

# UPDATE ON THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)

## SOUTHERN AFRICA PANEL - AFCFTA

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# AFRICAN INTEGRATION OBJECTIVES

- African integration is a long standing continental objective
- Integration is seen as essential to overcome the limitations of small fragmented economies established under colonialism
- The AfCFTA is enched on a Developmental Integration approach
- It recognize that the major barrier to intra-regional trade is not the tariffs per se but constraints in the real economy that include under-developed production structures and inadequate infrastructure
- Development integration thus combines market integration (trade liberalisation) with infrastructural development and industrial policy cooperation to foster regional value chains.

# AFRICAN INTEGRATION OBJECTIVES

## The AfCFTA is an initiative to address Africa's long standing challenge:

- Africa's share of world trade estimated at 3%.
- Intra-Africa trade at between 16% -18% compared to intra-Asian trade at 52%,intra-North American trade at 50% and intra-EU trade at 70%.
- Africa's exports to the rest of the world is dominated by commodities – oil, minerals etc.
- Africa produces and exports what it does not consume; Africa consumes and imports what it does not produce
- **Although Intra-Africa Trade is low:**
  - Over three quarters of intra-Africa trade takes place within regional trading blocs; and
  - Intra-Africa trade is largely in value-added manufactured products.
  - Therefore, the AfCFTA augurs well for growth of intra-Africa trade and seeks to encourage “Made in Africa” value added manufactured products

# AFCFTA: AN INCENTIVE FOR INVESTMENT

- The AfCFTA provides a framework for creating a conducive business environment and incentives for investment
- It establishes a large, growing and increasingly open market based on AfCFTA preferences
- However, to benefit from AfCFTA preferences, businesses should be located in Africa
- Africa has untapped opportunities & challenges: it needs investors and entrepreneurs to take advantage and profit from these
- The AfCFTA should not be seen as providing a market for imports from third countries; but a market for investment and technology transfer

# THE AfCFTA: KEY FEATURES

- The AfCFTA sets out a framework for tariff liberalisation across Africa, the harmonisation trade related rules to encourage greater flows of intra-African trade and investment.
- Critically, it preserves current sub-regional arrangements such as SADC as building blocs
- The AfCFTA involves negotiations amongst those Members/Regions without existing preferential arrangements in place
- Provides for reciprocity but also variable pace for liberalization to take into account different levels of economic development across the continent

# IMPORTANCE OF AFRICA TO SA

- South Africa's major export destinations: rest of Africa; EU, and China account for almost 62% of SA's total merchandise exports.
- African market was a destination for 26.3% of South Africa's exports in 2018.
- In 2019, South Africa's 55.6% of exports to Africa were manufactured products
- SADC is the most significant African trading bloc for SA's exports and imports, and accounts for more than 70% of all SA's exports to Africa.
- Key markets in SADC are Botswana, Namibia, Mozambique, Zambia and Zimbabwe.

# THE AFCFTA: KEY FEATURES

- Enhance intra African trade through:
  - Progressive elimination of tariffs
  - Rules to manage non tariff barriers
  - Facilitate cooperation on customs, trade facilitation and transit
  - Enhanced cooperation on technical barriers to trade and sanitary and phytosanitary measures
- Enhance legal certainty and predictability of market access
- Establish due process in resolution of trade disputes
- Can stimulate Africa's industrial development and employment
- Can enhance investor climate in Africa
- Opens new market access opportunities in Central, Eastern, North and West Africa

# LEGAL ARCHITECTURE OF THE AFCFTA (1)

- **Agreement Establishing the AfCTA** – This is the Main Agreement; Protocols, Annexes and Appendices form an integral part
- **Protocol on Trade in Goods** gives effect to 9 Annexes:
  - Schedule of Tariff Concessions
  - Rules of Origin
  - Customs Cooperation and Mutual Assistance
  - Trade Facilitation
  - Non-Tariff Barriers
  - Technical Barriers to Trade
  - Sanitary and Phytosanitary Measures
  - Transit
  - Trade Remedies

