Understanding the Agreement for African Continental Free Trade Area: Considerations for Korean Firms

The South African Institute of International Affairs (SAIIA)

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Contents

Abbreviations and Acronyms

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AU	African Union
CEN-SAD	Community of Sahel-Saharan States
COMESA	Common Market for Eastern and Southern Africa
DST	Double stage transformation
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign direct investment
FTA	Free trade agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GVC	Global value chain
ICT	Information and communications technology
IGAD	Intergovernmental Authority on Development
LDCs	Least Developed Countries
NTB	Non-tariff barrier
NTM	Non-tariff measure
OAU	Organisation of African Unity
ODA	Official development assistance
REC	Regional economic community
ROK	Republic of Korea
RoO	Rules of Origin
RVC	Regional value chain
SADC	Southern African Development Community
SEZ	Special economic zone
SPS	Sanitary and Phytosanitary
SST	Single stage transformation
TBT	Technical barriers to trade
TFTA	Tripartite Free Trade Agreement
UMA	Arab Maghreb Union
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
US	United States of America
WTO	World Trade Organization

1. Introduction

The African Continental Free Trade Area (AfCFTA) sets out an ambitious task to liberalise the flow of goods, services, people and capital across the African Union's (AU) 55 member states. It is the final step in a series of efforts to re-unify the continent following decolonisation. The AU agreed to establish the AfCFTA in January 2012 and negotiations to create the AfCFTA commenced in 2015. Once completed, it will have a combined gross domestic product (GDP) of more than $2 trillion and 1.2 billion people. The AfCFTA promises significant gains for the continent: $16.1 billion in welfare gains, GDP growth by 1-3%, employment growth by 1.2%, intra-African trade growth by 33% and a 50% reduction in Africa's trade deficit.

The primary objective of the AfCFTA is to boost intra-African trade, and secondly to harmonise African trade arrangements across regional economic communities (RECs) to enhance trade governance. Increased regional trade has significant spill-over benefits to promote economic development – more industrialisation and development of regional value chains (RVCs) and linking with global value chains (GVCs), more employment, better consumer choice, and more competition, among others.

Governments, businesses and citizens share the excitement about the potential benefits and opportunities that the AfCFTA holds. However, many factors can limit the potential impact of the AfCFTA. Limited human and financial capacity of African states to implement the Agreement can limit the effectiveness of the regime. Beyond these capacity constraints, other factors also need to be considered. Trade liberalisation alone will not yield significant development outcomes – development includes a wide range of factors including peace and security, good governance, enforcement of legislation, and sound fiscal-, monetary- and exchange rate policies. Alongside this, there are other structural issues such as inadequate infrastructure and structural deficiencies in African economies (e.g. narrow production base and reliance on primary commodity exports), and global economic trends, among others, which will have a major impact on the effectiveness of the AfCFTA.

For investors looking to leverage the AfCFTA to enter the African market or expand their business, there are several issues that they should pay attention to as the AfCFTA process unfolds. These include among, others, the continued importance of Africa's regional blocs, differentiated phase-down schedules of tariff concessions among countries, the impact of non-tariff barriers on business operations, the rules of origin regime that is currently under negotiation, and the policy uncertainty that can be caused during implementation of the AfCFTA.

This report considers these issues facing investors. It is undertaken in two parts: the first offers the reader an overview of the AfCFTA process, and key discussions for businesses wanting to leverage this agreement to enhance trade with the continent. The second part of the report looks at Korea's economic and development cooperation with the continent, assessing how Korea can leverage existing efforts, together with the AfCFTA to explore complementarities and enhance economic relations with African countries.

2. The African Continental Free Trade Area

The African Continental Free Trade Area (AfCFTA) sets out an ambitious task to liberalise the flow of goods, services, people and capital across the African Union's 55 member states.[1] It is the final step in a series of efforts to re-unify the continent following decolonisation.

Starting in 1963, the Organisation for African Unity (OAU) was established to create a single African market. The Lagos Plan, adopted in 1980 by the OAU, set out ways to increase self-reliance among African countries by leveraging the continent's natural resource wealth to develop economies through increased industrialisation and intra-African trade. The Abuja Treaty, signed in 1991, was a complimentary continental integration plan representing the ambitions of eight regional economic communities[2] (RECs) which formed the basis of a unified African Economic Community (figure 1).[3] These RECs have pursued and achieved varying levels of economic integration (table 1).

Figure 1 - Eight Regional Economic Communities of the African Union

Source: Wikimedia Commons, https://en.wikipedia.org/wiki/File:RECs_of_the_AEC.svg, accessed 8 July 2019.

Table 1 - Status of Regional Integration in Africa

RECs	Free Trade Area	Customs Union	Single Market	Countries that have implemented the free movement of people protocol	Economic and Monetary Union
AMU	✘	✘	✘	3 out of 5	✘
CEN-SAD	✘	✘	✘	Unclear	✘
COMESA	✔	✘	✘	Burundi and Rwanda ratified; Kenya and Zimbabwe signed but not ratified	✘
EAC	✔	✔	✔	3 out of 5	✘
ECCAS	✔	✔	✘	4 out of 11	✘
ECOWAS	✔	✔	✘	All 15	✘
IGAD	✘	✘	✘	No protocol	✘
SADC	✔	✘	✘	7 out of 15	✘

Source: ITC, 'A Business Guide To The African Continental Free Trade Area Area', http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/AfCFTA%20Business%20Guide_final_Low-res.pdf, accessed 8 July 2019.

Despite these varying levels of economic integration among the eight RECs, intra-regional trade has improved from 9% in 2000 to 17% in 2017. Increased intra-African trade over this period was driven by regional trade-, infrastructure- and production integration efforts under these RECs. However, other factors, such as improved macroeconomic conditions in African countries and increased commodity exports earnings also contributed to increased intra-regional trade.[4] Yet, at 17%, intra-regional trade in Africa remains comparatively low to other regions in the world: between 2015 and 2017, intra-regional trade accounted for 67% of trade in Europe, 61% in Asia, and 47% across the Americas.[5]

The AU agreed to establish the AfCFTA in January 2012[6] and negotiations to create the AfCFTA commenced in 2015.[7] The primary objective of the AfCFTA is to boost intra-African trade, and secondly to harmonise African trade arrangements across RECs to enhance trade governance.[8] Increased regional trade has significant spill-over benefits to promote economic development – greater industrialisation and development of regional value chains (RVCs), connecting and linking with global value chains (GVCs), and creating more employment, better consumer choice, more competition, among others.[9]

The AfCFTA looks to go beyond mere market integration across African economies. Traditional free trade agreements focus primarily on liberalising tariffs on goods trade between party states. The AfCFTA will not only focus on reducing tariffs on trade and goods, but also to liberalise trade in services, facilitate investment, competition and intellectual property rights.[10] —ultimately creating a market with free movement of goods, services, capital and people.

At the AU's Kigali Summit in 2018, 44 AU member states signed the Agreement establishing the AfCFTA. By the following AU Summit in Niamey (Niger) in July 2019, all African countries bar Eritrea had signed the agreement, with 27 countries having deposited their instruments of ratification to the AU. Having met the threshold of 22 instruments of ratification deposited (in April 2019), the Agreement entered into force on 30 May 2019. The potential that the AfCFTA can unlock on the continent is innumerable.

2.1. Potential of the AfCFTA

The AfCFTA is arguably the most ambitious trade liberalisation effort since the creation of the General Agreement on Tariffs and Trade (GATT, predecessor of the World Trade Organisation). Once completed, it will create a single market across 54 sovereign nations, with a combined gross domestic product (GDP) of more than $2 trillion and a consumer market of 1.2 billion people. Full implementation of the AfCFTA promises significant gains for the continent: $16.1 billion in welfare gains (even after accounting for tariff losses), GDP growth between 1-3%, employment growth by 1.2%, intra-African trade growth by 33% and a 50% reduction in Africa's trade deficit (figure 2). The United Nations Economic Commission for Africa (UNECA) further highlights the dynamic gains from a fully implemented AfCFTA: enlarged regional markets, greater competition and efficiency in production, increased welfare, higher levels of intra-African trade, diversification of production and increased sub-regional political stability and peace.[11] Jakkie Cilliers calculates that in the long-term, the AfCFTA – rather than other interventions and trends such as social grants, agriculture revolution, leapfrogging and a surge in manufacturing - will be the single biggest driver of economic growth and poverty alleviation in Africa by 2050.[12]

Figure 2 – Estimate Gains from the AfCFTA

Source: UNCTAD, 'The AfCFTA: The Day After the Kigali Summit', https://unctad.org/en/PublicationsLibrary/presspb2018d4_en.pdf, accessed 8 July 2019.

For governments, the AfCFTA potentially means greater economic growth, higher tax revenues, and greater advantage in external negotiations. For citizens, welfare gains will be driven by increased employment, greater efficiency in production and access to cheaper goods.[13] But the AfCFTA is in principle geared towards the private sector and creating a better enabling environment for businesses through which the abovementioned potential can be realised.

The market attraction of the AfCFTA will be a massive drawcard for business to engage on the continent. As business and investment in Africa is increasingly drawn by demographics, rather than natural resources, Africa with the AfCFTA is poised to take advantage of this trend. The AfCFTA is estimated to drive $6.7billion worth of consumer and business spend by 2030.[14] Once fully implemented, the AfCFTA will create a market of over a billion people, 60% of whom are under 25 years.[15] By 2050, this market will grow to 2.5 billion people, representing 26% of the global population; with an average GDP/capita income of $6800 (using purchasing power parity). This will create big demand for large / high value consumer goods (e.g. cars) and sophisticated services – financial, tourism, healthcare, among others.[16]

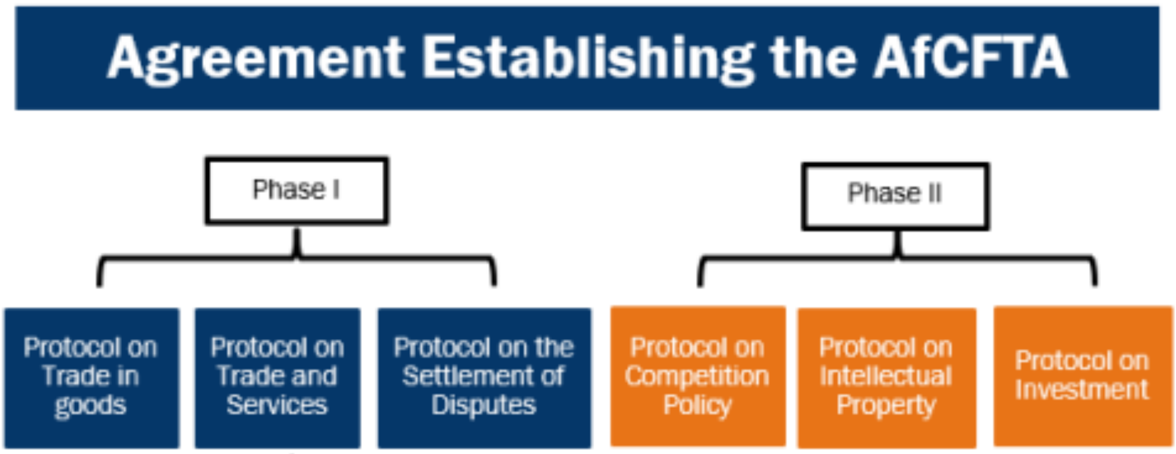
Beyond merely creating a massive market, the AfCFTA will also facilitate access to these markets for domestic (continental) and foreign businesses. Beyond tariffs liberalisation, the AFCFTA will also work on border issues to ease the movement of goods, while also creating a single market for services, capital and people. Through the AfCFTA, businesses stand to benefit from lower tariffs, fewer non-tariff barriers (NTBs), ease of industrial production in different African countries, benefit from economies of scale, more cost-effective access to raw materials and intermediate inputs, enhanced opportunities to connect RVCs and GVCs, and facilitate capital flows to and from African countries.[17] The AfCFTA also offers business and investors some level of policy certainty against a backdrop of increasing global aversion / breakdown of trade rules and agreements.

The AfCFTA thus offers the continent and its external partners an auspicious future. However, fully realising this potential is contingent upon the successful implementation of the AfCFTA. The following sections offer an overview of ongoing negotiations and the implementation status of the AfCFTA.

2.2. Current Status of AfCFTA Negotiations

AfCFTA negotiations are undertaken in two phases. The key protocols negotiated under phase one include the protocols on trade in goods, trade in services and dispute settlements. Phase two of AfCFTA negotiations will consider protocols on competition policy, intellectual property rights and investment (Figure 3). An additional protocol on e-commerce facilitation is also mooted for Phase 2.[18]

Figure 3 – Status of the AfCFTA Protocols



Source: Signe L and van der Ven C, 'Keys to success for the AfCFTA negotiations', https://www.brookings.edu/research/keys-to-success-for-the-afcfta-negotiations/

As of July 2019 Phase 1 Negotiations were well advanced with several annexes to the Protocol on Trade in Goods agreed on, including annexes on customs cooperation, trade facilitation, transit facilitation, technical barriers to trade, sanitary and phytosanitary measures and non-tariff barriers (see Annex 1 for complete status of Protocols and respective annexes). However, arguably the two most critical and time-consuming components of the protocols are still outstanding: tariff schedules and countries are yet to agree on the rules of origin (RoO) modalities to follow. Conclusion of these outstanding items are slated for December 2019.[19] Other related matters such as an online NTB mechanism, digital payments and settlement platform and the African Trade Observatory are also under considerations during this period. [20]

For foreign investors and businesses it is important to note that much of the AfCFTA's institutional arrangements are modelled on the WTO.[21] For example, the dispute settlement body set up under the AfCFTA during phase 1 of the negotiations closely resembles that of the WTO. Likewise, the AfCFTA's protocol on goods also closely resembles that of the WTO. This should offer comfort to foreign firms engaging African economies. Firstly, it is a familiar environment for foreign investors.

Secondly, in the case of dispute resolution, cases at the WTO can be used as a benchmark for dispute settlement.[2223]

Negotiations under the Protocol on Trade in Services are undertaken parallel to the Protocol on trade in goods. Annexes on most-favoured nation (MFN) exemptions, which stipulates which State Parties wishes to maintain a preferential agreement with one or more State Parties before the current agreement entered into force, and the annex on air transport which looks to establish a single African air transport market, have been completed. Negotiators have prioritised five priority service sectors which are integral to boosting intra-African trade. These services include transport, communications, financial services, tourism and business services. There is a January 2020 deadline for negotiated market access offers in these priority services sectors, but considering the complexity of negotiations, unfamiliarity of many negotiators with this process, and little progress made to date on this protocol, this deadline will likely be extended. The next step in negotiations is to negotiate schedules of specific commitments on services between AU Member States. Adoption of final schedules is slated for January 2022.

Negotiations of phase two is at an infant stage with preparatory studies being shared with key negotiators.[24] Phase 2 negotiations are to be completed by June 2020.[25]

A number of key updates to the AfCFTA was made during the AU's Niamey Summit in 2019. Firstly, the AfCFTA Secretariat will be established in Ghana. Secondly, the start date of trading under the AfCFTA was set for 1 July 2020. A number of instruments aimed at supporting the operationalisation of the AfCFTA were announced, including online platforms to inform traders on RoO and an online NTB monitoring mechanisms (https://tradebarriers.africa/), a digital payments system to support intra-African trade and the African Trade Observatory which will offer traders market access information.

