

**CHARTING THE PATH TO AFRICAN PROSPERITY: UNRAVELLING THE ECONOMIC DYNAMICS OF THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT\***

**Abstract**

*The African Continental Free Trade Area (AfCFTA) Agreement which came into effect in 2021 is a landmark Agreement that represents a pivotal step towards economic integration and growth on the African continent. It was created to reduce tariffs on 97% of goods, unify regulations, and make cross-border investment seamless. The projected effect is an increase in Africa's trade earnings by up to \$450 billion by 2035 and the rescue of 30 million Africans from extreme poverty. This paper explores the multifaceted dimensions of AfCFTA, examining its historical context, institutional framework, and anticipated economic implications for participating nations. Through a comprehensive analysis of the origin, evolution, and institutional and legal framework of AfCFTA, this study investigates the complex dynamics shaping the agreement. Utilizing a combination of policy analysis, case studies, and economic modeling, the research delves into the status of implementation by state parties, negotiation phases, and the role of various stakeholders in the realization of AfCFTA's objectives. The findings reveal insights into the challenges and opportunities inherent in AfCFTA, including the significance of rules of origin, trade facilitation mechanisms, and the influence of political will and capacity on agreement outcomes. Additionally, the study examines the potential benefits of leveraging experiences and knowledge from the European Union and the Global Gateway initiative. By assessing the current status of AfCFTA implementation and identifying key challenges and risks, this research provides a roadmap for navigating the complexities of the agreement. The paper concludes by offering recommendations for overcoming obstacles and maximizing the transformative potential of AfCFTA to foster economic prosperity in Africa. Building on the findings of this study, future research avenues could explore the long-term sustainability of AfCFTA, the social impact of trade liberalization, and innovative strategies to enhance regional cooperation and economic development within the African continent.*

**Keywords:** AfCFTA, AfCFTA Agreement, African Union, Economic Implications, Tariff Barriers, Non-Tariff Barriers.

**1. Introduction:**

**1.1 Origin and Evolution of the AfCFTA Agreement**

The African Union aims for Africa to become a global powerhouse by 2063, achieved through economic integration and market fragmentation resolution. The AfCFTA Agreement, signed in 2018, was ratified in 2019 and officially launched in 2021. 54 out of 55 members of the African Union have signed the AfCFTA Agreement, with Eritrea being the sole African country yet to do so.<sup>1</sup> As of August 2023, 47 out of 54 signatories have ratified the Agreement and deposited their instruments of ratification.<sup>2</sup> The Agreement seeks to eliminate taxes on approximately 97% of goods and services produced and traded within Africa. The five priority areas for the liberalization of taxes are transport, communication, finance, tourism, and business services. According to a World Bank report, the African continent has a

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<sup>1</sup>The AfCFTA Agreement stipulates in *Article 23* that the Agreement will take effect 30 days after at least 22 participating countries have submitted their ratification documents to the chairperson of the African Union Commission (AUC), who serves as the designated depositary for this process.

<sup>2</sup> These countries include Ghana, Kenya, Rwanda, Niger, Chad, Eswatini, Guinea, Côte d'Ivoire, Mali, Namibia, South Africa, the Democratic Republic of the Congo, Djibouti, Mauritania, Uganda, Senegal, Togo, Egypt, Ethiopia, The Gambia, the Sahrawi Arab Democratic Republic, Sierra Leone, Zimbabwe, Burkina Faso, São Tomé and Príncipe, Equatorial Guinea, Gabon, Mauritius, the Central African Republic, Angola, Lesotho, Tunisia, Cameroon, Nigeria, Malawi, Zambia, Algeria, Burundi, the Seychelles, Tanzania, Cape Verde, the Democratic Republic of the Congo (listed for the second time and should be removed), Morocco, Guinea-Bissau, Botswana, Comoros, and Mozambique. The Nigerian Federal Government approved the ratification of the Agreement on the 4th of November 2020 and deposited the instrument of ratification on the 15th of December 2020, becoming the 34th State Party to ratify the treaty.

capacity of 1.3 billion people and a GDP of \$3.4 trillion.<sup>3</sup> AfCFTA aims to leverage these numbers to create the world's largest free trade area: a single market for goods and services that will cater to the continent.

The economic progress in Africa has been hindered by non-trade barriers such as inadequate border infrastructure, inefficient transportation systems, and diverse laws across various markets. Governments often erect trade barriers to protect domestic markets, which makes trading between neighboring countries more expensive than trading with the international market. Consequently, using the *UNCTAD's Economic Development in Africa Report 2019* as a case study, it was observed that due to the aforementioned bottlenecks, exports from Africa to other African countries rank lower than exports from Africa to other continents. The report stated that in 2017, intra-African exports accounted for 16.6% of all exports, compared to 68.1% in Europe, 59.4% in Asia, 55% in America, and 7% in Oceania.<sup>4</sup> While advocating for the AfCFTA, it is important to acknowledge that the reported 16.6% of intra-African trade may not accurately reflect the full scope of trade activity, as it does not include informal cross-border trade within Africa made up of over 70 percent of women.<sup>5</sup>

The COVID-19 pandemic and the Russian-Ukrainian war significantly impacted African trade, causing supply chain disruptions, export challenges, and reduced tourism. This led to increased costs, revenue losses, and job cuts. The pandemic also deterred foreign investment, emphasizing the need for diversification, resilience-building, and regional integration to mitigate economic vulnerabilities in African trade.<sup>6</sup>

