ECONOMIC COMMISSION FOR AFRICA **AFRICAN UNION**

Boosting Intra-African Trade

Issues Affecting Intra-African Trade, Proposed Action Plan for boosting Intra-African Trade and Framework for the fast tracking of a Continental Free Trade Area

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PART ONE: ISSUES AFFECTING INTRA-AFRICAN TRADE

I. Background and Context

1 The January 2012 African Union Summit of Heads of State and Government focuses on the theme of *"Boosting Intra-Africa Trade*". The choice of the theme is both appropriate and timely, given the challenges facing this trade, and the need to come up with strategies to improve the situation. The January 2011 AU Summit has also endorsed the recommendation of the 6th Ordinary Session of the AU Ministers of Trade held in Kigali from 29 October – 2 November 2010 to fast-track the establishment of a Continental Free Trade Area. It is against this backdrop that an Issues Paper has been prepared to highlight Africa's overall trade flows and the potential for boosting intra-African trade by addressing key priority areas for moving the agenda forward. The priority areas will form the main elements of an Action Plan that Member States will be implementing in order to enhance the level of intra-African trade from current levels of about 10-13 %to 25 % or more within the next decade, and thereby make intra-African trade an important driver of development and regional integration in Africa as is the case in other regions of the world such as the EU and Asia**.**

2. In this regard, it should be recalled that Africa is pursuing an integration agenda as a collective development and transformation strategy leading to the eventual creation of a continental market. Regional integration helps develop larger markets, foster greater competition and improve policy stance in many areas of the development agenda. And indeed, the pressure of globalization is forcing firms and countries to seek efficiency through larger markets and enhanced competition. A modern manufacturing plant will have to produce a larger output than the low level of domestic demand that a single underdeveloped country can absorb. Pooling economies and markets together through regional integration thus provides a sufficiently wide economic and market space to make economies of scale possible.

3. To this end, African countries have established the African Union, created various Regional Economic Communities (RECs), and have held at heart the ideals of the Abuja Treaty establishing the African Economic Community and the Constitutive Act of the African Union. In this context, the RECs are pursuing integration through free trade, and developing customs unions and a common market. Eventually, these efforts are expected to converge to an African Common Market (ACM) and an African Economic Community (AEC), whereby economic, fiscal, social and sectoral policies will be continentally uniform. Through such an economic marketplace, Africa can strengthen its economic independence and empowerment with respect to the rest of the world.

4. A major aim of these efforts is to expand intra-African trade by breaking down tariffs and non-tariff barriers and enhancing mutually advantageous commercial relations through trade liberalization schemes, because trade has made and will continue to make a tremendous contribution to the economies of many developed and developing countries. Trade enables countries to specialise and export goods that they can produce cheaply, in exchange for what others can provide at a lower cost. Trade also provides the material means in terms of capital goods, machinery and raw and semi-finished goods that are critical for growth. This is a driving force behind economic

development. Consequently, if trade is a vehicle to growth and development, then removing the barriers that inhibit it can only help increase its impact. Thus, free trade is an important instrument for removing such impediments and promoting greater levels of trade among African countries.

5. However, despite Africa's determination to dismantle trade restrictions in order to create a common market within the framework of regional and sub-regional agreements, barriers to intra-African trade persist and have impacted on the level of this trade. On average over the past decade, only about 10 – 12 per cent of African trade is with African nations, whilst 40% of North American trade is with other North American countries, and 63% of trade by countries in Western Europe is with other Western European nations. Enhancing intra-African trade should help promote specialisation amongst African countries and develop regional value chains to enhance diversification and competitiveness. African countries therefore need to aggressively pursue comprehensive and harmonized regional trade policies as part of their collective development and transformation strategy in the context of regional integration.

6. In order to address this trend, African leaders are making landmark commitments to boosting intra-African trade. First was the landmark decision by COMESA, EAC and SADC to establish a single Free Trade Area. The launch of this tripartite FTA initiative covering 26 African countries, representing more than half of AU membership, with a combined population of 530 million (57% of Africa's population) and a total GDP of $630 billion or 53% of Africa's total GDP has galvanised interest towards a much broader Continental FTA. Accordingly, AU Ministers of Trade, at their 6th Ordinary Session in Kigali in November 2010, after due assessment of the progress made in the implementation of FTAs and Customs Unions in the various RECs, recommended the fast-tracking of the establishment of an African FTA to unlock the trade potentials of the continent and position it adequately in the global trading arena.

7. African leaders and stakeholders are optimistic that increased trade through initiatives such as the Grand COMESA-SADC-SADC FTA and other potential inter-RECs' FTAs will quickly transform into a continental free trade area, the benefits of which could be enormous. It will enlarge markets for goods and services, eliminate the problem of multiple and overlapping memberships, enhance customs cooperation and broader trade facilitation, promote harmonization and coordination of trade instruments and nomenclature, and broader relaxation of restrictions on movement of goods, persons and services. The collaboration and cooperation of RECs through the Continental FTA should further improve regional infrastructure and consolidate regional markets through improved interconnectivity in all forms of transport and communication as well as promote energy pooling to enhance the regions' competitiveness. Finally, the continental FTA will help fast track the realization of the Abuja Treaty's vision of an African Common Market, and ultimately, the African Economic Community (AEC).

8. As part of the preparations towards this 2012 January Summit on the theme of "Boosting Intra-African Trade", a Technical Working Group comprising representatives/experts from the AUC, RECs, UNECA, AfDB and other partners has had a series of meetings that led to a decision to prepare and finalize, with inputs

from the broad spectrum of stakeholders and other trade constituents, three separate papers to serve as an essential part of the background documentation for consideration by the Conference of Ministers of Trade, which has crystallised into appropriate policy recommendations for adoption and decisions by the AU Summit of Heads of State and Government in January 2012.

9. It is thus the desire of the leadership of the African Union Commission to seize the opportunity of this African Union Summit, to help accelerate progress on intra-African trade through the three strategic background documents, namely:

a. An "Issues Paper" fleshing out key issues and challenges for enhancing intra-African Trade, including guidelines for fast-tracking the continental free trade area;

b. A related "Action Plan" to be implemented by all concerned parties; and

c. A Monitoring and Evaluation Plan to track progress in the implementation of the Action Plan.

10. This Issues Paper is the first of the aforementioned three documents. In preparing this Issues Paper, due cognizance is made of the fact that the challenges and constraints of intra-African trade are very much well known, discussed and analyzed in several reports and meetings, not least of which is the joint ECA/AUC/AfDB flagship publication on "Assessing Regional Integration in Africa (ARIA IV)", which focused on the theme of Enhancing Intra-African Trade. The Issues Paper is therefore not intended to rehash the various constraints, but rather pinpoint some of the key priority issues and areas that require continued and closer attention, in order to make decisive progress on intra-African trade.

11. For brevity, the general thrust of the Issues Paper is to raise some key issues for consideration, and has avoided going into details, particularly with respect to results achieved, particularly within the framework of the RECs' programmes and activities. The Issues Paper is not intended to be a progress report on regional integration, however, where necessary, some of the milestones, accomplishments or best practices under the key issues discussed are highlighted as an example. The Issues Paper also puts forward some recommendations under each issue area. But more importantly, in making the recommendations, it draws attention to existing relevant commitments or decisions made particularly at the level of the AU Summit, which are not being properly followed up and rigorously implemented by all concerned parties.

12. Consequently, the Issues Paper is organized as follows:

a) Section I is an introductory section setting out the background and context as described above;

b) Section II provides a synopsis of Africa's trade direction and composition over the last decade, and thus gives a sense of the level of intra- African trade;

c) Section III is the core of the Issues Paper. It analyses key issues and priorities to address in order to boost intra-African trade, and provides some recommendations in that regard. In order not to reinvent the wheel, the recommendations contained in Section III, where applicable, make reference to commitments already made to pursue or implement certain actions at national, regional or continental level. An attempt is also made in the discussions to highlight some milestones or accomplishments as the case may be, particularly within the RECs.

d) The "Issues Paper" ends with concluding remarks in Section IV.

13. Finally, this "Issues Paper" in general and Section III in particular, together with the Annex on the Architecture for establishing the Continental FTA, serve to provide the analytical background and a guide for drawing up the aforementioned "Action Plan" and the "Monitoring and Evaluation Mechanism" for boosting intra-African trade in the short, medium and long term.

II. Overall Direction and Composition of Africa's Trade

14. Table 1 provides data to show the scope of intra-African trade and Africa's share of world trade over the period 2000-2007. Latest figures for 2009 exhibit a similar trend. As can be observed, intra-African trade averages around 10 percent of Africa's total trade, while Africa's share in world trade is about 3% on average.

Table 1: Value of trade within groups in millions of USD and percentage shares of Africa's trade

Trade bloc/REC	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
CEMAC	112	134	128	172	191	219	270	335	**195**
CENSAD	4060	4249	4182	5273	7120	8905	10305	12653	**7093**
CEPGL	11	12	14	16	21	24	27	33	**20**
COMESA	1932	2039	2234	2724	3403	3939	4914	5048	**3279**
EAC	422	503	525	631	828	946	1407	1746	**876**
ECCAS	207	219	187	215	244	279	343	426	**265**
ECOWAS	2471	2702	2483	3292	4717	5840	6538	8057	**4512**
IGAD	576	741	729	1031	1031	1247	1408	1698	**1057**
IOC	56	71	98	117	172	177	191	227	**139**
MRU	7	6	7	8	9	10	13	16	**9**
SADC	3913	3906	4252	4726	6924	7958	9563	12802	**6755**
UEMOA	686	744	841	968	1166	1310	1680	2085	**1185**
UMA	1190	1224	1334	1483	1512	2074	2725	3384	**1866**
A	**11631**	**12466**	**13224**	**15572**	**20994**	**24854**	**31660**	**39565**	**21246**
B	**133416**	**129508**	**144445**	**176929**	**232189**	**273509**	**329785**	**418931**	**229839**
C	**9**	**10**	**9**	**9**	**9**	**9**	**10**	**9**	**9**
World Trade	**6653669**	**6414806**	**6664703**	**7771121**	**9462990**	**10776488**	**12337928**	**14056584**	**9267286**

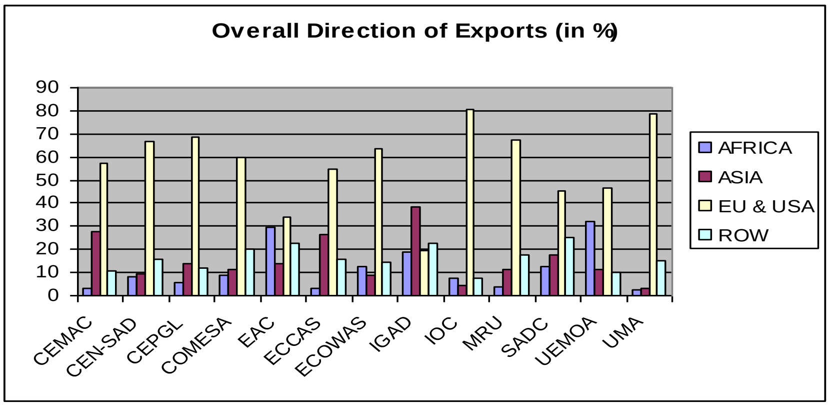
D	2	2	2	2	2	3	3	3	2

Legend: A=Value of Intra-Africa trade; B= Value of Africa's trade with world; C=Intra-African trade in %
D=Africa's share in world trade

Source: Compiled from DOTS, IMF February 2009

15. Figure 1 shows the overall direction of Africa's exports. In general, Africa's main exports to its traditional trading partners, in particular the EU and USA, constitute an average of 57 per cent of the exports. For some of the integration groupings, the EU and USA comprise more than 60 per cent of export markets. However, China in particular and Asia in general are also increasingly becoming important export markets for Africa.

Figure 1: Overall direction of exports (per cent)



Source: Compiled from DOTS, IMF

16. Table 2 presents the major sources of Africa's imports and their percentage shares. Furthermore, the major sources of imports to Africa lie outside the **continent.**

Table 2: Average per cent share of import sources between 2000 and 2009

REC	Africa	China	Asia	EU	Japan	USA	ROW	World
CEN-SAD	10	9	7	40	3	7	26	100
COMESA	13	10	8	34	4	7	25	100
EAC	15	8	12	21	6	5	34	100
ECCAS	20	9	7	41	2	9	14	100
ECOWAS	15	11	9	33	3	7	23	100
IGAD	12	11	14	20	4	5	34	100
SADC	14	11	8	33	4	8	24	100
UMA	5	7	3	56	2	5	22	100

Source: Compiled from IMF DOTS

17. Table 3 also shows that between 1995 and 2006, Africa exported on average about US$15 billion worth of goods in the basic food category against imports of

about US$21 billion. This information suggests that Africa registered negative balance of trade in this product category. Matching Africa's exports to the rest of the world against its imports from the world in this category also suggests a certain deficit or lack of self-sufficiency in basic foods . Similar tendencies occur in terms of manufactured goods, machinery, transportation equipment and chemical products.

Table 3: Africa's world exports and imports: Average trade figures in US$, 1995-2006

Product Categories	Exports to World	Imports from World	Difference
Basic food	14,875,274	21,052,701	-6,177,427
Beverages and tobacco	1,934,175	1,653,717	280,458
Ores, metals, precious stones	19,304,114	3,931,312	15,372,801
Fuels	81,278,815	17,188,542	64,090,273
Manufactured goods	19,442,801	34,861,887	-15,419,085
Chemical products	6,829,963	16,684,141	-9,854,178
Machinery and transport equipment	9,685,665	53,868,421	-44,182,756
Product total	153,350,808	149,240,722	4,110,086

Source: Source: Compiled from UNCTAD Handbook, 2008.

18. However, the continent appears to be well-endowed in the categories relating to beverages and tobacco, and ores, metals and precious stones. It also appears to have a huge endowment in the fuels product category, where its world exports exceeded its imports by a significant margin. This implies that Africa is more than capable of supplying its import needs in fuel.

