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The AfCFTA and industrialisation: FROM POLICY TO PRACTICE

POLITICAL ECONOMY DYNAMICS OF REGIONAL ORGANISATIONS IN AFRICA

PEDRO

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The African Continental Free Trade Area (AfCFTA), though ostensibly focused on trade, is hoped to promote industrial development through diversification and regional value chain (RVC) development. However, despite the long-standing objective of using regional trade to enhance industrialisation, ambitions often run aground at the implementation stage.

This paper discusses some of the practical challenges of combining the AfCFTA with industrial ambitions. It highlights the fact that regional free trade areas will continue to govern regional trade and evidence that tariff liberalisation will generate only small gains, thus underlining the importance of understanding and addressing existing challenges to promoting RVCs.

In particular, the paper looks at the political dynamics that play out within and between states which could make or break regional industrialisation ambitions. While many existing challenges to industrialisation and RVC development will remain the same, the paper also highlights the political opportunity offered by the AfCFTA to address long standing regional market integration and cooperation challenges.

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Acronyms

AAAM	African Association of Automotive Manufacturers
AfCFTA	African Continental Free Trade Area
AIDA	Accelerated Industrial Development for Africa
ASEAN	Association of Southeast Asian Nations
AU	African Union
CEMAC	Economic and Monetary Community of Central Africa (<i>Communauté Economique et Monétaire de l'Afrique Centrale</i>)
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Coronavirus disease
DRC	Democratic Republic of the Congo
EAC	East African Community
ECA	Economic Commission for Africa
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EFTA	European Free Trade Association
EIF	European Investment Fund
ETLS	ECOWAS Trade Liberalisation Scheme
EU	European Union
EV	Equivalent variation
FDI	Foreign direct investment
FTA	Free trade agreement
GVC	Global value chain
MAN	Manufacturers Association of Nigeria
MERCOSUR	Common Southern Market (<i>Mercado Común del Sur</i>)
MFN	Most-favoured-nation
NTB	Non-tariff barrier
REC	Regional economic community
RoO	Rules of origin
RVC	Regional value chain
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SPS	Sanitary and Phytosanitary Standards
SSA	Sub-Saharan Africa
TBT	Technical barriers to trade
TF	Trade facilitation
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
US	United States (of America)
VC	Value chain
WEF	World Economic Forum
WTO	World Trade Organization

1. Introduction

As well as creating a free trade area, the African Continental Free Trade Area (AfCFTA) is hoped to “promote industrial development through diversification and regional value chain (RVC) development” (AU 2018). This is part of a wider ambition to change the economic model away from exporting primary products to creating jobs and increasing “self-sufficiency”.¹ The resonance of these industrial ambitions has only increased with the COVID-19 pandemic and the conviction that “Increased intra-African trade is what will drive economic development post-COVID-19” (Mene 2021).

The AfCFTA provides an additional, new means to connect and integrate Africa’s economies. Ratifications of the AfCFTA Agreement stand at 38 of the 54 countries,² with some non-ratifications due to procedural reasons in some countries, even if others still have concerns about the likely effects on their economies given the range of predicted impacts across countries. Though some consignments have reportedly been traded under the AfCFTA - the first consignment traded under the AfCFTA on 5 January 2021 were reportedly cosmetics and alcoholic products from Ghana³ - this was largely symbolic as most other African countries have yet to operationalise or codify their tariff reduction offers, themselves still under negotiation (DNA Economics 2021), while rules of origin (RoOs) negotiations are also still to be concluded.⁴

Despite the long-standing objective of promoting industrialisation through regional market integration, these ambitions often run aground at the implementation stage (e.g. de Melo et al. 2020). This note discusses some of the practical challenges that will face the AfCFTA in altering current trade and production interests and incentives between and within states, and thus its ability to promote RVCs and industrialisation. In doing so, the paper seeks to help identify where future policy attention should focus, both for African stakeholders at the national, regional and continental levels, as well as their external partners. The focus of this Briefing Note is on trade in goods though the scope of the AfCFTA seeks to go beyond that to include services, and in the future to extend to investment, intellectual property, competition and e-commerce.⁵

¹ In the words of AfCFTA Secretary General Mene it aims to “dismantle the colonial economic model”, “stop being exporters of primary products to countries of the North”, “create jobs on the African continent” and “be self-sufficient in our own continental production” (Mene 2021).

² More details on ratifications here: [Status of AfCFTA Ratification](#), Tralas Infographics, 4 October 2021. The count was 38 as of 27 August 2021. Only Eritrea has not signed the Agreement.

³ [Ghana freights first AfCFTA cargo](#), XinhuaNet, 6 January 2021.

⁴ To illustrate, “only two countries currently qualify for preferential access into the South African market through the AfCFTA” (DNA Economics 2021).

⁵ This paper is mostly based on desk-work with a selection of interviews with key respondents. One caveat merits attention - this analysis of the practical angles of the AfCFTA was carried out while phase I negotiations around tariff reductions and RoOs continued, as well as discussions around a new division of labour between the African Union (AU) and Regional Economic Communities (RECs). Continued uncertainty around these means the analysis was undertaken in a continually changing context and that some respondents were not eager to discuss the issues in any depth, though the main concerns raised generally seem likely to remain relevant.

2. Promoting regional value chains through the AfCFTA

Rising manufactures, limited RVCs

African manufacturing output has increased in absolute value over recent years, contradicting the oft-cited African ‘deindustrialisation’ narrative (Lopes and te Velde 2021). But the continent has less regional value chain (RVC) integration than other regions in the world - where RVCs are defined as regional production networks where firms process inputs from, or sell exports for processing to, other firms in the same defined region.⁶

Promoting RVCs can be justified from a production as well as market perspective. On the production side, spreading different stages of a value chain across several countries in a region can, *on paper*, help ensure an effective division of labour, allow specialisation and do away with the need to create and retain manufacturing capacities along all stages of the value chain. This is then reinforced by a larger market that offers economies of scale, while RVCs can be stepping stones to engaging in global value chains.⁷

In 2015, just 3.5% of Sub-Saharan African (SSA) exports were related to supply chain trade within the continent, in contrast to 25.5% in East Asia and the Pacific (de Melo and Twum 2021). In contrast, 35.6% of Sub-Saharan African exports in 2015 related to global value chains (GVCs), higher than all other regions except the Middle East and North Africa. While African regions have followed the worldwide trend of increasing trade in value-added products (relative to gross trade), this has mostly been through exporting raw materials for processing rather than processing imported raw materials, and has been more focused outside Africa than within (de Melo and Twum 2021).⁸

More promisingly, a greater proportion of intra-regional trade is in higher value-added and manufactured products than exports to markets outside the continent. Exports of manufactures among sub-Saharan African increased from 20% of total trade in 2005 to 34% in 2014 (Balchin et al. 2017). Key exported products within the African market include leather manufactures from Ethiopia, Nigeria and Uganda; textiles and clothing from Kenya and Ethiopia; and construction materials, chemicals and machinery from countries such as Ghana, Mozambique, Nigeria, Uganda and Zambia. More recent data for the East African Community (EAC) (Figure 1) illustrate a similar trend within the region, where manufactures represent a far higher share of intra-EAC trade than trade outside the continent (Mold 2019). Similar patterns are found in the Southern African Development Community (SADC) region (Black et al. 2019).

