An empirical assessment of the African Continental Free Trade Area modalities on goods

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The Economic Commission for Africa (ECA) recently conducted a new economic modelling analysis to assess the implications of the African Continental Free Trade Area (AfCFTA) modalities on trade in goods on African economies.[1] The assessment is based on realistic scenarios in terms of the liberalization of trade in goods implied by the reform. These scenarios were designed using the liberalization schedule agreed under the AfCFTA negotiations to date (see table 1), two distinct liberalization approaches (tariff line approach versus double qualification approach)[2] and three proposed and easily implementable options based on specific criteria to rank products from the most import-sensitive to the least import-sensitive by countries or regions.[3]

Table 1
Schedule of liberalization envisaged under the AfCFTA reform

		Tariff reductions		
		For non-sensitive products	For sensitive products	For excluded products
Country classification	Non-Least Developed Countries	Fully liberalized over 5 years (linear cut)	Fully liberalized over 10 years (linear cut)	no cut
Country classification	Least Developed Countries	Fully liberalized over 10 years (linear cut)	Fully liberalized over 13 years (linear cut)	no cut
Country classification	Group of seven *(i.e., Djibouti, Ethiopia, Madagascar, Malawi, Sudan, Zambia, Zimbabwe)*	85% fully liberalized over 10 years (linear cut); an additional 5% fully liberalized over 15 years (linear cut)	Fully liberalized over 13 years (linear cut)	no cut

Source: AfCFTA negotiation forums.

[1] This is based on the dynamic multi-country multi-sector MIRAGE computable general equilibrium (CGE) model, which relies mainly on the global trade analysis project (GTAP) version 9.2 database and the Market Access Map database with tariff information at the harmonized system six-digit level of products (MAcMap-HS6).

[2] A tariff line approach implies that a minimum proportion of total tariff lines is to be liberalized, whereas a double qualification approach implies that a minimum proportion of total tariff lines, representing not less than the same proportion of total imports, is to be liberalized.

[3] The first option aims at delaying or limiting tariff revenue losses; the second option is designed to promote industrialization in addition to delaying or limiting tariff revenue losses; the third option ensures that industrialization, including green industrialization, is promoted in addition to delaying or limiting tariff revenue losses. For each of the three options, the lists of excluded, sensitive and non-sensitive products are determined by country, except for the East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS) and the Southern African Customs Union (SACU), for which common lists for all member States within each of the four regional groupings are established.

Finalization of modalities on goods

The liberalization approaches and options to classify products into excluded, sensitive and non-sensitive categories are explained in a toolkit on *"African Continental Free Trade Area: Towards the Finalization of Modalities on Goods"* developed by ECA.[4]

Under both the tariff line approach and the double qualification approach, 90 per cent of tariffs are deemed non-sensitive and liberalized early, with the remaining 10 per cent being divided into a share of sensitive products to be liberalized over longer time frames and a relatively smaller share of excluded products to be exempted from any tariff reduction.

A comparison of the various scenarios shows that, although there are pronounced differences across countries and regions due to diverse tariffs and import structures, a tariff line approach (even if extremely ambitious) will result in a relatively limited liberalization of imports, compared to a double qualification approach. This suggests that a tariff line approach for liberalization of goods under the AfCFTA reform could lead to at least three important issues:

(a) If trade liberalization is not sufficiently ambitious, AfCFTA may fail to meet its own guiding principle on substantial liberalization[5] and raise possible challenges within WTO;

(b) Risk to offer less to African counterparts than what has been agreed with the members of the European Union (i.e. approximately 80 per cent of imports liberalized);

(c) Uneven liberalization efforts across countries and regions, as a certain proportion of tariff lines usually results in different shares of imports liberalized.

In other words, a double qualification approach is anticipated to deliver greater and more balanced outcomes for African countries. The ECA analysis also considers a hypothetical scenario with 100 per cent liberalization to assess the incidence of any potential excluded list.

Key results

GDP and exports

Following the implementation of the AfCFTA agreement, and focusing on the sole liberalization of trade in goods, both GDP and exports of Africa would increase, whatever the scenario envisaged. While the overall increase would be relatively modest (i.e. around 1 per cent for GDP and 3 per cent for exports, regardless of the scenario), these hide much more pronounced benefits when it comes to Africa's relations with its African partners. Indeed, the relatively limited overall increase in Africa's total exports is explained by the fact that most African exports (around 83 per cent of total exports)[6] are currently directed towards the rest of the world, when African exports to those countries would slightly decrease under the Agreement.[7]

[4] See https://www.uneca.org/sites/default/files/PublicationFiles/afcfta-towards_the_finalization_of_modalities_on_goods_rev1.pdf.
[5] See item (j) on substantial liberalization under article 5 on "Principles" of the Agreement Establishing AfCFTA.
[6] This is an average figure for the period 2015–2017, based on data from UNCTADStat.
[7] Some African exports to the rest of the world would be replaced by African exports to African partners.

Intra-African trade

AfCFTA will be a game changer for stimulating intra-African trade. It is projected to increase the value of intra-African trade by between 15 per cent (or $50 billion) and 25 per cent (or $70 billion), depending on liberalization efforts, in 2040, compared to a situation with no AfCFTA in place. With the sole removal of tariffs on goods, the share of intra-African trade would increase by nearly 40 per cent to over 50 per cent, depending on the ambition of the liberalization, between the start of the implementation of the reform (2020 was considered to be the tentative date for the modelling exercise) and 2040. [8]

The more ambitious the liberalization of trade, the greater the expansion of intra-African trade. As such, a double qualification approach for liberalizing trade in goods under the AfCFTA reform would produce greater trade-related benefits than a tariff line approach.

