Policy Monitoring and Research Centre

AFRICAN CONTINENTAL FREE TRADE AREA

VOLUME 2: THE THEORY AND IMPORTANCE OF ECONOMIC INTEGRATION

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Briefing Document

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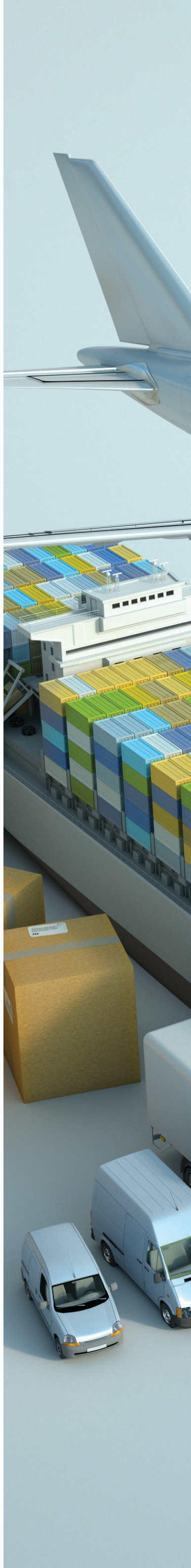
Abbreviations

AfCFTA	African Continental Free Trade Area
AU	African Union
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECOWAS	Economic Community of West African States
GDP	Gross Domestic Product
MSMEs	Micro, Small and Medium Enterprises
OAU	Organisation of African Unity
PMRC	Policy Monitoring and Research Centre
RECs	Regional Economic Communities
ROO	Rules of Origin
SACU	Southern African Customs Union
SADC	Southern African Development Community
SMEs	Small and Medium-sized Enterprises



Introduction

The African Continental Free Trade Area (AfCFTA) is a flagship project of the African Union's Agenda 2063, which is a blueprint for attaining inclusive and sustainable development across the continent over the next 50 years. It refers to a continental geographic zone in which goods and services are to move with no restrictions among member states of the African Union (AU).

In December 2018, Policy Monitoring and Research Centre (PMRC) released a booklet titled ***"The Continental Free Trade Area: What's in it for Zambia?".*** The purpose of this booklet was to introduce the AfCFTA, provide details about the content of the Agreement and suggest how Zambia could benefit.

This booklet is a continuation of the one released in 2018 and builds on it by providing a theoretical grounding for economic integration and its importance for the African continent. Additionally, a refresher on the Agreement is provided as well as an update on the status of the Agreement. Thereafter, the importance of the private sector for the Agreement is discussed followed by an introduction to Zambia's national strategy for the implementation of the Agreement. The booklet concludes with PMRC's recommendations.

Theory of Economic Integration

Economic integration is an arrangement between different countries for their mutual economic benefit (Appleyard and Field, 2017). There are different types of economic integration arrangements, viz. a Free-Trade Area, a Customs Union, a Common Market, an Economic Union and a Political Union. The key characteristics of each type of economic integration arrangement are illustrated in the diagram below.

1. The lowest and most common form of economic integration is a **Free Trade Area**, where member countries progressively eliminate tariffs on each other's products. However, **each member country maintains the freedom to establish tariffs with non-members**.
2. The second stage of economic integration is a **Customs Union**, which involves adopting a common external tariff with non-member countries in addition to the removal of tariffs between member countries. From a Free Trade Area to a Customs Union, a country gives up sovereignty in determining tariff rates.
3. The third stage of economic integration is a Common Market, which goes beyond a Customs Union by allowing the free movement of factors of production between member states. **The move to a Common Market involves the loss of sovereignty in relation to immigration and capital flows**.
4. The fourth stage of economic integration is an **Economic Union**, in which monetary and fiscal policies between member states are harmonised and sometimes completely unified. An Economic Union further involves the establishment of supra-national institutions that make decisions that are binding on all members. **Examples of such institutions are the European Central Bank which is responsible for monetary policy in the European Union. Sovereignty is lost as member countries give up independence in determining various policies as this responsibility now lies with the supra-national institutions. If an Economic Union adopts a common currency it becomes a Monetary Union**.
5. The fifth and most comprehensive stage of economic integration is a **Political Union**, which goes beyond an Economic Union by including the unification of political institutions between member countries. The loss of sovereignty at this stage is a result of giving up self-governance. (Appleyard and Field, 2017; Hailu, 2014; Balassa, 2013; Hosny, 2013; Sapir, 2011).

