

AFRICAN CONTINENTAL FREE TRADE AGREEMENT ENTERS INTO FORCE

A Key Milestone Towards the Establishment of a Single African Market

The agreement (the "**CFTA Agreement**") establishing the African Continental Free Trade Area (the "**CFTA**") enters into force on 30 May 2019. The CFTA Agreement was signed by 44 member states of the African Union at a summit in Kigali, Rwanda on 21 March 2018. 30 May 2019 signifies 30 days after the deposit of the twenty-second instrument of ratification with the African Union Commission Chairperson. The CFTA Agreement required ratification by twenty two member states to take effect.

If fully implemented, the CFTA will create a single African market for goods and services, covering an estimated 1.2 billion people with a combined GDP of over USD \$2.5 trillion across 55 member states. The CFTA will be the largest free trade zone by numbers of countries since the World Trade Organization was formed.

The CFTA Agreement aims to eliminate tariffs on 90% of goods produced by participating member states by 2024 (with flexibility for certain lesser developed economies). Tariffs on the remaining 10% of 'sensitive products' are expected to be gradually eliminated by 2029. According to the United Nations Economic Commission for Africa, the CFTA is projected to boost intra-Africa trade by 52% by the year 2022. This is a significant increase since intra-Africa trade currently accounts for only approximately 16% of total Africa trade.

Next Steps

- **Launch of operational phase:** The operational phase of the CFTA Agreement will be launched at the Extra-Ordinary Heads of State and Government summit slated for 7 July 2019 in Niamey, Niger. The African Ministers of Trade are scheduled to meet in Kampala, Uganda in the first week of June to review work on the supporting instruments ahead of this summit. During the operational phase, member states will seek to progressively eliminate barriers to trade in goods, liberalize trade in services, cooperate on the Phase II protocols, and establish a mechanism for dispute settlement.
- **Negotiation of Phase II protocols:** In the build up to the operational phase, participating member states will be engaging in negotiations on matters such as rules of origin and the Phase II protocols. The Phase II protocols focus on investment, intellectual property rights and competition policy and require their own instruments of ratification.
- **Establishment of a Secretariat:** Six countries have submitted bids to the African Union to host the CFTA secretariat (the "Secretariat"). The Secretariat will perform a key role in driving stakeholder engagement in the

implementation of the CFTA Agreement. The African Union has begun to assess the suitability of countries for this role.

- **Continued lobbying:** Nigeria, Benin, and Eritrea are yet to sign the CFTA Agreement and 29 of the 52 that have signed the agreement are yet to ratify it. We expect lobbying to continue to secure the remaining signatures and ratification.

Is a Single African Market achievable?

There is no doubt that the CFTA is an ambitious project. We highlight some factors that are key to the CFTA becoming a reality.

Strong public and private sector support: The CFTA is a key part of "Agenda 2063", the African Union's blueprint and master plan for transforming Africa into the global powerhouse of the future by 2063. There appears to be significant political momentum behind Agenda 2063, which might explain the relatively short period of time it has taken for the CFTA to come into force. Leading African economies (including South Africa, Egypt, Kenya, Ghana and Côte d'Ivoire) have signed the CFTA Agreement. The project also enjoys widespread support from the private sector and leading African financial institutions. For example, the African Development Bank has approved an institutional support grant of USD \$4.8m to the African Union to support the implementation of the CFTA and the African Export-Import Bank has agreed to provide a line of credit of up to \$1.5bn to help member states that depend heavily on tariff revenue to meet any revenue shortfall arising from the elimination of tariffs.

Incorporating existing RECs: A key feature of the CFTA is that it will work in conjunction with Africa's existing regional economic communities ("RECs"). Many African countries belong to multiple RECs, which tends to limit the efficiency and effectiveness of such RECs. The guiding principle is that where countries in a REC have attained higher levels of integration than the CFTA Agreement provides, the REC standards will apply. By recognizing best practices and leveraging from existing RECs, the timelines set for the implementation of the CFTA Agreement have a greater chance of being achieved.

Nigeria's participation: With a population of more than 200 million people and a GDP of almost USD \$400 billion, Nigeria is Africa's largest economy and most populous country. Nigeria's participation in the CFTA would therefore significantly boost its effectiveness. Nigeria's reluctance to sign the CFTA Agreement is largely due to concerns that free trade could hurt its local industry that already benefits from a large domestic market. There has been intense political lobbying to persuade Nigeria to join the CFTA. Promisingly, Nigeria has recently concluded a study on the potential impacts of the CFTA and has been sending out positive signals.

Free movement of people: Though not a part of the CFTA Agreement, the Protocol on Free Movement of Persons forms an essential component of the CFTA's vision. Labor mobility across national borders is seen as an integral part of the free trade area. To date, 30 African Union member states have signed the Protocol on Free Movement of Persons. Additionally, the Single African Air Transport Market, another flagship Agenda 2063 project, aims to facilitate the movement of people and trade by creating a unified aviation market in Africa. To date, 23 countries have signed up to the Single African Air Transport Market.

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