



London International Conferences

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The Impact of African Continental Free Trade agreement

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Abstract

The birth of African Continental Free Trade agreement which came into effect on the 1st of January 2021, has a huge positive impact on the continent. The implementation has brought about enormous economic growth in African countries. African Continental Free Trade agreement is the World largest trade bloc since the creation of World Trade Organisation in 1994. It has united 1.3billion people and with annual trade potential of over \$4trillion. The implementation of AfCFTA has increased the movement of people across the subregion ahead of the planned/envisaged introduction of continental passport. In all paradigms, AfCFTA has unlocked the growth and development potentials tied down for decades. This is a gigantic step toward the actualisation of the four-cardinal principle/pillar laid down by the founding fathers of the African Union, which are: Economic, political, social, and technological integration. The unity of African countries depends solely on their economic integration brought about by the implement of AfCFTA. This is the vehicle that will take

African continent out of the abject poverty, under-development, and low standard of living. The free trade agreement is a win-win for all the African countries. It has boosted, trading activities, production capacity, employment aggregate and income gains on the continent.

Keywords: Economic development, free-trade agreement, Economic integration



1. Introduction

A landmark free-trade agreement removing most tariffs and other commercial barriers in the African continent came into effect on the 1st of January 2021, as 54 sovereign member states agreed to implement the accord. The African Free Trade Agreement commits the governments to greater economic integration, as the signatory states begin a multiyear process to remove trade barriers including tariffs on 90% of commodities and reduce non-tariff barriers. The duty-free movement of goods is expected to boost regional trade, while also helping countries move away from mainly exporting raw materials and build manufacturing capacity to attract foreign investment. African countries are the major exporters of raw materials and the least exporters of finished products. The launching and implementation of the Continental Free Trade Agreement is one of the major processes toward actualisation of the pan-Africanism integration imbedded on the core value of the African Unity.

It is worthy to note that the implementation of the African Continental Free Trade Agreement is the spring bud to African economic transformation to the World next economic miracle. African leaders should make it a topmost priority by implementing the agreement in full to break colonial trade barriers and promote intra-regional trade, which is the only way African continent can develop and speak in one voice at the World stage and during multi-lateral agreement. African leaders must grab without delay the golden opportunities offered by AfCFTA that is geared towards encouraging African countries to trade more among themselves instead of other parts of the World. AfCFTA would enable African countries to industrialize and focus on manufacturing instead of exporting raw materials which attract meagre profits.

Africa needs not only a trade policy, but also a continental manufacturing agenda, the vision for intra-African trade is for the free movement of made-in-Africa goods. That is, goods and services

made locally with dominant African content in terms of raw materials and value addition.

African Continental Free Trade Agreement should not only create wealth for investors, but also prosperity for Africans. The benefits of economic growth must be prosperity for the masses, that would transform the continent into the World economic hub, considering the fact, that the continent is enormously endowed with both human and material resources.

2. Background of Study

The roots of the AfCFTA can be traced back to the 1980 Lagos Plan of Action and a plan in 1991 to launch the African Economic Community (AEC). Neither of these were implemented but the goal remained much alive. The launching of the AfCFTA is considered as the most crucial step towards the economic integration among the African countries. African leaders have demonstrated that the continent can only achieve its developmental goals through massive intra-regional trade among the 54 African countries without barrier (barrier free)

The first phase of the agreement was adopted and signed by the African Union Heads of State and governments at its 10th Extraordinary Summit in Kigali, Rwanda, on March 21, 2018. The AfCFTA treaty is one of the flagship initiatives of the African Union Agenda 2063, aimed at creating a single continental market for goods and services, with free movement of businesspersons, investments, and the hope of creating a single currency across the continent.

There are five major sub-regional economic integration arrangements that encompasses all the countries in Africa. These are: *the Arab Maghreb Union (AMU)*; *The Common Market of Eastern and Southern Africa (COMESA)*; *The Economic Community of Central African States (ECCAS)*; *The Economic Community of West African States (ECOWAS)*; and the *Southern African Development Community (SADC)*.

The various regional community blocs have common objectives. In West Africa, ECOWAS since its formation on May 28th, 1975, it has had the objective of constructing a free trade area among member states. ECOWAS is a regional political and economic union of fifteen countries located in West Africa. Collectively, these countries comprise an area of 5,114,162 km², population of over 381,91million.

The Southern African Development Community (SADC) was established in 1992 and the **SADC Free Trade Area (FTA)** came into being in 2008. The FTA were made up of 13 member countries out of the region's 15 countries (Angola and the DRC have not signed up) but only five countries are members of the **Southern African Customs Union (SACU)**, Botswana, Eswatini, Lesotho, Namibia, and South Africa. The SACU was formed in 1910.

