

9th edition

CFC Africa Insights

February 2024



African Continental Free Trade Area, harnessing the power of Intra-Africa trade.

CFC Africa Insights

AfCFTA, harnessing the power of Intra-Africa trade





TABLE OF CONTENTS

Foreword	4
Executive Summary	6
Keys Infographics	7
Introduction	9
Chapter One : AfCFTA Context	10
Chapter Two : Macroeconomic Impacts	19
Chapter Three : International Comparisons	27
Chapter Four : Sector Case Studies	36
4.1. Automotive Sector (Morocco)	37
4.2. Agro-processing (Côte d'Ivoire)	43
4.3. Clothing and Apparel (East Africa)	50
4.4. Energy Transition (Various Economies)	57
Conclusion & Takeaways	64
Glossary	65
Sources Cited	66



FOREWORD

As we stand on the cusp of a new era in Africa's economic integration, it is with great pleasure that I introduce this new edition of our CFC Africa Insights Series dedicated to the African Continental Free Trade Area (AfCFTA). The AfCFTA represents a monumental milestone in the journey towards realising Africa's full economic potential, fostering intra-African trade and investment, and driving sustainable development across the continent.

In recent years, Africa has demonstrated remarkable resilience and determination in overcoming various challenges on its path to economic prosperity. The establishment of the AfCFTA signifies a collective commitment among African nations to harness the continent's vast resources and promote value creation, while leveraging opportunities for shared growth and development.

This report serves as a comprehensive examination of the opportunities and challenges presented by the AfCFTA, offering insights and analysis to empower businesses, policymakers, and stakeholders to navigate this transformative landscape effectively. From exploring the potential impact on key sectors (as automotive, agro-processing, clothing & textiles, or energy transition) to contemplating international aspirational benchmarks (such as the EU or the ASEAN) or the current investment landscape, the report provides valuable perspectives to inform strategic decision-making and foster collaboration across borders.

The AfCFTA holds immense promise to unleash Africa's economic potential and elevate its position on the global stage. By removing barriers to trade, harmonising regulations, and fostering a business-friendly environment, the AfCFTA paves the way for increased competitiveness, innovation, and inclusive growth. Furthermore, it represents a testament to Africa's unity and determination to chart its own course towards emergence, building on its rich diversity and complementarity as an intrinsic source of strength and resilience.

As we embark on this transformative journey, it is crucial to recognize that realising the full benefits of the AfCFTA will require concerted efforts from all stakeholders. Governments must prioritise policy reforms that streamline trade and investment, while businesses must be agile and adapt to new market dynamics, seizing opportunities for collaboration and expansion.

I have the strong conviction that business and financial centers as well as their respective ecosystems, have a vital role to play in promoting awareness, building capacity, and putting in place frameworks to ensure the broad and holistic success of this ambitious initiative.

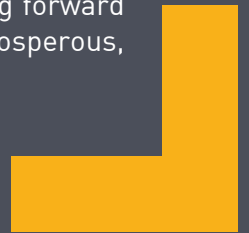
On a final note, I extend my sincere appreciation to all those who have contributed to the development of this report, as well as to the visionary leaders and institutions driving forward the AfCFTA agenda. Together, let us seize this historic opportunity to build a more prosperous, interconnected, and resilient Africa for generations to come.

I wish you a pleasant read.



Said Ibrahimy

CEO - Casablanca Finance City Authority

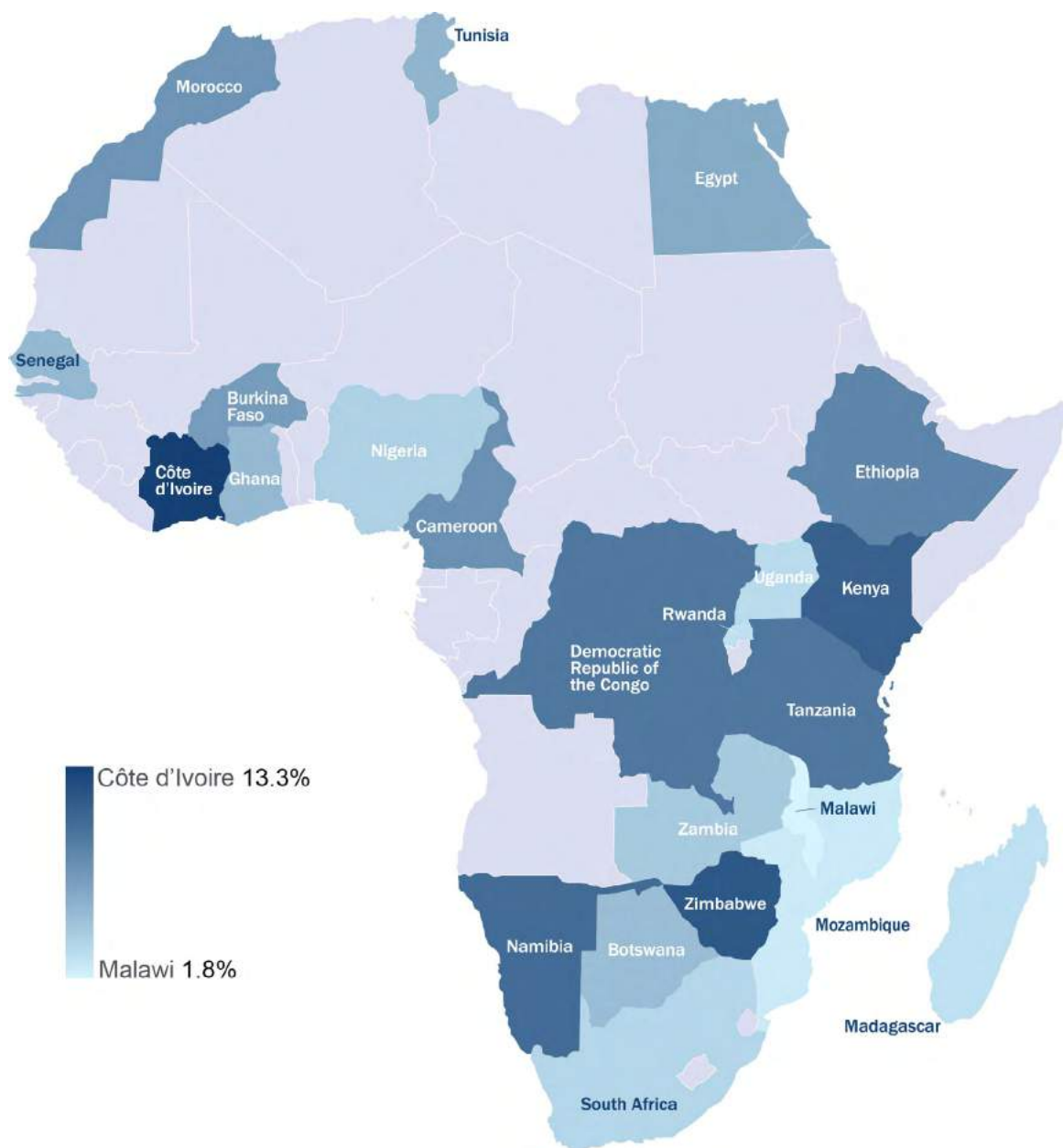


Executive Summary

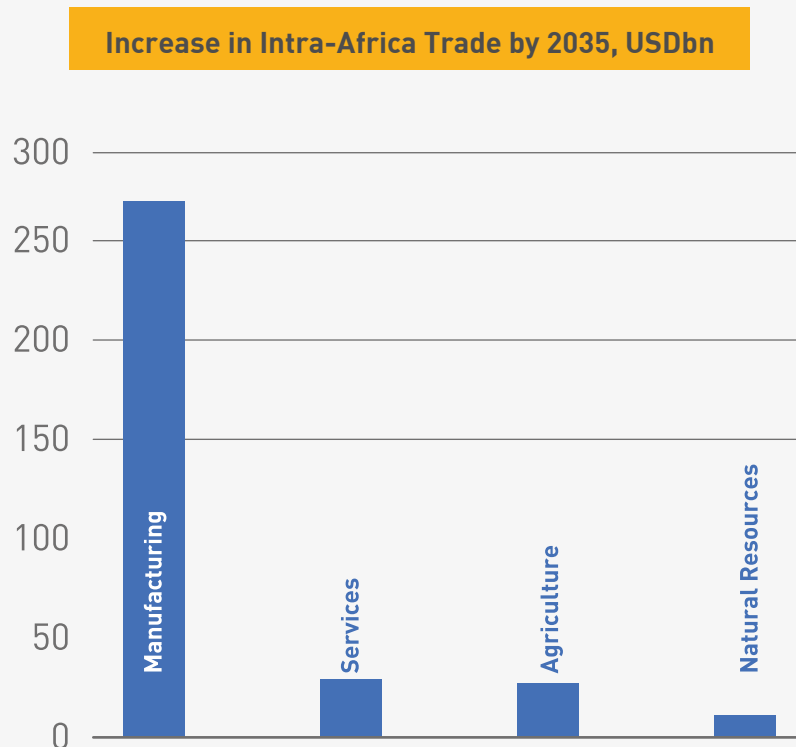
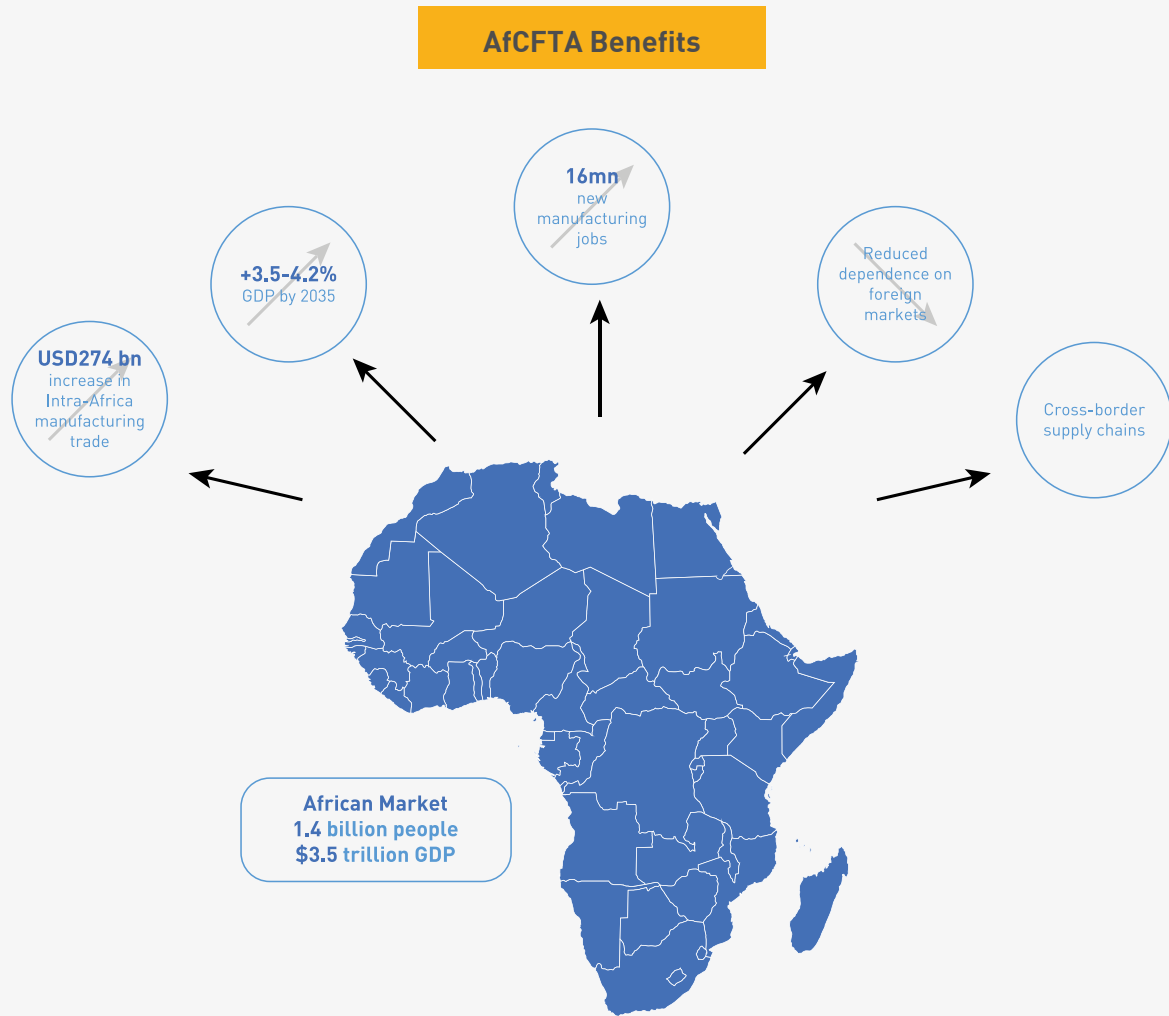
- The African Continental Free Trade Area (AfCFTA) is an ambitious effort to **boost growth and improve social outcomes through increased economic integration**.
 - **The AfCFTA is still a work in progress.** Many operational details – including the dispute-settlement mechanism – have yet to be agreed. Based on the current schedule, tariff liberalisation will not be complete until 2033.
 - **Even when complete, AfCFTA will create a loose, state-driven trade regime** rather than a homogenous single market like the EU. Individual RECs will remain key actors. Investors and exporters will still need to consider national and sub-regional policy.
 - **AfCFTA will boost African economies through three main channels:** lower prices and more consumer choice, new cross-border value chains and economic diversification, and a reduced dependence on foreign markets.
 - **In aggregate, studies suggest that the deal could raise real incomes by 7% by 2035.** The impact will be largest in smaller economies and those that currently have high trade barriers. Much depends, however, on how the deal is eventually implemented.
 - **The experience of Asian economies may provide a guide to how AfCFTA will evolve.** Africa is not following Europe's institution-led, legally homogenous mode of regional organisation. The deal has more in common with the ASEAN-led system than the EU.
 - **AfCFTA will encourage the creation of regional hubs that help to meet African demand.** Africa's more-advanced economies, like Morocco, will benefit both by exporting to new markets and by the ability to source cheaper imports.
- While AfCFTA will eventually boost investment and the cross-border trade in services, this report has focused on the more-immediate impact on merchandise trade. It includes four key case studies:
 - **Morocco's automotive sector** stands to benefit from Africa both as a key source of demand and as a zone of production. Integrating West African economies into its supply chains can cut costs and create jobs across the region.
 - **Côte d'Ivoire's agro-processing sector** is well positioned to supply processed and packaged food. With the right investment, the country could also process more of its cocoa crop domestically.
 - Reduced intra-Africa tariffs will help **East Africa's clothing sector** to compete against Asian rivals in serving Africa's growing demand. The region has abundant natural resources and a large labour force. Ethiopia has already begun to move up the value chain.
 - **AfCFTA will accelerate Africa's energy transition.** Integrating power networks will create cheaper, more-reliable grids and lower tariffs will encourage the domestic production of manufactured products like solar panels. **South Africa and Morocco stand out as having the most potential.**
 - In each case, growth in one country will create positive spill-overs elsewhere. Modernising agriculture, for example, will boost demand for inputs like fertiliser and tractors that are produced in Morocco and South Africa.

Key Infographics

Additional Increase in Real Incomes by 2035, % change compared to non-AfCFTA baseline



Source: World Bank (Change by 2035)



Source: World Bank (Rise in exports compared to non-AfCFTA baseline)

INTRODUCTION

At a time when politicians in many parts of the world are turning inward, the African Continental Free Trade Area (AfCFTA) is an exciting example of countries working together to reap the benefits of economic integration. The following report provides an analysis of this process and lays out some of the benefits for investors and exporters as Africa completes one of the world's largest trade agreements.

The deal is, admittedly, still a work in progress. Indeed, while AfCFTA will eventually create significant opportunities for Moroccan firms in the financial, travel and communications sectors, this report is primarily focused on the impact on goods trade because negotiations on this area have made more progress. While the Guided Trade Initiative (GTI) is already giving a preview of how the system may work in practice, much will depend on how the AfCFTA is eventually implemented. In Chapter Three, we show how the final shape of AfCFTA will resemble the inter-governmental model seen in Asia more than the institution-led model that has developed in Europe.

It is, however, already clear that AfCFTA offers a significant opportunity for firms across the continent. As this report shows, the AfCFTA process will improve consumer choice, bring down trade costs and facilitate the creation of cross-border value chains. We are particularly optimistic about the potential of the manufacturing sector, which will benefit from increased economies of scale that will lower production costs and encourage investment. In one of this report's four detailed case studies, we highlight how Morocco's automotive sector will benefit from both new export markets and from the ability to source low-cost components from African producers.

We think that Morocco is particularly well placed to harness the potential of intra-Africa trade. As one of the continent's most advanced economies, Morocco is home to firms in the automotive, fertiliser, financial services, consumer goods and transport sectors that will be able to find new markets across the continent.

We stress, however, that the benefits of AfCFTA will be widely shared and will create growth across the whole continent. By creating cross-border value chains, African economies will benefit from their neighbours' successes. For example, bringing down agricultural tariffs in West Africa will boost Ivorian exports and bring down prices for Nigerian consumers. But it will also create new markets for South African tractor manufacturers and Moroccan fertiliser exporters.

Reaching this potential will require continued efforts by policy-makers to push forward with negotiations and agree the details of how the deal will be implemented. Indeed, as we show in Chapter Two, realising the benefits of the deal will also require reducing non-tariff barriers, pushing forward with trade facilitation agreements, and improving physical infrastructure.

Investors and firms that want to benefit from AfCFTA will have to work hard to keep abreast of a complex and quickly changing landscape. We hope that this report provides a helpful guide to this fast-moving process and prompts a valuable discussion in Morocco and elsewhere.



John Ashbourne
Senior Emerging Market Economist
BMI, a Fitch Solutions Company

CHAPTER 1

Context of the African Continental Free Trade Area (AfCFTA)



AfCFTA is an ambitious, continent-wide effort to integrate African economies. It aims to encourage faster economic growth, greater economic diversification and better social outcomes for the people of Africa.

The deal, which was signed by 44 heads of state on 21 March 2018 and came into effect following the 22nd ratification on 30 May 2019, is a significant diplomatic achievement. Indeed, measured by either population or number of parties, the market created by AfCFTA is one of the largest in the world (see Selected Free Trade Areas chart). When all 54 state parties eventually ratify AfCFTA, it will encompass a third of all members of the World Trade Organization (WTO).

Selected Free Trade Areas

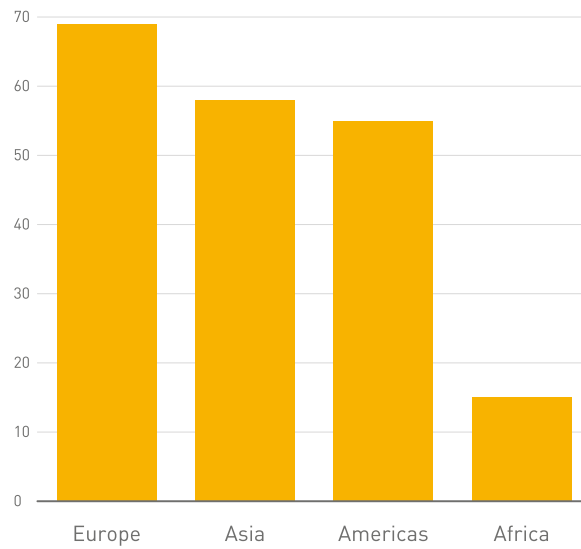
	State Parties	Population	GDP (trillion)
AfCFTA	46*	1.3 billion	USD 3.5
Association of South East Asian Nations (ASEAN)	10	668 million	USD 10.2
Comprehensive & Progressive Agreement for Trans-Pacific Partnership	11	513 million	USD 13.5
European Union (EU)	27	447 million	USD 17.8
Gulf Co-operation Council (GCC)	6	65 million	USD 2.3
Regional Comprehensive Economic Partnership (RCEP)	15	2.2 billion	USD 29.7
United States-Mexico-Canada Agreement	3	500 million	USD 26

Source: BMI Research (*Not all have ratified)

1. THE STATE OF ECONOMIC INTEGRATION IN AFRICA

Most African economies are much less integrated with their neighbours than peers on other continents. In 2022, just 15% of African exports were sent to other African economies. The comparable figure in Asia was 57% (see Fig 1.1).

Figure 1.1 Exports to Own Continent, % of total exports



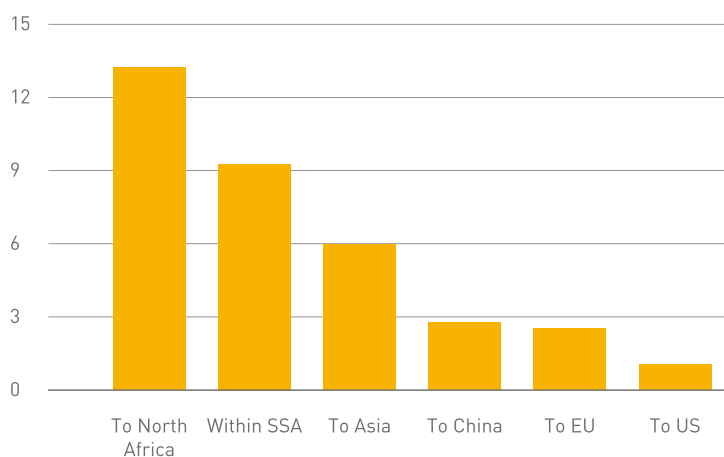
Source: Trade Map (2022)



The paucity of intra-African trade is the result of a variety of factors – some of which can be addressed by a trade deal. For one thing, many African states only export a few raw goods that their neighbours do not need (for example, crude oil) and import a wide variety of manufactured products that their neighbours do not produce (for example, electrical equipment). Even when African countries do produce goods for which there is demand within the continent, the poor quality of infrastructure often makes it cheaper to import a product by sea from China than by road from a neighbouring state. Fully implementing AfCFTA will require investments in infrastructure. The Initiative to Enhance Atlantic Ocean Access for Sahel Countries, launched by His Majesty King Mohamed VI of Morocco, may provide a model. The scheme, which aims to link inland Sahelian countries to the Atlantic Ocean, has spurred significant international media attention.

But while tariffs are not the only factor holding back African trade, they clearly play an important role. They are also the obstacles that are easiest and cheapest to remove. Tariff levels vary across Africa, but they are high in most economies. Also, and unlike in other regions, most African goods face higher tariffs entering neighbouring markets than they face elsewhere in the world (see Fig 1.2).

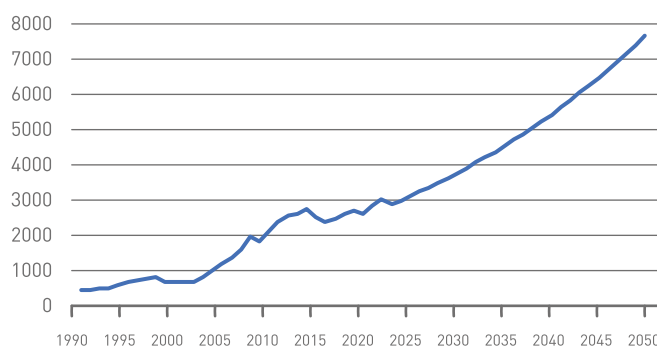
Figure 1.2 Trade-Weighted Tariff Faced by sub-Saharan African Exporters, %



Source: World Bank

Creating a more-integrated African economy will provide a huge potential for firms across the continent. While Africa currently makes up about 2.7% of global economic output, the region is set for rapid growth over the coming decades. BMI estimates that Africa's GDP will rise to over USD7.0 trillion by 2050 (see Fig 1.3). By this time, the continent's GDP will exceed that of Japan.

