

Chapter 1

Introduction

The establishment of the Continental Free Trade Area (CFTA) is a major milestone in the long march of African integration. As foreseen in the Treaty Establishing the African Economic Community (commonly known as the Abuja Treaty), which entered into force in 1994, the integration process is to culminate in the African Economic Community. A review of the current status of Africa's economic integration is the subject of Chapter 2.

The CFTA aspires to liberalize trade between African countries across the continent and to build on the considerable successes already achieved within Africa's regional economic communities (RECs). By doing so, the CFTA is set to facilitate intra-African trade; foster regional value chains that can facilitate integration into the global economy; and energize industrialization, competitiveness and innovation—and thereby contribute to African economic and social progress and development. These issues have been the focus of several earlier editions of the *Assessing Regional Integration in Africa (ARIA)* series, notably *ARIA V*, which made the case for a CFTA.

The CFTA's developmental approach is solidly grounded in Africa's political economy realities and development challenges. Any trade agreement embodies a confluence of broad political economy considerations underpinned by such principles as variable geometry, flexibility, and special and differential treatment. These are typically seen through such modalities as exceptions and exclusions, the time frame for implementation of commitments, and trade remedies, etc.

An ambitious initiative for the world's second-largest continent, the CFTA comprises the 55 member states of the African Union (AU) and 8 AU-recognized RECs with varying trade liberalization legal frameworks, plus a tripartite trade integration initiative for 3 of those regions. Matching ambition with implementation will be a critical challenge. To quote Nkosazana Dlamini-Zuma, former Chairperson of the African Union Commission (AUC), speaking at an event on 6 October 2014, "I don't think Africa is short of policies. We have to implement. That is where the problem is." Realism requires an astute appreciation of the political economy of integration

and the implications of implementing trade reforms. Chapter 3 looks at the political economy of the CFTA and offers a conceptual approach to understanding it.

The CFTA will be more than a traditional free trade agreement and will contain several elements of a single market. The scope of the CFTA Agreement (discussed in Chapter 4) covers trade in goods and services, investment, intellectual property rights and competition policy; whereas a traditional free trade agreement would often require only the elimination of tariffs and quotas on trade in goods. Norms and regulations related to services, for example, are typically harmonized when a single market is set up. The inclusion of services for negotiation alongside trade in goods recognizes that for 21st century value chains, services are critical inputs into the production of trade in goods. The services sector already contributes a substantial share to the output of most African economies.

The CFTA is also the first flagship project of the AU's Agenda 2063 and a keystone initiative that can help leverage Africa's progress towards attaining several Sustainable Development Goals, including targets for no poverty (Goal 1), food security (Goal 2), gender equality (Goal 5), affordable and clean energy (Goal 7), decent work and economic growth (Goal 8), industry, innovation and infrastructure (Goal 9), reduced inequalities (Goal 10), responsible consumption and production (Goal 12), climate action (Goal 13), peace, justice and strong institutions (Goal 16) and partnerships for the goals (Goal 17). The international community must focus on Goal 1 by keeping the pledge that "no one will be left behind... starting with the furthest behind first."

Chapter 5 looks into this pledge and highlights the CFTA as a means of eradicating poverty. It considers how different countries with different economic configurations can benefit from the CFTA and its distributional impacts at the subnational level and across vulnerable groups. It is essential that the benefits of the CFTA be shared equitably across the continent (a win-win approach).

The CFTA is being rolled out in parallel with the Boosting Intra-African Trade (BIAT) Action Plan, which aims to address the constraints and challenges of intra-African trade relative to seven priority policy clusters: trade policy reform, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration. Effective implementation of the BIAT Action Plan will be crucial for minimizing the challenges and maximizing the gains of tariff and services liberalization, and for ensuring that African economic operators and countries can take advantage of the CFTA. It is also important that the substantive content of the CFTA—including provisions on non-tariff barriers (NTBs), services, investment, and free movement of persons, trade remedies and monitoring and evaluation—be addressed. Both the BIAT flanking policies and the substantive content of the CFTA are examined in Chapter 6, which considers critical policies for ensuring a win-win CFTA.

Financing the CFTA is the subject of Chapter 7. A framework is presented for analyzing the implementation costs, including the structural adjustment costs, to both the private and public sectors. Domestic resource mobilization and development assistance are also discussed as options for financing the initiative.

At the heart of the CFTA is a developmental approach that recognizes the need for trade liberalization to proceed, and at the same time, address supply capacities and promote structural transformation. This approach is not only unconventional but also sidesteps many aspects of the carefully defined schedule of the Abuja Treaty's progression towards the African Economic Community. One option for the legal contextualization

of the CFTA Agreement is as an amendment to the Abuja Treaty, which would bring the Abuja Treaty up to date and refocus its operationalization for the task at hand—implementing the CFTA. These issues are discussed in Chapter 8, which looks into questions of trade governance, including the role of RECs at the regional level, and strategic public–private partnerships at the national level.

Chapter 9 situates the CFTA in a changing world. While Africa has placed “developmental regionalism” at the centre of its strategy for growth and structural transformation, current global trends show a growing scepticism towards regional integration and trade agreements. It is therefore critical that Africa not backtrack on its commitments to continental trade liberalization and related structural reforms through the CFTA. Trade remains a key driver of productivity, growth and welfare gains. It is also an important means of implementation and financing of the Africa development agenda. However, current concerns about the unequal distributive impact of trade require efforts to ensure a progressive pro-poor CFTA (as discussed in Chapters 5 and 6). This is important in a world marked both by recent tectonic changes in the outlook of several major international trading partners and a stagnation at the multilateral trade negotiating fora.

Finally, Chapter 10 looks ahead to the second phase of the CFTA negotiations and addresses key issues for achieving a development-friendly outcome for competition policy and intellectual property rights. A case is made for including electronic commerce in the second phase of the negotiations in light of the rapid digitization of modern economies.