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

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# Abstract

Korea's export trade with Africa declined during the 2010s, although growth in its shipping, locomotive and automotive exports in the early 2020s has been encouraging. Korean imports of African raw minerals and fuel rose over most of the 2010s, while growth has been slower than average since the commodity price shocks of 2015. The Korean government and investors are thus interested in the opportunities the African Continental Free Trade Area (AfCFTA) offers for trade links and economic partnerships.

Shipping and the locomotive sector have benefitted from Africa's manufacturing boom and mainly Chinese investments in infrastructure and energy, including renewables. Africa's industrialisation strategies seek to move beyond commodity production and trade into beneficiation, and move backwards from assembly in special economic zones (SEZs) to the domestic/regional production of intermediate goods. While Korea is likely to maintain its competitive advantage in capital goods, it should develop economic partnerships with African regional economic communities (RECs) that capacitate domestic suppliers of component parts and beneficiate mining inputs into the automotive industry. This remains the case whether Korean investments in Africa's automotive industry are carbon-, electric- or hydrogen-fuelled.

Economic partnerships with African countries or RECs should include institutional and human capacity-building initiatives, development of regional value chains through preferred supplier arrangements, and asymmetric trade liberalisation schedules. In the latter, advanced country partners offer lower rates and shorter schedules on import tariff and non-tariff barrier reduction, while accepting higher rates and longer schedules for lesser developed partners. Such liberalisation should not be on more favourable terms than that offered on intra-African trade under the AfCFTA. Issues of particular concern to the African automobile industry – eg, the harmonisation of SEZ concessions and cumulative origination of African value added – remain unresolved, hampering the conclusion of AfCFTA's Protocol in Trade in Goods.

Areas in which Korea lacks a competitive advantage are infrastructure and energy provision, including component parts (Chinese); intermediate goods such as textiles and plastics; and household consumer items, including electronics and pharmaceuticals (Indian, Chinese and African). Korean exporters should rather look for complementary and specialised niche products and services (such as manufacturing repairs, concessional industrial financing and technical education) for future collaboration.

# Introduction

## Background and rationale

Over the past decade, trade between the Republic of Korea (Korea) and Africa has been in decline, having peaked in 2011. This has mainly been on account of reduced Korean exports to Africa, although imports from the region have also declined, albeit by less. Meanwhile, Africa has begun implementing the African Continental Free Trade Area (AfCFTA), whose 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 those on 'trade in goods' at an advanced stage. Against this background, this paper reviews the progress in the implementation of the AfCFTA, identifies potential opportunities for Korean businesses in this process, and looks at the role the Korean government can play to increase the country's footprint in Africa.

The AfCFTA trade agreement was signed on 21 March 2018 following five years of negotiations. It entered into force on 30 May 2019, but delays – including the outbreak of COVID-19 later that year – saw free trading begin only in January 2021. The first shipments of goods traded under the agreement were made on 4 January 2021, by two Ghanaian firms – alcohol producer Kasapreko, which shipped goods to South Africa, and Ghandour Cosmetics, which shipped its products to Guinea. These were symbolic gestures by Ghana to celebrate the opening of free trading under the agreement, which had officially begun on 1 January 2021.[1]

As of May 2022, no other trading had taken place under the agreement, since negotiations on some aspects of the deal were ongoing, although a lot of progress had been made. Agreement on rules of origin has been reached for over 87% of the nearly 8 000 products under the World Customs Organisation's (WCO) Harmonized System of rules of origin and tariffs.[2] Progress has also been made on the Protocol on Dispute Settlement, which has already been operationalised, although negotiations on the rules for appointing members of the appellate body of the dispute-settlement body were still ongoing.[3]

## Macroeconomic environment and trade

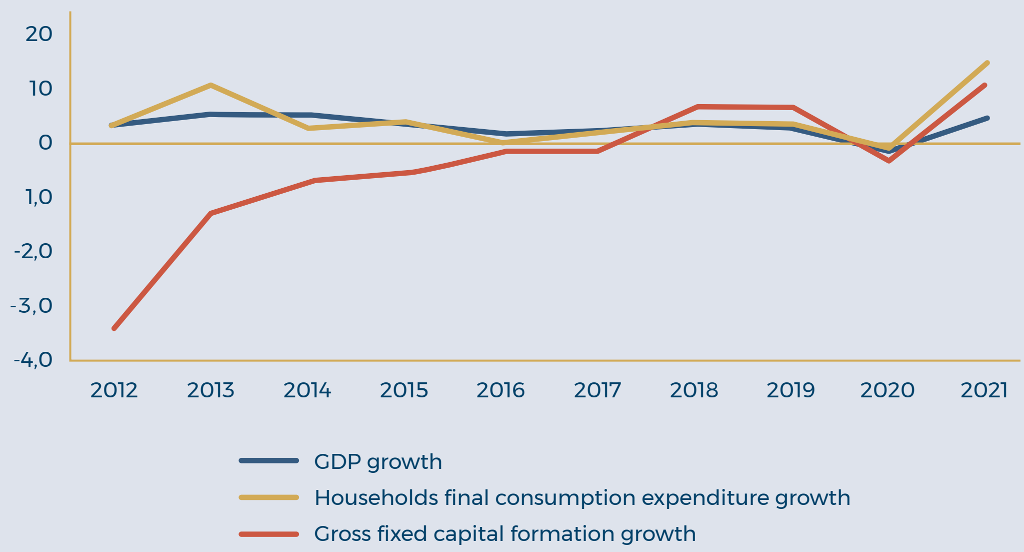
In spite of the COVID-19 pandemic, pressures from the war in Ukraine, climate-related disasters and other negative shocks to the global economy, the African economy has been resilient and continues to grow. The continent experienced a -2% recession in 2020 driven by recessions in South Africa and Nigeria, which had registered gross domestic

1 Kingsley Ighobor, "AfCFTA: 100 days Since Start of Free Trading, Prospects Seem Bright", *Africa Renewal Magazine*, April 7, 2021.
2 Wamkele Mene (Secretary-General of the AfCFTA Secretariat), quoted in Kingsley Ighobor, "One Year of Free Trading in Africa Calls for Celebration Despite Teething Problems", *Africa Renewal Magazine*, January 5, 2022.
3 Ighobor, "One Year of Free Trading".

product (GDP) drops of -6.4% and -1.8%, respectively. However, the continent rebounded in 2021, growing by 6.9%, as reported by the African Development Bank (AfDB).[4] In 2022 the African economy was expected to grow at a slower pace of 4%, with the war in Ukraine affecting growth prospects while increasing inflation pressures.

Recent macroeconomic development aside, Africa's economy remains one of the least developed, albeit with a lot of growth potential. Its output as of 2019 (before the pandemic) stood at more than $1.8 trillion, with consumption and investment expenditures of $1.2 trillion and $400 billion, respectively (Table 1). However, with a modest annual growth of around 3% since 2012 (Figure 1), coupled with a large and growing population, Africa's per capita income is among the lowest in the world, standing at $1 582 as of 2020. Moreover, it has remained stagnant for the past decade, and even slightly declining from the levels achieved in 2014. This reflects the high levels of poverty on the continent.

## Figure 1 Africa's GDP, consumption and investment trends (annual growth rates)




Source: Compiled by authors, based on data from World Bank, "World Development Indicators", June 2022

4 African Development Bank, *African Economic Outlook 2022: Supporting Climate Resilience and a Just Energy Transition in Africa*, Report (Abidjan: AfDB, 2022).

| TABLE 1 | TRENDS IN INCOME AND EXPENDITURE FOR SUB-SAHARAN AFRICA (CURRENT $) | | | |
|---|---|---|---|---|
| **Year** | **GDP per capita** | **GDP ($ billions)** | **Household consumption expenditure ($ billions)** | **Gross fixed capital formation ($ billions)** |
| **2012** | 1 615.67 | 1 482.74 | 982.90 | 421.48 |
| **2013** | 1 652.62 | 1 558.48 | 1 084.52 | 384.31 |
| **2014** | 1 686.53 | 1 634.18 | 1 111.06 | 374.12 |
| **2015** | 1 688.33 | 1 680.66 | 1 152.43 | 364.92 |
| **2016** | 1 662.75 | 1 700.21 | 1 150.25 | 362.42 |
| **2017** | 1 658.53 | 1 741.72 | 1 169.66 | 358.32 |
| **2018** | 1 658.65 | 1 788.55 | 1 209.49 | 384.92 |
| **2019** | 1 657.37 | 1 834.64 | 1 249.16 | 411.43 |
| **2020** | 1 582.44 | 1 797.73 | 1 249.46 | 400.64 |