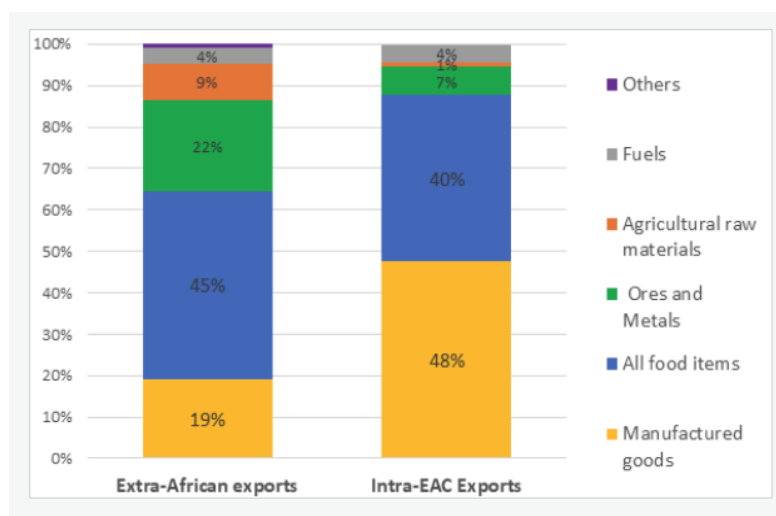
By further reducing barriers to trade among African countries and thus enlarging markets, the AfCFTA seeks to support this trend, encouraging investment, creating jobs, and improving livelihoods, as well as contributing to other objectives such as those relating to climate change (Mold and Mveyange 2020). The AfCFTA is hoped to contribute to a “green industrialisation of the agricultural sector” by shifting Africa’s smallholder farming “away from subsistence” through better access to regional value chains and new forms of entrepreneurship and economic growth (Nyambe 2021).

⁶ “RVCs connect lead firms and suppliers within a single world region, defined by ‘common regulatory regimes (such as the European Union), preferential trading rules for their regional members (like ASEAN), or have a notional regional identity (like Latin America)’ (Horner & Nadvi, 2018, 222)” - cited in Pasquali et al. (2021).

⁷ See for example UNCTAD 2021.

⁸ Based on data over the period 1990–2015 using a database of trade in value-added following the methodology described by [Borin and Mancini 2019] and comparing SADC, EAC, ECOWAS and COMESA with MERCOSUR and ASEAN.

Figure 1: Shares of export types by EAC countries (2018)



Source: Mold 2019

Policymakers also envisage RVCs in more complex sectors. For instance, there is a focus on developing an African regional automotive value chain to help create “self-supportive regionalism”, building on intra and inter-REC specialisation and integration, drawing inspiration from the ASEAN ‘hub and spokes’ approach (WEF 2021). International actors have also been working with the Democratic Republic of the Congo (DRC) Government, for example, on how to use its mineral wealth to connect with inputs from other African countries to meet growing global demand for vehicle batteries (UNECA 2021a).⁹ In the wake of COVID-19, discussions are ongoing regarding the setting up of regional pharmaceutical manufacturing hubs, which once implemented will offer reliable and sustainable access to medicines for patients while also contributing to economic development.¹⁰ These are just some examples of some of the ambitions of the AfCFTA.

Given these hopes and expectations, it is important to discuss *how* the AfCFTA might help foster RVCs and promote industrialisation in practice. This first requires understanding the potential barriers to RVC development.

Tariff liberalisation

Rather than replacing or streamlining existing regional trade regimes, the AfCFTA builds on existing regional FTAs and customs unions on the continent. That is, it “does not fully consolidate fragmented markets but leaves a network of better connected and distinct trade regimes” (UNECA 2020). The AfCFTA will therefore lower trade barriers between African *states that do not already have an existing trade agreement* from the most-favoured-nation (MFN) treatment under the World Trade Organization (WTO) trading regime to preferential treatment under the AfCFTA. The logic of the AfCFTA is that by reducing tariffs and non-tariff barriers (NTBs) between existing regional trade regimes, this will lead firms to source inputs from outside their regions in the continent, and/or sell outputs to buyers on the continent.¹¹

