

The African Continental Free Trade Area: Economic and Distributional Effects

Maryla Maliszewska, World Bank

Please contact for questions/comments:

mmaliszewska@worldbank.org



WORLD BANK GROUP
Macroeconomics, Trade & Investment



Overview

The African Continental Free Trade Area (AfCFTA) agreement will create the largest free trade area in the world—connecting 54 countries and 1.3 billion people.

First study to cover poverty and employment and wages of female and male workers

Part 1. Methodology

Part 2. Economic and Distributional Effects

Part 3. Conclusions



Methodology





Methodology

- ✦ AfCFTA economic impact using ENVISAGE Global dynamic computable general equilibrium model (CGE).
- ✦ AfCFTA distributional impact combining CGE with microsimulations based on household surveys (GIDD, Global Income Distribution Dynamics).
- ✦ Analysis of revenues using partial equilibrium model (TRIST, Tariff Reform Impact Simulation Tool).
- ✦ Core data: GTAP database 2014
 - 141 regions aggregated into 37 (24 individual AfCFTA members).
 - 65 sectors aggregated into 21.
 - GTAP's tariff rates are replaced with most recent data.
- ✦ Employment volume and remunerations, gender and skill
 - New data on employment and wages by skill and gender constructed.
 - Projections for the working age population by gender and education attainment.
- ✦ Tariffs statutory rates and applied rates where available from countries.



Scenario Assumptions

- ✦ Baseline scenario: continuation of past trends simulated over 2014-2035
- ✦ Tariff liberalization scenario in line with AfCFTA modalities starting in 2020-2035

	Non-LDCs	LDCs
Non-sensitive products (90% of tariff lines)	Linear cut, years 1-5	Linear cut, years 1-10
Sensitive Products (7% of tariff lines)	Linear cut, years 6-10	Linear cut, years 6-13
Exclusion List (3% of tariff lines accounting for up to 10 % of imports from African countries)	No cut	No cut

- ✦ Non-Tariff Barriers (NTBs)—on both goods and services—are reduced on a most favored nation (MFN) basis by 50 percent.
- ✦ Implementation of trade facilitation measures in line with the Trade Facilitation Agreement (TFA) leading to halving of trade costs.

