

Realizing the AfCFTA Promised Gains: Fostering Implementation through Digitalization and Comparative Experiences from the Global South

**Proposal for Joint Research – United Nations Economic Commission for Africa
(Sub-Regional Office for Southern Africa, ECA Digital Center of Excellence,
Africa Trade Policy Center)
and the United Nations Office for South-South Cooperation (UNOSSC)**

Final Report:

The African Continental Free Trade Area (AfCFTA), which entered into force on May 30, 2019, is a milestone achievement in Africa’s rich history on regional integration. Indeed, the AfCFTA is the partial fulfilment of a long journey on the part of the continent, in its effort to harness regional integration as a development tool to promote self-reliance, economic growth and prosperity for Africa’s citizens (See Chapter 2, UNECA et al., ARIA II). The Lagos Plan of Action for the Economic Development of Africa, dating as far back as 1980, had earmarked a regional approach to Africa’s development as an alternative to the ‘unfulfilled promises of global development strategies’.

The Abuja Treaty of 1991 reiterated that vision and laid down a series of milestones for the continent to achieve in six distinct stages. Stage 6 planned, among others, for the establishment of a single domestic market and a Pan-African Economic and Monetary Union. Prior to that, Stage 4 should have seen the co-ordination and harmonization of tariff and non- tariff systems among the various regional economic communities (RECs) with a view to establishing a Customs Union at the continental level by means of adopting a common external tariff. Many of these milestones remain to be achieved. Implementing prescribed goals in a timely manner has been a recurrent challenge in Africa’s regional integration efforts. In fact, the continent has experienced several setbacks in the past when it comes to implementing its myriad treaties, agreements and regional integration initiatives and programmes. Reasons for these setbacks are numerous.

The United Nations Economic Commission (UNECA) for Africa in its Assessing Regional integration in Africa Series has enumerated a few of these setbacks as consisting of deficiencies in the operations of the RECs due to underfunding, lack of adequate staff, duplication of programmes, and a lack of national support for RECs, including failure to translate REC goals in national plans and budgets and poor institutions, in addition to overlapping memberships of RECs by countries (UNECA et al., 2006). Other reasons cited for the setbacks include the existence of third-party trade agreements, along with concerns over short-term revenue losses and the absence of a monitoring process and tool, such as an internal scorecard to track progress made by countries in translating regional trade rules in actual national laws by the agreed deadline

(UNCTAD, 2013). A few of these setbacks could have been avoided through higher levels of efforts at streamlining REC memberships to avoid strain on limited implementation capacities, establishment of compensatory mechanisms and setting of more realistic targets.

Non-domestication of regional commitments has been a critical challenge, though progress (albeit uneven across RECs) has been made over the last decade. It is therefore legitimate that concerns and skepticism continue to exist in some circles regarding the political will and capacities of the continent to effectively implement the “Agreement Establishing the AfCFTA” at national and sub-regional levels. The current Covid crisis and the postponement of implementation to July 1, 2021 may have reinforced such skepticism.

If past performance is a good indicator of what to expect in the future, then there is a risk that the AfCFTA may fail to bear its development fruits for the continent, due to weak implementation of protocols and their provisions, and improper follow-up and monitoring as to whether continental integration commitments have translated into actions. As mentioned previously, the use of internal scorecards can help to alleviate some of these risks. The East African Community (EAC), the most highly integrated regional bloc in Africa, is a prime example of this. The adoption of a Common Market Scorecard (CMS) as a tool to monitor legal compliance with commitments under the Common Market Protocol (CMP) have contributed to help member states identify areas for reforms. However legal compliance is not enough and needs to be matched by actual compliance (EAC, 2016). The current Covid crisis and its economic impact on African countries, and diversion of resources to cope with its impacts may also result in delayed implementation.

The African Regional Integration Index Report 2019 estimates that African countries as a whole are not well integrated with an average regional integration score¹ of 0.327. By country, South Africa leads the pack with a score of 0.625, followed by Kenya, Rwanda, Morocco and Mauritius and with South Sudan and Eritrea at the other end, while among RECs, the score varies from 0.537 in EAC to 0.488 in AMU, 0.442 in ECCAS, 0.438 in IGAD, 0.425 in ECOWAS, 0.377 in CENSAD, 0.367 in COMESA and 0.337 in SADC. There is much scope for all countries and RECs in Africa to deepen regional integration and leverage on its expected benefits. The Report explicitly notes that better technology could be harnessed to remove several bottlenecks to regional integration, the most significant of which lies in the building of innovative, regional value-chain frameworks in different sectors followed by infrastructure (including the need to invest in new technologies) and implementing the AfCFTA itself. It also notes the role of digital technologies in facilitating free movement of people (AU, AfDB and UNECA, 2020).

