

The Continental Free  
Trade Area in an Era  
of Pessimism Over  
Multilateralism:  
Critical Success  
Factors and  
Prognosis

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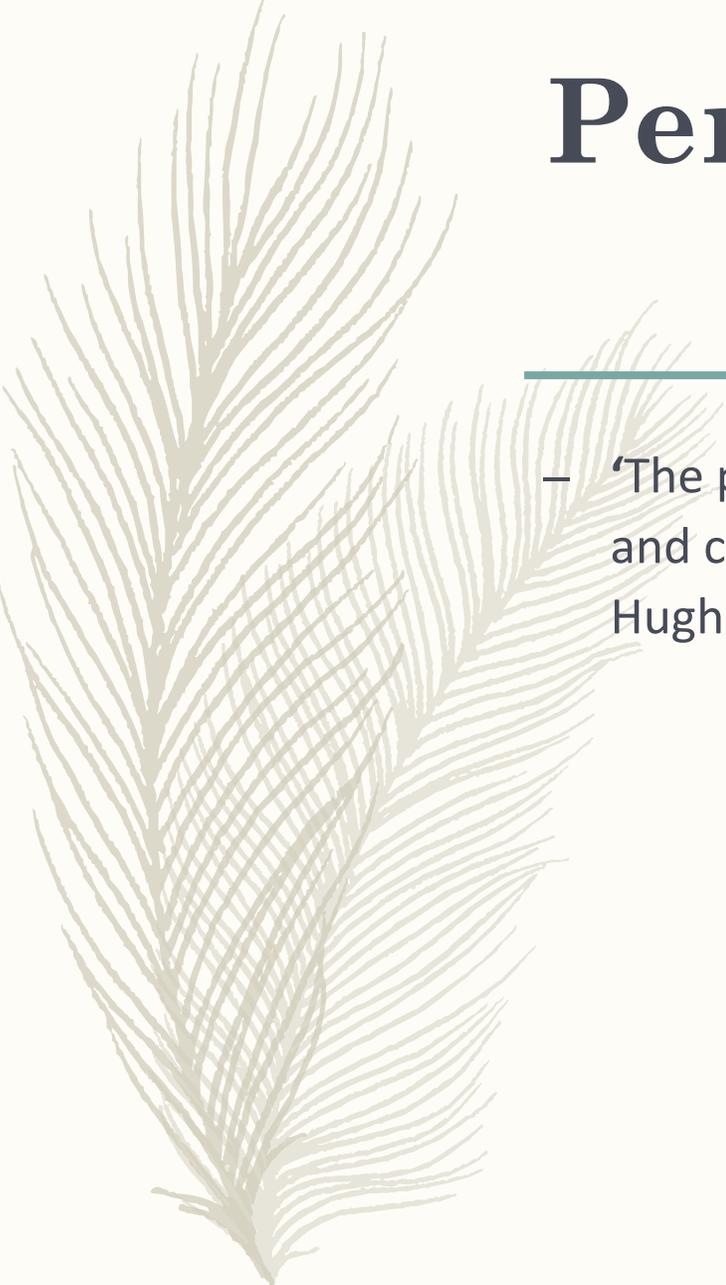
Albert M. Muchanga



# Outline of Presentation

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- Perspectives in History
- Key Drivers of Multilateralism in the 20<sup>th</sup> Century
- Is There Pessimism over Multilateralism?
- Drivers of the Retreat from Multilateralism
- Background to the Establishment of the Continental Free Trade
- Current State of Play on the Establishment of the Continental Free Trade Area
- Key Success Factors
- Prognosis,
- The Road Ahead
- Conclusion



# Perspectives in History

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- ‘The pursuit of commerce reconciles nations, calms wars, strengthens peace, and commutes the private good of individuals into the common benefit of all’- Hugh of St. Victor, *Didascalicon*, 12<sup>th</sup> Century.



# Perspectives in History

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- We must unite now or perish’-President Kwame Nkrumah, 24<sup>th</sup> May, 1963, Addis Ababa, Ethiopia at the founding of the Organization of African Unity.



# Perspectives in History

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- “Brexit means Brexit”-Prime Minister Theresa May, Inaugural Address, 11<sup>th</sup> July, 2016



# Perspectives in History

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- "A new decree to be heard in every city, in every foreign capital and in every hall of power. From this day onward, a new vision will govern our land. From this moment onward, it's going to be America first."-President Donald Trump, Inauguration Address, 20th January, 2017.



