

# African Continental Free Trade Area

## Questions & Answers

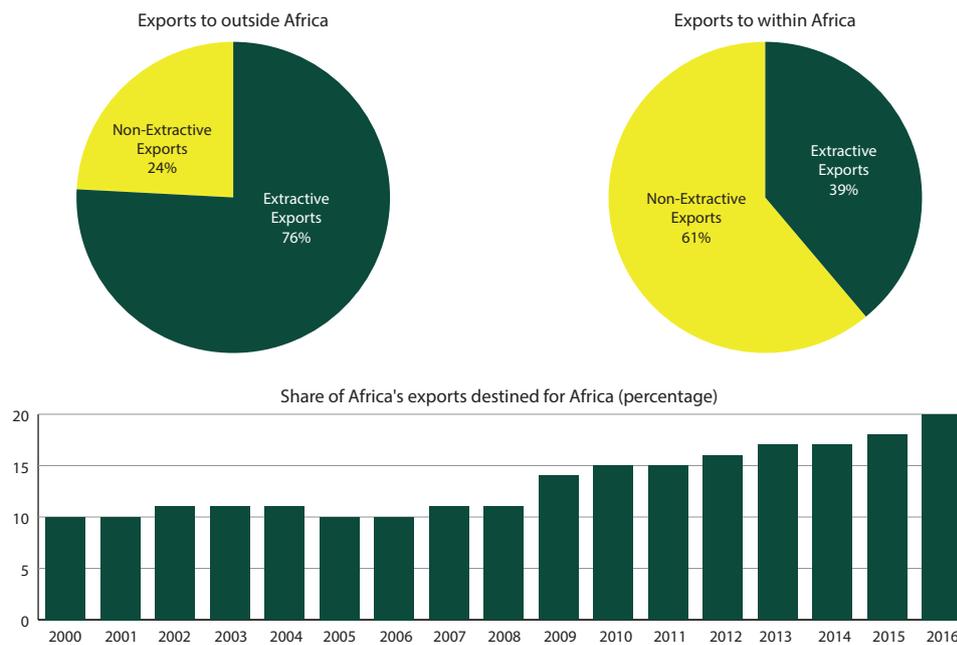
Compiled by the African Trade Policy Centre (ATPC)  
of the Economic Commission for Africa (ECA)  
in association with the African Union Commission

### **1. How can the African Continental Free Trade Area provide business opportunities that will enhance industrialization in Africa in line with Agenda 2063: The Africa We Want?**

- The African Continental Free Trade Area (AfCFTA) will cover a market of 1.2 billion people and a gross domestic product (GDP) of \$2.5 trillion, across all 55 member States of the African Union. In terms of numbers of participating countries, AfCFTA will be the world's largest free trade area since the formation of the World Trade Organization.
- It is also a highly dynamic market. The population of Africa is projected to reach 2.5 billion by 2050, at which point it will comprise 26 per cent of what is projected to be the world's working age population, with an economy that is estimated to grow twice as rapidly as that of the developed world.
- With average tariffs of 6.1 per cent, businesses currently face higher tariffs when they export within Africa than when they export outside it. AfCFTA will progressively eliminate tariffs on intra-African trade, making it easier for African businesses to trade within the continent and cater to and benefit from the growing African market.
- Consolidating this continent into one trade area provides great opportunities for trading enterprises, businesses and consumers across Africa and the chance to support sustainable development in the world's least developed region. ECA estimates that AfCFTA has the potential both to boost intra-African trade by 52.3 per cent by eliminating import duties, and to double this trade if non-tariff barriers are also reduced.

### **2. Why does intra-African trade drive sustainable growth and jobs?**

- Africa's industrial exports are forecast to benefit most from AfCFTA. This is important for diversifying Africa's trade and encouraging a move away from extractive commodities, such as oil and minerals, which have traditionally accounted for most of Africa's exports, towards a more balanced and sustainable export base. Over 75 per cent of Africa's exports outside the continent were extractives from 2012 to 2014, while less than 40 per cent of intra-African trade were extractives in the same period.

