

African Continental Free Trade Area:  
Opportunities and Challenges Ahead  
- Discussion

Jae Wook JUNG (KIEP)

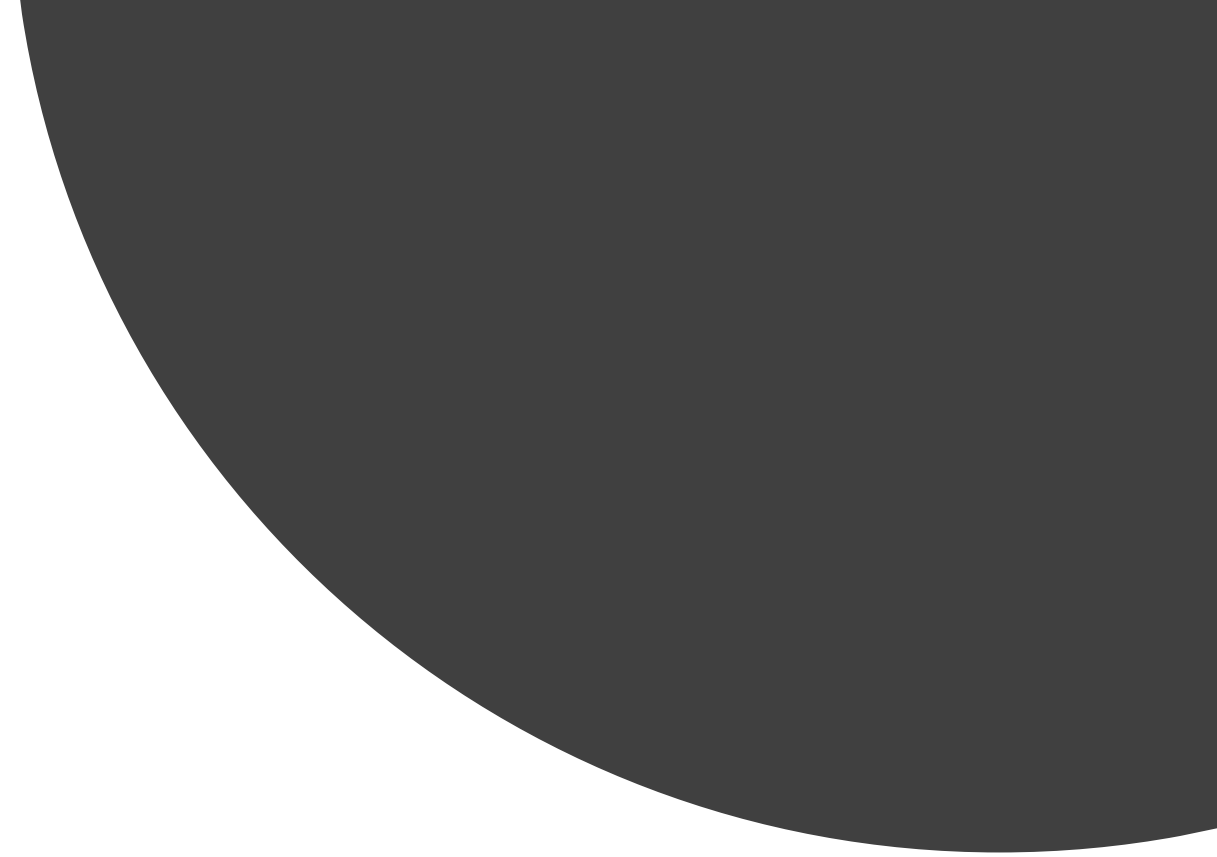
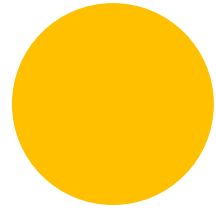
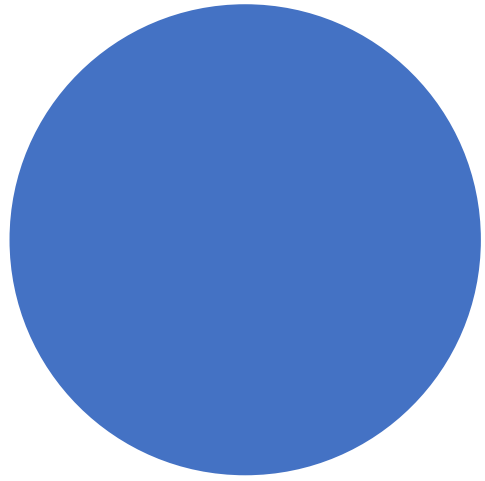
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African Continental Free Trade Area:  
Prospects and challenges



