The African Continental Free Trade Area A Pipe Dream or Silver Bullet?

Dianna Games

May 2021

Discussion paper 007/2021

The Brenthurst Foundation

The Brenthurst Foundation is on the frontier of new ideas and innovative actions for strengthening Africa's economic performance. Our activities are focused in three areas: encouraging key decision-makers and experts to share experiences and insights at private meetings and seminars; delivering relevant, practical policy advice to governments; and generating new thinking and thought-leadership to address Africa's development challenges.

About the Author

Dianna Games is Chief Executive of Africa @ Work, an advisory company focusing on African business. She is a leading commentator on business issues, trends and developments in Africa and has travelled extensively around the continent. She specialises in corporate engagements across Africa and has done research into regional economic developments, corporate and government investment trends, sector analysis for private clients and tracks business developments in Africa's key markets.

Published in May 2021 by The Brenthurst Foundation (Pty) Limited

PO Box 61631, Johannesburg 2000, South Africa

Tel +27-(0)11 274-2096

Fax +27-(0)11 274-2097

www.thebrenthurstfoundation.org

Cover image © Random Institute / Unsplash

Contents

Introduction

In May 2021, the bridge across the Zambezi River linking Botswana and Zambia was opened by the presidents of the two countries. The construction of the bridge, which replaces the longstanding, slow ferry service across the river, means trucks on regional routes can now cross the river in a few hours, or less, rather than the previous three days to a week.[1] It also means they can avoid using the biggest crossing between the ports and factories of South Africa and the rest of Southern Africa – Beit Bridge, which is also one of the most congested borders in Africa. A one-stop border post at the bridge will allow easier thoroughfare.

This project embodies the benefits that good infrastructure and joined-up bureaucracy offer regional trade, both of them generally in short supply. More than 250 trucks a day should be able to cross the Zambezi instead of the handful that were able to cross before, bringing down costs, increasing the security of cargo and providing an alternative route for trade to the sea for inland markets.[2]

It is not without potential pitfalls. One is the congestion that is likely to develop at Martin's Drift border post, currently an alternative to the main border post at Gaborone into Botswana, as demand increases. And sections of the roads along this main trade route, an integral part of the North South Corridor[3], are in urgent need of repair, for example several hundred kilometres of a two-lane highway through Botswana to Kazungula, with eroded shoulders, deep potholes and livestock roaming the unfenced verges.

Travelling by road across Africa can be a sobering experience, characterised by delays, inefficiency and overzealous bureaucracy. There are a range of literal and figurative potholes that are major constraints to trade. Even as trucks battle with bad roads and congested border posts, they also need to navigate a host of other issues such as roadblocks designed mostly to extort money from drivers. Transport costs make Africa one of the least competitive regions for exports and trade.

The continent's import dependence and colonial trade patterns are reflected in traffic movements – trucks laden with minerals and other raw materials heading for the sea, returning either empty or loaded with imports.

This is the reality that faces Africa as it unrolls its flagship project, the African Continental Free trade Area (AfCFTA), which started trading under the agreement in January 2021. The initiative brings together a potential market of more than a billion people and has a lofty ambition of increasing intra-African trade from under 20% currently to more than 30% in just a few years by attracting investment into manufacturing, agriculture and other sectors and building regional value chains.

Intra-African trade is well below that of other regions such as Europe (68%), and Asia (59%) despite years of trade facilitation, the existence of a raft of free trade areas and customs unions and high growth in many economies.

According to UNCTAD, trade within Africa is of a better quality than its trade with the rest of the world. The former has higher manufacturing (46.3%), and medium- and high-technology content (27.1%) as well as more product diversity than the latter. By extension, therefore, the free trade area can help African countries transform by expanding domestic productive capacity, enabling them to move up the value chain and diversify local and export production.[4]

There potential loss of $4.1 billion in tariff revenues for national governments is expected to be offset by increased employment and better use of domestic resources to increase production of new goods and services, among other benefits. In any case, tariff revenue losses are relatively contained for most African countries, given low levels of trade among themselves.

> The continent's import dependence and colonial trade patterns are reflected in traffic movements – trucks laden with minerals and other raw materials heading for the sea, returning either empty or loaded with imports.

That is the theory. However, current realities are likely to counter the expectations that the AfCFTA is some kind of silver bullet that will transform Africa, sweeping away decades of embedded dysfunction and challenges. The spirit of free trade is well represented at public forums across Africa. But policies and actions at a national level tend to paint a picture that is characterised by a failure of leaders to implement the agreements they sign up to once the fanfare has died down.

Undoubtedly, the AfCFTA has enjoyed significant political commitment to date and there are rafts of trade bureaucrats hammering out the details behind the scenes. But it is not starting from scratch. The continent is amply covered by eight officially recognised Regional Economic Communities (RECs) and many of the technical issues have already been dealt with in existing free trade areas. COVID-19 may have ushered in many new problems for countries to tackle, but it has also provided an inflexion point for policy makers to decide whether it will be business as usual once the pandemic abates, or whether more effort will be applied to making economies more self-sufficient and resilient.

The AfCFTA is not an event, but a long, slow and complex process that will take years to gain traction, given the scale of challenges on the ground that may undermine its progress and potential. But it has undoubtedly created a framework for change and given the possibility of a better continent new momentum. As the Secretary General of the AfCFTA Secretariat based in Ghana, South Africa's Wamkele Mene, says, "I don't want anybody to be under the illusion that this is going to be easy. It's going to be difficult. But we've got to do it."[5]

The discussion paper looks at the current trade environment in Africa, focusing broadly on the factors undermining intra-African trade currently and the recommendations of what could be done to give the AfCFTA a fighting chance of realising its ambitions.

