AFRICA'S FREE TRADING FUTURE

A comprehensive look at the African Continental Free Trade Area

November 2024

iatp
Initiative for African Trade & Prosperity

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Contents

Summary

1. The adoption and implementation of the African Continental Free Trade Area (AfCFTA) could help liberalise economies across Africa, which in turn could improve the lives of hundreds of millions of people.

2. Some have incorrectly argued that the concept of free trade is a Western import. Indigenous African societies had a long history of having dense, and relatively free, trading networks that existed long before European states colonised the continent. Evidence of such networks can be found across all regions of Sub-Saharan Africa.

3. The four regions of Sub-Saharan Africa (west, central, southern, and east) face similar, but also unique, developmental challenges. All regions will benefit from trade liberalisation and increased economic interconnectivity, but the unique threats to development in each region must be addressed.

4. The AfCFTA is projected to usher in a host of benefits that include, but are not limited to, greater economic growth, lower costs for consumers and the private sector, manufacturing improvements, an increase in agricultural productivity, increased job creation, higher wages, better prospects for female workers, and a boost to wholesale trading.

5. Despite the anticipated benefits of the AfCFTA, there are a host of challenges that could potentially reduce the effectiveness of the free trade area (FTA). These threats include a high prevalence of non-tariff barriers, disputes over rules of origin (ROOs), inadequate technology penetration, infrastructure deficits, cumbersome regulatory environments, and low levels of economic freedom (indicating a lack of economic opportunity) as well as the existence of rogue nations who refuse to abide by the agreement establishing the AfCFTA.

6. Africa's lack of industrialisation has been a long-standing topic of discussion amongst development economists. The AfCFTA will have a profound impact on Africa's manufacturing sector, which could lead to a structural transformation in Africa's economy going forward.

7. The agricultural sector plays a prominent role in Africa, given that many of its countries rely on commodity exports. It is hoped that the successful implementation of the AfCFTA will boost this sector and benefit those working in associated industries.

8. The protectionist tendencies that have pervaded the continent since independence have hindered Africa's economic development. The AfCFTA has the potential to structurally transform many parts of the African economy and usher in widespread benefits for the African people; however, the various threats that may undermine the effectiveness of the FTA must be addressed.

Section I: Overview of the African Continental Free Trade Area

This section has been written by Alexander Hammond.

Background

The African Continental Free Trade Area (AfCFTA) is the African Union's (AU's) most ambitious initiative to accelerate economic development by further integrating the continent's economies. For decades, attempts by the Organisation of African Unity (created in 1963) and its successor, the AU, to create a continent-wide free trade area (FTA) failed to materialise. Previous attempts to unify African states through free trade had proved unsuccessful, likely due to a host of economic ills that stifled growth on the continent. Yet, following a decision made by the heads of state at the AU's 18th Ordinary Session in January 2012 in Addis Ababa, Ethiopia, to lay the framework for fast-tracking the AfCFTA, the agreement establishing the AfCFTA quickly gained momentum. It was signed at the 10th Extraordinary Summit of the AU Assembly on 21 March 2018. The AfCFTA came into effect on 30 May 2019.

The AfCFTA is a legal compact with the primary objective of liberalising the trade of goods and services between the AU state parties that have ratified the agreement. The general objectives of the AfCFTA, according to the AU, are to

- create a single continent-wide market for goods and services;
- enhance the competitiveness of the state parties' economies within both continental and global markets;
- promote industrial development through diversification and regional value chain development;
- resolve any challenges arising from multiple and overlapping memberships in regional economic communities (RECs) and expedite continental integration; and
- lay the foundation for the establishment of a continental customs union (CU) at a later stage.[1]

The AfCFTA is a flagship project in the AU's Agenda 2063 programme, which is the organisation's 'master plan for transforming Africa into the global powerhouse of the future'.[2] As such, and in line with Article 3 of the AfCFTA Agreement, the objective of the trade area is to 'deepen the economic integration of the African continent in accordance with the pan-African vision of "an integrated, prosperous and peaceful Africa" enshrined in Agenda 2063'.[3] Along with the AfCFTA, Agenda 2063 includes plans for a single air transport market and the free movement of people.

1 The general objectives of the AfCFTA are found in Article 3 of the agreement.

2 'Agenda 2063: The Africa we want', *African Union*, n.d. (https://au.int/en/agenda2063/overview).

3 Article 3, AfCFTA Agreement.

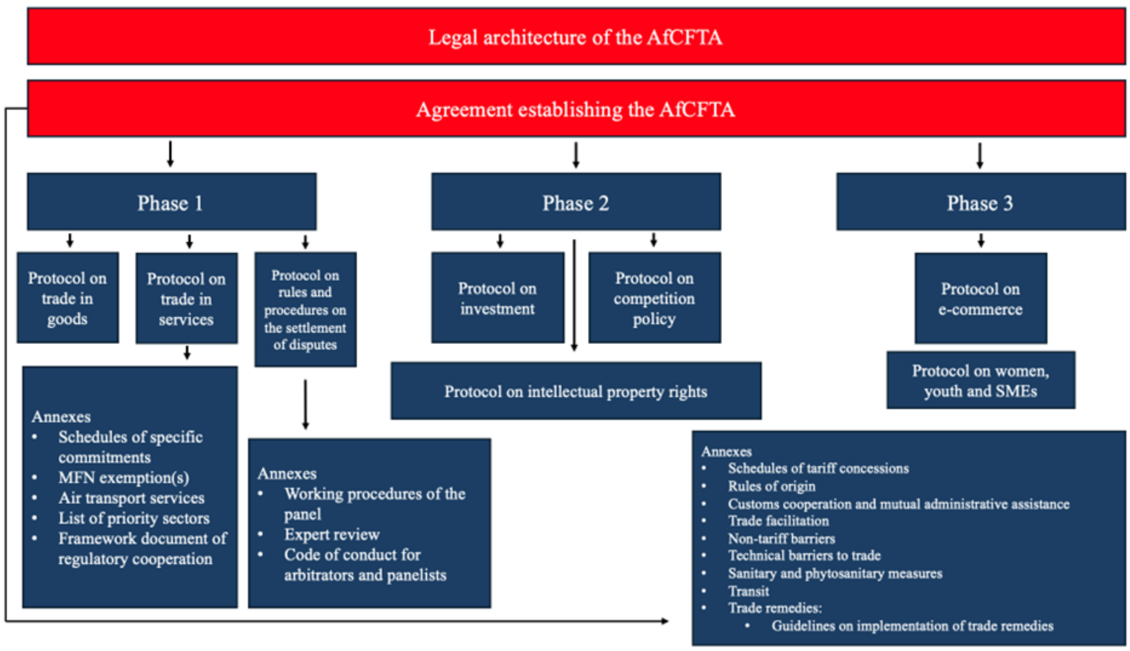
Implementation of the AfCFTA

The specific obligations of the state parties are detailed in the agreement's protocols, which are being negotiated and implemented in phases (though they now also occur concurrently):

- Phase 1 consists of protocols on trade in goods, trade in services, and dispute settlement.
- Phase 2 focuses on protocols for investment, intellectual property rights, and competition policy.
- Phase 3 will address protocols on women and youth in trade and digital trade.

Other legal instruments that are deemed to be within the scope of the agreement could be added at a later stage.

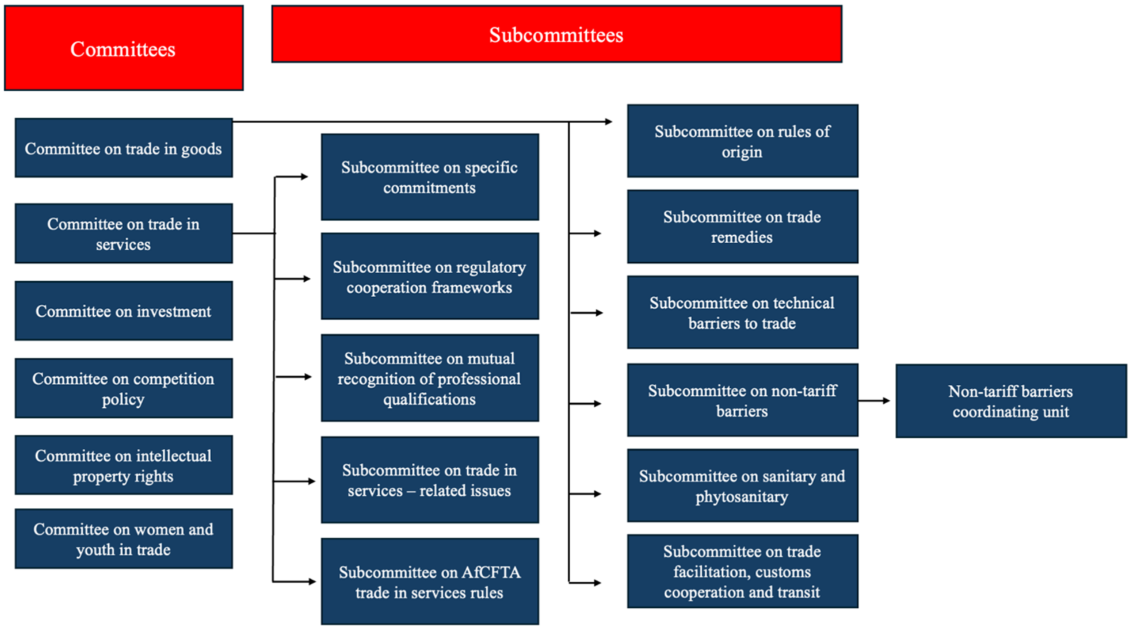
Figure 1: Legal architecture of the AfCFTA[4]



