Economic Research Unit
Contact: +244 222 696 462
E-mail: dfi.gee@bfa.ao

FLASH NOTE

Nº 03.2021 | 01 Apr 2021

All about the African Continental Free Trade Area

What is it? How is it going? What are the challenges faced?

1| What is the AfCFTA?

The African Continental Free Trade Area (AfCFTA), as the name suggests, is the wide free trade area for the African Continent that represents the outline for reaching inclusive and sustainable development across the continent over the next 50 years. It is the pilot project of the Agenda of the African Union for 2063, which looks into boosting intra-African trade by providing a comprehensive and mutually beneficial trade agreement among the member states, covering trade in goods and services, investment, intellectual property rights and competition policy.

2| What is a Free Trade Area?

A free trade area is a set of countries whose members agree on a set of reduced trade barriers with each other, such as reduced (or non-existent) tariffs. For example, the Southern African Development Community (SADC) Free Trade Area, comprising all SADC members except Angola and the DRC, is one of those areas - Angola is set to join the SADC FTA in the near term, having submitted its preliminary tariff reduction schedule recently. Note that members from a FTA remain free to decide on barriers towards third-parties. This distinguishes it from a Customs Union, where members are also required to establish and maintain identical external tariffs with regard to trade with third-parties. Botswana, Eswatini, Lesotho, Namibia and South Africa are also part of the Southern African Customs Union (SACU), within the SADC FTA.

3| When was it signed?

The Agreement establishing the AfCFTA was initially signed in March 2018, but only entered into force on 30 May 2019 (in the 24 countries that had deposited their instruments of ratification). The operational phase of the AfCFTA was subsequently launched in July 2019, determining the five operational instruments by which the AfCFTA would be governed, respectively, the rules of origin; the online negotiating forum; the monitoring and elimination of non-tariff barriers; a digital payments system and the African Trade Observatory.

4| What are rules of origin?

Rules of origin are provisions agreed on that define criteria to determine how much of a product must be made within the free trade area, for it to qualify for tariff-free or tariff-reduced movement within the area; for example: if a certain good is produced in China and only assembled in an African country, should it qualify as "made in Africa"? Rules of origin clarify these issues, and thus are critical to free trade deals.

5| What is the African Trade Observatory?

The African Trade Observatory (already available but still somewhat lacking in data, at https://ato.africa) aims to create a continent-wide trade information portal to facilitate intra-African trade and to help implementing the AfCFTA. It will collect trade related data from member states (statistics, barriers to trade, business contacts), making it available to both market players, governmental and non-governmental agencies).

Economic Research Unit
Contact: +244 222 696 462
E-mail: dfi.gee@bfa.ao

6| Which countries are in the agreement?

From the 55 African Union member states, only Eritrea is yet to sign the AfCFTA. However, just 38 countries have ratified it, with 36 (among them Angola) of these having deposited their instruments of ratification at the African Union – Algeria and Somalia have not yet confirmed the parliamentary approval of the treaty).

7| Will tariffs on goods be eliminated?

The agreement foresees a full liberalisation of trade for 90% of products (with a 10-year phase down of tariffs for Least Developed Countries and a 5-year phase down for other countries); 7% of products, deemed "sensitive" by countries, are to maintain tariffs for another 5 years, phasing them down from year 6 onwards, for a total phase down period of 13 years for Least Developed Countries (LDCs) and 10 years for other countries; another 3% of products are to be excluded from the agreement. Countries should submit their tariff concessions, detailing which products are to be excluded or deemed sensitive.

8| When should trade in goods start under the AfCFTA?

As decided on December 2020 by the African Union Assembly, trading should start under the AfCFTA Agreement as of January 1st 2021.

9| Are goods already being traded under reduced rates?

Yes, but these are still largely the exception. Trade under the agreement is still very limited, due to various problems:

- Rules of origin have not yet been fully agreed upon;
- Some countries are yet to submit their tariff concessions;
- Some countries are part of a customs union of their own, whereby every member of the customs union should be a party to the agreement so that trade can start;
- New rules and tariff rates have to be approved in local legislation;
- Customs procedures must be adapted.

10| When are rules of origin going to be fully agreed upon?

As of last year, countries had only managed to agree on rules of origin for about 81% of tariff lines. So, it has been agreed that trading should begin on the current percentage of rules of origin that have been finalised and work towards increasing the tariff reductions until June this year.

11| How many countries have submitted their tariff concessions?

So far, 41 countries have submitted their tariff offers, 30 of which are also State Parties of the agreement (meaning they have already ratified it). Angola has not yet submitted its tariff offer. Submission of tariff schedules was also agreed to occur until June for remaining countries.

12| Why must countries in customs unions wait for all members to be a party to the agreement?

As explained above, Customs Unions differ from Free Trade Areas in that they must keep the same trade tariffs towards third-parties; thus, all parties of a Customs Union must agree in order to join a new trade agreement. There are 4 CUs within the African continent: the Southern African Customs Union (SACU, within the SADC), the Economic and Monetary Community of Central Africa (CEMAC), the East African Community (EAC) and the Economic Community of West African States (ECOWAS). Of these 4 CUs, the

Economic Research Unit
Contact: +244 222 696 462
E-mail: dfi.gee@bfa.ao

CEMAC (Cameroon, CAR, Congo Republic, Chad, Equatorial Guinea and Gabon) is the only one whose members have all submitted their tariff offers and are already State Parties. Within SACU, all members have submitted tariff offers, but Botswana is yet to ratify AfCFTA; from EAC, the same situation applies, with Burundi, Tanzania and South Sudan to ratify it; finally, ECOWAS's Benin and Liberia have not yet ratified the agreement. Thus, trade under the agreement could theoretically already take place for the 81% of products for which rules of origin have been defined, among CEMAC countries, Malawi, Mauritius, and São Tomé e Príncipe.

