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DISCUSSION PAPER No. 287

The promise of the African Continental Free Trade Area (AfCFTA)

POLITICAL ECONOMY DYNAMICS OF REGIONAL ORGANISATIONS IN AFRICA

PEDRO

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December 2020

Trading under the African Continental Free Trade Area (AfCFTA) is set to begin on 1 January 2021. So far more than 30 countries have ratified the Agreement, which aims to connect 55 countries, creating a market of 1.3 billion people. The hopes and aspirations attached to the AfCFTA – for trade, industrialisation and addressing the effects of COVID-19 – place it high on the agendas of African policymakers, but also of their partners who support the process. This paper provides an overview of some of the potential opportunities and benefits of the AfCFTA, particularly in relation to manufacturing, agriculture, services and e-commerce, but also of the challenges involved in moving from agreement to impact.

The AfCFTA promises a virtuous circle of greater market opportunities, triggering more trade and investment, and allowing greater value addition and productivity growth – leading to more and better jobs with social inclusion, and thus further enlarged markets. But for the full benefits of the AfCFTA to accrue to African countries and citizens, numerous additional policy enablers – measures, reforms and investment – are also key, not least in infrastructure, transport corridors and logistics, as well as to improve the business climate in African countries.

Despite high-level political momentum around the AfCFTA, its ultimate success depends on African states not only ratifying, but fully implementing and complying with the AfCFTA, while also investing in the necessary enablers. As such, the political economy dynamics around the AfCFTA between and within countries and sectors are key to understanding how and where most impact will be felt, and therefore where and what kind of external support is necessary and useful.

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Acknowledgements

This paper builds on work initially requested by the Finnish Ministry of Foreign Affairs. In this revised and updated form it is published as part of ECDPM's African Institution and Regional Dynamics work on the 'Political Economy Dynamics of Regional Organisations in the time of COVID-19 (PEDRO II). It therefore also benefits from financing from the Federal Ministry for Economic Cooperation and Development, BMZ. Further information about previous PEDRO work can be found at www.ecdpm.org/pedro. The authors are grateful for the valuable comments and insights received on the paper from Martti Eirola, Johanna Rasimus, and San Bilal. Thanks also to Valeria Pintus and Alfonso Medinilla for the graphic design as well as to Carlotta Maria Paschetto and Tilly Bogataj-De Coninck for editing and layout work. Any errors remain the sole responsibility of the authors. The views expressed do not reflect those of ECDPM or BMZ. For comments and feedback please get in touch with Philomena Apiko (pha@ecdpm.org); Sean Woolfrey (sw@ecdpm.org) and Dr. Bruce Byiers (bby@ecdpm.org).

Acronyms

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
Afreximbank	African Export-Import Bank
AIDA	Accelerated Industrial Development of Africa
AREI	Africa Renewable Energy Initiative
AU	African Union
BIAT	Boosting Intra-African Trade
CEMAC	Economic and Monetary Community of Central Africa (*Communauté Economique et Monetaire de l'Afrique Centrale*)
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Coronavirus Disease 2019
DFTA	Digital Free Trade Area
DTS	Digital Transformation Strategy
EC	European Commission
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EPA	Economic partnership agreements
ESA	Eastern and Southern Africa
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment

GATS	General Agreement on Trade in Services
GDP	Gross domestic product
ICT	Information and communication technology
ITU	International Telecommunication Union
(Non-)LDC	(Non-)Least-developed country
MSME	Micro, Small and Medium-sized Enterprise
NEPAD	New Partnership for Africa's Development
NTB(s)	Non-tariff barrier(s)
PIDA	Programme for Infrastructure Development in Africa
PMPA	Pharmaceutical Manufacturing Plan for Africa
REC	Regional economic community
SAATM	Single African Air Transport Market
SADC	Southern Africa Development Community
SKBo	Sikasso-Korhogo-Bobo Dioulasso
SPS	Sanitary and Phytosanitary Standard
TBT	Technical Barrier to Trade
TFA	Trade Facilitation Agreement
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank Group
WTO	World Trade Organization

1. Introduction

Trading under the African Continental Free Trade Area (AfCFTA) is set to begin on 1 January 2021, a further step in realising the ambition of continental economic integration. To have come this far with so many states on board is already quite an achievement. Expectations for what follows are also high.

Once finalised, and once all African countries participate, the AfCFTA will become the largest free trade area by membership established under World Trade Organization (WTO) rules integrating 55 African economies. Through the AfCFTA, African countries aim to establish a single continental market for goods and services, facilitated by movement of capital and persons, thus laying the foundation for the eventual establishment of a continental Customs Union. Other objectives of the AfCFTA include the promotion of sustainable and inclusive development, gender equality, structural transformation, industrial development and diversification, regional value development, agricultural development and improved food security on the continent.

As such, beyond boosting intra-African trade, the larger markets offered by the AfCFTA are expected to trigger investments, leading to higher productivity and value addition in the continent, resulting in more and better jobs, and broader welfare benefits, thus further enlarging the market. A virtuous circle should ensue. While the COVID-19 pandemic and its economic effects pose risks to this logic, the hoped-for benefits are more needed than ever. The AfCFTA process is therefore high on the agendas of African policy-makers, but also of the international partners who support it and the related continental and regional processes.

This paper represents an overview of the literature on the potential, or promise, of the AfCFTA over the coming years. It summarises the main opportunities and benefits expected to stem from the AfCFTA, particularly in relation to the manufacturing, agriculture, services and e-commerce sectors. Each holds multiple opportunities for diversification and industrialisation if the right conditions are in place.

But the paper also points to some broad challenges to be addressed in moving from agreement to impact. Despite high-level political momentum around the AfCFTA, its ultimate success depends on African states not only ratifying but fully implementing and complying with the AfCFTA, and economic actors being able to use it. As the paper discusses, the success of the AfCFTA therefore also relies on a set of accompanying enablers to ensure the virtuous circle can take shape. As with the regional integration processes at the sub-continental level, the political economy dynamics *between* countries around the AfCFTA but also *within* each country and each sector will be key to determining how and where most impact will be felt, but also to detecting where there may be resistance to implementation.

Though these challenges are broadly recognised by policymakers in this domain, it is worth underlining the importance of the interests and incentives of key actors in affecting AfCFTA outcomes. This can serve both to inform future discussions on how best to engage continental, regional and national actors around AfCFTA implementation, as well as to ensure that international partners provide effective support in an appropriate form.

