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AfCFTA in a Rut – Can the Pan-African Agreement Regain Momentum?

ABSTRACT

Existing high tariffs and non-tariff trade barriers on the African continent prevent greater intra-African integration. The Pan-African Free Trade Area (AfCFTA), which has been in force since January 2021, aims to generate sustainable growth through greater trade integration on the continent. However, the chances of the agreement's success are still unclear: while the targeted tariff liberalizations could drastically reduce trade costs, it remains questionable whether they will be implemented as planned – lessons from the past indicate great difficulty. Moreover, complex rules of origin allow protectionism through the back door. The next few years will be decisive for the AfCFTA: if member states succeed in implementing the agreement's measures in a disciplined manner, the result could be an integrated African market; however, our analysis leaves very little optimism as structural issues impose major challenges.

Since January 2021, trade under the ambitious pan-African free trade agreement (AfCFTA, African Continental Free Trade Agreement) has officially commenced. The launch of the trade agreement, which covers all but one African state,¹ was cautiously observed by the

¹ Eritrea is the only African country that has not yet signed the AfCFTA treaty (as of January 2022).

public and seen as an important step and opportunity to improve the regional integration and economic development of the African continent. However, it was also met with considerable scepticism and criticized for its mere symbolic importance.

In this paper, we want to shed some light on the potential for liberalization, the current state of negotiations, and arising problems of the implementation. We start our analysis with a few facts about African trade, which is strongly oriented toward extra-continental partners, in particular the European Union (EU), the United States, and China. Thus, African countries trade predominantly with partners that are very distant compared to their immediate neighbors. Such an orientation is unusual, as trade costs with countries that are geographically close are usually lower than those of extra-regional partners.

Besides colonial history, which continues to influence political and social structures as well as infrastructure today (Bonfatti and Poelhekke 2017), we identify the African trade policy landscape to favor this development. While African exporters are largely exempt from EU and tariffs of the United States, intra-African trade in particular is still subject to high tariffs, despite some regional trade agreements. In addition, non-tariff barriers (NTBs) such as long waiting times at the borders or corruption play a major role. Intra-African trade still holds substantial untapped potential, and its strengthening can pose an important tool to improve the economic development in Africa (Ornelas 2016). The high barriers to trade imply potentially trade-creating effects for a pan-African agreement: the AfCFTA might serve as the policy instrument to foster intra-African trade. The aim of the agreement is to liberalize trade within Africa and generate sustainable economic growth.

Although ambitious in scope, the AfCFTA is running into major problems concerning the implementation. As of January 2022, the agreement has been ratified by 39 of the 54 signatory states. However, since the beginning of the pandemic negotiations were prolonged and many key aspects of the agreement, such as tariff schedules and rules of origin, are not yet finalized. Thus, despite having officially launched, trade under the agreement is effectively not possible.



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This paper presents two potential explanations for the little enthusiasm for free trade in Africa. First, we ask if lower expected tariff revenues might be the reason for the difficulties in concluding the AfCFTA. While many African countries depend significantly on tariff revenue as a source of income, due to the low current levels of trade within Africa, we do not expect tariff revenues to be reduced drastically once the AfCFTA is up and running. Instead, we identify political economy motivations to be much more difficult to align across the numerous African countries. Focusing first on other trade deals that include more important trade partners for African firms might be a way to overcome the deadlock: if African countries agree to tariff concessions vis-à-vis important trade partners like the EU it might be easier in the future to also advance trade liberalization on the continent.



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After studying political science and philosophy in Hanover and Paris, Jan Cernicky received a doctor's degree with a thesis on regional integration in Western Africa. He ran a consulting company that assists small and medium-sized companies to enter markets in Africa. From 2015 he headed the offices of the Konrad-Adenauer-Stiftung in DR Congo and Kenya. Since 2020 he is responsible for international trade and economy at the headquarter of the foundation.



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PATTERNS IN INTRA- AND EXTRA-AFRICAN TRADE

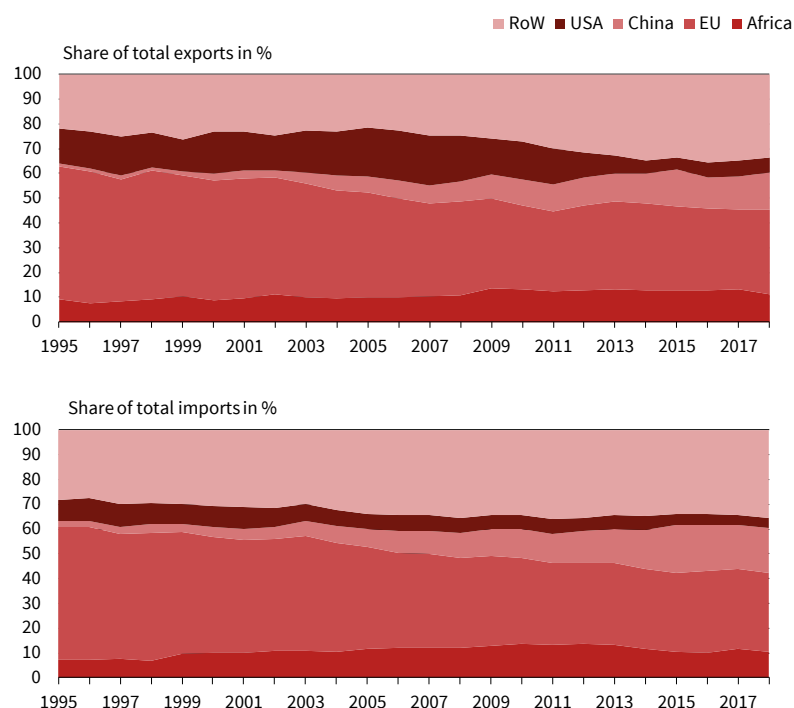
In the first step, we analyze Africa's trade in terms of trade partners and check for sectoral differences. Figure 1 displays the development of African trade flows with its most important trade partners since 1995. For the entire period, the EU is the most important trade partner of African states. In 2018, the EU has accounted for about one-third of both exports and imports. Especially the North African Maghreb states are strongly intertwined with the European production network; 54% of North African exports and 42% of its imports are due to trade with the EU. Over time, it is noticeable that with the rise of China the EU is losing much of its importance as a trade partner. In 1995, the EU still accounted for about half of African trade, while China's trade share was practically nil (exports: 1%, imports: 2%). By 2010, these ratios had changed substantially and today, China is Africa's most important trade partner after the EU, accounting for 15% of exports and 18% of imports.

