NANYANG TECHNOLOGICAL UNIVERSITY SINGAPORE

NTU-SBF Centre for African Studies
Nanyang Business School

Africa Current Issues

AfCFTA: A strategic framework for business

Vol. 2020 - 39

AfCFTA: A strategic framework for business

Introduction

More than eight years after African leaders decided in 2012 to establish a continent-wide free trade area, the African Continental Free Trade Area (AfCFTA) agreement was concluded and signed on 21 Mar 2018 in Kigali, Rwanda. The pact entered into force on 30 May 2019.[1] Of the fifty-five member countries of the African Union, only Eritrea has yet to sign the pact. As at January 2020, 30 African countries had ratified the agreement, meaning "the rights, provisions and obligations of the Agreement now apply."[2]

On 17 Jun 2020, AU heads of state and government decided to postpone trading under the AfCFTA to 1 Jan 2021, from the original takeoff date of 1 Jul 2020.[3] The delay was to assist member countries to focus on responding to the Covid-19 pandemic. Trade corridors were tasked to facilitate the seamless flow of crucial health-related goods and services within the continent, as member countries sought to curb the coronavirus.

The AfCFTA is often hailed as a game-changer for the continent's prospects. Splintered and small economies suddenly become attractive to investors. These markets provide access not only to the few million people within their borders but to more than a billion people across the entire continent's US$3 trillion GDP.[4] Tariff-free inputs also reduce the cost of production. Almost certainly, there will be more jobs on aggregate, although some countries may fare much better than others. This ideal state may not come about easily or for that matter, quickly enough.

Today, some goods and persons already move freely within their respective regions on the continent. The Economic Community of West African States (ECOWAS), East African Community (EAC) & Southern African Development Community (SADC) already allow relatively free movement of persons. But even in these relatively smaller contexts, sailing has not been entirely smooth. For instance, Nigeria shut its borders with neighbouring Benin, Niger and Cameroon only months after signing the AfCFTA in 2019.[5]

In May 2020, Kenya shut its borders with Tanzania and Somalia to curb the spread of Covid-19.[6] Under the guise of curbing the spread of the coronavirus, South Africa announced in March 2020 that it would build a fence on its border with Zimbabwe to stem the flow of illegal immigrants.[7] Despite such provocations, some countries demonstrate remarkable enthusiasm for the pan-African project. More African countries are beginning to ease their visa policies for Africans.[8] However, while many African governments genuinely support the AfCFTA, their anxiety over potential losses of customs revenue from dumping, of jobs, and of sovereignty is palpable.

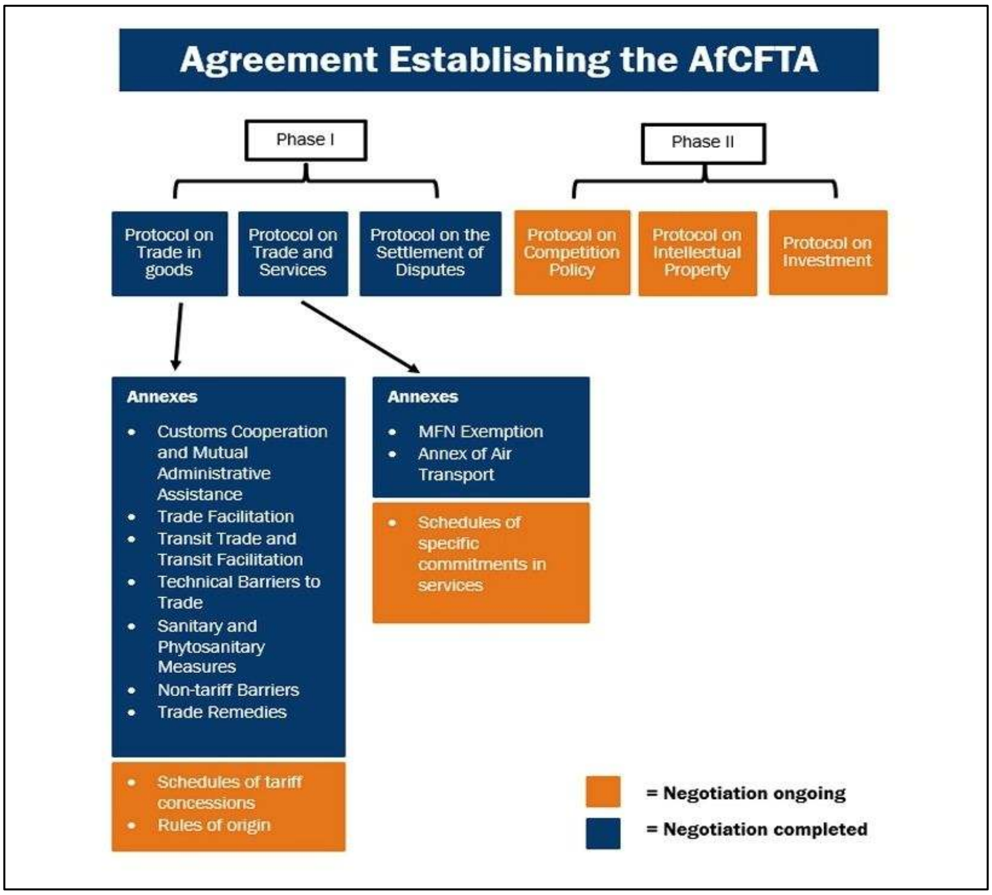
African firms, over 400 of which earn US$1 billion or more in annual revenues, certainly desire to leverage the potential benefits of the AfCFTA.[9] Despite the myriad challenges that states now expect the AfCFTA to ameliorate, many firms have become successfully pan-African, and can give multinational companies a run for their money on many fronts. For them, the AfCFTA is a welcome development. However, they are likely to be rightly wary of potential conflicts. Yet, being overly cautious may be disadvantageous. Firms that get a head start might maintain their advantages for a long time.

Yet, it may be unwise to place huge bets on the AfCFTA just yet. While Phase 1 negotiations are largely complete, key issues remain outstanding. Originally scheduled to start in mid-2020, Phase 2 negotiations will now open only in 2021 and may not conclude until 2022 at the earliest. Also, other more fundamental and structural issues may weigh on the emerging free trade area.[10] In view of the many potential challenges and constraints, how should firms plan to leverage on the AfCFTA? We adapt the Hambrick & Fredrickson (2005) strategic diamond framework to evaluate the strategic alternatives that firms might consider.

The AfCFTA evolution thus far

The Covid-19 epidemic and the consequent disruption of global supply chains owing to restrictions to curb the spread of the coronavirus brought to fore the urgency and utility of greater intra-African trade, especially under the auspices of the currently postponed AfCFTA.[11] Just when the AfCFTA was needed the most, measures to curb the spread of the coronavirus ironically forced a delay in the kick-off date for the trade pact. Considering the global nature of these restrictions, with China and other major trade partners initially closing their borders in tandem, the postponement is believed by some to have been ill advised.[12] The basis for this sentiment is sound. Allowing some time for governments to come to terms with the Covid-19 challenge seems only prudent. A more ambitious advocacy of free trade would cast the January 2021 launch date in stone.

