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POLICY BRIEF

THE AFRICAN CONTINENTAL FREE TRADE AREA: THE DAY AFTER THE KIGALI SUMMIT

The African Continental Free Trade Area is a remarkable achievement. At a time when trade is questioned in some parts of the world, African leaders gathered in Kigali on 21 March 2018, and took a bold step in favour of trade and of the economic integration of the continent. This policy brief examines the expectations for the Free Trade Area and outlines areas that require prompt action by African nations for the agreement to deliver on its expectations. In the challenges that lie ahead, including the next chapter of the Kigali Agreement on the African Continental Free Trade Area, UNCTAD will continue supporting African nations.

Key points

- The African Continental Free Trade Area is an ambitious venture aspiring to create a single African market.
- Steps should be taken to achieve full ratification of the Free Trade Area.
- Liberalization and reform commitments should be implemented to bring about the expected massive stimulus to intra-African trade expansion, economic growth, welfare improvement and structural transformation of the African economy.
- Some countries and sectors may stand to experience unintended losses in fiscal revenue, jobs and industry.
- Built-in flexibilities in liberalization schemes, and adequate flanking policies and adjustment measures would be means of addressing such losses.

The road to Kigali

The agreement is the result of years of negotiations and hard work in pursuit of a common vision, embedded in two instruments of the Organization of African Unity – the Lagos Plan of Action for the Economic Development of Africa (1980) and the Abuja Treaty Establishing the African Economic Community (1991) – as well as the African Union summit decision to establish a continental free trade area (2012) by an indicative date of 2017 and the African Union Agenda 2063 (2015) on “the Africa we want”.

The African Continental Free Trade Area has the potential to unify African markets, nations and peoples, and in so doing improve the well-being of their population. A strong and united African market will also benefit Africa’s trading partners and promote greater global trade. But more is needed to ensure greater convergence, coordination and harmonization of trade policy measures among African countries and their regional economic communities.

The ambition of the African Continental Free Trade Area

The Framework Agreement on the African Continental Free Trade Area, the Protocol on Trade in Goods and the Protocol on Trade in Services and related annexes and appendices (some of which remain to be completed) were signed by 44 of 55 African Union member States.[1] The Free Trade Area will be constructed on the principles of substantial liberalization, flexibility and building on what has been accomplished so far, especially under the African regional economic communities. A dedicated institutional framework on the Free Trade Area, including a secretariat, will be set up to manage and administer it.

[1] Nigeria has not signed the agreements but remains committed to the Free Trade Area. Thirty African Union member States signed the Protocol on Free Movement of Persons, Right to Residence and Right to Establishment.

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The Free Trade Area aspires to create a single market for trade in goods and in services among the African States that together comprise more than 1.26 billion people, and a gross domestic product (GDP) of $2.14 trillion.[2] The single market will be further reinforced by cooperation on investment measures, intellectual property rights and competition policy to support innovation, competitiveness, and product development and diversification.

The single market in goods would be created over a transition period of 5 years by the 21 non-least developed countries, and 10 years by the 33 least developed countries. Some 90 per cent of all tariff lines would be subject to progressive tariff cuts. The remaining 10 per cent of tariff lines would comprise (a) sensitive products that can be liberalized over 10 years by the non-least developed countries and 13 years by the least developed countries; and (b) products excluded from liberalization (the list of such products could be reviewed after 5 years through negotiations). The sensitive and exempted product lists should be carefully identified, negotiated and agreed upon, as the exemptions of products actually traded among African countries may undermine the benefits of trade growth.[3] The agreement will be buttressed by cooperation on measures relating to trade in goods, namely rules of origin, customs cooperation, transit, trade facilitation, non-tariff barriers,[4] technical barriers to trade, sanitary and phytosanitary measures, and trade remedies. These can increase connectivity and efficiency of trade, adding to the gains realized from the Free Trade Area.

