Common Market for
Eastern and Southern Africa

AfCFTA: A Stimulant to Intra- COMESA Trade

Special Report

Benedict Musengele
Senior Research Fellow
COMESA Secretariat

This paper explores how the AfCFTA will eliminate and resolve some of the challenges associated with multiple and overlapping membership in COMESA; stimulate cooperation in other areas such as technology transfer, innovation, investment and continent- wide infrastructure development; and, open new markets for several COMESA owned companies as well as allow expansion through investing in other African countries.

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Introduction

The establishment of the Africa Continental Free Trade Area (AfCFTA) is one of the 15-flagship projects identified by the African Union (AU) and adopted by the Assembly of Heads of State and Government that contribute towards the realization of the AU Agenda 2063. The AfCFTA brings together 55 AU Member States with a total population of about 1.3 Billion and a combined GDP of about US$ 3.4 Trillion. The Economic Commission for Africa (UNECA) estimates that the AfCFTA has the potential to boost intra-African trade by 52.3 percent through tariff liberalization and this trade could be doubled with the reduction of non-tariff barriers.

The AfCFTA is being negotiated in two phases with trade in goods and services and dispute settlement being negotiated in Phase I while Phase II negotiations focuses on investment, competition policy and intellectual property rights. Much of the work on Phase I of the negotiations have been concluded, save for a few outstanding issues on tariff liberalization and rules of origin. The trade in services negotiations have also began in earnest in which business, communication, financial, tourism and travel, and transport services sectors have been prioritized for liberalization.

COMESA is involved in championing the AfCFTA integration agenda as part of its role as a building bloc of the continental agenda, as well as fostering implementation of its programmes and activities at Member State levels. As a regional economic community (REC), it has and continues to play a big role in the development and negotiations of various instruments for the AfCFTA. Thus the Continental Task Force, comprising experts from the eight RECs that are recognized by the African Union, have played a key role in the development of various AfCFTA instruments and guiding on-negotiations. It is in such a spirit that the instruments developed under the COMESA, East African Community (EAC) and Southern African Development Community (SADC) Tripartite were used to fast-track the development and negotiation of similar instruments under the AfCFTA.

The African Union Commission (AUC), the AfCFTA Secretariat and RECs are currently in the process of developing a collaborative framework to facilitate implementation of the continental free trade area. It is expected that this will facilitate the smooth implementation of the AfCFTA by the parties and the

Member States. The RECs are expected to be the key implementing agencies of the AfCFTA and therefore COMESA remains a key pillar for the AfCFTA implementation.

Reports indicate that the African Union (its 55 Member States) accounts for around 3% of world's trade in goods. Strengthening intra African trade is very important for the economic development and integration of the continent. However, the share of intra African trade remains low: on average 13% for intra-imports and 20% for intra exports over the period 2013-2019. The value of total intra African exports decreased, and the share of intra-exports increased slightly (from 18.2% in 2013 to 19.6% in 2019). Extra African trade makes up more than 80% of the total trade. The major player in intra African trade is South Africa, whose share in intra exports varies from 26 to 31% over the period 2013-2019 and is followed by Nigeria (13.9%) and Democratic Republic of Congo (7%). South Africa is a leader for intra imports (14%) as well, followed by Namibia (7%) and Botswana (6%).

The major product group in African imports and exports is mineral fuels and mineral oils (HS 27), however these products are more significant in exports: the share of mineral oils in exports in 2013 reached 53% of total exports and decreased to 40% in 2019. Therefore, export of mineral products has a high impact on African economy. Although most African exports goes outside the continent, the global product structure for extra and intra exports is similar: the dominant product groups are mineral fuels and oils (HS27) accounting for 44% for extra exports and 20% for intra exports in 2019. For imports, mineral fuels, and mineral oils (HS27) accounted for 15% in 2019 and the majority of it was imported from extra AU countries. For the period concerned, China remains by far the major African Union's trading partner accounting in 2019, 16% of extra African exports and 19% of extra African imports. The value of goods imported from India, United States of America (USA) and France makes up approximately 6% for each. The largest destination markets for AU goods after China are India (8% of extra African exports in 2019), Spain and France (7%), Italy and United States accounting around 6% each for 2019.

Overview of Intra-COMESA Trade and the ACFTA

COMESA was established in 1981 as a preferential trade area and transformed to a common market in 1994. It has a membership of 21 countries spanning the southern, east, central, and northern Africa with a population of 583 million, an area of 11.8 million KM2 and a combined GDP of USD 805 billion as per 2019 estimates. This makes it the second largest regional economic community in Africa after the AfCFTA constituting more than a third of Africa's GDP as well as geographical size and population.