## 1.2 Institutional and Legal Framework and Stakeholders

To encourage free trade, promote socio-economic progress, create trade protocols, and execute comprehensive instructions for import taxes and tariff reductions, the AfCFTA focuses on four main sectors: the automobile industry, agriculture, pharmaceuticals, transportation, and logistics.<sup>7</sup> Institutional arrangements have been established to support the implementation, administration, facilitation, monitoring, and evaluation of the organization's operations. These include the Assembly, Council of Ministers, Committee of Senior Trade Officials, and Secretariat. Operational instruments like Rules of Origin, tariff concessions, Smart AfCFTA Portal, Pan-African Payments and Settlements System, and African Trade Observatory have been put in place to facilitate implementation.<sup>8</sup>

On the 10<sup>th</sup> of February 2020, *H.E. WamkeleMene* from South Africa was elected as the first Secretary-General of the AfCFTA. Accra, Ghana, serves as the Secretariat of the AfCFTA. It was commissioned

<sup>3</sup> World Bank, *The African Continental Free Trade Area: Economic and Distributional Effects*, (2020), © Washington, DC: World Bank <<http://hdl.handle.net/10986/34139>> accessed 18 January 2024.

<sup>4</sup> MukhisaKituyi, *Economic Development in Africa Report 2019*, UNCTAD, <https://unctad.org/publication/economic-development-africa-report-2019>, accessed 26 January 2024.

<sup>5</sup> Douglas Okwatch, *Africa's free trade on track, more efforts needed*, *African Renewal*, (2023), <<https://www.un.org/africarenewal/magazine/january-2023/africa%E2%80%99s-free-trade-track-more-efforts-needed>> accessed 5 February 2024.

<sup>6</sup> Aissatou Diallo, *Boosting intra-African trade will power post-COVID-19 recovery and foster food security*, *African Renewal*, (2022), <https://www.un.org/africarenewal/magazine/august-2022/boosting-intra-african-trade-will-power-post-covid-19-recovery-and-foster-food>, accessed 5 February 2024.

<sup>7</sup> Jennifer Freedman, *AfCFTA's Ali: Watch for More African Trade Thanks to Guided Trade Initiative*, *International Institute for Sustainable Development*, (2023), <https://www.iisd.org/articles/policy-analysis/african-trade-initiative>, accessed 5 February, 2024.

<sup>8</sup> Vera Songwe, *Intra-African trade: A path to economic diversification and inclusion*, *Brookings*, (2019), <https://www.brookings.edu/articles/intra-african-trade-a-path-to-economic-diversification-and-inclusion/>, accessed 5 February 2024.

AU Summit 2023: *Powering trade through AfCFTA*, *African Renewal* (2023), <https://www.un.org/africarenewal/magazine/february-2023/au-summit-2023-powering-trade-through-afcfta>, accessed 5 February 2024.

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and handed over to the AU by the President of Ghana, Nana Akufo-Addo, on August 17, 2020, in Accra. The Secretariat will facilitate the efficient conduct of business for the AfCFTA, develop the working program, and the annual budget, and implement the decisions of the Ministers and Heads of State and Government.<sup>9</sup>

### **2. Analysis of Expected Economic Implications**

Since the end of colonialism, one of the objectives of the emerging African states has been to find new markets for the goods produced by their growing industrial economies, as well as to secure supply markets for raw materials. Consequently, the trading culture shifted from being internal within these countries to involving the colonial entities that governed these countries before independence. In the evolving landscape of trading practices, although there have been shifts in the relationships between African nations and their former colonial powers, it is noteworthy that trade continues to persist between Africa and international partners, exemplified by trade engagements with countries such as China. However, there has not been much-recorded movement of goods and services within the African continent itself.<sup>10</sup>

#### **2.1 Increased intra-African trade:**

The AfCFTA aims to boost trade between African countries by eliminating tariffs on 90% of goods. This is a commitment made by the participating members over a period of five to fifteen years through successive trade discussions. The remaining 7% consists of sensitive products, for which member states have been granted additional time for tariff reduction. However, 3% of the products are excluded entirely from this process. This tariff reduction could lead to increased cross-border economic activities and deeper regional integration, resulting in a single continental market of more than 1.3 billion people with a combined annual output of \$2.2 trillion. The transition phase to the Continental Free Trade Area alone could generate welfare gains of \$16.1 billion and boost intra-African trade by 33%.<sup>11</sup>

It is projected that the mere removal of tariffs on goods could increase the value of intra-African trade by between 15 percent (or \$50 billion) and 25 percent (or \$70 billion), depending on liberalization efforts, by 2040, compared to a scenario without the AfCFTA in place. Alternatively, the share of intra-African trade could increase by nearly 40 percent to over 50 percent, depending on the ambition of the liberalization, between the start of the implementation of the reform in 2021 and 2040.<sup>12</sup>

The AfCFTA Guided Trade Initiative, introduced in October 2022, serves as a pilot program for preferential trade under the AfCFTA. This initiative currently involves eight State Parties: Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania, and Tunisia, and encompasses 96 specified commodities. Among the products included are ceramic tiles, tea, coffee, processed meat items, corn starch, sugar, pasta, glucose syrup, dried fruits, and sisal fibre, aligning with AfCFTA's emphasis on value chain development. Notably, the shipment of Rwanda's instant coffee, known as Igire Coffee, and Kenya's batteries destined for Ghana are the first to benefit from the AfCFTA Certificate of Origin. A women-led company has airfreighted 105 kg (231 pounds) of roasted Arabica coffee beans 'Made in Rwanda' to Ghana. People in countries like Ghana and Nigeria are buying coffee cultivated in Africa, only for it to be sent abroad for processing and packaging, and then shipped back again. Western businesses purchase green coffee beans for \$6 per kilo, which are then processed and sold for approximately \$45 to \$50 per kilo. However, the hardworking women responsible for fertilizing, tending to, and harvesting these beans often receive a mere \$2 per kilo. The AfCFTA aims to boost

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<sup>9</sup> African Continental Free Trade Area (AfCFTA) Resources, International Trade Administration, <https://www.trade.gov/african-continental-free-trade-area-afcfta-resources>, accessed 5 February 2024.

