

**Key message**

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



THE CONTINENTAL FREE TRADE AREA: MAKING IT WORK FOR AFRICA

In June 2015, at the 25th Summit of the African Union (AU) held in South Africa, African Heads of Government agreed to the creation of the Continental Free Trade Area (CFTA) by 2017 through negotiations on liberalization of trade in goods and in services. The initiative presents major challenges as well as opportunities to boost intra-African trade. While strengthening the multilateral trading system remains vital, a parallel negotiating process to expeditiously launch the CFTA and monitor the implementation of the agreement is also important. Also in order to multiply the benefits of the CFTA and promote development regionalism in Africa, a comprehensive vision of trade and development needs to be in place. Expanded markets for African goods and services, unobstructed factor movement, and reallocation of resources should promote economic diversification, structural transformation, technological development and enhancement of human capital.

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

The potential benefits of the CFTA

The CFTA is a determined attempt by African Governments to unlock Africa's tremendous potential to deliver prosperity for its people. Studies by UNCTAD and other institutions indicate the major benefits that are expected to emerge from the CFTA. These include boosting trade and welfare gains, and fostering a vibrant and resilient African economic space. This in turn would serve as a spring-board for Africa's more beneficial integration into a global economy.

The opening of the regional market to African goods and services is set to boost intra-African trade. It had been estimated, for instance, that the full liberalization

of trade in goods (manufactures and agriculture), backed up with rules of origin compatible with African productive capacity, could have raised the share of intra-African trade in total African trade from about 10.2 to 15.5 per cent between 2010 and 2022.² This share would further increase to around 22% with the improvement of trade facilitation measures, especially transportation linkages and customs clearance for intra-African trade.

Beyond intra-African trade expansions, the CFTA has the potential to stimulate structural transformation in African countries, provided that the governments formulate and implement appropriate economic development policies that are linked to the CFTA. A number of African regional economic communities

1 UNCTAD, 2015, «Building the African Continental Free Trade Area: Some Suggestions on the Way Forward» (UNCTAD/DITC/2015/1).

2 S. Mevel and S. Karingi, 2012, "Deepening regional integration in Africa: A computable general equilibrium assessment of the establishment of a continental free trade area followed by a continental customs union".

(RECs) have a regional industrial development policy, including in the Tripartite Free Trade Area (TFTA) comprising the member States of EAC, SADC and COMESA. The TFTA on trade in goods was launched in June 2015 by its member States. It will serve as one of the basic building blocks for the formation of the CFTA. Other regions of Africa would need to expedite negotiations and approval of similar free trade agreements on goods to form the basis for the continental wide agreement. The CFTA could benefit, for example, from synergies based on the combination of these regional industrial development policies of RECs. Fostering rapid industrialization involves many challenges, including the supply of adequate energy that is also clean and renewable. To this end, deepening regional energy integration projects would be advisable.

Major unexploited opportunities for regional trade in Africa are to be found particularly in agriculture, including sustainable agriculture such as organics. An UNCTAD study³ noted that Africa has almost two thirds of the world's uncultivated/unused arable land, which can be used to expand agricultural production to supply African consumers. Today, many countries on the continent import food and agricultural products from outside Africa. The potential for regional import substitution is illustrated by the fact that in the 2007–2011 period, 37 African countries were net food importers, and 22 were net importers of agricultural raw materials, while about 17 per cent of the continent's world trade in food and live animals took place within Africa.

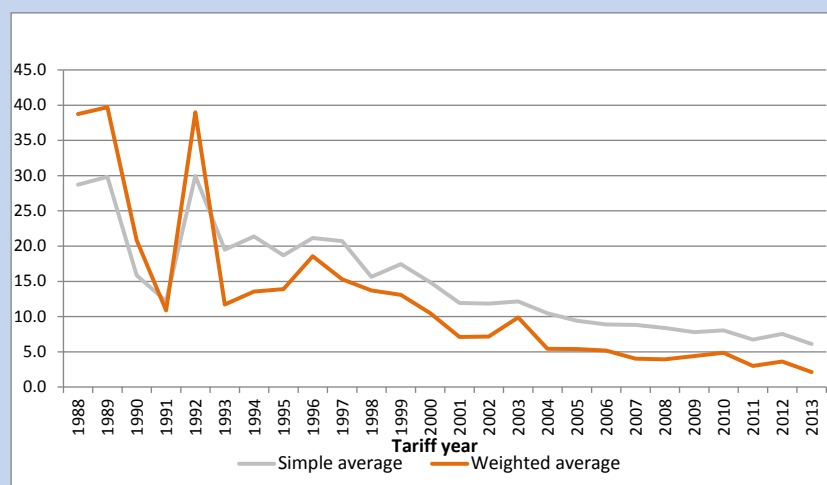
The elimination of tariff and non-tariff barriers called for by the CFTA initiative offers African countries a long-term opportunity – and a greater challenge – to improve industrial capacity to provide the goods for which regional trade typically increases demand. The low level of manufacturing in Africa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

overseas, a problem that is also an opportunity. If various national markets can be effectively integrated into a larger regional market, characterised by decreased trade barriers and higher per capita incomes as a result, this would provide sufficiently large markets to support the expansion of manufacturing sectors across the region.

