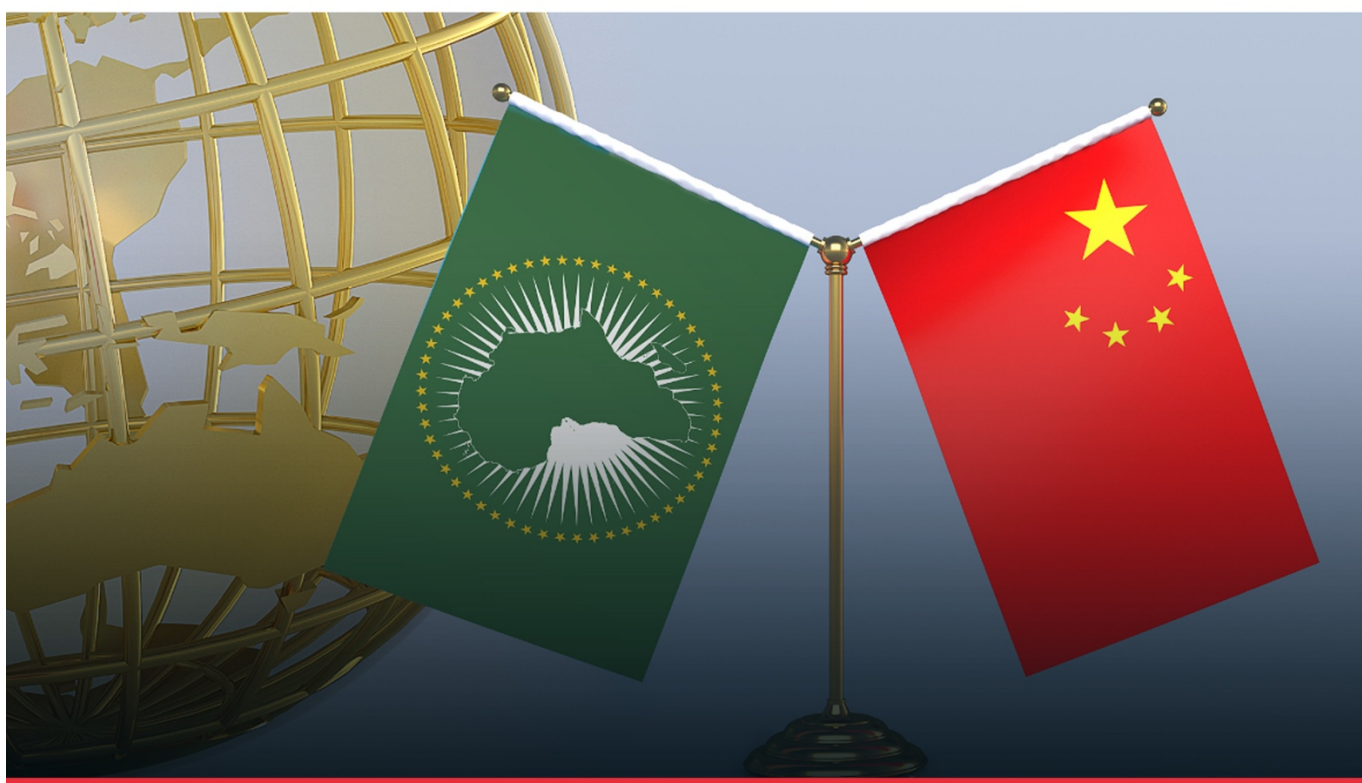


## The AfCFTA & its potential implications for Africa-China trade.



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# Background

The African Continental Free Trade Area (AfCFTA) presents considerable opportunities for the evolution and monetization of Africa's trading sectors. Upon full implementation and ratification by member states, this trade agreement will establish a cumulative market encompassing 1.3 billion individuals across 55 countries, boasting a collective GDP of approximately USD 3.4 trillion.

The AfCFTA has been mentioned as particularly beneficial for African countries, which have historically been marginalized in the global economy. Despite being rich in natural resources and having a young and growing population, African countries have struggled to achieve sustained economic growth and development. The reason for this is the limited intra-African trade, which has been hindered by a range of trade barriers, including tariffs, customs procedures, and regulatory barriers. As African countries strengthen economic ties amongst themselves, they could inevitably seek to negotiate trade agreements with China from a position of greater collective bargaining power.

The achievement of the AfCFTA's objectives hinges on various crucial factors, encompassing political will, infrastructure development, and the capacity of businesses to adapt to evolving market dynamics. Certain analysts have expressed concerns regarding the potential impact of the agreement on small and medium-sized enterprises (SMEs), as they may face difficulties in competing against larger, more established businesses. Additionally, significant investments would be essential to develop infrastructure, including transportation networks, energy systems, and digital connectivity.

AfCFTA has a vital role in encouraging intra-regional investment on account of the economies of scale; the development of regional value chains would enhance trade within the African continent. African nations should create an enabling environment for investment, including investor-friendly policies, streamlined procedures, and investment promotion initiatives.

Establishing regional value chains should enable countries to specialize in different stages of the production process, promote industrialization, create jobs, and enhance competitiveness.

Already, China's Belt and Road Initiative (BRI) aligns with some of the infrastructure goals of AfCFTA, further enhancing cooperation in the fulfilment of the trade agreement.

