



ECA



# African Continental Free Trade Area: what it means for Africa and its trading partners

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# 1. Rationale

# 2. Negotiations - state of play

# 3. What's in it

# 4. What it means for everyone else

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Rationale:

# RATIONALE: A CONTINENTAL TRADE AREA

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## Africa's economic structure is broadly similar to India's



India	Africa
<b>Population</b>	
1.3bn	1.2bn
<b>GDP</b>	
2.6tn	2.5tn
<b>Tax revenue to GDP</b>	
20.4%	20%



- India is a single consolidated market (7<sup>th</sup> biggest in the world)
  - Allows scale economies and competitive businesses
- Africa is fragmented over 54 countries and 107 unique land border
  - Businesses face average tariffs of 6.9% and non-tariff barriers

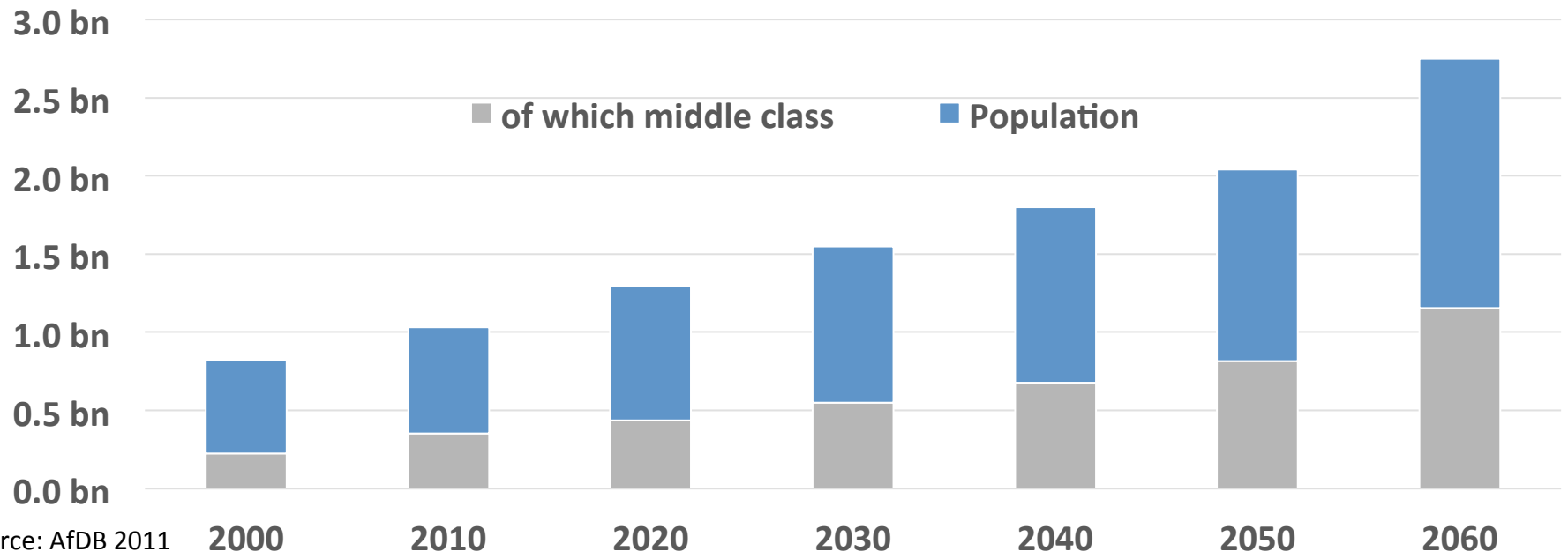
But India creates far greater excitement for investors



## Consolidating Africa's market helps create more exciting opportunities

- Facilitating regional value chains
- Fostering economies of scale and scope
- Better allowing businesses to gain from Africa's excellent market dynamics:

