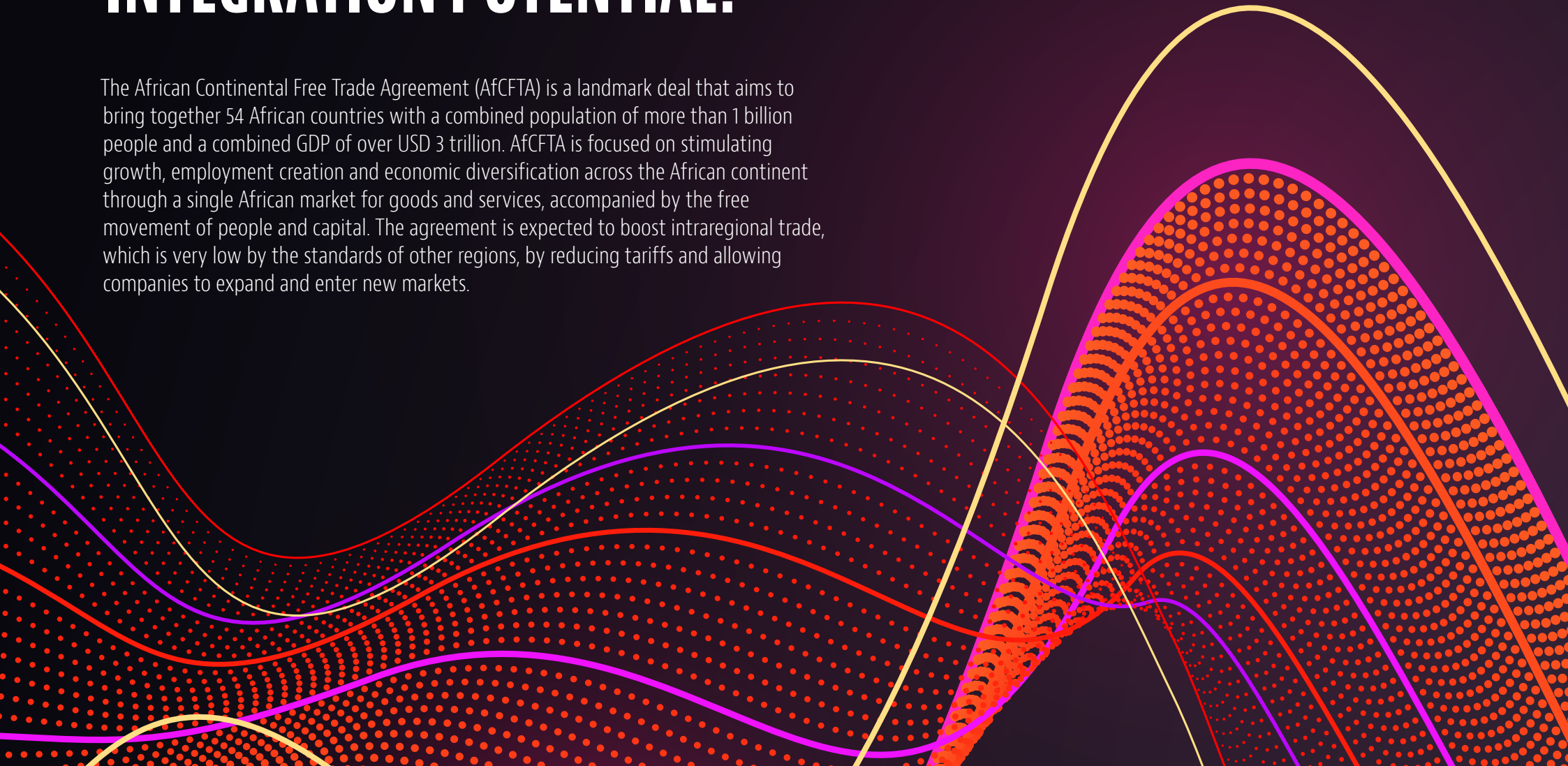


# HOW CAN AfCFTA REACH ITS USD 3T TRADE INTEGRATION POTENTIAL?

**Baker  
McKenzie.**

The African Continental Free Trade Agreement (AfCFTA) is a landmark deal that aims to bring together 54 African countries with a combined population of more than 1 billion people and a combined GDP of over USD 3 trillion. AfCFTA is focused on stimulating growth, employment creation and economic diversification across the African continent through a single African market for goods and services, accompanied by the free movement of people and capital. The agreement is expected to boost intraregional trade, which is very low by the standards of other regions, by reducing tariffs and allowing companies to expand and enter new markets.



