

Research Article

Maximizing Benefits While Mitigating Challenges and Policy, in the Event of the African Continental Free Trade Area

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Abstract

This present opportunities and challenges, as well as, has the potential to increase welfare significantly for its member countries. The African continental free trade area (AfCFTA) presents the possibility, insofar as none traffic barriers are substantially reduced. African countries need to pursue a concomitant ambitious and broadbased reform agenda, in other to reap the benefits of the AfCFTA fully and mitigate its related costs.

This article aim to provide answers to questions such as, what can member countries do to maximize the economic benefits of the African continental free trade area? How can member countries mitigate, adverse and distributional and employment effects of the African continental free trade area? How can member countries manage a potential adverse fiscal revenue impact of the African continental free trade area?

The implementation of the AfCFTA could also result in costs, including potentially higher income inequality and transitional unemployment. This article adopts the use of doctrinal approach in providing answers to the research topic. The use of both primary and secondary sources of authority, are manifestly present in this article.

Keywords: African continental free trade area, AfCFTA, Agreement, Trade, Labor.

1. Introduction

In May 2019, African leaders launched the African Continental Free Trade Area (AfCFTA) [1]. By late January 2020, 54 of 55 member countries of the African Union (AU) had signed the AfCFTA agreement [2]. The corresponding agreement provides a framework for trade liberalization of goods and services and, once fully implemented, is expected to cover all 55 African countries, with an estimated combined GDP of US\$2.5 trillion and a population of over 1.2 billion [2]. In terms of population, the AfCFTA will be the largest free trade area in the world [2].

Over the past century, African countries have created several regional economic integration arrangements [2]. The first two, the Southern African Customs Union (SACU), formed in 1910, and the East African Community (EAC), formed in 1919, are today among the most vibrant and successful regional arrangements on the continent [2]. The Economic Community of West African States was also formed in May 28, 1975, for this purpose [2].

In 2019, there were over 15 regional integration arrangements, and many countries have overlapping memberships [2]. The overriding objective of these arrangements is the promotion of intraregional trade to achieve faster economic growth and reduce poverty [2]. The African Continental Free Trade Area (AfCFTA) is the most ambitious initiative in this vein [2].

Abrego, et al., are of the view that past regional integration arrangements have delivered less than was originally envisaged, but they have contributed to a significant expansion of intra-African trade. Despite these integration arrangements, African intra regional trade trails that of other regions, and Africa's insertion into global value chains (GVCs) is still dominated by its exports of raw materials [2].

As a result, past integration efforts have been considered as underperforming [3]. Several reasons have been advanced for this underperformance, including lack of complementary domestic

reforms to improve domestic supply responses and a low level of implementation of the arrangements, owing partly to the absence of strong institutional frameworks supporting them [4]. Still, these arrangements have facilitated a large expansion of intra African trade in the last couple of decades [2].

2. Literature Review

This Staff Discussion Note, by Abrego, et al., assesses income and welfare gains from trade liberalization under the AFCFTA and potential transitional costs for countries participating in the agreement [2]. The note focuses on the potential effects of the AFCFTA on (1) income, welfare, and trade flows; (2) income distribution and employment; and (3) tax revenues. It also discusses key policy reforms needed to maximize the benefits of the AFCFTA.

Tralac is of the view that the AFCFTA agreement is the umbrella instrument that has seven protocols [2]. These are the protocols on trade in goods; trade in services, on rules and procedures on the settlement of disputes, the protocol on competition policy, on investment, on intellectual property, and the protocol on the free movement of people [5].

Geda & Yimer argues that the AFCFTA aims at boosting trade within Africa by 25 to 30 percent in the next decade [2]. It also ultimately aims at establishing a continent-wide African Economic Community [6].

In a nutshell, African Union, argue that as with most regional integration schemes, the underlying economic rationale of the AFCFTA agreement is to provide greater opportunities to reap economies of scale, efficiency through greater competition and specialization, a more attractive internal market for investment (both foreign and domestic), and an acceleration of intra-regional trade and stimulate economic growth and lift people out of poverty [2].

3. Conceptual and Theoretical Framework

The agreement foresees the creation of a regional institutional framework for its operations. Article 9 outlines an institutional framework for the establishment and functioning of the AfCFTA. It includes the creation of an assembly (to provide strategic guidance on the agreement); a council of ministers (among other things, to ensure effective implementation and enforcement of the agreement); a committee of trade ministers (among other things, to implement the decisions of the council of ministers); and an autonomous secretariat, responsible for coordinating and implementing the agreement. The composition and role of these bodies are laid out in the agreement. The secretariat, to be established by the assembly, is the only organ of the AfCFTA that has been given a legal personality. While operationally autonomous, it would be financed by the African Union's budget. The council of ministers of trade determines the roles and responsibilities of the secretariat. That said, the agreement already contemplates specific roles for the secretariat under the protocol on rules and procedures on the settlement of disputes and the protocol on services.

4. Methodology

In this article, the use of qualitative research method in the collection of data and its analysis is used. The type of qualitative research method used in this article is case study, most especially, the narrative technique. Data collection is mainly gathered from both the primary and the secondary source. The use of researched articles by various authors in google scholars, internet websites have helped in writing this article. The use of the American Psychological Association referencing style of seventh edition is used from the abstract down to the conclusion.

5. Data and Result

The data used in writing this article were obtained from both primary and secondary sources. The use of deductive reasoning was employed in getting the result that this agreement is a unifying document which covers all the already existing regional arrangements on trade.

6. Discussion

Here, questions will be asked and answers will be provided with the use of both primary and secondary sources of data, as well as, the use of deductive reasoning in processing these data into proper information.

