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POLICY BRIEF

Key message

African leaders need to think critically about the opportunity presented by the CFTA in advancing the agenda to boost intra-African trade and to deliver prosperity for its people. An ambitious CFTA, building on the achievements of African regional economic communities, can put the continent on a firmer track to dismantling trade barriers, enhancing regional policy stability and implementation and boosting intra-African trade. Serious consideration should also be given to the efficient and effective organization and backstopping of the negotiating process. UNCTAD is committed to supporting Africa in the attainment of this objective.



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THE CONTINENTAL FREE TRADE AREA: MAKING IT WORK FOR AFRICA

In June 2015, at the twenty-fifth Summit of the African Union, held in South Africa, African Heads of Government agreed to the creation of a continental free trade area (CFTA) by 2017 through negotiations on the liberalization of trade in goods and services. This initiative presents major opportunities and challenges to boost intra-African trade. While strengthening the multilateral trading system remains vital, a parallel negotiation process to expeditiously launch the CFTA and monitor the implementation of the related agreement is also important. Also, in order to multiply the benefits of the CFTA and promote developmental regionalism in Africa, a comprehensive vision of trade and development needs to be in place. Expanded markets for African goods and services, unobstructed factor movements and the reallocation of resources should promote economic diversification, structural transformation, technological development and the enhancement of human capital.

The CFTA must be ambitious in dismantling barriers and reducing costs to intra-African trade and in improving productivity and competitiveness.¹ Intra-regional trade liberalization needs to be contextualized in a broader developmental framework that will provide benefits in terms of realizing Agenda 2063 of the African Union and the 2030 Agenda for Sustainable Development of the United Nations. Development-oriented regionalism can contribute to spearheading Africa's achievement of development goals, the building of resilience to external financial and economic crises and the fostering of inclusive growth. It can have spillover benefits in terms of helping foster peace, security and political stability on the continent. UNCTAD, working in partnership with the African Union Commission, African States and other development partners, is committed to supporting the attainment of these objectives, embodied under the CFTA.

Potential benefits of the continental free trade area

The CFTA is a determined attempt by African Governments to unlock Africa's tremendous potential to deliver prosperity for all Africans. Studies by UNCTAD and other institutions indicate the major benefits expected to emerge from the CFTA, including boosting trade and welfare gains and fostering a vibrant and resilient African economic space. These, in turn, could serve as a springboard for more beneficial integration by Africa into the global economy.

The opening of regional markets to African goods and services is set to boost intra-African trade. It has been estimated, for instance, that the full liberalization of trade in goods (manufactures and agriculture), backed by rules of origin compatible with African

productive capacity, could have raised the share of intra-African trade in total African trade from about 10.2 to 15.5 per cent between 2010 and 2022. This share may have further increased to around 22 per cent with the improvement of trade facilitation measures, especially transportation linkages and customs clearance for intra-African trade.

Beyond intra-African trade expansion, the CFTA has the potential to stimulate structural transformation in African countries, provided that Governments formulate and implement appropriate economic development policies that are linked to the CFTA. A number of African regional economic communities have regional industrial development policies, including the Tripartite Free Trade Area on trade in goods launched in June 2015, comprising the member States of the East African Community,

¹ UNCTAD, 2015, *Building the African Continental Free Trade Area: Some Suggestions on the Way Forward* (New York and Geneva, United Nations publication).

Common Market for Eastern and Southern Africa and Southern African Development Community. The Tripartite Free Trade Area can serve as one of the basic building blocks for the formation of the CFTA. Other regions in Africa need to expedite negotiations and approvals of similar free trade agreements on goods to form the basis for the continent-wide agreement. The CFTA could benefit, for example, from synergies based on a combination of the regional industrial development policies of regional economic communities. Fostering rapid industrialization involves many challenges, including in the supply of adequate energy that is also clean and renewable. To this end, deepening regional energy integration projects is advisable.