19. Some key messages emerge on the analysis of Africa's trade flows and patterns: Intra-REC exports and imports tend to be dominated by a few countries; the EU and USA are major export destinations for Africa; however, Asia in general and China in particular, are also important export markets for Africa; as in the case of exports, the major sources of imports to Africa are outside the African continent; intra-REC exports in general registered an average growth rate of 15 per cent; growth in intra-Africa exports was 25 per cent, suggesting that trade confined within the RECs appears to be less optimal than trade at the Africa-wide level; the lesson in this regard is to redouble efforts to harmonize community markets to create a larger Africa-wide marketplace, given that trading interests of countries are not necessarily confined inside REC borders; Africa has a potential to supply its import needs from its own sources in some project categories, particularly fuels, beverages and tobacco, and in ores, metals and precious stones; and finally but not the least, the continent shows some lack of capacity to be self-sufficient in basic foods.

III. Analysis of key issues and priorities to address[1]

20. If Africa has to make a transformational progress on trade within the continent, it is imperative to put on the table and address all the various parameters that impinge on trade, bearing in mind that some of these priorities such as industrial capacity building and infrastructure development have been the subject of specific decisions and action plans by Africa's political leaders.

21. Therefore, all the issues and priorities discussed under Section III are important. However, some of them are considered to be the first group of areas that need urgent attention. Besides accelerating the establishment of the Continental FTA, among the fundamental drivers of trade are development of productive capacity and industrial sophistication because a country cannot trade effectively unless it can produce and add value to its raw material endowments. Trade-related infrastructure and services along with other trade facilitation measures such as removal of non-tariff barriers, simplification of customs procedures and documentation, and flawless operations of Africa's transport and transit corridors are also fundamental to Africa's internal trade. Availability of trade information and trade finance are equally important for unleashing the potential of trade within Africa. Lastly, given the imbalances in the levels of development in African countries, it would be a remiss to talk about boosting intra-African trade and creating a continental Free Trade Area without ensuring equitable outcomes for Member States through Compensation mechanisms to address adjustment costs to greater trade opening, and help smaller and weaker countries build their production and trade capacities.

22. The second group of issues and priorities, though important, are also flagged out for consideration. However, actions in these areas could be addressed within a longer term perspective. It doesn't however prevent Member States, RECs and stakeholders to continue to address these issues within on-going and future initiatives.

23. Against this backdrop, the First Group of Issues and Priorities are discussed from (a) to (g), and the Second Group from (h) to (k) below.

A. FIRST GROUP OF ISSUES AND PRIORITIES

(a) Broadening Africa's economic and market space by fast-tracking the establishment of a Continental Free Trade Area

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[1] *The major challenges of intra-African trade are well documented in several documents not least of which is the latest ECA/AU/AfDB joint publication on 'Assessing Regional Integration in Africa: Enhancing intra-African Trade", which has been widely disseminated to stakeholders including RECs, Corridor Management Institutions, Member States, and other stakeholders. The main findings were also presented during the AU Ministers of Trade Conference in Kigali in November 2010. Copies of the publication were also distributed to the senior officials and the Ministers. Against this backdrop, the objective of Section III is just to flesh out some of the key priorities that member States need to focus in order to boost intra-African trade perhaps up to 25 percent within the next decade or so, bearing in mind that Africa needs to trade with itself as much as it needs to trade with the outside world. Some of the priority areas such as improving infrastructure networks and industrial capacity have already been the subject of specific AU Summit Decisions and Action Plans to be implemented.*

24. The African Union Summit in January 2012 on the theme of boosting intra-African trade comes at a time of renewed enthusiasm for accelerating the establishment of a continental free trade area towards achieving the African Common Market, as evidenced by the COMESA-SADC-EAC tripartite FTA initiative and the decision of the African Ministers of Trade to fast track the establishment of a continental FTA during their meeting in Kigali in November 2010. The Common African FTA would contribute to deepening Africa's integration as the 54 small and fragmented economies are transformed into one single market.

25. While at the regional level, the main challenge is ensuring the effective implementation of regional trade agreements and the elimination of non-tariff barriers, there is a gap in terms of a continental trade framework that provides for inter-regional trade exchanges. The recent effort aimed at establishing the Tripartite FTA by COMESA-EAC and SADC is an attempt to bridging this gap in addition to addressing other challenges. Trade between countries that do not belong to the same regional economic community is either on the basis of a bilateral trade agreement where these exist, or on a Most Favored Nation (MFN) basis. To some extent, this has a negative effect on the bilateral trade flows between countries across regions.

26. Currently, African economies are very heterogeneous in terms of applied and faced protections. Some African countries impose an average tariff of 13.3% on their imports coming from other African countries, more than the average protection of the continent of 8.7%. For nearly one third of African countries, both imposed and faced protections are on average lower than the relatively high averages for the continent. The rest of the countries either are more protectionists than Africa, on average, or have a more difficult access than Africa, on average. A quarter of them, on average, is more protectionists and faces more trade barriers than Africa as a whole.

27. RECs recognized by the African Union are: COMESA, EAC, SADC, IGAD, ECOWAS, CEN-SAD, ECCAS, and UMA. Although they have made significant efforts by adopting phased elimination of their tariffs on internal trade, there have been some variations in performance, with some RECs still struggling to establish their FTAs, while others are either partial FTAs or partial customs union. The pace of progress is not uniform. Furthermore, there are numerous overlaps as many African countries belong to more than one REC. It is complex and difficult to design eight Free Trade Areas corresponding to the eight RECs. Taking into account this complexity and building on the COMESA-SADC-EAC Tripartite Free Trade initiative, a pan-African free trade area offers an opportunity to harmonize intra-African trade policy and cater for trading interests of countries that go beyond their RECs' boundaries. Given the overlaps of the RECs and their membership, strategic decisions and actions are imperative to ensure that the RECs move in tandem and unison towards the Continental Customs Union as a prelude to the Common Market, and the ultimate goal of the African Economic Community.

28. A pan-African free trade zone could help unleash the entrepreneurial dynamism and spirit across a continent without trade barriers. By creating a larger market and promoting specialization, a continental free trade area could bring Africa closer together towards the common market we all want to see. Establishing a continental FTA would also hasten the progression towards achieving a continental

customs union. This would thereby contribute positively in deepening the integration agenda by transforming the continent into a single free trade area, with the ease of transportable goods and services, energy, technology and mobility of its Citizens. This, would, in return, allow investors a larger market, opening doors to high levels of trade.

29. It should however be emphasized that fast-tracking a continental free trade area is a necessary but not a sufficient condition to address Africa's weak internal trade performance. The Grand African FTA will represent a good opportunity for accelerating the achievement of the continental vision of an African Economic Community. Notwithstanding this potential, the following caveats or challenges are worth pointing out, because some of them continue to undermine the REC sub-regional FTAs, and can as well impede the creation of the CFTA..

a. Overlapping membership to RECs continues to pose a big challenge towards negotiating and establishing a CFTA. Specifically, some countries belong to customs unions yet continue to negotiate towards establishing other customs unions. It is hoped that establishing a grand CFTA would serve as an effective route to resolve the issue of multiple and overlapping membership.

b. Commitment to integration varies across countries. Some countries have not undertaken any liberalization within their respective RECs FTA. Accordingly if they cannot commit themselves to a smaller FTA, it will be difficult for them to commit to a CFTA.

c. Some countries also remain skeptical of regional integration fearing domination by richer or more powerful states or ceding power to a supranational body. There is also the challenge arising from trade negotiations especially with some of the countries that are not in any form of FTA at the moment.

d. Limited human resource, financial and other enabling capacities undermines the viability and sustainability of institutional arrangements at national, regional and continental levels. A CFTA agreement would contain diverse areas that require commensurate manpower and institutional capacities with wide and deep knowledge across a spectrum of disciplines.

e. Finally, establishment of CFTA requires huge financial outlay to provide the facilitating and complementary infrastructure. African countries are in general financially weak and lack the capacity to undertake such investments. There is the direct financial requirement to set up necessary trade related infrastructure such as roads, water ways, airways, information and communication technology (ICT), and for providing adequate human capacity, and for addressing compensation and adjustment costs arising from revenue and income losses due to the establishment of the regional FTA.

30. Africa needs also to take expeditious action in diversifying its exports base, because concentration on a few exports, mainly raw materials and primary commodities, cannot ensure long-term growth. Greater attention should be given to processed commodities and basic manufactured goods, as well as to the transport, communication and energy sector, to drive and power production in manufacturing industry. Improving competitive conditions in local economies would also be required to spur local industries towards production efficiency.

31. This said, the proposed Architecture for fast-tracking the establishment of the Continental Free Trade Area is described in the Annex to the Issues Paper, whilst the other key issues and priorities to be addressed to enhance Africa's internal trade are raised in the ensuing paragraphs.

32. ***Recommendation:***

a) The African Union Summit is invited to consider, give directives and adopt the Architecture for fast tracking the establishment of the Continental Free Trade Area.

(b) Addressing supply-side constraints and weak productive capacities

33. Intra African trade owes its current modesty to a lack of diversification and competitiveness. The relatively small weight of intra-regional trade in Africa is due largely to the structure of production and the composition of exports. Many countries still specialize in a few primary commodities, while most of their imports consist of manufactures, thus the potential for intraregional trade is limited because of this lack of diversification and competitiveness.

34. Unlike developed countries where there is specialization in the production and supply of goods and services based on comparative and competitive advantages, in Africa production is widely dispersed and products receive minimal value addition, which diminishes the impact of the RECs sub-regional FTAs and the potential of the CFTA. Limitations in skilled manpower and lack of industrial and technological sophistication keep a number of African economies at extreme systemic weaknesses, and compel them to export primary unprocessed products at often unattractive and volatile prices**.**

35. This notwithstanding, RECs are making some efforts. For instance, COMESA through its specialized agency, the Alliance for Common Trade in Eastern and Southern Africa (ACTESA) continues to ensure smooth flow of seeds from surplus to deficit areas by harmonizing standards and removing trade barriers that may lead to inhibiting free-flow of seed among member states. It also continues to organize workshops in harmonizing the seed certification regulations within the bloc as well as facilitate the improvement of agricultural productivity. In SADC, the SADC Multi-country Agricultural Productivity Programme (SADC MAPP) is promoting agricultural technology generation and dissemination, and strengthening linkages among agricultural institutions in the SADC region in order to accelerate smallholder productivity. Through its Framework for African Agricultural Productivity (FAAP), SADC MAPP is focusing on the following programmatic themes for supporting activities within the MAPP: Farmer empowerment and market access; Research and

technology generation; Farmer led advisory services and innovation systems; Education, training and learning systems; Knowledge, information and communication; Institutional development and capacity building.

36. However, the stark reality is that Africa is endowed with a wealth of natural and mineral resources, which if properly harnessed, could serve as an engine of economic growth and prosperity on the continent. The varying endowments and climatic conditions means that different regions could specialize in the production of goods in which they possess comparative advantages and trade with other regions producing different products. However, taking advantage of the regional differentiation for trade has been limited by the continent's weak productive capacities. The continued export of primary commodities and raw materials to external markets translates into export of jobs and by-products and potential for industrial development or the development of allied industries.

37. Moreover, as a major stakeholder in regional integration, the private sector plays a pivotal role in achieving structural diversification and thus enhancing intra-African trade. Although many countries have undertaken policies to promote the sector in Africa, much needs to be done towards creating an enabling environment for businesses in Africa as a whole. Becoming competitive should be a core concern of the regional economic communities. The business community needs to be assisted with ideas for developing new products, new markets, and new ways of doing business. A regular program of monitoring competitiveness, based on developing indicators, guidelines, policies, and capacity-building programs, could identify shortcomings in individual countries and tailor measures to overcome them.

38. There is need for intensive investment in manufacturing and processing industries that add value to Africa's raw materials. Skills development and productivity enhancement support programmes will reduce the costs of adjustment (contraction of import-substitution activities and expansion of export sectors) and increase the scope for dynamic benefits from export development. Furthermore, increasing competitiveness and productivity levels in preparation for the full implementation of CFTA requires the enhancement of workers' skills, the improvement of firms' organizational and management structures and the development of supportive economic policies and infrastructures.

39. This leads to the need for the rigorous implementation of the Action Plan for the accelerated industrial development of Africa (AIDA) and the Agribusiness and Agro-business Development Initiative (3ADI).

40. ***Recommendations:***

a. *Member States need to develop strategies to accelerate the implementation of the AIDA and 3ADI Action Plans that are required to be implemented at the National Level;*

b. *RECs too are to develop strategies to accelerate the implementation of the AIDA and 3IDA Action Plans that are required to be implemented at the regional level;*

c. *The AUC needs to develop strategies to accelerate the implementation of the AIDA and 3ADI Actions Plans that are required to be implemented at the continental level;*

d. *The AUC is required to accelerate the implementation of AU Summit Decision (ref. Assembly/AU/Dec. 175 (x) on the Action Plan for the Accelerated Industrial Development of Africa.*[2]

e. *AUC should submit a preliminary report on the operationalization of the AIDA and 3ADI highlighting any outstanding issues and challenges for consideration and decision by the AU Summit so that substantial progress on this Action Plan can be registered within the next 5-8 years to accompany the measures to achieve the Pan-African FTA by 2017 and the Continental Customs Union by 2019.*

(c) Addressing infrastructural bottlenecks

41. Intra-African trade is weak partly because fundamental aspects of trade logistics, such as infrastructure (transport, energy, ICT etc), are compromised. Constraints such as poor infrastructure, or its complete absence, make trade physically difficult, if not impossible, independently of the trade regime. Improving infrastructure has been shown to significantly boost exports. The length of paved roads as per cent of total roads in Africa is about five times less than that of high income OECD countries (and nearly two-thirds of the OECD level in North Africa). The telephone coverage is much worse for North and Sub-Saharan Africa compared with that of OECD level. The end-result of this infrastructure bottleneck is the fact that transport costs are 63 per cent higher in African countries compared with the average in developed countries. They are estimated at 14 per cent of the value exported in the first group of countries, against 8.6 per cent in the second.