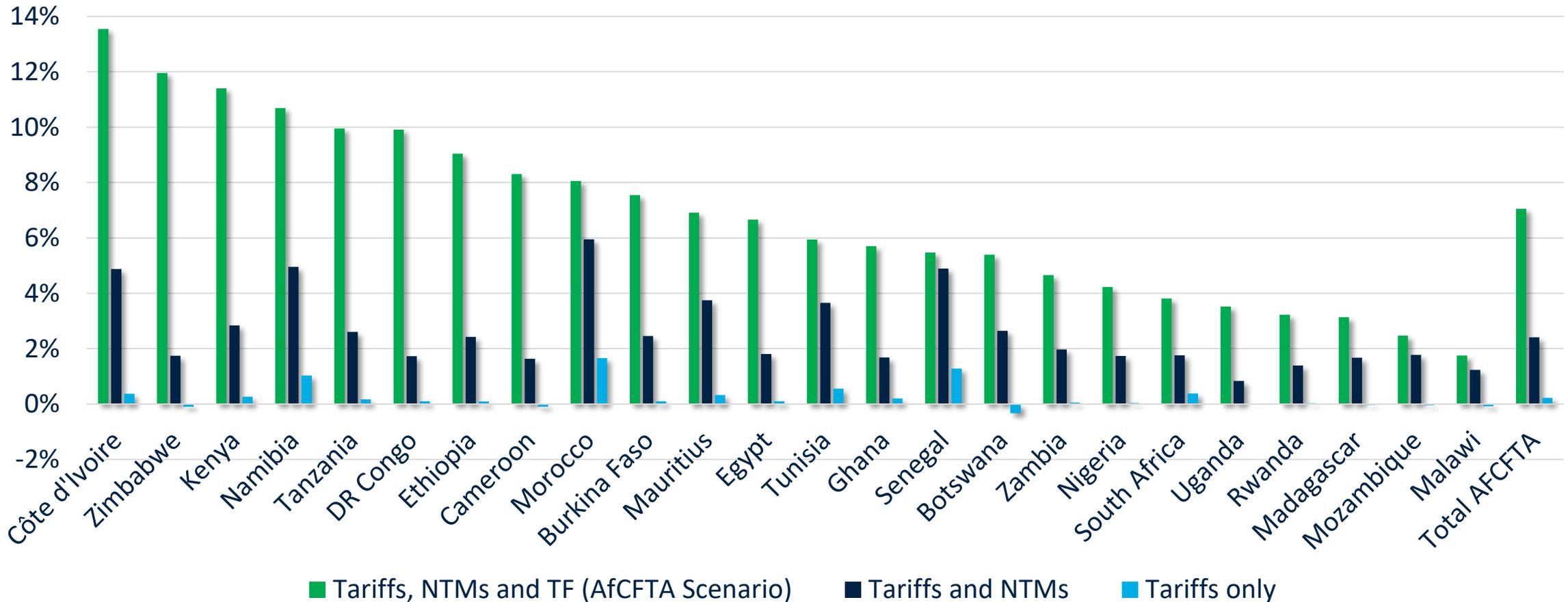


Economic and Distributional Effects



The real income in Africa could increase by 7%, biggest gains from reduction in trade costs (TF and NTBs)

Real income (welfare) implications (2035, % relative to the baseline)

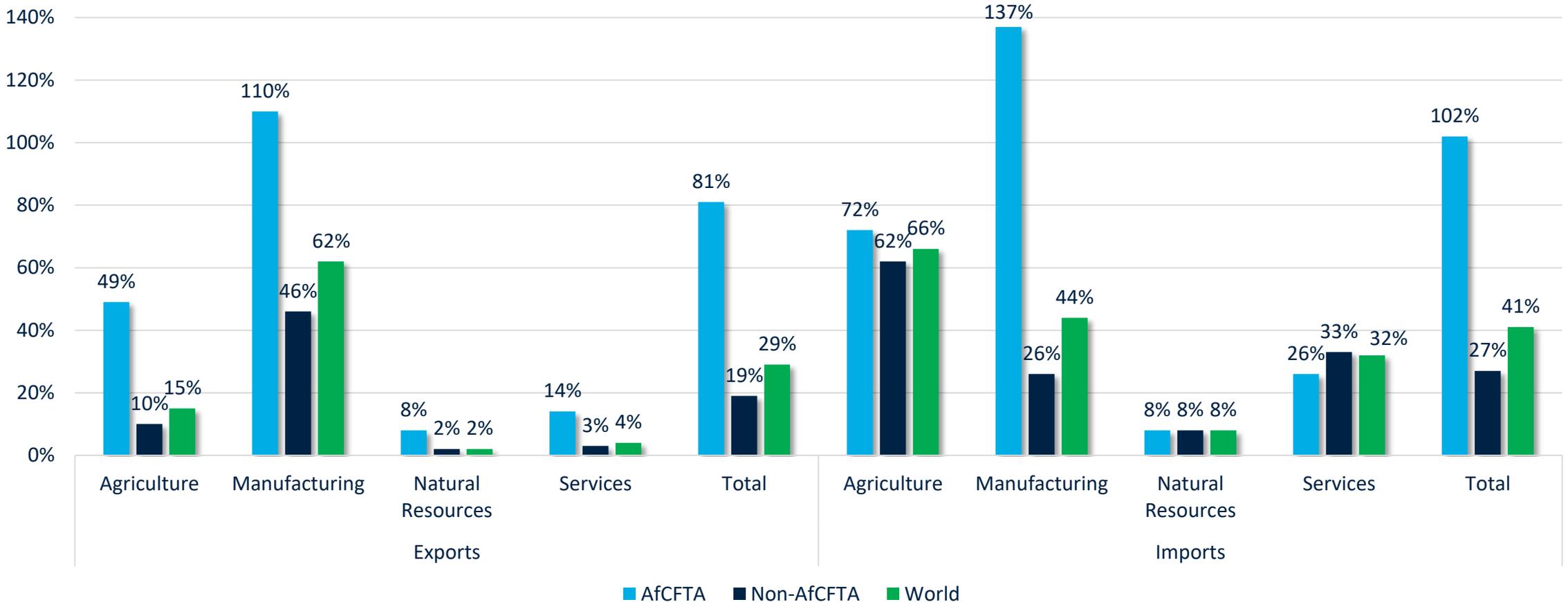


Source: World Bank estimates



African trade will significantly increase, especially intra-regional trade in manufacturing

