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Africa's economic trade-off

Africa's new free trade area could transform the continent's economy. But without strong social protections, it may result in more precarious work

Africa’s marginalisation in world affairs is a familiar observation, one most evident when looking at statistics on world trade. Since 2005, the share of the continent in global trade has stagnated at 3 per cent according to the African Union. That was the same period during which Africa has most liberalised its economies. In the early 1980s, Africa’s share of world trade still averaged around 6 per cent.

The decline in Africa’s global trade share is not the only negative consequence of a trade policy regime that has gone wrong. The continent’s role as the ‘hewers of wood and drawers of water’ has consolidated in the last three decades of non-strategic movement from close economies to open ones. Raw materials and commodities dominate exports more than ever. Basic manufactured goods – including those that the continent once used to produce at home – are now imported. The collapse of domestic production generated pernicious joblessness and sustained high levels of poverty.

In 2018, 40 percent of the African population was mired in extreme poverty subsisting on incomes below USD 1.90 a day. In absolute terms 433 million Africans were classified as extremely poor in 2018. The Covid-19 pandemic has since increased the numbers of the extremely poor on the continent to 490 million in 2021.

The structure of Africa’s economies

In the past, the high poverty numbers in Africa were blamed on policies that sheltered African economies from the gains of international trade. Today, however, African economies have become opened to international trade.

In reality, the problem is two-fold.

First, economic growth averaging 5 per cent for the past quarter century has not been sufficient to overturn not only the effects of negative growth in the past but also the current high population growth on the continent. Higher economic growth rates will be needed going forward.

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The second challenge relates to the structure of growth and outputs. Economic growth has been led principally by the export of raw materials and commodities. According to the United Nations Conference on Trade and Development, 56 per cent of Africa's exports are natural resources. The continent imports practically all manufactured goods. And African countries are net food importers. This explains the deteriorating trade balance and the inability to curb joblessness and poverty.

To the rescue: The African Continental Free Trade Area

At the same time, Africa has immense potential. It is home to some of the largest deposits of minerals in the world. It has room to absorb a vast array of 21st century technology, including digital technologies that increase productivity and wellbeing. Above all, Africa has a huge domestic market, which is expanding faster than anywhere else in the world. It accounts for more than 16 per cent of the world's population with a combined GDP of USD 2.1 trillion. The population is young and yearns for higher standards of living.

The Africa Continental Free Trade Area (AfCFTA) builds on this potential to transform both the structure of outputs and trade. The AfCFTA is seeking to create a single continental market for goods and services and pry open the continent for free movement of businesses, persons, and investments. It was signed in 2018 and came into force in 2019. Fifty-four member countries have signed the agreement and 30 countries have deposited their instruments of ratification with the African Union Commission. Trading has commenced in January this year.

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Through harmonisation and coordination of trade liberalisation and trade facilitation across the existing Regional Economic Communities (RECs), such as the Economic

international commerce did so behind high tariff walls, and not free trade agreements.

Community of West African States (ECWAS), the AfCFTA is expected to boost Africa's competitiveness at industry and enterprise levels through scale production, continental market access, and better allocation of resources. The overall objective is to reverse the trend of Africa's marginalisation in world trade and to drive growth and development on the continent by expanding intra-African trade.

The AfCFTA is ambitious, but can it work?

The AfCFTA certainly represents the by-far most ambitious attempt at the continental level to establish a customs union, harmonise trade policies, and strengthen trade links among African countries. It offers opportunity for Africa to circumvent the constraints it faces in the unbalanced rules of the WTO and the emerging mega regional agreements such as the Trans-Pacific Partnership (TPP).

However, challenges remain and appear to be overlooked as the continent is gripped by the euphoria of a continental agreement. Even if it is the most ambitious initiative yet, the AfCFTA is by no means the first attempt to promote trade among African countries. The Regional Economic Communities (RECs) have been in the business of promoting intra-African trade for more than four decades. But they have failed. Intra-African trade stands at only 15 per cent of total trade in 2016. This compares to 61.7 per cent in the European Union, 40.3 per cent in the NAFTA and 23 per cent in the ASEAN region.

The failure of the RECs highlights the risks entailed in the AfCFTA. One reason is that it ignores the lessons of history – including Africa's own. Historically, all countries that have developed and are today the giants of international commerce did so behind high tariff walls, and not free trade agreements. Several studies have shown that economic growth, capital accumulation, and strong production systems always have preceded trade liberalisation.

The challenge is that the political euphoria appears to overwhelm the practical economic difficulties that

For instance, France and Germany embraced laissez-faire briefly, found they were losing out, and reversed course in the 1880s. Britain liberalised after industrialisation, at a time when they were the world's economic *the AfCFTA faces.*

powerhouse. The US industrialised through the 19th and most part of the 20th century behind high tariff walls and protectionism.

So it is only Africa that is seeking to industrialise, diversify its economies, and capture greater share of world trade through trade liberalisation. This is tantamount to swimming against the tide of economic common sense of the past centuries.

An agreement for workers?

The challenge is that the political euphoria appears to overwhelm the practical economic difficulties that the AfCFTA faces. Political leaders and their trade experts have known for a long time the challenge of low productive capacity; the similarities of the export basket of African countries (lack of complementarity); and the infrastructure constraints that inhibit movements of goods and persons in Africa. Despite this awareness, effort towards addressing the challenges have been limited and uncoordinated.

The AfCFTA can results in net-gains overall, but there will winners and losers. It's likely that some countries will resist full implementation given that liberalisation often results in unequal distribution of gains. The relatively advanced economies such as Egypt, Nigeria, and South Africa are likely to benefit more from the AfCFTA. The weaker ones may lose out. Unfortunately, there are no clear mechanisms to distribute the gains or compensate losers.

Finally, the ACFTA will have far reaching consequences for African workers and their organisations – trade unions. The AfCFTA is expected to transform Africa's growth from dependence on commodities to manufacturing. Labour-intensive manufacturing and even intensive agriculture could produce more and better jobs for young people.

Nonetheless, the AfCFTA could reduce employment and wages, especially for low-skilled labour as countries switch to high-skilled manufacturing. And without a strong social clause, increases in employment could result in more precarity for workers. Unfortunately, the discussions around the AfCFTA have remained at the highest political level – with virtually no involvement of citizens, workers, and their organisations.

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