Unlocking Opportunities for BRICS under the African Continental Free Trade Agreement (AfCFTA)

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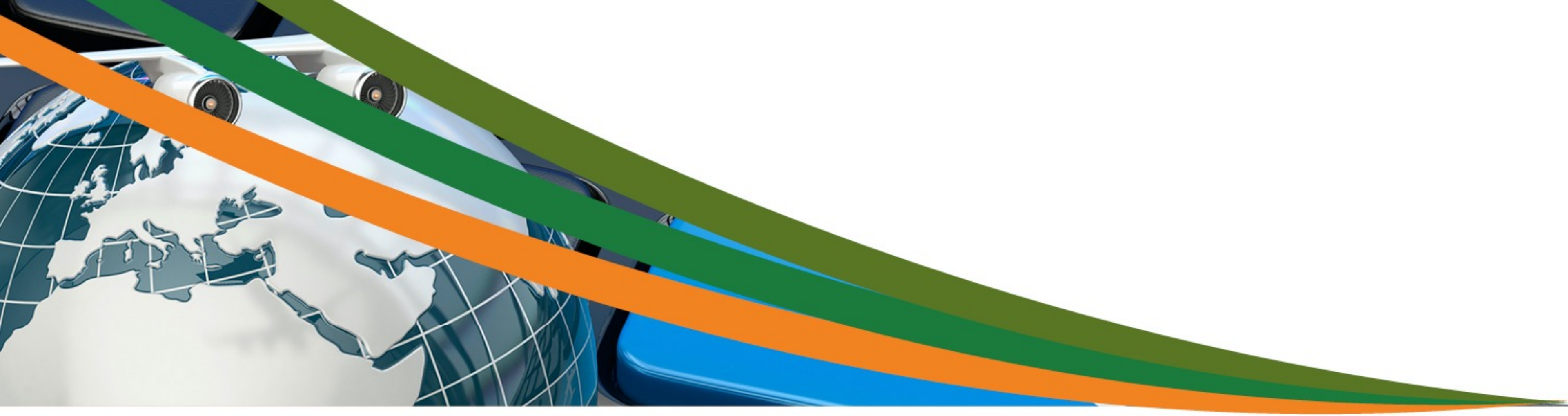
BRICS BUSINESS COUNCIL SA



African Continental Free Trade Area (AfCFTA) - Background

- Ambitious economic initiative of the African Union (AU) that seeks to address the challenge Africa's low level of participation in the global economy and world trade (which stands at 3%) relative to its population (+/-17% of the world population).

- Flagship project of the AU's Agenda 2063 - aims to build an integrated African market of over 1 billion people with a combined GDP of approximately US$3.3 trillion.

- Anchored on the development integration approach - market integration, infrastructure development, and industrial development to boost intra-Africa trade and sustainable economic growth.

- The AfCFTA sets out a framework for tariff liberalisation across Africa, the harmonisation trade related rules to encourage greater flows of intra-African trade and investment.

African Continental Free Trade Area (AfCFTA) – Scope and Objectives

- Comprehensive Trade Agreement - Scope includes Trade in Goods, Trade in Services, Investment, IPR, Competition Policy, Digital Trade, Women and Youth in Trade and Dispute Settlement Mechanism

- Expected to facilitate and enhance intra African trade through:
  - Progressive elimination of tariffs
  - Rules to manage non tariff barriers
  - Facilitate cooperation on customs, trade facilitation and transit
  - Enhanced cooperation on technical barriers to trade and sanitary and phyto sanitary measures

- Enhance legal certainty and predictability of market access

- Establish due process in resolution of trade disputes

- Can stimulate Africa's industrial development and employment

African Continental Free Trade Area (AfCFTA) – Scope and Objectives

The successful implementation of AfCFTA is expected to lead to:

- the diversification of exports
- increased productive capacity,
- increased entrepreneurial opportunities,
- acceleration of growth,
- increased investment,
- increase technology transfer,
- increased employment opportunities and incomes,
- broadening economic inclusion.

