



African Union



United Nations
Economic Commission for Africa



Continental Free Trade Area

Questions and answers

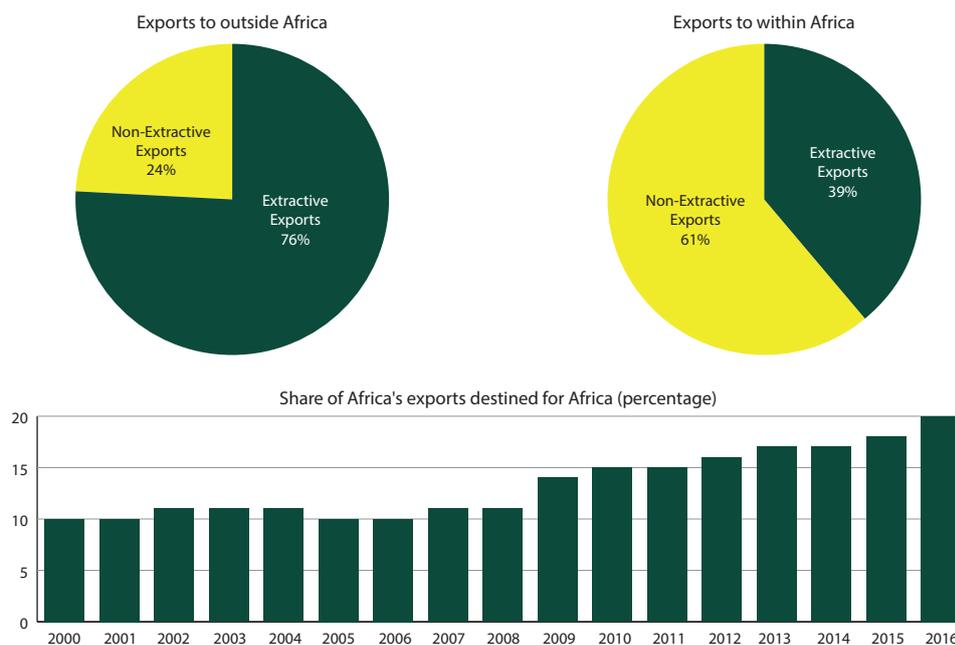
January 2018

1. How can the Continental Free Trade Area provide business opportunities that will enhance industrialization in Africa, in line with Agenda 2063: “The Africa We Want”?

- The Continental Free Trade Area (CFTA) is a flagship project of Agenda 2063. It was approved by the African Union (AU) Summit as an urgent initiative whose immediate implementation would provide quick wins, impact on socioeconomic development and enhance the confidence and commitment of Africans as the owners and drivers of Agenda 2063.
- The CFTA 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 the number 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 per cent 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 per cent, businesses currently face higher tariffs when they export within Africa than when they export outside the continent. The CFTA 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 enterprises, businesses and consumers trading 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 CFTA has the potential 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 expected to benefit most from the CFTA. This is important for diversifying the continent’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. From 2012 to 2014, over 75 per cent of Africa’s exports outside the continent were extractives, 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.

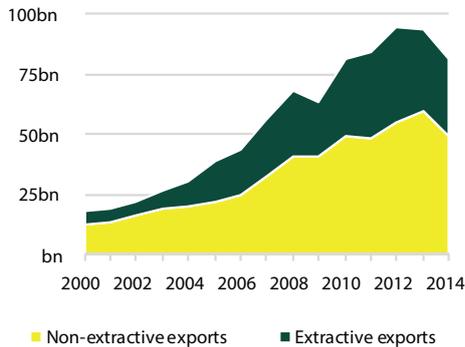
- The great risk with products like oil and minerals is their volatility. The fiscal and economic fate of too many African countries relies on the vicissitudes of the prices of these products. Using the CFTA to pivot away from extractive exports will help to secure more sustainable and inclusive trade that is less dependent on the fluctuations of commodity prices.
- Perhaps most importantly, the CFTA 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 manufactured and agricultural goods that will benefit most from CFTA. By promoting more labour-intensive trade, the CFTA creates more employment.

