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ADLS 1/2019

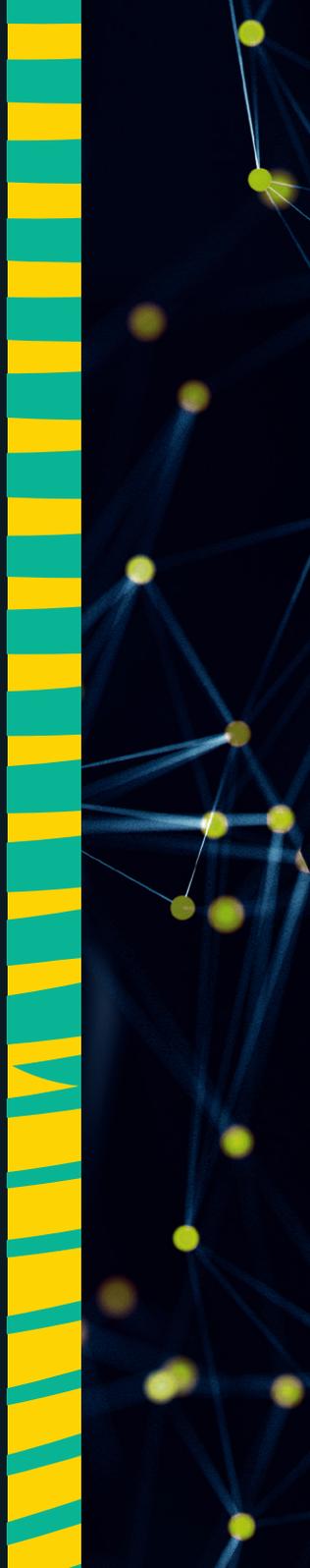
The African Continental Free Trade Area in an Era of Pessimism Over Multilateralism: Critical Success Factors and Prognosis

Albert Muchanga



Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export



About Afreximbank's Distinguished Lecture Series

The African Export-Import Bank (Afreximbank) Distinguished Lecture Series (DLS) publishes important papers that address current issues on African economic development, finance and trade. The papers are normally commissioned by Afreximbank and are usually delivered at major learning events organized by the Bank, including the Afreximbank Trade and Development Seminar Series, the Afreximbank Structured Trade Finance Seminars and the Annual Meetings of the Bank's Advisory Group on Trade Finance and Export Development in Africa.¹

This paper is an extension of the keynote address delivered by His Excellency Ambassador Albert Muchanga, African Union Commissioner for Trade and Industry, on the occasion of the 2nd Afreximbank Trade and Development Seminar Series held on 05 December 2017 at the Royal Maxim Palace Kempinski in Cairo, Egypt.



Foreword

The future of the global multilateral system faces significant uncertainty with the escalation of trade tensions between leading economies and the rise of nationalistic inward-looking policies.

Most recently, this has been reflected in the imposition of punitive tariffs outside the World Trade Organization (WTO) framework; the unilateral withdrawal from several multilateral agreements by several leading economies; and the outcome of the Brexit Referendum setting the UK on a path to ending a long and historical relationship with the European Union, a step which involves undoing a very deep trade integration scheme with the EU.

The shift towards unilateralism, and sometimes a preference for bilateral as against multilateral engagements is in stark contrast to the global policy and trade environment which has governed

international relations since World War II and deepened the process of globalization to integrate goods and capital markets across borders, thereby fostering of global value chains. Going against that emerging development at the global level, Africa has responded by deepening the process of continental integration through the African Continental Free Trade Agreement (AfCFTA), one of the flagship projects of the African Union Agenda 2063.

The AfCFTA will create an integrated market of over 1.2 billion people with a combined gross domestic product (GDP) exceeding US\$2.5 trillion. In addition to strengthening Africa's bargaining power in international trade negotiations, the African single market would provide the region with economies of scale denied for decades by colonial balkanization and market fragmentation.

This publication authored by H.E. Ambassador Albert Muchanga, the African Union Commissioner for Trade and Industry, highlights the challenges posed to multilateralism in the emerging global trading environment

and articulates the rationale for the establishment of the African Continental Free Trade Agreement (AfCFTA). The paper also reviews the key success factors for Africa's trade and economic integration and highlights its potential for intra-regional trade, the transformation of African economies and their integration into the global economy.

This publication contributes to the ongoing debate on multilateralism and the role of economic cooperation and integration for growth and economic development in a region where fragmented markets had for decades undermined intra-regional trade and economic development.

I hope that you will find the content of this paper as insightful and informative as I did. I congratulate Ambassador Muchanga for his clarity of thought.

Professor Benedict O. Oramah

President and Chairman of the
Board of Directors

The African Export-Import Bank



I. Introduction

The global trading system faces a more uncertain future than at any time since the establishment of the General Agreement on Tariffs and Trade (GATT), the forerunner of the World Trade Organization (WTO), over seven decades ago.

Global trade is confronted with structural hurdles, including: (i) rising protectionism; (ii) weakening support for the rules-based multilateral framework which has governed international trade for decades; (iii) the withdrawal of the United States from mega-regional agreements and its increasing preference for bilateral trade agreements; and (iv) the United Kingdom's decision to exit the European Union, which has been one of the most integrated trading blocs in the world for decades. The 11th WTO Ministerial Meeting held in Argentina in 2018 ended inconclusively with delegates from developing and developed economies unable to reconcile their differences.

More recently, the world has witnessed an escalation of trade tensions between leading economies reflected in the imposition of punitive tariffs and retaliations that has set the world on a path of trade war with ramifications for global trade and growth. Growth volatility has been high with global growth forecast revised downward several times. Similarly, global trade forecasts have been revised downward several times over the last few years. Most recently, the WTO revised its growth forecast for global trade in 2019 downward from 2.6 percent to 1.2 percent, citing trade conflicts as the biggest downside risk.

