

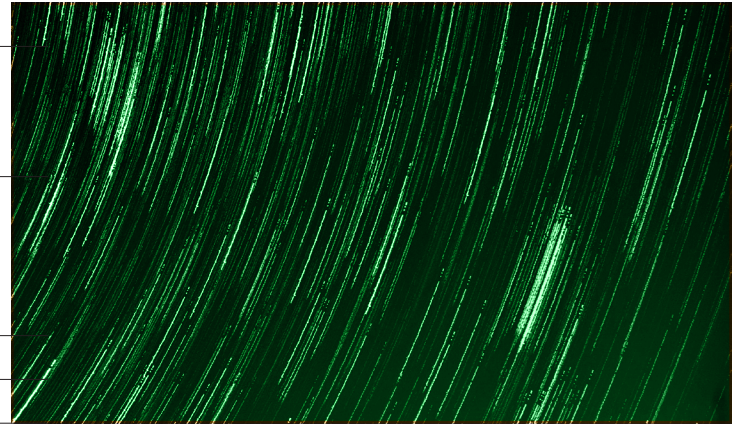
# AFRICAN CONTINENTAL FREE TRADE AREA

## MARKET INSIGHT



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## 1. Purpose of the Insight

The Insight is produced as part of dissemination of African Continental Free Trade Area (AfCFTA) Market Study undertaken by Botswana Investment and Trade Centre (BITC). The Market study is part of BITC's continued effort to assess potential export markets for Botswana products and services. BITC Market Studies are key initiatives to Botswana's aspirations for export diversification and export-led growth.

## 2. Background

### 2.1. Overview of African Continental Free Trade Area (AfCFTA)

The AfCFTA is the world's largest free trade area bringing together the fifty-four (54) African Union (AU) member states across eight (8) Regional Economic Communities (RECs).

The AfCFTA entered into force on May 30, 2019, after 24 Member States deposited their Instruments of Ratification following a series of continuous continental trade negotiations spanning since 2012. The AfCFTA is one of the flagship projects of Agenda 2063. The overall mandate of the AfCFTA is to create a single African continental market with a population of about 1.3 billion people and a combined GDP of approximately US\$ 3.4 trillion.

AfCFTA's aims are to eliminate trade barriers and boost intra-Africa trade and contribute to establishing regional value chains in Africa, enabling investment and to create sustainable jobs. Implementation of the AfCFTA has the potential to foster industrialisation, job creation, and investment, thus enhancing the competitiveness of Africa in the medium to long term. In specific terms, AfCFTA will boost intra-Africa trade by about 52%.

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\* RECs include: Arab Maghreb Union (UMA), Common Market for Eastern and Southern Africa (COMESA), Community of Sahel-Saharan States (CEN-SAD), East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC).



**54**

AU member states have signed the AfCFTA Agreement as of February 2023



**30** Million

People will potentially be lifted out of extreme poverty



**46**

The AfCFTA has 44 state parties as of February 2023



**\$ 450** Billion

Income boost in Africa by 2035: A 7% gain

Source: AfCFTA Secretariat 2023



## 2.2. Botswana in the AfCFTA

Botswana deposited her instrument of ratification of the AfCFTA on the 18th February 2023. This meant all Southern Africa Customs Union (SACU) member states have now ratified the agreement and submitted their joint tariff offer which upon verification, will signal beginning of enjoyment of tariff and non-tariff concessions as Botswana products and services access African markets.

Botswana as part of SACU, have liberalised<sup>2</sup> 90% of SACU tariff book which represents 7111 products lines (SACU, [https://sacu.int/docs/pr/2023/PressRelease-SACU\\_Tariff\\_Offer\\_to\\_AfCFTAandBotswana.pdf](https://sacu.int/docs/pr/2023/PressRelease-SACU_Tariff_Offer_to_AfCFTAandBotswana.pdf)). The remaining 10% consists of sensitive products at 7% and exclusion list at 3%.

Sensitive products will be liberalised in a phase down period of 10 years for SACU member states. The 3% exclusion list

<sup>2</sup>Liberilisation, in this context, means elimination of tariff duties.