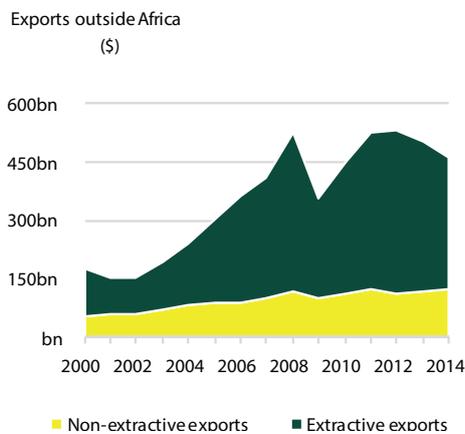
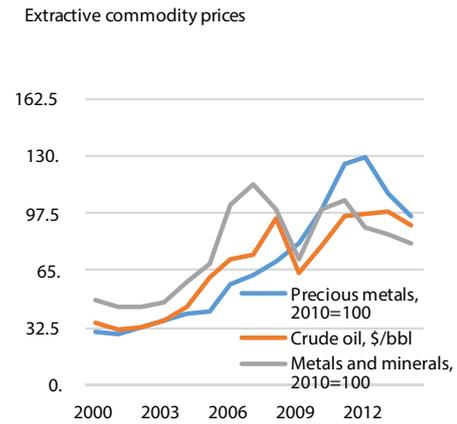
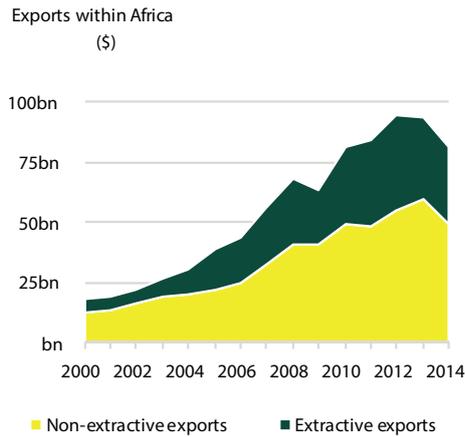


Source: Figures I and II: Extractive and Non-Extractive exports: CEPII-BACI trade dataset, three-year averaged exports (2012-2014), extractive exports include petroleum oils, gas, non-ferrous metals, metalliferous ores and metal scrap, crude fertilizers and minerals, coal, coke and briquettes, and the remaining precious metals in HS 71, uranium, and the basic iron products of HS7201–HS7206. Figure III: Intra-African trade: IMF Direction of Trade Statistics.

- The great risk with products like oil and minerals is their volatility. The fiscal and economic fate of too many African countries relies on the vicissitudes of these product prices. Using AfCFTA to pivot away from extractive exports will help to secure more sustainable and inclusive trade that is less dependent on the fluctuations of commodity prices.
- Perhaps most importantly, AfCFTA will also produce more jobs for Africa’s bulging youth population. This is because extractive exports, on which Africa’s trade is currently based, are less labour-intensive than the manufactures and agricultural goods that will benefit most from AfCFTA. By promoting more labour-intensive trade, AfCFTA creates more employment.

### 3. How does AfCFTA benefit small and medium-sized enterprises?

- Small and medium-sized enterprises are key to growth in Africa. They account for around 80 per cent of the region’s businesses. These businesses usually struggle to penetrate more advanced overseas markets, but are well positioned to tap into regional export destinations and can use regional markets as stepping stones for expanding into overseas markets at a later point.
- Another way in which small and medium-sized enterprises can benefit is by AfCFTA making it easier to supply inputs to larger regional companies, who then export. Before exporting cars overseas, for example, large automobile manufacturers in South Africa source inputs, including leather for seats from Botswana and fabrics from Lesotho, under the preferential Southern African Customs Union trading regime.



Source: Figure IV: Exports outside Africa: ECA calculations using CEPII-BACI trade dataset. Figure V: Extractive commodity prices: World Bank commodities market data. Figure VI: Exports within Africa: ECA calculations using CEPII-BACI trade dataset.

