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Is the AfCFTA the 'Game Changer' for Africa?

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Executive summary

One year into its implementation, the African Continental Free Trade Area holds much potential for the future of African cooperation and trade. Its value lies in the market access that will arise from the implementation of the agreement, which should result in agricultural upgrading, some growth in light manufacturing, and the expansion and deepening of regional value chains. This, in turn, will help to drive much-needed structural transformation on the continent. If trade facilitation can be enhanced and non-tariff barriers reduced, the impact of the African Continental Free Trade Area will be even more profound. However, the services negotiations under the agreement are yet to yield any notable outputs, with the deadline for the completion of these negotiations having just been moved to December 2023. As a result, the liberalisation of goods and services is unlikely to coincide, and it will be a year and a half before trade in services starts to play a fundamental, enabling role in extending and deepening regional value chains.

While the initial tariff offers suggest that the African Continental Free Trade Area will significantly boost trade and development in Africa, it is important to recognise that this is a relatively long-term project; thus, it should not be 'oversold' to the private sector.

Introduction

For its backers, the African Continental Free Trade Area (AfCFTA) is fundamental to realising the AU's vision of 'an integrated, prosperous, peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena'.[1] This sentiment was captured by the Secretary-General of the AfCFTA Secretariat, H.E. Wamkele Mene, at the Start of Trading Ceremony in January 2021 when he stated that 'this African Continental Free Trade Area should not just be a trade Agreement, it should actually be an instrument for Africa's development'.[2]

Accordingly, this policy insights seeks to assess the progress that has been made in terms of the AfCFTA becoming an instrument for Africa's development in its first year of implementation. It does this by answering the following questions:

- Why is the AfCFTA an attractive initiative and how could it benefit African economies?
- Why is there a need for 'trade as unusual' and the structural transformation to which the AfCFTA makes an important contribution?

1 'Statement by the Secretary-General of the AfCFTA Secretariat, H.E. Wamkele Mene, at the AfCFTA Start of Trading Ceremony Webinar,' African Union, January 1, 2021, https://au.int/en/speeches/20210101/statement-he-wamkele-mene-afcfta-start-trading.

2 'Statement by the Secretary-General of the AfCFTA Secretariat.'

- What progress has been in the trade in goods and trade in services negotiations and offers, and what does this suggest about the likelihood of regional value chains (RVCs) being expanded and deepened?
- What indications are there that the AfCFTA will be implemented and what is the likely pace of such implementation?
- What are the AfCFTA's implementation assistance mechanisms, parallel initiatives and issues, and in what ways will these assist or hinder its implementation?
- Finally, how will the AfCFTA ensure that its State Parties remain accountable for their implementation commitments?

Why the AfCFTA is an attractive (albeit ambitious) initiative and how it could benefit African economies

Before we proceed with an update and assessment of the first year of the AfCFTA's implementation, it is important to spend some time explaining why it is an attractive, though ambitious, initiative and how it may help to resolve many of the developmental problems faced by African countries that are parties to the agreement.

Potentially significant gains from a single African market

The numbers tell a compelling story – the implementation of the AfCFTA will create an economic bloc valued at $3.4 billion whose aim is to harness the potential of the continent's 1.3 billion people.

Translating the numbers into the potential impact of the AfCFTA, we find estimates of an increase of between 0.05% and 1% of GDP by 2035, if only tariffs are removed, and an increase of 3% of GDP if non-tariff barriers (NTBs) are removed.[3] In the scenario where tariff liberalisation is accompanied by NTB removal and trade facilitation, continental GDP could increase by 7%. This would result in up to 30 million people being lifted out of extreme poverty and a further 68 million poor people seeing their incomes rise by 2035, with wages increasing by roughly 10%. Gender is also an important dimension in the agreement, as the majority of those lifted out of poverty would be women in trade. Trade would increase, with extra-African exports growing by 29% by 2035 and intra-African exports growing by 81%.[4]

3 World Bank, *The African Continental Free Trade Area Economic and Distributional Effects*, July 27, 2020, https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area.

4 Lisandro Abrego, et al, 'The African Continental Free Trade Agreement: Welfare gains estimates from a general equilibrium model' (Working Paper 19/124, International Monetary Fund, June 2019).

Of course, any estimates of the collective impact of trade liberalisation on more than 50 very different economies must be viewed with some caution. In addition, some heroic assumptions need to be made regarding the functioning of labour markets – especially when forecasting more than a decade into the future.

However, from our starting point – that is, the barriers businesses face in operating across borders in Africa – it is clear that much could be done to radically improve the environment for trade and commerce on the continent. Tariff rates are higher than those in East Asia and the Pacific, but the key differences are in the time to trade and the cost of trade (see Table 1). What is particularly noteworthy, though, is evidence of the very high cost of trade within Africa relative to the cost of trade between Africa and the rest of the world. In this regard, the World Bank database of trade costs indicates that the cost of trading between Sub-Saharan Africa and North Africa is 225% higher than the cost of trading between North Africa and Europe.[5]

TABLE 1 RENEWABLE ENERGY PROJECTS IN AFRICA, 2021 (MW)

Region	Tariff rate (simple mean)	Time to import (hours)	Cost of trade (%)
Sub-Saharan Africa	7.8	126	140%
Latin America & Caribbean	6.9	55	110%
East Asia & Pacific	4.5	62	93%

Sources: The World Bank, 'Tariff rate, applied, simple mean, all products (%) – Sub-Saharan Africa, Latin America & Caribbean, East Asia & Pacific,' https://data.worldbank.org/indicator/TM.TAX.MRCH.SM.AR.ZS?locations=ZG-ZJ-Z4; The World Bank, 'Time to import, border compliance (hours) – Sub-Saharan Africa, Latin America & Caribbean, East Asia & Pacific,' https://data.worldbank.org/indicator/IC.IMP.TMBC?contextual=region&locations=ZG-ZJ-Z4; The World Bank, 'ESCAP World Bank: International Trade Costs,' https://databank.worldbank.org/source/escap-world-bank-international-trade-costs

Therefore, whatever reservations we may have about the estimated benefits, the message is clear: if the AfCFTA can deliver an integrated African economic space, the potential rewards are likely to be great.

The need for 'trade as unusual' for Africa – beyond efficiency gains

Much of the benefit to be derived from the AfCFTA will come from the efficiency gains accompanying a reduction in the very high costs and other burdens associated with trading on the continent.

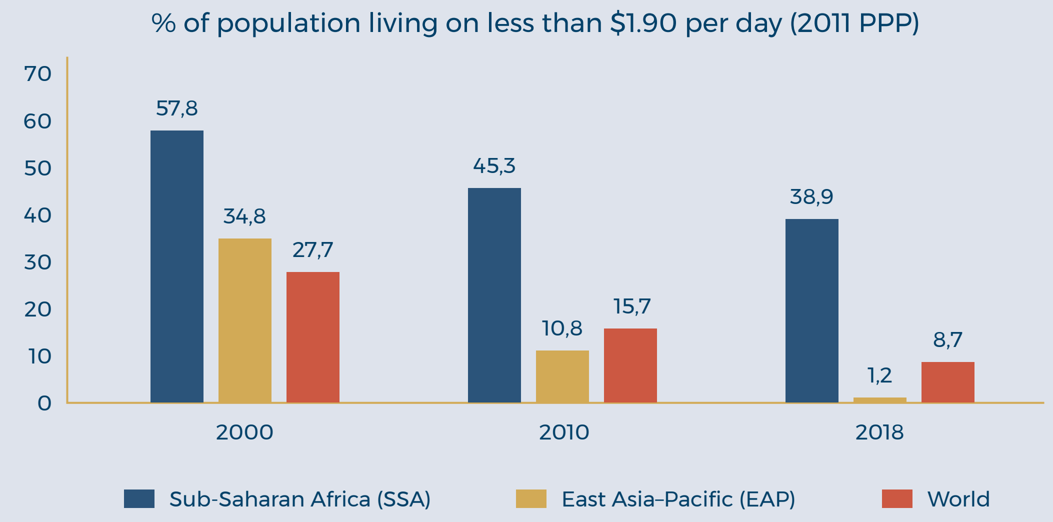
However, over and above efficiency, we also need trade to drive higher-quality growth than what we have seen over the last few decades. We are not denying that a significant expansion in trade and strong growth have led to a concomitant reduction in the poverty

5 Trade Law Centre (tralac), 'Intra-African trade: Non-tariff trade costs,' Tralac infographic, February 21, 2020, https://www.tralac.org/resources/infographic/14411-intra-africa-trade-non-tariff-trade-costs.html

headcount. Rather, we wish to highlight that, despite GDP per capita growth, the number of poor people in Africa has risen, from 392 million in 2000 to 438 million in 2017. This stands in contrast to the situation in East Asia where the poverty headcount fell from 632 million to 29 million over the same period.

