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Covid-19 and AfCFTA: How Africa can help itself

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Introduction

Africa's most ambitious integration project, the African Continental Free Trade Agreement (AfCFTA) is nearing its commercial phase. Delayed, but not thwarted by the COVID-19 pandemic, an enormous joint effort between the African Union (AU), the AfCFTA Secretariat and deal signatories is underway in a final push to realise continental free trade at the start of 2021. This paper examines the new challenges that the coronavirus presents Africa's integration and how they need to be overcome, as well as the opportunities that may arise from broader global developments currently at play, namely, through these seven themes:

1. COVID-19's impact on Africa's integration agenda
2. Business unusual: AfCFTA's outstanding matters and revised timelines
3. Can Africa benefit from the shift away from globalisation, towards localisation?
4. Avoiding the pitfalls of integration: Lessons from the past
5. The role of non-governmental players
6. The winners and losers
7. What to watch: Momentum, ratification and implementation

Bringing together negotiators from 54 African countries, translating text and dialogue into one of the AU's four official languages and coordinating meetings across six time zones was always going to be a mammoth task. Any hiccup would threaten a launch schedule that had very little margin for error.

The coronavirus was a catalyst for the convergence of several severe economic shocks, each with the potential to derail AfCFTA negotiations and implementation. The sheer scale and reach of the fallout from the virus meant that all available human and financial resources had to be redirected to heading off the growing crisis at a critical juncture in AfCFTA's finalisation. Not only would forging ahead with the original launch timeline have been insensitive, but it would have been impossible (1). There were only two options left to policymakers: push out the launch date by a few months in the hope that the effects of the pandemic subside quickly or delay it indefinitely at the risk of losing valuable momentum.

In the end, a new and similarly ambitious launch date has been set. COVID-19 has not deterred the continent's integration project, but the pandemic has brought with it extensive challenges and necessitated wholesale process and timeline changes. Complicating matters, the AfCFTA must also find its place in a world that is a great deal more socially and politically fractured than when the initial free trade discussion started. That said, Africa has an opportunity to exploit growing global fissures, both by learning from what did and did not work from past international trade deals as well as leveraging its natural endowments. Framed as an African solution to African problems, however, does not mean that the continent can or should go it alone. Capitalising on the current state of play will require broad-based buy in and support, not just from signatories, but from donor countries, the continent's private sector and citizens of Africa. As ambitious and aspirational as AfCFTA is, there are many challenges ahead that could sabotage its realisation. The only real remaining question is whether sufficient political will and momentum can be sustained against mounting odds.

Key takeaways:

- African free trade is all the more urgent now to aid the continent's COVID-19 recovery
- Aggressive implementation timeframes raise the risk of waning political support
- In the broader global context, however, AfCFTA has the potential to be a game changer
- To succeed, donors, the private sector and citizenry must buy into its benefits
- These benefits must be broadly distributed for longer-term growth and sustainability

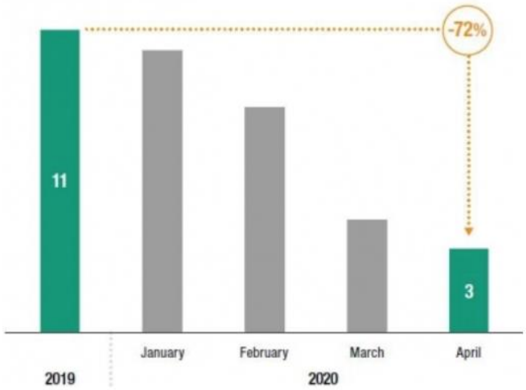
1. COVID-19's impact on Africa's integration agenda

March, April and May of 2020 were supposed to be critical months for finalising tariff negotiations and outstanding AfCFTA agreements, including rules of origin. For the most part, they were almost entirely lost to lockdowns across various countries (2). Borders closed and international travel came to a standstill, throwing the negotiating timeline into disarray. Attempts to advance talks through virtual conferencing highlighted new and unforeseen challenges, unreliable internet connections among them.

It was not just the added technical and logistical complexity of managing sensitive discussions virtually when diplomatic protocol necessitates face-to-face meetings (3). AU regulations state that trade negotiations must be held according to a strict legal process, and the World Trade Organisation (WTO) decided that no substantive trade negotiations should be finalised under the prevailing circumstances (4). As such, a scheduled AU summit for May 2020 to adopt the preferential trade arrangements was postponed to 5 December 2020 but even this date may have to be pushed out.

With COVID-19 firefighting taking precedence, teams from treasuries, trade and planning departments and almost all decision-makers involved in AfCFTA talks were urgently required to navigate the economic shock. Falling oil prices, a collapse in demand for other mineral resources and an abrupt halt in private sector spending[1] saw vital tax revenue inflows fold, businesses close and unemployment rates tick higher (figure 1).

Figure 1: Average monthly number of cross-border M&As in Africa



Source: UNCTAD 2020 World Investment Report, 2020

All economic growth and budget assumptions from the start of the year had to be abandoned. Government attention had to be directed to finding funds to see countries through the crisis and avert a humanitarian catastrophe.

As governments adjusted to the new normal, resources and attention could again shift towards finalising trade agreements, but as the duration of the pandemic became more apparent, it was clear that without concessions to negotiating conventions, the new January 2021 start date would be missed. AfCFTA negotiators were forced to adapt to virtual meetings to maintain momentum and discussion for a return to physical meetings are underway as more economies begin to reopen and travel restrictions ease.

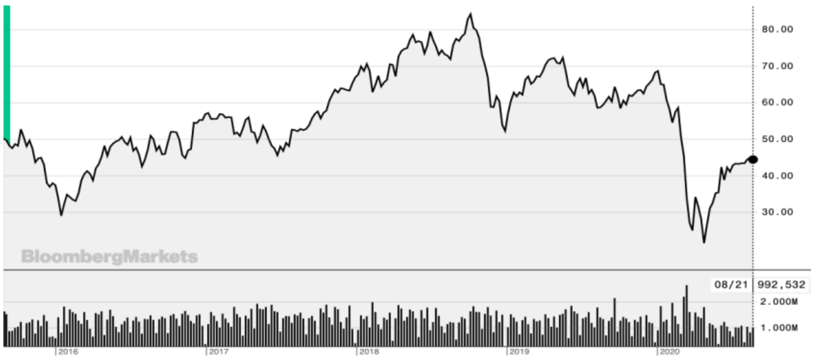
Nevertheless, all had not been lost. At regional and national levels, advocacy and capacity building continued, albeit at a slower pace. The official commissioning and handing over of the AfCFTA Secretariat building took place in Accra, Ghana on 17 August 2020 (5). At the ceremony, Wamkele Mene, the Secretary General of the AfCFTA Secretariat, acknowledged the challenges COVID-19 had presented, but also that Africa had managed to coordinate public health, trade and debt-relief responses to the crisis (6). Recruitment for various critical roles is also being accelerated (7) and the self-funding mechanism for the Secretariat is close to finalisation. This is no mean feat given the devastating economic and financial toll the pandemic has wrought on the continent.

[1] UNCTAD estimates that foreign direct investment in Africa will contract between 25% and 40% in 2020 due to the impact of COVID-19 (85)

More broadly, and of longer-term concern for continental integration is the impact of the pandemic on growth, the continent's rapidly rising debt levels and its ability to service the growing debt burden. In April, the International Monetary Fund (IMF) approved US $500 million to cancel the debt payments of 27 of the world's poorest countries for six months. More than 20 of these countries are African (8). This is merely a temporary stopgap and many more have applied to international lenders for virus-related assistance. The IMF estimates that without the additional US $110 billion in funding earmarked for the continent, almost 40 million Africans are at risk of sliding into extreme poverty (9). This at a time when the institution forecasts Sub-Saharan African growth to contract by 3.2% in 2020.

Oil producers such as Nigeria, Ghana, Gabon and Angola have been particularly hard hit after the price collapsed to below US $20 per barrel (figure 2). While the price has recovered to US $45 per barrel, 97% of Nigeria's exports as an example are oil and the country's fiscal planning had been premised on a US $57 per barrel price assumption. The impact on fiscal revenue coupled with the need for extraordinary emergency funding will be a devastating combination for these countries and it is a similar story for many of the continent's other large commodity producers.

