

Developments in Africa's Free Trade Area: Opportunities for Korean investors

South African Institute of
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For: Korea- Africa
Foundation



Introduction – Objectives

- African Continental Free Trade Area (AfCFTA) objective is to increase both intra-African trade and trade with the rest of the world.
- Negotiations over eight protocols are scheduled over three phases, with ‘trade in goods’ at an advanced stage.
- Structure of presentation
 1. African macroeconomic environment
 2. Progress in the implementation of the AfCFTA
 3. Identifies potential opportunities for Korean businesses in this process
 4. Policy Implications for the Korean government

Current Composition of Africa's Trade

Table 1: Composition of African goods trade by stage of processing, 2019 (current US\$)

Product group	Export (\$ billion)	Export product share (%)	Import (\$ billion)	Import product share (%)
All products	241.36	100	253.40	100
Capital goods	16.13	6.7	69.68	27.5
Consumer goods	41.21	17.1	94.93	37.5
Intermediate goods	78.31	32.4	52.03	20.5
Raw materials	105.33	43.6	28.43	11.2

Source: Compiled by authors, based on data from World Bank “World Integrated Trade Solutions” June 2022.

Introduction – Potential of AfCFTA (2021-2035)

% increase by 2035 from partial and full liberalisation schedules	UNCTAD (2018) Annual %	World Bank (2020) Total %
GDP	0.66% - 0.97%	
Employment	0.82% to 1.17%	
(Total) exports	1.9% to 2.5%	29%
(Intra-African) exports	24.2% to 32.8%	81%
(Rest of World) exports		19%

- Some countries see per capita income gains of up to 7% (Côte d'Ivoire and Zimbabwe); but only 2% for Madagascar, Malawi and Mozambique.

Progress in AfCFTA Implementation – Trade in Goods

- Protocol on Trade in Goods (PTiG) offers a horizon to 2035 of:
 1. phased reduction of intra-African tariffs and removal of quotas,
 2. standardisation or harmonisation of origination, SPS, TBTs,
 3. reporting of other NTBs such as state monopoly rights and subsidies,
 4. non-discrimination in interim imposition of customs and excise.
- Rules of origination agreed on 87% of product lines, **but textiles and automobiles are contentious.**

Progress in AfCFTA implementation – Trade in goods

Table 1: Comparison of AfCFTA trade in goods tariff offers (2022)

ECOWAS			EAC		SACU		CEMAC	
Categories	CET rates	% of product lines	CET rates	% of product lines	CET rates	% of product lines	CET rates	% of product lines
Essential social goods	0%	43% of 90%	0%	47% of 71%	0%	55% of 90%	5%	5% of 100%
Raw materials & capital goods	5%		10%	24% of 71%	10%	12% of 90%	10%	48% of 100%
Intermediate goods	10%	57% of 90%	25%	29% of 71%	15%	11% of 90%	20%	12% of 100%
Finished products	20%		35%	0% of 29%	20%	10% of 90%	30%	35% of 100%
Specific goods for economic development	35%				25%	4% of 90%		
					30%	3% of 90%		
					37%	0% of 90%		
					40%	1% of 90%		
					45%	3% of 90%		

Source: Trade Law Centre, “AfCFTA tariff negotiations”, Factsheet 7, July 2021

Progress in AfCFTA Implementation – Trade in Services

- With the strongly services-reliant economy of South Africa at its core (70% of GDP), SADC pioneered the protocol.
- The protocol came into effect in Jan 2022 once 2/3 of members had submitted their instruments of ratification. ECOWAS and EAC have also submitted schedules of commitments for AfCFTA.

Least restrictive			Presence of commercial enterprise or natural person		Most restrictive		
DR Congo	Tourism	Energy	Construction	Transport	Finance	Communications	Lesotho

