



# United Nations Conference on Trade and Development

Distr.: General  
11 April 2022

Original: English

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## Trade and Development Board

Sixty-ninth session

Geneva, 20 June–1 July 2022

Item 5 of the provisional agenda

### **Economic development in Africa: Reaping the potential benefits of the African Continental Free Trade Area for inclusive growth – Overview**

#### *Summary*

The UNCTAD report *Economic Development in Africa Report 2021: Reaping the Potential Benefits of the African Continental Free Trade Area for Inclusive Growth* aims to equip Governments in Africa and development partners with the knowledge of how the African Continental Free Trade Area can be beneficial for inclusive growth and how complementary policies are necessary to make the Free Trade Area inclusive across and within countries in Africa.

To realize the export potential of Africa, intra-African tariff barriers and non-tariff measures need to be reduced and productive capacities need to be increased, to facilitate regional trade. Regional productive capacities, value chain development in agrifood processing and the vehicle industry are identified in the report as potential drivers of transformative growth. In addition, an analysis is provided of how the expected gains from trade, production, investment and growth opportunities from the Free Trade Area can be inclusive. A range of data sources are used in assessing various dimensions of inclusiveness, related to both income and consumption and to equal economic participation. For the benefits of the African Continental Free Trade Area to be fully harnessed and inclusive, informal forms of trade and the relevant stakeholders should be considered in design and implementation.



## I. Introduction

1. Over the past decades, regional integration in Africa has not involved a purely trade liberalization agenda, but rather been based on a pillar of collective self-reliance or, in current terms, been a step towards a peaceful, prosperous and integrated continent. The African Continental Free Trade Area is expected to be a game changer for development ambitions in Africa. The design of the Agreement Establishing the African Continental Free Trade Area reflects an explicit commitment to create a framework for deeper socioeconomic integration and improved cooperation that enables trade, investment and the mobility of people, to support industrialization and the development of a dynamic services sector. Such achievements could ultimately generate decent jobs and increase revenue and thereby contribute to inclusive growth on the continent. A greater emphasis on deeper intraregional trade, cross-border investments in infrastructure and fostering “made in Africa” trade and industrialization policies is key to the continent’s future prosperity and resilience to global financial, food-related, climatic and pandemic-related shocks. For the African Continental Free Trade Area to be a game changer, countries in Africa need to adopt policies that enhance consistency between trade measures, diversification objectives and inclusivity. Unless this is accomplished, the Free Trade Area may be restricted to a trade liberalization agenda and thereby not fulfil the hopes and aspirations of the people of Africa. If effectively implemented, the African Continental Free Trade Area can help address challenges emanating from the excessive reliance in Africa on the supply of primary commodities and goods embodying limited value added to world markets.

2. The transformational ambition of the African Continental Free Trade Area requires that it be effectively implemented, whereby a level playing field is created for African businesses and workers. This entails, for example, that producers and traders (large, medium-sized and small firms) all have good access to markets and productive resources. Workers need to acquire better skills to respond to evolving labour market demands. An African Continental Free Trade Area that yields inclusive growth requires that disparities between diverse entities between and within countries (including, among others, disparities or inequalities between men and women; informal and formal actors; and different regions, with regard to growth) are both effectively and sustainably addressed. Governments need to foster a conducive enabling environment in which the private sector remains the backbone of dynamic industrial and services-led growth. Regional integration is critical because it has the potential to foster international and regional cooperation in overcoming barriers to trade that impede the flow of people, goods, services and knowledge. Greater cooperation among economies is also essential in order to promote peace among countries which, in turn, is a driver of prosperity. National efforts of economies in Africa to promote growth, curtail inequality and reduce poverty will, to some extent, be linked to the success or failure of the African Continental Free Trade Area.

3. Africa needs to pursue institutional improvements and structural reforms to maximize the potential of regional integration in achieving the goals of the 2030 Agenda for Sustainable Development and Agenda 2063 of the African Union. However, the extent to which the potential benefits of the African Continental Free Trade Area will be seamlessly achieved depends on several factors, including the level of integration and the policies and other complementary interventions in place that allow for the efficient exploitation of the opportunities accorded by deeper integration. These issues are all the more important and timely because, in January 2021, free trading officially commenced under the African Continental Free Trade Area. The relative sophistication of intra-African trade suggests that the regional market may offer greater (and, to date, largely untapped) scope for supporting economic diversification, provided that the Free Trade Area is approached and implemented as an opportunity to enhance consistency in the trade policy framework of Africa and the structural transformation agenda of the continent.