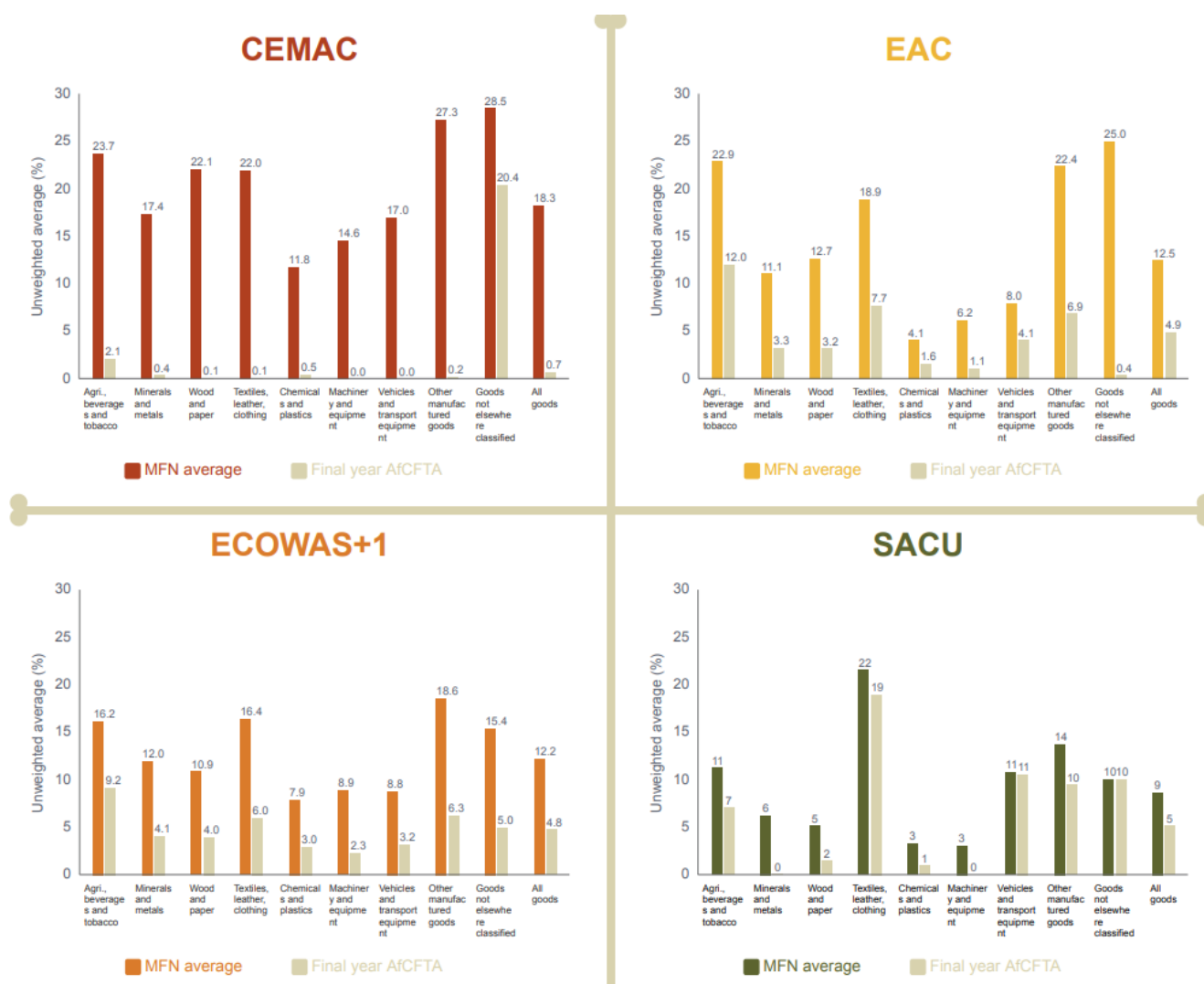
⁹ At the African Transformation Forum, 15 July 2021, UNECA Director Vera Songwe referred to this case and the possibility of sourcing inputs from other African countries.

¹⁰ [What it would take to build Africa's local production capacity](#), Devex, 24 June 2021.

¹¹ If a firm switches sources from importing from country x (non-African) to country y (Africa) because imports from y now don't incur tariffs/other charges, while those from x do, then this is welfare reducing 'trade diversion'. Welfare enhancing trade

Analysis of available tariff offers suggests that some tariff cuts will be dramatic. If accepted, by the end of the AfCFTA phase-down period, CEMAC imports from other African countries will face an average import duty of under 1% compared to a current MFN average import duty rate of over 18% (DNA Economics 2021). Similarly, ECOWAS and EAC tariff offers include large tariff reductions within specific sectors such as textiles, leather and clothing (Figure 2).

Figure 2: Preferential tariffs (%) under the AfCFTA, after the phase-down period, based on submitted offers



Source: DNA Economics 2021

But the tariff reductions on offer are not uniformly large. For vehicles and transport equipment, the SACU offer leaves tariffs unchanged, compared to reductions to 4.1% and 3.2% by the EAC and ECOWAS, respectively, reflecting the economic and political importance of the automotive industry in South Africa in particular, and its established value chains with other SACU countries.

creation could occur where, for example, intra-African sourcing is currently inhibited by barriers that do not apply for sourcing from outside the continent (e.g. some NTBs), and those barriers are removed.

Similarly in textiles, leather and clothing, where CEMAC, EAC and ECOWAS offers include quite large tariff reductions (from 22% to 0.1%, 18.8% to 7.7%, and 16.4% to 6.0%, respectively) the SACU offer includes a far smaller reduction from 22% to 19%. Again, this reflects the historical place of the textiles industry in the South African industrial base, as well as the SACU member states - particularly Lesotho and eSwatini.¹²

Where the SACU offer *does* go further than the EAC and ECOWAS is in the category of agricultural goods, beverages and tobacco, and machinery, offering greater potential for other countries to provide inputs to industries in the SACU market, but also where SACU countries see an advantage in lowering their import costs in order to carry out processing.

Though the CEMAC and ECOWAS offers cover 90% of tariff lines as required, the EAC and SACU offers cover only 79% and 73%, respectively, meaning that further concessions will need to emerge through negotiations (DNA Economics 2021). Though these offers are therefore subject to change, they nonetheless highlight the different concerns and approaches to the AfCFTA across regions.

Lowering tariffs will not always lead to greater, or more beneficial regional VC participation.¹³ De Melo and Twum (2021) calculate that while the EAC saw an increase in *global* VC participation, to almost 20% of gross exports over the period from 1990 to 2015, its participation in *regional* VCs remains low at less than 2% of gross imports, well below regional trade that represents some 18% of overall trade for EAC countries.¹⁴¹⁵ This is partly due to pre-existing trade agreements which make imports from outside Africa more attractive than within. A similar risk is highlighted by the SACU AfCFTA tariff offer (Table 1) which would leave tariffs higher for non-SADC African imports than those from the EU, potentially also undermining RVC participation.

UNECA (2018) warns of “limited economic gains from unambitious liberalization” (which does not look at substantial trade creation and additional revenue gains). Focus, it argues, should be on greater value addition and industrialisation which in turn will require facilitating cheaper key inputs and intermediates.¹⁶ Once the tariff offers are finalised, governments and firms will have to estimate the impact on their different sectors and the actions needed to take advantage of opportunities, or to offset potential threats.

¹² [The textile and clothing trade in Botswana, Lesotho, Namibia and Swaziland \(BLNS\)](#), Tralac, 29 April 2016.

¹³ Under the AfCFTA, countries are expected to liberalise 90% of their tariff lines, with 7% phased in over a longer period according to the income status of the country, while 3% of tariff lines can be permanently excluded. Some have therefore expressed the fear that the excluded 3% of goods would correspond to the main traded goods. While that has theoretically been dealt with through the introduction of an ‘anti-concentration’ clause - the excluded 3% of tariff lines must not represent more than 10% of trade# - the excluded goods will also vary by bilateral agreement on a request and offer basis ([The schedules of tariff concessions](#)).

¹⁴ A distinction should be made between the general intra-regional trade (e.g. countries selling milk into other countries of the same region), and intra-regional VC trade (e.g. country selling raw milk to another country to be pasteurised and packaged).