Like the EU, the US has also lost market share over time and only accounted for about 5% of African trade in 2018. Most notable is the reduction in exports, which can be partially explained by the increased importance of India as a destination market. Despite the geographical proximity and numerous regional trade agreements, intra-African trade currently still only plays a minor role. In 2018, intra-African trade accounted for 11% and 10% of total African exports and imports, respectively. These shares have therefore barely changed since 1995 (exports: 9%, imports: 7%), indicating that previous attempts at integration on the continent had only moderate success. The purpose of the AfCFTA is now to reverse this trend and to improve the intra-continental trade integration.

A look at the main sectors shows large differences between exports and imports as well as across trade partners (Figure 2). African exporters do their main business by selling raw materials and minerals to extra-continental partners. These include ores, oil, stones, glassware as well as various metals and metal products. The dominance of commodities is particularly noticeable in the exports to China: 91% of the value of all exported goods is accounted for by raw materials and minerals.

Figure 1

Trade Flows between African Countries and Their Trade Partners

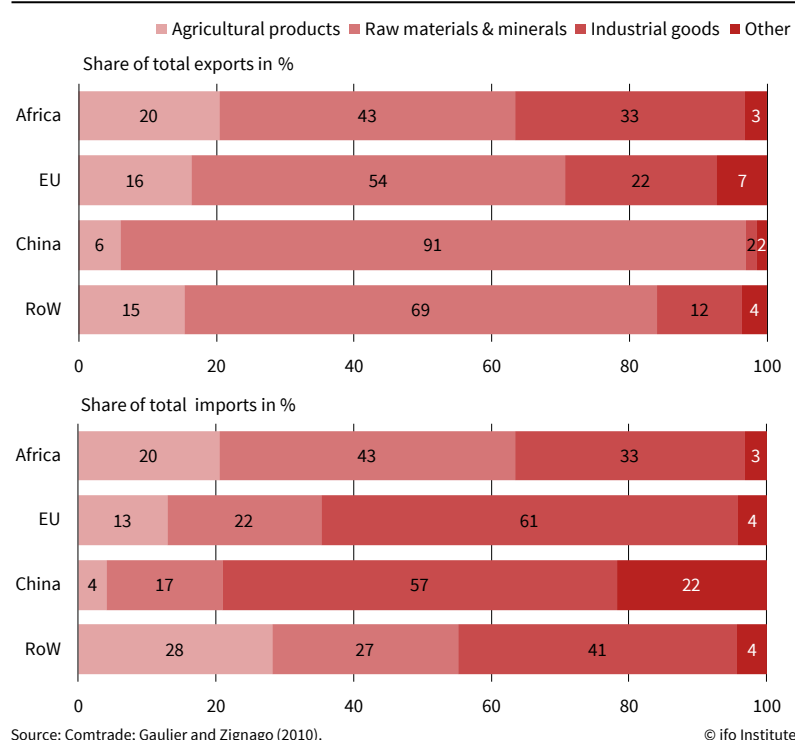


Source: Comtrade; Gaulier and Zignago (2010).

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Figure 2

Sectoral Structure of Trade Flows within Africa and with Selected Trade Partners



In 2019, 83.3% of African countries met the threshold of a commodity-dependent country with more than 60% of exports being commodities (UNCTAD 2021b). This high concentration of trade leads to a strong dependency on extra-continental partners for African economies, as foreign demand for African commodities and minerals is a crucial driver for the economic development of Africa. If business activity in China and the EU slows down, Africa will also be adversely affected. Besides expanding the export portfolio to other sectors, stronger diversification of potential buyers could reduce this risk.

Imports are also highly concentrated but in a different sector: 61% of total imports from the EU and 57% from China are industrial goods. Moreover, industrial goods are also the most important group among imports from the rest of the world (RoW); however, the distribution is not as skewed as for the two biggest trade partners (industrial goods: 41%, agricultural goods: 28%, raw materials and minerals: 27% and other goods: 4%). Although raw materials and minerals play a major role in intra-African trade as well, trade among African states is more diversified than with extra-continental partners. Hence, supply bottlenecks among European and Chinese suppliers pose a substantial risk for African countries since there is a strong dependence on industrial goods from abroad. In conclusion, the African economy could become more robust through trade diversification, both on the demand and supply side.

Our analysis so far shows that African trade is deeply oriented toward extra-continental partners,

in particular the EU, China, and the US. Intra-African trade, on the other hand, only plays a minor role and has not been able to gain in importance relative to other trade partners since 1995. Furthermore, African companies mainly export commodities and minerals and import industrial goods. This concentration makes the African economy highly vulnerable to disruptive factors abroad. In contrast, intra-African trade is more diversified and contains untapped potential (Böschmeier and Teti 2021). Strengthening intra-African trade could therefore promote the emergence of new industries and lead to a diversification of the African economy, making it more resilient to adverse shocks.

CURRENT AFRICAN TRADE POLICY

Most countries trade primarily with their neighbors or states in close proximity (Head and Mayer 2014). Hence, the low levels of intra-African trade remain a mystery specific to the continent, indicating high trade costs between African regions which could potentially be addressed by trade policy measures. We next analyze to what extent the high costs can be reduced by policy makers and to what extent the AfCFTA agreement will contribute to an improved trading environment.

The Existing Trade Policy in Africa: Unambitious and Complicated

Within the African Union (AU), which covers all African states and leads the negotiations of the AfCFTA on an international level, there are eight officially recognized Regional Economic Communities (RECs). They are the building blocks of the AU and aim to promote economic and political cooperation at a regional level. The RECs are listed in the first column in Figure 3, the number of member states is in parentheses. There is quite a bit of overlap among the member states, as some countries are part of multiple RECs. Kenya, for example, is part of four RECs (EAC, COMESA, CENSAD, and IGAD).

Not all RECs necessarily have trade-liberalizing measures in place. For example, the economic community IGAD, which incorporates eight North-Eastern African states, has been planning a trade agreement for many years. However, because most members are also part of the COMESA-FTA, which already promotes free trade, negotiations for an additional agreement have stalled. The second column of Figure 3 lists regional trade agreements in Africa that aim to liberalize trade in addition to political and economic cooperation. Of the 55 African states, 47 belong to at least one – and some to several – regional trade agreements. These can be divided into two groups: free trade agreements (FTAs) and customs unions.