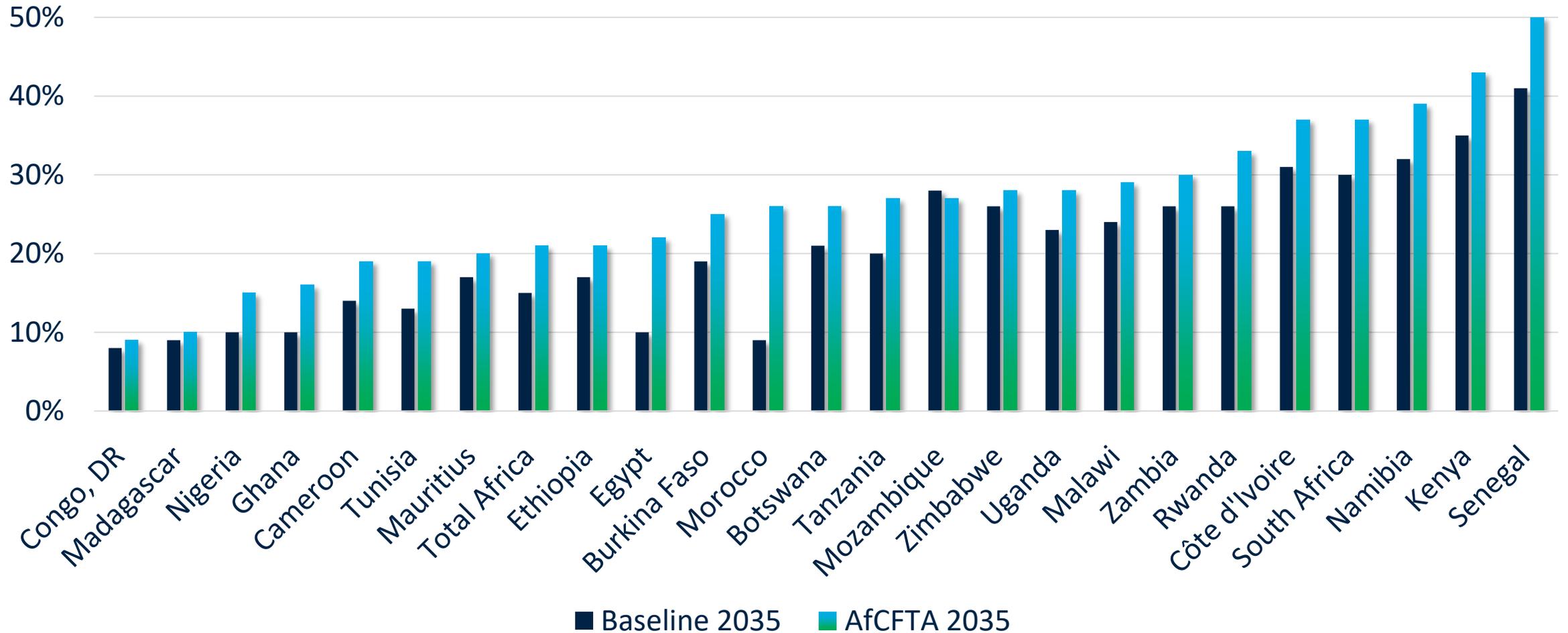
Impact of AfCFTA on trade, by sector (deviation from the baseline for 2035)



Source: World Bank estimates



Share of intra-AfCFTA exports in total exports



Source: World Bank estimates



Impact on tariff revenue is expected to be negative and small in the short-run, but positive in the long-run

✚ The short-term impact on imports and tax revenues is small for most countries.

✚ Tariff revenues would decline by less than 1.5 percent for most countries.

✚ As a result total tax revenues would seldom decline by more than 0.3 percent.

✚ Increase of tariff revenue 3 percent at the continental level relative to the baseline in 2035

- The increase in the volume of imports leads to higher tariff revenue collection.
- Faster economic growth leading to higher level of economic activity are likely to increase the total revenue from other taxes.



