The African Continental Free Trade Area:
A New Blueprint for the North Africa Regional Integration

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The African Continental Free Trade Area (AfCFTA) comes at a time of great instability in the North African region, compounded by a pandemic with severe economic and social impacts. As the subregion's economic growth falters, current account and fiscal balances are deteriorating (drop in oil revenues, remittances, FDIs and tourism) and public debt is projected to rise significantly.

The crisis that began with the Tunisian revolution resulted in a near-universal failure to implement the long-term structural reforms required to transform the rent-seeking and state-dominated economies into modern ones that embrace both digital and ecological transformation and recognize the healthy impact of competition and private enterprise. There has been much talk about structural reforms, but a rather limited cohesive commitment to action, as the need to confront short-term problems over long-term problems prevailed.

However, the AfCFTA offers a unique opportunity for the North African region – as a subregion of the African continent, as well as individual countries – to rethink its supply chain, strengthen trade and regional integration, and become a more integrated subregion in the Global Supply Chains (GVCs). Trade and integration — within North Africa and with Africa — can provide an opportunity to enhance regional trade relations by establishing safe and resilient regional supply chains of goods and services in the post-COVID era, unleash private sector forces for North African dynamism, and position the subregion as a hub in Africa and a global player.

However, the main constraints on regional trade development in North Africa, such as inadequate and poor transport infrastructure, costly logistic (except for Morocco) energy and telecommunications networks, together with institutional arrangements for their management and maintenance, structured and regulated cross-border markets, and persistent tariff and non-tariff barriers to trade, including restrictive rules of origin, weak legal environments, and stifling procedures, account for enormous losses in regional trade and economic growth.

North African countries will have to simplify and harmonize complex and lengthy trade and customs procedures, do away with restrictive rules of origin, and tackle corruption and other informal trade barriers. They will also have to harmonize essential policies and institutions among trading partners.

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These impediments call for action and require investments at several levels with a focus on the regional dimension of infrastructure.

Development partners, from donors to IFIs and Development Banks, will have to take a regionally integrated approach to infrastructure development and seek new and innovative ways to finance African infrastructure. These will include the development of infrastructure bonds for the continent.

Regional integration can be elusive

The Abuja Treaty and the AU's 2063 programme enshrine regional integration as key to stimulating economic growth in participating countries through increased trade, economies of scale, knowledge, and technology transfer. The objective is to establish a single market for goods and services across the continent, allow the free movement of business travellers and investments, and create a continental customs union to streamline trade and attract investment. The continental agreement raises hope for the success of this integration and, ultimately, a means to eradicate poverty, create jobs and achieve the SDGs promoted by the UN.

In Africa, regional integration is seen by policymakers and academics as an important strategy to enhance intra-regional trade, boost economic growth and ensure the integration of African countries into the global economic system. It can also lead to the structural transformation of African countries through economies of scale, improved competitiveness, more efficient resource mobilization and the promotion of regional value chains. With this in mind, several regional economic communities have been formed in Africa since the years of independence, such as the Arab Maghreb Union (UMA).

The AfCFTA begins with the elimination of tariffs for 90% of the products traded and the rest will be done gradually. In this context, impact studies on trade and on economies are very useful in giving an idea of the extent of the changes that such an agreement could bring about at the economic level, as well as a means of informing public decision-makers.

Ex-ante assessments of trade liberalization between North African countries and the rest of the continent, within the framework of the AfCFTA, analyse production and value added by industry and by foreign trade. Therefore, these assessments address the effects of the creation and /or diversion of trade with African and non-African partners. It also analyses the impact of the agreement on the well-being of households, on the use and remuneration of factors, employment (skilled, medium-skilled, and unskilled labour) and the variation of relative prices. At the sectoral level, the assessments focus on the industrial sector by trying to know if the AfCFTA agreement will promote the integration of North African countries in Global Value Chains, in this case in the industrial sector, and what will be the effects and channels of transmission of this liberalisation in this sector.

