Leveraging the AfCFTA as an investment incentive for Africa

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The African Continental Free Trade Area (AfCFTA), if managed well and implemented effectively, could spur investments in Africa – both from within and outside the continent. The AfCFTA seeks to facilitate, promote and protect intra-Africa investors and investments; it will also encourage investors and investments from outside the continent. To that end, outside investors will buy controlling stakes in African enterprises, create affiliates for sourcing and outsourcing of inputs as well as the provision of goods and services in the (African) host countries. The extent to which the AfCFTA will attract investment depends on how the AfCFTA commitments and legal instruments will be implemented, and how the AfCFTA Protocol on Investment will be designed and implemented.

Foreign investors and investments are attracted by market size (population size and income per capita), openness, economic growth and policy certainty and predictability, among other things. To the extent the AfCFTA reduces and eliminates tariffs, integrate markets and economies, adequately address non-tariff barriers to trade, enhances trade and investment policy certainty, increases consumer income and contribute to greater economic growth, (mostly market-seeking or efficiency-seeking) foreign direct investment (FDI) will increase in Africa.

The AfCFTA will create an expanded single continental market of 1.2 billion people (youthful population and growing middle class), and a combined gross domestic product of US$3.4 trillion. African countries have agreed to eliminate 97 per cent of tariff lines on intra-Africa trade in goods. The AfCFTA Agreement also promises to address non-tariff concerns which will help reduce cross-border trade costs for businesses and people.

The AfCFTA does not exclusively focus on trade in goods. It also covers a broader spectrum of issues critical to FDI strategies and activities including trade in services, competition policy, intellectual property rights, investment and dispute settlement – even electronic commerce. Such an approach allows for greater policy coherence within the AfCFTA.

The reduction of regulatory barriers to trade in services across the continent could well attract investors in the services sector. It will ease the supply of services across the continent through mode 1 (cross-border), mode 3 (commercial presence) and mode 4 (presence of natural persons). Services liberalisation benefits extend beyond services industries. Manufacturing firms will also benefit from service trade openness through the ease of access to more and high-quality services inputs.

The improvement of investment governance and the establishment of a clear, transparent and predictable continental investment legal framework is important for attracting foreign investment. The AfCFTA Protocol on Investment should endeavour to address barriers to investment entry in Africa, reduce time and costs of investment approvals, enhance transparency, improve efficiency, and promote investment-related cooperation and coordination across the continent., and address fragmented investment regulatory frameworks. Investors should have direct access to effective dispute settlement mechanisms and access to remedies when their rights are violated by the host governments.

Investment has always been recognised as an essential tool for development in Africa countries' national, regional and continental development strategies. Concerted efforts have been put in place at national and regional levels to attract foreign investment. Over the years, Africa has received increasing FDI inflows, yet unemployment, abject poverty and under-development continued on the continent. In 2019, the majority of FDI inflows to Africa came from the European Union countries (Netherlands, France, the United Kingdom), the United States and China. African countries increasingly investing across the continent include South Africa, Morocco, Egypt, Ivory Coast and Togo.

The AfCFTA – managed well – could contribute to attracting more investment into Africa. However, the end goal is not to attract more investment into Africa, but to attract quality investment that will deliver the sustainable development needs of the continent. Investment can help the continent to address challenges of youth unemployment, skills development, industrialisation, women empowerment and infrastructure development. Investment builds industries and connects international markets and drives innovation and competitiveness. These benefits are not automatically realised by the host economies.

The AfCFTA Protocol on Investment can lead to enhanced cooperation and coordination of investment policy at the continental level. Governments will need to reform their investment policies to harness the investment benefits into the host economies. Most countries lack cohesive, synergised and coordinated strategies to harness investments in the growth sectors. Domestic investment policies should seek to attract investment in strategic growth sectors (e.g. agro-processing, clothing and textile, natural resource beneficiation, services, digital economy) that provide stimulus towards sustainable development, industrialisation, create quality employment and 21st century economies in the host countries. Domestic investment policies should harmonise regulatory and institutional frameworks for investment and strengthen the linkages between foreign and domestic investors, among other things.