The AfCFTA process is complex, with negotiations on-going in multiple phases, and implementation set to require cooperation and coordination among an array of public and private stakeholders from the local to the continental level, raising a range of technical and political questions that will vary by place and by sector. As such, this overview paper can only touch on issues on which to build future discussion and wider engagement.

The remainder of the paper is organised as follows. Section 2 looks at the potential benefits of the AfCFTA as cited in the literature. It covers the underlying rationale, the current state of play, and a summary of issues relating to the key sectors cited above. Section 3 then focuses on the challenges of moving from agreement to implementation, and particularly the importance of broader enabling or accompanying policies. Section 4 concludes with implications for policymakers and their international partners.

2. The AfCFTA: a game changer for Africa's development?

2.1. State of play on the AfCFTA

The Agreement establishing the AfCFTA was opened for signature on 21 March 2018, a historic day marked by the launch of two other continental initiatives: the Protocol on Free Movement of Persons[1] and the Single African Air Transport Market (SAATM), both complementary to the AfCFTA's implementation. The AfCFTA Agreement entered into force on 30 May 2019, the final step before operationalisation. At present, all but one African country - Eritrea - have signed the AfCFTA Agreement, while more than 30 countries have ratified it.[2] On 7 July 2019, the operational phase of the AfCFTA was launched, instituting the five operational instruments governing the AfCFTA. These instruments are: the Rules of Origin; the online negotiating forum; the monitoring and elimination of non-tariff barriers; a digital payments system; and the African Trade Observatory (AU 2019a).[3] The African Union Commission inaugurated the AfCFTA secretariat in Accra, Ghana, in August 2020. Following the global crisis brought on by the COVID-19 pandemic, the start of trading was postponed from 1 July 2020 to 1 January 2021.

AfCFTA Phase 1 negotiations have so far focused on trade in goods and services and on dispute settlement. Further negotiations are planned in Phase 2 on the facilitation of intra-African investment, intellectual property and competition. Future Phase 3 negotiations will focus on e-commerce, although there is discussion at the AU to have this included under Phase 2. An AU Extraordinary Summit on the AfCFTA is planned for 5 December 2020 in a bid to finalise the outstanding issues ahead of the start of trading next year.

May 2020 marked a year since the AfCFTA Agreement legally entered into force, having surpassed the necessary 22 ratifications. Though trade is due to begin under the agreement in January 2021, a number of key aspects are still being finalised. These include the schedules of tariff concessions and rules of origin for goods, and the schedules of specific commitments on services. Under the modalities for tariff liberalisation, member states agreed to liberalise 90% of tariff lines within 5 years (10 for least developed countries), and a further 7% of tariff lines, designated 'sensitive products', subject to more gradual liberalisation, and 3% of tariff lines excluded.[4] The AfCFTA will be implemented following the principle of variable geometry, which allows some member states more time to liberalise than others.

Table 1: Modalities of tariff liberalisation under the AfCFTA

	Least developed countries (LDCs)	Non-Least developed countries (non-LDCs)
Full liberalisation	90% of tariff lines	90% of tariff lines
	10-year phase down	5-year phase down
Sensitive products	7% of tariff lines	7% of tariff lines
	13-year phase down (current tariffs can be maintained during first 5 years – phase down starting in year 6)	10-year phase down (current tariffs can be maintained during first 5 years – phase down starting in year 6)
Excluded products	3% of tariff lines	3% of tariff lines

Source: Adapted from AU Decision on the African Continental Free Trade Area Assembly/AU/Dec.714(XXXII)

[1] AU 2018b
[2] See here for latest ratification status: Status of AfCFTA Ratification - tralac trade law centre
[3] AU 2019b, Decision on the Launch of the Operational Phase of the African Continental Free Trade Area (AfCFTA)
[4] Previously, six countries: Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe, had been given a 15-year tariff phase-down period due to their specific development challenges. However, in the AU 2020 Decision on the African Continental Free Trade Area Assembly/AU/Dec.751(XXXIII), these countries withdrew their reservations in the interest and solidarity of the African continent and will join the rest of the state parties in implementing the agreed modalities of tariff liberalisation.

While a stated objective of the AfCFTA is to simplify trading regimes on the continent, given the array of overlapping regional arrangements, the AfCFTA aims to build on ongoing regional integration progress within Africa's Regional Economic Communities (RECs). Many of these have established their own free trade areas or customs unions. Article 19(2) states that "regional economic communities, regional trading arrangements and custom unions, which have attained among themselves higher levels of regional integration than under this Agreement, *shall maintain* such higher levels among themselves". In practice this means that customs unions are in fact part of negotiations, even when actually a sub-group of one of the RECs.[5] This means that trading arrangements at the REC level will continue to co-exist alongside the AfCFTA, a situation which could put further institutional burden on African states by imposing yet another layer of trade relations, at least in the short to medium term (Berger et al. 2020). Effective coordination and appropriate task division within AfCFTA-REC-member state relations will be crucial for ensuring that these institutional architectures actually promote intra-African trade.

As of the meeting of senior Trade Officials in September 2020, only six countries and CEMAC had submitted tariff offers, implying considerable work still to be done before the planned start of trading in January 2021.[6]

2.2. Potential benefits and channels

The AfCFTA aims to connect 1.3 billion people across 55 countries with a combined gross domestic product (GDP) valued at US$3.4 trillion (WB 2020). Beyond its groundbreaking size, the AfCFTA signals a paradigm shift and a commitment to deeper integration of the continent by negotiating goods and services concurrently. It is thus hailed as an economic game-changer for Africa's development owing to its potential to boost intra-African trade but also to provide an opportunity for countries in the region to competitively integrate into the global economy, reduce poverty, and promote inclusion (Ibidem). Increasing trade through the AfCFTA is also hoped to provide the impetus for reforms that boost productivity and job creation, further reducing poverty. By 2035, implementing the agreement could help to lift an additional 30 million people from extreme poverty and 68 million people from moderate poverty (Ibidem). By providing a large and attractive market, the AfCFTA offers "an apt response to the reluctance of companies to invest in small, fragmented and uncompetitive national markets" (Muchanga 2020b).

The immediate benefits of the AfCFTA are expected to emerge from the reduction in tariffs and non-tariff barriers (NTBs), and the establishment of a continental framework for trade in goods and services. But the AfCFTA also provides an opportunity to harmonise regulation in other important trade-related policy areas that have not been substantially addressed at the regional level such as investment, competition, intellectual property rights and e-commerce. Regulation in these areas helps shape how economies function and grow. For example, "trade and investment regimes determine the extent of economic integration; competition rules affect economic efficiency; and intellectual property rights protections matter for innovation" (WB 2020).[7] The Preamble of the AfCFTA also recognises the importance of international security, human rights, democracy, gender equality and the rule of law for the development of international trade and economic cooperation, suggesting the potential to address these non-trade policy objectives in the implementation of the AfCFTA.

