DIGEST VERSION

# POTENTIAL IMPACTS OF THE AFRICAN CONTINENTAL FREE TRADE AREA (AFCFTA) ON SELECTED OIC COUNTRIES

Case of Côte d’Ivoire, Egypt, Guinea, Mozambique, Tunisia and Uganda

itfc
International Islamic Trade Finance Corporation

SESRIC

## About ITFC

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. It was established with the primary objective of advancing trade among OIC member countries, which would ultimately contribute to the overarching goal of improving the socioeconomic conditions of the people across the world. Commencing operations in January 2008, ITFC has provided more than US$51 billion of financing to OIC member countries, making it the leading provider of trade solutions for these member countries' needs. With a mission to become a catalyst for trade development for OIC member countries and beyond, the Corporation helps entities in member countries gain better access to trade finance and provides them with the necessary trade-related capacity-building tools, which would enable them to successfully compete in the global market.

## About SESRIC

The Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), a subsidiary organ of the Organization of the Islamic Conference (OIC), is operating in Ankara, Turkey since June 1978 as the main economic research arm, statistics centre and training organ of the OIC. The Centre has been engaged with statistical data collection, collation and dissemination on and for the OIC member countries, undertaking the preparation of research papers, reports and studies on economic cooperation and development issues contained on the agenda of various OIC ministerial and other forums, organizing training programs on subjects of immediate interest to the member countries, and putting out periodic and other publications in its areas of mandate for the benefit of the member countries.

## Authored By

This research study is authored by Kenan Bagci (SESRIC), Abdouramane Diallo (ITFC) and Anisse Terai (ITFC)


## Acknowledgments

The authors would like to thank Jean Bertrand Azapmo, Principal Adviser at African Union Commission (AUC), Silver Ojakol, Chief of Staff of the AfCFTA Secretariat, Amal Elbeshbishi, Economic Affairs Officer at United Nations Economic Commission for Africa (UNECA), Cheikh Oumar Dia, Country Economist at the Islamic Development Bank (IsDB) and Esat Bakimli, Senior Researcher at SESRIC for their valuable inputs and suggestions to improve this publication.


## Disclaimer

The findings, interpretations, views and conclusions expressed herein are those of the authors and do not necessarily reflect the views of ITFC, IsDB Group or SESRIC. While ITFC and SESRIC believe that the information provided is accurate, the information is provided on a strictly "as-is" basis, without assurance or representation of any kind.

# Potential Impacts of the African Continental Free Trade Area (AfCFTA) on the Selected OIC Countries – Main Findings

**What is the African Continental Free Trade Agreement?**

The Agreement Establishing the African Continental Free Trade Area (ACFTA) was signed in March 2018, entered into force in May 2019 and became operational in January 2021. As of December 2020, 34 African countries out of 54 signatory countries ratified the agreement. The main objective of the AfCFTA is to integrate, diversify and industrialise African economies of about 1.3 billion people with a combined gross domestic product (GDP) of USD 2.5 trillion in current prices, or USD 6.8 trillion based on purchasing power parity (PPP). The AfCFTA is expected to facilitate, harmonize and better coordinate trade regimes, and eliminate challenges related with overlapping trade agreements across the continent. Estimations show that intraregional trade increases significantly when bilateral tariffs are removed. If supplemented with additional trade reforms, the gains are expected to be much higher. The expected gains are not to be limited to international trade only. The agreement would support greater economic integration, foster competitiveness of the domestic industries, facilitate better allocation of resources and help to attract greater foreign direct investments.

**Why is the AfCFTA important for African OIC countries?**

The current volumes of trade and investment among the African countries, roughly half of which are also OIC member countries, are not at desired levels. Among the 27 OIC countries in Africa, 18 countries (Niger, Chad, Djibouti, Guinea, Mali, Mauritania, Uganda, Côte d'Ivoire, Senegal, Togo, Egypt, Gambia, Sierra Leone, Burkina Faso, Gabon, Tunisia, Cameroon and Nigeria) have already started trading under AfCFTA, reflecting their ambitions to foster regional integration. Yet, the current levels of trade and investment among the African OIC as well as with the rest of the continent remain lower compared to any other regional major trade bloc. Elimination of tariff may facilitate regional integration of African OIC countries, but this may be associated with multiple challenges and opportunities.

**What is the purpose of this study?**

By specifically focusing on six OIC countries in Africa, namely Côte d'Ivoire, Egypt, Guinea, Mozambique, Tunisia and Uganda, this study aims to assess the extent to which African OIC countries will be affected from the elimination of tariff barriers. Considering the significant effects expected on the economic and commercial linkages among African countries following the AfCFTA, this study presents an estimation of the potential impacts on the selected OIC countries. In particular, it provides simulation results on the possible changes in output, trade and welfare at aggregated and sectoral levels. The report also aims to provide some policy directions towards better utilizing the agreement based on the projected outcomes.

**How are the impacts estimated?**

In order to assess the potential long-term effects of the agreement on these countries, the computable general equilibrium model (CGEM) developed by the Global Trade Analysis Project (GTAP) is used. The model is estimated by using GTAP 10 database, which is aggregated into 24 sectors. Two different scenarios are used to analyse the potential impacts of the AfCFTA. The first scenario assumes full tariff elimination on imported goods within Africa. The second scenario considers a partial elimination of tariffs where one product category (out of 20 agricultural and manufacturing sectors) is excluded to retain the tariffs to take into account the "sensitive and excluded" products.

### How was the current level of trade and protectionism before the AfCFTA?

Trade relations of the six OIC countries with other African countries are relatively weak as compared with other major economies. Over the last decade, Uganda has the highest share of exports with African countries (51.9%), and Guinea has the lowest share (11.2%). With regards to imports, Mozambique imports the most from other African countries (30.9%), but it is the lowest in Egypt (2.9%). After its operationalization, the AfCFTA may contribute to enhanced cooperation and trade relations among the African countries. Most protected sectors appear to be wearing apparel, leather products, meat products, vegetable, fruit and nuts, and beverages and tobacco products. Uganda applies the lowest levels of tariffs, but the rates are significantly high in the cases of Côte d'Ivoire and Guinea. Accordingly, one would expect greater impacts of tariff elimination on these two countries.

