COM 2018

African Continental Free Trade Area: creating fiscal space for jobs and economic diversification

Fifty-first session of the Commission

AfCFTA AND FISCAL SPACE FOR JOBS AND DIVERSIFICATION

Issues Paper

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Africa's economic structure is broadly similar to India's

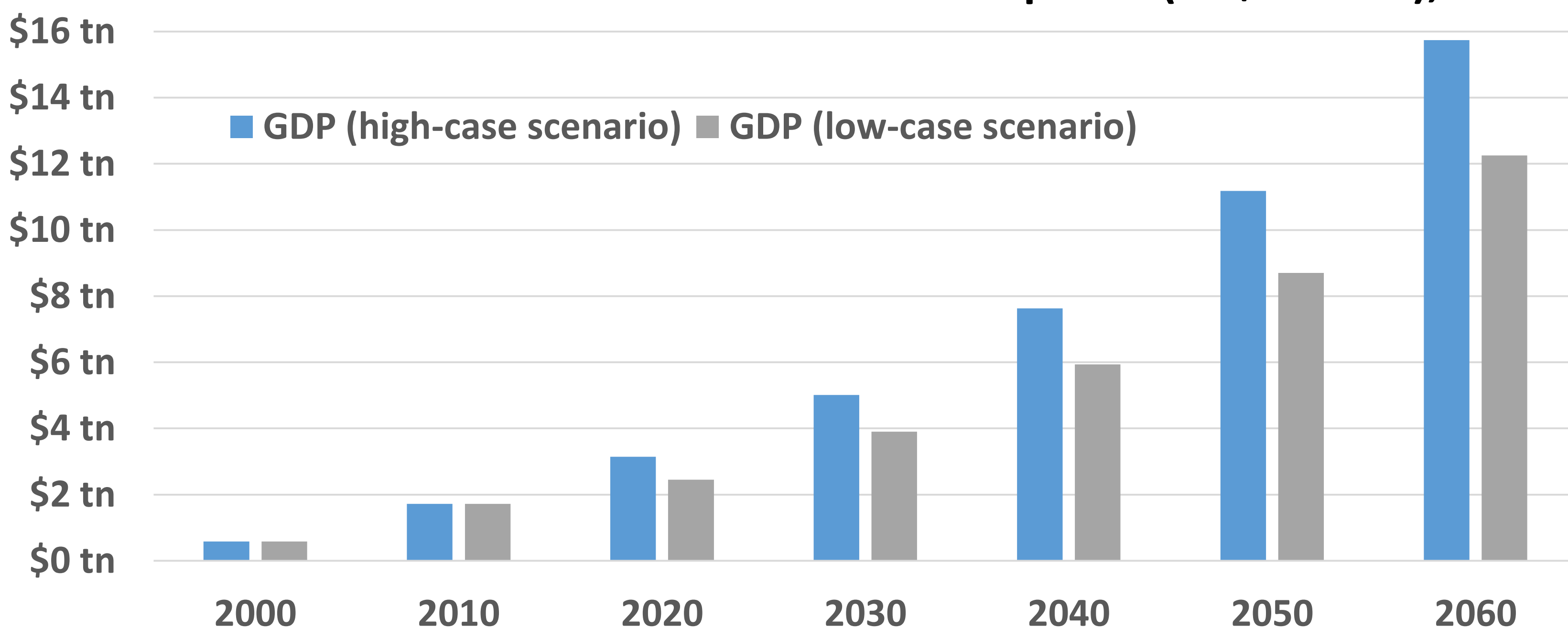
	India	Africa
Population		
	1.3bn	1.2bn
GDP		
	1.3bn	1.2bn
Tax revenue to GDP		
	20.4%	20%

- India is a single consolidated market (7th biggest in the world)
  - ➢ Allows scale economies and competitive businesses
- Africa is fragmented over 54 countries and 107 unique land border
  - ➢ Businesses face average tariffs of 6.9% non-tariff barriers

Opportunities for African businesses

- The AfCFTA consolidates African market
- Easing economies of scale and scope, and regional value chains
- It also allows African businesses to gain from Africa's good market dynamics