¹⁵ According to data collated by [ITC Trademap](#), in 2018, intra-EAC exports were about US\$2.6 billion, out of total exports from all EAC countries of US\$14.1 billion.

¹⁶ This is in their [toolkit](#) on goods trade modalities. In the push for a ‘green transition’, UNECA (2018) further suggests that all intermediate and ‘green’ products be considered non-sensitive.

Table 1: SACU's applied MFN (standard) and preferential tariffs (unweighted average) with AfCFTA tariff offer

Sector / Preferential regime	MFN	EU	EFTA	SADC	MERCOSUR	AfCFTA
Agriculture, food, beverages and tobacco	11%	3%	8%	0%	11%	10%
Chemicals and plastics	3%	0%	0%	0%	3%	3%
Goods not elsewhere classified	10%	0%	10%	0%	10%	10%
Machinery and equipment	3%	0%	1%	0%	3%	3%
Minerals and metals	6%	0%	2%	0%	6%	5%
Other manufactured goods	20%	10%	8%	0%	20%	20%
Vehicles and transport equipment	11%	6%	7%	1%	11%	11%
Wood and paper	5%	0%	0%	0%	5%	4%
All goods	9%	3%	4%	0%	8%	8%

Source: DNA Economics 2021

But beyond these more formal processes, the interests and influence of specific actors in key sectors and countries are likely to shape final negotiation outcomes, and indeed how the agreement is finally implemented if not in their interest - Woolfrey et al. (2019) highlight the ways in which different sectoral interests played out in South Africa and Nigeria in the early stages of the AfCFTA process. As Lopes and teVelde (2021) put it, “Even when there is a commitment to industrial policy, this is not always followed through to implementation because of weak institutions or an unfavorable political economy”. These dynamics may hinder RVC engagement beyond tariffs.

Beyond tariffs

Beyond tariffs, some of the major reasons for low RVC participation have to do with the difficulty of doing so in practice. That is often due to complex RoOs, high logistics and transport costs, and other non-tariff barriers (NTBs).

RoOs, though still under negotiation, will have an important influence on the degree to which RVCs can prosper.¹⁷ While RoOs are there to ensure that a good is eligible for preferential treatment, and to avoid exports from third countries entering the region through the country with the lowest tariff (trade deflection), they must find a balance between minimising trade deflection (by maintaining barriers to, unfair, competition) and promoting trade through ease of compliance and use. Too stringent RoOs risk limiting the benefits of the AfCFTA if businesses find it cheaper to trade under Most Favoured Nation (MFN) conditions (Tsowu and Davis 2021).¹⁸

¹⁷ The outstanding negotiations on RoOs, trade in goods and trade in services were scheduled to be concluded before the end of June 2021 (AU 2020), however they have not as yet been finalised.

¹⁸ “wheat grown and harvested in Morocco can be processed locally into flour and shipped to a Kenyan baker under AfCFTA preferential schemes. This will however require the Moroccan exporter to provide documents that prove the originating status of the milled wheat. In a situation where the flour is processed from a mix of locally produced and imported wheat, the exporter will then have to prove that it meets the threshold local value content set under the AfCFTA RoOs. The Kenyan baker could then process bread and cookies from the flour and trade them in AfCFTA markets under preferential tariffs. However, for the baker, if the costs of compliance with AfCFTA RoOs associated with sourcing the flour from Morocco or any other AfCFTA country are too high, importing the flour from other regions could be a more viable option” (Tsowu and Davis 2021).

While reportedly RoOs are agreed for over 80% of tariff lines¹⁹, suggesting good progress, this excludes foodstuffs, textiles and apparel, and automobiles (de Melo et al. 2021), precisely those most often discussed in terms of their potential for RVC development.²⁰ Further, their analysis suggests that the AfCFTA RoOs are likely to end up being “close to those prevailing in SADC” (de Melo et al. 2021) and thus highly restrictive. This risks creating complexities for private sector actors that would undermine the broader RVC ambitions.

One interlocutor in West Africa expressed the hope that one set of continental RoOs would cover all trade rather than creating an additional set of RoOs to add to the existing different regimes being applied by different RECs and customs unions (Apiko et al. 2021). However, this seems unlikely to be the case, creating the risk that even with tariff liberalisation and RoOs in place, companies will forego these benefits. Research from 2015 found that even major supermarket chains such as Shoprite and Woolworths were foregoing SADC trade preferences due to the high compliance costs involved, and delays to inspect containers with multiple different types of goods subject to different RoOs (Charalambides 2015). Recent research also points to low preference utilisation rates under current regional regimes in the EAC, COMESA and ECOWAS (Economic Commission for Africa 2020).

RoOs exist to avoid undermining national industrial objectives through (unwanted) imports into the FTA. But RoOs also reflect the strong, protectionist influence of domestic industrial concerns in the larger economies in agreeing on the details of the AfCFTA. The SACU tariff offer presented above reflects both the way in which one country's industrial concerns can shape the regional offer, but also the tension between opening up trade to promote regional value chains and maintaining barriers to competition from new quarters, dynamics that are discussed in Woolfrey et al. (2019), for example. These political economy dynamics that operate both within and between states will ultimately also determine what is agreed and how it is implemented.

Further, how RoOs are applied can be discretionary, with rule application then also used for political expediency. To give one example, Tanzania recently refused to grant preferential tariff treatment to Kenyan made confectionery, accusing them of including imported sugar, contrary to the EAC RoO, and then rejected the resulting independent verification process, citing inconsistencies.²¹ In West Africa, the co-existence of both ECOWAS and UEMOA RoOs for the UEMOA sub-group of eight countries also means that firms must seek two separate approvals and follow different RoOs and export procedures depending on which ECOWAS country they export to, even though on paper the two RoOs Protocols have been harmonised since 2003 (UNCTAD 2018).

