



# Report on IOE Digital Conference on Fostering Intra-trade in Africa and Its Impact on Employment

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## Preface

During the 6th African Social Partners' Summit, which the IOE organised in Lagos at the end of February 2020 with its member, the Nigeria Employers' Consultative Association (NECA) and the support of the European Union, the IOE considered the evolution of the AfCFTA and explored the opportunities that it will generate for the continent as a whole. Most of the IOE members in Africa participated in this event, alongside representatives of the International Labour Organisation (ILO), trade unions, training institutions, government ministries and others. This provided an occasion to share information on concrete actions and measures undertaken to build the skills that meet the needs of the labour market, enhance productivity, reduce informality, and create decent work, particularly for women and youth, and other marginalised groups. These are goals the IOE shares with the AfCFTA.

As the largest network of the private sector in the world, the IOE is proud to count among its 156 affiliates more than 40 national African organisations. Alongside Business Africa - Employers' Confederation and other international and regional partners, IOE works to strengthen the capacity of African employer and business membership organisations (EBMOs) to be effective advocates on behalf of their national and regional business constituencies. The IOE supports its members to provide services and guidance to their affiliated companies as they strive to be competitive, productive, responsible, and sustainable. IOE's members in Africa are recognised as key contributors to the 2030 Sustainable Development Agenda and the Agenda 2063.

This document follows the IOE Digital Conference on fostering intra-trade in Africa in March 2021. It presents a range of policy actions that have been undertaken by the AfCFTA's secretariat in the implementation of the African Continental Free Trade Area and some recommendations for employers' organisations.

## **1. What is the African Continental Free Trade Area (AfCFTA)?**

The concern for regional cooperation and integration in Africa predates the independences. The period 1960-1980, however, saw the emergence of major regional integration programs that advanced the continent's economic integration agenda. Post-independence economic integration and regional cooperation efforts have resulted in a variety of initiatives with overlapping membership and mandates, making Africa the region with the highest density of integration agreements and for economic cooperation. Yet these arrangements have not had a positive effect on the continent's economic performance. Inadequate political will and commitment; high incidence of conflict and political instability; poor design and sequencing of regional integration agreements; multiplicity of regimes; insufficient funding; and the exclusion of the main stakeholders from the regional integration process are factors explaining the inefficiency. Membership in regional integration in Africa has become so pervasive that there is no country on the continent that does not belong to at least one grouping. Twenty-seven of the 53 AU Member States belong to at least two integration programs.

Initially planned in July 2020, but delayed due to the coronavirus global pandemic, the African Free Trade Area, the AfCFTA, became a reality on January 1, 2021, promising to make doing business easier across the continent. The idea, which has been talked about for years, is to create one of the largest free trade areas in the world, opening up a market of over 1.2 billion people, with a combined GDP of over 3 trillion of dollars. This would create business opportunities - and jobs - across Africa, while lowering the cost of some goods in stores and markets. It should also stimulate intra-African trade, promote industrialization, create jobs and improve the competitiveness of African industries on the world stage. The launch of the African Continental Free Trade Area follows years of negotiations

*“The AfCFTA is coming to correct the major mistake that was done in the history of Africa: it is the way our continent is divided in small countries” Paulo Gomes, Chairman of the Afrochampions initiative*

The Agreement establishing the African Continental Free Trade Area (AfCFTA) is a legal instrument – an agreement among the African Union Member States to create a single market. But the AfCFTA represents much more. On the one hand, it is a significant milestone on the journey to African integration and development. On the other hand, it is a catalyst for new ways of doing business, producing, working and trading within Africa and with the rest of the world.

The AfCFTA is also central to recovering from the coronavirus disease (COVID-19) pandemic and enhancing Africa's resilience. Trade of all types of goods and services underpins efforts to achieve the Sustainable Development Goals, and the Agenda 2063 of the African Union cannot be implemented without the AfCFTA.

Private sector-based initiatives have also been playing a key role since the beginning of the AfCFTA. Among one of them, the Afrochampions Initiative led by political figures and business leaders. AfroChampions Initiative will work side by side with the African Union to promote the African Continental Free Trade Area; AfroChampions Initiative commits USD 1 million on awareness-raising actions. The AfroChampions Initiative is a public-private partnership designed to galvanize African resources and institutions to support the emergence and success of African private sector multinational champions in the regional and global spheres. The Initiative, driven by the AfroChampions Organization, was founded by the advisory firm Konfidants; and is Co-Chaired by President Thabo Mbeki and Mr. Aliko Dangote, President and CEO of Dangote Group. The Initiative is headquartered in Accra, Ghana, and works with regional and global partners and governments, with the support of other corporate and institutional partners including ADS Group, the Djondo Fellowship, Olusegun Obasanjo Presidential Library and Thabo Mbeki Foundation.

