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Conditions for Success
in the Implementation of the African Continental Free Trade Agreement

Work commissioned by the African Union Development Agency (AUDA-NEPAD)

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LIST OF ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AMU	Arab Maghreb Union
AU	African Union
AUDA-NEPAD	African Union Development Agency
CEN-SAD	Community of Sahel Saharan States
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECA	Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
FTA	Free Trade Area
GDP	Gross Domestic Product
GVC	Global Value Chain
ICT	Information and Communication Technologies
IFs	International Futures
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
LDC	Least-Developed Country
NTB	Non-Tariff Barrier
REC	Regional Economic Community
RoO	Rules Of Origin
RTA	Regional Trade Agreement
WTO	World Trade Organisation

FOREWORD

The speed at which AU Member States ratified the AfCFTA is certainly something to acknowledge. It is something to note and be excited about for many reasons, one of them being that it gives a glimpse on the resolve, the commitment and the readiness of the Member States to move into the next key step – i.e. implementation and delivering results. While the African Continental Free Trade Agreement (AfCFTA) decision does also lay out the key implementation phases with important milestones defined and agreed, it is well understood that Member States – individually and collectively – will be making critical decisions on highly complex matters. These decisions and the form and quality of decisions will directly impact the speed and quality of implementation of the AfCFTA that brings transformative results with measurable impacts on local populations' livelihoods. The essence and value of the AfCFTA is in the extent to which it will contribute to creating jobs and fostering sustainable national wealth, thereby building an inclusive society as depicted in African Union's *Agenda 2063*.

It is well-understood that implementation is both political and technical. There will be many challenges and trade-offs to be considered and addressed in advancing it. It needs to be a transformational process starting from the individual Member States' widely diverse economies. This will require time – i.e. medium to long term plans at all levels – as well as some largely short-term burdens which for some countries may mean negative net-gains in the short term and impacting adversely in such countries ability to cooperate.

The African Union Development Agency-NEPAD (AUDA-NEPAD), with a focus on implementation in line with *Agenda 2063* development aspirations, and supportive of the upcoming African Union's AfCFTA secretariat is undertaking a series of studies aimed at generating relevant knowledge and data to support and enhance Member States' capacity and ability to implement the AfCFTA, especially with regard to strengthening strategic policy alignment and coherence, ensuring high quality and appropriate investment decisions and fostering trans-boundary cooperation in sectors such as industry and tradeable services, transport-connectivity and ICT.

This particular study – **AfCFTA Conditions for Success** – provides both an analytical framework as well as an actual analysis on local and international factors likely to either augment or hinder implementation of the AfCFTA, and therefore gives an evidence-based understanding and capacity to make specific local policy and investment decisions. The study can further guide interventions aimed at strengthening and aligning related institutional and human capital needs using integrated, cross-sector and trans-boundary approaches. Using **the International Futures Modelling Tool**, the study presents, for planners, policy makers and development specialists, a uniquely African perspective and foresight analysis to help in evidence-based prioritization and determining of national or regional AfCFTA implementation pathways – also connecting between individual and collective (regional) Member States' implementation efforts. Success of the AfCFTA is cardinal to the success of *Agenda 2063*.

The AUDA-NEPAD and the Pardee Center are pleased to put this study report in the hands of Governments, national and regional stakeholders, including private sector and civil society organizations, policy analysts, development partners among others to stimulate, inform and guide critical analysis.

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1. INTRODUCTION: IMPLEMENTING AfCFTA

The African Continental Free Trade Agreement (AfCFTA) crossed the necessary threshold for continental implementation in May 2019. The speed at which the ratification happened could be interpreted as widespread political buy-in, in part, driven by analysis showing that lowering intra-African trade tariffs can produce significant long-term economic gains. While there is evidence that reducing barriers to trade can unlock economic potential, there are also examples of how free trade agreements can lead to social dislocations and destabilization. Therefore, in the 'nuts-and-bolts' of implementation, there will be factors which could foster as well as hinder member states' engagement and cooperation in the actual implementation of the AfCFTA.

This executive summary of a broader technical report puts a spotlight on some of these factors as conditions for success (Kabandula et al., 2020). The aim is to offer member states evidence-based insights to help navigate the complexities that come with implementation, including identifying and managing trade-offs. Successful implementation of the AfCFTA could help deliver equitable human development, strengthen regional integration, and further the development agendas of African institutions including *Agenda 2063*.

Aware that conditions for the successful implementation of the AfCFTA are many and cut across multiple issue areas, the study analyses factors relevant for the deployment and implementation of the agreement. The initial implementation-level conditions for success are heavily dependent on the willingness of individual member states and their leaders to take action to implement the agreement, as well as their capacity and ability to coordinate and harmonize trade policies at the national, regional, continental and global levels. Additional conditions for success include the eliminating of all barriers to trade, good governance, and infrastructure development including information communication technologies. Nonetheless, during the implementation phase, it is vital for member states and citizens to have knowledge of the how the AfCFTA will impact their economies and livelihoods and for the African Union to anticipate concerns in order to put in mechanisms to mitigate losses from economic restructuring. To that end, the report presents analysis on (a) tariffs, (b) economic complementarity and (c) capital-labour ratios for 54[1] African countries. Thereafter, the future of trade patterns in Africa with and without AfCFTA are projected in the International Futures (IFs) model.

The initial implementation-level conditions for success are heavily dependent on the willingness of individual member states and their leaders to take action to implement the agreement.

Implementation of the AfCFTA is the choice of the African population, but it is also constrained and enabled by actions of other states in the international system. Current patterns of global protectionism and neo-mercantilist tendencies will shape how the trade agreement benefits African states. And some of these protectionist tendencies have arisen based on free trade agreements implemented with limited social support or policy intervention. Africa can learn lessons from these previous agreements.

[1] Data for Saharawi Arab Democratic Republic is unavailable for this analysis.

1. INTRODUCTION: IMPLEMENTING AfCFTA

1.1 Key Build-in Implementation Features of the AfCFTA

The main objective of the AfCFTA is to create a single market for goods and services to facilitate the free movement of persons and investments and to lay the foundation for a Continental Customs Union. The AfCFTA implementation plan is built around member states successfully undertaking activities and programmes to improve seven priority action clusters identified by the AU Action Plan for Boosting Intra-African Trade. These action clusters are: trade policy, trade facilitation, procedure capacity, trade related infrastructure, trade finance, trade information and factor market integration. The AfCFTA trade provisions are not limited to trade in goods. Its legal instruments cover trade in services, competition, investment and intellectual property rights (Regions Refocus & Third World Network-Africa, 2016). Therefore, AfCFTA implementation is contingent on member states' agreement on the stated legal provisions. The AfCFTA agreement stipulates a two-phased implementation plan to facilitate negotiations on the provisions and operationalization of the agreement.

