

## Policy Brief on the African Continental Free Trade Area (AfCFTA)

*[Africa is delivering the AfCFTA: whoever thinks otherwise is wrong]*

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### **Introduction**

1. Trade-related targets in the 2030 Agenda for Sustainable Development, particularly under SDG 17 on means of implementation and indicator 8.a collectively aim at building an open, equitable and rules-based multilateral trading system to fully harness the critical role of trade as an engine for inclusive growth and sustainable development. These targets reflect universal commitments to deliver for the most vulnerable and ensure that all countries benefit equally from growing international trade flows to support the attainment of the transformational development outcomes envisaged in the Sustainable Development Goals.
2. Furthermore, promoting trade flows, including intra-African trade, is among the key elements underpinning the African Union Agenda 2063, which prioritized the establishment of the African Continental Free Trade Area (AfCFTA) as one of the Agenda's flagship projects to deepen regional integration and promote structural transformation and inclusive growth. Enhancing intra-African trade is also in line with the importance attached by the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (AAAA) to regional economic integration and with the emphasis it placed on supporting projects aimed at fostering regional integration in Africa.
3. This policy brief will provide in Section I an overview of the status of implementation of trade-related targets by assessing efforts to achieve relevant commitments under the framework of the Sustainable Development Goals. Towards this end, the policy brief will analyze indicators such as the worldwide weighted tariff-average (indicator 17.10.1) and developing countries' and least developed countries' share of global exports (indicator 17.11.1).
4. Section II of the policy brief assesses the potential contribution of the operationalization of the AfCFTA to the promotion of inclusive growth and sustainable development in Africa, focusing on its impact on boosting intraregional trade flows and Africa's participation in global trade. The analysis will also touch on aspects related to its socio-economic impact in light of the AfCFTA importance as a game changer and paradigm shift in development efforts by African countries. Section III provides key policy recommendations to fully harness the massive potentials offered by the AfCFTA.

## **I. Status of implementation of trade-related commitments under the SDGs framework**

5. Worldwide weighted tariff-average represents an important determinant of the conditions of market access. World Bank data on worldwide weighted tariff-average indicates a gradual decline from 3.3 per cent in 2010 to 2.6 per cent in 2017.<sup>1</sup> However, according to UN data, worldwide weighted tariff average remained stable at around 2 per cent between 2017 and 2019, with no reduction on average tariff applied by developed countries to imports from developing countries, including LDCs since 2011 due to a lack of new commitments. Nevertheless, agricultural and clothing exports from developing countries were subject to the highest average tariff imposed by developed countries in 2019, at 7.9 per cent and 7.6 per cent respectively.<sup>2</sup>
6. Non-tariff measures have also a significant impact on market access for exports from developing countries, including African exports globally and regionally and therefore impacts Africa's participation in international trade.<sup>3</sup> For example, the agri-food sectors and manufactured imports are subject to more non-tariff measures (NTMs) by developed countries compared to those applied by developing countries.
7. The average number of NTMs applied by developed countries on agri-food imports is almost double the average number of NTMs applied by LDCs.<sup>4</sup> It is estimated that African countries could gain about \$20 billion annually by tackling non-tariff measures within Africa.<sup>5</sup> UNCTAD and the African Union have launched an online platform to help remove non-tariff barriers in Africa.<sup>6</sup>
8. To date, only 14 countries and the European Union have granted preferences under the Generalized System of Preferences to facilitate exports from developing countries to major export markets,<sup>7</sup> in implementation of target 17.12 of the Goals (Implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions). Import tariffs applied by developed countries to all products from LDCs declined slightly between 2015-2019 to 1.1 per cent in 2019. However, tariffs are characterized by significant variations across product groups, with tariffs on clothing and textiles reaching six per cent and nine per cent respectively.<sup>8</sup>

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<sup>1</sup> World Bank, "Tariff rate, applied, weighted mean, all products (percentage)", World Development Indicators database, 2020.

<sup>2</sup> United Nations, the Sustainable Development Goals Report 2021

<sup>3</sup> Njuguna Ndung'u and others, "Policy brief: Africa's diversification and its trade policy transformation", G20 Insights, 2020.

