





African Continental Free Trade Area (AfCFTA), as an export destination for Algeria's small and medium industries Between Opportunities and Constraints

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Abstract:

This study aims to analyze the issue of export diversification, by trying to focus on the opportunities offered by the African continental free trade area, and the obstacles that prevent the achievement of this goal, with the hypothesis that it constitutes in the medium and long term, a vital space for the marketing of Algerian industrial products. The study concludes the importance of moving towards integration within the African space to achieve development goals, which must be preceded by taking several steps at the strategic level that lead to the removal of various obstacles, especially logistical ones.

Keywords: African Continental Free Trade Area, Small and medium industries, Export, opportunities, Economic Diversification

JEL Classification Codes : Q56, Q32, Q37.

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Introduction:

Africa's efforts to promote economic and trade integration between countries were not born today, but are the product of decades of work and striving first for political liberalization from colonialism and second for economic liberalization by seeking to establish various economic blocs. However, the continent's free trade zone has been the most important and the largest of its kind as the largest free trade zone after the World Trade Organization.

It is also of great importance from being a tool for the promotion of trade relations between the continent to being the locomotive for Africa's economic and social development through its adoption of a strategic vision that will enhance industrial production and trade, which will improve the business climate and enhance access to jobs.

Algeria, like other countries on the continent, is an economic partner that seeks to strengthen its presence by adopting an export diversification policy by supporting and stimulating productive sectors, including small, medium, and reliable industries, to win the bet by exploiting the opportunities offered by the African Continental Free Trade Area and penetrating African markets under the support and escort of the State.

In this context, the main question of our paper is: **What are the different export opportunities that Algerian industrial SMEs can exploit in the context of trade within the AfCFTA, and how to overcome existing obstacles?**

To answer the main question, it should be divided into following sub-questions:

- What were the circumstances surrounding the creation of the African Organisation and what areas does it cover?
- Does the AfCFTA provide greater opportunities for Algerian small and medium industries to boost their exports?
- Can industrial SMEs be the key to economic diversification in Algeria?
- What are the obstacles preventing Algerian industrial products from reaching the African market?

Study Hypotheses :

- The Continental African Free Trade Area (CAFTA) will contribute to the economic and social development of African countries.
- The AfCFTA offers great marketing opportunities for small and medium industries (SMIs)
- Several obstacles stand in the way of the development of SMIs exports to Africa.

This research aims to provide an objective analysis of the future of Algerian SMEs' exports within the framework of the Continental Free Trade Area (CFTA), between the opportunities offered by this agreement and the obstacles it faces, while proposing some solutions that would help increase the percentage of non-hydrocarbon industrial exports to the promising African market.

Methodology:

To take note of the topic, we used the appropriate descriptive approach to this type of research, by explaining the various concepts, in addition to using a set of statistics and commenting on them.

First: Overview of the African Continental Free Trade Area AfCFTA

In this section, we will briefly review the history and objectives of the Continental African Free Trade Area (CAFTA), as well as its field of implementation.

1.1 A brief portrait of the AfCFTA and its Objectives

The AfCFTA is an ambitious project that aims to establish a large free trade zone on the African continent (Noujoud.T et al, 2023), it is a space that allows for the free movement of goods and services between member states, The Agreement Establishing the African Continental Free Trade Area was adopted in 2018 and legally entered into force in 2019. It is a flagship project of the African Union's Agenda 2063 to create a single African market for goods and services; however, reaching this advanced stage was preceded by several stages through important historical milestones that contributed to unifying efforts step-by-step to consolidate the desired African economic integration, the most important of which are:

- Lagos Plan of Action for Africa's Development 1980
 - The Abuja Treaty of 1990, which was intended to establish the African Economic Community
 - The various resolutions and laws adopted by subsequent African summits, particularly the Constitutive Act of the African Union, which replaced the Organisation of African Unity (OAU) and allowed for the creation of regional economic blocs within the continent as a first step towards furthering the ultimate goal of economic integration
- However, the first decisive steps were taken at the 18th AU Summit held in Addis Ababa in 2012, where it was decided to accelerate the establishment of the African Continental Free Trade Area, in addition to the Johannesburg meeting in 2015, which officially launched the negotiations to advance this project (Iratni, 2023)

After all these meetings and summits, the 2019 Extraordinary Session of the African Union in Niamey saw 24 member states deposit their instruments of ratification for the AfCFTA, which came into effect on 1 January 2021.

