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African Continental Free Trade Area (AfCFTA)

Introduction

The African Continental Free Trade Area (AfCFTA) finally took effect on the 1st of January 2021 as major part of the African Union's (AU) Agenda 2063 which aims to promote sustainable and inclusive socioeconomic development. It connects 1.3 billion people across 54 countries thus making the AfCFTA the largest free trade area in the world. Ultimately, the agreement is focused on boosting intra-African trade and enhancing Africa's global trading position through the creation of a single market for goods and services. Further, it is expected to generate employment, enhance industrial development, diversify economies, and increase the competitiveness of African industries.

Why does Africa need the AfCFTA?

The potential for transformation under the AfCFTA cannot be overstated in its ability to usher in the deep reforms necessary to enhance long term growth. Full implementation of the agreement would transform markets and economies across the continent and boost output in a wide range of sectors. Historically, Africa has experienced significantly low internal trade due to outdated infrastructure and varying regulations across markets. In 2017, intra-African exports accounted to only 16.6% of total exports, compared with 68% in Europe, as well as intra-African trade sitting at approximately 2% from 2015-17. Eliminating trade barriers could increase intra-African trade by over 50% and lift 30 million people out of extreme poverty according to the UN Economic Commission for Africa and the World Bank.

Nuts and bolts of the agreement

As of August 2021, 54 African countries have signed, and 38 countries have ratified the African Continental Free Trade Area (AfCFTA). Eritrea is the only country yet to sign the agreement. With the goal of reducing all trade costs, joining countries must commit to removing tariffs on at least 90% of the goods they produce over a 5-year period. To level the playing field, least developed countries are allowed 10 years to do so. Beyond trade, the agreement also addresses the movement of labour and people, competition, investment, and intellectual property. It has been designed as a multi-stage process, meaning that it will continue to evolve over time with further negotiations. Phase 1, which covers goods and services trade, has taken effect with ongoing talks to finalise certain aspects. Phases 2 involves developing protocols on investment,

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competition policy and intellectual property rights and a third phrase covers an e-commerce protocol.

What has happened so far?

Following delays due to the Covid-19 pandemic, trading began on the 1st of January 2021 and many countries have already shown to benefit from the new trade area. This is particularly evident in South Africa which, largely due to existing strong connections across the continent and a well-established manufacturing base, has seen a boost in future growth and further trade expansion. On the other hand, smaller economies such as those of Ghana and Côte d'Ivoire are also benefiting largely as a result of existing favourable conditions including open economies, supportive business environments and relatively good infrastructure.

The impact of COVID-19

The agreement was introduced and implemented against the backdrop of COVID-19 and its catastrophic economic implications which saw Africa’s first recession in 25 years and significant trade disruptions. The global pandemic further revealed the vulnerability of African countries and their dependence on trading partners. Consequently, the creation of this market represents a significant opportunity with AfCTA’s successful implementation being vital to assisting Africa’s recovery and renewal through diversifying exports, accelerating growth, and attracting foreign investment. It will aid African countries to be more resilient in the face of economic shocks and lead to deep reforms necessary for long-term growth.

Challenges

Whilst the trade area could have a combined GDP of approximately $3.4 trillion, it will nonetheless face several challenges on its way to achieving its full potential. These include, a lack of modern infrastructure, fears about the unequal distribution of economic gains, and the difficult global economy in which it is launching due to the impact of Covid-19, which could potentially reverse years of progress. Developing infrastructure must be urgently addressed for several reasons, notably in order to not restrict trade integration as well as being key to tackling the devastating impact of COVID-19. Additionally, it is important to note that the impact of the AfCFTA will not be uniform across countries in Africa. According to the World Bank, countries including Zimbabwe and Côte d’Ivoire could experience income gains of 14% each whereas other countries such as Mozambique, Madagascar and Malawi are likely to only experience real income gains of around 2%. Despite such weaknesses, countless valuable opportunities exist for African companies and countries over the coming years.

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What does this mean?

In contributing an estimated $76 billion to the world economy over the next 15 years, it is clear the important ramifications AfCFTA has on the global trade agenda. Its implementation presents an opportunity for evolution in Africa's relationship with major external partners and will serve as a catalyst to boost relationships with outside stakeholders. Through overcoming market fragmentation, it will provide opportunities for larger trade deals to emerge. More broadly, in an era of growing isolationism, the African Union is moving in the other direction through deepening ties across the continent and turning towards greater cooperation. Whilst there is no one size fits all approach in an increasingly complex trading system, the AfCFTA is a step in the right direction for Africa.