<sup>4</sup> WTO - ITC – UNCTAD, World Tariff Profiles 2021

<sup>5</sup> David Vanzett and others, "Non-tariff measures: lifting CFTA and ACP trade to the next level", UNCTAD Research Paper, No. 14 (United Nations, 2019).

<sup>6</sup> UNCTAD, "Online tool to remove trade barriers in Africa goes live", 17 January 2020.

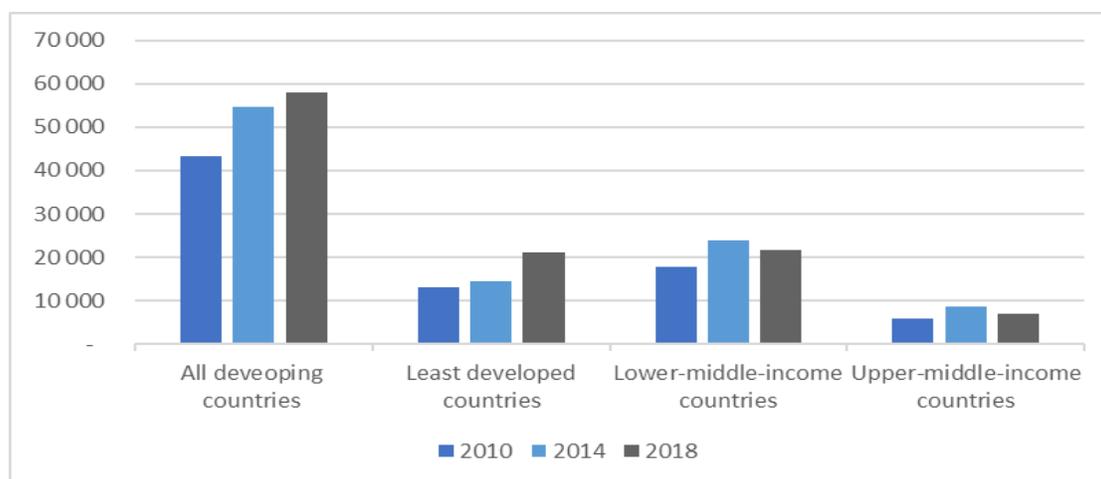
<sup>7</sup> See <https://unctad.org/topic/trade-agreements/generalized-system-of-preferences>. [Armenia, Australia, Belarus, Canada, the European Union, Iceland, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey, United Kingdom and the United States of America]

<sup>8</sup> UNCTAD, SDG Pulse 2021, <https://sdgpulse.unctad.org/trade-barriers/#17-12-1>

9. Trade between developed economies tends to be less restrictive at an average tariff of 2 per cent in 2019. However, except for Latin America and East Asia that have reported intraregional tariff at 1.2 per cent and 1.9 per cent respectively, other developing regions reported higher average of intraregional tariffs in 2019, with South Asia reported the highest average intraregional tariffs in 2019, at 5.7 per cent, followed by Western Asia and North Africa at 4.8 per cent and Sub-Saharan Africa at 2.5 per cent.<sup>9</sup>
10. Statistics from OECD<sup>10</sup> indicate that in 2018, the most recent year for which data is available, total Aid for Trade commitments from all official donors stood at \$57.9 billion, increasing from \$50.8 billion in 2016 and \$57.8 billion in 2017. Of this, \$21.2 billion, or 37 per cent, was directed to least developed countries (see Figure 1), an increase from \$18.8 billion, or 32 per cent, in 2017, which represents progress toward target 8.a of the Goals (Increase Aid for Trade support for developing countries, in particular least developed countries). Africa remained among the largest recipients of Aid for Trade, with 36 per cent (\$20.9 billion) in 2018 (see **Figure 1**). In the decade leading up to 2016, Aid for Trade commitments to Africa more than doubled.<sup>11</sup>

**Figure 1: Total Aid for Trade commitments, by recipient income group**

(Millions of United States dollars)



*Source:* Analysis based on OECD Aid for Trade statistics.

