African Union

United Nations
Economic Commission for Africa

African Continental Free Trade Area

Updated Questions & Answers

January 2020

This document was prepared collaboratively by the African Trade Policy Centre (ATPC) of the United Nations Economic Commission for Africa (ECA) and the Department of Trade and Industry (DTI) of the African Union Commission (AUC).

What is the current status of the African Continental Free Trade Area?

1. 54 of the 55 African Union (AU) member States have now signed the AfCFTA.

2. As of January 2020, 30 had ratified it; the speed of this ratification process is unprecedented in AU history. The Agreement is effective in those 30 countries, meaning that the rights, provisions and obligations of the Agreement now apply.

3. The 'operational phase' of the AfCFTA was launched by an Extraordinary AU Summit in Niamey on 7 July 2019. It decided that technical preparations be finalized to start the dismantling of tariffs on goods traded under the AfCFTA by 1 July 2020.

4. Accordingly, most states, or where appropriate regional groupings, are in an advanced stage of preparing their tariff offers, identifying which products will be liberalized in specified timeframes, with trading set to commence under the AfCFTA in July 2020. The Summit decided that the AfCFTA Secretariat will be established by 31 March 2020 in Accra, Ghana.

5. The Niamey Summit also launched five complementary initiatives to support the implementation of the AfCFTA:

   a) AfCFTA product-specific rules of origin covering 90 per cent of tariff lines
   b) Continental Online Mechanism for Monitoring, Reporting and Eliminating Non-Tariff Barriers
   c) Pan-African Payments and Settlements System
   d) Online Portal for Trade in Goods Tariff Negotiations
   e) AU Trade Observatory

Why an African Continental Free Trade Area?

6. **Leveraging Africa's economic size:** the population and GDP of Africa is approximately that of India, but it is fragmented into 55 AU member States. Many of these fragments are too small to support the economies of scale and investments necessary for industrial growth: 21 have a GDP less than $10 billion. Businesses face average tariffs of 6.9 per cent when they trade across Africa's 107 unique land borders, but also substantial non-tariff barriers, regulatory differences, and divergent sanitary, phytosanitary and technical standards that raise costs by an estimated 14.3 per cent.[1] The AfCFTA seeks to integrate and consolidate Africa into a $2.5 trillion market.

[1] Average tariffs faced by exporters within regions calculated with reference group weighted average tariffs based on 2013 MAcMap-hs6. For cost estimates of non-tariff barriers see, Cadot, O., A. Asprilla, J. Gourdon, C. Knebel and R. Peters. 2015. "Deep Regional Integration and Non-tariff Measures: A Methodology for Data Analysis." Policy Issues in International Trade and Commodities Study Series 69, UNCTAD (United Nations Conference on Trade and Development), Geneva.

7. **Driving Africa's industrialization:** Africa's industrial exports are forecast to benefit most from the AfCFTA, helping to promote its long-overdue industrialization. Modelling by ECA forecasts the AfCFTA to increase intra-African exports of industrial products by 25-30 per cent (or $36-43 billion).[2] Increases are expected to be largest in wearing apparel, textiles, vehicles and transport equipment, wood and paper, leather, electronics, and other manufactures. Moreover, it is Africa's least developed countries (LDCs) that are expected to experience the greatest boost to industrialization, with three-quarters of their gains in intra-African exports being in industrial goods. The cumulative effect is a forecast boost to Africa's GDP of up to $44 billion; once the effect of reducing non-tariff barriers and liberalizing services is considered, the eventual benefits could be more than double this.[3]

8. **Helping Africa feed Africa:** Although industrial goods are expected to gain most, agricultural producers will also benefit. Intra-African exports of agriculture and food products are forecast by ECA to increase by 20-35 per cent (or $10-17 billion). Gains are expected to be particularly pronounced for exports meat products, milk and dairy products, sugar, beverages and tobacco, vegetables/fruit/nuts and paddy and processed rice.