Negotiations under the AfCFTA has progressed exceptionally fast. On average, it takes 5 years for AU legal instruments to enter into force; the AfCFTA entered into force in little over a year.[26] Much of this speed is attributed to the political commitment shown by heads-of state to operationalise the AfCFTA. While the AfCFTA entered into force on 30 May 2019, two factors currently hinder the practical operationalisation of the AfCFTA. First, the annexes on tariff concessions and rules of origin are vital to the operationalisation of the AfCFTA. These are slated for completion in December 2019.

Second, the practical use of the agreement depends on the full implementation and domestication of the annexes at national levels. This is a daunting task, considering the amount of bureaucracy involved and the implementation capacities of all 54 African countries. Compounding the technical complexity of this implementation, is also the lack of financial resources to undertake these changes. Currently, UNECA is developing national implementation plans in a host of countries to assist with this process. Nevertheless, following the AU's Niamey Summit in July 2019, heads-of-states indicated that trading under the AfCFTA will start on 1 July 2020. It is expected that larger economies such as South Africa, Nigeria, Egypt, Morocco and Kenya, among others, will lead on the domestic implementation of the AfCFTA, driving critical mass towards implementation from smaller African countries.[27]

Beyond these two factors, there are also a host of issues that policymakers, the private sector and citizens need to keep in mind that will limit the potential impact of the AfCFTA. Trade liberalisation alone will not yield significant development outcomes – development includes a wide range of factors including peace and security, good governance, enforcement of legislation, and sound fiscal-, monetary- and exchange rate policies. These are needed for successful intra-African integration.[28]

Alongside this, there are other issues around infrastructure development and structural deficiencies in African economies (e.g. narrow production base and reliance on primary commodity exports), global economic trends, among others, which will have a major impact on the effectiveness of the AfCFTA. This report does not elaborate on these issues as they are well documented elsewhere and outside the scope of this paper.

Beyond these broader challenges to the effectiveness, impact and operationalisation of the AfCFTA, there are several AfCFTA-specific challenges that businesses and investors should closely consider. The following sections highlights and elaborate on these considerations.

3. AfCFTA and Investors: Key Considerations

Investors – both within the continent and foreign – share the excitement about the potential benefits and opportunities that the AfCFTA holds. The following section outlines some of the key issues that might influence the success of the AfCFTA, and especially what investors should pay attention to. The following table provides a summary overview of key discussion points that are instructive.

Table 2 – AfCFTA and Investors: Summary of key Considerations

<table>
<tr><th colspan="2">Specific Issues</th><th>Description</th></tr>
<tr><td colspan="2">Importance of the RECs</td><td>RECs have achieved differing levels of integration over past decades – the AfCFTA will not negate this progress.</td></tr>
<tr><td colspan="2">Tariff Phase-down</td><td>As with all FTAs, tariff phase-downs occur over a specified period. Due to the specific domestic context of African countries, different timelines are pursued under the AfCFTA.</td></tr>
<tr><td colspan="2">Non-tariff Barriers</td><td>While tariff concessions will be attractive to businesses, NTBs might negate the benefits of tariff liberalisation.</td></tr>
<tr><td colspan="2">Rules of Origin</td><td>Rules dictating the level of domestic (continental) value-addition required will determine if goods from external partners qualify for tariff concessions.</td></tr>
<tr><td rowspan="2">Winners and Losers</td><td>Countries</td><td rowspan="2">As with all FTAs, some countries and industries will experience adjustments costs during implementation. For investors however, this can cause policy uncertainty in particular countries or sectors.</td></tr>
<tr><td>Industries</td></tr>
<tr><td colspan="2">Trade in Services and Phase 2 Negotiations</td><td>The Services Protocol and Phase 2 Negotiations pertains to pre- and post-establishment issues for investors e.g. market access, investment, intellectual property rights and competition policy.</td></tr>
</table>

Source: Author

3.1. Importance of RECs

As noted earlier, the AfCFTA is the culmination of a series of regional integration efforts across the continent. A central principle of the AfCFTA is to not undermine these efforts and the variable progress made within and among the RECs. Hence, the agreement establishing the AfCFTA prioritises the 'preservation of the *acquis'* (emphasis added).[29] Agreements under the AfCFTA will not undermine the obligations and commitments that AU member states have made with other regional or international parties.[30] As Article 20 (2) of the AfCFTA Agreement highlights:

'State Parties that are members of other regional economic communities, regional trading arrangements and custom unions, which have attained among themselves higher levels of regional integration than under this Agreement, shall maintain such higher levels among themselves'.

AU member states consider existing regional arrangements beneficial for trade and integration, hence the premium placed on existing arrangements.[31] More so, the AfCFTA will be subject to 'higher levels of regional integration', i.e. where tariffs concessions in regional trade agreements are lower, these will take precedent over the AfCFTA rules. At this early stage of AfCFTA implementation, businesses will be able to choose the relevant FTA (with the lowest tariff) under which they want to export their goods. While the secondary objective of the AfCFTA is to harmonise the different trade and tariff regimes across African RECs, this will only happen at a later (as yet unspecified) stage.[32]

As tariff negotiations are still underway and confidential, it is difficult to speculate which FTA will offer businesses the most preferential tariff rates. While the AfCFTA will offer the benefit of connecting various markets in Africa – e.g. offering South African exporters preferences to West African markets, existing trade arrangements such as SACU, SADC or the Tripartite Free Trade Area (TFTA) can offer its exporters better trade terms for markets in Southern and Eastern Africa. Uncertainty around which FTA regime to use can complicate matters for the private sector. Yet, the AU will establish the African Trade Observatory Dashboard as part of the AfCFTA's institutional infrastructure. This platform will offer useful guidance to businesses on market information and trade regimes.[33] Other similar existing online portals will also be useful in this regard, for example the International Trade Centre's Market Access Map (https://www.macmap.org/).

Above-mentioned discrepancies, as well as differentiated tariff liberalisation structures for non-Least Developed Countries (LDCs), LDCs and the Group of Six (Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe - see table 3 and Annex 2)) might discourage external investors from engaging African countries under the AfCFTA due to the complexity involved. Yet, such differentiation must be appreciated given the domestic context. The AfCFTA will bring together 54 countries of varying geographic size, with significant discrepancies in levels of economic development and trade openness between them, and a diversity of trade regimes and trade policies.[34] To ensure continent-wide buy-in for the AfCFTA, one of the underlying philosophies of the AfCFTA is to consider such discrepancies and accommodate them. While it may appear to limit the overall success/impact of the AfCFTA, it is also a vital practical modality and have allowed for the rapid progress under the AfCFTA process.[35]

3.2. Tariff Phase-down

In June 2017 it was agreed that 90% of intra-African goods trade will be zero-rated; 7% of goods will be classified as 'sensitive goods' and only 3% of goods will be exempt from liberalisation.[36] Products earmarked for countries' 'sensitive' and 'excluded' lists are those that are critical to national food security, national security, fiscal revenue, livelihood and industrialisation and will enjoy a longer phase-out period or will be completely excluded from liberalisation.[37] Nevertheless, once the tariff offers are finalised, tariffs will be phased out according to the schedule below (table 3).

Table 3 - Schedule of liberalisation envisaged under the AfCFTA reform

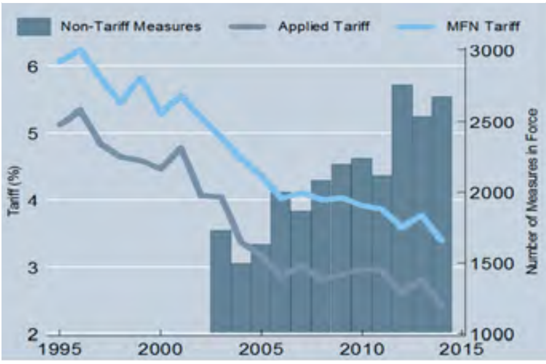
Country Classification[38]	Tariff Reductions		
	Non-sensitive products (90%)	Sensitive Products (7%)	Excluded Products (3%)
Non-Least Developed Countries	Fully liberalise over 5 years	Fully liberalised over 10 years	No Cut
Least Developed Countries	Fully liberalised over 10 years	Fully liberalised over 13 years	No Cut
Group of Six*	85% fully liberalised over 10 years; additional 5% liberalised over 15 years	Fully liberalised over 13 years	No Cut
* Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe			

Source: UNECA, 'An empirical assessment of the African Continental Free Trade Area modalities on goods', https://www.uneca.org/sites/default/files/PublicationFiles/brief_assessment_of_afcfta_modalities_eng_nov18.pdf, accessed 8 July 2019.

3.3.Non-tariff Barriers

Tariff concessions is a key part of Phase 1 of the AfCFTA negotiations. And while this is an important step towards boosting intra-African trade, this might not necessarily offer businesses the biggest gains. Intra-African trade tariffs are already relatively low due to ongoing liberalisation efforts under the WTO and the RECs (figure 4). Intra-African tariffs are also typically concentrated in the small basket of goods that African countries trade among themselves e.g. agricultural goods or low-value manufactured goods.[39]

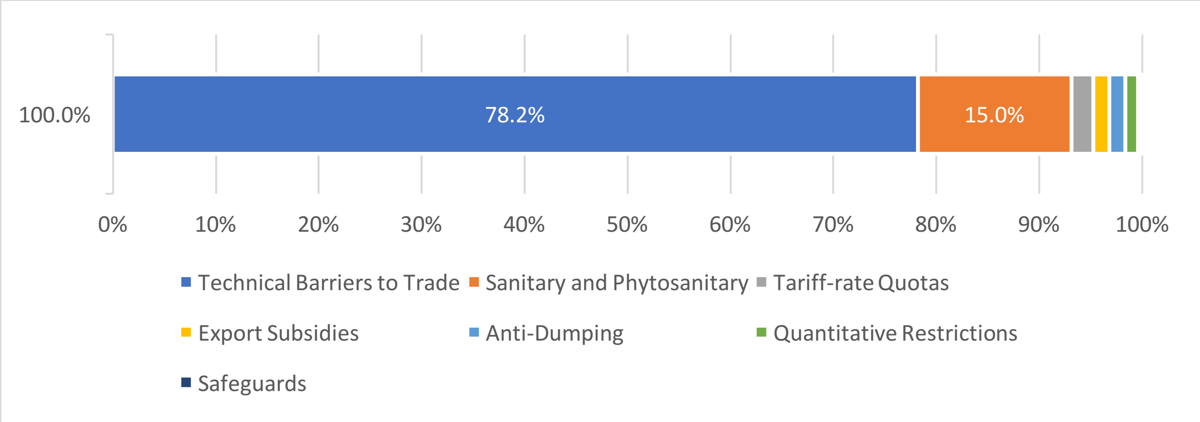
Figure 4 – Tariff Trends and Non-Tariff Measures



Source: UNCTAD

Instead, non-tariff measures (NTMs) are often more costly for the private sector. The most common NTMs among African countries are technical barriers to trade (TBTs). TBTs constitutes a wide range of instruments and measures governments employ to regulate markets or protect consumers. In 2018, of the near-4000 NTMs in African countries reported to the WTO, TBTs represented 78.2% (figure 5). While governments often intervene in trade and impose NTMs to ensure the welfare of citizens, they can also employ NTMs to discriminate against imports in order to protect domestic industries. Such practices are a global phenomenon and not isolated to African markets.

Figure 5 - African Union - Non-Tariff Measures 2018



Source: Abrego L, Amado M, Gursoy T, Nicholls G and Perez-Saiz H, 'The African Continental Free Trade Agreement: Welfare Gains Estimates from a General Equilibrium Model', https://www.imf.org/en/Publications/WP/Issues/2019/06/07/The-African-Continental-Free-Trade-Agreement-Welfare-Gains-Estimates-from-a-General-46881, accessed 8 July 2019

Another key NTM typically employed by countries – rightly or wrongly – are sanitary and phytosanitary measures that protect humans, animals and plants from diseases or contaminants. Hence, even under a fully liberalised AfCFTA, businesses should not negate the impediments posed by NTMs.

3.4. Rules of Origin

Businesses, and foreign investors in particular, should closely observe ongoing negotiations around the RoO regime to be used under the AfCFTA. Simply put, RoO determines the level of local content required in order for products to benefit from tariff concessions under FTAs such as the AfCFTA to avoid transhipment of goods. Hence, goods wholly manufactured in external countries will not be eligible for tariff concessions under the AfCFTA regime. Instead, business on the continent will be able to procure intermediate inputs from abroad, and provided adequate domestic value-addition has taken place, will qualify for preferences under the AfCFTA. RoO sets the parameters on the amount of domestic value addition that has to take place. Hence, this is an important consideration for African business looking to expand on the continent and external businesses looking to extend their operations to African markets under the AfCFTA.

Currently two different RoO regimes are being used in different RECs. SADC, for example, applies strict RoO criteria, while the EAC and COMESA FTAs apply more relaxed RoO criteria. Both strict and relaxed RoO have their respective advantages and drawbacks. For LDCs, less strict RoO is better. By allowing a greater proportion of intermediate inputs to qualify for tariff preferences under an FTA, countries with low manufacturing bases can undertake even a modest amount of transformation, with the final product still eligible for tariff concessions. Such lax RoO would have been favourable for external businesses looking to access the AfCFTA, as products can more easily enter the market and benefit from duty-free trade. South Africa in particular argued strongly in favour of strict RoO to enhance domestic (African) industrialisation, but also because it stands to benefit its own well-developed manufacturing sectors. Some of its key industrial sectors however, such as textile and clothing specifically, might face stiff competition from other African countries. This is a key concern for **the dti**, but at the same time an opportunity for them to see how the sector can move into higher value-added manufacturing.[40]

The RoO Annex under the AfCFTA will favour higher domestic value addition and is slated for completion in December 2019. As of June 2019, 92% of the rules had been agreed to, with RoO on automotive, textile and clothing, dairy and sugar goods still outstanding.[41]. RoO will be product-specific (i.e. RoO will be negotiated chapter by chapter, rather than across the board rules).[42] Hence, deviations will occur across different products.

While the RoO negotiations are yet to be finalised, businesses and investors need to pay close attention to this ongoing process. In African countries, the automotive sector typically has simple RoO where, as long as 40% of content is sourced locally, the exported products would qualify for tariff concessions.[43] The textile and clothing sector, however, has more complicated modalities which distinguish between single-stage transformation (SST) and double-stage transformation (DST) rules. Whereas SST are more lax and allows manufacturers to import fabric from outside the region and produce clothing which will then be eligible for tariff concessions (i.e. one transformation from fabric to clothing), DST requires two stages of transformation to happen in the region (e.g. from cotton to fabric and fabric to clothing). Similarly, for goods such as fish, the rules can be complicated: whether or not fish traded by a vessel under an African flag, but operated by a foreign crew, is eligible for preferences is still up for discussion.[44]

Strict RoO (as will be the case for the AfCFTA) is often a significant administrative burden for firms and they elect to instead forgo the tariff concessions as it is more cost-effective. The potential exists that strict RoO can negate the tariff concessions under the AfCFTA and might obviate the need for foreign companies to consider the AfCFTA at all.[45]

Nevertheless, the role of foreign firms will remain vital as African countries will require intermediate inputs to build their industrial development capacity. Presently, they cannot be self-sufficient as they have limited goods to trade with each other.[46] African countries will also increasingly play an important role in low-value manufacturing, which provides inputs into other value chains – this is specifically in response to rising costs and limited capacity of low-value manufacturing outsourcing to countries such as Vietnam, the Philippines and Indonesia.[47]

3.5. Winners and Losers – Countries and Industries

As noted earlier, the AfCFTA is an ambitious trade project that looks to integrate economies at different stages of economic development with differing structural makeups and priorities. While the overall net-effect of the AfCFTA will be positive for all countries, some countries and sectors will experience adjustment costs. The AU is conscious of such detrimental effects and is exploring ways to mitigate them. For investors however, this can cause policy uncertainty in countries or sectors.