Characteristic/ integration form	No internal tariffs between member states	Common external tariffs	Free flow of labour and capital	Harmonisastion of economic policies	Unification of political institutions
Free trade area	✓				
Customs union	✓	✓			
Common market	✓	✓	✓		
Economic union	✓	✓	✓	✓	
Political union	✓	✓	✓	✓	✓

Source: Own table developed from Appleyard and Field (2017:388-389), Balassa (2013:2); Hailu (2014:200-201): Hosny (2013:134) Sapir (2011:1202)

The importance of economic integration

Against the backdrop of political and economic weakness, regional economic integration holds importance for the African continent. Tuluy (2016) recognises that many countries in Africa are small and fragmented. In addition, several countries on the continent are also landlocked. Together, these factors contribute to the small domestic markets found in various countries. This development and growth-related challenges can be addressed through regional economic integration. Kayizzi-Mugerwa et al. (2014) and Tuluy (2016) both agree that **regional economic integration can create and provide access to larger markets, increase the competitiveness of African products and ensure they compete on a global stage, provide access to new technology and overcome market fragmentation. Moreover, bigger markets have the added advantage of attracting foreign capital and increasing employment (Iringo, 2005). Further benefits include lower transaction costs for doing business, lower risks associated with investments, the sharing of regional resources, better utilisation of economies of scale in production and a more efficient allocation of resources (Madyo, 2009)**.

With Africa at risk of further marginalisation in the world economy, regional and continent-wide economic integration should be viewed as the means of creating a platform from which the African continent can have a greater influence on the global economy a united Africa would give "adequate economic and political influence to demand fair international economic relations" (Lehloenya and Mpya, 2016). Furthermore, it would strengthen Africa's bargaining power in multilateral negotiations (Khandelwal, 2004).

CFTA refresher

From a historical perspective, the AfCFTA is the culmination of years of effort to see continent-wide economic integration. Beginning back in 1963, the Organisation of African Unity (OAU) was founded to coordinate and harmonise policy in the field of economics among member states.[1] Along the way Africa has witnessed differing initiatives such as the Lagos Plan of Action, the Abuja Treaty as well as Regional Economic Communities (RECs) such as the Southern African Development Community and the Common Market for Eastern and Southern Africa. When you trace a line through these initiatives, it is clear that they have all been concerned with ultimately attaining continent-wide economic integration.

In 2002, the African Union replaced the OAU and inaugurated a new vision for the continent. Whereas the OAU supported liberation movements in former African states under colonialism and apartheid, the AU seeks to be the driving force for Africa's development and integration agenda (AU, 2018). The AU's commitment to economic integration was demonstrated at the AU summit in June 2015 when members began negotiations for the establishment of a Continental Free Trade Area aimed at integrating Africa's markets in line with the objectives and principles outlined in the Abuja Treaty (Cheluget and Wright, 2017).

Primary objective

The Agreement establishing the African Continental Free Trade Area was presented to African leaders for signature on 21st March 2018 in Kigali, Rwanda. **The primary objective of AfCFTA is to create a single market for goods and services which also allows for the free movement of business and natural persons right across Africa**. Estimates from the Economic Commission for Africa (UNECA) suggest that the AfCFTA has the potential to boost intra-African trade by 52.3% by eliminating import duties, and to double this trade if non-tariff barriers are also reduced.

- It seeks to be the foundation for the establishment of a continental Customs Union (which involves adopting a common external tariff with non-member countries in addition to the removal of tariffs between member countries).
- It seeks to promote sustainable and inclusive social economic development as well as gender equality.
- Enhance the competitiveness of African economies .
- Promote industrial development, regional value chain development, agricultural development and food security.