# Multilateralism and other means of global governance

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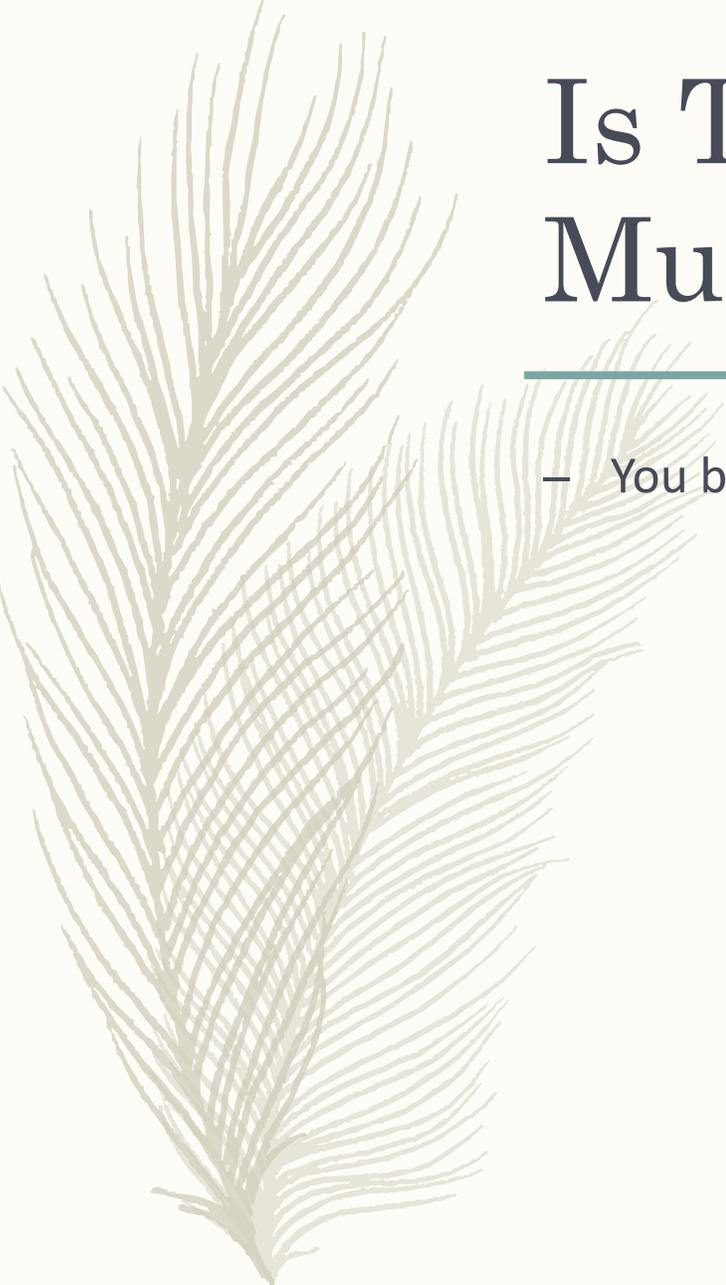
- Unilateralism
- Bilateralism
- Multilateralism: Global, regional, sub-regional
- Multilateralism and globalization: capital, industry, culture, immigration etc



# Key Drivers of Multilateralism in the 20<sup>th</sup> Century

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- Industrialization,
- Increased trade and capital flows
- Price fluctuations in raw materials
- Prevention of Wars
- technological change
- All requiring common standards, norms and principles of inter-state relations



# Is There Pessimism over Multilateralism?

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– You bet there is!



# Is There Pessimism over Multilateralism? W T O

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- Rise in Non Tariff Measures, over 6,000 worldwide since 2008: “global trade disorder”: source: **Global Alert Report 2014**
- Anti-globalization protests, for example, Seattle, 1999
- Stall in Dispute Settlements, no appointment of judges
- Stall in global trade (global trade no longer outpaces global economic growth)
- No major trade agreements since 1995



# Is There Pessimism over Multilateralism? US Actions

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- Renegotiation of NAFTA
- Withdraw from Trans-Pacific Partnership (TPP)
- Planned withdrawal from Transatlantic Trade and Investment Partnership (TTIP)
- Disengagement from MC11 drafting processes
- Proposed border adjustment tax
- Preference for bilateral deals
- Review of all trade deals to establish if they harm US trade performance
- Focus on US trade deficits



# Is There Pessimism over Multilateralism? UK Actions

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- Referendum on membership to EU over concerns on immigration and supranational powers of EU Commission, 23<sup>rd</sup> June, 2016 with 51,9% leave vote



# Is There Pessimism over Multilateralism? De-globalization...

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- Manufacturing coming to near markets (physical de-globalization)
- Re-shoring
- Back-shoring
- Near-shoring
- Automation
- Pressure to reduce carbon emissions from shipping lines



# Drivers of the Retreat from Multilateralism

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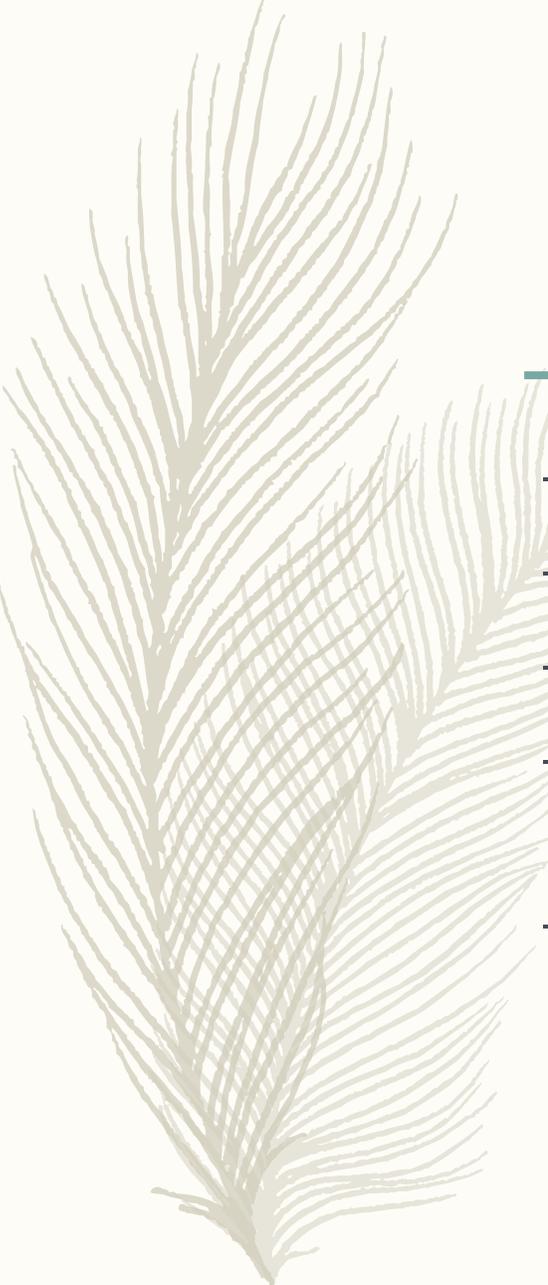
- De-industrialization
- Technological unemployment
- Trade Imbalances and resultant Protectionism
- Immigration
- Cyber security threats



# Drivers of the Retreat from Multilateralism

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- Rapid Successes of Emerging Economies as reflected in their increasing shares in global trade and GDP,
- Resulting in pressure to change global power structures, for example, permanent membership of UN Security Council , Voting powers in IMF/World Boards.