4. Rapid and sustained poverty reduction requires inclusive growth that allows people from different groups (e.g. based on gender, ethnicity and/or religion) and in different sectors (agriculture, manufacturing, industry and/or services) to contribute to and benefit from economic growth. Inclusive growth refers to both the pace and distribution of growth

that ensures equity and equality in opportunities and protection in market and employment transitions, allowing all segments of the population equitable access to the benefits of growth. High levels of inequality undermine the impact of growth on poverty reduction.<sup>1</sup> African economies experienced a period of unprecedented growth in the 2000s partly due to improved macroeconomic policies on the continent, followed by a slowdown since 2010. Yet recent trends in poverty and growth suggest the opposite of an inclusive growth process. The continent continues to host the majority of the world's poor, amid high and increasing levels of inequality.<sup>2</sup> The gap between rich and poor has continued to grow in most countries in Africa and it is the second most unequal continent; around 40 per cent of the total wealth in Africa is owned by a handful of the richest people; approximately 0.0001 per cent of the continent's population.<sup>3</sup> In comparison with other developing countries, with regard to within-country income inequality, the estimated average Gini index of Africa is 0.43 and that of all other developing countries is 0.39.<sup>4</sup> Furthermore, levels of gender inequality in the region are among the highest in the world, which, coupled with high levels of economic inequality, creates a "suffocating web of exclusion".<sup>5</sup> The current pandemic has further demonstrated that high levels of inequality in the region increase the vulnerability of marginalized groups to external shocks, in particular those with inferior access to health facilities, education and economic and political participation. As such, understanding the extent to which vulnerable and marginalized groups can fully participate in and benefit from the growth opportunities accorded by the African Continental Free Trade Area remains imperative in enhancing the achievement of Agenda 2063. Finally, with regard to trade, the share of Africa in world trade has declined steadily over the past 50 years. The continent has a high level of dependence on imports and commodity-based natural resource exports. In 2019, Africa accounted for 2.8 per cent of world trade, and intraregional trade accounted for only 14.4 per cent of total continental trade. Countries in Africa have not yet identified effective means of fostering sustained growth and increasing living standards. A basic insight underlying the process of regional integration in Africa is that there is a major unrealized potential for increased intraregional trade under the African Continental Free Trade Area.

5. Against this backdrop, the African Continental Free Trade Area could be instrumental in reversing current trends in poverty, inequality and growth, and help place Africa on an inclusive and sustainable growth path, as contended in *Economic Development in Africa Report 2021: Reaping the Potential Benefits of the African Continental Free Trade Area for Inclusive Growth*.<sup>6</sup> An investigation is provided of how recent policy trends and practices, mainly those expected to prevail under the Free Trade Area, will impact prospects for more inclusive growth, given increasing inequalities both between and within countries in the region and the negative effects of the pandemic. An analysis is included in the report of how the expected gains from trade, production, investment and growth opportunities under the Free Trade Area can be inclusive. Focusing on the three of the five

<sup>1</sup> BN Adeleye, O Gershon, A Ogundipe, O Owolabi, I Ogunrinola and O Adediran, 2020, Comparative investigation of the growth-poverty-inequality trilemma in sub-Saharan Africa and Latin American and Caribbean countries, *Heliyon*, 6(12); AK Fosu, 2015, Growth, inequality and poverty in sub-Saharan Africa: Recent progress in a global context, *Oxford Development Studies*, 43(1):44–59; E Ianchovichina and S Lundström, 2009, Inclusive growth analytics: Framework and application, Policy Research Working Paper No. 4851, World Bank.

<sup>2</sup> M Schoch and C Lakner, 2020, African countries show mixed progress towards poverty reduction and half of them have an extreme poverty rate above 35 per cent, 22 December, available at <https://blogs.worldbank.org/opendata/african-countries-show-mixed-progress-towards-poverty-reduction-and-half-them-have-extreme> (accessed 16 March 2021).

<sup>3</sup> E Seery, J Okanda and M Lawson, 2019, A tale of two continents: Fighting inequality in Africa, Oxfam briefing paper.

<sup>4</sup> H Bhorat and K Naidoo, 2017, Drivers of inequality in the context of the growth-poverty-inequality nexus in Africa: An overview of key issues. In: United Nations Development Programme, *Income Inequality Trends in Sub-Saharan Africa: Divergence, Determinants and Consequences* (New York):53–73.

<sup>5</sup> Seery et al, 2019.

