

Democratic Republic of Congo: macroeconomic and trade profile

Opportunities and challenges towards implementation of the AfCFTA

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Key messages

- DRC rebounded from the negative impact of Covid-19 with 6.2% and 6.1% GDP growth in 2021 and 2022, respectively, driven primarily by high prices of oil and metal exports and services sector performance. The GDP growth rate is projected to reach 6.7% in 2023, anchored by an expected increase in oil production. Agricultural performance may also improve with the implementation of the government's Agricultural Transformation Agenda focusing on food production and value chains.
- Trade in goods and services has played an important role in the DRC economy, amounting annually to 52% of GDP on average from 2011 to 2020. Goods exports comprised almost entirely mineral ores, and mainly went to South Africa, China and Tanzania. Nevertheless, value of cocoa bean exports exhibited a significant increase (by 206%) between 2015 and 2020. There is room to support exporting of wood products, processed minerals and cocoa beans, in view of increasing world demand for and/or efficiency of DRC in these products.
- FDI stock in DRC increased from \$1.3 billion in 2003 to \$29.1 billion in 2021, driven by FDI in mining and mobile phone industries. In 2021, FDI inflow increased by 13.5% to \$1.9 billion, mainly from oil, mining and waste treatment facility projects. Addressing key challenges around corruption and the infrastructure deficit would help unlock higher private sector participation.
- DRC has been a net exporter to Africa. The importance of intra-African total goods trade (exports+imports) declined to 29.3% as of 2020 from around 54.5% in 2015. DRC exported mainly chemicals and metals to Africa, while it imported mainly minerals, chemicals, machinery parts and electrical equipment.
- DRC finalised its National Acta strategy in July 2021, with identified priority sectors and target markets for exports, as well as clear action plans with targets and timelines. Studies suggest DRC would benefit the most from the AfCFTA through an increase in inward investments. To date, however, DRC has not had meaningful trade under the AfCFTA. DRC's engagement and trading under regional arrangements (e.g. EAC, COMESA, SADC) may help in simplifying border controls, reduce tariffs and non-tariff barriers and also induce AfCFTA adoption.



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About this publication

This brief aims to inform relevant stakeholders, including the private sector and non-AfCFTA experts, on DRC's current economic situation and its implementation of the AfCFTA. It represents an update of the first edition of a paper on DRC's macroeconomic and trade profile published by ODI in February 2022, authored by Prachi Agarwal.

This ODI–GIZ policy brief series is part of a larger project titled the GIZ Support Programme to the AfCFTA. This supports GIZ's partners on the continental (African Union Commission, AfCFTA Secretariat), regional (currently East African Community and Economic Community of West African States; planned Southern African Development Community) and national levels on the negotiations surrounding and implementation of the AfCFTA.

Disclaimer: The content of this publication has been produced rapidly to provide early ideas and analysis on a given theme. It has been cross-read and edited but the usual rigorous processes have not necessarily been applied.

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1 Recent socioeconomic developments

DRC is the largest country by land area in sub-Saharan Africa and has a strategic location sharing a common border with nine countries.¹ The country is endowed with natural resources including minerals such as cobalt, copper, tin and tungsten; hydropower potential; arable land; a large young population; and immense biodiversity (World Bank, 2022a).

However, the country faces several challenges. It has the third largest population of poor people globally, with nearly three-quarters of its population estimated to be living on less than \$2.15 a day as of 2021 (Table 1). The economy is dependent on mineral exports, making it vulnerable to volatility in international commodity prices. For example, the economy grew by an average rate of 12% per annum during the commodity prices boom in the period 2001–2015 but slowed down by 2.1% following the downturn in mineral prices in 2016–2017. DRC's economy is also vulnerable to epidemics, as observed during the growth slowdown in 2019² (from 5.8% to 4.4%) amid the Ebola virus outbreak. Nonetheless, DRC's economy grew more than those of sub-Saharan African counterparts (5.6% versus 1.4%) on average in 2015–2019. On a sectoral level, the highest contribution (in terms of value added) to gross domestic product (GDP) came from the services sector (33.8%), followed by the manufacturing sector (18.7%), in the same period.³

At the peak of the Covid-19 in 2020, DRC's economic growth slowed to 1.7%, from 4.4% in 2019, as the social distancing measures and government-mandated lockdowns halted the manufacturing sector, led to the closure of several companies and weakened demand in transport services, manufacturing and retail sectors in DRC (AfDB, 2021; ITA, 2021). The government responded to the pandemic with a \$2 billion package equivalent to 4% of GDP⁴ (IMF, 2021b), a large part of which was dedicated to the continuation of new programme providing free education since September 2019 (Latif and Adelman, 2021). The government also supported businesses by deferring certain tax and duty payments, cutting the corporate tax rate (from 30% to 28%) and reducing the turnover tax for small businesses (from 7% to 5%). The central bank has also reduced the policy rate by 25 bps to 3.25% in March 2020, injected liquidity to banks and implemented temporary purchases of government securities. The monetary financing of the budget deficit contributed to inflationary pressure (AfDB, 2021; IMF, 2021a) (Table 2).

¹ Bordering neighbours include South Sudan and the Central African Republic in the north, Tanzania, Burundi, Uganda and Rwanda in the east, Republic of Congo in the west and Angola and Zambia in the south.

² Primarily because of an Ebola virus outbreak (EVD epidemic) that began in 2018 and worsened during 2019.

³ Authors' computations based on World Bank (2022b) data.

⁴ IMF (2021b) includes estimates of fiscal resources allocated or planned in response to the Covid-19 pandemic since January 2020, covering implementation in 2020, 2021 and beyond.

Table 1 DRC country facts and social indicators

Capital: Kinshasa			
Geographical size: 2.34 million km ² surface area in Central Africa			
Languages: French, Lingala, Kiswahili, Kikongo, Tshiluba			
Religions: Christianity, Islam			
Currency; exchange rate: Congolese franc 2,035.75 = US\$1 (20 February 2023)			
	2000	2010	2021
Population (million)	47.1	64.5	92.4
Dependency ratio (%) ¹	89.2	89.1	88.8
Life expectancy (years)	51.8	56.4	59.7
Mean years of schooling	4.7	5.6	7
Gross national income per capita (constant 2017 purchasing power parity \$)	740	830	1,076
Poverty rate (% population living on less than \$2.15 a day, 2011 purchasing power parity)	91.5 ²	69.7 ³	73.1 ⁴
Unemployment rate (%)	2.9	4.0	5.4
Gender inequality index ⁵	-	0.656	0.601
Human development index ⁶	0.376	0.429	0.479

Notes: 1 dependency ratio of the young (0–14 years old) to the working-age (15–64 years old) population; 2 as of 2004; 3 as of 2012; 4 World Bank forecast; 5 higher score = higher gender inequality; 6 higher score = better human development.

Sources: UNDP (2022); World Bank (2022a); Central Bank of DRC website.

