United Nations
Economic Commission for Africa

A Win-Win Approach to the AfCFTA: Sharing the Benefits

Sharing the benefits of the African Continental Free Trade Area (AfCFTA) is important not only for reasons of equity, but also to ensure that the agreement works for countries and is actually implemented. The AfCFTA is expected to have distributional impacts both *between* and *within* countries, which will need to be addressed through a range of support measures to ensure "win-win" outcomes.

Between countries

African countries have a diversity of economic configurations and will be affected in different ways by the AfCFTA. ECA has developed a typology across four key dimensions for determining how each country will gain from the AfCFTA, which is depicted in Table 1.

Level of industrialization

African countries in the top half of the table will be better placed to take advantage of the manufacturing opportunities made possible by the AfCFTA. Their existing scale and capacities in manufacturing will enhance their ability to compete for new market opportunities, and make them attractive destinations for industrial investments to serve Africa's growing middle class.

The less-industrialized countries in the bottom half of the table can also benefit from the AfCFTA. By facilitating trade and investment, the AfCFTA creates new industrial sector opportunities and eases the creation of regional value chains (RVCs). They may, however, require additional support in realizing these opportunities through flanking policy measures under the Boosting Intra-African Trade (BIAT) Action Plan – investments in productive capacities, trade information and trade finance are particularly important. It is also vital that the AfCFTA provides adequate safeguards for infant industries such as accessible trade defence instruments and infant industry provisions.

Agricultural sector size

Agriculture accounts for 32 per cent of Africa's GDP and employs 65 per cent of the labour force. It is therefore a sector where significant productivity improvements and great development gains can be made. Those countries in the top left quadrant of Table 1 will be particularly well placed to tap into new opportunities in the agro-industry and agro-processing sectors, helping to satisfy Africa's food security requirements and reduce its food import bill.

Accompanying measures to boost agricultural productivity will be needed, particularly in trade facilitation and trade-related infrastructure. The perishable nature of many agricultural food products means that they are particularly responsive to improvements in customs clearance times and logistics. Investments in productive capacities, mechanization, rural infrastructure and increased agricultural access to credit will also be crucial to help Africa feed Africa.

Table 1: Typology of African countries*

	Agriculture labour share >50%	Agriculture labour share <50%
Manufacturing value added >10% of GDP or >$1.85 billion	**Coastal** Ghana *(Resource rich)* Guinea-Bissau Kenya Madagascar Mozambique *(Resource rich)* Senegal *(Resource rich)* Tanzania *(Resource rich)* **Land-locked** Ethiopia Malawi Uganda	**Coastal** Algeria *(Resource rich)* Benin Cameroon *(Resource rich)* Congo, Dem. Rep. *(Resource rich)** Côte d'Ivoire *(Resource rich)* Egypt *(Resource rich)* Equatorial Guinea *(Resource rich)* Mauritius Morocco Nigeria *(Resource rich)* South Africa *(Resource rich)* Tunisia **Land-locked** Lesotho Swaziland Zimbabwe *(Resource rich)**
Manufacturing value added <10% of GDP and <$1.85 billion	**Coastal** Angola *(Resource rich)* Comoros Djibouti Eritrea *(Resource rich)* Gambia Guinea *(Resource rich)* Liberia Mauritania *(Resource rich)* São Tomé and Príncipe Sierra Leone *(Resource rich)* Somalia* **Land-locked** Burkina Faso *(Resource Rich)* Burundi Central African Republic *(Resource rich)** Chad *(Resource rich)** Mali *(Resource rich)* Niger *(Resource rich)* Rwanda South Sudan *(Resource rich)** Zambia *(Resource rich)*	**Coastal** Cabo Verde Congo, Rep. *(Resource rich)* Gabon *(Resource rich)* Libya *(Resource rich)* Namibia *(Resource rich)* Seychelles Sudan *(Resource rich)** Togo **Land-locked** Botswana *(Resource rich)*

** Denotes very weak economies within the top 10 states on the 2017 Fragile States Index (Fund for Peace, 2017).*

Note: Countries are classified according to the agricultural labour share and manufacturing value added as a proxy for determining their level of industrialization. The countries are further subdivided according to whether they are coastal, land-locked and/or resource rich.

Source: Classification based on World Bank World Development Indicators and UNCTADStat. Most recent data available. Adapted from Sommer and Luke (2017).

Resource endowments

The majority of African countries are classified as resource rich. Tariffs on raw materials are already low and so the AfCFTA can do little to further promote these exports. However, by lowering intra-African tariffs on intermediates and final goods, the AfCFTA will create additional opportunities for adding value to natural resources. At the same time, the AfCFTA also offers opportunities for export diversification into other industrialized export sectors.