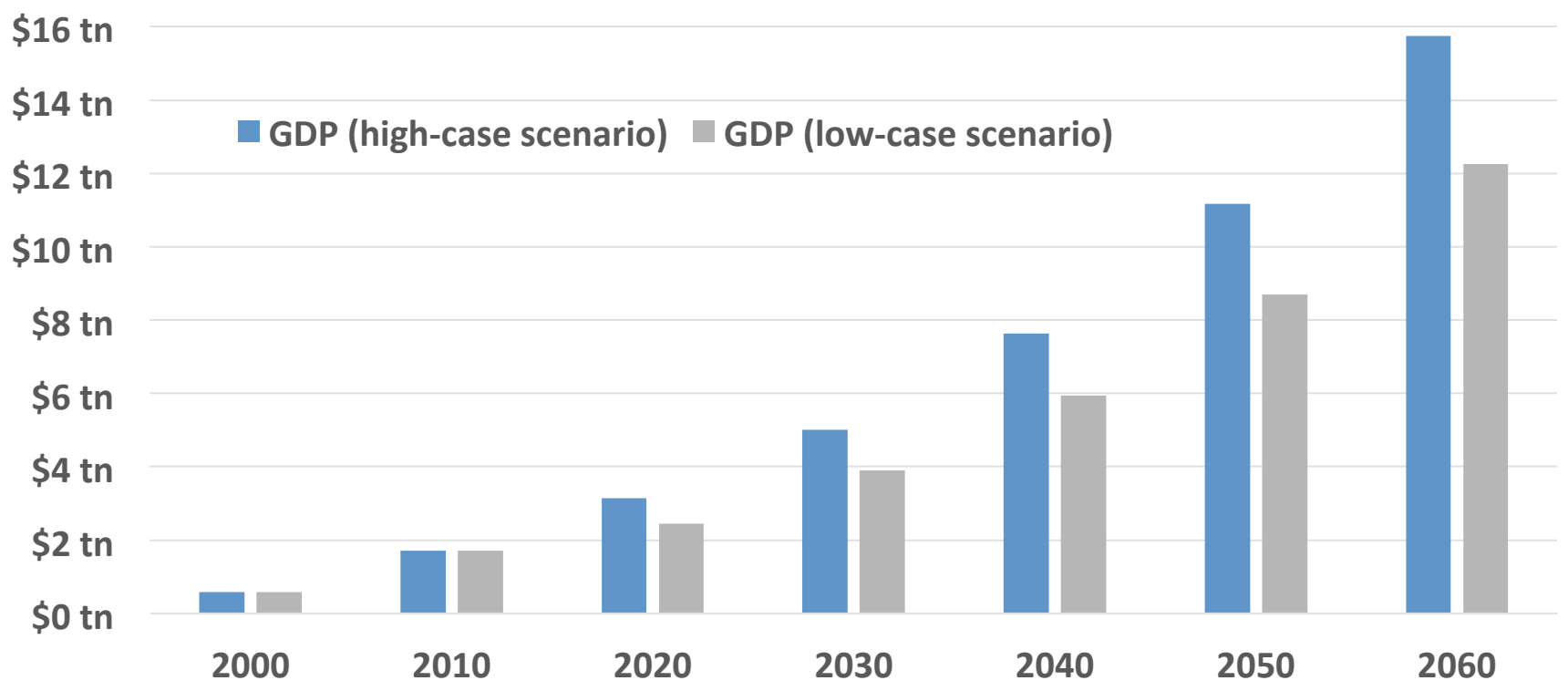
### Africa's population and size of the middle class



