4 TRADE AND REGIONAL INTEGRATION

ESSAY

VIEWPOINT

How to catalyze AfCFTA implementation in 2024

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Progress to date

The African Continental Free Trade Area (AfCFTA) is a continental agreement that aims to create a single market for goods and services, facilitate free movement of people and capital, and promote industrial development and economic integration in Africa. Signed in Kigali at an African Union Summit in March 2018, it entered its operational phase in June 2019 and will undergo a five-year review in 2024.[1] The African continent is going against the grain with this Agreement—while elsewhere faith in regional integration has generally been waning, the AfCFTA signals strongly that African member states want to address for once and for all the economic balkanisation which has plagued the continent ever since colonial times. In a forthcoming book Borderless Africa–A Sceptic's Guide to the Continental Free Trade Area–Hurst Publishers, 2024, we review the rationale behind the agreement and argue that ultimately, there is no real viable long-term strategic alternative if Africa wishes to attain its developmental goals and aspirations.

On January 1, 2021, the AfCFTA moved into its implementation stage. Yet, if you scour the data on intra-African trade, there is not yet much evidence of an upsurge in the amount of goods being traded under the new AfCFTA rules. The *Guided Trade Initiative*, which started in October 2022, involving seven countries in a "trial run," demonstrated that products could indeed be exported and imported across Africa using AfCFTA documents and procedures, but exposed a number of teething problems. These include a lack of familiarization with the precise tariff schedules among customs officials,[2] long periods of up to six months for consignments to arrive at their destinations,[3] and high freight and transportation charges.[4]

At this juncture, this is understandable for several reasons. Firstly, regional agreements take time to implement—the European Union took 11 years to establish its customs union, and a further 25 years until it established its own "single market".[5] Secondly, the tariff elimination schedule of the AfCFTA is gradual, and the process will not be completed until 2034.[6] Thirdly, there is general consensus that non-tariff barriers (NTBs) constitute more important impediments to intra-African trade than tariffs.[7] In sum,

1 African Union. The African Continental Free Trade Area: Article 28 of the AfCFTA agreement.

2 Trade Law Centre (tralac). 2023 "What have we learned from the AfCFTA guided trade initiative?" *It should be noted though that some consignments by air took much a shorter time.

3 Hair sine, Kate. 2022. "Africa's AfCFTA free trade agreement takes baby steps." DW

4 Nation. 2023. "Border checks, varied rules choke intra-Africa trade plan."

5 Mold, Andrew. 2021. "Proving Hegel wrong: learning the right lessons from European integration for the African Continental Free Trade Area." Journal of African Trade 8.2: 115-132.

6 African Union (AU). 2024. "Operational Phase of The African Continental Free Trade Area Launched.

7 International Trade Administration (ITA). 2022. Market Intelligence: African Continental Free Trade Area.

Fifty-four out of the 55 African Member States have signed the Agreement, and as of December 2023, 47 have ratified it. Forty-five tariff reduction schedules and 22 services schedules have been adopted. Rules of origin have been agreed (except for vehicles and textiles and clothing).

it will take some time for the barriers to be removed and their impact felt. It is also important to remember that the AfCFTA is, in terms of number of members—55 of them—the largest trading block in the world. So, negotiations were always likely to be time-consuming and complex.

That said, from the stance of putting in place the legislative architecture for the AfCFTA, progress has been quite impressive. Phase 1 negotiations covering both goods and services and the dispute settlement mechanism have been completed, together with the establishment of oversight committees and the adoption of work programmes. Fifty-four out of the 55 African Member States have signed the Agreement, and as of December 2023, 47 have ratified it. Forty-five tariff reduction schedules and 22 services schedules have been adopted. Rules of origin have been agreed (except for vehicles and textiles and clothing).[8] Negotiations on the major associated protocols on investment, intellectual property, and competition have also now been concluded and the protocols adopted.[9] However, it is also the case that impatience is likely to grow if trading under AfCFTA rules does not grow rapidly soon.

The import of imports

A compelling case could be made that countries with large positive trade balances with their continental partners should make special efforts to increase their openness to imports from African countries.

Thus far, much of the emphasis of training workshops and sensitization about the AfCFTA have been focused on promoting intra-African exports. But it will be impossible to increase intra-African trade without increasing imports—for every dollar worth of intra-African exports, there must be a corresponding increase in imports.

A compelling case could be made that countries with large positive trade balances with their continental partners should make special efforts to increase their openness to imports from African countries. This could entail a more rapid elimination of barriers to intra-African imports than the tariff schedules dictate, just as Kenya did when the East African Community (EAC) Customs Union was established in 2005, and it immediately allowed duty-free imports from its neighbours while permitting its own exports to be progressively liberalised over a longer five-year period.[10] This is linked to an idea in our book—what is required at this juncture is leadership on this front by the regional hegemons. In this sense it is quite striking that the three largest economies on the continent—Nigeria, South Africa, and Egypt—all enjoy large positive trade balances with their continental partners, so in principle, they can afford to adopt a liberal import regime for intra-African imports.

8 African Union. 2019. Tenth Meeting of the African Continental Free Trade Area AU Ministers of Trade (AMOT).

9 African Union. Decision no. Assembly/AU/Dec.854(XXXVI) of the Thirty-Sixth Ordinary Session of the African Union Assembly held on 18 - 19 February 2023, paragraphs 12 to 14.

10 Macleod, Jaime, Luke, David and Guepie, Geoffroy. 2023 'The AfCFTA and regional trade,' in: Luke, David "How Africa Trades," London: LSE Press, pp. 23–50.

