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THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT (AfCFTA)

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Introduction

On 21 March, 2018, 44 African heads of state and government dignitaries signed a historic African Continental Free Trade Agreement (AfCFTA) at the 10th Ordinary Session of African Union (AU) Heads of State Summit held in Kigali, Rwanda. The AfCFTA is the largest free trade area since the World Trade Organization (WTO) was established in 1995. The Session was under the theme: “Creating One African Market,” and falls under AU’s Agenda 2063 Initiative.

The AfCFTA is also one of the biggest free-trade areas with regards to the number of countries, thus, encompassing 1.2 billion people with over \$4 trillion in combined consumer and business spending should the remaining 11 AU member countries join the Agreement (Signe, 2018). The AfCFTA would additionally become effective 30 days subsequent to ratification by the legislative houses of at least 22 African countries; countries that signed the Agreement have 120 days for its ratification.

This paper seeks to outline the significance of the Agreement, its aims, challenges and the continuous work needed to sustain it going forward with potential impact it may have on third country agreements with AU member countries.

Already, there are eight Regional Economic Communities (RECs) according to the United Nations Office of the Special Advisor on Africa (UNOSAA). There is the Arab Maghreb Union (AMU/UMA)², the Economic Community of West African States (ECOWAS)³, the East African Community (EAC)⁴, the Intergovernmental Authority on Development (IGAD)⁵, the Southern

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² AMU/UMA has 5 member countries namely Algeria, Libya, Mauritania, Morocco and Tanzania.

³ ECOWAS has 15 members; Benin, Cote d’Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo and Burkina Faso.

⁴ EAC is also a six member-country involving Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda.

⁵ IGAD also has seven members such as Djibouti, Somalia, Eritrea, Sudan, Ethiopia, Uganda and Kenya.

African Development Community (SADC)⁶, the Common Market for Eastern and Southern Africa (COMESA)⁷, the Economic Community of Central African States (ECCAS)⁸, and the Community of Sahel-Saharan States (CEN-SAD)⁹.

The goals of these Regional Economic Communities (RECs) have been among other issues the pursuance of shared economic interests and free or ease in mobility for their citizens especially commercial travelers. The AfCFTA is however, poised to go beyond this in terms of its reach and essence.

Significance and the quest for the AfCFTA

The quest for AfCFTA began in January 2012. It has taken eight rounds of negotiations amidst several other engagements beginning in 2015 until December 2017 for a broader consensus to be reached. The AfCFTA establishes one continental market for goods and services including a customs union with free movement of capital and commercial travelers.

With the AfCFTA, the AU seeks to increase continental integration and effectively resolve the continent's issue of overlapping membership of RECs. Essentially; numerous African countries belong to multiple RECs, which inextricably reduces, to a larger extent the efficiency and effectiveness of these organizations. For instance, Tanzania belongs both to the EAC and the SADC, Kenya also belongs to the EAC and COMESA; many AU member countries likewise belong to multiple RECs.

While the East Africa Community (EAC) and the Economic Community of West African States (ECOWAS) had made some strides in terms of the pursuit of sub-regional economic integration, others such as the Economic Community of Central African States (ECCAS) and the Community of Sahel-Saharan States (CENSAD) have underperformed with a low threshold of compliance by member states thereby delaying successful integration. Emphatically, where many RECs have relatively failed, this AfCFTA aims to push further.

Aims of the AfCFTA

The objective of the AfCFTA is to accelerate the growth of African economies. To achieve this, it seeks to harmonize trade liberalization across the sub region and continental level. In view of this, countries which are signatories have committed to remove tariffs on 90 percent of goods. The UN Economic Commission on Africa (UNECA) projects intra-African trade to improve by 52.3 percent

⁶ SADC comprises of 15 countries; South Africa, Zimbabwe, Botswana, Mozambique, Zambia, Namibia, Tanzania, Mauritius, Tanzania, Angola, Lesotho, Democratic Republic of Congo, Malawi, Swaziland, Madagascar and Seychelles.

⁷ COMESA consists of 19 members; Burundi, Comoros, D.R. Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Uganda, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Zambia and Zimbabwe.

⁸ ECCAS is made up of 11 members; Gabon, Cameroon, Central African republic, Chad, Congo Brazzaville, Equatorial Guinea, Burundi, Rwanda, Democratic Republic of Congo, Sao Tome and Principe.

⁹ CEN-SAD is a 13 member community which includes Mali, Morocco, Niger, Sudan, Burkina Faso, Cote d'Ivoire, Djibouti, Eritrea, Guinea, Benin, Chad, Senegal and Togo.

under the AfCFTA, a figure set to double upon the removal of further non-tariff barriers. The promotion of intra-African trade through the AfCFTA would also usher in a more competitive manufacturing sector thus encouraging economic diversification (Witschge, 2018).