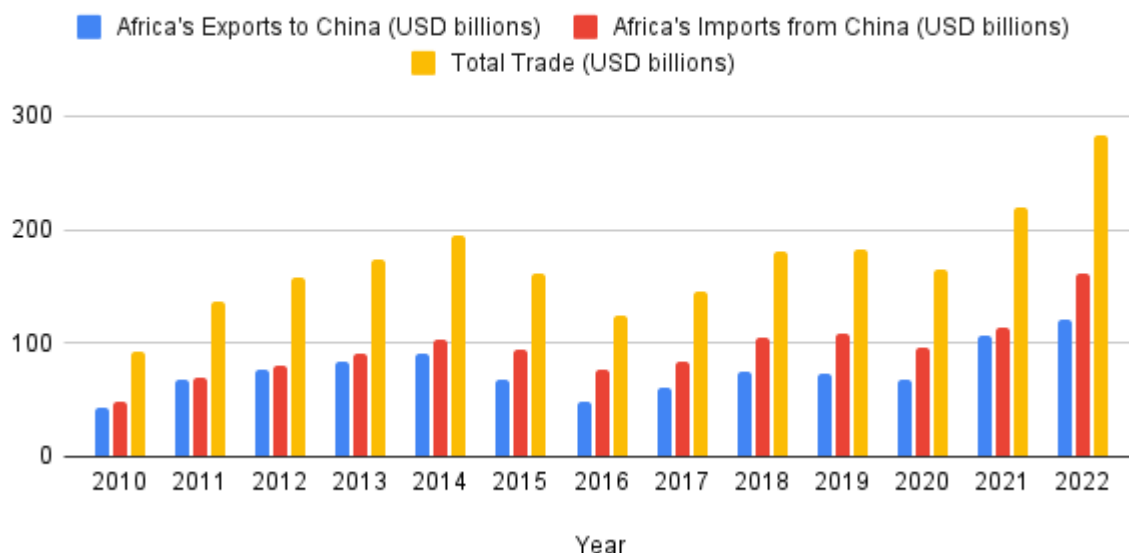
As a global leader in industrialization, China should seek to strengthen value chains of goods produced in the African market, provide research and knowledge management amenities to enable producers to specialize in their craft, align African production capacities to global standards and further seek to enhance the infrastructural network that would enable faster transportation of fresh produce for consumption in the country.

This could bring forth increased trade activity that should directly and indirectly benefit China, as it is Africa's largest trading partner as the continent's significant investor, involved in infrastructure projects, manufacturing and in the creative sector.

# Implications for Africa-China Trade

The data covering African trade volumes to China is shown below:

Africa's Exports to China (USD billions), Africa's Imports from China (USD billions) and Total Trade (USD billions)



*Source: Google, author's calculations*

With the exception of COVID-19 era, significant growth in total trade volume, especially in recent years, suggests that China remains a crucial economic partner for Africa. As AfCFTA continues to be implemented and matures, it would present new opportunities for African countries to leverage their collective market size and negotiate better trade terms not only with China but also with other trading partners globally. This evidence suggests a growing economic relationship between Africa and China, which could be influenced by factors such as increased infrastructure projects, investments, and trade agreements.

The consistent trade deficit for Africa in its trade with China highlights the need for African countries to focus on diversifying their economies, enhancing value addition to exports, and possibly negotiating more favourable trade terms with China to address this imbalance.

While the data provided does not directly reflect the impact of AfCFTA on trade with China, it's essential to consider the broader context. AfCFTA aims to promote intra-African trade and economic integration. While the primary focus is on trade within Africa, it could indirectly influence trade relations with China. For instance, improved infrastructure, reduced trade barriers, and harmonized regulations within Africa could make African countries more attractive for Chinese investment and trade partnerships, potentially affecting the trade dynamics seen in this data.

The largely untapped avenue to realize meaningful growth of economies within Africa is on the Cultural and Creative Industries (CCIs). This sector employs over 50m people worldwide and generates USD 2.25trn annually, accounting for 3% of the Global GDP. The CCIs possess the

capacity to enhance economic growth and employment opportunities across Africa, while also facilitating greater economic integration through fostering cultural cohesion.

They hold promise in stimulating innovation and bolstering the advancement of various sectors, enabling individuals from diverse social backgrounds to assert ownership over their creations and propel the region towards a trajectory of inclusive development. Nonetheless, despite Africa's abundant cultural and creative legacy, this sector has garnered insufficient attention in policy discussions and development discourse.

## Prospects

Looking forward, the AfCFTA is anticipated to drive an exponential growth in intra-African trade, anticipated to elevate 30 million individuals out of extreme poverty and an additional 68 million out of moderate poverty by 2035. The AfCFTA's objective of slashing trade barriers by 97 percent is poised to catalyze a surge in the export value of intra-African trade, estimated to rise between 15 percent (US\$50 billion) and 25 percent (US\$70 billion) by 2040.

African nations should prioritize upgrading raw material exports into processed and manufactured goods. China may see to assist with technology transfers, industrial park development, and targeted investments in value-added sectors aligned with African competitive advantages. As a bloc, Africa should also seek to collaborate to streamline tariffs and customs procedures within the AfCFTA while gradually reducing barriers to Chinese imports. These measures should be directed to target critical bottlenecks, promote African industrialization, and foster a more balanced and diversified Africa-China trade relationship in the long term.



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