4 AfCFTA could be Egypt's next game changer

The African Continental Free Trade Area (AfCFTA) has the potential to be a game-changer for the continent and for Egypt. The result of a long process of continental integration, AfCFTA could, and should, be a powerful tool for supporting the development and upgrading of industrial capabilities on the continent. Benefiting from enhanced continental ties is, however, not an automatic process, and targeted national strategies will be needed to make the most of an integrated Africa. This fourth chapter of the PTPR of Egypt presents a snapshot on AfCFTA, clarifies the potential opportunities it offers for Egypt, and identifies key policy areas to make the most of it.

Introduction

Africa is putting continental integration and structural transformation in the spotlight. The African Union's *Agenda 2063: The Africa We Want*, adopted in 2015 by the continent's heads of state, outlines a pan-African vision and roadmap for the continent's transformation towards a united, prosperous, inclusive and sustainable future. Within that agenda, continental integration and the African Continental Free Trade Area (AfCFTA) are presented as a key pillar for achieving prosperity on the continent (Box 4.1).

Box 4.1. Overview of the AfCFTA process

A roadmap for the establishment of the AfCFTA was agreed in 2012 at the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union (AU), which was held in Addis Ababa, Ethiopia, and negotiations started in 2015. The 10th African Extraordinary Summit, held in Rwanda in March 2018, adopted the agreement's legal text and opened it for signature and ratification by member states of the African Union. By April 2019, 22 member states had ratified the agreement, the number required for putting it into force, and the agreement entered into force on 30 May 2019. As of June 2021, 54 AU member states had signed the AfCFTA and 35 countries had deposited their instruments of ratification.

The AfCFTA builds on decades of initiatives to achieve continental integration (ECA, AU, AfDB and UNCTAD, 2019[1]). The goal of developing the continent by tapping into the opportunities of increased continental integration was part of the 1980 Lagos Plan of Action, backed by the Organization of African Unity (OAU), and was embodied in the 1991 Abuja Treaty that envisaged an African Economic Community (AEC). Since then, various continental integration initiatives have reaffirmed this objective, including the 2000 constitutive act of the African Union and the 2012 Boosting Intra-African Trade action plan.

Africa's Regional Economic Communities (RECs) have been important building blocks in African integration. 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). The COMESA-ECA-SADC Tripartite FTA (TFTA) was also an important step to regional integration and contributed to the implementation of the AfCFTA. The TFTA was launched in 2015 and ten members have ratified it, with four more needed to enable it to enter into force.

When fully implemented, the AfCFTA will create an integrated African market of 1.2 billion people, almost equal to the population of India, and the world's biggest single market for goods and services by number of countries. In fact, the agreement aims at removing tariffs on 97% of imported goods from member states over a period of between 5 and 15 years from entry into force. It also aims at reducing non-tariff barriers while fostering standards harmonisation, customs co-operation and trade facilitation.

The scope of the AfCFTA exceeds that of traditional free trade agreements (FTAs). The protocols of the agreement go beyond trade in goods to include trade in services, rules and procedures on the settlements of disputes, investment, competition policy, intellectual property rights and e-commerce. The first three protocols were the subject of the first phase of AfCFTA negotiations, the second three will be negotiated during 2021, and e-commerce will be the subject of a third phase of negotiations that will take place in parallel with the second one (Table 4.1). The AfCFTA is complemented by the Protocol on Free Movement of Persons, Right to Residence and Right to Establishment, which is intended to ease movement of people across the continent; and the Single African Air Transport Market, which aims to improve efficiency in continental air transportation and to increase the continent's share of the global aviation industry.

Table 4.1. AfCFTA Agreement and its protocols

Agreement establishing the African Continental Free Trade Area	**Protocol on Trade in Goods**	Elimination of duties and quantitative restrictions on imports Equal treatment for imports and domestic products Elimination of non-tariff barriers Rules of origin Co-operation of customs authorities Trade facilitation and transit Trade remedies, protections for infant industries and general exceptions Co-operation on product standards and regulations Technical assistance, capacity-building and co-operation
	Protocol on Trade in Services	Transparency of service regulations Mutual recognition of standards, licensing and certification of services suppliers Progressive liberalisation of services sectors Service suppliers shall be treated no less favourably than domestic suppliers in liberalised sectors Provision for general and security exceptions
	Protocol on Dispute Settlement	Rules and Procedures for Settlement of Disputes within the African Continental Free Trade Area
	Phase 2 negotiations	Intellectual property rights Investment Competition policies
	Phase 3 negotiations	E-commerce

Source: Authors' elaboration that updates ECA and African Union (2018[2]), *African Continental Free Trade Area: Questions & Answers*, https://repository.uneca.org/bitstream/handle/10855/43253/b11975106.pdf.

While African countries were working to address the pending issues, the COVID-19 pandemic hit, putting global economies under unprecedented stress. Although this initially hindered the process of ratification and implementation, as well as finalisation of pending issues, the AfCFTA negotiations are now back on track.

Although trading under the AfCFTA Agreement officially began on 1 January 2021, in practice, commercial trading under the preferential terms of the agreement has been limited due to a number of outstanding issues that need to be addressed. Among these the main issues are:

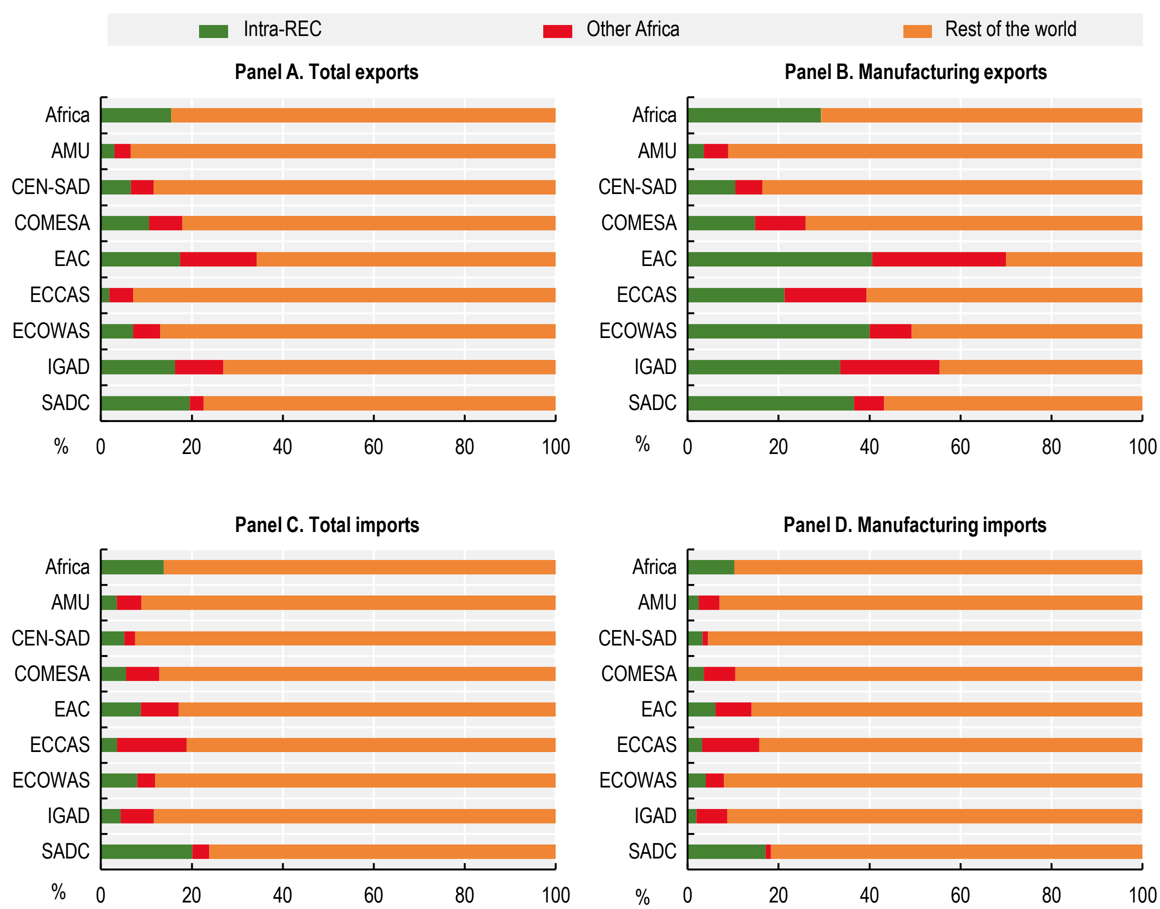
- Finalisation of tariff schedules for trade in goods (i.e. lists of 90% of non-sensitive product lines, 7% of sensitive items and 3% of excluded products).
- Commitments on the five priority services sectors – transport, communications, financial services, tourism and business services.
- Finalisation of rules of origin (i.e. the rules that determine the percentage of the national components in goods that are granted tariff concessions in the free trade area), especially sugar, textiles and wearing apparel, and edible oils.
- Putting in place the necessary customs infrastructure to facilitate preferential trading under the AfCFTA (with the exception of Egypt, Ghana and South Africa, which have already established the required customs arrangements).

