



BOOSTING INTRA AFRICAN TRADE

Q&A

1. Why boost intra African trade?

- Only about 10 – 12 % of African trade is with other African nations by comparison, 40% of North American trade is with other North American countries, and 63% of trade by countries in Western Europe is with other Western European nations.
- As an important engine for development, economic growth and integration, Intra-African Trade should move from the current rate of 10 – 12 % to 20-25% in the next decade.
- Boosting intra Africa trade will promote regional and continental integration. It will develop larger markets, foster greater competition which in turn will lead to poverty reduction, growth and sustainable development.
- Pooling economies and markets together through regional integration will provide a sufficiently wide economic and market space to make economies of scale possible for African industries and allow Africa to play its rightful role in the global market.

2. How can we boost intra-African trade?

Boosting intra African trade will require political commitment and leadership from African Heads of State and Government as well as the participation of key stakeholders including the private sector.

It will involve the following:

- Reforming trade policies at national, regional and continental levels for harmonization of rules and regulations;
- Strengthening trade facilitation so as to reduce cost and time for movement of goods and services, business, investments and labor mobility across borders;

- Enhancing and diversifying production capacities in order to add value to Africa's primary commodities and boost regional and continental value chains;
- Promoting trade-related infrastructure (transport, energy, ICT etc.);
- Increasing access to trade financing and establishing the framework for viable continental payments systems through banking and export guarantee systems;
- Improving access to trade information at the regional and continental levels; and
- Factoring market integration aimed at intra-regional harmonization of regulations and mobility of labor, business and investments.

3. What are the key elements of a Continental Free Trade Area (C-FTA)?

- A free trade area (FTA) is a grouping of countries that trade goods manufactured or originating within the countries that make up the FTA free of duties and quotas.
- Two main and critical elements to achieve the C-FTA are the elimination of tariffs on trade between FTA members and the application of simple and transparent Rules of Origin.
- FTA members define the rules of origin which all goods must conform to if they are to qualify for duty free, quota free market access.
- The removal of non-tariff barriers (NTBs) is also crucial part of the C-FTA so that originating goods can be traded free of tariffs and NTBs.
- Trade facilitation measures are also an important part of the C-FTA.

4. What economic benefits does Africa stand to gain from the C-FTA?

The benefits that will accrue to African countries from the establishment of the C-FTA include:

- Boosting employment opportunities in the public and private sectors.
- 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 specialization in Africa;
- Reduced vulnerability of countries to external trade shocks; and
- Enhanced participation of Africa in global trade and reduced dependency of the continent on aid and external borrowing.

5. Why create a High -Level African Trade Committee (HATC)?

- Retain focus on trade policy at the highest level of continental policy making;
- The Committee will have the responsibility for overseeing the effective implementation of the Action Plan for boosting intra-African trade and the implementation of the C-FTA;
- It will also allow for a greater coordinated focus, including sharing of experience within a high level body, on trade and integration matters.

6. Has FTA worked in any other regions of the world?

The FTA is not a new idea and there are several examples across the regions of the world. With the deepening of globalization, countries in the major continents of the world are finding it prudent to pool their resources and markets together in order to become more competitive. The experience of regions such as EU, ASEAN, NAFTA and MERCOSUR, which used FTAs as building blocks in their process of regional integration, indicates that FTAs can make an important contribution to successful market integration and contribute to economic growth and development. Some examples of deepening economic integration and strengthening internal market structures are discussed below.

- The creation of the EU internal market led to an increase in the level of the Intra-EU trade, which now stands at about 63% and has contributed to growth of 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-African 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.

7. How can the Private Sector contribute to achieving the C-FTA?

As a major stakeholder in regional integration the private sector plays a key role in achieving structural diversification towards enhancing intra African trade.

- Although many countries have undertaken policies to promote the private sector in Africa, much needs to be done towards creating an enabling environment for businesses to develop new products, new markets, and new ways of doing business. Monitoring competitiveness, based on developing indicators, guidelines, policies, and capacity-building programs, could identify shortcomings in individual countries and tailor measures to overcome them.
- There is also the need for intensive investment in manufacturing and processing industries that add value to Africa's raw materials. Skills development and productivity enhancement support programmes will reduce the costs of adjustment (contraction of import-substitution activities and expansion of export sectors) and increase the scope for dynamic benefits from export development.
- Furthermore, increasing competitiveness and productivity levels in preparation for the full implementation of C-FTA requires the enhancement of workers' skills, the improvement of firms' organizational and management structures and the development of supportive economic policies and infrastructures.

8. How can we achieve C-FTA by 2017?

The proposal to establish the continental FTA by 2017 is informed by the fact that under the Abuja treaty a continental customs union should be established by 2019. It is also in response to the call of the AU Ministers of Trade at their Ministerial Conference held in Kigali in November 2010 and

subsequently by Heads of States and Governments at their 2011 January summit to fast track the establishment of a C-FTA.

A road map for achieving C-FTA within this timeframe has been developed for consideration. The underlying principle of the roadmap is to build upon the “Acquis” of current levels of tariff liberalization amongst RECs. In other words the establishment of a C-FTA will not start from scratch and will build upon the existing achievements of the RECs. The main milestones in the proposed road map are:

- COMESA-EAC-SADC Tripartite FTA encouraged to complete its FTA by 2014 and to ensure that those Member States which are currently outside the 3 RECs’ FTAs join and become part of the Tripartite FTA;
- ECOWAS to expedite the completion of their FTA by 2014 and to also ensure that those among their Member States which are currently outside the FTA join in;
- Any other individual AU Member States to join C-FTA process by 2015; and
- The FTAs created by the above-mentioned processes will be consolidated into the C-FTA between 2015 and 2016, with the option to review the deadline according to the progress made.

9. How will the financing of the negotiations of the C-FTA be ensured?

The securing of financing of country participation in the C-FTA Negotiations Forum meetings will be the responsibility of the country concerned.

The AUC/UNECA/AFDB Joint Secretariat will be responsible for financing the C-FTA Negotiations Forum Secretariat and the functions of the Secretariat which include costs of staff, meetings, interpretation, translation and provision of all other secretariat functions. Existing facilities should be used when it comes to financing of the C-FTA Negotiations Forum Secretariat. In that sense, the African Trade Policy Centre (ATPC) in UNECA could support a facility that could contribute to the financing of the C-FTA negotiating process.