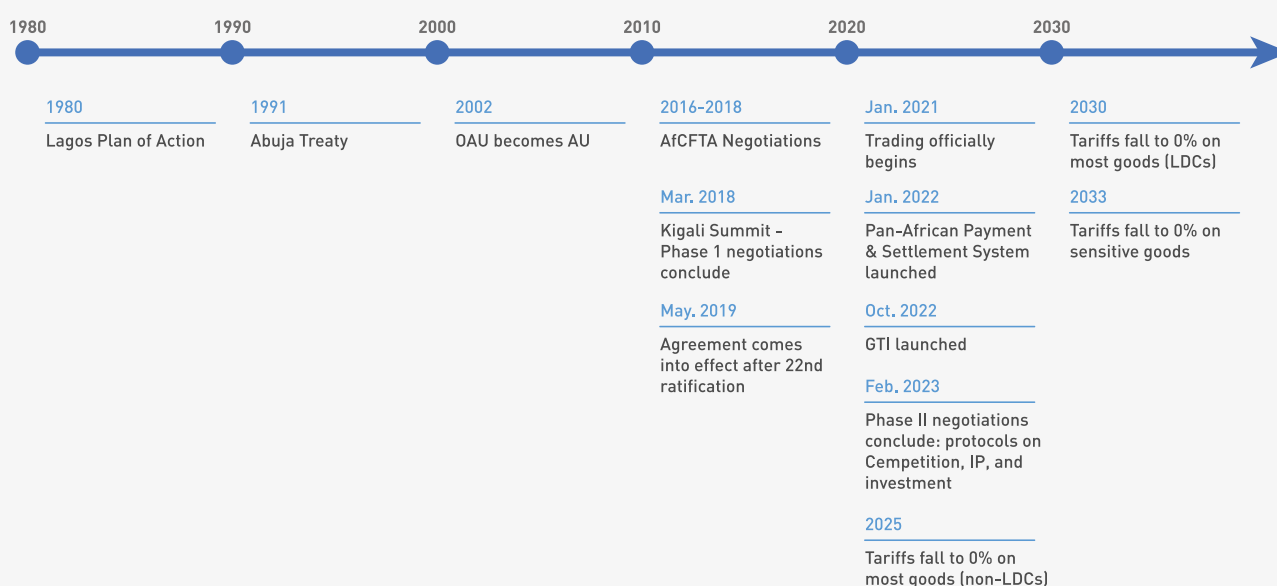
Figure 1.3 Africa GDP, USDbn



Source: BMI Forecast

2. THE AFRICAN CONTINENTAL FREE TRADE AREA PROCESS

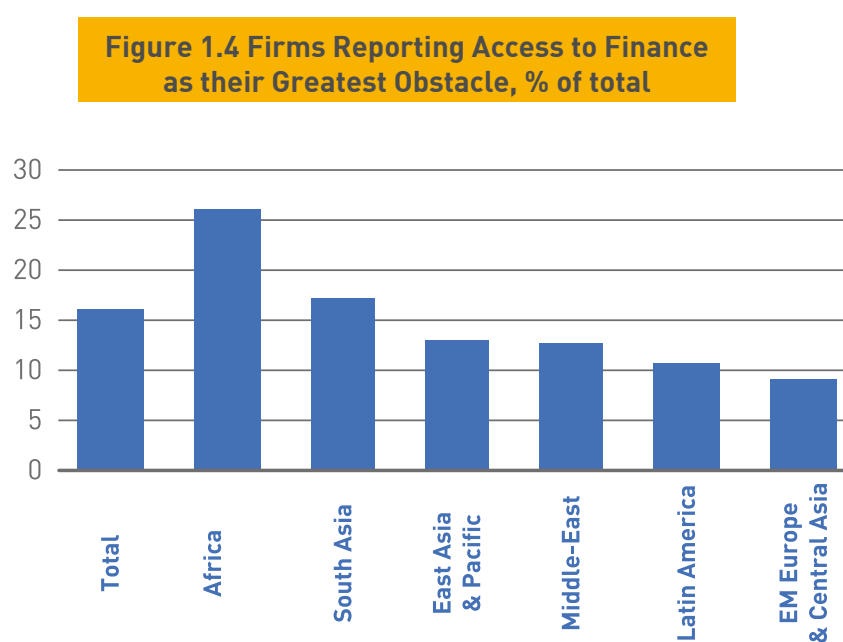
While some policy-makers have been calling for an Africa-wide trade agreement since the 1960s, the negotiating process that led to the AfCFTA agreement began with the 1991 Abuja agreement, which established an “African Economic Community”. The treaty agreed on the goal of closer economic integration and began a process of using the existing Regional Economic Communities (RECs) to build an Africa-wide trade bloc. This process culminated in the agreement founding an African Continental Free Trade Area, which was signed in Kigali in 2018 (see timeline). The process has been led by national governments with support from the African Union (AU) and many of the continent’s development finance institutions.



Navigating a Turbulent Context: AfCFTA and Geopolitics

- The operationalisation of AfCFTA is happening at a time of elevated political risk across the continent. This year will see almost two dozen elections in Africa, including in key economies such as South Africa, Ghana, Algeria and Tunisia. These votes create the risk that policy-makers may attempt to delay negotiations, or to reopen discussions that have been closed.
- The continent’s existing institutional architecture is increasingly coming under strain. The decision by the authorities in Burkina Faso, Mali, and Niger to leave the Economic Community of West African States (ECOWAS) has complicated the implementation of AfCFTA, which relies on cooperation between the existing regional blocs.
- African integration is also taking place against a backdrop of increased competition between the world’s major economies. Policy-makers across the continent are facing the challenge of managing relations with Europe, Russia, China and the United States. Cooperation under the umbrella of AfCFTA may eventually help to amplify African voices on the global stage.

AfCFTA will take effect in phases. The first phase established the AfCFTA institutions and began the process of liberalising trade in goods and services. While this report primarily focuses on trade – because negotiations on this issue have made more progress – potential in services is also significant. The AfCFTA service negotiations have focused on five priority areas (1) financial services; (2) transport; (3) telecom/information technology; (4) professional services; and (5) tourism. The first of these probably offers the most potential for Moroccan firms. Morocco has a well-developed financial services sector, and the removal of non-trade barriers will allow local firms to increase their operations into sub-Saharan Africa, where only about half of the population have access to financial services. Meeting the unmet financial needs of African individuals and firms will both provide a source of revenue for Moroccan banks and help to remove a key obstacle to growth across the continent (see Fig 1.4).



Source: IMF Financial Access Survey

The integration of financial markets on the continent may also create the conditions for capital market deepening or the creation of regional stock and bond markets. This already exists within West Africa's Union Économique et Monétaire Ouest Africaine (UEMOA), but elsewhere in Africa most equity and capital markets are run along strictly national lines.

In 2023, the AU assembly of heads of state adopted three new protocols – covering investment, intellectual property rights and competition policy. While these protocols are narrowly defined (the investment protocol excludes portfolio investment or sovereign bonds) they aim to ensure that investors from other AfCFTA states receive the same treatment as locals. This is an effort to de-risk intra-Africa investment, which will encourage African firms to expand their operations across the continent and facilitate the creation of cross-border value chains.

While the broad strokes of phase one have been agreed, it will take time to come into effect. The agreement gives all its members at least five years to remove tariffs on 90% of their tariff lines, and ten years to remove tariffs on those tariff lines deemed “sensitive”. (The remaining 3% of tariff lines, which cover 10% of imports by value, will be retained in perpetuity.) AfCFTA’s 33 Least Developed Countries (LDCs) are given longer to implement these changes, meaning that the changes to intra-African goods trade will take until 2034 to be fully implemented (see Tariff Removal Schedule table). The liberalisation of trade in services will also come in stages.

AfCFTA – Tariff Removal Schedule				
	Coverage		Schedule	
	Tariff Line (%)	Value of Imports (%)	Non-LDCs	LDCs
General Goods	90	90	2020-25	2020-2030
Sensitive Goods	7		2025-2033	2025-2033
Excluded Goods	3	10	No Liberalisation	No Liberalisation

Source: World Bank, UNCTAD, BMI Research

Some aspects of the AfCFTA system have yet to be finalised. For example, an agreement was signed in 2022 to establish an Adjustment Fund to help the public and private sectors to manage any short-term costs, but the institution – which is based in Rwanda – has not yet been fully operationalised. Similarly, the dispute-settlement mechanism is still a work in progress.

Guided Trade Initiative: A Preview of AfCFTA Trade?

- While trading under AfCFTA rules was officially launched on 1 January 2021, the lack of final decisions on many practical issues has prevented commercial meaningful trade.
- The Guided Trade Initiative (GTI), launched on 7 October 2022, is an effort to kick-start the process by facilitating trade under AfCFTA rules for a set list of products among eight state parties (Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia).
- The volume of goods traded is still very small, but this initiative will help firms to familiarise themselves with the paperwork and regulations that will eventually cover most intra-Africa trade.
- The GTI will also provide a valuable test of operational systems and help policy-makers to better manage the implementation of Africa-wide rules when they eventually become operational.

3. KEY AFRICAN CONTINENTAL FREE TRADE AREA INSTITUTIONS

The AfCFTA process has been driven by national governments and does not foresee the creation of strong supranational bodies like those in Europe. The highest decision-making body of AfCFTA will be the AU's assembly of heads of state and government, which will decide issues by consensus. The assembly also has a legal function, in that it is the only body empowered to decide on questions of the interpretation of the AfCFTA. While it is possible that AfCFTA will gradually evolve into a more-formal, institution-led system like that in Europe, this is difficult to foresee at this time. (For a comparison of different models of economic integration, see Chapter Three.)

On a day-to-day basis, AfCFTA will be managed by a secretariat, which opened its headquarters in Accra, Ghana, in August 2020. The secretariat is an administrative body that will communicate with state parties, coordinate meetings and hold discussions with third parties. It is primarily an administrative body, rather than an executive on the model of the European Commission. In January 2020, the assembly of heads of state and government appointed South African diplomat Wamkele Mene as the first secretary general of AfCFTA.



The AfCFTA agreement provides for a **Dispute Settlement Body**, which will rule on trade disputes between state parties. This body will be empowered to create panels of experts to rule on cases where one state party claims that another has broken the agreement.

These new institutions will coexist with Africa's RECs, which will continue to play a crucial role in managing trade on the continent. The agreement explicitly mentions the following eight RECs as "Building Blocks":

- Common Market for Eastern and Southern Africa (COMESA)
- East African Community (EAC)
- Economic Community of Central African States (ECCAS)
- Economic Community of West African States (ECOWAS)
- Southern African Development Community (SADC)
- Arab Maghreb Union (UMA)
- Intergovernmental Authority on Development (IGAD)
- Community of Sahel-Saharan States (CEN-SAD)

The groups have overlapping memberships. Almost every AfCFTA state party is a member of at least one REC and many state parties are part of multiple RECs (for example, the Democratic Republic of the Congo is a member of COMESA, the EAC, ECCAS, and SADC).

This dual-track system will prevent AfCFTA from developing into a truly uniform economic space. Most individual REC agreements facilitate deeper economic and political integration than is created by the continent-wide agreement, which will necessarily create at least some friction at inter-REC borders. Indeed, Article 19 of the agreement explicitly provides that “state Parties that are members of other RECs, regional trading agreements and custom unions, which have attained among themselves higher levels of regional integration than under this Agreement, shall maintain such higher levels among themselves”.

Key Takeaways:

AfCFTA is a nascent trade regime rather than a cohesive institution. Indeed, in many ways the system created by AfCFTA has more in common with the WTO than the EU. It does create some limits on the actions of state parties. But it primarily functions as a forum within which state parties (and RECs) interact at a variety of levels.

This has three key implications:

- The AfCFTA system will remain a work in progress. The agreement has created a regime within which African states will gradually shape a new legal order. The system will be formed by the gradual accumulation of negotiated deals.
- The AfCFTA system will create order, but not homogeneity. The AfCFTA agreement explicitly allows for exceptions, flexibility and differentiated treatment. Even when the agreement is fully implemented, individual exceptions and regional differentiation in the application of rules will remain a feature of Africa’s trading system – albeit to a much lesser degree than is the case today.
- The AfCFTA system will primarily manage trade between RECs, most of which will remain the key institutions governing trade within their own region. The system will set a common, Most Favoured Nation-style floor of continental trade liberalisation. But since most trade in Africa occurs within rather than between regions, RECs will continue to play the leading role in most regions.



CHAPTER 2

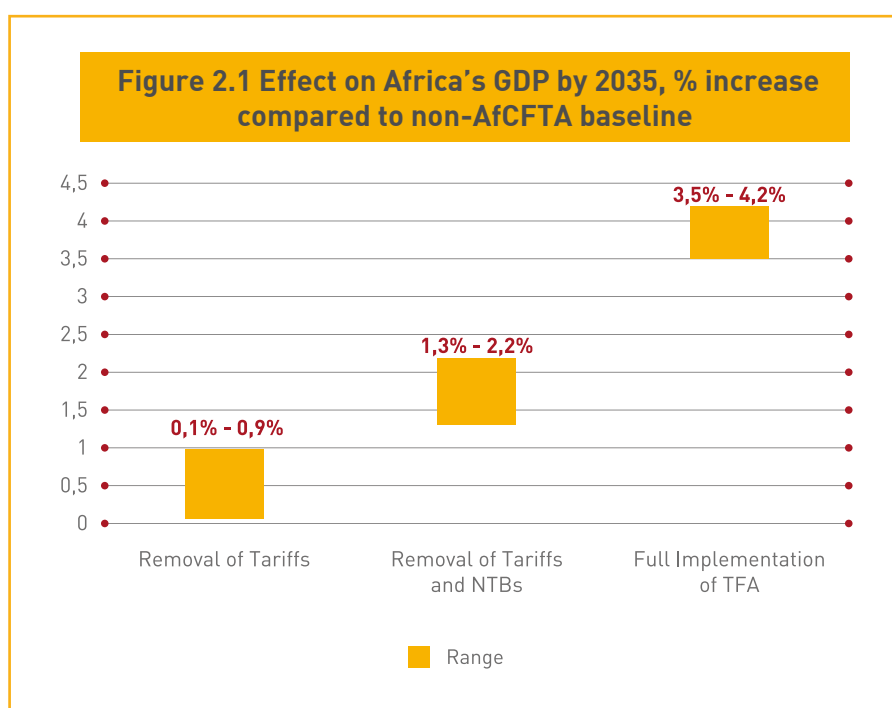
Economic impacts



1. AGGREGATE ECONOMIC IMPACTS

AfCFTA officially became operational in 2021, but the deal will only begin to have a significant economic impact when tariff cuts begin in earnest in 2025. Even before then, however, the negotiating process has already created tangible benefits, such as the publication of the African e-Tariff book.

A variety of studies estimate that the full implementation of AfCFTA could boost continental GDP by 3.5–4.2% by 2035, compared to a counterfactual in which the deal did not exist (see Fig 2.1). The social impacts of this increased economic output would be significant. The World Bank estimates that the deal will contribute to lifting 30 million people out of extreme poverty and another 68 million out of moderate poverty.



Source: AfDB (2019), World Bank (2020), Misc.

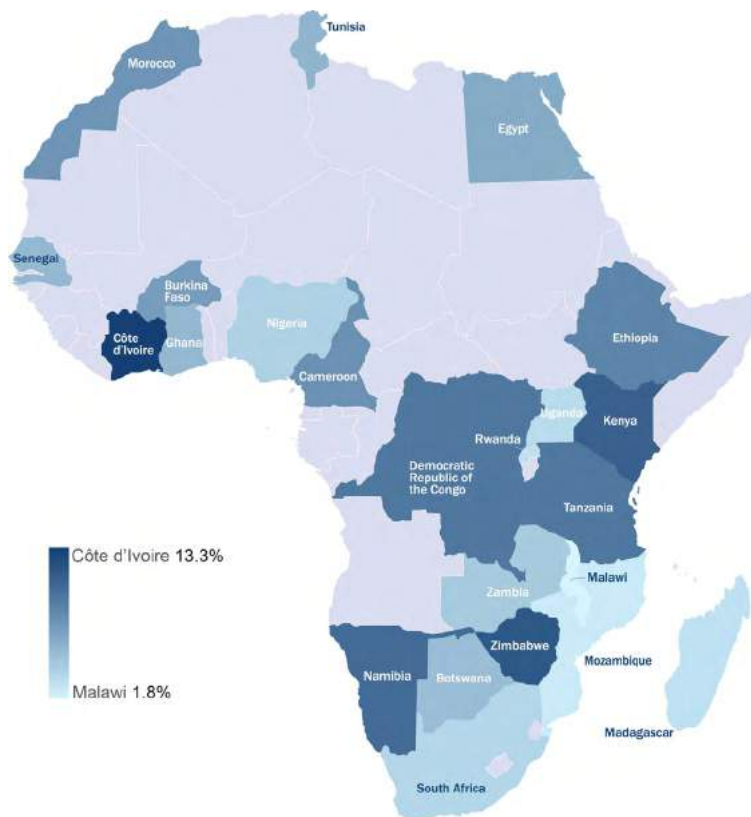
The size of the economic gain will depend heavily on the degree to which policy-makers continue to push forward with deeper economic integration. Studies from the African Development Bank (AfDB), World Bank and others suggest that removing tariffs without going further to focus on Non-Tariff Barriers (NTBs) and fully implementing Trade Facilitation Agreements (TFAs) would only raise continental GDP by 0.1–0.9%.

Moreover, the mixed experience of past attempts at African economic integration underlines that agreements by policy-makers are only the first step on the path to implementation. Several of Africa's existing RECs have seen trade disputes in recent years after governments refused to comply with their treaty obligations.

2. DISTRIBUTIONAL EFFECTS

While evidence suggests that AfCFTA will create economic benefits across Africa, these benefits will not be evenly distributed. The World Bank estimates that Côte d'Ivoire is the economy where real incomes will rise furthest as a result of the deal (up by 13.4% by 2035), followed by Zimbabwe (up by 11.9%), Kenya (up by 11.2%) and Namibia (up by 10.6%). The boost to incomes elsewhere will be smaller, but the World Bank estimates that the deal will have a positive effect across the continent. As above, these figures depend on the full implementation of the deal, including TFAs (see Increase in Real Incomes heatmap).

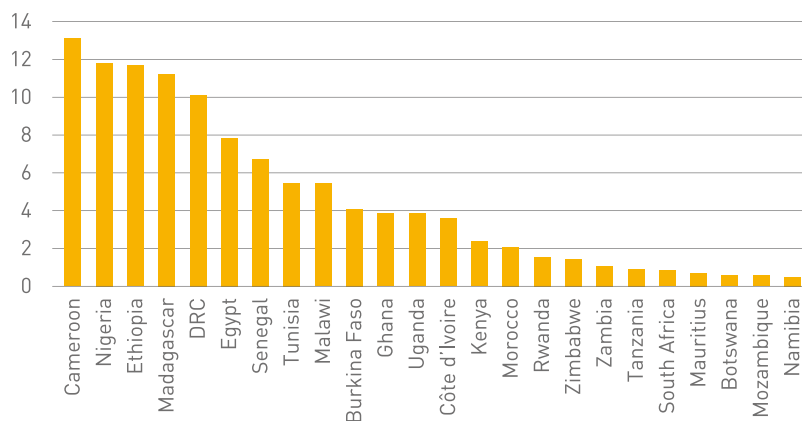
Additional Increase in Real Incomes by 2035, % change compared to non-AfCFTA baseline



Source: World Bank (Change by 2035)

There are a wide variety of reasons why the benefits of the deal will vary among the different members. Trade liberalisation will naturally boost small and medium-sized economies more than large ones. (Access to Nigeria's domestic market creates more opportunities for Togolese firms than access to Togo's market does for Nigerian ones.)

Benefits will also be larger for economies where tariff levels are currently high. Figures from the World Bank show that South Africa's trade-weighted, pre-AfCFTA tariff on African imports was just 0.5%. Removing this will have a very small effect on domestic price levels and will probably not encourage much new trade. In Cameroon, by contrast, the pre-AfCFTA weighted tariff was 12.2%. In general, pre-AfCFTA tariffs were highest in West and Central Africa. While the UEMOA states have achieved a high level of integration among themselves, barriers between Francophone and Anglophone West Africa remain high (see Fig 2.2).

Figure 2.2 Pre-AfcFTA Trade-Weighted Tariff on African Imports, %

Source: World Bank

The deal will also provide more benefits to economies that sit at the borders between existing REC-level trading regimes or that already trade across inter-REC boundaries. AfcFTA will not do anything to liberalise trade between Uganda and Kenya, for example, or between Botswana and South Africa. The large gain to Côte d'Ivoire, by contrast, comes partially because that country will gain increased trade access to Anglophone West African markets like Ghana and Nigeria.

3. KEY ECONOMIC EFFECTS

While AfcFTA will have a variety of impacts, we have highlighted three key channels through which the deal will have a positive economic impact on Africa. These channels will be more or less important in individual countries, but all will have some effect across the region.

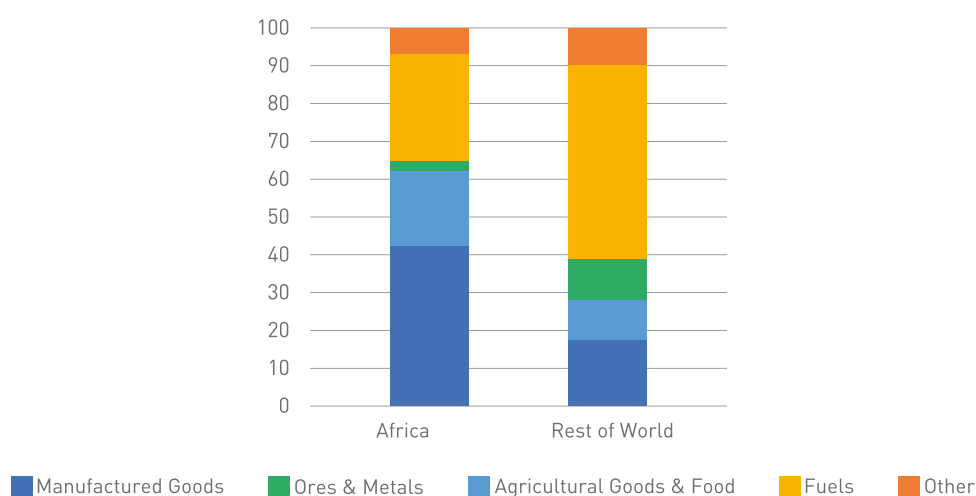
First, AfcFTA will reduce import costs and increase consumer choice. The removal of tariffs will bring down the cost of imported goods from elsewhere in Africa, helping consumers across the continent. The reduction in import costs will be particularly welcomed in economies that are currently suffering from elevated inflation. In some cases, pre-AfcFTA tariffs were sufficiently high to entirely prevent trade from taking place. In these cases, the deal will give consumers the ability to buy goods that were previously not available to them.



