

7 March 2022, 15:00-16:00 (Dubai)
UN Hub

Making One Trade Africa a Reality



Summary about the AfCFTA

1. AfCFTA background and status

A roadmap for the establishment of the African Continental Free Trade Agreement was agreed in 2012 at the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union, and negotiations started in 2015. The 10th African Extraordinary Summit held in March 2018 adopted the AfCFTA legal text and opened the agreement for signature and ratification by AU Member States. By April 2019, 22 member states had ratified the agreement, the number required for putting it into force, and the agreement entered into force on 30 May 2019. The operational phase of the AfCFTA was launched during the 12th Extraordinary Session of the Assembly of the African Union on the AfCFTA on 7 July 2019.

As at 9 September 2021, 42 countries had deposited their instruments of ratification (ordered by date): Ghana, Kenya, Rwanda, Niger, Chad, Eswatini, Guinea, Côte d'Ivoire, Mali, Namibia, South Africa, Congo, Rep., Djibouti, Mauritania, Uganda, Senegal, Togo, Egypt, Ethiopia, Gambia, Sahrawi Arab Democratic Rep., Sierra Leone, Zimbabwe, Burkina Faso, São Tomé & Príncipe, Equatorial Guinea, Gabon, Mauritius, Somalia Central African Rep., Angola, Lesotho, Tunisia, Cameroon, Nigeria, Malawi, Zambia, Algeria, Seychelles, Burundi, Tanzania and Guinea Bissau. Eritrea is the only African country that has not signed the AfCFTA Agreement. This makes it the fastest instrument to be ratified in the African Union.

The AfCFTA builds on decades of initiatives to achieve continental integration. The goal of developing the continent by tapping into the opportunities of increased continental integration was part of the 1980 Lagos Plan of Action, backed by the Organization of African Unity (OAU), and was embodied in the 1991 Abuja Treaty that envisaged an African Economic Community (AEC). Since then, various continental integration initiatives reaffirmed this objective, including the 2012 Boosting Intra-African Trade (BIAT) Action Plan and AU Agenda 2063. The main objectives of the AfCFTA are to:

- Create a single continental market for goods and services, with free movement of business persons and investments
- Expand intra-Africa trade across the regional economic communities and the continent in general
- Enhance competitiveness and support economic transformation

Eight Regional Economic Communities (RECs) have been officially recognized as building blocks of the AfCFTA: Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), East African Community (EAC), Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), Arab Maghreb Union (AMU), Community of Sahel–Saharan States (CEN-SAD) and Intergovernmental Authority on Development (IGAD).

When fully implemented, the AfCFTA will create an integrated African market of 1.3 billion people across 55 countries with a combined GDP of about \$3.4 trillion, making it the world's largest single market for goods and services by number of countries.

The agreement targets the removal of tariffs on 97 percent of imported goods from State Parties over a period of between 5 and 15 years from entry into force. It also aims to reduce non-tariff barriers (NTBs) and foster standards harmonization, customs cooperation and trade facilitation.

The scope of the AfCFTA goes beyond that of traditional Free Trade Agreements (FTAs). The protocols of the agreement include not only trade in goods but also trade in services, rules and procedures on the settlements of disputes, investment, competition policy, intellectual property rights (IPRs) and e-commerce. The first three protocols were the subject of the first phase of AfCFTA negotiations which is scheduled to officially close by December 2021 if the rules of origin are finalised and all tariff schedules are submitted. The second three issues will be negotiated during the second phase of negotiations which is expected to officially start in 2022 and e-commerce under a third phase of negotiations.

The negotiations on phase II issues are scheduled to be concluded by the end of 2022. There have not yet been any committee meetings on the AfCFTA protocol on e-commerce but the work programme on e-commerce is expected to be accelerated in 2022.

2. Justification for the creation of the AfCFTA

Currently, Africa largely exports unprocessed primary commodities in exchange for imported manufactured products, which has constrained value addition and poverty reduction. Intra-African trade is underexploited due to high trade costs in the region. Intra-African exports as a share of Africa's total exports was only 17.8 percent in 2020 (compared to a figure of 58.1 percent for the EU). Prevailing tariff rates significantly underestimate Africa's trading costs due to the presence of non-tariff measures and physical market access barriers, such as inadequate infrastructure and border-related and local distribution deficiencies (e.g. expensive settlement payments, cumbersome customs requirements and inefficient services).

The AfCFTA represents a pivotal opportunity to redress these challenges, reorganise African countries' production and export structures and transform African livelihoods. It is expected to resolve the challenges of multiple and overlapping memberships of trade regimes and expedite Africa's integration process.