AfCFTA holds promise to unleash the continent's industrial potential

Africa is among the world's least integrated continents and regions. Intra-regional trade on the continent stands at 15%, compared to 67% in Europe and 52% in Southeast Asia. African countries trade little with each other, mostly exporting primary commodities to the world, while being dependent on critical imports from abroad. Enhanced continental integration holds the promise of supporting industrialisation as, in general, Africa trades a higher share of manufacturing products within the continent than it does with the rest of the world. The share of intra-African manufacturing exports stands at 30%, double that of total exports.

Nevertheless, the aggregate picture masks significant differences in the pace of integration across the continent (Figure 4.1). Most intra-African trade takes place within RECs, although the extent of integration varies (Box 4.2). For example, regional trade is highest in the Southern African Development Community (SADC), where trade within the region accounts for 20% of the total – double the share of the second-ranked REC in this respect, the East African Community (EAC). The AfCFTA offers an opportunity for RECs to tap into under-exploited export markets in African countries outside of their regional groupings. The same holds for imports – the AfCFTA offers countries the opportunity to import possibly cheaper intermediates from African countries outside their RECs. Some RECs show a higher specialisation in intra-regional manufacturing – such as the Economic Community of West African States (ECOWAS), in which intra-REC manufacturing exports reach 45%, as the regional market represents a large outlet for exports of some its major producers such as Côte d'Ivoire, Ghana and Senegal.

Figure 4.1. Exports and imports in Africa's Regional Economic Communities by region, share of total (%), 2017-19



Note: Data for Africa reflect intra-African exports/imports and exports/imports to the rest of the world. REC: Regional Economic Community; AMU: Arab Maghreb Union; CEN-SAD: Community of Sahel-Saharan States; COMESA: Common Market for Eastern and Southern Africa; EAC: East African Community; ECCAS: Economic Community of Central African States; ECOWAS: Economic Community of West African States; IGAD: Intergovernmental Authority on Development; SADC: Southern African Development Community.
Source: Authors' elaboration based on UNCTAD (2021[3]), *UNCTADstat database*, https://unctadstat.unctad.org.

Box 4.2. The continental integration process has benefited from Regional Economic Communities

The continental integration process will benefit from the existing structures, initiatives, knowledge and capacities of Regional Economic Communities (RECs). It is expected that the RECs will co-ordinate and administer Regional Technical Working Groups, Regional Steering Committees and Regional Ministerial Oversight Committees for the implementation of the AfCFTA in their respective member states. RECs will also administer the regional Monitoring and Evaluation Committee for the AfCFTA. The REC AfCFTA institutional structures will then feed into those at the continental level. Consistent with their role in the AfCFTA institutional architecture, RECs will still provide many of the key structures and institutions supporting intra-Africa trade. Specific roles for the RECs include:

- Co-ordinating negotiating positions and providing implementation support to member states
- Mediating disagreements between member states and negotiating solutions to trade-restrictive practices
- Supporting member states in harmonising customs practices and technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures
- Promoting the use of the AfCFTA non-tariff barrier (NTB) reporting mechanism and ensuring it is aligned with the existing REC NTB mechanism, if any
- Supporting training and development of national customs administrations to enforce AfCFTA rules, with a view to avoiding trade deflection.

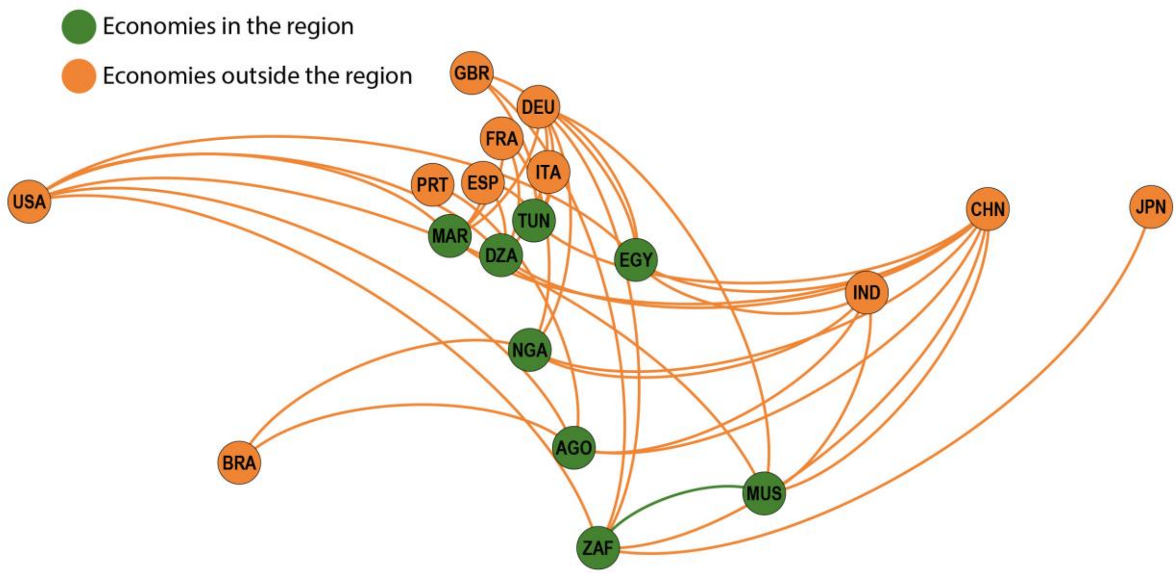
Implementation of the African REC trade liberalisation agendas has frequently been delayed, with varying degrees of progress across member states. The slow and uncoordinated implementation of the Boosting Intra-African Trade (BIAT) initiative also reflects the lack of an overarching monitoring and evaluation (M&E) framework. This offers invaluable lessons for AfCFTA. It will be important for the AfCFTA Secretariat to continually monitor, evaluate, report and follow-up on implementation of the Agreement, building upon national-level reviews. Resource mobilisation efforts, underpinned by African resources, will also be key to ensuring effective and timely implementation of the AfCFTA and its complementary reforms.

