

Chapter 5

A Win-Win Approach to the CFTA: Sharing the Benefits

Sharing the benefits of the Continental Free Trade Area (CFTA) is important not only for reasons of equity, but also to ensure that the agreement actually works for countries at different levels of development. Trade agreements that are not win-win can remain unimplemented as partner countries have little interest in implementing them (Jones, 2013). If the gains are perceived as being captured by only a few countries, trade agreements may unravel (as seen with the earlier phase of the East African Community [EAC]).

This chapter acknowledges these challenges by assessing the distributional aspects of the CFTA and identifying the important support measures required at different levels. It is matched by Chapter 6, which outlines the policies critical to address these issues and to ensure win-win outcomes.

This is a “chapter of two halves.” The first is an assessment of distributional issues *between* countries, looking at how countries with different economic configurations are likely to be affected in different ways by the CFTA, including via differing economic and tariff revenue channels. The second half assesses distributional issues *within* countries, including a review of structural adjustment costs and the particular challenges faced by some vulnerable groups.

Between countries

Opportunities and challenges

Many of the gains from the CFTA highlighted in Chapter 4 benefit all countries. For instance, the CFTA will help producers access a wider range of inputs and intermediary goods more affordably, and it will provide access to larger markets for their produce, enabling them to operate at greater scale. Africa’s consumers have the potential to gain from access to a more affordable and broader variety of products, improving their welfare.

The CFTA is also expected to address Africa’s multiple and overlapping trade agreements, facilitate trade

in food-security products, enhance access to inputs necessary for adapting farming practices to climate change, stimulate inward and intra-African FDI, foster better competitive practices and lower the cost of innovation (among other factors).

Nevertheless, Africa’s countries have a diversity of economic configurations and will likely be affected in different ways by the CFTA. (The foundational factors underpinning these differences were highlighted in Chapter 3.) A typology of African economies details the foundational factors likely to affect the distribution of CFTA gains. This is followed by a summary of the differentiated benefits and challenges expected of the CFTA and the accompanying measures required for those gains to be shared so that the CFTA is win-win for all African countries.

Table 5.1 shows the typology across four key dimensions for determining how each country will gain from the CFTA, describing the foundational economic and geographic factors within which each country’s economic activities must operate.

Level of industrialization

African countries in the top half of the table are relatively more industrialized and will be better placed to take advantage of the opportunities for manufactured goods made possible by the CFTA (see Chapter 4). Their existing scale and capacities in manufacturing will enhance their ability to compete for new market opportunities, and it will make them attractive destinations for industrial investments to serve African consumers, particularly the growing middle class.

Still, the less-industrialized countries in the bottom half of the table can also benefit from the CFTA. By reducing transaction costs and facilitating trade and investment, the CFTA eases the creation of regional value chains (RVCs). Improved trade costs in the EAC have, for instance, enabled raw milk to be traded from Uganda for processing in Kenya, while milk packaging and spare parts from Kenya help support Ugandan milk

Table 5.1

Typology of African countries¹

	Agriculture labour share >50%	Agriculture labour share <50%
Manufacturing value added >10% of GDP or >\$1.85 billion	Coastal Ghana (<i>Resource rich</i>) Guinea-Bissau Kenya Madagascar Mozambique (<i>Resource rich</i>) Senegal (<i>Resource rich</i>) Tanzania (<i>Resource rich</i>) Land-locked Ethiopia Malawi Uganda	Coastal Algeria (<i>Resource rich</i>) Benin Cameroon (<i>Resource rich</i>) Congo, Dem. Rep. (<i>Resource rich</i>)* Côte d'Ivoire (<i>Resource rich</i>) Egypt (<i>Resource rich</i>) Equatorial Guinea (<i>Resource rich</i>) Mauritius Morocco Nigeria (<i>Resource rich</i>) South Africa (<i>Resource rich</i>) Tunisia Land-locked Lesotho Swaziland Zimbabwe (<i>Resource rich</i>)*
	Manufacturing value added <10% of GDP and <\$1.85 billion	Coastal Angola (<i>Resource rich</i>) Comoros Djibouti Eritrea (<i>Resource rich</i>) Gambia Guinea (<i>Resource rich</i>) Liberia Mauritania (<i>Resource rich</i>) São Tomé and Príncipe Sierra Leone (<i>Resource rich</i>) Somalia* Land-locked Burkina Faso (<i>Resource Rich</i>) Burundi Central African Republic (<i>Resource rich</i>)* Chad (<i>Resource rich</i>)* Mali (<i>Resource rich</i>) Niger (<i>Resource rich</i>) Rwanda South Sudan (<i>Resource rich</i>)* Zambia (<i>Resource rich</i>)

* Denotes very weak economies within the top 10 states on the 2017 Fragile States Index (Fund for Peace, 2017).

Note: Countries are classified according to the agricultural labour share and manufacturing value added as a proxy for determining their level of industrialization. The countries are further subdivided according to whether they are coastal, land-locked and/or resource rich.