# AfCFTA entered into force: What Happens Next?

- AfCFTA entered into force on May 30, 2019
- Operational phase of AfCFTA was launched at 12<sup>th</sup> Extra-Ordinary AU Summit, July 7, 2019
- AfCFTA mitigates the costs of adverse global shocks on Africa through developing intra-continental market
  - Potential of consumer market
  - Intra-regional trade can substitute for import from outside of Africa
- AfCFTA still has a long way to go
  - Negotiations: schedules of tariff concessions and services commitments, RoO (Phase I); competition policy, intellectual property, investments (Phase II); digital trade, environment, etc.
  - Other than tariffs reductions: NTBs, trading infrastructure, rules,

# African Consumer Market Potential

	Number of Potential Car Buyers (millions)			Number of Potential Mobile Phone Buyers (millions)		
	2015	2025	CAGR(%)	2015	2025	CAGR(%)
East Africa	16.8	29.6	15.2%	136.3	232.6	14.1%
West Africa	31.9	43.9	7.5%	213.8	289.9	7.1%
South Africa	19.4	22.7	3.4%	62.0	69.0	2.3%
Central Africa	8.4	11.5	7.4%	66.3	90.4	7.3%
Sub-Saharan Africa	76.5	107.6	8.1%	478.4	681.9	8.5%

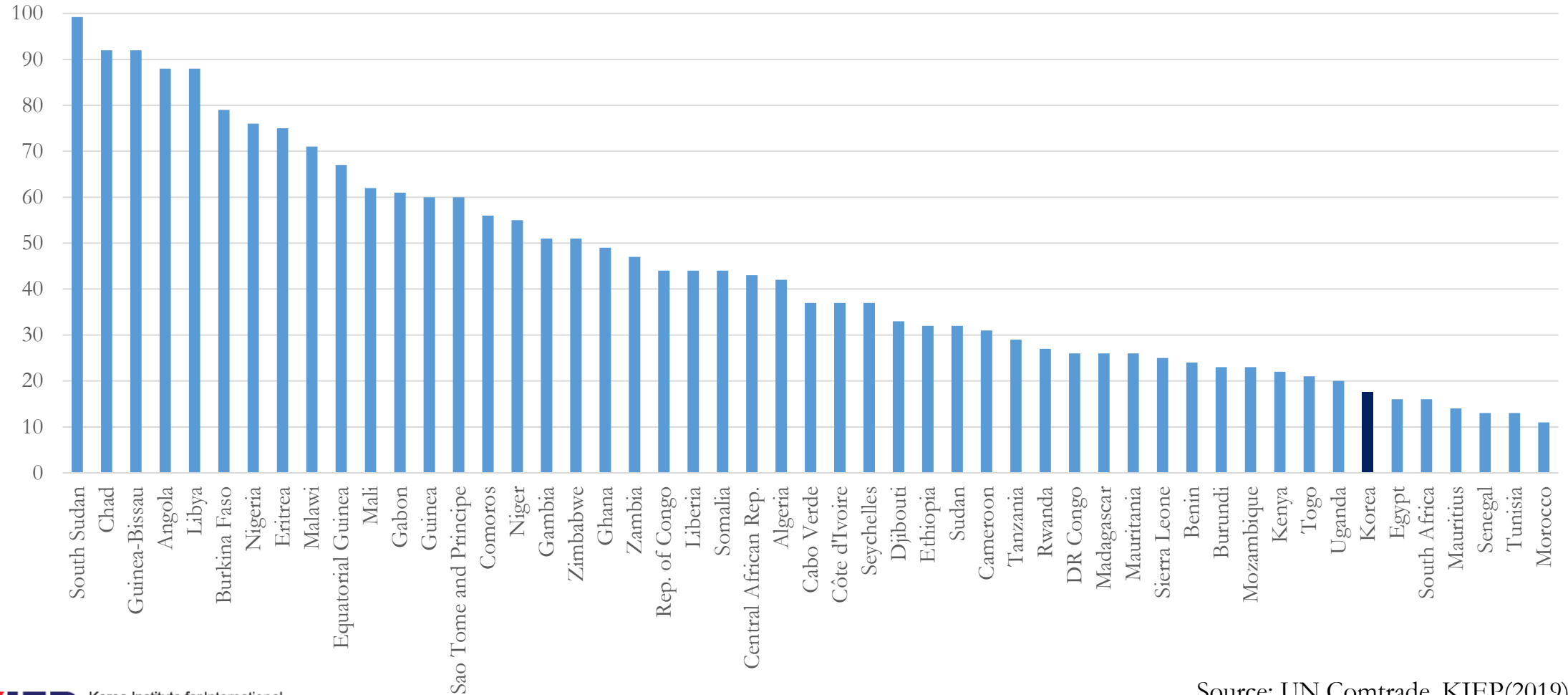
Source: KIEP(2017)