Phase I covers trade in goods and services. Trade in goods implementation involves tariff liberalization, non-tariff barriers, rules of origin, trade facilitation (customs cooperation and harmonization of documents), transit and transit facilities, trade remedies, technical barriers to trade, standards, dispute settlement, and institutional arrangement. Trade in services entails: transportation (air and maritime), insurance (tourism and financial services), and banking (AU, 2018). Phase II negotiations relate to competition policy, intellectual property rights, and investment (AU, 2018; Regions Refocus & Third World Network-Africa, 2016).

1.2 Objective and Scope of the Study

The goal in this study is not to justify the AfCFTA or to rationalize its benefits. There are already numerous reports in this regard and the value and benefits of the AfCFTA for member states remain undisputed. The African Union Development Agency (AUDA-NEPAD) recognises that success of the AfCFTA is cardinal to the overall success of *Agenda 2063*. Therefore, with the mandate to foster implementation of Africa's development initiatives, this study analyses factors which are likely to impact the willingness and ability of member states to successfully implement the AfCFTA.

As such, *Conditions for Success in the Implementation of the African Continental Free Trade Agreement* examines, in an integrated and holistic manner, socio-economic, institutional and governance factors as well as the technical and non-technical factors with regard to how current and historical patterns of international trade (i.e. form and character of markets, tariffs, and transboundary economic complementarities) have evolved in Africa and what we could learn from such in determining the now-policy and investment decisions which will directly impact on future trans-national markets and trade patterns - considering with and without the AfCFTA scenarios. In so doing, the report will inform both governments and the private sector in making informed policy and investment decisions to implement the AfCFTA provisions.

Conditions for success in this report are understood in two dimensions. The first is the ability, capacity, and political will of African leaders to implement the AfCFTA. This dimension builds and expands on the progress already made by regional economic communities (RECs) in regional economic integration. The second dimension is success in maintaining the agreement and realizing its potential benefits. This study demonstrates long term continental revenue and gross domestic product (GDP) gains and other positive externalities as a result of the AfCFTA. In addition, sustaining support requires mitigating risks associated with the AfCFTA.

As a result of unintended consequences of trade liberalization, the AfCFTA will most likely create winners and losers across countries and sectors. Hence, a condition for success will be mitigating and compensating for any losses experienced by countries and sectors.

2. KEY RESEARCH RESULTS

2.1 Context

Ongoing developmental transformations occurring in Africa in demographics, human development, and technology are changing economic production and improving intra-African trade. Even without the AfCFTA, African trade is expected to grow significantly. Relative to 2015 levels, the value of African exports is projected to grow over 20-fold and imports by nearly 15-fold by 2063 in the absence of AfCFTA. Moreover, an increasing portion of Africa's trade will be within the continent. Intra-African trade, which currently makes up 14% of total African trade, is expected to increase its share to 40% of African trade by 2063. The implementation of the AfCFTA occurs within this context and will largely catalyse and amplify ongoing transformations. *The implementation of the AfCFTA is akin to pushing on a door that is already swinging open.*

2.2 Conditions for Successful Implementation

Successful implementation of the AfCFTA depends on the political will and commitment of member states and their leaders. Fully implementing the agreement itself involves the acceptance of a number of requirements at both the state and continental levels. Political leaders must embrace the following for the successful implementation of AfCFTA:

- Sensitivity to non-tariff barriers to trade, including governance, infrastructure and border crossings, and the prevalence of informal trade;
- Improved tracking of trade across borders;
- Coordination on harmonizing trade policies across national, regional economic community, continental, and global trade agreements; and
- A coordination mechanism for dealing with trade disputes.

But implementation of the AfCFTA will involve more than simply complying with the explicit obligations of the agreement. Member states and citizens have understandable concerns about how the AfCFTA will impact their economies and livelihoods. These concerns are important to anticipate and address in order to mitigate losses from economic restructuring. Moreover, it will be difficult to achieve the political will necessary for full implementation without addressing these concerns, which we discuss below as ongoing conditions for success.

2. KEY RESEARCH RESULTS

2.3 Ongoing Conditions for Success after AfCFTA is Implemented

Tariffs are important sources of government revenue for many African states, so leaders need to consider the revenue losses from reducing intra-African tariffs. However, analysis in this research suggests that intra-African tariffs are low relative to tariffs between Africa and the rest of the world.

- Approximately 1.5% of African GDP ($37 billion) comes from tariffs on imports from the rest of the world.[2]

- By comparison, intra-Africa trade tariff revenue equates to just 0.1% of African GDP in 2015 ($3.5 billion).

Because intra-African tariffs make up such a small portion of African tariff revenue, implementation of AfCFTA will have a limited negative effect on government revenues overall. At the continental level, tariff revenue losses are fully offset by gains in GDP by the mid-2030s. Some countries – those with a greater dependence on intra-African tariffs – will see greater reductions to government revenues in the short run (five years). However, because the greater reduction in tariffs is expected to generate more trade, these are the countries that stand to benefit the most from the AfCFTA in the long run.

> *At the continental level, tariff revenue losses are fully offset by gains in GDP by the mid-2030s.*

Even beyond tariff revenue, the implementation of the AfCFTA is likely to restructure economic relations and development. History shows that the benefits to reduced trade tariffs tend to be general (i.e., increase in the size of the overall economy, or reduction to a general price of good or service across an economy) and can be difficult for political leadership to identify to a sceptical public. On the other hand, the cost to reduced trade tariffs are typically localized and specific, seen clearly when one city loses a factory or when trade disrupts individual livelihoods. There is no silver bullet to solve this issue and leaders should look to policies that further enhance the benefits of the AfCFTA while also being responsive to the costs.

To amplify the benefits of the AfCFTA, leadership should:

- Reduce non-tariff barriers to trade;

- Improve economic complementarity through diversification of exports and production, including through increased manufacturing; and

- Enhance monitoring of cross-border flows of goods and services.

To mitigate the costs of the AfCFTA, leadership should:

- Create a dispute mechanism for resolving issues that arise across member states;

- Take into account disparate impacts that the AfCFTA may have on populations and sectors;

- Consider an African Union Development Fund that could support countries experiencing social dislocation as a result of more open trade by investing in human capital, infrastructure, and improved governance.

The true condition for success of the implementation of AfCFTA is the will of Africa's leaders to champion a policy that will require coordination, collaboration, and consensus building that responds effectively to likely social dislocations. But the path forward is clear: African transformations are paving the way for further continental integration and the AfCFTA is a pillar of this progress.