African Continental Free Trade Area (AfCFTA) – Update on Negotiations

- AfCFTA negotiations launched in June 2015
- 54 out of the 55 AU members have signed; to date, 43 Members have ratified
- **Phase I:** trade in goods; trade in services; Dispute Settlement Mechanism
- **Phase II:** investment; intellectual property rights; competition; digital trade and women and youth in trade
- Overall framework agreement and protocols are agreed:
  - ➢ Agreement establishing the AfCFTA
  - ➢ Protocols on Trade in Goods, Trade in Services, and Rules and Procedures for the Settlement of Disputes
- Operational phase of the AfCFTA launched in July 2019
- In December 2020, AU Summit created the basis for initiating preferential trade from 1 January 2021: preferential trade may begin in products where tariff offers are verified, RoO are agreed, and relevant domestic legislation is in place

African Continental Free Trade Area – Update on Negotiations

Trade in Goods: current focus is on tariff offers and RoO

- Tariff offers: 46 Members have submitted tariff offers, of which 37 comply with the agreed modalities
- EAC and SACU have submitted final tariff offers
- Rules of Origin: RoO have been agreed on 88.03% of all product lines (4746): **INDUSTRIALIZATION OPPORTUNITY**
- Significant divergences in Africa and amongst SACU members on key products (sugar, clothing and textiles, autos)
- SA seeks to ensure that RoO support increased African content in intra-African trade – “Made in Africa”
- Effective customs controls essential to avoid transshipment so benefits of preferential trade accrue to African producers

African Continental Free Trade Area – Update on Negotiations

Trade in Services: current focus is to finalise Schedules of Specific Commitments

- Priority sectors: Finance, Tourism, Transport, Communication, and Business Services
- 47 offers tabled, of which 21 have been recommended for adoption
- SA's initial offer to the AfCFTA is based on commitments made in SADC and the WTO, all on condition of reciprocity
- Following request and offer negotiations, and further domestic consultations, an improved offer will be tabled for Cabinet consideration

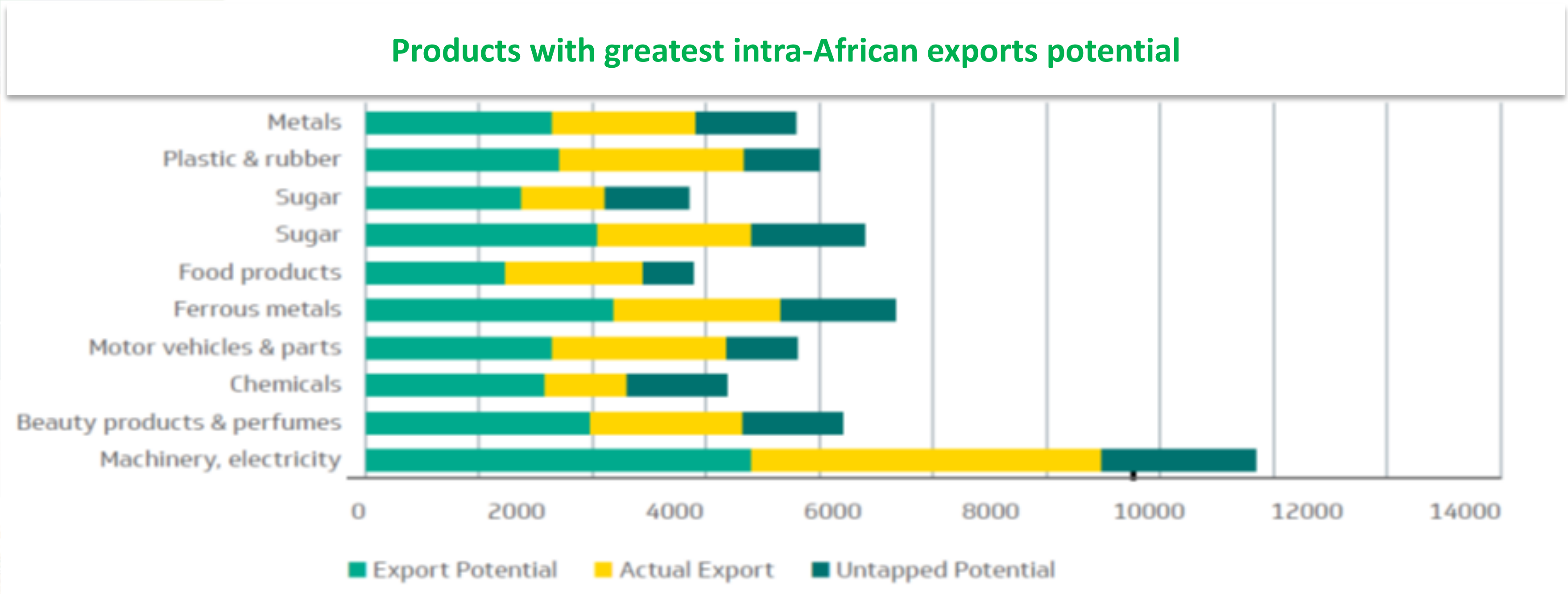
Phase II issues:

