The suicidal folly of the Africa's Continental Free Trade Area (CFTA)

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The roadmap of the Continental Free Trade Area (CFTA) was adopted by the African Union in 2012 and the decision to launch the negotiations in June 2015 at the 25th Summit of the African Union, with the aim of implementing it by the end of 2017.

This goal is a totally unrealistic folly of the African Union, in its contents and timing, but supported by UNCTAD and the United Nations Economic Commission for Africa (UNECA). Thus the Secretary-General of UNCTAD, Mukisha Kituyi, said on Sept. 29, 2016 at the WTO Public Forum, "*I have been privileged to meet with 16 African presidents to discuss the CFTA and rejoice that many political leaders believe in the future and the need for African integration*"[1]. For the two main UNECA experts having promoted the CFTA – Lily Sommer and David Luke – "*Indicative CFTA agreement finalisation deadline of 2017 is ambitious… However, timely implementation of the CFTA is crucial, particularly in the context of MRTAs and shifts towards reciprocity*"[2].

Fascinated by the mega-regional trade agreements (MRTAs) like TTIP, TTP and CETA, the African Union flexes its muscles by pretending to do better among its 54 Member States[3]. Ms. Fatima Haram Acyl, African Union Commissioner for Trade and Industry, stated at the opening of the First CFTA Negotiating Forum Meeting on 22 February 2016: "*The emergence of Mega Regional Trade Agreements continue to threaten Africa's market access in established markets - severely diminishing the value of preferences such as AGOA and EBAs, and it appears that this trend will continue to accelerate. What does this mean? It means that Africa's destiny is once again in its own hands. While we may not be able to control what happens at the WTO or in the MRTAs, what we make of the CFTA is entirely in our hands*"[4]. This is illusory and contrary to the lessons of history which shows that all the developed countries of today have reached their competitive position through a high import protection on agriculture and infant industries and, on top of that, they have benefited (and are still benefiting) from huge subsidies, not to speak of the exploitation of their Southern colonial countries. As Mamadou Cissokho stated in the WTO Public Forum in September 2014: "*All countries which have developed begun by creating the conditions to do it through import protection and it is only afterwards that they have open their markets to other countries. One cannot ask today to Africa to be the first example showing that it is by first opening its markets that it will develop*".

[1] https://www.wto.org/audio/pf16_session72.mp3

[2] http://www.ictsd.org/sites/default/files/research/trade_and_poverty-final.pdf

[3] Africa has 55 States but the AU has only 54 because Morocco left the AU 32 years ago when the AU recognized the Saharawi Republic. Morocco sent a letter to the AU on 17 July 2016 on its desire to join again the AU, not hiding its intention, once admitted again tin the AU, to try to convince most AU Member States to withdraw their recognition of the Saharawi Republic. However UNECA assessment takes into account Morocco.

[4] http://www.au.int/en/speeches/opening-statement-he-fatima-haram-acyl-african-union-commissioner-trade-and-industry

The baseline to which the CFTA impact is compared being the situation without any change in trade reforms, the UNECA assessment of June 2012 claims a huge rise in intra-African trade: "*It would add up to USD 34.6 billion (52.3 per cent) to the baseline in 2022. Imports of African countries from the rest of the world would come down by USD 10.2 billion, well compensated by the significant projected increase in intra-African trade… While the share of intra-African trade would increase from 10.2% in 2010 to 15.5% in 2022 after the establishment of a CFTA, it would more than double over the twelve year period (increasing from 10.2% in 2010 to 21.9% in 2022) when trade facilitation measures are considered. Similarly, real income for Africa improves by nearly 1 per cent whatever the trade policy considered*"[5]. The MIRAGE econometric model used has huge limitations as it is based on data available for only 16 of the 55 African States, the other States being aggregated – in West Africa only Nigeria and Senegal are considered, the other 14 States being aggregated –, and with tariffs of 2004, which have changed significantly since then, particularly on agricultural products in ECOWAS. Among the other usual unrealistic assumptions of such models: total trade liberalization over five years (2017-22), including of sensitive agricultural products, full employment of production factors, including labour, one single consumer per country-region. Although not included in the model, the CFTA assumes the liberalization of trade in services, of non-trade barriers (NTBs) and the simplification of rules of origin (ROO).

