

31 BRIEFING PAPER



The long journey towards Pan-African integration: The African Continental Free Trade Area and its challenges

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List of Abbreviations

AfCFTA	African Continental Free Trade Area
ADB	African Development Bank
AMU	Arab Maghreb Union
ASEAN	Association of Southeast Asian Nations
AU	African Union
AVE	Ad-Valorem Equivalent
CEN-SAD	Community of Sahel-Saharan States
COMESA	Common Market for Eastern and Southern Africa
CGE	Computable General Equilibrium
EAC	East African Community
EBA	Everything But Arms
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
GSP	Generalized System of Preferences
IGAD	Intergovernmental Authority on Development
LDC	Least Developed Country
MFN	Most Favoured Nation
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
REC	Regional Economic Community
RoW	Rest of the World
SACU	Southern African Customs Union
SADC	Southern African Development Community
SITC	Standard International Trade Classification
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Abstract

On the 1st of January 2021, African countries started the African Continental Free Trade Area (AfCFTA). It is a largely symbolic step toward the long-term goal of economic integration on the African continent. The integration process includes an extensive agenda that requires time and will affect the development in African countries in multiple ways. While studies typically report potential trade and welfare gains, the overall impact of the agreement depends on various factors. In this ÖFSE Briefing Paper, we (i) present the state of play in the AfCFTA negotiations and implementation, (ii) discuss the challenges for the AfCFTA based on the characteristics of African trade, and (iii) offer a critical assessment of economic impact studies. A positive contribution of the AfCFTA to the Agenda 2063 of the African Union requires appropriate policies to overcome the limitations and challenges of the integration process, in particular through coordinated industrial policies. These efforts should be supported by the European Union, including through adjustments to its current trade regime with African partners.

Keywords: AfCFTA, trade liberalization, continental integration, Regional Economic Communities, Economic Partnership Agreements

1. Introduction

The start of trade in goods between selected African economies under the legal framework of the African Continental Free Trade Area (AfCFTA) on the 1st of January 2021 represents a symbolic milestone on the long journey towards African continental integration. Almost 60 years ago, the founding of the Organization of African Unity as the predecessor of the African Union (AU) in 1963 provided an institutional framework and established the idea of continental and regional integration among African nations, even though the integration initiatives remained rather political declarations (Gérout et al. 2019). In the next step, the Monrovia Summit in 1979 and the subsequent Lagos Plan of Action in 1980 targeted African self-reliance and autonomy. These initiatives failed notably due to the economic crisis in the 1980s. The Abuja Treaty of 1991 marked the third phase of integration, setting out a vision for continental integration based on sub-regional cooperation. However, the following regional integration created rather an obstacle to the original continental ambitions due to the creation of different and often overlapping regional configurations. In 2012, the consolidation of different regional economic zones into larger free trade agreements such as the tripartite agreement of Eastern and Southern African countries returned to the idea to eventually form a continental customs union by merging regional free trade zones. In 2018, the AfCFTA agreement finally established a legal framework for a single free trade area over the whole continent with a comprehensive integration agenda in parallel to the established regional agreements (ibid.). Overall, AfCFTA is a major project of the African Union's Agenda 2063, which aims for inclusive and sustainable development across Africa (African Union 2020a).

Even though the COVID-19 crisis has delayed the ongoing negotiations and the official start of implementation of the first steps, all African economies, except Eritrea, are now part of a comprehensive integration process based on trade and investment liberalisation, which in the long run should end in a customs union. Following standard economic trade theory, the AfCFTA implementation is supposed to reduce trade costs, foster intra-African trade, drive efficiency and competitiveness, improve regional value chains and attract foreign direct investment (FDI). The expected economic growth would create new job opportunities and thereby have a positive impact on poverty reduction (ADB 2019; Cofelice 2018; World Bank 2020). In addition, AfCFTA includes a strong momentum for political integration and collective actions of African nations on the global level (Gérout et al. 2019). The expected economic benefits from this economic integration are, however, not guaranteed and depend on substantial and long-term efforts by the member states and their capabilities to implement regulatory alignment. Taking into account possible challenges, some of the promised welfare gains appear highly uncertain.

In this Paper, we firstly present key contents and the state of play of the AfCFTA negotiations and implementation, as well as the next steps. Next, intra-African trade patterns are discussed and implications for the process of trade liberalization are highlighted. In chapter 4, we scrutinize the economic effects of AfCFTA as reported by diverse economic impact assessments. Chapter 5 debates selected issues that pose potential challenges for continental integration. A final chapter concludes.

2. Key Contents and the State of Play

The negotiations on the founding agreement of the AfCFTA began in June 2015 and were concluded in March 2018, when 44 of 55 African states signed the Agreement establishing the AfCFTA at a summit in Kigali, Rwanda. As of January 2021, all African states except Eritrea have signed the agreement, but only 35 countries have completed the ratification process and are 'State Parties' of the agreement with full rights and obligations.¹ The founding agreement serves as the umbrella for the whole AfCFTA. It defines the objectives which include a liberalized market for goods and services, enhanced movement of capital and natural persons, the promotion of industrial development and regional value chains, food security as well as the resolution of the challenges related to the multiple regional integration processes while keeping the Regional Economic Communities (RECs) in tandem with the AfCFTA². The AfCFTA envisions the establishment of a continental customs union in the future (African Union 2018).

The establishing agreement also sets the institutional structure, including the AfCFTA secretariat, hosted now in Accra, Ghana, and includes protocols for the different elements of the AfCFTA. The contents of the protocols are gradually negotiated and adopted in annexes, acknowledging the comprehensive liberalization agenda of the whole agreement. The first phase focuses on negotiations about protocols on trade in goods and in services as well as a protocol on dispute settlements. The annex on the protocol on trade in goods includes for instance tariff reduction, customs cooperation or details on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). The second phase covers the topics of competition policies, intellectual property rights, investment and e-commerce (Luke 2019; TRALAC 2020).