Figure 2: Brent Crude oil price (US $/bbl)



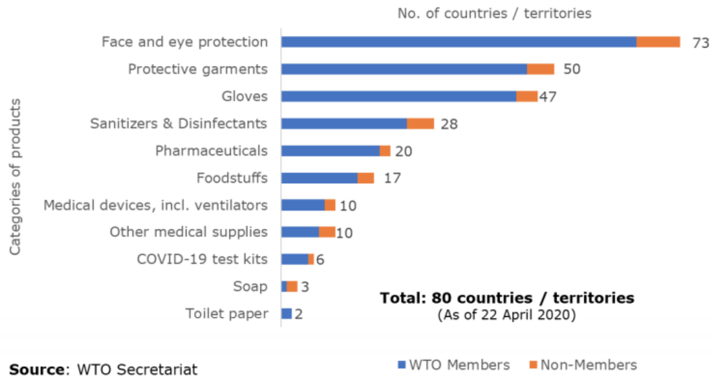
Source: Bloomberg, 2020

Politically too, there have been instances of friction on the continent. Zambia closed its borders to Tanzania when Tanzanian President John Magufuli shunned COVID-19 restrictions, risking cross-border transmission. Madagascan President Andry Rajoelina broke with health experts touting a local herbal brew as a cure to COVID-19, even exporting it to several African countries (10). The efficacy of the remedy was not supported by the African Union. COVID-19 has also seen an increase in protectionism, the complete antithesis of what AfCFTA seeks to create. Even prior to the outbreak, tensions between Nigeria and South Africa were enflamed in late 2019 by an outbreak of xenophobic violence directed at foreign nationals in South Africa. Several other African countries entered the fray and a wider impasse was narrowly avoided. Similarly, just three months after signing AfCFTA, Nigeria banned all trade of goods with its neighbouring countries in what they dubbed anti-smuggling measures. The move aimed at protecting local producers led to massive price increases in the price of food commodities such as rice (11).

Concerns around food security also saw some countries impose export restrictions (figure 3) on certain basic food goods, as was the case with the export of personal protective equipment (PPE) and medicines (12). As Amina Mohamed, the former Chairperson of the World Trade Organization General Council notes:

"Unnecessary export restrictions on food, medical equipment, and essential drugs can have far-reaching consequences for the multilateral trading system and the global economy. Such measures will not only impede progress in managing the current crisis but will also compromise African countries' longer-term efforts to tackle poverty and improve living standards (12)."

Figure 3: Number of countries introducing export prohibitions as a result of COVID-19



Source: WTO Secretariat, 2020

Nevertheless, African leaders remain committed to staying the AfCFTA course, underscored by their collaboration through the AU's Medical Supplies Platform for the production and distribution of PPE (13). COVID-19 highlighted the need for the continent to reduce its reliance on remote world markets and produce more of what it consumes. AfCFTA can facilitate this. Undeterred by the challenges the pandemic created, the AU has embraced technological assistance from the private sector to keep the 1 January 2021 trade commencement date on track (14). Issues around privacy/confidentiality, security and infrastructure are urgently being addressed with more than two dozen major African multinationals under the umbrella of the AfroChampions Initiative, a regional public-private partnership designed to accelerate Africa's integration. Many of the outstanding matters are being finalised through virtual meetings and processes are being fast-tracked. Moreover, trade officials involved in AfCFTA will meet in September to endorse technology recommendations ahead of a 30 September meeting of AU Member State Trade Ministers. Time is of the utmost urgency.

2. Business unusual: AfCFTA's outstanding matters and revised timelines

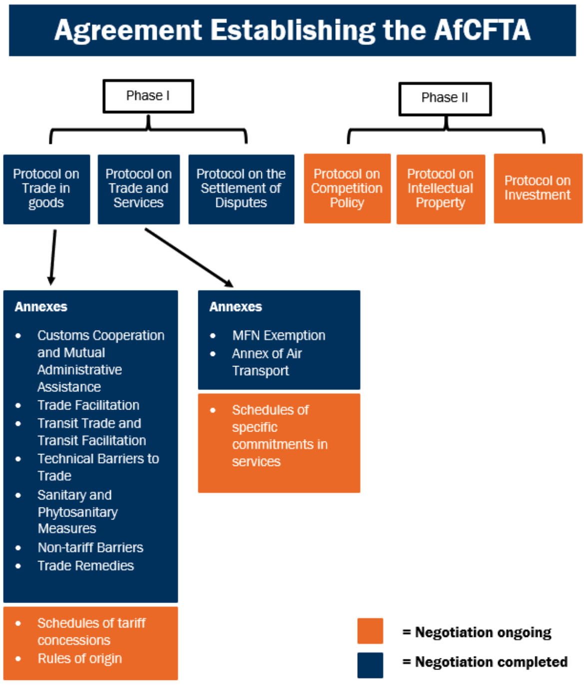
Given the enormity of COVID-19's economic, fiscal and operational impact, the new implementation timeline is not a drastic departure from the original schedule (figure 4). Some dates have been modestly extended, while negotiating time for some of the protocols has been dramatically compressed.

Figure 4: Initial AfCFTA implementation timeline

Source: ECDPM (March 26, 2020)

Certain sections of the negotiations, which are happening in two phases (figure 5), have been reprioritised to ensure the most fundamental rules are in place for a 1 January 2021 commencement.

Figure 5: Status of the AfCFTA protocols and annexes



Source: Brookings Institute (May 22, 2020)

- **Phase 1** negotiations cover protocols on goods and services and dispute settlement.
  - The Phase 1 instruments that were due in May 2020 are now to be submitted in December 2020 (a very short timeframe given the required iterations)

Matters that are arguably at the very heart of AfCFTA, the schedules and tariff reductions for each country, rules of origin and the schedule of service commitments, are yet to be fully agreed, but Jamie MacLeod, a trade policy expert at the United Nations Economic Commission for Africa

(UNECA) who is close to negotiations said in an interview: "Rules of Origin are 95% complete. If we include schedules of concessions too, I'd give the number lower at maybe 85%."[2]

Nevertheless, these are set to be the most contentious matters to put to bed down. Agreeing these annexes will require reciprocity between states, some with opposing interests, and free trade cannot commence without them (15).

Schedules of tariff concessions and commitment in services

Each state must agree to exempt tariffs on 90% of imported goods from other African states, with a further 7% of goods phased in over a 10-year period for "sensitive products" (16). Currently, states are still independently identifying which items they will grant duty free entry to or more specifically, which items should not receive tariff exemption (exclusion list). This exclusion list is to be negotiated on a "request and offer basis" between countries, leaving plenty of scope for sticking points (17). The modality applies equally to services imported from another country (18). The five agreed priority service sectors are transport, communications, tourism, financial and business services. The services agreements are extremely important as trade in services makes up more than half of the continent's gross domestic product (GDP). Moreover, these schedules need to dovetail with regional economic communities (RECs), which are supposed to submit single tariff offers under AfCFTA. Many have not harmonised their approach to rules of origin or local content percentages, and not all members of the RECs have ratified AfCFTA. This raises the prospect of those countries breaking their common external tariffs to implement the deal and could potentially lead to trade disputes being lodged soon after AfCFTA's commencement, undermining the integration process.

Rules of origin

Reaching acceptance on what constitutes rules of origin is expected to be just as politicised and acrimonious. The rules of origin clause define the conditions under which companies must comply in order to have their products deemed having originated in the free trade area, and thus eligible for preferential treatment (19). These goods must be "wholly produced or substantially transformed in Free Trade Agreement (FTA) member states" and not simply trans-shipped through that state in an attempt to receive duty exemption (20). Simply put, it is intended to promote African manufacturing value chains and production by making locally made goods more cost efficient to trade than goods imported from outside the FTA. In some instances, rules of origin are being used in bad faith as an instrument of trade protection to limit trade and AfCFTA governing bodies will have to guard against this (21).

Many African countries have large manufacturing sectors, which, for all intents and purposes, simply assemble or modestly beneficiate goods imported from outside the FTA that they want exempted from duties. Having these goods included means the difference between that industry flourishing or potentially dying out altogether. Nigeria has already raised several concerns which it believes unfairly prejudice some of its sectors. Thus, agreeing the rules of origin clause within the new timeframe is going to be tight (22). Despite being of lesser immediate importance, finalising phase 2 protocols will be equally daunting.

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[2] Jamie MacLeod via telephonic interview with author.

- **Phase 2** protocols deal with cooperation on investment, intellectual property rights and competition policy, all of which require their own ratification.