Putting this in terms that economists like to use, the elasticity of poverty with respect to GDP growth is weak. In a study covering the period 1993–2011, the link between growth and poverty reduction was found to be weaker in Africa than in other regions.[6] Figure 1 provides a view of African poverty levels relative to those in East Asia–Pacific (EAP) and the world.

Figure 1 Poverty headcount ratios for Sub-Saharan Africa in a global context



Source: Authors' calculations from World Bank, 'Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) – Sub-Saharan Africa, East Asia & Pacific, World,' https://data.worldbank.org/indicator/SI.POV.DDAY?locations=ZG-Z4-1W

Furthermore, growth in Africa is, to an extent, jobless (at least in the formal sector) as unemployment continues to rise. Every year, a third of the African population aged 15–35 face unemployment. In many African countries, the unemployment rate is over 20% and for many of those who do find work, it is insecure and informal.[7]

6 Olivier Cadot, et al; 'Industrialisation et Transformation Structurelle: L'Afrique subsaharienne peut-elle se développer sans usisnes?' *Revue d'Economie du Développement*' /'Industrialization and Structural Transformation: Can Sub-Saharan Africa develop without factories?' *Journal of Development Economics*, Vol 24, Issue 2, 2016, https://www.cairn-int.info/journal-revue-d-economie-du-developpement-2016-2-page-19.htm.

7 The causes of unemployment are difficult to discern and vary by country; Ken Chamuva Shawa, Pamphile Sossa and Niall O'Higgins, *Report on employment in Africa (Re-Africa): Tackling the youth employment challenge* (Geneva: ILO, 2020); For several low- and low-middle income countries not dependent on mineral exports, there was a positive trend in formal job creation until the pandemic.

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Boosting productivity and trade in the agricultural sector

Agriculture accounted for over 18% of Sub-Saharan Africa's GDP in 2020 and an estimated 53% of employment,[8] and there is great potential for agricultural production to expand. Over 60% of the world's uncultivated, arable land is in Africa and there is scope to build on the productivity gains that have already been seen due to improved access to inputs, such as fertiliser and higher-yield seeds.[9] For example, current cereal and grain production levels could double or triple through yield improvements.[10] On the demand side, food and beverages expenditure is estimated to increase by $167 billion in the decade up to 2025 in the wake of growing urbanisation and the rise of an African middle class.[11]

However, intra-continental trade remains limited. Africa imports only 15% of its food requirements from the continent. There are many factors contributing to this, but tariffs are still high between regional economic communities (RECs). Moreover, NTBs are prevalent between and within RECs. For example:

- SADC's average tariff on agricultural products imported by member states is 3% and 11.5% on imports from ECOWAS. ECOWAS, in turn, imposes an average tariff of 13% on agricultural imports from the Economic Community of Central African States and between 18% and 19% on imports from the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and SADC.[12]

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8 World Bank, World Development Indicators https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=ZG-Z4-1W; https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=ZG.

9 Oxford Business Group, 'Agriculture in Africa 2021,' April 2021, https://oxfordbusinessgroup.com/sites/default/files/blog/specialreports/960469/OCP_Agriculture_Africa_Report_2021.pdf.

10 McKinsey & Company, 'Winning in Africa's agricultural market,' February 15, 2019, https://www.mckinsey.com/industries/agriculture/our-insights/winning-in-africas-agricultural-market.

11 McKinsey Global Institute, 'Lions on the move II: Realising the potential of Africa's economies,' September 14, 2016, https://www.mckinsey.com/featured-insights/middle-east-and-africa/lions-on-the-move-realizing-the-potential-of-africas-economies.

12 Antoine Bouët, Getaw Tadesseand Chahir Zaki (eds), *Africa agriculture trade monitor 2021* (International Food Policy Research Institute (IFPRI), 2021, https://www.ifpri.org/publication/africa-agriculture-trade-monitor-2021.

- NTBs are probably more restrictive than tariffs, with an estimated tariff rate equivalent of 21%.[13] Sanitary and phytosanitary (SPS) measures and import and export bans are particularly problematic for trade in agricultural products, including food.

According to UNECA, the AfCFTA's greatest potential for boosting agricultural trade on the continent therefore lies in the removal of tariff and non-tariff barriers, particularly SPS measures and trade bans, which could result in the value of trade increasing by $10–17 billion

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Growth and employment in light manufacturing

Labour-intensive light manufacturing has been the key driver of economic growth and job creation in most successful developing countries, but it has not been central to Africa's growth. Unlocking the potential of light manufacturing would spawn millions of much-needed jobs in the formal manufacturing sector. Indeed, some analysts are of the view that Africa could be the world's next manufacturing hub, driven in part by significant investment by Chinese companies with the additional possibility of Africa attracting some of the 100 million labour-intensive jobs that will leave China by 2030. However, we need to sound a strong note of caution at this stage, especially as the impact of COVID is still playing out.[14]

Africa's comparative advantages are in relatively low-tech sectors,[15] particularly:

- Food and beverages
- Leather
- Wood products
- Textiles and garments

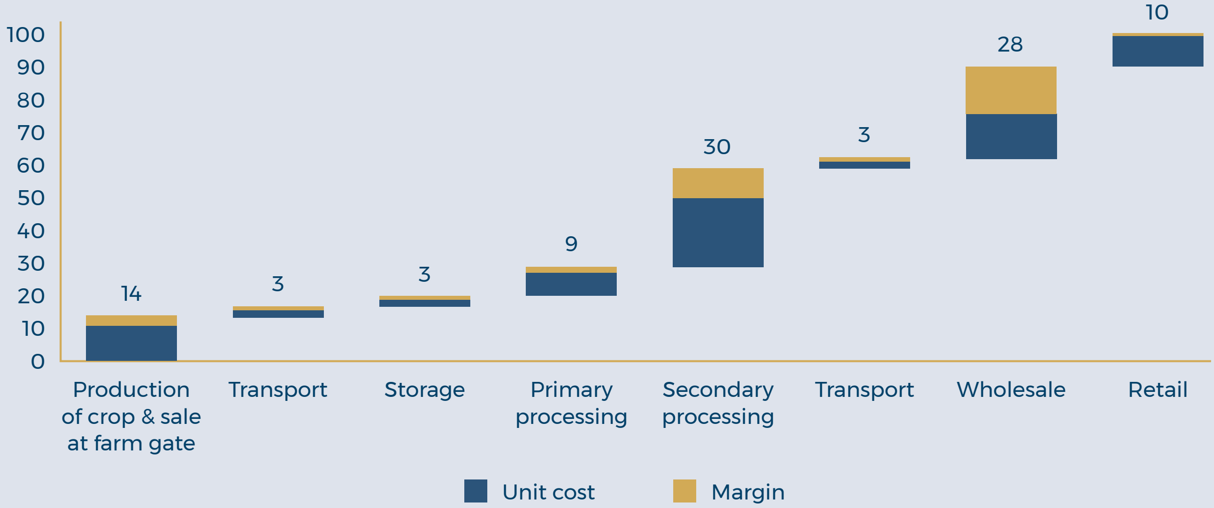
13 Antoine Bouët et al., *Africa agricultural trade monitor* 2021.

