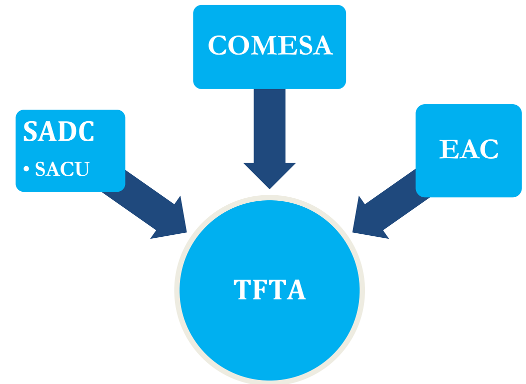
Tripartite Free Trade Area (TFTA)

11th of June 2015

All eyes turned to Egypt on the 10th of June, as the resort city of Sharm El Sheikh hosted the 3rd Tripartite Summit, where the three African trade blocs-Eastern African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and Southern African Development Community (SADC)- launched the largest Free Trade Agreement (FTA) in the continent. This report shall give a brief overview of the Tripartite Free Trade Area (TFTA), in light of this key milestone on the road for African economic integration.



History & Background

The Lagos Action Planof 1980 and the Abuja Accords of 1991 sparked the idea of establishing what was then called the United States of Africa. Inspired by the EU model, member-states of the three major trade blocs -EAC, COMESA and SADC- started taking solid measures towards establishing the largest African customs union. The establishment of the TFTA marks the first step to create the customs union.

Framework Trade Agreement:	Free Trade Agreements:	Customs Union and common market:
-Where parties encourage trade - No solid commitment or obligation	-Immediate tarrif liberalization -Gradual elimination	-To achieve a common customs procedures -Same tariffs -Common standards for inspection method

The TFTAshall include 26 member-states, 19 of which are signatories of the COMESA, five member-states from the EAC, and 15 from SADC of which 7 are not signatories of COMESA[1].

The Tripartite Foundation

The first Tripartite Summit in 2008 in Ugandaresulted in identifying three main pillars for the TFTA, as follows:

- **Market integration through a Free Trade Area**
- **Infrastructure development**
- **Industrialization**

[1]**EAC** is comprised of Burundi, Kenya, Tanzania, Rwanda and Uganda.
COMESA consists of Burundi, Comoros, Democratic Republic of Congo, Republic of Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.
SADC consists of Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

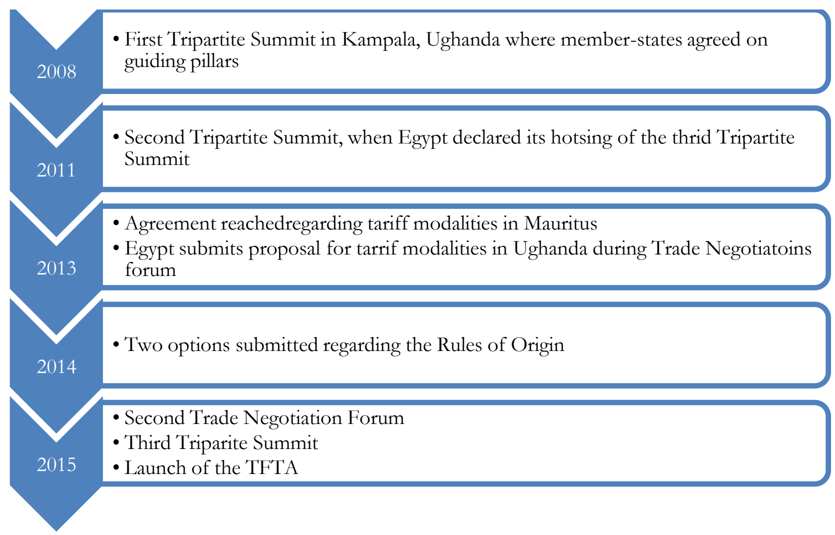
As the pillars reflect, the TFTA goes beyond the archetypical FTA. It includes a clear resolve to tackle Africa’s chronic impediments for development, i.e., obsolete infrastructure and weak industrial base. With the continent’s estimated average growth rate for the next 30 years standing at 6%[2], the already high demand for developed infrastructure will only increase.

