

The African Continental Free Trade Area: Unlocking Economic Potential

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HIGHLIGHTS

- ▶ The African Continental Free Trade Area (AfCFTA) holds significant potential to enhance Africa's economic prospects by deepening integration and reducing reliance on non-African trading partners.
- ▶ A new analysis, incorporating updated tariff offers and various other developments, indicates positive economic outcomes for Africa, including increases in GDP, household disposable income, investments, and intra-African trade.
- ▶ Reducing non-tariff measures (NTMs) is crucial for realizing substantial benefits, with potential spillover effects to extra-African trade further amplifying gains.
- ▶ The AfCFTA is expected to foster industrialization, with manufacturing output showing the most significant increases among sectors.
- ▶ However, regional disparities in economic benefits and potential challenges such as decreased tariff revenues for some countries exist.
- ▶ Complementary policies, effective NTM reduction, and strategic management of public revenue are essential for equitable and sustainable growth across the continent.

1. What's the issue?

Africa is actively pursuing a path of growth and transformation. A critical step towards catching up with more developed countries lies in achieving higher integration of African economies. Historically, African countries have primarily traded with non-African partners, which has hindered continental economic integration. Trade has also been unbalanced in value-added terms, with Africa exporting natural resources and raw materials while importing a considerable proportion of manufactured

commodities. This imbalance presents a major obstacle to industrialization holding back the incomes of African people.

African nations' trade policies have often favoured non-African trading partners, for instance, by setting higher tariff rates for intra-African imports. The African Union (AU) recognized the need for better integration among African nations initiating the process through the Abuja treaty in 1991. The African Continental Free Trade Area (AfCFTA) represents a significant milestone in this process, aiming to deepen economic integration by reducing

trade barriers and increasing intra-African trade. The AfCFTA was established in 2018 when 44 of the 55 African Union (AU) member states signed the agreement. Trading under the AfCFTA commenced in practice in October 2022, after delays due to the Covid-19 pandemic.

A key challenge, however, is the significant uncertainty surrounding the magnitude of non-tariff measures (NTMs) and the extent to which their trade-reducing effects can be mitigated through the AfCFTA. Despite the recognized importance of NTM reductions for achieving the full benefits of integration, the practicalities of their reduction are yet to be fully agreed upon.

The economic prospects of African countries have been revised downwards due to recent events like Covid-19, Russia's invasion of Ukraine, and the Israel-Palestine conflict, which are accounted for in the new baseline projections. This new analysis aims to better address these uncertainties and provide a more precise understanding of the AfCFTA's potential impacts.

2. Why is this important for Europe?

The AfCFTA is expected to result in a better integrated continental economy, becoming less dependent on non-African partners. The European Union (EU) will benefit from a more stable and more productive trading partner with which it already has good relations. The EU could also strengthen this partnership by supporting the implementation of the AfCFTA. While the EU's share of African trade is projected to decrease by 2035, it is expected to remain the most significant trading partner. Given that Africa's population is predicted to increase from 1.5 billion to 2.5 billion by 2050, making more than every fourth person on the planet African, and that Africa's share of the total global economy is projected to reach 3.8% in 2040, it is important for the EU to maintain and enhance its partnership with Africa within the new realities of the AfCFTA.

3. Our study

This study provides a comprehensive and updated analysis of the potential impacts of the African

Continental Free Trade Area (AfCFTA). It utilizes the MAGNET model, which is based on GTAP version 7 and database version 11C. This research incorporates actual tariff offers, revised NTM modelling, and updated baseline projections, to offer a more accurate assessment than previous studies. The study specifically focuses on agri-food sectors to assess the AfCFTA's potential in contributing to Africa's food security.

