

# The Case for Implementing the AfCFTA in East Africa – Some New Estimates

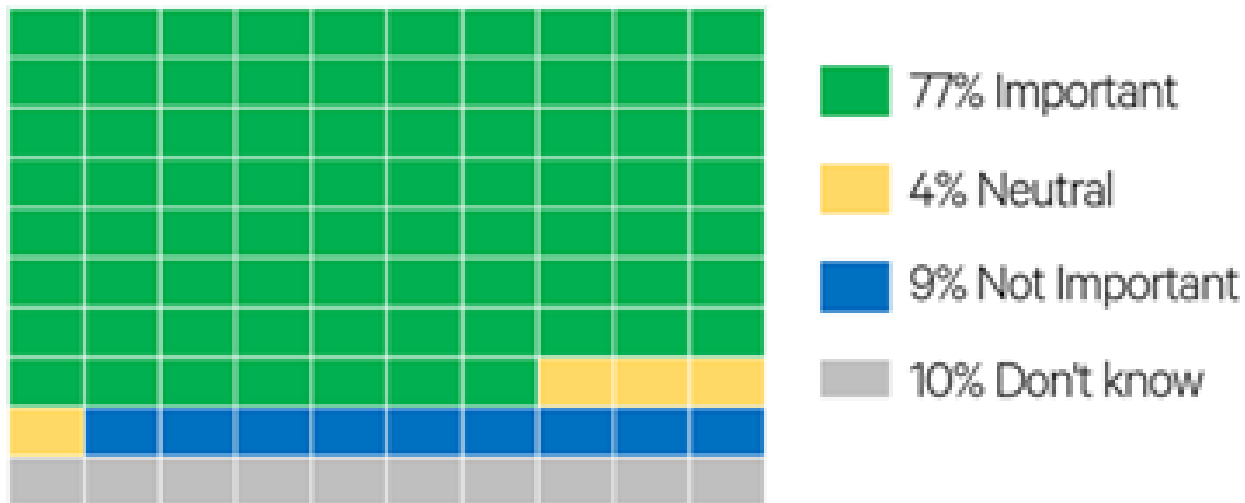
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## A Growing Consensus on the importance of the AfCFTA?

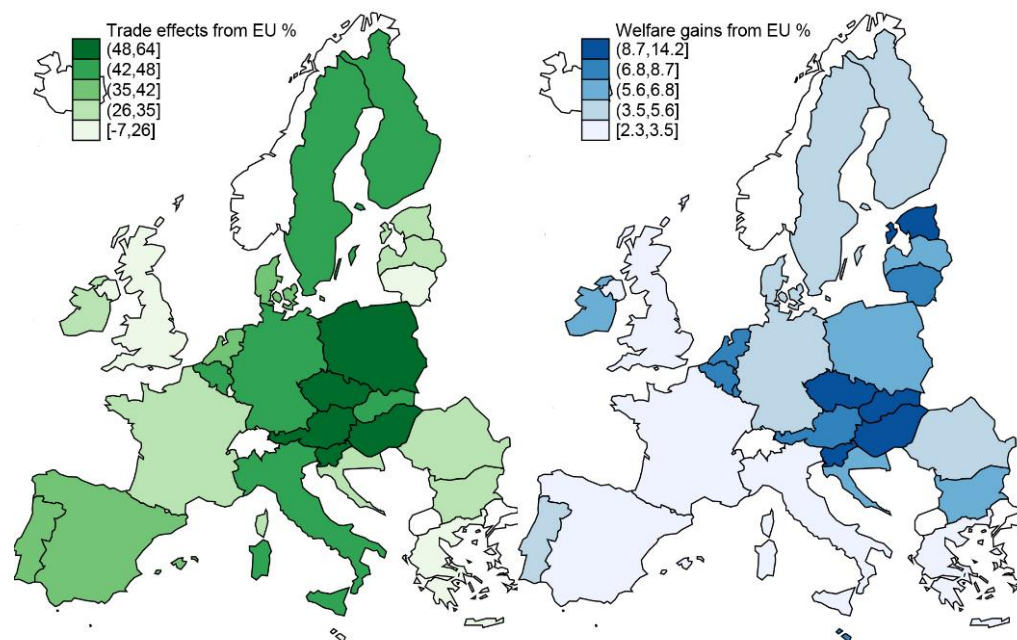
**77% of respondents believe the Africa Free Trade Agreement is important in supporting economic development in Africa.**



## Making the Case for the AfCFTA – Lessons from the Single Market Programme...

- **Single Market has increased trade between EU members by 109% on average for goods (Mayer et al., 2018)**
- **The trade impact of the Single Market is more than three times larger than the effect of a usual RTA tariff removal**
- **The associated welfare gains from EU trade integration are estimated to reach 4.4% for the average European country**

The effect of European integration on trade in goods and welfare



Source: Mayer et al. (2018)