<sup>6</sup> UNCTAD, 2021, *Economic Development in Africa Report 2021: Reaping the Potential Benefits of the African Continental Free Trade Area for Inclusive Growth* (United Nations publication, sales no. E.21.II.D.3, Geneva).

Ps under the 2030 Agenda that anchor inclusive growth (people, prosperity and partnership), the challenges faced in informal cross-border trade are assessed, particularly among marginalized groups, to ensure that the Free Trade Area will be inclusive across sectors and that the growing labour force in the region will be efficiently utilized. In addition, an assessment is provided of how the region can inclusively benefit from its unexploited trade potential through the Free Trade Area. Finally, the importance of partnerships in operationalizing the African Continental Free Trade Area is highlighted, to effectively foster inclusive growth and post-pandemic resilience in the region.

## II. Main findings

6. The analysis in *Economic Development in Africa Report 2021* sheds light on how recent policy trends and practices, mainly those expected to prevail under the African Continental Free Trade Area, will impact prospects for more inclusive growth, given increasing inequalities both between and within countries in the region and the negative effects of the pandemic. Recommendations are provided for Governments in Africa and the multilateral community, which aim to support policymaking across the continent by outlining how expected gains from trade, production, investment and growth opportunities from the Free Trade Area can be more inclusive. In addition, a toolbox is proposed for streamlining elements of inclusive growth into the ongoing negotiations under the African Continental Free Trade Area.

7. The African Continental Free Trade Area is one of the flagship projects under Agenda 2063, which includes various targets related to sustainable and inclusive growth. One of the objectives of the African Continental Free Trade Area is to “promote and attain sustainable and inclusive socioeconomic development, gender equality and structural transformation of the State Parties”. Accordingly, specific elements and channels are addressed in *Economic Development in Africa Report 2021* through which complementary interventions and partnerships under the Free Trade Area can support the inclusive exploitation of potential benefits, which include economic diversification and stronger resilience; an increase in the trade shares of women, youth and locally owned enterprises; and support for the graduation of informal ventures to small and medium-sized enterprises. The discussion underscores the strategic role of the Free Trade Area in unleashing equal export opportunities for all actors in support of inclusive growth and development. High levels of unexploited trade potential reveal opportunities for inclusive growth under the Free Trade Area. However, as contended in the report, this can only be achieved if implementation is accompanied by coherent trade policies and strategies that focus on reducing commodity dependence in the region and that promote fair trade. The effectiveness of such policies is contingent on the quality of institutional mechanisms, both for monitoring implementation and for dispute settlement, and partnerships that support the realization of the Free Trade Area. Key stylized facts include the following:

- On average, the proportion of households in Africa with an income or consumption level at below \$1.9 per day (purchasing power parity) declined from 40.2 per cent in 2010 to 34.4 per cent in 2019. With regard to inequality, countries in Africa have a Gini index ranging from 27.6 per cent (Algeria) to 63.3 per cent (South Africa). The pandemic risks jeopardizing many of the growth gains made in recent years, halting the decline in poverty while exacerbating inequality.
- Inclusive growth includes elements of income-related inclusive growth and multidimensional inclusive growth; the former, across all segments of the population, as illustrated through growth incidence curves, has been inclusive (that is, growth that reduces poverty and inequality) in only 17 countries in Africa; poverty-reducing but inequality-increasing in 18 countries; and non-inclusive (that is, growth that does not reduce poverty or inequality) in 14 countries.
- Strengthening regional trade integration could help enhance inclusive development. Removing intra-African tariff and non-tariff barriers under the Free Trade Area could unlock new trade opportunities.

