Implementing the AfCFTA Agreement and implications for Africaâ€™s regional value chains

Topic: Trade and Global Value Chains Policies
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Research question

The development of regional value chains (RVCs) and the engagement in global value chains (GVCs) is instrumental to Africaâ€™s industrial transformation and economic development. These objectives also closely align with the major goals of the Agreement establishing the African Continental Free Trade Area (AfCFTA) which is currently under implementation. The AfCFTA aims to facilitate intra-continental trade of goods and services, where intra-African trade in intermediate goods and services could go a long way to promote and enhance the development of RVCs. The development of African RVCs is also expected to subsequently facilitate Africaâ€™s participation in GVCs.
Against this background, the main objective of this study is to explore how the implementation of the AfCFTA Agreement may provide opportunities to strengthen value chains within Africa.
Specifically, we first examine Africaâ€™s position in GVCs and the recent development of RVCs. Then, the potential linkages between the AfCFTA Agreement and regional/global value chains are established. In addition, a detailed description of Africaâ€™s current tariffs, non-tariff measures, trade structures distinguishing goods and services for final and intermediate consumption is provided. Finally, based on the MIRAGE-VA computable general equilibrium (CGE) model, we simulate the implications of the implementation of the AfCFTA Agreement for RVCs in Africa to identify those sectors and sub-sectors that present the most potential for value-addition and the creation of RVCs.

Method & data used

An improved version of the MIRAGE-VA multi-country, multi-sector, dynamic CGE model is used for the analysis. Specifically, it includes a module on value addition differentiating goods and services for intermediate and final consumption. The model is calibrated for the initial year (2014) based on data from GTAP 10.1 Multi-Regional Input-output (MRIO) database, which has the advantage to decompose trade in goods and services into final and intermediate uses. Long-term macroeconomic projections (GDP, labor participation rate and skills, current account, investment and saving rates, and energy efficiency) from updated results of a growth model known as the Macroeconometrics of the Global Economy (MaGE) (see FourÃ© et al, 2013 and FontagnÃ© et al, 2022) are introduced in the model. Projections of fossil fuels prices (oil, gas and coal) are also considered. In the first step to construct the business-as-usual (BaU) scenario, the total factor productivity (TFP) is endogenous to reconcile the two models (i.e. MIRAGE-VA and MaGE). The MIRAGE- VA model therefore projects a reference trajectory of world economy which is consistent with the MaGE model. In the second step to construct the BaU scenario, key trade and climate policies are included, while keeping the TFP exogenous. Consequently, GDP, investment, and energy prices are endogenized.
We consider a realistic AfCFTA scenario assuming tariff liberalization in line with agreed AfCFTA modalities on trade in goods plus a 50% cut on actionable NTMs in both goods and services (within Africa). The NTMs in goods and services are cut linearly from 2021 to 2035, remaining constant thereafter and until 2045.

Novelty of the research & Findings

An analysis of Africaâ€™s current participation to backward and forward linkages with GVC is first performed and reveals that Africaâ€™s participation in GVC is limited. While the continent increasingly participates in GVC by exporting goods further transformed by other countries (i.e. forward participation), it participation to backward linkages which is assessed to be the most effective for GVC participation remains weak.

Crossing detailed data on trade and protection shows that both average tariffs and NTMs imposed by Africa on intra-African imports of industrial goods for intermediate consumption are higher than average tariffs and NTMs imposed by Africa on the same products from the rest of the world. This can be seen as a factor undermining the development of regional value chains. Therefore, the AfCFTA must and can play a key role (through the liberalization on tariffs and NTMs within the continent), especially in facilitating intra-African imports of industrial goods for value addition and regional value chains development in Africa.

The potential from the implementation of the AfCFTA Agreement to foster regional value chains in Africa is confirmed by the results from the empirical analysis based on CGE modeling, which explores how the AfCFTA may contribute to the development of Africaâ€™s RVCs and ultimately improve Africaâ€™s position on GVCs. Modelling results also confirm that the priority sectors (i.e. agro-processing, pharmaceuticals, automotive industry) identified under the AfCFTA processes have great potential for the development of Africaâ€™s RVCs, along with other sectors such as metals, wood and paper, and other manufacturing products.