Figure 1: Current status of the AfCFTA



Source: Signe & van der Ven (2019)[13]

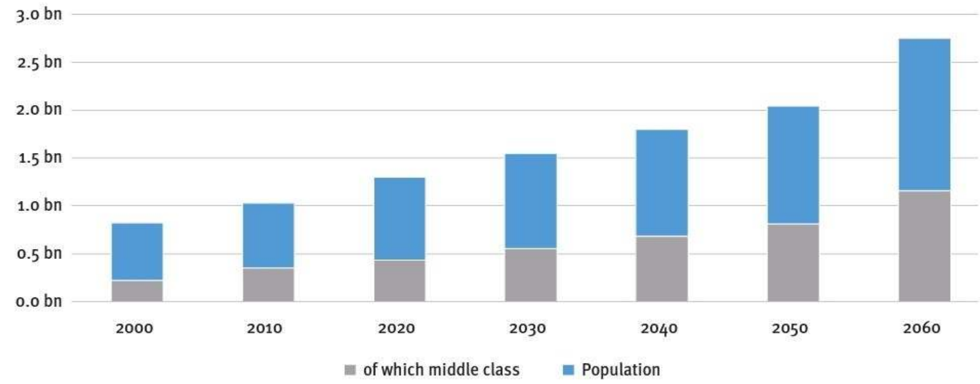
According to the International Trade Centre (ITC), the AfCFTA offers huge advantages to the private sector.[14] With access to a continental market, many firms would be able to tap economies of scale. They would also obtain access to less expensive raw materials. Easier and better access to regional and global value chains are oft-touted potential advantages of the trade pact. The ITC highlights why the business community must do its utmost, through proposals, engagement and lobbying with the relevant stakeholders, to ensure the AfCFTA is focused on realising these anticipated advantages. It must also ensure that these benefits flow to SMEs, many of which are informal. SMEs account for almost half of intra-Africa trade.[15]

The African business community is understandably cautious about the AfCFTA. While the opportunities are writ large, business rightly worries the pact could be yet another failed endeavour at integration.[16]

Too many trade agreements at the regional level continue to languish, generating huge government-to-government and business-to-government distrust.[17] Early signs warn that the AfCFTA might turn out to be just another white elephant project. Even before agreeing on key elements of the agreement, such as tariff reductions, rules of origin, and services schedules, Nigeria imposed border closures to curb smuggling. Ghana, Kenya, Ethiopia and others blamed their subsequent travel bans on the Covid-19 pandemic. Such unilateral moves, plus needless politicking between Nigeria and South Africa over the appointment of the secretariat's secretary-general, signal that huge hurdles lay ahead.[18,19]

Nigeria, the most populous country and largest market in the new trade area, continues to drag its feet. Its government worries about the safety of its local industries in the face of competition from cheaper and better quality products from other parts of the continent, especially South Africa.[20] Regional body ECOWAS, often an effective mediator of disputes among its member states, has fallen short in dampening unilateral moves by the regional behemoth.[21] According to the Brookings Institution, “defying regional and international trade treaties, Nigeria’s border closure demonstrates the implementation gap that continues to exist between the texts of regional or international trade agreements, and the actual measures that some African governments adopt.”[22]

Figure 2: African middle class vs population



Source: AfDB (African Development Bank). 2011. Africa in 50 years' time: the road towards inclusive growth, African Development Bank Group, Tunisia

In other respects, Nigeria increasingly reveals its increasing commitment to the AfCFTA.[23] President Muhammadu Buhari approved a National Action Committee in 2019 for implementation of the AfCFTA. And in February 2020, the Nigerian government announced that all Africans would be issued visas on arrival, in the spirit and letter of the free movement of Africans as needed for the pact to succeed. And after much ado, Nigeria finally ratified the AfCFTA agreement in November 2020.[24]

Anticipated gains from the AfCFTA may be exaggerated, according to a May 2020 IMF study by Abrego et al. (2020).[25] The authors estimate potential income gains from the reduction of trade barriers due to the AfCFTA to be at most 2.1 per cent. This gain is less than half the 5 per cent projected in earlier studies. These gains would mainly be due to diminished non-tariff barriers (NTBs), as opposed to already relatively low import tariffs. Note that those countries that currently have high NTBs would likely see significant income gains from their reduction. In collaboration with UNCTAD, the African Union set up the "AfCFTA NTB Reporting, Monitoring, and Eliminating Mechanism".[26] This is essentially a website through which traders can report NTBs they encounter while doing business on the continent. Once notified, governments are expected to eliminate the identified NTBs. Similar online mechanisms in eastern, southern and western Africa have succeeded in resolving numerous NTB issues.

Incremental gains did emerge due to prior integration efforts, although their impact is relatively small (De Melo & Tsikata, 2015).[27] Many blame this lack of impact on weak political will and the lack of enabling institutional frameworks. Despite these flaws, intra-African trade more than doubled to 17 per cent in 2017 from 9 per cent in 2000, for instance (Abrego et al., 2020). In the 2000-2017 period, food and manufactured goods accounted for a great deal of this increase in intra-African trade. In contrast, most of the continent's exports were primary goods. Food and manufactured goods are expected to be immediate targets under the AfCFTA. Abrego et al. (2020) also highlight the absence of a continental trading hub, as China serves for Asia, United States serves for the Americas, and Germany serves for Europe. While South Africa comes the closest, its reach prevails only within southern Africa.

Several outstanding issues need resolution before unhindered trade can take place under Phase 1 of the AfCFTA. According to UNECA & the AU (2020), the following prerequisite issues are yet to be finalised: (1) Schedules of concessions for trade in goods, (2) Rules of origin and (3) Schedules of specific commitments for trade in services. "Other secondary technical work remains on components of the AfCFTA that are not critical to its operationalisation but will ease its implementation and interpretation (UNECA & AU, 2020)." This unfinished work includes (1) Guidelines on infant industries, (2) Guidelines and manual on rules of origin, (3) Regulations for goods produced under specified economic zones and (4) Guidelines on the implementation of trade remedies.

How should firms leverage the AfCFTA?

According to UNECA & AU (2020), when trading commences under the AfCFTA on 1 Jan 2021, 90 per cent of traded goods would enjoy tariff reduction in equal annual instalments over five years for non-LDCs, and ten years for LDCs. Six countries, namely, Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe, would, however, be allowed to reduce tariffs on 90 per cent of traded goods over a 15-year window. Tariffs on an additional seven per cent of traded goods considered to be "sensitive" would also decline, but over a longer period of 10 years for non-LDCs and 13 years for LDCs. The remaining three per cent of so-called 'excluded' products are to be exempt from tariff reduction and eventual elimination to provide member countries with some wiggle room; albeit these products would be subject to a review process every five years.

