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Prospects and Challenges for The African Continental Free Trade Area (AfCFTA) in Africa's Economic Growth

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Abstract: The paper discusses the prospects and challenges of the African Continental Free Trade Agreement (AfCFTA) as an agent of development in Africa. It is a well-known fact that Africa occupies the lower rungs of the ladder in the global index of development. As a result, many of the people of Africa live in serious conditions of poverty. To deal with the problem the African Union (AU) established AfCFTA as one of the agents that can be used to promote development on the continent. The author used a number of primary sources like the papers of the Economic Commission for Africa (ECA), AU papers, and secondary sources like books and articles to carry out the research. The Endogenous theory which posits that economic growth and development are best promoted by the use of internal resources is used as the major theoretical framework. Overall, the study revealed that AfCFTA can provide the enabling framework to foster a strong intra-African trade and eventually engender growth and development on the continent. However, the paper identifies the non-development character of the state in postcolonial Africa weak infrastructural base, and the activities of the erstwhile colonial masters as factors that can hamper the success of AfCFTA.

Keywords: Trade, Growth, Development, State, Poverty

1. Introduction

Africa is home to eight of the world's fifteen least economically diversified countries. This reality weakens the foundation of the continent's economic transformation which will enhance the overall welfare of the people of the continent. One major cause of poverty in Africa is the lack of economic integration. As a matter of fact, economic integration would have enabled Africa countries to pull their resources together, increase socio-economic intra-continental interaction and foster development.

Consequently, the Organization of Africa Unity (OAU), from its inception in 1963 has formulated and implemented various measures to bring about development in Africa. One result of the efforts was the emergence of the Economic Commission for Africa (ECA). The ECA was established with the particular objective of rendering technical assistance to member states [1].

Further attempts by the OAU which has now metamorphosed into the African Union (AU) led the creation of the African Continental Free Trade Area (AfCFTA). The decision to do this was taken during the 18th Ordinary Session of the Assembly of Heads of State and Government of the AU that was held in Addis Ababa on 12th January, 2012 [2], [3].

This paper attempts to examine the prospects and challenges of the AfCFTA as an agent of economic growth and development in Africa. It begins by looking at the

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theoretical framework, the origin of AfCFTA, its basic aims, and the challenges that could arise to hamper its success [4], [5].

Theoretical Framework

This study is guided by the Endogenous theory of regional development. The word, endogenous, means originating from, or growing from within something as cells, for example, do when they grow inside the walls of a parent cell [6].

The Endogenous theory emerged in the 1980s and embraces a diverse body of theoretical and empirical assumptions. First, it emphasizes that economic growth comes from endogenous outcome of an economic system and not from exogenous forces [7]. Endogenous theories are therefore most useful in understanding and enhancing development outcomes when the overall aim is to secure the most efficient use of available resources of a region. To this extent, the endogenous theory is different from neoclassical growth models which places greater weight on external forces [8].

Second, traditional neoclassical theories of growth focus on trade as the engine of growth. This approach has worked well, over the years, for the highly industrialised countries as they trade with the underdeveloped countries of the south. The underlying point here is that the advanced countries rely on an efficient labour force which has been produced by high technology education. And of course, the economies and output of industrialized countries are even growing much higher than they were in the previous centuries [9], [10].

To the poor countries of the south, there is also an agreement that trade could play a vital role in regional integration and development. But their own position is that if they must catch up with the advanced countries and trade on equal terms with them, then it will be necessary for them to develop their human capital base which is critically lacking at the moment. To them, this can be only achieved by higher investments in education, on-the-job training, and development of new technologies [6]. It is along this line that Cicek, 2013, and Daniela, 2015 declare that endogenous growth theory primarily holds that long run growth rate of an economy depends on policy measures. One such policy measure is the provision of subsidies for research and development, and education. They argue that such subsidies increase the growth rate by increasing the incentive for innovation. To that extent, endogenous development strategy seeks to reduce the dependence on external factors while ensuring greater autonomy in the use of local resources [11], [12].

We can distinguish the endogenous theory from the exogenous theory of regional development. The exogenous theory itself assumes that the economy of a particular region fails to develop because of the lack of certain specific production factors. But unlike the endogenous theory which places premium on the use of internal factors, the exogenous theory posits that the missing factors of production need to come from outside the region [13], [14].

2. Materials and Methods

Our study uses qualitative methods with primary and secondary data sources to examine how the African Continental Free Trade Agreement supports African market growth. This research uses official African Union and Economic Commission for Africa documents alongside policy papers that explain the creation and goals of AfCFTA and its current implementation difficulties. Researchers analyze how intra-African trade works through published materials like studies from academic authors and research teams. The research uses Endogenous Growth Theory to prove internal resources yield superior results than external influences in developing economies by supporting human capital development through research and innovation. The research compares how AfCFTA advantages and economic integration standards differ between African regions. The study explores both current obstacles that prevent trade implementation and reviews specific trade barriers, inadequate infrastructure, and colonial influence. The study breaks down

the data according to how AfCFTA affects African countries trading with each other while changing their economies and setting up effective rules. This research explores the community's ways to combat poverty and build an industrial sector using the AfCFTA tools. This approach analyzes market trends from the past and current economic statistics to show all AfCFTA's strengths and weaknesses that affect African development.

