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Economic Commission for Africa

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The African Continental Free Trade Area:

Impact Assessment for Rwanda

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The
African Continental Free Trade Area:

Impact Assessment for Rwanda

United Nations Economic Commission for Africa

Office for Eastern 2019

Contents

Summary

- Rwanda will be the third largest beneficiary from the AfCFTA in Eastern African in terms of its boost to intra-regional exports.

- The AfCFTA will enhance prospects for export diversification by increasing the demand for manufactured goods exports, particularly towards the Democratic Republic of Congo.

- The AfCFTA will also lead to significant increases in agricultural exports for Rwanda.

- The Rwandan economy is estimated to experience a net welfare gain of USD 74 million from full AfCFTA implementation.

- The Rwandan services sector is well-placed to take advantage of intra-African services liberalization under the AfCFTA.

- As a customs union with a Common External Tariff, the East African Community must ratify and implement the AfCFTA as a block. Rwanda should work with the other EAC Member States to ensure this outcome.

- There is need to start a national campaign to raise awareness of the AfCFTA. For the agreement to be implemented and benefits to materialize, both the general public and private sector should be fully aware of the implications of the AFCTA.

1. Why the AfCFTA is Critical for Rwanda

At a historic summit of the African Union held in Kigali in March 2018, the African Continental Free Trade Area (AfCFTA) agreement was signed in Kigali by 44 African Union Member States. Subsequently, the number of signatories rapidly rose to 54 of the 55 African Union Member States, representing a remarkable degree of consensus across the continent. Since then, ratification by 24 AU Member States resulted in the agreement entering into force on 30th May 2019. Rwanda's President, Paul Kagame, has been among its leading champions and made multiple public announcements stressing the importance of the rapid implementation of the AfCFTA.[1]

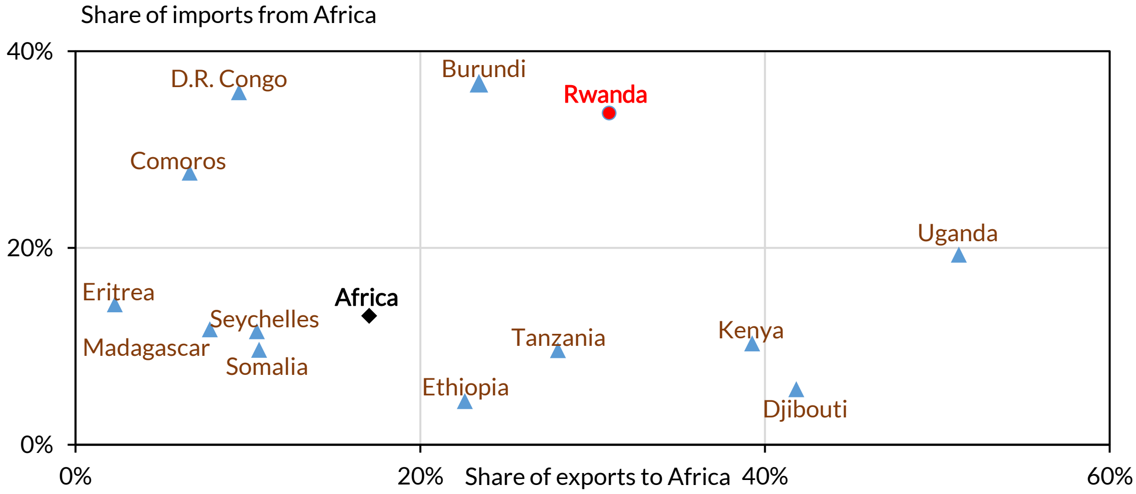
Rwanda thus has an especially important role in the construction of a unified continental market under the AfCFTA. The benefits will not materialize immediately – the timelines for the elimination of tariffs for sensitive and non-sensitive products are explained in Section 2 of this briefing. But those potential benefits promise to be major ones.

Our simulation work shows that the AfCFTA will provide a significant boost to Rwanda's intra-African trade by reducing tariff and non-tariff barriers on trade with other African countries. Crucially for Rwanda, the AfCFTA will also liberalise intra-African service trade, an area where the country has an emerging comparative advantage. It will lead to higher levels of much needed intra-African investment and facilitate the emergence of regional value chains. With an implemented AfCFTA, Rwanda will be in a strong position to capitalize on its strategic goal to become a regional investment and services hub.

However, none of these outcomes is automatic or should be taken for granted. It requires a lot of accompanying actions. This document provides a brief overview of the potential benefits for Rwanda and provides a tentative guide to what those actions might be.

As a land-linked country geographically located in the heart of Africa, Rwanda already has achieved quite a high degree of trade integration through intra-Africa trade (Figure 1).

Figure 1: Share of Rwanda's trade flows with Africa, 2015-2017 average



Source: UNCTADStat (2018).

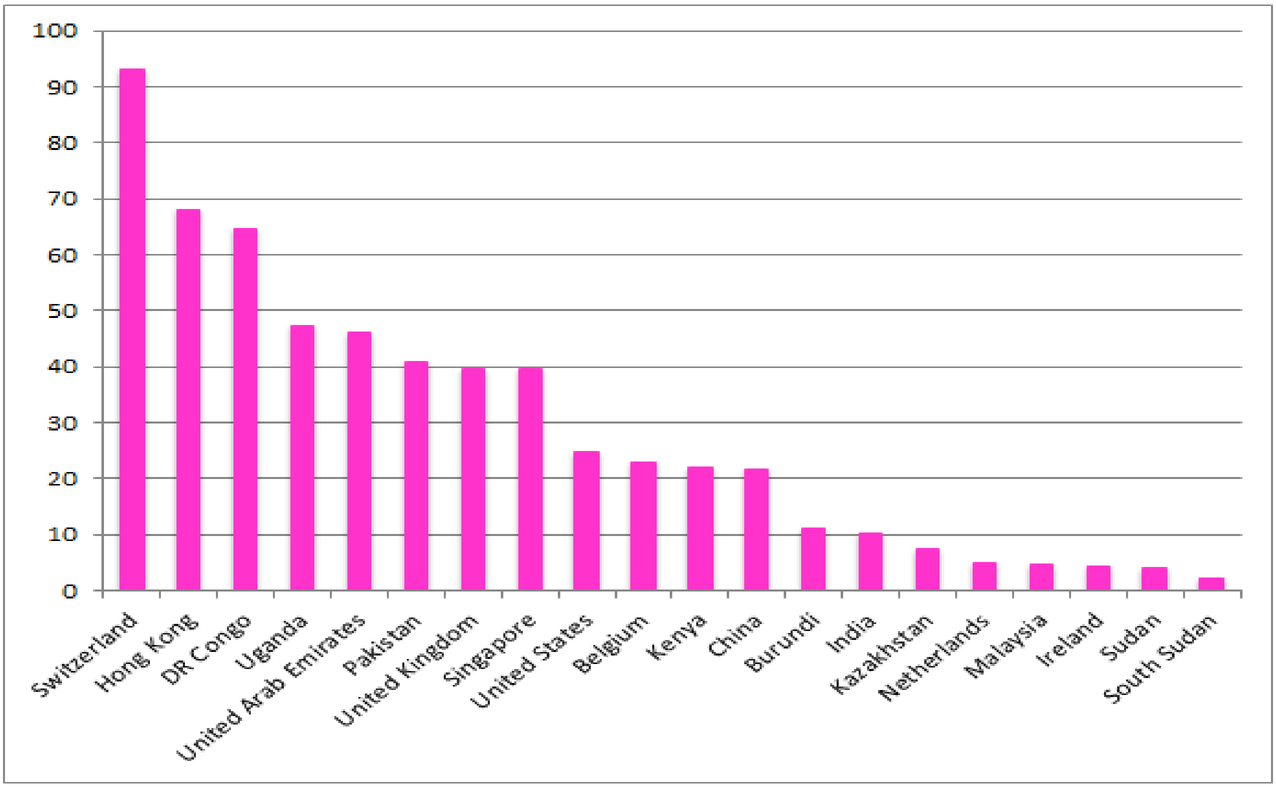
However, some recent trends may be of concern, such as a notable decline in intra-EAC exports since 2013. Rwanda's intra-EAC exports stood at around USD 135 million in 2018 (NISR, 2019). Although it will not impact directly on intra-regional trade within the EAC, where tariffs have already been

[1] See, inter alia, RNA (2019).

reduced to zero[2], the AfCFTA presents a unique opportunity for Rwanda to bolster both its intra-African trade and investment, especially during a time when the global trading environment is looking decisively less stable.[3]

Despite the relative importance of the regional market, Rwanda's main trading partners are still located outside of Africa (Figure 2). But that could change quite rapidly with the implementation of the AfCFTA.