Trade in Africa: Background

What is the African Continental Free Trade Area?

The AfCFTA is a flagship project of the African Union's Agenda 2063, which is a blueprint for attaining inclusive and sustainable development across the continent over the next 50 years. The initiative aims to boost intra-African trade under the banner of a comprehensive and mutually beneficial trade agreement among AU member states that covers trade in goods and services, investment, intellectual property rights and competition policy.[6]

The agreement aims to bring together all 55 African countries, covering a market of more than 1.2 billion people with a combined gross domestic product (GDP) of more than US$3.4 trillion. By 2021, 54 out of the 55 countries (excluding Eritrea) had signed the agreement although only 36 had ratified it.

The target is to increase intra-African trade from less than 20 per cent to 50% by 2030 – nine years away. It aims to boost earnings for traders, strengthen Africa's competitiveness in the global marketplace, foster export diversification, enhance value addition to products and transform natural resources. In the wake of the AfCFTA, Africa's manufacturing output is expected to double to $1 trillion, creating 14 million jobs by 2025.

These are hefty targets, particularly given the fact that free trade is not new to Africa. The AfCFTA's expected catalytic effect is coming off a base of long, albeit mediocre, experience. Africa's trade profile is one of the constraints to an explosion of intra-African trade. Natural resources accounted for about 56% of Africa's exports in 2016.

The concept of a continental free trade area is also not new. It had its genesis in the era of African independence in the 1950s and '60s. The idea of an African economic community was linked to the continent's political liberation and the broader ethos of Pan-Africanism. It gained traction in subsequent African plans, including the Lagos Plan of Action for the Economic Development of Africa, 1980–2000, as well as the 1991 Treaty Establishing the African Economic Community.[7]

In 2012, the Assembly of Heads of State and Government of the African Union in Addis Ababa adopted a decision to establish a continental free trade area by 2017. It was eventually launched in Kigali in 2018. The operational phase was launched in Nigeria in July 2019, and trading under the agreement began in January 2021. This deep political history partly explains the enthusiasm for the initiative from Africa's leaders.

Among the main objectives of the free trade area are the facilitation, harmonization and better coordination of trade regimes as well as the elimination of challenges associated with multiple and overlapping trade agreements and RECs across the continent. The aim is to strengthen the competitiveness and capacity of local industries, realise economies of scale for domestic producers by increasing market reach on the continent, better allocate resources and attract foreign direct investment.[8]

Experts say full implementation of the deal will likely take years, being rolled out in three phases. The first phase covers rules of origin and tariff offers rom countries. Phase 2 involves developing protocols on investment, competition policy, and intellectual property rights. A third phase will involve the negotiation of an e-commerce protocol.[9]

The initiative will be backed up by a pan-African payment and settlement system, which will make it possible for African companies to clear and settle intra-African trade transactions in their local currencies, and the African Trade Observatory, which will provide up-to-date and reliable trade data.

Signatories must phase out 90% of tariff lines over the next five to 10 years. Another 7% of tariff lines considered to be sensitive will get more time, while countries may place 3% of tariff lines on an exclusion list, subject to conditions.

The RECS recognised by the African Union, which are the building blocks of the continental initiative, are:

- The 19-member Common Market for Eastern and Southern Africa (Comesa) stretching from Libya to e-Swatini.
- The 16-member Southern African Development Community (SADC).
- The 15-member Economic Community of West African States (Ecowas).
- The five-member East African Community (EAC).
- The Economic Community of Central African States (CEMAC).
- The Arab Maghreb Union (UMA).
- The Community of Sahel-Saharan States (CEN-SAD).
- The Intergovernmental Authority on Development (IGAD).

Although the Southern African Customs Union (SACU) is not a recognised REC, it falls within the ambit of the AfCFTA as more than 50% of total intra-African trade takes place within the bloc, albeit dominated by South Africa.

The AfCFTA, which itself is not a REC but it is a special project of the AU, will address these overlaps by simplifying structures and schedules.

Its rules will only apply to and between countries that have ratified the agreement.[10] Where existing RECs and customs unions have already achieved higher levels of regional integration than those set out in the continental agreement, those higher levels will take preference. A key benefit of the agreement is that it will enable preferential trade between countries in different trade blocs, for example Nigeria (Ecowas) with South Africa (SADC), Tanzania (EAC) and Guinea (Ecowas) or Egypt (Comesa) and Ghana (Ecowas) under the AfCFTA rules.

As the deal is not only about tariffs but also covers competition policy, intellectual property rights and other areas, it is expected to have a positive impact on the broader operating environment over time.