The report is particularly unfeasible when it claims that intra-Africa agricultural exports, particularly in wheat, could almost replace extra-Africa imports: "*Africa's exports of agricultural and food products—particularly wheat, cereals, raw sugar (sugar cane and sugar beet) and processed food (meat, sugar and other food products)—would benefit most from the CFTA. These are products in which African economies have comparative advantages and that are sometimes highly protected by some countries in the region. Under the CFTA, Africa's export volumes of agricultural and food products would increase by an extra 7.2 per cent (or USD 3.8 billion) in 2022 above the baseline*". Indeed extra-Africa annual imports of wheat have jumped from $3.184 billion from 2000-02 to $11.625 billion in 2013-15 while exports have risen from $34 million to $173 million implying a net deficit risen from $3.150 billion to $11.452 billion[6]. At the same time intra-Africa exports of wheat have only risen from $24,572 to $139,900. There is not a single African country which is a net exporter of wheat and the intra-Africa exports of wheat are re-exports to neighbouring countries of extra-Africa imports.

Admittedly a free trade agreement is not a customs union in the sense that Member States abolish only tariffs between them, while maintaining their own tariffs on third countries, but this would be impossible. Far from promoting regional integration of the continent it will disintegrate it strongly in opening wide the doors to multinationals that are already well implemented in most countries and which would concentrate their activities in the most competitive countries from which they would export to the others. Already geopolitics shows that it would be almost impossible to establish common trade rules in this huge continent with a population of 1.2 billion in 2016, expected to reach 2.5 billion in 2050, with very different political institutions, poor transport infrastructures, and where per capita GDP in 2015 goes from $276 in Burundi to $15,476 in the Seychelles through $911 in Senegal, $1,377 in Kenya, $1,381 in Ghana, $1,399 in Ivory Coast, $2,640 in Nigeria, $3,615 in Egypt, $3,873 in Tunisia and $5,692 in South Africa.

[5] http://www.uneca.org/sites/default/files/PublicationFiles/aria5_print_uneca_fin_20_july_1.pdf
[6] http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

UNCTAD endorses fully the CFTA objective to reach "*a broader and deeper level of liberalization than existing in extra-regional FTAs (such as the ACP-EU EPA* [Economic Partnership Agreement] *and other bilateral FTAs)*"[7]. In other words UNCTAD takes for granted the implementation of the EPAs and has nothing to complain about. However, as the EPAs would liberalize 80% of imports from the EU these duty-free imports would find their way in all Sub-Saharan Africa (SSA) so that the expectations that the CFTA would increase intra-African trade would not materialize. Because the products imported duty free from the EU would be more competitive than most African products despite the deeper level of liberalization the CFTA is expected to make. The South Centre for example has shown that only 6% of Nigerian tariff lines are more competitive than the EU products.

Furthermore UNCTAD adds: "*Eliminate tariffs on intra-African trade in agriculture through CFTA would be a key factor because agricultural trade protection face a rate higher than that of non-agricultural sectors*", proposing "*mutual concessions in market access between the parties between agriculture and industry*", demonstrating its total misunderstanding that agricultural markets have always been subject to special protection measures since the Pharaohs in all countries. Indeed, unlike industrial goods and services, they cannot self-regulate: facing a stable food demand in the short run, agricultural production and prices are subject to weather vagaries, which will increase with climate change, to which are added the fluctuations of world prices in dollars, accentuated by fluctuations in exchange rates and speculation. Given that African farmers account for about 60% of the whole active population of SSA, we can imagine the huge social impact that liberalizing agricultural trade within SSA could have. At least the EPAs agree to not liberalize most agricultural imports from the EU, one of the reason being that they are highly subsidized by the EU. But UNCTAD and UNECA do not take this into account when proposing to eliminate all tariffs in intra-Africa trade so that the EU subsidized agricultural products would have a ripple effect of dumping throughout Africa.

The more so as UNECA is proposing, beyond the CFTA, to implement the Abuja Treaty of 1991 mandating the establishment of a Continental Customs Union (CCU) by 2019: "*A functioning CCU will also require border checks between members of the union to be abolished and the alignment of all bilateral agreements and free trade agreements with the CET. This will be challenging but not impossible to achieve… The CCU would reduce the average protection imposed by African countries on imports from outside Africa. This increases African imports from the rest of the world by between 2.7 percent (US$16.2 billion) and 3.5 percent (US$21.6 billion) by 2022, as compared to a scenario where only the CFTA is in place… Both intra- and extra-African exports also increase (between US$45.8 billion and US$52.9 billion) as a result of the CCU as African economies become more competitive on the world market due to lower production costs brought about by lower import costs*".

