

Takeaways from the expected impact of AfCFTA's implementation*

AfCFTA's transformative potential for Africa

Expected **benefits** from the AfCFTA reform will **not be automatic**.



*Source: Assessment of the economic implications of the AfCFTA's implementation carried out by the United Nations Economic Commission for Africa (ECA) and the Centre for International Research and Economic Modelling (CIREM) of the Centre d'Etudes Prospectives et d'Information Internationales (CEPII), July 2021.

The active engagement of the private sector and development partners to support the AfCFTA's successful implementation is vital.

A transformed and growing Africa with a more robust, attractive and predictable market is certainly in the interest of all parties within and outside the Continent.

ALL COUNTRIES MUST:

- **Ratify the Agreement**
- Accelerate their efforts towards implementation strategies with clear action plans

It is only when the rules of origin, schedules of tariff concessions and schedules of services commitments have been officially finalized that State Parties will effectively be able to trade under the agreed preferential terms.

The AfCFTA's economic benefits are largely centered on intra-African trade

The AfCFTA is expected to have positive impact on Africa's global GDP, trade, output and welfare with benefits largely concentrated in intra-African trade

Intra-African trade creation would also lead to an improvement in Africa's output.

Percentage change in intra-African trade, by main sectors with AfCFTA implemented in 2045 as compared to baseline (i.e. without AfCFTA)

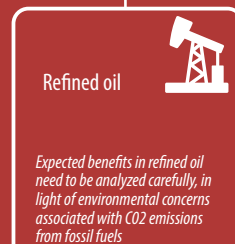
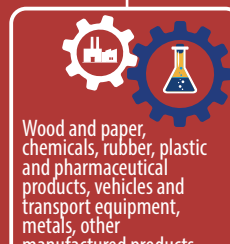
41.1%
Agrifood

39.2%
Services

39.0%
Industry

16.1%
Energy/Mining

At sub-sectoral level, the most notable increases in intra-African trade, with positive output variations are to be found in:

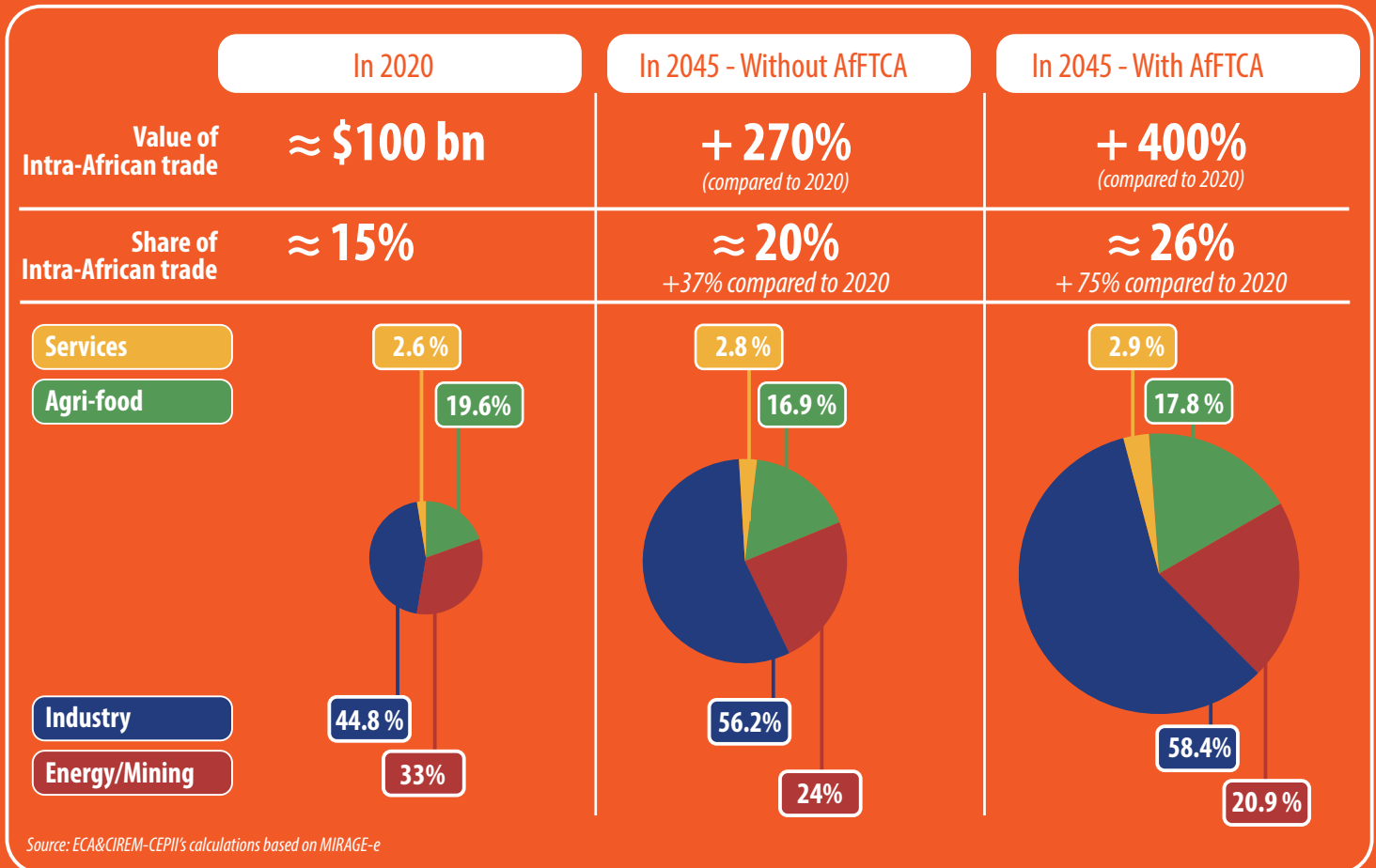


A game changer for Africa's internal and external trade relations

The AfCFTA provides an unprecedented opportunity for Africa's transformation, competitiveness and development.

The increases in relative terms for agrifood, industry and services will not lead to equal increases in absolute terms, because intra-African trade is currently dominated by industry.

Effective implementation of the AfCFTA would therefore not only boost intra-African trade but also help Africa industrialize and diversify away from energy and mining.

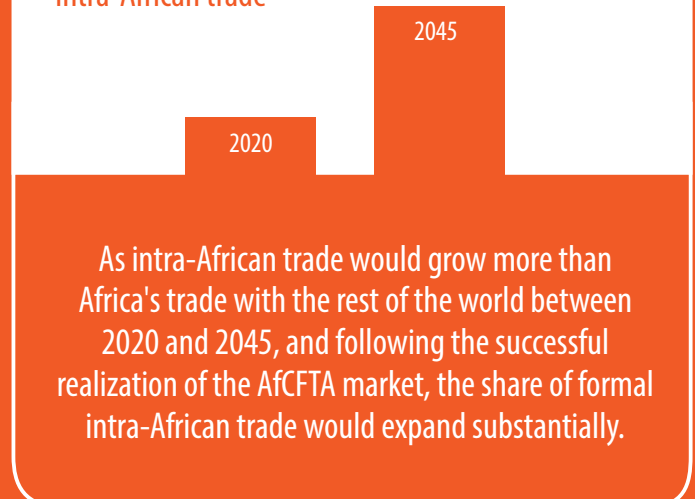


The AfCFTA will also contribute to reduce the current trade dependence of Africa on its external partners

Currently, around 85% of Africa's formal trade is with the rest of the world.



Intra-African trade



Africa's imports from the rest of the world are mostly industrial goods (which account for 60% of Africa's total imports from the rest of the world).

