Africa’s historic free-trade agreement:

‘Short-term pain for long-term gain’

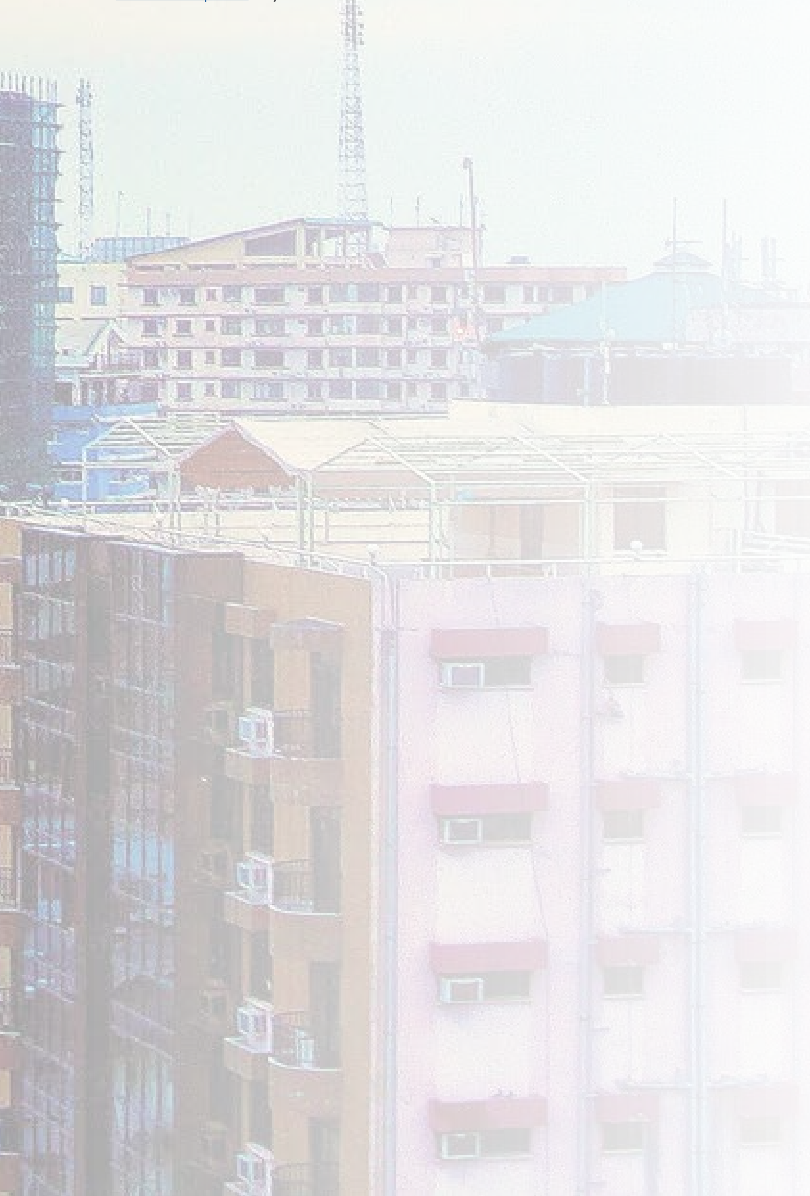
Dar es Salaam, the largest city and financial hub of Tanzania, at dawn
Photo: Rohan Reddy on Unsplash

*On 1 January 2021, at around the same time as Brexit, the African Union launched the historic trade agreement that created the African Continental Free Trade Area. All African countries, except Eritrea, are signatories to the agreement, which aims to eliminate import tariffs on 97% of the goods and services traded between African countries. Will this prove to be what Africa needs to industrialise? **Andrea Teagle** spoke to the HSRC's Vuyo Mjimba.*

The signatories of the African Continental Free Trade Area (AfCFTA) hope that the agreement will galvanise trade in manufactured goods and services, creating jobs and accelerating industrialisation on the continent. If successfully implemented, the AfCFTA will create the biggest trade bloc in the world, with additional free movement of investment and protection of intellectual property rights.