# LEGAL ARCHITECTURE OF THE AFCFTA (2)

- **Protocol on Trade in Services** – The Protocol includes provisions on general obligations and disciplines and progressive liberalisation
- **Protocol on Rules and Procedures for Settlement of Disputes** – This Protocol establishes a Dispute Settlement Mechanism, which is aligned to the WTO Dispute Settlement Understanding
- **Phase II** negotiations will cover Competition, Intellectual Property, Investment and e-commerce/digital trade.
- Agreement also established the AfCFTA Secretariat which is based in Accra, Ghana.

# AFCFTA NEGOTIATING MODALITIES

- Adopted Modalities for Tariff Liberalization
  - 90% of the scheduled tariffs liberalised over 5 years (LDCs = 10 years)
  - 7% sensitive tariff lines should be liberalised over 10 years (LDCS = 13 years). 3 % can be excluded
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- Adopted Modalities for Trade in Services
  - 5 services sectors in the first round (Financial, Tourism, Transport, Communication, Professional)

# AfCFTA - PROGRESS

- The AU launched the AfCFTA negotiations at 25<sup>th</sup> Summit on 15 June 2015 in Johannesburg, SA
- The AU Heads of State adopted the legal instruments establishing the AfCFTA at Summit on 21 March 2018 in Kigali, Rwanda
- Extra Ordinary Summit on 5 December 2020 operationalized the start of trade under AfCFTA preferences
- 54 out of the 55 AU members signed (not Eritrea)
- 37 countries ratified the AfCFTA (as at 8 July 2021)

# AFCFTA – CURRENT STATUS

- Summit Decision of 5 December 2020 provided the legal framework to allow AU Members/Customs Unions (CUs) to agree to operationalise preferential trade amongst them in an ongoing, incremental basis.
- Tariff offers have been submitted by 10 Member States and 4 Customs Unions, namely: SACU, CEMAC, ECOWAS and EAC, amounting to a total of 42 Member States.
- On Trade in Services, 34 Member States have submitted offers. 22 of these 34 offers are from 2 RECs namely; ECOWAS and EAC who have submitted combined initial offers respectively.

# AFCFTA – RULES OF ORIGIN

- As of July 2021, 86.1% of tariff lines (HS 6 with agreed Rules of Origin)
- Products/Chapters still outstanding:
  - Sugar, Clothing and Textiles, Edible Oils and Automotives.

# AFCFTA TARIFF AND NON-TARIFF BARRIERS

- AfCFTA's Non-Tariff Barriers online reporting, monitoring and eliminating mechanism has been established. Alignment with regional NTB monitoring mechanisms.
- Reporting can be undertaken online using the following website: [www.tradebarriers.Africa](http://www.tradebarriers.Africa).
- The Continental non-tariff barriers mechanism also aims to enhance trade through removal of non-tariff barriers to trade (NTBs).

# AfCFTA – NEXT STEPS

- Priority should be to implement the Summit Decision operationalising the AfCFTA on the 86.1 % of tariff lines where rules of origin are agreed – bilateral negotiations to finalise reciprocal tariff offers.
- Negotiations on outstanding Rules of Origin.
- Negotiations to conclude Trade in Services schedules of specific commitments on 5 priority areas.
- Commence Phase II negotiations

# CONCLUDING REMARKS

- For sustainability and legitimacy, Africa's integration must deliver shared benefits
- Trade integration and liberalisation should be accompanied by programmes to support African industrialisation and regional value chains
- The AfCFTA provide great opportunities for investors and entrepreneurs, both from the continent and from outside the continent
- Coordinated effort and inclusion of AfCFTA across the dtic e.g. Invest SA, Trade Invest SA and Industrial Development division to ensure benefit of AfCFTA opportunities to SA private sector.

**Thank You**



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