The Continental Free Trade Area – Making it work for Africa

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Roundtable Discussion

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Excellencies, distinguished members of the panel, ladies and gentlemen.

We have a long history of joint and fruitful collaboration with UNCTAD. I am deeply honoured to share some perspectives.

Key Points

Let us begin by having a look at the numbers. A continental free trade area will have a market of 1 billion and a combined GDP of an estimated $1.2 trillion. UNECA estimates that the CFTA can increase intra African trade by $35 billion per year by 2022. Imports from outside the continent will decrease by $10 billion per year and Agricultural and Industrial exports will increase by $4 billion and $21 billion respectively.

To think about what presently obtains and how transformative this will be for Africa, let us just but for a moment look at the EAC trade with ECOWAS which has a market of 300 million people. Exports from the EAC to this 300 million market stand at a mere $132 million.

The Continental Free Trade Agreement (CFTA) and the larger market created, which promotes the development of economies of scale and scope, could trigger a trade-investment nexus that supports Africa’s structural transformation. In addition to traditional extractive industries, attracting greater domestic and international investment into SSA’s industrial and services sectors will help create a diversified productive structure and stimulate structural economic transformation.

Currently, markets in sub-Saharan African are highly fragmented. Producers, traders and investors confront a range of non-tariff and regulatory barriers in the movement of goods, services, people and capital across borders. SSA’s 15 landlocked countries suffer from particular constraints. They typically incur transport costs more than double their coastal neighbours and as a result tend to export almost half as much.

The average cost of exporting overseas a container from an African country is US$ 2,000 while in Asia it is estimated at less than half that amount (about US$ 900).It takes 37 days to export on average from SSA, compared to 10 in the case of OECD countries.

To improve the main intra-African road network requires investments over and above the capacity of African governments acting in isolation. For example, the costs of improving Mozambique's ports, railways and infrastructure are estimated to be US$20billion whilst its GDP was estimated at US$14.2billion in 2012.

In the absence of a regional approach there would be underinvestment in activities such as cross-border trade facilitation which bring positive spillover effects. This is a critical issue for SSA's 15 landlocked countries that face transport costs as high as 77% of the value of exports. It has been estimated that a 10% reduction in the cost associated with importing (exporting) would increase imports (exports) by about 4.8% 4.7%).

In this sense, the CFTA is an important opportunity to shape regional integration processes on the continent in a more development friendly way. It has the potential to harmonise rules across African countries, so as to facilitate trade flows and deepen emerging regional production networks. It can also provide an important policy anchor and help to lock in policy reforms; thus helping to ensure that governments work in a more concerted and systematic way to tackle trade barriers at the intra-regional level.

So I think without a doubt the case is there with huge opportunities as well as challenges. As they see, the devil is in the details. So some key considerations:

It is important that there be an alignment of the Regional and Continental Integration Agendas

This year marked a major milestone in the Continents regional integration agenda with the negotiations launched for the creation of an African Continental Free Trade Area (CFTA) in goods and services in June 2015. At the same time, the Tripartite Free Trade Area in goods comprising COMESA, EAC and SADC was launched.

In most Regional Economic Communities (RECs) there has already been substantial tariff liberalisation. There are initiatives to consolidate this process and address the 'spaghetti bowl' of overlapping REC memberships. For example, most African members belong to at least two regional trade blocs and many belong to three. Rationalising the number of RECs and the eventual establishment of an African Economic Community remains the vision of African integration, as aspired to by the CFTA.

Streamlining rules and procedures facilitates trade. Each day of delay at customs is equivalent to an additional 85km distance between trading countries, in terms of costs (AfDB, 2012).

The Developmental Potential of Intra-African Trade

There is evidence to suggest that the development of regional production networks may be a necessary prerequisite to effective global trade integration and gainful value chain participation. This seems evident from the fact that intra-African trade currently stands at 12 percent of total trade, compared to 60 percent for Europe, 40 percent for North America, and 30 percent for ASEAN.

Stimulating intra-African trade can assist in terms of establishing African lead firms and therefore developing more gainful value chain participation. This is something which UNCTAD has recognised for some time and for which the most recent evidence presented by UNECA (2015) confirms.

Regional markets can help provide an important platform for African lead firms and entrepreneurs to develop their productive capabilities and capacity, and learn before integrating with global markets. This process can therefore help to foster more relational rather than captive types of GVCs, so typical of the commodity value chain so characteristic of Africa's trading patterns to date. This pattern of specialisation confines African producers to a narrow range of tasks rather than a broader range of functions, e.g. moving from production to marketing (the higher value added parts of any value chain).

By some projections, by 2035, Africa's labour force will exceed China's which presents important opportunities to benefit from the relocation of some task based trade, to take place in Africa and therefore contribute to the expansion of formal employment opportunities, so desperately needed in view of high unemployment rates and large informal sectors.

Unexploited opportunities for intra-African trade exist in many product categories, particularly food and agricultural products. Agriculture also plays a huge role in employment in many countries, with 60-80% of the workforce employed by the sector in Ghana, Tanzania and Kenya. Removing trade barriers helps to induce specialisation so as to take advantage of economies of scale in production and scope in terms of marketing, inducing movement into services.

Sequencing and managing new relationships effectively

Besides advancing the continental integration agenda, African countries are also deepening trade and investment relations with their established partners, such as the EU and the USA, and emerging global players, especially China and India. Distinct shifts in trade flows are taking place in which the relative significance of trading with developing country partners has increased remarkably.

Managing these multiple trading arrangements and external partnerships will be a key challenge for the coming decades. This point reinforces the need to lay the framework of the CFTA now.

At this critical juncture within the global economy, African countries need to delicately manage their multiple trading relationships with countries in both the North and the South, ensuring that these partnerships support the continent's integration and industrialisation objectives as outlined in the African Unions Agenda 2063. If not managed judiciously, the potential benefits of these engagements could be undermined by Africa's own trade integration arrangements or trade agreements.

Although the removal of trade barriers such as tariffs at borders, and simplification of rules and procedures can assist in these processes and remove some of the stifling barriers to trade, these measures are only one stage in a regional integration cycle.

Some words of caution: We fully support and endorse a strong and concerted effort to regional intergration and a continental free trade agreement. However, there are winners and losers in the short to medium term if not properly managed. The important point is that mechanisms have to be put in place to ensure that no one is left behind particularly the LDCs and Small States of Africa since investments are likely to follow locales with better infrastructure and large markets.

There are also political benefits of such an integration with 54 countries and an entire continent of 1 billion people having a shared perspective on the global trade architecture. Looking ahead, the numbers will increase since it is expected that Nigeria alone will have an estimated population of 510 million by 2050. By then, we will see alongside China, an emerged India and a powerful Indonesia. If you add the possibility of a unified Korean peninsula in the future, then the global trading landscape will be fundamentally different from what presently obtains perhaps making the MC20 a fundamentally different undertaking!!!!