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Making ACFTA Work: A policy brief

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**AfCTA Opportunities, Challenges and Adaptability Across Africa: A Policy Brief**

# Introduction

This policy brief is a product of the 5th Economic Policy Research Network (EPRN)’s Annual Research Conference that took place in Kigali on March 12, 2019. The brief aims at making policy recommendations on how to make the African Continental Free Trade Area (AfCFTA) work across the continent. The recommendations are based on assessments made at the conference on the current state of development on the continent and projections on how the implementation of the AfCFTA will advance economic growth and development through intra-African trade and diversification of economies on the continent. The recommendations are specifically derived from likely challenges implementation of this agreement is likely to face and options available to resolve or effectively mitigate the effects of those challenges.

To start with, participants and contributors to the conference presented and agreed on a number of things about Africa. First, that it is the most resource endowed and mineral rich continent in the world. Second, that the continent is also the second largest in land mass with fertile soils and conducive climate for agriculture to grow food crops throughout the year. Third, that it is also the second most populous continent in the world with a combined market of 1.2 billion people. Fourth, that it also has the fastest growing population with young people that can work and contribute to development. According to the UN Economic Commission for Africa (UNECA), this market is expected to grow to 1.7 billion in 2030 and the International Trade Center and Bramdeo estimates that by that time, over 600m of this population will be in the middle class and therefore with purchasing power. This market is further projected to grow to 2.5 billion in 2050. At that point, it will constitute about 26% of the world’s working population.

Yet, despite her abundant natural resources, a youthful workforce, good soils and weather for agriculture, Africa is still the poorest in material and living conditions terms. The continent is also the least developed and least influential in the world. According to the African Center for Economic Transformation, half of the continent’s university graduates do not have jobs while about 70% of the continent’s youth survive on US$ 2 per day. In addition, despite the aforementioned good weather for agriculture, the continent still faces food shortages, food importation from outside Africa and even starvation. A 2019 Brookings Institute Study shows that the continent imported, in 2015 alone, food from outside the content was worth $63 billion. In many regions of the continent, food shortages and hunger is cyclical.

While there are a number of explanations for this state of affairs, there was consensus at the conference that part of the problem is that, unlike in other continents, Africa trades less with itself, still largely depend on the extractive sector and largely export minerals and oil that are liable to prices fluctuations on the global market. This destabilizes economies and exacerbates the problem of high numbers of unemployment on the continent. As UNCTAD study shows, in 2014, intra-African trade stood at only 16% and only rose to 18% in 2016 while the Brookings Institute shows that intra-Africa trade in exports grow from 10% in 1995 to only 17% in 2017. On the other hand, Tralac shows that overall, exports and imports from within and to Africa is less than 20%. Comparatively, this is low compared to other continents─with intra-European trade standing at 59%; and Asia 69%. In addition, even this intra-trade is largely concentrated in a few countries. For example, 53% of this trade flow is from five countries led by S. Africa with 34%. Others are Nigeria with 7%; Egypt 5%; Ivory Coast 4 and Zambia 3%. And as Tralac reports, the continent’s intra-trade exports by category in 2017 were largely dominated by minerals, machinery, and chemicals with limited industrial products.

To reverse this trend, conference paper presenters noted that the African Union (AU) heads of state agreed on the creation of the AfCTA to facilitate the free exchange of goods and services on the continent and, in the process, boost intra-African trade and spur economic growth and development. According to different studies, models and projections presented at the conference, a consensus developed to the effect that, if fully implemented, AfCFTA will achieve the objectives set for it.

## What’s AfCFTA?

AFCFTA is an agenda 2063 flagship project, whose implementation is seen as key in accelerating Africa’s growth. The main objectives of the AfCFTA are to create a continental market for goods and services, with free movement of business persons and investments, and thus pave the way for accelerating the realization of the African Economic Community as envisaged under the Abuja Treaty. The AfCFTA Agreement was launched by AU Heads of State and Government during their Extraordinary Summit in Kigali, Rwanda.

The Agreement is expected to enter into force in 2019. The AfCFTA is a tool for driving African industrialization, economic diversification and development. It will help to promote the type of trade that produces sustainable growth, creates jobs for young people in Africa and establishes opportunities for nurturing businesses and entrepreneurs on the continent.

To fully utilize the opportunities of the AfCFTA, each country should develop a strategy that complements the broader trade policy of each respective State and that identifies for that particular country the key trade opportunities, current constraints and steps required for it to take full advantage of the African market. Such strategies would be in line with the Action Plan for Boosting Intra-African Trade of the African Union.

## Objectives of this policy brief

The aims of this policy brief are threefold:

1. First is to give a brief back ground to and summarize the benefits and opportunities presented by the AfCFTA as discussed at the conference;
2. The second is to identify the challenges and associated problem to full implementation of this agreement across the continent.
3. Finally, summarize policy recommendations regarding how the African Continental Free Trade Area (AfCFTA) can be made to work across the continent.