- The total untapped export potential of intra-African trade is \$21.9 billion, more than one third of which is due to trade-related frictions. The remaining \$13.3 billion is driven by gross domestic product and population growth that is expected to translate into increased supply and demand on the continent.
- Partial tariff liberalization by 2025 under the Free Trade Area is expected to increase the intra-African export potential by an additional \$9.2 billion.
- The scope of the Free Trade Area for strengthening regional value chains can increase the resilience of countries in Africa in the post-pandemic period, in particular with regard to medical supplies and food products. This may also be relevant with regard to renewable energy because different countries have different energy resources and more intense trade can support the diversification of the energy mix and harness complementarities. This may be important in Africa given the growing prominence of a green growth agenda as part of post-pandemic scenarios.
- To further increase the inclusivity of intra-African trade, it is necessary to facilitate the participation of domestic and women-owned enterprises. Facilitating market entrance and reducing the costs of starting a business, as well as strengthening productive linkages between exporters and the domestic economy, are critical for more inclusive growth.
- Ongoing trade-related frictions, including non-tariff measures, infrastructure gaps and inadequate market information, pose particular burdens on small and medium-sized enterprises and marginalized groups. Firms experience business constraints differently, and access to inputs and productive capacities is not equally distributed. Addressing the dominance of a few market actors and structural and regulatory barriers to entering domestic and foreign markets requires long-term cooperation in investment and competition policies. Moreover, some trade barriers entail fixed-cost elements and smaller actors are therefore disproportionately affected, notably with regard to non-tariff measures.
- The effective implementation of coherent policies and strategies and the harmonization of trade rules is important, and policy sequencing is key in delivering on the potential of the African Continental Free Trade Area Agreement.
- Challenges related to the dispute settlement mechanism of the African Continental Free Trade Area Agreement, including both financial and political costs and capacity constraints, should be addressed, to empower small and medium-sized enterprises to raise their voices and protect their rights.

### III. Policy recommendations

8. The implementation of the African Continental Free Trade Area starts a new era of trade governance in Africa and should be considered an opportunity to undertake much needed structural reforms across the continent, to support inclusive growth and recovery in the post-pandemic period.

#### 1. Streamline trade rules and practices

9. **Promote efficient trade measures, including through the digitalization of rules and practices.** The implementation of trade measures under the African Continental Free Trade Area, including tariff and non-tariff measures, determines cost-effectiveness and the competitiveness of economies in Africa. The digitalization of trade and the promotion of paperless trading systems has significant potential to support small-scale traders and should be a leading priority for policymakers and trade practitioners. The adoption of technologies, which has increased during the pandemic, should be accelerated across economies in Africa, including through dedicated efforts to support digital skill upgrading and awareness-raising among the largest segments of the population. These are key elements with regard to the choice of a business to source inputs from within the Free Trade Area. In addition, the establishment of the mechanism for reporting, monitoring and eliminating non-tariff barriers through an online platform reflects continental ambitions to mainstream

digital issues in trade reforms. It should be effectively used by businesses to report any barriers they might encounter while trading across borders. The use of the tool should be encouraged across the continent through sensitization events, dedicated in particular to women traders and small-scale businesses. The adoption of electronic certificates of origin will also be instrumental in digitalizing procedures and the African Continental Free Trade Area secretariat could design an integrated electronic system for the certification of origin under the Free Trade Area. This would allow not only for reductions in trade costs but also help ensure the security, traceability and efficiency associated with electronically based systems. In practice, such a system can allow manufacturers and exporters to electronically submit, on a dedicated web-based platform, all relevant documents for the issuance of certificates of origin. The African Continental Free Trade Area Agreement provides for the use of electronic certificates of origin, to be issued and accepted in accordance with the legislation in each country. The adoption of electronic certification is not compulsory under the Agreement. However, existing initiatives across regional economic communities and the increasing digitalization of trade processes and cost-saving advantages of such procedures can help encourage its adoption by States Parties. The electronic certification of origin under the Common Market for Eastern and Southern Africa, for example, is expected to replace manual certification. Such actions should be complemented by investments in hard infrastructure assets and development corridors (e.g. transport, trade, agriculture, industry and other corridors). Short-term to medium-term actions can include the establishment of efficient, well-connected and self-inclusive regional and national special economic zones (e.g. cross-border special economic zones, industrial zones and technology parks), under strong public–private partnerships.

**10. Ensure the convergence of trade rules and practices under the African Continental Free Trade Area and between the Free Trade Area and regional economic communities.** Heterogeneous trade agreements among countries in Africa could undermine the efficiency of rules under the African Continental Free Trade Area. Concerted efforts and cooperation among States Parties, across regional economic communities, are required to reduce the complexity of the regulatory landscape with regard to regional trade, build synergies among the various trade arrangements and achieve integration. This is recognized in the various provisions of the African Continental Free Trade Area Agreement that emphasize cooperation and mutual assistance. Achieving such objectives implies that States Parties need to foster the gradual harmonization (e.g. joint definitions of objectives and requirements, preferably converging towards international and continental standards), equivalence (e.g. recognition of technical regulations, standards and conformity assessments of other States as equivalent in achieving policy objectives) and mutual recognition (accepting the procedures of other States) of trade-related measures. States Parties may need to rethink certain aspects of national sovereignty in favour of harmonized systems and greater cooperation, to achieve common objectives. Convergence in quality infrastructure systems can be driven by continental quality infrastructure institutions, such as the African Organization for Standardization, the Intra-Africa Metrology System, the African Electrotechnical Standardization Commission and the African Accreditation Cooperation, working closely with member States, regional economic communities and the African Continental Free Trade Area secretariat. Some diverging provisions, such as rules of origin criteria, among regional economic communities and the African Continental Free Trade Area might not be easily reconcilable. Such divergence could encourage the private sector to produce and trade towards a specific regional economic community, which would undermine the achievement of the African Continental Free Trade Area objective of promoting increased continental trade. In this context, it is important for regional economic communities and customs unions to gradually converge towards the development of new sets of rules of origin that can be aligned with the rules of origin provisions under the African Continental Free Trade Area. This can also help address issues related to overlapping and proliferating rules of origin across the continent.