The good news is that it is much easier to remove import barriers than promote exports. Some countries are making efforts to identify new markets on the African continent for their export products. This is a positive development, but as any trade economist will tell you, boosting exports takes time and may require technological upgrading, enhancing quality standards, and adapting products to customer needs. It might also require broader measures in terms of mobilizing domestic and foreign capital, fostering innovation and entrepreneurship, developing human capital and skills, and building physical and digital infrastructure. None of these can be undertaken quickly.

By contrast, tariffs can in principle be removed at the stroke of a finance minister's pen. The non-tariff barriers will prove more intractable—but by leveraging the tools put in place, such as the Continental Non-Tariff Barriers Mechanism, governments can respond quickly once NTBs have been identified. Granted, the widespread use of the tool has yet to materialize since meaningful trade under the AfCFTA is only just starting. As of January 2023, only a handful of claims, six to be exact, had been registered. Yet it is expected that as preferential trade flows under the terms of the AfCFTA increase, so will usage of the tool.

Sticks and carrots

What if African state parties refuse to comply with their obligations under the AfCFTA? One of the perpetual complaints of past experiences at African integration is that the results have been undermined by a lack of compliance. In this sense, in 2024 it will become increasingly important to think more deeply about compliance issues. The Annex to the AfCFTA describes all the procedures for reporting, monitoring, and eliminating NTBs, from reporting to arbitration. It is encouraging to note that the NTB mechanism of the tripartite agreement between the Common Market for Eastern and Southern Africa (COMESA), EAC, and Southern African Development Community (SADC), from which the AfCFTA one was cloned, has been very successful. And in case of non-implementation by member states, the Dispute Settlement Mechanism is clearly defined.[11]

Within the context of the agreement, these are the big sticks, but there are also carrots, such as the newly established Adjustment Fund. The facility, headquartered in Rwanda, is reportedly worth $10 billion and will start operations in the second quarter of 2024, benefiting countries, public institutions, and private sector. It consists of three sub-funds: the Base Fund, General Fund, and Credit Fund. The funds will use contributions from AfCFTA state parties as well as grants and technical assistance to address tariff revenue losses, infrastructure deficits, and possible supply chain disruptions that could result from the implementation of the AfCFTA.[12] But it is important to make access to the fund conditional on beneficiary states fully

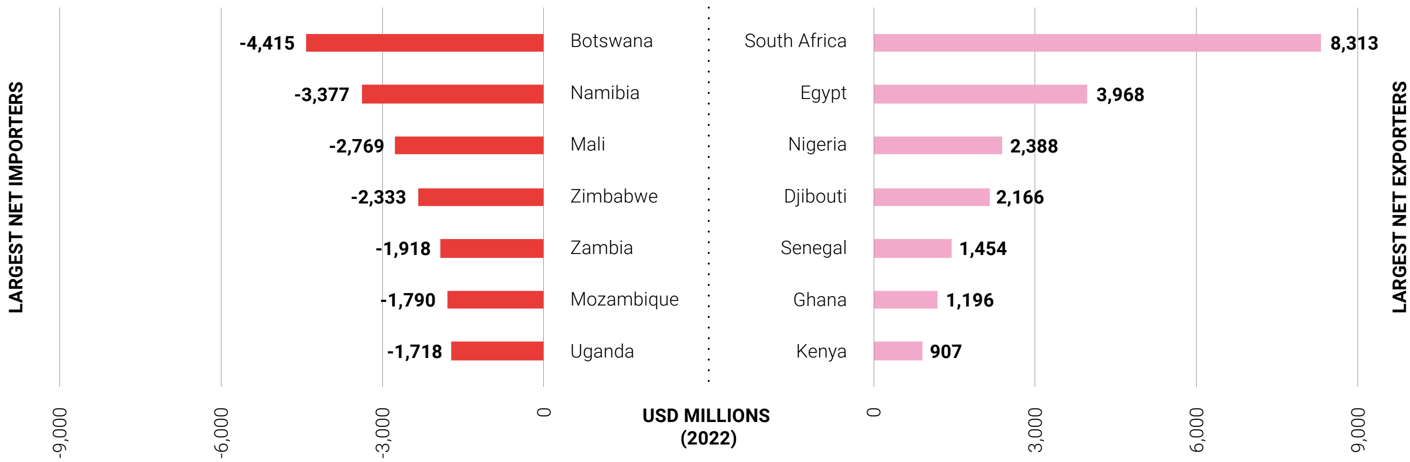
11 Many legal experts would have preferred the approach adopted in the EAC, COMESA, and ECOWAS Courts whereby both individuals and companies can bring cases. Instead, a State-to-State mechanism was instituted, whereby complaints of non-implementation must be made through the relevant national authorities. Nevertheless, inter-State dispute settlement can also be successful, as shown by the record of the WTO Dispute Settlement Mechanism, and in terms of number of cases heard and compliance with rulings by Members, etc.

12 AFREXIMBANK. 2023. "Inaugural Board Meeting of the AfCFTA Adjustment Fund Corporation Holds in the Republic of Rwanda.

FIGURE 13

THE THREE LARGEST ECONOMIES ON THE CONTINENT CAN AFFORD A MORE LIBERALIZED IMPORT REGIME

Intra-continental trade is dependent on both the export and import markets. However, the three largest economies on the continent (South Africa, Egypt, and Nigeria) export far more than they import. These largest economies importing more from neighboring countries is one pathway to enhance intra-continental trade.



Source: Mangeni and Mold. 2024. Calculated from UNCTADStat data.

complying with the agreed tariff schedules and providing proof that their domestic markets are now more open to intra-African trade and investment.

Final words

If the objective is to accelerate implementation of this path-making Agreement, there first needs to be an unrelenting focus on removing the impediments to greater intra-African imports. By being more open to continental imports, regional value-chains will inevitably emerge, not by government diktat, but as a result of the private sector taking advantage of the new opportunities.