- Protocols on investment, intellectual property and competition policy has been approved by AU Assembly of Heads of State and Government
- Work in the Committees on Women and Youth in Trade, and Digital Trade is expected to commence in early 2023

African Continental Free Trade Area – Opportunities for BRICS

According to the Afreximbank:

- Intra-Africa trade in 2021: U$ 169.73 Billion
- Products that have good potential for Intra-Africa Trade: U$ 111 billion
- Potential to increase intra-Africa trade to U$ 192 billion



African Private Sector Strategy

AfCFTA has developed a private sector strategy that prioritises four industrial value chains:

AfCFTA has prioritized four value chains for the first set of interventions, starting with the highest potential to meet demand locally

PRELIMINARY

● High ● Medium ● Low

Sector	Good/service	Value of trade: Imports from rest of the world, *Bn USD, 2018*	Feasibility[1]	Econ. growth	Inclusivity
Goods	**Agriculture and agro-processing**[2] including processed foods (~$13bn including ~$9bn for meat and fish) – primary focus, cereals (~$22b), vegetable oils (~$7bn) and cane/beet sugar (~$5bn)	47	High	High	High
	Automotive and vehicle parts[3] including motor cars and vehicles (~$18bn) – primary focus, vehicles to transport goods (~$5b), parts and accessories (~$5bn) and pneumatic tires (~$4bn)	32	Medium	High	Low
	Pharmaceuticals including medicaments (e.g., antibiotics, insulin)	11	High	High	Medium
Services	**Transportation, logistics and distribution**[4] including freight transport	37	Medium	Medium	Medium
Total prioritized		~$130bn *20% of total imports goods and services from ROW*			

Tata
Haval
Cherry
SinoTruck
etc

Value chains were first filtered for high value of trade, then assessed for feasibility, economic growth potential, and inclusivity (including participation of women, youth, SMEs and environmental sustainability)

Within value chains, further narrowed down the focus for intra-Africa trade (e.g., within processed foods, focused on meat and fish worth ~$9bn

Additional value chains have been sequenced for future implementation (e.g., textiles) – *see appendix*

1 Defined as feasibility of overcoming barriers to trade and production within <10 years. See appendix for supporting details on selected value chains
2 Focus on processed foods going forward, despite smaller value than cereals. Cereals have low feasibility due to localization of production and consumption, vegetable oils and beet sugar more commoditized
2 Focus on motor cars and vehicles given relative size to other categories. Less fragmented than motor vehicle parts| 2. $3.6bn from fish and $4.7bn from meat

AFCFTA DEMAND FOR TRANSPORT INFRASTRUCTURE AND SERVICES

- The transport sector will strongly benefit from AfCFTA
- This benefit will be optimized if AfCFTA is accompanied by implementation of regional infrastructure projects
- The estimated cost of trucks required as a result of AfCFTA is US$ 345 billion
- The estimated cost of aircrafts required as a result of AfCFTA is US$ 25 billion
- The estimated cost of rail wagons required as a result of AfCFTA is US$36 billion (**Russia's Transmashholding invests R500m in SA rail manufacturing)**
- The estimated cost of vessels required as a result of AfCFTA is US$ 4 billion