The AfCFTA is the largest free trade area in the world, comprising 55 countries.

The overall objective of CAFTA is to create a single continental market with a population of about 1.3 billion people and a GDP of about 3.4 trillion USD, and when fully operational, the African continental zone should lift around 30 million people out of extreme poverty and the continent's GDP is expected to grow by 7 % by 2035. (AfCFTA, 2024)

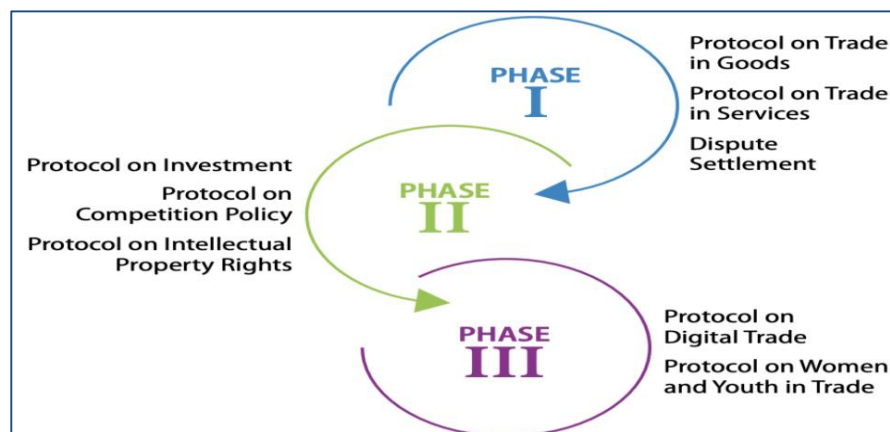
The African Continental Free Trade Area (AfCFTA) aims to create a single continental African market for various goods and services, thereby facilitating the movement of capital and people between them, establishing a customs union between the member states, as well as promoting inclusive and sustainable development, gender equality, industrial and agricultural development, and improving food security for the continent (AfCFTA Agreement, 2018), In addition to enhancing the competitiveness of industry and enterprises by improving the exploitation of production opportunities and market

access on the continent, while improving the reuse and allocation of resources (Djénéba, 2018)

1.2 Field of application of the agreement

Article 6 of the Agreement establishing the African Continental Free Trade Area (AfCFTA) addresses the scope of its application, which includes trade in goods, trade in services, investment, intellectual property rights, and competition policy in the field of continental trade. It is materialized through the negotiation of protocols in three phases (see figure), which are explained below:

Figure 1: The scope of the AfCFTA Agreement



Source: Africa Visa Openness Report 2023 (African Union and African Development Bank Group)

1.2.1. Trade in Goods:

Through the African Continental Free Trade Area (AfCFTA), African countries aim to promote intra-African trade, by seeking to stimulate commodity trade to cover all the continent's geography in various types of products, including industrial and agricultural products, while establishing rules governing their origin to identify African goods that can benefit from preferential tariff treatment.

1.2.2. Trade in Services:

All parties seek to establish a single market for trade in services. The AfCFTA Protocol on Trade in Services sets out the rules for the liberalization of trade in services among States Parties and aims to promote intra-African trade in services based on the four

modes, which are cross-border supply, consumption abroad, commercial presence, and temporary movement of natural persons. (Trade Law Centre, 2023)

1.2.3. Rules and Procedures on the Settlement of Disputes:

To ensure the rights of member countries, a dispute settlement mechanism has been established, it may establish dispute settlement panels and an appeal body (Théophile, 2018). However, member states have the exclusive right to Settlement of disputes under the CAFTA. Private parties are only entitled to access if a State Party brings a claim demonstrating that its rights have been violated (Trade Law Centre, 2022)

.1.2.4. Intellectual Property Rights (IPR):

Most researchers in the field of intellectual property rights (IPR) agree on its great importance in economic and technological development (Mupangavanhu, 2018). The Protocol on Intellectual Property Rights was adopted by the African Union at its 2023 session in Addis Ababa and its objective is to commit all Member States to protect and enforce intellectual property rights and to balance their national systems. It also stresses the importance of intellectual property to stimulate intra-African trade.

