



The African Continental Free Trade Area (AfCFTA) and Its Role in Global Trade

By:

Woke, Chisa Anwuri

Department of Finance and Banking, Faculty of Management Sciences, University of Port Harcourt

Abstract

The African Continental Free Trade Area (AfCFTA) is a landmark initiative aimed at boosting intra-African trade and positioning Africa as a formidable force in global trade. This advocacy paper explores the implications of AfCFTA for global trade, analyzing the benefits, challenges, and strategic pathways for enhancing Africa's economic integration and competitiveness. With insights from economic theories and empirical studies, the paper underscores AfCFTA's potential to reshape Africa's trade landscape and its interactions with global markets. The study concluded that despite the challenges of AfCFTA, its successful implementation could unlock significant economic opportunities, attract foreign investments, and boost Africa's industrialization. Amongst others, the study recommended that African governments must prioritize investments in roads, railways, ports, and energy to enhance trade efficiency. Also, they should streamline trade policies, customs regulations, and tariff structures across member states is essential for seamless trade.

Keywords:

Trade, International, Economic, Integration

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1.0 Introduction

The creation of the African Continental Free Trade Area (AfCFTA) is a key achievement in Africa's economic unification efforts. The pact, effective January 1, 2021, seeks to establish the largest free trade area globally by linking 55 African nations with a collective GDP over \$3.4 trillion (World Bank, 2020). The AfCFTA aims to promote economic growth, advance industrialisation, and increase Africa's engagement in global trade by removing trade obstacles and encouraging intra-continental commerce.

Africa has historically had fundamental economic obstacles, such as trade fragmentation, significant reliance on raw material exports, and restricted involvement in global value chains. The historical dependence on colonial trade patterns, in which African nations predominantly sell raw commodities and buy manufactured goods, has impeded industrial development and economic diversification. As a result, Africa's part of world commerce has consistently been disproportionately low, about 2-3% of overall global trade (UNCTAD, 2021). AfCFTA aims to address these disparities by promoting regional trade integration and improving Africa's competitiveness in global commerce.

By aligning trade policies and lowering tariffs, AfCFTA establishes a unified, more appealing market that promotes economies of scale, cross-border investments, and supply chain enhancement. An integrated African market will enhance intra-African commerce and bolster Africa's negotiating leverage in international trade discussions. Countries participating in AfCFTA will gain enhanced access to regional markets, facilitating economic diversification and mitigating external economic shocks caused by excessive reliance on trade with non-African partners.

In addition to economic factors, AfCFTA embodies a political and strategic endeavour designed to enhance Africa's standing in global matters. Enhanced economic collaboration among African states enables the continent to formulate unified policies for interaction with global trade blocs, including the European Union, the United States, and developing economies such as China and India. This trade unification is anticipated to augment Africa's capacity to influence international trade policies that correspond with its developmental objectives.

This article analyses AfCFTA's impact on global trade by exploring its capacity to stimulate economic growth, draw foreign investment, and improve Africa's competitive position in the worldwide trade landscape. It examines the structural obstacles that might hinder its development and provides policy solutions to optimise its advantages. The study is based on empirical data, trade theories, and case studies that demonstrate AfCFTA's potential effect on Africa's integration into global markets.

2. AfCFTA: An Overview

The African Continental Free Trade Area (AfCFTA) represents a very ambitious trade accord in contemporary history, designed to promote economic integration among African countries. The AfCFTA aims to establish a unified continental market for products and services,

potentially transforming Africa's economic landscape, enhancing intra-African trade, and expediting industrialisation.

The AfCFTA was instituted in 2018 and formally commenced on January 1, 2021, following ratification by the requisite number of African countries (African Union, 2021). The accord aims to abolish tariffs on 90% of commodities, diminish non-tariff obstacles, and facilitate the unrestricted movement of individuals and investments (UNCTAD, 2020). Historically, intra-African commerce has been little in comparison to trade with foreign partners. The African Union reported that intra-African commerce was about 16% of overall African trade in 2019, in contrast to intra-European trade, which reached 68% (African Union, 2021).