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[2] Data for Saharawi Arab Democratic Republic is unavailable for this analysis.

3. CONTINENTAL AND GLOBAL CONTEXT TRANSFORMATIONS

3.1 On-going Developmental Transformations

Implementation of the AfCFTA occurs within ongoing developmental transformations, including seismic shifts in demographics, growth in human development, diffusion of communication and energy technology, and a changing natural environment. For previous work exploring the transformations that frame the context in which AfCFTA will be deployed, see *Africa's path to 2063: choices in the face of great transformations*.

Table 1 illustrates the expected transitions occurring in Africa from now through 2063. The next sections explore projected development in Africa along the *Current Path* scenario, which is a dynamic representation of development within and across issue areas for 54 African countries. It does not include a reduction in trade tariffs associated with the implementation of AfCFTA.

Table 1: The Current Path of development for Africa for select indicators

Indicator	Unit	1996 to 2005	2006 to 2015	2016 to 2025	2026 to 2035	2036 to 2045	2046 to 2055	2056 to 2065
Population	percent of global	13.3	15.1	17.4	20.1	23.1	25.8	28.4
Population	million people	822	1,055	1,363	1,732	2,132	2,521	2,867
Urban population	percent of pop.	35.5	39.4	43.7	47.5	51.1	55.5	60.7
GDP	billion 2011 USD	1,354	2,167	2,961	4,640	8,926	18,905	37,850
GDP	annual growth rate	4.3	4.3	3.1	5.6	7.4	7.9	6.5
GDP per capita (PPP)	thousand USD	3.6	4.4	4.7	5.4	7.3	11.2	17.4
Educational attainment	years	4.9	5.8	6.3	6.9	7.6	8.3	9.1
Life expectancy	years	57.2	61.7	66.2	69.1	72.1	74.8	77.2
Extreme poverty	percent of pop.	45.9	36.1	35.4	31.0	18.0	6.5	1.7
Extreme poverty	million people	376.8	379.1	482.6	534.5	379.0	161.7	49.5

3. CONTINENTAL AND GLOBAL CONTEXT TRANSFORMATIONS

3.2 Demographic Transformations

Africa's population has already grown significantly over the last half century, quadrupling from around 300 million in 1963 to roughly 1.25 billion today. And while population growth in the rest of the world slows, Africa's will continue to expand rapidly. By 2025 one out of every three births in the world will occur in Africa. And by 2063 Africa's population is expected to reach nearly three billion. This growth is occurring alongside increasing urbanization, with African urban populations projected to grow 30-fold between 1963 and 2063.

This expansion will present challenges as well as opportunities. A larger population means a greater demand for resources, education, healthcare, housing, and jobs. Satisfying these demands will require accelerated economic growth and investment, which could be facilitated by increased economic integration. But if those needs can be met, Africa will have a larger labour force than Europe, North America, South America, and Oceania combined.

3.3 Human Capital

As Africa's population grows, advances in human development ensure that the population is also healthier and better educated. Africa's Human Development Index, an aggregate measure of human development comprising income, health, and education levels, grew by 24 percent from 1991 to 2018 and is projected to grow by 30 percent from 2018 to 2063. Over the next 50 years, life expectancy in Africa is projected to grow from just over 65 years today to nearly 78 years in 2063, while average educational attainment is projected to improve from 5.6 years today to 8.6 years.

By 2063, Africa will be home to the most people with a university degree living on any continent outside of Asia and more total years of education

than Europe, North America, South America, and Oceania combined.

These advances in human development are likely to create greater and different demands from governments. Improvements in health mean that healthcare systems will need to deal with new pressures from aging populations, like a higher burden from non-communicable diseases. A more educated public will lead to a greater demand for higher levels of education and professional employment opportunities. And growth in incomes and development in general is often accompanied by greater demands from citizenry for a government that is accountable and responsive to their needs. At the same time, this human capital growth can help move Africa into a position to produce and trade in higher-value-add goods and services and meet the new demands of a changing global economy.

3.4 Communication and Energy Technology

Technological innovations are expected to transform economies and societies globally as in Africa. Across the continent, information and communications technology (ICT) has led to enhanced connectivity within Africa and with the rest of the world, digitized economies, and helped to increase access to goods and services (Kabandula, 2019). One way this transformation is visible is through increased access to and use of mobile phones. In Africa today, there are roughly 8 SIM cards and 1.8 smartphone subscriptions for every 10 people. Just by 2025, that is expected to increase to 11.5 SIM cards and 1.5 smartphone subscriptions. And by 2063 Africa is expected to be home to more smart phones than Europe, North America, South America, and Oceania combined.

By adopting mobile technology, Africa has essentially been able to leapfrog through technological advancements and rapidly catch up with the rest of the world. However, many avenues of economic expansion, such as the provision of high value-add services, will require further advances, like in fixed broadband. These advances require increased investment in physical infrastructure, which will both facilitate and be facilitated by continental economic integration.

Moreover, due to the population growth and the economic and human development discussed above, energy demand is set to increase more than seven-fold over the next 50 years. Renewable energy also offers transformative potential, as Africa is home to many untapped renewable sources and production costs are falling rapidly. Already, an estimated 5% of Africa's energy needs are met with renewable sources, a figure that is projected to grow to 16% by 2038 and nearly 60% by 2063. Renewable production in Africa is expected to surpass that in Latin America and the Caribbean by 2045, Europe by 2050, and North America by 2055.

Growth in renewable production will provide cleaner and cheaper power to the continent, while helping to expand electricity access to more remote populations and enabling spillovers from the use of innovative technology. However, as this transition occurs both within the continent and globally, it is likely to occur alongside a reduced demand for energy trade. Thus, diversification of Africa's economies and export profiles will be critical.

3.5 Industrialization

Transformations are also expected in economic production as a result of economic and human development, innovations in communication and energy technology, and globalization. Africa will produce more, export more, and increase the diversity and value-add of its exports. Relative to 2015 levels, the value of African exports is projected to grow over 20-fold and imports by nearly 15-fold by 2063. In 2015, total African trade accounted for around 3% of global trade. By 2063, African trade is projected to represent 12.5% of global trade.

One aspect of industrialization that is difficult to forecast is that of value chain production. Countries today operate on a vast network of global value chains (GVCs) and specialize in individual tasks rather than particular products or industries. Africa's integration into GVCs is limited and the continent is home to few regional value chains (IMF, 2014; Kowalski et al., 2015; Oseni & Pollitt, 2013). Many African firms are small in scale, remote, and have low productivity levels (IMF, 2014; Kowalski et al., 2015; Oseni & Pollitt, 2013).

