



## **SYNTHESIS PAPER ON BOOSTING INTRA-AFRICAN TRADE AND FAST TRACKING THE CONTINENTAL FREE TRADE AREA**

### **Introduction**

1. The main objective of this Synthesis Paper is to provide a synopsis of the contents of three related papers, namely: the Issues Paper, the Action Plan and the Framework Document, Road Map, Architecture for fast tracking the Continental Free Trade Area (CFTA), simultaneously developed to respond to the tasks of boosting intra-African trade and elaborating modalities for fast tracking the Continental Free Trade Area.

### **Background: Features of intra-African trade in brief**

2. Trade is widely accepted as an important engine of economic growth and development. There are many regions and countries of the world that have been able to lift their peoples from poverty to prosperity through trade. Although the African economy is characterized by a relatively high degree of openness, with the ratio of exports and imports to GDP amounting to 55.7% in 2009, trade has not served as a potent instrument for the achievement of rapid and sustainable economic growth and development for many of the countries. As a consequence, Africa remains the most aid-dependent continent of the world, unable to eliminate poverty through trade.

3. A key feature of Africa's trade, which has had some adverse implications for its impact on economic growth and development, is its high external orientation and relatively

low level of intra-regional trade. Intra-African trade stands at around 10 per cent compared to 60 per cent, 40 per cent, 30 per cent intra-regional trade that has been achieved by Europe, North America and ASEAN respectively. Even if allowance is made for Africa's unrecorded informal cross-border trade, the total level of intra-African trade is not likely to be more than 20 per cent, which is still lower than that of other major regions of the world.

4. That African countries do not trade much with each other means that they have been unable to fully harness the synergies and complementarities of their economies and take full advantage of the economies of scale and other benefits (such as income and employment generation) that greater market integration would have provided. There are cases where products and services could have been sourced competitively from other African countries but were procured from outside the continent.

5. Due to the fact that Africa does the bulk of its trade with the outside world and the exports are heavily concentrated on primary commodities, the continent has been particularly vulnerable to external macroeconomic shocks and protectionist trade policies. This is evident from the recent global economic and financial crisis which, although not of the making of African countries, has had adverse impact on the continent's economic performance. In today's increasingly interdependent global economy, Africa cannot delink itself from trading with the outside world. However, the continent can reduce its vulnerability to external shocks and improve its trade and economic performance if its market integration is deepened and the countries do more of their external trade with each other. Thus, a major lesson to be drawn from the systemic shocks in the global economy is the need for Africa to promote intra-regional trade.

6. Boosting intra-African trade and deepening regional market integration constitute a necessary response to the challenges facing Africa in the multilateral trading system and the global economy. By fostering competition among African countries, they will also assist in enhancing the latter's capacity and prepare them to compete more effectively on the global market.

### **Basis for a new vision, momentum and action: Setting the agenda**

7. For long, regional integration has been accorded high priority in the development agenda of African countries. The continent's landscape contains a relatively large number of

integration schemes. In spite of this, market integration in Africa is weak and the level of intra-African trade remains relatively low as indicated earlier. It is in light of this situation that the 6<sup>th</sup> Ordinary Session of the AU Conference of Ministers of Trade decided to fast-track the creation of a Continental Free Trade Area (CFTA). This was subsequently followed by the decision of the AU Assembly of Heads of State and Government to focus its January 2012 Ordinary Session on the theme of “Boosting Intra-African Trade”

### **Boosting Intra-African Trade and Fast Tracking the CFTA: New modalities for action**

8. In order therefore to respond to these tasks, the African Union Commission and its collaborating partners, the UNECA, AfDB, RECs and other partners set to work to develop proposals aimed at addressing the challenges of boosting intra-African Trade as well as fast tracking a Continental Free Trade Area. The results are the production of an **Issues paper, an Action Plan and Framework document for launching the fast track process to accomplishing (achieving) the CFTA**. All three documents together form the basis for the agenda setting on boosting intra-African Trade and fast-tracking the CFTA.

