

INTERNATIONAL JOURNAL OF LEGAL STUDIES AND SOCIAL SCIENCES [IJLSSS]

ISSN: 2584-1513 (Online)

Volume 2 | Issue 3 [2024] | Page 99- 107

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THE AFRICAN CONTINENTAL FREE TRADE AREA AND THE CONTINENT'S AMBITIOUS INTEGRATION INITIATIVE

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ABSTRACT

The African Free Trade Area is an international trade regime established in 2018. This paper deals with the effects of this Trade Regime. The need for regulating Inter-Continental trade was needed for a long time and upon the introduction of the AfCFTA there was a significant change in the trade economics in the African Sub-continent. Such topics are further delved into throughout this paper, along with the Need, Impact, and growth of this Agreement. This paper is also listed with the Members and the Requirements to establish Free Trade in Goods. Lastly, on the collected information, this paper has listed a few suggestions for the smooth functioning and improving the efficiency of AfCFTA.

INTRODUCTION

Trade reform is an essential achievement for Sub-Saharan Africa since Free trade regimes and robust export industries are connected to economic progress, but for a long time, trade regimes that were being maintained had an impact on the growth and the well-being of Africa's people.

Eventually, almost all the African countries had come together and signed the African Continental Free Trade Area Agreement (hereinafter referred to as AfCFTA for brevity and clarity) in March of 2018. This Agreement aims to remove almost 90 percent of the taxes that were levied on goods getting imported alongside ease and liberalise intercontinental trade and many other restrictions on trade. Targeting an estimated gross domestic product (hereinafter referred to as GDP) worth over 3 trillion dollars and over a billion customers, AfCFTA aims to become the largest free trade zone in the world.

Alongside the massive economic growth, AfCFTA aims also further to develop the societal concerns of the African continent, such as Developmental goals, promoting gender equality and

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ensuring the people of Africa are all fed and there is food security by creating a common market between all the 54 members of the African Union.²

Signed in March 2018 and entered into force on 30th May 2019, AfCFTA is one of the most important and radical trade reforms signed in the past few years. This agreement gave rise to the biggest free trade areas in the world, with the largest number of countries participating and connecting close to 1.5 billion people. The AfCFTA, which began free trade on January 1, 2021, with a GDP of 3.4 billion dollars, is projected to significantly stimulate economic development across the continent.

This paper reviews the developmental impact of the AfCFTA in the growth and trade of African continents. It also provides a comprehensive analysis of policy reforms and programs required to ensure the agreement's successful implementation.

Trade has been the driving force behind the political integration, social, and economics of African nations long before the establishment of Africa's initial regional organization, the Organization of African Unity (hereinafter referred to as OAU for brevity and clarity), in 1963. OAU aimed at integrating African countries towards uniform economic growth at the continental level. As a result, various regional economic communities emerged, initially aimed at consolidating the economic landscape within specific regions to leverage potential integration benefits. Additionally, these communities were envisioned to act as foundational elements for the eventual establishment of a continental economic community.

With the aim of forming a common African Market, the OAU put the Lagos Plan of Action in force in 1980 to develop the economy of the continent between 1980 to 2000.

Article 3 talks about the general objectives of the AfCFTA and states that this reform aims to “create a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent” and in accordance with the Pan African Vision of “An integrated, prosperous and peaceful Africa”.

² Goyal, T.M. (Jul 21, 2023) The African Continental Free Trade Area: Opportunities for India, orfonline.org.

THE NEED FOR AFCFTA

Europe was the main hub for African goods in the 1970s; The African continent only received merely 7 per cent of its exports, while about 60 per cent of it was received by the Europeans. This massive disparity caused important and valuable resources to go out of the continent and kept the African economy low and undeveloped. Despite some level of increase in inter-African trade, the continent still pushed out and exports more goods globally than within itself. Ultimately, it used to fare poorly with other places where intra-regional trade is practised.

The colonial economy's enduring influence and long-term impact contributed to African trade's substantial outward direction and geographical clustering. This era opposed commerce among African colonies and favoured trade between the colonies and their respective colonial powers in the northern regions.³

In order to combat this disparity and to grow the continent by becoming a potential economic and globalization tool, The African Continental Free Trade Agreement was introduced on the 30th of May, 2019, aiming to become the largest free trade area in the world after more than 70 years, when the General Agreement on Tariffs and Trade was established. This is an important project and is considered as the flagship reform to take place under the African Union. This reform could change the face of African economies and increase the share of global trade in Africa forever.