Further, many African firms act as exporters of natural resources as opposed to processed intermediate inputs (Kowalski et al., 2015). Increased economic integration has been suggested to stimulate regional value chains and GVC trade across Africa (AfDB, 2014; Conde et al., 2015).

The *Current Path* shows large growth in trade, economic diversification, and economic complexity. The development trajectory of Africa in this scenario is one in which positive spillovers across various aspects of development overcome the negative constraints imposed by persistent instability, poor government capacity, and adverse impacts associated with a changing environment.

> *The Current Path shows large growth in trade, economic diversification, and economic complexity.*

4. SUCCESS CONDITIONS

Conditions for the successful implementation and maintenance of the AfCFTA will be wide-ranging, cut across multiple issue areas, and will range from the concrete to the abstract. In this section we highlight key conditions that are important in two stages of AfCFTA deployment: initial implementation and post-implementation. We turn to conditions important to the implementation phase.

4.1 Success Conditions for AfCFTA Implementation

4.1.1 Political Leadership

While the free trade agreement has achieved the necessary threshold for implementation, the actual willingness to implement remains in the hands of member states and their leadership. The actual implementation of AfCFTA will primarily require strong political will to move the trade relationship forward.

Deciding to implement the AfCFTA comes with some risk, as we outline in this work. If a country is heavily dependent on intra-African trade tariffs for government revenue generation, a continental free trade agreement could significantly reduce government revenues. While the analysis in this report suggests that countries most dependent on intra-African trade tariffs for government revenues will benefit the most by reducing their intra-African trade tariffs, this benefit accrues slowly, over years and even decades. A shared political mindset should be fostered promoting continental economic integration—one that prioritizes shared economic gains at the expense of historical rivalries or relative economic gains.

As a continent there are significant long-term benefits to reducing intra-African trade tariffs that can be shared by all. Removing the barrier to political mindsets that emphasizes scarcity in favour of abundance should be a priority.

The costs to changing patterns of trade are similar to other costs associated with changing policies and development: they can be seen and will be experienced acutely by some citizenry. But the gains to implementing a free trade agreement are more general and more difficult to identify.

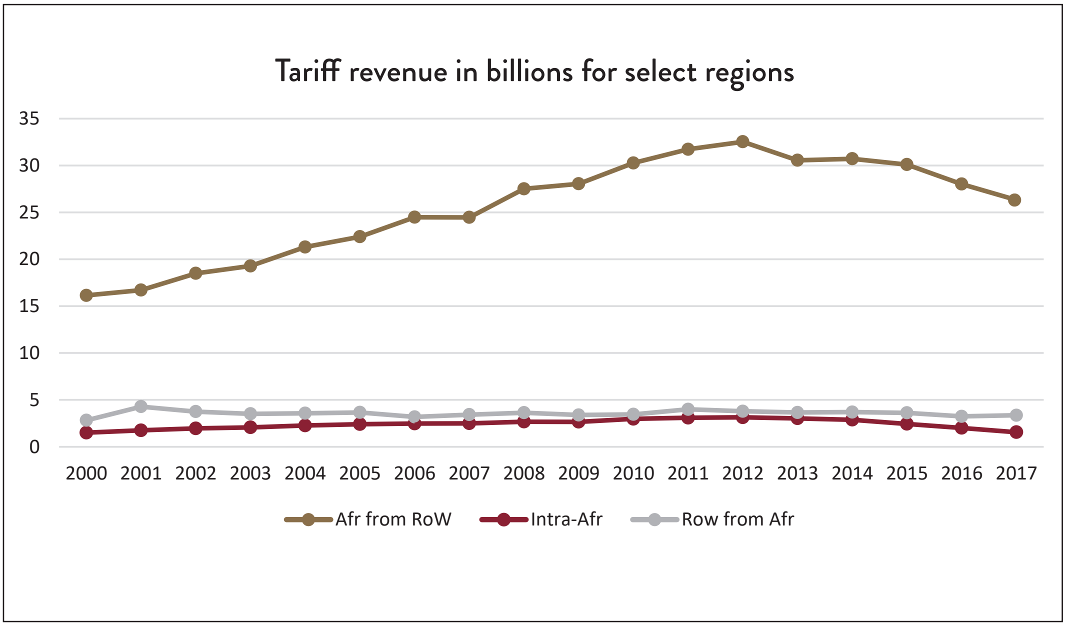
The political will needed to successfully implement the AfCFTA will require a sensitive eye towards identifying those communities where economic integration will cause pain and remedying the cost of transformation rapidly.

4.1.2 Tariffs under AfCFTA

The AfCFTA calls for the removal of 90% of tariffs on trade within Africa. The removal of tariffs can change supply and demand relationships, in turn leading to changing production and consumption patterns. Likewise, literature (Baunsgaard & Keen, 2010; Corden, 1997; Gardner & Kimbrough, 1992) attests many African governments rely on trade tariffs for revenues. Therefore, eliminating trade tariff revenues could significantly reduce government revenue and thereby capacity to provide services.

This study finds that in the last twenty years, Africa has received roughly the equivalent of 1.5% of African GDP ($37 billion) in tariff revenue from the rest of the world, as Figure 1 shows. However, Africa has paid considerably less in tariffs to rest of the world and received less from other African countries. Tariffs paid by Africa to the rest of the world account for less than 0.2% percent of African GDP ($4.8 billion), while intra-Africa tariff revenue was at 0.1% in 2015 ($3.5 billion).[3]

Figure 1: Tariff revenue in billions USD (5-year moving average) for select regions.



[3] Under-reporting, particularly in low-income countries is a known issue with bilateral trade data. To better approximate actual levels of trade (and as a result, tariffs) we have made assumptions about the missingness associated with countries and dyads and have replaced these with estimated values. Because of this, historical data and overlapping forecast initializations differ. In the case of African economies, many of presumably suffer from significant missingness, aggregate data and forecasts may differ by a large amount.

4.1.3 Harmonizing with RECs and WTO

The AfCFTA will impact pre-existing multilateral free trade areas within RECs and the Word Trade Organisation (WTO). RECs are not only the economic building blocks for African integration, they are also key AU partners in ensuring stability, peace and security. RECs are also crucial in the implementation of Agenda 2063. Therefore, the significance of RECs in promoting development and integration in Africa cannot be over emphasized and their role in AfCFTA implementation is essential.