#### 4. What's in AfCFTA for Africa's women?

- Analyses of the impact of AfCFTA at the household level suggest that the effect between male and female headed households is broadly quite balanced; both gain by differing degrees in different countries. However, women in particular can benefit from improvements to the challenges they face as informal cross-border traders.
- Women are estimated to account for around 70 per cent of informal cross-border traders in Africa. When engaged in such an activity, women are particularly vulnerable to harassment, violence, confiscation of goods and even imprisonment. By reducing tariffs, AfCFTA makes it more affordable for informal traders to operate through formal channels, which offer more protection. This can be further enhanced by simplified trading regimes for small traders, such as the Simplified Trade Regime in the Common Market for Eastern and Southern Africa (COMESA), which provides a simplified clearing procedure alongside reduced import duties that provide particular help to small-scale traders.

**5. Africa comprises a range of countries from those large and more developed, to those small and less developed. How can it be ensured that all benefit from a win-win AfCFTA?**

African countries have a diversity of economic configurations and will be affected in different ways by AfCFTA. Nevertheless, the benefits from AfCFTA are widespread.

- While African countries that are relatively more industrialized are well placed to take advantage of the opportunities for manufactured goods, less-industrialized countries can benefit from linking into regional value chains. Regional value chains involve larger industries sourcing their supplies from smaller industries across borders. AfCFTA makes the formation of regional value chains easier by reducing trade costs and facilitating investment.
- Agricultural countries can gain from satisfying Africa's growing food security requirements. The perishable nature of many agricultural food products means that they are particularly responsive to improvements in customs clearance times and logistics that are expected of AfCFTA.
- The majority of African countries are classified as resource rich. Tariffs on raw materials are already low and so AfCFTA can do little to further promote these exports. However, by lowering intra-African tariffs on intermediates and final goods, AfCFTA will create additional opportunities for adding value to natural resources and for diversifying into new business areas.
- The cost of being landlocked includes higher costs of freight and unpredictable transit times. AfCFTA provides particular benefits to these countries: in addition to reducing tariffs, the AfCFTA is set to include provisions on trade facilitation, transit and customs cooperation.

It will nevertheless be vital that AfCFTA is supported with accompanying measures and policies.

- Less-industrialized countries can benefit from the implementation of the programme for the Accelerated Industrial Development of Africa; domestic investments in education and training can ensure the necessary complementary skills.
- Implementation of the Africa Mining Vision can complement AfCFTA, by helping resource-based economies to strategically diversify their exports into other African markets.
- The Boosting Intra-African Trade (BIAT) Action Plan is the principal accompanying measure for AfCFTA. It outlines the areas in which investments are required, such as trade information and access to finance, to ensure that all African countries can benefit from AfCFTA.

**6. How can AfCFTA contribute to the achievement of the 2030 Agenda for Sustainable Development?**

- AfCFTA is a flagship project of Agenda 2063 of the African Union — Africa's own development vision. It was approved by the African Union Summit as an urgent initiative whose immediate implementation would provide quick wins, impact

on socioeconomic development and enhance confidence and the commitment of Africans as the owners and drivers of Agenda 2063.

- The cumulative effect of AfCFTA is to contribute to the achievement of the United Nations 2030 Agenda, in particular, to the Sustainable Development Goals, from targets for decent work and economic growth (Goal 8) and the promotion of industry (Goal 9), to food security (Goal 2) and affordable access to health services (Goal 3).
- By supporting African industrialization and economic development, AfCFTA can also help to reduce the continent's reliance on external resources. This would allow Africa to better finance its own development, which is recognized under Goal 17.
- Of utmost importance, however, is Goal 1 and keeping the pledge that "no one will be left behind... starting with the furthest behind first". For this, it is crucial that Governments across Africa implement measures to accompany AfCFTA, such as the African Union's Boosting Intra-African Trade Action Plan, but also that the African private sector step up to invest in, and take advantage of, the opportunities arising from AfCFTA.

### 7. What has been achieved in AfCFTA negotiations so far?

- Negotiations were launched by the African Union Heads of State and Government in June 2015. By late 2017, the intensity of negotiations had escalated, culminating in the drafting of the agreement itself.
- In early March 2018, the negotiating forum met for the tenth time to finalize outstanding matters and conclude legal scrubbing in preparation for the signature of the agreement on 21 March 2018. The outstanding matters included agreeing to a dispute settlement mechanism and finalizing several annexes to the protocol on goods. The negotiating forum also agreed a Transition and Implementation Work Programme to finalize offers for goods and services, and to prepare product-specific rules of origin, as part of the built-in agenda.
- Thereafter, negotiations will progress to further deepening trade in Africa with "Phase two" negotiations expected to begin in late 2018. Phase two will focus on provisions for investment, competition and intellectual property rights. A facilitative environment for e-commerce is also being mooted as a possible additional phase-two topic.

