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AFRICAN CONTINENTAL FREE-TRADE AREA AND CHINA-AFRICA ECONOMIC COOPERATION: IMPACT AND STRATEGY

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The African Continental Free-Trade Agreement came into effect on January 1, 2021, attracting widespread attention of the international community. The launch of the African Continental Free-Trade Area (AfCFTA) is regarded as a milestone event in the development of African economic integration. For China, the AfCFTA will exert a significant impact on China-Africa joint efforts in building the Belt and Road as well as the deepening of China-Africa economic and trade cooperation.

THE AfCFTA SETTING SAIL AGAINST THE TREND

The free-trade area as a lower stage of economic integration only higher than preferential tariff zone has specific objectives as follows: gradually eliminating tariff and non-tariff barriers in goods trade and developing service trade; cooperating on investment, intellectual property rights and competition policy; cooperating in all trade-related fields, including customs matters and the implementation of trade facilitating measures, and establishing a mechanism for settling disputes over the

rights and obligations of the contracting states. The development of the AfCFTA has gone beyond the scope of the traditional free trade zone, covering not only the trade in goods, but also other fields such as service trade, investment, intellectual property rights, competition policy, e-commerce and so on so forth, aiming to pave the way for the establishment of the African Continent Customs Union, the African Common Market, the African Monetary and Economic Union and eventually the establishment of the African Economic Community in the future.

I. The launch of the AfCFTA is of far-reaching significance.

The launch of the AfCFTA is an acceleration and upgrading of African countries' efforts to achieve economic integration, but it is not something entirely new.

Firstly, the AfCFTA is a new development of Pan-Africanism against the new historical background, during which the African Union has played an important leading role. Pan-Africanists represented by Ghanaian President Nkrumah put solidarity and unity on the top agenda of African leaders and

vigorously promoted it in as early as the 1950s. The Organisation of African Unity (OAU), since founded in May 1963, has made significant contribution in the realization of the political liberation of African countries. Moreover, the OAU has shouldered the great responsibility of developing African economy by vigorously advancing the economic integration and regional economic cooperation of Africa as well as improving the ability of independent development of African countries as a whole. The OAU released the Lagos Plan of Action for the African Economic Development, 1980-2000 (the Lagos Plan of Action) in 1980 and adopted the Treaty Establishing the African Economic Community (also known as the Abuja Treaty), formulating the roadmap for the economic integration of the African continent. According to the roadmap in the Abuja Treaty, the free-trade area would be based on a preferential tariff zone and followed by the customs union, the common market, the currency and economic union, and finally developed into a complete economic community. When entering the 21st century, the OAU was reorganized into the African Union (AU), and the establishment of

a free-trade area on the African continent was ratified in 2012. In 2013, the AU formulated the Agenda 2063 for the development of the African continent in the next 50 years, in which the African free-trade area is one of the 14 flagship projects. The AU started negotiations on the AfCFTA in June 2015 and in March 2018, 44 member states signed on the agreement. On May 30, 2019, the AfCFTA agreement was launched when it achieved the minimum number of signatory countries for entering into force after 22 signatory countries officially ratified it. However, due to the impact of COVID-19, the official launching of the AfCFTA was postponed to January 1, 2021. By the end of 2020, 54 of the 55 AU members had signed the agreement, and 36 of them, including Nigeria, had ratified the framework agreement of African continental free trade.

Secondly, the AfCFTA is conducive to the transformation of African economic structure and the independent and sustainable development of Africa. With a total area of 30.2 million square kilometers, the African continent is divided into 54 countries by 107 distinctive land and sea boundaries. Although the total population of Africa is more than 1.2 billion, there are 22 countries with a population of less than 10 million. As a result, the African market is narrow and fragmented. During the peak time of the COVID-19 pandemic prevention and control, the disruption of the global supply chain and the suspension of the global industrial chain seriously hampered the trade of import and export goods on which the African countries rely for survival. With 46 African countries closing their borders, Africa's internal trade volume suffered significant reduction, which accounts for 16.6% of the total. The COVID-19 pandemic has once again demonstrated the vulnerability of Africa's economic development due to its over-reliance on the external world. In order to alleviate the risks brought by the external world shock and enhance the resilience of economic development in the post-pandemic era, African countries launched the AfCFTA against the trend, trying to get rid of



Recently, as China-Africa shipping line has entered its peak shipping season, this China-Africa "golden seaway" running between ports of Guinea, Africa and Yantai Port of China becomes increasingly active. Photo shows staff members of Yantai Port of Shandong Port Group working in unloading operation of a bauxite ship from Guinea, Africa on March 17, 2021.

the "dependent" economy and carry out economic transformation by creating a new supply chain. The development of the AfCFTA is undoubtedly of great significance for African countries to keep their destiny under their own control.