<sup>10</sup> David Luke, Understanding African trade is key to helping its development, The London School of Economics and Political Science, (2023) <<https://www.lse.ac.uk/research/research-for-the-world/economics/understanding-african-trade-is-key-to-helping-its-development>> accessed 5 February 2024.

<sup>11</sup> Caroline Freund, The African Continental Free Trade Area, The World Bank, (2020) <<https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area>> accessed 5 February 2024.

<sup>12</sup> Songwe, op cit. at P. 3

African companies by promoting intra-regional trade. This will encourage them to maximize the value of Africa's rich natural resources and raw materials, rather than solely relying on overseas sales.<sup>13</sup>

**2.2 Enhanced competitiveness:** Access to a more diverse market is an essential component that triggers competition. The AfCFTA grants businesses access to an enormous customer base consisting of over 1.2 billion people leading to an increase in business operations. A wider market will cause organizations to improve product quality, encourage creativity, and sustain a competitive advantage over their rivals due to increasing competition. Competition among businesses promotes the most efficient utilization of resources. To attain a robust competitive position, producers might invest resources to embrace state-of-the-art technology, optimize manufacturing processes, and apply competitive pricing tactics. As a result, this leads to a significant increase in sales, the creation of job opportunities, and the stimulation of economic growth for both the producer and the importing countries.<sup>14</sup>

### 3. Status of AfCFTA Implementation by State Parties

#### 3.1 Negotiation Phases: Focus on Rules of Origin

Negotiations within the AfCFTA framework are structured in three phases. The initial phase focuses on trade in goods and services, as well as the resolution of disputes. The second phase addresses protocols on investment, intellectual property, and competition, while the third phase which is still pending is on E-Commerce Protocol. Phase one protocol aims to gradually reduce trade barriers on 90% of goods and services over five years for non-least Developed Countries and within 10 years for Least Developed Countries. 7% of goods categorized as "sensitive" will have their tariffs gradually removed over a 10-year period for non-least Developed Countries and 13 years for Least Developed Countries. 3% of goods are to retain their tariffs subject to review every five years to determine their continued relevance.<sup>15</sup>

The significance of state-of-origin certification lies in ensuring that products traded within the AfCFTA genuinely originate from member countries, thereby preventing non-member goods from benefitting from the Agreement's favourable terms. In recent months, *Associated Battery Manufacturers* has successfully delivered two consignments of car and truck batteries to Ghana, each certified under AfCFTA, with a value of approximately \$60,000 per container. Before the shipment, the company underwent an audit by Kenya's revenue authority and manufacturer's association to ensure their production in Kenya.<sup>16</sup> Rules of origin aim to attribute economic nationality to good by considering the significant economic contributions made in the process of its creation, regardless of the geographical locations of its various components.<sup>17</sup> *Article 7(p) of Annex 2 on AfCFTA Rules of Origin* states that the transformation of goods must be sufficient to meet the standards outlined in the article for them to be considered as originating from the seller. This means that the goods must undergo a substantial transformation in the exporting country, such that they have become a new and different product, rather

<sup>13</sup>Kate Hairsine, Africa's AfCFTA Free Trade Agreement Takes Baby Steps, Deutsche Welle, (2022) <<https://www.google.com/amp/s/amp.dw.com/en/africas-afcfta-free-trade-agreement-takes-baby-steps/a-63983721>>accessed 24 January 2024.

<sup>14</sup>Songwe (2019), op cit at P.3

<sup>15</sup>Danish, Hamed El-Kady and others, "The Protocol on Investment to the Agreement Establishing the African Continental Free Trade Area: What's in it and what's next for the Continent?", (2023), IISD, Investment Treaty News <<https://www.iisd.org/itn/en/2023/07/01/the-protocol-on-investment-to-the-agreement-establishing-the-african-continental-free-trade-area-whats-in-it-and-whats-next-for-the-continent/>>accessed 16 January 2024.

<sup>16</sup>Kate Hairsine, Africa's AfCFTA free trade agreement takes baby steps, (2022), Deutsche Welle, <https://www.google.com/amp/s/amp.dw.com/en/africas-afcfta-free-trade-agreement-takes-baby-steps/a-63983721>, accessed 24 January 2024.

<sup>17</sup>See the Agreement Establishing the African Continental Free Trade Area, Annex 2: Rules of Origin, Article 5 paragraph 1(b).

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than merely being processed or assembled from imported components. This requirement is essential to ensure that the goods qualify for preferential tariffs under the AfCFTA and to prevent trade diversion.<sup>18</sup>

### **3.2 Trade Facilitation Mechanisms**

Removal of non-tariff barriers requires trade facilitation which has been set up by the secretariat to facilitate trade under the Guided Trade Initiative. The African Trade Observatory monitors trade patterns, identifies trends, and assesses the impact of trade policies and agreements to provide the AfCFTA with valuable insights into the progress of intra-African trade. The AfCFTA Secretariat and Afrexim Bank are implementing the Pan-African Payment and Settlement System (PAPSS) to improve intra-African trade and reduce reliance on external entities. This platform will save over \$5 billion annually in payment transaction costs. Before the establishment of PAPSS, more than 80% of cross-border payment transactions between African banks had to be processed and settled outside of the continent. This reliance on international banking relationships for cross-border transactions resulted in longer processing times, higher costs, and added complexity for African businesses and financial institutions.<sup>19</sup>The AfCFTA Adjustment Fund, estimated at \$8 billion to \$10 billion, aims to assist State Parties in addressing short-term tariff revenue losses and implementing the Agreement, its protocols, and annexes. The fund consists of a Base Fund, a General Fund, and a Credit Fund.<sup>20</sup>Afreximbank, through its subsidiary, FEDA, manages the fund, which has been set up with a \$1bn facility and \$10m seed grant.<sup>21</sup>