Source: Classification based on World Bank World Development Indicators and UNCTADStat. Most recent data available. Adapted from Sommer and Luke (2017).

processors. Integration has also fostered cross-border mergers of east African dairy companies.

The CFTA can create industrial sector opportunities to help less-industrialized countries increase their manufacturing footprint. However, such countries

may require additional support in realizing these opportunities, including improving their productive capacities through increased FDI and intra-African investment, as well as implementing the programme for the Accelerated Industrial Development of Africa. It will also require domestic investments in education

and training to ensure the necessary skills. Important initiatives include the Continental Strategy for Technical Vocation Education and Training and the Science, Technology and Innovation Strategy for Africa (2014–24).

To help firms—predominantly the small and medium-sized—engage in intra-African trade, investments must be made in trade information and the facilitation of access to trade finance. Factor market integration, including the improved movement of persons and cross-border investments, can be especially valuable in fostering RVCs. These support areas are among the seven clusters of the BIAT Action Plan, which is an important flanking policy for the CFTA.

It will also still be important to ensure that adequate safeguards remain for infant industries. Accessible trade defence instruments and infant industry provisions should be included in the CFTA to enable countries to defend their fragile industries as necessary (these aspects of the CFTA are discussed in detail in Chapter 6).

Agricultural sector size

Agriculture accounts for 32 per cent of Africa’s GDP and employs 65 per cent of the labour force. It is therefore a sector where significant productivity improvements and great development gains can be made. Those countries in the top left quadrant of Table 5.1 will be particularly well placed to tap into new opportunities in the agro-industry and agro-processing sectors, helping to satisfy Africa’s food security requirements and reduce its food import bill. This provides a natural progression from subsistence farming for these countries, given their existing productive capacities and knowledge in agriculture. (The African market has accounted for over 50 per cent of the growth in Africa’s processed food and beverage exports since 2000.)

Accompanying measures to help boost the gains of the CFTA for these countries include trade facilitation and trade-related infrastructure, as envisaged in the Boosting Intra-African Trade (BIAT) Action Plan. The perishable nature of many agricultural food products means that they are particularly responsive to improvements in customs clearance times and logistics. Indeed, results from the Economic Community of West African States (ECOWAS) indicate that trade integration and trade facilitation significantly influence regional agricultural exports (Olayiwola and Ola-David, 2013). Africa is

currently a net food-importing region. Also important are investments in productive capacities to help Africa feed Africa, including through mainstreaming the policy measures in the African Agribusiness and Agro-industries Development Initiative (3ADI) and the African Development Bank’s (AfDB’s) “Feed Africa: A Strategy for Agricultural Transformation in Africa 2016–2025.” In particular, complementary investments in mechanization, rural infrastructure and increased agricultural access to credit will be crucial.

Resource endowments

The majority of African countries are classified as resource rich. Tariffs on raw materials are already low and so the CFTA can do little to further promote these exports. However, by lowering intra-African tariffs on intermediates and final goods, the CFTA will create additional opportunities for adding value to natural resources. Perhaps most important for these countries, the CFTA will offer opportunities for export diversification into other industrialized export sectors. The ambition of the CFTA is that it can reduce dependence on resource exports and to contribute to Africa’s industrial development. The timing is now opportune: Commodity prices have fallen since 2012, providing an additional incentive.

Land-locked and coastal

The cost of being land-locked includes higher costs of freight and unpredictable transit times. This hampers integration into global value chains and de-links such economies from world markets. Land-locked countries, as a result, trade 30 per cent less, experience GDP growth that is weaker by about 1.5 per cent, and on average have had recourse to International Monetary Fund assistance longer than coastal countries (Arvis et al., 2007). Around 30 per cent of African countries are land-locked.

The industrialization of land-locked countries is particularly sensitive to the ease with which they can access port facilities in neighbouring coastal countries, because modern manufacturing relies on the import and export of components through regional and global value chains. The CFTA provides particular benefits: In addition to reducing tariffs, the CFTA is set to include provisions on trade facilitation, transit and customs cooperation. Indeed, these are recognized by the Almaty Programme of Action, adopted by the United Nations in 2003, as crucial components for supporting

the development of land-locked countries. Initiatives found to be valuable include single-efficient clearance systems, customs reforms, computerized transit documentation and investments in road infrastructure (Arvis et al., 2007).

The Trade Facilitation Agreement (TFA) at the World Trade Organization (WTO) is another avenue of assistance open to African WTO member countries, which can support the implementation and operationalization of the CFTA and enhance intra-African trade. The dialogue around the TFA in the lead-up to its entry into force in February 2017 was focused on national commitments made. At the same time, the provisions of the TFA recognize the importance of implementing it well and offering capacity development support in a way that is conducive to regional and subregional integration. In the context of TFA implementation, the BIAT Action Plan could be a useful framework on coordinated action by African countries to support intra-African trade. The implementation of the TFA could also promote more inclusive benefits from trade through an easier environment for small and medium-sized enterprises, for women involved in trade and for other groups that generally face high barriers to trading.