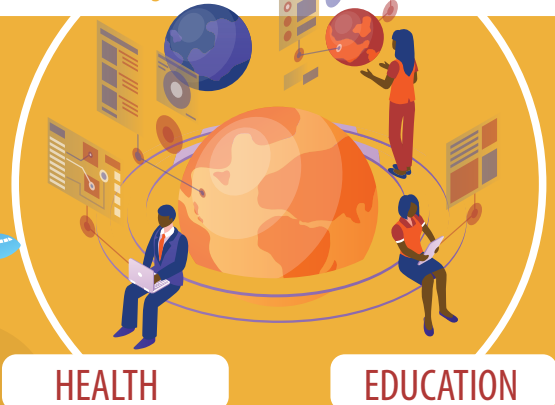
Reducing restrictions to services matters

Although the absolute increase of intra-African trade in services trade would be relatively moderate, the considerable increase in relative terms following the establishment of the AfCFTA needs to be taken seriously. Relative increases in services' sub-services would be higher than in most goods' sub-sectors.

Moreover, the current trend towards digitalization, which is not considered in this assessment could actually facilitate the development of many services, especially health and education, within the Continent and thereby amplifying intra-African trade gains in services sectors.

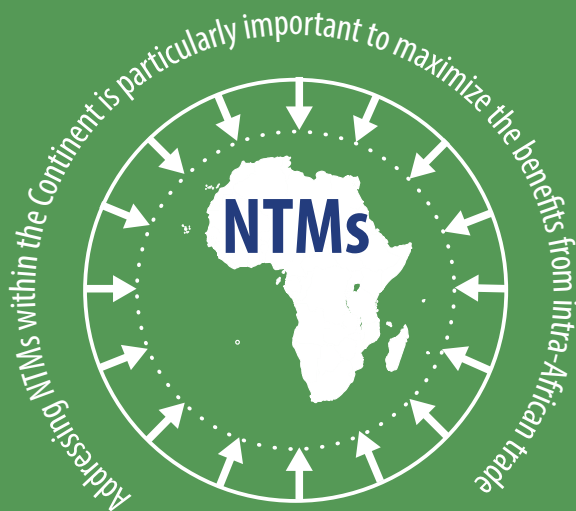
Findings indicate the AfCFTA would actually strengthen Africa's production capacities, particularly in industry but also services. Tourism and transport would be the services' sub-sectors that would contribute most to the increase in Africa's sectoral output of services.

Health and education are important vehicles for growth and development and Africa cannot afford missing the trend towards increased digitalization.



The COVID-19 pandemic has revealed the need for Africa to strengthen its own production and trade capacities in health and education.

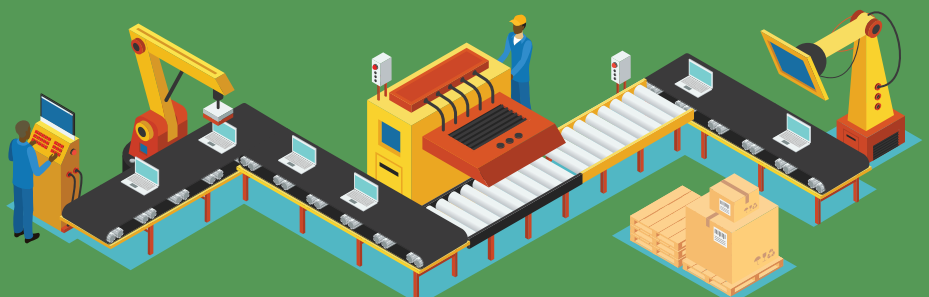
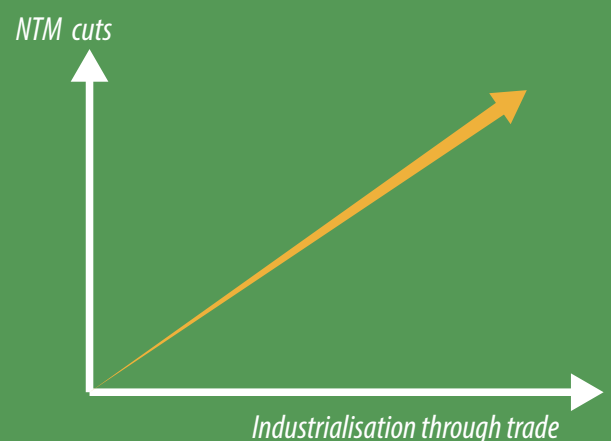
Addressing non-tariff measures would maximize the benefits from intra-African trade