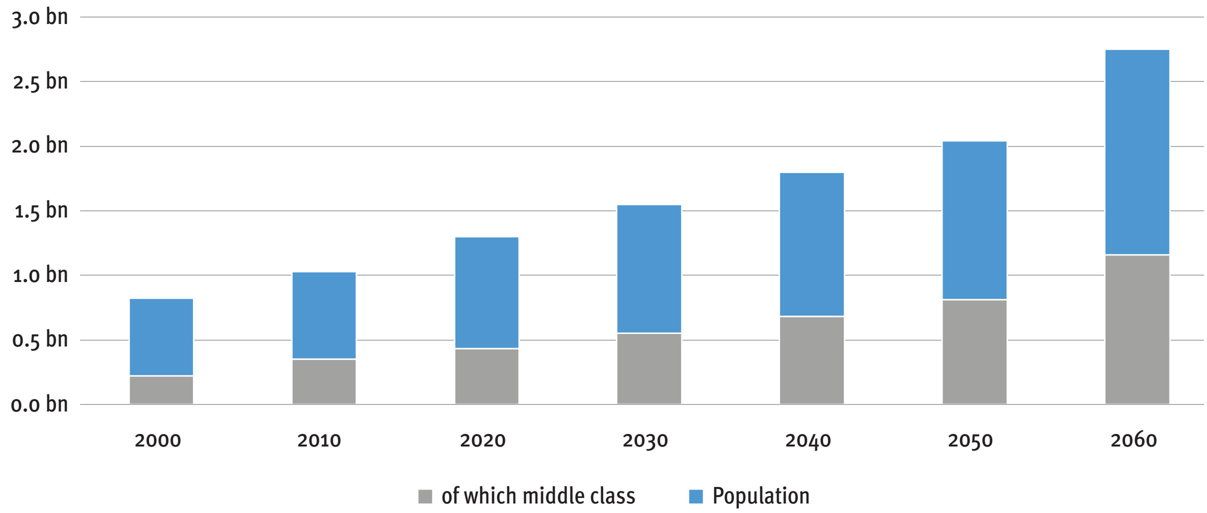
9. **Taking advantage of Africa's market growth:** African GDP is forecast to grow rapidly, from an estimated $3 trillion in 2020 to as much as $16 trillion by 2060, according to African Development Bank forecasts (Figure 1). Six of the top-10 fastest growing economies are estimated by the IMF to be in Africa in 2019. The total size of the African market is expected to grow from a population expected to be 1.3 billion in 2020 to 2.75 billion, by 2060, at which point more than 42 per cent are expected to be middle class. By reducing trade costs and facilitating business expansion, the AfCFTA provides great opportunities for African businesses to gain from, and contribute to, Africa's rapid market growth.

10. **Diversifying Africa's trade:** Africa remains economically oriented around extractive commodities, such as oil and minerals, which have traditionally accounted for most of Africa's exports. Seventy per cent of Africa's exports outside the continent were extractives between 2015 and 2017, while only 40 per cent of exports within Africa were extractives in the same period. 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 the AfCFTA to pivot away from extractive exports will help to secure more sustainable and inclusive revenues and foreign exchange that are less dependent on the fluctuations of commodity prices.

[2] ECA's calculations based on MIRAGE CGE model, based on different ambition scenarios, and as compared to a baseline without the AfCFTA in place, in 2040. Higher ambition scenarios result from more ambitious liberalization reforms; that is, if countries excluded fewer valuable products within their allowed 'exclusion lists'. For details see Mevel, S. Forthcoming. Journal of African Trade.

[3] See ECA (United Nations Economic Commission for Africa), AUC (African Union Commission) and AfDB (African Development Bank). 2017. Assessing Regional Integration in Africa VIII: Bringing the Continental Free Trade Area About. Addis Ababa:ECA.

Figure 1. Total population of Africa and size of the middle class



Source: AfDB (African Development Bank). 2011. Africa in 50 years' time: the road towards inclusive growth, African Development Bank Group, Tunisia

11. **Producing jobs for Africa's youth:** Perhaps most importantly, the AfCFTA will also produce more jobs for the 30 million African youth estimated to be entering the jobs market each year by 2030. 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, the AfCFTA creates more employment.

12. **Supporting women 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, the AfCFTA makes it more affordable for informal traders to operate through formal channels, which offer more protection.

13. **Cohering Africa's trade policy:** Integrating Africa's market helps Africa engage coherently in trading arrangements with the rest of the world. The United States, the European Union, emerging market economies and others are looking to establish trading arrangements with Africa. To use the language of the AU Agenda 2063, Africa can achieve more if it will "speak with one voice and act collectively to promote our common interests and positions in the international arena" and of the importance of "unity and solidarity in the face of continued external interference." With a single voice, Africa can negotiate trade deals better, and for more countries, than can 55 AU member States with smaller disunited voices.

What does the AfCFTA mean practically for trading businesses?