The AfCFTA agenda will inevitably shift over the course of time as the implementation process advances. Right now, the main goal must be to eliminate the trade barriers that hinder intra-African trade. However, other aspects of the agreement will also become relevant soon, such as the enforcement of the rules on competition and investment, the alignment of standards, and the protection of intellectual property rights. The African continental market will not be created overnight—as the saying goes: "Rome was not built in a day." The legal dimensions of the AfCFTA will take on a heightened importance, as mere good intentions will not suffice. The continental market will only be realized through the incorporation of the agreed rules and protocols into national laws and through the resolution of disputes and legal claims.

The future of African trade in the AfCFTA era

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However, the African Continental Free Trade Area (AfCFTA)—which establishes one of the largest free trade areas in the world with a market of 1.4 billion people and a combined GDP of USD 3.4 trillion could significantly transform Africa's trade and economic landscape.

In a sign of the stickiness of the colonial development model of resource extraction—where African countries systematically exported raw materials and natural resources to European powers and imported value-added manufactured goods at higher prices—the round-tripping model, which has been responsible for huge foreign exchange reserve leakages and sustained balance of payments pressures, has persisted, even as Africa's direction of trade has shifted eastward. According to most recent estimates, hydrocarbons dominate India-Africa trade, with refined petroleum and related products topping India's total exports to Africa in 2022.[13]

In addition to huge foreign exchange reserve leakages, that colonial development model greatly exposes countries to recurrent adverse commodity terms of trade shocks largely responsible for the high frequency of balance of payments crises and the inexorable rise of external liabilities. And in a world of global value chains where trade is dominated by intermediate and manufactured goods with increasing technological content, it has contributed to a steady decline of African trade in relative terms. The region now accounts for less than 3% of global trade, down from about 5% in the aftermath of independence and notwithstanding the fact that its share of the world's population has increased steadily to reach 17%.[14] Furthermore, it has skewed the distribution of African trade towards extra-African trade—intra-regional trade has remained dismally low, at around 15% of total African trade, compared to 60% in Asia and 70% in Europe.[15]

However, the African Continental Free Trade Area (AfCFTA)—which establishes one of the largest free trade areas in the world with a market of 1.4 billion people and a combined GDP of USD 3.4 trillion could significantly transform Africa's trade and economic landscape.[16] The AfCFTA has been touted as a game-changer owing to its potential to significantly increase investment flows, with their composition and direction shifting away from natural resources towards labor-intensive manufacturing as corporations take advantage of economies of scale as well as competitiveness and productivity gains associated with the drastic reduction in the risk of investing in smaller markets.[17]

World Bank estimates show that the AfCFTA could raise Africa's exports to the rest of the world by 32% by 2035 and catalyze foreign direct investment, which is

13 International Trade Centre. 2023. Trade Map. https://www.trademap.org/Index.aspx.

14 Luke, D. (ed.) 2023. How Africa Trades. London: LSE Press. https://press.lse.ac.uk/site/books/e/10.31389/lsepress.hat/.

15 Wellisz, Chris. 2022. "Freeing Foreign Exchange in Africa." IMF. https://www.imf.org/en/Publications/fandd/issues/2022/09/Digital-Journeys-Africa-freeing-foreign-exchange-wellisz.

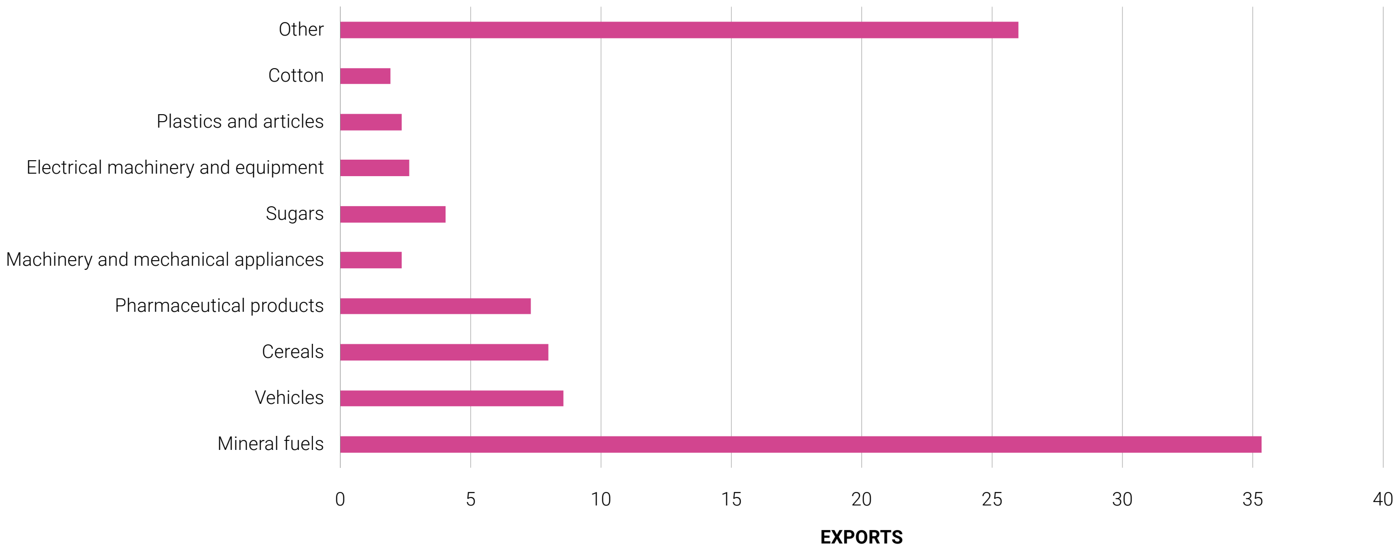
16 Signe, Landry. 2023. Project Syndicate. "A Year of Opportunity for Africa." https://www.project-syndicate.org/commentary/africa-2023-opportunities-economy-climate-change-by-landry-signe-2023-01?barrier=accesspaylog.