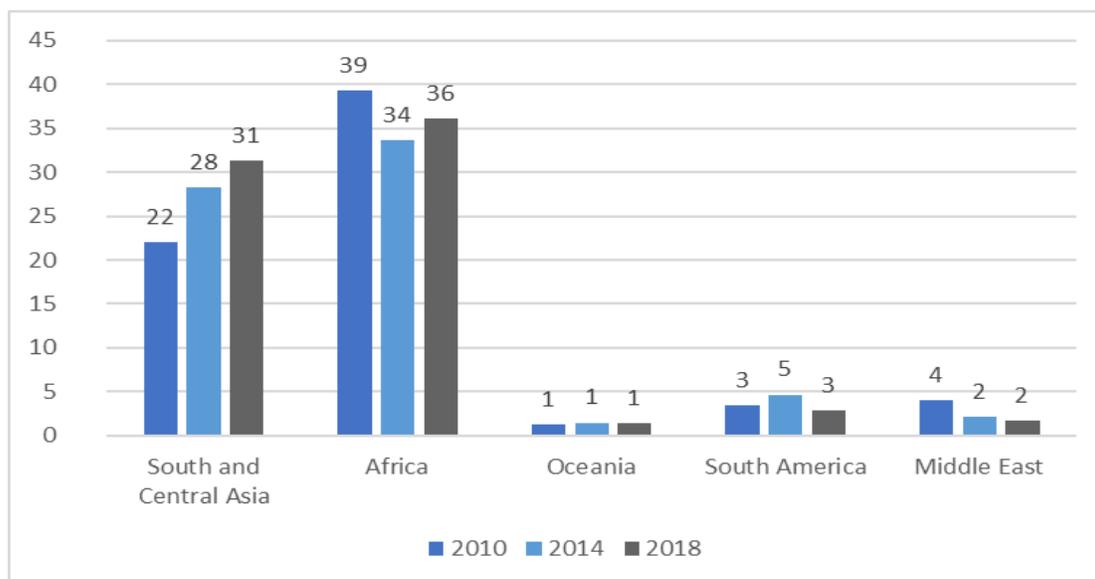
*Note:* Includes Aid for Trade disbursements as part of ODA from all official donors.

<sup>9</sup> UNCTAD, SDG Pulse 2021

<sup>10</sup> OECD, Aid-for-Trade Statistical Queries database. Available at [www.oecd.org/dac/aft/aid-fortradestatisticalqueries.htm](http://www.oecd.org/dac/aft/aid-fortradestatisticalqueries.htm).

<sup>11</sup> ECA/RFSD/2019/8.

**Figure 2: Share of Aid for Trade commitments to developing countries, by region**  
(In percentages)



*Source:* Analysis based on OECD Aid for Trade statistics.

*Note:* Includes Aid for Trade disbursements as part of ODA from all official donors.

11. The largest share of Aid for Trade commitments to Africa in 2018 was towards the energy sector, at 33 per cent; agriculture, at 24 per cent; transport and storage, at 13 per cent, and banking and financial services, at 10 per cent.<sup>12</sup> Aid for Trade disbursements for trade facilitation projects fell sharply between 2015 and 2017, from \$228.9 million to \$132.9 million. Egypt, Ethiopia, Kenya, Morocco and the United Republic of Tanzania attracted the most Aid for Trade support in Africa.<sup>13</sup>
12. The share of the least developed countries in world merchandise exports accounted for 0.89 per cent in 2015 before recovering slightly to 0.98 per cent in 2018, increasing from \$189 billion in 2011 (base year) to \$192 billion in 2018, before declining to \$181 billion in 2019. This indicates that the target of doubling least developed countries' share of global exports by 2020 (target 17.11 of the Goals) will not be met.<sup>14</sup> Least developed countries' exports continue to face unfavorable market conditions<sup>15</sup> and difficulties in complying with the conditions for preferential treatment.<sup>16</sup>

<sup>12</sup> Ibid.