Longsuffering pan-African firms (PAFs) and multinational companies (MNCs) should be delighted by these terms. Hitherto, they contended with various holdups at borders and arbitrary duties on traded goods. A future in which they can trade in goods and services on the continent tariff-free, and move personnel between countries without onerous visa arrangements, would be a boon. As many trade barriers are non-tariff related, the online site (https://tradebarriers.africa/home) by the AfCFTA secretariat to manage and rectify non-tariff barrier complaints is likely to boost confidence in the business community. However, similar tariff-free trade in services is yet to appear. In the initial negotiations for services, five sectors will receive priority: business services, communication services, financial services, tourism & travel related services and transport services. Negotiations on other service sectors will follow only much later.

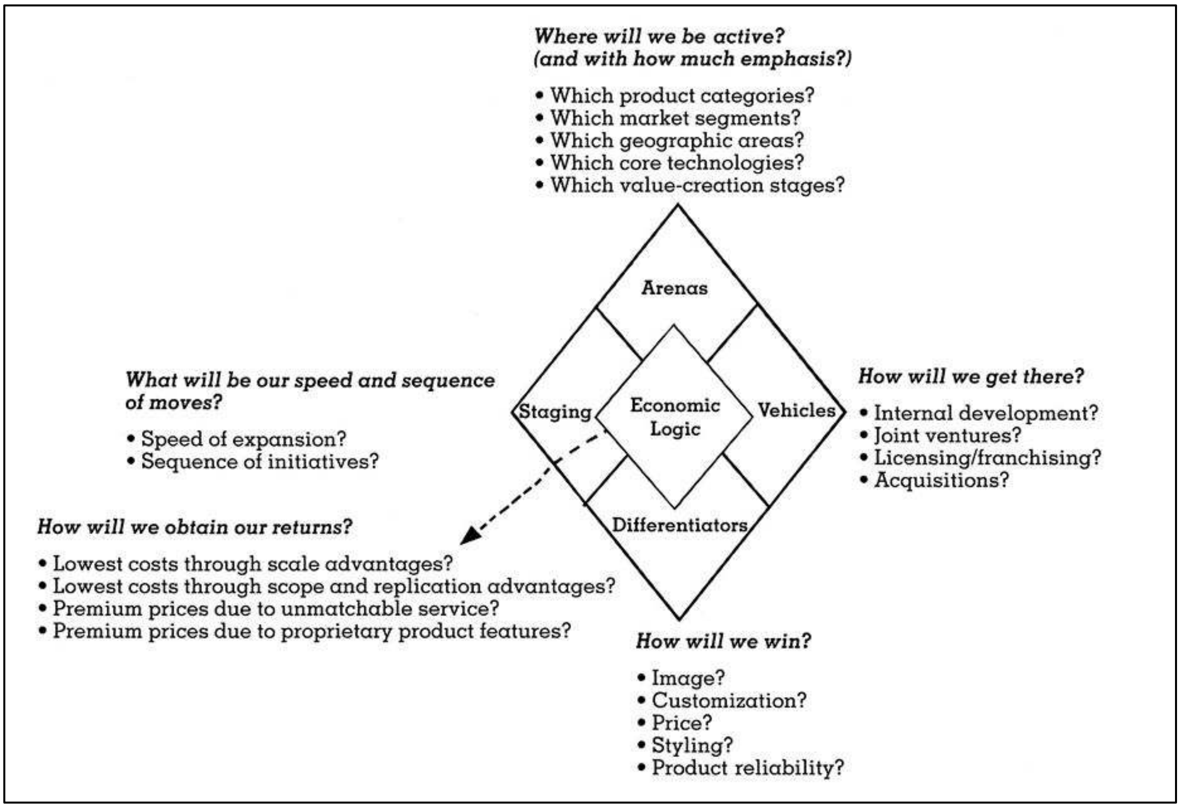
After the rules of origin are finalised and published, international firms and investors will understand the levels of value-addition that would deem goods and services to have originated from an AfCFTA country. Final rules of origin should incentivise global firms to partner with their African counterparts and integrate their regional and global value chains. "As of September 2019, 90 per cent of the work on Rules of Origin was complete, with the Niamey African Union Summit directing negotiators to submit final schedules of outstanding Rules of Origin to the February 2020 session of the Assembly of the African Union (UNECA & AU, 2020)." Hopefully, all outstanding Phase 1 issues will be finalised well before the 1 Jan 2021 commencement date.

The Covid-19 pandemic created an imperative for "building more resilient GVCs". In this respect, global firms actively seek to reduce supply chain reliance on China, after their vulnerability was writ large as China closed its borders and shut down to contain the coronavirus. The World Bank believes "between 16 and 26 per cent of global exports are expected to move to different countries in the next five years (World Bank, 2020)."[28] Asian nations such as Vietnam and Bangladesh are already beneficiaries of this strategic shift (World Bank, 2020).

The World Bank sees the AfCFTA as providing African countries opportunities to tap into the global shift away from "Factory China," especially in the textile and apparel GVCs. The IMF corroborates this sentiment.[29] According to the IMF, the Covid-19 crisis will "prompt a significant reorganisation of global value chains, underscoring the potential of the African Continental Free Trade Area as an engine for the development of regional trade." Thus, AfCFTA is a potentially game-changing framework that "would not only reduce Africa's vulnerability to global disruptions, but would boost regional competition and productivity, and promote food security (IMF, 2020)." However, "to succeed in GVCs, African countries need to reform the service sector to improve access, reduce cost and improve quality" (World Bank, 2020). In other words, "industrialisation in Africa needs to focus not only on manufacturing production, but also on having a development strategy for the service sector" (World Bank, 2020).

Gopaldas (2020) identifies agriculture, construction, retail and transport sectors as potential medium-term winners due to the AfCFTA.[30] Tariff-free trading of agricultural produce would bring down costs, allowing farmers to entertain ambitions beyond their national borders. This benefit would lead to lower costs for products that rely on agricultural inputs. As much of the potential gains from the AfCFTA are heavily dependent on infrastructural linkages (road, rail, and air), the construction sector should enjoy an immediate to medium-term boom on the back of the trade pact. With pan-African retailers finally rid of the punishing tariffs that weigh significantly on their margins, intra-African trade should increase. The logistics involved in meeting these expectations would also buoy the transport sector. In light of the above, how should firms position themselves to seize the AfCFTA opportunity? We adapt the Hambrick & Fredrickson (2005) strategy diamond framework to suggest how firms could proceed.

Figure 3: The strategy diamond framework



Source: Hambrick & Fredrickson (2005)

As Figure 3 shows, the strategy diamond framework poses five fundamental questions. Combining the answers reveals the selected strategy.[31] These overlapping questions are:

- ***Arenas***: *Where will we be active?*
- ***Vehicles***: *How will we get there?*
- ***Differentiators***: *How will we win in the marketplace?*
- ***Staging***: *What will be our speed and sequence of moves?*
- ***Economic logic***: *How will we obtain our returns?*

A firm seeking to leverage the AfCFTA can use the strategy diamond framework to work out how to go about it. Arenas, vehicles, and staging are immediately resonant issues in this regard. To be more fit-for-purpose, we focus on only those three elements:

- ***Arenas***: *In which countries and sectors should firms be active?*
- ***Vehicles***: *What should firms do to succeed in their chosen markets and sectors?*
- ***Staging***: *What should be the pace and sequence of firm operations in their chosen markets and sectors?*

Clearly, these questions are pertinent for a firm seeking to leverage on the AfCFTA, and demand robust answers. Bear in mind, many firms that would be excited about the AfCFTA are likely PAFs (pan-African firms) or MNCs currently operating on the continent. Some Micro, Small & Medium Enterprises (MSMEs) will pursue niche opportunities. Admittedly, some local and foreign firms may decide to expand into the continent based primarily on the AfCFTA. Irrespective of their motives, each of the three types of firms would likely grapple with the same three questions:

Table 1: How should firms leverage on the AfCFTA?