Source: Compiled by authors, based on data from World Bank, "World Development Indicators", June 2022

In terms of structure, the African economy mainly produces primary commodities. As such, primary sectors – particularly agriculture and mining – dominate its production activities, employment (in the case of agriculture) and exports. Estimates by the International Labor Organisation (ILO) show that, by 2023, agriculture's share of total employment will be around 50% (down from 58% in the decade leading up to 2000).[5]

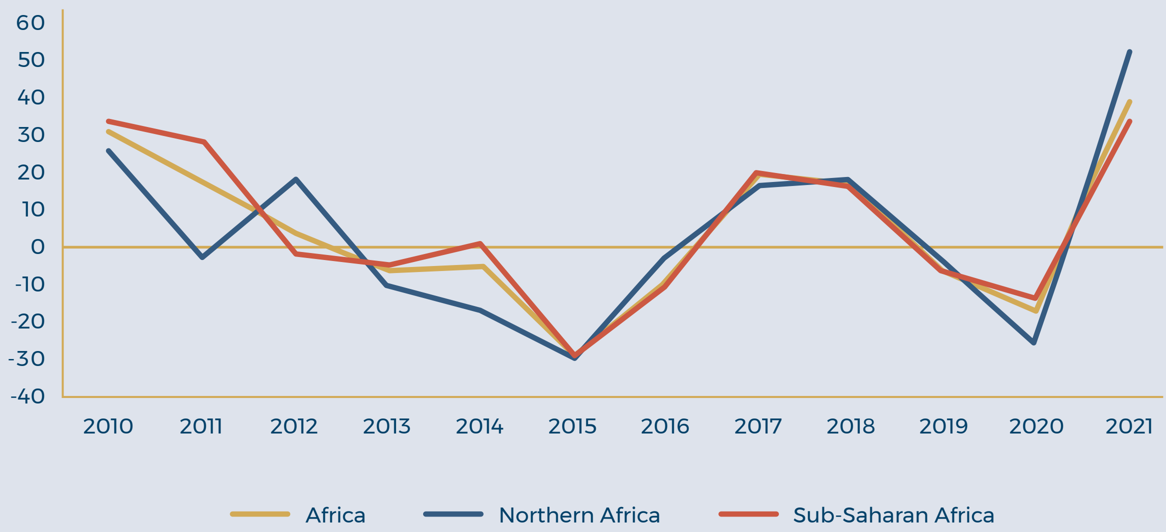
With the African economy relying on the production of primary commodities, which are exported as raw materials (Table 2), importing finished goods and nearly all of its capital goods, it runs a significant trade deficit. In 2019 the total trade balance for the sub-Saharan region was $66.1 billion, representing -2.6% of its GDP.[6] Its biggest export was petroleum oils and oils obtained from bituminous material, which amounted to $51.6 billion, followed by $14.1 billion worth of gold. In turn, the region imported refined petroleum oils valued at $37.5 billion. The prices of primary commodities such as petroleum products are characterised by high volatility, and the trends in Africa's trade growth reflect that. As Figure 2 shows, growth in African trade has been volatile, with an inconsistent growth pattern.

| TABLE 2 | COMPOSITION OF AFRICAN GOODS TRADE BY STAGE OF PROCESSING, 2019 (CURRENT $) | | | |
|---|---|---|---|---|
| **Product group** | **Export ($ billion)** | **Export product share (%)** | **Import ($ billion)** | **Import product share (%)** |
| **All products** | 241.36 | 100.0 | 253.40 | 100.0 |
| **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 UNCTAD, "UNCTAD Stat", June 2022

5 International Labour Organization, ILOSTAT, "Africa's Employment Landscape", November 19, 2019.
6 World Bank, "World Integrated Trade Solutions", June 2022.

## Figure 2 Trends in Africa's total trade (annual growth)




Source: Compiled by authors, based on data from UNCTAD, "UNCTAD Stat", June 2022

African countries hope that, once the AfCFTA is in full operation, trade within the continent and beyond will increase significantly and show steady growth. According to projections by the World Bank using a Computable General Equilibrium model, the AfCFTA will raise Africa's total exports by 29% come 2035.[7] Over that period, intra-African trade is projected to grow by as much as 81%, while exports to the rest of the world are projected to grow by 19%. As a result of this, it is estimated that Africa's income will rise by 7% by 2035, positively contributing to the fight against poverty.

TABLE 3 COMPOSITION OF AFRICAN TRADE BY REGION, 2019 (CURRENT $, MILLIONS)

| Region | Exports with Rest of World | Intra-African exports | Imports with rest of world | Intra-African imports | GDP |
|---|---|---|---|---|---|
| Northern Africa | 133 877 | 10 528 | 209 406 | 17 268 | 742 309 |
| ***Sub-Saharan Africa*** | ***274 030*** | ***69 787*** | ***294 386*** | ***65 017*** | ***1 595 213*** |
| Eastern Africa | 39 915 | 14 694 | 86 473 | 19 421 | 433 522 |
| Central Africa | 73 113 | 6 810 | 39 303 | 7 046 | 230 482 |
| Southern Africa | 89 946 | 29 219 | 90 891 | 23 823 | 389 284 |
| Western Africa | 104 972 | 19 065 | 106 122 | 14 727 | 725 408 |
| **Africa – Total** | **401 809** | **80 316** | **491 723** | **82 285** | **2 521 006** |

Source: Compiled by authors, based on data from UNCTAD, "UNCTAD Stat", June 2022

7 World Bank, *The African Continental Free Trade Area: Economic and Distributional Effects*, Report (Washington DC: International Bank for Reconstruction and Development, 2020).

Currently, West Africa, being the biggest regional economy in Africa, is involved in relatively more trade in terms of both total exports and imports (Table 3). However, this is on account of its bigger trade value with the rest of the world. Southern Africa conducts the most intra-African trade, despite having the second-lowest GDP of the five regions.

### Potential of the AfCFTA

Once fully implemented, the AfCFTA will create a big liberalised market for African countries, thus drastically increasing intra-continental demand for African-produced goods and services. The World Bank estimates that this new market will cover more than 1.3 billion consumers across 55 countries with a combined GDP of $3.4 trillion.[8] This is bound to have a significant impact on the African economy, with GDP, employment, trade and overall welfare expected to increase.

According to research by UNCTAD, in a scenario of 100% liberalisation of tariffs on trade in goods, Africa would experience a 33% increase in intra-African exports, a 50% decrease in its trade deficit, 1–3% GDP growth, a 1.2% rise in employment, and an overall welfare gain of $16 billion.[9] Another study projects a bigger increase in intra-African trade (80%) and a much more modest increase (8%) in overall trade.[10] Yet other research predicts that there will be variability among countries, with smaller economies such as Burkina Faso, Malawi, Mozambique and Rwanda actually experiencing a decline in welfare.[11] These results were corroborated by research by the World Bank, which found that, with full implementation of the AfCFTA, there would be gains in real income of up to 7% by 2035, with Côte d'Ivoire and Zimbabwe among the big winners and Madagascar, Malawi and Mozambique only gaining around 2%.[12]

## Progress in implementing the AfCFTA

### Objectives of the free trade area

The AfCFTA is the third flagship project of the AU's Agenda 2063. Part II, Article 3 of the agreement sets out the long-term, 50-year vision (of which close to 40 years of the planning horizon remain):[13]

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8 World Bank, *The African Continental Free Trade Area*.

9 M Saygili, R Peters and C Knebel, "African Continental Free Trade Area: Challenges and Opportunities of Tariff Reductions" (Research Paper 15, UNCTAD, Geneva, 2018).

10 Lisandro Abrego et al., "The African Continental Free Trade Agreement: Welfare Gain Estimates from a General Equilibrium Model" (Working Paper WP/19/12, International Monetary Fund, Washington DC, May 2019)

11 Nicolas Depetris Chauvin, M Priscila Ramos and Guido Porto, "Trade, Growth, and Welfare Impacts of the CFTA in Africa" (Working Paper, International Household Survey Network, October 2016).

12 World Bank, *The African Continental Free Trade Area*.

13 AU, "Agreement Establishing the African Continental Free Trade Area", Part II, Article 3.

[To provide a] single market for goods, services, facilitated by movement of persons in order to deepen the economic integration; liberalised market for goods and services through successive rounds of negotiations; contribute to the movement of capital and natural persons and facilitate investments building on the initiatives and developments in the State Parties and RECs [regional economic communities]; lay the foundation for the establishment of a Continental Customs Union; promote and attain sustainable and inclusive socio-economic development, gender equality; enhance the competitiveness of the economies of State Parties; promote industrial development through diversification and regional value chain development, agricultural development and food security; resolve the challenges of multiple and overlapping memberships.

