
African Continental Free Trade Area (AfCFTA): Implications on Development for Tanzania

Introduction

The African Continental Free Trade Area (AfCFTA) is one of the Africa Union's flagship projects under the Agenda 2063, and a pillar of the Abuja Treaty (1991) whose one of the core objectives was to establish the African Economic Community. The AfCFTA aims at creating a continental market for goods and services, with free movement of people and capital, and paving the way for creating a Customs Union. It also envisions promoting the continent's industrialisation and competitiveness by unlocking regional value chains that can enable Africa's meaningful integration into the global economy. The AfCFTA comprises several legal instruments/ protocols covering trade in goods, trade in services, and dispute settlement, and is being negotiated in two phases i.e. Phase One (*covering trade in goods and services with related annexes like schedules of preferential tariff concessions on goods, concessions on services liberalization, and preferential rules of origin*), and Phase Two (*covering negotiations of protocols on Investment, Competition Policy, Intellectual Property Rights (IPRs), Women and Youth in Trade and Electronic Commerce*).

With negotiations launched in June 2015, a framework for the AfCFTA was officially signed in March 2018. As of July 2022, 54 AU Member States had signed the AfCFTA Agreement of which 44 have deposited their instruments of ratification¹. Although negotiations continued on several issues under Phase one, AU members decided to commence trading under the AfCFTA regime on 1st January 2021. Following this decision, countries were encouraged to individually put in place their respective National AfCFTA implementation Strategies while Regional Economic Communities were expected to follow similar approaches. All EAC Partner States except South Sudan have validated their national AfCFTA Implementation strategies, while the Regional AfCFTA Implementation strategy is in the consultation process. With regard to tariff offers, so far, some 88% of goods tariff lines have been decided for the consolidated offer by the EAC to the AfCFTA Secretariat. The cotton, textiles, apparel, edible oil and automotive sectors are excluded².

¹African Union. About the AfCFTA: Brief overview. Link: <https://au-afcfta.org/about/>

² Agarwal, P., Kweka, J. & Willem te Velde, D. (2022). Tanzania and the AfCFTA: Possible impacts, policy priorities and scoping of future support. Link: https://cdn.odi.org/media/documents/AfCFTA_Tanzania_Final_EDIT- PDF.pdf

In July 2022, the 9th meeting of the AfCFTA Council of Ministers flagged off the “AfCFTA Initiative on Guided Trade”, which seeks to test the environmental, legal and trade policy basis for intra-African trade. Eight countries, including Rwanda, Cameroon, Egypt, Ghana, Kenya, Mauritius, Tanzania and Tunisia have been selected among countries to start trading under the African Continental Free Trade Area (AfCFTA) framework in a pilot phase. The objectives of the initiative are to (a) test the environmental, legal and trade policy basis for trade under the AfCFTA; (b) demonstrate that the AfCFTA is functioning, and (c) send an important political message to countries that are yet to submit their provisions schedules on tariff concessions and to the African economic operators. The products earmarked to trade under the AfCFTA Guided Trade Initiative include: Ceramic Tiles; batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits, and sisal fibre, amongst others, in line with the AfCFTA focus on value chain development³.



³ See The AfCFTA Guided Trade Initiative. Link: <https://au-afcfta.org/2022/10/what-is-the-afcfta-guided-trade-initiative-all-about/>

Trade in Services Negotiations

Under Services Liberalization, the protocol on trade in services has prioritized five sectors for liberalization including financial services, transport, communication, professional services and tourism. The specific commitments under these priority areas are highlighted in the table below.

Priority Area	Specific categories/sectors
Financial services	All Insurance and Insurance related; Banking and other financial services.
Transport	Maritime; Internal waterway; Air Space; Railways; Road; Pipeline; Services auxiliary to transport.
Communication	Postal; Courier; Telecommunication; Audiovisual
Tourism	Hotels and Restaurants; Travel agencies and tour operators; Tourist guide services.
Professional services	Legal; Accounting; Taxation; Architectural; Engineering; Urban planning; Veterinary; Medical & Physio-therapies.

Implications of AfCFTA

a) Boosting intra-Africa trade

Covering a market of 1.2 billion people and a combined Gross Domestic Product (GDP) of US\$ 3.4 trillion, simulations by UNECA project that the AfCFTA will boost intra-African trade by 52.3% through the elimination of import duties⁴. At the regional level, it is simulated that AfCFTA would boost the exports of the EAC to the rest of the continent by around 16% (USD 1.1 billion), with processed food, textiles and clothing, and light manufacturing as the main beneficiary sector⁵. For Tanzania, AfCFTA may increase Tanzania's intra-African exports by between 17% and 77% (US\$ 323 million) and her

⁴ UNECA (2019). Stakeholders discuss benefits of the AfCFTA. Link: <https://archive.uneca.org/stories/stakeholders-discuss-benefits-afcfta-ghana>

⁵ UNECA (2020). Towards the implementation of the AfCFTA in EAC. Link: https://archive.uneca.org/sites/default/files/PublicationFiles/tmea_afcfta_report_5_june_2020.pdf

intra-African imports by between 1% and 103%⁶. Tanzania has a comparative advantage in African markets with commodities including glass, wood, sisal, electrical equipment, vegetables, hides/skins, minerals and textiles.