# Background to the CFTA

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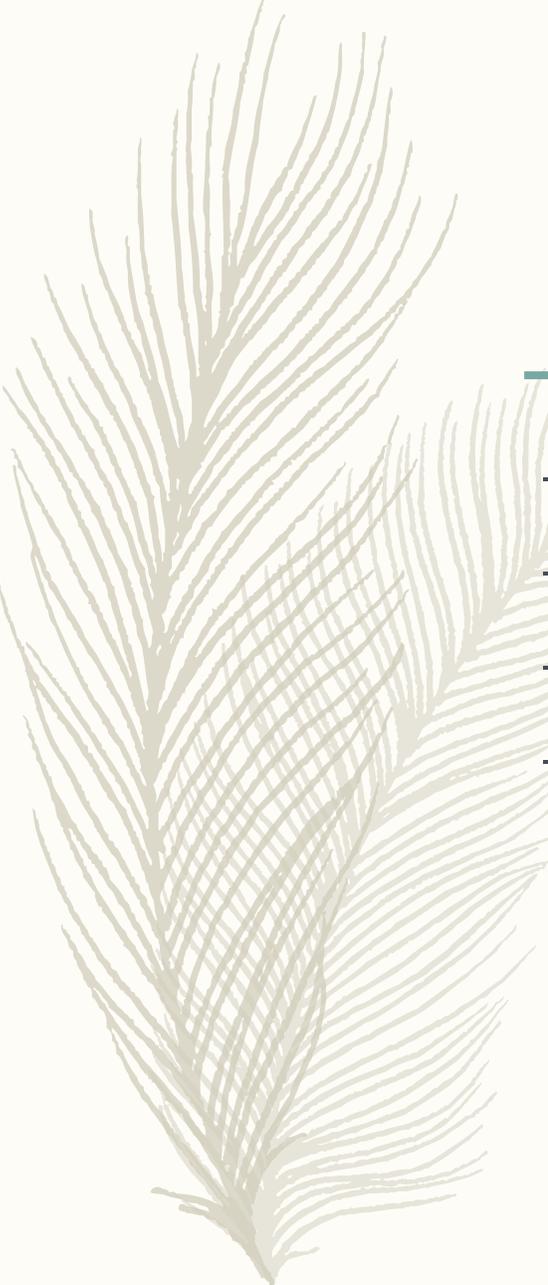
- Africa's commitment to economic integration
- ECOWAS 1975
- SADC, 1980
- 14 regional economic communities emerged over time; resulting in overlapping mandates, duplication of work and dissipation of resources.
- Eight recognized by the African Union



# Scorecard on the State of Multilateralism: Weak, not Dead

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- Physical de-globalization creates need for strong regional economies
- Even though WTO is failing to come up with new multilateral trade agreements more countries applying to join. UK will be latest. No one is leaving
- Although US withdrew from TPP, the biggest in the grouping, eleven remaining members created the Comprehensive and Progressive Agreement for the Trans-Pacific-Partnership (CPTPP),
- Although UK is leaving the EU, she will negotiate favourable trading arrangements with the EU
- Africa is doing the right thing to create CFTA, especially



# Background to the CFTA: LPA

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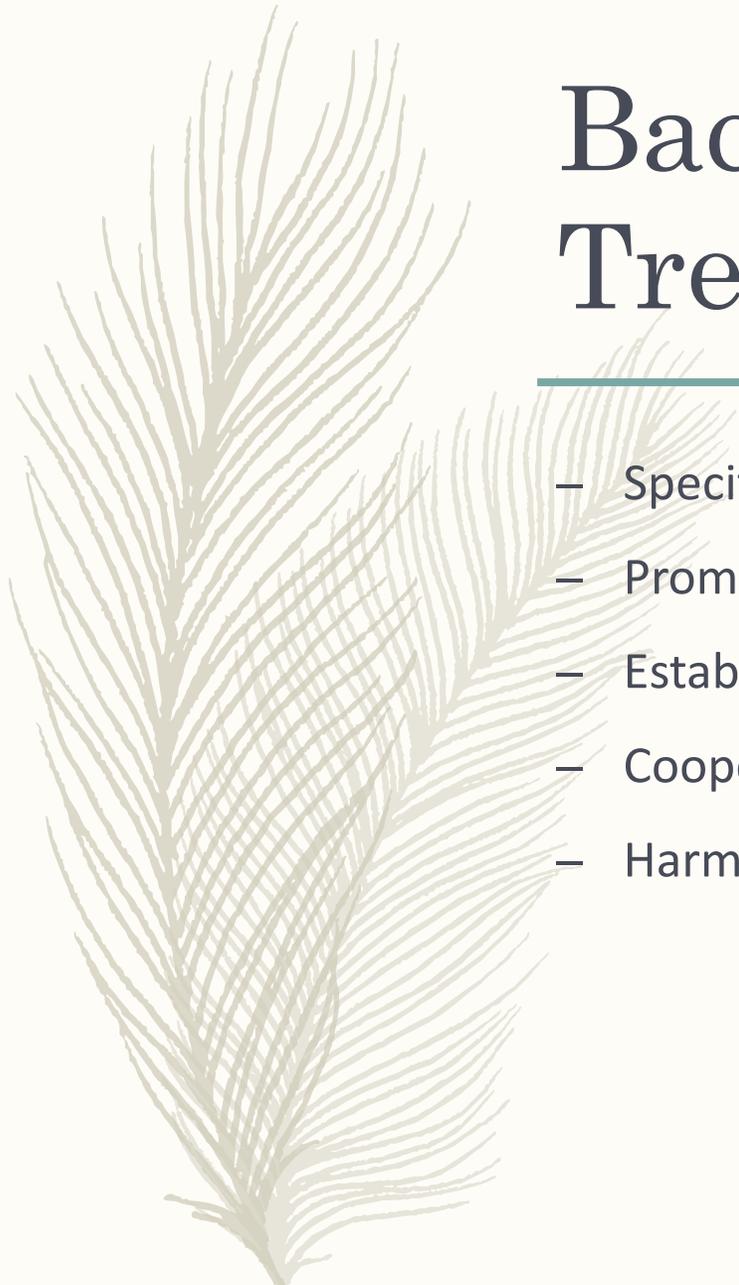
- Lagos Plan of Action 1980-2000:
- Pursuit of Collective self-reliance.
- Pursuit of Continental integration.
- Programmes range from development to common market and trade fairs