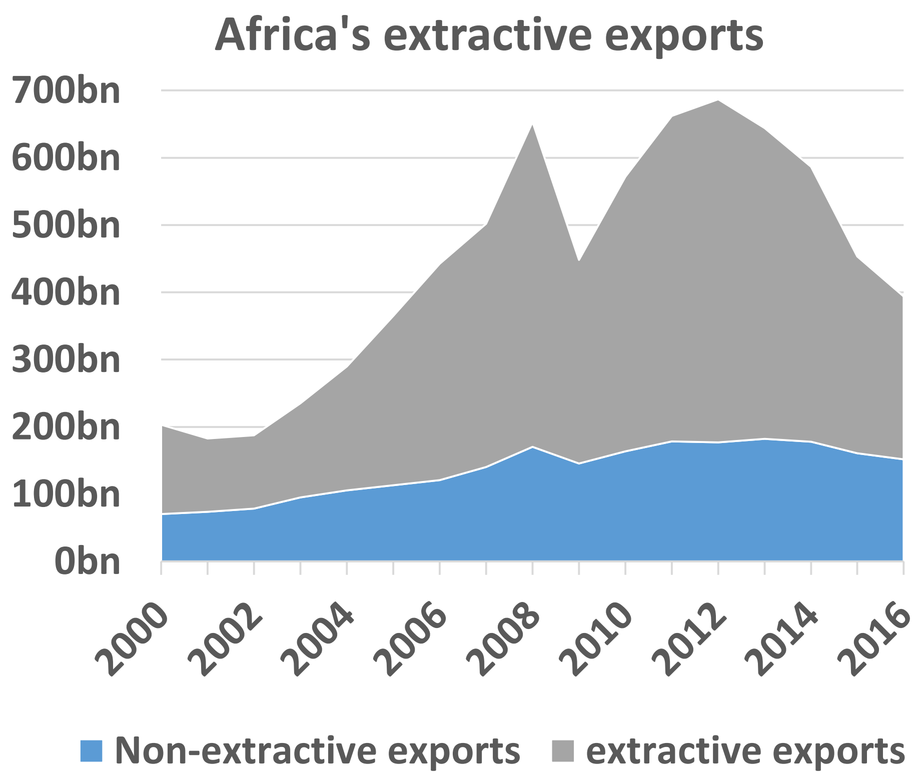
Africa's Gross Domestic Product at current market prices (US$ trillion), forecasts

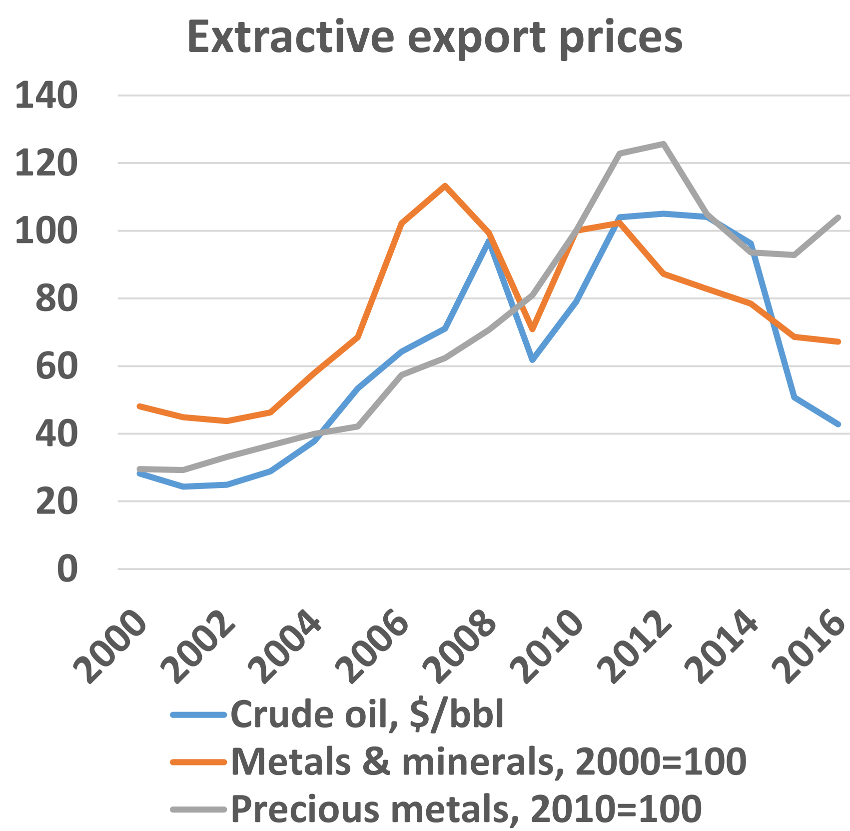


Rationale| Sustainable growth & jobs 4

Most African exports are extractives

- Petroleum oils & gas, minerals, ferrous and precious metals
- Volatile prices, produce few jobs, and fluctuating revenues