1.2.5. Competition Policy:

The CAFTA Protocol on Competition Policy aims to ensure that competition contributes to the promotion of intra-African trade and thus achieving encouraging levels of growth in various sectors, especially the manufacturing and innovation sector, which creates a business environment based on fair competition that stimulates small and medium industries to increase the volume of trade exchanges between the countries of the continent, taking advantage of the diversity of demand for products, and allowing consumers to enjoy multiple choices at competitive prices.

1.2.6. Investment Policy:

In this regard, African countries have encouraged intra-African investment; provided it with full protection; and created legal mechanisms for managing and resolving disputes as one of the most important factors in achieving sustainable development.

1.2.7. Digital trade, women, and youth in trade:

These two protocols are the subject of the third phase of negotiations, which began in 2023, and examine e-commerce as well as various barriers for women and youth.

Second: AfCFTA, a vital space for boosting Small and Medium Industries Export

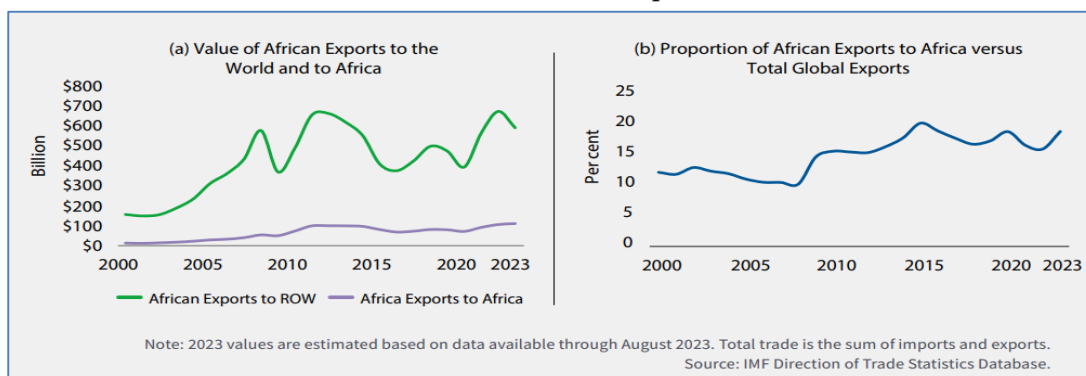
In this section, we will briefly review SMI trade at the African level, and the role of SMI in Algeria's economic diversification.

2.1 : The trade of Small and Medium Industries in Africa:

Intra-African trade accounts for about 3% of global trade, which means that African countries still view intra-African trade with caution and prefer a non-African trading partner (UNECA, 2024), While the continent's total exports have reached 600 billion USD, and intra-African exports could reach 110 billion USD, an indication that the African Continental Free Trade Area should be operationalized (UNECA, 2024), As for manufactured goods produced mostly by small and medium enterprises, Africa's proportion of international trade in these products remains very low at 0.8%.

Figure 2: Global and intra-Africa exports, 2000–23 In billions of USD

and as % of total exports



Source: Economic Report on Africa 2024: Investing in a Just and Sustainable Transition in Africa, United Nations Commission for Africa

In addition, the proportion of exports of manufactured goods is 34% of total African exports, while it reached 83% in East Asia, 45% in Latin America, and 70% as a global average. In terms of exporting manufactured goods in Africa, about 50% are shared by three countries, South Africa (27%), Egypt (10%) and Morocco (10%), while 81% are concentrated in 13 out of 54 African countries, while Algerian small and medium industries contribute 4% of exports of manufactured goods in Africa (African Export-Import Bank, 2023), a proportion that the Algerian authorities seek to strengthen by betting on small and medium industries in their export strategy.