Land-locked and coastal

The industrialization of land-locked countries is particularly sensitive to the ease with which they can

access port facilities in neighbouring coastal countries, because modern manufacturing relies on the import and export of components through regional and global value chains. The AfCFTA provides particular benefits: In addition to reducing tariffs, the AfCFTA is set to include provisions on trade facilitation, transit and customs cooperation. The Trade Facilitation Agreement (TFA) at the World Trade Organization (WTO) is another avenue of assistance open to African WTO member countries, which can support the implementation and operationalization of the AfCFTA.

Conflict and post-conflict states

Trade and trade policy can greatly affect the risk of conflict in some states. Preferential trade agreements and trade facilitation, including that envisaged in the AfCFTA, can help foster stronger trade relationships between neighbours. It can help create new opportunities to diversify export earnings from commodities and extractive minerals and generate alternative incomes and livelihoods. However, already weak states tend to have especially limited productive and trade capacities. The AfCFTA will not be sufficient in itself to stimulate trade for these countries. Transit, logistics and trade-related infrastructure is also required, as are supportive measures to boost productive capacities.

Within countries

The AfCFTA is forecast to lead to higher levels of welfare in aggregate and in the long run. Structural adjustment costs will however be experienced during the transition period, as economies undergo structural change and factors of production shift across sectors to align with new trading opportunities and threats.

There are three reasons why the AfCFTA is likely to amount to relatively low adjustment costs:

- Intra-African trade accounts for only 14 per cent of total African imports and 18 per cent of total African exports.

- Most intra-African trade is between closely proximate countries or immediate neighbours, and much of it flows through existing regional economic community (REC) FTAs.

- The AfCFTA will contain exclusion list provisions and safeguards, enabling members to omit the sector that are most sensitive to liberalization.

Temporary adjustment assistance will however be needed for particularly sensitive or vulnerable groups that face adverse effects from AfCFTA liberalization.

Smallholder farmers

Smallholder farmers represent some 53 per cent of Africa's agricultural producers. The AfCFTA promises large opportunities for agricultural exports across several sectors, including dairy, meat, sugar, wheat and cereals. According to ILO and UNCTAD, wages of unskilled agricultural workers are also set to rise, though by a small amount.

Supporting measures will however be crucial to allow smallholder farmers to share in the gains from export opportunities, which are often captured by intermediaries. Simplified rules-of-origin requirements and trade facilitation measures will help them to meet sanitary and phyto-sanitary export standards. They may also require capital and reskilling to focus their production on export opportunities and to shift from agricultural goods that may be more efficiently produced elsewhere.

Informal cross-border traders

Informal cross-border trading contributes substantially to national economies and employment in Africa, and is a particularly important source of income for women who account for some 70 per cent of informal cross-border traders. Informal cross-border traders however face an array of challenges including corruption, harassment, limited credit options, and poor access to market information for determining prices and to information on policies and regulations.

The AfCFTA offers an opportunity to assist this vulnerable group and to make it easier for them to trade formally, partly because it will reduce tariffs, making it more affordable for such traders to operate through formal channels. However, accompanying measures should go further to benefit this group and to ensure that they are not disadvantaged relative to established formal

traders. This could include trade facilitation and trade information measures that make it easier for traders to operate through formal channels; provisions for the free movement of small traders; assessing progress in alleviating constraints faced by informal cross-border traders; and the establishment of a Continental Simplified Trade Regime (CSTR) building on the success of the COMESA STR.

Women

According to UNDP, African women achieve only 87 per cent of men's human development. In agriculture women's participation is often concentrated in lower-value subsistence crops rather than cash crops for export, narrowing their opportunities to benefit from value addition and commercial export opportunities due to the AfCFTA. The task is to make women's participation in agriculture more productive and to connect female agricultural workers to export food markets.

The interests of women can be better reflected by their explicit involvement in the design and processes of the AfCFTA, including through national consultations and more female negotiators. Evaluating impacts on women will require a monitoring and evaluation framework with gender-disaggregated data. In addition, measures to address informal cross border traders must address specific issues of women traders who face especially acute challenges.

Youth

Sixty per cent of Africa's population are aged 24 or younger. Structural transformation is required to produce new jobs for young people and to absorb these new entrants into the labour force. Supporting Africa's youth requires a development strategy that goes beyond trade policy. The AfCFTA will however contribute to the kind of structural transformation needed to promote labour-intensive industry to "pull" Africa's youth into productive activities.

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