- Countries

For LDCs, several issues are of key: compensation mechanisms (loss of tariff revenue); mitigation against domination from larger economies; and financial support for technical implementation.[48]

Fiscal loss (as a result of tariff liberalisation under the AfCFTA) is estimated between \$1.15 billion and \$2.3 billion at 2016 figures. ECCAS will see the biggest decline in tariff revenue by 11.5%;

followed by 9.6% for ECOWAS and 7.8% for COMESA. To address this burden, the AU is considering three options. First, a Financial Adjustment Support Mechanism where adjustment costs are financed through a CFTA levy. The mechanism will levy a tariff on third-party imports (non-African) which will cover the shortfall. Another option for consideration is using Regional Development Funds, but these are typically used more to fund infrastructure (such as the AfDB's African Development Fund). The third option is for affected countries to re-impose tariffs for a limited period of time. This option, however, is less desirable, as it is counter-productive to the AfCFTA process.[49] At the time of writing (August 2019), no official mechanism or specific preference has yet been communicated.

Given the potential for higher adjustment costs in LDCs, it is expected that they will rely on trade remedies to mitigate such costs. Trade remedies are defence instruments against predatory pricing, illegal subsidies, or general surges in imports.[50] Such trade remedies deemed to limit sudden trade disruptions, are necessary and common in FTAs. This can be applied to goods fairly traded (safeguards) or unfairly traded (anti-dumping or countervailing measures). However, they can also easily be abused. Again, given the prevalence of NTMs, and the limited amount of trade taking place between countries, abuse of trade remedies will limit the potential of the AfCFTA for businesses.[51]

In contrast to the position of LDCs, more advanced economies such as South Africa, Morocco, Egypt and Kenya are likely to gain more from the AfCFTA. Their larger industrial base, better developed infrastructure and sizeable domestic markets would make them a key target for foreign investors looking to leverage them as a base to export to their respective regions under the AfCFTA.

For external partners with preferential trade regimes in place with African countries, the AfCFTA could potentially mean that trade will be diverted away from those markets towards geographically closer and tariff-free markets on the continent. Rather than leveraging external duty-free regimes such as the African Growth and Opportunity Act from the US, the Economic Partnership Agreements and Everything but Arms provisions from the EU, or other Generalized System of Preferences provisions under the WTO, African countries and LDCs could instead leverage the AfCFTA. UNCTAD however estimates that this impact will be small/minimal due to the limited current production base currently of among African countries (i.e. many products are not produced on the continent) and African growth will the drive demand for goods (imports) from both inside and outside Africa.[52]

- Sectors

Strong sectoral lobbies are also prevalent in different African states. Nigeria initially delayed signing up to the AfCFTA due to domestic pressures and fears that the lack of tariff protection will result in a surge of imports.[53] Local lobbies urged policymakers to undertake a comprehensive analysis before signing the agreement. While many have criticised the Buhari-government for delaying signing the AfCFTA, some observers have argued that the process followed by Nigeria should have been undertaken in every country. Inadequate consultations can lead to unexpected harm done to some industries and countries, leading to a surge in trade remedies.

Given the varied nature of economies participating in the AfCFTA, it is difficult to anticipate in which sectors such trade remedies might flare up. Yet, an analysis of intra-African tariffs found that tariffs for African countries are especially high on goods where there are shared competitive advantages – agricultural products such as dairy, fruit and vegetables; and textiles, clothing and footwear goods.[54] Exclusions provided for under the Sensitive Products and Exclusion list also gives an indication which sectors governments will prioritise for protection: those that are critical to national food security, national security, fiscal revenue, livelihood and industrialisation – these are product categories that might be affected.[55]

3.6.Services Protocol & Phase 2 Negotiations

Liberalisation of services across African countries is vital for both African economies and foreign firms doing business on the continent. Services account for more than 50% of GDP in most African countries[56] and services such as logistics, finance and ICT are critical inputs into value chains. Services liberalisation can enhance competitiveness through economies of scale, reduce business costs, foster more domestic and foreign investment; and help developing domestic services industries.[57]

Investors typically distinguish between pre-establishment and post-establishment issues when considering an FTA. The Protocol on Trade and Services deals with pre-establishment issues, such as liberalising market access for investors into other African markets. In Ethiopia, for example, investors cannot enter the retail and telecoms sectors, and in other sectors they face restrictions such as requiring 51% of the equity to be held by Ethiopians.[58] Services negotiations under the AfCFTA will look to address these restrictions.

Services negotiations under the AfCFTA commenced in December 2018. Negotiators identified five services sectors which are prioritised for negotiations – business services, communication, financial, tourism and, transport services – these are seen as most critical to increase trade in goods. Once they are complete, all other sectors will be considered. However, Services negotiations might be hamstrung by the somewhat due to lack of capacity and different approaches. CEN-SAD, IGAD and UMA have no trade in services initiatives at REC level, so for many of their members this is a novel process. Of the other five RECs, EAC, COMESA and SADC uses the General Agreement on Tariffs in Services (GATS) approach to services which relies on list of commitments and sectoral initiatives, whereas ECOWAS and ECCAS applies an EU approach which uses directives and regulations.[59] Draper et al also notes that 'given the complexities, different visions and ambitions for the negotiations, it also is not obvious how much commercial value they will yield'.[60]

Business and investors should hence temper their expectations around services liberalisation. Negotiators have agreed to the negotiations guidelines around this process, but based on the negotiations roadmap, the process will still take long. The submission of final offers to countries is expected in September 2020, with adoption of schedules of specific commitments only slated for January 2022.[61]

Post-establishment issues – such as investment protection, intellectual property rights and competition policy – under the AfCFTA will be dealt with under Phase 2 of the AfCFTA negotiations These negotiations will have a significant impact for the private sector. Issues around investment protection and safeguarding of intellectual property rights are key determinants of investors when exploring new markets. Yet, while discussions around the second phase of negotiations has commenced, it remains at a nascent stage. The AU has designated three separate working groups to undertake negotiations (one for each protocol) and developed terms of reference for each working group.[62] Negotiations were originally slated to conclude by January 2020, but this deadline has been extended until June 2020. Yet, even this revised deadline is ambitious considering the complexity of the protocols negotiated.[63]

4. Korea – Africa Economic Engagement

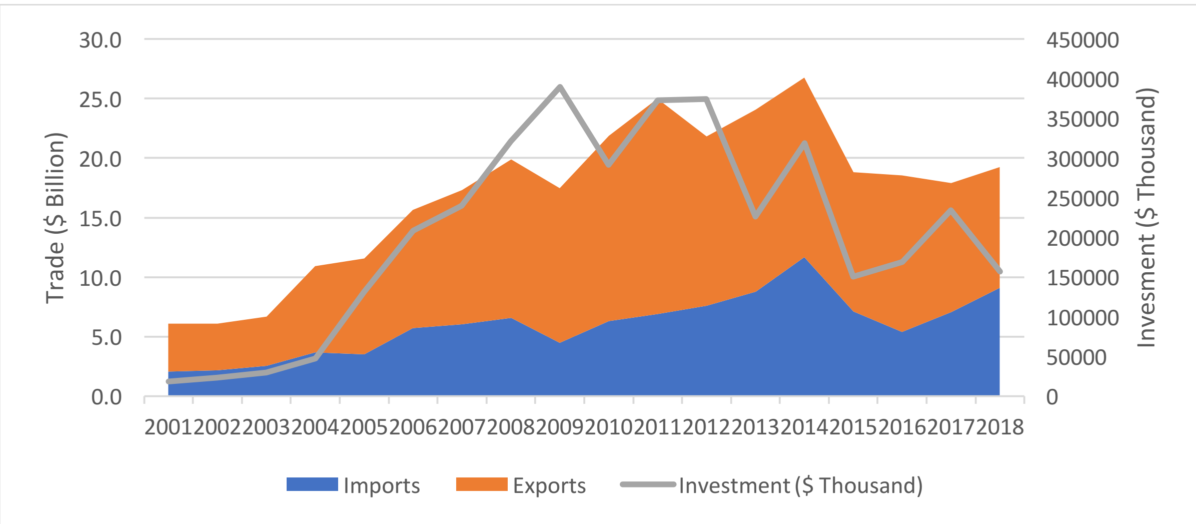
The following two sections adopts a Korea-specific lens on how to position Korean business to take advantage of the AfCFTA and to increase economic ties with African countries more broadly. It first explores Korea's economic engagement with African countries (section 4), before considering how the ROK government and business can engage African countries for mutual benefit (section 5).

4.1. Overview

Korea has maintained a limited profile and engagement with African countries for most of the 20th century largely due to its own limited financial capacity and geographic distance. When it did engage African nations, Korea's engagement was focused on countering Pyongyang's influence, who provided economic and military support to nations or actors aligned with the Soviet Union. In the immediate post-Cold War period, South Korea shifted much of its external attention to economic cooperation with newly independent Eastern European states.[64] This focus changed throughout the 2000s, notably under President Roh Moo-hyun's administration when there was a serious re-engagement with African countries. The first Korea-Africa Forum was hosted in Korea in 2006. Subsequently, various other forums, such as the Korea – Africa Economic Cooperation Forum and the Korea – Africa Industry Cooperation Forum have looked to strengthen ties between Korea and African counterparts.

Korea's renewed interests in Africa were largely driven by its quest for energy and food security, new markets and posturing as a global power. While absolute trade between Korea and African countries increased fourfold between 2001 and 2018 (figure 6), trade between Korea and the continent remains less than 2% of Korea's total exports. In addition, while Korean investment in Africa witnessed a significant surge throughout the 2000s, in 2018 FDI was less than half of what it was in 2009 (figure 6). Various factors can explain the lack of a meaningful increase in economic engagement between Korea and African countries.

Figure 6 – ROK – Africa Trade and Investment



Source: Author's Calculations, ITC Trademap, https://www.trademap.org/, accessed 5 July 2019; Korea Eximbank, https://stats.koreaexim.go.kr/en/enMain.do, accessed 5 July 2019.

First, geographical and cultural distance remains a key factor in greater ROK-Africa cooperation. Korea is geographically located far from the continent while people-to-people engagement between African and Koreans are low. Second, Korean business are relative newcomers to the African market, compared to other businesses from the US, EU and Asian peers such as China and India. The increasing interest in Africa in recent years by countries such as Russia, Turkey, etc. have also led to increased investments in the continent prompting African states to make an effort towards implementing monetary and fiscal reforms as well as infrastructure development. Korean firms are also operating in an increasingly competitive market, with fierce competition from countries with greater experience (i.e. history of economic engagement dating back centuries) and greater financial backing from their governments (e.g. subsidised financing). If Korean firms are to be successful in African markets, they, together with public-sector actors, have to address such challenges.

Nevertheless, Korea and African countries have much to gain from increased economic cooperation. Korea has strong infrastructure and economic development experience from which African countries can learn a great deal. In addition, African countries, with their inherent comparative advantages (abundant natural resources, demographic dividend, growth potential with the IMF forecasting that six of the fastest growing economies are in Africa[65]) have much to offer Korea. The African business community is already upbeat about the AfCFTA believing that it will have a positive impact on intra-regional trade levels.[66]. Leveraging its unique history, its comparative advantages in trade, and friendly relations, Korean business can build a mutually beneficial relationship with African countries. In addition, African countries are yet address their digital gaps and this could be an opportunity for Korean business with a comparative advantage in technology to position themselves strategically to partner with African states on this digital transformation agenda. Africa's digital transformation has the potential to increase its GDP per capita by 1.5% and reduce the poverty headcount by 0.7% annually.[67].

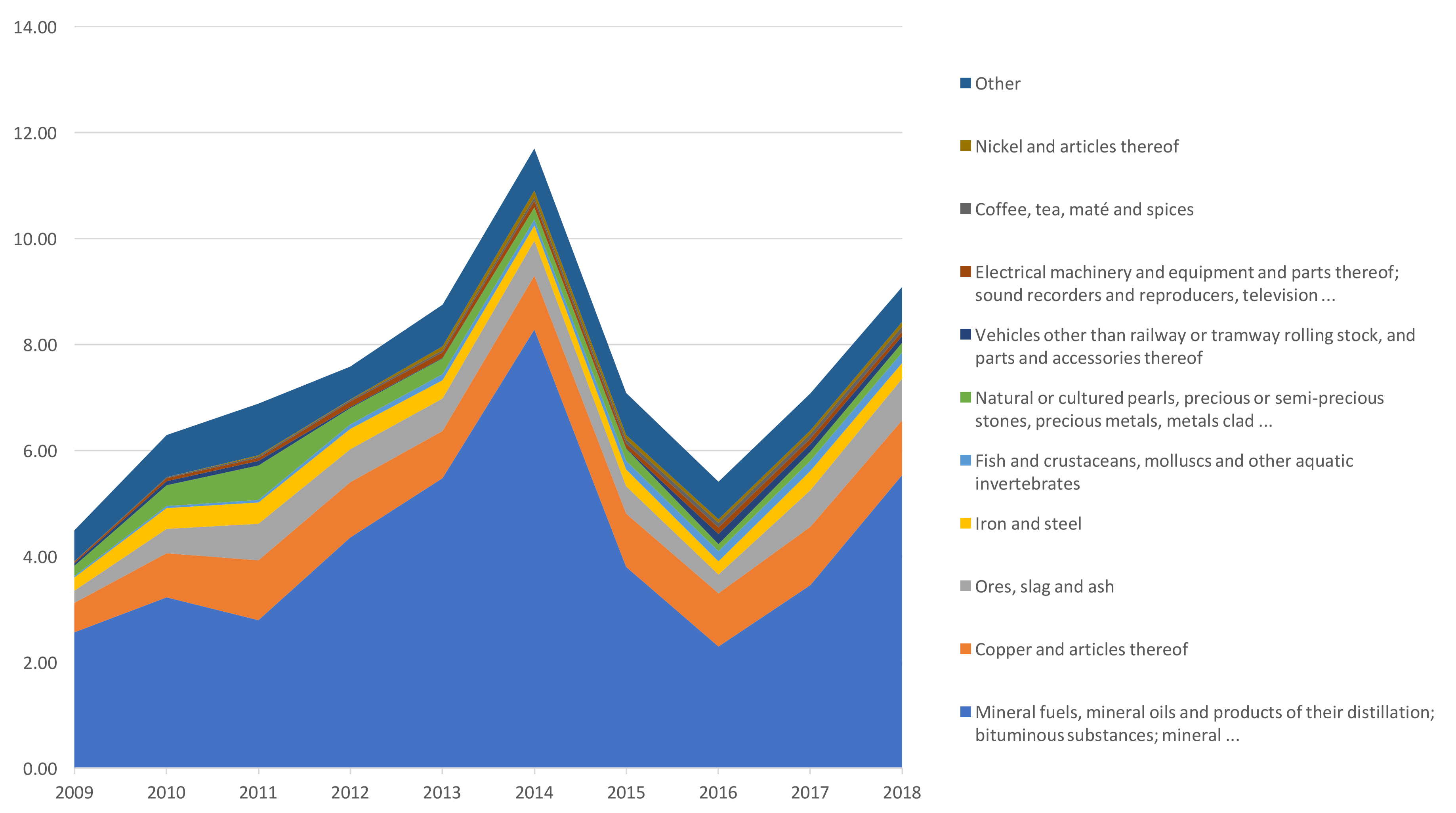
4.2. Trade Engagement

Korea's economic interests in Africa are driven primarily by energy and food security and exploring new markets.[68] Currently, Korea imports around 90% of its food supply and 98% of its energy resources.[69]. With an increasingly saturated domestic market, it has evolved to an export-orientated economy. Korea's strategic needs are reflected in its trade profile with African countries.