The History

The track-record of RECs in lifting intra-African trade has been patchy and less than optimal, despite some specific gains. Overall, they suffer from the inconsistent commitments of member states and ineffective implementation of regional protocols and decisions. There is limited policy convergence between and even within RECs. A lack of harmonisation of standards, regulations and legal systems has frustrated companies trading across borders and deterred investors looking for scale in Africa. This also complicates relations with external trading partners. Critics say there is a tendency in Africa to increase layers of bureaucracy without ensuring an associated improvement in operational efficiency and clarity of purpose.[11]

In analysing the AfCFTA, it is instructive to ask what has happened to the last bold trade initiative signed up to in Africa, with almost equal fanfare: the 26-country Tripartite Free Trade Area, an amalgamation of the EAC, SADC and COMESA. Designed as a key building block for the AfCFTA, it began negotiations in 2011 and was launched in Egypt in 2015. By 2021, it is still not operational, with negotiations bogged down by disagreements on tariffs and a range of other issues. By this year, it still lacked the ratification of four countries to reach the 14 required to give it effect. Its work on rules of origin and other areas has been absorbed into the AfCFTA but it highlights that even if the concept is sound, practical application has turned out to be much harder – a lesson for the AfCFTA.

The COVID-19 Effect

COVID-19 is a double-edged sword for the AfCFTA. One the one hand, the paralysis of lockdowns has undermined preparations for trading under the agreement; on the other, the disruption of international supply chains has highlighted the continent's reliance on value-added imports and its lack of resilience, which should give greater impetus to efforts to tackle these problems.

In 2018, 82.2% and 95.9% of Africa's imports of food items, and medicinal and pharmaceutical products respectively, originated from outside the continent,[12] highlighting its vulnerability to global shocks. In the case of COVID-19, the situation was exacerbated by the fact that many source countries of much-needed supplies were themselves hard hit by the pandemic.

The pandemic also highlighted Africa's lack of preparedness for trade shocks as COVID-19 test requirements led to massive delays in the movement of trucks around the continent and disputes arising between countries over requirements for drivers and compliance with them.

A new report, *The Impact of Covid-19 on transport and logistics sector in East Africa* says that between March 2020 and March 2021, road freight rates from Kenya's main port of Mombasa spiked as a result of long delays in crossing borders. From Mombasa to the DRC, for example, the time to travel increased from 10-12 days to 30-45 days, and that between Nairobi and Zambia from 10-12 days to 30 days, with a concomitant spike in costs.

The predicted shift to shorter and more localised value and supply chains globally to address the over-reliance on distant suppliers was highlighted by the pandemic. This is likely to lead to a shift in investment patterns as multinational companies and others look for more local options for inputs and manufacturing to reduce costs and risk.

The Reality Check

It is where the rubber hits the road that the examination of the potential success, or not, of the AfCFTA should focus. The enthusiasm for a pan-African success story does not match the reality on the ground across much of Africa. Inefficient bureaucracy and poor infrastructure continue to frustrate the limited trade African countries have among themselves and impose huge costs on African consumers and economies. As noted above, free trade is not new in Africa but the results of efforts to date have not had the desired effect, as current intra-African trade figures show. The section below points to some of the main reasons why Africa remains uncompetitive and underdeveloped compared to most global peers, factors which may undermine the AfCFTA's success.

> The pandemic also highlighted Africa's lack of preparedness for trade shocks as COVID-19 test requirements led to massive delays in the movement of trucks around the continent and disputes arising between countries over requirements for drivers and compliance with them.

State of Play

It is instructive, in assessing whether the AfCFTA has any realistic chance of being the game-changer it is expected to be, to look at the performance of the RECs, as noted above. While the launch of free trade areas has increased trade within RECs, its potential has been compromised by challenging operating environments at home and entrenched problems in moving goods across borders. They have highlighted the complexity of trade agreements involving many parties with varying national interests driven by different levels of development and a generally low trade complementarity. The relative lack of success in creating economic prosperity by existing RECS explains some of the caution expressed by analysts about the continental initiative.

While SADC, the EAC and ECOWASs have relatively high levels of intra-REC trade – respectively 21% in 2016 (led strongly by South Africa), 11.5% and 10.5%. But at the same time, their trade with the rest of the world was 76.2% and 78.4% and 84%, and much of this trade is unprocessed goods rather than manufactured or value-added products. The pattern is similar across the RECs.

The case of the EAC spells out some of the issues in play. On the surface, the REC is far ahead in terms of integration. It is progressing towards a customs union, has anti-competition laws in place, has agreed to address non-tariff barriers (NTBs), harmonised standards and other requirements and allows free movement of people and skills within the region. Several of the countries are each other's main trading partners globally. But it is also characterised by ongoing trade battles, showing the potential problems in cross-border trade in Africa.

Recent arguments include:

- Kenya and Uganda's argument about dairy product exports led Kenya to bar the entry of dairy consignments from Uganda, which threatened to retaliate by targeting Kenyan goods such as household items and roofing materials.
- Kenya imposed new tariffs on flour and other products from Tanzania after the latter ignored a deal that granted Kenyan-made chocolate, ice cream, biscuits and sweets unrestricted entry into its market.
- Tanzania levied a 25 per cent duty on Kenya's edible oils and a cement brand, alleging the goods were made from imported palm and clinker respectively. Kenya imposed the same on Tanzanian flour products, claiming it was produced from imported wheat.

With the AfCFTA, as with other African Union initiatives before it, there is the danger that a top-down approach will affect the engagement of Africans with it. This is embodied in initiatives such as the New Partnership for Africa's Development (NEPAD), which hardly trickled down from the political elites and regional organisations that embraced and drove the initiative. It was poorly understood by most Africans, who were unaware of how this initiative might improve, or even affect, their lives.