42. Overall, road infrastructure linkages across sub-regions are modest. West Africa has a relatively well-linked road network through the Trans-West African Highway system, but has limited rail links. The Arab Maghreb Union (UMA) has fairly well developed road network, and the members are working to complete the Trans-Saharan Highway, the Maghrebian Highway, and a link between Africa and Europe though the Strait of Gibraltar. In terms of missing links, East African Community (EAC) had the smallest share of missing links, followed by the Common Market for Eastern and Southern Africa (COMESA). The Economic Community of Central African States (ECCAS) has the least integrated road system.

43. In rail transport, three railway gauges predominate in Africa—the 1067 millimeter (Cape) gauge, the 1000 millimeter (narrow or meter) gauge, and the 1435

[2] That Decision requested the Commission to disseminate the Action Plan and organize in collaboration with RECs, Regional Development Banks, UNECA, AfDB, the World Bank, the European Investment Bank, IFC, and other interested partners, regional meetings in Africa, that involve the participation of all industrial development stakeholders, for the effective implementation of the Action Plan. The Decision also directed that the outcome of the regional meetings and regular progress reports on the operationalization of the Action Plan be presented to Council.

millimeter (standard) gauge. A regional railway system is considered integrated when its member states use the same gauge throughout. EAC, SADC, and UMA use a uniform gauge and thus have the most potential for physical integration of their railway networks. UMA is considering development of a Maghrebian high-speed train. By contrast, ECCAS has the least railway connectivity. However, the member States have adopted a transport master plan in which the railway network is an important component. Similarly, ECOWAS has established a plan to connect national railway lines.

44. In maritime transport, ECOWAS is the most integrated, with seven ports for four landlocked countries. EAC has some connectivity between ports and the hinterland, with two major transit ports—Mombassa, Kenya, and Dar-es-Salaam, Tanzania. With nine major transit ports serving 10 landlocked countries, COMESA also has good connections. UMA, which has no landlocked countries, has common maritime transport policies among its members and with Eastern Mediterranean countries. ECCAS, with two ports serving three of its four landlocked countries, has some maritime connection among its member states.

45. In air transport, SADC appears to be the most integrated, that is, through South Africa. With the Yamoussoukro Decision, African airlines have established several new routes to provide users more choice, with daily flights introduced in some regions. But full implementation of the Yamoussoukro Decision is hampered by the lack of firm political commitment from some countries because of concerns about the ability of their national airlines to compete. Protectionist measures remain in place for all airlines, and visa restrictions and inappropriate competition rules also pose major obstacles to the Decision's implementation.

46. Although Africa is endowed with many lakes and rivers, only a few play a role in integrating transport across countries. Lake Victoria in EAC offers steamer service to its three member countries, giving EAC the most integrated inland waterways system. ECCAS has the second most integrated system—the Congo River provides service to half its 10 member countries. By contrast, the Niger River, which connects Guinea and Mali, offers limited integration to ECOWAS because travel on the river is seasonal.

47. In Communications sector, though Africa's communications sector started with poor technology and weak services during the early 1990s, over the last decade, its infrastructure capacity and policy environment has improved significantly, attracting greater investment from local and foreign investors. The ultimate aim is to create a pan-African network that connects all African countries and strengthen the continent's information and communications technology—to help bridge the vast digital divide between Africa and the rest of the world. This effort requires the support of countries, regional economic communities, and their development partners. To this end, many regional communities are promoting growth in communications capacity and services. Many such initiatives are also being promoted or implemented at the continent level, as part of efforts to enhance Africa's global connectivity. More encouraging are trends in communications policies, with a number of countries having established independent regulatory agencies, reflecting a more liberal policy environment.

48. In Energy infrastructure, the most notable developments in expanding energy resources under the aegis of RECs have involved establishing regional power pools and interconnected electricity grids, formulating master plans for regional power development, and developing environmentally benign power sources, including hydropower and natural gas. Successful examples include electricity supplies from Uganda to Kenya and Tanzania, from Mozambique to South Africa and Zimbabwe, and recently, from Ethiopia to Djibouti. In 1995, 12 SADC countries created the Southern African Power Pool, aimed at linking SADC members in a single electricity grid. ECOWAS and UEMOA are implementing the West African Power Pool, and EAC countries have also launched the East African power pool, including interconnection of the electricity grids in Kenya, Tanzania and Zambia to link EAC and SADC. Major interconnection lines have been constructed in the SADC region, including the South Africa–Zimbabwe interconnector (1995), the Mozambique–Zimbabwe power line (1997), the South Africa–Namibia interconnector (2000), and the South Africa–Mozambique transmission line (Motraco) with supply for Swaziland (2000). In ECOWAS and UEMOA, an interconnection project between Benin and Nigeria and the upgrading of the transmission link between Benin, Côte d'Ivoire, Ghana and Togo will increase the transit capacity for electricity interchange within the West African Power Pool.

49. For oil and gas pipelines, efforts appear quite remarkable. For example, the Algeria–Tunisia–Italy Trans-Mediterranean Natural Gas Pipeline, linking Algeria to Italy through Tunisia and the Maghreb–Europe Gas Pipeline linking Algeria to Spain through Morocco. The West African Gas Pipeline is supplying Benin, Ghana and Togo with natural gas from Nigeria. The Mozambique–South Africa Natural Gas Project and the Mombasa–Nairobi petroleum products pipeline extending from Eldoret (in western Kenya) to Kampala (in Uganda), are all contributing to significantly lower prices for petroleum products in Burundi, Rwanda, and landlocked regions of northwestern Tanzania and eastern Democratic Republic of Congo.

50. Last but not least, in 2010, the AU launched the Programme for Infrastructural Development in Africa (PIDA), which brings together various regional and continental infrastructures, and is led by the African Development Bank.

51. Despite these efforts, infrastructural challenges in Africa remain undoubtedly daunting. Africa as a whole is far from exploiting its massive energy potential to buttress and sustain its development individually and collectively because whether measured in generation capacity, electricity consumption, or security of supply, Africa's power infrastructure delivers only a fraction of the service found elsewhere in the developing world. Africa with 14% of the global population produces only about 3% percent of the world's electricity. Sub-Saharan Africa countries (with 800 million people) generate roughly the same power as Spain, with only 45 million people. Power consumption, at 124 kilowatt-hours per capita annually and falling, is only about 10% of that found elsewhere in the developing world, and in at least 30 African countries, power shortages and regular interruptions to services are the norm and this causes Africa's firms to loose about 5 per cent of their sales, while the economic costs of power outages in Africa have been estimated at around 1–2 percent of GDP. Energy access and security are further compounded by the irregular availability of energy resources between the various regions of the continent. For instance, coal resources are located mostly in the Southern region, crude oil and natural gas in the

North and West regions, while hydropower is largely prevalent in the Central and East regions. North Africa has only 23% of the hydropower, West Africa 25%, while the bulk of these resources, about 51%, are concentrated in the central, eastern and southern part of the continent. This suggests that energy development in Africa is a major regional integration issue that will deliver the greatest regional benefit to buttress production and trade.

52. Deficient telecommunications services also tend to isolate African states from one another. Consequently, it is much easier and more comfortable for businessmen in Africa to deal with their counterparts in Europe and North America than with their fellow Africans because it is still a major pain to make a call across national borders in Africa. Huge investments are still needed to physically integrate the African continent and entire communities with effective transport, communication, and other physical infrastructure. Such links would substantially cut the cost of doing business in Africa—advancing the goals of trade expansion and market integration within communities.

53. ***Recommendations:***

a. AUC, in collaboration with Member States, RECs, UNECA and other stakeholders should accelerate the implementation of the Programme for Infrastructure Development in Africa (PIDA) and the actions recommended in the 'Declaration on Development of Transport and Energy Infrastructure in Africa (Ref: Assembly/AU/Dec1.1(XII) within the next 5-8 years;

b. AUC must submit a preliminary report on the operationalization of PIDA and the Declaration on Development of Transport and Energy Infrastructure in Africa hhighlighting any outstanding issues and challenges for consideration and decision by the AU Summit so that substantial progress on this Declaration can be registered to accompany the measures to achieve the Pan-African FTA by 2017 and the Continental Customs Union by 2019.

(d) Eliminating trade barriers through improved trade facilitation

54. In general, African products have a competitive cost structure when leaving the farm or factory gate, comparable to those of countries producing like goods. It is during the process of reaching the border where transport, storage and handling, and finally customs procedures raise the costs of exporting a good.

55. At the regional level, several RECs such as COMESA, ECOWAS, EAC and SADC, together with various corridor management institutions have developed and are implementing measures to facilitate cross-border trade and operations by harmonizing, simplifying and automating customs procedures and documentation, enhancing transport and logistics service provision, and improving infrastructure networks. A number of countries are also committed to trade facilitation reforms to ease the cost of doing business. Among the efforts in this regard is the introduction of single windows process at customs where traders can file all paperwork—for all

agencies—at one place. As a result clearance time in some countries has dropped from 13 days to 7 days for imports, and from 4 days to 2 days for exports. The African Alliance for E-Commerce (AAEC) is an example of an umbrella initiative for sharing information and experiences on trade facilitation and promoting the "single window" concept at national and regional levels across Africa in order to boost inter and intra-regional trade in the continent.

56. While measures including road transit facilitation instruments have been put in place to promote free flow of goods, stakeholders including truck drivers and transporters and shippers continue to face various concerns and difficulties along African trade and transit corridors. These include roadblocks, unofficial fees, harassment and corruption along trade and transit corridors and at border crossings, different rules concerning axle load limits, different vehicles standards and inspection requirements.

57. Delays at African customs are, on average, longer than in the rest of the world: 12 days in Sub-Saharan countries compared with seven days in Latin America, less than six days in Central and East Asia, and slightly more than four days in Central and East Europe. These delays add a tremendous cost to importers and exporters. And they increase the transaction costs of trading among African countries. Each transport day lost due to customs and related problems are equivalent to additional tax. The situation when crossing borders between African countries can be even worse. In addition, delays and complicated procedures related to insuring goods and customs guarantee requirements raise the cost of exporting from Africa and compromise the continent's competitiveness. Each day of delay reduces the export volume by about one per cent based on some estimates.

58. Low knowledge and understanding of trade facilitation instruments and measures by uniformed personnel, drivers, and other users, as well as limited access to information for the private sector on customs procedures for goods and vehicles in transit are also a major challenge.

59. ***Recommendations:***

a. Intervention is required at highest levels of Government through political agreements in order to facilitate the removal of illegal roadblocks, check points and illegal fees and other rent seeking practices along trade and transit corridors and border crossings.

b. There is need for Member States to sensitize their uniformed personnel, customs agents, and other relevant stakeholders on trade facilitation measures and instruments.

c. Member States need to accelerate the operationalization of one stop border posts and to extend the operating times of the borders and ports, to 24 hours and 7 days a week, where necessary.

d. Member States need to exert more efforts to accelerate the simplification and standardization of customs procedures and *harmonizing the nature of the required documents and information and be adaptable for use in computer system.*

e. *Member States need to invest in customs administrations reforms that cultivate a high level of professionalism and integrity and are more transparent on their procedures as well as being more service oriented.*

f. *There is need to strengthen collaboration between customs administrations with other tax departments and other related government agencies through establishment of National Single Windows.*

(e) Enhancing opportunities for intra-African trade through trade information networks

60. The absence of market surveys and inadequate information on trade and market opportunities and customs formalities and procedures in general contribute to the high costs of doing business in the region. Many African businesses find it easily accessible and cheaper to trade with businesses outside of the region. In the context of intra-African trade, the issue of trade and market promotion through the provision of trade based information should therefore be an important area to address.

61. It is encouraging to note that some RECs are making efforts to address this issue. For instance, ECOWAS and UEMOA Commissions, in collaboration with the Governments of Ghana and Togo, the Abidjan-Lagos Corridor Organization (ALCO) sponsored by the World Bank, the USAID-sponsored West Africa Trade Hub, together with private sector partners, have taken a major step towards improving cross-border transport-trade information under two Border Information Centers (BIC) project on the Ghana-Togo Aflao border. The BIC is an initiative to support effective implementation of the ECOWAS Trade Liberalization Scheme (ETLS), which is a regional mechanism for improving intra-community trade in locally produced goods towards boosting the regional economy, stimulating employment and thereby contributing to the overall development of the region. In August 2011, EAC launched the EAC information Centre in Dar-es Salaam, and along with the existing COMESA Trade Information Network (TINET), is helping to provide information on the region's integration process as well as serve as an important source of available opportunities in the region. EAC has also launched with the support of GTZ, a media capacity development project aimed at training journalists in reporting on regional integration within the region.

62. Increasing such initiatives across Africa, buttressed by the use of ICT, will help boost new trading opportunities and market information across the continent in terms of product availability, their characteristics and prices, distribution channels and opportunities for creating value-added joint ventures and multinational enterprises exploiting the rich reservoir of Africa's natural resource endowments.

63. ***Recommendations:***

a. RECs and the private sector should establish regional networks to share information on business, export and other market opportunities across Africa
b. RECs and the private sector should promote networking and information sharing among businesses and chambers of commerce
c. Member States and Chambers of Commerce should promote the use of regular regional trade fairs and sector specific expos
d. RECs and Member States should promote access to and use of ICTs, including online information hubs for trade procedures, transport and customs documentation for and market access and web sites for businesses
e. The AUC and the Pan-African Chamber of Commerce and Industry, with the cooperation of partners such as ITC should promote the production of a continent-wide business directory and encourage the regular publication of regional market surveys.

(f) Addressing financial needs of traders and economic operators through improved trade finance

64. Intra-regional trade in Africa is generally constrained by poorly developed financial markets and lack of widely available trade finance for African businesses. Well-functioning trade finance systems and credit are fundamental mechanisms for the promotion of intra-regional trade. For exporters, the availability of trade credit provides the safety both in-terms of meeting demand and getting paid. The paucity of credit and finance for businesses limits their liquidity and undermines their ability to obtain production inputs. Overall, it weakens intra-African trade and diversification efforts.