Figure 2: Rwanda's Top 20 exports destinations in 2018 (USD millions)



Source: NISR (2019)

Not only will the AfCFTA increase trade volumes with other African trading partners, but it will also enhance the prospects for export diversification by increasing the demand for manufactured goods exports. Important progress has already been made by Rwanda in this respect (MINECOFIN/World Bank, 2018). Economists have long argued that the composition of exports matters for growth and those countries that export a higher share of manufactured products grow faster than countries that export a low share of manufactured products (Fosu, 1990, 1996, 2002, Imbs and Wacziargs 2003, Hausman et al., 2007), a relationship which appears particularly strong for African countries (Fosu, 1990, 1996 and 2001). Encouragingly, Rwanda's exports have diversified and become less dependent on traditional exports (tea, coffee, minerals). New industries (textile, mechanical appliances, etc.) have begun to export, but also agro-processing products. The regional market – the EAC - is an important market for Rwanda's non-traditional exports with higher skill content. In 2014, for example, the region

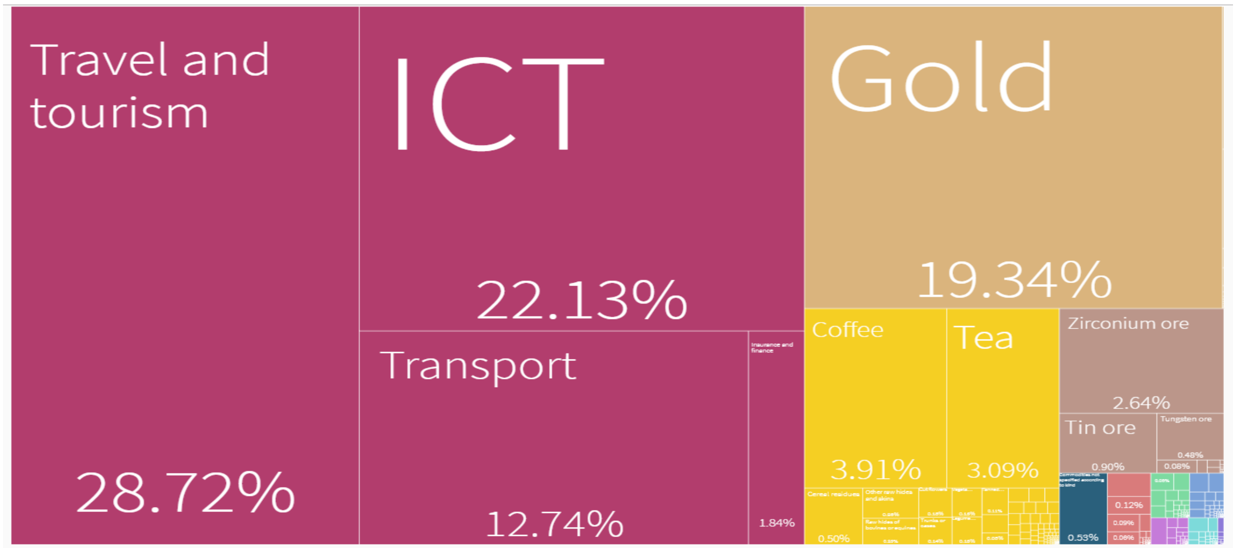
[2] It may, however, help to resolve critical outstanding disputes over non-tariff barriers within the EAC.

[3] The ongoing trade dispute between the world's two largest trading nations, the United States and China, is evidence of this, but it is not confined to these cases. European integration is being destabilised by the imminent exit of the United Kingdom, and there are rising trade tensions between the United States and Europe (UNECA, 2019a).

accounted for 41% of manufacturing exports, and 66% of leather and horticultural products sold abroad (Newfarmer & Twum, 2018).

Figure 3: Rwandan's exports by sector (%)

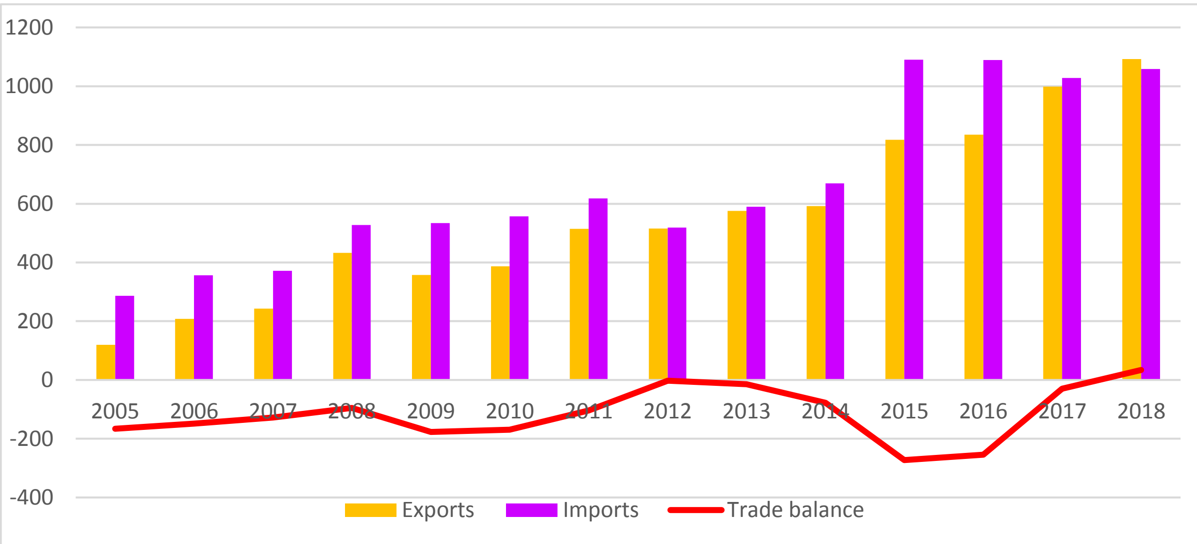
Total exports in 2019: USD 1.5 billion



Source: Harvard University (2019)

Besides, over the last decade, service exports have increased significantly. Half of the total export earnings now come from services (MINECOFIN/World Bank). In 2017, tourism accounted for 29% of exports, ICT accounted for about 22%, and transport accounted for 13% (Figure 3). Indeed, in 2018 the trade balance of services turned positive, at USD 34 million (Figure 4).

Figure 4: Rwanda's Trade in Services, 2005-2018 (USD million)



Source: UNCTADStat (2019)

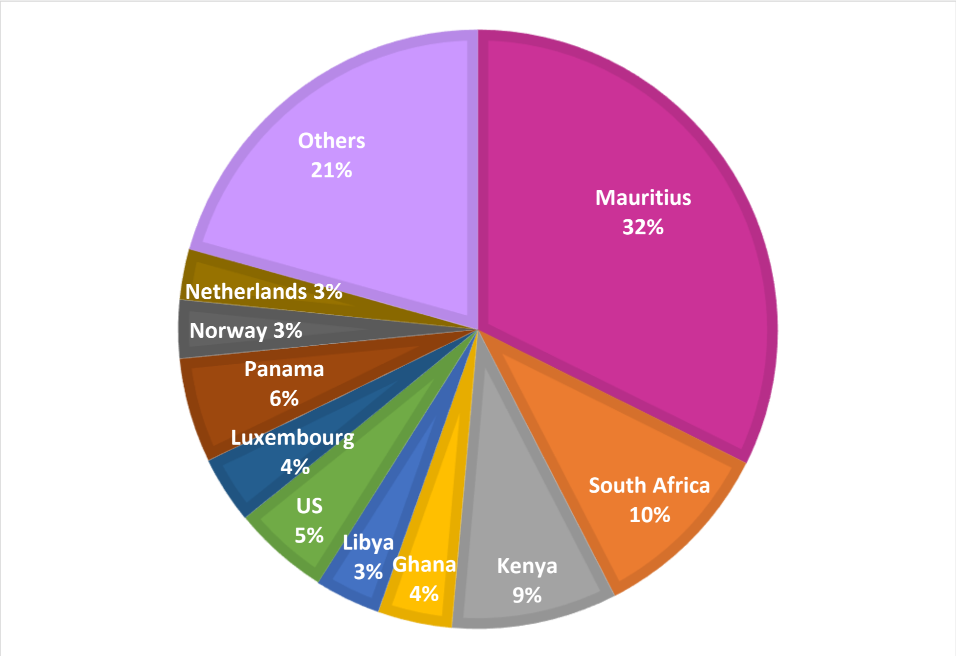
Tourism is one of the immediate opportunities in trade in services. Rwanda has already made efforts to accelerate tourism growth by investing substantially in the Kigali Convention Center, Rwandair, as well as tourism assets such as Akagera and Nyungwe National Park. Four- and five-star hotels managed by major companies such as Radisson Blu and Mariott have been constructed. The strategy has begun to bear fruit, with larges conferences being held in Kigali, such as the World Economic Forum in May 2016 and the African Union Summit, two months later (Kimonyo, 2019). Rwanda's *Vision 2050 and*

