



OECD Development Pathways

Production Transformation Policy Review of Egypt

SPOTLIGHT ON THE AFCFTA AND
INDUSTRIALISATION

In co-operation
with



EGYPT

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SPOTLIGHT ON THE AFCFTA
AND INDUSTRIALISATION

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Foreword

Production Transformation Policy Reviews (PTPRs) are an OECD policy assessment and guidance tool that supports policy makers in the creation and implementation of better strategies for transforming their economies. They benefit from international peer dialogue and discussions under the aegis of the OECD Initiative for Policy Dialogue on Global Value Chains, Production Transformation and Development. The PTPRs are enriching the OECD Development Pathways Series with their perspective on economic transformation and governance for change.

This PTPR of Egypt: Spotlight on the African Continental Free Trade Area (AfCFTA) and Industrialisation was carried out at the request of the Ministry of Trade and Industry (MTI) of Egypt and was implemented with the financial contribution of the African Import-Export Bank (Afreximbank). It benefited from co-operation from Afreximbank and the United Nations Economic Commission for Africa (ECA). It builds on and enriches the *Production Transformation Policy Review of Egypt: Embracing Change, Achieving Prosperity*, carried out in co-operation with ECA, the UN Conference on Trade and Development (UNCTAD) and the UN Industrial Development Organization (UNIDO).

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Peer learning and knowledge sharing are at the heart of the PTPR Spotlight on Egypt. The report was shaped and enriched by contributions from international peers actively participating in the following events:

- “Unleashing the potential of AfCFTA: Where do we stand and what’s next?” (Government-Business Roundtable, October 2021): Amany Asfour (African Business Council), John Bosco Kalisa (East Africa Business Council), Yusuf Daya (Afreximbank), Kebour Ghenna (Pan African Chamber of Commerce and Industry), Stephen Karingi (ECA), Michael Kottoh (AfroChampions Initiative), Ahmed Maghawry (Egyptian Commercial Services) and Mohamed Salem (SICO).
- “Harnessing regional integration for industrialisation: lessons from Africa, Asia, Latin America and the Caribbean” (Global Peer Dialogue in the framework of the 17th Plenary Meetings of the OECD Initiative on Global Value Chains, Production Transformation and Development, November 2021): Ahmad Zafarullah Abdul Jalil (Director, ASEAN Secretariat), Sergio Abreu Bonilla (ALADI), Mariella

Amemiya Siu (Ministry of Foreign Trade and Tourism, Peru), Carlos Márcio Cozendey (Ambassador, Delegate of Brazil to International Economic Organizations in Paris), Patrick Ndzana Olomo (African Union Commission), Rebecca Fatima Sta Maria (APEC Secretariat) and Alaa Youssef (Ambassador of the Arab Republic of Egypt to France).

- Three Transformation Talks (T-talks) on strengthening the continent's healthcare industrial system, unleashing its potential in renewable energies and making logistics work for an integrated Africa (November 2021 to January 2022): Ahmed Badr (IRENA), Kirti Narsai (HeathValue Consulting), Kagure Wamunyu (Kobo360) and Kandeh Yumkella (The Energy Nexus Network).

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Editorial

Governments across the African continent are committed to pursuing economic transformation, creating jobs for an expanding labour force and reaching new levels of prosperity. In the current turbulent context, characterised by the twin energy and food crises in the aftermath of the COVID-19 pandemic, achieving those goals requires deliberate policy efforts towards a robust recovery, as well as effective international support.

Since 2017, Production Transformation Policy Reviews (PTPRs) have supported governments' efforts to transform their economies, in order to make them more resilient, sustainable, and inclusive. They continue to do so in these extraordinary challenging times.

The *PTPR of Egypt: Spotlight on the AfCFTA and Industrialisation* aims to help Egypt and other countries in Africa turn the African Continental Free Trade Area (AfCFTA) into a real game-changer for industrialisation. A timely read for policy makers and business leaders in Africa and internationally, it highlights ways to harness the AfCFTA in support of the continent's industrialisation, with a focus on Egypt and the continent's untapped potential in regional supply chains including renewable energies, pharmaceuticals, creative industries and logistics.

Ragnheiður Elín Árnadóttir
Director
OECD Development Centre

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Abbreviations and acronyms

ACI	Advanced Cargo Information
AfCFTA	African Continental Free Trade Area
Afreximbank	African Export Import Bank
AI	Artificial Intelligence
AU	African Union
CCIs	Cultural and Creative Industries
COMESA	Common Market for Eastern and Southern Africa
E&E	Electronics and electrical
EAC	East African Community
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross domestic product
ICT	Information and Communication Technology
LDCs	Less Developed Countries
mbps	Mega-bits per second
MENA	Middle East and North Africa
MERE	Ministry of Electricity and Renewable Energies
MHESR	Ministry of Higher Education and Scientific Research
MTI	Ministry of Trade and Industry
MVA	Manufacturing value added
NTBs	Non-tariff trade barriers
OECD	Organisation for Economic Co-operation and Development
PAPSS	Pan-African Payment and Settlement System

PV	Photovoltaics
R&D	Research and Development
RCEP	Regional Cooperation and Economic Partnership
REC	Regional Economic Community
RoO	Rule of Origin
RVC	Region Value Content
SADC	Southern African Development Community
TFTA	Tripartite Free Trade Area
UN	United Nations

Executive summary

The African Union's (AU) Agenda 2063: The Africa We Want, has set out a vision for transforming the continent into a united, prosperous, and globally relevant powerhouse. The creation of the African Continental Free Trade Area (AfCFTA) is an important step and is considered a catalyst for accelerating industrialisation. When fully implemented, the AfCFTA will create the biggest single market for goods and services by number of countries, and one of the largest by number of people.

Currently, African countries trade little with each other. Intra-regional trade in Africa stands at 15%, similar to Latin America and the Caribbean, but lower than in EU-27 (61%) and Asia (59%). Boosting intra-African trade could expand options for industrialisation. Primary products make up 63% of exports with outside partners, but only 34% of intra-African ones. A more integrated continent is also one that is better integrated with the world, strengthening Africa's position in global trade and investment.

The AfCFTA builds on previous integration efforts and aims to streamline the continental trade architecture. It is designed to go beyond trade in goods, with dedicated protocols on trade in services, dispute resolution, investment, competition policy, intellectual property rights (IPRs), women and youth, and e-commerce.

A large and unified market with harmonised rules could open new opportunities in emerging industries. For example:

- **Renewables.** Better access to electricity through the AfCFTA coupled with harmonised investment rules could help the continent tap into renewable energies and their industrialisation potential. Africa's renewables are already attracting investor interest. During 2018-22, Africa was the destination for about 9% of FDI global projects in renewables, but 19% of the capital invested, higher than the share of EU-27 and Asia, buoyed by large-scale investments in green hydrogen projects.
- **Pharmaceuticals.** Africa is still a small player, accounting for 1.6% of world manufacturing value added in the sector. However, it has industrial hubs that could be scaled-up, as seen during the COVID-19 pandemic, and is home to an expanding healthcare market. Easier trade rules and regulatory harmonisation within the AfCFTA, coupled with more capacity to pool procurement holds potential for boosting local pharmaceutical production.
- **Cultural and creative industries (CCIs).** Africa's cultural heritage is rich and diverse. However, CCIs play a small role in trade, accounting for less than 1% of goods exports, compared to nearly 4% in Asia and 3% in the EU-27, and for only 2% of total trade in services for the continent, compared to 20% for Europe and 15% for Asia. The AfCFTA could be a lever for CCIs, particularly through rules governing access and protection of creative content, though for example the e-commerce and IPR protocols.
- **Logistics.** The African logistic value chain is undergoing important changes, with new players innovating and connecting firms and consumers more cheaply and faster through advanced technologies. The AfCFTA can accelerate this trend by opening new trade routes and addressing long-standing challenges such as the continent's large infrastructure gap, high transport costs and the prevalence of non-tariff trade barriers. Advancing the digitalisation agenda will also be crucial

for future-proof logistics. The average African broadband speed was 17 Mbps in 2023, 6 times lower than in the OECD.

AfCFTA benefits will not spread naturally: targeted actions, investments and partnerships are needed to make it work for industrialisation. The continent's development financial institutions are playing an important role in this respect, mobilising financing for trade and industrial development. Moreover, new tools have the potential to significantly reduce time and costs to finance, such as the Pan-African Payment and Settlement System (PAPSS) and the Afreximbank-African Collaborative Transit Guarantee Scheme.

National strategies are also identifying ways of adapting national frameworks to ensure the AfCFTA encourages local development. Egypt, for one, has taken important steps to promote trade and investments in the continent. The Egyptian government has set up a national committee for the implementation of the AfCFTA, headed by the Ministry of Trade and Industry, with the participation of relevant agencies and private sector. Moreover, the country has been promoting trade facilitation and infrastructure development for trade, including the Advanced Cargo Information (ACI) system as part of the pilot of the Egyptian Single Window System (the NAFEZA platform). Such actions can boost Egypt's ties with Africa.

Three policy issues stand out as priorities in the context of the implementation of the AfCFTA:

Advancing on the continental industrialisation agenda. This will require reforms at national level to turn the agreement into an effective competitiveness driver, as well as an effort to match resources with ambitions. Achieving an integrated and industrialised Africa requires adequate policy space and financial resources. Development banks will be crucial in delivering the needed financing and services, but need adequate capacities. International partnerships will be key, as well.

Fast-tracking AfCFTA implementation. Completing the negotiations and investing in capacity building for implementation are crucial. Engaging in monitoring and evaluation and data generation will also be important to ensure the agreement remains relevant and any obstacles are addressed swiftly and smoothly. Continental initiatives aimed at strengthening the fundamentals upon which trade relies also need to be advanced. For example, the work of Pan-African Quality Infrastructure (PAQI) bodies – including the African Organisation for Standardisation (ARSO), to harmonise existing standards and develop new ones for emerging areas – is particularly important.

Learning from others and connecting globally. Creating a continental market is a long-term process, which requires trust building and managing divergences. The experience of other regional integration processes has shown the importance of having mechanisms to manage divergences between countries, as well as between actors within countries, to ensure no one is left behind and all are given the possibility to benefit from the newly created market. Finally, it will be important to strengthen the continent's voice in multilateral fora, particularly on food security, access to drugs, climate change and the green transition.

1 Africa has advanced in fostering continental integration

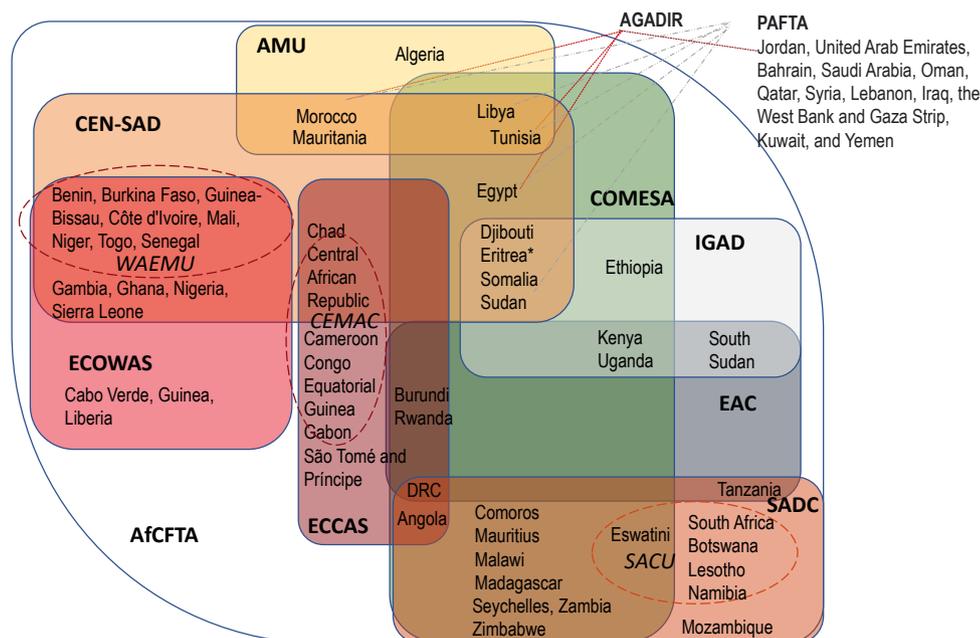
Continental integration is central to Africa's vision of a prosperous and industrialised continent, as elaborated in the African Union's Agenda 2063. The creation of the African Continental Free Trade Area (AfCFTA) is an important step forward, building on decades of integration efforts. This chapter gives a snapshot of progress towards implementing the AfCFTA, focusing on the structure of the agreement, state of negotiations, and emerging governance.

Africa is home to nearly 17% of the world's population but is still a small player in global production and trade. The continent accounted for just 2% of world manufacturing value added and 2.4% of exports during 2019-21 (authors' calculations based on (UNCTAD, 2023^[1])). Even though Africa's economies are far from homogeneous, they tend to be overwhelmingly anchored in commodities reducing opportunities for learning and innovation. Primary goods represent more than 70% of all exports for the majority of countries in Africa – 42 of them. Such long-standing structural challenges have been magnified in recent years as disruptions due to the COVID-19 pandemic stressed supply chains and threatened the flow of critical goods, including food and medicines. In addition, the ongoing energy crisis has eroded gains in living standards against a backdrop of heightened geopolitical tensions.

Africa remains committed to the vision of a prosperous and industrialised continent. The African Union's (AU) Agenda 2063: The Africa We Want, has set out a vision for transforming the continent into a united, and global powerhouse, reaffirming the importance of industrialisation, in line with the Action Plan for Accelerated Industrial Development for Africa (AIDA) and the Third Industrial Development Decade for Africa (IDDA3). One of the key goals of this agenda is to further integrate goods, services, capital and people, with a view to strengthening resilience and the capacity of the continent to determine its own future. The creation of the African Continental Free Trade Area (AfCFTA) is an important step forward. The first chapter of this report discusses how AfCFTA has advanced continental efforts in fostering continental integration.

Continental integration efforts in Africa have a long history, dating back to the 1980 Lagos Plan of Action for the Development of Africa and the Abuja Treaty of 1991. The Regional Economic Communities (RECs)¹ that have been created since then aim to facilitate integration on a regional scale with a view to eventually connecting the entire continent (Figure 1.1). RECs developed differently over time and have experienced different levels of integration and scope. For example, COMESA, EAC, ECOWAS and SADC have developed an FTA, while there are also additional customs and monetary unions developed, such as that of EAC, the Economic and Monetary Community of Central Africa (CEMAC), the West African Economic and Monetary Union (WAEMU) and the Southern African Customs Union (SACU). North African countries have also developed ties with non-African regional markets through agreements such as the Pan-Arab Free Trade Area and Agadir. This process has led to a fragmented landscape of integration on the one hand, with different rules and processes taking hold in different regions and overlapping memberships that can create a complex landscape for exporters, on the other. The COMESA-EAC-SADC Tripartite FTA (TFTA) was meant to serve as an important step towards bringing some of these different frameworks together and advance towards continental integration. It was launched in 2015 but progress was delayed as attention shifted to the African Continental Free Trade Area (AfCFTA), which launched negotiations shortly thereafter. As of March 2023, 11 members had ratified the TFTA, only three short of the minimum needed for the agreement to enter into force.