The benefits of the AfCFTA are perceived to be numerous, ranging from providing a boost to industrialization and the development of regional value-chains to create decent jobs for Africa’s growing young labor force, to accelerating the formalization of Africa’s economy, empowering women and youth and catalyzing infrastructure development on the continent for enhanced competitiveness (UNCTAD, 2019). The AfCFTA also offers opportunities for land-locked countries

¹ Regional integration is measured on five dimensions: trade integration, productive integration, macroeconomic integration, infrastructural integration and free movement of people that are calculated based on 16 indicators.

to become land-linked through cross-border transit and transport facilitation initiatives such as the Djibouti-Ethiopia transport corridors. In the end, the realization of these benefits hinges on one key element, speedy and effective implementation of (i) the AfCFTA agreement manifold provisions, enshrined in its articles and annexes and (ii) AfCFTA- related policy actions in a range of areas, including building capacities and trade facilitation measures that in turn rests on human and institutional capacities.

How to build capacities at implementing the AfCFTA is a key question that needs to be addressed, as more countries start formulating their National AfCFTA implementation strategies on the continent and as expectations mount in relation to reaping the perceived benefits of the AfCFTA.

Capacity building is required at four levels:

- At implementing the various provisions contained in the Agreement establishing the AfCFTA and in its Articles and Annexes as well as monitoring progress towards implementation and identifying remedial measures. This could be either through enforcing compliance with rules of origin and technical standards, monitoring tariffs and technical standards, monitoring tariffs phase-outs and reductions in non-tariff barriers. These are aimed at governments and its institutions.
- At implementing actions in policy areas that will drive the benefits of the AfCFTA, particularly economic governance, industrial, regional value-chains and SME development, trade and business facilitation, and financial services such as digital payment systems;
- At facilitating sharing of information and data gathering and analysis across borders;
- At rendering the major actors of the process - that is the private sector and the ecosystem of enterprises - productive, innovative and acting as agents of regional structural change.

Concurrently digitalization is fast becoming a lever for development, including for enhancing effectiveness in the delivery of development-related actions and augmenting productivity or competitiveness. There are challenges nevertheless in harnessing digitalization fully for economic gains, even more so in Africa, a continent grappling with energy shortages, deficient infrastructure and a shortage of qualified IT professionals. These challenges have to be addressed as implementation of the AfCFTA proceeds.

Digitalization, according to UNCTAD Digital Economy Report 2019, can be defined as ‘the transition of businesses through the use of digital technologies, products and services’. This is a narrow definition that confines the utilization of digital technologies only to private businesses and disregards the potential application of digital technologies and use of digital goods and services in spheres of production and consumption by a larger array of actors that includes governments, regional economic communities and institutions such as trade and customs agencies in various economic and social sectors.

This proposed report adopts a broader definition of digitalization, one that defines it as “the application of digital technologies and utilization of digital-based goods and services within

transactions and production processes and for the achievement of development ends”. When it comes to the production of goods and services, digitalization takes the form usually of the “Internet of Things (IoT), the robotization of productive activities and the incorporation of new technologies, particularly those of large data analytics and artificial intelligence; as well as by a strong degree of substitution of traditional goods and services for their digital equivalents” (ECLAC et al., 2018).

In African contexts, the contribution of digitalization may not immediately stem from harnessing loads of digitally-generated data for commercialized purposes (though such data should be protected), or from the creation and use of digital platforms or application of other Fourth Industrial Revolution tools such as cloud computing, robotics and Artificial Intelligence. The continent, especially least developed countries (LDCs) has still to invest massively in digital connectivity and will need to catch up with the developing world. While e-commerce and online platform-based business models hold promising opportunities for marketing “Made in Africa” wares, at least once local industrial capacities are built, in a short to medium-term the priorities for the continent may be to harness digitalization to enhance trade and business facilitation, augment trade and business competitiveness and to leverage digital technologies to enhance firm, industry, sectoral and macro-wide productivity and facilitate policy implementation. Digitalization can be a push for unleashing the potential of African firms and the African economy by for example, facilitating mobile-based and information and communications technology (ICT) -based services transactions, using blockchain technologies for financing and regulatory purposes and opening new channels of domestic value-addition for firms in regional and global value-chains.

