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**An analytical study For the advantages and  
challenges of the African Continental Free  
Trade Area**

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**Abstract:**

The research study sheds light on the stages of establishing the African Continental Free Trade Area "AFCFTA," beginning with visualisation and progressing to launch and implementation. It focuses on the expected economic benefits from implementation, such as: raising the rates of intra-African trade; increasing growth rates and economic welfare gains; as well as raising employment rates and supporting the industrial sector. It also analysed the obstacles in this region that may prevent the maximum benefit from those advantages. The study was exposed to different results as predicted by the economic studies of international institutions.

The study concluded with many results, the most important of which is that the economic benefits expected from the implementation of the African Free Trade Area are varied and contribute significantly to achieving economic development in the countries of the continent, while enhancing their capabilities towards more regional integration and reducing economic dependence on the countries of the outside world. Although there are many challenges that may negatively affect the progress in achieving the region, the African continent has become aware of these challenges and is striving hard under the first ten-year plan of the Sustainable Development Agenda 2063 towards overcoming them, and there are still ambitious efforts towards greater regional economic integration for Africa.

**-Key Words :** African Continental Free Trade Area ("AFCFTA"), Regional Integration, Intra-African Trade, A

## Introduction :

After negotiations that lasted for nearly ten years (since 2008), and at the conclusion of the African Union Summit in the Rwandan capital " Kigali" on March 21, 2018, an agreement was signed to launch the African Continental Free Trade Area ("AfCFTA") under the name "Continental Blocs Agreement in Africa", where Egypt signed with 43 African countries, bringing the total number of signatories to the agreement to 44.

The launch of the African Continental Free Trade Area is a major step towards the establishment of the African Common Market, leading to the African Economic and Monetary Union, as it will contribute to achieving economic integration, promoting sustainable development, and increasing growth rates for all African economies and peoples in line with the agenda of Africa Vision 2063, which represents a map of the future path of the continent for the next fifty years. On July 7, 2019, the Extraordinary Summit of the African Union was held in Niamey, the capital of Niger, which is of particular importance as the summit will witness the launch of the AfCFTA area after completing the quorum of ratifications of African countries and the entry into force of the Agreement.

This agreement, which is one of the most important priorities for Africa , represents a milestone in the process of economic integration of the continent and will establish the largest free trade area in the world, which paves the way for the continent's integration into the institutions and mechanisms of the global economy. It increases the rates of intra-African trade and opens new advanced horizons for linking the African countries, as well as maximising investment opportunities, supporting development and the most appropriate exploitation of resources.

African Free Trade Area aims to remove tariff and non-tariff restrictions on intra-African trade and create a continental market for all goods and services within the continent, which includes about 1.3 billion people living on the continent, and whose gross domestic product reaches more than 3.4 trillion dollars, as " the United Nations Economic Commission" expects. The implementation of the agreement will increase the volume of trade between African countries by 52% in 2025 compared to its levels in 2010, and it is expected that trade within Africa will grow by 33%, and the trade deficit in the continent will decrease by 50.9%.

Within the framework of those benefits expected from "AfCFTA", there are some potential challenges that may arise from the heterogeneous nature of economies in Africa. For example, Egypt, Nigeria, and South Africa contribute more than 50% of Africa's total GDP, while six small island nations contribute only 1% of this output. as well as increasing competitive pressures on small farmers and owners of small and

medium-sized enterprises in many emerging African markets, which may lead to high rates of unemployment and poverty.

### - **Research Problem:**

Despite the many economic advantages that the African Free Trade Area leads to, the great challenges that still face the new African project cannot be overlooked, the most important of which are: the availability of the necessary mechanisms for actual implementation, transportation and infrastructure suitable for trade, According to the African Development Bank, Africa's infrastructure needs amount to about 130 to 170 billion dollars annually, with a financing gap between 68 and 108 billion dollars, which pushes most countries' trade abroad instead of inside, in addition to political and economic challenges and the existing weakness of economic blocs. Therefore, it is necessary to shed light on the nature of those challenges so that the countries of the continent can begin to gradually overcome them.

### - **the importance of Research :**

The African Continental Free Trade Area represents a fundamental change in the history of the continent's regional economic integration, as it is the largest free trade area in the world after the World Trade Organization. It is expected to reducing poverty, lifting about 35 million Africans out of it, and promoting intra-African trade with a decline in shipping costs, customs and trade fees, and thus achieving more economic openness to the continent and attracting more foreign investments to it. The implementation of this free trade area would increase regional

income by 7%, or about 450 billion dollars annually. The free area may contribute to the recrystallization of African economies and the expansion of industrial productive sectors, especially in light of the region's coverage of about 3 trillion dollars, the size of the GDP of the African countries, with a population size of more than 1.3 billion people.

**- Objectives of Research:** The study aims to analyse the following points:

- Negotiations and stages of establishing the African Continental Free Trade Area.
- Structure of "AfCFTA".
- Advantages and opportunities for "AfCFTA".
- Challenges facing "AfCFTA".
- Ways to enhance the expected benefits from "AfCFTA".

**- Methodology of Research:**

The study adopts the descriptive analytical approach by presenting and analysing the various stages towards the implementation of the African Continental Free Trade Area, with an analysis of the expected advantages of this region, based on predictive studies carried out by many international institutions such as the World Bank, the International Monetary Fund, and the United Nations Trade and Development . Also, following the deductive approach in determining the most important obstacles

and challenges that may prevent this free trade area from implementing its desired goals.