Figure 1.1. Regional preferential trade agreements where African countries participate, 2022

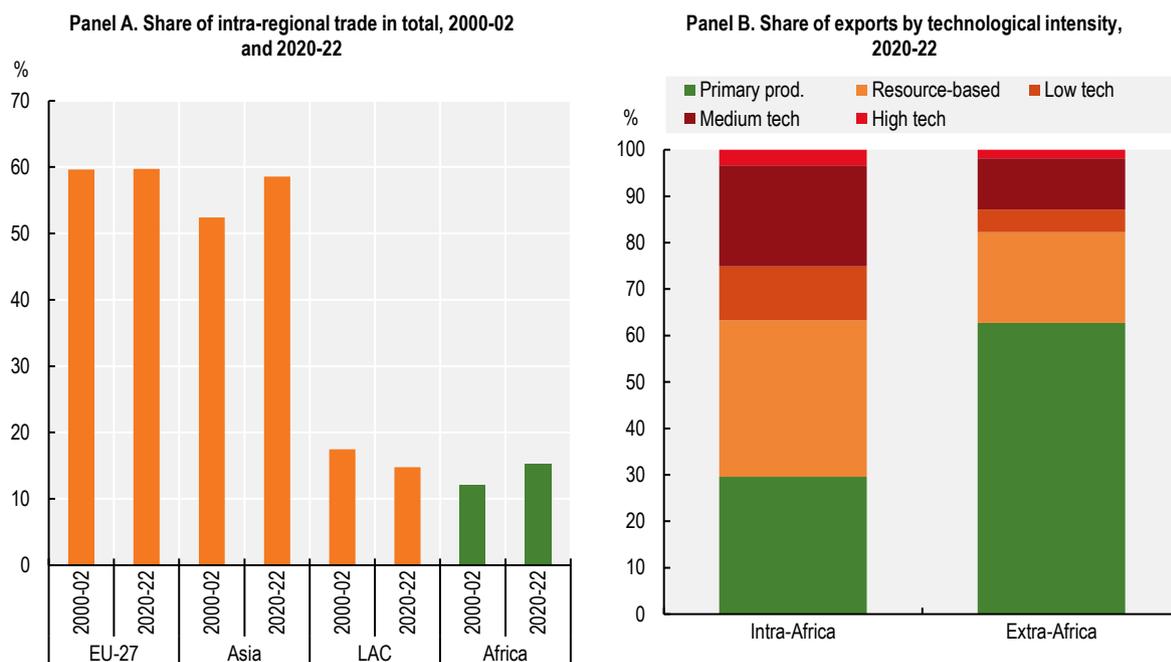


Note: Chart includes the eight Regional Economic Communities (RECs) recognised by the AU, the Community of Sahel-Saharan States (CEN-SAD), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) Economic Community of Central African States (ECCAS) Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC), Arab Maghreb Union (AMU); Monetary unions that have developed within RECs, Economic and Monetary Community of Central Africa (CEMAC); Southern African Customs Union (SACU); West African Economic and Monetary Union (WAEMU); and other regional agreements with multiple African country members, such as Pan-Arab FTA (PAFTA) and Agadir.

Source: Authors' elaboration based on official information.

Despite efforts to encourage intra-African trade, African countries trade little with each other, exporting instead commodities to the world and importing manufactures to feed an expanding market. Intra-regional trade in Africa stands at 15%,² three percentage points higher than during 2000-02, and in the same level as that of Latin America and the Caribbean, but much lower than in Europe (61%) and Asia (59%) (Figure 1.2). Asia is a major partner for the continent when it comes to extra-African trade. The People's Republic of China (hereinafter "China") absorbs about 15% of all continental exports, followed by India (7%), the US and Spain (6%), while similarly China accounts for about 18% of continental imports, followed by France, India and the United States with about 5% of exports each (authors' elaboration based on (UNCTAD, 2023_[1])).

Boosting intra-African trade could expand options for industrialisation. Africa's trade with the world shows a different pattern of trade. Primary products make up 63% of the products Africa trades with outside partners, reflecting a long-held pattern of specialisation in commodities and agriculture. Petroleum and gas alone account for around 34% of all African exports, while top import items span more technologically sophisticated and capital-intensive goods, such as automotive products and electronics (9% and 8% each) and pharmaceuticals (4%), as well as food and cereals (5%). By contrast, the share of primary exports drops to half when African countries trade with each other (30%) (ibid.).

Figure 1.2. Intra-African exports as a share of total and their technological intensity, 2020-22

Note: Panel B: Lall classification. Unclassified products not included in total. LAC: Latin America and the Caribbean.

Source: Authors' elaboration based on (UNCTAD, 2023^[11]), *Unctadstat*, <https://unctadstat.unctad.org/EN/>.

AfCFTA holds promise to strengthen continental trade, by creating the biggest single market for goods and services by number of countries, and one of the largest by number of people given Africa's population of 1.2 billion. The agreement aims to liberalise 90% of tariff lines within 5 years and an additional 7% of sensitive product lines within 10 years (for LDCs the timelines are 10 and 13 years respectively). In line with other modern FTAs, AfCFTA is designed to regulate additional areas with dedicated protocols on trade in services, dispute resolution, investment, competition policy, intellectual property rights (IPRs), women and youth, and digital trade. Negotiations are proceeding in two phases which are at varying degrees of implementation. During Phase I, countries discuss the trade in goods, services, dispute resolution, while during Phase II the rest of the protocols are discussed. Originally a Phase III was conceived for digital trade negotiations, but these were fast tracked by AfCFTA members and are now included in Phase II.

AfCFTA will not make previous regional agreements, such as the RECs, obsolete but rather aims to build on them to streamline the continental trade architecture and enable member countries that do not have a bilateral or multilateral agreement to trade more freely and easily with each other. The Rules of Origin (RoOs) are a case in point. Currently over six different regimes of RoOs exist on the continent, each with its own rules for how to determine the origin of goods (Table 1.1). For example, in the case of a car, the regional value added it needs to have in COMESA is at least 35-40% to qualify as coming from within the FTA and to benefit from the import duty applied, whereas within ECOWAS the rate is 30%, in SADC 45% and in Agadir 60%. In some cases, a change in tariff heading (CTH) also qualifies, whereas in others a specific process of transformation (SP), decided for that specific product, needs to have taken place. The different rules present challenges for businesses, as even if they base their production in an economy party to different agreements, the same production process might not qualify for preferential access under all of them. Moreover, as RoOs have been designed to promote trade within an FTA, they make it de facto harder to use components and inputs from countries outside the agreement, thereby providing disincentives for a truly continental trade. AfCFTA will introduce a unified regime, that will exist in parallel with those that currently exist within the different economic communities. With this, not only will it be

possible to use more streamlined rules, but inputs from anywhere in Africa will be able to count towards meeting the “made in” threshold of AfCFTA.

Table 1.1. AfCFTA stands to unify rules of origin on the continent

	COMESA	EAC	ECCAS	ECOWAS	SADC	AGADIR	CAEMC
Examples							
Cotton shirts	WO or RVC 35%-40% or CTH + ECT	SP	WO or RVC 40%-45%	CTH or RVC 30%	RVC 40%	SP or RVP 60%	WO or RVC 30%-40%
Vaccines	WO or RVC 35%-40% or CTH	CTH	WO or RVC 40%-45%	CTH or RVC 30%	CTH or RVC 40% or SP	NC + ECT 20%	WO or RVC 30%-40%
Smartphone	WO or RVC 35%-40% or CTH + RVC 35%	CTH or RVC 30%	WO or RVC 40%-45%	CTH or RVC 30%	RVC 40%	(CTH + RVC 60%) or RVC 70%	WO or RVC 30%-40%
Cars	WO or RVC 35%-40% or CTH + ECT	SP	WO or RVC 40%-45%	CTH or RVC 30%	SP and RVC 45%	RVC 60%	WO or RVC 30%-40%
Selected provisions							
Type of cumulation	Diagonal	Cross	Diagonal	Diagonal	Diagonal	Cross	Diagonal
Roll-up / absorption	Yes	Yes	No	No	Yes	Yes	No
De minimis	No	Yes (15%)	No	No	Yes (15%)	Yes (10%)	No
Duty drawback	No	No	No	Yes	No	No	No

Note: At the time of writing the AfCFTA rules of origin were not finalised yet. The different levels of RVC for each line relate to the different calculation methods for value added that are included in the provisions. RVC: Regional value content. CC: change in chapter; CTH: change in tariff heading; CTSH: change in tariff subheading; SP: specific process; ECT: exception; WO: Wholly originating. HS codes used cotton shirt: 62063; smartphone: 851712; vehicle: 870323; vaccine: 300220.

Source: Authors' elaboration based on (ITC, 2022^[2]), <https://findrulesoforigin.org>.

AfCFTA has adopted a flexible, staggered approach, allowing resolved components of the agreement to be implemented while negotiations are ongoing in unresolved areas. This approach is drawn from the TFTA which followed the same principle and is in contrast to other ‘megaregional agreements’ such as the Regional Cooperation and Economic Partnership (RCEP) in Asia, whereby negotiations need to be complete in all areas before implementing the agreement. On the one hand, this approach, combined with the impact of the COVID-19, has led to delays between AfCFTA coming into force (May 2019) and the launch of official trading (January 2021), as well as for meaningful trade to start (ongoing). This is because without solving some important outstanding issues, such as the finalisation of Rules of Origin (RoOs) and duties for remaining tariff lines, it is difficult for businesses to really trade under AfCFTA. On the other hand, this flexible approach has maintained the political momentum and the pressure to advance on all aspects of the agreement, while at the same time leaving some room for experimentation and updating. For example, the Guided Trade Initiative (GTI) is a pilot launched in October 2022 to trade under AfCFTA. The GTI involves eight countries (Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia) that will test how the AfCFTA operates institutionally and legally, exploring the readiness and capacity of members to trade under the new agreement. The products selected are limited and include ceramic tiles, batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits, and sisal fiber. This exercise will allow feedback to be collected and will also raise awareness about AfCFTA (AU-AfCFTA, 2022^[3]; Tralac, 2022^[4]).

Significant progress has been made to complete negotiations, which are at different stages:

- Trade in Goods: As of May 2023, about 46 members had submitted tariff offers, with 36 – including those of Egypt – considered verified and RoOs negotiated for 88.3% of agreed tariff lines (about 4 400 in total). Notable progress has also been made with regard to outstanding RoOs for

automotives, textiles and apparels. For example, in automotives the AfCFTA Secretariat has proposed RoO rules that were adopted in July 2023 for selected headings. As of 12 July 2023, RoOs for 90.1% of the tariff lines for the textiles and apparel clusters had also been agreed upon.

- **Trade in Services:** This protocol establishes principles for services liberalisation, in five priority sectors (transportation services, communications, tourism, financial, and business services). A positive list approach is taken whereby countries list sectors they commit to liberalisation under AfCFTA. Countries that hold joint membership in the WTO and the AfCFTA will need to offer market access that goes beyond what they currently offer under WTO's General Agreement on Trade in Services (GATS). Commitment offers have been submitted by 48 parties, which are being verified by the AfCFTA Secretariat.
- **Other Phase II negotiations:** The Protocols on Investment, Competition Policy, and on Intellectual Property Rights were adopted by the AU Assembly of Heads of State and Government in February 2023. These are framework agreements with outstanding matters that need to be further negotiated and resolved, including for instance issues regarding expropriations in the investment protocol. Negotiations for the rest of the Phase II protocols are advancing in parallel. On digital trade, consensus has been reached on most provisions with the exception of customs duties, cross-border data transfers, location of computing facilities, source code, and the transitional periods of aligning national laws with the Protocol. Negotiations for the Protocol on Women and Youth in Trade were concluded in June 2023 and a draft protocol has been submitted to the Committee of Senior Trade Officials.

The rate of negotiations depends not only on their complexity and sensitivity, but also on the body of existing regulatory efforts. Two of the guiding principles that underpin the AfCFTA are the preservation of the *aquis*³ and the best practices of RECs, and so Protocols are likely to build upon what has been done in existing regional agreements on the continent. For example, WAEMU, COMESA, EAC, ECOWAS and CEMAC have regional competition regimes in place that inform protocol negotiations. However, this also means negotiations must address harmonisation of the different existing frameworks, too. Frameworks can also be particularly fragmented. For example, the regional regulatory regime for IPRs is composed of the *Organisation Africaine de la Propriété Intellectuelle* (OAPI) and the African Regional Intellectual Property Organization (ARIPO). However, several large African economies, such as Nigeria, South Africa, Egypt and Morocco, are not members of either OAPI or ARIPO which complicates the AfCFTA negotiations over IPRs (Tralac, 2022^[5]). In other cases, such as digital trade negotiations, need to begin from scratch as no existing frameworks within Africa exist.

A number of tools have also been devised with the aim of disseminating information to relevant stakeholders and raising awareness. These include the AfCFTA e-Tariff Book, which makes tariff concession schedules and rules of origin accessible and searchable on line and the African Trade Observatory (ATO) led by the African Union, which was developed by the International Trade Centre (ITC) and funded by the European Union (EU). ATO is a dashboard that provides real-time information on detailed trade and market data as well as information on RoOs, customs procedures, market information and due diligence. Another example is the Online Non-Tariff Trade Barriers (NTBs) notification mechanism, where traders can file complaints on trade obstacles, open to all businesses, even informal ones. Finally, the AfCFTA hub, which aims at creating a trusted business directory of businesses trading in Africa by issuing a unique, continentally recognised AfCFTA number for SMEs, sole proprietors, traders and community-based organisations, is yet another example. Several of these tools are still in their pilot phase, in anticipation of the start of meaningful trade.