For instance, Tunisia and Morocco's ambition is to integrate further into GVCs and improve their integration rate to reap the benefits of AfCFTA and avoid problems related to rules of origin. The implementation of the AfCFTA agreement would allow, a priori, both the Tunisian and Moroccan industries to benefit from the entry of inputs at lower costs from the African continent and enhance their competitiveness to gain access to a large market. This intuition is backed by statistical data on intra-African trade which shows an increasingly important dynamic in terms of trade in manufactured goods.

"*Whereas the AfCFTA could significantly boost intra-regional trade in Africa and promote economic growth, it can also entail costs, and its benefits may not be necessarily uniformly distributed between and within countries. Therefore, leaders often have legitimate concerns that further trade integration of their economies with those of other countries may benefit some industries and penalize others, may have negative effects on profits and employment prospects in some sectors and skill levels, and may reduce fiscal revenues"* (IMF, 2019). This highlights the need to carefully assess the potential effects of the AfCFTA on growth and income convergence or divergence and the policies that should be put in place to maximize regional integration benefits and mitigate its negative effects on some countries.

Studies and impact assessments may have overstated the benefits of regional integration. Most have focused on trade integration—the benefits for countries in Africa from trading with each other, removing tariffs and using proxies for non-trade-barriers.

Regional—as opposed to global—trade integration has an upside and a downside. The upside is trade creation—the fact that the countries trade more—and the downside is trade diversion—countries trade within the trading bloc whereas it would be more efficient to trade with the rest of the world. More plainly, these commodity-dependent, low-income countries have little to gain from trading with each other because they produce nearly the same things.

Although there is no reliable method for the quantitative assessment of the dynamic effects of trade integration, dynamic effects appear to have a greater impact on economic processes than static effects because of their deeper scope. Moreover, in the African context where countries are at different levels of development, the appropriation of the dynamic gains resulting from regional integration is likely to be long in the relatively less advanced countries in view of the weakness of the institutions and the shortcomings present in the education systems.

Regional integration in North Africa: A call to action

The North African region is the least economically integrated in the world. As they strive to create more jobs, attract more investment, boost growth, and recover from the pandemic, countries of the NA region today have a strong economic incentive to accelerate their efforts at regional integration. What is lacking is not a rationale or capacity to integrate, but a sense of urgency to prioritize and move forward with integration.

It is critical to strengthen and enable the strong historical and socio-economic linkages that exist between countries of the Maghreb and those of Sub-Saharan Africa. In anticipation of the African Continental Free Trade Agreement (AfCFTA), now is the time to expand and deepen existing platforms for regional cooperation, including in agriculture and digital sectors where progress is most needed, and to explore additional opportunities for regional integration between North Africa and Sub-Saharan Africa.

While the challenges of establishing - and sustaining - regional trade, infrastructure and institutions are significant, African countries are on the cusp of important regional integration initiatives that will provide much-needed efficiency gains, diversification, trust building and green growth – all of which will play a catalytic role in economic growth and poverty reduction in the wider region.

It needs to be understood that Free Trade Agreements are not a zero-sum game. These agreements are of little use unless they serve their purposes well. A classic example would be Tunisia's Deep and Comprehensive Free Trade Area (DCFTA) with the European Union, where the proposed agreement does not reflect the objectives pursued in the renewed partnership between the EU and Tunisia and puts too much emphasis on free trade, which has had the effect of creating a climate of suspicion. Since 13 October 2015, the date of the launch of negotiations, progress has been limited due to apprehension about Tunisia's ability to face competition from European companies, or its ability to take advantage of "unrestricted access" to the European market, in particular in services, in the absence of an agreement on mobility. This strongly influenced public opinion, which felt, rightfully, a lot of scepticism with the Tunisian and European efforts to reach a fair agreement, compounded by failure in communication and pedagogy on the one hand, and demonization of the DCFTA for political purposes, on the other. Therefore, a careful and calibrated approach is required for having a fruitful Free Trade Agreement. In that sense, transition measures are necessary to build capacities and meet the increasingly complex challenges and new opportunities at regional and global levels.