Africa's response to this pessimism over multilateralism has been clear and decisive—doubling down on economic integration and deepening the process of regional and continental integration. The 10th African Union Extraordinary Summit which brought together African leaders to sign an agreement launching the African Continental Free Trade Area (AfCFTA) in March 2018 in Kigali, Rwanda was profoundly historic.

The AfCFTA which entered into force on 30 May 2019 brings together 55 African countries with a population of more than 1.2 billion people and a combined gross domestic product (GDP) of more than US\$2.5 trillion making the continent the largest free trade area created since the formation of the World Trade Organisation (WTO).

This paper attempts to shed some light on recent developments in international trade arrangements and provide the rationale for the establishment of the AfCFTA. It reviews the drivers of multilateralism in an increasingly challenging global environment while looking at Africa's own integration experience.

The paper is organized as follows: after this introduction, section 2 looks at the drivers of multilateralism and the recent retreat from multilateralism by some major economies; section 3 provides an overview of multilateralism and regional integration in Africa; section 4 discusses the importance of the AfCFTA in the context of Africa's integration; section 5 provides an update on the AfCFTA negotiations; Section 6 discusses the key success factors; and Section 7 provides some concluding remarks.

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II. Drivers of Multilateralism in the 20th Century and the Recent Retreat from Multilateralism

In the aftermath of the Second World War, the United States, the United Kingdom, and other allied nations engaged in a series of negotiations to establish the rules for the post-war international economy.

The harsh lessons of the Great Depression—high tariffs, retaliatory currency devaluations, discriminatory trading blocs and a devastating global conflict—led leaders to conclude that economic cooperation was the only way to achieve both peace and prosperity. Agreement was finally reached by 44 nations that met in Bretton Woods, New Hampshire at the July 1944 United Nations Monetary and Financial Conference.

The two major accomplishments of the Bretton Woods conference were the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), commonly known as the World Bank.

Notwithstanding this success, reaching an agreement on international trade proved more difficult to achieve given the system of preferential tariffs established among the members of the British Commonwealth and the high Smoot-Hawley tariffs implemented by the United States. After more than four years of negotiations on this and other issues—such as the rules that would govern tariff negotiations and the structure of a proposed new organization to oversee international trade—an agreement was finally reached in 1947.

Leaders of 23 nations who met in Geneva concluded the first postwar round of tariff negotiations, leading to reductions in tariffs, as well as a draft charter for a new institution, the International Trade Organization (ITO). Participants signed the General Agreement on Tariffs and Trade (GATT), designed to implement the agreed tariff cuts and serve as an interim codification of the rules governing commercial relations until the ITO was created.

However, strong opposition from the United States' Congress meant that the ITO never came into existence. Instead, it was the GATT that governed postwar international trade relations until it was superseded by the World Trade Organization (WTO) in 1995, membership of which has since grown to 164 states.

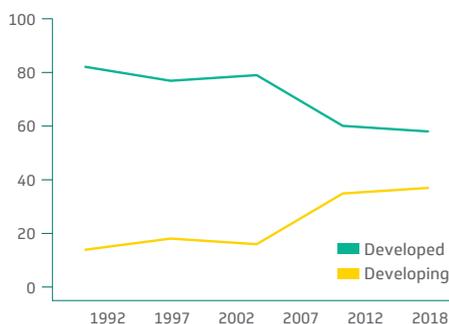
Driven by economic, political and security considerations, multilateralism and especially the promotion of regional integration, became a global phenomenon. For instance, Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs) and other forms of integration such as custom unions and monetary unions became a strategic imperative for various countries and regions culminating in the establishment of among others, the European Economic Community (EEC) in 1957, the Latin American Free Trade Association in 1960, the Central American Common Market in 1961, the Association of South East Asian Nations (ASEAN) in 1967, and the Caribbean Free Trade Association (CARIFTA) in 1968.

However, after achieving sustained progress in the six decades after the Second World War, the multilateral global order is currently confronted with challenges: the rise of populism and nationalist sentiment, most notably Brexit and the imposition of tariffs outside the WTO framework by leading economies and the withdrawal from multilateral trade agreements and increasing preference for bilateral agreements.²

The election of Donald Trump in the United States has thrown the future of multilateralism into question. These development reflect increasing dissatisfaction with multilateralism and are exacerbated by the accumulation of structural trade deficits and declining manufacturing output in a number of leading economies which championed global trade integration and globalization for decades.

An additional and major factor driving the retreat from multilateralism has been the shifts in the global geo-economic and geopolitical arena, which has seen economic balance shift from the developed economies toward emerging and developing market economies. The rise of the developing South has led to the emergence of a multipolar world with Brazil, China, India, Russia and South Africa (BRICS) and others emerging as global economic and political powers.