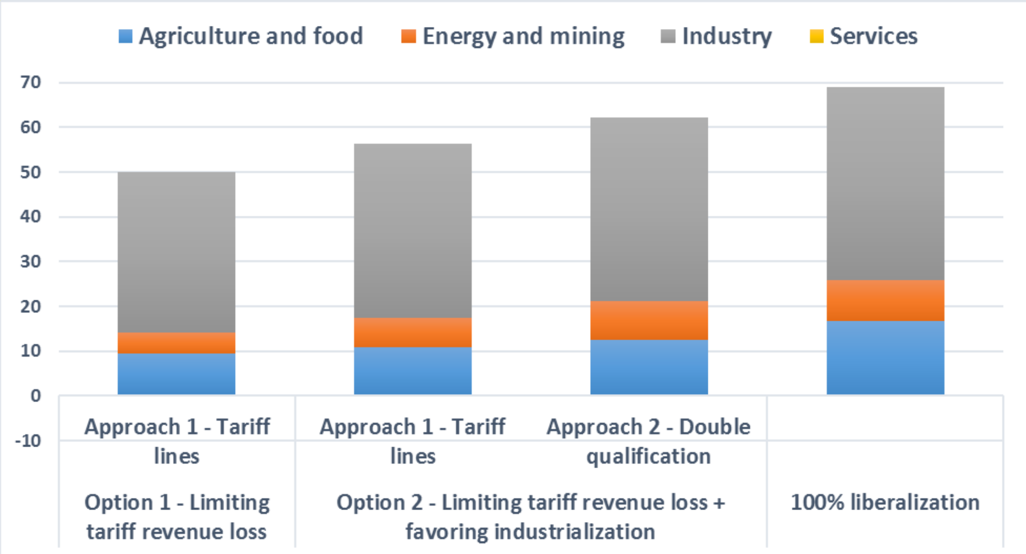
Industrialization

The increase in intra-African trade is most pronounced in industrial sectors, thereby offering invaluable opportunities to industrialize through trade. Intra-African trade in industrial products alone would increase by between about 25 per cent (or $36 billion) and 30 per cent (or $44 billion), depending on the degree of liberalization, in 2040, compared to a situation without AfCFTA. For agriculture and food products, the increase would range between 20 per cent (or $9.5 billion) and 30 per cent (or $17 billion) and it would be between 5 per cent (or $4.5 billion) and 11 per cent (or $9 billion) in energy and mining products.

As far as industrial sectors are concerned, textile, apparel, leather, wood and paper, vehicle and transport equipment, electronics and metals would benefit the most from the AfCFTA reform, in terms of trade expansion. Sugar, vegetables, fruit, nuts, beverages, tobacco, meat and dairy products would obtain the largest trade expansion among agricultural sectors. The following figure illustrates the projected changes in intra-African trade by main sectors under the various scenarios. In addition, it highlights the importance of liberalizing intermediates early on to promote industrialization.

[8] The AfCFTA reform is expected to be fully implemented by 2035. The results, however, are given for the year 2040 as all variables in the model need some time to adjust to implemented shocks (in this case, reductions of tariffs on trade in goods).

Figure
Projected changes in intra-African trade by main sectors for selected scenarios, compared to the baseline without AfCFTA, 2040 (billions of United States dollars)



Source: ECA calculations based on MIRAGE CGE model.

Win–win gains

Small economies requesting special and differential treatment, such as the "group of seven" African nations, namely, Djibouti, Ethiopia, Madagascar, Malawi, the Sudan, Zambia and Zimbabwe, should not fear undertaking ambitious liberalization under the AfCFTA reform as it would generate the greatest benefits to them (see table 2). Furthermore, the ECA analysis demonstrates that least developed countries would experience the largest growth in intra-African trade of industrial products.

Table 2

Projected change in selected African country groups' exports to Africa under selected scenarios, compared to a baseline without AfCFTA, 2040 (Percentage)

		Tariff line approach - Option 1 (limiting tariff revenue loss)	Tariff line approach - Option 2 (limiting tariff revenue loss + favouring industrialization)	Double qualification approach - Option 2 (limiting tariff revenue loss + favouring industrialization)	100% liberalization
2025	**Non-LDCs**	**9**	**12**	**15**	**16**
	LDCs	9	10	12	12
	Ethiopia, Madagascar, Malawi, Zimbabwe	5	7	8	9
2030	**Non-LDCs**	**15**	**18**	**21**	**24**
	LDCs	16	18	20	21
	Ethiopia, Madagascar, Malawi, Zimbabwe	11	16	18	22
2035	Non-LDCs	16	18	**21**	24
	LDCs	**18**	**19**	20	21
	Ethiopia, Madagascar, Malawi, Zimbabwe	13	19	20	**25**
2040	Non-LDCs	16	18	21	23
	LDCs	**17**	19	20	21
	Ethiopia, Madagascar, Malawi, Zimbabwe	14	**20**	**21**	**26**

Source: ECA calculations based on MIRAGE CGE model.

Abbreviation: LDCs, least developed countries.

Welfare benefits

The welfare of Africa would slightly increase with AfCFTA, owing in large part to the significant expansion in intra-African trade and the relatively limited magnitude of tariff revenue loss (ranging between 6.5 per cent (or $8.5 billion) and 9.9 per cent (or $13 billion) depending on the scenario).

Beyond tariff liberalization

Liberalization of trade in services and the removal of non-tariff barriers have not been considered in the latest ECA technical assessment of the AfCFTA owing to lack of data. For that reason, the assessment should not be seen as a comprehensive economic evaluation of the AfCFTA reforms. It is expected that GDP, trade and welfare gains would be even greater if those elements were to be taken into consideration.