Table 2 Selected macroeconomic and financial sector performance and forecast in DRC

	2019	2020	2021p	2022f	2023f	2024f	2025f
Real GDP (% growth)	4.4	1.7	6.2	6.6	6.3	6.5	6.8
Gross national investment (% of GDP)	12.6	9.2	14.5	13.1	14.0	15.1	17.5
Average consumer prices (% growth, period average)	4.7	11.4	9.0	9.0	10.8	7.2	6.8
Government revenue (% of GDP)	10.8	9.0	11.3	15.9	15.4	15.5	15.6
Government expenditure (% of GDP)	12.8	10.4	14.6	18.8	18.3	19.0	19.5
Gross fiscal balance, commitment basis (% of GDP)	-2.0	-1.4	-1.4	-2.8	-2.9	-3.3	-3.7
External public debt (% of GDP)			15.5	16.4	17.4	17.9	18.0
Current account balance (% of GDP)	-3.2	-2.2	-0.9	-2.2	-3.9	-3.0	-2.3

Note: p indicates preliminary data; f indicates forecast.

Sources: 2019 and 2020 data based on IMF (2022a); 2021 onwards data based on IMF (2022b).

The economy exhibited robust rebound from Covid-19 by registering 6.2% and 6.1% GDP growth in 2021 and 2022, respectively, well above the 4.5% growth rate in sub-Saharan Africa. The economic recovery was driven primarily by high prices of oil and metal exports, and services sector performance (Nolin et al., 2022). Economic growth is expected at 6.7% in 2023, largely driven by an expected increase in oil production.

While the Russia invasion of Ukraine has partly benefited DRC through the generation of fiscal revenues from high oil export prices and higher metal prices, the lingering problems from Covid-19 and spillover effects from the war are putting pressure on households through high inflation rates (IMF, 2022b). Higher prices are exacerbating levels of acute food insecurity, which affected an estimated 26% of the population between July and December 2022 (IPC, 2022). In response, the government launched its Agenda for Agricultural Transformation in 2022 to improve food production, increase incomes and create jobs (ACP, 2022). In 2023, inflation is projected to rise to 10.8%, as the ongoing war is expected to continue to add pressures on food and import prices (Table 2). On the fiscal side, the risk of DRC's debt remains moderate with total public debt expected to be relatively stable between 2022 (24% of GDP) and 2027 (23% GDP) (ibid.).

The overall outlook over the medium term is positive, with nearly 7% growth by 2025, although the DRC economy is exposed to downside risks to growth that may arise from commodity price shocks (e.g. a protracted Russia–Ukraine war, China's

slowdown) and an escalation of the conflict situation in the eastern part of the country (IMF, 2022b).

Against this backdrop, the next section presents DRC's trade landscape and business environment (Section 2), followed by a more focused discussion on DRC's intra-African trade, and progress of AfCFTA implementation (Section 3). Section 4 identifies DRC's strengths, weaknesses, opportunities and threats to maximise benefits from AfCFTA, and trade and investment more generally. Section 5 concludes.

2 Trade landscape and business environment

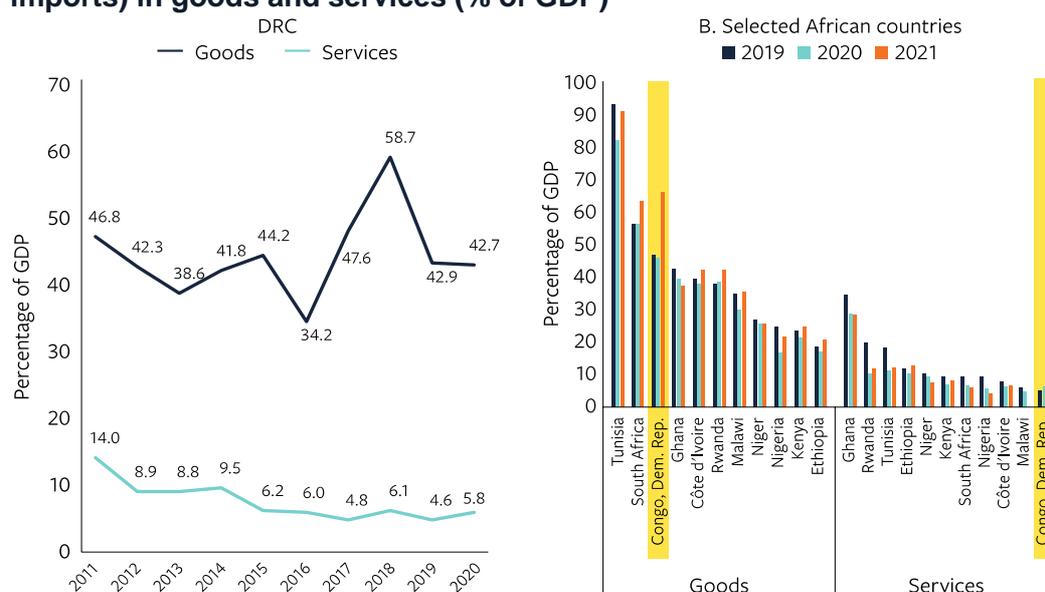
2.1 Trade landscape

Trade has played an important role in the DRC economy, contributing 52% of GDP on average per year in the past decade. In recent years, DRC has been a net exporter of goods and a net importer of services, especially with its top 10 trading partners. In 2019, total trade in goods and services amounted to \$24.6 billion (or 47.5% of GDP); it fell slightly, by 4.0%, to \$23.62 billion (or 48.5% of GDP) in 2020 amid the pandemic.

DRC has been admitted to the African Growth and Opportunity Act (AGOA) after being excluded for 10 years owing to human rights concerns (AGOA, 2021). Note that DRC’s main exports – copper and cobalt – remained tariff-free under the US Generalized System of Preferences trade programme.

The importance of trade in goods as a percentage of GDP has been generally stable over the past decade, except in 2016 and 2018, when trade in goods was driven by exports of cobalt, which increased from \$4.8 billion in 2017 to \$10.3 billion in 2018, followed by a steep decline to \$3.9 billion in 2019, mainly driven by an increase in cobalt world prices. The export of copper also contributed significantly for 2018, increasing from \$90 million in 2017 to \$2.8 billion in 2018. For other years, the value of trade in goods as a proportion of GDP hovered around 42% (Figure 1).

Figure 1 DRC and selected African countries’ total trade (exports + imports) in goods and services (% of GDP)

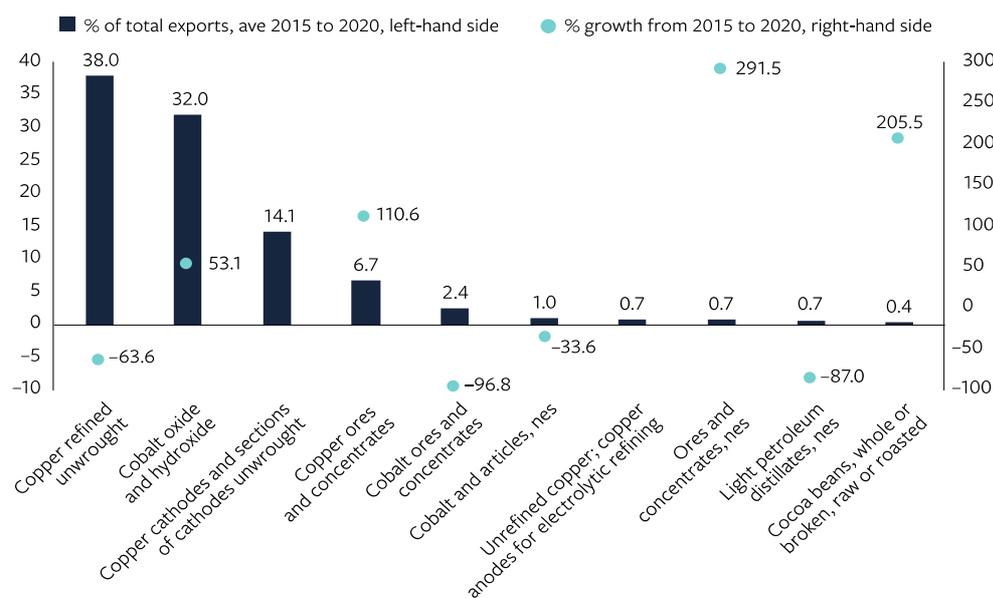


Source: Authors’ computations based on World Bank (2022a) and WITS data.

