

UPDATE ON THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)

SOUTHERN AFRICA PANEL - AFCFTA

15 SEPTEMBER 2021



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 25th 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.
- 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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