It is estimated that implementing the AfCFTA will increase the volume of intra-African trade by 81 % by 2035, and increase the volume of total African exports by 29 % (World Bank, 2020). By boosting intra-African trade and fostering regional value chains and production networks, the AfCFTA is expected to drive Africa's structural transformation. Implementing the AfCFTA could increase wages by 10 %, with larger gains for unskilled workers and women (ibid.). Freer trade under the AfCFTA is also expected to address gender inequality in Africa by increasing employment opportunities for women and helping to lower the gender wage gap on the continent (ibid.). Given this potential, the AfCFTA is being touted as Africa's stimulus package to address the devastating impact that the COVID-19 pandemic is having on African economies.

[5] See TRALAC (2020) AfCFTA negotiations: the current state of REC liberalisation and intra-REC trade

[6] According to the Senior Trade Officials meeting report from September 2020, these were: CEMAC, Egypt, Malawi, Madagascar, Mauritius, Seychelles, São Tomé & Principe.

[7] WB 2020

Overall, the biggest gains from the AfCFTA are expected from the reduction of non-tariff barriers (NTBs) and from trade facilitation, which are estimated lead to raise intra-African trade by “between 50 and 132% [with] gross domestic product (GDP) gains of between 1 and 4%”.[8] The AfCFTA provides a framework and an additional commitment mechanism to support implementation of the WTO’s Trade Facilitation Agreement, which at present has been ratified by 40 African countries.[9] The WTO estimates that full implementation of the TFA would reduce global trade costs by 14.3% on average and up to 23.1%, with the highest average reduction in Africa and LDCs (WTO 2015).

Annex 5 of the AfCFTA Agreement addresses NTBs and establishes a reporting, monitoring and elimination mechanism that the private sector can use to report specific trade barriers. The AU, in collaboration with the United Nations Conference on Trade and Development (UNCTAD), has developed an online mechanism designed to improve intra-African trade by offering a site for reporting and resolving NTBs experienced by businesses.[10] This is a welcome innovation, especially for Africa’s many informal cross-border traders - many of whom are women - and small businesses, who are disproportionately affected by NTBs such as cumbersome bureaucracies, lengthy clearance processes, unclear rules and corruption (UNCTAD 2019). The AfCFTA can help reduce the trade costs associated with NTBs by creating a common set of rules for participating countries in areas such as technical barriers to trade (TBT) and sanitary and phytosanitary standards (SPS). Nonetheless, eliminating NTBs requires coordination among various government departments, pointing to one of the potential challenges to eventual implementation, further discussed below.

2.3. The AfCFTA as a driver of industrialisation and export diversification

The AfCFTA is expected to boost African trade, but particularly intra-regional trade in manufactured goods. The World Bank (2020) estimates that within the increase of total exports by almost 29% relative to business as usual, manufacturing exports would gain the most, with intra-Africa manufacturing trade increasing by 110% and manufacturing exports to the rest of the world rising by 46% (Ibidem).

These estimates underline the AfCFTA’s potential to create new opportunities for African manufacturers and workers and thus the hopes being attributed to it to boost industrialisation on the continent. Compared to a business-as-usual scenario, implementing the AfCFTA is expected to lead to an “almost 10% increase in wages, with larger gains for unskilled workers and women” (WB 2020). This would therefore also help to close the gender wage gap.

Continentally there is a growing sense that countries cannot sustainably depend on the export of commodity/raw materials and need to diversify their exports and transition to value added products. A better-integrated African economy provides a larger market for African exports of such products. Implementation of the AfCFTA could also have a positive effect on foreign direct investment (FDI), especially in the manufacturing (and services sectors), as foreign investors venture to tap into the continental market, diversifying investments beyond the traditional extractives sector (AfDB 2017).

Further, the COVID-19 pandemic has exposed the vulnerability of African countries’ dependence on imports of critical items such as food, fuel, machinery and other manufactured goods, highlighting the susceptibility of many countries to disasters and exogenous shocks (Cotton et al. 2020). Factories around the world slowed or halted production due to shortages of intermediate inputs from external sources such as China. Within Africa, this has further focussed the debate on regional value chain development and increasing domestic and regional industrialisation. As highlighted by Albert Muchanga, the AU Commissioner for Trade and Industry, “promoting increased intra-African trade in manufactured goods requires rapid growth of the African manufacturing and agro-processing sectors, driven by high quality and competitively priced products” (AU 2020b). An AU Summit on Industrialisation and Economic Diversification was already scheduled to take place in November 2020 in Niamey, with discussions aimed at follow-up activities to give dynamism to the growth and resilience of African

[8] Annex 4 of the AfCFTA Agreement addresses trade facilitation.
[9] See https://www.tfafacility.org/ratifications for the full list of ratifications.
[10] For more information, see https://tradebarriers.africa/about

manufacturing and agro-processing sectors (Ibidem). That is now postponed to 2021 and will build on the momentum created during the African Industrialisation week held from 16-20 November 2020.[11] This will revive continental discussions on industrialisation enshrined in the 2008 Accelerated Industrial Development for Africa (AIDA) initiative, which set ambitions for the development and implementation of an industrial policy with priority accorded to maximizing the use of local productive capacities and inputs, adding value to and local processing of the abundant natural resources of the country. Although steps have been taken to implement the AIDA, challenges remain, while the AfCFTA is increasingly seen as a possible vehicle to restimulate its implementation.

Discussions have also centred on regional industrialisation strategies in the context of the AfCFTA, and how these would function in practice. A number of RECs have adopted regional industrialisation strategies though with varying degrees of success. Though such strategies make sense, given the potential for regional market integration to promote regional value chain development and support other industrial objectives, they often ignore the competition dynamics between states in specific sectors and the fact that mechanisms used to pursue national industrial objectives often contradict regional commitments (Byiers et al. 2018). Within the AfCFTA context, the workability of having 55 different national industrialisation strategies has therefore also been questioned. A possible solution is to invest in regional and cross-border special economic zones, which have economic benefits including the creation of job opportunities and the transfer of new technology and skills. Examples exist, for example the SKBo triangle encompassing Burkina Faso, Cote d'Ivoire and Mali (West Africa Brief 2018). The AfCFTA could provide a broad framework to further build on such examples.