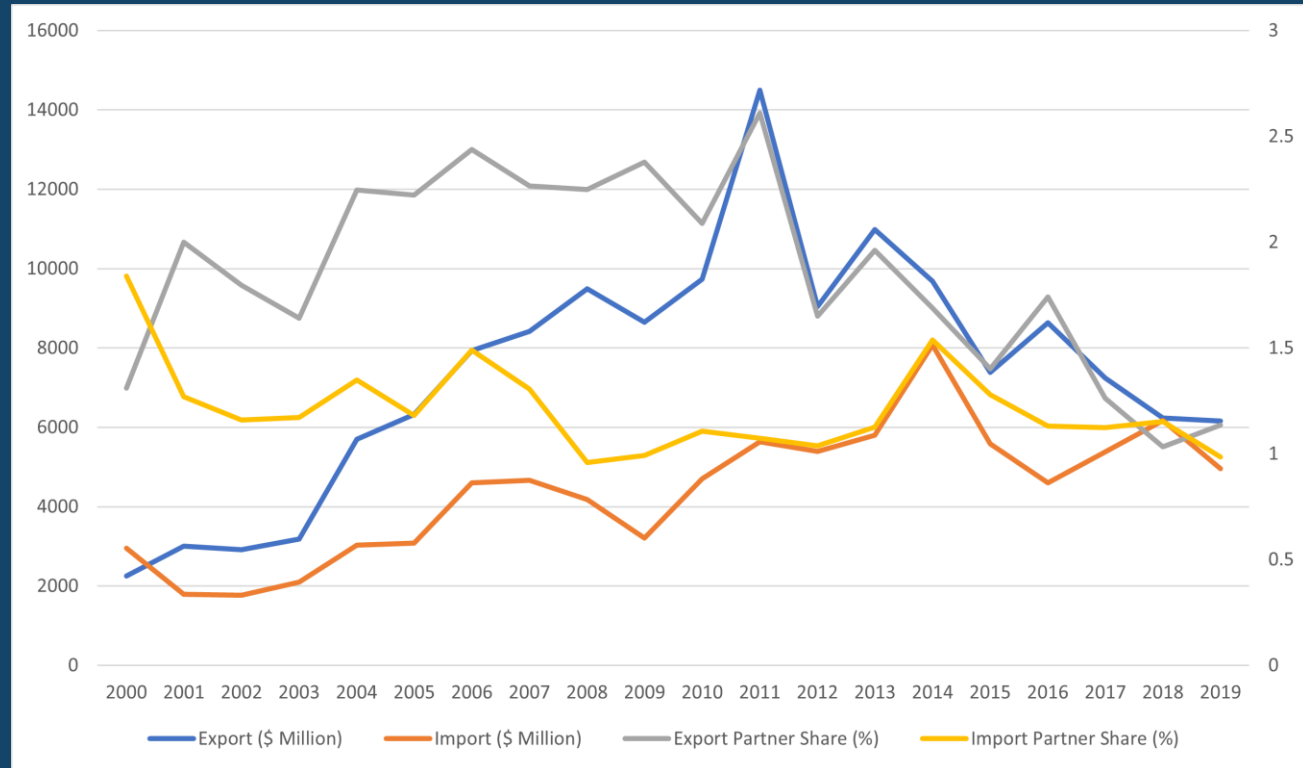
Progress in AfCFTA Implementation – Digital Trade

- Six African nations participate in the Joint Statement Initiative (JSI) on e-commerce. South Africa, the African Group and India oppose the plurilateral approach which marginalises less digitally capacitated nations.
- The JSI members agree not to impose **customs duties on digital** goods and services.
- US-, EU- or China-led free trade agreements vs national states on **data localisation**

Korea–Africa Trade – Trends (2000-2019)

- Diminishing role of Korea-African trade?
- In 2019 Korea's exports to Africa represented only 1.1% of its total exports

Korea's exports to and imports from Africa (2000-2019)



Korea–Africa trade: Goods traded

Korean exports to and imports from Africa by type of goods (2019)

	Export (\$ million)	Import (\$ million)
Capital goods	2 724.3	54.4
Consumer goods	2 198.5	667.5
Intermediate goods	1 185.4	1 474.8
Raw materials	45.2	2 761.0
All products	6 153.9	4 958.0

Source: World Integrated Trade Solutions

Korean exports to Africa (Top ten goods) - ICT Trade Map

	2019	2020	2021
Water vessels	1,773,192	2,137,157	4,477,751
Vehicles	1,745,604	1,054,727	1,482,466
Plastics	746,778	796,376	1,274,156
Mineral fuels & oil products	1,715,901	948,597	864,397
Machinery	959,948	682,184	831,046
Electrical machinery	713,134	466,856	512,390
Pharmaceutical products	158,531	276,764	340,512
Locomotives, rolling stocks	73,886	90,766	283,304
Organic chemicals	254,952	199,049	255,405
Iron and steel	186,285	230,648	230,210
All products	9,743,536	8,094,002	11,967,981

Enhancing Korea–Africa Trade – AfCFTA Potential

1. leveraging the industrialization effects of the AfCFTA in Africa

- Under the AfCFTA, manufacturing exports projected to increase by up to 62%.
- Manufacturing boom under AfCFTA will stimulate demand for construction, energy, ICT, e.tc.
- Korean firms should play a big part, leveraging experience from HCI drive.

