Africa: A new trade era begins

How the Africa Continental Free-Trade Area (AfCFTA) Agreement is creating opportunities for Swedish companies

HOW WILL THE AfCFTA PUSH AFRICA TOWARDS A NEW ERA OF ECONOMIC PROSPERITY?

On the 1st of January 2021, the largest free trade area agreement came into effect, bringing 54 nations closer together under the Africa Continental Free-Trade Area (AfCFTA) Agreement. The World Bank forecasts intra-African trade to rise from today's 17 per cent to 81 per cent by 2035. What does this mean for Swedish companies operating on the continent in different capacities?

The AfCFTA is set to effectively harmonise trade in goods and services in addition to improving the business environment by reducing tariff and non-tariff barriers on the continent. The move marks a new trade and investment era for Africa and offers a wide range of possibilities for Swedish businesses across various sectors. Business Sweden is confident that this new dawn of economic integration presents opportunities for Swedish companies in multiple sectors including manufacturing, fast moving consumer goods (FMCG), digital technologies, healthcare, and pharmaceuticals. With harmonised trade regulations and better movement of goods and services across the continent, the case for production in Africa for Africa is now a reality, where Swedish players can play a significant supporting role.

THE AGREEMENT WILL HELP WEATHER THE EFFECTS OF THE PANDEMIC

Much like the rest of the world, Africa has been adversely affected by the Covid-19 pandemic as lockdown measures hampered important industries and livelihoods of millions, while putting pressure on the healthcare systems and fiscal expenditures across the continent. The free-trade agreement will provide the continent with increased inter-dependencies in trade and services, allowing for better co-operation while improving the business operating environment across all spectrums.

INCREASED INTEGRATION AT A CONTINENTAL SCALE WILL HAVE A SUSTAINABLE IMPACT ON TRADE AND INVESTMENT PRACTICES IN AFRICA

Our findings indicate that the African markets present significant opportunities with the introduction of the new AfCFTA agreement, both to grow the existing market, but more importantly, set a base on the continent with access to other markets locally, regionally, and globally. The overall objective of this report is to establish the extent to which Swedish trade and investment practices will be impacted by the implementation of the AfCFTA, as well as identifying new, potential opportunities for Swedish companies in Africa.

ANDREAS GIALLOURAKIS

Market Area Director Africa and
Swedish Trade & Invest Commissioner to Kenya

andreas.giallourakis@business-sweden.se

A NEW ERA OF MARKET INTEGRATION AND LIBERALISATION

"Creating a single, continent-wide market for goods and services, business and investment would reshape African economies. The implementation of AfCFTA would be a huge step forward for Africa, demonstrating to the world that it is emerging as a leader on the global trade agenda."

-*Caroline Freund, Global Director of Trade, Investment and Competitiveness at the World Bank*

AfCFTA has created the world's largest free trade area measured by the number of countries participating. Today, intra-African trade accounts for only 17 per cent of the total continental trade, showing that the current trade volumes are small compared to other regional trading blocs like Western Europe (70 per cent) and Asia (49 per cent).

According to the World Bank, Covid-19 has caused an estimated USD 79 billion in losses in 2020 with major disruptions to trade across the continent, including the movement of critical goods such as medical supplies and food. However, with crises comes change; the pandemic has magnified the urgent need to accelerate economic integration on the continent and has forced stakeholders to look across supply chains for new opportunities.

