Breaking Borders: How AfCFTA is Shaping Africa as the World's Largest Free Trade Area.

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The Establishment of AfCFTA

The African Continental Free Trade Area (AfCFTA) is the largest free trade area in the world by the number of states participating[1]. This trade agreement aims to create a single market for goods, services, and movement of production factors for 1.49 billion people across 55 African Union member states and eight Regional Economic Communities (RECs)[2] with a combined Gross Domestic Product (GDP) valued at US$3.36 trillion[3]. The AfCFTA is one of the African Union's Agenda 2063 flagship projects. It was approved by the 18th Ordinary Session of the Assembly of Heads of State and Government held in January 2012 in Addis Ababa, Ethiopia. The session adopted the decision to establish an African Continental Free Trade Area to boost intra-African trade and promote sustainable growth and development. Following a series of continuous continental engagements, the free trade area was agreed upon on 21st March 2019 in Kigali, Rwanda, and launched in July 2019 at the 12th Extraordinary Session of the African Union (AU) Assembly of Heads of State in Niamey, Niger. However, trading started on 1st January 2021[4].

Why Africa Needs the Free Trade Area?

In Africa, intra-regional trade is attributable to several factors, such as socio-cultural similarities, geographical proximity, and historical ties. However, trade predominantly occurs within the Regional Economic Communities (RECs). The trade volume between economies is significantly affected by the distance between them[5]. In Africa, Regional Trade Agreements (RTAs) have played a significant role in economic integration efforts in the post-independence era[6]. Despite having 18.8% of the world's population, Africa's accounts for less than 3% of global GDP[7]. The region has historically fallen behind other regions in intra-regional trade. One of the major reasons for the dismal share of its GDP globally is that there is more trade between Africa and the rest of the world than there is within Africa. That is informed by the fact that Africa (15.88%) had the lowest intra-regional trade compared to Europe (68.18%), Asia (57.93%), and the Americas (55.51%) in 2023[8]. Nevertheless, the region outperformed

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[1] About The AfCFTA https://au-afcfta.org/about/

[2] Regional Economic Communities https://au.int/en/recs

[3] AFDB Socio Economic Database https://dataportal.opendataforafrica.org/nbyenxf/afdb-socio-economic-database-1960-2022

[4] The African Continental Free Trade Area https://au.int/en/african-continental-free-trade-area

[5] The AfCFTA impact on agricultural and food trade: a value-added perspective https://academic.oup.com/erae/article/49/1/237/6398758

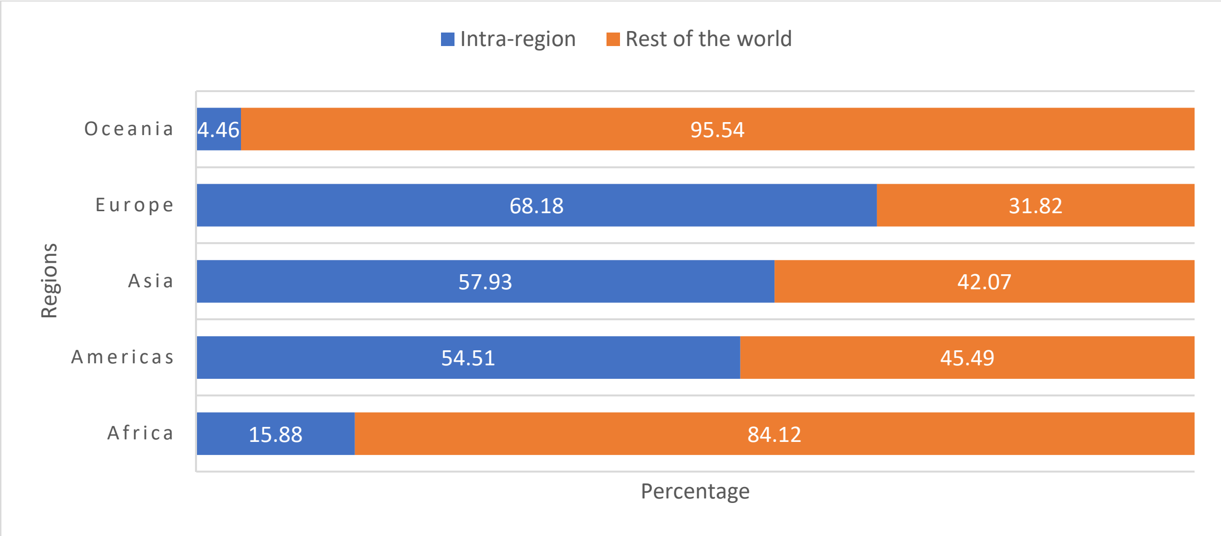
[6] Regional trade agreements and economic integration in Africa: assessing the impact of the African Continental Free Trade Area (AFCFTA) chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://wjarr.co.in/sites/default/files/WJARR-2024-2965.pdf