### **1) African Continental Free Trade Agreement negotiations and stages:**

The free trade area is one of the main goals launched by the African Union within "African Agenda 2063." In addition to the dominance of economic giants such as the United States of America, the European Union, and China in the African trade market, perhaps understanding the general contexts of the continent will clarify the justifications for the region's establishment. The African continent has taken decisive steps in the field of negotiations aimed at establishing the African Continental Free Trade Area (AfCFTA) within the activities of the African Union Summit and took the following stages:



**Visualization stage:**

The Eighteenth Ordinary Session of the Assembly of Heads of State and Government for the African Union, held in Addis Ababa, Ethiopia in January 2012, adopted a decision to establish a Continental Free Trade Area by an indicative date of 2017. The Summit also adopted a plan of action to promote intra-African trade, which identified seven priorities : In trade policy, trade facilitation, production capacity, trade-related infrastructure, trade finance, trade information, and market integration, the road map was also adopted to clarify the steps for reaching the free trade area and the customs union based on the following:

- Completion of the tripartite free trade area for the parties of the East African Community (EAC) , the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC).
- Completion of the free trade agreement by the non-triangular regional economic groups, through parallel arrangements in the form of the Tripartite Initiative of the East African Community, the Common Market for Eastern and Southern Africa and the Southern African Development Community, or to reflect the preferences of its member states, between 2012-2014.
- Consolidation of other regional free trade areas in the Continental Free Trade Area initiative between 2015 and 2016.
- Establishing the African Continental Free Trade Area by 2017.

**- Preparatory stage:**

The preparatory phase came through organising regional consultative meetings on the Continental Free Trade Area for all the eight regional economic blocs recognised by the African Union in the period from May to November 2014. Through which it was commissioned to conduct studies and prepare technical documents on the negotiations of the Continental Free Trade Area, as well as to involve the private sector in the negotiations, and an attempt was made to establish the African Business Council and the Trade Observatory.

**- Stage of starting negotiations:**

The meetings of the 25th Ordinary Session of the African Union Summit were held during the period from 7–15 June 2015 in South Africa, and after eight meetings, the negotiation team reached three important results, which included the drafting of the Framework Agreement on the Free Zone, the Protocol on Goods, and the Special Protocol on Trade and Services, which were officially approved on the three documents and their adoption by African Ministers of Trade in Niamey, the capital of Niger, in December 2017. The Heads of State also issued and approved the following documents:

-The announcement of the Continental Free Trade Area

-Adoption of the indicative roadmap for negotiations on the Continental Free Trade Area

-Objectives and guidelines for negotiation

-Terms of Reference for the Continental Free Trade Area Negotiations Forum

Institutional Arrangements for the Continental Free Trade Area Negotiations

### **-Implementation stage:**

After five years of negotiations that began in 2012, 44 African countries signed the agreement establishing the African Free Trade Area. At the Fifth Meeting of the Ministers of Trade of the African Union, which was held in Kigali, Rwanda on March 8–9, 2018, the legal agreement constituting the African Continental Free Trade Area (AFCFTA) was adopted, and it was offered for signature at the Tenth Extraordinary Summit on March 21, 2018, when a final declaration was issued confirming the desire of the member states of the Union to deepen integration among African countries through the Continental Free Trade Area. The second stage of negotiations .

The African Trade Policy Center of the Economic Commission for Africa, in partnership with the African Union Commission, has identified nine main objectives that this agreement seeks to achieve in the long term, namely :

- Exempting African companies, business owners, and consumers from customs duties, including a wide range of goods traded between African countries.

- removing non-tariff barriers to investors, like excessive bureaucratic procedures.
- Cooperation between customs authorities on standards and regulations applicable to products and the promotion of the movement of goods across African borders.
- Gradual liberalisation of services, giving service providers the opportunity to access the markets of all African countries on appropriate terms equivalent to those of local investors.
- To meet the regulatory requirements of different markets, mutual recognition of standards, licenses, and certifications of service providers for companies and individuals
- Create regional additional value; inputs come from different African countries to create added value before exporting them outside the continent.
- Protection against unexpected trade flows: where States Parties may, if necessary, use commercial remedies to protect national industries.
- Create a "dispute resolution" mechanism to provide rule-based solutions to settle all disputes that may arise between states parties to the implementation of the Convention.
- Providing an enabling environment for recognition of intellectual property rights in Africa, investment within the continent and combating non-competitive barriers.

## - Stage of Operations:

The 12th Extraordinary Summit of the African Union was held in Niamey on July 7, 2019, which witnessed the successful launch of the operational phase of the African Continental Free Trade Area (AfCFTA). It entered into force on May 30, 2019. The launch of the operational phase was marked by the adoption of five main tools.<sup>1</sup>:

- **Rules of origin** : a system that governs the conditions under which a duty-free product or service can be traded throughout the region.
- **Tariff concessions** : It was agreed that a 90% tariff should be liberalized and the deadline is July 1, 2020. Over 10 years with a 5-year transition, there will be an additional 7% for "sensitive products" that should be liberalized.
- **The online mechanism on monitoring** : reporting and elimination of Non-tariff barriers are a major impediment to intra-African trade whether they are physical, such as poor infrastructure, or administrative complexities.
- **Pan-African Payment and Settlement System** : to facilitate payments on time and in full, by ensuring that payments are made in local currency and at the end of the year there will be net settlements in foreign currencies.
- **African Trade Observatory**: a trade information portal to address barriers to trade in Africa due to a lack of information on opportunities and trade statistics as well as information on exporters and importers in countries. The African Union Trade Observatory will have all this information and other

relevant data to be provided by the Member States of the African Union.

Due to the spread of the coronavirus ( Covid 19), the implementation of the free area was suspended until January 21, and it was announced that African countries had officially started commercial activities related to (AfCFTA).<sup>ii</sup>.