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## Projected Milestones for AfCFTA

The agreement has an ambitious timeline, as emphasized in Figure 1. Yet, reaching the set milestones will depend on the success of ongoing negotiations, starting with the ambitious goal of having all 54 countries ratify the agreement by 2020.

## AfCFTA Envisaged Timeline

Figure 1



## Current trade in Africa is outward focused

Africa is currently focused on outbound trade with the rest of the world rather than with its continental neighbors, as emphasized in Figure 2. Also, compared to other successful trade agreements, such as that of the EU, AfCFTA has a long way to go (Figure 3). The intracontinental trade shortcoming represents immediate lost trade opportunities for African countries. But most importantly, the main objective of the countries entering the agreement is to accelerate industrialization and establish strong cross-border supply chains. This would provide a solid foundation for a long-term shift towards intraregional trade, and this is dependent on increased infrastructure development across Africa.

## Intraregional share of total merchandise exports

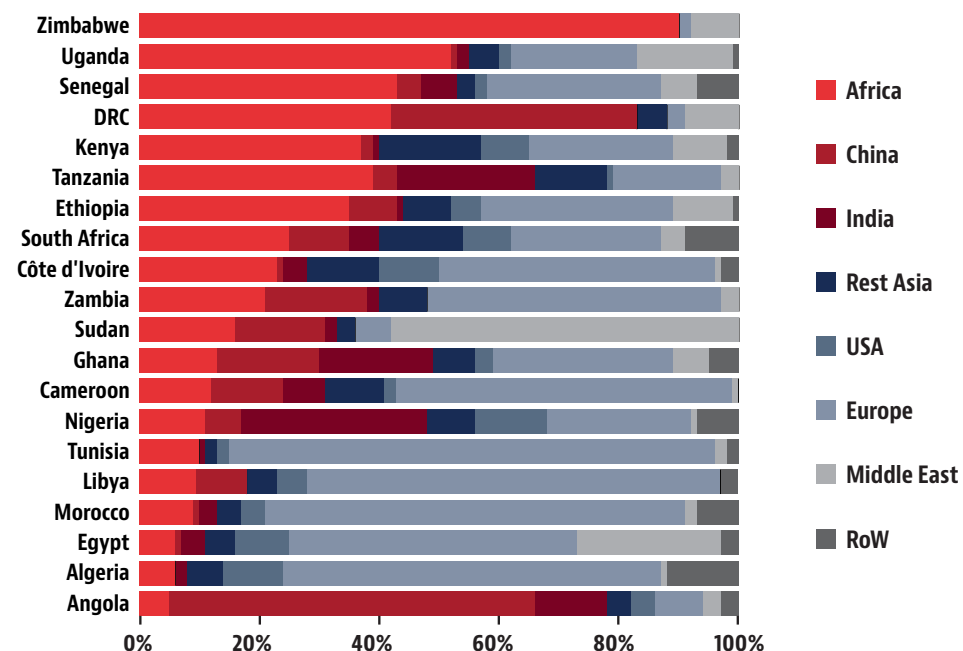


Figure 2, Oxford Economics/IMF Direction of Trade Statistics

## The difference between African and European intracontinental trade in 2019

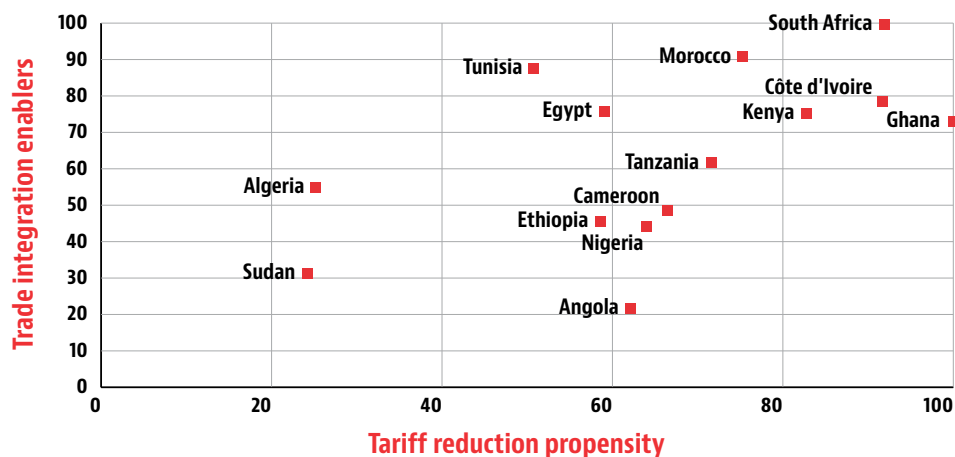


Figure 3, Source: Oxford Economics

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## AfCFTA's progress will be slower than expected

As the cost and benefits of the AfCFTA deal will not be distributed evenly amongst member countries, tangible trade benefits will only be felt widely across the continent post-2030. Currently, heterogeneous African countries find themselves on an uneven maturity curve, at the intersection of their ability to benefit from tariff reductions and the favorable conditions that they have (or do not have) for trade (Figure 4).