[7] Africa in the world and the world in Africa https://mo.ibrahim.foundation/sites/default/files/2023-07/2023-forum-report.pdf

[8] Merchandise: Intra-trade and extra-trade of country groups by products https://unctadstat.unctad.org/datacentre/dataviewer/US.IntraTrade

Oceania (4.4%), as shown in Figure 2 below. Hence the establishment of AfCTA as a panacea for Africa's economic emancipation through enhancing intra-African trade.

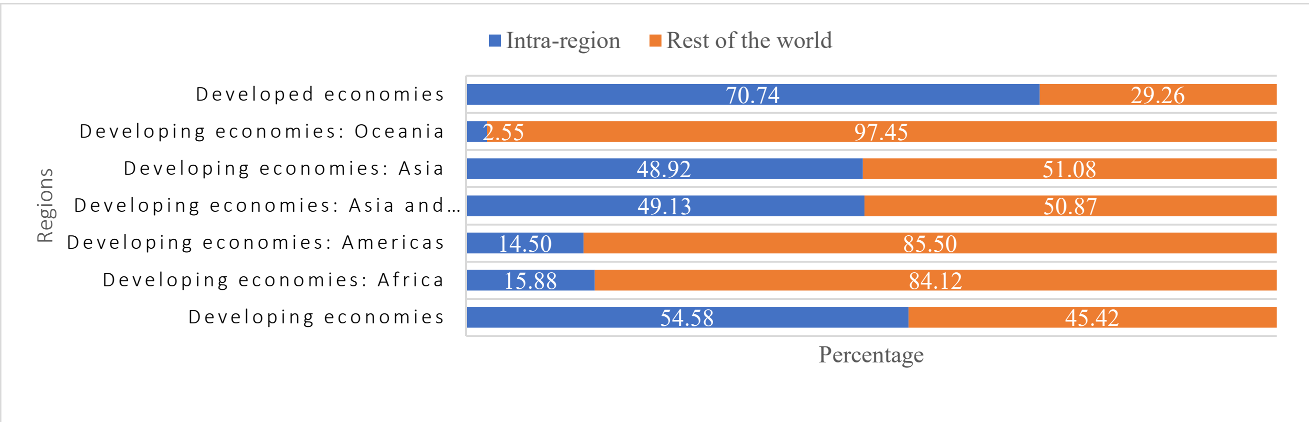
Figure 1:Intra-region and Rest of World Trade (Percentage) in 2023



Source: UNCTAD (2024)

Africa still lags behind most of the other developing economies across the globe in intra-regional trade. The global intra-regional trade average for developing economies (54.58%) is significantly higher than for Africa (15.8%). Intraregional trade in Africa also lags behind developing economies in Asia (48.92%), Asia, and Oceania (49.13%). However, it is higher than Oceania (2.55%) and the Americas (14.50%). Compared to the intra-regional trade in developed economies, which stands at 70.74%, developing economics, majority of whom are in Africa, have a lot of catch-up to do (Figure 2).