Even if Côte d'Ivoire applies high tariff rates in various sectors, their share in total imports from Africa usually does not exceed 2% level. The country primarily imports hydrocarbons and minerals and the tariff rate in this sector is zero. This is also the case in Tunisia. The case of Guinea is slightly different from the case of Côte d'Ivoire, since Guinean imports are less concentrated and some products with higher share of imports also face high tariff rates, such as agroindustry, beverages and tobacco products. Therefore, elimination of tariffs in Guinea is likely to have more transformative impacts on the economic structure. In Egypt, products with the highest share of imports have tariff rates below 1%. In Mozambique, this rate reaches up to 3.5%, but Uganda applies the highest duties on agroindustry products that have relatively higher share of imports.

### What are the overall economic and trade impacts on the selected OIC countries?

Due to major shifts in economic activities following a full trade liberalization, gross domestic product (GDP) of Guinea is estimated to increase by 6.5%. A strong impact is also expected in the case of Côte d'Ivoire with an increase of 5.3% in GDP. Tunisia (0.7%), Uganda (0.4%) and Egypt (0.4%) are expected to see small increases in their GDP, whereas Mozambique may witness a small contraction in total economic activities by 0.4%. In terms of welfare impacts, Côte d'Ivoire is estimated to see the largest benefits from trade liberalization, followed by Egypt and Guinea. Mozambique may again experience a negative welfare effect. Estimated impacts on total change in GDP and welfare barely change in the case of partial liberalization, which are mostly lower than the magnitude estimated in the case of full liberalization.

In aggregate terms, imports are expected to rise most in Côte d'Ivoire (10.9%) and Guinea (7.3%), whereas the growth of aggregate imports will remain below 2% in other countries. Particularly in Côte d'Ivoire and Guinea, the rise in exports is expected to be significantly below the increase in imports, with potential implications on trade balances. In case of partial liberalization, estimated impacts either decline slightly or remain unchanged. Intra-African trade is estimated to increase highest in Guinea (137%), followed by Côte d'Ivoire (68%) and Tunisia (30%).

### Which sectors will be affected most?

Depending on country specific characteristics, while some sectors will experience a contraction in their production, others are expected to gain greater share in total national production. Following a full liberalization, outputs in leather and metal products in Côte d'Ivoire are estimated to increase around 18-20%, but machinery and equipment sector may see a contraction over 10%. On the other hand, production in Egypt is expected to grow the most in machinery and equipment and contract the most in leather products. Similarly in Guinea, Tunisia and Uganda, leather products sector is expected to contact the most. Refining and petrochemicals in Guinea, other agriculture products in Mozambique, paper and wood products in Tunisia, and metal products in Uganda are expected to see the highest growth in production.

In terms of exports, sectors that are found to export more after full trade liberalization are leather products (157%) in Côte d'Ivoire, motor vehicles and parts (24%) in Egypt, refining and petrochemicals in Guinea (45%), machinery and equipment (13%) in Mozambique, paper and wood products (40%) in Tunisia and other manufacturing (56%) in Uganda. On imports side, Côte d'Ivoire and Guinea are expected to experience significant rises in import flows; more specifically in other manufacturing products and leather products in Côte d'Ivoire, and in meat products, other agriculture products in Guinea.

**What are the impacts on trading partners?**
With the elimination of tariffs, intra-African trade is expected to rise at the expense of European and other trading partners outside of the region, implying a trade diversion. However, since aggregate exports are expected to rise in value, trade liberalization has also trade creation effect. The largest impact is expected in trade patterns of Côte d'Ivoire. It is to export an additional US$ 1.7 billion worth of goods and services to African countries (both OIC and non-OIC), mainly at the expense of a decline of over US$ 1 billion in exports to EU, USA, and other developed countries. Trade diversion and creation effects are estimated to be low in the cases of Mozambique and Uganda.

Intra-African trade (exports plus imports) is expected to grow most in Guinea (137%), followed by Côte d'Ivoire (68%) and Tunisia (30%). The lowest impact is expected on Uganda's trade. In almost all cases, trade with the rest of the world will fall. On aggregate, total trade of the six OIC countries is expected to grow by 30% with other African countries, but decline by 3.1% with the rest of the world. On the other hand, intra-African trade is expected to grow by 19.9% at continental level, while trade with the rest of the world to fall by 1.2%.

**Which sectors will require more skilled labour and capital?**
Driven by the change in production and trade structure, demand for labour is expected to shift significantly across major economic sectors. Labour is expected to move towards the production of leather and metal products in Côte d'Ivoire, largely shifting form machinery and equipment, and textiles sectors. In Egypt, more labour will be needed in machinery and equipment but less in leather products and other agriculture. Labour in Mozambique is expected to move mainly from meat products to other agriculture sector. Non-metallic mineral products in Tunisia will require more labour to absorb the falling demand for labour in wearing apparel and leather products sectors. Metal products sector in Uganda is expected to experience the highest increase in labour demand.

Economic transformation may also require additional capital to be invested. In Côte d'Ivoire, the demand for capital is estimated to increase in leather products (20%) and metal products (18.3%), but to decrease in machinery and equipment (-10.2%) and textiles (-7.9%). Demand for capital in Egypt is expected to increase by 3.4% in machinery and equipment. Major shift in demand for capital is expected in Guinea to achieve economic transformation. Refining and petrochemicals (33.3%) and machinery and equipment (25.5%) are expected to see highest increase in demand for capital, but the opposite is expected in leather products (-18.8%) and textiles (-16.6%). More capital will be needed in other agriculture (3.8%) sector in Mozambique but less capital in meat products (-8.7%). In Tunisia, more capital will move to production of paper and wood products (8.8%) and non-metallic mineral products (5.8%) but less to leather products (-2.6%) and wearing apparel (-2.4%). Finally, a significant reallocation of capital towards metal products (8.4%) is expected in Uganda.

> **Depending on country specific characteristics, while some sectors will experience a contraction in their production, others are expected to gain greater share in total national production.**

**What are the possible challenges?**
Trade liberalization following the AfCFTA will boost trade among the African countries and create important welfare gains. even if there is a total welfare gain from trade liberalization, certain sectors, firms and workers will be negatively affected, requiring government interventions to alleviate the short and medium term negative impacts. The cost of adjustment may be particularly high for unskilled labour and SMEs with limited competitiveness, particularly in countries where significant restructuring is expected. Inadequate reaction by the governments may fuel the dissatisfaction by these groups and create social tensions.

