



### AFRICAN CONTINENTAL FREE TRADE AREA: HARBINGER FOR TRADE

By  
**Areeba Arif Khan**  
Research Associate

*Centre for Afghanistan, Middle East & Africa (CMEA), ISSI*

Edited by  
**Amina Khan**

April 21, 2021

*(Views expressed in the brief are those of the author, and do not represent those of ISSI)*



In January 2021, the African Union launched the African Continental Free Trade Area (AfCFTA) which is one of the largest free trade areas in the world with a combined market of 1.2 billion people across 55 countries.<sup>1</sup> AfCFTA is an important milestone in the history of Africa as it provides the region with an enormous opportunity to strengthen its position in the global trading system. AfCFTA will help create the largest single market for goods and services and at the same time boost intra-Africa trade by reducing the tariffs by 90 percent.<sup>2</sup> AfCFTA is expected to enhance intra-Africa trade by 52.3 percent by 2022<sup>3</sup> as well as attract worldwide investment.

#### What AfCFTA entails

The AfCFTA comes with the objectives of enhancing liberalizing free trade in the region, achieving socio-economic, industrial and agricultural development as well as to address the issues related to Africa's food insecurity. It will also introduce digital payments, which is much-needed initiative at this stage to increase inter-continental trade.

<sup>1</sup> "The African Continental Free Trade Area." World Bank. Accessed March 30, 2021.  
<https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area>

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

Previously, despite regional proximity, internal trade in Africa amounted to just 2% (2015-2017).<sup>4</sup> According to United Nations Conference on Trade and Development (UNCTAD) estimates, the agreement if fully implemented could increase the GDP of most African countries by 1% to 3% once all tariffs are eliminated.<sup>5</sup> The agreement will also open the economies of less developed states such as Chad and Sierra Leone, to gain Foreign Direct Investment (FDI), enabling economic growth. By granting each other preferential trade status AfCFTA member countries would trade more intermediate and final goods among themselves rather than importing them from abroad.

The AfCFTA is designed to be an umbrella pact with 8 pre-existing economic blocs under it. The AfCFTA will, through negotiations, curb the trade barriers between these blocs to allow ease of business between states of different blocs with the eventual realization of an African Union. In Africa, the move has been applauded by the private sector and the banking sector alike. Benedict Oramah President of the African Export-Import Bank (AFREXIMBANK) also expressed readiness to support the implementation through the Pan-African Payments and Settlements System (PAPSS).<sup>6</sup> The agreement is a multi-stage process, currently in its first phase that will be wrapped up in 2023. The first phase covers goods and services trade and aim to finalize trade tariffs schedules and rules of origin. Phase 2 will focus on negotiations on developing protocols on investment, competition policy, and intellectual property rights (IPR). Phase 3 will involve the negotiation of an e-commerce protocol.<sup>7</sup>

## Challenges

The AfCFTA despite being very promising for the continent's prosperity is faced with numerous challenges. Lengthy negotiations will be needed to take it through its evolution process. Two main roadblocks in the way of the agreement meeting its goals are: defining easy and flexible Rules of Origin (RoO) for African products and navigating the different frameworks of the various economic

---

<sup>4</sup> "African International Trade." International Trade. Accessed March 30, 2021. <https://africainternationaltrade.com/>

<sup>5</sup> "AfCFTA Support Programme to Eliminate Non-tariff Barriers, Increase Regulatory Transparency and Promote Industrial Diversification." UNCTAD. Accessed March 30, 2021. <https://unctad.org/project/afcfta-support-programme-eliminate-non-tariff-barriers-increase-regulatory-transparency-and>

<sup>6</sup> "African Export-Import Bank and AfCFTA Call on President of the Republic of Ghana H.E. Nana Akufo-Addo on the Pan-African Payments and Settlements System (PAPSS)." African Export-Import Bank. March 05, 2021. Accessed March 30, 2021. <https://www.afreximbank.com/african-export-import-bank-and-afcfta-call-on-president-of-the-republic-of-ghana-h-e-nana-akufo-addo-on-the-pan-african-payments-and-settlements-system-papss/>