# What would be traded with neighbor countries?

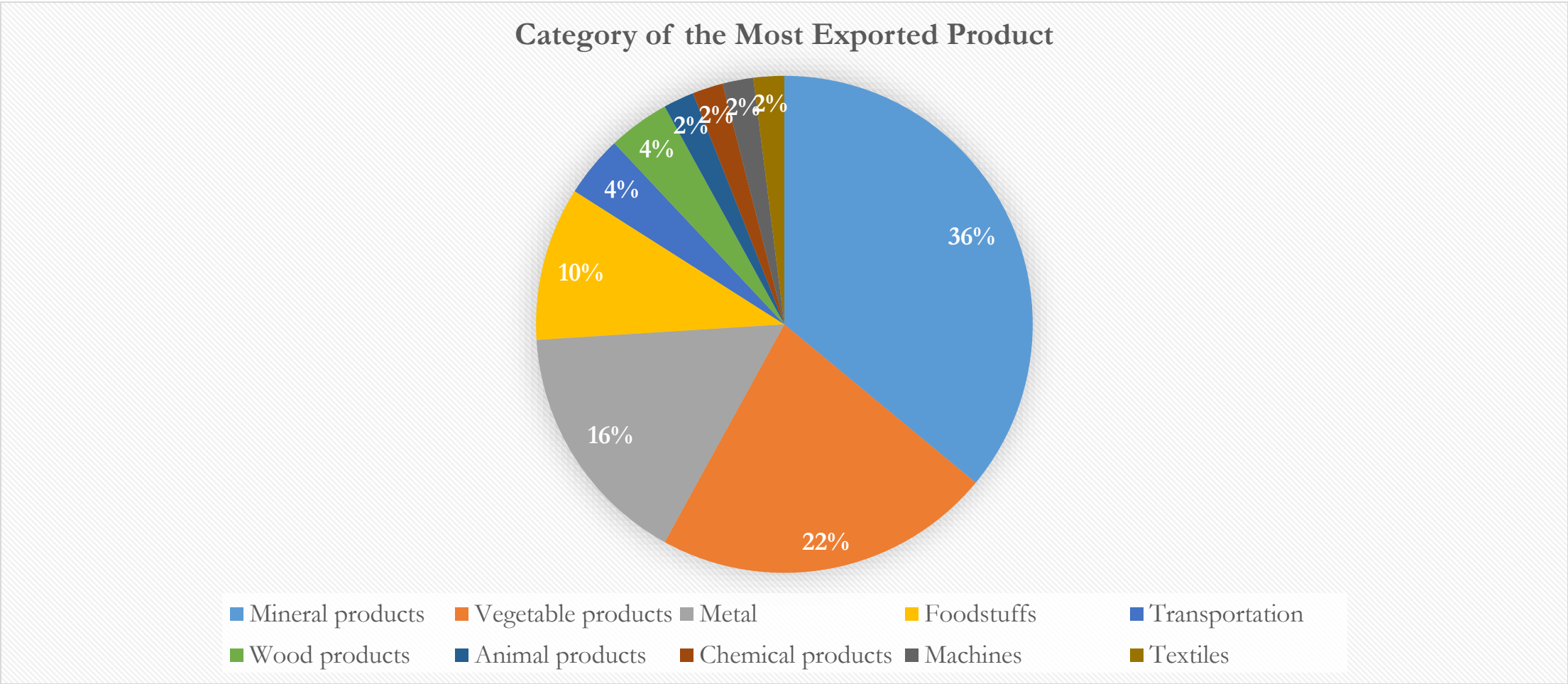
- Create comparative advantages
  - Top intra-Africa trade product is minerals(25%)
  - Trade diversification
  - Import substitution
- More trade in services
  - Restriction on trade in services
- Rules and authorities for digital trade