AfCFTA will lift an additional 30 million people out of extreme poverty relative to baseline

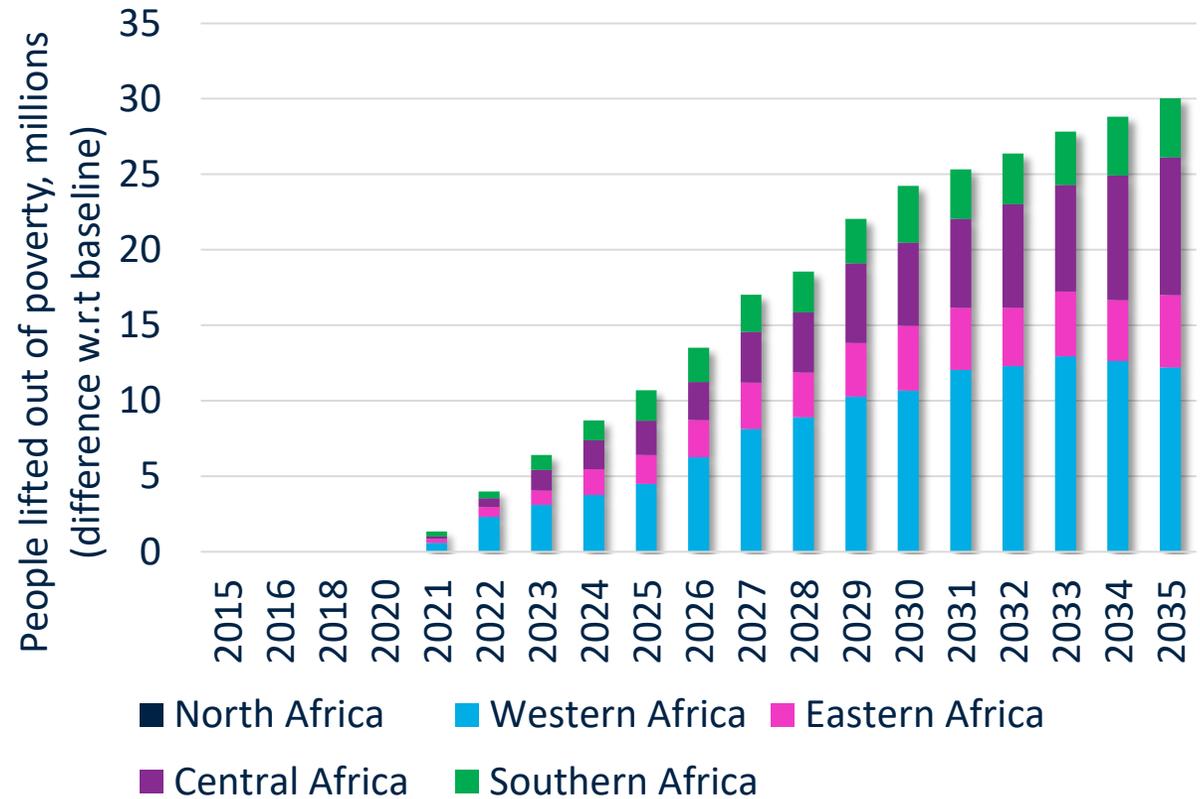
✦ Extreme poverty decline (in million):

- West Africa: 12.2m
- Central Africa: 9.1m
- Eastern Africa: 4.8m
- Southern Africa: 3.9m
- North Africa: 0.003m

✦ The AfCFTA will decrease the headcount ratio of extreme poverty to 9.3% (baseline is 10.9%).

✦ Countries with high initial poverty rates will experience the greatest decline (p.p.): Guinea-Bissau (10.2%), Togo (7.2%), Mali (7.6), Sierra Leone (7.2%), Liberia (5.7%), Niger (5.4%), Central Africa Republic (5.1%).

Extreme poverty (at PPP\$1.90/day)