**11. Promote market intelligence, to provide knowledge on market opportunities, trade rules and other regulations.** Industry associations, including women’s trade associations and networks at the regional and national levels, intermediaries and business services should be supported and provided with market-driven information, to facilitate

linkages, strengthen women's participation and reduce potential mismatches between demand and supply, both between and within countries. Women entrepreneurs and producers also need to be given opportunities to participate in international exhibitions and trade fairs, as a means of identifying niche markets and connecting with international buyers. The African Trade Observatory is expected to serve as a repository for data and relevant information on measures, policies and intra-African trade. Data collected through the platform could serve to assess the implementation of different trade measures. Regional arrangements at the regional economic community level could also support the tracking of progress on implementation.

**2. Ensure that the private sector is a driver of transformative growth: A bottom-up approach is necessary**

12. The central role of the private sector can be supported through stronger industry associations and intermediaries, to connect businesses and facilitate access to human and physical capital and intermediate inputs and services. An effective bottom-up approach that begins with addressing the obstacles to participating in economic activity at the micro level requires increased data collection and sharing knowledge from enterprise surveys. Trade, investment and competition policies that are implemented without an understanding of the market structure and the needs of the private sector will not be able to reap the full benefits of the African Continental Free Trade Area for inclusive growth. With regard to a top-down approach, there are risks related to influence from strong lobby groups and the protection of industries in which a few market actors are dominant. Yet a bottom-up approach alone is insufficient to effect sustainable change on behalf of the private sector. Rather, it should be combined with meso-level action, aimed at leveraging industry associations, trade unions and civil society organizations.

**3. Promote an inclusive free trade area through complementary measures targeting vulnerable groups**

13. Harnessing the inclusive growth potential of the African Continental Free Trade Area is not automatic; to achieve this potential, complementary measures are essential. The Agreement does not include differentiated provisions for stakeholders that are often disadvantaged in formal trading systems, such as women-owned businesses, small-scale traders and young entrepreneurs, and complementary measures at the regional and national levels are essential, to achieve an inclusive free trade area. Such measures include, for example, the prioritization of support to actors among which and sectors in which trade reforms have the greatest potential for inclusiveness, such as women in trade, agriculture and small and medium-sized enterprises. At the policy level, it is important to mainstream into formal economies the following actors: women-owned businesses; young entrepreneurs; informal producers and traders; and small and medium-sized enterprises. Affirmative action schemes to support such groups, including in public procurement, can be developed by the States Parties. For example, national public procurement rules can award a portion of all types of contracts to continental and regional businesses without competition with well-established firms. Complementary measures in favour of an inclusive African Continental Free Trade Area also entail the development of one-stop border posts and the adoption of simplified trade regimes. Experiences at the regional economic community level show that simplified trade regimes can increase the profit margins of small-scale traders, including women-owned businesses. Such regimes allow for clearance through a limited number of customs procedures, providing that the value of traded items is below a certain threshold. Best practices from regional economic communities could serve as a foundation for a continental simplified trade regime. The promotion of suitable financing solutions is critical for small-scale traders with limited start-up capital and savings. Policymakers may consider developing structured financial products with flexible lending schemes, offering preferential terms for informal cross-border traders. Harmonized policy and legal frameworks for mobile money and cross-border electronic payment systems could be established to reduce the risks and inefficiencies associated with cash-based transactions. Electronic payment systems could provide a means of affordable and effective cross-border funds and/or remittance transfer systems, as well as an opportunity to formalize some informal cross-border trade. Existing regional payment

systems largely exclude informal cross-border traders as they are linked to formal banking channels. Advocacy efforts need to focus on the integration of banking products targeting cross-border traders into these payment systems, to address information asymmetries between traders and financial institutions.

