

The African Continental Free Trade Area – A promising breakthrough or doomed to failure?

During the 31st Ordinary Session of the African Union (AU) Heads of State and Government in Mauritania in July 2018, South Africa's President Cyril Ramaphosa signed the agreement establishing the African Continental Free Trade Area (AfCFTA), joining the efforts of many AU member states in accelerating intra-continental trade and integration.

While the entry into force of the agreement is still dependent on the ratification by a minimum of 22 states, it is considered the most promising step towards harmonized trade in Africa by experts who expect intra-African trade to rise by over 50% (SAIIA, June 2018). Following South Africa's signature of the agreement, which marks a cornerstone on the way towards a realization of the free trade area, it is worth to take a look at the promises and challenges the agreement encompasses – in terms of a regional perspective but most importantly from a South African point of view.

The following analysis will focus on three aspects related to the range

of diverse topics included in the agreement establishing the AfCFTA.

To begin with, the free trade area's potential before the background of a sluggish development of the South African economy in the past years will be explored. Thus, it will be investigated how the regional mechanisms liberalizing continental trade can help to leverage South African businesses and workers. Secondly, the question arises to what extent the AfCFTA can become a major instrument for achieving more regional integration between African states and within the AU through a process of economic cooperation. Finally, the Free Movement of Persons, Right to Residence and Right to Establishment, being a crucial objective negotiated alongside the main AfCFTA process, will be assessed.

The expert interviews complementing this research have been conducted between 1st July 2018 – 1st August, 2018.

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www.kas.de/southafrica**The AfCFTA Framework and state of negotiations**

Before going into depth regarding the three mentioned aspects, it is important to take a closer look at the overall framework of the AfCFTA and the current state of the negotiations. The AfCFTA, first decided upon by the Heads of State and Government of the AU member states in 2012, aims to include all 55 states on the continent, thus covering 1.2 billion people and a combined gross domestic product of US\$ 3.4 trillion (tralac, 2018). Its main objective is to create a single continental market for goods and services that will harmonize trade liberalization across the sub regions through, among others, the removal of tariff and non-tariff barriers, diversification of markets, trade facilitation and a better reallocation of resources (SAIIA, June 2018).

In general, there has recently been progress on the membership side of the agreement, meaning that more and more countries commit themselves to the joint effort. In that context, also South Africa's signature of the agreement is of high importance for the further progress of the project, given that the country is being considered one of the strongest economies on the continent and one of the key driv-

ers of intraregional trade. However, despite South Africa's relatively late signature, its commitment to the AfCFTA had already been demonstrated through the signature of the Kigali Declaration in March 2018 and the final step was only postponed due to domestic legislative procedure (Fabricius, 2018).

The potential impact of the AfCFTA on the South African economy

After years of economic boom and high growth rates at the beginning of the century, the BRICS-member state South Africa has been experiencing an economic slowdown in recent years due to domestic but also global constraints, resulting in lower consumer demand, a decrease in business investments, and a rise in unemployment (OECD, 2017). According to the OECD Economic Survey on South Africa, the primary recommendation in order to boost jobs and growth again is to deepen regional integration of the Southern African Development Community (SADC) and the broader African market (OECD, 2017).

Following from this policy advice, the AfCFTA presents an attractive opportunity for the country. Moreover, with South Africa already be-

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ing one of the most developed economies on the continent with a functioning infrastructure and banking system, experts anticipate South Africa to be one of the main beneficiaries from the free trade area. Judith Fessehaie, trade and development manager at the International Centre for Trade and Sustainable Development (ICTSD) in Geneva, considers the sectors of metal fabrication, capital equipment, food processing and financial services in South Africa to become the key winners following from a diversification of the economy and more competition. However, Fessehaie also mentions that these developments will not take place automatically, but that South Africa needs to invest actively in market knowledge in order for the AfCFTA to make a substantial impact.

Apart from that, there are different perspectives on the usefulness of the African market for South African domestic economic growth. Professor Faizel Ismail, adjunct professor at the University of Cape Town (UCT) and experienced policy adviser to the South African Department of Trade and Industry (DTI), considers it reasonable for South Africa to make the African market its highest priority for a number of reasons. Not only is Africa, according to him, the largest market for South African exports in

manufactured goods, but the growing middle class in the African market also makes it an attractive market for South Africa's consumer goods. This is reflected in the growing expansion of South Africa's major retailers in the African region. Yet, for this market to be sustainable, Prof Ismail considers it necessary for South Africa to ensure that the trading relationship is not simply a "one-way street". Therefore, in addition to exporting its products to the entire continent, South Africa should also live up to its responsibility to enhance the building of industrial capabilities in Africa through expanding regional value chains, increasing its imports from other African countries and assisting other countries to build the necessary cross-border infrastructure and trade facilitation mechanisms to support their development.

Prof Haroon Borat, Director of the Development Policy Research Unit at the University of Cape Town, has adopted a more skeptical attitude towards the feasibility of the AfCFTA. From his point of view, the AfCFTA will not be the solution to drive South Africa's growth to an aspired growth rate of up to 6% since the size of the African consumption market – despite being important – is still too small. In that regard, Prof Borat would ra-

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ther recommend South Africa to orient itself globally towards developed markets such as the EU, China and the Middle East, from which he expects more profound benefits. Moreover, he cautions that a more comprehensive approach is required, which addresses the endemic challenges that hamper closer intraregional trade on the continent, in particular the lack of infrastructure and cross-border protocols, since eventually these are the conditions that effectively enable more trade.

