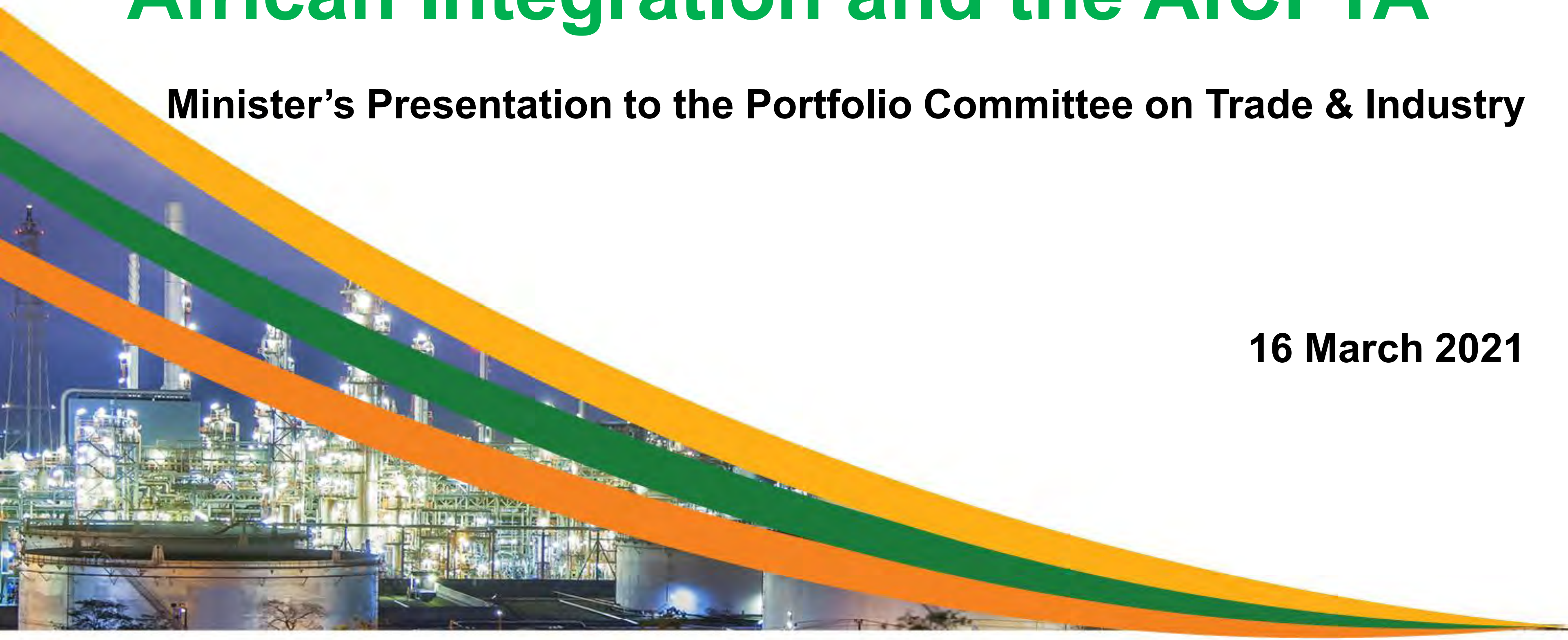
Update on African Integration and the AfCFTA

Minister's Presentation to the Portfolio Committee on Trade & Industry



16 March 2021

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Overview

1. What is the African economic challenge
2. What is the AfCFTA and how does it fit into a wider development startegy
3. Where are we with the AfCFTA currently
4. What should still be done
5. What are the opportunities available
6. EXAMPLES of EXPORTERS
7. EXAMPLES OF WHAT HAS BEEN EXPORTED.
8. What will the Dept focus on

Overview

Africa's place in the world

- Africa has **17%** of the world's population
- **3%** of the world's GDP.
- **3%** of the world's trade.
- **2%** of the world's manufacturing output.
- And only **1%** of the world's steel production.

Policy initiatives like trade must change this.

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BACKGROUND

INTRA-AFRICAN TRADE

- Trade between African countries is small – covers only 16%-18% of traded goods.
- Compare this with Intra-Asia trade (52%); intra-North America trade (50%); intra-EU trade (70%)
- Low levels of intra-African trade:
  - A legacy of colonialism not yet resolved
  - Africa mainly exports raw materials to rest of the world – oil, minerals, cocoa etc.
  - Africa mainly imports finished goods (consumer and capital goods)
  - BUT: intra-African trade (between African countries) is largely in value-added manufactured products.