The AfCFTA has officially entered into force on the 30th of May 2019. Implementation of the first phase was initially scheduled for the 1st of July 2020, and of the second phase for 1st of July 2021. Even though the detailed protocols of the first phase were also part of the founding agreement signed in 2018, negotiations on the detailed schedules of tariff concessions or rules of origin started only thereafter. The 3rd Meeting of the AU Ministers of Trade in 2017 defined the general modalities for tariff reductions, while the actual shares of tariff lines for sensitive and excluded products were agreed on the 32nd AU Ordinary Session in 2019. The single state parties or RECs were supposed to report the detailed schedules by tariff lines in 2020 (see Table 1). For the 22 non-least developed countries (Non-LDCs), intra-African customs duties are to be fully eliminated for 90 % of all tariff lines within five years. Another 7 % of tariff lines of sensitive products should be abolished within ten years, with the phase-down starting in year 6. Three percent of tariff lines of selected products can be excluded from liberalization. The 33 African LDCs were granted more time to prepare their national economies for increasing intra-African competition with a ten-year implementation period for the major tariff liberalizations and 13 years for sensitive products. Most African RECs typically include both, LDC and Non-LDC countries.

¹ See <https://www.tralac.org/resources/infographic/13795-status-of-afcfta-ratification.html> for a tracking of the status of ratification.

² The AfCFTA builds on eight RECs: Arab Maghreb Union (AMU/UMA), Economic Community of West African States (ECOWAS), East African Community (EAC), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), Economic Community of Central African States (ECCAS), Community of Sahel-Saharan States (CEN-SAD).

Table 1: Tariff liberalization modalities

		Timeframe Non-LDCs	Timeframe LDCs
Level of Ambition	90 %	5 years	10 years
Sensitive Products	7 %	10 years	13 years
Excluded Products	3 %	Excluded	Excluded

Source: adapted from Sommer/MacLeod (2019: 81) and Apiko et al. (2020)

The COVID-19 crisis has, however, delayed the ambitious schedule for the negotiations and for the adoption of the detailed annexes to the protocols, despite continued online negotiations. As of December 2020, 41 countries and customs unions with their common external tariffs have submitted their tariff schedules and rules of origin for 81 % of the tariff lines have been set. The remaining rules of origin and the annexes for the Protocol on Trade in Services should be concluded by June 2021 (African Union 2020b).³ The start of trade in goods with preferential tariff rates under the AfCFTA legal framework on 1st of January 2021 is, therefore, limited to trade among State Parties that have ratified the AfCFTA, and which have traded under Most Favoured Nation (MFN) conditions so far (Erasmus/Hartzenberg 2020).

It should be expected that to see effects from the AfCFTA on intra-African trade flows will take time, as the implementation of the AfCFTA and the reduction of tariffs is gradual and because the trade with RECs remains unchanged. Further, trade effects are not only determined by the removal of tariff rates, which are already relatively low (see chapter 3), but will also depend on a complex set of legal frameworks. These include details on services in trade, on non-tariff measures (NTMs) such as regulations on TBT and SPS harmonization, rules of origin and other trade-related issues, which must be correctly implemented (Woolfrey/Byiers 2019). Moreover, to realize the intended effects of higher volumes of and more diversified intra-African trade requires considerable accompanying measures, as discussed in the following chapters.

Phase two of the AfCFTA agreement includes further elements of deep and comprehensive trade agreements, including investment, intellectual property rights and competition law. These issues target the adjustments of national policies to create common rules and policy frameworks for a single African market (Luke 2019). The negotiation on these protocols is yet to start in 2021, once the phase one elements are finished. The tight schedule is also related to the attention from donors on these Phase II issues (Lungu 2020). Overall, the ambitious agenda of the integration process among African countries laid out by AfCFTA affects a variety of aspects critical for economic and socio-ecological development. This also implies that a wide range of institutional and structural factors will co-determine the pace of negotiations and above all the outcomes of this integration project, as discussed in chapter 5.

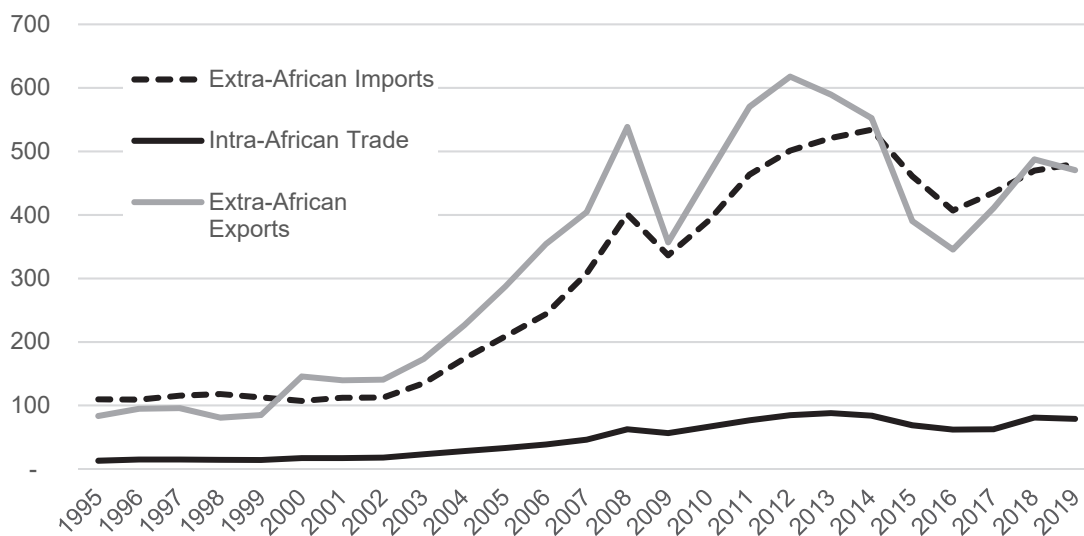
³ The detailed schedules of tariff concessions are not yet available as of December 2020.

3. Implications from current intra-African trade patterns

The new AfCFTA regulations aim to restructure current African trade patterns towards a larger share of intra-African trade. The current patterns are indicative of regional and product specializations and highlight gaps such as, for instance, the low level of industrialization or regional value creation. Current patterns also determine the potential for more and diversified trade among African countries and underline the need for policies to shift production patterns.