17 Fofack, Hippolyte. 2021. "A Competitive Africa." IMF. https://www.imf.org/en/Publications/fandd/issues/2018/12/afcfta-economic-integration-in-africa-fofack.

FIGURE 14

INDIA'S EXPORTS TO AFRICA HAVE SHIFTED OVER TIME

35% of Africa' exports to one of their largest trade partners, India, are mineral fuels, or refined petroleum and related products. Despite the geographic shift in trade, Africa's trade partnerships continue to be based off resource extraction.



Source: International Trade Centre (ITC). 2022. Trade Map database. Figure 2 - Luke, David. 2023. "How Africa Trades." London: LSE Press. Author's calculations of IMF's Direction of Trade Statistics.

expected to increase by between 111% and 159%.[18] The AfCFTA has brightened African trade and growth prospects. Leveraging its huge potential to transcend the colonial development model of resource extraction will help to accelerate the diversification of sources of growth and exports, propelling the region into a virtuous cycle of robust economic growth and a broader tax base that will strengthen Africa's foundation of fiscal and debt sustainability.

As corporations take advantage of competitiveness and productivity gains associated with increasing economies of scale under the AfCFTA, lithium-rich countries such as the Democratic Republic of Congo and Zambia will no longer export raw lithium but will instead integrate into global value chains of new energy vehicles as exporters of lithium batteries. Staying with the automotive industry, West African countries such as Liberia and Cote d'Ivoire will no longer be integrated into global value chains only as providers of natural rubber, but instead as global hubs for tire manufacturing, diversifying the sources of growth and expanding employment opportunities. The future of African trade in the AfCFTA era is one in which commodity-based industrialization will become the continent's modus operandi to foster vertical integration.

The future of African trade in the AfCFTA era is one in which commodity-based industrialization will become the continent's modus operandi to foster vertical integration.

18 The World Bank. 2020. "The African Continental Free Trade Area." https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area.

But the future of regional trade is also one in which intra-African trade will become a more important component of total African trade to further enhance the resilience of the region to global volatility and negative shocks. Preliminary estimates show that intra-African exports would increase by 109%, led by manufactured goods, especially if the implementation of the AfCFTA is accompanied by robust trade facilitation measures, understandable in a region where the consequences of non-tariff barriers—equivalent to an import tariff of 18%—have been just as costly for trade and endogenous growth as market fragmentation.[19,20,21] But intra-African trade will also drive industrialization because manufactured goods dominate intra-African trade. So, as intra-African trade expands under the AfCFTA, so will industrialization, which will then drive operationalization of the commodity-based industrialization model.

The economies of scale associated with the AfCFTA rationalizes the commodity-based industrialization model, which has the potential to transcend the debilitating colonial development paradigm of resource extraction and mitigate risks associated with the inherent long-term deterioration of commodity terms of trade that have been the bane of African economies for decades.

But the AfCFTA must not be seen as a panacea to decades of economic regression, which has led to a steady decline of Africa's share of global trade. Although necessary, it is not a sufficient condition for economic transformation and expansion of income-generating opportunities in a region where the colonial development model of resource extraction has consistently exported jobs to sustain Great Depression-era unemployment rates, which stand at more than 30% in Nigeria and perhaps even higher in other countries where informality has become a disguised form of unemployment.

Realizing the huge potential of the AfCFTA hinges on implementing robust trade facilitation measures to increase efficiency and reduce the time and costs of African trade. At the same time, more should be done, including implementing the rules of origin, which are viewed as the industrialization passport that will enable made-in-Africa goods to circulate free of duty within the free trade area and hence fuel commodity-based industrialization.

19 The World Bank. 2022. "Free Trade Deal Boosts Africa's Economic Development." https://www.worldbank.org/en/topic/trade/publication/free-trade-deal-boosts-africa-economic-development.

20 Azour, Jihad and Abe Selassie. 2023. "The Drive for Trade Integration." IMF. https://www.imf.org/en/Publications/fandd/issues/2023/09/Straight-Talk-the-drive-for-trade-integration-azour-aemro-selassie.