Figure 2: Intra-region Trade in Developing and Developed Economies in 2023



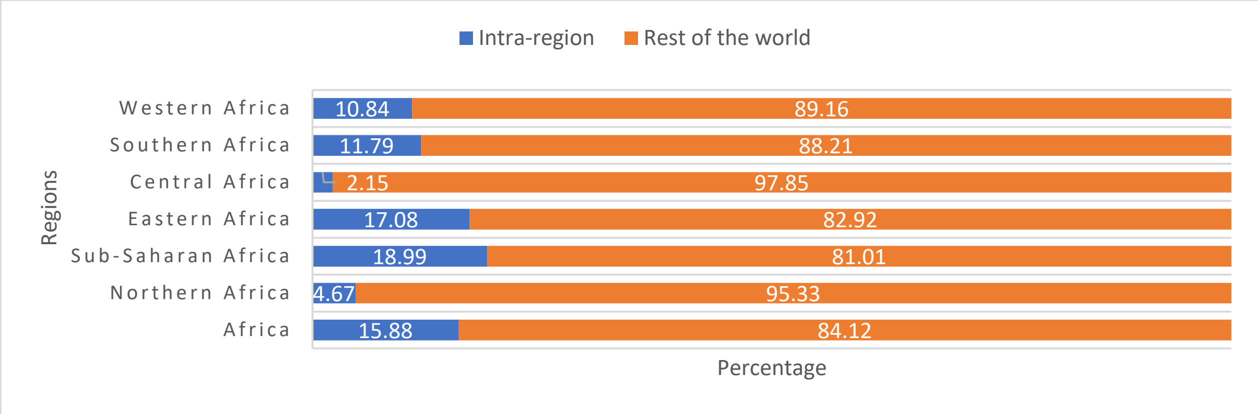
Source: UNCTAD (2024)[9]

Also, the intra-group trade is not the same across the African continent. Sub-Saharan Africa (18.99%) has a higher intra-group trade compared to Northern Africa (4.67%). Within sub-Saharan Africa, Eastern African region has the highest intra-group trade (17.08%), followed by

[9] Merchandise: Intra-trade and extra-trade of country groups by product, annual
htt ps://unctadstat.unctad.org/datacentre/dataviewer/US.IntraTrade

the Southern African region (11.79%), Western Africa (10.84%) and Central Africa (2.15%), respectively (Figure 3).

Figure 3: Intra-trade and extra-trade of Africa Regions (Percentage)



Source: UNCTAD (2024)

Historically, while other Regional Economic Communities (RECs) have seen improvement in intra-region trade by reducing their tariff and non-tariff barriers (NTBs), the African markets have remained disintegrated. In Africa, non-tariff barriers such as long waiting time at the borders, uncoordinated, and bureaucratic customs procedures have significantly raised the cost of trade costs in the continent. The extant literature on trade in Africa indicates that bilateral trade agreements amongst neighboring countries have been more beneficial compared to regional trade agreements.[10] The low intra-African trade presents an opportunity to bridge the gap through the gradual reduction of tariffs and non-tariff barriers to trade across Africa.

The AfCFTA agreement is pivotal in its quest to deepen intra-African trade, enhance or build regional value chains to accelerate regional integration, and fast-track industrialization, innovation and competitiveness so that the region can catch up to the rest of the world. The AfCFTA is expected to boost intra-Africa trade by 52.3 per cent and grow Africa's GDP to US $ 29 trillion by 2050, lifting 30 million people out of poverty. This will be attained by eliminating tariff and non-tariff trade barriers. The agreement is also expected to address perennial youth unemployment on the continent, creating sustainable jobs in agriculture, manufacturing, and services.