An articulated governance structure has been set up to ensure the agreement continues to serve the strategic objectives of the continent, while it has the autonomy and capacity to implement and monitor the agreement. The Assembly of the African Union, which is made up of AU government heads, is responsible for the strategic orientation of the agreement. The Council of Ministers, comprised of Ministers of Trade from AfCFTA members and distinct from the AU's Ministers of Trade Committee, has oversight over the execution and administration of the agreement. The Committee of Senior Trade Officials has responsibility for the implementation of Council

of Ministers decisions. The AfCFTA Secretariat is designed to co-ordinate and support the implementation of AfCFTA. The AfCFTA Secretariat has an independent legal personality – and is functionally autonomous within the AU system – although funding for it comes from the AU budget and its roles and responsibilities are determined by the Council of Ministers. AfCFTA also provides for the establishment of a dispute settlement system. Finally, AfCFTA puts in place a number of technical committees including the Committee on Trade in Goods and the Committee on Trade in Services. The creation of a Secretariat within AfCFTA is in line with some other megaregional agreements, although not all of them have this function. RCEP which entered into force in 2022 also provides for a secretariat. However, this has not yet been formally established, while CPTPP is managed through a rotation system. Although it is too early to make an assessment, the Secretariat could enable AfCFTA to more easily update over time and to monitor and promote its use.

Notes

¹ They comprise: the Community of Sahel-Saharan States (CEN-SAD), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Intergovernmental Authority on Development (IGAD), the Southern African Development Community (SADC), and the Arab Maghreb Union (UMA).

² Actual intra-African trade could be higher if informal cross-border trade is considered, which is prevalent in some regions (Afreximbank, 2020^[6]).

³ Roughly meaning common rules, although the term is not defined in the text (Erasmus, 2021^[7]).

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2 The continent is looking to use AfCFTA to accelerate industrialisation

Turning the AfCFTA into a real driver for industrialisation will necessitate targeted strategies to unleash the continent's private sector, improve infrastructure and skills, and manage divergences. This chapter discusses two key issues to accelerate industrialisation benefiting from AfCFTA: mobilising finance and insurance at the continental level and updating national strategies (focusing on the case of Egypt). It builds on the OECD 2021 report *Production Transformation Policy Review of Egypt: Embracing Change, Achieving Prosperity*.

Introduction

AfCFTA is considered a critical steppingstone to meeting the Agenda 2063's objectives for an integrated and prosperous Africa. Among the agreement's main strategic objectives are to promote sustainable and inclusive structural transformation, enhance countries' competitiveness and promote industrial development through diversification, the development of value chains and food security. To meet these objectives, and turn AfCFTA into a real driver for industrialisation, targeted strategies will be needed to transform the agreement into a driver for continental competitiveness. In particular, each country will need to identify what needs to be updated in national policy frameworks and incentives to make AfCFTA work to support local industrial development. It will also be important to identify which mechanisms are needed to compensate and manage divergences between countries, as small, less industrialised countries on the continent will require different strategies than the continental industrial hubs. Investing in upgrading infrastructure and skills will also be paramount.

This chapter discusses two, among the many, key issues to accelerate industrialisation benefiting from AfCFTA: financial services for industrialisation and national strategies (focusing on the case of Egypt).

Mobilising finance and insurance at the continental level

A dense and well-connected, reliable and effective finance and insurance ecosystem is crucial for continental trade. The continent's development finance institutions have long supported African trade through financing transport, energy and trade infrastructure projects, by providing concessional finance to traders and by conducting capacity building. Recently, such actions have been expanded in collaboration with the AfCFTA Secretariat and the African Union to address two main areas:

- Developing innovative infrastructures to underpin a continental payments and insurance ecosystem
 - The Pan-African Payment and Settlement System (PAPSS) was launched in January 2022 by Afreximbank in collaboration with AU to reduce transaction costs for African firms to allow them to pay securely and instantly for intra-African transactions in local currency. Prior to PAPSS, cross-border payments for goods had to be routed to an international bank outside of the continent for clearing and settlement, which caused delays and increased transaction costs. About 80% of transactions coming out of African banks for intra-African payments are routed offshore to be settled, according to estimates by Afreximbank (2022^[1]). Existing regional payment systems have proven that there is scope to reduce such costs; for example in WAEMU and CEMAC, two of the continent's monetary unions, only 2% of settlements involved a financial intermediary outside of Africa (SWIFT, 2013^[2]). PAPSS collaborates with central banks to provide payment and settlement services that are used not only by commercial banks and traditional payment service providers (PSP), but also by fintechs, thus opening the door for boosting innovation around financial services on the continent. As of January 2023, there are eight participating central banks (Ghana, Nigeria, Guinea, Liberia, Gambia, Sierra Leone, Djibouti) and 36 commercial banks. Increasing participation of countries as envisaged (all central banks are to sign up by end of 2023) would enable the system to reach its potential to support intra-African trade. To achieve this, it will be important to continue working in collaboration with local stakeholders and address remaining obstacles to participation.
 - The Afreximbank-African Collaborative Transit Guarantee Scheme introduced by Afreximbank in collaboration with the AfCFTA Secretariat and RECs, aims at the use of single transit guarantees to replace the need for national bonds. For example, a good exported from Egypt to South Africa on the Cairo-Cape Town trans-african highway (still under construction) will need to cross eight countries to reach its destination (Sudan, South Sudan, Ethiopia, Kenya,

Tanzania, Zambia, Zimbabwe, Botswana). Because few RECs fully implement regional transit guarantee schemes, traders are often required to post national bonds in each border, delaying trade. With this newly introduced scheme, Afreximbank can offer direct issuance of guarantee services to Intra-African Trade Champions, export trading companies, freight forwarders and clearing agents, transporters, authorised economic operators and other eligible 'parties' or counterpart guarantee/reassurance to national operators to boost confidence in local bonds and avoid requirements for cash-backed instruments.

- Putting in place dedicated financing to manage challenges arising from liberalisation. There are two different funds that have been recently set up for this purpose, as part of AfCFTA's set of operational instruments.¹ The Adjustment Fund will aim to assist AfCFTA member states to manage revenue disruptions associated with liberalisation through grants, concessional funding, commercial credit and technical assistance. Afreximbank has committed USD 1 billion to this fund, with the total size estimated to reach USD 8-10 billion. Moreover, an Automotive Fund is earmarked, with Afreximbank again committing USD 1 billion, with the aim of developing the automotive sector in Africa and creating demand through consumer financing.

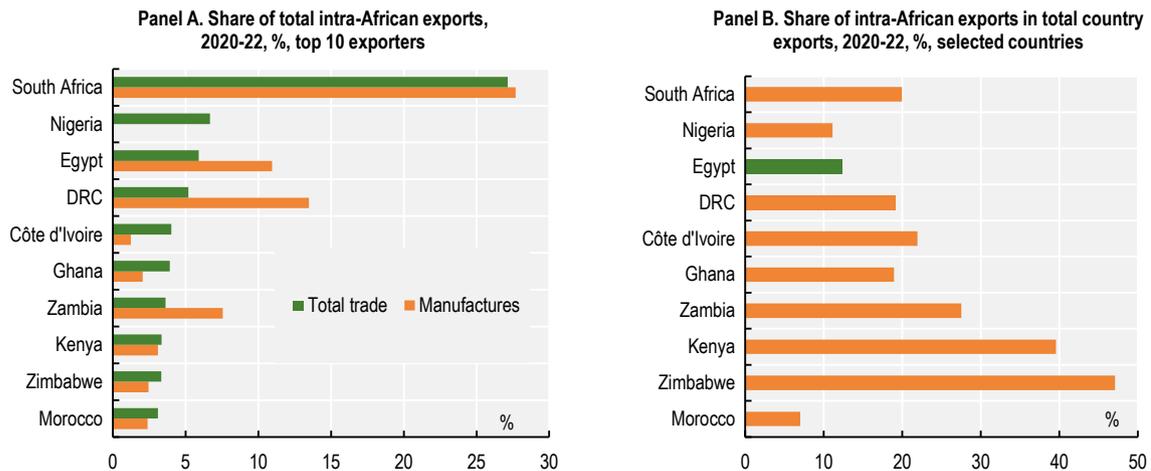
Further enabling the scaling-up and consolidating resources to support trade in Africa will be crucial. There is scope to further increase development finance. For example, while the continent counts about 84 national development banks and around 13 multilateral ones, these tend to be small with few exceptions, according to data by AFD and Peking University. Together these banks have combined assets of around USD 188 billion, a bit higher than Brazil's BNDES (USD 150 billion), whereas China Development Bank alone had assets of USD 2.6 trillion (Xu et al., 2021^[3]). Expanding trade finance is also important. Africa's trade finance gap for instance was estimated to be USD 81.8 billion in 2019, about 5.5% of the global total, whereas the country accounts for 3% of global trade. Currently on top of continental institutions such as Afreximbank and the African Trade Insurance Agency, only ten countries in Africa (Algeria, Egypt, Ghana, Morocco, Nigeria, Senegal, South Africa, Sudan, Tunisia and Zimbabwe) have Export Credit Agencies that provide export finance, (Kim et al., 2022^[4]; AfDB and Afreximbank, 2020^[5]; AUC/OECD, 2022^[6]). Plugging other related gaps in the financial ecosystem will also be needed for businesses to reap the benefits of AfCFTA, such as improving financial inclusion, particularly for MSMEs, and access to market finance for African businesses (ECA, AU, AfDB and UNCTAD, 2021^[7]).

Upgrading national strategies to tap into AfCFTA: Focus on Egypt

Countries in Africa are updating their national strategies to bring existing frameworks in line with the requirements of the AfCFTA and to design specific policies and actions to benefit from greater integration. This section gives an updated snapshot of Egypt, following the Production Transformation Policy Review (OECD, 2021^[8]) that examined Egypt's participation into global value chains and identified how domestic policy, investments and international co-operation can accelerate sustainable development in the country.

Egypt is one of Africa's top industrial and trade hubs, but trades little with Africa. The country counts on AfCFTA to diversify and upgrade its industrial capacities (Box 2.1). Egypt is Africa's top producer in terms of manufacturing value added (MVA), accounting for approximately 22% of the African total. The country has developed a relatively diversified industrial base, with the top three industries by value comprising refined petroleum, food and beverages and chemicals. However, Egypt's share of African exports is lower. Egyptian exports accounted for 7% of Africa's exports to the world, the third largest after South Africa (20%) and Nigeria (9%). Within Africa, Egypt is a large exporter, accounting for about 6% of intra-African total exports and 11% of manufactured ones (Figure 2.1). Only 12% of Egypt's exports go to African markets, a share similar to other big exporters such as Nigeria (11%), but lower than Ghana (19%) and South Africa (20%). The country's share of intra-African imports is lower, at around 2%.

Figure 2.1. Egypt is one of Africa’s big exporters, but trades little with Africa



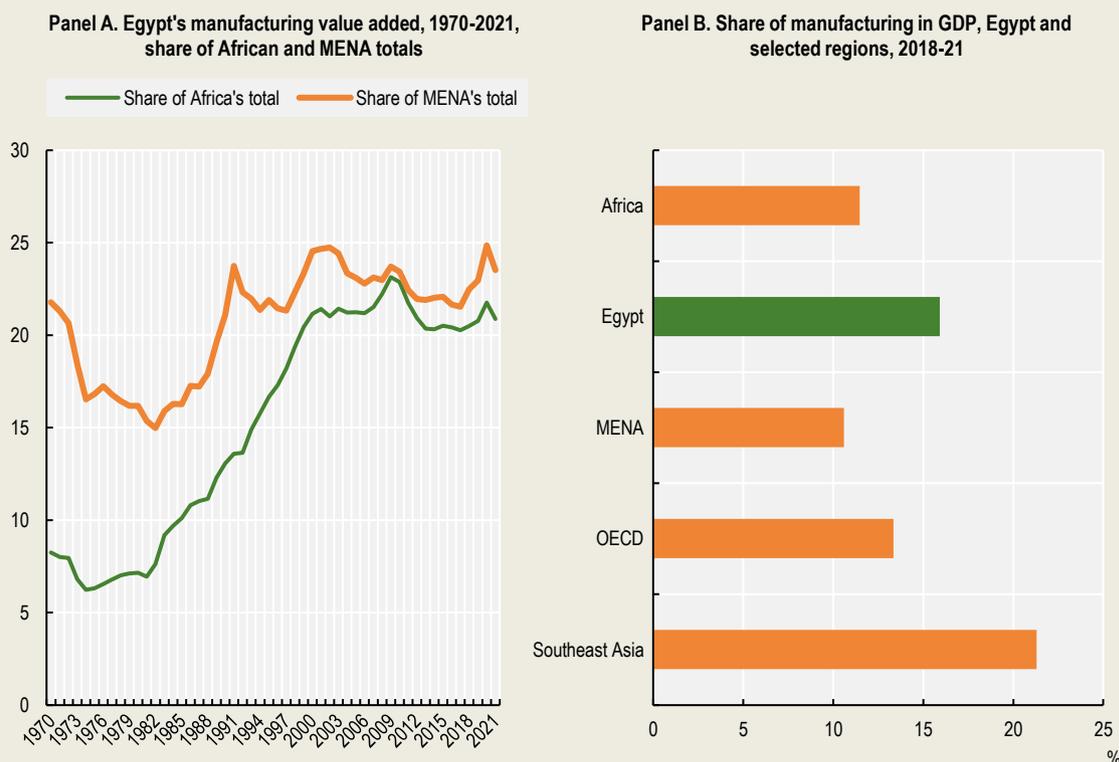
Source: Authors' elaboration based on (UNCTAD, 2023^[9]), *Unctadstat*, <https://unctadstat.unctad.org/EN/>.

Box 2.1. Egypt is one of Africa’s heavyweights

The country has a strategic position linking Africa, Europe and the Middle East. Egypt is the second largest economy on the continent, with its GDP (constant 2015 USD), second only to Nigeria in 2019-21 (authors' elaboration based on (UNCTAD, 2023^[9])). With 109 million inhabitants, Egypt is also the third-most-populous country, after Nigeria and Ethiopia.

Manufacturing has become an important activity within the country (Figure 2.2), accounting for 17% of total GDP, higher than the OECD average, as well as the Africa and MENA ones, but lower than in Southeast Asia where thick export-oriented supply chains have developed. Egypt has developed a relatively diverse industrial base with refined petroleum accounting for around 22% of total manufacturing value added in 2019, followed by food and beverages (19%), chemicals (13%), textiles and apparel (8%) and electronics and electrical (E&E) (6%) (authors' elaboration based on (UNIDO, 2022^[10])).

Egypt has also become a key investment hub on the continent (OECD, 2020^[11]; 2021^[12]). Egypt was the largest recipient of FDI inflows into Africa until 2020 and the second largest one in 2021 after South Africa. Prior to the pandemic, foreign direct investment flows had been growing at a modest rate annually since 2011, reaching an average of 3.3% of GDP during 2017-19 – higher than the rate observed in MENA (1.8%) and Africa (1.9%). During the pandemic, investment flows dipped, with the average reaching 1.4% in 2020-21. The top investors in Egypt in terms of greenfield FDI are made up of traditional partners of the country, such as the European Union (19% of jobs created), countries in MENA, such as United Arab Emirates (18%) and Saudi Arabia (10%), and the United States (5%), as well as new partners, such as China (18%) (data for 2018-21) (authors' elaboration based on (Financial Times, 2023^[13])).