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

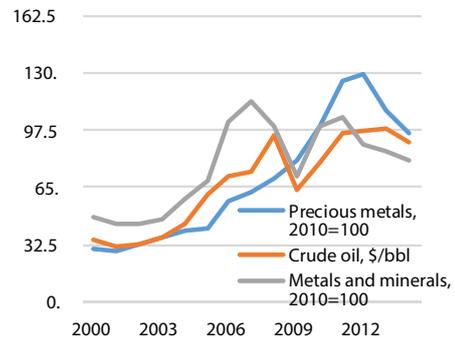
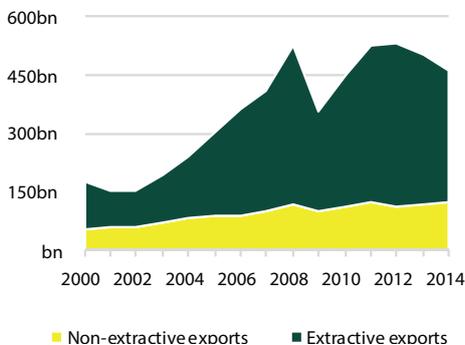
- Small and medium-sized enterprises are key to growth in Africa. They account for around 80 per cent of the region’s businesses. These businesses usually struggle to penetrate more advanced overseas markets, but are well positioned to tap into regional export destinations and can use regional markets 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 CFTA making it easier for them to supply inputs to larger regional companies, who then export them. 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 is in the CFTA for Africa’s women?

- Analyses of the impact of the CFTA at the household level suggest that the difference between male and female-headed households is fairly balanced;

Exports within Africa
(\$)

Extractive commodity prices

Exports outside Africa
(\$)

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.

results differ by various 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 CFTA 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” CFTA?

African countries have a diversity of economic configurations and will be affected in different ways by the CFTA. Nevertheless, the benefits from the CFTA 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 CFTA 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 CFTA.
- The majority of African countries are classified as resource rich. Tariffs on raw materials are already low and so the CFTA can do little to further promote these exports. However, by lowering intra-African tariffs on intermediates and final goods, the CFTA will create additional opportunities for adding value to natural resources and diversifying into new business areas.
- The cost of being landlocked includes higher costs of freight and unpredictable transit times. The CFTA provides particular benefits to these countries: in addition to reducing tariffs, the CFTA is set to include provisions on trade facilitation, transit and customs cooperation.

It will nevertheless be vital for the CFTA to be 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 to ensure that the necessary skills are obtained.
- Implementation of the Africa Mining Vision can complement the CFTA, by helping resource-based economies to strategically diversify their exports to other African markets.
- The Boosting Intra-African Trade (BIAT) Action Plan is the principal accompanying measure for the CFTA. It outlines the areas where investments are required, such as trade information and access to finance, to ensure that all African countries can benefit from the CFTA.

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

- The cumulative effect of the CFTA is to contribute to the achievement of the 2030 Agenda, and 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 CFTA 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". In this regard, it is crucial that Governments across Africa implement measures to accompany the CFTA, such as the African Union Boosting Intra-African Trade Action Plan, and

also that the African private sector steps up to invest in, and take advantage of, the opportunities of arising from CFTA.

7. What has been achieved by the CFTA negotiations so far?

- The negotiations were launched by the African Union Heads of State and Government in June 2015. By late 2017, the intensity of the negotiations had escalated, culminating in the drafting of the agreement itself and paving the way for legal scrubbing to begin.
- However, there are several issues to be settled before the agreement can be implemented. These include agreeing to a dispute settlement mechanism, finalizing several annexes to the protocol on goods, and preparing offers for goods and services. Some of these will require challenging compromises between countries with differing perspectives. To this end, the negotiating forum will meet for a ninth time in early 2018 to finalize outstanding matters and to prepare for the signing of the agreement in March.
- Thereafter, negotiations will progress 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. A facilitative environment for e-commerce is also being muted as a possible additional phase-two topic.