With regard to trade in goods, the value of trade among African countries increased from USD 13 billion in 1995 to almost USD 80 billion in 2019. This growth of intra-African trade by a factor of five is even higher than the increase in trade flows from African countries with the Rest of the World (RoW), which grew by a factor of three (Figure 1).⁴ The value of extra-African trade nevertheless is still six times higher than intra-African trade flows. The share of intra-African trade increased slightly from roughly 12 % of total trade between 1995 and 2008 to around 14 % between 2009 and 2019 (UNCTAD stat).⁵ Thus the share of intra-African trade in total trade remains low compared, in particular when compared to other regions such as Europe as well as East and South East Asia, both of which have decades of experience in economic integration (Table 2). Other regions such as Latin America or West Asia (incl. Middle East) show comparably low shares of intra-regional trade, which is related to the limited success of their respective regional integration efforts (see for instance Herreros (2019) on the Free Trade Area of the Americas and Mikic/Shang (2019) on ASEAN).

Figure 1: Intra- and Extra-African Trade Flows (in billion USD)



Source: UNCTAD stat

⁴ The official trade statistics for African countries come with large uncertainties. Informal trade is estimated to account for up to 40% of intra-African trade (UNCTAD 2019).

⁵ The trade flow analysis is based on UNCTADstat data, as UN Comtrade trade data miss data from selected African countries in several years. Intra-African trade flows are at the same time exports and imports for all African countries. We, therefore, use import data as mirror data and calculate the share of total trade defined as $(2 \times \text{intra-African imports}) / (\text{Total Exports} + \text{Imports of African countries})$.

Table 2: Shares of Intra-regional Trade in Total Trade (2019)

Africa	Northern America	Latin America and the Caribbean	Eastern and South-Eastern Asia	Western Asia	Europe
14 %	19 %	15 %	32 %	14 %	66 %

Source: UNCTAD stat

An important characteristic of intra-African trade is also the strong concentration on a few African countries. South Africa (share of 36 %) and Nigeria (8 %) as the largest economies on the continent account for almost 50 % of intra-African trade, followed by Egypt (5 %), Tunisia and Zambia (both 4 %). But intra-African trade patterns also reflect the efforts for more regional integration. The share of intra-regional trade within African RECs range from 21 % in the Economic Community of Central African States (ECCAS) to 79 % in the Southern African Development Community (SADC) region, which includes South Africa and the Southern African Customs Union (SACU) (Table 3). There are also substantial differences in the shares of intra-regional trade compared to total trade (from 1.5 % to 19.9 %) and compared to exports and imports among African countries.

Table 3: Share of regional trade in intra-African trade (2019)

	African Union	AMU	CEN-SAD	COMESA	EAC	ECCAS	ECOWAS	IGAD	SADC
Share of Regional....									
... Exports to Total Exports	14.4 %	4.4 %	6.6 %	8.4 %	17.2 %	1.5 %	7.5 %	10.3 %	14.9 %
....Imports to Total Imports	14.2 %	4.0 %	5.3 %	2.8 %	8.7 %	3.1 %	7.7 %	4.1 %	19.9 %
....Exports to Intra-African Exports		56.2 %	58.7 %	53.9 %	52.0 %	31.8 %	57.9 %	51.3 %	75.0 %
...Imports to Intra-African Imports		36.1 %	69.2 %	21.6 %	49.1 %	16.1 %	67.4 %	33.4 %	83.7 %
...Trade to Intra-African Trade		43.9 %	63.5 %	48.1 %	50.5 %	21.4 %	62.3 %	40.4 %	79.1 %

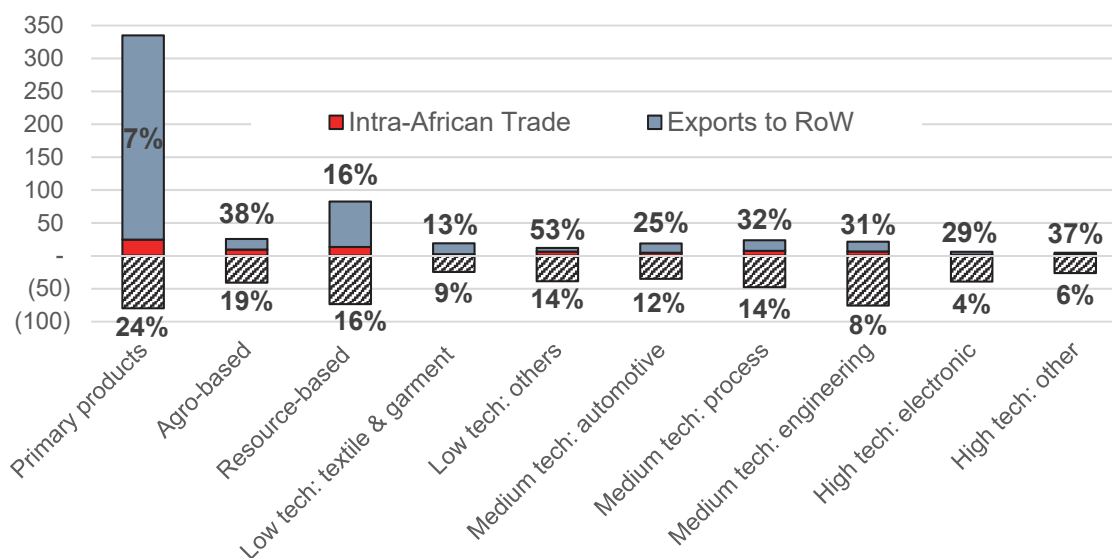
Notes: The regional aggregation includes overlapping regions, with single countries being part of different RECs.

Source: UNCTAD stat

The differentiation of trade among African countries and with the RoW by product classes shows that there are strong patterns of trade specialization (Figure 2). African exports are highly concentrated on primary and resource-based products from oil and minerals, while capital and consumer goods in all kinds of technological levels are mainly imported. As a result, relatively high shares of African exports of capital and consumer goods (from 13 % to 53 %) go to other African countries. However, most of these products are still imported from non-African countries, which limits the share of African products in total imports (from 4 % to 14 %). Also, agro-based products show these patterns. In other commodities, the large majority of exports go to third countries and only 7 % remain within the continent, but these intra-African exports are equivalent to 24 % of total primary product imports of African

countries. Thus, raw materials still dominate intra- and extra-African trade, but manufactured goods, if exported, have some relevance for intra-African trade.