"Industrialisation is synonymous with development," says Dr Vuyo Mjimba, a chief research specialist at the HSRC's Africa Institute of South Africa, which has hosted online workshops to facilitate stakeholder dialogue around the agreement. "Presently, all of what we call the developed countries are marked by high levels of industrialisation, to the point that primary production becomes moot, compared to manufacturing and services," he says.

Conversely, over three-quarters of Africa's exports to the rest of the world comprise agriculture and primary products (including minerals, oil and timber), according to a 2019 report by Baker McKenzie and Oxford Economics.



In addition, half (51%) of Africa's imports from other continents are manufactured goods. This snapshot is part of a longer-term trend in a declining or stagnating industry. Manufacturing as a share of Sub-Saharan Africa's total gross domestic product (GDP) dropped from 16.5% in 1981 to 9.3% in 2010. Since then, it has increased slightly, but remained low at 11.2% in 2020, according to the World Bank.

Some experts argue that one reason for a general failure to industrialise is an over-emphasis on the part of African policymakers on GDP and foreign investment, and a fear of pursuing development policies in the face of external opposition. Is the AfCFTA agreement the kind of bold move that will set African countries on a new course?

Mjimba believes that the agreement will be a game-changer for development if countries can accept that the first few years will be difficult. "It's short-term pain for long-term gain," he emphasises.

Unequal gains?

By removing or minimising import tariffs, the agreement makes it easier for manufacturers and service providers to enter the African market, encouraging innovation and development and leading to much-needed regional upgrading, Mjimba says.

However, some have questioned whether the agreement will contribute to social equality in a continent characterised by large discrepancies in the size and composition of economies. South Africa, Nigeria and Egypt between them account for about 50% of Africa's GDP. These developed economies are far better placed to take advantage of the envisaged 'new market'. Will import competition exacerbate intra-continental inequalities and lead to unequal development?

"The argument that some will be better off and some will be losers assumes a very static regional economy," Mjimba says. Initially, he concedes, some countries will lose money from the loss of import tariffs. But, in the medium to long term, it's a win-win outcome because intra-continental trade in goods and services means that money circulates in Africa, rather than ending up in the pockets of multinationals.

The benefits of regional value chains will encourage regional development and knowledge transfer between countries, says Mjimba. For example, if a car manufacturer in South Africa uses components from Mozambique and Tanzania, it can export its vehicles to those countries without paying excise duty. All three countries benefit. Smaller companies also have the opportunity to innovate and integrate more deeply into regional value chains. For instance, a car-assembling company in Mozambique might come to see how a particular part could be improved and begin to produce that product.

Others have argued that the agreement needs to go further to protect smaller economies. Teniola Tayo, a consultant for the Institute for Security Studies, argues that the AfCFTA should have a hand in creating regional value chains that include smaller states. 'Collaboration with the African Development Bank to identify and finance critical infrastructure will help improve the production competitiveness of less advantaged economies and their attractiveness for investment,' she adds.

Sustainable growth?

What does industrialisation look like in the era of the climate crisis? Africa is in the unenviable position of having contributed a fraction to cumulative anthropogenic greenhouse gas emissions while being disproportionately vulnerable to climate change. The urgency of the climate crisis means that development programmes, while tackling poverty and inequality, also need to find innovative ways of minimising adverse environmental impact. Although the AfCFTA – unlike other recent trade agreements – does not currently feature a protocol on the environment and sustainable development, sustainability is a core component of Africa's Agenda 2063: The Africa We Want.

Greener development involves two strategies. The first is developing resource-efficient technology and infrastructure, a strategy that Mjimba emphasises as essential in the African context. The second is investing in renewable technologies like solar, wind and geothermal energy and hydropower.

The agreement could be leveraged to facilitate the development and diffusion of green innovation throughout the continent, and to tighten controls on environmentally damaging imports from elsewhere. As the world shifts to greener industries, clean technologies produced in African countries can be integrated into global value chains.

The AfCFTA could also act as an umbrella for African countries to coordinate external trade policy that supports local green industry, as Dr Henok Asmelash of the University of Birmingham writes in WhyAfrica. Whether clearer links to green industrialisation will be built into the next phases of the agreement remains to be seen.

Political will

Although it came into effect in January 2021, the implementation of the agreement has been slow. Some leaders are still taking a wait-and-see approach, Mjimba says, despite having signed the agreement. He says that part of the problem is that the longer-term gains do not align with short-term election cycles.

