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In January 2012, the African Union (AU) announced its intention to embark on the AfCFTA as originally envisioned in the 1991 Abuja Treaty. The AfCFTA was signed in 2018, ratified in May 2019 and officially launched in January 2021. The main aim of the AfCFTA is to utilise trade as an engine of growth and sustainable development by:

- creating a single continental market for goods and services, with free movement of business persons and investments
- boosting intra- and inter-REC trade and intra-Africa trade
- enhancing competitiveness and supporting economic transformation, and
- promoting industrial development, through the elimination of tariff and non-tariff barriers to trade in goods and services.

The agreement presents a unique opportunity to create an integrated, continent-wide market. It is a vital step towards building the 'Africa we want' in line with the aspirations of the AU Agenda 2063.[1]

The negotiations on the provisions and operationalisation of the AfCFTA are scheduled to take place in three phases:

- Phase I covers trade in goods and services, based on reciprocal concessions and subsequent agreements between state parties. The intention is that this will last for a limited period only.[2]
- Phase II covers intellectual property rights, investment and competition policy.
- Phase III covers e-commerce.

Each phase is captured in a legally binding protocol that forms part of the AfCFTA Agreement on adoption. Negotiations to finalise Phase I have been concluded and Phase II was planned to be concluded by the end of 2022, but still not finalised. And phase III negotiations are due to begin when phase II is finalised.

The plan is that by 2034 Africa will have achieved tariff liberalisation of 97% of goods in a staged manner. In Phase I, member states agreed to remove 90% of tariff lines (fully liberalised—zero tariff rate). The remaining 10% of tariff lines are divided into two categories: 7% are designated sensitive products and they will have a 10% tariff rate, and 3% of tariff lines are excluded from liberalisation entirely - to allow flexibilities for State Parties with particular sensitivities but will be subject to review every five years.[3]

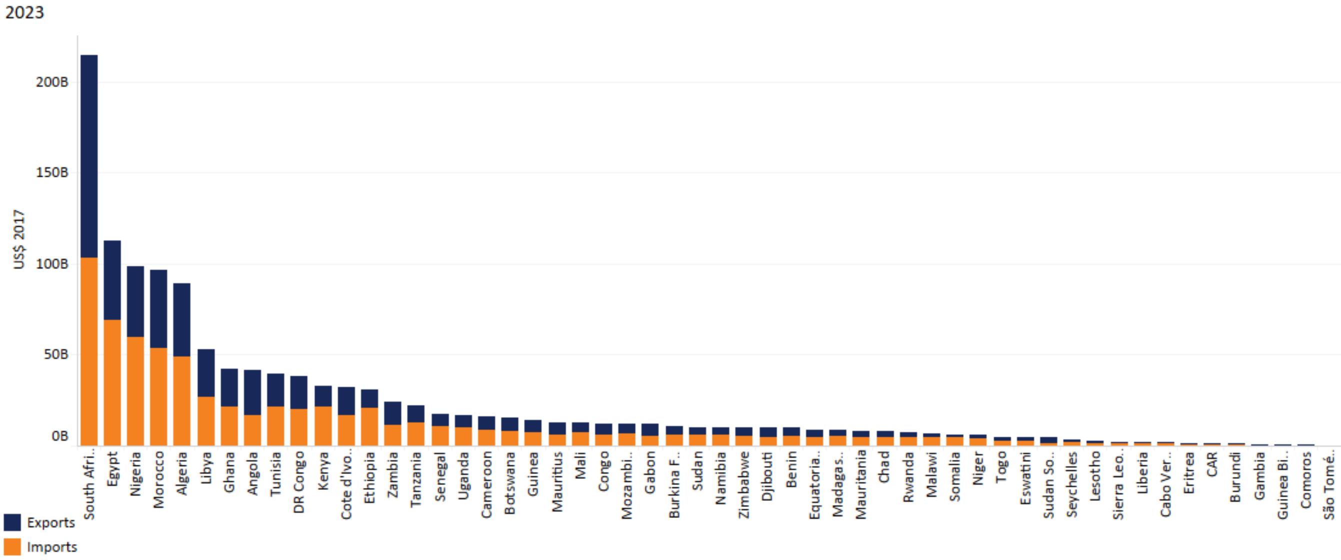
Much work remains, however, as the agreement is essentially a framework to ultimately eliminate tariff and non-tariff barriers, liberalise trade in services and cooperate in matters of investment, intellectual property rights, and so on.[4] In accordance with the AfCFTA, an African Trade Observatory (ATO) will collect and analyse trade and trade-related data, establish a database for African trade, monitor implementation and evaluate the implementation process and the impact of the AfCFTA and the Action Plan for Boosting Intra-Africa Trade. It will also have a capacity-building function to equip national governments and businesses to analyse and use trade data.[5] Trade facilitation is funded by the AU, member states and external investors, and will address transport infrastructure, customs clearance, technical assistance and capacity building.[6]

