

The Establishment of the African Continental Free Trade Area (AfCFTA) and Its Impact on China-Africa Economic and Trade Cooperation

Yuan Xiaohui*

Abstract: As a significant milestone in Africa's development process, the establishment of the African Continental Free Trade Area (AfCFTA) represents a crucial step towards collective self-reliance and economic integration in the region. The AfCFTA aims to integrate 54 African Union (AU) member countries, creating a unified market encompassing a population of 1.3 billion and a GDP exceeding \$3.4 trillion. However, the implementation of the AfCFTA has also encountered formidable challenges. In the long term, as the effects of the implementation of the AfCFTA gradually unfold, it will generate profound implications for trade in goods, investment, and infrastructure contracting within the framework of China-Africa economic and trade collaboration.

Keywords: AfCFTA (African Continental Free Trade Area), China-Africa Economic and Trade Cooperation, African Union (AU) Members

As a significant milestone in Africa's development process, the establishment of the African Continental Free Trade Area (AfCFTA) represents a crucial step towards collective self-reliance and economic integration in the region. Currently, negotiations are still underway in key areas of the AfCFTA, and its full potential is not yet completely released. However, in the long term, its successful implementation will profoundly impact Africa's economic structure and development approach, and to a certain extent, transform the modality and prospects of China-Africa economic and trade cooperation.

I. FRAMEWORK DESIGN AND IMPLEMENTATION PROGRESS OF THE AFCFTA

The primary objective of the AfCFTA is to facilitate unrestricted movement of

* Yuan Xiaohui, Senior Research Fellow, Institute of West Asian and African Studies, Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce. Email: yuanxiaohui@caitec.org.cn.

goods, services, capital, and individuals within the region. This will be achieved by reducing tariffs and eliminating trade barriers, ultimately fostering the establishment of a unified and expansive market in Africa.¹ More importantly, the AfCFTA is committed to facilitating the structural transformation of Africa's economy and reshaping its position within the global economic division of labor. The AfCFTA will significantly enhance intra-regional trade in Africa, which, in turn, will facilitate the restructuring of its industrial chain, fostering a shift towards cultivating regional and local supply chains. This will stimulate economic growth and create substantial job opportunities.

A. Historical Background of the AfCFTA

To comprehend the significance of the AfCFTA, we need to examine Africa's overall economic development history and review the challenges of its economic structure. Ever since a long time ago, most African nations have retained an economic structure inherited from colonial past, relying heavily on exports of primary agricultural products, oil and gas, and minerals to external markets. The continent suffers from a weak economic strength, and the attempts at economic diversification through industrialization have yielded limited success. Manufacturing in Africa has been inadequately developed, leading to heavy reliance on imports for many products that cannot be locally produced. The World Bank reported that manufacturing contributed only 11% to sub-saharan Africa's GDP in 2022,² significantly lower than the 25% in East Asia and the Pacific.³ Industrial production capacity in Africa is primarily concentrated in Egypt, Morocco, Nigeria, South Africa, Tunisia, and a handful of other countries.

Africa has traditionally occupied a position at the end of the global industrial value chain, making it highly sensitive to international market fluctuations and rendering it economically vulnerable. In recent years, due to declining international commodity prices, Africa's economic growth has slowed down and the debt crisis is on the rise. Africa's share of global trade remains low, with its

1 Article 3 General Objectives, Agreement Establishing the African Continental Free Trade Area.

2 World Bank Data, <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=ZG> (Last Visited on May 25, 2023).

3 *Ibid.*

trade performance heavily reliant on commodity price trends, leading to stagnation in its global trade participation. According to the World Bank, sub-Saharan Africa was projected to contribute only 1.56% to global exports of goods and services in 2022.⁴ The continent's economic growth is closely tied to global demand and commodity prices. For instance, the impact of the COVID-19 pandemic disrupted trade flows and reduced global demands, resulting in Africa's first economic recession in over two decades. Intra-regional trade in Africa accounted for a mere 18% of the region's total trade in 2020, starkly contrasting with Europe (68%) and Asia (58%), underscoring the prevailing African economic reality.⁵

To accelerate development, Africa must address the current economic fragmentation and limitations of small economies and markets. In terms of external cooperation, African countries currently benefit from tariff-free and quota-free policies offered by partners outside the continent like the European Union (EU), the United States (US), China, Japan, Australia, and India. Existing infrastructure constructed during the colonial period facilitates the transportation of goods from inland areas to coastal ports and then to ex-suzerain countries. Africa can overcome its structural weaknesses in terms of economic size and small markets only by pursuing the path of unity and self-reliance and accelerating the process of economic integration. As market space expands and economies of scale grows within the region, trade and production costs will likely be reduced, regional production and service networks will become increasingly cultivated, and productive efficiency and competitiveness will be enhanced. Improved business environment will attract more foreign direct investment. At a deeper level, the establishment of the AfCFTA will facilitate a gradual transformation of African countries' production and export from primary products to high value-added and industrial finished goods. This will promote economic and export diversification, industrialization, and elevate African countries' positions within the global value chain.

