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THE CURRENT

How will the Continental Free Trade Area transform Africa?

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PITA: You're listening to The Current, part of the Brookings Podcast Network. With us today is Landry Signé, David M. Rubenstein Fellow with the Africa Growth Initiative here at Brookings.

As of May 30, Africa's Continental Free Trade Agreement, established last year, comes into effect, with 52 countries signed on to participate. What's the significance of this and what does it mean, functionally speaking?

SIGNÉ: The significance of the CFTA cannot be overstated. It is the largest free trade area in numbers of countries since the establishment of the WTO in 1994. In March 2018, 44 countries signed the establishment of the AfCFTA or CFTA. The CFTA had to come into effect 30 days after the ratification of the parliaments of at least 22 countries. On April 29, 2019, 22 countries had deposited their instruments of ratification of the CFTA to the African Union, meeting the threshold for the agreement to come into effect.

PITA: So what does that mean? Now that we say that the agreement is in effect, what does that mean going forward? What happens now?

SIGNÉ: With the coming into force of the CFTA, Africa has an opportunity to show leadership on the world stage through strength in unity, as the rest of the world retreats from multilateralism and increases protectionism, thinking of the US-China trade war, or Brexit, for example.

So, the CFTA has the potential to open up the free movement of goods, services, and people, and accelerate intra-African trade and regional integration. This is particularly important given the immense challenges to African trade. In fact, Africa only represents 3% of total global exports and in 2017, intra-African trade only represented about 17% of total African exports, which is very small compared to other regions that are about 60 or 70%, especially Asia and Europe.

If successfully implemented, the CFTA will help unlock Africa's tremendous business potential, for example, generating about \$6.7 trillion of combined consumer and business spending in 2030. The CFTA will as well accelerate industrial development, economic diversification, quality job creation, increasing value for more than 60% of the African population, and for African women, who represent more than 70% of the informal, cross-border traders. Similarly, it will be extremely important for small and medium enterprises, and the CFTA will as well contribute to sustained and inclusive growth, critical objectives of the Sustainable Development Goals and the Agenda 2063 of the African Union.

PITA: What does it mean for the success of the agreement that Nigeria, which is Africa's largest economy, and accounts for a sixth of the continent's GDP, that they haven't yet signed on?

It was quite a surprise as Nigeria was involved in the beginning of the CFTA negotiation, before even its establishment. However, I firmly believe that Nigeria will join the CFTA. Two reasons explain the delayed decision: First, some trade unions in the country were concerned about industrial development, or the potential of Nigeria receiving many products from other countries, distorting their market. Second, we just had Nigerian elections, so it was a very complex issue to be discussed during the election, but both the AU and ECOWAS have requested that Nigeria join within a short timeline. And many in Nigerian society, including former President Obasanjo have also requested a faster integration of the CFTA.

PITA: What are some of the details that still remain to be worked out before this fully gets implemented?

SIGNÉ: This is an extremely important point. Although the momentum is unique, smart choices and policy options should guide the road ahead for successful implementation of the CFTA. I do believe that the challenges to scale up and speed up continental integration and successful implementation of the CFTA lies with African governments – we spoke about Nigeria, for example, they have to join – but also regional institutions such as the AU, or the RECS, the regional economic communities, and the business community. In fact, national policymakers working closely with business, civil society, and international leaders must agree on continent-wide approaches and standards that prioritize free trade, economic diversification, industrial and technological development, and the development of human capital, infrastructure, investment, education and a conducive business environment. So this includes of course, access to finance and lowering the cost of doing business.

Another important point is the vast disparity between the African countries. For example, over 50% of Africa's cumulative GDP is located in countries such as Nigeria, Egypt, and S. Africa. Compare that with the six sovereign island nations of Africa, which represent about 1% of Africa's GDP. So it will be important to address those disparities to ensure that special and differential treatments for the least developed countries are adopted and successfully implemented.

PITA: You've talked about what it's going to mean for intra-African trade, the improvements between countries. What will this mean for Africa as a block, to trade with outside the continent?

SIGNÉ: This will also represent a tremendous opportunity for Africa, as it is easier for international partners to trade with one partner versus many. So, for example, a US corporation may serve the entire African market by only engaging with a given country. So it represents a tremendous opportunity. Additionally, in terms of trade negotiations with bilateral or multilateral partners, it is better to be a group of 55 countries versus having 55 negotiations.

PITA: So as we look forward, what are some of the remaining goalposts that need to be hit for this to fully come into effect?

SIGNÉ: So, a few things. The first one: as you know, later this year, the CFTA Secretariat will be launched to coordinate a forum for the successful implementation of the CFTA, and the AU should ensure that the right institutional configuration is adopted for the effectiveness of the Secretariat. So that's a very important point. The next point is the completion of the negotiation which includes market access for food and services. That negotiation was supposed to have been completed, but should be finalized by the end of June. We also have the phase two negotiations which is related to investment, competition, intellectual property, e-commerce, among other factors, which have to be completed. Countries should finalize their regulatory frameworks for service trade liberalization, submit their tariff concession schedule for trade in goods & services, and make progress in the signing of the free movement protocol.

I think even if it doesn't look like directly related to the CFTA, in order to really increase intra-African trade or trade between Africa and the rest of the world, it is extremely important that both African countries and regional institutions address barriers to trade and regional integration, including as discussed before registering the cost of doing business, infrastructure, having the right human capital, so education, creating jobs, diversifying industries, investing in technologies or facilitating access to finance, among other factors.