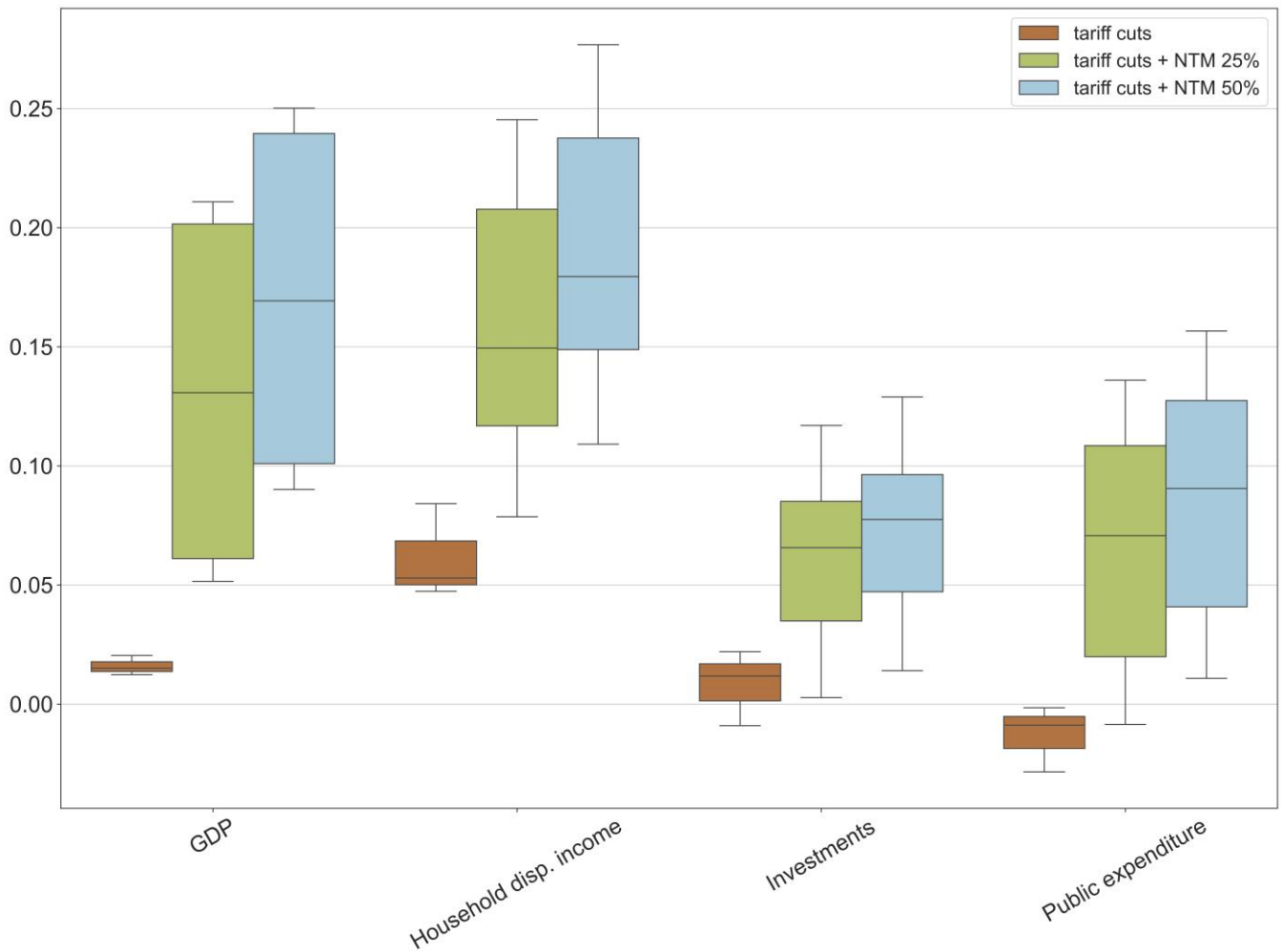
The analysis accounts for actual tariff offers, moving beyond speculative scenarios and it revises the modelling of NTMs, applying a 50/50 allocation between exporters and importers as efficiency shocks. NTM reductions are examined on two levels: 25% and 50% uniform linear reductions. Furthermore, it explores various levels of extra-African spillover effects (0%, 10%, and 20%) to understand their impact on the analysis. This wider array of scenarios helps to address the uncertainties surrounding the NTMs. However, the scenario with a 25% NTM cut and 10% spillover is considered our preferred scenario.