21 The World Bank. 2020. "The African Continental Free Trade Area."

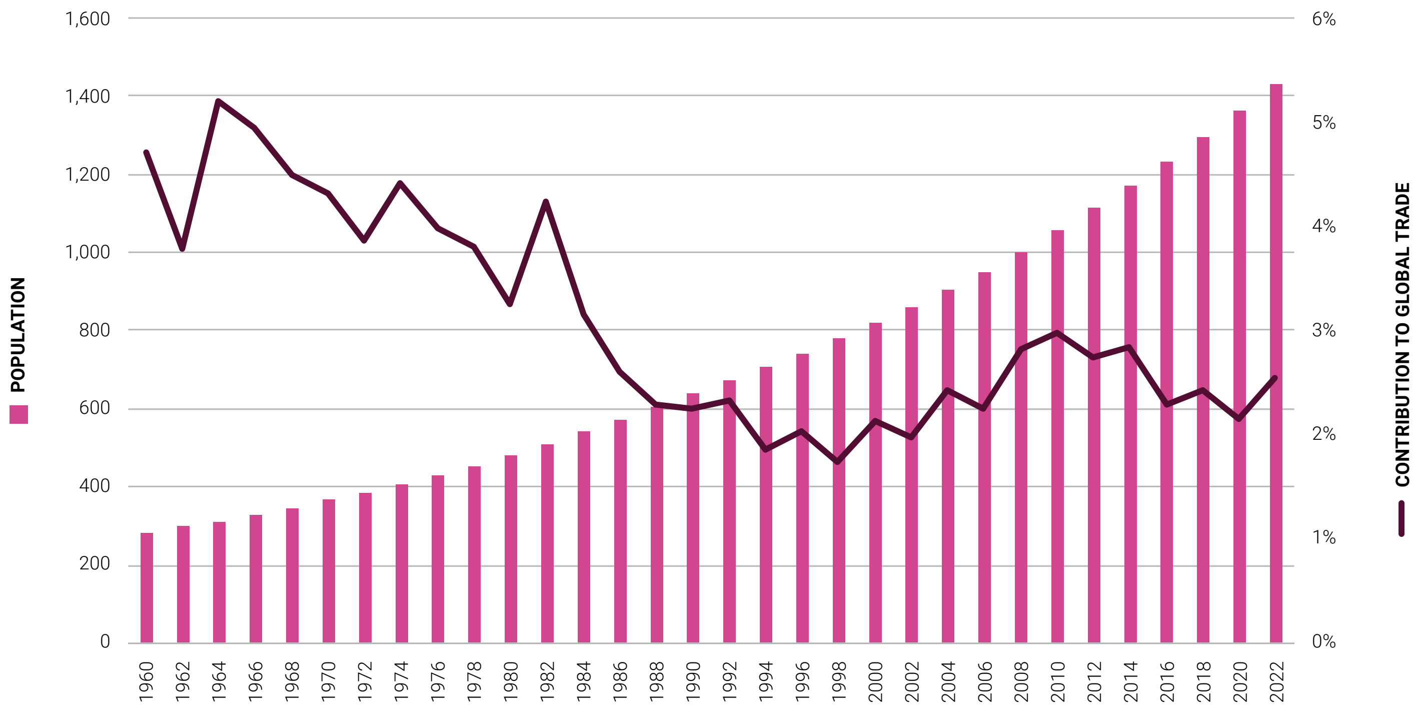
African governments should also invest aggressively to close their yawning gap in infrastructure (both physical and digital) and in human capital to improve the business environment and foster regional connectivity to sustain cross-border trade flows. Likewise, resisting the rush to bilateral trade deals which frequently lead to trade deflection and either weaken Africa's voice at the global level or create dissonance is critical, especially for the continent which for far too long has been at the short end of the international trade negotiation stick.

Finally, and perhaps the most challenging of all—considering the sheer number of countries that comprise the AfCFTA, the largest in the world by membership—speaking with one voice will be extremely important to strengthen Africa's bargaining power in international trade negotiations and shift the boundary of fair trade to a more inclusive process of globalization. Speaking with one voice will also enhance the development of the robust regional value chains needed to effectively implement the commodity-based industrialization model that transcends the extremely costly and sticky colonial development paradigm of resource extraction.

FIGURE 15

AFRICA'S CONTRIBUTION TO GLOBAL TRADE IS FALLING DESPITE A GROWING POPULATION

Africa's population has grown at a constant rate over the last 60 years and is expected to reach over 2 billion by 2050. However, Africa's contribution to trade is not reflective of this growth trend. The region's contribution to global trade has remained below 3% since the 1980s, and in recent years has trended closer to 2%.



Source: United Nations. 2022. Populaton Division. World Population Prospects; UNCTADStat Data. 2023. International Merchandise Trade.

The whys and hows of the mobility of Africans in Africa

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Africa's economic outlook has deteriorated since the heady days of "Africa Rising" when Africa grew strongly post-2000—much faster than it had since the commodity boom of the 1960s and 1970s. But African growth is now slowing down.

Economic conditions are tougher; circumstances are less favourable. The global growth which supported Africa's growth spurt has slowed. Asia, Europe, and the U.S. are looking inwards and are not reliable partners, global value chains are shortening post-pandemic, and new labor-saving technologies threaten to undermine Africa's advantage of abundant labor. Debt worries in many African economies make them more vulnerable.

The implementation of policies which exploit Africa's continental synergies is now more important than ever.

FIGURE 16

INTRA-AFRICA TRADE SHOULD BE A PRIORITY FOR THE REGION

Thanks to preferential trade agreements such as the Africa Growth and Opportunities Act and the EU's Everything But Arms initiative, key manufacturing inputs and some final products such as vehicles face lower tariffs if they are sourced in Africa. In a world in which geopolitically-motivated protectionism and sanctions are increasingly common, Africa has an opportunity to take advantage of lower tariffs to promote industrial exports and value-chain integration.

Note: Data based on Harmonized Commodity Description and Coding System (HS).
Tier 1 is automotive parts and systems, tier 2 is non-automotive grade parts and tier 3 is raw and semi-raw materials.
Source: United Nations Conference on Trade and Development (UNCTAD). Economic Development in Africa Report. 2023.

Beyond trade in goods, Africa needs greater personal mobility across national borders, especially for traders, investors, and professional service providers. Indeed, the AfCFTA protocols for trade in services and investment explicitly require such mobility.

The African Continental Free Trade Agreement (AfCFTA) is steadily being implemented. Agreed in 2018, it came into force in 2019 for the 24 countries which had by then ratified the agreement. Forty-seven of the 54 countries which signed the agreement have now ratified it. Negotiations on details continue while some countries have begun to trade certain products through the Guided Trade Initiative—a piloting program. Driven by a dedicated secretariat, the AfCFTA has a dynamism that no similar continental initiative ever had.

Beyond trade in goods, Africa needs greater personal mobility across national borders, especially for traders, investors, and professional service providers. Indeed, the AfCFTA protocols for trade in services and investment explicitly require such mobility.

In the year that the AfCFTA was signed, 32 African leaders signed the African Union Free Movement of Persons Protocol to progressively open African borders for people. But only four countries have ratified the agreement. No ratifications have been registered in Addis Ababa since 2019.

