ODUMUNC 2019 Issue Brief
African Union

Accelerating Progress Towards A Single African Market

by Sean McGuffin
ODU United Nations Society

Introduction: Where it is Needed Most

In the modern world, trade and prosperity are almost synonymous, allowing citizens to purchase cheaper good and workers to focus on producing what they are best at. Opening a single market amongst African Union (the AU) courtiers one method to increase trade between African countries and cut the continent's reliance on industrial good from the outside world. This would be a massive challenge; and has the potential to cause huge disruptions to the livelihoods of millions as they are forced to compete with other Africans. Yet, the benefits could be staggering. As a bloc, Africa would have a massive advantage when it comes trade negotiations with other countries, intra-Africa trade would keep the benefit of that trade in Africa, and growth would spur on economic growth in other industries that support it.

Source: African Union

Africa has an extraordinary opportunity with the recently signed AfCFTA (the African Continental Free Trade Area). Whether this amounts to real progress depends on what happens next. No issue is more important to the future welfare of more Africans than free trade, but few issues are as contentious. The harsh politics of free trade being fought by populist and nationalist opposition throughout the world also are present in Africa. Some democratic governments of the region are among the most opposed, with powerful interest groups marshalling electoral resources to fight for their established privileges. Africa's authoritarian governments vary greatly. Some pursue policies of nationalist isolation, others corrupted by the financial power and personal influence of special interests, others ready to make deals with the greatest agility.

This issue brief reviews some of the basic benefits and risks of an African single market and highlight the major steps that need to be taken to make it a reality. It stresses the specific that must be resolved to bring into effect the AfCFTA, The African Continental Free Trade Area. A single African market would be the greatest leap in African unity, peace building and wealth generation, putting Africa on an equal basis with the European Union and the North American region. The possibilities are extraordinary, but the hurdles are real. Information that won't be in this brief is the effect a single market might have on each specific country. Many African states are in regional trade blocs, so to gain insight into their position on a single market delegates could look at their behavior in these local groupings. It would also be helpful to investigate the major industries/trade partners to see where their priorities lie.

The African Union faces a tricky agenda. One the one hand are vital issues of principle. The AU can debate the merits of a single market and develop a resolution or action plan on how it intends to implement its findings. Plans for further economic integration have been made in the past, so the AU also needs to examine how to make this one stick. But the African Union has a mandate to consider specific aspect of the Single Market issue as well, including free movement of people, efforts to regionalize or insulate specific industries, and how to deal with governments hesitant to cooperate.

Rwandan President Paul Kagame, chairman of the African Union, signs the African Continental Free Trade Area agreement in Kigali, Rwanda, on March 21. (AP)

Type of trade blocks

Before the specifics of Africa's situation are discussed it should be made clear what exactly a single market is.

Put very simply, it's when multiple countries remove economic barriers that separate their economies/markets from each other, transforming multiple separate markets in to a single market.
In a single market there is:

- Free Trade: Trade barriers have been eliminated or significantly lowered, usually in the form of taxes on an import called a tariff.
- Free Movement: Citizen of member countries can move freely from one country to the next to live, work, and visit without restriction or need for a visa/application.
- Removal of Quotas: Removing any limitation on the number of good a country can export to another.
- Standardize Regulations: Industry standards and regulations are made more

uniform throughout the bloc, such as safety standards for example.
- Money movement: citizens can freely invest and moved money within the bloc.

Single markets do not require a common currency, nor does it equate to a complete removal of all trade barriers. Countries typically A country could attempt negotiate an exception to rule for certain industries if they were particularly important; this is normally strongly resisted because it defeats the purpose of the single market and is unfair to other countries that are open to competition.

Current situation

Despite its enormous size and wealth, most of Africa's trade is with other regions, primarily Europe, and intra-African trade, or trade between two African countries, is the lowest of any major region in the world, comprising only 18% of all African exports compared to up to 70% for Europe and 36% for South America. If trade between Africans can be increased this business would greatly benefit other Africans. Today African trade tends to follow colonial paths back to Lisbon, London, Rome, Paris and other colonial links, links dating to the Sixteenth and Seventeenth Centuries. In the Twentieth Century, the United States became a major force, especially buying African oil (mostly from Angola and Nigeria). In the Twenty-First Century, it was China's turn to develop African trade links, building roads and electrical systems to help extract a complete spectrum of natural resources.

