OPERATIONALISING THE AFCFTA FOR GROWTH AND INTEGRATION: NEW OPPORTUNITIES FOR MSMES IN NORTH AFRICA

How and what to export successfully across Africa?

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Roadmap of the presentation

- Global State of Trade & recent trends
- The African context: what role the AfCFTA can play?
- Focus on Northern Africa
- What about the VC?
Global State of Trade & recent trends

In September 2020, Africa’s exports were 12% down from the previous year while in Asia, some countries showed clear signs of recovery.

Notes: year-on-year growth rates for September 2020, based on reports from 39 countries that have reported their trade data in September 2020, accounting for 63% of world trade.

September 2020 exports by development level (as compared to the previous year):
- LDCs: +4%
- Developing: +2%
- Developed: +3%
The Global State of Trade & recent trends

The trade recovery in September 2020 is driven by vegetal and cereal sectors, but exports of the crisis-hit apparel sector have increased as well

<table>
<thead>
<tr>
<th>Sector</th>
<th>Year-on-year growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral primary products</td>
<td>-15%</td>
</tr>
<tr>
<td>Skins, leather, products thereof and footwear</td>
<td>-5%</td>
</tr>
<tr>
<td>Sea animal products</td>
<td>-4%</td>
</tr>
<tr>
<td>Textile (fabric)</td>
<td>-2%</td>
</tr>
<tr>
<td>Minerals, metals &amp; products thereof</td>
<td>+1%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>+1%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>+4%</td>
</tr>
<tr>
<td>Animals &amp; animal products</td>
<td>+4%</td>
</tr>
<tr>
<td>Manufactured products n.e.s.</td>
<td>+6%</td>
</tr>
<tr>
<td>Beverages</td>
<td>+7%</td>
</tr>
<tr>
<td>Machinery &amp; electronic equipment</td>
<td>+8%</td>
</tr>
<tr>
<td>Hazardous products</td>
<td>+9%</td>
</tr>
<tr>
<td>Wood, paper, rubber, plastics</td>
<td>+9%</td>
</tr>
<tr>
<td>Processed food &amp; animal feed</td>
<td>+12%</td>
</tr>
<tr>
<td>Horticulture</td>
<td>+12%</td>
</tr>
<tr>
<td>Apparel &amp; textile products</td>
<td>+13%</td>
</tr>
<tr>
<td>Sectors, n.e.s.</td>
<td>+13%</td>
</tr>
<tr>
<td>Cereals &amp; cereal products</td>
<td>+15%</td>
</tr>
<tr>
<td>Vegetal products n.e.s.</td>
<td>+21%</td>
</tr>
<tr>
<td>Average across all sectors:</td>
<td>+2%</td>
</tr>
</tbody>
</table>

Notes: year-on-year growth rates for September 2020, based on reports from 39 countries that have reported their trade data in September 2020, accounting for 63% of world trade.
Intra-regional trade has been hit stronger than total trade during the pandemic

Notes: year-on-year growth rates for March-August 2020, based on reports from 55 countries that have reported their trade data in August 2020, accounting for 66% of world trade.
Africa’s intra-regional trade

• **Intra-African imports** account for ca. 12% of total African imports, Asia and Europe import more than 60% from the region.

• Africa’s world market share however is very small as well, implying that intra-regional trade still represents an important source of export revenues.

➔ Africa needs a general **boost in export performance** and AfCFTA can support this.
Trade agreements in Africa

CAEMC  Central African Economic and Monetary Community
IOC  Indian Ocean Commission
SACU  Southern African Customs Union
WAEMU  West African Economic and Monetary Union
EAC  East African Community
COMESA  Common Market for Eastern and Southern Africa
SADC  Southern African Development Community
ECOWAS  Economic Community of West African States
MERCOSUR  Southern Common Market

M  indicates that the country is a party to COMESA but not yet applying preferential tariff
I  indicates that the country has not applied for membership to COMESA
S  indicates that the country has applied for membership to COMESA but not yet been accepted
E  indicates that the country is a party to EAC but not yet applying preferential tariff
L  indicates that the country is a party to EAC but not yet applying preferential tariff

- Partial scope agreements
- Free Trade agreements
- EPA with EU
- Agreements with countries outside Africa

[Map showing trade agreements in Africa]
The share of processed goods is substantially higher in intra-African trade than in exports to other countries (41% vs. 17%).

Africa’s exports to the rest of the world are dominated by mineral fuels and raw products.

Intra-regional trade offers more opportunities to climb the technological ladder: 31% of intra-African exports are technologically advanced as compared to 15% of exports to the RoW.

**Technologically advanced** – transformed products successfully exported by countries with a GDP per capita at least as high as the exporter’s GDP per capita.
Structural assessment of Africa’s trade (2/2)

- The inverse Herfindahl-Hirschman index indicates that **Africa exports only 11 equivalent products**, much less than America, Asia and Europe (76, 64 and 99 equivalent products, respectively). When looking beyond natural resource trade, the value increases to 17 equivalent products.
- While Africa’s exports to other countries are highly concentrated (9), **intra-African trade is much more diversified** (49).

