



## **Giant trade agreement for development in Africa: the Continental Free Trade Area**

*11 January 2018*

*How a Continental Free Trade Area can provide business opportunities that will change the face of industrialization in Africa*

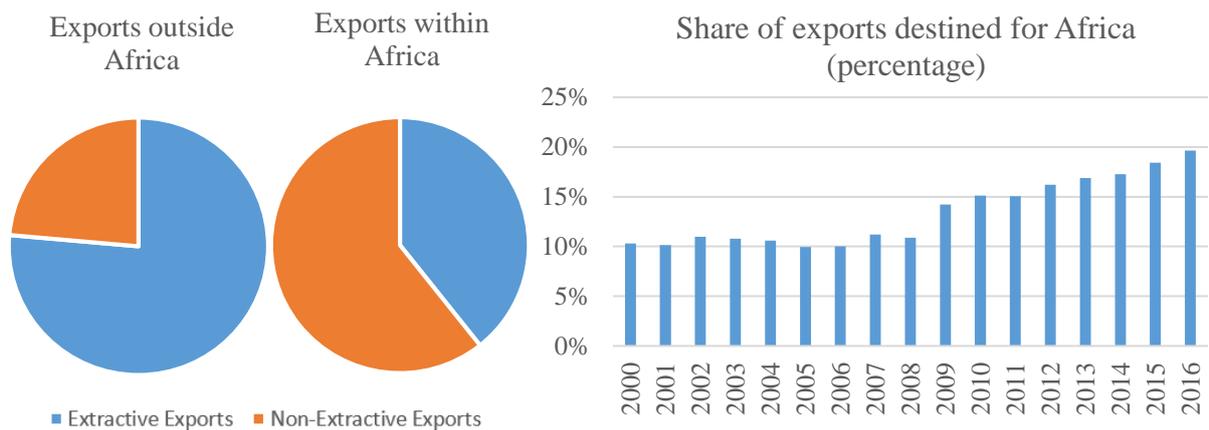
The Continental Free Trade Area (CFTA) will cover an African market of 1.2 billion people and a gross domestic product (GDP) of \$2.2 trillion, across all 55 member States of the African Union. In terms of numbers of participating countries, the CFTA will be the world's largest free trade area since the formation of the World Trade Organization (WTO).

It is also a highly dynamic market. The population of Africa is projected to reach 2.5 billion by 2050, at which point it will include 26 per cent of what is projected to be the world's working age population, with an economy that is estimated to grow twice as rapidly as that of the developed world.

Enfolding this continent into one trade area provides great opportunities for trading enterprises, businesses and consumers across Africa and the chance to support sustainable development in the world's least developed region. The Economic Commission for Africa (ECA) estimates that the CFTA has the potential both to boost intra-African trade by 53.2 per cent by eliminating import duties, and to double this trade if non-tariff barriers are also reduced.

