

# Assessing Africa's Two Billion Populated Market by 2063: The Facts and Fallacies of a Continental Free Trade Area (CFTA)

Kenneth T Tanyi\*

World Trade Advisors, South Africa

**Abstract**

This paper analyses the continuous efforts made by African Heads of States and Governments of the African Union (AU) in promoting the AU Agenda 2063 in seeking to harness the continent's comparative advantages on its youthful population, emerging middle-class consumers, rich natural resources and young labor force capable of transforming Africa in the next 50 years. The undeniable benefits of inter and intra-African trade, trade facilitation, the gradual dismantling of tariff barriers across African borders and their sensitive impacts on national sovereignty and a multiple of geopolitical regional trade arrangements shall be reviewed in this paper in an effort to address current challenges hindering Africa's regional integration and sustainable development.

With key objectives of facilitating trade finance for young African youths and female entrepreneurs, the harmonization of trade policies between AU Member states and existing Regional Economic Communities (RECs) is necessary in accessing Africa's full potential market estimated at 2.8 billion people by 2063. The paper in its final section reveals astonishing trade benefits of regional markets with attributed roles of various stakeholders involved in mobilizing efforts towards a comprehensive approach for Africa's emergence by 2063. An augmented multi-linear gravity model regression analysis is used to portray the positive and unexploited trade potentials of African regional markets in promoting trade integration on the "acquis" of existing regional initiatives. Special attention also is given to the Association of South East Asian Nation (ASEAN) Free Trade Area (FTA) alongside existing regional FTA initiatives in Africa (such as the South-Eastern African Tripartite FTA) as benchmarks on the basis of their socio-economic and political similarities, languages, infrastructures, colonial heritages and variable geometry resemblance to the CFTA. An exclusive out-of-sample benchmark approach is used on the gravity model to empirically test for autocorrelation between the selected dependent and independent variables (Trade flow, Gross Domestic Product, Population, and geographical distance between countries). Result of the study show projectable gains that can be generated from the establishment of a Pan-African Continental FTA with practical steps of grabbing Africa's rich populated markets.

The gravity model uses beta estimated coefficients from the ASEAN FTA to benchmark trade potential in five regions in Africa. The paper's methodology involves applying these statistically tested unbiased estimates on a sample of 15 randomly selected African countries per region for an evaluation period of 18 years. All the explanatory variables were tested to be statistically significant in explaining trade flows and their beta estimates used in extrapolating on the CFTA's trade potentials in five regions and consequently building towards a single integrated and economically vibrant Africa by 2063!

**Keywords:** Agenda 2063, Regional integration; Free trade areas; Market population diversity; Access to trade finance for women and youths; Harmonization of trade policies between African Union Member States and Regional Economic Communities (RECs).

**Introduction**

Why do African countries continue to ratify regional trade agreements despite several controversies surrounding them? Practically every African Union (AU) member state is involved in at least one free trade area (FTA) or preferential trade agreements (PTA). Looking at some of the incentives behind the proliferation of these treaties, one would find simple reasons such as the aspiration to enjoy future trade preferences and market access in foreign markets vis-à-vis competitors, amongst others. Whatever the case, the undeniable fact that regional integration and freer FTAs continue to generate competition, innovation and better products in African markets, better-paying jobs for its youthful labor, new market niches for startups, foreign direct investments and preservation of diplomatic ties among nations are enough evidences fueling the proliferation of trade agreements. However, the untold story behind the use of geopolitical conspiracy and strategies in the circles of international trade policy diplomacy is what is going to center discussions in this academic investigation.

African countries have for over decades witnessed numerous bilateral, regional and multilateral trade agreements throughout the

continent resulting to multiple memberships often described as *the spaghetti bowl effect*. Given this context, this study simply questions if Africa's regional integration and conquest by foreign investors to her current one billion populated market, are considering the necessary policy measures and preconditions needed for advancing the AU 2063 Agenda and fast-tracking the future establishing a Pan African FTA, given the unequivocal positions of African countries and regions. The study also seeks to discuss the urge for proper sequencing, effective regulation and involvement of all stakeholders (most especially women and youths) at regional and national levels, within the CFTA regulatory framework as prescribed in the *Addis Ababa Declaration of the 18<sup>th</sup> Ordinary Session of the AU General Assembly January*,

\*Corresponding author: Kenneth T Tanyi, World Trade Advisors, South Africa, Tel: +1 (682) 300 5395/+255 652 503 844/+237 671 751 571; E-mail: [kenneth.tanyi@worldtradeadvisors.com](mailto:kenneth.tanyi@worldtradeadvisors.com)

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2012 and the 2015 Report of the High Level African Trade Committee (HATC) Decision Assembly/AU/Dec.555(XXIV) on Trade Issues, both in concordance with pillars 2 and 6 of the AU Agenda 2063: *The Africa We want* - 24<sup>th</sup> Ordinary Session of the AU General Assembly January 2015 [1-10].