There has been more progress in regional, sub-regional, bilateral, and unilateral initiatives than in the continental process. Regional Economic Communities (RECs) such as the East African Community, Economic Community of West African States (ECOWAS), and the Southern African Development Community have largely visa-free travel for regional citizens, and subsets of countries within those regions have moved further, only requiring official identity documents. Access to work permits for citizens of fellow REC members has also been improved in some regions in Africa.[22]

Why then is there a lack of enthusiasm for the African Union's free movement protocol? Some richer countries in Africa, which provide citizens and legal residents with a range of social services and transfers, fear that large groups of economic immigrants might resort to inappropriate strategies to obtain residence. In countries already facing social issues, such as poverty and high unemployment, the issue of immigration can become politically explosive.[23]

Policymakers in those countries fear the implementation of the African Union Free Movement of Persons Protocol will make them vulnerable to large-scale economic immigration. Though the Protocol does not entail the kind of obligations they fear and contains several safeguards, resistance to a broad continental initiative remains.

Greater mobility through regional, subregional, bilateral, and unilateral reforms should be encouraged. The African Union (AU) should also explore narrowing the continental focus to the mobility of skilled people—traders, investors, professional service providers, and graduate students. Refocusing the AU initiative in this way will allow it to draw on the dynamism of AfCFTA processes for support. It will enable member

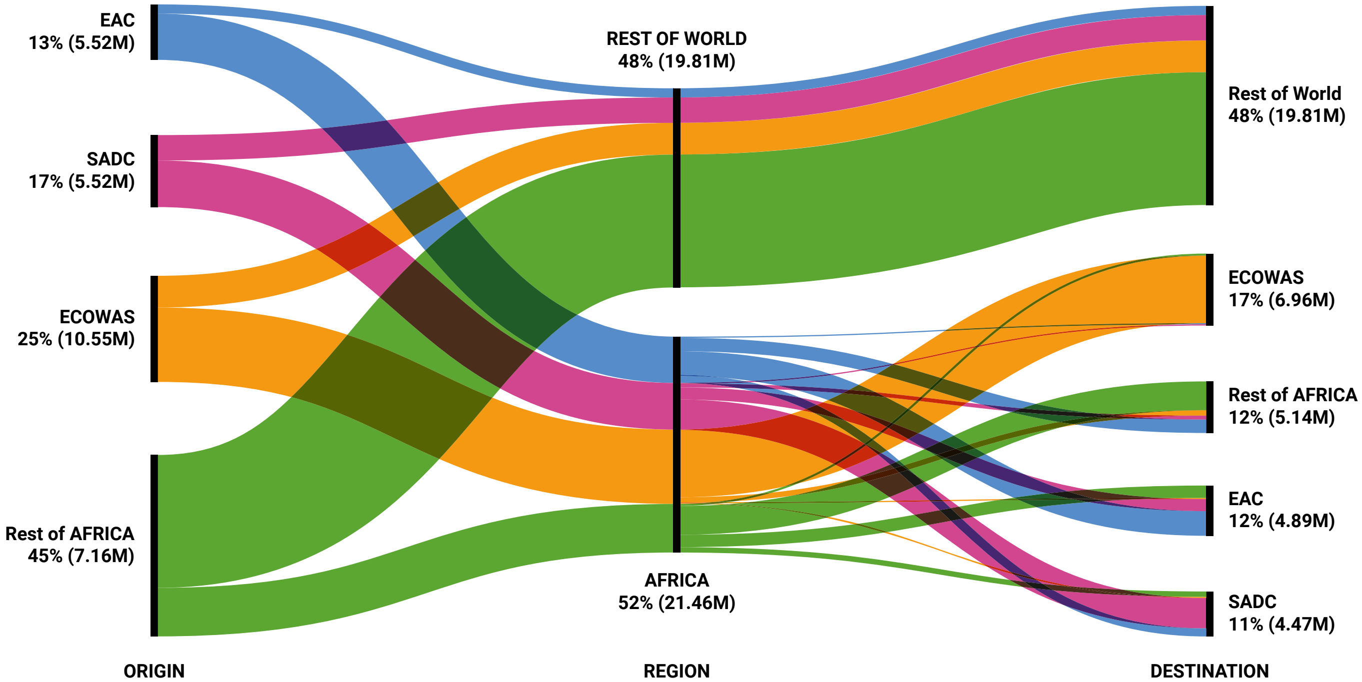
22 Hirsch, Alan. 2023. "Framing A Study Of African Migration Governance Reform —Towards Freer Movement." New South Institute.

23 Hirsch, Alan. 2021. The African Union's Free Movement of Persons Protocol: Why has it faltered and how can its objectives be achieved?, South African Journal of International Affairs, 28:4, 497-517.

FIGURE 17

THE MAJORITY OF MIGRATION IS HAPPENING WITHIN THE CONTINENT

Three Regional Economic Communities (RECS) in Africa, the East African Community (EAC), ECOWAS in West Africa and the Southern African Development Community (SADC) have made progress in continental integration through various regional initiatives. Reducing travel requirements and allowing citizens to cross territories more easily has had a positive impact on the flow of migrants between regional blocs. However, a large portion of the migrant population is still moving off the continent. Relaxing restrictions and enacting regional initiatives will have a large effect on mobility within the continent.



Note: Tanzania is double-counted due to its dual membership in EAC and SADC. Without this double-counting, the total number of intra-African migrants is 20.9 million, not 21.46 million, and the total number of African migrants to the "Rest of World" is 19.6 million, not 19.81 million.

Source: 2020. Michael Mutava (forthcoming) aggregation. UN DESA International Migrant Stock 2020: Destination and origin.

states to develop practices and systems of documentation and mutual cooperation that in the long run can build trust and enable broader mobility agreements.