Meanwhile, the importance of trade in services has been on a gradual declining trend, from 14% of GDP in 2011 to 4.8% in 2019 and 5.8% in 2020. Similar to selected African countries, DRC's trade in goods is relatively more important than its trade in services (Figure 1). In 2020 and in absolute terms (current US dollars), growth was recorded in goods exports (by 5.5%), services exports (1.4%) and services imports (19.1%), while goods imports dropped by 23.5%. In 2021, both exports and imports of goods registered growth, by 66.4% and 36.1%, respectively.

DRC's goods exports are dominated by few mineral ores, such as cobalt and copper ores and their products, together comprising about 95% of total exports from 2015 to 2020 (Figure 2). DRC is the largest exporter of cobalt in the world. Strong growth in exports from 2015 to 2020 was observed in other ores and concentrates (291.5%) and in cocoa beans (205.5%),⁵ although they comprise a share of less than 1% in the export basket (Figure 2). From 2015 to 2020, the top five major destination countries were South Africa (40.5%), China (20.9%), Tanzania (11.4%), Zambia (7.1%) and the United Arab Emirates (UAE) (6.0%) (Figure 3). Notably, exports to China grew by 502.2% from 2015 to 2020, or by an average annual rate of 43.2% from 2015. In 2020, 70.2% of China's import from DRC were refined copper, followed by an 18.8% share of cobalt oxides and hydroxides.

Figure 2 DRC's major export products (% of total exports, average 2015–2020)



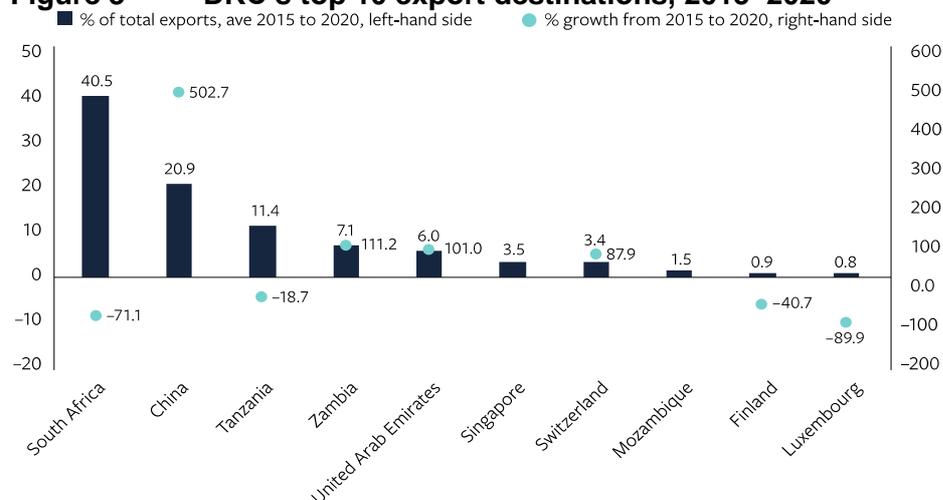
Source: Authors' computations based on WITS data (6-digit product category).

In 2020, on the imports side, DRC imported stamped or bond paper (17.8% of total imports), chemicals (3.4%), light oils and other oils (4.2%), wheat (1.5%) and parts and components of heavy machinery (1.2%). About 75% of all imports in the period originated in the US (19.5%), China (19.2%), South Africa (13%), India (5%), EU members, the UK and UAE. Notably, imports of pharmaceuticals by DRC in 2020 decreased by 67% (from a peak value of \$510 million in 2019 amid the Ebola virus outbreak), compared with a surge in imports by other countries⁶ to meet increased domestic demand during the Covid-19 pandemic (ITC, 2021).

⁵ Excluding iron, manganese, copper, nickel, cobalt, aluminium, lead, zinc, tin, chromium, tungsten, uranium, thorium, molybdenum, titanium, niobium, tantalum, vanadium, zirconium and precious-metal ores and concentrates.

⁶ For example, imports of pharmaceuticals grew by 139% for Niger, 95% for Nigeria, 29% for Tanzania and 24% for Kenya (ITC, 2021).

Figure 3 DRC’s top 10 export destinations, 2015–2020



Source: Author’s computations based on WITS database.

We investigate the efficiency (in terms of revealed comparative advantage, or RCA) and world demand (from all countries) for DRC’s top 25 exported products (accounting for 99% of DRC’s total exports) in the period 2015–2020. Table 3 summarises products that can be supported through export promotion or intervention to increase competitiveness and match the rise in world demand, as well as products with declining world demand. Opportunities may also arise in DRC’s agricultural products, as the government launched its Agricultural Transformation Agenda in 2022, which aims to revive the seed sector (e.g. cassava, maize, rice, soybean and beans) in the short term (2022–2023) and conduct wide-ranging initiatives developing value chains for food and perennial crops and improving related infrastructure (ACP, 2022).

