

Expert Group Meeting:

Harnessing the potential of the AfCFTA: the catalytic role of economic diversification and innovative digital technologies

Rabat, Morocco, 19-20 November 2024

Concept note

Background

The African Continental Free Trade Area (AfCFTA), which was adopted in March 2018 and which entered into force on 30 May 2019 following the deposit of the 22nd instrument of ratification, is a crucial step towards Africa's economic integration. By creating a single market for goods and services, it facilitates the free movement of people and investment, while paving the way for a continental customs union. Covering 54 countries and more than 1.3 billion people, the AfCFTA aims to increase intra-African trade, enhance competitiveness and promote sustainable economic development. It will help diversify and transform the economies of countries in both regions, addressing their structural development challenges such as low investment, food and energy insecurity and poor connectivity. The adoption of the AfCFTA lays the foundation for accelerated trade integration through the harmonization and simplification of foreign trade procedures, including the regulation of trade in goods and services, investment, intellectual property and competition policy.

The implementation of the AfCFTA is expected to boost Africa's GDP, trade and prosperity. The ECA estimates that by 2045, GDP will increase by 0.5%, or \$55 billion, African exports will increase by 5%, or \$110 billion, and well-being will increase by 0.3%, or \$3 billion. Although intra-African trade will account for 14% of total trade by 2022¹, the AfCFTA could increase it by 34%, representing an additional \$130 billion in intra-regional trade. The importance of an integrated, mutually supportive economic space is reinforced by recent global and regional changes, such as the global health crisis, the growing role of emerging economies, and the institutional, economic and social reforms needed to meet the growing needs of populations and the global economy. Greater integration, including factor mobility, coordination of sectoral policies and harmonization of regulatory frameworks, would enhance countries' bargaining power, investment attractiveness and resilience to external shocks.

In the short term, efforts by countries, the private sector and civil society must focus on operationalizing the AfCFTA, going beyond existing trade agreements. Instruments adapted to the production conditions and concerns of partner countries are essential. Trade policies and economic strategies under the AfCFTA must incorporate climate resilience measures, such as promoting sustainable agricultural practices, investing in climate-resilient infrastructure and supporting green technologies. The AfCFTA is a lever for accelerating industrialization and economic diversification in North and West Africa. Economic integration is imperative in the face of global and regional changes, including the global health crisis, the growing influence of emerging economies and the reforms

¹ UNECA. The AfCFTA, boosting regional integration through trade. August 2023.

needed to meet the growing needs of populations. Greater integration would improve investment attractiveness, economic performance and the resilience of countries and firms to external shocks.

Economic diversification to promote industrialization and accelerate the implementation of the AfCFTA

North and West Africa, with their unevenly diversified economies, stand to benefit enormously from the AfCFTA. The zone will allow countries to diversify their economies by developing higher value-added industries and services. Often dependent on the export of a few commodities, these economies are vulnerable to fluctuations in global prices and economic shocks. The AfCFTA stimulates intra-African trade, reduces trade barriers and promotes industrial diversification. This supports the transition from a commodity-based economy to one focused on industry and high value-added products, thereby strengthening the economic resilience and growth potential of the countries in the region.

Intra-African trade is more concentrated in semi-processed and processed goods (61% of the total against 38% for the rest of the world), which can be deepened by the AfCFTA and generate higher revenues². ECA projections show that the AfCFTA can act as a stimulus for industrial development in Africa. In fact, almost two-thirds of the increase in trade induced by the continental project would come from trade in manufactured goods. Agricultural products account for 21% of this increase, while energy and mining account for 11%. Services would contribute 3%³.

This strong potential for growth in industrial trade is explained by the relatively high share of industrial goods in current intra-African trade. Trade liberalization would reinforce the current situation by favoring higher value-added goods. The AfCFTA would increase the share of manufactured goods in intra-African trade from the current 45% to almost 60% by 2045. Finally, the AfCFTA would increase the rate of trade integration from 15% in 2020 to 26% in 2045.

