Afreximbank Research - Trade Update

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The African Continental Free Trade Area

African leaders made history on 21 March 2018, when they came together in Kigali, Rwanda at the 10th Extraordinary Summit of the African Union and signed an agreement launching the African Continental Free Trade Area (AfCFTA), a flagship project of the African Union's *Agenda 2063: The Africa We Want*. The AfCFTA brings together 55 African countries with a combined population of more than 1.2 billion people and a combined gross domestic product (GDP) exceeding US$2.5 trillion and will make the continent the largest free trade area created since the formation of the World Trade Organization (WTO). The AfCFTA provides new impetus and dynamism to the process of economic integration and structural transformation of African economies as envisaged under the Lagos Plan of Action and the Abuja Treaty of 1991.

The AfCFTA Agreement will provide a comprehensive and mutually beneficial trade agreement among the member states of the African Union, covering trade in goods and services, investment, intellectual property rights and competition policy. Negotiations towards the AfCFTA have been divided into two phases. Phase I negotiations covers Trade in Goods and Services and Dispute Settlement, while Phase II negotiations addresses Intellectual Property, Investment and Competition Policy (see Figure 1).

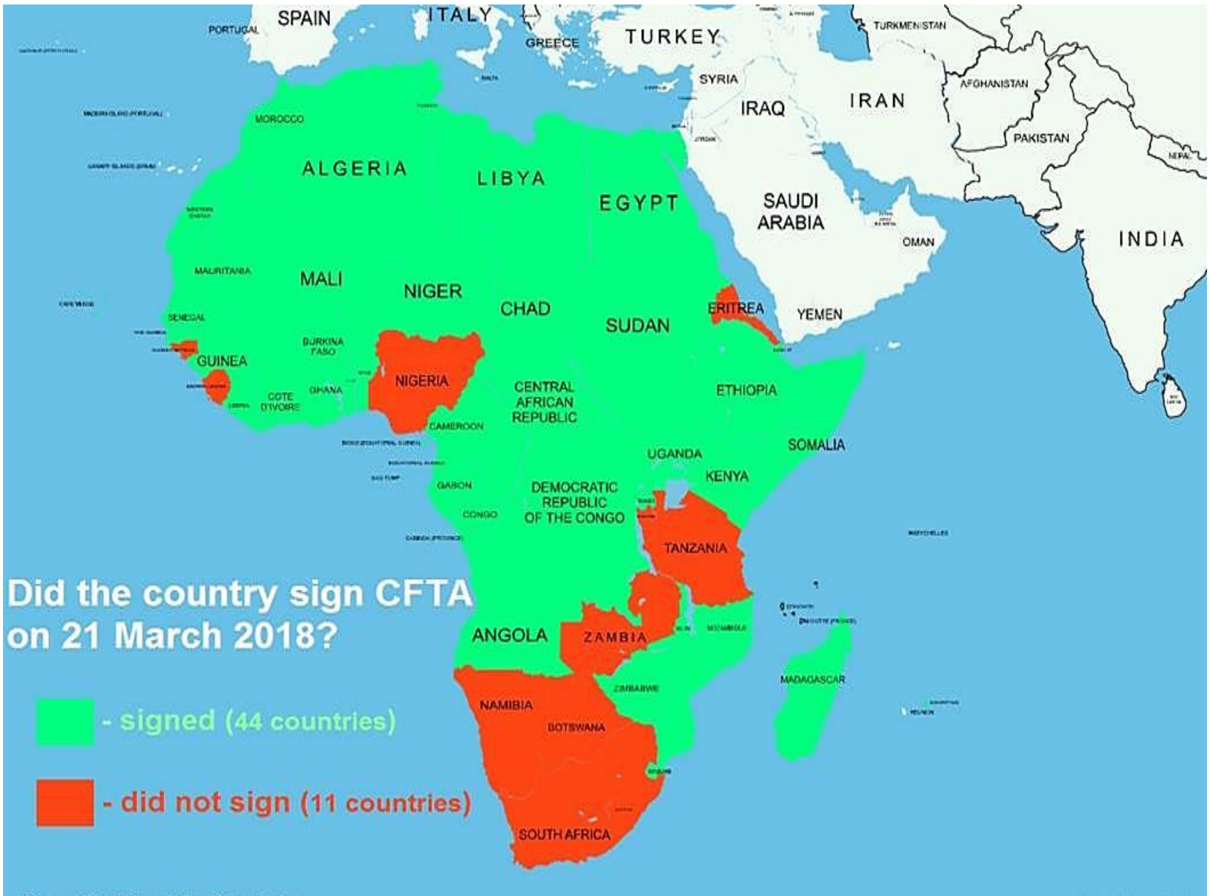
Figure 1: Key Features of the AfCTFA

Agreement Establishing the African Continental Free Trade Area	Phase I Negotiations	Protocol on Trade in Goods	• Tariff liberalization • Non-tariff barriers • Rules of Origin • Customs Cooperation • Trade Facilitation and Transit • Trade remedies • Product standards • Technical regulations • Technical assistance, capacity-building and cooperation
		Protocol on Trade In Services	• Transparency of service regulations • Mutual recognition of standards, licensing and certification of services suppliers • Progressive liberalization of services sectors • National Treatment for foreign service suppliers in liberalized sectors • Provision for general and security exceptions
		Protocol on Dispute Settlement	To be agreed
	Phase II Negotiations	Protocol on Intellectual Property Rights	To be agreed
		Protocol on Investment	To be agreed
		Protocol on Competition Policies	To be agreed