Tariff cuts, *ceteris paribus*, may have negative repercussions on the trade tax earnings of countries and possibly lead to the demise of uncompetitive industries and services. UNCTAD estimates show, however, that despite cuts in applied tariffs by sub-Saharan African countries between 1998 and 2013 (see Figure 1), a general increase in trade tax revenues took place over the same period due to an increase in the overall level of trade (see Figure 2). Therefore, revenue losses resulting from further reductions in trade tariffs also may be compensated by expected strong expansion in intra-African trade from the formation of the CFTA. It must however be noted that the increase in export revenue is also due to a large degree to commodity price rises in those years. In fact the fluctuation of export revenue is associated with commodity price fluctuations which are externally determined.⁴

The CFTA can also mitigate costs to Africa associated with inaction in building an integrated market. The international trading environment within which Africa participates is changing rapidly with the proliferation of regional trade agreements and in particular of mega-regionals such as the recently concluded Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership and the Regional Comprehensive Economic Partnership (RCEP). These arrangements would create spheres of trade hubs centred around the partner economies and African countries face risk of preference and trade share in these markets eroding.

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

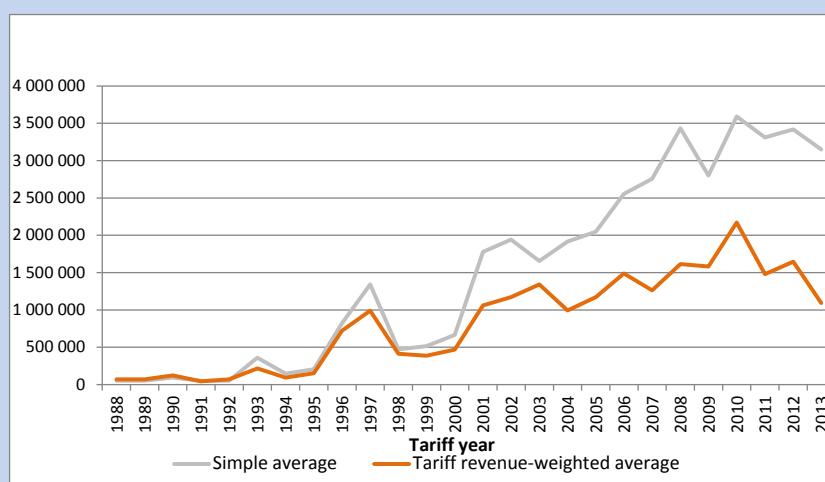


Source: UNCTAD secretariat.

3 UNCTAD, *Economic Development in Africa Report 2013: Intra-African Trade: Unlocking Private Sector Dynamism* (UNCTAD/ALDC/AFRICA/2013).

4 UNCTAD, *ibid.*

Figure 2
Trade tax revenue of African countries, 1988–2013 (Thousands of United States dollars)



Source: UNCTAD secretariat.

Some major challenges and opportunities to unlock the potential of the CFTA

The path towards accelerated pan-African economic integration presents formidable political, economic and legal challenges. High on the list of challenges in relation to the CFTA are the conflicting disciplines and benefits of the different RECs already in place. Most African countries are parties to more than one REC and convergence between different RECs, as agreed upon in the Minimum Integration Programme (MIP) of 2009, should be made compatible with the goals and timelines set for the CFTA. African countries need to set a clear path to make RECs converge into the CFTA. In this regard, the agreement reached in June 2015 among TFTA countries launching the TFTA is significant. The TFTA agreement on removal of tariffs and non-tariff measures constitutes one basis on which the negotiations of a continental tariff liberalization would have to start. Trade in services negotiations would have to be conducted in parallel to negotiations on trade in goods to open opportunities for African services and service providers. Some services sectors are necessary for facilitating trade in goods such as transportation and storage services.⁵ The services sectors negotiations, to be manageable, could be focused on a few key sectors which could then be later expanded. Such sectors, as reflected in UNCTAD services policy reviews,⁶ can include infrastructural services, distribution services, telecommunication, tourism services, ICT sectors, and financial services. A pan-African services agreement would build upon existing services agreements in RECs that range from cooperation to fully-fledged services liberalization drawing mainly from the GATS architecture. Services trade also

would need to be adequately mainstreamed into national development plans. The issue of movement of persons as part of liberalizing services is important, but remains a sensitive issue. Such thorny issues need to be discussed openly with a view to finding solutions that would build up the African community.