## **2) Structure of the African Continental Free Trade Area Agreement :**

The Establishment of (AfCFTA) defines the institutional structure, including the General Secretariat, hosted by Accra, Ghana, and includes various protocols whose contents are the most important of which are protocols on trade in goods and services; a protocol on dispute settlement; details on technical barriers to trade (TBT); and sanitary and phytosanitary measures (SPS), as well as competition policies, intellectual property rights, investment and e-commerce.

The Continental Free Trade Area Agreement distinguished between the African countries that are better off in terms of economic performance (non-less developing countries, "non-LDCs") and another group that includes the least developed countries, "LDCs(33 countries) , where 90% of all tariff items will be completely cancelled within five years for non-LDCs, while the period reaches ten years for the least developed countries. As for the sensitive group of goods, another 7% of the customs lines will be cancelled within ten years, and it will extend to 13 years for LDCs <sup>iii</sup>.

**Table No. (1) Tarrif Liberalization Modalities**

		Timeframe Non-LDCs	Timeframe LDCs
<b>Level of Ambition</b>	90 %	5 years	10 years
<b>Sensitive Products</b>	7 %	10 years	13 years
<b>Excluded Products</b>	3 %	Excluded	Excluded

**Source :** Trudi Hartzenberg , "The African Continental Free Trade Area Agreement - what is expected of LDCs in terms of trade liberalisation?", United Nations ,2020, Available at:

<https://www.un.org/ldcportal/content/african-continental-free-trade-area-agreement-what-expected-ldcs-terms-trade-liberalisation>

### **3) Advantages and Opportunities of Creating an African Continental Free Trade Area:**

The economic importance of the African Continental Free Trade Area lies in the fact that it covers a large number of countries with different human and economic resources and capabilities. The African Trade Area includes a market consisting of 1.3 billion people, with a GDP of about \$5.2 trillion, making it the largest region for trade in the world since the establishment of the World Trade Organization. In the medium term, the continent's population will rise to 2.5 billion people by 2050, about 26% of the world's population, and its economy will grow at twice the rate of that of the developed countries. Perhaps this distinct context will constitute a great opportunity for the effective performance of AfCFTA. The

following are the most important economic aspects in which the Continental Trade Area will make progress:

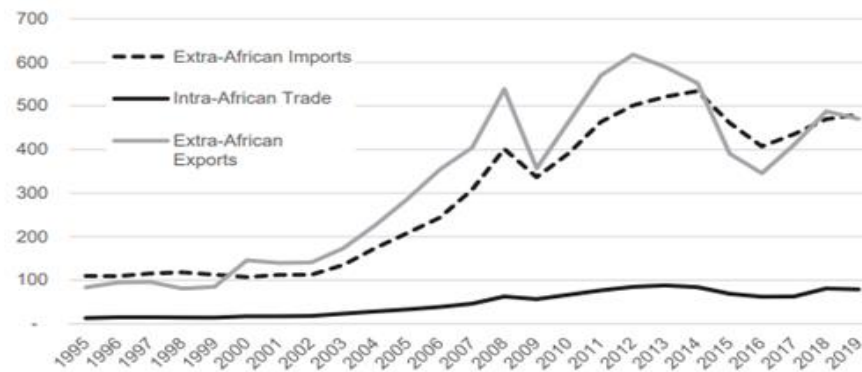
- **Promoting intra-African trade:**

The value of intra-African trade increased from 13 billion dollars in 1995 to 80 billion dollars in 2019. As shown in Figure No. (1), The share of intra-African trade also increased slightly from about 12% of total African trade between the periods (1995–2008) to about 14% (2009–2019).<sup>iv</sup>. The proportion of intra-African trade still does not exceed only about 16% of the continent's total trade for the years 2020–2021, and therefore the share of intra-African trade in the total trade is still low, especially when compared to other regions such as Europe, East and Southeast Asia , where that percentage reached 78% in the European Union countries, and ranges between 25 to 30% in the Asian countries. This is at a time when African trade with the countries of the outside world represents about six times the volume of intra-African trade.<sup>v</sup>



**Figure No. (1) The value of intra-African trade during the period (1995-2019)**

**Billion dollars**

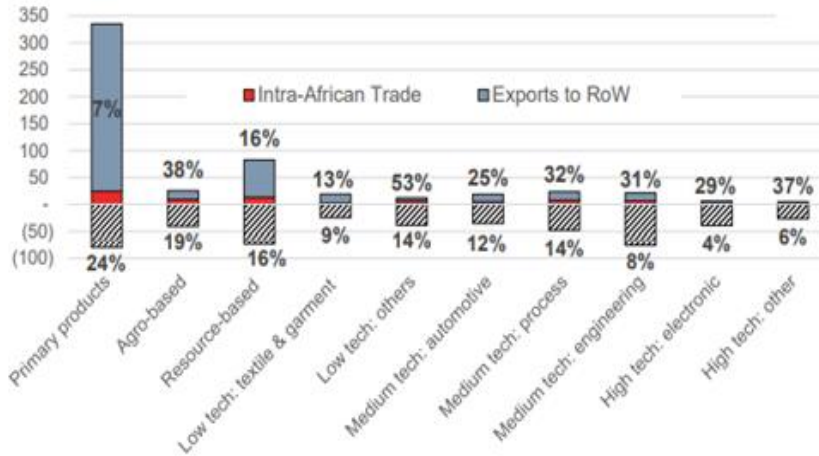


**Source :** Bernhard Troster , & Eva Janechova , **The long journey towards Pan-African integration: The African Continental Free Trade Area and its challenge** , ( Vienna : Australian Foundation For Development Research , Macg 2021), P.8.

An important characteristic of intra-African trade is the strong focus on a few African countries such as South Africa (shared 36%) and Nigeria (8%) as the largest economies on the continent, followed by Egypt (5%), Tunisia and Zambia (both 4%). The share of intra-regional trade within African regional economic communities ranges from 21% in the Economic Community of Central African States (ECCAS) to 79% in the Southern African Development Community (SADC) and the Southern African Customs Union (SACU), reflecting patterns of efforts to achieve greater integration between regional economic blocs..