Source: Bisong (2020[4]) and ECA, AU and AfDB (2017[5]).

Value chains within Africa are underdeveloped. Approximately 94.8% of the foreign value added (FVA) embedded in African exports comes from outside the continent. Top sources include the People's Republic of China (hereafter "China") (12.3% of total), the United States (11%), Germany (10%) and France (6%) (Figure 4.2). South Africa is Africa's largest value chain hub, and a key source of inputs for exports by Mauritius. For Egypt, China is the top source of FVA, accounting for 16.3% of total, followed by India (13.6%), the United States (9.4%), Germany (8%) and the United Kingdom (5.6%). By contrast, Morocco has higher production linkages with Europe, with France accounting for 16.5% of total FVA, followed by Spain (12.5%).

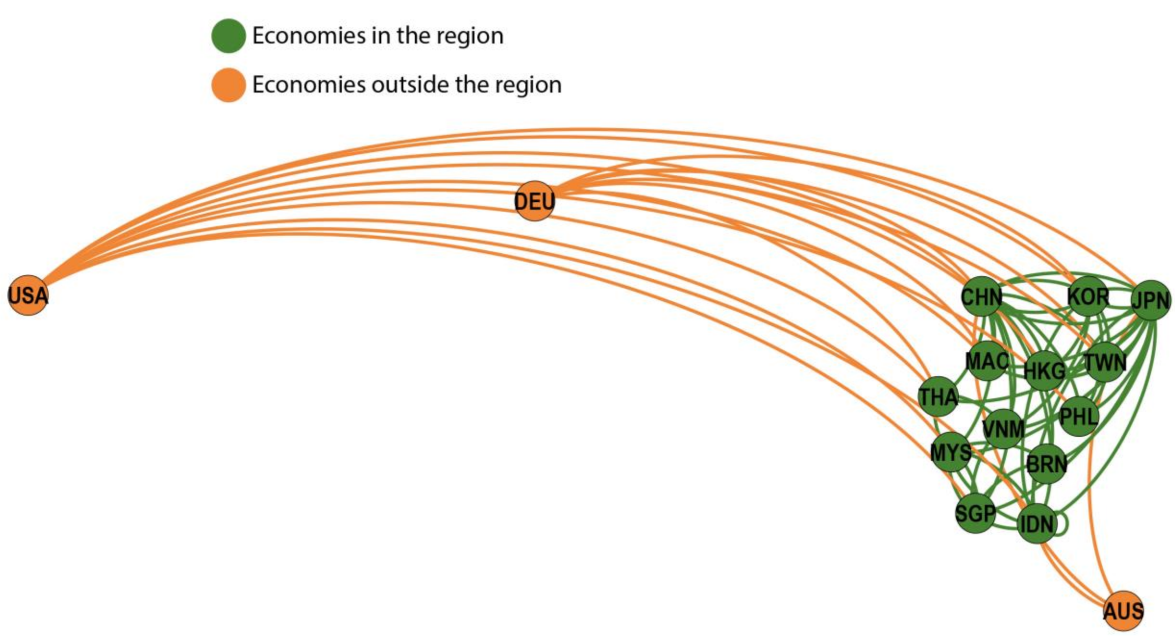
The picture in Africa is very different from East and Southeast Asia, which features dense regional production networks; about half of FVA (55.4%) is sourced from within the region. In East and Southeast Asia, tighter regional integration has been a major driver of industrialisation through waves of foreign investments aiming to tap into the different assets of various locations in the region. In turn, the creation of regional supply chains have underpinned efforts to further regional integration (Figure 4.3).

Figure 4.2. Top economies in Africa, by total foreign value added embedded in exports and their top 5 sources, 2019



Note: The figure includes countries whose total foreign value added (FVA) embedded in exports is higher than the world median.
Source: Authors' elaboration using data from UNCTAD-Eora (2021[6]), *Global Value Chain Database*, https://worldmrio.com/unctadgvc.

Figure 4.3. Top economies in East and Southeast Asia by total foreign value added embedded in exports and their top 5 sources, 2019



Note: The figure includes countries whose total foreign value added (FVA) embedded in exports is higher than the world median.
Source: Authors' elaboration based on data from UNCTAD-Eora (2021[6]), *Global Value Chain Database*, https://worldmrio.com/unctadgvc.

Achieving effective continental integration requires more than having an agreement in force. The extent to which agreements are effective depends on multiple elements. The following are some lessons learned from experiences in ASEAN, Latin America and the Caribbean and the EU:

- 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” (Box 4.3). 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 (Box 4.3). 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 already-established networks of suppliers, and shifting to new vendors can be risky. Also, a fully supportive ecosystem is lacking to enable finding 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 is also important, now more than ever, as highlighted by the COVID-19 pandemic. The digital divide between Africa and the rest of the world remains high. In 2021, Internet speed in Africa was seven times lower than in the OECD [authors’ elaboration on (Ookla, 2021[7])]. 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.

- 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, of following a linear process and relying on 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 respond to emerging challenges, and to develop social safety nets to ensure that no one is left behind and adjustment to the agreement is smooth.

Box 4.3. The experience of Malaysia and the ASEAN with regional integration

Malaysia is a highly integrated country with strong trade ties to its regional partners. The country's export-to-GDP ratio averaged 68% during 2015-19, more than double the average for East Asia and the Pacific (29%). Regional partners account for a large share of the country's exports. Malaysian exports to other members of the Association of Southeast Asian Nations (ASEAN) account for 29% of total, followed by China (10%) and Japan (7%).

Malaysia has fostered trade through a rich network of bilateral and multilateral free trade agreements (FTAs). It currently has seven bilateral FTAs with Australia, China, India, Japan, New Zealand, Pakistan and Turkey, and it is a founding member of ASEAN – which itself has established FTAs with China (2003), Korea (2006), Australia and New Zealand (2010), and India (2020), as well as a Comprehensive Economic Partnership with Japan (2009). Malaysia is currently negotiating agreements with Iran and the EU (both economic partnership and FTA), and has signed but not ratified the Trans-Pacific Partnership Agreement (TPPA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Malaysia is also a member of Asia-Pacific Economic Cooperation (APEC), an inter-governmental forum dedicated to promoting free trade and investment.

