

Can the AfCFTA deliver on Africa-wide industrial development?

(forthcoming)

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Background

In a global context of looming trade wars, expected increases in tariffs and welfare losses, Africa's very small share of global manufacturing production and trade is likely to further raise expectations on what the signature of the Agreement establishing the African Continental Free Trade Area (AfCFTA) on 21 March 2018 in Kigali means for the continent's future. These include the need for a greater understanding of how the provisions of the AfCFTA could support the diverse range of African countries in their efforts to set on a sustainable path for industrial development.

Notwithstanding the historical significance of the confidence shown by African leaders in the benefits that it will bring, the AfCFTA comes with burning questions: Can the AfCFTA honour the dreams and aspirations of the African Union's founding fathers and lead to greater integration in Africa? Can it contribute to making Africa a partner whose weight and whose voice counts in the global economy and in international negotiations? Can it offer an optimal context for investment and trading opportunities for each of its signing countries? Is it well equipped to accommodate the needs of African LDCs and avoid industrial concentration? Will it lead to fast and sustainable job creation?

This paper will attempt to address these questions by investigating the following.

Trade and investment: what is at stake in the AfCFTA?

African Union member states have agreed on a timeline for a work programme on finalisation of annexes and appendices. These include the schedules of tariff concessions, schedules of specific commitments on trade in services and the appendix on rules of origin. Furthermore, work on the second phase is due to start soon, namely negotiations on competition policy, investment and intellectual property rights. Most analytical effort so far has been devoted to the AfCFTA's capacity to boost intra-African trade, the paper will argue that there is an urgent need to shed the light on how the AfCFTA could impact on the main determinants of job creation, i.e on the investment and trading decisions of firms. In this regard, the signing of the AfCFTA implicitly lies on a number of assumptions.

The first assumption is that the restrictions put on firms to source certain inputs within the FTA are consistent with production cost considerations. In other words, sourcing from within the FTA is assumed to be more beneficial to the competitiveness of the firm's exports than sourcing from outside the region. The second assumption is that the benefits of tariff preferences outweigh the costs of compliance with the rules. When the latter exceed the former, the firm might choose to pay the applied tariff and forego the tariff preferences. In such circumstances, the

economic case for exports is lost, and the preferences have not led to greater trade, which in turn lessen the potential for greater investments.

This section of the paper will pay particular attention to rules of origin. Because they establish the source of imports and whether duties and restrictions apply, rules of origin are among the cornerstones that define Free Trade Areas (FTAs). Although rules of origin are perceived to be among the most complex mechanisms of international business, it remains to be seen whether negotiators will use evidence-based outcomes in the process leading to their definition.

The AfCFTA: a chair with shaky legs?

The AfCFTA Framework Agreement is a critical element in the development framework of the continent. However, to fulfill its potential the Agreement must rely on the implementation of other central African Union (AU) policy documents. Chief amongst these are the following: the AU Revised Migration Policy Framework for Africa and Plan of Action (2018-2027); the AU Action Plan of Accelerated Industrial Development for Africa "AIDA"; and the AU Commodities Strategy. Whilst the first two policy documents have been finalized, their implementation is still hazardous. As for the latter, recurrent delays in its finalization are likely to raise questions on the prioritization of the development of regional value chains on the continent. In addition to these core policy frameworks, African governments will have to build greater coherence across objectives that straddle trade, investment and environmental sustainability. The paper will analyse the state of the affairs on these.

Making the AfCFTA work: institutions, governance and hope

Challenges in translating the AfCFTA into industrial development will also depend on institutional capacity to implement it as well as on progress on good governance across the continent. The AU theme for 2018 is the fight against corruption. The paper will argue that notable progress on this theme will set the basis for hope that indeed the AfCFTA will deliver on industrial development.

The paper will conclude with an attempt to provide an outlook on likelihood of the AfCFTA's ability to be more than a mere political intent as stated in its companion document: the Kigali declaration.