The agreement on trade in services includes the progressive elimination of barriers to the movement of African services and service suppliers by lifting restrictions to the various means of supplying services, including the temporary movement of natural persons, supply across borders and commercial establishment. The liberalization, consistent with article V of the General Agreement on Trade in Services of the World Trade Organization, will take place through successive rounds of services negotiations on sector-specific obligations and would bring further stimulus to intra-African trade and welfare improvement.[5]

Expected effects of the African Continental Free Trade Area

The implementation of the Free Trade Area over the transition period is expected to boost African welfare, intra-African trade and GDP. UNCTAD estimates that under a full liberalization scenario – 100 per cent liberalization of tariffs on trade in goods – the continent would realize the gains depicted in figure 1.[6] For example, total employment is expected to increase by 1.2 per cent, and most of these gains will be in the manufacturing and agricultural sectors. With GDP presently valued at $2.1 trillion, most African countries will register an increase of between 1 and 3 per cent GDP. The growth rate may not be even among African countries, and some may experience a slight decrease in the absence of compensatory measures and built-in flexibilities. Overall, Africa will benefit from the agreement, which should bring about $16.1 billion in welfare gains.

2 UNCTADStat, 2016; all references to dollars are to United States dollars.

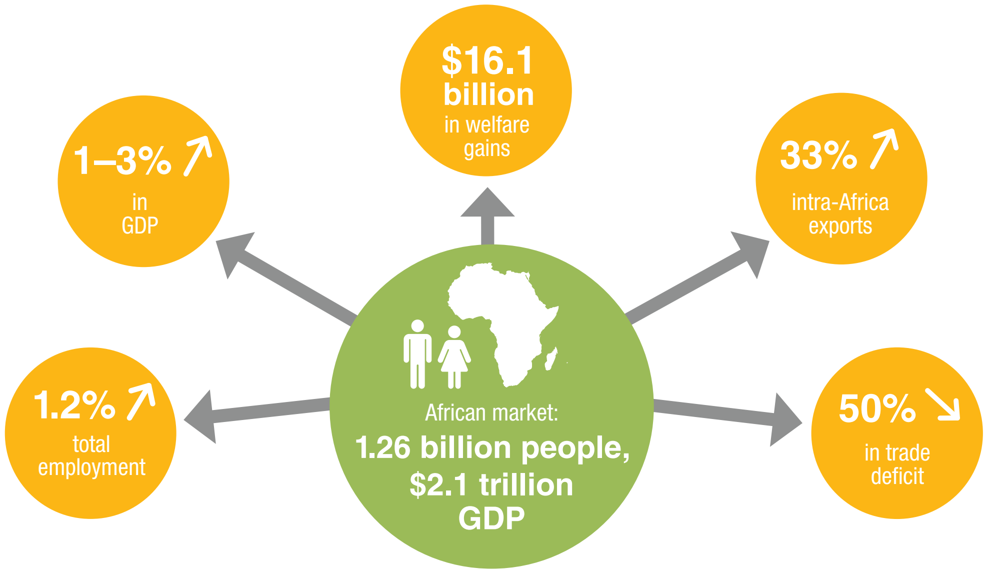
3 Exemptions of 5–10 per cent of tariff lines could effectively exempt almost all trade between African countries and cut overall benefits by more than half. See D Vanzetti, R Peters and C Knebel, 2018, Non-tariff measures: Lifting CFTA and ACP trade to the next level, UNCTAD Research Paper No. 14.

4 The gains from tariff reductions could be dwarfed by gains from eliminating non-tariff barriers and increasing regulatory collaboration. See Vanzetti et al., 2018.

5 The services sector in Africa grew at 4.6 per cent annually between 2009 and 2012; it represents one-third of formal employment and added $271 billion to Africa's trade in 2012 (UNCTAD, 2015, *Economic Development in Africa Report 2015: Unlocking the Potential of Africa's Services Trade for Growth and Development* (United Nations publication, Sales No. E.15.II.D.2, New York and Geneva).

6 M Saygili, R Peters and C Knebel, 2018, African Continental Free Trade Area: Challenges and opportunities of tariff reductions, UNCTAD Research Paper No. 15.

Figure 1
Estimated gains from the African Continental Free Trade Area



The gains, which already take into account a loss of $4.1 billion in tariff revenue, will arise from increased employment, better use of domestic resources to increase production in manufacturing and agriculture, and access to a variety of cheaper products. Tariff revenue losses are relatively contained for most African countries, as they trade less among themselves.
Intra-African exports represent about 18 per cent of total exports, which in 2016 amounted to $62 billion (UNCTADStat).[7] The Free Trade Area will further boost the value of intra-African trade by 33 per cent. The agreement will not only create new trade opportunities among African countries, but also partially divert trade away from developed markets towards the continent. The latter will help most African countries reduce their trade deficit.