Source: AfDB 2011

## Providing incentives for investors and opportunities for African businesses

### Africa's Gross Domestic Product at current market prices (US\$ trillion), forecasts

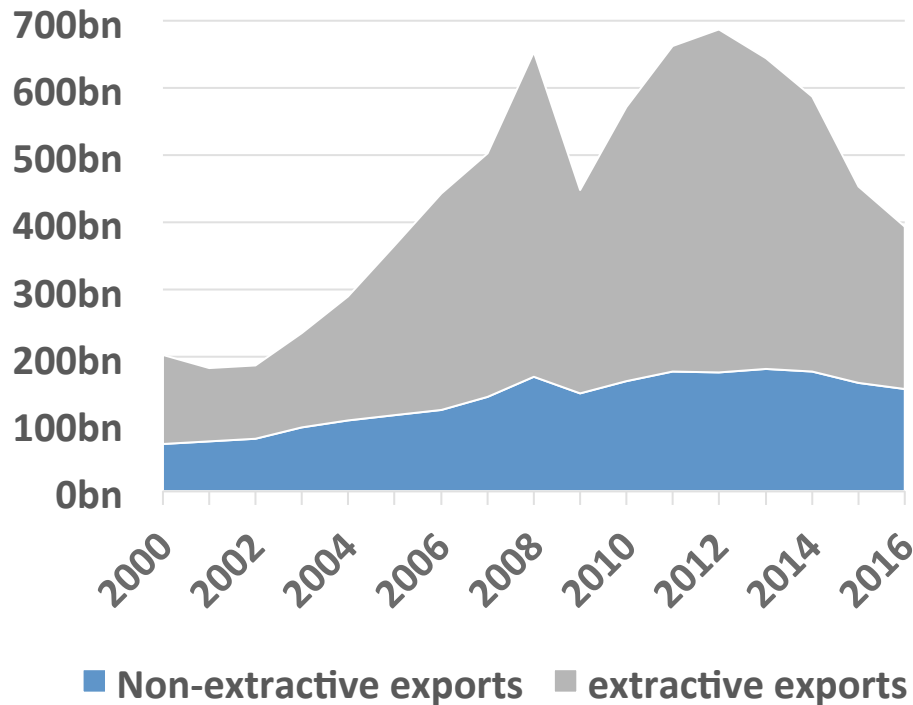


Source: AfDB 2011

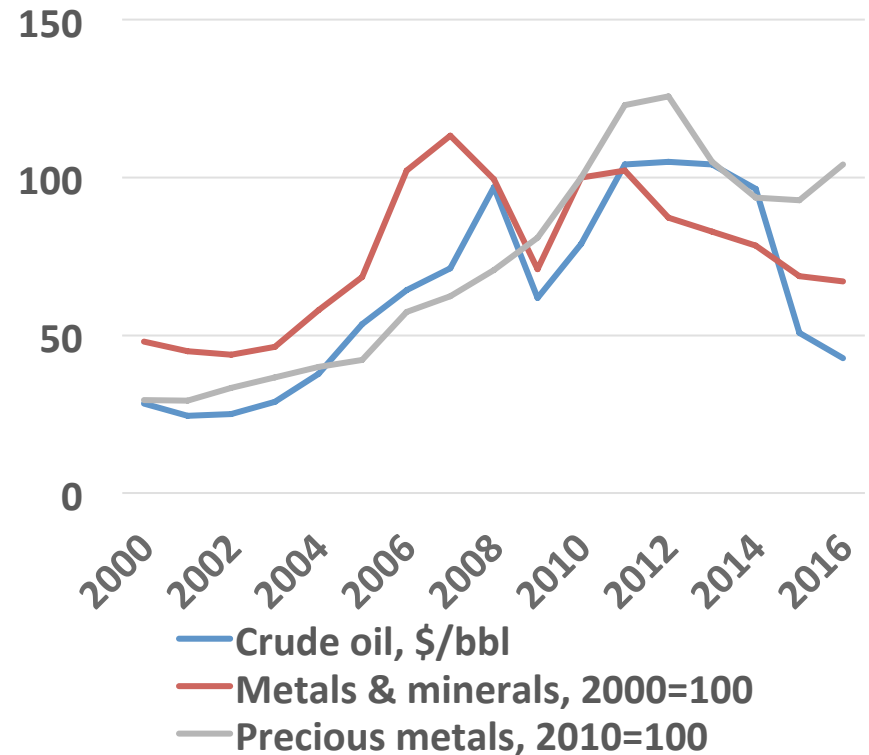
## And re-orientating African exports away from extractives dependency

- Petroleum oils & gas, minerals, ferrous and precious metals
- Volatile prices, produce few jobs, and fluctuating revenues