### Trade integration enablers

Favorable conditions:

- Regulatory environment
- Stable, business-friendly environment
- Competitiveness of labor and production markets
- Increased quality of infrastructure
- Logistical performance
- International trade environment

### Tariff reduction propensity

Determining factors:

- Trade impact of removing tariffs
- Attractiveness to foreign investments
- External trade propensity
- Recent trade performance
- Bilateral trade
- Manufacturing capacity to increase production

Figure 4, Source: Oxford Economics calculations

## Top 3 barriers to realizing AfCFTA's potential fast

Trade integration has long been a goal for African countries, at least at a regional level, as exemplified by the existing regional economic communities (RECs) that have so far co-existed with some success. AfCFTA's success faces serious obstacles, such as opposition from existing RECs; resistance from countries with high tariffs; a lack of cohesive and reliable infrastructure; unreliable sources for water or electricity; uneven financial resources (such as access to credit) or liquidity shortages and the inability to repatriate profits; corruption, as well as political instability - which poses security threats to business. Below, we focus on the top three barriers.

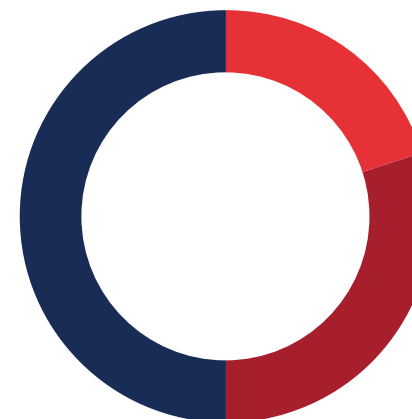
### 1 Pre-AfCFTA regional trade agreements

AfCFTA succeeds a patchwork of pre-existing, overlapping regional economic communities (RECs), each with its own structure and rules for regional trade agreements, and with mixed integration success. In the immediate future, these RECs could either benefit the agreement or work to its detriment.

