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**KEY POINTS**

- Export potential under the African Continental Free Trade Area is heavily concentrated in three major exporters: Egypt, Morocco and South Africa. The 33 least developed countries in Africa account for only 16 per cent of the export potential
- The least developed countries have comparably greater export potential in agricultural products. Food processing industries also provide an opportunity for value addition and commodity-based export growth among these countries
- Periodic reviews of tariff concessions should allow for policy space for addressing weak productive capacities among the least developed countries and diversifying their imports

# Export potential under the African Continental Free Trade Area: Limited prospects for the least developed countries in Africa?

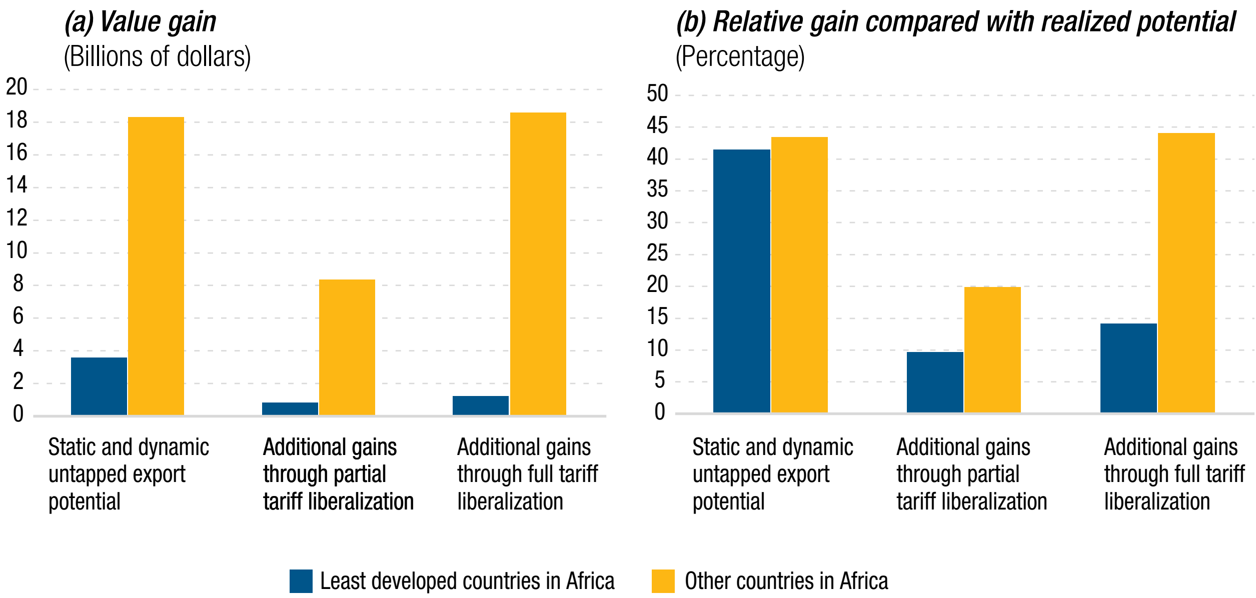
**Free trade under the African Continental Free Trade Area commenced in January 2021. Countries agreed to remove tariffs on 90 per cent of goods, progressively liberalize trade in services and eliminate non-tariff barriers, to improve regional cohesion, create a single large African market and promote gross domestic product (GDP) growth through trade. With the objective of guiding feasible policies and sectoral strategies at the national and regional levels, this policy brief highlights how countries in Africa, in particular the least developed countries, benefit differently from tariff liberalization and the removal of non-tariff barriers.[1]**

[1] As at October 2021, the least developed countries in Africa were Angola, Benin, Burkina Faso, Burundi, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, the Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, South Sudan, the Sudan, Togo, Uganda, the United Republic of Tanzania and Zambia.