The COMESA Free Trade Area (FTA) was established on 31 October 2000 after a sixteen-year period of progressive trade liberalization through reduction of intra-COMESA tariffs. Sixteen Member States namely: Burundi, Comoros, Djibouti, Egypt, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Tunisia, Uganda, Zambia, and Zimbabwe are currently participating in the FTA. Eswatini is under derogation pending the implementation of the Tripartite Free Trade Area (TFTA). Intra-COMESA exports have grown from US$1.5 billion in 2000 to US$ 10.9 billion in 2019. Though the growth is remarkable, on average terms, the annual trade has been 7 percent of the total trade implying that 93 percent of the trade is with non-COMESA Member States.

The African Continental Free Trade Area (AfCFTA) agreement which entered into force on 30 May 2019 following attainment of the required 22 ratifications and whose trading commenced on 1st January 2021 is going to be a game changer in intra-COMESA trade. The AfCFTA aims to create a single market for goods and services, facilitate the movement of persons, promote industrial development, and sustainable and inclusive socio-economic growth on the continent. All the 55 AU members except Eritrea, have signed the AfCFTA Agreement and 37 have ratified the agreement. Out of these, 36 countries have ratified the agreement and deposited their instruments of ratification. Among those who have ratified, 12 are COMESA Member States namely: Kenya, Rwanda, Djibouti, Eswatini, Uganda, Egypt, Ethiopia, Zimbabwe, Tunisia, Mauritius, Malawi, and Zambia. COMESA non-FTA Member States, Eswatini and Ethiopia have ratified the AfCFTA agreement and are extending preferential tariff treatment to other State Parties including COMESA Member States. This implies a wider and larger market for COMESA Member States.

Given the ratification impetus in the continent, most of the remaining COMESA Member States are at advanced stages of national consultations with a view of ratifying the AfCFTA agreement which they have already signed. Hence in the short run, they will commence implementation of the AfCFTA agreement. Although the AfCFTA tariff liberalization ambition is 90 percent which is less than the COMESA 100 percent liberalization, it is expected to constitute more of the commonly traded products within the continent. For COMESA Member States, article 5 of the agreement among other principles provides for the RECs FTAs to be the building blocs for the AfCFTA and reciprocity hence preserves the principle of the acquis, meaning that the COMESA Member States will continue extending 100 percent preferential tariff treatment to other Member States on reciprocity basis. This leads to further enhancement of intra-COMESA trade by more non-FTA Member States coming on board.

The AfCFTA provides a platform to harmonize integration policies for the existing RECs FTAs. The successful implementation of the AfCFTA would therefore depend significantly on how smooth or otherwise, it is interfaced with pre-existing RECs FTA's and related instruments. Article 19 of the AfCFTA, provides that RECs which have achieved among themselves higher levels of regional integration, are to retain their levels of deeper integration.

Like is the case for the EU-Africa trade, COMESA's leading export market is EU which in 2019 accounted for a market share of 36%. COMESA was the second largest market accounting for 10%, United Arab Emirates was third with 7%, the South African market share was the fourth and largest in Africa accounting for 7% and China market share was 6%.The USA accounted for 4 percent while Saudi Arabia, Turkey and India market shares were at 2 percent each, Switzerland was 1 percent and the rest of the World accounted for 19 percent.

On the import side, the EU in 2019 remained COMESA's largest import destination accounting for 25 percent, followed by China at 15 percent, India, COMESA and USA each accounted for 5 percent, UAE, Saudi Arabia, South Africa and Turkey each accounted for 4 percent, Russia 3 percent and the rest of the World 24 percent.

COMESA's major export products to the EU like the rest of Africa were crude petroleum, refined petroleum, natural gas and electric conductors. The imports included industrial machinery, road vehicles, chemicals, including pharmaceuticals, food and live animals, manufactured goods, and mineral fuels. This shows that the AfCFTA has the potential to reduce imports from EU and increase intra-REC and African trade by opening more African markets through improving infrastructure connectivity, creating larger market which will enhance competitiveness, increase value addition and productivity. This combined with enhanced trade promotion and market information sharing will increase intra-COMESA and African trade. The leading imports from EU such as food and live animals are readily available in COMESA and the region has huge potential to produce manufactured goods and pharmaceuticals.