4 Calculated based on World Bank Data. <https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?locations=ZG>, <https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?locations=IW> (Last Visited on May 25, 2023).

5 United Nation, *Africa Is Delivering the AfCFTA: Whoever Thinks Otherwise Is Wrong, Policy Brief on the African Continental Free Trade Area (AfCFTA)*, January 21, 2022, p. 11.

B. Historical Evolution of the AfCFTA

The establishment of the AfCFTA has been a longstanding pursuit that stemmed from the Charter of the Organization of African Unity (OAU), adopted in May 1963. This charter aimed to foster unity, solidarity, and cooperation among African countries. The Lagos Plan of Action (LPA), adopted in 1980 at a Special Summit of the OAU, outlined explicit measures for advancing Africa's economic integration. The Abuja Treaty was signed during the African Summit in June 1991, came into force in May 1994, and provided a concrete framework for implementing the LPA. The Abuja Treaty has been pivotal in guiding the African integration process. Its provisions stipulated that member countries were to gradually establish the common African market through six stages over a period of 34 years following this treaty's enforcement.⁶ However, practical constraints caused 20th century economic integration in Africa to focus mainly on sub-regional levels. The African Union (AU) endorses eight sub-regional organizations, and many African countries are members of one or more such sub-regional organizations.⁷

In the 21st century, Africa has accelerated the pace of regional economic integration. At the 18th AU Summit in 2012, a resolution was passed to establish a continental AfCFTA by 2017. In June 2015, the summit announced the commencement of negotiations for a continental AfCFTA. Remarkably, within less than three years, these negotiations were concluded by March 2018. This rapid advancement reflects the unwavering commitment of African nations to expedite economic integration.⁸

According to this procedure, the AfCFTA Agreement requires domestic ratification by participating countries after signing. In April 2019, more than a year following the completion of this agreement's negotiations, the AU Commission received a ratification document from the 22nd country. This agreement

6 Zhu Weidong, African Continental Free Trade Area Agreement: Its Background, Challenges and Implications, *Hebei Law Science*, Vol. 38, No. 10, 2020, pp. 24-25.

7 United Nations Economic Commission for Africa, African Union, African Development Bank, Assessing Regional Integration in Africa: Towards an African Continental Free Trade Area, 2012, p. 15.

8 Critical Timelines in the AfCFTA Establishment and Negotiations. <https://au-AfCFTA.org/about/> (Last Visited on May 25, 2023).

came into force on May 30, 2019. On July 7, 2019, the AU's Extraordinary Summit officially declared the commencement of the AfCFTA's operational phase. Concrete negotiations have started regarding specific provisions, including tariff schedules, trade in services commitments, and rules of origin.⁹ As of April 2023, 54 of the 55 AU member countries have signed this agreement, and 46 have ratified it.¹⁰

C. Structural Framework of the AfCFTA

1. Negotiation Design

The establishment of the AfCFTA extends beyond conventional goods trade. It encompasses services trade, investment, intellectual property rights, competition policy, and e-commerce. Its implementation follows a three-phase approach involving negotiation and implementation. The first phase has been around trade in goods, trade in services, and dispute settlement mechanisms. In the second phase, its focus shifts to competition, investment, and intellectual property. The third phase centers on the involvement of women and youth in e-commerce-related trade and consultations.¹¹

The AfCFTA Agreement consists of three levels of content: the first level entails the framework agreement that established the AfCFTA. This agreement was negotiated in 2018 and formally implemented in 2019. The second level is the protocol on trade in goods and services. The third level is the annex, guidelines, and timetables of the protocol. These are detailed explanations and commitments of the provisions outlined in the protocol and represent its concrete and legally binding content.