Wamkele Mene, who heads the AfCFTA Secretariat in Accra, echoes this problem, saying Africans lack awareness of the opportunities the initiative offers. "We have a crisis of communication and inspiration. Africa's top political actors, academics, and journalists constantly complain of hearing too much about AfCFTA and its associated African Union formalities. But a recent survey showed that only 26.2% of firms in Ghana, the operational seat of the AfCFTA Secretariat, have even heard *of* it, much less are well prepared to benefit from its low-to-zero tariffs, price advantages, and other competitive gains afforded when they conduct transactions around the continent."[13]

Political Will and State of Readiness

The AU and the heads of state and ministers who frequent its hallways cannot be faulted for the size of their vision. But this is the easy part. Ensuring member states are able to live up to and participate in politically driven initiatives is another thing.

Although the AfCFTA has as one of its objectives building industrial and trade capacity across the continent, the reality is that most countries have little to trade within the region, given the trade profile outlined above. The negotiations towards a free trade area reflect the inequalities in development between countries and their relative levels of competitiveness. More than 30 countries in Africa are least developed countries (LDCs) - low-income nations that suffer severe structural impediments to development, while sub-Saharan Africa was listed as the least overall competitive region globally in the 2019 index, with 25 of the 34 economies assessed scoring below 50 out of 100 potential points.

Many countries have yet to ratify the agreement. By February 2021, 36 out of 54 nations had done so. Nations cannot put in tariff offers without ratification and will then lie outside the initiative.[14]

A survey conducted by Ghanaian non-profit organisation, AfroChampions on behalf of the AfCFTA Secretariat, shows that the average commitment level of countries to the agreement in early 2020, just months ahead of the planned launch of trading in July (postponed because of COVID-19) was 44.48% and the implementation readiness level, measured in terms of trade infrastructure, customs efficiency and access to credit, was 49.15%.[15]

Between 2017 and 2018, intra-African exports increased by only 1% while Africa's exports to the rest of the world increased by 22%. Similarly, services exports declined by 1% in 2016-17 while global services exports increased by 7%, according to research organisation, Tralac.

The average score of African Union members on the Trading Across Borders category of the World Bank's Doing Business Index in 2019 was 55.54 out of a possible 100. This is based on eight indicators of costs of imports and exports and time taken to cross borders.

Governance and political will to succeed will ultimately drive the success of not just this initiative, but African development as a whole. Underperforming governments have benefited from the resilience of many Africans; it has become their means of survival in challenging environments. They no longer expect delivery, which is why so many systems and processes, in trade and elsewhere, are remain dysfunctional. The AfCFTA provides many remedies for African development but it still requires national governments to perform more optimally by, among other things, building efficient and inclusive institutions, creating inclusive growth by supporting SMEs and innovation and becoming more open.

Africa's Trade Profile

Currently, Africa's trade profile most mirrors colonial patterns - raw materials being exported for value addition elsewhere, with trucks laden with imported goods heading inland – goods that could be made in Africa. Imports from abroad are still often cheaper than African made goods, a consequence of competitiveness and economies of scale. The tariff benefits of free trade will not offset these differences without non-tariff interventions.

Africa has the highest export costs globally and among the highest import costs, measured by border and documentary compliance,[16] exacerbated by tariffs, NTBs, national regulations and structural issues such as connectivity and logistics costs. It is often cheaper for Africans to trade with distant regions than with nearby African states.[17] Lack of manufacturing capacity means even where value is added within Africa, the inputs tend to be imported. The region also has the highest export dependence globally with the exception of Oceana.

According to UNCTAD, between 2017 and 2018, intra-African exports increased by only 1% while Africa's exports to the rest of the world increased by 22%.

> Between 2017 and 2018, intra-African exports increased by only 1% while Africa's exports to the rest of the world increased by 22%.

South Africa alone accounts for one third of total intra-African exports, and Nigeria, 10%. SADC, through South Africa, also dominates regional trade. It absorbs 57% of total intra-African imports (much of this represented by crude oil) with Comesa at 30% and Ecowas 18%. SADC is the largest intra-African exporter of all RECs, accounting for 45% of the total intra-African exports, compared to ECOWAS (12%), COMESA (11%), the Arab Maghreb Union at 5%, and just 2% in the ECCAS. The region, dominated by South Africa and its interests, will be a clear winner in the AfCFTA despite its own challenges.

Trade analysts put the blame for the failure of the Tripartite FTA mostly at South Africa's door as it worked to protect its own economy while pushing for access to new markets.[18] South Africa is concerned about dumping, sub-standard goods coming in the back door and other issues, saying it is one thing to have market protection on paper and another for it to be realised in practice.[19]

Nigeria's performance has been less than stellar. Even though it is West Africa's regional economic pivot, it dragged its heels on ratification, saying it needed more time to consult the business community, while continuing with its overtly protectionist trade policy, including closing its land borders for more than a year to stop smuggling from its neighbours. It only ratified the agreement just ahead of the start of AfCFTA trading on 1 January and continues to have import bans and restrictions in place, signalling a lack of readiness for freer trade.[20]

The AfCFTA has provisions for variable geometry, flexibility and special and differential treatment ensuring that the vulnerability of small economies and weaker countries is taken into account. Some LDCs have been granted a 10 years-delay to remove tariff-barriers in strategic economic sectors.

But a number of countries in Africa are not able to take up the export trade preferences already on offer. Countries with an under-utilisation rate of between 95% and 100% include Benin, Burkina Faso, the Central African Republic, Djibouti, Guinea, Mali, Togo and Tanzania. Most countries also access a limited number of tariff lines available for trade. This suggests enormous scope for growth, but the question is whether this is likely now when previous trade facilitation efforts have clearly not yielded fruit.