14 Irene Yuan Sun, 'The world's next great manufacturing center,' *Harvard Business Review*, May–June 2017, https://hbr.org/2017/05/the-worlds-next-great-manufacturing-center.

15 Ann E Harrison, Justin Yifu Lin and Lixin Colin Xu. 'Explaining Africa's (Dis)advantage' (Policy Research Working Paper No 6316, World Bank, Washington, D.C., 2013), https://openknowledge.worldbank.org/handle/10986/13181.

Boosting production and trade in processed agricultural products would have a particularly positive effect in terms of capturing greater value-added, as the margin is greatest at the secondary processing and wholesale levels (see Figure 2). With a few notable exceptions, such as grapes and sugar, most processed agricultural products are produced in limited quantities; for example, only 2% of tea is exported in a processed form.[16]

Figure 2 Tracking the agricultural value chain (%)



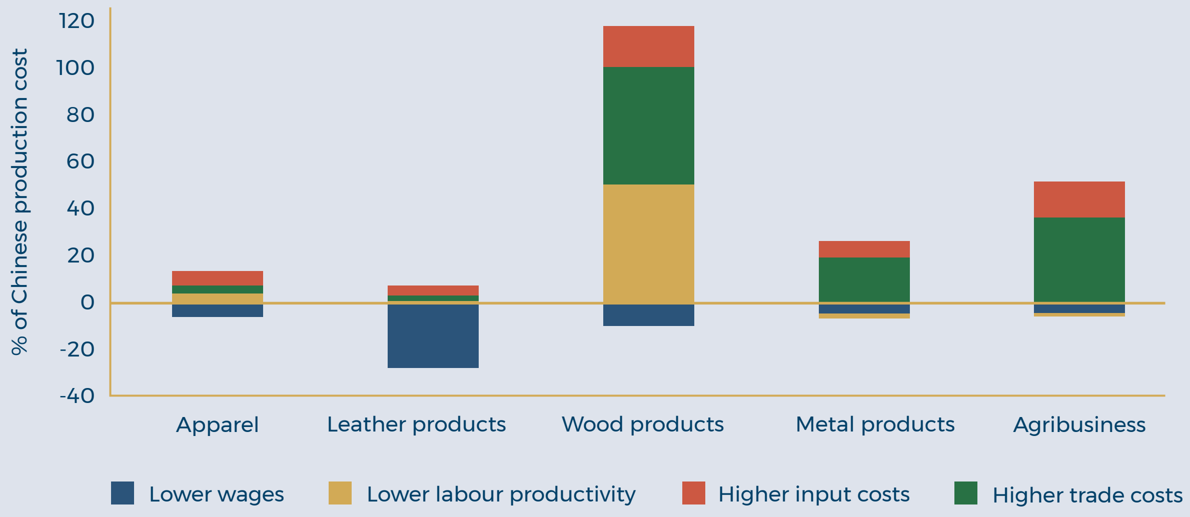
Source: Bain and Company, in Oxford Business Group, 'Agriculture in Africa 2021,' OBG infographic, April 2021, https://oxfordbusinessgroup.com/sites/default/files/blog/specialreports/960469/OCP_Agriculture_Africa_Report_2021.pdf

Light manufacturing in Africa is constrained by a myriad of factors, ranging from the high cost of power and/or its unavailability, to corruption, labour-market regulations, uncompetitive wages and poor labour productivity levels – many of which can only be satisfactorily addressed in the long term. However, extensive research at the firm level has revealed some constraints that can partly be addressed by trade policy and targeted interventions – notably input costs and trade costs, both of which are fundamental to the competitiveness of certain sectors (see Figure 3). In particular, import tariffs and burdensome import procedures drive up the price of key inputs, such as wheat and maize in agro-industries, while NTBs restrict exports of raw hides and thus reduce the profitability of tanneries in the leather sector. Apparel is affected by high tariffs on textiles and zippers of export quality, with high costs exacerbated by poor trade facilitation, while metal products are subject to high import tariffs and high transport costs.[17]

16 Oxford Business Group, 'Agriculture in Africa 2021.'

17 Hinh T Dinh, Vincent Palmade, Vandana Chandra and Frances Cossar (eds), *Light manufacturing in Africa: Targeted policies to enhance private investment and create jobs* (World Bank Publications, 2012), https://openknowledge.worldbank.org/handle/10986/2245.

Figure 3 Comparison of African and Chinese manufacturing costs, 2011



Source: Hinh T Dinh, Vincent Palmade, Vandana Chandra and Frances Cossar (eds), *Light manufacturing in Africa: Targeted policies to enhance private investment and create jobs* (World Bank Publications, 2012), 55, https://openknowledge.worldbank.org/handle/10986/2245

Regarding NTBs, rules of origin are much more problematic for industry than they are for agriculture. Results of surveys conducted by the International Trade Centre among a sample of developing countries (13 out of 23 were in Africa) suggest that rules of origin, and their related documentation, are one of the most difficult non-tariff measures (NTMs) with which the manufacturing sector has to contend.[18]

The AfCFTA can play a role in creating jobs and adding value in light manufacturing by removing tariff barriers, enhancing trade facilitation and ensuring that rules of origin are designed to ensure that tariff preferences are taken up by business

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18 UN Conference on Trade and Development (UNCTAD), *Economic Development in Africa Report 2019*, 'Chapter 5: Made in Africa – Rules of origin for enhanced intra-African trade,' Geneva, 2019, https://unctad.org/system/files/official-document/edar2019_en_ch5.pdf.

Unlocking the potential of trade in services

The potential of services to act as an engine of growth is often overlooked. Between 1990 and 2012, the services sector was the largest contributor to growth. Importantly, too, increasing productivity in this sector has spurred job creation.[19] The services sector is likely to continue to be an important source of large-scale job creation because it is 'future proofed' to the extent that it is an 'industry without smokestacks' and therefore less vulnerable to climate concerns.[20] Moreover, from a trade perspective, services exports grew much faster than merchandise exports across Africa from 1998 to 2015.[21]

Services trade goes far beyond well-recognised and well-documented sectors such as tourism. For example, in a survey of accounting, architectural, engineering and legal firms in COMESA member states, 16% stated that they were already engaged in exports, mainly to neighbouring countries, while many hospitals were treating foreign patients, including through telemedicine.[22] However, these activities are not recorded in the official statistics.

Many services are also critical enablers of manufacturing production and exports. This goes beyond the provision of transport and financial services to include extension services, repair, distribution, branding, and others. In Ethiopia, services constitute about 80% of the final price of roses, one of the country's leading export products.[23]

Africa's policy environment for trade in services is generally more restrictive than that of other emerging economies and the OECD (see Figure 4).[24]

Restrictions to trade in services do not lie in tariffs. Instead, they include market access restrictions, such as licensing requirements, exclusive rights granted to locals, quantitative restrictions on the number of suppliers as well as regulations pertaining to firms' operations, such as restrictions on prices and fees, advertising, business structures, and so on. In addition, the constraints to African competitiveness caused by infrastructure deficits and the general failure, at the policy level, to expand digital access were put under the spotlight during the COVID pandemic. Restrictions can also result from the absence of inter-country regulatory cooperation. For example, medical tourism remains restricted by the non-portability of insurance policies. In addition, accountants can only practise in other

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19 Ejaz Ghani and Stephen O'Connell, 'Les services peuvent-ils devenir un escalator de croissance pour les pays à faible revenu?' *Revue d'économie du développement*, 24, no 2, 2016.

