

Foreign Voices



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The Tripartite Free Trade Area - shaping a new paradigm for African integration?

The negotiations to create a Tripartite Free Trade Area (T-FTA) covering 26 African states began in early 2012. Beside questions of market integration and encompassing the trade-in-goods agenda, a special focus is given to infrastructure development and industrialization. Despite the fact that the T-FTA negotiations have just begun, there are also other discussions about a Continental Free Trade Area. This paper, written in the run-up to the Potsdam Spring Dialogues 2012 entitled "Trade: Potentials and Pitfalls for Regional Integration and Development in Africa", gives a brief insight in ambitious agendas on pan-African integration and the challenges for implementation.

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**Who are the champions of a
new generation free trade areas (FTA)?**



In October 2008 the heads of state of the 26 member states of the Southern African Development Community (SADC), the East African Community (EAC) and the Common Market for East and Southern Africa (COMESA) met in Kampala, Uganda and agreed to establish a Tripartite Free Trade Area (T-FTA). Since this decision was taken, various expert working groups have prepared a Draft Agreement and 14 annexes covering trade in goods issues, trade in services, the movement of business persons, intellectual property issues and competition policy amongst other issues. This process preceded the negotiations, which began early in 2012, and the final legal instruments that are to be negotiated may well be very different from these draft instruments.

Focus on infrastructure and industrialization

The T-FTA is anchored on three pillars. The first is market integration, encompassing the trade-in-goods agenda which includes tariff liberalization, rules of origin, standards, customs management and other trade-related issues. The second pillar concerns infrastructure development and the third is industrialization. The inclusion of the second and third pillars in the context of the free trade negotiations is significant. The focus on infrastructure and industrialization reflects very important challenges faced in this region. The lack of infrastructure – including road, rail, port, communications and other infrastructure – contributes to the high costs of doing business in the region and effectively ‘hampers’ the development of competitive business activities. Industrial development is very diverse in the region; with South Africa, for example, having a diversified industrial sector at one extreme and many other countries, at the other extreme, having very limited industrial capacity. In short, it may be said that the real challenge facing countries in this region is the capacity to produce tradeables competitively. The inclusion of the two additional pillars brings a very important focus on supply-side issues to the free trade negotiations.

The need of simpler rules of origin

The three pillars of the T-FTA therefore open a very broad negotiating agenda. The first phase of the negotiations, which is envisaged to take 24 – 36 months, focuses on trade in goods issues and the movement of business persons. The second phase will cover services and trade-related issues. The first phase of the negotiations covers territory which is very familiar to trade negotiators in the region. Despite this, negotiations on specific issues such as rules of origin can be expected to present challenges. Rules of origin are an essential feature of preferential trade agreements. Their role is to prevent trade deflection, but they can also be used very effectively to protect domestic industry. The SADC rules of origin present a very good example for rules that can effectively counter the effects of the tariff liberalisation, but making market access very difficult

through the use of product specific processing rules. By contrast, the rules of origin in the EAC and COMESA are much simpler, using the value addition and change of tariff heading methodologies across products. It is not clear at this stage what kind of rules of origin the T-FTA negotiations will produce. If the aim to promote industrialisation is taken seriously, simpler rules of origin, not product specific rules would be more appropriate. In addition, a commitment to regional industrial development should also influence the tariff liberalisation negotiations. Exclusions and long lists of sensitive products would hamper the development of regional supply chains as well as the engagement in global supply chain developments, and should therefore be avoided. Realistically however, it may well be that the experiences of the constituent regional economic communities (RECs) such as SADC are repeated in the T-FTA. This would mean limited liberalisation and, especially for the smaller countries, limited opportunities to develop industrial activities.

Link infrastructure development with the development of a services agenda

Infrastructure development is a priority for the region and in recent years much progress has been made in the development of transport corridors such as the North-South Corridor. While physical infrastructure development is absolutely essential for the region to develop its agriculture, industry and services sectors, this is not enough. Effective use of infrastructure is only possible with appropriate regulation and regulatory harmonisation across the region. This means that infrastructure development is closely linked to the development of a services agenda; and specifically a services liberalisation agenda. Trade in services liberalisation has been very slow in the region; very few countries have developed comprehensive services strategies and very few have experience in trade in services liberalisations negotiations. The movement of business persons, an aspect of the services negotiations, has been prioritised to be included in the first phase of the negotiations. This can be expected to be very contentious. The time line for the first phase may well prove to be ambitious. It serves well to recall that the rules of origin negotiations in SADC took 10 years, and there are still outstanding issues such as the rules for wheat flour.

Ambitious agendas but a lack of implementation

Despite the fact that the T-FTA negotiations have just begun, there are already discussions about a Continental Free Trade Area. While this reflects the ambition of pan-African integration, the reality of African integration is replete with ambitious agendas and lack of implementation. Regional integration is a complex process; even if a very narrow trade-in-goods agenda is adopted. The T-FTA is an ambitious integration plan. A key question at this early stage of the T-FTA negotiations is, therefore, who are the

champions of a new generation of free trade areas (FTA); an FTA with a comprehensive agenda focusing not only on trade in goods, but also trade in services and trade-related issues, with the aim of promoting not only regional competitiveness but global integration following a model of open regionalism rather than the traditional African integration model which adopts a closed, inward-focusing stance.

Conclusion

Discussions on a Continental FTA may well be premature at this stage; there are many challenges to confront in the T-FTA. An incremental approach to integration may be far more appropriate; consolidate the building blocks first and then towards a pan-African FTA.

Imprint

The **Development and Peace Foundation** is a cross-party, non-profit-making organisation which was founded in 1986 on the initiative of Willy Brandt. More information is available under: www.sef-bonn.org

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