Thirdly, the launch of the AfCFTA is not only a milestone achievement for the African continent to move towards higher level of integration and prosperity, but also a victory of multilateralism and free trade, which has strengthened people's determination to safeguard the shared interests of the global economy. Through the implementation of the AfCFTA agreement, African countries have sent a message to the world that Africa, standing together, will be a big market with a population of 1.2 billion, a total economy of 2.5 trillion US dollars and a total consumption and business

expenditure of more than 4 trillion US dollars. In addition, the strong cohesion will greatly upgrade Africa's voice and influence in the international political and economic arena. What's more, against the backdrop that the current global economic environment is increasingly dominated by "beggarthy-neighbor" unilateralism and protectionism, and that the rampant power politics hinders international economic cooperation, the AfCFTA takeoff is itself a victory of multilateralism. In the future, with the development of the AfCFTA, African countries will participate in international economic and trade affairs with "one position and one voice" to a larger extent, which will not only enhance Africa's voice in the international economic arena, but also inject strong momentum into safeguarding



multilateralism and free trade as well as promoting the stabilisation and recovery of the world economy.

II. The building of AfCFTA will constantly release growth potential for Africa's development.

The joint efforts made by African countries to strengthen themselves and launch a free-trade area against the trend have won wide attention from the international community. The World Bank (WB), the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD) have successively issued reports giving positive comments on the role of the AfCFTA. The WB report titled *The African Continental Free-Trade Area: Economic and Distributional Effects* noted that the AfCFTA provides

an important opportunity for African countries to promote growth, reduce poverty and expand economic inclusiveness, which is conducive to alleviating the negative impact of the COVID-19 pandemic on Africa. According to the IMF calculation, by abolishing 90% of the tariffs among its members, the AfCFTA has achieved a growth rate of over 80% in internal trade, and an increase of about 60 billion US dollars its export. The UNCTAD estimates that the restriction of the non-tariff barriers on the African continent is at least three times that of normal tariffs. The gradual elimination of these barriers can bring 20 billion US dollars of new GDP to African countries. According to the WB prediction, if the AfCFTA agreement is fully implemented, Africa's total exports will increase by nearly 29% compared with the base period by 2035, the exports among African countries will increase by 81%, and its exports to countries outside will increase by 19%. Moreover, the AfCFTA agreement will also bring about a substantial increase of the income of African countries. By 2035, Africa's revenue will increase by 445 billion US dollars, or 7%, compared with the base period. The implementation of the AfCFTA agreement is conducive to alleviating poverty and unemployment. As a result, 30 million people are expected to get rid of extreme poverty and 68 million people are expected to get rid of moderate poverty. To sum up, the implementation of the AfCFTA agreement will promote the free flow of products and production factors among African countries, which is helpful to activate the vitality of industry, especially the manufacturing industry, increase employment, improve the competitiveness of products, and boost economic development. The development of the AfCFTA will also help to accelerate the integration of fragmented markets of African countries, optimize the business environment, improve the composition and direction of foreign direct investment, and help Africa better integrate into the global industrial and value chain.

III. The development of the AfCFTA is facing multiple challenges.

The challenges faced by the development of the AfCFTA come from whether the contents of the agreement can be fully implemented on schedule. From the economic point of view, the single and homogeneous economic structure and the disparity in national strength of the 54 African countries are the main challenges.

Firstly, it is hard to remove tariff barriers in a short time. Despite that Africa's efforts in integration brought down the tariff of African trade in goods from more than 20% in 1997 to 11.8% in 2016 while brought up the proportion of internal trade from 9% in 2000 to 17% in 2017, the further reduction of tariffs in the future will lead to the decrease of foreign exchange revenue and the aggravation of financial tension in a short term for those countries taking tariffs as an important source of fiscal revenue, which may result in the delayed implementation of the agreement. At the same time, substantive policy reforms at the national level are needed for the removal of non-tariff barriers and the adoption of trade facilitation measures. Against the background of the spread of the pandemic, these reforms require leaders of all countries to make difficult political choices.