# Trade diversification is necessary in Africa

Contribution of Most Traded Export in Total Exports (% , 2017)



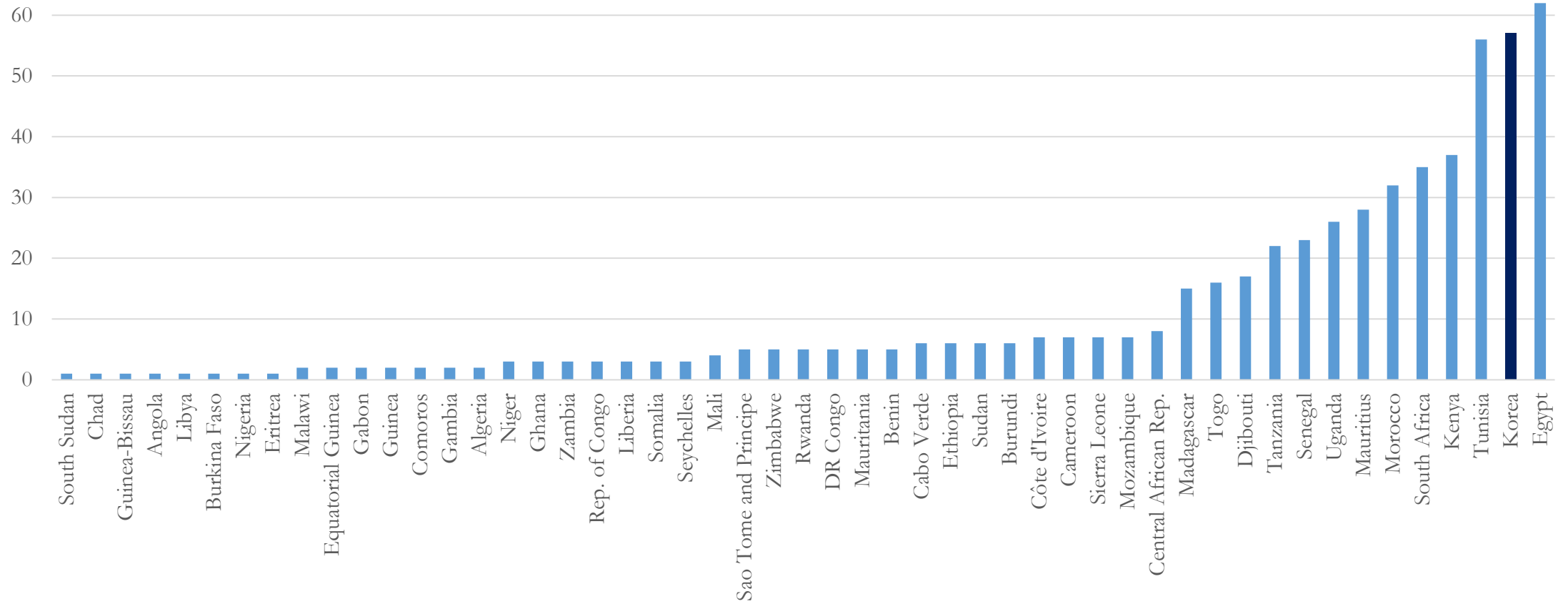
