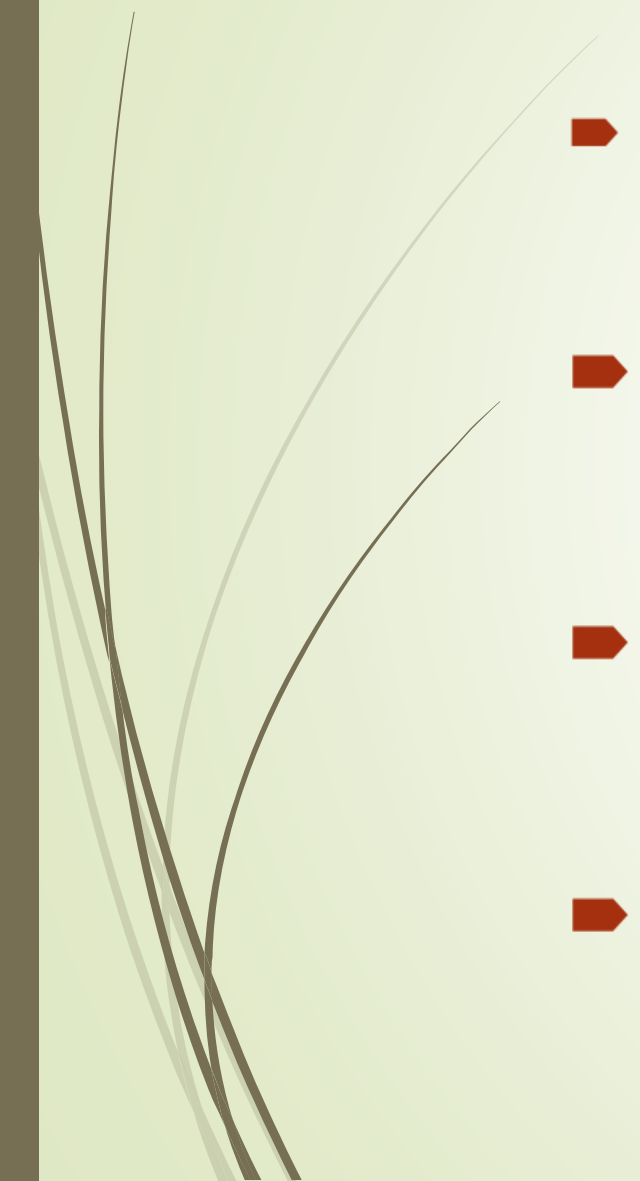




Investing in African Continental Free Trade Area (AFCFTA)



Introduction

- ▶ This presentation is for;
 - ▶ Taiwan Trade Center – Nairobi, Kenya
 - ▶ Presented by:
 - ▶ Rosemary Mwangi Mburu
 - ▶ Institute of Trade Development, Kenya
- 




Presentation Structure

- What is AFCFTA?
 - Objectives
 - Regional Economics Communities (Recs)- Building Blocks for AFCFTA
 - Impact of AFCFTA to Ethiopia/Kenya Trade
 - Investment Potential in AFCFTA
- 



RICH AFRICA


- 
- ▶ Africa remains a key territory on the global map. Rich in oil and natural resources, the continent holds a strategic position.
 - ▶ It is the world's fastest-growing region for foreign direct investment, and it has approximately 30 percent of the earth's remaining mineral resources.



Source: CIA Factbook
Simran Khosla/ GlobalPost



What is AFCFTA?

- A free trade area of 54 countries in Africa, 1.2 billion people with a combined GDP of US\$2.5 trillion
 - A ratified agreements with some key tools yet to be finalized:
 - Tariff reductions on 90 percent of tradable items
 - Services trade liberalization
 - Clear rules of origin
 - Identification of non-tariff barriers
 - At a later stage: free movement of labour, capital and ultimately a currency union
- 



General Objectives of AFCFTA as per [Article 3 (c)]

The main objective of the AFCFTA states can be summarized as to :