	Pan-African Firms (PAFs)	**Multinationals (MNCs)**	**MSMEs**
Arenas: *Which countries and sectors should firms be active in?*	• Market size • Comparative advantage • No. of NTBs • Ease of doing business	• Market size • Comparative advantage • No. of NTBs • Ease of doing business	• Market size • Comparative advantage • No. of NTBs • Ease of doing business
Vehicles: *What should firms do to succeed in their chosen markets and sectors?*	• JVs • M&A • Greenfield investments • Hub & spoke	• JVs • M&A • Greenfield investments • Hub & Spoke	• JVs • E-Commerce • Greenfield investments
Staging: *What should be the pace & sequence of firms' operations in their chosen markets and sectors?*	• Phased approach in tandem with AfCFTA negotiation outcomes	• Phased approach in tandem with AfCFTA negotiation outcomes	• Phased approach in tandem with AfCFTA negotiation outcomes

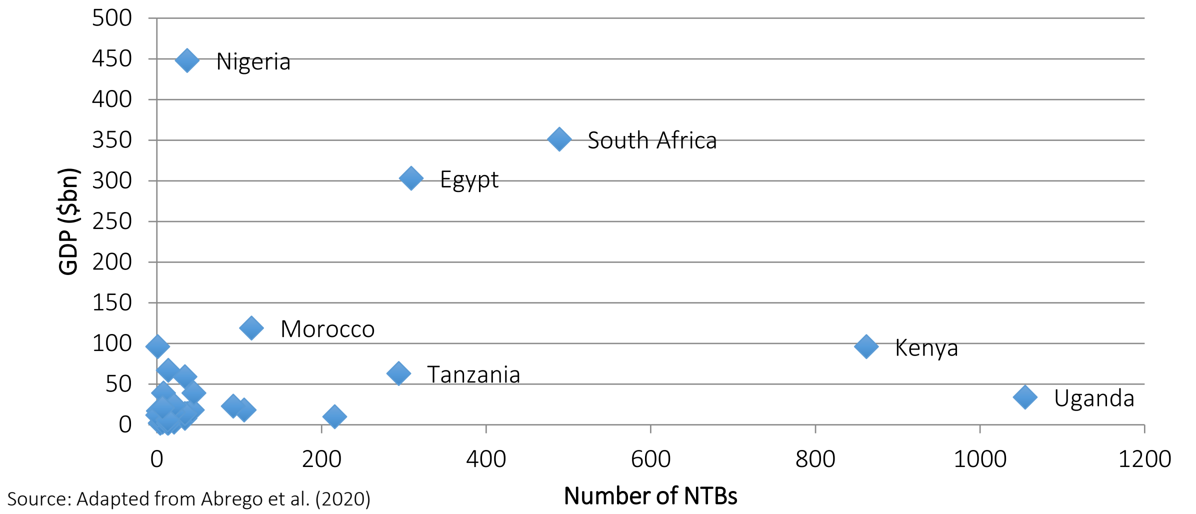
Source: Author's adaptation of Hambrick & Fredrickson (2005) strategy diamond framework

Firms must first decide on which countries provide the correct balance of risks and rewards. After deciding on the countries (and sectors) of interest, firms must then decide on whether to venture alone, to expand organically via greenfield investments, to merge with, or to acquire local firms. In view of the slow pace of AfCFTA negotiations, with outstanding Phase 1 issues still in the works, and Phase 2 negotiations far down the road, the speed and sequencing of moves may make a difference between phenomenal success and abject failure. We now explore the three questions in greater detail.

Which countries and sectors should firms be active in?

Signe (2020) provides a comprehensive examination of the trends, opportunities, risks and strategies to *"Unlocking Africa's business potential*". Gopaldas (2020) identifies sectors that stand to benefit over the medium-term owing specifically to the AfCTA. Their analysis could be relied upon to identify opportunities in the sectors germane to the AfCFTA. In choosing the attractive countries or markets, we rely on demography, number of NTBs, and GDP.

Figure 4: Where will we be active?



Source: Adapted from Abrego et al. (2020)

The pre-AfCFTA attractiveness of a country/market based on the number of non-tariff barriers may be germane. While the AfCFTA secretariat put in place an online mechanism to deal with NTBs, it may take a long while for significant changes to emerge. In sum, firms come away from the analysis with a set of optimum choices on markets and sectors they could consider for investment ventures based on the AfCFTA. As seen in Figure 4 and Table 2, Nigeria, South Africa, Egypt and Morocco consistently rise to the top.

Table 2: Market size vs competitiveness for Africa's top 10 manufacturing countries

	Large market	**Small market**
High competitiveness	Egypt, South Africa, Morocco	Tunisia, Kenya, Ivory Coast, Ghana
Low competitiveness	Nigeria	Zambia, DR Congo

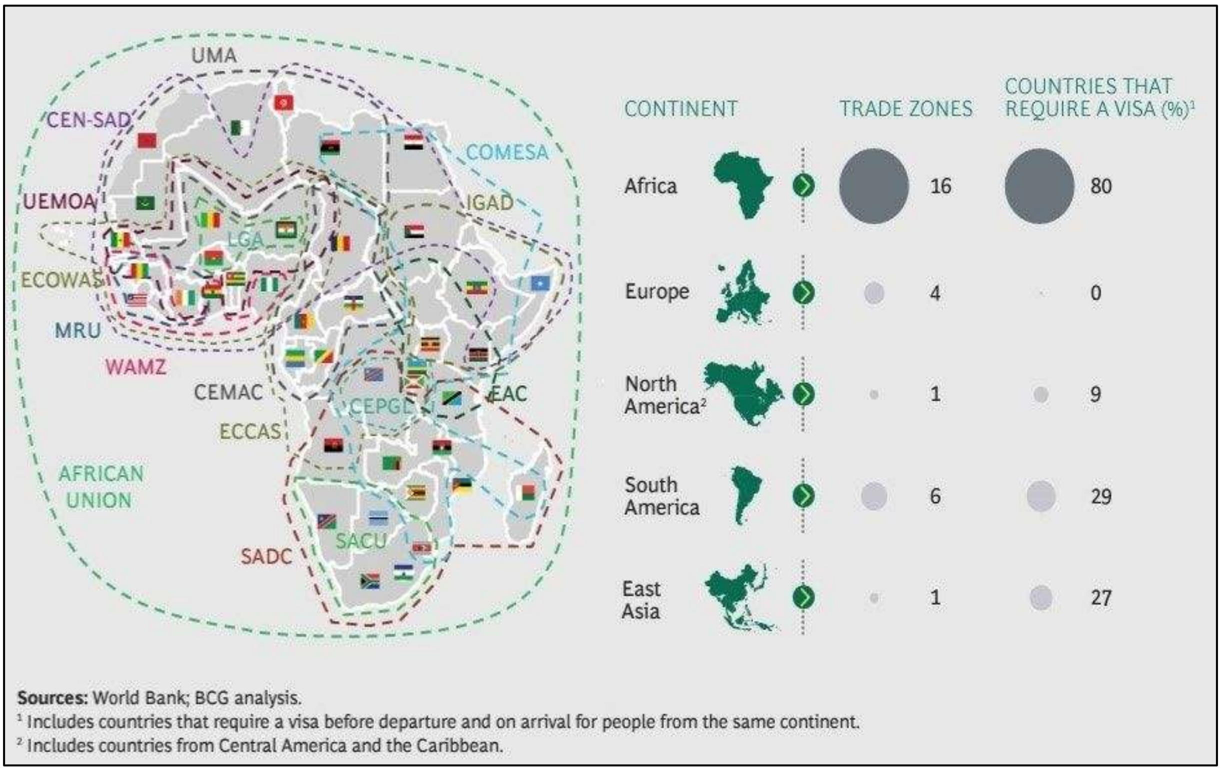
Source: Signe (2020)

