



Towards One African Market

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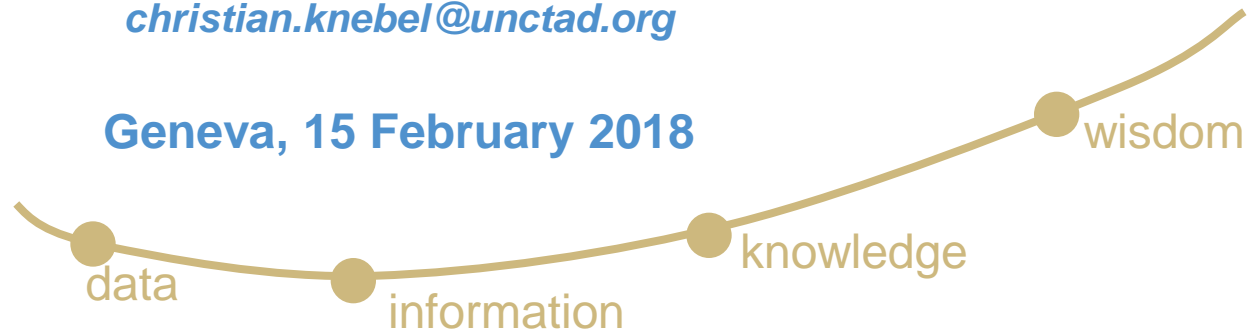
## Africa 21 Winter Seminar Negotiations for a productive cooperation

### The African Continental Free Trade Area: an opportunity for structural transformation

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Geneva, 15 February 2018



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# CFTA: 54 countries and 1 billion people

- The CFTA is a "flagship project" of the African **Agenda 2063**: Like the UN Agenda 2030, it is an integrated sustainable development agenda with social, environmental and economic with goals
- Objectives of the **CFTA**
  - Kenya’s President Uhuru Kenyatta: “There cannot be a good reason why it is easier for us to trade with Asia, Europe and the Americas, rather than with fellow Africans.”
  - "Create a **single continental market for goods and services**, with free **movement of business persons and investments** [...]."
  - “structural transformation” away from commodities towards industrialization
  - SDG target 17.11: significantly increase the exports of developing countries, in particular with a view to doubling the LDC share of global exports by 2020
  - Better than other trade agreements → South-South agreement between friends/partners (opposite of “divide and conquer”)



# Scope of the CFTA: wide and deep

## Trade in goods

- Tariff liberalization,
- NTBs,
- RoO,
- Trade Facilitation
  - Customs cooperation
  - Harmonization of Doct
- Transit & Transit facilities,
- Trade remedies,
- Safeguards
- Standards,
- Technical Barriers 2 Trade
- Sanitary and phytosanitary
- Dispute settlement
- Institutional arrangements

## Trade in Services

- Transportation
  - Air, maritime
- Financial Services
  - banking,
  - insurance,
- Tourism,
- Energy,

