses.

1.1 Commodity price indices, January 2014-May 2021
Index (2010=100)



Source: World Bank, Atradius

Uneven recovery

The economic recovery will not only be moderate this year, but will also be uneven. Countries that were hit hard by the pandemic will recover slowly, particularly oil exporting countries like Nigeria and Angola will show modest growth figures. Small island economies that are very dependent on tourism, like Mauritius and Seychelles (most affected by the pandemic) will post one of the highest economic growth figures in Africa this year. Although one should bear in mind that this outlook is quite uncertain given the expected gradual recovery in tourism in the coming two years.

The more diversified countries such as Kenya, Ghana and Côte d'Ivoire fared relatively well through the pandemic. They recorded a minor contraction or even a slightly positive economic growth last year. These countries will have a strong economic recovery this year thanks to their diverse economic structure and reasonable business environment. Although their rebound is expected to be strong, the high growth numbers of before the pandemic are not expected to return. Many of these countries relied on high public investments as the main economic stimulus before the pandemic and now they will be forced to implement expenditure cuts in order to lower their budget deficit and bring down public debt to sustainable levels.

Table 1.1. Real GDP growth forecasts (% y-o-y)

	2020	2021	2022
Angola	-5.2	1.0	2.9
Ghana	0.3	4.7	4.8
Kenya	-0.4	4.8	4.8
Nigeria	-1.8	3.1	3.3
South Africa	-7.0	4.3	2.3
SSA	-1.0	1.3	3.8

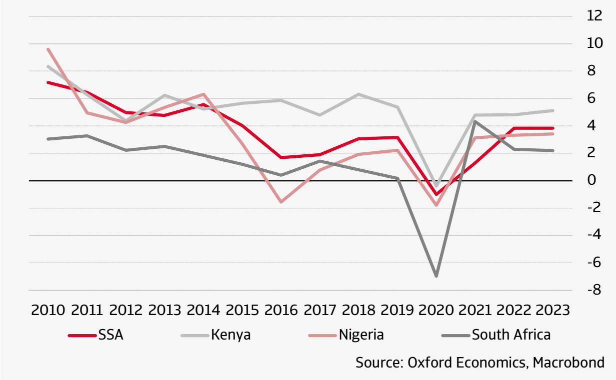
Sources: Oxford Economics, Atradius

Varying growth rates across the continent

Comparing the different regions in Africa, East Africa is expected to show the highest economic growth in 2021. This region actually hosts the most diversified countries on the continent. The largest economy here is Kenya, one of the fastest growing African countries this year. The recovery is particularly rooted to a rise in private consumption since the government has little room to raise its spending. Neighbouring country Uganda is expected to grow even faster than Kenya thanks to a well-performing agricultural sector and recovering foreign demand. Tanzania's economy will grow slightly slower than Kenya's, with public investment in infrastructure and the industrial sector as main growth driving forces.

Countries in Southern Africa and West Africa will grow at a slower pace in 2021 as both regions suffer from the weak economic performance in the largest economies of these regions (South Africa and Nigeria). Both have recorded weak economic growth in previous years and show a subdued recovery this year. Hardly any reforms were implemented in previous years.

1.2 GDP growth SSA and largest economies



Especially in Southern African countries, the economic recovery will be moderate. Although the rebound in **South Africa** in the first months of this year has been above expectations. The global economic recovery, higher commodity prices and the easing of Covid-19 restrictions have supported the two main pillars of the economy, namely the mining and retail sectors. Economic growth is expected to reach 4.3% this year, before it declines to 2.3% in 2022. The third wave of infections could jeopardize the positive outlook. Infections have been increasing lately and in the winter these could accelerate. The vaccination process has been very slow so far and if strict restrictions are once again introduced, this would considerably affect the economy.

The largest West African economy, **Nigeria,** recovers to an economic growth of 3.1% on the back of higher oil prices, increasing oil production and the easing of Covid-19 restrictions. However, tight forex liquidity, high unemployment and high inflation hamper economic growth. An expected inflation of almost 17% this year will probably move the central bank to increase its interest rate. As a result, the business climate remains very challenging.

The Covid-19 pandemic has aggravated weaknesses that several countries were already facing, and has increased the need to tackle those. Structural reforms are necessary to diversify the commodity-dependent economies and improve the generally weak business environment on the continent to withstand future external shocks. SSA faces varying challenges. To start, there are security issues, especially in the Sahel region. Moreover, several countries have already experienced the negative impact of climate change on their agriculture sector and energy supply (through hydropower).