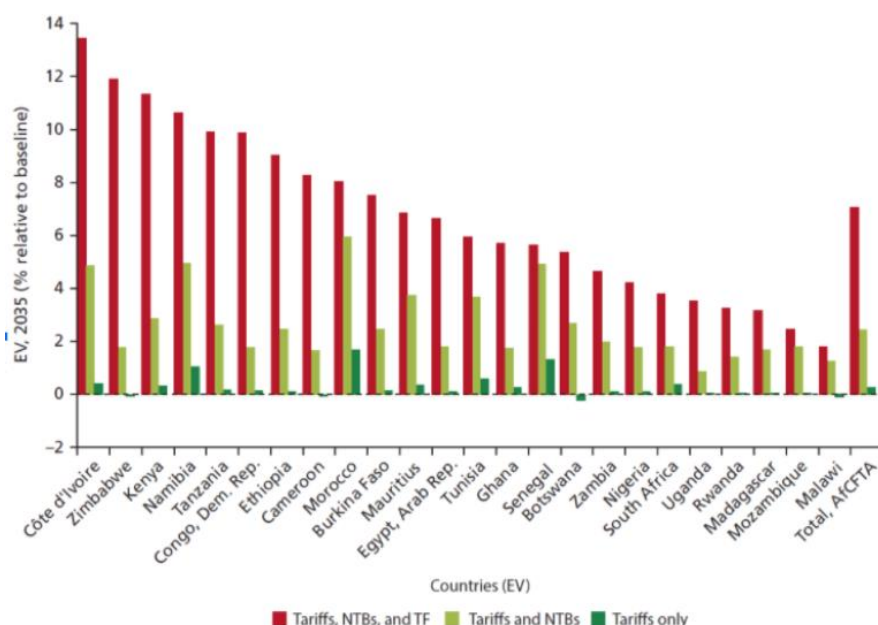
Apart from restrictive RoOs and their application, there may be other practical barriers to supporting the creation of RVCs and regional trade under the AfCFTA. Overall, according to UNCTAD, NTBs are at least three times more restrictive for trade than regular customs duties (Knebel 2020). Models of expected AfCFTA impacts also underline that the main gains from the AfCFTA are expected to come from NTB removal rather than tariff reductions as Figure 2 shows.

¹⁹ By mid-November the proportion has inched closer to 90% ([AfCFTA: Africa inches closer to target goal on rules of origin](#), TheAfricaReport, 17 November 2021).

²⁰ Additional work by [Tralac](#) identifies outstanding products as: Wheat Flour, Certain fish products (snoek; parts of prepared fish of Ch 16), Certain dairy products (buttermilk, cheese), Certain animal or vegetable fats (sunflower oil, etc.), Sugar Certain juices ('other' and 'mixed' juices), Certain tobacco products (cigars, other tobacco products), Articles of leather (incl. travel goods, handbags), Textile fabrics (most fabric, and some yarns), Clothing, Household textiles (most tariff lines outstanding), Motor vehicles and parts.

²¹ In 2018, Tanzania imposed a 25% import duty on Kenyan confectionery, including juice, ice cream, chocolate, sweets and chewing gum, claiming Kenya had used zero-rated industrial sugar imports (e.g. from outside the EAC) to produce them, in contravention of the East African Community RoO ([Tanzania asks for fresh report on Kenya's industrial sugar](#), The East African, 9 June 2021).

Figure 3: Estimated benefits from full AfCFTA implementation



Source: Estimates, World Bank study team.

Note: Equivalent variation (EV) is the expenditure to attain utility in year t in any given simulation using base year prices. NTB = nontariff barrier; TF = trade facilitation.

Source: World Bank 2020

The AfCFTA Agreement includes specific commitments to reduce NTBs with a continent-wide NTB [reporting tool](#). However, often NTBs are not only a result of lack of reporting, of capacity or finance, but also of other political and economic motivations. Removing NTBs has long been a challenge to RVC development, even in existing regional FTAs.²²

Beyond these, the intertwined nature of trade and mobility (AU 2019a) mean that the goals of promoting RVCs, trade in services, and the free movement of people also need to be considered together (Bisong and Mayer 2021). While trade in services is a clear part of the AfCFTA agenda, in practice, mobility is undermined within regions. Examples include the lingering tensions between Nigeria and Ghana around the treatment of Nigerian operators in Ghana, where Ghanaian investment law reportedly contravenes the regional ECOWAS Free Movement protocol.²³ Commitments under the AfCFTA trade in services protocol will require changes to national regulations and sectoral policies to ensure that market access is actually granted in practice. Though progress on the negotiations around in services is not clear, the difference in political traction between movement of people and trade is evidenced by the sharp difference in ratifications of the AfCFTA (28) and the AU Free Movement of People Protocol (4), though the two were opened for signature on the same day.

Regional strategies, national politics

There is a long history of ambitions to promote African industrialisation through regional and continental programmes. The 1980 Lagos Plan of Action cites an “urgent need to implement a plan for the collective

²² [The intra-Africa non-tariff barrier dilemma – the challenges facing the AfCFTA approach](#), Tralac, March 2019.

²³ [Nigeria- Ghana Trade War: Where to from here, Modern Diplomacy](#), 12 May 2021.

industrialisation of Africa”, calling for plans to promote regional industrial complexes, and the creation of regional supporting institutions. The 1991 Abuja Treaty Establishing the African Economic Community also called for African states to harmonise their industrial policies, providing for joint regional industrial development projects with the establishment of cross-border industries. These ambitions have been echoed more recently in the form of the AU’s 2008 Accelerated Industrial Development for Africa (AIDA) and through regional industrialisation policies, often recognising explicitly the need for industrialisation strategy to accompany trade liberalisation processes.²⁴

But regional industrialisation strategies have often struggled to have much effect. Their lack of traction often reflects competing interests between countries that undermine regional objectives. Regional industrial strategies often propose ‘priority sectors’, with a view to supporting the creation of RVCs. But the same sectors are often the target of trade bans between participating countries. Though not the only case, the EAC industrialisation policy 2012-2032 highlights a series of priority sectors, many of which have been subject to recurring intra-EAC trade disputes, summarised in Table 2.²⁵

Table 2: EAC Priority Sectors and Trade relations

EAC Priority Sector	Trade relations
Iron-ore and other mineral processing	Iron-ore subject to a Ugandan export ban since 2011 to promote Uganda’s own smelting industry, (though smelters import ore), with a Kenyan ban being discussed. ²⁶
Petro-chemicals and gas processing	Subject to a Kenyan ban on Tanzanian gas exports in 2017, though subsequently lifted and 2021 has seen discussions of a gas pipeline ²⁷
Agro-processing	Subject to multiple bans between EAC members including a Tanzanian ban on Kenyan milk products, a Kenyan ban on Ugandan dairy products ²⁸ and Kenyan maize import restrictions ²⁹
Fertilisers and agrochemicals	Imports subject to standards ‘crackdown’ in Kenya in 2019 ³⁰
Pharmaceuticals	Subject to trade disputes between Kenya and Uganda in 2020 ³¹

In a similar line, Odije (2019) cites the case of Côte d’Ivoire poultry, where their success in having chicken imports excluded from the Economic Partnership Agreement with the EU meant that “eight regional ECOWAS countries instituted similar chicken-development schemes and introduced both formal and informal protection against Côte d’Ivoire and other regional chicken producers”, thus reportedly undermining a series of Ivorian investment initiatives

²⁴ E.g. [SADC Industrial Development Policy Framework](#). The EAC industrialisation policy similarly identifies support to “strategic industries” as an intervention in response to “new challenges of liberalised markets” ([East African Community Industrialisation Strategy 2012 - 2032](#)). The ECOWAS West Africa Common Industrial Policy was launched in 2010, later updated in 2015. COMESA member states have adopted the COMESA Industrialization Policy 2015-2030 and the COMESA Regional Industrial Strategy 2017-2026. The AIDA was updated in 2018 and is still seen as a core continental framework to underpin the AfCFTA, e.g. AfCFTA, AIDA: [Africa’s dual pathways to economic integration, industrial development](#), African Newpage, 3 October 2019. See also the [AIDA Action Plan](#).