While AfCFTA rules and regulations are broad in scope to allow for some deviation among RECs and state relations, uncertainties still exist regarding overlapping memberships and the AfCFTA's relationship with some RECs. One issue in particular is how tariff liberalization will be applied to least-developed countries (LDCs) and non-LDC counterparts within Customs Unions. Some RECs may face difficulties in resolving tariff liberalization given the agreement allows LDCs longer tariff phase down periods of 13 years for sensitive products versus 10 years for non-LDCs (Hartzenberg, 2019). Further, it is unclear what the AfCFTA relationship with the recently finalized Tripartite Free Trade Area covering three RECs (EAC, SADC, and COMESA) will look like (tralac, 2018). Additional work is required to understand the interlinkages between AfCFTA and these regional agreements.

The AfCFTA appears to follow all WTO rules and regulations. Due to the dual membership of most of its members in both institutions, the AfCFTA has utilized WTO guidelines such as anti-dumping measures and national treatment of goods and services regarding domestic and foreign providers (WTO, 2019c). Additionally, AfCFTA will operate within the WTO regulation similar to how the European Union operates. Every WTO member state within the AfCFTA will represent itself during WTO negotiations, but the AfCFTA will utilize a commission that speaks for the entirety of the agreement at all WTO meetings. Like the European Union, the AfCFTA will be a member of the WTO in its own right (WTO, 2019b).

Although the WTO considers the AfCFTA as a regional trade agreement (RTA), it is yet to recognize and approve it. In accordance with the Doha Round of negotiations in 2001, the WTO has established transparency mechanisms to review RTAs and allow the WTO to hold discussions on the implications of new RTAs for the international multilateral trading system. The AfCFTA has not yet reached the stage at which it can be reviewed and considered a WTO regional trade agreement (WTO, 2019a).

4.1.4 Monitoring and Measuring AfCFTA for Successful Implementation

As of 26 September 2019, AfCFTA rules of origin (RoO) were not yet published despite the twelfth extraordinary session of the assembly in July 2019 reference to agreed upon rules (AU, 2019). As a result, there is little information concerning the implementation of RoO and value-added tax (VAT).

Most African countries lack the capacity and ability to effectively monitor VAT. It would be prudent for AfCFTA to embark on rigorous training of customs union officials and to build capacity in each member state to effectively implement VAT monitoring systems (UNCTAD, 2019). For states under the AfCFTA classification of LDC and G6, more direct help through training sessions, economic aid, and guided institutional development will be provided by the AfCFTA and partner organizations (AU, 2019).

Ultimately, the success of VAT monitoring will depend on reducing the levels of corruption associated with revenue taxes among government elites.

4.2 Success Conditions for AfCFTA Post-Implementation

Beyond the promise of greater African prosperity, maintaining long-term support for the AfCFTA will require that countries are able to respond to challenges that appear as a result of liberalization. Perhaps the most obvious of these is the immediate reduction in government revenue generation from tariffs on imports from other African countries. However, there are risks at the firm and household levels as well. For example, certain sectors that once benefited from intra-African protection may face new challenges associated with greater exposure, and the role of particular segments of society may shift as investment moves towards more competitive industries and firms.

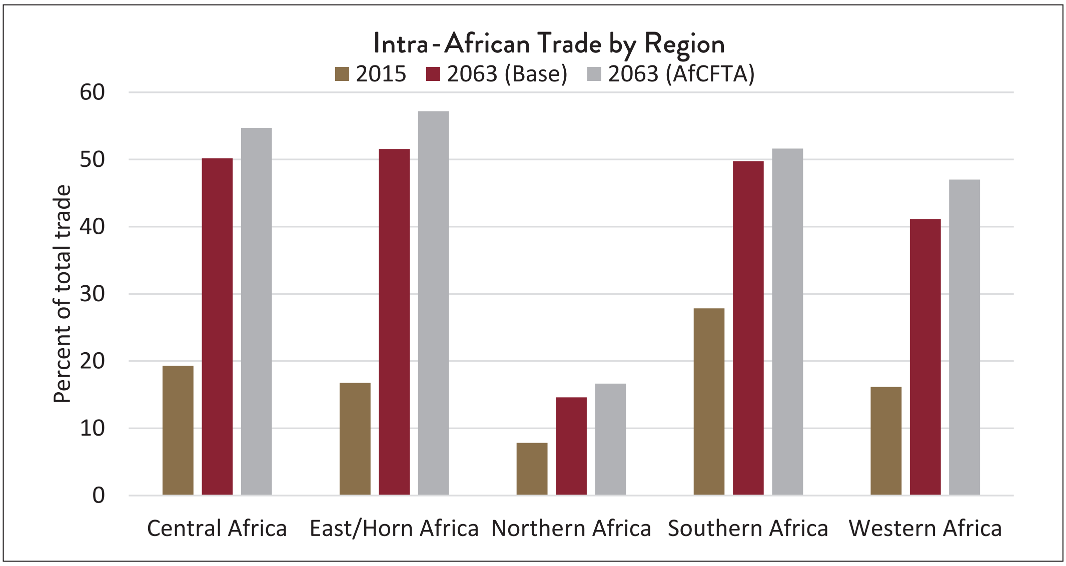
In this section, we explore the risks and opportunities that governments and society may face during the implementation of AfCFTA, in order to help coordinate support necessary to implement the agreement, navigate risks that may threaten its sustainability, and take full advantage of the opportunities that can further deepen economic integration and promote shared prosperity.

4.2.1 Continental Benefits

As Africa is home to some of the most rapidly growing economies in the world, intra-African trade is already positioned to grow substantially over the coming decades. So, while greater integration will be a natural outcome of the reduction of intra-African tariffs, the degree to which the AfCFTA will augment trade beyond what is already projected is likely to be limited. Figure 2 shows levels of intra-African trade by African sub-region, with the gold bar representing trade in 2015, the red bar trade in 2063 without AfCFTA and the grey bar trade in 2063 with AfCFTA.

Intra-African trade growth is strongest in Central and Eastern Africa, followed by Western, Southern, and Northern Africa in a scenario without the AfCFTA. Under the AfCFTA, the growth in intra-African trade is strongest in Western and Eastern Africa, followed by Central, Northern, and Southern Africa.

Figure 2: Intra-African trade as a percent of total trade, 2015 and 2063 under two scenarios.



While the increase in intra-African trade shares from the AfCFTA is relatively small at the regional level, countries that today impose relatively high tariffs on imports from other African countries and face high tariffs on their exports to other African countries, such as Benin, Cameroon, Central African Republic, or Gambia, are positioned to increase trade with neighbours by more than 65% relative to a scenario without the AfCFTA.

This transition drives two key trends. First, the elimination of intra-African tariffs also constrains government revenue generation (more on this below). Second, increased trade openness will enhance productivity gains from technology transfers and access to cheaper prices will increase household access to a greater number of goods.

