



Brand South Africa

South Africa in the African Continental Free Trade Areas (AfCFTA) - Nation Brand Positioning Analysis

30 September 2021

1. Background

The historic launch of the African Continental Free Trade Area (AfCFTA) took place on 01 January 2021, signaling a new dawn in Africa. South Africa has found itself in the forefront of the AfCFTA as the launch happened when the country's president, Cyril Ramaphosa, was the Chairman of the African Union.

The AfCFTA is a free trade area, outlined in the African Continental Free Trade Agreement between 54 of the 55 African Union nations. It is the largest trade area in the world in terms of participating countries since the formation of the World Trade Organization. The agreement seeks to create a single market for goods and services, with free movement of businesspersons and investments across borders, which will strengthen trade and intra-African investment. The combined GDP of the 54 AfCFTA countries is more than \$3,4 trillion and it is estimated that the agreement will further boost intra-African trade by 52% by 2022.

With South Africa being the second largest grossing economy in the African continent and also being the most diversified economy amongst African countries. The country stands to benefit greatly from the trade agreement. The AfCFTA will re-position South Africa's trade and business conditions in both the African continent and globally. South African businesses will have the opportunity to tap into new African markets as the agreement will create greener pastures in South Africa's business environment.

1. What is the AfCFTA and what are its benefits for African countries?

Initially, the phase 2 negotiations and commencement trade under AfCFTA was scheduled to take place on the 1st of July 2020. However, due to the stalling impact of the COVID-19 pandemic, there was a delay. The trading kicked off on 1st January 2021, which makes it too early to assess the impact of trading at the time of writing this analysis.

The trade agreement has gained prominence in both the global economy and African continent, being hailed as a game-changer and ambitious project capable of eradicating poverty for over 30 million people within the African continent, through trade liberalization and economic integration in line with the Pan African Vision (Agenda 2063) of an integrated, prosperous and peaceful Africa.

The overall objective of the AfCFTA is to strategically eliminate or reduce tariff and non-tariff barriers amongst the 54 countries that are the members of the bloc by providing a single market for goods and services, facilitated by the movement of individuals in order to strengthen the economic intergration and prosperity of the African continent. This key objective is to be achieved through successive rounds of negotiations that are to be done in phases.

In specific terms, the Agreement also seeks to:

- lay the foundation for the establishment of a Continental Customs Union;
- promote and attain sustainable and inclusive socio-economic development, gender equality and structural transformation of the State Parties;
- enhance the competitiveness of the economies of State Parties within the continent and global market;
- promote industrial development through diversification and regional value chain development, agricultural development and food security, and;
- resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.

2. South Africa and the AfCFTA

In February 2019, South Africa deposited its instruments of ratification after parliament ratified the establishing agreement of the AfCFTA. Shortly after that, President Cyril Ramaphosa highlighted in a public statement that the South African ratification of the AfCFTA profiles the country's position to foster a single, diversified and unified African market free trade barriers.

The involvement of South Africa in the AfCFTA comes at a time where South Africa has been the leading importer and exporter in inter-African trade for the past decade. Additionally, South Africa has also led and entered into a duty free Southern African Customs Union (SACU) and the Free Trade Agreement (FTA) in the SADC region. Therefore, the AfCFTA grants South Africa with the opportunity to realise the objective on a grander stage with better coordination from the African Union.

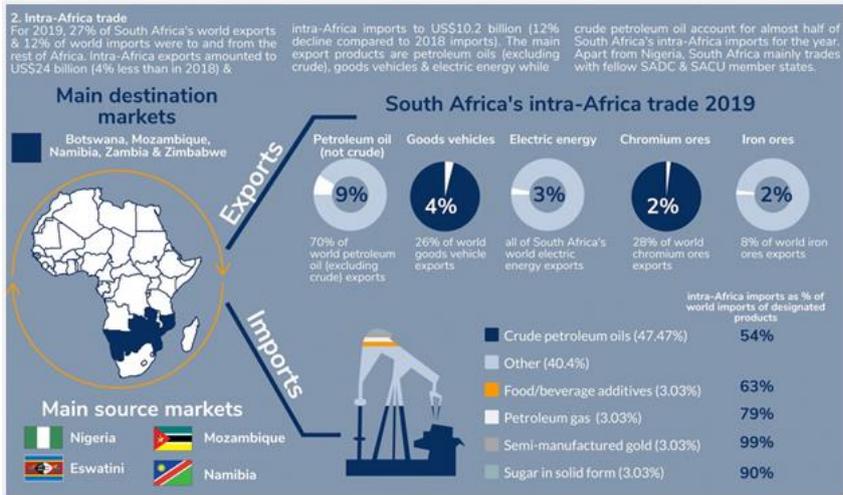
With African countries like South Africa having ratified to be part of the AfCFTA, a number of industrial and immigration policies will have to be restructured to allow for free movements of people, including persons. The economic growth and inter-dependence that stands to be brought by the AfCFTA is certain to bring more than just economic interaction; socio-economic interactions are bound to increase in the continent. It is most likely that South Africa will be one of the destinations of choice as it is one of the continent's best performing economies; in this regard, South Africa may be confronted with the need to alter an immigration policy that appears to have an anti-African nuance.

It is also important to highlight that, not only is South Africa the second largest grossing economy in the African continent after Nigeria, but it is also Africa's most diversified economy bound to be a player in the success of the AfCFTA.

As the leading exporter of petroleum oils (excluding crude) and electrical energy, South Africa's involvement in the AfCFTA provides the country with the opportunity of the laxing of trade tariffs to advance the National Development Plan's (NDP) sustainable development and energy security initiatives.

With properly altered industrial policy, South Africa could lead the climate sensitive development discourse in Africa by instrumentalizing both SASOL with bio-fuels and ESKOM with renewable energy. SASOL already exports a great number of petroleum oils to parts of Africa and ESKOM already provides electricity for some of the SADC member states. South Africa’s intergovernmental panel on climate change has had several discussions on how to transition to a climate sensitive economy without mass casualties of livelihoods. The transition in pursuit of the NDP and Sustainable Development Goals will create new value chains through the manufacturing, maintenance and construction of the renewable energy infrastructure which may be exported across Africa with minimal charge in the era of the AfCFTA.

Due to the impact of the COVID-19 pandemic, a several statistics on South Africa’s performance in intra-Africa trade’s were delayed. Therefore, to highlight the country’s previous performance, the snapshot below covers the year 2019:



From the snapshot above, and a number of statistics, it is evident that most intra-African trade’s come from the SADC region. Therefore, the AfCFTA will open the north and western African markets, where South African companies have not been operating and competing successfully due to heavy trade duties.

The AfCFTA could mean more tax revenue through employment creation, VAT and corporate tax; which stands to act as the substitute for the loss of income from removing tariffs and other non-tariff barriers, taking into account the numbers in terms of exports and imports.

Moreover, the AfCFTA caters for South Africa's position on regional integration; which envelopes ambitions of a more developed and peaceful region. The opportunity presented by the AfCFTA to SADC member states is that of other markets to export their goods and services without the worry of tariffs thus bringing about more revenue to be used on much needed development in the respective countries.

South Africa's commitment to the AU and Agenda 2063 also requires the country to support the AfCFTA as the establishment of the agreement is part and parcel of the Agenda. Economic inter-dependence has served as a stabilizing factor in regions, as evident with the European Union, through creating relations that transcend the economic sense of the word.

This means that African states would have a greater role to play in ensuring that any arising conflict is resolved quickly through the AU Peace and Security Council as that conflict would be affecting the economies of member states party to the AfCFTA.

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