The 2018-2024 Seven Year Plan also include further investments in Information and Communication Technologies, other service sectors with large growth potentials (MINECOFIN/World Bank, 2018).

The impacts of the AfCFTA go far beyond the direct trade impacts. By enlarging the size of the market, the AfCFTA also promises to increase both domestic and foreign investment. East Africa has done well over the last decade in increasing its capacity to attract FDI inflows, with the total more than doubling in the decade since the global financial crisis – a quite stellar performance given the global context.[4]

Opportunities for greater intra-African FDI will be positively impacted under the AfCFTA, especially for small economies like Rwanda. Intra-African FDI for Rwanda already represents 58 percent of the total stocks of FDI (Figure 5). However, this is rather misleading, to the extent that largest source of inward investment is Mauritius. Mauritius has a very low effective corporate tax rate, and hence is frequently regarded as a tax-haven.[5] The ultimate origin of FDI into Rwanda through Mauritius is thus unknown – and often proceeds from companies based in Europe, North American and India.

Figure 5: Rwanda's Top Ten Foreign Direct Investment Flows by Origin in 2016 (USD million)



Source: BNR/RDB/ NISR/PSF (2018)

For Rwanda, further increases in intra-African FDI would be desirable. In principle, investors from within the EAC and the wider African region have a more intimate knowledge of regional markets and are more capable of navigating the cultural factors that often impede foreign investment from further afield – there is, in other words, a greater cultural affinity which facilitates cross-border business (Blonigen and Piger, 2014). There is also evidence that intra-African FDI creates more employment opportunities and is more conducive to technology transfer than extra-African FDI (Gold et. al, 2017).

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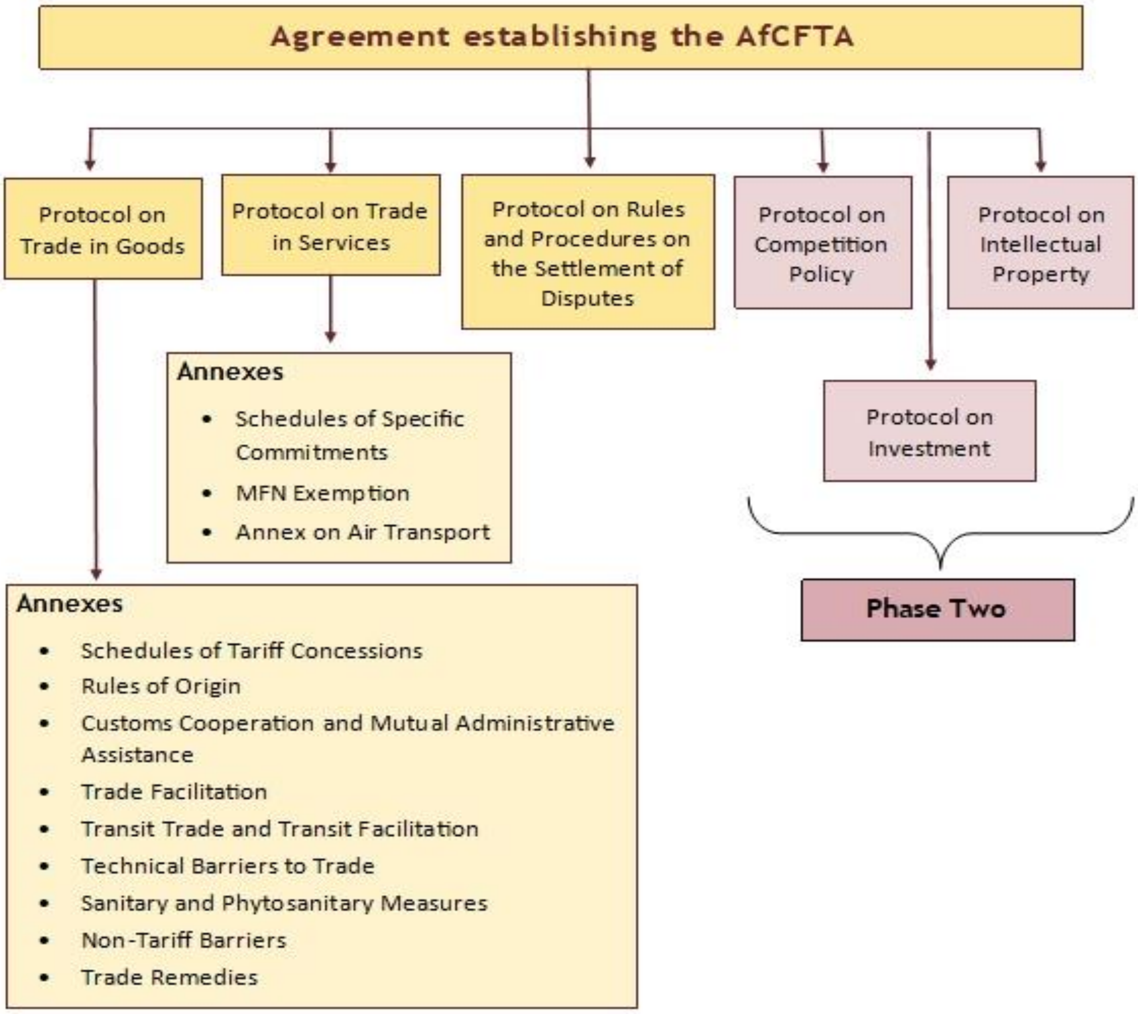
[4] East Africa's share in African total FDI inflows has increased from around 13 percent of the continental total in 2011, to around 18 percent in 2017 (UNECA,2019b).

[5] See, for instance, "The UAE and Mauritius are the most corrosive corporate tax havens against African countries" – Tax Justice Network Africa, May 30, 2019 by Rachel Etter-Phoya, https://www.taxjustice.net/2019/05/30/the-uae-and-mauritius-are-the-most-corrosive-corporate-tax-havens-against-african-countries-tax-justice-network-africa/

2. What is the African Continental Free Trade Area?

The African Continental Free Trade Area (AfCFTA) will potentially cover all 55 Member States of the African Union, making it the world's largest free trade area (by the number of participating countries) since the formation of the World Trade Organization. It is called a 'free trade' area, but its scope is wider than that of a traditional free trade area. The main objectives of the AfCFTA are to create a single continental market for goods and services, with free movement of business persons and investments, and lay the foundations for the establishment of a Continental Customs Union.

Figure 6: Structure of the AfCFTA



Source: TRALAC (2019)

According to Article 4 of the AfCFTA, for purposes of fulfilling and realizing the objectives of the agreement, member states shall:

- Progressively eliminate tariffs and non-tariff barriers (NTBs) to trade in goods;
- Progressively liberalize trade in services;
- Cooperate on investment, intellectual property rights and competition policies;
- Cooperate on all trade-related areas between State Parties;
- Cooperate on customs matters and the implementation of trade facilitation measures;
- Design a mechanism for the settlement of disputes concerning their rights and obligations; and
- Establish and maintain an institutional framework for the implementation and administration of the Continental Free Trade Area.

