MEDIA RELEASE

The AfCFTA: A game changer for Africa's trade and development?

The African Continental Free Trade Area (AfCFTA) has the potential to significantly boost intraregional trade and break Africa's longstanding dependence on foreign countries as export destinations and sources of imports and investment. However, the envisaged benefits of the AfCFTA will not occur automatically – successful and cost-efficient implementation is crucial.

This was the message from UN economist **Komi Tsowou**, one of the presenters and panellists at a Pan-African webinar hosted by **Trade Advisory** and the **WTO Chairs Programme** in the **North-West University**'s TRADE research entity on 30 March 2021, titled 'Free trade under the AfCFTA – how ready is Africa and South Africa?'

Komi emphasised that the implementation of the AfCFTA will be a process, covering multiple phases. It will also require the commitment and involvement of a wide range of stakeholders across the continent and strong leadership.

'Politics is not enough,' he said. 'Integrated efforts are needed at all levels. While governments must create the right enabling environment, the private sector will be pivotal to a successful implementation process.'

The AfCFTA agreement came into force in May 2019 following ratification by 22 countries. A significant milestone in the AfCFTA calendar was 1 January 2021 when trade under the free trade area (FTA) was officially launched. However, negotiated trade preferences apply only to those countries that have deposited their instruments of ratification and submitted their tariff offers for goods. To date, 54 of the 55 African countries have signed the AfCFTA agreement (one country – Eritrea – has indicated no commitment yet). A total of 36 African countries have deposited their instruments of ratification (thereby indicating formal commitment), while 18 countries have only signed the agreement.

The AfCFTA negotiation process is characterised by three phases. Phase 1 covers protocols on the trade in goods, services and dispute settlement procedures, the negotiations for which are still incomplete. Trade in goods is possible, however, under an 'interim arrangement' provided rules of origin are in place for the goods in question and the tariff offer of the partner country complies with the tariff negotiating modalities (which distinguish between non-sensitive, sensitive and excluded products). Phase 2 and Phase 3 negotiations are getting under way. They will cover protocols on investment, competition policy and intellectual property rights (Phase 2) and e-commerce (Phase 3).

The uneven progress made in the ratification process has created complications for certain regional economic communities (RECs) on the continent. In the case of the Southern African Customs Union (SACU), for example, Botswana is the only member country that has not ratified the agreement. As a result, the other customs union members (including South Africa) cannot take full advantage of AfCFTA-linked trade preferences when exporting to other African countries.

A major stumbling block to the full activation of the trade in goods protocol under the AfCFTA is that many countries have not yet made the necessary adjustments to their customs regulations and procedures. Another challenge – but also an opportunity – is that businesses in RECs like SACU, the Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS) have limited knowledge of export opportunities in other parts of the continent. West Africa, for instance, imports a great deal of wine, mainly from Europe. This is an example of an important export opportunity for South African wine producers.

COVID-19 has not only been devastating for African economies; it has also helped to highlight the continent's dependence on the rest of the world.

'Africa imports more than 95% of its medical and pharmaceutical products from outside the continent,' Komi remarked. 'The AfCFTA is ideally placed to reshape the pharmaceutical sector in Africa.'

Trade Advisory managing director **Martin Cameron** stressed the importance of obtaining quality and detailed information on market opportunities in Africa and the fact that trade and investment promotion agencies have a vital role to play in the dissemination thereof, as they interact directly with the commercial sector.

'Even if logistics were to improve on the continent,' said Martin, 'exporters would be unable to compete if they do not understand where the opportunities are and how to prioritise these opportunities according to import demand and ease of market access.'

Tralac executive director **Trudi Hartzenberg**, one of the webinar presenters and panellists and also a member of the WTO Chairs Programme Advisory Board, said that there were many synergies between the AfCFTA and the other flagship projects of the African Union, covering industrialisation, infrastructure development, energy and other sectors.

'Investment is critical for the success of the AfCFTA,' she remarked. 'We are seeing a lot of interest in Africa as an investment location, also from global investors. The larger market and the prospect of lower transaction costs as well as the investment protocol are all important levers for investment promotion and facilitation efforts on the continent.'

Trudi added that trade and investment promotion agencies need to be an integral part of the ongoing AfCFTA negotiation process and that due consideration must also be given to competition and intellectual property rights, which are of considerable concern to businesses – particularly given the quickening pace of e-commerce and the risks this poses to privacy and security of information.

While the AfCFTA provides a vehicle for systematically dismantling trade-distorting tariffs across the continent, non-tariff barriers (such as inefficient, dilapidated or non-existent road, rail or port infrastructure and automated border systems and procedures, as well as strict phytosanitary and other administrative requirements) are often considered to be more harmful than tariffs and the leading contributor to the high cost of intraregional trade.

'If the AfCFTA – the largest FTA in the world – is to live up to expectations, greater integration must be one of its cornerstones,' said North-West University research professor and WTO Chair holder, **Wilma Viviers**. 'This means that committed effort needs to go into clearing infrastructural and logistical bottlenecks as well as harmonising standards and customs procedures. Also essential is the ongoing involvement of the private sector in the negotiation process to ensure that policy decisions reflect the realities on the ground.'

For more information on the work of the WTO Chairs Programme at the NWU, contact Prof Wilma Viviers on wilma.viviers@nwu.ac.za. For more information on the work of Trade Advisory and export promotion and market selection in Africa, contact Mr Martin Cameron on martin.cameron@tradeadvisory.co.za.