Figure 2: Trade by product classes (in billion USD)



Notes: Intra-African trade represents exports as well as imports each, given the double nature of intra-regional trade as exports and imports. The area for intra-African trade is part of the export columns, but can at the same time be added to the columns for imports. The percentage numbers indicate the share of intra-African trade in exports and imports, respectively. The product classes are based on UNCTAD classifications by Lall

Source: UNCTAD stat

On a detailed product level, intra-African trade is consequently dominated by raw materials, in particular oil (crude and processed), copper, precious stones and agro-based products such as tobacco and fish. These commodities are at the same time the major export products to RoW. With regard to processed products, lime and fertilizers show up among the top traded products (Table 4).

Table 4: TOP Products in Intra-African Trade (2019)

Ranking	SITC	PRODUCT	Value (mio USD)	Share
1	333	Petroleum oils, oils from bitumin. materials, crude	7,380	9.3 %
2	334	Petroleum oils or bituminous minerals > 70 % oil	6,234	7.9 %
3	661	Lime, cement	1,671	2.1 %
4	122	Tobacco	1,523	1.9 %
5	034	Fish, fresh, chilled or frozen	1,514	1.9 %
6	682	Copper	1,452	1.8 %
7	667	Pearls, precious & semi-precious stones	1,414	1.8 %
8	562	Fertilizers	1,364	1.7 %
9	344	Petroleum gases	1,298	1.6 %
10	351	Electric current	1,236	1.6 %

Source: UNCTAD stat

The different characteristics of export and import flows by African countries with regard to product classification can also be expressed in trade complementarity indices (TCIs). By comparing shares of product categories of exports and imports, such an index measures the extent to which one partner's exports overlap with what the other partner imports. An index value of 100 indicates a perfect match (WTO/UNCTAD 2012: 30). The index can also be applied to compare export and import patterns of single regions.

As shown in Figure 2, there is a mismatch between the product portfolio of exports and imports in the total trade flows of African countries. The TCI of the African Union as a whole, comparing the sectoral compilation of total exports and imports by 'Lall classifications'⁶, reaches only a value of 58 (Table 5). In other selected African regions, these index value goes down to 32 (ECOWAS) or 45 (EAC), which is caused by the strong concentration on specific commodity exports. Only the SACU region with an index value of 72 is an exception, as it has the highest level of regional integration within Africa and includes the higher-middle income countries South Africa, Namibia and Botswana. In comparison, total exports and imports of the EU have a high complementarity with a TCI of 88, given the higher importance of intra-industry trade, while the TCI among ASEAN countries has a value of 72, and is thus comparable to SACU.

Table 5: Trade complementarity indices (2019)

	AU	AMU	EAC	ECOWAS	SACU	EU	ASEAN
Total Exports to Total Imports	58	58	45	32	72	88	72
Intra-REC Exports to Total REC Imports	-	67	65	68	78	-	-
REC-Exports to (AU-) Imports	83	71	71	59	87	90	80

Source: own calculations based on UNCTAD stat Lall classifications

Comparing exports within the RECs to the total imports of these REC also reveals that exports from regional partners can only partially cover the import demands of the respective regions. The TCI for selected REC ranges from 65 (ECOWAS) to 78 (SACU), showing that the complementarity of intra-regional exports is higher compared to total exports. Further, the comparison of exports from the selected RECs to the AU with the total imports by the AU shows high complementarity of 83 TCI points. This is, however, largely driven by the complementarity of SACU intra-African exports. Without SACU, the TCI value would decrease to 72. All other selected RECs have lower TCI values, in particular, ECOWAS (59) due to the dominance of crude oil and other primary products in exports to the AU. In comparison, intra-EU exports have a high complementarity with total regional imports (90), while exports among ASEAN countries fit the region's imports with a TCI of 80.

Overall, the characteristics of African trade underline the dominant role of raw materials and the relatively low level of production of manufactured goods. This is reflected by the low degree of complementarity of exports with intra-African imports, which makes the substitution of imports of manufactured productions from Asia and the EU with African products less likely, even if tariffs and non-tariff measures are addressed in the AfCFTA agreement. Moreover, the structure of companies in most African countries is characterized by small-sized and often

⁶ See details on Lall classifications in https://unctadstat.unctad.org/en/Classifications/DimSitrRev3Products_Ldc_Hierarchy.pdf

informal enterprises that have a low propensity to export (Gelb et al. 2020; Kappel 2016). Taking also other trade indicators into account, the similarities in exports by region and countries might also lead to trade diversion effects (Geda/Yimer 2019). The only exception is the trade patterns within the SACU region, which highlights the dominant position of South Africa in intra-African trade. As discussed below, correctly implemented trade liberalization is a necessary factor for more intra-African trade, but the deepening of intra-African trade will critically depend on structural change, which requires targeted and coordinated industrial policies.

4. Economic Impact Assessments of AfCFTA

Since 2015, several impact assessments have been conducted on the economic effects of the AfCFTA, including studies by UNCTAD, the World Bank and the IMF. All these studies report a substantial growth of intra-African trade flows and positive effects for GDP and welfare, driven by the removal of 'non-tariff barriers' (NTBs) and the implementation of the trade facilitation agreement.

These impact assessments are all based on so-called Computable General Equilibrium (CGE) models, which are a type of empirical model that describes the macroeconomic linkages and interrelations in an economy. They can be used to calculate changes of the endogenous model variables in response to assumed shocks and policies. In a global CGE model, all economies are linked via trade flows and responses to shocks affect all economies. The database for CGE models is the Social Accounting Matrix (SAM), which depicts detailed data on production and distribution in an economy. The CGE model adds behavioral relationships to this underlying macroeconomic accounting. The model results are essentially determined by the assumed behavioral functions and closures. Assumptions define which variables are exogenous and which are endogenous and how the latter are determined — or in other words, how the model is 'closed' (Raza et al. 2016, 2014).