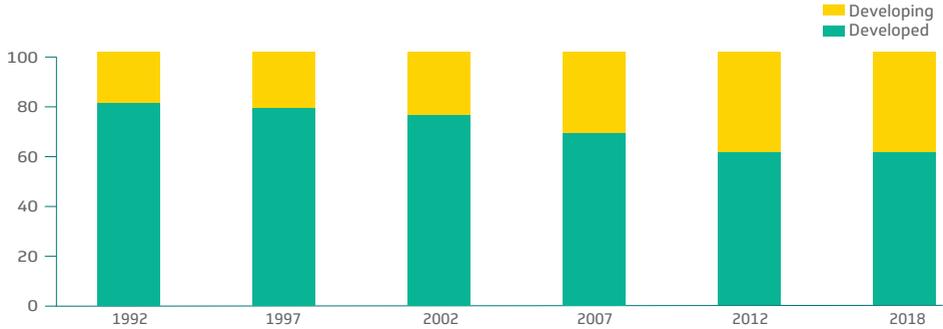
Figure 1:
Share in Global GDP (current US\$) (%)



Source: IMF WEO April 2019

2. Brexit will be the first ever departure of a state from the European Union. In addition, the Trump Administration withdrew from the Paris Accord, the Trans-Pacific Partnership (TPP), cut the US's contribution to the UN budget, attacked the rules based system of the WTO and blocked appointments to its Appellate Body, and explicitly expressed preference for bilateralism over multilateralism in trade, security and humanitarian issues.

Figure 2: Share in Global Trade (%)



Source: IMF DOTS 2019

The dramatic shift of the economic balance from the countries toward the developing and emerging market economies is evident from their relative shares in global GDP and trade. For instance, in 1992 the developed economies accounted for 84 percent of global GDP, with developing and emerging market economies nations accounting for only 16 percent.

By 2018, this changed significantly with developing and emerging market economies nations now accounting for 40 percent of global GDP while the contribution by the developed economies has declined to 60 percent (figure 1). Global trade has also witnessed seismic shifts during this period, with developing countries increasing their share in global trade from around 20 percent in 1992, to 39 percent in 2018 (figure 2).

China has been at the forefront of this shift in global economic power with its share of global GDP growing from around 2 percent in 1992 to around

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16 percent in 2018, while its share in global trade has increased from 2.2 percent to around 12 percent during this period. But the contribution of other developing and emerging countries to global trade and growth over the decades of accelerated globalization has increased as well, resulting in increased global income convergence. The rise of trade tensions and weakening global trade arrangements triggered by a shift towards beggar-thy-neighbor policies threatens this progress.

III. Multilateralism and Regional Integration in Africa

Newly independent Africa came into existence during the post-Second World War golden age of multilateralism and regional integration and virtually all newly independent African countries embraced the concept of multilateralism and regionalism. The commitment to continental integration and the vision of an integrated Africa led to the creation of the Organisation of African Unity (OAU) in 1963.

Apart from efforts to address the impacts of colonialism and apartheid, the main objectives of the OAU included promoting unity and solidarity among African States; organizing and strengthening cooperation for development on the continent; protecting the sovereignty and territorial integrity of member states; and encouraging international cooperation as outlined by the United Nations. In addition, the Lagos Plan of Action (LPA) was adopted as the continent's blueprint through which Africa could, based on the principle of collective self-reliance, achieve rapid economic and social development.

Several regional integration arrangements were also formed across the continent. In 1975 fifteen West African states met in Lagos, Nigeria to sign the ECOWAS Treaty which created the Economic Community of West African States. Six years later in 1981 the Preferential Trade Area for Eastern and Southern Africa was established, it later became a Common Market and was renamed as the Common Market for Eastern and Southern Africa (COMESA) in 1993. The Southern Africa states (excluding apartheid South Africa which joined in 1994) formed the Southern African Development Coordination

Conference (SADCC) in 1980 which was transformed into the Southern African Development Community (SADC) in 1992. In 1986 six Eastern African states (Djibouti, Ethiopia, Kenya, Somalia, Sudan and Uganda) formed an intergovernmental body for development and drought control in the sub-region called Intergovernmental Authority on Drought and Development (IGADD). In Central Africa, the Economic Community of Central African States (ECCAS) was created in 1983 by the leaders of the pre-existing Customs and Economic Union of Central Africa.

These arrangements were expected to function under the framework of the Lagos Plan of Action. The commitments in the Lagos Plan of Action and the Final Act of Lagos were translated into a specific agreement in Abuja, Nigeria in June 1991, when the OAU Heads of State and Government signed the Treaty Establishing the African Economic Community (the Abuja Treaty).

The Abuja Treaty formalised the notion of Regional Economic Communities (RECs) as building blocks of the African Economic Community (AEC).

Whilst the Treaty did not specify the membership of the RECs, it did indicate that the regional communities would cover Northern, Western, Central, Eastern and Southern Africa. This led to the designation of the Arab Maghreb Union (AMU); the Economic Community of West African States (ECOWAS); the Economic Community of Central African States (ECCAS); the Common Market for East and Southern African (COMESA); and the Southern African Development Community (SADC) as the pillar RECs upon which the African Economic Community was to be built.

The Pan-African ideal of continental integration was further reaffirmed by the reconstitution of the OAU into the African Union (AU) in 2002, with the Constitutive Act of the AU fully incorporating the provisions of the Abuja Treaty. Following the establishment of the AU, three additional RECs have been given formal recognition—the Community of Sahel-Saharan States (CEN-SAD), the East African Community (EAC), and the Intergovernmental Authority on Development (IGAD)—bringing the total number of AU ‘recognised’ RECs to eight.

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The Lagos Plan of Action and the Abuja Treaty therefore embraced a bottom-up approach to continental integration with RECs as building blocks for the African Economic Community. Article 6 of the Abuja Treaty provided for the establishment of the African Economic Community in six stages over a period not exceeding 34 years, as follows:

- Stage One: Strengthening existing RECs and establishing of new RECs in regions where they do not exist;
- Stage Two: each REC stabilizing tariff barriers, and non-tariff barriers, customs duties and internal taxes;
- Stage Three: the gradual removal of tariff barriers and non-tariff barriers to intra-REC trade and the establishment of a REC free trade area and subsequently a REC customs union with a common external tariff;
- Stage Four: coordination and harmonization of tariff and non-tariff systems among the various RECs with a view to establish a Continental Customs Union with a common external tariff;

- Stage Five: establishment of an African Common Market through the adoption of common policies in several areas; harmonization of monetary, financial and fiscal policies and the application of the principle of free movement of persons; and
- Stage Six: consolidating and strengthening the structure of the African Common Market and setting up of a pan-African Economic and Monetary Union including setting up of African Monetary Union, a single African Central Bank and a single African Currency.