Source: World Bank estimates

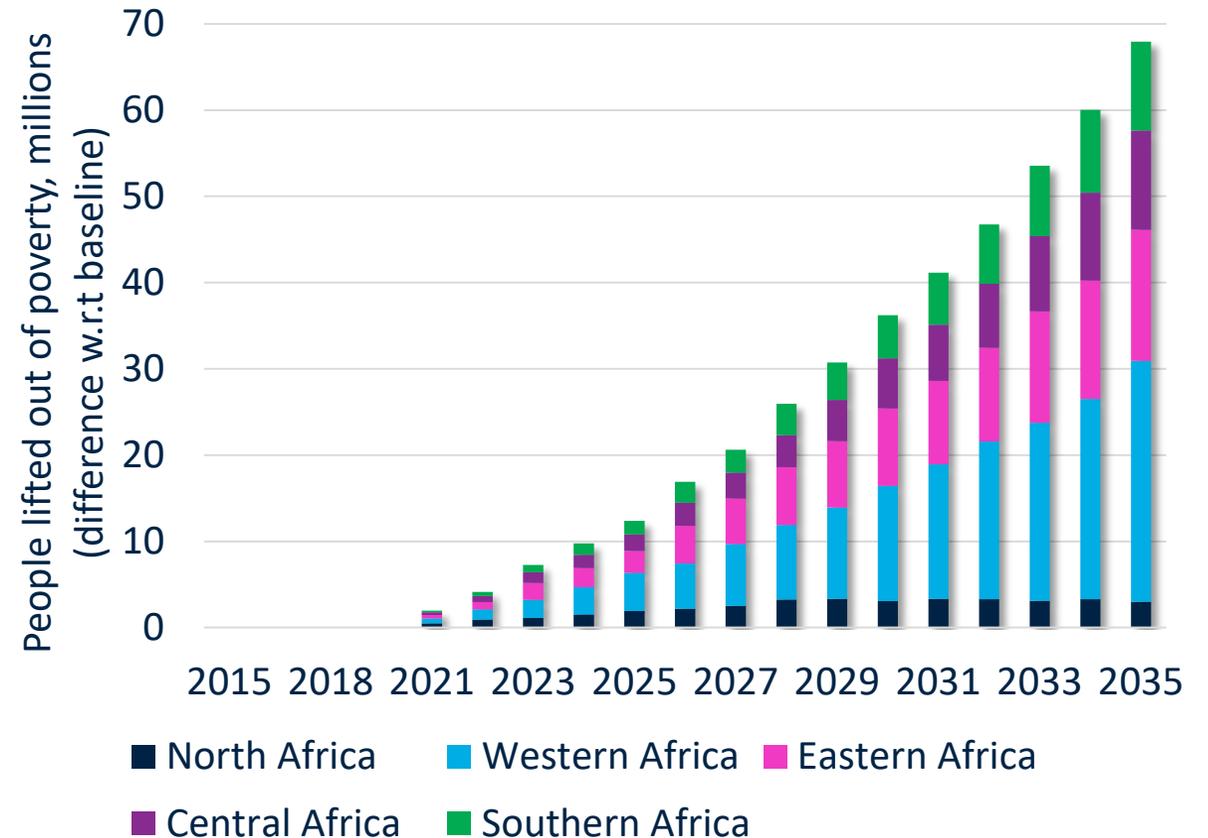


67.9 million people could be lifted out of moderate poverty

✚ A total of **67.9 million people** will be lifted out of moderate poverty (at PPP \$5.50/day), especially due to the large boost in household consumption expected from trade openness.

✚ Half of the people lifted from moderate poverty will be from Ethiopia (8.2m), Nigeria (7m), Tanzania (6.3m), Democratic Republic of Congo (4.8m), Kenya (4.4m), and Niger (4.2m).

Moderate poverty (at PPP\$5.50/day)



