Development Opportunities in the Wake of African Continental Free Trade Area (AfCFTA)

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Lecture notes of

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on

'Development Opportunities in the wake of African Continental Free Trade Area (AfCFTA)'

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I. Introduction

Good day everyone.

I’m sure that there are so many other things you would rather be doing with your Saturday than receiving a lecture, but we are here, so let us try to make the most of it.

At the onset, I want to thank the Afronomicslaw Academic Forum for inviting me to give this guest lecture. It’s my pleasure to be here.

Today’s lecture is on the Development Opportunities in the wake of the African Continental Free Trade Area (AfCFTA).

II. Background

1. The African Continental Free Trade Area (AfCFTA) needs no introduction anymore. It is arguably the African Union’s biggest project since the launch of Agenda 2063 in January 2013, which is our blueprint for sustainable development and economic growth of our Continent.

2. The AfCFTA was borne out of the mutual desire of AU Member States to ensure better lives for African peoples and to provide sustainable remedies to the many socio-economic problems, including the illegal migration that leads to the loss of lives of many of our youth.

3. Africa is a young continent, hence, exerting the utmost effort on the span of 6 years to transform a vision for development that was incorporated in Agenda 2063 into an actual legally binding Agreement governing trade between African States, has been extremely ambitious.

4. On a continent with 1.2 billion people with a combined market worth $2.5 trillion, the AfCFTA presents a huge potential for traders, exporters and businesses involved or interested in cross-border trade.

5. As set out in Article 3 of its Agreement, the AfCFTA is expected to, among others, enhance competitiveness, promote industrial development through diversification and regional value chain development, and foster sustainable socio-economic development and structural transformation.

6. According to the World Bank's estimation , implementing the AfCFTA Agreement would contribute to lifting an additional 30 million people from extreme poverty and 68 million people from moderate poverty. By 2035, the volume of total exports would increase by almost 29 percent relative to business as usual. Intracontinental exports would increase by more than 81 percent, while exports to non-African countries would rise by 19 percent. This would create new opportunities for African manufacturers and workers.

III. Development Opportunities under the AfCFTA

7. As Kuhlmann and Agutu noted in their article[2]:

> *"The AfCFTA has a strong development focus, highlighting economic and social development and legal harmonization among its objectives, and incorporating aspects of the AU's Agenda 2063, which prioritizes inclusive social and economic development and links Africa's growth and integration to the Sustainable Development Goals (SDGs)."*

8. Today, I would like to focus on key development opportunities based on specific provisions in the AfCFTA Agreement, particularly in relation to the manufacturing, agriculture and financial sector as well as capacity building.

Specific provisions in the AfCFTA Agreement

i. **Article 3** of the Agreement sets out the general objectives of the AfCFTA, which, among others, include specific provisions on development:

1.3(c) - facilitate investments building on the initiatives and developments in the State Parties and RECs;

2.3(e) - promote and attain sustainable and inclusive socio-economic development;

3.3(g) - promote industrial development through diversification and regional value chain development, agricultural development and food security.

ii. There are also similar provisions in the preambles of the Protocols on Trade in Goods and Trade in Services that identify development as a main objective of

the AfCFTA.

How the AfCFTA will ensure development

1. Liberalisation of Trade

i. Article 2 of the Protocol on Trade in Goods provides that the principal objective of the Protocol is to "*create a liberalised market for trade in goods…*".

ii. It aims to do this through a progressive elimination of barriers to trade including tariffs and non-tariff barriers (NTBs). This removal of barriers will be illustrated in the elimination of import duties and taxes as well as any quantitative restrictions on goods coming from another State Party to the Agreement.[3]

iii. To this end, in July 2019, Afreximbank instituted a $1-billion AfCFTA Adjustment Facility to enable countries adjust to sudden significant tariff revenue losses as a result of the implementation of the agreement.

iv. The liberalisation of trade in services, coupled with relevant policies, is capable of encouraging continent wide development. The five priority sectors that have been prioritised for AfCFTA implementation are: financial services, transport, telecommunications/information technology, professional services, and tourism. However, the schedules of specific commitments are yet to be finalised.

2. **Encouragement of industry** – Both Protocols on Trade in Goods and Trade in Services note the importance of *industrial development to promote the development of regional value chains*[4];

i. The World Bank (2020) estimates that within the increase of total exports by almost 29%, the manufacturing exports would gain the most, with intra-Africa manufacturing trade increasing by 110% and manufacturing exports to the rest of the world rising by 46% (Ibidem).

ii. These estimates underline the AfCFTA's potential to create new opportunities for African manufacturers and potentially boost industrialisation on the Continent.

iii. For example, the occurrence of the COVID-19 pandemic brought up discussions on the need to establish and promote local manufacturing of essential medicines to improve availability and access for African populations as envisaged in the AU's 2012 Pharmaceutical Manufacturing Plan for Africa (PMPA). This provides an opportunity for pharma-investments in Africa.

3. **Agriculture specific industry development** – as already mentioned earlier Article 3 of the Agreement seeks to "*promote industrial development through diversification and regional value chain development, agricultural development and food security*"

The AfCFTA could play an important role in facilitating intra-regional trade in agri-food products, including from surplus to deficit areas, thereby stabilising food prices and improving food security.

The AfCFTA also offers an opportunity to promote competitiveness through regional agricultural value chain development.

The private sector would have the opportunity for development and increased financing to leverage investments into agro-processing with the AfCFTA serving as a framework to provide larger markets for both inputs and outputs.

4. **Attracting foreign investments** - Article 3 (2)(c) of the Protocol on Trade in Services provides that one of its specific objectives is to "*foster domestic and foreign investments"*

i. Implementation of the AfCFTA could have a positive effect on foreign direct investment (FDI), especially in the manufacturing (and services sectors), as foreign investors venture to tap into the continental market, diversifying investments beyond the traditional.

ii. In essence, AfCFTA makes investments on the continent more attractive to foreign investors who can see the potential gains in setting up their manufacturing hubs in African countries because they are able to avoid taxation on the movement of their goods or services between African countries.

5. **Development in capacity building** – Article 29 of the Protocol on Trade in Goods states that "*The Secretariat, working with State Parties, RECs and partners, shall coordinate and provide technical assistance and capacity building in trade and trade related issues for the implementation of this Protocol.*"

i. Through development of programmes targeted at building the capacity of Member States, RECs and even entrepreneurs in the areas of legal matters, dispute settlement as well as different aspects of trade.

ii. Attracting investments, both domestic and foreign, will depend on the existence of enabling factors domestically, on intellectual property rights including the use of compulsory licensing and aspects of market regulation, financing, incentives for investment in research and development, distribution and access.

iii. The AfCFTA therefore presents an opportunity to strengthen African countries' capacities in order to strengthen their production.

6. **Development in the Financial Sector** - Less expenditure means cheaper products for everyday consumers and more savings in the banks, financial sectors, especially once the monetary institutions envisaged by the African Union become operational.

I will stop here and I look forward to hearing your thoughts and answering questions.

Thank you

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