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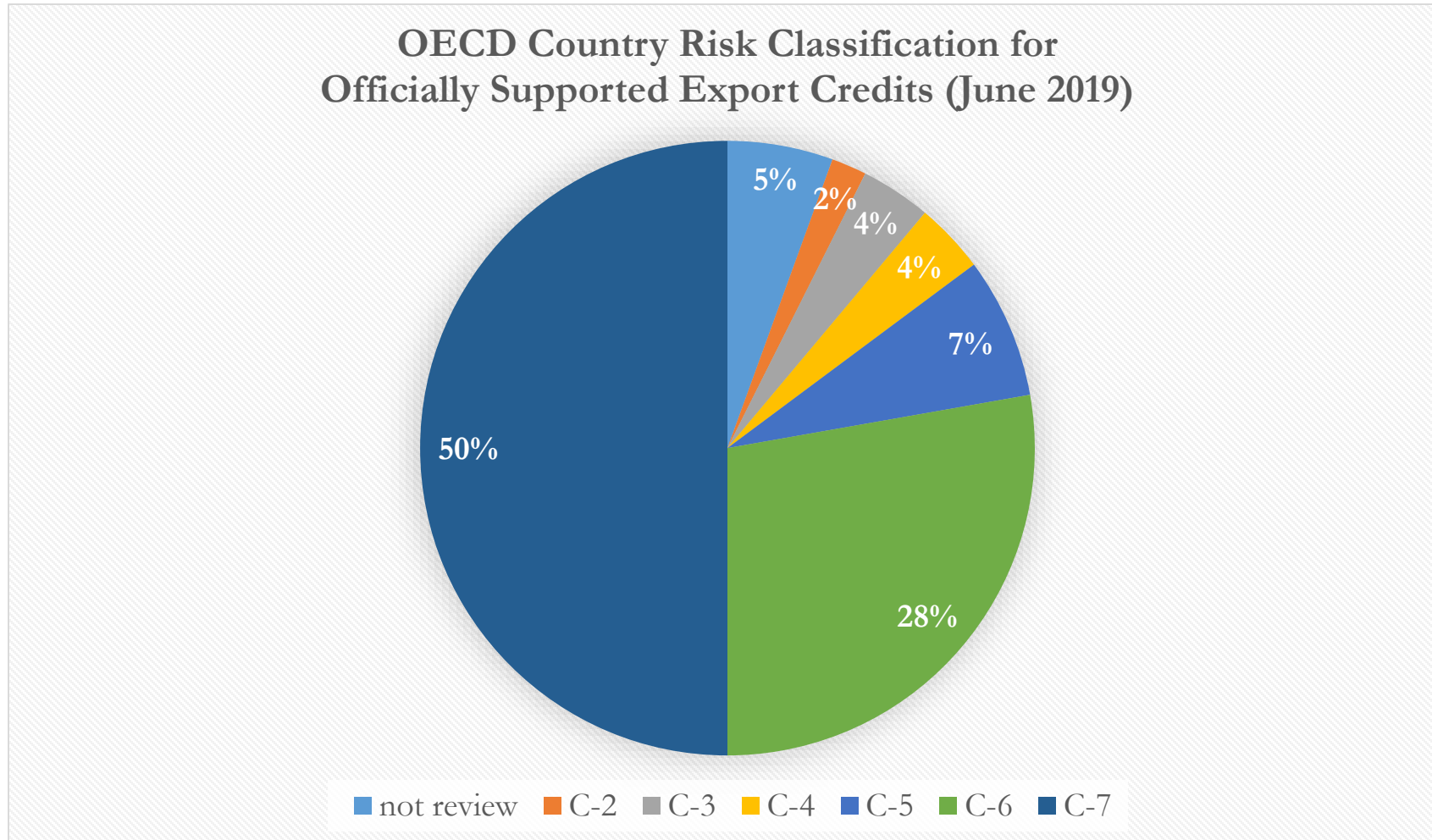
Number of Products Consisting 75% or More of Total Exports(HS4, 2017)