Both types of regional trade agreements intend to completely eliminate tariffs and non-tariff trade

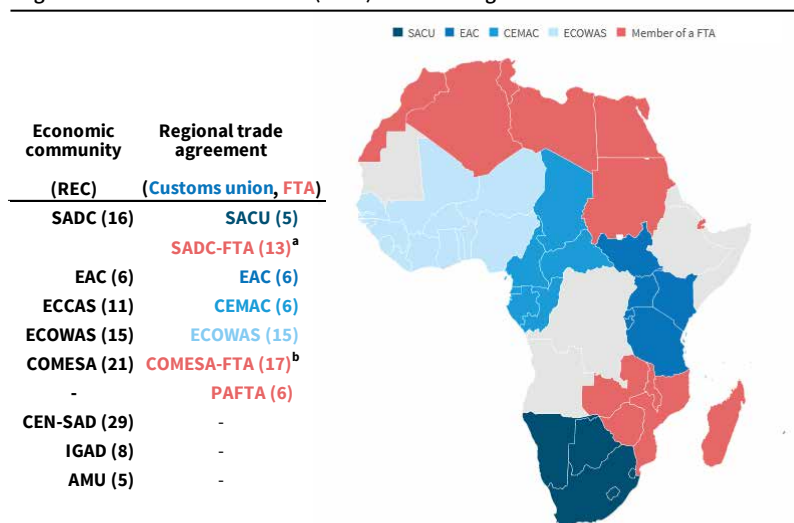
barriers between member states. Nevertheless, there are also major differences between the two regarding the relationship with third countries. While countries in an FTA keep autonomy over trade policy, members of customs unions agree on common external tariffs (i.e., the tariff imposed on third countries) and commit themselves to only negotiate trade agreements with third countries jointly. Such a close cooperation of trade policies is only possible if the political will for deep integration exists; customs unions often represent the first step of further integration process.² Table A1 in the appendix provides a list of all African countries and a mapping to their respective regional agreements.

There are three FTAs in Africa: two as part of an REC (the COMESA-FTA in the East and the SADC-FTA in the South) as well as the PAFTA (Pan-Arab Free Trade Area) between six North African countries and the Middle East.³ Similar to the RECs, memberships in regional FTAs also overlap: for example, Egypt is part of both PAFTA and the COMESA-FTA. Countries that are not members of any customs union but are part of an FTA are marked in red in Figure 3.

The members of customs unions represent those countries that intend to pursue deeper integration. The Economic Community of West African States (ECOWAS) in the West is the largest customs union in terms of number of members, while the Southern African Customs Union (SACU) in the South, led by South Africa, is the most economically powerful grouping of countries. The East African Community (EAC) in the East and the Central African Economic and Monetary Community (CEMAC) in Central Africa both have six members. The four customs unions are shown in blue in Figure 3.⁴ Besides trade policy, advances have been made to integrate economies through monetary unions, e.g., the francophone UEMOA (French: Union économique et monétaire ouest-africaine). Although monetary unions require an even stronger commitment than customs unions and foster economic integration as well, their mandate does not include trade policy, which is why they were not included in Figure 3.

Figure 3 demonstrates that the numerous trade agreements in Africa are very regional in nature. De-

Figure 3
Regional Economic Communities (RECs) and Trade Agreements in Africa



^a Angola and the Democratic Republic of the Congo are in the process of joining the SADC-FTA.

^b Eritrea, Ethiopia and the Democratic Republic of Congo are in the process of joining the COMESA-FTA.

Source: Websites of the respective trade agreements; authors' compilation.

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spite individual countries being in multiple agreements simultaneously, no comprehensive trade agreement exists between the respective blocs. The segmented trade policy can at least partially explain the low level of inter-regional integration of the African economy. The pan-African agreement, AfCFTA, aims to close this gap by reducing trade barriers between regions.

The overlapping trade agreements make the trade policy situation in Africa complicated and pose a major challenge for exporters, as they are faced with different regulations simultaneously. Thus, a unification and harmonization of the trade policy situation in Africa holds great potential. However, the AfCFTA does not intend to replace existing regional agreements but instead to build on them and co-exist next to them. The opportunity to reduce the existing chaos in trade policy on the African continent was therefore missed.

While no African country is part of more than one customs union at the same time, there are instances of members of a customs union also being part of a separate FTA. For example, all EAC countries except Tanzania are members of the COMESA-FTA. Instead, Tanzania is part of the Southern SADC-FTA and Eswatini is the only SACU member, which is part of the COMESA-FTA as well. This practice undermines the commitment to a common trade policy, the key characteristic of every customs union, indicating weaknesses in the practical implementation of customs unions in Africa.

High Tariffs within Africa

The elimination of intra-African tariffs is an important tool of the AfCFTA to liberalize trade. To evaluate the positive trade creation effects of a continental-wide

² The customs union EAC, for example, intends to create a monetary union after the successful implementation of a single market with free movement of goods, services, capital, and workers with the eventual goal of a political federation with a common foreign and defence policy. The customs union, in force since 2005, was the first stage of this integration process, which has been stagnating ever since.

³ The following countries are part of an FTA: COMESA-FTA: Burundi, Comoros, Egypt, Eswatini, Djibouti, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Tunisia, Uganda, Zambia, and Zimbabwe; SADC-FTA: Botswana, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, and Zimbabwe; PAFTA: Algeria, Egypt, Libya, Morocco, Sudan, and Tunisia.

⁴ The following countries are part of a customs union: ECOWAS: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo; SACU: Botswana, Eswatini, Lesotho, Namibia, and South Africa; EAC: Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda; CEMAC: Cameroon, Chad, Equatorial Guinea, Gabon, and the Republic of Congo.

Table 1

Average Bilateral Tariffs (in %) and Existing Regional Trade Agreements in Africa in 2017

Export Import		South		East		Central		West	North	EU	USA	China	MFN
		SACU	Non-SACU	EAC	Non-EAC	CEMAC	Non-CEMAC	ECOWAS					
South	SACU	0	1	6	8	8	4	8	8	3	8	8	8
	Non-SACU	2	2	3	4	10	6	10	8	7	10	10	10
East	EAC	6	1	0	3	13	8	13	10	13	13	13	13
	Non-EAC	15	8	7	10	16	14	16	13	16	16	16	16
Central	CEMAC	17	17	17	17	1	17	17	17	17	17	17	17
	Non-CEMAC	10	10	10	10	10	10	10	10	10	10	10	10
West	ECOWAS	12	12	12	12	12	12	4	12	11	12	12	12
North		13	9	9	6	13	13	13	2	8	12	13	13
EU		0	0	0	0	1	0	0	1	0	5	5	5
USA		1	1	1	1	1	1	1	2	4	–	4	4
China		9	5	4	1	6	6	5	9	11	11	–	11
		Customs Union				FTA between all countries				FTA between selected countries			

Note: The figure shows bilateral (unweighted) average tariffs between African regions and with individual selected trading partners. Tariff data describe the year 2017, trade agreements include all those notified to the WTO (as of date: September 9, 2021).

Source: Teti (2020); WTO; authors' compilation.

tariff elimination, we need to understand which tariffs currently still exist and which countries will be affected the most by a collective elimination of tariffs. For example, trade between Namibia and South Africa (both SACU members) is completely free of tariffs and trade between Egypt and Kenya is also largely liberalized. The AfCFTA will therefore primarily reduce trade costs between countries that are not yet in a joint agreement.

