

POLICY BRIEF



G20 SOUTH AFRICA 2025

Promoting Sustainable Industrialisation through Inclusive Investment Policies

2025

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Trade and
Investment



Abstract

The African Continental Free Trade Area (AfCFTA) offers Africa a transformative opportunity to achieve sustainable industrialisation through inclusive investment policies. By establishing a single continental market, the AfCFTA aims to enhance intra-African trade, strengthen regional value chains, and foster economic integration. Central to this effort is the AfCFTA Protocol on Investment, which provides a framework for promoting sustainable and inclusive investment practices. This policy brief explores how the AfCFTA can leverage its investment protocol and international best practices to drive industrialisation that is economically viable, socially inclusive, and environmentally sustainable. It highlights key elements of the protocol, such as promoting sustainable investments, ensuring inclusivity for marginalised groups, harmonising regulations, and establishing dispute resolution mechanisms. Drawing on international examples, such as Rwanda's alignment with the Sustainable Development Goals and the Association of Southeast Asian Nations' regional value chains, the brief underscores the importance of aligning investment strategies with global best practices. However, challenges such as infrastructure deficits, regulatory fragmentation, limited institutional capacity, and varying political commitment must be addressed to fully realise the AfCFTA's potential. The brief concludes with actionable recommendations for policymakers, including developing national investment strategies aligned with the AfCFTA, promoting gender-responsive and youth-inclusive policies, strengthening regional value chains, leveraging digital technologies, and enhancing infrastructure development. By addressing these challenges and implementing inclusive investment policies, the AfCFTA can play a pivotal role in transforming Africa's economic landscape, reducing inequality, and positioning the continent as a competitive player in the global economy.

Keywords: AfCFTA, Sustainable Industrialisation, Inclusive Investment, Regional Value Chains, Economic Integration

Diagnosis

Introduction

The AfCFTA, launched in 2018 and operational since January 2021, represents a transformative milestone in Africa's economic journey. This groundbreaking initiative unites 54 African nations into a single market for goods and services, harnessing a combined gross domestic product exceeding \$3 trillion. By slashing tariffs on 90% of goods and tackling persistent non-tariff barriers, the AfCFTA aims to revolutionise intra-African trade, which currently languishes at a mere 16% of the continent's total trade which is – far below Europe's 60% and Asia's 40%, according to the African Union.¹ This ambitious, gravity-defying trade pact seeks not only to boost commerce but also to reshape the economic landscape of the continent.

The AfCFTA's potential extends beyond trade figures. It promises to diversify African economies, many of which remain heavily dependent on external markets and volatile commodity exports. By fostering greater regional integration, the agreement paves the way for sustainable industrialisation which is – a vital engine for economic growth, job creation, and poverty reduction. As industries expand and value chains deepen, African nations can reduce their vulnerability to global shocks, building resilience through self-reliance and innovation.

A key component of this vision is the AfCFTA Protocol on Investment, adopted during Phase II negotiations. This framework is designed to attract and regulate investments while prioritising sustainability and inclusivity. It encourages both domestic and foreign investors to contribute to Africa's development in ways that

¹ African Union. (2021). The African Continental Free Trade Area: A tool for economic transformation. <https://au.int/en/afcfta>; African Union. (2021). AfCFTA Protocol on Investment.

benefit local communities and preserve the environment. Ultimately, the AfCFTA stands as a beacon of hope, offering a pathway to prosperity, unity, and economic empowerment across the continent.

The role of inclusive investment in sustainable industrialisation

Sustainable industrialisation requires balancing economic growth with social equity and environmental stewardship.² The AfCFTA Protocol on Investment emphasises sustainable investments by encouraging projects that align with the UN Sustainable Development Goals (SDGs), such as clean energy and green manufacturing.³ Inclusivity is another cornerstone, ensuring that marginalised groups – women, youth, and rural populations – benefit from industrial growth. For instance, harmonised regulations and dispute resolution mechanisms within the protocol aim to create a predictable investment climate, reducing risks for investors while protecting host communities. By optimising regional value chains, the AfCFTA enables countries to specialise in areas of comparative advantage, such as agro-processing in West Africa or mineral beneficiation in Southern Africa, enhancing industrial competitiveness.⁴

International examples offer valuable lessons. Rwanda has aligned its investment policies with the SDGs, attracting sustainable projects like the Kigali Innovation City, which integrates technology and green infrastructure.⁵ Ghana's investment

² Ali, Mohd Akhter, M. Kamraju, and Devkar Bhausahab Sonaji, "Economic Policies for Sustainable Development: Balancing Growth, Social Equity, and Environmental Protection", *ASEAN Journal of Economic and Economic Education* 3, no. 1 (2024): 23–28.

