Ambitious AfCFTA will create world's biggest free-trade zone

The African free-trade agreement has the potential to increase growth, raise welfare and stimulate industrial development across the continent

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The African Continental Free Trade Area (AfCFTA) — which has the potential to create a single African market of over one-billion consumers with a total GDP of more than $3-trillion — comes into effect at the end of May 2019.

This trade agreement, which will make Africa the largest free-trade area in the world, was given the go ahead on April 29 as 22 countries have now ratified its adoption.

While the trade agreement comes into effect at the end of this month, work however still needs to be done on the operationalization of the agreement and the supporting instruments that need to be finalized.

According to the AU, these instruments will involve complex negotiations as they cover "rules of origin; schedules of tariff concessions on trade in goods; online non-tariff barriers monitoring and elimination mechanism; digital payments and settlement platform; and, African Trade Observatory Portal".

Several studies undertaken by economic researchers predict that the AfCFTA has the potential to increase growth, raise welfare and stimulate industrial development on the continent. The size of the market is staggering, and the Brookings Institute argues that "if successfully implemented, the agreement will create a single African market of over a billion consumers with a total GDP of over $3-trillion, making Africa the largest free-trade area in the world".

The major beneficiaries of the AfCFTA will be those economies in Africa that have the capacity to expand their exports of goods and services into the rest of the continent. These include companies mainly from SA, Nigeria, Kenya and Egypt. However, there are concerns that some countries, particularly the smaller and more vulnerable economies, may experience the negative impacts of premature liberalization and fiscal revenue losses.

Several researchers, including some from the UN Conference on Trade and Development and the UN Economic Commission for Africa, have also argued that the "sequential" or simple "free trade" European approach to regional integration is not appropriate for developing countries, especially in the African context.

These researchers argue that African countries should adopt an approach to regional integration referred to as "developmental regionalism". This approach includes four elements: fair trade; structural transformation; cross-border investment in infrastructure; and democratic governance.

First, Africa's member states have a wide variety of categories of countries that may require special attention and specific treatment. The 55 African member states are made up of 34 least developed countries (LDCs), 16 landlocked developing countries (LLDCs) and six small island developing states (SIDS). Building trade agreements in favour of small and less developed economies will assist in contributing to fairer outcomes of the AfCFTA and a more balanced and mutually beneficial regional integration process.

The private sector, civil society and academics must play a robust and active role in driving the process in parallel, and in partnership with national governments.

Second, co-operation between Africa's emerging entrepreneurs and industries towards the building of regional value chains, and towards more effective competition in global markets, will advance transformative industrialization, obtain a fairer share of the value we obtain from our commodities and our labour and, improve the lives of the people on our continent.

There are numerous industrial sectors in Africa that are ripe for the development of regional value chains; in agro-processing, pharmaceuticals, iron and steel and capital goods, clothing and textiles, leather and footwear and in the automotive sector.

The AfCFTA must allow for adequate policy space for African states to build the necessary trade and industrial policies, laws, regulations and institutions to build their infant industries.

Third, African countries will need to strengthen their co-operation in building their hard infrastructure (including ports, road and rail) and soft infrastructure (including customs co-operation at borders, port efficiency and reduction of roadblocks along major transport routes).

The AfCFTA has annexes on “customs co-operation”, “trade facilitation”, and on “transit”. All three of these issues are also covered in the World Trade Organization Agreement on Trade Facilitation and must be implemented with adequate attention to the capacity constraints of the poorest countries.

Fourth, co-operation between African governments on institutionalizing and consolidating democratic governance will provide the stability required to stimulate economic growth and development.

Regional integration

The New Partnership for Africa’s Development (Nepad) Declaration on Democracy, Political, Economic and Corporate Governance adopted at the AU summit held in Durban in 2002 committed African countries to work together in pursuit of the objectives of democracy, good governance, and the creation of an African Peer Review Mechanism (APRM).

Currently, the APRM has 37 members with Namibia and The Gambia being the most recent members to accede. At least 20 African countries have already undertaken a first country review. The APRM is a truly indigenous and locally owned initiative designed by Africans, for Africans.

This approach to regional integration in Africa has great potential to catalyze and accelerate a virtuous circle of regional trade integration, transformative industrialization, cross-border infrastructure, democracy, inclusivity and good governance across the continent.

The coming into effect of the AfCFTA will become a landmark, and the transition, to a new phase in the historic journey of Africa to realize the dreams of the Pan-African leaders for a peaceful, prosperous and integrated Africa.

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