Initiatives to boost intra-African Trade

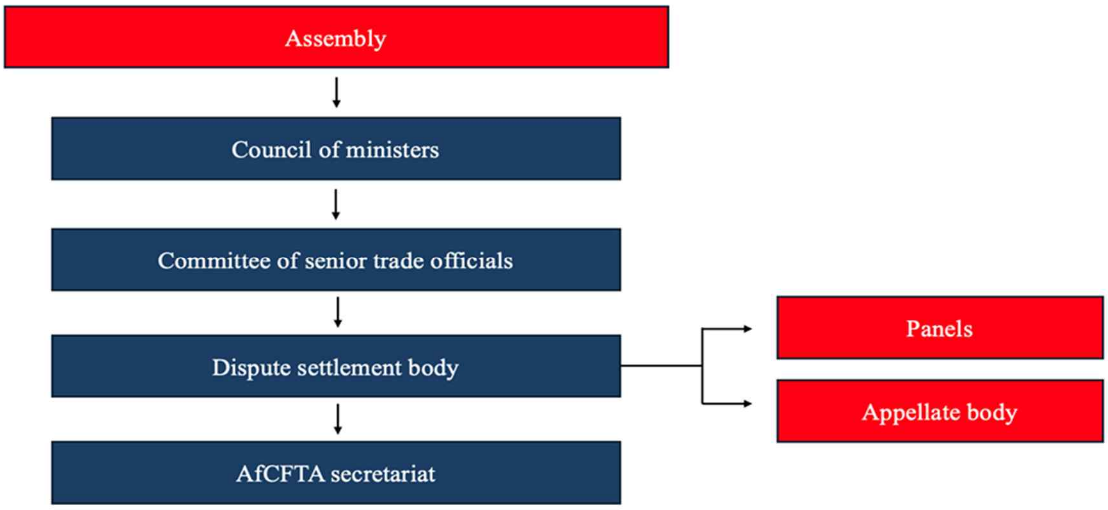
In the African Union, the Assembly of Heads of State (composed of the state's presidents) is the highest decision-making organ. It provides oversight and strategic guidance on the AfCFTA. Just below is the Council of Ministers, which includes the ministers in charge of trade in the member states. Their role is to harmonize the local and AfCFTA policies and strategies, make recommendations, and provide an authoritative interpretation of the Agreement. The Council reports to the Assembly through the Executive Council. The AfCFTA secretariat, which has its

[10] Intra-Africa regional trade comovements and shock transmission: A baseline for AfCFTA. Cogent Economics & Finance, 11(2), 2259738.URL. https://www.tandfonline.com/doi/full/10.1080/23322039.2023.2259738#abstract

headquarters in Accra, Ghana, is the administrative organ that is mandated to coordinate the implementation of the AfCFTA[11].

AFCFTA seeks to promote intra-regional trade in Africa by creating a single market for goods, services, and factors of production. To actualize that the AfCFTA has developed protocols to boost intra-regional trade. These protocols will be negotiated in two phases, as shown below (Figure 4). The AfCFTA protocols are drafted by technical working groups and negotiators representing member states, with the AfCFTA Secretariat coordinating the process. Once consensus is reached, the protocols are formally adopted by the AU Assembly of Heads of State and Government. After adoption, member states sign the protocols to indicate their political commitment to the agreement, with the signing ceremony typically taking place during African Union summits. After signing, each member state ratifies the protocols in line with its constitution after parliamentary or legislative approval. Only the state parties to the AfCFTA agreement can ratify or accede to the Protocol. Once ratified, member states deposit their instruments of ratification with the African Union Commission (AUC). The protocols enter into force 30 days after the 22nd member state ratifies and deposits the instruments of ratification[12].