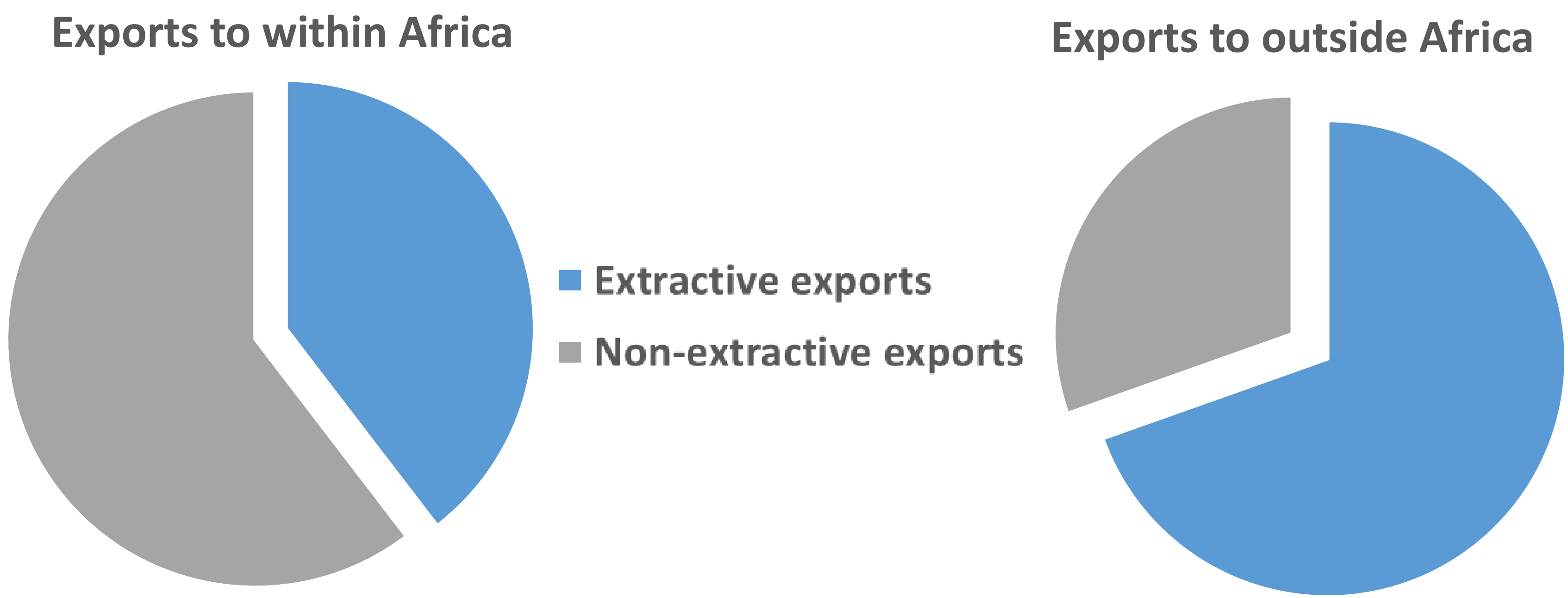




Rationale| Sustainable growth & jobs

In contrast, intra-Africa trade…

- Only 40% is extractives (compared to 70% of exports to outside Africa)



- More balanced and sustainable exports for sustainable growth
- More labour intensive for creating jobs for Africa's bulging youth population
- Structural transformation and long-term sustainable growth

Gains for different country types

- ECA estimate all African countries to experience welfare gains.
- More industrialized countries are well placed for manufactured goods,
- RVCs can help suppliers from other countries.
- Opportunities for satisfying Africa's growing food security requirements.
- Diversify exports for resource rich countries
- Land-locked gain from trade facilitation, transit and customs cooperation
- Also safeguards in case of import surges or threats of injury.

AfCFTA impact of tariff revenue to be small

- Imports from other African countries only 14% of total imports.
  - ➢ (Existing retained for remaining 86% of imports).
- 56% of intra-African imports already free through pre-existing REC FTAs
- Exclusion lists to protect important revenue products.
- Implementation gradual: 5 years (15 for LDCs).
- More gradual 10-13 years for “sensitive” products.
- Tariff revenues only 15% of total tax revenue in Africa.
  - ➢ Tariff reductions will only affect a small share of tax generation.

AfCFTA will also have revenue benefits

- Economic growth by 1 - 6% of GDP,
  - ➢ Increase broader tax base and boost revenue collection.
- Actual economic boost could even higher:
  - ➢ Services and investment, which isn't included in modelling.
- The sectors that gain most produce more sustainable growth,
  - ➢ Manufacturing and processed agriculture
  - ➢ Better contribute to fiscal sustainability

It remains important for Africa countries to enhance their fiscal positions

- Taking full advantage of the AfCFTA for its opportunities
  - ➢ Will require investing new resources in the BIAT Action Plan
- African countries need to mobilise resources in order for SDGs.
  - ➢ Needed for SDGs: $600bn to $1.2tr per year
- It is important that tax revenues are more stable and reliable
  - ➢ External resources increasingly less so
  - ➢ Can better channel these resources towards its own objectives.

THANK YOU!

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