Figure 2.2. Egypt is Africa's top manufacturer

Note: MVA: manufacturing value added.

Source: Authors' elaboration based on (UN National Accounts, 2022^[14]), *Analysis of Main Aggregates* (database), <https://unstats.un.org/unsd/snaama/>.

While the country benefits from a government committed to economic transformation and a private sector that is willing to explore new competitiveness drivers, Egypt also faces long-standing structural challenges that can hamper future progress. Among these, the most important that emerge are:

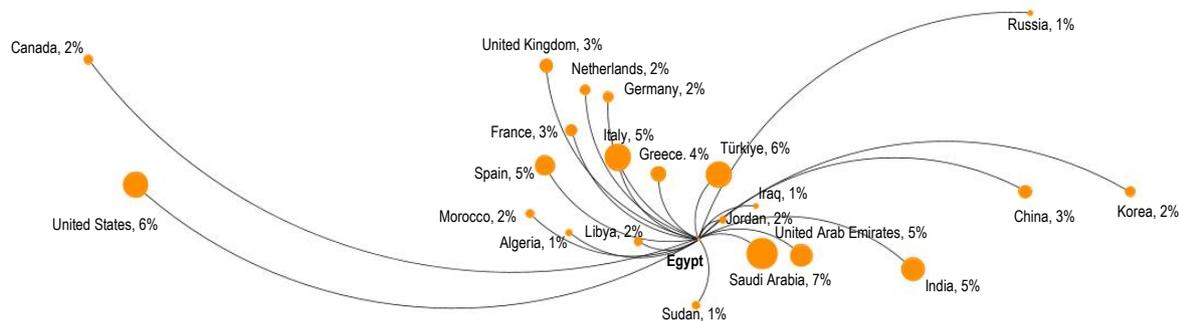
- **Updating infrastructure.** Egypt is home to the Suez Canal, which handles 10% of the world's maritime traffic. However, infrastructure could be further improved, reducing fragmentation in the country's port system, increasing co-ordination among modes of transport and upgrading the rail network. Digital connectivity has also improved, but it is still below potential. Based on measurements by Ookla, speed was 49.91 in May 2023. Meanwhile, the OECD average was 109 Mbps.
- **Changing economic specialisation and innovating.** Egypt's current economic specialisation poses challenges for environmental sustainability. For example, oil & gas is still a top economic activity, accounting for as much as 9.7% of GDP and 23% of exports. Investments in innovation are low. Egypt invests around 0.96% of GDP in R&D, about one-third of the OECD average (2.75%) with the majority coming from the public sector.
- **Benefiting more from trade.** Egypt's trade openness has remained relatively stable since the 1990s, with a trade to GDP ratio of 40-50% prior to COVID-19, lower than Morocco (83%) and the OECD (57.2%). Moreover, there is room to increase the value added and sophistication of exports.

Source: (OECD, 2021^[8]), *Production Transformation Policy Review of Egypt: Embracing Change, Achieving Prosperity*, OECD Development Pathways, <https://doi.org/10.1787/302fec4b-en>.

AfCFTA has the potential to increase the scale of Egyptian exports by expanding market access on the continent beyond traditional North African destinations. Most of Egypt's intra-Africa trade is with other North African countries (Figure 2.3). For example, the top three export destinations for Egypt in Africa in 2020-22 were Libya, Morocco and Sudan, which together accounted for about 45% of exports to the continent. Egypt has enjoyed longstanding historical and trade ties with the Middle East and North Africa, partly explaining this concentration. The country, for example, enjoys market access through the Pan-Arab Free Trade Area (since 1998) and the Agadir Agreement between Egypt, Jordan, Morocco and Tunisia (2007), while Egypt is a member of the COMESA, where Tunisia, Libya and Sudan are also members from North Africa (2000 for the FTA). AfCFTA is set to preserve these ties, while adding 32 new FTA partners in Egypt, including some of the biggest African economies, such as Nigeria and South Africa, and several partners in West Africa, thus expanding the market reach of Egyptian products. Beyond the lower tariff barriers, the AfCFTA will also encourage the diversification of Egyptian exports within Africa by facilitating the mutual recognition of quality and standardisation certificates and by enabling investments and trade facilitation procedures that are more streamlined and harmonised. Finally, Egypt could leverage its geographic position to optimise AfCFTA and strengthen connections to European and Middle Eastern markets.

Figure 2.3. Egypt's continental trade partners concentrate in North Africa

Export destinations that account for over 1% of Egypt's exports and their share of exports, 2020-22

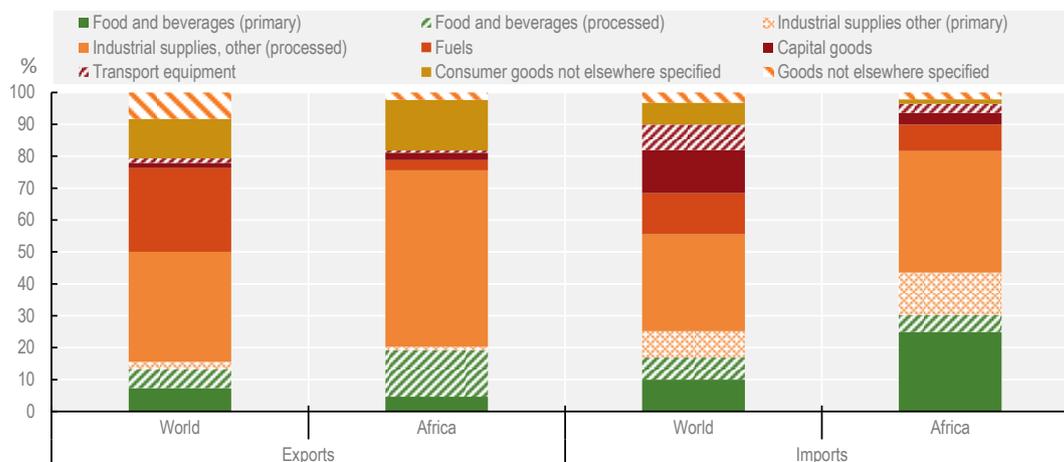


Source: Authors' elaboration based on (UNCTAD, 2023^[9]), *Unctadstat*, <https://unctadstat.unctad.org/EN/>.

In line with continental trends, trade with African countries also has the potential to enhance the sophistication of Egypt's exports. Egypt's exports to Africa are comparatively more sophisticated and show higher value added relative to its exports to the rest of the world (Figure 2.4). For example, fuels made up 26% of exports to the world, but only 3% of those to Africa. When it comes to food products Egyptian exports to the world are evenly split among processed and unprocessed ones, but most food exports to Africa are processed. In fact, almost none of Egypt's top 20 exports to the continent are unprocessed ones with top items including chemicals (24% of total), textiles (6.9%) and electrical and electronics (5.4%). However, imports from Africa are generally less sophisticated than imports from the rest of the world, with about 25% unprocessed food items, and a further 13% classified as fuel. Other main items imported from Africa include copper (22%) and coffee, tea and spices (14%).

Figure 2.4. Egypt's exports to Africa are more sophisticated than exports to the world

Breakdown of Egypt's trade with Africa and the rest of the world, broad economic categories, 2020-22



Source: Authors' elaboration based on (UN Comtrade, 2023_[15]), database, <https://comtrade.un.org/>.

The potential to benefit from preferential rates within AfCFTA, compared to the existing relatively high barriers that exist among RECs, and for cumulating value added across the continent could also encourage Egypt's participation in continental value chains. Currently, Egypt participates little in value chains, with foreign value added representing only about 10% of its exports during 2018-20, compared to 21% for South Africa and 30% for Morocco (authors' calculations based on (OECD, 2023_[16])). While it takes much more to drive value chain development than low tariffs and regional cumulation, these can help reduce the burden on firms wishing to localise production in different countries to take advantage of the competitive assets present in different locations. For example, Egypt aims to become a hub in electronics, and it has taken steps in that direction with several export-oriented production facilities in screens, among others, established in the last few years (OECD, 2021_[8]). Under AfCFTA, when Egyptian firms import components for electronics production from a party to AfCFTA, such as for example printed circuit boards from Mauritius or South Africa (the continent's top exporters in this item), they would be able to count these inputs towards the value added that qualifies for preferential access.² Moreover, the same rules of origin will apply regardless of what the final market will be in Africa. This setup could lower transaction costs and further incentivise investments in Egypt to tap into supply networks and markets in Africa. Nevertheless, the extent to which RoOs will strike a balance between encouraging continental industries and making preferential trade easy to access remains to be seen (Byers, Apiko and Karkare, 2021_[17]).

Egypt has taken important steps to promote trade and investments in Africa (OECD, 2021_[8]). The Egyptian government has set up a national committee for the implementation of AfCFTA, headed by the Ministry of Trade and Industry and with the participation of relevant agencies and the private sector. This is in line with similar actions by other state parties that look to build spaces with various institutional forms in order to streamline the implementation of the AfCFTA in a way that is aligned with national development goals, including Ghana's National Coordinating Office, AfCFTA National Implementation Committees in Kenya and Rwanda and a National Action Committee on the AfCFTA, Nigeria (Sebahizi et al., 2023_[18]). Egypt has also put the spotlight on raising awareness with the private sector. Moreover, the country has advanced in trade facilitation and infrastructure for trade. Egypt, for example, is speeding up clearance through the application of the Advanced Cargo Information (ACI) system with the Customs Law No. 207/2020, as part of the Egyptian Single Window System (the NAFEZA platform). ACI is a pre-registration system for shippers to ports in Egypt, which enables goods to be checked and cleared before they enter ports through a variety of digital tools including blockchain technology. The country's overall trade facilitation programme

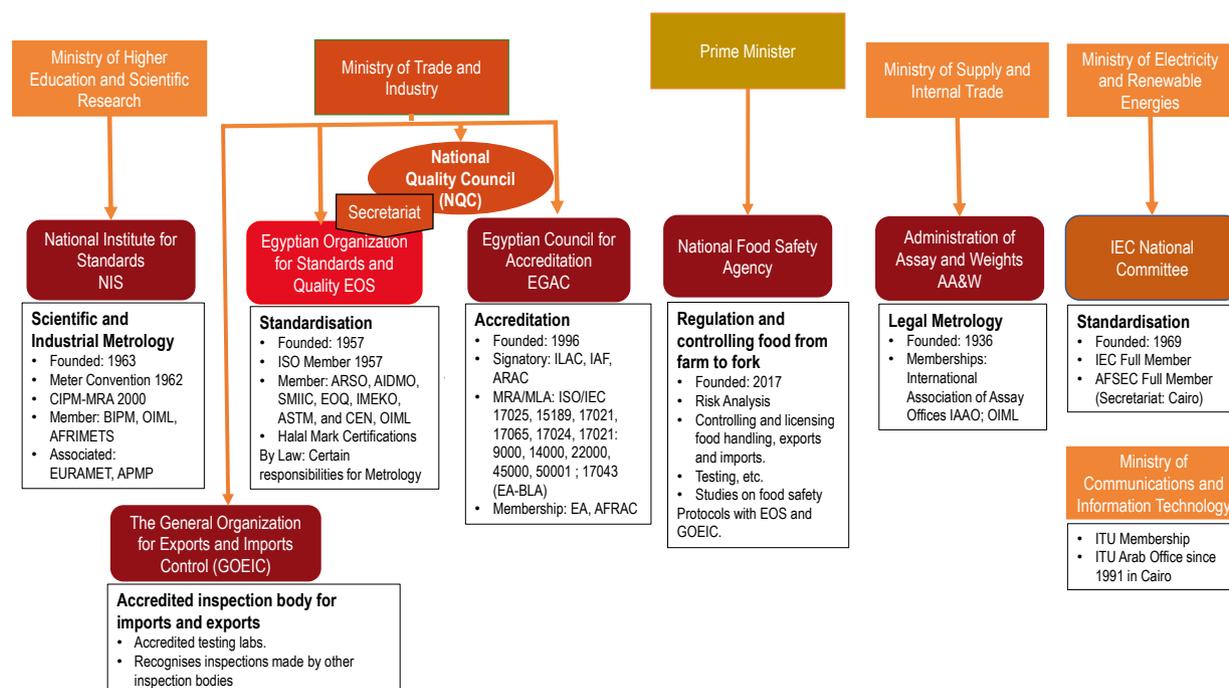
also includes plans to establish and upgrade logistic centres in Cairo, East and West port Said, Port Tawfik, Ain Sokhna, Damietta, Dakhilah and Alexandria, as well as the construction of new port facilities, dry ports, and upgrades to the rail and road system. One of the key elements of this package is the Cairo-Cape Town Road or Pan-African highway, which will connect Egypt to Sudan, South Africa, South Sudan, Ethiopia, Kenya, Tanzania, Zambia, Zimbabwe and Botswana.

One way in which Egypt could benefit more from continental trade is by updating metrological, standardisation and accreditation services. Capturing consumer trust via the reputation and branding of Egyptian goods and services can provide Egyptian firms with an advantage vis-a-vis competitors in the African market, and ensuring quality is a critical step towards it. Egypt is home to one of the best-established and experienced quality infrastructure systems in Africa and the Middle East (Figure 2.5).

It consists of the National Metrology Institute (NIS) under the Ministry of Higher Education and Scientific Research (MHE&SR), the National Standardisation Body (EOS), the National Accreditation Body (EGAC), and the General Organization for Exports and Imports Control (GOEIC), all under the Ministry of Trade and Industry (MTI) and the Administration of Assay and Weights (AA&W), responsible for Legal Metrology, under the Ministry of Supply and Internal Trade (MSIT). Strategic orientation and co-ordination of these components is facilitated by the National Quality Council (NQC)³ under the MTI and a Secretariat within EOS. A new Law of Metrology approved in 2020 by the Egyptian Parliament is an important step ahead and is poised to change the governance of the quality infrastructure system with a National Council on Regulation of Metrology and Calibration under the Prime Minister and with multi-ministerial participation, and a Consultative Committee with representatives of the main institutions, tasked with providing technical support and carrying out research.