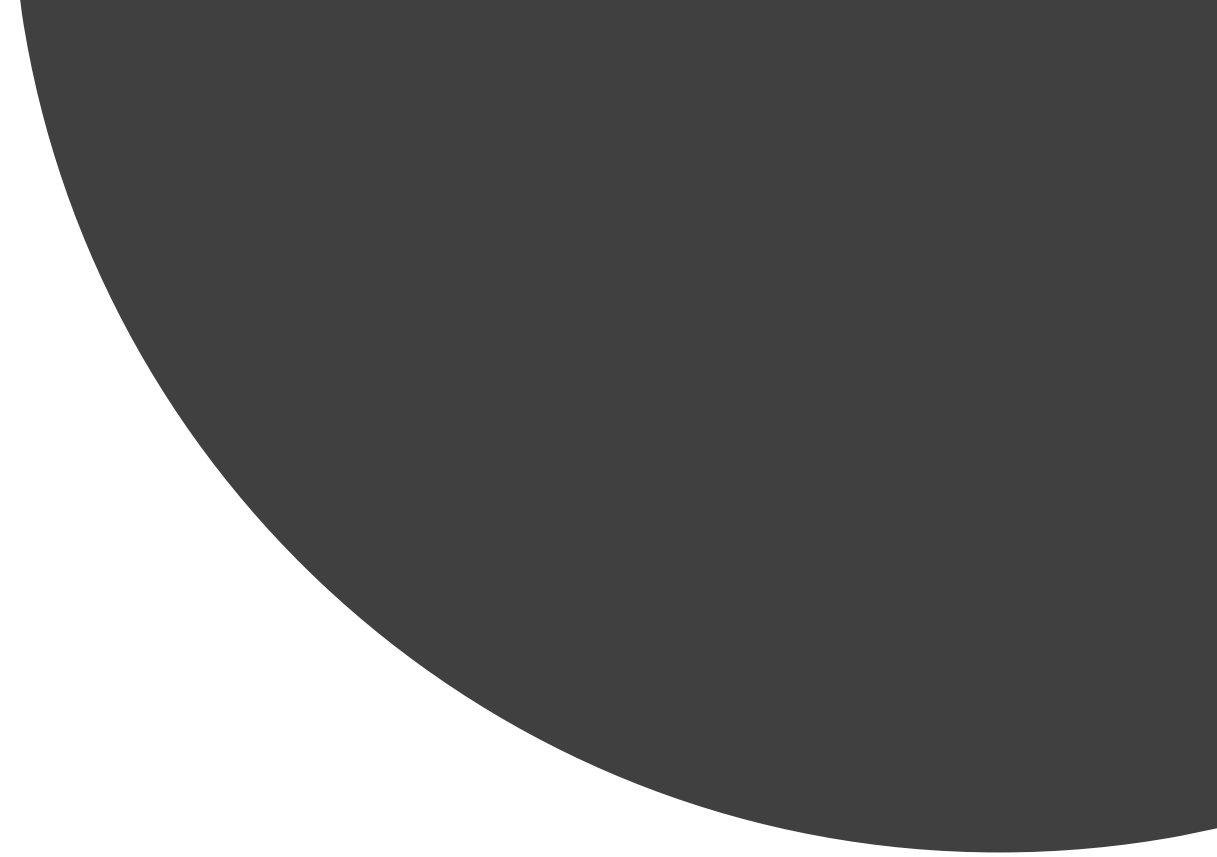
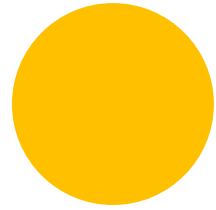
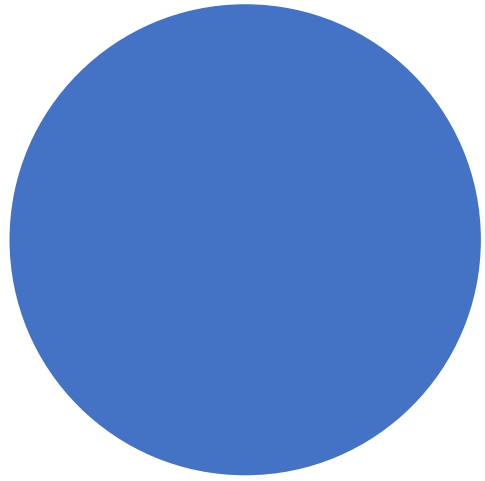