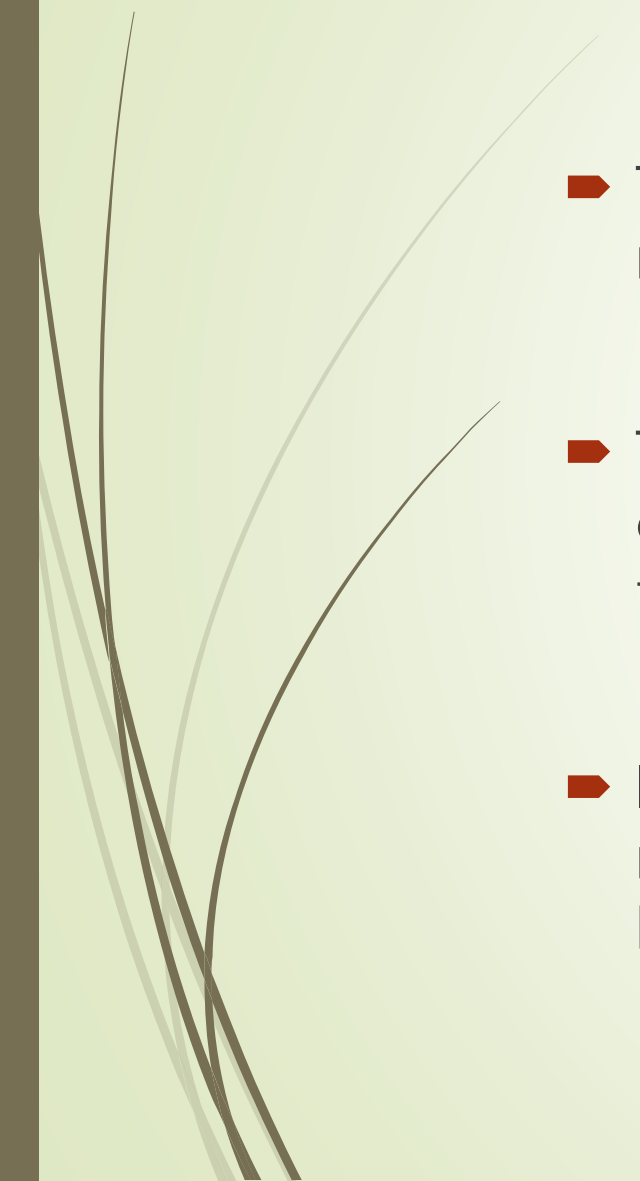
- Create a single continental market for goods and services
- Contribute to the movement of capital and natural persons and facilitate investments building on the initiatives and developments in the State Parties and RECs;

AFCFTA Ratification Status

- ▶ As at May 2022, 43 of the 54 signatories (80%) had deposited their instruments of AfCFTA ratification:
- ▶ Ghana, Kenya, Rwanda, Niger, Chad, Eswatini, Guinea, Côte d'Ivoire, Mali, Namibia, South Africa, Congo, Rep., Djibouti, Mauritania, Uganda, Senegal, Togo, Egypt, Ethiopia, Gambia, Sahrawi Arab Democratic Rep., Sierra Leone, Zimbabwe, Burkina Faso, São Tomé & Príncipe, Equatorial Guinea, Gabon, Mauritius, Central African Rep., Angola, Lesotho, Tunisia, Cameroon, Nigeria, Malawi, Zambia, Algeria, Burundi, Seychelles, Tanzania and Cabo Verde.
- ▶ Morocco and the Democratic Republic of the Congo are the latest countries to deposit their instruments of ratification. Confirmation of Parliamentary/Cabinet approval for Somalia is pending.



AFCFTA Ambition

- The African Continental Free Trade Area (AfCFTA) is Africa's most ambitious integration initiative.
 - This free trade area will add to the existing regional economic community customs unions, free trade areas and other trading arrangements, including bilateral trade agreements.
 - It is designed to liberalise trade between countries that are not trading under trade preferences, addressing not only tariff but also non-tariff barriers (NTBs).
- 



Recs as The AfCFTA Building blocks

- ▶ Article 5 of the AfCFTA Agreement contains the principles governing the AfCFTA.
- ▶ The preservation of the acquis confirms that the AfCFTA will build on what has already been achieved in the regional economic communities (RECs) and acknowledges the 8 RECs recognized by the African Union (AU).
- ▶ The Preamble to the Agreement confirms the REC FTAs as the building blocks of the AfCFTA.