The standard CGE models, as applied in the impact assessments of the AfCFTA, assume that the macroeconomic behavior of an economy is the summation of the microeconomic motivations and behavior of the socio-economic agents in an economy, in particular utility maximization of consumers and efficiency maximization by producers. Further, the macroeconomic interrelations in these models are supply-driven, meaning that income determines consumption and that aggregate savings determine investment (Burfisher 2016). The equilibrium in such standard CGE models is achieved when prices of goods and factors adjust until all markets are simultaneously in equilibrium. This leads to an optimal welfare allocation among microeconomic agents in a macroeconomic framework, in which aggregate demand does not factor into the macroeconomic process of equating incomes and expenditures. These microeconomic foundations are often accompanied by questionable assumptions, including full or constant employment, and fixed trade and public balances (Raza et al. 2014).⁷

In the case of trade agreements, such as the AfCFTA, CGE models are used to assess the effects from trade cost reductions emanating from the removal of tariffs and from the elimination of costs linked to NTBs and administrative procedures. World Bank (2020: 41) explains the main underlying mechanism based on lower prices for imports and exports: Less expensive imports can be utilized in local production, which leads to an expansion of production in the most competitive sectors. This shifts production and employment (and capital

⁷ Some of the selected studies also apply variations to the basic assumptions, e.g. by introducing monopolistic competition and firm heterogeneity (Abrego et al. 2019), or combining the CGE model with microsimulations to analyze poverty and distributional effects (World Bank 2020).

in dynamic models) to the most competitive sections and causes overall productivity gains, more trade and faster economic growth. At the same time, less competitive sectors lose and countries with a higher level of tariff or NTB protection see higher pressure from import competition.

The magnitude of the effects from trade liberalization in the single studies is mainly determined by (i) what type of trade costs are removed, (ii) the extent to which trade costs are reduced and (iii) the current level of trade costs. In particular, the latter requires estimations of trade costs caused by NTBs and administrative procedures, which can vary significantly and where estimates are often available only for selected African countries. More generally, all studies have to rely on limited databases. For instance, the commonly used GTAP SAM database includes only 32 African countries, while the remaining countries are aggregated into different regions. Further, tariff data for the most recent years are not available for all African countries.

The selected studies all show small, but positive effects from the removal of tariffs on welfare and trade, even though the results differ strongly (see Table 6). Most studies simulate full elimination of tariffs, only the most recent study by World Bank (2020) integrates potential exemptions of sensitive products in its main scenario, and Saygili et al. (2018) and Vanzetti et al. (2017) simulate also the effects from tariff exemptions. The changes in welfare, measured as equivalent variations of real income, range from USD 2.8 billion to USD 16.1 billion, or up to 0.13 % relative to a baseline scenario. Intra-African exports are expected to increase between 14.6 % and 32.8 %, which has small effects on total trade due to the low share of intra-African trade. Only Saygili et al. (2018) report changes in GDP.⁸ The variations in the results reflect different databases, base year assumptions and model specifications.

Table 6: Study results – removal of tariffs

Study	Tariff Scenario	GDP	Welfare in billion USD / %	Intra-African exports	Total exports	Total Imports
Vanzetti, Peters, and Knebel (2017)	Full elimination	-	3.6		1.1 %	
Saygili, Peters, and Knebel (2018)	Full elimination	0.97 %	16.1	32.8 %	2.5 %	1.8 %
Abrego et al. (2019)	Full elimination	-	0.05 %			
ADB (2019)	Full elimination	-	2.8 0.1 %	14.6 %	1.0 %	0.9 %
World Bank (2020)	Incl. sensitive products	-	12 0.13 %	21.8 %	1.8 %	2.3 %

Source: own elaboration based on World Bank (2020: 21, Table 3.1).

The simulations of tariff removals are, however, only a side issue in most studies. The main reason is the already relatively low level of tariff protection among African countries. Firstly, most African countries are part of one of more RECs, in which preferential tariffs have already been reduced or eliminated and, secondly, MFN tariffs against other African and regions declined gradually over the last decades. There are, however, differences in tariff protection between the RECs, and on country and product levels. In particular, single countries in ECCAS and ECOWAS still apply tariff rates of up to 20 % against imports from other African countries

⁸ World Bank (2020: 21) reports somewhat misleading GDP effects (Table 3.1.). Effects on real incomes in standard CGE models are expressed as Equivalent Variation (EV), which measures the difference between the expenditure required to obtain the new (post-simulation) level of utility at initial prices. Equivalent variation is however a technical measure without empirical substance since prices do change after liberalization (Raza et al. 2014).

and regions (Table 7). By sector, tariffs in intra-African trade range from 5 to 10 % for most manufactured goods as well as for agriculture and processed food sectors. Only fossil fuels and unprocessed minerals have tariffs close to zero (ibid.: 31–34). The unequal levels of tariff protection in the single African countries create also different income effects by country, with negative changes of up to -0.3 % in several African countries (Botswana, Cameroon, Malawi, Zimbabwe) and many with no effects (World Bank 2020).

Table 7: Weighted average tariffs in and between RECs

Exporter Importer	AU	AMU	COMESA	ECCAS	ECOWAS	SADC
AU	3.4	5.5	5.2	1.5	3.9	2.3
AMU	4.3	3.1	3.8	7.9	14.9	7.0
COMESA	3.6	0.3	3.2	5.8	5.2	4.1
ECCAS	10.1	18.7	7.6	5.3	8.8	10.6
ECOWAS	5.6	10.2	10.7	7.3	3.0	9.8
SADC	2.3	15.2	6.3	0.8	0.3	1.6

Source: UNCTAD (2020: 16, Table 11).

Given the trend towards declining tariffs in the past and the low share of intra-African trade in total trade for most African countries, most studies assume only marginal effects of tariff removals on public revenues. Abrego et al. (2019) state, for instance, that public revenue losses amount to 0.03 % of African GDP. However, standard CGE models do not model the government budget in detail and keep macroeconomic balances, including the public balance, constant. Therefore, the study by (World Bank 2020: 127ff) includes a separate analysis on AfCFTA effects of revenue losses and discusses the quality of available data on tariff revenues. Average annual tariff revenue losses will remain below 1.5 % of total tariff revenues for most countries or 0.06 % of total tax revenues, but selected countries can see higher revenue losses of up to 6.6 % of tariff revenues (DR Congo). Further, the effects of AfCFTA tariff liberalization are analyzed by abstracting from tariff reductions stemming from other trade agreements, such as the Economic Partnership Agreements (EPAs), the latter leading to notable tariff reductions for instance in the ECOWAS region (Tröster et al. 2020).