Phase 1 of the negotiations (to 2035) covers protocols on Trade in Goods (PTiG), Trade in Services (PTiS) and Settlement of Disputes. The objectives are contained in Article 2 of the agreement, namely to:[14]

(a) progressively eliminate tariffs and non-tariff barriers to trade in goods; (b) progressively liberalise trade in services; (c) cooperate on investment, intellectual property rights and competition policy; (d) cooperate on all trade-related areas; (e) cooperate on customs matters and the implementation of trade facilitation measures; (f) establish a mechanism for the settlement of disputes concerning their rights and obligations; and (g) establish and maintain an institutional framework for the implementation and administration of the AfCFTA.

This and subsequent phases enter into force upon ratification by 22 member states, which means structured negotiations between member states and their RECs can proceed. To date, 43 member states have ratified the PTiG with tariff offers.[15] The PTiS is targeted for common agreement in June 2022 – to date, 46 members have submitted schedules of specific commitments.[16] In respect of the dispute resolution mechanism, the AfCFTA is currently setting up the Appellate to the Panel of the Dispute Resolution Body. This is the third stage in a process of establishing procedures of consultation, conciliation, settlement and arbitration for grievances between states parties. Private agents must seek trade facilitation and remedies before a state party can take on a case for dispute resolution.[17]

14 AU, "Agreement", Part II, Article 2.

15 Gerhard Erasmus, "African Union Assembly Decision of February 2022 on Trade in Goods under the AfCFTA", tralac Blog, February 2022.

16 Gerhard Erasmus, "Does the AfCFTA Protocol on Trade in Services Allow for Flexibilities?", tralac Blog, March 2022.

17 Chido Mafongoya, "Dispute Resolution Mechanisms under the African Continental Free Trade Area (AfCFTA)", Centurion Legal and Business Advisers, February 16, 2022.

It should be borne in mind that the agreement does not override member states' national sovereignty, and that the RECs are building blocks of the AfCFTA apparatus. This leaves leeway for national autonomy in product exclusions, the pace of liberalisation, and the replacement of non-tariff barriers (NTBs) with other protective domestic regulations. Second, the task of coordinating the establishment of concomitant protocols at REC level is complicated by different stages of development. Some RECs operate as preferential trade agreements, such as the Community of Sahel-Saharan States (CEN-SAD), the Intergovernmental Authority on Development (IGAD) and the Arab Maghreb Union (AMU); others as free trade agreements (FTAs), including SADC and the Common Market for Eastern and Southern Africa (COMESA), with ECOWAS and the Economic Community of Central African States (ECCAS) as emergent and established customs unions respectively. Established or incipient customs and monetary unions such as the Southern African Customs Union (SACU), East African Community (EAC), West African Economic and Monetary Union (WAEMU) and Central African Economic and Monetary Union (CEMAC) are embedded within these FTAs.[18]

The longer-established and closer unions may be more capable of responding promptly and aggressively in their own interests. For the looser free trade areas, the greater the intra-regional and cross-country range between core and peripheral national economies, the more difficult it is to secure agreement on the sacrifice of national interests. SADC contains the widest divergences along supply value chains, and in the embeddedness of particularly digital services in goods production and distribution. These differentials are also evident and will become wider as industrial and financial development progresses within the other free and preferential trade areas. Hence, the arrangements that SADC set up can serve as a test-case for other RECs and, more broadly, as a prototype for the AfCFTA.

There is also widespread overlapping membership between RECs. This is a challenge in the sense that it offers an opportunity for arbitrage and tax avoidance, while requiring special arrangements and delayed schedules for the integration of regional arrangements. On the other hand, the compromises reached by intersect nations (eg, the Democratic Republic of Congo [DRC], which is a member of SADC, COMESA, ECCAS and, since 2022, the EAC) can also serve as test cases and prototypes for the continental agreements to be negotiated.

The extent to which these political and economic forces influence ongoing Phase I negotiations over the protocols on trade in goods and services, and future ones over intellectual property, competition and investment (Phase II) and digital trade and women and youth in trade (Phase III) will be further examined below.

18 Cyril Prinsloo, *Understanding the Agreement for the African Continental Free Trade Area: Considerations for Korean Firms*, Special Report (Johannesburg: South African Institute for International Affairs, February 2020).

## Trade in goods

The objectives of the AfCFTA's PTiG are to promote economies of scale with continent-wide access by the progressive removal of tariffs and NTBs; coordination on technical barriers to trade (TBTs) and sanitary and phytosanitary measures (SPS); improved efficiency of customs, trade facilitation and transit; and promotion of regional and continental value chains, diversification and industrialisation.[19]

The limitations on and allowances to national sovereignty that guide the negotiations over and implementation of the PTiG are as follows:[20]

- The principle of non-discrimination is exercised when members, on accession, grant Most Favoured Nation (MFN) status to each other, but with the length of the transition period variable according to capacity.
- A progressive reduction of import duties and surtaxes is committed to, but allowances are made for domestic taxes, approved anti-dumping and countervailing duties or (global and state party) safeguards.
- Non-discrimination should be applied in the imposition of export duties.
- All quantitative restrictions should be removed, NTBs (defined in Annex 5 of the protocol) harmonised, and TBTs (defined in Annex 6) and SPS (Annex 7) standardised.
- Regulations and concessions for foreign direct investment in special economic zones (SEZs) and (transitional) infant industry protection measures are to be coordinated.
- Member states should report on the privileges of state trading enterprises with monopoly rights (ie, the principle of transparency).
- Non-discrimination and time limitations apply to exemptions in response to trade and investment imbalances, supply shocks, food security threats, public morals and security.

Agreement on the rules of origin (defined in Annex 2 of the protocol) of over 87% of the goods listed in the WCO's Harmonised System has been reached. Thus, raw materials as wholly obtained products are largely covered (save fish). In addition, the earlier stages of transformation, through agro-processing and mineral beneficiation, where substantial transformation through change-of-tariff content or by process rules occurs, have been covered. Further up the value chain, in assembly or manufacture of consumer durables and equipment, policy uncertainty and/or disagreement emerges in particular with respect to clothing and textiles, and motor vehicles.

Important outstanding issues relate to the definition of value added in complex supply chains, the cumulation of African inputs into global value chains, the absorption of

19 AU, "Agreement", Protocol on Trade in Goods, Part I, Article 2.

20 AU, "Agreement", Parts III to XIII.

intermediate goods, accounting segregation of component parts and materials, and common treatment of the regulations and concessions of SEZs. There are also important exemptions from origination rules relating to energy and fuel, capital goods, and materials used but not embedded in final products. The focus thus currently remains on supporting the earlier stages of the value chain (processing, beneficiation, simple manufacture of household items and component parts) rather than assembly, metallurgy and consumer or capital equipment manufacture.[21]

Annex 3 of the protocol outlines the requirements of REC and member state negotiations over tariff liberalisation. The aim is for all RECs to submit internally agreed-upon offers covering 90% of product lines, leaving 7% as transitionally sensitive while 3% of product lines worth up to 10% of trade value can be permanently exempted. As of April 2022, 43 of the 55 member states had submitted their offers – five from SACU, seven from the EAC, the six members of CEMAC, 15 from ECOWAS and 10 individual countries. ECOWAS has succeeded in agreeing to an offer due to pre-liberalisation of the Nigerian with the regional tariff regime between 2015 and 2021. The rest of the free and preferential trade areas may be waiting for the remaining 11 AfCFTA member states to submit their offers before embarking on their own consensus seeking.[22]

Several of the offers received remain incomplete in terms of AfCFTA modalities. SACU and the EAC offers cover 80% and 73% respectively of non-sensitive goods, and only CEMAC's offer covers all non-sensitive and sensitive items. The phase-down period is 10 years for non-sensitive goods and 13 years for sensitive ones for least developed countries to 2035. For more developed countries (such as those in SACU), the phase downs are for five and 10 years respectively. Table 4 indicates the common external tariff (CET) rates and proportion of product lines covered in the major tariff offers received.