In light of the COVID-19 pandemic, AU discussions have reverted back to the 2012 Pharmaceutical Manufacturing Plan for Africa (PMPA),[12] which seeks to promote local manufacturing of essential medicines and to improve availability and access for African populations (AU 2012). Talks of regional pharmaceutical hubs have been ongoing in some RECs, such as the Southern African Development Community (SADC) and Economic Community of West African States (ECOWAS). In June 2020, the AU launched the Africa Medical Supplies Platform[13] which promotes the procurement of medical supplies from local manufacturers and taps into the harmonized regulatory systems created in the context of the PMPA. The pharmaceutical sector was also identified as a priority area for cooperation in the EU's *Comprehensive Strategy with Africa*, which among other things, includes "promoting the African pharmaceutical and medical industry, as well as cooperation on innovation and research on endemic infectious diseases" (EC 2020). This provides an opportunity for pharma-investments in Africa, even if such investments will depend on whether enabling factors exist domestically, on intellectual property rights including the use of compulsory licensing and aspects of market regulation, financing, incentives for investment in research and development, distribution and access to medicines. This is especially pertinent given the ongoing development for a COVID-19 vaccine. Opportunities lie in strengthening African countries capacity in intellectual property rights and support towards Phase 2 negotiations of the AfCFTA. Support to strengthening African health-related production capacity and access to vaccines and health products should therefore be encouraged (Tondel and Ahairwe 2020).

Though rising manufacturing may be in energy-intensive sectors, development of the green economy is gaining traction globally and the AfCFTA may again provide opportunities to promote green industries and enterprises. In line with its Green Deal (EC 2019), the EU's *Comprehensive Strategy with Africa* proposes a partnership for green transition and energy access requiring "enhanced cooperation between the EU and Africa on a responsible raw materials sector, secure and clean industrial value chains, respecting ambitious environmental and climate standards" (EC 2020). Continentally, Agenda 2063 in its aspiration for a prosperous Africa, based on inclusive growth and sustainable development envisions a context in which "the environment and ecosystems are healthy and preserved, and with climate resilient economies and communities" (AU 2015). This is reinforced by the Africa Renewable Energy Initiative (AREI) which aims to support African countries leapfrog to renewable energy systems that support their low-carbon development strategies while enhancing economic and energy security. African countries can benefit from their current low-carbon position and leapfrog to a green economy. They can also take advantage of new innovations and technologies and use their natural resources optimally and efficiently as inputs to an industrialisation process powered by the continent's endowments of clean sources of energy. Trade-related

[11] For more information see https://www.unido.org/AIW2020

[12] For more information on the Pharmaceutical Manufacturing Plan for Africa see https://au.int/sites/default/files/pages/32895-file-pmpa_business_plan.pdf

[13] For more information on the Africa Medical Supplies Platform see https://amsp.africa/

import policies as well as resource-pricing policies can support efforts to green industry. The industrial policies supporting openness to FDI, export promotion, privatization, and the creation of eco-industrial estates are favourable to the development of the green economy (Luken and Clarence-Smith 2019). Some countries have developed green economy strategies for example, the Ghana Environmental Protection Agency developed the AKOBEN Programme, an environmental performance rating and disclosure initiative which aims to improve companies' adherence with environmental regulations through the application of green processes in manufacturing and mining activities.[14]

However, the move towards industrialisation is not without challenges. African countries face key infrastructure deficits which are key to boosting industrialisation. The AfDB estimates that Africa's infrastructure deficit accounts for 30 % to 60 % of productivity losses of firms and 40 % to 80 % of this is due to deficits in the energy sector (Ahouassou 2017). Access to energy is crucial for reducing the costs of doing business and for the creation of new jobs. Another challenge is the unfavorable business environment present in a number of African countries. The World Bank Doing Business 2020 report notes that economies in Sub-Saharan Africa continue to lag in terms of reforms, with only two economies, Mauritius and Rwanda, ranking in the top 50 on the ease of doing business index.[15] Several countries also lack the institutional, human capital and compliance capacity to implement industrialisation policies. Political economy concerns also shape the industrialisation agenda of a country including on around import substitution and regional strategies on industrialisation.

2.4. The AfCFTA, services, e-commerce and agriculture

In comparison to the manufacturing sector, the World Bank estimates that with the implementation of the AfCFTA, the gains in agricultural trade would be smaller, representing 49% for intra-African trade and 10% for extra-Africa trade, while the gains in services trade would be much smaller at about 4% overall and 14% intra-African trade WB 2020). This section discusses the opportunities the AfCFTA may provide in the services, e-commerce and agriculture sectors.

Services

Though the impact of trade in services is estimated to be low, it is estimated that 90% of African countries would see their overall volume of services activities grow under AfCFTA, reflecting the higher demand for services as the wider economy grows (Ibidem).[16] The AfCFTA Protocol on Trade in Services aims to progressively liberalise trade in services on the basis of equity, balance and mutual benefit, by eliminating barriers to trade in services. It is modelled on the WTO General Agreement on Trade in Services and recognises the four modes of supply of services namely: mode1 (cross-border supply); mode 2 (consumption abroad); mode 3 (commercial presence); and mode 4 (movement of natural persons). The liberalisation of trade in services, coupled with relevant policies, is capable of spurring both sectoral and economy-wide growth. Five priority sectors have been prioritised for AfCFTA implementation: financial services, transport, telecommunications/information technology, professional services, and tourism. However, the schedules of specific commitments are yet to be finalised.

Technical progress, especially the emergence of e-commerce, have contributed to establishing services in the trade policy agenda. The benefits of services liberalisation extend far beyond the service sectors themselves as they affect all other economic activities in which services are inputs. Employment in Africa over the past decade has shifted from agriculture to services and contributing to much of the growth in the region (WB 2014). Moreover, services offer an option for economic transformation for countries, such as small island states (e.g. Mauritius, Seychelles), small landlocked states for which manufacturing might be less commercially viable (e.g. Botswana, Rwanda), countries with more sophisticated value chains requiring services input and financial centres (e.g. Kenya, Morocco, South Africa), and IT/telecommunications innovative countries (e.g. Kenya and Nigeria) (Simo 2020). The negotiations to deepen the EU-ESA EPA will also cover services.

[14] For more information see http://www.epa.gov.gh/epa/sites/default/files/downloads/publications/epa%20brochure.pdf
[15] World Bank Doing Business rankings available at https://www.doingbusiness.org/es/rankings
[16] In 2017 the largest exporters of trade in services in Africa by value of global trade were Egypt, Morocco, South Africa, Ghana and Nigeria, while the largest importers were Nigeria, Egypt, South Africa, Angola and Algeria.