Table 3 Export products for promotion and targeted intervention

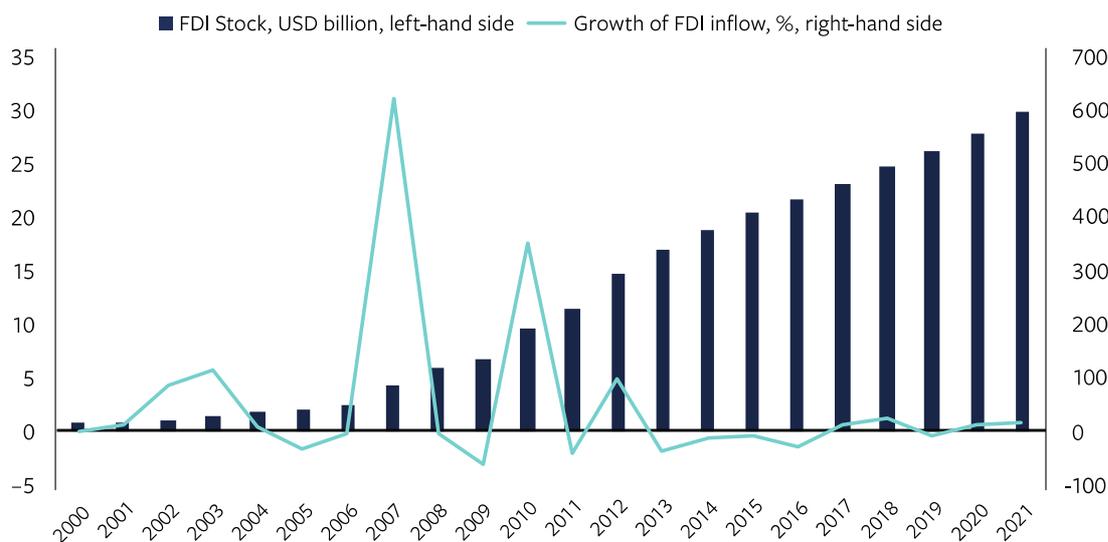
	Increasing RCA (e.g. for export promotion, facilitation)	Declining RCA (e.g. intervention to increase competitiveness)
Increasing world demand	<ul style="list-style-type: none"> plants used in perfumery, pharmaceuticals or insecticides petroleum oils and oils from bituminous minerals (not crude; not light oils and preparations) copper ore and concentrates copper mattes, cement copper copper waste and scrap tropical wood in rough, not treated 	<ul style="list-style-type: none"> tropical woods in rough, wood sawn/ chipped lengthwise tanks and other armoured fighting vehicles zinc dust niobium, tantalum and vanadium ores cobalt and articles thereof copper, refined and unwrought cobalt oxides and hydroxides
Declining world demand	<ul style="list-style-type: none"> cocoa beans whole or broken, raw or roasted wood in rough, not included elsewhere gold, in unwrought form 	<ul style="list-style-type: none"> coffee, whether or not roasted or decaffeinated ores and concentrates, not included elsewhere cobalt ores and concentrates

Source: Authors’ compilation based on WITS database.

2.2 Foreign direct investment

FDI stock increased from \$1.3 billion in 2003 to \$14.4 in 2012 and to \$29.1 billion in 2021, driven by investment in the mining sector and mobile telephone industries (WTO, 2016) (Figure 4). FDI in mining activity was concentrated in cobalt, and in lithium, nickel and copper, which are mostly used in the production of smartphones and electric vehicle batteries (UNCTAD, 2020). In 2019, DRC also received significant Chinese greenfield investment exceeding \$1.5 billion, linked to domestic manufacturing projects (ibid.).⁷

Figure 4 FDI stock and flow in DRC



Source: Authors' computations based on UNCTAD data.

FDI inflows to DRC in the past two decades peaked in the years 2012, 2013 and 2010, at \$3.3 billion, \$2.1 billion and \$2.9 billion, respectively, mostly related to large cobalt, energy and oil investments (see UNCTAD, 2011; 2013; 2014). Despite the political and economic challenges posed by the Covid-19 pandemic, FDI inflow grew at 10.7% in 2020 to \$1.65 billion. In 2020, DRC attracted 12 new greenfield investments in the telecommunications sector from multinational enterprises headquartered in China, Egypt, UAE and the US (FDI Intelligence, 2021; UNCTAD, 2021). Some of the greenfield investments have also come in the form of solar energy projects that aim to reduce the country's dependence on non-renewable sources of energy⁸ (ibid.). Another large greenfield investment project was attracted by the mining sector,⁹ but, to meet sustainability goal, this project will be powered by renewable hydroelectricity from the Congo River under a public–private partnership agreement.¹⁰

⁷ DRC has bilateral investment treaties (BITs) in force with France, Germany, Switzerland and the US, while it has already signed agreements (yet to be enforced) with the Belgium–Luxembourg Economic Union, China, Egypt, Greece, India, Italy, Jordan, Portugal, the Republic of Korea, South Africa and Ukraine (UNCTAD, 2023).

⁸ One of the projects came from the company Sun Plus, based in the US and titled Kinshasa Solar City, with a cumulative capacity of 1,000 MWp (Afrik21, 2020a); the other comes from DPA Africa Asset based in Mauritius, and will provide solar energy to the country based on rental contracts for solar photovoltaic panels and electricity storage systems (Afrik21, 2020b).

⁹ FDI came from the Canadian Ivanhoe Mining Company, valued at approximately \$360 million (UNCTAD, 2021), to explore underground copper mines at Kamo–Kakula.

¹⁰ More information at <https://ivanhoemines.com/news/2021/kamo-copper-extends-existing-financing-agreement-with-drcs-state-owned-power-company-to-facilitate-the-upgrade-of-turbine-5-at/>

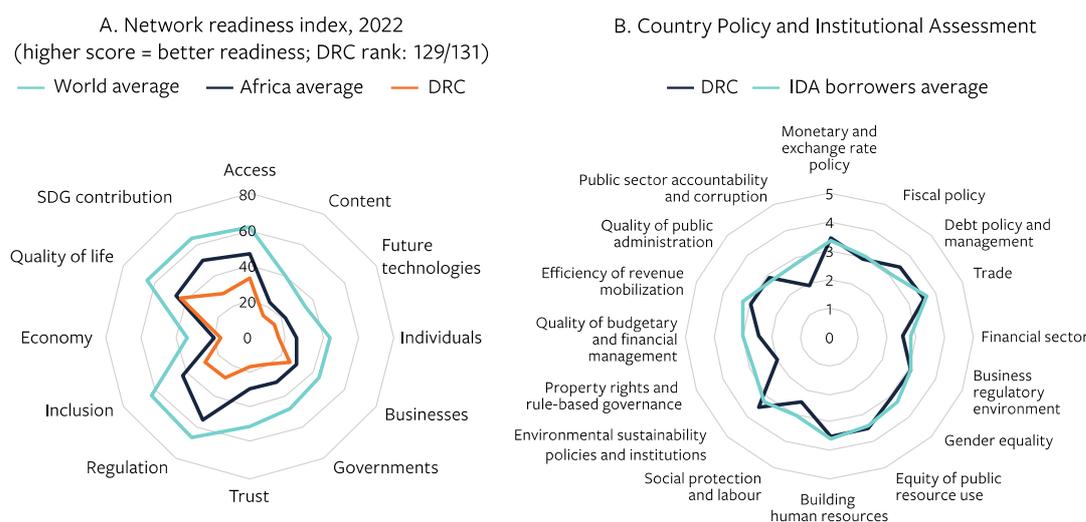
In 2021, FDI inflow to DRC increased by 13.5% to \$1.9 billion, with projects from offshore oil fields and mining and a facility for the treatment of municipal organic waste by Biocrude Technologies (Canada) for \$136 million (UNCTAD, 2022). With the liberalisation of the sector in 2014 and commercialisation of the state-owned electricity company, the sector can attract FDI to improve capacity and the distribution of electricity, as well as developing alternative sources of energy (ANAPI, 2019). There is also scope for FDI in the infrastructure, mining and hydrocarbons sectors (ibid.). Similarly, the agro-processing industry has great potential to attract FDI to improve food security in the country, focused on the production of food and perennial crops, as well as fishery, poultry and meat products (ibid.). To this end, 22 new agro-industrial parks have also been developed by the government.