The UNECA further argues that the removal of tariffs would create a continental market that permits companies to benefit from the economies of scale. African countries would in turn be able to accelerate their industrial development, hence, by 2030, Africa may emerge as a \$2.5 trillion potential market for household consumption and \$4.2 trillion for business-to-business consumption (Signe, 2018).

The United Nations Conference on Trade and Development (UNCTAD) further adds that intra-African trade is relatively limited as it made up only 10.2 percent of the continent's total trade in 2010 (Knebel, Peters and Saygili, 2018). This “historical anomaly” is what the AfCFTA seeks to correct according to Coordinator of the African Trade Policy Center, David Luke. He further added that colonialism in Africa brought into existence a scenario where neighbors withdrew from trading with each other and instead traded between European countries and the United States.

Buttressing this, between 2010 and 2015, fuels represented more than half of Africa's exports to non-African countries, while manufactured goods made up only 18 percent of exports to the rest of the world. This has been cited as one of the reasons for the continent's longstanding poverty (Witschge, 2018). While the AfCFTA anticipates solving some of these longstanding problems, it is not devoid of challenges.

Challenges facing the AfCFTA

Irrespective of the touted and projected positive impacts of the AfCFTA, there are concerns the benefits of the AfCFTA could be disproportionate in terms of its distribution. For instance, a UNCTAD research reveals that the elimination of all tariffs between African countries would take an annual \$4.1 billion out of the trading states' coffers. However, it adds that the overall annual welfare advantage of \$1.6 billion could be realized in the long run (Knebel, Peters and Saygili, 2017). Thus, critics should not be looking immediately at the short-term benefits.

Moreover, the AU envisions creating one common market that encompasses all AU member countries; to this end, 44 countries have signed the Agreement, essentially, not all member countries have signed so far. Also, 30 countries have signed the Free Movement Protocol – signing of the protocol signifies the free movement of people, right of residence and right of establishment.

It is also projected that African nations with large manufacturing bases such as South Africa, Nigeria, Kenya, Egypt etc would receive the most immediate improved benefits (Mangeni, 2018). Nigeria and South Africa, which have the largest economies in Africa respectively, have however, not signed the Agreement.

Commenting on why Nigeria did not sign the Agreement, President Muhammadu Buhari argued that he needed more time to consult with unions and businesses to assess the risks an open market would pose to his country's manufacturing and small-scale business sector.

“Nigeria fully recognizes and appreciates the efforts of the African Union Commission so far, regarding the implementation of a sustainable Continental Free Trade Agreement (CFTA) for Africa. We also acknowledge that our continental aspirations must complement our national interests. As Africa's largest economy and most populous country, we are committed to ensuring that all trade agreements we sign are beneficial to the long-term prosperity of the continent. We are therefore widening and deepening domestic consultations on the CFTA, to ensure that all concerns are respectfully addressed. Any African free trade agreement must fairly and equitably represent the interest of Nigeria, and indeed, her African brothers and sisters” (Wasserman, 2018).

The key challenge of the AfCFTA therefore is to encourage cooperation in such a way that multitude of national and regional actors with sometimes divergent trade interests work together to ensure the success and sustainability of the Agreement. On this, holistic and workable compliance mechanisms could be very critical to the success of the AfCFTA.

Going Forward and Impact on Third Countries

While Nigeria and South Africa, two of Africa's largest economies among others have not signed the Agreement so far; for the AfCFTA to be operational; at least 22 countries must ratify the Agreement formally. This is a reachable goal given that 44 countries signed the Agreement, however, some of the largest economies in Africa particularly Nigeria and South Africa should be impressed upon to sign as it will give real weight, thus, further solidify both the Agreement's significance and the AU's goal of a single market for all member countries.

Also, Nigeria and South Africa have indicated that they are considering the Agreement but claim that the time frame may be too short taking into cognizance the necessity for debate and negotiations with every signatory nation. Concerns such as these are part of the vital last steps the AU should pursue in trying to get the remaining 11 countries on board the AfCFTA train. Perhaps a separate Secretariat could be created under the auspices of the AU to monitor and facilitate the concerns of the remaining 11 countries whilst also taking charge of issues relevant for successful implementation.

In this way, the Agreement in itself becomes a significant first step and AU should continue to immensely lead discussions towards complete negotiations on competition, arbitration and dispute resolution mechanisms, intellectual property rights, investments, regulatory frameworks for service-trade liberalization as this will facilitate market access, submit tariff concessions schedules for trade in goods – clearly specifying the timeline and nature of products that will be liberalized and make progress in signing of the free-movement protocol (Signé, 2018).