Phase 1 negotiations (including the annexes to the rules of origins (ROOs) and the schedules of specific commitments) and Phase 2 negotiations have been adopted. Each protocol and its associated annexes (see Figure 1) established, or will establish, various technical committees to assist with their implementation (see Figure 2), comprising representatives from the state parties. Part X, Article 31 of the AfCFTA, outlines the establishment of the committee on trade in goods and the committee on trade in services. All other committees in Figure 2 were established following the fifth meeting of the AfCFTA council of ministers (CoM) on 3 May 2021.

4 Figure from 'The African Continental Free Trade Area – a tralac guide', Page 5, 9 October 2022 (https://www.tralac.org/documents/resources/booklets/4623-afcfta-a-tralac-guide-9th-edition-october-2022/file.html).

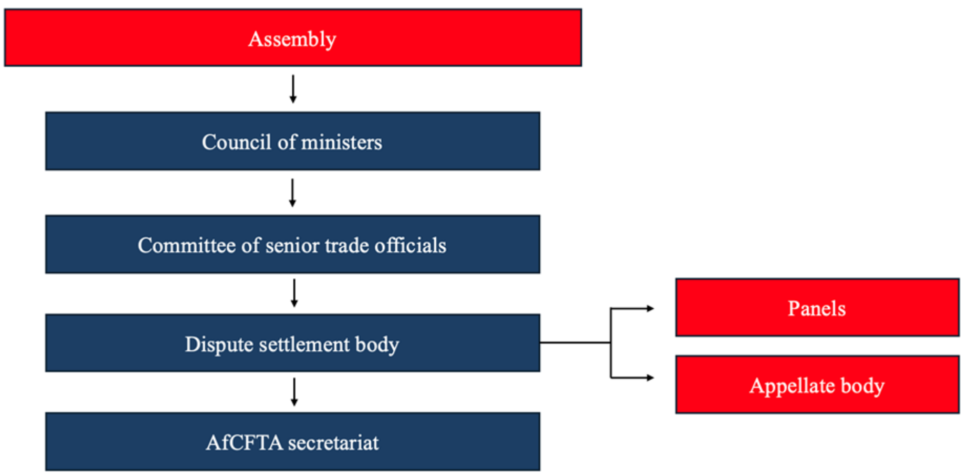
Figure 2: AfCFTA subcommittees[5]



Institutions of the AfCFTA

As per Part III, Article 9, of the AfCFTA, four institutions have been created that have assumed responsibility for the 'implementation, administration, facilitation, monitoring, and evaluation of the AfCFTA'.[6] These institutions include an assembly, a CoM, a committee of senior trade officials (CSTO), and a secretariat, which was established in Accra, Ghana, in 2020.

Figure 3: Institutions of the AfCFTA[7]



5 Figure from 'The African Continental Free Trade Area – a tralac guide', Page 9, 9 October 2022 (https://www.tralac.org/documents/resources/booklets/4623-afcfta-a-tralac-guide-9th-edition-october-2022/file.html).

6 Part III, Article 3 AfCFTA Agreement.

7 Figure from 'The African Continental Free Trade Area – a tralac guide', Page 7, 9 October 2022 (https://www.tralac.org/documents/resources/booklets/4623-afcfta-a-tralac-guide-9th-edition-october-2022/file.html).

The assembly constitutes the heads of the states and governments of the state parties. As per Part III, Article 10(1), it is the 'highest decision-making organ of the AU' that shall 'provide oversight and strategic guidance on the AfCFTA' while having the 'exclusive authority' to adopt and interpret AfCFTA recommendations as provided by the CoM.[8]

The CoM consists of the ministers for trade, or other such ministers, designated by the state parties that are AU member states and which have ratified or acceded to the AfCFTA. It meets twice a year in ordinary sessions, though extraordinary sessions can be arranged when necessary. Article 11 of the AfCFTA Agreement lays out a fairly wide mandate for the CoM, which includes the 'implementation and enforcement' of the AfCFTA, the supervision of all the committees and working groups, the making of regulations and issue directives, and the making of recommendations to the assembly for the 'authoritative interpretation' of the AfCFTA.[9] As part of the CoM's mandate, Article 11 (6) notes that if the CoM's decisions have legal implications, the 'State Parties shall take such measures as are necessary to implement the[ir] decisions.'[10]

Article 11 (6) is particularly important when we consider that the AfCFTA's institutions have no supranational powers and that it is ultimately the prerogative of the state parties to change their tariff rates and enforce policies such as the ROOs procedures (these procedures should, ideally, eventually become harmonised). Although the AfCFTA's institutions can advise member states, national legislation is necessary to ensure that all states comply with the obligations of the AfCFTA Agreement. This means that the extent to which the AfCFTA is implemented and operationalised is down to the state parties' willingness to voluntarily commit to the agreement.

The CSTO, is, according to Article 12, made up of the permanent or principal secretaries of the state parties or other officials designated by them. Its task is to 'implement the decisions' of the CoM, be 'responsible for the development of programmes and action plans' regarding the implementation of the agreement, establish committees as necessary, and 'direct the Secretariat to undertake specific assignments'.[11] While the RECs are not a party to the AfCFTA, they are represented in the CSTO. Subject to the directions of the CoM, the CSTO is required to meet at least twice a year.

Finally, the roles and responsibilities of the secretariat, as per Article 13 of the AfCFTA, are determined by the CoM. The council must also provide technical assistance to other AfCFTA institutions and state parties as and when necessary. The secretariat is the only permanent institution of the AfCFTA. It operates as a 'functionally autonomous institutional body within the African Union with an independent legal personality', and since 2020, the secretariat has been based in Accra, Ghana.[12] Ultimately, the secretariat is responsible for the day-to-day administration of the AfCFTA and the coordination of AfCFTA negotiations and meetings.

Decision-making and new initiatives

The principles by which the AfCFTA shall be governed, as detailed in Article 5, include a provision for 'consensus in decision-making', and therefore, all decisions made by the AfCFTA institutions

8 Part III, Article 10 AfCFTA Agreement.

9 Article 11, AfCFTA Agreement.

10 Article 11, AfCFTA Agreement.

11 Article 12, AfCFTA Agreement.

12 Article 13, AfCFTA Agreement.

are by consensus unless stated otherwise. Article 14 expands on this principle and notes that 'decisions of the AfCFTA institutions on substantive issues shall be taken by consensus', which is based on a simple majority. If an AfCFTA institution fails to reach a consensus, the matter will usually be referred to the immediately senior institution, until it reaches the assembly.

The CoM has the power to create new initiatives for promoting further integration, though it is theoretically possible that the assembly of the AU also has this power through its mandate to 'provide oversight and strategic guidance on the AfCFTA'.[13]

The AfCFTA institutions play a key role in advancing the aims of the AfCFTA and promoting greater integration. This role will have a renewed significance if the plans to transform the AfCFTA into a CU materialise.

Tariff reductions

Tariff liberalisation under the AfCFTA is set to occur in stages, with the timeline for liberalisation being extended for least-developed countries (LDCs). The initial goal is to have 90 per cent of tariff lines removed within five years for non-LDCs and within ten years for LDCs. Of the remaining 10 per cent, 7 per cent will be classified as 'sensitive products' and will be liberalised within ten years for non-LDCs and thirteen years for LDCs; the residual 3 per cent will be designated as 'excluded products' for which there will be no tariff liberalisation. Thus, the aim is to have 97 per cent of all tariff lines liberalised across all state parties within thirteen years. While these liberalised tariff lines will have far-ranging positive impacts on the continent's economy in general (as is explained later in this paper), they will be of the greatest value to the African nations currently trading with one another under the World Trade Organization's most-favoured-nation rates.

It is worth noting that the CUs across the continent submit a single offer of tariff concessions, which has been collectively negotiated by the CU's state parties. As many CUs include both LDC and non-LDC members, the majority of CUs will or already have, submit tariff orders that follow the liberalisation timelines applicable to LDCs. While this has slowed down the overall liberalisation process, the CUs argue that this is necessary to protect their external tariff rates.