While the potential of digitalization for promoting development in Africa is large, provided the digital infrastructure and digital skills are in place, the immediate interest at hand is to explore **how digitalization can accelerate regional integration in Africa. In particular, how to leverage digital technologies to build the required capacities for implementing the AfCFTA** is an area that merits serious attention on the part of policy-makers and other stakeholders. Harnessing digital technologies to build implementation capacities in relation to the AfCFTA (at the four levels mentioned above) and also in relation to RECs in Africa is an emerging area of research and technical assistance.

The scope for harnessing digitalization in fostering the implementation of regional integration agreements or in promoting regional trade can be exemplified in several ways. First there can be an increased automation of cross-border trade-related procedures or increased resort to cross-border paperless trade. Paperless trade can manifest itself in the form of : i) electronic request for the reimbursement of customs payments; ii) electronic payment of tariffs and fees; iii) request and electronic issuance of certificates of origin and of sanitary, Phyto-sanitary standards; iv) electronic sending of air cargo statements; v) electronic application and issuance of licenses and permits; vi) electronic sending of customs declarations; vii) cross-border Internet connection; viii) electronic/automated customs system; ix) electronic single window for foreign trade (ESW); and x) electronic customs reimbursements (ECLAC et al., 2018). The use of electronic signatures can also facilitate cross- border trade transactions. In the Common Market of the South (MERCOSUR),

agreements have been signed, for example, to allow the recognition of advanced electronic signatures and the adoption of electronic means in customs operations in Argentina, Brazil, Paraguay, Uruguay, Venezuela, and Bolivia (ECLAC et al., 2018).

Second there is scope to create single digital regional markets, whereby cross-border trade transactions are carried out online. Cross-border regional electronic commerce is a feature of regional trade in some parts of the world. In Latin America for instance, Argentina, Mexico and Brazil are the dominant e-commerce markets in the region, representing about 73 per cent of sales (ECLAC et al., 2018). E-commerce has been included in the AfCFTA through a decision of the African Union Heads of State and Government Assembly in February 2020 and will be covered under a third phase of negotiations that should result in a specific Protocol on e-commerce; at a REC level SADC has an e-commerce strategy (Ogo, 2020). Over 260 e-commerce start-ups were operating in Africa in 2017, and according to the International Trade Centre, there are about 630 Business to Consumer (B2C) e-commerce marketplaces operating on the continent (Ogo, 2020). Challenges in the context of harnessing regional e-commerce for economic development in Africa relate, among others to ensuring growth and viability of regional African e-commerce companies relative to international platforms, addressing logistics deficits on the continent to promote cross-border e-commerce so as to enhance intra-regional trade in goods and services, and building African industrial and entrepreneurship capabilities (Bolaky, 2019).

A third example relates to the use of AI in accessing legal information contained in regional integration agreements. A fourth example relates to leveraging digital technologies to develop cross-border payment systems while strengthening customer protection and cyber-security in cross-border exchange transactions.

ASEAN is an example of a regional economic bloc that is trying to capitalize on digitalization to transform its single market. The Digital ASEAN initiative for instance consists of four workstreams centered on the following focus areas: 1. Pan-ASEAN Data Policy: shaping a common regional data policy; 2. ASEAN Digital Skills: building a shared commitment to train digital skills for the ASEAN workforce; 3. ASEAN e-Payments: building a common ASEAN e- payments framework and 4. ASEAN Cybersecurity: nurturing cooperation and capacity building in ASEAN cybersecurity (WEF, n.d). The ASEAN Digital Integration Framework for its part is aimed at fostering regional digital integration in ASEAN by focusing on 6 priority areas: facilitating seamless trade, protecting data while supporting digital trade and innovation, enabling seamless digital payments, broadening digital talent base, fostering entrepreneurship and coordinating actions.

In the African context, recognition of the role that digitalization can play in the operationalization of the AfCFTA is manifested in the AU's drive for the continent to be guided by a regional digital transformation strategy as the implementation of the AfCFTA gets underway. RECs such as the Common Market for Eastern and Southern Africa (COMESA) have earmarked the use of ICT to "improve efficiency in cross-border trade between Member States by further minimizing physical barriers" (Deloitte, 2018). As reported by Deloitte (2018), "Common Market for East and Southern Africa (COMESA) is rolling out the Digital Free Trade Area (DGFTA) which incorporates e-trade, e-logistics, e-legislation and Electronic Certificate of Origin ("e- CoO"). E-Trade provides

an online platform for COMESA region traders to trade online; E- logistics uses ICT as a tool to improve the commercial activity of transporting goods to customers; and E-legislation looks at the readiness of legislation in countries for them to carry out e-transactions and e-payments. COMESA is in the process of implementing an e-CoO, which will replace the current hard-copy version. The e-CoO is a web-based system that will be accessible to users through a web browser.