"Those who want to be elected take short-term decisions that are popular, but which in 25 years are useless. We need politicians who are authentic and can tell us that for the first five years we suffer, but after that, we'll gain." He points to Rwanda as an example of a country that had built back its economy after the 1994 genocide by accepting short-term pain for long-term gain.

"For me, there is no agreement that is equal," Mjimba says. "Come 2063, those who are in the programme will be much better off than those who are not."

Researcher: Dr Vuyo Mjimba is a chief research specialist at the HSRC's Africa Institute of South Africa. Watch him interviewed on the *SABC News Morning Live* show.
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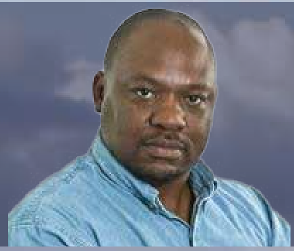

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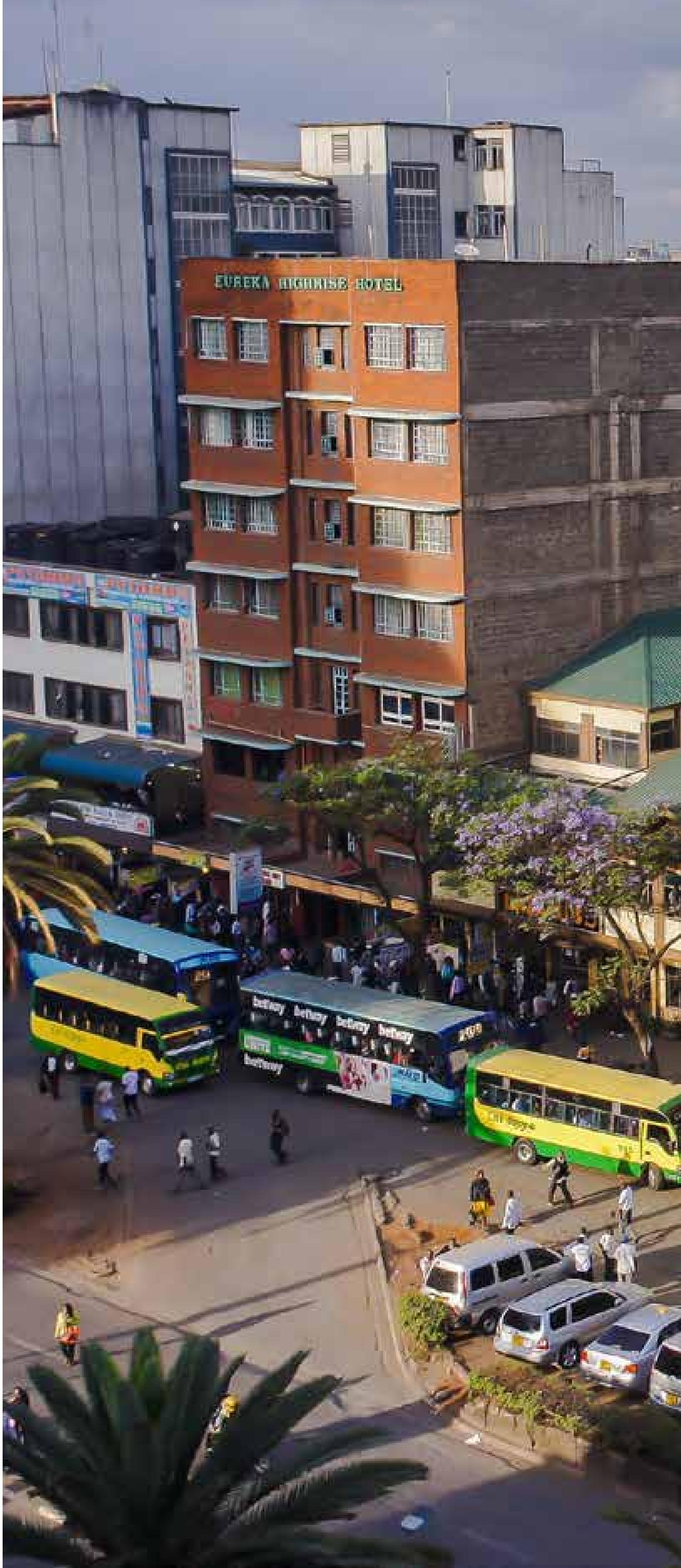