Meaningful trade under the AfCFTA has not yet started. However, in late 2022, the Guided Trade Initiative (GTI) sought to accelerate this process. The secretariat worked with eight countries that have met the requirements on tariffs and ROOs by directly liaising with businesses to match exporters and importers and familiarise companies with the procedures to trade their goods under the new rules.

Regional economic communities

The agreement establishing the AfCFTA recognised eight RECs as the 'building blocks' of the AfCFTA. The recognised RECs are the Arab Maghreb Union (AMU), Community of Sahel-Saharan States (CEN-SAD), Common Market for Eastern and Southern Africa (COMESA), East Africa Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development

13 Article 10, AfCFTA Agreement.

(IGAD), and Southern African Development Community (SADC).[14] To address the issues arising from the coexistence of several African FTAs and CUs, the provisions (namely, Article 19(2) and Article 8(2)) explain that nations that are members of RECs that have attained a higher level of liberalisation (both in regard to trade barriers and tariffs) and integration among themselves than implemented under the AfCFTA, 'shall maintain, and where possible improve upon, those higher levels of trade liberalisation among themselves'.[15] These provisions will be most important for states that are members of COMESA, EAC, SADC, and the Tripartite Free Trade Area (TFTA), which have all achieved high levels of integration.

Nations' overlapping membership in various RECs can create complications with regard to complying with different ROOs procedures and general standards. Still, Article 5 (F and I) of the AfCFTA states that the AfCFTA should be governed by the 'preservation of the acquis' and 'best practices' of the RECs. Although the addition of another continent-wide FTA over and above the existing RECs may help gradually harmonise procedures in the long term, this is unlikely to be the case in the short term.

Creating a continent-wide customs union

While the AfCFTA establishes an FTA, one of the general objectives underlying its creation is to 'lay the foundation for the establishment of a Continental Customs Union at a later stage'.[16] While no precise details are given with regard to how this will be done, the AfCFTA's founding agreement notes that a CU will be created 'at a later stage' and 'through successive rounds of negotiations'.[17] New initiatives and institutions will need to be established to transform the AfCFTA into a CU.

The deeper integration in CUs, compared to FTAs, is important to understand. In an FTA, state parties can decide their tariff rates, benefit from preferential trade in goods under specific ROOs, and negotiate new FTAs with third parties. This unilateral decision-making is not possible in a CU, as the setting of a common external tariff and the negotiation of trade agreements are done through collective decision-making by all member state parties. Additionally, nations cannot be a member of more than one CU. This means that, if the realisation of a continent-wide CU becomes a reality for Africa, then all existing CUs would become redundant.

While creating a continent-wide CU will likely take decades of negotiations, its creation could play a key role in deepening trade relationships between Africa and the rest of the world. Today, if a third-party state wished to have FTAs that covered the entire African market, they would have to conduct trade negotiations with each African CU or nation-state. This time-consuming and expensive practice has been criticised by non-African states such as the United States. In contrast, the presence of an Africa-wide CU would mean that third-party states would only have to negotiate with a single body – a faster and cheaper procedure. It would also give Africa immense economic bargaining power, given that its combined economy ranks as the sixth largest in the world.

14 It is important to note that some of these RECs are customs unions while others are FTAs. Customs unions include the EAC and SACU. The others are FTAs.

15 Article 8, AfCFTA Agreement.

16 Article 3, AfCFTA Agreement.

17 Article 3, AfCFTA Agreement.

Support

The agreement has been signed by 54 of the 55 AU member states, with only Eritrea remaining reluctant to show support. The combined GDP of the 54 signatories is $3.4 trillion. The AfCFTA represents the most substantial opportunity in Africa's history for all states to formally pursue an intra-continental trade relationship that is based on a commitment to furthering free trade and economic liberalisation. To date, 48 of the 55 AU nations – including Nigeria, South Africa, and Egypt, which together represent almost half of the continent's economy – have ratified the agreement. This makes the AfCFTA the largest FTA in the world in terms of the number of participating economies.

While there have been attempts to integrate economies across the continent before, the AfCFTA is arguably the most ambitious attempt yet. Another interesting integration strategy has been the creation of the CFA franc zone. This consists of 14 countries divided into two monetary unions. These mostly former French colonies have attempted to use used monetary cooperation as a basis to create a stable economic environment for policies to operate in.

Section II: History of free trade in Sub-Saharan Africa

This section has been written by Steve Davies and Alexander Jelloian.

Restoring indigenous trading practices through the AfCFTA

Some posit that economic freedom and free trade are Western imports that do not reflect the history of African cultures. As will be discussed here, such assertions are not based on facts. Although the African continent has been plagued by high tariffs and border controls between states for decades, historically, it was connected by trade networks that cut across diverse regions. This included trade routes that connected it with Central Asia, the Middle East, and the Indian subcontinent, which led to great wealth creation for indigenous Africans. It is hoped that the AfCFTA will help Africa return to its pre-colonial, indigenous trading practices.

Some of the commentaries on the AfCFTA suggest that it is a realisation of Cecil Rhodes's dream of an Africa united economically from the Cape to Cairo. Such a commentary misunderstands both Rhodes's vision – which was part of an imperialist project – and the contemporary project (Davies 2021). Rhodes's project was to have a single imperial system for most of Africa, and one that was part of the wider British imperial system. This view damaged and disrupted the trade and economic links that had evolved over hundreds of years across Africa. Even where a more 'hands-off' system of indirect rule was followed (as with Lugard in Nigeria), it destroyed long-standing indigenous connections. This was also true of the French colonies where strong colonial administrations were created. The destruction of indigenous African systems and institutions yielded disastrous results (Ayittey 2006).

Understood properly, the AfCFTA is not a matter of creating something de novo and building up infrastructure for something new and artificial that would not exist without this pan-continental foundation. Rather, it is about undoing one of the worst legacies of colonialism: the tearing apart of what were once enormous and extensive trade and production networks and, with them, natural and robust economic systems.

Evidence of Africa's trade-friendly history

Evidence of Africa's trade-friendly past can be seen in every region of the continent. From the Mediterranean-bordering countries of North Africa to the Cape of Good Hope, Africa's history bears testimony to regional integration and the existence of global trading partners. The benefits of these trade relationships for indigenous Africans extended beyond the economic sphere. Trade was integral to promoting peace between indigenous African communities. Emmanuel Akyeampong, Professor of History, African, and African American studies at Harvard University's Center for African Studies, in an overview of trade in Africa, notes that the importance of trade in stimulating wealth made conquest impractical.

> Indeed, the survival and prosperity of African communities was so intertwined with the mutual benefits of trade, that scholars of pre-European contact noted that in the middle of

> Niger basin in West Africa and in the Indian Ocean external conquest was counterproductive and regional systems emerged that were based on heterarchy and not hierarchy.[18]

The following sections present evidence of these pre-colonial trading relationships.

West Africa

In West Africa, evidence of trade networks can be seen in the histories of the Oyo Empire and the Hausa Kingdoms. The Oyo Empire, located in modern-day Nigeria, arose in the fourteenth century and evolved into a military power because of its commercial endeavours, which extended to trans-Saharan trade routes.[19] It also began trading with the Hausa Kingdoms, a group of small, independent city-states that arose north of the Oyo in the fifteenth century.[20] The lives of both the Oyo and the Hausa improved as a result of this regional transfer of goods.

West Africa's trading history can also be understood by studying the history of its currency. Cowrie shells, which originated in the Indian Ocean, made their way across the continent and became a unit of exchange in what is now the ECOWAS region. A second medium of exchange, the specie coin, was also used in pre-colonial West Africa. While some of these coins originated in Africa, others originated in the Middle East and were eventually transported deep into the heart of West Africa.

When tracing West African trade routes, a natural economic region emerges from the Senegambia region to Douala (in modern-day Cameroon), stretching north to the edge of the Sahara, miles inland. This region was linked to Mediterranean trade with north–south trade routes that stretched across the Sahara Desert.

East Africa

Indigenous East Africa was a crucial part of the trade network that spread across the Indian Ocean. The Swahili coast was connected to the Horn of Africa, the Middle East, the Indian subcontinent, the Persian Gulf, and Hormuz through long-distance trade routes that spanned thousands of miles. Hormuz was connected to Central Asia, thus indicating that African traders had access to Central Asian goods before the colonial era.

Such extensive trade networks made some areas in East Africa so wealthy that when Portuguese explorers arrived at Kilwa (located off the coast of present-day Tanzania) in 1505, a Portuguese observer noted that the 'island is small, near the mainland, and is a beautiful country' (Akyeampong 2017, page 7). He also stated that Kilwa was full of 'rich merchants, and there is much gold and silver and amber and musks and pearls. Those of the land wear clothes of fine cotton and of silk and many fine things' (Akyeampong 2017, page 7). While this may be a grandiose description of the presence of trade in Kilwa during the sixteenth century, it does illustrate the fact that dense trade networks did in fact exist in East Africa during this period.