Source: World Bank estimates

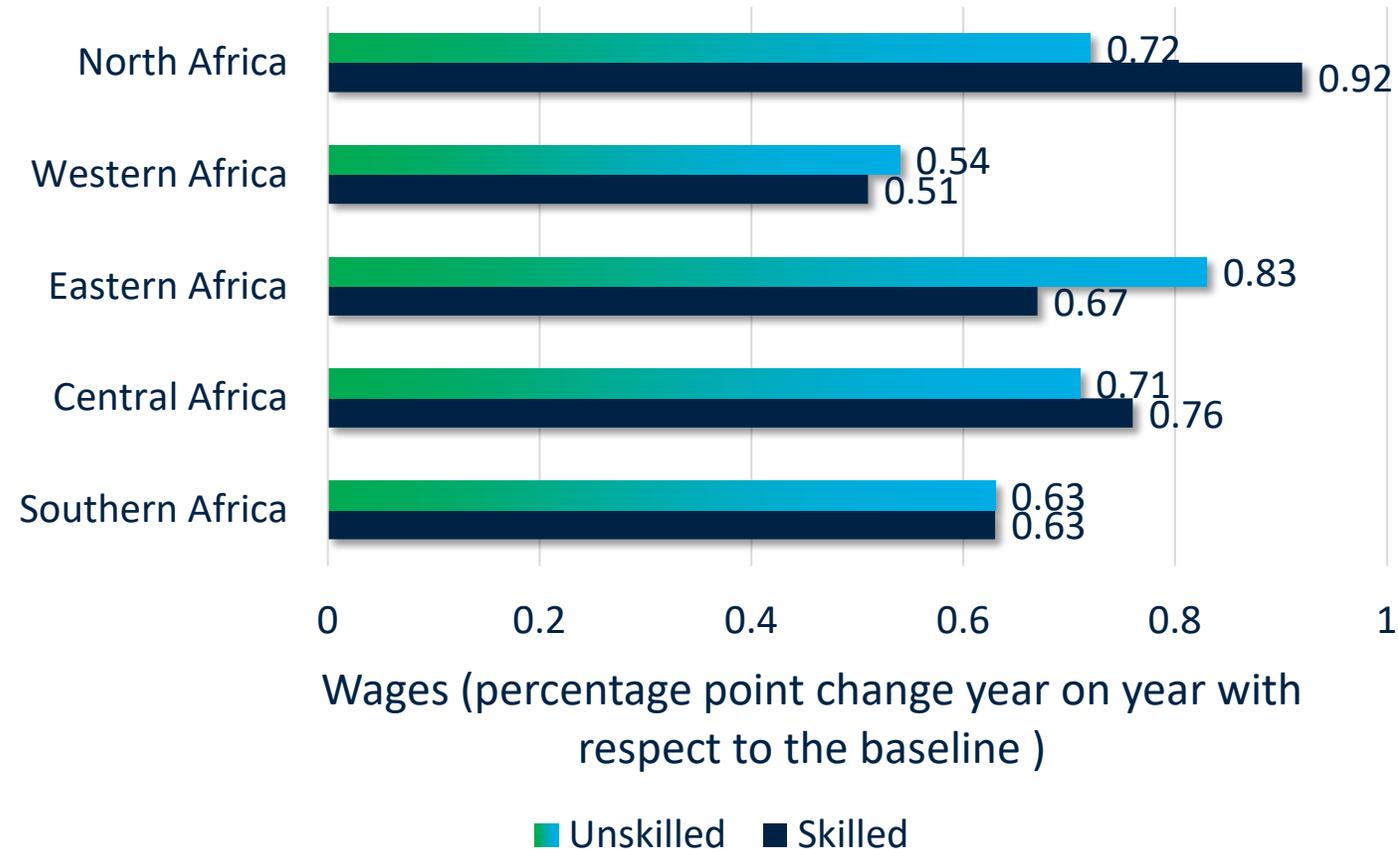


There will be better opportunities for unskilled workers

✦ The proportion of workers in energy intensive manufacturing, trade services, public, and recreational services will increase.

✦ Wages for **unskilled workers** will be **10.3 percent** higher than the baseline, wages for **skilled workers** will be **9.8 percent** higher than the baseline.