However, the pace of level of integration among the RECs differed while overlapping memberships posed a challenge for further integration both at the REC and continental level.



IV. The Importance of the AfCFTA to Africa's Integration and Economic Development

A major aim of Africa's integration efforts following independence was to expand intra-African trade by removing tariffs and non-tariff barriers and enhancing mutually advantageous commercial relations through trade liberalization schemes, because trade has and will continue to be a major driver of economic development.

Economic history is replete with examples of the substantial benefits that countries have reaped from enhancing their integration into the world economy. The emphasis on trade liberalisation, particularly export orientation, in the past three decades has led to a phenomenal growth in world merchandise trade, and improvement in living standards. Most recently several East Asian economies that pursued the export-led growth model saw a dramatic reduction in poverty levels, especially China where over half a billion people raised their income above the poverty line.

The convergence of income levels between Asia and advanced economies has been accelerated by the impressive growth of Asia's contribution to global trade.

Between 1980 and 2018, Asia's share of global trade increased from 4.4 percent to around 20 percent. In contrast, Africa followed a completely different path with its contribution to global trade falling over the same period. Africa's share in world exports fell from about 4 percent in 1980 to 2.3 percent in 2018, and its share of world imports fell from about 4.4 percent in 1980 to 2.5 percent in 2018. Its combined share of global trade declined from 4.2 percent to 2.4 percent over the same period.

This marginalisation of Africa in global trade is the consequence of a number of factors, most notably the continued reliance on the exports of primary commodities and natural resources in a world where global trade is increasingly dominated by manufactured goods with technological content. Whilst this bias toward the extractive sectors and consequently extra-African trade has helped Africa achieve among the highest growth rates in recent years, it also increased the region's exposure to global volatility and adverse terms of trade shocks.

The excessive reliance on primary commodities and stubbornly low levels of intra-African trade despite the integration efforts undertaken since

independence and the establishment of RECs, means that Africa's economic fortunes remain contingent on commodity price movements and external shocks.

During the most recent episode of globalisation, the structure and patterns of African trade were further exacerbated by premature deindustrialization, which led to a sharp decline in the contribution of manufacturing value-added to GDP across the region.

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Even though Africa's exports have in recent years witnessed a reorientation away from stagnating OECD markets toward emerging and fast-growing markets in the South, especially China and India, the composition of Africa's export basket has not changed significantly. Primary commodities and natural resources continue to account for a significant share of total African exports.

Most countries in the region have a commodity export dependence of more than 80 percent, whereas industrial products and manufactured goods account for the lion's share of African imports. The challenges facing Africa on the path to greater integration are therefore not only due to the skewed nature of the composition of its terms of trade, but also a result of the extroverted nature of its trade.

Table 1: Export trade of the regional economic communities by partner, 2010–17 average (%)

REC	Intra-REC	Africa	China	EU	US	Rest of the World
AMU	3	2	5	63	8	19
COMESA	9	8	12	37	4	30
CEN-SAD	7	5	5	40	9	34
EAC	20	18	5	19	4	34
ECCAS	2	4	34	20	15	25
ECOWAS	9	7	3	29	12	40
IGAD	14	12	21	16	3	34
SADC	19	3	20	20	8	30
AFRICA AVERAGE	10	7	13	31	8	30

Source: UNECA ARIA IX, UNCTAD Stats 2018

Table 2: Import trade of the regional economic communities by partner, 2000–17 average (%)

REC	Intra-REC	Africa	China	EU	US	Rest of the World
AMU	3	2	5	64	8	18
COMESA	9	5	13	38	5	29
CEN-SAD	6	4	5	41	11	33
EAC	17	14	14	19	5	31
ECCAS	3	5	34	19	13	26
ECOWAS	8	6	4	31	13	38
IGAD	14	12	21	16	3	34
SADC	16	3	27	21	8	25
AFRICA AVERAGE	9	6	17	31	8	28

Source: UNECA ARIA IX, UNCTAD Stats 2018

Addressing the dichotomy in African trade has been central to all national and continental development strategies. However, and despite the progress made under the RECs to dismantle trade restrictions in order to boost trade, barriers to intra-African trade persist and have impacted the level of intra-African trade, which has remained stubbornly low (Table 1 and 2). While intra-regional trade in Europe and Asia, which have been the leading drivers of globalization, have averaged 69 and 59 percent of total trade over the last decade respectively, the performance in Africa has been dismal, averaging around 16 percent despite efforts at regional integration.

While some progress had been achieved by the RECs in boosting intra-REC trade, most notably in SADC and the EAC (Table 2 and 3) the performance of other RECs has been disappointing. This is particularly the case for the AMU and CEN-SAD countries which continue to trade more with the EU than with each other. At the same time a further complication to integration arose as

RECs were beginning to overlap—creating what has come to be termed a “spaghetti bowl” of overlapping regional arrangements as some countries were members of more than one REC and had committed to join more than one Customs Union (table 3).

Partly to overcome this conundrum and rationalize the regional integration process, Ministers of Trade and Industry of SADC, EAC and COMESA initiated the process of building an FTA between the three RECs. In June 2011 Heads of State of SADC, EAC and COMESA launched the Tri-Partite Free Trade Agreement (TFTA) negotiations at a Summit in Johannesburg.