**4. Develop a framework for the collection of data on informal cross-border trade and improve the availability of relevant gender-disaggregated data**

14. Given the estimated magnitude and prominence of informal cross-border trade and its positive consequences for food security and incomes among poor households, the lack of data and statistics in this regard hinders the adequate determination of intra-Africa trade, making it difficult to capture and understand the different dynamics at play, to inform evidence-based policymaking. Part of the reason for such a lack is that there is no universally agreed definition of informal cross-border trade. A common definition and methodology are essential in order to establish a coherent statistical database, including, for example, the utilization of commodity descriptions aligned with formal trade statistics, and thereby enable monitoring, comparison and analysis across countries in the implementation of the African Continental Free Trade Area. Longitudinal surveys of informal cross-border trade could be supplemented by socioeconomic surveys, to provide insights into the demographic, social and economic status of informal cross-border traders and convey trader perceptions of the quality of infrastructures and experiences at borders. The collection of data on informal cross-border trade could go beyond data on merchandise trade, including trade-related costs (e.g. transport, storage and accommodation costs), to assess the impact of trade facilitation measures. National Governments should intensify their efforts to collect gender-disaggregated data, to enable deeper analysis of women's participation in value chains and trade. To ensure ownership and sustainability, the monitoring of informal cross-border trade should be led by national statistical offices. In instances of national-level resource and capacity constraints, Governments should be supported by regional economic communities and other stakeholders in addressing gaps, building capacity and compiling and harmonizing gender-disaggregated data and statistics.

**5. Establish integrated institutional mechanisms for implementation and monitoring**

15. Implementation of the African Continental Free Trade Area requires a strong and integrated institutional set-up. The Agreement is multidimensional and cuts across various sectors. National-level institutional arrangements for implementation and monitoring should therefore include, as much as possible, representatives from relevant public and private entities. To be more inclusive, institutional arrangements should include representatives from among women producers and traders, small-scale businesses and other groups, and account for their voices in policy design, implementation and monitoring processes. Several countries are establishing African Continental Free Trade Area national committees, with a mandate to coordinate implementation and monitoring under the Agreement. Other countries have this mandate incorporated in the work of existing trade committees (e.g. national trade facilitation committees under the World Trade Organization). A proposed architecture for national committees aims to ensure inclusiveness, with members drawn from various national agencies, customs authorities and businesses. National committees could establish ad hoc or permanent technical committees or working groups to deal with specific provisions of the Agreement. In addition, regional and national institutions need to develop and implement effective monitoring and evaluation mechanisms for trade rules under the African Continental Free Trade Area, to track progress. The toolkit proposed by UNCTAD to assess the effectiveness of non-tariff measures can help States Parties undertake regulatory audits of trade-related measures, to understand the challenges faced by manufacturers and traders. This objective can also be achieved through the country business index proposed by the Economic Commission for Africa, which aims to assess the extent to which businesses in countries in Africa find trading across borders challenging, with a view to identifying the main challenges with regard to trade competitiveness. Such tools can help policymakers take proactive corrective measures and alleviate the trade-related burdens faced by businesses. Regular consultations between Governments and businesses, including through formal and informal public-private platforms, should also be encouraged across the continent, as this is instrumental in

designing appropriate interventions to support businesses. Given the multiplicity of institutions and stakeholders involved in the implementation of the Agreement, effective policy coordination needs to be well organized between the African Continental Free Trade Area secretariat, various ministries and entities with potentially contrasting mandates. Ideally, the design of policies should be aligned with the African Continental Free Trade Area and regional frameworks, with States Parties refraining from trade-restrictive practices. The protection of infant industries should fit into the modalities provided for under the African Continental Free Trade Area, that is, that up to 3 per cent of tariff lines may be excluded from the liberalization scheme. However, given the structure of production and export in most economies, countries in Africa need to pursue active industrial policies in sectors that are critical for inclusive development and economic diversification. This should not result in undue protectionism beyond the allowed transition periods, however, and policies should gradually be coordinated at the regional and subregional levels. Finally, there is an intrinsic relationship between peace, trade and inclusive growth, and it is critical for countries to address insecurity and terrorism and to build cooperation towards peace. The integration agenda and related interventions need to have, as leading priorities, security, good governance and peace.