However, barriers to trade in services are much more complex than barriers to trade in goods due to NTBs related to market access, regulatory requirements and restrictions on workers and movement of people (Sáez et al. 2015). In parallel with the adoption of the AfCFTA, the Protocol to the Abuja Treaty relating to Free Movement of Persons, Right of Residence and Right of Establishment was open for signature at the 2018 AU Summit in Kigali. The Protocol recognizes that the free movement of persons in Africa will facilitate the implementation of the AfCFTA, and offer an avenue to develop trade in services especially in mode 3 (commercial presence) and mode 4 (movement of natural persons). As such, implementation of the AfCFTA Protocol on Services is very much related to implementation of the Protocol on Movement of Persons.

Due to COVID-19, many services sectors have been closed in many countries, which has affected trade in services especially in the hospitality and travel industry. Specifically, this has had a negative impact on women who tend to be employed more in services (recreational and other, insurance, real estate, trade, and financial) and the textiles and wearing apparel sector and less in construction, mining, and road and rail transport services (WB 2020). The AfCFTA Protocol on Trade in Services makes explicit reference to improving the export capacity of formal and informal service suppliers, with particular attention to micro, small and medium-sized operators and “women and youth service suppliers” (AU 2018a).

Opportunities exist for greater services trade to benefit women and youth but this will require African governments to adopt an inclusive approach. That means giving due consideration to gender-sensitive regulatory and policy frameworks that enable women to be integrated into the business sector and take advantage of higher-skilled service jobs in the prioritised services sectors and provide avenues for women to participate in the increased continental market access. At present countries are developing national AfCFTA implementation strategies to provide a coherent and strategic approach towards this continental mechanism where gender is one of the cross-cutting themes. The key test for gender-sensitive implementation thus lies in the answer to the question, whether there is traction for the uptake of gender related issues concerning trade domestically in AU member states. With the crisis created by the COVID-19 pandemic, there is a risk that some countries have shifted focus from AfCFTA issues, resulting in reduced commitment and preparedness to implement the AfCFTA national strategies, including discussions on gender mainstreaming.

The Protocol on Trade in Services follows the GATS approach, yet the eight AU RECs have taken substantially different approaches to the liberalisation of trade in services. This will raise challenges for member states, which have different levels of experience and different regional frameworks on which the AfCFTA is intended to be built. Diverging national regulatory policies and market access restrictions also remain a huge obstacle for cross-border trade in services, while insufficient reporting of services in official statistics, including those in the informal sector, underestimates the economic contribution of trade in services. Regulatory continental frameworks are necessary to harmonise trade in services though not sufficient in and of themselves.

E-commerce

Digitalisation is a megatrend reshaping economic and state-society relations, and presenting opportunities to boost trade. Although the AfCFTA Agreement does not explicitly refer to the digital economy, digital considerations cut across many aspects of trade in goods and services. E-commerce specifically will be negotiated under Phase 3 and plans are underway for a continental Protocol on E-commerce. The digital economy offers opportunities for increased productivity, entrepreneurship, innovation, job creation and access to new markets (Solomon and van Klyton 2020). But African countries vary in their readiness to engage in and benefit from the digital economy, with many facing challenges such as: provision of ICT infrastructure; education and skills development; the labour market; competition; issues relating to science, technology and innovation, and taxation; trade and industrial policies and effective cross-sectoral cooperation within governments and with other stakeholders. In addition, concerns exist regarding the use of virtual systems, especially regarding infrastructure reliability, security and confidentiality. Policies are needed to address the lack of ICT connectivity which is an obstacle for many enterprises, especially MSMEs, to compete effectively online. There is a risk that digitalisation trends make inequalities even more entrenched, fostering discrimination and creating new development problems, especially for marginalised groups such as women (Banga et al. 2020). Africa has the lowest rate of Internet penetration, and a wide digital gender gap with only 22.6% of women using the Internet, compared with 33.8% of men (ITU 2019).

Despite challenges, predictions for the growth in online business and e-commerce in the continent are optimistic. The AU has launched its Digital Transformation Strategy (DTS) 2020-2030 with an objective to harness digital technologies and innovation to transform African societies and economies to promote inclusive economic growth. This complements the 2014 Smart Africa initiative that seeks to put ICT at the centre of national socio-economic development agendas. Developments have also been made in the launch of African e-commerce platform 'Sokokuu Africa',[17] and the development of a Pan-African Payments and Settlement System (PAPSS) platform by the African Export-Import Bank (Afreximbank), the first centralized payment market infrastructure for processing, clearing and settling of intra-African trade and commerce payments.[18] The digital economy is also a key priority and an innovation opportunity for EU relations with Africa. The EU's *Comprehensive Strategy with Africa* prioritises a partnership for digital transformation and acknowledges that e-commerce and digital financial services have the potential to boost Africa's economic integration and "digital services can also increase access to transaction accounts and digital finance solutions for banking, insurance or payment services, including remittances" (EC 2020).

Agriculture

Agriculture is the largest employer in Africa by sector accounting for 38.5% of total employment (WB 2020), and 17.23% of the continental GDP,[19] making it an important sector in most countries. Many African countries depend on imports from outside the continent for their food security. This fact makes African economies vulnerable to both demand and supply-side shocks, a vulnerability exacerbated by the COVID-19 pandemic.

Continentally, while intra-regional trade has grown over the last decade, it only makes up 27% of total agri-food exports and 17% of total agrifood imports (FAO and AU 2020). These figures however, do not capture informal unrecorded trade between neighbouring countries, much of which involved agri-food products. The manufacturing sector accounts for 12.6% of employment at the continental level, of which 42% is in food processing (Ibidem). With the implementation of the AfCFTA, pathways to transformation in agro-processing can be achieved by moving up the value chain and adding value to the process of traditional exports such as cocoa, coffee and tea. Opportunities also lie in non-traditional agricultural exports such as horticulture products.

The AfCFTA could play an important role in facilitating intra-regional trade in agri-food products, including from surplus to deficit areas, thereby stabilising food prices and improving food security. The AfCFTA also offers an opportunity to promote agricultural transformation, and improve competitiveness through regional agricultural value chain development. For this to happen, many countries will require accompanying policies to improve productive capacities and promote investment for value addition. In addition, complementary policies related to SPS, TBT and compliance with international standard setting bodies, such as the Codex Alimentarius Commission (Ibidem), will have to be strengthened and harmonised continentally.

