

Free Trade in Africa

On June 10, 2015, representatives from 26 African nations signed an agreement pledging to work together to establish a free trade area that would remove or reduce many tariffs and eliminate time-consuming customs procedures between them. Known as the Tripartite Free Trade Area (TFTA), this common market would encompass more than 630 million people and link together three existing regional trading blocks in Southern and Eastern Africa with a combined gross domestic product of \$1.2 trillion and more than \$102 billion in trade between member states.

The existing regional trading blocks are the East African Community, created in 2000; the Southern African Development Community, created in 1980; and an overlapping Common Market for Eastern and Southern Africa, which also took shape in the 1980s. The East Africa Community has made some progress fostering trade between its member countries, which include Kenya, Tanzania, and Uganda. Countries in the Southern African Development Community have a common set of external tariffs, and several member states use the South African rand, the most liquid and widely traded currency on the continent.

However, the existing patchwork of African trading blocks—there are some 17 in all, with many countries being members of more than one—has made it difficult to realize the gains from trade that could flow from an expanded single market. An African firm selling goods on the continent still faces an average tariff of 8.7 percent, compared with a 2.5 percent tariff on goods sold overseas. Other costs of intra-African trade include often-lengthy stops at borders for customs inspection, excessive customs-related bureaucracy and red tape, and a lack of adequate physical infrastructure, including roads and railways. As a consequence of such factors, it can take three weeks for a shipping container to travel the 700 miles from the Kenyan port of Mombasa to

Kampala, the capital of Uganda. There are also some vexing local content requirements. The South African Development Community, for example, requires that clothes traded within the region are both manufactured and sourced there to qualify for lower tariffs. However, because few textiles are produced in the region, the rules have stifled trade in garments.

For all these reasons, African countries are more likely to trade with Europe and America than they are with each other. Only 19 percent of Africa's \$930 billion in trade is with other countries on the continent. By comparison, some 60 percent of Europe's trade is within its own continent, as is 40 percent of North American trade. Other factors contributing to the lack of intra-African trade include low industrialization levels, restricted movement of labor, poor infrastructure, and a high dependence on exporting unprocessed commodities in many countries.

The thinking behind the TFTA is that harmonizing rules, reducing tariffs, and streamlining or removing customs procedures will allow African firms to sell more goods and services to their neighbors, enabling them to achieve greater economies of scale and lower costs, which would benefit all parties to the agreement. On the other hand, such agreements may prove difficult to reach and, if the past is any guide, even more difficult to implement, given political realities on the ground. Some observers think that the TFTA is too ambitious an undertaking and that focusing effort on improving the three existing regional groups would yield more gains. It's easier, they argue, to reach an agreement between five adjacent member states, as in the case of the East African Community, than 26 very different countries scattered over the entire continent.

Despite the skepticism surrounding TFTA, Africa nations have even bigger ambitions. In 2016, African leaders committed themselves to establishing a Continental Free Trade Area (CFTA) that encompasses all African countries. Two years later, in March 2018, 44 of those nations signed an agreement to create a CFTA. The pact will eliminate tariffs on 90 percent of products, liberalize services, and reduce nontariff barriers. A second phase of negotiations, to begin later this year, will focus on investment, competition, and intellectual property rights. Proponents of the deal believe that it will merge Africa's fragmented markets into one large continental market, ignite industrialization, boost economic growth, and create jobs. However, 11 African nations have yet to sign onto the deal, including Nigeria and South Africa, the two largest African economies. While both countries seem to agree with the pact in principle, they view the pact as incomplete. They point out that countries have not yet decided which goods will be excluded from the tariff reductions. Nor have they finalized key annexes to the



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text. For example, the chapter on “rules of origin” is incomplete, raising the possibility that goods from outside Africa could be imported, have African labels placed on them, and then be traded within the bloc as African goods. There is also strong opposition to the pact from labor unions within Nigeria, who have called the trade deal a “radioactive neoliberal policy initiative.”

Sources

“Intra-African Trade: The Road Less Travelled,” *The Economist*, April 17, 2013; Martin Stevis and Patrick McGroarty, “African Leaders Pledge to Create a Free Trade Zone,” *The Wall Street Journal*, June 10, 2015; “Trade Within Africa: Tear Down These Walls,” *The Economist*, February 27, 2016; John Aglionby, “Africa Looks to Boost Growth and Jobs with Free Trade Area,” *Financial Times*, December 1, 2016; “Why Africa’s Two Biggest Economies Did Not Sign Its Landmark Trade Deal,” *The Economist*, March 29, 2018.

Case Discussion Questions

1. Why are African countries more likely to trade with Europe and America than they are with each other?
2. What are the likely gains from trade to be had from TFTA if it is fully implemented as a common market?
3. Why do you think free trade areas established so far in Africa have not lived up to their expectations?
4. What will African countries need to do to make the TFTA a success? What are the likely impediments to doing this?
5. What could the impact of CFTA be on Africa?