²⁵ [East African Community Industrialisation Strategy 2012 - 2032](#).

²⁶ See the following rouses on the ban ([Mining companies cry out as their exports are banned](#), NewVision, 10 November 2019), its effects ([NPA Policy Brief](#) No.3 Quarter 3: 2017/18) and the Kenyan retaliation ([MPs move to ban export of local iron ore](#), The Standard, 22 March 2021).

²⁷ [Tanzanian Traders Smell Rat in Kenya's LPG Import Ban](#), AllAfrica, 20 July 2017.

²⁸ [Uganda-Kenya milk war boils over with no end in sight of regional trade tiffs](#), The East African, 19 January 2020.

²⁹ [EAC maize wars trigger another trade row](#), TheStar, 14 March 2021. [Fears of trade wars as Kenya bans maize from Tanzania](#), The Standard, 7 March 2021. [Maize imports from EAC to Kenya to comply with Tougher Rules](#), The Kenyan Wall Street, 11 March 2021.

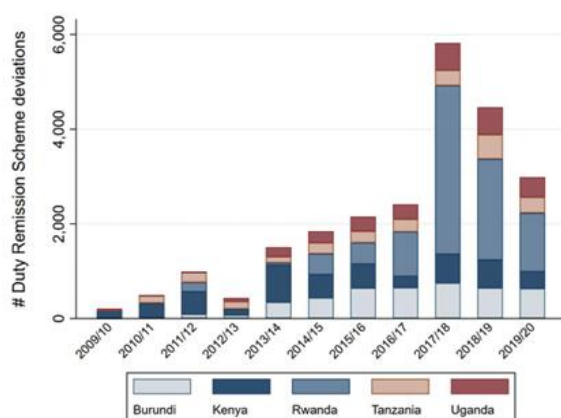
³⁰ [Fertiliser crisis as crackdown cuts imports](#), BusinessDaily, 14 April 2019.

³¹ [Disputes push countries into bilateral deals to ensure seamless flow of trade](#), The East African, 29 December 2019.

made in the sector (Odijie 2019). In other words, the prospects for the development of a *regional* poultry VC are weakened with countries focusing on national industries while raising barriers to trade with others. Odije (2019) also cites evidence from Southern Africa that “seemingly successful industrial policy implemented in Botswana is usually replicated by South Africa (and other regional players)”. While these examples may rather reflect desirable competition between regional producers, they highlight that individual countries still seek to promote specific sectors, often at the expense of regional partner countries - potentially undermining the AfCFTA ambition of promoting broad-based industrialisation.

Recent analysis shows how the EAC countries frequently, and increasingly, deviate from their agreed common external tariff (CET) towards external partners to protect specific industries from imports from outside the region (Rauschendorfer and Twum 2020). By temporarily increasing tariffs on imports of specific sectors, through sector level Stays of Application (for whole sectors) or the firm-level Duty Remission Scheme (see Figure 3), EAC countries are able to use the CET for industrial policy - “Kenya, Tanzania and Uganda predominantly use unilateral deviations to increase external protection while Rwanda makes use of the same mechanism mostly to decrease tariffs”. Though this would seem to offer a means to use industrial policy while adhering to regional commitments, the same authors find evidence of “favouritism of individual firms”, where EAC states increased tariffs at the sectoral level through Stays of Applications while at the same time granting access to the same product to specific firms through the Duty Remission System. Similar dynamics are also seen in Nigeria in the context of the ECOWAS CET where the country applies Import Adjustment Tax on certain goods, while providing quotas to certain firms to import the same goods by paying reduced levy.³² Dynamics in the EAC rice sector also show the primacy of domestic politics - with Zanzibari rice smugglers in effect allowed to flout the EAC CET in order to calm separatist sentiments - affecting how such regional trade policies play out in practice (e.g. Andreoni et al. 2021).

Figure 4: EAC Firm-level CET exemptions through Duty Remission Schemes



Notes: A Duty Remission Scheme deviation takes place when a firm is granted a tariff lower than in the CET on an imported product.

Source: Rauschendorfer & Twum 2020

Irrespective of how state-business relations affect *domestic* competition (i.e. whether positively or not), the unilateral use of these CET exceptions, import bans within the region, and favouritism in protection for connected

³² Karkare et al. (forthcoming). It is also argued to be part of an industrial strategy to restrict imports, at a lower cost, to those players who also have the capacity to manufacture locally. This not only creates “learning rents” for firms to raise productivity but also limits competition between importers and manufacturers.

firms all undermine the predictability sought by traders. This in turn is an important factor that undermines the industrialisation and RVC ambitions of the AfCFTA.

Returning to NTBs, discussed above, research finds that these are often used as a substitute for tariffs in order to protect domestic industries, and often motivated by the influence of lobby groups and business interests (Hergheliegiu 2017). Further, recent work by Malik et al. (2021) finds that politically connected manufacturing firms in Morocco received substantially higher non-tariff protection after tariffs were lowered to imports in the Association Agreement with the EU.³³ Similarly for Tunisia, Kruse et al. (2017) find that sectors with a higher share of firms with previous links to the Ben Ali family tended to have a higher number of technical barriers to trade in place, creating protective barriers to trade for those imports.³⁴ In ECOWAS, “the persistence of [NTBs], particularly quantitative restrictions” are a major constraint, inhibiting intraregional trade despite the ECOWAS Trade Liberalisation Scheme (ETLS) ostensibly seeking to liberalise intra-regional trade (UNCTAD 2018). The concern for AfCFTA is that local producers would also seek trade protection whenever competition is on the rise.

