

Free trade area slow in coming

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Within a few years, half of the African Union will be formally united into a common free trade area - the product of oft delayed, two-year-long negotiations.

A tripartite forum of the Common Market for Eastern & Southern Africa (Comesa), the Southern African Development Community and the East Africa Community brought policy makers together in Tanzania recently, in the hope of making progress.

On the agenda was the much stalled agreement that would make half of Africa a tariff and quota-free zone.

Growing trade

Exports among the 26 countries that will be covered by the agreement are estimated to have risen from US\$7bn in 2000 to \$27bn in 2008. Imports grew from \$9bn to \$32bn in that time.

To put this in perspective, Africa's total trade with its biggest trading partner, the US, amounted to \$140bn in 2008. This is five times more than trade within this regional bloc.

Trade of the continent with China is growing at a phenomenal average annual rate of 33,5%. In 2008 it amounted to \$107bn, surpassing the \$100bn trade target set for 2010 at a trade forum in 2006.

On average, trade between China and Comesa countries is growing by 50% annually.

Enhance inter-African trade

Proponents of a free trade zone believe such an agreement could enhance the ability of African countries to trade among themselves. The region is home to about 57% of the AU's population, and its combined GDP is about 59% of the continent's.

The free trade area has an ambitious set of objectives. It hopes to promote customs co-operation and trade facilitation. It will attempt to combat unfair trade practices and import surges, and will aim to simplify trade structures among its member states.

Slow progress

It will also set up structures that recognise inland transport costs between countries and will attempt to relax restrictions on the movement of business people.

But progress is slow. Trade & Industrial Policy Strategies research fellow Mmatlou Kalaba says expectations were that the three trade blocs would adopt a common "road map" for the implementation of the free trade area at their recent meeting.

But this did not take place, and the signing of the deal may take place at meetings scheduled for August and November - though even this is not guaranteed.

Lack of dedicated personnel to pioneer an agreement and the predominance of donor-funded efforts rather than ones funded and initiated by governments have hampered progress.

Moreover, disagreements are expected to arise with the concept of "rules of origin", which are used to specify the country of origin of a product for the purpose of international trade.

Agreement on the movement of people and capital flows within the bloc are also expected to be obstacles to its conclusion.

More complications

Kalaba adds that overlapping membership and existing arrangements like economic partnership agreements with the EU may further complicate any likely agreement.

Though SA business has welcomed the concept of a free trade area in the hope that it would ease doing business in Africa, analysts say government appears to be hesitant. That SA does not have a position on services liberalisation, which would form part of a free trade agreement, could be the reason.

SA, which has grown accustomed to a high degree of influence within regional trade negotiations, may also find that its voice is diluted once it is part of a bigger group.

There is an assumption that free trade areas benefit the wealthiest countries, and concerns have been expressed that small nations in the region will be at a disadvantage.

Cosatu's trade & industry policy co ordinator Mpheane Lepaku says the union supports the move to unite the area and improve intra-Africa trade, but is sceptical about who will benefit. In an AU free trade area, the primary beneficiaries are expected to be SA and Comesa members Egypt and Libya.

But the movement towards global free trade has put pressure on African countries to pursue such a deal. If they don't, they lose out, says Lepaku. Countries have to join free trade agreements to protect their markets.

Ensuring even benefits

"The best way to ensure more even benefits is to build co-operation within different sectors," says Lepaku. The free trade area should focus on this, rather than solely on the reduction of tariffs.

"It should also look at the harmonisation of social and labour rights, and must oppose economic partnership agreements."

Lepaku adds that it should reject the demands for tariff-free trade placed on developing countries at the Doha trade rounds. Its central focus should be to encourage diversification away from primary commodities, towards industrialisation, value-added manufacturing and sectoral industrial policy.

Exceptions

But Trade Law Centre for Southern Africa researcher Taku Fundira says there will be some exceptions to the tariff-free rule.

Most countries are expected to do away with protectionism within the trade area, but the agreement will provide some leeway for "sensitive products". It will mean that countries can still protect sensitive industries for a specific period. The economic inequality within the area makes this allowance vital.

Kalaba adds that an institutionally managed development fund will also need to be established to compensate small countries that do not receive the benefits that come from being part of the free trade area.

Source: Financial Mail

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