Implementing AfCFTA and planned infrastructure projects would result in the need for 2,213,579 trucks, 169,339 rail wagons, 135 vessels and 243 aircraft

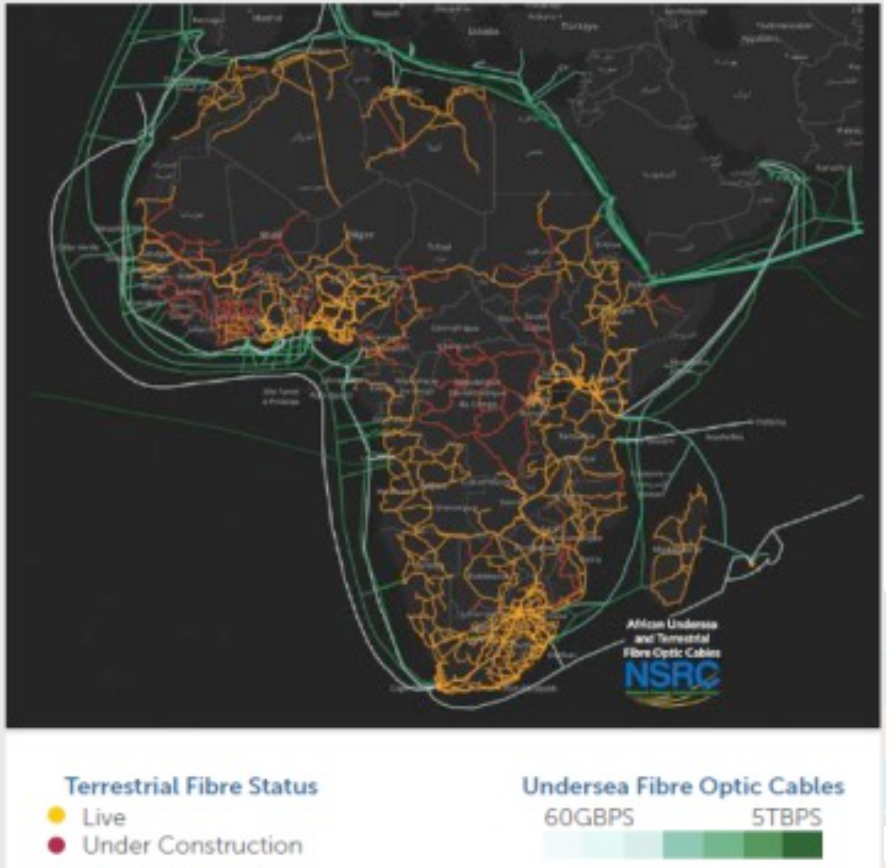
AfCFTA therefore expected to significantly increase traffic flows on all transport modes: Road, Rail, Maritime, and Air.