In the short-term, further development of the pandemic and the pace of the vaccination process are main uncertainties for the recovery this year and next. A bright spot however is the official start of the African Continental Free Trade Area (AfCFTA) as of January 1, 2021. The benefits of this free trade agreement will start materializing in the longer-term. It could already accelerate reforms in the coming years, supporting trade and economic growth on the continent.

The start of a free trade era

As of the first of January 2021 the AfCFTA officially begun, all African countries, except for Eritrea, have signed the agreement. With 54 countries, more than 1.2 billion people and a combined GDP of 2.5 trillion it could become the largest trade bloc in the world. We write “could” because it is not yet fully operational. With 6 months into the free trade agreement, most countries still need to implement the necessary plans. So far, 36 countries have ratified the agreement, but only 11 of them have validated national actions plans indicating that there is a large gap between legislative approval and implementation. In many countries, these are still in the conception phase. Until now, only South Africa, Egypt and Ghana have established a customs infrastructure and procedures necessary to trade under the AfCFTA.

The trade agreement aims to eliminate tariffs on most goods and services, liberalize trade of key services, and address the nontariff obstacles for intra-trade. The ultimate goal is to have a single market with free movement of labour and capital. However, this will take years to reach, as implementation so far has been slow. The AfCFTA is divided into two phases with phase I covering the trade in goods and services and dispute settlement, and phase II covering intellectual property, investment and competition policy. For the short term, the focus is on liberalizing the trade in goods, meaning the reduction of tariffs and nontariff barriers. Regarding the trade in goods the plan is that in the coming 5 years tariffs will be cut to zero for 90% of the goods. An exception applies for the least developed countries, which have a 10-year period to reduce the tariffs. The tariffs on the 7% sensitive goods (sugar, automotive vehicles, clothing and textile) are liberalized over a longer period, and 3% of the goods are excluded. Some small countries, the so-called group of seven[2], are receiving a special treatment. They are allowed to liberalize less goods and have a longer period to reduce the tariffs.

The nontariff barriers consists of administrative procedures and various technical requirements. For instance, many sanitary and technical standards are in place to protect consumers. These vary across the continent, resulting in increasing compliance costs. A side effect is that it also works like a barrier for trade. Nontariff barriers also include trade logistics and infrastructure bottlenecks, which are in particular currently constraining intraregional trade on the continent.

Although, services are included in phase 1 of the AfCFTA, it will take longer for a full liberalization of the services. Members have agreed on five priority services sectors, being the financial services, transport, travel, communications, business services and tourism. Trade, both internal and external, in services is currently quite low in Africa. The AfCFTA offers opportunities for service suppliers to easily access other markets.

[2] Djibouti, Ethiopia, Madagascar, Malawi, Sudan, Zambia, Zimbabwe

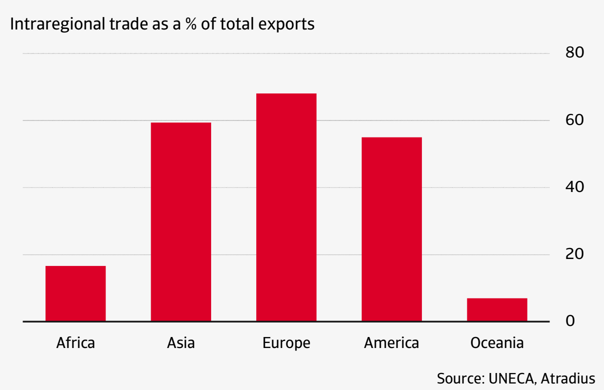
Regional free trade agreements across the continent

Before African countries decided to establish AfCFTA, various regional trade agreements were already in-place on the continent. These include the Economic Community of West African States (ECOWAS), the South African Development Community (SADC) and the East African Community (EAC). Membership of such communities is not exclusionary, so countries could be a participant in multiple free trade agreements. For example, South Africa is a member of both the SADC and the South African Customs Union (SACU). The latter is the most advanced trade agreement in Africa: member states do not apply import tariffs on each other's goods and apply a common external tariff on imports from countries outside SACU. Other SACU member states are Botswana, Eswatini, Lesotho and Namibia. In terms of the policy areas included, what all regional free trade agreements have in common, is that they refer to tariffs on manufactured and agricultural goods. Apart from that, there are many differences, for example, all-but-one of them apply to competition policy (with ECOWAS being the exception) and tariffs on services (with SACU being the exception). Other policy areas where the agreements differ include export taxes, state aid, capital flows, labour market regulations and environmental legislation.

