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NOTE TO THE EDITORS

The AFRICAN CONTINENTAL FREE TRADE AREA

Questions & Answers

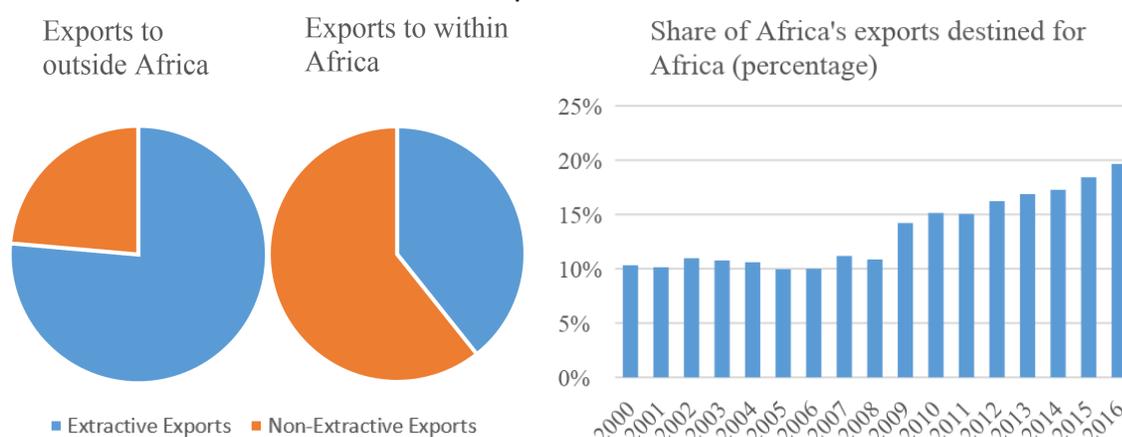
Compiled by The African Trade Policy Centre (ATPC) of the UN Economic Commission for Africa in association with the African Union Commission

1. *How can the African Continental Free Trade Area provide business opportunities that will enhance industrialization in Africa in line with Agenda 2063, "The Africa We Want"??*
 - The African Continental Free Trade Area (AfCFTA) will cover an African market of 1.2 billion people and a gross domestic product (GDP) of \$2.5 trillion, across all 55 member States of the African Union. In terms of numbers of participating countries, the CFTA will be the world's largest free trade area since the formation of the World Trade Organization (WTO).
 - It is also a highly dynamic market. The population of Africa is projected to reach 2.5 billion by 2050, at which point it will include 26 percent of what is projected to be the world's working age population, with an economy that is estimated to grow twice as rapidly as that of the developed world.
 - With average tariffs of 6.1 percent, businesses currently face higher tariffs when they export within Africa than when they export outside it. The AfCFTA will progressively eliminate tariffs on intra-African trade, making it easier for African businesses to trade within the continent and cater to and benefit from the growing African market.

- Consolidating this continent into one trade area provides great opportunities for trading enterprises, businesses and consumers across Africa and the chance to support sustainable development in the world's least developed region. The Economic Commission for Africa (ECA) estimates that the AfCFTA has the potential both to boost intra-African trade by 53.2 per cent by eliminating import duties, and to double this trade if non-tariff barriers are also reduced.

2. Why does intra-African trade drive sustainable growth and jobs?

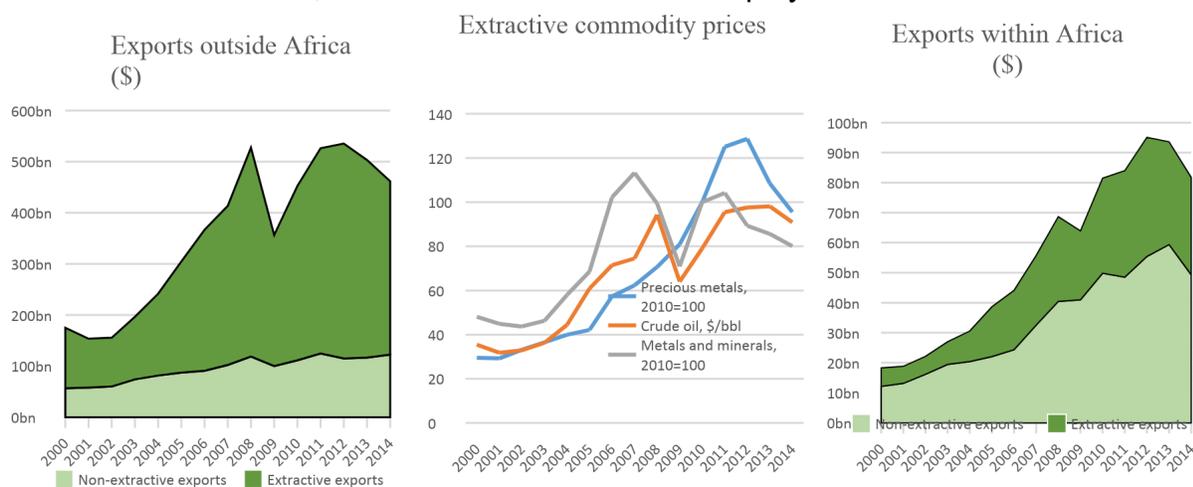
- Africa's industrial exports are forecast to benefit most from the AfCFTA. This is important for diversifying Africa's trade and encouraging a move away from extractive commodities, such as oil and minerals, which have traditionally accounted for most of Africa's exports, towards a more balanced and sustainable export base. Over 75 per cent of Africa's exports outside the continent were extractives from 2012 to 2014, while less than 40 per cent of intra-African trade were extractives in the same period.