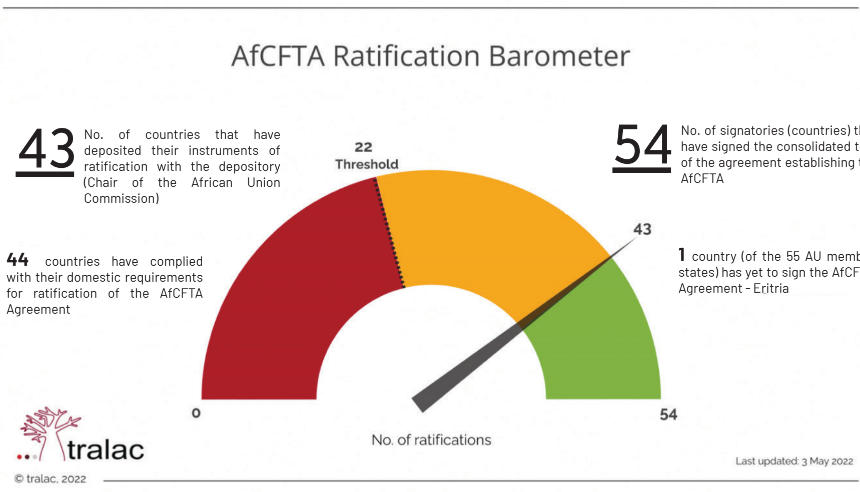
1. Article II Section 2b of the OAU Charter

- It seeks to resolve the challenges of multiple and overlapping memberships. At present, there are a number of RECs across the continent (such as SADC, SACU, COMESA, EAC, and ECOWAS). The problem is that economic communities are at different levels of economic integration with different requirements with regards to trade policy and other developmental objectives. The AfCFTA will play a key role in the harmonization and coordination of the activities of these RECs with the ultimate hope of better continental integration.

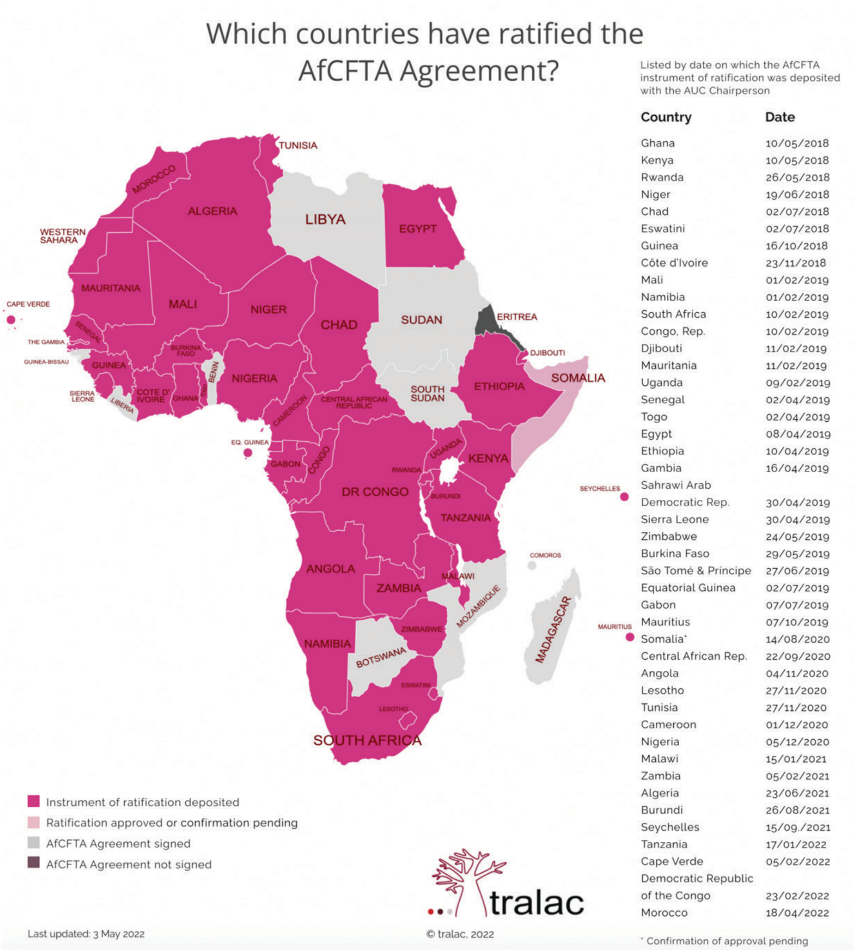
Member states and status of ratification