The Arab Maghreb Union (AMU) was formed in 1989 by Algeria, Libya, Mauritania, Morocco, and Tunisia as a vehicle to promote economic and political integration among member states.

The Common Market for Eastern and Southern Africa (COMESA) was formed in December 1994 to replace the former Preferential Trade Area (PTA) from the early 1980s in Eastern and Southern Africa. COMESA was created to serve as an organization of free independent sovereign States that have agreed to cooperate in developing their natural and human resources for the good of all their people. In this context, the focus of COMESA has been on the formation of a large economic and trading unit to overcome trade barriers faced by individual States. The objectives of COMESA reflect its priorities to promote sustainable economic development.

The Economic Community of Central African states (ECCAS) was established on October 1983, with the aims of promoting and strengthening a harmonious cooperation in order to realize a balanced and self-sustained economic development,

particularly in the fields of industry, transport and communications, energy, agriculture, natural resources, trade, customs, monetary and financial matters, human resources, tourism, education, culture, science and technology and the movement of persons with a view to achieving collective self-reliance, raising the standards of living, maintaining economic stability and fostering peaceful relations between the member States and contributing to the development of the African continent.

Some of the Africa's Regional Economic Communities (RECs) have gone some way to achieving integration. Larger countries within an individual REC have tended to become a centre for trading, using the relationships they have with fellow members. Kamal Nasrollah, Partner and Head of the law firm Baker McKenzie in Casablanca has studied this phenomenon and believes that the AfCFTA could use the example of these Regional Economic Communities (RECs). He cites Ivory Coast, Kenya, Senegal, and South Africa and gives some detail on the Moroccan experience.

3. Methodology Applied

In this article, Secondary data were used to get an overview of the volume of intra-regional trade among regions in the World, we collected data from World Integrated Trade Solution (WITS) for a comprehensive analysis. This is quite imperative for us to know how regions in the World conduct trading activities within their subregion. African intra-regional trade is the key success factor to the African continental free trade agreement which came into effect on the 1st of January 2021. We used data from 2014 -2018 and compared it with the volume of trade among the regions.

Table: 1 Regional trade in percentage of their GDP 2014-2018

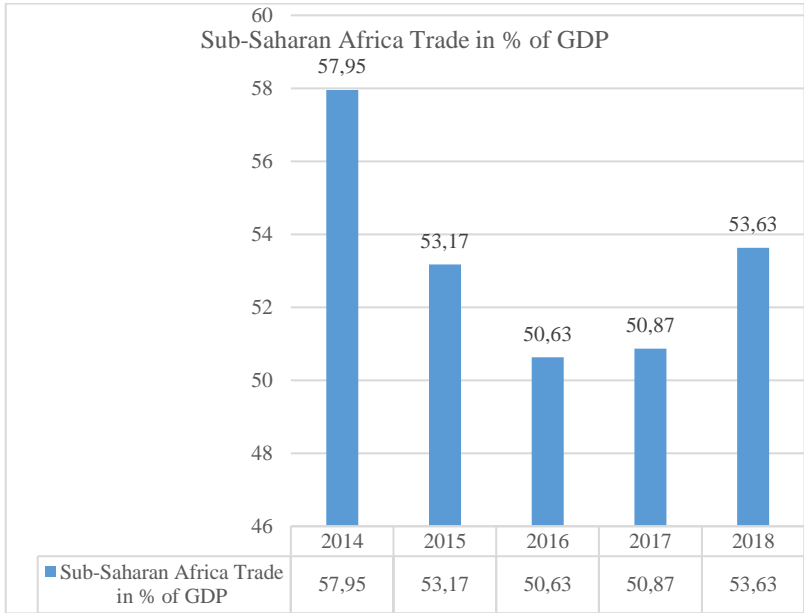
Country/Region	Indicator Name	2014	2015	2016	2017	2018
Sub-Saharan Africa	Trade in % of GDP	57.95	53.17	50.63	50.87	53.63
East Asia & Pacific	Trade in % of GDP	63.40	58.16	54.30	56.63	58.03
Europe & Central Asia	Trade in % of GDP	79.60	80.21	79.59	82.59	84.09
Latin America & Caribbean	Trade in % of GDP	43.30	47.67	44.67	45.29	46.84
Middle East & North Africa	Trade in % of GDP	84.45	79.92	75.70	79.50	86.24
North America	Trade in % of GDP	33.11	31.24	30.04	30.59	31.05
South Asia	Trade in % of GDP	47.29	41.10	39.11	39.55	42.08

Source: World Integrated Trade Solution (WITS)

4. Results and Analysis

In this section, results of the findings are thoroughly analysed with the use of graphs. The graphs enable us to have a precise and concise interpretation of the volume of intra-regional trade in the various sub-regions. Results collected were used to compare and contrast the level of intra-regional trade among the sub-regional groups. Data were tabulated to give us a clearer picture of how sub-regions integrate economically through trade and investments.