<sup>13</sup> ECA and World Trade Organization, "An inclusive African Continental Free Trade Area: aid for trade and the empowerment of women and young people", 2019.

<sup>14</sup> The Least Developed Countries Report 2020: Productive Capacities for the New Decade (United Nations publication, 2020).

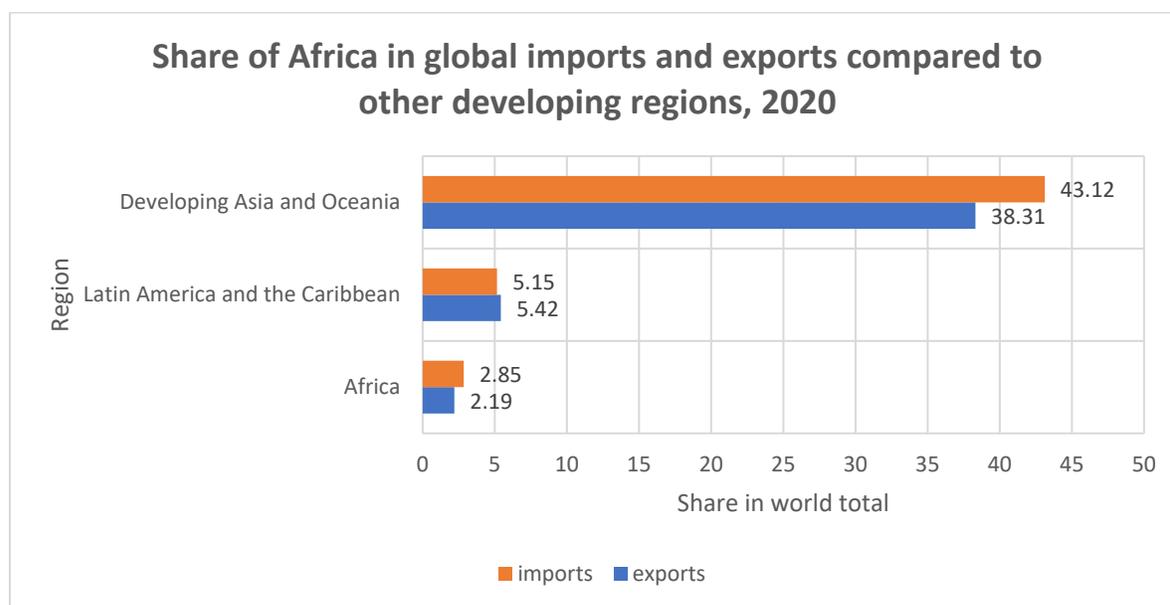
<sup>15</sup> Ibid.

<sup>16</sup> The Sustainable Development Goals Report 2020 (United Nations publication, 2020).

## **II. The potential contribution of the African Continental Free Trade Area (AfCFTA) to inclusive growth and sustainable development in Africa**

13. Africa's share in world trade remained low in the past decade, with exports recording an increase from 2.3 per cent in 2010 to 2.5 per cent in 2015 and then declining to 2.2 per cent in 2019. Africa's trade performance still depends heavily on commodity price developments and participation in global trade remains mostly stagnant.
14. Africa's exports declined by 3.9 per cent in 2019,<sup>17</sup> driven by weak demand for primary commodities<sup>18</sup> and sharply falling commodity prices.<sup>19</sup> particularly oil prices.<sup>20</sup> In 2020, this downward trend continued owing to 7.4 per cent contraction in global merchandise trade due to the impact of the COVID-19 pandemic.
15. According to latest figures by UNCTAD, African countries saw a significant decline in their merchandise exports and imports in 2020, with African exports reaching \$ 386 billion while imports stood at \$ 509 billion. These figures account for 2.19 per cent of world total merchandise exports and 2.85 of total imports (Figure 3) and reflect a decline of 19.3 per cent and 13.2 per cent respectively compared to 2019 figures.<sup>21</sup>

**Figure 3: Share of Africa in global imports and exports compared to other developing regions, 2020 (In percentages)**



Source: UNCTAD Statistics, 2021

<sup>17</sup> Trade and Development Report 2020: from Global Pandemic to Prosperity for All – Avoiding Another Lost Decade (United Nations publication, 2020).