# Background to the CFTA: Abuja Treaty

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- Abuja Treaty Establishing the African Economic Community, 1991
- Came into force in 1994.
- Main aim is to establish African Economic Community in 34 years, (by 2028 from base year of 1994 when Treaty came into force).



# Background to the CFTA: Abuja Treaty

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- Specific Objectives
- Promote economic and cultural development and economic integration
- Establish continental framework for self-reliant development
- Cooperation in all fields to raise living standards, and promote peace, stability
- Harmonization of policies and strategies to create African Economic Community



# Background to the CFTA: Abuja Treaty

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- Six phases towards African Economic Community
- Phase 1: strengthen existing regional economic communities
- Phase 2: Within eight years promote liberalization at regional levels
- Phase 3: Within ten years, establish FTAs at regional levels
- Phase 4: Within two years thereafter, establish customs union
- Phase 5: Four years later, establish African common market
- Phase 6: Five years later, establish African Economic Community



# Background to the CFTA: Abuja Treaty

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- Institutions and Programmes
- Oversight: Assembly....secretariat, including STCs
- Pan African Parliament
- Economic and Social Commission
- Court of Justice
- Regional economic communities
- Solidarity, Development and Compensation Fund
- African Central Bank, (to be established in sixth stage)
- From trade liberalization to development and free movement of persons



# Background to the CFTA: AU

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- Constitutive Act of the African Union, 2000, Togo Summit
- 2001, Lusaka-Last OAU Summit
- 2002 Maputo: Formal establishment of AU
- Programmes in eight broad areas of: Peace and security; political affairs; social affairs; infrastructure and energy (including tourism); economic affairs; human resources science and technology; rural economy and agriculture ( including environment); and, trade and industry ( including mining and customs cooperation)



# Background to the CFTA: AU

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- Objectives; 14 for example:
- unity and solidarity;
- political and socio-economic integration;
- common African position;
- peace and security;
- sustainable development;
- policy and programme harmonization among regional economic communities



# Background to the CFTA: AU

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- Institutions
- Assembly and other oversight organs including STCs
- African Union Commission
- Pan African Parliament
- Court of Justice
- ECOSSOC
- Financial institutions: ACB, AMF and AIB



# Background to the CFTA: BIAT

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- Action Plan on Boosting Intra-African Trade, Addis Ababa, January 2012
- Seven clusters: trade policy, trade facilitation, productive capacity, trade related infrastructure, trade finance, trade information and factor market integration
- Increase intra-African trade
- Fast-track establishment of continental free trade area by 2017



# Background to the CFTA: Agenda 2063

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- An integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international system
- Ten Year Implementation Plan, ending 2023



# Background to the CFTA: Agenda 2063

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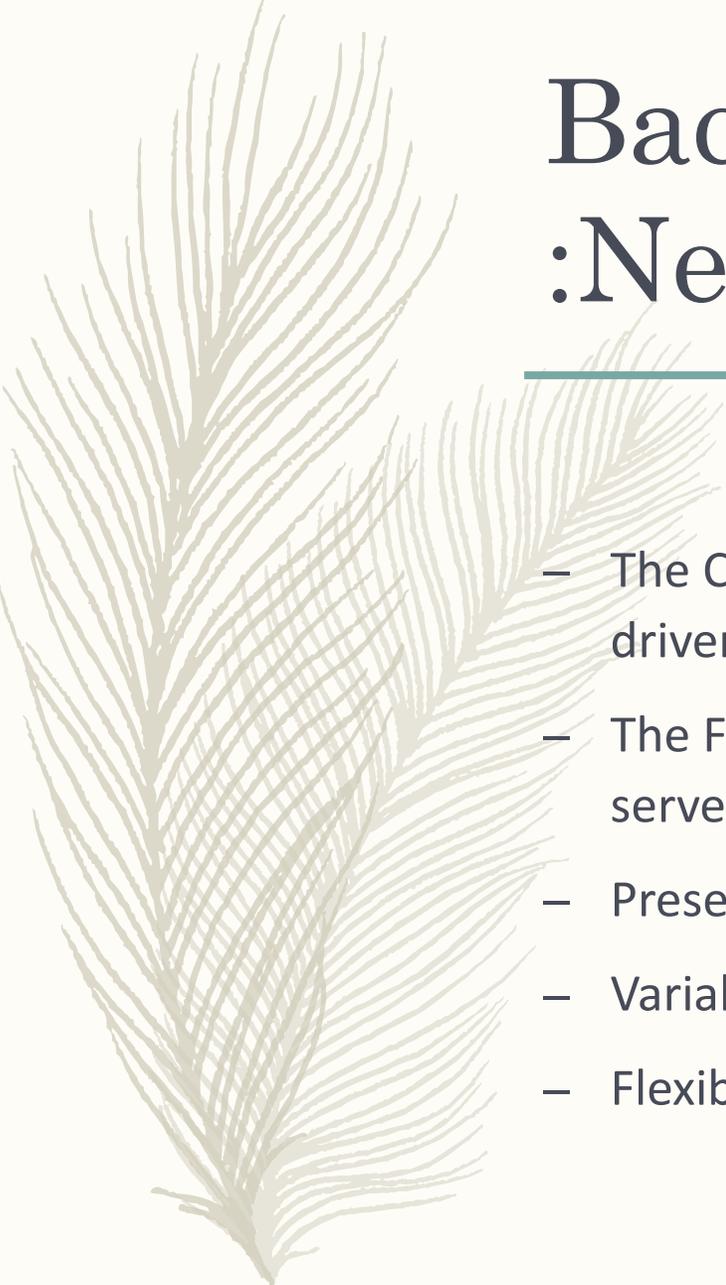
- Seven Aspirations: For example: A prosperous Africa based on inclusive growth and sustainable development; an integrated continent, politically united and based on the ideals of Pan Africanism; Africa as a strong, united, resilient and influential global partner and player.
- Twelve Flagship Projects: for example: CFTA; African passport and free movement of people; establishment of African financial institutions; establishment of a single African air transport market.