As stated in the 1stSummit’s communique, the TFTA prioritizes three sectors for regional development programs, these are: energy; information and communication and transportation. Collaboration on this front has begun with the initiation of the North-South Corridor Aid for Trade programme, which is the TFTA’s flagship pilot infrastructure programme that aims to address the transportation problems through upgrading infrastructure, improving policies and procedures and coordinating approaches to planning and financing. The programme entails building roads linking eight countries (Botswana, Congo, Malawi, Mozambique, South Africa, Tanzania, Zambia and Zimbabwe) with a total of 10,647 km of roads.

In line with the TFTA’s overarching goal, efforts that serve the same purpose are already underway. In April 2015, Sudan and Egypt inaugurated a new border port to facilitate trade of goods and other commodities between the two countries and Africa at large. This new port, Al Qustool, is set to double trade volume between Egypt and Sudan. There are other plans to facilitate inter African trade such as plans to establish what is called the “free space” where three African airline companies can integrate their operations to improve connectivity between African countries. Other investments in trade related infrastructure is seen in Zambia and Angola’s railway sector connecting both countries for the transport of goods.

Apart from the obvious benefits of the economic integration that the TFTA offers, the agreement shall solve a problem of overlapping memberships among some trade blocs. As stated above, 11 member-states of the SADC are already signatories of the COMESA, leaving only 7 SADC member states who are not members of COMESA. Additionally, four members of the EAC are already part of the COMESA, while the fifth –Tanzania- is a member of SADC. Of the 26 Tripartite member-states, 17 are either members of an existent customs union or negotiating another one. This entanglement makes trade relations complex. Keeping in mind that for a country to be a member of two customs unions at the same time is a violation of the WTO, it was onlyrational to call for the establishment of the Tripartite Free Trade Area.

Timeline of Developments:

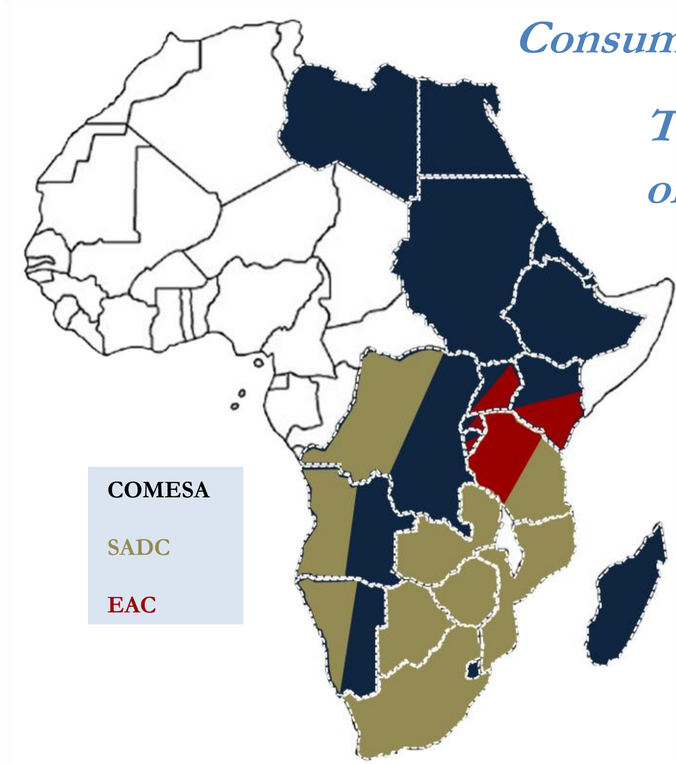


[2] COMESA website: http://www.comesa.int/index.php?option=com_content&view=article&id=980:africa-need-not-suffer-the-resource-curse&catid=26:other-news&Itemid=48;bcsi-ac-b5f45ffb1099c547=248026FD00000303kRsMgDfioExgtp8BJbUE9D9b84E6AQAAAwMAAFtaEgAIBwAAcAAAAPRsCQA=

