

EMPLOYMENT LAW

Free Trade Agreement in Africa Achieves Ratification

By Leah Shepherd
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Officials have approved a historic free trade agreement that would tie African economies closer together, with Gambia becoming the decisive 22nd country to ratify the African Continental Free Trade Area agreement on April 1.

The agreement creates a single African market for goods and services, along with a customs union with free movement of business travelers and capital. When countries join, they agree to remove tariffs on 90 percent of goods. It's too soon to be certain what impact the free trade agreement could have on American corporations with workers and clients in Africa. But in the long run there may be gains in manufacturing and agriculture.

In March 2018, 44 African countries signed the framework to establish a free trade area. The African Continental Free Trade Area agreement took effect after 22 countries ratified it.

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One notable absence is Nigeria, Africa's most populous country and one of the continent's largest economies.

If all 54 African nations join the free trade area, that would represent more than 1.28 billion people, according to the United Nations. The continent has a gross domestic product (GDP) of \$6.9 trillion, according to the International Monetary Fund.

Last year, 27 African countries signed a separate African Union Protocol on Free Movement of People, which allows visa-free travel, the right of residency and the right of business and professional establishment for citizens of signatory countries.

The African Continental Free Trade Area agreement also will encourage free movement of people, but in addition will unencumber the movement of tools and services, according to Andrew Mold, acting director of the United Nations Economic Commission for Africa (ECA) in Kigali, Rwanda. The free trade area agreement "is about protocols on government procurement and intellectual property."

Impact on Employers and Workers

The effect on multinational corporations will be "likely very little in the short-to-medium term, since the agreement won't be operational until the outstanding components are negotiated and agreed. The current agreement is the umbrella. Market access arrangements still have to be established," said Peter Draper, a senior fellow at the European Centre for International Political Economy, headquartered in Brussels, and director of Tutwa Consulting Group, headquartered in Pretoria, South Africa, which provides trade policy analysis.

It's a gradual process, said Rajesh Aggarwal, chief of trade facilitation and business policy for the International Trade Centre in Geneva. "It's not that you liberalize everything. It's a progressive liberalization of goods and services."

In a policy brief, the U.N. Conference on Trade and Development (UNCTD) predicts that the agreement would increase total employment by 1.2 percent, stating that most of these gains would be in manufacturing and agriculture.

Reminiscent of the treaties founding and expanding the European Union, the agreement includes the intention to abolish visa requirements, introduce the African passport and oblige countries to mutually recognize academic, professional and technical qualifications, according to a business guide from the International Trade Centre.

"Enhanced intra-African trade in goods will also promote employment, social advancement and consumer choices," the business guide explains. "However, there are significant risks, as trade liberalization on its own does not lead to lower poverty levels in the absence of financial-sector development, rising education levels and strong governance structures."

Aggarwal said that multinational corporations "would like as much liberalization as possible. They enjoy economies of scale. They like integrated markets and regulatory convergence. It reduces the cost of distribution, production and compliance."

There are concerns about possible negative impacts on small and mid-sized enterprises (SMEs). They provide about 80 percent of employment in Africa, according to the World Economic Forum. If consumers can easily buy cheaper products from bigger foreign competitors, the small local businesses could lose out.

"Accepting that some SMEs could be squeezed out of the market by more efficient multinationals," Draper said, "those multinationals will also have incentives to include SMEs in their value chains to access export opportunities."

With greater competition, will workers from poorer nations face longer hours, lower pay and less access to labor unions?

"In many African countries, the formal sector, where such institutional structures [like labor unions] are to be found, is weak," Draper explained. "The [free trade] agreement will work to increase levels of formalization, particularly through the activities of larger companies, which tend to pay higher wages and respect international standards of various kinds."

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A More Integrated Economy

Currently, Africa has eight regional economic communities, which have their own rules and objectives, as well as some overlapping geographic areas. In recent decades, trade between African nations has been low, compared to other regions, such as the European Union. That's mostly because of relatively high tariffs, inadequate infrastructure and regional fragmentation. The free trade agreement aims to create a more inclusive business environment that may be more attractive to investors.

The UNCTD's policy brief estimates that the total value of trade between African nations will increase by 33 percent due to the free trade area. "With GDP presently valued at \$2.1 trillion, most African countries will register an increase of between 1 and 3 percent GDP," the UNCTD states.

Arancha González, executive director with the International Trade Centre in Geneva, said the African Continental Free Trade Area agreement "will be crucial in addressing competitiveness issues in Africa. At a time when some around the world are turning away from increased integration, it is important that Africa sees closer regional cooperation as important in creating jobs, supporting greater value addition and reducing poverty."

The ECA estimates that the agreement could boost intra-African trade by more than 50 percent by eliminating import duties.

But in relative global terms, "the scope [of the agreement] is narrow. It will largely be confined to agriculture, agricultural processing and light, labor-intensive manufacturing," Draper said.