2. Implementation Mechanism

Within the implementation mechanism, the AfCFTA Secretariat has a vital role. Established in Ghana in August 2020, the secretariat primarily handles the negotiation, coordination, and implementation issues of the AfCFTA.

⁹ *Ibid.*

¹⁰ The African Continental Free Trade Area (AfCFTA) Secretariat, *A New Era of Trade in Africa: Accelerating AfCFTA Implementation*, April, 2023, p. 4.

¹¹ The Trade Law Center NPC, *The African Continental Free Trade Area: A TRACLAC Guide* (10th Edition), May 5, 2023, p. 5.

Multiple operational tools have been set up to support the AfCFTA, such as rules of origin platform, online negotiation platform, as well as the monitoring platform of non-tariff barriers.

3. *Commitments on Trade in Goods and Trade in Services*

In terms of trade in goods, a gradual transition towards zero tariffs will be achieved within five years (ten for least developed countries) for 90% of goods categorized under tariff codes. Member countries have the authority to designate their own sensitive products and excluded goods considering criteria such as food safety, national security, fiscal revenue, livelihoods, and industrialization. Sensitive products can maintain tariffs for a specified duration, while excluded goods can be excluded from zero tariffs. As the zero tariff concessions process concludes, all member countries will achieve zero tariffs on 97% of total goods. In terms of trade in services, the initial stage of service liberalization will prioritize sectors including transport, communications, financial services, and business services. These services are essential sectors that support the functioning of the AfCFTA.¹²

D. The Implementation Process of the AfCFTA

Currently, the two initial phases of the three-stage AfCFTA negotiations have been near to completion. Notably, significant progress has been made in the crucial fields of rules of origin and schedule of tariff concessions. According to the Protocol of Rules of Origin, approximately 88.3 percent of the nearly 5,000 commodities traded within Africa have a unified set of trade regulations. Intensive reviews are currently underway for the third phase, focusing on the Digital Trade Protocol along with the Women and Youth Trade Protocol.¹³

On January 1, 2021, Africa officially commenced trade under the AfCFTA Agreement. However, many countries had not yet submitted tariff schedules and rules of origin. To expedite this agreement's implementation, in 2022, the AfCFTA Secretariat identified eight countries — Cameroon, Egypt, Ghana,

12 Report on the African Continental Free Trade Area by H. E. Mahamadou Issoufou, President of the Republic of Niger and Leader on AfCFTA, 2019, <https://archives.au.int/handle/123456789/6542> (Last Visited on June 6, 2023).

13 Zou Song, 36th AU Summit Focuses on Continental FTAs, *People's Daily*, February 23, 2023, http://paper.people.com.cn/rmrb/html/2023-02/23/nw.D110000renmrb_20230223_1-17.htm (Last Visited on June 8, 2023).

Kenya, Mauritius, Rwanda, Tanzania, and Tunisia — as the initial pilot countries for trade within the free trade area (FTA). These countries represent the five regions of the African continent. Within ten product categories, including items such as ceramic tiles, batteries, pharmaceuticals, palm oil, and rubber, trade could now occur based on the minimum requirements outlined in the agreement. This allowed for market access at the most favorable prices among these countries.¹⁴

In 2022, the AfCFTA Secretariat introduced the Electronic Tariff Manual to promote trade digitization facilitation. This manual aims to assist trade and customs departments by helping them to easily access schedules of tariff concessions. Additionally, the Pan-African Payment and Settlement System (PAPSS) has been launched in 2022 to facilitate local currency transactions within African countries. The implementation of this payment and settlement system is being accelerated, and the goal is to achieve full coverage across all five African regions by the end of 2023. Furthermore, in 2022, the AU, in collaboration with other agencies, established the African Free Trade Area Adjustment Facility. This aims to support member countries and the private sectors in effectively participating in and adapting to the new trading environment under this Agreement. The facility plans to raise a total of \$10 billion over a span of six to ten years to promote the implementation of AfCFTA.¹⁵

E. The Opportunities and Obstacles of the AfCFTA

The AfCFTA aims to integrate 54 AU member countries, creating a unified market encompassing a population of 1.3 billion and a GDP exceeding \$3.4 trillion.¹⁶ In terms of geographic scope and participating countries, the AfCFTA is the largest FTA since the establishment of the World Trade Organization (WTO).