Article 8 of the agreement states that the Member States that belong to other Regional Economic Communities (RECs) which have already attained higher levels of elimination of customs duties and trade barriers shall maintain, and where possible improve upon, the higher level of trade liberalization among themselves. It is also crucial that the Partner States of Africa's four Customs Unions (CEMAC, EAC, ECOWAS, and SACU) reach a consensus on ratification and implementation together. They cannot move ahead with AfCFTA implementation without undermining the commonality of their external tariffs and consequently the integrity of the customs union (AU/ECA/AfDB, 2019: 62). As a member of the East African Community, it is thus particularly important that Rwanda moves forward together with other Member States towards the implementation of the AfCFTA.

When will the AfCFTA come into force? In line with *Article 23 and 24* of the agreement, the AfCFTA entered into force on 30th May 2019 for the 24 countries that had deposited their instruments of ratification with the chairperson of the African Union Commission.[6] Subsequently, the operational phase of the African Continental Free Trade Area (AfCFTA) was launched during a summit of Heads of State and Government of the African Union (AU) in Niamey, Niger on July 7, 2019. The five operational instruments governing the agreement launched at the meeting include well-defined Rules of Origin, an online negotiating forum, an online continental non-tariff barrier monitoring and elimination mechanism, a Pan-African digital payments and settlement platform as well as an African trade observatory portal (AU, 2019a and 2019b).

Nonetheless, critical features of the agreement, including schedules on tariff concessions and commitments on trade in services and policies around investment, intellectual property and competition are still outstanding. Without these elements, there cannot be any trade under the AfCFTA. This implies that trade will continue under the MFN rules of the WTO or as provided for by specific Regional Economic Community (REC) arrangements until trade under the AfCFTA commences (anticipated for 1st July 2020). All this implies that there are a lot of items to be negotiated and that the negotiations will touch on many different areas of economic policy and ministerial competence for Rwanda. As a consequence, it is important that a cross-Ministerial team looks at the potential implications and come to a consensus on the position to be taken during the negotiations.

How are the tariff concessions being negotiated? African Union Member States have agreed to remove 90 percent of their tariffs on goods over a period of 5 and 15 years, depending on whether a country is classified as developing or least developed, with special and differentiated treatment for the group of six countries[7] (Table 1). The ten percent of goods classified as sensitive or excluded may be liberalized over longer time frames or exempted from any tariff reductions. The designation of sensitive products and exclusion list is on the basis of the following criteria: food security, national security, fiscal revenue, livelihood and industrialization (AU, 2019c:2).

However, the percentage of sensitive products may not exceed 7 percent of total tariff lines and the exclusion list may not exceed 3 percent of total tariff lines. The application of these percentages is subject to double qualification and anti-concentration clauses where the excluded products shall not exceed 10 percent of total import value from other Member States (This implies that the products to be excluded from liberalization will represent no more than 3 percent of tariff lines accounting for no more than 10 percent of the value of imports from other African countries). This is to avoid exempting entire sectors from tariff cuts (AU, 2019c:2).

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[6] The 24 countries that have deposited their instruments of ratification are Ghana, Kenya, Rwanda, Niger, Chad, Congo Republic, Djibouti, Guinea, eSwatini (former Swaziland), Mali, Mauritania, Namibia, South Africa, Uganda, Ivory Coast (Côte d'Ivoire), Senegal, Togo, Egypt, Ethiopia, The Gambia, Sierra Leone, Saharawi Republic, Zimbabwe, and Burkina Faso (TRALAC, 2019).

[7] Initially, Djibouti was part of the group, making it the group of seven countries. After consultations, Djibouti agreed to the 90% level of ambition (AU, 2019c: 4)

Table 1: Schedule of liberalization envisaged under the AfCFTA reform

Country classification		Tariff reductions		
		For non-sensitive products	For sensitive products	For excluded products
	Developing Countries	fully liberalised over 5 years (linear cut)	fully liberalised over 10 years (linear cut)	no cut
	Least Developed Countries	fully liberalised over 10 years (linear cut)	fully liberalised over 13 years (linear cut)	no cut
	Group of six *(i.e. Ethiopia, Madagascar, Malawi, Sudan, Zambia, Zimbabwe)*	85% fully liberalised over 10 years (linear cut); an additional 5% fully liberalised over 15 years (linear cut)	fully liberalised over 13 years (linear cut)	no cut

Source: ECA (2019) Note: After consultations, Ethiopia, Madagascar, Zambia and Zimbabwe agreed to the level of liberalization of 90% to be implemented over 15 years (AU, 2019c:4)

The lists of excluded, sensitive and non-sensitive products will be determined country by country, except for the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS) and the Southern African Customs Union (SACU), for which common lists for all member States within each of the four regional groupings are established (ECA, 2019a). As a consequence, government authorities must work closely with the East African Community in adopting a common position with regard to the reduction of tariffs. Only those countries which have ratified the AfCFTA (or have subsequently acceded) will be bound by the new rules and will enjoy the benefits related to market access in goods and services (TRALAC, 2019).

3. Impact of the AfCFTA on the Rwandan Economy

For this brief we use both Partial Equilibrium (PE) and Computable General Equilibrium (CGE) models to analyse the static impact of the AfCFTA on Rwanda. PE models give the magnitude of the direct effects of trade policy changes without taking into account the sectoral market interactions (feedback effects), whereas the CGE models take into account the second-round effects, such as inter-industry effects and some macroeconomic adjustments. The CGE models, however, rely on a relatively large number of assumptions[8] compared to the PE models which depend on simpler and more transparent assumptions – PE results are largely driven by the data that they are based on and only a relatively limited number of equations are considered in the simulations (ECA et al., 2019b). More importantly, the data requirements for PE are less demanding than for the CGE, and the PE can provide results at a highly disaggregated level (HS-6-digit product level). Arguably, a combination of both models provides a more comprehensive answer to assessing the impact of trade liberalization (ECA, 2017). Besides, the derived estimates should only be used to give a sense of the order of magnitude that any change in policy can mean for economic welfare or trade (Piermartini and the, 2005).

3.1 Impact Analysis Using the Partial Equilibrium model

Our partial equilibrium simulations are based on the WITS-SMART model[9], assuming full liberalization of the tariffs on intra-African trade in goods. The model produces estimates of the trade effects and the welfare effect. Data on trade flows and tariffs used in the model are extracted from the COMTRADE and UNCTAD TRAINS database with the underlying data referring to a 2014 base year. The

[8] In CGE models, while other assumptions are theoretically feasible, for reasons of tractability, most models limit themselves to constant economies of scale and perfect competition. For more information on the design and assumptions of the GTAP model, see Hertel (1998). An introduction to CGE modelling using GTAP is to be found in Burfisher (2017).

[9] For more details on the model, see Laird and Yeats (1986) and WTO and UN (2011).

elasticities incorporated in the simulation are for import demand, Armington substitution, and infinite export supply (the price-taker assumption)[10].

Significant gains in the agricultural sector

The results suggest that Eastern Africa as a block[11] could gain around USD 737 million (13 percent) from the increase in the intra-African exports when compared to the exports of the base year (Table 2). In terms of absolute value, Rwandan exports to the rest of Africa would increase by USD 56 million (22 percent).

Table 2: Change in Value of Intra-African Exports, Post-AfCFTA

	Absolute amount (USD '000)	Compared to the base year
Madagascar	93,186	47%
Somalia	2,988	31%
Rwanda	56,010	22%
Uganda	198,546	21%
Tanzania	171,780	17%
Eastern Africa	**736,501**	**13%**
Kenya	188,227	10%
Ethiopia	10,718	10%
South Sudan	401	8%
Seychelles	3,963	7%
Djibouti	716	5%
D.R. Congo	9,843	1%
Eritrea	55	1%
Comoros	28	1%
Burundi	39	0.40%

Source: ECA Calculations based on the WITS/SMART partial equilibrium model. Note: Since the WITS-SMART simulations focus on one importing market and its exporting partners in assessing the impact of a tariff change, the estimates for Uganda, Kenya, and Ethiopia may be underestimated as they do not take into account exports from these countries to South Sudan and Somalia.

However, these estimated gains underestimate the potential impact of the AfCFTA. It should be remembered that both methodologies only apply to merchandise trade and are unable to provide estimates of trade in new sectors or industries within the economies when confronted by the new opportunities opened up by the AfCFTA. The estimates are of course also limited to formal sector trade, although informal cross border trade represents a significant portion of the intra-African trade.