Major unexploited opportunities for regional trade in Africa are to be found particularly in agriculture, including sustainable agriculture such as organic products. An UNCTAD study noted that Africa has almost two thirds of the world's uncultivated and/or unused arable land, which may be used to expand agricultural production to supply African consumers.² Today, many countries on the continent import food and agricultural products from outside Africa. The potential for regional import substitution is illustrated by the fact that in 2007–2011, 37 African countries were net food importers, and 22 African countries were net importers of agricultural raw materials, while about 17 per cent of the continent's world trade in food and live animals took place within Africa.

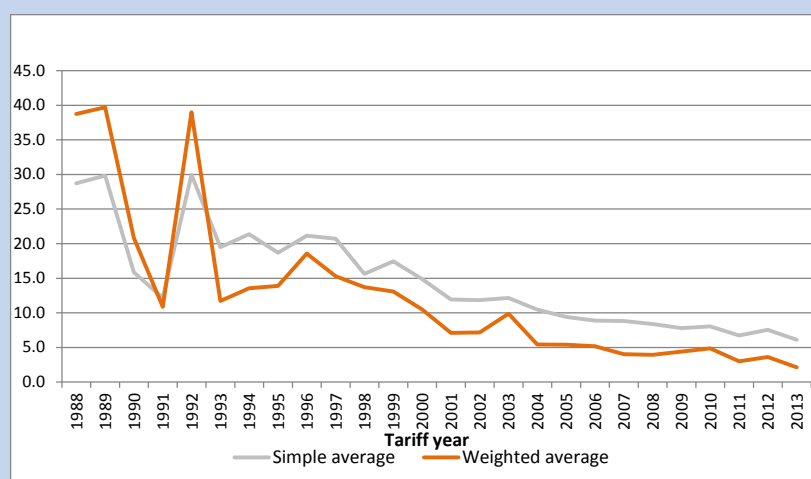
The elimination of tariffs and non-tariff barriers called for by the CFTA initiative offers African countries a long-term opportunity – and a greater challenge – to improve industrial capacity to provide the goods for which regional trade typically increases demand. The low level of manufacturing in Africa means that manufactured goods must be imported from abroad, a problem that is also an opportunity. If various

national markets can be effectively integrated into a larger regional market, characterized by decreased trade barriers and higher per capita incomes as a result, this could provide sufficiently large markets to support the expansion of manufacturing sectors across the region.

Tariff cuts, *ceteris paribus*, may have negative repercussions on the trade tax earnings of countries and possibly lead to the demise of uncompetitive industries and services. UNCTAD estimates show, however, that despite cuts in applied tariffs by sub-Saharan African countries in 1998–2013 (see figure 1), a general increase in trade tax revenues took place over the same period due to an increase in the overall level of trade (see figure 2). Therefore, revenue losses resulting from further reductions in trade tariffs may also be compensated for by the expected high level of expansion in intra-African trade from the formation of the CFTA. It must be noted, however, that the increase in export revenue was also due to a large degree to commodity price rises in this period. In fact, the fluctuation of export revenue is associated with commodity price fluctuations, which are externally determined.³

The CFTA may also mitigate costs associated with inaction in building an integrated market. The international trading environment within which Africa participates is changing rapidly with the proliferation of regional trade agreements and, in particular, mega-regional trade agreements, such as the recently concluded Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership and the Regional Comprehensive Economic Partnership. These arrangements may create spheres of trade centred on partner economies, and African countries face the risk that preferences and trade shares in these markets may erode.