*Why does intra-African trade drive sustainable growth and jobs?*

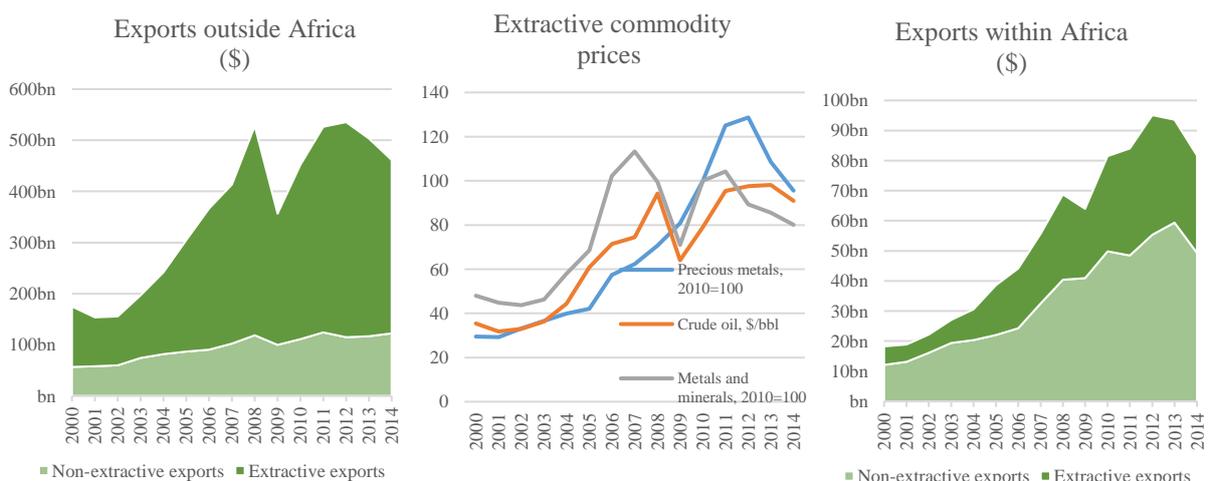
Africa's industrial exports are expected to reap the most benefits from the CFTA. This is important for diversifying Africa's trade and encouraging a move away from extractive commodities, such as oil and minerals, which have traditionally accounted for most of Africa's exports, towards a more balanced and sustainable export base. Over 75 per cent of Africa's exports outside the continent were extractives from 2012 to 2014, while less than 40 per cent of intra-African trade were extractives in the same period.



*Source:* Figures I and II: Extractive exports: CEPII-BACI trade dataset, three-year averaged exports (2012-2014), extractive exports include petroleum oils, gas, non-ferrous metals, metalliferous ores and metal scrap, crude fertilizers and minerals, coal, coke and briquettes, and the remaining precious metals in HS 71, uranium, and the basic iron products of HS7201–HS7206. Figure III: Intra-African trade: International Monetary Fund (IMF) Direction of Trade Statistics.

The great risk with products such as oil and minerals is their volatility. The fiscal and economic fate of too many African countries relies on the vicissitudes of these product prices. Using the CFTA to pivot away from extractive exports will help to secure more sustainable and inclusive trade that is less dependent on the fluctuations of commodity prices.

Perhaps most importantly, the CFTA will also produce more jobs for Africa’s bulging youth population. This is because extractive exports, on which Africa’s trade is currently based, are less labour-intensive than the manufactures and agricultural goods that will benefit most from the CFTA. By promoting more labour-intensive trade, the CFTA creates more employment.



*Source:* Figure IV: Exports outside Africa: ECA calculations using CEPII-BACI trade dataset. Figure V: Extractive commodity prices: World Bank commodities market data. Figure VI: Exports within Africa: ECA calculations using CEPII-BACI trade dataset.

### *How does the CFTA benefit small and medium-sized enterprises?*

Small and medium-sized enterprises are key to growth in Africa. They account for around 80 per cent of the region's businesses. These businesses usually struggle to penetrate more advanced overseas markets, but are well positioned to tap into regional export destinations and can use regional markets as stepping stones for expanding into overseas markets at a later point.

Another way in which small and medium-sized enterprises can benefit is by the CFTA making it easier to supply inputs to larger regional companies, who then export. Before exporting cars overseas, for example, large automobile manufacturers in South Africa source inputs, including leather for seats from Botswana and fabrics from Lesotho, under the preferential Southern African Customs Union trading regime.

### *What's in the CFTA for Africa's women?*

Analyses of the impact of the CFTA at the household level suggest that the effect between male and female headed households is broadly quite balanced; both gain by differing degrees in different countries. However, women in particular can benefit from improvements to the challenges they face as informal cross-border traders. Women are estimated to account for around 70 per cent of informal cross-border traders in Africa. When engaged in such an activity, women are particularly vulnerable to harassment, violence, confiscation of goods and even imprisonment. By reducing tariffs, the CFTA makes it more affordable for informal traders to operate through formal channels, which offer more protection. This can be further enhanced by simplified trading regimes for small traders, such as the Simplified Trade Regime in the Common Market for Eastern and Southern Africa (COMESA), which provides a simplified clearing procedure alongside reduced import duties that provide particular help to small-scale traders.