18 Matthews, L. 'Africa's long history of trade and markets', *Mises Wire*, 12 February 2021 (https://mises.org/mises-wire/africas-long-history-trade-and-markets).

19 'Oyo Empire', *World History Encyclopedia*, 2 April 2020 (https://www.worldhistory.org/Oyo_Empire/).

20 'Hausaland', *World History Encyclopedia*, 9 May 2019 (https://www.worldhistory.org/Hausaland/).

Southern Africa

Evidence of extensive trade networks in pre-colonial Africa can also be found further south on the continent in modern-day Botswana and South Africa. In southwestern South Africa, the Khoisan people exchanged cattle, sheep, and hunting produce for the iron and copper mined by the Batswana tribe in the north. Once the Khoisan acquired these metals, they traded some of these goods with the Xhosa people in the southeast in exchange for tobacco and *dagga* (cannabis).[21]

Central Africa

Moving north into Central Africa, we find that trading networks existed even in this comparatively isolated area. The Luba-Lunda kingdoms were a group of states that flourished in Central Africa from the fifteenth to the nineteenth centuries. Their economy revolved around local and regional trade in fish, salt, iron, and copper (Akyeampong 2017).

How colonialism changed trade in Africa

With such a rich history of trading goods all over the continent, why is Africa now riddled with trade barriers that increase costs, stifle growth, and make it difficult for businesses to operate? Simply put, these pan-African trade linkages were either outright destroyed or severely damaged by colonialism. After the Berlin Conference, during which the colonial powers divided Africa in a way that paid no heed to its social, economic, and geographical realities, they began controlling the newly created borders and restructuring the economy of these areas to their advantage (Davies, 2021). The old natural regional economies were ripped apart and fragmented as European neo-mercantilism was imposed on Africa. The reconstruction of the colonies' economies was aimed at deliberately disrupting the 'horizontal' economic relations that had existed and replacing them with extractive ones, in which economic activity was oriented towards production for export to the metropolitan market of the imperial power, with profits flowing mainly in that direction. These factors led to the creation of new colonial economies in Africa that were deliberately subordinated to a wider imperial system.

When colonialism came to an end in the mid-twentieth century, instead of wisely returning to Africa's past of relatively free trade, many leaders of the newly formed African states opted for a version of 'African socialism', As Julius Nyerere, the first president of an independent Tanzania, noted in 1963, 'In rejecting the capitalist attitude of mind which colonialism brought into Africa we must reject also the capitalist methods which go with it'.[22] Like Nyerere, many other new leaders argued that 'African socialism' and economic protectionism were the only route to prosperity.[23] This idea of state-led development focused on import substitution and domestic manufacturing development. The weakness of this model was exposed in Ghana under Nkrumah, with tragic economic and political consequences. Yet, the same story has been repeated all over Africa.

21 Jelloian, A. 'What AfCFTA will do for Africa's indigenous trading patterns', *Punch Newspapers*, 8 February 2022 (https://punchng.com/what-afcfta-will-do-for-africas-indigenous-trading-patterns/).

22 Hammond, A. C. R. 'Africa tries free trade', *Human Progress*, 5 April 2021 (https://www.humanprogress.org/africa-tries-free-trade/).

23 'African socialism', *Encyclopedia Britannica*, 22 September 2017 (https://www.britannica.com/topic/African-socialism).

The AfCFTA is an opportunity to undo some of the lasting adverse effects of colonialism and allow both the regional African economies and the continent's economy to resume their natural development. Also, modern technologies, including improved transport and communications, can facilitate integration at a continental level, circumventing the natural barriers that held integration back in the past, notably in the central African rainforest belt, which lacks extensive navigable waterways and natural harbours.

Section III: Economic state of the Sub-Saharan African regions

This section has been written by Alexander Jelloian.

East Africa

East Africa is home to over 350 million people and comprises the following 17 countries: Burundi, Comoros, Djibouti, Eritrea, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, Somalia, South Sudan, Uganda, Tanzania, Zambia, and Zimbabwe.[24]

While East Africa has a lower extreme poverty rate than other parts of the continent, that does not necessarily indicate a decent quality of life for the region's inhabitants.[25] Governments of the states in this region routinely abuse human rights, disregard the rule of law, place undue tax burdens on their citizens, create incredibly complex and inefficient bureaucracies, and implement both formal and informal barriers to trade that stifle growth, all of which, not surprisingly, contribute to widespread poverty.

The majority of East African countries are on the United Nations LDC list (United Nations Conference on Trade and Development (UNCTAD) 2023). Violent conflicts are currently occurring (or have recently occurred) in Ethiopia, Somalia, and South Sudan, while other countries are attempting to recover from recent violence.[26] While corruption and political repression represent significant obstacles to East Africa's development, the COVID-19 pandemic exacerbated the underlying structural problems in this region.

While East Africa is facing several economic issues, there are positive signs that need to be acknowledged. The African Development Bank projects that 5 East African countries should have growth rates at 5 percent or more in 2024 (ADB, 2024). In addition, as can be seen in Figure 4, many East African countries had high growth rates prior to the COVID-19 pandemic, which bodes well for future development plans.

24 Sub-Saharan African regions are grouped according to the United Nations.

25 Mclachlan, J, and Aikins, E. 'Africa is losing the battle against extreme poverty', *ISS Africa,* 13 July 2022 (https://issafrica.org/iss-today/africa-is-losing-the-battle-against-extreme-poverty)

26 'African conflicts to watch in 2022', *ISS Africa*, 17 December 2021 (https://issafrica.org/pscreport/psc-insights/african-conflicts-to-watch-in-2022).

Figure 4: GDP growth rates in East Africa (2018–2021)

East Africa	2018	2019	2020	2021
Burundi	1.6	1.8	0.3	3.1
Comoros	3.6	1.8	-0.2	2.1
Djibouti	4.8	5.5	1.3	4.5
Eritrea	-	-	-	-
Kenya	5.6	5.1	-0.3	7.6
Madagascar	3.2	4.4	-7.1	5.7
Malawi	4.4	5.4	0.8	2.8
Mauritius	4.0	2.9	-14.5	3.4
Mozambique	3.5	2.3	-1.2	2.4
Rwanda	8.5	9.4	-3.4	10.9
Seychelles	4.9	5.5	-11.7	0.6
Somalia	3.0	3.6	-2.6	3.3
South Sudan	-	-	-	-
Uganda	6.3	6.4	3.0	3.5
Tanzania	5.5	5.8	2.0	4.3
Zambia	4.0	1.4	-2.8	6.2
Zimbabwe	5.0	-6.3	-7.8	8.5
Average	4.5	3.7	-2.9	4.6

Source: World Bank (data.worldbank.org) – Accessed October 25th, 2024

West Africa

West Africa is home to more than 400 million residents and comprises the following sixteen countries: Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. The economy here has struggled due to the combined effects of poverty, increasing violence in the Sahel region, and the COVID-19 pandemic. Nevertheless, economic growth has increased in West Africa in the past few years.[27]

As Nigeria is the largest economy in the region and on the continent, its performance has spill-over effects that affect the economic growth of its neighbours. While Nigeria has signed the AfCFTA, its government has been hesitant to fully embrace free trade. Instead, it has been using protectionist measures to help domestic producers – a policy that inhibits growth and undermines the FTA.[28]

Many West African states have been trying to develop an industrial base for decades, but attracting finance from development partners and the private sector has been challenging. According to the UNCTAD, the West African region is currently dependent on commodities, making the region vulnerable to commodity price volatility (UNCTAD 2021). Diversifying West African economies by increasing manufacturing is an important step forward.

27 'Africa's Macroeconomic Performance and Outlook – January 2023', African Development Bank, 18 January 2023 (https://www.afdb.org/en/documents/africas-macroeconomic-performance-and-outlook-january-2023).

28 Bowden, J. 'Egypt, Nigeria, and South Africa are undermining free trade in Africa', *Rational Standard*, 20 October 2022 (https://rationalstandard.com/egypt-nigeria-and-south-africa-are-undermining-free-trade-in-africa/).

This decade and beyond represents a potentially transformative period for West African states. Greater regional and continent-wide integration will help leverage the skills and talents of West Africa's young population. Further, by effectively utilising the region's natural resources, states here will be able to create robust and inclusive economies that provide jobs and reduce poverty (Ordu and Golubski 2022).