Table 1 shows the average tariffs between the different African regions and with the most important extra-African trade partners in 2017. We distinguish between five different regions and show the tariffs incurred for those regions. We also differentiate between the respective regional trade agreements.⁵ The rows and columns indicate the importer and exporter, respectively. The table can be read as follows: SACU members impose an average tariff of 1% on imports from other Southern countries that are not in the customs union SACU (first row, second column) while trade among SACU countries is free (first row, first column).

The coloring of the cell indicates whether a trade agreement exists and, if so, what type it is. The four customs unions SACU, EAC, CEMAC, and ECOWAS are marked blue. The dark red cells mark that an FTA exists between all countries in the respective two regions (e.g., the SADC-FTA includes all SACU and non-SACU countries in the South). Light red cells instead indicate that an FTA exists between at least one pair of countries in the two different regions. In most cases, these occur due to overlapping memberships of individual countries.

The last column displays the average most-favored nation (MFN) tariff. The MFN tariff is the tariff

that countries impose on all WTO members; thus, a lower tariff between two regions implies that a regional trade agreement is in place. SACU has an MFN tariff of 8% on imports from countries without any joint trade agreement. Only the tariffs towards other Southern African countries have been mostly eliminated. Imports from EAC countries are subject to an average tariff of 6%. As previously mentioned, this slightly lower tariff between the regions does not reflect a trade agreement en bloc, i.e., a trade agreement between all SACU and EAC members. Instead, the difference results from individual states having overlapping memberships in FTAs: Tanzania (EAC) is part of the SADC-FTA, in which all SACU countries are also members, and Eswatini (SACU) is a member of the COMESA-FTA, in which all EAC countries (except for Tanzania) are members.⁶

A closer look at the intra-regional tariffs shows that these are significantly lower than the MFN tariff in most regions. Almost complete trade liberalization is achieved within the customs unions SACU, EAC, CEMAC, and ECOWAS. The SADC-FTA is the reason for the low bilateral tariffs among all Southern countries and the low tariffs in North Africa are created by PAFTA. Only Non-EAC and Non-CEMAC countries demonstrate a high regional tariff of 10% each.

Especially inter-regional trade holds potential for a pan-African elimination of tariffs. The MFN tariff is at a high level in all African regions and must be paid

⁵ The regional classification of African countries can be found in Table A1 in the appendix.

⁶ For some combinations, it is noticeable that the import tariffs do not differ from the MFN tariffs despite being highlighted in light red (e.g., between Non-CEMAC and Southern or Eastern countries). The Democratic Republic of the Congo (DRC), which represents the Non-CEMAC countries together with São Tomé and Príncipe, has been negotiating to join the COMESA-FTA and SADC-FTA since 2016 and has therefore preferential market access to its respective partners. In contrast, the DRC has not yet reduced tariffs vis-à-vis the other countries in the COMESA-FTA as well as SADC-FTA. On the one hand, this may be due to longer transition periods for the DRC. On the other hand, it may also reflect a delay in data reporting.

in most cases when trading between regions. An exception is the on average lower tariff between Eastern and Southern Africa, which is based on overlapping memberships in the SADC and COMESA trade agreements. The slightly lower tariffs between the North, South, and East compared to the MFN tariff result from the COMESA-FTA that includes four North African countries. In West and Central-Africa, no inter-regional agreements exist to date. African countries must always pay the MFN tariffs on their exports to West and Central-Africa, which is particularly high for CEMAC countries with 17%. Similarly, exports from ECOWAS and CEMAC to other regions are also taxed with the MFN tariff. The high tariffs between regions impede intra-African trade and can partially explain the strong regional orientation of trade.

The high intra-African tariffs are particularly striking if compared with the tariffs of the most important non-African trade partners. Exports of African companies to the US and the EU are either completely tariff-free or are only marginally taxed; even the import tariffs of China for African exports are below the Chinese MFN tariff. This is primarily due to unilateral trade agreements, such as the “Everything-but-Arms” initiative of the EU or the “General System of Preferences,” which grants developing countries preferential market access to industrial countries. However, bilateral agreements, i.e., agreements in which African countries also grant tariff-free access to their markets, play a significant role for individual trade partners as well. The EU, in particular, is increasingly involved in African trade policy and seeks to deepen existing unilateral trade agreements and to negotiate additional bilateral free trade agreements. Currently, bilateral FTAs exist with the SADC-FTA in the South and with some North and West African countries.⁷ In contrast, the US only has a bilateral agreement with Morocco with unilateral programs (African Growth and Opportunity Act (AGOA) and the General System of Preferences) being the more popular policy instrument.

With the commencement of the trade agreement between China and Mauritius, a small island state in the South of Africa at the beginning of 2021, China is attempting the introduction of new trade policy measures with Africa. This is the first bilateral agreement between China and an African state and can be interpreted as the launch of the next phase of China’s foreign policy in Africa. For a long time, China has been heavily involved and interested in the African economy and its progress, as one of the most important international investors in Africa in recent years. The Asian giant invests mainly in African infrastructure and in the construction of industrial Special Economic Zones (SEZs), geographically defined zones designed to facilitate industrial production (UNCTAD 2019). In addition to the economic profitability of the invest-

ments, China’s geopolitical interests play a critical role as well.

Non-tariff Trade Barriers Significantly Hinder Trade

Non-tariff barriers (NTBs) include all trade costs that arise additionally to tariffs. These can be of various types such as long waiting times at the border, corruption, geographical barriers (mountain ranges or lakes), poor infrastructure, but also customs formalities, product standards, or import restrictions (i.e., import quotas). Some of those, for example, geographical circumstances, are very difficult for policy makers to influence. Others, like import restrictions, are the result of trade policy measures and can therefore be better addressed by regional trade agreements such as the AfCFTA. In the next step, we focus on these very barriers and highlight the areas with particularly high costs that impede intra-African trade.

In addition to tariffs, NTBs are also very high within Africa and therefore contribute to low intra-African trade integration as well. As highlighted by previous studies on the AfCFTA, trade costs resulting from NTBs in Africa are among the highest worldwide and their abolishment has considerable trade-creating effects for intra-African trade (see IMF 2019; UNCTAD 2021a).

To get a better understanding of what type of NTBs African exporters are struggling the most with when doing business with other African countries, we have analyzed firm-level reports on barriers to trade. To improve trade between SADC, COMESA, and EAC countries, an online platform was introduced that companies can use to report NTBs to the authorities. The platform is used to collect the complaints and initiate a mediation process in the case of conflicts. The reports are publicly available and in the last ten years, a total of 797 reports have been filed on the platform (as of September 2021).⁸ The information provided by companies is very detailed and gives a good overview of which barriers pose the biggest challenge to East-African exporters. For example, an exporter from Burundi reports that a district in Kenya charges a transit fee. For analysis purposes, we divided the comprehensive reports into several categories: NTBs arising from the imposition of tariffs (customs formalities or rules of origin), discriminatory measures, transport and infrastructure, phytosanitary measures, and technical barriers to trade (SPS and TBT), and immigration. All remaining complaints were grouped in the category “Other.”