**What are the main policy recommendations?**
The COVID-19 pandemic is likely to cause some

delay in the effective implementation of the AfCFTA and hamper economic integration due to restricted travel across borders and higher protectionism in strategic health products. Yet, measures can be taken to turn the pandemic into an opportunity for stronger economic integration. Intra-African trade offers great potential to establish regional value chains and boost economic growth and integration during the post-pandemic period.

There is also significant room for the development of trade among African OIC countries. Two OIC countries, Egypt and Nigeria account nearly one third of the total GDP of the continent but their involvement in intra-African trade is less than 10%. Together with other major OIC countries, they can play more critical role in enhancing economic integration in the continent. African countries are already characterized by limited diversification of production structure and lack of technological intensity. Trade barriers were utilized to partly protect domestic industries. Their gradual removal under the AfCFTA would expose domestic producers to greater competition from other countries in the continent that produce similar products. As a result, there is a need for investing more in capacities to differentiate products, investing in value chains and improving the infrastructure for the movement of goods and people. Exposure to greater competition and incentives to differentiate products may be a driver of productivity and growth within the continent, with further implications on poverty, inequality and development.

# County level summaries

## CÔTE D'IVOIRE

| | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION |
|---|---|---|---|---|---|---|
| GDP and Welfare | Change in GDP (%) | 5.3% | 5.0% | Welfare gains | US$ 642.6 million | US$ 611.2 million |
| | Sectors with highest output increase (%) | Leather products (20%) | Metal products (19.4%) | Sectors with highest output decrease (%) | Machinery and equipment (-10.2%) | Machinery and equipment (-9.6%) |
| Exports | Exports to World (%) | 6.5% | 6.3% | Exports to Africa (%) | 68.6% | 65.8% |
| | Sectors with highest increase (%), total | Leather products (156.6%) | Leather products (102.1%) | Sectors with highest decrease (%), total | Pharmaceuticals (-25.9%) | Pharmaceuticals (-24.7%) |
| Imports | Imports from the world (%) | 10.9% | 10.5% | Imports from Africa (%) | 67.6% | 64.8% |
| | Sectors with highest increase (%), total | Other manufacturing (24.0%) | Other manufacturing (22.8%) | Sectors with lowest increase (%), total | Other agro-food products (3.6%) | Other agro-food products (3.3%) |

Existing trade relations of Côte d'Ivoire with African countries is relatively stronger than other countries investigated in this study. The continent accounts for 31.4% of exports and 28.3% of imports of Côte d'Ivoire. However, average tariff rates applied by Côte d'Ivoire for imports from Africa is relatively high, reaching up to 19.6% in the case of leather products, according to the GTAP 2014 baseline data. Côte d'Ivoire is among the countries that are expected to gain significantly from the AfCFTA. Total GDP of Côte d'Ivoire will rise more than 5% with a total estimated welfare gain over US$ 600 million. Production in leather (20.0%) and metal sectors (18.3%) are expected to boom, while it is expected to contract in machinery and equipment (-10.2%), computer, electronic and optic (-7.8%) and textiles (-7.8%) sectors.

In aggregate terms, total imports are expected to rise most in Côte d'Ivoire (10.9%) in the case of full liberalization. At sectoral level, Côte d'Ivoire is expected to experience

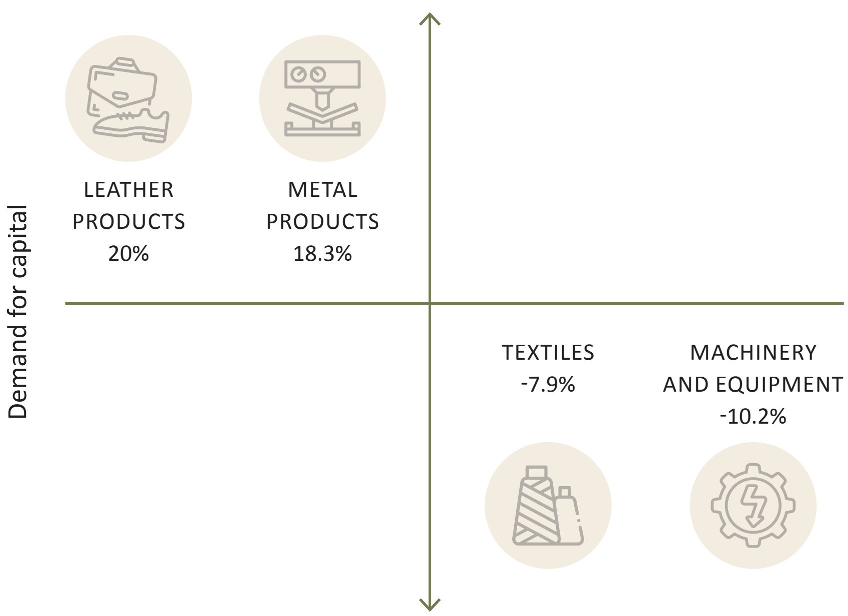
**Existing trade relations of Côte d'Ivoire with African countries is relatively stronger than other countries investigated in this study. The continent accounts for 31.4% of exports and 28.3% of imports of Côte d'Ivoire.**

## With respect to trading partners, the largest impact among the six OIC countries is expected in Côte d'Ivoire. It is to export an additional US$ 1.7 billion worth of goods and services to African countries

significant rises in import flows. Demand for foreign products will significantly increase in other manufacturing products (24.0%), leather products (21.5%) and metal products (20.0%) in Côte d'Ivoire. Total exports will increase by 6.5%, with largest increase in leather products (156.6%) and metal products (62.1%). In the case of partial liberalization, total import growth will be 10.5% and no substantial change from the case of full liberalization is expected at sectoral level.

With respect to trading partners, the largest impact among the six OIC countries is expected in Côte d'Ivoire. It is to export an additional US$ 1.7 billion worth of goods and services to African countries, mainly at the expense of a decline of over US$ 1 billion in exports to EU, USA, and other developed countries. The results are slightly lower in the case of partial liberalization. Intra-African trade (exports plus imports) is expected to grow by 68%.
In terms of bilateral trade, exports from Côte d'Ivoire to Egypt to decline in most product categories, but substantial rises are expected in refining and petrochemicals as well as in vegetables, fruits and nuts. Its exports to Guinea would rise in most product categories, with significant impacts on meat and leather products. Exports to Mozambique would rise substantially in refining and petrochemicals and agroindustry products, but a fall in exports is expected in many other sectors. Exports to Tunisia would increase the most in agroindustry and paper products but would decline in the most of the other sectors. Finally, exports from Côte d'Ivoire to Uganda are expected to increase most in refining and petrochemicals, and non-metallic mineral products, but fall in the most of the other sectors. On the other hand, exports to other African countries are expected increase the most in other agriculture, leather and metal products.