9. **The Issues Paper is aimed at provoking the subject of low performance of intra-African trade**, raising as it were, the key issues why intra African trade is low. These are the same well known issues that have been highlighted in the introductory part of this synthesis paper and hence the thrust of the Paper. The Issues Paper does not attempt to address in detail all of these issues, particularly given the fact that the “Fourth” edition of Assessing Regional Integration in Africa (ARIA IV), the joint AU, UNECA ADB serial publication is dedicated to the subject of intra-African trade, where a detailed analysis of the issues debilitating against intra-African trade has been made. The Issues Paper is therefore a synopsis of ARIA IV and serves as a handy reference on the challenges of intra-African Trade. In line with this orientation, and in particular the need to respond to the task of devising modalities for achieving the objectives set by the Summit, the Issues Paper therefore points to issues that will need to be addressed as priorities. These are divided into two categories, namely the first set of priorities for immediate, short and medium terms, while a second set of priorities, will

need to be addressed in the medium to long term. The Issues paper goes further to proffer a number of recommendations to tackle the challenges identified in each cluster of priorities.

10. These recommendations are further captured in the Action Plan developed to boost intra-African trade, in order to ensure that the documents are effectively aligned, speak to each other and draw from one another. In this regard, it could be said that the Issues paper identifies the issues, sets the premises or the basis for action and the Action Plan defines the actions, activities and programmes that will need to be implemented to achieve the objective of boosting intra-African Trade.

11. **As the name implies, the Action Plan is more action oriented but its concept responds to the broad thrust of boosting intra-African trade, which is cross cutting.** However, in line with the need to prioritise, the Action Plan narrows the scope in a matrix, to a number of priority action areas which cut across different sectors. It is however worthy to note that these priorities are in tandem with those highlighted in the Issues Paper. The Action Plan matrix highlights the “programme or activity”; the “key objective”; the “output or target” sought and how it should be done; the “expected timeframe” for implementation (immediate to short and medium terms); and the “levels of responsibility” where implementation will be undertaken namely: national (Member-States), Regional (RECs), Continental (the AUC) Stakeholders (Private Sector) and Partners (development Partners).

12. The priority action clusters accordingly identified are the following:

- **Trade Policy:** aimed at mainstreaming trade policy for fast tracking intra-African trade development;
- **Trade Facilitation:** aimed at reducing costs and time for moving goods to destinations;
- **Production Capacity:** aimed at creating regional/continental value chains, increasing local production and trade in goods produced in Africa;
- **Trade-related Infrastructure:** aimed at developing innovative mechanisms for multi-country infrastructure projects as well as prioritising continental infrastructure programmes/initiatives, e.g. energy, transport;

- **Trade Finance:** aimed at developing/strengthening African Financial institutions/mechanisms to support intra-African trade and investment;
- **Trade Information:** aimed at improving access to trade information to enhance trade opportunities; and
- **Factor market Integration:** aimed at intra-regional harmonisation of regulations and factor mobility.

13. The third paper, **the Framework Document for fast tracking the CFTA** addresses the ambitious programme of launching the Continental FTA. It accordingly proposes a Road Map for the fast tracking process, an Institutional Architecture, Monitoring and Evaluation and Dispute Settlement Mechanisms. The broad spectrum of the proposed road map is set against the backdrop of two key principles or concepts, namely: “to fast track and therefore being ambitious” and “to draw from and build upon existing progress already made”, particularly given the trail blazing experience of the COMESA-EAC-SADC Tripartite Free Trade Area. It also draws from the insight that the Abuja Treaty establishing the African Economic Community (AEC) suffers the lacuna of not providing for a free trade area at the continental level but seeks consolidation of continental market integration at the Customs Union level, with the convergence of the RECs into the continental Customs Union in 2019. Thus, arguing from the premise of building upon the “Acquis” of current levels of tariff liberalisations in RECs, the Road Map proposes “one stage, three-pronged approach” on an “indicative” time frame as spelt out below:

- Finalization of the EAC-COMESA-SADC Tripartite FTA initiative by 2014;
- Completion of FTA(s) by Non-Tripartite RECs, through parallel arrangement(s) similar to the EAC-COMESA-SADC Tripartite Initiative or reflecting the preferences of their Member States, by 2012 and 2014;
- Consolidation of the Tripartite and other regional FTAs into a continental Free Trade Area (CFTA) initiative between 2015 and 2016; and
- Establishment of the Continental Free Trade Area (CFTA) by 2017 in line with the timeframe and stages of the Abuja Treaty with the option to review it according to the progress made.

