December 21, 2020

Will the AfCFTA accelerate inter-African economic integration?

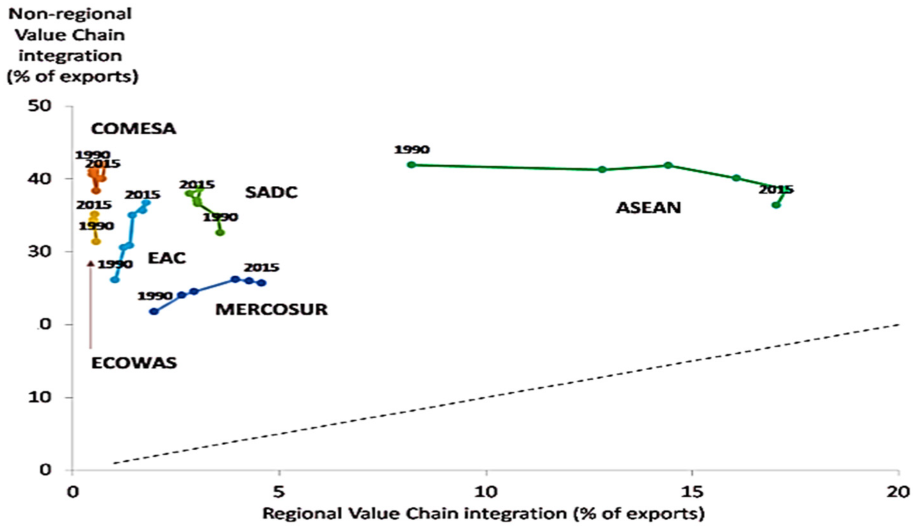
Munsu Kang
Ph.D., Associate Research Fellow, Africa and Middle East Team
Korea Institute for International Economic Policy

As a result of efforts toward a single market, African countries are moving forward on the African Continental Free Trade Area (AfCFTA) and preparing to become an integrated market from 2021. According to the World Bank (2020), the economic impact of the AfCFTA is prospected to reach nearly US$450 billion by 2035, which is a promising future for the 54 member countries. It is also expected that the AfCFTA will boost intercontinental trade by 110 percent, especially for manufacturing goods. Furthermore, the AfCFTA is expected to be a stimulus for attracting foreign investment.

While the African Union targets 2035 to complete the AfCFTA, there are still several issues remaining for African countries to implement this trade agreement consistently.

First, trade volume within the regional value chain (RVC) remains low. Even if regional economic groups such as ECOWAS, EAS, and SADC embrace intra-regional trade, the actual trade volume within the region is not that high as we may expect. For example, de Melo and Twum (2020) in Figure 1 show that the global value chain (GVC) rather than the RVC participation of African countries increased while RVC in ASEAN and MERCOSUR expanded. Even if some countries such as South Africa, Cote d'Ivoire, and Kenya export more than 40% of their products to neighboring countries, the major trade partners of the rest of the countries are not the African market, but the global market. Furthermore, the main exporting goods by African countries are agricultural products and raw materials such as maize, coffee, gold, copper, and petroleum gas. The World Bank prospects that a few countries such as Cameroon, Egypt, Ghana, Morocco, and Tunisia would be the winners of the AfCFTA from exporting manufacturing goods. It turns out that African countries could consider the value chain of raw materials to produce value-added goods, which takes time. For this reason, it is difficult to conclude that the AfCFTA will accelerate intra-continent economic integration without building a value chain.

Figure 1: Patterns of RVC participation



Source: de Melo and Twum (2020).

Second, the AfCFTA does not guarantee unconditional free trade between countries when the countries' priority on protecting producers and trade liberalization conflict with each other. Recent Nigerian policy on closing the border to its neighboring countries such as Benin and Cameroon well illustrates the potential tension after the AfCFTA is implemented in 2021. Although Nigeria imposes high import tariffs on rice from Asian countries, there were traders in Benin and Cameroon importing rice at low or non-tariff and informally re-exporting this to Nigeria. Nigeria finally locked the border to prevent informal rice smuggling and to protect domestic farmers. Even if the AfCFTA aims at non-tariff policy among African countries for 90% of commodities, the non-tariff policy can contradict other policies such as to protect domestic producers. Recently, Ghana also started to consider imposing import tariffs to protect agricultural producers.

Furthermore, the AfCFTA does not restrict State aid. This means that producers in some countries might take advantage of the subsidy and apply more inputs compared to others not receiving a subsidy from the government. State aid can improve producers' market competitiveness and exporting countries with State aids might increase their intra-continental market share. This could increase tension among countries if they produce the same commodities.

Third, sanitary and phytosanitary measures may push the barrier up of market access for small-scale producers, especially those who sell agricultural products. AfCFTA-participating countries are negotiating on the sanitary and phytosanitary measures of the commodity goods. While this measure is necessary for human, animal, and plant health, it might challenge traders who are engaging in informal trade without sanitary restrictions. They might be allowed to participate in the trading activities if they can apply the sanitary regulations. In particular, sanitary and phytosanitary measures in agricultural trade might increase production costs such as additional veterinary costs. While AfCFTA common regulations related to food safety, animal and plant health have a possibility of increasing producers' costs, they also can restrict countries exporting products with poor food safety. For this reason, the AfCFTA in terms of food safety could guarantee unconditional free trade only for certified producers.

Lastly, transportation infrastructure in the African continent may be improved to connect country to country. According to the World Bank, the aggregated Logistics Performance Index (LPI) of African countries from 2012 through 2018 is relatively low. One of the most important factors for the trade expansion within the continent might be increasing logistics. For example, economic growth in several countries such as the United States and China was boosted after the spread of the transportation network (e.g. railroads). For this reason, improving logistics might be a key assignment for African countries to accelerate intra-African integration.

Even if there are still challenges to achieve an economically integrated continent, the AfCFTA may certainly increase intra-continent export volume and contribute to income growth, poverty eradication, and development. However, only adhering to an optimistic view will not ensure a successful story for the AfCFTA. It is time to carefully review the potential problems and conflicts for the brighter future of the AfCFTA. KIEP

References

De Melo, J., and Twum, A., 2020. The long Road towards Supply Chain Trade in Africa. *FERDI Notes brèves/Policy briefs*, (B203).

World Bank. 2020. The African Continental Free Trade Area: Economic and Distributional Effects. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/34139 License: CC BY 3.0 IGO.

World Bank. 2018. Logistics Performance Index (LPI). https://lpi.worldbank.org/.