Figure 3: Share of manufacturing products in total exports, for Africa and main comparator groups (2021)

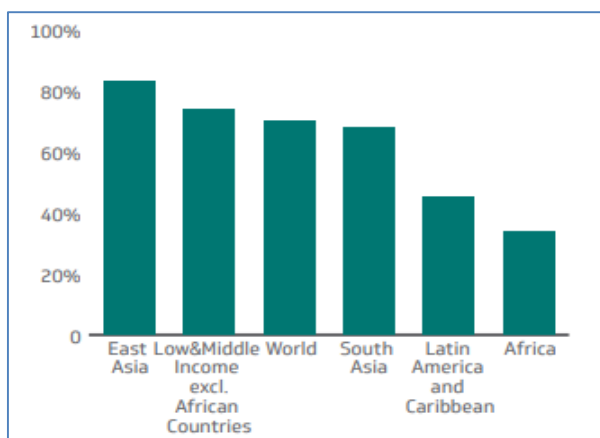
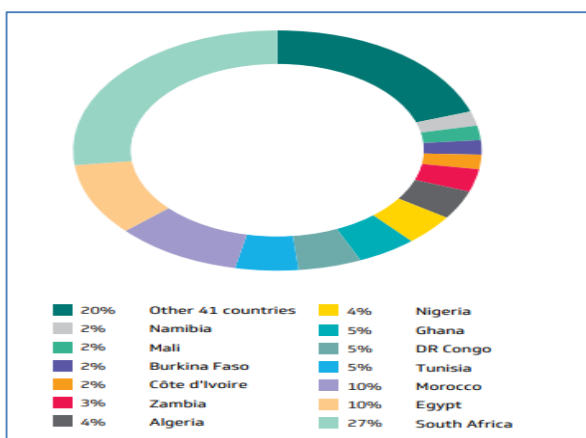


Figure 4: Country-level composition of African exports of manufactured goods



Source: African Trade Report 2023 Export Manufacturing and Regional Value Chains in Africa under a New World Order, African Export-Import Bank

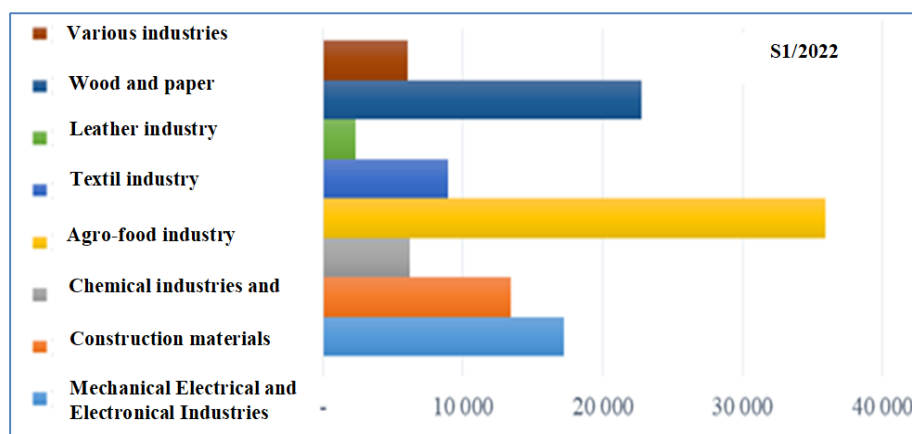
From the above, we conclude that the African continent's contribution to global trade in small and medium industries is very marginal, despite the continent's existing qualifications, such as natural resources and raw materials.

2.1 Small and Medium Industries, a Key Player in Economic Diversification

Small and medium industries are industrial SMEs defined in Algerian law through Law No. 17-02 issued in 2017 as enterprises producing goods regardless of their legal nature and employing between 1 and 250 people, whose annual turnover does not exceed 4 billion DZD, or whose total annual turnover does not exceed 1 billion DZD, and are independent where their capital is not 25% or more owned by another enterprise or group of enterprises. (Official Gazette of the Republic of Algeria, 2017)

Algeria's strategic direction to diversify its exports is based on supporting small and medium industries to export through various institutional, tax, customs, and logistical incentives.

Figure 5: Structures of small and medium industries S1-2022



Source: Prepared by the authors based on statistical information bulletins (Ministry of Industry).

One of the characteristics of Algeria's small and medium industries is its great diversity to include several industrial areas, such as the food industry, the timber industry, the chemical industry, the leather industry, the textile industry, the mechanical and electronic industries, and others. This diversity of industrial fabric adapts it to the type of commodity demand of African countries such as demand for food, electronic appliances, textiles, leather, and construction materials.

