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Reciprocal Tariffs:

What Can the African Continental Free Trade Area (AfCFTA) Do About This?

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In November 2024, the world observed as Donald J. Trump was elected and sworn in as the 47th President of the United States of America. Since taking office, his executive orders have ushered several policies that have had significant impact on global trade, from the discontinuance of USAID to the imposition of tariffs on goods imported from most of its trade partners (of which African countries were among). Due to the economic size of the United States of America and the central role it plays in global trade, changes to its trade policy have ripple effects and unintended consequences.

This article will explore several ways through which America's trade-policy changes have impacted trade in Africa, their potential ripple effects and the prospective remedy the AfCFTA provides in the medium to short term.

The Withdrawal of USAID

The United States Agency for International Development (USAID) was the independent government agency of America responsible for leading development and humanitarian efforts around the world. It had been in operation since 1961 and was by far the largest contributor to official development assistance (ODA) among developed countries.[1] On 20 January 2025, the newly elected President ordered a 90-day pause on all foreign aid to conduct a review to ensure that all projects were aligned with the new "America First" policy.[2]

The implication of this is that African State beneficiaries of this fund were abruptly cut off from billions of US Dollars in funding.

Due to the constant availability of the fund over the last six (6) decades, most recipients had grown accustomed to receiving ODA as supplementary support for lean government budgets. The top five African beneficiaries for 2024 include Ethiopia and Congo DR with $1.20 billion each, South Sudan with $795.41 billion, Somalia with $756.85 million and Nigeria with $738.75 million.

Considering the discontinuance, these African countries among other states are forced to seek alternative sources of financial support in the areas they once received support for. Inadvertently, African beneficiaries of USAID are required to adapt to an era of less benevolent support and determine how best to navigate doing more, with less.

1 ODA in 2023 among G7 countries was $64.6 Billion, representative of 0.2% of its GDP. Diana Roy "What is USAID and Why Is It at Risk?" Council on Foreign Relations https://www.cfr.org/article/what-usaid-and-why-it-risk accessed at 12:45 on 9 April 2025.

2 Tim Reid et. Al "USAID workers say goodbye to headquarters as Trump drastically cuts foreign aid" February 27 2025, https://www.reuters.com/world/us/usaid-workers-say-goodbye-headquarters-trump-drastically-cuts-foreign-aid-2025-02-27/ accessed at 17:10 on 9 April 2025

What are Tariffs?

Tariffs are a form of tax applied on imports from foreign countries. They are often used by countries to protect their domestic industries or retaliate against the unfair trade practices of other countries.[3] The stability of global trade is largely contingent on stable tariffs, as they provide a degree of certainty and predictability for trade investments.

Imposition of Reciprocal Tariffs

On 2 April 2025 President Trump signed an executive order on reciprocal tariffs that imposed additional tariffs on its global trade partners as a unilateral response to its trade deficit and alleged unfair trade against America, as a matter of national security. Countries that were hit the hardest with the highest reciprocal tariffs were mentioned to have the highest trade deficits with America.

Reciprocal tariffs imposed by this executive order only apply to goods and not services, in addition to other duties, fees, taxes, exactions or charges,[4] meaning that the announced tariff adjustments are in addition to pre-existing tariffs preceding the announcement. This policy does not apply to the goods listed under Annex II, which are goods typically considered essential to the growth and industrial development of the US economy; goods such as crude and petroleum products, rare-earth metals among other similar minerals required to meet its industrial production demand.

African countries were recipients of varied reciprocal tariff adjustments because each state remains linked to distinct global value chains. For instance, Nigeria received an additional 14%, while Lesotho received 50%. Consequently, almost all countries on the list would seek to engage the American government to negotiate on a bilateral basis, leading to a major upset to the global trade system established by the General Agreement on Tariffs and Trade (GATT)[5] which has stood for the last 77 years. These disparities affect all the countries listed under Annex 1[6] to varied degrees of intensity and will only fragment global trade further, unless certain concessions are made by America over the 90-day pause on the additional tariffs taking effect beyond the 10% base tariff applicable to all countries.[7]

What next for global trade?

There is a move to more intra-regional trade and an enhanced focus on comparative advantage due to a more competitive global trade landscape. Organisations like the Africa Continental Free Trade Area (AfCFTA) for Africa, the European Union (EU) for Europe and the Greater Arab Free Trade Area (GAFTA) for the MENA[8] region, just to name a few, are inclined to trade more with each other as a solution toward absorbing excess goods that are too expensive to be traded with America, while engaging other trade partners.

While this sounds like a plausible solution, it is partial at best given the many variables that make up global trade. For instance, in 2024, it was reported that 32 sub-Saharan African countries were beneficiaries of preferential tariff treatment for up to 1,800 products duty-free and over 5,100 under the African Growth and Opportunity Act (AGOA) of America.