Second, AfCFTA will encourage economic diversification and the creation of cross-border value chains. While Africa is a large and populous continent, it is mostly made up of small and thinly populated countries. The median African country in 2023 only had a population of 14.1 million people, fewer than the 23.9 million found in the median Asian country, and even less than the 18.1 million in the median South American country. The division of the continent into many small markets discourages economic specialisation because many of these markets are not large enough to sustain complex industries. This is one of the reasons why many African economies remain dependent on resource exports.

Trade within Africa is more diverse. Indeed, whereas manufactured goods only make up 17.8% of the continent's exports to other parts of the world, manufactured goods make up 43.2% of all goods shipped within Africa (see Fig 2.3).

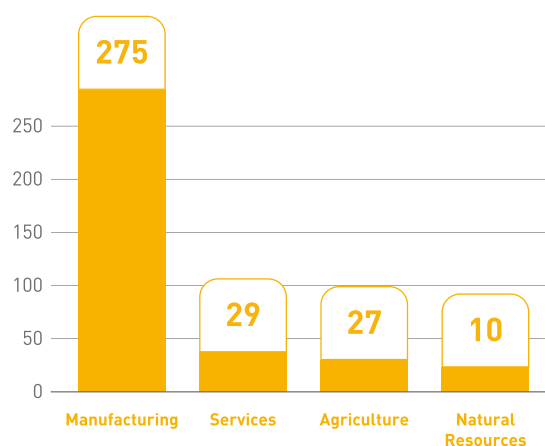
Figure 2.3 African Exports by Category, % of total



Source: World Bank

By encouraging intra-African trade and allowing firms to access economies of scale and facilitate the production of goods that would not be profitable to create for individual African markets, AfCFTA will encourage the development of manufacturing sectors. Of the new trade created by AfCFTA, almost 85% is projected to be in higher value-added manufacturing goods (see Fig 2.4). Boosting local manufacturing – a labour-intensive sector – will help to create jobs, which has been a challenge for many African economies. The Brookings Institute estimates that fully implementing AfCFTA will create 16 million manufacturing jobs across the continent.

Figure 2.4 Increase in Intra-Africa Trade by 2035, USDbn

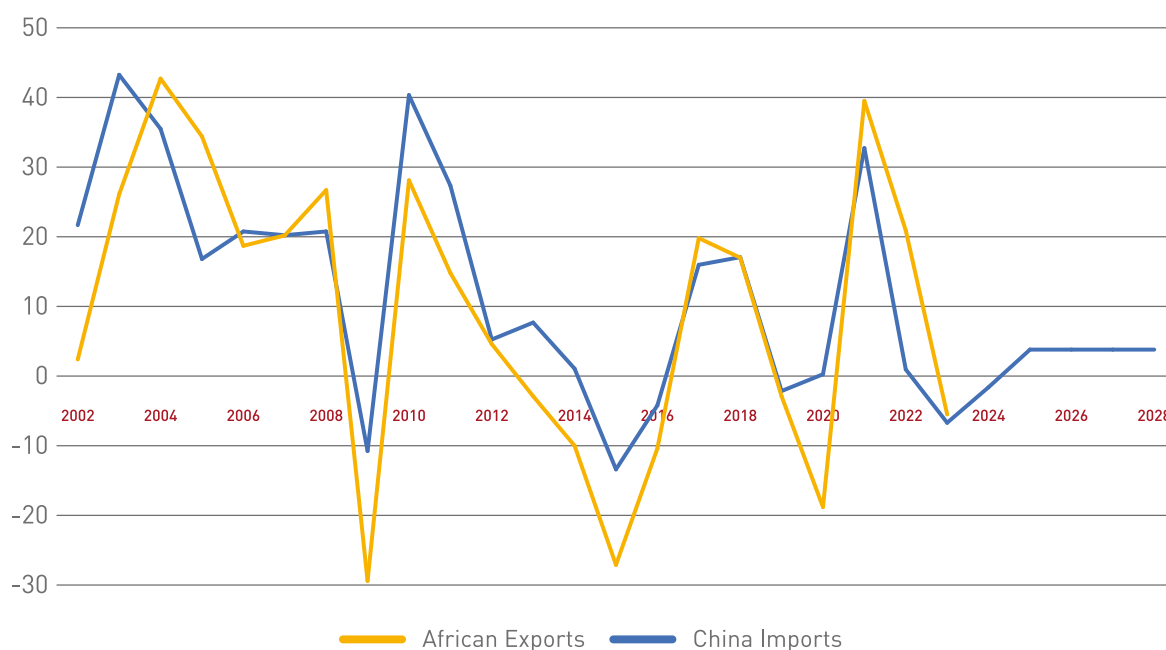


Source: World Bank, (Rise in exports compared to non-AfCFTA baseline)

The creation of cross-border value chains will also facilitate the transfer of technologies and business processes from Africa’s more-advanced economies (like Morocco) to its less-developed ones (like those in West Africa). See Chapter Four for an example of how the regional integration of the automotive sector will help economies to move up the value chain. By creating integrated manufacturing sectors, African economies will be better prepared for the Fourth Industrial Revolution.

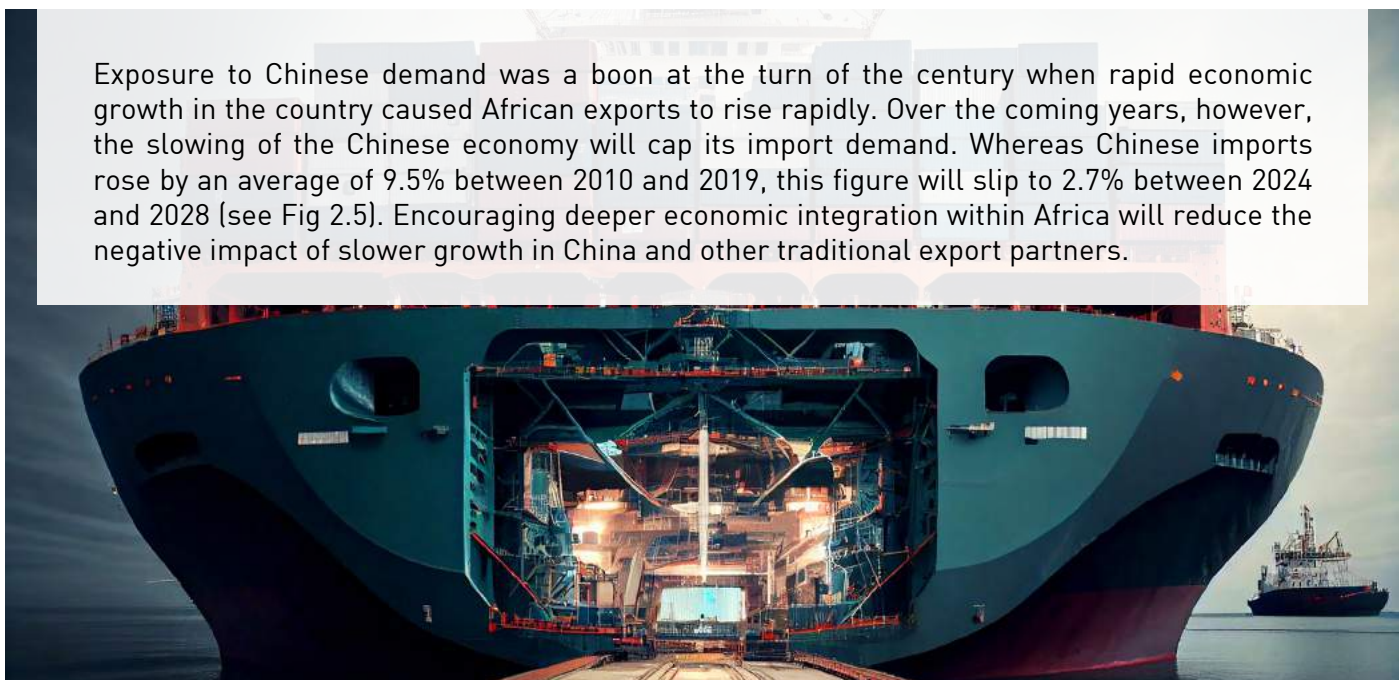
Third, AfCFTA will reduce Africa’s dependence on foreign markets. The orientation of most African economies towards consumers in Europe and Asia has left the continent heavily exposed to shifts in demand in other parts of the world. In recent years, for instance, the continent’s exports have broadly moved in line with Chinese domestic demand (see Fig 2.5).

Figure 2.5 African Exports to World & Chinese Imports from World, % year-on-year



Source: BMI

Exposure to Chinese demand was a boon at the turn of the century when rapid economic growth in the country caused African exports to rise rapidly. Over the coming years, however, the slowing of the Chinese economy will cap its import demand. Whereas Chinese imports rose by an average of 9.5% between 2010 and 2019, this figure will slip to 2.7% between 2024 and 2028 (see Fig 2.5). Encouraging deeper economic integration within Africa will reduce the negative impact of slower growth in China and other traditional export partners.



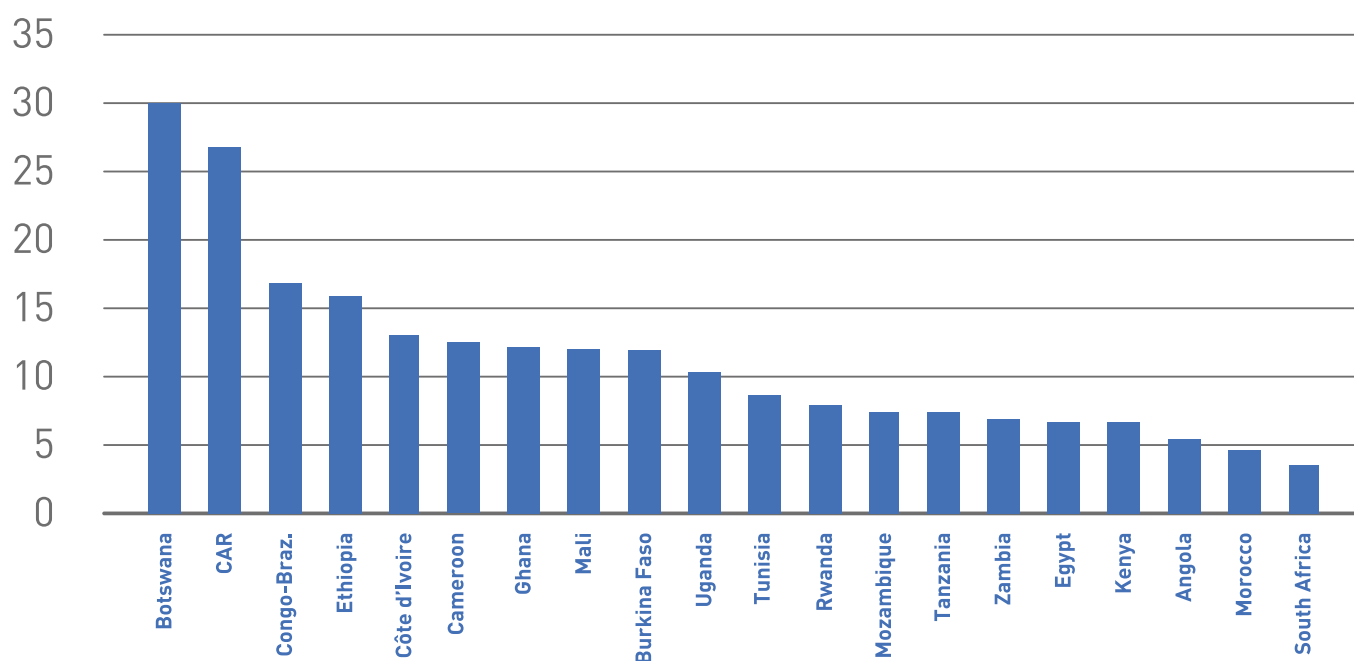
4. IMPLEMENTATION COSTS

Even if the aggregate effect of AfCFTA is to raise total economic output across the region, the agreement will create some costs. There are, broadly, three types of negative economic impact that can be expected as the deal is implemented.

First, economies will face temporary disruptions as trade flows reorient and economies adjust to the shock of new competition. The fall in import prices prompted by tariff reductions will be a boon to consumers but may hurt incumbent local producers that profited from the previous trade regime. While economies will eventually adjust and productive capacity will be reallocated, the disruption may cause short-term unemployment and reduced production in certain sectors. The scale of this disruption may be reduced through payments from the Adjustment Fund.

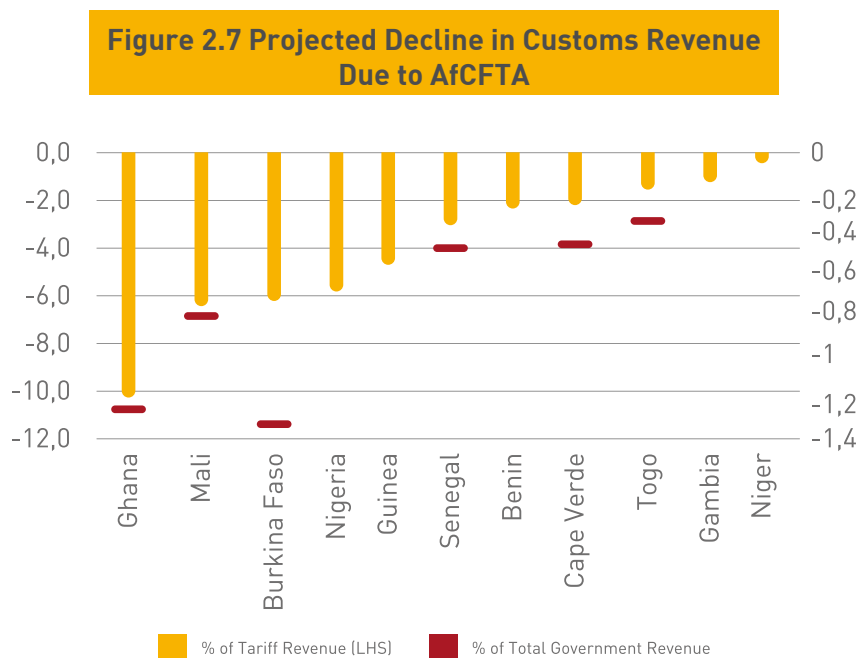
Second, governments will have to adjust to a permanent reduction in tariff revenue. Tariffs push up consumer prices and discourage trade, but they are also a valuable source of revenue for African governments. In general, the governments of Africa's less-developed economies depend on import tariffs and custom fees more than the governments of the continent's richer economies. Tariffs make up 27.3% of government revenue in the Central African Republic (CAR), but just 3.6% of the tax take in South Africa (see Fig 2.6).

Figure 2.6 Customs Revenue, % of Total



Source: World Bank (Latest figures available)

The majority of the tariff take shown above is levied on imports from outside Africa. One academic study of ECOWAS states estimated that fully implementing AfCFTA would cut tariff revenue by an average of 4.1% across the 11 economies surveyed. Based on the most recent budget breakdown, we estimate that this would cut total revenue by about 0.7%. In even the worst-affected economy (Burkina Faso) the tariff loss is only equivalent to 1.3% of total revenue (see Fig 2.7). This is hardly an insurmountable challenge, particularly if the Adjustment Fund helped to bridge the gap during the first few years of the treaty being in effect.



Source: BMI analysis based on Pasara and Dunga, *International Journal of Economics and Finance Studies*, 2020

Third, policy-makers will face the challenge of supporting key industries without using tariffs. While tariffs are often criticised by economists as barriers to trade, they can also be used as a valuable means of allowing a nascent sector to grow domestically before being exposed to foreign competition. Tariffs were, for example, a key part of the industrial policy that helped to create export-oriented industries in South Korea and elsewhere in Asia.

Increased competition may pose a challenge for industries in less-industrialised AfCFTA countries that are near to the continent's hub economies (Zambian firms, for instance, may struggle to compete with South African ones). In these cases, however, policy-makers will have the option of protecting crucial industries by using the "excluded list" to maintain tariffs on a few goods.



CHAPTER 3

International comparisons



1. DEFINING SUCCESS

Comparative analyses of different trade arrangements should always start from the basis that each trade deal is a response to particular local conditions and political goals. It is, of course, possible to use objective measures to describe some agreements as ‘deeper’ than others; a trade bloc that evolves into a full customs union is objectively more integrated than one that does not. But it is wrong to assume that a ‘deeper’ form of integration is necessarily a better result. The architects of less-integrated trade systems are not necessarily less ambitious or less successful than those who create more integrated ones; they are aiming for a different goal.

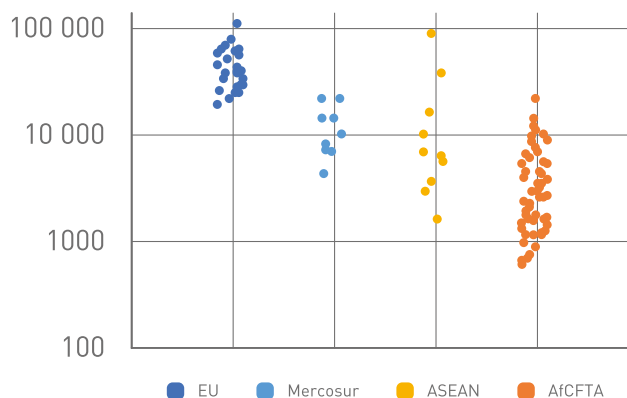
2. EUROPE’S LONG SHADOW

Indeed, while the EU is often held up as the paragon of regional integration, there are three reasons why this comparison is often unhelpful.

- First, the EU has strong, independent institutions because it is both an economic and a political grouping. From the beginning, the EU and its predecessor institutions had explicit political and strategic goals as well as economic ones. While it is true that today’s EU grew out of the European Coal and Steel Community, as early as 1957 the Treaty of Rome committed to “ever closer union among the people of Europe”. The continent has taken an institution-led route to integration, with the supranational bodies like the Commission given state-like powers in some areas and the ability to meaningfully check the sovereignty of national governments.
- Second, the EU is a significantly more political and economically homogenous bloc than peers elsewhere. Unlike regional bodies in Asia or Africa, the EU has strict political requirements. And while levels of economic development do vary across the union, the spread of income levels is narrow. For instance, the richest EU state (Luxembourg) has a GDP per capita 8.8 times higher than the poorest (Bulgaria). Among the AfCFTA states, by contrast, the highest GDP per capita (the Seychelles) is 55 times higher than that of the poorest (Burundi) (see Fig 3.1).



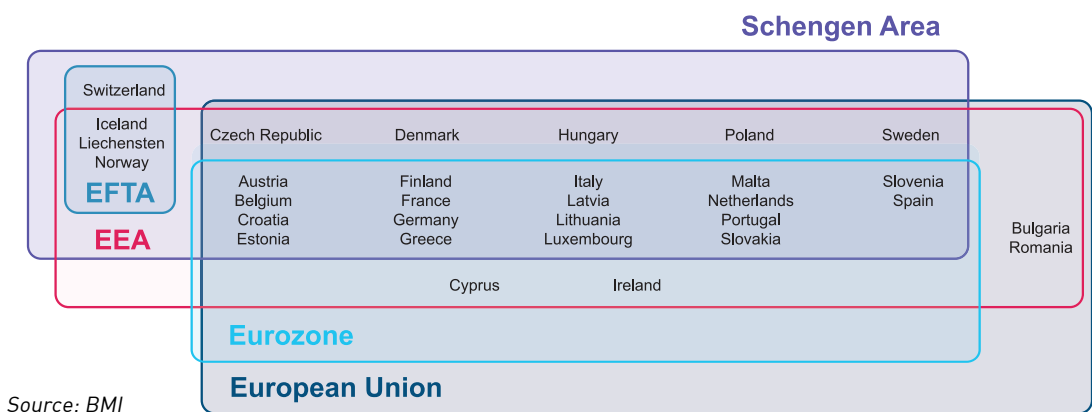
Figure 3.1 Selected Regional Blocs
GDP per Capita, USD



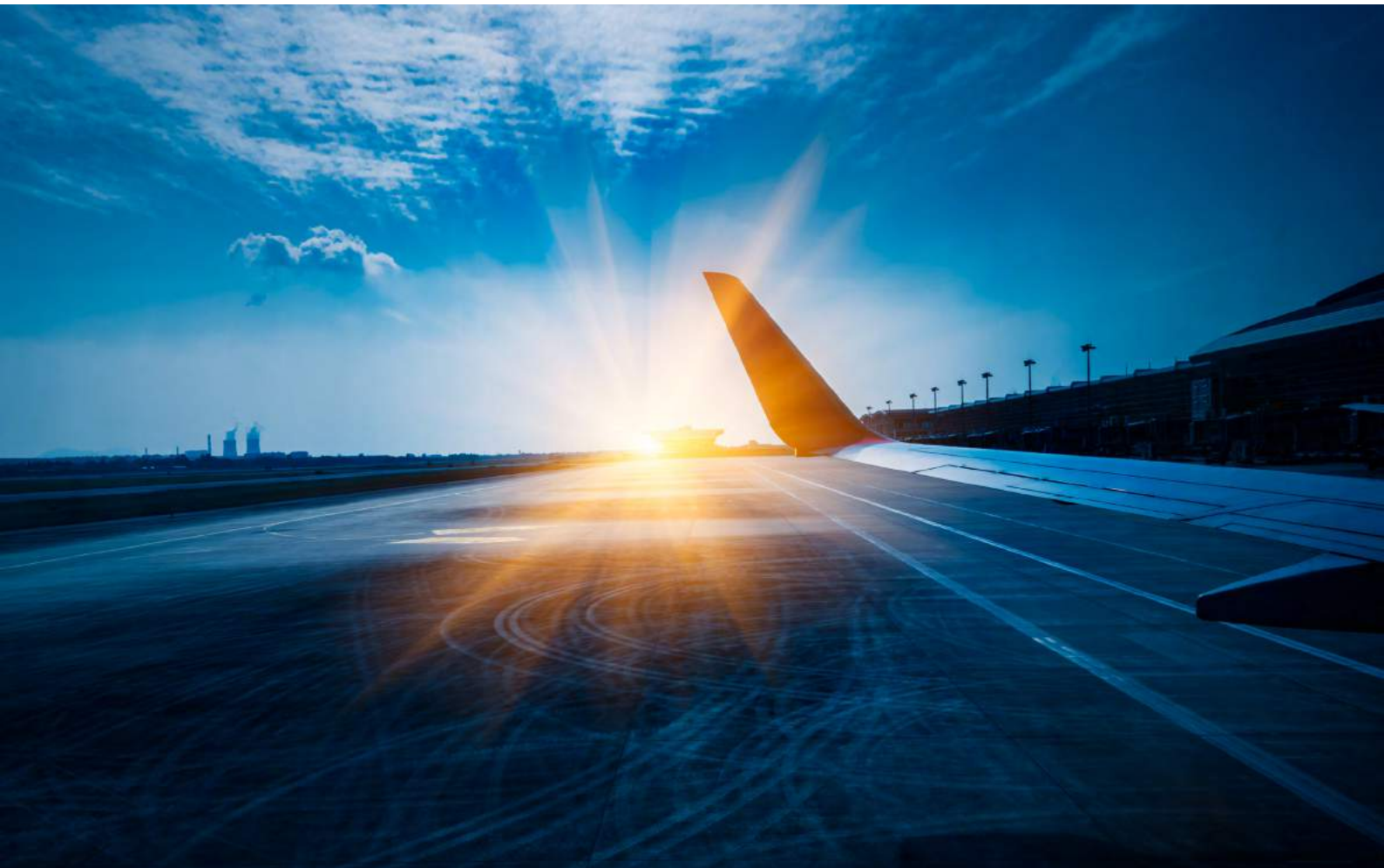
Source: BMI (2023, figures shown on logarithmic scale or comparison purposes)

- Third, the economic and legal institutions of integration in Europe form a series of concentric circles centred on the region’s largest economies, Germany and France. Other countries are involved in a sub-set of the continent’s economic institutions, but these two (often called the “dual motor” of European integration) are at the centre of all of them (see EU Euler diagram).