# Background to the CFTA: BIAT

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- CFTA Roadmap, adopted in June, 2015 Johannesburg AU Summit
- Target date of December, 2017 to conclude negotiations



# Background to the CFTA :Negotiation Principles

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- The CFTA negotiations shall be AU Member States/RECs/Customs Territories driven with support of the African Union Commission and its structures.
- The Free Trade Area arrangements of Regional Economic Communities would serve as building blocks for the CFTA
- Preservation of ‘acquis’
- Variable geometry
- Flexibility and Special and Differential Treatment



# Background to the CFTA :Negotiation Principles

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- Transparency and disclosure of information
- Substantial liberalization
- MFN Treatment
- National Treatment
- Reciprocity
- Decisions shall be taken by consensus.
- Adoption of Best Practices.



# Background to the CFTA: Negotiation Structures

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- Technical Working Groups
- Continental Task Force
- Negotiation Forum
- Senior Trade Officials
- African Union Ministers of Trade (AMOT)



# Background to the CFTA: Process

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- Launch of the Negotiations, June 2015, Johannesburg
- Appointment of CFTA Champion ( 2017)
- Nine rounds of negotiations, four Ministerial meetings
- Involvement of regional economic communities
- Regular engagements with private sector
- Technical partnership with AfDB, UNECA and UNCTAD
- National level stakeholder consultations



# Background to the CFTA: Criticisms and Responses

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- Criticisms and Our Responses
- Folly; Too Ambitious; Too rushed; Copying from EU; Building Fortress Africa.
- There is continuous diffusion of knowledge
- Eureka! ( Archimedes)
- What lies behind these criticisms is strategic: undermine confidence, divide and rule. Africa must remain a supplier of raw materials.



# Background to the CFTA: Size

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- Commercially viable undertaking:
- Over 1.2 billion people with a growing middle class
- Over 3.4 trillion US Dollars in aggregate GDP
- Among largest FTAs in the world in terms of population
- Among the ten largest economies in the world in aggregate GDP
- Major magnet for investment and trade



# Current State of Play: CFTA

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- Phase 1:
- Agreement establishing the Continental Free Trade Area,
- Protocols (trade in goods, trade in services, dispute settlement some with , Annexes
- Built-in-Agenda



# Current State of Play: CFTA

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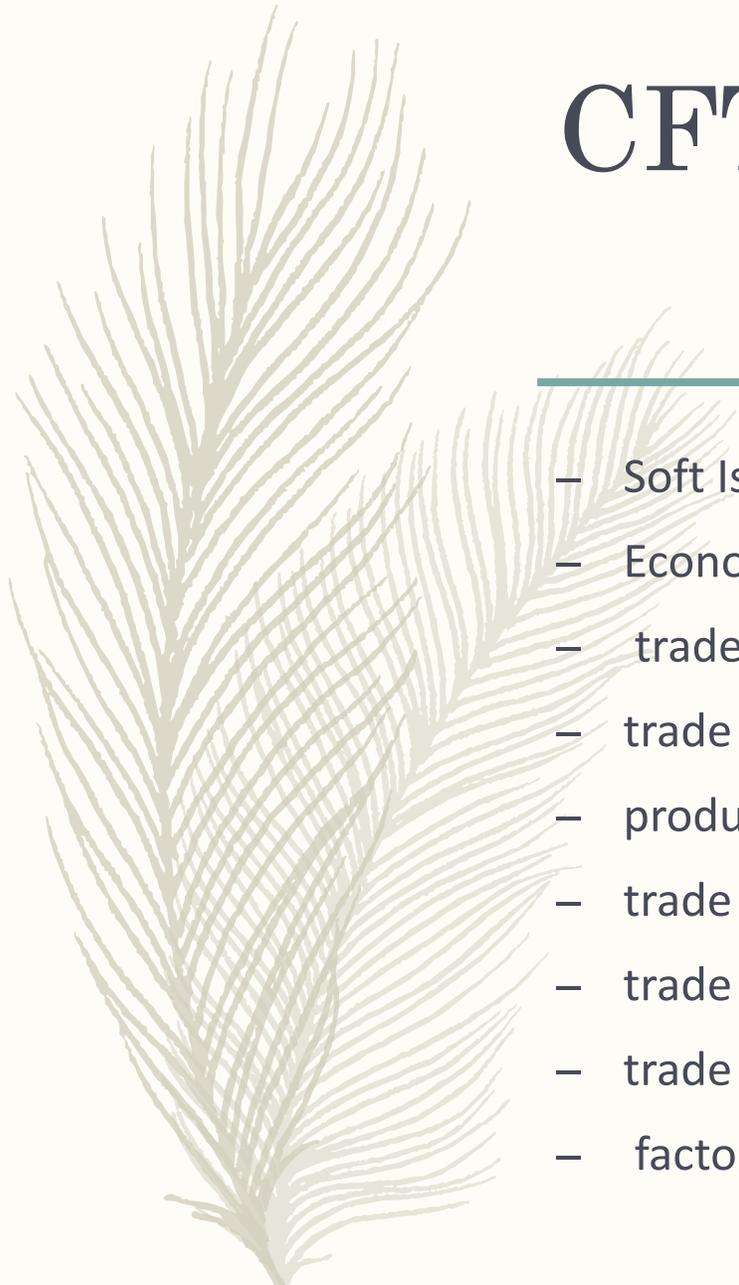
- Phase 2: 2018
- Protocol on Competition
- Protocol on Intellectual Property Rights
- Protocol on Investment
- Built-in-Agenda