Trade outside the region benefits established governments and interest, brining billions of dollars to the continent. It its reliance on long-established patterns and corruption means much of the benefit stays out of the hand of most of the population. Long-distant trade also imposes high transaction costs—especially transportation. But, ironically, intra-African trade often is the most expensive of all. Because of poor infrastructure like roads, it is cheaper, typically, to send a ton of freight from the Nigerian port of Lagos to Europe than is to send that same ton to nearby African cities. Sending that ton into the African countryside often is economically prohibitive.

Africa has numerous internal economic block that are all designed to increase economic integration and trade, but most have failed due to one reason or another. Most set out a list of goals, but there has been a serious lack of follow through to implement these goals. None have done much for actual trade, although there are some important political successes. The most successful groups in Africa are, COMESA (Common Market for Eastern and Southern Africa) that has a functioning free trade agreement between 22 signatories and have been attempting to set up a customs union for years to no avail, and the EAC (East African Community), a grouping of 7 states around Lake Victoria, who have a customs union and have lowered their common tariffs by at least 80%. Very recently, CEMAC (Central African Economic and Monetary Community) removed its visa requirements after years of negotiations for member state citizens who hold biometric passports. One of the challenges for the African Union will be finding a way to integrate these economic blocs with their various rules and special interests into a single unit.

AfCFTA: Great Leap Forward, or Leap too Far?

In March 2018, a major step forward was taken when the AfCFTA (the African Continental Free Trade Area) was completed at a ceremony in the Rwandan capital of Kigali.[1] It is a plan for a

[1] Landry Signé, Landry, 'Africa's big new free trade agreement, explained', Washington Post, 29 March 2018, https://www.washingtonpost.com/news/monkey-

continent wide free trade agreement that would reduce all tariffs by 90% and would greatly increase the amount of commerce between Africa states. The plan was originally signed by 44 out of 55 AU Member States.[2] The AfCFTA will go into effect once ratified by 22 states, with additional states joining as they ratify as well. This is a big step towards a single market in general. It is hoped the agreement will likely come into effect by early 2019. Once implemented, its advocates hope it will increase inter-African trade by over 50 percent in 4 years.

But the agreement is not meaningful without cooperation from the largest regional economies. Of the countries that did not sign the AfCFTA, Nigeria is the most prominent being Africa's largest economy. President Buhari has made several comments as to why his country didn't signed on. Ranging from the need to consult Nigerian unions and lawmakers, and the concern that Nigeria will be flooded with cheaper goods from its neighbors. South Africa, the region's second largest continent, also has not signed. Other countries signed with provisos, exceptions allowing them to protect specific domestic industries, typically local agriculture and manufacturing.

The next steps for AfCFTA is ratification—the process whereby signatory states legislate the agreement into their domestic law. AfCFTA will come into force after ratification by 22 of the signatory states. Even then, further negotiation is required to bring the agreement into effect, to reduce residual barriers and protection of local industries, and most costly of all, to compensate losers unable to compete against cheaper imports. A Mechanism to resolve disputes is essential to bringing AfCFTA into operation and ensuring its long-run success, but this has yet to created. The power of the Dispute Resolution Mechanism is a major problem awaiting negotiation. How are trade disputes to be brought to the body? Can cases be raised by one affected country, or do they require the consent of all affected Member States, or by all Member States? Are decisions to be mandatory or advisory? Since most African governments are jealous of their sovereignty, giving up control to the Dispute Resolution Mechanism would be unlikely. But if authority is just advisory, can it be effective?

During the same summit in Rwanda this past March the African Union debated a Protocol on Free Movement of Persons. It would have moved the AU towards allowing the free movement of people from one part of the continent to another, but the protocol only received 27 signatories.