    – Conclusion of Phase 2 negotiations on competition, intellectual property and investment originally scheduled for the end of 2020 has been given a year's grace.

Negotiations for these three pillars were originally scheduled to begin in August of 2018 for submission to the AU assembly in January 2020 but have still not started. Late 2021 has been mooted as the new conclusion period. There are significant impediments to meeting even the new date.

As an example, only 25 AU member states have an operational competition authority in place, with 17 having no competition legislation whatsoever (23). Massive financial, economic and developmental inequalities between African states is another complicating factor, as is the level of experience in negotiating phase 2 topics. If not addressed, these mismatches risk significantly disadvantaging smaller nations in favour of the big three (South Africa, Nigeria and Egypt) who collectively account for more than half of the continent's GDP.

Laying the platform at a national level

Amidst the setbacks and challenges facing AfCFTA's ambitious launch, there are several measures countries can undertake domestically in parallel to official discussions to ensure they maximise the benefits of free trade when it ultimately begins. Renewing domestic business confidence (stable policy, funding) to encourage investment, developing investment incentives, having regional economic communities (and the private sector) pre-emptively map out their soon-to-be-extended trade relationships and providing schedule support could shave weeks, if not months, off a more methodical, step-driven process. It will also provide a sound platform from which to immediately begin trade once AfCFTA commences. Some interventions are currently underway, including simplifying and dramatically reducing the required trade documentation and other bureaucratic processes that delay the movement of goods. Given the enormity of Africa's informal economy (informal cross-border trade), the bulk of which is driven by women, such measures would go a long way to empowering informal operators and stimulating economic upliftment (24).

Building confidence

- Relax visa restrictions with fellow African states to ensure not only the smooth movement of goods and services, but of the people who provide them (25); the AU Free Movement of Persons Protocol has only been ratified by Rwanda, Niger, Mali and
  São Tomé and Príncipe, but require 15 more to enter into force.
- Lower the cost of doing business by providing tax incentives to smaller start-ups and providing attractive funding for strategic sectors
- Reduce the red tape and bureaucracy involved in starting a new business or accessing new markets

Reducing red tape and improving customs and border management are issues consistently emphasised by the World Bank to smooth continental trade. More importantly, it will improve Africa's global trade competitiveness and speed up development. These are all simple measures requiring relatively little in the way of policy adjustments, but which could pay extensive dividends downstream. Key, however, is reciprocity and cooperation. As the developed world turns increasingly inward, Africa could find itself the unlikely model of multilateral cooperation, pushing back against the tide of nationalism, and positioning the continent to reap the benefits of a recovery (1).

Regional economic consensus

One of the other primary channels to be addressed over the coming months is how AfCFTA will merge with the eight existing regional organisations, some of which overlap. Among these are the South African Development Community (SADC), the Economic Community of West African States (ECOWAS) and the East African Community (EAC) (26). Some of the RECs are not necessarily trade focused, and will be superseded by AfCFTA, while other more developed trade blocs will remain in place for trade between member countries until AfCFTA has sufficient momentum and scale. The principle of the preservation of REC acquis (what has been achieved and implemented by RECs will continue to be respected) is key and widely accepted. However, while these liberalised trade areas will remain in effect, clarity is still required on how they will be expanded upon to include non-members. More advanced countries like South Africa, Nigeria and Kenya must play leading roles in ensuring the communities they are already a part of hear and address the concerns of smaller communities and countries. This they did when the regional communities of which they were a part were established, and the benefits must extend more broadly across the continent. No country can be left behind, as to do so may create perceptions of disunity and a lack of inclusiveness which could spread.

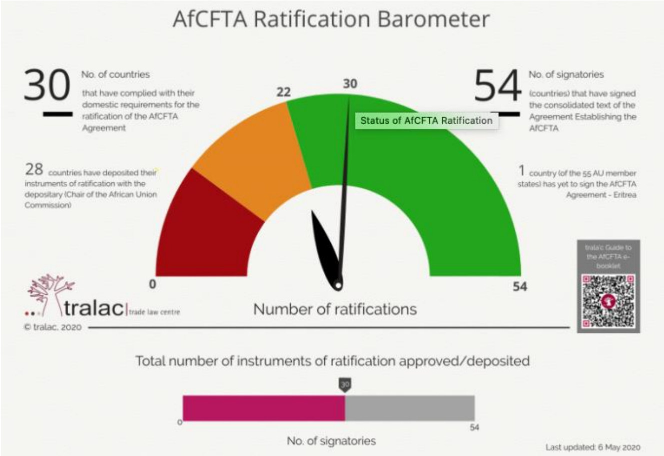
Operational dry runs

The period between the original and new proposed launch date is being used to lay the foundation for trading under a "new normal". In an interview with Bloomberg Invest, Mene highlighted how the AfCFTA Secretariat was engaging with medical experts on what protocols need to be put in place to ensure the safe implementation of free trade in 2021 in the event of infection rates persisting (27). These include border checks and health screening on transport operators and sanitisation procedures when crossing borders, some of which are already in place. This would smooth some of the border bottlenecks that have developed since the outbreak. The border delays of the movement of PPE during the height of the crisis due to health checks have already provided insight into where processes can be tightened up and streamlined ahead of launch (28).

Galvanising political support and maintaining momentum

Of the 54 AU member states that have signed on to the Agreement so far, approximately 30 have deposited their instruments of ratification (figure 6).

Figure 6: AfCFTA ratification barometer



Source: TRALAC, 2020

Despite only requiring a threshold of 22 ratifications in conformity with legal provisions (17), there are several notable countries that are yet to formally ratify. These include Nigeria, Algeria, Tanzania and Angola. Nigeria, as an example, has raised concerns over what constitutes trans-shipment, the foundation of which is rooted in rules of origin. While these countries have openly declared their commitment to AfCFTA, the medium-term focus is on aligning AfCFTA objectives with sovereign interests to ensure that domestic companies are afforded some protection, but that greater competition is introduced and barriers to trade lowered – an April assessment of African governments' commitment and readiness for AfCFTA found average country commitment to AfCFTA at just 44.48% and implementation readiness at 49.15% (29).

In tandem with its many other workstreams, the Secretariat has been working with the African Export-Import Bank (Afrexim) to ensure that trade instruments and documentation are ready for the commencement of free trade and that payment releases are made timeously. Afreximbank's payment platform, as well as its initiative to fund and develop high quality infrastructure, demonstrate the broad commitment to providing Africa's flagship project with a strong foundation for future trade and attracting longer-term foreign direct investment (FDI). Moreover, discussions on the convertibility of African currencies and the implementation of a Pan-African payment and settlement system to facilitate local currency payments are underway with Afreximbank. With regard to sovereign concerns over the impact of lost trade revenue, Wamkele Mene announced on 17 August that Afreximbank had committed US $1 billion to providing liquidity adjustment facilities to support countries that experience short-term trade revenue losses. This is a critical stopgap that will alleviate concerns during this particularly precarious fiscal period and help maintain the momentum behind the realisation of AfCFTA.

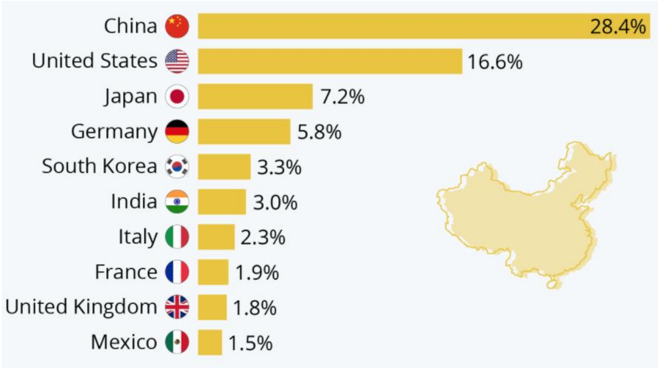
The strong push in Africa towards regional cooperation stands in strong contrast to broader international developments where in some parts of the world treatises and multilateralism appear to be regressing. At first glance, it would seem that fresh impetus for a retreat of globalism could not have come at a worse time for Africa, but just how unfortunate the timing mismatch is warrants closer inspection.

3. Can Africa benefit from the shift away from globalisation, towards localisation?

Globally, political tensions have been ratcheting higher for some time, most notably between the United States (US) and China, as well as the United Kingdom (UK) and the Eurozone. Populist politicians such as Donald Trump in the US and Boris Johnson in the UK have managed to seize on the growing disaffectedness of their electorate who blamed globalisation for the flood of cheap imports that destroyed local industries and resulted in an influx of immigrants who took away jobs (30).