Africa's Economic Potential

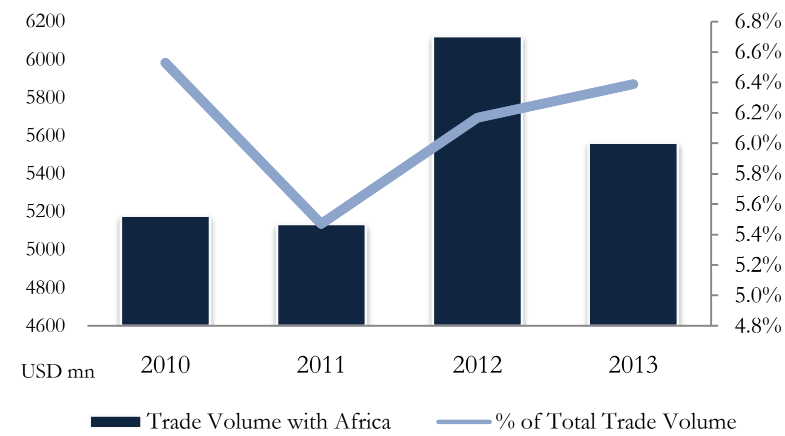
Access to 626mn Consumers

Total GDP of 1.23 tn



The TFTA will present massive potential for its members. Combined, the 26 member-states have a total GDP of USD 1.23tn, with diverse and rich economic structures. Moreover, the TFTA will give market access to more than 626mn, presenting numerous opportunities for creating regional value chains. The TFTA is forecasted to increase trade within Africa from 12% to 30%[3]

Egypt's Trade with Africa



Source: UNCTAD

Although trade with Africa has accounted for a maximum of 6.5% of Egypt's total trade volume,the enlarged market created as a result of the TFTA will open a window of opportunities for the relatively-developed manufacturing sector in Egypt. The results of the TFTA may not be felt on the short-term, given the low exposure of Egyptian traders to African markets, however, Egypt's location, superior manufacturing sector and trained labor force put Egypt in a very strong and dominant position in the TFTA. Furthermore, the TFTA presents more than trade opportunities. Egypt's geographical location, being on the crossroads of Europe, Asia and Africa, is likely to promote the nation as a regional investment hub. The value of the TFTA to Egypt relies solely on the resolve of the government and Egyptian manufacturers. Government must take the necessary initiatives to push for Egyptian investments in Africa, and mainly encourage Egyptian exports to enter new African markets.

[3] CalestousJuma, as reported on BBC http://www.bbc.com/news/world-africa-33076917

Negotiation Process

The roadmap for the TFTA was assigned at the second summit in 2011, where it was agreed among member-states to commence the negotiations for the FTA in two phases.

First Phase	Second Phase
▪ Tariff reduction ▪ Rules of origin ▪ Common customs union ▪ Non-customary impediments ▪ Health standards	▪ Trade in Services ▪ Property Rights ▪ Prompting competition

Four Negotiation taskforces were formed for tariff reduction –for cooperation on tariff reduction, technical trade barriers, Rules of Origin (RoO), and trade remedies and dispute settlements- to carry out the first phase of negotiations. The taskforces have held 12 negotiation rounds so far, reaching sufficient progress for signing the TFTA. Hence, it was agreed in the Ministerial meeting in October 2014 that the TFTA would be launched in the 3rd Summit, then to proceed with negotiations on the pending issues later.

TFTA Tariff Modalities

TFTA Member-states already exchanging tariff exemptions will not engage in negotiations regarding tariff liberalization. On the other hand, member-states that are not exchanging tariff exemptions can proceed withnegotiations to liberalize the tariff rates based on each country's tariff lines. An agreement has been reached that countries are obliged to liberalize 85% of tariff lines within 5-8 years. The remaining 15% of the tariff lines are to be negotiated afterwards.

In order to achieve the liberalization of 85% of tariff lines, Egypt established an agreed-upon list of tariff lines divided into three categories

Category A: liberalizing up to 60% of tariff lines

Category B: liberalizing up to 25% of tariff lines

Category C: liberalizing up to 15% of tariff lines

Category A includes goods with an applied tariff rates of 0%, 2%, and 5. Category A includes other goods with higher tariff rates, where other TFTA countries do not enjoy a comparative advantage. In category B, tariff lines include products that are subject to 10% and 20% tariff rates. Category C, which is to be negotiated after liberalizing the first two categories, includes goods with a 30% tariff rate or above. It is worth mentioning that some products of importance are classified in Category C because of special significance to the Egyptian economy.