2.3 Business environment

Despite being rich in rare earth mineral resources, DRC is one of the poorest countries in the world, with an extremely challenging business environment and widespread informality. The country lacks the provision of critical road infrastructure and electrification, and has high levels of corruption (USDoS, 2022; World Bank, 2022c). Only six of the 26 new provincial capitals can be reached by road from Kinshasa, and the country has one of the lowest electrification rates in Africa, at 15–20% (TI, 2022).

The poor state of the transport system translates into low connectivity between the centre and the periphery of the country; poor supporting infrastructure, weak customs implementation and excessive taxation, coupled with instances of corruption and governance mismanagement, discourages trade and investment (ITA, 2021; WTO, 2016; MCE, 2021). DRC also performs poorly in terms of all indicators of digital readiness relative to other countries and in Africa (ranking 129th out of 131 countries), particularly in aspects related to digital regulation and access, and digitalisation of government operations and services (Figure 5A).

Figure 5 Digital readiness and quality of policy and institutions, (higher score = better performance)



Sources: Figure 5A data based on NRI data on networkreadiness.org by Portulans Institute (2022). Figure 5B based on CPIA as of 2021 in World Bank (2022d). IDA borrowers refer to low-income countries eligible for financing from the International Development Association. Aggregate scores (world, Africa, IDA borrowers) are based on simple averages.

As of 2022, DRC stands at 166 out of 180 countries on the Corruption Perceptions Index (TI, 2022). Business complains that there is harassment with respect to tax and nontax payments and of the high number of taxes (World Bank, 2022c). While

there is a Protection of Copyright and Neighbouring Rights Law (1986), enforcement of intellectual property rights (IPR) is virtually non-existent (USDoS, 2022). These institutional challenges are reflected to some extent in DRC's lower score compared with 39 other sub-Saharan African countries on most aspects of the World Bank's Country Policy and Institutional Assessment as of 2021, particularly on policies related to property rights and public sector accountability and corruption (Figure 5B). There are also challenges in terms of lengthy and costly property and commercial dispute resolution, which takes 610 days on average (World Bank, 2022c).

To help improve the business environment, DRC has taken the following initiatives:

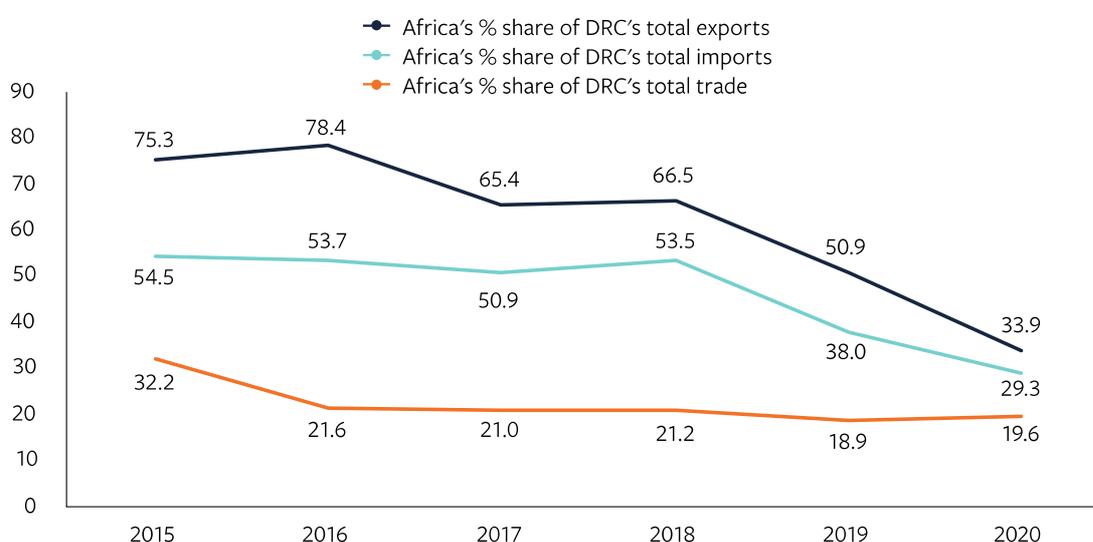
- creation of a Business Climate Unit in 2019 to monitor and improve the business enabling environment and interface with the business community
- adoption of the Organisation for the Harmonisation of Business Law in Africa
- approval of the Mining Code (given the significant extractives industries in DRC), aligned with international best practice, as it incorporates equal and transparent taxes on mining rents; it is also expected to increase royalties on copper from 2% to 3.5%, on gold from 2.5% to 3.5% and, potentially, on cobalt from 2% to 10% (UNCTAD, 2018), although some issues regarding high repatriation requirements (i.e. 60% of mining revenue is to be deposited in the commercial bank of DRC, which increases firm operation costs) need to be reviewed (World Bank, 2022c)
- putting in place relevant laws (Investment Code, Insurance Code, Agricultural Act, Act on Liberalisation of Electricity, Telecommunications Code, Law on Pricing, Freedom and Competition) to increase private sector participation and attract investment.

3 Intra-African trade performance and AfCFTA

3.1 Background: DRC's goods trade with Africa

DRC's trade (exports and imports) with other African countries dropped from 54.5% of its total trade (or \$9.2 billion) in 2015 to 29.3% (or \$8.5 billion) in 2019 and to 29.3% (\$6.1 billion) in 2020 (Figure 6).¹¹ The value of DRC's goods exports to Africa exceeds that of its imports, resulting in a positive trade balance with the rest of Africa since 2015, valued at \$5 billion in 2019 and \$3.4 billion in 2020. According to the latest reliable data from 2020, the value of DRC's exports to Africa dropped by 29.2% and imports fell by 21.6%. In terms of percentage share of total trade, DRC's intra-African trade remained between 51% and 55% from 2015 to 2018 but declined to 29.3% as of 2020 (Figure 6).

Figure 6 DRC's intra-African trade in goods



Note: Intra-African trade covers 45 African countries with complete goods exports and imports data from 2015 to 2020.

Source: Authors' computations based on WITS database.

DRC's main export destinations in Africa are South Africa, Tanzania, Zambia and Mozambique, while the main sources of imports from Africa are South Africa, Zambia, Tanzania and Uganda. At the product level, DRC exports mainly chemicals and metals to the rest of Africa, while it mainly imports minerals, chemicals, machinery parts and electrical equipment. In 2020, DRC's main export goods to South Africa were cobalt oxides and hydroxides (57.72%) and refined copper and

¹¹ A significant part of DRC's intra-African trade is likely to be transit through its neighbours.

