

# AfCFTA and RCEP amongst challenges and opportunities

Will they deliver effective and real trade liberalization for economic growth ?

A Practitioner's View

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# AfCTA and RCEP in a new trade dimension

- Traditional trade initiatives are stalling in the West
- Neither US or EU have embarked in new “trade” initiatives but rather engaged in friend-shoring or Digital Economic agreements
- The results of WTO MC 12 are better than expected but fall short of relaunching trade initiatives
- The “Developing” world seems polarized among
- 1) *NOs* to multilateralism/ plurilateralism in WTO
- 2) Ambitions to liberalize trade according to old models without genuine political will (mega- regionals)

# The Starting Point: Why do Governments Enter Trade Agreements ? And economists create expectations?

- Create market access for their firms
- Foster regional integration
- Attract investment and productive capacity
- Insertion into value chains and structural transformation
- RCEP by 2030 increases income by 245 Billion annually (ADB)
- AfCFTA will increase income of African countries by 9% by 2035 (World Bank)

# Similarities and differences among RCEP and ACFTA

- AfCFTA and RCEP share similarities:
  1. Overlapping memberships of FTAs
  2. **Poor implementation record of FTA commitments**
  3. Limited **trade liberalization**
  4. **Limited utilization rates (URs) of FTAs**
- But wide divide in terms on intra-regional trade and economic growth
- Recent Studies shows that the average URs in ATIGA is 50 per cent and COMESA and SADC 64 per cent
- Thus the value of AfCFTA and RCEP is the incremental value with respect to the trade agreements already existing ...
- What are the nature of commitments in AfCFTA and RCEP ? Shallow or deep ? How enforceable are the commitments ?

# Status of Africa Trade Integration

- The AfCFTA initiatives was supposed to build on the existing Regional Economic Communities (RECs)
- The idea of a Tripartite FTA among COMESA, EAC, and SADC at the Summit of 2008 was meant to address these shortcomings and... **failed**
- AfCFTA entered into force in 2021 but after one more than year not a single AfCFTA transaction...so Guided Trade initiative this November ...
- **What is the destiny of AfCFTA?**





# The Fundamentals

## Policy Nature

- Wide divide between African Ministers and technocrats resulting in unrealistic deadlines and negotiating mandates
- Intergovernmental nature of the negotiating structure, weak role of the secretariat, no leadership
- Pan African attitude-reticence to use best practices and advise from external partners

## Technical Nature

- Scarce negotiating skills and/or lack of motivation
- Discontinue compositions of delegations
- Absence of dialogue with private sector

# Fundamental Trade Policy Issues

- African trade is dominated by commodities, mostly traded freely when exported to the north, mostly dutiable on south-south trade
- Scarce trade volumes on manufactured goods deriving from **low productive capacity –no intermediates**
- **Trade agreements are perceived as a remedy, but not free trade...a Developmental regionalism perspective**
- However African states are at different level of economic developments. Yet, **there is no explicit recognition of special and differential treatment**
- While the rhetoric is high, the reality during the negotiations is harsh and ruthless

# Fundamental Technical Issues:

- The number and coverage of a trade agreements world-wide is rising. As of 1 March 2022, **354 FTAs were in force**
- Basic Elements of an FTA Agreement:
- Invariably the basic element of an FTA are:
  1. Tariff reductions schedules
  2. Rules of origin
- Both elements **requires high technical skills** and the composition of a **multidisciplinary negotiating team** from various ministries and constant dialogue with private sector
- A crucial element of success is **the negotiating structure**



# Some Lessons Learned

## The TFTA and AfCFTA Negotiating Modalities

- Tendency to focus on principles and statements rather than on legal texts
  - The proposed text of the Tripartite FTA was circulated 18 months prior to the launch of the negotiations
  - Few countries took a keen interest in studying the text.
  - The majority resisted using the working text fearing that the documents could have originated from outside the Tripartite Task Force.
- **AfCFTA outcome of last council of Ministers of October 2022 seems to be a declaration of intents rather than a roadmap for effective AfCFTA implementation**

# The Roles of Secretariats and Management of Negotiating Sessions

- The Tripartite did not have its own dedicated secretariat and AfCFTA secretariat was established after the bulk of AfCTFA negotiations
- Relying on the services of ad hoc chairpersons with **little knowledge of trade and no authority or leadership meant delays**, missed opportunities and most of all lack of a precious mediation role
- Absence of adequate support to weakest delegations
- **AfCFTA has now established its own secretariat however there are significant delays, no visible impact on negotiations in terms of outcome and a tendency not to rely on external advise**

# AfCFTA Tariff Liberalization

- AfCFTA Leaders set 1 January 2021 as the 'start of trading'
- The Ministerial Directive on the Application of Provisional Schedules of Tariff Concessions (PSTC) for **90% of products (Category A) and is therefore incomplete**
- PSTCs for 29 AU Members have been adopted, however the number of approved and gazetted tariff offers is unclear and not public
- AfCFTA facing a credibility issue launched the Guided Trade Initiative (GTI) with 7 member states Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda and Tanzania

# GTI Checklist

**For AfCTA parties wishing to be part of the AfCFTA GTI, they need to satisfy the following requirements:**

- ✓ Being a State Party to the AfCFTA Agreement
- ✓ Have a Schedule of Tariff Concessions technically verified and approved by the CoMs or part of the Ministerial Directive on the application of PSTCs
- ✓ Gazetting of STCS/ PSTCS according to National laws
- ✓ Establishment of Ad hoc or Standing AfCFTA coordination committee
- ✓ Willing to mobilize and connect businesses with other members of the GTI
- ✓ Notification of the Required NTMs required for export and import

# Some Key Elements on Rules of Origin

- There is a strong policy bias for African policy makers to use African inputs
- *if we are able to produce it in Africa, all inputs must originate from Africa” : a chocolate bar*
- **The RoO for chocolate bar is wholly obtained**
- However, Africa does not produce sufficient intermediates i.e., cocoa paste, or when it does, **it may not be commercially available in the whole of Africa.**



# Some Key Elements on Rules of Origin *cntd.*

- It has to be recognized that certain inputs are simply **not commercially available in whole of Africa: intermediate products for machinery and electronics** and even fabrics and yarns to make garments.
- The bias extends to investment: Consider the proposal to **exclude products originating in SEZs** from the scope of AfCFTA
- There is not enough effort until recently to rely on self-certification of RoO, it is still regarded with suspicion.

# Conclusion AfCFTA

- After two years from the entry into force it is not possible to carry out an assessment or use AfCFTA as tariff offers are: Not available or implemented
- The GTI appears to manage trade rather than free trade
- Rules of origin are **overly restrictive**
- What is the incremental value of AfCFTA with respect to existing RECs?
- A **drastic trade liberalization must be undertaken** otherwise the impact will be moderate or even inexistent
- Overall, **the process has not met the expectations**. It casts a shadow on the AfCFTA credibility

# Conclusion AfCFTA and RCEP

- Although in different context both mega-regionals share similar implementation challenges
- Uncertain drafting, shallow commitments, reluctance to adopt best practices, a pervasive allergy to a rule-based system
- Both regions tailor international trade rules to their policy needs: *ASEAN way in RCEP* and “*Developmental regionalism* “ in AfCFTA.
- However, the law of gravity is universal, if there is a different way that may work we will only know during implementation
- Concerns may be legitimate for LDCs or LLDCs that may not stand to benefit from the potential benefits of these mega-regionals
- Implementation is the key and a new formulation of Aid for trade to build capacity in rule- making especially in new areas such as E-commerce digital services is essential

**Thank you!**