14. Starting from 1 July 2020, tariffs on 90 per cent of goods traded between AfCFTA state Parties are to be reduced in equal annual installments until they are eliminated within 5 years for non-LDCs and 10 years for LDCs. So, a product facing a tariff of 25 per cent being imported into a non-LDC would be tariffed at only 20 per cent from July 2020, then 15 per cent from July 2021, with such reductions each year until it is traded duty-free by July 2025.

15. For an additional 7 per cent of 'sensitive' goods, tariffs will fall within 10 years for non-LDCs and 13 years for LDCs. A final 3 per cent of 'excluded' products are to retain their tariffs to allow flexibilities for state Parties with particular sensitivities, but will be subject to a review process every five years.

16. As a special dispensation from the abovementioned modalities, the 'G6' countries of Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe will reduce tariffs on 90 per cent of goods over the longer period of 15 years.

17. Businesses also already have recourse to the Continental Non-Tariff Barrier Mechanism, available at https://tradebarriers.africa/home. Through this, businesses and traders may submit trade barrier complaints that are then forwarded by an administrator to nominated focal points in the reporting and offending countries, as well as relevant regional economic communities and the AfCFTA Secretariat for oversight and intervention, if necessary. Progress is monitored publically on the website, which updates for progress and resolution actions underway.

18. The AfCFTA also contains commitments on customs cooperation and mutual administrative assistance, trade facilitation, technical barriers to trade, sanitary and phytosanitary standards, and trade transit. These work 'behind the scenes' to simplify and harmonize trade procedures and logistics, expedite the process of importation, exportation and transit, and to harmonize and mutually recognize standards, and eliminate unnecessary barriers to trade.

What does the AfCFTA mean practically for service suppliers seeking new markets?

19. Service suppliers will also see a progressively liberalized market; however, this won't happen instantly. The AfCFTA Protocol on Trade in Services sets up the parameters for a first round of negotiations to cover the five sectors of business services, communication services, financial services, tourism and travel related services, and transport services. Subsequent negotiations will cover all other services sectors. AfCFTA services negotiations are to be pursued on a reciprocal basis, but do not preclude autonomous liberalization of sectors by state Parties.

20. Liberalizing services markets involves providing foreign services and service suppliers with conditions of competition no less favourable than those accorded to like services and service suppliers within a country. This can include, for example, state Parties agreeing not to impose on each other limitations on the participation of foreign capital in terms of maximum percentage limits on foreign shareholding, limitations on the total number of foreign employees, or limitations on the total value of service transactions or assets.

21. State Parties are also to negotiate sector-specific obligations through the development of regulatory cooperation frameworks, which will be incorporated as Annexes to the Protocol on Trade in Services. In addition, the development of mutual recognition agreements (MRAs) will provide added certainty and predictability to the temporary movement of service suppliers under the Protocol. Both MRAs and the regulatory cooperation frameworks attempt to complement services market liberalization by improving regulatory convergence and harmonization.

What's in it practically for international investors?

22. Africa's experience is of under-investment: despite being home to 17 per cent of the world's population, Africa accounts for just 2.8 per cent of world investment stock.[4] Africa is ripe for international and intra-African investment.

23. To qualify for the preferences and benefits under the AfCFTA, international investors must ensure that their production involves sufficient transformation or value-addition in an AfCFTA state Party so as to be considered as 'originating' from those AfCFTA countries. The level of value-addition or transformation varies by product as determined by the AfCFTA Rules of Origin. As of September 2019, 90 per cent of the work on Rules of Origin was complete, with the Niamey African Union Summit directing negotiators to submit final schedules of outstanding Rules of Origin to the February 2020 session of the Assembly of the African Union.

24. When it comes to investors in service sectors, they too must ensure that they are sufficiently established within a State Party to be considered as from that State Party when they supply services to other state Parties.[5]

25. Internationally-based businesses can also benefit from the AfCFTA by linking up with African businesses and contributing inputs, intermediate goods and supportive services so long as sufficient value-addition or transformation occurs within an AfCFTA state Party.

[4] UNSD 2019, available unstats.un.org/, and UNCTADStat, available unctadstat.unctad.org/
[5] The relevant threshold is clarified by Article 24 of the Protocol on Trade in Services.

How can development partners support the AfCFTA?

26. **Support implementation:** The AfCFTA requires a large number of reforms that liberalize and facilitate trade along the export path. They include reducing tariffs, the traditional heart of free trade agreements, but also liberalizing service sectors, supporting customs cooperation and addressing non-tariff barriers. Development partners can work directly with countries to assist with implementing AfCFTA reforms.