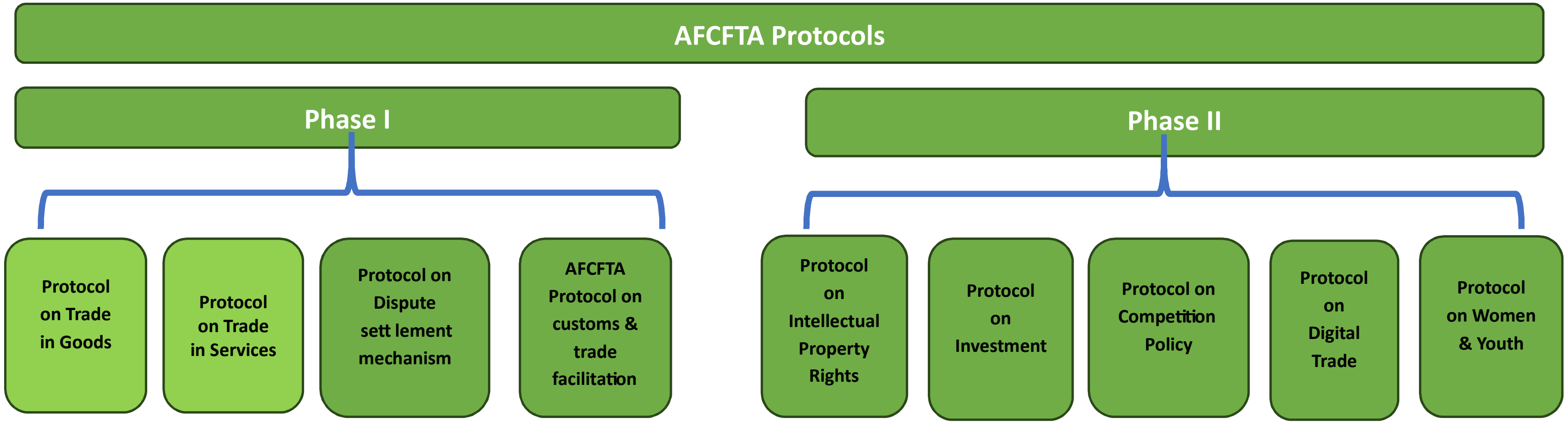
Figure 4: AfCFTA Leadership Organogram



Source: AfCFTA[13]

[11] About the AfCFTA htt ps://au-afcfta.org/about/
[12] Protocols of the AfCFTA Agreement htt ps://au-afcfta.org/trade-areas/
[13]Africa's Free Trading Future: A Comprehensive look at the AfCFTA htt ps://libertysparks.org/africas-free-trading-future-a-comprehensive-look-at-the-afcfta/

Figure 5: AfCFTA Protocols



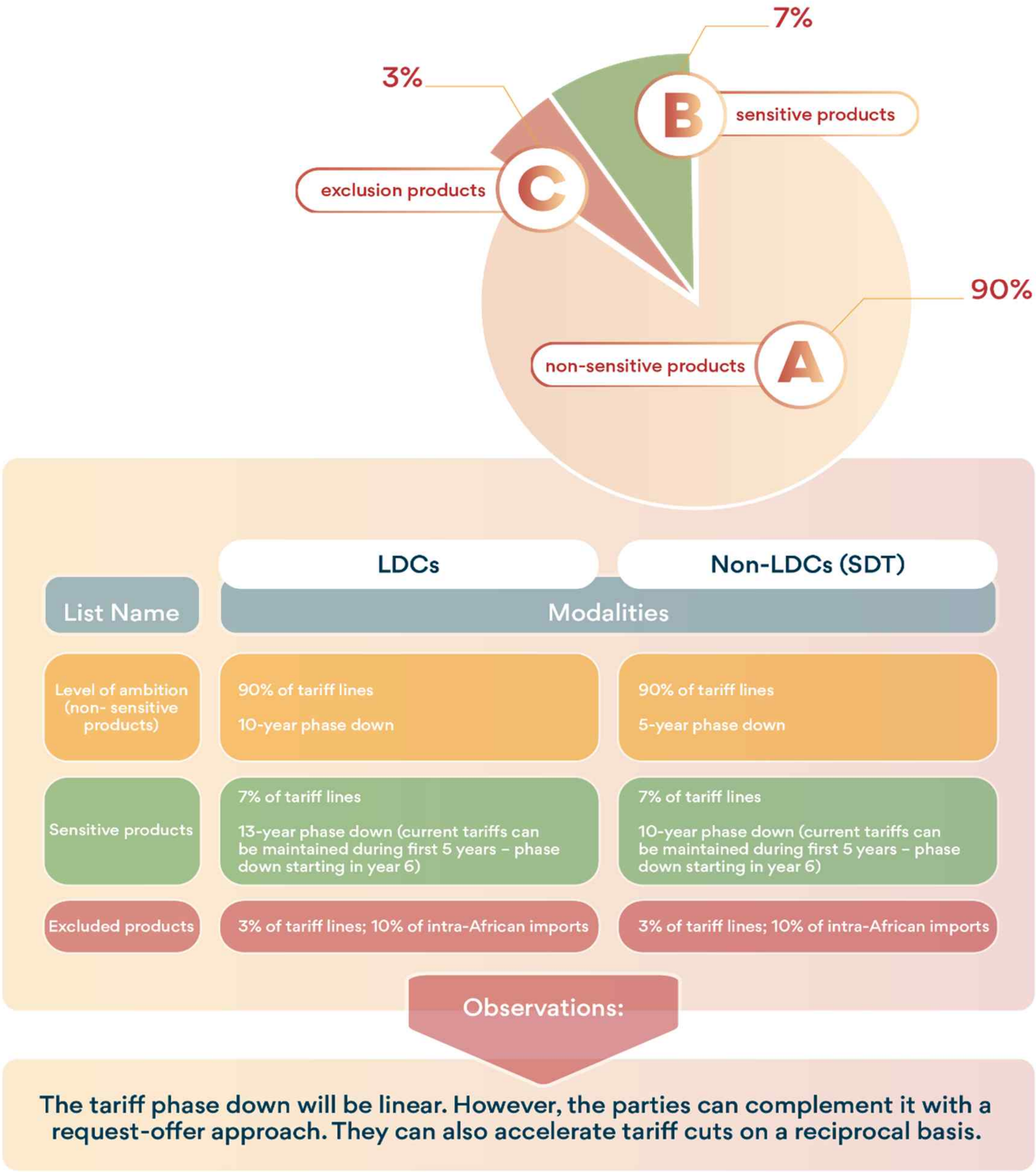
Source: AfCFTA[14]