Secondly, African governments have insufficient capacity to implement strategies. Even if both tariff and non-tariff barriers are completely removed, Africa's single economic structure will lead to greater competitiveness than complementarity of products, few products available for exchange within the continent, and insufficient integrity of the supply and value chain. With weak ability to adjust economic structure and promote diversified economic development, the African governments fail to implement the policies effectively, resulting in limited industrial manufacturing capacity. Most countries' exports are mainly limited to such fields as primary products. These factors will restrain the internal trade among African countries.

Thirdly, there is a large fund short-

age to push forward infrastructure development. The building of the AfCFTA requires a large number of cross-border infrastructure projects involving roads, railways, ports, power stations, etc. According to the estimate of the African Development Bank, the annual fund shortage of Africa's infrastructure development is as high as 68-108 billion US dollars. The COVID-19 pandemic has exacerbated the debt burden of African countries. As a result, some countries that have touched the debt ceiling are unable to provide sovereign guarantees for the financing of the large-scale infrastructure construction. Capital constraints will undoubtedly delay the construction of some large-scale infrastructure projects, thus affecting the efficiency and cost of the transportation for trade within the continent.

Fourthly, the development of the financial market lags behind seriously. African financial market suffers from limited scale and function, low saving rate, low degree of capitalization, insufficient liquidity and small number of financial instruments, which restrict the capital flow related to trade and investment and easily lead to regulatory loopholes.

Fifthly, some countries are still suffering from continuous political instability, armed conflicts and various disputes. Behind these conflicts are complex historical, ethnic, religious and cultural factors, which are difficult to be eradicated in a short period of time and will continue to ferment and affect the potential of African economic integration. In view of this, the implementation of the AfCFTA must be a long process full of twists and turns.

NEW OPPORTUNITIES FOR CHINA-AFRICA ECONOMIC AND TRADE COOPERATION

Since the establishment of the Forum on China-Africa Cooperation in 2000, China-Africa economic and trade cooperation has achieved rapid growth. The bilateral trade volume has increased from 10 billion US dollars in 2000 to 208.7 billion US dollars in 2019, and

the direction of foreign trade of African countries has also shifted to Asian countries including China. China has been Africa's largest trading partner for 11 consecutive years. At the same time, China's direct investment in Africa has increased from scratch to an investment stock reaching 44.39 billion US dollars by the end of 2019, making China the fifth largest direct investment stock country for Africa only after the Netherlands, France, the United Kingdom and the United States. China is also the main force of infrastructure construction in Africa. Chinese enterprises account for nearly 50% of the African EPC market, and more than 3,800 Chinese enterprises have invested in Africa. China has always taken practical actions to support the African integration for the improvement of its ability of independent development and resisting external shocks. The launch and operation of the AfCFTA is of great significance to China-Africa economic and trade relations.

Firstly, the AfCFTA is helpful for China and Africa to join hands in resisting trade protectionism and unilateralism and safeguarding the multilateral trade system. At present, the COVID-19 pandemic is still spreading, the world economy is declining, international trade and investment are shrinking, and globalisation is facing an adverse current. In particular, the United States abused "long-arm jurisdiction", ignoring multilateral norms of international economic and trade relations, and wantonly using trade protectionism to impose unilateral sanctions on other countries, which seriously damages the interests of the broad developing countries. The launch of the AfCFTA conforms to the mainstream direction of the reform of international economic and trade rules, and safeguards the economic globalisation and multilateral trade system actively advocated and maintained by China. In the following years, China's economic and trade cooperation with Africa which gathers together one third of the world population will surely provide more positive energy for safeguarding international multilateralism and free trade.

Secondly, the AfCFTA is helpful to



In December 2020, the "Cooperation Plan between the Government of the People's Republic of China and the African Union on Jointly Promoting the Building of the Belt and Road Initiative" was officially signed. This Cooperation Plan is the first of its kind in terms of cooperation under the Belt and Road between China and a regional international organization like African Union. It will enhance the in-depth integration of the BRI with the AU's Agenda 2063 by enhancing cooperation between both sides in industry, agriculture, telecommunication, e-commerce, new infrastructure construction, green energy and financial services, facilitating the process of African economic integration, and promoting high-quality joint BRI construction between China and Africa. Photo shows the Wanbao rice farm cooperation project located in southern Mozambique's Xai-Xai district, China's largest rice planting project in Africa, which ameliorates the issue of food shortage for Mozambique.

the effective connection of the Belt and Road Initiative, the eight major measures of the Forum on China-Africa Cooperation and the Agenda 2063 of the African Union, aiming at promoting the transformation and upgrading of China-Africa economic and trade cooperation. Africa is an important participant in the BRI, and 46 African countries have already signed on the BRI cooperation document, accounting for nearly one third of the total signatory countries.