Figure 5: GDP growth rates in West Africa (2018–2021)

West Africa	2018	2019	2020	2021
Benin	6.7	6.9	3.8	7.2
Burkina Faso	6.6	5.9	2.0	6.9
Cabo Verde	3.7	6.9	-20.8	7.0
Côte d'Ivoire	4.8	6.7	0.7	7.1
Gambia	7.2	6.2	0.6	5.3
Ghana	6.2	6.5	0.5	5.1
Guinea	6.4	5.6	4.9	3.9
Guinea-Bissau	3.8	4.5	1.5	6.4
Liberia	1.2	-2.5	-3.0	5.0
Mali	4.7	4.8	-1.2	3.1
Mauritania	4.8	3.1	-0.4	0.7
Niger	7.2	5.9	3.6	1.4
Nigeria	1.9	2.2	-1.8	3.6
Senegal	6.2	4.6	1.3	6.5
Sierra Leone	3.5	5.3	-2.0	4.1
Togo	4.8	4.9	2.0	6.0
Average	5.0	4.8	-0.5	5.0

Source: World Bank (data.worldbank.org) - Accessed October 25th, 2024

Southern Africa

Southern Africa consists of five countries that collectively make up the southernmost tip of the African continent: Botswana, Eswatini, Lesotho, Namibia, and South Africa. This region's struggles are similar to those of the rest of the continent. Corruption, conflict, and political instability have impeded the developmental prospects of this region for years.

For the past four decades, the SADC has tried to spur development across this region. Although there have been attempts to integrate various economies in this region, there needs to be a further strengthening of economic ties between its states. Regardless, Southern Africa does have some advantages compared to the rest of the continent. For example, it tends to have better infrastructure than any other region in Sub-Saharan Africa. Furthermore, South Africa has a strong industrial base, which can be leveraged for growth across the region if effective policies are adopted.

Finally, Southern Africa is also home to Botswana, a unique country that has a fairly successful development history, given its upper-middle-income status (World Bank 2023). Botswana serves as an example of the potential that many African states have. Despite being landlocked and having a highly unfavourable economic position at independence, it was able to structurally transform its economy.

Figure 6: GDP growth rates in Southern Africa (2018–2021)

Southern Africa	2018	2019	2020	2021
Botswana	4.2	3.0	-8.7	11.9
Eswatini	2.4	2.7	-1.6	10.7
Lesotho	-1.5	-1.4	-7.5	1.9
Namibia	1.1	-0.8	-8.1	3.6
South Africa	1.6	0.3	-6.0	4.7
Average	1.6	0.8	-6.4	6.6

Source: World Bank (data.worldbank.org) - Accessed October 25, 2024

Central Africa

Central Africa, or Middle Africa, consists of the following nine countries: Angola, Cameroon, Central African Republic, Chad, Republic of Congo, Democratic Republic of Congo, Equatorial Guinea, Gabon, and São Tomé and Principe. The region has been plagued by periodic violence for decades, including the extremely brutal First and Second Congo Wars of the late 1990s and early 2000s. Despite being a region rich in natural resources, Central Africa is hindered by a lack of political stability and foreign investments as well as problems with food production. Recent tensions in the Eastern Democratic Republic of the Congo show the fragility of peace in many areas in this region.[29]

Deeper regional integration and increased economic growth could help reduce violent conflicts in Central Africa. Encouragingly, even with periodic fighting, many countries here experienced relatively high economic growth rates over the past two decades. Nevertheless, growth seems to have stalled, a worrying development that speaks to the current economic and political climate in this region.

While the ECCAS now aims to establish a common market amongst member states, according to the *Index of Regional Integration in Africa* (IIRA) report, the performance of ECCAS countries in terms of trade integration has been poor (AUC, UN, and ECA 2020).

Figure 7: GDP growth rates in Central Africa (2018–2021)

Central Africa	2018	2019	2020	2021
Angola	-1.3	-0.7	-5.6	1.2
Cameroon	4.0	3.5	0.3	3.3
Central African Republic	3.8	3.1	0.9	1.0
Chad	2.4	3.2	-1.6	-1.2
Congo (Brazzaville)	-2.3	1.1	-6.3	1.0
Democratic Republic of Congo	5.8	4.4	1.7	6.2
Equatorial Guinea	-6.2	-5.5	-4.8	0.9
Gabon	0.8	3.9	-1.8	1.5
São Tomé and Principe	4.4	2.0	2.6	1.9
Average	1.3	1.7	-1.6	1.8

Source: World Bank (data.worldbank.org) - Accessed October 25, 2024

29 Gavin, M. 'Dangerous trends in Eastern Congo', *Council on Foreign Relations*, 8 November 2022 (https://www.cfr.org/blog/dangerous-trends-eastern-congo).

Conclusion

As highlighted above, there are some positive signs for Sub-Saharan Africa, with relatively strong growth numbers occurring in the East, West, and Southern regions. Unfortunately, there are several factors that continue to inhibit growth, but the AfCFTA provides a unique opportunity to remove some barriers to prosperity and spur economic activity across the region. The next section focuses on the benefits of the AfCFTA.

Section IV: Anticipated benefits of the AfCFTA

This section has been written by the Imani Centre for Policy and Education.

In the earlier sections, we emphasised the need for sustained economic growth in Sub-Saharan African countries. In the wake of COVID-19, many countries experienced welfare deterioration, supply chain disruption, and increased inflation. Nevertheless, subsequently, growth has returned to many parts of the continent, and the AfCFTA has the potential to significantly transform the structure of African economies to enhance productivity and efficiency, furthering growth. Seven benefits of the AfCFTA are considered below. However, two of the most important benefits (the AfCFTA's impact on manufacturing and agriculture) are discussed in depth separately in Section VI.

Economic growth

The AfCFTA will positively impact the economic growth of African countries by lowering the cost of trade, reducing the cost of imported goods, and facilitating the export of goods to both AfCFTA and non-AfCFTA countries. The World Bank estimates that the agreement could lift 50 million people out of extreme poverty (defined as living on less than $1.90 per day) and expand incomes by $571 billion.[30] In addition, the World Bank anticipates that the African states with the highest poverty rates (World Bank 2020a) will be the ones that will benefit the most.[31]

Increasing the amount of intra-African trade

Currently, intra-African trade accounts for just 15 per cent of the continent's total exports. This is extraordinarily low when compared to Europe (69 per cent) and Asia (59 per cent). If most tariffs are removed, the United Nations Economic Commission on Africa (UNECA) estimates that within two decades, intra-regional trade could increase by as much as 52 per cent (Mold 2022). By 2035, full implementation of the AfCFTA is projected to lead to a near twofold increase in the share of intra-African exports (from 12 per cent in 2020 to 21 per cent in 2035) (World Bank 2020b). The UNECA argues that this number could be even higher if African states actively pursue full trade facilitation by cutting red tape, reducing bureaucracy, and harmonising standards.

Lower costs for consumers and the private sector

The removal of tariffs on the goods produced by AfCFTA member countries will help consumers by lowering the costs of consumer goods and by simultaneously giving consumers access to a wider variety of products. As domestic producers are forced to compete with foreign companies,

30 https://blogs.worldbank.org/en/trade/africa-pursues-free-trade-amid-global-fragmentation#:~:text=World%20Bank%20research%20shows%20that,world%20than%20with%20each%20other

31 'The African Continental Free Trade Area', *World Bank Group*, 27 July 2020 (https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area).

AfCFTA member states will allocate labour and capital to their most productive sectors, allowing states to capitalise on comparative advantages, which should improve the overall efficiency of African economies.

In addition, the removal of non-tariff barriers (NTBs) will reduce the high administrative and compliance costs the private sector currently faces. Improved border and transportation infrastructure, better customs processes, and the streamlining of quality assurance systems will assist businesses that have been impeded by NTBs in the past.

Job creation and wages

The AfCFTA will result in a major increase in job creation and wages. The boost to manufacturing exports across all trading partners under the AfCFTA is likely to create jobs across value chains. The expansion of the industrial sector will likely cause some labour to move from agriculture to industry. Industrial jobs are likely to command higher salaries than agricultural jobs, and as individuals gain experience working with heavy machinery, it is probable that they will be able to demand higher wages, resulting in improved wages throughout the economy. In addition, the FTA is projected to increase the average wages for men and women by 11.2 percent and 9.8 percent respectively, with some regional variation depending on industry-specific characteristics (World Bank, 2022)

Female economic empowerment

Female labourers will benefit from the full implementation of the AfCFTA. Women currently account for about 70 per cent of cross-border trading activities in Africa (UN and ECA 2019). The potential growth in sales and trading under the AfCFTA will contribute to an increase in this number. Since women stand to benefit from freer trade, they will likely see increases in their incomes and a subsequent reduction in gender disparities in income. It should be noted that the World Bank estimates that the wages of females are more likely to increase than the wages of males in West Africa under the AfCFTA, ultimately improving economic opportunities for women.[32]

Wholesale trading and sales activities

The expected growth in manufacturing imports under the AfCFTA will provide a boost to wholesale trading and sales activities in the region. Reduced tariffs and enhanced trade facilitation are expected to lower the final prices of goods (primarily consumer goods), leading to increased demand. This is likely to lead to the reallocation of labour and capital to the sales and wholesale trading sectors, boosting wages in this sector.