Where they are identified, the goods chosen to be excluded or deemed sensitive, and those protected by higher CET rates, reflect a diverse array of products (at various stages along the value chain) that represent the dominance of (national) interests by the submitting party. ECOWAS, however, has devised a tariff regime that reflects a socio-economic developmental logic to its tariff banding, with essential social goods exempt, raw materials and capital goods low-rated as basic inputs into early industrialisation, and intermediate goods in the middle range, while finished consumer goods are charged at higher rates. Special dispensation of a 35% tariff rate to national interests is given for 'specific developmental goods'. The ECOWAS tariff regime could serve as a prototype for the other RECs, and possibly for the AfCFTA itself.

The process of negotiating an AfCFTA agreement on tariffs is guided by the principle of reciprocity, whereby a schedule of tariff concessions is agreed to by the other partner countries through changes in domestic legislation. In the interim, trading between African

21 AU, "Draft Compiled Annexes on the Establishment of the Continental Free Trade Area", July 2, 2018, Annex 2; tralac, "AfCFTA Rules of Origin", Infographic, May 2021.

22 tralac, "AfCFTA Tariff Negotiations", Factsheet 7, July 2021; Erasmus, "African Union Assembly decision of February 2022".

member states will continue at MFN rates; in other words, at rates no less favourable than those offered to third parties in bilateral trade agreements (such as the EU–SACUM [SACU member states and Mozambique] Economic Partnership).[23]

TABLE 4 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

## Trade in services

The AfCFTA's PTiS is essentially equivalent to the PTiG, with some nuances and shifts of emphasis. Dispute resolution measures are used to identify and arbitrate on contests about the balance between exclusive (monopolistic or oligopolistic) supply arrangements and the use of quotas and subsidies, against the principle of non-discriminatory competition. Technical assistance and capacity building is preferred during the phase-down periods for exempted services. The PTiS places greater emphasis on exclusive state suppliers, provision for tax equity, balancing of payments and easing international capital flows, mutual recognition of licences and qualifications, and the role of micro-, small and medium-sized enterprises (MSMEs). This can be attributed to the importance of public, business, trade, transport and tourism services.[24]

The AU has prioritised financial services, communications, transport, tourism and business services for the first round of negotiations, with a following round covering the construction and energy sectors. The AfCFTA Council of Ministers announced in January 2022 that

23 Gerhard Erasmus, "Reciprocity in the AfCFTA Negotiations", tralac Blog, April 2022.

24 AU, "Agreement", Protocol on Trade in Services, Articles 2-23.

46 member states had submitted offers on their schedules of specific commitments for these sectors. These include the 16 members of SADC, the 15 members of ECOWAS, four of the seven members of the EAC (which is developing its own offer) and 11 states parties. The next steps involve adjusting offers until common agreement is reached.[25]

With the strongly services-reliant economy of South Africa at its core,[26] SADC pioneered the protocol guiding negotiations over services trade in four of the AU's five priority sectors by 2018, and for construction and energy in 2019. The protocol came into effect in January 2022 once two-thirds of members had submitted their instruments of ratification – to date, the DRC, Angola, Tanzania and Madagascar have yet to ratify their signatures. This signals the start of a three-year negotiation period to 2025 whereby common agreement is to be achieved through the publication of technical details in annexes to the protocol. The legal principles and framework guiding the SADC protocol are compatible with those set out in the AfCFTA one, thereby facilitating future integration of REC protocols and procedures.[27]

As yet, there are no agreements on the mutual recognition of trade licences and professional qualifications. Limitations to domestic market access vary between countries and across sectors. Overall, the DRC's offer is the most liberal and Lesotho's the most restrictive (with high capital layouts required to establish a commercial presence). In respect of the sectors, tourism, energy, construction, transport, finance and communications appear to be progressively more trade restrictive. These limitations rarely affect modes 1 and 2 of supply (cross-border trade and consumption abroad) but are prevalent in modes 3 and 4 (commercial presence and persons abroad) with restrictions on foreign ownership and employment.

The consequent phase (post 2025) will cover business services and the remaining sectors (distribution, education, environmental health and related social services, and recreational, cultural and sports services). As with the debates and institutional contestation within the World Trade Organization (WTO) over the understanding of digital trade and e-commerce as an emergent sector or as a cross-cutting issue across trade in both services and goods (given the embedded value of services in industry), the SADC protocol includes a special annex on postal services. This is an integral and often-overlooked component of e-commerce, but also one that is usually under state monopoly and empowered to provide (and regulate) data provision.

## Digital trade and e-commerce

Korea, and only one African nation – Nigeria – were among the 76 WTO members that confirmed their intention in December 2017 to begin negotiations over trade aspects of

25 Erasmus, "Does the AfCFTA Protocol".

26 Almost 70% of South Africa's GDP and employment is in the services sectors.

27 Viola Sawere, "The SADC Protocol on Trade in Services Enters Into Force: What Is in It for Services Trade and Services Suppliers?" (Working Paper, tralac, Stellenbosch, February 15, 2022).

e-commerce. These included developing a multilateral framework for investment facilitation, the involvement of MSMEs and domestic regulation of services trade. In 2019, following the launch of the G20's Osaka Round, five other African nations (Côte d'Ivoire, Benin, Burkina Faso, Cameroon and Kenya) joined the initiative. During 2020 trade and environmental sustainability and plastic pollution were added as issues for future discussion.[28]

In December 2021 the convenors of the Joint Statement Initiative (JSI) announced convergence in negotiating groups pertaining to online consumer protection, electronic signatures and authentication, unsolicited commercial messages, open government data, electronic contracts, transparency, paperless trading and open Internet access.[29]

The JSI emerged in response to a breakdown in the WTO's Work Programme on E-commerce (circa 2016). Further to its Councils on Trade in Services, Trade in Goods and Intellectual Property Rights, a Committee on Trade and Development reported on the implications of e-commerce on the economic, financial and developmental needs of developing nations.[30]

Subsequently, few African nations have participated in e-commerce negotiations. For many, insufficient digital knowledge and infrastructure, coupled with a weak bargaining position, deter active participation. There is a fear that, without structural or permanent representation in negotiating bodies, the needs and interests of Africa and the world's poor will be overlooked or side-lined. Signatories to the JSI on E-Commerce are generally representative of the more digitally savvy nations, with Nigeria its only long-standing African participant and bridge across the digital divide. The South African government has been forthcoming in its support of the African Group's stand against the plurilateral (and perhaps divisive) approach of the JSI in favour of reviving the multilateral WTO Work Programme. This is despite its relative capacity in digital skills, infrastructure, and institutional and legal/ regulatory framework.[31]

One of the implications of the morphing of the WTO Work Programme into the JSI has been a continued hold on the imposition of customs duties on e-commerce transactions. Several of the poorer African nations with under-developed domestic tax bases are still reliant on international trade taxes, while some of the more digitally advanced nations are reviewing prospects for digital services taxes.

The AfCFTA is scheduled to include a Protocol on Digital Trade in Phase III of its negotiations. Issues that are likely to be examined or defined more closely include data governance (privacy, security, localisation, data portability, data regulation harmonisation across Africa); digital business taxation; and cross-border e-commerce trade facilitation

28 World Trade Organization, "Joint Initiative on E-Commerce", December 2021.

29 WTO, Joint Statement Initiative on E-Commerce, "Statement by Ministers of Australia, Japan and Singapore", December 2021.

30 WTO, "Work Programme on E-Commerce", 2016.

31 Faith Tigere Pittet, "African Participation in WTO E-Commerce Negotiations: Policy Positions and Development Issues" (Policy Insight 131, SAIIA, Johannesburg, June 2022).

(electronic trade, paperless trade, single windows, parcel delivery). It remains to be seen whether Africa can find a creative solution to the WTO's impasse over the financial and implementational implications of defining e-commerce products as goods or services (subject to General Agreement on Tariffs and Trade and General Agreement on Trade in Services rules respectively); and, if services, whether they are distributed through one of five possible modes (1 – cross-border trade, 2 – consumption abroad, 3 – commercial presence, 4 – presence of natural persons, and 5 – services embodied in manufactured products).[32]

As of February 2022, 33 of 54 African nations had enacted data protection laws or regulations. Rwanda, Zambia and Zimbabwe enacted their first laws in 2021, while the established South African, Kenyan, Senegalese and Ugandan authorities issued regulations or guidance. During 2022 data protection laws are expected to be drafted, passed or enacted in the DRC, Djibouti, Eswatini, Ethiopia, Gambia, Malawi and South Sudan.[33]

Burkina Faso, Zambia, Zimbabwe and Kenya recently introduced clauses or sections to legislation that set data localisation requirements. For the most part, these requirements are tailored to domestic digital capacity and focus on containing official government data or developing state institutional capacity. Kenya's is the most comprehensive, covering legal identity, elections, public finances, protected computers, early childhood and basic education, and primary and secondary healthcare.[34]

Data localisation is a controversial topic in global e-commerce negotiations. None of the US-, EU- or China-led free trade agreements favours data localisation, citing economies of scale and reduction of trade costs as primary advantages. By contrast, national authorities are often keen to develop their knowledge, infrastructural and institutional capacity to digitise key public services and contain identification and registration details of legal persons (individuals and companies). As with trade in goods and services, the parameters of the transition towards liberalisation and harmonisation across the continent will be shaped by the competing forces of domestic protection and regional integration.