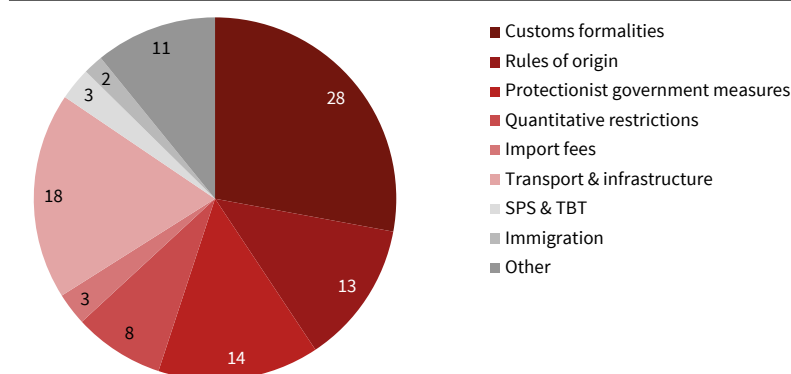
Figure 4 shows the distribution of all reported NTBs for trade between SADC, COMESA, and EAC countries. Barriers arising from the imposition of tariffs account for 41% of reported NTBs. Lengthy and costly customs procedures and rules of origin,

⁷ Bilateral trade agreements exist with Cameroon, Ghana, Côte d'Ivoire, Morocco, Egypt, Algeria, and Tunisia.

⁸ The complaints can be viewed here: <https://www.tradebarriers.org>.

Figure 4

Non-tariff Barriers in Africa



Source: Tripartite NTB-Monitor.

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which alone account for 13% of all complaints, pose a major challenge to exporters. Furthermore, 18% of complaints revolve around problems in transportation and inadequate infrastructure. Discriminatory measures (export subsidies and quantitative restrictions) still seem to be widely used within Africa. Meanwhile, standards (SPS and TBT), as well as import fees and immigration play a minor role, each accounting for less than 3% of reported NTBs. The category “Other” includes NTBs that could not be clearly assigned, such as arbitrariness in border control or corruption.

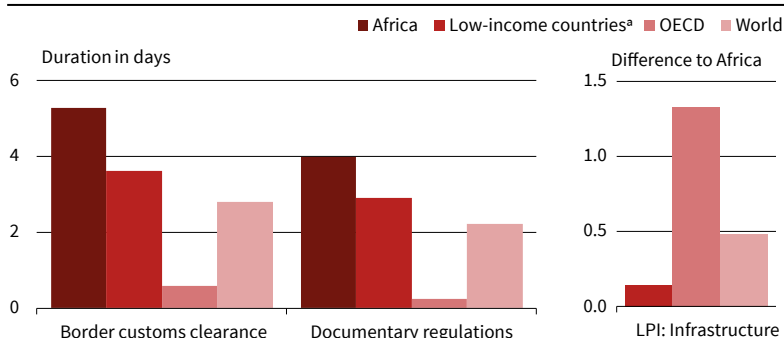
Inefficiencies in customs clearance generate high costs: the customs clearance at the border alone takes on average 5.3 days in Africa, which is almost two full days longer than the average in low-income countries and almost ten times longer than the average duration in OECD countries (see Figure 5).⁹ A similar picture emerges for the average time to prepare the required documents, which takes four days – nearly twice as long as the global average. So, while the customs procedures in OECD countries take less than one day on average, the duration in Africa can add up to almost 10 days, thus representing a high cost for exporters.

Besides customs clearance, the African transport infrastructure is lagging behind globally as the Logis-

⁹ The numbers are from 2019 and were taken from the World Bank's Doing Business project (<https://www.doingbusiness.org/en/data>).

Figure 5

Duration of Customs Clearance and the Difference of the Logistics Infrastructure between Africa and Selected Countries



^a This includes the “Low- and middle-income” country group defined by the World Bank.

Source: World Bank.

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tics Performance Index (LPI) of the World Bank, which evaluates the functionality of a country's overall logistics infrastructure, illustrates. The index is calculated every two years, is survey-based, and ranges from 1 to 4, with higher scores indicating better infrastructure. We focus on a sub-component of the index that focuses on the quality of trade and transportation infrastructure. Figure 5 (right) shows the difference between the average score of selected country groups and Africa for 2018: the African infrastructure lags significantly compared to the rest of the world, particularly in comparison with OECD countries. Investments that could narrow this gap and reduce transport costs should be directed toward better road conditions, a more interconnected road and rail network, and better-equipped border posts, among other things (Teravaninthorn and Raballand 2009). The AfCFTA could help to attract more investment by reducing uncertainty and providing the legal framework for investment protection.

As Figure 4 shows, rules of origin are a major challenge for exporters in existing regional trade agreements. Rules of origin are part of every trade agreement and must be complied with to obtain preferential market access. Exporters must provide a proof of origin that demonstrates “domestic production,” i.e., goods need to be predominantly produced within the free trade area, otherwise the MFN tariff applies. For example, Ghanaian car exporters must prove that at least 30% of the production took place either in Ghana or one of the other ECOWAS countries to be allowed to export duty-free to Nigeria; if this proof is not provided, a 20% duty will apply. Because only intermediate goods that originate in ECOWAS countries can be used, rules of origin have a protectionist effect against other African regions outside ECOWAS. Rules of origin are thus costly and inefficient, especially for exporters with complex value chains that span multiple African countries, or if such value chains do not exist yet, they can impede the emergence of production processes across national borders.

Exporters, who find it too complicated or expensive to comply with the rules of origin, will choose not to use the preferential market access and instead continue to pay the MFN tariff. Rules of origin are particularly challenging for small and less productive firms, which are therefore more unlikely to benefit from trade agreements (Demidova et al. 2012). Hence, the use of the AfCFTA preferences will depend heavily on the exact design of the rules of origin: the stricter the rules, the lower the trade-creating effects.