## The least developed countries gain less from greater market access than other countries in Africa

UNCTAD, in *Economic Development in Africa Report 2021*, identifies numerous opportunities for export growth in Africa that are expected to further increase through tariff reductions under the African Continental Free Trade Area.[2] Under current tariff conditions, untapped export potential in the region is $21.9 billion. More than one third of that potential ($8.6 billion) is related to non-tariff barriers that inhibit current trade (static untapped potential); the remaining $13.3 billion (dynamic untapped potential) is driven by growth in GDP and population, both of which are expected to translate into increased supply and demand within the next five years.[3] However, the 33 least developed countries in Africa account for only 16 per cent of the static and dynamic untapped export potential ($3.6 billion; see figure, panel (a)). Three major exporters in Africa, none of which are among the least developed countries, hold the largest shares, as follows: South Africa, at 35.8 per cent; Egypt, at 14.8 per cent; and Morocco, at 5.9 per cent.

**Africa: Increase of export potential**




*Source*: UNCTAD, based on UNCTAD, 2021.

The African Continental Free Trade Area Agreement grants differential treatment to the least developed countries in the form of longer tariff liberalization periods, to allow domestic enterprises to adjust to increasing competition. Non-least developed country members have committed to full tariff liberalization within five years; the least developed countries, within 10 years. Countries in the same customs union with a common external tariff regime will implement the same liberalization schedule and, therefore, some non-least developed country members will liberalize according to the schedule for the least developed countries. Some tariff lines (7 per cent) may be considered "sensitive products" and countries are permitted to liberalize tariffs on these products over a longer period (13 years for the least developed countries and 10 years for non-least developed country members). In addition, 3 per cent of tariff lines may be excluded from liberalization.

For comparative purposes, two tariff scenarios are discussed in this policy brief. First, under the current African Continental Free Trade Area rules, tariffs on all products are to be reduced by half by both the least developed countries and non-least developed country members in a customs union that includes the former (i.e. East African Community, Economic and Monetary Community of Central Africa, Economic Community of West African States and Southern African Customs Union) and all remaining non-least developed country members of the African Continental Free Trade Area will fully liberalize within five years (the assumption is that tariffs will be equally reduced for all products, as the list of sensitive products has not yet been determined). Under such partial tariff liberalization, export potential would increase by an additional $9.2 billion.

[2] UNCTAD, 2021, *Economic Development in Africa Report 2021: Reaping the Potential Benefits of the African Continental Free Trade Area for Inclusive Growth* (United Nations publication, Sales No. E.21.II.D.3, Geneva), available at https://unctad.org/webflyer/economic-development-africa-report-2021 (accessed 24 January 2022).

[3] For details of methodology, see International Trade Centre and UNCTAD, 2021, Unlocking regional trade opportunities in Africa for a more sustainable and inclusive future, available at https://unctad.org/meeting/webinar-reaping-benefits-intra-african-trade-inclusive-growth (accessed 24 January 2022).

Collectively, the least developed countries account for 9.1 per cent ($843 million) of this export potential (see figure, panel (a)). Second, if all countries in Africa implemented full tariff liberalization for all products within the next five years, intra-African export potential would increase by $19.8 billion, yet the 33 least developed countries in Africa would only account for 6.2 per cent ($1.2 billion) of the additional gain in export potential (see figure, panel (a)).

The least developed countries currently play a small role in exports from Africa yet have substantial export potential that could be realized through the reduction of bureaucratic procedures in regional trade, in particular, the facilitation of compliance with non-tariff measures and the provision of information on customs procedures. Among some of the least developed countries, more than 75 per cent of total export potential in the region remains untapped, as follows: South Sudan, at 88 per cent; the Gambia, at 84 per cent; Guinea, at 77 per cent; and Mali, at 77 per cent. The least developed countries could gain the most from addressing frictions in intra-African trade (42 per cent, compared with already realized exports; see figure, panel (b), first column). Such frictions include, among others, difficulties in complying with regulatory requirements (e.g. non-tariff measures) for specific products in specific markets; prices and/or quality positioning not in line with market demand; and a lack of market intelligence or business contacts. In contrast, through partial and full tariff liberalization, the least developed countries as a group can expect an increase in export potential by 10 and 14 per cent, respectively. Other countries in Africa could realize greater export growth, by 20 and 44 per cent, respectively (see figure, panel (b)).