European Union Euler Diagram

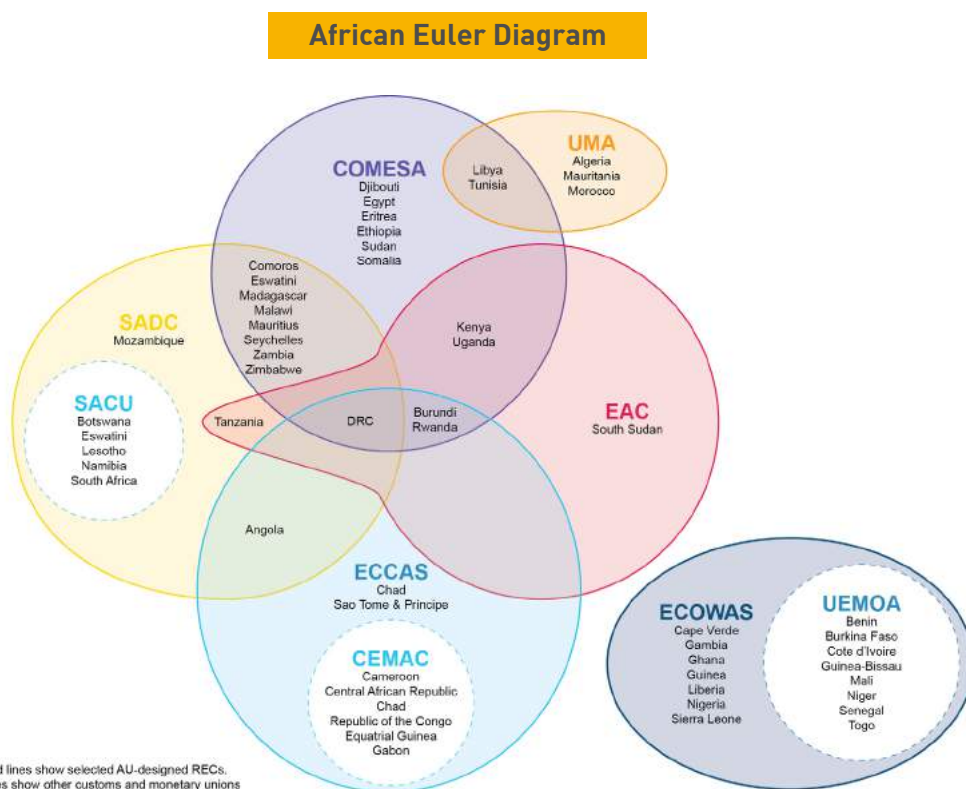


Source: BMI





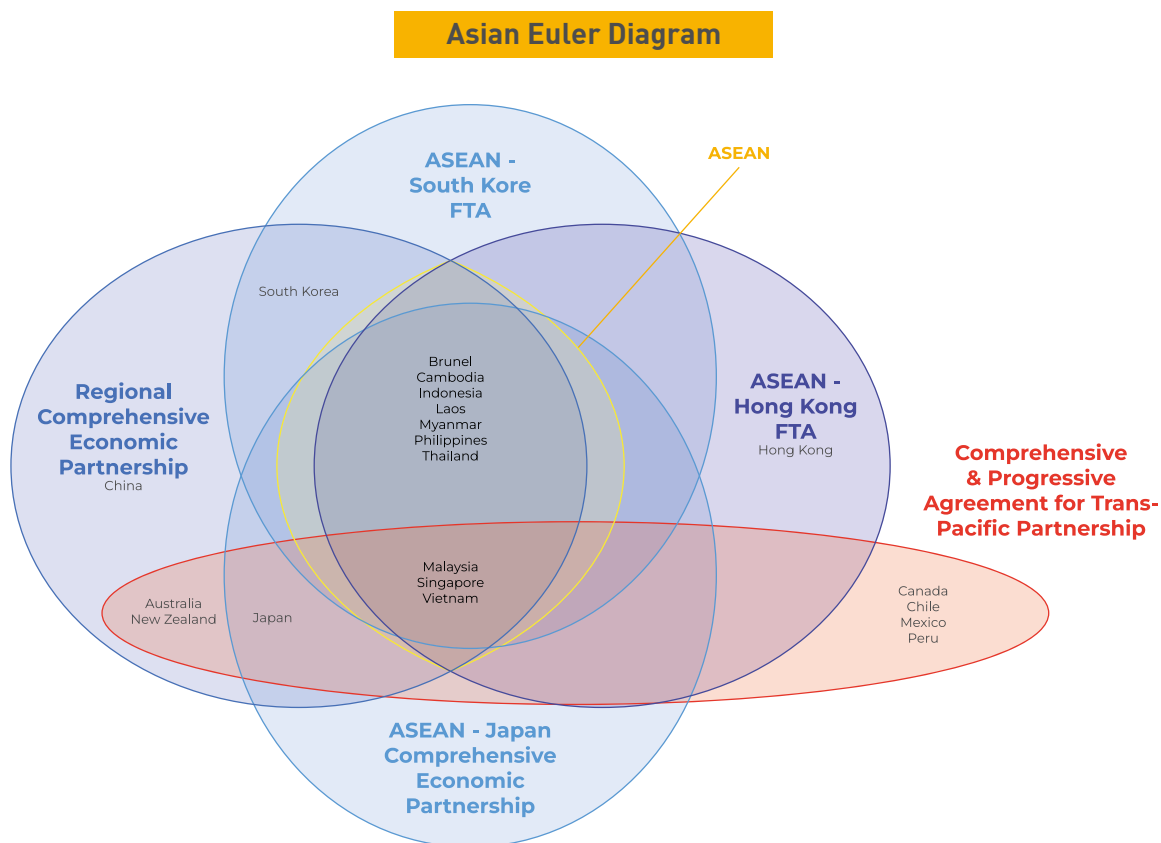
There is no state – or even pair of states – able to play this role within AfCFTA. Instead, **Africa’s regional economic integration has been pluricentric and driven by smaller economies** in different sub-regions of the continent. Rather than an orderly system with a clear centre, Africa has created a variety of institutions of different levels of integration across the continent (see Africa Euler diagram).



Source: BMI (The authorities in Burkina Faso, Mali and Niger withdrew from ECOWAS in January 2024)

3. LOOKING EAST

While the clear differences between structural conditions in Africa and Europe make the latter an unhelpful comparator, Asia may provide a better model. Unlike the orderly system of concentric circles created by the EU – and policed by the bloc’s strong institutions – trade in Asia’s web of overlapping trade deals has been dismissively referred to as a “noodle bowl” of conflicting treaties (see ASEAN Euleur diagram).



There are three key reasons why an analysis of the Asian experience is more likely to be instructive.



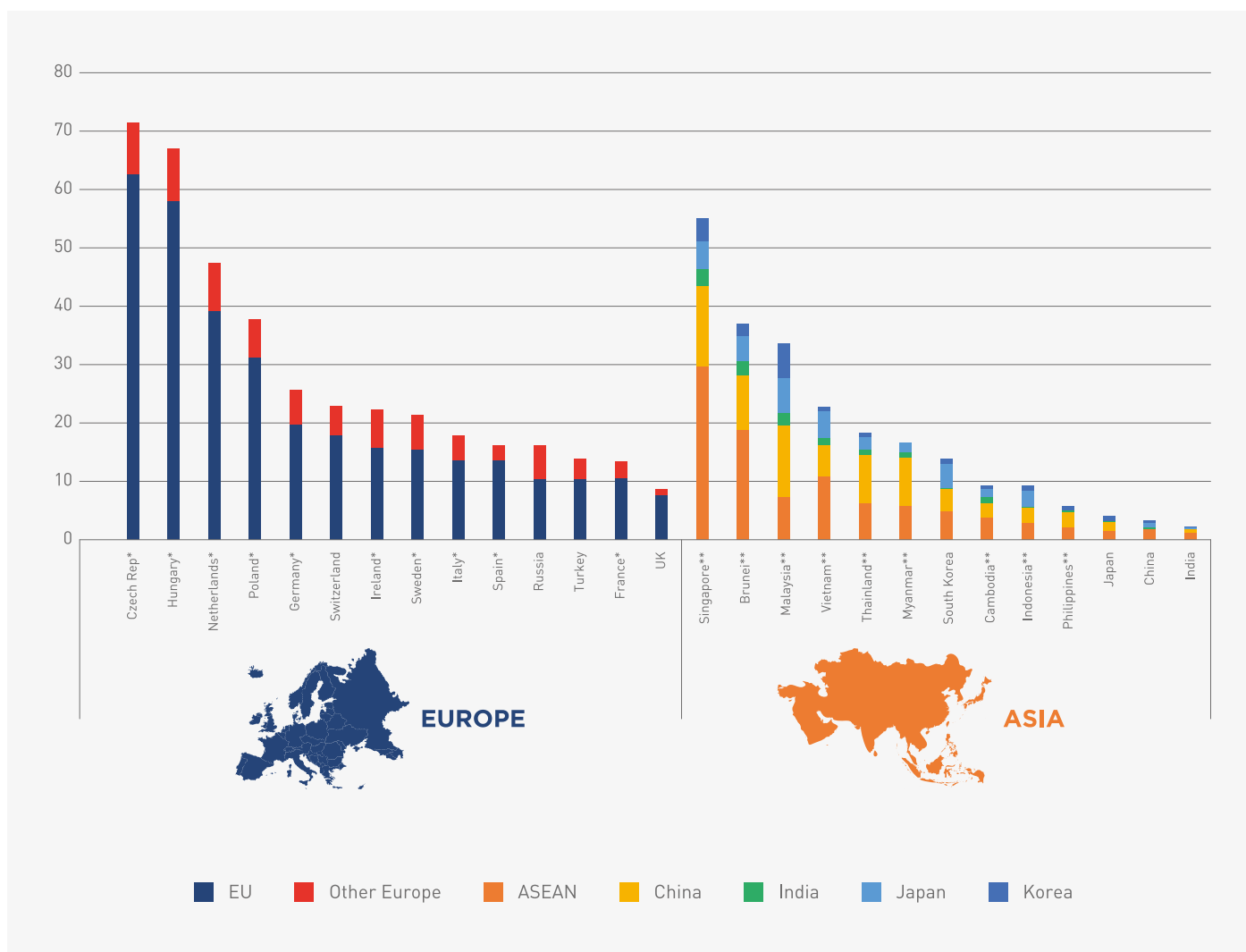
- **First, Asia's trade system is based on variable geometry, includes overlapping organisations, and is not centred around the region's largest economy.** Indeed, the region's three largest economies – China, India and Japan – play comparatively peripheral roles in the network. This is, admittedly, changing as Beijing creates more trade agreements – like the Regional Comprehensive Economic Partnership (RCEP). For now, however, the system is more disparate. If any actor plays the role of an economic centre, it is the Association of South East Asian Nations (ASEAN), a group of mid-sized economies that have fulfilled the role of a mediator and facilitator in regional negotiations.
- **Second, unlike Europe, Asia's trade system includes states with a wide variety of incomes and political systems.** The agreements shown above cover countries at almost every income level (from Laos to South Korea). Trade deals have largely eschewed political conditions and have facilitated the inclusion of countries with a variety of regime types. Indeed, several of Asia's trade deals include economies that have both different regime types and opposing international orientations. The RCEP, for example, includes both China as well as key US allies such as Australia, South Korea and Japan.
- **Third, Asia's trade system has not required the creation of strong, independent institutions.** ASEAN does, admittedly, have a secretariat based in Jakarta, but national leaders within the bloc make the key decisions. For example, a "Coordinating Committee" appointed by national governments has led progress on trade liberalisation. Institutions created by other agreements – like the RCEP or the Trans-Pacific Partnership are even weaker, and bodies comparable to the European Commission do not oversee trade agreements in the region.

The situations are, of course, not identical. While Asia's trade network is not as centralised as the EU's, most deals still include ASEAN as central player. And Asia's trade landscape has no parallel for the overlapping customs unions that complicate trade within Africa. **Even so, the Asian experience suggests several key reasons for optimism about the prospect of AfCFTA economic integration.**

First, significant economic integration and the creation of cross-border value chains is possible without the creation of EU-style legal homogenisation. Many Asian economies export as much to their home region, as measured as a share of GDP, as economies anchored within the EU system do to theirs (see Fig 3.2).



Figure 3.2 Exports to Region, % of Total Exports



Source: Trade Map (2022, *EU Member, **ASEAN member)

Moreover, Asia’s trade model has facilitated the creation of complex, cross-border value chains. Asian economies not only export finished goods to one another, they also export and re-export components that are used to create final products. For example, South Korea exports semiconductors that are fitted into components in China and then assembled into housing built in Vietnam. This form of cross-border production creates jobs across the region and allows economies at different income levels and productive capacities to integrate their markets. Creating cross-border value chains like this is a key goal of AfCFTA.

Second, the legal and technical challenges created by overlapping trade deals can be managed. In the Asian trade system, many economies are part of multiple trade deals (some of them nested within RCEP, but some not). This creates significant complications, at least on paper. Vietnam's exports to Japan, for example, are covered by three different trade agreements (see Vietnam & Asian Trade Deals table). Even so, the country sends 6.1% of its exports to Japan (see Fig 3.2).

Vietnam – Asian Trade Deals Covering Exports

Vietnamese Exports to:	Relevant Trade Deals
Japan	RCEP, ASEAN–Japan Comprehensive Economic Partnership, Comprehensive and Progressive Agreement for Trans-Pacific Partnership
Singapore	ASEAN FTA, RCEP, Comprehensive and Progressive Agreement for Trans-Pacific Partnership
China	ASEAN–China FTA, RCEP
Thailand	ASEAN FTA, RCEP
South Korea	ASEAN–South Korea FTA, RCEP
Australia	ASEAN–Australia–NZ FTA, RCEP
India	ASEAN–India FTA

Source: BMI

Third, variable geometry can allow smaller states to play a key role as a facilitator of trade liberalisation. Whereas a clear core led Europe's trade integration, the reduction of trade barriers in Asia was the result of multiple deals that were slowly knitted together by smaller states. Political and historical factors have prevented Japan, China or India from playing the central role that Germany and France have played in Europe. Instead, ASEAN, which even collectively is only Asia's third-largest economy, has acted as a valuable convener.

In Africa, COMESA might be able to play a similar role as a central point for negotiation. Its members represent a broad cross-section of medium-sized markets (for example, Ethiopia, Kenya, Zambia and the DRC). The overlap of its membership with SADC, ECCAS and the EAC may also give the COMESA states a key role as coordinators, since any agreement that is reached among the COMESA states can then be spread to three of the other RECs.



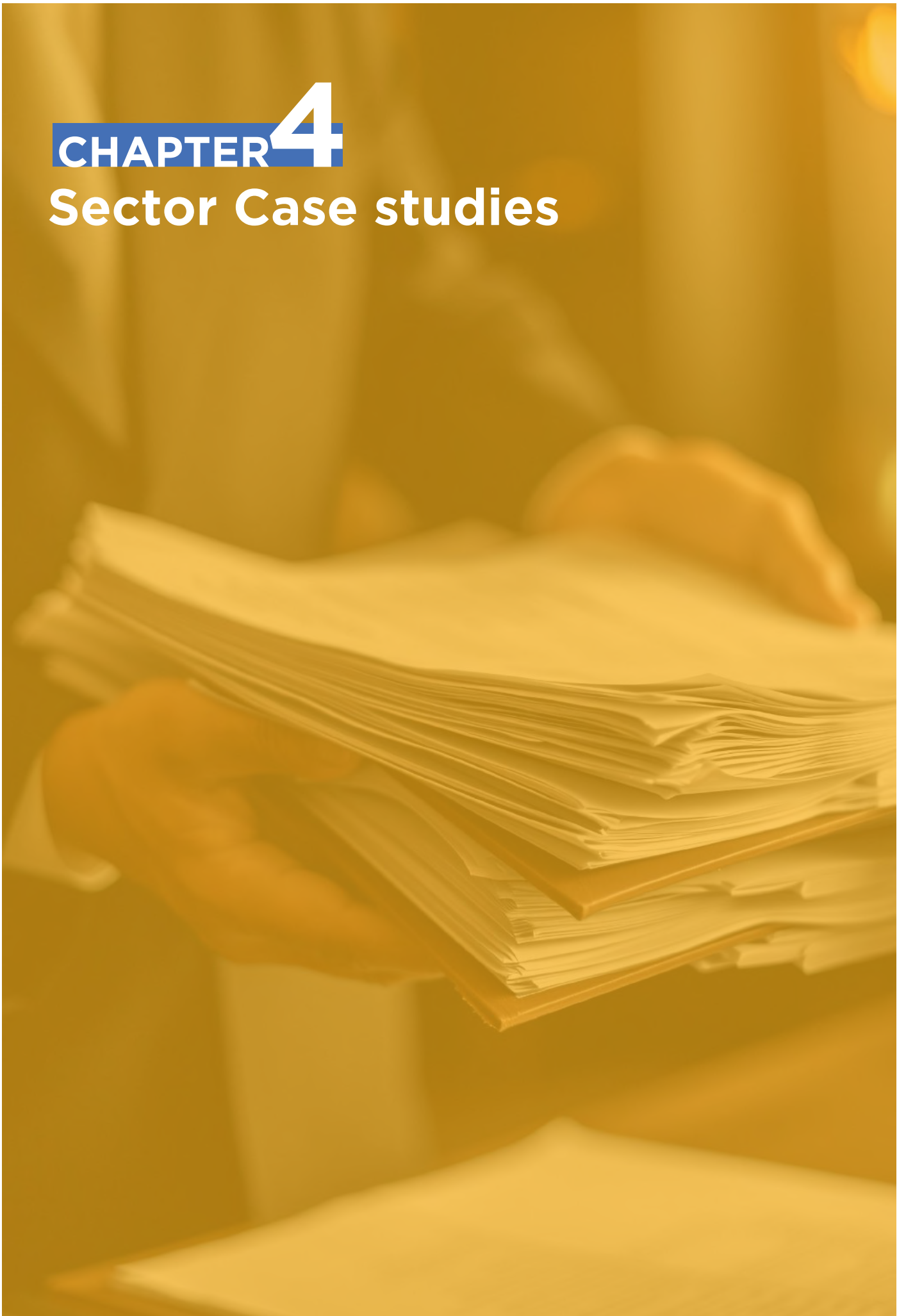
Key Takeaways:

- **Economic integration in Africa will not follow the orderly, institution-driven model seen in Europe.** RECs will remain the key arbiters of trade within their respective sub-regions. AfCFTA is unlikely to lead to the creation of strong, independent institutions like the European Commission.
- **Europe does not offer the only model of economic integration.** Other regions of the world have achieved deep economic integration by following different paths.
- **The Asian trade system formed by ASEAN may be a more useful comparison.** Trade in Asia is managed by a collection of overlapping trade deals, which are directed by national governments. This suggests that African policy-makers should focus on reducing practical barriers to trade rather than on creating a system that conforms to the institution-based model created in Europe.



CHAPTER 4

Sector Case studies



This section provides an analysis of four case studies that exemplify the sort of industry-specific opportunities that AfCFTA will provide across the continent. Each case study will focus on a given industry in one or two key markets. The selected industries are **automotive (Morocco)**, **agro-processing (Côte d'Ivoire)**, **clothing and apparel (East Africa)** and **energy transition (various economies)**.

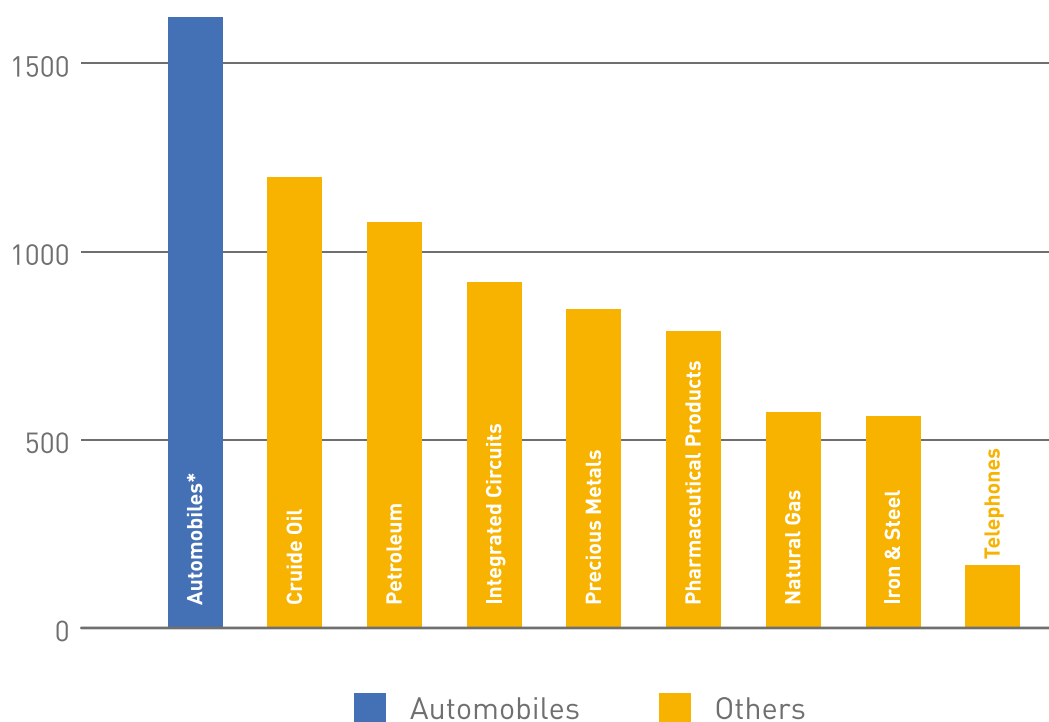
1. AUTOMOTIVE SECTOR (MOROCCO)

Why Automobiles?

AfCFTA offers significant opportunities to Morocco's automobile sector, which is already one of the continent's most developed. Greater trade integration with African partners (particularly in North and West Africa) could create economies of scale. While Morocco is particularly well placed to benefit from the creation of cross-border value chains, the sector also offers opportunities to economies across the region.