# The *quantification* of potential benefits of AfCFTA

- **Different methodologies give different results**
  - **Ex-post econometric estimation models**
  - **Ex-ante simulation models (general or partial equilibrium approaches)**
- **Gravity models tend to give larger effects of regional trade agreements**
- **Computable General Equilibrium (CGE) simulation models show relatively smaller effects of trade policy (Fosu and Mold, 2008)**

# Gravity Model

## Regional Trade Agreements have a significant effect on trade

- Estimates of the most frequently used variables in gravity equations based on a meta-analysis by Head and Mayer (2014)

	Median	Mean	s.d.	#
Origin GDP	0.97	0.98	0.42	700
Destination GDP	0.85	0.84	0.28	671
Distance	-0.89	-0.93	0.4	1,835
Contiguity	0.49	0.53	0.57	1,066
Common language	0.49	0.54	0.44	680
Colonial link	0.91	0.92	0.61	147
<b>RTA / FTA</b>	<b>0.47</b>	<b>0.59</b>	0.5	257
EU	0.23	0.14	0.56	329
CUSA / NAFTA	0.39	0.43	0.67	94
Common currency	0.87	0.79	0.48	104
Home	1.93	1.96	1.28	279

Source: Head and Mayer (2014).

Note: The number of estimates is 2,508, obtained from 159 papers. Structural gravity refers here to some use of country fixed effects or ratio-type method

## How Much is the East African Community Currently Under-trading?

- **Based on a gravity model using a stochastic frontier approach, the bilateral export flows of the five EAC members States (Burundi, Kenya, Rwanda, Tanzania and Uganda) over the period 1995 to 2016 were examined**

## Intra-EAC trade is at around half of its potential

	To the EAC			To Africa		
	Actual exports (A)	Potential exports (B)	Ratio % (C)	Actual exports (A)	Potential exports (B)	Ratio % (C)
Burundi	10	16	63	21	34	62
Kenya	1,260	2,430	52	2,860	5,270	54
Rwanda	108	171	63	219	345	63
Tanzania	626	1,640	38	1,588	3,330	48
Uganda	666	947	70	1,441	2,007	72
<b>Total</b>	<b>2,660</b>	<b>5,204</b>	<b>51</b>	<b>6,129</b>	<b>10,986</b>	<b>56</b>

Note: A is actual (observed) exports (in US\$ millions); B is potential (maximum) exports (in US\$ millions), and C is the ratio between A and B (i.e.  $(A/B-1)*100$ ).



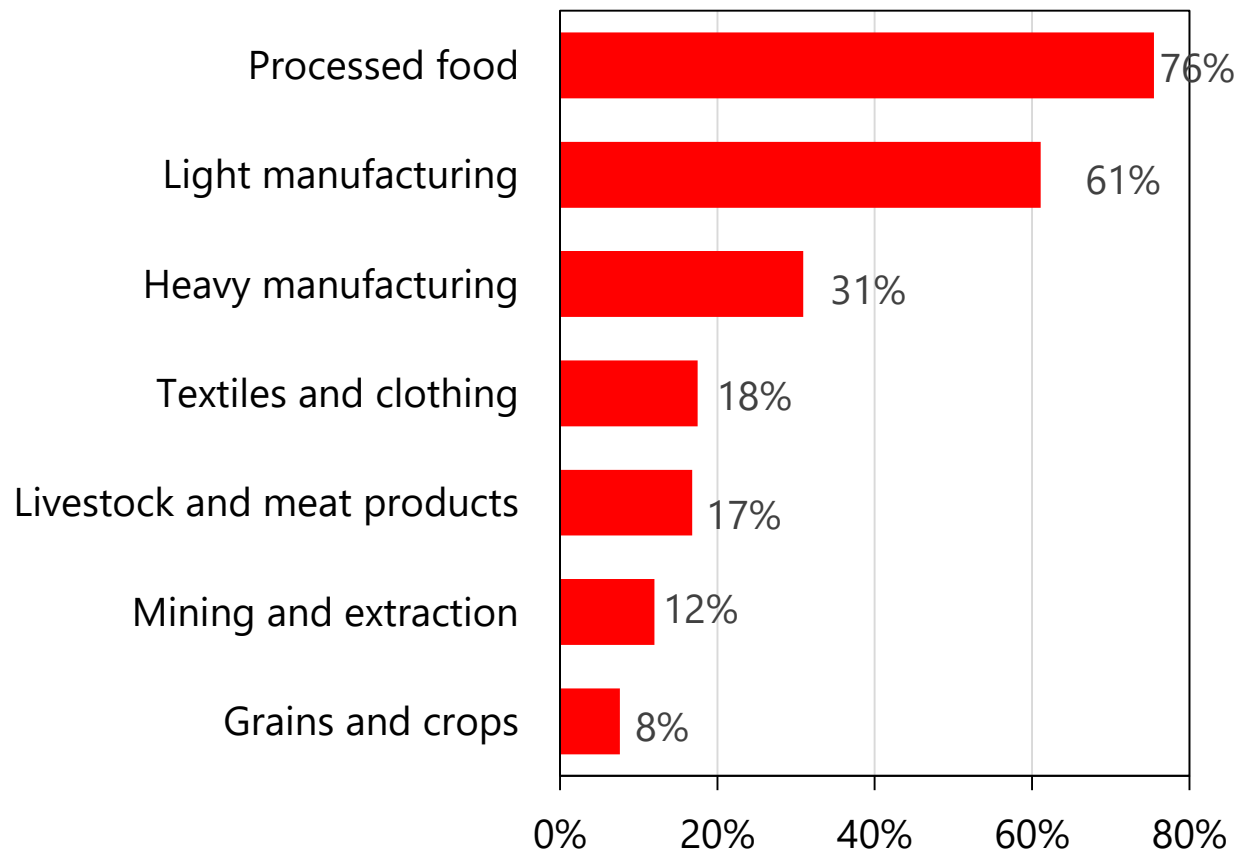
# Computable General Equilibrium Approach