Source: Figures I and II: Extractive exports: CEPII-BACI trade dataset, three-year averaged exports (2012-2014), extractive exports include petroleum oils, gas, non-ferrous metals, metalliferous ores and metal scrap, crude fertilizers and minerals, coal, coke and briquettes, and the remaining precious metals in HS 71, uranium, and the basic iron products of HS7201–HS7206. Figure III: Intra-African trade: IMF Direction of Trade Statistics.

- The great risk with products like oil and minerals is their volatility. The fiscal and economic fate of too many African countries relies on the vicissitudes of these product prices. Using the AfCFTA to pivot away from extractive exports will help to secure more sustainable and inclusive trade that is less dependent on the fluctuations of commodity prices.

- Perhaps most importantly, the AfCFTA will also produce more jobs for Africa's bulging youth population. This is because extractive exports, on which Africa's trade is currently based, are less labour-intensive than the manufactures and agricultural goods that will benefit most from AfCFTA. By promoting more labour-intensive trade, the AfCFTA creates more employment.



Source: Figure IV: Exports outside Africa: ECA calculations using CEPII-BACI trade dataset. Figure V: Extractive commodity prices: World Bank commodities market data. Figure VI: Exports within Africa: ECA calculations using CEPII-BACI trade dataset.

3. How does the AfCFTA benefit small and medium-sized enterprises?

- Small and medium-sized enterprises are key to growth in Africa. They account for around 80 per cent of the region's businesses. These businesses usually struggle to penetrate more advanced overseas markets, but are well positioned to tap into regional export destinations and can use regional markets as stepping stones for expanding into overseas markets at a later point.
- Another way in which small and medium-sized enterprises can benefit is by the AfCFTA making it easier to supply inputs to larger regional companies, who then export. Before exporting cars overseas, for example, large automobile manufacturers in South Africa source inputs, including leather for seats from Botswana and fabrics from Lesotho, under the preferential Southern African Customs Union trading regime.

4. What's in the AfCFTA for Africa's women?

- Analyses of the impact of the AfCFTA at the household level suggest that the effect between male and female headed households is broadly quite balanced; both gain by differing degrees in different countries. However, women in particular can

benefit from improvements to the challenges they face as informal cross-border traders.

- Women are estimated to account for around 70 per cent of informal cross-border traders in Africa. When engaged in such an activity, women are particularly vulnerable to harassment, violence, confiscation of goods and even imprisonment. By reducing tariffs, the AfCFTA makes it more affordable for informal traders to operate through formal channels, which offer more protection. This can be further enhanced by simplified trading regimes for small traders, such as the Simplified Trade Regime in the Common Market for Eastern and Southern Africa (COMESA), which provides a simplified clearing procedure alongside reduced import duties that provide particular help to small-scale traders.

5. Africa comprises a range of countries from those large and more developed, to those small and less developed. How can it be ensured that all benefit from a 'win-win' AfCFTA?

African countries have a diversity of economic configurations and will be affected in different ways by the AfCFTA. Nevertheless, the benefits from the AfCFTA are widespread.