14. Another key feature of the Framework document is the proposed **Architecture**. The Architecture contains a number of bodies, all of whose co-ordinated functions will help in the successful implementation of the CFTA processes. These include the High Level Africa Trade Committee, the Trade Ministers Conference, the CFTA Negotiations Forum, Dispute Settlement Mechanism, the Monitoring and Evaluation Mechanism, the African Business Council, the African Trade Forum and a Trade Observatory. Most of the activities will however revolve around the AU Commission which will serve as the secretariat of the implementation processes. In proposing the foregoing, consideration has been given to concerns about creation of new bodies or organs and hence as much as possible due restraints have been observed. For example, the Trade Ministers Conference already exists, so is the African Court of Justice under whose auspices the Arbitration Tribunal will function as part of the dispute settlement mechanism. The Business Forum is mainly private sector driven and therefore bears no cost implications for the AU. The Trade already exists and serves as an open forum for stakeholders to contribute to trade policy formulation, while the Trade Observatory is a trade information gathering system that will draw upon existing mechanisms. The only major organs seemingly newly created are the High level Trade Committee and the CFTA Negotiations Forum. For the Negotiations Forum, if the CFTA must be established then there certainly needs to be a forum for the negotiations to take place.

15. Also of note within the Architecture, is the High Level Africa Trade Committee, which will be comprised of the incumbent Chairs (Heads of State) of the eight recognised RECs. It will serve as an organ of the Assembly of Heads of State and in that capacity perform the role of champions for the acceleration of the CFTA and enhancement of intra-African trade. It will further serve as forum for sharing experiences and best practices; co-ordination and harmonisation of actions towards the realisation of the CFTA and implementation of the Action Plan. The Committee will meet annually on the eve of the regular June/July sessions of the Summit and present a progress report to the Summit.

16. Both the Action Plan and the Framework Document for the CFTA also outline **the** next steps to be undertaken following formal endorsement of the proposals earlier highlighted for boosting intra-African trade and the launch of the CFTA, such as the development of a detailed Implementation strategy that will focus on Modalities for the CFTA negotiations; Tariff Phase Down; Harmonisation of Rules of Origin; Simplification of Customs Nomenclature and Procedures; Elimination of Non-tariff Barriers, Design of Appropriate

Trade Defence Measures; Adjustment Cost Mechanisms, Indicators, Benchmarks and Milestones, upon which an effective monitoring and evaluation can be made.

### **The case for the CFTA**

17. Beyond the foregoing, conscious of the concerns and fears that arise in the process of establishing free trade areas or Customs Union, particularly those of loss of revenue, domination by bigger countries and neighbours as well as other political considerations, the Framework Paper rather makes the case for the positive gains that will accrue to the Member States, by pointing a number of positive elements, namely the potential benefits of the CFTA; specific benefits accruable and lessons from success stories:

### **The potential benefits of the CFTA**

18. Outlined below are a number of potential benefits that can accrue from establishing an FTA:

- Between 2000 and 2010, the creation of the COMESA FTA led to a six-fold increase in intra-COMESA trade. The realization of the Tripartite FTA is expected to lead to further growth of intra-African Trade while the continental FTA will build on these existing successes and enable Africa to participate in global trade as an effective and respected partner.
- In a possible scenario of two FTA groups i.e. South-East (COMESA-EAC-SADC and IGAD, or S-E) FTA group and North-West-Central (ECOWAS, CENSAD, ECCAS/UMA or N-W-C) FTA group, the global average protection rate is nearly as high as the average of 7.7% with the S-E FTA group and 8.2% for the N-W-C FTA group, and 8.7% for the entire continent. Currently there is a high level of protection inhibiting trade. A consolidation of the FTA of the two groups/regions would simultaneously reduce Africa's global protection by 68.7%, consequently reducing Intra-African average trade protection from 8.7% to 2.7.
- For some African countries, trade within the region constitutes a significant share of their exports, therefore, a possible continental FTA will provide even greater benefit for enhancing their trade within the continent.