The AfCFTA will bring together all **55 member states of the African Union and as previously mentioned, that covers a market of more than 1.2 billion people**. In terms of the number of participating countries, the AfCFTA will be the world's largest free trade area since the formation of the World Trade Organization.

As of May 2022, 43 countries have both signed and deposited their instruments of AfCFTA ratification with the AU Chairperson. Of the 55 AU member states, only Eritrea has yet to sign the Agreement. Zambia's instrument of ratification was deposited with the AU chairperson on the 5th of February 2021. The Zambian Government should be commended for demonstrating their commitment to the continental integration agenda by ratifying the agreement as quickly as they did.



Source: Trade Law Centre (2022)



Country	Date
Ghana	10/05/2018
Kenya	10/05/2018
Rwanda	26/05/2018
Niger	19/06/2018
Chad	02/07/2018
Eswatini	02/07/2018
Guinea	16/10/2018
Côte d'Ivoire	23/11/2018
Mali	01/02/2019
Namibia	01/02/2019
South Africa	10/02/2019
Congo, Rep.	10/02/2019
Djibouti	11/02/2019
Mauritania	11/02/2019
Uganda	09/02/2019
Senegal	02/04/2019
Togo	02/04/2019
Egypt	08/04/2019
Ethiopia	10/04/2019
Gambia	16/04/2019
Sahrawi Arab Democratic Rep.	30/04/2019
Sierra Leone	30/04/2019
Zimbabwe	24/05/2019
Burkina Faso	29/05/2019
São Tomé & Principe	27/06/2019
Equatorial Guinea	02/07/2019
Gabon	07/07/2019
Mauritius	07/10/2019
Somalia*	14/08/2020
Central African Rep.	22/09/2020
Angola	04/11/2020
Lesotho	27/11/2020
Tunisia	27/11/2020
Cameroon	01/12/2020
Nigeria	05/12/2020
Malawi	15/01/2021
Zambia	05/02/2021
Algeria	23/06/2021
Burundi	26/08/2021
Seychelles	15/09./2021
Tanzania	17/01/2022
Cape Verde	05/02/2022
Democratic Republic of the Congo	23/02/2022
Morocco	18/04/2022

Source: Trade Law Centre (2022)

When does trade begin?

The AfCFTA Agreement entered into force on 30 May 2019 – 30 days after the deposit of the 22nd instrument of ratification, as specified in Article 23 of the AfCFTA Agreement. Trade under the agreement can technically only begin once all the required legal instruments are in place. However, AU heads of state and Government decided to launch trade on 1st January 2021 despite the fact that tariff schedules and rules of origin were not yet finalised.

Tariff offers and rules of origin are the basic requirements needed for a free trade area to operate. A tariff is a tax imposed by a country on the imports or exports of goods and services. Rules of Origin (ROO) are laws that are used to determine the country of origin of goods. They are used to distinguish between those goods that are produced within the CFTA which are eligible for preferential tariff treatment and those that have been produced outside which will face full import duties when traded. Without agreed ROO between members, non-member countries can bypass trade restrictions in more highly protected member countries. ***Tariffs and rules of origin are closely linked because the preferential rates of duty (tariffs) only apply to products that meet the preferential rules of origin****.*

Consequently, on the 1st of January 2021, trade in goods for which ROO were finalised could take place under the tariff offers that had been tabled, provided that the tariff offers complied with the agreed modalities for tariff negotiations, and that countries were customs ready. Despite this decision by AU Heads of State and Government, trade under the AfCFTA did not begin in 2021.