CFTA milestone timeline



8. What is in the CFTA?

- The CFTA goes beyond traditional trade agreements that merely reduce tariffs and also liberalizes trade services. This is crucial, since 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 CFTA, African countries have committed to the progressive liberalization of services, whereby 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. The CFTA is to include a “non-tariff barrier mechanism” for reporting and resolving such barriers on trade between African countries, to help businesses to demand solutions to their trading barriers.

- Similarly, the CFTA also includes provisions for the recognition of technical and sanitary standards, transit facilitation and customs cooperation. The aim of this 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	<ul style="list-style-type: none"> • 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 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 • Service suppliers shall be treated no less favourably than domestic suppliers in liberalized sectors • Provision for general and security exceptions
	Protocol on Dispute Settlement	<ul style="list-style-type: none"> • To be agreed
	Phase 2 negotiations	<ul style="list-style-type: none"> • Intellectual property rights • Investment • Competition policies

9. What is required by each country to promptly implement a successful CFTA?

Countries must first show commitment to resolving the issues that remain as unfinished annexes and protocols that would prevent the agreement from being implementable:

- **Rules of Origin.** This annex details the criteria under which products can be considered as “originating” from a particular country, and therefore eligible for free trade in the CFTA. Currently there are two camps: those who want “product-specific rules”, providing for detailed criteria for over 5,000 products, and those who want “general rules”, that can apply to all products. Product-specific rules allow greater detail, but could take years to negotiate, as has been the case in the Tripartite Free Trade Area Negotiations in East and Southern Africa in which specific rules are still not complete. A way forward could involve using general rules as an interim solution so that the CFTA implementation can begin, pending the negotiation of specific rules.
- **Modalities for the liberalization of goods.** These explain exactly how countries will reduce their tariffs between one another in the agreed amount of time. Further work is required to refine the current modalities, which are not yet finished. Furthermore, the modalities provide for countries to engage in “request and offer” negotiations alongside the agreed modalities. This would allow

particular countries within the CFTA to deepen the level of liberalization among themselves beyond that agreed to in the general modalities. However, if request and offer negotiations are required to be completed before implementation can begin, this could delay the CFTA. Beginning liberalization with what is already agreed on – while request and offer negotiations are ongoing – could be a way through this.

- **Protocol on dispute settlement.** This provides a rule-based recourse for commercial disputes between countries as the CFTA agreement is implemented. The protocol on dispute settlement should not prove controversial to finalize before March but is crucial for an implementable CFTA.

10. What institutional arrangements are needed for the effective implementation of the CFTA?

- Responsibility for the implementation of the CFTA agreement will be undertaken by an independent and autonomous secretariat within the AU system, to be hosted by an AU member State. The African Union Commission will manage the transition arrangements towards the establishment of the CFTA secretariat.
- Complementary structures to the CFTA 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 regional economic communities will remain important implementing partners and be represented in a CFTA committee of senior officials in an advisory capacity. Their role will include coordinating 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 CFTA.

11. How can business shape the implementation of the CFTA?

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

- (1) **Awareness.** Businesses need to be fully sensitized by governments on the potential of the CFTA. 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.** Partnership between governments and businesses is essential to ensure and facilitate investment as per the accompanying measures necessary to complement CFTA. 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 CFTA.
- (3) **Private sector involvement.** The active involvement of the private sector in terms of advocacy is required to facilitate direct input into the CFTA implementation process to ensure that the CFTA is shaped to assist the business community to trade in Africa.

The CFTA is a tool for development in Africa, but it must be utilized by private enterprises. By so doing, businesses can benefit from the great opportunities that the continent has to offer, and contribute to its sustainable growth and development.



African Trade Policy Centre

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