The expected benefits from the CFTA and CCU are so large that UNECA does not even bother to deal with the huge fall in tariff revenues in its comprehensive report of June 2012. Even if it acknowledges that "*The distribution of income gains is not expected to be equitable among countries… Nevertheless, if the CFTA is complemented by trade facilitation measures, all African countries would actually benefit positively from the establishment of a CFTA, in terms of both trade and real income*". However in a subsequent paper of 30 October 2012 Simon Mevel and Stephen Karingi of UNECA admitted: "*Turning to the country analysis of the results, these are somewhat more ambiguous than at the global level… Even if real income variations are limited, almost half of African countries/regions considered in the study would*

[7] http://unctad.org/en/PublicationsLibrary/ditc2015misc3_en.pdf

be worst off in terms of real income after the formation of free trade areas. Three main justifications can be advanced. Firstly, while African countries liberalize, governments have to renounce to a non-negligible source of income namely, tariff revenues. Secondly, as African economies open up, competition is increasing on the continental market. As a results trade flows are reoriented such as African imports from partners located either on the continent or outside of the continent are being replaced by imports from African partners benefiting from better market access, thanks to tariff cuts, and potentially leading to terms of trade reductions. Thirdly, as world prices of food products slightly increase with the liberalization reforms, net-food importing countries such as Angola & DRC, Mozambique, Botswana, Rest of North Africa, Nigeria and Central Africa are hurt and their real income reduced… Workers employed in countries strongly specialized in exports of primary products, such as oil exporting countries: Angola, Egypt, Nigeria, Rest of Eastern Africa (inclusive of Kenya), Rest of North Africa; as well as Zambia (69% of Zambia's exports are mineral and metal products) register a decrease in real wages"[8]. Despite these acknowledgments, the authors conclude by saying: "*Deepened regional integration in Africa through establishment of wider Free Trade Areas would benefit to the continent. Such reforms would increase exports, real income as well as real wages for all categories of workers for Africa as a whole*".

All this helps to understand why the developed countries and the neo-liberal institutions they control are very enthusiastic to finance the CFTA process – which would open up the African markets to their exports –, as acknowledged by Ms. Fatima Haram Acyl who stated: "*Let me take this opportunity to express my appreciation for the various partners that have been working with us in this regard, UNCTAD, TRALAC, UNECA, WTO and DFID through Trade Advocacy Fund. In the same vein let me also express my appreciation for the assistance that the Commission has received and continues to receive form various partners including the EU, GIZ, USAID, DFID, Sweden*"[9].

With these ideas in mind, inculcated by the African Union, UNCTAD and UNECA, we understand why most Heads of State of sub-Saharan Africa have opposed so little resistance to the EPAs, which, paradoxically, could even appear as a lesser evil than the CFTA and CCU!

This madness is topical for ECOWAS after the debate of 13 October 2016, at the INTA Committee of the European Parliament on the ratification of Ghana's interim EPA in the presence of the Foreign Minister of Ghana, Ms. Hannah Tetteh. Indeed it is the Minister of Trade and Industry of Ghana, Ekwow Sio-Garbrah, who hosted an ECOWAS meeting from 9 to 11 March 2016 in Accra to find a common position of Member States on the CFTA. The Minister said that "*The successful implementation of the CFTA would depend on how well it meets the needs of the private sector. It is generally expected that the rules that African countries enact for the conduct of trade such as the CFTA are meant to be exploited by the private sector. Private sector engagement and sensitization on the CFTA is therefore critical at all levels*"[10]. The "private sector" quoted by the Minister does not designate the hundreds of millions of African smallholder farmers – who could produce much more with guaranteed stable

8 http://www.afdb.org/fileadmin/uploads/afdb/Documents/Knowledge/Deepening%20Regional%20Integration%20in%20Africa%20A%20Computable%20General%20Equilibrium%20Assessment%20of%20the%20Establishment%20of%20a%20Continental%20Free%20Trade%20Area%20followed%20by%20a%20Continental%20Customs%20Union.pdf

9 http://www.au.int/en/speeches/opening-statement-he-fatima-haram-acyl-african-union-commissioner-trade-and-industry

10 http://unctad.org/meetings/en/Presentation/ditc-ted-09032016-accra-Minister-Trade-Ghana.pdf

remunerative prices through an efficient import protection – but the tens of multinationals and African private companies that are pushing to abolish tariffs between African countries. But the Ghana's Minister went further than fostering intra-Africa trade, when he added: "*Admittedly, deriving benefits from international trade remains a challenge for most of our countries as measures such as Rules of Origin, infrastructure deficits, lack of diversification, overly high standards and technical barriers disguised as trade policy tools continue to restrict us from taking advantage of market access opportunities, thereby hampering our effective integration into the multilateral trading system*". But the EPAs, of which the Ghana's interim EPA, would open a large breach in the outer protection of African domestic markets rather than fostering extra-Africa exports.

The Third World Network Africa summarizes the likely impact of the CFTA: "*The processes leading to the establishment of the CFTA have not been as transparent, participatory and inclusive… The citizenry, the main 'beneficiaries' of the CFTA, have not played any meaningful role in the processes outlined so far… The RECs as such are not parties to the negotiations… CFTA that comes in being will simply create a giant African market place with little of African products to trade in… The CFTA will simply facilitate the movement of products imported from Europe and other areas across Africa… The CFTA is a lower level of integration than the customs union already in place in some regions, such as West Africa and EAC, with their common external tariffs*"[11].