Conflict and post-conflict states

Trade and trade policy can greatly affect the risk of conflict in some states, often via two main channels.

First, commodity-based export earnings such as oil and especially minerals, extricable through artisanal or small-scale mining, including alluvial gold and tantalum used in mobile phones, create incentives for conflict (Dube and Vargas 2013). These valuable resources can lead to battles over their control (Berman et al., 2014; Maystadt et al., 2014; Rustad et al, 2016). Once in control, their value can fund and sustain conflict. In contrast, the export revenues associated with other sectors, and especially labour-intensive sectors, such as basic agriculture or manufacturing, increase the opportunity cost of conflict by providing alternative incomes and livelihoods (Cali, 2014).

Second, increased trade with neighbouring countries is found to reduce the duration as well as the intensity of conflicts, especially when this trade occurs through regional trade agreements (Cali, 2014). Trade increases the incentive for contiguous countries to mitigate and abate conflict risks. Trade agreements provide a

further platform for cooperation and assistance with neighbouring countries.

Preferential trade agreements and trade facilitation, including that envisaged in the CFTA, can help foster stronger trade relationships between neighbours. It can help create new opportunities to diversify export earnings from commodities and extractive minerals and generate alternative incomes and livelihoods. However, already weak states tend to have especially limited productive and trade capacities. The CFTA will not be sufficient in itself to stimulate trade for these countries. Transit, logistics and trade-related infrastructure is also required, as are supportive measures to boost productive capacities.

Catering to different economic configurations through CFTA accompanying measures

The CFTA will provide a variety of opportunities that cater to the diversity of African countries, including the resource rich, agriculturally based or more industrialized. However, certain countries may require greater support. While the more-industrialized economies may be better placed to take advantage of new industrial export opportunities associated with trade creation and trade diverted from the rest of world, other countries may require measures to help them link to these value chains and develop their export sectors. Less-developed economies may experience challenges in satisfying complex rules of origin and meeting product standards. Their capacity to use trade remedies is also often weak.

The critical policies for supporting these countries are those proposed in the BIAT Action Plan, the “sister” initiative to the CFTA. Getting important provisions of the CFTA right, including those related to rules of origin and standards, will ensure that it is designed to take account of these countries’ particular needs. While the CFTA is being designed to include such trade facilitation provisions, the BIAT Action Plan goes further by targeting additional constraints that are particularly inhibiting to the growth of intra-African trade. This includes clusters on trade policies, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration (see Chapter 6).

Tariff revenue losses

It is expected that the CFTA will reduce tariff revenue generated by intra-African trade. The extent is now shown, first, in aggregate using a computable general equilibrium (CGE) model and, second, disaggregated across countries using a partial equilibrium (PE) model. The use of exclusion lists is discussed as a means of smoothing the tariff revenue impacts to ensure an equitable outcome for all countries.

Aggregate tariff revenue losses and welfare implications

Saygili et al. (2017) estimate the tariff revenue losses from the CFTA. They use a CGE model that estimates the long-run effect of the CFTA and then calculate two scenarios: the elimination of tariffs on intra-African trade, amounting to “full liberalization”; and Special Product Categorization, in which for each country the sector with the highest tariff revenue from African imports is excluded from liberalization. The second scenario aims to approximate the effect of partial tariff cuts and the use of exclusion lists.

In both scenarios, the welfare benefits exceed the tariff revenue costs for Africa as a whole, a finding that is consistent with other studies that integration can strongly contribute to economic development and is supported by the economic theory and quantitative evidence outlined in Chapter 4. Liberalization leads to welfare gains in the form of consumer surpluses, producer surpluses and efficiency gains that derive from improved access to imported products, as well as better specialization and economies of scale. In the second scenario, tariff revenue losses are reduced to \$3 billion, from \$4 billion in the first scenario, but the possible welfare gains are also reduced, from \$16 billion to \$11 billion.

Distribution of tariff revenue losses and impact of flexibilities across countries

Aggregate tariff revenue losses are modest relative to welfare gains, but this aggregation masks significant heterogeneity between countries. Here we evaluate the tariff revenue impacts at the country level using a straightforward partial equilibrium model and three scenarios: full liberalization, in which tariffs are

completely eliminated on all intra-African imports; a 1 per cent exclusion list; and a 5 per cent exclusion list.

The exclusion lists are modelled so that, for each country, the top 1 or 5 per cent of tariff lines (equivalent to 52 or 104 individual products at the HS6 level of detail, respectively) with the highest tariff revenue from African imports are excluded from liberalization. This allows a more efficient form of product exclusion than that modelled in the preceding subsection, in which the most protected sector was excluded. Doing so provides an approximation of the allocation of exclusion lists, though in practice their application will vary.