The AU Continental Agribusiness Strategy provides a framework for the promotion of agribusiness, including agro-industry in Africa (AU and NEPAD 2017). Combined with the AfCFTA, avenues are therefore open for further developing the continental agribusiness strategy in a sustainable manner, which highlights the private sector's role as drivers of inclusive agribusiness development for sustainable agricultural growth. Opportunities exist for private sector development and blended financing to leverage investments into agro-processing with the AfCFTA serving as a framework to provide larger markets for both inputs and outputs.

Overall, the AfCFTA has the potential to trigger industrialisation and export diversification, both of which are made even more urgent objectives by the current COVID crisis. Opportunities also exist in the services, e-commerce and agriculture sectors. But as the different sections above highlight, the AfCFTA agreement itself is only a start. In addition to beginning to trade under the agreement, implementation itself may remain complicated given the need for customs officials to be trained and systems put in place and used. Many of the benefits expected also depend on a combination of the AfCFTA with other supporting policies affecting investment, infrastructures, and productive

[17] AU 2020c
[18] Adams 2019
[19] See the African Development Bank, Socio-economic database 1960-2021, available at https://dataportal.opendataforafrica.org/nbyenxf/afdb-socio-economic-database-1960-2021

capacities at the firm level. As AU Commissioner for Trade and Industry, Albert Muchanga has said, the AfCFTA is also about mindsets and the private sector looking towards the African market (Mbapndah 2019). The move from agreement to impact is therefore not straightforward.

3. Getting from agreement to impact

While there is high visibility and political momentum around the AfCFTA and good progress has been made in the negotiations, the impact of the AfCFTA will depend not only on what is agreed in the negotiations, but also on whether African countries ratify, domesticate, implement and comply with the provisions of the AfCFTA Agreement. The impact of the AfCFTA will therefore also depend on the effectiveness of various complementary policies and initiatives put in place to enable African businesses and individuals take advantage of trade and investment opportunities under the AfCFTA.

3.1. Ratification, domestication, implementation and compliance

More than thirty African countries have now ratified the AfCFTA Agreement, and that number will surely increase. The real question is what the ratifying countries do next. Looking at the sub-regional trade agreements that have been concluded in the past through Africa's RECs, a common challenge has been getting member states to follow through on commitments once agreements have been signed and ratified. The record of African countries on domesticating regional trade agreements (i.e. making them a part of national law) and on implementing and complying with the provisions of these agreements is very uneven, contributing to an 'implementation gap' in regional economic integration in Africa, and suboptimal levels of intra-African trade.

Past analysis has shown that political economy dynamics at the domestic level have greatly influenced the degree to which member states have implemented and complied with regional trade agreements in Africa (Vanheukelom et al. 2016). In particular, African countries are more likely to implement regional trade agreements where these are in line with the interests and incentives of their political and business elites (ibidem). Box 1 below highlights how vested interests in Nigeria and perceptions regarding likely winners and losers from AfCFTA implementation have shaped the country's engagement with the AfCFTA thus far (and may influence its commitment to implementation and compliance in the future).

Box 1: Nigeria and the AfCFTA

Nigeria has historically been a champion of African economic integration, and Nigerian officials played a prominent role in the AfCFTA negotiations. It was therefore somewhat surprising that the country initially refused to sign the AfCFTA Agreement. While Nigeria did eventually sign, it ended up being one of the last countries to do so (in July 2019) and only ratified the Agreement in November 2020. These delays reflect the fact that there has been significant and vocal opposition in Nigeria to the AfCFTA, and widespread concern about the AfCFTA's potential impact on the Nigerian economy. Nigerian consumers and traders, and certain Nigerian industries, including its financial and telecommunications services industries, potentially stand to benefit from the AfCFTA, and are therefore broadly supportive of Nigeria's participation in the AfCFTA. However, these stakeholders are less well organised and less politically influential than the country's manufacturing industries, who are more skeptical about the AfCFTA. Having long benefited from the significant protection afforded by Nigeria's highly restrictive trade regime, Nigeria's manufacturing sector initially lobbied against the AfCFTA and have urged the Nigerian government to ensure that Nigeria's large domestic market doesn't become a 'dumping ground' for foreign products, thereby harming local manufacturing firms who already have to contend with a highly unfavourable business environment. While its belated signing and ratification of the AfCFTA Agreement, suggests that the Nigerian government has made some progress in assuaging the concerns of the local manufacturing sector, powerful vested interests in trade protectionism remain in Nigeria. The impact of these interests can be seen in the ongoing closure of Nigeria's borders to protect local industries from 'smuggling'. These closures are in contravention of the country's regional commitments and have negatively affected neighbouring countries, increasing regional tensions. The persistence of such interests raises doubts about how committed the Nigerian government will ultimately be in terms of following up ratification by domesticating the AfCFTA Agreement and taking the necessary but potentially difficult political steps to actually implement the Agreement and comply with its provisions.