This new arrangement aims at establishing a World Trade Organization (WTO) compliant FTA amongst 54 African countries on the basis of harmonizing and coordinating the existing 8 AU recognized Regional Economic Communities (RECs) and member states as stated in the Abuja treaty. This major continental 'Big Bang' seeks to build its pillars on the "acquis" of existing regional trade integration initiatives such as the Tripartite T-FTA of Southern and Eastern (S-E) Africa comprising SADC, COMESA and EAC, with a possibility of building a new second regional block of North-West-Central (N-W-C) African RECs comprising of ECOWAS, CEN-SAD, UMA and ECCAS member states.

This ambitious plan does not only seek to override the existing continental contemporary challenges of multiple memberships, access to trade finance to African youthful entrepreneurs and women traders, market access to regional markets, poor infrastructures, non-tariff barriers (NTBs), technical barriers to trade (TBTs), standards, sanitary and phytosanitary (SPS) measures and custom malpractices within African borders, but also addresses the often neglect of compliance to WTO rules of procedures in applying preferred modus operandi to regional integration as transcribed in the Abuja treaty and the 2012 protocol on boosting intra-African trade and fast-tracking the establishment of a CFTA by 2017. These achievements often depicts the emblematic African approach of 'putting the cart before the horse' where summits of African heads of states and governments are quick at reaching agreements without consideration of different levels of compliances to these commitments [11-13].

Associated with this process of reviewing Africa's trade integration challenges, is the need to reawaken the African Academia to contribute to building the foundation and principles which should guide the institution of a befitting CFTA Protocol by 2017, with specific clauses that should be agreed upon and how automatically or unconditionally these trade negotiable concessions should be traded off by negotiating parties and third parties. Another striking aspect evoked in the study's adventurous methodology, is in its unique *Out-of-Sample* approach to estimating the trade potentials of establishing a CFTA constituting of eight (8) AU recognized regional economic communities (RECs), using a comparison analysis over a similar trade integration process between six (6) ASEAN developing countries in order to draw empirical and theoretical lessons from their practical ongoing experience in South East Asia.

## Empirical Literature on the CFTA

### The UNECA (ARIA V) CGE analysis on the benefits of the CFTA

In June 2012, the United Nations Economic Commission for Africa (UNECA) in their fifth edition of "Assessing Regional Integration in Africa (ARIA V): Towards an African Continental Free Trade Area" used a multi-sector and multi-country CGE MIRAGE (Modeling International Relationships in Applied General Equilibrium) dynamic model to estimate the economic impacts (gains and losses) and trade policy effects of creating the envisaged pan-African CFTA (2012 UNECA Publication ARIA V; Chapter 4 PP.39.) their empirical results presented three main findings:

Firstly, the results projected that eliminating high tariff barriers prevalent across African borders with the establishment of the CFTA would likely result in an upsurge in intra-African trade exports by US\$ 25.3 billion (a 4.0 percent increase) in 2022 and a likely increase in total African exports by US\$ 17.6 billion (a 2.8 percent increase) from the baseline level (0.0) where the CFTA is not set up. Again, African exports to the rest of the world were estimated to decrease by US\$ 9.4 billion therefore boosting intra-African trade by US\$ 34.6 billion (or 52.3 percent), in 2022. Their conclusions indicated a net trade creation effect of the CFTA (Table 1).

Secondly, their findings showed a surge in economic gains of the CFTA if complemented with effective trade-facilitation measures that would address the prevalent excessive cost of customs procedures and port handling services within regions. According to ECA's projections trade facilitation measures alone, if ameliorated in the course of establishing the CFTA, would result in a rise of Africa's intra-African trade by two fold over the twelve year period (with an increase from 10.2% to 21.9% between 2010 and 2022).

