The Republic of South Africa and the African Continental Free Trade Area: Opportunities and Challenges in a Post-COVID-19 Environment

By Isabelle Tsakok

Abstract

South Africa’s economy is in crisis. Like much of the world, it has been battered by the COVID-19 pandemic when its economy has already been weakened by years of low growth, high unemployment and rising inequality after the global financial crisis of 2007-08.

At this difficult juncture, the Africa Continental Free Trade Area (AfCFTA) offers it the opportunity of becoming a continental growth pole, not just a regional growth pole which it is already. This opportunity could not have come at a better time. Europe had been battered by the devastations of the Second World War when its visionary leaders decided to establish the EU: to unify in peace for the prosperity of all in Europe. They chose to integrate their markets in a Common Market. Indonesia and Malaysia were involved in an undeclared war when their leaders decided to resolve their conflict peacefully. Together with the Philippines, Thailand, and Singapore, they formed the ASEAN to integrate their markets and their peoples. The leaders decided to rise above the divisiveness of nationalism to build a better life for their people.

Their experiences clearly show that crisis can be turned into opportunity by integrating regional markets. South Africa too can use the opportunity of the AfCFTA as an starting point on a path of higher and more inclusive growth. What actions should South Africa prioritize? The successful and not-so-successful experiences with regional market integration in the EU, ASEAN and MERCOSUR can offer valuable insights.

1. Socio-cultural exchanges among different peoples and their cultural heritage are an active and important component of the ASEAN family. https://asean.org/our-communities/asean-socio-cultural-community/
Introduction

The Republic of South Africa (henceforth referred to simply as South Africa) is no stranger to regional markets. It is already a member of several regional economic communities (RECs) in Southern Africa: (i) Southern African Customs Union (SACU since 1910); (ii) the Southern African Development Community (SADC since 1994, the end of Apartheid); and (iii) the Common Market for Eastern and Southern Africa (COMESA since 1994). In 2008, these three RECs announced that they would establish the Africa Free Trade Zone. South Africa ratified its membership on the Africa Continental Free Trade Area (AfCFTA) in 2019.

South Africa is rightly viewed as a powerful engine of growth for its neighbors and a regional power broker (World Bank Group (WBG), June 2021). In 2019, its nominal GDP accounted for around one fifth of sub-Saharan Africa’s (SSA) total, and half the GDP of the Southern African Development Community (SADC) (WBG, June 2021). From 2014-18, South Africa was the fifth-largest investor in SSA, with more than US$10 billion invested in 199 projects. South Africa’s exports to the SADC region almost doubled from 12.1% of total exports in 2008 to 23.5% in 2019, and exports to the entire African continent made up 26.7% percent of the total in 2019 (WBG, June 2021).

Despite these strengths, South Africa’s economy today is in crisis. When COVID-19 hit in 2020, its economy had already been weakened by years of low growth, high unemployment, and sharp inequality. COVID-19 exacerbated these structural weaknesses as its GDP contracted by 7% in 2020, plunging an additional two million people into poverty (at $5.50/day). The AfCFTA offers South Africa a golden opportunity to connect to 1.3 billion people across 55 countries with a combined GDP of $3.4 trillion (WBG, 2020). Will South Africa use this opportunity to lift itself onto a higher and more inclusive growth trajectory?

This Policy Brief looks at the main opportunities and challenges that post-COVID-19 South Africa faces. It draws upon insights derived from the experiences of three cases of regional market integration: the EU, the ASEAN and the MERCOSUR to assess these opportunities and challenges. These experiences and insights were discussed in “Regional Market Integration, Agricultural Transformation and Poverty Reduction: A review of experiences in selected cases of regional market integration.” (Tsakok, Aug. 2021)