Limited intra-trade

African countries trade relatively little with each other. Currently, they trade mainly with the rest of the world. In 2017, the African intraregional trade in goods and services only account for 17% of total exports, making it one of the lowest in the world. The country with the largest share in intra-African trade is South Africa. The country accounts for 34% of intra-African exports and 20% of intra-African imports. Therefore, South Africa has established an important position in intra-African trade.

1.3 Limited African intra-trade



Source: UNECA, Atradius

Intraregional trade has particularly taken place in existing regional economic communities. Most successful ones are the large regional economic communities, like the South African Customs Unions (SACU) where many of the countries with the highest share of intraregional trading (Eswatini, Namibia) are taking part. Another quite successful one is the east African Community where countries like Uganda and Kenya participate.

Most exports from Africa to the world consists of oil, metals and agricultural goods. African countries mostly produce primary commodities, which are further processed in other countries. Just a few are part of the value chain in electronics due to the delivery of commodities like copper (Zambia). Commodities are hardly traded among each other. Contrary to exports with the rest of the world, the bulk of intraregional trade consists of manufactured goods and agricultural products.

Trade restrictions

African countries differ a lot as well when it comes to trade restrictions. For example, Botswana and Namibia have a very low trade-weighted tariff on imports from other African countries (i.e. close to 0%). This is related to their membership of SACU and the importance of other SACU members for their imports. The countries with the highest trade-weighted tariffs (around 11-12%) on imports from other AfCFTA countries are spread across the continent and include Cameroon, Ethiopia, Madagascar and Nigeria. Regarding sectors, there exist enormous differences as well in terms of aforementioned tariffs. The highest average tariff in Africa applies to the manufacturing sector (around 6%), closely followed by the agricultural sector (around 5%). This suggests that these sectors are of the greatest concern to policymakers in terms of protecting their local industry. On the other hand, the sectors with the lowest trade-weighted tariffs on imports from other AfCFTA countries are natural resources and services, where here the average tariff is close to zero.

When we look at the trade-weighted non-tariff barriers to imports from other AfCFTA countries, we get a different picture. Botswana now becomes a rather protective country (with non-tariff barriers at a level that is comparable to Nigeria), whereas Cameroon and Ethiopia move to the least protective group of countries. However, some countries are protective in both import tariffs and non-tariff barriers. This applies particularly to Nigeria, and to a lesser extent to the Democratic Republic of Congo and Egypt. The ranking of the sectors in terms of non-tariff barriers to imports is similar to that of import tariffs. Manufacturing imports are facing the highest non-tariff barriers, closely followed by agricultural products. Nonetheless, the additional costs related to non-trade barriers are much higher than those of import tariffs. They are equal to nearly 40% for manufacturing, over 30% for agriculture, around 15% for natural resources and close to 10% for services. This shows that it is in particular non-tariff barriers, which increase the costs of trading within Africa and constrain intra trade. Therefore, tackling them is crucial for a successful implementation of the AfCFTA.

Challenges to AfCFTA

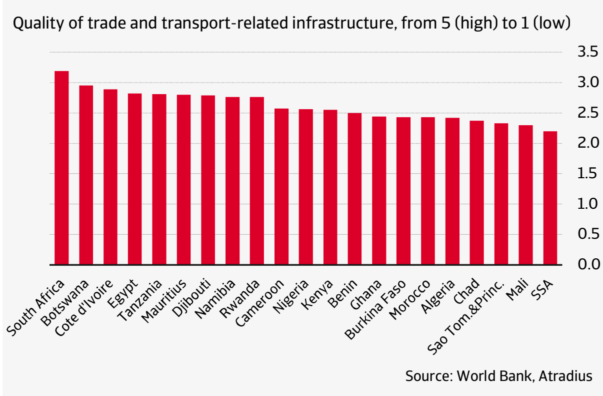
Before we discuss the many opportunities that AfCFTA offers to Africa, it is good to realize which challenges the participating countries face. Of course, we can assume that more trade integration in Africa will result in "faster economy", wide productivity gains and income growth", "faster growth of exports" and "lower prices of imports", as the World Bank stated in a recent report[3]. However, these positive effects will not automatically apply to all African countries. In fact, various countries will undoubtedly face some negative effects as a result to their economies. A first possible negative side effect is that inefficient sectors could face a contraction when demand moves away from their products to those that have been produced in other African countries (imported). This could particularly happen in countries that have a relatively inefficient manufacturing or agricultural sector. If this happens, unemployment and inequality goes up in the affected country, thereby fuelling social instability. This is especially relevant if a large part of the population of a country is employed in a largely inefficient agricultural sector. Rising unemployment and inequality would also undermine popular support for regional trade integration, possibly putting a brake on the further deepening of African trade integration. A second possible negative side effect is an increase in exports that have a negative impact on the sustainability of African economies. For example, the export of fish from Uganda to countries such as DR Congo and South Sudan increasingly results in concerns about the level of the fish stocks in Lake Victoria[4]. A third possible negative side effect is a decline in government revenues as a result of the reduction or abolishment of tariffs on imports from other African countries. This would particularly hit African countries with government revenues heavily dependent on international trade taxes. The number of countries that would severely suffer from such is however limited. Countries that still rely strongly on taxes on international trade for their government revenues would be Eswatini (around 60%), Lesotho (around 40%) and Liberia (around 30%).