The model provides a short-run partial-equilibrium perspective. It comprises three parts: a “shock” elimination of tariffs on intra-African trade; an importer substitution effect, where consumers divert trade from original suppliers to new tariff-free African alternatives; and a demand effect, where consumers demand relatively more of a product as a result of it being cheaper.² The advantage of such a model is in generating results that demonstrate the immediate impact on tariff revenues in the short run. It also enables us to incorporate the effects of trade diversion and trade creation, which help to analyse highly specific changes to each country’s liberalization schedule, allowing the detailed assessment of exclusion lists. Partial equilibrium and computable general equilibrium modelling of tariff revenue losses summarizes the merits and demerits of this modelling approach against those of the CGE model presented above.

The results show the tariff revenue losses as a share of total tariff revenue, for each country. They vary by country per their particular import and tariff profiles (Tariff revenue losses under different flexibility scenarios). Countries with high initial tariffs on intra-African trade, and with larger volumes of intra-African imports, experience the greatest revenue impact, especially the Democratic Republic of the Congo, São Tomé and Príncipe, and Zimbabwe, where tariff revenue losses from liberalizing African imports exceed 20 per cent of total tariff revenues.

The Democratic Republic of the Congo receives a large share of its imports from South Africa and Zambia, which have not yet liberalized under the Southern African Development Community (SADC) free trade agreement (FTA). This is similarly the case with Zimbabwe, where

Box 5.1

Partial equilibrium and computable general equilibrium modelling of tariff revenue losses

Two broad types of economic models are used for assessing the implications of trade agreements: partial equilibrium (PE) models and computable general equilibrium (CGE) models. Each approach provides a different perspective with its own advantages and limitations. A combination of both provides the fullest answer to assessing the impact of trade liberalization.

Level of detail for the model

PE: can provide very detailed results, at the individual product level and for each country with data. The data requirements for PE are less demanding than for CGE.

CGE: requires a degree of aggregation, both among products into broader groupings and among countries, especially when the analysis includes countries for which the required technical inputs, such as social accounting matrices, are unavailable. CGE modelling of African countries typically includes aggregations such as “Rest of West Africa” and “Rest of Central Africa,” for instance.

Interaction between sectors

PE: excludes general equilibrium effects such as adjustment within and between firms, sectors and households. They thus represent a short-term perspective of the immediate impact of trade agreements.

CGE: better represents the medium to long run in which firms and households fully adjust their production and consumption patterns in response to changes in domestic and international prices. Capital and labour may also shift from one sector to another, and households may adjust their consumption patterns in response to changes in prices and incomes.

Macroeconomic adjustments

PE: represents the immediate short-run impact of trade liberalization and does not model macroeconomic adjustments, such as changes to the exchange rate, or account for their impact.

CGE: may incorporate long-term macro aggregates such as economic growth, investment and changes to the exchange rate.

Assumption or data driven

PE: relies on relatively few assumptions. The results from PE models are largely driven by the data they are based on.

CGE: a relatively large number of assumptions are required to produce CGE results (such as whether wages or unemployment adjust to clear labour markets, or savings or debt adjust to clear capital markets), and various elasticities determining the responsiveness of different values to different shocks.

CGE may be considered appropriate for estimating medium to long-run impacts and for implications that depend on the interaction of many sectors or macroeconomic adjustments. PE is valuable for short-run, highly detailed implications. Results of PE also depend on fewer assumptions and data are available for almost all African countries. The PE approach proves useful for comparing estimates of the immediate impact on tariff revenue losses at the country level across Africa.

99 per cent of tariff revenue is lost on imports from Southern African Customs Union (SACU) countries. Were the SADC FTA implemented in these countries, the impact of the CFTA would be far smaller. In São Tomé

and Príncipe, 97 per cent of the tariff revenue losses accrue on mineral fuels from Angola.

The power of exclusion lists is also demonstrated. With even a 1 per cent exclusion list, equivalent to 52 products, tariff revenue losses for the Democratic Republic of the Congo fall from 36 per cent to 15 per cent. The average rate of tariff revenue losses for all countries falls from 8 per cent to only 1 per cent, if every country were to apply a 1 per cent exclusion list with full efficiency towards the goal of protecting tariff revenues. With a 5 per cent exclusion list, the tariff revenue losses fall to 0.3 per cent for the average country.

The exceptional efficacy of exclusion lists in this context is due to the particularly concentrated nature of intra-African trade: 1 per cent of tariff lines corresponds to 74 per cent of African imports for the average African country. For example, São Tomé and Príncipe imports a *total* of only 26 product lines from other African countries, from a possible total of 5,205 product lines. By excluding even a single product related to mineral fuels, that country can protect 97 per cent of its tariff revenues from African imports.

Further examples are illustrative. Fifty per cent of the tariff revenue losses accruing to Cameroon are due solely to liberalized imports of African petroleum oils, mostly from Nigeria. For the Central African Republic, the top 10 products account for 47 per cent of all African imports. For Gambia, the top two products—Portland cement and malt extract—account for 28 per cent of all its African imports.