Brief Overview of Salient Features of South Africa in the 2000s

From Apartheid to the Ups and Downs of a Democratic Nation: South Africa is rightly famous for having made a peaceful transition from Apartheid to a democratic nation united in the belief that “all national groups shall have equal rights”. It is however still struggling to have “all the people share in the nation’s wealth”. After the end of Apartheid (1994) and until 2008-09, the economy did well—growing on an average of 3.6% per year (2000-09), benefitting from the commodity super cycle, and promoting the rise of a new Black South African middle class. Per-capita PPP GDP was roughly on a par with Malaysia and Thailand in 1990. But by 2019, it was only 44% and 68% of Malaysian/Thai levels respectively. Relative to the OECD countries, PPP GDP fell from 32% (2010) to 28% (2019) (WBG, June 2021). Since the Global Financial Crisis (2007-08), growth has stalled—averaging 1.7% per year (2010-19)—while poverty and inequality have risen. Between 1996 and 2008, poverty roughly halved. However, in 2015, 18% of South Africans were extremely poor (lived on less than $1.90/day). The extent of poverty varied with the poverty lines used. Thus: (i) at the food poverty line, some 25% were estimated as poor; (ii) at the upper poverty line, which means they could not afford necessities other than food, some 55.5% were estimated as poor. Inequality, measured by the consumption Gini coefficient, was higher in 2015 than in 1995, at 0.63. These deteriorations inevitably undermined further food security for the majority (WBG, 2018).

High unemployment especially of young people socially destabilizing: One of the most costly (in terms of output and income foregone) and socially destabilizing problems has been persistent high unemployment: around 27%, with over 50% youth unemployment. In the COVID-19

2. The three relevant clauses (among others) of the Freedom Charter (1955) are: (i) the people shall govern; (ii) all national groups shall have equal rights; and (iii) the people shall share in the nation's wealth (Freedom Charter, 1955).
The pandemic, unemployment has risen to a crisis level of 33% (WBG, South Africa Economic Update, 2021). Accompanying such extensive unemployment, there has been rising social discontent and crime. Unemployment reached an alarming 32.5% in the fourth quarter of 2020, with youth (age 15-24) unemployment soaring to 63% (World Bank, Overview, March 18, 2021). As of late October, 2021, 89 thousand people lost their lives to COVID-19, with South Africa suffering the highest number of infections in SSA. Dire as these numbers are, they would have been much worse had the government not tried to contain and counter the negative impact. Like many governments, the Ramaphosa Government imposed containment measures—e.g. the first lockdown was imposed at the end of March 2020—and financed substantial relief measures. Such support greatly increased the deficit, resulting in a public debt of nearly 79% of GDP in 2020 (WBG, Jn. 2021).


Key objectives of the MTSF for fragile and battered economy: The pandemic has laid bare major structural weaknesses of South Africa’s economy: widespread poverty, high unemployment, and high inequality, weaknesses largely inherited from the Apartheid era (1910-94) of systematic exclusion of Black South Africans from land, labor and capital markets. The triple overarching objectives of the NDP are to eliminate poverty, reduce inequality, and achieve high employment. Therefore, priority measures to advance these objectives during the MTSF (The Republic of South Africa, MTSP) are:

- A capable, ethical, and developmental state;
- Economic transformation and job creation;
- Social wage through reliable and quality basic services;
- Spatial integration, human settlements and local government;
- Social cohesion and safe communities;
- A better Africa and world.

With these ambitious objectives, South Africa wants to become an ethical, capable, and developmental state and turn crisis into opportunity. To help it to do so, what insights can South Africa obtain from the experiences of regional market integration of the EU, ASEAN, and MERCOSUR?

**Main Factors that Impact on the Contribution of Regional Market Integration in the EU, ASEAN and MERCOSUR: some insights for South Africa**

Political decision to promote regional market integration turned crisis into opportunity: The opportunity offered by the AfCFTA for South Africa to reach a continent-wide market with a combined GDP of $3.4 trillion could not have come at a better time. South Africa’s difficult situation bears a strong resemblance to the other three cases of regional market integration. Just as South Africa has been battered by the COVID-19 pandemic,

1. Europe had suffered the widespread destruction of the Second World War when its visionary leaders decided to pursue a vision of a united, peaceful, and prosperous Europe. The Common Market was established by the Treaty of Rome in 1957. The realization of the vision of a Single Market without borders is dated 1993.