### Performance of Existing REC's

#### Mixed Performance

- COMESA
- ECOWAS
- WAMZ
- CEMAC
- EAC
- SADC



#### Good Performance

- WAEMU
- SACU

#### Poor Performance

- UMA
- CEN-SAD
- ECCAS
- IGAD

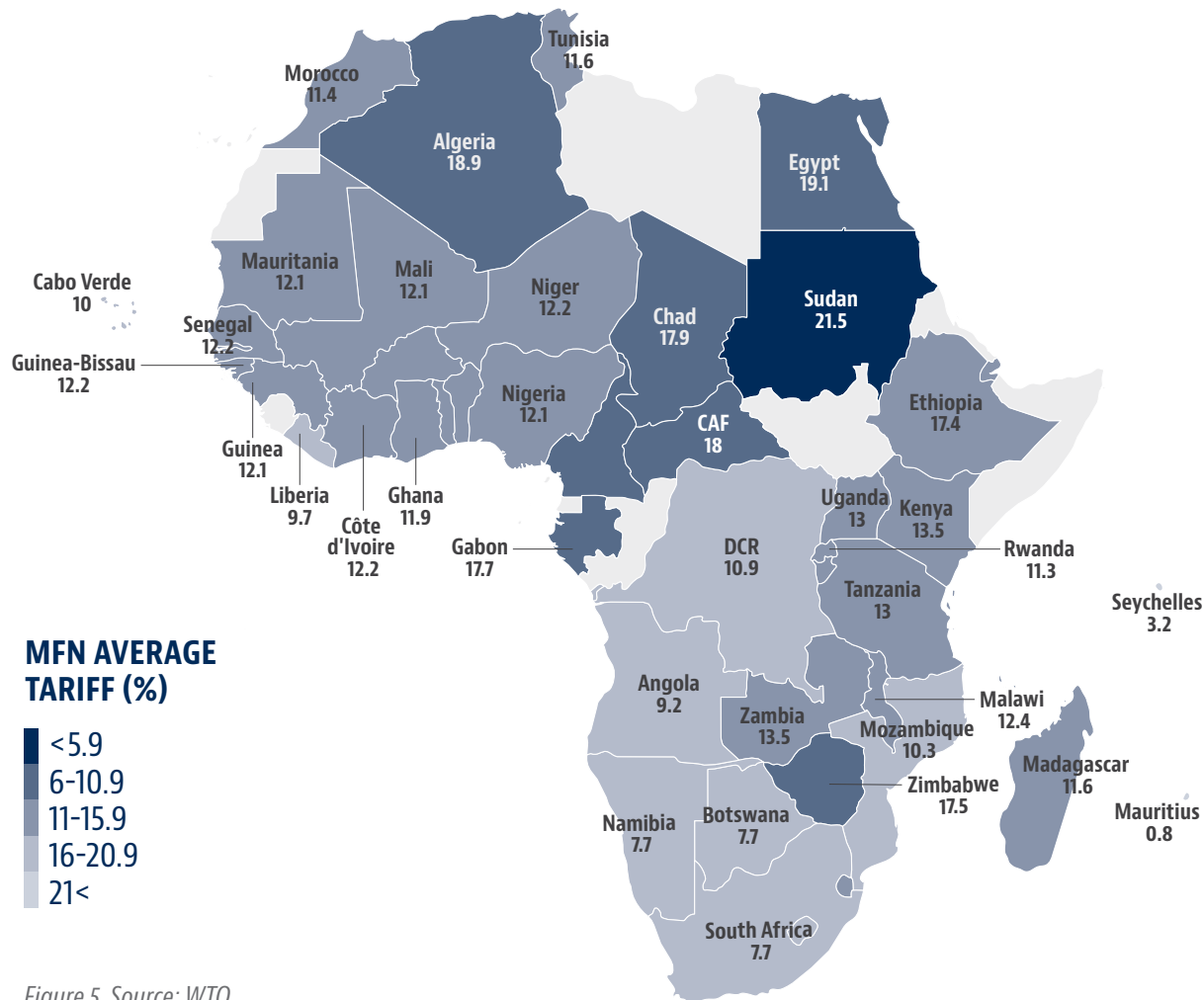
Source: REC webpages

# How Can AfCFTA Reach Its USD 3T Trade Integration Potential?

## ② Tariff revenue differences

Some countries might not be ready to renounce tariff revenues, due to profits from current high tariff rates. Below, is an at-a-glance view of the areas most likely to benefit from AfCFTA. Trade outside any agreements is generally subject to most-favored nation (MFN) tariffs.

### MFN average Tariff by Country



### MFN AVERAGE TARIFF (%)

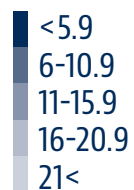
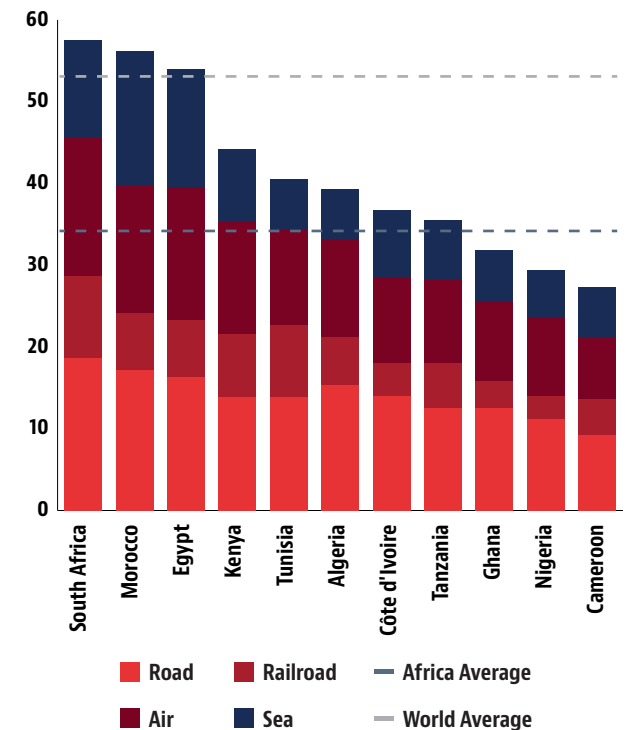


Figure 5, Source: WTO

## ③ Lack of consistent, advanced infrastructure

Most African countries, except for a few outliers, lag behind the rest of the world in terms of transport infrastructure. In addition, existing infrastructure in African countries is not connected to a continent-wide network. This creates difficulties for implementing and expanding cross-border supply chains.

### African transport infrastructure breakdown



Source: WEF GCI Score (100 = best)