



Brief on Regional Integration and the Continental Free Trade Area

Prepared by the
African Trade Policy Centre

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Purpose: *This policy brief is to highlight the fact that the CFTA that is currently under negotiations will be more than a traditional free trade area and will contain several elements of a single market.*

1. Stages of regional economic integration

The degree of regional economic integration can be divided into five main stages.

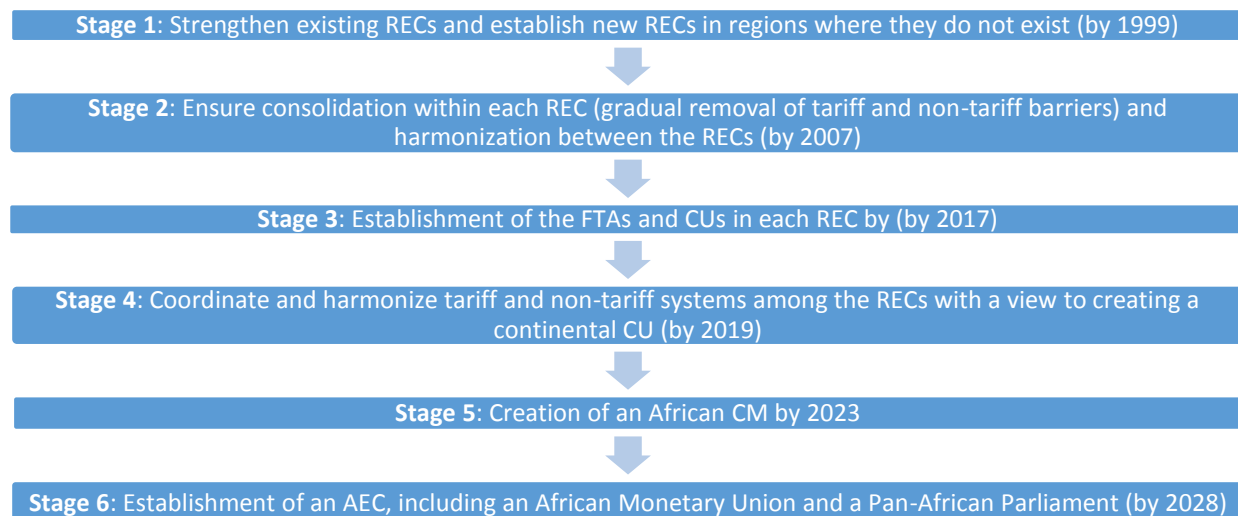
- **Preferential Trade Area (PTA)** - A trading bloc that gives preferential access to certain products from the participating countries. This is done by reducing tariffs but not by abolishing them completely. The goal of any PTA is to become a Free Trade Area (FTA).
- **Free Trade Area** - A trading bloc that eliminates tariffs and quotas among members but each member keeps its own third-party tariff structure. The general goal is to develop economies of scale and comparative advantages.
- **Customs Union (CU)** – A trading bloc composed of a FTA with a common external tariff (CET) and no or common quotas in trade with non-members. They are particularly useful to address the problem of re-exports.
- **Single Market (SM)** – A trading bloc with the free movement of factors of production (capital and labour) and services, in addition to the free movement of goods. This will likely include the harmonization of related norms and regulations. An SM is also sometimes referred to as a Common Market (CM).
- **Economic Union (EU)** – A trading bloc which is composed of a CM with a CU and also has common economic policies (monetary, fiscal and other), including a single currency. This type of economic integration does not truly exist but the European Union is the closest example.

Since countries are free to negotiate regional economic agreements as they wish, in practice, formal agreements rarely fall neatly into one of these five stages. In some cases, this can lead to confusion in terminology and on the state of regional economic integration of a specific bloc.

2. Africa's roadmap for regional economic integration

African Heads of State signed the Abuja Treaty in 1991, which entered into force in 1994, and established a roadmap towards an African Economic Community (AEC) to be completed by 2028. It was agreed that the Community shall be established gradually in six stages of variable duration not exceeding thirty-four years. (see Figure 1 below).

Figure 1: Roadmap towards an African Economic Community



Source: Adapted from the Treaty Establishing the African Economic Community.