65. It is however worth noting some examples of efforts to address this problem. Through its PTA Bank, COMESA continues to actively promote investments and provide trade financing facilities to the tune of US$2billion in the form of technical assistance. The bank also issues bonds to support its lending operations and thereby help to deepen the capital markets in the region. And the East African Development Bank (EADB) within the EAC bloc continues to pursue programmes designed to enhance the bank's capacity to play a more substantive and sustainable role as a regional development finance institution. Among its functions are the issuance of bonds and lines of credit for business operations. In the ECOWAS region, the ECOBANK is providing effective banking and financial intermediation services both within and beyond the ECOWAS region. The African Export and Import Bank (Afrexim) based in Cairo, Egypt is also a reputable continental initiative designed to promote and support trade finance in Africa.

66. Furthermore, COMESA through its African Trade Insurance Agency (ATI) established in 2001 with World Bank support, is helping to provide political risk cover from commercial sources or export credit agencies, with a view to facilitating trade within the COMESA region. By the end of 2007, ATI had issued insurance policies covering political and commercial risk in 7 countries for a total transaction value of USD 400million in sectors including telecommunications, manufacturing,

agribusiness, export services and mining. In 2009, ATI facilitated infrastructure development with political risk insurance products that covered over US $ 233 million worth of FDI into Africa. And in April, 2010, ATI signed a memorandum of understanding with the Export Credit Guarantee Company of Egypt (ECGE), which will see the two institutions working together to facilitate more domestic and Foreign Direct Investment and exports into Africa.

67. The following recommendations are made to strengthen such efforts across Africa.

68. ***Recommendations:***

a. *The AUC should accelerate the establishment of the African Investment Bank to inter-alia support trade financing*

b. *The AFREXIM Bank should foster greater awareness of trade finance opportunities available at the bank.*

c. *RECs and Member States should establish strong and well-funded finance institutions including cross border micro credit programs for producers and exporters.*

d. *Member States and Banks should encourage existing banking and financial intermediaries to promote in their portfolios issues such as export finance in terms of pre-shipment and post-shipment finance needs and import loans.*

(g) Addressing adjustment costs associated with FTAs and trade liberalization to ensure equitable outcomes for Member States

69. Establishing any Free Trade Area and for that matter the whole integration involves the reduction in tariff barriers which in turn may initially lead to a loss of taxation revenue from international trade. In some cases these losses may be painful and cause difficulties for macro-economic management. For instance Africa's smaller and less endowed economies may fear losing revenue.

70. Trade-induced adjustment costs experienced by weaker economies are therefore a matter of major concern not only within the subregional REC FTAs, but also within the proposed Pan-African FTA. The opportunities and benefits of the CFTA will particularly come with significant challenges that most African countries might face in the process of opening up their national markets to the whole continent, even though in the medium to long-term, all economies within the FTA are expected to be transformed and the benefits of the CFTA integration more equally shared.

71. The issue of actual or perceived loss of revenue deserves particular attention, though the degree of impact will vary in different countries depending on the share of customs revenues in the total public revenue. But it is fair to say that in general, the high dependence on customs revenue poses a challenge in subregional FTAs, and will be more so in the CFTAs.

72. Other adjustment costs are likely to include production and employment adjustment costs, labour reallocation across sectors, trade facilitation and export diversification costs, skills development and productivity enhancement costs and negotiation and legislative costs. As these adjustment costs are inevitable, member countries will need to devise ways to circumvent or reduce them. The challenge at hand is to identify policies that help weaker countries to achieve a rapid supply response and to minimize social disruption so that they can realize the maximum gains from further liberalization.

73. It is therefore necessary that the plan of action towards the CFTA, or any FTA for that matter, should include compensation mechanisms. The compensation mechanism should address the adjustment costs such as revenue shortfalls and can be extended to regional cooperation in the determination of industrial and infrastructure development.

74. In this regard, experiences in RECs such as COMESA are worth noting. For example, COMESA established the COMESA Fund which deals with effects of trade liberalization that may require adjustments, as well as with building infrastructure to consolidate the regional market. The COMESA Fund operates through two windows: an Adjustment Facility aimed at supporting the efforts of member States in economic reforms in the context of integration, and an Infrastructure Fund to facilitate the development of trade related regional infrastructure projects in the region. The adjustment facility has taken off well with Rwanda and Burundi being the first beneficiaries of the facility. They received Euro 10.3 Million and Euro 4.4 respectively, equivalent to 65% of the anticipated loss of revenue for June 2009- July 2010 as a result of the alignment of their tariff structures to those of the East African Community Common External Tariff within the Customs Union.

75. ECOWAS under the ECOWAS Fund for Cooperation, Compensation and Development (ECOWAS Fund-now the ECOWAS Bank for Investment and Development-EBID) continues to promote co-operation, compensation, and integration of West African countries. It has two specialized subsidiaries, ECOWAS Regional Development Fund (ERDF) and ECOWAS Regional Investment Bank (ERIB). Operational since 2003, EBID's main objective is to contribute towards the economic development of West Africa through the financing of projects and programmes of ECOWAS and NEPAD, notably those related to transport, energy, telecommunications, industry, poverty alleviation, the environment and natural resources. It also aims to provide support to landlocked countries to ease their access to ports.

76. ***Recommendations:***

a. *Similar compensation mechanisms for affected countries need to be put in place in RECs that have not done so, and more importantly within the proposed Continental Free Trade arrangement, in order to enable countries to correct and/or absorb adverse short-term impacts on government revenues, and other facets of the national economy.*

b. *Other mechanisms for ensuring government revenues during the integration process include shifting away from reliance on customs duties to other forms of taxation.*

B. SECOND GROUP OF ISSUES AND PRIORITIES

(h) Addressing multiplicity and inconvertibility of currencies adding to business transaction costs

77. Multiple and different national currencies almost all of which are non-convertible also raise trade costs, as those in business are confronted with the cost of currency conversion and related market uncertainties. The issue of multiple non-convertible currencies is further compounded by inadequate and weak payment systems, insurance requirements and customs guarantees. Documentary credit payment, which is popular in Africa, is characterized by cumbersome procedures.

78. RECs are making some efforts to address currency convertibility in their regions. For instance, Member States within the COMESA bloc are currently implementing Monetary Harmonization Programmes with a view to achieving limited convertibility of currencies through the COMESA Regional Payment and Settlement System (REPSS). This facility aims to stimulate intra-COMESA trade by enabling importers and exporters to pay and receive payments for goods and services using national currencies where the net balances are settled in US $ or Euro. In West Africa, ECOWAS is pursuing a two-track approach to monetary integration, according to which, non-UEMOA countries (the non-francophone members) will progressively harmonize their monetary policies to the extent required for them to join their UEMOA (francophone) counterparts and form an ECOWAS monetary union with a single currency by 2015. CEMAC and UEMOA are already monetary unions, anchored on the CFA franc as a common currency. In the Common Monetary Area (CMA), the South African rand circulates freely as a common currency under a floating arrangement embracing countries such as Namibia, Swaziland and Lesotho.

79. Although these are encouraging trends, the multiplicity of African currencies and exchange-rate arrangements (including their associated uncertainties) argues for intensifying such efforts including the establishment of clearing mechanisms in regions where they do not exist, and ensuring steady progress towards the creation of the RECs' monetary union agendas.

80. ***Recommendations:***

a. *In the short-term, put in place measures to establish clearing mechanisms to address the multiplicity of African currencies and exchange-rate arrangements (including their associated uncertainties) with a view to supporting the establishment of monetary union in the medium to long run.*

b. *RECs should institute binding monitoring mechanisms of the macroeconomic convergence criteria which will encourage* *mutual convertibility of their national currencies within their territories*

(I) <u>Promoting free movement of people as an important ingredient of cross-border trade</u>

81. As people are at the centre of trade, free mobility of persons across Africa, and on a much broader scale free movement of factors of production remains a critical issue. The free movement of persons, rights of residence and establishment is one of the founding principles of the African leaders as stipulated in Chapter VI of the Abuja Treaty.

82. On free movement of people a few RECs, in particular, ECOWAS and EAC, have made considerable progress. ECOWAS has introduced the ECOWAS Passport, which is a giant step towards eliminating barriers to the cross-border movement of citizens, and indeed in promoting a common identity among ECOWAS citizens. ECOWAS nationals cross borders without visas and the right of establishment is gradually gaining root. EAC has also introduced a common passport valid within the community to facilitate cross-border movement of the nationals of its members. Free movement in other RECs is relatively more restricted, and pursued more on a country-to-country basis than multilaterally.

83. Nonetheless, the mobility of persons often unleashes strong passions, and criticisms against governments' policies on visas, immigration, and nationality laws. Expectations are high for the dismantling of restrictions of freedom of movement. Yet, it remains one of the most contentious issues among African countries due to a number of reasons. The presence of massive foreign workers leads often to tensions with nationals, especially in periods of significant unemployment, besides security concerns, among others.

84. This notwithstanding, African people are keen to move freely within their continent, and to the best opportunities without undue restrictions. People and labor must be mobile across countries in a region. Restrictive laws on free movement only help to perpetuate illegal flows of migratory workers, a source of tension in the receiving countries and sometimes between those countries and the countries of origin.

85. ***Recommendations:***

a. *In order to foster intra-African trade, investment and cooperation, the removal of impediments to free movement of people, labor and capital is important. African countries should remove restrictions on travel and right of establishment.*

b. *A medium term objective is to adopt common sub-regional citizenship including sub-regional passports (as in the case of ECOWAS) as a stepping stone to a common African citizenship and African passport.*

c. *REC Member States that have not yet complied with provisions on free movement of people need to correct the situation, with compliance required within a specified period.*

d. *Member States are particularly urged to abolish visa requirements for Africans traveling within the continent*.

(j) Enhancing trade in services as an emerging opportunity for intra-African trade

86. Globally, trade in services is outpacing trade in goods over last two decades. Services account for at least 50% of gross domestic product in most developing countries. Services are also important in their own right, and they provide the essential support for trade in goods.

87. Producers are becoming increasingly depended on access to low-cost, high-quality services to compete globally especially in sectors such as communications, transport, finance and energy among others. In Africa, the pace at which regional trade in services trade is being liberalized is lower than that of goods. Boosting service exports between African countries will create jobs and help diversify many countries.

88. Research has shown that many developing countries have capacity and export potential in many service sectors. The focus should largely be on developing sound domestic regulations in the services sectors as a prerequisite for regional and continental services liberalization, taking into account what some RECs such are trying to accomplish (e.g. COMESA has undertaken negotiations to elaborate a framework within which to conduct negotiations for trade in services in the region).

89. ***Recommendations:***

a. Partners are called upon to assist Regional Economic Communities in developing regional frameworks for services in trade liberalization

b. The AUC and RECs should assist Member States in strengthening domestic regulations in specific services sectors in preparation for regional and continental liberalization

c. The AUC and partners should assist RECs/Member States mainstream services into regional and national export strategies with focus on sectors with potential to enhance intra-African trade in services.

d. *RECs and Member States should improve service trade statistics to aid policy analysis and formulation.*

(k) Addressing other important crosscutting issues that have a bearing on intra-African trade

90. For regional markets to operate efficiently there is need for strong regional and domestic regimes/frameworks/regulations on trade related issues of intellectual property rights, competition policy, investment, government procurement, trade and competitiveness and trade and the environment. Most Regional Economic Communities do not have regional frameworks to deal with these issues in some cases because some of their members states to not have the necessary domestic institutions to work on the issues.

91. In cases where such institutions exist, they are often weak and not well resourced. Attempts have been made in some RECs to develop regional frameworks in areas such as investment, competition policy and government procurement. Some of the major challenges that these RECs have been faced with include lack of financial resources and technical capacity.

92. ***Recommendations*:**

e. The AUC and partners should assist RECs develop a Regional Framework for competition policy.

IV. Conclusions

93. Intra-African trade has consistently remained low averaging about 10 percent. The direction of Africa's trade both in terms of exports and imports has been heavily influenced by traditional links with the rest of the world, in particular with Europe. Over 80 per cent of African countries' exports are destined for markets outside the continent, and a similar amount of the continent's imports comes from external sources. Initiatives and programmes on trade liberalization and development under the auspices of the African Regional Economic Communities, though substantial and laudable, have had limited impact in terms of raising the average level of intra-African trade to more than 15 percent. Intra-regional trade in other regions of the world such as in the European Union (over 63%) and in Asia (over 40%) are much higher than Africa's.

94. Several reasons account for low intra-African trade. The production and export structures of most African economies are geared to primary commodities such as minerals, timber, coffee, cocoa, and other raw materials, for which demand is externally oriented. There is the stark reality of the continent's structural deficiency, which manifests itself in the dichotomy between the traditional and modern sectors, in the excessive dependence on external inputs, and in external rather than domestic market as the principal mover in the development process. Low production frontier curves are exacerbated by infrastructural and other bottlenecks. Inadequate infrastructure remains one of the chief obstacles to intra-African trade, investment, and private-sector development. All of these problems produce adverse effects in terms of narrow and low productivity, which in turn circumscribes the range of products African countries can trade among themselves.

95. After all, the goals of cooperation and integration have been highly sought after by African nations since their independence, and high hopes have been evoked that African countries would enlarge their economic space for production and trading among themselves, quite apart from enabling them to rise to the challenge of increasingly competitive global economy, which also includes powerful regional economic blocs. Yet, progress towards increased intra-African trade as a major objective of this integration agenda has been less than impressive. If African trade continues to remain perpetually modest as trends over two decades portray (not going beyond 15 percent), then African countries are indeed missing opportunities for using trade within the continent to enhance the prospects for specialization amongst them and for indigenous development and integration. Intra-African trade can be a powerful driver of Africa's growth and economic maturity. The main question, therefore, is how to increase this trade as much as possible, if not close to levels within other regions like the EU and Asia, at least up to 25 percent or more in the coming years.