In phase one, the Protocol on Trade in Goods includes provisions on rules of origin, trade facilitation, customs cooperation, technical barriers to trade, trade remedies, transit, non-tariff barriers, and sanitary and phytosanitary measures. The protocol on services entails provisions touching on financial services, telecommunications, tourism, and transport, amongst other services. The protocols on dispute settlement include a dispute settlement body comprising of state parties, adjudicating panels comprising nominated legal and international trade experts from member states, and a seven-member appellate body that upholds, modifies, or reverses the rulings of the Adjudicating Panel. The protocol on customs & trade facilitation includes provision on customs cooperation and mutual administrative arrangements, transit, capacity building, trade facilitation, and cross-border movements.

In phase two, the provision on intellectual property rights covers trademarks, geographical indicators (GIs), utility models, industrial designs, genetic resources, traditional knowledge, patents, and copyrights. The protocol on investment includes provisions on the promotion of sustainable investment practices, investment protection, and dispute resolution. The protocol on competition policy includes provisions on monopolies, cartels, and other practices that could distort trade and investment. The protocol on digital trade includes key provisions, namely, consumer trust, cybersecurity, data governance, market access, digital product treatment, and digital trade facilitation. The protocol on women and youth includes provision to reduce inequality amongst marginalized groups who mostly happen to be women and youths enhance their participation in regional trade through entrepreneurial support.

[14] Trade Areas htt ps://au-afcfta.org/trade-areas/

Schedule of Tariff Liberalization Modalities under the AfCFTA
Figure 6: AfCTA Tariff Phasedown Schedule



	LDCs	Non-LDCs (SDT)
List Name	Modalities	
Level of ambition (non- sensitive products)	90% of tariff lines 10-year phase down	90% of tariff lines 5-year phase down
Sensitive products	7% of tariff lines 13-year phase down (current tariffs can be maintained during first 5 years – phase down starting in year 6)	7% of tariff lines 10-year phase down (current tariffs can be maintained during first 5 years – phase down starting in year 6)
Excluded products	3% of tariff lines; 10% of intra-African imports	3% of tariff lines; 10% of intra-African imports

Source: International Trade Centre (ITC) Market Access Map[15]

The AfCTA covers 90 per cent of the tariff lines (non-sensitive products) under category A, which has a 10-year and 5-year phase tariff-down schedule for least developed and non-least developed economies in the region. These goods will be fully liberalized by 2030. Category B (sensitive products) includes 7 per cent of the tariff lines and has a 13-year and 10-year tariff phasedown schedule. Goods under category C (excluded products) entails 3 per cent of the tariff lines and an intra-African import value limit of not more than 10 per cent.