## The least developed countries have greater export potential in agricultural and commodity-based products

The sectors in which the least developed countries have a comparably greater export potential are predominantly agricultural and commodity-based products, such as oil seeds and oleaginous fruits; edible fruit and nuts; and essential oils. In the former, for example, they account for 62 per cent of the total untapped potential, or $173 million distributed over 28 of the least developed countries. Food processing industries also provide an opportunity for value addition and commodity-based export growth, as follows: preparations of cereals, with $68 million distributed over 19 of the least developed countries; and miscellaneous edible preparations, with $114 million distributed over 17 of the least developed countries. In addition, there is untapped export potential in cereals, with $180 million distributed over 16 of the least developed countries, which indicates the importance of identifying regional value chain linkages by mapping opportunities among countries in Africa and reviewing tariff concessions for sensitive products that might serve as essential inputs for production. Periodic reviews of tariff concessions should allow for some policy space for addressing weak productive capacities among the least developed countries and enhancing import baskets, in particular for when external shocks, such as the ongoing pandemic, might affect access to inputs and sectoral outputs.

## Special support to the least developed countries in Africa and policy action is necessary

The least developed countries in Africa have weak productive capacities and particular structural challenges that are often related to disadvantages in natural endowments and geographic features (e.g. 14 of the 33 least developed countries in Africa are landlocked). In addition to weak productive capacities, UNCTAD, in *Economic Development in Africa Report 2021*, shows that trade reform in the least developed countries is associated with the relatively slow implementation of agreements due to limited institutional capacity.

Under the African Continental Free Trade Area Agreement, the least developed countries have not yet been granted special and differential treatment other than longer tariff liberalization periods. However, the intended benefits to the least developed countries will be fewer than to other countries, as more competitive non-least developed country members of regional economic communities are granted liberalization time frames similar to those for the least developed countries, thereby undermining the prior commitment to grant preferential treatment to the least developed countries under the Agreement. Periodic reviews due to be held every five years and flexibility to negotiate additional special and differential treatment on a case-by-case basis are important tools with which the least developed countries can demonstrate special needs. Without sufficient supply capacities, the least developed countries are unlikely to reap the full benefits from greater market access. Given structural challenges, the least developed countries should receive dedicated support in the form of aid for trade, to address current trade frictions, as this represents the area of greatest potential for export growth (42 per cent).

The implementation of the African Continental Free Trade Area should be complemented by the implementation of the Action Plan for Boosting intra-African Trade to promote trade facilitation and the building of productive capacities.

The African Continental Free Trade Area and its five operational instruments, namely, on the monitoring and elimination of non-tariff barriers, the online negotiating forum, the harmonization of rules of origin, the African Trade Observatory (a trade information portal) and a digital payment system, are expected to unlock untapped trade opportunities across countries. For example, the Pan-African Payments and Settlement System, a platform that facilitates cross-border payments, is expected to boost intra-African trade through the reduction of payment transaction costs by $5 billion per year and the greater formalization of $50 billion of informal intra-African trade.[4] In addition, the African Continental Free Trade Area can establish new grounds for regional integration focused on sustainable development through core areas of the Phase II negotiations, namely, investment, competition and intellectual property rights. The investment agreement should focus on both key Sustainable Development Goals-related sectors, such as infrastructure, food security, climate action, education and health, and on building regional production linkages, to help reap cross-regional benefits from investments. The African Export-Import Bank has established the African Continental Free Trade Area adjustment facility.[5] This should specifically target the least developed countries and provide financial support for ascertained special needs. Finally, with regard to the protocol on competition policy, in more integrated markets in which large countries and firms can take advantage of economies of scale, regional competition law is equally important, to ensure positive gains for large and for small and medium-sized enterprises across the continent.

4 S Wass, 2019, Africa's continent-wide payment and settlement system launched, Global Trade Review, 9 July, available at https://www.gtreview.com/news/africa/africas-continent-wide-payment-and-settlement-system-launched/ (accessed 24 January 2022).

5 Afreximbank, 2019, Afreximbank announces $1 billion adjustment facility, 8 July, available at https://www.afreximbank.com/afreximbank-announces-1-billion-adjustment-facility-other-afcfta-support-measures-as-african-leaders-meet/ (accessed 24 January 2022).