The coronavirus has supercharged nationalism. That it originated in China brought with it something more dangerous: xenophobia. Growing Sinophobia and trade tensions have not been helped by Donald Trump routinely referring to the Coronavirus as the "China virus" (31). These developments have highlighted the retreat of globalisation, the shift closer towards nationalism and a growing dissatisfaction with the inequality capitalism has fomented. Moreover, COVID-19 highlighted a global overdependence on China in the world's manufacturing value chains (figure 7).

Figure 7: Top 10 countries by share of global manufacturing output (2018)



Source: Statista, 2020

As China shut its economy to stem transmission rates, a critical link in the world's supply chain went offline leading to supply shortages and economic disruption. The impact of these interruptions begs the question as to how ready several African countries are for greater self-sufficiency and trade competition through liberalisation. As Signe and Van der Ven note (11):

> *"It should be heeded as an early warning sign for the AfCFTA. To prevent the AfCFTA from entering the history books as yet another set of failed aspirations, it is imperative African leaders signal they are committed to implementing it, matching their words with concrete deeds to effectively affect intra-regional trade and development outcomes."*

Local challenges aside, developed market moves towards isolationism and away from Chinese production dependence present a rare opportunity for the continent. While some of the production functions will return to increasingly nationalist countries like the US, peripheral economies in Asia such as Vietnam, Thailand and India have already become beneficiaries of redirected FDI away from China.

As developed regions turn more isolationist, they will also be looking to create new alliances and trade partners to source goods from and export products to (32). Africa's large consumer market, rich mineral wealth and agricultural potential has already attracted investment and trade advances from the US and UK. The shift away from Chinese dependence means that Africa will not be competing against a dominant China to attract business, but more likely Association of Southeast Asian Nations (ASEAN) and Eastern European countries. Despite the advantage AfCFTA may give Africa's investment attractiveness chances, it is still far less industrially advanced and will have to leverage its natural attributes to become a preferred trade and investment alternative. Given Africa's clear developmental disadvantages, how best can Africa compete?

- **African "smartcuts"**

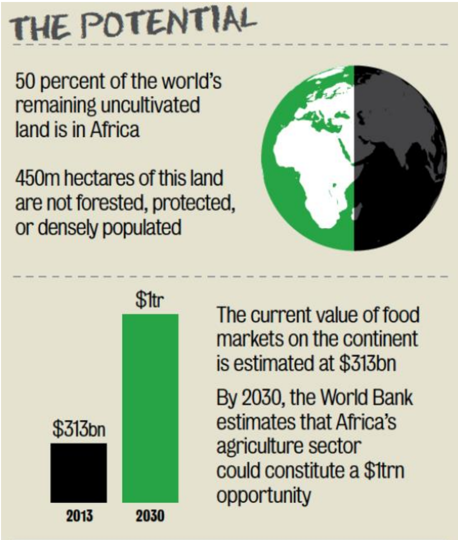
The continent does not have the luxury of time to naturally evolve from a predominantly agriculturally based economy to industrialisation and ultimately services. If anything, an inability to compete with low-cost Chinese production has borne witness to countries on the continent experiencing premature de-industrialisation, shut out of the natural industrial evolution and unable to find non-resources growth catalysts (33). Africa needs to find "smartcuts" to shorten the path to success. American author Shane Snow contends that instead of following the conventional path to success, it is more efficient to "hack" the ladder with sideways moves that skip rungs and use lateral thinking to find solutions. Paradoxically, Africa may need to move back a developmental stage in order to progress economically by pivoting to agriculture, which Nobel Prize-winning economist Joseph Stiglitz believes presents the easiest path to industrialisation and economic transformation in Africa.

"Leapfrogging" is an often-used term, but African socio-economic realities, an absence of political will and the lack of a sound operating environment and infrastructure will need to be overcome to truly catch up to countries from the Association of South East Asian Nations (ASEAN) and Eastern European countries, let alone surpass them. To compete, Africa must play to its strengths and competencies in the fields of agriculture, manufacturing and technology.

I. Agriculture

There is no more important attribute in an increasingly fractured world than food security. It allows regions to be independent of food imports and price volatility. If agricultural production across Africa can be sufficiently developed and modernised to help mitigate the ongoing challenges from climate change, it can make Africa a crucial agricultural production hub, which would give the continent significantly more bargaining power and leverage in trade. That it is unskilled, semi-skilled and labour intensive is an added advantage as the sector has the potential to draw many into the labour market. Already, consulting firm McKinsey estimates that more than 60% of the population in Sub-Saharan Africa are small-hold farmers, with 23% of the region's GDP coming from the sector (34).

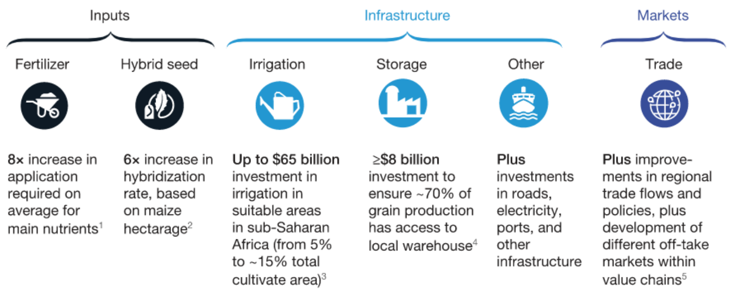
Figure 8: Estimated African agriculture potential



Source: Opportunities for Africans, 2014

Despite extensive challenges (lack of infrastructure, logistics, stable regulatory environment, inconsistent weather), Africa's agriculture potential is unparalleled (35). It is home to between 50% and 60% of the world's uncultivated arable land, but the potential is made starker by how underdeveloped the industry is. McKinsey estimate that the continent's grain and cereals output could increase between two and threefold, adding 20% to global output: "Sub-Saharan Africa will need eight times more fertilizer, six times more improved seed, at least $8 billion of investment in basic storage, and as much as $65 billion in irrigation to fulfil its agricultural promise (34)."

Figure 9: Africa's estimated agriculture investment requirements to reach potential



Source: McKinsey, 2020

Failure to lift yields and productivity not only jeopardise the continent's long-term growth future, but also its food security. At current productivity levels, which Farming First estimates is only at 40% of its potential, the continent will only produce 13% of its food needs by 2050 (36).

Africa has been a net food and soft commodity importer for the last three decades. With the food trade deficit projected to jump from US $35 billion in 2015 to more than US $100 billion in 2025, a strategic focus is urgent. Under AfCFTA, great strides could be made in attracting investment in the sector and developing the infrastructure that would dramatically increase output and generate sustainable economic growth and food security. The only way to do this, however, is through concerted political will and structural reform.

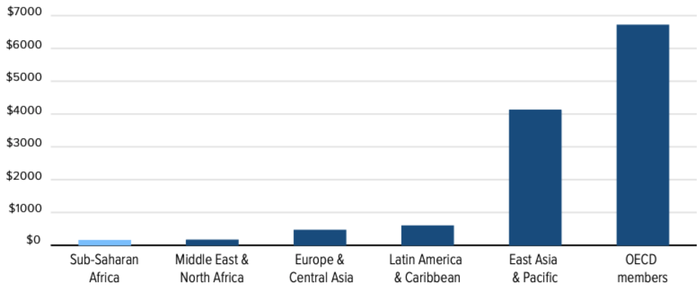
Policymakers at national level must embrace public-private partnerships, reduce red tape and accept that virtually no country can be fully vertically integrated. Real economic advancement happens through beneficiation and value-added services by way of linking domestic and intra-regional value chains. While not all countries have a sufficiently developed manufacturing base, by collaborating with those that do, lesser developed economies typically begin moving up the value chain themselves.

II. Manufacturing

Currently, the manufacturing sector makes up only 10% of Sub-Saharan Africa's GDP, and while growth has averaged 3.5% year on year for nearly a decade, it comes off an extremely low base. In fact, the sector's contribution to GDP has declined from 25% in the early 1980s (37).

The degree to which the continent's manufacturing sector lags its global peers is dramatic, with output of just US $145 billion compared to OECD members which generate a combined US $7 trillion (figure 10). What is more, 70% of the output comes from just four countries: South Africa, Egypt, Nigeria and Morocco (37).