- While African countries that are relatively more industrialized are well placed to take advantage of the opportunities for manufactured goods, less-industrialized countries can benefit from linking into regional value chains. Regional value chains involve larger industries sourcing their supplies from smaller industries across borders. The AfCFTA makes the formation of regional value chains easier by reducing trade costs and facilitating investment.
- Agricultural countries can gain from satisfying Africa's growing food security requirements. The perishable nature of many agricultural food products means that they are particularly responsive to improvements in customs clearance times and logistics that are expected of the AfCFTA.
- The majority of African countries are classified as resource rich. Tariffs on raw materials are already low and so the AfCFTA can do little to further promote these exports. However, by lowering intra-African tariffs on intermediates and final goods, the AfCFTA will create additional opportunities for adding value to natural resources and for diversifying into new business areas.
- The cost of being land-locked includes higher costs of freight and unpredictable transit times. The AfCFTA provides particular benefits to these countries: in

addition to reducing tariffs, the AfCFTA is set to include provisions on trade facilitation, transit and customs cooperation.

It will nevertheless be vital that the AfCFTA is supported with accompanying measures and policies.

- Less-industrialized countries can benefit from the implementation of the programme for the Accelerated Industrial Development of Africa as well as domestic investments in education and training can ensure the necessary skills.
- Implementation of the Africa Mining Vision can complement the AfCFTA, by helping resource based economies to strategically diversify their exports into other African markets.
- The Boosting Intra-African Trade (BIAT) Action Plan is the principal accompanying measure for the AfCFTA. It outlines the areas in which investments are required, such as trade information and access to finance, to ensure that all African countries can benefit from the AfCFTA.

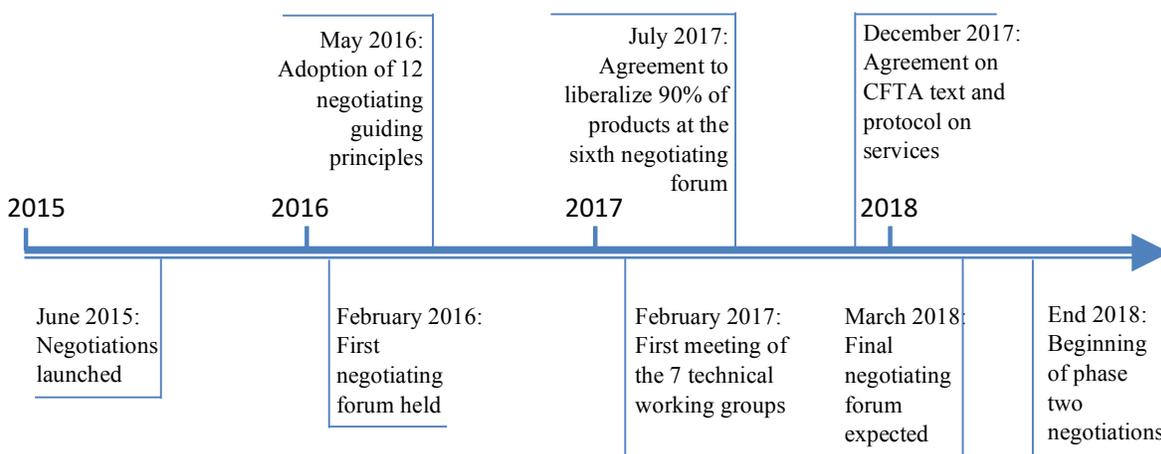
6. *How can the AfCFTA contribute to the achievement of the 2030 Agenda for Sustainable Development?*

- The AfCFTA is a flagship project of Agenda 2063. It was approved by the AU Summit as an urgent initiative whose immediate implementation would provide quick wins, impact on socio-economic development and enhance confidence and the commitment of Africans as the owners and drivers of Agenda 2063.
- The cumulative effect of the AfCFTA is to contribute to the achievement of the 2030 Agenda, in particular, to the Sustainable Development Goals, from targets for decent work and economic growth (Goal 8) and the promotion of industry (Goal 9), to food security (Goal 2) and affordable access to health services (Goal 3).
- By supporting African industrialization and economic development, the AfCFTA can also help to reduce the continent's reliance on external resources. This would allow Africa to better finance its own development, which is recognized under Goal 17.
- Of utmost importance, however, is Goal 1 and keeping the pledge that "no one will be left behind... starting with the furthest behind first". For this, it is crucial that Governments across Africa implement measures to accompany the AfCFTA, such as the African Union's Boosting Intra-African Trade Action Plan, but also that the African private sector step up to invest in, and take advantage of, the opportunities of arising from AfCFTA.