The Tri-Partite Free Trade Agreement between SADC, COMESA and the EAC set the platform for African leaders to launch their most ambitious trade integration project. Recognizing that boosting intra-African trade will mitigate against global volatility and help promote specialization amongst African countries and develop regional value chains to enhance diversification and competitiveness,

the Assembly of the Heads of State and Government of the African Union adopted, during its 18th Ordinary Session in Addis Ababa, Ethiopia, in January 2012, the decision to establish a Pan-Africa Continental Free Trade Area by an indicative date of 2017 and also endorsed an Action Plan for Boosting Intra-Africa Trade (BIAT).³ While the AfCFTA was conceived as a time bound project, the BIAT was planned as a continuous one

with the concrete target of doubling intra-African trade flows from January 2012 and January 2022.

The BIAT contains seven major clusters aimed at addressing the key constraints and challenges of intra-African trade and at significantly enhancing the size and benefits of the trade for the attainment of sustainable economic growth and development.

Table 3: AU recognised RECs as Pillars for the African Economic Community

RECs	Other Sub-Regional	Membership	Free Trade Area Status	Customs Union Status
AMU		Algeria, Libya, Mauritania, Morocco, and Tunisia.	Stalled	Stalled
CEN-SAD		Benin, Burkina Faso, Cape Verde, the Central African Republic, Chad, Djibouti, Egypt, Eritrea, the Gambia, Libya, Mali, Mauritania, Morocco, Niger, Nigeria, Senegal, Somalia, Sudan, Togo, and Tunisia.	Stalled	Stalled
COMESA		Burundi, Comoros, DRC, Djibouti, Egypt; Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tunisia, Uganda, Zambia, and Zimbabwe.	In force	Partially in force
EAC		Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda.	In force	In force
ECCAS	CEMAC	Cameroon, the Central African Republic, Chad, Equatorial Guinea, Gabon, and Republic of Congo.	In force	In force
	ECCAS Wide	CEMAC + Burundi, DRC, Angola, and Sao Tome and Principe	In force	Delayed
ECOWAS	WAEMU	Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo.	In force	In force
	ECOWAS Wide	WAEMU + Cabo Verde, the Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone.	In force	CET Adopted
IGAD		Djibouti, Ethiopia, Eritrea, Kenya, Somalia, Sudan, South Sudan and Uganda.	Stalled	Stalled
SADC	SACU	Botswana, Lesotho, Namibia, South Africa, and Swaziland.	In force	In force
	SADC Wide	SACU + Angola, DRC, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia, and Zimbabwe.	In force	Stalled

Source: AU, UNECA, Afreximbank Research

3. The Pan-African Continental Free Trade or "CFTA" was subsequently changed to the African Continental Free Trade Area or "AfCFTA". For purposes of brevity AfCFTA is used.

The clusters cover: (i) Trade Policy; (ii) Trade Facilitation; (iii) Productive Capacity; (iv) Trade-Related Infrastructure; (v) Trade Finance (vi) Trade Information; and vii) Factor Market Integration.

The establishment of the AfCFTA and the implementation of the BIAT Action Plan provide a comprehensive framework for Africa to pursue a developmental regionalism strategy.

The importance of the Continental Free Trade Area in Africa's development ambition was further reaffirmed when the African Continental Free Trade Area (AfCFTA) was incorporated as a flagship project in the first ten-year implementation of Agenda 2063: The Africa We Want. Agenda 2063, which was adopted by African Union Heads of State and Government in 2015 is the strategic framework for the socio-economic transformation of the continent that builds on and seeks to accelerate the implementation of past and existing continental initiatives for growth and sustainable development.

It is the continent's endogenous plan for transformation that seeks to harness the continent's comparative advantages such as its people, history and cultures; its natural resources; its position and repositioning in the world to effect equitable and people-centered social, economic and technological transformation and the eradication of poverty. It seeks to develop Africa's human capital; build social assets, infrastructure and public goods; empower women and youth; promote lasting peace and security; build effective developmental states and participatory and accountable institutions of governance.

The ambition of AfCFTA is to bring together all 55 member states of the African Union covering a market of more than 1.2 billion people, including a growing middle class, with a combined gross domestic product (GDP) of more than US\$2.5 trillion. In terms of numbers of participating countries, the AfCFTA will be the world's largest free trade area since the formation of the WTO.

The AfCFTA provides new impetus and dynamism to the process of economic integration and structural transformation of African economies as envisaged under the Lagos Plan of Action and the Abuja Treaty of 1991 and gives practical effect to the BIAT Action Plan.

The establishment of the AfCFTA and the implementation of the BIAT Action Plan provide a comprehensive framework for Africa to pursue a developmental regionalism strategy.





The main objectives of the AfCFTA are to create a single continental market for goods and services, with free movement of business persons and investments, and thus pave the way for accelerating the establishment of the Customs Union.

The AfCFTA is also an important step towards rationalising Africa's regional trade arrangements to deepen economic integration and draw on economies of scale and development of regional value chains to accelerate the process of structural transformation of African economies.

Preliminary estimates and simulations suggest that the AfCFTA could significantly expand industrial production and intra-African trade. Estimates from the Economic Commission for Africa (UNECA) suggest that the AfCFTA has the potential to boost intra-African trade by 52.3 percent, and to double it if in addition to eliminating import duties measures are also taken to remove non-tariff barriers.

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An integrated African market is also likely to see enhanced flow of foreign direct investment (FDI) to the benefit of participating economies and could shift FDI from natural resources to industry and manufacturing as investors seek to take advantage of increased market size. Implementation of the AfCFTA and the broader Agenda 2063 will also enhance the integration of African economies into the global economy and strengthen the process of engagement between Africa and its main trading partners, multilaterally within the WTO framework and bilaterally with other trading partners such as Brazil, China, the EU, India, and the US.