96. Given geographic proximity, the efforts of the RECs, cultural affinities and other factors, Africa has a potential for boosting intra-Africa trade, but realizing this potential, and hence the effort to advance regional integration through intra-Africa trade, will require overcoming a number of challenges. To cite the example of a developing country that in the 1960s had the same economic characteristics as most countries in Africa, China made a quantum leap through determined efforts to transfer technology into the country and to diversify exports. And it has successfully integrated its economy into the world market, not through open liberalization, but by identifying and promoting exports and diversification. Similarly, Africa's policy towards regional integration and intra-Africa trade need to consider diversification as one of the central issues as the lack of export-import similarity is a chief hindrance to intra-Africa trade and regional integration. A fundamental challenge is therefore to address supply constraints and the competitiveness of African exports and their diversification because diversification and competitiveness are crucial to intra-African trade. Another fundamental policy direction in this regard is to go beyond liberalization to the actual creation of trade potential through developing a flawless trade facilitation environment in which there are efficient core services such as finance, telecommunication, energy and adequate transportation networks.

97. Intra-African trade needs to grow rapidly to levels comparable to other regions. There is no lack of projects and programmes, initiatives and recommendations on:

a. Improving infrastructure in Africa, addressing the missing links, implementing NEPAD, and more recently, the Programme for Infrastructure Development in Africa;
b. Land-linking landlocked countries via several initiatives including the Almaty Programme of Action, and those of RECs and corridor management institutions;
c. Simplifying and harmonizing documentation, rules and procedures, customs formalities as embodied in RECs' protocols on trade liberalization;
d. Establishing Free Trade Areas and Customs Unions;
e. Removing trade facilitation bottlenecks in particular including dealing decisively with rent-seeking practices and malpractices at borders,

multiple checkpoints, and roadblocks. There have been numerous pronouncements on these issues;

f. Establishing one-stop border posts- a new “kid on the block”;
g. Improving payment systems and promoting currency convertibility are an old story,
h. Investing in economic diversification (also an old story); and more recently
i. Implementing the Minimum Integration Programme (MIP), which is a major continental framework aimed at enhancing coordination, convergence and collaboration among RECs to achieve the ultimate goal of the African Economic Community.

98. If there is one single conclusion or recommendation to this end, it would be to emphasize that it is time to move from rhetoric to action.

PART TWO: ACTION PLAN FOR BOOSTING INTRA-AFRICAN TRADE

1. The Action Plan outlined in this document is aimed first, at responding to the Decision of Heads of State and Government at the Summit of January 2011, to dedicate their Summit of January 2012, to the theme of "Boosting Intra-African Trade" and more specifically, to deepen Africa's market integration and significantly increasing the volume of trade that African countries undertake among themselves. In line with the obstacles to intra-African trade identified in Part One (the Issues Paper), the Action plan therefore outlines the programme of activities required to address each of the constraints considered as priority **(especially the first set of priority issues in the Issues Paper).**

2. It is accordingly proposed that the programmes and activities identified should be implemented within the following time span: short-term (under 3 years); medium-term (3-7 years) and long-term (beyond 7 years). For each programme or activity, the organization/actor with the main responsibility for implementation is also indicated.

3. It is indeed noteworthy that in **the development of this Action Plan, account has been taken of the existing initiatives already adopted by the Policy Organs of the AU such as the Action Plan for Accelerated Industrial Development of Africa (AIDA), Programme for Infrastructure Development in Africa (PIDA), Minimum Integration Programme (MIP), etc. The objective is not to replace these initiatives but to ensure that programs and actions are promptly implemented for the boosting of intra African trade.**

PRIORITY PROGRAMME CLUSTERS OF THE ACTION PLAN

I. Trade Policy

A. The boosting of intra-African trade requires the adoption and implementation of coherent and efficient trade policies at the national, regional and continental levels, which should be specifically geared to the promotion of intra-African trade. Although intra-regional trade liberalization constitutes a key element of the integration programmes of most of Africa's RECs, the implementation of the relevant trade protocols rarely accords the priority that is necessary for the attainment of market integration. Significant differences still exist in trade regimes within and between the RECs. The boosting of intra-African trade requires that the trade policy of African countries be designed or differentiated in such a way that no other African country would receive a less favourable treatment than is given to a non-African country, whether the latter is developed or developing.

B. Table 1 contains a list of trade policy programmes and activities that should be implemented

Table 1: Trade Policy Cluster

Main objective: Fast tracking intra-African trade development

PROGRAMME/ACTIVITY	[HOW] OUTPUT/TARGET	[WHEN]TIME FRAME	RESPONSIBILITY
Mainstreaming of intra-African trade in national trade and development strategies	Adequate allocation in Member states (MS) budgets to enable implementation is done African and regional trade policies are mainstreamed in the National trade and development strategies	Short term	MS
Enhancement of the role of the organized private sector, informal private sector and women in trade policy formulation	Regular formal platforms for organized private sector, informal private sector and woman business and civil society for trade policy dialogue with Government, are established	Immediate/short term	MS, RECs, AU
Boost intra-African trade in food products	Tariffs , Non-Tariff Barriers and quantitative restrictions on intra-African trade in food products are removed	Short term	MS
Undertake commitments to liberalize trade-related service sectors: Transport, professional, financial and **ICT**	Unilateral liberalization in services is undertaken by MS Commitments made in RECs or between RECs Regulatory framework are put in place	Short to medium term	MS, RECs
Commit to harmonize rules of origin and trade regimes	Rules of origin and trade regimes are harmonized at the REC level and Tripartite level	Short term	MS, REC’s, Tripartite SC, AU (C-FTA)
Promoting “Buy in Africa” and “Made in Africa”	Increased trade in good among member states	Short term	MS

II. Trade Facilitation

C. A major factor in the low level of intra-African trade has been the numerous trade facilitation constraints. The removal of these constraints (see details from paragraph 54 to 59 above) is critical to boosting trade among African countries.

D. Table 2 provides a list of trade facilitation programmes and activities whose implementation are necessary for the boosting of intra-African trade.

Table 2: **Trade Facilitation Cluster**

<u>Main objective</u>: Reducing the time it takes to move goods from point A to point B (across borders and within and between regions)~~by 50%~~

Expediting movement of goods across existing trade corridors (infrastructure treated separately)

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Reduction of road blocks	All unnecessary road blocks are removed	Short term	MS
Harmonizing and simplifying customs and transit procedures, documentation and regulations	Number of customs documents are reduced Key customs documents are harmonized within RECs Border operation hours are harmonised	Short term	RECs,MS
Establishment and operationalisation of One-Stop Border Posts	OSBPs at all key border posts established Border time crossings of goods are reduced by 50%	Short term	MS, REC
Integrated Border Management (IBM)	Customs procedures, standards, regulations and documentation are harmonized and simplified	Short term	MS, RECs, AU

III. Productive Capacity

E. The insignificant share of Africa in global trade and the relatively low level of intra-African trade can be attributed, to a large extent, to the inadequacy of productive capacity, especially in the dynamic sectors of global trade. This topic has been extensively covered from paragraph 33 to 40).

F. Table 3 contains a list of productive capacity building programmes and activities that are necessary for boosting intra-African trade.

Table 3: Productive Capacity Cluster

Main objective: Creating regional and continental value chains/complementarity, to increase local production/ trade in goods produced in Africa

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Prioritization of the implementation of continentally-agreed programmes, such as AIDA, ATII, APCI, and 3ADI	AIDA, ATII, APCI, MIP and 3ADI projects are promptly implemented	Depending on the (implementation) strategy of the respective programme	MS
Establishment of integrated and inter-connected trade information systems	Integrated and inter-connected trade information systems are put in place	Short term	AU, RECs, MS
Encouraging investments/FDI through established frameworks for the strengthening of regional and continental complementarities, and the development of regional enterprises and value chains	Improved and harmonized investment regulation is put in place	Short to medium term	MS, RECs
Establishment of Regional Centers of Excellence for technology development, adaptation and diffusion	Each REC has a Regional Center	Short to medium term	MS, RECs

IV. Trade-Related Infrastructure

G. The inadequacy of basic infrastructure has been a major factor in the lack of diversification and competiveness of Africa's economy, continent's marginalization in the dynamic sectors of global trade, and its relatively low level of intra-regional trade. Compared to the other regions of the world, both developed and developing, the impediment to production and trade arising from the underdevelopment of infrastructure is more severe. This issue has been extensively covered from paragraph 41 to 53).

H. Table 4 highlights some of the progammes and activities that need to be implemented in the short, medium and long-terms to develop Africa's infrastructure for enhancement product competitiveness, regional interconnectivity, and boosting of intra-African trade.

Table 4: Trade-Related Infrastructure Cluster

Main objective: Development of innovative, legal, financial and other mechanisms for multi-country infrastructural development projects.

Taking into account the Declaration on Development of Transport and Energy Infrastructure in Africa

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Prioritizing the implementation of PIDA	PIDA Studies and Infrastructure Architecture for Infrastructure Development in Africa are approved and Implementation of PIDA key projects started on time	Medium term	AU, AfDB, RECs, MS, Development Partners
Mobilize resources for the preparation of multi-country infrastructural projects	Pan-African investment funds by MS are recapitalized	Short term	AU, AfDB, RECs, MS
Prepare high-quality multi-country infrastructural projects	Increased number of projects are prepared	Short term	MS
Enabling environment for private sector participation in the development of infrastructure	Conducive policies and regulatory frameworks for the building of infrastructure, e.g. arbitration clauses in PPP arrangements are developed	Medium term	AfDB, AU, REC, MS
Development of innovative legal, financial and other mechanisms for multi-country infrastructure and industrial projects	Implementation of vital continental projects is accelerated and facilitated	Short term	RECS, AUC, AfDB

V. Trade Finance

I. A major constraint on the growth of Africa’s trade, especially intra-regional trade, is the inadequacy of financing mechanisms as reflected in paragraphs 64 to 68 and 77 to 80).

J. Table 5 contains a list of programmes and activities required for adequate and effective financing of intra-African trade.

Table 5: Trade Finance Cluster

Trade Finance

Main objective: Develop and strengthen African |financial institutions and mechanisms to promote intra-African Trade and investment.

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Strengthening/enhance capacity of existing regional and continental financial institutions	MS that have not yet subscribed to Afreximbank, PTA Bank and ATI subscribe	Short term	MS, Afreximbank, PTA Bank, ATI, development partners
Improving payment systems	Cross-border payments are facilitated and currency constraints are avoided	Short term	MS
Enabling environment for financial service companies to supply export credit and guarantees	Supply of export credit is increased and Cost of capital is reduced	Short term	MS, RECs
Speed up the process of establishing the three functional institutions	The Three Financial Institutions are established	Medium term	AU, MS

VI. Trade Information

K. Adequate, easily accessible and timely information is necessary for taking full advantage of the opportunities for intra-African trade. The argumentation for such information has been developed in paragraphs 60 to 63). Table 6 provides a list of indicative programmes and activities in the area of trade information.

Table 6: Trade Information Cluster

Trade information

Main objective: Bridging information gap to enhance opportunities for intra African trade

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Creation of inter-connected centers of trade information exchange	Information on business opportunities and trade regimes available on the continent is provided	Short term	RECs, MS

VII. Factor Market Integration

L. Intra and inter regional mobility of factors of production (labour, enterprise and capital) can contribute significantly to the deepening of African integration and the boosting of intra-African trade as described in paragraphs 81 to 85. An indicative list of programmes and activities for the deepening of factor market integration in Africa is presented in Table 7 below.

Table 7. Factor Market Integration Cluster

Main objective: Increase intra-regional mobility of labour through harmonisation of labour, business and investment laws

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Operationalise the existing policies and protocols on free movement of people and of labour migration	• Protocols are ratified and fully implemented by MS that have not done so; • An African Regional Labour Exchange is established; • Labor and social protection framework is harmonized	Short to medium term	REC, MS
Encourage and facilitatepolicies that Increase the freedom of movement for business people	Simplified entry procedures are put in place for business visitors in MS including visas	Short term	MS, RECs
Harmonize rules on cross border establishment	Cross-country investment and job creation are facilitated	Short to medium term	MS, RECs
Establish agreements on mutual recognition of qualifications	MRAs for certain job categories is put in place	Short term	REC, MS

Next step for implementing the Action Plan

M. Following the adoption of this Action by the Conference of Ministers of Trade and subsequent approval by the AU Summit, a detailed work plan with indicators, benchmarks and milestones, which will provide the basis for the effective monitoring and evaluation, will be developed.

PART THREE: ESTABLISHING THE CONTINENTAL FREE TRADE AREA

FRAMEWORK FOR FASTTRACKING THE ESTABLISHMENT OF THE CONTINENTAL FREE TRADE AREA (FTA): ROAD MAP, ARCHITECTURE, AND MONITORING AND EVALUATION MECHANISM

BACKGROUND

1. In the post-independence period, integration has been a core element of the development strategy of African countries. The pursuit of integration at regional and continental levels aimS at overcoming the colonial legacy of the fragmentation of Africa into small and weak economies, and at harnessing the economies of scale and other benefits of a large integrated market. Unity and integration have also been targeted towards empowering Africa to take its rightful position in the global economy and polity.

2. The importance that African countries attach to regional integration is reflected in the high number of integration schemes on the continent. There are as many as 14 RECs in Africa. The majority of African countries belong to two or more RECs. At the continental level, the post-independence integration efforts of African countries date back to May 1963 when the OAU was established. The other major initiatives include the adoption in 1980 of the Lagos Plan of Action and the Final Act of Lagos, and the signing in June 1991 of the (Abuja) Treaty Establishing the African Economic Community (AEC). The Abuja Treaty, which provides for the creation of the AEC in six stages extending over a period of 34 years and with the RECs as the building blocks, has served as the blue print for Pan-African economic integration. With the objective of accelerating the implementation of the Abuja Treaty and to enable Africa to meet the challenges of development and globalization in the 21st Century, the Assembly of Heads of State and Government of the OAU adopted the Constitutive Act of the African Union (AU) in 2000 and established the Union the following year.