Finally, with regards to the factors of production, labour is expected to move towards the production of leather and metal products, largely shifting form machinery and equipment, and textiles sectors. The demand for capital is estimated to increase in leather products (20%) and metal products (18.3%), but to decrease in machinery and equipment (-10.2%) and textiles (-7.9%).



# County level summaries

## EGYPT

| | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION |
|---|---|---|---|---|---|---|
| GDP and Welfare | Change in GDP (%) | 0.4% | 0.4% | Welfare gains | US$ 244.2 million | US$ 226.2 million |
| | Sectors with highest output increase (%) | Machinery and equipment (3.4%) | Machinery and equipment (3.4%) | Sectors with highest output decrease (%) | Leather products (-0.7%) | Leather products (-0.7%) |
| Exports | Exports to World (%) | 0.6% | 0.6% | Exports to Africa (%) | 18.0% | 16.8% |
| | Sectors with highest increase (%), total | Motor vehicles and parts (23.7%) | Motor vehicles and parts (3.4%) | Sectors with highest decrease (%), total | Other agriculture (-2.9%) | Other agriculture (-2.8%) |
| Imports | Imports from the world (%) | 0.6% | 0.6% | Imports from Africa (%) | 17.9% | 16.7% |
| | Sectors with highest increase (%), total | Livestock, fish & other animal products (1.0%) | Livestock, fish & other animal products (0.9%) | Sectors with lowest increase (%), total | Beverages and tobacco (0.1%) | Beverages and tobacco products (0.1%) |

Although it is one of the biggest economies in Africa, Egypt has relatively weaker trade relations with African countries. The continent accounts for 13.3% of exports and only 2.9% of imports of Egypt. Average tariff rates applied by Egypt for imports from Africa is also relatively low, reaching up to 12.8% in the case of wearing apparel and 8.5% in leather products, according to the GTAP 2014 baseline data. Expected gains from full trade liberalization under AfCFTA is comparably low. Total GDP of Egypt will rise by only around 0.4% with a total estimated welfare gain over US$ 240 million. Production in machinery and equipment (3.4%) and motor vehicles sectors (1.0%) are expected to increase the most, while it is expected to contract slightly in leather (-0.7%), other agriculture (-0.4%) sectors.

In aggregate terms, total imports are expected to rise modestly in Egypt (0.6%) in the case of full liberalization. At sectoral level, Egypt is not expected to experience significant rises in import flows. Demand for foreign products will increase in livestock, fish & other animal products (1.0%), textiles (1.0%) and other agro-food

**Although it is one of the biggest economies in Africa, Egypt has relatively weaker trade relations with African countries. The continent accounts for 13.3% of exports and only 2.9% of imports of Egypt.**

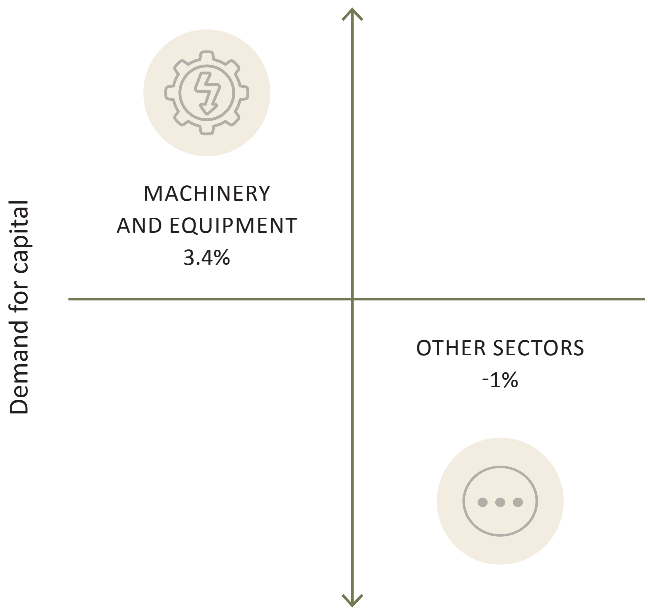
**With respect to trading partners, the second largest impact is expected in Egypt. It is to export an additional US$ 790 million worth of goods and services to African countries**

products (1.0%) in Egypt. On the other hand, exports of motor vehicles and parts is expected to boost by 23.7%. In the case of partial liberalization, total import and export growth will remain at 0.6% and no substantial change is expected at sectoral level imports as compared to the case of full liberalization.

With respect to trading partners, the second largest impact is expected in Egypt. It is to export an additional US$ 790 million worth of goods and services to African countries, mainly at the expense of a decline of over US$ 345 million in exports to EU, USA, and other developed countries, but also GCC countries (US$ 57 million). The results are slightly lower in the case of partial liberalization. Intra-African trade (exports plus imports) is expected to grow by 18%.

Exports from Egypt is expected to rise in almost all sectors in its trade with Côte d'Ivoire and Guinea, but particularly strong impact is expected in utility and construction services and wearing apparel for both countries. Its exports to Mozambique is also expected to rise significantly in majority of sectors, where textiles and wearing apparel are expected to benefit most. A smaller impact is expected in exports of Egypt to Tunisia in almost all sectors, except meat products, which are expected to enjoy a substantial increase. Finally, a considerable increase is expected in its exports to Uganda, particularly in agroindustry, and hydrocarbon and minerals. On the other hand, exports of motor vehicles, wearing apparel and textile products are expected to rise most from Egypt to other African countries.

Finally, with regards to demand for the factors of production, more labour will be needed in machinery and equipment but less in leather products and other agriculture. The demand for capital is expected to increase by 3.4% in machinery and equipment, but the expected change in demand in other sectors will be below 1%.