The need to establish and grow national banks that will provide the required capital for the development and sustainability of supply constraints that may rise, as well as Strengthen the security-development connection to ensure consistent allocation of scarce resources, is critical for structural change and long-term security and stability are also important concerns that need to be covered by the AfCFTA so that the reform becomes an industrialization accelerator rather than a restraint on growth. Effective implementation of these policy measures is a must for success and will guarantee the changes brought forth by the AfCFTA.

³ Buschbom, B. (2023) The African Continental Free Trade Area: Progress, opportunities and challenges of Africa's mega-regional initiative, FIW.

MEMBERS OF THE AfCFTA

The members of this trade reform are mainly termed as ‘State Parties’ and ‘Member States’. Countries that are a part of the African Union are regarded as Member States, and those countries that have joined the AfCFTA agreement are referred to as the State Parties.

As of today, only the Countries that have signed and joined the reform will have rights and liabilities as per the reform. As per AfCFTA, the countries that have not joined the reform are referred to as non-state parties.

As of December 2022, 54 out of the 55 countries in the African Union of Member States have signed the Agreement and enlisted themselves as a Member State under the AfCFTA, except for Eritrea. ⁴

REQUIREMENTS FOR ESTABLISHING FREE TRADE AGREEMENTS IN GOODS

The AfCFTA is a free trade agreement between the members of the African Union; most of these countries are also a part of the World Trade Organization (hereinafter referred to as WTO for brevity and clarity).

Therefore, AfCFTA must conform to the legislature laid down by the WTO for effective functioning. The WTO sets out multilateral rules in the making and management of the reform, both for trade in goods and services.

Some of the main laws that are laid down that govern the trade between the member countries of the WTO are:

“1. Article XXIV of GATT 1994. ⁵

2. The Understanding of the Implementation of Article XXIV of GATT 1994. ⁶

⁴ Buschbom, B. (2023) The African Continental Free Trade Area: Progress, opportunities and challenges of Africa’s mega-regional initiative, FIW.

⁵ General Agreement on Tariffs and Trade, 1994, Art. XXIV

⁶ General Agreement on Tariffs and Trade, 1994, Art. XXIV

3. Decision on Differential and more favourable treatment reciprocity and fuller participation of developing countries (The Enabling Clause, Decision of 28 November 1979).’’⁷

These WTO regulations are the legal frameworks that any party would be obliged to follow and inform members of WTO once the Trade reform was completed to become a part of any Free Trade Agreement between African States. Since AfCFTA needs to conform to such rules and regulations, it challenges the reformers to make a viable trade agreement.

Therefore, the rules laid down in AfCFTA conform with the ones governing WTO trade regulations, and the same requirements will be followed.⁸

THE AFCFTA APPROACH

As per Article 9 of the Agreement⁹, in order to have a smooth flow and accountable progress of the trade reform, there has been an institutional framework laid down for the implementation, administration, facilitation, monitoring and evaluation and will consist of the members namely, An assembly, Council of Ministers, Committee of Senior Trade Officials and a Secretariat.

Before this Trade reform, there were various regional agreements and multilateral agreements between the Countries, creating an inconsistent and imbalanced development. This, in turn, did not provide significant economic growth. Regional Economic Communities were placed as building blocks to combat this based on their importance and impact in facilitating trade inside the African Continent.

Intra-African commerce has relied heavily on regional trade agreements and economic communities for decades. The regional trade communities have followed similar goals, with the aim of integrating the continent’s economies by removing trade obstacles, aligning policies, and promoting collaboration.

The agricultural sector and products will get an immense boon under AfCFTA. This is because, as per a census in 2015, Food was mainly imported from outside, and countries spent about 63 billion dollars. AfCFTA aims to reduce imports and increase trade of Agricultural products between African countries by at least 20 per cent. Commodities such as Sugar, Fruits, Vegetables,

⁷ World Trade Organization, 2013, Special and differential treatment provisions

⁸ World Trade Organization, Principles of the trading system

⁹ AGREEMENT ESTABLISHING THE AFRICAN CONTINENTAL FREE TRADE AREA, 2012, Art. 9

Dairy, Nuts and Beverages would be available in an expanded market. People from different parts of Africa will have access to them for cheap due to the reduction in import costs and duties.

This will also benefit the State by revenue alongside assisting Farmer's income. The expansion of this sector will bring forth new technology and machines which would increase supply and create demand for such commodities within the African continent. The AfCFTA has the potential to increase demand for intra-African food imports, therefore sustaining a sector dominated by women.¹⁰

AfCFTA also aims to benefit various parts of society as a whole since it would grow the Gross Domestic Product by almost 0.6 to 1 per cent every year. This growth would also facilitate for more employment, which in turn would boost the salary of workers, both skilled and unskilled.