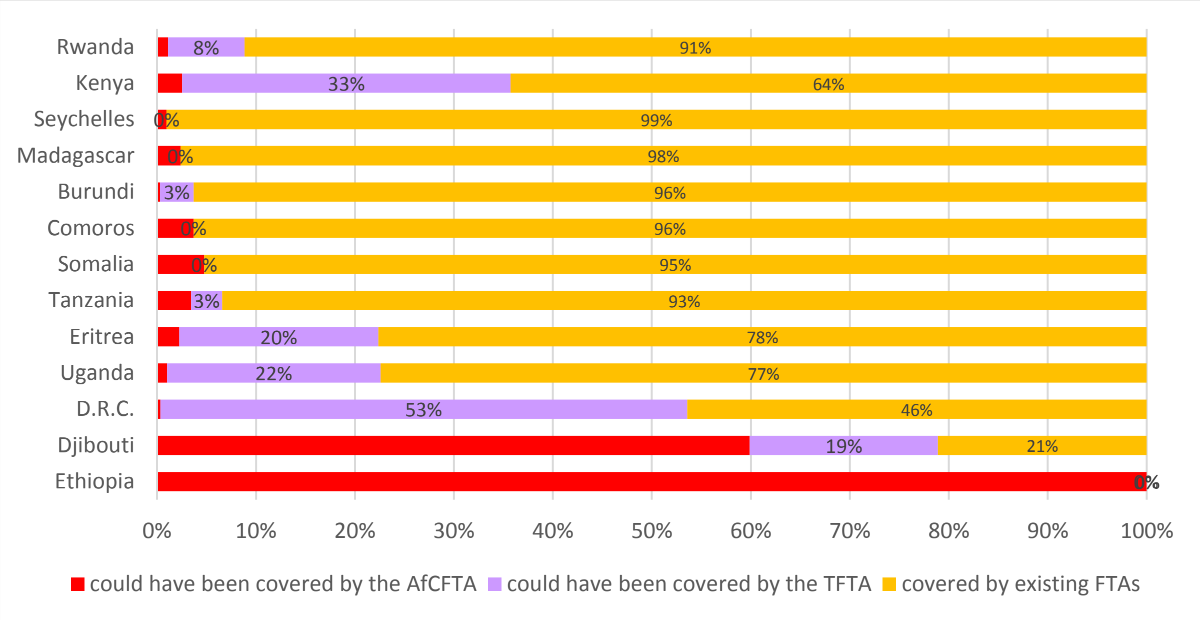
[10] The 'price-taker' assumption is usually realistic in the case of small countries which export to global markets, and where their production costs are unlikely to impact on prices in that particular sector. Even in the coffee and tea markets, where Rwanda has traditionally focussed its export activities, the volumes are not sufficiently large to impact on global markets.

[11] Eastern Africa is defined using the ECA definition, i.e. including Burundi, Comoros, Democratic Republic of Congo, Djibouti, Ethiopia, Eritrea, Kenya, Madagascar, Rwanda, Seychelles, Somalia, South Sudan, Tanzania and Uganda.

Services trade has also not been considered due to the paucity of both bilateral service trade data and tariffs.[12]

Moreover, the majority of Rwanda's existing intra-African trade is already covered by existing free-trade agreements (Figure 7). Thus the simulations only capture the benefits arising from new intra-African trading partners with which Rwanda does not currently have a functional regional trading arrangement.

Figure 7: Share of Intra-African Imports Already Benefiting from Free Trade Agreements



Source: AU/ECA/AfDB(2019)

Encouragingly for industrialization objectives, at the regional level, the increase in intra-African trade will be most pronounced in the manufacturing sector, which accounts for almost 40 percent (USD 235 million) of the total increase in the intra-African exports. By contrast, according to the partial equilibrium results, Rwanda's increase in intra-African trade will be most notable in the agricultural sector. In terms of absolute value, wheat or muslin flour register the highest increase in intra-African exports, with other products such as cattle, dairy produce, cereals and rice experiencing marked increases (Table 3).[13]

[12] Literature has shown that the services sectors are a major beneficiary of deeper regional integration. For example, Mayer et al. (2018) studied the impact of the European single market over the period from 1950 and 2012 and found that the single market increased services trade by 58 percent.

[13] UNECA (2015) highlights the potential for Rwanda to promote agricultural exports and food products towards the ECCAS Member States, particularly countries like Angola, Congo Brazzaville and Gabon which are currently highly dependent on food imports from Europe.

Table 3: Changes in Rwanda's exports by product, Post-AfCFTA

Product Code (HS 6)	Product Description	Change in value of exports (USD 1000)	% change
110100	Wheat or meslin flour	21,659	172%
10290	Live bovine animals, other than pure-bred breed	7,358	104%
40221	Dairy produce; milk and cream, concentrated, not containing added sugar or other sweetening matter, in powder, granules or other solid forms, of a fat content exceeding 1.5% (by weight)	3,422	15%
100640	Cereals; rice, broken	3,082	108%
10420	Live goats	3,009	681%
220290	Non-alcoholic beverages; n.e.c. in item no. 2202.10, not including fruit or vegetable juices of heading no. 2009	1,767	27%
220300	Beer; made from malt	1,711	10%
100590	Cereals; maize (corn), other than seed	1,512	61%
170199	Sugars; sucrose, chemically pure, in solid form, not containing added flavouring or colouring matter	1,214	16%
630900	Clothing; worn, and other worn articles	1,059	20%

Source: ECA calculations based on the WITS/SMART partial equilibrium model

In geographic terms, practically the totality of increased intra-African exports will go towards D.R. Congo, reflecting the size of the market, proximity and the common border. In contrast, there would be a marginal decline of exports to other member states of the East Africa Community (essentially because the PE model cannot capture any trade effects beyond the elimination of tariffs and for these countries tariffs have already been removed).

Table 4: Geographical distribution of Rwanda's increase in intra-African exports, Post-AfCFTA

	Value (USD, 1000)
Congo, Dem. Rep.	**56,013**
Ghana	23
South Africa	14
Eritrea	12
Burundi	(15)
Uganda	(19)
Kenya	(29)

Source: ECA Calculations based on the WITS/SMART partial equilibrium model

Increase in Imports Smaller than the Increase in Exports

Since regional integration is always a '*two-way street'*[14], imports from other African countries will also increase as a result of the implementation of the AfCFTA. The simulation estimates suggest that Rwanda's imports from the rest of Africa by USD 16.4 million (Table 5). However, comparing Rwanda's change in imports to the change in exports shows that for every unit increase in intraregional imports, intraregional exports would increase three times more, contributing modestly to an improved Rwandan trade balance. Higher intra-African imports could play a valuable role in terms of accelerating the emergence of intra-regional value chains, and hence should be welcomed.

Table 5: Change in Intra-African Imports, Post-AfCFTA

	Absolute amount (USD '000)	Compared to the base year
Eastern Africa	1,490,406	16%
Rwanda	**16,361**	**2%**
D.R. Congo	1,079,372	32%
Ethiopia	166,680	21%
Madagascar	77,119	25%
Kenya	68,159	5%
Uganda	31,318	3%
Djibouti	18,144	35%
Tanzania	14,053	1%
Eritrea	8,947	6%
Comoros	4,302	8%
Seychelles	3,065	3%
Burundi	2,885	2%

Source: ECA calculations based on the WITS/SMART partial equilibrium model

The AfCFTA will lead to trade creation

Trade creation within any regional block reflects the displacement, due to tariff reductions, of inefficient (high cost) producers with more efficient suppliers of the same goods within the newly formed continental market, while trade diversion reflects the displacement of the relatively efficient (low cost) producers outside the regional block, with supply by more inefficient ones within. The net balance between these two effects is an empirical question - some regional integration projects in Africa have been net trade creating, and others net trade destroying (Thirlwall,2011). The results from the PE model show that trade creation will occur in all countries in Eastern Africa and the trade

[14] '*Integration is a two-way street. Protectionism is not going to serve anyone well because the moment you start practicing it, you invite others to do the same. It is not healthy globally or when it comes to smaller regional entities.*' President Paul Kagame, CNBC Africa, August 2018.

creation effect of the AfCFTA will exceed the trade diversion effect, leading to a net balance of USD 1 billion for the region. For Rwanda, the net trade creation effect amounts to USD 3 million (Table 6).