# County level summaries

## GUINEA

| | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION |
|---|---|---|---|---|---|---|
| GDP and Welfare | Change in GDP (%) | 0.4% | 0.4% | Welfare gains | US$ 244.2 million | US$ 226.2 million |
| | Sectors with highest output increase (%) | Machinery and equipment (3.4%) | Machinery and equipment (3.4%) | Sectors with highest output decrease (%) | Leather products (-0.7%) | Leather products (-0.7%) |
| Exports | Exports to World (%) | 0.6% | 0.6% | Exports to Africa (%) | 18.0% | 16.8% |
| | Sectors with highest increase (%), total | Motor vehicles and parts (23.7%) | Motor vehicles and parts (3.4%) | Sectors with highest decrease (%), total | Other agriculture (-2.9%) | Other agriculture (-2.8%) |
| Imports | Imports from the world (%) | 0.6% | 0.6% | Imports from Africa (%) | 17.9% | 16.7% |
| | Sectors with highest increase (%), total | Livestock, fish & other animal products (1.0%) | Livestock, fish & other animal products (0.9%) | Sectors with lowest increase (%), total | Beverages and tobacco (0.1%) | Beverages and tobacco products (0.1%) |

Guinea has relatively weaker trade relations with African countries. The continent accounts for 11.2% of exports and only 10.3% of imports of Guinea. Average tariff rates applied by Guinea for imports from Africa is one of the highest, reaching up to 19.9% in the case of leather products and 19.6% in vegetables, according to the GTAP 2014 baseline data. Expected gains from trade liberalization under AfCFTA is accordingly large. Total GDP of Guinea will rise by around 6.5% with a total estimated welfare gain over US$ 220 million. Production in refining and petrochemicals (34.4%) and machinery and equipment (27.2%) are expected to increase the most, while it is expected to contract slightly in leather (-18.0%), textiles (-15.7%) sectors.

In aggregate terms, total imports are expected to rise most in Guinea (7.3%) in the case of full liberalization. At sectoral level, Guinea is expected to experience significant rises in import flows. Demand for foreign products will increase in meat products (32.0%), other agriculture (26.1%) and trade services (22.6%) in Guinea. Exports of refining and petrochemicals is expected to boost by 45.3%, while it is expected to contract by 35.1% in other agriculture products. In the case of partial liberalization, total import growth will remain

**Guinea has relatively weaker trade relations with African countries. The continent accounts for 11.2% of exports and only 10.3% of imports of Guinea.**

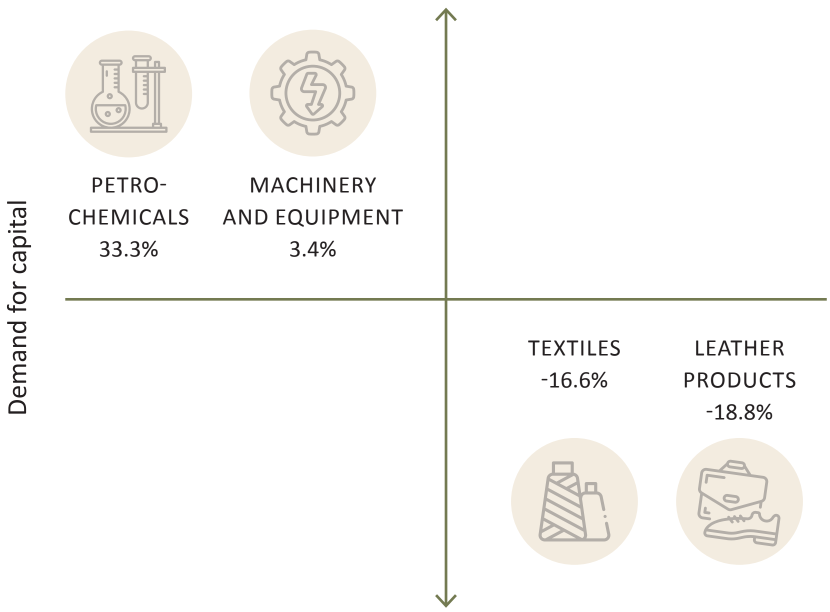
## A significant impact is expected in trading partners of Guinea. It is to export an additional US$ 570 million worth of goods and services to African countries

at 7.3% and no substantial change is expected at sectoral level imports as compared to the case of full liberalization.

A significant impact is expected in trading partners of Guinea. It is to export an additional US$ 570 million worth of goods and services to African countries, mainly at the expense of a decline of over US$ 210 million in exports to developed countries, but also a fall in exports by US$ 140 million to GCC countries. The results are slightly lower in the case of partial liberalization. On the other hand, intra-African trade (exports plus imports) is expected to boost by 136%, which demonstrates the largest impact among the six selected OIC countries.

In terms of bilateral trade, the simulated changes in bilateral exports of Guinea resemble to the case of Côte d'Ivoire. While its exports fall in many products categories, few others enjoy very strong rises. In percentage terms, its exports to Côte d'Ivoire is expected to rise most in meat, and machinery and equipment. Its exports to Egypt is also expected to increase significantly in non-metallic mineral products, and machinery and equipment, while it is expected to fall in almost all other remaining sectors. Exports from Guinea to Mozambique and Uganda would fall in almost all sectors, but its exports to Uganda would rise substantially in textiles. Its exports to Tunisia is also expected to rise in machinery and equipment, motor vehicles and agroindustry. In percentage terms, the highest increase in exports would be observed in computer, electronic and optic to African OIC countries, but in other manufacturing products to other African countries

Driven by the change in production and trade structure, demand for labour is expected to shift significantly across major economic sectors in Guinea. Refining and petrochemicals, and machinery and equipment will require considerably more labour, but the opposite is expected in leather products and textiles. Similarly, a major shift in demand for capital is also expected in Guinea to achieve economic transformation. Refining and petrochemicals (33.3%) and machinery and equipment (25.5%) are expected to see highest increase in demand for capital, but the opposite is expected in leather products (-18.8%) and textiles (-16.6%).