Source: Woolfrey et al. 2019

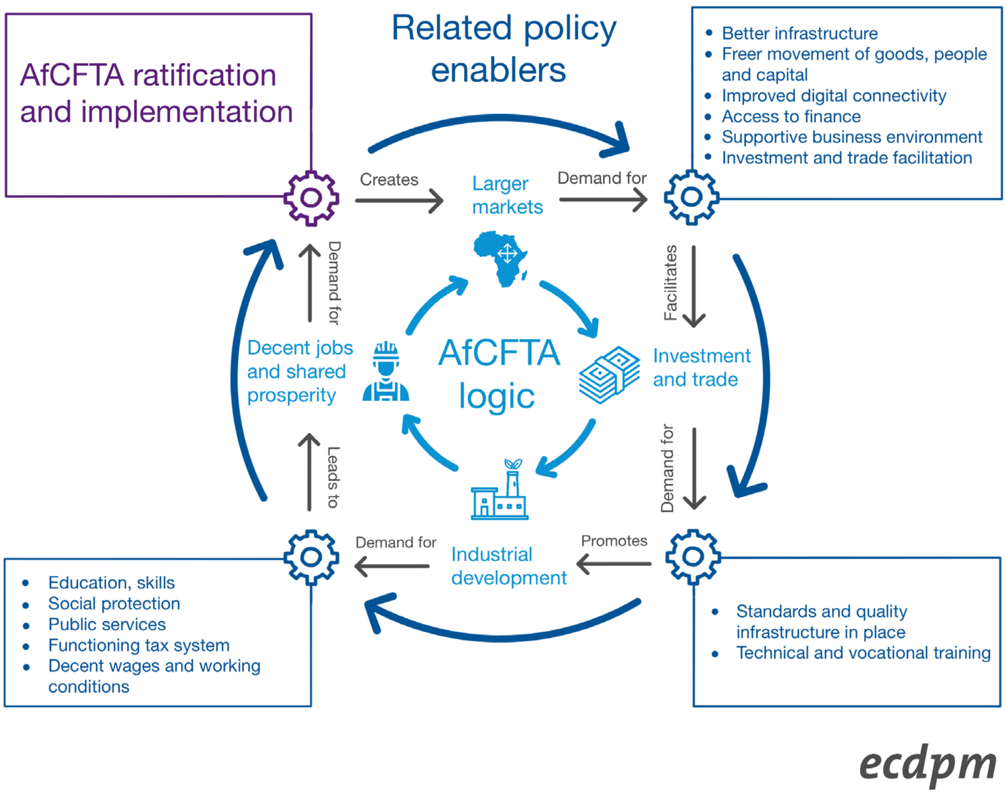
Another contributing factor to the implementation gap in regional economic integration in Africa has been the ineffectiveness of compliance mechanisms such as peer review, scorecards and other forms of monitoring and dispute settlement, to ensure that member states comply with regional commitments. The AfCFTA Agreement provides for formal dispute settlement procedures - something which African countries have been reluctant to resort to in the past - and other compliance mechanisms to encourage countries to fulfill their AfCFTA obligations. For example, an online mechanism for reporting, monitoring and eliminating NTBs has been established to address the pervasive trade-chilling impact of NTBs in Africa.

Beyond the NTB reporting mechanism, the AfCFTA Agreement itself says little about monitoring, while the protocols on trade in goods and in services are limited to institutional proposals such as the establishment of a Committee on Trade in Goods to oversee the implementation of the protocol. Though there is a firm commitment to producing annual reports on the process of implementation, monitoring and evaluation of the protocol, past experience suggests that further mechanisms may be required to further bolster member state compliance.

3.2. Complementary policy enablers

Even if all African countries fully implement and comply with the AfCFTA Agreement, the objectives of the AfCFTA can only be achieved if complementary policy measures are put in place to facilitate trade and investment under the AfCFTA. Indeed, the underlying logic of the AfCFTA as a virtuous circle depends on these complementary policies as enablers to maximise the benefits of the AfCFTA. Figure 1 below summarises the broad interaction of the AfCFTA logic with these additional complementary measures or enablers. Many of these policy enablers relate to specific continental policies or initiatives, such as the AU's Action Plan for Boosting Intra-African Trade (BIAT) raising the question of whether the AfCFTA itself can trigger progress on these agendas.

Figure 1: The reinforcing logic of the AfCFTA and the role of policy enablers



Source: Authors' design

Better infrastructure and improved digital connectivity

The poor overall quality of Africa's physical infrastructure (roads, rail, port facilities as well as telecommunications infrastructure) is a major impediment to intra-African trade (AU 2019a). Promoting greater investment in Africa's trade-related infrastructure, including through initiatives like the AU's Programme for Infrastructure Development in Africa (PIDA), is therefore crucial for enabling intra-African trade and ensuring the success of the AfCFTA.

Improving digital connectivity is also crucial for boosting intra-African trade under the AfCFTA, especially given the increased attention on e-commerce in Africa. Digital tools like cloud services and online platforms can enable e-commerce and facilitate trade in services, both of which have become increasingly crucial drivers of economic activity since the onset of COVID-19. Digital tools can also drive trade facilitation in Africa, reducing transaction costs and barriers to cross-border trade. The use of online information portals, single windows, digital documentation, electronic payments, electronic certificates (e.g. certificates of origin) and signatures and automated processing of trade declarations can help simplify, streamline and expedite trade-related procedures at borders (Hartzenberg et al. 2020). Shifting from paper to digital customs procedures has the added advantage that such procedures are more transparent to traders, less susceptible to petty corruption and require less physical contact - an important consideration during a global pandemic). Digital tools can also facilitate information sharing between different border agencies.

Beyond streamlining customs procedures, digital tools like electronic cargo tracking can help improve trade logistics, while digital payment platforms such as PAPSS, can make trade-related cross border financial transactions easier. Digital tools also offer opportunities for potentially marginalised groups, such as women, young people and rural populations to participate more easily in intra-African trade. Such groups are prominently represented in informal cross-border trade in Africa. Mobile applications can help such informal cross border traders to get information on trade related activities and procedures, while mobile payment applications can enable them to make cashless financial transactions.

Most African countries currently lack the infrastructure, to fully take advantage of these digital opportunities. For trade opportunities under the AfCFTA to be fully realised, the digital divides that exist between Africa and the rest of the world, as well as between and within African countries need to be addressed (Ibidem). Major investment in physical information and communication technology (ICT) and digital infrastructure is needed, as is an enabling regulatory environment like that being promoted through the Digital Free Trade Area (DFTA) initiative of the COMESA. Digital skills training is also needed to ensure that Africa's citizens are able to take advantage of digital trade opportunities (Ibidem).

Freer movement of people and a more supportive business environment

Making it easier for Africa's people, including entrepreneurs, professionals, workers and consumers, to move across the continent is also crucial for allowing them, and the businesses they represent, to take advantage of opportunities to trade goods and (especially) services under the AfCFTA. For this reason, the AU's Protocol on the Free Movement of Persons, which aims to reduce current restrictions on the movement of people within Africa, is a crucial complementary policy enabler for the success of the AfCFTA. At the same time, it has received considerably less political attention and traction than the AfCFTA itself - thus far only four countries from the continent have ratified it, in spite of existing protocols on movement of people at the regional level in the ECOWAS regions, for example (IOM 2020).

Beyond freer movement of people, complementary measures are needed to improve the business environment under the AfCFTA. Continental initiatives like the BIAT, which focuses on, among other things, trade facilitation, trade finance and trade information, will be important in this regard. Domestic reforms will also be needed to improve the business environment under the AfCFTA, including in areas such as access to finance and credit facilities, trade information, investment support and taxation. Investments in education, skills development and training, particularly in ICTs, would facilitate greater uptake of AfCFTA opportunities. Given that the private sector plays a crucial role in translating the AfCFTA's institutional framework into practical action on the ground, the business environment and the development of productive and trading capabilities will also be key.