Difficult implementation of trade liberalization policies

Next to possible negative side effects of the AfCFTA there are still some challenges to overcome for a successful implementation of the AfCFTA. The first challenge would be the possible protectionist tendencies of African presidents or governments. The implementation of the policies that come with AfCFTA requires an unconditional support for free trade from the governments and leaders of all participating countries. However, support for free trade cannot be taken for granted on the whole African continent[5]. A case in point is Nigeria, which has repeatedly sought to shield its domestic industry against competition from other countries. The country even closed land borders with several countries in 2019 to reduce the (illegal) imports of food[6].

The second challenge concerns the infrastructure that will be required to facilitate (the rise in) trade across the African continent. Currently, the low quality of infrastructure is constraining trade between African countries.

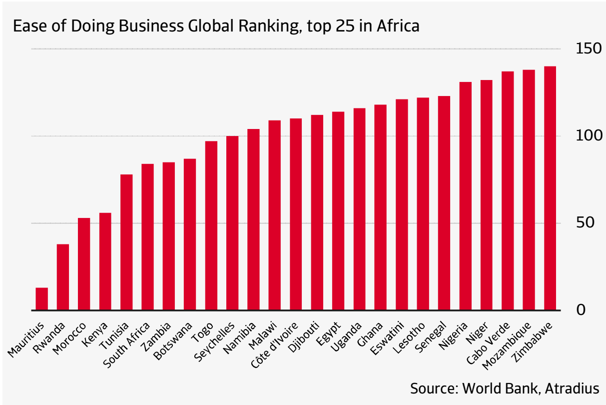
1.4 Low quality of infrastructure



Source: World Bank, Atradius

The expansion of road, railway and maritime networks will require billions of US dollars. Nonetheless, various countries have a very high government debt (as discussed earlier), preventing them from investing in essential infrastructure development. Private investors could also play a major role in African infrastructure development, to complement the national governments. This exemplifies the importance of the business climate for the growth potential of countries

1.5. Difficult business climate



Source: World Bank, Atradius

A bad reputation of a government among investors that is rooted in policy uncertainty (e.g. doubts about the ability of a government to respect contracts) makes it more difficult to find investors in infrastructure projects[7]. Another difficulty with the expansion of infrastructure is the uncertainty about

[3] See World Bank report "The African Continental Free Trade Area Economic and Distributional Effects" (2020) https://openknowledge.worldbank.org/handle/10986/34139

[4] See African Business article "Net profits: Uganda's fish exporters on choppy waters" (April 2021) https://african.business/2021/04/agribusiness-manufacturing/net-profits-ugandas-fish-exporters-on-choppy-waters/

[5] This actually applies to all continents.

[6] See African Business article "Okonjo-Iweala's trade vision clashes with Buhari's protectionism" (April 2021) https://african.business/2021/04/trade-investment/okonjo-iwealas-trade-vision-clashes-with-buharis-protectionism/

[7] See African Business article "Nigeria invests billions in new infrastructure drive" (April 2021) https://african.business/2021/04/technology-information/nigeria-invests-billions-in-new-infrastructure-drive/

its future profitability. A telling example is the new loss-making railway between Mombasa and Nairobi (in Kenya). It is part of a cross-border railway network project that also includes Kampala (Uganda) and Kigali (Rwanda).

The third challenge is the occurrence of political instability in African countries[8]. This could severely interrupt trade across African countries. A telling example is the enormous rise in violence, human rights abuses and number of displaced people in Ethiopia's province Tigray in 2020. Its capital Mekelle used to be the heart of Ethiopia's textile production, but this position has now come under a serious threat[9].

