In January 2012, during the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union held in Addis Ababa, Ethiopia, a decision was adopted to establish an African Continental Free Trade Area (AfCFTA). The member States aimed at launching the AfCFTA by the end of 2017 and create a single market for goods and services.

The Agreement Establishing the African Continental Free Trade Area (the “AfCFTA agreement”) entered into force on 30th May 2019 and the start of trading under the AfCFTA regime began on 1st January 2021.

OBJECTIVES OF THE AFCFTA

According to Article 3 of the AfCFTA agreement, the general objectives of the AfCFTA are to:

a) create a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent and in accordance with the Pan African Vision of “An integrated, prosperous and peaceful Africa” enshrined in Agenda 2063;

b) create a liberalized market for goods and services through successive rounds of negotiations;

c) contribute to the movement of capital and natural persons and facilitate investments building on the initiatives and developments in the State Parties and Regional Economic Communities (RECs);

d) lay the foundation for the establishment of a Continental Customs Union at a later stage;

e) promote and attain sustainable and inclusive socio-economic development, gender equality and structural transformation of the State Parties;

f) enhance the competitiveness of the economies of State Parties within the continent and the global market;

g) promote industrial development through diversification and regional value chain development, agricultural development and food security; and

h) resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.

STATUS OF COUNTRY RATIFICATION (SOURCE: TRADE LAW CENTRE(TRALAC), 2021)

As per Article 23 of the AfCFTA Agreement, the agreement (and its related Protocols) would enter into force 30 days after the 22nd instrument of ratification had been deposited to the Chair of the African Union Commission, the designated depository, which occurred on 29th April 2019 hence the agreement entered into force on 30th May 2019.

So far (as of 30th September 2021), 54 out of the 55 AU member states countries have signed the consolidated text of the AfCFTA agreement (Eritrea is yet to sign the agreement).

Of the 54 states, 41 have complied with their domestic requirements for ratification of the AfCFTA Agreement. Of these 41 countries, 39 countries have deposited their instruments of ratification:

| STATUS OF NEGOTIATIONS |

With regards to the modalities for tariff negotiations, the tabled offers by parties must comply with the following:

<table>
<thead>
<tr>
<th>Non-Least Developed Countries</th>
<th>Least Developed Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-sensitive Products</strong></td>
<td>Eliminate tariffs on 90% of tariff lines over 5 years</td>
</tr>
<tr>
<td><strong>Sensitive Products</strong></td>
<td>Designate 7% of the tariff lines as sensitive products which will be liberalized (starting in year 6) over 10 years</td>
</tr>
<tr>
<td><strong>Total Intra-Africa Imports Not Exceeding 10%</strong></td>
<td>Exclude 3% of tariff lines</td>
</tr>
</tbody>
</table>

The criteria for designating products as “sensitive” or “excluded” were agreed and these include matters of food security, national security, fiscal revenue, livelihood and industrialization as possible reasons for classification of products under these categories.
**CHALLENGES**

While the potential benefits of the AfCFTA appear to be promising, their realization certainly faces challenges. These include:

i. Implementation gap across countries driven by political economy dynamics and vested interests that could affect the willingness of government to follow-through on the commitments within the agreement.

ii. Compliance mechanisms that are effective in ensuring that member states are following through with the obligations and commitments of the AfCFTA.

iii. Uneven distribution of the adjustment costs and benefits with more industrialized countries in the continent likely to accrue greater benefits given their advanced capacities. There is also a strong likelihood that larger firms will have benefit more from the AfCFTA over smaller firms as they are in a better position to expand.

iv. Labor market adjustments between and within countries given an imperfect labor market including a lack of labor mobility.

v. Absence of complementary policy measures to maximize the benefits of the AfCFTA such as cumbersome customs procedures and administrative requirements.

vi. Process of absorbing the existing RECs into the AfCFTA and their subsequent role.

vii. Short-term revenue losses due to the removal of tariffs could be problematic particularly for governments with debt repayment commitments in the near-term.

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**POTENTIAL BENEFITS**

The AfCFTA has the potential to:

i. Lift 30 million Africans out of extreme poverty and boost the incomes of nearly 68 million others who live on less than US$5.50 a day.

ii. Increase Africa’s income by US$ 450 billion by 2035 while adding US$76 billion to the income of the rest of the world. Of the US$450 billion in income gains, US$292 billion would emanate from stronger trade facilitation including measures to simplify customs procedures.

iii. Amplify Intra-African exports by more than 81% while exports to non-African countries would rise by 19 percent. With the gradual removal of tariffs on intra-AfCFTA trade as well as a 50% reduction in non-tariff barriers (NTBs) and the implementation of the trade facilitation agreement, the value of exports would rise by US$560 billion, mostly in the manufacturing sector (US$ 506 billion).

iv. Spur larger wage gains for women by 10.5% and by 9.9% for men.

v. Boost wages for skilled workers by 9.8% and for unskilled workers by 10.3%.

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**GOING FORWARD?**

Therefore, for the AfCFTA to have higher chances of success, there is need for strong political will among member states to address the challenges above via a myriad of policy option including but not limited to:

i. Ensuring a strong and effective governance framework for monitoring and oversight of the implementation, operationalization and rules of the AfCFTA among member states. This includes forming an authority whose mandate will be guided by the framework.

ii. Formulate and implement complementary policy measures including the simplification and harmonization of customs and other regulatory procedures as well as the reduction of infrastructure deficits among other NTBs to improve trade facilitation and reduce trade costs.

iii. The need for support programs and policies to promote inclusive growth and mitigate the potential adverse effects of the AfCFTA between and within countries. This could include: direct grants to help most affected countries particularly least developed, landlocked and small economies; education/training programs to improve labor flexibility; and broadening and strengthening of social safety nets to provide targeted assistance to affected groups.

iv. Governments must consider fair competition and consumer protection policies as the AfCFTA could pose challenges in promoting competition in local markets as firms with larger economies of scale can grow faster and capture dominant market positions.

v. Comprehensive and continuous engagements with all actors especially the most vulnerable such as MSMEs, women and the youth to understand their challenges and concerns thereby developing mechanisms to ensure that these groups are not left behind in the AfCFTA.

vi. Finally, governments will need to prioritize their expenditure and deploy other revenue boosting measures to finance their near-term needs in the absence of tariff revenues.