So there is uniformity between Algeria's industrial production type and the growing demand for this type of product on the African continent. This allows small and medium-industries in Algeria to invade the African market, benefiting from preferential treatment within the framework of the African Continental Free Trade Area, on the one hand, and the Algerian authorities' desire to make this type of small and medium-sized enterprises a key to diversifying their exports through the African market

Therefore, since 2018, the Algerian authorities have adopted the National Export Strategy, which provides a comprehensive vision of the strategic fields and lines of action, the implementation of which leads to the creation of a positive dynamic that leads to the achievement of the short- and medium-term goals (Boudifa, 2023). This strategy aims to create a diversified and competitive economy, integrated into global value chains, and based on sustainable development by validating the strategic objectives to be achieved, namely:

- Diversify the Algerian economy and exports to strengthen resilience and sustainability.
- Improve the business climate and reduce transaction costs to boost competitiveness and attract investment.
- Strengthen the production and management capabilities and quality of export-oriented companies.

To this end, a set of eight priority sectors has been identified:

Chemical and food industries, transport equipment, machinery, and electronic products.

The following sectors were identified in the first consultation, in addition to ICT, and then in the second and third consultations.

- Sectors identified in the second consultation: pharmaceuticals, building materials, electronics, automotive, and tourism (ALGEX, 2018)

Through the above, it is clear to us the importance of the small and medium industries sector in shaping the national export strategy, especially in light of the African Continental Free Trade Area, which constitutes a vital area and a wide market with great

tariff advantages that constitute an opportunity to promote national products, especially in the field of food, textile, leather, pharmaceutical industries, and electronic products.

1.2 New opportunities for Algerian SMI exports to Africa :

All the analyses indicate that the African continental free trade area will become one of the main export destinations for Algerian industrial products, taking into account the following factors:

- The Algerian State has adopted a national export strategy to increase the share of non-hydrocarbon exports in total exports by focusing on promoting SME exports to the promising African market.
- A large consumer market The CAFTA covers a market with a population of 1.3 billion people, expected to reach 3 billion by 2050, with an estimated global GDP of \$ 2,500 billion (APS, 2023)
- The reduction of customs duties (90%), between the member states of the AfCFTA agreement will necessarily lead to the reduction of administrative procedures and lower product prices, thereby increasing the incentive to export.
- Benefit from the competitive advantage of Algerian products, especially in the field of food industries, which are increasingly in demand in African countries, especially sub-Saharan Africa.
- Algeria's geographical proximity and land borders with many African countries make West African and Sahelian countries promising future export destinations and areas for intra-regional trade to flourish.

1.3 Barriers to Promoting SMIs Exports to Africa

There are several challenges that hinder export operations in Africa for small and medium industries, some of which are related to organizational, institutional, and logistical obstacles related to the national economy on the one hand, and on the other hand, including;

- Institutional and organizational failures that affect the export process itself, such as weak logistical support, as studying the characteristics of foreign markets and the behaviour of suppliers
- Weak national infrastructure, such as the deterioration of the road network, especially the trans-Saharan Highway that connects Algeria to its African neighbours.
- Lack of maritime routes linking Algeria to the African depth.
- The absence of free zones on the Algerian-African borders, which could be advanced focal points for Algerian-African trade

On the other hand, the obstacles may be due to external factors, the most important of which are the numerous political and security crises in the African continent, such as coups, rebellions, civil wars, and armed conflicts, In addition to the geopolitical challenges posed by major countries, that seek to expand their political and economic influence on the African continent.

Conclusion:

The African Continental Free Trade Area (AfCFTA) is one of the mega projects that the African Union is counting on to achieve sustainable development in Africa by betting on trade and thus promoting economic integration in the continent, which is the main long-term goal through which the African continent can achieve its development, industrial security, and independence in its economic decisions.

As one of the largest economies on the African continent, Algeria seeks to exploit the opportunities available in the African Free Trade Area to achieve the objectives of its national export strategy, which is based on accompanying and supporting several small and medium industries to serve as the basis for economic diversification by exploiting the African export destination that ensures the harmonization of African local demand with its local industrial products.

To achieve this goal, we recommend removing obstacles associated with the local economy Supporting and accompanying institutions in developing training programmes

for SME managers in the field of export, with the need to focus on industries with high demand in the African continent, such as food, electronics and semi-finished products, in addition to modernizing local infrastructures such as establishing the trans-Saharan road network and all its borders, strengthening the land transport network and sea and air transport to various African destinations, and establishing border free zones as a platform for exporting SMEs' products to various African destinations and sea and air transport to various African destinations.

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