Figure 10: Region comparison of manufacturing value added (2017)



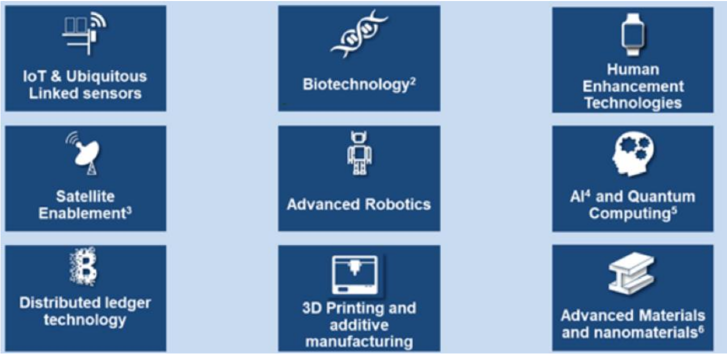
Source: Brookings Institute, 2018

Addressing these imbalances and advancing the continent's development agenda will be key in creating a level-playing field under AfCFTA and the World Bank estimates the agreement could increase intra-regional manufacturing trade by as much as 30% (38). Realising it, as with agriculture, will require extensive investment. Africa may just have a strategic edge in attracting this investment. Post-2015, the US and China have been, by far, the two largest sources of manufacturing investment on the continent. The escalating deadlock between the two countries, coupled with each's desire for a strategic foothold on the continent, could generate an investment race which the continent should encourage.

Africa has long been over-reliant on its mineral dividend, which saw value-added production severely neglected. Rather than striving to develop extremely advanced manufacturing processes, however, the continent should position itself to produce and distribute products geared towards the agriculture industry it aims to capitalise on. Agriculture equipment and chemicals as well as agri-processing machinery manufactured on the continent will increase independence and lower the cost of production while at the same time developing regional industries and employment. This does not have to be at the expense of other already established manufacturing sectors but would rather reduce the continent's overall dependence on imports for this key industry.

In a paper by Alex Liu presented at the World Economic Forum (WEF) in 2019, he argued that Africa's future lies in innovation and not industrialisation, that it should focus on value-added services (39). Some of the sectors he proposes include biotechnology, distributed ledgers and 3D printing (figure 11) although sectors that require less education, training and skills such as business process outsourcing and tourism could achieve a similar objective in a shorter time period.

Figure 11: Africa's future is innovation rather than industrialisation



Source: WEF, 2019

Without the most rudimentary infrastructure in place, such as stable electricity grids, water reticulation and training facilities, however, these ambitions will remain elusive. There is, nevertheless, a strong case to be made for digital disruption that does not require the continent to realise full industrialisation before it can skip towards high-technology services growth where the continent has already shown its ability to lead.

III. Digital Technology

While Africa should be weary of overcomplicating its manufacturing and industrialisation strategy, technology and digitisation is a space where it has often been the pace setter, many times because of its deficiencies in other areas such as infrastructure. As the saying goes, necessity is the mother of all invention and the continent has led the adoption of cell-phone technology, mobile payments, e-commerce and digital learning among many other areas. This is not to say that deep rural-digital divides do not still exist. However, South Africa, Nigeria and Kenya already have well developed e-commerce sectors (US $20 billion by some estimates), with fast-improving logistics support. This demonstrates the importance of private sector participation and how the acceleration in one sector naturally creates momentum in another to keep up. The nature of fast-evolving technology makes it a sector that could allow the continent to leapfrog several steps in the development chain and generate immediate returns (40). More important is the reach such services can have given the potential for a global digital footprint with minimal fixed infrastructure. Trade in services under AfCFTA will greatly reduce their cost base, generating scale and allowing for the transfer of valuable goods, services and skills. Importantly, negotiations on e-commerce, initially set down for phase 3, is likely to be expedited and added to phase 2 discussions in order to harmonise digital governance issues (data protection, cybercrime and taxation), increase enforcement and boost growth.

Internet penetration is growing rapidly (41) with new technologies such as Google's internet balloons making access possible even where infrastructure is sparse (42) (figure 12). Moreover, the cost of smart devices continues to decline and interest among the youth in coding and technology continues to grow (43). The World Bank found that digital literacy, web development and data science were among the fastest growing competencies in the tech space on the continent (44). Examining six countries, across a host of important metrics, the Harvard Business Review (HBR) found that South Africa and Kenya were the best placed to nurture the tech and digital sectors, while Rwanda was fast catching up.

Figure 12: Internet usage in African countries (2017)

Tunisia	64.2%
Gabon	62.0%
Morocco	61.8%
Cabo Verde	57.2%
South Africa	56.2%
Senegal	46.0%
Nigeria	42.0%
Kenya	17.8%
Central African Republic	4.3%
Guinea-Bissau	3.9%
Burundi	2.7%
Somalia	2.0%
Eritrea	1.3%

Source: SAIIA, 2020

Already, Africa has 643 technology hubs scattered across the continent. From Yaba, Nigeria's Silicon Valley to Nairobi's Silicon Savannah, and South Africa's Silicon Cape, African tech start-ups are rethinking everything from education to fintech and the green economy (45). COVID-19 has also spurred the development of contact-tracing applications and highlighted the need to digitise Africa. These local companies focusing on local African issues are likely to get a significant boost from AfCFTA through the lower cost not only of goods, but of services as well as the freer movement of Africans across the region. This will be particularly important given the sector's dependence on human capital and skills (46). Of greater strategic value for the continent, however, is how central the digital space will continue to become throughout the world, creating some of the most valuable and exportable skills and technology.

- **Playing to its strengths**

By focusing on these key pillars, Africa may be able to build its independence and self-sufficiency in key sectors such as food security and primary manufacturing, while at the same time developing value added industries in science and technology. The realisation of AfCFTA underpins these ambitions, as it provides the underlying framework for the transfer and movement of skills, products and capital throughout the world. Ultimately then, AfCFTA is the chassis on which agriculture, industrial and digital development can be built and scaled, making its realisation all the more important.

In generating scale and owning a greater share of the world's agriculture value chain, the continent will be able to lower production costs and create a dependency from other regions and countries, giving it the added advantage of pricing power. The advantage would be amplified by rising tariff costs on the back of nationalism in the rest of the world, allowing the continent a clear advantage and propelling it to a higher growth trajectory. To realise these ambitions, however, the building blocks must be in place, starting with the operationalisation of the continental free trade agreement. This would generate investment interest in both the agriculture and manufacturing sectors leading to an acceleration in the continent's industrialisation strategy. Again, it is important to emphasise that there is an enormous amount to overcome before these ideals become practice. Nevertheless, AfCFTA is an important platform from which to advance, and learning from the successes and failures of trade agreements that have come before can significantly reduce the risk of its momentum stalling.

4. Avoiding the pitfalls of integration: Lessons from the past

While AfCFTA was never intended to be a counterpoint to growing global fragmentation and unilateralism, the final stretch in the realisation of AfCFTA comes at a time when trade agreements the world over are unravelling.

COVID-19 has laid bare the growing trend towards self-interest and self-preservation. How then will Africa manage to stay the course with AfCFTA, and will it even be worth it in a global context? In short, by creating a large and cooperative free trade zone, Africa makes itself too big to ignore. It will be able to negotiate with large trade partners as one unified bloc. The collective clout of its market size, the broad array of agricultural products and vast mineral wealth mean that it would be the only viable trade partner for even the most isolationist countries in some instances. At sufficient scale, the pricing power it could command for both imports and exports would dramatically improve its negotiating power, and not just on trade.

There are useful lessons to be learned from examining free trade agreements from the past, some which were ultimately never realised. The three most notable are the Free Trade Agreement of the Americas (FTAA), the European Union (EU) and the North American Free Trade Agreement (NAFTA). While each is vastly different, their journeys hold valuable learnings. For comparative purposes, it is worth noting how AfCFTA stacks up against some of its peer trade groups. While it is comfortably the largest in terms of the number of countries and population it will include, the combined gross domestic product of its members pales in comparison (figure 13).

Figure 13: Comparison table of features of several trade agreements

	AfCFTA	FTAA	EU	NAFTA
Number of countries	54	34	27	3
Number of people (m)	1200	800	446	493
GDP (USDt)	2.5	9.0	18.3	24.8
Commencement date	2021*	NA	1993	1994

Source: WTO (compiled by author across various dates)

The Free Trade Agreement of the Americas (FTAA)

After more than 10 years of negotiations and with the finish line in sight, the Free Trade Agreement of the Americas (FTAA) fell apart just before it was due to take effect. At the time, it was to be the biggest free trade area in the world spanning the 34 countries in North and South America, except for Cuba.