## Other Issues

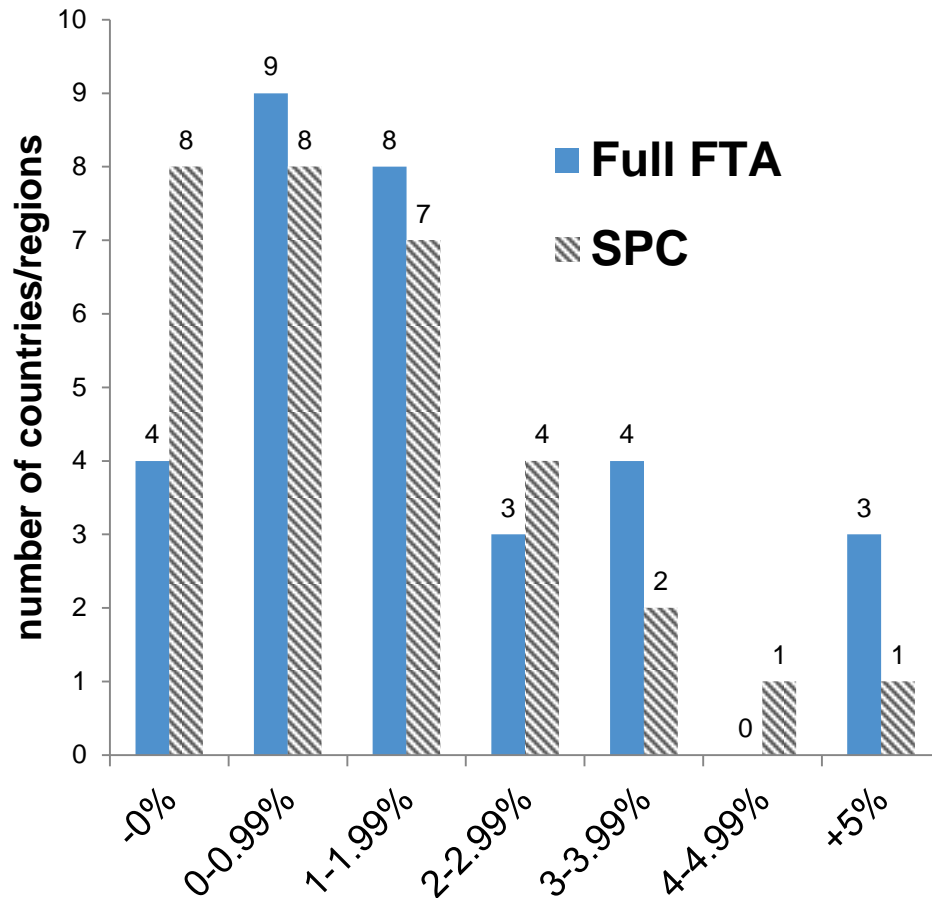
- Competition policy
- Intellectual Property Rights,
- Investment
- Movement of business persons,