The fourth challenge to the implementation of trade liberalization is a possible conflict with other bilateral free trade agreements that African countries have concluded with non-African countries. This could complicate the realization of the AfCFTA enormously. Therefore, the negotiations between the United States and Kenya about a bilateral FTA that started in 2020 could become a major dent in the potential of seeing the true positive AfCFTA impact. If Kenya were to close an FTA with the US, any of the preferences that Kenya would give to the US should be offered to AfCFTA countries as well[10] (on a reciprocal basis). Therefore, AU member states repeatedly stated that AfCFTA countries should not start bilateral negotiations about a free trade agreement with non-African countries after the AfCFTA agreement has been put in place.

A fifth challenge concerns the weak state of the banking sector in several countries. A rise in intra-regional trade in Africa would undoubtedly raise the demand for trade finance and bank loans. This could only be facilitated if each country has a well-developed banking sector that is well-supervised.

Impact of AfCFTA

If the AfCFTA eventually becomes fully implemented, it would support international trade and economic growth. The reduction in tariffs will lower the costs of imports for consumers and producers. Lower imports costs could increase the competitiveness of local producers that use foreign goods as inputs. This would improve their position in both domestic and external markets. On the other hand, in some countries the local production will disappear since it cannot compete with relatively cheap import goods. It is however the reduction of non-tariff barriers that will have the highest impact. Reducing the red tape, the administrative procedures and improving the (border) infrastructure will lower transport costs and the price of exports and imports.

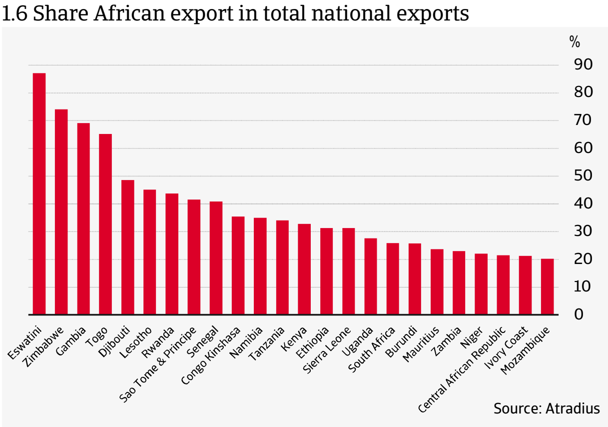
According to the World Bank, intracontinental exports could increase by over 81%, while exports to non-African countries could increase by 19% by 2035. Real income gains could rise by 7%, nearly USD 450 billion in this period. A full implementation of the trade agreement will contribute to a reduction in poverty. The World Bank estimates that an additional 30 million people would move out from the extreme poverty bracket and 68 million people from moderate poverty. Benefits of the AfCFTA will however differ across countries. It would depend on the initial level of tariffs, the non-trade barriers, economic structure and current trade patterns of a country.

Open and diversified economies benefit most

IMF research shows that countries with the most open economies tend to benefit the most. The most open economies on the continent are for instance the small economies Djibouti, Lesotho and Eswatini. Larger economies like Tunisia, Morocco and South Africa are also quite open.

In addition, the strength of the initial trade ties with other African countries matters. When a country has extensive trade ties with other African countries it can more easily expand its market opportunities than others. When taking into account the trade ties with the rest of Africa in particular the large economies Kenya, Tanzania, Senegal and South Africa will benefit. What is remarkable is that some of the largest economies have limited trade with other African countries. Nigeria, Algeria and Egypt all score quite low on both the trade openness and intra-regional trade.

1.6 Share African export in total national exports



An important feature of African intra-regional trade is that it is more diversified than African trade with the rest of the world. Intra-regional exports consists of higher-value-added products, with minerals accounting for around 44% of intra-regional trade, manufacturing goods 40% and agricultural goods for 16%. This means that more diversified economies tend to trade more with other African countries.

Not only will the larger economies like South Africa benefit, some small economies will also benefit. These are already

[8] Please note that causality between implementing a free trade agreement and political stability runs in two directions. In other words, the implementation can raise political instability (as argued in the previous section), while on the other hand political instability can worsen the prospects of a successful implementation.