There are two reasons why the automobile sector is a key driver of global trade. First, global demand is both large and rapidly growing. In 2022, total cross-border trade in cars and car components was worth USD1.6 trn. This is more than the total value of crude oil shipments (USD1.2 trillion) and twice the value of natural gas trade (USD788bn) (see Fig 4.1).

Figure 4.1 Global Exports, USDbn



Source: Trade Map (2022, *Includes both finished vehicles and components)

Second, modern automobile sectors require complex supply chains that often cross international borders. Even in the United States or China, most manufacturers are unable to source all their necessary inputs domestically. Most big car production hubs rely heavily on regional networks, with inputs moving back and forth across the United States, Mexico and Canada or Germany, the Czech Republic and Poland. These cross-border value chains allow economies that are not yet able to produce complete cars to play a role as a supplier of simpler intermediate products. This distributes the value across a large number of producers in various countries.

AfCFTA offers two key opportunities for the Moroccan automotive sector as a source for low-cost inputs and as a destination for finished exports.

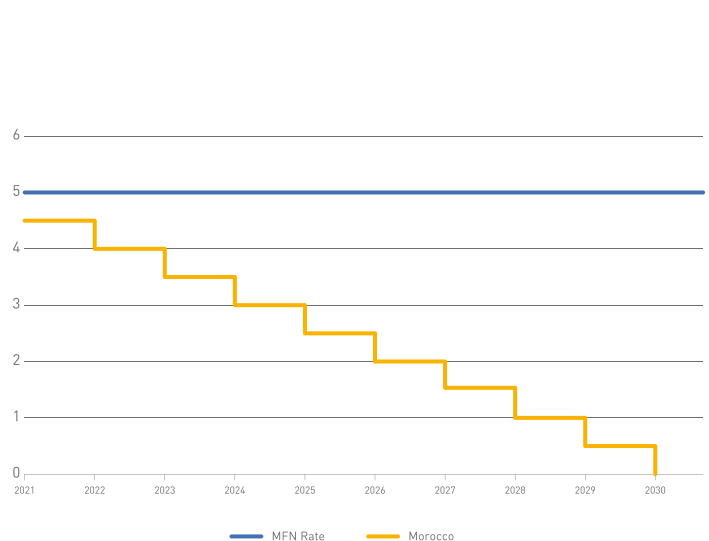
Africa as a Zone of Production

By integrating Morocco's well-developed automotive sector with neighbouring economies, Moroccan producers can benefit from lower labour and material costs elsewhere in Africa. Indeed, sourcing lower added-value components and services abroad will help Moroccan firms remain competitive as domestic wages rise. While many analyses of trade liberalisation focus on export opportunities, Morocco also stands to benefit by increasing its imports of necessary inputs. Modern economies almost always import in order to export.



Infrastructure challenges have, admittedly, created obstacles for firms creating cross-border value chains in Africa. Reduced tariffs, however, will significantly reduce costs. For example, Nigeria currently charges a Most Favoured Nation (MFN) tariff of 5% on unassembled cars, which are imported in pieces and then finished domestically. The tariff that it charges on Moroccan car sets, however, is set to fall to 0% by 2030 (see Fig 4.2). Exporting unassembled Moroccan vehicles to Nigeria for final processing would create jobs in both countries. Indeed, Nigerian policy-makers would probably prefer to import unassembled vehicles for final completion in Nigeria than to import ready-made cars from elsewhere.

Figure 4.2 Nigerian Tariff on Unassembled Cars



Source: AfCFTA e-Tariff book

Initially, the highest value-added parts of the production process, like the manufacture of major engine components, will probably remain in Morocco (and South Africa). Economies with less-developed industrial bases will either produce basic materials (like leather and glass) or assemble the final product (see Automotive Value Chain table). Moroccan demand for African inputs will rise when the country begins to produce electric vehicles around 2026, which will require lithium, copper and other transition minerals produced on the continent (see fourth case study).

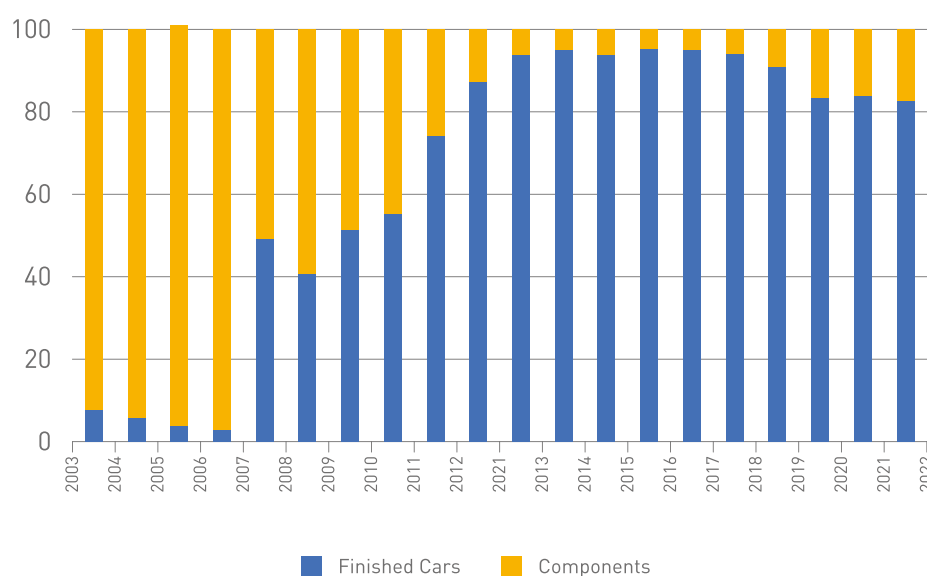
Indicative Automotive Value Chain

Production Stage	Output	Share of Value Addition
Tier 1	Basic Materials (e.g. steel, leather, rubber, glass)	30%
Tier 2	Sub-components (e.g bodies, welding, bending, stamping)	50%
Tier 3	Major components (e.g engines, steering, electronics)	
Tier 4	Final vehicles	20%

Source: ODI

Economies that join the value chain as producers of Tier 1 inputs can eventually “graduate” to producing higher value-added goods. Indeed, this is how Morocco’s own automotive sector developed in the 2000s. At the turn of the century, the country mostly produced simple components to be used as inputs in Europe, but it now produces entire cars (see Fig 4.3).

Figure 4.3 Moroccan Passenger Car Exports, % of total value

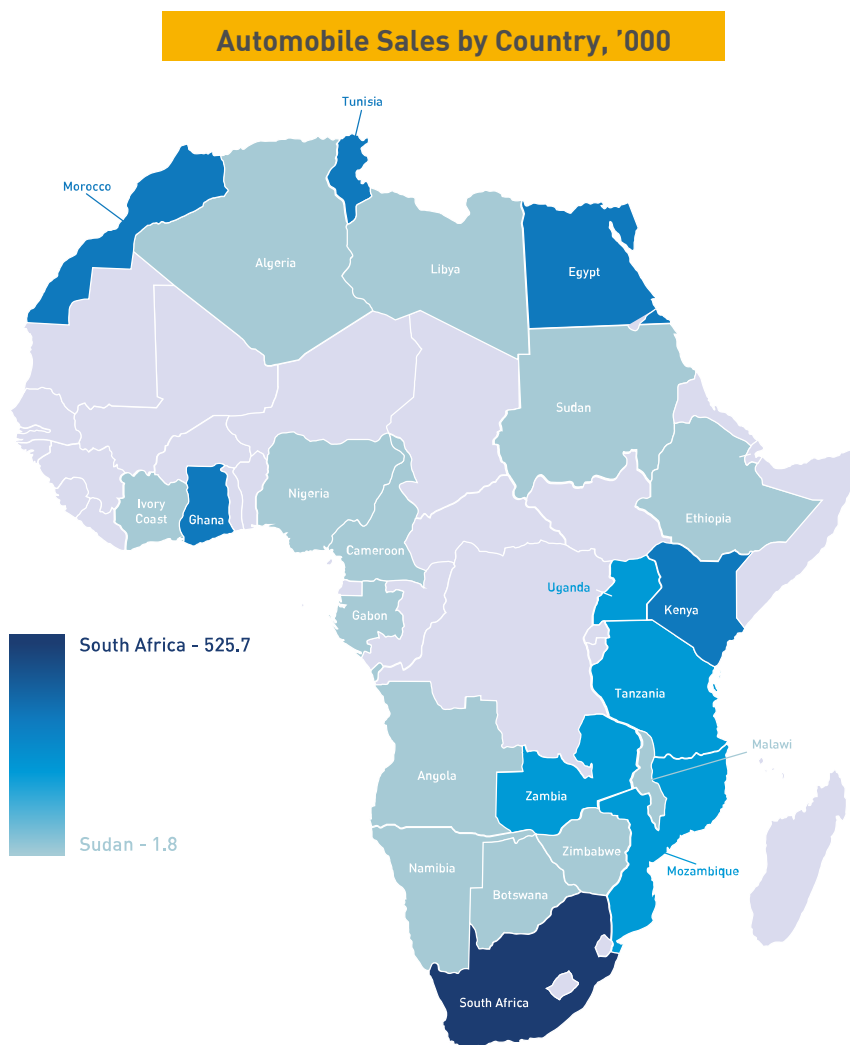


Source: Trade Map

Africa as a Destination for Exports

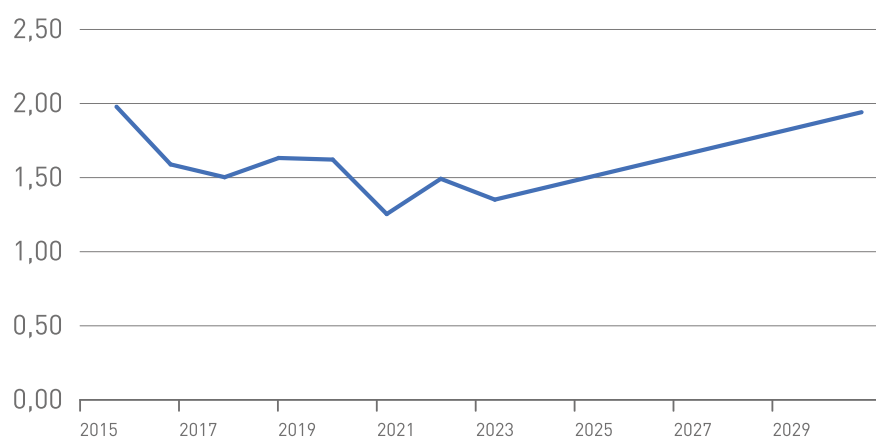


Automotive demand within Africa is, admittedly, currently small. Figures from BMI Research suggest that just 1.4 million cars will be sold across the continent in 2024. Sales will be concentrated in South Africa and other southern and eastern markets, far from Morocco (see Automobile Sales map).



Source: BMI (2024 estimate. No estimates for countries shaded in grey)

Sales will, however, rise sharply over the coming years. By the end of the decade, sales will jump by 40% (see Fig 4.4). Most of the growth will occur outside South Africa, with the country's share of total sales falling from 37% to 27%. This will create significant opportunities in North, West and Central Africa.

Figure 4.4 Africa, Annual Vehicle Sales, million

Source: BMI

If things remain as they are, the vast majority of these vehicles will be imported, with about 96% of them coming from outside of Africa. While there is some diversity from where countries in Africa source their vehicles (Morocco mostly imports European autos, Kenyans prefer Japanese), the continent's biggest auto markets all rely on foreign manufacturers to meet their needs (see Fig 4.5).

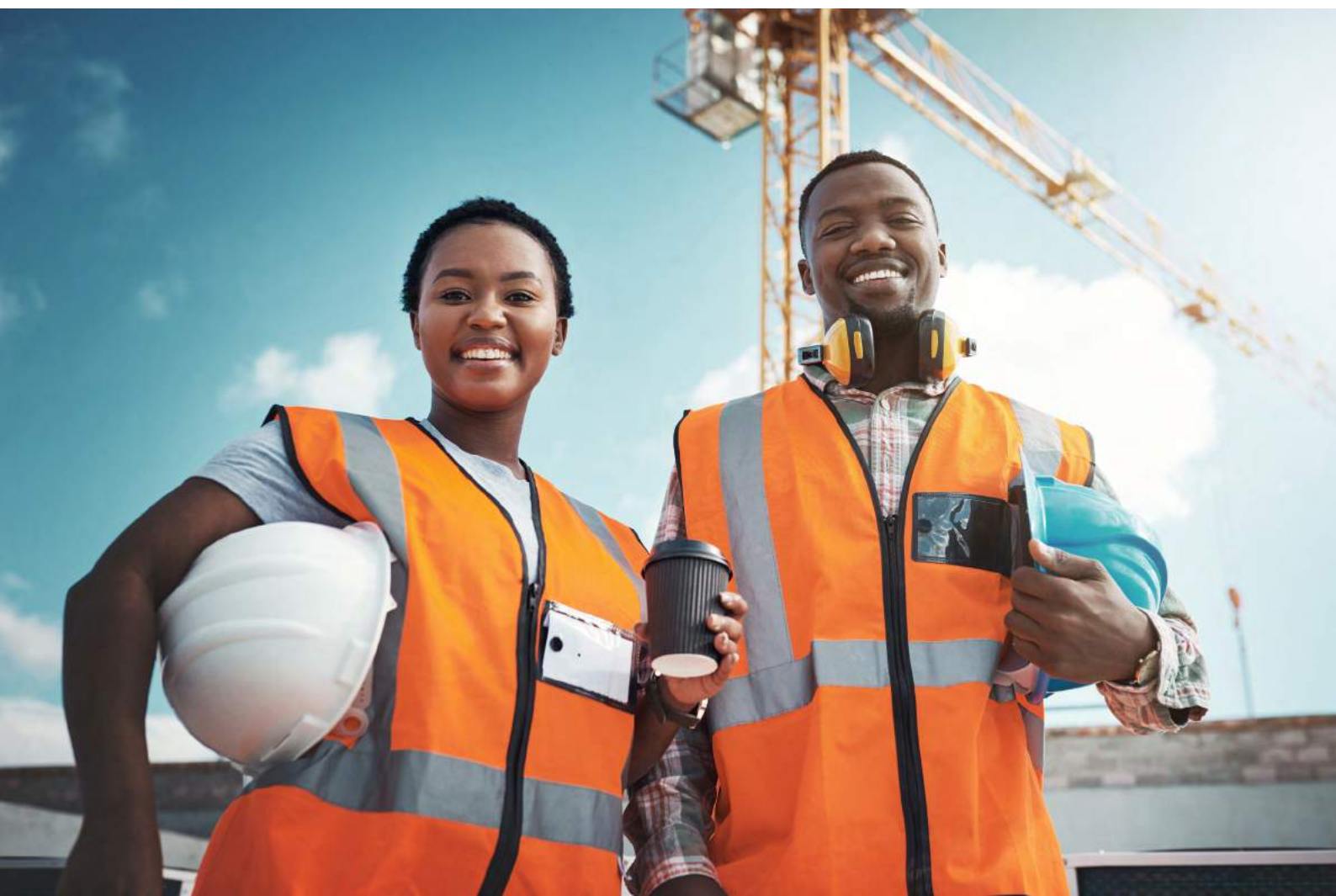
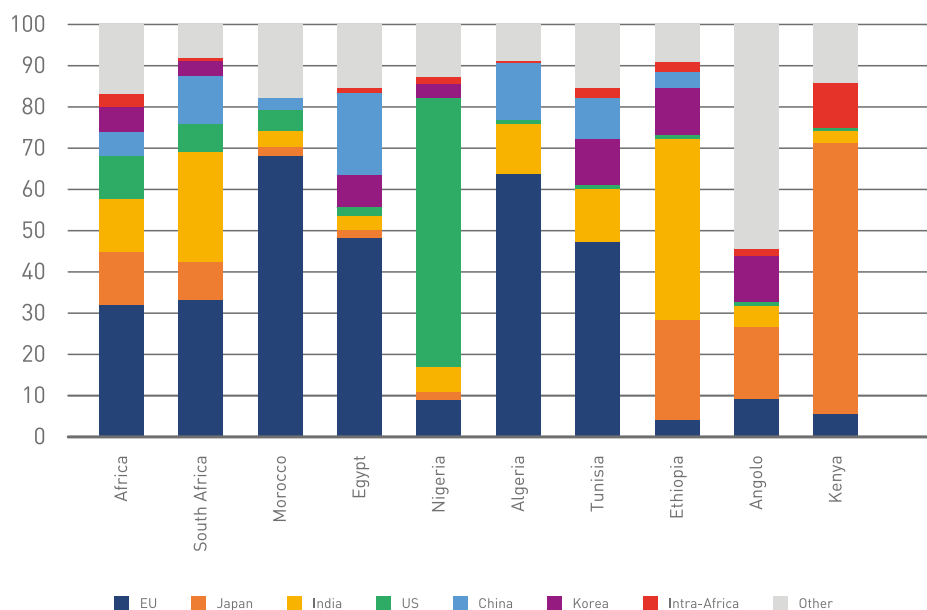


Figure 4.5 Africa, Vehicle Imports, % of total



Source: Trade Map (2022, share shown by value. Countries are ordered left to right in order of their automobile imports)

Moroccan suppliers are, however, in a good position to gain market share. The country is already building financial, political and economic ties with rapidly growing markets in West Africa. Morocco's location – and well-developed port infrastructure – makes it an obvious export hub to meet demand in West Africa. Moroccan producers will benefit from significant tariff reductions on trade in both finished automobiles and components.

Key Takeaways:

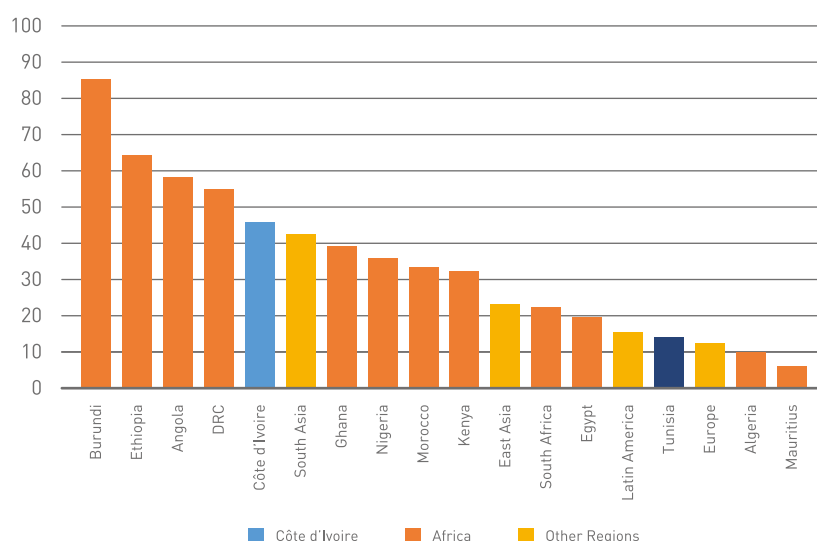
- **Morocco's automotive sector is well placed to benefit from reduced tariffs on cars and automobile components.** The country's domestic sector has grown rapidly and has reached a level of complexity allowing it to expand abroad.
- **Integrating other African economies into Morocco's value chains will lower costs and boost competitiveness.** While few economies have the industrial base to produce complex components, they can produce basic inputs (like glass). Others – notably Nigeria – could be sites of final assembly for Moroccan-based firms.
- **While African auto sales are small, they are set for rapid growth.** Car sales on the continent will rise by 40% over the rest of this decade. The overwhelming majority of this demand will have to be met by imports. While South Africa has a large market share in southern Africa, Morocco is well placed to export to West Africa.

2. AGRO-PROCESSING (CÔTE D'IVOIRE)

Why Agro-processing?

AfCFTA will create larger and more-resilient regional markets for processed and packaged food. This will encourage the modernisation and industrialisation of the food value chain, which offers the potential to transform an industry that is the largest single employer across most of Africa (see Fig 4.6). Modernising this sector and creating value chains will help to boost the income of hundreds of millions of people. Modernising the agricultural sector of Africa's less-developed economies will also create spill-over benefits for the continent's richer economies by boosting demand for inputs such as fertiliser and farm equipment.

Figure 4.6 Agriculture, % of total employment

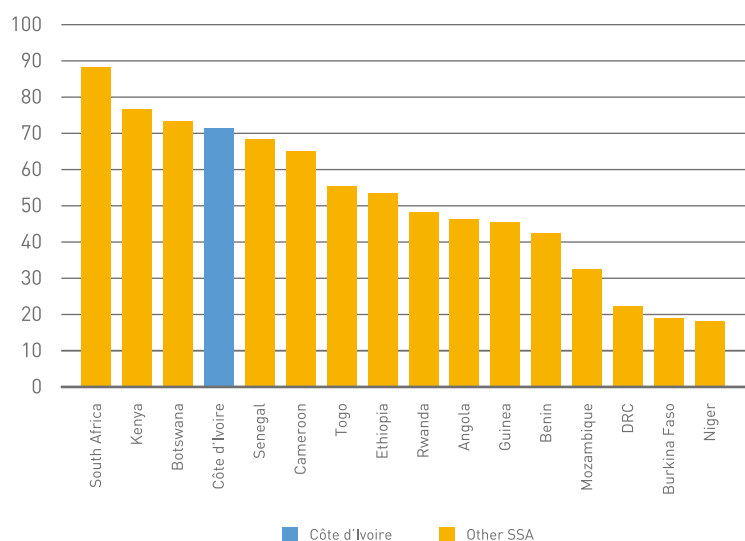


Source: ILO (2021 or latest)

Why Côte d'Ivoire?

Côte d'Ivoire's location, reliable infrastructure and history as an agricultural exporter all provide a strong foundation for the country to serve as a processed food hub for West Africa. Côte d'Ivoire is already the economic centre of the UEMOA states and is a regional base for many foreign firms. The country also has a larger and more-reliable electricity network than most of its peers (see Fig 4.7), which is crucial for both processing many foods and creating cold chains to transport perishable goods.



Figure 4.7 Population with Access to Electricity, % of total

Source: World Bank (2021 or latest)

Côte d'Ivoire is also already a key agricultural exporter. While the country is best known as the world's top cocoa exporter, it has a large and diversified agricultural sector, exporting cocoa, nuts and palm oil – all products for which there is demand abroad.