The model assessments expect the benefits from AfCFTA to come particularly from the removal of non-tariff barriers to trade. The reported welfare gains range from 1.25 % (ADB) to 2.4 % (World Bank) and intra-African trade is expected to increase by 52 % (World Bank) to 107 % (ADB) (Table 8). The variations in the results and their ratios depend on the model specifications, scenario design and, most importantly, on the underlying data on so-called ad valorem equivalents (AVEs) of NTBs.

World Bank (2020) also reports more detailed simulation results, as the initial NTB trade costs expressed as AVEs vary by country (60 % in Tanzania to ~1 % in Uganda) and by sector (37 % in manufacturing, 30 % in agriculture and 8 % in services). The income changes are expected to be the largest in Morocco (+6 %) and the smallest in Uganda (+0.8 %).

Table 8: Study results – NTB trade cost reductions

Study	NTB Scenario	Welfare in billion USD / %	Intra-African exports	Total exports	Total Imports
Vanzetti, Peters, and Knebel (2017)	25 % reduction of SPS & TBT AVEs reduction	21.0		1.8 %	
Abrego et al. (2019)	35 % reduction of NTB AVEs reduction	1.70 %	82 %		
ADB (2019)	100 % reduction of NTB AVEs*	37.0 / 1.25 %	107.0 %	44.3 %	33.8 %
World Bank (2020)	50 % reduction of NTB AVEs	2.40 %	51.85 %	18.80 %	19.60 %

* includes full tariff reductions

Source: own elaboration based on (World Bank 2020: 22, Table 3.1).

According to ADB (2019) and World Bank (2020), the most pronounced results from liberalization are expected, when the AfCFTA is combined with the trade facilitation agreement, by which trade costs could be reduced substantially. This raises overall income gains to 3.5 % (ADB) or 4.2 % (World Bank), with some countries seeing income to increase by more than 10 % (Côte d'Ivoire, Zimbabwe, Kenya, Namibia). Overall, sectoral output patterns in such a comprehensive scenario would shift towards services in all regions (ibid.). However, only North and Southern Africa would benefit from a shift to more manufacturing. All other African regions would see lower output in manufacturing, and a further concentration on natural resources and agriculture.

There are, however, several challenges that come along with the modelling of NTB trade cost reductions:

- The concept of NTBs includes a large variety of policy measures and other trade-related issues and requires a clear definition. In distinction to *'barriers'* to trade, (UNCTAD 2010: xvi) defines non-tariff *'measures'* (NTMs) as national policy measures “other than ordinary customs tariffs, that can potentially have an economic effect on trade in goods, changing quantities traded, or prices or both”. NTMs include border measures that directly alter imports and exports such as quotas or export restrictions, but also any ‘behind-the-border’ measures that pursue public policy objectives but have an impact on trade, such as safeguarding the health and safety of consumers (Hoekman/Nicita 2018: 18). While NTMs are compatible with the WTO charter, NTBs are not. Even if some policies and measures are hard to categorize as NTBs or NTMs (ADB 2019: 80), only Vanzetti et al. (2017) focus on SPS and TBT measures, while the other studies use NTBs as a broad term.
- Without a clear definition of what policy measures are addressed in the model simulations, it remains unclear how and to what extent these policy measures can be changed in practical terms (are ‘actionable’). The studies, therefore, reduce NTBs trade costs to a certain degree (from 25 % to 50 %), while only the ADB (2020) simulates a 100 % reduction as an ‘upper bound’ scenario.
- All modelling simulations treat NTBs and the underlying policy measures only with respect to trade costs, which is a general problem with standard CGE modelling approaches (Raza et al. 2016). There is, however, increasing acknowledgement that the prevalence and effects of NTMs on trade and welfare are “still not understood well” (de Melo/Shepard 2018). The diverse set of policy measures related to NTMs tend to have multiple impact

channels on public policy goals, welfare, value addition and trade flows, including welfare and trade enhancing effects. The simplifying conceptualization of NTBs as trade costs excludes important effects and does not capture the full effects of changes policy measures, for instance from harmonization of standards, to which all producers have to adjust their production processes.⁹

- In contrast to tariffs, NTBs are not given as monetary values relative to export value. Nevertheless, NTBs enter CGE models as trade costs in terms of “‘fictitious’ import tariffs, that – if real – would reduce imports by exactly the height of the NTM” (Berden/Francois 2015: 3). These NTMs trade costs, also known as ‘ad valorem equivalents’ (AVEs), express the trade effects of regulatory differences in numerical terms. There are different econometric methods to estimate such AVEs of NTMs, and all four selected studies rely on different estimates and sources. While Vanzetti et al. (2017) apply a continental SPS and TBT AVE estimation for all countries, Abrego et al. (2019) rely on UNESA data, which include transportation costs. World Bank (2020) uses NTB AVEs based on two different sources for NTBs on goods and services sectors that both include AVE data for only around 25 African countries. All studies most likely use different levels of NTB AVEs, which consequently influence the model outcomes.

As a whole, the reported positive effects from NTB removal include a high degree of uncertainty. The limits of the modelling approaches also apply with respect to the simulations of the implementation of the trade facilitation agreement (FTA), for which ADB (2019) and World Bank (2020) expect a strong boost in trade flows and income for African countries, with subsequent effects on poverty and inequality reported by World Bank (2020). The results in the selected studies should be interpreted as an upper-bound model exercise for potential positive trade and welfare effects, while abstracting from many other important aspects of NTMs and NTBs, which will influence the overall outcomes from the AfCFTA. Given the data limitation on NTMs and their AVEs for all African countries, important research gaps concerning the comprehensive effects of the existing policy measures and the potential impact from the adjustment of policies in the AfCFTA remain.

5. Challenges for the integration process

The extensive agenda of the AfCFTA integration process among African countries affects several dimensions of economic and socio-ecological development. A wide range of institutional and structural factors will determine the progress and the outcomes of the integration project. These include the regional economic communities, implementation and adjustment costs, structural transformation and industrial policies, as well as the role of the European Union and other non-African actors, amongst others.