Support for AfCFTA by the AfroChampions Initiative signals the tremendous enthusiasm towards the huge pan-African business opportunity offered by the pact. Chaired by former South African president Thabo Mbeki and Africa's richest man Aliko Dangote, the AfroChampions initiative seeks to invest $1 trillion between 2020 and 2030 in local firms with the potential to become African champions.[32] Individual firms are already on the move. Nigerian conglomerate BUA Group, with interests in foods, mining, manufacturing, and infrastructure, has indicated keen interest in the 56,600 km Trans-African highway project.[33] BUA CEO Abdul-Samad Rabiu says he is "personally ready to mobilise like-minded businesses across the continent with the resources required (steel, cement, etc.) to do these roads at a concession and guaranteed by sovereign African nations."

What should firms do to succeed in their chosen markets and sectors?

According to the Boston Consulting Group (BCG), investments by African firms in African countries almost tripled to $10 billion in 2016, from $3.7 billion in 2006. Intra-African exports also increased to $65 billion from $41 billion in the period.[34] They have been able to do this via organic expansion, greenfield investments, mergers & acquisitions, brand recognition, local innovations, people advantage, and building local ecosystems (BCG, 2018). BCG identifies the four competitive advantages of these pan-African firms. First, their laser focus on Africa ("*Focus*"); Second, on-the-ground experience ("*Field*"); Third, superior grasp of data and information on local markets ("*Facts*"); and finally, the ability to adapt quickly to unique business circumstances ("*Flexibility*").[35]

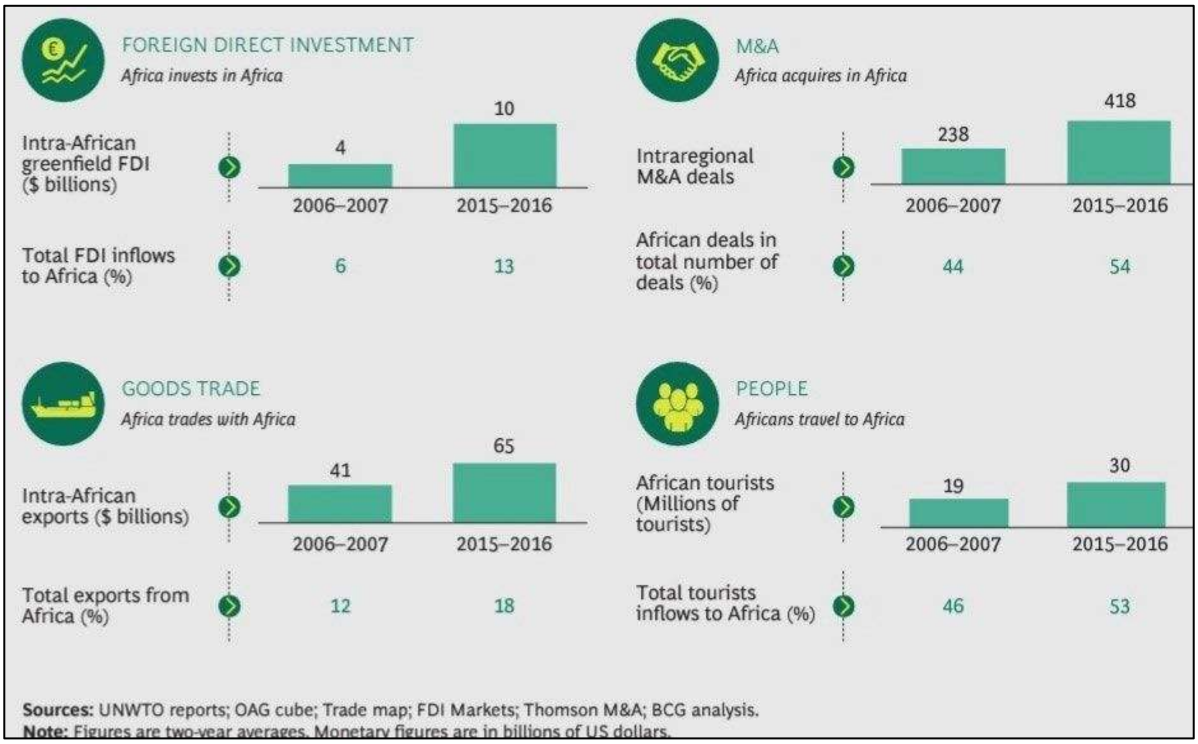
Figure 5: AfCFTA solves problem of overlapping regional trade areas



Source: Dupoux, P., Ivers, L., Niavas, S. & Chraiti, A. (2018). Pioneering one Africa: The companies blazing a trail across the continent. Boston: Boston Consulting Group. Retrieved from http://image-src.bcg.com/Images/BCG-Pioneering-One-Africa-Apr-2018_tcm9-188261.pdf

It is important to understand how these remarkable pan-African firms have succeeded in spite of the complexities shown in Figure 5. Their strategies are precisely what firms should copy to succeed in their chosen markets and sectors. They also demonstrate that economic integration on the continent precedes the AfCFTA. To quote BCG, "African integration is actually happening." Thus, the continental trade pact should be seen as an enhancer, which as it comes into full effect in five, ten or fifteen years time, would make it easier for firms to target the entire continent at far lower costs than PAFs & MNCs have been forced to spend to get to where they are today.