---


---

4. The internal market of the European Union is a single market in which the free movement of goods, services, capital and persons is assured. https://europa.eu/european-union/topics/single-market_en
https://eur-lex.europa.eu/summary/chapter/internal_market.html?root_default=SUM_1_CODEN%3D24&locale=en
ii. Indonesia and Malaysia were locked in an undeclared war, the Konfrontasi (1963-66), when General Suharto (1966-1998), the new Indonesian leader, decided that working with Malaysia and other regional neighbors, for peace and poverty reduction through economic growth, was a preferable strategy. ASEAN was formed soon after, in 1967, by Malaysia, Indonesia, Thailand, the Philippines, and Singapore;

iii. Like much of Latin America and the Caribbean, Brazil, Argentina, Uruguay and Paraguay had suffered during the ‘lost decade’ of the 1980s. Some 80% of the countries in the region had lost an average of 10% of their per-capita GDP (some losing up to 40%) (Lüders, July 1991). The economies of the four founders benefited from regional market integration during the 1990s, considered the ‘Golden Age’ of MERCOSUR.

The leaders of the EU, ASEAN, and MERCOSUR chose regional market integration implemented through fundamental reforms and substantial investments as a powerful engine of transformative growth. Regional market integration did deliver growth, though to varying extent.

Insights on what worked and what did not (or are problematic): A combination of leadership qualities and continual pro-growth policies, implemented through institutions and investments have, over decades, transformed the economies of the EU, ASEAN, and MERCOSUR. These are:

Promoting:

• Vision of peace and prosperity through regional market integration: Such a vision inspired and guided implementation in all three cases of regional market integration: in the EU, ASEAN, and MERCOSUR. As discussed in ‘Policy Paper PP-14-21’, the visionaries of war-torn Europe wanted to build a peaceful and prosperous Europe, instead of repeating the carnage of the Second World War; similarly, the five founders of the ASEAN in 1967 and again in 1976 when the enlarged ASEAN and other nations signed the Treaty of Amity and Cooperation in Southeast Asia. The resolution of conflicts through peaceful means is a foundational principle of both the EU and the ASEAN. In MERCOSUR too, political tensions decreased and cultural exchanges flourished in the 1990s among the four founders. Prosperity is built on peace.

• Major injection of funds and purchasing power during the earlier years of regional market integration: Regional market integration got a welcome boost in a devastated Europe by the injection of the generous Marshall Plan (1948-51), which was worth over $13 billion (equivalent to about $114 billion in 2020 dollars). Countering the growing threat from communist Soviet Union was a major motivation for the U.S. Marshall Plan: to help rebuild a democratic and prosperous Europe. Some 18 European countries received the financial aid, with the greatest amounts going to the United Kingdom (26% of total), France (18%) and Germany (11%). For ASEAN, regional market integration was started by Japanese firms as early as late 1950s in search of cheaper labor in the neighborhood for their manufactures. Japanese manufacturing demand was followed by demand from South Korea, then Hong Kong, Taiwan (China), and Singapore during the 1980s, and by the People’s Republic of China in the 1990s. This process is referred to as the ‘flying geese’ pattern of growth and industrialization.

• A conducive political-economic environment which generates socio-economic benefits for all groups: No amount of funds injected into an economy can, by themselves, create productivity-increasing and poverty-reducing growth, as shown by the resource curse, which afflicts many resource-abundant, mineral exporting economies (Frankel, 2010). In all three cases of regional market integration, the injection of funds and purchasing power generated a virtuous circle of output and productivity growth, and higher employment because the political-economic environment was shaped by policies, investments, institutions, and incentives that expanded market access, and rewarded market participation. This winning combination of public support included: (i) hardware and software investments in marketing,

5. Konfrontasi was an armed conflict between Suharto’s Indonesia and Malaysia. Suharto was fiercely against Malaya (independence from the United Kingdom on Aug 31, 1957) forming Malaysia. He believed that Malaya and the United Kingdom were forming this federation to thwart the geopolitical ambitions of Indonesia. Malaysia is made up of peninsular Malaya, Sabah and Sarawak of Borneo, and Singapore. The Federation of Malaysia was established on Sept. 16, 1963. Singapore seceded from Malaysia in August 1965. ASEAN was formed in 1967 after peace was negotiated between Indonesia and Malaysia (The Diplomat, Sept. 2016).