This Trade reform strives to create growth and impact at personal and corporate levels, since according to predictions, by 2030, the complete interconnected market of 1.7 billion people would have \$6.7 trillion in combined consumer and commercial spending.

Recent African trade data indicates that industrial and manufactured goods hold significant potential for intra-African trade. This includes products like mineral goods, machinery, vehicles, chemicals, and fertilizers. These findings suggest that boosting intra-regional trade and advancing industrialization are closely linked. They could play a vital role in the implementation of the AfCFTA, which aims to reshape trade dynamics in the region by enhancing African competitiveness and productivity.

CONCLUSION & ANALYSIS

This research article helps us understand why AfCFTA is claimed to have become a game changer in the trade world by boosting inter- and intra-African trade, which affects trade in Africa both economically and through globalization. The benefits of economic growth and increased competition from the Trade Agreement could assist in boosting the growth of industries in Africa. This, in turn, would provide a broader source of growth that is not only limited to Economic

¹⁰ Goyal, T.M. (Jul 21, 2023) The African Continental Free Trade Area: Opportunities for India, orfonline.org.

boost. For example, The Free Trade Agreement could ideally bring the living conditions of the people in remote areas of Africa closer to those seen in wealthier countries.

These potential improvements brought by the Trade reform will affect the African Continent on a global scale as well since it will boost the bargaining power in international trade negotiations, increase its share in global trades and pave the way for value chains to integrate into global value chains. These developments would strengthen the continent's integration into the global economy, where manufactured commodities with rising technology content have traditionally dominated business.¹¹

Over the course of writing this Article, I have also encountered several challenges associated with efforts to strengthen economic growth in Africa after the reform came into place. There is a lack of well-equipped and secure infrastructure and development, and it was noticed that some supply chains are facing constraints, and the reform does not provide any benefits to such struggling businesses. lastly, the financing of African trade and development could reduce the overall growth altering the projected numbers and targets. After 2021 and the introduction of Free Trade these concerns will start becoming more apparent. This paper emphasizes the need for large and good funding for African development, addressing limitations in production capacity and improving the connection between security and infrastructure. This will help make the best use of limited resources to promote growth, expand exports, and speed up economic transformation among AfCFTA member countries.¹²

SUGGESTIONS

After researching through the bare act of the AfCFTA, a question arose as to why it is that Article 19¹³ is limited to regional trade agreements only. If the goal of AfCFTA is to create a uniform and single market, it should include any agreement between member nations.¹⁴

¹¹ Goyal, T.M. (Jul 21, 2023) The African Continental Free Trade Area: Opportunities for India, orfonline.org.

¹² Buschbom, B. (2023) The African Continental Free Trade Area: Progress, opportunities and challenges of Africa's mega-regional initiative, FIW.

¹³ AGREEMENT ESTABLISHING THE AFRICAN CONTINENTAL FREE TRADE AREA, 2012, Art. 19

¹⁴ Takefman, B. (2023b) Breaking down the AFCFTA: What you need to know about Africa's latest trade initiative, ResearchFDI.

In the context of the World Trade Organization, 'regional trade agreements' refers to any trade agreement between two or more countries, regardless of whether they are from the same region or not. The term regional is used incorrectly in this context and is difficult to reconcile with its normal meaning.

In my opinion, the reform must also include countries surrounding Africa that are not geographically connected, such as a number of Arab countries, namely, Bahrain, Qatar, Egypt, Libya, Sudan and Tunisia. Such inclusion will boost Trade inside Africa more and open up more opportunities for people.

African countries need to develop well-established legislation and keep a strategized plan to export, diversify, industrialize and develop the value chain. While the AfCFTA can tackle significant demand obstacles to trade, especially those related to market size, it's equally crucial to address the supply constraints as well. These need to be done at the earliest in order to meet the targeted goals and transform African countries.¹⁵

African countries can attain support and guidance from other well-developed countries. Such assistance can mitigate supply constraints and boost the overall economic growth within the continent. By seeking help, they can receive the latest technology and develop advanced infrastructures, provide employee training and soft skills, and Strategise and work on the weak parts of the reform while strengthening the effective parts, boosting economic growth majorly. For example, the International Trade Centre can provide and assist the private businesses-oriented inputs that can help business communities better integrate with the reform.

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¹⁵ A. top 10 questions from the public (2022) Market Access Map

- F.** AGREEMENT ESTABLISHING THE AFRICAN CONTINENTAL FREE TRADE AREA, 2012
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