Softer benefits

Although the main advantage of the AfCFTA is the facilitation of the flow of goods and services across African countries' borders, there are other 'softer' benefits to free trade as well. Because

32 Ibid.

it will become easier for people to move between countries, those with higher ambitions, a more rigorous work ethic, and possibly higher education and technical skills can easily find employment in new locales. The lowering of trade barriers is also beneficial for countries as it will expand their labour market and provide access to persons with various sets of expertise, thus solving the problems of labour shortage and bridging skill gaps. Put simply, when more individuals are placed in situations where they are free to pursue their own economic interests, there can be untold benefits that will arise even though it is difficult, or nearly impossible, to know what those benefits might be. Nevertheless, when there is more freedom, the outcomes improve.

The prospects of the AfCFTA are bright, but challenges remain

There are enormous untapped trading opportunities in Africa. However, countries need to explore innovative mechanisms to boost productivity, accelerate trade facilitation programmes, and ensure that trade is not hindered by unnecessary costs. To realise the full potential of the AfCFTA, member countries must go beyond the political rhetoric of free trade and implement cross-cutting measures that address fundamental barriers to economic freedom and infrastructure development.

The COVID-19 pandemic has exacerbated key problems in Africa. Fragilities have worsened, economic growth has slowed, inflation has increased, and most African countries are experiencing rising food prices while facing severe debt distress and shrinking fiscal space. While the AfCFTA has the potential to mitigate many of these issues, major challenges remain. In Section V, we turn to the problems that need to be faced while implementing the AfCFTA.

Section V: Anticipated challenges facing the AfCFTA

This section has been written by the Centre for Development and Enterprise Great Lakes.

While the AfCFTA is projected to usher in widespread benefits, there are numerous challenges that could stifle the agreement's effectiveness.

Non-tariff barriers

NTBs and their impact on the development of value chains across borders remain a persistent problem in Africa. Therefore, a lot hinges on whether government leaders will abide by the agreement and reduce NTBs, as many have promised. Quantitative restrictions, export and import licenses, currency exchange licenses, conditional import authorisations, and special fees for the acquisition of foreign exchange licenses all stifle economic activity. These constraints must be removed if the AfCFTA is to succeed.

Rules of origin

Rules of origin determine where a certain product was sourced from and/or made. These rules are necessary because it is important to know what types of goods qualify as 'African' goods and can be traded under the AfCFTA framework. This essentially gives a product an 'economic nationality' and ensures that customs officials apply the correct tariffs on it.

However, even though trade within the framework of the AfCFTA officially started on 1 January 2021, the negotiations relating to the ROOs took several years to largely complete. Establishment of the ROOs are crucial, as they identify the products that can benefit from the preferential tariff regime under the agreement. The agreed-upon ROOs will become the basis for full-fledged trade between the different member states under the FTA. Therefore, the completion of the negotiations on the ROOs is imperative for the successful implementation of the AfCFTA. By starting the reform and publishing legal instruments at the national level, countries can begin to apply these rules to customs on imports.

Technology

Access to the internet is an important tool for reducing poverty and spurring economic growth, because high levels of internet access allow for cost savings in many sectors of the economy. Unfortunately, the internet penetration rate (IPR) is relatively low and uneven across Africa. For example, while Southern Africa has an IPR of 66 per cent, Eastern and Central Africa have IPRs of just 26 per cent and 24 per cent, respectively (Kamer 2022).

The low levels of internet access in African countries present a substantial challenge, as the region needs a digital platform that explains the benefits of the AfCFTA in local languages to those living in the various RECs of Africa. Low levels of internet connectivity also make it difficult for businesses to learn about the new opportunities that are available to them under the AfCFTA, and without widespread access and knowledge, some will be unable to enjoy the benefits of the trading area.

Infrastructure

According to the United Nations, Africa needs to invest between US$ 130 billion and US$ 170 billion annually to address pressing infrastructure needs across the continent.[33] The various regions of Africa have different levels of infrastructural development, with the northern and southern regions having superior infrastructure compared to the western, eastern, and central regions. Such disparities can limit the extent to which the prosperity generated by the FTA benefits regions.

Additionally, with only 43 per cent of the continent's population having access to an all-season road, transport costs are significantly higher in Africa compared to those in developed countries (ADB 2023b). Furthermore, much of Africa's population does not have access to electricity (ibid.) and only 6 per cent of agricultural lands are irrigated, which indicates the huge underutilisation of water resources. This lack of infrastructural integration will hinder the effective implementation of the AfCFTA.

Taxes

As African states reduce tariffs, they will inevitably lose out on revenue streams that they are currently reliant on. This could lead to financial difficulties since governments need a certain amount of revenue to function effectively. However, as the benefits of the FTA accumulate, African goods will likely become more competitive globally, leading to the creation of other revenue streams. In addition, the AfCFTA will help the private sector generate more revenues, which could help offset the potential loss in tariff revenues.

Regulations

Regulations that govern labour market flexibility, entrepreneurial activities, and business practices must not be cumbersome; otherwise, growth under the AfCFTA will be stifled. Unfortunately, many African states do not provide strong regulatory environments for businesses to thrive in, as shown by the recent World Bank *Business Ready* report.[34] For the AfCFTA to have a substantial impact, these countries need to become more business-friendly.

33 'Infrastructure key to realization of the African Continental Free Trade Area', *United Nations Economic Commission for Africa*, 19 January 2021 (https://www.uneca.org/stories/infrastructure-key-realisation-african-continental-free-trade-area).

34 World Bank. 'Business Ready. 2024", 2024 (https://openknowledge.worldbank.org/server/api/core/bitstreams/08942fab-9080-4f37-b7be-ef61c9f9aed9/content)

Economic freedom

Most countries in Africa are economically unfree according to the Economic Freedom of the World Report released by the Fraser Institute (Gwartney, Lawson, and Murphy 2024). Economic freedom is correlated with several important indicators of societal well-being, so the fact that countries may be attempting to enjoy the benefits of trade liberalisation without liberalising other aspects of their economies is worrisome. Trade liberalisation, in isolation, will not be able to structurally transform an economy. It needs to be combined with a strong push to improve other aspects of economic life to make it much more effective.

The economic freedom ratings reveal how dire the situation in Africa is: the only African countries that were rated in the top half of the economic freedom ratings in the 2024 report were Mauritius, South Africa, Botswana, Uganda, Kenya, The Gambia, Seychelles, and Cabo Verde (Gwartney, Lawson, and Murphy 2024). Every other African country found itself in the bottom half of the ranking, and many were concentrated at the very bottom.

These low scores imply that the current business climate in most African countries does not support free enterprise. If African states want to enjoy the massive benefits that the AfCFTA is projected to bring about, they need to vigorously pursue reforms to increase freedom in all aspects of economic life.

Rogue actors

It is possible that countries may renege on the promises they have made regarding the AfCFTA guidelines. If countries decide to not liberalise their trade regimes, then their failed protectionist policies will remain, and the benefits of the AfCFTA will be severely reduced. Therefore, each country needs to recognise that there will be supporters of protectionism across the region. The politically connected elite within a country do not want to have to compete with other African producers, and thus, they will attempt to block AfCFTA liberalisation efforts. This phenomenon has already occurred: in 2019, Nigeria decided to close its borders to neighbouring countries, resulting in increased food prices in countries that depended on Nigeria for basic food needs.[35]

Africa has already experienced the failure of major trade liberalisation schemes, such as the ECOWAS, because of protectionist forces. It would be a tragedy to see a repetition of this for the AfCFTA.

35 Golub, S., Mbaye, A. A., and Golubski, C. 'The effects of Nigeria's closed borders on informal trade with Benin', *Brookings*, 29 October 2019 (https://www.brookings.edu/blog/africa-in-focus/2019/10/29/the-effects-of-nigerias-closed-borders-on-informal-trade-with-benin/).

Section VI: The AfCFTA's impact on manufacturing and agriculture

This section has been written by the Nkafu Policy Institute, Chris Hattingh, and Alexander Jelloian.

In Africa, over half of all formal jobs are in the agricultural sector, meaning that any trade deal that impacts the trade of agricultural goods will impact a vast population. Also, Africa's weak industrial sector has been a concern for development economists for decades. Therefore, understanding how the AfCFTA will affect the agricultural sector, spur industrialisation, and structurally transform Africa's economy is of the utmost importance.