ASEAN in particular has been key to Malaysia's past trade performance and is set to drive its future competitiveness. Founded in 1967, ASEAN is made up of ten Southeast Asian countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam) that collectively have approximately half the population of India, but an aggregate GDP 7% higher. Malaysia is one of ASEAN's larger economies, accounting for approximately 10% of its GDP and 5% of its population. The ASEAN FTA was signed in 1992, and since then the ambition for integration has continued to increase. The flagship initiative of the ASEAN is the ASEAN Economic Community (AEC), founded in 2015, which aims to accelerate integration beyond trade across the ten member countries, through the AEC Blueprint 2025.

ASEAN has some unique features compared to other regions that have shaped its experience and local dynamics:

- It is a diverse region, not only culturally but also in terms of production and trade.
- Even though members are at different stages of development, no single country has become a centre of gravity.

- Production capabilities across the region are distributed based on each nation's industrial maturity (with lower value activities moving from more mature economies to less advanced countries over time).
- Countries share a common mindset of fostering business development and openness to foreign trade and investment.
- The private sector, in collaboration with government, has been a key driver and participant in regional integration, through the creation of business advisory councils and the participation of business in ministerial meetings and public-private partnerships (PPPs). These have enabled a multi-stakeholder exchange of ideas and proposals and fostered a deeper understanding of barriers to integration on the ground.

Since the 1990s, regional integration in ASEAN has been achieved not just through macro-level agreements and principles of the association, but also through micro-level integration processes via seven so-called “growth triangles”. These triangles refer to border regions within ASEAN that involve two or more neighbouring countries, such as the Indonesia-Malaysia-Singapore Growth Triangle and the Cambodia-Laos-Viet Nam Development Triangle. Respective governments undertake co-investment activities, education and trade programmes, business forums and programmes to facilitate tourism and trade, with a view to “testing” whether the reality of partnerships can match the vision. These triangles have also provided an opportunity to create connections between the members’ investors, policy makers and businesses, building trust and consensus that has fuelled bigger integration efforts.

Going forward, ASEAN could shift its development model from one centred on the capital cities that concentrate the region’s resources and population to a more balanced model, fostering development of tier 2, tier 3, and tier 4 cities. A more place-based approach focused on the top 200 cities and towns of the region could unlock the potential of local regions, foster inclusive development and avoid the imbalanced development patterns which characterise the current global economy.

Source: Cayzer, R. (2020), The Malaysian/ASEAN experience in Regional Integration, MARA Corporation, presentation at the Second Peer Learning Group e-Meeting of the PTPR of Egypt, held virtually on 1 July 2020.

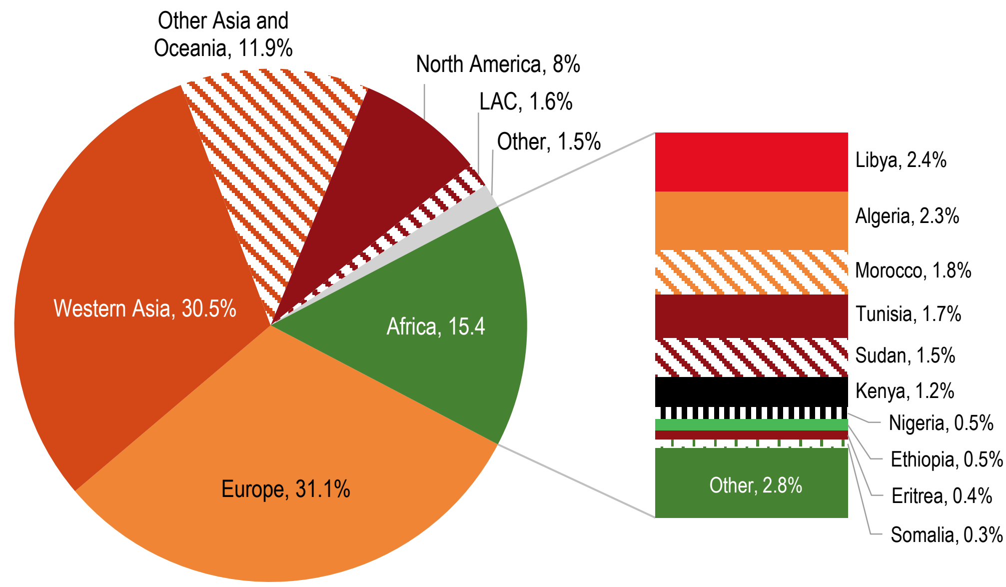
Egypt’s path to prosperity is linked to Africa’s integration and transformation

Egypt trades little with the rest of Africa. Its exports to Africa have tripled since the mid-2000s, and represent 15.4% of the country’s total; this is similar to Nigeria (15.5%), and less than half with respect to South Africa (26%) (Figure 4.4). However, Europe remains the main destination for Egyptian exports, accounting for 31.1% of the total – followed closely by Western Asia (30.5%), which includes countries in the Middle East.

Within Africa, Egypt exports mainly to fellow North African countries, the top three being Libya (2.4%), Algeria and Morocco; while the top sub-Saharan African destinations are Kenya (1.2%), Ethiopia and Nigeria. Africa’s share of imports to Egypt is five times less than its share of exports, at around 3%. By contrast, Europe accounts for as much as 37.3% of imports. Egypt’s top sources from Africa include Algeria (0.6%), Kenya (0.5%) and Zambia (0.4%). Africa is the only region with which Egypt runs a trade surplus, reaching on average USD 3 billion annually during 2018-20. Egypt’s relatively low participation in intra-African trade is in line with trends on the continent.

Figure 4.4. Africa accounts for 15.4% of Egypt's exports, 2018-20

Egypt's merchandise exports by geographical region and its ten export destinations in Africa, 2018-20, share of total exports (%)



Note: Total does not include trade for which the geographical region could not be identified.
Source: Authors' elaboration based on UN Comtrade (2021[8]), *Database*, https://comtrade.un.org.

The AfCFTA could provide more scale to Egypt's African exports while adding to their sophistication, thereby improving Egypt's participation in the world economy. Egypt is the fifth-largest exporter in Africa, accounting for 6.3% of continental exports, about three times less than Africa's top exporter, South Africa (20%) and similar to the level of Morocco (6.1%) (data for 2018-20). Additionally, the country's trade with Africa follows a different structure compared to its trade with the world (Figure 4.5). The majority of the country's African exports are manufactures (61.5%), while its African imports are overwhelmingly primary ones (83.3% of total). By contrast, 52.3% of Egypt's world exports are commodities. Among Egypt's top manufacturing exports to Africa are chemicals (16.5%), such as perfumes, non-metallic mineral manufactures (8%) and plastics (6.8%). Petroleum and gas still makes up a large share of exports to Africa (14.5%) and an even bigger share of imports (25%). Other important imports from Africa include non-ferrous metals (19%) and coffee, cocoa, tea and spices (14.2%). Although the ultimate results of the AfCFTA remain to be seen, estimates suggest that Egypt could leverage its position as one of Africa's key industrial and export hubs to strengthen structural change. For example, ECA's scenarios show that Egypt could experience an increase in both GDP and exports following the implementation of the AfCFTA (Box 4.4).