# Current State of Play: CFTA

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- Signature, March, 2018
- Agreement
- Protocol on Trade in Service
- Signature, July, 2018
- Protocol on Trade in Goods (?)
- Ratification
- Launch



# CFTA Key Success Factors

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- Soft Issues
- Economic stability and growth
- trade policy,
- trade facilitation,
- productive capacity,
- trade related infrastructure,
- trade finance,
- trade information
- factor market integration



# CFTA Key Success Factors: Soft Issues

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- Self-Confidence : we have the power and can create the Africa We Want
- Confidence in the CFTA: Commercially viable undertaking, our springboard to prosperity
- Unity: Speaking with one voice, acting in unison
- Pan-African Partnership Policy: Speaking with one voice and acting in unison entrenched as a legal arrangement
- Leadership: Focused, strategic and putting Africa's interests first
- Traction: CFTA must grow with a dynamism of its own, by honouring commitments



# CFTA Key Success Factors: Economic Stability, Growth e.t.c

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- Debt sustainability. Debts crises induce poverty, de-industrialization, vulnerability, marginalization; inter-alia
- Sustained growth levels promoting employment generation and poverty reduction and growth of per capita incomes, crucial to growth of purchasing power and graduation from Least Developed Country statuses
- 34 out of 55 AU member states are LDCs, see following box
- Macroeconomic coordination
- Broadening domestic tax bases to reduce dependence on customs revenues and stimulate trade liberalization
- Building resilience to climate change through adaptation and mitigation



# CFTA Key Success Factors: Economic Stability, Growth e.t.c

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**Income Per Capita:** Based on a three year average estimate of the gross national income (GNI) per capita, with a threshold of US\$1, 035 for possible cases of addition to the list, and a threshold of US\$1, 242 for cases of graduation from LDC status.

**Human Assets:** involving a composite index (the Human Assets Index) based on indicators of (i) nutrition (percentage of undernourished population), (ii) health (child mortality ratio, school enrollment (gross school enrollment ratio), and (iv) literacy (adult literacy).

**Economic Vulnerability:** involving a composite index (the Economic Vulnerability Index) based on indicators of: (i) natural shocks( index of instability of agricultural production; share of victims of natural disasters); (ii) trade-related shocks( index of instability of exports of goods and services); (iii) physical exposure to shocks ( share of agriculture, forestry and fisheries in GDP; index of merchandise exports concentration); (iv) smallness (population in logarithm0; and (v) remoteness ( index of remoteness).



# CFTA Key Success Factors: Economic Stability, Growth e.t.c

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- The number of African Least Developed countries will be more than non-LDC African countries for a long time to come.
- According to the 2016 Least Developed Countries Report, sixteen LDCs out of 48 will graduate by 2024. Assuming there are no new admissions, there will be 32 LDCs in 2025, out of which 30 will be African. This number will still be larger than non-LDC African countries.
- The CFTA will deepen on the back of growing and transforming economies. This raises the need for the African Union to consider coming up with a focused strategy aimed at accelerating the graduation of African Least Developed Countries in partnership with the United Nations.



# CFTA Key Success Factors : Trade Policy

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- Building on the *acquis* of regional economic communities
- Development of African e-commerce platform
- Effective regulation of economic and commercial crimes across Africa, including combating counterfeits
- Promoting win-win outcomes and inclusivity within countries and across Africa



# CFTA Key Success Factors: Trade Facilitation

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- Simplify, harmonize and coordinate customs documentation and procedures
- Improve transport, communications and logistics service
- Removal of roadblocks and unofficial fees
- Combat corruption in customs and immigration services
- Curtail harassment of traders
- Establish single windows to remove filing of documents at several border points



# CFTA Key Success Factors: Trade Facilitation

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- Harmonize rules on axle loading limits as well as vehicle standards
- Ensure that weighbridge, toll gate charges and inspections of goods at border points do not become barriers to trade
- Progressively reduce transaction cost to make trading across Africa competitive
- Modernize customs and immigration



# CFTA Key Success Factors: Productive Capacity

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- Production and supply of quality, safe and affordable goods (manufacturing)
- entrepreneurship (SME development,
- Value addition ( regional value chains, commodities strategy, agro-processing African Mining Vision)
- Attracting increased investments in Africa ( FDI fell by 3% in 2016, investments from African companies into Africa are only 12% of total as opposed to 33% in Asia)
- Resolve illicit financial flows fro Africa