Africa's gains from the Free Trade Area can go beyond these estimates in the longer terms. Dynamic economic gains could arise from improved trade facilitation and customs operations, services trade reform and collaboration on investment, intellectual property and competition. These connectivity improvements with the larger market can attract investment to stimulate the development of regional and continental value chains, diversification and industrialization across Africa.[8] Moreover, trade within Africa has better quality than its trade with the rest of the world. The former has higher manufacturing (46.3 per cent), and medium- and high-technology content (27.1 per cent) (figures 1 and 2), as well as more product diversity than the latter. Therefore, the Free Trade Area can help African countries expand domestic productive capacity, climb up the value chain and diversify local production and export baskets by facilitating the transformation of commodity-dependent economies into exporters of more sophisticated, processed goods.

The economic gains expected from the Free Trade Area are made at an aggregate level and may not be equally distributed among countries. As a result, a few countries may experience unintended tariff revenue and welfare losses, as well as the costs of adjustment to a competitive environment, including potential job losses. This is a major

7 The Economic Commission for Africa estimates a 52.3 per cent increase in intra-African trade by 2020 due to the removal of tariffs and non-tariff barriers among African countries. (Economic Commission for Africa, African Union and African Development Bank, 2017, *Assessing Regional Integration in Africa VIII: Bringing the Continental Free Trade Area About* (Sales No. E.17.II.K.4, Addis Ababa)).

8 UNCTAD, 2017, *From Regional Economic Communities to a Continental Free Trade Area: Strategic Tools to Assist Negotiators and Agricultural Policy Design in Africa*.

Figure 2
Merchandise exports by product classification, 2016

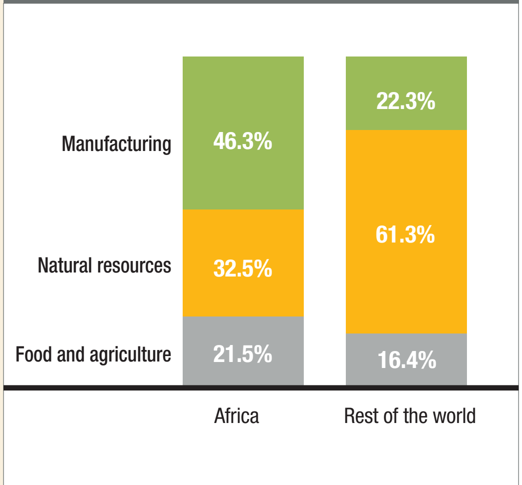
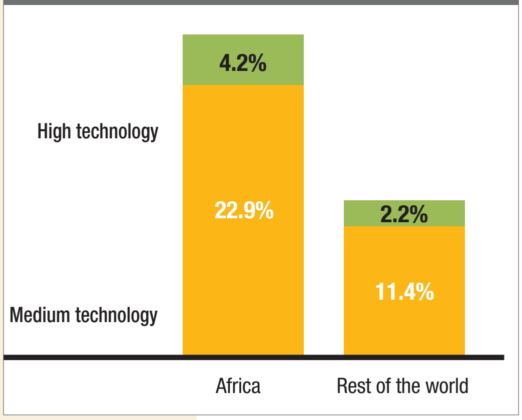


Figure 3
Merchandise exports by technology content, 2016



Source: UNCTADStat.

concern for several countries that can be addressed by way of built-in flexibilities in liberalization schemes, compensatory measures and adequate flanking policies and adjustment measures. At the same time, such losses could be smaller, as the current level of intra-African trade is lower. Further, the expected expansion in intra-African trade can minimize fiscal revenue losses resulting from reductions in tariffs.[9] The Free Trade Area could affect Africa's trade with third parties, for instance, by diverting it from China, the European Union and the United States to other African countries. Therefore, third countries could experience some loss in trade and welfare. However, such impacts are likely to be small for two main reasons: There would be a limited amount of tradeable goods that could be substituted, and in the medium to long term, the growth of the African continent driven by the Free Trade Area would also increase demand for imports from both within and outside Africa that would benefit the rest of the world.

Policy recommendations

- In the global economy where megaregional trade agreements are designed to navigate world trade, the Free Trade Area will provide African countries with an opportunity to counteract and respond to current trends. Therefore, the Free Trade Area should be put into effect as soon as possible to maximize its benefits.
- Urgent ratification of the signed agreement by 22 signatory countries is essential. It should not follow past experiences of low ratification of treaties.[10]
- After the Kigali summit, unfinished business concerning some of the detailed market access conditions should be concluded urgently, including national schedules of tariff concessions and rules of origin. The second phase of negotiations should also

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