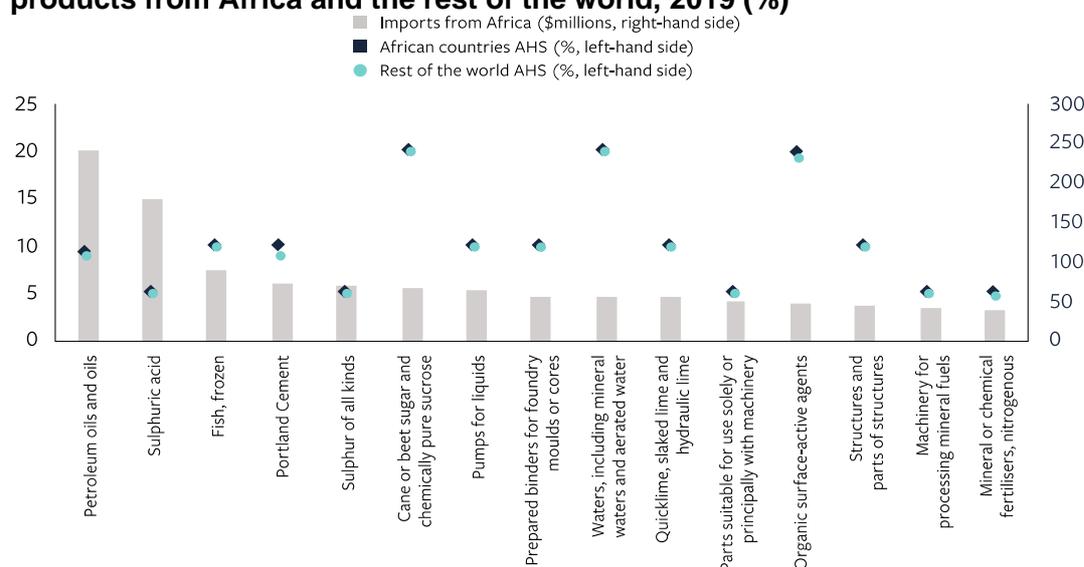
copper alloys (31.7%); with Tanzania, the main exports were concentrated in refined copper and copper (92.7%) and chemicals (4.2%); with Zambia, main exports were in minerals – copper ores (52.7%), metals (23.2%) and chemicals (7.8%). Similarly, most imports from the four top sources in the region were also concentrated in minerals, metals, machinery and electrical equipment, chemicals and food products.

The trade-weighted most-favoured nation (MFN) tariff rates imposed by DRC on imports from African countries range from a low of 5% for Libya to as high 20% for Algeria.¹² DRC is part of regional economic communities (RECs) in Africa: the Economic Community of Central African States (ECCAS), the Common Market for East and Southern Africa (COMESA) and the Southern African Development Union (SADC). DRC also became a member of the East African Community (EAC) in April 2022. However, it is yet to offer any preferential tariffs to COMESA and SADC (see Tralac, 2021). Meanwhile, DRC deposited its instrument of ratification with the EAC Secretary General in July 2022 (EAC, 2022).

AHS is defined by the World Integrated Trade Solution (WITS) database as the lowest existing preferential tariff rates or applied MFN tariffs. Figure 7 shows the top 15 imports by DRC from Africa, which account for more than half of its imports from the continent. It also shows that the AHS imposed by DRC (in this case, AHS will be the applied MFN tariffs) on imports from African countries are broadly like AHS imposed on imports from the rest of the world. Since the country does not offer any preferential treatment to any country, this outcome was expected.

However, as part of the AfCFTA, tariffs will need to be progressively liberalised in stages, apart from ‘sensitive’ and ‘exclusion list’ products. Tariffs will be liberalised (to zero) for 90% of tariff lines over a period of 10 years for least developed countries (LDCs) like the DRC and five years for non-LDCs (see Hartzenberg, 2023). Hence, DRC will need to harmonise and internalise tariff schedules as well as standards across its three RECs and AfCFTA.

Figure 7 Effectively applied tariff rates (AHS) on DRC’s top imported products from Africa and the rest of the world, 2019 (%)



Source: WITS database.

Non-tariff measures (NTMs), including sanitary and phytosanitary standards, technical barriers to trade, pre-shipment inspection and price and quality control –

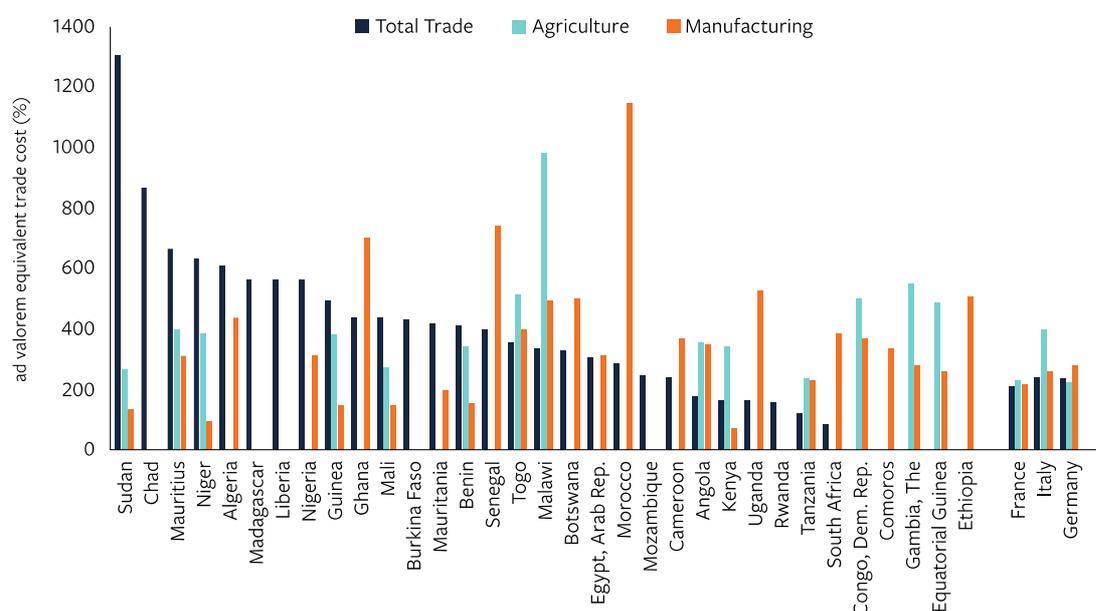
¹² Based on WITS database.

ranging from 60 NTMs to 768 NTMs imposed by Niger and Mauritius, respectively¹³ – also affect DRC’s imports from other African countries. This implies that NTMs that continue to exist are preventing trade from reaching its maximum capacity. It would thus be vital to address these NTMs under the AfCFTA to boost potential trade with these regional partners (IMF, 2020; Bouët et al., 2021).

Nevertheless, the number of NTMs does not indicate the magnitude of restrictiveness on trade. Figure 8 instead shows ad valorem equivalent¹⁴ trade costs that incorporate not only international transport costs and tariffs but also other components, including costs associated with differences in languages, currencies and cumbersome import or export procedures.¹⁵ It also shows the ad valorem equivalent¹⁶ trading costs between DRC and respective trading partners on average in 2015–2018.

Based on this measure, trade between DRC and Sudan involves additional costs amounting to about 1425% of the value of the goods, compared with when these two countries trade goods within their borders. In other words, trading with Sudan is about 14 times more expensive than trading within its borders (and vice versa).¹⁷ The data also suggest that, with the exception of 11 African countries including Zambia, Tanzania and South Africa, DRC’s bilateral trading costs are higher with most African partners than with those outside the region (e.g. China, the UK, the US), presenting both a challenge and an opportunity to increase trade facilitation within the continent, a role likely to be played by the AfCFTA.