3. Although some progress has been achieved in the process of African integration, the objective of Pan-African market integration is still far from being realized. The level of intra-African trade stands at around 10 per cent, the lowest among the major regions of the world. Being highly dependent on the outside world for trade, Africa has been very vulnerable to external trade shocks. This situation as well as new challenges facing Africa that have emerged in the first decade of the 21st century, including those relating to the global economic and financial crisis, and the stalemate in EPA negotiations between the EU and African countries, and the WTO Doha Round Negotiations, have underscored the need to deepen Africa's market integration. It is against this background that recommendation of the 6th Session of the Conference of AU Ministers of Trade to fast track the establishment of a Pan-African Free Trade Area (FTA) and the decision of AU Summit to focus its January 2012 Session on the theme of "boosting Intra-African Trade" are very timely.

THE CASE FOR THE CONTINENTAL FREE TRADE AREA (CFTA)

Why Africa needs the CFTA?

4. Africa needs a CFTA for the following reasons **(See Annex for detailed analysis):**

- Intra-African trade is around 10% which is significantly lower than the level of intra-regional trade of other developing regions.
- Two thirds of African countries are either more protectionist than Africa in general or face more limiting market access conditions. The CFTA, even one that progressively eliminates barriers, can offer substantial economic and social gains in Africa.
- Intra African trade in Agriculture faces a higher rate of protection than non-agricultural sector. Almost all African countries/Sub-regions impose higher tariffs on Agriculture imports from other African Countries. The CFTA provides the opportunity for Africa to maintain food security and boosting trade in Agricultural products;
- For some African countries, trade within the region constitutes a significant share of their exports

The potential benefits of the CFTA

5. The establishment of a continental FTA will lead to a significant growth of Intra-Africa trade and assist Africa to use trade more effectively as an engine of growth and sustainable development. It is worth noting that between 2000 and 2010, the creation of the COMESA FTA led to a six-fold increase in intra-COMESA trade. The realization of the Tripartite FTA is expected to lead to further growth of intra-African Trade while the continental FTA will build on these existing successes and enable Africa to participate in global trade as an effective and respected partner.

6. In a possible scenario of two FTA groups COMESA-EAC-SADC and IGAD, or (S-E) FTA group and ECOWAS, CENSAD, ECCAS/UMA or N-W-C FTA group, the global average protection rate is nearly as high as the average of 7.7% with the S-E FTA group and 8.2% for the N-W-C FTA group, and 8.7% for the entire continent. Currently there is a high level of protection inhibiting trade. An FTA of the two groups/regions would simultaneously reduce Africa's global protection by 68.7%, consequently reducing Intra-African average trade protection from 8.7% to 2.7%. In view of the foregoing, a CFTA will have even greater benefits.

7. Among other specific benefits that will accrue to African countries from the establishment of the continental FTA are:

- Increased food security through reduction of the rate of protection on trade in agricultural produce among African countries;
- Increased competitiveness of Africa's industrial products through harnessing the economies of scale of a large continental market of about one billion people;
- Increased rate of diversification and transformation of Africa's economy and the continent's ability to supply its import needs from its own resources;
- Better allocation of resources, improved competition and reduced price differentials among African countries;
- Growth of Intra-Industry trade and the development of geographically based specialisation in Africa;
- Reduced vulnerability of Africa to external trade shocks;
- Enhanced participation of Africa in global trade and reduced dependence of the continent on aid and external borrowing.

Current success stories of regional FTAs

8. The experience of the regions such as EU, ASEAN, NAFTA and MERCOSUR indicates the great contribution that successful market integration can make to attainment of economic growth and development.

- The creation of the EU internal market has led to an increase in the level of the Intra-EU trade which now stands at about 63% and has contributed to the growth of the GDP and employment.
- In the past, the fear of the loss of tariff revenue has been an obstacle to the liberalization of Intra-Africa trade. However, recent experiences at the regional levels show that government revenue can actually increase with the removal or lowering of tariffs on Intra-regional trade. This is applicable to both small and large economies. For example, following the accession of Rwanda to the COMESA FTA its government revenue increased as a result of VAT on imports from the region.
- Trade data also show that there is more sophistication in Intra-Africa trade goods than what Africa exports to the rest of the world. Evidence further shows that despite existing level of Intra-African protection on non-Agricultural goods, these exports still constitute a significant share of individual countries export within Africa.

ROAD MAP AND ARCHITECTURE FOR FAST TRACKING THE ESTABLISHMENT OF A CONTINENTAL FTA AND BOOSTING INTRA-AFRICAN TRADE

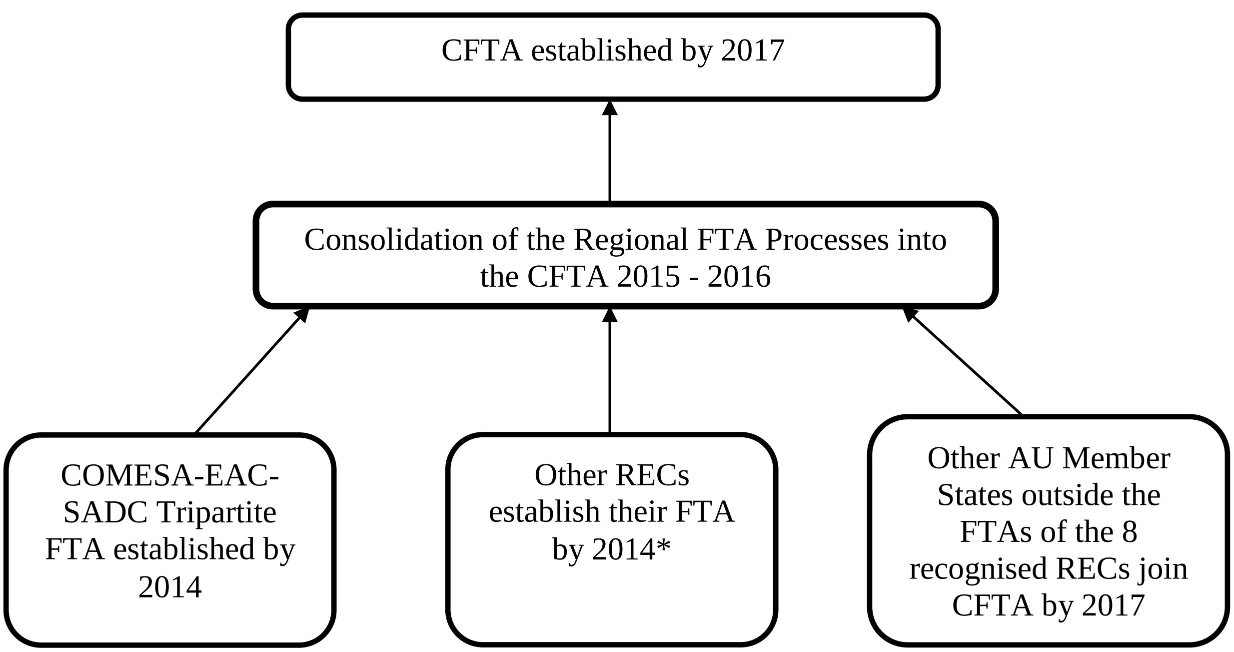
THE ROAD MAP

9. The slow progress by the RECs in becoming Customs Unions in the context of the Abuja Treaty framework has delayed the emergence of a Pan-African FTA/Customs Union. Consequently, Africa has not been able to take full advantage of its large continental market of about a billion people. Fast tracking the establishment of a Pan-Free Trade Area requires a new approach that should be independent of the progress made by individual countries in attaining the status of a Customs Union. The initiative of the Tripartite FTA adopted by Heads of State and Government of COMESA, EAC and SADC can serve as a useful model for the new approach. In this regard, the Summit of the AU at its January 2012 Session is expected to approve the establishment of the CFTA by 2017 on the basis of the following road map, subject to review in accordance with progress made:

- Completion of Regional FTA processes by 2014
- Consolidation of the Regional processes into the CFTA between 2015 and 2016, **with no roll back on the Acquis”**
- Establishment of the CFTA by 2017

10. Details of the Road Map are further elaborated below.

Figure 2: ORGANOGRAM OF THE ROAD MAP



*The approach recommended above leaves room for the other RECs, should they wish to do so, to come together as a parallel arrangement similar to the EAC-COMESA-SADC

Tripartite prior to reaching the CFTA. However, the one stage approach also leaves enough scope for the RECs that do not wish to form a parallel arrangement similar to the EAC-COMESA-SADC Tripartite to join the CFTA directly

i. COMESA-EAC-SADC Tripartite FTA encouraged to complete its FTA by 2014 and to ensure that those member states which are currently outside the three RECs FTA join and become part of the Tripartite FTA;
ii. The four other AU recognised RECs (ECOWAS, CEN-SAD, ECCAS and UMA) to expedite the completion of their FTAs by 2014 and to also ensure that those among their Member States which are currently outside the FTAs to join. These RECs may come together to form (a) parallel arrangement(s) similar to the EAC-COMESA-SADC Tripartite **or join the Tripartite process** ;
iii. Any other individual AU Member States outside the FTAs of the 8 AU recognised RECs to join CFTA process by 2015;
iv. i, ii and iii above will lead to the establishment of a CFTA by 2017, with negotiations facilitated by the AUC with the support of the RECs, taking place between 2015 and 2016.
v. **Reservation of Acquis:** It is proposed that the CFTA should build on the Acquis. This implies that the CFTA should take as its starting point, the current levels of tariff liberalisation in the RECs. Thus, it will build on the progress made by the RECs and allow for the rapid attainment of the CFTA.

11. The AUC will be responsible for monitoring the development of FTAs within and between the RECs. It shall also provide guidance, leadership, technical and political support to expedite the process of establishing the regional and continental FTAs. In this regard, the AUC will be expected to;

i. Undertake studies with a view to providing information and evidence -based analysis
ii. Mobilise the support of Stakeholders for the realisation of CFTA
iii. Provide a platform for the sharing of experiences among African FTAs

12. The AU Member States shall be responsible for negotiating the respective FTAs in RECs that they belong to and the CFTA. Issues that are to be negotiated include; rules of origin, tariff reduction schedules, removal and elimination of Non-Tariff Barriers (NTBs), customs and transit procedures and trade facilitation among others.

13. Technical assistance will be provided by various donors and partners as appropriate.

Architecture for the CFTA

14. The slow progress towards Africa's market integration can be attributed to a number of constraints, including the inadequacy of the institutional framework/ architecture for the realization of this important objective. Boosting intra- African trade

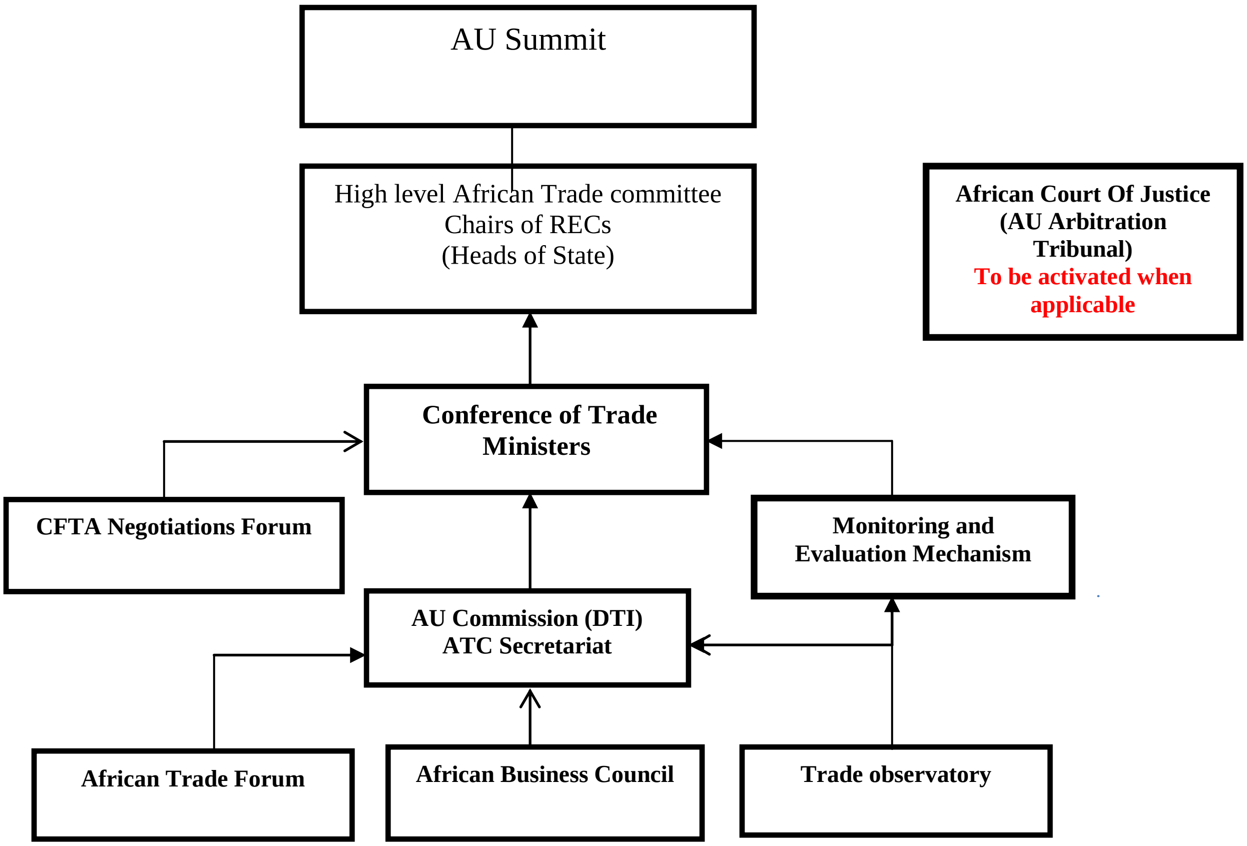
and fast-tracking the establishment of a Pan-African FTA requires, therefore, the fine-tuning of the existing architecture or the introduction of a new architecture that takes account of the realities on the ground.