# The AfCFTA and industrial policy in Africa

The AfCFTA, once in full implementation, creates a big liberalised market for African countries to trade in, thus significantly increasing intra-continental demand for African-produced goods and services. The World Bank estimates that the new market created by the AfCFTA will cover more than 1.3 billion consumers across 55 countries with a combined GDP of $3.4 trillion.[35] It is the hope of African nations that the AfCFTA will accelerate the continent's industrialisation by raising member states' national incomes. However, for the

32 Karishma Banga and Max Mendez-Parra, *E-commerce in Preferential Trade Agreements: Implications for African Firms and the AfCFTA*, Report (London: Overseas Development Institute, February 9, 2021).

33 Aissatou Sylla, "Recent Developments in African Data Protection Laws: Outlook for 2022", Hogan Lovells Engage, February 2022.

34 Sylla, "Recent Developments in African Data".

35 World Bank, *The African Continental Free Trade Area*.

continent to fully industrialise, supply-side constraints such as the lack of good transport, information and communications technology (ICT), and energy infrastructure need to be addressed. Among the ways that this is being done is through the various industrial policies being implemented across the continent.

As it stands now, industrial policy in Africa comprises national-level industrial policies/ strategies, REC policies, and the Accelerated Industrial Development of Africa (AIDA), which is an attempt to harmonise the continent's industrialisation efforts.[36] However, four of the eight RECs have their own regional industrial policies, which their members are subject to on top of their own national policies/strategies. The industrial policy landscape for many African countries is thus quite complicated, as some of these countries find themselves subject to three or more policies.[37]

With the operationalisation of the AfCFTA, African governments need to adapt their national industrialisation strategies to the new environment it creates.[38] The same applies to the RECs that have industrial policies in place. It has been argued that a unified continental industrial policy that pools resources from all countries and implements programmes and projects jointly is a better way to go in lieu of the entangled multiple policies to which countries are subjected.[39] This policy too would have to mirror and complement the AfCFTA. The AIDA in its current form does not recognise or even mention the AfCFTA, as at the time of its formulation in 2008 the free trade area had not yet been conceived of.

## Regional value chains and diversification

Africa has a relatively undiversified economy, with a few primary sectors driving it. Services constitute more than half of its GDP, but agriculture is still the dominant activity. Although the agriculture sector constitutes just over 15% of its GDP (Table 5), it employs more than 50% of the workforce.[40] The African economy also relies heavily on the extractive sector, with crude oil and minerals constituting a large part of exports.

As Table 6 shows, the African continent has a relatively higher product concentration index than most other regions, which indicates that its trade is concentrated in fewer products. Furthermore, Africa's trade structure is much different from the rest of the world, as reflected in the high product diversification index. This low diversity in the African economy is a manifestation of the weak regional value chains (RVCs) that characterise production in the region.

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36 Joseph Upile Matola, "Leveraging the AfCFTA Under a Unified Industrial Policy for Africa" (Policy Insights 128, SAIIA, Johannesburg, May 2022).

37 The four RECs that have adopted industrial policies are COMESA, SADC, the EAC and ECOWAS.

38 AU Commission and OECD, *Africa's Development Dynamics 2022: Regional Value Chains for a Sustainable Recovery*, Report (Paris: OECD Publishing, 2022).

39 Matola, "Leveraging the AfCFTA".

40 ILO, "Africa's Employment Landscape".

| TABLE 5 AFRICA'S SECTORAL VALUE ADDED, % | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| **Total value added** | **100** | **100** | **100** | **100** | **100** | **100** |
| Agriculture, hunting, forestry, fishing | 15.7 | 16.1 | 15.7 | 15.3 | 15.8 | 17.5 |
| Industry | 28.6 | 27.4 | 28.9 | 31.2 | 30.9 | 29.5 |
| *Mining, manufacturing, utilities* | 22.7 | 21.3 | 22.7 | 25.0 | 24.1 | 22.4 |
| *Manufacturing* | 11.2 | 11.1 | 10.8 | 11.1 | 11.7 | 12.2 |
| *Construction* | 5.8 | 6.1 | 6.2 | 6.3 | 6.9 | 7.1 |
| Services | 55.7 | 56.5 | 55.4 | 53.5 | 53.3 | 53.0 |
| *Wholesale, retail trade, restaurants and hotels* | 16.2 | 16.6 | 16.3 | 15.4 | 15.2 | 14.8 |
| *Transport, storage and communications* | 9.7 | 9.6 | 9.2 | 9.3 | 9.6 | 9.6 |
| *Other activities* | 29.8 | 30.4 | 29.9 | 28.8 | 28.5 | 28.6 |

Source: Compiled by authors, based on data from UNCTAD, "UNCTAD Stat", June 2022

| TABLE 6 PRODUCT CONCENTRATION AND DIVERSIFICATION INDICES OF EXPORTS AND IMPORTS, 2019 | Concentration Index | Diversification Index |
|---|---|---|
| **Africa** | 0,27 | 0,55 |
| **America** | 0,09 | 0,20 |
| **Asia** | 0,10 | 0,20 |
| **Europe** | 0,06 | 0,18 |
| **Oceania** | 0,26 | 0,68 |

Note: A Concentration Index value closer to 1 indicates a country's exports or imports are highly concentrated on a few products, while values closer to 0 reflect exports or imports that are more homogeneously distributed among a series of products.

The Diversification Index signals whether the structure of exports by product of a given country or group of countries differs from the structure of global products. It takes values between 0 and 1. A value closer to 1 indicates greater divergence from the global pattern.

Source: Compiled by authors, based on data from UNCTAD, "UNCTAD Stat", June 2022

The AfCFTA is expected to bolster production networks across Africa by reducing trade-related costs associated with moving inputs (raw materials and intermediate goods) and final products from one part of the continent to another. By creating one big single market, the AfCFTA creates a conducive environment for country specialisation in the different segments of value chains, thus promoting development of RVCs in Africa. With the changing global economic landscape, aided by the COVID-19 pandemic, challenges and opportunities for further developing African RVCs have arisen. The Organisation for Economic Co-operation and Development (OECD) has highlighted some of these (see Table 7).[41]

41 AUC and OECD, *Africa's Development Dynamics 2022*.

The COVID pandemic has undeniably fast-tracked digital transformation globally in response to the abrupt stop to physical interactions for most of 2020 and 2021. In fact, the ICT sector was one of the few winners coming out of the pandemic.[42] Among the opportunities for RVC development presented by this trend is the potential to adapt digital innovations to reduce the costs of international production and trade. Thus, with the AfCFTA also reducing tariffs and other NTBs to trade, a perfect opportunity for RVC development across the continent will be in place.

TABLE 7 RECENT GLOBAL TRENDS AND OPPORTUNITIES AND CHALLENGES FOR RVCS

| Trends | Opportunities | Challenges |
|---|---|---|
| Changing investment landscape | • Attract investment to tap local markets (eg, agri-food processing and pharmaceutical)<br>• Attract investment from near-shoring (especially in North Africa)<br>• Encourage intra-African investment | • Slower financial flows to emerging markets due to uncertain economic outlooks and higher interest rates in high-income economies<br>• Higher risks of automation and reshoring |
| Digital transformation | • Adapt digital innovations to reduce the costs of international production and trade<br>• Increase production efficiencies through digital adoption<br>• Tap new niches in service segments<br>• Integrate informal actors into value chains | • Risk of exclusion among workers and producers due to barriers to digital adoption<br>• Stronger demand for accommodative hard and soft digital infrastructure<br>• Uneven competition on winner-takes-all digital platforms<br>• Risk of low-quality gig employment |
| Global drive towards sustainability | • Increase demand for high value-added activities<br>• Increase pressure on multinational enterprises to meet environmental, social and governance (ESG) standards<br>• Attract ESG finance<br>• Invest in climate adaptation and the green sector as part of COVID-19 fiscal stimulus packages | • Pressure on local producers to meet higher standards, especially among smallholders and informal actors<br>• Higher testing and certification requirements |

Source: AU Commission and OECD, *Africa's Development Dynamics 2022: Regional Value Chains for a Sustainable Recovery*, Report (Paris: OECD Publishing, 2022)

## Climate mitigation and adaptation

The 26th Conference of the Parties (COP26) took place in November 2021 and resulted in the Glasgow Climate Pact, which reinforced the commitment to reduce emissions towards a global net-zero. One-hundred and fifty-three countries, 34 of those African,

42 Oxford Business Group, "ICT Sector Year in Review 2020", December 16, 2020.

submitted new or updated Nationally Determined Contributions (NDCs) outlining their emissions targets, and 80 countries submitted their climate change adaptation plans.[43] The conference also mobilised over $20 billion in climate financing from international partners intended for a just and inclusive energy transition.