At the continental level, the agreement creates additional productivity gains that can unlock an additional $1.5 trillion in economic activity by 2063 (3.4% higher than the no-AfCFTA scenario), though regionally these gains are not evenly distributed. The largest gains in annual GDP growth in 2063 accrue to Eastern Africa ($560 billion), followed by Central Africa ($430 billion), Western Africa ($380 billion), Southern Africa ($110 billion), and Northern Africa ($15 billion). In terms of relative gains, Central Africa is positioned to gain the most, with AfCFTA contributing to an annual economic output 13% higher compared with a scenario in which the continental agreement is not pursued, followed by Eastern Africa (3.6%), Western Africa (2.5%), Southern Africa (1.9%), and Northern Africa (0.4%). The new patterns of trade, investment, and production are beneficial to all countries in terms of GDP gains, but they may also represent challenges for the parts of the economy and society that bear the greatest burden of readjustment.

The new patterns of trade, investment, and production are beneficial to all countries in terms of GDP gains.

4.2.2 Challenges

The success of AfCFTA in contributing to shared continental prosperity will ultimately be weighed against the hardships faced along its implementation. Therefore, its sustainability is, to some extent, tied to the ability of AUDA-NEPAD and national leadership to establish policies that appropriately mitigate these risks and compensate the countries, firms, and individuals that are at a relative disadvantage during its adoption.

4.2.2.1 Tariffs

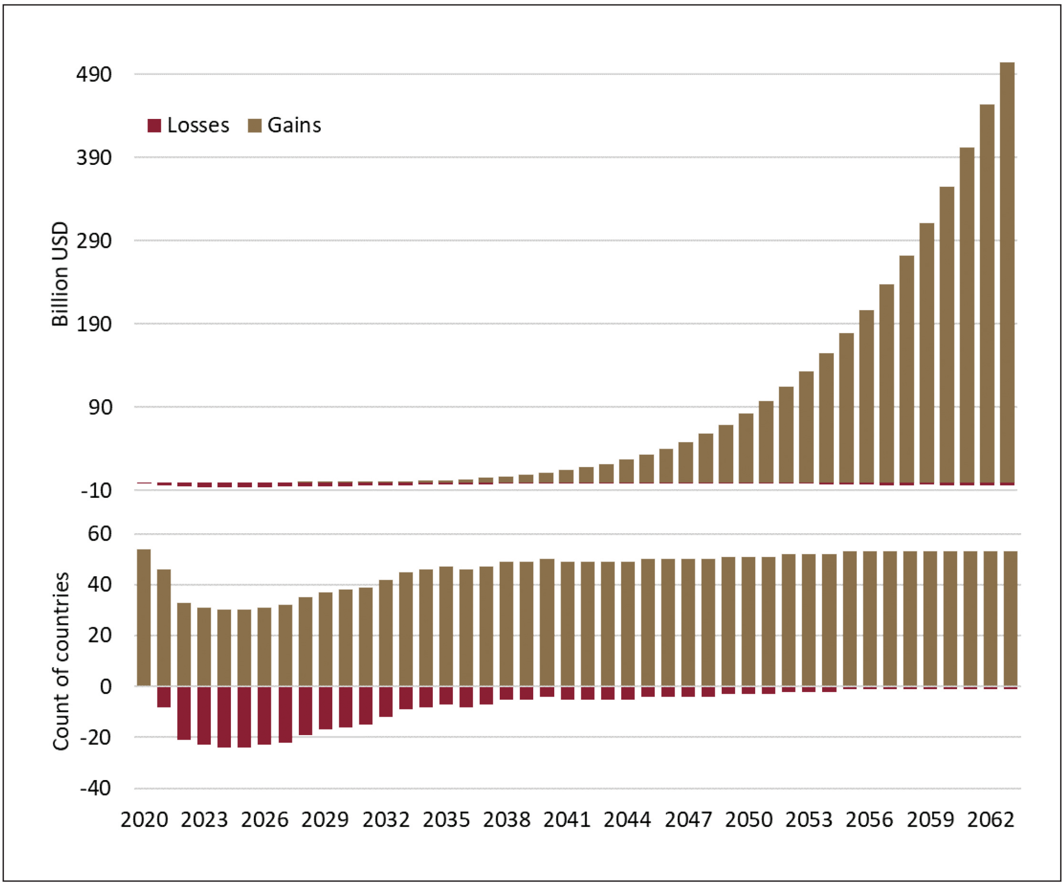
Today, Central African Republic, Chad, Comoros, and Democratic Republic of the Congo are all estimated to depend on intra-African tariffs for more than 5% of total government revenue. Figure 3 shows that at its peak in 2025, 24 countries are projected to experience net losses in revenue greater than 1% relative to the Current Path. These intra-African tariff-dependent countries are likely to face a challenging period of adjustment over the medium term. However, most countries that experience net revenue losses also quickly enjoy GDP gains that fully offset those losses.

At the continental level, by the mid-2030s, total gains surpass and begin to rapidly outpace losses, such that by 2063 African economies are projected to receive an additional $500 billion in annual revenue relative to a scenario without AfCFTA. This value is roughly 140 times the amount necessary to compensate the few countries that do not fully make up tariff revenue losses.

In addition, while countries heavily dependent on intra-African trade tariff revenues will see short-run disruptions to government revenue generation, they also experience much greater long-term economic gains relative to countries that have less of a short-run dependence on trade tariff revenue.

While the GDP and revenue gains suggested by this analysis are more than enough to outweigh the losses, since intra-African tariffs are already relatively low, their removal alone may not be enough to generate transformative change and significantly increase intra-African trade.

Figure 3: Total gains and losses from implementation of AfCFTA for government revenue generation in the AfCFTA scenario compared to a scenario without AfCFTA. Bottom figure: count of African countries (out of 54) that see less than a 1% reduction in government revenue in a scenario with AfCFTA compared to a scenario without.