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

At a time when the multilateral trading system struggles to deliver concrete outcomes on the Doha Round, including in terms of the development dimension, Africa needs to think critically about the sheer opportunity presented by the CFTA in taking forward the agenda to boosting intra-African trade. The following are further challenges and lessons learnt, including from African RECs and others arrangements, which will need to be considered by African countries to structure a CFTA that works for Africa.

1. Raising Intra-African Trade requires more than tariff reduction/elimination

To fully meet this challenge requires that the full

⁵ UNCTAD, *Economic Development in Africa Report 2015: Unlocking the Potential of Africa's Services Trade for Growth and Development* (UNCTAD/ALDC/AFRICA/2015).

⁶ See for example *UNCTAD Service Policy Review: Rwanda, 2014* (UNCTAD/DITC/TNCD/2013/6);

liberalization of trade in goods be supported by a cohesive policy framework including, as outline above, rules of origin compatible with African productive capacity and the improvement of trade facilitation measures. There would be scope for even further increases in the share of intra-African trade if the region could address issues such as non-tariff barriers, the integration of informal trade into formal trade channels, enhanced trade facilitation, and the liberalization of services.

2. Benefits from the CFTA would likely accrue unevenly so inclusiveness should be factored in

Trade growth and welfare benefits from the CFTA would likely accrue unevenly, with a larger portion captured by a few countries with stronger supply capacity and competitiveness. This is reinforced by the fact that presently seven African countries account for about 60 per cent of total intra-Africa merchandise exports while the majority account for the remaining 40 per cent.⁷ Economically weaker African countries particularly LDCs, landlocked countries and small economies are rightly concerned about the negative effects of tariff cuts in the form of fiscal revenue loss and destruction of local industries. Experiences have shown that trade liberalization creates unequal gains and unequal losses between countries are at different stages of development and resources capacities. Policies and measures are needed to make the CFTA an inclusive agreement that is mutually beneficial to all.

3. Dialogue with stakeholders is a determinant factor of the success of CFTA

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

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

Relinquishing national priorities in favour of regional ones requires firm and continuous determination and coordination from political leaders, in order to align long-term national interests with regional interests.

At the same time, the commercial and development interests of especially weaker countries need to be addressed by the CFTA in an inclusive manner. To succeed, advanced regional integration necessitates, as emphasized by the African Development Bank, an appropriate “rules-based governance system and institutional architecture” to foster harmonization, consistency and predictability.⁸

5. The CFTA needs to be part of a comprehensive package

The CFTA framework needs to include complementary policies and disciplines in a number of areas, from market access for goods and services to, competition policy, intellectual property, unfair trade practices, dispute settlement and institutional issues. It would also need to be environmentally friendly to support sustainable development. Building up cooperation and/or regulation in these complementary disciplines would require an adequate knowledge of existing rules and practices in these areas and of the commitments undertaken by African countries at the national, regional and international levels.

Should governments decide to add an investment dimension to the CFTA, negotiators need to find an approach that is effective in mobilizing investment and channelling it to African Agenda 2063 and the SDGs, while preserving the right of governments to regulate, and consolidating the continent's current spaghetti bowl of international investment agreements (IIAs). Regional and international organizations like UNCTAD, working closely with the African Union Commission (AUC) and African countries, could play an important role in assisting African negotiators and policymakers to move the CFTA process towards a legal framework that is conducive to sustainable development.

6. Ambitious trade negotiations require an effective supportive structure

Serious consideration should be given to the organization of the negotiating process itself. There can be no doubt about the complexities associated with negotiating an agreement among 54 participating countries with unequal negotiating capabilities, unequal human resources and unequal know-how on the issues to be included in the CFTA, as well as differences in productive and competitive strengths. Regional and international organizations like UNCTAD, working closely with the African Union Commission (AUC) and African countries, could play an important role in assisting African negotiators and policymakers to move the CFTA process forward, and they can do so efficiently by cooperating among themselves and coordinating their different contributions to the CFTA negotiations.

Contact

Mr. Guillermo Valles
Director

Division on International
Trade in Goods and Services,
and Commodities

Tel. 41 22 917 5870

guillermo.valles@unctad.org

Press Office

Tel. 41 22 917 5828

unctadpress@unctad.org

unctad.org



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⁷ UNCTAD calculation based on UNCTADstat.

⁸ African Development Bank, 2014. *African Development Report 2014: Regional Integration for Inclusive Growth*.