Korea's import-profile from African countries is dominated by natural resources. Korea's biggest import product – mineral fuels – accounted for 61% of its imports in 2018. The next three biggest imports – copper, ores and iron/steel – accounted for a further 23.3% of its imports in 2018. While there was a gradual uptick in Korean imports until 2014, this was largely driven by Korean imports of Nigerian and Algerian oil.[70] The 2014/15 commodity price slump caused a significant decline in trade. Nigeria and Algeria feature heavily in Korea's import profile, combined representing 33.1% African exports to Korea, largely due to oil exports. South Africa is the largest exporter to Korea, accounting for 26% of exports to Korea in 2018, made up largely of commodity exports (mineral fuels, ore and iron/steel) and to a lesser extent manufactured goods (vehicles and machinery). Other key African exporters to Korea include DR Congo, Gabon, Libya, Egypt, Equatorial Guinea, Mozambique and Angola (figure 8) – all of which, with the exception of Egypt, are major commodity exporters. Despite

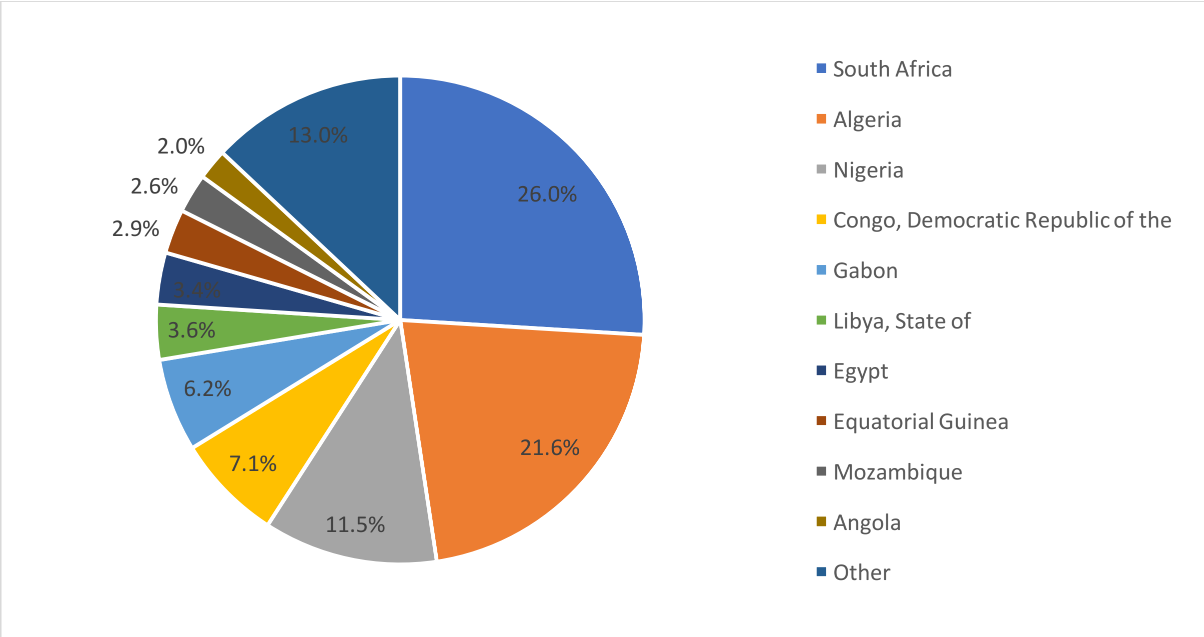
Korea being a key importer of agricultural goods, it imports little of this from African countries. This trade profile showing African countries exporting primarily raw commodities, rather than a mixed basket of goods, is undesirable for African countries looking to upscale domestic industrialisation efforts. There is significant scope for Korea to increase it’s sourcing of agricultural, agro-processing and low-value manufactured goods from African countries.

Figure 7 - ROK Imports - Africa ($ Billion)



Source: Author's Calculations, ITC Trademap, https://www.trademap.org/, accessed 5 July 2019.

Figure 8 - ROK Imports - Top 10 African Countries (2018)

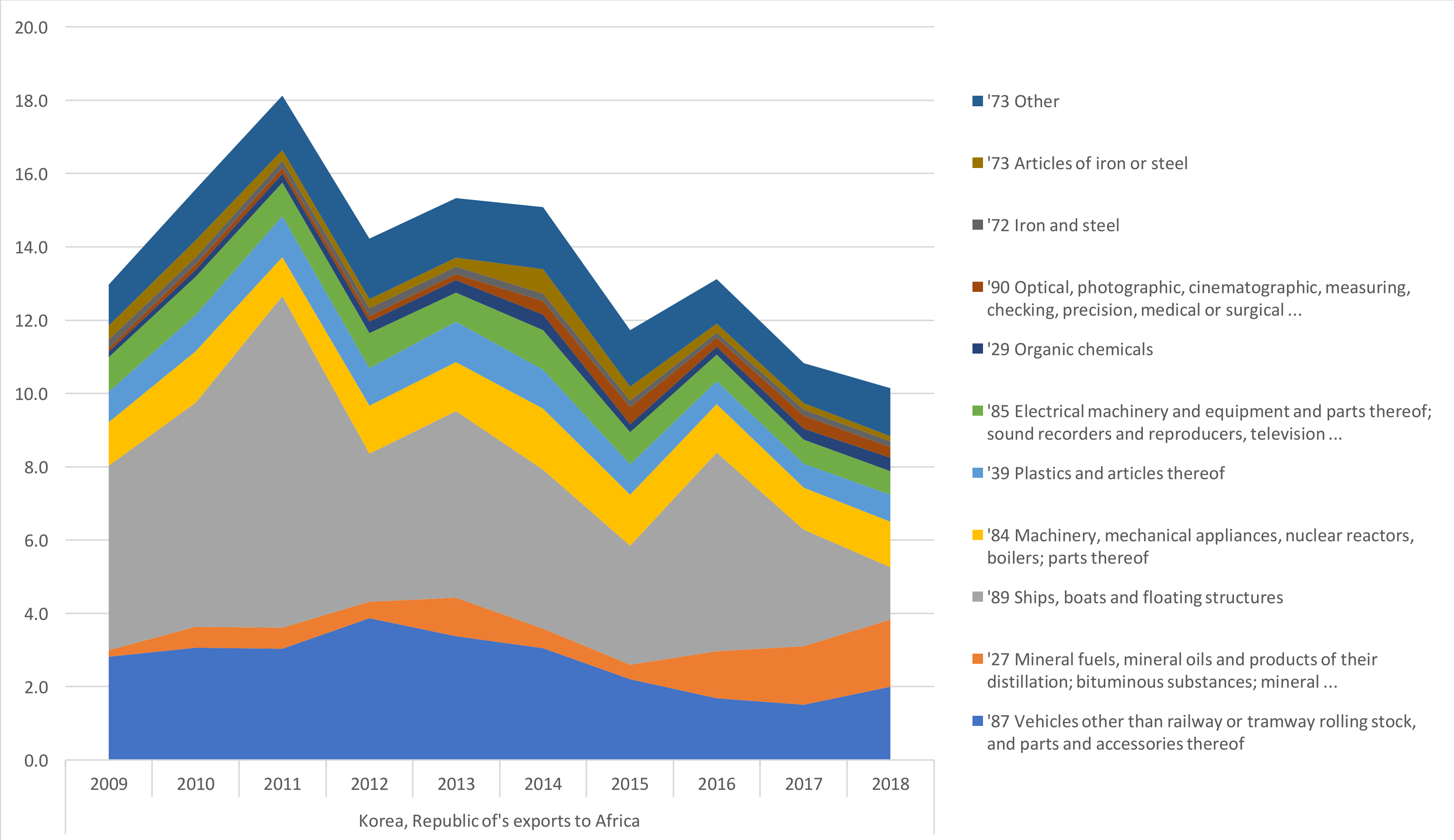


Source: Author's Calculations, ITC Trademap, https://www.trademap.org/, accessed 5 July 2019.

As with Korea's import profile, it's export profile reflects Korea's strategic objective on the continent – expanding its market for its manufactured goods. Korea's top five exports in 2018 to African countries were dominated by manufactured goods, including vehicles (19.7%), ships (14%), and machinery (12.3%). Since 2015 after the commodity crises, there has been an upsurge in mineral fuel exports to the continent, up from $0.4 billion in 2015 to $1.8 billion in 2018. Over the past decade, Korean exports to Africa have gradually increased, punctuated with sporadic surges in the period leading up to the 2015 commodity crisis. (figure 9). There is also a strong correlation between Korea's exports to African markets and FDI in African countries (figure 6): is it important to note that more Korean FDI will enhance the quality of ROK-Africa trade and reduce such drastic fluctuations in trade.

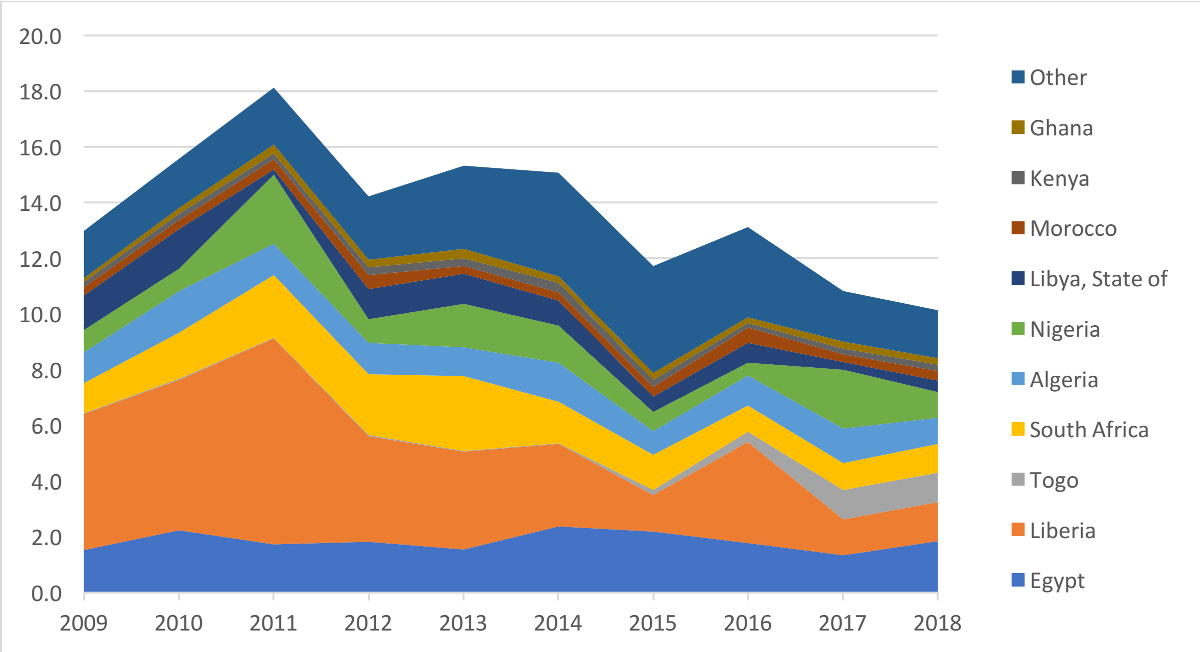
Korea's top five export markets in Africa is dominated by more industrialised economies such as Egypt (18.2%), South Africa (10.1%) and Algeria (9.4%), with the exception of Liberia (13.7%) and Togo (10.5%), which respectively imported ships and mineral fuels from Korea between 2016 – 2018, hence distorting the profile (Figure 10).

Figure 9 - ROK Exports - Africa ($ Billion)



Source: Author's Calculations, ITC Trademap, https://www.trademap.org/, accessed 5 July 2019.

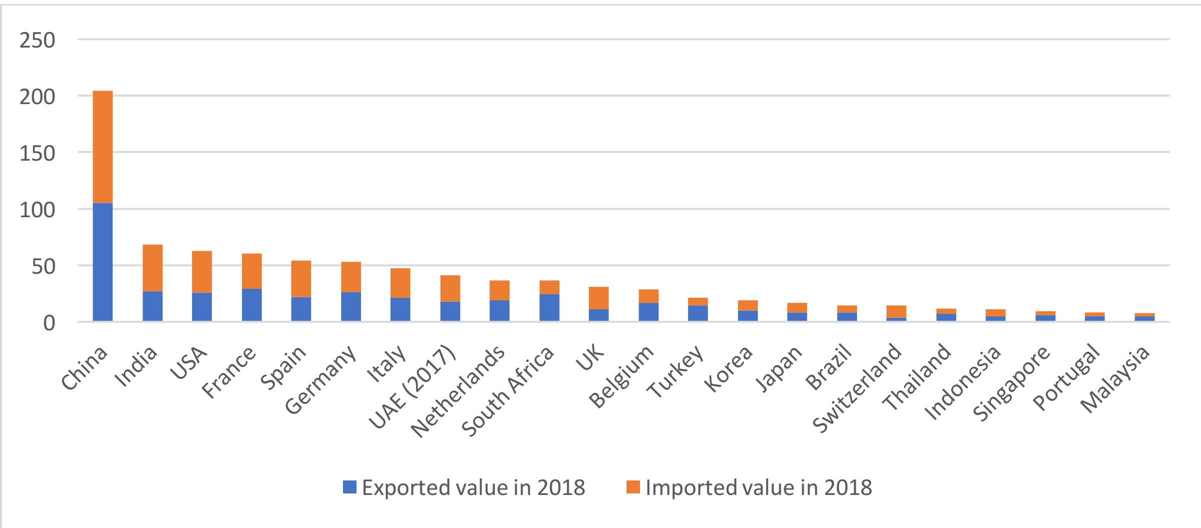
Figure 10 - ROK Exports - Top 10 African Countries ($ Billion)



Source: Author's Calculations, ITC Trademap, https://www.trademap.org/, accessed 5 July 2019.

Despite Korean exports to Africa representing less than 2% of Korean global exports, Korea remains an important trading partner for the continent. In terms of individual countries, it is the 14th biggest importer of African goods. Korea's total trade with the continent in 2018 exceeded other peers from Asia, including Japan, Thailand, Indonesia, Singapore and Malaysia, but fell significantly short of the continents' top trading partner, China (figure 11).

Figure 11 - Bilateral Trade with Africa - Select Countries (2018, $ Billion)

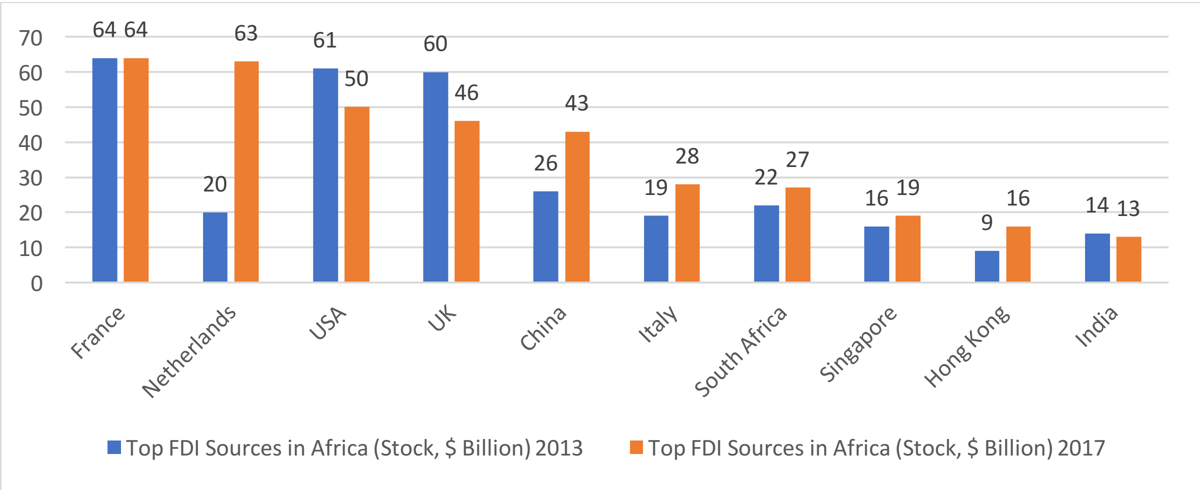


Source: Author's Calculations, ITC Trademap, https://www.trademap.org/, accessed 5 July 2019.