In 2020, manufactured goods accounted for 44.3 percent of intra-African exports compared to only 21.1 percent of Africa's exports outside the continent. The AfCFTA will create preferential margins for African producers providing an opportunity for restructuring African imports at the regional level. It will also provide a sufficiently large market to support the expansion of manufacturing sectors, in turn enhancing the competitiveness and productivity of African goods and services and contributing

to the development of RVCs. This can better position the continent to integrate into Global value chains (GVCs) and benefit from the global trading system. The AfCFTA will also provide Africa with more leverage to challenge agreements that may be unfavourable to Africa's development agenda.

The United Nations Economic Commission for Africa project that the value of intra-African exports will increase between about 15 percent (or US\$ 50 billion) and nearly 25 percent (or US\$ 69.1 billion) in 2040, relative to the baseline without the AfCFTA in place. Intra-African exports are expected to increase the most for industrial products, with gains ranging between around 25 per cent (or US\$ 36.1 billion) and almost 30 per cent (or US\$ 43.3 billion). All African countries are expected to benefit from increased industrial exports under the AfCFTA with African LDCs estimated to experience the greatest boost.

In a report published in July 2020 on economic and distributional effects, the World Bank highlighted that the AfCFTA represents a major opportunity for countries to boost growth, reduce poverty, and broaden economic inclusion. If successfully implemented, the AfCFTA according to the report will:

- Lift 30 million Africans out of extreme poverty
- Boost the incomes of nearly 68 million others who live on less than \$5.50 a day
- Boost Africa's income by \$450 billion by 2035 (a gain of 7%) while adding \$76 billion to the rest of the world's income
- Increase Africa's exports by \$560 billion, mostly in manufacturing
- Spur larger wage gains for women (10.5%) than men (9.9%)
- Boost wages for both skilled and unskilled workers (10.3% for unskilled workers and 9.8% for skilled workers)

Multiple factors are currently challenging the development of intra-African trade:

- Weak productive capacities with very low process products
- Lack of (trade) infrastructure including digitalization
- Weak logistics services and hence weak connectivity across African sub-regions
- Predominance of the informal sector
- Persistent NTMs (even at a REC level) which increase the costs of trade
- Constraints to access and compliance with trade finance solutions by the African business community
- Investments not directly related to productive sectors with high impact on jobs creation
- Slow implementation of strategies for diversification and industrialization
- Lack of knowledge of the demand from the new emerging African middle class

3. Ensuring inclusive gains from the AfCFTA

The AfCFTA is expected to impact different socio-economic groups differently due to existing patterns of discrimination, unequal access to resources, skills, assets, credit and economic opportunities.

- a) **For micro, small and medium sized enterprises (MSMEs)**
- b) **Women and youth entrepreneurs**

Women's equal participation in international trade is critical to promote economic growth, enhancing productivity, increasing international competitiveness and reducing poverty. In Africa, the formal ownership of MSMEs by women currently stands at around a third of all registered MSMEs. These enterprises are more likely to have lower sales and annual turnover, less employees, and smaller size than those enterprises owned by men. Women's economic activities tend to be concentrated in

the informal, subsistence and non-tradeable sectors. When it comes to trade, women lack information on market requirements and procedures, and have lower access to networks and capital. Trade-related administrative procedures and red tape are particularly burdensome due to time poverty, poor access to infrastructure, small size and discriminatory practices at the border.

As for youth, Africa is the youngest continent in the world. Around 40 percent of the population is aged 15 years and younger, compared to a global average of 26 percent. Despite being recognized as Africa's 'greatest asset', young people face major challenges that greatly affect their current and future livelihoods. Youth are more vulnerable than other demographics as they must contend with high unemployment rates, fewer opportunities for decent jobs and other labour market inequalities. While the informal sector is unable to meet the growing employment demands of Africa's youth, millions of young Africans are turning to entrepreneurship and driving the growth of the African tech ecosystem.

The AfCFTA provides an opening to advance the position of women and youth entrepreneurs. The Agreement includes a number of provisions which are expected to create new opportunities for women and youth to participate in intra-African trade opportunities, including in labour-intensive sectors such as manufacturing and agro-industry.



Contact person: Aissatou DIALLO
Senior Coordinator, AfCFTA and LDCs
diallo@intracen.org

Street address: ITC, 54-56, rue de Montbrillant, 1202 Geneva, Switzerland
Postal address: ITC, Palais des Nations, 1211 Geneva 10, Switzerland
Internet: www.intracen.org