15. The six stages roadmap in the Abuja Treaty provides for the creation of the AEC over a period of 34 years, from 1994 to 2028, during which a continent-wide Economic and Monetary Union would have been fully created.

16. The Institutional framework, as laid down in the Abuja Treaty, for Africa's market integration did not explicitly provide for the establishment of a Pan-African Free Trade Area. Rather its focus on the liberalization of intra- African trade, in terms of the creation of FTAs and Customs Unions, has been on the RECS which were expected, in the third of the six stages of the process of the creation of AEC, to establish Free Trade Areas through the removal of Tariff and Non-Tariff Barriers to intra-Community trade and the establishment of a Customs Union by means of adopting a common external tariff. The starting point of market integration at the continental level was expected to be a Customs Union and at fourth stage when tariffs and non-tariff systems among the various RECs are to be harmonized and a common external tariff adopted for the continent. Abolition of barriers to free trade between various regions was not contemplated until the various RECs have attained the status of Customs Unions.

17. The achievement of the objectives of fast tracking the establishment of a Continental FTA and the boosting of intra-African trade requires the establishment of an appropriate governance structure and mechanisms to monitor and evaluate progress in the implementation of the Road Map and the programmes and activities targeted towards the attainment of the objectives. In addition to the Summit of the African Union, and the enhanced role of the AUC, the proposed organs in the governance structure (architecture) for the Continental FTA and the boosting of intra-African trade include a High-Level African Trade Committee, Joint AU Ministers of Trade and Finance Conference, the African Business Council, the African Trade Forum, Dispute settlement Committee and the AU Arbitration Tribunal. The organogram depicting the architecture for the CFTA is provided below.

Figure 3: ARCHITECTURE FOR THE CFTA



High -Level African Trade Committee (HATC)

18. It is widely accepted that trade is a key engine for boosting growth, development, economic expansion, employment generation and poverty reduction. Yet, in terms of the hierarchy of importance and priority, trade does seem to have taken its rightful position in the policy/decision making process in Africa, both at the national and regional levels. Thus, drawing from the renewed emphasis on boosting intra-African trade and the need therefore to sustain the momentum set by African political leaders at the Summit dedicated to boosting intra-African trade as well as the strong desire to retain focus on trade policy at the highest level of continental policy making, a High-Level African Trade Committee (HATC) is being proposed.

19. Furthermore, given that trade policy cuts across several sectors of the economy, all of which also have direct bearing on the integration process, it is necessary that a new multi-sectoral outlook be adopted in the matters of trade and integration. The establishment of the African Trade Committee (HATC) will allow for a greater coordinated focus, including sharing of experience within a high level body, on trade

and integration matters. Such a coordinated focus will enable Africa's integration to move expeditiously from the CFTA to higher and deeper levels.

20. The High-Level African Trade Committee (HATC) will be composed of Chairpersons (Heads of State and Government) of the AU recognized Regional Economic Communities. The Committee will serve as an organ of the Assembly of Heads of State and Governments and in that capacity perform the role of champions for the acceleration of the CFTA and the enhancement of intra-African Trade. The Committee will also serve as a platform for exchange of experiences and best practices as well as for co-ordinating and harmonizing action towards the realization of the CFTA. The Committee will also have the responsibility for overseeing the effective implementation of the Action Plan for boosting intra-African trade. The HATC will meet once a year on the eve of the July Session of the AU Summit to review in the implementation of the above processes and make recommendations to the Summit.

Conference of AU Ministers of Trade

21. The achievement of a successful continental FTA will involve the elimination of tariffs, the establishment of common rules of origin, the harmonization and simplification of customs regulations and procedures, and the elimination of non-tariff barriers to intra-African trade. In many African countries, these are cross-cutting issues. For example, the elimination of tariff barriers is not only a trade issue but also a public finance issue since it has implications for government revenue. Also customs administration and hence issues of trade facilitation are under the purview of the Ministries of Finance, among others, in many African countries. Therefore, an inter-ministerial approach is needed to the implementation of Africa's continental FTA.

22. The Conference of Ministers of Trade will be the main AU Ministerial organ that will report to the HATC on issues pertaining to the implementation of the continental FTA agenda and the Action Plan. It will receive and consider reports from the Meetings of Customs Technical Committee, the African Trade Forum, African Business council, the African Trade Monitoring and Evaluation mechanism.

The Commission of the African Union

23. In the overall process of establishing the CFTA, the AUC will coordinate and provide overall guidance for the CFTA negotiations as well as serve as secretariat for the implementation of the process. The Department of Trade and Industry will be the primary focal point within the AUC for the above activities and involve other departments where necessary. In undertaking this responsibility, the AUC shall closely collaborate with the RECs, the ECA and the ADB. The Commission shall also be responsible for the effective operation of the Monitoring and Evaluation mechanism, serving as the secretariat of the Monitoring and Evaluation Committee which will have responsibility for monitoring and evaluation of the implementation processes of the CFTA.

24. The management of the implementation of the CFTA processes as detailed in the Road Map clearly involves enormous responsibilities being saddled with the AU Commission, for which the capacity is presently lacking. In order therefore to successfully undertake the tasks assigned, it is highly necessary to strengthen the AU Commission, especially the Department of Trade and Industry, which will serve as the Secretariat of HATC.

The African Business Council

25. The proposed architecture of the CFTA provides for the establishment of an African Business Council, as a necessary continental platform for aggregating and articulating the views of the private sector in the continental policy formulation processes. The Business Council shall play an advisory role in the continental policy formulation processes and will communicate its views and positions through the African Union Commission. It will be composed of the Chairs/representatives of umbrella (regional) associations/Business Councils that represent the various private sector interests, such as the Chambers of Commerce and Industry, small and medium scale enterprises, women entrepreneurs and women in trade, sectoral associations such as banking and finance, farmers etc. The Council may be invited to the meetings of Joint Conference of the Ministers of Trade and Finance in Observer capacity.

Customs Technical Committee (CTC)

26. In the current AU governance structure, the Directors-General of Customs Administrations in Africa meet regularly as a Sub-Committee of the Conference of AU Ministers of Trade. Although not shown in the organogram, under the proposed ACFTA governance structure, the existing body will become the Customs Technical Committee (CTC) and report to the Joint Conference of AU Ministers of Trade and Finance. In addition to the Directors –General/ Heads of Customs Administrations of the Member States of the AU, membership of the CTC will include Directors/Heads of Customs Departments/Divisions of the AUC and the RECs.

27. The CTC will serve as the Technical Committee of the Joint Conference of AU Ministers of Trade and Finance on matters relating to the facilitation of Intra-African Trade. In this regard, the Committee will (i) develop and submit proposals to the Joint Conference on such issues as the Rules of Origin (RoO), customs regulations and procedures, transit procedures, etc, and (ii) implement the decisions of the policy organs of the AU on the facilitation of intra-African trade.

28. The Customs Division of the AUC will serve as the Secretariat of the CTC.

The African Trade Forum (ATF)

29. The African Trade Forum will serve as a Pan-African platform for reflection and discussion on the progress and challenges of continental market integration. It will be organized annually jointly by the AUC and UNECA. Participants will include all

stakeholders in the development of intra-African trade: Member States; RECs; Representatives of continental and regional private sector, civil society, and women organizations; Research Institutes, CEOs of major African cross-border enterprises; and development partners.

30. The outcomes and recommendations of the Forum will be presented to the Conference of AU Ministers of Trade for consideration.

The Monitoring and Evaluation Mechanism

31. In order to ensure that the elaborate framework set out for the implementation of the FTA functions effectively and meets the desired objectives, there shall be established a Monitoring and Evaluation Mechanism. Its aim is to put in place a number of procedures for the monitoring, review, assessment and evaluation of the implementation process. The mechanism is also to serve as an “early warning process” as well as the process of generating recommendations, based among others on the outcomes of the evaluations of the implementation of programmes and activities.

32. The proposed mechanism shall provide for the establishment of a Committee (Monitoring and Evaluation Committee), comprised of the following: the AUC, the RECs, UNECA, AfDB, AFREXIM Bank, continental and Regional Chambers of Commerce and Industry. The Committee shall have the responsibility of bringing reports on the monitoring and evaluation processes to the Conference of Ministers of Trade. The Committee will meet as often as deemed necessary.

33. In terms of monitoring, the AU and the RECs will co-ordinate their activities to ensure effective monitoring of implementation activities and processes, based among others, on targets and goals, benchmarks and milestones, implementation timeframes for specific activities and programmes. Monitoring processes will adopt specific methodologies as may be expedient for the particular monitoring exercise or processes, such as field trips for on the spot assessments; periodic review exercises, questionnaires for eliciting information on levels of implementation, co-ordination meetings etc.

34. There shall be a statutory Comprehensive Review and Evaluation exercise after every two years. The essence of this review is to enable the assessment of the level of implementation of the FTA processes, drawing upon, among others, the outcomes of the periodic monitoring and evaluation exercises in the period under review, outcomes of the review processes for the implementation of the Minimum Integration Programmes; outcomes of AU/RECs co-ordination meetings as well as information from the Trade Observatory.

35. The key objective here is to assess the level of implementation, achievement of targets, benchmarks and milestones, as well as obstacles that militate against implementation or achievement of set objectives. This will also permit, where necessary, the review of objectives, targets, implementation strategies as well as suggestions for remedial actions to identified obstacles. The ultimate objective is to take

recommendations emanating from this comprehensive review exercise to the Policy Organs of the AU, particularly the Conference of Trade Ministers for their consideration.

36. The Committee for Monitoring and Evaluation will have responsibility for organizing the comprehensive review exercise, while the AUC will provide the Secretariat.

African Trade Observatory

37. Effective monitoring and evaluation of the implementation of the Action Plan, Road Map, and Decisions of the Policy Organs of the AU on the continental FTA and Intra-African Trade is essential for the broadening and deepening of Africa's market integration. It also requires the establishment of a functional trade observatory, whose responsibility will be to gather trade information. It will play a crucial role as the trade information bank for the proposed Monitoring and evaluation process and will serve as an essential part of the monitoring and evaluation mechanism. In this regard the Observatory will undertake the following:

- Collect from Member States and other sources, statistics and information such as those relating to the levels and structures of intra-African exports and imports; Rules of Origin; tariff levels and structures; non–tariff barriers; trade regulations; technical standards; etc.
- Analyze trade statistics and information to indicate trends in intra- African trade.
- Establish a database for intra-African trade, publish/disseminate information on intra-African trade, and serve as the main depository of data and information on intra- trade.

38. The African Trade Observatory will be located in the AUC (Department of Trade and Industry), and submit report of its activities to the Conference of AU Ministers of Trade.

Dispute Settlement and CFTA Agreement Enforcement Mechanism

39. The continental FTA Agreements will involve the conferment of rights and obligations on the parties. In the process of the implementation of the Agreements, disputes are bound to arise. There must therefore be a mechanism for interpretation of Agreements, for enforcement of rights and obligations, and determination of sanctions for non-compliance with agreements.

40. For the effective resolution of disputes, there shall be a mechanism for bilateral negotiations among the concerned Member States for reconciliation, through a Dispute Settlement Committee (DSC), failing which disputes can then be brought before the AU Arbitration Tribunal.

41. The AU Arbitration Tribunal shall operate under the auspices of the African Court of Justice. The tribunal shall be the highest judicial body for dispute settlement under the

CFTA. The Tribunal shall remain independent of the both the Summit and the High Level Trade Committee, but its rulings shall be taken into account by Summit for purposes of enforcement.

42. The Dispute Settlement Committee shall be the first port of call for the reconciliation of parties to any disputes arising from the implementation of the CFTA. It shall receive notices of disputes from Member States through the AUC. Where a Member State is dissatisfied with the conclusions and recommendations of the DSC, the Member shall have the right of recourse to the AU Arbitration Tribunal.

CFTA Agreement Enforcement

43. It is proposed that an adequate mechanism in the form of sanctions be provided in the CFTA agreement for non-compliance of agreed obligations.

NEXT STEPS: Future Work Programme

44. Following the adoption of this Road Map and Architecture by the Conference of Ministers of Trade and subsequent approval by the Au Summit, an Implementation plans and modalities for the realization of the CFTA processes will be developed to include the following:

- Modalities
- Determination of tariff phase down
- Harmonisation of Rules of Origin
- Simplification of Customs Procedures and nomenclature
- Elimination of non-tariff barriers
- Design of appropriate trade defence mechanisms
- Adjustment cost mechanism

ANNEXES

ANNEX I: DETAILED CASE FOR ESTABLISHMENT OF THE CFTA

1. In order to build an African FTA, it is important to start with the basics. It is therefore necessary to build a roadmap that identifies the basic things that are essential to get the FTA off the ground. What are some of the basic things? These include practical measures like the removal of tariffs between African countries; harmonization of rules of origin; elimination of non-tariff barriers; definition of safeguard measures; and dispute settlement mechanisms. An additional basic is the definition of an institutional mechanism to drive the FTA creation.

2. The roadmap requires a realistic appreciation of the initial conditions. So, what are the initial conditions in terms of trade and protection in the African case? What is the current level of trade between African countries? Do African countries provide each other market access conditions that are consistent with their stated goal of enhancing intra-African trade? Intra-African trade is on average 10 – 12 per cent. But as Table 1 below shows, for some African countries, trade within the region constitutes a significant share of their exports.