AFCFTA DEMAND FOR TRANSPORT INFRASTRUCTURE AND SERVICES:KEY MESSAGES

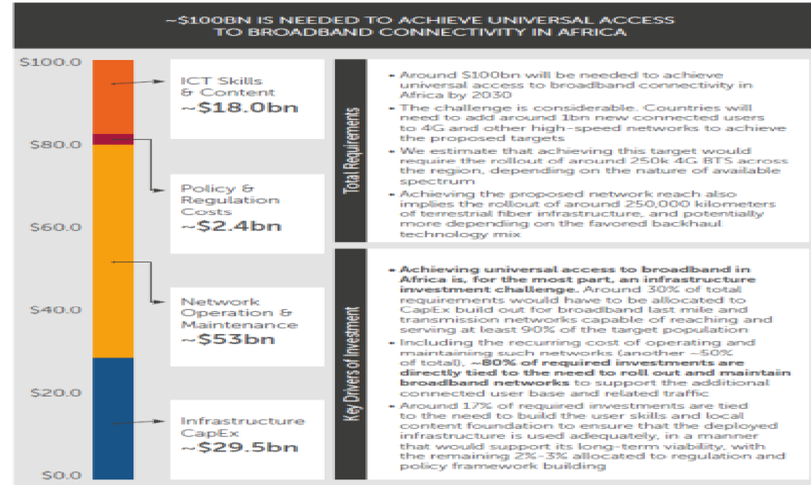
- **Road Freight:**
  - Implementing AfCFTA will double road freight from 201 to 403 million tonnes.
  - AfCFTA requires 1,844,000 trucks for bulk cargo and 248,000 trucks for container cargo by 2030.
- **Rail Freight:**
  - Implementing AfCFTA will increase rail freight 52 times, from 0.76 to 39 million tonnes.
  - AfCFTA requires 97,614 wagons for bulk cargo and 20,668 wagons for container cargo by 2030.
- **Maritime Freight:**
  - Implementing AfCFTA would double maritime freight from 58 to 131.5 million tonnes
  - AfCFTA requires 126 vessels for bulk cargo and 15 vessels for container cargo by 2030
- **Air Freight:**
  - Implementing AfCFTA would double the number of tonnes transported by air from 2.3 to 4.5 million
  - AfCFTA requires 254 aircraft by 2030

Source: UNECA

ICT & DIGITAL INFRASTRUCTURE IS AN IMPORTANT ENABLER FOR INTRA-AFRICA

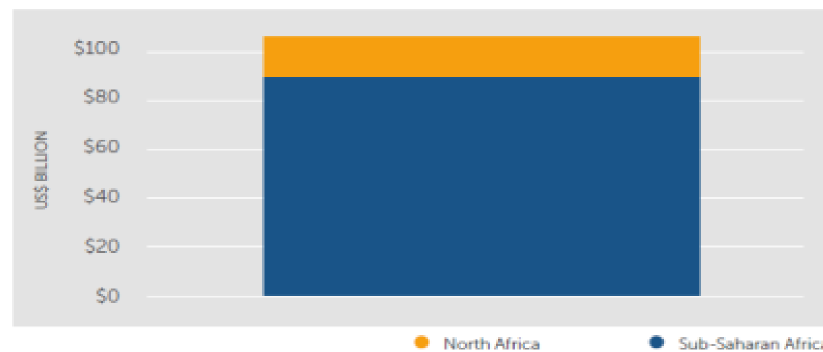


Source: World Bank



Source: Xalam Analytics estimates.
Note: Operation and maintenance costs are assessed on a cumulative basis over a 12-year period (2018-30).

Figure 4.8. **Investment Needed to Achieve Universal Access to Connectivity by Region**



Source: Xalam Analytics estimates.

African Continental Free Trade Area – Areas of Cooperation for BRIC

- **Define, package and structure the opportunities within the context of SA and the AfCFTA**.
  - Investments in infrastructure and in manufacturing are critical to boost supply capacities, promote economic diversification, as well as create opportunities for African countries to participate in global manufacturing value chains by leveraging their resource endowments.
  - Opportunity for BRIC to participate in the AfCFTA by locating production and services activities in the continent and partner with local companies and entrepreneurs.
- **Enhance cooperation in**:
  - Capacity building and technology transfer, etc. to support Africa's structural transformation and advancing Africa's developmental imperatives linked to the priority sectors
- **CONSULTATIONS TO SECURE INVOLVEMENT OF BUSINESS ACROSS AFRICA IS CRITICAL**:
  - African Business Council
  - EAC Business Council
  - SADC Business Council
  - Federation of West African Chambers of Commerce and Industries
  - High Business Council in ECCAS
  - North Africa
- **COMMON POSITION ON ALL THE ABOV**E:
  - MESSAGE TO AFRICAN PRIVATE SECTOR
  - MESSAGE TO AFRICAN GOVERNMENTS
  - MESSAGE TO BRICS PARTNERS
- **UNDERSTAND COMPETING FORCES: AGOA, EU-AFRICA STRATEGIC CORRIDORS, ETC**
  - Policies and priorities of BRICS (Convergence and divergence, competitive issues, etc)
  - Business and market intelligence

Thank you