3. Results

Establishment of AfCFTA

Over the years, Africa has been ineffective in promoting regional integration and development generally. The result is that a large number of the poor countries in Africa are found on the continent. One major cause of weak integration and low development in Africa is the lack of intra-African trade.

The low level of intra-African trade is the result of a number of factors. First, is the high external trade barriers enacted by African countries among themselves. Second, there is low resource complementarity among African countries. Furthermore, we can include such factors as small market size, poor transport facilities, and high trading costs within the continent.

On the whole, trade among African countries only accounts for about 10 percent of their total external trade. This is the lowest in any of the regions of the world as noted by the United Nations Economic Commission for Africa [15].

To tackle the problem, African countries began to make efforts to promote intra-African economic interaction. However, it was not until the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union (AU) which was held in Addis Ababa, Ethiopia that the most robust effort was carried out in this direction. Thus on 12th January, 2012, the AU took the decision to establish the African Continental Free Trade Area (AfCFTA). AfCFTA was eventually established in 2018.

The objectives of AfCFTA according to the AU are as follows:

- a. Create a single continental market for goods and services, with free movement of business, persons and investments, thus pave the way for accelerating the establishment of the Continental Customs Union and the African Customs Union.
- b. Expand intra-African trade through better harmonization and coordination of trade liberalization and facilitation regimes and instruments across RECS and across Africa in general.
- c. Resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration process.
- d. Enhance competitiveness at the industry and enterprise level through exploiting opportunities for scale production, continental market access and better reallocation of resources.

4. Discussion

AfCFTA: Prospects and Challenges

AfCFTA is relatively young when compared with many other regional economic institutions in Africa. In spite of its short existence, the reality on the ground now shows that there are many prospects for AfCFTA to be a game changer in Africa's quest for development.

Exploring the gains of AfCFTA, Maliszewska et al. states that the Trade Agreement represents a major opportunity for countries on the continent to boost growth, reduce poverty, and broaden economic inclusion with particular reference to the following:

- a. Lifting 30 million African out of extreme poverty and enhance the incomes of nearly 68 million others who live on less than \$5.50 a day.
- b. Boosting Africa's incomes by \$540 billion by 2035 (a gain of 7 percent) while adding to the income of the rest of the world.

- c. Increasing Africa's exports by \$560 billion, mostly in manufacturing.
- d. Spurring larger wage gains for women (10.5 percent) than for men (9.9 percent)
- e. Boosting wages for both skilled and unskilled workers – 10.3 percent for unskilled workers, and 9.8 percent for skilled workers [16].

Maliszewska et al. further posit that under AfCFTA, extreme poverty would decline across the continent. According to them, the biggest improvements would occur in countries with currently high poverty rates. In this context:

1. West Africa would see the biggest decline in the number of people living in extreme poverty – a decline of 12 million (more than a third of the total for all of Africa).
2. Central Africa would see a decline of 9.3 million
3. Eastern Africa would see a decline of 4.8 million
4. Southern Africa would see a decline of 3.9 million
5. Countries with the highest initial poverty rates would see the biggest decline in poverty rate
6. In Guinea-Bissau, the rate would decline from 37.9 percent to 27.7 percent.
7. In Mali, the rate would decline from 14.4 percent to 6.8 percent.
8. In Togo, it would decline from 21.4 percent to 16.9 percent.

All this notwithstanding, Teniola argues that while it is too early to meritoriously assess anticipated gains and roadblocks in the contributions of AfCFTA to Africa's development [17]. Some people have contended that the benefits of improved trade relations will accrue disproportionately across regions. This means that regions, firms, people and cities will not benefit equally. At the same time, some scholars posit that increased trade relations and manufacturing will help Africa to come out of the volatile commodity-dependent model of trade in which the economies of many African countries are trapped [18].

In terms of the challenges facing AfCFTA, three major ones have been identified. First, is the non-developmental character of the state. The postcolonial state in Africa is not an agent of development. As a result, the managers of the state in Africa only focus attention on how to capture and maintain power. They pay more attention to prolonging and securing their control of the state to the detriment of development issues like internal trade relations.

Besides, the weak infrastructural base of African states poses a serious challenge to fostering intra-African trade relations [9]. The continent's railways and roads rarely link countries across relations, and they link at all roadblocks and incessant harassment by customs officials and law enforcement officers make it difficult for easy trade relations among African countries.

Third, excolonial masters of the African countries have always constituted a stumbling block to intra-African trade. The excolonial powers like France and Britain manipulate their erstwhile colonies and discourage them from trading with African neighbours. They instead encourage them to trade with the Europeans to which their economies are tied.

5. Conclusion

Africa has been in the backwaters of development for a long time. The result is that the citizenry in many African countries live in excruciating poverty. The people lack the basic necessities of life like food, shelter, and clothing.

To tack the problem of poverty and underdevelopment, African states have established many institutions to enable them act in unity and pull their resources together to advance continental growth. One of such institutions is the African Continental Free Trade Agreement (AfCFTA). AfCFTA was established to promote internal trade among African countries. The expectation is that robust intra-African trade can engender economic growth and reduce the rate of poverty across the various regions of Africa. However, several challenges like the non-developmental character of the state in Africa,

the weak infrastructural base of the continent, and the manipulative actions of the ex-colonial overlords have been identified as strong factors that can hamper the success of AfCFTA.

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