# County level summaries

## MOZAMBIQUE

| | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION |
|---|---|---|---|---|---|---|
| GDP and Welfare | Change in GDP (%) | -0.4% | -0.3% | Welfare gains | US$ -27.9 million | US$ -21.9 million |
| | Sectors with highest output increase (%) | Other agriculture products (3.7%) | Other agriculture products (3.5%) | Sectors with highest output decrease (%) | Meat products (-8.7%) | Motor vehicles and parts (-1.8%) |
| Exports | Exports to World (%) | 0.7% | 0.5% | Exports to Africa (%) | 1.4% | 1.5% |
| | Sectors with highest increase (%), total | Machinery and equipment (12.5%) | Machinery and equipment (11.9%) | Sectors with highest decrease (%), total | Refining and petro-chemicals (-0.6%) | Refining and petrochemicals (-0.9%) |
| Imports | Imports from the world (%) | 0.6% | 0.5% | Imports from Africa (%) | 1.4% | 1.5% |
| | Sectors with highest increase (%), total | Meat products (16.9%) | Vegetables, fruit, nuts (15.6%) | Sectors with lowest increase (%), total | Paper and wood products (-0.3%) | Meat products (-0.7%) |

Mozambique maintains relatively more intense trade relations with African countries, which accounts for 25.9% of exports and 30.9% of imports of the country. Average tariff rates applied by Mozambique for imports from Africa is also relatively low, reaching up to 11.7% in the case of meat products and 10.2% in vegetables and fruits, but mostly close to zero in many other sectors, according to the GTAP 2014 baseline data. Expected gains from trade liberalization under AfCFTA is negative. Total GDP of Mozambique will shrink by around 0.4% with a total estimated welfare loss over US$ 20 million, reflecting limited economic diversification to tap on possible opportunities following the trade liberalization. Production in other agriculture (3.7%) and machinery and equipment (1.9%) are expected to increase the most, while it is expected to contract in meat products (-8.7%).

In aggregate terms, total imports are expected to grow only by 0.6% in Mozambique in the case of full liberalization. At sectoral level, Mozambique is not expected to experience significant rises in import flows, except meat products (16.9%), and vegetables and fruits (15.3%). Similarly, total exports to rise only 0.7%, with the largest impact expected on machinery and equipment (12.5%) and other agriculture (9.5%)

**Mozambique maintains relatively more intense trade relations with African countries, which accounts for 25.9% of exports and 30.9% of imports of the country.**

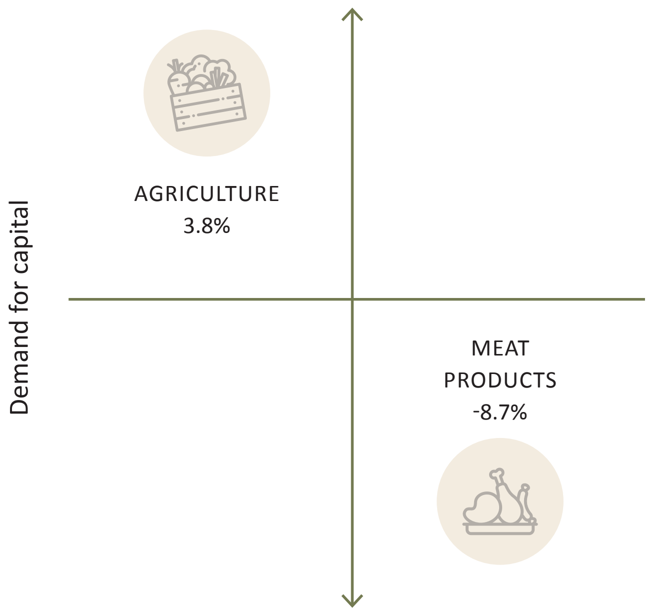
**With respect to trading partners, the least impact is expected in Mozambique. It is expected to export an additional US$ 40 million worth of goods and services to African countries**

sectors. In the case of partial liberalization, total import and export growth are expected to remain slightly below the growth in under full liberalization and no substantial change is expected at sectoral level imports as compared to the case of full liberalization.

With respect to trading partners, the least impact is expected in Mozambique. It is expected to export an additional US$ 40 million worth of goods and services to African countries, without experiencing a decline in exports to other trading partners. The results are slightly lower in the case of partial liberalization. Intra-African trade (exports plus imports) is expected to grow by 1.4%, while it is expected to grow by 0.2% with non-African countries.

In terms of bilateral trade, Mozambique is also expected to experience moderate growth rates in exports of most product categories. Its exports of metal products, and machinery and equipment to Côte d’Ivoire are expected to see the highest growth rates. A significant increase is expected in exports of vegetables, fruits and nuts to Egypt. In exports to Guinea, a more moderate increase is expected, with meat and other agriculture products to be affected most. Exports to Tunisia is not expected to be effected too much. Textiles exports to Uganda would see the highest increase. Exports of metal products to African OIC countries would see the highest increase, but exports of other food and agriculture, and paper and wood products would increase most to other African countries.

Finally, with regards to demand for the factors of production, labour is expected to move mainly from meat products to other agriculture sector. In the same fashion, more capital will be needed in other agriculture (3.8%) sector in Mozambique but less capital in meat products (-8.7%).



# County level summaries

## TUNISIA

| | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION |
|---|---|---|---|---|---|---|
| GDP and Welfare | Change in GDP (%) | 0.7% | 0.7% | Welfare gains | US$ 114.2 million | US$ 108.6 million |
| | Sectors with highest output increase (%) | Paper and wood products (8.8%) | Paper and wood products (8.8%) | Sectors with highest output decrease (%) | Leather products (-2.6%) | Leather products (-2.6%) |
| Exports | Exports to World (%) | 0.8% | 0.8% | Exports to Africa (%) | 29.9% | 28.6% |
| | Sectors with highest increase (%), total | Paper and wood products (40.1%) | Paper and wood products (40.1%) | Sectors with highest decrease (%), total | Leather products (-2.7%) | Leather products (-2.7%) |
| Imports | Imports from the world (%) | 1.0% | 0.9% | Imports from Africa (%) | 29.9% | 28.7% |
| | Sectors with highest increase (%), total | Paper and wood products (4.0%) | Paper and wood products (3.9%) | Sectors with lowest increase (%), total | Textiles (-0.3%) | Textiles (-0.2%) |

Existing trade relations of Tunisia is oriented more towards the EU countries. African countries account for 13.2% of exports and only 7.5% of imports of Tunisia. Average tariff rates applied by Tunisia for imports from Africa is also relatively low in many sectors, excluding wearing apparel, beverages and tobacco products, and leather products. Expected gains from full trade liberalization under AfCFTA is comparably low. Total GDP of Tunisia will rise by only around 0.7% with a total estimated welfare gain over US$ 110 million. Production in paper and wood products (8.8%) and non-metallic mineral products (5.8%) are expected to increase the most, while it is expected to contract slightly in leather (-2.6%), wearing apparel (-2.4%) sectors.

Total imports and exports of Tunisia to world are expected to rise modestly by 1.0% and 0.8%, respectively. At sectoral level, Tunisia is not expected to experience significant rises in import flows, not exceeding 4% in any sector. However, exports of paper and wood products (40.1%) and non-metallic mineral products (26.4%) are expected to grow substantially. In the case of partial liberalization, total import and export growth will remain at around the same levels and no substantial change is expected at sectoral level imports.