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

COMESA trades with most of the recognized RECs except ECOWAS which could be explained by the geographical location as well as connectivity between the two regions. However it's important to note that 4 out of the 6 EAC Partner States are members of COMESA. All members of IGAD apart from South Sudan are members of COMESA and majority implements the COMESA trade regime, 2 out of the 5 Arab Maghreb Union are members of COMESA, 8 out the 15 SADC members are members of COMESA and 3 out of the 11 ECCAS countries are members of COMESA. This multiple membership shows that the intra-COMESA trade constitutes trade with countries from the other 6 RECS. The AfCFTA will therefore through the improved infrastructure connectivity open the ECOWAS and the COMESA region for inter-REC trade. This has the potential to reduce the heavy imports from Europe for both RECs for they can import the readily available products at the AfCFTA preferential rates.

The AfCFTA through the duty-free access to the huge market will encourage manufacturers and service providers to increase production to serve the enlarged market. Given that most of the trade in Africa takes place among neighbouring countries, this will lead to enhanced production and trade among neighbouring COMESA Member States. In addition, other economies will transform themselves into distribution hubs to optimize on the demand created by the expanded market. Producers in the COMESA region will benefit from the economies of scale and access cheaper inputs from the larger continental free trade area. COMESA has the most flexible rules of origin among the RECs, hence it would be easier for manufacturers to import inputs from across the continent, add value and export within the COMESA region using the 35 percent value addition rule or raw materials imported from outside the region not exceeding 60 percent of the final product ex-work price rule.

A recent survey jointly carried out by the Africa Trade Policy Centre (ATPC) of UNECA and International Economics Consulting Ltd. (IEC) on the impact of COVID-19 business and trade across Africa, substantiates the ability of African firms to adapt and innovate in response to COVID-19 challenges, including global supply chain disruptions. The leading objective of the AfCFTA is to ‘stimulate production through the development of regional value chains, as well as ensuring that manufacturing, agro-processing and other activities across the continent are stimulated to supply the market. The AfCFTA therefore offers an opportunity for the continent to recommit itself to industrial development, in a way that will reduce its high trade dependence on non-African partners, and to position itself more strongly in the face of future global shocks. The AfCFTA will stimulate the formation of regional value chains to ease production and supply to the enlarged market. COMESA Member States producers will therefore easily join the regional value chains such as the leather and leather products, textile, wood and paper, agro-foods such as milk and dairy products, sugar, beverages, vegetables, fruit, nuts and rice which will enhance their production efficiencies and increase their profit margins. Consequently, they will be able to integrate in the global value chains. This requires the respective governments to improve on the conditions for formation of regional value chains and integration into the global value chains.

Recent estimates by United Nations Economic Commission for Africa (UNECA), suggest that by 2040, the AfCFTA could increase the annual value of agricultural and food exports by US$16.8 billion, energy and mining exports by US$9 billion, and industrial exports by US$43.3 billion. The largest percentage increases of over 25% in intra-African exports will be in industrial sectors (textile, wearing apparel, leather, wood and paper, vehicle and transport, agro-foods such as milk and dairy products, sugar, beverages, vegetables, fruit, nuts and rice). The AfCFTA provides COMESA countries opportunities to position or reposition themselves on critical nodes of leather and leather products, textiles, wood and paper and agro-foods regional value chains for both goods and services. This is attributed to their comparative and competitive advantage in the sectors, which will play a critical role in boosting intra-African trade.

With average tariffs of 6.1 per cent, businesses before formation of the AfCFTA faced higher tariffs when exporting within Africa than when exporting outside. AfCFTA will progressively eliminate tariffs on intra-African trade, making it easier for African businesses to trade within the continent and benefit from the growing African market. Consolidating this continent into one trade area provides great opportunities for trading enterprises, businesses and consumers across Africa and the chance to support sustainable development. By reducing tariffs, the AfCFTA will make it more affordable for informal traders to operate through formal channels, which offer more protection. This can be further enhanced by introducing a Continental Simplified Trade Regime (CSTR), since cross-border traders operating under such a regime would no longer be trading informally. The COMESA Simplified Trade Regime (STR) could be used as a model for establishing the continental STR. The STR is currently operational only in COMESA and EAC. The STR implementation coupled with creation of trade information desks at the various borders will ease small-scale cross border trade and enhance their AfCFTA preference utilization. The AfCFTA will also help to address some of the key challenges to informal cross border trade, since it has established an online NTB mechanism to monitor, report, and resolve NTBs under the AfCFTA, which was only available at COMESA, EAC and SADC Tripartite. All these initiatives will lead to increased cross border trade not only at the continental level but also at the REC level.