And thirdly, given the potential economic benefits Africa stands to gain from the CFTA, these gains may not be distributed equitably across the continent. The downside realities of fragmented and divergent levels of trade protection, unequal income distribution, differences in economic sizes and policies, as well as the relative revenue losses due to tariff dismantling may differ between African countries.

From the Figure 1 above, UNECA projections by 2022 estimate significant increments in trade gains (real income) with expected real income to rise by US\$ 203.4 million (0.14 percent) from a relative baseline (0.0) within all African regional FTAs as a whole. With a scenario of a created CFTA, gains are expected to rise by as much as US\$ 296.7 million (0.20 percent) [14-18].

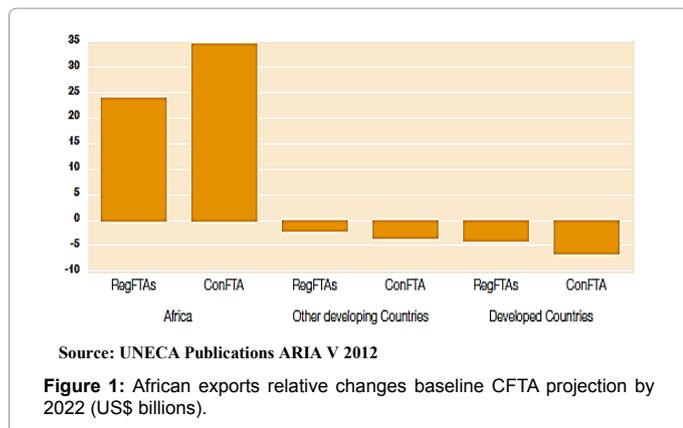
### The scope of intra-African trade complementarity

In establishing a CFTA, it is critical to analyze the trade

Exporter	Importer	Before Trade reform 2004			After Regional FTAs, 2022		After CFTA, 2022	
		Trade (million USD)	Ad Valorem Equivalent (AVE) Traiff	Tariff Revenue (million USD)	Ad Valorem Equivalent (AVE) Traiff	Tariff Revenue (million USD)	Ad Valorem Equivalent (AVE) Traiff	Tariff Revenue (million USD)
S-EFTA group	S-EFTA group	8541	7.70%	653	0.00%	0	100.0%	0
N-W-CFTA group	N-W-CFTA group	5251	8.20%	430	0.00%	0	100.0%	0
S-EFTA group	N-W-CFTA group	2521	16.50%	417	16.50%	417	100.0%	0
N-W-CFTA group	S-EFTA group	1827	4.30%	78	4.30%	78	100.0%	0
AFRICA TOTAL	AFRICA TOTAL	18140	8.70%	1578	2.70%	495	0.0%	0

Source: UNECA Publications ARIA V 2012

Table 1: Protection rates and tariff revenue before and after trade reforms.



complementarity between African countries in order to evaluate how negotiating parties (or regions) export deliveries fits into the importing or trading partner's demand. The intent of this type of empirical study is generally to measure the production and composition (trade complementarity) structures of negotiating parties prior to joining FTAs.

In a case of creating a CFTA, it is important to assess how many products are naturally endowed in African countries, regarding the scope of increasing intra-African trade and establishing a potential CFTA. It is also important to measure the complementarity of African manufacturing structures and tradable goods in order to detect their sectoral levels of competitiveness. This premise prompted French economists Chauvin and Gaulierin in 2002 to conduct a study on the levels of production and trade complementarity in Africa using a number of SITC indices with statistics from UNCTAD. Their methodology included calculating the revealed comparative advantage, regional orientation index, and complementarity indices of most African countries.

Their empirical results denoted that Africa's trivial base of intra-industry trade was mainly characterized by highly concentrated exports with very similar primary products in many sub-Saharan countries. Because of many common characteristics between African products, this has affected a greater volume of trade exchanges between regions. They also realized the importance of sharing factors of production in intra-industry African trade to promote regional integration. Africa's existing imports of machinery and manufactures to expand intra-African trade were products that cannot be locally produced due to the lack of technical, capital capacities and maturity requirements for transformation into diversified economies. They concluded that African countries needed a more diversified export base, in order to enable them to produce a variety of products that improve trade exchanges within CFTA members and help reduce trade diversion effects. However, despite these poor indices of complementarity within African regions, their study demonstrated a huge potential in intra-African trade, most especially in vertically differentiated goods [19-24].