Food Security

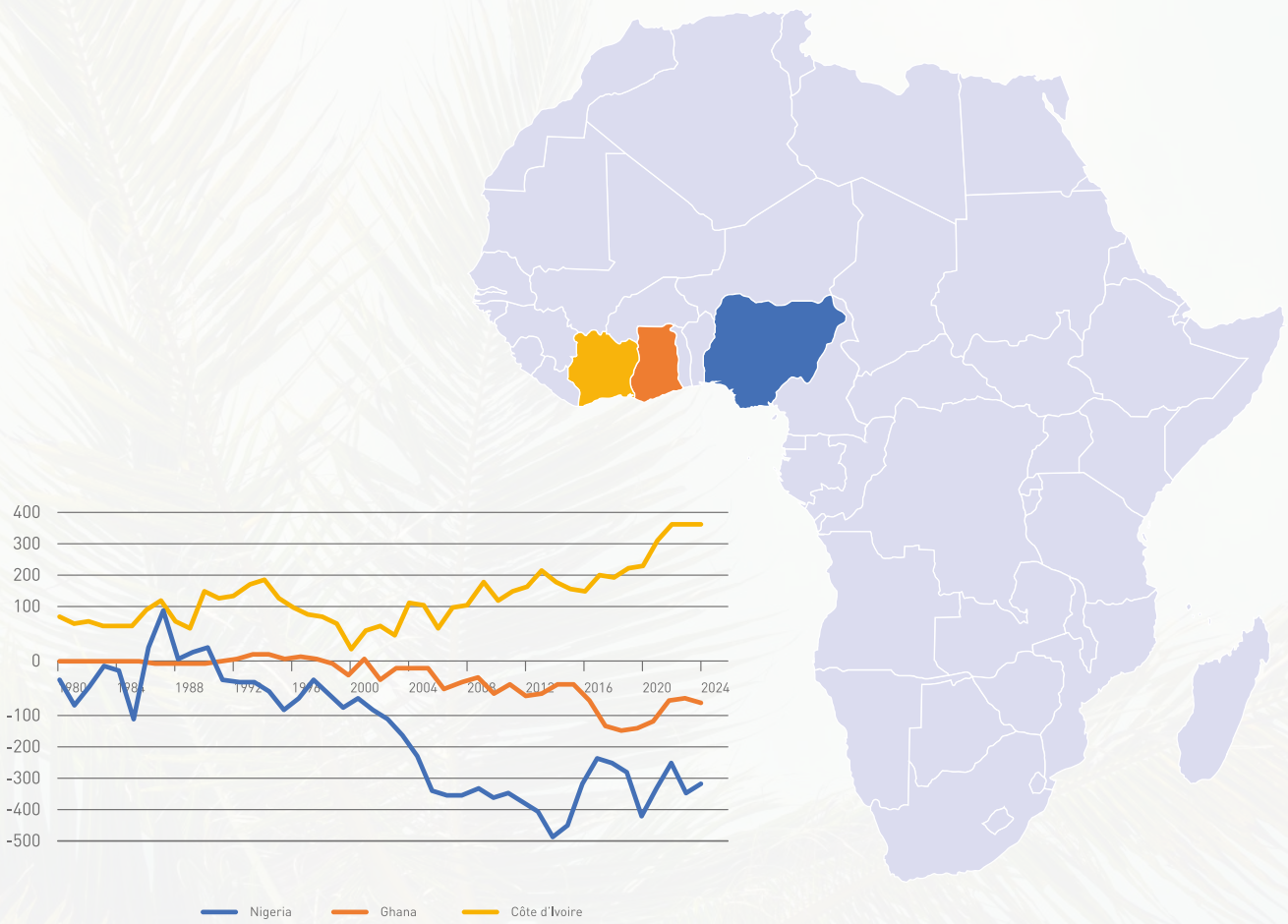
Developing a domestic agro-processing sector will improve domestic food security by reducing waste. Wastage levels in Africa are among the highest in the world because poor infrastructure often causes unprocessed food to spoil during transport. Approximately 40% of mangos grown in Côte d'Ivoire are lost due to spoilage caused by fruit diseases and inadequate post-harvest facilities. Spoilage rates are similar for tomatoes grown in Ethiopia or Uganda. In Nigeria, the figure is 76%. If these products could be dried, juiced or canned domestically they could successfully be brought to market. This would boost supply and reduce food prices.

Export Potential

Côte d'Ivoire's efficient agricultural sector means that it produces surpluses of many of the goods demanded by its neighbours. For example, while palm oil is a staple food product across West Africa, most of Côte d'Ivoire's neighbours are dependent on imports to meet domestic demand (see Fig 4.8). The removal of agricultural tariffs could help Ivorian producers meet this demand, which is currently being filled by Asian producers.



**Figure 4.8 Palm Oil, Domestic Production Balance
(Consumption less Production), '000 tonnes**



Source: USDA

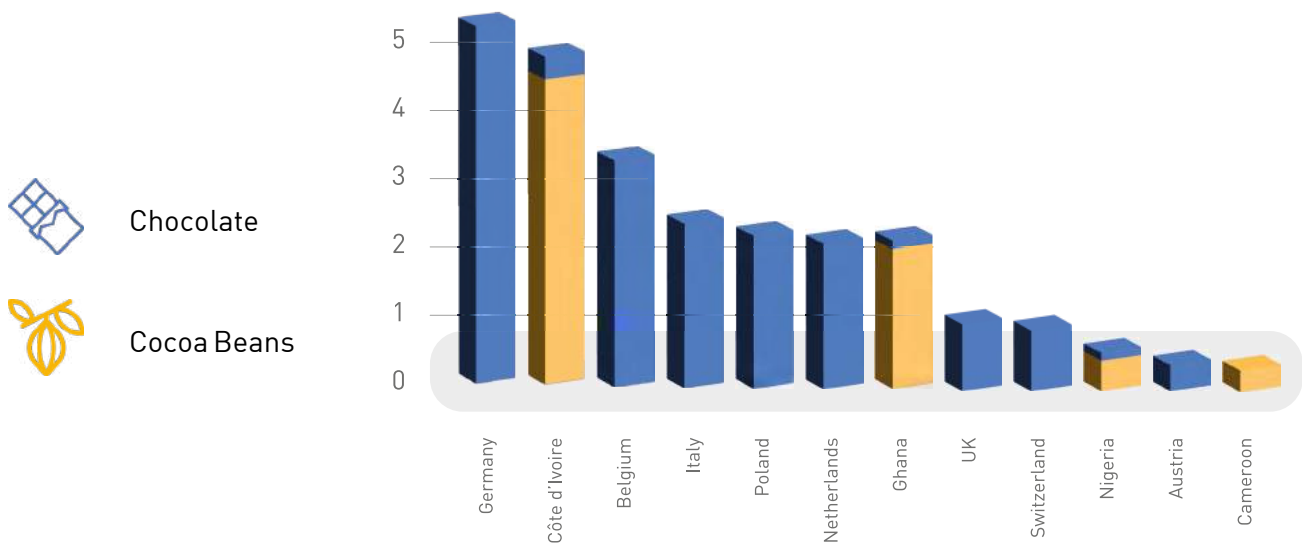


With the right investment, Côte d'Ivoire could also produce packaged and processed foods using domestic palm oil and other products. Urbanisation and rising incomes are driving demand for convenience foods, like crisps, bottled drinks and instant noodles, in West Africa. In 2023, for example, the Ivorian government signed a USD100mn deal to construct a 200,000-tonnes cashew-processing plant in the ARISE industrial zone.

Côte d'Ivoire's unique position as the world's leading cocoa producer also provides an opportunity for it to move up the value-added ladder in a significant luxury product. Currently, only about a quarter of the country's cocoa crop is milled domestically, which has prevented the creation of downstream industries. Only a tiny share is transformed into finished chocolate. Indeed, European processing firms capture most of the final value of the chocolate sold in shops around the world. Germany earns more exporting finished chocolate than Côte d'Ivoire does exporting raw beans (see Fig 4.9).



Figure 4.9 Cocoa and Chocolate Exports, USDbn

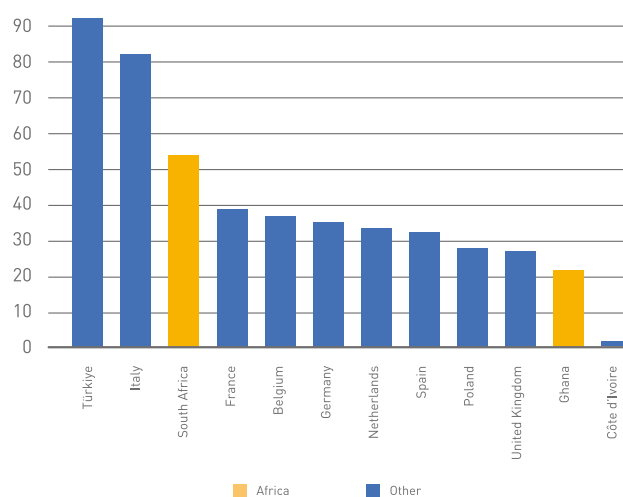


Source: Trade Map (2022)

Investing in the domestic milling and chocolate-making sector could allow Côte d'Ivoire to use an African product to meet African demand. In 2022, the continent imported USD679mn worth of chocolate, but Côte d'Ivoire provided just USD1.2mn of this (see Fig 4.10).



Figure 4.10 Chocolate Exports to Africa, USDmn

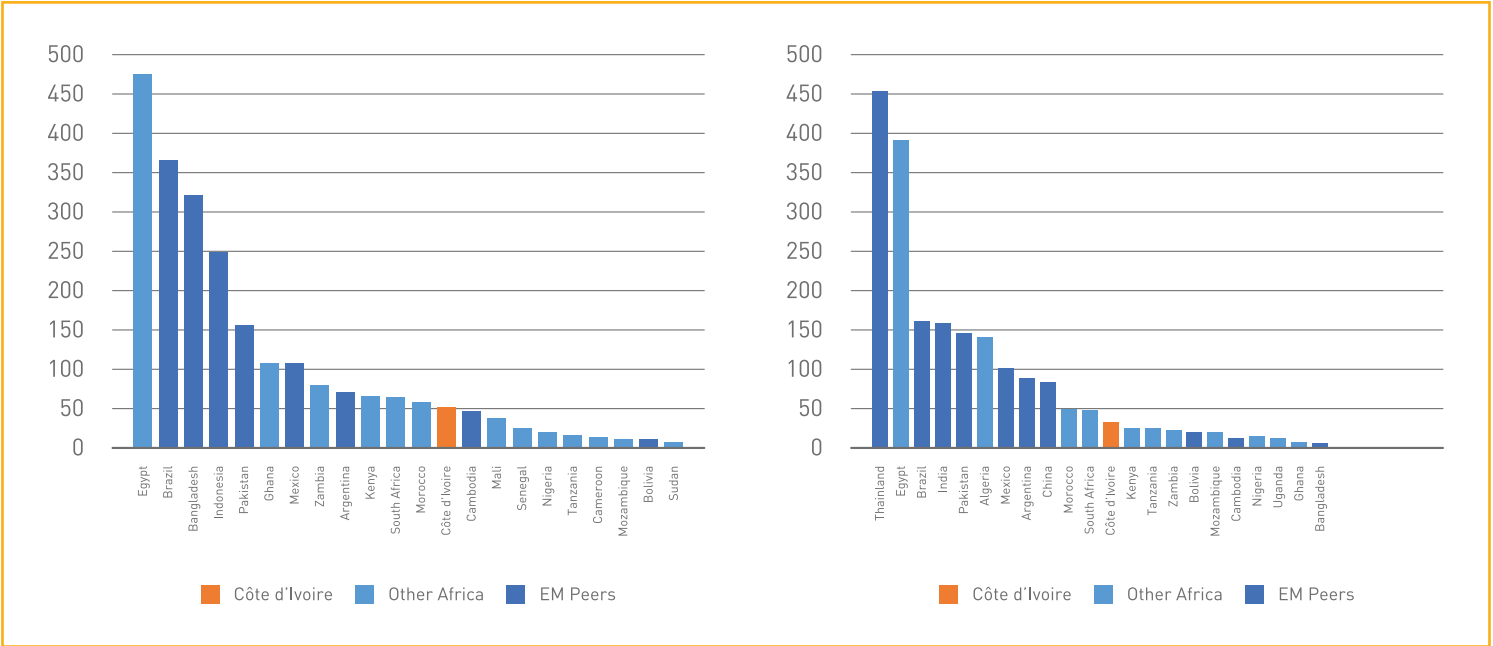


Source: Trade Map (2022)

Cross-Border Value Chains

Modernising and industrialising the agricultural sector in Côte d'Ivoire (and other AfCFTA states) would also create cross-border value chains by boosting demand for agricultural inputs produced in Africa's more-developed economies, notably Morocco and South Africa. If the higher demand for African agricultural products boosted African farmers' incomes, they could invest in expensive farm inputs that they cannot currently afford. Low incomes and a lack of access to capital mean that farmers in Côte d'Ivoire and across most of Africa are much less likely to use modern fertilisers or tractors than their peers elsewhere. Egypt is something of an exception (see Fig 4.11).

Figure 4.11 Fertiliser Use, kg per km of Arable Land (LHS) and Tractors per 100sq km of Arable Land (RHS)

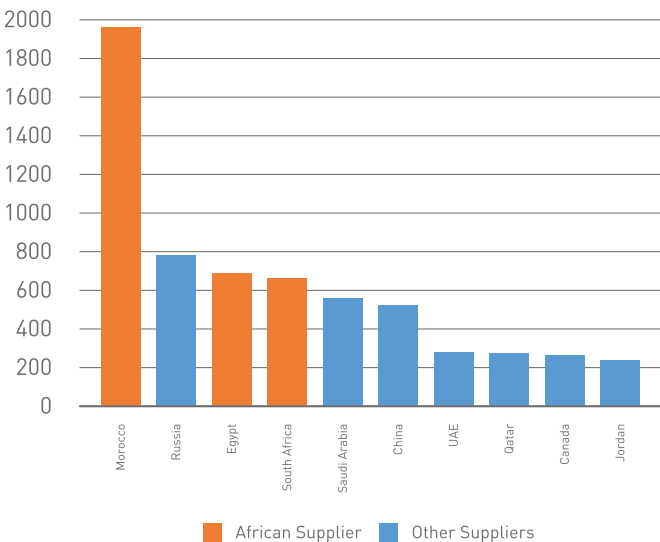


Source: FAO, World Bank (2021 or latest)

Morocco is already one of the world’s largest exporters of fertiliser, and the country stands to gain if local demand for one of its key products increases. This is a powerful example of how the AfCFTA will allow African economies to benefit from rapid growth in their neighbours. Egypt and South Africa are also established suppliers to their continental peers.

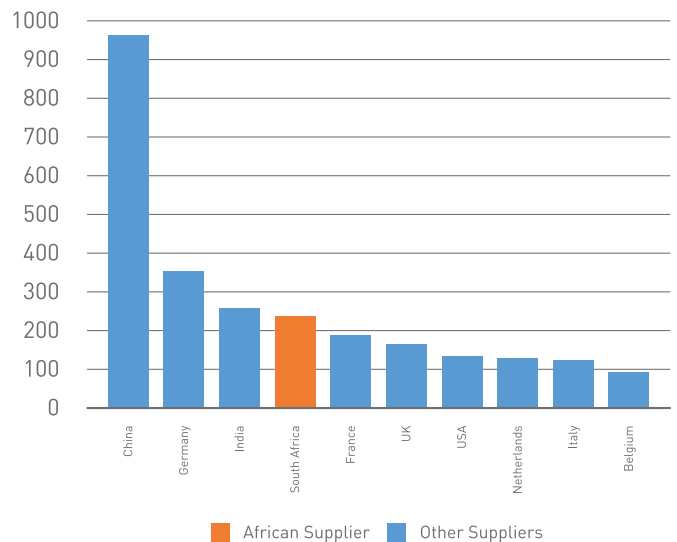
In the short term, demand for tractors and other farm machinery will probably be met from abroad. China is currently the continent’s main supplier of these goods (see Fig 4.13).

Figure 4.12 African Fertiliser Imports by Source, USDmn



Source: Trade Map (2022)

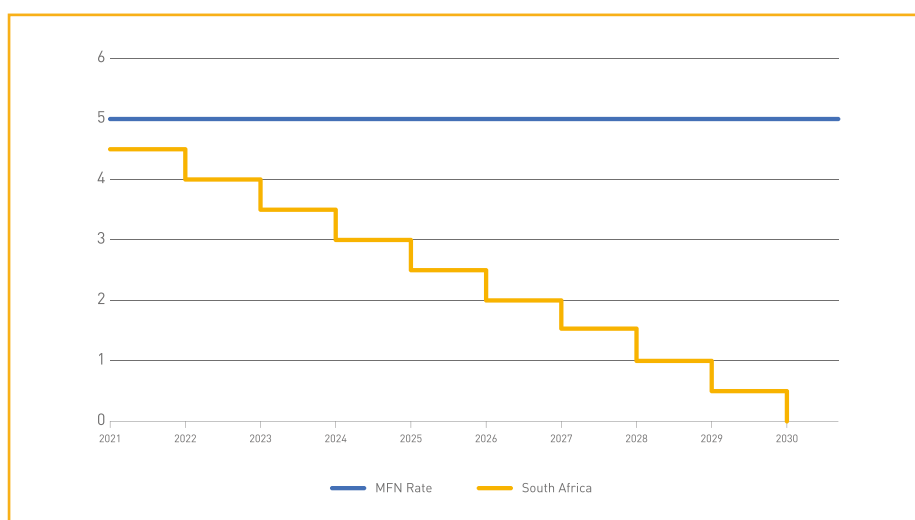
Figure 4.13 African Tractor Imports by Source, USDmn



Source: Trade Map (2022)

But South Africa's industrialised agricultural sector could supply the continent because lower tariffs give it a cost advantage over competitors in Asia and elsewhere. While Côte d'Ivoire charges an MFN tariff of 5% on single-axle tractors, the tariff that it charges on imports from South Africa will fall to 0% by 2030.

Figure 4.14 Côte d'Ivoire Tariff on Imported Single-Axle Tractors, %



Source: AfCFTA e-Tariff Book (Note: HS Code 8701.10)

Key Takeaways:

- **Agriculture remains Africa's largest employer and key economic sector.** Modernising and industrialising the food chain can boost the incomes of hundreds of millions of people. Rising output will also help to improve food security.
- **Investors should focus on the storage, cold chain and food-processing sectors.** Côte d'Ivoire is well placed to act as a hub for food exports to the rest of West Africa, where demand for processed food is rising quickly.
- **The modernisation of the agricultural sector will create significant demand for inputs produced elsewhere in Africa.** Moroccan fertiliser and South African farm equipment-makers should target new markets in West Africa.

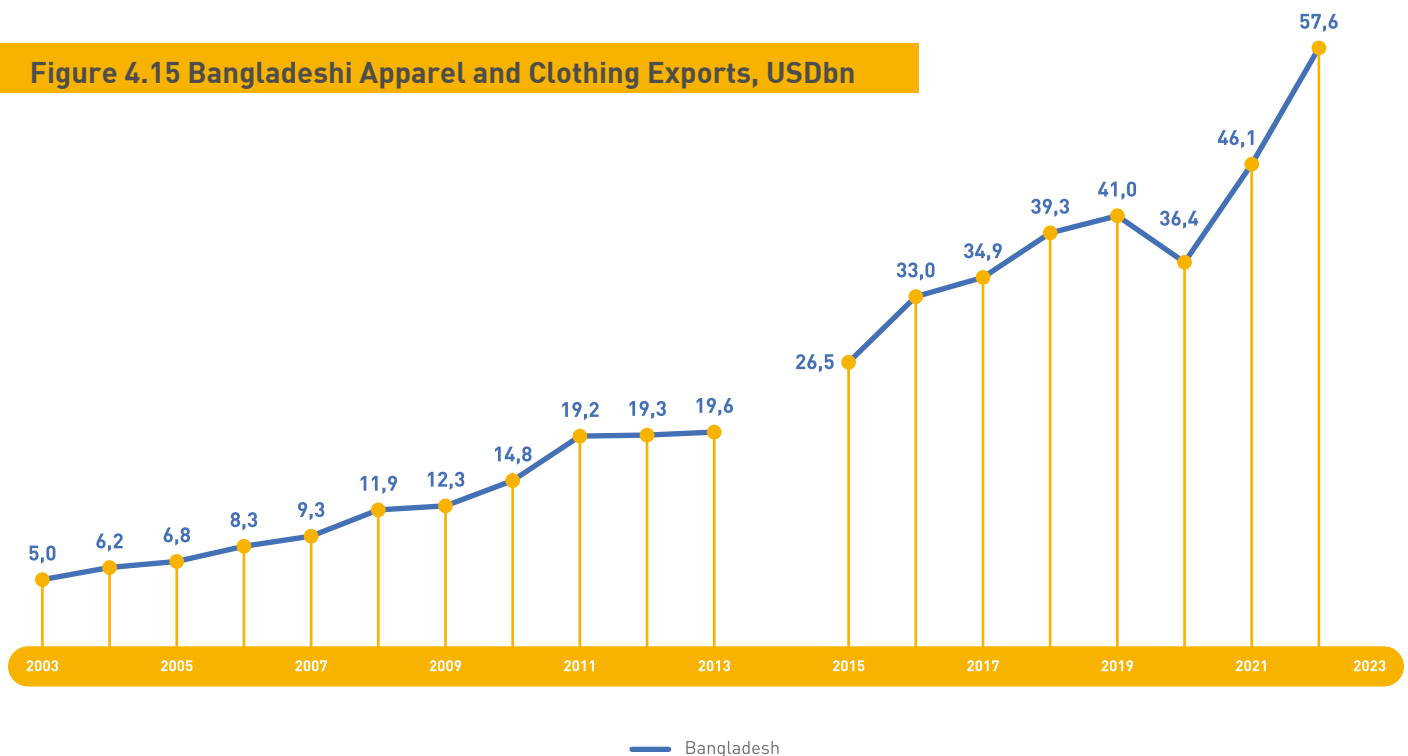


3. CLOTHING AND APPAREL (EAST AFRICA)

Why Clothing and Apparel ?

The manufacture of clothing and apparel (including footwear) is a labour-intensive industry that has provided a first step towards industrialisation for economies across the world. Clothing manufacture does not require advanced technologies or complex input products. It relies on relatively simple agricultural inputs and abundant low-wage labour. The most recent success story in this industry has been Bangladesh, a resource-poor, low-income economy that has transformed itself into the world's second-largest exporter of ready-made clothes. The country's export earnings from the sector have risen 30-fold over the past 20 years (see Fig 4.15).

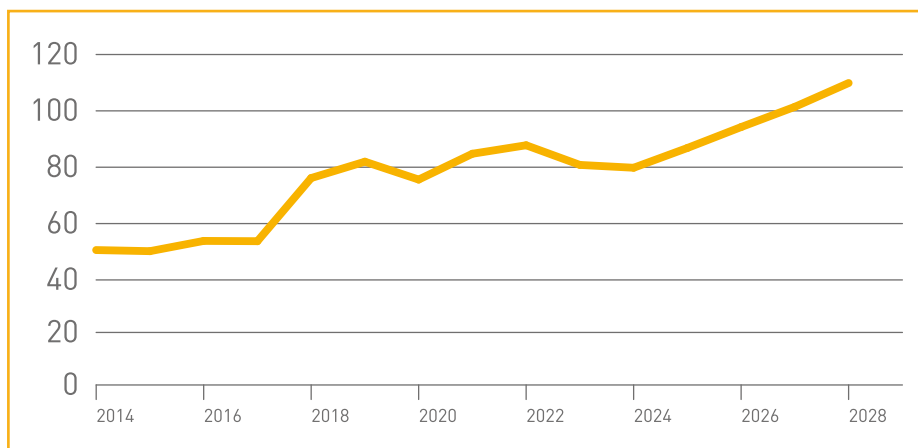
Figure 4.15 Bangladeshi Apparel and Clothing Exports, USDbn



Source: Trade Map (Comparable figures not available for Bangladesh in 2014)

Local demand is high. Africa’s large and growing population makes it an attractive market for consumer staples like clothing. Figures from BMI suggest that clothing sales on the continent will rise by 36% between 2024 and 2028, reaching USD109bn (see Fig 4.16).