Figure 4.5. Structure of Egypt's exports and imports to the world and Africa, by manufacturing intensity and product, share of total, 2018-20

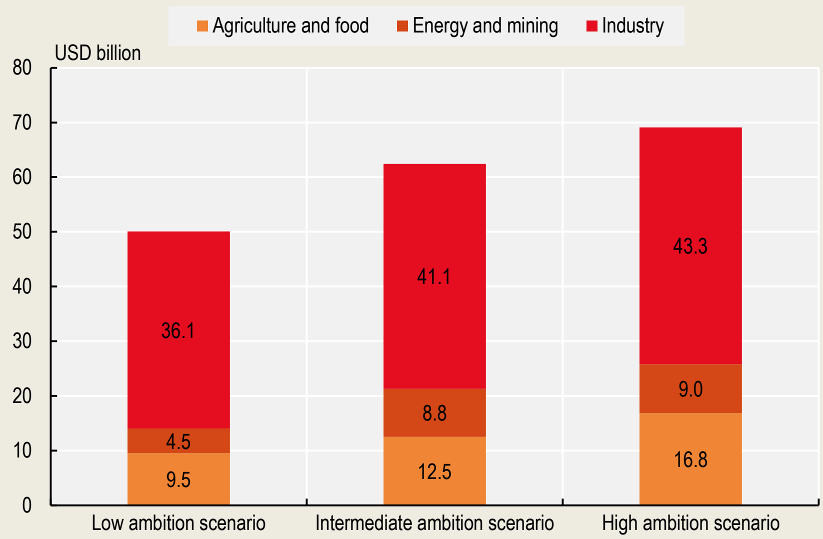
Note: Based on classification of product groups and composition by UNCTAD Standard International Trade Classification (SITC) Revision 3 2-digit codes, https://unctadstat.unctad.org/en/Classifications/DimSitcRev3Products_DsibSpecialGroupings_Hierarchy.pdf.
Source: Authors' elaboration based on UN Comtrade (2021[8]), *Database*, https://comtrade.un.org/data.

Box 4.4. Potential benefits of the AfCFTA: An empirical analysis

While there is no way to know with certainty how the AfCFTA will ultimately affect trade and industrialisation in the African continent, the United Nations Economic Commission for Africa (ECA) has elaborated scenarios based on a computable general equilibrium (CGE) model. These scenarios rely on tariff information at the harmonised system six-digit level. Various "ambition levels" were analysed, from the least ambitious scenario (characterised by delaying tariff-revenue losses) to the most ambitious (full liberalisation), by 2040 (Figure 4.6). This analysis projects that the value of intra-African exports could increase by between 15% (or USD 50 billion) and nearly 25% (or USD 69.1 billion) in 2040, relative to the baseline without the AfCFTA in place. Intra-African exports were found to increase the most for industrial products, with gains ranging from around 25% (or USD 36.1 billion) to almost 30% (or USD 43.3 billion). The analysis suggests that all African countries, including least developed ones, could benefit from increased industrial exports under the AfCFTA.

The ECA's analysis shows that Egyptian exports to Africa could increase substantially (21-30%) depending on the ambition of liberalisation. This increase is found to be potentially more pronounced in agricultural and food sectors, followed by industrial sectors. Egypt's exports to the rest of Africa could increase by more than 25% in textiles and wearing apparel, leather, wood and paper, machinery, vehicle and transport equipment (for industrial sectors) and by over 25% in cereals, plant-based fibres, milk and dairy products, and vegetable oils, as well as meat products. Egypt's exports to all African sub-regions could increase significantly, with the highest increases to countries such as Benin, Botswana, Cameroon, Ethiopia, Ghana, Guinea, Madagascar, Namibia, Senegal and Tanzania.

Figure 4.6. Change in intra-African exports by main sectors, as compared to the baseline without AfCFTA in place, 2040, various scenarios

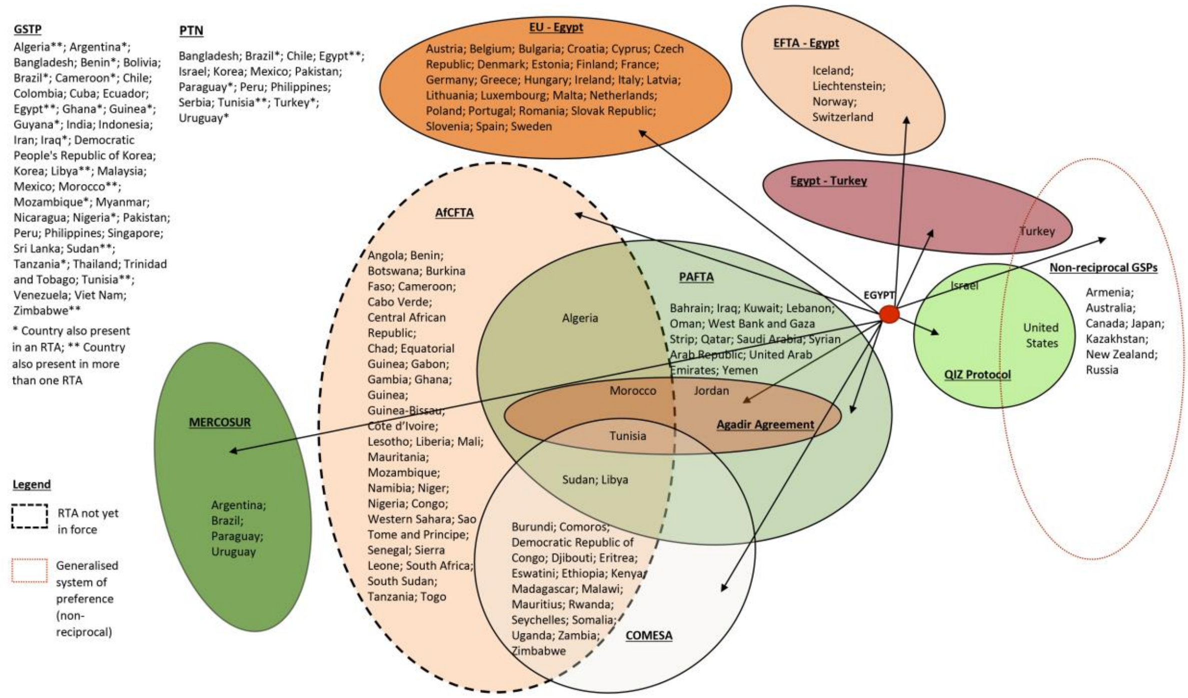


Source: ECA (2020[9]), "An empirical assessment of the African Continental Free Trade Area modalities on goods", https://www.uneca.org/publications/empirical-assessment-african-continental-free-trade-area-modalities-goods.

AfCFTA is expected to add 32 new FTA partners for Egypt (Figure 4.7). This will include some of the continent's largest economies, including Nigeria and South Africa. The AfCFTA adds to Egypt's several existing trade agreements. Egypt became a member of GATT in 1970 and of WTO in 1995. It has also been a member of the Common Market for Eastern and Southern Africa (COMESA) since 1994 (COMESA's FTA was established in 2000) and the Pan-Arab Free Trade Area (PAFTA) since 1998. The 2000s and 2010s brought new FTAs, such as those with the European Union (EU) (2004); with Jordan, Morocco and Tunisia (Agadir Agreement, 2007); with Turkey (2007); the European Free Trade Association (2007); and, more recently, with the Southern Common Market MERCOSUR (2017). Additionally, Egypt has a protocol with Israel and the United States for the export of industrial goods and benefits from non-reciprocal Generalised Systems of Preferences schemes, notably from the United States, among others.