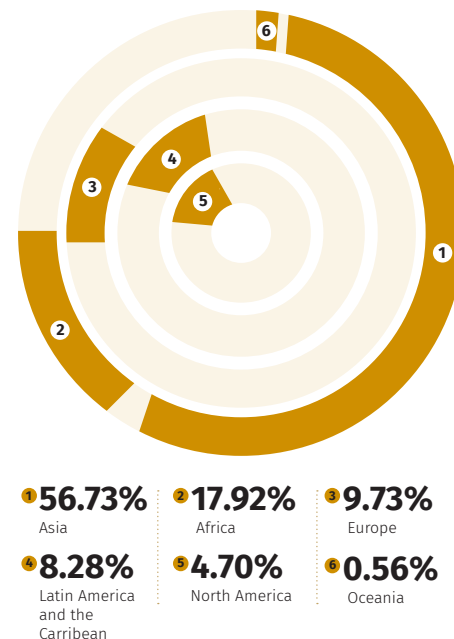
## 3.0. Africa Trade Dynamics

### 3.1. Africa's Domestic Market

Africa has the second largest domestic market after Asia with a total population of about 1.4 billion which accounts for approximately 17.92% of world population with a combined GDP of \$3.4 trillion. With such a huge domestic market and GDP, Africa presents vast opportunities and potential in the world economy. However, African countries are facing challenges in realising their full capacity and its share in the world economy amounts to 2.9%. Despite the large market African countries remain faced with vast economic, political and social challenges which undermines Africa's role in global economy. In the international trade sphere, Africa account for about 2% of world trade.

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Figure 1: World Population by Continental Share



Source: BITC calculations using Statista, 2023 data

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### 3.2. Africa and International Trade

According to AfCFTA Secretariat (2023), Africa's average tariffs is currently 6.1%, and businesses face higher tariffs when they export within Africa than to the rest of the world. Higher tariffs, among other things, may be the reason why intra-African trade remains low. Furthermore, none of African countries feature in the world's top exporters (*refer to figure 2*).

World exports are dominated by China, USA, and mostly EU member states. Trade flows are also greater between these economies. None of the African Top Exporter feature in the Top 20 Exporters. South Africa, Nigeria, Egypt, Algeria and Morocco are Africa's Top exporters and account for over 56% of all African exports. All these African economies account for less than 1% each of the world trade each (*refer to figure 3*).

### 3.3. Botswana 's International Trade Synopsis

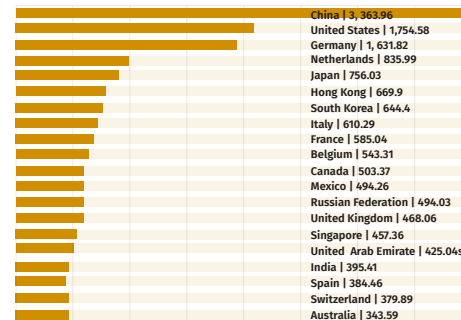
#### Total Trade

Since 2018, Botswana's trade performance has been generally on a deficit. Trade deficit was more notable in 2020 after the onset of COVID-19 pandemic which disrupted world markets due to movement restrictions of both businesspersons and goods. For Botswana this meant reduced diamonds demands whose exports were reduced from 2018 through to 2018 before making a rebound in 2022. Botswana is expected to enjoy continued trade surplus going forward due to increased demands for diamonds, as well as increasing export opportunities emanating from AfCFTA. (*refer to figure 4*)

#### Major Trading Partners

Botswana's major export recipients include: United Araba Emirates (UAE), Belgium, South Africa, India and Israel based on 2022 trade statistics. UAE is coming up strong with a strong demand for Botswana diamonds and largely influenced by Botswana's 1st ever diamonds

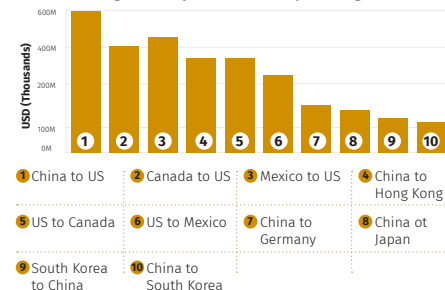
Figure 2: World Top Exporters



Value in billion US dollars

Source: WTO, 2023

Figure 3: Top Trade Flows by Trading Partners



Source: Global Trade Atlas, 2023



“Diamonds still dominates both imports and exports. Diamonds are imported and aggregated in Botswana and then exported to markets such UAE, Belgium and India among others.”



auction held in October 2021 during the EXPO 2020 Dubai. South Africa remains an important export market and in Africa it is followed by Namibia, Zimbabwe and Zambia.