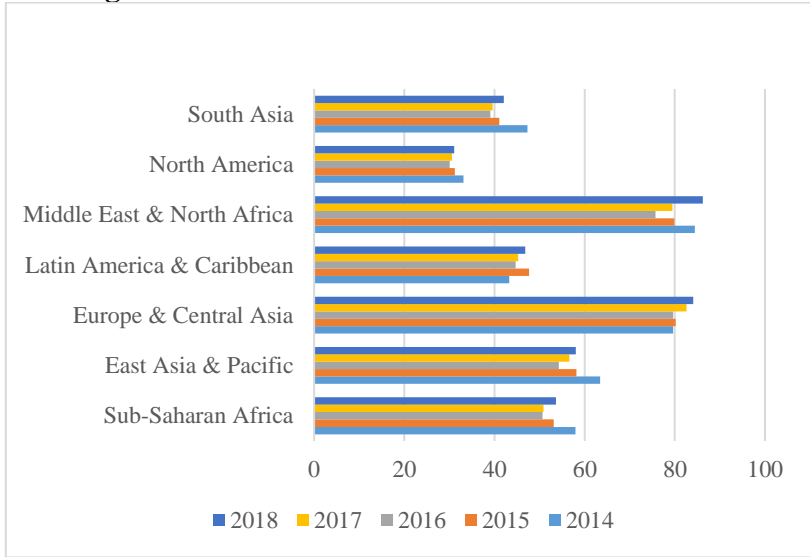
Fig.1 A Clustered Column Chart Showing the volume of trade among African countries between 2014-2018



Source: Own source

During the period under investigation, the sub-Saharan Africa countries witnessed the highest trade in percentage of GDP in 2014, which is a clear evidence that the volume of intra-regional trade was at its best. There was a sharp decrease in the volume of trade in 2015 and 2016, respectively. While in 2017, the percentage of trade to GDP increased gradually to the tone of 0.24%. The Sub-Saharan Africa trade in percentage of GDP increased rapidly from 50.87 to 53.63, which is a sign of high volume of trading activities among the countries in the sub-region.

Fig.2: Clustered Bar Chart showing the seven intra-regional trade as a % of GDP between 2014-2018



During the period under review, Middle East and North Africa Sub-region have the highest intra-regional trade as a percentage of GDP in 2018, followed by Europe and Central Asia with the trade volume of 86.24 and 84.09, respectively. As shown on the above Clustered Bar chart, the two most integrated regions in terms of intra-regional trade were Middle East & North Africa and Europe and Central Asia.

During the period under study, Sub-Saharan Africa witnessed its highest volume of trade in 2014 to the tune of 57.95 as the percentage of its GDP.

Among the regions under investigation between 2014 to 2018, North America witnessed the lowest volume of intra-regional trade as the percentage of its GDP. This is partly because United States of America and Canada which are the two biggest economies in the sub-region conduct most of their trading activities outside the subregion. Another factor is the huge size of USA GDP.

5. Conclusion

The recently launched African Continental Free Trade Agreement is the most viable way the dreams of the founding Fathers of African Union can be actualised in no distant time. The prime or overarching objective behind the AfCFTA is the elimination or reduction of tariff and non-tariff barriers amongst the 54 Countries that agreed to be members of the bloc by providing a single market for goods and services, facilitated by movement of persons to deepen the economic integration and prosperity. The formation of AfCFTA is the African continent's most ambitious integration initiative, embedded in the agenda 2063 of the African Union, whose main objective is to create a single continental market for goods and services with free movement of people and investments, thus expanding intra-African trade across the continent. With the birth of AfCFTA, investors can now enjoy both freedom of establishment and freedom of services within the continent. Currently, the volume of intra-regional trade in Africa is low compared to the European continent; but with the launch of AfCFTA, and its full implementations, the volume of intra-regional trade in Africa will increase to propel development and eradicate poverty on the continent.

AfCFTA is expected to increase intra-Africa trade from an existing level of about 13% to 25% or more through better harmonisation and coordination of trade liberalisation. This will be driven forward by the complementary Single African Air Transport Market and the Protocol on Free Movement of Persons. AfCFTA is expected to unlock the locked, to tap the untapped human and material resources through trade liberalisation and abolition of barriers to trade.

The share of intra-African trade remained low, unlocking Africa's full economic potential would require economic integration from all sides; globally, regionally, as well as the rural and urban areas.

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