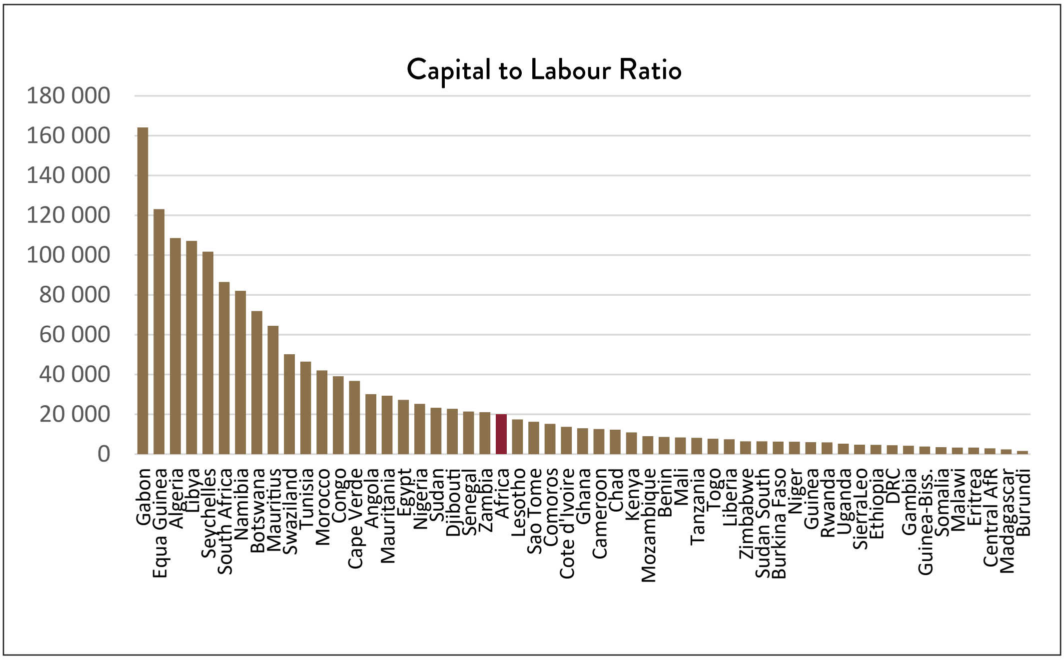
4.2.2.2 Labour and Capital

Trade theory suggests that tariff reductions are likely to lead to readjustment of sectors and economies (Brander & Spencer, 1994; DeMartino, 2000; Dix-Carneiro, 2014; Falvey et al., 2010; Feenstra & Lewis, 1994; Kruse, 1988; Lawrence & Litan, 1986; Rodrik, 1997). These readjustments can cause internal frictions that are often overlooked in economic analysis. The emerging resistance to globalization is in part due to the social dislocation that has emerged from the global reallocation of industry and investment over the past decades.

We cannot predict where, when, or how these social frictions may occur. But the ratio of capital to labour is one measure that may indicate the degree to which liberalization may induce readjustment and helps to illustrate the different adjustment costs that African economies could experience. As seen in Figure 4, there is a wide range of capital-to-labour ratios throughout Africa.

Investing in policy aimed at ameliorating the impact of these adjustments or compensating those that might be negatively affected by them will be important in securing the sustained and widespread support for the AfCFTA.

Figure 4: Capital to labour ratio for African states in 2015. Vertical axis measures capital in 2011 USD.



4.2.3 Additional Opportunities to Leverage

The analysis thus far has demonstrated that the long-term impact of the AfCFTA across the continent is expected to be positive but moderate given (1) the path that Africa is already on, (2) low levels of intra-African trade tariffs, and (3) structural barriers to increased integration. Two key issues associated with this third point are the widespread presence of non-tariff barriers (NTBs) and the relatively low level of complementarity between African economies. These issues do not pose a major threat to the viability of AfCFTA but represent an opportunity to further deepen economic integration and its gains.

4.2.3.1 Reducing Non-tariff Barriers to Trade

NTBs that negatively impact trade include a very wide range of variables, including infrastructure, governance, geography, security, and anything else that reduces patterns of continental trade. In Africa, the magnitude of impact of NTBs on trade reduction seems to surpass traditional tariff barriers (Carrere & de Melo, 2011).

Studies have shown that tariff liberalization positively correlates with an increase in NTBs (Kirk, 2010; Péridy & Ghoneim, 2013). COMESA (2013) also observed that tariff liberation among its members led to increased non-tariff measures in the region that stifled trade. Thus, a 2013 UNCTAD report concluded that the removal of NTBs would outweigh the benefits of removing traditional tariff barriers, providing a gain of $20 billion per annum (Vanzetti et al., 2018). NTBs are estimated to have a 2-20% impact on goods and services pricing (Péridy & Ghoneim, 2013). Therefore, NTB removal and subsequent elimination is a vital condition for the success of AfCFTA.

The successful implementation of the AfCFTA could focus on removing and eliminating these barriers, something not explicitly explored in the modelling portion of this analysis. This will require improved governance, reduced corruption, and enhanced monitoring of flows across borders. Tracking of trade flows (with improved data sharing agreements) should be a priority, as should improved processing of cross-border trade.

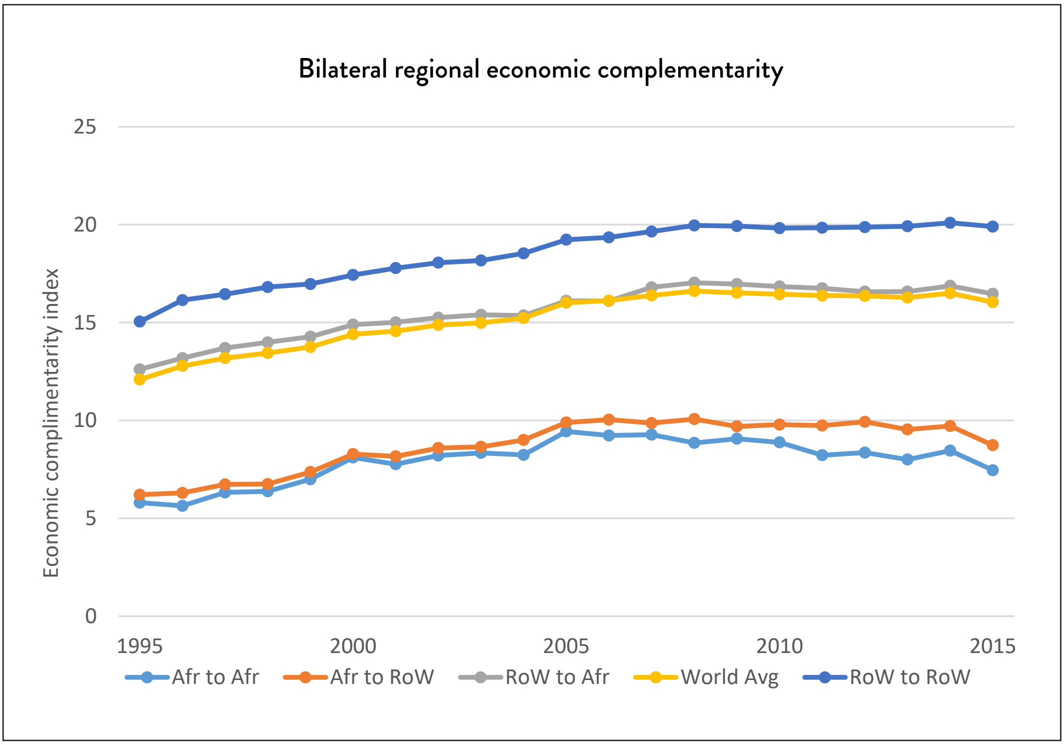
Infrastructure should be enhanced to increase the flow of goods across borders. This should include improved road and rail border crossings and improved transportation infrastructures within countries. New border crossings should be established that enhance the intra-African movement of goods to counter the legacy infrastructure developed during the colonial period that emphasized the extraction of goods and materials from Africa to the rest of the world.