COP26 was crucial to Africa in many ways. Firstly, it refreshed global commitment to the 1.5°C target, something that the continent needs since it has the most climate-vulnerable economy in the world.[44] Secondly, the conference mobilised much-needed financial resources for supporting African efforts towards a just energy transition. And thirdly, COP26 came at a time when the world embraced the idea of a green recovery from the economic impacts of COVID-19. Therefore, the conference also provided resources that would help the continent recover from the pandemic.

These efforts helped put Africa's industrialisation agenda on course, particularly by securing finances for investing in its energy sector, whose shortcomings have been standing in the way of its industrialisation process. One notable achievement on this front is the $8.5 billion just energy transition partnership for South Africa, which aims to decarbonise the country by investing in clean energy infrastructure to replace its failing coal-powered electricity system. The conference also renewed the COP15 commitment by developed countries to set aside $100 billion for developing countries to address their climate needs. It set a new target of 2023 for meeting this commitment, despite never having met the $100 billion yearly targets since the commitment was first made.

# Enhancing Korea–Africa trade

## Trends in Korea–Africa trade

Korea and Africa conduct a significant amount of trade. More than $10 billion worth of merchandise was traded between the two economies in 2019, with Korea registering a trade surplus of more than $1 billion (Table 8). Korea's exports to Africa comprise mostly capital goods (up to 44%) while its imports are mainly raw materials (55%).

Figure 3 depicts the recent trends in total trade between Korea and Africa (plotted against the left axis), as well as the share of Korea-Africa trade in total trade involving Korea (plotted against the right axis). The graph shows that Korea's exports to Africa rose steadily throughout the 2000s, peaking at $14.5 billion in 2011. After 2011 the value of exports began to decline, reaching $6.1 billion in 2019, the lowest since 2004. This pattern shows Africa's diminishing importance among Korea's export partners. In 2019 Korea's exports to Africa represented only 1.1% of its total exports, the lowest thus far for the 21st century.

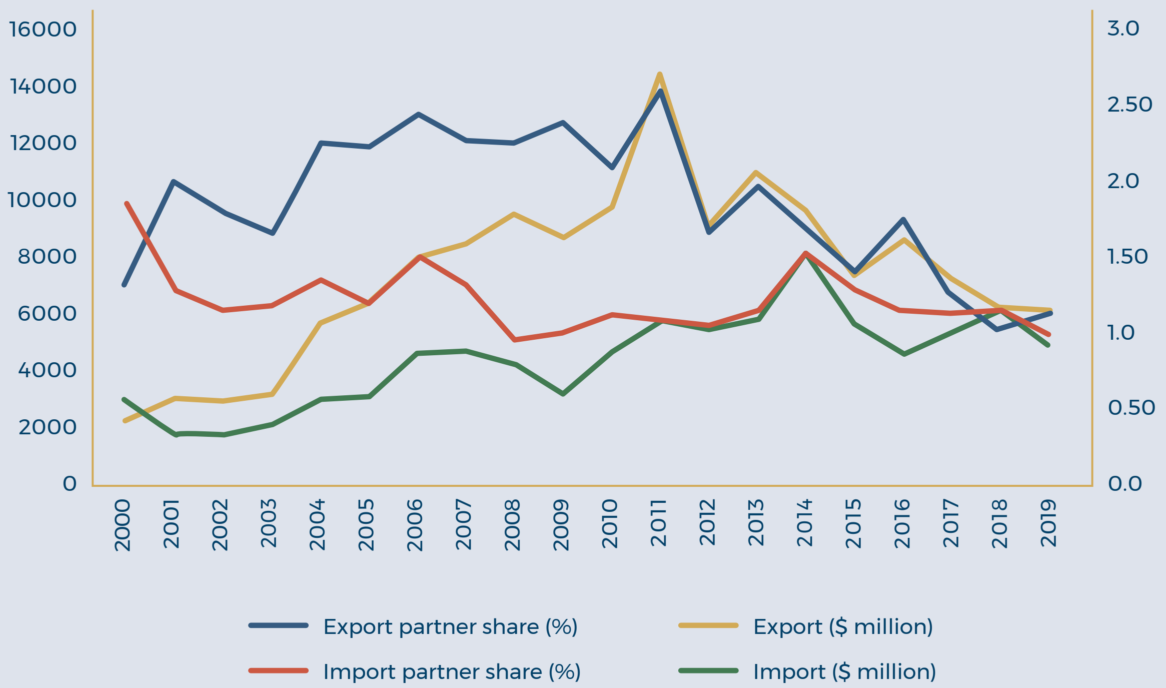
43 UN Climate Change Conference, "COP26: Glasgow Climate Pact", https://ukcop26.org/the-glasgow-climate-pact/

44 According to the AfDB, Africa is the continent most vulnerable to climate change impacts under all climate scenarios above 1.5°C. This is due to its heavy reliance on rain-fed agriculture.

| TABLE 8 | KOREAN EXPORTS TO AND IMPORTS FROM AFRICA BY TYPE OF GOODS (2019) | | | |
|---|---|---|---|---|
| | **Export ($ million)** | **Export share (%)** | **Import ($ million)** | **Import share (%)** |
| All products | 6 153.9 | 100.0 | 4 958.0 | 100.0 |
| Capital goods | 2 724.3 | 44.3 | 54.4 | 1.1 |
| Consumer goods | 2 198.5 | 35.7 | 667.5 | 13.5 |
| Intermediate goods | 1 185.4 | 19.3 | 1 474.8 | 29.8 |
| Raw materials | 45.2 | 0.7 | 2 761.0 | 55.7 |

Source: Compiled by authors, based on data from World Bank, "World Integrated Trade Solutions", June 2022)

## Figure 3 Recent trends in Korea's exports to and imports from Africa




Source: Compiled by authors, based on data from World Bank, "World Integrated Trade Solutions", June 2022)

In terms of imports from Africa, the pattern has been more stable, although these too have shown a downward trend more recently, specifically after 2014. Nonetheless, over time Korea still significantly increased its African imports. In 2019 it imported more than $4.9 billion worth of goods (0.99% of all its imports) from Africa – $2 billion more than the $2.9 billion that it imported in 2000, which at the time represented 1.84% of its total imports.

## Potential for increased Korea–Africa trade under the AfCFTA

Given the trends in Korea–Africa trade, how can Korean firms leverage their expertise and take full advantage of the implementation of the AfCFTA to grow their presence in Africa, compete with the likes of China and India, and emerge as an important trading partner for Africa? The first paper in this series[45] set out seven ways in which Korea could use its existing footprint in Africa to take advantage of the opportunities accorded by the AfCFTA and so form part of Africa's prosperity:

- appreciating the changing investment environment in Africa;
- appreciating African markets;
- enhanced the performance of existing exports;
- formalising trade arrangements;
- leveraging SEZs;
- choosing the right market entry points; and
- supporting the AfCFTA through development cooperation.

While these points still hold, an update to these propositions is necessary now that the implementation of the AfCFTA is underway, and given the global events affecting all economies.

## Leveraging the industrialization effects of the AfCFTA in Africa

As noted earlier, projections by the World Bank show that the volume of total exports under the AfCFTA is projected to rise by 29% come 2035. These projections also indicate that the manufacturing sector will benefit the most from trading under the AfCFTA. Specifically, manufacturing exports are set to increase by up to 62% overall, with intra-African trade in manufactured goods increasing by 110%. Such exports to the rest of the world are expected to grow by 46%.[46] This manufacturing boom is indicative of an economy undergoing industrialisation. Other sectors such as construction, energy and ICT will follow suit to provide the required infrastructure for the manufacturing sector.