However, some functionalities will only be available to registered users. The system will allow users to apply for registration as exporters; apply for CoO; print CoO; allow importing country verification of e-CoO processing, amongst other functions. The e-CoO will have the same legal effect as the hard copy CoO. The Authority has encouraged Members who are ready to implement the e-CoO to do so on a pilot basis. The DGFTA is expected to facilitate cross-border trade between the Member States by reducing the volume of paperwork and time involved in clearing goods through the various Customs authorities within the Community. The use of e-CoO, in particular will minimize delays related to confirmation of the authenticity of physical CoOs by Customs authorities.” (Deloitte, 2018).

The Southern African Development Community (SADC) for its part had an e-SADC Strategy framework, that was part of the e-SADC initiative undertaken in the context of the SADC-United Nations Economic Commission for Africa (UNECA) Multi-year Programme and was adopted by the Conference of SADC Ministers responsible for Telecommunications, Postal and ICT in Luanda, Angola in May 2010. The main objectives were promotion of ICT use for regional economic integration; enhancement of connectivity and access to ICT services among and within SADC member States; development of applications including e-government, e-commerce, e-education, e-health, e-agriculture, and addressing policy, legislation, regulation, human and financial issues (UNECA and SADC, 2010). The outcomes realized under this Strategy Framework need to be assessed. A SADC Digital 2027 Agenda exists since 2015 whose aims are to realize some of the objectives set under the ICT chapter of the SADC Regional Infrastructure Master Plan (RIMP).

The major goals of this proposed report are to:

- Analyze first the factors that could constrain the potential operationalization of the AfCFTA, including an understanding of the risks underlying the implementation of the AfCFTA;
- Second analyze how digitalization and the range of available digital technologies from the Third and Fourth Industrial Revolution could facilitate the effective implementation of the AfCFTA and address these risks so that the AfCFTA delivers on its promised gains which include boosting intra-African trade, creating jobs and promoting structural transformation;
- Third, highlight what other non-African southern regional economic blocs are undertaking in relation to harnessing digitalization as an enabler of regional integration through case examples and flesh out comparative lessons from the Southern blocs for Africa;
- Fourth highlight case studies from EAC, ECOWAS, COMESA and SADC (Egypt, Zambia, and other COMESA/SADC countries) where digitalization is facilitating or could facilitate regional trade and integration and drawing lessons for the continent.

Interim Report:

Covid-19, Digitalization and the implementation of the AfCFTA:

With the advent of Covid-19, the implementation of the AfCFTA has been delayed for 2021. The imposition of economic lockdowns, travel and international trade restrictions have inevitably affected the volume and value of trade transactions across Africa, both intra-regionally and globally. Part II of the proposed report will focus specifically on the impact of Covid-19 on the state of regional integration in Africa, the implications of Covid-19 on the implementation of the AfCFTA and the potential role that digitalization can play in attenuating the negative impact of Covid-19 on the state of regional integration in Africa and on the future implementation of the AfCFTA.

The Africa Regional Integration Index Report 2019 for instance highlights that “early warning systems should be put in place to better manage external shocks such as natural disasters and capital outflows”. What role can technology play in reducing the vulnerability of the African continent to Covid-19 trade-and investment-related shocks? What will be the impact of Covid-19 on intra-regional trade and investment patterns? The current Covid crisis has also put a spotlight on the draw backs of Global value-chains and the imperative to develop regional value-chains (see Mold and Mveyange, 2020). Can there be positive windfalls associated with Covid-19 on local industrial capabilities and the development of regional value chains in Africa? In what ways can Covid-19 and related mitigation responses affect the implementation of the AfCFTA? And what role digitalization can play in attenuating any expected negative impacts? In a recent article, Mafurutu (2020) highlights the important role that e-CoO in SADC and COMESA can play in reducing human interface in cross-border transactions during the Covid-19 pandemic and mitigate the impact of the pandemic. These are some of the key questions to be addressed in Part II of the Report.

