

Briefing Note: African Continental Free Trade Area (AfCFTA) – Supporting inclusive growth and transformation*

The African Continental Free Trade Area (AfCFTA) requires 22 countries to ratify its adoption and submit proof/deposit the instruments of ratification with the African Union (AU) for it to come into effect. On 29 April that happened, and on 30 May 2019 the free trade agreement came into effect.

Work, however, still needs to be done on the operationalisation of the agreement, and the supporting instruments need to be finalised. These instruments will involve complex negotiations as they cover: “Rules of origin; schedules of tariff concessions on trade in goods; online non-tariff barriers monitoring and elimination mechanism; digital payments and settlement platform; and African Trade Observatory Portal.”¹

Several studies undertaken by economic researchers predict that the AfCFTA has the potential to increase growth, raise welfare and stimulate industrial development on the continent. The size of the market is staggering. The Brookings Institute argues that “if successfully implemented, the agreement will create a single African market of over a billion consumers with a total GDP of over US\$3 trillion. This will make Africa the largest free trade area in the world.”²

The major beneficiaries of the AfCFTA will be those economies in Africa that have the capacity to expand their exports of goods and services into the rest of the continent. These are mainly South Africa, Nigeria, Kenya and Egypt. However, there are concerns that some countries, particularly the smaller and more vulnerable economies, may experience the negative impacts of premature liberalisation and fiscal revenue losses.

Several authorities, including the UN Commission on Trade and Development (UNCTAD) and the Economic Commission for Africa, have also argued that the “sequential” or simple “free trade” European approach to regional integration is not appropriate for developing countries, especially in the African context. These researchers argue that African countries should adopt an approach to regional integration referred to as “developmental regionalism”. This approach includes four elements: fair trade; structural transformation; cross-border investment in infrastructure; and democratic governance.

¹ AU. (2019) AfCFTA Agreement secures minimum threshold of 22 ratification as Sierra Leone and the Saharawi Republic deposit instruments. Press Release. African Union.

² Songwe, V. (2019). Intra-African trade: A path to economic diversification and inclusion. Foresight Africa 2019 Series. Brookings Institute.

First, Africa's member states have a wide variety of categories of countries that may require special attention and specific treatment. The 55 African member states are made up of 34 least developed countries (LDCs), 16 landlocked developed countries (LLDCs) and six small island developing states (SIDS). Building trade agreements in favour of small and less developed economies will assist in contributing to fairer outcomes of the AfCFTA and a more balanced and mutually beneficial regional integration process.

The private sector, civil society and academics/intellectuals must play a robust and active role in driving the process in parallel, and in partnership with national governments.

Second, co-operation between Africa's emerging entrepreneurs and industries towards building regional value chains to compete more effectively in global markets will advance transformative industrialisation, obtain a fairer share of the value obtained from our commodities and our labour, and improve the lives of the people on our continent.

There are numerous industrial sectors in Africa that are ripe for the development of regional value chains: agro-processing, pharmaceuticals, iron and steel and capital goods, clothing and textiles, leather and footwear and the automotive sector.

The AfCFTA must allow for adequate policy space for African states to build the necessary trade and industrial policies, laws, regulations and institutions to build their infant industries.

Third, African countries will need to strengthen their co-operation in building their hard infrastructure (including, ports, road and rail) and soft infrastructure (including customs co-operation at borders, port efficiency and reducing roadblocks along major transport routes).

The AfCFTA has annexes on "customs cooperation", "trade facilitation", and on "transit". All three of these issues are also covered in the World Trade Organization Agreement on Trade Facilitation and must be implemented with adequate attention to the capacity constraints of the poorest countries.

Fourth, co-operation between African governments on institutionalising and consolidating democratic governance will provide the stability required to stimulate economic growth and development.

The NEPAD Declaration on Democracy, Political, Economic and Corporate Governance adopted at the AU Summit held in Durban, South Africa, in 2002 committed African countries to work together in pursuit of the objectives of democracy, good governance, and the creation of an African Peer Review Mechanism (APRM).

Currently, the APRM has 37 members with Namibia and The Gambia being the most recent members to accede. At least 20 African countries have already undertaken a first country review. The APRM is a truly indigenous and locally owned initiative designed by Africans, for Africans.

This approach to regional integration in Africa has great potential to catalyse and accelerate a virtuous circle of regional trade integration, transformative industrialisation, cross-border infrastructure, democracy, inclusivity and good governance across the continent.

The coming into effect of the AfCFTA on 30 May 2019 will become a landmark, and the transition to a new phase in the historic journey of Africa to realise the dreams of the Pan-African leaders for a peaceful, prosperous and integrated Africa.

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