BACKGROUND

INTRA-AFRICAN TRADE

- Over three-quarters of intra-African trade takes place within regional trading blocs.
- This trade should be nurtured as it supports economic diversification and efforts to move into higher value added production and exports.

- In 2019, around 26% of SA's global exports were destined for the rest of Africa.
- 80% of those exports were to SADC countries.
- The AfCFTA will create opportunities to expand SA's African trade beyond SADC to East, Central, West and North Africa.

POLICY INTERVENTION

THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)

The AfCFTA seeks to reduce tariff barriers on goods traded between African countries in order to give African-made goods an advantage over goods produced elsewhere in the world.

54 African countries have signed the agreement and 36 African countries have ratified it through their domestic processes, including South Africa, and deposited their instruments for ratification. The Agreement provides for:

- **Phase 1:** Reduction of tariffs on 90% of goods within 5 years (10 years for LDCs) with a further 7% over 10 years (13 years for LDCs); and opening of services sectors for trade starting with 5 priority sectors identified.
- **Phase 2:** Protocols on Competition, Investment, Intellectual Property and e-Commerce

<u>**The AfCFTA**</u>

OBJECTIVES, PRINCIPLES AND SCOPE

The AfCFTA:

- Sets out a framework for tariff reduction across Africa.
- Will establish more open, rules-based trade environment to boost intra-African trade and investment.
- Establishes due process for trade dispute resolution.

In support of real economy development:

- Market integration, i.e. tariff reduction, alongside effective rules of origin can encourage new investment for production to take advantage of a wider, more open continental market over time.
- To the extent that tariff liberalization is properly sequenced and calibrated with active industrial development measures and cross-border infrastructure development, wider and more inclusive economic development and growth can be supported.

OBJECTIVES, PRINCIPLES AND SCOPE

Key principles:

- Reciprocity (both parties in a trade relationship needs to open up) but also differentiation to take into account different levels of economic development across the continent - two categories are agreed: (1) developing countries and (2) least developed countries (LDCs).
- As the AfCFTA preserves current regional arrangements as building blocs, negotiations are in reality between individual Members and Customs Unions that currently do not have existing preferential arrangements in place.
- In SA's case, for example, we do not negotiate new arrangements with SACU or SADC Members under the AfCFTA.

PROGRESS REGISTERED

- AU launched AfCFTA negotiations at the 25th Summit on 15 June 2015 in Johannesburg.
- 54 out of the 55 AU members have signed the AfCFTA
- The AU Heads of State adopted the legal instruments establishing the AfCFTA on 21 March 2018 in Kigali.
- The Agreement formally entered into force in 2019 (22 ratifications).
- To date, 36 Members have ratified.
- Based on progress made, the AU Summit in December 2020 chaired by President Ramaphosa, provided the legal basis for the operationalization and the commencement of preferential trading under the AfCFTA on 1 January 2021

THE NEGOTIATIONS

AN OVERVIEW

A number of challenges inherent in implementation of trade agreements:

- Laying the legal basis for the Treaty, country-level signing and then formal ratification by each State
- Rules of origin: defining the level of value-added in Africa
- Level of tariff ambition: what percentage of products covered by AfCFTA
- Developing vs least developed economies: this affects the period within which a country reduces its tariffs
- Customs procedures: need for domestic legislation to implement tariff preferences, documentations needed (certificates of origin, declaration of origin, suppliers declaration)
- Services agreements: to open banking, retail, telecoms and other services markets
- Setting up institutions: a new Secretariat for AfCFTA and managing the shift of personnel from Ethiopia to Ghana

PROCESSES IN THE NEGOTIATIONS

AN OVERVIEW

- Two sets of processes: all States and ratifying States
- All States:
  - Reach agreement on key policy decisions, eg rules of origin
  - Technical committees and a Negotiation Forum address the different aspects of the negotiations
  - Look at 5 387 global tariff line items covering all tradeable products (at HS6 digit tariff heading level)
  - Supervised through the African Ministers of Trade (AMOT)
  - South Africa Chaired this structure since September 2020
- Ratifying States:
  - Address implementation modalities once policy decisions are reached
  - Technical committees meet to align mandates of different countries
  - Supervised through a new Council of Ministers
  - South Africa was vice-chair of this structure from November 2019; and Chaired the structure since January 2021
- The two structures will now be combined into one