# Benefits and opportunities Presented by AfCFTA

Once actualized in practice, paper presenters at the conference posited that Africa will become a single Market with a combined market of 1.2billion consumers and GDP of between US$2 trillion to $2.5 Trillion or even US$3 trillion dollars according to the Brookings Institute estimates. This is equivalent to US$6.7 trillion in purchasing power parity (PPP).

There are, of course, a number of assumptions made for this to happen. First, it is assumed that all the 55 nations on the continent will participate. Secondly, it is assumed that at least 90% of tariffs will be removed and trade liberalized. It is also assumed that tariff and non-tariff barriers be removed. With this, UNCTAD estimates that reducing tariffs “could bring $3.6 billion in welfare gains” to the continent while the Economic Commission for Africa projects that if successfully implemented, it “could lead to a 52% increase in intra-African trade by 2022” and rack in US$35 billion.

According to Economic Commission for Africa’s modeling, only removing tariffs will increase the value of intra-Africa trade by between 15% to 24% by 2040 or generate between US$ 50-70 billion while ‘the share of intra-Africa trade would increase by nearly 40% to over 50% depending on the level of liberalization between implementation of the reform to 2040”.

In terms of business and consumer spending and in his article titled “African leaders have created the world’s last free trade Area since the WTO─here is its potential”, Landry Signé estimates that by 2030, this market will constitute 1.7 billion people with business and consumer expenditure of $6.7 trillion assuming that all AU members states become effective members of this market. As Tralac shows, with the full implementation of this agreement, “the share of intra-Africa trade would increase nearly 40% to over 50%”.

This agreement then provides opportunities not only to the business community on the continent to invest and grow their business but also offers a chance for African economies to integrate; create employment and diversify to guard against shocks caused by demand fluctuation on extractive commodities that many depend on as export. In addition, if implemented, the agreement will also enable governments to be able to raise money locally from taxation to invest in the much needed infrastructure expansion; agricultural development and quality education that would further spur development and economic growth.

As the Economic Commission for Africa (ECA) shows in its modeling, the agreement is also projected to increase intra-African trade in agricultural products with growth expected to be between 20-30% by 2040. In addition, the AfCFTA is also expected to improve quality, competitiveness and sophistication of products exported through integrated value chains and collaboration across the continent. All this is expected to create jobs for the increasing population besides helping nations diversify their economies away from minerals and oil to exporting manufactured products and services. With this agreement, the continent’s traders and peoples will freely trade and exchange goods and services freely. Once actualized, it will be the biggest single market since WTO.

The UNECA study, for example further shows that the implementation of this agreement will increase the value of intra-African exports in East Africa by US$1 billion and job creation will increase by between 0.5m to 1.9m. At the same time, consumer welfare gain will register US$1.4 billion increase and labour intensive sectors will grow exponentially with food processing increasing by 76%; light manufacturing by 61%; heavy manufacturing by 31% and textile by 18%.

Studies estimated that Rwanda’s exports to Africa will increase by 22% if the agreement is implemented and this will bring in an estimated US$56,010m.

# Challenges facing AfCFTA

The main challenges to the implementation of AfCFTA relates to tariff barriers (TB) and non-Tariff barriers (NTBs). The advantage to policymakers in charge of overseeing AfCFTA is that these challenges are well-known and documented. In fact, Annex 5 to the agreement envisages learning from and documents how to deal with NTBs taking the example of the initiative of the collaboration from the “COMESA-EAC-SADC’ initiative.

There are also technical and structural challenges like poor infrastructure and connectivity across the continent, weak manufacturing capacities and dependency on extractive commodities.

# Policy Recommendations

1. Remove/reduce tariff and non-tariff barriers. This option also include financing the process of removing these barriers; including bolstering the capacity of AU and member states to ensure they have the technical competence to identify all the barriers that need to be removed.
2. The African Unions should put in place an “AfCFTA Champion” and allow him or her latitude and authority to appoint his own team to mobilize support for the agreement. The “Champion” should be one of the most respected heads of state on the continent with a hands-on approach to doing things. This team should be separate from but working in concert with AU Secretariat and the AU chairperson. This recommendation is informed by the success of the AU reform team.
3. AU working in collaboration with and supported by African governments and development partners should take a deliberate policy-decision to invest in popularizing the nature and benefits of AfCFTA to ordinary citizens and traders in each and every country on the continent. This will ensure that the initiative is not only well understood, supported and owned by citizens in every country but will also set the basis to hold leaders accountable. The lesson from both regional economic blocks like EAC, ECOWAS and SADC as well as EU illustrate the importance of this recommendation.

## Conclusion

As highlighted in this policy brief, despite the low level of development and the bottlenecks Africa faces, the AfCFTA provides opportunities not only for enhancing intra-Africa trade that is very low today but setting the continent on an integrated and sustained development course if fully implemented. What needs to be done is to take a holistic approach to ensure that implementation of this agreement. This holistic approach include dealing with tariff and non-tariff barriers, addressing structural problems like lack of transportation, dealing with low capacity and populating the benefits of AfCFTA.