Regional Economic Communities

The African Union recognises eight different RECs under its administration:

-  Arab Maghreb Union (UMA)
-  Common Market for Eastern and Southern Africa (COMESA)
-  Community of Sahel-Saharan States (CEN-SAD)
-  East African Community (EAC)
-  Economic Community of West African States (ECOWAS)
-  Intergovernmental Authority on Development (IGAD)
-  Southern African Development Community (SADC)
-  Economic Community of Central African States (ECCAS)





Level of Integration for Regional Economic Communities (Recs) within AFCFTA

- Free Trade Area – **COMESA**
- 16 out of 21 COMESA Member States are FTA, other 5 are at various levels of attaining FTA
- Customs Union
 - EAC, SADC (SACU)
- Customs and Monetary Union
 - ECOWAS
- Other countries are not members of any Recs and others have not reached Customs or monetary union

Africa Regional Integration Index

- ▶ The ARII is a composite index that assesses how countries and regional economic communities are making progress towards their integration agendas based on sixteen indicators, grouped into five dimensions.
- ▶ The ARII also measures the state of regional integration for the continent as a whole.
- ▶ The five dimensions are in respect to free movement of people; infrastructure integration; macroeconomic integration; productive integration, and; trade integration.
- ▶ Based on these dimensions, the EAC was the highest scoring bloc on the continent, with an index score of 0.537, followed by AMU (0.488); ECCAS (0.442); IGAD (0.438); ECOWAS (0.425); the CEN-SAD (0.377); COMESA (0.367); and lastly SADC at 0.337.

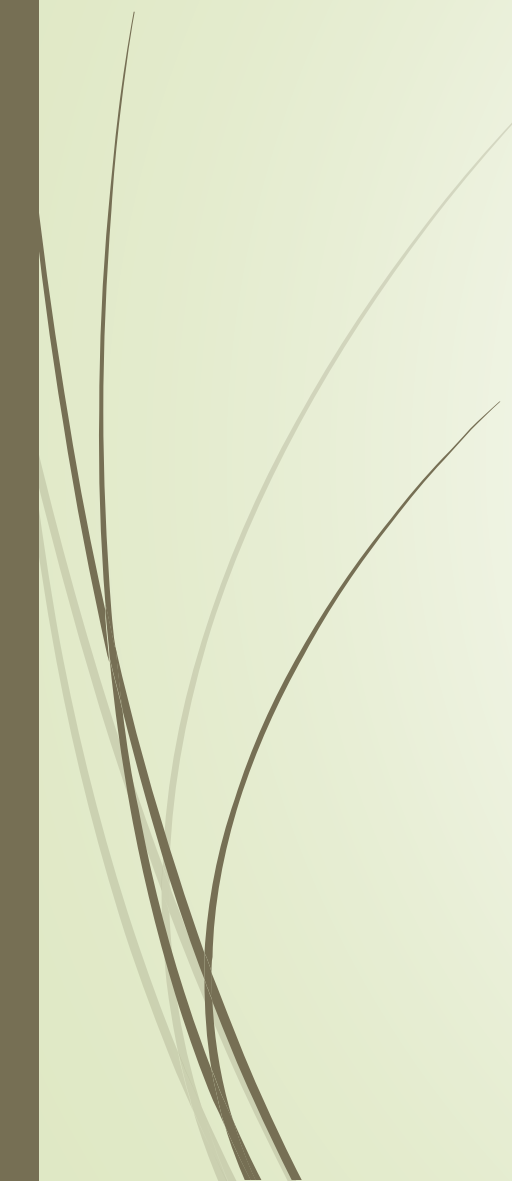


AfCFTA Impact on Kenya/Ethiopia Trade

- ▶ Kenya and Ethiopia are the two largest economies in Eastern Africa.
- ▶ Kenya is a member to East Africa Community. Kenya and Ethiopia are COMESA members. However Ethiopia has not acceded to the COMESA Free Trade Area.
- ▶ This make Ethiopia retains a fairly protectionist tariff policy, with high tariff peaks in particular sectors. On the other hand East African Community (EAC) members like Kenya (and not Ethiopia) also currently impose a high common external tariff on imports of Ethiopian goods.
- ▶ The implementation of the AfCFTA will pave the way for a rapid dismantling of such impediments to cross-border trade. Alongside the removal of tariff barriers, the AfCFTA will also focus attention on outstanding nontariff barriers (NTBs),
- ▶ The sectors which will benefit from AfCFTA are mainly agro-processing etc. but this will be more clear once the rules of origin and the tariff are published.