The Outline of the Interim (planned October 2020) and Final Report (planned release January 2021):

Opening Commentaries by:

H.E Dr. Stergomena Tax, Secretary General, Southern African Development Community (SADC);

H.E Mrs. Chileshe Kapwepwe, Secretary General, Common Market for Eastern and Southern Africa (COMESA);

Mrs. Vera Songwe, Executive Secretary, United Nations Economic Commission for Africa (UNECA);

Mr. Jorge Chediak, UNOSSC Director and Envoy of the Secretary-General on South-South Cooperation.

Executive Summary

Part I. Realizing the AfCFTA Promised Gains: Where Are We and What Lies Ahead?

A. An Overview of the AfCFTA:

- Why the AfCFTA? Rationale and approach;
- Brief overview of AfCFTA: contents (principles, protocols, articles, annexes and appendices) and institutional structures and architecture;
- Status of negotiations: progress and bottlenecks;

B. Implementing the AfCFTA:

- Unpacking the Promised Gains of the AfCFTA;
- Implementing the Provisions of the AfCFTA:
 - Tariff concessions;
 - Rules of origin;
 - Technical barriers to trade and Sanitary and Phyto-Sanitary standards;
 - Non-tariff measures and non-tariff barriers;
 - Trade facilitation;
 - Transport and transit facilitation;
 - Customs cooperation;
 - Cooperation on antidumping, countervailing and safeguards measures;
 - Dispute settlement, transparency and sharing of information and monitoring and evaluation;
- Implementing Policies Needed for Realizing the Promised Gains of the AfCFTA
 - Building Productive capacities
 - Industrialization (incl. agro-processing), regional value-chains development and enterprise development;
 - Boosting sectoral productivity (agriculture, services and industry);

- Leveraging the digital economy (incl. digital trade and fintech);
- Competition, investment and innovation policies;
- Strengthening the private sector;

C. Challenges of regional integration in Africa

- Challenges of regional integration in Africa;
- Potential role of digitalization in Africa's regional integration;

Part II: Covid-19, its implications for the AfCFTA and the role of digitalization

- Covid-19 and its impact on intra-regional trade and investment in Africa.
- Covid-19 and its impact on the implementation of the AfCFTA.
- The potential role of digitalization and policy recommendations.

Part III: Digitalization within Regional Trade and Integration: Comparative Experiences from Regional Economic Areas from the Global South

- Digitalization in regional integration.
- Digitalization in regional economic areas from the Global South.
 - Association of Southeast Asian Nations (ASEAN);
 - South Asian Free Trade Area (SAFTA);
 - Southern Common Market (MERCOSUR in Spanish);
 - Latin American and the Caribbean Economic System (SELA in Spanish);
 - Caribbean Community (CARICOM);
 - Central Asia Regional Economic Cooperation Program (CAREC);
- Lessons for the African Continent: similarities, differences and what can be learnt;

Part IV: Constraints and Risks to the Implementation of the AfCFTA and the Role of Digitalization

- Risks and constraints to implementing the AfCFTA
 - Challenges in implementation of provisions of the Agreement;
 - Challenges in implementation of policies needed to realize the promised gains;
- Role of digitalization in harnessing opportunities and mitigating risks/challenges
 - Case study on COMESA (and COMESA Digital Free Trade Area);
 - Case study on EAC;
 - Case study on SADC (e-SADC Strategy Framework and Digital SADC 2027);
 - Case study on ECOWAS;

These case studies will look at what existing or planned initiatives and programmes RECs have or intend to have to leverage digitalization in order to strengthen their economic areas. It will review these programmes and initiatives, take stock of what has been accomplished, discuss challenges and bottlenecks and will be based on interviews with these RECs and technical missions by UNECA to COMESA and SADC.

- How to leverage digitalization for the implementation of the AfCFTA? Concrete examples
 - Facilitate implementation of provisions (illustrate wrt B.2).
 - Facilitate the implementation of policies (illustrate wrt B.3.).

Part V: Policy Recommendations and Concluding Remarks

- A 10-point policy and technical assistance agenda for harnessing digitalization to strengthen implementation of the AfCFTA;
- Role of South-South and triangular cooperation.

Timeline

The final report will be drafted in the period **July 2020 to October 2020** by a team composed of external consultants, ECA and UNOSSC and could be a complement to ongoing research and analytical work by UNOSSC, UNECA, UNCTAD and other UN institutions.

The paper can be disseminated at planned UNOSSC and UNECA events in Africa including the AERC 2020 Conference.

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