## Hypotheses and Research Objectives

### The main problem

Long before the creation of the OAU in 1963, African Heads of States and Governments had recognized the indispensable need for economic, social and cultural integration in order to accelerate the transformation, collaboration and sustained development of the continent (AU BIAT Publications 2012). Their determination and commitments from the

OAU summits of 1973, 1976, 1980 right to Abuja 1991 paved the way for the establishment of an African Economic Community (AEC) that aimed at merging all the regional economic communities in Africa into a continental-wide economic and monetary union. The Abuja Treaty establishing the AEC was adopted by and was ratified by two-thirds of member States in 1994. One of the primary objectives of the treaty establishing the AEC remains "to promote economic, social and cultural development and integration of African economies in order to increase economic self-reliance and promote an endogenous and self-sustained development" as quoted in Article 4 (1) (a) of the 1994 Abuja Treaty.

The AEC was projected to be established using the RECs as its building blocks through six stages with a variable duration extending to a period of 34 years (up to 2028). This continental integration schedule is still to be met despite the numerous challenges and dissimilar levels of integration existing between RECs. These factors amongst others continue to intensify bringing diverse forms of challenges and alterations enrooted deep into African diplomacy and political economy.

This top-down approach to regional trade integration fails to prioritize apt solutions for the causes which continue to prevent intraregional trade within the continent. Edmund Burke, one of Ireland's philosopher and politician once said "Free trade is not based on utility but on justice". The results of wrong policy choices, neglect of human rights, poor institutional governance; weak domestic capacities and trade facilitation, neglect of the private sector and services still remain thorny issues as Africa faces one common destiny.

The technical aspects regarding the implementation of the Abuja and Addis Ababa formulae require the transformation of African individualistic mindsets into a wide and more accommodative continental rules-based scheme for free trade. The idea of this study is therefore to investigate how existing regional structures can mold into a new and bigger paradigm through a series of complicated questions and careful answers to harness Africa's contextual, technical and political vested interests.

### The main question

Is Africa is conscious of her 2.8 billion people market potential (by 2036) and ready to set up the CFTA-NF to commence trade negotiations in 2015 as prescribed in the CFTA Architecture of the 18th AU General Assembly Addis Ababa Declaration? If so, how compliant will the CFTA be to WTO/GATT rules on non-discrimination (MFN, NT)?

### The main objective

The purpose of this paper is to assess the market potential of the continent in implementing the CFTA using coefficient estimates from observed and predictable trade flow values (analysis of residuals) using an Out-of-Sample comparative analysis on a similar trade integration scheme elsewhere (case of the ASEAN FTA). The essence of this study shall focus on tariff liberalization on goods as a foundation phase of the CFTA trade integration process.

This empirical analysis will specifically simulate the market/trade potentials of creating a Pan-African FTA likely to that of ASEAN FTA both with objectives of realizing a regional economic community. The CFTA is expected to establish on the basis of two of Africa's biggest regional blocs; that of the Tripartite FTA comprising COMESA, SADC, EAC and the N-W-C FTA comprising ECOWAS, CEN-SAD, ECCAS and UMA regional economic communities. Estimates

are done over a period of 18 years (1995-2013) and a rich analysis is made in section 5 and 6 with the perspective of assisting regional and national trade policy makers on the benefits of creating a CFTA. The conclusions derived from this paper will assist the sampled 15 African countries each representing one region of West, East, South, North and Central Africa) in scheduling their respective tariff offers on goods should the CFTA-NF be put in place by 2015. It is therefore imperative that potential trade negotiators be sensitized on some of the empirical benefits of joining the CFTA process with a clear notion of what their expectations should be vis-à-vis tariff liberalization in goods.

The specific intent of this study will be to attempt logical answers to the main research question (4.2) set above through an empirical methodology in section 5 followed by discussions on the perspectives of fast-tracking the CFTA in sections 6 and 7 in a way to enrich the African academia and African policy makers on a way forward in liberalizing trade in goods within the CFTA negotiations. As the clock keeps ticking towards meeting the tight datelines set by the 2012 AU General Assembly Declaration, this study intends to challenge African think tanks, researchers, fellow colleagues, trade policy experts and decision makers to put up their thinking caps and bail out Africa from its undisputed facts and fallacies in establishing a Continental Free Trade Area by 2017.