The capacity for exclusion lists to limit tariff revenue losses is considerable. In practice, exclusion lists seek to achieve objectives other than just tariff revenue

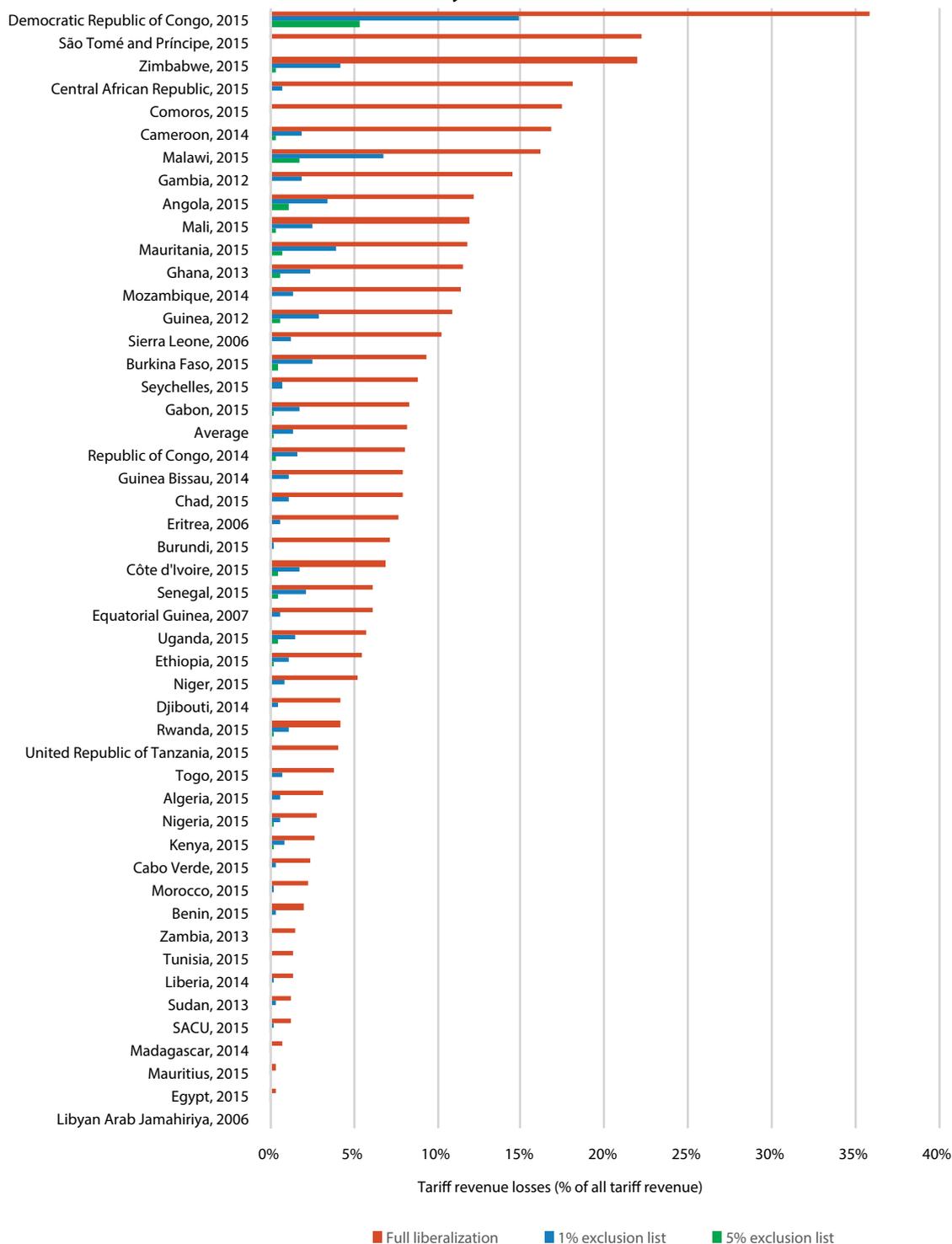
protection, such as retaining protection for infant industries and ensuring food security, and so the results provide a demonstrative upper limit of the effectiveness of such lists. Nevertheless, the results are powerful. With even a 1 per cent exclusion list, the average African country could reduce tariff revenue losses that would be implied by the CFTA from 8 per cent to 1 per cent of total tariff revenue. This stems from the strongly concentrated nature of current intra-African trade flows and the fact that for many countries, a lot of intra-African trade is already liberalized by regional economic communities (REC) FTAs.

Negotiators must exercise caution over the size of exclusion lists negotiated in the CFTA, so that overly liberal exclusion lists do not erode the value and benefits of trade liberalization with the CFTA. Doing so could, for instance, be achieved through the inclusion of an “anti-concentration” clause, in which the number of tariff lines that may be excluded in each Harmonized System (HS) chapter is limited, or “double-qualifying” exclusion lists would be used to account for, at most, a specified per centage of the *value* intra-African trade, rather than *number* of tariff lines.

Where exclusion lists may provide considerable value, though, is in helping to smooth the tariff revenue impact of the CFTA. This is important to ensure a win-win CFTA outcome in which no country is unduly threatened by tariff revenue losses. Countries in which the implied tariff revenue losses may be larger, such as the Democratic Republic of the Congo, can be accorded more flexibility for larger exclusion lists to help them bear the tariff revenue costs.