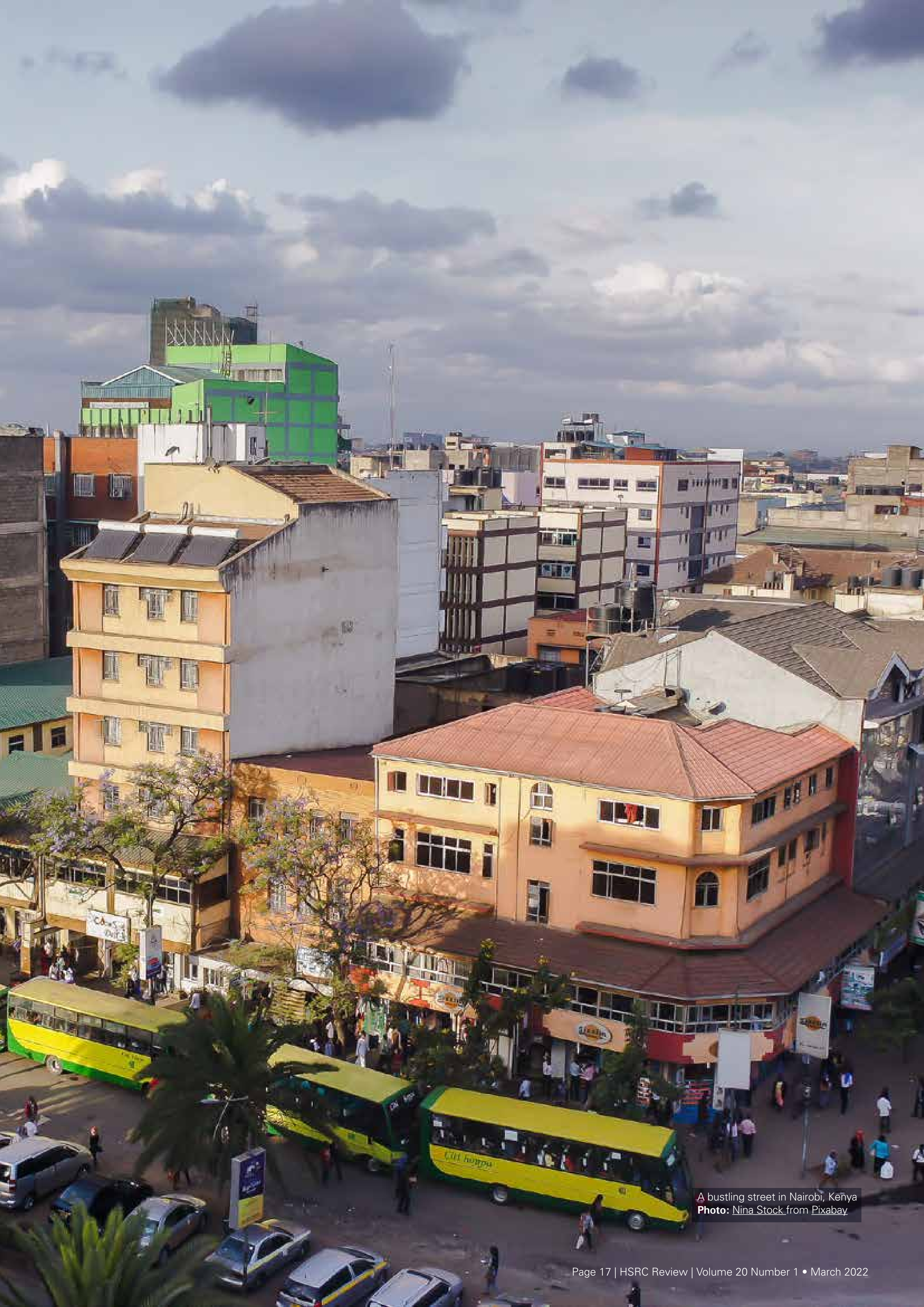

A bustling street in Nairobi, Kenya
Photo: Nina Stock from Pixabay