Figure 6: Pan-African economic integration precedes the AfCFTA



Source: Dupoux, P., Ivers, L., Niavas, S. & Chraiti, A. (2018). Pioneering one Africa: The companies blazing a trail across the continent. Boston: Boston Consulting Group. Retrieved from http://image-src.bcg.com/Images/BCG-Pioneering-One-Africa-Apr-2018_tcm9-188261.pdf

As shown in Table 3, many firms are already blazing the pan-African business trail. There are numerous multinational companies on the trail as well. These firms clearly had to decide which countries to invest in, which strategies to deploy for success, and the speed and sequence of moves. As they already have a head start, these firms would be the ones to beat by potential new entrants to the continent that follow the AfCFTA. But they also serve as potential targets for mergers and acquisitions in light of their vintage and on-the-ground advantages.

Table 3: Pan-African firms already in play well prior to the AfCFTA

Algeria	Cevital
Tunisia	AfricInvest, Groupe Elloumi
Egypt	The Arab Contractors, Elsewedy Electric, Mansour Group, Qalaa Holding
Ethiopia	Ethiopian Airlines
Kenya	Bidco, Equity Bank, M-KOPA, Nation Media Group, Safaricom, Techno Brain
Rwanda	RwandAir
Zimbabwe	Seedco
Mauritius	AllAfrica.com, Smile Telecoms Holding
Botswana	Letshego
Angola	Refriango
Tanzania	Bakhresa, METL Group
Nigeria	Dangote Group, Globacom, Guaranty Trust Bank, Jumia, United Bank for Africa
Ivory Coast	NSIA, Sunu Assurances
Senegal	Teyliom Group
Morocco	Attijariwafa Bank, BMCE Bank of Africa, Groupe Addoha/Cimaf, Groupe Banque Populaire, HPS, Maroc Telecom/Etisalat, OCP Group, Optorg, Royal Air Maroc, Saham
Togo	Ecobank

Source: Dupoux, P., Ivers, L., Niavas, S. & Chraiti, A. (2018). Pioneering one Africa: The companies blazing a trail across the continent. Boston: Boston Consulting Group. Retrieved from http://image-src.bcg.com/Images/BCG-Pioneering-One-Africa-Apr-2018_tcm9-188261.pdf

BCG reports that Nigeria's Dangote Group, which built cement factories in six African countries between 2014 and 2015 alone, earns at least 30 per cent of its revenue from its African operations outside Nigeria. Morocco's Groupe Addoha not only invests in myriad African countries but is expanding across its value chain, buying land, building houses, and investing in building materials and cement factories (BCG, 2018). South Korea's Samsung invested in a computer and air conditioner assembly plant in Egypt, a television assembly plant in South Africa and customer service and training academies in Kenya, Nigeria and Ethiopia (BCG, 2018). These examples are noteworthy, especially in view of the tough conditions from which their successes emerged. They highlight the tangible potential of the continent should the AfCFTA's ambitions come to pass.

Firms that are already realising their pan-African ambitions are likely to forge ahead under the AfCFTA. Thus, mergers and acquisitions are probably the quickest entry route to these markets. There are already early success stories. According to BCG, French dairy conglomerate Danone moved smartly by acquiring Brookside and Fan Milk to expand its operations in both East and West Africa (BCG, 2018). In 2010, Indian telecom giant Bharti Airtel acquired more than 40 million new subscribers in 17 African countries, simply by acquiring Zain's Africa business (BCG, 2018). Brand recognition is another motive for acquisitions. From Samsung and Apple to Unilever, "African consumers tend to prefer global brands to brands from regional companies (BCG, 2018)".

Some greenfield investments achieved lasting success, vindicating this alternative. For example, "a locally focused marketing strategy backed by continuous investment turned Indofood's Indomie brand into Africa's most popular noodle brand (BCG, 2018)". Before Indomie, the noodle was part of a dish eaten only by the well to do in posh restaurants. It was not seen as a staple food. Today, Indomie noodles are consumed across the continent. That Dufil Prima Group continues to thrive amid a fiercely competitive African noodles market, speaks to the viability of organic growth strategies. Under the AfCFTA, however, there may be a need for fewer manufacturing facilities than Indofood built in Morocco, Nigeria, Egypt, Sudan, Kenya & Ethiopia, according to BCG reports.

Local innovations by Kenya's Safaricom, Netherlands' Vlisco and South Africa's Promasidor are noteworthy (BCG, 2018). Safaricom pioneered mobile money transactions in Kenya, spreading throughout East Africa, with many copycats across the continent and abroad since its debut. Though based in The Netherlands, Vlisco sells high-end African prints, with more than 90 per cent of its sales in Africa (BCG, 2018). South Africa's Promasidor pioneered breaking bulk in milk consumption, selling milk in small sachets – a product once viewed as the preserve of the rich – at significantly lower prices, with longer shelf life, while eliminating the need for a cold supply chain.

Crucial to the entire movement toward free trade is the free movement of people that the AfCFTA is expected to facilitate. Successful pan-African firms and MNCs grapple with finding and retaining talent. Often, they must train local hires from scratch in every country in which they operate. When the free movement goal underpinning the AfCFTA is realised, it should be far easier for firms to move talent around the continent, leading to a cross-fertilisation of ideas and experiences, and building a resilient, continental talent pool. To some extent, information technology already makes this a reality. When the Covid-19 pandemic forced individuals to work at home, teams were able to use video conferencing and cloud facilities to work together across borders on the continent and abroad.

What should be the pace & sequence of firms' operations in their chosen markets and sectors?

According to Signe (2020), pan-African firms and multinational companies tend to follow one of three models for setting up their operations. The first, a centralised model, has one headquarters for the continent, where decisions are made, with products produced and shipped to other locations.[36] In the second model, operations are decentralised and country-based. In other words, each country of interest has its own semi-autonomous unit, with most decisions taken without recourse to headquarters. A third model integrates the first two, with each regional cluster having its own operations, allowing for greater co-ordination while enabling managers to quickly and independently adapt to local conditions.

In many cases, a firm's operations begin from a centralised hub, and thereafter decentralise. The AfCFTA raises prospects that some decentralised operations could now be recentralised, as country location may no longer be a critical issue when there are no trade barriers. It seems likely that transition to this would be gradual. And as firms must position themselves early on, planning must anticipate the initial difficulties emanating from structural adjustments. The likely scenario for most firms would be a hybrid centralised-decentralised model. This might initially entail regional hubs.

In the optimistic scenario of full free continental trade, a PAF or MNC may not need more than one hub for the entire continent. In that event, African countries would likely be competing to be hosts of such hubs. Thus, the pace and sequence of structural reconfiguration would vary. New entrants would necessarily evolve from an initial centralised model to decentralised regional hubs over the first 10 to 15 years from 2021, then recentralise in the event of a fully functional continental free trade area.

For manufacturers, Signe (2020) advises that firms "identify optimal SEZs for the relevant subsector" to take full advantage of government prioritisation, better infrastructure, lower bureaucratic bottlenecks, cheaper and quicker logistics, and tax incentives. Thus, the governance circumstances of SEZs in selected markets should determine the pace and sequence of a venture. As Signe (2020) suggests, "identifying upcoming SEZs as they are in the planning and development phases" will provide advantages in scaling up. If SEZs are already established, securing a place in a country's SEZs may be the best starting point for a new venture beyond the traditional growth mechanisms of JVs, mergers, and acquisition. And such SEZs are likely to help differentiate competing countries operating under the AfCFTA.