The AfCFTA enjoys considerable political support. Evidence in the literature also supports the view that the elimination of intra-continental barriers to trade can unlock economic potential. However, the heterogeneity of African countries could hinder member states' engagement and cooperation in implementing a RTA. African countries vary in size, level of economic development and diversification. For example, in terms of size, as of 2020, eight countries7 had populations of less than 1.5 million and only three countries[8] had populations of over 100 million.

The AfCFTA also includes member states with much bigger levels of income disparity than in blocs such as the Association of Southeast Asian Nations (ASEAN) and the Caribbean Community (CARICOM).[9] The experience elsewhere, particularly in Europe, is that the inclusion of member states at different levels of development tends to benefit the more advanced members, while the weaker ones fall further behind. Thus, the AfCFTA could bring additional competition to domestic markets leading to firm closures and possibly higher unemployment rates as investments may shift towards more competitive economies. This is particularly true for the 33 least developed countries (LDCs)[10] in Africa that are part of the negotiations towards the AfCFTA.

For example, under the AfCFTA, the export potential is highly concentrated in three major exporters, South Africa, Morocco and Egypt. In contrast, the 33 LDCs only account for just 16% of the export potential.[11] In addition, Egypt, Nigeria and South Africa together account for over 50% of the continent's cumulative GDP, while the six sovereign island nations (Comoros, Madagascar, Mauritius, Seychelles, Cabo Verde and São Tomé and Príncipe) collectively account for just 1%.[12]

Chart 4: Export and import value per African country in the Current Path forecast, 2019 and 2043



Source: IFs 8.13 initialising from World Bank and OECD national accounts data

The 33 LDCs negotiating the agreement are small in scale, remote and have low productivity levels. They have weak domestic production capacities relative to firms in non-LDCs and often incur structural disadvantages related to natural endowments and geographic location. For example, 14 of the 33 LDCs are landlocked. Furthermore, trade reforms in Africa's LDCs are associated with the relatively slow implementation of regional agreements due to poor or weak institutional capacities.[13] As a result, the AfCFTA will most likely create winners and losers across countries and sectors.

