

Table 1 – Outcome of Phase 1 negotiations

Agreement Establishing the African Continental Free Trade (AfCFTA)		
Protocol on Trade in Goods	Protocol on Rules and Procedures for the Settlement of Disputes	Protocol on Trade in Services
• (Annex 1 on Schedules of Tariff Concessions)*; • Annex 2 on Rules of Originⁱ; • Annex 3 on Customs Cooperation and Mutual Administrative Assistance; • Annex 4 on Trade Facilitation; • Annex 5 on Non-Tariff Barriers; • Annex 6 on Technical Barriers to Trade; • Annex 7 on Sanitary and Phytosanitary Measures; • Annex 8 on Transit; and • Annex 9 on Trade Remedies.	• Annex 1 on Working Procedures of the Panel; • Annex 2 on Expert Review; • Annex 3 on Code of Conduct for Arbitrators and Panelists.	• (Schedules of Specific Commitments)*; • (Most Favoured Nation (MFN) Exemptions)*; • (Air Transport Services)*; • (List of Priority Sectors)*ⁱⁱ; • (Framework document on Regulatory Cooperation)*.

ⁱ Annex 2 on Rules of Origin has four Appendices: Appendix I on AfCFTA Certificate of Origin, Appendix II on AfCFTA Origin Declaration, Appendix III on AfCFTA Supplier or Producer's Declaration and Appendix IV on AfCFTA Rules of Origin (to be inserted)

ⁱⁱ Agreement has been reached to focus initially on the following five (broad) service sectors: financial, telecommunication, transport, tourism, and business services.

*To be inserted

Source: African Union Commission (AUC) presentation during Dedicated Session of Negotiating Forum, 18 March 2019

The AfCFTA Agreement stipulates that the AfCFTA enters into force 30 days after deposit of the 22nd deposit of the instrument of ratification. The AfCFTA entered into force on 30 May 2019 as the 22nd deposit took place on 29 April 2019.¹

For its operationalization, agreement would need to be reached particularly in the following areas:

- Rules of origin
- Schedules of tariff concessions on trade in goods
- Annexes to the Protocol on Trade in Services, including the schedules of concessions on trade in services.

The focus of these 'Phase 1B' negotiations will be tariff negotiations. Section 2 of the paper explores available research on the expected economic impact of tariff liberalization under the AfCFTA. Section 3 explains the agreed tariff negotiation modalities. Section 4 raises some legal issues with the AfCFTA and Section 5 raises some specific issues with respect to the tariff negotiations. Section 6 provides a conclusion.

2. Expected economic impact of AfCFTA

2.1 Overall impact on Africa

While the AfCFTA itself has been signed and is being

ratified by an increasing number of African countries, the Parties have yet to negotiate the tariff concessions under the AfCFTA. Therefore impacts can only be estimated on the basis of models. The most often used type is the so-called Computable General Equilibrium (CGE) model.

The CGE simulations that have been employed generally paint a rosy picture of the AfCFTA. Indicators such as gross domestic product (GDP), employment and intra-African trade would increase for the continent.

Some headline Africa-wide results include the following:

- GDP would grow by 0.66-0.97 percent and employment by 0.82-1.17 percent.²

- Real wages would increase, and increase more for 'unskilled' labourers (0.74 percent in agriculture, 0.8% in non-agricultural sectors) compared to 'skilled' labourers (0.54 percent).³

- Growth in intra-African trade is estimated at 24 to 33 percent (Saygili et al., 2018). There appears to be consensus that the share of intra-African trade would not double within the next 10 years on account only of the AfCFTA, as wished by AU member States. This finding prompted Mevel and Karingi (2012) to argue for measures complementary to tariff elimination.

The largest employment growth rates are found in the manufacturing industry followed by some services and agriculture subsectors (Saygili et al., 2018). As intra-African trade has a higher skill and technology content than Africa's trade with others, the AfCFTA can improve diversification, and the industrial product and technology content of AU member States' exports. In that context, liberalization of trade within the African continent has merits.

However, these headline figures for the whole of Africa mask the distributional impacts of tariff liberalization under AfCFTA between as well as within countries (in terms of sectors, income groups, gender). Some of these impacts might be mitigated by a carefully calibrated schedule of tariff concessions.

Such calibration might also involve the development of customized offers to different countries. Products might be sensitive if originating from certain countries, but not from others, depending on the (relative) competitiveness of producers in the concerned countries.

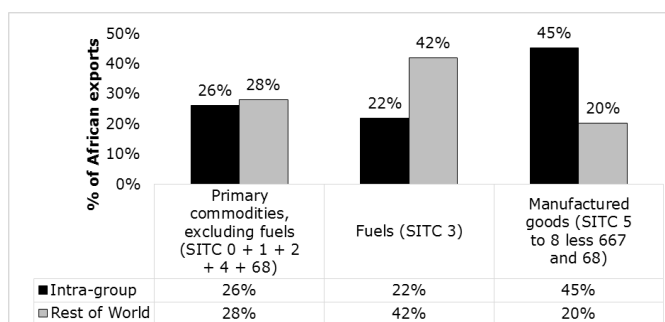
2.2 Adjustment costs

Studies point out that there are various short term losses, in particular tariff revenue losses. According to Saygili et al. (2018) Africa-wide tariff revenue loss would be equivalent to between 7.2 percent (free trade agreement (FTA) with 'Special Product Categorization') to 9.1 percent of current revenues (a 'full FTA').

The presumption is often that the long-term benefits are greater than the short-term losses and other adjustment costs. Table 2 below shows the various components of adjustment costs.

Trade liberalization can have a negative impact on labour in the short and medium term, especially if these sectors were protected. Labour mobility across sectors is limited in developing countries.⁴ In other

Graph 1 - Structure of Africa's exports to its internal market vs Rest of World (2015-2017)



Source: UNCTADStat (<http://unctadstat.unctad.org/>), Table 'Merchandise: Intra-trade and extra-trade of country groups by product, annual', using data from the years 2015 to 2017.

Note: SITC stands for Standard International Trade Classification.

words, tariff elimination under the AfCFTA might cause unemployment and lower wages in certain sectors and involve increased health care costs and costs for retraining. This may create social tensions and problems unless compensatory or 'flanking' measures are set in place.

Besides labour costs, other adjustment costs can include the lower utilization of productive assets and the need to make new investments in order to respond to new competitive conditions.

Many types of adjustment costs are difficult to model, among others due to the lack of data, and therefore the results of CGE simulations, especially for the long term, need to be interpreted with caution. As the famous British economist J.M. Keynes once wrote: "(the)...long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task, if in tempestuous seasons they can only tell us, that

Table 2 - Components of adjustment costs

Private adjustment costs	Labour	- Unemployment - Lower wage during transition - Obsolescence of skills - Costs for (re)training - Health care costs - Personal costs (e.g. mental suffering)
	Capital	- Underutilized capital - Obsolete machines or buildings - Transition cost of shifting capital to other activities
Public sector adjustment costs		- Lower tax revenue - Social safety net spending - Implementation costs of trade reform

Source: Adapted from Francois, Jansen, Peters, 'Trade, Adjustment Costs and Assistance: The labour market dynamics' (2011) at page 6.