What sectors stand to benefit the most?

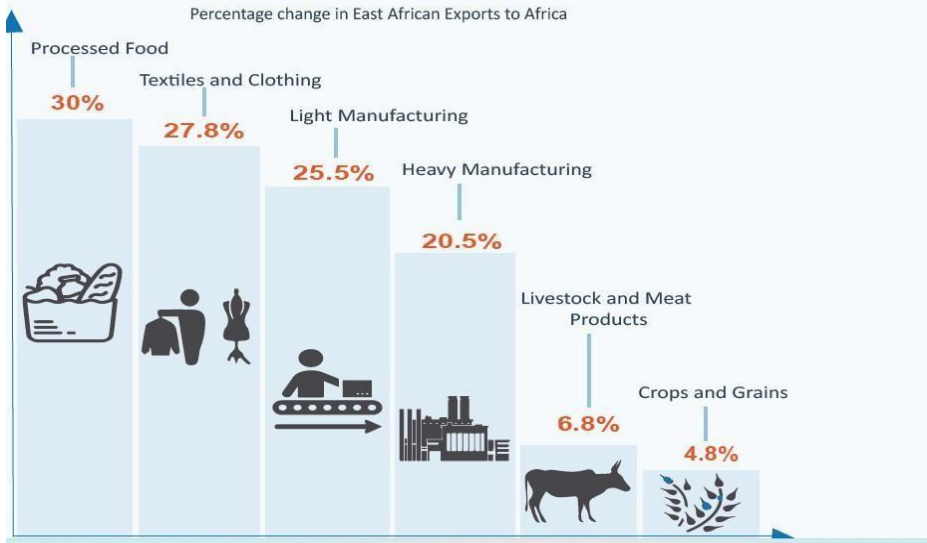


Figure 1 Source: UNECA 2020

b) Boosting industrialisation.

According to UNECA, the AfCFTA is projected to grow the manufacturing sector to \$1 trillion by 2025⁷. UNECA further projects that for the EAC, almost all sectors in the majority of countries in East Africa will experience growth in output, with the largest average gains experienced by: ferrous metals (which are widely used in construction and industrial metal fabrication); electrical equipment; vegetable oils and fats; miscellaneous manufactures; chemical products; and rubber and plastic products. UNECA (2020) further notes that a notable positive outcome revealed by the simulation is that the AfCFTA will

⁶ Agarwal, P., Kweka, J. & Willem te Velde, D. (2022). Tanzania and the AfCFTA: Possible impacts, policy priorities and scoping of future support. Link: https://cdn.odi.org/media/documents/AfCFTA_Tanzania_Final_EDIT-PDF.pdf

⁷ UNECA (2019). Stakeholders discuss benefits of the AfCFTA. Link: <https://archive.uneca.org/stories/stakeholders-discuss-benefits-afcfta-ghana>

boost production in the pharmaceutical sector in Kenya and Tanzania. Given the fact that Africa manufactures less than 2% of the medicines it consumes, while importing about 70% of its needs from outside the continent at an annual cost of USD 14.5 billion, the AfCFTA thus provides an opportunity for increased investment in the pharmaceutical sector in the EAC. In the manufacturing sector, projections show that Tanzania has the potential for exports of wheat, cereal, oilseeds, soap, paper, glass, and petroleum products; and would see increased imports of sugar, dairy and chemical products, electronics, metals, vehicles and textiles.

c) Revenue creation and losses

At the continental level, the AfCFTA is projected to increase the income of the continent by \$470 billion by 2035, indicating a 7% gain⁸. For the EAC, UNECA (2020) projects that the AfCFTA could boost East African trade by between USD 737 million and USD 1.1 billion⁹. However, one common concern regarding the AfCFTA is the fiscal impact of the elimination of tariffs on intra-African imports. UNECA's simulations predict Tanzania to experience a larger tariff revenue loss, equivalent to 1.3% of total government revenue¹⁰. One of the predicted immediate negative impacts of the AfCFTA on the EAC Member States is revenue losses estimated by UNCTAD to USD 4.1 billion in the short run¹¹. Shinyekwa (2020) estimates that there could be a negative trade effect of \$5.7 million (trade diversion leading to high-cost and less efficient imports), a tariff revenue loss of \$5.4 million (3.7%) and an overall welfare loss of \$3.1 million for Tanzania as a result of the agreement¹². Furthermore, Shinyekwa (2020) notes that in absolute amounts, Kenya incurs

⁸ Rao.P. (2022). AfCFTA's Guided Trade Initiative takes off, set to ease and boost intra-African trade. Link: <https://www.un.org/africarenewal/magazine/october-2022/afcfta%E2%80%99s-guided-trade-initiative-takes-set-ease-and-boost-intra-african-trade>

⁹ UNECA (2020). Towards the implementation of the AfCFTA in EAC. Link: https://archive.uneca.org/sites/default/files/PublicationFiles/tmea_afcfta_report_5_june_2020.pdf

¹⁰ UNECA (2020). Towards the implementation of the AfCFTA in EAC. Link: https://archive.uneca.org/sites/default/files/PublicationFiles/tmea_afcfta_report_5_june_2020.pdf

¹¹ UNCTAD. (2019). African Continental Free Trade Area: Challenges and opportunities of Tariff Reductions. UNCTAD Research Series, Paper No. 15.