Figure 4.7. AfCFTA adds 32 new free trade partners to Egypt

Egypt's trade agreements and arrangements as of June 2020



Note: AfCFTA: African Continental Free Trade Area; COMESA: Common Market for Eastern and Southern Africa; EFTA: European Free Trade Association; EU: European Union; GSP: Generalised System of Preferences; GSTP: Global System of Trade Preferences; MERCOSUR: Southern Common Market; PAFTA: Pan-Arab Free Trade Area; PTN: Protocol on Trade Negotiations; QIZ: Qualified Industrial Zone.
Source: Authors' elaboration based on WTO (2020[10]), *Regional Trade Agreements Database*, http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx; and GAFI (2020[11]), *Trade Agreements*, https://gafi.gov.eg/English/Sectors/Pages/Trade-Agreements.aspx

The AfCFTA could enable Egypt to connect to traditional partners in Europe and the Middle East as well as to the overall global market. As a result, Egypt and other industrial centres could become hubs for investments in both manufacturing and services. Apart from investments in manufacturing (see Chapters 1 and 3), Egypt is aiming to position itself as a regional service hub, tapping its large workforce. It is already the second-largest exporter of telecommunication, computer and information services in Africa, accounting for 15% of the total – behind only Morocco (30%) [data for 2017-19, elaboration on (ITC, 2021[12])].

Making the most of AfCFTA requires targeted national strategies

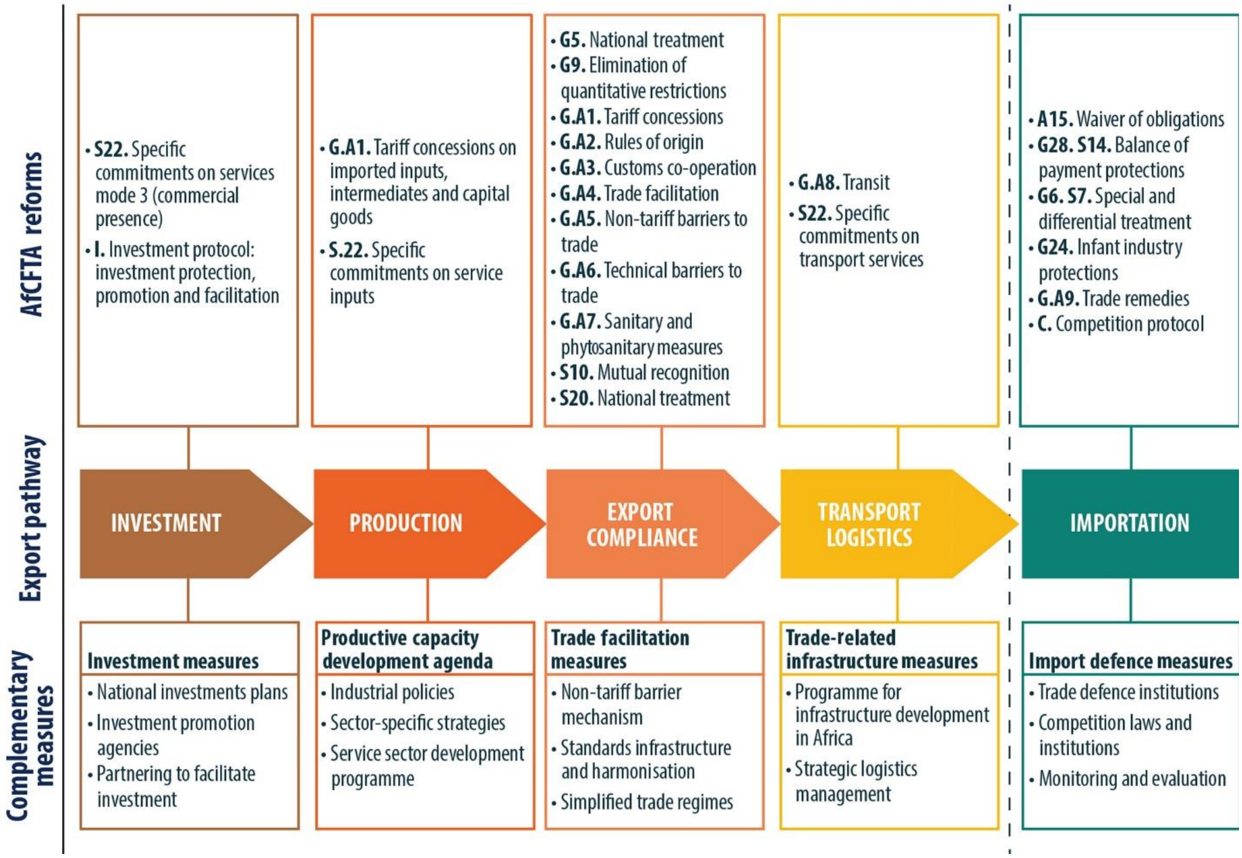
Egypt can benefit from AfCFTA through a strategy that views it as a way to strengthen its domestic industrial capabilities. Egypt has previously improved infrastructure by establishing shipping lines to the continent and strengthening transport links with Africa. In the context of the Egyptian Exports to African Markets Strategy 2020, the Egyptian Ministry of Public Business Sector has advanced in the implementation of Gosour (bridges), a project to build shipping lines and promote foreign trade between Egypt and Central and East Africa. As part of the first phase of Gosour, a shipping line from Ain Sokhna (Egypt) to Mombasa (Kenya) was launched in 2019. A storage and logistics centre also operates in Kenya, inaugurated in 2017. Egypt has also facilitated trade by implementing the National Single Window (NSW), which was launched by Prime Ministerial decree in 2020, and which Egypt aims to link with the Regional Single Window in Africa, and the ACI (Advanced Cargo Information System) for faster trade lanes, launched in 2021 through Ministry of Finance Decree No. 38/2021. Egypt is also looking to activate the role of the Export Development Bank and the Export Credit Guarantee Company of Egypt (ECGE) to provide trade financing, guarantees and services to exporters to African countries.

However, more is needed in order for Egypt to make the most of AfCFTA. Targeted national strategies designed to take advantage of AfCFTA will ensure that Egypt and other African countries can actually benefit from the agreement. These will require intense processes of consultation with multiple stakeholders and notably with the business community and entrepreneurs. Egypt's national reform agenda involves industrial policies for strengthening productive capacities (discussed in Chapter 2 of this PTPR for Egypt) to competition policies, logistics and infrastructure (Figure 4.8.). AfCFTA is not a aimed at reducing partnerships and internationalisation in Africa; rather, it is a tool for ensuring that trade can effectively benefit African citizens while fostering industrialisation, economic transformation and innovation on the continent. International partners (both traditional and emerging) will play an important role for Africa and Egypt to ensure that AfCFTA acts as a driver of improved and more beneficial integration into the world economy.

Egypt could also harness such partnerships to help craft an integrated vision to benefit from AfCFTA – building on existing initiatives, but going beyond trade to take into account other relevant policy areas, such as local industrial development and investment attraction, and bringing together all relevant stakeholders (Figure 4.8). For example, the ECA is working with governments across the continent to ensure they are defining and implementing their national strategies to capture the benefits of AfCFTA by mapping the different areas of policy that need to be reviewed to take into account the new realities of a more integrated continent (Box 4.5).