The study also benefits from updated baseline projections, considering recent global events like the Covid-19 pandemic and military conflicts, improving on earlier assessments. The MAGNET model dynamics have been enhanced with a new wealth module allowing for more flexible capital allocation and incorporating foreign direct investments (FDI). This follow-up study covers more regional detail than the preceding one, including all 43 African regions in the GTAP database as individual regions.

4. Results and policy implications

The implementation of the AfCFTA policies leads to positive economic outcomes for Africa, though the aggregate GDP increase at the AU level remains moderate. By 2035, the GDP is projected to increase modestly, particularly when considering tariff cuts alone. However, the inclusion of Non-Tariff Measure (NTM) reductions proves crucial for achieving more substantial GDP growth, with additional spillover effects to extra-African trade further amplifying these gains (Figure 1). This highlights that while tariff reductions initiate positive movement, a deeper commitment to tackling non-tariff barriers is essential for maximizing the AfCFTA's economic potential.

Figure 1. GDP and absorption (% change to baseline; at the AU level, variation over tariff scenarios and spillover effects)



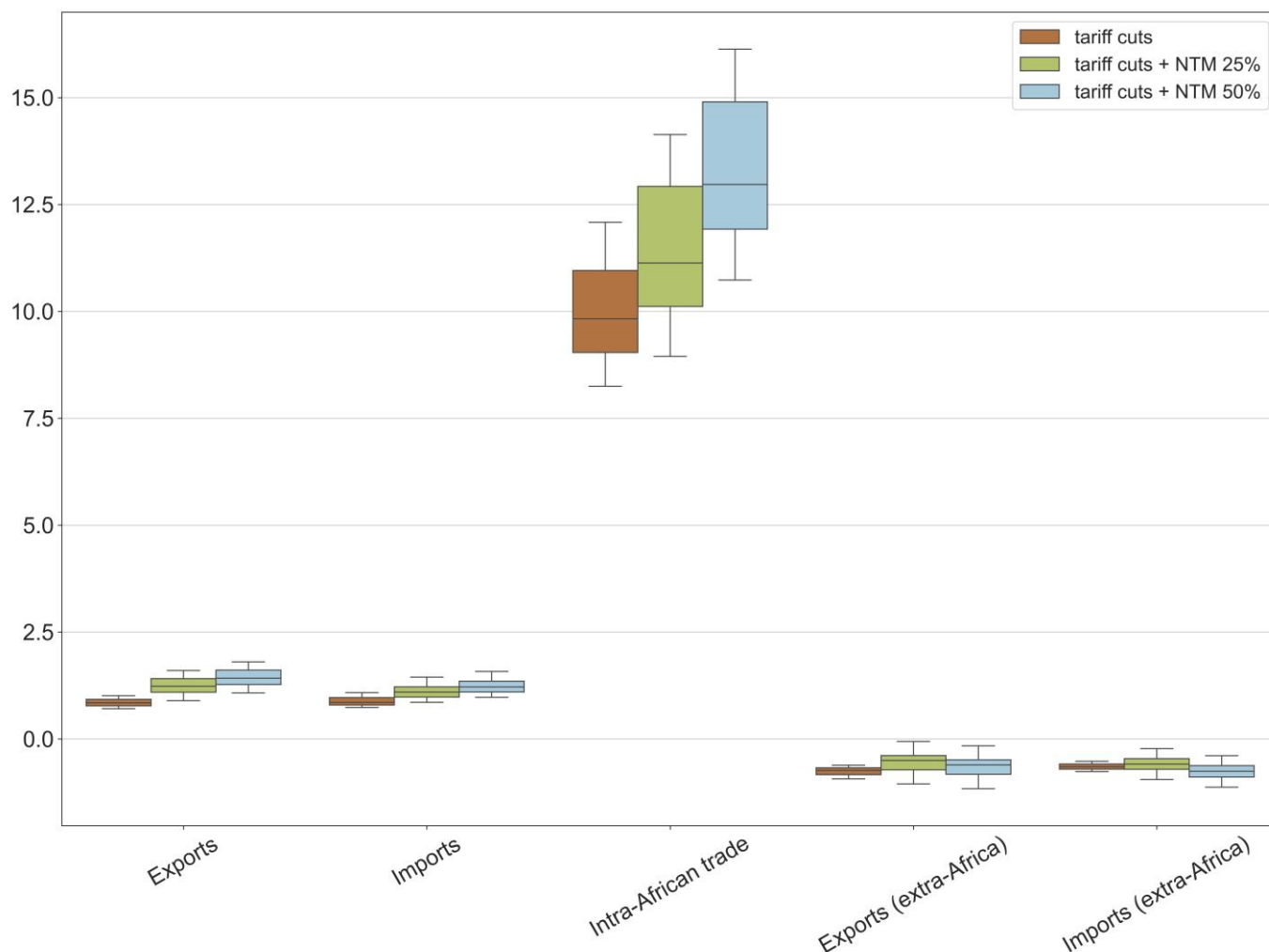
Source: The MAGNET calculations

Household disposable income mirrors the GDP trends, with most regions experiencing positive changes, indicating that households' income increase compared to other sectors. Investments are projected to increase, albeit with less than consumption, reflecting the economy's slow adjustment towards more capital-intensive production.

Intra-African trade is poised for a significant increase, representing a key outcome of reduced trade barriers across the continent. Our model

projects that intra-African exports and imports will experience a more pronounced growth compared to total trade flows, with median increases of 7.6% and 10% respectively (Figure 2). This substantial boost to intra-African trade indicates the AfCFTA's potential to strengthen regional economic integration and foster a more self-reliant continental economy. Conversely, trade flows with non-African countries are expected to decrease slightly in almost all scenarios, reflecting a reorientation of trade within the African continent.