The agreement signed in Kigali includes a framework agreement and protocols related to trade in goods and trade in services. With respect to trade in goods, the AfCFTA requires members to eliminate tariffs on 90 percent of their tariff lines, with the remaining 10 percent retained as either "sensitive" products with longer liberalisation periods, or as "excluded" products at the same tariff level. With regard to services, the protocol on trade in services provides that parties "shall undertake successive rounds of negotiations based on the principle of progressive liberalisation accompanied by the development of regulatory cooperation, and sectoral disciplines." AfCFTA members have opted to use a positive list approach for services negotiations—only sectors explicitly identified are subject to liberalisation. In terms of the protocol, AfCFTA members are expected to identify nine priority sectors that will be subject to liberalisation.

A total of 44 African countries signed the AfCFTA Agreement in Kigali, including its protocols, annexes, and appendices, which form an integral part of the accord (see Figure 2). In addition, 47 countries also signed the "Kigali Declaration" which, in the absence of executive authority to sign the AfCFTA into law, serves as an instrument demonstrating support and solidarity for the agreement, and 30 countries signed a protocol on the free movement of persons.

Figure 2: AfCFTA Signatories on 21 March 2018



Source: The African Union Commission

Following signature, AfCFTA members, individually or as part of a customs union, are expected to develop and submit schedules of concessions for trade in goods detailing the 90 percent of products that are to be liberalized, the sensitive products to be liberalized over a longer time period, and the excluded products that are to be temporarily exempted from liberalisation. A related complement to the schedules of concessions for trade in goods is the list of product-specific rules of origin which is still being negotiated, as is the protocol on dispute resolution. For trade in services, scheduling will call for a review of the regulatory framework of the identified sectors in view of preparing the initial market access offers, which will then be subject to negotiations.

The AfCFTA Agreement will enter into force after 22 signatures and 22 Member States have submitted their instruments of ratification. Countries that signed the agreement have 160 days to ratify the agreement, while those that have not signed have 160 days to sign the agreement. Negotiations on Phase II issues are set to commence later in 2018. Upon conclusion, the Phase II negotiations will provide a more conducive environment for recognizing African intellectual property rights, facilitating intra-African investment, and addressing anti-competitive behavior.

