



# **AFRICAN CONTINENTAL FREE TRADE AREA: Advancing Pan-African Integration**

## Some Considerations





UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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UNITED NATIONS

New York and Geneva, 2016

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This is an unedited publication.

### **Acknowledgements**

This study was prepared for UNCTAD by Mr. Osvaldo Agatiello under the framework of a Development Account Project 1213 AR on "Strengthening Capacities of African Countries in Boosting Intra-African Trade". It was supervised by Mr. Bonapas Onguglo, Senior Economic Affairs Officer, UNCTAD, and Mr. Ahmed Mutkhar, Economic Affairs Officer, UNCTAD. It was also reviewed by Mr. Joseph Kodzo Banini, consultant with UNCTAD.

UNCTAD/WEB/DITC/2016/5  
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Acronyms and Abbreviations.....	I
INTRODUCTION .....	1
Chapter 1 Challenges and Opportunities for African Continental Integration and Trade Development .....	
1.1 Challenges.....	2
1.2 Opportunities.....	4
Chapter 2 The Content of the Continental Free Trade Area .....	8
2.1 A comprehensive Continental Free Trade Area.....	8
2.2 Eliminating tariffs and non-tariff barriers on trade between African countries.....	8
2.3 Services trade agreement.....	11
2.4 Other policies .....	11
Chapter 3 Complementary Enabling Environment .....	13
3.1 Social, cultural, security and political governance .....	13
3.2 Strategic Commodities.....	15
3.3 Money and Finance .....	17
Chapter 4 Intra-African Trade Growth: Some Guiding Principles and Priorities.....	22
4.1 Guiding Principles .....	22
4.2 Continent-wide Priority Building Blocks.....	22
Conclusions .....	27
Bibliography.....	29
Annex.....	33
End Notes.....	42

## Figures

Figure 1: Sub-regions of Africa .....	3
Figure 2: LLCs in Africa.....	4
Figure 3 : Applied tariffs for African countries 1988-2013 (percentage).....	9
Figure 4: Trade tax revenue of African countries, 1988–2013 (Thousands of United States dollars).....	10
Figure 5 : Piracy & Armed Robbery Map 2014.....	15

## Tables

Table 1: Africa and World Output .....	2
Table 2: African Fragile States among the World's Fastest Growing Economies .....	2
Table 3: Top 10 UN Suppliers of Goods and Services USD millions, percentages .....	6
Table 4: Size of the Shadow Economy: Selected African Countries As percentage of GDP 2007 .....	14
Table 5: African Production of Selected Raw Materials 2012, percentages .....	16
Table 6: Africa's Major Oil Producers 2013 estimates .....	16
Table 7: Main Donors for Infrastructure Projects in Sub-Saharan Africa 2013 .....	17
Table 8: The Top 30 Sub-Saharan Multinational Corporations.....	18
Table 9: Africa's Sovereign Wealth Funds .....	19
Table 10: Stock Exchanges in Africa Having Received SWF Investments .....	20
Table 11: Top 10 African Countries by Reported Gold Holdings, June 2014 .....	21

## Acronyms and Abbreviations

ACB	African Central Bank Common Monetary Area
APSA	Continental Peace and Security Architecture
ARIA	Assessing Regional Integration in Africa
AUC	African Union Commission
BIAT	Boosting Intra-African Trade
CSR	Corporate Social Responsibility
CSI	Container Security Initiative
CTC	change of tariff classification
CADSP	Common African Defense and Security Policy
CAD Fund	China-Africa Development Fund
EU	European Union
FDI	Foreign Direct Investment
GVC	Global Value Chains
IMF	International Monetary Fund
MIP	Minimum Integration Programme
OECD	Organisation for Economic Cooperation Development
OPEC	Organization of the Petroleum Exporting Countries ()
OCA	optimal currency area
RKC	Revised Kyoto Convention
RTA	regional transit arrangements
RoO	Rules of origin
SWFs	Sovereign Wealth Funds
TET	Trade Enabling Tools
TSI	Trade support institutions
UNECA	United Nations Economic Commission for Africa
UNCTAD	United Nations Conference on Trade and Development
WAMA	West African Monetary Agency
WAMI	West African Monetary Institute
WTO	World Trade Organization

## INTRODUCTION

African countries have declared their paramount interest in attaining deep economic integration at the continental scale since emancipation from colonial control dominated their political agendas half a century ago. In the new century that resolution has gained momentum through successive African Union decisions to expedite regional economic integration with a view to forming a continental free trade area (CFTA) by 2017 and an economic union by 2019. 'The ultimate goal of the African Union is full political and economic integration leading to the United States of Africa'.<sup>1</sup> It is acknowledged that the path to get there will not be easy but a number of studies suggest that it is not only feasible but also important for Africa's economic development. What rests ahead, therefore, is to make decisions on how to speed up the process and clear the obstacles to address the inevitable challenges so as to realize the ambition of an integrated African continent politically, economically, socially and culturally with the resulting development gains. The CFTA is a key driver for Africa to realize the structural transformation and industrialization of Africa as envisaged in the AU Agenda 2063, as well as to promote implementation of the United Nations 2030 Agenda for Sustainable Development.