To distinguish between the types of products that characterise intra-African trade, there is a high focus for African exports on primary and resource-based products derived from oil and minerals, while capital and consumer goods have been imported, as well as high-tech devices. As a result, relatively high shares of African exports of capital and consumer goods (from 13% to 53%) go to other African countries. Most of these products are still imported from non-African countries, which limits the share of African products in total imports (from 4% to 14%). Also, raw materials still dominate trade between African countries<sup>vi</sup>.

**Figure No. (2) Trade by Products classes (Billion \$)**

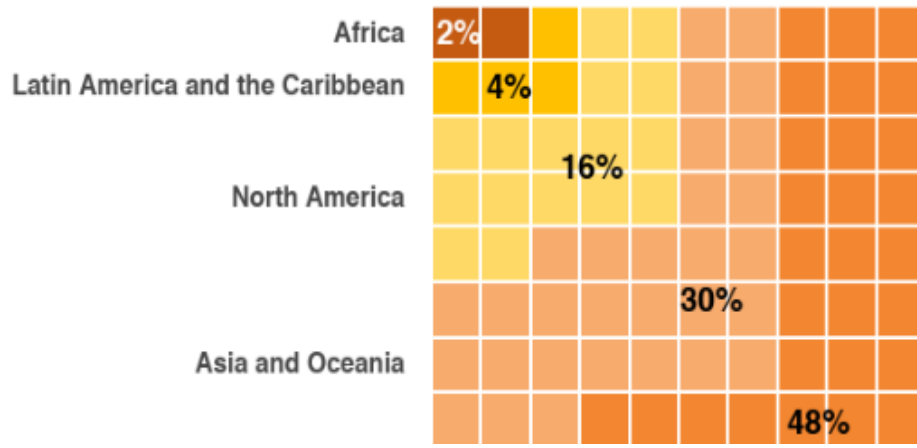


**Source :** Bernhard Troster , & Eva Janechova , **The long journey towards Pan-African integration: The African Continental Free Trade Area and its challenge** , ( Vienna : Australian Foundation For Development Research , Macg 2021), P.10.

The United Nations Economic Commission for Africa expects, through a benchmark analysis conducted in econometric studies, the rates of increase in intra-African trade to increase until 2025. Based on 2010 data as a base year, intra-African trade will increase by 21.9% in 2025. That percentage will decline to 15.5% in the case of stopping its implementation. The most affected sectors are food production and agriculture, which are expected to grow by up to 4.9%, as well as industrial exports, which will grow by 7.4%. %<sup>vii</sup>.

With regard to exports of services, intra-African trade is expected to increase by 9.31% in 2025 compared to 2010. This is a remarkable and recognisable improvement, especially in light of the decline in African services exports to the countries of the world to reach only 2% of the total global trade in services in 2018, which is the lowest percentage among the world's continents, as shown in Figure No.(3)

**Figure No. (3) Percentage of the service sector’s contribution to global exports, distributed by geographical regions during 2018**



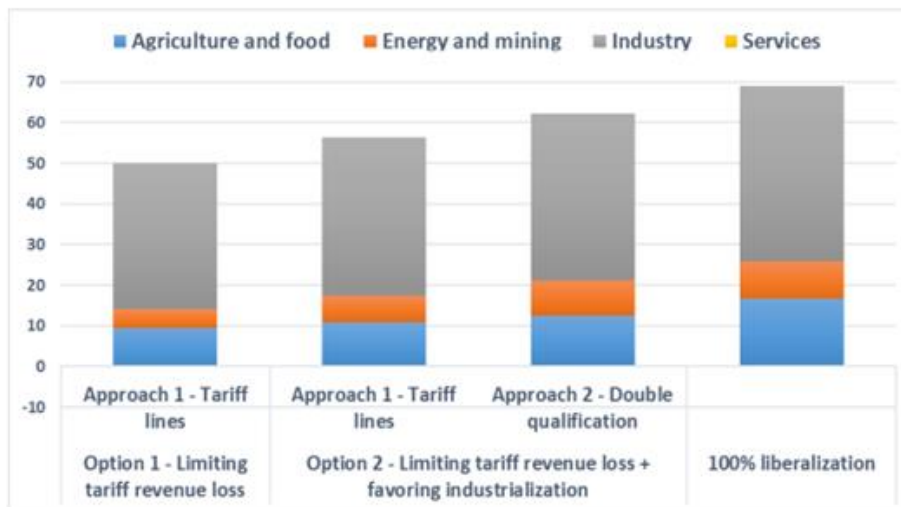
Source : - United Nations Conference on Trade And Development (UNCTAD), **Trade In Services** , at:

<https://unctadstat.unctad.org/EN/Infographics.html>

Other benchmark studies predict that the AfCFTA will change the rules of the game to increase intra-African trade by between 15% (or \$50 billion) and 25% (or \$70 billion) by 2040. Removing customs duties only on goods, the share of intra-African trade will increase by approximately 40% to more than 50%, as this percentage changes depending on the extent of commitment to customs liberalisation procedures.<sup>viii</sup>. Another study by the United Nations Trade and Development Organization "UNCTAD" confirmed that the Continental Free Trade Area will double intra-African trade in 2022 (by 25%), and that percentage will increase to between 33 and 50% in the long term, and the deficit in Africa's trade balances will decrease. by 51%<sup>ix</sup>.

