

Foreign Voices



No. 03
May 2012

An African Continental Free Trade Area (CFTA) by 2017: Is it the right way to go for Africa?

In January 2012 leaders of the African Union endorsed a plan to set up a Continental Free Trade Area (CFTA) by 2017. The time period might seem to be rather short given the complexities of uniting West Africa, Central Africa, East Africa and South Africa, but this date is not cast in stone. And if the action plan and the road map can be implemented as planned, then we could expect intra-African trade to increase significantly within a decade. This paper, written as a follow-up to the Potsdam Spring Dialogues 2012 entitled "Trade: Potentials and Pitfalls for Regional Integration and Development in Africa", gives a brief insight in challenges and opportunities for pan-African integration and calls for immediate action.

Dr Flora Musonda *

Director for Trade
East African Community (EAC), Arusha

**There is the need to give Africa a voice in the
global arena and the Continental Free Trade
Area will do just that**



Leaders at the African Union Summit, which took place from 23 to 30 January 2012 under the theme “boosting intra African trade”, endorsed a plan to set up a Continental Free Trade Area (CFTA) by 2017. I perceive this as the right key component of the AU’s strategy to boost trade within the region. Enhanced intra-African trade and deepened market integration can contribute significantly to sustainable economic growth, employment generation and poverty reduction, inflow of foreign direct investment, industrial development and better integration of the continent into the global economy.

Background

The reason for my enthusiasm for this noble move is that the continent is currently not trading within itself, while the continent is endowed with all sorts of resources including minerals, timber, agricultural products and more. The region is facing the challenge of importing more from traditional partners, in many cases Europe, while exporting few ranges of unprocessed products. This creates an unbalanced trade and thus keeps up the constant request for aid and loans in order to close the trade gap.

At the same time, intra African trade is quite low (below 10% of total trade) as compared to external markets. This is not a healthy situation for many countries and for the continent as a whole which is in dire need for development. The Continental Free Trade Area should have it as its goal to find a way to help African nations to export more goods instead of raw materials. There have also been signs of increased demand for imports into African countries, but serious problems remain to be solved before the continent can enjoy a significant economic boom.

Obstacles for Trade

One problem is a serious lack of production capacity. There is little industrial or machine production. The proportion of industrial production as a part of gross domestic product has decreased from 15 per cent to 10 per cent over the last 20 years, as the Africa Commission reported in 2010. This is also the case because the African region has many constraints including a lack of connecting infrastructure, low productive capacities, nature related issues such as weather variability, language problems, cultural disparities, poor countries mixed with relatively affluent ones, religious differences, a lack of investible resources, poor agricultural practices, among others. Poor transportation networks are another problem of the continent. And even if there are streets, traders often lose much time at border stations. The result of such trade barriers is that countries which should actually be able to feed themselves end up importing foodstuffs or become dependent on international aid. Yet, a promising factor is that infrastructure projects are in progress in order to address these problems.

It is therefore imperative that the African Union emphasises on the need of its members to increase spending on infrastructure, implement major energy projects, accelerate the construction of missing links and modernisation of railways, increase the

capacity of ports, and raise the production levels in general. To provide clean, reliable and affordable energy, African countries should develop renewable energy sources as well as nuclear power plants for peaceful use. Africa also needs to establish regional and continental broadband networks and submarine cables to promote Africa's digital economy. Apart from the lack of infrastructure, other areas which need close scrutiny are unequal customs and regulatory regimes between the different countries as well as bureaucratic intransigence in general.

Chances and Challenges for a Continental Free Trade Area

Leaders of the African states agreed that the CFTA should be operationalised by the (indicative) date of 2017. The time period might seem to be rather short given the complexities of uniting West Africa, Central Africa, East Africa and South Africa, but this date is not cast in stone. If the action plan and the road map can be implemented as planned, then we expect that intra African trade could double within a decade.

While the Continental Free Trade Area is indeed palatable to many who advocate unity for the African continent, it is still a fact that any attempt to bring the continent's markets together means building on a very small base. Indeed an FTA can boost the small base through advantages that are expected from liberalising larger markets. But while it might be easy to increase trade between African states, it is the longer-term investments that are more difficult to attract and yet countries lack domestic resources. The creation of an African Continental Free Trade Area is a long awaited event that might guarantee increased investment in Africa. Technically it is feasible; however, it will take resolute and credible political will from the continent's leaders. Sceptics are pushing for reform in economic policy, to create the right environment for the development of a private sector and a boost in investment. While these are key factors for manufacturing products, both for the African and the global markets, one can argue that a continental FTA can itself be a pulling factor to investment and a booster of intra African trade through expanded market.

It is understood that Africa has to deal with internal and external factors in order for this to be achieved. The first would be the continuing influence of Colonial ties that are exacerbated by development assistance. This might be a pulling factor toward the status quo. However, while many African countries are still tied to their respective colonial masters, there are new kids on the block. China for instance is a force to be reckoned with and there is virtually no African country at present without the influence of Chinese investments, road construction or trade. China might be the preferred partner to push investment in infrastructure in Africa, a necessary input to intra-African trade.

Recommendations: Action is needed now not tomorrow

My assessment of the progress towards the Continental Free Trade Area may indicate that several challenges and constraints exist, but Africa has to stand and be counted. While 2017 might be too early, the deadline can be missed. As long as the resolve is in-

deed there, a Continental FTA is possible. The launching of the Continental Free Trade Area should follow if necessary the principle of variable geometry as some countries might not be able to implement or they might be sceptics. Many might argue that this is not the appropriate and realistic time but when will it be the best time? Now is the time to give consideration to a multi-speed development of the CFTA to allow states to join at a pace that best suits their needs.

There is the need to give Africa a voice in the global arena and the Continental Free Trade Area will do just that. A favourable international environment is also important to complement the African continental efforts. There is need for greater political will and commitment to conclude the Doha trade negotiations to enable Africa to benefit significantly from trade as the engine for development. Other measures granting Africa a greater voice must include representation and participation in decision-making in international financial and development institutions.

But Africa itself needs to work harder to position its economies at the global arena and member states need to have national and regional policies that guarantee quick growth. Regional economies in Africa should press for aggressive infrastructural build-up through bodies which are already established for them, as well as take on new initiatives to enhance trade and productivity. The experience with many regional integrating groups in setting free trade targets leads to believe that the multi-faceted benefits of a Continental Free Trade Area cannot be achieved without adequate infrastructure policy, as well as legal, socio-political and cross-border security frameworks.

Guaranteed and predictable sources of funding are required for the implementation of projects. Africa's best efforts need to be complemented by continental institutions such as the African Development Bank and partnerships between the public and the private sectors at the international, continental and national levels. Besides this, there is need for consistency, coherence and transparency in dealings with Africa.

The Continent needs to work on establishing the appropriate institutions as enablers of the FTA. Their objectives should include the provision of adequate infrastructure, policy and regulatory frameworks, conducive social, political and economic environment, financial services and support to businessmen and women, locally and across borders.

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

Development and Peace Foundation
(Stiftung Entwicklung und Frieden - SEF)
Dechenstrasse 2
D-53115 Bonn

Phone: +49/(0)228/95925-0
Fax: +49/(0)228/95925-99
Email: sef@sef-bonn.org

Bonn, May 2012

ISSN: 1862-3913