

Ka Power Insights #4

The Venture Impact Investment Cooperative for Emerging Countries

■ African Continental Free Trade Area

The fifty-five member states of the #AfricaUnion (#AU) are establishing the **African Continental Free Trade Area (#AfCFTA)** to create a single continent-wide market for goods and services and to promote the movement of capital and natural persons. This ambitious project enjoys considerable political support, but **individual States still face difficult choices**. Africa's economies vary considerably in size, levels of economic development and diversification. Without exception they face challenges to create jobs, develop their industrial sectors and diversify their production capacity.

For many African countries, most of their trade is still with global trading partners. This will not change in the near future and neither will their commodity dependence and while a new trade agreement does not guarantee trade, it does change the incentives to make trade with other partners to that agreement more accessible and attractive. In 2018, **16% of Africa's total exports were intra-regional**, which was considerably below that of most global regions, including North America (30%), Asia (60%), and Europe (69%). Long-term trends in Africa, however, suggest such trade is increasing.

With restrictions lifted on foreign investments, investors will flock to the continent. This adds capital to expand local industries and boost domestic businesses. New capital enhances an upward productivity cycle that stimulates the entire economy. An inflow of foreign capital can also **stimulate banking systems, leading to more investment and consumer lending**.

Once fully implemented, the AfCFTA is expected to cover all 55 African countries, with a **combined GDP of about US\$2.2 trillion**. The AfCFTA has the potential to generate substantial economic benefits for African countries, including higher income arising from increased efficiency and productivity from improved resource allocation, higher cross-border investment flows, and technology transfers. Besides lowering import tariffs, but to ensure these benefits, African countries will need reduce other trade barriers by making **more efficient their customs procedures, reducing their wide infrastructure gaps, and improving their business climates**. At the same time, policy measures should be taken to mitigate the differential impact of trade liberalization on certain groups as resources are reallocated in the economy and activities migrate to locations with comparatively lower costs.

