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A Fresh Chance for Africa's Youth: Labour Market Effects of the African Continental Free Trade Area (AfCFTA)

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A Fresh Chance for Africa's Youth

Labour Market Effects of the African Continental
Free Trade Area (AfCFTA)



Prepared by: Ioana Lungu
February, 2019



The African Continental Free Trade Area marks a historic decision on the road to regional economic integration on the continent. If implemented, the agreement has the potential to make a significant impact on improving the livelihoods of the African people, by increasing intra-African trade and generating new employment opportunities on an integrated African labour market.

At present, youth unemployment is a significant problem in Africa, one that is most stringent for young females and the North African region. While the average unemployment rate for Sub-Saharan Africa is only slightly higher than OECD average (14% versus 12%), the aggregated picture conceals large disparities between countries. At the national level, the picture is much bleaker, with a number of African countries having alarmingly high youth unemployment rates (Eswatini 56%, Botswana 36%, Namibia 46% or South Africa 54%). This poses the risk of political instability as well as increased informality, seeing how informal jobs often provide a last, albeit precarious, means of survival.

Looking at determinants of youth employment in Africa, empirical studies show that domestic investment rates, real GDP growth, infrastructure, credit access and education play a significantly positive role in generating jobs (Anyanwu, 2013). The AfCFTA is expected to increase net real income by between \$2.8 billion and \$100 billion, depending on the degree of liberalization, and lead to more domestic investment, particularly in infrastructure (African Economic Outlook 2019).

This would mark a welcome shift away from the current development paradigm, focusing on foreign direct investment from outside the continent and openness to global trade. Some studies show that these have a negative effect on youth employment, as they mostly focus on mineral and extractive sectors which are capital intensive and generate few jobs. (Anyanwu, 2013). Indeed, African countries with a large comparative advantage in primary products are disadvantaged, since exports of minerals and natural resources offer little scope for employment, unlike trade in manufactured products or services. (McMilan et al, 2011)

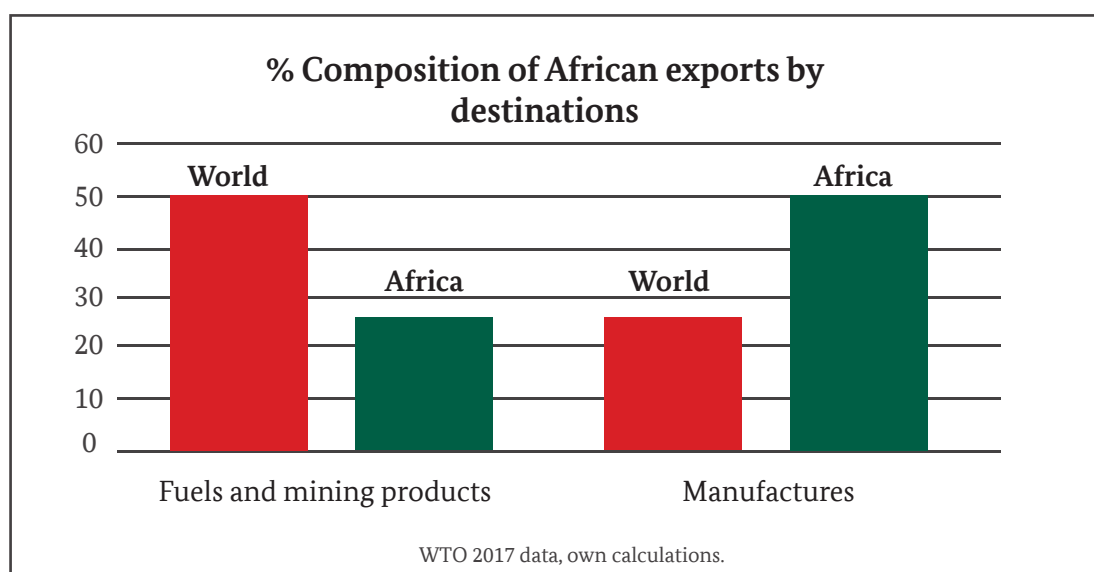
The need for a paradigm shift becomes clear when observing the historical evolution of Africa's labour markets. When workers move from low productivity to high productivity sectors – a phenomenon called structural change in the economic literature – this change is often accompanied by economic growth and better employment opportunities. However, in Africa, structural change has moved in the opposite direction: labour has shifted from higher to lower productivity employment, reducing overall growth and slowing the pace of poverty reduction (McMilan et al, 2011).

The explanation for this lies in the unequal distribution of productivity gains. Structural change can reduce or enhance growth, depending on the manner of integration. In developing economies, large inter-sectoral productivity gaps or persistently high unemployment are common. In such an environment, displaced workers who lose their jobs as a result of globalization and increased competitiveness have two options: working in jobs with even lower productivity or sliding into the informal sector, the employer of last-resort. (McMilan et al, 2011) This has been the case in Africa, where productivity gains are concentrated in sectors such as minerals or natural resources. These sectors operate at high productivity yet offer little scope for increased employment and thus have little potential to absorb the excess labour force from agriculture.



These findings stress the importance of African countries moving away from the current trade paradigm that relies on the export of primary products, and moving onto more value-added trade, as reflected in the composition of intra-African versus extra-African exports (Figure 1).

Intra-African trade has a higher share of manufactured products and a lower share of extractives, when compared with trade with the rest of the world. The AfCFTA has the potential to stimulate intra-African trade in agriculture, manufacturing and value-added products, which employ more labour in more diversified sectors of the economy and can contribute positively to increasing employment opportunities for young people.



Furthermore, countries which allow for greater labour market flexibility stand to gain more from growth-enhancing structural change, since labour can flow freely between firms and sectors, and allocative gaps can be closed. The AfCFTA-induced regional integration in the form of regulatory alignment of labour standards and the free movement of people may help mitigate labour displacements across sectors.

Labour outcomes are also influenced by adequate labour regulatory frameworks. One concern with trade liberalisation is the weakening of labour protection regulation, a so-called “race to the bottom” as a result of competitive pressures from opening up markets. Another would be the threat of “regulatory chilling”, i.e. the process of raising current domestic labour standards coming to a halt.

In this regard, empirical research on the effects of regional trade on employment shows that increased regional trade integration does not bring about a deterioration of labour standards for low and middle-income countries (Häberli, Jansen and Monteiro, 2012). Indeed, trade-related labour standards may even have a positive effect by discouraging “low road” employment practices like informality, union-busting, and the exploitation of child labour (Andrew, 2013).

These findings suggest that the AfCFTA is unlikely to negatively affect labour standards in Africa. Nevertheless, implementation of adequate flanking policies is key. Compensation mechanisms and mitigating policies are vital to provide support to import-competing firms, which often provide jobs at higher productivity levels than the informal sector. Furthermore, discriminatory barriers should be removed to ensure an equal distribution of gains between large businesses and small-scale enterprises and farmers (UNECA, 2017).

The AfCFTA, if properly implemented, could provide more, and better jobs that are sorely needed for Africa's sustainable development. Political will and a commitment to reform will nevertheless be necessary to tap into the huge potential of Africa's

young labour force and ensure that the gains from economic integration are distributed fairly across the continent. As the negotiations move onto the second phase and ratifications of the agreement pour in, it remains to be seen in how far timely and comprehensive implementation will be achieved.



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