While there are further details that need to be addressed, this Agreement adds to the air of optimism that has been emanating from the AU recently with its intention to introduce the single AU passports another bold step to bring its member countries even closer. Commenting on the Agreement, the AU Commission Chairman Moussa Faki Mahamat indicated that, “our peoples, our business community and our youth in particular cannot wait any longer to see the lifting of the barriers that divide our continent, hinder its economic takeoff and perpetuate misery”.

Should all AU member countries sign up to the AfCFTA, the Agreement in conjunction with the potential introduction of the Single AU Passports¹⁰ for member countries will fashion the AU on a path closer to the European Union (EU)¹¹ and its negotiated Schengen Area involving 26 EU countries. This would eventually unleash to the fore the issue of sovereignty and how much power should be vested in the AU.

Cognizance of this, before the agreement is implemented and subsequently comes into full fruition, proponents should tread cautiously especially given the fact that Mauritania which used to be a member of one of the RECs, ECOWAS withdrew its membership from ECOWAS formally in 2002 citing the urge to put its national interests first. Crucially, save the 11 AU member countries who have not signed, there is precedent for withdrawal from an REC with the Mauritania example. This brings to the fore the current conundrum surrounding Britain’s potential exit from the EU in 2019 (Brexit)¹².

The AfCFTA would likewise consequentially impact third countries’ dealings with AU member countries and their corresponding RECs, the extent to which are yet to be determined. For instance, Turkey’s rapid rise in terms of trade relations and partnerships with certain African countries could be impacted to some extent. Turkey currently has trade partnerships and accreditations with five RECs namely IGAD, ECOWAS, EAC, COMESA and ECCAS alongside economic agreements with 38 other African countries. Its trade portfolio with Africa is on the ascendancy and stood at \$18.8 billion in 2017, that is a \$1.3 billion increase from its 2015 figure of \$17.5 billion.

Turkey was also given an observer status by the AU in 2005 and became the AU’s Strategic Partner in 2008. It was further accepted as a non-regional member of the African Development Bank in 2008 with the approval process being concluded in 2013; effectively making Turkey the 26th non-

¹⁰ The AU announced to introduce a single African passport in order to facilitate easy movement of persons and trade activities across the continent, to delve into the merits and challenges of such initiative see Asiedu, 2017, The Single African Passport – Curb the Enthusiasm, Challenges Abound.: <http://www.e-ir.info/2017/05/17/the-single-african-passport-curb-the-enthusiasm-challenges-abound/>.

¹¹ The Agreement moving along the paths of an EU-like scenario is what observers and third countries would have to wait to see. This would hinge emphatically on how much power or sovereignty AU member countries would be willing to relinquish to the institution and to what extent deals struck with the AU would be binding on other AU member countries should the single market be operational. As it stands we are a bit distant as 11 AU member countries some of which are the largest economies in Africa have refused to sign, “at least for now”. Such countries would thus, pursue their own individual trade agreements with third countries while they also wait to see how the AfCFTA would unfold.

¹² To familiarize yourself with the intricacies of Brexit, see Hunt and Wheeler, 2018: Brexit: All you need to know about the UK leaving the EU. <http://www.bbc.com/news/uk-politics-32810887>

regional member of the Bank. Other non-regional member countries include United Kingdom, India, Germany, China, Canada etc.

While the projected short and long term impacts of the AfCFTA are all currently revolving around AU member countries, the implementation of the Agreement would consequently set in motion a new wave of negotiations by third countries with AU member countries and the AU itself, the impact of these however, have surprisingly been left out of the raving debates and discussions on the AfCFTA.

Conclusion

Even though others have claimed that AfCFTA is merely symbolic, to me it genuinely presents a bold new platform for African leaders to unbridle their countries towards a pathway of social and economic transformation.

Also, Paul Kagame, African Union President said that, “the agreement was about trade in goods and services. These are the kinds of complex products that drive high income economies” (AfCFTA Summit, 2018). Indeed these are complex undertakings, for instance, producing product-specific rules for 6,000-odd goods could take a very long time, it took the WTO over 27 years (Mangeni, 2018), and so while no African Union member country expects immediate ease with implementation they could work on agreeing a time frame by which majority of such details could have been agreed upon as this is part of the AU’s broader Agenda 2063.

Finally, work to ensure the success of the AfCFTA has only begun, as the diverse size of African economies, already signed bilateral trade agreements with the rest of the world or third countries, overlapping REC memberships, disparate levels of industrial development amidst relative degrees of transparency all are significant hurdles to the implementation of the AfCFTA.

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