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## THE AFRICAN CONTINENTAL FREE TRADE AREA: THE INVESTMENT OPPORTUNITY



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The African Continental Free Trade Area (AfCFTA) was formally launched on 1 January 2021. Perhaps the news was somewhat lost in the intense coverage of COVID-19. Perhaps it would not have been given many headlines outside Africa anyway. Much of global business and opinion still gives little attention to a continent which will have 25% of the World's population by 2050 and contains several of the fastest growing economies. But this is a paradigm shift which will be of significance to the global investment community, and which, if the AfCFTA is successful, will unlock considerable opportunity and growth.

The AfCFTA connects 1.3 billion people across 55 countries with a combined GDP of US\$3.4 trillion (World Bank Report). The agreement is a clear statement of intent by a new generation of African leaders. It brings to fruition what has long been their dream. OAU Summits in 1968, 1970 and 1973 identified the need for a free trade pact as a key to the continent's integration. The Abuja Treaty of 1991 defined an African Economic Community through the progressive integration of the activities of the Regional Economic Communities (RECs).

Over recent years many African countries have stabilized and grown, and both internal and external conflict and statist experimentation have, despite exceptions, declined. Doctrinaire discourse has been largely replaced by a more entrepreneurial approach, and the encouragement of internal and global investment. The space for free market economics has increased exponentially. At the same time, however, trade between African countries remains minimal - only 12% of the continent's trade being within the continent. That compares to 70% in Europe and 60% in Asia. Only four or five African countries (led by South Africa, Mauritius and Morocco) invest in Africa. The need for greater intra Africa trade and investment is obvious.

It seems certain that there will be a surge in activity and prosperity if barriers can be eliminated, and cross border economic initiatives encouraged. That is what a Continental Free Trade Area is designed to do. It will abolish tariffs on goods - 90% of them in five years. It will begin discussions on services in parallel. Tariffs are important – those on clothing for example make neighbouring countries unattractive sources of supply compared with the Far East. But an undertaking on non-tariff barriers, and the political will to remove them, is at

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least as significant. The AfCFTA also commits member countries to a number of areas of economic cooperation, the facilitation of investment, the development of technology, and the development of common regulatory measures.

The World Bank judges the potential impact to be considerable – the lifting of 30 million Africans out of extreme poverty, and across the board increases in incomes of skilled and unskilled workers, men and women, a boost in income for the continent of some \$350 billion by 2035 and an increase in exports of \$560 billion, mostly in manufactures.

### ***The opportunity and challenge for Africa***

The AfCFTA looks like being a huge opportunity for indigenous companies and existing investors. Technological links are in any case growing as, for example, tech start-ups across Africa from West to East increasingly link up. Concerted Government action on cross border projects could really give a boost. Areas such as the distribution of pharmaceuticals should improve, so long as Governments accept the principle that efficient supply might mean regional hubs. And small and medium sized enterprises, the core of the future African economy, should be among those who benefit the most. This will be challenging for the African Union, especially in three key areas:

1. Significantly improving infrastructure interconnectivity, to bring dynamism and facilitate cross border trading. Currently Africa's poor road, rail, and air links together with inadequate port facilities, coupled with excessive border bureaucracy, will take time to be adequately addressed. But the biggest result will be the building of cross border value chains with economies of scale. That will be done both by building and by deregulation.
2. Raising revenue and creating value by legalising what is now informal, not least the abolition of cross border taxes or rents which currently penalise business rather than raise revenue for the economy. Africa, to attract investment, will need the African Union and the Ghana-based AfCFTA Secretariat to take an active lead in standard setting and enforcement. Governments will need to join in imposing systems of transparency and good governance.
3. Decarbonization and development. Africa, as it develops an economy to look after its own people and finally build its own success after exploitation by the outside industrialised world, now has to respond to constant demands from those outsiders to comply with a whole series of environmental constraints to save the planet - from a problem Africa did not create. And on top of that, international investment is now under a series of obligations and pressures to invest only in the socially friendly and clean "impact" projects. Africa going forward has no choice but to leapfrog polluting technologies and lead its own development policies.

### ***The opportunity and challenge for the global investor***

A free trade bloc can be a massive opportunity for global investment. The thinking of governments championing development, and of global investors, needs to change and adapt to ideas of shared interest and partnership. A growing Africa will feel more economically and politically empowered to drive a harder bargain for example with extractives companies. But an increasingly dynamic and interconnected continent, and especially one which encourages cross border economic activity, is a huge opportunity. Major global funds, including those currently paying lip service to ESG and development commitments, need to think through the real opportunity of a growing continent. Africa will, yes, have to base its growth on better transparency and compliance, and will be full of opportunities for investing in projects with social and global purpose and the fulfilment of the UN Sustainable Development Goals. But it will present a much broader range of opportunities right across the economy. And there will be major opportunities in infrastructure – roads, railway connections and new cities are going to get built.

### ***A shared vision***

The global investor needs to see Africa as a medium and long term prospect. That is not easy for those engaged in fierce short term competition for returns. Global markets do not spend time thinking of Africa. African companies and entire African economies often do not register because of their small size. There is an occasionally shocking degree of assumed risk. Investments in Africa actually consistently outperform other regions, though at small scale.

But the picture is changing. It is of course for African leaders, economists and business people to articulate their ambition and explain and implement their policies, thereby building the credibility and attractiveness of their economies. But it also requires market leaders in New York, London, Paris, Frankfurt, Singapore and Tokyo and elsewhere to grasp the opportunity of the world as it will look, build African teams, and “become” African. Mrs Ngozi Okonjo-Iweala, as she takes over the huge challenge of the WTO, can be expected to remind member states that the Continent is an essential part of the world’s economic plans, and in the context of trade rather than aid.

This African Continental Free Trade Area is a major opportunity for the continent to prosper and develop politically. The message should not be lost on politicians globally who spend long hours promoting stability. It is a challenge which will take time. But, for the global investment community, ignoring it or writing it off as only a long term aspiration risks missing a major opportunity to accompany and promote change, and profit from it. And it might move quickly. If tariffs are removed by the end of 2025, and more importantly a change of political direction by African Governments and institutions leads to cross border projects and a real will to cooperate on non tariff barriers and shared development projects, there will be a host of real opportunities for investors and a swing towards a positive view of Africa prospects. Both Africa and its friends need to get ready, and to play a part, if they are to have a share of making this happen. It is not a word used by the AFCFTA but the creation of the Area is surely an

invitation to its friends. This can be a truly African initiative but a global project. And one the global investment community should not simply sit back and observe.

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