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Modelling the economic impact of the tripartite free trade area: Its implications for the economic geography of Southern, Eastern and Northern Africa☆

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Abstract

Objectives: The study evaluates the economic impact of the proposed Tripartite Free Trade Area (TFTA) on consumption, industrial production, and trade, across the 26 African countries. The study focuses on how the TFTA could impact on the economic geography of the region.
Model, data and specification: The study uses the Global Trade Analysis Project (GTAP) computable general equilibrium (CGE) model and the latest GTAP 9 database to simulate the effects of the establishment of the TFTA.
Results and discussion: The results indicate a significant 29 percent increase in intra-regional trade as a result of tariff elimination between member states. Particularly encouraging is the fact that the sectors benefiting most are manufacturing ones, such as light and heavy manufacturing, and processed foods. The results reveal an aggregate welfare gain of USD 2.4 billion for the TFTA region.
Conclusion: Concerns have been raised that industrial production of the TFTA could concentrate in the countries with highest productivity levels namely, Egypt and South Africa. However, our simulation results suggest that these fears are exaggerated, with little evidence of the concentration of industries in the larger countries.

JEL classification: F13; F15
Keywords: Tripartite free trade area; General equilibrium; Free trade area; Economic integration

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1. Introduction

Negotiations for the formation of a Tripartite Free Trade Area (TFTA) between three existing regional economic communities - the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC) – have now been ongoing since the first TFTA summit held in Kampala in October 2008. In a decisive move forward at a meeting held in June 2015 in Egypt, the member states of the three blocks agreed to move forward to the establishment of a TFTA.[1,2]

The implications in economic terms for the countries involved are potentially enormous - the TFTA involves 26 (almost half of all African) countries, spanning the whole Eastern side of the continent from the Cape to the North African coast. If fully implemented, it would create Africa's largest free trade area. The TFTA area currently has a total population of 683 million people and a combined Gross Domestic Product (GDP) of USD 1.2 trillion at market exchange rates of 2015 (World Bank, 2016). This represents more than half (54.3%) of the Africa's total GDP, and 58% of Africa's population.[3] The TFTA thus constitutes a very significant market by any standards and collectively places the block as the 14th largest economy in the world.

As with most regional integration schemes, the underlying economic rationale of the agreement is to provide greater opportunities to reap economies of scale, greater competition, a more attractive internal market for investment (both foreign and domestic), and an acceleration of intra-regional trade. As stressed by the EAC (2014) on the TFTA, "*in opening our markets to each other, the development of regional value chains will be enhanced. We would increase intra-Africa trade, stimulate economic growth and lift people out of poverty*". Beyond that, the agreement also has a great symbolic importance – the TFTA is expected to serve as the basis for the completion of a Continental Free Trade Area (ostensibly to be completed by 2017), with the aim of boosting trade within Africa by 25–30% in the next decade, and ultimately establishing a continental-wide African Economic Community.

It needs stressing that the current levels of intra-regional trade are low – in COMESA, intra-regional trade has oscillated in recent years between just 5–10% of total trade, and for SADC, intra-regional trade was actually declining in the early 2000s (from around 15 to11 percent) (principally due to the sharp rise in commodity exports from the SADC region to the rest of the world) (Fig. 1). The EAC has been more successful in maintaining a relatively high level of intra-regional trade (between 18 and 20% of total trade since 2008), but pointedly the share has not been growing significantly over the last decade. By 2014, intra-regional trade within the TFTA accounted for just 16.7% of total trade of the 26 TFTA members.

Compared with an integrated area like the European Union, where intra-regional trade already represented around two-thirds of total trade at the onset of the European Single Market in 1993, it can be appreciated that, regardless of the differences in geography (above all, the much larger geographic span of the TFTA) and the constraints to trade because of serious infrastructural deficits, there is the potential for a significant increase in the volume of intra-regional trade under the TFTA.

[1] The TFTA agreement will need to ratified by the 26 member states, and enter into force upon the ratification of the text by two-thirds of members. Following earlier discussions, the 4th Meeting of the Tripartite Council of Ministers took place in Nairobi, Kenya in October 2016. The Ministers reported that progress had been made on a number of outstanding contentious issues, including non-tariff barriers; rules of origin; trade facilitation; customs cooperation and mutual administrative assistance; transit trade and transit facilitation; technical barriers to trade and sanitary and phyto-sanitary measures (Tralac, 2016).

[2] Egypt has been the latest country to formally join the TFTA, with Prime Minister Sherif Ismail approving the agreement in February 2017 (Enterprise, 2017).

[3] The corresponding figures for 2011 (the year of the data included in the GTAP database 9.0 used for the subsequent simulation work in this paper) was USD 1.083 trillion for the GDP for the TFTA and 59.4% of the African population.

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