Foreign Voices

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The Continental Free Trade Area in Africa – a step too far?

The CFTA concept of regional trade integration reflects a new trade policy thinking on the African continent, with a shift away from "deeper" integration towards an expanded model aimed at establishing new free trade areas across several existing trading blocs. Since African Heads of State and Government took the decision to fast track the establishment of the Continental Free Trade Area at the beginning of 2012, the concept has raised high expectations for boosting intra-African trade. This paper, written as a follow-up to the Potsdam Spring Dialogues 2012 on "Trade: Potentials and Pitfalls for Regional Integration and Development in Africa", argues that despite these commitments, no credible and serious efforts have yet been made to translate the concept into reality.

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What is actually needed is to expedite the consolidation of the existing RECs

* The paper expresses the personal opinions of the author and does not necessarily reflect the views of his employer or the publisher

In January 2012, the African Union's Heads of State and Government debated ways of boosting intra-African trade and took a decision to fast track the establishment of the Continental Free Trade Area (CFTA). In their decision, they interlinked the economic integration processes on the African continent with growth of trade by assuming that achieving the latter would lead to inclusive growth, income and poverty reduction as well as effective integration into the global economy.

The purpose of this paper is to examine whether the CFTA to be established by 2017 is the right component and strategy by the AU to boost intra-African trade. I argue that at present, the CFTA has remained on paper only and that no credible and serious efforts are in the making to implement the CFTA concept.

New trade policy thinking within Africa

The CFTA concept of regional trade integration reflects a change of policy thinking on the African continent, with a shift away from "deeper" integration, based on economic integration within the regional trading blocs, to an expanded model which aims to establish new free trade areas across several existing trading blocs. The latter approach is exemplified not only by the CFTA concept but also by the COMESA-EAC-SADC Tripartite Initiative. The CFTA is modelled on the Abuja Treaty establishing the African Economic Community (AEC). In the AEC paradigm, the RECs are the building blocks for achieving the AEC by 2017. But while the AEC focused on trade liberalisation within the existing RECs, the CFTA has been designed to focus more on other issues, notably the scaling up of efforts to dismantle both tariff and non-tariff barriers, enhancing commercial relations and market access, and mobilising resources for investing in Africa's infrastructure. Given its potential to turn around African economies through market integration, infrastructure development and connectivity, the proposed CFTA has raised high expectations for boosting intra-African trade. But just how realistic is it?

Exceeded deadlines and little effort to recover lost time

The proposal to have the CFTA in place by 2017 is simplistic for two reasons. Firstly, it is based on the assumption that the various FTAs within the RECs will be finalised by 2015-2016. But African FTAs are notorious for exceeding deadlines or start dates. Examples include the efforts to establish a customs union in ECOWAS by 2010, in COMESA by 2012 and in SADC by 2010. All these dates have been exceeded and little effort is being made to recover lost time. Secondly, and more important, it underestimates the efforts required in policy, regulatory and institutional consolidation.

There are examples from outside the African continent to draw on. The EU (27 countries) is the largest existing union of countries in the context of a common market. However, it should be borne in mind that the EU started with only six countries signing the Treaty of Rome in 1957 and it has taken decades for it to reach its present number of members. Through this growth and evolution process, the EU has developed robust policy mechanisms and supranational institutions that implement policies and regulations effectively. CFTA critics have therefore rightly argued that Africa needs more time to solve its numerous challenges, which are not limited to the contents of the action plan. When debating ways to put the CFTA in place by 2017, even some African Heads of State cast doubt on the feasibility of the timeframe. They take the view that sufficient instruments to make Africa economically independent and self-sustaining are already in place.

Ongoing policy reversals create uncertainty and make it difficult to implement integration initiatives

Even though many African countries have similar political structures and economies, enabling them to join and participate in FTAs, examples have shown that FTAs work better where the number of member countries is relatively low, as is the case in the EAC (five) or SACU (six). Once more countries are involved, e.g. in COMESA (19), SADC (15) or ECOWAS (16), a number of them seem to trigger abrupt and unanticipated policy reversals. These reversals create policy uncertainty and make it difficult to implement integration initiatives – even for the members that are willing to proceed with trading within the blocs. It is therefore highly unlikely that the success which cannot be achieved in smaller regional groupings will be within reach at a continental level.

Weak institutional and financial capacity and the absence of supranational institutions

In the past, resource constraints (capacity and financial) at the national level have often undermined the implementation of the diverse FTAs. Human capacity across the countries tends to be uneven; some of them face serious capacity deficits, thus slackening the progress of integration. In some cases, member states are also unable to raise sufficient financial resources to facilitate implementation of integration programmes or even meet their subscription costs. But a CFTA with members from 54 countries with diverse linguistic backgrounds and, moreover, different socio-economic and political systems will require much more human and financial capacity than is already needed today.

In addition to capacity problems, RECs have faced another major challenge. Due to a lack of political will and the fear of losing sovereignty, member countries have been reluctant to cede policy and regulatory powers to the various trading blocs so far. As a result, they often lack a legal mandate, which makes it difficult to enforce commitments or pioneer constructive initiatives. In addition, there is a lack of analytical and research capacities at the REC level to direct the implementation of regional integration programmes. Member states seem to feel pretty comfortable with this situation: they can frustrate disagreeable policies and also influence regional policy-making in accordance with their interests.

Will history be repeated once again?

For operationalising the CFTA in time, members elaborated an Action Plan and a Roadmap. The key clusters of the action plan include: Trade Policy; Trade Facilitation; Productive Capacity; Trade Related Infrastructure; Trade Finance; Trade Information and Factor Integration. It is not yet clear, however, how these clusters will implemented effectively. Thus, there is no clarity on how the CFTA would deal better with issues such as trade policy, which is already a focus of the existing RECs. Africa is repeating history once again: since gaining their independence, African countries have moved from one economic development strategy to another. In the 1960s, the dominant strategy was to put incentives in place in order to attract industries which produced previously imported goods and therefore save on foreign exchange whilst providing jobs. In the 1980 to 1990s, the thrust of economic policy shifted to export promotion where limited value added was generated by local raw materials (and other inputs) prior to being exported. After the 1990s, country policies shifted to regional integration and widening market access within the region became attractive. All these approaches were never consolidated, and there was no logical progression from one policy approach to another. Instead, there was a radical shift without evaluating possible successes or failures and debating the need for modifications.

Policy recommendations

Given the fact that a number of instruments for integration already exist, such as the Lagos Plan of Action, the Abuja Treaty, and the NEPAD Charter, the need to establish a CFTA might be less urgent than is commonly assumed, given that it would simply replicate the AEC. What is actually needed, instead, is to expedite the consolidation of the existing RECs which are supposed to be the building blocks for the AEC. A cut-off date for the AEC would then need to be agreed, i.e. 2017, and the countries that are ready could join.

Moreover, the African leaders need to foster appropriate policies, a regulatory environment and institutional arrangements (preferably a supranational institution) to facilitate implementation of the AEC. Intra-African trade should be boosted through more trade policy reforms such as tariff liberalisation and a removal of non-tariff barriers.

Similar efforts should be made by African countries to enhance their commerce at the global level. African countries may attract more managerial capacity, technological advancement and investment by trading internationally than within the continent. In any case, statistics show that at present, most African countries trade more with international partners than among themselves. This pattern may not change in the foreseeable future and it is important to be realistic about that.

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