<sup>7</sup> "African International Trade." International Trade. Accessed March 30, 2021. <https://africainternationaltrade.com/>

blocs that come under the AfCFTA.<sup>8</sup> The UNCTAD has considered the RoO imperative for regional economic integration. These rules will define what 'Made in Africa' means for the free trade provisions for African goods. If not set out properly, it will permit foreign investors to set up shop, make a minimal commitment to the economy and then benefit from the AfCFTA to export duty-free to other African countries.<sup>9</sup>

Apart from this, another issue is handling the economic partnership agreements of states like Kenya with the United States or the European Union.<sup>10</sup> Basic requirements must be met on the ground level to enable an economic activity across the continent. These include securing the region from terrorism and unrest, eradicating corruption and excessive border bureaucracy, investing in rail and road networks, investing in the production of value-added goods as well as human resource to fuel economic development.

Moreover, political will by all existing Regional Economic Communities (REC's) is required for long term continental economic integration. The AfCFTA covers countries from a wide spectrum of economic development. Giving preferential treatment in policymaking to states lagging far behind the rest of the continent will be needed. For example, RoO should take into account the level of productive capacities of these countries which struggle to make use of preferential tariffs, let alone implement demanding origin requirements. An external factor that may make free trade less effective can be an influx of cheap Chinese good. However, China has promised financial and capacity-building support and its investments in building relevant infrastructure are expected.<sup>11</sup>

### **What does it mean for Pakistan?**

The AfCFTA agreement comes in tandem with Pakistan's 'Look Africa Initiative'. Pakistan aims to boost its trade with Africa more than two-fold by 2025 and is already in touch South Africa Customs Union (SACU), Economic Community of West African States (ECOWAS) and East African Community (EAC) to negotiate trade agreements. Under this policy, African countries prioritized for trade

---

<sup>8</sup> Written by Joe Bavier, Writer. "African Free Trade Bloc Opens for Business, but Challenges Remain." World Economic Forum. Accessed March 30, 2021.

<https://www.weforum.org/agenda/2021/01/african-free-trade-bloc-business-challenges>

<sup>9</sup> Written by Joe Bavier, Writer. "African Free Trade Bloc Opens for Business, but Challenges Remain." World Economic Forum. Accessed March 30, 2021. <https://www.weforum.org/agenda/2021/01/african-free-trade-bloc-business-challenges>

<sup>10</sup> "European Commission Directorate-General for Trade." Economic Partnerships - Trade - European Commission. Accessed March 30, 2021.

<https://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/>

<sup>11</sup> Sun, Yun. "China's 2018 Financial Commitments to Africa: Adjustment and Recalibration." Brookings. September 05, 2018. Accessed March 30, 2021. <https://www.brookings.edu/blog/africa-in-focus/2018/09/05/chinas-2018-financial-commitments-to-africa-adjustment-and-recalibration/>

promotion are; Nigeria, Kenya, South Africa, Morocco, Senegal, Algeria, Egypt, Sudan, Tanzania, and Ethiopia being the top ten Economies of Africa. Commercial sections have been established in these countries to facilitate business across the whole continent.<sup>12</sup> These ten countries comprise 78% of the total GDP of Africa as of 2017-18. Ongoing efforts enabled Pakistan's trade with African countries to touch US\$4.18 billion in 2019-20, signifying an increase by seven percent as compared to the previous year (US\$1.38 billion) despite the challenges posed by the pandemic.<sup>13</sup>

Africa has some of the fastest rising economies in the world, including Ethiopia, Rwanda, Côte d'Ivoire, Senegal, Benin, Uganda & Kenya. They provide an untapped market for Pakistan's exports of Pharmaceuticals, Surgical goods and Light Engineering and Electronic products including Tractors and Agricultural implements, two and three-wheelers, Commercial and Domestic Fans, Water pumps, and Electrical Machinery and equipment. Pakistan can also export its agricultural produce, IT services and cement and construction services. By improving trade ties with African countries and using AfCFTA as a harbinger Pakistan can achieve its goal to advance foreign relations through economic diplomacy.

---

<sup>12</sup> Correspondent, Our. "Pakistan Aims to Double Trade with Africa in Five Years." *Thenews*. January 31, 2020. Accessed March 30, 2021.

<https://www.thenews.com.pk/print/606477-pakistan-aims-to-double-trade-with-africa-in-five-years>

<sup>13</sup> Ibid.