Economic forecasts indicate that the increase in intra-African trade is most evident in many productive sectors, with significant opportunities in the field of manufacturing. Intra-African trade in industrial goods will increase by between 25% (or \$36 billion) and 30% (or \$44 billion) in 2040. For agricultural and food products, the increase will be between 20% (or \$9.5 billion) and 30% (or \$17 billion), and will be between 5% (or \$4.5 billion) and 11% (or \$9 billion) for energy and mining products . The following figure shows the expected changes in intra-African trade by major sectors under different scenarios <sup>x</sup>.

**Figure No. (4) Projected changes in intra-African trade by main sectors for selected scenarios, compared to the baseline without AfCFTA, 2040 (billions dollars)**



**Source :** African Trade Policy Centre, **An empirical assessment of the African Continental Free Trade Area modalities on goods**, November 2018 , PP.2-3, Available at :

[https://archive.uneca.org/sites/default/files/PublicationFiles/brief\\_assessment\\_of\\_afcfta\\_modalities\\_eng\\_nov18.pdf](https://archive.uneca.org/sites/default/files/PublicationFiles/brief_assessment_of_afcfta_modalities_eng_nov18.pdf)

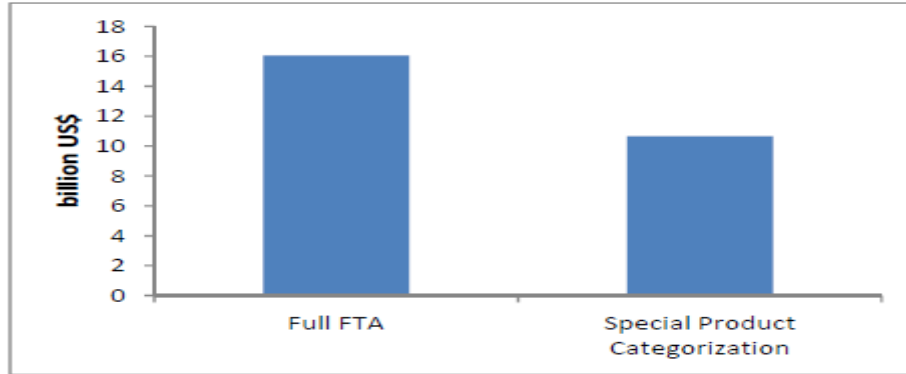
**-Achieving economic welfare gains:**

In an econometric study conducted by the United Nations Trade and Development Organization (UNCTAD) in 2018, to analyse African trade using "the general balance model" (GBM) , the Global Trade Analysis Project, in the case of two scenarios that were expected in the long term. The first is in the case of the Luanch the Continental Trade Area and the complete abolition of tariffs between African countries , and the second is in the case of partial tariff reductions with the exemption of some sensitive products from this liberalization, and this becomes clear in the following.<sup>xi</sup>:

**A)** In the case of the launch of the Continental Trade Area and a full Free Trade Agreement (CFTA), the removal of tariffs between the countries of the African continent will lead to economic welfare gains of 1.16 billion dollars while costing an estimated 1.4 billion dollars in customs revenue due to a decline in customs revenue. Therefore, the final outcome is positive, and the trade balance deficit is expected to decrease by 9.50%.

**B)** In the scenario of applying exemption for some sensitive goods included in the Special Product Categorization (SPC), " UNCTAD" expects to achieve lower economic welfare gains of up to \$7.10 billion in the long term, and losses in tariff revenue are ex while the to reach 2.3% , and The trade balance deficit decreases by 8.3% only.

**Figure No. (5) The economic welfare gains resulting from regional integration in Africa**



**Source :** Mesut Saygili ,*et.al* , **The African Continental Free Trade Area : Challenges and Opportunities of Tariff Reductions** , UNCTAD Research Paper No. 15 , ( Geneva : , UNCTAD, 2018), P.6.

Despite those advantages expected from the African Free Trade Area, the fear of trade growth and welfare benefits from the CFTA is likely to emerge unevenly, with a larger share taken up by a few countries with stronger economies and competitiveness. This fact is reinforced by the fact that about seven African countries currently control about 60% of the total intra-African exports, while the remaining 40% is for other African countries.<sup>xii</sup>.

Other studies also expect a slight increase in the economic welfare of African countries, where African countries will lose customs revenues that may be equivalent to about 8.5 billion dollars, but this will be offset by an increase in economic gains. up to \$9.13 billion USD <sup>xiii</sup>.

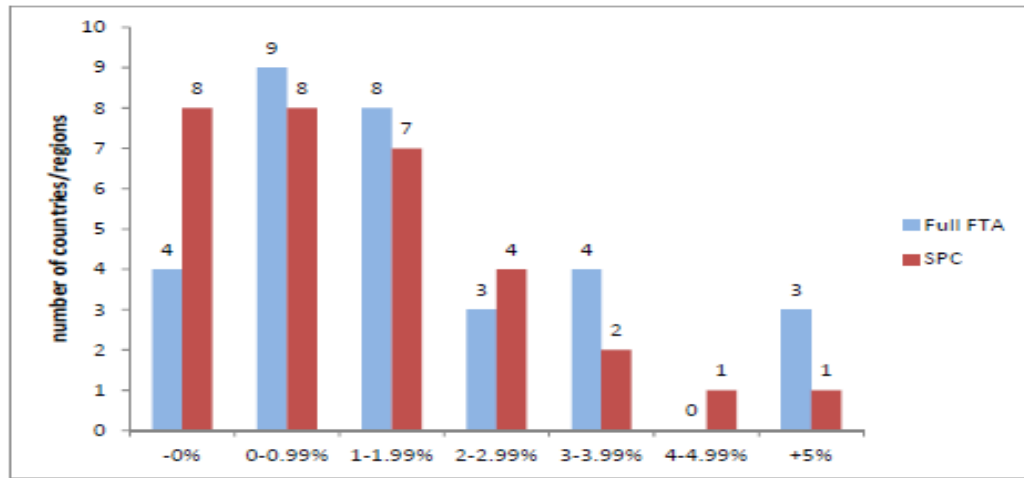
### **- Raising the economic growth rates :**