Egypt would also benefit from setting up a monitoring and evaluation system to track the progress of AfCFTA implementation in relation to Egypt's Vision 2030 strategic plan. The system can be a powerful tool for reducing the information gap with the private sector, raising awareness on the opportunities and potential challenges created by the AfCFTA and the policies and tools undertaken by the government to ensure effective implementation. Such a system would also enable Egypt to quickly spot emerging issues and adapt strategies to respond to these.

Figure 4.8. Benefiting from AfCFTA: A multi-dimensional reform agenda beyond trade simplification



Source: ECA, AU, AfDB and UNCTAD (2019[1]), *Assessing Regional Integration in Africa ARIA IX: Next steps for the African Continental Free Trade Area*, https://archive.uneca.org/sites/default/files/PublicationFiles/aria9_report_en_4sept_fin.pdf.

Box 4.5. National strategies for AfCFTA: The case of Côte d'Ivoire

The UN Economic Commission for Africa (ECA) and the African Union Commission (AUC) are currently supporting a total of 40 African countries in developing AfCFTA National Implementation Strategies and four regional economic communities – EAC, ECCAS, ECOWAS and IGAD – in developing AfCFTA Regional Implementation Strategies. As of February 2021, 11 countries had already validated their strategies, and ECA and AUC are now working with some of these countries to support implementation activities – including efforts to develop sectoral competitiveness policies, support the domestic application of the AfCFTA, and build the capacity of AfCFTA National Implementation Committees.

The strategies build on existing trade, regional integration and development policies. They have been drafted through an inclusive and consultative process, and therefore reflect national priorities and the interests of a range of stakeholders including government, private sector, civil society and academia. The aim was to identify new opportunities for diversification and value chain development under the AfCFTA, and complementary actions needed to overcome existing constraints to intra-African trade. This was achieved through adopting a cross-sectoral approach, considering not just trade, but also closely related areas such as agriculture, industry, macroeconomic management and infrastructure development.

Additionally, a set of cross-cutting issues has been incorporated into the strategies, including gender equality, youth employment, climate change and technologies. This was done with a view to aligning the strategies with African's broader goals related to inclusive growth, sustainable development and digital transformation.

For example, ECA assisted Côte d'Ivoire in developing an AfCFTA implementation strategy to make the most of the agreement. The strategy aims at identifying how to strengthen institutional and regulatory systems in order to promote domestic production and continental trade by developing commercial strategies for Ivoirian products with regional market potential. The strategy focuses on fostering co-ordination between agencies and strengthening institutional capacities to implement trade, industrial and innovation policies. In 2018 the country set up the AfCFTA National Committee, under the authority of the prime minister, to define the national strategy. The Committee also works to raise awareness and build consensus in civil society.

Source: ECA and F. Fofana (2020), "How can the AfCFTA unblock regional value chains in Africa?", presentation at the Second Peer Learning Group e-Meeting of the PTPR of Egypt, held virtually on 1 July 2020.

Among the key pillars of a national strategy to benefit from AfCFTA, Egypt needs to address three enabling conditions:

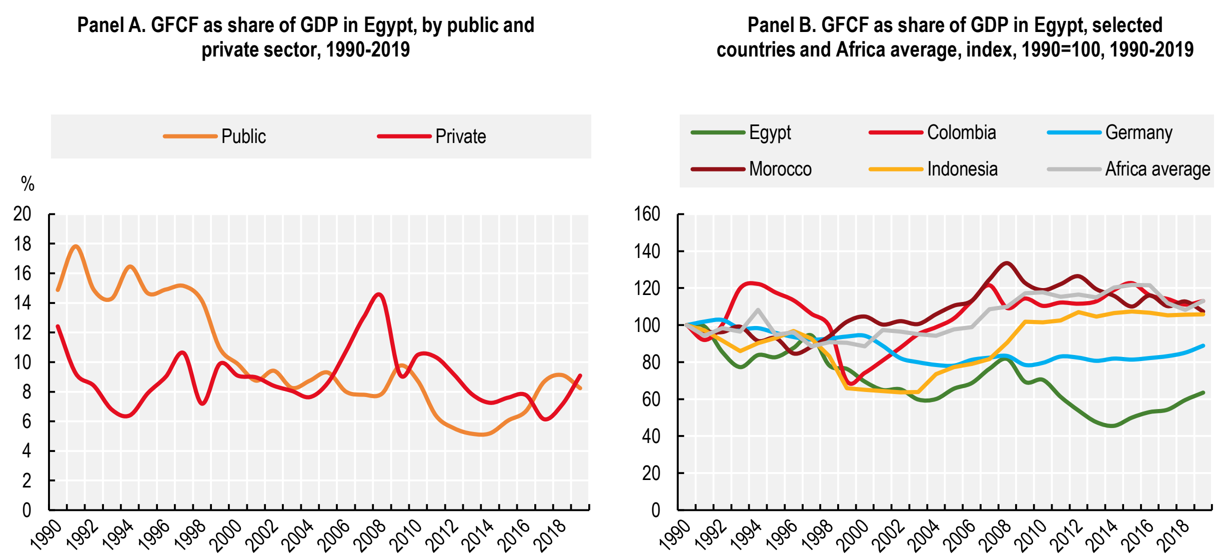
First, Egypt will need to reduce non-tariff barriers that hamper continental integration and participation of domestic firms in continental value chains. In Egypt, the average lead time to export is 6.7 days, the same as Morocco and similar to Malaysia (6.5), but time to import is substantially higher than Egypt's peers, standing at 5 days compared to 3 in Morocco and 2 in Malaysia (World Bank Indicators). A survey of 869 Egyptian importers and exporters by the International Trade Centre (ITC) in 2016 showed that 38% of firms faced regulatory and procedural trade obstacles (ITC, 2016[13]). With regards to domestic obstacles, the most common barriers identified were delays, administrative burdens and high fees and charges. Import licensing and registration requirements are also a burden for importers, particularly those that are based outside of special economic zones or free trade zones that apply different customs regulations (Chapter 2). All importers must seek registration according to Law No. 7/2017. Among some of the conditions imposed for importers are that the company must be majority Egyptian owned (up to 49% foreign ownership – prior to this law only 100% ownership was allowed), that they have been registered in the Commercial Registry for at least a year and that they have a paid-in capital of EGP 5 million (around EUR 26 000). Enhancing market information and intelligence, and helping firms deal with cultural and language barriers when trading across borders, are also important.

Second, improving infrastructure and transport connectivity is necessary for boosting the capacity of Egypt to reach out to new markets and ensure that critical goods reach the places that need them most. Egypt has a strategic position linking Africa, Europe and the Middle East. This has given it an advantage with regard to maritime transport through the Suez Canal, which handles 7.5% of world maritime traffic. According to UNCTAD's maritime index, Egypt is the second-most-connected country in Africa (after Morocco) and the 22nd-most-connected in the world (UNCTAD, 2021[3]) . However, infrastructure still faces big challenges, such as a fragmented port system, lack of co-ordination among modes of transport and a rail network in need of upgrading (OECD, 2020[14]). This significantly raises the costs of doing business in the country.