As a strategic platform within the Initiative, the AfroChampions Club, Chaired by Mr Aliko Dangote, seeks to work with African governments to support policies and public-sector innovations that drive African economic integration, regional economic clusters and value chains.

## **2. The AfCFTA and its Operationalisation**

The AfCFTA will be gradually operationalized through 5 instruments:

- 1) **The rules of origin:** A regime governing the conditions under which a product or service can be traded duty free across the region.
- 2) **The online portal for tariff offers:** It has been agreed that there should be 90% tariff liberalisation over a 10-year period with a 5-year transition, there will be an additional 7 % for "sensitive products" that must be liberalized.

- 3) **Notifications, monitoring and elimination of non-tariff barriers:** NTBs are a great hindrance to intra African trade whether physical, like poor infrastructure, or administrative like the behavior of customs officials. These are to be monitored with a view to ensuring they are eliminated.
- 4) **The Pan-African digital payment and settlement system:** To facilitate payments on time and in full, by ensuring that payments are made in local currency and at the end of the year there'll be net settlements in foreign exchange. With the certainty of payments, there will be confidence in the system.
- 5) **The African Trade Observatory:** A trade information portal to address hindrances to trade in Africa due to lack of information about opportunities, trade statistics as well as information about exporters and importers in countries. The trade observatory will have all this information and other relevant data which will be provided by AU member states.

For a smooth deployment, African countries need to agree on some of the remaining issues such as rules of origin, which are a key part of international trade as they are the cornerstone of a preferential trade agreement such as The AfCFTA. The World Trade Organization (WTO) defines rules of origin as "the criteria used to define where a product has been manufactured" and are important for the implementation of other trade policy measures, including trade preferences (preferential rules of origin), quotas, anti-dumping measures and countervailing duties (non-preferential rules of origin). In many cases, duties and restrictions depend on the source of the imports. Countries that have ratified the AfCFTA agreement seem to have agreed on rules of origin for more than 81% of tariff lines.

To date, Africa is able to start trading over 81% of products on preferential terms. These products are part of the initial trade, while negotiations on the remaining 20% are underway and are expected to be concluded by July 2021.

Furthermore, African economies still need to address a large number of operational challenges (i.e infrastructure, border controls, corruption, trade liberalization for sensitive products, trade in conflict zones, etc.) to take advantage in the short and long term of this new free trade area.

### **3. The AfCFTA and Employment**

Trade openness is a positive phenomenon that translates into better economic performance in countries at different levels of development, creating new opportunities for individuals, consumers and businesses and helping to lift millions of people out of the economy. poverty. By stimulating growth, trade has helped lift hundreds of millions of people out of poverty around the world. A study on the impact of trade on poverty in developing countries between 1993 and 2008 shows that the evolution of the real income of the poorest 20 percent of the population is strongly correlated with the evolution of openness. commercial during the same period.

The AfCFTA has the potential to redress some of the key challenges the continent is facing, provided that adequate investment is allocated to maximise Africa's biggest resource – its human capital. The opening up of the free trade area offers youth and women greater opportunity to be principal players in regional value chains. With the digital economy and e-commerce growing at a rapid rate, the youth and women will benefit immensely by leveraging on Africa's digital infrastructure to maximize existing opportunities through AfCFTA.

Capital constraint, which has been a major challenge for youth and women-led startups and enterprises in Africa may become an issue of the past if new innovative solutions of providing credit for e-commerce, including fintech solutions, can be adopted by the youth within AfCFTA. This can be realized through cross-border crowdfunding initiatives to fund youth and women-led e-commerce. Africa, unlike Europe, Asia and the Americas, has been lagging behind in nurturing youth talent. The successful implementation of this single market, which allows for free movement of persons, offers youth and women an opportunity to explore their potential fully and ply their trade anywhere on the continent.