6. As of July 2019, 41 nations have signed the treaty, including world powers, such as the United States, the European Union, Russia, India and China. This is a significant expansion from the five founders of the ASEAN in August 1967: Indonesia, Malaysia, the Philippines, Singapore and Thailand.
information and communications technology; (ii) expanded market access through the enlarged single market of the EU; reduced tariff and non-tariff measures in East Asia, ASEAN, and MERCOSUR; and (iv) agricultural and agri-food policies that turned food scarcity into food surplus as in the EU, spread the Green Revolution technologies as in Asia that averted a widespread Malthusian famine in a densely populated region of the world, and increased productivity and production of basic staples.

- Increased trade flows and foreign direct investment (FDI) interact synergistically in a framework of regional market integration: ASEAN has become an important production base for multinational corporations and global value chains spanning all of East Asia’s supply chains. This achievement is in no small measure due to the reduction in trade and non-trade barriers, and infrastructure investments to facilitate trade, within a framework of regional market integration. Kawai and Naknoi (2015) found “strong evidence that trade and inward FDI stimulate each other”. They found that a larger market tends to attract more FDI, that free trade agreements tend to stimulate FDI, and that “strong institutions; good physical infrastructure, and low costs of doing business are critical in boosting inward FDI”.

Undermining

- Turmoil and violent conflict, domestic and/or regional: One such potentially explosive conflict is land reform. It remains a potentially explosive issue since South Africa has still not been able to resolve this thorny issue, which it inherited from its Apartheid past (World Bank, April 2018). Major cases of land reform in East Asia, which were peacefully and effectively resolved soon after the end of the Second World War, include Japan, Taiwan, (China), and South Korea. However, in the People’s Republic of China and in the Socialist Republic of Vietnam, there was much bloodshed. Their economic rise did not start until much later after their political independence. In South Africa, the target of transferring 30% of land to Black farmers by 2014 is far from being achieved; only around 8% has been transferred. The new target date for delivering on the promises of land reform is 2025 (Tsakok, PCNS, Sept 2020). With acute socio-economic problems, especially post COVID-19, a long-standing fear is that South Africa will suffer the violence of Zimbabwe’s Fast-Track Land Reform (2000-05) (Boyle, 2001).

- Nationalistic politics in command at the expense of regional economic integration: Nationalism is still strong in the EU and is a potential threat to the integration/unity even in the EU-27. So far (Fall 2021) however, the EU’s supranational governance has been able to maintain the EU’s political and economic integration despite the rise of nationalism which resulted in the departure of the United Kingdom in Brexit (Jan 2021), and the rise of far-right, nationalist, anti-immigration, and anti-globalization groups in Europe, including among the founding members of France, the Netherlands, and (West) Germany (Pazzanese, 2017). Nationalism tore Yugoslavia apart in the 1990s in stark contrast to the non-violent dissolution of Czechoslovakia in 1992. According to Csergő and Goldgeier (2004), various manifestations of nationalism have so far been able to co-exist in the EU because: “Rather than eliminating nationalism, the European Union provides a framework for nation building strategies that are less likely to threaten democratic stability in Europe than are the more extreme forms of traditional nationalism”. Csergő and Goldgeier argue that the principle of supra-nationalism as embodied in the EU governance structure holds the key to the peaceful co-existence of manifestations of nationalism and regional economic integration. It is a claim worth further research.

Opportunities and Challenges for South Africa in a Post-COVID Era.