Costs and Benefits of a Single Market

Free trade and Quotas: Several states have concerns over enacting a free trade agreement, and this is a valid concern, so the costs and benefits of free trade should be examined.

Without tariffs and other trade barriers to make goods from other countries more expensive, Togo (to use it as an example) could be at risk of cheaper goods from other countries being shipped into Togo and outselling local manufacturing. These imported goods could be cheaper because the companies from other countries are more efficient, have fewer

cage/wp/2018/03/29/the-countdown-to-the-african-continental-free-trade-area-starts-now/?utm_term=.9bdcb0f7d92f

[2] Initial signatories of the AfCFTA: Algeria, Angola, Benin, Burkina Faso, Cameroon, Cape Verde, CAR, Chad, Comoros, Congo, Cote d'Ivoire, Djibouti, DRC, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Guinea, Kenya, Liberia, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Niger, Rwanda, Sao Tome and Principle, Seychelles, South Sudan, Swaziland, The Gambia, Togo, Tunisia, Uganda
Later by Burundi, Lesotho, Namibia, Sierra Leone, and South Africa.
Not signed by: Botswana, Nigeria, Tanzania, Zambia, and Zimbabwe as of 9/3/18.

regulations, or less expensive labor to name a few. If a particular industry is vital to the Togolese economy, say fishing for example; Togo might try to keep some of the few remaining trade barriers in place to protect that industry. One form these barriers could take would be quotas, in this case that would be a limit on the tonnage of fish products that could come in from other countries.

But, conversely, if Togolese fishing is very efficient then its fisheries could benefit from a trade agreement, as new customers in other countries can now buy their fish. These and others are some of the benefits of free trade.

For states large and small, but especially large due to their established industries, free trade can be very beneficial. For companies, getting tariff free access to people who can purchase the products it produces is one of the most difficult challenges, but, using a free trade agreement, companies across Africa would gain permission to bring their goods abroad and could do so without incurring the penalty of a tariff when it crosses a border. A foreign investor might see a larger trade bloc as a good place to start a business since there is such a large population of consumers generating further foreign direct investment, and when the trade block would be in a stronger position when negotiating trade treaties with other countries. Additionally, competition with other businesses forces companies to innovate, to become more efficient, and to seek new ways to grow.

Free movement: As stated only 27 countries signed on to the Protocol on Free Movement of Persons that would move the AU towards a more open travel policy. Complete free movement, as seen in the EU for example, is likely to be the most difficult to enact out of all of the single markets parts. While this far off goal may be out of reach, the relaxation of visa's and travel restrictions is a very attainable goal that some countries have already started. Lowing visa requirements by for other African nations, allowing visitors to get them upon arrival, or removing visa fees would allow Africans to travel more freely though out the continent to conduct business or as tourist.

The African Union passport introduced a few years ago was intended to be a passport for all Africans that they could use to visit any country in the AU; however, so far it hasn't been implemented on a large scale, used mostly by high level diplomats.

Rwanda and Mauritius are both good case studies to see what a more liberal travel policy might look like. These countries have a no visa or visa upon arrival for almost all of Africa and have cut their visa fees, in most, cases to zero. After this policy was enacted in 2014 Rwanda saw an increase in tourism revenue of 4% and of visitors by 25%, as well was above average GDP growth. In Mauritius, a country that priorities tourism, Africans are now a quarter of all visitors to the small island nation. The greater openness has also spurred on investment as companies see Mauritius as a gateway to access African markets, making it the best place in Africa to do business according to the World Bank.

On the other hand, the concerns of freer movement should be noted. Security is a major concern for many states who are concerned terrorist groups and smugglers will use the increased freedom for nefarious purpose, but, using our case study of Rwanda again, that state has seen no increase in violence since it began it new visa policy. The other major concern for states is an economic one. Fearing that open borders or a more relaxed visa program would leave to visitors over staying their welcome and taking jobs from their citizen. For states with high unemployment this might be a larger concern than for others, but this should be weighed against the opportunities for trade, investments, and tourism a freer policy might bring which could increase job growth.