Institutional arrangements to support implementation of the AfCFTA include a dedicated Secretariat; 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. Regional economic communities (RECs) will also remain important partners coordinating the implementation and measures for resolving non-tariff barriers, harmonizing standards and monitoring implementation.

Benefits of the AfCFTA

The AfCFTA is an important step towards rationalising Africa's regional trade arrangements to deepen economic integration and draw on economies of scale and development of regional value chains to accelerate the process of structural transformation of African economies. Preliminary estimates and simulations suggest that the AfCFTA could significantly expand industrial production and intra-African trade, with the latter expected to more than double within the first decade of implementation. An UNCTAD report notes that as intra-African trade comprises a higher skill and technology content compared to Africa's trade with others, the AfCFTA can improve diversification, and the industrial product and technology content of AU member state exports. In particular, intra-African trade in industrial products could increase by US$60 billion annually if the implementation of the AfCFTA is accompanied by robust trade facilitation measures.

An integrated African market is also likely to see enhanced flow of foreign direct investment (FDI) to the benefit of participating economies and could shift FDI from natural resources to industry and manufacturing as investors seek to take advantage of increased market size. Implementation of the AfCFTA and the broader Agenda 2063 will also enhance the integration of African economies into the global economy, and strengthen the process of engagement between Africa and its main trading partners, multilaterally within the World Trade Organization (WTO) framework and bilaterally with other trading partners such as Brazil, China, the EU, India, and the US.

Challenges and Risks to Implementation of the AfCFTA

While the AfCFTA provides an opportunity for Africa to boost intra-African trade and accelerate the process of structural transformation to reduce the vulnerability of its economies to external shocks, the implementation of the agreement will be complex given the large number, diverse nature and different stages of economic development of Member States. At the same time integration may carry significant adjustments costs for some countries, including fiscal adjustments. In this regard, implementation will need to be structured and sequenced appropriately and compensatory or adjustment mechanisms may need to be put in place to ensure broad-based gains for all Member States.

In addition, the realization of the potential offered by the AfCFTA will hinge on a supportive and facilitative trade environment. In particular, effective implementation of the AfCFTA will require: (i) investments in trade facilitating infrastructure to ensure that the market access benefits are fully realized; (ii) implementation of the AU's Action Plan for the Accelerated Industrial Development of Africa (AIDA); and (iii) effective implementation of the Programme for Infrastructure Development in Africa (PIDA). Likewise, implementation of the Boosting Intra-African Trade (BIAT) Action Plan will provide the framework for the supportive policies and environment that are key to the AfCFTA's success.

Afreximbank Interventions in Support of the AfCFTA

Given the alignment between the Bank's Fifth Strategic Plan dubbed IMPACT 2021 and the ambitions of the AfCFTA and the broader BIAT Action Plan, the Bank—which worked closely with the AU Commission during the period leading to the launch of the AfCFTA—will greatly benefit from its successful implementation and the transition towards an African Single Market. The Bank has among others prioritized intra-African trade, industrialisation and export development, and trade finance leadership as pillars of its strategy. In support of intra-African trade it will disburse about US$25 billion dollars during the five years of Plan V implementation ending in 2021. To facilitate the confirmation of letters of credit in support of intra-African trade it has opened credit lines amounting to US$800 million to 55 banks across Africa and aims to extend such lines to at least 500 African banks by 2021. To diversify sources of growth and expand intra-African trade opportunities the Bank is supporting the development of industrial parks and special economic zones across the region.

The Bank is also working closely with the AU Commission to support implementation of the AfCFTA through a number of strategic initiatives, including the inaugural Intra-African Trade Fair this year in Cairo, Egypt, to connect African buyers and sellers; development of an intra-African Trade Payments and Settlement Platform that will facilitate the clearing and settlement of intra-African trade transactions in African currencies; and establishment of a Pan-African Private Sector Trade and Investment Committee as an advocacy platform to enhance African private sector participation in trade negotiations and investment policy formulation.