20 Zaakhir Aslam., Haroon Bhorat and John Page, 'Exploring new sources of largescale job creation: The potential role of Industries without smokestacks,' Brookings Institution, Washington, D.C., 2020, www.brookings.edu/research/exploringnewsourcesoflarge scalejobcreationthepotentialroleofindustrieswithoutsmokestacks.

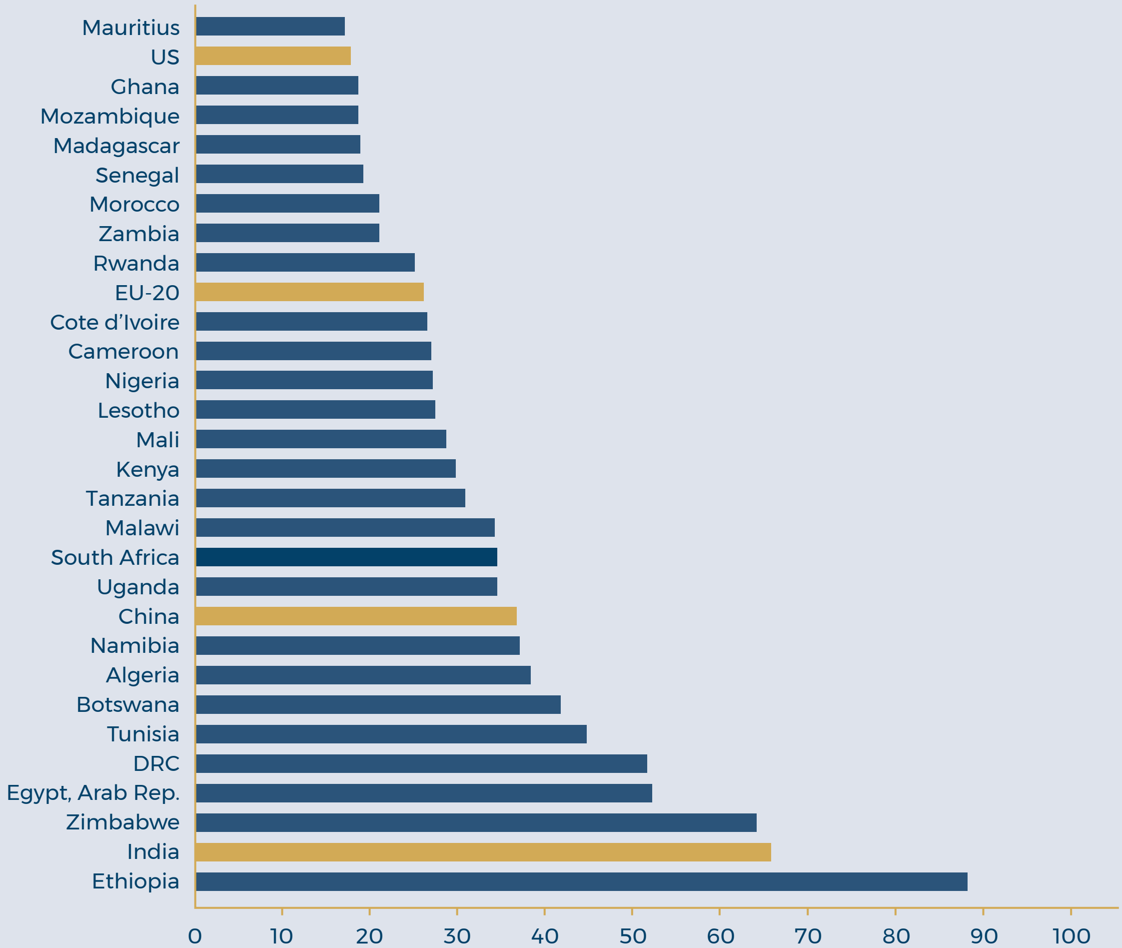
21 John Page, 'The road not taken: Structural change in Africa reconsidered,' in *Foresight Africa: Top priorities for the continent in 2018*, Chapter 4, Brookings Institution, January 11, 2018, https://www.brookings.edu/multi-chapter-report/foresight-africa-top-priorities-for-the-continent-in-2018/.

22 Nora Dihel and Arti Grover Goswami, 'The unexplored potential of trade in services in Africa: From hair stylists and teachers to accountants and doctors,' World Bank, Washington D.C., 2016, https://openknowledge.worldbank.org/handle/10986/24968.

23 Dihel and Goswami, 'The unexplored potential of trade in services.'

24 The STRI for non-OECD African countries is for 2008. Although very dated, it still provides the best indicator of relative policy openness.

Figure 4 Services Trade Restrictiveness Index (STRI) for selected African countries, 2008–2011



Source: The World Bank. Services Trade Restrictiveness Index, https://www.worldbank.org/en/research/brief/services-trade-restrictions-database

countries if their qualifications are recognised in each of the countries concerned on the basis of a mutual recognition agreement.

The AfCFTA can play a role in creating jobs in the services sector and enabling competitive service provision by removing market access and operational (national treatment) restrictions which fragment the continental market. Non-traditional services, which are key inputs in the manufacturing process, are particularly important for unlocking the continent's potential.

Boosting participation in key regional value chains and contributing to structural transformation

Africa's continued reliance on natural resources and the production of and trade in non-complex products are part of the reason why trade and growth have failed to boost labour productivity and wages and stimulate job creation on the continent.[25] To fundamentally transform the continent, African economies must grow beyond the industrial sectors in which they have demonstrated a comparative advantage, eg, agro-processing and basic textiles and garments, as these sectors are of only moderate complexity. What is needed is for countries to transition to more advanced industries and industry segments, such as vehicles, machinery, pharmaceuticals, chemicals and electrical products as well as higher-value services, including finance and information and communication technology (ICT).

There is potential to widen and deepen RVCs. Through RVCs countries can combine their comparative and competitive advantages, enabling them to participate in industries that would probably be beyond their reach if they simply relied on their own capabilities. RVCs pave the way for specialised agglomerations and economies of scale, thus creating an economic ecosystem that allows for the absorption of rapidly changing technologies and attendant skill sets, which are associated with more complex types of production.

BOX 1 WHY RVCs ARE DIFFERENT FROM NATIONAL VALUE CHAINS AND GVCs AND WHY THEY SHOULD BE A PRIORITY IN AFRICA

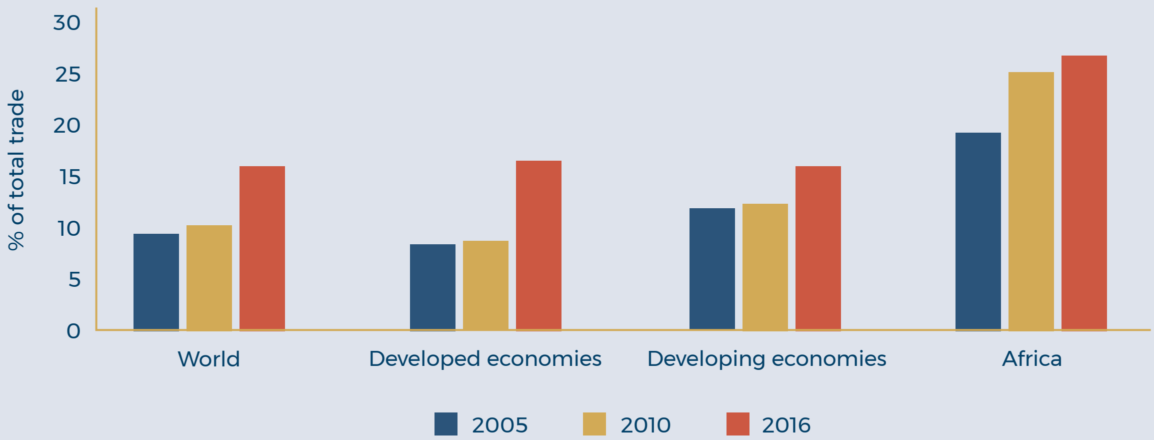
1. The surrounding region is the main economic space to which domestic manufacturers export their products; hence, it is of strategic importance to support structural transformation processes;
2. RVCs involve more regional players when it comes to ownership, production and investment; hence, there are more opportunities to upgrade to higher-rent value chain links, such as product design, branding and distribution; and
3. Existing regional economic integration agreements (such as those underpinning the various RECs), which serve as the building blocks of the AfCFTA, create policy space to intervene and contribute towards a regional industrialisation agenda.