Table 6: Trade creation and Diversion (USD millions)

	Trade Creation	Trade Diversion	Net Effect
Eastern Africa	**1,253**	**219**	**1,034**
D.R. Congo	986	93	893
Ethiopia	114	53	61
Madagascar	57	20	37
Kenya	40	28	12
Uganda	19	13	6
Djibouti	14	4	10
Tanzania	11	3	8
Rwanda	**7**	**4**	**3**
Burundi	2	1	1
Eritrea	2	0.5	1.5
Comoros	1	0.5	1.5
Seychelles	0.33	1	-0.67

Source: ECA calculations based on WITS/SMART partial equilibrium simulations.

3.2 Impact Analysis Using a General Equilibrium Model

For comparison, further simulations were carried out using the Global Trade Analysis Project (GTAP) model. This computable general equilibrium model describes global bilateral trade patterns, production, consumption, and intermediate use of commodities and services, with the underlying data referring to a 2014 baseline. The model is run using a regional aggregation which includes the standard regions included within the GTAP model, with disaggregation of the individual countries/region in Africa. The sectoral aggregation covers 65 sectors. We studied the impact of implementing the AfCFTA on Eastern Africa and Rwanda by simulating the removal of the existing tariffs on all intra-African trade (100 percent liberalisation).[15]

Exports to South-Central Africa will increase significantly

Our simulation work suggests that the AfCFTA could boost Rwanda's intra-African exports by USD 37 million (17%) (Table 7). In line with the PE results reported in the previous section, the increase in

[15] While the exact results of tariff negotiations are not known, it is common to use a full liberalization scenario in this type of modelling work, as a baseline reflecting the expected impact. The only alternative would be a highly speculative exercise regarding identifying the goods that may be excluded – for the purpose of this brief, this was not attempted.

exports will chiefly be destined towards South-Central Africa (USD 39 million) (a composite region which comprises of DRC and Angola) (Table 8).[16]

Table 7: Change in Intra-African Exports for Select Eastern Africa countries, Post-AfCFTA

	Absolute amount (USD, millions)	Compared to the base year
Rwanda	37	17%
Tanzania	323	23%
Uganda	141	14%
Kenya	140	7%
Ethiopia	113	10%

Source: ECA calculations based on GTAP simulations

With regards to Rwanda's intra-African exports by sector, the exports of ferrous metals[17] and food products would register the highest gains, increasing by USD 16 million, and USD 8 million respectively (Figure 8).

Table 8: Geographical Distribution of Additional Intra-African Exports (USD millions), Post-AfCFTA

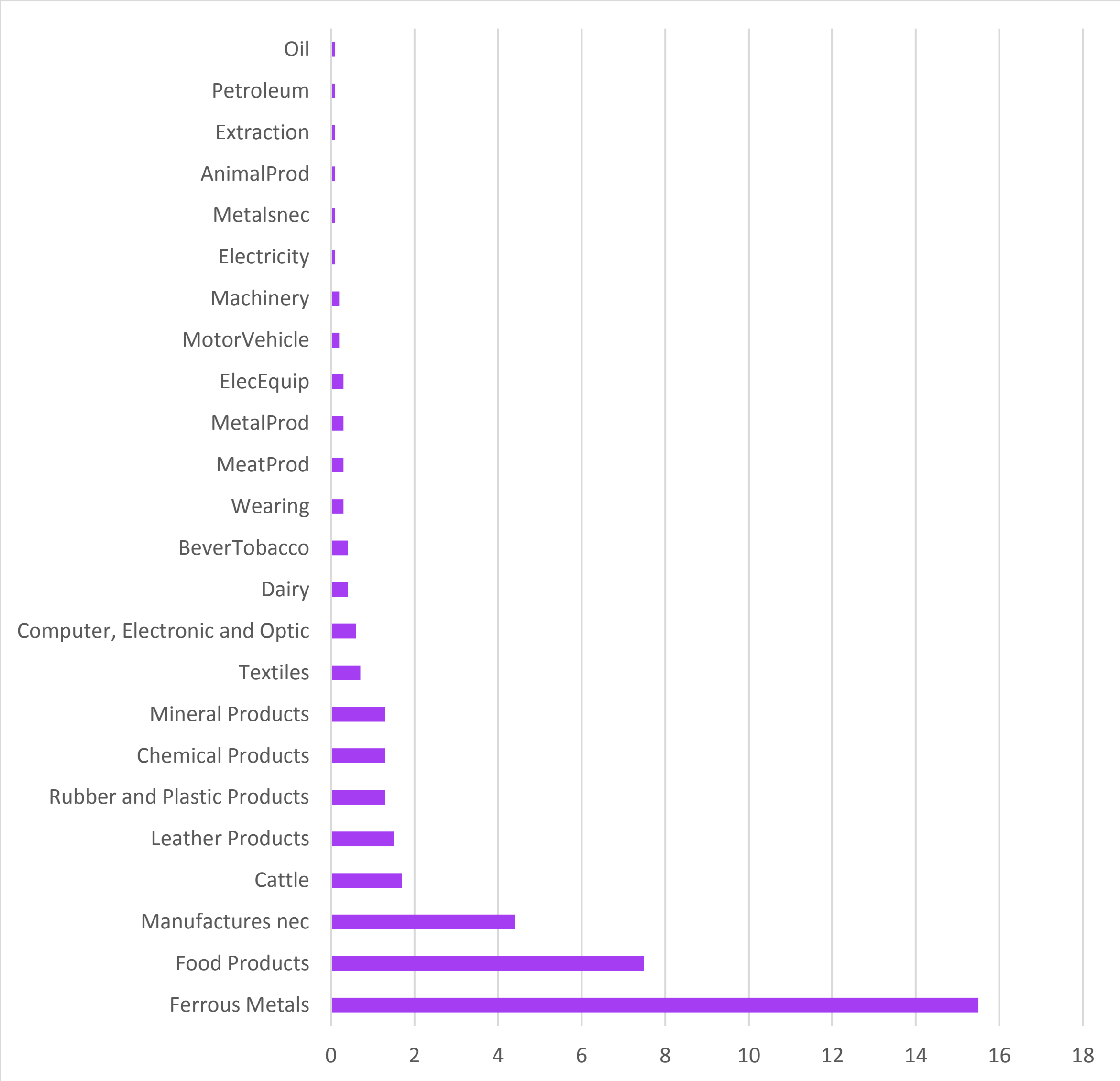
	Absolute Amount
South Central Africa	39.3
Rest of South Africa	0.2
Guinea	0.1
Senegal	0.1
Rest of West Africa	0.1
Ethiopia	0.1
South Africa	0.1
Rest of East Africa	-0.2
Tanzania	-0.3
Uganda	-0.5
Kenya	-1.5

Source: ECA calculations based on GTAP simulations

[16] GTAP does not have individual country data for DRC. But we can assume that, in line with the PE analysis, the vast bulk of the increased intra-African exports will be going to DRC, and not Angola.

[17] The ferrous metals category includes roof sheeting, a major non-traditional export for Rwanda.

Figure 8: Changes in Rwanda's Intra-Africa Exports by Product (USD millions), Post-AfCFTA



Source: ECA Calculations based on GTAP simulations.

Imports from South Africa will increase significantly

The simulation estimates indicate that the AfCFTA would increase Rwanda's intra-African imports by USD 57 million (or 10%). These imports will be mainly from South Africa and South-Central Africa. Until either the AfCFTA or the *Tripartite Free Trade Agreement* [18](TFTA) is implemented, Rwanda does not currently have any preferential trading arrangement with South Africa.

[18] The TFTA could be considered an important building block for the AfCFTA. Its rapid ratification and implementation would significantly accelerate the coming into force of the AfCFTA in Eastern and Southern Africa. See UNECA (2019-Forthcoming).