There are several reasons the FTAA did not see the light of day and all those reasons are particularly pertinent amidst current global conditions. Firstly, there were considerable changes in heads of state in many of the participating countries over the 10 years of negotiations, which disrupted its focus. Political relations between its two biggest members – Brazil and the US – also broke down over agricultural trade barriers, and in a lesson for Africa's larger economies, smaller FTAA members felt the pact's benefits would favour the dominant North Americans to their detriment. It was also criticised for being overly ambitious in both scope and timeline. At the time and under the circumstances (rising nationalism in South America/Bolivarianism[3]), the tight negotiating timeframe proved too much for many of the countries who opted instead to withdraw and enter smaller, more manageable agreements with neighbouring states.

Importantly, there was a lack of private sector consultation and buy in from citizens. Thousands of anti-globalisation protesters ultimately helped scupper the establishment of the FTAA over fears it would lead to large-scale job losses and the erosion of small business in favour of established multinationals.

The European Union (EU)

In contrast to the FTAA, the stitching together of the EU was collaborative, consultative and inclusive of civil society. Politically too, EU states were united in the understanding that they needed each other and that they would be stronger together. Two World Wars and the Cold War had made the need for peace and stability a priority. The initial scope of the integration was more focused on agreeing to collaboration on coal, steel and agriculture and building towards a common market and security policy.

After the global financial crisis (GFC), economically dominant EU members shouldered much of the responsibility for bailing out smaller economies, like Greece and Iceland, which in itself generated animosity on both sides. More recently, the UK's decision to withdraw from the union is generating similar ill will as well as persistent fear that more countries will choose a similar path. The fallout highlights how important it is to ensure the benefits of free trade are not perceived to unfairly benefit an "out of touch" elite or only more advanced economies. Indeed, much of Eastern Europe's poorer members have benefited enormously from being part of the EU, and AfCFTA must ensure the same for its poorer members if it is to retain public support.

The North American Free Trade Area (NAFTA)

NAFTA, while enormous in its GDP and trade volumes, was a far less complex agreement, largely because it involved just three countries, Canada, Mexico and the United States. The far smaller number of participants dramatically reduced the required consultations and iterations. While not a direct spin-off of the abandoned FTAA, much of the heavy lifting was done under the auspices of the FTAA.

Importantly, however, power relations within the area are heavily in favour of the US which holds considerable clout, leaving Mexico in particular in a disadvantageous position. Such power imbalances are inherently unstable, as was seen when US President Trump threatened to withdraw from the agreement on a whim. Rebranded as the United States-Mexico-Canada Agreement (USMCA), the new version of NAFTA contains significant overhauls to vehicle production, labour and environmental standards and intellectual property rights (47), all of which favour the powerful US. AfCFTA policy and decision makers would do well to guard against their largest members threatening similar measures to influence more favourable outcomes for their economy.

[3] "Bolivarianism is a mix of pan-American, socialist and national-patriotic ideals fixed against injustices of imperialism, inequality and corruption named after Simón Bolívar, the 19th-century Venezuelan general and liberator from the Spanish monarchy." (86)

Lessons for AfCFTA

What AfCFTA has set out to achieve could arguably have been called overambitious even prior to the outbreak of COVID-19. Firstly, as Tsidiso Disenyana, a senior economist at the Export Credit Insurance Corporation argues, the AfCFTA negotiating agenda should not be overly ambitious, especially now, or it could risk derailing the entire process. Africa's integration agenda must be aspirational, but not to the extent that its ambitions are misaligned to reality, creating despondency. This is a particularly important lesson to bear in mind given the enormity and complexity of AfCFTA, whose timelines have been thrown into disarray by the pandemic. Holding the centre together is going to be a fine balancing act for the Secretariat, which needs to maintain the pre-Covid-19 momentum without imposing unreasonable deadlines at a time when there are more immediate health and fiscal concerns. There is no need for a Rolls Royce when a Toyota Corolla will do for now. And better to have a framework on which to build than have countries opt to revert to their RECs, as the enormous ambition and inevitable disharmony within the FTAA caused.

Secondly, the pushback against globalisation and the growing tolerance (even embrace) of nationalism has seldom been as strong as it is currently, providing fertile ground for resistance. The AfCFTA is yet to take business, labour and ordinary African citizens into its confidence and address concerns around job security and labour regulations. To prevent the deal from being derailed by civil society and a private sector that feels it has not had its voice heard, the AU must do more to address business and labour fears and to outline the changes that can be expected for ordinary Africans. AfCFTA is merely a vehicle to improve and increase private sector trade. Such consultation is typically robust prior to the signing of bilateral agreements, but an often-neglected step in larger multi-lateral agreements.

Thirdly, the ultimate beneficiaries of any free trade area should be its citizens, not its business and political elite. These benefits should arise through greater labour opportunities, rising incomes, steady and lower inflation as well as general economic advancement. In Africa, where accusations of corruption, nepotism and the abuse of power regularly mar transactions, the overseers of AfCFTA and its member states will need to ensure that the fruits of trade uplifts its citizens or risk the rise of nationalism as has been the case in the US and UK. This starts with a strong regulatory environment, robust economic architecture and enforcement.4

An important fourth point to note is that the divide between Africa's most developed economies and its poorest is greater than in any other area and poses significant challenges to the longevity and cohesion of AfCFTA. While the UK is hardly a smaller nation, Brexit is a timely reminder of what could transpire if countries and its citizens believe they are getting a raw deal. AfCFTA policymakers must ensure that smaller nations are not marginalised by larger, more powerful states and that they have a voice at the table. Even so, several more developed countries on the continent are arguing for Least Developed Country (LDC) status in order to qualify for special and differential treatment and reduce the compliance hurdles they need to meet. Despite strong pushback, an amicable and fair outcome will be crucial in progressing equal opportunity.

Finally, and perhaps above all else is the need for political maturity and concessions for the greater collective good. Becoming a member of a free trade area is often seen as a compromise between

[4] John Luiz, a visiting professor at the University of Cape Town Graduate School of Business argues that it is an opportunity for the continent to focus on strengthening key government institutions.

inclusivity and autonomy, between integration and sovereignty. Some of the most successful free trade agreements like the EU and NAFTA have been in operation for almost three decades and delivered trillions of dollars' worth of investment and trade, and generated hundreds of thousands of jobs. Becoming a participant in a free trade area, while by no means a panacea to all trade and economic ailments, is not the surrender of sovereignty but an opportunity to build and strengthen it.

Fortuitously, AfCFTA has generated extensive media interest and carries significant political capital on the continent and more broadly, which has undoubtedly helped sustain its momentum. As such, and with the renewed urgency displayed in expediting negotiations, the looming 2021 commencement date may be attainable. Nevertheless, AfCFTA's success will be measured by its implementation and the Secretariat will have to swiftly pivot from its current focus of signoff to implementation. There are bound to be teething issues, and while there are parallel processes in place to ensure smooth implementation, a long road lies ahead in meaningfully growing intra-African trade. From securing sustained funding and human capital resources, to strengthening institutional mechanisms at a country, regional and continental level, individual nations must also bear a great deal of responsibility in making free trade a success.

5. The role of non-governmental players

As much as AfCFTA is an African solution to African problems, it will not be able to succeed without assistance from outside the continent and from society at large. Indeed, placing the success or failure for the deal's implementation squarely at the feet of policy makers will not yield the desired results. The challenge will be to get the buy-in from broader society – both from an advocacy and accountability perspective and achieve a social compact around the agreement's aspirations.

Despite the oversight mechanisms already in place to keep progress on track and those being developed to resolve any trade disputes, support and accountability must be forthcoming from players on the "periphery" (48). These include development partners and funders, private sector companies, advocacy groups and civil society who are meant to be the ultimate beneficiaries. The importance of development agencies cannot be overstated, because their backing is crucial through every step of the process, from funding to expertise, implementation and trade.