27. **Support complementary measures:** The AfCFTA reforms open up opportunities. But taking advantage of them requires further deliberate steps from government. For instance, for boosting investment, governments can ease investors through a streamlined one-stop shop investment centre, buttressed by a national investment legal framework and supported by investment promotion authorities. When it comes to production, a productive capacities development agenda can target national production towards AfCFTA trade opportunities through industrial policy, enhancing productive infrastructure and sector-specific policies. Other complementary measures can assist firms with AfCFTA export compliance and transport logistics.

28. **Coordinate support via National AfCFTA Strategies:** AfCFTA strategies can ensure a coherent and strategic approach towards both AfCFTA implementation and complementary measures. The Conference of African Ministers of Finance, Planning and Economic Development recognized and clearly articulated the need for national AfCFTA strategies during their May 2018 meeting in Addis Ababa, and the July 2018 AU Summit in Nouakchott reiterated it. Through national AfCFTA Strategies, countries identify their comparative advantages within the scope of the AfCFTA agreement and target complementary measures towards those sectors. ECA is currently supporting 18 countries in preparing National AfCFTA Country Strategies, at least 15 of which should be finalized by the end of 2019, with plans to double this number during 2020.

Table 1. ECA Beneficiary countries for technical assistance in developing AfCFTA National Strategies

Zambia	Zimbabwe	Togo	Cameroon	Sierra Leone	The Gambia	Chad	Niger	Comoros
Senegal	Mauritania	Kenya	Djibouti	Malawi	Cote d'Ivoire	Sao Tome	Mauritius	Seychelles

29. **Support the AUC and AfCFTA Secretariat:** As the institutions directly charged with hosting the AfCFTA negotiations and delivering its implementation, respectively, support to the AUC and the AfCFTA Secretariat can help improve AfCFTA oversight, coordination and implementation.

What next? A six-step roadmap:

30. **Operationalize the AfCFTA:** Critical components need to be finalized before goods can flow duty-free and service suppliers unhindered. These include: schedules of concessions for trade in goods, rules of origin and schedules of specific commitments for trade in services. Other secondary technical work remains on components of the AfCFTA that are not critical to its operationalization but will ease its implementation and interpretation. They include guidelines on infant industries, guidelines and a manual on rules of origin, regulations for goods produced under specified economic zones and guidelines on the implementation of trade remedies.

31. **Enlarge the group of state Parties:** Thirty country ratifications in one year since the Agreement was concluded is an impressive show of political will and commitment in the AfCFTA, representing 55 per cent of the African Union member States. The African Union intends that all its member States join the AfCFTA. As a flagship initiative of the African Union's Agenda 2063, the AfCFTA is not merely a project of a sub-set of African Union members. Enlarging the group of state Parties is necessary for the continent to move forward collectively and meaningfully in trade integration.

32. **Effectively implement the AfCFTA:** Making the AfCFTA work effectively requires creating institutional structures for implementing it, establishing the mechanisms envisaged in its operative provisions and introducing the obligations it imposes into the laws and regulations of each state Party. Besides the main AfCFTA institutional bodies—the Council of Ministers and the Committee of Senior Officials—committees on each of the Protocols and dedicated sub-committees must be created. Focal points at the national level responsible for substantive areas of the agreement, such as non-tariff barriers, must be identified. National and regional AfCFTA committees are required for coordination. The AfCFTA secretariat must be established by the assembly to support the Council and committees.

33. **Take complementary measures to take advantage of the Agreement:** It is not enough for the AfCFTA to be operational. State parties must strategically take advantage of it to derive its full benefits. That requires designing and implementing national AfCFTA strategies to identify opportunity export sectors and value chains that can benefit from the AfCFTA market access openings, and the measures needed to support them

34. **Conclude phase II negotiations on investment, competition policy and intellectual property rights:** The AfCFTA negotiations apportioned phase I to focus on a framework agreement establishing the AfCFTA and negotiations on protocols on trade in goods and services and dispute settlement. A second phase is dedicated to negotiations on investment, competition policy and intellectual property rights and is scheduled to be completed by June 2021.

35. **Use the AfCFTA as a vehicle for achieving an African single market and the African Economic Community:** According to the objectives of the AfCFTA, it "lay[s] the foundation for the establishment of a Continental Customs Union." Building upon this foundation will require progressively deepening the integration under the AfCFTA until it is can subsume the existing REC FTAs into a single, fully liberalized, African trade area. Doing so allows a common external tariff across Africa and a continental customs union, which is a stepping stone towards the African Economic Community envisaged under the Abuja Treaty of 1991.

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