Figure 2. Trade volumes (% change to baseline; at the AU level, variation over tariff scenarios and spillover effects)



Source: The MAGNET calculations

A significant finding relates to the AfCFTA's role in promoting industrialization within Africa. Manufacturing output demonstrates the most significant increases among all sectors at the AU level, with a 0.29% increase in our preferred scenario. This positive trajectory aligns with the African Union's goal of advancing industrialization on the continent. The NTM cuts are effective in boosting the output of manufactured goods. This indicates a shift in Africa's traditional output mix, moving away from an over-reliance on raw material and natural resource exports towards higher value-added production. However, regional variation in manufacturing output is relatively high, and spillover effects to extra-African trade can slightly dampen the output of manufactures. While the services sector also sees positive changes, the mean change at the AU level is only slightly positive, suggesting that the AfCFTA is more strongly promoting industrialization than a broad shift towards a service-oriented economy.

Focus on Agri-food Sectors:

The agri-food sector is another significant beneficiary of the AfCFTA, with positive implications for food security and rural development, which are critical issues for many African nations. Primary agricultural production is expected to increase in several regions, though the median change across the continent is zero. This indicates considerable regional disparities in how primary agriculture will respond to the trade agreement. South Africa, for instance, is projected to see the most substantial increase in its primary agricultural sector, by 2.2%.

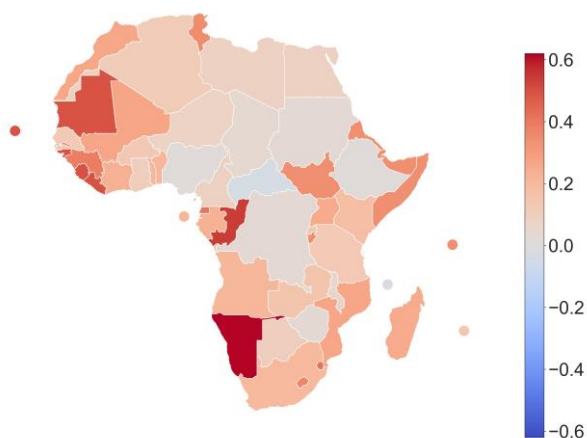
Processed food output is anticipated to increase more broadly than primary agriculture, showing an average increase of 0.33%. However, like primary agriculture, there is significant regional variation, and notably, a median decrease in processed food output across regions. This suggests that the AfCFTA could lead to a greater concentration of food

processing activities in certain regions of the continent.

Furthermore, both exports and imports of primary agricultural commodities are projected to increase on average, but again with regional differences. This indicates significant opportunities for specialization and trade within the African agri-food sector.