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CHALLENGES IN NEGOTIATIONS

Example of Rules of Origin

- **Challenge:** what is defined as 'locally produced in Africa' and can thus qualify for tariff concessions? Example: if a machine is 95% produced in China and the simple assembly or packaging takes place in an African country adding only 5% value, it is clearly not 'locally-made'. The policy challenge is to set the defining line, since many products will not be 100% locally-made, but at a level that spurs local investment
- **Approach:** set out a rule for each product, stipulating the level of local content that must be produced in one or more African countries
- **Problem:** some countries favour a low local content, using products with significant imported content from outside the continent, with minimal assembly on the continent, and then exported to other African markets
- **Negotiation:** work to build sufficient consensus on what the minimum level should be
- **Outcome:** agreement on 81% of product lines, covering 4411 of global tariff lines at the HS6 level of the World Customs Organization's classification.

CHALLENGES IN NEGOTIATIONS

Other examples

- **Level of tariff ambition:**
  - the goal was 90% of trade to be covered over a phased-down period of equal instalments within 5 years for non-LDCs and 10 years for LDCs; and 97% within 10 years for non-LDCs and 13 years for LDCs years.
  - This will now be done incrementally, with an initial 81% of trade (tariff lines) with agreed Rules of Origin.

- **Developing/Least Developed Country (LDC) issue:**
  - Address situation of Customs Unions with both developing and least developed members

Product categories covered in SACU tariff offer

- SACU translated the 4 411 global tariff lines (HS6) to a SACU tariff-book offer (covering both HS6 and HS8). This translates to 6 399 lines. From this list, we made an offer to open our market in 5 988 SACU product lines, covering 77% of the SACU tariff book for ‘tradable products’.
- Offer covers mainly:
  - Chemical products
  - Plastic products
  - Paper products
  - Vegetables, food and beverage products
  - Animal products
  - Machinery and specialised equipment
  - Base metals
  - Minerals and Non-metallic minerals
- All SACU members have ratified the Treaty, except Botswana, which is completing its ratification processes.

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Trade in Services

- Protocol on Trade in Services includes provisions on general obligations and limits to protection measures; and provide for the negotiation of the progressive liberalization of services.
- Countries currently negotiating the schedule of specific commitments on Trade in Services. It was agreed to start negotiations on five priority services sectors and these are:
  - Transport Services
  - Communication Services
  - Financial Services
  - Tourism Services
  - Business Services
- South Africa have submitted its initial offers in these priority sectors.
- 34 other countries have submitted initial offers but these offers do not cover all the priority sectors
- Member States that are ready to negotiate additional sectors, e.g. health and education services, can do so; however it is expected that the remaining seven services sectors would be negotiated after the finalization of the 5 priority sectors

DECEMBER 2020

AU SUMMIT DECISION

- The December Summit Decision took into account that AU Members are at different stages of readiness to operationalise preferential trade:
  - Not all countries have ratified or submitted tariff offers and not all rules of origin were agreed.
  - However, very substantial progress made with 81% of tariff lines at HS 6 level now covered with rules of origin
  - More ratifications, including large economies, were registered
  - Members were preparing offers for market opening
- Historic Summit Decision to enable commencement of trade in 2021
- It provides the legal framework to allow AU Members/Customs Unions (CUs) to agree to operationalise preferential trade amongst them in an ongoing, incremental basis

DECEMBER 2020

AU SUMMIT DECISION

- The Decision specified that Members could enter into preferential trade under the AfCFTA as soon as they meet the four minimum conditions:
  - Ratification of the AfCFTA by individual Members and all those in a Customs Union where required;
  - The submission of technically sound, verified and reciprocal tariff offers based on 81% of tariff lines where rules of origin are agreed;
  - Domestic legislation to administer imports to be in place;
  - Agreed Customs documentation (AfCFTA Certificate of Origin, Origin Declaration and Supplier's Declaration)

DECEMBER 2020

AU SUMMIT DECISION

- Priority should be to implement the Summit Decision operationalising the AfCFTA on the 81% of HS 6 tariff lines where rules of origin are agreed.
- Summit also agreed to pursue a Built-in Agenda, covering:
  - Negotiations on rules of origin and tariff offers to raise the threshold to 90% of product lines; and
  - Negotiations to conclude Trade in Services

- Work proceeds on transfering negotiating and implementation functions from the AUC to the AfCFTA Secretariat in Accra;
- This will address institutional matters related to the AfCFTA budget, structure and recruitment of staff.

