



drishti

AfCFTA: Unlocking Africa's Economic Might

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This article is based on editorial "A shot at economic logic" that appeared in The Hindu on 9 July 2019. It talks about the prospects of the **African Continental Free Trade Agreement (AfCFTA)** and way forward for India.

Recently the **12th Extra-Ordinary Summit of the African Union (AU)**, saw 54 of 55 of its member states signing the **African Continental Free Trade Agreement (AfCFTA)** for goods and services. AfCFTA seeks elimination of customs duties on 90% of the tariff-lines. The cross-border free trade could start by July 2020.

What is AfCFTA?

- AfCFTA seeks to **create a single continental market for goods and services**, with free movement of business persons and investments, and thus pave the way for accelerating the establishment of the Continental Customs Union and the African customs union.
- The AfCFTA preliminary work is on steps such as incremental tariff reduction, elimination of non-tariff barriers, supply chains and dispute settlement.
- It establishes the **largest free trade area in the world** since the creation of the World Trade Organization in 1995.
- In a world, becoming increasingly dependent on African markets and commodities, AfCFTA will have a global impact.

Background of Africa's economic integration

- In 1963, the **Organization of African Unity** was founded by the independent states of Africa. The organization aimed to promote cooperation between African states.
- The 1980 Lagos Plan of Action was adopted by the Organization of African Unity. The plan suggested that Africa should minimize reliance upon the West by promoting intra-African trade.

- In 2002, the Organization of African Unity was succeeded by the African Union, which had as one of its goals to accelerate the "economic integration of the continent".
- At the 2012 African Union summit in Addis Ababa, leaders agreed to create a new Continental Free Trade Area by 2017, for which in 2015 negotiations for AfCFTA started.
- The AfCFTA agreement was adopted and opened for signature on 21st March 2018 in Kigali. The AfCFTA entered into force on 30 May 2019.

While AfCFTA promises to unlock Africa's economic potential, the agreement still faces an uphill battle for implementation. There are **three main challenges** that question the viability of the AfCFTA.

- First, the African Union has been largely ineffective in dealing with the **continent's myriad problems** such as decolonisation, underdevelopment, Islamic terrorism and the Arab Spring.
 - Furthermore, **overlapping membership in Africa's eight Regional Economic Communities (RECs)** hinders trade standardization and enforcement.
- Second, Africa has a **low manufacturing base**
 - Today, more than 75 per cent of Africa's external exports are extractives, namely oil and minerals.
 - Also, **only 15 percent of African exports goes to other African countries**, compared to intra-trade levels of 58 per cent in Asia and 67 per cent in Europe.
 - This makes AfCFTA highly vulnerable to fluctuations in global pricing.
- Third, the AfCFTA is established at the time, when the world is facing **global protectionist trends** as seen in the U.S.-China trade conflict, Brexit and the stalemates at the World Trade Organisation.
 - World trade is likely to grow only by 2.6% in 2019, commodity prices are stagnant and globalisation is often being reversed.
 - With Africa accounting for only 3% of global trade, the anti-globalization wave dents the prospects of AfCFTA.

However, all is not that dark for AfCFTA

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- With **increasing Chinese and Indian investments** in Africa, greater collective self-reliance through African economic integration makes eminent sense.
 - A recent UN projection showed that nearly half the world's population growth between now and 2050 would come from sub-Saharan Africa, the population of which would double to nearly two billion. This **surge in consumer base** would make the proposed AfCFTA even more important.

- Amid growing U.S.-China trade tensions and China's efforts to decrease its dependency on export markets, some are betting that **Africa is a prime successor to become the manufacturing hub** of the developing world

In this scenario for India, Africa must receive priority on foreign policy map of India as:

- Africa is already **an important economic partner** for India with total annual merchandise trade estimated at \$70 billion or nearly a tenth of India's global trade.
- While **India's global exports** have been largely stagnant but those to Africa have surged.
- Africa still has unfulfilled demand for Indian commodities, especially foodstuffs, finished products (automobiles, pharmaceuticals, consumer goods) and services such as IT/IT-Enabled Service, health care and education, skilling, expertise in management and banking, financial services and insurance.
- The **cross-linkage of a three million strong Indian diaspora** spread across Africa can also be very valuable.
- India can help the African Union Commission prepare the requisite architecture, such as common external tariffs, competition policy, intellectual property rights, and natural persons' movement.
- Finally, once the AfCFTA is accepted as a beneficial game changer, India can contemplate an India-African FTA.

Before Africa was "discovered" by the West, it had a thriving overland trade. Subsequent colonialism and mercantilism destroyed internal trade routes, replacing them with an ecosystem in which Africans had better links with their foreign "mentors" than among themselves. By the AfCFTA, the Africans are only trying to correct this historical distortion.

But with free trade under attack in much of the developed world, Africa is forging a new path for itself to foster sustainable wealth and development for the continent. In this context, India needs to anticipate the promising impact of the African Continental Free Trade Area and act proactively.

Drishti Input:

Recently, **African Continental Free Trade Agreement (AfCFTA)** has been operationalised. Discuss the challenges and prospects it faces, in a world dominated by anti-globalisation.