4.2.3.2 Economic Complementarity

Africa has relatively low levels of export complementarity—a measure of the diversity of goods imported and exported—both with the rest of the world as well as with itself. Africa's import complementarity with the rest of the world is near the world average across time, as Figure 5 illustrates. But intra-African trade complementarity is at half that level, suggesting limited opportunity for transformative trade policy (Geda & Seid, 2015; Khandelwal, 2004; Yang & Gupta, 2007).

4. SUCCESS CONDITIONS

Figure 5: Bilateral regional economic complementarity.



Enhancing complementarity between African nations has the potential to unlock higher levels of African integration through the emergence of regional value chains (Baumann, 2010; Baumann & Ng, 2012; Coulibaly, 2008; Geda & Seid, 2015; Khandelwal, 2004). In East Asia, this allowed smaller countries to benefit from trade liberalization and paved the way for their goods to be competitive in global markets (Baumann, 2010; Baumann & Ng, 2012). However, the required restructuring of economies could further frustrate certain segments of society most impacted by the readjustment. Ultimately, greater complementarity is likely to arise naturally as AfCFTA is fully realized, NTBs are removed, and the infrastructure connecting the continent improves (UNECA et al., 2012).

5. METHODOLOGY

This report deploys a mixed method framework that includes qualitative and quantitative approaches that are both historical and prospective. It begins by analysing the literature that helps us think about winners and losers from changing patterns of trade relationships. The data analysis in this report draws on data from the IFs historical database and is expanded with measures of bilateral trade and tariffs. Finally, future trade patterns are modelled within the IFs modelling platform both with and without the AfCFTA.

The IFs tool allows analysis of a broader range of trade-offs and relationships in association with changing patterns of free trade in Africa. It enables exploration of the temporal impact of changing trade patterns by country and sector across time with assumptions that blend models of bilateral trade (using an extended gravity-type model) with country-level dynamics including partial equilibrium models measuring agriculture and energy production embedded within a computable general equilibrium-like model that includes six economic sectors. Much more detail on model assumptions can be found at pardee.du.edu.

The IFs tool is a free and open-source platform that allows for the analysis of changing development patterns both within and across systems for 186 countries across long future time horizons. The IFs tool has been used previously for analysis supported by AUDA-NEPAD, including *Africa's Path to 2063: Choice in the Face of Great Transformation* (Moyer et al., 2018); *Ending Hunger in Africa: The Elimination of Hunger and Food Insecurity on the African Continent by 2025: Conditions for Success* (Hedden et al., 2016); and NEPAD's *Integrated Approach for African Development: The Big Push to 2063* (Moyer et al., 2013).

6. LIMITATIONS

This study has a number of limitations that fall generally into three categories: (1) level of analysis; (2) poor data availability; and (3) epistemological limitations. First, this analysis largely takes place at the country level. Country-level analysis related to trade is useful when thinking about national-level indicators, like GDP or productivity. But social destabilizing impacts of free trade often occur within countries, and dislocations that are driven by free trade are often within sub-national boundaries and not at the country level. So, this analysis will inevitably miss localized destabilizing impacts from free trade. Data limitations are also a significant issue in this analysis. Data issues are not normally distributed (they reflect issues like informal economic activity, illicit economic activity, and poor governance capacity and reporting). Finally, there are many factors that are difficult to model or understand relating to the implementation of a continental free trade agreement. Since the Great Recession, patterns of trade have shifted significantly. International economic dynamics are shifting, and much is not understood. Related, the analysis above does not fully factor in issues like global value chains or more complex patterns of economic interdependence.

7. CONCLUSION AND CALL TO ACTION

The ratification of the AfCFTA signifies widespread political will among African leaders to advance trade and development on the continent. However, successful implementation of, and reaping the benefits of the agreement will depend on several interlinked factors, some of which have been discussed in this report. For this reason, member states are called upon to act on the following:

- Continue steadfastly on their commitments to implement the agreement;
- Harmonize trade policies across states, regions and the globe;
- Develop and institute mechanisms to eliminate all barriers to trade;
- Build capacity in each member state to effectively implement VAT monitoring systems;
- Build and improve infrastructure, including information and communications technologies, to expedite and smooth trade across borders;
- Facilitate diversification of Africa's economies and export profiles, such as through industrialisation and a focus on higher value-add goods and services;
- Uphold good governance practices and reduce corruption;
- Enhance monitoring of cross-border flows of goods and services; and
- Leverage demographic expansion by investing in human capital and harnessing a large labour force.

Mitigating the costs and distributing the benefits of the AfCFTA will be crucial in sustaining the agreement. The overall cost of implementing the AfCFTA cannot be fully analysed in a single report, and unintended consequences will exist. Nevertheless, analysis in this report points to several recommendations for policymakers:

- Consider the disproportionate impact that the AfCFTA may have on certain populations and sectors. Analysis above suggests that overall the benefits should outweigh the costs. However, the costs will be localized, and the benefits will be broad which could lead to a situation in where costs receive more attention than benefits.
- Consider an African Union Development Fund that could support countries experiencing economic disruption and social dislocation as a result of more open trade, by investing in human capital, infrastructure, and improved governance.

In general, yet important terms, the report underscores that AfCFTA will occur within other developmental transformations that are pushing Africa towards increased economic growth, diversification, and connection with the rest of the world. Thus, the implementation of AfCFTA is like pushing on an already-opening door.

Further, the report demonstrates that African economic integration and growth has struggled with historical patterns of colonial exploitation that shaped an infrastructure designed to draw resources out, but not develop internal and diverse economic capacity. Analysis in this report shows that this remains a persistent problem. Therefore, promoting economic diversification and regional integration should take place simultaneously, and regional trade agreements should be used to promote more intra-African economic independence.

Successful implementation of the AfCFTA will demand careful coordination between actors at all levels. It will also require that leaders consider and plan for how the agreement may disrupt sectors on a subnational level. However, if the political leaders can overcome these challenges, the AfCFTA can accelerate progress that is already underway, helping to manifest the Agenda 2063 vision of "an integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the international arena" (African Union Commission, 2015, p. 1).

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