Additionally, the United Bank for Africa (UBA) Plc. on the 19<sup>th</sup> of June 2023 signed an agreement with the AfCFTA Secretariat to provide financing for up to \$6bn USD over the next 3 years to eligible SMEs across Africa.<sup>22</sup>In the same vein, the African Development Bank Group and the Secretariat of the AfCFTA have signed a Protocol of Agreement for an \$11.24 million support package to enhance the Secretariat's effective implementation.<sup>23</sup>Furthermore, Zenith Bank signed a \$1m agreement with AfCFTA to unlock trade opportunities. The bank also collaborated with the AfCFTA Secretariat to digitalize trade in Africa through the SMARTAfCFTA Portal. This portal can facilitate trade, enhance transparency, improve access to finance for SMEs, provide data-driven insights, and integrate African businesses into global value chains.<sup>24</sup>

### **3.3 Role of Regional Economic Communities (RECs) in the Implementation of AfCFTA**

Regional Economic Communities (RECs) are sub-regional groups of countries formed to enhance and coordinate economic and political development. RECs, including the Common Market for Eastern and Southern Africa (COMESA), the Arab Maghreb Union, the Community of Sahel Sahara States, and

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<sup>18</sup>Bruce Byiers, Catherine Makokera, *The AfCFTA: From institutional structures to private sector engagement*, (2021), ECDPM, <<https://ecdpm.org/work/the-afcfta-from-institutional-structures-to-private-sector-engagement>> accessed 5 February 2024.

<sup>19</sup> "Pan-African Payment and Settlement System Launched by President Akufo-Addo Foreseeing \$5 billion Annual Savings for Africa" (2022), <<https://www.afreximbank.com/pan-african-payment-and-settlement-system-launched-by-president-akufo-addo-foreseeing-5-billion-annual-savings-for-africa/>> accessed 19 February 2024

<sup>20</sup>Busola Aro, Afreximbank approves \$1bn facility to boost AfCFTA operations, *The Cable*, <<https://www.thecable.ng/afreximbank-approves-1bn-facility-to-boost-afcfta-operations/>> accessed 22 February 2024.

<sup>21</sup>Neil Ford, Turning the AfCFTA dream into reality, *African Business*, <<https://african.business/2023/06/dossier/turning-the-afcfta-dream-into-reality>> accessed 22 January 2024.

<sup>22</sup> United Bank for Africa, "UBA Partners AfCFTA, Invests \$6bn to finance Small and Medium-scale Enterprises in Africa", <<https://www.ubagroup.com/uba-partners-afcfta-invests-6bn-to-finance-small-and-medium-scale-enterprises-in-africa/>> accessed 16 January 2024

<sup>23</sup> African Development Bank Group, "African Development Bank, African Continental Free Trade Area Secretariat, Sign \$11 Million Institutional Support Grant Agreement", (2022) <<https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-african-continental-free-trade-area-secretariat-sign-11-million-institutional-support-grant-agreement-53780>> accessed 16 January 2024.

<sup>24</sup>Bunmi Bailey, "Zenith signs \$1m agreement with AfCFTA to unlock trade opportunities", (2023), *Business Day*, <<https://www.google.com/amp/s/businessday.ng/news/article/zenith-signs-1m-agreement-with-afcfta-to-unlock-trade-opportunities/%3famp=1>> accessed on 19 January 2024.

ECOWAS, are recognized by the AfCFTA Agreement as its eight building blocks. The AfCFTA Agreement provides that RECs are to assist in the areas of negotiations, aligning trade provisions, and addressing skill gaps among state parties. *Article 19(1)* establishes the supremacy of the AfCFTA in resolving conflicts and inconsistencies with regional agreements but *Article 19(2)* acknowledges the importance of upholding deeper levels of integration that may already exist among certain member states within other regional blocs which can be ascertained through the criteria of economic convergence, institutional harmony, trade liberalisation, shared policies, currency, monetary policy, and customs processes.<sup>25</sup>

### **3.4 Influence of Political Will on Successful Implementation of AfCFTA**

Political will is the commitment of political leaders to drive reforms, policy changes, and infrastructure development for the AfCFTA's success. This includes investing in infrastructure, trade facilitation, and institutional capacity building, streamlining border administration, and fortifying institutions for monitoring and carrying out AfCFTA.<sup>26</sup>

## **4. Knowledge and Capacity Building**

The implementation, actualization, and maximisation of the AfCFTA revolve around capacity. Capacity-building is the act of systematically strengthening the resources, instincts, abilities, procedures, and skills that organisations and communities need to survive, adapt, and thrive in an ever-changing environment.