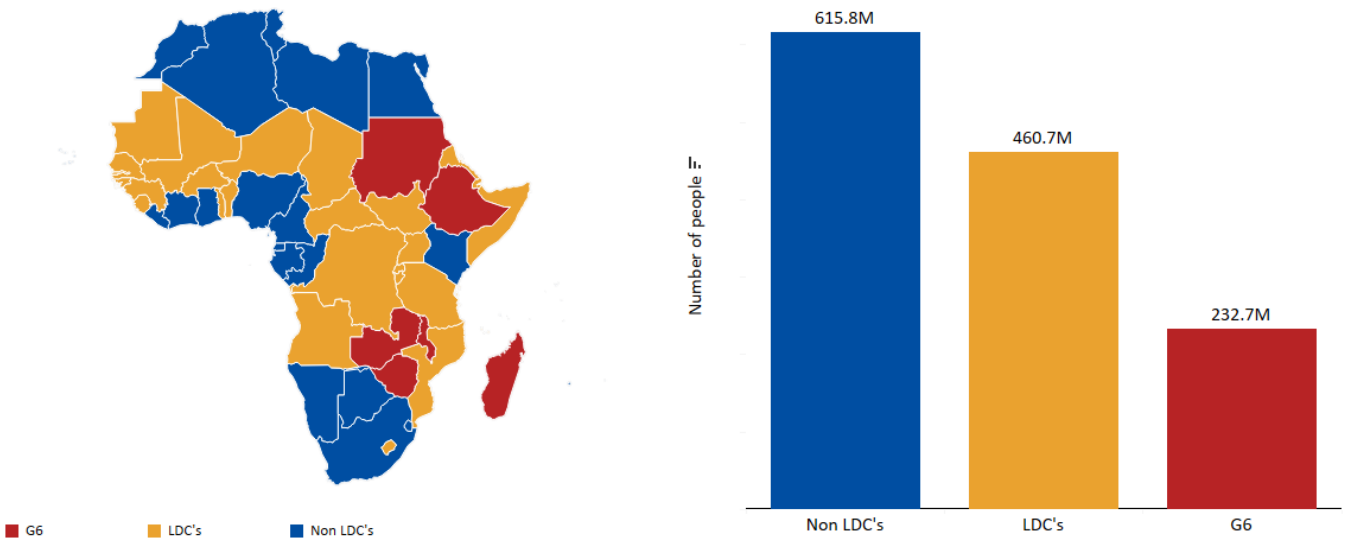
The implementation of the AfCFTA could be accompanied by substantial costs during the initial years, particularly for the LDCs. The benefits of eliminating their intra-Africa tariffs can accrue slowly over the years and even decades. These costs include fiscal revenue losses, higher income inequality and higher unemployment, mostly if the trade openness is not accompanied by reforms to make labour markets more flexible and employees more mobile to grasp new opportunities elsewhere within AfCFTA.[14] Not all member states are committed to the free movement of labour concept. At the signing of the AfCFTA and the Kigali Declaration, only 30 states signed the Protocol on Free Movement of Persons which seeks to establish a visa-free zone within AfCFTA. Major AfCFTA signatories Nigeria and South Africa have not signed the Protocol.[15]

Import tariffs remain an important measure to reduce import competition and so protect domestic industry.[16] Thus, the matter of tariff concessions is a sensitive one for the LDCs, although intra-Africa import tariffs are low relative to extra-trade tariffs. Intra-Africa trade tariff revenue is still an important source of most LDCs' revenue. They would see larger reductions to their government fiscal revenue and, hence, limited capacity to provide public goods and services. For instance, the Central African Republic, Chad, Comoros, and the Democratic Republic of the Congo (DR Congo) are all estimated to depend on intra-Africa tariffs for more than 5% of total government revenue.[17]

The reduction in tariff revenue is expected to arise from trade diversion owing to intra-Africa tariff elimination. Therefore, without exception, many states in the AfCFTA face challenges of creating jobs, developing their industrial sectors and diversifying their production capacity. Agreeing on tariff liberalisation schedules considering such large differences will require steadfast respect for special and differential treatment by all concerned. Due to the countries' different levels of development, differential treatment for the LDCs and the non-LDCs was granted in the AfCFTA tariff negotiations, explained below.

Chart 5: Map of LDCs, non-LDCs and G6 countries

Population by grouping in 2019



Source: World Bank categorisation

However, the AU secretariat should provide additional support and assistance to the LDCs beyond tariff differential timelines. This means that AU cannot bridge the gap alone, private equity, debt finance, and local and regional banks must all play a part. A special group of countries, the so-called Group of 6 (G6) (Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe), also argue that they face specific development challenges and require differential treatment.

The LDCs have 10 years to fully liberalise 90% of the non-sensitive products, while the non-LDCs have five years. The G6 managed to secure a 15-year phase-down period. The LDCs have 13 years to eliminate tariffs on sensitive products and may retain the status quo, starting liberalisation in year six, whereas the non-LDCs have the tariffs in 10 years and also maintain the status quo, starting liberalisation in year six. Both the LDCs and the non-LDCs may exclude 3% of tariff lines, but the excluded products may not account for more than 10% of their total trade (see Chart 6).