### *The CFTA and the 2030 Agenda for Sustainable Development*

The cumulative effect of the CFTA is to contribute to the achievement of the 2030 Agenda, in particular, to the Sustainable Development Goals, from targets for decent work and economic growth (Goal 8) and partnering internationally (Goal 17) to food security (Goal 2). Of utmost importance, however, is Goal 1 and keeping the pledge that "no one will be left behind... starting with the furthest behind first". For this, it is crucial that Governments across Africa implement measures to accompany the CFTA, such as the African Union's Boosting Intra-African Trade Action Plan, but also that the African private sector step up to invest in, and take advantage of, the opportunities arising from the CFTA.

### *State of play in the negotiations*

The pace of the CFTA negotiations has surprised many outside observers. Those on the ground, however, have seen the impressive political will and commitment that have been the engine for such progress.

Negotiations were launched by the African Union Heads of State and Government in June 2015. By early 2017, negotiations were humming along at a good speed. By late 2017, the intensity of negotiations had escalated, culminating in a marathon stretch of back-to-back negotiations that finished with African Ministers of Trade on 1 and 2 December 2017. Those meetings concluded the drafting of the agreement itself and paved the way for legal scrubbing

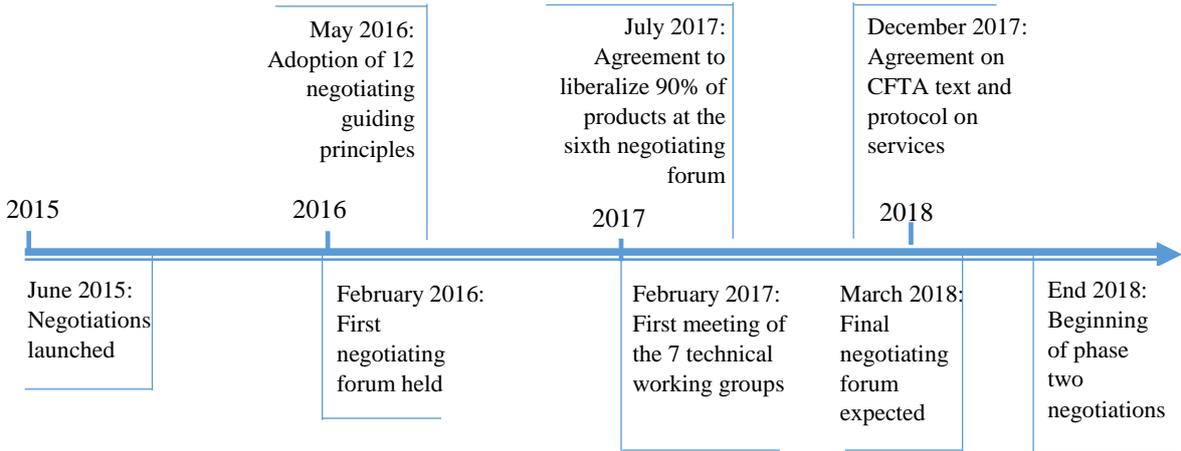
to begin. An African Union Heads of State and Government Summit now stands ready to adopt the CFTA Agreement at an extraordinary meeting scheduled to take place in March 2018.

Before the agreement can be implemented, however, there are issues to be settled. These include agreeing to a dispute settlement mechanism, finalizing several annexes to the protocol on goods, and preparing offers for goods and services. Some of these will require challenging compromises between countries with differing perspectives. As such, the negotiating forum will meet for a ninth time in early 2018 to finalize outstanding matters and to prepare for the signature of the agreement in March.