Table 1: Share of exports to other African countries (average 1995-2008)

Country	Average	Country	Average
Mali	71.7	Botswana	17.2
Burkina Faso	60.0	Ethiopia	15.8
Rwanda	56.5	Burundi	14.7
Niger	48.1	South Africa	13.4
Kenya	45.3	Cameroon	11.4
Swaziland	44.2	Nigeria	9.2
Zimbabwe	42.3	Tunisia	8.5
Togo	41.5	CAR	8.5
Senegal	41.3	Egypt	7.0
Gambia	39.7	Mauritius	6.8
Namibia	39.6	Madagascar	6.7
Ghana	34.2	Mauritania	5.9
Uganda	31.6	Guinea	5.2
Lesotho	27.6	Morocco	4.8
Zambia	27.3	Sao Tome	4.6
Cote d’Ivoire	27.0	Gabon	3.3
Tanzania	25.3	Sudan	2.9
Malawi	22.7	Algeria	2.4
Mozambique	20.4	Comoros	2.2
Benin	19.5	Seychelles	1.8

Source: Computations based on COMTRADE database

3. This level of intra-African trade could be boosted significantly through a continental FTA. It is realistic to imagine that all things being equal, an FTA could contribute within a very short time to the doubling of the level of intra-African trade. To demonstrate this point, using some disaggregated data available in 2004, one finds that trade protection within African economies is relatively high, with an average applied tariff of 8.7 per cent. Table 2 shows selected average protection that African countries impose on other African countries and also to the rest of the World.

Table 2: Average protection imposed on selected African imports and exports

	Protection imposed on imports from Africa			Protection faced on exports to Africa		
	Agriculture	Non-Agriculture	**All sectors**	Agriculture	Non-Agriculture	**All sectors**
Angola & DRC	15.3%	10.4%	**8.6%**	17.2%	1.8%	**5.3%**
Ethiopia	21.9%	11.6%	**12.4%**	20.2%	17.1%	**2.4%**
Madagascar	4.0%	1.5%	**12.0%**	13.4%	5.1%	**7.7%**
Malawi	10.1%	8.2%	**0.5%**	3.5%	5.6%	**11.1%**
Mauritius	18.7%	12.4%	**0.8%**	4.3%	3.9%	**12.4%**
Mozambique	15.2%	7.8%	**0.8%**	13.4%	6.7%	**4.1%**
Tanzania	19.5%	10.3%	**4.7%**	21.9%	10.8%	**9.2%**
Uganda	5.7%	4.4%	**11.3%**	8.2%	8.4%	**15.2%**
Zambia	11.5%	8.2%	**11.0%**	6.7%	4.9%	**13.0%**
Zimbabwe	21.5%	11.1%	**12.5%**	5.3%	1.2%	**5.4%**
Rest of Eastern Africa	14.2%	10.9%	**28.1%**	8.8%	7.1%	**2.2%**
Botswana	0.9%	0.3%	**2.6%**	18.3%	10.7%	**5.3%**
South Africa	2.2%	0.6%	**6.5%**	21.6%	11.2%	**8.6%**
Rest of South African Customs Union	3.5%	0.3%	**14.8%**	9.1%	2.2%	**9.6%**
Egypt	5.9%	4.5%	**11.4%**	13.5%	8.3%	**2.1%**
Morocco	14.6%	10.7%	**13.3%**	22.4%	9.5%	**19.5%**
Tunisia	27.0%	8.4%	**1.8%**	19.9%	11.7%	**8.9%**
Rest of North Africa	12.1%	12.6%	**8.4%**	30.9%	5.2%	**4.1%**
Nigeria	46.9%	25.0%	**13.8%**	15.8%	2.1%	**4.0%**
Senegal	4.4%	2.2%	**9.4%**	8.3%	4.4%	**10.1%**
Rest of Western Africa	8.0%	5.9%	**11.7%**	7.8%	9.1%	**15.4%**
Central Africa	22.8%	12.3%	**4.6%**	11.4%	9.4%	**8.3%**
AFRICA	**12.4%**	**7.8%**	**8.7%**	**12.4%**	**7.8%**	**8.7%**

Source: Computations by UNECA based on TASTE software and MAcMapHS6v2 database

4. A close look at Table 2 tells us that intra-African trade in agriculture faces higher rate of protection than non-agriculture sector. Almost all African countries and sub-regions impose higher tariffs on agriculture imports from other African countries. This suggests that the roadmap for establishing an African FTA must pay close attention to intra-African agriculture trade. The FTA could be instrumental to Africa feeding itself. But the real big but negative story from Table 2 is that two-thirds of African countries are either more protectionists than Africa in general or face more limiting market access conditions within Africa, than the average situation. This means that an FTA, even one that progressively

eliminates these barriers, could offer substantial economic and social gains for Africa. As the Issues Paper prepared for the AU Summit of January 2012 shows, removal of these tariff barriers will not be enough. There are other key priority areas such as reducing trade costs that need to be addressed.

5. While Table 2 shows that intra-African trade in agriculture is constrained by protection imposed by countries on other African countries, the diversification and manufacturing potential is also hampered by the average intra-African non-agriculture average applied protection of 7.8 per cent. Yet, beneath the story that tends to be seen on the surface, a deeper look at African trade data shows that there is more sophistication in the intra-African traded goods than what Africa exports to the rest of the world. In other words, there is evidence that despite the existing level of intra-African protection on non-agricultural goods, the exports seen in Table 1 as constituting the share of individual countries exports within Africa, are more sophisticated than the remaining share that is sent to the rest of the world.

6. In preliminary finding of a paper commissioned by the UNECA, Githinji and Olugbenga (2011) have looked at the top 5 exports for a selected sample of African countries. In each case, they have looked at the value of the top 5 exports for each country to Africa and to the world. For our purposes we can focus on those countries that trade the most with other African countries, e.g. Ghana and Kenya. In 2008, Ghana's exports to Africa made up 52 per cent of its exports while the same statistic for Kenya was 46 per cent.

Table 3: Top Five Exports by Value (2008) to Africa and the World

Ghana top 5 exports to the world	**Ghana top 5 exports to Africa**
Gold, semi-manufactured forms	Gold, semi-manufactured forms
Cocoa beans, whole or broken, raw or roasted	Machinery parts, non-electrical
Cashew nuts, fresh or dried	Plywood, all softwood
Gold in unwrought forms	Panels, laminated woods
Lumber, non-coniferous	Aluminium alloy plate, sheet, strips
Kenya top 5 exports to the world	**Kenya top 5 exports to Africa**
Tea, black in packages	Tea, black in packages
Cut flowers and flower buds, fresh	Oils petroleum, bituminous, distillates
Vegetables, fresh or chilled	Portland cement, other than white cement
Cut flowers and flower buds, dried	Cigarettes containing tobacco
Coffee, not roasted not decaffeinated	Medicaments, in dosage

Source: COMTRADE database

7. It is evident from Table 3 that Ghana's exports to Africa are mainly items from the manufacturing sector, rather than raw products. The same story emerges for Kenya. Its top exports to Africa, with the exception of black tea are manufacturing products. What the analysis in Table 3 shows, and is that exports to other African countries are likely to be

more sophisticated than African exports to the world. And therein lays the transformation and diversification story. Without going deeper into explaining why this is the case, the message that comes out is that the destination of a country's exports has an impact on the kind (or sophistication) of its exports. The implication of this is that the removal of the remaining barriers to intra-African trade, such as the average applied tariffs could help African countries to industrialise. In other words, the FTA roadmap must also be informed by Africa's industrialisation objective.

8. From the foregoing, one can say that given the initial conditions, an African FTA can help eliminate remaining trade barriers; boost intra-African trade; and support Africa's industrialisation. But an interesting question that the Issues Paper to the Summit raises is the architecture of this FTA. While this is discussed in a separate paper, it is possible to shed some light on the trade and protection structure between regional FTAs and a continental FTA. We provide some insights of this in Table 4 below, which is derived from some on-going work by UNECA, AUC and AfDB in the context of Assessing Regional Integration in Africa Report series:

Table 4: Trade, protection and tariff revenues before trade reforms, and changes in protection after regional FTAs and continental FTA

		Before Trade Reforms (2004)						After Regional FTAs	After Continental FTAs
Exporter	**Importer**	**Trade (million USD)**	**Share of exports within Africa**	**Share of exports in Africa's total exports**	**Share in exports in World's total exports**	**Ad Valorem Equivalent (AVE) Tariff**	**Tariff Revenues (million USD)**	**Change in AVE Tariff (as compared to 2004)**	**Change in AVE Tariff (as compared to 2004)**
S-E FTA group	S-E FTA group	8541	47.1%			7.7%	653	100.0%	100.0%
N-W-C FTA group	N-W-C FTA group	5251	28.9%			8.2%	430	100.0%	100.0%
S-E FTA group	N-W-C FTA group	2521	13.9%			16.5%	417	0.0%	100.0%
N-W-C FTA group	S-E FTA group	1827	10.1%			4.3%	78	0.0%	100.0%
AFRICA TOTAL	**AFRICA TOTAL**	**18140**	**100.0%**	7.9%		**8.7%**	**1578**	**68.7%**	**100.0%**
S-E FTA group	RoW (non-Africa)	90162		**39.3%**		3.6%	3283	0.0%	0.0%
N-W-C FTA group	RoW (non-Africa)	121409		**52.9%**		1.7%	2092	0.0%	0.0%
AFRICA TOTAL	**WORLD TOTAL**	**229712**		**100.0%**	2.8%				
RoW (non-Africa)	S-E FTA group	92709			1.1%	10.0%	9237	0.0%	0.0%
RoW (non-Africa)	N-W-C FTA group	96119			1.2%	17.1%	16415	0.0%	0.0%
RoW (non-Africa)	RoW (non-Africa)	7878099			95.0%	3.2%	251391	0.0%	0.0%
WORLD TOTAL	**WORLD TOTAL**	**8296638**			**100%**	**3.4%**	**283996**	**0.3%**	**0.3%**

Source: Computations by UNECA based on TASTE software and MAcMapHS6v2 database

9. The world depicted by Table 4, in terms of tariff protection, while slightly different from today's world, provides us with an opportunity to have an idea of what the various FTA architectures could deliver. Table 4 assumes that there are two regional groups: COMESA, EAC, SADC and IGAD FTA group (S-E) FTA and ECOWAS, CENSAD, ECCAS and UMA FTA or N-W-C FTA. The following facts can be deduced from Table 4.

First, within these two regional groups, global average protection is nearly as high as the continental average: 7.7 per cent within S-E FTA group; 8.2 per cent within the N-W-C FTA group and 8.7 per cent for Africa as a whole. Second, there is a very high level of protection currently inhibiting trade between the two groupings. The N-W-C FTA group imposes an average global tariff of 16.5 per cent to its imports from the S-E FTA group. Third, establishing FTAs in the two regions simultaneously would reduce Africa's global protection by 68.7 per cent. This means that intra-African average trade protection will fall from 8.7 per cent to 2.7 per cent. This would stimulate trade flows between the two regional blocks. However, and this is the fourth point, establishing regional FTAs may not be enough to stimulate optimal trade. A continental FTA seems to be an optimal result that should be achieved sooner rather than later for the benefits to be realized. Furthermore, the move from the regional FTAs to the continental FTAs will have trivial revenue implications for African governments.

ANNEX II: ARCHITECTURE FOR THE CONTINENTAL FREE TRADE AREA

A. INTRODUCTION

African Union Heads of State and Government have adopted and are pursuing regional integration as an overarching continental development strategy. At the continental level, the vision is to achieve an African Economic Community (AEC) over a period encompassing six successive stages involving the strengthening of sectoral co-operation and establishment of regional free trade areas, a continental customs union, a common market, and a monetary and economic union. The rationale behind this phased approach is that the integration vision should be first consolidated at the regional level, through creating and strengthening the Regional Economic Communities (RECs), which would eventually merge into the AEC. (See Box 1 for a snapshot of the key steps towards the AEC.)

Box 1: Phases of the AEC

Founded through the Abuja Treaty signed in 1991 and entered into force in 1994, the AEC was envisioned to be created in six stages:

1. Creation of regional blocs in regions where such do not yet exist (to be completed in 1999)
2. Strengthening of intra-REC integration and inter-REC harmonization (to be completed in 2007)
3. Creation of a free trade area and customs union in each regional bloc (to be completed in 2017)
4. Creation of a continent-wide Customs Union, and thus also a Free Trade Area (to be completed in 2019)
5. Creation of a continent-wide African Common Market (to be completed in 2023)
6. Creation of a continent-wide Economic and Monetary Union (and thus also a currency union) and pan-African Parliament (to be completed in 2028)

Currently, for the reasons outlined in the Issues Paper, African leaders and stakeholders are more than ever before keen to accelerate the pace of progress towards the AEC through increased inter-REC harmonization and convergence initiatives such as the COMESA-EAC-SADC tripartite FTA. This Tripartite FTA brings together 26 African countries, a combined population of 530 million people, and a total GDP of $630 billion, which altogether represent over of 50 percent of Africa’s economies. This Tripartite Initiative has indeed galvanised interest of Africa’s policy makers towards a much broader Continental FTA: Accordingly, the AU Ministers, of Trade, at their 6th Ordinary Session in Kigali in November 2010 recommended the fast-tracking of the establishment of an African FTA, which has been endorsed by the supreme political leadership of Africa, the African Union Heads of State and Government (during their January 2011 Summit in Addis Ababa).

The focus of this Annex to the “Issues Paper” is to put forward key components and steps for setting up the Continental FTA.

B. KEY COMPONENTS AND STEPS FOR SETTING UP THE CFTA

1. Objectives of the CFTA

- Create a single continental market for goods and services, with free movement of business persons and investments, and thus pave the way for accelerating the establishment of the Continental Customs Union and the African customs union.

- Expand intra African trade through better harmonization and coordination of trade liberalization and facilitation regimes and instruments across RECs and across Africa in general.

- Resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.

- Enhance competitiveness at the industry and enterprise level through exploiting opportunities for scale production, continental market access and better reallocation of resources.

Principles

- Process to be driven by the AUC, RECs and Member/Partner States, with close involvement of all stakeholders (private sector, civil society etc).

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- Baseline studies taking into account (and building on) existing REC FTAs.

- Reciprocity, which will entail that there are no free riders.

- Substantial liberalisation established on a tariff-free, quota-free, and exemption-free basis.

- Flexibility and special and differential treatment taking into account the special needs and concerns of weaker economies

Governance Structure

- Drawing from the Tripartite initiative, it is proposed to establish a Continental Task Force headed by the AU Commission and Chief Executives of the RECs with responsibility for commissioning the necessary baseline studies and documents for establishing the CFTA and to drive the process.