6.1 What are the Objectives of the African Continental Free Trade Area?

The African continental free trade area (AfCFTA) agreement has seven operational objectives.

1. Eliminate tariffs and non-tariff barriers to trade in goods progressively;
2. Liberalize trade in services progressively;
3. Cooperate in matters of investment, intellectual property rights, and competition policy;
4. Cooperate in all trade-related areas;
5. Cooperate in customs matters and the implementation of trade facilitation measures;
6. Establish a mechanism for the settlement of disputes concerning members' rights and obligations;
7. Establish and maintain an institutional framework for the implementation and administration of the African continental free trade area (AfCFTA).

6.2 What Can Member Countries do to Maximize the Economic Benefits of the African Continental Free Trade Area?

- 1 Reducing Africa's large infrastructure deficit in roads and ports can increase competitiveness across the continent [7]. With relatively low road density [2].
- 2 In the words of Abrego, et al., scaling up existing continental infrastructure initiatives within a strategy aimed at strengthening rural-urban links, developing trade corridors, and incorporating a continental perspective [8]. This effort could be particularly important for reducing trade costs in landlocked countries [2].
- 3 Improving ports and their efficiency would also help reduce trade costs [2].
- 4 Regulatory frameworks and institutional capacity should be strengthened to attract private sector participation in the

construction, operation, and maintenance of transportation infrastructure [2].

5 Improving trade facilitation [2]. Abrego, et al., are of the view that African countries could take a number of steps to achieve this, including making sure that all customs locations have information technology systems that support core processes and are adequately used by traders and officials; adopting and enforcing effective governance policies for customs and other border agencies; enhancing customs control of preferential origin rules to prevent revenue losses and build trust among trading countries; introducing modern risk-analysis techniques and appropriate equipment for nonintrusive inspections and faster turnaround in laboratory sample testing; and deepening modernization efforts, with a focus on reducing costs and delays faced by international traders.

6 By increasing the professionalization of customs agencies [2].

7 Ensuring a strong governance framework for the AfCFTA is also important, could help improve the business environment in Africa, if it reduces uncertainty over trading rules and market access [2]. An essential ingredient to unlocking private sector decisions to expand existing and start new businesses to take advantage of the agreement [2].

6.3 How Can Member Countries Mitigate Adverse Distributional and Employment Effects of the African Continental Free Trade Area?

1) Policies promoting inclusive growth are critical for mitigating potential adverse distributional and employment effects of the AfCFTA [2]. As the AfCFTA raises income, member countries will need to adopt market-friendly measures to ensure that the key transmission channels to the population function efficiently [2]. This could involve four mutually reinforcing initiatives;

- a. Improving the functioning of product markets;
- b. Improving the flexibility of the labor market;
- c. Enhancing social protection programs;

2) Encouraging investment and innovation, within the context of a well-defined transformation strategy.

3) Country authorities will need to guard against industry concentration that uses market power to block price reductions or the introduction of more variety of goods to the population as a result of the AfCFTA [2]. Hence, enhanced competition and the introduction of a fair trading and competition commission that can limit monopolistic practices [2].

4) Reform of rules on firms' entry into the market and exit, including modernizing bankruptcy rules, should be considered [2].

5) More flexible labor markets could help mitigate the potential adverse employment effects of trade liberalization under the AfCFTA [2]. Specific measures could include addressing distortions in labor costs and easing restrictions on labor reallocation across sectors, firms, occupations, and regions [2].

6) A renewed emphasis on promoting education, training, and retraining would also be important [1, 2].

7) Enhanced social programs would be necessary for a well-functioning AfCFTA [2]. These programs could include broadening and strengthening of social safety nets for the provision of targeted assistance to those adversely affected by trade liberalization [2].

8) A well-designed transformation strategy, built on investment

and innovation, could support economic growth and job creation [2].

9) Better functioning financial markets are needed. These should make it easier to secure loans based on credit histories. Better functioning credit markets will improve firms' access to long-term competitive financing to expand production and facilitate more extensive trade [2].

6.4 How Can Member Countries Manage a Potential Adverse Fiscal Revenue Impact of the African Continental Free Trade Area?

1) Revenue mobilization should be guided by country-specific reform strategies [2]. By investing in the basic building blocks of effective and modern tax policy and administration, including taxpayer segmentation at the same time, once implemented, continuous improvements in the functioning of these systems are needed, especially through strengthening capacity and coverage [2].

2) Other revenue boosting measures could also be deployed, by introducing a simplified tax regime for small businesses; changing the value-added tax (VAT) threshold to better target high value businesses; investing in or expanding digitalization; and pursuing reforms in information and communication technologies [2]. This would help reduce compliance costs and simplify registration, filing (through e-filing), payment (through e-payment), audit, collection enforcement, and appeals [2].

3) Additional public resources will also be required to strengthen social protection frameworks to address adverse distributional effects that may arise from the reduction in trade barriers [2]. The fiscal space to cover these needs could come from revenue mobilization or reprioritization of expenditures [2]. Other modes of financing, such as user fees or public-private partnerships, could contribute to fiscal space while mitigating fiscal risks [2].

4) To be successful, revenue enhancing efforts will require a sustained political commitment, at the same time, transparency and outreach will be needed to mobilize support for the reforms and help change taxpayer culture and improve tax compliance [2].

7. Conclusion

Upholding the provisions that constitute the African continental free trade area will be crucial for its success as well as, an institutionally strong and effective AfCFTA secretariat, will help build credibility and reduce trade policy uncertainty. Member countries should see this as a sign of growth in the continent.

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