# Other than tariff reductions

- Non-tariff barriers
  - Trading Across Borders
  - Logistics performance index
  - Trade facilitation indicators
- Production capacities
  - How scale up production capacity?
  - Financial resources for investment
- Governances
  - Customs and logistics standard
    - Non-WTO member countries can work on the WTO-based standard?
  - Bureaucracy intermediaries, corruption, red tape

# Hard to be funded by Export Credit Agencies





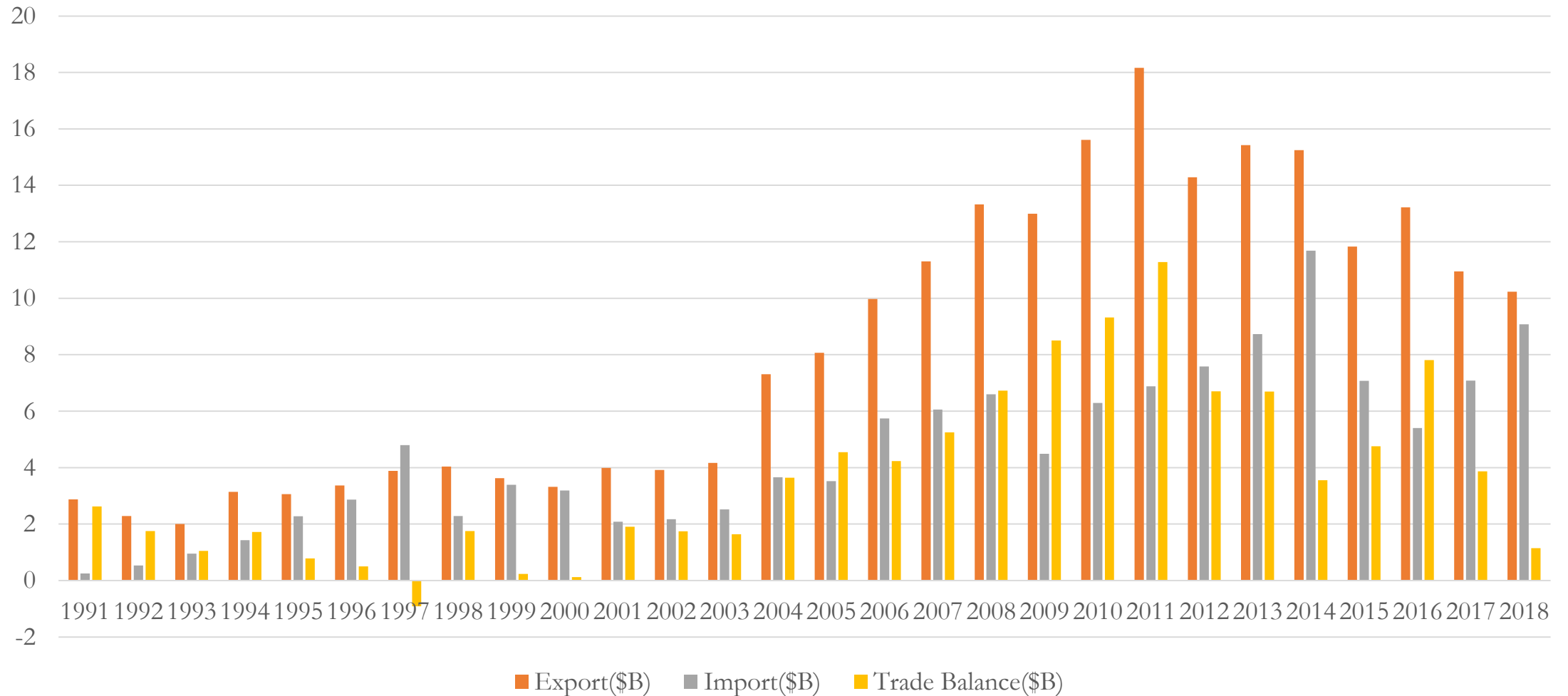
Policy Recommendations  
for Korea-Africa Economic Cooperation  
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# A Snapshot of Korea-Africa Economic Cooperation

- Trade with Africa
  - Export(\$10.2B) and Import(\$9.1B) with 1.7% share of total trade of Korea (2018)
  - The size of trade with SSA(\$6.1B of import and \$6.4B of export) is similar to the one with the UK(\$6.8B of import and \$6.4B of export, 21<sup>st</sup> in 2018)
- ODA for Africa
  - 21.6% of total ODA of Korea allocated for Africa (2019)
  - 2<sup>nd</sup> largest after Asia
  - 7 African priority partner countries in Africa out of 24 total
    - Ghana, Rwanda, Mozambique, Senegal Ethiopia, Uganda, Tanzania