Economic studies expect that in the case of complete customs liberalisation within the framework of the continental trade area,

the rates of GDP growth for Africa will increase by an average of 0.97 % annually, while in the case of partial liberalisation and special treatment of some commodities, this expected growth decreases to reach 0.66 % on average. It should be noted that not all African countries are expected to benefit equally, as some countries will witness economic growth that increases by up to 1% annually, while others will have a GDP growth rate of more than 3% annually, and there is another group of countries that may not be affected in one way or another, as shown in Figure No.(6)..<sup>xiv</sup> In other expectations, the implementation of the AfCFTA agreement will lead to a relatively modest increase in both GDP and exports in Africa, whatever the scenario envisaged. (about 1% of GDP and 3% of exports)<sup>xv</sup>.



**Figure No. (6) Expected economic growth rates for African countries within the framework of full liberalization from customs tariffs, or partial liberalization**

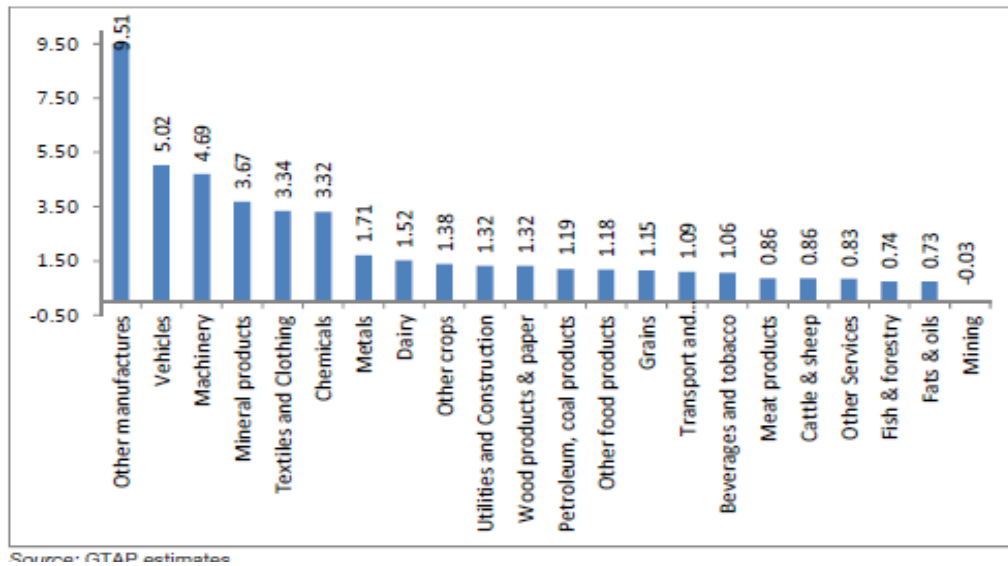


Source : Mesut Saygili ,*et.al* , **The African Continental Free Trade Area : Challenges and Opportunities of Tariff Reductions** , UNCTAD Research Paper No. 15 , ( Geneva : UNCTAD, 2018), P.15.

**- Raising employment rates:**

It is expected that employment rates will increase by 1.17 % in the case of applying the full liberalisation of commodities within the framework of the Continental Trade Area, while this rate will decrease to reach 0.82 % in the case of partial liberalisation and special treatment of some commodities. It also anticipates different effects of the free trade area on employment in the various economic sectors, especially agriculture, given the importance of this sector to the economies of African countries, where it employed about 53% of the workforce in Africa in 2019. However, more employment is expected in the manufacturing and services sectors, as shown in Figure No.(7).<sup>xvi</sup>

**Figure No. (7) The weighted growth rate of employment in the different sectors in the case of the establishment of the Continental Free Trade Area**



Mesut Saygili ,*et.al* , **The African Continental Free Trade Area : Challenges and Opportunities of Tariff Reductions** , UNCTAD Research Paper No. 15 , ( Geneva : , UNCTAD, 2018), P. 14.

**- The emergence of a low-cost industry:**

.Most African countries' exports are commodities and raw materials whose prices fluctuate greatly according to the fluctuations of world prices. The establishment of the Continental Trade area will ensure more diversification of trade, so that regional markets can be used as a starting point for many

industries, for example the automobile industry in South Africa, which depends for most of its inputs on the import of seats and leather from Botswana and fabrics from Lesotho, under the preferential system of the customs union For southern African countries, within the framework of the free trade area, trade exchange opportunities between them will increase at low prices for commodities and raw materials, which will be reflected in production costs and their downward trend; Consequently, these industries and commodities are offered at low prices to consumers, as if they are redistributing income from governments to producers and consumers "AfCFTA" will boost the production of many <sup>xvii</sup>. industrial sectors, such as textiles, clothing, leather, wood and paper, vehicles, transport equipment, electronics and metals.<sup>xviii</sup>

In summary, it can be said that the impact of AfCFTA on the economic indicators in Africa can be summarised in general as shown in Table No. (1), where it is clear that the economic benefits of the full liberalisation scenario are higher than the case of applying the system of special treatment goods[i]. This is in addition to its contribution to achieving the Sustainable Development Goals 2063 and achieving the United Nations 2030 Agenda, especially the goals related to providing decent work, economic growth, and promoting industry.<sup>xix</sup>.