Source: UNDP/AU/AFCFTA, The Futures Report 2021: Which Value Chains for a Made in Africa Revolution? (p. i), https://imanidevelopment.com/wp-content/uploads/2021/11/AFCFTA-Futures-Report-2021_Which-Value-Chains-for-a-Made-in-Africa-Revolution_2021.pdf

25 UN Economic Commission for Africa (UNECA), 'Economic report on Africa: Industrialising through trade 2015,' March 7, 2016, https://www.uneca.org/economic-report-africa-2015.

Evidence suggests that RVCs are already providing a pathway to greater production complexity, as exports within the RVCs on the continent embody higher levels of technology than African exports within global value chains (see Figure 5). However, participation in RVCs on the continent has remained stuck at below 5% of total exports for the last two decades, while in the case of SADC it may actually be declining.[26]

Figure 5 Share (%) of medium- and high-technology goods in Africa's exports by destination (2005–2016)



Source: UNDP/AU/AFCFTA, *The Futures Report 2021: Which Value Chains for a Made in Africa Revolution?* (p. 5), https://imanidevelopment.com/wp-content/uploads/2021/11/AFCFTA-Futures-Report-2021_Which-Value-Chains-for-a-Made-in-Africa-Revolution_2021.pdf

Constraints to the development of RVCs are to a large extent a combination of the constraints to trade in agricultural products, trade in light manufactured goods and trade in services. However, their growth is especially vulnerable to piecemeal and incoherent liberalisation attempts. Trade restrictions in any part of an RVC can undermine the competitiveness and growth of the entire chain, which could literally break it. Of particular concern in the development of RVCs are rules of origin and trade facilitation. With innumerable transactions taking place across multiple borders, any inefficiencies and costs simply multiply and compound the problem.

26 Jaime de Melo and Anna Twum, 'Supply chain trade in East Africa' (International Growth Centre, January 2020).

One year in – What does it look like the AfCFTA will deliver?

COVID delayed the start date for trading under the AfCFTA from July 1, 2020 to January 1, 2021. Several state parties published special Gazettes to amend their tariff books in the run-up to the January start date.[27] Yet only a few countries, including Cameroon, Egypt, Ghana and South Africa, have the required customs procedures in place to start trading under the AfCFTA.[28] In addition, the very nature of the AfCFTA means that there is no 'Big Bang' in terms of liberalisation. In the case of tariffs, even for the large economies, the full tariff phase down will take up to five years for most goods. For others it will take longer.[29] Moreover, there are still rules of origin to work out for automotives and textiles and clothing (which are discussed in more detail later).

As far as services are concerned, they are still some way off having any impact at all, as negotiations are still ongoing – even though the initial agreement was to ensure that trade in services and trade in goods were implemented simultaneously. The new deadline for the conclusion of schedules of commitments is now December 2023.

While some trade has already taken place under the AfCFTA this year (on January 1, 2021, the African Electronic Trade Group transported goods produced in Eswatini to various countries that had signed and ratified the AfCFTA, including Ethiopia), [30] we should focus more on what is coming than on what has happened in the AfCFTA's first year, as the AfCFTA is an initiative that will span several decades. So, how can we do this?

We are in the fortunate position of having been given access to the tentative (we stress tentative) tariff schedules and services commitments of several parties to the AfCFTA in preparation for our work on the AfCFTA/AU/UNDP Africa Futures Report 2021. This has allowed us to consider what the trade landscape is likely to look like in the coming years and to assess what this means for key sectors and key RVCs.

Where are we seeing tariff liberalisation – if not now, then in the future?

The Futures Report 2021: Which Value Chains for a Made in Africa Revolution? provides an analysis of the initial, and tentative, tariff offers of the Economic and Monetary Community of Central Africa (CEMAC), Comoros, the EAC, ECOWAS, Egypt, Madagascar, Malawi,

27 Gerhard Erasmus and Trudi Hartzenberg, 'Trade under AfCFTA Rules started on 1 January 2021, but hard work lies ahead,' Tralac, February 10, 2021, https://www.tralac.org/blog/article/15087-trade-under-afcfta-rules-started-on-1-january-2021-but-hard-work-lies-ahead.html.

28 David Luke, Judith Ameso and Mahlet Girma Bekele, 'On implementing the AfCFTA in 2021,' *Trade Development News*, March 16, 2021, https://trade4devnews.enhancedif.org/en/op-ed/implementing-afcfta-2021.

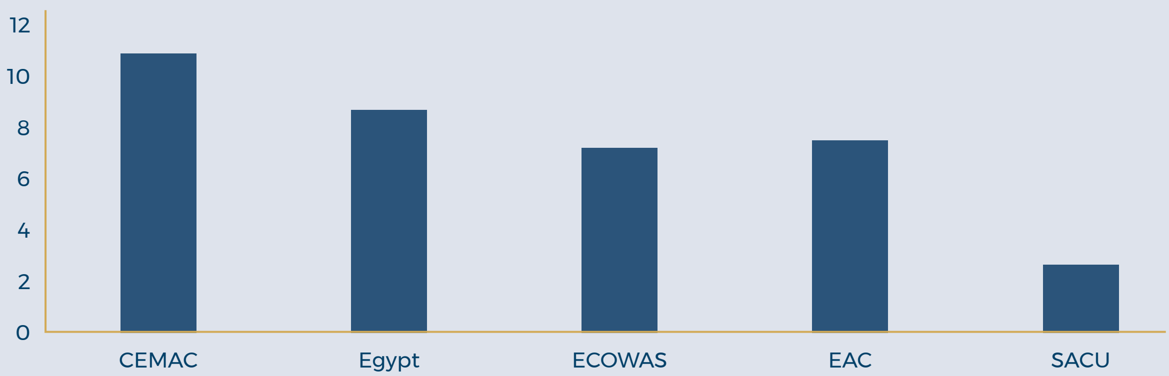
29 Tralac, 'African Continental Free Trade Agreement: Comparative analysis of tariff offers,' March 15, 2021, https://www.tralac.org/resources/infographic/15132-african-continental-free-trade-agreement-comparative-analysis-of-tariff-offers.html.

30 Luke, Ameso and Bekele, 'On implementing the AfCFTA.'

Mauritius, the Southern African Customs Union (SACU), São Tomé and Principe, Seychelles and Zambia. The tariff line coverage of the submitted tariff offers ranges from 100% for CEMAC and Egypt at one end to 86% for the EAC and 81% for SACU at the other end.

Figure 6 shows the average intra-African tariff preferences of member RECs and states when weighted for trade by product and partner. The tariff offers received provide African businesses with trade preferences of 10% when trade weighted. Those of Egypt, ECOWAS and the EAC result in average preferences of 12%, 11% and 10% respectively. However, when weighted for trade, the average preferences drop to between 7% and 9%. SACU's tariff preferences are significantly lower – 5% on average and just over 2% when trade weighted. This reflects the exclusion of large numbers of sensitive items from countries' initial and provisional tariff offers.