Figure 8 Bilateral ad valorem trade costs between DRC and respective partners (% , average 2015–2018)



Source: World Bank database.

¹³ Authors’ computations based on TRAINS database, accessed September 2021.

¹⁴ Or as a proportion (%) of the estimated value of the goods.

¹⁵ This measure, developed by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the World Bank in 2017, includes all costs involved in trading goods internationally with another partner (i.e. bilaterally) relative to those involved in trading goods domestically.

¹⁶ Or as a proportion (%) of the estimated value of the goods.

¹⁷ See Arvis et al. (2011) for a full discussion of the methodology.

3.2 Status of DRC's AfCFTA implementation

As of February 2023, 54 out of the 55 African countries (except Eritrea) had signed the AfCFTA and 46 countries had deposited their instruments of ratification to the African Union (AU) (Tralac, 2023). DRC signed the AfCFTA in March 2018 and approved the treaty in April 2021 but only deposited its instrument of ratification with the AU in February 2022, becoming the 44th signatory country to do so.

Countries ratifying the agreement can trade with each other based on their tariff concessions and rules of origin. As of January 2022, 87.7% of tariff lines had been agreed, with tariff lines pending in textiles, automotives, sugar and tobacco (AU, 2022a). Negotiations are ongoing, with 46 countries having submitted their provisional schedules of tariff concessions as of February 2023 (AU, 2023).

With the adoption of the AfCFTA, tariffs on good originating from other African countries will also be progressively liberalised in stages, barring products from the 'sensitive' and 'exclusion' lists. Tariffs will be liberalised (to zero) for 90% of tariff lines over a period of 10 years for LDCs (least developed countries, including DRC), five years for non-LDCs and 15 years for six selected countries¹⁸ (see Hartzenberg, 2023). Sensitive products shall not exceed 7% of total tariff lines, while the exclusion list shall not exceed 3% of total tariff lines with an intra-Africa import value limit of not more than 10% (ibid.).

There have been preparatory and awareness activities conducted at the national, regional and continental level. At the continental level, the AfCFTA Secretariat Guided Trade Initiative (GTI) was announced during the Ninth Meeting of the AfCFTA Ministers of Councils in July 2022, and took effect in October 2022. Eight countries¹⁹ have been participating in the GTI, but DRC is not among them (yet). The GTI aims to (i) allow commercially meaningful trading under the AfCFTA; (ii) test the operational, institutional, legal and trade policy environment under the AfCFTA; and (iii) send an important positive message to the African economic operators (AU, 2022b). The products earmarked for trade under the GTI include ceramic tiles, batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits and sisal fibre, among others, aligned with the AfCFTA focus on value chain development (AU, 2022c). While the GTI needs to cover more products and countries, this is nonetheless a positive step in generating longstanding business relations, especially among countries in the continent with weaker trade links (Mendez-Parra, 2022).

A new World Bank report has investigated the potential country impact of AfCFTA through FDI (Echandi et al., 2022). The report considers two different scenarios. The first, referred to as the 'AfCFTA FDI broad scenario', considers the anticipated benefits that would come from an increase in FDI. The second, the 'AfCFTA FDI deep scenario', explores the additional gains that could be achieved if the members of AfCFTA were to expand the agreement to include greater harmonisation in areas such as investment policy, competition, e-commerce and IPR.

This report suggests that the highest AfCFTA gains in terms of an increase in inward FDI will be in DRC. Under the AfCFTA FDI broad scenario, implementation of the AfCFTA will increase DRC's inward FDI stock by \$18.9 billion, a 207.9% increase from the 2017 baseline scenario of \$9.1 billion. Under the AfCFTA FDI deep scenario, inward FDI is expected to increase by \$26.1 billion (by 286.6%) in 2035. Compared with the baseline scenario, DRC is also expected to have gains

¹⁸ Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe.

¹⁹ Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia.

through increases in wages (18.5%), real income (by 9.8–13%) and labour mobility (by 4.6%) (Echandi et al., 2022).

Various trade and development experts have explained that AfCFTA could help DRC play a critical role in developing regional value chains in manufacturing and agro-processing industries by supplying key mineral and agricultural products to the continent. Its unique geographical position also means it could be a gateway to link the three regional economic blocs to the rest of Africa, especially since DRC imports approximately a quarter of all machinery exported by African nations (Burger, 2021). DRC could also facilitate the creation of economic corridors across its borders with nine other regional partners that could lead to lower transport costs if complemented by better transport infrastructure and improved border control practices. This would improve access to markets, reduce input costs and create regional production synergies for a more prosperous Africa.

At the national level, DRC, in collaboration with international partners, finalised its comprehensive national AfCFTA Implementation Strategy in July 2021, after workshops and consultations with stakeholders from the public sector, private sector, exporters, media, parliament, professional bodies, civil society groups, and women and youth organisations (UNECA, 2021; MCE, 2021). The Strategy envisions that implementation of the AfCFTA would help DRC in diversifying its economy and reach wider market opportunities from the continent. To achieve this, the Strategy identifies eight strategies:

1. increasing AfCFTA awareness among national stakeholders
2. diversifying the economy and promoting entrepreneurship
3. strengthening production capacities for processed goods, as well as supporting infrastructure for trade facilitation
4. developing digital technology and modernisation of the information, communication and technology sector
5. empowering women and youth in harnessing AfCFTA opportunities
6. streamlining institutional and regulatory provisions for the effective application of the AfCFTA Agreement
7. accelerating regional integration process and promoting integration into cross-border value chains
8. establishing a monitoring and evaluation framework and capacity-building for AfCFTA implementation programmes and strategies.

For each of the eight strategies above, the Implementation Strategy identifies specific action plans, baseline and target indicators, main implementing agencies, timelines (e.g. over two years, two to five years and more than five years) and risks. The Strategy also identifies specific DRC products as a priority for exporting under the AfCFTA, including food and agri-food products, cement, wood products, energy resources, rubber, steel and aluminium products, textiles, livestock products and chemicals.

Meanwhile, to protect the local market, the government has excluded the following products covered the AfCFTA: grey cement, clinker, iron bar, wheat and maize flour, brown sugar, palm oil, malt beer and fruit juice drinks. Some threats have also been raised through potential declines in customs revenues, dumping and reduction in the trade surplus with implication for levels of foreign reserves. To help facilitate trading under the AfCFTA and manage risks, the Strategy outlines DRC's framework for institutional, regulatory and policy gap analysis in the context of AfCFTA implementation.

The government of DRC, chair of the AU from February 2021 to February 2022, has advocated for African countries to break the vicious cycle of export dependence on commodities and create value addition by enhancing productive capacities and expanding intra-African trade. This has put DRC at the centre of developing a new plan for the AU. Government efforts will put a particular emphasis on creating automotive regional value chains for DRC by attracting investment from original equipment manufacturers, developing the requisite local infrastructure and designing a national automotive plan to support automotive development, especially for battery and electric vehicles (Ministry of Industry, 2021). This is especially relevant to DRC, which has 70% of the world's cobalt (a mineral used in the manufacturing of lithium-ion batteries).