## **6. Build the capacity of relevant stakeholders with regard to inclusive rules and practices**

16. Countries in Africa already have trade agreements at the international and regional levels. However, the capacity of countries to implement the African Continental Free Trade Area Agreement, given the development constraints that they face, should not be underestimated. The effective implementation of the African Continental Free Trade Area and specific trade facilitation procedures depends on the training and skill upgrades provided to government officials involved in the processing of import and export flows and the collection and monitoring of data. Capacity-building in the implementation of the Free Trade Area is necessary to ensure that the private sector is aware of the Agreement and to obtain buy-in at both the regional and domestic levels. For policymakers and trade officials, including customs authorities, this is a prerequisite to implementing the provisions of the Agreement while accounting for heterogeneity in the trade landscape at all levels, whether international, continental, regional or national. For businesses, which are pivotal in the production and trade of goods and services, undertaking the Agreement is essential, to reap its full benefits. In addition, for the private sector to understand the texts, rules and regulations under the Free Trade Area and to use them in a cost-effective manner, it is desirable that the legal texts should be translated into different languages at the regional and national levels. Capacity-building could also address the available tools, from those related to awareness-raising to printed media and electronic tools such as online toolboxes, training materials and information. In *Economic Development in Africa Report 2019: Made in Africa – Rules of Origin for Enhanced Intra-African Trade*, UNCTAD proposed a digital toolbox for rules of origin that could be easily expanded to cover other themes under the Free Trade Area, such as trade facilitation measures and technical barriers to trade. Such a toolbox could include, among others, online training materials and information-sharing, web-based information in the form of a repository of the provisions of the Agreement and a help desk. Toolboxes could be developed by the African Continental Free Trade Area secretariat at the continental level, regional economic communities at the regional level and national committees at the domestic level.

## **7. Target technical and financial support to the least developed countries, to address trade constraints**

17. Trade reform in the least developed countries is associated with a relatively slow pace of implementation of agreements, and the capacity to harness trade benefits is relatively limited in these countries compared with in most non-least developed countries. The least developed countries have not been granted differentiated treatment other than the longer period of tariff liberalization under the African Continental Free Trade Area. Most of these countries face structural constraints, such as a weaker manufacturing and services base. In addition, landlocked least developed countries (14 of the 33 least developed countries in Africa) face higher trade costs, which is likely to undermine their competitiveness under the Free Trade Area. The Agreement does not provide for

differentiated rules of origin for the least developed countries, which could have helped to reduce gaps related to productive capacities in comparison with other groups of countries. Therefore, technical and financial assistance programmes under the Free Trade Area should first and foremost target the least developed countries. For example, the Enhanced Integrated Framework, a multi-donor fund led by the World Trade Organization, and the Aid for Trade initiative, support the least developed countries at the international level in addressing trade-related constraints. Similar programmes could be created under the African Continental Free Trade Area, hosted by the secretariat. The ultimate objective would be to channel financial and technical support through programmes that primarily target the least developed countries in Africa, with a view to providing assistance in addressing trade-related constraints and strengthening integration in regional value chains.

#### **8. Strengthen cooperation at the international and continental levels**

18. The African Continental Free Trade Area is being implemented within a dynamic trading landscape, with several multilateral and bilateral agreements, and at a time of significant competition in global markets and ongoing pandemic-related measures. In this context, beyond rationalizing trade rules and practices, the Agreement can be considered by both members of the African Continental Free Trade Area and non-member States as an integrated framework for consolidating continental approaches with regard to negotiations beyond the continent. The Agreement can help to strengthen the position of Africa, to weigh in on debates on topical trade issues at the World Trade Organization, including electronic commerce; intellectual property rights, particularly for small and medium-sized enterprises; investment facilitation; and the domestic regulation of services. In this regard, partner States that are not members of the Agreement can help economies in Africa to achieve a balance between regional and national interests. At the same time, countries in Africa need to fast track implementation of the African Continental Free Trade Area, consider the impact of any trade agreement with third parties on regional integration and avoid undermining the latter for short-term gains. In addition, the African Union could accelerate achievement of the ambition to make the African Continental Free Trade Area a customs union.