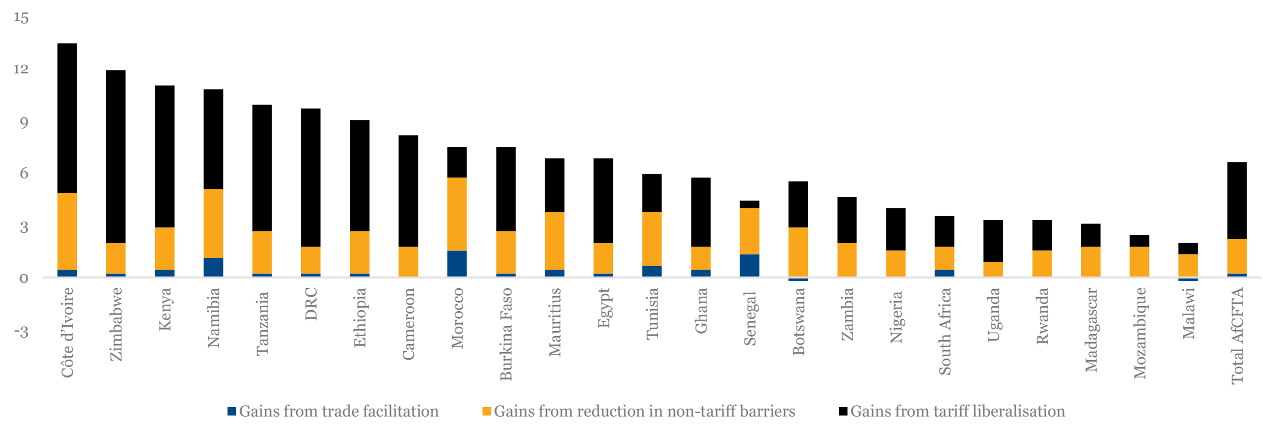
Through increased regional trade, lowering trade costs and harmonising border procedures, the full implementation of the AfCFTA will increase African countries' resilience towards future economic shocks and help catalyse the kind of deep reforms that are necessary to enhance long-term growth. The trade tariffs are planned to be reduced yearly, with the objective that 97 per cent of the trade should be at zero duties within 15 years.

KEY OBJECTIVES – SERVICES

- Create a single continental market for goods and services
- Expand intra African trade
- Resolve the challenges of multiple and overlapping memberships
- Enhance competitiveness at industry and enterprise level

African Union Trade Desk

Income Gains from the AfCFTA



Source: World Bank; Brookings Research

IMPLEMENTATION OF THE AGREEMENT AND WAYS FORWARD

Implementation of the AfCFTA will take place at national level in the respective countries and it will take time until the agreement can deliver on it's full potential. There are still areas yet to to be finalised:

- The schedules of tariff concessions
- The rules of origin for goods, and
- The schedules of specific commitments on services

Other than ineffective compliance mechanisms and lack of a uniform dispute settlement mechanism, analysis of current sub-regional trade agreements indicates that one of the largest challenges within Africa's Regional Economic Communities (RECs) is ensuring member states follow up on commitments upon ratification.

This has resulted in an 'implementation gap' in regional economic integration in Africa and sub-optimal levels of intra-African trade. The AfCFTA dispute settlement mechanism is established under the Protocol on Rules and Procedures on the settlement of duties and is limited to disputes between state parties concerning rights and obligations emanating from the Agreement. It comprises three parts inspired by the the WTO structure: The Dispute Settlement Body, the Dispute Resolution Panels, and the Appellate Body.

USING ESTABLISHED TRADE HUBS TO ACCESS NEW MARKETS

Based on a combination of Ease of Doing Business (EoDB) and geographical location, Business Sweden estimates that Morocco, Kenya, and South Africa are among the countries that will benefit the most from tariff reduction and trade integration. The three countries have the strategic positions in common for covering North, East and South Africa. In West Africa, Ghana and Nigeria are playing important roles serving as gateways.

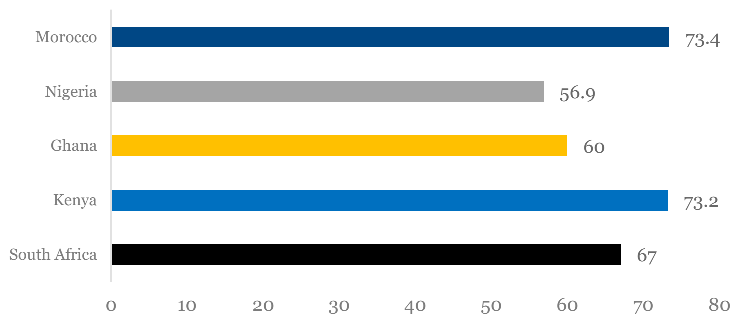
Morocco is a relevant platform to cover the markets of both North and West Africa as the country benefits from a good strategic geographic position, political stability and is ranked 53rd on the EoDB index by the World Bank, which is the second highest ranking in Africa. Morocco is currently the largest African investor in West Africa and the second largest on the continent. Having made socio-economic development in Africa one of its foreign policy priorities, this is likely to develop even further under the new agreement.

