Historic free trade deal reached

African nations officially launched a landmark trade agreement at this weekend's AU summit in Niger with the breakthrough hailed as a historic step towards ‘peace and prosperity’ across the continent. **Legalbrief** reports that about 4 500 delegates and 32 heads of state attended the event in Niamey. The AU launched the ‘operational phase’ of the African Continental Free Trade Area (AfCFTA) following 17 years of difficult negotiations. The agreement was sealed when Nigeria and Benin signed up to rapturous applause in the capital Niamey. As a result, 54 of the 55 AU member countries have now signed onto the deal, with holdout Eritrea announcing it would consider joining the pact. **‘An old dream is coming true; the founding fathers must be proud,’** said AU commission chairperson Moussa Faki. A report on the **News24** site notes that AU officials announced the launch of the five ‘operational instruments’ of the AfCFTA. Members agreed to shared ‘rules of origin, the monitoring and elimination of non-tariff barriers, a unified digital payments system and an African trade observatory dashboard’. The AfCFTA commits the majority of countries to 90% tariff cuts within a five-year period. Analyst Amaka Anku described the deal as a positive step but said implementing the agreement was still ‘a long way from taking off’. He expressed concerns over how many of the new regulatory agencies for the trade agreement would be funded.

The UN suggests that the AfCFTA agreement has the potential both to boost intra-African trade by 52.3% by 2020 by eliminating import duties, and to double this trade if non-tariff barriers are also reduced. **The East African** reports that intra-Africa trade has historically remained low (at 15%), comparing unfavourably with Europe (68%), North America (37%), and Latin America (20%), due to trade barriers and poor transport and telecommunication connectivity on the continent. **It is estimated that the average tariffs on intra-African trade are about 6.1%, which is higher than those imposed on exports outside the continent.** Albert Muchanga, AU commissioner for trade and industry, said the single market would increase the level of trade among African countries and remove fragmentation by creating a big aggregate economy that could attract large-scale and long-term investments.

Meanwhile, the AU has underscored the need for its member states to ensure that the continent plays a significant role in world affairs by employing the right strategies to finance its own development and reduce aid dependency through the establishment of continental financial institutions. AU commissioner for economic affairs Victor Harrison told delegates that for too long, the AU body has been criticised for being toothless in grinding African issues since it depends on donor funding from Western countries and other well-wishers who are pushing their own agendas. **The Herald** reports that Harrison said in order for the continent to achieve its Vision 2063, **it must become a strong, united, resilient and influential global player.** He said the establishment of AU financial institutions is the only instrument in fighting the dependency syndrome. ‘The African Union has, therefore, taken steps to fast-track the establishment of the African financial institutions. In this regard, the African Union is working with the economic communities and the Association of African Central Banks to finance macro-economic convergence criteria and time lines,’ he added.

Analysts Hadiza Dagah, Danny Bradlow and William Kring have called on AU leaders to reinvigorate their efforts to create an African Monetary Fund. Writing in **The Conversation**, they say this would be used to encourage African states to engage more actively in regional trade by offering them financial support for managing the risks associated with closer regional integration and expanded intra-regional trade. ‘Over the past 10 years, most regions have developed regional arrangements that can supplement the help that the IMF provides to countries facing balance of payments problems. Ten years ago, US$100bn was available through these regional funds. Today, more than US$900bn is available through these arrangements. Africa is currently the most prominent gap in the evolving global financial safety net. The African leaders signed a treaty to establish this fund in 2014. Unfortunately, progress to set it up has stalled. **So far the treaty has been signed, but not ratified, by 11 AU member countries.** Fifteen must sign and ratify the statutes for the fund to become operational. Once operational, it will have a capital subscription of up to US $22.64bn and the ability to provide member countries with loans equivalent to two times their contributions to the Fund's capital.’ The authors note that the free trade area offers states new growth and employment opportunities. ‘But by increasing economic linkages between African states, it could also increase the risk that economic problems in one country can spill over and have a strongly negative effect on growth, trade, investment and employment in others. For example, both positive and negative developments in the US economy will have a powerful impact on Canada and Mexico.’

Talk about the creation of free trade 'corridors' in Africa – including building and refurbishing roads and rail systems along these corridors – has revealed how these trans-border economic avenues will link many of the landlocked African states to the coast, and the ports to inland markets. However, the benefits of building adequate and reliable infrastructures are quickly diminished by the difficulties of maintaining them, says Norton Rose Fulbright SA's Andrew Robinson and Malcolm Hartwell. In an analysis in **Business Day**, the authors point out that for the corridors – suitably endowed with the requisite roads and railways – to work, there needs to be an open-border policy that provides for the uninterrupted movement of goods along the routes. They further suggest that a single legal regime governing the carriage of goods – whether by road or rail – is needed. 'The agreement seeks to create the world's largest free-trade area by allowing for the free movement of goods and people between member states. It does not replace existing regional free-trade agreements and is designed to transform African states' economies.' However, the authors note that **given many African countries do not have spare financial capacity to absorb short-term loss of tariffs, they say these countries may not be in a position to lower those tariffs** in the hope of achieving greater long-term economic success. 'This reluctance affects the success of corridors.' Countries through which the goods simply transit derive financial benefit through road permits and other regulatory costs. They will not want the revenue stream to disappear. 'The other constraints on the free movement of goods – such as the differing legal systems, carriage regimes and liability regimes that may apply from country to country – are more of an administrative problem and can be resolved.' The authors argue that the real problem relates to the short-term loss of revenue caused by the dropping of trade barriers.