In addition, the AfCFTA will catalyse the structural transformation of the countries from resource and low technology-based economies to more diversified knowledge-based economies. The enlarged market and competition will lead to innovative thinking by both the firms and the policy makers to focus more on industrialization, the transformation of agriculture and the economy. This will lead to development of manufacturing which is essential for African countries to increase the production of value-added products, expand exports of such products, and reduce their trade imbalances. This approach will improve economic diversification, which accelerates structural transformation. However, developing productive capacity requires both massive and new investments, a supportive industrial ecosystem, and skill acquisition in an intensely competitive environment. The associated increased infrastructural investment to improve connectivity in the continent will open up new markets, enhance intra-regional and continental trade as well as create opportunities for trade in services which will consequently support structural transformation.

The AfCFTA will also eliminate and resolve some of the challenges associated with multiple and overlapping membership in COMESA; stimulate cooperation in other areas such as technology transfer, innovation, investment and continent- wide infrastructure development; and, open new markets for several COMESA owned companies as well as allow expansion through investing in other African countries.

Ultimately, the AfCFTA is expected to boost intra-COMESA trade, promote industrialization, create jobs, value addition, improve competitiveness of COMESA industries on the continental and global stage as well as improve livelihoods of the COMESA people.

AfCFTA Challenges and Constraints

Despite the potentials, there exists challenges and constraints to be surmounted facing the continental integration. Trading under AfCFTA which was expected to commence on 1st July 2020 started on 1st January 2021 due to the ongoing COVID-19 pandemic. The pandemic delayed the conclusion of the negotiations on outstanding issues, especially on tariff liberalization, Rules of Origin and trade in services which are key components of the AfCFTA. Countries that have ratified the AfCFTA agreement have agreed on the Rules of Origin on over 81 per cent of tariff lines. These goods form part of the initial trading, while negotiations on the remaining 20 per cent are ongoing and are expected to be concluded by July 2021.There are transportation and logistical challenges on the African continent which affects the movement of people and traded goods across the continent. While the removal of tariffs and trade barriers will make an impact on intra-Africa trade, there is need to address the high costs of transporting goods within the continent as these may end up outweighing the potential benefits of the AfCFTA trade regime. In this regard, there is need to improve the road networks within the individual countries and across the borders. Delays and slow process of submission of tariff offers and draft offers on trade in services will affect implementation of the AfCFTA because services plays a critical role in goods trade.

The AfCFTA is also constrained by infrastructure deficits and the fragmentation of supply chains. Currently, African countries are not sufficiently investing in connectivity and infrastructure, which significantly hampers regional trade. To reverse this pattern, a massive and strategic investment in connectivity and infrastructure is essential. The harmonization of regulations related to different sectors (such as pharmaceutical products) and sub-regional blocs is needed to foster trade and a conducive business climate.

Proposed Interventions

To enhance the benefits from the AfCFTA, COMESA Member States could consider the following:

1. Develop national AfCFTA implementation strategies of identified priority sectors and

export countries;

2. Align the identified priority sectors to existing strategies including their broader Development Plans/Visions, the National Trade Policy and National Industrial Policy;
3. Consider the following cross cutting issues in the National Strategy:
   a) Enhancing the role of Private Sector in trade policy issues;
   b) Supporting Integration of MSMEs into value chains;
   c) Supporting Informal Cross-Border Trade Activities; and
   d) Encouraging Inclusivity and gender
4. Conduct nationwide sensitization of the benefits and opportunities occasioned by the AfCFTA;
5. Enhance budget allocations on infrastructure development especially those with regional connectivity impact;
6. Establish clear coordination structures between various regulatory agencies, implementing agencies and the private sector; and
7. Establishing a clear Monitoring and Evaluation Framework for the AfCFTA

The COMESA Secretariat should consider undertaking the following:

1. Integrate the AfCFTA in their Medium-Term Strategic Plan since it is in line with its vision as enshrined in the Treaty;
2. Undertake analytical studies to identify sectors in which the region has a comparative and competitive advantage and include them in their industrial strategy and policy;
3. Sensitize the Member States on the critical role the AfCFTA can play in enhancing intra-COMESA trade;
4. Complement the AfCFTA by being its implementing agent in areas where it has existing instruments as well as comparative advantage; and
5. Develop an ACFTA implementation strategy

COMESA SECRETARIAT
COMESA Center
Ben Bella Road
P.O. Box 30051

+260 211 229 725

www.comesa.int

info@comesa.int

facebook.com/COMESA/

@twitter.com/comesa_lusaka