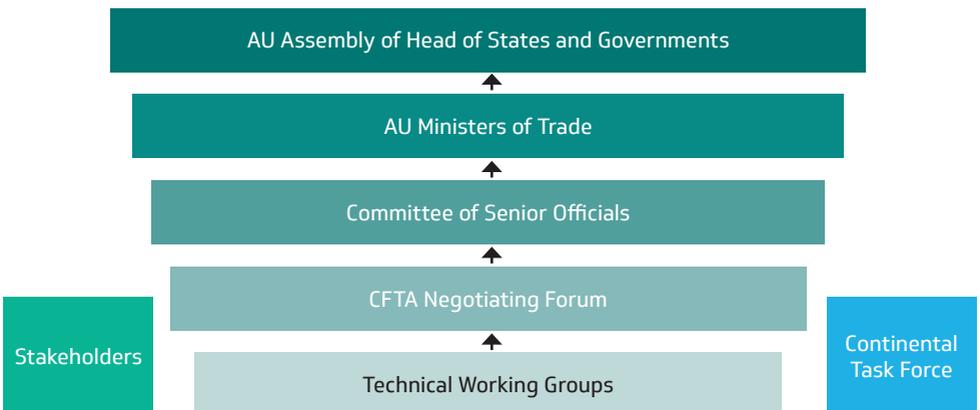
V. Status of the AfCFTA

Following the 2012 decision by the Assembly of the Heads of State and Government of the African Union to establish the AfCFTA a Continental Task Force was established and tasked with coordinating actions between the African Union Commission and the Regional Economic Communities to ensure that the negotiations for the AfCFTA are conducted within the agreed timelines.

Negotiations for the establishment of the AfCFTA were officially launched in June 2015 in Johannesburg, South Africa. Also adopted during that Summit were the objectives and principles of negotiating the AfCFTA; the indicative roadmap for the negotiation and establishment of the AfCFTA; the Terms of Reference for the AfCFTA Negotiating Forum; and the institutional arrangements for the AfCFTA negotiations (see figure 3).

The following principles guided and continue to guide negotiations of the AfCFTA: (i) negotiations shall be AU Member States/RECs/Customs Territories driven with support of the African Union Commission and its structures; (ii) the Free Trade Area arrangements of RECs would serve as building blocs for the AfCFTA; (iii) preservation of ‘acquis’, meaning that what has

Figure 3: AfCFTA Negotiating Structure



Source: African Union

already been achieved as part of the implementation of REC obligations will have to be respected; (iv) variable geometry, allowing negotiations of one or more particular issues to lead to an agreement that is not binding on all of the parties; (v) flexibility and special and

differential treatment; (vi) transparency and disclosure of information; (vii) Most-favoured-nation (MFN) treatment; (viii) National treatment; (ix) reciprocity; (x) substantial liberalization; (xi) consensus in decision-making; and (xii) adoption of best practices in the RECs, in the State

Figure 4: Key Features of the AfCTFA

Agreement Establishing the African Continental Free Trade Area	Phase I Negotiations	Protocol on Trade in Goods	<ul style="list-style-type: none"> • Tariff liberalization • Non-tariff barriers • Rules of Origin • Customs Cooperation • Trade Facilitation and Transit • Trade remedies • Product standards • Technical regulations • Technical assistance, capacity-building and cooperation
		Protocol on Trade in Services	<ul style="list-style-type: none"> • Transparency of service regulations • Mutual recognition of standards, licensing and certification of services suppliers • Progressive liberalization of services sectors • National Treatment for foreign service suppliers in liberalized sectors • Provision for general and security exceptions
		Protocol on Dispute Settlement	To be agreed
	Phase II Negotiations	Protocol on Intellectual Property Rights	To be agreed
		Protocol on Investment	To be agreed
		Protocol on Competition Policies	To be agreed

Source: AU, Afreximbank (2018)

Parties and International Conventions binding the African Union.

Negotiations towards the AfCFTA have been divided into two phases. Phase I covers Trade in Goods and Services and Dispute Settlement, while Phase II negotiations addresses Intellectual Property, Investment and Competition Policy (see Figure 4). The Negotiating Forum was tasked the responsibility of conducting trade negotiations at the technical level and report to the Committee of Senior Trade Officials on its negotiation activities. The Negotiating Forum also has the responsibility of preparing quarterly reports on progress made in the negotiations highlighting areas requiring higher level intervention to the Committee of Senior Officials, Ministers of Trade, the High-Level African Trade Committee and the Assembly.

In January 2017 H.E. Mahamadou Issoufou, President of the Republic of Niger, was mandated by the 28th Ordinary Session of the AU Assembly of Heads of State and Government to champion the process of the AfCFTA. The Negotiating Forum held eight meetings towards finalizing the draft modalities for negotiations on both tariff liberalisation and trade in services.

The 8th Negotiating Forum arrived at three outcomes: a Framework Agreement on the AfCFTA, a Protocol on Goods, and a Protocol on Trade in Services and a built-in agenda. The three documents were formally approved and adopted by

African Trade Ministers in Niamey, Niger in December 2017.

African Union Ministers of Trade (AMOT) subsequently adopted the legal instruments constituting the African Continental Free Trade Area (AfCFTA), in Kigali, Rwanda on 8-9 March 2018, namely (i) the Agreement Establishing the AfCFTA, (ii) the Protocol on Trade in Goods, (iii) the Protocol on Trade in Services, and (iv) the Protocol on Rules and Procedures for the Settlement of Disputes.