Kenya is the leading economy in East Africa and serves as a gateway to the East and Central African region. In 2019, Kenya's economy was one of the fastest growing economies in Sub-Saharan Africa, with an average GDP growth on 5.5 per cent. According to the World Bank, the growth was boosted by an overall stable economic environment, but also an increased investor confidence and increased resilience in the service sector. Kenya, the fourth highest ranked country in Africa on the EoDB index and its position as a strategic hub, is further strengthened by the growth of international trade over the past decades, as well as an increased presence of international players in the market – many of which are already using Kenya to cover East Africa. The pandemic has further accelerated this trend, as stakeholders have started looking over their supply chains to increase the efficiency. The country developed the National Trade Policy in 2017, with the objective to transform Kenya into a more efficient domestic economy, for which exports are playing a significant role.

Nigeria represents the largest economy in Africa and the young and rapidly growing population has contributed to transforming Nigeria into a technology leader. The country's ambition to become a regional hub has accelerated infrastructure development; in 2019 the infrastructure projects in the pipeline amounted to USD 48.4 billion, the highest number of infrastructure projects on the continent. **Ghana**, ranked the ninth most political stable country on the continent, has a growing importance in West Africa with significantly better ranking in EoDB and corruption perception. Many companies opt for Ghana as their base in West Africa.

Representing the second biggest economy in Africa after Nigeria, **South Africa** will be a key-player and will look to maximise the benefits created through the AfCFTA. The country has strong connections across the continent with a well-established manufacturing base and the most modern and diversified economy with a powerful service sector. Financial services account for 21 per cent of GDP and there is a broad openness to export.

EoDB Score/100



Source: doingbusiness.org

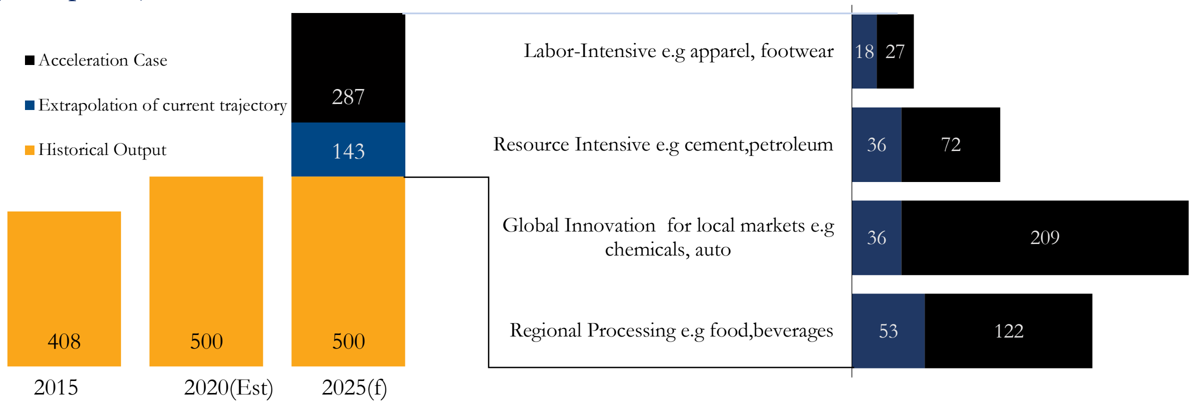
PROMISING OPPORTUNITIES FOR SWEDISH COMPANIES

As the AfCFTA kicks-off, some of the market segments that present opportunities for Swedish businesses include manufacturing, retail/consumer goods, services and digital technologies, healthcare, and life sciences/pharmaceuticals.

MANUFACTURING TO CREATE 16 MILLION NEW JOBS

According to the IMF, Africa's manufacturing sector is projected to double in size and create up to 16 million new jobs under the AfCFTA. It is set to deliver the most gain in welfare and income for Africa (60 per cent increase of income). McKinsey analysis finds four categories of products that could increase output by 86 per cent in the period to 2025 by USD 430 billion so that overall output approaches the USD 1 trillion mark. The largest opportunity for Swedish companies is in a category of goods classified as global innovation for local markets, which includes automotive and chemicals.

Potential revenue from African manufacturers BUSD, (2015 prices)