**Existing trade relations of Tunisia is oriented more towards the EU countries. African countries account for 13.2% of exports and only 7.5% of imports of Tunisia.**

**A moderate change is expected with respect to trading partners of Tunisia. It is to export an additional US$ 550 million worth of goods and services to African countries, mainly at the expense of a decline of over US$ 360 million in exports to EU countries.**

A moderate change is expected with respect to trading partners of Tunisia. It is to export an additional US$ 550 million worth of goods and services to African countries, mainly at the expense of a decline of over US$ 360 million in exports to EU countries. The results are slightly lower in the case of partial liberalization. Intra-African trade (exports plus imports) is expected to grow by almost 30%, while declining by 2.4% with non-African partners, reflecting certain level of reorientation of trade towards Africa.

In terms of bilateral trade, full trade liberalization would strongly stimulate exports from Tunisia to Côte d'Ivoire, Guinea and other African countries. Exports of meat products, metal products and wearing apparel to Côte d'Ivoire would rise more than 300%. Exports of textiles and motor vehicles to Guinea would rise more than 160%. Exports of machinery and equipment as well as agroindustry products to Mozambique would see the highest rises, but most of other products would see a decline in exports. Similarly, its exports to Uganda would surge in paper and wood products as well as vegetables, fruits and nuts. On the other hand, exports to Egypt would decline in all product groups within a range of 1% to 5%. Substantial increase is expected in exports of many product categories to other African countries. Particularly benefiting sectors are wearing apparel, textile, and computer, electronic and optic sectors, but in seven other sectors, the rise would also exceed 100%.

Finally, with regards to demand for the factors of production, non-metallic mineral products in Tunisia will require more labour to absorb the falling demand for labour in wearing apparel and leather products sectors. On the other hand, more capital will move to production of paper and wood products (8.8%) and non-metallic mineral products (5.8%) but less to leather products (-2.6%) and wearing apparel (-2.4%).

# County level summaries

## UGANDA

| | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION | | FULL LIBERALIZATION | PARTIAL LIBERALIZATION |
|---|---|---|---|---|---|---|
| GDP and Welfare | Change in GDP (%) | 0.4% | 0.6% | Welfare gains | US$ 15.1 million | US$ 18.2 million |
| | Sectors with highest output increase (%) | Metal products (8.4%) | Metal products (8.2%) | Sectors with highest output decrease (%) | Leather products (-2.5%) | Leather products (-2.9%) |
| Exports | Exports to World (%) | 1.2% | 0.9% | Exports to Africa (%) | 13.3% | 12.3% |
| | Sectors with highest increase (%), total | Other manufacturing (56.4%) | Other manufacturing (40.6%) | Sectors with highest decrease (%), total | Leather products (-2.9%) | Leather products (-3.6%) |
| Imports | Imports from the world (%) | 1.8% | 1.4% | Imports from Africa (%) | 13.2% | 12.2% |
| | Sectors with highest increase (%), total | Agroindustry (13.1%) | Vegetables, fruit, nuts (8.9%) | Sectors with lowest increase (%), total | Pharmaceuticals (0.5%) | Pharmaceuticals (0.6%) |

Uganda maintains relatively strong trade relations with African countries. The continent accounts for 51.9% of exports (which is the highest among the six OIC countries) and 19.6% of imports of Uganda. Average tariff rates applied by Uganda for imports from Africa is also relatively low, not exceeding 8% in any product category classified based on the GTAP 2014 data. Due to already low tariff rates, expected gains from full trade liberalization under AfCFTA is comparably low. Total GDP of Uganda will rise by only around 0.4% with a total estimated welfare gain over US$ 15 million. Production in metal products (8.4%) and other manufacturing (4.0%) are expected to increase the most, while it is expected to contract in leather (-2.5%), and computer, electronic and optic (-1.7%) sectors.

In aggregate terms, total imports and exports are expected to rise modestly by 1.8% and 1.2%, respectively, in Uganda following full trade liberalization. At sectoral level, Uganda is not expected to experience significant rises in import flows. Demand for foreign products will increase in agroindustry products (13.0%), vegetables and fruits (8.7%) and

**Uganda maintains relatively strong trade relations with African countries. The continent accounts for 51.9% of exports (which is the highest among the six OIC countries) and 19.6% of imports of Uganda.**

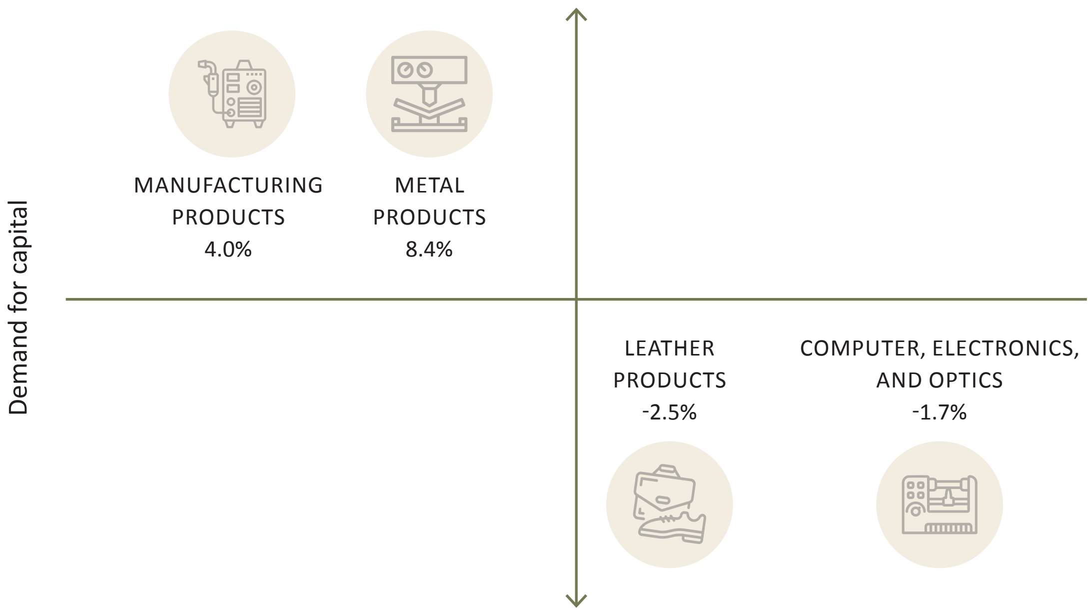
**With respect to trading partners, a moderate impact is expected in Uganda. It is expected to export an additional US$ 128 million worth of goods and services to within the continent,**

wearing apparel (4.5%) in Uganda. On the other hand, exports will boost in other manufacturing (56.4%), metal products (38.9%) and textiles (15.0%). In the case of partial liberalization, total import and export growth will fall slightly but no substantial change is expected at sectoral level imports as compared to the case of full liberalization.