In terms of imports, major suppliers include South Africa, UAE, Belgium and Namibia. These markets mainly supply diamonds which are imported to Botswana for aggregation and eventually exported to those destinations and other markets including USA, China and rest of the EU.

### Major Import/Export Products

Diamonds still dominates both imports and exports. Diamonds are imported and aggregated in Botswana and then exported to markets such UAE, Belgium and India among others. Notably exports are dominated by minerals including gold, diamonds, copper, salt and soda ash. Imports include industrial products and food stuff.

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Figure 4: Botswana 's International Trade

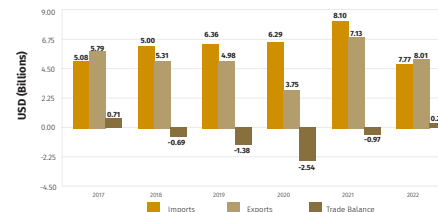
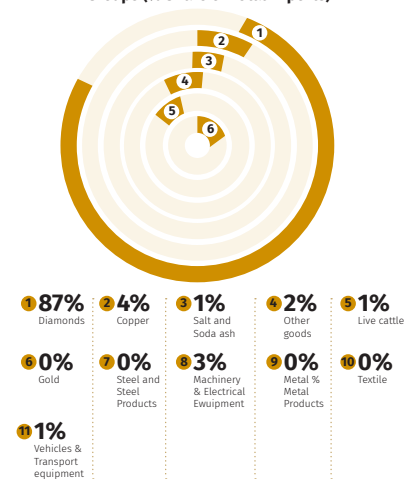


Figure 5: Botswana Exports by Commodity Groups (% Share of Total Exports)



Source: BITC 2023 using Statista 2023



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**Overall, the African market potential is estimated at around US\$ 420 million associated with 62 unique products spread across 35 markets most of which is associated with North Africa (overall).**

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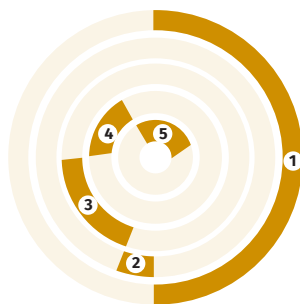
## 4. Botswana 's Export Opportunities under AfCFTA

AfCFTA brings with it a huge market (both for exports and sourcing of raw materials) which Botswana did not previously access due to various reasons. The legal texts cover tariff concessions, setting up of necessary trade facilitation institutions, elimination of non-tariff barriers and collaboration in infrastructure development. All these factors, among others, are considered in determining export opportunities.

Overall, the African market potential is estimated at around US\$ 420 million associated with 62 unique products spread across 35 markets most of which is associated with North Africa (overall). Southern Africa presents most opportunities in short term.

Figure 7a: Overall Export Opportunities, US\$ million.

Overall value of untapped opportunities for Botswana

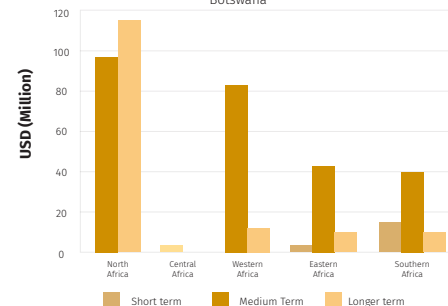


Source: TRADE Decision Support Model<sup>1</sup>, 2023

- ❶ **210.39 (50%)** Northern Africa
- ❷ **3.44 (1%)** Central Africa
- ❸ **89.90 (21%)** Western Africa
- ❹ **54.35 (13%)** Eastern Africa
- ❺ **62.69 (15%)** Southern Africa

Figure 7b: Export opportunities by region

Regional value of untapped opportunities for Botswana



<sup>1</sup>The TRADE-DSM was specifically developed as an instrument in assisting the identification of realistic export opportunities into global markets for a company's product. The TRADE-DSM is a quantitative methodology that uses trade data and various filters to determine the potential export opportunity of products into various markets based on a well-researched scientific and rigorous approach. The TRADE-DSM also provides a good reference for one to be able to prioritize marketing efforts based on the value and size of these opportunities in relative terms. This instrument provides sound information that companies can use in developing their export marketing strategy and forms the basis and guidance for further research should it be required.