### CFTA milestone timeline



### **8. What does AfCFTA mean in concrete terms?**

- African businesses, traders and consumers will no longer pay tariffs on a large variety of goods that they trade between African countries;
- Traders constrained by non-tariff barriers, including overly burdensome customs procedures or excessive paperwork, will have a mechanism through which to seek the removal of such burdens;
- Cooperation between customs authorities over product standards and regulations, as well as trade transit and facilitation, will make it easier for goods to flow between Africa's borders;
- Through the progressive liberalization of services, service suppliers will have access to the markets of all African countries on terms no less favourable than domestic suppliers;
- Mutual recognition of standards, licensing and certification of service suppliers will make it easier for businesses and individuals to satisfy the regulatory requirements of operating in each other's markets;
- The easing of trade between African countries will facilitate the establishment of regional value chains in which inputs are sourced from different African countries to add value before exporting externally;
- To protect against unanticipated trade surges, State Parties will have recourse to trade remedies to ensure that domestic industries can be safeguarded, if necessary;
- A dispute settlement mechanism provides a rule-based avenue for the resolution of any disputes that may arise between State Parties in the application of the agreement;
- Upon conclusion, the "Phase two" negotiations will provide a more conducive environment for recognizing African intellectual property rights, facilitating intra-African investment, and addressing anti-competitive challenges.

## Continental Free Trade Area: key features

Agreement establishing the African Continental Free Trade Area	Protocol on Trade in Goods	<ul style="list-style-type: none"> <li>• Elimination of duties and quantitative restrictions on imports</li> <li>• Imports shall be treated no less favourably than domestic products</li> <li>• Elimination of non-tariff barriers</li> <li>• Cooperation of customs authorities</li> <li>• Trade facilitation and transit</li> <li>• Trade remedies, protections for infant industries and general exceptions</li> <li>• Cooperation over product standards and regulations</li> <li>• Technical assistance, capacity-building and cooperation</li> </ul>
	Protocol on Trade in Services	<ul style="list-style-type: none"> <li>• Transparency of service regulations</li> <li>• Mutual recognition of standards, licensing and certification of services suppliers</li> <li>• Progressive liberalization of services sectors</li> <li>• Service suppliers shall be treated no less favourably than domestic suppliers in liberalized sectors</li> <li>• Provision for general and security exceptions</li> </ul>
	Protocol on Dispute Settlement	<ul style="list-style-type: none"> <li>• To be agreed</li> </ul>
	Phase 2 negotiations	<ul style="list-style-type: none"> <li>• Intellectual property rights</li> <li>• Investment</li> <li>• Competition policies</li> </ul>

### 9. What institutional arrangements are needed for the effective implementation of AfCFTA?

- Responsibility for coordinating the implementation of AfCFTA agreement will be with AfCFTA secretariat, which will form an autonomous institutional body within the African Union system with an independent legal personality, akin to an agency of the African Union. It shall work closely with the African Union Commission and its departments and the Commission shall provide the necessary transitional support until AfCFTA secretariat is fully operational. The funds of the secretariat shall come from the overall budget of the African Union, and its headquarters, structure, roles and responsibilities shall be determined by the Council of Ministers responsible for trade.
- Complementary structures to AfCFTA will include the African Business Council, which will aggregate and articulate the views of the private sector, as well as a Trade Observatory, which will ensure effective monitoring and evaluation.
- The Protocol on Rules and Procedures for Settlement of Disputes elaborates the institutional arrangements for the Dispute Settlement Body.
- The regional economic communities (RECs) will remain important implementing partners and be represented in an AfCFTA Committee of Senior Trade Officials. Their role will include coordinating implementation and measures for resolving non-tariff barriers, harmonizing standards and monitoring implementation.
- At the national level, it will be critical to have an AfCFTA strategy and dedicated institutional arrangements in place to carry out implementation and fully utilize the opportunities of AfCFTA.