Proponents of the free trade area hope that it will generally boost manufacturing in Africa. In 2017, manufacturing was only 10 percent of the combined GDP of countries in sub-Saharan Africa, according to the World Bank.

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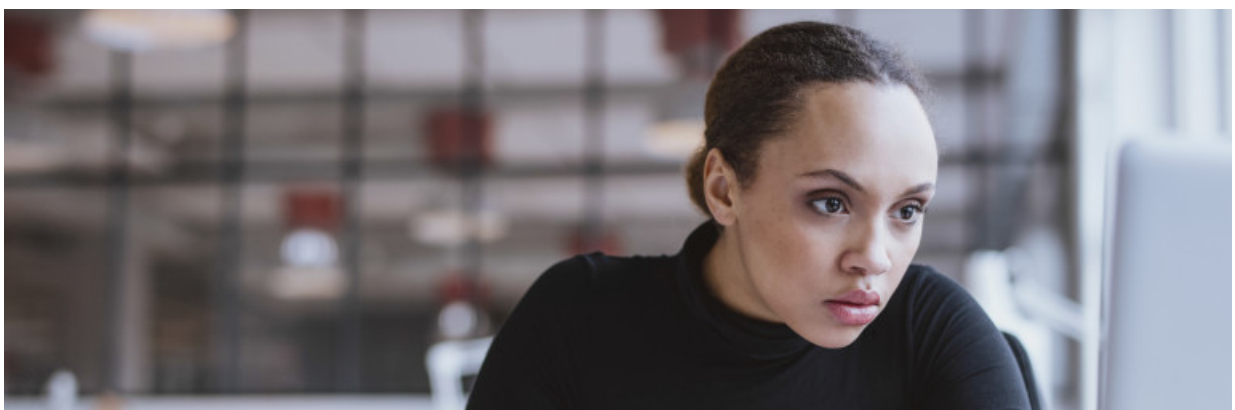
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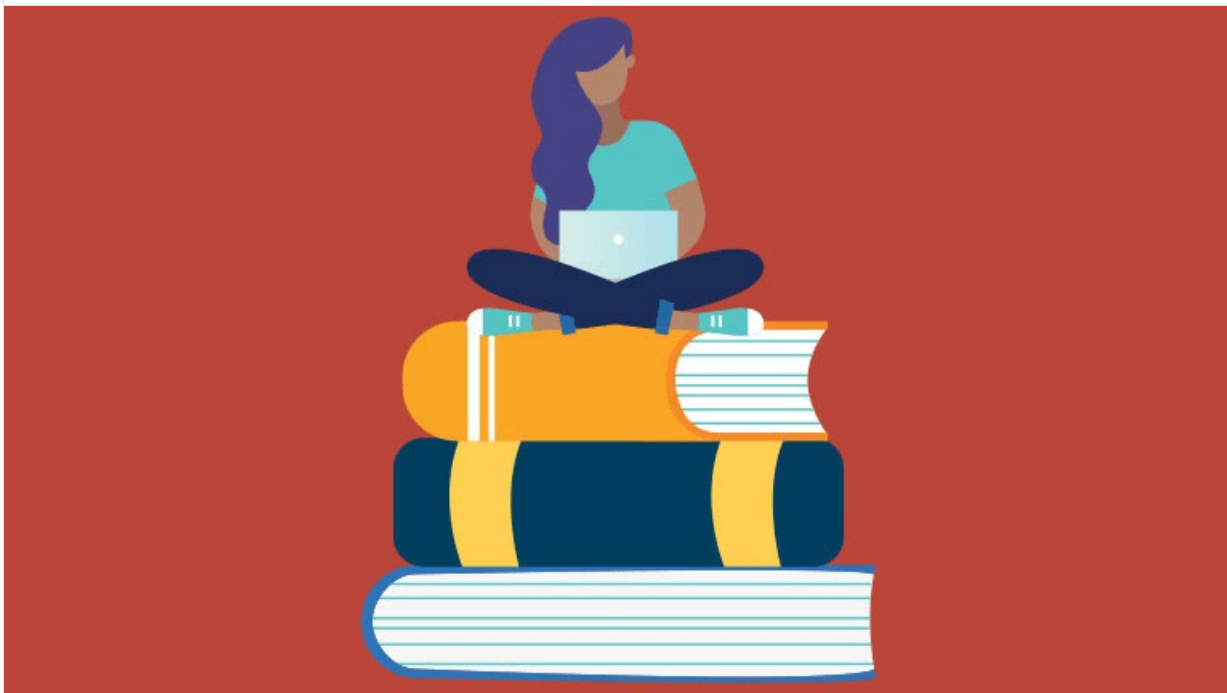




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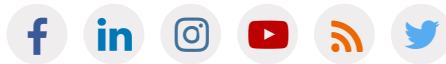
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