For all African economies, a major problem in opening to their neighbors is the reaction of global trading partners. There is special suspicion of China, which could follow a lowest-common denominator policy to utilize the cheapest and best equipped African ports, using countries with the best trade environments to funnel raw materials out of neighboring countries and exporting goods and services back to them. There is general benefit in that, say its advocates, while others are skeptical.

The African Union can debate the free movement policy it wants to consider and develop a plan to execute it. The AU has seen plans in the past, but a lack of realistic goals and follow through as caused most of them to pass by.

Standardized regulations: In a single market standardizing regulation and creating uniform rules can help make trade much easier and cheaper. It means businesses can work off one set of rules no matter where they are and therefor keeps transition costs low. Without a single set of rules, a car manufacture might have to create variants models of car with different safety and emission requirements to fit different rules in each country, but if all of those rules are congealed it can make and sell one variant across the continent, cutting costs of legal fee, distribution nightmares, and setting up multiple factories. The best example of this internationally is of course the EU. Its standards are voluntary in the most part and set on all different types of industries to ease the costs of doing business.

A challenge for the African Union will not be agreeing to standardize regulations, as most can agree this is a good policy, but determining how those regulations will be set. There will have to be intense discussion on what regulations to keep and which to discard, as some countries will naturally benefit from having their preferred rules kept while changing those of others. An additional challenge will be to see if the vote of certain countries is weighted more heavily than others given their prominence in a certain industry; while debating the value of specific regulations is outside the bounds of the African Union, there should be debate on what system will decide these regulations.

For countries engaged in civil wars or with contentious borders, resolution of political disputes can be a sine quo non to progress on trade matters. Unless borders are resolved, and cross border violence is suppressed, trade issues are vulnerable.

A total of 44 countries signed the historic African Continental Free Trade Agreement in Kigali (The New Times, Kigali)

Country positions

The strongest advocates of an African free trade association typically are the largest economies, such as Nigeria and South Africa, which are ready to benefit from the benefits of larger regional markets and lower costs of business. But smaller states can play a major role.

One of the largest African states and strongest supporters is Egypt, which has developed considerable diplomatic muscle to making AfCFTA a success. Egypt is especially interested in negotiations to resolve major issues that were left after the Kigali summit, such as a

Dispute Resolution Mechanism.[3] Ghana and Kenya also have been important diplomatic energizers, becoming the first countries not just to sign the AfCFTA, but to actually ratify it as well.[4]

Much of the skepticism comes from natural resources exporters like Algeria, Angola and Libya, which benefit from established global markets and would benefit little from opening their borders to imports from neighboring countries. But some especially impoverished resource exporters like Zaire and Sierra Leone see a net benefit.

As in other parts of the world, free movement of people is an especially tricky question. Countries like Chad, Mali, Mozambique and Zimbabwe with large populations abroad in Africa favor changes that will make their movement easier. But countries that receive large numbers of intra-African migrants are more cautious, such as Egypt, Ghana, Kenya, Senegal and South Africa

Issues Facing the AU

Ratification of AfCFTA is the most immediate issue facing the AU Member States. Many countries want changes before they will sign or ratify, including the largest regional economies. They want protections for their vital industries, offsets to compensate losers, and a Dispute Resolution Mechanism.

Dispute Resolution Mechanism: Resolving dispute is the second biggest problem facing the new agreement. Currently there is no consensus on how to bring AfCFTA into operation and ensure its long-run success. The power of the Dispute Resolution Mechanism is a major problem awaiting negotiation. It is the key to making AfCFTA work. Two problems need to be tackled by the AU:

- How are trade disputes to be brought to the body? Can cases be raised by one affected country, or do they require the consent of all affected Member States, or by all Member States?
- Are decisions to be mandatory or advisory? Since most African governments are jealous of their sovereignty, giving up control to the Dispute Resolution Mechanism would be unlikely. But if authority is just advisory, can it be effective?