As far as North Africa is concerned, the ECA (2017) study on “Industrialization through trade in North Africa in the context of the Continental Free Trade Area and Mega Trade Agreements”⁴ shows that the implementation of trade facilitation measures in addition to the AfCFTA would have a particularly positive impact on intra-regional trade. In fact, sub-regional industrial trade is expected to grow at a higher rate than that estimated for the continent as a whole - around 70% to be precise.

In West Africa, if the AfCFTA is successfully implemented, ECOWAS exports of manufactured goods to Africa will increase by 24% by 2045, less than services (40%) but more than agro-food (23%) and energy and mining (11%). In absolute terms, the impact on manufactured exports would be greater, peaking at three quarters of the expected gains⁵. Following the example of the continent as a whole, the AfCFTA will lead to an increase in productive capacity for the West African sub-region, with a more pronounced increase in production in industry (81.7%) compared to the sub-sectors of agro-food (12.6%), energy and mining (4.0%) and services (1.6%).

The adoption of new, innovative digital technologies as an accelerator for the implementation of the AfCFTA

² UNCTAD. Economic Development in Africa Report. 2021.

³ United Nations. Economic Commission for Africa; United Nations. Economic Commission for Africa (2021-07). New assessment of the economic impacts of the agreement establishing the African continental free trade area on Africa: Policy Brief. Addis Ababa: © UN. ECA, <https://hdl.handle.net/10855/46750>

⁴ “United Nations. Economic Commission for Africa (2017-09). Industrialization through trade in North Africa in the context of the Continental Free Trade Area and Mega Trade Agreements. Addis Abeba. © UN. ECA. <https://hdl.handle.net/10855/23737>

⁵ New assessment of the AfCFTA’s economic impacts on Africa, with a focus on ECOWAS and its member States, Draft July 2021, ECA

Innovation plays a key role in realizing the potential of the AfCFTA, particularly in terms of improving product cost and quality. Innovation combined with digitalization can lead to economic diversification based on value-added opportunities and new trade flows, boosting intra-African trade and exports outside Africa.

There is broad consensus on the impact of digital transformation on trade expansion and, more generally, on sustainable development. According to the International Telecommunication Union (ITU)⁶, a 1% increase in mobile broadband penetration increases global GDP by 0.15%. This effect rises to 0.25% in Africa, where mobile phones remain the means of Internet access for the majority of the population. However, the digital divide is a reality, particularly between regions and sub-regions, between men and women, and between urban and rural areas. Africa remains the least connected region, with only 37% of its population having access to the Internet in 2023⁷, compared to a third of the world's population. What's more, despite the progress made in recent years, while parity in Internet access exists in the Americas and is almost achieved in Europe, 32% of women in Africa use the Internet, compared to 42% of men, according to ITU data for 2023.

West Africa continues to face the challenge of digital connectivity, access and usage. Mobile broadband penetration remains below 40%, mainly due to high retail prices and a lack of infrastructure. North Africa, on the other hand, is making significant progress in terms of broadband availability. With the exception of Sudan (32.2%), access rates in the sub-region range from 58% to 68.5%. Relative performance has also been observed in terms of Internet usage, with the exception of Sudan (39.3%), which ranges from 51.6% to 65.7%. This performance is supported by the fact that countries in the subregion such as Tunisia, Morocco, Egypt and Algeria have almost universal access to electricity.⁸

Against this backdrop, both subregions face unique challenges and opportunities in realizing the full potential of the AfCFTA.

First, many countries in these regions suffer from inadequate infrastructure, including poor or inadequate road networks, insufficient port facilities and unreliable energy supplies. These infrastructure deficiencies hinder efficient trade and increase the cost of doing business. Indeed, the AfCFTA is designed to encourage investment in critical infrastructure such as roads, ports and energy, thereby improving trade efficiency and connectivity in North and West Africa.