7. What has been achieved in the AfCFTA negotiations so far?

- Negotiations were launched by the African Union Heads of State and Government in June 2015. By late 2017, the intensity of negotiations had escalated, culminating in the drafting of the agreement itself and paving the way for legal scrubbing to begin.
- In February 2018, the negotiating forum met for the ninth time to finalize outstanding matters and to prepare for signature of the agreement in March. These include agreeing to a dispute settlement mechanism and finalizing several annexes to the protocol on goods. The negotiating forum has also agreed on a Transition and Implementation Work Program to finalize offers for goods and services as part of built-in agenda.
- Thereafter, negotiations will progress on to further deepening trade in Africa with “Phase two” negotiations expected to begin in late 2018. Phase two will focus on provisions for investment, competition and intellectual property rights.

AfCFTA milestone timeline



8. What's in the AfCFTA?

- The AfCFTA goes beyond traditional trade agreements that merely reduce tariffs. It also liberalizes services trade. This is crucial: services constitute roughly 60 per cent of Africa's GDP and in 2014, for example, services accounted for 30 per cent of world trade. Services are also inputs to production processes that in turn enable trade in goods. In the AfCFTA, African countries have committed to progressive

services liberalization in which domestic services markets are to be opened for service suppliers from other African countries.

- Beyond tariffs, non-tariff barriers, such as burdensome customs procedures and excessive paperwork, are often a greater impediment to businesses than tariffs. The AfCFTA is to include a “non-tariff barrier mechanism” for reporting and resolving such barriers on trade between African countries, helping businesses to demand solutions to their trading barriers.
- Similarly, the AfCFTA also includes provisions for the recognition of technical and sanitary standards, transit facilitation and customs cooperation. By doing so, the aim is to significantly ease doing business across borders in Africa.

Continental Free Trade Area: key features		
Agreement establishing the African Continental Free Trade Area	Protocol on Trade in Goods	Elimination of duties and quantitative restrictions on imports Imports shall be treated no less favourably than domestic products Elimination of non-tariff barriers Cooperation of customs authorities Trade facilitation and transit Trade remedies, protections for infant industries and general exceptions Cooperation over product standards and regulations Technical assistance, capacity-building and cooperation
	Protocol on Trade Services	Transparency of service regulations Mutual recognition of standards, licensing and certification of services suppliers Progressive liberalization of services sectors Service suppliers shall be treated no less favorably than domestic suppliers in liberalized sectors Provision for general and security exceptions

	Protocol on Dispute Settlement	on	Rules and Procedures for Settlement of Disputes within the African Continental Free Trade Area
	Phase negotiations	2	Intellectual property rights Investment Competition policies

- Responsibility for the implementation of the AfCFTA agreement will remain with the African Union Commission, which will establish an AfCFTA Secretariat.

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9. *What institutional arrangements are needed for the effective implementation of the AfCFTA?*

- Complementary structures to the AfCFTA will include 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.
- The Protocol on Rules and Procedures for Settlement of Disputes elaborates the institutional arrangements for the Dispute Settlement Body.
- The RECs will remain important implementing partners and be represented in a CFTA committee of senior officials in an advisory capacity. Their role will include coordinating and measures for resolving non-tariff barriers, harmonizing standards and monitoring implementation.
- At the national level, it will be critical to have institutional arrangements in place to engage effectively with the entire scope of issues covered by the AfCFTA.

10. *How can business shape the implementation of the AfCFTA?*

The AfCFTA is a tool for private enterprise in Africa. It can only succeed if it is used by private businesses, traders and consumers to trade across the continent.

- (1) *Awareness.* Businesses need to be fully sensitized by government on the potential of the AfCFTA. On this basis they can then establish new trade linkages or push their governments to negotiate for these opportunities if they are not already covered by the negotiated substance of the agreement.
- (2) *Partnerships.* Partnering with governments by business is essential to ensure and facilitate investment in the accompanying measures necessary to complement AfCFTA. This includes intra-African trade infrastructure as well as supplying trade finance, trade information and logistics services. Such provisions will help

businesses recognize and realize the trading opportunities available through AfCFTA.

- (3) *Private sector involvement.* More active involvement of the private sector in terms of advocacy is required in order to ensure direct input into the AfCFTA negotiating institutions to ensure that the AfCFTA is shaped to assist the business community to trade in Africa.

The AfCFTA is a tool for development in Africa. But it must be wielded by private enterprise. Through doing so businesses can benefit from the great opportunities that the continent has to offer, and contribute to its sustainable growth and development.

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