Four Categories of Motivations for Taiwan FDI

- Natural resource-seeking,
 - Efficiency-seeking,
 - Strategic asset seeking and
 - Market-seeking.
- 

FDI Incentives under AFCFTA

- ▶ The AfCFTA will create an expanded single continental market of 1.2 billion people (youthful population and growing middle class), and a combined gross domestic product of US\$3.4 trillion.
- ▶ African countries have agreed to eliminate 97 per cent of tariff lines on intra-Africa trade in goods.
- ▶ AFCFTA has published the rules of origin manual in July 2022 sets out guidelines on the operationalisation AFCFTA rules of origin. This will increase trade within state members.
- ▶ The eliminated tariff are expected to be published before the end of the year.
- ▶ Africa has market access through FTA with European Union and Generalised Systems of Preferences with USA, Canada, Japan, Norway, Australia, New Zealand, Russia and others. This is elaborated further in the next slide.

OF Generalized System of Preferences (GSPs) Enjoyed by AFCFTA States

- ▶ AGOA African Growth and Opportunity Act. The countries benefiting from trade preferences granted under AGOA. **(38 countries were eligible for AGOA benefits in 2020)**
In January 2022 Ethiopia, Guinea, and Mali were suspended from AGOA by USA on the basis they did not meet AGOA criteria under section 506A(a)(1).
- ▶ EBA GSP Everything But Arms. These are least developed countries benefiting from trade preferences under the European Union–GSP scheme. Generalized System of Preferences. **(34 countries (LDCs) in Africa Benefiting from EBAs GSP)**
- ▶ The Economic Partnership Agreements (EPAs) “GSP” are developing countries benefiting from trade preferences under GSP schemes. **(This include EPAs under EU 18 countries benefiting)**
- ▶ GSP+ These are countries included in the special incentive arrangement for sustainable development and good governance under the European Union–GSP scheme for LDCs - least developed countries.
- ▶ The LDCs are the 49 countries recognized as least developed by the United Nations.



FDI Incentives under AfCFTA

- ▶ The AfCFTA Agreement also promises to address non-tariff concerns which will help reduce cross-border trade costs for businesses and people.
- ▶ The AfCFTA does not exclusively focus on trade in goods. It also covers a broader spectrum of issues critical to FDI strategies and activities including
 - ▶ trade in services,
 - ▶ competition policy,
 - ▶ intellectual property rights,
 - ▶ investment; and
 - ▶ dispute settlement.
- ▶ Such an approach allows for greater policy coherence within the AfCFTA.

FDI Incentives under AFCFTA

- The reduction of regulatory barriers to trade in services across the continent could well attract investors in the services sector.
- It will ease the supply of services across the continent through mode 1 (cross-border), mode 3 (commercial presence) and mode 4 (presence of natural persons).
- Services liberalisation benefits extend beyond services industries.
- Manufacturing firms will also benefit from service trade openness through the ease of access to more and high-quality services inputs.