Africa's extractive exports



Extractive export prices



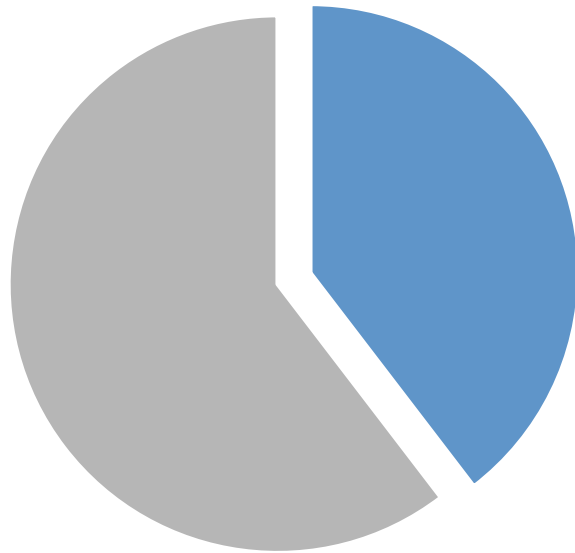
Source: CEPI-BACI and World Bank commodities market data



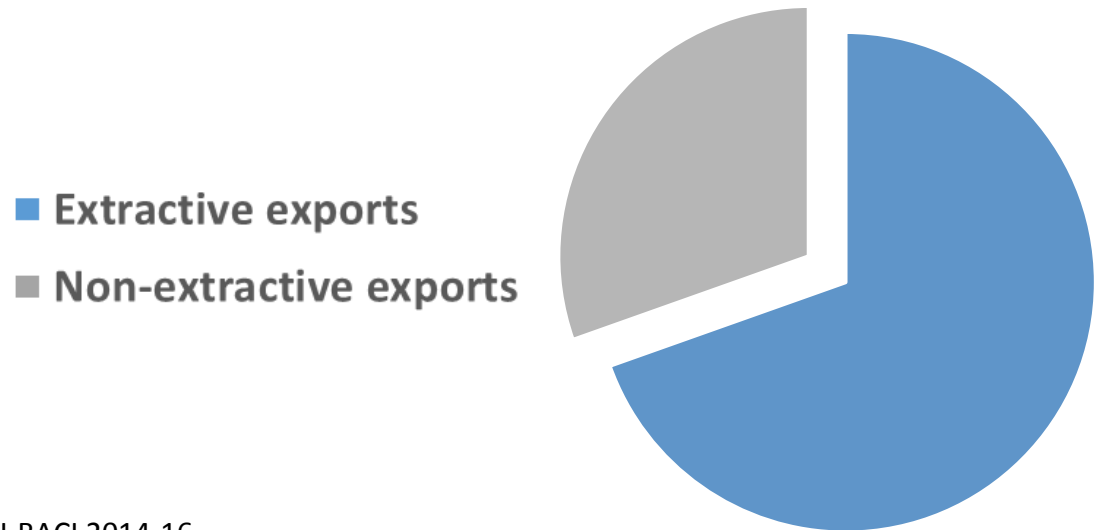
## Because intra-Africa trade is less extractive dependent

- Only 40% is extractives (compared to 70% of exports to outside Africa)

Exports to within Africa



Exports to outside Africa



Source: CEPI-BACI 2014-16

- More balanced and sustainable exports deliver more sustainable growth
- More labour intensive and better at fostering structural transformation and long-term sustainable growth

## **This provides a real development case for continental integration**

- ECA estimate that the AfCFTA has the potential to boost intra-African trade by 52.3% by eliminating tariffs
- With the reduction of NTBs, intra-African trade doubles
- ECA estimate all African countries to experience welfare gains
- We forecast that the AfCFTA will benefit particularly industrial and value-added exports
- These sectors create more jobs for Africa's bulging youth population and opportunities for MSMEs than does Africa's trade with the rest of the world, which tends to be fuels and minerals.



Bringing us up to date:

# STATE OF PLAY IN THE NEGOTIATIONS

## AfCFTA negotiations were difficult...



- 5 different legal systems
- 15 landlocked countries, 6 SIDS
- Influential states and coalitions
- Political leaders, trade negotiators, private sectors and donors
- \$337m GDP in São Tomé and Príncipe to \$568bn in Nigeria
- \$130 GDP per capita in Somalia to \$20,381 in Equatorial Guinea
- 8 RECs as building blocks
- Pull together into 1 agreement