4.3. Foreign Direct Investment

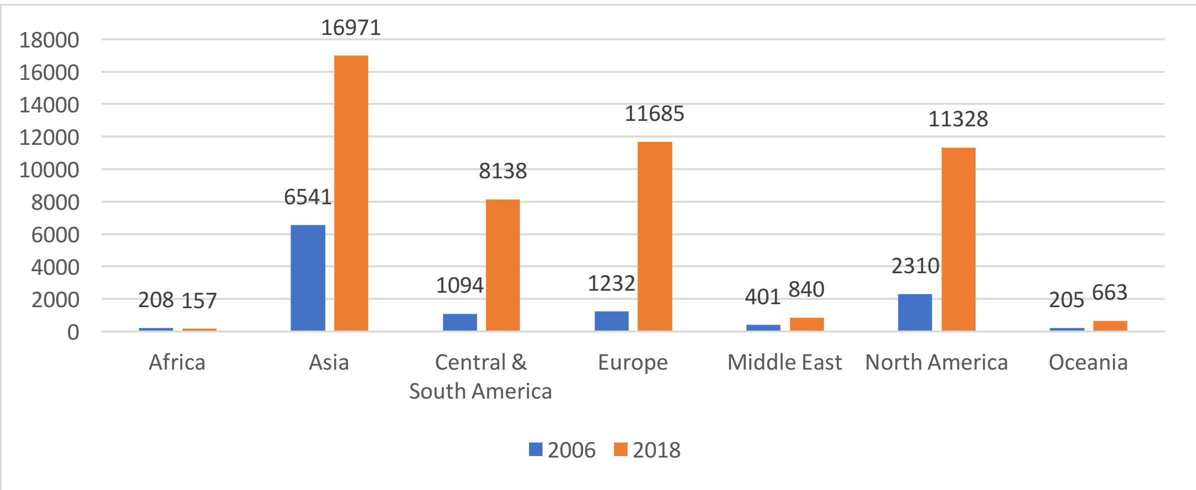
Compared to other key bilateral foreign direct investors in African markets, Korea does not compare favourably. In 2017, France, the Netherlands and the US each had at least $50 billion invested in various African markets. The UK and China each had more than $40 billion invested on the continent and Italy and South Africa's FDI contributions in Africa accounted for more than $20 billion each (figure 12). By contrast, South Korea's FDI in African markets was less than $0.2 billion in 2018. In the past Korea has been prioritising other markets notably in Asia, Europe and the Americas, which, combined, account for the bulk of Korean FDI (figure 13).

Figure 12 - Top FDI Sources in Africa (Stock, $ Billion)



Source: UNCTAD, 'World Investment Report 2019', https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2460, accessed 8 July 2019.

Figure 13 - ROK FDI - Global (2006 & 2018, $ million)

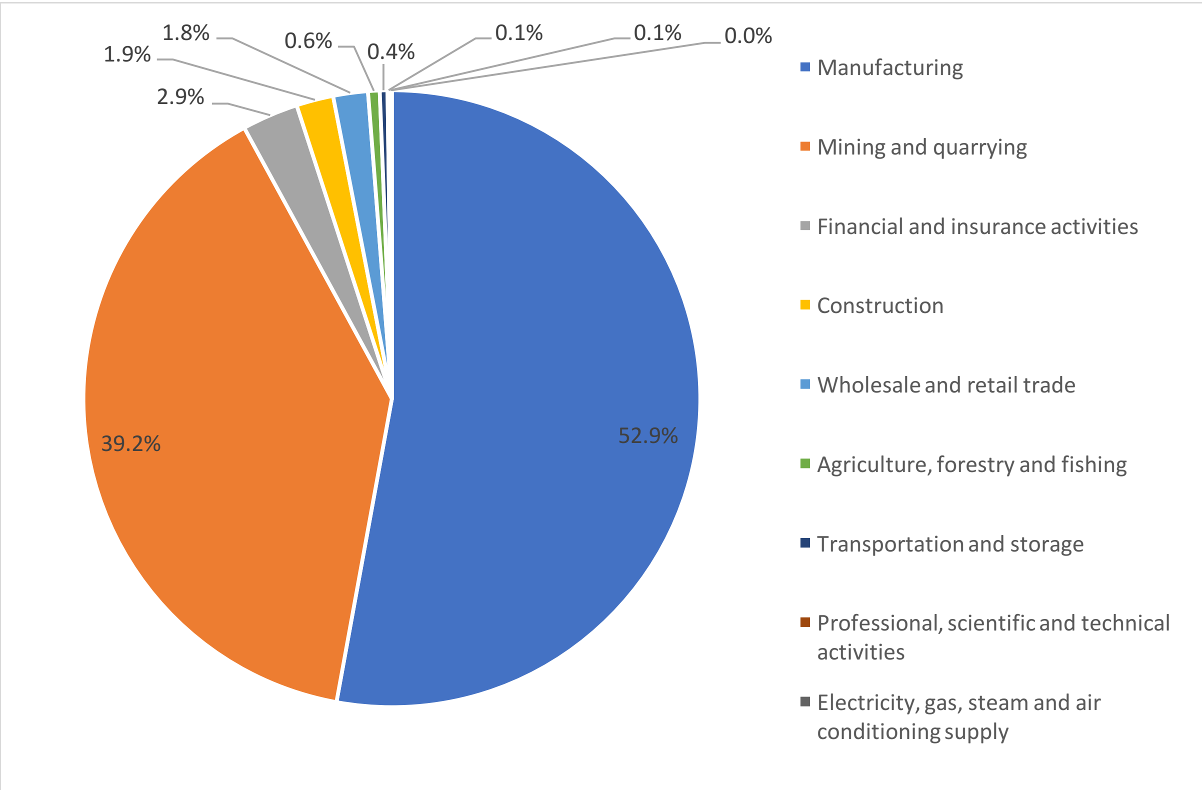


Source: Author's Calculations, Korea Eximbank, https://stats.koreaexim.go.kr/en/enMain.do, accessed 5 July 2019.

Korea's global FDI saw a massive uptick from 2006 to 2018- growing four-fold. Throughout the 1990s, Korea's FDI was largely dominated by exporting low-value manufacturing to other markets with cheaper labour. A boom in non-manufacturing FDI outflows in the 2000s was driven by the commodity boom, growth of GVCs and low interest rates throughout the 2000s leading to an increase in FDI in sectors such as mining, finance and real estate.

Within the continent, Korea's FDI throughout the 1990s was concentrated in the manufacturing sector with North-African countries, notably Algeria, Morocco and Egypt, being the biggest recipients thereof. As the shift throughout the 2000s towards mining, finance and real estate happened, Korean FDI was increasingly redirected to other African countries such as Nigeria, Mozambique, Mauritius and Ghana. In 2018, Korea's FDI in Africa was almost exclusively found in the manufacturing and mining and quarrying sectors which accounted for 52.9% and 39.2% of its total FDI respectively (figure 14). Again, Korea's strategic objectives in terms of securing markets for its manufactured goods and energy access are evident in its FDI allocation. Nevertheless, this is encouraging for African countries looking to gear up manufacturing and industrialisation, and it further highlights the positive role ROK can play in Africa's industrialisation efforts.

Figure 14 - ROK FDI in Africa - Sectors (2018)

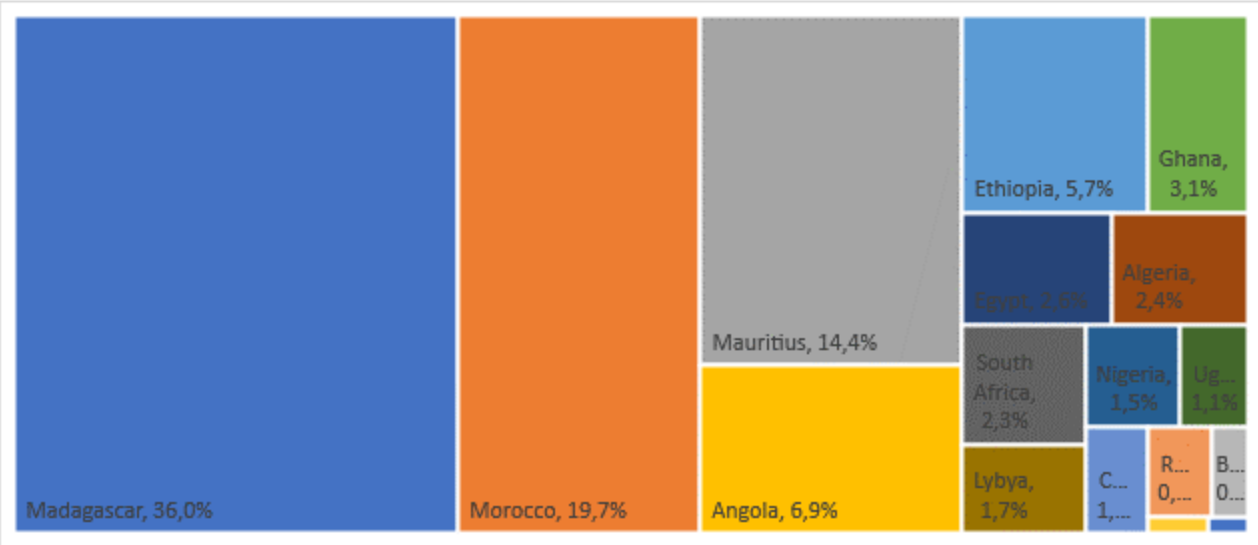


Source: Author's Calculations, Korea Eximbank, https://stats.koreaexim.go.kr/en/enMain.do, accessed 5 July 2019.

ROK's FDI stock decreased between 2006 and 2018. However, the number of countries Korea invested in increased from 17 in 2006 to 28 in 2018 signalling a diversification strategy. In 2018, the key markets for Korean FDI included Madagascar (36%, largely mining and quarrying), Morocco

(19.7%, manufacturing), Mauritius (14.4%, manufacturing and finance), Angola (6.9%, manufacturing) and Ethiopia (5.7%, manufacturing and retail trade) (figure 15).

Figure 15 - ROK FDI in Africa by Country (2018)



Source: Author's Calculations, Korea Eximbank, https://stats.koreaexim.go.kr/en/enMain.do, accessed 5 July 2019.

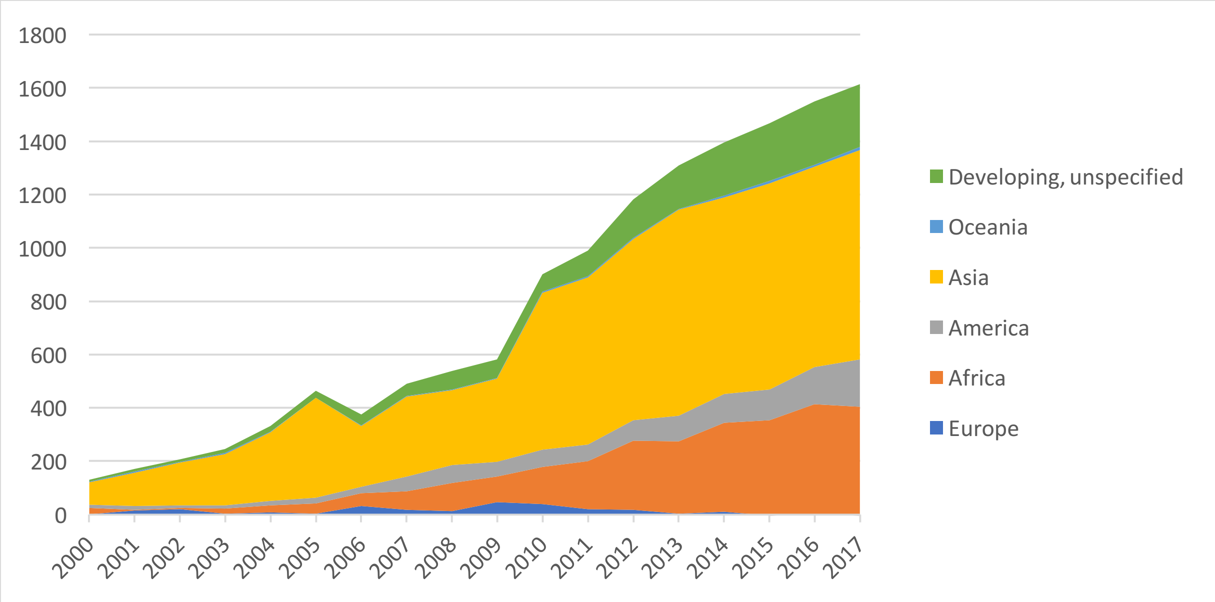
4.4. Official Development Assistance

Korea has, over the past decade, achieved enormous economic and development success. Much of this was owed to the official development assistance it received until the late 1990s.[71] It can use this recent economic growth experience, together with its status as an aid-giving country, to enhance its relations with African countries. Korea does not have a colonial history in Africa which positions it better compared to other actors in the continent, and it also has the experience of being a colony which resonates with African countries. Korea's success in overcoming its colonial past and achieving massive industrialisation could offer useful lessons to African countries.

Korea's entrance into the Organisation for Economic Co-operation and Development (OECD) in 2010 was an important milestone for its external posturing and as a provider of ODA. However, some of its former aid practices, such as tying aid (loans and grants), was critiqued under the OECD Development Assistance Committee (DAC). At the time of its entry into the OECD, only 33% of Korean aid was untied, compared to an average of 75% from other DAC development partners. Yet Korean businesses oppose untying of aid as such procurement benefit Korean firms. But this practice may not fare well with African countries who are increasingly being more assertive about seeking mutually beneficial development partners.[72]

Nevertheless, ROK has been a significant contributor of ODA to African countries. Korea's aid to African countries increased from $24 million in 2000 to $408 million in 2017, with a marked increase following its accession to the OECD in 2010 (figure 16). After Asia, African countries accounted for the largest share of Korean ODA in 2018, representing 25.3% of Korea's total ODA.