**Table No. (1). Selected indicators comparative**

	Scenario 1 (Full FTA)	Scenario 2 (Special Product Categorization)
Welfare (billion US\$)	16.1	10.7
GDP growth rate (per cent)	0.97	0.66
Employment growth rate (GDP weighted, per cent)	1.17	0.82
Intra-Africa Exports (billion US\$)	68.0	63.6
Change in Intra-Africa Exports (billion US\$)	16.8	12.4
Change in Intra-Africa Exports (per cent)	32.8	24.2
Change in Total Exports (billion US\$)	13.5	10.0
Change in Total Exports (per cent)	2.5	1.9
Change in Total Imports (billion US\$)	9.7	9.7
Change in Total Imports (per cent)	1.8	1.8
Trade Deficit (billion US\$)	3.7	7.2
Trade Deficit (per cent change)	-50.9	-3.8
Tariff Revenue Loss (billion US\$)	4.1	3.2
Tariff Revenue Loss from intra-African trade (billion US\$)	3.1	2.3
Tariff Revenue Change (per cent)	-9.1	-7.2

Source: GTAP estimates.

**Source :** Mesut Saygili ,*et.al* , **The African Continental Free Trade Area : Challenges and Opportunities of Tariff Reductions** , UNCTAD Research Paper No. 15 , ( Geneva : , UNCTAD, 2018), P. 13.

- Nwaodu Nnamdi Okechukwu, & Ijeoma Edwin Okechukwu Chikata , **Op.cit** , P.41

Several assessments of the economic impacts of (AfCFTA) have been conducted, including studies by "UNCTAD" , the World Bank ("WB"), and the International Monetary Fund ("IMF". Most of these studies expect significant growth in intra-African trade flows with positive effects, driven by the removal of "tariff barriers." All of these studies are based on the so-called Computable General Equilibrium (CGE) models, which are a type of empirical model that describes macroeconomic linkages and

interrelationships in an economy. The most prominent of these assessments was a study conducted by the World Bank (2020) that was able to measure changes in welfare as changes equivalent to real income, ranging from 2.8 billion US dollars in the case of partial tariff abolition to 16.1 billion US dollars in the case of complete abolition, and exports are expected to increase intra-African between 14.6% and 32.8% for the two scenarios.<sup>xx</sup>.

**Table No. (2)The most important economic forecasts of the most prominent studies**

Study	Tariff Scenario	GDP	Welfare in billion USD / %	Intra-African exports	Total exports	Total Imports
Vanzetti, Peters, and Knebel (2017)	Full elimination	-	3.6		1.1 %	
Saygili, Peters, and Knebel (2018)	Full elimination	0.97 %	16.1	32.8 %	2.5 %	1.8 %
Abrego et al. (2019)	Full elimination	-	0.05 %			
ADB (2019)	Full elimination	-	2.8 0.1 %	14.6 %	1.0 %	0.9 %
World Bank (2020)	Incl. sensitive products	-	12 0.13 %	21.8 %	1.8 %	2.3 %

Source :Bernhard Troster , & Eva Janechova , **The long journey towards Pan-African integration: The African Continental Free Trade Area and its challenge** , ( Vienna : Australian Foundation For Development Research , March 2021), P.13.

#### 4) Challenges facing "AfCFTA":

The African Free Trade Area has not been unanimously approved by African countries, as many officials and economic

experts have pointed to the negative challenges, and some countries have announced their reasons for their reservations about signing the agreement. Nigeria, one of the continent's strongest economies, is at the forefront. It justified this by not completing the consultations with the concerned national unions and requesting more time for consultation, while the states of Namibia, Benin, Burundi, and Sierra Leone did not sign without giving reasons. In distinguishing between the short-term and the long-term effects of the African Free Trade Agreement, most of its potential benefits usually occur in the long term, while in the short-term, there are structural challenges that need to be faced, which are as follows :

- Multiple membership in the existing economic blocs, For example, four countries in the East African Community ( EAC) belong to another membership in the Common Market for Eastern and Southern Africa (COMESA) , and one country is a member of the Southern African Development Community (SADC), and four countries in COMESA belong to the membership of the Economic Community of Central African States (ECAS), two in the bloc (SACO), and four others in the SADC bloc. As for the Southern African Development Community (SADC), five member states belong to the Southern African Customs Union (SACO). The degree of commitment to integration in these blocs varies, as some of them did not take the step of establishing a free trade area within them. It is therefore difficult to commit to a Continental Free Trade Area.

- The dependence of African countries on the export of crops and raw materials, which contributes to narrowing the scope of trade relations, whether between Africa and the countries of the outside world.<sup>xxi</sup>.
- the difference in macroeconomic policies between African countries can enhance opportunities for trade relations between them, but the difference in exchange rate systems in each of them limits the effectiveness of those relations, as Côte d'Ivoire adopts a fixed exchange rate system linked to the franc, while Ghana adopts a flexible exchange rate, which is closely related to economic fluctuations and the forces of supply and demand. Added to this is also the difference in the level of economic growth, income, and the degree of development of the industrial sector among African countries, and there are a few dominant and large economies such as South Africa and Nigeria, while small countries with weak economies abound.
- Weak infrastructure related to trade, such as the available roads, railway networks, and ports , was mainly built by colonialists and is not linked to each other. After their independence, African countries lacked the necessary resources to reform, modernize, expand, and connect their transportation systems and means. For example, the road linking South Africa, Zimbabwe, Zambia, and Congo is still in a state of ruin and deterioration, hampering trade relations between them. In addition to the decline in the level of information and communication technology, which negatively affects the speed of business and online shopping,
- The local fading of small and medium enterprises in the face of stronger continental competition, as the region affects medium and small companies, which represent about 80% of business in

Africa, as they may find it very difficult to penetrate the developed markets.<sup>xxii</sup>

- Non-African international actors represent one of the most important challenges facing the African Continental Free Trade Area. For example, the European Union, which is a major partner in trade and investment for African countries, and it is not in its interest for the trade area to bear fruit, especially in light of the policy of the Union countries "towards a comprehensive strategy with Africa, in addition to other powers such as China