Facilitation of small-scale trade

A large share of intra-African trade is informal, small-scale and unrecorded. Informal cross-border traders, most of whom are women, face significant impediments when attempting to trade across borders, as well as abuse and harassment (UNECA 2020). While removing tariffs under the AfCFTA will make it more affordable for informal cross-border traders to operate through formal channels, more needs to be done to support these marginalised and economically vulnerable actors. In this regard, Africa's RECs have introduced initiatives to facilitate small-scale trade. For example, the Common Market for Eastern and Southern Africa (COMESA) has adopted a simplified trade regime (STR) and standards for the treatment of small-scale cross-border traders to facilitate quicker clearance of goods, reduce costs and improve data capture. These measures have helped to address some of the challenges faced by informal cross-border traders, and to bring informal traders into the formal channels. Under the AfCFTA, plans are underway to develop a continental STR to facilitate small-scale trade and ensure the benefits of the AfCFTA extend to small-scale traders.

4. Conclusions

The AfCFTA is a central pillar of the AU's goal to create an African Economic Community. It is increasingly also flagged as the basis for African economic recovery after the COVID-19 crisis. Even before that, the AfCFTA was conceived to help stimulate African industrialisation and greater economic self-reliance. The promise of the AfCFTA therefore goes far beyond increasing trade flows, and indeed beyond economic issues, with discussions going as far as relating the AfCFTA to contributing to peace and security and helping stimulate a green transition.

The expectations of what the AfCFTA could or should do are high. It has the potential to unleash a virtuous circle where the opportunities of larger markets trigger increasing trade and investment, leading to export diversification, productivity gains, and thus greater value added and employment, thus improving incomes and further increasing the size of the market. Within sectors, manufacturing trade stands to gain the most, but services activities beyond trade in services also stand to gain. The opportunities discussed above in agriculture and the digital market all also stem from successful AfCFTA agreement and implementation. But as also discussed, this potential depends on a majority of countries ratifying and then implementing the agreement - no mean feat. Indeed, negotiations continue on key elements such as the rules of origin and actual tariff reductions. Beyond that, many of the potential benefits rely on complementary enabling policies to ensure that people and goods can indeed cross borders, that trade facilitation measures are in place, that the business environment does encourage investment, that the structures are in place to allow upgrading and greater value addition, and that this translates into increasing incomes and livelihoods. That is, the absence of these enablers, all of which depend on domestic measures, could also undermine the potential benefits of the AfCFTA.

All this highlights the need to better understand the incentives and interests at play around implementing these interconnected agendas at the domestic level, but also regionally and at the continental level. The array of public and private actors involved in AfCFTA implementation ranges from the new AfCFTA Secretariat staff to customs officers manning the borders. The flow of benefits relies on private firms successfully navigating between national, regional and continental policy frameworks to take advantage of newly enlarged markets. As widely recognised, the distributional impacts of the AfCFTA will vary across countries and societal groups - across sectors, between skilled and unskilled workers, formal and informal traders and on female and male workers. This may lead to resistance from some, while the COVID-19 impacts only increase the need to design policies to increase the readiness of the workforce to take advantage of new opportunities offered by the continental market. Further, different sectors are likely to face different challenges - the cases of services and agriculture highlight this - while each country also faces a complex range of interests and incentives, highlighted here by the case of Nigeria.

That trade agreement outcomes are affected by political incentives is not a new insight. However, beyond recognising this, it is harder to take explicit account of these in promoting and supporting the implementation of regional trade agreements. The AfCFTA will face similar challenges.

As such, external support towards AfCFTA implementation, whether at the continental level, through regional organisations or at the national level, must take these dynamics into account and prepare direct support that builds on where there is traction at the national, regional and continental level. Based on this, the following offer some preliminary recommendations for promoting the AfCFTA implementation process, or for external partner support:

- Identify and take account of winners and losers in specific sectors to see where there is political traction and where blockages may lie in implementing national AfCFTA implementation strategies at the partner country level.
- Engage with private sector actors around potential opportunities and additional support required to benefit from the AfCFTA and to advocate for correct implementation. Many governments and international partners already have experience with supporting private sector development and the focus should be on bolstering support towards the sensitisation and productive capacity building of the private sector to make the implementation of the AfCFTA a reality.
- Tailor and frame wider economic support towards AfCFTA implementation and economic transformation - including support to infrastructures, digitalisation and national AfCFTA committees and trade facilitation committees. International partners can support AU member states to pursue the complementary economic reforms that will yield the biggest gains, again building on where there is political traction.
- While physical infrastructures and movement of people remain key areas for support to underpin the AfCFTA, digitalisation and the development of e-commerce seem to have increasing traction at the moment. Most African countries however lack the legal and regulatory ICT frameworks. External partners could target support towards developing regulatory environments for competitive and harmonised regional connectivity markets.
- With the biggest gains estimated in manufacturing, external partners should support national and regional industrialisation strategies ensuring coordinated support to maximise impact. The AfCFTA also provides an opening for external actors to promote or support leapfrogging into green industrialisation.
- Seek new opportunities from COVID, for example around pharmaceutical industries (and related intellectual property support) and other regional value chains.
- Encourage joint programming among external partners currently supporting AfCFTA negotiation and implementation efforts to avoid fragmentation and encourage pooling of support and knowledge efforts.

The engagement of policymakers and external support should thus consider not only the technical aspects of the AfCFTA implementation, but also the opportunities the AfCFTA opens for some domestic reforms dynamics, in terms of trade, investment, private sector engagement and sustainable productive capacity, which would benefit from domestic political and economic support. The AfCFTA might be a good entry point in some countries. These may include Egypt, Ghana, Kenya, Mauritius, Morocco, Rwanda, Senegal, South Africa, among others. Identifying these local opportunities will depend on the interventions targeted (priority sectors, types of reforms, AfCFTA synergies with national transformative agenda, political stability), and therefore require a more refined political economy assessment at a country and sectoral/thematic level.

While the AfCFTA logic relies on the wide set of enabling policies discussed above, the current political attention to the process may itself offer an opening to trigger domestic reforms in some African countries. Policymakers and their partners should seek to build on these, while private sector actors might also use the momentum around the AfCFTA to further push for reforms to be implemented to further encourage trade and investment.

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In addition to structural support by ECDPM's institutional partners: The Netherlands, Austria, Belgium, Denmark, Estonia, Finland, Ireland, Luxembourg, Sweden, and Switzerland, this publication benefits from specific support from the Finnish Ministry of Foreign Affairs and the German Federal Ministry for Economic Cooperation and Development (BMZ).

ISSN1571-7577

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