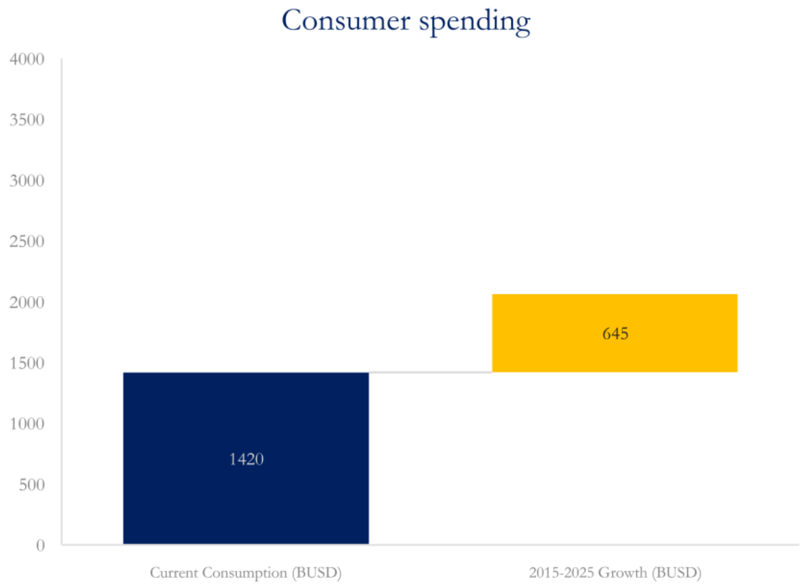


Source: Oxford Economics

Sustainable manufacturing is gaining traction globally and the increased opportunities for the manufacturing industry in Africa present opportunities for Swedish providers of tools, technology, machinery, and solutions to the sector.

CHANGING CONSUMER PATTERNS TO BOOST RETAIL AND CONSUMER GOODS

The continent is one of the fastest-growing consumer markets in the world. Across Africa, a growing number of consumers is fuelling the demand for better quality and more sustainable products that fit with urbanised middle-class lifestyles. The size of one AfCFTA market is projected to reach USD 4 trillion by 2025 and half of this additional growth will come from East Africa, Egypt, and Nigeria.



Source: Oxford Economics, Mckinsey Business Analysis

Around 60 per cent of the increase in consumption can be accredited to the growing population while the rest can be accredited to discretionary spending. Basic items such as food and beverages are expected to account for the largest share of consumption growth in the period to 2025, whilst discretionary categories are projected to be the fastest growing: 5.4 per cent in the case of financial services, 5.1 per cent for recreation-related activities, 4.4 per cent for housing, and 4.3 per cent for healthcare . The growing middle-class population are the main driver of increased discretionary categories. Projections suggest that by 2030 there will be about 190 million individuals in Africa earning over USD 5,000 per year. These consumers are mainly found in the megacities, e.g, Cairo, Johannesburg, and Nairobi.

Consumer facing companies in Sweden need to ensure they position themselves strategically in each of Africa's emerging centres of consumption—North, West, East and Southern Africa—with a primary focus on the mega cities as they are key to capturing Africa's consumer opportunity.

Per capita consumption in large cities is 79 per cent higher than the average of these cities' host countries. In Nairobi and in the Nigerian cities of Abuja, Ibadan, Lagos, and Port Harcourt, per capita consumption is more than double the national average. The top three cities in Angola and Ghana account for more than 65 per cent of national consumption and this is a common pattern based on Business Sweden's experience across Africa. Swedish retailers can take advantage of the growing trends within the sector to unify value chains, access new markets, and work closer with local suppliers.

HEALTHCARE, LIFE SCIENCES AND PHARMACEUTICALS

The free trade area is expected to drive growth in private health care, including medical tourism. For example, as demand for cancer treatment increases, visa-free travel will enable people in the 15

African countries without radiotherapy services to seek care elsewhere.

The pharmaceutical sector has been identified as a priority area for co-operation in the EU's Comprehensive Strategy with Africa. In light of the Covid-19 pandemic and limited access to vaccines, many countries have also further accentuated the need to build up capacity to produce pharmaceuticals and vaccines. This provides an opportunity for pharma-investments in Africa and for technology supporting these investments. Such investments will depend on enabling factors such as intellectual property rights protection, regulatory approval of new drugs, financing, incentives for investment in research and development, and distribution and access to medicines which are enabled by the AfCFTA.

As the African healthcare sector develops, and more importantly, people's expectations combined with improved ability to pay for healthcare, the demand for modern and relevant health-tech and medicines is likely to increase.

AFRICA TRANSFORMING INTO A DIGITAL ECONOMY

With the implementation of the AfCFTA agreement, the World Bank estimates that in comparison to manufacturing, the gains in services trade would be much smaller but significant at about four per cent overall and 14 per cent intra-African trade. Services tend to be higher on the agenda in countries such as:

- Small tourism focused island states (eg. Mauritius, Seychelles)
- Small landlocked states for which manufacturing might be less commercially viable (eg. Botswana, Rwanda)
- Countries with more sophisticated value chains requiring services input and financial centres (eg. Kenya, Morocco, South Africa), and
- IT/telecommunications innovative countries (eg. Kenya and Nigeria).