As at 31st May 2022, 45 of 55 countries had submitted tariff offers to the AfCFTA Secretariat. ROO for 87.7% of tariff lines have been agreed. **The outstanding ROO include some clothing and textile products, sugar, and automotive products. In addition to completing tariff offers and rules of origin, various domestic processes will need to take place in member countries including updating of tariff books, gazetting changes to customs legislation and ensuring that the necessary documentation requirements and processes (e.g. applications for rules of origin certificates) are in place**.

AfCFTA and the private sector

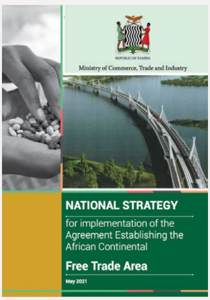
The influential role of the private sector across the African continent cannot be understated. According to the United Nations Economic Commission for Africa, **the private sector in Africa accounts for over 80% of total production, two thirds of total investment, and three fourths of lending within the economy**. Furthermore, SMEs account for over 90% of businesses in Africa, translating to 63% of employment in low-income countries while contributing to over **50% of the GDP**.

The private sector is important for the AfCFTA because it is the engine for **innovation, investment, job creation, poverty alleviation and sustainable economic growth for African economies**. However, the sector's participation in trade has been hindered by

tariff and non-tariff barriers (such as complex customs and trade procedures), high transportation costs and a lack of access to information. These are some of the issues that the AfCFTA will seek to address. Two of its key objectives are to progressively remove tariffs (on up to 90% of goods) as well as to harmonise how trade is facilitated across the continent, both of which will make it easier for businesses to trade across the continent. Moreover, the **removal of tariffs represents access to a larger market for businesses**. The AfCFTA is also expected to enhance competitiveness of local enterprises and promote industrial development. Additionally, the Agreement's legal instruments represent an opportunity to establish strong governance structures as well as a stable and predictable business climate when trading or investing across borders which could serve to further attract investment to the continent.

In order to achieve success in the implementation of the AfCFTA, it will be important for African Governments (including Zambia's) to actively engage their respective private sectors because they are key stakeholders in the Agreement. Businesses need to know about it and be able to use it. That means improving the information available to them such as details on the agreed rules of origin and tariff offers relevant to their markets.

The National AfCFTA Strategy and Implementation Plan for Zambia



To provide a coordinated response to the new trade and investment opportunities that will be ushered in through the AfCFTA, with the assistance of the United Nations Economic Commission for Africa and other international organizations, member states have been developing national and regional AfCFTA implementation strategies. **The Zambian Government launched the country's strategy for the implementation of the AfCFTA Agreement on 27th July 2021**. This strategy is a blueprint for the engagement of Zambia with member States of AfCFTA. **It will help Zambia implement the provisions of the Agreement while enabling the country to fully exploit and internalize the opportunities emerging from the implementation of the Agreement**. The following details are extracted from the *National Strategy for implementation of the Agreement Establishing the African Continental Free Trade Area booklet.*

When will the strategy be implemented?

The strategy will be implemented over a period of 10 years. Any activities that an incomplete or ongoing after this time period will be taken up by the relevant ministries or private sector institutions within the country.

What are the objectives of the strategy?

As mentioned in the document, the overarching objectives of the strategy are to open a new African market for Zambian entrepreneurs each year of implementation, and to contribute to increased foreign exchange earnings in existing and new markets, while stimulating production for export and local production through SME development.

What are the goals of the strategy?

The strategy contains specific goals related to the trade of goods and services with strategic measures to achieve those respective goals over the next 10 years.