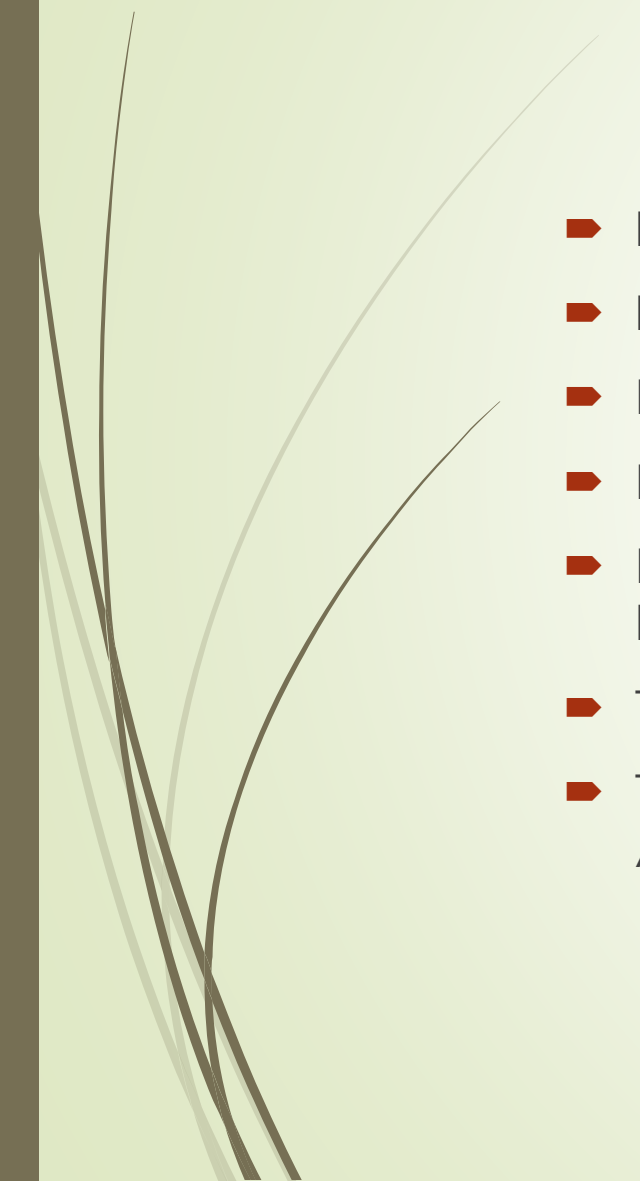


FDI Incentives under AfCFTA

- ▶ The improvement of investment governance and the establishment of a clear, transparent and predictable continental investment legal framework is important for attracting foreign investment.
- ▶ The AfCFTA Protocol on Investment endeavour to address barriers to investment entry in Africa,
 - ▶ Reduce time and costs of investment approvals,
 - ▶ Enhance transparency,
 - ▶ Improve efficiency, and
 - ▶ Promote investment-related cooperation and coordination across the continent and
 - ▶ Address fragmented investment regulatory frameworks.
- ▶ Investors will have direct access to effective dispute settlement mechanisms and access to remedies when their rights are violated by the host governments



Potential Investment Sectors by Taiwan

- Infrastructure (Water and Waste Water)
 - Information Technology
 - Energy (Renewable)
 - Food Processing
 - Blue Economy (e.g, Fishing and Fish Processing, Cruise Tourism, Boats building and Repair)
 - Textile
 - The above sectors have market potential in AFCFTA and with FTA and GSP Africa trade partners globally.
- 



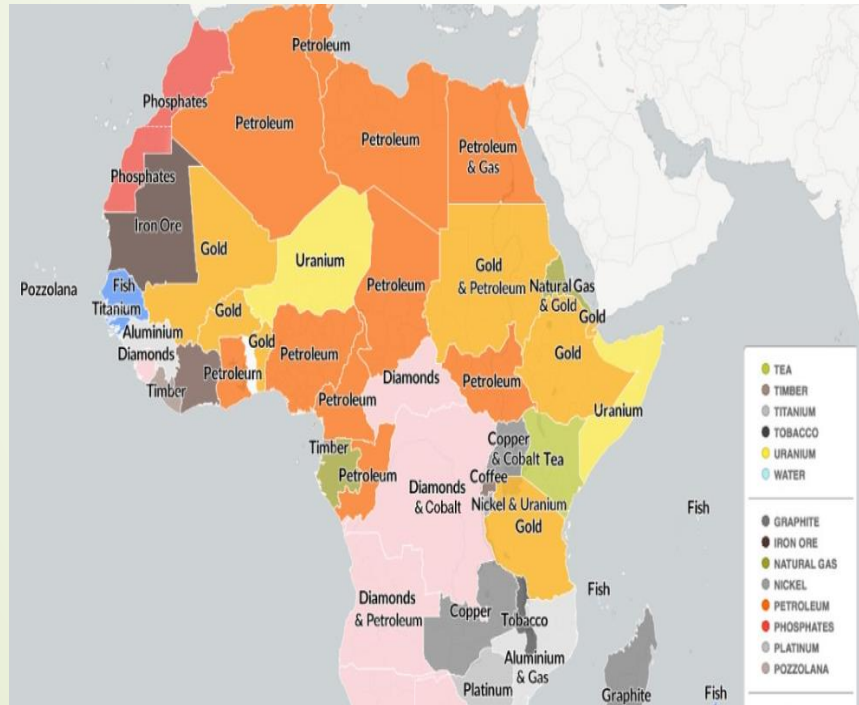
Latest AfCFTA Development

- ▶ AfCFTA has published rules of origin manual volume 1.0 in July 2022.
- ▶ The Pan-African Payment and Settlement System (PAPSS) launched for commercial use on January 13, 2022 by the African Export/ Import Bank (Afrexim bank) and the AfCFTA Secretariat.

Conclusion

Invest in Africa and create generational wealth for:

Africa and Taiwan





Thank You – Asante Sana