### Methodology: Modeling and Projection Specifications

As most econometric models, the gravity model requires large amount of detailed data describing economic relationships between economic agents in different countries over successive period of years. Nevertheless, when it comes to analyzing trade potential between countries, it is extremely important to get panel trade data covering both time series data (1995-2013) and cross sectional data from across 6 different South Eastern Asian and 15 African countries at much disaggregated levels in order to facilitate policy interpretation during trade negotiations since tariff reductions are generally made at the Harmonized Commodity Description Coding System (HS) product levels. The underlying variables (dependent and independent) used in this augmented gravity model to analyze trade potentiality consist of total trade (import, exports) as explained variable, alongside economic mass (GDP), population sizes and distance between capitals (Kilometers) as independent variables.

To improve on the model's statistical significance and further test for the "natural trading partners" hypothesis, a few dummy variables (common languages (d1) and colonial heritages (d2)) have been included to proxy their binary (either positive (1) or negative (0)) correlation effects on trade between countries. The further developed log-linearized algebraic version of the augmented gravity model to be estimated can be seen as follows:

$$\ln X_{ijt} = \ln \beta_0 + \beta_1 \ln GDP_{ijt} + \beta_2 \ln POP_{ijt} - \beta_3 \ln DIST_{ijt} + \beta_4 (LANG_{ij})_{d1} + \beta_5 (COL_{ij})_{d2} + \varepsilon_{ijt} \quad (2)$$

With (t) representing time period (years) in equation (2);  $\ln(X_{ijt})$  representing bilateral (exports) trade between countries i and j;  $\ln(GDP)_i$  representing GDP or economic sizes of countries i j respectively;  $\ln(POP)_{ij}$  representing population sizes of countries i,j;  $\ln(DIST)_i$  representing geographical distance in kilometers between countries ij;  $(LANG_{ij})_t$  representing (dummy 1) countries sharing (English) as a common official language,  $(COL_{ij})_t$  representing (dummy 2) countries having (UK,US) as common colonial heritage and finally  $(\varepsilon_{ijt})_t$  capturing the white noise effects in the equation.

The paper's gravity modeling foundation is built on the "acquis" of

the works of Peter Egger, Nilsson and Baldwin pioneer economists and developers of using benchmarking approaches in gravity econometric modeling in trade economics for predicting "trade potential" estimates. The CFTA's trade potential projection is projected in five regions (i.e. North, South, West, East and Central Africa), over an estimated random sample size of 15 countries (i.e. three per region) with the insertion of their actual values in the estimated "benchmark" gravity model in order to get their respective intra-regional trade potentials denoted as  $\ln X_{ijt} = C$  in exponential values ( $excel = \exp(C)$ ).

A comparison is made between these actual export values of a specific year (t+1) and newly estimate values of same time period (t+1) to derive the trade potentialities of a regional market vis-à-vis others markets. If the potential/actual ratio >1, it signifies that there is abundant trade potential in that particular regional market that can be exploited. This can be transmitted as a positive market access signal for future investment and trade relations with that specific region or country.

In order to test for multicollinearity and individual effects on the model, a hausman fixed effect (FE) and random effect (RE) model specification test has been performed (see chapter five). The gravity model's dataset is also tested and adjusted for heteroscedacity and robustness prior and ex-ante the final regression analysis results. Actual values have been corrected for inflation (price level and exchange rates) with price deflators in order to avoid multicollinearity and biased estimates.

### Results and Discussions

Long before the initiative of creating a CFTA, Africa has always traded, though, at insignificant levels (Between 10 – 12%, BRIDGES 2014). This might have been the result of high levels of informal trade, poor infrastructure and human capital, NTBs and disguised trade protective measures, unregistered and absence of trade data in the continent (amongst others) that persistently hitch intra-regional trade between Africa's five main regional (North, South, East, West and Central African) borders. Despite these challenges, trade and regional integration in Africa is progressively improving and requires even more now than ever, the coordination of efforts from both state and non-state actors at all national, regional and continental levels.