The Association of South-East Asian Nations (ASEAN)[24] and two overlapping regional blocs in South America progressed by focusing on the mobility of skilled people first.[25] In the South American case it laid the basis for broader agreements on mobility.[26] Africans can learn from these experiences.

24 Sugiyarto, Guntur, and Dovelyn Rannveig Agunias. 2014. "A 'freer' flow of skilled labour within ASEAN: aspirations, opportunities and challenges in 2015 and beyond." Issue in Brief. Washington: International Organization for Migration, Migration Policy Institute: 11.

25 Brumat, Leiza. 2020. "Four generations of regional policies for the (free) movement of persons in South America (1977–2016)." Regional integration and migration governance in the Global South. Cham: Springer International Publishing.

26 Arcarazo, Diego Acosta, and Andrew Geddes. 2014. "Transnational diffusion or different models? Regional approaches to migration governance in the European Union and Mercosur." European Journal of Migration and Law 16.1: 19-44.

Re-globalization and Africa's integral role in a sustainable future

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The idea of globalization brought with it the idea of prosperity. Yet ever since globalization has been discussed questions have been raised around its effectiveness and ability to bring prosperity to all. In recent years this has been especially true considering global challenges like the Covid-19 pandemic, conflict in Ukraine, and supply chain difficulties that arose from them. In Africa, we know that despite its promise many Africans have not seen globalization's benefits and many African countries have struggled to move up along global value chains. In fact, as recently as 2022, 46 African economies were considered dependent on the export of primary commodities, a situation associated with lower levels of development, economic instability, and fiscal unpredictability.[27]

But this does not mean that a globally connected world is misplaced, it means that the operational structure that underpins globalization must change in a way that spreads the benefits of trade to all. It is in this space that Africa has a unique place to drive the conversation around re-globalization and position itself at the center of a new effort to own its trajectory.

Africa's commitment to a resilient and sustainable future that works for all Africans is strong. Despite challenges, the continent is making significant progress in advancing initiatives like the African Continental Free Trade Area (AfCFTA). The AfCFTA promises to unite more than 50 individual economies and nearly 1.5 billion people in a manner that is resilient, inclusive, and sustainable.[28] This modality, Africa working with Africa, gives it a blueprint for success. Helping to illustrate its promise, modelling estimates from the United Nations Economic Commission for Africa show that in 2045, as compared to the situation without the AfCFTA, the value of intra-African trade can rise by 33.5% with the full implementation of the Agreement with the largest gains going to sectors that Africa needs to build resilience in most like Agrifood, Services, and Industry.[29] Here, the AfCFTA will also help Africa move up along regional and global value chains. As of 2019, Africa's participation in global value chains was a mere 1.7%.[30] Yet, the AfCFTA can help drive inward investment flows to build the infrastructure, capacity, and expertise needed to move up along regional and global value chains that sometimes stand in conflict with one another. It will do so through creating a harmonized landscape for investment, competition, and intellectual property rights via dedicated and standalone Protocols to the Agreement.

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27 Analysis defines primary commodities as "primary commodities, precious Stones and non-monetary gold (SITC 0+1+2+3+4+68+667+971)" from UNCTADstat. 2022. Merchandise trade matrix in thousands United States dollars, annual database.

28 United Nations. 2023. Economic Commission for Africa (ECA). "AfCFTA what you need to know: frequently asked questions & answers." https://repository.uneca.org/handle/10855/49411.

29 ECA (forthcoming).

30 OECD. 2022. "Regional value chains in Africa for better global integration."

Africa simply cannot compete against major trading powers that use tax and subsidy policy to draw investment. But by working together, advancing integration, and operating with one voice Africa can drive the re-globalization conversation and put itself in a position to reap its benefits.

Yet, in another context, re-globalization will bring Africa into central focus due to its unique endowment of green transition minerals like cobalt, lithium, and nickel. Green minerals can help Africa pursue its environmental and development objectives simultaneously, but to do so it cannot harvest its resource endowment in the same manner of the past. Africa must make needed investments in infrastructure, technical expertise, and private enterprise that will help it industrialize in a sustainable and resilient way and permit it to specialize in the export of higher value-added production and raise its voice on the global stage.

To seize upon the promise of re-globalization we must also recognize that challenges exist. Africa simply cannot compete against major trading powers that use tax and subsidy policy to draw investment. But by working together, advancing integration, and operating with one voice Africa can drive the re-globalization conversation and put itself in a position to reap its benefits.

Modernizing AGOA for the 21st century

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The African Growth and Opportunity Act (AGOA) is set to expire in 2025 after serving as the cornerstone of the U.S.-African commercial relationship for nearly the last quarter-century. As Congress and the Biden administration work toward AGOA's renewal, three critical issues should guide the modernization of the legislation to ensure that it leads to enhanced growth on the continent and deeper commercial ties between Africa and the United States. These issues are:

- Aligning AGOA with the implementation of the African Continental Free Trade Area;
- Ensuring that every beneficiary has an AGOA utilization strategy; and
- Using AGOA to promote U.S. investment in Africa.

The U.S. should also continue the strategic working groups and the annual summit process that were established in the MOU with the AfCFTA secretariat during the December 2022 African Leaders Summit.