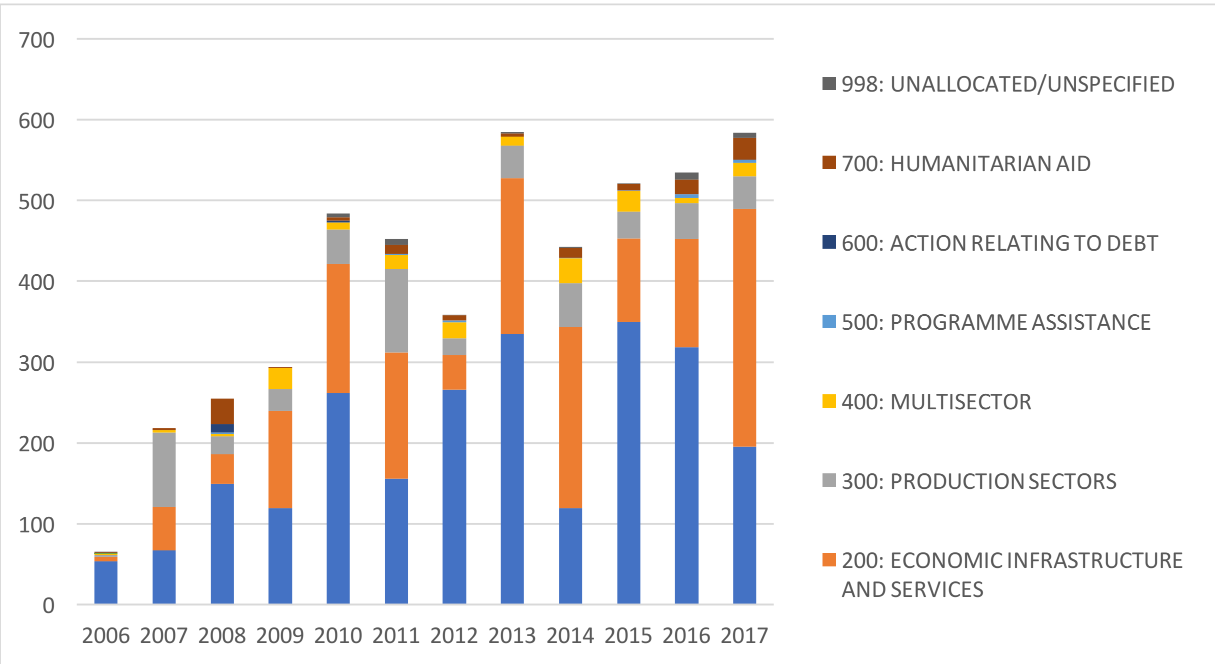
Figure 16 - ROK Official Development Assistance ($ million)



Source: Author's Calculations, OECD, https://stats.oecd.org/, accessed 5 July 2019.

Korean ODA to African countries is largely concentrated in two sectors: social infrastructure and economic infrastructure (figure 17). While social infrastructure has a broad ambit under the OECD DAC definition including education, health, water supply, sanitation and sewerage, ROK aid has been specifically concentrated in the education sub-sector. Likewise, economic infrastructure related aid under OCED DAC includes transport and storage, communications, energy, banking and financial services, and business services. The majority of ROK aid in African countries has been in the transport and communications sub-sectors.

Figure 17 - ROK ODA to Africa by Sector ($ Million)



Source: Author's Calculations, OECD, https://stats.oecd.org/, accessed 5 July 2019.

5. Opportunities for Korean Business and the AfCFTA

The African continent is booming with potential. How can the Korean government and business leverage its existing footprint in the continent, together with emerging opportunities such as the AfCFTA, to position itself to form part of the continent's prosperity? The following section unpacks several ways in which this can be done.

5.1. Appreciating the Changing Investment Environment

Over the past two decades increased African agency has shifted the relationship between the continent as a whole (e.g. through the African Union) as well as at a bilateral level with external partners. This increased agency is driven by a number of factors:

- increased institution building on the continent through formations such as the AU, the RECs and their respective institutions and programmes (e.g. AUDA-NEPAD, PIDA), and notably so through the AfCFTA;[73]
- Increased institutional and enforcement (legislative and regulatory) capacity of individual states;
- better macro-economic environment and greater peace and stability, despite external factors such as the commodity price crises; and
- through the enormous growth potential the continent holds, coming from a low growth base and combined with significant population growth and rapid urbanisation.

These are important considerations for investors coming into the African continent. Numerous investors and businesses interviewed for this study confirmed that African countries are no longer seeking investment at all costs. Increasingly investors are also expected to contribute positively to socio-economic development in the countries they want to operate/invest in. Such efforts take different forms across African countries, but can include provisions such as greater sourcing of local labour or domestic inputs, training of local staff, incorporating SMEs into value chains or setting up development funds for local economic development, among others.

Stakeholders interviewed for this study also confirmed that there is greater emphasis from African countries on legislative and regulatory compliance by all investors including both domestic and foreign companies. Examples cited include the repatriation of profits: historically foreign firms could employ 'market best practices' to repatriate profits. But increasingly, bolstered by increased institutional capacities across African countries, firms are expected to comply with all relevant local legislation. Despite governance challenges prevailing in many African countries, all investors are advised to steer clear of such practices that undermine basic governance principles and the rule of law. One American investor noted that whenever his firm looks to enter a new African country, he ensures there is clear diplomatic liaison on the specific project - i.e. arranging meetings between the investors, official American government representatives and their relevant country counterparts. Broadening the discussion on potential new investments limits the scope for unscrupulous businessmen or politicians to circumvent official processes and hence mitigates some risk for foreign firms.

For Korea, as a relatively new entrant to the African market, it is pertinent to remain abreast of the changing environment and sentiments on the continent. Recent Korean experiences on the continent – such as the failed Nigerian oil deal or Daewoo Logistics land-lease disaster in Madagascar – necessitate the need to appreciate and adjust to the business and political realities of the African continent.[74] Increasing Korea's public footprint on the continent, e.g. through embassies and consulates, or through establishing regional offices of state institutions (e.g. Korea Overseas Infrastructure and Urban Development Corporation office established in Kenya in July 2019), is crucial in this regard. In the absence of a physical footprint on the continent, ROK public entities can also rely on independent research institutions to advise on the changing trends and sentiments on the continent. But most important, at the forefront of Korea's interest in Africa must be genuine interest in the co-development of the continent guided by ethical business operations and mutually respectful political leadership.

5.2. Appreciating African Markets

Together with the changing business environment in African countries, foreign investors also need to appreciate the changing dynamics of African markets – the continent is after all made up of 54 different countries with drastically different demands, buying power, market segments, etc. This is also likely to drastically shift in the coming decade due to projected economic growth patterns, demographic shifts and rapid urbanisation. Therefore market information remains vital to all potential investors. There are both macro- and micro-dimensions of market appreciation. At a macro-level, it is important to understand what African countries export and trade. Intra-African trade is largely dominated by manufactured goods (figure 18). Up to 46.3% of intra-African exports consists of manufactured goods. This is ideal for many Korean manufacturing firms looking to establish themselves in an African market (e.g. South Africa, Kenya, Morocco, Egypt) to leverage the AfCFTA for further exporting into the rest of the continent. Increasingly, companies find it easier to set up business operations on the continent. Samsung is mooting a new factory in Kenya – rather than importing finished goods with high tariffs and logistics costs: – domestic assembly and labour is more cost-effective. Samsung applies a similar model in other African markets, including Egypt, Sudan, Senegal and Ethiopia. Importantly, the AfCFTA will allow firms following this strategy to avoid paying double import tariffs. Typically, foreign firms pay double duties on their goods: first when they import intermediate inputs into the manufacturing country, and secondly when they export said goods to another African country. Provided that the goods comply with the relevant RoO prescriptions, this second set of duties will not be applicable for 97% of goods under the AfCFTA as these goods will be zero-rated.

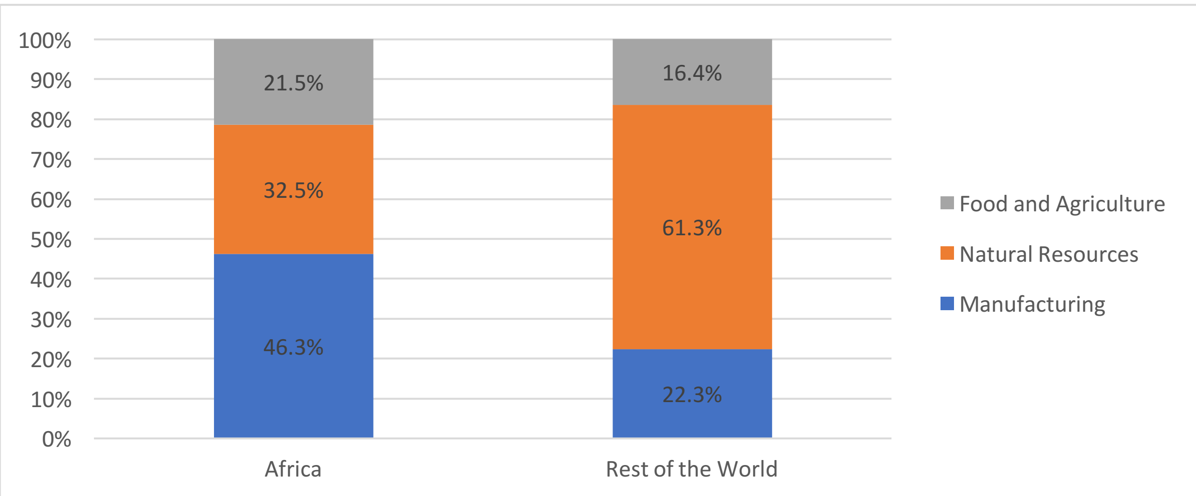


Figure 18 - Merchandise Exports by Product Classification, 2016

Source: UNCTAD, 'The AfCFTA: The Day After the Kigali Summit', https://unctad.org/en/PublicationsLibrary/presspb2018d4_en.pdf, accessed 8 July 2019

At a micro-level, some firms have made significant strides in tailoring their products to market specifications and demands. Transsion, a Chinese mobile phone maker, has gone to great lengths to understand and appreciate the domestic market and demand for their products – other firms looking to enter African markets should take note of this approach. Transsion set up market research centres in three prominent African markets – Nigeria, Kenya and Ethiopia. As a result, they designed internet-enabled mobile phones costing less than $20, but tailored for the local market with features such as dust-resistant screens, extensive battery life and multiple sim-card slots.[75] In 2017 Transsion overtook Samsung as the biggest mobile phone provider on the continent, representing 38% of continental market share over Samsung's 23%.[76]

Together with appreciating market conditions, brand-recognition is also important, especially for emerging Korean firms. Stakeholders interviewed for this study identified low brand recognition of Korean products as a key challenge for other Korean firms. While Korean firms such as LG, Samsung, Hyundai and Kia, among others, are trusted and reliable brands in many African markets, many consumers are unaware that these products are Korean in origin. Building a distinct brand and signification around 'Korean' products could help emerging and/or less established firms be recognised as providing high-quality goods or services.

5.3. Export Performance: Existing Exports

Korea, as the 12th biggest economy globally and a well-industrialised economy, is a prominent global exporter. It dominates the global export market in ships, boat and floating structures, representing 21.1% of the global export market in this product group (table 4). At the same time, it is a prominent global exporter of processed materials (lead, zinc, iron and steel, and organic chemicals), textiles and clothing (knitted and crocheted fabrics, man-made filaments, laminated fabrics and man-made fibre), and high-value manufactured goods (electrical machinery, and photographic and cinematographic goods) boasting between 5 – 10% global export market share in all these goods.

Table 4 illustrates Korea's share of global export markets vis-à-vis its export performance in African markets. The table also highlights Korea's key competitors across these goods in African markets, and the size of the export market in African countries (see full table for all commodities in Annex 3). It is clear that across a number of export groups (e.g. exports of ships, organic chemicals and vehicles), Korean firms are performing at above par levels relative to its global export share.

Korean exporters are however, underperforming across a number of commodities, which highlights the potential to increase exports of these goods. Yet, the size of African import markets also needs consideration. For example, Korean firms are underperforming in exports of lead goods (HS 78), but the market is relatively small ($88 million in 2018). Based on this analysis, Korean exports with room for growth in African markets include:

- HS'60 Knitted or crocheted fabrics;
- HS'54 Man-made filaments; strip and the like of man-made textile materials;
- HS'85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles;
- HS '72 Iron and steel;
- HS '55 Man-made staple fibres;
- HS '90 Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories
- HS '33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations.

Table 4 - Africa's Imports - Share of Select Markets (2018)

HS code	Product label	Total Imports (Value, $ million)	Share of African Imports – Select Markets									ROK % of Global Exports
			China	United States	European Union (28)	India	Japan	Thailand	Indonesia	Malaysia	ROK	
	All products	548550	17,16%	5,08%	32,37%	4,56%	1,81%	1,42%	0,89%	0,90%	2,48%	3,10%
'89	Ships, boats and floating structures	8799	12,44%	0,60%	9,73%	0,09%	13,16%	0,04%	0,01%	0,88%	54,74%	21,12%
'78	Lead and articles thereof	88	11,16%	0,64%	18,71%	0,71%	2,32%	0,01%	0,00%	0,01%	2,08%	9,63%
'60	Knitted or crocheted fabrics	1963	51,08%	0,16%	26,80%	1,83%	0,07%	0,19%	0,02%	0,00%	1,88%	9,53%
'79	Zinc and articles thereof	566	2,06%	0,35%	42,74%	8,35%	0,09%	0,00%	0,01%	0,80%	4,54%	8,91%
'54	Man-made filaments; strip and the like of man-made textile materials	3402	60,46%	0,54%	12,72%	7,82%	0,56%	0,67%	3,41%	0,52%	1,76%	6,20%
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	43042	40,95%	2,93%	30,45%	2,84%	0,93%	0,51%	0,18%	0,84%	1,87%	6,20%
'37	Photographic or cinematographic goods	249	16,36%	7,62%	48,33%	1,51%	15,62%	0,28%	0,00%	0,15%	0,22%	6,10%
'72	Iron and steel	16436	21,21%	2,04%	21,11%	3,16%	3,19%	0,10%	0,13%	0,32%	1,01%	5,70%
'59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	825	39,07%	1,51%	45,28%	2,97%	0,46%	0,45%	0,61%	0,11%	1,38%	5,43%
'39	Plastics and articles thereof	20113	18,84%	5,31%	30,26%	5,12%	0,62%	1,79%	0,26%	0,59%	3,61%	5,28%
'93	Arms and ammunition; parts and accessories thereof	236	0,79%	10,20%	38,65%	0,15%	0,00%	0,75%	0,00%	0,00%	2,18%	5,26%
'29	Organic chemicals	6467	23,76%	4,11%	30,66%	12,00%	0,90%	1,35%	1,38%	1,67%	6,00%	5,21%
'55	Man-made staple fibres	3500	42,69%	2,38%	22,41%	6,44%	4,16%	1,16%	2,49%	1,20%	2,33%	5,04%
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	8616	18,65%	11,27%	45,00%	2,55%	2,55%	0,50%	0,09%	0,81%	1,89%	4,54%
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	4382	4,51%	2,87%	49,51%	4,10%	0,06%	0,47%	1,06%	0,17%	0,06%	4,40%
'28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	5305	15,70%	4,15%	17,23%	3,94%	0,37%	0,42%	0,30%	0,21%	2,28%	4,02%
'40	Rubber and articles thereof	6433	33,65%	3,78%	25,96%	4,44%	5,07%	5,07%	2,00%	2,63%	1,90%	3,98%
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	39821	12,46%	6,40%	41,25%	7,48%	8,75%	2,60%	0,39%	0,06%	5,61%	3,96%
'82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	1800	37,25%	5,26%	33,41%	4,23%	0,49%	0,16%	0,03%	0,12%	1,00%	3,60%
'73	Articles of iron or steel	14183	31,44%	4,51%	32,15%	5,21%	1,20%	0,70%	0,19%	0,55%	1,17%	3,32%

Source: Author's Calculations, ITC Trademap, https://www.trademap.org/, accessed 5 July 2019.

5.4. Formalising Trade Arrangements

Over the past decade, the relationship between African countries and external counterparts have moved beyond aid to reciprocal trade agreements, signalling a shift from 'aid to trade'. The ongoing Economic Partnership Agreement negotiations between the EU and African regional groupings signifies this shifting approach.