In November 2022, the AfCFTA Council of Ministers in charge of Trade adopted the AfCFTA protocols on investment, competition and IPR (GMI, 2022). Based on ODI interviews, it is understood that the AU Heads of State noted these protocols in November 2022, and, pending a legal review, they are expected to be formally adopted in February 2023. Following this, the member states will need to ratify these protocols.

Currently, DRC has relevant legislation on competition, IPR and investment. DRC has its 2019 Law on Pricing, Freedom and Competition, and a dedicated Competition Commission (Sorinas et al., 2018). It has the Industrial Property Law of 1982 and the Protection of Copyright and Neighbouring Rights of 1986, and is also a signatory to the World Intellectual Property Organization (WIPO) and the World Trade Organization (WTO), although the enforcement of IPR regulations is virtually non-existent (USDoS, 2022). DRC passed its Investment Code Act in 2002, which provides regulation for foreign investment. DRC is also a member of the International Centre for Settlement of Investment Disputes (ICSID) Convention and of the New York Convention.

To enable DRC's implementation of the AfCFTA, it may need simultaneous efforts to partner with international organisations to address its serious structural challenges (e.g. related to inadequate infrastructure and capacity needs), which impede trading and business operations and effectively constrain the capacity of firms to harness opportunities from the AfCFTA. DRC may also need to increase efforts on integration and adopting commitment at the REC level (e.g. SADC, COMESA), which DRC may leverage as it progresses on developing its AfCFTA negotiations and implementing its strategies.

4 Opportunities and challenges for DRC's trade and investment

Based on the analysis in the previous sections of DRC's macroeconomic performance, trade and investment landscape, and AfCFTA implementation, Table 5 summarises DRC's strengths, weaknesses, opportunities and risks for key stakeholders (e.g. policy-makers, traders/investors, international donors) to consider for DRC to make the most out of trade, investment and the AfCFTA.

Table 5 DRC's strengths, weaknesses, opportunities and risks

Strengths	<ul style="list-style-type: none"> • young and increasingly educated population • free education programme by the government since 2019 • proactive policies to develop regional value chains for automotive industries (especially batteries and electronic vehicles), leveraging DRC's substantial cobalt and copper reserves • membership of several RECs (i.e. EAC, ECCAS, COMESA and SADC) • resilient GDP growth in 2022 at 6.6% despite the Russia–Ukraine war shock, with robust medium-term outlook at annual average of 6.5% growth in 2023–2025 • finalised AfCFTA Implementation Strategy, presented with identified priority products and markets, action plans, targets and timelines
Weaknesses	<ul style="list-style-type: none"> • high incidence of poverty (nearly 75% of population live under \$2.15 PPP a day) • lack of critical road infrastructures and electrification • high levels of informality • low levels of digital readiness (ranks 129th of 131 countries as of 2022) • high levels of perceived corruption, complex taxation and weak enforcement of property rights • high dependence on cobalt and copper ores and their products for exports (95% of goods exports 2015–2020), exposing the economy to global price shocks, with implications for household income and fiscal sustainability • low agricultural productivity and diversification • declining importance (as % of GDP) of trade in services • high incidence of non-tariff barriers and other trade costs that inhibit growth of exports and imports • yet to offer tariff preferences or internalise RECs or AfCFTA agreement
Opportunities	<ul style="list-style-type: none"> • strategic geographical location and membership with EAC, ECCAS, COMESA, SADC and AfCFTA to capture the continental market base • adoption of AfCFTA investment protocol may help DRC attract intra-Africa FDI and develop regional value chains in agro-processing, mineral processing and manufacturing (automobile) sector • rising global demand for electric vehicles and electronics batteries, which can be leveraged to attract investment from original equipment manufacturers, developing infrastructure and designing a national automotive plan to boost domestic production • interventions to support exporting of wood products, processed minerals and cocoa beans, in view of increasing world demand for and/or efficiency of DRC in these products

	<ul style="list-style-type: none"> • growing greenfield investment in manufacturing, telecoms, renewable energy (solar and hydro); also 22 agro-industrial parks to attract FDI for agro-processing • potential boost in the agricultural sector that may emerge with the implementation of the government's Agricultural Transformation Agenda launched in 2022
<p>Threats (risks)</p>	<ul style="list-style-type: none"> • external shocks (e.g. protracted Russia–Ukraine war, China slowdown) that may affect global commodity prices and external demand for DRC's main exports, and push domestic inflation (e.g. via high food and fuel prices) • moderate risk of public debt distress • worsening of conflict situation in eastern part of the country • delays in AfCFTA implementation owing to infrastructure and institutional capacity constraints, threats of custom revenue declines and persistent high costs (tariff and non-tariff measures) of intra-African trade

5 Conclusion

DRC is the largest country in sub-Saharan Africa by geographic size, with a strategic location and endowed with natural resources. Yet nearly three-quarters of its population is estimated to be living on less than \$2.15 a day as of 2021. DRC's dependence on mineral exports is also less conducive to the country's economic transformation (e.g. extractives having less value addition and quality job creation opportunities compared with manufacturing) and makes the country vulnerable to volatility in international commodity prices.

The Covid-19 disruptions hurt the DRC's economy but the country rebounded strongly from the pandemic, with 6.2% and 6.1% GDP growth in 2021 and 2022, respectively, outpacing sub-Saharan Africa's 4.6% growth rate. The rebound was primarily driven by high prices of oil and metal exports and recovery of services sector performance. While Russia's invasion of Ukraine has partly benefited DRC, enabling it to generate fiscal revenues from high oil export prices and higher metal prices, spillover effects of the war have been putting pressure on households through high inflation rates and threats of food insecurity. The expected increase in oil production is the main driver of a robust growth outlook at an average of 6.5% over 2023–2025, although downside risks may emerge from global shocks (e.g. a protracted Russia–Ukraine war, China's slowdown) that may affect demand for DRC's exports, and from public spending associated with the conflict situation in the east, with implications for fiscal accounts and debt sustainability.

Trade has played an important role in the DRC economy, making up a share of 52% of GDP on average per year in the past decade. It is a member of several RECs (COMESA, EAC, ECCAS and SADC) and has access to the US AGOA. However, DRC's goods exports are dominated by a few mineral ores such as cobalt and copper ores and their products, together comprising about 95% of total exports from 2015 to 2020. Implementation of the AfCFTA could help DRC diversify its economy, attract FDI and play a critical role in developing regional value chains in manufacturing and agro-processing industries in the continent; and in the process may help improve incomes, create jobs and reduce informality domestically.

DRC has taken positive steps towards its implementation of the AfCFTA, particularly in conducting multi-stakeholder consultations and in finalising its National AfCFTA strategy with identified export products targeted for African markets and specific action plans with clear timelines and targets. To enable DRC's implementation of the AfCFTA, DRC, in partnership with international organisations, may need to address serious structural bottlenecks (e.g. related to inadequate infrastructure, and capacity constraints) that impede trading and business operations and effectively constrain firms' capacity to harness opportunities from the AfCFTA. DRC may also need to increase efforts on integration and adopting commitments at the REC level (e.g. SADC, COMESA), which it may leverage as it progresses in its AfCFTA negotiations and implementation.

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