Table 9: Change in Intra-African Imports, Post-AfCFTA

	Absolute amount (USD, millions)	Compared to the base year
Rwanda	57	10%
Tanzania	663	41%
Ethiopia	515	68%
Kenya	422	16%
Uganda	114	11%

Source: Calculations based on GTAP simulations

Table 10: Geographical Distribution of Increase in Intra-African Imports, Post-AfCFTA

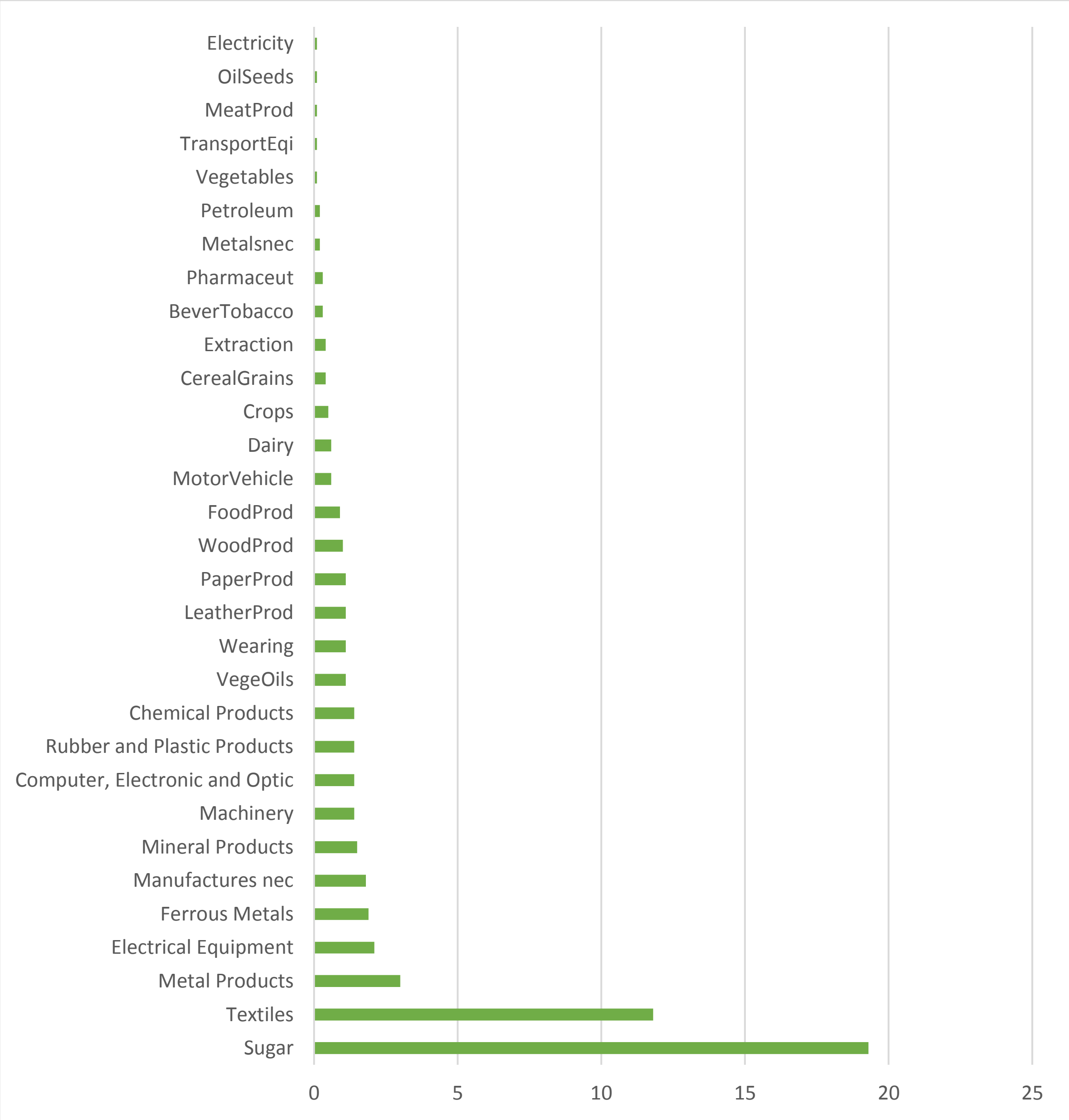
	Absolute amount (USD, millions)
South Africa	44
South Central Africa	17.5
Rest of West Africa	1.6
Morocco	0.7
Senegal	0.6
Tunisia	0.4
Rest of North Africa	0.2
Benin	0.1
Burkina Faso	0.1
Cameroon	0.1
Cote d'Ivoire	0.1
Ghana	0.1
Nigeria	0.1
Central Africa	0.1
Ethiopia	0.1
Kenya	0.1
Mozambique	0.1
Rest of South Africa	0.1

Source: Calculations based on GTAP simulations

Rwanda's intra-African imports of sugar and textiles would register the largest increases, rising by USD 19 million, and USD 12 million respectively (Figure 9). In all other sectors, the increase in intra-African imports is rather modest. In 2015, a policy called the Domestic Market Strategy (DMRS), together with the *Made in Rwanda* campaign, has been put in place to reinforce exports. Sugar and textiles were among the targeted products, which led to a significant drop in their respective imports and, at the same time, an increase in sugar production but also in locally produced shoes (Kimonyo, 2019: 225).[19]

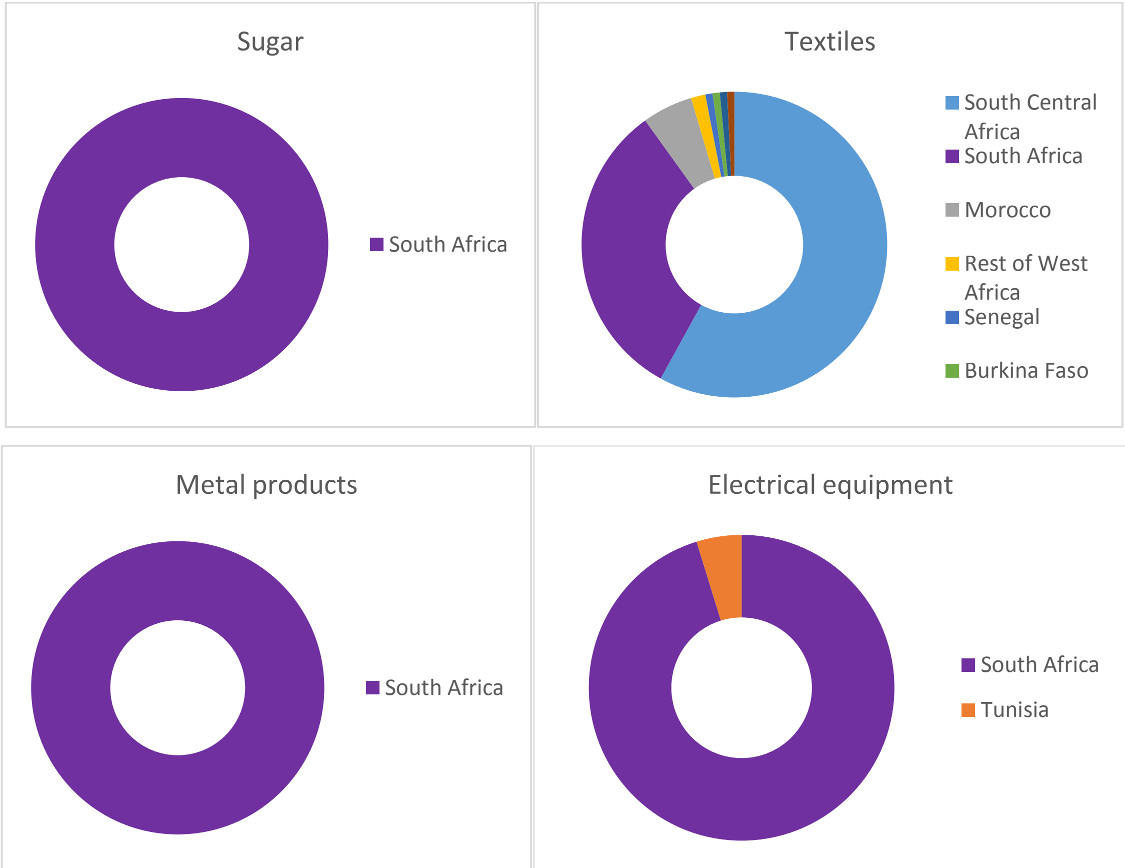
[19] It should be noted that sugar is a 'protected' product under the EAC Common External Tariff. Depending on the outcomes of the negotiations, sugar may retain its status as a 'sensitive' item under the AfCFTA.

Figure 9: Changes in Rwanda's Intra-Africa Imports by Product, Post AfCFTA (USD millions)



Source: ECA Calculations based on GTAP simulations.