The elimination of tariffs is therefore only beneficial if the rules of origin are not too complex and can be easily fulfilled and proven by companies. There are several ways in which rules of origin can be made more flexible: rules of origin can be sector- or product-specific, or they can be defined by a requirement for regional minimum value content. Since sector- or product-specific rules of origin define exactly which

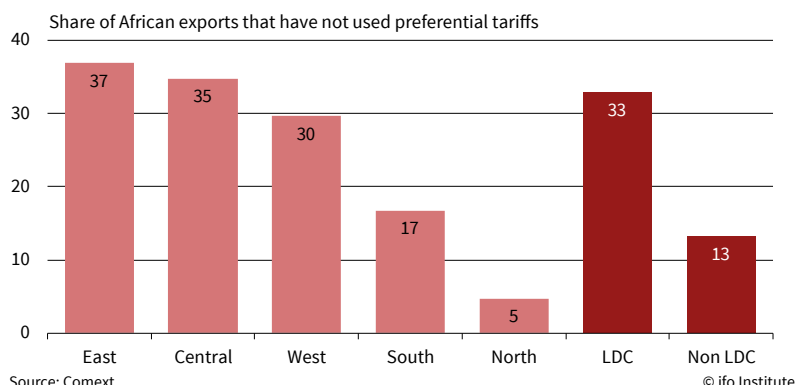
production step must take place regionally, they are more restrictive than regional minimum value content requirements (Conconi et al. 2018). The AfCFTA opted for sector- or product-specific rules of origin and thus missed the opportunity to introduce more liberal rules of origin. It is particularly interesting to note that more flexible rules are already in place in other African agreements such as ECOWAS or CEMAC. Here, the origin criteria are defined with a minimum value-added requirement that is the same across all goods. Unfortunately, however, supporters of these regulations have not been able to gain acceptance.

There are also major differences between trade agreements in terms of requirements for how proof of origin can be provided. For example, the EU allows African exporters to self-certify. In African regional agreements, on the other hand, proof of origin can only be issued by the respective customs authorities. For the time being, this regulation also applies to trade within the AfCFTA. However, companies can apply for the status of an “approved exporter,” for which self-certification is then sufficient for future exports. This procedure is unnecessarily complicated, despite the improvement compared to the previously applicable rules of the regional agreements.

How can we assess whether rules of origin are an obstacle for exporters? A common metric in the literature is the so-called preference utilization rate (Keck and Lendle 2012). It examines how often exporters choose not to provide proof of origin and instead pay the higher MFN tariff. In these cases, the costs due to rules of origin exceed the benefits. Unfortunately, an analysis of intra-African use of preferences is not possible due to lack of data. However, we can examine EU imports from Africa. The EU provides preferential market access to all African countries through various trade policy regimes, such as the unilateral “Everything-but-Arms” and “General System of Preferences” programs, as well as bilateral trade agreements. Table 1 illustrates this relationship. For these trade agreements, we can verify whether the EU’s rules of origin are a barrier to trade for African exporters. This finding helps us to better assess the risk of unused preferences under the new AfCFTA.

The official EU trade data contain information on how often exporters from countries that are de jure exempt from tariff payments make de facto use of preferential market access. Figure 6 displays the share of exports for which the MFN tariff was paid even though eligibility for a preferential tariff existed. For 37% of exports from East African countries that were eligible for preferential tariffs, African exporters did not use them in 2017 and paid the MFN tariff instead. This figure is similar for Central and West African countries (34% and 30%, respectively), but exporters from South African countries are more likely to use preferential market access. The preference utilization rate is particularly high among North African countries. On the one hand, this can be explained

Figure 6
(Non)-Usage of Preferential EU Market Access by African Exporters



by their greater integration into the European production network, which facilitates compliance with EU rules of origin. On the other hand, simpler rules of origin are in force for these countries, making it easier for exporters to provide the proof of origin. Especially exporters from less developed countries are burdened by rules of origin; the share of exports that could not use the preferential tariffs is almost three times higher for African LDCs than for the rest of the countries.

What do these figures mean for the AfCFTA? We expect even lower utilization rates for the AfCFTA than for the exports to the EU. The strong and long-standing orientation of African trade towards the EU suggests that African companies are part of European production processes. This facilitates compliance with rules of origin, as both European and African intermediate goods can be used to meet the requirements. However, this strong integration with Europe also means that it will be more difficult for African companies to carry out the necessary production processes in Africa. In addition, the goods exported differ significantly between Europe and other African countries: While raw materials and minerals are particularly important for the European market, which often involve few upstream production steps and for which it is therefore easier to comply with the rules of origin, intra-African trade is more diverse.

Finally, corruption is a major obstacle in Africa that might undo all potential gains from trade. Many African states have a major problem with corruption. Looking at relevant indicators such as the Corruptions Perceptions Index of Transparency International, it seems obvious that the widespread corruption measured here also occurs in customs administrations.¹⁰ Although there is no data to back this up meeting scientific standards, observers interviewed from several AfCFTA member states confirm that corruption is widespread at customs borders. This also explicitly applies to goods for which no customs duties or other trade restrictions apply. Gregor Jaecke, who has

¹⁰ More information on the Corruptions Perceptions Index is available here: <https://www.transparency.org/en/cpi/2021>.

headed the offices in Kenya and Congo of the German Konrad Adenauer foundation, reports: “while I worked in eastern- and central Africa, I have often been told about corruption in customs and I have experienced it several times. Even within existing customs unions such as the EAC, it is the rule rather than the exception that for goods that should actually be duty-free and for which correctly completed documents are carried, considerable sums of bribe money have to be paid at the borders.” If the AfCFTA, in fact, increases trade, corruption will also become even more lucrative and hence more prevalent. In the worst case, the additional fees levied by corrupt customs officials might undo all tariff cuts agreed on in the AfCFTA.

STATE OF IMPLEMENTATION OF THE AfCFTA

Although trade under the AfCFTA has been officially launched since January 2021, many key issues regarding the trade in goods and services remain unresolved and hinder the implementation of the trade agreement. In December 2021, negotiations regarding the rules of origin were only 87% completed, although the initial deadline was in 2020. The large heterogeneity across African countries and their different economic structures make it hard to align protectionist interests and to reach a consensus; the discrepancies are particularly strong in the textile sector. The relatively high share of finalized rules of origin masks the fact that it includes many products that are not traded. Thus, the remaining 13% likely comprise the most controversial products. Only time will tell how long it will take to reach an agreement.

Furthermore, proposed tariff schedules have not been received from all states. The ratified version of the AfCFTA specifies how the implementation of tariff reductions should look in detail: Each member state shall eliminate 90% of tariff lines after five years, least developed countries (LDCs) have more time to adjust (ten years). Of the remaining 10%, defined as sensitive goods, each country is allowed to completely exclude 3% from tariff elimination and eliminate the remaining 7% within a longer period (ten years and thirteen years for LDCs, respectively). Similar country-specific exemptions can also be found in Mercosur, a regional trade agreement in Latin-America including Argentina, Brazil, Paraguay, and Uruguay (Baur et al. 2021), and might be the only way the highly heterogeneous African countries can reach an agreement in the first place. However, they impose major difficulties for multi-destination exporters: depending on the destination, a different tariff might be applicable.