The AU hopes for a "rising tide lifts all boats" outcome, but this may be optimistic given the structural problems across the continent and a lack of policy innovation and openness in some many countries that has left them languishing at the bottom of international indices measuring development and growth.

What Could Go Wrong?

Non-tariff Barriers

Despite strides towards free trade over the years, African countries remain predisposed to national interest over the potential benefits of regional integration. As tariffs have come down, so non-tariff barriers (NTBs) have increased as countries try to protect local jobs and industries as well as trade revenue streams even while praising the benefits of free trade.

These are restrictions that result from prohibitions or specific market requirements that make importation or exportation of products difficult and/or costly. They can include anything from customs processes, licences and permit requirements through to "behind the border" NTBs such as product, labour, environmental standards, internal taxes and domestic subsidies, which are much harder to address.

Asymmetry is a key factor behind countries' positions in free trade negotiations. African economies are characterized by huge diversities and disparities. Nigeria, Egypt and South Africa account for over 50% of Africa's cumulative GDP, while its six sovereign island nations represent 1% of the continental GDP. Populations differ widely. Nigeria has an estimated 200 million people, while the Seychelles has under a million and Botswana 2.5 million. These disparities lead to the emergence of different interests and economic objectives.

Many mechanisms to tackle NTBs have been put in place by RECs over the years but they do not have, but need, greater powers to force countries to address complaints. It is not always simple. In some cases, they may require changes in regulations or legislation, and in others the NTBs may be in the interests of consumers, such as labelling and phyto sanitary requirements. Sometimes, the barriers are simply the power wielded by customs officials at border posts, where problems arise far from the eyes of trade facilitators in distant cities. COMESA reports that some of the NTBs brought to its door have remained unresolved since 2000.

Overall, it speaks to the lack of vision by officials and policy makers for the benefits of free trade over the short-term interests of governments of the day. If anything, it is likely this back-door protectionism will continue, and even increase, as countries, hard hit by COVID-19 lockdowns, protect local jobs and industries in a recovery phase.

Rules of Origin[21]

It is common cause that rules of origin (RoR) can make or break a free trade initiative. These rules define the criteria needed to determine the nationality of a product, ensuring that it has its origin in an exporting country within the FTA to a degree that will allow it to qualify for preferential tariff and other advantages.[22]

Tensions around different nations' industrial and economic policies and objectives will continue to play out in AfCFTA negotiations. National interests trump free and open trade across much of Africa so there is a default to protectionism, which is likely to become more prominent in the wake of COVID-19 in the short term. And unless the rules of origin are simple, transparent, business friendly and predictable, companies could forego the preferences on offer and continue to source their needs from outside the AfCFTA to avoid the trouble of compliance. Globalisation and participation in global value chains is a complicating factor as is the level of imported inputs on which so much manufacturing in Africa relies on.

Infrastructure Deficits

Africa's infrastructure backlog, regarded as the biggest constraint to improving trade, is well known. The funding gap for addressing the deficit is estimated at between $68bn and $108bn, says the African Development Bank (AfDB). Factors affecting infrastructure rollout include onerous lending processes by multilateral banks, poorly prepared projects on the ground, a lack of sufficient off-takers and commercial viability for lenders. China has stepped into the gap, with the value of loans to Africa increasing from less than $1bn to more than $30bn between 2000 and 2016.[23] Although much of this funding lacks transparency and is costly for African states, it is helping to fill the gaps in areas such as roads, railways and airports.

Poor maintenance of existing infrastructure is proving to be costly with colonial railways barely functioning in many countries and historical trade routes suffering from years of under investment and over-use.

Only 0.8 million of sub-Saharan Africa's 2.8 million kilometres of roads are paved and only half of these roads are in good condition. The roads are battered because dilapidated rail infrastructure has pushed most of Africa's trade onto these roads. Only 84% of the 82,000-kilometre rail network is operational and most of these are low-speed, small-scale, undercapitalised and poorly managed networks.[24]

Up to 90% of Africa's trade is conducted by sea but there are few deep-water ports to handle large cargo volumes, resulting in long waiting times for ships, which is compounded by limited berth and docking facilities, weak terminal freight and handling management, and an oversupply of government agencies that delay clearing processes. Few countries have inter-modal infrastructure linking ports to road and rail infrastructure.[25]

The AfDB maintains that transport costs alone are 63% higher in Africa than in developed countries, with transport costs representing between 30% and 50% of total export in value, which is higher for the region's 16 landlocked countries.

Energy deficits are also significant, with up to 70% of people in sub-Saharan Africa lacking reliable grid access. One-third of the continent's total installed capacity is in South Africa and yet it is suffering frequent power outages as a result of under-investment and poor management of its state-owned power utility. Renewable power is not yet being rolled out at scale, with many governments reluctant to loosen regulation in this key sector.

Generators provide a costly back up for business. The Energy for Growth Hub estimates that 78% of firms in Africa experience regular power outages and 53.3% engage in self generation, the highest in the world.[26]

Border posts across the continent are a significant part of Africa's competitiveness challenge. The average waiting time for trucks to cross borders with goods in Africa is 97 hours or 4 days. Electronic pre-clearance procedures are often ignored by over-zealous border officials, who continue to search vehicles. Electronic payment systems can be frustrated by poor internet connectivity. New systems and technology put in place by trade facilitators hardly dent age-old ways of managing border crossings by officials on the ground, even at one-stop border posts.