Figure 10: Changes in Rwanda's Intra-Africa Top Imports by Country



Source: ECA Calculations based on GTAP simulations.

The AfCFTA will result in large welfare gains at the regional level

The GTAP CGE model results reveal a net welfare gain of USD 1.8 billion for the Eastern Africa region through the reduction of tariffs under the AfCFTA (Table 9). Rwanda would experience a net welfare gain of USD 74 million, largely ascribable to improvements in endowments and allocative efficiency (sectoral reallocation).

Table 9: Welfare (Equivalent Variation) Effect of the AfCFTA (USD Millions)

	Allocative Efficiency	Endowment Effect	Terms of Trade Effect	Investment Savings	Total
Rwanda	**19.3**	**52.2**	**2.2**	**0.7**	**74.4**
Ethiopia	60.6	272.1	-10	-17.1	305.6
Kenya	-7.3	192.4	-28.2	-28.3	128.6
Madagascar	1	6.3	-0.3	0	6.9
Tanzania	250.7	622.6	10.5	-4.1	879.8
Uganda	15.4	256.7	7.7	-0.1	279.7
Rest of Eastern Africa	32.5	131.8	-11.4	6.3	159.1
Total	372.2	1534.1	-29.5	-42.6	1834.1

Source: Calculations based on GTAP simulations.

The revenue effect is likely to be minimal

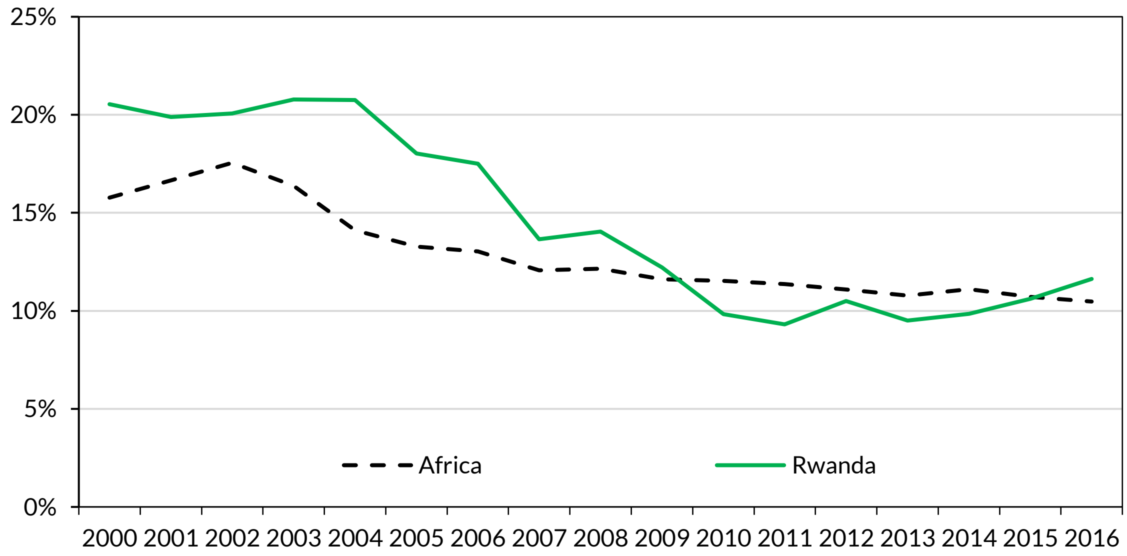
In recent years, Rwanda has made persistent efforts in mobilizing tax revenues and widening its tax base - efforts that have paid off (IMF,2019:18). Despite concerns about tariff revenue losses due to the AfCFTA, our preliminarily estimates suggest that the tariff losses would be modest. Rwandan's revenue losses are estimated at 0.3 percent of total government revenues (Table 10). Moreover, the tariff revenue losses in the short-run should not be understood as absolute losses but as redistribution of income from the government to consumers and producers (i.e., lower taxes paid by domestic consumers and exporters). The loss of revenues may be construed as a small price to pay for the wider economic benefits accruing from the implementation of the AfCFTA. Indeed, it is not unrealistic to project in the medium- to long-term increased tax and revenue income from the higher levels of economic activity due to the AfCFTA.

Table 10: Summary Results of Tariff Revenue Losses

	Tariff revenue loss (**USD** million)	**As** a share of total tariff revenue	**As** a share of total government revenue
Rwanda	**6**	**4.%**	**0.3%**
Uganda	23	8.4%	0.6%
Ethiopia	61	6.1%	0.7%
Kenya	67	3.2%	0.6%
Madagascar	2	0.7%	0.1%
Tanzania	91	6.2%	1.3%

Source: ECA calculations based on the GTAP 10.0 database.

Figure 11: The Declining Share of Customs and Import Duties as a Percentage of Total Tax Revenue



Source: OECD Stat

4. Conclusions

This briefing analyses the effects of the AfCFTA on Rwanda using both a partial equilibrium and a CGE model. While the results of the two models are different in terms of the magnitudes of impact (because of the different assumptions and sources of data considered), both models were consistent in terms of the general direction of the effects. The simulations show that Rwanda will benefit principally in the agricultural sector, although opportunities will also open up in some manufacturing sub-sectors. In line with ECA's earlier work for MINICOM (ECA, 2016), the main target markets are located to the East, particularly the Democratic Republic of Congo. At a time when the Democratic Republic of Congo is being considered as a candidate for EAC membership, this is a particularly important point to highlight.

However, we should not underestimate the impacts that our modelling *does not* reveal. The analysis does not include tradeable services, for which there is strong *a priori* evidence of large impacts. Services trade in Africa is currently growing at more than 9 percent annually – one of the fastest rates in the world and around three times faster than the sluggish growth of merchandise trade regionally and globally (UNCTAD, 2019/WTO, 2019). We also speculate that there will be large gains through greater investment opportunities, particularly from intra-African investment. All these benefits are important for structural transformation and aligned with objectives outlined in *Vision 2050*, the *Rwanda National Strategy* and *2018-2024 Seven Year Plan.*

However, there are some further measures that the country needs to implement to take full advantage of the AfCFTA:

- **Build a Strong Regional Constituency for Rapid AfCFTA Implementation**

  EAC member countries, including Rwanda, have already achieved an advanced level of regional integration compared to many other African Regional Economic Communities. However, a lack of cooperation and synchronization within the EAC would cause problems for the effective coordination of programs and policies. This is true for industrial policy where countries will need to carve out sectoral niches for themselves, rather than targeting similar industries (Odijie, 2018). But it is also true for trade policy – there are no options for a 'variable geometry' approach to AfCFTA implementation, as it would undermine the working of the Common Market and Common External Tariff. There is a need to build a strong constituency for AfCFTA implementation across the EAC. Rwanda is well-placed to champion that call for unity.

- **Take full advantage of new sources of funding**

  In support of the implementation of the agreement, a series of initiatives have been unveiled. The AfCFTA Adjustment Facility, a new USD 1 billion financing mechanism, has recently been launched by the African Export and Import Bank (Afreximbank). The funds will be used to assist participating countries with initial budgetary imbalances resulting from tariff-revenue losses and to improve capacity to take advantage of the new opportunities arising from the AfCFTA. Another important initiative is the Pan-African Payment and Settlement System (PAPSS), which will facilitate the payment of goods and services for intra-African trade in regional currencies. With this platform, it is estimated that East Africa could save as much as USD 5 billion (ECA, 2019b). Rwanda should explore fully the opportunities presented by these new initiatives.

- **Engage actively in Negotiations on Tradeable Services**

  As part of the AfCFTA's goal of bolstering intra-African trade, there is a commitment to liberalize services trade. Intra-African liberalization of services trade could harbour great benefits for Rwanda, both in terms of raising export revenues and, by providing better access to business and financial services from across the continent, enhancing the country's competitiveness (ECA, 2019b). Negotiations on services are due to be finalized by the end of 2019. To make sure its interests are defended, Rwanda will need to engage actively and vocally in the said negotiations.

- **Start a National Campaign to Raise Awareness on the AfCFTA**

Finally, without broad public support for the AfCFTA, it will not be possible to create a unified continental market. For the agreement to be implemented effectively, both the general public and private sector should be fully aware of the implications of the AFCTA. This requires a campaign-type approach to raising popular awareness on the benefits arising from the AfCFTA.

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