# ... yet have progressed rapidly



## AfCFTA timeline: next steps to bring the agreement into effect

1. Entry into force after 22<sup>nd</sup> instrument of ratification deposited with the AUC
2. Implementation Roadmap (target Jan 2019):
  - a) Prepare schedules of concessions for trade in goods
  - b) Prepare schedules of concessions for trade in services
  - c) Conclude specific list rules of origin
3. Conference of State Parties meet to adopt structure of AfCFTA Secretariat, staff rules & regulations, and budget – as well as establish the host country
4. AfCFTA committees convene to begin facilitating implementation



Structure of the agreement:

# NEGOTIATIONS: WHAT'S IN IT



## AfCFTA: Shape and key features

<b>Agreement establishing the African Continental Free Trade Area</b>	<b>Protocol on Trade in Goods</b>	<ul style="list-style-type: none"> <li>Elimination of duties and quantitative restrictions on imports</li> <li>Imports shall be treated no less favourably than domestic products</li> <li>Elimination of non-tariff barriers</li> <li>Rules of Origin</li> <li>Cooperation of customs authorities</li> <li>Trade facilitation and transit</li> <li>Trade remedies, protections for infant industries and general exceptions</li> <li>Cooperation over product standards and regulations</li> <li>Technical assistance, capacity-building and cooperation</li> </ul>
	<b>Protocol on Trade in Services</b>	<ul style="list-style-type: none"> <li>Transparency of service regulations</li> <li>Mutual recognition of standards, licensing and certification of services suppliers</li> <li>Progressive liberalization of services sectors</li> <li>Service suppliers shall be treated no less favourably than domestic suppliers in liberalized sectors</li> <li>Provision for general and security exceptions</li> </ul>
	<b>Protocol on Dispute Settlement</b>	<ul style="list-style-type: none"> <li>Rules and Procedures for Settlement of Disputes within the African Continental Free Trade Area</li> </ul>
	<b>Phase 2 negotiations</b>	<ul style="list-style-type: none"> <li>Intellectual property rights</li> <li>Investment</li> <li>Competition policies</li> </ul>



## What does the AfCFTA mean in concrete terms? (1/2)

- African businesses, traders and consumers will no longer pay tariffs on a large variety of goods that they trade between African countries;
- Traders constrained by non-tariff barriers, including overly burdensome customs procedures or excessive paperwork, will have a mechanism through which to seek the removal of such burdens;
- Cooperation between customs authorities over product standards and regulations, as well as trade transit and facilitation, will make it easier for goods to flow between Africa's borders;
- Through the progressive liberalization of services, service suppliers will have access to the markets of all African countries on terms no less favourable than domestic suppliers;

## What does the AfCFTA mean in concrete terms? (2/2)

- Mutual recognition of standards, licensing and certification of service suppliers will make it easier for businesses and individuals to satisfy the regulatory requirements of operating in each other's markets;
- To protect against unanticipated trade surges, State Parties will have recourse to trade remedies to ensure that domestic industries can be safeguarded, if necessary;
- A dispute settlement mechanism provides a rule-based avenue for the resolution of any disputes that may arise between State Parties in the application of the agreement.