Figure 6 Trade-weighted tariff preferences (%)



Source: UNDP/AU/AFCFTA, *The Futures Report 2021: Which value chains for a made in Africa revolution?* (p. 10), https://imanidevelopment.com/wp-content/uploads/2021/11/AFCFTA-Futures-Report-2021_Which-Value-Chains-for-a-Made-in-Africa-Revolution_2021.pdf

Table 3 shows the main traded sectors in which AfCFTA preferences are over 10%. These include plastics for CEMAC and SACU; machinery and equipment, articles of clothing for CEMAC, the EAC, ECOWAS and Egypt; and articles of iron and steel for CEMAC, ECOWAS, Egypt and SACU.

The AfCFTA will result in significant tariff preferences in key traded products and sectors. However, there are some significant exclusions in the current tariff offers, namely maize grains, cereals, soya and sugar for the EAC, and soya, sugar, and textiles and clothing for SACU

TABLE 3 PRODUCT LINES WITH INTRA-AFRICAN TRADE PREFERENCES OF OVER 10%

HS code	Region or Country				
	CEMAC	EAC	ECOWAS	Egypt	SACU
39 (Plastics and articles thereof)					
42 (Articles of leather; saddlery and harness)					
44 (Wood and articles of wood; wood charcoal)					
52 (Cotton)					
61 (Articles of apparel and clothing accessories; knitted)					
62 (Articles of apparel and clothing accessories; not knitted)					
63 (Other made-up textile articles; sets; worn clothing)					
64 (Footwear; gaiters and the like)					
68 (Articles of stone, plaster, cement)					
72 (Iron and Steel)					
73 (Articles of iron and steel)					
85 (Electrical machinery and equipment and parts)					
94 (Furniture; bedding, mattress)					

Source: UNDP/AU/AFCFTA, *The Futures Report 2021: Which Value Chains for a Made in Africa Revolution?* (pp. 12–13), https://imanidevelopment.com/wp-content/uploads/2021/11/AFCFTA-Futures-Report-2021_Which-Value-Chains-for-a-Made-in-Africa-Revolution_2021.pdf

The AfCFTA will result in significant tariff preferences in key traded products and sectors. However, there are some significant exclusions in the current tariff offers, namely maize grains, cereals, soya and sugar for the EAC, and soya, sugar, and textiles and clothing for SACU.

What evidence is there of opening up under the services schedules of commitment?

As already noted, the services negotiations are ongoing and not scheduled to be completed before the end of 2023. However, several countries have submitted provisional offers for the first phase. Our analysis of services schedules was limited to 10 countries: Comoros, Madagascar, the Democratic Republic of Congo (DRC), Seychelles, Egypt, Eswatini, Mauritius, Namibia, South Africa and Zambia. All but Comoros, Egypt and the DRC belong to the SADC FTA, while Egypt and the DRC belong to the WTO, but Comoros does not.

Commitments have only been offered for the five priority sectors that are under negotiation for phase one of the AfCFTA negotiations: business, communications, finance, tourism and transport services. An initial review of the offers highlighted above reveals the generally conservative approach taken, with only the offers by the DRC, Mauritius and Namibia showing relatively significant improvements in liberalisation in at least three of the five priority sectors relative to the General Agreement on Trade in Services (GATS) commitments.

That said, there is some opening up in business, communications and finance. However, some of the commitments made in communications involve 'tidying up' after the regulatory and institutional changes that have transformed the sector since the GATS commitments were made – at a time when the fax machine, for example, was cutting edge. It is also important to note that sector-specific commitments were largely limited to Modes 1, 2 and 3.[31] Mode 4 was left unbound for the majority of sectors, and by and large any deviations from or exceptions to this were listed in horizontal commitments rather than under specific services.

How do the offers translate into real business opportunities in key sectors?

With direct reference to the work done for *The Futures Report 2021: What Value Chains for a Made in Africa Revolution*?,[32] consideration is given to what real business opportunities that the AfCFTA could deliver to selected value chains. Figures 7 and 8 provide examples of agro-processing and consumer good manufacturing-based supply chains which offer exceptional opportunities for African value-chain development.

The soya bean value chain stands to benefit from tariff liberalisation in the earlier and later stages of the value chain, while at the processing link cumulation is becoming an issue. In the first two links of the value chain, the AfCFTA could facilitate duty-free imports of agricultural inputs, including high-yield, drought-resistant soya seeds and mechanical planting and harvesting equipment, which could increase yields and agricultural productivity significantly. Additionally, countries like Kenya, Morocco and South Africa would benefit from being able to export milling equipment to large soya producers like Zambia and Tanzania.

Although these are real opportunities with a likely real impact, the development of regional links in the first two phases of this value chain will have far less of an impact than the third (secondary processing) and the free trading of its output soya oil. Although the products in

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31 Mode 1 refers to services supplied from the territory of one member into the territory of any other member. Mode 2 refers to services supplied in the territory of one member to the service consumer of any other member. Mode 3 refers to services supplied by a service supplier of one member, through commercial presence, in the territory of any other member. Mode 4 refers to services supplied by a service supplier of one member, through the presence of natural persons of a member in the territory of any other member. World Trade Organization, 'Basic purpose and concepts: 1.3 Definition of Services Trade and Modes of Supply,' https://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm.

32 UNDP/AU/AFCFTA, *The Futures Report 2021*.

the later stages of the value chain are liberalised and the free trade in soya cake will enable regional livestock feed value chains to develop more easily, most of the value addition to be captured in this section of the value chain is through the provision of value-added services (packaging services, branding and marketing services, among others), and these negotiations are still ongoing. Additionally, where initial offers have been made, they are unlikely to have any impact given their conservative nature.

FIGURE 7 SOYA VALUE CHAIN – STAGES AND COMPONENTS

	STAGE 1	STAGE 2	STAGE 3	STAGE 4	STAGE 5
Physical inputs	• Fertilisers and bio-stimulants • Pesticides • Seedlings • Mechanized harvesting and sorting equipment	• Milling equipment	• Reliable and affordable power • Crude and refined oil extraction equipment	• Reliable and affordable power • Maize bran and other such ingredients to make feedstock	• Reliable and affordable power • Grains of different varieties • Brine, and Aspergillus oryzae or • Aspergillus sojae molds
	 **SOYA BEANS** (HS 1201)	 **SOYA MEAL/FLOUR** (HS 120810)	 **SOYA OIL** (HS 150710 and HS 10790 crude and not crude soya oil)	 **OIL CAKE FROM SOYA** (HS 2304)	 **SOYA SAUCE** (HS 210310)
Service inputs	• Micro finance & crop insurance services • Agri-input last mile delivery innovations • Farming extension	• Technical testing services • Traceability services	• Logistics services • Equipment & machinery & installation and maintenance services • Services incidental to manufacturing	• Packaging Services • Technical testing services	• Branding and marketing services • Logistics services • Packaging services • Technical testing services

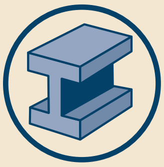
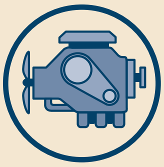
No new opportunity Contingent opportunity (cumulation) New opportunity

Source: UNDP/AU/AFCFTA, *The Futures Report 2021: Which value chains for a made in Africa revolution*? (p 53), https://imanidevelopment.com/wp-content/uploads/2021/11/AFCFTA-Futures-Report-2021_Which-Value-Chains-for-a-Made-in-Africa-Revolution_2021.pdf

Automotives

Automotives provide an example of the great opportunities that could open up with the successful implementation of the AfCFTA, but also the significant challenges – both within the framework of the negotiations and the wider policy context on the continent – and the tough choices that leaders need to make in managing the tensions between the numerous buy-and -build national campaigns and policies, on the one hand, and efforts to deepen regional integration and invest in regional public goods (RPGs), on the other.