Figure 5.1

Tariff revenue losses under different flexibility scenarios



Note: Results derive from the described partial equilibrium model. The data require that SACU countries, which operate a fully effective customs union, are presented as a single entity.

Source: ECA calculations using CEPII-BACI dataset for 2015 trade flows and ITC tariff data for the specified date for each country.

Within countries

Structural adjustment costs

The CFTA is forecast to lead to higher levels of welfare in aggregate and in the long run. Related to this is

the expectation that the agreement will expand Africa's industrial sector, diversify economic activity from its dependency on primary commodities, and contribute to Africa's industrialization and structural transformation. It is expected that factors of production

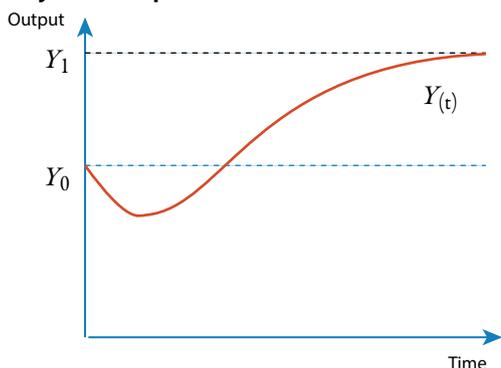
within a country, including labour and capital, will shift across sectors towards those with expanding exports, and within sectors to more export-oriented firms.

It is important to consider the adjustment costs required for this transition in the long run. Structural adjustment costs can be defined as the “value of output that is foregone in the transition to new long-run production patterns because of the time taken to allocate factors from their pre- to their post-liberalization occupations” (Francois et al., 2011). In practice, this can mean obsolescence of skills, lower wages and unemployment for those in contracting sectors, while retraining and reskilling is required to enter expanding sectors. Likewise, capital may become underused or obsolete in a contracting sector and require reinvestment into an expanding sector.

The link between short-run adjustment costs and long-run benefits from trade liberalization can be shown using a simple stylized graph taken from Francois et al. (2011) (Adjustment paths after trade liberalization). Y_0 and Y_1 are the initial and long-run levels of output, respectively. After trade liberalization, output follows a j-shaped curve, first decreasing below the initial level (Y_0) but then gradually converging with a new higher long-run equilibrium (Y_1). The fall in the level of output below Y_0 during the first stages of adjustment is considered the structural adjustment cost.

Structural adjustment costs are concerned with the short run as economies undergo structural change and factors of production shift across sectors to align with new trading opportunities and threats. However, the transition process can be sluggish if capital and factor markets are not sufficiently flexible. For instance,

Figure 5.2
Adjustment paths after trade liberalization



Source: Francois et al. (2011).

labour markets may be characterized by frictions and impediments to mobility, and exporting sectors subject to congestion externalities (Davidson and Matusz, 2004; Gaisford and Leger, 2000), which is what can lead to issues of underutilization of capital and to unemployment.

The severity of these adjustment costs can be mitigated by a measured and gradual approach to implementation: Rather than a shock elimination of tariffs, tariff reductions can be gradually introduced over a number of years (Cassing and Ochs, 1978; Gaisford and Leger, 2000; Davidson and Matusz 2000). The rationale is that as workers shift from import-competing sectors and seek new jobs in the expanding export sectors, “congestion externalities” will arise that increase the costs of adjustment. If the government removes trade barriers slowly, it can control the flow of workers, reduce congestion and smooth the adjustment process to minimize the social costs of adjustment (Davidson and Matusz, 2004).

The magnitude of structural adjustment costs is also associated with the extent of trade reform. Completely eliminating all tariffs on imports from all countries would imply a substantial shock to an economy, and correspondingly large adjustment costs. An FTA with a single other country would, conversely, amount to a far smaller shock and smaller adjustment costs.

There are three reasons why the CFTA is likely to amount to a relatively small trade shock:

- Intra-African trade accounts for only 14 per cent of total African imports and 18 per cent of total African exports.
- Most intra-African trade is between closely proximate countries or immediate neighbours, and much of it flows through existing REC FTAs.
- The CFTA will contain exclusion list provisions and safeguards, enabling members to omit the sectors that are most sensitive to liberalization.

The CFTA will nevertheless probably still entail modest structural adjustment costs. A gradual implementation may mitigate—but not fully eliminate—these costs, though such remaining costs may be addressed through two further mechanisms.

First, the particular trade flows causing the structural adjustments may be excluded from the exclusion list provision or through safeguard measures, both of which are to be built into the CFTA Agreement. Safeguard measures and product exclusions are not the ideal policy solutions. They create consumption distortions and present significant rent-seeking dangers (Gaisford and Leger, 2000). However, they may serve as an inferior but acceptable measure when better alternatives are not feasible. They may also allow negotiators to circumnavigate insurmountable political economy barriers that could otherwise slow or block the agreement.