Sweden, the UK's Department of International Development (DFID), the United States Agency for International Development (USAID) and European Union signed an almost US $4 billion funding agreement as far back as 2014 to support AU trade (49). Separately, the Canadian and German governments have provided much needed funding support and expertise towards the realisation of AfCFTA through the Physikalisch-Technische Bundesanstalt (PTB) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The African Development Fund (ADF) also received US $7.6 billion from donors to further trade and investment initiatives in December 2019 (50). There are many others from China, Belgium and Italy to India and South America. Technical expertise and capacity building are equally as vital and been extended by the United Nations Conference on Trade and Development (UNCTAD), the United Nations Economic Commission for Africa (UNECA's) Africa Trade Policy Centre (ATPC), the UK's Trade Association Forum (TAF), the Trade Law Centre (TRALAC) and the Trade Policy Training Centre in Africa (TRAPCA) demonstrating the broad sponsorship of the initiative and commitment to see it succeed.

The support of these governments and institutions extend across infrastructure and investment, climate change, health (most recent COVID-19 donations from developed countries), gender matters and trade. The funding and expertise offered have been invaluable in advancing the AfCFTA process but there have been areas of resistance from the AU who would prefer the trade pact to be achieved entirely independent of donor funding (51). In part, this is a matter of pride, but more importantly many want to keep the process free of outside influence or lobbying and not be beholden to different interests. Just such a scenario played out recently at the African Development Bank (AfDB) when its primary funder, Nigeria, pushed aggressively to have its point-person and president of the bank's term renewed despite criticism from "Western" backers. The criticism was labelled "imperialistic interference" (52). Realistically though, Africa simply can't afford to go it alone from a financial or technical standpoint. However, these partnerships should be constructed in a way which is complementary rather than competitive, and result in win-win outcomes for all parties.

There is merit to these concerns as there are inevitably vested interests. For donor countries, there are both reactive and proactive incentives at play. For one, donor countries would like to be top of mind in securing favourable trade terms with the continent in the event that the cost of trade with traditional developed partners escalates under protectionism. Inward migration is also becoming a contentious political topic. For both political and economic reasons, donor countries want to prevent a surge of inward migration of immigrants from Africa. The success of AfCFTA could go a long way in preventing this, and alleviate the need for aid to stem immigrant flow. Germany, which holds both the Presidency of the Council of the EU and the European Commission has a Marshall Plan with Africa to ostensibly combat irregular migration at its roots (53).

Further, a more independent and prosperous Africa would greatly reduce their dependence on donor funding and development at a time when these donor countries are forced to concentrate their resources on the domestic economy (54). The switch from financial development assistance to facilitating and promoting trade and investment has been happening for some time (55). Empowering Africa is ultimately beneficial to both the continent as well as the donors.

Gaining the broad support of the private sector (business, advocacy groups and citizenry) is going to be trickier as there will inevitably be parties feeling aggrieved as has been the case in Nigeria where the country's businesses enjoy extensive protection from competition (56). Without the private sector, however, there can be no free trade, as they are the ultimate exporters, importers, traders and investors. Fundamentally, the role of public sector actors is to create an environment in which the private sector can realise greater opportunity and drive growth (57). Getting industry dominant big business on board will be a great deal easier than micro enterprises and informal cross-border traders whose livelihood is at stake. *"One of the major complaints we get from businesses is their inability to compete with the foreign-made goods that are sold locally. Business owners often complain about cheaper foreign imports with better quality,"* according to Ugo Obi-chukwu, the founder of Nairametrics (58).

Increased competition is a threat to many existing companies that have been sheltered by their monopoly or by government-imposed tariffs on cheaper imports. Smaller scale traders cannot be crowded out by big business if the fruits of free trade are to be equitably distributed. Here the role of advocacy groups become enormously important in building consensus. As noted by Anne-Elvire Esmel, the programme director and advocacy lead for Afrochampions, private sector commitment will not happen by default (59).

The Afrochampions initiative is a public-private partnership under the auspices of the AU (60) which works in collaboration with Afreximbank to generate awareness of AfCFTA, how it will work, what it is intended to achieve, share knowledge and create dialogue (61). It acts as a conduit between the African private sector (citizenry included) and leaders of the AU. These continent-wide sensitisation campaigns have largely been driven by the AU, the Coalition for Dialogue on Africa (CoDA) and at national-level business associations as well as the UN through UNECA (62). Of the engagements, the AU's Commissioner in charge of Trade and Industry, Albert Muchanga said: *"Here we have a perfect reflection of Africa's economic diversity, with local, sub regional, and international actors, each facing different issues and whose feedback is very useful to prepare for the AfCFTA implementation phase (63) ."*

The AfCFTA Business Forum has been another platform from which to air private sector views. Further forums have been established at the country level and while there has been criticism of insufficient private sector consultation, buy-in has so far been strong.

When the commencement date of free trade had to be delayed due to the impact of the coronavirus, African business leaders were vocal in their eagerness to see free trade begin, petitioning heads of state to honour the new agreed 2021 start, and previously going so far as to petition against the 2020 delay. They argued that the best response to offset the impact of COVID-19 was to generate growth through free trade as soon as possible (64). It was a strong show of support for the deal, but the real test will only come once trade has been underway for some time, and participants have had a chance to see the direct and indirect impacts on their businesses and on their lives. For this reason, more needs to be done to raise awareness at a grassroots level and education and sensitisation of the deal with the general public must not be neglected due to the urgency of finalising the agreement. A certain level of anxiety around the changes and unintended consequences is natural, but the wall of public pushback and demonstrations against FTAA is an important reminder of how crucial private participation is.

By the same token, business and citizens must flex their oversight capacity and hold the treaty accountable by testing the mechanisms put in place to resolve disputes. The first Civil Society Forum under AfCFTA was launched in 2019 under the theme: "Enhancing Civil Society Engagement in the AfCFTA to Broaden Inclusiveness". It was attended by civil society organisations and umbrella organisations dealing with trade matters and focused on equitable geographic representation of the AU, women and youth (65). In Africa, as in many other regions, informal traders and civil society in general are increasingly empowered to form groupings to collectively defend their rights, livelihoods and interests, whether in the form of petitions, lobbying, marches or protests. This will readily happen if the voices and concerns of ordinary citizens are marginalised. Policymakers must ensure that it doesn't come to this and actively seek ongoing engagement and feedback.

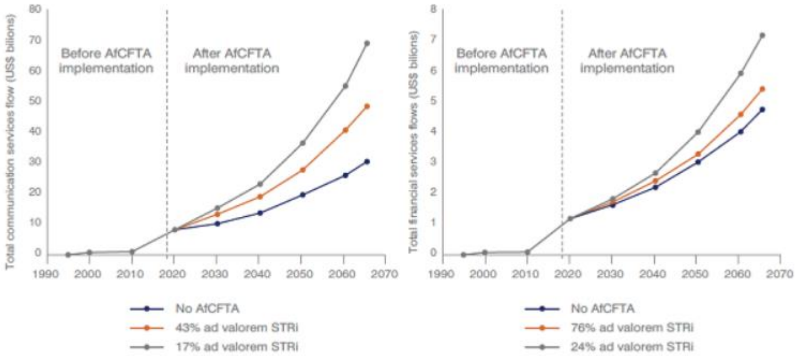
6. The winners and losers

Not all countries, industries and businesses will benefit equally or immediately from the AfCFTA. Distributing the rising benefits from a very low intra-African trade base will be an important litmus test for the efficacy and success of the free trade area. As there are several matters outstanding in the finalisation of the agreement and many goods and services schedules yet to be deposited, it is too soon to say with conviction which sectors will be the greatest beneficiaries of free trade. It is, however, fair to make a few high-level assumptions.