**Phase I:** Trade in goods and trade in services will be negotiated concurrently.

**Phase II:** Other Issues (Investment, IPR, Competition Policy)



# UNCTAD analysis: gains from *tariff liberalization*

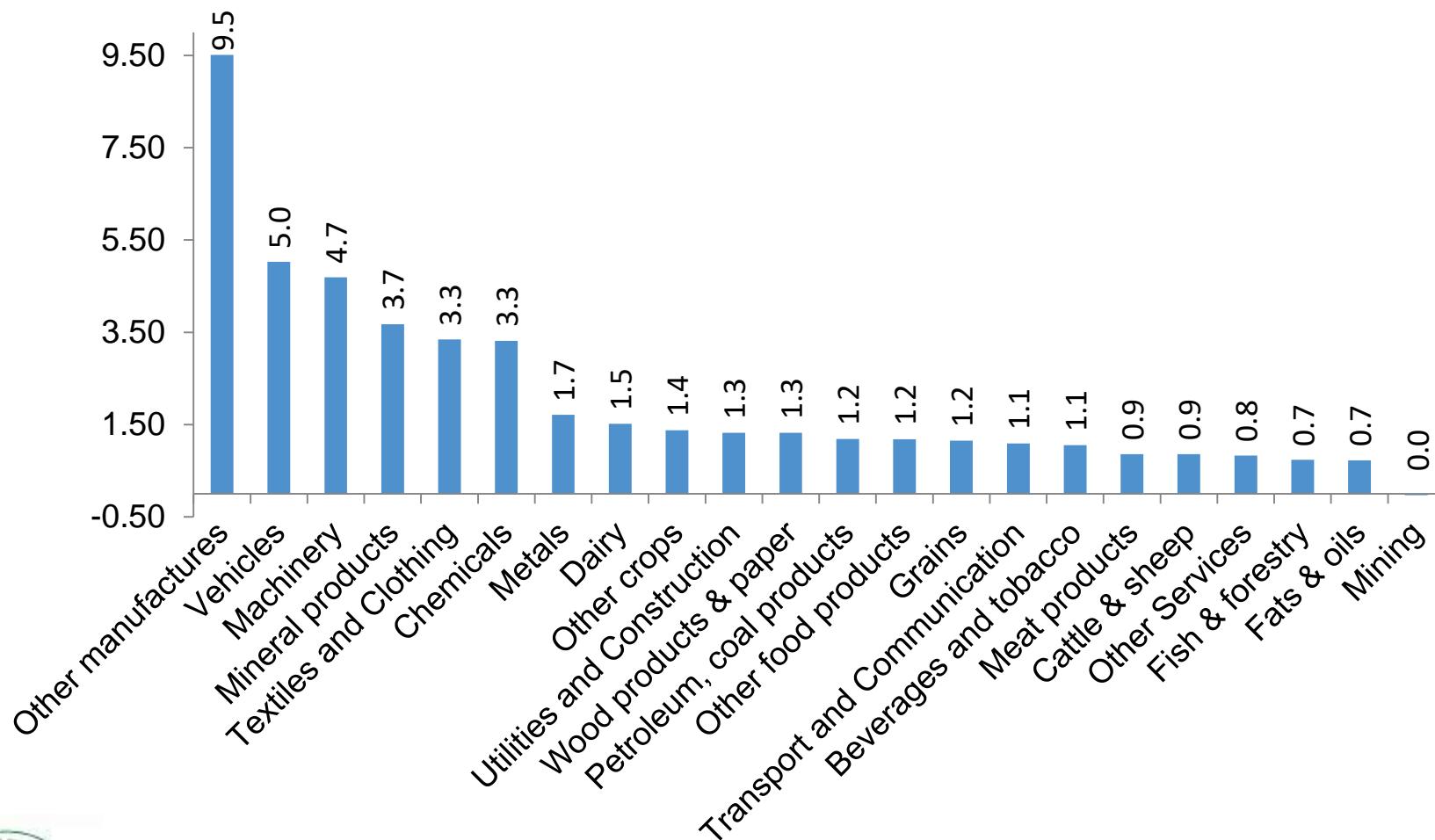


Welfare gains from the CFTA are substantial

- Elimination of *all* tariffs (**Full FTA**)  
→ greatest long term benefits  
→ 16 billion USD, +0.97% GDP, +1.17% employment
- CFTA with product exemptions (**SPC**)  
→ reduced long-term benefit  
→ 11 billion USD, +0.66% GDP, +0.82% employment
- But losers exist...!

\* The GTAP model distinguishes 42 different goods sectors.  
More detailed, tariff-line-specific exclusion cannot be modelled in GTAP.