### **Role of RECs in AfCFTA**

- State Parties that are members of other RECs that have attained among themselves higher levels of regional integration than under AfCFTA will maintain such higher levels among themselves.
- RECs are to contribute to the institutional structure of AfCFTA through coordinating implementation at the regional level and, in an advisory capacity, through their respective seats on AfCFTA Committee of Senior Trade Officials.
- RECs that have achieved the level of integration necessary to form customs unions will submit common market access offers for trade in goods.
- In the long run, as the level of continental integration deepens, the trade-related functions of RECs are expected to be consolidated at the continental level, in line with the eighteenth ordinary session of the Assembly of the African Union decision for “consolidation of the Tripartite and other regional FTAs into a Continental Free Trade Area”.

### **National AfCFTA strategies**

To fully utilize the opportunities of AfCFTA, each State Party is recommended to develop an AfCFTA Strategy - complementary to the broader trade policy of each respective State Party – that identifies for that particular country the key trade opportunities, current constraints, and steps required to take full advantage of the continental African market. Key features may include:

- Export review: covering existing intra-African and global trade performance within the context of any existing trade policy framework;
- Opportunity sectors: identifying AfCFTA export potential – based on a statistical analysis of AfCFTA market access offers and existing trade potential – and prioritizing target sectors;
- Constraints to target sectors: analysis of the constraints faced by exporters in target sectors in their intra-African trade;
- Strategic actions for boosting identified target sectors: including solutions to identified constraints, approaches to attracting sector investment, the prioritization of low-cost actions, and the allocation of institutional responsibilities for strategy implementation.

## **10. How can business shape the implementation of AfCFTA?**

AfCFTA is a tool for private enterprise in Africa. It succeeds when it is leveraged by private businesses, traders and consumers to trade across the continent.

**(1) Awareness.** Businesses need to be fully sensitized by government on the potential of AfCFTA. On this basis they can then establish new trade linkages or push their governments to negotiate for these opportunities if they are not already covered by the negotiated substance of the agreement.

**(2) Partnerships.** Partnering with governments by business is essential to ensure and facilitate investment in the accompanying measures necessary to complement AfCFTA. This includes intra-African trade infrastructure as well as supplying trade finance, trade information and logistics services. Such provisions will help

businesses recognize and realize the trading opportunities available through AfCFTA.

**(3) Private sector involvement.** More active involvement of the private sector in terms of advocacy is required in order to ensure direct input into the AfCFTA negotiating institutions to ensure that AfCFTA is shaped to assist the business community to trade in Africa.

AfCFTA is an opportunity for development in Africa. But it must be wielded by private enterprise. Through doing so, businesses can benefit from the great opportunities that the continent has to offer, and contribute to its sustainable growth and development.

### **11. What next steps remain to bring AfCFTA agreement into effect?**

- State Parties must develop and submit schedules of concessions for trade in goods. These details, for each State Party or – as the case may be - customs union, the particular 90 per cent of products that are to be liberalized for each State Party, as well as the sensitive products that are to be liberalized over a longer time period and the excluded products that are to be temporarily exempted from liberalization.
- A related complement to the schedules of concessions for trade in goods is the list of product-specific rules of origin which, alongside the general rules of origin, will enable the application of preferences under AfCFTA. The list of product-specific rules of origin is being developed as part of AfCFTA built-in agenda.
- For trade in services, scheduling will call for a deep review of the regulatory framework of the identified sectors, in view of preparing, subsector by subsector, mode by mode, the initial market access offers, which will then be subject to negotiations.
- AfCFTA will then enter into force after the deposition of the 22<sup>nd</sup> instrument of ratification with the Chairperson of the African Union Commission.
- A conference of State Parties will meet to adopt the structure and organigram of AfCFTA secretariat, the staff rules and regulations, and the secretariat budget.
- AfCFTA secretariat will be established in a host country to be decided and approved by the Assembly.
- AfCFTA committees will then convene and begin facilitating the implementation of the agreement, including the provision of capacity-building to assist State Parties with domesticating implementation.







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