One notable goal for trade in goods as found in the strategy is to improve domestic supply capability by stimulating production for export, especially among Micro, Small and Medium Enterprises (MSMEs) and cooperatives. To this end, each year for 10 years of implementation of the strategy, 11 SMEs will be identified, "nurtured" and supported to produce exportable products. Through Government support, these MSMEs will be introduced into an export market, and will be supported in establishing a foothold and product diversity.

How is the strategy funded?

In the initial stage, the government will provide funding for the implementation of the strategy. Thereafter, additional resources will be sought from development partners for sustainability and the effective implementation of all activities and goals.

Who is running the strategy?

The activities to be implemented under this strategy shall be ***coordinated by an AfCFTA national implementation committee, to be specifically established to manage and superintend all activities in pursuance of fulfilling the obligations of Zambia under the provisions of the Agreement Establishing the African Continental Free Trade Area****.*

The implementation, monitoring and evaluation of the strategy will be under the auspices of an AfCFTA national implementation committee, which will specifically manage, direct, monitor and evaluate the implementation of all activities and programmes incidental to the Agreement Establishing the African Continental Free Trade Area in Zambia and elaborated in this strategy. The committee will be serviced by a full-time secretariat for the duration of implementation of the strategy.

Recommendations

- Greater consideration should be given to publicizing Zambia's 'National Strategy for implementation of the Agreement, establishing the African Continental Free Trade through social and traditional media platforms to raise awareness about the AfCFTA among all stakeholders (e.g. Zambia Chamber of Commerce, private sector associations and the general public).
- Government is urged to consider sourcing funds from Regional Economic Communities (RECs) to which it is a member (COMESA and SADC) in order to implement the Country's strategy for the implementation of the AfCFTA. **This highlights the need to leverage the RECs comparative advantages, convening powers and institutions for the benefit of the AfCFTAs implementation**.
- Awareness should also focus on how the **Agreement can benefit Zambian producers and businesses as well as what risks come with it**. Producers need to be prepared for the increase in competition that will arise once tariffs are removed and trade under the AfCFTA begins. This kind of support would ensure that Zambian producers and businesses are not crowded out by firms from countries with larger economies such as South Africa and Nigeria. **This support can take the form of enhanced technical, managerial and financial skills to meet industry standards. The Government may assist in investment of these attributes**.
- There is a need for capital markets to provide specific credit (for a longer period of time than is generally available in the market) to support MSMEs for investment, growth, export and diversification. Related to this, there is a need for greater awareness of such funding and its availability to Micro, Small and Medium Enterprises (MSMEs).
- Zambia should work at identifying the product and commodity categories in which we have comparative advantage (the ability to carry out an economic

activity more efficiently than another activity). For example, amongst others, Zambia has comparative advantage in copper production as well as sugars and sugar confectionary. These are the goods that the country must now focus on producing as trade in the AfCFTA begins to take place.

- Furthermore, by identifying these categories, it can be determined which countries we share comparative advantages with e.g. Copper with Democratic Republic of Congo, Sugars with Eswatini, Malawi and Mauritius. These product categories present opportunities for joint-production among member states as well as sectors for product development. Discussions regarding strategy and co-operation in these areas should now begin as soon as possible.
- The Zambian Government should identify the companies involved in the manufacturing sector (such as African Milling, Zambeef and Tradekings) and provide support for them because they will play an important role in boosting intra-regional trade in the AfCFTA as trade begins.
- Zambia also needs to make use of its processing plants, Multi-Facility Economic Zones (MFEZ) and industrial yards. These will all play a key role in growing the manufacturing sector as they provide both backward and forward linkages between different sectors. For example, Eastern Tropical Fruit processing plant (to be commissioned in the third quarter of 2022) will assist in linkages between agriculture and manufacturing, and also promote agricultural exports. It will also play a key role in development and strengthening of agricultural value chains. **Government is advised to further consider lowering the minimum threshold required to take up investment in MFEZs in order to attract more local investors to move their operations to any of the MFEZs across the country**.
- Future development of MFEZs ought to be well targeted and tailored to the commercial activities taking place in respective areas of the country in order to encourage uptake by investors.

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