¹² Shinyekwa, I., Bulime, E. and Nattabi, A. (2020) 'Trade, revenue, and welfare effects of the AfCFTA on the EAC: an application of WITS-SMART simulation model' Business Strategy and Development (DOI:10.1002/bsd2.157/).

the largest trade revenue loss of US\$ 14.2 million followed by Uganda with US\$13.5 million, Tanzania US\$5.3 million, Burundi US\$4.3 million, and Rwanda US\$ 3.9 million. Loss of revenue will have dire challenges to the Government's provision of social services like health, education, water and sanitation, and infrastructure among others which are indispensable tools in promoting worker's welfare.

d) Job creation and job losses

UNECA argues that the AfCFTA will create over 14 million jobs, and potentially lift 50 million Africans out of poverty¹³. Concerning the EAC, the AfCFTA is projected to result in welfare gains amounting to USD 1.8 billion and creating more than 2 million new jobs¹⁴. Many of those new employment opportunities are likely to emerge in sectors with a heavy predominance of female labour, thereby contributing to the economic empowerment of women in the region. However, the 97% liberalisation under the AfCFTA may see some EAC Member States economies have their markets flooded with products from more efficient AfCFTA State Parties and the much-needed economic transformation will be a mirage. The flooding of these markets with cheap imported goods will result in competition with domestic industries, which can have dire implications to workers as the outcompeted domestic industries resort to laying off of workers (fewer jobs), lower wages and poor working conditions.

AfCFTA and Labor right

The AfCFTA agreement and its related Annexes and Protocols contain no mechanisms to effectively enforce fundamental labour rights or promote decent jobs and pose a number of threats to Decent Work. For example,

- AfCFTA threats to Decent Work: The deal could reduce tariffs on certain agricultural products which will allow cheaper products into markets to affect the workers employed in agriculture and lead to retrenchments, low wages, and reduced workers' benefits. This will particularly disadvantage women workers who are more likely to be displaced from stable employment in agriculture to jobs in the informal sector where exploitative conditions are common, increasing gender inequalities.
- A poorly negotiated Electronic Commerce (E-Commerce) Protocol can lead to digital labour rights violations including Algorithmic bias, workplace surveillance, and

¹³ UNECA (2019). Stakeholders discuss benefits of the AfCFTA. Link: <https://archive.uneca.org/stories/stakeholders-discuss-benefits-afcfta-ghana>

¹⁴ UNECA (2020). Towards the implementation of the AfCFTA in EAC. Link: https://archive.uneca.org/sites/default/files/PublicationFiles/tmea_afcfta_report_5_june_2020.pdf

electronic union blacklisting; and can also result in the limited ability of State Parties' respective domestic courts to enforce labour standards given the fact that E-Commerce provisions are against obligations for local presence of E-Commerce companies.

- A poorly negotiated Protocol on Sustainable Investment will lead to no obligations for the much-needed requirements to employ or source locally, transfer of skills, allowing for unionization of workers among others, and could lead to violation of acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.
- AfCFTA will bring down barriers to trade in services – such commitments could mean that governments have to withdraw regulations or practices to promote social and employment rights (such as nationalisation of public services) that could be challenged and potentially dropped as a 'barrier' to trade in services.
- Investor-State Dispute Settlement – this is a special court system that would allow foreign investors to legally challenge governments for any actions they claim threaten their profits. This could include laws to increase minimum wages. There is a likelihood of the creation of "special courts" for foreign investors thus limiting the capacity of African Governments to regulate investors and investments in regard to worker's rights.

Conclusion

While the AfCFTA potentially offers opportunities to drive forward Africa's integration agenda as part of the continent's aspirations of structural transformation and inclusive development, such a transformative trade agenda cannot happen without the strategic and consistent involvement of CSOs to ensure the agreement on pro-development outcomes for Tanzania.

With AfCFTA negotiations still ongoing, CSOs in Tanzania should demand their involvement in the negotiations to ensure that the AfCFTA-associated protocols address

About TATIC

Tanzania Trade and Investment Coalition (TATIC) is a registered Civil Society Organization which operates across Tanzania's mainland. TATIC envisions a prosperous nation with equitable and inclusive development for current and future generations through the promotion of sovereignty over trade and investment for fair and equitable human development. TATIC works on thematic and intersectional issues concerning national, regional and international trade policy and investment agreements.