FROM JANUARY 2021

POST- AU SUMMIT IMPLEMENTATION

Status:

- Consideration of tariff offers by Countries (and customs unions) that have submitted tariff offers and preparing of offers by those that have not yet submitted offers
- Once an offer is made to SACU, we look at the technical soundness of the offer and and work towards a reciprocal exchange and finalisation of tariff offers based on the 81% of HS 6 tariff lines for which there are agreed rules of origin
- SACU has made an offer and await Botswana ratification
- Each of the Customs Unions in Africa have made offers: technical responses are now being discussed with regions and countries concerned
- Once agreement is reached between two Customs Unions or countries or a custom union and a country, trading can start between the parties within the new framework, meaning that tariffs are reduced incrementally, starting in 2021.

INDUSTRIAL OPPORTUNITY

THE AfCFTA IS AN OPPORTUNITY TO CHANGE THE NARRATIVE OF AFRICA'S DEVELOPMENT

Africa consumes what it does not produce; and produces what it does not consume

African countries imported **R8 trillion** of goods in 2019 but only **R1 trillion** came from other African countries

Lowering trade barriers presents a massive opportunity for South African industries, and for development across the continent

OVER-RIDING CHALLENGES

- **10 million jobless** South Africans – need to have the AfCFTA as a jobs-driven strategy and hence particular focus to support labour-intensive sectors and those with strong rural and women-employment linkages. Currently, 250 000 direct jobs are sustained by African exports.
- **Industrial value-add**: trade-linked currently productive sectors (manufacturing, agriculture and mining) represents 22% of GDP. We need to increase it.
  - Currently, the rest of Africa imports R2,9 trillion worth of manufactured goods annually from outside Africa. If South Africa were to supply just 2% of these manufactured goods, it would add 1,2 percentage points to SA's annual GDP and add R60 billion to our economic output a year.
- **Transformation opportunities**: sustainable growth requires inclusive growth and transformation, bringing youth, women and black industrialists into the productive sectors
- **Earning foreign exchange**: given South Africa's reliance on crude oil and capital goods imports, export earnings are vital to finance it; we generated R200 billion in net forex from trade with the rest of Africa.

INDUSTRIAL OPPORTUNITY

GOODS TRADED BETWEEN AFRICAN COUNTRIES

Africa countries exported goods worth **R1.1 trillion** to other Africa countries in 2019

Top exported products *	2019 exported value	Leading exporters
Crude oil and petroleum gas:	R136 billion	Nigeria (63%)
Refined oil:	R79 billion	South Africa (30%)
Iron and steel:	R53 billion	South Africa (55%)
Ships and boats:	R46 billion	Nigeria (85%)
CTFL:	R42 billion	South Africa (31%)
Plastics:	R36 billion	South Africa (41%)
Automotive products	R32 billion	South Africa (78%)
Flexible tubing:	R30 billion	Nigeria (100%)
Tobacco and tobacco products:	R23 billion	Zimbabwe (51%)
Electricity	R23 billion	SA (47%), Mozam (27%)
Top 10:	**R500 billion (45%)**	

Note: some export items include 're-exports' of products brought into SA and re-exported to SA-owned stores elsewhere on the continent, for example clothing products

(* Excludes gold)

INDUSTRIAL OPPORTUNITY

GOODS IMPORTED INTO THE REST OF AFRICA REPRESENT AN OPPORTUNITY FOR SOUTH AFRICAN EXPORTERS

Rest of Africa (excluding SA) imported goods worth **R6 trillion** from outside of Africa in 2019

Top imported products	2019 imported value
Refined oil:	R605 billion
Automotive products:	R453 billion
CTFL:	R369 billion
Iron and steel:	R362 billion
Plastics	R245 billion
Pharmaceuticals:	R197 billion
Wheat:	R157 billion
Ships and boats	R155 billion
Crude oil and petroleum gas:	R92 billion
Rice:	R80 billion
Top 10:	**R2.7 trillion (45% of imports)**