It will be crucial to maintain the recent increase in infrastructural investments while ensuring they are well aligned with Egypt's overall production transformation strategy and the country's vision for AfCFTA. In the absence of internationally comparable data on infrastructure spending, investments in fixed assets can provide a proxy. Gross fixed-capital formation in Egypt reached a peak of around 30% of GDP in the 1980s, but since then has dropped by almost half, with an average of 15.3% during 2010-19. Nevertheless, improved macroeconomic performance in recent years has led to a recent uptick in investments. While Egypt's share of investment has gone down, the African average has gone up by 13% since 1990. Developing countries with an export-oriented strategy have also seen an increase in global capital formation rates, such as Morocco (by 7.3%) and Indonesia (by 6%). Egypt's declining investments are driven by a steady retreat of public sector investments, from around 19% of GDP in 1990 to between 5% and 10% since 2000 (Figure 4.9). Private sector investments have not filled the investment gap, despite a peak prior to the global financial crisis, and have averaged 9% of GDP since the 1990s [see also (OECD, 2020[14])].

Figure 4.9. Egypt needs to continue investing in infrastructure

Gross fixed capital formation, share of GDP



Note: GFCF: Gross fixed capital formation.
Source: Authors' elaboration based on World Bank (2021[15]), *World Bank Indicators*, https://data.worldbank.org/indicator/ne.gdi.totl.zs.

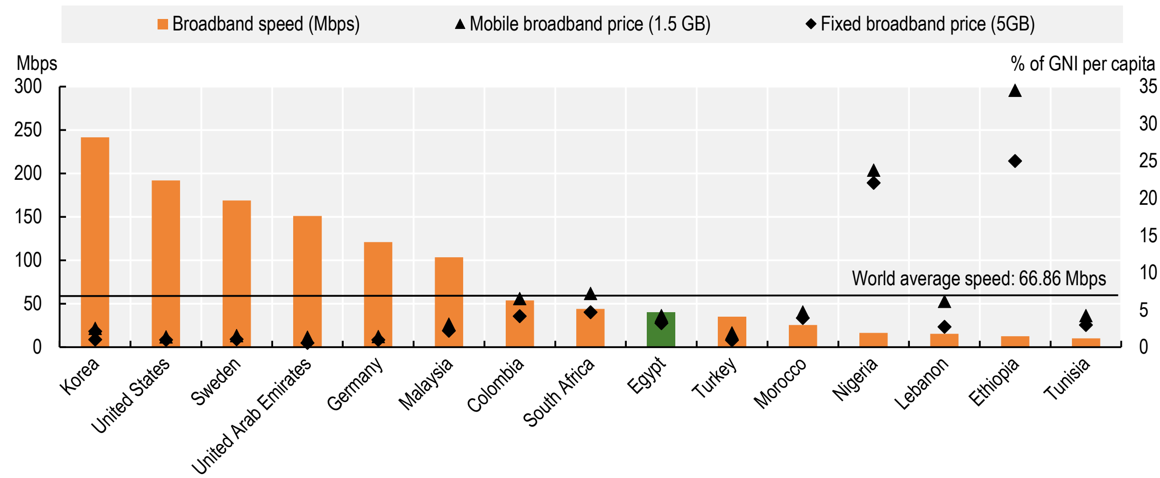
Third, advancing in digital connectivity. Egypt's Internet penetration reached 57.3% of the population in 2019 (ITU, 2021[16]). This is more than double compared to 2010 and twice the African average, and in line with some regional peers, such as South Africa (56.2%). Nevertheless, there is room for improvement. In Germany, as in other advanced countries, the share reaches 88%; in Malaysia it is 84%, and in Morocco it is 74.4%. Egypt has also advanced in terms of mobile connectivity coverage. In 2019 in Egypt 4G made-up 20% of connections of total mobile connections in the country, compared to 9% in sub-Saharan Africa (Figure 4.10). Meanwhile, in the OECD, 4G technologies accounted for 58% of connections in 2019. In January 2020, Egypt was one of seven countries in Africa where operators were investing in 5G technology (GSA, 2020[17]).

Figure 4.10. Share of mobile connections by technology, Egypt and regional averages 2010 and 2019

Source: GSMA (2019[18]), *GSMAintelligence*, https://data.gsmaintelligence.com/.

Egypt is providing some of the most affordable Internet in Africa, and Internet speed has been increasing (Figure 4.11). Fixed broadband costs 3.22% of GNI per capita and mobile 1.1% in 2020, similar to some regional peers, such as Morocco (3.93% and 0.79%, respectively) and Tunisia (2.97% and 1.28% respectively), and lower than the African median (18.26% and 4.67%). There is no standard way to measure Internet speed, but some businesses are aggregating user-generated data to calculate how long it takes to upload or download data. Information collected by Ookla, a US-based firm, suggests that in April 2021 Egypt's fixed broadband speed was 39.66 Mbps, making it the highest in North Africa (the world average is 66.86 Mbps). Based on this data, it would take 18 minutes to download a 5-gigabyte movie in Egypt, but only 3 minutes in Korea, the country with the fastest Internet in the OECD. Egypt's Internet speed has increased by more than six times within a little over a year, from 6.5 Mbps in December 2018. Egypt's improvement in speed has been facilitated by investments to modernise the country's Internet infrastructure since mid-2018 amounting to USD 1.6 billion. This helped accommodate the increased usage during COVID-19 lockdown (March-May 2020), when home Internet usage increased by 99% and that of mobile Internet by 35%, and international calls increased by 19%, while peak Internet usage increased from about 7 hours to 15 hours, according to information provided by the National Telecom Regulatory Authority (NTRA).

Figure 4.11. Broadband Internet cost and speed, selected countries, 2021



Source: Authors' elaboration based on International Telecommunication Union (2021[16]), *Country ICT Data* (database), https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx; and Ookla (2021[7]), *Speedtest global index*, https://www.speedtest.net/global-index.

Conclusions

AfCFTA could be a game changer for Egypt and for the whole continent. The agreement holds the promise of unleashing the continent's industrialisation process, if targeted national strategies are put in place to benefit from it. Africa trades little within the continent and mostly exports commodities and raw materials to the rest of the world. So does Egypt, despite being among the continent's few industrial heavyweights. AfCFTA could change that, by incentivising continental entrepreneurs to set up new continental business ventures, and by fostering upgrading and innovation in established firms across the continent.

But AfCFTA also has substantial potential to facilitate Egypt's and Africa's integration into the world economy. It opens up opportunities for updating international integration and co-operation patterns – with both traditional and emerging partners – to achieve the vision of a prosperous, united and sustainable Africa. The upcoming PTPR Spotlight project "Harnessing the potential of AfCFTA for transforming Egypt", carried out in co-operation with Afreximbank and ECA, will analyse these issues in more depth.

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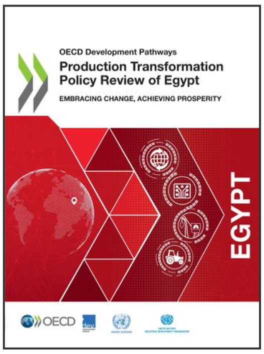

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