The BRI and the eight major measures announced at the Beijing Summit of the 2018 FOCAC have both listed trade liberalisation, industrial development and facilities linkage as the main contents of China-Africa economic and trade cooperation. As one of the flagship projects of the Agenda 2063 of the African Union, the AfCFTA will operate in accordance with the framework agreement on the AfCFTA, the protocol on commodity trade, service trade and other legal texts. The priority fields listed in those texts are highly consistent with the ideas and contents of the BRI and the eight major measures, so it is expected that a joint effort will be formed to push forward the China-Africa comprehensive strategic partnership to a new height. The Cooperation Plan on Jointly Promoting the Silk Road Economic Belt and the 21st-Century Maritime Silk Road between the Government of the People's Republic of China and the African Union officially signed in December 2020 serves as the first cooperation plan document signed between China and a regional organisation for jointly building the Belt and Road. China and Africa will promote the connection of

the BRI and the Agenda 2063 according to the document for strengthening cooperation between the two sides in the fields of industry, agriculture, telecommunications, e-commerce, new infrastructure, green energy and financial industry, and promoting the process of African economic integration and high-quality development of the Belt and Road with joint efforts.

Thirdly, the wave of economic integration initiated by the AfCFTA has brought more growth expectations for the high-quality development of China-Africa economic and trade cooperation. After the launch of the AfCFTA, many countries, including European countries and the United States, are stepping up the signing of relevant trade agreements with African countries, which brings about new opportunities for China to strengthen the building of economic and trade mechanisms with the AU, the African regional integration organizations and African countries. The Free Trade Agreement Between the Government of the People's Republic of China and the Government of the Republic of Mauritius signed in October 2019 as the first FTA agreement between China and African countries has not only provided a strong institutional guarantee for deepening the economic and trade relations between China and Mauritius, but also accumulated experience for China to sign FTA agreements with other African countries. In the following years, China will implement the strategy of upgrading the free trade area during the "14th Five-Year Plan" period to better facilitate the economic recovery and high-quality development. Therefore, it is bound to carry out negotiations on free trade area agreements with more African countries to enhance Africa's position in China's building of a new development pattern.

Fourthly, the development of the AfCFTA has brought new opportunities of cooperation for Chinese enterprises in infrastructure construction, digital economy and other fields. The development of the AfCFTA cannot be successful without the improvement of the backward infrastructure.

With the strong competitiveness in capital, key know-how, construction team, organisation and management, Chinese infrastructure enterprises have become the main participants in the construction of infrastructure in Africa. Chinese companies are expected to obtain more cooperation projects in the process of the AfCFTA development and the interconnection between China and Africa in the years to come. The AfCFTA covers a wide range of fields, from commodity trade to service trade, investment, intellectual property rights, competition policy and e-commerce. It is expected that the AfCFTA will release the growth potential of multi-field and multi-industry linkage development. At present, in order to reduce transportation costs, many African countries have begun to take new infrastructure such as roads, railways, airports, docks, water networks and power grids as priority areas for economic revitalization. The AfCFTA is also making efforts to increase the density of transport corridors, improve the quality of ports and the efficiency of port access. Therefore, the traditional infrastructure projects are still in rigid demand. Meanwhile, African countries are also making vigorous efforts to expand new industries and fields such as mobile communication, digital economy, clean energy, finance, smart city, which bring new opportunities for Chinese enterprises. Especially amid the COVID-19 pandemic, Chinese enterprises share with African countries their experience of "cloud pandemic prevention" and "cloud economy" supported by digital know-hows. The new cooperation formats such as digital cooperation platforms, online promotions, live broadcast sales are developing vigorously, effectively supporting the docking between Chinese and African enterprises, and driving the export of African local products to China. China is promoting the construction of new infrastructure with digitalisation as the core, while Africa will apply various digital know-hows to the development of the AfCFTA. Digital economy will undoubtedly become a new eye-catcher in China-Africa cooperation. ■