Immediate opportunity for South African industries

INDUSTRIAL OPPORTUNITY

SOUTH AFRICA IS THE 4TH LARGEST EXPORTER TO OTHER AFRICAN COUNTRIES; AFTER CHINA, FRANCE AND THE US

South Africa exported **R347 billion** to other African countries in 2019

Top exported products	2019 exported value
Processed foods and beverages	R42 billion
Refined oil	R31 billion
Iron and steel	R29 billion
Automotive vehicles and components	R25 billion
Agricultural produce	R16 billion
Plastics	R15 billion
CTFL products	R13 billion*
Electricity	R11 billion
Chromium ore	R 8 billion
Chemicals	R 6 billion
Top 10	**R196 billion (56% of imports)**

* include ‘re-exports’ of products brought into SA and re-exported to SA-owned stores elsewhere on the continent, for example clothing products

INDUSTRIAL OPPORTUNITY

HOWEVER THE MAJORITY OF EXPORTS TO OTHER AFRICANS ARE TO SADC COUNTRIES

South Africa exported **R347 billion** to other African countries in 2019

Top importers	2019 exported value
Botswana	R59 billion
Mozambique	R53 billion
Namibia	R52 billion
Zambia	R31 billion
Zimbabwe	R29 billion
Eswatini	R19 billion
Lesotho	R19 billion
Congo DRC	R15 billion
Kenya	R11 billion
Tanzania	R 7 billion
Top 10	**R295 billion (85% of RoA exports)**

The AfCFTA provides the opportunity to expand exports to West, North and East Africa

INDUSTRIAL OPPORTUNITY

SOUTH AFRICA'S IMPORTS FROM OTHER AFRICAN COUNTRIES DOMINATED BY CRUDE OIL AND PETROLEUM GAS

South Africa imported **R147 billion** from other African countries in 2019

Top imported products	2019 imported value
Crude oil and petroleum gas	R74 billion
CTFL products	R11 billion
Flavourants	R5 billion
Gold	R5 billion
Sugar	R4 billion
Electricity	R4 billion
Diamonds	R3 billion
Books and magazines	R2 billion
Live animals	R2 billion
Coppers	R2 billion
Top 10:	**R113 billion (76% of RoA imports)**

INDUSTRIAL OPPORTUNITY

SOUTH AFRICA'S IMPORTS FROM OTHER AFRICAN COUNTRIES ARE CONCENTRATED IN ONE OR TWO PRODUCTS PER COUNTRY

South Africa imported **R147 billion** from other African countries in 2019

Top exporter	2019 imported value	Main products
Nigeria:	R50.7 billion	Crude oil
Eswatini:	R18.6 billion	Flavourants, Sugar, CTFL
Mozambique:	R13.2 billion	Petroleum Gas, Electricity
Namibia:	R13 billion	Gold, Live animals
Ghana:	R9.2 billion	Crude oil
Angola:	R8.1 billion	Crude oil
Botswana:	R6.5 billion	Diamonds
Lesotho:	R4.1 billion	Clothing (CTFL)
Mauritius:	R3.5 billion	Clothing (CTFL)
Zambia:	R3 billion	Copper
Top 10:	**R117 billion (80%)**	

INDUSTRIAL OPPORTUNITY

INTRA-AFRICAN TRADE IN COVID-19 ALSO PROVIDES INDUSTRIAL OPPORTUNITIES

- During 2020, South Africa exported R11.6 billion of goods to the Rest of Africa which could be used in the fight against COVID-19 (inc. masks, disinfectants, pharmaceutical products and devices)
- South African manufactures have expanded capacity in COVID-19 essentials like face masks, hand sanitisers and CPAP ventilation devices. Capacity is also being created for the production of vaccines. E.g. Between June 2020 and Feb 2021,
  - R1.7 billion of SA-made hand sanitizer was exported to RoA
  - 2 million SA-made medical-grade masks were exported.
- The continued fight against the pandemic will provide SA exporters opportunities under the AfCFTA

INDUSTRIAL OPPORTUNITY

THE AfCFTA CAN HELP TO PROMOTE GREATER INVESTMENT INTO AFRICA

- Foreign direct investment into Africa has plateaued in recent years, with investment across the continent falling from $50.6 billion in 2018 to $45.3 billion in 2019 (Source: UNCTAD)
- The World Bank estimated that successful implementation of the AfCFTA can raise GDP across the continent by $450 billion per annum by 2035
- An estimated $100 billion annually is needed in infrastructure investment on the continent – SA will need to drive the effort to attract this investment, backed by commitment to policy certainty
- Increased industrial opportunity across the continent will spur investment in key “gateway” economies like South Africa
- A focused capital-raising strategy will need to accompany implementation of the trade provisions of the AfCFTA