<sup>18</sup> World Investment Report 2020

<sup>19</sup> UNCTAD, “Global trade update”, October 2020.

<sup>20</sup> African Union Commission and OECD, Africa's Development Dynamics 2021

<sup>21</sup> UNCTAD Handbook of Statistics, 2021

16. In 2020, Africa experienced its first recession in more than two decades, owing to the pandemic whose impact was a disruption of trade flows due to a slump in global demand. As a result, there was a drop in commodity exports. The recession was inevitable given the strong correlation between economic growth on the continent and global demand and prices of primary commodities<sup>22</sup> which accounted for 75% of Africa's exports in 2020.<sup>23</sup> The AfCFTA could provide massive opportunities for promoting recovery and addressing the impact of COVID-19 pandemic on Africa's inclusive growth and sustainable development, including by promoting economic diversification.<sup>24</sup>
17. Intra-African trade, however, increased to 16.1 per cent of total African trade in 2018 up from 15.5 per cent in 2017.<sup>25</sup> This is much lower than in Europe (68 per cent) and Asia (59 per cent),<sup>26</sup> In 2019, Intra-African merchandise exports reached \$ 70 billion, accounting for 14.4 % of total exports from Africa.<sup>27</sup> Although Intra-African exports contracted slightly to \$ 69 billion in 2020, its share in total merchandise exports from the continent increased to 18 per cent. That was still low compared to intraregional exports as a share of total exports recorded in other regions in 2020 (68 per cent) in Europe and (58 per cent) in Asia<sup>28</sup>. (Figure 4).
18. The creation of the AfCFTA is meant to reverse this "historical anomaly", where most of the trade undertaken by African countries is with the rest of the world, and involves primarily raw materials exports, inclusive of extractive materials like oil and minerals, while importing manufactured goods, such as automobiles, electronics, and pharmaceuticals, among others.
19. Furthermore, as demonstrated by the increase in intra-African exports in 2020 in the context of the continent's total exports falling by 20 per cent compared to the 2019 level, trade among Africans remained resilient. More importantly, intra-Africa trade has been more diversified in terms of basket of products, which demonstrates a potential for structural transformation. This can be leveraged with the full implementation of the AfCFTA.

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<sup>22</sup> Africa Export-Import Bank, ECA, AfDB, Survey of Impact of COVID-19 on African Trade Finance, 2020

<sup>23</sup> UNCTAD Handbook of Statistics, 2021

<sup>24</sup> UNCTAD, Economic Development in Africa Report, 2021

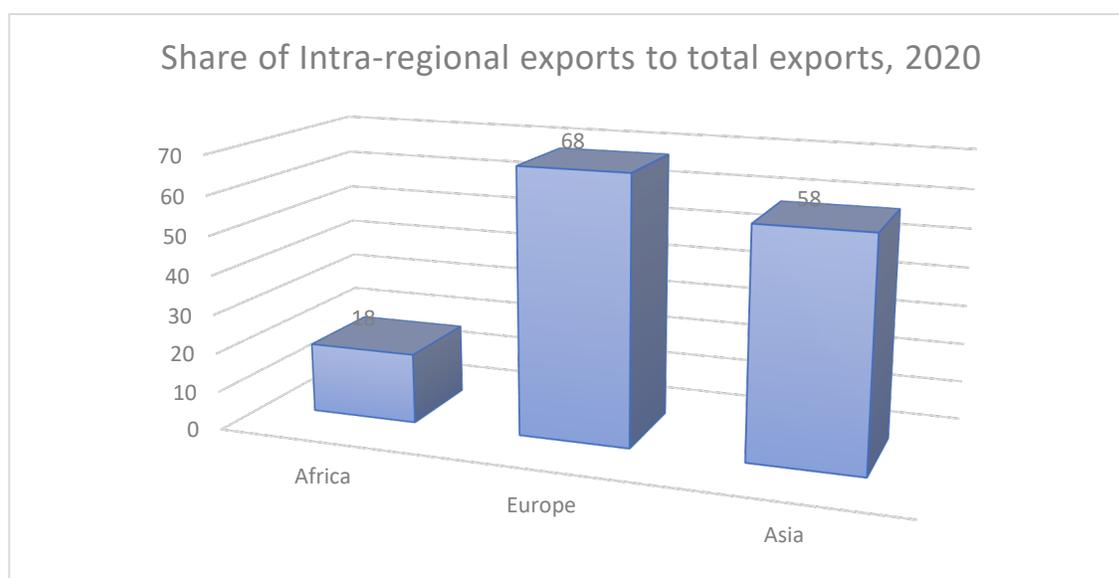
<sup>25</sup> Africa Export-Import Bank, African Trade Report 2019: African Trade in a Digital World (Cairo, 2019).