Chart 6: Schedule of liberalisation for the tariff on goods

		Tariff reductions		
AfCFTA country classification		90% non-sensitive products	7% sensitive products	3% excluded products
	Non-LDCs	Fully liberalised over five years	Fully liberalised over 10 years (current tariffs can be maintained during first five years – phase down starting in year six)	No cut
	LDCs	Fully liberalised over 10 years	Fully liberalised over 13 years (current tariffs can be maintained during first five years – phase down starting in year six)	No cut
	Group of 6 (G6)	Fully liberalised over 15 years	Not yet determined	Not yet determined

The existing RTAs and RECs act as the building blocks for deeper cooperation or as implementing agencies for the AfCFTA. They are also key AU partners in ensuring stability, peace and security, and crucial in the implementation of the Agenda 2063.[18] To that end the AfCFTA recognises eight RECs. These are:

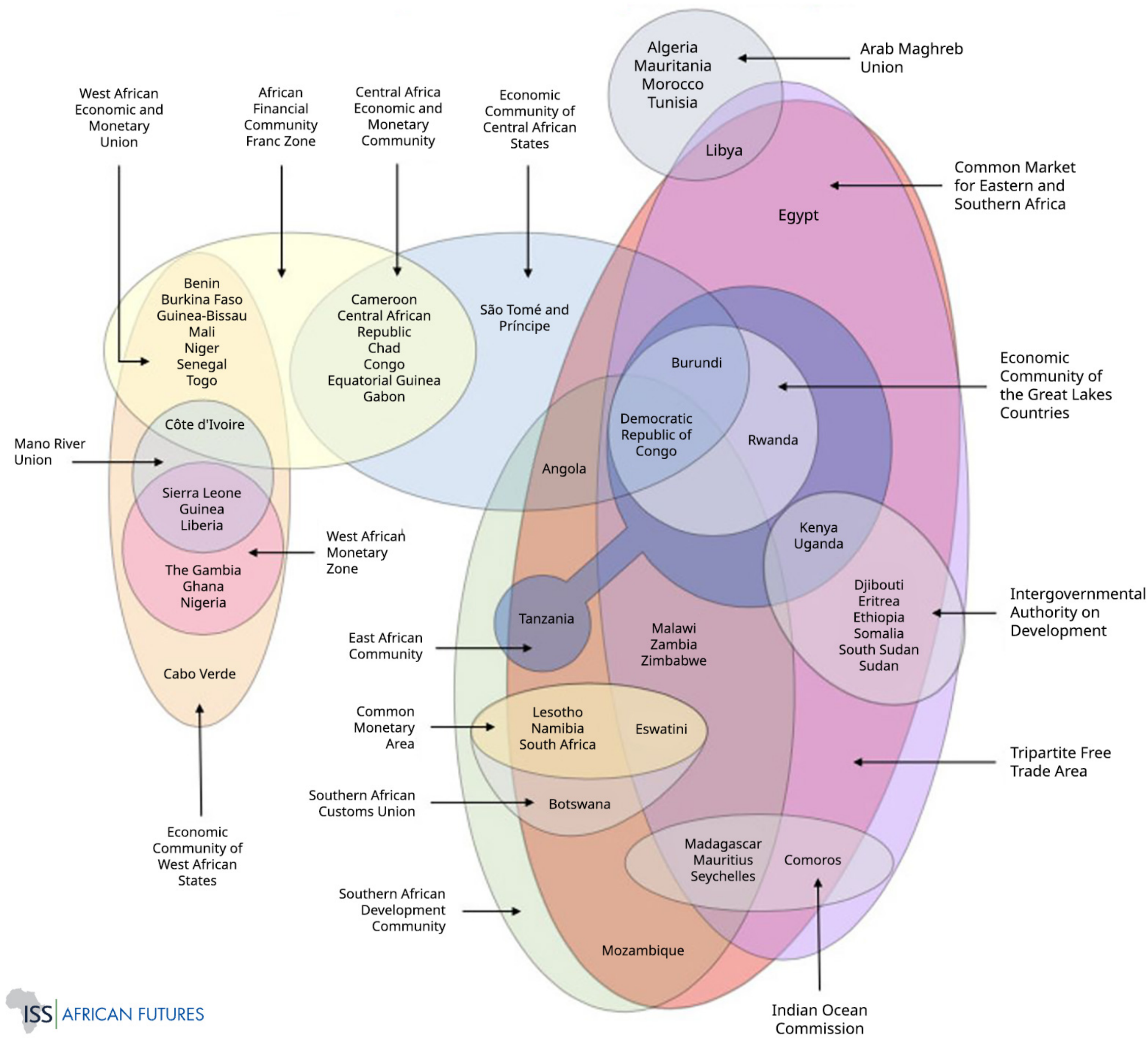
- Arab Maghreb Union (AMU)
- Common Market for East and Southern Africa (COMESA)
- Community of Sahel-Saharan States (CEN-SAD)
- East African Community (EAC)
- Economic Community of Central African States (ECCAS)
- Economic Community of West African States (ECOWAS)
- Inter-governmental Authority on Development (IGAD)
- Southern African Development Community (SADC).