The busiest crossings are often the least efficient. These include Beit Bridge, the gateway from South Africa to the region, Chirundu between Zimbabwe and Zambia, and Kasembulesa, a chokepoint between Zambia and the DRC. Efforts to upgrade infrastructure and processes have yielded few improvements. The new Kazungula bridge offers logistics companies options as do improving conditions in Beira and Dar es Salaam.

These factors go some way towards explaining why the cost of moving a forty-foot (FEU) container from Beira to Lilongwe in Malawi is about $4,750, including port and handling charges totalling $2,000 – nearly 10 times the cost through Antwerp, for example. The cost of moving a container through Beira and on to Harare is $3,800, Beira-Lusaka is $5,300, and Beira to the Congo a hefty $9,000. The comparative cost of shipping an FEU 10,000km from Shanghai to Beira is $6,000.[27]

Manufacturing and Industrialisation

The continent's manufacturing base has weakened over the years. The sector accounted for about 11% of the region's GDP in 2019, down from 13% in 2001 and from a high of 17% in 1981, according to the World Bank. This is partly because of structural and governance issues, that make it expensive to manufacture in Africa, which is a deterrent to investment.

Political will to facilitate progress is a key problem. Even as leaders now are calling for Africa to develop capacity to manufacture its own medicines, it is instructive to note that the Pharmaceutical Manufacturing Plan for Africa was endorsed by all member states of the African Union in 2007 to strengthen the continent's ability to produce quality and affordable pharmaceuticals. In 2020, the continent still imported 90% of its pharmaceuticals. There are fewer than 10 African manufacturers with vaccine production capability, just two of them in sub-Saharan Africa (South Africa and Senegal).

An over reliance on imports has been a recurring them in Africa's economic challenges. Natural resources, particularly fuel, account for the largest share of Africa's exports, accounting for 56% of Africa's total exports in 2016. The continent has low participation in global value chains.

Africa has been touted as a potential beneficiary of low-wage jobs as China and other Asian countries move up the value chain. In reality, many of the expected jobs have been automated and the wages issue has to be seen in the light of the high-cost operating environment and the fact that Africa's average labour productivity is about half of the global average (UNCTAD).

The opportunity loss of its failure to build industrialisation is shown in the agricultural sector. While Africa has some of the most arable land in the world, most countries are net food importers. The continent's food import bill of $35 billion in 2016 rose to $43 billion in 2019.[28] Nigeria is one of the biggest food importers despite the government's efforts to improve self-sufficiency in the sector. In four years (2016–2019), its cumulative agricultural imports were nearly $8 billion, four times higher than its agricultural exports of $2 billion over the period.[29] Democratic Republic of Congo and Angola, some of the most fertile countries, are also among the top food importers.

The challenges of increasing agricultural production are many – they include unsupportive government policy, limited infrastructure, low yields, market access challenges, a dearth of commercial skills and land tenure issues along with climate change and associated issues.

Connectivity

Moving around the continent is challenging. Infrastructure deficits cut parts of the continent off from other parts. There are no highways between many regions. Air travel makes sense, but Africans pay the highest fares globally for equivalent distances, says the African Airlines Association. Governments have ignored the multiplier benefits of liberalisation in favour of protecting state carriers and generating easy revenues from high airport and overflight taxes.

The free movement of people is at the heart of Africa's integration efforts, embodied in the Protocol on Free Movement of Persons. As of November 2019, the Protocol had been signed by 33 countries but ratified by just four of them.[30]

A lack of openness is shown clearly in visa and immigration policies, which remain restrictive despite talk of African unity. This is about several things – revenues from visas, protecting and building jobs and skills at home, and concerns about 'bad' mobility, such as illegal immigration. It is also a deeper problem about mindsets that prioritise control and sovereignty issues over economic openness.[31] Border controls are weak, and corruption drives illegal immigrants while governments focus on restrictions that affect legitimate travellers. By 2020, African citizens still needed visas to travel to 46% of other African countries while permits to live and work in other African countries are becoming harder to get.

Choices: Moving the AFCFTA Forward

Given the realities on the ground described in this report, is it realistic to expect the AfCFTA to be the game-changer that it is widely expected to be? In a likely scenario of clear winners and losers, will the free trade tide eventually lift all boats?

Given the complexity of existing trade arrangements, and the effort to simultaneously simplify and expand them, a big task lies ahead. The AfCFTA does provide a template for change, with a raft of support structures and mechanisms to address problems of economic asymmetry, trade disputes and issues of unfair trade practices, among others. While these mechanisms already exist, the pressure on RECs and bureaucrats to deliver on this initiative is higher than for other such agreements, given its high profile and the implications for Africa's credibility should it fail.

It is potentially a resource for the continent to fight its corner and have a voice in the global trade environment. Importantly, it is an aspirational framework that could help to push countries in the right direction, slowly but surely, over time.

The task of building trade may be compromised by a shift to economic nationalism in the immediate post-COVID-19 era as countries batten down the hatches to revitalise revenues and economies.