Figure 1.
Applied tariffs of African countries, 1988–2013 (Percentage)



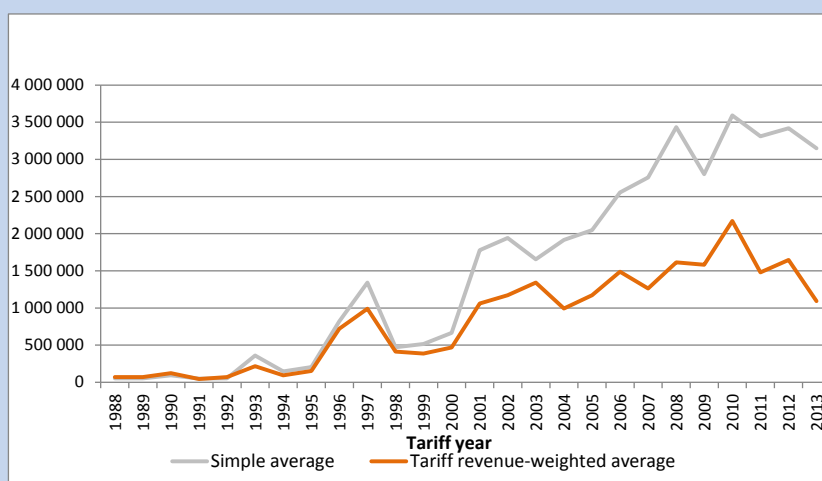
Source: UNCTAD secretariat calculations.

2 UNCTAD, 2013, *Economic Development in Africa Report 2013 – Intra-African Trade: Unlocking Private Sector Dynamism* (New York and Geneva, Sales No. E.13.II.D.2, United Nations publication).

3 Ibid.

Figure 2.

Trade tax revenues of African countries, 1988–2013 (Thousands of United States of America dollars)



Source: UNCTAD secretariat calculations.

Some major opportunities and challenges to unlocking the potential of the continental free trade area

The path towards accelerated pan-African economic integration presents formidable political, economic and legal challenges. High on the list of challenges in relation to the CFTA is the conflicting disciplines and benefits of the different regional economic communities already in place. Most African countries are parties to more than one regional economic community and convergence between different communities, as agreed in the Minimum Integration Programme of 2009, should be made compatible with the goals and timelines set for the CFTA. African countries need to set a clear path to making regional economic communities converge into the CFTA. In this regard, the agreement reached in June 2015 among the States launching the Tripartite Free Trade Area is significant. The Tripartite Free Trade Area agreement on the removal of tariffs and non-tariff measures constitutes a basis from which negotiations on continental tariff liberalization may begin.

Negotiations on trade in services should be conducted in parallel with negotiations on trade in goods, in order to open opportunities for African services and services providers. Some services sectors are necessary for facilitating trade in goods, such as transportation and storage.⁴ Services sector negotiations, to be manageable, may initially focus on a few key sectors and later be expanded. Such sectors, as reflected in UNCTAD services policy reviews,⁵ may include the following: distribution; finance; information and communications technology; infrastructure; telecommunications; and tourism. A pan-African services agreement could build upon existing services agreements in regional

economic communities that range from cooperation to fully fledged services liberalization, drawing mainly on the architecture of the General Agreement on Trade in Services. Services trade also needs to be adequately mainstreamed into national development plans. The issue of movement of persons as part of the liberalization of services is important, but remains sensitive, and such sensitive issues need to be discussed openly with a view to finding solutions that will build up the African community.

Moving decidedly towards the CFTA also requires harmonizing the multitude of and varied trade commitments undertaken by practically all African countries at the multilateral, regional and bilateral levels. Most African countries are bound by their World Trade Organization commitments, and many have entered into or are negotiating comprehensive trade agreements with other countries, such as the economic partnership agreements with the European Union. Most African countries are also beneficiaries of unilateral trade preferences granted by developed countries and emerging economies. Thus, a strategic consideration for African countries is to ensure that existing trade pacts act as building blocks and do not impede progress towards the CFTA or make its achievement more difficult.

At a time when the multilateral trading system struggles to deliver concrete outcomes on the Doha Round, including in terms of the development dimension, African countries need to think critically about the opportunity presented by the CFTA in advancing the agenda to boost intra-African trade. Further challenges and lessons learned, including from regional economic communities and other arrangements, which need to be considered by African countries to structure a CFTA that works for Africa, are as follows:

4 UNCTAD, 2015, *Economic Development in Africa Report 2015: Unlocking the Potential of Africa's Services Trade for Growth and Development* (New York and Geneva, Sales No. E.15.II.D.2, United Nations publication).

