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.

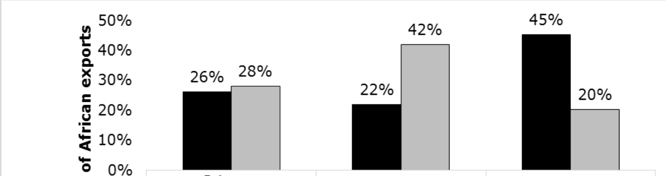
2.2 Adjustment costs

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 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.

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



	Primary commodities, excluding fuels (SITC 0 + 1 + 2 + 4 + 68)	Fuels (SITC 3)	Manufactured goods (SITC 5 to 8 less 667 and 68)
Intra-group	26%	22%	45%
Rest of World	28%	42%	20%

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.

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.

when the storm is long past, the ocean is flat again."[5]

2.3 AfCFTA adjustment/compensation facility

While tariff elimination under the AfCFTA is expected to be generally positive and its negative impact muted due to relatively low levels of intra-African trade, any trade agreement generates distributional effects within countries and across countries. The AfCFTA will generate winners and losers.

It would be important to monitor the implementation of the agreement, and provide adjustment assistance and/or compensate countries that are the 'losers' from this process. Tariff revenue losses incurred by elimination of tariffs on imports from other African countries might not always be recouped, either through introduction of other taxes or increased economic activity. In such scenario, there is a case for a facility at the African level to compensate the 'losing' countries or help them adjust.

Within African Regional Economic Communities (RECs), broader regional integration support programmes have been implemented that go beyond compensation. Compensation to Rwanda and Burundi for the adoption of the East African Community (EAC) Customs Union and the Common External Tariff was implemented by the Common Market for Eastern and Southern Africa (COMESA) through the Regional Integration Support Mechanism (RISM) programme, which also supported infrastructure development and broader adjustment objectives. In CEMAC (Economic and Monetary Community of Central Africa), fiscal compensation is allocated 40% of funds from the *Fonds de Développement de la Communauté* (FODEC) while 60% is to target regional integration projects (including infrastructure). The Economic Community of West African States (ECOWAS) Regional Development Fund (ERDF) has been responsible for lending to support regional infrastructure projects as well as fiscal compensation.

3. The AfCFTA tariff negotiation modalities

3.1 Tariff negotiation modalities: the framework for negotiations

Most elements of the Modalities for Tariff Liberalization were agreed by September 2017.[6] These modalities provide a framework for negotiations. The most important elements include the following:

- Negotiating parties - who will negotiate? Individual member States or customs unions.

- Categories of products. Countries should assign products to 3 product groups/lists: 'Non-Sensitive' products, 'Sensitive' products and the 'Exclusion List'. The difference between 'non-sensitive' and 'sensitive' products is a longer timeframe for implementation for 'sensitive' products. Least developed countries (LDCs) will enjoy a longer timeframe for implementation compared to non-LDCs, for sensitive as well as non-sensitive products.

- The size of the non-sensitive product list (in terms of tariff lines). The 'Non-Sensitive' product list will account for 90% of tariff lines.

- Timeframe for implementation. Tariffs on non-Sensitive Products to be eliminated after 5 years (non-LDCs) or 10 years (LDCs). Tariffs on Sensitive Products to be eliminated after 10 years (non-LDCs) or 13 years (LDCs). A group of countries ('Special Needs' or 'G7')[7] has additional flexibility to liberalize 85% of tariff lines in 10 years and the other 5% of tariff lines in 15 years, for Non-Sensitive Products.[a]

- Base rate. The basis for negotiations will be the MFN rate as of entry into force of the AfCFTA (i.e. 2019).

In December 2018, several outstanding elements were agreed:

- The size of the sensitive product list (in terms of tariff lines) – 7%

- The size of exclusion list (in terms of tariff lines) – 3%

- Additional criteria to ensure that countries effectively liberalize and do not concentrate exclusions in tariff lines with imports, sometimes referred to as 'anti-concentration clause', or 'double qualification': the exclusion list cannot represent more than 10% of imports.

Table 3 provides a summary of the level of liberalization and timeframes for liberalization.

Several issues are ambiguous or need attention, in particular

- To whom are offers made (see Section 5.1 below)

- The treatment of LDCs in customs unions. According to the modalities, LDCs and non-LDCs have different timeframes for implementation but in a customs union both LDCs and non-LDCs in that customs union must apply the same timeframes for implementation, if a common external tariff is to be maintained (see Section 5.2 below).

3.2 Liberalisation under AfCFTA modalities in comparison with other trade agreements between developing countries

According to the agreed modalities, tariff agreements between African countries under the AfCFTA will eventually liberalize at least 97% tariff lines and 90% of imports at the end of their implementation period. In other words, duties will remain on maximum 3% of tariff lines and 10% of imports.

How does this level of liberalization compare with other trade agreements between developing countries? To answer this question, data is compiled from the factual presentations of FTAs between developing countries that are notified to the World Trade Organization (WTO). Each factual presentation usually contains a subsection called "Liberalization of trade and tariff lines" (in the section 'Provisions on trade in goods').

In order to arrive at a good benchmark, only FTAs