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African Continental Free Trade Area (AfCFTA)

On May 30, 2019, the framework agreement establishing the African Continental Free Trade Area (AfCFTA) entered into force. Trading under the agreement, however, is not expected to occur until mid-2020 at the earliest, as negotiations continue on critical commitments, including tariff liberalization schedules. If fully realized, the AfCFTA would cover 54 countries (the largest of any regional trade bloc), creating a market encompassing 1.2 billion people with combined economic output in 2018 of $2.5 trillion.

Through the AfCFTA, the African Union (AU) seeks to create a pan-African free trade area liberalizing the flow of goods and services, thereby increasing intra-African trade and enhancing regional development prospects. All but one (Eritrea) of the AU's 55 members have signed the agreement, and 29 had ratified it as of January 2020. Many observers hailed the AfCFTA agreement's entry into force as a milestone in African economic integration. Its impact, however, will depend on future negotiations and on its successful implementation in a region in which some past trade integration efforts have fallen short of their ambitions.

The United States, partly as directed by Congress, has provided assistance to expand Africa's intra-regional and global trade through various initiatives. The Trump Administration broadly supports the AfCFTA and has pledged U.S. assistance for its implementation—but has also stated interest in negotiating one or more bilateral trade agreements in the region, which could potentially complicate AfCFTA negotiations and implementation.

Background

Aspirations for Africa-wide trade liberalization date to the 1960s and the establishment of the Organization of African Unity (OAU), which sought to foster economic cooperation among its members. Efforts by the OAU and its successor, the AU, created in 2002, have primarily aimed to use Africa's eight regional economic communities (RECs, sub-regional organizations with varying levels of policy and economic integration) as the building blocks for eventual pan-African integration. Initial plans envisioned transforming the RECs into customs unions (free trade among members and a common external tariff rate) before merging them into a continental trading bloc. These plans eventually became untenable given the REC's variable performance and their increasingly overlapping membership. The AfCFTA approach is more flexible; it allows for an agreement that includes commitments between both RECs and individual states.

AfCFTA: Approach, Status, and Issues

The AfCFTA is intended to liberalize trade in goods and services and establish rules on competition policy, IPR, and investment, to be enforced through a formal dispute settlement mechanism. The AU Assembly heads the agreement's institutional structure and administers the agreement, including consideration of future amendments. Ultimately, the AfCFTA is intended to lay the groundwork for an Africa-wide customs and monetary union with the free movement of people. The Phase 1 agreement, some of which is now in effect, includes protocols on goods, services, and enforceable dispute settlement, and annexes on customs and trade facilitation, sanitary and phytosanitary standards, nontariff and technical barriers to trade, and trade remedies. Annexes covering specific commitments for goods and services market access, however, are still under negotiation, as are the commitments on Phase 2 issues (IPR, investment, and competition).

Key Developments Leading to the AfCFTA

- **1980-2002** - Lagos Plan of Action (1980-2000) lays out a framework for an African Economic Community (AEC). In 1991, the Abuja Treaty sets 34-year timeframe to create the AEC with a plan to form regional customs and monetary unions, eventually merging them into one continental economic community. In 2002, the African Union (AU) succeeds the OAU.
- **2008** - Three RECs in eastern and southern Africa launch plans for a Tripartite FTA, potentially covering 27 of the 55 AU members.
- **2012** - AU establishes a plan for creating the AfCFTA in which the Tripartite FTA and other REC FTAs are to proceed in tandem with the AfCFTA and later merge.
- **2015** - AfCFTA negotiations launched.
- **2017** - Tripartite FTA negotiations concluded (not yet in force).
- **2018** - AfCFTA framework agreement negotiations concluded.
- **2019** - AfCFTA framework agreement enters into force.

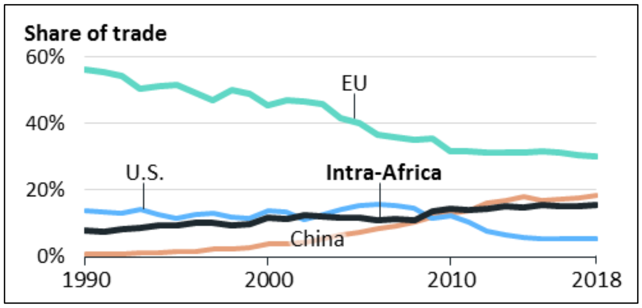
The AfCFTA protocol on goods calls for the "progressive elimination of tariffs" and AU members have agreed to eliminate duties on 90% of tariff lines within five years. An additional 7% of tariff lines, for sensitive products, will have longer phase out periods and 3% of tariff lines (not to exceed 10% of imports by value) may be excluded entirely. These tariff schedules remain under negotiation, so no tariffs have been reduced to date. Special treatment for least developed countries, a potentially large category, is also to apply. Existing regional customs unions (such as the East African Community) are expected to negotiate in blocs, while member states not in customs unions may negotiate individually. Annexes establishing guidelines on rules of origin are completed, but specific rules determining whether a good originates from within the AfCFTA—and is eligible for preferential treatment—are under negotiation.