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**These opportunities constitute shorter term export promotion focus which include intensifying trade for existing products and markets and are more prevalent in Southern Africa especially South Africa.**

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## Short Term Export Opportunities

These opportunities constitute shorter term export promotion focus which include intensifying trade for existing products and markets and are more prevalent in Southern Africa especially South Africa. They also cover shorter-term export diversification promotion with intensity on promoting market access in new markets for existing products: these are more prevalent in Northern Africa especially Algeria in which Botswana has not been undertaking any export business.

**Figure 7b: Export opportunities by region**

Product	Untapped' Value Mn US\$
Diamonds	13.53
Salt	1.64
Plastics: tubes, pipes and hoses, Tanks	1.48
Meat of bovine animals, Frozen	0.59
Hides and skins:	0.44
Chickpeas, Cowpeas and Beans	0.39

Vaccines: for veterinary medicine	0.18
Ferrous waste and scrap: of tinned iron or steel	0.15
Lead: waste and scrap	0.14
Fish: edible offal, shark fins	0.11
Braids: in the piece	0.09
Iron or steel tubes and pipes	0.05
Cement, concrete or artificial stone: building blocks or bricks, whether or not reinforced	0.05
Fabrics	0.03

Source: TRADE DSM, 2023

**Table 2: Short Term Opportunities – Existing products and New Markets**

Product	Untapped' Value Mn US\$
Paper products	119.57
Stoppers: caps and lids, of base metal	23.25
Machinery & Electrical Equipment	26.51
Chickpeas, Beans and Cowpeas	12.90

Iron and steel products	12.57
Bran	5.67
Salt and Carbonates	4.98
Vaccines: for veterinary medicine	4.51
Plastics: tubes, pipes and hoses, tanks, wall floor and wall coverings	14.23
Vegetable saps and extracts	1.34
Vehicles and parts	33.05
Hides and skins	1.22
Meat& Edible Offals: of bovine animals	1.22
Braids: in the piece	0.60
Ferrous waste and scrap: of tinned iron or steel	0.58
Diamonds	0.42
Fabrics:	0.03

Source: TRADE DSM, 2023



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Opportunities in this term are dominated by coal: Botswana is known to have huge amounts of coal deposits which could be used to generate power. There is an ongoing effort by Botswana to utilise this coal in a more environmentally friendly manner pursuant to her commitment to green energy efforts.

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## Longer Term Opportunities

Longer term opportunities denote longer term export development and investment focus (extensive margin). They inform areas of product development and industrialisation which could lead to much desired export diversification both in terms of new products and new markets.

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Other opportunities exist in export of live cattle for breeding purposes, industrial products chemicals and agricultural products. This is shown on Table 3 below. Longer term opportunities are more prevalent in Northern Africa especially Algeria. Other untapped markets include Angola, Burkina Faso, Cape Vere, Ghana, Libya and Kenya.

**Table 3: Longer Term Export Opportunities**

Product	Untapped' Value Mn US\$
Coal	97.42
Chemicals used as raw materials in industries other than the food or drink industries	9.03
Metals: gold, non-monetary, unwrought (but not powder)	5.84
Cattle: live, pure-bred breeding animals	5.52
Elevators and conveyors: pneumatic	3.85
Copper: waste and scrap	3.84
Machine-tools: parts and accessories	2.10
Paper and products	2.90
Electrical machines and apparatus	1.49
Stones: precious (other than diamonds) and semi-precious stones	1.26
Tallow	0.56

Fertilizers, mineral or chemical	0.49
Machine-tools	0.35
Meat and edible meat offal	0.35
Aluminium: waste and scrap	0.15
Elevators and conveyors	0.09

Source: TRADE DSM, 2023

## Conclusion

The purpose of this insight is to continue BITC efforts in disseminating relevant data and information to promote investment as well export of Botswana products. AfCFTA present a big opportunity for increased trade with Africa, value addition as well as promoting regional value chains. Export opportunities are determined in short and long term and this will give companies a platform for growth as well as future expansion plans in terms of products and market diversification.

The next Insight will touch on trade facilitation issues including market penetration, distribution dynamics, non-tariff barriers and other customs issues that are meant to enable easy movement of goods and services under the AfCFTA.



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