Conclusion

African states on their own and the AU generally has been trying to move towards a more united and prosperous trade policy for years, but the timing and circumstance have continually gotten in the way. However, there have never been such momentum and agreement between Africans as there is now. If the AU can bring its member together it can final tackles the lofty goal of creating a single market which research has indicated will be beneficial to countries big and small.

[3] Rana Mohamed, 'African free trade deal set to unite, integrate African states', Egypt Today, 21 March 2018, http://www.egypttoday.com/Article/3/45857/African-free-trade-deal-set-to-unite-integrate-African-states

[4] 'Kenya and Ghana to ratify instruments of African Continental Free Trade Area', African Union, 10 May 2018, https://au.int/en/newsevents/20180510/kenya-and-ghana-ratify-instruments-african-continental-free-trade-area

Bibliography

"CEMAC: Free Movement Effective." CEMAC: Free Movement Effective, Cameroon Trade Hub, 27 Oct. 2017, www.cameroontradehub.cm/article/59/en

"Central African Economic and Monetary Community." International Democracy Watch, www.internationaldemocracywatch.org/index.php/central-african-economic-and-monetary-community

"CFTA - Continental Free Trade Area." AU in a Nutshell | African Union, au.int/en/ti/cfta/about

"COMESA - Trade and Market Integration." Uneca.org, UN Economic Commission for Africa, www.uneca.org/oria/pages/comesa-trade-and-market-integration

"Economic Community of West African States." International Democracy Watch, www.internationaldemocracywatch.org/index.php/economic-community-of-west-african-states-

Eweniyi, Olanrewaju. "49 African Countries Signed The Free Trade Pact...Except Nigeria." Konbini, 4 July 2018, www.konbini.com/ng/lifestyle/49-african-countries-signed-free-trade-pact-nigeria-not/

Kenya and Ghana to ratify instruments of African Continental Free Trade Area', African Union, 10 May 2018, https://au.int/en/newsevents/20180510/kenya-and-ghana-ratify-instruments-african-continental-free-trade-area

Koigi, Bob. "22 Countries Have Signed the COMESA- EAC- SADC Free Trade Agreement." Africa Business Communities, 19 Feb. 2018, africabusinesscommunities.com/news/22-countries-have-signed-the-comesa-eac-sadc-free-trade-agreement/

Makhubela, Kingsley. "Africa's Greatest Economic Opportunity: Trading with Itself." World Economic Forum, 16 Jan. 2018, www.weforum.org/agenda/2018/01/why-africas-best-trading-partner-is-itself

Mohamed, Rana, 'African free trade deal set to unite, integrate African states', Egypt Today, 21 March 2018, http://www.egypttoday.com/Article/3/45857/African-free-trade-deal-set-to-unite-integrate-African-states

Monks, Kieron. "African Union Launches All-Africa Passport." CNN, 19 July 2016, www.cnn.com/2016/07/05/africa/african-union-passport/index.html

Mugisha, Ivan. "Africa Wary of Free Movement as Single Market Opens." The East African, 22 March 2018, www.theeastafrican.co.ke/business/Africa-wary-of-free-movement-as-single-market-opens/2560-4352792-cv2rmfz/index.html

Platt, Gordon. "44 African Nations Sign On To Single African Market." Global Finance Magazine, 5 April 2018, www.gfmag.com/magazine/april-2018/44-african-nations-sign-single-african-market

Petroff, Alanna. "African Nations Set to Approve Huge Free Trade Deal." CNNMoney, 19 January 2018, money.cnn.com/2018/01/19/news/economy/africa-free-trade-deal-cfta/index.html

Rue Jean-Paul II. "Africa Visa Openness Report 2016." Immeuble CCIA. African Development Bank. 2016.

Landry Signé, 'Africa's big new free trade agreement, explained', Washington Post, 29 March 2018, https://www.washingtonpost.com/news/monkey-cage/wp/2018/03/29/the-countdown-to-the-african-continental-free-trade-area-starts-now/?utm_term=.9bdcb0f7d92f

"World Trade Organization." WTO | What Is the WTO? - Who We Are, 23 April 2003, www.wto.org/English/tratop_e/tpr_e/tp213_e.htm