The potential benefits of the AfCFTA for manufacturing

Africa's manufacturing sector will greatly benefit from increased intra-continental trade. When African states trade with one another, those goods are nearly three times more likely to be higher-value manufactured products than goods exported from the continent.[36] Thus, increased intra-African trade will strengthen the manufacturing sector, and African nations that are overly reliant on commodity exports will be able to diversify their export markets and enjoy a more resilient export environment. Since manufacturing is vital for sustained economic growth, a strong industrial sector has the potential to sustainably boost Africa's economy by creating jobs and ensuring higher income levels.

One way the FTA will improve Africa's manufacturing sector is by reducing the prices of raw materials. As the prices of these inputs fall, African manufacturers can find opportunities to build regional value chains that produce higher-value, domestically sourced goods. In addition, the industrial sectors in some Sub-Saharan African countries have already experienced commendable growth despite the inefficiencies of the wider Sub-Saharan African market.[37] With the AfCFTA improving efficiency across the region, many states that have been enjoying modest gains in their industrial productivity will be able to enjoy accelerated growth.

Finally, it has been projected that by 2035, Africa's intra-African manufacturing exports and non-African manufacturing exports will increase by 110 per cent and 46 per cent, respectively, which constitute significant gains.[38] Of the estimated $2.5 trillion in exports under the AfCFTA, $823 billion is projected to be related to manufactured goods by 2035.

36 Songwe, V. 'Intra-African trade: a path to economic diversification and inclusion', *Brookings*, 11 January 2019 (https://www.brookings.edu/research/intra-african-trade-a-path-to-economic-diversification-and-inclusion/).

37 te Velde, D. W. 'Why African manufacturing is doing better than you think', *Overseas Development Institute*, 18 April 2016 (https://odi.org/en/insights/why-african-manufacturing-is-doing-better-than-you-think/).

38 Zhang, G. 'AfCFTA: a more integrated Africa in the global supply chain', *Upply*, 17 February 2021 (https://market-insights.upply.com/en/afcfta-a-more-integrated-africa-in-the-global-supply-chain).

Case study of South Africa

To illustrate the benefits of the AfCFTA for the manufacturing sector, we now turn to examining South Africa. South Africa has one of the strongest manufacturing bases in Africa, and increased trade will undoubtedly influence the sector's performance.

The South African economy entered the COVID-19 pandemic in a fragile state. A per-annum economic growth of around 2 per cent was normal for the region,[39] and the unemployment rate was slowly increasing.[40] Inconsistent electricity supply – evidenced by periodic rolling blackouts, known as 'load-shedding' – reduced potential industrial and manufacturing capacity and inhibited mining operations. As the mining sector is extremely important for South Africa's economic development, inhibiting its capacity is detrimental to economic growth.

Although the country's manufacturing sector was negatively impacted by two years of government lockdowns and a large strike by metalworkers in October 2021, by November 2021, the sector began to improve. While in October 2021 production on a month-on-month basis had declined by 5.2 per cent, in November, it rose by 3.7 per cent.[41] However, the manufacturing sector still faces many challenges, including high input costs, an unresolved electricity crisis, supply chain disruptions, and low domestic demand caused by interest rate hikes and a high unemployment rate. The First National Bank of South Africa's senior economist Thanda Sithole remarked that '[t]here are several headwinds faced by manufacturers, including higher input cost, an unresolved electricity crisis and problematic but improving global supply chain disruptions.'[42]

While it is by no means a panacea for the social and economic problems that afflict South Africa – many of which have been caused and exacerbated by misguided and flawed policy choices by the government over the past 10 years – the AfCFTA has the potential to spur manufacturing development in the country and across the wider Sub-Saharan Africa region. The more integrated African businesses and industries become, the better able the broader African value chain will be to perform in a global context.

As has been noted, the AfCFTA is projected to yield many benefits for Africa's manufacturing sector. South Africa, with its already sizeable though steadily declining manufacturing base, stands to benefit greatly from this, especially if appropriate reforms that support economic freedom and trade are implemented.

The increase in trade that the AfCFTA will bring will benefit manufacturers in South Africa as a whole while simultaneously helping to diversify the country's manufacturing base. Some of the key sectors that will likely see benefits include textile manufacturing, renewable energy materials manufacturing, and vehicle componentd manufacturing. Producing components for vehicles is already an area in which the country has expertise. Further experience in this area could be a huge benefit to South Africa's economy going forward.

39 'GDP growth (annual %) – South Africa', *World Bank Group*, n.d. (https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2019&locations=ZA&start=2010).

40 'Unemployment, total (% of total labor force) (modeled ILO estimate) – South Africa', *World Bank Group*, n.d. (https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=ZA).

41 Stoddard, E. 'SA's annual manufacturing output shrinks 0.7% in November, with iron and steel still in the red after Numsa strike', *Daily Maverick*, 11 January 2022 (https://www.dailymaverick.co.za/article/2022-01-11-sas-annual-manufacturing-output-shrinks-0-7-in-november-with-iron-and-steel-still-in-the-red-after-numsa-strike/).

42 Slater, D. 'November manufacturing output down 0.7% y/y – FNB', *Engineering News,* 12 January 2022, (https://www.engineeringnews.co.za/article/november-manufacturing-output-down-07-yy-fnb-2022-01-12).

South African manufacturing can also benefit from a more varied base. The COVID-19 pandemic showed that countries can reap gains from vaccine and pharmaceutical manufacturing. In January 2022, it was announced that South African–born biotech billionaire Dr Patrick Soon-Shiong and his company NantWorks LLC had opened a new vaccine manufacturing plant in Cape Town.[43] The company, Aspen, also indicated that it would diversify its capabilities, especially in the city of Port Elizabeth.

While the AfCFTA has the potential to strengthen manufacturing in South Africa, a series of initiatives, known as localisation policies, are being put forth in South Africa that may work against this. We discuss these policies below.

Dangers of localisation policies

The localisation master plans are a series of sector- and product-specific initiatives which have been implemented in stages over the past decade and a half by the South African government. The ostensible aims of the localisation plans are to bring about 're-industrialisation' in the country, increase the country's manufacturing capacity, create jobs in the manufacturing sector, and support South African businesses within the context of a globally connected world with various international forms of competition. While these may sound like reasonable goals, state-led industrialisation is not typically successful. If applied in a punitive and rolling manner, localisation will undermine the potential manufacturing gains that the AfCFTA could bring.

Localisation should be viewed as the South African version of an 'industrial policy' that has taken various forms in other countries around the world. While it is true that it could be beneficial for job creation and attract investment in certain designated areas that the government deems 'worthy', it will ultimately require more state intervention in the economy. In addition, South Africa's history of corrupt governments means that policies of this sort are open to illicit practices that hurt productivity. The likelihood of these policies contributing to long-term, sustainable growth in manufacturing is low.

The Centre for Development and Enterprise's report, *The siren song of localisation: why localisation will not lead to industrialization*, illustrates this point well (Bernstein 2021). The author notes that the costs incurred as a result of localisation policies will offset any perceived benefits from these plans and that while there is a great deal of uncertainty about the value (and distribution) of the benefits of masterplans, there is no uncertainty about whether costs will be incurred. It is inevitable, for example, that downstream manufacturing firms for which steel is a significant input will face higher costs and will lose at least some custom, whether at home or in export markets, from the imposition of tariffs to protect steel manufacturers from foreign competition. It is much less certain how much benefit such manufacturers will derive from the tariff especially since higher steel costs will impact on downstream users' prosperity, prospects and choices over the medium and long term (Bernstein 2021, page 11).

The country's manufacturing base stands to benefit from the lowering of trade barriers, as part of the AfCFTA, because it can leverage its relative strengths and take advantage of the easier flow of capital and skills. But these gains could be undercut by localisation policies.

43 Roelf, W. 'Billionaire Soon-Shiong opens new vaccine plant in South Africa', *Reuters*, 20 January 2022 (https://www.reuters.com/world/africa/billionaire-soon-shiong-opens-new-vaccine-plant-south-africa-2022-01-19/).

In the post–COVID-19 world, there is a danger that countries and governments will pursue isolationist and protectionist policies, reversing many of the concrete gains in poverty alleviation and quality-of-life improvements that have occurred over the past decade.[44]

Localisation, while bringing some short-term benefits for politically connected businesses, will unfortunately only serve as a further bureaucratic barrier to trade flows and possible future investment. Rather, the South African government should identify those spaces of regulatory 'low-hanging fruit' where red tape can be reduced and capital flow enhanced.