³ World Bank. (2020). The African Continental Free Trade Area: Economic and distributional effects. <https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area>

⁴ UNECA. (2022). AfCFTA: Unlocking Africa's digital trade potential. <https://www.uneca.org/publications/afcfta-digital-trade>

⁵ Rwanda Development Board. (2023). Investment opportunities in Rwanda: Sustainable development focus. <https://rdb.rw/investment-opportunities/>

promotion amendment is also anchored on these principles⁶. Similarly, the Association of Southeast Asian Nations (ASEAN) has leveraged regional value chains to boost manufacturing, with countries like Vietnam specialising in electronics assembly while sourcing components regionally.⁷ These models highlight the importance of strategic policy alignment and regional collaboration – principles the AfCFTA can adapt to Africa's diverse economic landscape.

Opportunities under the AfCFTA

The AfCFTA offers significant opportunities for sustainable industrialisation. First, it expands market access, enabling economies of scale for industries like textiles, pharmaceuticals, and automotive manufacturing. Second, it encourages foreign direct investment by harmonising standards and reducing trade barriers, with projections estimating an additional \$450 billion in income by 2035.⁸ Third, regional value chains can drive industrial upgrading, as seen in potential collaborations between Kenya's leather industry and Ethiopia's processing hubs. Finally, digital technologies – supported by the AfCFTA's Digital Trade Protocol – can enhance industrial efficiency, connecting small and medium enterprises to continental markets.⁹ These opportunities, if harnessed through inclusive investment policies, can position Africa as a global industrial player.

Challenges to implementation

⁶ Parliament of Ghana. (2024). Ghana Investment Promotion Authority Bill, 2024. Accra, Ghana

⁷ ASEAN Secretariat. (2021). ASEAN economic integration: Building resilient value chains. <https://asean.org/wp-content/uploads/2021/10/ASEAN-Economic-Integration-Report-2021.pdf>

⁸ World Bank. (2020). The African Continental Free Trade Area: Economic and distributional effects. <https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area>

⁹ UNECA. (2022). AfCFTA: Unlocking Africa's digital trade potential. <https://www.uneca.org/publications/afcfta-digital-trade>

Despite its potential, the AfCFTA faces significant hurdles. Infrastructure deficits, such as inadequate transport and energy networks and trade logistics hinder industrial scalability, with Africa's infrastructure financing gap estimated at \$100 billion annually.¹⁰ Regulatory fragmentation across 54 countries complicates investment harmonisation, while limited institutional capacity undermines the enforcement of the investment protocol. Political commitment varies, with some nations prioritising national interests over regional integration. Additionally, marginalised groups risk exclusion unless deliberate policies target their participation. These challenges threaten to limit the AfCFTA's impact unless addressed proactively.

Recommendations for policymakers

To maximise the AfCFTA's potential for sustainable industrialisation, the following recommendations are proposed:

1. Develop national investment strategies aligned with the AfCFTA

Governments should craft policies that prioritise sustainable industries (eg, renewable energy, agro-processing, community reinvestment) and integrate the AfCFTA objectives, drawing on Rwanda's SDG-aligned approach.

2. Promote gender-responsive and youth-inclusive policies

Incentives like tax breaks for women- and youth-led enterprises can ensure equitable benefits, addressing SDG 5 (Gender Equality) and SDG 8 (Decent Work).

3. Strengthen regional value chains

¹⁰ African Development Bank. (2023). African economic outlook 2023: Mobilizing private sector financing for climate and green growth in Africa. <https://www.afdb.org/en/documents/african-economic-outlook-2023>

Invest in cross-border industrial clusters, such as a West African textile hub, to enhance specialisation and competitiveness, emulating the ASEAN model.

4. Leverage digital technologies

Accelerate the Digital Trade Protocol's implementation to support small and medium enterprises and industrial innovation, bridging connectivity gaps with e-commerce platforms.

5. Enhance infrastructure development

Mobilise public-private partnerships and international funding to close the infrastructure gap, prioritising energy and transport networks critical for industrialisation.¹¹

Conclusion

The AfCFTA offers a historic opportunity to drive sustainable industrialisation in Africa through inclusive investment policies. By leveraging the Protocol on Investment and learning from global best practices, African countries can build resilient industries that reduce inequality, create jobs, and compete globally. However, success hinges on overcoming infrastructure, regulatory, and capacity challenges while ensuring inclusivity. Implementing the recommended strategies will enable the AfCFTA to transform Africa's economic landscape, thereby creating a future of shared prosperity and sustainability.

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¹¹ African Development Bank. (2023). African economic outlook 2023: Mobilizing private sector financing for climate and green growth in Africa. <https://www.afdb.org/en/documents/african-economic-outlook-2023>

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