With the realities of the spaghetti bowl effect, EPAs, AGOA causing fragmented and disorganized levels of compliance to regional trade protocols, the establishment of the CFTA might just be that right path for Africa's integration. Therefore, establishing a Pan-African and WTO compliant FTA might also be a good approach of sharing the relative empirically and statistically tested economic gains and losses unanimously across all 54 AU countries on a fair platform such as the CFTA-NF. This holistic approach of speaking "with one voice" in addressing cross cutting issues on market access barriers across the continent will not only fall in line with the AU 2063 agenda of unifying and empowering its people economically, socially and democratically but will also serve at the global interest in fostering WTO's key pillars of promoting transparent, predictable and liberalized trade across borders globally.

With the results of this empirical study on the benefits of intra-regional trade and the potential benefits of trade across all five (5) regions here examined, the assumption of aggregate international trade being proportional to regional (or country specific) economic mass was proven valid in the course of this analysis. Our results show a positive and statistically significant relationship between our dependent

and independent variables with high t-statistics and low P-values at 99.99+%. Though, bilateral and multilateral trade is generally inversely proportionate to geographical distance between countries, the developed augmented log-linearised model showed the following estimated results:

$$\ln X_{ijt} = 2.85 \ln GDP_{Rit} + 1.46 \ln GDP_{Pjt} - 0.46 \ln Pop_{Rit} - 0.469 \ln Pop_{Pjt} - 0.446 \ln Dis_{ijt} - 77.35^* \quad (3)$$

With parameters: i and j representing the multilateral resistance terms of trade between country/region i and country/region j and t=time, X=exports, GDP=Economic mass, Pop=Population, Dis=Distance

\*It important to note that after the regression analysis, both dummy variables (colonial heritage and language) were tested to be statistically insignificant (0.87 and 0.22 coefficients and 0.15 and 0.68  $P \geq |t|$  respectively) in explaining regional trade integration in ASEAN, thus resulted to the exclusion of dummy variables in benchmarking and projecting the trade potentials of the CFTA.

## Market Potential and Economic Effects of the CFTA

To predict the future of Africa's "big bang" FTA to be built on the pillars of Africa's existing regional trade initiatives (such as the Tripartite FTA) and to finally release our audience with the good news from the complicated econometrics and statistics figures, the empirical results shall be interpreted in a simple way to ease understanding.

The interpretation is going to be captivating, with insightful examples from contemporary happenings in Africa and their dynamic effects on trade (insightful for further research). Some these unfortunate and tragic events (the Arab Spring, Boko Haram terrorist threats, the Ebola virus outbreak, political unstable regimes, civil wars, cultural and religious differences) reaping apart the benefits from Africa's one billion people market, were statistically spotted in the investigation with sad socio-economic consequences on African women, children and young dynamic entrepreneurs. These indirect economic effects on trade performance were prevalent in certain regions like North, Central and West Africa. The projection results shall be interpreted per region with the use of a few individual countries as examples.

### A) North Africa

The actual trade flow values examined in this region show some levels of discrepancy with estimates and predicted values. The region's trade potential was tested in three countries notably, Egypt Libya and Algeria all members of CEN-SAD. The trade potential values (difference between projected and actual trade values) were unequivocally distributed within the region as can be seen in Table 2 below:

The Table 2 above depicts a typical example of how regional integration can present itself as a disguised package with both benefits and losses. The principle of variable geometry across Africa can be clearly spotted in the case of the North African region. According to the projected results above and on the premise of high and positive trade potential ratios (represented by  $\Omega$ ) statistically signifying a better margin for market access and welfare benefits (chapter four), therefore the principles of market signaling and trade information amongst variables geometry differences can attest to why these economic benefits differ from one economic agents (in this case countries) to another.

Algeria ranked first with the highest trade potential in the region with ratios hitting as high as +446.11 with Libya in 2012 with

progressive rise from 77.89 in 2007 to 446.11 in 2012, it is evident that Algeria ranked first according to our statistics with the region's largest margin to trade in potential markets like Libya and Egypt despite its huge population. With the existing political disability and civil wars in the regions, indicators show a massive demand and market for merchandise trade into these war-torn nations in this region but unfortunately the supply can meet the expected demand. In Egypt for example, Algeria's trade potential ration has risen from 1.63 in 2008 to 4.06 in 2012. This region is in need for rescue from its high market demands but unfortunately with the destruction of infrastructures, civil unrest, bombing of administrative buildings, shops and means of urban transportation; the region's market signal is unfortunately not loud enough to convince potential investors and traders from across Africa.