The AfCFTA Protocol on Trade in Services intends to progressively liberalise trade by eliminating barriers to trade in services. The liberalisation of trade in services, coupled with relevant policies, is capable of spurring both sectoral and economy-wide growth. Five priority sectors have been prioritised for AfCFTA implementation:

- Transport
- Financial Services
- Tourism
- Business Servies, and
- Communication

Digitalisation is one way of revolutionising the service sector. Although the AfCFTA does not explicitly refer to the digital economy, digital considerations cut across many aspects of trade in goods and services. E-commerce specifically will be negotiated under phase three and plans are underway for a continental protocol on e-commerce. According to the European Centre for Policy Development Management, Africa has the lowest rate of internet penetration. However, this is now being offset by a continuously growing internet usage as more people gain access to the internet via mobile devices. Additionally, investments of about USD 100 billion in physical information and communication technology (ICT) and digital infrastructure is needed over the next decade.

Swedish businesses can contribute with their expertise by providing services and infrastructure to fill the gaps. Large corporations such as ABB and Ericsson are actively engaging in opportunities to provide infrastructure for data centres, grid extension, digital tools, and cloud services. Small and medium sized companies are also vital in niche services such as developing the use of online information portals, single windows, digital documentation, electronic payments, electronic certificates, and signatures which can help simplify, streamline, and expedite trade-related procedures at borders. Additionally, using e-commerce to facilitate trade in services, has become increasingly crucial for economic activity since the onset of Covid-19.

Beyond streamlining customs procedures, digital tools like electronic cargo tracking can help improve trade logistics, while digital payment platforms such as PAPSS, can make trade-related cross border financial transactions easier. The opportunities are endless to help developing a rapidly developing business environment while taking position for a future with significantly larger volumes across all industries.

CONCLUSION

The AfCFTA will boost intra-African trade significantly and according to World Bank projections, the continent will emerge as one of the largest regional trading blocs, with potential of reaching 81 per cent by the end of 2035. The objective is to eliminate all barriers to trade and exchange, whether they are tariff or non-tariff. Today, significant opportunities on the continent remain untapped. Under the new trade agreement, Swedish businesses have a lot to offer by taking the opportunity to accelerate their global reach and investing more in Africa.

- Trade tariffs will be reduced every year; within 15 years the aim is that 97 per cent of the trade should be at zero duties
- Trade of products or services will be eased across Africa, as the agreement regime governs the conditions under which a product or service can be traded duty-free
- Businesses can benefit from being in some of Africa's key locations, such as Morocco, Egypt, Ghana, Nigeria, Kenya, and/or South Africa as they are important hubs and gateways for its respective region
- Ease of doing business will drive competitiveness in Africa. As free movement of "business people" and investments being one of the agreed preambles, Africa will strengthen the institutional trust and simplify market access for regional and international businesses
- For Swedish companies, the agreement will boost opportunities in important sectors such as manufacturing, retail/consumer goods, services and digital technologies, healthcare, and life sciences and pharmaceuticals

Simplified procurement processes will allow for more transparency and a level-playing field within large-scale procurement projects as well as Public-Private Partnerships (PPPs). The objective is to eliminate all barriers to trade and exchange, whether they are tariff or non-tariff. But also, to improve the business climate and the fight against corruption within enterprises.

Business Sweden has three dedicated teams in Africa supporting Swedish companies realise their global growth ambitions. Our teams have cross-sector local knowledge and global expertise and can help to assess your readiness level for market entry, provide market analysis and strategic guidance, and help your company pursue opportunities.

We help Swedish companies grow global sales and international companies invest and expand in Sweden.

BUSINESS-SWEDEN.COM

BUSINESS SWEDEN in Nairobi
Eden Square, 3rd floor, off Westlands road, 00800 Nairobi, Kenya
T +254 20 374 9760 F +254 20 374 1788

BUSINESS SWEDEN in Johannesburg
Fourways Golf Park, Roos Street, Royal Troon Building, 1st Floor, 2068 Johannesburg, South Africa
T +27 11 300 5600 F +27 11 513 0388

BUSINESS SWEDEN in Casablanca
Section Commerciale de l'Ambassade de Suède Résidence Mouna 1, 197, Boulevard Mohammed-Zerktouni (angle rue Chella), 20100 Casablanca, Morocco
T +212 522 36 25 10 F +212 522 36 24 63