The AU, in collaboration with the United Nations Conference on Trade and Development (UNCTAD), has developed an online mechanism designed to improve intra-African trade by offering a site for reporting and resolving non-tariff barriers (NTBs) experienced by businesses. This is a welcome innovation, especially for Africa's many informal cross-border traders - many of whom are women - and small businesses, who are disproportionately affected by non-tariff barriers such as cumbersome bureaucracies, lengthy clearance processes, unclear rules and corruption.

Moving beyond informality, one of Africa's biggest challenge, implies doing things differently. It is about empowering African citizens in rolling out digital identity projects across the continent. By creating a common framework for digital identity, we improve inclusion in terms of access to social protection and also in terms of financial inclusion.

Many international organizations have also been supporting the AfCFTA since the beginning and among them the International trading Center- ITC, a joint agency of the World Trade Organization and the United Nations. The One Trade Africa programme of the ITC aims to empower, enhance and enable MSMEs to access business opportunities placing a particular focus on ensuring women and youth are part of the continental market equation. Through its technical assistance and advisory services, ITC will support women and youth led enterprises to engage in green technology through the production of goods as well as service sectors.

The AfCFTA will drive autonomy through continental trade, ITC's One Trade Africa programme will also support African countries in their respective continental trade development agendas with access to pertinent trade information through the Africa Trade Observatory. The observatory will collect, analyse and disseminate trade intelligence to policy makers and businesses as well as monitor intra-African trade flows.

Through its SME Trade Academy, ITC will furnish African MSMEs with a dynamic suite of project interventions to boost the capabilities of Africa's small businesses through the How to Export within the AfCFTA training programme. As well as encourage opportunities for increased input from the private sector through in-country AfCFTA dialogue forums.

#### **4. The AfCFTA and EBMOS**

Having a single continental market for goods and services, with free movement of businesspersons and investments through the African Continental Free Trade Area, is a targeted policy that will attract investments to job-rich areas and accelerate the establishment of a conducive environment for enterprise creation and development, as well as harmonized regional integration across the Continent.

The total or partial lockdowns enforced by most African countries in the light of global health pandemic (COVID-19) has generated a socio-economic crisis within the region at a time when the African Continental Free Trade Area Agreement (AfCFTA) is in its critical phase of implementation. It is

important to put into perspective, the implications of the COVID-19 pandemic which will inform the policy pathways to manage uncertainties around the agreement. The expectations of enhanced intra-Africa trade are being hampered by challenges such as border closure, travel bans, nationalism and uncertainty in tariffs and exchange rates.

In order for the gains of Intra-trade in Africa to be maximized and equitably distributed, governments need to act across many fronts simultaneously, acknowledging that the impact of global trade on the African people depends both on national policy settings of the countries in which they live and, on the nature, and degree of African countries economic cooperation. Only a modern, flexible, comprehensive and coherent package of domestic and regional policies, as the AfCFTA intends to do, can help ensure that intra-trade becomes more free, fair and open on the African continent. Businesses have an essential role in this endeavor, but it cannot and should not be expected to bear this burden alone. In many African countries, the engagement of EBMOs in trade negotiations allow for access to a myriad of skilled expertise including industry associations. EBMOs, in particular, are well-placed to participate in national policymaking as they are capable of bringing in up-to-date information and data that can support empirical policymaking. In addition, EBMOs are also able to bring in actual experience and expertise from businesses not only operating locally but also regionally, thereby highlighting the barriers of trade and investment in doing business. In addition to supporting national policymaking, EBMOs can support their members by providing them with up-to-date information on intra-trade in Africa so that businesses are well informed about doing business.

## **Conclusion**

The Implementation of the AfCFTA Agreement will lead to removal of tariff restrictions on intra-African trade, address some of the non-tariff barriers that have restricted trade between African Union Member States and make it easy to situate industrial production in different countries within Africa. In addition to increasing industrial production, it is expected that there will be substantial increase in intra-African trade in agriculture, which should lead to improvements in real wages and employment. The Agreement will rationalize trade between the different regional economy communities and provide for coherence in terms of Africa's trade with the rest of the world. Freer trade within Africa will lead to increased competition, innovation and prosperity for Africa's people in the long run.



The target market for the AfCFTA is estimated to constitute 1.27 billion people, projected to rise to 1.7 billion by 2030, out of which about 600 million people will be middle class. In terms of investments and consumer spending, the AfCFTA is expected to attract an estimated \$4 trillion.

## Contacts

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