<sup>26</sup> Economic Development in Africa Report 2019: Made in Africa – Rule of Origin for Enhanced Intra-African Trade (United Nations publication, 2019).

<sup>27</sup> UNCTAD, Economic Development in Africa Report, 2021

<sup>28</sup> UNCTAD Handbook of Statistics, 2021

**Figure 4: Share of intraregional trade in total trade, 2020 (In percentages)**



*Source:* UNCTAD Statistics, 2021

20. Established in 2018<sup>29</sup>, the AfCFTA creates a market of 1.3 billion people and a combined GDP of \$3.4 trillion<sup>30</sup>. Per the geographical area and number of participating countries, the AfCFTA is the largest free trade area established since the establishment of the World Trade Organization (WTO).
21. Through the AfCFTA, African countries are establishing a single continental market for goods and services, facilitated by movement of capital and persons, thus laying the foundation for the eventual establishment of a continental Customs Union. Other objectives of the AfCFTA include the promotion of sustainable and inclusive development, gender equality, structural transformation, industrial development and diversification, regional value development, agricultural development and improved food security on the continent<sup>31</sup>.
22. Since 1st January 2021, it became possible for State Parties whose customs procedures are ready, to trade under the AfCFTA preferential terms. This marked the start of a historical journey that knits together previously disparate trade practices and

<sup>29</sup> African Union (2018), Decision on the draft Agreement establishing the African Continental Free Trade Area (AfCFTA), Ext/Assembly/AU/Dec.1(X), Assembly of the Union, Tenth Extraordinary Session, 21 March 2018, Kigali, Rwanda.

<sup>30</sup> World Bank (2020). The African Continental Free Trade Area: Economic and Distributional Effects. Washington, DC: World Bank. doi:10.1596/978-1-4648-1559-1.

<sup>31</sup> African Union, Agreement establishing the African Continental Free Trade Area, Article 3 (General Objectives)

rules, making it easier for goods, services and investments to flow between and among the countries on the continent.

23. Indeed, the full implementation of the Agreement establishing the AfCFTA will have a significant positive economic impact for Africa. The Economic Commission for Africa estimates that it will increase the value of intra-African trade by between 15 per cent (\$50 billion) and 25 per cent (\$70 billion) by 2040 by eliminating 90 per cent of tariffs on goods and reducing trade costs. It is also expected to strengthen the economic participation of youth and women. Women represent over 70 per cent of cross-border informal traders<sup>32</sup> who could benefit from the AfCFTA's support to small-scale, cross-border traders and smallholder farmers.<sup>33</sup>
24. In addition to its role in diversifying Africa's exports, as well as building a more resilient economy, the AfCFTA holds significant potential for competitiveness of African economies and their integration into regional and global value chains, increasing economies of scale and attracting FDI to the continent.
25. Unleashing the AfCFTA's potential requires enhancing investment in key areas, particularly regional / cross-border infrastructure projects as well as promoting inclusive industrialization and value addition which are critical for creating regional value chains and promoting economic diversification.<sup>34</sup>
26. This is also crucial for reversing the downward trends in FDI flows to the continent which has declined even before the pandemic, recording a reduction of 10.3 per cent in 2019 compared to 2018 levels.<sup>35</sup>
27. Significant strides were made by African countries in operationalizing the AfCFTA Agreement. A significant number of the countries that signed the Agreement creating the AfCFTA have completed the respective ratification process and are AfCFTA States Parties (40 countries out of 55 AU membership, or 73 per cent). With regard to tariff concessions and specific commitments, most African Union member states submit their offers (43 countries representing 78 per cent of African Union membership), including members of four customs unions, namely the East African Community (EAC), Economic Community of West African States (ECOWAS), Central African Economic and Monetary Community (CEMAC) and Southern African Customs Union (SACU).
28. There was also important progress in determining the rules of origin applied to products that will benefit from the preferences, with member States finding consensus on about 87% of tariff lines. In addition, 46 countries (84 per cent) presented liberalization offers covering the five priority sectors, namely: Business,