Rules of Origin (RoO)

The RoO taskforce has convened 11 times, and in the fifth meeting all the Detailed Rules of Origin (DRoO) were classified to three matrices as follows:

- Matrix I: includes tariff lines with symmetric RoO across the three trade blocks
- Matrix II: includes tariff lines with RoO symmetric in two trade blocks only
- Martix III: includes tariff lines with RoO different across the three trade blocks

As of its 11th meeting, the RoO taskforce has agreed on almost all the tariff lines in matrix I, and some of the lines in matrix II. However, due to the fact that it was not viable to agree on the RoO of the remaining tariff lines before launching the TFTA at the 3rd Summit, member-states have discussed a number of alternatives, ending with two main options:

- **Option 1**: Operating under the wholly obtained base and the 35% value-added base, until it is agreed on the remaining DRoO
- **Option 2**: Applying the DRoO agreed-upon, whilst each trade block would apply its own RoO on the remaining lines

It is noteworthy to mention that all member states were in favor of the first option, except the Southern African Customs Union (SACU), which is a part of the SADC,favored the second one. Further negotiations will take place on that front after launching the TFTA.

Concluding Remarks

The TFTA is widely saluted for its emphasis on many of Africa's most chronic problems. Egypt is presented with the opportunity of establishing a strong and constructive relationship with African countries that may have great yields. Nevertheless, it is crucial for the TFTA member-states to try to minimize impediments of integration, such as the negative lists. Tools like the negative lists and non-tariff barriers, put forth by protective countries, often applied within trade agreements such as Great Arab Free Trade Area, do not serve the initial purpose of integration. Member-states of TFTA must maintain the mind-set of economic integration rather than the classical protectionist trade policies in order to yield the most out of an agreement this size.

Beyond TFTA's trade benefits, the agreement will open new opportunities for investments in new untapped markets, in sectors such as energy, transportation and logistics, oil and gas. Yet, the private sector in Egypt does not have the required business intelligence reports and market studies that would support this cause. Facilitated by the TFTA, the Egyptian government must lead on the initiative of investing in Africa, by making required data and research available for the Egyptian private sector to start unleashing Africa's potential.

The launch of the TFTA from Sharm El Sheikh is a note of commitment from the Egyptian side, where Africa is the new pathway for economic growth. It was evident since early 2015 that Egypt is directing its attention towards the African front, reflected in the wide African presence at the Egypt Economic Development Conference (EEDC) in March. The growing economic relation with Sudan and Ethiopia is yet another manifestation of a new course of action that the current administration holds.

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Appendix

	Population	GDP	Main Exports	Main Imports	Corporate Income Tax	Ease of Doing Business Rank	Global Competitiveness Rank	Member of
Angola	21.5mn	USD124.2bn	Mineral fuels, lubricants, and related materials (99% of total exports)	Machinery and transport equipment, manufactured goods	35%	181/189	140/144	SADC
Egypt	86mn	USD 271bn	Petroleum oils and oils obtained from bituminous minerals, natural gas	Natural gas, liquefied natural gas	25%	112/189	119/144	COMESA
Kenya	44.4 mn	USD 55.2bn	Food and live animals, crude materials except fuels	Machinery and transport equipment, mineral fuels and related materials	30%	136/189	90/144	EAC COMESA
South Africa	53.2 mn	USD 366bn	Manufactured Goods, machinery and transport equipment	Machinery and transport equipment, mineral fuel and lubricants	28%	43/189	56/144	SADC
Tanzania	49.3 mn	USD 43.6bn	Food and live animals, manufactured goods	Mineral fuels and lubricants, machinery and transport equipment.	30%	131/189	121/144	SADC EAC

Source: World Bank, Doing Business Report 2015, World Competitiveness Report 2014-2015, PWC, UNCTAD

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