Opportunities: South Africa is already dominant in the regional economy—its nominal GDP was 50% of the GDP of SADC (2019)—but it is still struggling with low average GDP and productivity growth, high unemployment, especially post COVID-19. Further, a long-standing fear is that South Africa will suffer the violence of Zimbabwe’s Fast-Track Land Reform (2000-05) (Boyle, 2001).

- Nationalistic politics in command at the expense of regional economic integration: Nationalism is still strong in the EU and is a potential threat to the integration/unity even in the EU-27. So far, the EU’s supranational governance has been able to maintain the EU’s political and economic integration despite the rise of nationalism which resulted in the departure of the United Kingdom in Brexit (Jan 2021), and the rise of far-right, nationalist, anti-immigration, and anti-globalization groups in Europe, including among the founding members of France, the Netherlands, and (West) Germany (Pazzanese, 2017). Nationalism tore Yugoslavia apart in the 1990s in stark contrast to the non-violent dissolution of Czechoslovakia in 1992. According to Csergő and Goldgeier (2004), various manifestations of nationalism have so far been able to co-exist in the EU because: “Rather than eliminating nationalism, the European Union provides a framework for nation building strategies that are less likely to threaten democratic stability in Europe than are the more extreme forms of traditional nationalism”. Csergő and Goldgeier argue that the principle of supra-nationalism as embodied in the EU governance structure holds the key to the peaceful co-existence of manifestations of nationalism and regional economic integration. It is a claim worth further research.

8. These groups are also in the United States as evidenced by the rise of Donald J. Trump to the presidency (2016-2020).
9. The various manifestations of nationalism in the EU are: (i) traditional—where a given cultural and ethnic identity is also associated with physical borders, like France for the French; (ii) substate—such as the Basques and Catalans in Spain; (iii) trans-sovereign—such as Austrian policies towards German-speaking communities in the Italian province of South Tirol after the Second World War, the policies of the Hungarian government after 1990 towards Hungarians living outside Hungary’s borders; and (iv) protectionist—such as France’s Rassemblement national of Marine Le Pen (Csergő and Goldgeier, 2004).
extensive poverty, and high inequality. The opportunities offered by AfCFTA can be transformative. First, AfCFTA offers South Africa the opportunity to become a continental growth pole—its nominal GDP was 20% of the entire sub-Saharan African GDP (2019) (WBG, June 2021). Potentially, its entrepreneurs now have access to an Africa-wide market—up far north to the Mediterranean Sea and far east into the Indian Ocean—to strengthen their participation in continental value chains and diversify. Second, South Africa’s well-respected finance services capability (Lo et al, Aug, 2021) can operate in a vastly expanded market, for traders will need increased business finance, especially for longer distances, higher value, and riskier trade. Finance is an area in which South Africa has a comparative advantage on the continent. Its financial sector is on a par with the best international standards. In fact, finance and insurance are some of its most dynamic sectors (World Bank, April 2018).