### **4.1 Engagement with External Partners to Enhance Capacity:**

Enhancing the skills of key government-owned corporations like Custom Services is crucial for managing trade volumes and facilitating smooth border flow. State parties should collaborate with Global South nations and developed countries to improve customs capacity, regional trade, and economic development, promoting transparency and knowledge sharing within the customs sector.<sup>27</sup> ACBF, in partnership with Azerbaijan and the African Union's Department for Economic Development, Trade, Tourism, Industry, and Minerals, will hold a training session for African Ambassadors and diplomats on the 20th and 21st of February 2024, to improve their understanding of the AfCFTA.<sup>28</sup>

### **4.2 Leveraging Experience and Knowledge Sharing from the European Union**

The European Union's (EU) trade regulations have successfully achieved significant economic integration by creating a single market that facilitates unrestricted freedom of goods, services, capital, and people among its 27 member states based on the principle of Mutual Recognition. This principle states that lawful goods can be sold between one EU country and another, even if the goods do not fully comply with the technical rules of the other country; however, this is subject to some exceptions.<sup>29</sup> Incorporating lessons from the EU's institutional framework, harmonization of standards, infrastructure development, capacity building, inclusive development, and adaptability can strengthen

<sup>25</sup> Teniola. Tayo, "The Road to Africa's Single Market: Progress so far and challenges for the future" (2023), African Policy Research Institute, <https://afripoli.org/the-road-to-africas-single-market-progress-so-far-and-challenges-for-the-future>, accessed 16 January 2024.

<sup>26</sup> Sewagegnehu D. T (2019), "Creating the Political Will for Realizing the Gains of the AfCFTA", Afronomics Law, <https://www.afronomicslaw.org/index.php/2019/06/05/creating-the-political-will-for-realizing-the-gains-of-the-afcfta>, accessed 18 January 2024.

<sup>27</sup> Philani Thembu, "The African Continental Free Trade Area: time to build capacity and resilience" (2021), Southern Voice, <[https://southernvoice.org/afcfta-time-to-build-capacity-resilience/Engagement with External Partners to Enhance Capacity](https://southernvoice.org/afcfta-time-to-build-capacity-resilience/Engagement%20with%20External%20Partners%20to%20Enhance%20Capacity)> accessed 20 January 2024.

<sup>28</sup> African Capacity Building Foundation, Ambassadors at the Forefront of Africa, "Trade and Economic Integration: "Training Program for Successful AfCFTA Implementation" (2024), <<https://www.acbf-pact.org/media/press-release/ambassadors-forefront-african-trade-and-economic-integration-%E2%80%9Ctraining-program>> accessed 20 January 2024.

<sup>29</sup> Regulation (Eu) 2019/515 of the European Parliament and of the Council, Articles 34-36

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AfCFTA's foundation and promote sustainable economic growth and cooperation among African nations.<sup>30</sup>

### **5 Exploring the Potential Benefits of the Global Gateway Initiative for Trade Finance and Investment**

The majority of funding for less developed countries is provided by the EU and its member states.<sup>31</sup> It is no wonder that the E.U. dedicated half of the Global Gateway initiative launched in December 2021 to Africa. Under this initiative, E.U pledges to support the African continent with €150 billion worth of investments to drive the green transition, boost digital transformation, accelerate the development of infrastructure, enhance the healthcare system, and improve education and training.<sup>32</sup> The Global Gateway Initiative EU-Africa Investment Package is expected to bring significant benefits to trade finance and investment, particularly in the context of the African Continental Free Trade Area (AfCFTA). The initiative is expected to improve supply chains globally, benefitting developing countries and enhancing trade and investment activities. It also aims to promote sustainable financing for growth, which is essential for realizing the potential benefits of the AfCFTA and promoting trade and investment activities.<sup>33</sup>

### **6. Challenges, Risks, and Solutions within the AfCFTA Framework**

#### **6.1 Addressing Trans-National Issues on Production Policies**

Successful trade is contingent upon robust production, and currently, Africa's production capacity is limited. This reality could result in continued reliance on international markets, despite the implementation of the trade agreement. It is essential to strategically coordinate production activities, as the production of similar goods could lead to intense competition within a limited market. To enhance diversification and strengthen the value chain, one country could focus on selling cocoa pods, while another specializes in selling cocoa paste. This complementary approach fosters equitable gains and mitigates direct competition.<sup>34</sup>

Furthermore, potential job losses and perceptions of unequal benefits could prompt political leaders to consider withdrawing from the AfCFTA, impacting the overall stability of the agreement. Learning from these potential challenges, all State Parties must be carried along and fully engaged in the process.

#### **6.2 Issues regarding Investment Promotion Policies**

Due to the varied priorities, governance structures, and levels of resources and capabilities of each state party, it is pertinent to unify the distinct investment provisions of each country under the AfCFTA by leveraging shared best practices, establishing common investment frameworks, and fostering mutual understanding of each nation's unique priorities. It's noteworthy that the Protocol on Investments to the Agreement establishing the AfCFTA was approved by the African Union heads of state on February 18th and 19th, 2023. This protocol draws upon decades of investment policy reform, including the Pan African Investment Code, investment instruments of Regional Economic Communities (RECs), bilateral

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<sup>30</sup>Asama A. ElGanainy and Others, Trade Integration in Africa: Unleashing the Continent's Potential in a Changing World, (2023), International Monetary Fund, <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2023/05/03/Trade-Integration-in-Africa-Unleashing-the-Continent-s-Potential-in-a-Changing-World-529215>, accessed 5/02/24.