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<sup>32</sup> United Nations Development Programme and the African Continental Free Trade Area Secretariat, *The Futures Report: Making the AfCFTA Work for Women and Youth* (2020).

<sup>33</sup> United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), "Opportunities for women entrepreneurs in the context of the African Continental Free Trade Area", June 2019

<sup>34</sup> Economic Commission for Africa, *Towards a Common Investment Area in the Africa Continental Free Trade Area: Leveling the Playing Field for Intra-African Investment*, 2021

<sup>35</sup> Ibid.

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Communication, Financial, Tourism and Transport services sectors<sup>36</sup>. Furthermore, the Dispute Settlement Body has been activated and is operational. Furthermore, much work is being done to ensure that customs clearance delays, certification issues, restrictive licensing regimes and other barriers to African trade are resolved.

29. However, some Phase I issues are still pending, in particular negotiations on rules of origin and related documents, as well as the start of negotiations in the remaining seven (7) sectors.
30. Phase II will focus on protocols on investment, competition, intellectual property and women and youth, as well as digital trade. Completion of these protocols, especially on the competition policy, investment and intellectual property rights, will go a long way to further strengthen the investment environment and enhance the attractiveness of the African market to investors. With these protocols, the AfCFTA is set to constitute a vehicle for investment and capital through common rules and regulations that target the development of African enterprises, especially SMEs.
31. Under the Protocol on Investment, it is expected to address barriers to entry for investments in Africa, reduce the time and cost of investment approvals, increase transparency, improve efficiency through harmonization of regulatory frameworks for investment, as well as protection and access to resources when rights are violated. In relation to the Protocol on Intellectual Property Rights, by protecting property rights throughout the continent, incentives will be created for the development of new knowledge, as well as for investment in research and development.
32. As a way of sharing the benefits and expanding them to all, including the most vulnerable groups, the African Union Heads of State and Government mandated member states to negotiate a Protocol on Women and Youth in trade, so that these two population groups can access and reap the intended benefits of continental trade agreements.

### **III. Conclusions and recommendations**

- **African Member States are encouraged to make the most of the momentum created by the start of trading under the AfCFTA to conclude negotiations on the second phase of the process, harmonize trade policies and promote sustainable infrastructure and industrial development.**
- **There is a pressing need to complete the few pending negotiations on critical rules of origin and tariff schedules to facilitate commercially meaningful trade under the rules of the AfCFTA legal instruments. African States are encouraged to proactively participate and find consensus in the ongoing negotiations.**

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<sup>36</sup> Data from the AfCFTA Secretariat.

- **Capacity building and institutional support are key to enabling African countries to harness the potential of the AfCFTA and benefit from expanding international trade flows. It's imperative to further build trade and productive capacities and implement industrial policies to increase added value in manufacturing and create decent jobs for Africa's burgeoning population of young people.**
- **The AfCFTA holds significant potential for promoting a more inclusive sustainable development, including through advancing women's economic participation. The AfCFTA Agreement emphasizes the importance of gender equality for the development of international trade and economic cooperation and underscores the need to promote sustainable and inclusive socio-economic development, gender equality and structural transformation. It's crucial to maximize the AfCFTA impact on boosting trade and export capacities of the formal and informal sectors, with a focus on strengthening the participation of women and youth.**

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