#### **9. Adopt cost-effective measures and strengthen dispute settlement mechanisms**

19. Evidence from international trade arrangements and those under regional economic communities suggests that countries in Africa have had limited recourse to formal dispute settlement mechanisms due to factors ranging from high financial and political costs to capacity constraints and a reluctance to litigate. In this context, with a view to reducing the costs associated with physical representation, trade dispute resolution under the African Continental Free Trade Area may be digitalized through the use of online dispute resolution mechanisms whenever possible and practicable. Online mechanisms can make the process more accessible to States facing significant financial constraints. In addition, to reduce the political costs associated with dispute settlement mechanisms, countries may use, to the extent possible, diplomatic approaches as a first recourse in dispute resolution, as provided for in the formal dispute settlement process under the African Continental Free Trade Area. Such approaches, including good offices, conciliation and mediation, are rules-based dispute settlement mechanisms that allow States to mutually seek a resolution, uphold commitments to the Agreement and preserve inter-State relations. States Parties could also establish a capacity-building institution, namely, an advisory centre on African Continental Free Trade Area law, along the lines of the Advisory Centre on World Trade Organization Law. Such a centre could be mandated to support training and provide advisory services to States Parties, in particular the least developed countries, to help resolve trade disputes. The centre could also work with universities across the continent to support training programmes in international trade law, with a focus on African Continental Free Trade Area rules and regulations.

**10. Implement the Protocol to the Treaty Establishing the African Economic Community Relating to Free Movement of Persons, Right of Residence and Right of Establishment, to facilitate labour mobility and reap inclusive benefits**

20. The assessment of the export potential under the African Continental Free Trade Area suggests that large economies and those with better-equipped production facilities can reap the greatest gains from increased market access, through the realization of economies of scale. Labour mobility is key to explaining the distributional impacts of international trade because export and import-competing industries are clustered in different locations and workers cannot move seamlessly between regions and sectors. The implementation of the Protocol Relating to Free Movement of Persons is therefore a crucial element in ensuring that the African Continental Free Trade Area is more inclusive. In particular, implementation of the protocol has the potential to generate significant benefits for informal cross-border traders; to reduce the vulnerabilities associated with illegal border crossings and income losses due to lengthy visa applications; and to help recognize informal cross-border traders in formal trade. In addition, with regard to trade in services, implementation of the protocol can facilitate transactions and communications between buyers and sellers, through reductions in the costs of obtaining visas and the removal of costs related to residency and work permits. The facilitation of the free movement of people between countries in Africa, beyond providing opportunities for cross-border traders, could also have significant implications for women and youth, including with regard to the ability to migrate between regions and countries in pursuit of job prospects.

**11. Ensure tax justice and coherent provisions in investment and competition policies**

21. The most significant aspects with regard to continental integration, namely, building productive capacities and competitiveness, are addressed under phase II of the implementation of the African Continental Free Trade Area. Trade policies alone are unlikely to support inclusive growth. Instead, potential distributional gains from regional integration should be addressed through strong cooperation in the development of investment and competition policies. Governments should seek to ensure that fair taxes are paid in order to finance infrastructure that facilitates linkages to rural remote areas. Tax redistribution and justice is understood as a determinant of inclusive growth. Current investment policies often involve tax holidays, yet to promote inclusive growth, domestic resource mobilization and the equal distribution of benefits from trade and investment, Governments should cooperate in the minimum taxation of multinational firms. The dispute settlement mechanism under the African Continental Free Trade Area could help address such issues in investment and competition policies, to avoid race-to-the-bottom tax policies.

**12. Ensure the enforcement of equal rights for the development and protection of marginalized groups**

22. The African Charter on Human and Peoples' Rights aims to protect human rights and ensure equal access to education, health, productive resources and legal protection. However, certain groups, based on gender, class or ethnicity, are systematically disadvantaged, and there continues to be insufficient protection for women against violence. Governments should work to adopt and enforce antidiscrimination laws, to help ensure inclusive development.

## **IV. Conclusion**

23. Future analytical research should assess the domestic income distribution effects of the African Continental Free Trade Area, to help support those who may benefit less. Such analyses could also examine the differential impacts of initiatives on women and men. Ongoing tariff negotiations with regard to sensitive products should follow a rational framework that is empirically based, to determine the commodities that should be included. In this regard, it is important to monitor preference utilization, to determine the preferential regime that is utilized the most along key corridors, as this could inform future negotiations on potential improvements in provisions on rules of origin and non-tariff measures. Additional research is also needed on the determinants of sustainable market entrance for

new firms and how the firm-level concentration of exports from both international and domestic companies may be a structural barrier to reaping inclusive benefits. Policymakers need to understand the market structure and power of established firms, to either increase competition through support for market entrance or, in instances of high sunk costs and economies of scale, be aware of potentially anticompetitive behaviour. There is no one-size-fits-all solution. The analysis in *Economic Development in Africa Report 2021* can be used as a toolbox by countries in assessing the inclusiveness of trade patterns and how trade agreements can promote the economic participation of marginalized groups in labour-intensive and high value added sectors.

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