In other words, any Free Trade Agreement needs to sharpen economic focus and spur recovery. The health crisis offers new opportunities for the North African subregion to serve as a regional backup for greater resilience of EU logistic hubs called upon to relocate to the region. To eliminate single-source dependencies and to establish a flexible and adaptable supply chain, product integrators, sub-system suppliers, and component suppliers will source, assemble, and deliver from their own backyards i.e., the North African subregion. More specifically, in places where their intellectual property can be protected, their talent can come together, and they can perform product design and services. The challenge will then be for the North African countries to adapt their offer and be able to respond to any European dynamic geared toward the regional reorganisation of the production and supply model and become a hub between the EU and the rest of the African continent.

The EU cooperation should go beyond merely providing technical expertise in formulating agricultural and blue economy-related policies, supporting agroecological practices, and promoting smart agriculture and aquaculture concepts... It should be participative also for its own interest.

Trade liberalisation per se is not the issue, the focus should be on capacity building and a better overall business and economic environment with efficient trade facilitation focusing on transport costs, custom clearance efficiency, and trade finances. This aims to increase sustainable trade and will attract foreign investors and enhance North African countries' participation in international value chains.

The linchpin of a successful AfCFTA is a long-term vision which is crucial to make the notion of partnership credible, to give the necessary incentives to its 54 members to carry out a consistent set of reforms, and to ensure that these reforms are underpinned by the strong approbation of the broader citizenry, especially the youth and the private sector.

Conclusion and recommendations

Regional integration can ultimately help to reorganise the productive structure within the North African subregion according to the natural and factor endowments of the member economies, as well as the quality of regional infrastructure. Such an efficient allocation could be beneficial to the economic growth of the region as a whole.

The crucial role assigned to trade in economic integration generally overlooks other fundamentals of economic growth. Regional integration dominated by trade plays a less crucial role in spurring economic growth and income convergence. Therefore, North African countries should place more emphasis on the goal of regional integration towards ensuring the provision of critical infrastructure, improving the quality of institutions, and building human capacities and stock of physical capital.

The donors and other multilateral IFIs can have a significant positive impact on regional integration in the North African subregion to develop an adequate strategy for supporting more directly all regional sub-groupings in Africa.

It is undeniable that the European Union and its member states have contributed substantially to helping North African countries since 2011 and have kept these economies afloat. But today, this subregion needs to get out of the water, take a qualitative leap and get out of the trap of middle-income countries. And this is the moment for Europe. The moment to anchor the North African subregion and the rest of the continent to the European area with a long-term, explicit, and ambitious concerted vision, and to put in place new financial instruments that accompany the implementation of this vision.

This should prompt North African countries to resume (or start) negotiations with the EU. A shrewd agreement encompassing a new contract/project and focusing on hubs in sub-regions and variable geometry could promote economic modernisation and growth, to strengthen and stabilise the region.

But the fate of the AfCFTA does not only rest in the hands of the public sector. For free trade to truly reach its full potential, it must be coupled with private sector investments that bridge the infrastructure and connectivity gap and give African businesses the tools and resources they need to compete in African markets. By promoting competition and attracting private capital, states will be able to develop transportation networks, bolster internet connectivity, and surf on the wave of digitalisation sweeping across Africa.

The private sector also has a pivotal role to play in building reform momentum for trade and accelerating the implementation of AfCFTA. Private sector alliances between businesses from different countries are uniquely positioned to convince and demonstrate that facilitating cross-border trade, addressing non-tariff barriers, and harmonising policies and regulations will transform the continent. Furthermore, the potential benefits of regional integration may override the current tensions between Morocco and Algeria.

References

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