Korean firms should be ready to play a big part, not only in participating in the growth of Africa's manufacturing value chains under the AfCFTA but also in contributing to the infrastructure development needed. The Chinese government is financing many construction projects in Africa, which means that Chinese firms already have an advantage over other foreign companies. Nonetheless, Korean firms can still leverage their reputation

45 Prinsloo," Understanding the Agreement".

46 World Bank, *The African Continental Free Trade Area*.

as early movers in industrialisation, and use the expected construction boom to showcase their expertise in infrastructure development. Furthermore, having experienced success in its heavy and chemical industries drive in the 1970s, Korea can use this experience to play a bigger part in Africa's industrialisation, particularly as countries begin to manufacture capital goods and other goods that are more technologically sophisticated.

## Choosing the right value chains: Potential in the automotive sector

As Africa seeks to develop different value chains, Korean firms should identify and leverage the segments that they can help develop. For instance, the OECD identifies the automotive industry as having potential in Africa. Among the reasons for this are increased demand, as in Kenya, where vehicle ownership outpaced population growth in 2019, and existing (low-cost) intermediary production, such as wiring harnesses in Botswana and seat leather in Lesotho.[47] Furthermore, Africa has an abundance of energetic, talented and ready-to-work youth who can be employed in the automotive industry.

The OECD further urges Africa, particularly the south, to encourage (global) lead firms in the automotive industries to invest in its automotive value chains.[48] Therefore, Korean car manufacturers such as KIA and Hyundai, which are global leaders in the industry, should be ready to form partnerships with manufacturing companies in the region and build production networks that are mutually beneficial.

## Enhancing the performance of existing export products

Korea's exports to sub-Saharan Africa constitute around 1% of the region's total imports (see Table 8). This is less than half of Japan's, six times less than India's, and 16 times less than China's exports to the region. While the relative sizes of these economies can partly explain the trade dominance (China is the largest economy among the four and Korea the smallest), another factor appears to be the sectors of concentration. The sectors dominated by Korea include water vessels and vehicles (see Table 10) and target high-income consumers. The same applies to Japan, which also mostly exports vehicles to Africa.[49] China and India, on the other hand, concentrate on cheaper goods such as textiles, apparel and electronics (in addition to hi-tech products and finished goods) in the case of China, and refined petroleum and pharmaceuticals in the case of India.[50] Given that Africa is generally a low-income region, it is no surprise that China and India have made more headway in trading with it. Nonetheless, the AfCFTA, at least in theory, opens up opportunities for countries such as Korea to increase their trade with Africa.

47 AUC and OECD, *Africa's Development Dynamics 2022*.
48 AUC and OECD, *Africa's Development Dynamics 2022*.
49 See World Bank, "World Integrated Trade Solutions".
50 See World Bank, "World Integrated Trade Solutions".

| TABLE 9 SUB-SAHARAN AFRICA'S TRADE WITH ITS MAIN TRADING PARTNERS, 2021 | | | | |
|---|---|---|---|---|
| | Export ($ thousand) | Export partner share (%) | Import ($ thousand) | Import partner share (%) |
| **Germany** | 9 672 693.6 | 4.0 | 12 397 327.4 | 4.9 |
| **India** | 18 493 504.0 | 7.7 | 17 086 525.2 | 6.7 |
| **China** | 25 987 276.1 | 10.8 | 45 548 236.2 | 18.0 |
| **Japan** | 5 418 499.2 | 2.3 | 6 172 132.8 | 2.4 |
| **Korea, Rep.** | 2 098 975.7 | 0.9 | 2 819 086.8 | 1.1 |
| **Sub-Saharan Africa** | 63 006 833.5 | 26.1 | 42 905 554.7 | 16.9 |
| **US** | 12 460 224.9 | 5.2 | 16 406 536.9 | 6.5 |
| **South Africa** | 14 765 258.3 | 6.1 | 17 302 741.7 | 6.8 |

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

| TABLE 10 AFRICA'S SECTORAL VALUE ADDED, % | | | | | | |
|---|---|---|---|---|---|---|
| **Product label** | **Korea's exports to Africa ($, thousands)** | | | **Korea's share in African imports (%)** | | |
| | **Value in 2019** | **Value in 2020** | **Value in 2021** | **Value in 2019** | **Value in 2020** | **Value in 2021** |
| All products | 9,743,536 | 8,094,002 | 11,967,981 | 1.7 | 1.6 | 2.0 |
| Water vessels | 1,773,192 | 2,137,157 | 4,477,751 | 14.8 | 22.2 | 38.5 |
| Vehicles | 1,745,604 | 1,054,727 | 1,482,466 | 3.9 | 2.8 | 3.6 |
| Plastics and articles thereof | 746,778 | 796,376 | 1,274,156 | 3.4 | 3.8 | 5.0 |
| Mineral fuel and oil products, and bitumen | 1,715,901 | 948,597 | 864,397 | 2.1 | 1.6 | 1.0 |
| Machinery | 959,948 | 682,184 | 831,046 | 1.5 | 1.2 | 1.4 |
| Electrical machinery and equipment | 713,134 | 466,856 | 512,390 | 1.6 | 1.2 | 1.2 |
| Pharmaceutical products | 158,531 | 276,764 | 340,512 | 0.9 | 1.5 | 1.6 |
| Locomotives, rolling stock and parts | 73,886 | 90,766 | 283,304 | 5.9 | 6.9 | 19.5 |
| Organic chemicals | 254,952 | 199,049 | 255,405 | 3.8 | 3.2 | 3.5 |
| Iron and steel | 186,285 | 230,648 | 230,210 | 1.1 | 1.6 | 1.3 |

Source: Compiled by authors, based on data from Integrated Trade Center, "ITC Trade Map", June, 2022

Currently, Korea's major export to Africa is large water vessels such as ships, boats and other floating structures. In 2021 Korea exported water vessels worth $4.4 billion, representing 38.5% of total vessels imported into Africa (see Table 10). Korea's exports of water vessels are followed by vehicle exports at $1.4 billion, which represent 3.5% of the total vehicle imports by the continent. In terms of presence in the African market, after water vessels, Korea also dominates exports of locomotives. This points to its focus on or specialisation in heavy industries. While exports of these goods (both water vessels and locomotives) to Africa have been increasing steadily, this market is still underdeveloped in comparison to other sectors on the continent. This presents a challenge, as currently Africa's capacity and appetite to import such goods are low. However, with trading under the AfCFTA having begun, Africa's consumption of capital goods is bound to increase, thus presenting an opportunity for Korean businesses expand their engagement. Korean firms (and the government) need to be ready to make these gains in the AfCFTA era by strengthening their current ties with partners that import from them.

One pitfall of the AfCFTA with regard to Korean businesses is its potential to replace some Korean imports into Africa with intra-African imports. This is likely to happen with less sophisticated products such as pharmaceutical products and plastic materials. However, it is unlikely that Korea's current main exports in the high-end technology segment will be replaced by African-made products.

## Leveraging Africa's green transition

African countries have joined the rest of the world in efforts to make a positive contribution to the global climate agenda. Through their NDC submissions to the UN Framework Convention on Climate Change, countries have indicated their plans for actions in mitigating climate change and adapting to its challenges. However, with some major African economies heavily reliant on non-clean energy and revenues from the same, satisfying their commitments as stated in their NDCs will be challenging. As such, development cooperation through aid, foreign investment and trade is required. South Africa, for example, has secured a partnership with G7 members to help with its mammoth task of transitioning away from coal-based energy to cleaner forms of energy. While South Africa's partners in this 'just energy transition' deal mainly provide financing, other institutions, including governments and private companies, will need to play a role.[51] This is an opportunity that Korean firms in the clean energy sector should seize, not just in South Africa but also across the continent.

At the 2021 Seoul Dialogue on Africa, Choi Jong Kun, the first Vice Minister of Foreign Affairs in Korea, indicated the country's intentions to forge a partnership with Africa in the fields of health, climate change, and peace and security. Among others, he pledged that Korea would support Africa's transition to a low-carbon economy through collaborations in the development of renewable energy. With African countries such as South Africa making efforts to transition to low-carbon economies to fulfil their NDC commitments, this is an opportunity for Korean firms in the energy sector to leverage their technological prowess and partner with African countries.