The AfCFTA will enter into operation at this unique point of shifts in African external engagements with the rest of the world. It offers African countries an increased bargaining position vis-à-vis external partners. But it also potentially offers external partners the unique opportunity to negotiate a reciprocal trade deal with the continent, rather than regional blocs or individual countries. Already some partners, such as the US[77] and India[78], are contemplating formalising trade relations between themselves and African countries under the AfCFTA through a free trade area. The AfCFTA is still in its infancy, but the Korean government and policymakers should consider the potential of such an agreement.

5.5. Special Economic Zones

Special economic zones (SEZs) have proliferated in African countries (figure 19). There are 237 SEZs across 38 of the 54 economies on the continent. While Africa's larger economies – Nigeria, South Africa and Egypt – have well developed SEZs, many smaller economies have only recently established SEZs.[79]

Figure 19 – Special Economic Zones in Africa

Source: UNDP, 'Comparative Study on Special Economic Zones in Africa and China', https://www.undp.org/content/dam/china/docs/Publications/UNDP-CH-Comparative%20Study%20on%20SEZs%20in%20Africa%20and%20China%20-%20ENG.pdf, accessed 8 July 2019.

Typically, SEZs are geographical units within countries that offer investors various incentives ranging from reduced corporate taxes, employment incentives, customs benefits, and reduced import taxes.

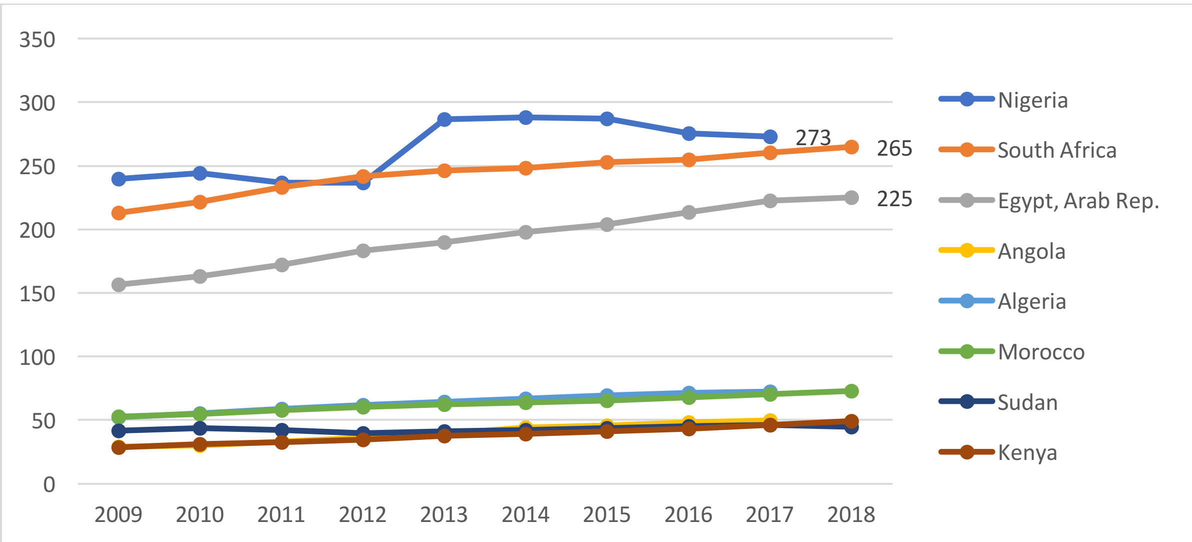
The aim of SEZs is to attract investment which will lead to increased domestic production, increased employment and the building of value chains with lead companies in other countries.

SEZs offer foreign investors an optimal option to leverage the AfCFTA: they offer significant incentives for investors to establish a presence in the respective country, while also providing access to regional and continental FTAs. Jushi Fibreglass Manufacturing, China's largest fibreglass manufacturer, located in Egypt's Suez Canal Economic Zone, highlights the potential of SEZs to leverage regional and continental FTAs, as well as the benefits for domestic economies. For Egypt, the SEZ has attracted numerous foreign firms, including Jushi Fibreglass Manufacturing, to the country. It has aided Egypt in becoming one of the largest producers and exporters of fibreglass globally. At the same time, the firm estimates that once the AfCFTA is operational, it would increase its imports from China to Egypt and the rest of the continent by 50%.[80]

5.6. Market Entry Points

It was established earlier that more developed African countries are likely to be more advantaged by the AfCFTA given their better developed industrial bases and infrastructure. However, other considerations are also pertinent. New foreign entrants to African markets are unlikely to start exporting immediately to other countries on the continent. Hence, the size and value of domestic markets are pertinent. Figure 20 highlights the biggest markets (measured by household expenditure) on the continent. Nigeria, South Africa and Egypt lead across the continent.

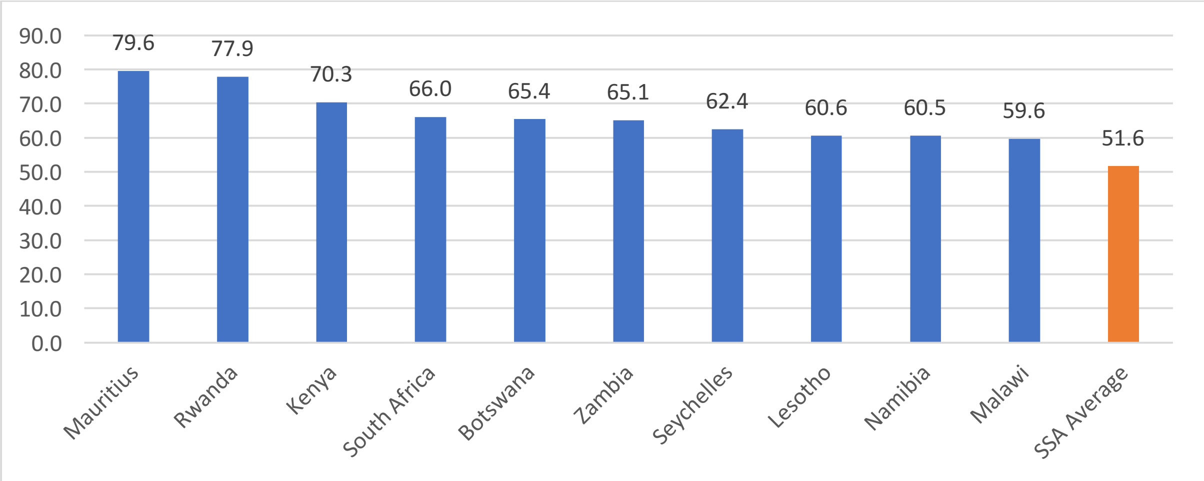
Figure 20 - Households Final Consumption Expenditure (constant 2010, US$ billion)



Source: Own Calculations, World Bank Databank, 'World Development Indicators', https://data.worldbank.org/, accessed 29 August 2019; Signe L, 'Africa's consumer market potential', https://www.brookings.edu/wp-content/uploads/2018/12/Africas-consumer-market-potential.pdf, accessed 29 August 2019.

However, market size alone is not the most important determinant for companies looking to invest. The ease of doing business in any particular market is also important. According to the World Bank's Doing Business Index, the following SSA markets are easiest to operate in: Mauritius, Rwanda, Kenya, South Africa, Botswana, Zambia, Seychelles, Lesotho, Namibia and Malawi. It is worth noting that eight out of ten of these countries are in Southern Africa implying that the region is less riskier to investors and better developed in terms of infrastructure.

Figure 21 - World Bank Doing Business Score - Top 10 SSA Countries (2019)



Source: World Bank, 'Doing Business 2019: Sub-Saharan Africa', https://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Regional/DB2019/SSA.pdf, accessed 29 August 2019.

A brief market analysis, combined with the Ease of Doing Business Index, offers clear indications of which markets are preferable for investors looking to engage the continent. While countries such as Nigeria and Egypt are appealing from a consumer market size perspective, their ease of doing business rankings/score are relatively low at 142/52.89 and 120/58.56 respectively. This does not compare favourable to that of South Africa (82/66.03). Likewise, while Mauritius and Rwanda might score high on the Ease of Doing Business Index, their individual domestic market size is very small.

5.7. Aid and Trade: Supporting the AfCFTA

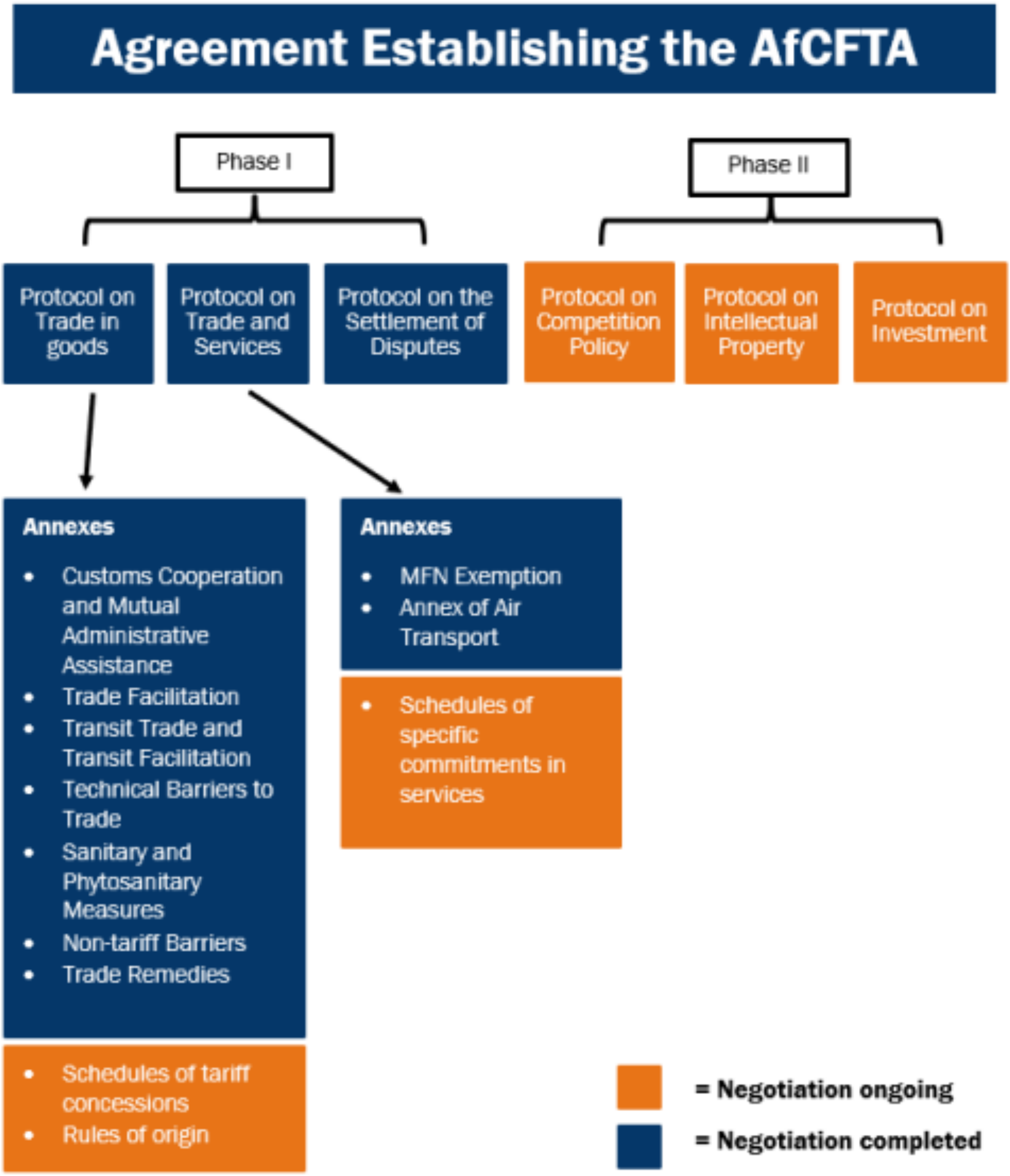
Korea is increasingly a valued development partner for African countries. As it scales up its ODA support in the continent, there are a number of areas where it can look to assist African countries at a bilateral level and at a continental level through the AU.

There is a significant shortage of infrastructure financing and development capacity on the continent. Lack of infrastructure is a considerable hindrance to economic development on the continent and increasing intra-regional trade between African countries. Historically, Korea has been a key supporter of economic and social infrastructure in African countries, which is welcomed. The most significant bottleneck in infrastructure development in African countries is especially at early-stage project development (commonly known as project preparation). Project bankability support, such as financial, technical, environmental and social feasibility studies, will greatly assist African countries in alleviating such bottlenecks.

With regards to AfCFTA implementation, it is expected that many African countries will find domestication of all AfCFTA legislation and procedures difficult due to limited technical and financial capacity. Supporting such 'aid for trade' initiatives will significantly aid in the roll-out and successful implementation of the AfCFTA. Already a number of development partners (such as UNECA and the International Trade Commission) have indicated their intention to support select African partners in this endeavour at a regional level (research commissioned in May 2019). But greater assistance will be required at national levels for various countries.

Korea has also made great strides in industrialisation over the past decades. This is a significant priority for African countries looking to address low to stagnant economic growth and domestic employment creation in their economies. Given its historical experience, Korea is uniquely positioned to support African SMEs in scaling up their operations. Providing support to small scale agro-processors can, for example be beneficial to both African countries and Korea and enhance economic relations between all partners.

Annex 1 – Status of AfCFTA Protocols and Annexes



Annex 2 – AfCFTA Country Designation

Non-Least Developed Countries	Least Developed Countries	Group of Six
Algeria	Angola	Ethiopia
Botswana	Benin	Madagascar
Cabo Verde	Burkina Faso	Malawi
Cameroon	Burundi	Sudan
Congo	Central African Republic	Zambia
Cote d'Ivoire	Chad	Zimbabwe
Egypt	Comoros	
Equatorial Guinea	Democratic Republic of Congo	
Eswatini	Djibouti	
Gabon	Eritrea	
Ghana	Gambia	
Kenya	Guinea	
Liberia	Guinea-Bissau	
Libya	Lesotho	
Mauritius	Mali	
Morocco	Mauritania	
Namibia	Mozambique	
Nigeria	Niger	
Seychelles	Rwanda	
South Africa	Sao Tome and Principe	
Tunisia	Senegal	
	Sierra Leone	
	Somalia	
	South Sudan	
	Tanzania	
	Togo	
	Uganda	
Source: Hartzenberg T, 'The African Continental Free Trade Area Agreement – what is expected of LDCs in terms of trade liberalisation?', https://www.un.org/ldcportal/afcfta-what-is-expected-of-ldcs-in-terms-of-trade-liberalisation-by-trudi-hartzenberg/, accessed 27 August 2019.		