The eight **regional economic communities** are the building blocks of the AfCFTA agreement, as every African country participates in one or more of these RECs. However, the diversity of integration levels and overlapping RECs add complexity to the liberalization process. The AfCFTA agreement is a free trade agreement for every country in addition to the RECs (Erasmus/Hartzenberg 2020). Initially, the AfCFTA liberalizes trade in goods between countries and RECs with common external tariffs that do not yet apply preferential tariff rates amongst each other, such as EAC and ECOWAS (Schmiege 2020). All countries are affected, once the liberalization efforts of the AfCFTA go beyond the level of liberalization within the RECs and when the AfCFTA covers new policy areas not yet included in the RECs. In case

⁹ The studies do not report if they model NTB trade costs similar to costs from border procedures as ‘iceberg’ costs. If so, these trade costs are defined as ‘pure friction’ without an income counterpart, which triggers ‘free’ gains from trade when NTB trade costs are reduced (Raza et al. 2016).

of inconsistencies, the AfCFTA regulations prevail, thereby pushing all countries towards a common regulatory framework, except for REC with an even higher level of liberalization (World Bank 2020). This implies that there will be different speeds of liberalization processes in the different African regions in the coming years, which depend in turn on the current level of liberalization. In particular, Western and Central African countries will experience stronger pressure to implement regulatory adjustments. This can also influence further negotiations among the AU member states, in case that these states become reluctant to support further opening.

The ambitious schedule for trade liberalization and regulatory adjustment also requires substantial efforts with respect to the **implementation and application of regulations**. For instance, tariff liberalization entails harmonization of rules of origin. Since African countries will not have common external tariffs against imports from the RoW and the approaches to rules of origin differ in the single RECs (Gourdon et al. 2020), AfCFTA rules of origin have to establish the country of origin in order to benefit from preferential access in intra-African trade (UNCTAD 2019). Controversies in the negotiations emerged about the type of rules of origin, with higher-income African countries calling for product-specific rules that would be more restrictive and favour countries with more advanced industrial sectors (ADB 2019). Negotiations on the final rules of origin have not been fully completed by the end of 2020, but countries that ratified the agreement appeared to have agreed on the rules of origin on 81 % of tariff lines (Kuwonu 2021).

Further implementation challenges emerge with the actual removal of tariffs in the single countries. Even though impact studies assume few burdens from tariff reductions on public revenues in most countries (see section 4), many low-income countries are typically slow to phase-out tariffs due to concerns over revenue loss and import competition. For instance, Malawi has only liberalized 70 % of its trade with SADC partners, despite the commitment to remove them fully (Ndonga et al. 2020). Besides border measures, also national regulations have to be adjusted, for instance, SPS and TBT regulations, which should be developed and harmonized based on international standards (AfCFTA Annex 7) (African Union 2019). The agreement defines commitments to monitor and report the implementation of the different protocols on trade in goods and establishes various committees to manage the process, but further mechanisms to foster and support implementation might be necessary (Apiko et al. 2020). In particular, countries with weaker administrative and financial capacities might face burdens from the implementation of more enhanced regulatory frameworks, but also with respect to the use of the special and differential treatment clauses of the AfCFTA (Schmieg 2020; Sommer/MacLeod 2019).

While the implementation of new regulations is a necessary factor to increase intra-African trade, the overall effects remain uncertain and they depend on the **adjustment costs** that typically accompany integration processes. These transitional effects on public revenues, vulnerable groups, employment or sectoral economic structure are often sidelined, as impact studies focus on the potential output and welfare gains in the long-run. Nevertheless, adjustment costs are important determinants for the political economy considerations that hinder negotiation and implementation processes. Adjustment costs affect the public sector as well as private actors. Besides the decline in public revenues from the removal of tariffs, the public sector requires higher expenditures to set-up and develop institutions and the necessary capacities, reform existing laws and for policies to protect vulnerable groups from negative consequences (Luke 2019; Saygili et al. 2018; World Bank 2020). Additional funds are needed to invest in complementary policies for infrastructure and industrial development, as discussed below (Apiko et al. 2020).¹⁰ In the private sector, the sectoral changes due to trade liberalization cause lower wages and underutilized capital in declining sectors,

¹⁰ So far, the Afreximbank has created a USD 1 billion adjustment facility to counteract tariff revenue losses (Afreximbank 2019)

(temporal) unemployment and additional costs for upgrading and development of skills among workers (Saygili et al. 2018). Further, the costs for companies to adapt to new SPS and TBT regulations typically burden smaller and less productive companies, reduces their exports or eventually forces their exit from production, if they cannot comply with higher standards (de Melo/Shepard 2018). This is particularly relevant for the African context, as the firm structure is dominated by small and medium enterprises (ADB 2019). Such changes in the sectoral and firm structure influence inequalities within and between African nations (Obeng-Odoom 2020).

Understanding economic development as a process of **structural transformation** from low into high productivity economic activities in agriculture, manufacturing and services (McMillan et al. 2016; Whitfield/Buur 2014), structural constraints in African development such as the high dependence on raw material production and exports and low shares of manufacturing sectors in value-added need to be addressed (see section 3). Generally, AfCFTA is presented as a rules-based regime that could promote such sectoral diversification, regional value chains and industrialization based on the benefits of a larger, integrated market that creates economies of scale and promotes competitiveness (ADB 2019; World Bank 2020).¹¹ The role of **industrial policies** in the AfCFTA context is however discussed to a very limited extent, even though there is increasing acknowledgement that structural transformation requires ‘concerted state interventions’ (Whitfield/Buur 2014: 126). Thus, trade liberalization alone is arguably insufficient to address the lack of industrial capabilities (Oqubay 2019; Woolfrey/Byiers 2019). Moreover, trade policies are an essential part of industrial policies, for instance by creating space for local firms to increase productivity by temporary protection from international competition (Odijie 2019), but trade agreements can also restrict policy space. This implies that there are important interrelations between AfCFTA and national and regional industrial policies. AfCFTA has, however, no programme to coordinate industrial policies among the member states and regions. For instance, lists of sensitive and exempted products were not coordinated to avoid mutual protection against each other. Similarly, national and regional industrial policies might target the same sectors. Thus, Odijie (2019) recommends stronger coordination of individual industrialization approaches, negotiations on the division of labour among African countries and regions to create regional value chains and a specific focus on the ability of low-income countries to participate in industrial strategies.