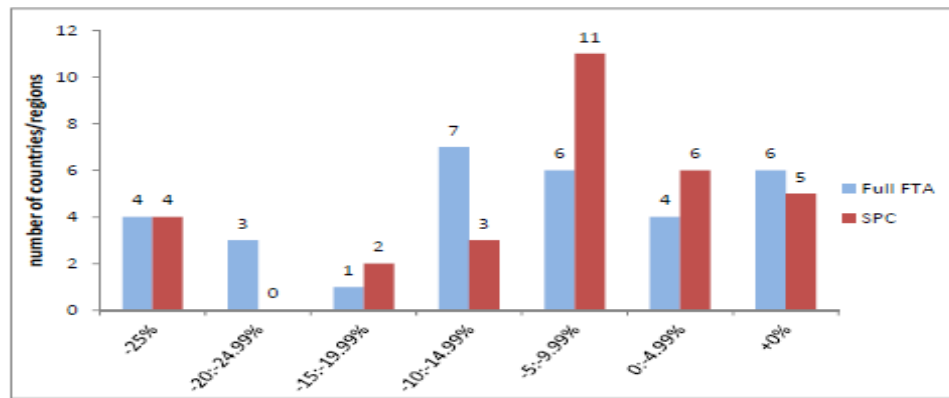
- High rates of political and economic corruption in Africa, as most African countries, especially sub-Saharan African countries, occupy high ranks in terms of corruption indicators, for example, Nigeria, Somalia, and other countries, which represents a major challenge in front of benefiting from the advantages of the African Continental Free Trade Area..<sup>xxiii</sup>

- Other challenges appear in the actual implementation of tariff abolition, the most important of which is the loss of revenue from duties and import competition. For example, Malawi liberalized only 70% of its trade with SADC partners, which negatively affected it, and then decided to stop the complete liberalization of tariffs[i]. The total cancellation of customs tariffs between African countries will affect an important resource of the state's general budget, and countries will resort to compensating for this loss in the form of raising taxes in its various forms. Some studies indicate that the expected loss in customs revenues, which may reach 1.4 billion dollars, will be offset by an increase in the gains of establishing the zone, amounting to 1.16 billion dollars. Therefore, the final outcome will be in the interest of African countries, but in the long term, not the short term.



Economic studies also expect, in the case of the application of the complete liberalization of goods within the framework of the continental trade area, losses of customs revenue of up to 1.7% of the total customs revenues in the case of complete liberalization, and 1.9% in the case of partial reductions in tariffs that exempt some sensitive products from liberalization, which is what is illustrated in Figure No..(8).<sup>xxiv</sup>

**Figure No. (8) Expected percentage change in customs revenues for African countries within the framework of full and partial liberalization**



Source :Mesut Saygili ,*et.al* , **The African Continental Free Trade Area : Challenges and Opportunities of Tariff Reductions** , UNCTAD Research Paper No. 15 , ( Geneva : , UNCTAD, 2018), P. 15.

## 5) Research findings and recommendations:

The African Free Trade Area is an important complement to the provisions of " the Abuja Treaty" for African Economic Integration in 1994 , which identified six stages of this integration to be achieved within a period of 34 years, by the year 2028.

The positive advantages of the Continental Free Trade Area are numerous, including raising intra-African trade rates, economic growth and welfare rates, as well as supporting the industrial sector in Africa and raising employment rates. However, despite these advantages, there are many challenges that impede the single market comprised of 55 member states of the African Union, the most important of which are: the low level of infrastructure in terms of transportation, ports, and logistics, in addition to the technological infrastructure such as means of communication and the Internet, as well as The dual membership in the regional economic blocks , which greatly disperses efforts, the decline in industrial production and the revenues of customs as one of the most important revenues for the general budgets of African countries, and the political and security tensions in Africa In addition to the fear of the unequal distribution of the outcome of the regional integration process, as well as the fear of losing the national sovereignty of countries in imposing their policies.

-Coordination between the regional economic blocs recognised by the African Union, such as (the Economic Community of Eastern and Southern African States (COMESA), the East African Community, the Southern African Development Community (SADC), the Intergovernmental Authority on Development (IGAD), the Sahel and Sahara Community, the Central Group of States Africa (ICAS), and the Arab Maghreb Union), and taking measures that help prevent double membership and achieve harmony between customs reduction procedures in preparation for the establishment of the single<sup>xxv</sup>.

- Building industrial capacity, developing infrastructure, lowering non-tariff trade barriers, simplifying customs procedures, and making trade information available are all priorities

- Given the continent's disparities in development levels, it is critical - to ensure fair results for member states through effective trade compensation mechanisms, as well as to assist smaller and more vulnerable countries in developing trade production capacities

- Because primary commodities do not guarantee long-term growth, Africa must move toward industry and improve competitive conditions at the level of local economies in order to stimulate local industries and enable them to achieve the goal of production efficiency.
- Negotiations on trade in services should take place concurrently with negotiations on trade in goods in order to provide opportunities for African service providers. Some service sectors, such as transportation and warehousing, as well as ICT services and tourism, are also necessary to facilitate goods trade. Service trade must also be properly integrated into national development strategies.
- Establishing a commercial information network on trade and investment opportunities and customs procedures to reduce the high cost of doing business within Africa and encourage traders and businessmen to engage in commercial transactions within the region. Here comes the role of regional economic groupings in establishing regional networks to share information about businesses, projects and market opportunities across the continent<sup>xxvi</sup>.
- In order to strengthen intra-trade relations, it is necessary to remove barriers to the movement of people and capital across countries, and to adopt the principle of regional citizenship and one African passport, as is the case in the ECOWAS bloc.

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