In this line, Nigeria stands out for its unilateral land border closures in 2019. While ostensibly to stem smuggled imports coming from outside ECOWAS, the closures negatively affected internal ECOWAS trade.³⁵ This, according to some, points not only to limited capacity to provide effective services at the borders, but also can be counterproductive by arguably in fact boosting smuggling.³⁶ The private sector, large businesses in particular, holds some political sway in Nigeria, having managed to hold back the government from signing the AfCFTA Agreement until the last minute (Woolfrey et al. 2019). The fact that the Manufacturers Association of Nigeria (MAN) has also expressed disagreement over the 429 tariff lines identified in the Sensitive and 184 tariff lines in the Exclusion lists consolidated by the ECOWAS Commission shows the complexity of the processes to align national and regional industrial interests.³⁷

A challenge from the above discussion is that promoting common goals of industrialisation and RVC creation assume that there is a shared, common regional goal. However, although a government can put in place the necessary policies and infrastructure to encourage investment and firm linkages within one country, regionally or continentally this is far more complicated. Further, the tendency of industry to cluster in a few locations, leading to agglomeration benefits, mean that smaller countries find it hard to attract investment (Black et al. 2019). The industrialisation goal of the AfCFTA therefore faces similar challenges to the RECs, *unless* it can in fact alter the incentives that shape current interests between countries in engaging in RVCs. For that to happen firms must be aware of the new potential opportunities of, say, being able to cheaply source inputs to Nigeria from South Africa rather than elsewhere in the world. If they can make the market connections and are able to comply with the rules put in place, then in theory they will be able to take advantage of a tariff reduction and reduced NTBs. Efforts to report, monitor and eliminate NTBs are provided through the AfCFTA’s online NTB mechanism where traders can report obstacles encountered when trading goods across intra-African borders, for example “excessive delays, ad hoc fees at the border, cumbersome document requirements, restrictive product standards and regulation”.³⁸ However, the effectiveness of the NTB mechanism hinges on cooperation by member states.

³³ [Crony globalization: How political cronies captured trade liberalization in Morocco](#), Brookings, 16 July 2021.

³⁴ In particular they identified the use of Sanitary and Phytosanitary (SPS) measures if tariffs were high or Technical Barriers to Trade if tariffs were low. TBTs are measures referring to technical regulations, and procedures for assessment of conformity with technical regulations and standards (UNCTAD 2012).

³⁵ [Shut borders: Uproar in ECOWAS parliament](#), Vanguard, 28 November 2019.

³⁶ [Nigeria's Closed Border Boosts Smuggling to Cameroon](#), Voa News, 4 March 2020.

³⁷ [MAN kicks as Nigeria's priority products are omitted from AfCFTA's sensitive, exclusive lists](#), Bilaterals, 26 February 2020.

³⁸ For more information see: <https://tradebarriers.africa/>

Sector specifics

While the above discussion underlines the difficulty of coordinating policies and industries across countries, these challenges are heightened by the specific dynamics within different sectors.

To illustrate, the automotive industry is often referred to in discussions of promoting continental RVCs, where the industry itself is seeking coordination across countries. The African Association of Automotive Manufacturers (AAAM) is seeking to build on the “intra-African exporting powerhouses” of South Africa, Nigeria, Egypt and Ivory Coast, who account for roughly 35%, 16%, 7% and 4% of intra-African automobile exports in 2019 (WEF 2021). Nonetheless, these efforts to develop RVCs with those countries as hubs, also implies being cost effective and commercially attractive enough for other regional producers to profitably sell their outputs regionally.

But between-country competition for investment can undermine such initiatives. In the 1990s, Hyundai invested in a plant in Botswana to serve the wider market but South Africa used SACU RoOs to stymie the Hyundai investment in Botswana in the early 2000s.³⁹ South African and regional consumers might have benefited from new access to Hyundai cars, but the South African auto industry pulled weight and the Hyundai investment closed. In North Africa, the Moroccan automobile sector is clearly oriented towards the European market rather than the continent - Moroccan automobile industry is dominated by French companies with 90% of its exports going to Europe.⁴⁰ Even if the African Association of Automotive Manufacturers (AAAM) is seeking to convince them otherwise and proposing a sub-agreement for the auto sector⁴¹ limited actual tariff reductions, restrictiveness of RoOs, and challenges related to standards beyond the AfCFTA will continue to be important barriers for RVC development.

Beyond issues of trade policy, a key constraint to benefiting from the AfCFTA is likely to be what hinder firms in expanding within their regions, irrespective of the potentially large continental market under the AfCFTA. Despite its location close to key South African car-producing regions, Lesotho reportedly struggles to persuade parts makers to invest there (Black et al., 2019). While this is partly due to difficulties in meeting highly demanding quality and delivery reliability standards, it also reflects the power and influence of South Africa car makers. This dominance in regional markets is also seen in the regional apparel market where it is seen to affect retailers’ sourcing decisions and suppliers’ participation in South African-led RVCs (Pasquali et al. 2021). Although RVCs have begun to develop in this sector in recent years, this is largely due to the protection offered by the SACU. The importance of lead companies and countries in value chains is likely to be reinforced rather than undermined under the AfCFTA given that regional trade regimes will remain the same, and the foreseen tariff and RoO outcomes.⁴²

Other challenges relate to the wider environment. Retail chain Shoprite recently closed branches in the continent, less due to trade policy issues than “currency devaluations, lower commodity prices and high inflation” as well as many Ugandans opting to “buy local”.⁴³ Similarly, the long term viability of the textile industry in West Africa is said to rest on infrastructure facilities including affordable electricity and qualified human resources (Oxford Business Group 2021). Building up pharmaceutical value chains will require moving beyond political statements to enabling regulations and policy coherence, and financing, not just market access, to ensure there is sufficient demand for regionally produced medicines, vaccines, and other health products.

Many of the challenges to industrial production - whether national, regional, or continental - will in fact remain the same with or without the AfCFTA. The question then becomes whether and how governments and firms can

³⁹ [Wounds of Hyundai sabotage reopened](#), MmegiOnline, 11 May 2019.

⁴⁰ [DAVID FURLONGER: Auto speedbumps hold back progress in Africa’s motor industry](#), 28 May 2021.

⁴¹ [Continental Free Trade agreement will unlock auto opportunities in Africa](#), Moneyweb, 21 Jun 2021.

⁴² They state that six lead firms together account for 90% of the South Africa apparel market and have an increasing retail presence across the subcontinent.

⁴³ [Shoprite announces plans to discontinue operations in Uganda and Madagascar](#), Business Insider Africa, 24 August 2021.

proactively engage in their regions and continentally to take advantage of the AfCFTA in ways that ‘spread the gains’ (Black et al. 2019) while aligning with domestic political concerns.