The path towards an accelerated pan-African economic integration presents formidable political, economic, legal and functional/institutional challenges that need to be tackled efficiently. It requires an approach that economizes scarce resources, avoidable errors, unintended delays, and predictable frustrations. High on the list of challenges is the conflicting disciplines and benefits of different African Regional Economic Communities (RECs) already in place, most countries being parties to more than one. Convergence between RECs will be of the essence for progress, as agreed upon in the African Union Minimum Integration Programme of 2009 (MIP) that sets priorities for enhanced inter-sub regional cooperation, independently of the priorities of each REC and of individual countries.

The impact of the CFTA on trade flows could be significant rather rapidly, according to many projections, and the loss of export income from the rest of the world being more than offset by intraregional trade growth. However, to multiply the benefits of the CFTA – expanded markets for goods and services, unobstructed factor movement, new investment opportunities, and the like – an ample vision of trade, investment and business facilitation needs to prevail. Hence other important challenges and opportunities come to the fore, like the free movement of people across borders, with the social, economic and security dilemmas it implies, or the insufficient financing of badly-needed infrastructure projects. Relinquishing national priorities in favour of regional ones requires firm, intertemporal determination and coordination, a philosophy leading to the adoption of directive principles of state policy, beyond the national plane.

A phased approach has been agreed upon, concentrating on the liberalization of trade in goods first, and that of services as well in a first phase, followed with the straightening up of intellectual property rights, competition and investment protection in a second phase. Several queries arise, as detailed planning requires definition on the sources of finance and investment, in an environment of scarcity of means of payment. This also means that financial development cannot wait for integration to fructify but rather that it is a condition for it, and that neither governments nor private operators can make progress without reasonable concertation. There is financing available for trade development that can be mobilized. Also, foreign investment by sovereign funds and multinational enterprises, including African ones, as well as cross-border financing are on the rise in terms of size, reach and complexity.

This report provides an overview of the opportunities and challenges for African continental economic integration through the Continental Free Trade Area (CFTA) initiative. This is discussed in chapter 1. It then discusses complementary building blocks for intra-African trade to flourish within Africa when it is stimulated by the adoption and implementation of the CFTA. This is provided in chapter 2. Some guiding principles for approaching the CFTA and priority policy measures for adoption by African countries to ensure sustained trade growth and economic integration following the CFTA are discussed in chapter 3. The report concludes with some remarks on African visionary approach to be taken in building the CFTA, and not just as a stand-alone free trade agreement.

# Chapter 1 Challenges and Opportunities for African Continental Integration and Trade Development

## 1.1 Challenges

The African continent has a relatively small share of world output and an even smaller one of world exports (3.2%) and global foreign direct investment (FDI) net flows (3.9%). But the continent was among the fastest growing region in the world in 2013, closely followed by Asia and the Pacific (see Table 1). It is the fourth regional cluster in terms of output volume, smaller than Asia and the Pacific, North America and Europe, comparable to South America, and bigger than the Middle East. South Africa is the only country standing for the continent in the Group of Twenty major economies (G-20) since its inception in 1999.<sup>2</sup>

Table 1: Africa and World Output

2013	GDP USD trillion, PPP	Annual percentage growth	Share of World GDP
Africa	7.8	5.6	5.2
North Africa	2.7	5	1.9
Sub-Saharan Africa	5	6	3.3

Source: IMF Data Mapper, World Economic Outlook, October 2014.

Africa is a vast continent indeed. It has an expanse representing 1/5 of the planet's landmass, roughly equivalent to three times the size of Europe, with a formidable variety of geographies, cultures, languages, traditions, and historical trajectories. Africa has the world's largest concentration of least developed countries (34), low human development index (37) and low income and lower middle-income countries (43). This has been no impediment to some of them in becoming some of the fastest growing economies (see Table 2).

Table 2: African Fragile States among the World's Fastest Growing Economies

2001-10		2011-15	
Angola	11.1	China	9.5
China	10.5	India	8.2
Myanmar	10.3	Ethiopia	8.1
Nigeria	8.9	Mozambique	7.7
Ethiopia	8.4	United Republic of Tanzania	7.2
Kazakhstan	8.2	Viet Nam	7.2
Chad	7.9	Congo	7.0
Mozambique	7.9	Ghana	7.0
Cambodia	7.7	Zambia	6.9
Rwanda	7.6	Nigeria	6.8

Source: OECD 2014

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