Annex 3 – Africa’s Imports – Share of Select Markets (2018)

Africa's Imports - Share of Select Markets (2018)

HS code	Product label	Total Imports (Value, $ million)	China	United States	European Union (28)	India	Japan	Thailand	Indonesia	Malaysia	ROK	ROK % of Global Exports
	All products	548550	17,16%	5,08%	32,37%	4,56%	1,81%	1,42%	0,89%	0,90%	2,48%	3,10%
'89	Ships, boats and floating structures	8799	12,44%	0,60%	9,73%	0,09%	13,16%	0,04%	0,01%	0,88%	54,74%	21,12%
'78	Lead and articles thereof	88	11,16%	0,64%	18,71%	0,71%	2,32%	0,01%	0,00%	0,01%	2,08%	9,63%
'60	Knitted or crocheted fabrics	1963	51,08%	0,16%	26,80%	1,83%	0,07%	0,19%	0,02%	0,00%	1,88%	9,53%
'79	Zinc and articles thereof	566	2,06%	0,35%	42,74%	8,35%	0,09%	0,00%	0,01%	0,80%	4,54%	8,91%
'54	Man-made filaments; strip and the like of man-made textile materials	3402	60,46%	0,54%	12,72%	7,82%	0,56%	0,67%	3,41%	0,52%	1,76%	6,20%
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	43042	40,95%	2,93%	30,45%	2,84%	0,93%	0,51%	0,18%	0,84%	1,87%	6,20%
'37	Photographic or cinematographic goods	249	16,36%	7,62%	48,33%	1,51%	15,62%	0,28%	0,00%	0,15%	0,22%	6,10%
'72	Iron and steel	16436	21,21%	2,04%	21,11%	3,16%	3,19%	0,10%	0,13%	0,32%	1,01%	5,70%
'59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable ...	825	39,07%	1,51%	45,28%	2,97%	0,46%	0,45%	0,61%	0,11%	1,38%	5,43%
'39	Plastics and articles thereof	20113	18,84%	5,31%	30,26%	5,12%	0,62%	1,79%	0,26%	0,59%	3,61%	5,28%
'93	Arms and ammunition; parts and accessories thereof	236	0,79%	10,20%	38,65%	0,15%	0,00%	0,75%	0,00%	0,00%	2,18%	5,26%
'29	Organic chemicals	6467	23,76%	4,11%	30,66%	12,00%	0,90%	1,35%	1,38%	1,67%	6,00%	5,21%
'55	Man-made staple fibres	3500	42,69%	2,38%	22,41%	6,44%	4,16%	1,16%	2,49%	1,20%	2,33%	5,04%
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	8616	18,65%	11,27%	45,00%	2,55%	2,55%	0,50%	0,09%	0,81%	1,89%	4,54%
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	4382	4,51%	2,87%	49,51%	4,10%	0,06%	0,47%	1,06%	0,17%	0,06%	4,40%
'28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	5305	15,70%	4,15%	17,23%	3,94%	0,37%	0,42%	0,30%	0,21%	2,28%	4,02%
'40	Rubber and articles thereof	6433	33,65%	3,78%	25,96%	4,44%	5,07%	5,07%	2,00%	2,63%	1,90%	3,98%
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	39821	12,46%	6,40%	41,25%	7,48%	8,75%	2,60%	0,39%	0,06%	5,61%	3,96%
'82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	1800	37,25%	5,26%	33,41%	4,23%	0,49%	0,16%	0,03%	0,12%	1,00%	3,60%
'73	Articles of iron or steel	14183	31,44%	4,51%	32,15%	5,21%	1,20%	0,70%	0,19%	0,55%	1,17%	3,32%
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	59075	25,11%	6,41%	42,48%	3,28%	2,64%	0,98%	0,28%	0,63%	1,85%	3,32%
'58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	836	43,78%	0,21%	30,05%	6,26%	0,45%	5,03%	0,09%	0,01%	0,39%	3,03%
'74	Copper and articles thereof	3052	5,00%	0,36%	58,58%	0,88%	0,04%	0,30%	0,01%	0,27%	0,74%	2,98%
'56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	1092	24,19%	1,08%	35,02%	3,48%	0,24%	0,60%	0,42%	0,09%	1,01%	2,97%
'32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	3026	13,76%	3,33%	45,21%	8,26%	1,35%	0,42%	0,41%	0,31%	1,31%	2,76%
'50	Silk	63	18,28%	0,04%	74,29%	0,80%	0,00%	0,11%	0,02%	0,00%	0,43%	2,46%
'70	Glass and glassware	2007	39,40%	2,04%	26,79%	4,20%	0,42%	0,50%	0,52%	0,25%	0,15%	2,30%
'83	Miscellaneous articles of base metal	2184	39,60%	2,22%	34,42%	3,05%	0,41%	0,84%	0,15%	0,37%	0,68%	2,30%

'41	Raw hides and skins (other than furskins) and leather	454	2,60%	0,60%	72,55%	3,55%	0,00%	0,09%	0,03%	0,01%	0,13%	2,25%
'38	Miscellaneous chemical products	8018	19,83%	9,25%	41,80%	5,73%	1,29%	0,48%	0,75%	1,03%	1,39%	2,16%
'24	Tobacco and manufactured tobacco substitutes	2062	2,11%	0,87%	21,32%	4,21%	0,00%	0,20%	0,24%	0,00%	1,18%	2,15%
'35	Albuminoidal substances; modified starches; glues; enzymes	920	15,50%	6,16%	53,05%	2,17%	0,37%	2,15%	0,61%	0,39%	0,42%	1,94%
'76	Aluminium and articles thereof	4680	28,75%	0,63%	32,99%	3,38%	0,14%	0,44%	0,17%	0,59%	1,15%	1,86%
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	7711	9,63%	3,20%	47,09%	4,95%	0,19%	0,89%	4,76%	0,19%	1,25%	1,86%
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	90108	1,55%	4,88%	32,75%	3,91%	0,02%	0,01%	0,06%	0,46%	2,02%	1,86%
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	2648	11,54%	3,38%	34,72%	2,22%	0,09%	0,48%	6,08%	3,38%	1,18%	1,79%
'21	Miscellaneous edible preparations	2892	7,39%	5,96%	45,81%	2,42%	0,07%	0,92%	3,28%	0,96%	0,57%	1,77%
'68	Articles of stone, plaster, cement, asbestos, mica or similar materials	1524	30,75%	1,52%	38,37%	6,17%	1,66%	1,02%	0,28%	0,42%	0,35%	1,66%
'92	Musical instruments; parts and accessories of such articles	53	48,90%	5,43%	23,17%	0,63%	2,24%	0,12%	6,55%	0,84%	0,50%	1,64%
'65	Headgear and parts thereof	216	69,30%	1,90%	10,97%	2,59%	0,31%	0,22%	0,22%	0,09%	0,44%	1,47%
'19	Preparations of cereals, flour, starch or milk; pastrycooks' products	3122	3,59%	1,67%	49,46%	2,67%	0,00%	0,39%	0,35%	4,62%	0,09%	1,43%
'81	Other base metals; cermets; articles thereof	124	32,48%	8,69%	44,22%	0,43%	0,06%	0,00%	0,00%	0,01%	2,41%	1,36%
'13	Lac; gums, resins and other vegetable saps and extracts	170	7,65%	6,62%	49,71%	7,25%	0,04%	0,18%	1,32%	0,07%	0,20%	1,28%
'96	Miscellaneous manufactured articles	2816	44,76%	2,83%	27,46%	2,07%	0,85%	0,37%	0,28%	0,51%	0,26%	1,19%
'03	Fish and crustaceans, molluscs and other aquatic invertebrates	4029	9,07%	1,21%	24,26%	2,12%	4,41%	0,15%	0,27%	0,23%	0,70%	1,18%
'86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	1242	22,47%	13,59%	51,42%	0,81%	0,60%	0,16%	0,01%	0,03%	0,12%	1,05%
'88	Aircraft, spacecraft, and parts thereof	6126	9,45%	43,29%	37,69%	0,43%	0,07%	0,00%	0,00%	0,05%	0,00%	1,03%
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	3013	31,59%	3,97%	25,50%	9,34%	0,25%	0,47%	0,19%	0,42%	1,21%	0,93%
'67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	569	84,47%	0,26%	0,53%	1,68%	1,42%	0,01%	0,38%	0,19%	0,13%	0,86%
'52	Cotton	4642	39,44%	2,40%	21,83%	14,58%	0,05%	0,22%	0,31%	0,12%	0,07%	0,83%
'80	Tin and articles thereof	42	15,09%	0,09%	36,36%	2,64%	0,40%	0,36%	2,29%	19,18%	6,89%	0,81%
'17	Sugars and sugar confectionery	5554	2,26%	0,23%	12,88%	9,16%	0,00%	2,64%	0,12%	0,04%	0,01%	0,80%
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	4356	2,62%	2,31%	20,73%	1,69%	0,54%	1,28%	0,49%	0,08%	0,20%	0,79%
'05	Products of animal origin, not elsewhere specified or included	385	23,19%	5,32%	33,04%	0,43%	1,60%	0,02%	0,01%	0,00%	0,09%	0,79%
'69	Ceramic products	3137	44,68%	2,81%	31,53%	5,98%	1,21%	0,18%	1,15%	0,30%	0,18%	0,77%
'22	Beverages, spirits and vinegar	2879	0,51%	4,67%	51,63%	2,87%	0,04%	0,81%	0,07%	0,14%	0,23%	0,71%
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	5010	43,41%	1,81%	30,78%	1,23%	0,24%	0,89%	0,47%	1,58%	0,42%	0,71%
'49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	2613	3,69%	2,72%	54,11%	6,16%	0,09%	0,04%	0,04%	2,40%	0,51%	0,64%
'31	Fertilisers	3562	4,92%	0,70%	17,32%	0,41%	0,00%	0,11%	0,04%	0,64%	0,16%	0,55%
'30	Pharmaceutical products	14957	4,63%	4,12%	53,27%	19,42%	0,61%	0,08%	0,14%	0,07%	0,63%	0,55%
'36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	391	7,44%	7,92%	24,26%	9,91%	0,00%	0,00%	2,21%	0,03%	0,05%	0,50%
'16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	1265	14,59%	0,10%	15,97%	0,78%	0,38%	33,13%	2,05%	0,42%	0,01%	0,50%
'51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	446	20,51%	2,15%	48,83%	1,12%	0,03%	0,00%	0,01%	0,00%	0,05%	0,48%
'62	Articles of apparel and clothing accessories, not knitted or crocheted	4351	54,25%	0,28%	10,70%	5,58%	0,65%	0,24%	1,02%	0,02%	0,05%	0,48%
'75	Nickel and articles thereof	59	3,58%	8,77%	52,35%	2,38%	1,31%	0,05%	0,00%	0,07%	0,15%	0,47%

'71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	3964	2,42%	1,26%	17,07%	4,29%	0,29%	0,72%	0,03%	0,02%	0,03%	0,44%
'97	Works of art, collectors' pieces and antiques	89	5,05%	15,65%	28,28%	0,74%	0,38%	0,04%	0,12%	0,19%	0,00%	0,43%
'20	Preparations of vegetables, fruit, nuts or other parts of plants	1531	21,15%	1,22%	35,83%	2,05%	0,02%	2,05%	0,08%	0,13%	0,04%	0,42%
'43	Furskins and artificial fur; manufactures thereof	8	11,30%	0,69%	69,70%	1,30%	0,00%	0,00%	0,00%	0,00%	0,01%	0,41%
'61	Articles of apparel and clothing accessories, knitted or crocheted	3454	59,44%	0,21%	7,25%	3,84%	0,01%	0,26%	0,63%	0,05%	0,11%	0,40%
'12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	2817	6,10%	50,63%	9,28%	2,46%	0,04%	0,66%	0,08%	0,01%	0,04%	0,37%
'42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles ...	1229	69,95%	0,82%	18,27%	1,55%	0,01%	0,14%	0,58%	0,02%	0,19%	0,37%
'64	Footwear, gaiters and the like; parts of such articles	3768	65,41%	0,32%	10,81%	4,43%	0,00%	0,54%	1,72%	0,07%	0,02%	0,35%
'95	Toys, games and sports requisites; parts and accessories thereof	1184	63,24%	6,56%	15,88%	1,22%	0,63%	0,72%	0,53%	0,27%	0,38%	0,34%
'53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	231	32,79%	0,86%	25,83%	6,29%	2,31%	0,03%	0,00%	0,00%	2,01%	0,30%
'07	Edible vegetables and certain roots and tubers	2129	4,50%	3,13%	36,99%	4,41%	0,09%	0,03%	0,00%	0,02%	0,00%	0,28%
'47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or ...	706	1,59%	39,34%	25,00%	0,07%	0,05%	0,02%	3,00%	0,00%	0,11%	0,25%
'23	Residues and waste from the food industries; prepared animal fodder	3305	1,65%	16,10%	22,40%	1,01%	0,01%	0,10%	0,04%	0,31%	0,11%	0,23%
'57	Carpets and other textile floor coverings	426	12,29%	0,50%	16,47%	4,35%	0,07%	0,12%	0,60%	0,01%	0,05%	0,23%
'11	Products of the milling industry; malt; starches; inulin; wheat gluten	1704	1,07%	1,02%	37,69%	1,36%	0,01%	0,52%	0,00%	0,16%	0,00%	0,20%
'91	Clocks and watches and parts thereof	347	31,82%	1,02%	17,24%	0,93%	0,30%	0,20%	0,11%	0,10%	0,20%	0,17%
'08	Edible fruit and nuts; peel of citrus fruit or melons	1535	0,55%	6,34%	25,21%	1,14%	0,00%	0,12%	1,26%	0,13%	0,00%	0,15%
'26	Ores, slag and ash	3137	0,81%	0,07%	7,59%	0,55%	0,90%	0,14%	0,02%	0,01%	0,00%	0,15%
'18	Cocoa and cocoa preparations	803	1,00%	0,43%	47,29%	1,25%	0,00%	0,03%	2,96%	5,36%	0,00%	0,13%
'66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof	90	86,43%	0,12%	5,06%	0,32%	0,01%	0,03%	0,10%	0,03%	0,01%	0,10%
'06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	206	3,21%	2,81%	74,52%	0,63%	0,00%	0,28%	0,30%	0,25%	0,00%	0,10%
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	8181	0,20%	1,92%	13,85%	0,19%	0,00%	0,26%	30,06%	24,55%	0,00%	0,09%
'46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	26	25,64%	0,07%	21,97%	8,61%	0,02%	0,06%	3,15%	0,00%	0,00%	0,06%
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	4554	0,25%	1,63%	47,21%	1,34%	0,00%	0,03%	0,09%	2,30%	0,00%	0,06%
'44	Wood and articles of wood; wood charcoal	4343	11,85%	1,46%	51,23%	0,27%	0,00%	1,14%	1,58%	1,71%	0,01%	0,06%
'09	Coffee, tea, maté and spices	2170	26,20%	0,10%	4,62%	9,03%	0,06%	0,12%	4,56%	0,09%	0,01%	0,05%
'10	Cereals	21435	2,18%	6,06%	15,45%	8,34%	0,08%	10,81%	0,00%	0,03%	0,06%	0,04%
'02	Meat and edible meat offal	4686	0,03%	16,32%	22,43%	6,08%	0,00%	0,18%	0,00%	0,00%	0,00%	0,03%
'45	Cork and articles of cork	22	3,51%	0,56%	80,87%	0,95%	0,19%	0,01%	0,00%	0,04%	0,26%	0,02%
'01	Live animals	1188	0,00%	1,30%	60,60%	0,00%	0,07%	0,00%	0,00%	0,00%	0,00%	0,01%
'14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	15	16,79%	0,87%	18,25%	8,81%	0,03%	0,05%	0,34%	4,74%	0,00%	0,01%
'99	Commodities not elsewhere specified	15908	2,05%	3,69%	30,81%	0,54%	5,55%	8,04%	0,11%	0,20%	0,13%	0,00%

Source: Author's Calculations, ITC Trademap, https://www.trademap.org/, accessed 5 July 2019.

[1] The AU consists of 55 member states, but is made up of 54 sovereign nations. Western Sahara is recognised as a member state of the AU, but not globally recognised as a sovereign nation

[2] The eight RECs are: Arab Maghreb Union (UMA); Common Market for Eastern and Southern Africa (COMESA); Community of Sahel-Saharan States (CEN-SAD); East African Community (EAC); Economic Community of Central African States (ECCAS); Economic Community of West African States (ECOWAS); Intergovernmental Authority on Development (IGAD); Southern African Development Community (SADC)

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