AfCFTA's effect on wages, by skill



Source: World Bank estimates

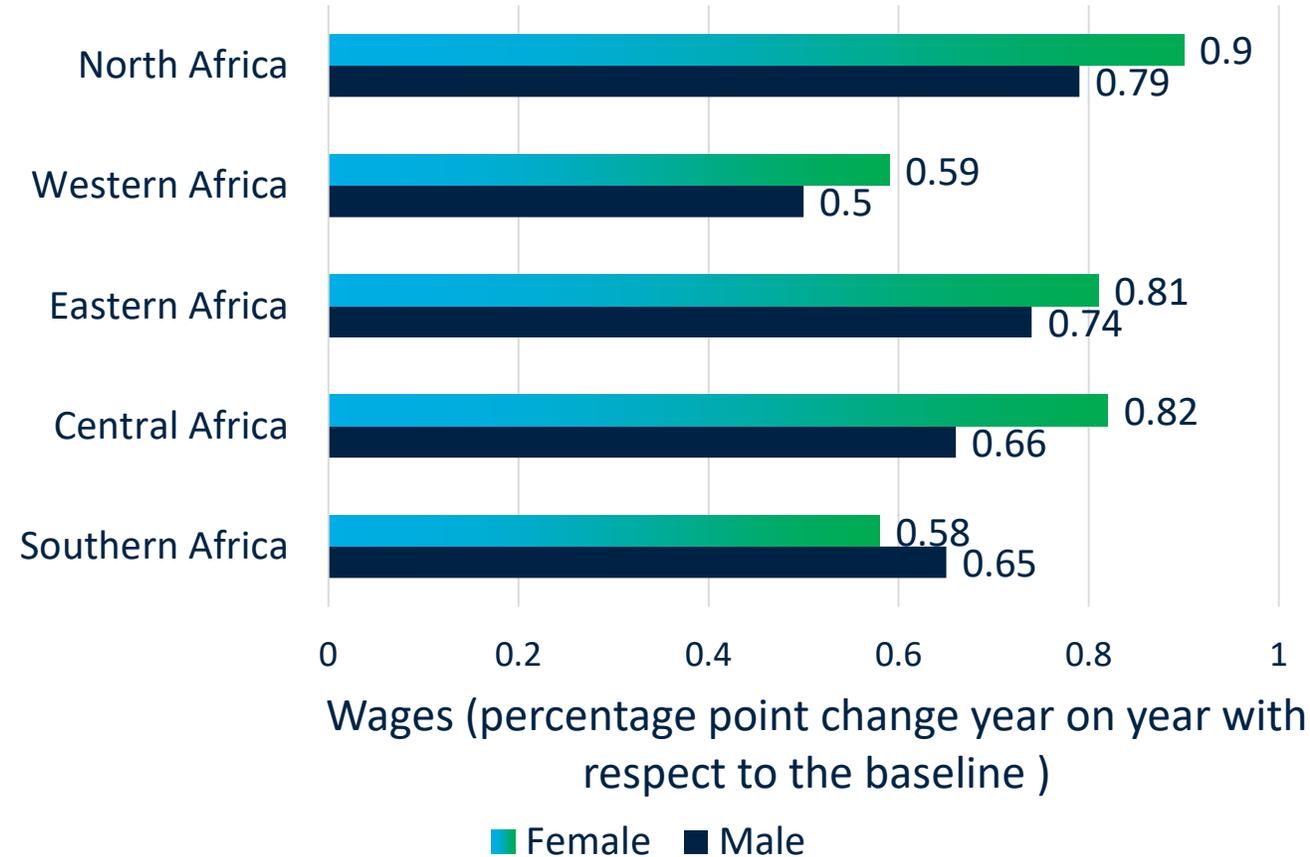


Wages will grow faster for women

✦ 10.5 percent increase in wages for women relative to baseline and 9.9 percent for men

✦ As a result of an expansion of output in female-labor intensive industries, female wages would grow faster in all regions, except for Southern Africa

AfCFTA's effect on wages, by gender



Source: World Bank estimates



Caveats

✚ The results might overestimate the impacts as the analysis does not capture

- 1) the costs of lowering the non-tariff barriers and the trade facilitation measures;
- 2) the transitional costs associated with trade-related structural change such as employment shifts and potentially stranded assets, such as capital.

✚ The results on distributional impacts are based on a new data set of gender disaggregated employment and wages, which requires further vetting by country experts.

✚ The results might underestimate the impacts as the analysis does not capture

- 1) informal trade flows nor new trade flows in sectors and countries that are not trading in the baseline;
- 2) dynamic gains from trade (productivity increases, economies of scale, learning by doing);
- 3) FDI: improving market conditions, competitiveness, and business sentiment will likely induce FDI in Africa increasing the gains substantially.**

Conclusions





Conclusions

✦ Global economy is slowing, and commodity prices are likely to remain stable. In this context, the creation of the AfCFTA vast regional market is a major opportunity to help member countries diversify their exports, grow faster and attract FDI.

✦ Benefits in terms of poverty reduction and higher wages would be significant, especially for low-skilled workers and women.

✦ Real income gains from tariffs liberalization under AfCFTA would be significant, but the main gains would come from the reduction of NTBs and trade facilitation measures. This is a critical agenda.

✦ Achieving AfCFTA's full potential depends on agreeing and implementing an ambitious tariffs liberalization, strong reduction in NTBs and aggressive trade facilitation measures. Partial implementation within and across countries would lead to smaller impacts.

✦ Potential income gains through FDI (not captured in this study) could be very significant and a game-changer for the continent, but only if the AfCFTA is ambitious and implemented consistently across countries creating a large market with transparent and predictable set of rules for investors.



WORLD BANK GROUP
Macroeconomics, Trade & Investment

www.worldbank.org/trade