AfCFTA seeks to eliminate trade barriers, harmonize regulations, and promote the free movement of goods and services across Africa. The agreement builds on the foundation of previous regional economic communities (RECs) such as the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), and the Common Market for Eastern and Southern Africa (COMESA). By reducing tariffs and non-tariff barriers, AfCFTA aims to increase intra-African trade by over 50% (UNECA, 2019).

The AfCFTA seeks to mitigate these obstacles by standardising trade laws, lowering tariffs, and promoting cross-border investments. The pact aims to unify Africa's fragmented markets, therefore promoting economic collaboration and competition among member states. This also corresponds with the African Union's Agenda 2063, which envisions an affluent and self-sufficient Africa (African Union, 2021).

The prospective economic advantages of AfCFTA are extensive. The World Bank (2020) states that the agreement has the potential to elevate 30 million individuals from extreme poverty and enhance the income of 68 million people subsisting on less than \$5.50 daily. It is anticipated that Africa's income would rise by \$450 billion by 2035 due to enhanced market access and trade efficiency.

The AfCFTA is anticipated to enhance industrialisation by fostering value-added sectors and regional supply linkages (IMF, 2021). The accord offers African nations a chance to diversify their economies and diminish dependence on commodities exports. Manufacturing, agriculture, and digital commerce are industries poised to gain substantial advantages.

Furthermore, the accord is expected to enhance foreign direct investment (FDI) in Africa, as investors are likely to be drawn to the continent's expanded and more cohesive market (AfDB, 2021). Augmented investment inflows will facilitate infrastructure advancement, employment generation, and technology dissemination.

2.1 Objectives of AfCFTA

The overarching goal of AfCFTA is to establish a unified and competitive African market that enhances regional and international trade. Key objectives include:

- i. **Boosting intra-African trade:** By reducing tariff and non-tariff barriers, AfCFTA aims to increase trade among African nations, thereby reducing reliance on external markets.
- ii. **Facilitating industrialization:** By creating a larger market, AfCFTA supports economies of scale, fostering industrial growth and reducing dependence on raw material exports.
- iii. **Enhancing market integration:** The agreement aims to unify African markets, making it easier for businesses to trade across borders.
- iv. **Strengthening Africa's bargaining power:** A unified trade bloc enhances Africa's ability to negotiate favorable trade terms with global partners.
- v. **Promoting sustainable and inclusive economic growth:** By increasing trade opportunities, AfCFTA seeks to promote equitable growth and job creation across Africa.

2.2 Key Features of AfCFTA

AfCFTA introduces several mechanisms to facilitate trade, ensure fair competition, and resolve disputes among member states. The key features include:

- i. **Trade Liberalization:** The agreement aims to progressively eliminate tariffs on 90% of goods traded within Africa, thereby reducing the cost of trade and increasing competitiveness.
- ii. **Rules of Origin:** A uniform framework has been established to determine the nationality of goods, ensuring that products benefit from preferential tariffs under AfCFTA.
- iii. **Trade Facilitation Measures:** Standardized customs procedures, reduced documentation requirements, and enhanced border efficiency are part of AfCFTA's efforts to streamline trade.
- iv. **Dispute Settlement Mechanism:** AfCFTA includes a formal dispute resolution system that allows members to resolve trade disputes fairly and efficiently.
- v. **Services Trade Liberalization:** In addition to goods, AfCFTA facilitates trade in services such as finance, transport, communications, and tourism, further promoting economic integration.
- vi. **Investment and Competition Policies:** AfCFTA encourages investment and fair competition across the continent by reducing market distortions and enhancing regulatory cooperation.

2.3 The Phases of AfCFTA Implementation

AfCFTA's implementation is structured into multiple phases:

- i. **Phase I:** Focuses on trade in goods and services, including tariff reductions, rules of origin, and trade facilitation measures.
- ii. **Phase II:** Addresses investment policies, competition regulations, and intellectual property rights.
- iii. **Phase III:** Expected to introduce an e-commerce protocol to support digital trade across Africa.

