

African Union launches operational phase of the Africa Continental Free Trade Area

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Executive summary

Following the launch of the East African Community (EAC)-Common Market for Eastern and Southern Africa (COMESA)-Southern African Development Community (SADC) Free Trade Area (FTA) on 10 June 2015, the Africa Continental Free Trade Area (AfCFTA) came into force on 30 May 2019. Following the establishment of the AfCFTA, the [African Union](#) launched the operational phase of the Africa Continental Free Trade Area on 7 July 2019 which will enable traders across Africa to make use of preferential trading arrangements offered by the AfCFTA. However, some of the measures that are required for full implementation, such as tariff liberalization, guidelines on the implementation of trade remedies and rules of origin, are still under discussion.

Detailed discussion

For the four years following the signing of the EAC-COMESA-SADC FTA (comprising 27 African Member States¹), there has been no effective implementation of the FTA protocols. This has been attributed to economic and political polarization across the trade blocs.

The African Union launched the operational phase of the AfCFTA on 7 July 2019 following the coming into force of the trade area on 30 May 2019.

AfCFTA aims to bring together more than 1.2 billion people and 55 countries with over US\$3 trillion in Gross Domestic Product (GDP). Traders across Africa will then be able to make use of preferential trading arrangements offered by the AfCFTA.

The AfCFTA Agreement is effective in the Africa Continental Free Trade Area and mainly affects tax incentives and tariffs for cross-border trade by enterprises. In the free trade area, eligible products can be subject to preferential tariff rates, and lower tariff rates can help to reduce the price of products and enhance their competitiveness.

The launch of the AfCFTA will create a single continental market for goods and services which will allow free movement of business persons and investments thus paving way for the establishment of the Continental Customs Union and the African Customs Union. Intra-African trade is expected to be expanded through better harmonization and coordination of trade liberalization and the challenges of multiple and overlapping memberships should be resolved. It is hoped that competitiveness at the industry and enterprise level will be enhanced through exploiting opportunities for scale production, continental market access and better reallocation of resources. It is notable that currently most African countries trade more with larger economies such as China, the European Union, and the United States, than with their African counterparts.

Despite the celebration of achieving the most emblematic of the flagship projects of the African Union Agenda 2063, some of the implementation measures are still outstanding such as tariff liberalization measures, tariff liberalization scheduling, trade in services scheduling, guidelines on the implementation of trade remedies and rules of origin which may slightly delay

the actual implementation of the AfCFTA. Negotiations for protocols under phase II which include protocols on intellectual property, rights, investment, and competition policy are all still outstanding. Most of these remaining issues are scheduled to be concluded and adopted by 2021.

Although intra-Africa trade will be expanded, it is notable that there are no automatic country benefits and each country will be required to develop suitable strategies and policies to leverage on the benefits that will accrue from the expanded markets. In a bid to compete on the same level ground as other member countries, local manufacturers of Member States will be forced to improve their product quality, increase production efficiency, become innovative, establish good resource allocation policy and integrate into the global value chains for them to compete in the liberalized environment.

Some of the countries that have taken a longer time to sign up or have not yet signed up could be drawing experiences from the launch of the EAC-COMESA-SADC FTA which has since not provided benefits from participation.

Next steps

It is recommended that enterprises investing in the countries of the AfCFTA consider the scope and timing of the liberalization of tariffs on products in each country, as well as the final release time and specific criteria for certification of origin. Offshore investors planning to benefit from the FTA will need to set up legal entities as well as manufacturing operations that enable qualification for origin if they are to competitively trade among and within other AfCFTA Member States.

Endnote

1. EAC-COMESA-SADC FTA members: Angola, Botswana, Burundi, Comoros, Democratic Republic of Congo (DRC), Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Lesotho, Libya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, South Sudan, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

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