With respect to trading partners, a moderate impact is expected in Uganda. It is expected to export an additional US$ 128 million worth of goods and services to within the continent, mainly at the expense of a decline of over US$ 50 million in exports to EU, USA, and other developed countries. The results are slightly lower in the case of partial liberalization. Intra-African trade (exports plus imports) is expected to grow by 15.6%, while it will fall by 1% with the rest of the world.

In terms of bilateral trade, agroindustry exports from Uganda is expected to see the highest increase to Côte d'Ivoire. Almost all other sectors are expected to see a positive change in exports. While exports of refining and petrochemicals, and wearing apparel to Egypt are expected to increase at considerable rates, exports in almost all remaining sectors are found to decline. In percentage terms, the highest increase in exports from Uganda to Guinea is estimated to be in computer, electronic and optic products. In its exports to Mozambique, the highest increase would be in refining and petrochemicals. While the exports of other agricultural products would increase substantially to Tunisia, exports of other product categories would see negligible growth or decline. Exports of Uganda to African OIC countries would increase most in non-metallic mineral products but in meat products to other African countries.

Finally, with regards to demand for the factors of production, metal products (8.7%) and other manufacturing (4.2%) sectors in Uganda is expected to experience the highest increase in labour demand. Moreover, a significant reallocation of capital towards metal products (8.4%) is expected in Uganda.



# Conclusion

Trade liberalization following the AfCFTA will boost trade among the African countries and create important welfare gains, as the estimations with the computable general equilibrium model have revealed. Depending on the assumptions made, significant changes in the magnitude of impacts might occur. However, the main objective of this research study is to put the possible changes in trade and development into perspective in relative terms instead of absolute terms. Moreover, even if there is a total welfare gain from trade liberalization, certain sectors, firms and workers will be negatively affected, requiring government interventions to alleviate the short- and medium-term negative impacts. The cost of adjustment may be particularly high for unskilled labour and SMEs with limited competitiveness, particularly in countries where significant restructuring is expected. The inadequate reaction by the governments may fuel the dissatisfaction by these groups and create social tensions.

The COVID-19 pandemic is likely to cause some delay in the effective implementation of the AfCFTA and hamper economic integration due to restricted travel across borders and higher protectionism in strategic health products. Yet, measures can be taken to turn the pandemic into an opportunity for stronger economic integration. Intra-African trade offers great potential to establish regional value chains and boost economic growth and integration during the post-pandemic period. In fact, African countries trade more manufacturing goods within the region than in their trade with non-African countries. Products with high added value such as vehicles and cosmetics represent about 40% of intra-African trade, while exports to countries outside the continent are largely dominated by raw materials (Schmieg, 2020). Therefore, reducing reliance on external markets, creating supply chains in critical manufacturing industries and promoting trade in differentiated products would support regional integration and boost intra-continental trade.

There is also significant room for the development of trade and integration among African OIC countries. OIC countries in Africa collectively account for more than 60% of the continent's total GDP, 54% of exports and 58% of imports. They represent a strong capacity to play a more critical role in enhancing economic integration in the continent. African countries are mostly characterized by limited diversification of production structure and lack of technological intensity, and African OIC countries are not an exemption. Removal of trade barriers, which were utilized in many parts of the continent to provide partial protection to domestic industries, and facilitation of trade through additional measures would support the creation of regional value chains to foster economic development.

Free movement of goods will definitely expose domestic producers to greater competition from other countries in the continent that produce similar products. This would require more investment in productive capacities to differentiate products, more emphasis on creating regional value chains and smart infrastructure investment projects for better

**The main objective of this research study is to put the possible changes in trade and development into perspective in relative terms instead of absolute terms.**

**In parallel to policy advancement and technical assistance, it is important to provide access to financing and to fund AfCFTA related transactions, infrastructure, and capital investment needs.**

connectivity and smoother movement of goods and people. There is also need for measures to protect negatively affected segments of the societies to achieve more balanced growth. Exposure to greater competition and incentives to differentiate products may be a driver of productivity and growth within the continent, with further implications on poverty, inequality and development.

Finally, there is a need for tailored policies for individual OIC countries to adapt to the new economic conditions. The countries that are expected to gain more from the AfCFTA (Côte d'Ivoire and Guinea) are likely to undergo a significant economic transformation and this process should be managed smoothly to prevent any harmful impacts on certain economic actors. Similarly, the countries that are expected to experience limited impacts (such as Mozambique and Uganda) should be supported with other policy interventions to benefit more from this great initiative.

In parallel to policy advancement and technical assistance, it is important to provide access to financing and to fund AfCFTA related transactions, infrastructure, and capital investment needs. In addition to traditional financing methods, innovative solutions should be tested to attract non-traditional investors in the Africa, including investing in niche asset classes, like trade finance. In this regard, the development of specialized investment vehicles and funds could provide institutional investors with the needed sectorial experience, product expertise and portfolios of transactions (Diallo and Terai 2021). The development of hybrid funds providing financing and technical assistance could be one of the various strategic initiatives to support both private companies and the public sector (Terai 2017).

This first series on the "potential impacts of the AfCFTA on selected OIC countries" will be hopefully followed by two other series on "Trade Between Large African Economies and Externalities on Transit Countries (Series 2)" and on "AfCFTA Implications on Trade in Landlocked Countries". It is also our hope that this first research will be carried-on by the community, using the same methodology and general equilibrium model, to assess the potential impact of the AfCFTA on all African countries.

International Islamic Trade Finance Corporation

Member of Islamic Development Bank Group

P.O. Box 55335, Jeddah 21534
Kingdom of Saudi Arabia
Tel: +966 12 646 8337
Fax: +966 12 637 1064
E-mail: ITFC@itfc-idb.org

SESRIC

Kudüs Cad. No:9
Diplomatik Site
06450 ORAN-ANKARA,
Turkey
Tel: +90 312 468 61 72
Fax: +90 312 467 34 58