However, the implementation of the AfCFTA has also encountered formidable challenges. While African countries recognize the importance and necessity

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ World Bank Group, *The African Continental Free Trade Area: Economic and Distributional Effects*, 2020, p. 1.

of economic integration, they have common concerns regarding individual national interests. Negotiating and signing FTA is merely the initial step, while effective implementation remains arduous. Building the AfCFTA necessitates significant policy adjustments at the national level and puts increased demands on the macroeconomic governance capacity of member governments. Addressing tariff reduction, rules of origin, and particularly eliminating non-tariff barriers poses the most formidable obstacles for implementing the AfCFTA. Nonetheless, these are the parts that can bring the greatest potential economic gains.

For instance, South Africa recently passed a long-discussed bill to establish a one-stop border post, aimed at facilitating the movement of people and goods between its land ports of entry and neighboring countries. Implementation of the bill will require the South African government to invest about \$300 million in infrastructure upgrades along its borders with its six remaining neighbors.¹⁷ This is a very important, but only part of the implementation of the Continental FTA. It demands significant effort and financial inputs from these nations. Moreover, member countries must be prepared to handle the consequences and competition from other countries within the region upon opening their borders. They should swiftly make best use of their comparative advantages to establish a diversified economic structure. Furthermore, it is important to recognize that the continental FTA will yield diverse distribution impacts among skilled and unskilled workers across industries and countries.

To fully capitalize on the AfCFTA's potential, African nations must formulate complementary measures in investment and production. They should strategically direct investments towards sectors that can benefit from market liberalization brought by the FTA. Additionally, governments must be prepared to provide adequate social safety nets and policies to support workers in industries that may adversely suffer from job losses. At a practical level, implementation of the FTA may result in a decline in tariff revenue for vulnerable African countries, impacting government finances and limiting fiscal resources. Failure to effectively address these short-term challenges and costs could significantly dampen member countries' enthusiasm to further engage in and

¹⁷ *Supra* n. 13.

promote the implementation of FTAs.

II. IMPACT ON CHINA-AFRICA ECONOMIC AND TRADE COLLABORATION

In the long term, as the effects of the implementation of the AfCFTA gradually unfold, it will generate the following implications for trade in goods, investment, and infrastructure contracting within the framework of China-Africa economic and trade collaboration:

A. Trade in Goods

In accordance with the AfCFTA Agreement, the establishment of an integrated market seeks to facilitate intra-African trade, foster regional industrial and value chains, promote local production of imported goods, and boost the international competitiveness of exported products. This trajectory will influence the trade structure and rules between China and Africa through the following dimensions:

Firstly, regarding China's exports to Africa, the establishment of the AfCFTA is expected to yield trade diversion effect. As a result, goods previously imported from China may now be produced within the region. As investment conditions improve and the market expands due to the AfCFTA, Chinese exporters to Africa may opt to invest and manufacture locally, taking advantage of the origin rules-based policy benefits that allow for free intra-regional movement of goods. This shift from trade to investment can be observed when suitable conditions are present. Furthermore, as Africa's economies improve, which lead to increased employment and purchasing power, its production and consumption will increase. This will gradually lead to the emergence of trade creation effect, resulting in a rise in China's commodity exports to Africa. Given China's comprehensive industrial system, the composition of Chinese exports to Africa, which was previously concentrated in final consumer goods, will change. Specifically, the demand for intermediate goods in Africa's production sector will further increase. In the consumer sector, expanding Chinese exports will cater to Africa's evolving and upgraded consumer demands, which will

also gradually become more diversified.

Secondly, regarding China's imports from Africa, as industrialization progresses in Africa, the level of industrialization of China's imported goods is expected to increase. Primary imports from Africa, such as minerals and agricultural products, may undergo initial processing in the region, followed by exportation to China, potentially increasing the local added value of African products. Additionally, African countries with comparative advantages in industrial manufacturing goods may find opportunities to export these to China, thereby diversifying Africa's exports to the Chinese market. Expanding exports to China will have significant positive impacts on local economic and social development, employment, and livelihood improvements in Africa. It will also play a positive role in promoting China's new development pattern, in which domestic circulation is the mainstay and both domestic and international circulations are mutually reinforcing.

Thirdly, in terms of trade rules, the establishment of the AfCFTA and the implementation of trade facilitation measures will enhance Africa's trade environment. The AfCFTA aims to reduce tariffs and eliminate non-tariff barriers, which can promote free intra-regional product flow. Improved intra-regional trade facilitation in Africa will also have positive spill-over effects on trade between Africa and other regions. China-Africa trade can benefit from streamlined customs clearance, efficient logistics distribution, as well as convenient payment and settlement services. Additionally, the creation of the AfCFTA will contribute towards protecting the African market by implementing coordinated management policies and standards to combat counterfeit, substandard, and low-quality products. China's product exports to Africa also need to pay more attention to product quality and to the access requirements of the African market.