Second, on the trade front, non-tariff barriers, complex customs procedures and inconsistent trade policies between countries hinder the free movement of goods and services, undermining the objectives of the AfCFTA. In this regard, digital transformation is a powerful lever for facilitating trade. Indeed, in the area of trade facilitation, the introduction of ICTs has led to the generalization of computerization, the dematerialization of formalities and the automatic exchange of data. Intelligence is embodied in the effective use of information available through new control techniques such as risk management and the Authorized Economic Operator (AEO) mechanism. Computerized customs management systems (such as Sydonia) have helped to facilitate border crossings and promote trade.

Under the umbrella of the AfCFTA, the continent is preparing to ratify and then operationalize the content of the recently adopted Protocol on Digital Trade. The Protocol includes elements on market access, treatment of digital products, facilitation of digital trade, data governance and consumer confidence. The Protocol, which sets out harmonized rules and common principles to promote digital trade across Africa, is a catalyst for the continent's digital transition momentum.

The success of the digital transition that the countries of the two sub-regions must undertake depends on the removal of constraints related to the necessary infrastructure and the establishment of a

⁶ [Global Connectivity Report 2022, ITU](#)

⁷ <https://www.itu.int/itu-d/reports/statistics/2023/10/10/ff23-internet-use/>

⁸ <https://www.internetsociety.org/wp-content/uploads/2024/06/MENA-Connectivity-Report-EN.pdf>

regulatory and technical framework that supports digital transformation as a catalyst for the growth of technological and digital innovation.

By addressing their common development challenges through strategic investments and policy initiatives, North and West Africa can take full advantage of the opportunities offered by the AfCFTA to stimulate sustainable economic growth and development.

Objective

The aim of the meeting is to promote African continental integration and to better position the economies of North and West Africa in the process of building the single market. The meeting will take advantage of current digital advances to promote economic diversification.

Expected outcome

The meeting will provide an opportunity for countries in both sub-regions to review their regional and continental integration policies and align their trade strategies with the objectives of greater economic diversification and taking advantage of the ongoing digital transformation.

The workshop will contribute to improving member countries' knowledge of the continental integration project by providing a space for informed dialogue and exchange on the dimensions of digital transformation and economic diversification.

Participants

Representatives of member countries, experts and observers will be invited to participate in the work of the meeting, which will be led by ECA experts and mobilized resource persons.

Structure of the EGM:

The meeting will be organized in three sessions to address the following issues:

- State of play and progress in the implementation of the AfCFTA;
- Digital transformation and intra-African trade; and
- The role of trade in economic diversification and industrialization, including regional value chains.

Session 1: Status and challenges of AfCFTA implementation

- **Objective:** Provide an overview of the status and progress of AfCFTA implementation at the continental level, in North and West Africa, and identify key challenges and opportunities.
- **Key topics:**
 - Status and progress of the implementation of the AfCFTA at continental level, in North and West Africa
 - Challenges and opportunities for leveraging regional strengths and cooperation
- **Speakers:** Representatives from the African Union, the AfCFTA Secretariat, regional economic communities, national governments, United Nations agencies and development partners, the private sector, universities, and research centers.

Session 2: Harnessing innovative digital technologies to boost intra-regional trade

- **Objective:** Examine the role of digital technologies in improving trade facilitation and reducing barriers to intra-African trade.
- **Topics:**
 - Digital infrastructure and connectivity in North and West Africa

- Digital technologies and trade facilitation such as Digital payment systems, including blockchains and emerging technologies, and Computerized customs management systems.
- **Speakers:** Digital technology experts, policy makers, private sector leaders or representatives of digital transformation projects.

Session 3: Trade and economic diversification strategies for sustainable growth

- **Objective:** Explore the linkages between trade and economic diversification strategies that can support inclusive and sustainable growth.
- **Key topics:**
 - Challenges and Policy frameworks to promote economic diversification and the development of regional value chains
 - AfCFTA and the economic inclusion of women and youth.
- **Speakers:** Economists, policy makers, business leaders or representatives of international organizations.

Date and place

Rabat, 19-20 November 2024.

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