2.4 Challenges and Implementation Hurdles

Notwithstanding its promise, the AfCFTA encounters several implementation obstacles. Principal impediments encompass:

- i. **Infrastructural Deficiencies:** Numerous African nations are deficient in the requisite transport and logistics facilities to enable uninterrupted commerce. Inadequate road infrastructure, ineffective ports, and restricted railway links obstruct intra-African trade (UNECA, 2021).
- ii. **Bureaucratic and Regulatory Barriers:** Variations in customs procedures, regulatory frameworks, and legal systems present obstacles to trade integration. The standardisation of regulations is essential for the success of AfCFTA (UNCTAD, 2020).
- iii. **Economic Disparities Among Member States:** Certain African economies are highly developed, whereas others experience economic instability and frail institutions. The agreement must guarantee that all member nations derive equitable benefits from trade liberalisation (IMF, 2021).
- iv. **Political Instability:** Political conflicts and governance challenges in certain places jeopardise the stability of trade agreements. Securing political commitment and stability is essential for the long-term success of AfCFTA (UNECA, 2021).
- v. **Insufficient Awareness and Capacity Development:** Numerous businesses, especially small and medium-sized enterprises (SMEs), are unaware of AfCFTA provisions and how to capitalise on its opportunities. Capacity-building initiatives are essential to inform businesses about trade policies and market opportunities (AfDB, 2021).

2.5 Prospects for Enterprises and Investors

The AfCFTA offers substantial prospects for enterprises and investors. The agreement encompasses a market of over 1.3 billion individuals and a collective GDP of around \$3.4

trillion, offering a vast consumer base (World Bank, 2020). Several key opportunities encompass:

- i. **Market Expansion for SMEs:** The agreement grants SMEs access to an expanded consumer base, diminishing dependence on local markets and facilitating company growth (UNCTAD, 2020).
- ii. **Expansion of Digital Trade:** The proliferation of e-commerce and digital platforms enables enterprises to access new markets throughout Africa without physical constraints. The AfCFTA promotes digital trade measures to improve connectivity (IMF, 2021).
- iii. **Industrialisation and Value Addition:** The AfCFTA promotes regional supply networks, facilitating industrialisation, diminishing Africa's reliance on raw material exports, and enhancing value-added output (AfDB, 2021).
- iv. **Enhanced international Investment:** The alignment of trade rules and the diminishment of trade obstacles render Africa a more appealing locale for international investors, resulting in job creation and technological transfer (UNECA, 2021).
- v. **Agriculture and Agro-Processing:** The agreement facilitates access to new markets for African farmers and agribusinesses, hence enhancing agricultural production and food security (World Bank, 2020).

2.6 Global Trade

Global commerce involves the interchange of products and services across international borders, acting as a vital catalyst for economic growth, technological advancement, and geopolitical interactions. The proliferation of international commerce has markedly enhanced worldwide economic development, elevated living standards, and promoted international collaboration. Nonetheless, global commerce is affected by several economic, political, and environmental issues that dictate its development. T Global trade refers to the exchange of goods and services across international borders, facilitating economic interdependence among nations. It enables countries to specialize in the production of goods and services in which they have a comparative advantage, leading to increased efficiency and economic growth. Through trade agreements, international institutions, and global supply chains, nations participate in the global marketplace, gaining access to new markets and resources.

Global commerce has developed over centuries, influenced by significant historical events such the Silk Road, colonial mercantilism, the Industrial Revolution, and the formation of international trade organisations such as the World commerce Organisation (WTO). The Bretton Woods Agreement of 1944 established the framework for contemporary global commerce, resulting in the formation of entities such as the International Monetary Fund (IMF) and the World Bank (Krugman & Obstfeld, 2021). The proliferation of international trade accords, like the General Agreement on Tariffs and Trade (GATT) and subsequently the

World Trade Organisation (WTO), promoted trade liberalisation and diminished trade barriers.