The AfCFTA as a Driver of Regional Integration

While the initiative for establishing a continental free trade area, being negotiated under the cloak of the African Union, might suggest a new chapter for African regional integration, many experts are rather hesitant to overestimate the AfCFTA's symbolic value in that regard (Owoeye, 2016). On the one hand, there is indeed consensus that the signing of trade agreements like the AfCFTA and the associated closer cooperation between countries are positive developments for the continent and the AU. Nonetheless, skepticism about the organization's institutional setup and slow reforms as well as the continuous debate about the AU's

funding appear to cloud the optimism (Louw-Vaudran, May 2018).

Moreover, another important factor to be considered regarding the AfCFTA's position on the continent is its relationship with other preexisting, and partly overlapping, sub-regional bodies. Asmita Parshotam, international trade and development expert at the South African Institute for International Affairs (SAIIA), remarks that despite the AfCFTA's task to streamline the main eight recognized sub-regional organizations, the new trade agreement might also add another layer of complication. In this context, Ms. Parshotam especially anticipates a possible power dynamic between the stronger sub-regional organizations that will not be willing to lose any relevance and the AfCFTA Secretariat, depending on how much power it will be assigned.

In addition to this complexity in terms of institutions, also the heterogeneity of African countries in the fields of economic development and domestic procedures makes the process of regional integration a complicated one. The main obstacles hampering smooth cross-border trade flows are generally considered to be the lack of functioning infrastructure, reliable energy supply, border management

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and productive capacity in a majority of the countries (Fabricius, 2018). With these major challenges still standing in the way of regional value chains, it can be argued that for many countries domestic problems in terms of development have to be overcome first, before a successful implementation of the continental free trade area becomes possible.

Nonetheless, from a more political point of view, there is general agreement on the fact that a closer cooperation between the countries on the continent will always be to the benefit of the individual countries and of Africa as a whole. Prof Ismail thus claims that Africa is stronger when it is united, especially with regard to small and weak countries on the continent that might not be economically viable on their own, but that enjoy the advantages coming with a clear framework of rules in trade.

For some experts such as Asmita Parshotam, the AfCFTA can also be seen as a result of African countries' engagement against the background of other trading partners, such as the EU and the US, demanding more reciprocal trade agreements in the future. The initiative for the continental free trade area should thus not necessarily be seen as a response to the changing

world order of trade, since the process within the AU is dating back much longer. However, it can be argued that through the AfCFTA, Africa aspires to strengthen its capacity to negotiate in world trade and to secure its own markets, which has become ever more relevant in times of increasing tensions and setbacks in multilateralism and world trade.

The AfCFTA and its implications for Free Movement of Persons

Alongside the main negotiations for the AfCFTA, focusing on trade flows in terms of goods and services, also the cross-border flow of people is a major issue to be addressed by the negotiators. Despite most African countries being hesitant to sign the related Protocol, the topic seems inevitable in the light of the other trade-related ambitions to be achieved. Asmita Parshotam identifies this necessity especially in the context of financial services, remarking that an export of such services is not possible unless people are able to move freely across borders. As trade in services is continuing to develop in Africa, the governments cannot ignore this question for much longer. Yet, the main obstacle is clearly that while an agreement on free movement makes sense economically, it is a highly sensitive topic for politicians

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given its unpopularity among the electorate. According to this line of reasoning, it will thus depend on the political will of the responsible actors to really advancing the AfCFTA, which will then in any case include addressing the question of free movement effectively.

At the same time, it is important to acknowledge that there has always been much movement on the African continent, especially due to the porous borders between many countries. In this context, particularly the large income disparities between countries play a crucial role, as well as the question of what kind of cross-border movement the countries are facing, ranging from irregular to regular and from unskilled over semi-skilled to skilled workforce. Focusing on the semi-skilled and skilled workforce, Judith Fessehaie expresses the need for the establishment of a mutual recognition agreement, allowing for qualifications to be recognized in other African countries. As such, it is not only important to enable access to a country, but this has to be elevated to also enabling access to labor.

Bearing in mind the already ambitious agenda of the AfCFTA, Prof Ismail recommends to focus the discussion on the temporary

movement of people, thus an open market for workers with different kinds of skills, within the service negotiations. According to him, the matter of migrant labor, which is particularly problematic for South Africa, will not be part of the scope of the AfCFTA but it will rather focus on the movement of persons directly related to trade in services. Following from these insights, it appears that the issue of free movement is an indispensable factor of the AfCFTA, however there needs to be much clarification as to the scope of the agreement as well as more commitment by the member states.

The Way Ahead

In conclusion, summing up the strengths and weaknesses coming along with the AfCFTA, it can be said that the success of the ambitious project ultimately depends on the way the provisions agreed upon will be implemented across the continent. Even though the agreement sheds a positive light on the cooperation between African countries within the AU to foster intra-continental trade, it is in the end the political will of the country leaders and the resources they are prepared to dedicate to this project, which will make the difference.

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The AfCFTA thus certainly constitutes an important cornerstone in trade cooperation and the broad commitment of African states to the agreement confirms this impression. However, taking into account the severe and endemic challenges related to infrastructure, border management and regulatory capabilities still present in a majority of the countries, it is only until these challenges are being effectively addressed, that the AfCFTA can become a major achievement for the continent.



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Konrad Adenauer Stiftung e.V.
South Africa Office

KAS Liaison Office Cape Town

36 Long Street, 6th Floor
P.O. Box 5294
Cape Town 8000
Phone +27(0)21 422 3844
Fax +27(0)21 422 1733
info@kapstadt.kas.de