FIGURE 8 AUTOMOTIVE VALUE CHAIN – STAGES AND COMPONENTS

	STAGE 1	STAGE 2	STAGE 3	STAGE 4
Physical inputs	• Steel and Iron • Aluminium • Glass • Rubber • Plastics • Leather (seats)	• Heavy industry equipment ie., smelters etc • Reliable, affordable, and sustainable power • Water	• Sub-components from Stage 2 • Reliable, affordable, and sustainable power	• Major components from stage 3 • Assembly robotics • Reliable, affordable, and sustainable power
	 **Tier 3 Suppliers – basic mate** (steel, aluminium, leather, rubber, plastic, glass) - HS 73; 76; 42; 40; 39; 70)	 **Tier 2 Suppliers** (sub-components (bodies welding, fabrication, shearing, bending, stamping)	 **Tier 1 Suppliers – major components** (drive train, gearboxes, steering, electronics)	 **Original Equipment manufacturers – assembly & production of vehicle**
Service inputs	• Engineering services & integrated engineering services • Technical testing & analysis services • Services incidental to mining • Services incidental to manufacturing • Logistics services	• Engineering services & integrated engineering services • Technical testing & analysis services • Services incidental to manufacturing • Logistics services	• R&D services on natural sciences • Packaging services • Engineering services & integrated engineering services • Technical testing & analysis services • Services incidental to manufacturing • Logistics services	• All computer and related services • R&D services on natural sciences • Engineering services & integrated engineering services • Technical testing & analysis services • Services incidental to manufacturing • Logistics services

No new opportunity   Contingent opportunity (cumulation)   New opportunity

Source: UNDP/AU/AFCFTA, *The Futures Report 2021: Which value chains for a made in Africa revolution*? (p 25), https://imanidevelopment.com/wp-content/uploads/2021/11/AFCFTA-Futures-Report-2021_Which-Value-Chains-for-a-Made-in-Africa-Revolution_2021.pdf

At this point in the negotiations, there are limited tariff offers from the RECs and Egypt for chapters HS 8701.90–HS 8704.90, and several rules of origin have not yet been finalised. The lack of tariff offers on these tariff lines is telling – it means that these tariff lines are either in the sensitive or excluded product categories for the RECs and Egypt and will therefore take longer to be liberalised (sensitive) or not liberalised (excluded), as the case may be. This not only hampers RVC development but if these products end up in the excluded category, it will likely preclude the development of the RVCs in question.

To illustrate what the lost opportunities induced by these concessions and exclusions mean for the automotive sector in Africa, we can refer to HS 8703 (Cars), which has no tariff offers from any of the RECs or from Egypt (barring HS 8703.90 Other). HS 8703 holds over $1 billion in export potential to Africa from Morocco and South Africa alone. Given the nature of the automotive industry and its numerous upstream suppliers, the benefits of realising this export potential would also be shared by the 'spoke' countries that act as Tier 3 and Tier 2 suppliers to the hubs of Morocco and South Africa, which include Botswana, Côte d'Ivoire, Togo and Zambia.

Finally, tough decisions need to be made by African leaders regarding the impact of second-hand car imports as well as the best way to ensure that vehicles are cost effective and available to the local economy while also building local manufacturing capacity. Notwithstanding the matter of final demand, the vast range of used cars already imported into Africa makes it difficult for the local parts industry to develop because of the wide range of parts required.[33] A number of countries have strict import bans or controls and enforce them well, such as South Africa, Rwanda, Egypt, Morocco and Ghana. Will other countries follow suit in a-'beggar-thy-neighbour' fashion?

Real opportunities will emerge from the implementation of tariff offers, but services fail to excite

Our brief look at the two value chains above confirms that real opportunities could emerge for business in five to 10 years' time when the tariff phase down is fully implemented. However, there is still uncertainty as to whether significant opportunities like the one represented by HS 8703 will materialise because it depends on whether the state parties categorise the products in this chapter as sensitive or excluded. If sensitive, then the opportunities will materialise; it will just take longer. If excluded, they are unlikely to ever materialise. To be clear, these opportunities are associated with tariff liberalisation alone. There are numerous other benefits and opportunities that will emerge from other aspects of the AfCFTA, which will also be enabling factors for RVCs, such as a reduction in NTBs and enhancements in trade facilitation. In fact, it is these aspects that will have the greatest impact in terms of lowering trade costs and improving transport and logistics efficiency on

33 Anthony Black, Brian Makundi and Thomas McLennan, 'Africa's automotive industry: Potential and challenges' (Working Paper 282, African Development Bank, Abidjan, Côte d'Ivoire, 2017), https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/WPS_No_282_Africa's_Automotive_Industry_Potential_and_Challenges.pdf.

the continent. However, they will not be enough to catalyse RVCs if the maintained tariffs are prohibitively high.

Finally, and as shown in the two value chain visualisations above, we can see how, at every stage of the value chains, services are required to support their construction, management and ongoing improvement. Despite this, as we have noted already, services negotiations are yet to yield any notable and impactful outputs, with the deadline for their completion having been moved to December 2023. This is not all bad, though, as it also signals that AfCFTA state parties genuinely intend to implement the trade in services protocol once agreed; they are thus being thorough with respect to its contents and their commitments. This intention may, however, be frustrated by the timelines announced by the Secretariat for legal scrubbing of the offers and their presentation to Ministers in 2022 because they may leave too little time to renegotiate what were supposed to be initial offers, which should be scrutinised by other countries and lead to improved offers (ie, negotiations on market access).

Therefore, although the intention to implement is there, the impact of the offers could be diminished given that most initial offers could become final offers. This suggests that there may be minimal or limited new market openings in the case of trade in services. Finally, the delay in the negotiations, which we can now appreciate as extra time afforded countries to potentially change their initial offers, does mean that the liberalisation of goods and services trade is unlikely to coincide. This means that it will be a year and a half before we start to see trade in services playing a fundamental, enabling role in expanding and deepening RVCs.

Will it be implemented? Assistance mechanisms, parallel initiatives, issues and accountability

When it comes to regional integration, the continent has a long history of signing agreements that many consider to be operational ‘on paper only’. Yet when these agreements do risk having an impact on the policy discretion of a member state, they are defanged. If the veracity of statements on the AU by politicians is debased, how can we glean whether or not the AfCFTA will actually be implemented?

Firstly, preparation for implementation sets the AfCFTA agreement apart. Importantly, the Adjustment Fund explicitly recognises one of the key political constraints to tariff phase downs that we have witnessed in, for example, SADC, namely the short-term fiscal impact. Afreximbank has already committed $1 billion to the fund to cushion the potential loss of government revenue. The facility will also support the private sector in responding efficiently to the opportunities and challenges associated with the agreement. Together with the AU Commission and the AfCFTA Secretariat, Afrixembank aims to grow the fund to $8 billion.[34]

A further lesson learnt from our work on implementation and compliance[35] is that the inability of member states to deliver on their regional integration commitments is often not political or technical but rather the result of a technical capacity gap. Here again the AfCFTA preparations have taken these lessons to heart: as of March 2021, 12 countries (of which seven were least-developed countries) had validated AfCFTA implementation strategies, with a further 26 countries and four RECs in the pipeline.[36]

Secondly, there are various accompanying initiatives – in addition to the Adjustment Fund – that target practical constraints faced by the private sector. This illustrates the drive and vision behind the AfCFTA, notably the Afreximbank African Collaborative Transit Guarantee Scheme (AACTGS), which aims to facilitate the seamless movement of goods across borders while reducing the costs of transit bonds as well as the time to import/export.[37] Crucially, the Pan-African Payment and Settlement System (PAPSS) will back the clearing of cross-border payments with a $3 billion facility. It provides an alternative to the current correspondent banking payment model in Africa, with the potential to save in excess of $5 billion per annum.[38]

Thirdly, while we cannot draw too many inferences from our politicians regarding their commitment to the process, what is noteworthy is the strong political messaging that comes from the private sector. In particular, the formation and lobbying of the African Association of Automotive Manufacturers shows that companies whose immediate self-interest is to preserve their markets are able to see the benefits of a single African market, even if it brings with it greater competition on their home turf. In addition, money is going where the private sector's mouth is. An amount of $1 billion has also been committed to the Afreximbank African Automotive Support Facility, which aims to underpin the development of a competitive automotive industry in Africa. The investment will expand RVCs and facilitate the implementation of the automotive strategy through direct financing and partnerships.

