Policy Brief

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The Real Deal? Pitching Africa's Biggest FTA within the AU Policy Framework

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The Big Leap

Africa's three major Regional Economic Communities (RECs) just signed the continent's largest Free Trade Area (FTA) deal in a tripartite summit session in Sharm El-Sheikh, Egypt on the 10th June, 2015. The meeting was so important it attracted attendance of not-so-usual visitors – heads of international organizations such as the World Trade Organization (WTO), United Nations Conference on Trade & Development (UNCTAD), and the World Bank. In SOTU, this is an exciting moment as the agreement signifies a big step towards achieving a key objective of the African Union (AU) Treaty Establishing the Africa Economic Community (1991) - To coordinate and harmonize policies among existing and future economic communities in order to foster the gradual establishment of the Community. The treaty has been ratified by 49 of the 54 AU member states, an impressive 91% score in compliance with regards to ratification.

The decision to launch the FTA was a culmination of the Tripartite Sectoral Committee of Ministers meeting in Bujumbura, Burundi in October 2014. The Ministers took into account the fact that the majority of the Tripartite Member/Partner States had made ambitious tariff offers and agreed on Rules of Origin to be applied in the interim whilst further work continues on product specific Rules of Origin (RIA, 2015).

The Grand Content

Popularly known as the *Grand Free Trade Area*, the Tripartite FTA will encompass 26 member/partner states from the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and the Southern African Development Community (SADC), forming the largest economic bloc on the continent and a launching pad for the establishment of the Continental Free Trade Area (CFTA) in 2017 (RIA, 2015). With a combined population of 625 million people, accounting for half of the membership of the African Union, a Gross Domestic Product (GDP) of USD 1.2 trillion, and 58% of Africa's GDP, this remains the most ambitious leap towards economic integration in Africa through trade, a move that should be hailed by Africa's citizens, their leaders, and the world.

Some of the 26 countries in the agreement include Kenya, Ethiopia, Rwanda, Zambia, South Africa, Egypt, and Zimbabwe; all who have actively contributed to a threefold increase to $102.6 billion in the tripartite's intra-trade in the last ten years. The FTA places priority on infrastructural development, industrialization, and free movement of business people, with the second pillar – formulation and implementation of a continental industrialization programme – being expedited in order to fast-track the realization of inclusive and equitable growth across the continent.

The FTA – AEC Nexus: A Panacea for Africa's Development

While the FTA provides an opportunity for robust economic development of the continent through trade, the agreement's aspirations also speaks to key provisions of the Treaty Establishing the Africa Economic Community (AEC). The modalities of establishing the Community in Chapter 2, for instance – especially the requirement for RECs to stabilise Tariff Barriers and Non-Tariff Barriers, Customs Duties and internal taxes existing at the date of entry into force of the Treaty (AU, 2010) – presents an ideal platform for trade policy harmonization across countries and hence smooth operation of the FTA. While various RECs are making progress at different levels, full implementation of the AEC Treaty by AU member states will finally lead to a customs union which in future, in addition to removing internal barriers to trade, will also ensure harmonization of external trade policies of participating countries.

Article 48 of the AEC Treaty also provides for harmonization of industrialization policies as a means of promoting industrial development of member states and integrating their economies – the key priority of *Grand FTA* as highlighted in the Sharm El-Sheikh summit. Article 49 suggests a focus on modernization of key sectors to create a basis industrialization and collective self reliance - Food and agro-based industries; Building and construction industries; Metallurgical industries; Mechanical industries; Electrical and electronics industries; Chemical and petro-chemical industries; Forestry industries; Energy industries; Textile and leather industries; Transport and communications industries; and Biotechnology industries.

To close in on the potential benefits of the Sharm Treaty, Egypt has already agreed with the African Development Bank (ADB) to provide credit facilities worth $500 Million to Egyptian exporters to support the country's trade deals with Africa. Such arrangements are also encouraged by Article 89 of the AEC Treaty which provides for close cooperation with African continental organisations including, in particular, the ADB and African Centre for Monetary Studies in order to ensure the attainment of regional and continental integration objectives.