AGOA and the AfCFTA: One of the most significant developments to have taken place on the continent since AGOA was last renewed in 2015 is the ratification of the AfCFTA by 47 African nations and the creation of a secretariat in Accra. Designed to create a USD 3 trillion free trade area, which would be the largest in the world, the AfCFTA will be instrumental in reducing poverty and inequality on the continent and accelerating economic diversification, value addition, and structural transformation.[31]

As an initial step toward alignment with the AfCTA, Congress should consider the proposal by Senator Chris Coons to modify AGOA's rules of origin to allow inputs from North African AfCFTA countries—presently excluded from AGOA—to count toward the requirement that 35% of a product's value originate in the region.[32]

The U.S. should also continue the strategic working groups and the annual summit process that were established in the MOU with the AfCFTA secretariat during the December 2022 African Leaders Summit.[33]

National utilization strategies: When Congress extended AGOA in 2015, it urged all beneficiaries to develop national utilization strategies. According to USTR, only 16 have done so.[34] Those countries that have developed AGOA strategies have seen increases in their exports to the U.S. Togo saw an increase of 91% of its agricultural exports to the U.S. between 2017 and 2020; Mozambique increased its AGOA exports by 813% between 2018 and 2020, again largely agricultural products; and Zambia increased its exports over 3,000%, including semi-precious stones, pearls, and copper.[35]

31 Okwatch, Douglas. 2023. Africa Renewal. "Africa's free trade on track, more efforts needed." UN.

32 Coons, Sen. Chris. "AGOA Renewal Act of 2023."

33 The White House. 2022. "FACT SHEET: U.S.-Africa Partnership in Promoting Two-Way Trade and Investment in Africa."

34 United States Trade Representative (USTR). 2022. "2022 Biennial Report of the Implementation of the African Growth and Opportunity Act."

35 Schneidman, Witney, Kate McNulty, and Natalie Dichary. 2021. The Brookings Institution. "How the Biden administration can make AGOA more effective."

The Biden administration should work with every AGOA beneficiary to develop and implement an AGOA utilization strategy.

Supporting U.S. investment in Africa through AGOA: Since AGOA was last extended, there has been a steady decline in U.S. investment in Africa from a high of $69 billion in 2014 to $44.81 billion in 2021.[36] Although it ticked up to $46.17 billion last year, the reality is that most American companies see the African market as a risk as opposed to an opportunity.

AGOA should be modernized in several ways to provide policy certainty and support for American companies entering the African market.

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One strategy for lowering the risk and increasing the return on investment is through **investment incentives.** In 1976, the U.S. tax code granted U.S. companies a tax exemption for investing in Puerto Rico, which helped to drive GDP growth from -0.3% to 10% the last quarter of 20th century.[37,38] More recently, the Inflation Reduction Act (IRA) included a range of tax credits to spur investments in electric vehicles and clean energy technologies.

In modernizing AGOA, Congress should consider introducing a credit similar to the one in the IRA to incentivize U.S. companies to make job-creating and value addition investments in specific sectors in AGOA eligible countries, including critical minerals and supply chains, digital infrastructure and skilling initiatives, renewable energy systems and grids, manufacturing (e.g., automobiles, apparel), agriculture and food security, and health services and vaccine production.

Congress could also amend the IRA to include all AGOA-eligible countries, as Vera Songwe and I have advocated, given that the legislation's investment incentives only apply to those countries with whom the U.S. has free trade agreements.[39] Morocco is the one country on the continent with whom the U.S. has an FTA.

AGOA creates another uncertainty for American companies as it stipulates that countries will **lose eligibility** once they achieve "high income" status, as defined by the World Bank's GDP per capita status. Seychelles, as an example, was "graduated" from AGOA in 2017 for reaching developed country status. To enhance investor certainty, Congress should consider the Coons' proposal that would ensure countries do not lose eligibility until they achieved "high-income" status for five consecutive years.

36 Statista. Foreign direct investment position of the United States in Africa from 2000 to 2022 data.

37 Greenberg, Scott and Gavin Ekins. 2015. Tax Foundation. "Tax Policy Helped Create Puerto Rico's Fiscal Crisis."

38 IMF Datamapper. Real GDP Growth. World Economic Outlook (October 2023) datasets.

39 Schneidman, Witney and Vera Songwe. 2023. "Africa's Critical Minerals Could Power America's Green Energy Transition." Foreign Policy.

Central to contributing a predictable investment environment in Africa is the **length of time** that AGOA might be renewed. Senator John Kennedy has introduced legislation that would extend AGOA for 20 years, to 2045. This would be ideal. The Coons' legislation proposes an extension of 16 years, which would be consistent with the U.S.-Mexico Canada Agreement. This would also be very beneficial. In fact, anything less than 10 years will contribute to investment policy uncertainty for American companies contemplating entering the African market.

AGOA's **conditionalities** have also exacerbated the uncertainty of the African market for U.S. companies. As part of the original legislation, conditionalities have largely been used to deny AGOA benefits to countries where coups, conflicts, or significant human rights abuses have occurred. In practice, the individuals who are more likely to suffer the consequences of lost AGOA benefits are those who are assembling products for export to the United States—in most instances, women employees.

When Madagascar lost its benefits after the 2009 coup, over 26,000 jobs were lost.[40] Following the termination of Ethiopia's preferences on January 1, 2022 for the government's role in the Tigray conflict, an estimated 20,000 jobs were lost after a number of apparel manufacturers, including PVH and H&M, decided to stop manufacturing.[41]

Today, the United States has a range of sanctions, such as the Global Magnitsky Act, that it can use to hold accountable those responsible for initiating conflicts, perpetuating human rights abuses, widespread corruption, or electoral fraud. A more focused sanctions strategy would help the U.S. to avoid hurting the very people AGOA was intended to support. Furthermore, AGOA eligibility should be reviewed every six years. This would be similar to the provision in the U.S.-Mexico-Canada Agreement that provides for a "joint review" of the accord six years after its entry into force. Currently there is an annual eligibility review for all AGOA countries, which leads to more policy uncertainty than clarity.

AGOA has been one of the most enduring pillars of the U.S.-African relationship. It has great potential to do more for all stakeholders.

40 The New Humanitarian. 2014. "Madagascar back in the US trade fold."

41 Industriall-Union. 2023. "Job losses wreck livelihoods in Ethiopia's garment industry."