5 See, for example, UNCTAD, 2014, *Services Policy Review: Rwanda* (New York and Geneva, United Nations publication).

1. Enhancing intra-African trade requires more than tariff reduction and/or elimination

To fully meet this challenge, the full liberalization of trade in goods must be supported by a cohesive policy framework including, as outlined above, rules of origin compatible with African productive capacity and the improvement of trade facilitation measures. There may be scope for even further increases in the share of intra-African trade if issues such as non-tariff barriers, the integration of informal trade into formal trade channels, enhanced trade facilitation and the liberalization of services are addressed.

2. Benefits would likely accrue unevenly; inclusiveness should be factored in

Trade growth and welfare benefits from the CFTA would likely accrue unevenly, with a larger portion captured by a few countries with stronger supply capacities and competitiveness. This is reinforced by the fact that, at present, seven African countries account for about 60 per cent of total intra-African merchandise exports, while the majority account for the remaining 40 per cent.⁶ Economically weaker African countries, particularly the least developed countries, landlocked countries and small economies, are concerned about the negative effects of tariff cuts in the form of fiscal revenue loss and the destruction of local industries. Experience has shown that trade liberalization creates unequal gains and unequal losses between countries at different stages of development and resource capacity. Policies and measures are needed to make the CFTA an inclusive agreement that is mutually beneficial to all.

3. Dialogue with stakeholders is a determinant factor of success

The political dimension of the solution to Africa's challenges, including accelerated integration, should not be underestimated. A bottom-up approach could help to identify at the disaggregate level what is working now, has worked in the past or has worked somewhere else and could work in Africa without inordinate effort, with Governments helping to address the impediments, great and small, that they themselves identify as crucial to the success of the CFTA. This would involve Governments, the private sector, civil society and the international community in a reciprocal, incremental exchange of ideas, information, resources and trust that can build lasting collaboration.

4. Strong, visible and continuous political will is another essential requirement

Relinquishing national priorities in favour of regional ones requires firm and continuous determination and coordination from political leaders, in order to align

long-term national interests with regional interests. At the same time, the commercial and development interests of especially weaker countries need to be addressed by the CFTA in an inclusive manner. To succeed, advanced regional integration necessitates, as emphasized by the African Development Bank, an appropriate "rules-based governance system and institutional architecture" to foster harmonization, consistency and predictability.⁷

5. The continental free trade area needs to be part of a comprehensive package

The CFTA framework needs to include complementary policies and disciplines in a number of areas, from market access for goods and services to competition policy, dispute settlement, institutional issues, intellectual property and unfair trade practices. It also needs to be environmentally friendly to support sustainable development. Building cooperation and/or regulation in these complementary disciplines requires adequate knowledge of existing rules and practices in these areas and of the commitments undertaken by African countries at the national, regional and international levels. Should Governments decide to add an investment dimension to the CFTA, negotiators need to find an approach that is effective in mobilizing investment and channelling it to Agenda 2063 and the Sustainable Development Goals, while preserving the right of Governments to regulate and consolidating the continent's current spaghetti bowl of international investment agreements.

6. Ambitious trade negotiations require an effective supportive structure

Serious consideration should be given to the organization of the negotiating process itself. There can be no doubt about the complexities associated with negotiating an agreement among 54 participating countries with unequal negotiating capabilities, unequal human resources and unequal know-how on the issues to be included in the CFTA, as well as differences in productive and competitive strengths.

Regional and international organizations such as UNCTAD, working closely with the African Union Commission and African countries, could play an important role in assisting African negotiators and policymakers to move the CFTA process forward, including towards a legal framework that is conducive to sustainable development, and they can do so efficiently by cooperating among themselves and coordinating their different contributions to the CFTA negotiations.

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⁶ UNCTADStat.

⁷ African Development Bank, 2014, *African Development Report 2014: Regional Integration for Inclusive Growth* (Abidjan).