A phased approach aligned to AfCFTA negotiation outcomes would probably be ideal. This is because even if AfCFTA negotiations conclude in a timely and smooth manner, a significant lag in implementation is likely. Thus, if a business decision is dependent on a particular element within the agreement, there should be sufficient redundancy and flexibility built into the decision-making process to mitigate risks and minimise losses.

Conclusion & Recommendations

The AfCFTA is a game-changer for the continent's economic and social prospects. Relatively small economies suddenly become attractive, as they provide access not only to the few million people within their respective jurisdictions, but also to more than a billion people across the continent. But the course has not been entirely smooth, as when key countries shut borders owing to the Covid-19 pandemic and disputes over border administration. Still, many countries demonstrate remarkable enthusiasm for the pan-African project, for example by easing visa policies. Yet anxiety surfaces over potential losses; of customs revenue, from dumping, of jobs, and even of sovereignty.

African firms, over 400 of which earn US$1 billion or more in annual revenues, are certainly desirous of leveraging the potential benefits of the AfCFTA. Despite the myriad challenges that the AfCFTA is now expected to ameliorate, many firms are now successfully pan-African, and can give many multinational competitors a run for their money on many fronts. For them, the AfCFTA is a welcome development.

At the very least, 90 per cent of traded goods would enjoy reduction in tariffs over 5-10 years (and over 15 years for six countries), with zero tariffs at the end of the period. Longsuffering pan-African firms (PAFs) and multinational companies (MNCs) have cause to be delighted by this development. Yet more firms are expected to venture into the continent on the back of the AfCFTA. As the Covid-19 pandemic created an imperative for "building more resilient GVCs", with global firms already reducing their dependence on China, the AfCFTA could not have come at a better time for African firms seeking to tap into emerging shifts by GVCs away from China.

For firms looking to position themselves to take full advantage of the AfCFTA opportunity, we adapted the Hambrick & Fredrickson (2005) strategy diamond framework to show how firms could pursue this course. We focus on three elements of the framework pertinent to the purpose at hand. We assume that the economic justification is compelling, as our prior exposition abundantly demonstrates. Thus the essential questions firms will be able to think through are which countries or markets to be active in, how they would venture and at what pace. Relying on data and prior research, we show how firms can make these determinations in a methodical and objective manner to achieve optimal outcomes.

Author: Rafiq Raji

Editor: Dr. A. Lee Gilbert

Editor-in-chief: Prof. Sam Park

References

[1] African Union (2018, 21 Mar). *Agreement establishing the African Continental Free Trade Area*. Kigali: African Union. Retrieved from https://au.int/sites/default/files/treaties/36437-treaty-consolidated_text_on_cfta_-_en.pdf

[2] United Nations Economic Commission for Africa & African Union (2020, January). *African Continental Free Trade Area: Updated questions & answers*. Addis Ababa: UNECA. Retrieved from https://www.tralac.org/documents/resources/cfta/3226-afcfta-updated-questions-and-answers-atpc-auc-january-2020/file.html

[3] African Union (2020, 9 Sept). *Africa is open for business based on a single rule-book for trade and investment* [Press release]. Retrieved from https://au.int/sites/default/files/pressreleases/39288-pr-pr_-afcta_.pdf

[4] Muchanga, A.M. (2020). Preparing for trade under the AfCFTA Agreement. *ECDM Great Insights, 9 (1)*, pp. 4-7. Retrieved from https://ecdpm.org/wp-content/uploads/ECDPM_Great_Insights_AFCFTA_Vol9_issue1.pdf

[5] Smith, E. (2019, 30 Oct). Nigeria's border closures place a further strain on a burdened economy, experts warn. *CNBC*. Retrieved from https://www.cnbc.com/2019/10/30/nigeria-border-closures-are-further-strain-on-a-struggling-economy.html

[6] Kenya closes borders to Tanzania and Somalia over coronavirus. (2020, 16 May). *Reuters*. Retrieved from https://www.reuters.com/news/picture/kenya-closes-borders-to-tanzania-and-som-idUSKBN22S0KL

[7] S.Africa to erect 40km fence on Zimbabwe border as coronavirus measure. (2020, 19 Mar). *Reuters*. Retrieved from https://www.reuters.com/article/health-coronavirus-safrica-zimbabwe-idUSL8N2BC6PD

[8] Kazeem, Y. (2020, 10 Jan). Africans can now travel across more than half of the continent without getting visas beforehand. *Quartz*. Retrieved from https://qz.com/africa/1782958/which-african-countries-offer-visa-on-arrival/

[9] https://au.int/en/pressreleases/20200817/secretary-general-statement-handover-ceremony-afcfta-buildings

[10] Raji, R. (2020). *Shifting global demographics: An African opportunity?* Singapore: NTU-SBF Centre for African Studies. Retrieved from https://nbs.ntu.edu.sg/Research/ResearchCentres/CAS/Publications/Documents/NTU-SBF%20CAS%20ACI%20Vol.%202020-32.pdf

[11] United Nations Economic Commission for Africa (2020). *Facilitating cross-border trade through a coordinated African response to Covid-19*. Addis Ababa: UNECA. Retrieved from https://t.co/tEQD3LzqPy

[12] Himbara, D. (2020, 3 Jul). Now is the time for Africa to implement AfCFTA, not later. *The Africa Report*. Retrieved from https://www.theafricareport.com/31955/now-is-the-time-for-africa-to-implement-afcfta-not-later/

[13] Signe, L. & van der Ven, C. (2019). *Keys to success for the AfCFTA negotiations*. Washington, DC: Brookings. Retrieved from https://www.brookings.edu/wp-content/uploads/2019/05/Keys_to_success_for_AfCFTA.pdf

[14] International Trade Centre (2018). *A business guide to the African continental free trade area agreement*. Geneva: ITC. Retrieved from https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/AfCFTA%20Business%20Guide_final_Low-res.pdf

[15] Games, D. (2020, 4 Feb). As D-Day approaches, is Africa really ready for the AfCFTA? *African Business*. Retrieved from https://africanbusinessmagazine.com/sectors/trade/as-d-day-approaches-is-africa-really-ready-for-the-afcfta/

[16] Charalambides, N. (2020). Ensuring that the AfCFTA is implemented and applied. *ECDM Great Insights, 9 (1)*, pp. 16-18. Retrieved from https://ecdpm.org/wp-content/uploads/ECDPM_Great_Insights_AFCFTA_Vol9_issue1.pdf

[17] AfCFTA: We'll invest in trans African highway, says Rabiu (2020, 28 Sept). *The Sun*. Retrieved from https://www.sunnewsonline.com/afcfta-well-invest-in-trans-african-highway-says-rabiu/