<sup>31</sup>Selassie Tay, AfCFTA and the Creeping Power Play: Africa, the European Union, and China, (2023), <<https://www.policycenter.ma/publications/afcfta-and-creeping-power-play-africa-european-union-and-china>> accessed 8 February 2024

<sup>32</sup>Emilie Bel, The EU global investment initiative that could close Africa's infrastructure gap, Africa Source, (2023), <<https://www.atlanticcouncil.org/blogs/africasource/the-eu-global-investment-initiative-that-could-close-africas-infrastructure-gap/>> accessed 8 February 2024

<sup>33</sup> Ibid

<sup>34</sup>Aissatou Diallo, Boosting intra-African trade will power post-COVID-19 recovery and foster food security, Africa Renewal, (2022) <<https://www.un.org/africarenewal/magazine/august-2022/boosting-intra-african-trade-will-power-post-covid-19-recovery-and-foster-food>> accessed 5 February 2024.

investment treaties, and national investment laws. Moreover, it incorporates innovative principles from relevant international investment frameworks such as the United Nations Conference on Trade and Development (UNCTAD) and the Investment Policy Framework for Sustainable Development.<sup>35</sup>

Furthermore, it is essential to attract both local and international investors to Africa. By doing so, we can avoid excessive competition for the same investors within the continent. Using the example of the chocolate industry, Nigeria could seek investors for cocoa paste, while Ghana focuses on attracting investors for cocoa pods, and South Africa targets investors for finished chocolate. This strategic approach ensures greater complementarity among African nations.<sup>36</sup> In addition to these efforts, it's important to consider the creation of transparent and investor-friendly business environments, as well as the facilitation of cross-border investments and the removal of regulatory barriers. These actions can significantly enhance the attractiveness of Africa as an investment destination, fostering economic growth and development across the continent.

### 6.3 Managing Uneven Development within AfCFTA Member States

The Unified African Trade bloc consists of economies of diverse sizes and manufacturing capacities. Nigeria, South Africa, and Egypt, with Algeria in the fourth place collectively account for more than half of the continent's GDP.<sup>37</sup> The inequalities in trade that may be experienced under the AfCFTA are a significant concern and should be addressed to ensure that the benefits of the trade agreement are shared fairly among all state parties. Efforts are being made to support less developed economies and industries, promote fair competition, and foster inclusive growth strategies. Efforts are being made to establish frameworks for capacity-building and knowledge sharing to empower all member states to fully participate in and benefit from the new trading opportunities in the African single market. There is also protocol under phase two negotiation to protect the rights of women in business Youth and Digital Trade.<sup>38</sup>

### 6.4 Navigating Travel Challenges within Africa

Transportation issues pose significant impediments to the successful realization of the AfCFTA. Ethiopia faces such transportation challenges that hinder its coffee output despite being Africa's largest coffee producer. Inadequate infrastructure, geographical obstacles, frequent checkpoints, limited storage facilities, and complex export processes contribute to delays and increased costs in transporting coffee from farms to processing and export centre.<sup>39</sup> The consignment of batteries under the Guided Trade Initiative, took six long weeks to travel from the ports of Mombasa to Tema, near Accra, since the goods went via Singapore. This is because there's not enough trade to justify using large ships to transport goods directly between African ports. As a result, goods are often sent to trans-shipment ports in Asia or Europe, where enough cargo is accumulated for transport to West Africa.<sup>40</sup> Road transport faces challenges with frequent police checkpoints and extortion at borders, while inadequate road

<sup>35</sup>Hamed El Kady, The AfCFTA Protocol on Investment: towards a new generation of investment policies in Africa, World Investment Forum, (2023) <<https://worldinvestmentforum.unctad.org/session/afcfta-protocol-investment-towards-new-generation-investment-policies-africa>> accessed 5 February 2024

<sup>36</sup>Samuel K. Gayi and Komi Tsowou, Cocoa industry: Integrating small farmers into the global value chain, (2016), UNCTAD, [https://unctad.org/system/files/official-document/suc2015d4\\_en.pdf](https://unctad.org/system/files/official-document/suc2015d4_en.pdf), accessed 7 February 2024

<sup>37</sup> Wikipedia, List of African countries by GDP, [https://en.wikipedia.org/wiki/List\\_of\\_African\\_countries\\_by\\_GDP\\_\(nominal\)](https://en.wikipedia.org/wiki/List_of_African_countries_by_GDP_(nominal)), accessed 8 February 2024.

<sup>38</sup>Teniola Tayo, The AfCFTA can help address African inequalities (2023), Africa Policy Research Institute, <<https://afripoli.org/the-afcfta-can-help-address-african-inequalities>> accessed 24 January 2024.

<sup>39</sup>Arne Preuss, The State of African Coffee Production in (2023), ComAfrica, <<https://www.africa.com/the-state-of-african-coffee-production-in-2023/#:~:text=Ethiopia%20is%20the%20largest%20exporter,million%20bags%20of%20coffee%20beans>> accessed 24 January 2024

<sup>40</sup>Kate Hairsine, Africa's AfCFTA free trade agreement takes baby steps (2022), Deutsche Welle, <<https://www.google.com/amp/s/amp.dw.com/en/africas-afcfta-free-trade-agreement-takes-baby-steps/a-63983721>> accessed on 24 January 2024.



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infrastructure worsens efficiency. Additionally, fluctuating fuel prices contribute to increased transportation costs, hindering the free movement of goods. Costs related to logistics can increase the price of goods traded within Africa by up to 75%. Some logistics companies in Africa still use manual-based inventory to track goods, monitor and manage distribution. Under the railway system, cross-border challenges in sea freight pose significant obstacles to the efficient movement of merchandise between countries. There is a pressing need for the establishment of domestic shipping lines capable of seamlessly transporting goods across borders.<sup>41</sup>