Although the guidelines on tariffs are clearly stated in the AfCFTA, most of the countries that have already submitted their tariff cut proposals to the secretariat do not comply with them. Out of the 43 countries that have submitted proposals, only 29 stick to the rule of only exempting 3% of the tariff lines. It remains unclear whether negotiations will go on to

meet the pre-defined criteria or if countries will take the easy way out and stop when reaching the lowest common denominator.

Without finalized rules of origin and tariff schedules, trade under the AfCFTA has effectively not commenced, despite having officially launched one year ago. The main priority of the AU is now to resolve these overdue issues so that liberalized trade in goods can begin. Nevertheless, these prolonged negotiations already indicate that the more ambitious goals of the AfCFTA, such as protocols for investment, intellectual property rights, or e-commerce, are either unlikely to be concluded or only achieved in a distant future.

LITTLE ENTHUSIASM FOR FREE TRADE ON THE CONTINENT: POTENTIAL EXPLANATIONS AND WAYS FORWARD

Why is it so difficult for African countries to align their interests and implement a deep and comprehensive trade agreement? We will next discuss two potential explanations: first, reliance on tariff revenues, and second, political economy motivations.

For many African countries, tariffs are a non-negligible part of their total government revenue (Keen 2008; Baunsgaard and Keen 2010). On average, the share of customs and other import duties of tax revenue equals 14% using the latest available year of the World Bank’s World Development Indicators.¹¹ For comparison, the share is less than 2% for Germany, France, Italy, the US, and Japan. The average share also masks large heterogeneity across countries: while customs and other import duties are only 3% of South Africa’s tax revenue, it equals between one-quarter and a third for the Côte d’Ivoire, Botswana, Namibia, and Somalia. African countries rely more heavily on tariffs because they are relatively easy to collect, especially compared to other taxes like a value added tax or an income tax for which better institutions are needed (Keen 2008; Baunsgaard and Keen 2010). In addition to tariffs, other fees and taxes also arise when trading, such as an excise tax or service fees, making trade as a source of income even more important for low-income countries. Unfortunately, due to the opaque nature of these costs it is hard to quantify them. Anecdotal evidence suggests that they are highly relevant for African countries.¹²

Countries that depend strongly on tariffs as a source of government income do not have any incentives to lower tariffs in general. Due to the current trade patterns, we only expect small direct effects of the trade liberalization advanced by the AfCFTA: the bulk of African imports are from extra-continental

¹¹ The data can be downloaded here: <https://databank.worldbank.org/source/world-development-indicators>.

¹² According to estimates of the office of the German Konrad Adenauer foundation in Addis Ababa, in Ethiopia, the total earnings through trade amount to 40% of the total annual budget out of which only roughly 10% are directly attributable to tariffs.

partners; hence, the direct effect of a tariff reduction on intra-African trade on tariff revenues will be rather small. In a simulation study, the World Bank shows that the direct reduction will not exceed 0.06 percent of total government revenue (International Bank for Reconstruction and Development/The World Bank 2020). However, tariff revenues might be affected by general equilibrium outcomes, i.e., trade diversion; the lower tariffs vis-à-vis African partners will lead to more trade within Africa and less trade with third countries reducing tariff revenue significantly. While more research is needed to formally quantify this effect, given the dominance of extra-African trade partners and the many trade barriers within Africa that remain virtually untouched by the AfCFTA we expect trade diversion to only have a small impact on revenues.

How could one lessen concerns about lower tariff revenues and consequently increase the acceptance of the mega-deal? First and foremost, better information and more visible communication is necessary. Promoters of free trade should put forward that tariff revenue will not be hampered by free trade on the continent, or, if they are, the gains from free trade will certainly outweigh the lower stream of income. Second, the international community could assist African governments to implement other taxes as a major form of income. We are aware that this second suggestion is more of a long-term approach and will only be possible if many obstacles like corruption can be overcome.

Political economy motivations might be another potential explanation for the preference for high tariffs in Africa. Tariffs crowd out goods provided by foreign producers that are more competitive than domestic producers. Therefore, tariffs will lead to higher prices, which is bad for consumers but increases the rents of African producers. Put differently, tariffs redistribute income away from consumers towards producers.

Now the question arises of why countries value the welfare of producers higher than those of consumers. First, producers might be politically organized and lobby for their interests, for example, through campaign donations (Grossman and Helpman 1994; Goldberg and Maggi 1999). Furthermore, politicians might favor industries that have critical mass in elections. For example, Muûls and Petropoulou (2013) and Bown et al. (2021) show that, in the US, states classified as swing-states that are highly relevant for the outcome of elections, benefit from higher protection.

In Africa, protecting special interest groups has a long-standing tradition. A high share of the existing industry in AfCFTA-countries is owned by members of the same elites who in many cases also dominate the political class (Odijie and Onofua 2020). Many of these industries produce only for the limited domestic market and use technology that is generally

outdated from a global perspective. These industries are therefore often not very competitive. Still, they generate lucrative income for their owners as long as the products they produce are protected by high trade-barriers. This leads to situations that seem absurd, at least for an outside observer. For example, in Kenya helicopters that are used by the very wealthy as a means of transport are exempted from tariffs. Cardboard on the other hand, which is an important input for the big packaging industry in Kenya, has very high tariffs.¹³

Producers that enjoy protection through tariffs have no interest whatsoever in liberalizing trade. Therefore, African producers strongly oppose tariff reductions even if only intra-African trade is covered. However, because of the close ties between industrial ownership and political decision makers, in Africa this translates into even stronger preferences for protectionism than in other region where producers have less power to manipulate tariffs.

The strong ties between politicians and special interest groups are hard to circumvent and will always pose difficulties for free trade in Africa, especially for intra-continental trade, as here potential gains of free trade might be lower than when liberalizing trade with more important trade partners. A possible solution might be to first finalize trade deals with other trade partners to discipline governments and weaken the position of producers. As Maggi and Rodriguez-Clare (1998 and 2007) show, a government can credibly distance itself from domestic political economy forces by finalizing a trade deal. Although political economy motivations are strong in Africa, liberalization could be achieved if the other negotiating party is a very important trade partner. In this case, African producers have a harder time to push through protectionist agendas, because African countries are the junior partner and heavily rely on further free access making it easier to agree on concessions. The EU's economic partnership agreements (EPAs) might have exactly this effect. For those countries that have already finalized the EPAs, we do not observe many tariff lines being exempted. Instead, governments have committed to broad tariff reductions.¹⁴ In the long-run, the lower protection of producers will lead to higher exits of firms, as only the most competitive African producers will be able to withstand the higher competition through EU-exporters. The purge will reduce the protectionist tendencies in Africa, making it easier to liberalize trade within the continent. This channel might be strengthened if other important trade partners like the United States and China also start to negotiate bilateral trade deals instead of only unilaterally granting preferences to the African continent.

¹³ Tariffs for Kenya can be found here: <https://kenyatradeportal.go.ke/tariff-list-2>.