2x - 4x

The impact could be multiplied 2 to 4 times compared to a situation where only tariffs are liberalized (depending on the ambition in reduction of NTMs).

The more ambitious the cut in non-tariff measures (NTMs), the greater the possibility for Africa to industrialize through trade.



Decline in Africa's tariff revenues will be progressive and not hampering Africa's welfare

Aggregate tariff revenues for Africa will decrease with implementation of the AfCFTA, with some countries to be more affected than others.

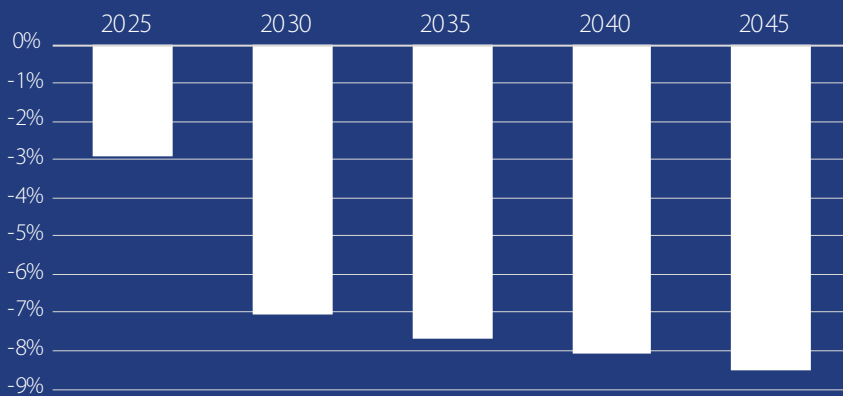
It should however be noted that the decline would be moderate in the early years of AfCFTA implementation (thanks to the progressive liberalization).

Moreover, governments have other sources of revenues at their disposal which could be acted upon to compensate such losses.

Furthermore, the **Afreximbank has already set-up the AfCFTA Adjustment Facility which is to serve as a mechanism to provide short-to-medium term financing to vulnerable countries; with \$ 8 billion already raised** and the understanding that additional funds would need to be primarily obtained from the markets, as required.

Finally, the decrease in Africa's tariff revenues alone will not hinder overall welfare, thanks to the benefits generated by intra-African trade expansion.

Changes in Africa's tariff revenues, following AfCFTA implementation as compared to baseline (i.e. without AfCFTA) –% – Every 5 years from 2025 to 2045



Important Notes

- 1- This assessment assumes that all 55 AU member States sign and ratify the AfCFTA Agreement. In particular, the gains are likely to be maximized if the preferential African market size is the largest possible.
 - 2- This assessment includes liberalization of trade in goods in line with agreed AfCFTA modalities, along with a 50 percent reduction of actionable restrictions to trade in the five AfCFTA priority services sectors (i.e. tourism, transport, communication, financial and business services) plus health and education services. It also includes 50 percent cut of actionable non-tariff measures (NTMs).
- Further joint modelling work by ECA and CIREM-CEPII on the AfCFTA implications on the environment and regional value chains is ongoing. Both modelling tools and relevant data are being improved. The tariff offers and services commitments when officially finalized will also be taken into consideration. The findings presented here could therefore be expected to evolve.



United Nations
Economic Commission for Africa