On top of ensuring that the new law is applied appropriately and its implementation monitored according to international best practices, Egypt could look to improve the articulation of the quality infrastructure system with actors that are key for the development of emerging technologies. For example, the Ministry of Electricity and Renewable Energies (MERE) and the Ministry of Communication and Information Technology (MCIT) are active in the development of standards relevant to Industry 4.0 but could be better linked to the rest of the national quality infrastructure system governance architecture. Moreover, academia and industry are not represented in the highest levels of decision making in Egypt's QI system, even though the government works closely with the private sector throughout the policy process (represented by Federation of Egyptian industries (FEI), Federation of Egyptian Chambers of Commerce (FEDCOC), and the various Exporting councils). Closer co-ordination between the three main pillars (metrology, standardisation, and accreditation) and the ministries and institutions responsible for product safety, human health, food safety, energy, consumer and environmental protection is also needed to ensure Egyptian quality in international markets. Increasing Egypt's co-operation with regional QI organisations – Pan-African Quality Infrastructure (PAQI), the Intra-African Metrology System (AFRIMETS), the African Organisation for Standardisation (ARSO), African Accreditation Cooperation (AFRAC) – could help to promote QI as a tool for advancing industrialisation and exports. In addition, Egypt needs to improve the availability and quality of services, including making them more available across the country. For some areas that are important to Egypt, such as agro-food, a more targeted approach is also called for. For example, chemistry and microbiology play a lesser role in Egypt's calibration and measurement capabilities with regard to supporting agro-food quality. Moreover, there is currently 11 proficiency-testing providers that represent a good starting point, but these need to be expanded to improve the technical competences of testing labs. Currently there is also only one accredited certification body for agro-food and one for Halal certificates, and these could be expanded.

Figure 2.5. The governance of the national quality infrastructure system in Egypt, 2022



Source: (Göthner, 2022^[19]), "Is Egypt's National Quality Infrastructure fit for AfCFTA", background document.

For Egypt to fully reap the benefits of AfCFTA, the country will also need to strengthen trust, south-south co-operation and production linkages with other members across the continent to ensure that integration will work in a way that is beneficial to all countries, independently of their initial manufacturing capacities. Expanding, for instance knowledge and co-operation opportunities through trade missions to African countries, in tandem with designing incentives and policies to enable players to access the country's quality infrastructure services, particularly for MSMEs, would be beneficial in this respect. Along with other industrial hubs on the continent and in the framework of the AU, Egypt has a key role to play in investing in partnerships and knowledge sharing across the continent.

Notes

¹ The AfCFTA operational tools are: the e-Tariff Book, the NTB monitoring and reporting mechanism, the PAPSS, the Automotive Fund and the Adjustment Fund.

² Whether the full value or only the value added of the components produced in the importing country can count towards cumulation and the method of calculating will depend on the outcome of the ongoing negotiations.

³ The Council's members include: heads from EOS, National Quality Institute, General Organization for Import and Export control, Industries Federation, Industrial Control Authority, Chemistry Authority, Chambers of Commerce Federation, Consumer Protection Agency, the Executive Director of the National Council for Accreditation, Executive Director of the Industry Modernization Center, Chief of the Foreign Trade Sector, Ministry of Industry and Trade, Chief of the National Institute for Standards, and

representatives from the Industry Council for Technology and Innovation, the Small and Medium Industry Development Center, and representatives of the Ministries of Defence, Military Production, Health, Agriculture, Internal Trade, Environment and Scientific Research and in areas related to quality affairs and market surveillance.

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3

AfCFTA could be a game changer for emerging industries

AfCFTA could open new opportunities for African businesses through a united market, and harmonised rules that go beyond trade in goods. This chapter looks into the potential of AfCFTA to boost Africa's role in emerging industries, with a focus on renewable energies, pharmaceuticals, cultural and creative industries, and logistics.

Introduction

AfCFTA holds the potential to open new opportunities for African businesses through a united market, and harmonised rules that go beyond trade in goods.

This chapter examines the potential of AfCFTA to boost Africa's role in emerging industries, with a focus on renewable energies, pharmaceuticals, cultural and creative industries, and logistics. While Africa still plays a small role in these industries, they are among continental priorities for the future, building on existing natural assets, pockets of innovation and industrial capabilities, cultural heritage and rapidly advancing digitalisation.

Renewable energies

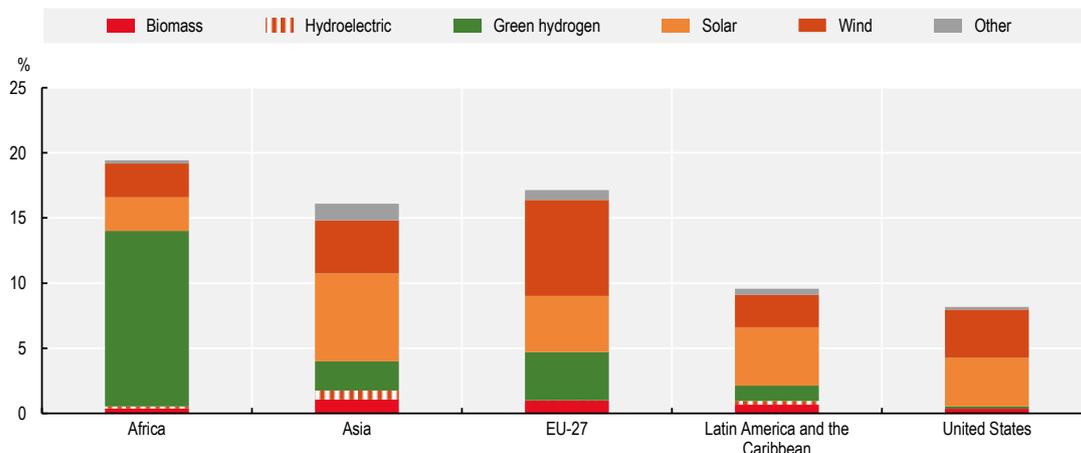
Energy is key for industrialisation. The continent lacks affordable, stable and secure energy to match its industrial ambition. The global call for shifting towards greener production and consumption could enable Africa to tap into renewable energies and their industrialisation potential, while exploiting and using all forms of available energy sources in the meantime.

Renewable energies can offer a wealth of opportunities for Africa and countries all across the continent are eager to take advantage of this potential. In Egypt, the Integration Sustainable Energy Strategy 2035 launched in 2015, aims to increase renewable electricity to 42% of total by 2035 (in 2019 the share stood at 9.4%), while the National Climate Change Strategy (NCCS) 2050 launched in 2022, with the aim of integrating efforts to tackle climate change. The country hosted COP27 in November 2022 and launched the Loss and Damage Fund, which aims to provide financial assistance to those nations most vulnerable to climate change. Egypt has also been trying to increase linkages between digitalisation and the sustainability agenda with targeted investments and initiatives, such as the Applied Innovation Centre under MCIT. The fund fosters innovations for smart agriculture and organises competitions for start-ups and innovators in a range of sustainability domains, including energy. Examples include ClimaTech, which was created in co-operation with the Ministry of International Development, and Climathon, which is a joint effort with the Egypt University of Informatics. Both got off the ground in the run-up to COP27.

Africa has untapped natural potential in renewables. Africa has some of the highest solar irradiation in the world with IEA estimating that it holds 60% of the world's best solar resources, but only 1% of installed photovoltaic (PV) capacity. Egypt, for example, gets over 3 000 hours of sunshine per year compared to 1 700 on average in Germany while the latter has almost 35 times the installed solar PV capacity (IEA, 2022^[1]; IRENA, 2022^[2]). Other resources on the continent include: abundant hydropower resources, with some industry estimates suggesting that the continent is only using 11% of its available resources, the lowest utilisation share of all world regions (IHA, 2022^[3]); geothermal energy, with Kenya, for example, being the world's 7th largest producer of geothermal energy by installed capacity, surpassing Iceland (IRENA, 2022^[2]); and wind, with only about 0.01% of potential utilised (Van den Berg, 2022^[4]). Egypt for example has high wind speeds in the Red Sea, Mediterranean, and inland areas (WMO, 2022^[5]; OECD, 2021^[6]). These renewable resources also point to the continent's potential for green hydrogen, an area that is already attracting investor interest. Overall, investments in renewables have surpassed those of fossil fuels in the continent (AUC/OECD, 2023^[7]). During 2018-22, Africa was the destination for about 9% of FDI projects in renewables, but 19% of the capital invested, higher than the share of EU-27 and Asia (Figure 3.1). The continent's FDI performance has been driven mostly by green hydrogen projects that attracted large-scale investments in 2022. In fact, the need to secure energy supplies made that year a record one for renewables globally, with total investments about three times as high as the previous year.

Figure 3.1. Africa absorbed 19% of FDI in renewables during 2018-22

Total greenfield FDI in renewables by region and technology, share of world total (%)



Note: Marine and geothermal have been placed under “Other”. Hydrogen has been identified using the tag “hydrogen” in the database.
 Source: Authors’ elaboration based on (Financial Times, 2023^[8]), *fdimarkets*, <https://app.fdimarkets.com/>.

Africa is also home to natural resources that are key for renewable energy value chains. Africa is a marginal player in the development and trade of renewable energy products. For instance, Africa accounts for less than 1% of exports in solar panels, lithium batteries or wind turbines (Figure 3.2). Lithium batteries are produced overwhelmingly in China (79%), followed by the United States (6%), Hungary (4%), Korea (3%) and Hungary (3%) (Figure 3.3). This pattern is confirmed in other technologies, such as wind turbines (58% produced in China, followed by the EU with 19%) and photovoltaic solutions (China produces 75% of solar PV modules) (IEA PVPS, 2022^[9]; GEWC, 2022^[10]). However, the continent is home to important commodities and minerals that are key for renewables. For example, African countries account for 69% of the world’s cobalt production, 50% of the world’s manganese production and 14% of the world’s copper production, raw materials which collectively account for about one-fifth of the weight of an electric vehicle battery (Mathieu and Mattea, 2021^[11]). The continent is also home to about 77% of platinum production, which is a key fuel cell catalyst for the production of hydrogen. These could be used as springboards for entering value chains and gradually expanding manufacturing capabilities that centre on their sustainable extraction, processing and use – provided conducive strategies and partnerships are set up.

Africa has the ambition to scale up industrialisation efforts and has existing industrial hubs that could offer downstream usage opportunities for renewable energies, as well as industrial capacities to generate renewable energies. Egyptian float glass companies, for example, have the facilities and technical expertise to produce high-purity silica sand which is a critical input in the production of photovoltaics while some firms are already engaged in wind turbine and tower production through joint ventures. In concentrated solar power the local manufacturing share was estimated at 55% and in wind farms the share ranges from 20% to 30% (IRENA and EIB, 2015^[12]).

whose full operation is anticipated by 2040 (IRENA, 2022^[17]), are also expecting to build on the momentum of the AfCFTA to create an operational continental electricity market.

To take advantage of the opportunities of the AfCFTA, African countries will need to mobilise investments and link industrial strategies to the green transition. Though there are currently no special provisions in AfCFTA for green goods (Van der Ven and Signé, 2021^[18]), the agreement's Investment Protocol makes specific reference to fostering investment aligned with sustainable development, including mitigating and adapting to climate change, and safeguards the right of members to regulate in accordance. Such provisions, in addition to the contribution of the agreement to improved trade and investment climate in the continent, could prove a lever for renewables by providing an opportunity to link industrialisation and the greening of the energy matrix. To do this, it will be necessary to bolster the scale of investments. Large projects are needed that go beyond pilot and microgrid projects to stimulate demand and generate, in turn, the energy needed for green industrialisation on the continent. The IEA (2022^[19]) estimates that annual energy investments in Africa will need to double from their current level to nearly USD 192 billion annually to meet the continent's energy goals. For example, South Africa's Industrial Policy Action Plans have been using, since 2010, public procurement for renewables for the promotion of local capabilities and have been encouraging the use of more sustainable technologies in industry. Advancing on quality systems and certification for renewables will also be important. For example, currently certification for green hydrogen is at an early stage and mostly led by large consumer markets. Ensuring that African countries have a voice in the definition of such standards, and that they update their metrology and conformity assessment infrastructures to meet these standards, is also critical. Finally, protocols that are still being negotiated could include green industrialisation considerations. This is the case for protocols related to services such as transport (Asafu-Adjaye et al., 2021^[20]).

Pharmaceuticals

The continent imports 94% of its pharmaceuticals and 96% of its vaccines, according to estimates by ECA, making the continent vulnerable to supply chain disruptions, as revealed during the COVID-19 pandemic (OECD/UN ECA, 2020^[21]). In fact, the experience of countries during the pandemic showed the various ways in which dense and effective healthcare industrial ecosystems, through mobilising manufacturing capacities, facilitating trade and investing in innovation, are essential for responding to emergencies (Box 3.1). Investments in healthcare industrial ecosystems are also necessary to address Africa's long-term healthcare challenges, going beyond the ongoing pandemic, and even to unlock opportunities for economic transformation by encouraging local manufacturing and innovation.

Box 3.1. A taxonomy of technological and industrial solutions to face the pandemic

Countries fought the COVID-19 pandemic in different ways. An effective strategy requires adequate, accessible, affordable, safe and timely supply of medical devices, drugs and skilled personnel across four areas: testing, protecting, treating and curing (TPTC) (Table 3.1). These areas differ according to scientific content, research and development (R&D) intensity and manufacturing complexity. They also share a common critical requirement: the solutions need to be timely, affordable, safe and comply with approved standards. In the case of COVID-19, the required effort in R&D and the reliance on scientific research have been higher for the solutions linked to testing and curing. Manufacturing involves relatively simpler processes for personal protective equipment (PPE) than for ventilators, making industrial reconversions a relatively simpler option to secure local access for PPE, even though the management of the specific supply chains is highly complex in all areas. Standards, trade facilitation and tailored intellectual property (IP) management are important in facilitating access to drugs and vaccines.

Table 3.1. The testing, protecting, treating and curing (TPTC) framework

	TESTING	PROTECTING	TREATING	CURING
OBJECTIVE	Enabling massive screening ASAP	Minimising contagion through protective devices [for medical and sanitary personnel, patients and common citizens]	Providing assisted breathing and drugs to critical patients	Healing infected patients
CHALLENGES	Inadequate diagnostic equipment (too slow, too - capability-intensive, too expensive and require laboratory testing) Lack of universally validated protocol	Global supply shortages	Global supply shortages and few global players capable of producing them Availability of replaceable components [e.g. valves] Required know-how for using sophisticated/new devices High unit cost	Uncertainty of research outcomes Timing for clinical trials & Approbations Affordability
TECHNOLOGICAL AND INDUSTRIAL SOLUTIONS	Partnerships for research and technology transfer Fast tracking testing and clinical trials Enabling global approval based on first national approval Fostering technology transfer and enable local manufacturing	Enabling local manufacturing by: 1) scaling up local production; 2) reconverting industrial plants [e.g. textiles, printing, beverages and cosmetics] Facilitating imports and exports Co-ordinating donations to target the most vulnerable	Scaling up production of current producers Enabling industrial reconversions [e.g. automakers] Fast taking imports & exports Bridging capital, competences and technologies to foster innovation	Testing for second-use of existing drug treatments Vaccine research & development Drug & vaccine manufacturing
CRITICAL REQUIREMENTS	MEDICAL SUPPLY NEEDS TO BE: Adequate Accessible Affordable Safe Timely SCALING UP QUICKLY HOSPITAL CAPACITIES OVERCOMING THE SHORTAGES IN MEDICAL PERSONNEL			

Source: (OECD/UN ECA, 2020^[21]), "Africa's Response to COVID-19: What roles for trade, manufacturing and intellectual property?", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, <https://doi.org/10.1787/73d0dfaf-en>.