THE OPPORTUNITIES OF THE AFCFTA …

- A number of large and medium-sized South African companies have established businesses across the continent
- South Africa’s manufactured product exports to other African countries is strong, representing **80%** of all exports to the rest of Africa
- Bilateral engagements (eg Nigeria) will be undertaken to address practical obstacles to deepening trade
- Key imports of other African countries from outside the continent represent growth areas for South Africa

TRANSFORMATION…EXAMPLES

- Transformation opportunities: targeted policies can enhance the entry of young entrepreneurs, women and black industrialists in the export market
- There are already companies with these demographics active in the export market
  - Thami Gxowa who exports cooler boxes to Mozambique;
  - Zanele Ntsibande selling hollow core internal doors to Botswana;
  - Sibu Maphatiane who exports train brake shoes to Zimbabwe;
  - Ntsiki Biyela who sells wine to Ghana
  - the Montsi family who exports machine cutting tools to Mauritania.
- Over the next 5 years, the DTIC will nurture and seek to expand such enterprises through the AfCFTA.

RISKS AND MITIGATION

- **Vulnerable sectors:** all trade comes with risks and opportunities
  - Mitigation: Industry partnerships to address competitiveness challenges will be important. The Master Plan framework will be used for this purpose
- **Trans-shipment:** where one African country passes imported goods off as produced locally, in order to get the trade benefit from another African country, destroying jobs in the process
  - Mitigation: requires effective capacity to monitor and enforce Rules of Origin at ports of entry by SARS/BMA
- **Limited industrialisation** due to weak rules of origin
  - Mitigation: Build consensus on effective Rules of Origin on outstanding products and to increase levels of investment in value-chains, including cross-border supply-chains
- **Hollowing-out** of the industrial base by cheap imports
  - Mitigation: Strengthened sector support for vulnerable industries and upgrading technology, productivity and product innovation

ACTION PLAN:

COUNTRY READINESS

To underpin the AfCFTA, a whole-of-government implementation plan will be put into effect starting in 2021-22, including:

- **Sector-level** - Master Plan sectors to finalise an AfCFTA chapter. Key sectors include autos, steel, poultry, sugar, agro-processing, clothing and machinery.
- **Provincial and District-municipality level** - Provinces and districts will be assisted with a template to help identify both the opportunities for firms in their area; and the local/provincial government contributions to realise this: "District Export Plans". (COGTA+DTIC)
- **Transformation** - identify export-champions that will support SMEs and black industrialists to gear up for new markets
- **Innovation** - an industrial conference is proposed (DSI+DTIC) to consider an innovation strategy to support SA-exports under the AfCFTA.
- **Infrastructure:** support the work of other line-departments to enable progress with border-posts, ports, rail, road, energy and trade-infrastructure that facilitates the AfCFTA.

ACTION PLAN

TRADE READINESS – the 2021 work programme

The work programme for 2021-22 will involve the following areas:

- Monitor the state-of-readiness of trading blocs based on their offers; and finalise bilateral trade offers in respect of agreed rules of origin
- Negotiations on remaining rules of origin to be completed
- Offers for priority sector trade in services to be finalised
- Offers for sector trade in services to be pursued
- Finalise timeframes for implementation of protocols on investment, competition and intellectual property matters, with Council of Ministers
- Implementation of existing agreements on customs administration to be rolled out over the course of 2021 on a country by country basis (SARS has completed its work in this regard)

CONCLUDING REMARKS

- AfCFTA brings us a step closer to historic vision of an integrated market in Africa; the basis for increasing intra-African trade.
- But this alone is not enough: it needs to complement and consolidate parallel AU work on infrastructure and industrial development pillars – build supply capacity to take advantage of more open African markets.
- Critical that a range of countries develop capacity to manufacture goods for export. For sustainability, the benefits of the AfCFTA must be shared across the continent.
- Opportunity to have an Africa-wide approach to trade deals with other trading partners

Implementation starts immediately – but the project is the mission of a generation.

THANK YOU

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