3. Policy implications

Engage with the politics of building productive capacity

A commonly cited challenge around trade and development is that while regional integration focuses largely on removing barriers to trade, this can mean little if not accompanied by measures to develop productive capabilities to trade more. The aspiration to industrialise and develop RVCs through the AfCFTA may fall into the same trap unless it can create new opportunities that firms can exploit across the continent.

In that context, it is worth recalling that “all currently industrialised countries had an industrial policy at some point, they all used trade protectionism and, to a certain extent, mostly went through a catch-up strategy for their economies” (Chang, 2002 and 2013; Rodrik, 2004, 2009 and 2011, cited in Lopes and te Velde 2021). The challenge raised in this paper is that while developing countries need more proactive government support for new industries, “their political systems are often built on favouritism, and their administrations typically lack both the resources and the right incentives for effective service provisioning” (Altenburg 2011). As such, there can be difficulties in finding the balance between efficient information sharing and cooperation between states and business, and the risk of capture, requiring what Rodrik (2004) refers to as a form of ‘embedded autonomy’ of public and private actors. From the above discussion, the AfCFTA would need to avoid some of the shortcomings of existing regional integration initiatives by seeking to balance national prioritisation with regional ambitions while avoiding unproductive capture and rent-seeking among private sector actors.

Progress is underway in the AfCFTA. In addition to programmes to facilitate trade that will ultimately help cross-border trade and investment, key infrastructure investments are also contributing to achieving the industrialisation ambitions of the AfCFTA. Examples include the recent completion of the Kazungula Bridge between Zambia and Botswana offering up a smoother alternative route for the wider North-South Corridor countries.⁴⁴⁴⁵ Despite past trade disputes, Tanzania and Kenya recently signed an agreement for a gas pipeline from Dar es Salaam to Mombasa.⁴⁶

Balchin et al. (2019) examine experiences of successful industrial transformation at the *national* level, including air transport and logistics services in Ethiopia; the automotive industry in South Africa; the revival of the cocoa sector in Ghana; and sector-based strategies in Mauritius. They find that “a favorable balance of political and economic interests supported transformation because they resulted in credible commitments to investors”, either through cross-party political support for the key institutions in the cocoa sector in Ghana, or through high-level political support for “a consensus view on the desired future direction of the economy” in Mauritius. More broadly, Whitfield et al. (2015) find that successful industrial policy efforts in Africa have been based on three conditions: “mutual interests among state bureaucrats, firms/farms, and ruling elites; pockets of bureaucratic efficiency; and ways of “learning for productivity”. The challenge for meeting the industrialisation goals of the AfCFTA will be to achieve similar vision, commitment and alignment of interests across multiple firms in multiple countries.

⁴⁴ The EAC has benefited since 2006 from focused support to promote trade facilitation along transport corridors and at ports and borders through the donor-funded TradeMark East Africa organisation. ECOWAS and UEMOA are supported by the US, EU and Netherlands supported Trade Facilitation West Africa programme that seeks to improve application of the WTO Trade Facilitation Agreement while working to smooth flows of goods along corridors and work with small-scale traders.

⁴⁵ [Economics of Kazungula bridge](#), The Zimbabwe Independent, 28 May 2021.

⁴⁶ [Kenya and Tanzania revive '\\$1.1bn' gas export pipeline plan](#), Upstream Online, 12 May 2021.

Citing research on the shift towards regional supply chains in Asia, de Melo and Twum (2021) point to the importance there of i) “strong agglomeration economies (external economies and the development of specific skills in the workforce)”; ii) widespread trade facilitation policies to attract foreign direct investment (FDI) as well as simple and transparent RoOs, and iii) strong institutions” - “much of the uneven participation in GVCs across countries and regions is related to indicators of the quality of institutions at the national level”. While that seems to put the onus back on states to ‘get better institutions’, a case such as the sugar sector in Mozambique shows that success is possible even with limited state capacity to build pockets of efficiency (Whitfield et al. 2015).⁴⁷ This will not completely offset power imbalances that shape how RVCs work in practice - the role of South Africa’s firms and government in steering the automotive and garments sector RVCs - but further highlights the importance of understanding and adapting to these dynamics.

Ride the political wave

Given the political attention that the AfCFTA has garnered among leaders and external partners, it can be used as a hook to address the wider challenges not only on cross border trade, NTBs, poor infrastructures etc., but also on industrial policies. For some the AfCFTA is an “opportunity for the continent to recommit itself to industrial development”, as well as “to revisit and overcome the continent’s well-known non-tariff barriers and other constraints to boosting diversified trade and industrialisation” (EIF 2020). That is, the AfCFTA may offer *new ways to deal with old problems*.

Whether within the context of the RECs or the AfCFTA, some degree of coordination between governments seems necessary to put in place the necessary elements for genuine RVC development - much like at the national level, governments must find ways to *jointly* overcome market, information and coordination failures. Zimbabwe and Zambia have reportedly signed a Memorandum of Understanding to form a Joint Industrialization Cooperation Programme and future industrial joint ventures. “The intention is to establish common agro-industrial parks based on comparative advantage. Such an initiative requires a harmonised framework of managing Special Economic Zones and industrial parks at regional level.”⁴⁸ As this highlights, the RECs and AfCFTA provide a framework, though it is up to governments and companies to combine forces for the industrialisation goal, through RVCs, to be met.

Finally, at the national level, countries are currently developing “*national AfCFTA Implementation Plans*”, as endorsed by the Conference of African Ministers of Finance, Planning and Economic Development in May 2018 (UNECA 2021b). While the guidelines for these national AfCFTA strategies explicitly recognise that “the most competitive and industrialized African economies will be better placed to take advantage of the opportunities offered by larger markets”, with other economies expected to benefit “by fostering their linkages to regional value chains” (UNECA 2021b), that puts the onus on the state and partners to support private sector actors in exploring new market opportunities, once tariffs and rules of origin have been agreed.

It also requires governments to rethink their current industrial strategies in terms of ways to encourage investment and increasing productive capacity to export into the wider continental market. While ultimately companies must be the ones to use the AfCFTA, for the industrialisation ambition to be met will also require that governments seek to understand the existing constraints to investment and exports and work on addressing these in a targeted way. That will also require understanding where state-business relations align with inclusive industrialisation ambitions, ways to offset and compensate potential losers - whether of rents or incomes - and adapting policies accordingly. The AfCFTA is a long-term project as is the industrialisation goal, and at times they may seem to run counter to one another - but both ultimately need to be considered as one.

⁴⁷ Scholars like Lin and Monga (eds. 2017) argue that countries can jumpstart even in the absence of these “ideal local conditions” and institutions.

⁴⁸ [Zimbabwe, Zambia pursue joint venture industry projects](#), Chronicle, 31 May 2021.

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