3 Council on Foreign Relations "What Are Tariffs?" https://www.cfr.org/backgrounder/what-are-tariffs accessed 12:15 on 15 April 2025.
4 https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/ accessed at 13:23 on 10 April 2025
5 Council on Foreign Relations "What Are Tariffs?" https://www.cfr.org/backgrounder/what-are-tariffs accessed 12:15 on 15 April 2025.
6 https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-I.pdf accessed at 14:00 on 10 April 2025
7 Frank Zarb, "The Recently-Announced U.S Tariffs Followed By a 90-Day Pause: Frequently Asked Questions" 10 April 2025 https://www.regulatoryandcompliance.com/2025/04/the-recently-announced-u-s-tariffs-followed-by-a-90-day-pause-frequently-asked-questions/ accessed 8:55 on 16 April 2025
8 Middle East and North Africa

What does this mean for Africa?

The AfCFTA has established the largest single market, and it officially commenced trade on 1 January 2021. With 54 member states and 48 ratifications thus far, it has the widest coverage of any free trade area in the world. The idea is to foster seamless trade on the continent between member states and unlock economic prosperity in billions to possibly trillions of dollars that will be retained and circulated within it, through harnessing available resources and creating value for Africa by Africans.

The current reality is that the AfCFTA is not a full fledged operating free trade area yet because it is still finalizing the operative protocols and their accompanying annexures; furthermore, it is yet to sufficiently address the non-tariff barriers (NTBs) to trade that exist between member states and their corresponding regional economic communities (RECs). These protocols are drafted with the intention of being able to capture all aspects of modern trade such as trade in goods, trade in services, digital trade, intellectual property, dispute settlement mechanism, competition, women and youth in trade and investments.

The Guided Trade Initiative (GTI Phases 1 and 2) were launched between 2022 and 2024 to test the operational capacities of member states to trade in goods under the AfCFTA, and the tangible impact of the initiatives have been slow to materialize.

The latest reciprocal tariff impositions by America has put African countries in a precarious position because intra-African trade would be a logical alternative for the absorption of once America-bound goods, but it currently lacks the trade infrastructure to support that volume of goods.

Hurdles for the AfCFTA to overcome

1. **Rules of Origin under the Trade in Goods Protocol:**
This rule refers to the unique criteria contained in the AfCFTA agreement that requires the support of the national legislation of member states to indicate the point of origin of any goods produced in Africa before they are traded in the single market. The intention is to give priority to goods produced in Africa as they are traded in the single market as well as maintain a standard of quality.

   Within context, rules of origin may act more as a hinderance to trade due to the cumbersome administrative burden and costs they create for a single market that has infantile industrial capacity, compared to the rest of the world, among other reasons.

2. **Trade Disparity enabled by AGOA commitments:**
When AGOA commenced in the year 2000, 48 sub-Saharan African countries were qualified beneficiaries of it. As of 2024, only 32 countries were qualified to benefit from tariff-free and reduced-tariffed goods into America.

This legal provision granted African industries access to the American market with the added benefit of developing their local industrial capacity. For instance, a country like Lesotho that mainly produces clothing and textile that fall under Annex 1 of the executive order, developed its clothing and textiles industry by manufacturing at least 23.3 million denim products annually with over 98% of them exported to North America. Considering the 50% reciprocal tariff, the country will be faced with several negative ripple effects on supporting local industries such as transportation and accommodation, among others.

The disparity caused by AGOA arises in the consideration of countries that produce reciprocal-tariff-exempt goods under Annex 2 of the executive order, like Nigeria and crude oil. For such countries, whose major export remains relatively tariff-free, the reciprocal tariff executive order will not have a devastating effect on their economies. This comparative disparity is based on the varied and uneven impact the reciprocal tariffs will cause among member states when cross-referenced with AGOA. Further distortion of unevenly developed member-state economies within the AfCFTA is contrary to what the agreement intends to achieve.

3 **Cross-border payment solutions:**
The AfCFTA Secretariat in collaboration with the Africa Export Import Bank (Afrexim) created a product called the Pan-African Payment Settlement System (PAPSS) which is created to facilitate cross-border payments in local currencies for intra-African traded goods. The mechanics of this solution requires central banks of member states to verify each transaction and settle the parties involved in their respective jurisdictions with their local currencies, through designated retail banks. A common verifiable means of exchange between central banks is the US Dollar; therefore, countries with high reciprocal tariffs and insufficient access to the American market will have less dollars to engage in the high-volume trade of goods.

Conclusion

The AfCFTA has achieved what the world has never achieved, in creating the largest ever single market. The executive order has accelerated the pace at which intra-African trade in goods ought to happen. The onus lies on member states to give sufficient effect to the provisions of the trade in goods protocol and mitigate NTBs. On the other side of the divide, an immediate remedy the AfCFTA could provide, would be to suspend the "rules of origin" requirement to enable intra-Africa trade absorb goods that are no longer exported to America.

The ripple effect of such a provision in the medium to long term enables the redistribution of US Dollars on the continent amidst the disparity caused by the combined effect of the executive order and AGOA.

In the absence of the financial support once provided by USAID, African countries, their RECs and the AfCFTA among other trade organisations should devise innovative solutions to facilitate the seamless trade of goods on the African continent within the 90-day pause period.

9 Lesotho Ministry of Trade: Lesotho's textiles, apparel and footwear manufacturing industry , Tralac, https://www.tralac.org/news/article/11501-lesotho-s-textiles-apparel-and-footwear-manufacturing-industry.html accessed 12:40 on 16 April 2025

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