[18] Signe, L. & van der Ven, C. (2020, 30 Apr). How the AfCFTA will improve access to 'essential products' and bolster Africa's resilience to respond to future pandemics. *Brookings Africa in Focus*. Retrieved from https://www.brookings.edu/blog/africa-in-focus/2020/04/30/how-the-afcfta-will-improve-access-to-essential-products-and-bolster-africas-resilience-to-respond-to-future-pandemics/amp/?__twitter_impression=true

[19] Fabricius, P. (2020, 14 Feb). Was the tussle for AfCFTA secretary-general an omen? *ISS Today*. Retrieved from https://t.co/zDcp4DOCir

[20] 'Nigeria won't ratify AfCFTA unless local industries are safe' – Trade minister Niyi Adebayo (2020, 17 Feb). *CNBC Africa*. Retrieved from https://www.cnbcafrica.com/news/west-africa/2020/02/17/nigeria-wont-ratify-afcfta-unless-local-industries-are-safe-trade-minister-niyi-adebayo/

[21] Bisong, A. (2020). ECOWAS and the role of the RECs in AfCFTA implementation. *ECDM Great Insights, 9 (1)*, pp. 23-24. Retrieved from https://ecdpm.org/wp-content/uploads/ECDPM_Great_Insights_AFCFTA_Vol9_issue1.pdf

[22] Signe, L & van der Ven, C. (2019, 4 Nov). Nigeria's Benin border closure and what it means for the African Continental Free Trade Area (AfCFTA). *The Brookings Institution.* Retrieved from https://www.brookings.edu/opinions/nigerias-benin-border-closure-and-what-it-means-for-the-african-continental-free-trade-agreement-afcfta/

[23] PWC (2020). *Covid-19 and the African Continental Free Trade Agreement: Key considerations*. Lagos: PWC. Retrieved from https://www.pwc.com/ng/en/pdf/covid19-key-considerations-afcfta.pdf

[24] Kazeem, Y. (2020, November 12). Nigeria has ratified Africa's historic free trade agreement – but its land borders remain closed. *Quartz*. Retrieved from https://qz.com/africa/1932390/nigeria-ratifies-afcfta-despite-closed-benin-cameroon-borders/

[25] Abrego, L., de Zamaroczy, M., Gursoy, T., Issoufou, S., Nicholls, G.P., Perez-Saiz, H. & Rosas, J. (2020). *The African Continental Free Trade Area: Potential economic impact and challenges*. Washington DC: IMF. Retrieved from https://www.imf.org/~/media/Files/Publications/SDN/2020/English/SDNEA2020004.ashx

[26] Knebel, C. (2020). Breaking down non-tariff barriers. *ECDPM Great Insights Magazine, 9 (1)*. Retrieved from https://ecdpm.org/great-insights/african-continental-free-trade-area-agreement-impact/breaking-down-non-tariff-barriers/

[27] De Melo, J. & Tsikata, Y. (2015). Regional integration in Africa: Challenges and prospects. In *The Oxford Handbook of Africa and Economics*, vol. 2, edited by Celestin Monga and Justin Yifu Lin. Oxford: Oxford University Press.

[28] World Bank (2020, October). Charting the road to recovery. *Africa's Pulse, 22*. Retrieved from https://openknowledge.worldbank.org/bitstream/handle/10986/34587/9781464816482.pdf

[29] International Monetary Fund (2020, October). *Sub-Saharan Africa regional economic outlook: A difficult road to recovery*. Washington, DC: IMF. Retrieved from https://www.imf.org/~/media/Files/Publications/REO/AFR/2020/October/English/text.ashx?la=en

[30] Gopaldas, R. (2020, October). Covid-19 and AfCFTA: How Africa can help itself. *Konrad Adenauer Stiftung The Midpoint Series No 1/2020*. Retrieved from https://www.kas.de/documents/261596/10543300/Covid19+and+AfCFTA+-+How+Africa+can+help+itself+-+Ronak+GOPALDAS+-+Midpoint+Paper+Series+No+1-2020+-+28.10.2020.pdf/03845f96-4a8d-37a2-38e5-adc0c32fdbbf?version=1.0&t=1603888357375

[31] Hambrick, D.C. & Fredrickson, J.W. (2005). Are you sure you have a strategy? *Academy of Management Executive, 19 (4)*, pp. 51-62. Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.457.6650&rep=rep1&type=pdf

[32] Drugeon, A. (2020, 4 Mar). AfroChampions Initiative aims to create a new generation of big African firms. *The Africa Report*. Retrieved from https://www.theafricareport.com/24114/afrochampions-initiative-aims-to-create-a-new-generation-of-big-african-firms/

[33] Rabiu, A. (2020, September, 28). Africa, AfCFTA, the private sector and the way forward. *ThisDay*. Retrieved from https://www.thisdaylive.com/index.php/2020/09/28/africa-afcfta-the-private-sector-and-the-way-forward/

[34] Dupoux, P., Ivers, L., Niavas, S. & Chraiti, A. (2018). *Pioneering one Africa: The companies blazing a trail across the continent*. Boston: Boston Consulting Group. Retrieved from http://image-src.bcg.com/Images/BCG-Pioneering-One-Africa-Apr-2018_tcm9-188261.pdf

[35] Dupoux, P., Ivers, L., Abouzied, A., Chraiti, A., Dia, F., Maher, H. & Niavas, S. (2015). *Dueling with lions: Playing the new game of business success in Africa*. Boston: Boston Consulting Group. Retrieved from http://image-src.bcg.com/Images/BCG-Dueling-With-Lions-Nov2015_tcm9-73804.pdf

[36] Signe, L. (2020). *Unlocking Africa's business potential: Trends, opportunities, risks and strategies.* Washington DC: The Brookings Institution.

NTU-SBF Centre for African Studies

The NTU-SBF Centre for African Studies (CAS) is to develop thought leadership and capacity for doing business in Africa. It includes bringing Africa to Southeast Asia and Singapore and helping Singapore to be positioned as the gateway into Southeast Asia. As such, CAS aims to build and expand its local and international profile by means of publications, conferences, seminars and business forums through collaboration with local businesses, other research entities and business schools in Singapore and Africa. http://www.nbs.ntu.edu.sg/Research/ResearchCentres/CAS

Nanyang Centre for Emerging Markets

The Nanyang Centre for Emerging Markets (CEM) is a new initiative by Nanyang Business School to establish global thought leadership on business-related issues in emerging markets. It conducts research on pressing and timely business issues in emerging markets through a global research platform of leading scholars and institutional partners. It closely interacts with corporate partners to identify research topics and manage the research process. Its research outputs include valuable and relevant implications for sustained profitable growth for local and multinational companies in emerging markets. It delivers a variety of research reports and organizes forums, seminars, CEO roundtables, conferences, and executive training programmes for broad dissemination of its research outputs. http://www.nbs.ntu.edu.sg/Research/ResearchCentres/CEM

Partner Organizations

Contact Information:

Que Boxi
Email: cas@ntu.edu.sg
Phone: +65 65138089
Address: S3-B1A-35 Nanyang Business School
Nanyang Technological University
50 Nanyang Avenue Singapore 639798