African governments have long committed to increasing local capacities in manufacturing of pharmaceuticals. At the continent level, the Pharmaceutical Manufacturing Plan for Africa (PMPA) was adopted in 2007 and the African Vaccine Manufacturing (PAVM) for example, launched in 2021, outlined priority actions for enabling the continent to produce 60% of the vaccines it needs locally by 2040. Several governments also have plans to increase their capacities. For example, Ghana, following the PMPA introduced a Ghana Pharmaceutical Sector Development Strategy that included tax and other incentives, such as preferential procurement, to enable Ghana to become a manufacturing hub (Peprah Boaitey and Tuck, 2020^[22]). Ethiopia also developed a National Strategy and Plan of Action for Pharmaceutical Manufacturing Development following the PMPA.

Currently, while some capacity in pharmaceuticals exists on the continent, it suffers from small scale and low quality. Data on production is sparse, nevertheless statistics from UNIDO (data for 11 countries) suggest that in aggregate Africa accounts for about 1.6% of world manufacturing value added in the sector, compared to China and India (25% and 17% respectively), and the EU where several large multinationals are headquartered for 64% (data for 2018 or latest year). Egypt (Box 3.2), Algeria, South Africa and Ghana are Africa's top producers, with production largely absorbed by local markets (Conway et al., 2019^[23]).

Quality across the continent could be higher. For example, 37 companies from Egypt, Morocco, South Africa and Tunisia have a Good Manufacturing Practice certificate that is valid for the European market and specifies strict quality guidelines, compared to 21 in Brazil only and 253 in China (authors' calculations based on EudraGMP database (2022^[24])). Counterfeit and sub-standard medicines are also big challenges for the continent (WHO, 2017^[25]).

Box 3.2. Spotlight on Egypt's pharmaceutical sector

Egypt is one of the continent's largest producers and exporters of medicines. For example, during 2019-21 it generated 24% of African pharmaceutical exports, the top second after South Africa (32%) (authors' elaboration on (UNCTAD, 2023^[26])). The largest market for Egyptian pharmaceutical exports was the Middle East which accounted for 63% of exports, followed by Europe (18%). Sub-Saharan destinations accounted for approximately 10% of the total.

According to the Ministry of Health, local production met 93% of the country's drugs needs in 2018/19 up from 83% in 2009/10, with 97% of production being generics. The country's establishment census in 2017 noted that 10 out of 206 active establishments in the industry, were public and the rest private businesses. In addition to local players, some multinationals have also established operations in Egypt. The country's large market and growing spending power and its location close to markets in Africa, Europe, and Asia, have made Egypt an attractive location for producers.

Developing the pharmaceuticals sector is a priority in Egypt to achieve better health outcomes and promote structural transformation. The Egyptian government has in place targeted policies and incentives to foster production and exports for the pharmaceuticals sector, including:

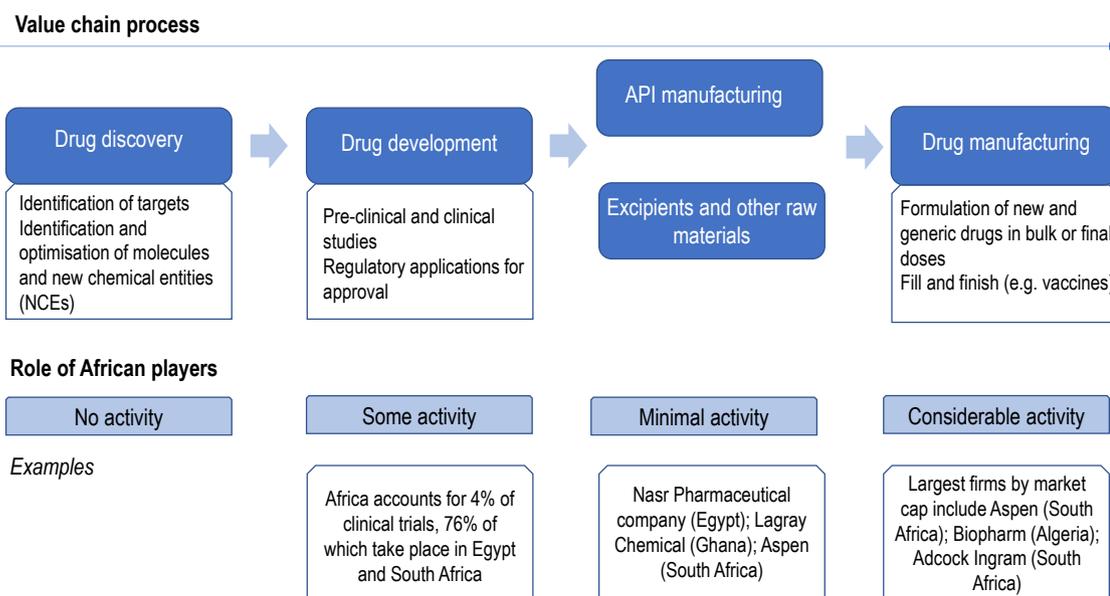
- **Fostering partnerships.** In 2018 Egypt adopted a package of incentives under the slogan "100 million healthy lives" with the aim of providing comprehensive healthcare for all its citizens. Under this programme, the Initiative to Eliminate Hepatitis C and Non-Communicable Diseases, managed to successfully reduce the prevalence of Hepatitis C virus in the country. This was achieved through screening, the negotiation of lower prices with global producers, but also by modernising the partnership between government and the private sector to achieve low-cost production of generic treatments in Egypt. In addition, the country fosters regular dialogue between producers and government, as for instance through the periodic Industry Forum between the Egyptian Drug Authority (EDA) and pharmaceutical companies. Strategic projects have also been encouraged, such as Gypto pharma's "medicines city" which aims to set up large-scale and advanced facilities for production and exports and boost partnerships between the public and private sectors.
- **Encouraging investments and technology development.** Pharmaceutical industries qualify for incentives under Egypt's Investment Law No. 72/2017. The country has also been pursuing joint ventures that can improve its production capabilities, particularly in more sophisticated segments. For instance, an MoU was signed in 2021 between Egypt's state-owned Holding Company for Pharmaceuticals, the Pharmaceutical Egyptian Association (PEA) and India-based Syschem to produce Active Pharmaceutical Ingredients (APIs) in the country. Some imported ingredients for pharmaceuticals have also been exempted from VAT.
- **Promoting exports.** The Egyptian Drug Authority has introduced a temporary registration system for medicines that are exported only to reduce the regulatory burden required for exports. This measure has encouraged export operations. For example, the Export Council of Medical Industries (ECMI) established in 2018 the EGYCOPP company with the aim of acting as a manufacturing-for-export launchpad. It also spearheaded contract manufacturing in partnership with local and foreign players. The government also fosters exports by engaging in market intelligence activities and encouraging

promotional missions to key destinations, including in Africa. The EDA also pursues mutual recognition agreements, complemented by regional and continental initiatives for regulatory harmonisation. For instance, the Arab-Africa Trade Bridges Program, a multi-donor and multi-country initiative, is also undertaking a Harmonization of Pharmaceuticals Initiative, in partnership with ARSO. Finally, an export subsidy has been launched by EDA.

Source: Authors' elaboration based on information provided by the Ministry of Health.

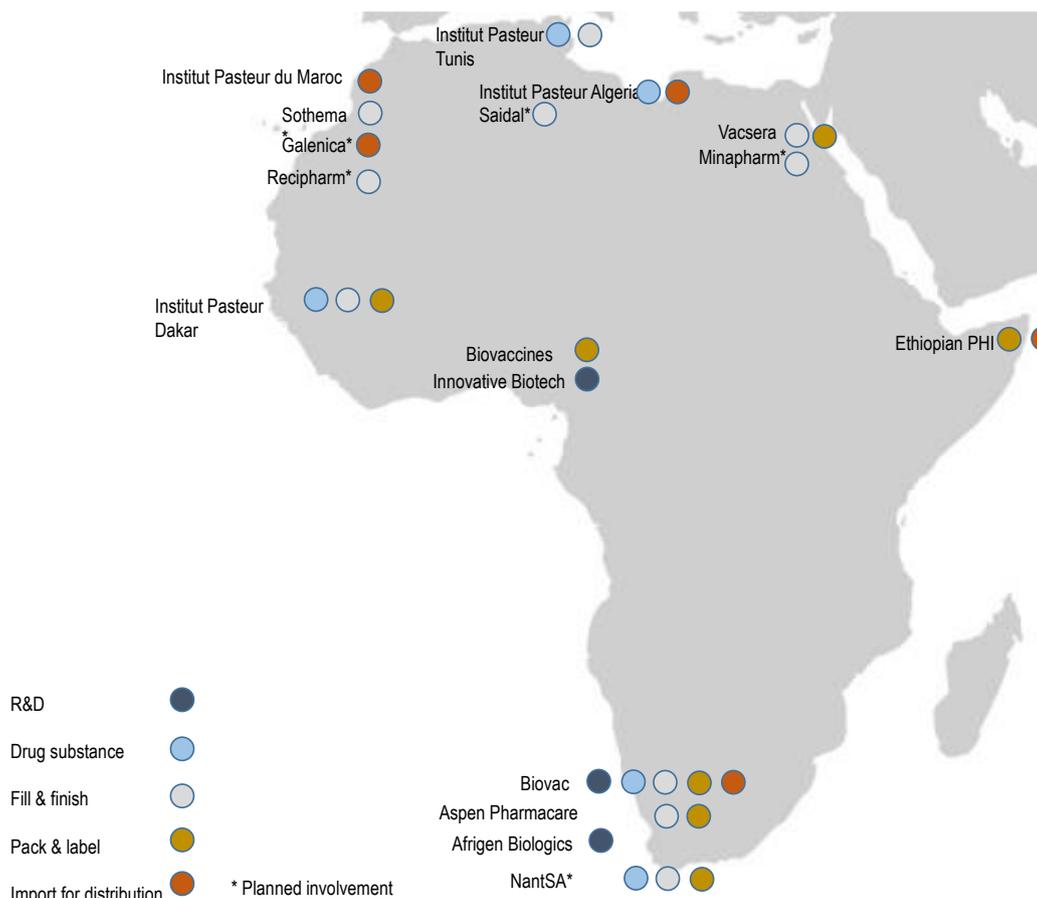
Pharmaceutical production in Africa is largely concentrated in downstream activities (Figure 3.4). African firms generally do not engage in new drug research, which highlights the R&D deficit across the continent. There is also minimal activity in the production of active pharmaceutical ingredient manufacturing (API), which are the substances that are responsible for the main effect of a drug. Production of APIs at a global level are concentrated in East and Southeast Asia, which accounts for 61% of the total, followed by Western Europe and North America, with the three regions accounting for 93% of the total (EFCG, 2014^[27]). By contrast, most pharmaceutical activity takes place at the final manufacturing stage, often with imported APIs, excipients, and other raw materials. The vaccine industry is a case in point. There are a handful of African vaccine makers in Northern Africa (Algeria, Egypt, Morocco, Tunisia) as well as Ethiopia, Nigeria, Senegal and South Africa (Figure 3.5). They are made up of a diverse group of firms. Some were created with public sector initiatives aiming to creating local capabilities, such as Vacsera in Egypt and Biovac in South Africa. Others are start-ups relying on biotechnology innovations, such as South Africa-based African Biologics. Going into the pandemic only four companies in Africa were involved in substance manufacturing for vaccines and three companies conducted R&D. The majority of players in Africa were instead mostly involved in fill and finish activities that are relatively simpler. However, activities were overall small in scale. For example, Biovac has a capacity of about 20-30 million doses annually, according to press reports, compared to 1.5 billion prior to the pandemic for the Serum Institute of India.

Figure 3.4. Pharmaceutical value chain in Africa



Source: Authors' elaboration based on (Narsai, 2021^[28]), "Strengthening Africa's value chains", Nelson Mandela School of Public Governance, T-Talk on 3 November 2021 in the framework of the PTPR of Egypt: Spotlight on the AfCFTA and Industrialisation; (Lartey et al., 2018^[29]), *Pharmaceutical Sector Development in Africa: Progress to Date*; (US National Library of Medicine, 2023^[30]), *Clinical trials database*, <https://clinicaltrials.gov/>.

Figure 3.5. African vaccine makers and their functions, 2022



Source: Authors' elaboration based on (DCVMN, 2021^[31]), *Vaccine manufacturing in Africa*, DCVMN briefing document, <https://www.dcvmn.org/Webinar-briefing-to-DCVMN-members-on-What-will-it-take-to-manufacture-vaccines>, and (UNICEF, 2022^[32]), *COVID-19 dashboard and press reports*, <https://www.unicef.org/supply/covid-19-market-dashboard>.

AfCFTA could open up new opportunities for pharmaceuticals, particularly by advancing regulatory harmonisation. The agreement helps solidify a market that is large and expanding – by 2030 the African healthcare market is projected to be worth USD 259 billion, second only to that of the US (UNECA, 2019^[33]). Pilots are already underway on how AfCFTA could help firms take advantage of such opportunities. The AfCFTA – Anchored Pharmaceutical Initiative was launched in 2019 in collaboration with AUC, AUDA-NEPAD, IGAD, WHO, UNAIDS and other relevant UN agencies to demonstrate implementation in the health sector. The pilot is in Seychelles, Madagascar, Comoros, Mauritius, Djibouti, Eritrea, Rwanda, Sudan, Kenya and Ethiopia and aims at improving access to maternal, neonatal and child health essential medicines through three pillars, namely, pooled procurement of pharmaceuticals, local production, and harmonisation of regulatory and quality standards frameworks. The Centralised Pooled Procurement Mechanism was launched in 2021. Moreover, AfCFTA is set to ease some restrictions on the movement of people across borders, in relation to investment and services, which could help talent move more easily and encourage scientific co-operation. Free movement of people is one of the goals of the Agenda 2063, and it has been made more concrete in a protocol on the Free Movement of Persons signed in 2018, but implementation has been lagging, with only four countries (Niger, Mali, Rwanda and São Tomé and Príncipe) having ratified the protocol as of 2021 (ECDPM, 2021^[34]).