## The Potential Benefits of AfCFTA on East Africa

- **A Computable General Equilibrium model – Global Trade Analysis Project (GTAP) – was used to measure the static effects of the AfCFTA on East Africa**
- **Version 10.0, with 2014 baseline data**
- **Liberalization is assumed to be complete (i.e. 100%)**
- **Standard closure, but fixing wages to reflect high unemployment rates prevalent on the continent**

## Large potential gains from the AfCFTA

Change in Eastern African exports to the rest of Africa by sector



Source: Author calculations based on GTAP.

- **Increase intra-African exports of Eastern Africa by almost US\$ 1 billion**
- **Chief beneficiary sectors are *labour-intensive* ones**
- **Job creation of 0.5 to 1.9 million**
- **Consumer welfare gain of US\$ 1.4 billion**

## Big gains at little cost?

	Tariff revenue loss as a share of total tariff revenue	Tariff revenue loss as a share of total government revenue
<b>Tanzania</b>	6.2%	1.3%
<b>Ethiopia</b>	6.1%	0.7%
<b>Uganda</b>	8.4%	0.6%
<b>Kenya</b>	3.2%	0.6%
<b>Rwanda</b>	4.0%	0.3%

Note: Tariff revenue is the sum of import tariff rate times the value of imports by the type of import and source.

Source: Author calculations based on GTAP 10.0 database.

## The Potential Benefits of AfCFTA on East Africa

- **A Partial Equilibrium Model – World Integrated Trade Solution SMART – was also used to measure the impact of the AfCFTA on East African countries**
- **2015 as the base year for most countries**
- **Data for South Sudan and Somalia not captured**
- **Again, it is a complete liberalization scenario**

## Significant increase in intra-African exports

	Change in the value of Intra-African exports (US\$ thousands)	Compared to base year
Uganda	198,546	21%
Kenya	188,227	10%
Tanzania	171,780	17%
Madagascar	93,186	47%
Rwanda	56,010	22%
Ethiopia	10,718	10%
D.R. Congo	9,843	1%
Seychelles	3,963	7%
Somalia	2,988	31%
Djibouti	716	5%
South Sudan	401	8%
Eritrea	55	1%
Burundi	39	0.4%
Comoros	28	1%

## Over one-third is manufactured products

Product Code	Product Description	Change in the value of Intra-African exports (US\$ millions)	Share in the total change in intra-African exports
5 to 8	Manufactured Products	235	37%
0	Food and live animals	176	28%
3	Mineral fuels, lubricants	148	23%
1	Beverages and tobacco	54	8%
2	Crude materials, inedible, except fuels	14	2%
4	Animal and vegetable oils, fats and waxes	7	1%
	<i>Total</i>	634	100%

## Large increase in food and beverages exports for Rwanda

Product Code	Product Description	Change in the value of Intra-African exports (US\$ millions)	Compared to base year
110100	Wheat or meslin flour	22	172%
10290	Live bovine animals	7	104%
40221	Dairy produce	3	15%
100640	Broken rice	3	108%
10420	Live goats	3	681%
220290	Non-alcoholic beverages	2	27%
220300	Malt Beer	2	10%



## Three Take-Homes

- 1. Be Careful how you Use your Numbers!**
- 2. Be Careful on your Assumptions!**
- 3. Write a clear narrative – poorly-written papers will not convince anyone (one paper, one idea).**

# Where to read more...

*Assessing Regional Integration in Africa VIII*  
*African Continental Free Trade Area Questions & Answers*  
*An Empirical Assessment of AfCFTA Modalities on Goods*

More information: [www.uneca.org](http://www.uneca.org)