- Surveys of Africa's investment attractiveness forecast FDI reaching a threshold of \$150 billion by 2015, up from \$84 billion in 2010, with the possibility of creating over 350,000 jobs a year, directly and through spill overs;
- In addition to favorable FDI forecast, potential pan-African market with over a billion people without internal borders will unleash the enormous economic and development potential of Africa, while a larger, more integrated and growing regional market will enhance the interest of FDI and provide the basis for enhanced intra-African trade, which reinforces the regional advantages of scale economies, enhanced competition, increased diversification and regional specialization in production.

### **Specific Benefits**

19. Among other specific benefits that will accrue to African countries from the establishment of the continental FTA are:

- Increased food security through reduction of the rate of protection on trade in agricultural produce among African countries;
- Increased competitiveness of Africa's industrial products through harnessing the economies of scale of a large continental market of about one billion people;
- Increased rate of diversification and transformation of Africa's economy and the continent's ability to supply its import needs from its own resources;
- Better allocation of resources, improved competition and reduced price differentials among African countries;
- Growth of Intra-Industry trade and the development of geographically based specialisation in Africa;
- Reduced vulnerability of Africa to external trade shocks; and
- Enhanced participation of Africa in global trade and reduced dependence of the continent on aid and external borrowing.



## **Current success stories of regional FTAs**

20. Also outlined are the specific experiences of already established FTAs around the world:

- The creation of the EU internal market has led to an increase in the level of the Intra-EU trade which now stands at about 63% and has contributed to the growth of the GDP and employment.
- In the EAC, trade data indicate that internal trade in the region has more than doubled from \$1.6 billion in 2004 to \$3.5 billion in 2010.
- In the past, the fear of the loss of tariff revenue has been an obstacle to the liberalization of Intra-Africa trade. However, recent experiences at the regional levels show that government revenue can actually increase with the removal or lowering of tariffs on Intra-regional trade. This is applicable to both small and large economies. For example, following the accession of Rwanda to the COMESA FTA its government revenue increased as a result of VAT on imports from the region.
- Trade data also show that there is more sophistication in Intra-Africa trade goods than what Africa exports to the rest of the world. Evidence further shows that despite the existing level of Intra-African protection on non-Agricultural goods, these exports still constitute a significant share of individual countries export within Africa.

## **Political dimension**

21. Indeed, added to the foregoing is the political dimension as highlighted below in the form of shared values, shared experience and solutions as well as the current international good will that can be tapped into in pursuance of the twin objectives of fast tracking the CFTA and boosting Intra-African Trade.

- **Shared values, sustaining the momentum:** in recent times, Africa has recorded a string of successes that have continued to be acclaimed worldwide. These are in the areas of increasing successes with the democratic experiments, demonstrable levels of good macroeconomic management and appreciable levels of economic performance.

This positive mood of prosperity have had spill over effects on the continent as a whole, engendering the shared value of common prosperity, drawing from the inspirations of the trailblazing example of the Tripartite FTA Initiative and thus culminating in the renewed commitment of African political leaders to boosting intra-African trade. It is therefore highly opportune to seize the initiative, arising from the spill over effects of recent socio-economic successes, in order to sustain the momentum of the shared value of common prosperity.

- **Shared experience, shared solutions:** the experiences with the global economic crisis continue to expose Africa's vulnerability to external shocks. Consensus opinion strongly supports the necessity for Africa to develop African solutions to African problems in order to mitigate the adverse effects of the crisis among others. A major recommendation to addressing this challenge is the strengthening of Africa's market integration process.
- **Goodwill of the international Community:** in addition to the foregoing political dimension, there has been a reassessment of the strategies for enhancing Africa's development, both by Africa's development partners and the multilateral development banks, especially the World Bank. There is the general conviction that one clear way of sustaining development efforts is by providing strong co-ordinated support for the regional integration processes, especially with the renewed enthusiasm generated by the Tripartite FTA Initiative, as well as those of transit corridor programmes among others. It is therefore opportune to tap into the tide of international goodwill, to complement the CFTA initiatives.

## **Conclusion**

22. Based on the foregoing positive outlook, backed by the strong political will and commitment, deriving from the momentum already set by Ministers of Trade and subsequent Summit endorsement, to boost intra-African trade, there is therefore the strong conviction that the establishment of a continental FTA will lead to a significant growth of Intra-Africa trade and assist Africa to use trade more effectively as an engine of growth and sustainable development.