To capitalise on AfCFTA, countries will need to advance in tandem on the implementation of continental initiatives and take action to strengthen their capabilities in innovation and manufacturing, particularly in

knowledge-intensive activities. Boosting investment in R&D, for instance, which historically has been low in Africa, is essential. On average African R&D stands at 0.33% of GDP, a rate which is less than one-eighth the OECD average (2.75%) [authors' elaboration on (UNESCO, 2023^[35]; OECD, 2023^[36])]. Nevertheless, a handful of countries have been increasing their innovation efforts, which could support the sophistication and expansion of pharmaceutical industries. Egypt for example is investing 0.96% of its GDP in R&D, the top in Africa, followed by Rwanda (0.76%) and Tunisia (0.75%). Governments will also need to invest in making regulatory frameworks conducive and accompanied by a dense, low-cost and accessible ecosystem of quality and conformity assessment services. A study conducted by the ITC (2022^[37]) noted that one of the biggest obstacles for pharmaceutical firms in Africa – more so than in other sectors – were uncertainties regarding environmental and waste disposal regulatory frameworks and facilities. In addition, strengthening linkages between government, industry and academia is needed to increase the flow of talent and enable research to become more solution-oriented and with higher impact. The COVID-19 pandemic showed how a united Africa can build on its assets to mobilise and expand healthcare industrial capacities, especially if international partnerships can be mobilised, providing a springboard for sustained economic transformation (Box 3.3).

Box 3.3. Africa's Response to COVID-19: What roles for trade, manufacturing and intellectual property?

The COVID-19 health emergency revealed that shared commitment and collaborative actions are crucial to mobilise financing, facilitating access to knowledge and technology, investing in research and development and in securing free and fast trade and logistics. Shared actions between national governments, the private sector and international partners and a renewed form of global solidarity are needed to enable Africa, and the world, to overcome this health emergency. If strategically managed, this response could set the continent on a renewed, job-rich and sustainable development pattern. It could do so by enabling industrialisation and home-grown innovation leveraging the immense unexploited opportunities of continental integration enabled by AfCFTA.

Five priority areas for action stand out for governments and businesses in Africa, and for the international community from a trade, industrial and intellectual property policy perspective

- 1. Fast-tracking imports, exports and movement of skilled personnel within Africa and globally**
 - Ensuring free and fast cross-border movement of critical health and technical experts.
 - Facilitating imports and exports
 - Co-ordinating at the continent level, leveraging Regional Economic Communities
- 2. Scaling up continental manufacturing capacities**
 - Enabling local manufacturing
 - Supporting effective industrial reconversions
- 3. Managing supply chains effectively**
 - Implementing a co-ordinated continental approach, leveraging the Africa Union Commission AFTCOR
 - Mobilising existing capabilities to fast track and secure logistics
 - Using digital services and technology based companies
- 4. Fast tracking affordable access to technology, knowledge, drugs and vaccines**
 - Facilitating technical knowledge sharing through digital technologies among doctors, health professionals and businesses to access knowledge and speed up the learning process.

- Achieving a global deal to make intellectual property work to ensure fast and affordable access to drugs, medical equipment and COVID-19 related technologies
- Fast tracking testing and clinical trials
- Tracking and banning counterfeit drugs and medical equipment
- Sustaining research and development in Africa

5. Urgently bridging the short- and long-term financing gaps

- Fast-tracking financing for companies involved in providing COVID-19 related solutions
- Strengthening national development banks' capacities to channel financing to companies involved in COVID-19 related solutions
- Mobilising international and regional development finance to cushion the impact of COVID-19
- Channelling donations to the most vulnerable and those in need.

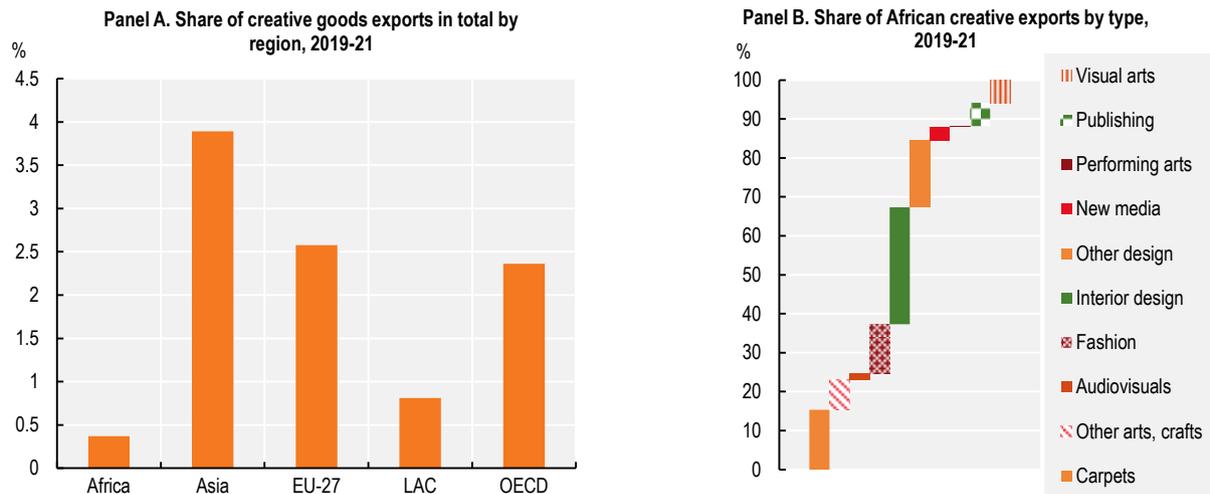
Source: (OECD/UN ECA, 2020^[21]), "Africa's Response to COVID-19: What roles for trade, manufacturing and intellectual property?", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, <https://doi.org/10.1787/73d0dfaf-en>.

Cultural and creative industries (CCIs)

Africa's cultural heritage is rich and diverse, with a vast array of African cultural and creative cultural products and services sold around the world. For example, the film sector currently generates a value added of USD 5 billion (about 0.3% of Africa's GDP) (Afreximbank, 2022^[38]). The most prominent example is the Nigerian film industry, Nollywood, recognised as the world's second largest film producer. In 2021, Nollywood is estimated to have employed close to 300 000 persons, most of them youth. Africa's fashion industry is also growing rapidly with world famous woven textiles in Nigeria, Ghana, Uganda, Kenya, South Africa and Tanzania. Other examples abound. Egypt, for example, is a key producer of CCIs in Africa, with a history in textiles and film, and several assets to exploit, such as iconic cultural heritage locations, world-class museums, a strong tradition as the filmmaking centre of the Arabic speaking world, and a rich artistic and handicraft industry (UNCTAD, 2018^[39]; EY, 2015^[40]). Africa's CCIs are set to grow further as digital services allow African creators to reach continental and global audiences while increasing rates of smartphone and tablet ownership fuel demand for digital content. Digital technology has become a vital tool for enhancing the production and sharing of CCIs. For example, revenue from digital music streaming is anticipated to reach USD 500 million by 2025 – a five-fold increase from 2017 (World Bank, 2022^[41]).

Despite the continent's vast creative resources, CCIs are an emerging export sector for Africa. In terms of goods, creative exports accounted for less than 1% of continental exports to the world, compared to nearly 4% in Asia and 3% in the EU-27 in 2019-21 (Figure 3.6). Most African creative goods exports concentrate in interior design goods (30%), carpets (15%) and fashion items (12%), with Egypt and Tunisia the top two exporters accounting for 19% of the total, followed by Kenya, Mauritius and Tanzania. In terms of services, experimental data from UNCTAD, shows that similarly creative services amounted to only 2% of total trade in services for the continent, compared to 20% for Europe and 15% for Asia, with software accounting for the bulk of creative services (36%), followed by advertising (26%). However, greater integration could further boost CCI potential in Africa. The share of intra-African exports of creative goods was 25% during 2019-21, greater than the share of total intra-Africa exports overall at 15% during the same period.

Figure 3.6. Cultural goods exports have room to grow in Africa



Source: Authors' elaboration based on (UNCTAD, 2023^[26]), *Unctadstat*, <https://unctadstat.unctad.org/EN/>.

The AfCFTA offers significant potential to further transform and commercialise Africa's creative industries. More specifically (Afreximbank, 2022^[38]):

- In Phase I negotiations, in addition to liberalising tariff barriers, member states have agreed on five priority services for the first round of AfCFTA services negotiations: business services, communication services, financial services, tourism and travel, and transport. Although currently CCIs are not included in the priority list (after all they cut across different services) the services discussed are all critical elements to enable the growth of dynamic and efficient creative industries.
- The investment protocol provides common rules for state parties to introduce harmonised incentives for attracting investments to accelerate creative development.
- The AfCFTA Protocol on digital trade will provide a continental framework to integrate and expand the e-commerce space, enhance access to digital technologies, and develop regulations relating to piracy and consumer protection, all of which are of critical importance to the development of competitive creative industries in the digital age.
- The AfCFTA Protocol on intellectual property rights provides a harmonised and coherent framework for the protection, administration and enforcement of IPRs on the continent. This will reduce costs associated with dealing with multiple jurisdictions and contribute to a stronger and more enforceable legal protection of rights. More broadly, the AfCFTA negotiations on intellectual property rights offer an opportunity for African countries to develop a common position on protecting and enforcing these rights to support the growth and development of Africa's CCIs and reduce cultural exploitation. The AfCFTA also offers a framework for supporting official co-productions across national borders.

To fully make use of the AfCFTA to boost CCIs in Africa, countries, among other things, will also need to advance on:

- Updating national policy frameworks in line with the changes in CCIs in Africa and globally. Some countries in Africa are already taking steps to promote CCIs by offering financial support and other assistance, such as networking. For example, South Africa introduced in 2011 the Mzansi Golden Economy Strategic Plan in Department of Sport, Arts and Culture (DSAC), which supports large-scale projects related to the arts, culture, and heritage sectors. Cabo Verde through the Fonds

Autonome d'Appui à la Culture (Autonomous Fund to support Culture) promotes the cultural sector by creating clusters and launching three intertwined networks to disseminate output in the form of crafts, arts and museums. Such support will need to be scaled up and modernised, particularly in response to the digital trends that are currently reshaping the industry. New continental initiatives are complementing such efforts, such as the Creative Africa Nexus (CANEX) programme by Afreximbank (Box 3.4).

- Fast-tracking the implementation of the African Union Plan of Action on Cultural and Creative Industries. The Plan was adopted in 2008 and updated in 2021 to reflect a new landscape for CCIs on the continent. It outlines priorities for development and strategic co-ordination.
- Increasing the availability and quality of data on CCIs. Currently there exists no comparative global database on the production of CCIs, which hampers evidence-based policy making and monitoring.
- Strengthening standards and regulatory compliance to overcome challenges in image and reputation, and piracy that threatens revenue streams.

Box 3.4. Unleashing creative industries in Africa through continental initiatives: The CANEX programme

Afreximbank established the Creative Africa Nexus (CANEX) programme, in January 2020. Through CANEX, the Bank is investing USD 500 million to support the sector. This facility aims to monetise the commercial value of CCIs. The programme aims to support creative talent across Africa and the Diaspora especially in fashion, film, music, sports, visual arts, and crafts. It is envisaged as a one-stop-shop for governments, creative companies, and individuals to find and access technical support, finance, investment, and market opportunities. Key instruments of intervention under the CANEX programme include i) financing (debt, equity, advisory), ii) capacity building (masterclasses, accelerator/incubator program), iii) digital solutions, iv) linkages and partnerships, v) investment and export promotion (market access and twinning services), and vi) policy advocacy.

The Bank also created the Creative Africa Nexus show. As Africa's first continental platform, it brings together the continent's creative talents drawn from the music, arts, design, fashion, literature, publishing, film, and television sectors. Dedicated to promoting and exhibiting products within the cultural and creative industry, the programme holds the CANEX Weekend (CANEX WKND) and CANEX at Intra-African Trade Fair (IATF) events to convene leaders from culture and creative industries from Africa and the diaspora to explore cultural and creative market opportunities.

Source: Afreximbank (2022^[38]), *African Trade Report 2022: Leveraging the Power of Culture and Creative Industries for Accelerated Structural Transformation in the AfCFTA Era*, <https://media.afreximbank.com/afrexim/AFRICA-TRADE-REPORT-2022.pdf>.

Logistics

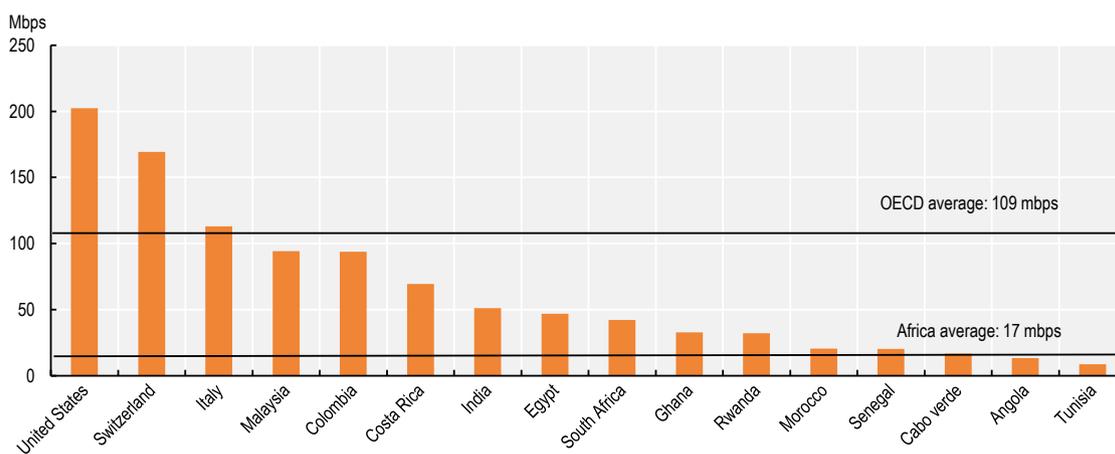
AfCFTA is giving renewed impetus to logistics, with the opening of new routes to trade, whether inland, sea-bound or airborne. ECA, for example, estimates that demand for intra-African freight might increase by around 28% and that intra-Africa trade in transport services has the potential to increase by 50% (UN ECA, 2022^[42]). Moreover, population growth, urbanisation and the rise of e-commerce are also adding pressure on Africa's logistics chains to expand, modernise and reach previously underserved communities.