The negotiations of the Tripartite free trade agreement (TFTA) were launched in June 2011 and initialled in June 2015. It includes the 27 States of the three Regional Economic Communities (RECs) of COMESA, EAC (Eastern Africa Community) and SADC, but not these 3 RECs themselves. The TFTA is no more credible than the CFTA although it is considered as a stepping stone towards it. Its 703 million inhabitants in 2016 go from Egypt to South Africa with very different development levels, these two countries alone accounting for more than half total GDP. Besides "*The TFTA would divide the customs unions as some countries have signed; others pledged to sign while giants like South Africa have declined to sign*"[12] because "*SACU, which is a customs union… guiding principles prohibit members from joining on individual basis trading arrangements such as the TFTA... One of the reasons why caution is called for has to do with the challenges involved in finalizing tariff offers and rules of origin; which are the basic building blocks of an FTA*". For Johan Burger "*There are fears that the real big winners will be multinational corporations from outside Africa that have settled in big cities and would be provided with easy access to a multitude of markets. Another major problem that has not been dealt with yet, is the potential loss of revenue for governments, as customs duties are a major source of government revenue*"[13].

Another issue of African market liberalization relates to the efficiency of export processing zones (EPZs) to foster regional development. According to François Bost, "*There are 29 free zones today in 11 West African countries, which can be broken down into free trade zones (6) and export processing zones (23) and to which may be added some 450 "free points"… West African countries that have adopted free zone regimes have not succeeded in attracting more foreign Direct investment (fDi) than countries that do not have such regimes*"[14]. Togo is the West African country with the largest EPZ, but with negative impacts. It accounts for more

[11] http://twnafrica.org/Agenda%2019.2.pdf
[12] http://www.sundaystandard.info/new-tripartite-free-trade-area-threatens-future-sacu
[13] http://africabusiness.com/2016/06/22/tfta/
[14] https://www.oecd.org/swac/publications/49814045.pdf

than half of its industrial exports and 80% of its products are sold in the ECOWAS[15], but the value added has declined over time: "*Since 1991, the EPZ has provided many benefits and privileges (tax, financial and administrative) to encourage businesses to generate more jobs and value added in the country. In 2001, the domestic value added accounted for 51% of corporate revenues established in the EPZs. Since then, this share has slipped just 18% in 2012 ... The contribution of EPZs to the modern employment has reached nearly 12% in 2013. The majority EPZ companies have moved away from legal provisions relating to the use of labor-intensive equipment in exchange for tax exemptions and other privileges. Manufacturing accounts for 88% of employment in the EPZs, but his participation in the creation of added value in the area is only 12%. This is a direct consequence of the low-skilled and less paid jobs, with more than half the jobs in the EPZs cover synthetic hair production, wigs, hairpieces and cosmetics ... But, intermediate consumption is largely imported. The share of local intermediate consumption in the EPZs fell 32% in 2000 to 12% in 2012. Curiously in manufacturing, imports have provided up to 94% of intermediate consumption*"[16].

Instead of this headlong rush in a non-mastered free trade, the reason commands to start by strengthening each REC during at least a dozen of years before expanding free trade to several RECs and a fortiori to the entire continent. As noted by Cheikh Tidiane Dieye, director of ENDA-CACID, "*In many cases, it is the States themselves which refuse to implement the decisions which they have freely taken. The most striking example is the free movement of goods and people in West Africa. Since 1979 ECOWAS has adopted a protocol on free movement of goods and persons, reinforced later by an arsenal of regulations and decisions, the Scheme of trade liberalization of ECOWAS (SLEC) and more recently the common external Tariff (CET). But it suffices to travel between the West African countries to realize the gap between the legal decisions and actions on the ground*"[17]. Ademola Oyejide, emeritus Professor of the University of Ibadan, goes further in 2015: "*One of the reasons for Nigeria to stay out of the EPA is that the economy must first fully internalize the costs of adjustment related to the implementation of the CET before having to adjust to a different set generated by the significant trade liberalization that would come with the EPA*"[18].

[15] http://www.afdb.org/fr/blogs/measuring-the-pulse-of-economic-transformation-in-west-africa/post/the-role-of-togos-export-processing-zones-in-the-global-value-chain-13413/
[16] http://www.afdb.org/fr/blogs/measuring-the-pulse-of-economic-transformation-in-west-africa/post/the-role-of-togos-export-processing-zones-in-the-global-value-chain-13413/
[17] http://www.ictsd.org/sites/default/files/review/Pass_August_16.pdf
[18] http://www.frontiersnews.com/NG/?p=34371