Thereafter, negotiations will progress to further deepening trade in Africa with “phase two” negotiations, which are expected to begin in late 2018. Phase two will focus on provisions for investment, competition and intellectual property rights. A facilitative environment for e-commerce is also being muted as a possible additional topic for phase two.

Upon signature of the phase two negotiations, the CFTA will not lie dormant. It will be a living framework for deepening integration in Africa. Built into the agreement are mechanisms for further deepening liberalization in goods and services.

**CFTA milestone timeline**



*Under the bonnet: what’s in the CFTA?*

With an average protection equivalent to 6.1 per cent, businesses currently face higher tariffs when they export within Africa than when they export outside it. The CFTA will progressively eliminate tariffs on intra-African trade, making it easier for African businesses to trade within the continent and cater to and benefit from the growing African market.

The CFTA, however, goes beyond traditional trade agreements that merely reduce tariffs. It also liberalizes services trade. This is crucial: services constitute roughly 70 per cent of global GDP and 60 per cent of employment (in 2014, for example, services accounted for a quarter of world trade). Services are also inputs to production processes that in turn enable trade in goods. In the CFTA, African countries have committed to progressive services liberalization in which domestic services markets are to be opened for service suppliers from other African countries.

Beyond tariffs, non-tariff barriers, such as burdensome customs procedures and excessive paperwork, are often a greater impediment to businesses than tariffs. The CFTA is to

include a “non-tariff barrier mechanism” for reporting and resolving such barriers on trade between African countries, helping businesses to demand solutions to their trading barriers.

Similarly, the CFTA also includes provisions for the recognition of technical and sanitary standards, transit facilitation and customs cooperation. By doing so, the aim is to significantly ease doing business across borders in Africa.

<b>Continental Free Trade Area: key features</b>		
<b>Agreement establishing the African Continental Free Trade Area</b>	<b>Protocol on Trade in Goods</b>	Elimination of duties and quantitative restrictions on imports Imports shall be treated no less favourably than domestic products Elimination of non-tariff barriers Cooperation of customs authorities Trade facilitation and transit Trade remedies, protections for infant industries and general exceptions Cooperation over product standards and regulations Technical assistance, capacity-building and cooperation
	<b>Protocol on Trade in Services</b>	Transparency of service regulations Mutual recognition of standards, licensing and certification of services suppliers Progressive liberalization of services sectors Service suppliers shall be treated no less favourably than domestic suppliers in liberalized sectors Provision for general and security exceptions
	<b>Protocol on Dispute Settlement</b>	To be agreed
	<b>Phase 2 negotiations</b>	Intellectual property rights Investment Competition policies

*How can business shape the implementation of the CFTA?*

The CFTA is a tool for private enterprise in Africa. It can only succeed if it is used by private businesses, traders and consumers to trade across the continent. The following three steps are paramount:

- (1) *Awareness.* Businesses can look again at and re-evaluate trading opportunities in Africa. On this basis they can then establish new trade linkages or push their governments to negotiate for these opportunities if they are not already covered by the negotiated substance of the agreement.
- (2) *Partnering.* Partnering with governments is essential to ensure and facilitate investment in the accompanying measures necessary to complement the CFTA. This includes intra-African trade infrastructure as well as supplying trade finance, trade information and logistics services. Such provisions will help businesses recognize and realize the trading opportunities available through the CFTA.

- (3) *Private sector involvement.* More active involvement of the private sector in terms of advocacy is required in order to ensure direct input into the CFTA negotiating institutions to ensure that the CFTA is shaped to assist the business community to trade in Africa. This could include following through with the recommendation of the Pan-African Chamber of Commerce and Industry to establish a private sector led advisory body to the CFTA negotiating institutions for aggregating and articulating the views of the private sector.

The CFTA is a tool for development in Africa. But it must be wielded by private enterprise. Through doing so, businesses can benefit from the great opportunities that the continent has to offer, and contribute to its sustainable growth and development.

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