2.7 Principal Factors Influencing Global Trade

Multiple factors propel global trade, affecting the exchange of goods and services between nations:

- i. **Technological Advancements:** Innovations in transportation, digital platforms, and supply chain management have enabled expedited and more efficient trade (Baldwin & Evenett, 2020).
- ii. **Trade accords and regulations:** Bilateral and multilateral trade accords, like the North American Free Trade Agreement (NAFTA) and European Union (EU) trade regulations, have profoundly influenced global commerce (Rodrik, 2018).
- iii. **Globalization and Market Integration:** Enhanced economic interconnection across nations has propelled trade growth, enabling enterprises to reach broader consumer markets (Stiglitz, 2017).
- iv. **Foreign Direct Investment (FDI):** Capital investments in foreign nations facilitate international commerce by creating supply linkages and industrial networks (OECD, 2021).
- v. **Consumer Demand and Demographics:** Population increase, urbanisation, and increasing incomes in emerging nations influence changes in global trade patterns (World Bank, 2020).

2.8 Obstacles Confronting International Commerce

Notwithstanding its advantages, global trade encounters numerous challenges that affect its efficiency and sustainability:

- i. **Trade Protectionism and Tariff Barriers:** Governments occasionally use tariffs, quotas, and other trade restrictions to safeguard domestic sectors, resulting in trade conflicts (Krugman & Obstfeld, 2021).
- ii. **Geopolitical Conflicts and Economic Sanctions:** Political conflicts among major economies, exemplified by the U.S.-China trade war, generate uncertainty and disrupt global supply chains (Baldwin & Evenett, 2020).
- iii. **Environmental and Climate Issues:** Global commerce contributes to carbon emissions and resource depletion, leading to demands for sustainable trade practices (OECD, 2021).
- iv. **Supply Chain Disruptions:** Pandemics, natural catastrophes, and logistical obstacles have revealed weaknesses in global trade networks, as evidenced during COVID-19 (Stiglitz, 2020).

- v. **Inequality and Labour Exploitation:** Discrepancies in remuneration, working conditions, and economic advantages underscore issues related to fair trade and ethical sourcing (Rodrik, 2018).

2.9 Prospects for Development and Sustainability

To augment the advantages of global commerce while alleviating its constraints, many tactics may be employed:

- i. **Trade Digitalisation:** Blockchain technology, artificial intelligence, and automation can optimise trade procedures and improve transparency (World Bank, 2020).
- ii. **Sustainable Trade Policies:** Promoting environmentally friendly trade initiatives, carbon-neutral supply chains, and circular economies can mitigate environmental impact (OECD, 2021).
- iii. **Regional Trade Integration:** Fortifying trade blocs, such as the African Continental Free Trade Area (AfCFTA), can augment regional economic collaboration (IMF, 2021).
- iv. **Fair Trade and Ethical Sourcing:** Promoting worker rights, fair salaries, and corporate social responsibility supports more equitable trade practices (Stiglitz, 2017).
- v. **Diversification of Supply Chains:** Reducing dependency on a single market or supplier promotes trade resilience and decreases risks (Baldwin & Evenett, 2020).

Global commerce is an important component of economic success, supporting innovation, wealth creation, and cultural interchange. Despite ongoing problems including protectionism, geopolitical conflicts, and environmental issues, the implementation of technical innovations, sustainable regulations, and equitable trade practices might amplify its advantages. By tackling these problems and seizing new possibilities, global commerce may persist as a catalyst for economic advancement and worldwide prosperity.

3. AfCFTA and Global Trade

Despite its rich natural resources and growing consumer markets, Africa's share in global trade remains low due to structural inefficiencies, trade barriers, and limited industrialization. AfCFTA aims to strengthen Africa's role in global trade by fostering regional integration, enhancing production capacity, and improving trade infrastructure.

1. Enhancing Africa's Export Capacity: AfCFTA provides African businesses with a larger domestic market, enabling them to scale up production and improve export capabilities. Increased production efficiency will allow African countries to integrate better into global value chains and strengthen their presence in international markets. Additionally, industries such as agriculture, manufacturing, and services will gain improved access to regional and global trade networks.