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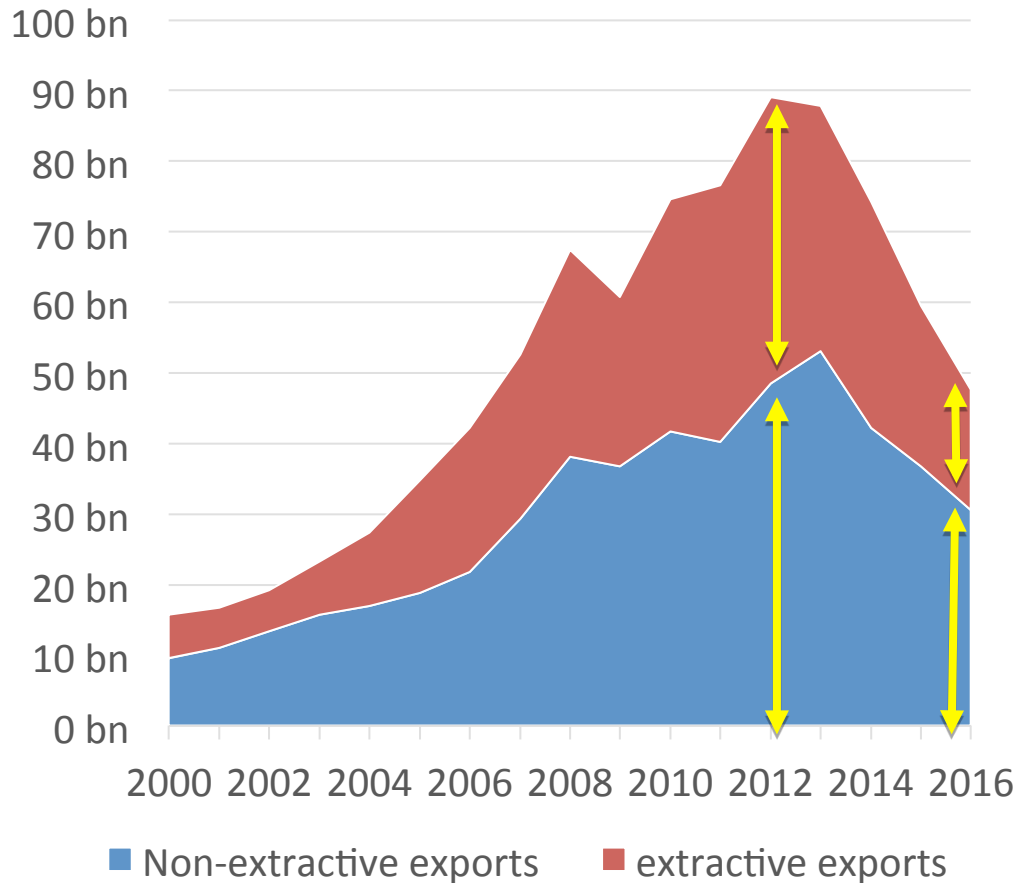
Beyond Africa:

# WHAT THIS MEANS FOR EVERYBODY ELSE

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## Increasing importance of intra-African trade

### Intra-African exports, real 2016\$



- Intra-African trade will grow, helping to diversify and create a more stable African trade profile – this is because a far larger share of intra-African trade is non-extractives, which are less volatile
- Establishes a more economically reliable and prosperous trading partner

Source: CEPI-BACI data

## Trade policy coherence

- The AfCFTA is expected to go beyond a traditional free trade area and in doing so will serve as a basis for continental trade policy coherence.
- Rather than a patchwork of individual agreements, a consolidated Africa would ensure that all African countries are brought along together in a manner that better suits regional value chains and trade integration.
- In looking forward to trade negotiations with the EU, the US post-AGOA plans, and potentially emerging markets like India and China, this will give Africa a stronger negotiating footing.

## Changing African opportunities

- Currently a market of 1.2 billion people, and a combined continental GDP of about \$2.5 trillion
- The middle class in Africa now represents almost a third of Africa's current population and is growing
- However, by 2050 Africa will be home to 2.5 billion people – more than a quarter of what will be the world's population, with an economy estimated to be worth as much as \$29 trillion
- By then, the market of just Nigeria will account for around 8 times as many people as Canada
- With the AfCFTA, this is an increasingly integrated market

## Changing African opportunities (continued)

- Petroleum oils, gas and mining will continue to be important for Africa
- However Africa now represents new investment opportunities, many of which can draw from Canadian expertise:
  - Education: Africa has a skill gap of 4.3m engineers and 1.6m agricultural scientists and researchers (ACBF)
  - Infrastructure: AfDB's Programme for Infrastructure Development in Africa (PIDS) initiative comprises projects focusing on integration, power generation, ICT and water resources – total cost of all projects by 2040 is \$360bn
  - Agriculture and processed agriculture: food security

## Draw from Canadian expertise

- A services trade and investment focus should be emphasized
- Canada can leverage its expertise in tertiary education, clean energy development, technological cooperation on climate change, and agricultural productivity services
- Canada's cooperation model with mining companies for improved corporate social responsibility provides lessons for deeper engagement in Africa: lessons learned – both good and bad – can help develop new bilateral trade and investment relationships.
- But also a change in perspective: need to go beyond traditional investment and trade opportunities





 **AFRICA**  
**FIRST**

**THANK YOU!**