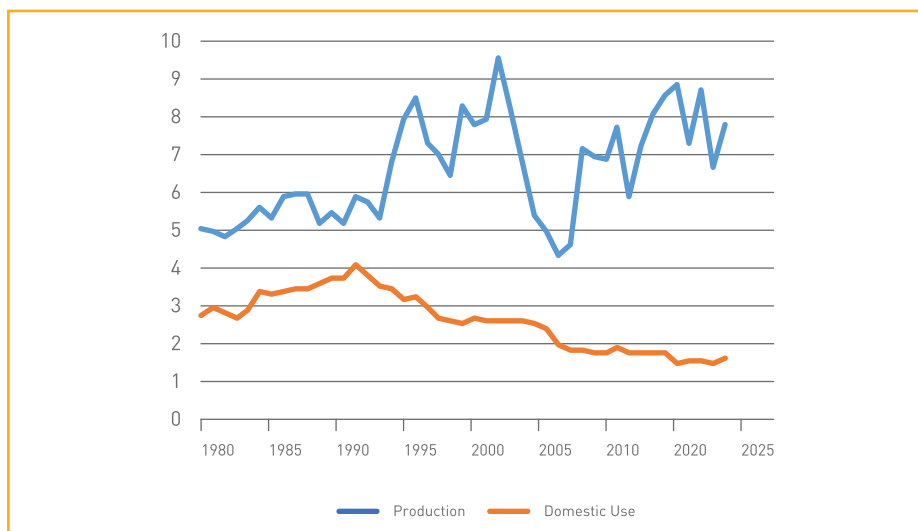
Figure 4.16 Africa, Spending on Clothing and Footwear, USDbn



Source: BMI

African economies have the raw material needed to meet this demand domestically. Cotton is grown in most sub-regions of Africa, and countries in the West and East of the continent are also major leather producers. Indeed, cotton production currently far outstrips local demand, with much of the crop being exported raw (see Fig 4.17).

Figure 4.17 African Cotton Production and Domestic Use, millions of 480lb bales

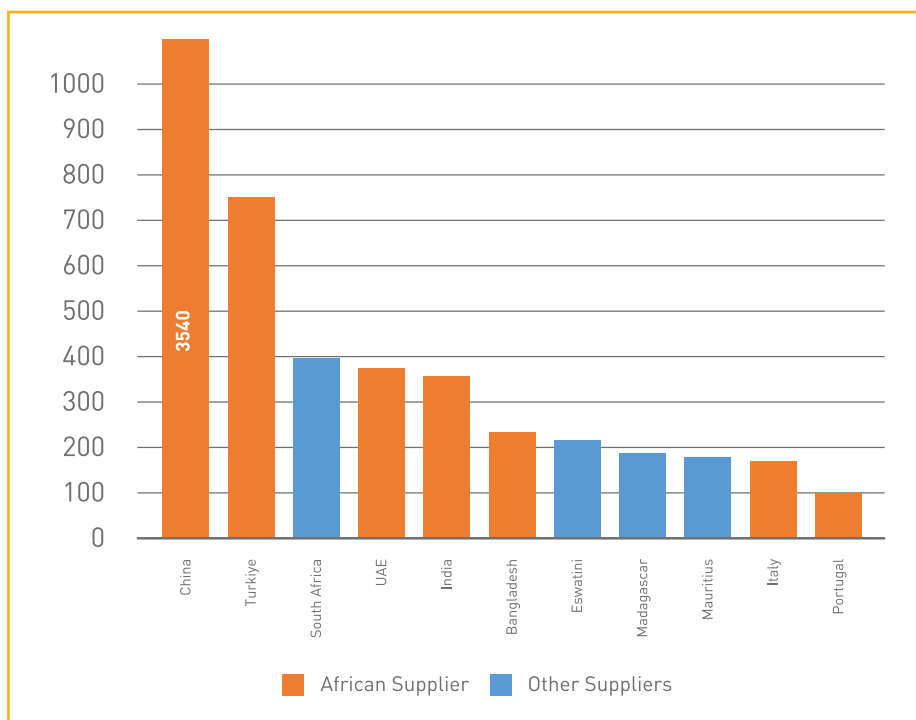


Source: USDA



Admittedly, this surplus of cotton exists because of the decline of Africa’s textile and clothing industry in the 1990s and 2000s. The domestic processing of cotton has fallen by 50% since 1992 (see Fig 4.17). This decline was driven by cheap imports from China and elsewhere in Asia. African consumers spent USD3.5bn on Chinese-made clothing in 2022, ten times as much as they did on apparel made in South Africa (see Fig 4.18).

Figure 4.18 African Clothing Imports by Source, USDmn



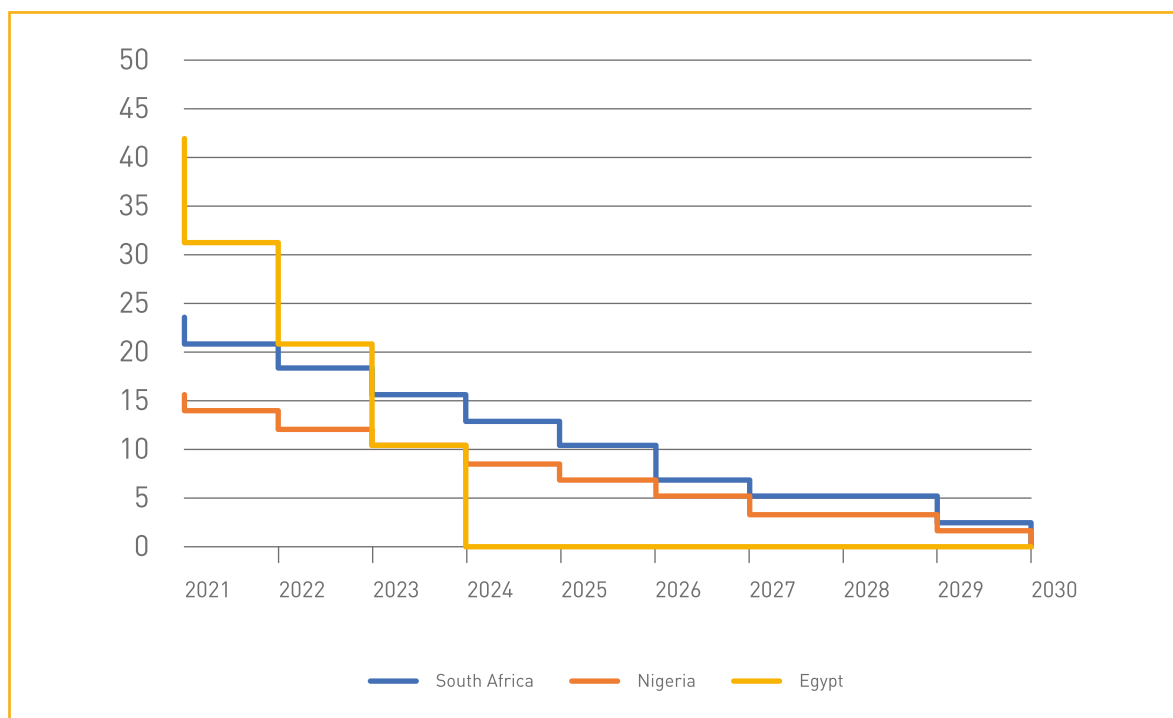
Source: Trade Map (2022)

How AfCFTA Can Help

Lower intra-Africa tariffs, however, will drive down the price of African clothing and help to win back market share. Most African countries impose high tariffs on imported clothes, whether they come from Africa or Asia. Under AfCFTA the tariff on African products will be reduced (and eventually removed entirely).

This will lower the cost of African-made clothes compared to Asian rivals. Fig 4.19 shows the tariff charged on Ethiopian-made clothing in South Africa, Nigeria and Egypt. In 2021, a shipment of Ethiopian-made shirts would face a tariff of 48% entering Egypt, but by the end of 2024, this should be cut to 0%. Since tariffs will still be applied to Chinese and Bangladeshi shirts, this will help Ethiopian firms to boost exports.

Figure 4.19 Import Tariffs on Ethiopian Clothing Imports, %



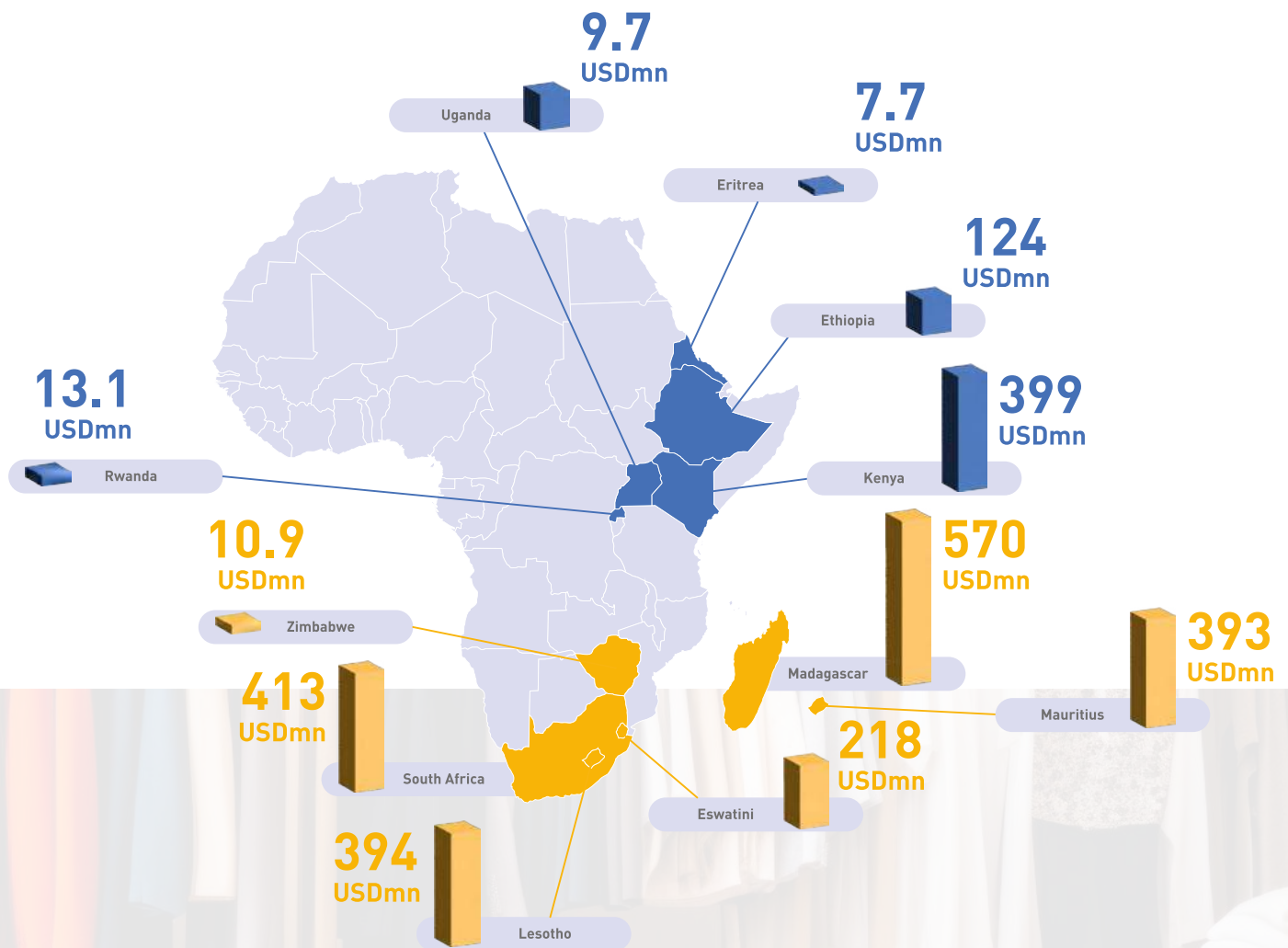
Source: AfCFTA e-Tariff Book (Tariff line 43031000, "Articles of apparel and clothing accessories")

Beyond the basic economic theory, we have strong evidence that tariff-free market access can boost African clothing exports. Tariff-free access to the US market provided by the African Growth and Opportunity Act (AGOA) caused clothing exports from Lesotho and Eswatini to rise sharply.

Why East Africa ?

East Africa is a resource-poor, labour-rich sub-region of Africa. This part of the continent depends heavily on labour-intensive sectors such as agriculture, tourism and light manufacturing. Indeed, while clothing and apparel sectors across much of Africa have declined in recent years as a result of Chinese competition, East Africa has remained a relative outperformer. Currently, however, East African clothing industries are primarily oriented towards meeting demand in Europe and the United States. Southern African countries dominate the intra-African clothing trade. In many cases this is due to trade within the Southern African Customs Union (SACU) (see Fig 4.20). When AfCFTA reduces intra-African trade barriers, East African countries will be well placed to gain market share.

Figure 4.20 Sub-Saharan African Clothing Exports, USDmn

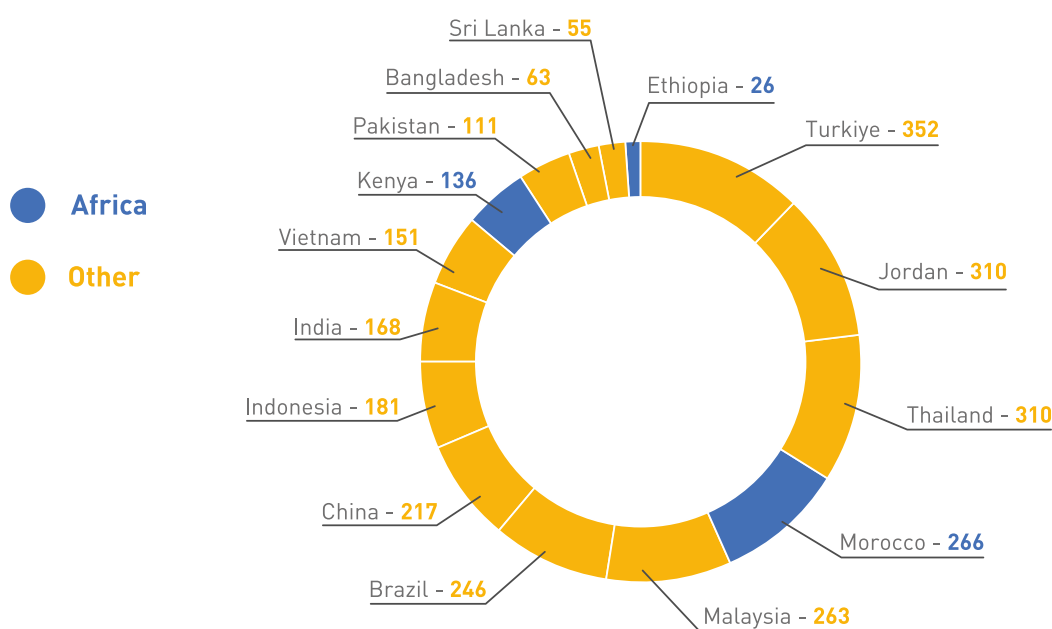


Source: Trade Map (2022)



Most of East Africa has the necessary infrastructure to sustain light manufacturing. Kenya's electricity grid is among the most reliable in Africa, and electrification works in Ethiopia have increased access dramatically in recent years. The region has large port facilities and significant investment is boosting intra-regional rail connections. This could help East African producers to reach consumers across Africa, including in the west of the continent, where we expect that demand growth will be fastest. Wages in the sector are very competitive, with garment workers in Ethiopia paid less than those anywhere else in the world (see Fig 4.21).

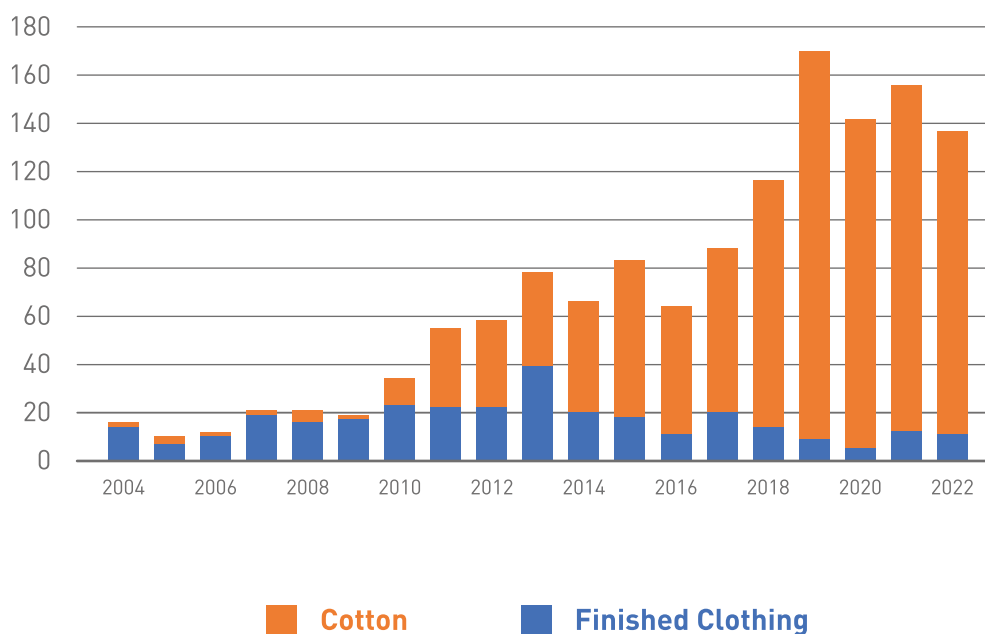
Figure 4.21 Monthly Garment Worker Wages, USD



Source: UNDP (2019)

Indeed, East Africa is already home to a positive example of using clothing production to move up the value chain. In 2005, Ethiopia mostly exported raw cotton, which created few jobs and little export earnings. More recently, however, the country has succeeded in creating a domestic clothing industry that turns a raw agricultural product into processed goods for sale abroad. This has boosted export earnings tenfold (see Fig 4.22). Ethiopia also had some success in using its leather sector as an input in the production of footwear, but disruptions caused by the Covid-19 pandemic and subsequent political unrest caused production to fall in the early 2020s. The future development of Ethiopia's garment sector depends heavily on the country being readmitted to the US AGOA trade deal, from which it was expelled in 2022.

Figure 4.22 Ethiopia Exports, USDmn



Source: Trade Map

Key Takeaways:

- **The clothing and apparel sector offers an unparalleled opportunity to for labour-rich countries to begin the industrialisation process.** Bangladesh is an example of how a low-income economy can rapidly become a major exporter.
- **Africa has both the necessary raw inputs (cotton, leather, labour) and the demand to support a large clothing industry.** The decline of the textile industry in the 1990s was prompted by foreign competition. But the reduction of intra-African tariffs will give significant cost advantages.
- **East Africa has a large labour force, a strong infrastructure base and in some areas has already succeeded in moving up the value chain.** Ethiopia and Kenya are both well placed to become suppliers to key African consuming markets, including Egypt and South Africa.

4. ENERGY TRANSITION (VARIOUS ECONOMIES)

The State of Electrification

The experience of fast-growing economies in Asia suggests that cheap and reliable electricity is a necessary condition of structural change and poverty alleviation. But while African countries must reach the same level of electrification as Asian peers, they face the challenge of doing so in the context of a global energy transition: the carbon-intensive path taken by China and India is no longer open.

The Role of AfCFTA

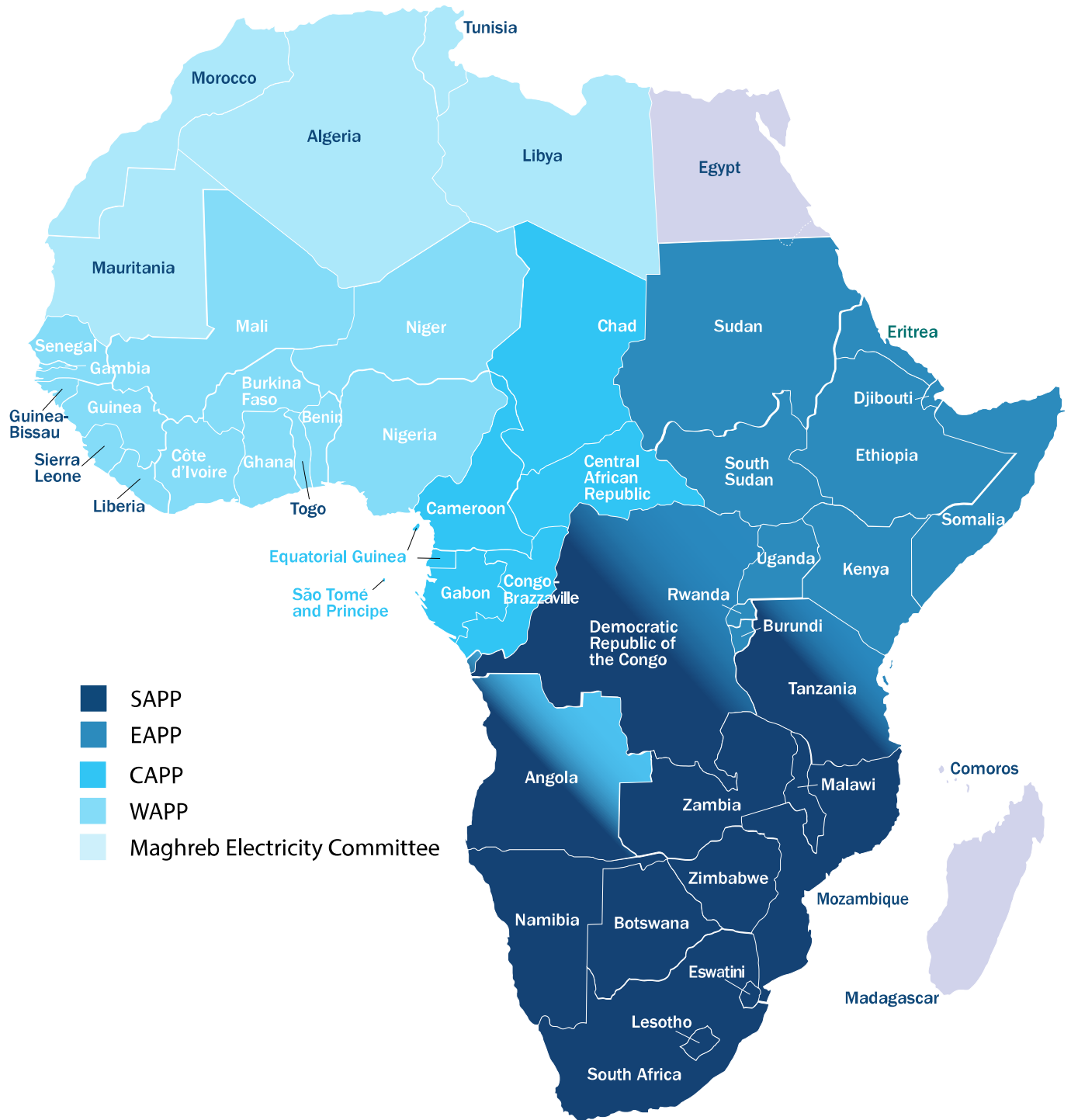
Unlike many modern trade deals, AfCFTA does not include binding environmental commitments or cite a just energy transition as a goal. Even so, the deal will still boost the growth of the continent's clean energy sector through encouraging more intra-Africa electricity trade and facilitating the creation of cross-border value chains, allowing for the local manufacture of goods necessary for the energy transition.