AMU, CEN-SAD, ECCAS and IGAD do not currently have own trade arrangements. In addition, custom unions like the Southern African Customs Union (SACU) will continue in terms of their own legal instruments.

Countries that are in the same customs union or RTA with a common external tariff regime will continue to trade under the agreement and will implement the same liberalisation schedule in the AfCFTA. Therefore, some non-LDCs will liberalise according to the schedule for the LDCs. For instance, the four non-LDCs (Botswana, Eswatini, Namibia and South Africa) in the SACU will implement the LDC liberalisation schedule as Lesotho (a SACU member state) is an LDC. One particular issue in this situation is that South Africa, for example, which is one of the largest and more developed economies in Africa, will be given longer tariff phase-down periods.

Chart 7 shows the web of intra-Africa trade agreements, including eight RECs recognised by the AU. The SACU and the EAC are the continent's oldest regional agreements formed in 1910 and 1919, respectively, and are among the most vibrant and successful RTAs in Africa.

Chart 7: Regional trade agreements in Africa, 2019



By 2019, there were over 15 RTAs in Africa and many states have overlapping memberships. These existing RTAs have to some extent facilitated the increase in intra-Africa trade. However, they underperform as they lack complementary domestic reforms to improve national supply responses and have low implementation levels.

The poor performance of the RTAs is mostly due to high non-tariff barriers such as non-tariff measures (i.e. quotas, embargoes, licences, foreign exchange restrictions, and import deposits), high administration requirements, poor customs procedures, lack of connecting infrastructure, and other trade-related transaction expenses that kept trade costs high. Then there is an absence of strong institutions and associated policies to support the functioning of the RECs.[19] Therefore, to reap the full potential benefits of the AfCFTA, trade integration within RECs should remain a priority. Member states must address the long-standing challenges that negatively affected these RECs if they want the AfCTA to succeed.

What makes the AfCFTA stand out from the existing regional agreements is the depth of political will, the geographical and policy coverage, and the articulation of existing RECs under a single normative umbrella with a dispute settlement mechanism to ensure compliance and enforcement of commitments undertaken. This is a momentous commitment, signalling that each member state is indeed ready to embrace an international rules-based trade and investment system.[20]

The advantages of the AfCFTA have long been recognised, yet real progress never materialised.[21] Neither the 1980 Lagos Plan of Action, which was essentially Africa's response to the World Bank's structural adjustment programmes, nor the treaty establishing the African Economic Community of 1991 (generally known as the Abuja Treaty) previously made much progress.

The African Union Development Agency–New Partnership for Africa's Development (AUDA–NEPAD) provides an overall integration and development framework for the continent, which again assumes regional integration as one of its core objectives. This time, the prospects for progress are more real in the context of the AfCFTA as it presents the best prospects for economic growth, given the advantages of proximity. Intra-Africa trade is far smaller relative to other world regions, and the continent heavily relies on external markets for both its exports and imports. The full implementation of the AfCFTA will be crucial to limit the impact of the current deglobalisation trend in Africa.

Endnotes

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Dr Blessing Chipanda joined the African Futures and Innovation (AFI) programme in January 2023. Before joining the ISS he worked as an assistant lecturer/research assistant at the University of Pretoria, Department of Economics. He is particularly interested in tasks within the wider realm of international trade, development economics, public policy, monetary policy, and econometric modelling. Equally interested in economic and socio-economic activities that impact social welfare. Blessing has a PhD in economics from the University of Pretoria, South Africa.

Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the ISS. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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