[9] See African Business article "Ethiopia's textile sector battles against setbacks" (April 2021) https://african.business/2021/04/agribusiness-manufacturing/ethiopias-textile-sector-battles-against-setbacks/

[10] See Africa Portal article "Caught between Africa and the West: Kenya's proposed US free trade agreement" (19 June 2020): https://www.africaportal.org/features/caught-between-africa-and-the-west-kenyas-proposed-us-free-trade-agreement/

relatively open economies and therefore already facing competition. Lesotho and Eswatini, members of the SACU, stand out as benefiting small economies. Overall, members of the SACU tend to benefit a lot as the SACU is already a customs union with no intra trade tariffs and a common external tariff, its members have relatively open economies and trade relatively much with the other members. Their rather competitive manufacturing sector will have a sound point of departure if the AfCFTA is being implemented.

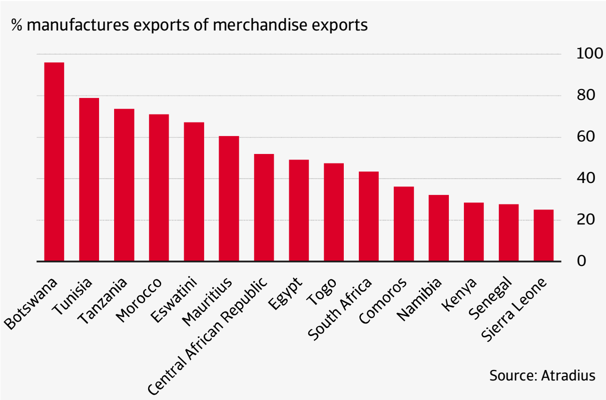
In sum, the reduction in non-tariff barriers, in combination with an improvement of the infrastructure and the regional trade logistics, will likely have an enormous impact on the region as a whole. Moreover, countries that are already in a good functioning regional trade agreement with no or low tariffs seem to benefit the most from AfCFTA. These countries are already used to external competition and have a relatively efficient manufacturing sector. Countries with a relatively poor infrastructure, rather high costs of freight and unpredictable transit times could benefit as well. This is particularly true for landlocked countries such as Burkina Faso and Mali.

Well-established manufacturing sector in the lead

Through the reduction of tariffs, intra-regional exports especially will increase strongly, reinforced by removal of non-tariff barriers. Through lower (input) costs and improved access to other markets it is in particular the manufacturing sector that will benefit from the free trade agreement.

In graph 1.7 the top 15 manufacturing exporters are shown. Tunisia, Tanzania, Morocco, Eswatini and Mauritius all have a share above 50% of their merchandise exports and benefit from their already established manufacturing sector.

1.7 Manufacturing exporters



Although Botswana seems to be the top manufacturing exporter, these include mainly diamonds and the exports of those are not expected to increase to other African countries. Other major manufacturing exporters like Egypt, South Africa, Togo and Kenya are well positioned to take advantage of the opportunities for manufactured goods and accordingly increase their trade.

Another sector that is expected to benefit is agriculture. Lower costs, better access to different markets and improving infrastructure will increase the exports of agricultural goods. Countries can gain from satisfying the growing food needs on the continent. In particular agricultural food products with a perishable nature will benefit from the improvements in customs clearance times and logistics. The main exporters of such goods are spread across the continent and include Kenya, Uganda and Togo.

Conclusion

After having been implemented, most African economies would stand to benefit from the AfCFTA, particularly when it comes to the elimination of non-tariff barriers. If fully implemented, it could boost the potential of the African continent, creating opportunities for local and foreign companies. It will not only increase intraregional trade, it will also support exports to the rest of world, attract foreign direct investments, develop regional supply chains and accelerate economic growth. We expect that countries that have already implemented action plans, established customs procedures and currently face lower barriers to trade with other African countries have a head start and thus an advantage. The relatively open and diversified economies with already well-established trade links will benefit the most. This applies to large economies such as South Africa, but also to regional trading hubs such as Senegal, Kenya and Cote d'Ivoire. However, there are still several challenges facing African countries to fully implement and reap the benefits of the AfCFTA implementation. As Wamkele Mene, Secretary-General of the AfCFTA secretariat recently confirmed, the journey towards an African Free Trade Area is going to be a long one. In his words, "many countries...are now in the process of establishing the customs procedures that are required to make sure that goods are crossing into their border that they can apply the rules of the AfCFTA. That process takes quite a long time, and it requires a lot of effort." [11].

[11] See AfricaNews article "AfCFTA chief: Free trade can help Africa beat recession" (12 July 2021) https://www.africanews.com/2021/07/12/afcfta-chief-free-trade-can-help-africa-beat-recession/

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