# Korea-Africa Trade



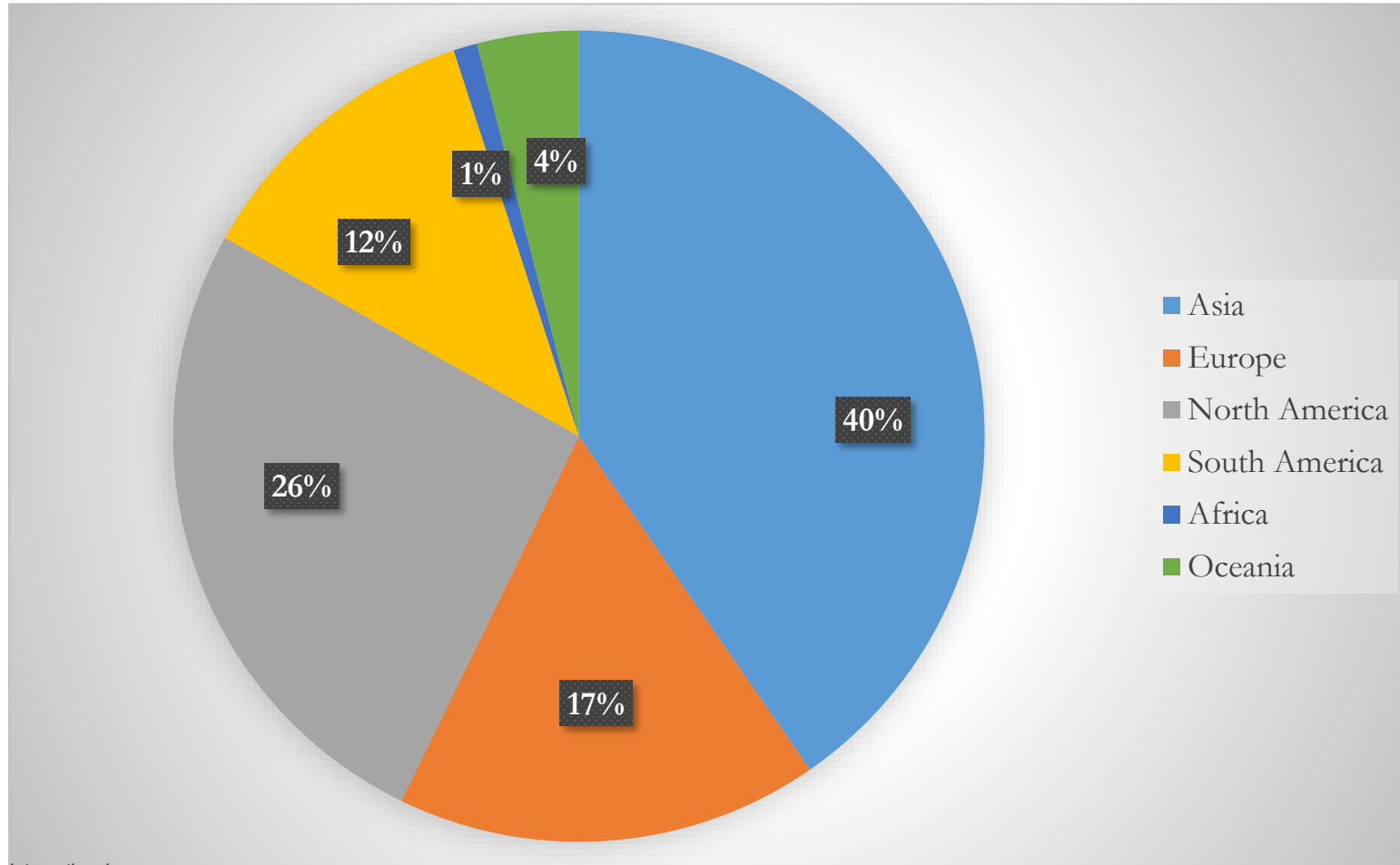
# Direct Investment of Korea in Africa



Unit: Million USD

Source: Korea Exim Bank(2019)

# Direct Investment of Korea by Region (cumulative, 1980-2019)





# Policy Recommendation #1: Diversification

- Expand the economic cooperation between Korea and Africa
  - Towards ‘trade and investment’
  - One-size does not fit all: different strategies for partnership
    - For LDCs: policy consistency between development and economic cooperation
    - For middle-income countries:
      - Set priority agenda and partners
      - FTA 2.0 model for future emerging countries
    - Different platforms for partnership by region, sector, and industry

# Policy Recommendation #2: More Effective Aid for Trade

- Trade as “an engine for inclusive economic growth and poverty reduction” (SDG 2030)
- Aid for Trade(AfT) initiatives
  - 62,030 AfT projects in Africa have been funded since 2006 (OECD)
  - Trade diversification through participating GVCs
  - Trade for inclusive growth
- AfT of Korea
  - 5<sup>th</sup> largest donor country in AfT(\$1183 mil., commitments in 2017)
    - Lack of national-level strategy and plan for AfT
    - Trade facilitation: from ‘hardware’ to ‘software’
  - Make the experience of Korea as an active global market participant as a model country
    - GSP, unilateral trade preference schemes for Africa, EPAs

Thank you!

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**Korea**  
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**Economic**  
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