To enable logistics to flourish and support increasing trade, countries will need to work together to solve long-standing challenges that go beyond tariff barriers. Africa already has some important logistics hubs, such as large ports – Tanger Med in Morocco, Port Said in Egypt, Lome in Togo, Tema in Ghana and

Abidjan in Côte d'Ivoire are among the top 100 most connected ports in the world, according to data by UNCTAD – and a growing network of inland facilities. Countries are also prioritising logistics development in their national development plans, including in Egypt. However, advancing further in updating multimodal infrastructure is critical. The infrastructure gap in Africa is estimated at about USD 53-93 billion per year for the continent (ICA, 2021^[43]). In addition, countries will need to address issues that are increasing the time and cost it takes to send goods through the continent. Estimates by Armstrong and Associates, a private consultancy, indicated, for example, that logistics costs as a share of GDP was 14.3% in Africa in 2020 (Armstrong and Associates, 2022^[44]), compared to 12.9% in Asia Pacific and 8.6% in Europe, indicating higher costs of services. High red tape, lack of standardisation of freight and challenges related to maintaining security and health, are among the most important issues facing logistics providers. It will be important to continue to address non-tariff trade barriers (NTBs) by for example working with other countries in the AfCFTA to standardise procedures and advance in building capacity for customs and immigration officers to comply with the requirements of the agreement. Expanding the use of “green channels” (i.e. automatic clearance) for example can also be an effective tool in eliminating multiple and redundant verification. For example, data from 2016 shows that only 3% of imports into Egypt were cleared through a green channel (WTO, 2018^[45]).

Advancing the digitalisation agenda will be key to future-proofing logistics in Africa. Expanding digital infrastructure, upgrading its quality and ensuring its affordability will also be critical to capture the opportunities opened up by the AfCFTA, particularly considering the increased opportunities in e-commerce. Countries have been advancing fast in this respect, with digitalisation accelerated by the COVID-19 pandemic. In Egypt, for example, an estimated 18 million more people used the internet in 2021 compared to 2019, with the proportion of the population increasing from 57% to 72%. Nevertheless, there is room for improvement. The average African broadband speed was 17 Mbps in 2023, six times slower than in the OECD (Figure 3.7). Continuing with the expansion of mobile technologies will also be critical, particularly as many consumers are mobile-first, and with mobile communications being a key technology for Industry 4.0. Coverage of 4G is currently 56% on average in Africa, with some countries close to full coverage, such as Egypt (98%) and others at below one-fifth of the population, such as Tanzania (13%). 4G coverage by comparison is 98% in OECD on average and 86% in EU-27 ((authors' calculations based on (ITU, 2022^[46])). At the time of writing, countries in Africa with commercial deployment of 5G – a crucial technology for the fast IoT needed for smart logistics for example – included Angola, Botswana, Kenya, Madagascar, Mauritius, Nigeria, Seychelles, South Africa, Tanzania, Togo, Zambia, Zimbabwe, who have deployed the technology in 312 locations. By contrast, in the EU 5G had been commercially deployed in over 60 000 locations (Ookla, 2023^[47]).

Figure 3.7. Broadband internet speed, selected countries, 2023



Note: Simple country averages. Fixed broadband internet.

Source: Authors' elaboration based on (Ookla, 2023^[47]), <https://www.speedtest.net/global-index>.

It is also important to activate innovation in the logistic value chain and move away from looking at connectivity as purely a matter of hard assets. Logistics is already being re-defined through the use of digital technologies. For example, the use of predictive analytics and AI is enabling real time tracing, with the possibility to link instantly demand, from the consumption point, to supply at the factory, while blockchain technologies are increasing transparency and making certifications easier. The physical internet for example aims to link different logistics networks with standardised protocol, modular containers, and smart sensors and interfaces so that resources can be shared and seamlessly integrated (Treiblmaier et al., 2020^[48]). New players are emerging with innovative solutions both in the public and private sectors to connect firms and consumers more cheaply and faster (Box 3.5). Digital payment solutions are also taking root across the continent, with the country average in Africa for using digital payments at about 38% of the population in 2021, higher than 25% in 2020, but at less than half the average for OECD countries (93%) (authors' elaboration based on (World Bank, 2022^[41])). The COVID-19 pandemic accelerated the use of such tools in the continent, aided also by regulatory frameworks that have been developed. In Egypt for instance, e-Payments Law No. 18/2019 was introduced to facilitate digital payments.

Box 3.5. Innovation in logistics: Examples from Africa's e-logistics firms

Several Africa e-logistics start-ups aim to harness digital technologies to connect stakeholders along the supply chain and make transporting goods across the continent more efficient.

Kobo is an e-logistics start-up that connects cargo owners with freight needs with truck owners, launched in 2018 in Lagos, Nigeria. The platform, inspired by ride-sharing trends, has launched a technology platform that provides real time visibility for shippers and truckers. The firm relies on a network of about 50 000 trucks and has a physical presence in Benin, Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Nigeria and Uganda. The firm is also expanding into financing services, such as payments, capital financing programmes for drivers and insurance.

Lori Systems is an on-demand logistics and trucking company that was launched in 2016 in Nairobi, Kenya, specialising in bulk grains, fertilisers, local and transit containers, steel, bitumen and fast moving consumer goods and offering real time tracking. It now operates in Congo DRC, Ethiopia, Ghana, Kenya, Nigeria, Rwanda, South Sudan, Tanzania and Uganda.

Source: (Wamunyu, 2021^[49]), "AfCFTA & Digital Logistics Innovations: A Kobo Perspective", Kobo, T-Talk presentation in the framework of the "PTPR Spotlight on Egypt: Harnessing the Potential of the AfCFTA", held on 20 January 2022 and company websites.

Note

¹This includes the Southern African Power Pool (SAPP), Eastern Africa Power Pool (EAPP) Central African Power Pool (CAPP), West African Power Pool (WAPP) and North African Power Pool (NAPP).

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4 Policy issues for the future

AfCFTA is a game changer for Africa, and could be one for the world. This chapter discusses key policy issues for the future that are of priority importance for AfCFTA to deliver on its ambition. It focuses on how to advance on the continental industrialisation agenda, how to fast-track AfCFTA implementation and how to learn from others and connect globally.

Advancing on the continental industrialisation agenda

- Making reforms happen at the national level. At the AU Extraordinary Summit on Industrialization and Economic Diversification that took place in Niamey, Niger in November 2022, the AU and its member states restated the goal of advancing towards industrialising Africa and to do it in a job-rich, innovation-driven and green way. An Action Plan for the implementation of the outcome of the summit echoes this goal, bringing in key regional, continental and global partners. National strategies will be key in turning the agreement into an effective competitiveness driver. The United Nations Economic Commission for Africa (ECA) supports signatory states to develop and implement national and regional AfCFTA strategies, in order to identify potential opportunities in continental trade and priority areas for policy reforms related to the implementation of the agreement.
- Matching resources to the ambition of the challenge ahead. Achieving an integrated and industrialised Africa requires adequate policy space and financial resources. Development banks will be crucial in sustaining the effort and will need to be endowed with the capacities to do so and deliver financing and services in line with the investments needed. International partnerships will be key, as well.

Fast-tracking AfCFTA implementation

- Fast-tracking negotiations to build on the political momentum to make an integrated Africa a reality. To support the agreement, it is also a priority to invest in setting up the institutions needed to ensure implementation and capacity building. Scaling up and committing to continental and bilateral actions in this regard will be crucial. RCEP, for example, contains a distinct chapter on Economic and Technical Cooperation, making special reference to the LDC members, outlining the need to engage in capacity building exercises to implement the technical chapters. Moreover, engaging in monitoring and evaluation and data generation will also be important to ensure the agreement remains relevant and any obstacles are addressed swiftly and smoothly. The foreseen AfCFTA Implementation Review Mechanism (AfIRM), for instance, is an important step in this direction (AU-AfCFTA, 2023^[1]). Finally, increasing awareness among the public, through for example information campaigns, increasing engagement with the private sector (including MSMEs, start-ups and informal firms) and publishing successful case studies will be important for expanding take-up.
- Advancing on announced continental initiatives that aim at strengthening the fundamentals upon which trade relies. For example, continuing progress on the harmonisation of existing standards, and also on the development and adoption of new standards for emerging areas such as Industry 4.0 and renewables is necessary to underpin a successful free trade area. Supporting the work of Pan-African Quality Infrastructure (PAQI) bodies, including ARSO, and accelerating the implementation of the AU's Africa Quality Policy is important in this respect. In addition to freer movement of goods and capital, freer movement of people is also essential for pooling the talent of the continent and creating the rich partnerships envisioned, which can foster its scientific, technological and entrepreneurial potential. However, barriers to movement still vary across the continent. According to the AfDB's Visa Openness Rankings (2021^[2]), for example, 51% of countries across the continent require African visitors to obtain a visa before they arrive. Balancing national security and sovereignty concerns with easing movement of talent across borders, will be essential in turning AfCFTA into a tight-knit community.

Learning from others and connecting globally

- Creating a continental market is a long-term process, which requires trust building and managing divergences. The protocols that make up the AfCFTA and their implementation are only a first step towards meeting the ambitious objectives of the agreement for the creation of a single market that promotes industrial development and value chain integration. The process of integration is one that takes time and repeated interactions among actors to take advantage of the new regulatory environment, among countries and regions that lack historical ties, geographical proximity or previous common experience in a free trade area. Continental integration also requires setting up mechanisms to manage divergences between countries and between actors within countries to ensure “no one is left behind” and all are given the possibility to benefit from the newly created market. In this respect, the experiences of other regional integration processes can offer valuable lessons (Box 4.1).
- Strengthening the continent’s voice in the multilateral landscape. A more integrated Africa is one that is more and better integrated with the world, too. It will be important to have the voices from the continent more active in multilateral discussions that involve global challenges, from food security, access to drugs, climate change and the green transition.

Box 4.1. Lessons learned from experiences in ASEAN, Latin America and the Caribbean and the EU

The following are some lessons learned from experiences in ASEAN, Latin America and the Caribbean and the EU, drawing on the Peer Learning Group Meeting of the PTPR of Egypt on the unlocking the potential of AfCFTA for regional value chains:

- Tariff reduction and elimination is necessary, but identifying existing non-tariff barriers (NTBs) and adopting a strategy to eliminate them is difficult. For example, the Southern Common Market (MERCOSUR), established in 1991, prioritised tariff elimination, but has not advanced as much on addressing NTBs, hampering effective integration. The AfCFTA also targets eliminating NTBs, and to this end includes a built-in NTB mechanism and annexes on trade facilitation, customs co-operation and transit trade.
- Achieving regional/continental integration is a long-term process. While the elimination of trade barriers can create a space for increased continental production and trade networks to develop, these take time to emerge. Ambition needs to be matched by patience and taking a step-by-step approach in realising the potential of an integrated continental market. ASEAN, for example, experimented with local integration processes in border regions, the so-called “growth triangles”. Africa could build on similar cross-border initiatives within RECs to build a more macro-level integration.
- Informal ties, trust and networking matter to advance towards integration. While legal instruments can offer some guarantees of operating within integrated regions, cultivating informal ties, networking and trust are essential for working together effectively. In ASEAN, business co-operation through the establishment of business councils, participation in ministerial meetings, and public-private partnerships have been key in exchanging ideas and proposals and fostering connections among stakeholders. AfCFTA also enjoys the support of the private sector. The AfroChampions Initiative, a set of public-private partnerships and programmes to promote the African private sector, has played a particularly important role in supporting the AfCFTA process, and the private sector is now central to the development of AfCFTA national implementation strategies, supported by the UN Economic Commission for Africa (ECA) and the African Union Commission (AUC).

- Mutual recognition can work better than harmonisation. Harmonisation is a lengthy process and may not necessarily be the best approach when dealing with long-established national regulatory practices. The EU adopts a mutual recognition approach to facilitate market access for goods that are only partly subject to EU harmonisation legislation. Standards harmonisation and mutual recognition agreements in Africa are being promoted by the African Organisation for Standardisation (ARSO).
- The private sector needs incentives to go regional. In certain cases, value chains feature existing networks of suppliers, and shifting to new vendors can be risky. Also, a fully supportive ecosystem is lacking but would make it easier to find new and reliable partners (e.g. financing and insurance providers for cross-border activities). Incentives are needed to compensate the private sector for the increased risk in exploring the new regional market and fostering ecosystems to be built around the newly formed supply chains. Given the tight fiscal constraints faced by countries, these incentives need to be carefully designed and prioritised for maximum impact.
- A financial and digital ecosystem needs to be in place to realise the potential of trade integration. Trading across regions requires a variety of financial services (e.g. export and credit guarantees, insurance provision for cross-border activities) and non-traditional financial tools, such as fintech. Connectivity, both transport and digital, is also important. Africa is advancing on these issues. For example, the African Development Bank (AfDB) helps mobilise financial resources for the continental market. Since 2013, the AfDB's trade finance facilities have supported around 1 800 trade transactions, with over 60% (USD 322 million) targeting SMEs. Digital transformation and integration are also important, now more than ever, as highlighted by the COVID-19 pandemic. To this end, in 2020 the African Union launched the Digital Transformation Strategy for Africa (2020-2030) to harness digital technologies for Africa's transformation and fast-track national-level adaptation and implementation. An African Union Working Group on Artificial Intelligence has also been created since then, in order to provide a unified stance towards AI. Several African countries have adopted a strategy for AI, including Egypt, Morocco, South Africa and Tunisia.
- Africa has the opportunity to take a place-based approach from the get-go. Integration efforts elsewhere, such as those in ASEAN, did not take a local perspective as a starting point. Africa has the opportunity, instead, to follow a linear process and use a space-blind approach to kick-start a more balanced process that takes regions into account. Emphasising territorial and economic de-centralisation from megacities could be an important component in this respect. Urban growth in ASEAN is already moving towards smaller cities beyond capital regions.
- Measures must be put in place to ensure no one is left behind. The benefits of the AfCFTA, like in other trade agreements, will likely be uneven within countries, with different sectors and firms facing unique opportunities and challenges. Across countries, too, gains will differ depending on a variety of factors, from country size and geography to history and production specialisation, among others. Countries will need to monitor closely the impact of AfCFTA on their economies to ensure that complementary policies and strategies meet emerging challenges. It will also be important to develop social safety nets to ensure that the rising tide lifts all boats and to ensure the adjustment to the agreement is as smooth as possible.

Source: (OECD et al., 2021^[3]), *Production Transformation Policy Review of Egypt: Embracing Change, Achieving Prosperity*, OECD Development Pathways, OECD Publishing, Paris, <https://doi.org/10.1787/302fec4b-en>.

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Production Transformation Policy Review of Egypt

SPOTLIGHT ON THE AFCFTA AND INDUSTRIALISATION

At a time when global trade is under pressure and countries increasingly turn to regional integration to support their development, this Spotlight is a timely read for policy makers and business leaders in Africa and beyond. It shows how harnessing the African Continental Free Trade Area (AfCFTA) can support industrialisation in Egypt, and more widely in Africa, by tapping the full potential of regional supply chains, including renewable energies, pharmaceuticals, logistics and creative industries. This report builds on and enriches the *Production Transformation Policy Review of Egypt: Embracing Change, Achieving Prosperity*.



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