# CFTA Key Success Factors: Trade Related Infrastructure,

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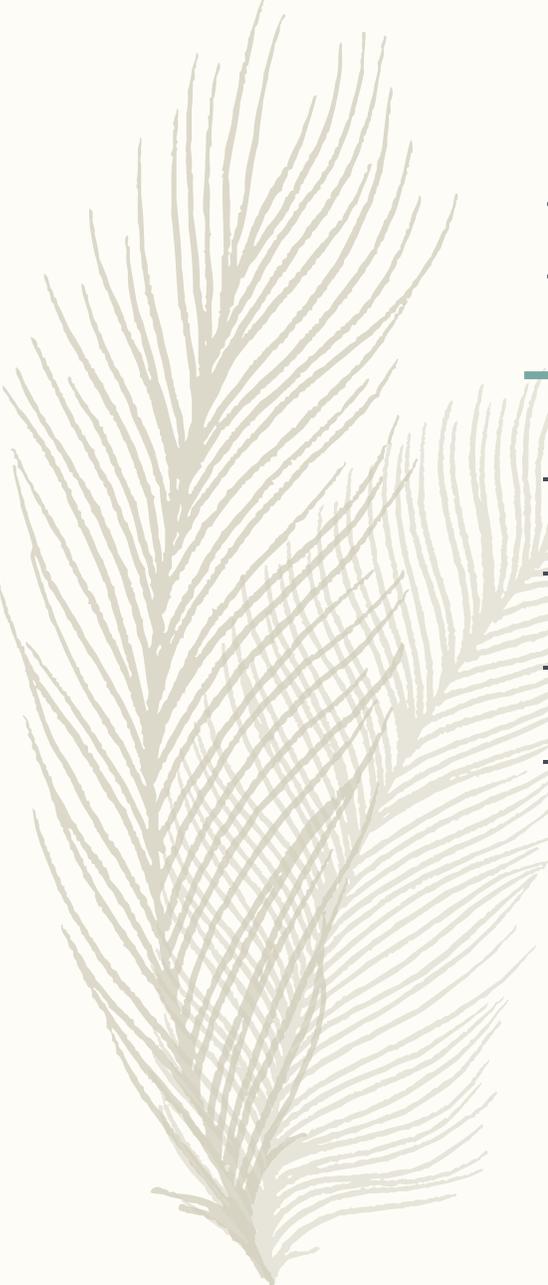
- Transport
- Energy
- Communications
- Logistics



# CFTA Key Success Factors: Trade Finance

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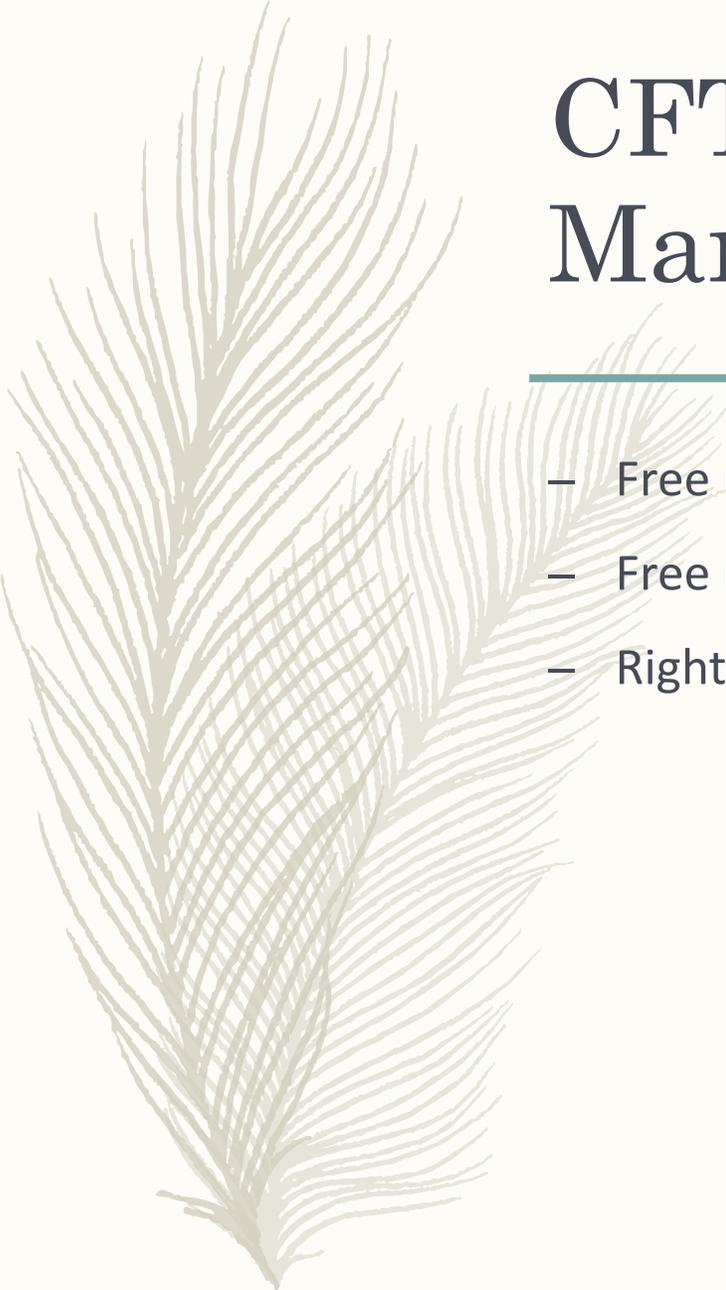
- Existence of Pan African Payments System
- Availability of Trade Finance, US\$120 billion shortfall annually
- Establishment of African Investment Bank to complement AFREXIM Bank and other financing houses in Africa
- Increasing coverage of African Trade Insurance agency across Africa

A decorative graphic of a feather, rendered in a light beige or tan color, is positioned on the left side of the slide. It has a central rachis with numerous barbs extending outwards, creating a fan-like shape. The feather is oriented vertically, with the base at the bottom and the tip at the top.