However, it is a necessary but not a sufficient condition for increasing intra-African trade and enabling broad-based development. Increasing trade will not solve problems of corruption, inefficiency, soft and hard infrastructure deficits and many other ills that continue to dog African development. It will also not change, in and of itself, poor governance and lack of policy implementation or address the many intractable national problems and the policy mindsets that have sacrificed long-term development at the altar of short-term monetary gains.

The task of building trade may be compromised by a shift to economic nationalism in the immediate post-COVID-19 era as countries batten down the hatches to revitalise revenues and economies. But the pandemic also provides an inflection point for African leaders. Will it be business as usual going forward or will they grasp the nettle and move forward decisively, using the AfCFTA as a vital building block for a new path?

Credit rating agency Fitch Ratings downgraded the creditworthiness of many African economies in 2020, citing the economic impact of the COVID-19 pandemic. In a report issued at the start of 2021, the agency noted "the impact of trade liberalisation [from the AfCFTA] should be positive for the region's economic potential, but the scale of the impact is likely to be small… and materialise only in the long term."[32]

The odds are stacked against significant change, given the history. But there are many reasons to be optimistic of incremental improvements. For example, trade agreements can do more than lower tariffs and make trade more efficient. They can improve transparency and create a legal framework more hospitable to trade and investment from both within and outside the region.

"Examples abound, including in Asia-Pacific, Europe and the Americas. Why not Africa? The factors necessary to increase intra-regional trade—lowering barriers to goods and services, institutional reform, transparency in administration, strengthening the rule of law—are the same factors that will help attract investment capital and trade from other regions."[33]

But member states will need to overcome the many constraints to regional trade that have already compromised growth to date – infrastructure deficits, excessive and ineffective bureaucracy, legislation and regulation that does not support smart policy and innovation, and the default to sovereignty and protectionism that is so prevalent in Africa.

Listed below are a few recommendations that may assist in the success of the initiative.

Political continuity. African business leaders have shown great appetite for the AfCFTA but they need to remain committed to its success, even in the face of inevitable roadblocks in implementation and changes of government or presidents. Building institutional capacity to reduce its dependence on personalities and election cycles is critical to its success and implementation.

Policy choices. The expectation is that Africa will industrialise on the back of the AfCFTA but the growth trajectory is into services and where countries seem to have greater capacity and advantage. To drive countries in a new direction will not happen by accident. There is no universal recipe for industrialisation. It will require smart policy choices backed by supportive regulations and frameworks – and may need a lighter bureaucratic touch than African governments are willing to give.

Africa's internal trade is more diversified and technology and manufacturing driven than its global trade, providing a platform to build on. UNCTAD says while Africa's total exports to the rest of the world are dominated by primary commodities (82% of total exports of which fuels are 51%), intra-African exports are characterised by a relative prominence of manufactured goods (43%). It is notable that 27% of intra-African exports comprise medium or high-skill and technology intensive manufactures, as compared to 11% for exports to the rest of the world.[34]

Connectivity and corridors. This requires matching policy with infrastructure and creating hubs around ports and linked to transport corridors. As neighbouring markets grow interdependent, their requirements are likely to improve export sophistication and develop regional industrial clusters. This requires improved connectivity by road, rail and air, to support growing demand.[35]

Africa, while it also requires large infrastructure projects, also needs to invest in joining up existing infrastructure – stretches of rail to each other, roads to rail, bridges at strategic junctures and so on. Improving Africa's main trade highways should be a priority - removing roadblocks, fixing roads, building supporting infrastructure and services along routes and ensuring better management of border posts, with outputs closely monitored.

Business climate. Improving the business climate is a critical element of competitiveness and attracting investment. Moves in this regard by most countries have been incremental or static. Most of the lowest scoring countries on the World Bank's Doing Business Index are African. In 2018, FDI flows to Africa barely reached $50bn, or just 3.5% of the global total of $1.3 trillion while developing Asia received $512bn, nearly 40% of the total.[36]

Governments need to build meritocratic institutions that focus on reducing the cost of doing business. Better contract enforcement, unambiguous policies, a culture of efficiency and anti-corruption, and access to finance are important for reducing the transaction and 'friction costs' associated with investing on the continent.[37] The greater use of technology in improving trade and the capacity of people to trade is critical, as well as a more decisive shift to e-government.

Keeping business on board. Businesses are at the coal face of trade and yet, they are often ignorant of the benefits offered by free trade regulations and do not always keep up with the relevant changes. Businesses needs to invest in building capacity to keep abreast of the AfCFTA and other trade agreements while the continental bureaucrats need to be more strategic in the way they engagement with the private sector. There is a tendency for them to ask for inputs from business to tick a box and then ignore it. But governments and bureaucrats do not trade, companies do. Concerted and mutual engagement is needed to avoid this being a top-down agreement.

Best – and worst – practice. Stakeholders need to look to success and failure at home and elsewhere for how to change the trade trajectory. In addition to best practice across the world, it would be instructive to examine why free trade areas at home have not operated optimally and what interventions can be made to change this trajectory, beyond the technical details.

Financing trade. The banking sector will play a vital role in supporting the AfCFTA and Africa's development generally. Past history shows it has not always stepped up, especially for SMEs. Across Africa, the average percentage score for Ease of Getting Credit (using the World Bank's Ease of Doing Business) for all countries combined was 43.3% in 2019.

Flag success stories. No matter how small, these may create momentum and aspirational sentiment among businesses in Africa. The big success stories may do the same, possibly prompting African governments to analyse the constraints to their own success nationally, and possibly to act on them.