13| What other steps are necessary to ensure actual implementation of the agreed tariff offers?

In practice, some issues remain, even in countries/customs unions which ratified the agreement and submitted tariff offers, namely enacting the actual amendments to tariff rates in domestic law and preparing customs for these changes.

14| How is trade in services going to be affected?

Trade in services will also be made easier; countries agreed to submit Schedules of Specific Commitments, which translate into agreed reforms to allow for foreign companies to provide services freely, starting with 5 sectors: financial services, travel, transport, business services and communications. These offers are also to be submitted by countries until the end of June, but it is likely that its application will be much more complex. Commitments in the remaining 7 sectors are to be submitted until the end of 2021.

15| What other agreements are to be finalized?

Trade in Goods, Trade in Services, along with a Protocol on Rules and Procedures on the Settlement of Disputes, are all part of Phase 1 negotiations. Later, Phase 2 negotiations will look at harmonising competition policy, investment rules, and intellectual property rights.

16| Which one comes first for Angola? The AfCFTA or the SADC Free Trade Area?

It is hard to say, as it will depend on Angolan political will. However, a tariff offer has been submitted this year from Angola to join the SADC FTA; also, this FTA is already functioning (started in 2008, with the tariff phase down process ending in 2012), allowing for a smoother and faster entry. As said before, both are FTAs and thus do not prevent access to other FTAs or agreements. Still, both will be relevant, as conditions for trade within the SADC FTA are better for Angola (since other parties have already phased down tariffs), but the AfCFTA will cover more members. Moreover, there is another FTA in the making within the continent, the Tripartite Free Trade Area, gathering members from the SADC, EAC, and COMESA, totalling 27 countries.

In short, details are still murky, and implementation might take time, but trade conditions are set to markedly improve within Africa in the next decade, and firms should stand ready to take advantage of this very large market. In particular, the AfCFTA is surely a unique opportunity for the African continent to competitively integrate into the global economy, reduce poverty, and promote inclusion.

Forecasts from World Bank Group estimate that successful implementation of the AfCFTA could take 30 million people from extreme poverty and 68 million from moderate poverty by 2035. Real income gains from full implementation of the agreement could increase by 7%, or nearly USD 450 billion. As African economies struggle to manage the consequences of COVID-19, AfCFTA can provide an anchor for long-term reform and integration, significantly boosting African trade, particularly intraregional trade in manufacturing. By 2035, the volume of total exports would increase by almost 29% relative to business as usual. Intracontinental exports would increase by more than 81%, while exports to non-African countries would rise by 19%.

Sources

1| World Bank (2020). The African Continental Free Trade Area: Economic and Distributional Effects. Washington, DC: World Bank.

2| Tralac (2019). African Continental Free Trade Area (AfCFTA): A tralac guide. Accessed at: https://www.tralac.org/documents/resources/booklets/3028-afcfta-a-tralac-guide-6th-edition-november-2019/file.html.

3| Economic Commission for Africa (2021). AfCFTA is up and running despite challenges, Secretary General assures critics. Accessed at: https://www.uneca.org/stories/afcfta-and-running-despite-challenges-secretary-general-assures-critics.

4| Tralac (2020). Status of AfCFTA Ratification. Accessed at: https://www.tralac.org/resources/infographic/13795-status-of-afcfta-ratification.html.

5| Tralac (2021). African Continental Free Trade Area (AfCFTA) Legal Texts and Policy Documents. Accessed at: https://www.tralac.org/resources/our-resources/6730-continental-free-trade-area-cfta.html.

6| Reuters (2021). African free trade tariff rules should be completed by July-official. Accessed at: https://www.reuters.com/article/uk-africa-economy-idUSKBN29G1CD

7| Ernest and Young (2021). Africa Union launches Africa Continental Free Trade Area: Status of trading among African countries. Accessed at: https://www.ey.com/en_gl/tax-alerts/africa-union-launches-africa-continental-free-trade-area-status-of-trading-among-african-countries.

8| Aljazeera (2021). After months of COVID delays, African free trade bloc launches. Accessed at: https://www.aljazeera.com/economy/2021/1/1/after-months-of-covid-delays-african-free-trade-bloc-launches.

9| Kuwonu, F. (2021). Africa's free trade area opens for business. Accessed at: https://www.un.org/africarenewal/magazine/january-2021/afcfta-africa-now-open-business.

10| Fabricius, P. (2021). African Continental Free Trade Agreement: Red tape delays start of trading under new pact. Accessed at: https://www.dailymaverick.co.za/article/2021-01-14-african-continental-free-trade-agreement-red-tape-delays-start-of-trading-under-new-pact/

11| James, N. (2021). AfCFTA to aid Africa's recovery from Covid, but full-scale implementation to be challenging. Accessed at: https://www.engineeringnews.co.za/article/afcfta-to-aid-africas-recovery-from-covid-but-full-scale-implementation-to-be-challenging-2021-01-15/rep_id:4136.

Economic Research Unit
Contact: +244 222 696 462
E-mail: dfi.gee@bfa.ao

Figures are expressed using the comma as thousands separator and the point as decimal separator and using the term “billion” to signify 10^9.