Second, adjustment assistance may be applied to especially sensitive or vulnerable groups that face adverse effects from CFTA liberalization. Such adjustment assistance is considered among the flanking policies that governments can use to smooth the impact of the CFTA (Chapter 6). Here the idea is that a government may leverage the gains from liberalization realized by other groups, such as through tax revenue from an expanding export sector, to address the challenges faced by less fortunate groups. This amounts to compensating the losers from liberalization by using some of the gains accruing to the winners.

In either case, it is important to emphasize that adjustment assistance or safeguards should be considered strictly temporary to address the short-run nature of structural adjustment and should have a predetermined schedule by which they are phased out (Gaisford and Leger, 2000). The weight of CFTA adjustment costs must also be contextualized. In aggregate, they are likely to be modest and temporary, and need to be set against an indefinite stream of future higher incomes.

Vulnerable groups

Though structural adjustment costs may be small and may concern only the short run, it is particularly important to identify and address these costs when they fall on vulnerable or sensitive groups, four of which are being discussed. These groups may be less resilient to even small shocks or lack the resources necessary to reskill and seek new opportunities. Where possible, the CFTA and its accompanying measures should include provisions of particular benefit to such groups so

that they too can share the gains of the CFTA and are protected when necessary.

Smallholder farmers

Smallholder farmers represent some 53 per cent of Africa's agricultural producers. The CFTA promises large opportunities for agricultural exports across several sectors (Table 5.2). Wages of unskilled agricultural workers are also set to rise, though by a small amount (ILO and UNCTAD, 2013).

Nevertheless, smallholder farmers are usually connected to export markets through intermediaries. It will be important for the CFTA to include supporting measures that would promote the integration of smallholder farmers into larger value gains to ensure that they share these opportunities. Smallholder farmers can also be supported by simplified rules-of-origin requirements and with trade facilitation measures that help them to meet sanitary and phyto-sanitary export standards.

Smallholder farmers may also require capital and reskilling to focus their production on export opportunities and to shift from agricultural goods that may be more efficiently produced elsewhere. For instance, new seed varieties or fertilizers may be needed to take advantage of new exports. In the long term, this form of structural adjustment leads to more efficient production outcomes, but particular care is required in the short run to ensure that such farmers

Table 5.2
Africa's export volumes by agricultural and food sectors, and estimated growth with the CFTA (%)

	Growth
Paddy and processed rice	3.2
Wheat	26.0
Cereal	13.9
Oilseeds	3.9
Sugar cane and sugar beets	38.6
Cattle, sheep, goats and horses	4.2
Animal products and wool	0.5
Other agricultural products	1.7
Raw milk and dairy products	101.0
Meat products	26.2
Sugar	16.5
Other food products	17.0
Agriculture and food	9.4

Source: ILO and UNCTAD (2013).

are capable of these adjustments. CFTA monitoring mechanisms should be particularly sensitive to the effects on smallholder farmers, and that safeguards or product exclusions may be required if they require more time for adjustment.

Informal cross-border traders

Informal cross-border trade refers to the trade of goods or services that do not pass formally through customs controls and therefore escape the regulatory framework of taxation and other procedures set by governments.

Though cross-border trading contributes substantially to national economies and employment in Africa, traders are often pushed into the informal sector. This can be owing to problems faced in reading customs forms, accessing and comprehending opaque border procedures, understanding complex duty structures or affording tariffs. Such trading is particularly important as a source of employment for women from low-income households, with women accounting for some 70 per cent of informal cross-border traders (Ghils, 2013).

Once in the informal sector, cross-border traders face challenges. For example, border officials sometimes ask them to pay duties on commodities that should not attract any levies, and they can take advantage of informal traders' ignorance of the law and customs procedures (Mwanabiningo, 2015). Informal traders can be vulnerable to harassment, violence, confiscation of goods and even imprisonment. They also have poorer access to market information for determining prices, to information on policies and regulations and to credit.

The CFTA offers an opportunity to assist this vulnerable group and to make it easier for them to trade formally and under the greater protections and security afforded by such formality, partly because it will reduce tariffs, making it more affordable for such traders to operate through formal channels. However, accompanying measures should go further to benefit this group and to ensure that they are not disadvantaged relative to established formal traders.

For instance, trade facilitation and trade information measures generally make it easier for traders to operate through formal channels (Lesser and Moisé-Leeman, 2009). An example is the Simplified Trade Regime in the Common Market for Eastern and Southern Africa (COMESA), which simplifies clearing procedures and

the requirements necessary to qualify for the COMESA preferential duties for a common list of products. Other important support would be provisions for the free movement of economic operators, which should be designed not just to benefit large companies, but also small traders. Reinforcing these measures, a CFTA monitoring and evaluation mechanism should include an assessment of progress in alleviating the constraints faced by informal cross-border traders, particularly women.