¹⁴ Information on EPAs can be found here: <https://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/>.

CONCLUSION

Despite the emergence of numerous regional trade agreements on the African continent, intra-African trade has not gained in relative importance throughout the last decades. African businesses still predominantly trade with European, Chinese, and American partners and export raw materials and minerals. In this paper we identify the existing trade policy landscape as one major reason for this pattern: while African exporters have free access for most exports to the EU, the US, and China, the barriers to trade within Africa are still very high, impeding trade with other African countries. Particularly across different regions, i.e., South, North, West, East, and Central Africa, the scope for liberalizing trade through tariff reductions is significant. In addition, non-tariff barriers (NTBs) are very high, and especially inefficient handling at the border imposes a major hurdle to trade.

Given these adverse conditions for intra-African trade, the launch of the AfCFTA one year ago promises large trade-creating effects, which may promote economic development and support the diversification of African trade flows. While ambitious in scope, the implementation of the trade agreement imposes major difficulties: first, due to many country-specific exemptions tariff eliminations might not be as extensive as initially promised. Moreover, it remains unclear to what extent these tariff reductions will eventually be implemented by the individual states. Lessons from another seemingly deep trade deal among developing countries, the customs union Mercosur in Latin America, show that, despite official agreements, tariffs have still not been completely abolished – after 30 years (Baur et al. 2021). Similar trends are observable in the existing trade agreements in Africa as well. Third, instead of replacing existing trade agreements, the AfCFTA co-exists in parallel, making it even more complicated for exporters to understand the trade policy landscape. Fourth, strict rules of origin as well as corruption might even undo any successfully implemented tariff cuts. Lastly, so far, most of the agreement seems to be about tariffs, leaving NTBs, a major chunk of total trade costs, untouched – this needs to change if the overarching goal of free trade within Africa shall ever be achieved. We identify especially political economy motivations, more precisely the close ties between the political elite and the industrial powerhouse in Africa, to be one of the main problems when trying to advance free trade.

What does this mean for the future of the AfCFTA? The next few years will be decisive for the AfCFTA: if all member states respect and implement the agreed tariff concessions, this would be a first good indication. It means that the AfCFTA is taken seriously by the countries and makes it possible to initiate deeper integration measures. Given the current structural issues that impose major challenges, it is more than questionable if African countries can achieve these

ambitious goals. It would also be desirable if the AfCFTA could replace the existing regional trade agreements as soon as possible. This would significantly reduce the complexity of the continent's trade policy – but there is a long way to go until then.

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APPENDIX

Table A1

States of the African Union and Their Memberships in Regional Agreements

Region	Country	Customs Union	FTAs		RECs	
South	Angola		SADC-FTA	SADC	ECCAS	
	Botswana	SACU	SADC-FTA	SADC		
	Eswatini	SACU	SADC-FTA	COMESA-FTA	SADC	COMESA
	Lesotho	SACU	SADC-FTA	SADC		
	Madagascar		SADC-FTA	COMESA-FTA	SADC	COMESA
	Malawi		SADC-FTA	COMESA-FTA	SADC	COMESA
	Mauritius		SADC-FTA	COMESA-FTA	SADC	COMESA
	Mozambique		SADC-FTA	SADC		
	Namibia	SACU	SADC-FTA	SADC		
	Seychelles		SADC-FTA	COMESA-FTA	SADC	COMESA
	South Africa	SACU	SADC-FTA	SADC		
	Zambia		SADC-FTA	COMESA-FTA	SADC	COMESA
	Zimbabwe		SADC-FTA	COMESA-FTA	SADC	COMESA
East	Burundi	EAC	COMESA-FTA	EAC	COMESA	ECCAS
	Comoros		COMESA-FTA	COMESA	SADC	CEN-SAD
	Djibouti		COMESA-FTA	COMESA	CEN-SAD	IGAD
	Eritrea		COMESA-FTA	COMESA	CEN-SAD	IGAD
	Ethiopia		COMESA-FTA	COMESA	IGAD	
	Kenya	EAC	COMESA-FTA	EAC	COMESA	CEN-SAD
	Rwanda	EAC	COMESA-FTA	EAC	COMESA	ECCAS
	Somalia			COMESA	CEN-SAD	IGAD
	South Sudan	EAC		EAC	IGAD	
	Tanzania	EAC	SADC-FTA	EAC	SADC	
	Uganda	EAC	COMESA-FTA	EAC	COMESA	IGAD
Central	Cameroon	CEMAC		ECCAS		
	Central African Republic	CEMAC		ECCAS	CEN-SAD	
	Chad	CEMAC		ECCAS	CEN-SAD	
	Democratic Republic of the Congo		COMESA-FTA	SADC-FTA	ECCAS	COMESA
	Equatorial Guinea	CEMAC		ECCAS		
	Gabon	CEMAC		ECCAS		
	Republic of the Congo	CEMAC		ECCAS		
	São Tomé and Príncipe			ECCAS	CEN-SAD	
West	Benin	ECOWAS		ECOWAS	CEN-SAD	
	Burkina Faso	ECOWAS		ECOWAS	CEN-SAD	
	Cape Verde	ECOWAS		ECOWAS	CEN-SAD	
	Côte d'Ivoire	ECOWAS		ECOWAS	CEN-SAD	
	Gambia	ECOWAS		ECOWAS	CEN-SAD	
	Ghana	ECOWAS		ECOWAS	CEN-SAD	
	Guinea	ECOWAS		ECOWAS	CEN-SAD	
	Guinea-Bissau	ECOWAS		ECOWAS	CEN-SAD	
	Liberia	ECOWAS		ECOWAS	CEN-SAD	
	Mali	ECOWAS		ECOWAS	CEN-SAD	
	Niger	ECOWAS		ECOWAS	CEN-SAD	
	Nigeria	ECOWAS		ECOWAS	CEN-SAD	
	Senegal	ECOWAS		ECOWAS	CEN-SAD	
	Sierra Leone	ECOWAS		ECOWAS	CEN-SAD	
	Togo	ECOWAS		ECOWAS	CEN-SAD	
North	Egypt		PAFTA	COMESA-FTA	COMESA	CEN-SAD
	Algeria		PAFTA	AMU		
	Libya		PAFTA	COMESA-FTA	AMU	COMESA
	Morocco		PAFTA	AMU	CEN-SAD	CEN-SAD
	Mauretania			AMU	CEN-SAD	
	Sudan		PAFTA	COMESA-FTA	COMESA	CEN-SAD
	Tunisia		PAFTA	COMESA-FTA	AMU	COMESA
	Western Sahara					CEN-SAD

Note: Entries marked in light red indicate that the accession of the respective country to the stated agreement is currently under negotiation.

Source: Individual trade agreement websites; authors' compilation.