B. Investment in Africa

The implementation of the AfCFTA will significantly improve Africa's investment environment and enhance its attractiveness to investors. This will create more investment opportunities and growth potential in Africa, which is highly advantageous for China's direct investment in this region:

Firstly, the AfCFTA will facilitate an expansion of China's investment in Africa. As the market expands within Africa, Chinese investors targeting local African markets will be incentivized to make additional investments, expand production capacity, increase output in order to provide products to a broader African market. As production factors flow more freely within Africa and intra-regional resource allocation is optimized, the cost of investment and operations in Africa will decrease, while the international competitiveness of African production will improve. Chinese investors targeting international markets outside Africa also have the potential to further expand their investment scale within Africa.

Secondly, the implementation of the AfCFTA will contribute to the diversification of China's investment sectors in Africa. African countries, with their comparative and competitive advantages in labor-intensive and resource-intensive industries, are expected to experience rapid development in sectors such as food processing, mineral product processing, textiles, clothing, and light manufacturing. Affected by the COVID-19 pandemic, Africa is also trying to develop and provide more support to medical and health industries. Moreover, it is grappling with a significant infrastructure deficit, which presents an urgent need for increased investments in transportation, energy, and communication infrastructure. Africa's growth prospects in terms of industrialization development will also increase the prospects for profitable infrastructure investments and reduce investment risks. In the service sector, services that support intra-regional trade, such as transportation logistics and financial services, will also have new development opportunities. The development of Africa's manufacturing, infrastructure and service industries will provide new growth points for China's investment in Africa in the future.

Thirdly, the implementation of the AfCFTA will contribute towards optimizing China's investment model in Africa. Given the significant challenge of improving Africa's investment environment within a short period, in order to accelerate the effect of the continent's FTA and catalyze the industrial chain, supply chain and value chain within the region, investment models such as industrial parks and special economic zones will be further favored by Africa. Huddling together for "going out" and industrial clusters, which are advocated by China in recent years, are also very suitable for the development direction

of Africa. In the new era, this will display a greater advantage.

C. Infrastructure Contracting

The progress in the development of the AfCFTA has amplified the need for interconnective infrastructure within the continent. At the AU Summit in 2021, African nations endorsed 71 key projects as part of the second phase of the African Infrastructure Development Plan 2021-2030 Priority Action Plan. These projects span across transportation, communication, energy, water resources, agriculture, and other sectors, involving over 40 AU member countries.¹⁸ In the future, there will be a heightened demand for transnational regional connectivity projects. Demand for cross-border regional connectivity projects will increase, but African countries have high sovereign debt, limited room for growth in sovereign-guaranteed lending in the short term, worsening contradiction between supply and demand for infrastructure investment. According to estimates from the African Development Bank, Africa requires annual infrastructure funding of \$130-170 billion, but with a significant funding gap of \$68-108 billion¹⁹.

In the context of AfCFTA implementation, Chinese companies must reform their contracting approach for African infrastructure. They should transition from the traditional “build-transfer” contracting model and move towards an integrated approach that merges investment, construction, and operation and pay more attention to the utilization, operation, and maintenance of construction projects. This will put higher demands on the overseas operation capability of Chinese contracting enterprises. Chinese companies may also consider exploring collaborations with a third-party, leveraging the specialized strengths of other foreign firms in consulting, operation, and management. Exploring opportunities for joint bidding, financing, construction, and operation can collaboratively contribute to Africa’s infrastructure development. Chinese enterprises may also consider seeking collaboration with a third-party, to explore the

18 Second Africa Infrastructure Finance Summit Held — Africa Accelerates Realization of Infrastructure Blueprints, February 14, 2023, http://www.focac.org/chn/zfgx/jmh/z/202302/t20230214_11025025.htm (Last Visited on June 10, 2023).

19 African Development Bank, *Africa’s Infrastructure: Great Potential but Little Impact on Inclusive Growth*, Africa Economic Outlook 2018, p. 63.

possibilities of joint bidding, financing, construction and operation and leverage the professional advantages of enterprises from other countries in consulting, operation and management, so as to jointly help build infrastructure in Africa.