AfCFTA and manufacturing capacity

In 2020, the Institute for Security Studies (ISS) indicated that '[t]he future of Africa will depend on its ability to use the industrialisation opportunity presented by the AfCFTA.'[45] It explained that '[a] vibrant manufacturing sector is crucial to transforming economies on the continent, achieving sustained growth, creating more jobs and achieving prosperity for all.'[46] State-led industrial policies have not produced the manufacturing and industrialisation boosts that they promised. Furthermore, with many African governments under renewed fiscal pressure after over two years of lockdowns, African states do not have the financial room to undertake massive infrastructure drives. The increased capital investments that should come with the AfCFTA will be able to fill that void and simultaneously create job opportunities.

The ISS points to the incredibly worrying downward trend in African manufacturing capacity:

> The share of the manufacturing sector in Africa's GDP is currently 11%, down from 15% in the 1970s. Africa's contribution to global manufacturing output declined from 3% in the 1970s to less than 2% in 2013. The share of manufacturing in Africa's total exports fell from 26% in 1995 to 19% in 2014. In other words, African countries are deindustrializing while still poor.[47]

South Africa must take the lead by implementing the AfCFTA wholeheartedly, utilise its still relatively strong manufacturing capacity, and push its industrialisation drive through freer trade channels.

The AfCFTA's potential benefits for agriculture

The World Bank has estimated that Africa's agriculture and agribusiness markets are set to top US$ 1 trillion in 2030 – a nearly 200 per cent increase from 2013 (FAO and AUC 2021). As these markets grow, it is hoped that African producers will become firmly situated in both regional and global value chains. The AfCFTA will help producers attain this goal and potentially improve commodity-based manufacturing across the continent. However, getting to this point will take time. In this section, we look at the current state of Africa's agricultural sector, the challenges that it faces,

44 Ridley, M. 'We've just had the best decade in human history', *Human Progress*, 8 January 2020 (https://www.humanprogress.org/weve-just-had-the-best-decade-in-human-history-seriously/).

45 Yeboua, K., and Wait, R. 'Free trade deal could boost African manufacturing', *Institute for Security Studies*, 8 December 2020 (https://issafrica.org/iss-today/free-trade-deal-could-boost-african-manufacturing).

46 Ibid.

47 Ibid.

and what the AfCFTA will do for producers. We conclude this section by looking specifically at Central African states and what must occur in that region to help their producers thrive.

The current state of Africa's agricultural sector

It has been estimated that over half of Africa's working population is, in some way, connected to the agriculture industry. While some countries, such as Egypt and South Africa, have significant productive capabilities in this sector, most African states have underdeveloped agricultural sectors which are riddled with inefficiencies and face losses in revenue (FAO and AUC 2021).

What is perhaps most unfortunate about the current state of the agricultural sector is the fact that despite this region's vast agricultural potential, Africa is a nett importer of food. The continent has about 60 per cent of the world's remaining uncultivated, arable land.[48] With abundant land available, Africa's agricultural sector has the potential to accelerate economic growth, reduce poverty, enhance food security, and increase foreign exchange earnings. Nevertheless, from 2015 to 2017, Africa's food import bill was about US$ 80 billion per year while its exports were valued at US$ 61 billion per year, indicating that it has been unable to capitalise on its natural resources (FAO and AUC 2021).

Africa's agricultural exports have historically been dominated by five classes of products – cocoa, edible fruits and nuts, coffee, tea and spices, and fish/edible vegetables/and roots – which make up roughly 53 per cent of all agricultural exports. Around 75 per cent of this is exported to markets outside of the African continent, and intra-African agricultural exports make up only one-quarter of the total (FAO and AUC 2021). This shows that African agriculture is not traded amongst African states enough. Also, one could argue that if agricultural goods had a history of moving between African states more freely, agricultural producers would have profited significantly and reinvested the gains back into the production process. This would have translated into gains for all of Africa and increased the ability of African producers to compete in global markets. However, because this has not happened, we can infer that African agriculture has remained inefficient.

Africa's lack of regional integration

Africa has been plagued by high barriers to trade since the colonial era. Disparities in the level of development, inconsistent and conflicting regulations on produce, infrastructure deficits, and border closures and disputes are all factors that make it expensive to move goods between African states. This has had a direct effect on African agriculture. Just one example of how detrimental trade barriers are to producers can be seen from the fact that, in some parts of Africa, domestic transportation costs account for between 50 per cent and 60 per cent of the marketing costs that producers endure (FAO and AUC 2021). With such astronomically high transportation costs, it is no wonder that the level of intra-African agricultural trade has remained incredibly low.

It is in this context that the AfCFTA will be useful, and if it succeeds in removing tariffs and NTBs, Africa's agricultural producers will undoubtedly benefit. As it becomes easier for goods to flow across the continent and towards new markets, agricultural producers will begin to earn higher revenues.

48 Plaizier, W. '2 Truths about Africa's agriculture', *World Economic Forum*, 22 January 2016 (https://www.weforum.org/agenda/2016/01/how-africa-can-feed-the-world/).

While the FTA will improve Africa's agricultural prospects, this sector currently faces many structural issues that will take time to resolve. Therefore, African producers may not immediately reap all the benefits of increased intra-continental trade. Some of the factors that will cause a delay in African producers being able to fully enjoy the benefits of the AfCFTA are the following: (a) low irrigation levels, (b) lack of access to fertilisers, (c) low access to electricity, (d) low internet connectivity, and (e) lack of mechanisation (FAO and AUC 2021). However, with the AfCFTA's implementation, the agricultural sector will benefit from a more well-functioning economic landscape, which would in turn lead to competitiveness in agriculture.

Another area where the AfCFTA may help agricultural producers is in the standardisation of sanitary and phytosanitary (SPS) measures. Standardisation will make it easier for African producers to sell to a continent-wide market because they would only have a single set of measures to adhere to, in contrast to the case where each African country has its own standards. This, combined with plans to reduce tariffs on agricultural produce, will allow producers from all over the continent to have access to a large export base. As agricultural producers begin to take advantage of favourable economic prospects, it is likely that irrigation levels will increase, more producers will gain access to fertilisers, internet connectivity will improve, and mechanisation will become more widespread.

We now look at Central Africa as a case study to see what must specifically be done to improve this region's agricultural prospects.

Case study: Central African states

Central African countries are facing a regional trade integration deficit, which is mainly caused by tariffs and NTBs, inadequate infrastructure (roads, railroads, ports, communications, energy, and water), inconsistent or failed policies and regulations, and business informality. In addition, policies that stifle economic productivity, such as a lack of property rights, are common in the region. These issues must be addressed to realise the potential of the AfCFTA.

The AfCFTA has the potential to transform the continent into a food exporting region and move Central African states to the top of global value chains through agriculture-related industrialisation. Central African governments must put in place a legislative and regulatory framework that is conducive to strengthening regional economic integration and one that facilitates trade, production, infrastructure development, and the free movement of people, while simultaneously adhering to the FTA guidelines on reducing tariffs and NTBs. This will allow for a more efficient allocation of resources across the region and act as a boost to Central Africa's agricultural sector. Finally, a coordinated effort by Central African governments to protect property rights would encourage producers to invest the increased revenue they will gain from increased intra-African trade back into the production process, further improving efficiency.

Ultimately, agricultural development is necessary for the development of the African continent. It is hoped that under the AfCFTA, Africa's agricultural producers can overcome the numerous hurdles they face, taking advantage of the benefits of the freer movement of goods. This, when coupled with effective government policies that seek to protect property rights, can help strengthen the agriculture sector, thus enhancing food security and ultimately alleviating poverty.

Section VII: Conclusion

This section has been written by Alexander Jelloian.

Africa has been steeped in protectionism since the abolition of colonialism. Formal and informal trade barriers have squelched economic growth and made it difficult for the private sector to operate efficiently. Nevertheless, higher growth rates in recent years have shown that not all hope is lost. Many young Africans are entrepreneurial and better educated than ever before. In this evolving scenario, free trade in the form of the AfCFTA holds significant potential for African economies.

If successfully implemented, the AfCFTA could transform Africa in multiple ways. Higher wages, a strong manufacturing base, and improved efficiency in agriculture are just a few of the many benefits that are predicted. Furthermore, it is also worth noting that Africa had a long history of trade in the pre-colonial period. Thus, moving away from the protectionism that came about during the colonial era can be seen as a general move back towards practices that were present in indigenous Africa.

Nevertheless, challenges remain. In this paper, we have discussed several threats to the successful implementation of the AfCFTA. If African governments are not willing to abide by the tenets of the deal, if discussions regarding ROOs stall, and if leaders choose to revert to the failed protectionism of the past, then the AfCFTA will not have as significant an impact as it should on the lives of Africans.

However, things do seem to be moving in a free-trade-friendly direction. While negotiations have prevented the full implementation of the AfCFTA, the decision to roll out a GTI has meant that commercial trade under the AfCFTA has begun. As a result, customs officials have begun to learn what it means to trade under the AfCFTA, which is an important step towards improving Africa's overall trading environment. Developments such as this indicate that Africa's trading environment may very well have a bright future.

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