Addressing these challenges requires strategic investments in infrastructure and streamlined export processes to enhance overall supply chain efficiency. Program for Infrastructure Development in Africa (PIDA) has been set up to address transportation under the AfCFTA. PIDA also includes the development of the African Regional Transport Infrastructure Network (ARTIN), which consists of key corridors carrying a significant portion of Africa's international trade. This initiative involves the construction and modernization of railway lines to address the transport challenges under the AfCFTA. African leaders have demonstrated political will to address lack of rail connectivity, by the African Integrated High Speed Railway Network (AIHSRN) initiative which is intended to connect the 16 landlocked countries in Africa to major seaports and neighbouring countries.<sup>42</sup> The success of PIDA would entail all hands-on deck, from heads of government, whose political leadership we need, to financial institutions tasked with providing financial guidance. Successful implementation of PIDA in transportation will lead to transport efficiency gains of at least \$172 billion in ARTIN, with the potential for much larger savings as bottlenecks open up. Continuous progress in regional integration and services will create a shift from overseas trade to trade within the African continent.<sup>43</sup>

The ECOWAS project on construction of a 1,028 km Abidjan-Lagos highway set to commence this year January 2024, will enhance regional connectivity and facilitate trade among the West African countries if successfully implemented. The 1,028km six-lane, dual carriage (2x3) supranational highway and 8 border crossing points would connect the economic capitals of Côte d'Ivoire, Ghana, Togo, Benin, and Nigeria. With transport infrastructure being accorded a top priority in ECOWAS commission's programs, the construction of the Abidjan-Lagos highway will enhance connectivity and facilitate the movement of goods and people across borders more efficiently, reducing transportation costs and trade barriers. Ultimately, it will support the objectives of the AfCFTA by promoting intra-regional trade, economic integration, and overall development across West Africa.<sup>44</sup>

### **6.5 Addressing Security Concerns**

The implementation of the AfCFTA would lead to a lot of influx of goods and services, which would definitely increase security challenges. With every pursuit of value, there has to be a commensurate investment in security because national prosperity cannot exist without national security. At present, the African trade and integration environment is a volatile one. The recent coup d'état in Mali, Burkina Faso and Niger Republic and their subsequent illegal exit from ECOWAS attests to this fact. There is need for collaborations with other nations and states to be better protected because security issues in one country can easily become a concern in another country.<sup>45</sup>

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<sup>41</sup>Efam Awo Dovi, Infrastructure key to intra-African trade (2018), Africa Renewal, <https://www.un.org/africarenewal/magazine/august-november-2018/infrastructure-key-intra-african-trade>, accessed 24 January 2024.

<sup>42</sup>African Integrated High-Speed Railway Network. Trem Africa, <<https://www.trem africa.com/african-integrated-high-speed-railway-network/>> accessed 24 January 2024.

<sup>43</sup>Program Infrastructure Development for Africa (PIDA), African Union, <https://au.int/en/ie/pida>, accessed 24 January 2024.

<sup>44</sup>Aghogho Udi, ECOWAS to commence Lagos-Abidjan highway construction in January 2024, (2023), Nairametrics, <<https://www.google.com/amp/s/nairametrics.com/2023/09/19/ecowas-to-commence-lagos-abidjan-highway-construction-in-january-2024/%3famp=1>> accessed 27 February 2024.

<sup>45</sup>Tafi Mhaka, ECOWAS is undoubtedly in trouble, but it still has potential, (2023), Al Jazeera, <https://www.aljazeera.com/opinions/2023/9/27/ecowas-is-undoubtedly-in-trouble-but-it-still-has-potential>, accessed 7 February 2024.

In the international maritime logistic corridors, there has been threats posed to the safety of vessels, crew members, and cargo due to security challenges in the Gulf of Guinea (GoG). The fear is that these security threats are likely to affect the full realisation of the potential benefits of the AfCFTA.<sup>46</sup> The existence of militant groups such as Boko Haram of Nigeria, al-Shabab of Somalia, Isis of Libya and the Lord's Resistance Army of Uganda can adversely hinder the effective implementation of the Agreement. Military conflicts and the exit of Niger Republic, Burkina Faso and Mali from ECOWAS, can lead to the disruption of established trade patterns in both local and international trade agreements.<sup>47</sup> The knowledge of the existence of these militant groups and their destructive operations can create fear and discourage foreign investment. Investors would be unwilling to bring in their investments in non-stable environments. The more the security concerns, the more funds would be budgeted towards the resolution of these concerns. These are funds that should have been channelled into economic development and trade facilitation initiatives. Furthermore, countries would close their borders and increase regulatory barriers to protect themselves from security threats. To make this Agreement work effectively, the issue of security must be top priority. Borders need to be sanitised and run efficiently with state-of-the-art equipment. The aim of this treaty cannot be achieved if an average businessman in his native country is unable to make his business thrive because the country's environment is not enabling for business. The AfCFTA is not just an initiative to boost wealth creation but can be argued to be Africa's most significant move towards meeting the peace and security aspirations of Agenda 2063.

Foreign investment may be discouraged by the existence of militant organisations, which can lead to an increase in expenditure for security concerns. Initiatives aimed at facilitating trade and economic growth might get this diverted funding. Sanitised borders and efficient operations, together with a strong emphasis on security, are essential for the AfCFTA to be successful. Perhaps this is the biggest step Africa has taken so far towards achieving Agenda 2063's goals of peace and stability.

### **6.7 Climate Change Considerations within the AfCFTA Framework**

Climate change refers to natural changes in weather conditions in different places around the world over extended periods. Due to global warming, there has been an increase in temperature by 1.1° degrees.<sup>48</sup> Hence, the melting of ice in Antarctica contributes to a rise in global sea levels, a shift in rainfall patterns, more draughts, destructive flash floods, and heat waves. These issues have led to a reduction in food supply and an increase in prices. Africa contributes about 7% of the world's total greenhouse gas emissions from carbon dioxide and other gases. It is predicted that by 2045, African total gas emissions will have risen to 12%, judging by current patterns. It is also predicted that intra-African trade under the AfCFTA will increase by 35%, while increasing greenhouse gas emissions by slightly less than 1%.<sup>49</sup> In 2020, Sudan had its worst flooding in a century, and in recent years, the worst locust outbreaks in decades have plagued parts of Kenya, Somalia, Eritrea, and Djibouti. This caused the loss of cultivated land, livestock, and the destruction of tonnes of grains. As a result, food prices skyrocketed, causing households to have less purchasing power for adequate food supply.<sup>50</sup>

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<sup>46</sup> The Guardian, African port managers fear GoG security threats will affect AfCFTA realisation, (2023), <https://guardian.ng/business-services/maritime/african-port-managers-fear-gog-security-threats-will-affect-afcfta-realisation/amp/>, accessed 27 January 2024.