Integrating National Power Grids

Cross-border electricity trade can bring down generating costs through economies of scale, encourage investment in countries where generation potential outstrips local demand and create more-resilient grids. The continent already has five so-called "power pools" in Western, Central, Southern and Eastern Africa and the Maghreb. All these pools, however, have suffered from underinvestment, regulatory inefficiencies and a lack of trust between governments. AfCFTA can promote integration within and between these regional agencies by facilitating regulatory alignment. The creation of the AfCFTA dispute-resolution system will also help to build trust between governments.

Existing Power Pools Already Cover Most of Africa

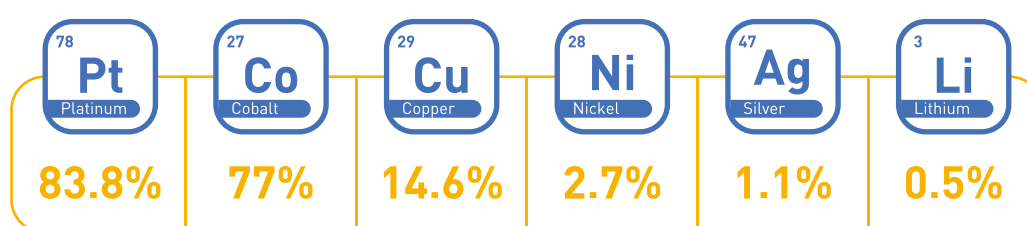


Source: BMI

Indigenising the Electrification Value Chain

AfCFTA can also help to accelerate Africa's energy transition by creating a single market for the goods and services needed to generate, transfer and store clean power. This will bring down prices and encourage the creation of these goods within Africa. African economies produce huge amounts of the minerals necessary for the energy transition, including the majority of the world's cobalt and platinum (see Fig 4.23). But most of the output is concentrated in economies with limited industrial bases (for example, Zambia and the DRC). AfCFTA can help to build links between the continent's miners and its manufacturers, encouraging the production of high value-added goods, like batteries or solar panels, in Africa itself.

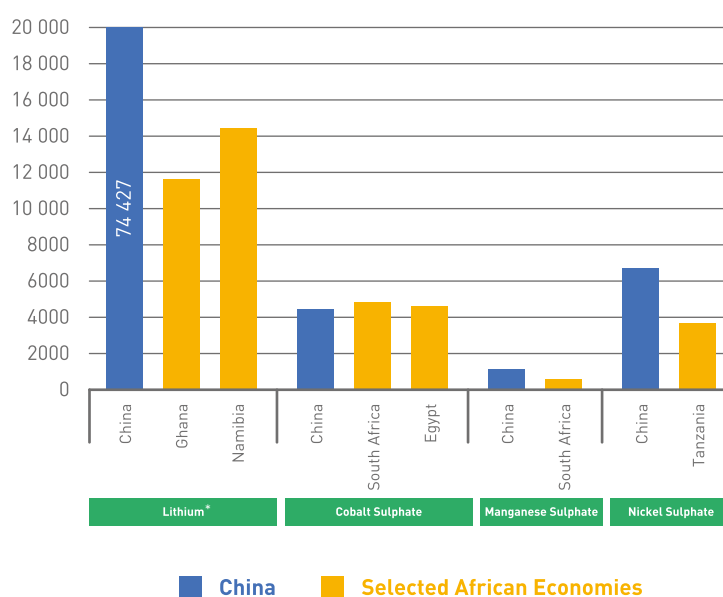
Figure 4.23 Energy Transition Minerals, Africa's Share of Global Output, % of total



Source: BMI (2023)

Indeed, the cost of refining these minerals in Africa has already fallen, and parts of the continent can now compete with China, which is the world leader in metal refining (see Fig 4.24).

Figure 4.24 Cost to Delivering Refined Product to EU, USD/tonne

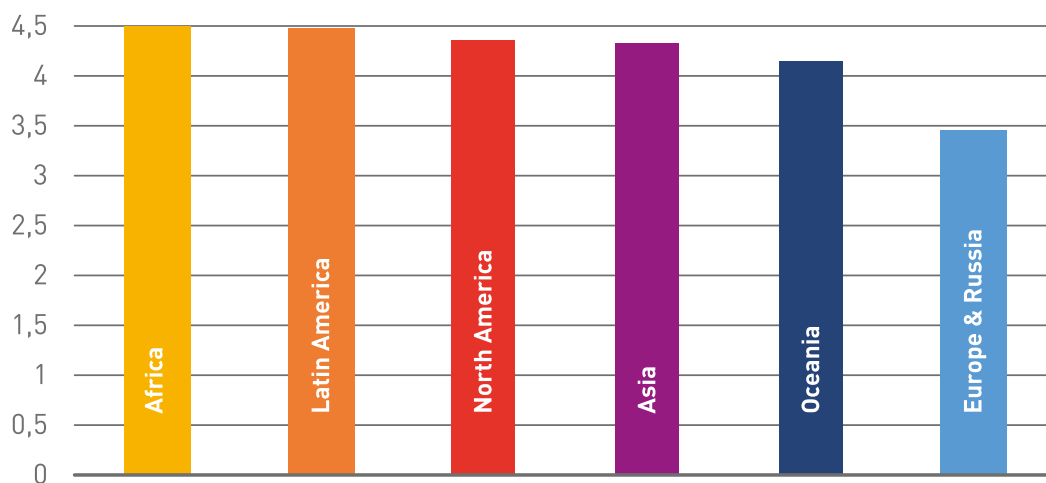


Source: Sustainable Energy for All (Note: Lithium cost excludes transport)



While there are many opportunities, the solar power sector stands out. The International Energy Agency estimates that Africa has 60% of the world's best solar resources. The average African country can generate much more from solar than peers elsewhere (see Fig 4.25).

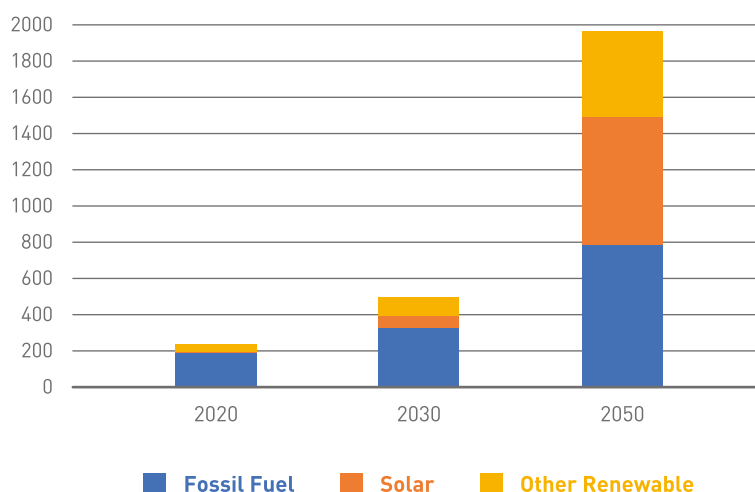
Figure 4.25 Average Long-Term Practical Potential Solar Energy Output (kWh/kWp/day)



Source: Global Solar Atlas

And while solar power has traditionally been a costly form of energy, prices have fallen sharply. The cost of unsubsidised solar PV levelised cost of electricity (LCOE) has decreased by about 90% from USD400/MWh in 2011 to USD41/MWh in 2022. Indeed, many analysts expect that solar will play a key role in Africa’s electrical transition over the coming years (see Fig 4.26).

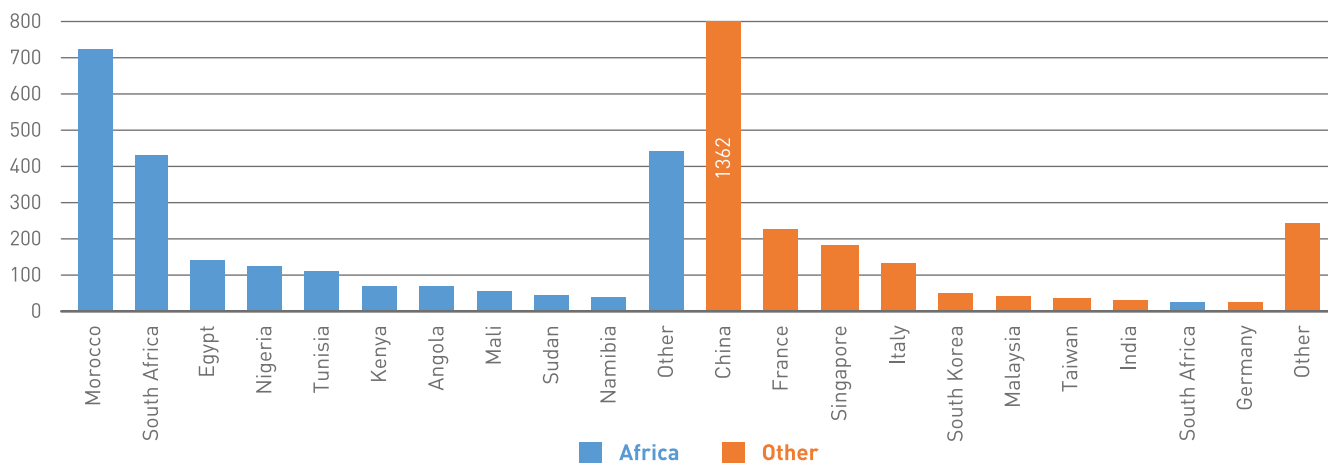
Figure 4.26 Total Generational Capacity (GW)



Source: Sustainable Energy for All, Lazard, IEA

This will create a huge demand for solar panels and other equipment. Currently, most of these goods are imported, with most bought from China. South Africa is the only African economy that ranks in the continent’s top ten sources of solar panel components, and it only shipped USD29mn in 2022 (see Fig 4.27).

Figure 4.27 African Solar Panels and Components Imports (LHS) and Sources (RHS), USDmn

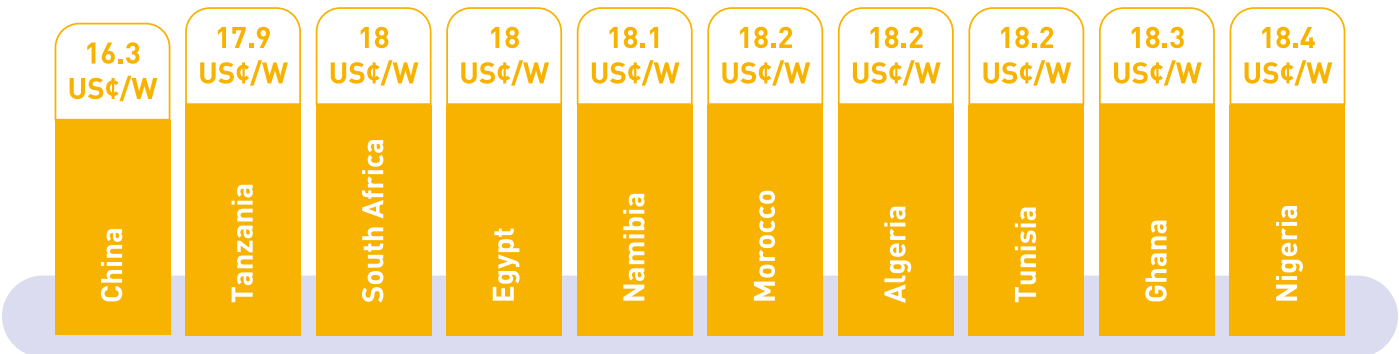


Source: Trade Map (2022)



The large market created by AfCFTA, however, will encourage the domestic production of these goods in parts of Africa, which can then become suppliers to their neighbours. Recent figures suggest that, while the cost of producing solar panels is still more expensive in Africa than in China, the gap is shrinking (see Fig 4.28).

Figure 4.28 Solar Panel Production Cost (US¢/W)

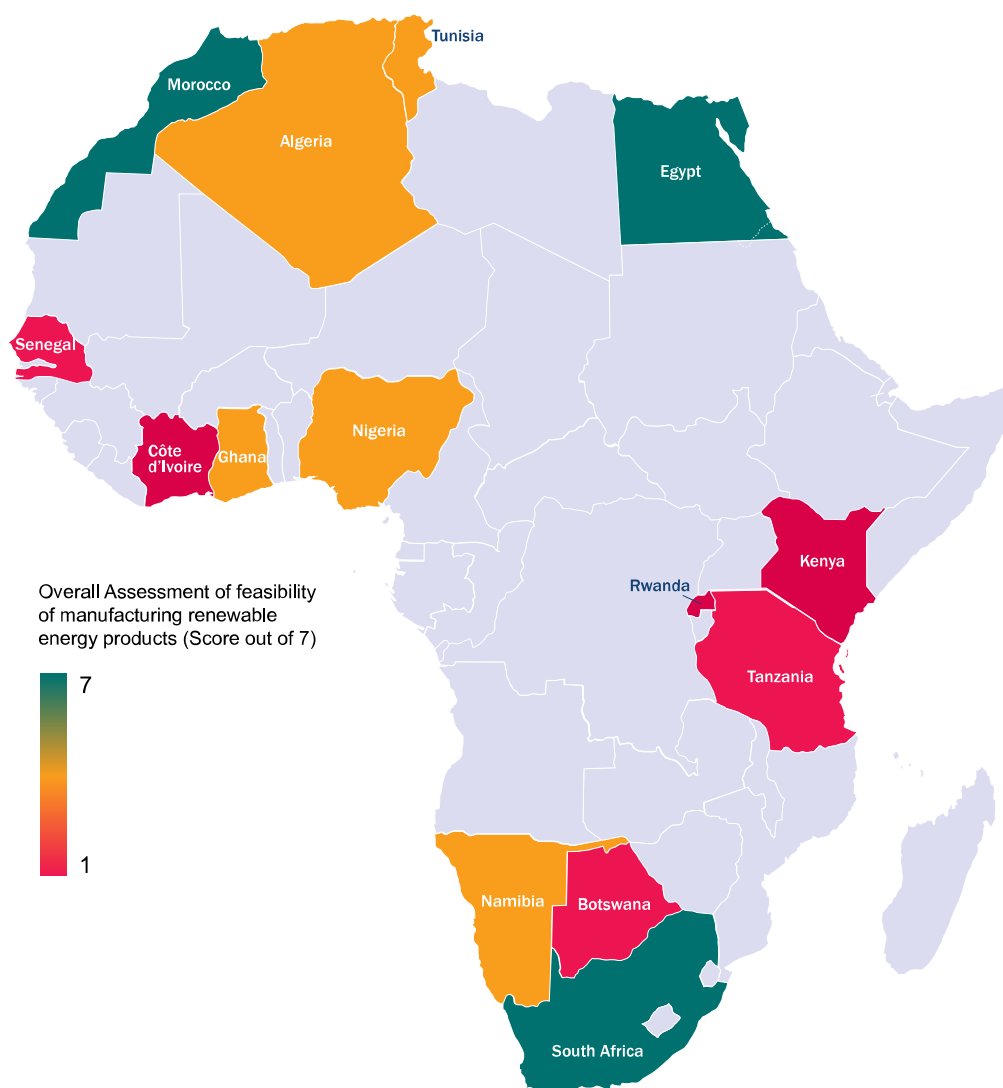


Source: Sustainable Energy for All (2023 estimate, US¢/W stands for US cents per watt)

AfCFTA will bring down prices further by cutting import prices, creating economies of scale and facilitating the flow of investment and skilled personnel. South African firms, for example, are already investing to create production centres in Zambia, which is rich in key minerals and where electricity demand is growing. This should allow for the creation of some key solar machinery hubs that produce for the rest of the region.

Sustainable Energy for All, an international NGO, has compared the potential of 14 African markets as centres for the solar industry. Based on their infrastructure, domestic manufacturing sectors and regulatory environments, the group highlighted Morocco, South Africa and Egypt as having the most potential (see Potential Solar Power Hubs map).

Potential Solar Power Hubs



Source: Sustainable Energy for All (2023 Estimate)

Key Takeaways:

- **Electrification is a necessary precondition for meeting Africa's economic and social goals.**
- **AfCFTA can encourage cooperation and the creation of larger power pools.** Increased trust among states and more investment will also help to deepen integration within the existing sub-regional entities.
- **Africa is currently dependent on imports for the capital goods needed for further electrification and the energy transition, but intra-African trade can help to boost domestic production.** Regional hubs can benefit from economies of scale, transforming African resources into crucial technological goods.

Conclusion & Takeaways

- **AfCFTA is still a work in progress.** Investors should not expect an immediate change of circumstances on the ground. Indeed, since much will depend on the implementation of the system, it is important not to make too many assumptions too soon.
- **AfCFTA will not create regulatory homogeneity.** Unlike the EU, AfCFTA is not creating a homogenous legal order or strong institutions. National governments and individual RECs will remain key players in the system. While this process will be more complex and less orderly than the system in Europe, the experience of Asia suggests that it can still significantly boost trade and economic growth.
- **Indeed, the potential upside is significant.** Even if the deal is only partially implemented, it will still appreciably raise African aggregate GDP. The gains will be larger for the region's smaller economies.
- **The impact of the deal will vary significantly between different economies and industries.** This report has highlighted four possible winners from the deal, but there will be many more.
- **Increased cross-border value chains can produce big second-order effects.** In the agro-processing example, a modernised agricultural sector in Côte d'Ivoire will not only boost that country's exports but also provide a new market for inputs sourced elsewhere in the continent.
- **AfCFTA will encourage the creation of regional economic hubs.** While benefits will be felt across the region, Africa's more-industrialised economies will be better placed to meet increased demand. Morocco, South Africa, Kenya and Côte d'Ivoire are a few key examples.
- **AfCFTA can help to bridge the divide between North Africa and sub-Saharan Africa.** The deal will encourage trade across this conceptual frontier, which is often seen to divide the continent into two separate and unrelated economic zones. Morocco is well positioned to benefit from more interaction between the northern and southern regions of Africa.

Glossary

- **AfCFTA Secretariat:** An administrative body based in Ghana that will manage AfCFTA on a day-to-day basis (see Chapter One).
- **ASEAN:** The Association of South East Asian Nations is a regional community made up of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.
- **Excluded Goods:** Products on which AfCFTA state parties will continue to impose tariffs even after the agreement is fully in force.
- **Guided Trade Initiative (GTI):** A pilot project under which eight AfCFTA state parties have agreed to implement AfCFTA trading rules on a set list of goods. The initiative covers Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia (see Chapter One).
- **Inter-governmental:** Describing a group or process that is driven by negotiations between governments rather than led by an independent supranational institution.
- **Non-Tariff Barrier (NTB):** Obstacles to international trade that do not involve traditional import tariffs. NTBs can take various forms, including regulatory requirements, technical standards, licensing procedures and quotas (see Chapter One).
- **Regional Economic Community (REC):** The existing, sub-regional institutions that manage trade within different parts of Africa. The AfCFTA treaty describes the following eight RECs as “building blocks” of AfCFTA: Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), the Arab Maghreb Union (UMA), the Intergovernmental Authority on Development (IGAD) and the Community of Sahel-Saharan States (CEN-SAD) (see Chapter One).
- **Sensitive Goods:** Products on which AfCFTA state parties will not have to remove tariffs until 2033. Can make up 7% of all tariff lines.
- **Supranational Institutions:** International bodies, like the European Commission, that are empowered to act independently of individual states and which can impose meaningful limits on their members (see Chapter Three).
- **Tariff:** A charge imposed on imported goods.
- **Variable Geometry:** A flexible approach in which some integration sometimes happens among a sub-set of a wider group.

Sources Cited

Abreha, Kaleb G.; Woubet Kassa; Emmanuel K.K. Lartey; Taye A. Mengistae; Solomon Owusu; and Albert G. Zeufack, 2021, "[Industrialisation in Sub-Saharan Africa: Seizing Opportunities in Global Value Chains](#)", World Bank

Adeniran, Adedeji; Chukwuka Onyekwena; Sone Osakwe; and Chimere Iheonu, 2021, "[How Can the AfCFTA Improve Energy Efficiency and Access in Africa?](#)", IISD

Agarwal, Prachi; Anthony Black; Alberto Lemma; Vuyiswa Mkhabela; and John Stuart, 2022, "[The African Continental Free Trade Area and the Automotive Value Chain](#)", ODI

Attia, Benjamin, 2022, "[Five was the African Continental Free Trade Agreement can de-risk the continent's power sector](#)", Energy for Growth Hub

AfCFTA Secretariat, 2024, [AfCFTA e-Tariff Book](#)

AfCFTA Secretariat and UNDP, 2021, "[The Futures Report 2021: Which Value Chains for a Made in Africa Revolution](#)"

African Union, 2018, "[Agreement Establishing the African Continental Free Trade Area](#)"

BMI Research Team, 2023, "[Towards 2050: Megatrends in Industry, Politics, and the Global Economy](#)" Fitch Solutions

Brookings, 2019, "[Africa's Industrialisation under the Continental Free Trade Area: Logistical strategies for global competitiveness](#)"

Coulibaly, Souleymane; Woubet Kassa; and Albert G. Zeufack, 2022, "[Africa in the New Trade Environment Market Access in Troubled Times](#)" World Bank

Demirguc-Kunt, Asli; Leora Klapper; Dorothe Singer, 2017, "[Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence](#)" World Bank

Echandi, Roberto; Maryla Maliszewska; and Victor Steenbergen, 2022, "[Making the Most of the African Continental Free Trade Area: Leveraging Trade and Foreign Direct Investment to Boost Growth and Reduce Poverty](#)", World Bank

International Labour Organization "[ILO Stat](#)"

International Monetary Fund, 2023, "[Financial Access Survey](#)"

Maliszewka, Maryla and Michele Ruta, 2020, "[The African Continental Free Trade Area: Economic and Distributional Effects](#)" World Bank

Manduna, Calvin and Taku Fundira, 2022, "[How to Ensure that the AfCFTA Propels Africa's Green Transition](#)", APRI

Scharwatt, Claire Penicaud and Elisa Minischetti, 2014, "[Reaching Half of the Market: Women and Mobile Money](#)", GSMA

Sustainable Energy for All, 2023, "[Africa Renewable Energy Manufacturing Opportunity & Advancement](#)"

Takudzwa Pasara, Michael and Steven Henry Dunga, "[Who wins and who loses under AfCFTA? A simulation analysis across ECOWAS countries](#)" in International Journal of Economics and Finance Studies, Vol.12, No.2, 2020

Trade Map, 2022, "[International Trade Statistics](#)"

UNDP, 2023, "[Can Ethiopia Become a Manufacturing Powerhouse?](#)" (Working Paper)

United States Department of Agriculture, 2024, "[Foreign Agriculture Service Statistics](#)"

World Bank, 2024, "[World Development Indicators](#)"

World Bank, 2024, "[Global Solar Atlas](#)"



CASABLANCA FINANCE CITY
القطب المالي للدار البيضاء