At the same time, African governments need to increase their efforts to create conditions for investment in and the implementation of a just transition. Crucially, they need to build the institutions and human resources capacity necessary to attract such

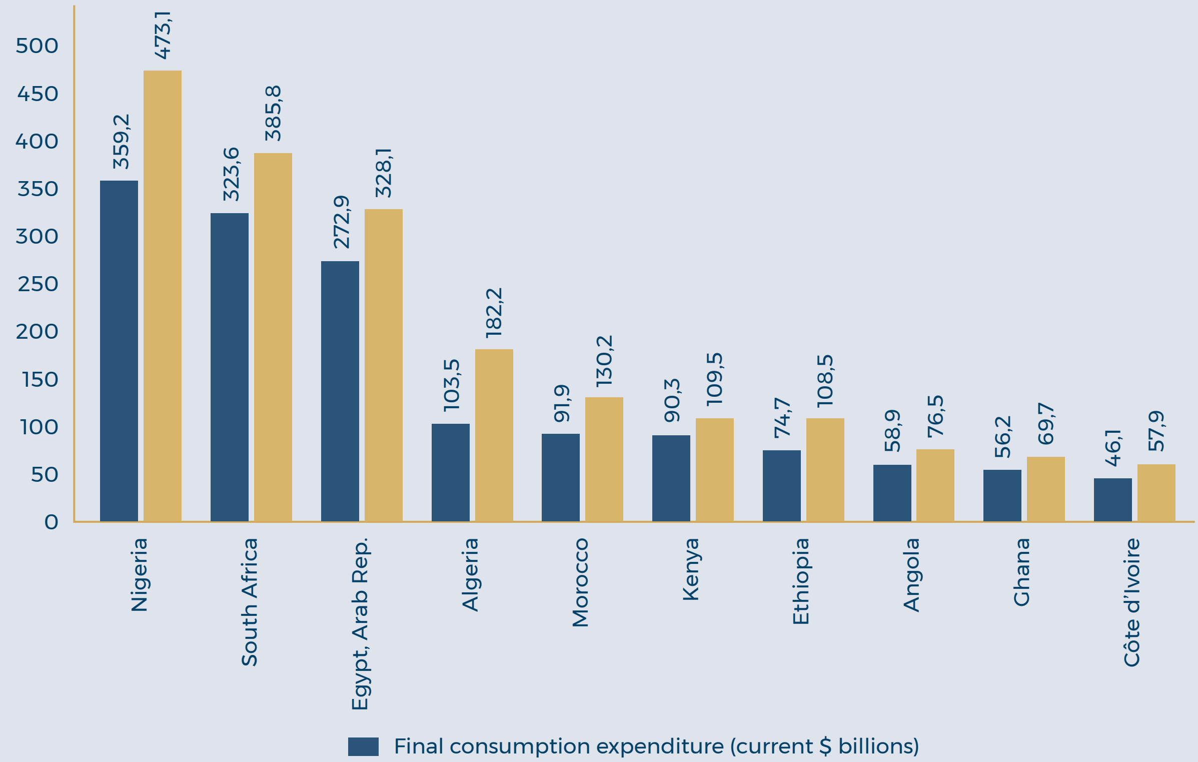
51 Under the Just Energy Transition Partnership deal, France, Germany, the UK, US and EU pledged financing of $8.5 billion to help South Africa decarbonise its energy sector.

investments.[52] This can be done more effectively with the help of development partners. The Korean government can step up and take its place among the main partners assisting Africa with its institutional and capacity build-up in readiness for this just transition. In this way Korean firms will be well positioned to play a key role in Africa's transition efforts.

## Choosing market entry points

Among the considerations for Korean businesses intending to establish themselves or expand their presence in Africa is market size. This is important as it allows businesses to rely on the domestic market while trade issues are being sorted out to enable them to export their products to other African countries. As Figure 4 shows, Nigeria, South Africa and Egypt are by far the three biggest consumer markets in Africa, with consumer spending of $359.1 billion, $323.6 billion and $272.9 billion respectively. These economies, together with the likes of Algeria, Angola, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Kenya and Morocco, have the ability locally to absorb goods and services produced by foreign firms operating there.

### Figure 4 Africa's biggest markets (2019)




Source: Compiled by authors, based on data from World Bank, "World Development Indicators", June 2022

52 AfDB, *African Economic Outlook 2022*.

It should be noted, however, that many small market countries in Africa are part of FTAs. These include the 19 members of COMESA, the six members of the EAC, and the five members of SACU. As such, these FTAs can serve as one big 'domestic market' if foreign firms satisfy their rules of origin conditions.

### Formalising trade arrangements

Currently, Korea has 17 trade agreements, none of which involves an African country.[53] Through the Korea–Africa Foundation (KAF), Korea's commercial engagement with Africa has largely taken the form of research on business opportunities on behalf of Korean businesses, business forums and other knowledge-generation and -sharing activities. This approach has similarities with Japan's Tokyo International Conference on African Development forum. In contrast, China and India have engaged more directly with Africa, with both having an FTA with Mauritius and strong commercial connections with South Africa through the BRICS initiative. Furthermore, China has also penetrated African markets via its diplomatic approach, offering loans in exchange for business opportunities while minimising its involvement in domestic governance issues. India, meanwhile, draws on its relatively longer-standing business ties with countries on the continent. Both China and India have clearly benefitted from this strong engagement with Africa, compared to Korea and Japan. This is something the government of Korea may want to address to enhance Korea–Africa trade.

Making formal trade agreements with African nations and/or RECs would be mutually beneficial to both Korea and African countries. With the AfCFTA in place and enabling Africa to negotiate deals with one voice, now would be a good time to start working towards a formal trade agreement targeting the continent as a whole.

## Policy implications for the Korean Ministry of Foreign Affairs

The Korean government is investigating formal trade or economic partnership agreements with African economies, with growth in Korea's exports to Africa being driven by ships, locomotives and motor vehicles. Korean industry would thus be best served in the three major markets' entry points (Nigeria for ECOWAS, South Africa for SADC, and Egypt) and other medium-size economies with rail-connected ports serving a broader REC, such as Kenya (EAC) and either Morocco or Algeria (AMU).

53 Korea's free trade agreements include those with ASEAN, Australia, Canada, Central America (Partial), Chile, China, Colombia, European Free Trade Association (Norway, Switzerland, Iceland and Liechtenstein), EU, India, New Zealand, Peru, Singapore, UK, US, Turkey and Vietnam.

It should be borne in mind that REC Phase I protocols on trade in goods and services, and dispute resolution, are still being negotiated before they are submitted to the AfCFTA. Particularly contentious in terms of origination rules and SEZ concessions are motor vehicles, since this is an industry well suited to the development of RVCs, albeit initially as part of a global value chain. If Korean vehicle assemblers in SEZs can partner with regional suppliers of materials and components to capacitate these enterprises to/with long-term preferred supplier status, economic partnership agreements might help to resolve these blockages – as long as they are not on more favourable terms that those for intra-African trade. Such partnership agreements with the EU are built around asymmetric tariff liberalisation, whereby tariff exemptions on African imports are not reciprocated in full by the less-capacitated African partners.

Korea may consider a symbiotic relationship with China inasmuch as there are synergies between its specialisation in transport equipment and Chinese investment in and management/ownership of many African port, rail and road infrastructures. Similar arguments apply to investments in renewable energy, where Chinese suppliers are already dominant (even in Korea). Supplementary logistics services such as distribution grids or electric/hydrogen fuelling stations and/or electric vehicle battery manufacture are possible ways to fit into a long-term African green energy transition.

Korean imports from Africa are primarily mineral (carbon and nuclear) fuels, ores and beneficiated copper, iron and steel. Tariff concessions on beneficiated minerals will help with Africa's industrialisation strategy to add value to its commodity production. With due consideration to the special and differentiated needs of African nations and the institutionalisation of capacity building, Korea can negotiate economic partnership agreements (characterised by asymmetric trade liberalisation schedules) with regional core nations within AfCFTA parameters.

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# About the Korea–Africa Foundation

The Korea–Africa Foundation (KAF) was established in June 2018 as an affiliation of the Ministry of Foreign Affairs of Korea, with the mission of promoting genuine partnership with the African continent in political, economic, cultural, academic and other areas.

By pursuing comprehensive research and fostering professionals on Africa, KAF aims to serve as a platform for collaboration between the private and public sectors, strengthen exchange and cooperation with African countries and enhance mutual understanding so that Korean youth, businesses and organisations can explore a new dimension of possibilities together with the African continent that is dynamically unfolding its boundless potential.

See www.k-af.or.kr/ for more information.

THE KOREA-AFRICA FOUNDATION

# About SAIIA

SAIIA is an independent, non-government think tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs, with particular emphasis on African issues and concerns.

SAIIA's occasional papers present topical, incisive analyses, offering a variety of perspectives on key policy issues in Africa and beyond.

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*African perspectives.*
*Global insights.*

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