<sup>47</sup> Linda Thomas-Greenfield, Terrorism and Instability in Sub-Saharan Africa, (2016), Homeland Security Digital Library, file:///C:/Users/ADMIN/Downloads/796136.pdf, accessed 7 February 2024

<sup>48</sup> Climate change: Earth is 1.1 degrees Celsius warmer than 19th century, India Today, (2023), <https://www.indiatoday.in/science/story/climate-change-earth-is-1-1-degrees-celsius-warmer-than-19th-century-2322081-2023-01-16>, accessed 7 February 2024.

<sup>49</sup> Study explores compatibilities between AfCFTA and Climate Policies (2023), Economic Commission for Africa, <<https://www.uneca.org/eca-events/stories/study-explores-compatibilities-between-afcfta-and-climate-policies>> accessed 27 January 2024.

<sup>50</sup> Lanre Peter, Can the AfCFTA bring about Food Security in Africa? (2021), African Liberty, <<https://www.africanliberty.org/2021/12/04/can-the-afcfta-bring-about-food-security-in-africa/>> accessed 27 February 2024.

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Given the foregoing, countries around the world have signed a pact known as the Paris Agreement to limit global warming to 1.5° degrees.<sup>51</sup> Production models are changing; people are moving away from the use of fuel towards solar energy. AfCFTA promotes industrialisation of Africa which creates an opportunity for Africa to base their industrialisation on low-carbon technology like green hydrogen. The Secretariat has partnered with Denmark to add the climate change dimensions to the AfCFTA.<sup>52</sup>

### **7. Conclusion: Hope for the Agreement and Reflections on the Way Forward**

As we navigate through the process of negotiations, implementation, and overcoming challenges there is a sense of optimism for the Agreement's success. The speed of ratification by 47 African countries is a sign of political will which must be channelled into creating policies and laws that will remove trade barriers and create the enabling environment for businesses to thrive and for foreign investment. Countries like Ghana, South Africa, and Egypt have met the customs requirements for trading under AfCFTA.<sup>53</sup> Ghana is actively supporting hundreds of firms in obtaining rule of origin certification.<sup>54</sup> Rwanda has also been forging partnerships with other countries, digital innovations, and infrastructure development to make AfCFTA a success.<sup>55</sup> The ECOWAS Project the construction of 1,028km Abidjan-Lagos Highway is set to commence this year.<sup>56</sup> Its completion would have a positive impact on trade across the continent.

The AfCFTA requires an enabling environment and policies to support the private sector as it produces for markets and experiences the agreement's effects. Trust is crucial for addressing tax and investment policies and avoiding a race to the bottom. Past implementations offer insights into addressing transnational issues, promoting equitable development, and managing potential inequalities. A collective effort is needed to overcome challenges and embrace the transformative potential of the AfCFTA.

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<sup>51</sup>United Nations Climate Change (n.d), The Paris Agreement, what is the Paris Agreement, <<https://unfccc.int/process-and-meetings/the-paris-agreement>> accessed 7 February 2024.

<sup>52</sup> Ministry of Foreign Affairs – (Royal Danish Embassy Addis Ababa), Support to the African Continental Free Trade Area,(2020), <<file:///C:/Users/ADMIN/Downloads/Support-to-African-Continental-Free-Trade-Area.pdf>> accessed 7February2024

<sup>53</sup>African Union (2023). The theme of The Year 2023: “Acceleration of AfCFTA Implementation”<<https://au.int/en/theme/2023/acceleration-of-afcfta-implementation>> accessed 7/02/February24

<sup>54</sup> Codjoe D. How ready is Ghana for the AfCFTA?(2023), Tralac<<https://www.tralac.org/blog/article/16243-how-ready-is-ghana-for-the-afcfta.html>> accessed 7February2024

<sup>55</sup>African Union (2023), AU Summit 2023: Powering trade through AfCFTA, African Renewal, <https://www.un.org/africarenewal/magazine/february-2023/au-summit-2023-powering-trade-through-afcfta>, accessed 7/5/24

<sup>56</sup>Republic of Ghana (2023), Abidjan-Lagos Corridor Highway: 5 regions sensitized against encroachment on Proposed Alignments, Ministry of Roads and Highways, <https://mrh.gov.gh/abidjan-lagos-corridor-highway-5-regions-sensitized-against-encroachment-on-proposed-alignments/>, accessed 7/02/24

See also Ehouman L. (2020), Study for the Abidjan – Lagos Corridor Highway Development Project, Multinational: Benin, Cote d’Ivoire, Ghana, Nigeria & Togo and the Economic Community of West African States (Ecowas), African Development Fund, [https://www.afdb.org/sites/default/files/documents/projects-and-operations/multinational\\_-\\_lagos\\_corridor\\_highway\\_development\\_project\\_-\\_memorandum\\_0.pdf](https://www.afdb.org/sites/default/files/documents/projects-and-operations/multinational_-_lagos_corridor_highway_development_project_-_memorandum_0.pdf), accessed 7/02/24