Intra-African Trade

In 2018, 16% of Africa's total exports were intra-regional, which was considerably below that of most global regions, including North America (30%), Asia (60%), and Europe (69%). Long-term trends in Africa, however, suggest such trade is increasing. Intra-African trade rose from 7% to 16%

of total African trade from 1990 to 2018. During this period, intra-African trade generally included more value-added content than African trade with the rest of the world. Manufactured goods accounted for 40% of intra-regional trade from 2007-2017, while exports to the world consisted largely of raw ore and energy commodities with manufactured goods accounting for 16%. Growth in intra-regional trade, however, occurred primarily within RECs, and such progress was not uniform; 75% of intra-African trade occurred in just five of eight RECs in 2017.

Figure 1. African Goods Trade Share by Partner



Source: CRS with IMF Direction of Trade Statistics.

Prospects, Challenges, and Next Steps

The large market envisioned under the AfCFTA could spur increased value-added production and trade within Africa, achieve economies of scale, and attract greater foreign investment. Increased trade flows resulting from the removal of trade barriers and the facilitation of cross-border trade could enable countries to develop and specialize in specific production activities, potentially fostering intra-African supply chains. This could particularly benefit smaller countries with limited global reach. Bigger markets and more competition could also foster the development of new skills and productivity gains. One study estimates that the elimination of tariffs alone could increase intra-regional trade by up to 33% and add up to 1% to annual GDP growth across Africa, once fully implemented.

At the same time, African countries face diverse challenges that may inhibit the full realization of the AfCFTA agreement. The region has the highest nontariff trade costs globally, equivalent to tariffs of 250% on traded goods, according to a 2015 World Bank study. Some of these barriers are policy-related and could be addressed through further negotiations under the agreement. However, a number of impediments (e.g., poor infrastructure and challenging geography) are structural and are likely to be costly and time-consuming to overcome. Some modeling suggests that tackling nontariff barriers could increase the economic benefits of the agreement by as much as four-fold.

Uneven gains arising from the creation of the AfCFTA may also pose challenges. A small number of economies dominate intra-African trade (South Africa accounted for 25% in 2017) and account for nearly all value-added activity. These countries may be better-positioned to benefit from the AfCFTA, while poorer countries—in which tariffs still account for a significant share of national budgets—may lose revenue and be less able to exploit the gains promised by the AfCFTA.

That 54 countries with divergent industrial capabilities and economic interests negotiated a framework for extensive trade reforms within three years highlights commitment across Africa to the idea of continental free trade. Whether there is enough political will and administrative capacity among members to fully implement the accord, however, remains uncertain. Events on the ground—such as recent border closings by major economies (Nigeria) and between trading partners (Rwanda-Uganda)—suggest wariness about integration. Progress over the next year in finalizing negotiations and beginning implementation of the agreement could contribute to positive perceptions of the AfCFTA. Lack of progress, conversely, could spur pessimism and the perception among some observers that Africa's integration and trade challenges remain intractable.

Issues for Congress

AfCFTA's immediate impact on U.S. trade with Africa is likely to be minimal, but could grow over time. While increased intra-African trade could displace some U.S. exports, lower trade costs, greater productive capacity, and larger markets within Africa could spur demand for U.S. goods and services and incentivize greater U.S. investment in the region. In the near term, the AfCFTA also may affect U.S. trade negotiation goals in Africa. These include the Trump Administration's stated intent to negotiate bilateral trade agreements in the region, beginning with trade talks with Kenya, which the Administration hopes to use as a model for moving toward more reciprocal trade with the region. Supporters argue a U.S. FTA could serve as a guide for future AfCFTA engagement outside Africa, and that potentially deeper reforms in such an agreement could spur further liberalization throughout the region. Some African officials, however, would prefer to negotiate as one unit, arguing that bilateral deals will disrupt African integration efforts. AfCFTA allows members to negotiate third-party agreements, as long as the most generous terms are extended to AfCFTA parties on a reciprocal basis.

To date, Congress has endorsed efforts to spur Africa's global and regional trade, including through Africa-specific trade facilitation programs and preferential tariff treatment for many African imports under the African Growth and Opportunity Act (AGOA). In considering U.S. responses to the AfCFTA, Congress may assess: (1) how to prioritize among varying U.S. trade policy goals in the region (e.g., improving African economic development and integration, expanding U.S. market access, and encouraging market-oriented and liberalizing reforms in line with World Trade Organization (WTO) obligations); (2) how the AfCFTA may affect these policy priorities; and (3) how future U.S. trade negotiations may impact the AfCFTA.

Additional issues for congressional consideration include: how market integration under AfCFTA may incentivize U.S. trade and investment in the region (a goal under the Administration's Prosper Africa initiative); how U.S. FTAs may expand overall U.S-Africa trade, which accounted for 1.6% of U.S. trade in 2018; and the potential effects of AfCFTA and U.S. FTAs on African utilization of AGOA.

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