The first stage has now been completed, with eight RECs formally recognized by the African Union. These are the Arab Maghreb Union (AMU/UMA), Economic Community of West African States (ECOWAS), East African Community (EAC), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), Economic Community of Central African States (ECCAS) and the Community of Sahel-Saharan States (CENSAD). The second stage has not been fully completed because progress by the RECs and by members within the RECs has been uneven. The third stage is underway in a number of RECs but not all. Only three of the eight recognized RECs have both a FTA and CU (ECOWAS, EAC and COMESA), although with varying degrees of implementation. While a continental free trade area (CFTA) does not feature explicitly in the AU roadmap, in accordance with the sequential stages of regional economic integration, it is a stepping stone to the creation of a continental CU. The AU Assembly launched the CFTA negotiations at the 25th Ordinary Summit of Heads of State and Government on 15 June 2015, adopting an indicative finalization date of 2017.

3. Status of regional economic integration by REC

The table below summarizes the status of regional economic integration in each of the eight AU recognized RECs. The RECs are progressing at different speeds across the various components of the Abuja Treaty. The EAC has made the most progress across the board.

Table 1: Status of regional economic integration by RECEMU

REC	FTA	CU	SM	Countries having implemented freedom of movement protocol	EMU
EAC	√	√	√	3 out of 5	X
COMESA	√	√	X	Only Burundi has ratified	X
ECOWAS	√	√	X	All 15	X
SADC	√	X	X	7 out of 15	X
ECCAS	√	X	X	4 out of 11	√ ¹
CENSAD	X	X	X	Unclear	X
IGAD	X	X	X	No protocol	X
AMU	X	X	X	3 out of 5	X

Source: Adapted from *Assessing Regional Integration in Africa VII: Innovation, Competitiveness and Regional Integration*, ECA, 2016.

4. CFTA: beyond a traditional FTA

The scope of the CFTA agreement covers trade in goods, trade in services, investment, intellectual property rights and competition policy. This wide scope moves beyond the requirements of a traditional FTA which only requires the elimination of tariffs and quotas on trade in goods. Therefore, similar to other trading bloc arrangements, it is difficult to neatly place the CFTA under one of the five stages of regional economic integration identified in Section 1 of this brief. The wide coverage of the CFTA is expected to ease the subsequent process of further regional economic integration in Africa.

The harmonization of norms and regulations related to services typically takes place with the establishment of a SM. It is however important that trade in services is negotiated alongside trade in goods, since services are inputs into the production of trade in goods and the sector contributes a substantial share to the output

¹ Note: Only 6 members (i.e. Economic and Monetary Community of Central Africa - CEMAC) of the 11 members of ECCAS are members of the EMU.



of most African economies. The CFTA agreement will therefore include a sub-agreement on trade in services on the basis of progressive liberalization, consolidating and building on the RECs' achievements.

Some common investment rules are typically covered under the free movement of capital required by a SM, whereas an EU would usually contain a fully-fledged common investment policy. Investment issues are rarely covered in FTAs. The CFTA agreement however is expected to include a sub-agreement on investment that is broad in scope, covering both goods and services. The provision of common rules for state parties in introducing incentives would help to encourage investment into African countries to accelerate development, and would also help to avoid any race to the bottom. A continent-wide dispute settlement system for investment disputes to be settled among state parties will also be key.

Intellectual property and competition policy would typically only be required under a EU, the fifth and final stage of regional economic integration. Since few African countries have the institutional capacities and expertise to utilize trade remedy instruments such as anti-dumping, safeguards and countervailing measures, the scope of the CFTA however also covers these areas. Competition policy is a particularly important instrument for regulating unfair trade practices and providing clarity to businesses. Inclusion of a mechanism for regulating competition and facilitating dispute settlement early on will also help to build confidence in the CFTA.

The CFTA agreement is also expected to include an appendix on the movement of natural persons involved in services and investment, an area of cooperation that is usually not covered until the establishment of a SM. This is needed to transform the opportunities provided through the liberalization of trade in goods, services and investment.

Finally, the CFTA project is being rolled out in parallel with the implementation of the Action Plan for Boosting Intra-African Trade (BIAT), which was adopted by the AU Heads of State in January 2012. This initiative goes significantly beyond the requirements of a traditional FTA and is aimed at addressing the constraints and challenges of intra-African trade which are organized under the clusters of trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration. Effective implementation of the BIAT initiative will be crucial to minimizing the challenges and maximizing the gains of tariff liberalization, and ensuring that all African firms and countries are able to take advantage of the CFTA.