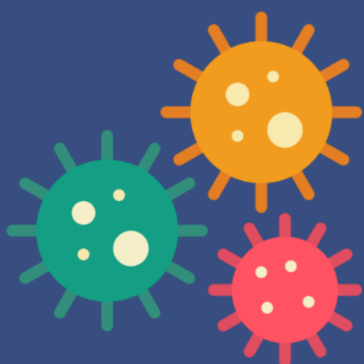
EAST AFRICAN BUSINESS COUNCIL

Unpacking Opportunities of the AfCFTA to the East Africa Private Sector, Foreign Investors and Challenges to its Implementation



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The Voice of the Private Sector in East Africa

Opportunities of the AfCFTA for the Private Sector

Benefits to the Private Sector in East Africa

- **Generating New Job opportunities:** The working-age population of East Africa is expected to increase by 8.6 million individuals annually between 2015 and 2030. The implementation of the AfCFTA could lead to an additional 2 million jobs for the East African region.
- **Growth of key regional Value Chains**: Textile and footwear industries may be especially appropriate for some east African Partner States. Kenya alone exports over USD 500 million of textile exports each year – principally to the US market at the current time.
- **Increased Economic growth due to tariff removal:** By lowering the tariffs on intermediate and final goods, the AfCFTA will create additional opportunities for adding value to natural resources. The regional economy will expand by 0.7 % with the removal of intra-African tariffs. Thus, will promote intra Africa imports.
- **Fostering Industrialization**: The AfCFTA will make it easier for SMEs to supply inputs to larger regional companies for export.

Opportunities of the AfCFTA for Foreign Investors

Ready and Viable Market:

- 55 Member States with 1.3 billion people/consumers: An opportunity for investors in various sectors especially manufacturing and services.
- The AfCFTA will create an expanded single continental market of 1.2 billion people (youthful population and growing middle class) with a consumer spending of close to USD 4 trillion-An opportunity for investors
- A combined GDP of US$3.4 trillion-An investor confidence in the continent.
- African countries have agreed to eliminate 97 per cent of tariff lines on intra-Africa trade in goods. The AfCFTA Agreement also promises to address non-tariff concerns which will help reduce cross-border trade costs for businesses and people.

Improved Investment Regulatory Framework:

- Role of Protocol on Investment: The Protocol on Investment will 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.

Value Chain Growth:

- Seamless integration into the continental and global value chains-Easy access to inputs

Potential Challenges to Implementation of the AfCFTA

- **Addressing Cost of Trade:** Cost of cross-border trade is high and may represent a barrier for MSMEs. Otherwise, only large companies would be able to fully benefit the AfCFTA-Mechanism for removal of Persistent and new NTBs.
- **Conflicting RECs:** Most African countries are part of more than one REC and so convergence among RECs should be made compatible with the AfCFTA. Harmonization of standards and certification is also a priority. The large number of different standards depending on the countries or the regions remains a barrier to trade.
- **Levels of Digitalization:** Development of e-commerce is one of the main issues that East African countries are facing. In many African countries, adequate and affordable information and communications technology (ICT) and connectivity to enable digitalization to take place is still an issue.
- **Government Support to Producers:** A wide range of measures can be implemented such as incentives, tax reductions, technical support (e.g. provide specific tools for farmers, develop alternative seeds and biological fertilizers), educational measures, infrastructure investments, cross-border cooperation and coordination- Consideration of women and youth in business.

Recommendations for Implementation of the AfCFTA

In terms of actionable recommendations to ensure that the AfCFTA is an inclusive and beneficial Trade Agreement, the following issues should be addressed:

- Rolling out sensitisation campaigns of the AfCFTA to the private sector to ensure that the beneficiaries are fully aware of the protocols being negotiated and the implications they have to businesses in the EAC
- Fast-tracking the negotiations of the remaining phases in order to unlock the benefits therein with active representation of private sector umbrella organisations. The first step is to operationalize the AfCFTA. Technical features like instructions for trade concessions in goods, RoO and schedules of specific commitments for trade in services must be finalized.
- Ensuring full commitment and strong political will in order to effectively drive the implementation process,
- Harmonising trade policies and regulations in order to facilitate business across the continent,
- EAC Partner States need to develop innovative investment incentives to companies with intentions to expand other regions of the continent and beyond.
- Ensuring the EAC private sector formalize their businesses and adopt corporate management principles that are inclusive in nature.

Key AfCFTA Drivers

In order to trade under the AfCFTA, the following must take precedence;

- Outstanding Negotiations must be concluded
- Results of tariff negotiations must be adopted (AfCFTA needs Tariff Schedules and Rules of Origin)
- Domestic laws & procedures in place-Update tariff books
- Tariff Books in Custom Unions reflect CET & all Members must ratify
- Promulgation in Government Gazette & dissemination
- Only firms in State Parties to enjoy new preferences
- Trade among Members of CUs/RECs continues as before
- The AfCFTA is an FTA-Implementation by State Parties

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- THANK YOU -

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