- Challenges: A major uncertainty that will impact on South Africa’s ability to recover in any sector and be able to exploit these vast opportunities is the persistence and severity of the COVID-19 pandemic itself. Keeping this in mind, the priority challenges to overcome, in this constrained post-COVID-19 period, are on several fronts:
  + Tight fiscal space: The government’s budget is strained—the deficit rose to 12.9% of GDP, resulting in a public debt of nearly 79% of GDP in 2020—since the Ramaphosa Government spent 10% of GDP in 2020 in response to the pandemic (WBG, June 2021).
  + High barriers to trade: tariffs, non-tariff barriers (NTBs) (including cumbersome customs clearance procedures), and inefficient border procedures more generally, have been identified as key obstacles to trade, especially for perishable agricultural and food trade (UNCTAD, 2009).
  + Gaps in infrastructure for local, regional and continental trade: The gaps are major although South Africa’s infrastructure is of relatively high quality for a middle-income country, but the quality has been deteriorating with declining investment. According to the World Economic Forum Infrastructure Index, South Africa ranked 64th in 2016/17, whereas in 2006/07, it ranked 49th. It is second in Africa to Mauritius (WBG, April 2018)10. Infrastructure investments—both in hardware and software—are essential to increase South Africa’s competitiveness which is low by international standards. AfCFTA offers South Africa the golden opportunity to leverage its geographical position to go beyond being a regional to become a continental transport and logistics hub, both on land and on sea. In addition, AfCFTA also offers South Africa the opportunity to take leadership in the digital sector which already contributes some 3% to its GDP (somewhat more than agriculture’s contribution). Internet penetration in South Africa is the highest in sub-Saharan Africa at 54%. To deepen and expand its current network, the challenge is move on multiple fronts which include implementing key reforms to increase private investments, building digital infrastructure and skills, and fast-tracking the implementation of digital public platforms to improve service delivery, among other things (WBG, Dec 2019).
  + Persistent high unemployment, especially of young people, and those with low incomes and low skills: South Africa’s labor market, small and stagnant since 2010, has worsened because of the COVID-19 pandemic. The unemployment rate is 29% (conventional calculation), or 39% (expanded calculation that includes discouraged job-seekers), 51% for 25-34 year olds, and 74% for 15-24 year olds (WBG, 2021). The challenge is revitalize its labor market by undertaking structural reforms on several fronts, aimed at, among other things, higher private-sector investment, increased competitiveness and productivity, strengthened linkages between the labor market and South Africa’s social transfer system, and expanded and revamped education and skill training programs for labor, with programs in business skills for entrepreneurs.

**Conclusion:**

South Africa’s economy has been severely battered by the COVID-19 pandemic. Its GDP shrank by 7% in 2020. Since the global financial crisis of 2007-08, it lost the dynamism of its first 15 years after the end of Apartheid in 1994. Over the 2010s, its GDP experienced low growth, as accompanied by increased unemployment, poverty, and inequality. Today, it is in crisis. The fundamental challenge is whether it can use this once-in-a-century

---

10. Infrastructure refers to transport, energy, and communications, including use of digital technologies.
opportunity offered by the AfCFTA as an inflection point to get onto a higher, and inclusive growth path, by undertaking deep and broad-based structural reforms that will enable its economy to attract more foreign funding, including FDI, and to be more competitive in the vast Africa-wide market. Successful experiences of regional market integration, as in the EU, East Asia, and ASEAN, clearly show that governments have to undertake broad-based reforms (e.g. in terms of policies, and institutions), to enable their economies to profitably invest in and access the expanded market opportunities.

Bibliography

About the Author, Isabelle Tsakok

Isabelle Tsakok is an adjunct professor at SIPA and a Senior Fellow at the Policy Center for the New South, previously known as OCP Policy Center, who focuses on rural development, agricultural economics, policy analysis, food security and poverty reduction. She holds a PhD in Economics. Dr. Tsakok has worked on development issues for over twenty-five years, first as World Bank staff and since retirement as a consultant. She has specialized in policy analysis, program and project formulation and evaluation, research and training activities in agriculture, agro-business, rural development and poverty reduction. She has worked in most regions of the developing world: Africa, Asia - South, Southeast and East, North Africa and the Middle East and Latin America.

About the Policy Center for the New South

The Policy Center for the New South: A public good for strengthening public policy. The Policy Center for the New South (PCNS) is a Moroccan think tank tasked with the mission of contributing to the improvement of international, economic and social public policies that challenge Morocco and Africa as integral parts of the Global South.

The PCNS advocates the concept of an open, responsible and proactive « new South »; a South that defines its own narratives, as well as the mental maps around the Mediterranean and South Atlantic basins, within the framework of an open relationship with the rest of the world. Through its work, the think tank aims to support the development of public policies in Africa and to give experts from the South a voice in the geopolitical developments that concern them. This positioning, based on dialogue and partnerships, consists in cultivating African expertise and excellence, capable of contributing to the diagnosis and solutions to African challenges.

The views expressed in this publication are those of the author.