Overall, private consumption is expected to increase consistently with rising incomes. This is particularly notable in higher value-added commodity groups.

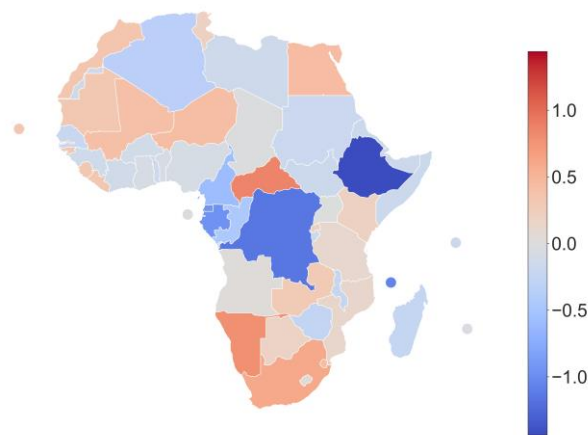
Figure 3. Food consumption (% change to baseline; preferred scenario with 25% NTM reduction and 10% spillover)



Source: The MAGNET calculations

For instance, while the effect on primary agricultural commodities is similar when only tariff cuts are considered, NTM reductions and spillovers lead to larger increases in processed foods consumption. The consumption of manufactured goods increases the most across all scenarios (Figure 3). This highlights a general trend of increasing average food consumption throughout the continent as household incomes rise, which results in increased purchasing power for food. Food prices increase in some countries (Figure 4) but being compensated by a higher increase in wages.

Figure 4. Food prices (% change to baseline; preferred scenario with 25% NTM reduction and 10% spillover)



Source: The MAGNET calculations

What could policymakers do?

- **Prioritize and expedite Non-Tariff Measure (NTM) reduction and harmonization:** Given their significant impact, focusing on the effective elimination and harmonization of NTMs is paramount to unlocking the full economic benefits of the AfCFTA. This includes addressing the practicalities of NTM reduction that are still pending agreement.
- **Strategically manage public revenue streams:** African nations must develop and implement strategies to offset the potential decrease in tariff revenues. This could involve exploring diversified domestic tax bases or optimizing existing revenue collection mechanisms to ensure public spending and investment are not negatively impacted, and that adequate public revenues are maintained with alternative taxation sources.
- **Implement complementary policies to address regional and sectoral disparities:** Recognize that the benefits of the AfCFTA will not be uniformly distributed. Policymakers should devise targeted interventions and strategic industrial policies to support regions and sectors that may experience slower growth or negative impacts, ensuring equitable distribution of benefits among and within countries and preventing some regions from falling behind in economic structural change.
- **Strengthen partnerships with non-African entities, especially the EU:** While intra-African trade increases, the EU remains Africa's most significant trading partner. Policymakers should maintain and enhance these existing trade relations, recognizing new opportunities in the African food industry and manufacturing sectors that emerge due to the AfCFTA. Providing assistance for the AfCFTA's implementation will further strengthen this partnership.
- **Emphasize preparedness for market disruptions:** Develop resilient policy coherence for development to address new vulnerabilities that might arise from the AfCFTA, particularly by building preparedness for market disruptions that could pose food security risks.
- **Invest in institutional and regulatory frameworks:** Recognize that the successful implementation and enforcement of the AfCFTA hinges on robust institutional and regulatory support. Future efforts should focus on strengthening these frameworks to ensure the agreement operates effectively.
- **Ensure fiscal sustainability amidst trade liberalization:** The potential loss in tariff revenues presents a challenge for public finances in some countries. Policymakers must proactively develop strategies to mitigate this, such as identifying and leveraging alternative taxation sources, to maintain public sector balance and avoid pressure for additional domestic taxation.

Read more

European Commission, Joint Research Centre, Simola, A., Boysen, O., Nechifor, V., Ferrari, E., AfCFTA: Updated Analysis of Trade, Economic Outcomes, and Policy Implications, Publications Office of the European Union, 2025,
<https://data.europa.eu/doi/10.2760/8604564>

Dashboard:

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<https://doi.org/10.1016/j.gfs.2022.100651>

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