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Africa Free Continental Trade Agreement | Prospects For Better Cooperation With Europe

The Africa Free Continental Trade Agreement's (AfCFTA) success depends on African countries effectively coordinating industrial policies to specialize production in goods for global value chains. This can boost demand and trade with European partners and provide a unique opportunity to usher a new era of mutually beneficial bilateral business cooperation.

As the adoption process of the AfCFTA intensifies throughout the continent, cooperation with European firms and entities can improve significantly.

The AfCFTA is projected to facilitate:

1. Increased exports

The trade agreement, launched in January 2021, commits signatories to removing tariffs on 90 percent of goods for other signatories and progressively liberalize services. It's expected to raise African income by seven percent, or $450 billion, and cut the number of people living in extreme poverty by 40 million.

But, if it is to succeed, the AfCFTA needs to do more than simply reduce barriers to trade. It must also boost Africa's ability to produce higher-value manufactured goods and join global supply chains. To achieve this, the AfCFTA must promote industrial policy coordination and investment cooperation at the continental level.

This can include ensuring that businesses receive the necessary infrastructure and other inputs to take advantage of regional and global markets. For example, air, rail, and road networks must be improved to allow for faster, cheaper transport of goods. Likewise, internet connectivity and digital infrastructure must be upgraded so small-scale producers can compete with larger businesses in their home countries and beyond.

Finally, the AfCFTA must support the development of a continental business environment, including a common legal system and a single set of regulations to ensure that companies can operate across borders with confidence. It must also tackle corruption and ensure that African countries have the capacity to protect their intellectual property.

Moreover, a stronger AfCFTA must provide incentives for firms to invest in new production capacities. Otherwise, companies will continue to focus on commodity exports. This could lead to lower prices for imported products in African markets, and will not necessarily benefit local manufacturers. To compete, local producers need to be able to expand their own manufacturing capabilities, ideally by investing in the best technology, training workers, and implementing policies that encourage productivity growth.

2. Reduced costs

The AfCFTA aims to boost African economies by eliminating tariffs for 90 percent of goods and addressing non-tariff barriers to trade. As a result, businesses in Europe should see lower costs of doing business in Africa as prices of inputs like raw materials will become more affordable and shipping charges will decrease. Moreover, businesses can also benefit from the AfCFTA's dispute settlement mechanism which will help to solve problems related to customs clearance or the recognition of technical and sanitary standards.

However, tariff reductions alone will not suffice for the AfCFTA to realize its full potential. To achieve this, the underlying infrastructure needs to be improved to enable companies to exploit new trading opportunities. This includes improving air, rail and road transport systems between African countries or regions to ease movement of people and goods. In addition, digital connectivity between African countries and the outside world must be increased. Furthermore, industrial policies need to be coordinated at continental level. Otherwise, individual African countries could focus production on similar products, limiting themselves to their domestic markets. Coordinating industrial policies allows firms to specialize in particular areas, boosting productivity growth and reducing overall production costs.

To take advantage of the new market opportunities, companies need a clear understanding of the needs and expectations of African consumers. This will allow them to tailor their product offering and design innovative products that meet the demands of the growing African market. Finally, they need the right incentives to encourage their employees to work across borders.

This can be achieved through a number of measures, including:

3. Increased employment

In addition to reducing tariffs, the AfCFTA also includes an agreement to eliminate non-tariff barriers, which can be as much of an impediment to trade as tariffs. These include customs red tape, inefficient regulations and other barriers that can make it difficult to do business in the region. By lowering these obstacles, the agreement should encourage more companies to invest in the continent and create more jobs.

The AfCFTA goes beyond reducing tariffs to liberalize services, which account for 60 percent of Africa's GDP and 30 percent of world trade. The agreement will open domestic services markets for service suppliers from other African nations, boosting the continent's productivity.

Moreover, it will reduce the cost of business for companies by eliminating the double taxation that arises from trading across borders. The deal will also boost wages for skilled and unskilled workers. However, to fully benefit from the AfCFTA, SMEs need improved network infrastructure to access markets and to communicate with customers. They must also strengthen their protection of intellectual property rights to avoid losing sales to foreign competitors.

The resulting economic integration and market expansion should help lift 30 million people out of extreme poverty, according to the World Bank. The effects will be largest in countries with the highest current poverty rates, including West Africa and Zimbabwe. By reducing poverty, the AfCFTA will allow those countries to increase their resiliency in the face of future economic shocks and usher in deep reforms that can enhance long-term growth.

The AfCFTA will require significant policy changes in African countries, such as strengthening regulatory systems and reducing the cost of doing business. It will also necessitate better transport networks and a more streamlined customs process. A successful implementation of the agreement will depend on addressing these challenges to unlock Africa's true potential.

4. New markets

The agreement creates a continent-wide market of 54 countries that boast 1.3 billion people and a GDP of $3.4 trillion. It will gradually eliminate tariffs on 90 percent of goods, and reduce barriers to trade in services. According to a World Bank study, that can boost African income by seven percent, or $450 billion, by 2035 and reduce the number of people living in extreme poverty by 40 million.

But the gains will only be maximized if the underlying trade costs are reduced. That means reducing the time, money and energy needed to get products to market and to access new markets. It also means enabling businesses to operate in more competitive business environments, and providing incentives for investment.

In Africa, that includes tackling obstacles to trade that include weak infrastructure and poor logistics. It also means helping SMEs and young traders, who make up between 70 and 80 percent of all small businesses in some countries. Efforts to connect traders across borders should deliberately include youth-focused cooperatives and pooled purchasing systems that can lower costs through economies of scale. In addition, trade service providers – including shipping, travel, and telecom – should offer discounted rates to young cross-border traders.

In the long term, foreign direct investment (FDI) will also be important. The CFTA will spur demand for ships and ports, and encourage companies to locate in countries with favorable investment climates. It will also help reduce dependence on volatile commodity exports. And it will enable countries to develop more sophisticated manufacturing and service industries, by attracting global supply chains. That will give African manufacturers a chance to compete with multinationals, and build jobs. Ultimately, that is what will drive Africa's economic transformation.

5. Increased competition

Although the ultimate responsibility for industrial development lies with national governments that must reduce the cost of doing business, improve infrastructure and invest in human capital, the trade agreement offers a unique opportunity to boost competitiveness and scale production for a single continental market. Nevertheless, the full benefits will depend on other conditions such as improved network infrastructure (air and railways), access to credit and financing for SMEs and successful integration of ecommerce platforms.

In addition to tariff reductions, the AfCFTA includes provisions for the removal of non-tariff barriers, which often pose a greater obstacle to business than tariffs. For example, the agreement will create a system for reporting and resolving obstacles such as long customs clearance procedures or excessive red tape. It also aims to facilitate the transfer of technology and skills between Africa and Europe through cooperation in research, innovation, and technical assistance.

The trade agreements also aim to promote the development of value chains for key products such as cotton, leather, and soya. This will help reduce the continent's dependence on a few large multinational companies that dominate the industry and allow smaller producers to take advantage of new opportunities. However, this will require investment in value-added processing to reduce the costs of raw materials and increase profitability.

The trade agreements will help to build a stronger African trading bloc that is less vulnerable to external shocks and price cycles, particularly for commodities. But achieving this objective will require significant policy reforms, including more effective governance and implementation of the AfCFTA.

EUROWAS recommends building grass-roots support for and understanding of the agreement, simplifying bureaucratic processes, and pairing it with a "complementary agenda" that includes training and advice for national trade ministries charged with supervising and administering the agreement.