History was made on March 21, 2018 in Kigali, Rwanda at an Extraordinary Summit on the AfCFTA where the Agreement establishing the AfCFTA was presented for signature, along with the Kigali Declaration and the Protocol to the Treaty Establishing the African Economic Community relating to the Free Movement of Persons, Right to Residence and Right to Establishment.

In total, 44 out of the 55 AU member states signed the consolidated text of the AfCFTA Agreement, 47 signed the Kigali Declaration and 30 signed the Protocol on Free Movement.

The general objectives of the AfCFTA as captured in the Agreement include:

- a) creating a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent and in accordance with the Pan-African Vision of “An integrated, prosperous and peaceful Africa” enshrined in Agenda 2063;

- b) creating a liberalised market for goods and services through successive rounds of negotiations;
- c) contributing to the movement of capital and natural persons and facilitating investments building on the initiatives and developments in the State Parties and RECs;
- d) laying the foundation for the establishment of a Continental Customs Union at a later stage;
- e) promoting and attaining sustainable and inclusive socio-economic development, gender equality and structural transformation of the State Parties;
- f) enhancing the competitiveness of the economies of State Parties within the continent and the global market;
- g) promoting industrial development through diversification and regional value chain development, agricultural development and food security; and

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- h) resolving the challenges of multiple and overlapping memberships and expediting the regional and continental integration processes.

The specific objectives of the AfCFTA are stated as follows:

- a) progressively eliminate tariffs and non-tariff barriers to trade in goods;
- b) progressively liberalize trade in services;
- c) cooperate on investment, intellectual property rights and competition policy;
- d) cooperate on all trade-related areas;
- e) cooperate on customs matters and the implementation of trade facilitation measures;
- f) establish a mechanism for the settlement of disputes concerning their rights and obligations; and
- g) establish and maintain an institutional framework for the implementation and administration of the AfCFTA.

Following signature, AU members, individually or as part of a customs union, started developing and submitting schedules of concessions for trade in goods detailing the 90 percent of products that are to be liberalised, the

sensitive products to be liberalized (7 percent) over a longer time period, and the excluded products (3 percent) that are to be exempted from liberalisation. A related complement to the schedules of concessions for trade in goods is the list of product-specific rules of origin which is still being negotiated, as is the protocol on dispute resolution.

In December 2018, a roadmap was adopted to finalize outstanding work on the AfCFTA negotiations. On rules of origin, negotiators were expected to submit an agreement by June 2019. However, negotiations are continuing and is expected to be concluded in 2020. AU member states also agreed on a January 2020 deadline to submit their negotiated market access offers for goods. For trade in services, scheduling will call for a review of the regulatory framework of the identified sectors in view of preparing the initial market access offers, which will then be subject to negotiations. AU member states agreed to submit their schedules of concessions for five priority services sectors: transport, communications, financial services,

tourism, and business services, by January 2020. Phase two negotiations on the Protocols on Investment, Competition Policy and Intellectual Property Rights, is expected to be concluded by 2021.

Institutional arrangements to support implementation of the AfCFTA were also agreed. These include a dedicated Secretariat to be hosted in Ghana; the African Business Council, which will aggregate and articulate the views of the private sector; as well as a Trade Observatory, which will ensure effective monitoring and evaluation. Regional economic communities (RECs) will also remain important partners coordinating the implementation and measures for resolving non-tariff barriers, harmonising standards and monitoring implementation.

In accordance with the Agreement, the AfCFTA entered into force after 22 Member States submitted their instruments of ratification.

The 22-country threshold was reached on April 29, 2019 when Sierra Leone and the Saharawi Republic deposited their instruments of ratification, allowing the Agreement to enter into force on 30 May 2019.

The 12th Extraordinary Session of the Assembly of the African Union on the AfCFTA in Niamey, Niger on 7 July 2019, marked the launch of the operational phase of the AfCFTA Agreement. To date 27 countries have ratified the agreement and of the 55 AU member states, only Eritrea is yet to sign the Agreement.

While negotiations are continuing, the AfCFTA already started to produce results even before it entered its operational phase. The first was the successful hosting of the Intra-African Trade Fair (IATF) held in Cairo, Egypt from 11 to 17 December 2018. The Fair, organized by the African Export-Import Bank in collaboration with the African Union and the Government of the Arab Republic of Egypt, attracted 1,086 exhibitors from 29 African and 16 non-African countries. By facilitating the dissemination of information and investment opportunities, it created a platform for exhibitors to showcase their goods and services, engage in business to business (B2B) exchanges, and strike deals.

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Business to business transactions during the Fair were above US\$30 billion. Building on the success of IATF2018, the second edition of the Intra African Trade Fair, is planned for 2020 in Kigali, Rwanda.

In order facilitate trade and address liquidity constraints and exchange risk, the African Export-Import Bank worked with the African Union to establish a Pan-African Payment and Settlement System (PAPSS). PAPSS which is conceived as digital platform was launched during the 12th Extraordinary Session of the Assembly of the African Union on the AfCFTA in Niamey, Niger on 7 July 2019.

A Continental Platform on e-Commerce has also been established by the African Union Commission in partnership with a member of the African Diaspora. This Platform will create 600,000 small and medium enterprises in four years (2019–2023) and complement other efforts like the AfCFTA Business Forum, integration of African Financial markets and commodity exchanges. In addition, African manufacturers are working towards the establishment of a continental association that will drive the development of regional value and supply chains and through them, joint ventures to enable them to produce to the scale of the AfCFTA market.