# CFTA Key Success Factors: Trade Information

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- Revival of All Africa Trade Fair
- Production of Trade Directories
- Availability of timely and comprehensive information about African goods
- Establishment of Pan African Trade Observatory



# CFTA Key Success Factors : Factor Market Integration

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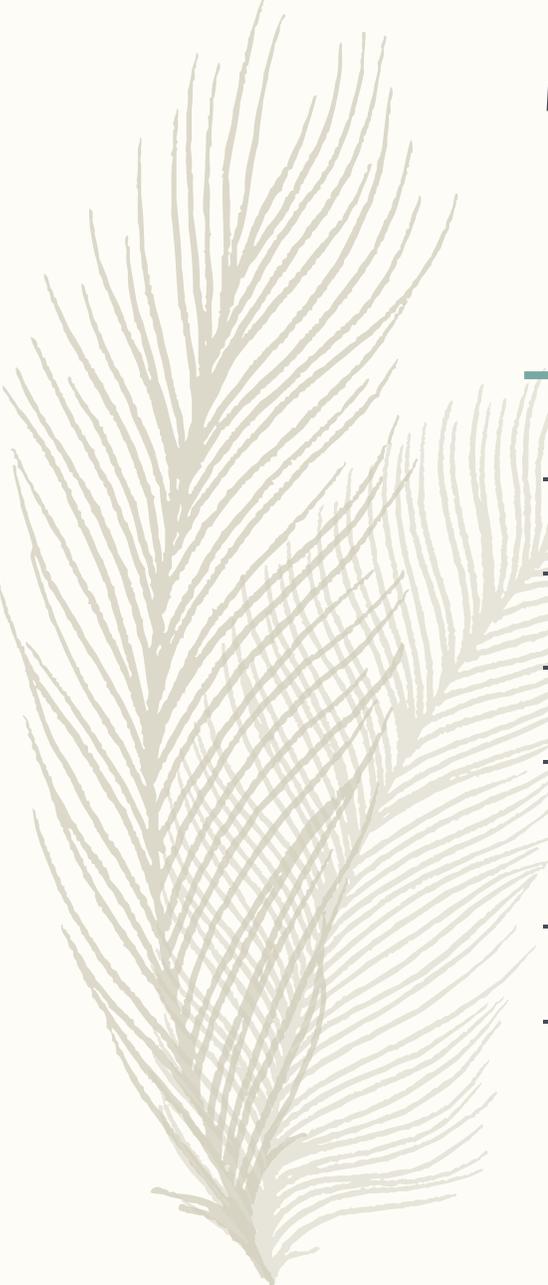
- Free movements of people
- Free movement of capital
- Right of establishment



# Prognosis

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- Foundation established, Initial conditions can provide traction
- There is still tension between change as demanded by the CFTA and adherence to the status quo
- Physical de-globalization places the imperative for Africa to integrate
- Export led growth anchored on outsourcing and exporting to developed economies is closing off



# The Road Ahead

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- Signature ratification, and launch
- Embark of Phase2 negotiations
- Secretariat: location, structure and budget
- Initial Work Programme and generating results summarized as increased intra-African trade and trade with the rest of the world
- Fitting CFTA in the African Union System
- Alignment of CFTA with Abuja Treaty, while remaining WTO compatible



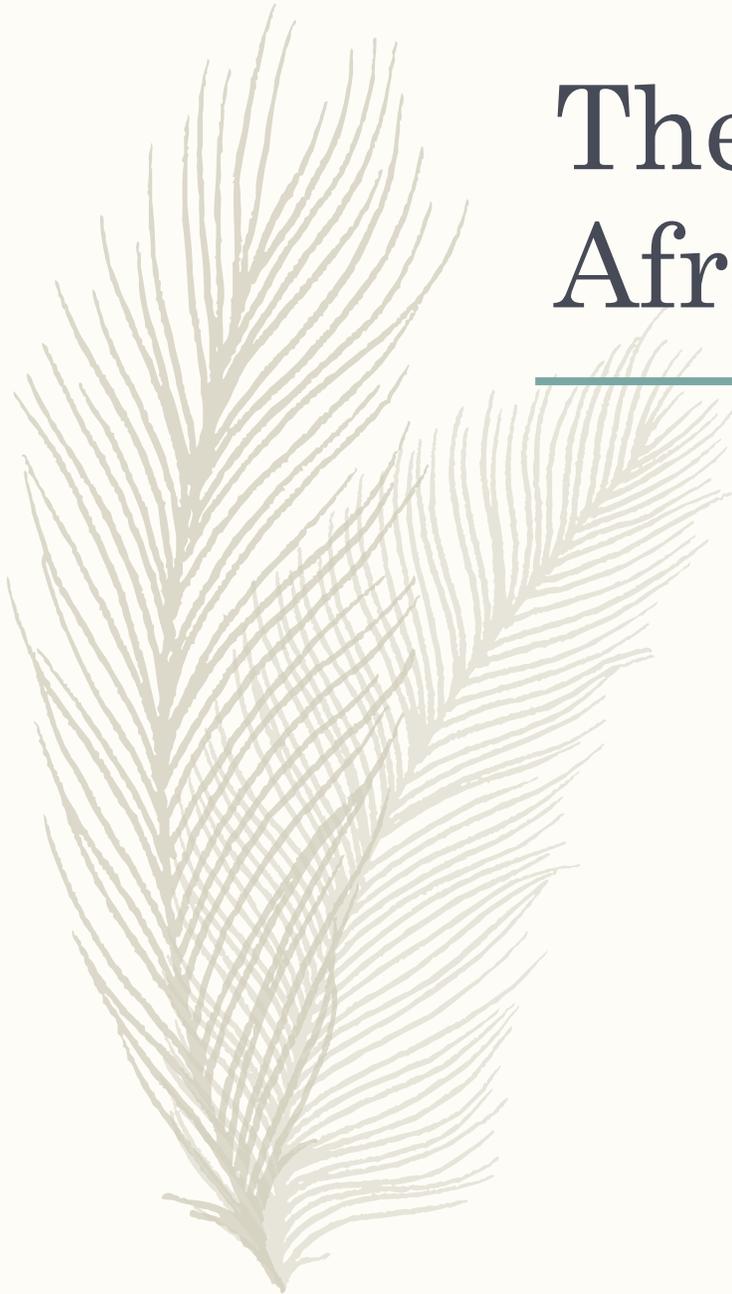
# Conclusion

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- The status quo is not ideal for Africa
- Africa is moving in the right direction
- Africa is creating her future of prosperity anchored on unity, dignity, independence and self reliance.
- Challenges will be there: life is difficult but determination carries seeds of solutions to problems and challenges

# The Big Picture: Creating One African Market

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**Creating One African Market**

Thank You