AfCFTA Operationalization Instruments

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[15] AfCFTA Tariff Phasedown Schedule htt ps://www.macmap.org/en/learn/afcfta

The AfCFTA operationalization instruments are the AfCFTA e-Tariff book, the Pan-African Payment and Settlement System (PAPSS), the AfCFTA hub[16], an online platform for reporting non-tariff barriers and automotive and adjustment funds. The e-Tariff book is a digital handbook with AfCFTA tariff liberalization schedules that ensures the AfCFTA tariff concession schedules are easily accessible to anyone online[17].PAPSS is a centralized financial market infrastructure developed by AfCFTA in collaboration with the African Export-Import and the state central banks[18]. It a low-cost, risk-controlled payment clearing and settlement system that enables efficient and secure flow of money across African borders enhancing inclusion of the informal sector traders who form a significant share of cross-border traders.

The AfCFTA hub eases trade for SMEs by linking trade parties together. It is expected to grow into a single, trusted directory for SMEs to build effective partnerships in new markets, while the online platform is expected to enhance reporting monitoring and eliminate non-tariff barriers[19]. The adjustment fund supports the state parties and the private sector in the transition to the new integrated AfCFTA trading environment. It comprises three funds: base fund, general, and credit fund. The base funds comprise contributions from the state parties, technical assistance, and grants to address tariff losses due to the gradual tariff phasedown. The general fund is expected to mobilize concessional funding while the credit fund mobilizes commercial funding to support the public and private sectors.

Bottlenecks hindering AfCFTA implementation

Several bottlenecks hinder AfCTA from fully realizing its potential. Eritrea is the only country that has yet to agree on the AfCFTA agreement. Also, 48 of 54 (89%) AfCFTA signatory countries have ratified the agreement. However, there are still seven nonstate parties who are yet to ratify the agreement. These are Sudan, Benin, Libya, Liberia, South Sudan, Madagascar, and Somalia[20].
Another bottleneck is dilapidated infrastructure and high-income inequality levels. Rapid population growth coupled with increased urbanization has exponentially increased the continent's demand for modern and sustainable infrastructure. The continent needs US $130-180 billion annually to plug its infrastructure gap.[21] Another challenge is the language barrier and varying standardization of goods and services. Also, the majority of African states produce and export similar products in the agricultural sector and extractive industry, which makes it difficult for them to trade with each other.

Way forward

By uniting 54 countries into a single market of over 1.49 billion people across multiple cultures, geographical regions, and regimes, AfCFTA shines as a beacon of hope for Africa's economic transformation. The free trade area is poised to unlock unprecedented trade opportunities and

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[16] Africa: AfCFTA launch online hub to ease trade on the continent https://www.trademarkafrica.com/news/africa-afcfta-launch-online-hub-to-ease-trade-on-the-continent/
[17] AfCFTA e-Tariff book https://au-afcfta.org/etariff/
[18] PAPSS https://au-afcfta.org/operational-instruments/papss/ https://papss.com/
[19] AfCFTA Non-tariff Barrier Reporting, Monitoring and Elimination https://www.tradebarriers.africa/
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[21] Large Infrastructure - African Futures https://futures.issafrica.org/thematic/11-large-infrastructure/#:~:text=According%20to%20the%20AfDB%2C%20it,US%24108%20billion%20remains%20annually.

a shared prosperity where goods, services, people and ideas flow freely, and enterprise thrive, and entrepreneurs lead the way in building a vibrant, progressive and inclusive Africa.

The AfCFTA is about rewriting the Africa story. It's about breaking trade barriers, fostering collaboration, and creating sustainable jobs for its youthful populace. With bold leadership, robust infrastructure, and a commitment to inclusivity, the AfCFTA can turn Africa into a global economic powerhouse through deepening intra-regional trade. The road ahead may have challenges, but the promise of a united, thriving Africa is within reach. Together, we can build a future where Africa trades with itself and the world on its terms. The time to walk the talk is now; as the adage goes, "A chattering bird builds no nest."

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