VI. Key Success Factors for the AfCTA

While the AfCFTA provides an opportunity for Africa to boost intra-African trade and accelerate the process of structural transformation to reduce the vulnerability of its economies to external shocks, the implementation of the agreement will be complex given the large number, diverse nature and different stages of economic development of Member States.

At the same time integration may carry significant adjustment costs for some countries, including fiscal adjustments. In this regard, implementation will need to be structured and sequenced appropriately and compensatory or adjustment mechanisms may need to be put in place to ensure broad-based gains for all Member States.

Historically, an important challenge in the economic integration process in Africa has been political stability. The quest for political stability is still a challenge for several countries and has undermined integration at the sub-regional and

continental level and is a reflection of the degree of co-dependence between security and development.

While there is no development in a context of a security vacuum, sustainable development driven by robust and inclusive growth can act as a catalyst for long-term stability and peace.

Another key factor is overcoming the myth of nationality and sovereignty that is often used to undermine the regional integration. In effect in the medium and long term, national and regional interests are always more aligned than “national” and “national” interests which tend to weaken the bargaining power of countries. Implementation of the AfCFTA and the broader Agenda 2063 will enhance the integration of African economies into the global economy and strengthen the process of engagement between Africa and its main trading partners, multilaterally within the World Trade Organization (WTO) framework and bilaterally with other trading partners such as Brazil, China, the EU, India, and the US.

The approach to integration in Africa has also traditionally been top-down with governments emerging as the main actors. Governments initiate the establishment of RECs and are by and large responsible for the implementation of integrative measures and development programmes. Under that top down model,

the participation of non-state actors including the private sector and civil society in trade negotiations between African countries and with external parties has been very limited, making it difficult to mainstream the process of integration across the region.

In the absence of private sector operators, who are to a large extent those with the ultimate responsibility of operationalizing integration, either through intra-African trade or cross-border investment, implementation has remained a major challenge. The Pan-African Private Sector Trade and Investment Policy Committee (PAFTRAC) and the institution of the AfCFTA Civil Society and Business Forum will be especially important to ensure that non-state actors play a more important role in trade negotiations undertaken by African governments.

In addition, the realization of the potential offered by the AfCFTA and deeper integration will hinge on a supportive and facilitative trade environment. In particular, effective implementation of the AfCFTA will require investments in trade-facilitating infrastructure to ensure that market access benefits are fully realized; implementation of the AU's Action Plan for the Accelerated Industrial Development of Africa (AIDA); and effective implementation

of the Programme for Infrastructure Development in Africa (PIDA). Implementation of the BIAT Action Plan will provide the framework for the supportive policies and environment that are key to the AfCFTA's success.

Strengthening regional and continental institutions leading and managing the process of regional integration also needs to be addressed as does national capacity for the implementation of Protocols and Agreements. Regional institutions do not have the manpower to lead the implementation of measures on integration and development. They also lack sufficient financial resources for the implementation of regional integration and development programs.⁴ Committing regional resources and mobilizing domestic resources will therefore be critical to ensure the success of the AfCFTA.

While there is no development in a context of a security vacuum, sustainable development driven by robust and inclusive growth can act as a catalyst for long-term stability and peace.

4. Most regional institutions rely heavily on development partners for the implementation of regional integration and development programmes and projects and even for their financing, a process which overtime has weakened ownership and the implementation process.



VII. Conclusion

At a time when the world appears to be moving away from multilateralism, Africa is deepening regional integration and cooperation.

The launching of Agenda 2063, the adoption of the BIAT Action Plan, the establishment of a Single Air Transport Market, and the adoption of an African Union Passport, all demonstrate the continent's progress and commitment to working together to achieve an integrated and prosperous continent. In particular. The AfCFTA holds

tremendous potential for boosting intra-African trade, accelerating the process of structural transformation of African economics and reducing their vulnerability to external shocks.

The historic signature of the AfCFTA Agreement was an important milestone in the process of economic integration and development. The speed of ratifications which saw the Agreement enter into force slightly more than a year later on May 30, 2019, is a testament to Africa's collective will to overcome the historic fragmentation of its economies and open a new chapter in Africa's development.



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Profile: African Union Commissioner for Trade and Industry



Ambassador Albert Mudenda Muchanga was elected African Union (AU) Commissioner for Trade and Industry in January 2017 for a four-year term. He took up his post on 15th March 2017.

As AU Commissioner for Trade and Industry, he has spearheaded AU's efforts in driving the negotiations, conclusion and ratification of the Agreement establishing the African Continental Free Trade Area (AfCFTA), which entered into force on 30th May 2019 and was launched on 7th July 2019. Commissioner Muchanga is also leading the development of relevant policies and instruments for an effective African integrated market as well as supportive levers in the areas of finance, manufacturing, trade information and trade facilitation among others.

He is also overseeing the establishment of the AfCFTA Interim and Permanent Secretariats.

Ambassador Muchanga has extensive experience in the promotion of inter-governmental relations, engagement with the private sector and civil society as well as promotion of regional integration and cooperation as levers of sustainable development, among other key areas.

Ambassador Muchanga previously worked in the Zambian Civil Service at home and abroad. As part of his diplomatic service, he was Zambia's Ambassador to Brazil and Ethiopia. He was also Deputy Executive Secretary of the Southern African Development Community from 2001 to 2005.

Ambassador Muchanga works with ease at technical, professional, management, leadership and political levels.

Ambassador Muchanga has a passion for creating value from all his official engagements. He also believes that continuously developing people and institutions is crucial to creating value on a sustainable basis.

He has been a Guest of Honour and Speaker at numerous Pan-African and International conferences on matters related to African economic integration, multilateral trade negotiations, globalization, youth and women empowerment, sustainable development, management and leadership, among others.

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