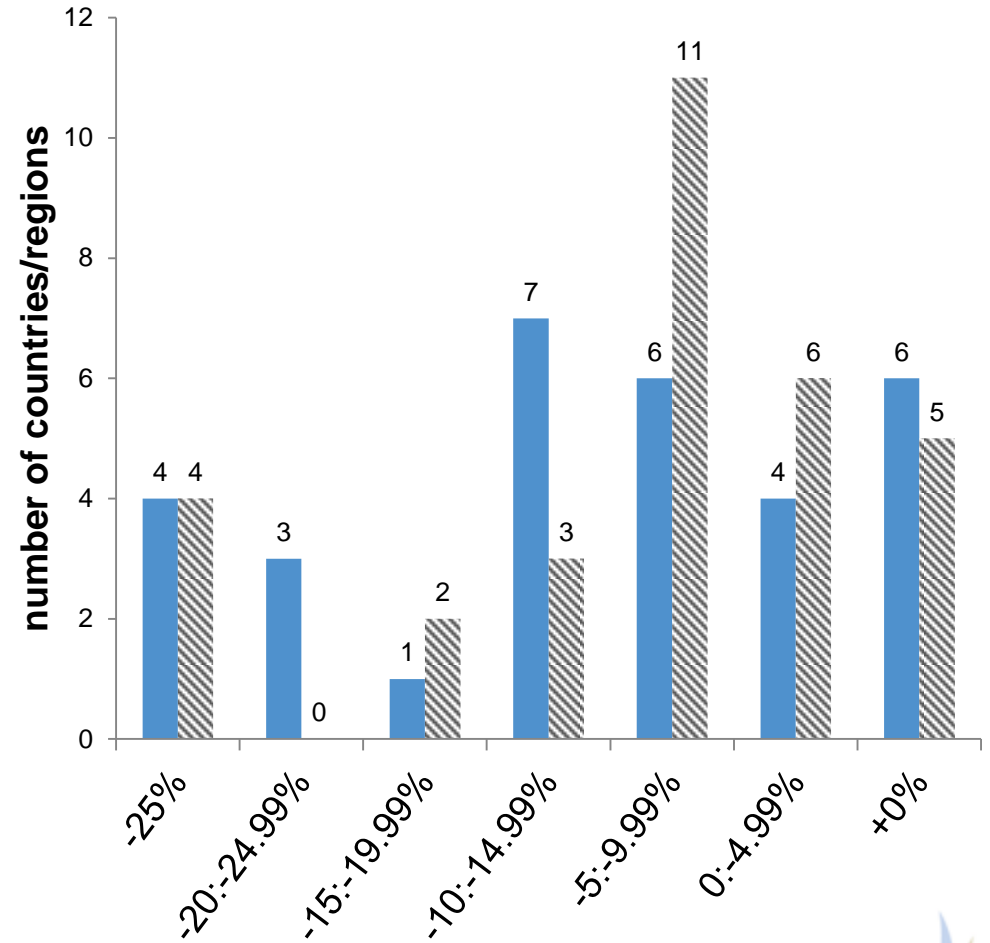
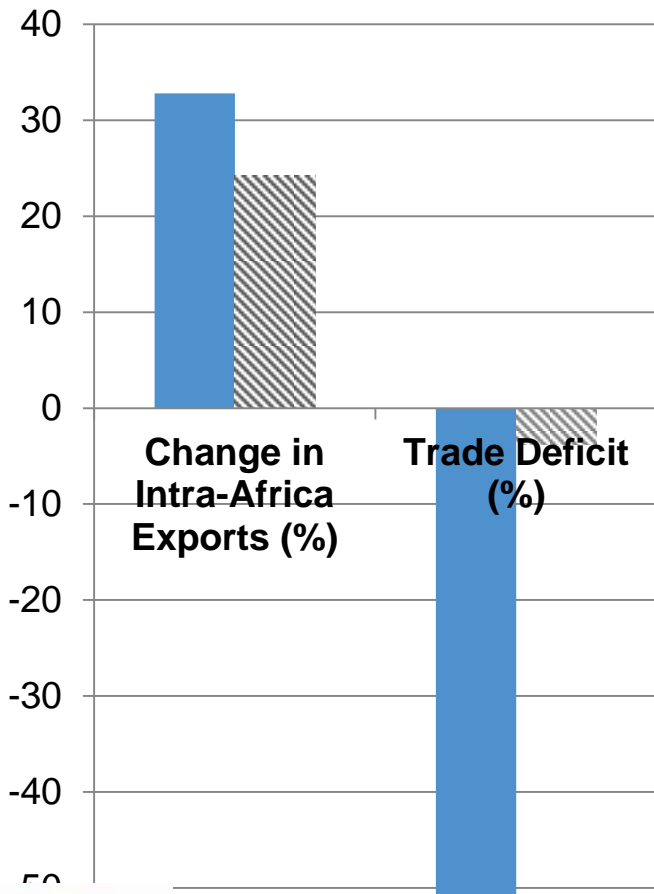
## Growth by sector: structural transformation looms



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# Trade growth...but tariff revenue losses