Finally, public and private non-African actors determine the challenges and the potential benefits of AfCFTA, with the **European Union** being a key partner in trade, investment and development cooperation for African countries. The EU and its member states are supporting the AfCFTA negotiation process and regulatory adjustments directly, for instance through the EU strategy “Towards a Comprehensive Strategy with Africa” (Kappel 2016) (formerly known as African-Europe Alliance for Sustainable Investment and Jobs (Berger et al. 2020)) or via technical support from EU member states’ development agencies. For a long time, the EU has also been involved in programmes to develop institutional capacities for regulatory adjustment in SPS and other trade-related policy measures in African countries, which are now key issues for AfCFTA (Molnar/Godefroy 2020). Given the ambitious efforts for continental integration in Africa, the EU-Africa Partnership was strengthened on a continental level in particular at the 5th AU-EU summit in 2017, which also included the mobilization of private and public investment for infrastructure and structural sustainable transformation in Africa (The African-EU Partnership 2020).

African countries and the EU currently trade under a large variety of trade arrangements, which interact with the AfCFTA agreement through multiple channels¹². These EU trade arrangements include the Economic Partnership Agreements with African Regions,

¹¹ The World Bank (2020) impact assessment on AfCFTA shows, however, that all African regions except Northern Africa face declining output in manufacturing sectors.

¹² Interactions can also be expected with trade agreements with other non-African trade partners such as the US AGOA agreement.

Association Agreements with Northern African countries and preferential trade regimes, such as the EU's Generalized Scheme of Preferences (GSP), the GSP+ and the Everything But Arms (EBA) arrangement (Berger et al. 2020). By the end of 2020, most EPA agreements are still in limbo, with some EPAs being applied on a provisional basis, such as the ones with SADC, ESA, and the interim EPAs with selected countries (Cameroon, Côte d'Ivoire, Ghana), while other EPAs still await ratification by African regions (ECOWAS, EAC) (European Commission 2020).

Given that AfCFTA is an agreement among the African countries and regions without a common external tariff system, the differences with respect to market access and the scope of the different agreements with the EU remain. The EPAs include a regional integration clause to avoid adverse effects from differences in the country aggregation of RECs and EPA regions (Schmiege 2020),¹³ and they offer preferential rules of origin for African products that allow for cumulation of inputs and processing between EPA regions if fully applied (Grumiller et al. 2018). On the other side, the diverging import tariff schemes and phase-out periods for imports from the EU among different EPA regions complicates intra-African trade particularly with respect to products for further processing and requires effective control of rules of origin in intra-African trade. The MFN clauses in the EPAs implies that the EU would also enjoy tariff reductions, if intra-African tariffs would be lower than tariff on EU products (ibid.), and the EPA infant industry clauses differ from special and differential treatment clauses of the AfCFTA (Sommer/MacLeod 2019). The tariff removal on EU imports further affects public revenues simultaneously to intra-African tariff removals (Tröster et al. 2020). Moreover, the EU is currently negotiating deep and comprehensive trade agreements with Northern African countries, which include the regulatory approximation of national legislations in these countries to EU regulatory standards in order to promote better economic integration with the EU single market. These efforts potentially widen the regulatory gaps between African regions, even though AfCFTA aims to close these gaps to generate more intra-African trade and integration.

Given these complex, and potentially adverse, interactions between the AfCFTA and the diverse EU trade arrangements, Luke et al. (2020) call for a better sequencing of trade liberalization, with priority given to intra-African integration, before liberalization with the EU will take place. As the ratification and application of the EPAs are still pending for several African countries, this could also be a new entry point for negotiations with the EU and the reviews of applied EPAs, respectively.

6. Conclusions

The process of intra-African integration has gained momentum with the agreement to establish the African Continental Free Trade Area in 2018, which is now signed by almost all African countries. The start of trading under the new agreement on 1st of January 2021 is a further step in this process, but it is only one out of many to come until a continental African customs union can emerge. The continental integration process follows an extensive agenda that will take time and will affect the economic and socio-ecological development in African countries in multiple ways.

Even though the removal of tariffs is foreseen for 90 % of intra-African trade, the economic effects are expected to be limited due to the relatively low level of tariffs and the low share of intra-African trade in total African trade. Existing impact assessments expect the main effects

¹³ The regional integration clause ensures that tariffs for EU imports also apply for non-EPA countries in the same REC, which potentially lowers tariff protections within the REC.

coming from the reduction of 'non-tariff barriers' and their associated trade costs, which would double intra-African trade. However, a detailed analysis of the modeling approaches of non-tariff barriers in selected impact assessments reveals that the reported effects come with large uncertainties, due to the vague definitions of NTBs and severe data limitations. The necessary regulatory adjustments in the single countries due to regulatory adjustment will, however, have complex economic and social effects, which are typically not taken into account in the impact assessment.

The overall impact of the AfCFTA, therefore, depends on a wide range of institutional and structural factors, including the role of regional economic communities as well as implementation and adjustment costs. A key challenge will be to overcome the dominance of raw materials in African trade and the simultaneous weakness in manufactured goods, which is clearly reflected in current patterns in intra- and extra-African trade. This requires the coordinated use of industrial policies, as the rules-based trade regime of the AfCFTA will not be sufficient to promote industrialization. These efforts should also be supported strongly by non-African actors, including by the EU. This will involve political, technical and financial support as well as the re-assessment of the complex, if not contradictory interactions between EU trade arrangements with African countries and the AfCFTA process. This is even more relevant in the context of geopolitical changes in the relations of Africa with the USA and China (Kappel 2020).

When taking into account unresolved issues on trade in service, agricultural, food security or infrastructure development not covered in this analysis, the complexity of the integration process is further highlighted. Therefore, the positive contribution of the AfCFTA to the African Union Agenda 2063 should not be taken for granted. It will crucially depend on whether policy-makers both in Africa and the EU implement the appropriate policies needed to overcome the limitations and challenges of the integration process.

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