Endnotes

[1] Construction Review Online, Kazungula bridge project timeline and what you need to know, 26 April 2021. https://bit.ly/3tzQu8C
[2] Ibid.
[3] The North-South Corridor is a multi-modal and multi-stakeholder project to improve infrastructure along the routes linking the mineral rich regions of Zambia and DRC to Botswana and Durban port in South Africa.
[4] UNCTAD, The African Continent Free Trade Area: The Day After the Kigali Summit, UNCTAD Policy Brief No 67, May 2018. https://unctad.org/system/files/official-document/presspb2018d4_en.pdf
[5] https://www.theafricareport.com/63513/wamkele-mene-afcfta-is-going-to-be-difficult-but-weve-got-to-do-it/
[6] African Continental Free Trade Area: Legal Texts and Policy Documents, Tralac, https://www.tralac.org/resources/our-resources/6730-continental-free-trade-area-cfta.html
[7] Nanga J, The AfCFTA: What kind of Pan-Africanism?, Committee for the Abolition of Iligitimate Debt, 6 April 2020.
[8] UNCTAD, Key Statistics and Trends in Regional Trade in Africa, UNCTAD 2019. https://unctad.org/system/files/official-document/ditctab2019d3_en.pdf
[9] Staff, African free trade tariff rules should be completed by July, Reuters, 11 January 2021. https://www.reuters.com/article/uk-africa-economy-idUSKBN29G1CD
[10] Tralac, The Institutional Implications of Article 19 of the AfCFTA – Where do the Regional Economic Communities fit in?, Tralac Blog, 13 September 2019. https://bit.ly/3fa78gh
[11] For more on challenges with Africa's RECs, see Ndomo A, Regional Economic Communities in Africa: A Progress Overview, GTZ, May 2009. https://bit.ly/3tMMkdI
[12] Trade for Development, Boosting African regional value chain development in response to COVID-19: The catalysing role of the AfCFTA, 14 September 2020.
[13] Brookings, *Continental Integration: Uniting a revitalized Africa*, Making the AfCFTA Vision a Reality, Chapter 5, Foresight Africa, January 2021.
[14] Tralac, Status of AfCFTA Ratification, 15 March 2021.
[15] Afrochampions is a public private partnership designed to galvanise African resources and institutions to deepen integration. See the full report here https://bit.ly/2QaDAjF
[16] UNCTAD, Economic Development in Africa Report 2019, UNCTAD Press Release, 26 June 2019. https://unctad.org/press-material/facts-figures-0
[17] United Nations, Exporters in Africa: What Role for Trade Costs, DESA Working Paper #168, June 2020. 1597341833.4695.pdf
[18] Interview with trade facilitation expert, Johannesburg, 13 May 2021.
[19] Parliamentary Monitoring Group, COMESA-EAC-SADC Tripartite Free Trade Area agreement: ratification, 8 August 2018. https://pmg.org.za/committee-meeting/26794/
[20] Kwarkye S & M Matongbada, Nigeria's border closures fail to stop the tide of smuggling, ISS Today Daily Maverick, 22 March 2021.
[21] For more on the complex topic of Rules of Origin, see Naumann E, The new Rules of Origin in the African Continental Free Trade Area: what has been agreed, what remains outstanding, Tralac Working Paper G21WP05/2021, February 2021.
[22] UNCTAD, Rules of Origin key to success of the African Continental Free Trade Area, UNCTAD, 26 June 2019.
[23] Mills G, Nwokolo M & E van der Merwe, Move quickly or be damned: The Imperative of African competitiveness, The Brenthurst Foundation, 20 January 2020.
[24] Export-Import Bank of India, Connecting Africa: Role of Transport Infrastructure, Eximbank, Working Paper 72, March 2018. https://bit.ly/3eGreJK
[25] Op. Cit.
[26] Oseni M, The impact of self generation on firms, Energy for Growth Hub, 23 March 2021. https://www.energyforgrowth.org/memo/the-impact-of-self-generation-on-firms/
[27] Mills G, Harper R & M Du Toit, The low road to economic ruin, as illustrated by a trip through Mozambique, Daily Maverick, 25 April 2021. https://bit.ly/3bho5xK
[28] Fox L and Jayne T, Unpacking the misconceptions about Africa's food imports, Brookings, 14 December 2020.
[29] Oyaniran T, Current State of Agriculture and Agribusiness Sector, PwC, September 2020. https://pwc.to/3hinobu
[30] Africa Visa Openness Report 2020, https://www.visaopenness.org/fileadmin/uploads/afdb/Documents/VisaOReport2020-R8_14dec20.pdf
[31] Tadelle Maru M, Barriers to free movement in Africa: How to remove them? EIU Blogs, 1 August 2019. https://blogs.eui.eu/migrationpolicycentre/barriers-free-movement-africa-remove/
[32] Ibid.
[33] Lexology, Making the trading system work for Africa, White & Case LLP, 5 April 2021. https://www.lexology.com/library/detail.aspx?g=75829a6d-53ec-4af3-8804-83c62009565d
[34] UNCTAD, Economic Development in Africa Report 2019, UNCTAD Press Release, 26 June 2019. https://unctad.org/press-material/facts-figures-0
[35] Mills G, Nwokolo M & E van der Merwe, Move quickly or be damned: The Imperative of African competitiveness, The Brenthurst Foundation, 20 January 2020.
[36] Ibid.
[37] Ibid.