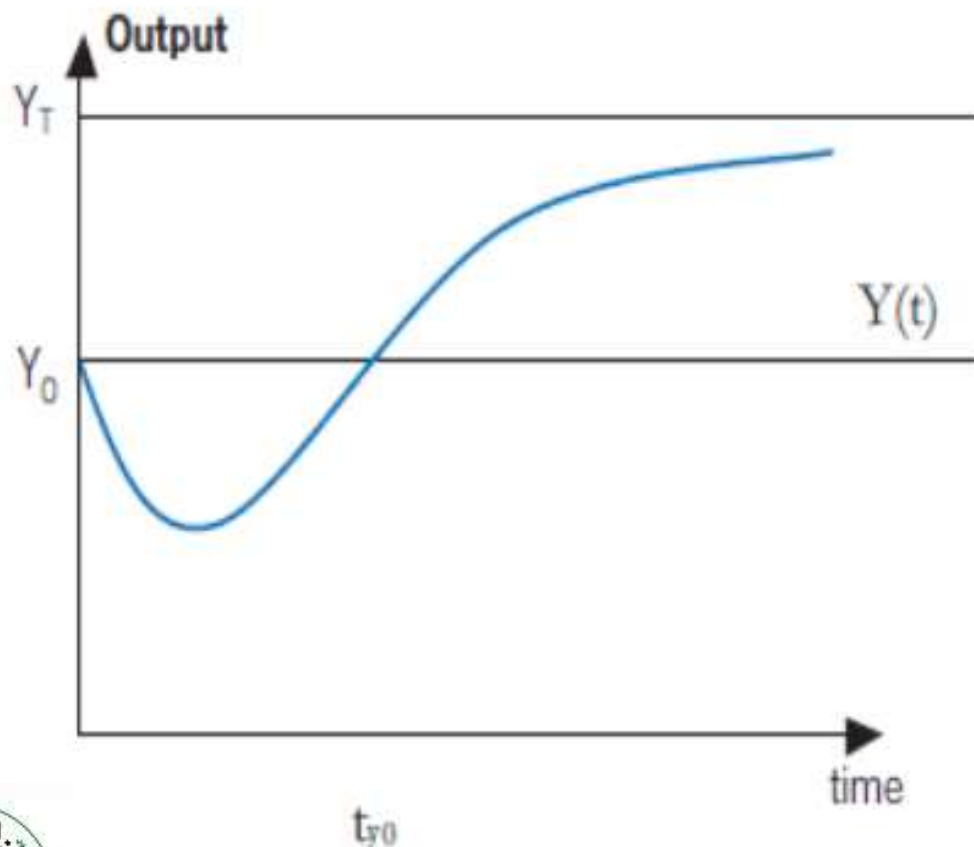
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## BUT: adjustment costs



*Countries face adjustment costs during the transition period, especially if economies are not flexible enough*

*In the long-run, however, FTAs are expected to bring higher output growth and welfare gains for participating countries that can compensate short-run losses*

Source: Francois et al. 2011

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## An overview of adjustment costs

Private adjustment costs	Labour	Unemployment Lower wage during transition Obsolescence of skills Training costs Personal costs (e.g. mental suffering)
	Capital	Underutilized capital Obsolete machines or buildings Cost of shifting capital to other activities Investments to become an exporter
Public sector adjustment costs		Lower tax revenue Social safety net spending Implementation costs of trade reform

Source: Francois et al. 2011

**→ Flanking policies are crucial to facilitate swift movement of labour/capital and to ease the social impact of short term costs**