There are thus positive signs pointing to the likelihood of implementation. At the same time, though, there are real concerns about the policing of countries' compliance under the agreement. The AfCFTA has finalised its annex on dispute settlement, access to which does not extend to private parties (ie, businesses trading via the AfCFTA). The East African Court

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34 The work we did, together with Nathan Associates, for Afreximbank on developing the AfCFTA Adjustment Facility highlighted the attention being given to lessons of the past.

35 Nick Charalambides, 'Supporting the Implementation of the Regional Integration Agenda - EAC, ECOWAS, COMESA,' GIZ, 2014, https://www.researchgate.net/publication/283622632_Supporting_the_Implementation_of_the_Regional_Integration_Agenda_-_EAC_ECOWAS_COMESA.

36 Luke, Ameso and Bekele, 'On implementing the AfCFTA.'

37 Benedict Oramah, 'Afreximbank in the era of the AfCFTA,' *Journal of African Trade*, Vol 8, Issue 2, December 2021, https://www.atlantis-press.com/journals/jat/125966586.

38 Afreximbank, *African Trade Report 2020: Informal cross-border trade in Africa in the context of the AfCFTA*, 2020, https://www.afreximbank.com/reports/african-trade-report-2020.

of Justice and the COMESA Court of Justice do allow for this, and they have both presided over important cases in which companies have been able to ensure that their free trading rights were respected and implemented consistently. In the AfCFTA's dispute settlement annex, it is clear that state parties are the only ones that can utilise the mechanism. In other words, only other African governments can hold African governments accountable – not the businesses that are actually making use of the rights granted in the various agreements of the AfCFTA, under which such businesses will be trading (hopefully) on a daily basis.

We think this lack of access for private parties is a real weakness in the AfCFTA's accountability and compliance mechanisms. However, we understand the political economy context that likely explains this weakness, having encountered it before when we were devising a new pilot compliance mechanism for SADC to replace its Tribunal.[39] We will wait to see if there is some way to enhance accountability in a politically astute manner. In Ghana, for instance, business groups have begun to call for alternative dispute-settlement mechanisms. We hope that the absence of binding laws for NTBs is a fundamental weakness that can be addressed at least.[40] That said, we have seen the introduction of the AfCFTA Non-Tariff Barriers online Reporting, Monitoring and Eliminating Mechanism (https://tradebarriers.africa), with three complaints having already been registered. One, relating to transport, is recorded as having been resolved.

Fragile and oversold but with real potential – and we have to start somewhere

Upon reflection, then, what can we identify and unpack in terms of the progress and direction of the AfCFTA and its implementation (bearing in mind that we are only one year into what will be a multi-year process)?

Our assessment of the initial tariff offers suggests that there is real value in the market access that will result from the implementation of the agreement. This will manifest as opportunities for agricultural upgrading, growth in light manufacturing, and support for the expansion and deepening of RVCs, which could underpin the structural transformation that is so urgently needed.

The intensive and drawn-out negotiations, in particular the delay in agreeing rules of origin in the key sectors of textiles and clothing and automotives, are of concern to many. However, round table discussions on the completion of the rules of origin suggest to us

39 Nick Charalambides, Chad Capon, Mirabel Bausinger and Catherine Grant Makokera, 'Developing an effective mechanism to monitor and ensure compliance to SADC protocols and other legal instruments and commitments. Final Report,' SADC, 2019, https://www.researchgate.net/publication/339658308_Developing_an_Effective_Mechanism_to_Monitor_and_Ensure_Compliance_to_SADC_Protocols_and_other_Legal_Instruments_and_Commitments_Final_Report.

40 Gerhard Erasmus, 'Does the AfCFTA have a formula to tackle Africa's non-tariff barriers?' Tralac, July 28, 2020, https://www.tralac.org/blog/article/14801-does-the-afcfta-have-a-formula-to-tackle-africa-s-non-tariff-barriers.html.

that the delays probably do not signal that states are dragging their feet and defending their national interests at all costs. Rather, they could be a sign that the AfCFTA is being negotiated and ratified with no intention from its members to ever implement it.

A matter of genuine concern, although prompted by a cursory look only, is what seem to be initial offers on trade in services from AfCFTA members that are conservative in nature – ie, they do not add much to the existing offers under the GATS. Additionally, the deadline for finalising all service offers has been extended to December 2023, which likely means that the liberalisation of goods and services trade will not coincide. This will hamper and delay RVC development and the associated structural transformation that is often the product of expanded and deepened RVCs. However, as with the negotiations on rules of origin, and having lent our expertise and support to these negotiations, we think this is a sign that AfCFTA state parties really intend to implement the trade in services protocol, once agreed.

Sceptic, realist, optimist

Finally, and to address the main attitudes towards the AfCFTA's progress thus far, we think we have provided a realistic analysis and set of insights in this policy insights. Accordingly, we believe it is important to briefly, but hopefully substantively, respond to both the sceptic's and the optimist's appraisal of the AfCFTA.

To the sceptic, we have four things to say:

1. We agree that the AfCFTA is fragile. There is a long way to go, and there are many challenges ahead.
2. The AfCFTA has been oversold in many ways to many different parties – particularly the time frame within which the private sector may see an impact.
3. Focusing on and consolidating *intra-REC* integration will not be enough to overcome the challenges facing African economies. REC markets are too small to attract the necessary market-seeking investment and their supply bases are too narrow to facilitate real specialisation and RVC development. To overcome the macroeconomic challenges facing African economies, we need the scale, specialisation differentiation and trade complementarity of *inter-REC integration*.
4. Finally, we have to start somewhere.

To the optimist, we also have four things to say:

5. Do not overestimate what political momentum can do. The AfCFTA agreement will only work if the private sector deems it credible and it is in their interests to support and participate in it.

6 Do not (over)sell the benefits of the AfCFTA any more than they have already been sold. It is important to be mindful of the time horizons and how long it will take to see the real, tangible impacts of the AfCFTA. It was troubling to read in a freight forwarders trade magazine that the AfCFTA has not succeeded in reducing trade costs and other hassles after one year of implementation.[41] It was never going to be able to do these things.

7 We offer you our assessment as to why the negotiations have been so intensive and drawn out to fuel hope in the agreement.

8 Finally, we have to start somewhere, and the AfCFTA is not a bad place to make that start. We thank you for your role in championing it.

'Economic integration is not an event. It's a process,' said Silver Ojakol, chief of staff at the AfCFTA Secretariat. 'We must start somewhere.'[42]

41 Eugene Goddard, 'Lack of progress feeds the AfCFTA sceptics,' *Freight News*, August 20, 2021, https://www.freightnews.co.za/article/lack-progress-feeds-afcfta-sceptics.

42 Joe Bavier, 'African free trade bloc opens for business, but challenges remain,' World Economic Forum, January 5, 2021, https://www.weforum.org/agenda/2021/01/african-free-trade-bloc-business-challenges.

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Cover image

A Kenyan consumer shopping for locally farmed products, September 9 in Nairobi, Kenya (Brent Stirton/ Getty Images)

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