2. Enhancing current export products/the right value chains

- With AfCFTA, Africa's demand of capital goods is bound to increase
- Korean firms can leverage their existing market share and expand
- E.g. Automotives have high potential in Africa (increased demand, and low-cost intermediary production) - OECD
- KIA, Hyundai e.tc., should take advantage

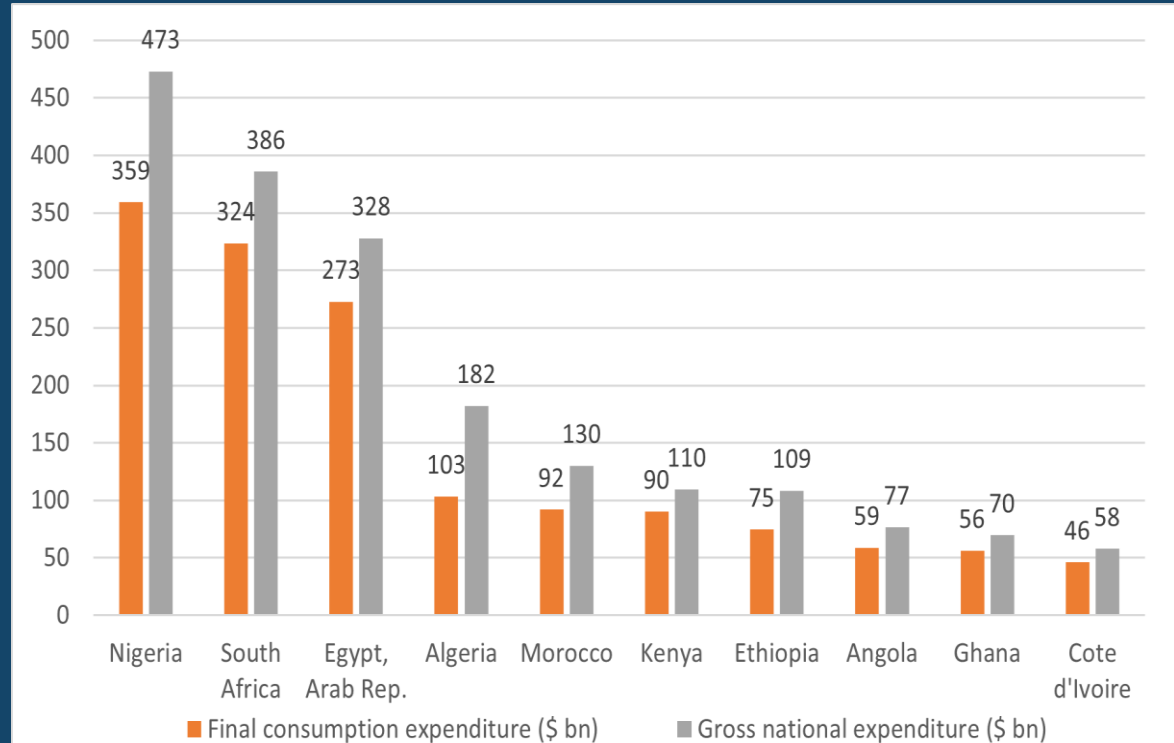
Korea's share in African imports (%) - ICT Trade map

Product	2019	2020	2021
Water vessels	14.8	22.2	38.5
Vehicles	3.9	2.8	3.6
Plastics	3.4	3.8	5.0
Mineral fuels & oil products	2.1	1.6	1.0
Machinery	1.5	1.2	1.4
Electrical machinery	1.6	1.2	1.2
Pharmaceutical products	0.9	1.5	1.6
Locomotives, rolling stocks	5.9	6.9	19.5
Organic chemicals	3.8	3.2	3.5
Iron and steel	1.1	1.6	1.3
All products	1.7	1.6	2.0

5. Choosing market entry points and formalising trade agreements

- Currently, Korea has 17 trade agreements, none of which involves an African country
- AfCFTA offers the opportunity to negotiate trade deals with the continent
- Nigeria, South Africa and Egypt could be good entry points

Africa's biggest markets (2019) - WDI data



Policy Implications for the Korean Government

- Consider a symbiotic relationship with China inasmuch as there are synergies between its specialisation in transport equipment and China's investment in African transport infrastructure.
- Tariff concessions on beneficiated minerals will help Africa's with value addition to commodities
- Economic partnerships with African countries or RECs should include institutional and human capacity-building initiatives, and preferred supplier arrangements.