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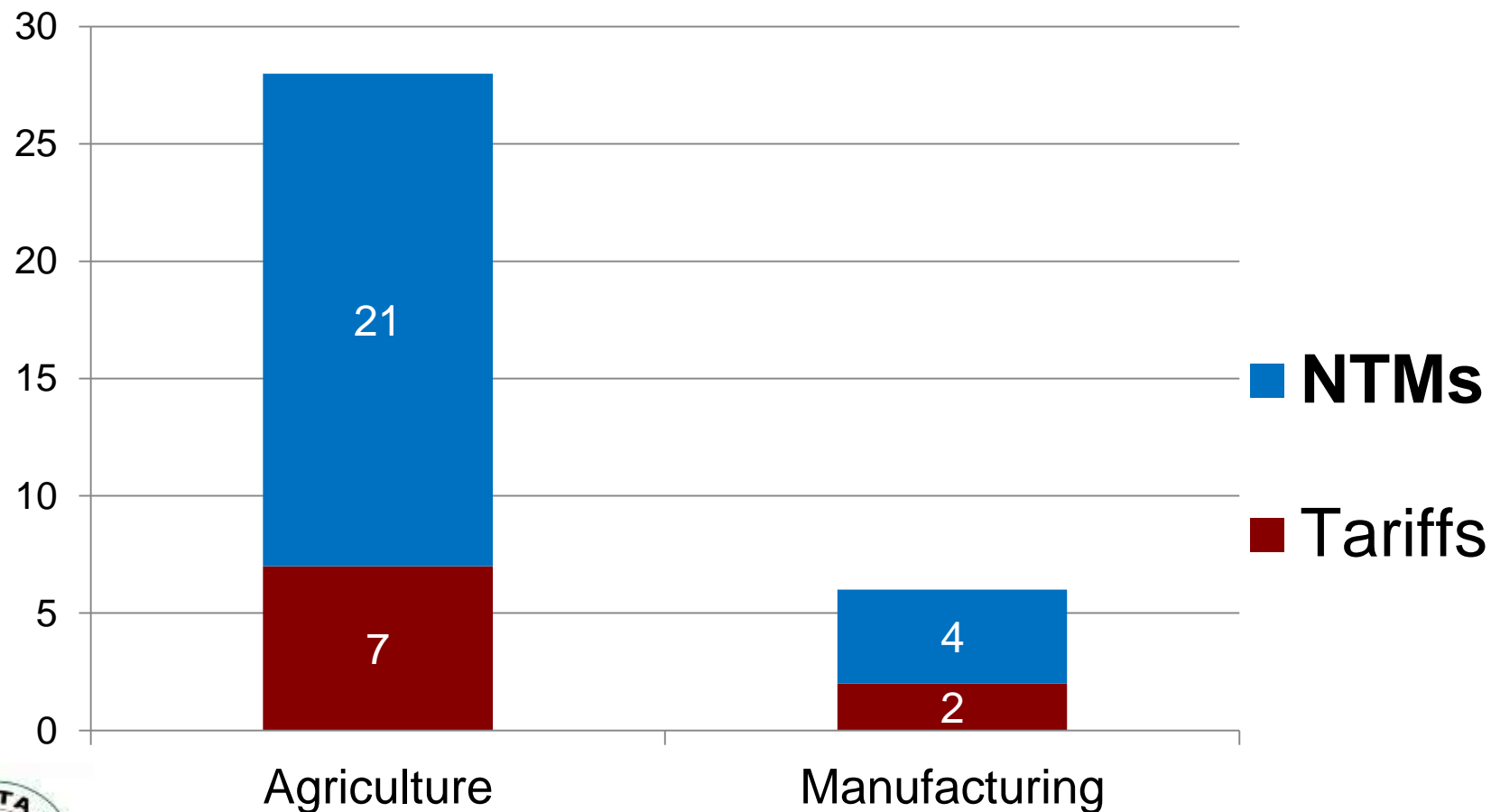
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## Non-tariff measures: Estimated average tariff equivalents



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## Conclusions

- Large potential for growth and industrialization from CFTA
- Not everyone gains (equally): important distributional effects across countries and within countries
- Flanking policies and flexibilities are fundamental to address adjustment costs in public and private sector
- ...and then there are NTBs, SPS and TBT → potential to increase impact of CFTA by 3-4 fold
  - Some NTBs can be eliminated; but SPS and TBT are crucial for public policy & can't be eliminated
    - Transparency & good regulatory practices
    - Regulatory convergence has the potential of reducing NTM costs by 30-40%



**THANK YOU!**

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