Prospects

The WTO's Doha Round launched in 2001 put developing countries' needs at the centre of the trade negotiations. However, its inability to conclude major trade decisions[1] fourteen years later as well as the organization's institutional weaknesses[2] have cast doubt on the credibility of WTO as a channel for realizing equitable and inclusive economic development through trade. The tripartite FTA, rather than being seen as an alternative to the frustrating Doha Round, should be viewed as a complementary route to Africa's development through trade. If well operationalized and the AEC Treaty fully implemented, the two treaties will not only create opportunities for business development and have a magnetic hold on foreign direct investment, but will also strengthen the core objective of continental integration as envisioned in the AU Agenda 2063 while also improving the socio-economic standards of the African citizen.

The FTA also presents an opportunity to revive the interest of the private sector in regional integration issues; a course which was lost with the frustration of the hard-lined Doha Round negotiations. The African civil society will also use this opportunity to access a hopefully less restrictive space for participating in Africa's socio-economic development debates and platforms. This will translate to an inclusive and society-wide participatory effort in pursuing economic prosperity of the continent.

Conclusion and Recommendations

The pessimistic view of Africa being a dead continent is fast fading: Africa is rising, and the 3rd COMESA-EAC-SADC Tripartite Summit having made the boldest move by establishing the Sharm *Grand FTA* only reinforces this view. The world and Africa is keenly watching the gains African citizens will make out of the treaty. On a policy level, this is an obvious forward-only march into economic freedom, collective self-reliance, and continental prosperity. The FTA also conforms to the aspirations of Agenda 2063, AU's blue print for attaining continental prosperity through inclusive growth and sustainable development.

But such gains should not be conceptualized as stand-alone grand continental projects: They will have more positive impact if grounded and linked to similar regional policy initiatives and frameworks. To this end, the *Grand FTA* should be seen as a major milestone towards implementing commitments made by AU member states in the Treaty establishing the African Economic Community. Moreover, the FTA is an opportunity to strengthen Africa's integration by also bringing about socio-political stability and improving cultural ties, which all enhance interdependence and cooperation among citizens of member states.

[1] Singapore issues (Trade facilitation; competition policy; transparency in government procurement); agriculture (subsidies); and aid for trade (development assistance for trade)

[2] Consensus-based decision making; and increased diversity of members with different needs

To make the anticipated Sharm Treaty speak to AU's aspirations, this piece makes three propositions:

1. ***Strengthening the RECs***

The RECs form the building blocks of the FTA. They should increase their commitment towards reducing trade barriers within the communities to facilitate intra-regional trade. The RECs also need to fast-track convergence and coordination of economic policies (including exchange rates, investor requirements, and tax policies), and take necessary steps to strengthen financial sector linkages in order to achieve successful integration. They also have a role in jumpstarting the processes of harmonization of other key policies e.g. industrialization policies of individual states forming the RECs for easy of formulation of regional industrial programmes. These will only be achieved if - apart from during policy implementation and operationalization - the negotiation and policy formulation processes at the RECs are participatory enough to include other non-state actors, especially the civil society and private sector.

Efforts towards ensuring a level-playing field across the RECs will also be vital for fast-tracking the FTA agreement implementation. Of the three signatories to the tripartite treaty, for instance, only the EAC has fully established a customs union, a move towards not only eliminating internal barriers to trade, but one that requires for harmonization of external trade policy as well. Other RECs should follow suit.

2. ***Role of the AU***

As a continental initiative, the FTA will need endorsement of the African Union for both external legitimacy and political credibility. The AU may also consider incorporating the Treaty as part of its legal instruments to attract support and commitment of the member states towards strengthening economic ties among themselves.

Another potential role of the AU may involve provision of technical expertise to support Operationalisation of the FTA. This may include recruiting and training trade policy experts and trade negotiators to support the members in designing negotiating positions with external trade partners as well as helping with trade disputes resolution.

3. ***Forging Strategic Partnerships***

The FTA members need to proactively engage continental organizations, especially with regards to financing for trade among the AU and Sharm FTA members. To this end, the African Development Bank remains the most important exponent of Africa's regional integration. The Bank has always supported regional integration projects, especially transport (ECDPM, 2015): It is the executing agency of the Program for Infrastructure

Development in Africa, which focuses on energy, transport, ICT, and trans-boundary water resources. This is an outstanding capital that the AU member states should leverage on.

Inclusion of the private sector and civil society in trade negotiations will also help members settle on negotiation positions that enhance business development while also providing economic safety for Africa's citizens. Thinks tanks will also help in generating evidence-based policy advice around trade policy formulation and implementation by member states.

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