Figure 14: Potential sectoral winners and losers

	Anticipated medium-term African sectoral impact
Agriculture	Agricultural goods are one of the cornerstones of African trade. The sector is set to get a material boost from AfCFTA. Firstly, being able export without duties will make imports cheaper for buyers from African countries and allow them to expand their markets. Secondly, it will lower the cost of production as the price of importing agriculture inputs (seeds, fertilisers, equipment) manufactured on the continent is reduced.
Construction	Infrastructure (both new and upgrades) are a key determinant in the extent to which AfCFTA contributes to the upliftment and growth of the continent. New roads, rail, port and technology infrastructure is desperately required across all countries to reduce both cost and time to market. However, given the limited fiscal resources of African governments, private sector participation and investment will be critical. Should governments reduce barriers to entry and improve the ease of doing business, the construction sector is set to gather strong and sustained momentum.
Manufacturing	The outlook for the manufacturing sector is a mixed bag. Better consumer demand (on lower pricing) is likely to be a boon for the agri and food processing industries. For niche industries heavily concentrated in only a handful of countries (as cement production is in Nigeria), dominant players are set to boom as they are freed from import duties and protectionist tariffs. It could, however, spell the demise of higher cost competitors who are not able to adapt to the more competitive environment. The theme is similar for many of the specialist and heavy industries on the continent (steel, vehicles, machinery and equipment) who have sufficient scale to outprice competitors.
Retail	The retail sector is likely to be one of the biggest beneficiaries of AfCFTA. The question, however, is whether they will pass the lower costs on to consumers or opt to make up for years of margin pressure. Nevertheless, the lower cost of items imported from other African countries should increase competition in the retail space, which would allow smaller players to contest for market share on a more equitable basis and opening the market to new entrants.
Financial, technology and business services	Financial services and technology are key priority areas under AfCFTA that will be overseen by greater regulatory cooperation frameworks under the deal as part of the harmonisation process. The regulatory requirements are likely to be quite high, and given the uneven nature of regulatory structures and adherence across countries, sector players will be forced to divert greater resources to meeting the new criteria, expanding the internal cost base. This could be particularly onerous on sub-sectors such as the very large money transfer sector. This will likely force out several incumbents leaving greater opportunity for growth of the larger, compliant players (reducing competition). Nevertheless, the new rules will tighten up on unscrupulous traders and offer greater protection for end consumers, but while well intentioned, may ultimately reduce inclusivity over the short to medium term. The technology sub-component, however, is set to benefit from greater skills and knowledge transfer, allowing for greater innovation and shorter time to market. See figure 15 for anticipated sector growth.
Transport	The transport sector is likely to benefit significantly as a result of easier movement of people and goods between countries. This will mean less time required for processing at borders and quicker clearance of backlogs. Much of this benefit, however, will only occur after significant infrastructure investment in road, rail and port facilities which will reduce wear and tear and greater logistics speed and penetration, but will take time to materialise.

Figure 15: Communication and financial services trade flows before and after AfCFTA implementation



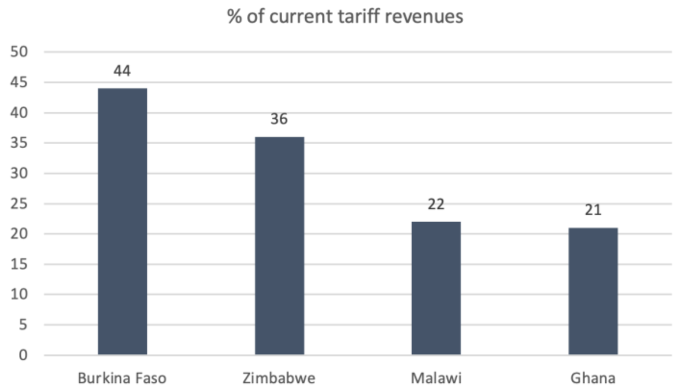
Source: Tradeforum.org, 2019

An analysis conducted by the International Trade forum estimates that the transport sector will experience the greatest boost from AfCFTA at US $286 billion followed by business services at US $207 billion, which are relatively income inelastic and low-skill intensive, albeit to varying degrees depending on industry (66).

Despite the expected tailwinds for most industries, it must be remembered that some individual players will be disproportionately affected by the new regime. The scale and resources of larger companies give them a productivity advantage and the ability to set pricing, particularly in sectors that are highly concentrated among only a few players. The expected disparity among small- and large- scale players extends equally to that between the continent's less developed and economically stronger countries.

Larger, more developed economies such as South Africa, Nigeria, Kenya and Egypt have an immediate advantage given their more developed and diversified manufacturing and services base (67). Ethiopia, Rwanda and Côte d'Ivoire too, while smaller, have highly diversified economies that act as a natural hedge against a downturn in any one sector and are set to benefit the most under AfCFTA (68). Countries like Zambia, Chad and the Democratic Republic of the Congo that are heavily commodity export dependent and those with low levels of development will remain particularly vulnerable to the threat of new entrants looking to gain market dominance. Countries like Guinea, Togo and Benin, Burkina Faso, Zimbabwe and Malawi, all of whom receive one fifth or more of their tariff revenue from Africa trade could well face worsening fiscal pressure from the losses (69).

Figure 16: Africa trade revenue as a % of total trade revenue



Source: Oxford Analytica, 2019

The economic and political heft of bigger markets raised concern among smaller countries that stronger nations could use their dominant market position to overpower smaller competitors (through aggressive pricing until competitors are pushed out). Over the medium term, this would be negative for both market competition and the end consumer. More than having to be nimble and adaptive to the change, smaller players will have to rely on the fairness and effectiveness of dispute resolution mechanisms to prevent such abuse. Failing equitable benefit and growth, countries will have to resort to accessing AfCFTA facilities to stabilise their terms of trade as imports overwhelm exports.

As such, there is a risk that AfCFTA inadvertently becomes a force of divergence rather than mutual benefit, and the Secretariat will have to closely monitor and mediate, lest growing imbalances lead to disillusionment with the deal. It should also be remembered by the bigger players, that the sustainability of their growth and success depends on economically and politically stable and prosperous peers on the continent, for abusing their disproportionate trade advantage may necessitate fiscal and humanitarian assistance over the longer term. Getting AfCFTA off the ground is a monumental task made that much more difficult by the outbreak and fallout of COVID-19. Its commencement, though, is only the start of a much longer journey. With so many moving parts, there are important developments to keep an eye on.

7. What to watch: Momentum, ratification and implementation

Naturally, sticking to the new free trade commencement date is key and there are still many factors that could work against a successful launch. Of all these factors, a loss of momentum in finalising the deal as a result of wavering political support represents the biggest threat. Currently, only 30 of the 54 signatory countries have ratified the agreement. While sufficient to have AfCFTA enter into force, is far short of a unified continental trade pact. Additionally, the majority of countries are yet to submit their tariff concession schedules. It is likely that the Secretariat will see a flurry of ratifications and deposits towards the end of the year and just before free trade is set to start. Having Nigeria (Africa's biggest country by GDP and population, and where strong lobbying convinced government to remain outside) both ratify and deposit their instruments will be a large boost for the Secretariat and to momentum.

Of course, the trajectory of the coronavirus infection rate on the continent will be a key determinant of whether timelines can be adhered to. While Africa has seemingly been spared the worst of the virus, many country borders remain closed. As infection rates begin to drop, border openings are set to accelerate, although a "second wave" remains a possibility but unlikely to disrupt the new AfCFTA timelines.

The economic impact the pandemic has and will continue to have on the continent remains a threat not only to the implementation of AfCFTA but to participation. Smaller and less fiscally stable countries, particularly those that have had to turn to development finance institutions for funding through the crisis have seen debt levels jump at a time when GDP is set to materially contract and tax revenue shrink. Operating within these fiscal constraints implies less government fixed investment in infrastructure and limits space for private sector capital investment and economic growth.

The challenges to the success of AfCFTA are not only from within the continent. Global dynamics are shifting quickly, representing both opportunities and threats for continental trade. While a common monetary union has been mooted over the long term, the reality is that much of intra-African trade will be invoiced in US dollars to mitigate domestic currency risk. Several African countries have already faced severe dollar liquidity shortages which could hamper funding and trade flows – a severe setback for AfCFTA if not mitigated. The risk of emerging market currency contagion should not be underestimated and the health and role of finance institutions will be key in managing risk and maintaining cross-border trade flows under the new regime.

Conclusion

To be sure, the realisation of AfCFTA faces innumerable challenges, far more than mentioned above, but almost none that can't be overcome with the right political will and commitment. Finalising the deal, as big a task as it is, simply gets Africa to the starting line. Despite having overcome many of the significant obstacles COVID-19 has precipitated, many still lie ahead and there is a still some way to go before reaching the starting blocks.

It would be easy to write the deal off as fanciful, especially in the current global context. Certainly, the continent's poor track record of collaboration, cooperation and seizing on rare global opportunities points to the ambitious integration project disintegrating at the final hurdle as politics trump economics.

What is encouraging, however, is that the deal still enjoys sufficient backing and momentum despite overwhelming headwinds. While a 1 January 2021 start to free trade is by no means guaranteed, there is a broad recognition of how much is at stake, and how much there is to gain. The continent has come too far to abandon its vision now, and rather pressing pause, a souring global outlook may instead be the very reason to press on.

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