Women

The African Union's (AU's) Agenda 2063 and the gender commitments under the UN's Sustainable Development Goals of Agenda 2030 are among the most recent continental and international affirmations of gender equality as a development priority. Yet unless the trend of gender disparities in wage earnings and absence from the labour force are reversed, Sub-Saharan Africa could lose up to \$60 billion dollars annually (UNDP, 2016). Moreover, as a vulnerable group, African women achieve only 87 per cent of men's human development (UNDP, 2016).

Chauvin et al. (2016) estimate the differentiated impact of the CFTA on male- and female-headed households by linking a simulation of the CFTA to household survey data for six African countries with data. They find that both male- and female-headed households gain, but that the gains are unevenly distributed depending on the particular trade and tariff structures of each country, and the income and consumption characteristics of its households (Table 5.3).

In agriculture, women's participation is often concentrated in lower-value subsistence crops rather than cash crops for export, narrowing their opportunities to benefit from value addition and commercial export

Table 5.3
CFTA average welfare effects, by male- and female-headed households (%)

	Male-headed	Female-headed
Burkina Faso	8.70	13.47
Cameroon	7.13	6.39
Côte d'Ivoire	10.44	3.77
Ethiopia	6.26	8.52
Madagascar	2.10	2.61
Nigeria	6.47	5.44

Source: Chauvin et al. (2016).

opportunities due to the CFTA. The task is to make women's participation in agriculture more productive and to connect female agricultural workers to export food markets, enabling them to garner higher incomes (UNCTAD, 2014).

Women account for roughly 70 per cent of informal cross-border traders. The challenges for this vulnerable group are especially acute for women, particularly those related to harassment and discrimination by border officials and access to credit, training and information. Measures to assist informal cross-border traders should aim to benefit women. For example, trade facilitation measures should address issues to improve women's safety, such as storage facilities, accommodation, illuminated border areas, hygiene facilities and transport corridors.

The interests of women can be better reflected by their explicit involvement in the design and processes of the CFTA, including through national consultations and more female negotiators. Evaluating impacts on women also requires a monitoring and evaluation framework with gender-disaggregated data.

Youth

Sixty per cent of Africa's population are aged 24 or younger and are about to enter the workforce. If this increasing number of working age individuals can be employed in productive activities, Africa's youth bulge may become a demographic dividend. Otherwise, it may become a demographic disaster, as a large mass of frustrated youth become a potential source of social and political instability. Yet a shortage of opportunities for Africa's youth contributes to high youth unemployment and working poverty rates approaching 70 per cent (ILO, 2016). Aware of this, the AU Heads of State and Government have chosen as its theme for 2017: "Harnessing the Demographic Dividend through Investments in Youth."

The traditional approach to supporting youth has been to look at the labour supply side. The 2007 World Development Report, "Develop the Next Generation," set out a policy agenda focusing on education, skills upgrading, health and citizenship. Such support is

also reflected within the AU Roadmap on Harnessing the Demographic Dividend through Investments in Youth, 2017, which includes pillars on education and skills development, health and well-being, and rights, governance and youth empowerment.

Structural transformation is required to produce new jobs for young people and to absorb these new entrants into the labour force. Countries that have been successful in this regard, such as China and the Republic of Korea, moved from a high share of employment in agriculture towards manufacturing first, then services. What will be important for Africa is restructuring economies away from capital-intensive commodities towards labour-intensive sectors, such as manufacturing, information and communications technology, and agriculture and agro-industries, to produce the jobs that can pull Africa's youth into the workforce. As recognized in the AU Roadmap on Harnessing the Demographic Dividend through Investments in Youth, 2017, this will require improved access to credit facilities to support entrepreneurs, initiatives such as tech incubators, and accelerators to support youth-led businesses, and trade liberalization.

Supporting Africa's youth requires a development strategy that goes beyond trade policy. Policies in education and skills development, such as the Continental Strategy for Technical Vocation Education and Training and the Science, Technology and Innovation Strategy for Africa (2014–24) are important, as are others in health and well-being and in youth empowerment. The CFTA can be an additional component. Most important, the CFTA can contribute to the kinds of export diversification and structural transformation that promote labour-intensive industry and help to "pull" Africa's youth into productive activities.

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Endnotes

1 The definition of “resource rich” adopted is that of the McKinsey Global Institute, which defines resource-driven countries as countries that meet at least one of three criteria: resource exports accounted for 20 per cent or more of total exports in 2011; resources on average accounted for more than 20 per cent of government revenue from 2006 to 2010; and resource rents were more than 10 per cent of GDP in 2010 or the most recent year for which data are available (McKinsey & Company, 2013).

2 This is very similar to the SMART and TRIST partial equilibrium models, and indeed uses the default TRIST demand and importer substitution elasticities (0.5 and 1.5, respectively). The analysis amounts to tariff reductions *within* the FTAs of existing RECs, where those FTAs do not already amount to full 100 per cent liberalization. Therefore, even countries that cover much of their imports within existing REC FTAs (Chapter 2) may still experience a significant import and revenue impact. The results of this approach are intuitive and transparent to a relatively non-technical audience, and rely on only a limited number of assumptions.