2. Attracting Foreign Direct Investment (FDI): A unified African market is more attractive to global investors, facilitating technology transfer and industrial development. With improved business environments, FDI inflows are expected to rise significantly. Countries with stable policies, robust infrastructure, and access to regional markets will be prime destinations for investment, further accelerating economic growth and innovation.

3. Supply Chain Diversification: As global supply chains face disruptions due to geopolitical and economic shifts, Africa can emerge as an alternative production hub for international businesses. Countries can leverage AfCFTA to build regional supply networks that complement global trade flows. Enhanced trade infrastructure, such as transport corridors and digital connectivity, will strengthen Africa's role in global supply chains and reduce reliance on external markets.

4 Africa's Trade Relations with Other Regions: AfCFTA enhances Africa's trade engagements with global partners by fostering collective negotiations and reciprocal agreements. Africa's trade relations with the United States, European Union, and Asia will benefit from AfCFTA's harmonized trade policies, providing a more structured and competitive trade environment.

3.1 Key Drivers of Global Trade

Several factors influence global trade dynamics, including:

- i. Technological Advancements:** Innovations in transportation, communication, and digital trade have accelerated globalization and reduced trade costs.
- ii. Trade Agreements and Policies:** Bilateral and multilateral trade agreements regulate tariffs, quotas, and trade restrictions, shaping international trade flows.
- iii. Market Demand and Supply Chains:** The interaction between global demand and supply, influenced by consumer preferences, economic growth, and industrial capacity, affects trade patterns.
- iv. Economic Integration:** Regional trade agreements, such as AfCFTA, the European Union (EU), and the North American Free Trade Agreement (NAFTA), promote economic cooperation and cross-border trade.

3.2 The Role of AfCFTA in Global Trade

AfCFTA enhances Africa's ability to participate in global trade by:

- i. Increasing intra-African trade, leading to greater production efficiency and global competitiveness.
- ii. Reducing dependency on raw material exports by promoting value-added production and industrialization.
- iii. Strengthening Africa's bargaining power in international trade negotiations.

4. Obstacles to Intra-African Trade

1. Infrastructure Deficiencies: Poor transport networks, inefficient ports, and inadequate energy supply pose major obstacles to intra-African trade. Many African countries lack the necessary infrastructure to support seamless trade flows, leading to high logistics costs and delays in the movement of goods.

2. Trade Policy Harmonization Issues: Divergent trade policies, varying customs procedures, and non-tariff barriers among African nations create complexities in implementation. Achieving full regulatory alignment across diverse economies remains a significant challenge.

3. Institutional and Bureaucratic Weaknesses: Weak governance structures, corruption, and bureaucratic inefficiencies can undermine trade facilitation efforts. A lack of strong institutions may delay the enforcement of AfCFTA agreements and dispute resolution mechanisms.

4. Security and Political Instability: Ongoing conflicts and political instability in various African nations can disrupt trade activities and deter investment. Stability is crucial for ensuring uninterrupted trade and economic cooperation.

5. Limited Industrialization and Production Capacity: Africa's manufacturing sector remains underdeveloped, limiting the continent's ability to produce goods competitively for intra-African and global trade. Investment in industrialization is needed to maximize AfCFTA's benefits.

5. Conclusion and Recommendations

5.1 Conclusion

AfCFTA represents a transformative step toward Africa's economic integration and enhanced global trade participation. Despite challenges, its successful implementation could unlock significant economic opportunities, attract foreign investments, and boost Africa's industrialization. By addressing key barriers and leveraging strategic policy reforms, Africa can position itself as a vital player in the global economy.

5.2 Recommendations

The study therefore recommends the following;

- i. African governments must prioritize investments in roads, railways, ports, and energy to enhance trade efficiency.
- ii. Streamlining trade policies, customs regulations, and tariff structures across member states is essential for seamless trade.
- iii. African nations should invest in education, technological innovation, and workforce training to boost industrial competitiveness.

- iv. Anti-corruption measures and improved institutional frameworks will enhance trade facilitation.
- v. Member states should strengthen cooperation in trade negotiations and conflict resolution to foster a stable business environment.

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