*Level of export diversification as high as it would be if the continent was exporting each product at equal shares.

**Export diversification (inverse Herfindahl-Hirschman index)**

*Excluding products from Chapters 24-27, 93, as well as waste and products not suitable for export promotion (such as antiques).
Africa’s export potential (1/3)

- African exporters hold an **unrealized potential of $18 bn in African markets**
  - ~1/3 of the export growth potential ($6.2 bn) is due to market frictions
  - ~2/3 ($11.6 bn) are due to expected growth dynamics

**Intra-African export growth potential**

![Diagram showing the unrealized potential of $18 bn in African markets, with $6.2 bn due to market frictions and $11.6 bn due to expected growth dynamics.]
Africa’s export potential (2/3)

Current exports are largest in the machinery sector ($2.9 bn), followed by vehicles ($2.3 bn) and plastics ($2.2 bn).

The vehicles sector has the largest unrealized export potential ($1.3 bn), followed by sugar ($993 mn) and fish ($936 mn).

*Excluding products from Chapters 24-27, 93, as well as waste and products not suitable for export promotion (such as antiques).
In absolute terms, South Africa and Egypt have the most export growth potential. In relative terms, Cabo Verde, Sao Tome and Principe, and Somalia could gain the most from removing market frictions and targeted investments with shares of unrealized in total export potential > 50%.
AfCFTA gains

- Assuming a scenario where developing countries reduce their tariffs by 100% and LDCs by 50% over 5 years, additional opportunities worth $9.2 bn would become available (+18%)
- With full tariff liberalization, this gain would increase to $19.8 bn (+39%)

AfCFTA gains, by sector

AfCFTA gains, by country

- Cabo Verde could gain $18.3 mn (1,286%)
- Egypt could gain $3.1 bn (57%)
- Somalia could gain $54 mn (479%)
- South Africa could gain $10.4 bn (47%)
- Sao Tome and Principe could gain $1.5 mn (562%)

- $10.0 bn
- $4.2 bn
- $990 mn
- $964 mn
- $901 mn
- $853 mn
- $758 mn
- $645 mn
- $502 mn
- $10,403 mn

- 87-Vehicles other...
- 17-Sugars and suga...
- 39-Plastics and ar...
- 34-Soap, organic s...
- 85-Electrical mach...
- 03-Fish and crusta...
- 72-Iron and steel...
- 73-Articles of iro...
- Other sectors
Focus on Northern Africa (1/2)

- Northern Africa accounts for one quarter ($4.4 bn) of the total intra-African untapped export potential, and one third ($6.7 bn) of the AfCFTA-related gains in additional exports.

- More than half of Egypt’s export potential remains unrealized, potentially giving rise to $2.5 bn in additional exports subject to the removal of market frictions and investments.

- Egypt also could become the biggest winner from the AfCFTA with tariff cuts making additional exports worth $1.1 bn possible.
Focus on Northern Africa (2/2)

- The electrical machinery sector could gain the most from removing market frictions and making targeted investments ($514 mn).

- The vehicles sector is expected to gain the most from a full liberalization of tariffs under the AfCFTA ($663 mn).

- Other sectors with good prospects to increase intra-African trade comprise plastics and fish.
Example of value chain opportunities in Africa

- Egypt
- Morocco
  - Aluminium containers
- Egypt
- Tunisia
  - Mixture of spices
- Kenya
- Madagascar
  - Carton packaging

Ethiopia, Tunisia, Uganda

- Export tomatoes with a comparative advantage

Market size in COMESA: $299 mn
Market size in Rest of Africa: $655 mn

See ITC report: “Products and Markets with Export Growth Potential in COMESA”
Example of value chain opportunities in Africa – Medical supplies (1/2)

While Africa accounts for a small share of world exports of PPE, the continent holds a significant share of world exports of certain inputs into these products.

Share of African in world exports in selected health-related products and their main input:

- **Masks**: Main input: Synthetic nonwoven fabrics
- **Gloves**: Main input: Synthetic nonwoven fabrics
- **Disinfectants**: Main input: Synthetic nonwoven fabrics
WHO* estimates that Africa would need 500,000 litres of disinfectants each month to fight the pandemic.

Through regional and global cooperation, Africa could produce sufficient amounts of disinfectants to meet its own requirement.

Example of value chain opportunities in Africa – Medical supplies (2/2)

- 500,000 lids are 0.2% of South Africa’s monthly lids exports.
- Required ethanol is 374,000 l = 2.2% of South Africa’s monthly ethanol exports.
- 500,000 bottles are 1.1% of Egypt’s monthly bottles exports.
- 125,000 litres of glycerol are required.

See ITC Technical Paper: "Medical Industries in Africa: A Regional Response to Supply Shortages".

*ITC regional breakdown of WHO global estimates.
For more information

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