The region has Africa's third most populated country, Egypt alongside a relatively stable GDP size of 1.46 US million in our investigated sampled countries (Libya, Egypt and Algeria) with average GDP ranging between 24.2699881 and 26.11182516 US Million. With an average population of about 15.57027888 Million people, one can tell on the magnitude of the region's market which still needs to be exploited for trade according to our statistics. Libya ranked second (2<sup>nd</sup>) in the region according to available statistics with high trade potentials of +98.46 and 46.81 between 2008 and 2010 in potential markets like Algeria over Egypt (ranging between 1 and 2.41 in 2008 and decrease to even 0.95 in 2009).

Although these trade potential ratios look encouraging for most of the countries in the region, the undeniable damages and repercussions of the "Arab Spring" and other forms of terrorism hitting across these nations have had both direct and indirect consequences on trade within the region. A classic example explaining the absence of data in Libya recently after the ousting of Ex. Libyan President M. Gadhafi generated huge political instability to date with massive bombings and destruction in infrastructure (bridges, roads, hospitals, shops and administrative buildings). This may explain the reasons for absence in data from Libya from 2011 henceforth. The Islamic Republic of Egypt too suffered massive socio-economic damages that hindered regional trade, with the fall of the political regime of Ex. Egyptian President M. Morsi that lead to several socio-economic damages and the suspension of Egypt from the African Union in 2013. This situation now is gradually changing as seen statistically with current trade potential ratios as political stability and democracy is gradually being restored in the country. A clear statistical proof of how political instabilities impact trade negatively can be seen from the loss of market access scope of Egypt in 2012 with a clear demarcation in trade ratios between a +11.28 of trade potential in Algeria (politically stable) and +2.32 in Libya (politically unstable) currently under military threats.

### B) West Africa

According to available statistics and results, this appears to be one of the most integrated regions scoring the highest active value (2618896.40) of merchandise trade between countries of the same region. Results show the powerful influence of the ECOWAS trade protocols with a blend of both Anglophone and francophone countries. With the presence of a West African regional common passport, a single window ASERCUDAR customs facilitation system linking the region, the free movements merchandise accounts for the high amount of actual trade over predictive values between members (advanced level of regional trade integration).

Even though the language factor is not captured in predicting trade

Reporter/Partner Country	Potential Trade Value = $\mu$	Actual Trade Value = a	Potential Trade Ratio = $\Omega = \mu/a$	Year
Algeria/Egypt	370988.7567	429442.703	0.863884178	2007
	989846.5865	606899.353	1.630989688	2008
	646400.4427	472771.378	1.367257987	2009
	1247379.388	427042.425	2.920972987	2010
	2498622.924	650919.031	3.838607883	2011
	3098138.65	764869.490	4.050545473	2012
Algeria/Libya	795004.7851	10214.668	77.8297234	2007
	2246243.896	51792.604	43.36997414	2008
	657291.311	12242.162	53.69078689	2009
	1336272.396	30741.228	43.46841304	2010
	784378.7296	11377.183	68.94314081	2011
	2921759.916	6549.344	446.1148959	2012
Egypt/Algeria	356036.2554	59281.899	6.005817313	2007
	930184.5967	181226.171	5.132727749	2008
	1014736.213	380992.881	2.663399407	2009
	1919686.997	262370.378	7.316706299	2010
	3184280.264	386911.883	8.229988285	2011
	4422446.854	391944.682	11.28334445	2012
Egypt/Libya	402508.5041	247812.967	1.62424311	2007
	1089734.333	773583.130	1.4086842	2008
	913763.9707	1008281.019	0.906259221	2009
	1785053.383	1220405.905	1.462671867	2010
	712404.2063	556745.521	1.279586776	2011
	3351922.58	1439304.392	2.32884899	2012
Libya/Algeria	325896.6132	17116.877	19.03949028	2007
	951918.8803	10075.009	94.48317915	2008
	216483.5317	6843.088	31.63535698	2009
	452574.0561	9668.146	46.81084213	2010
	68174.2716	X	X	2011
	807573.1894	X	X	2012
Libya/Egypt	171930.0099	142373.421	1.207599064	2007
	491430.8437	203351.876	2.416652619	2008
	191712.0843	201744.787	0.950270325	2009
	392838.4652	304715.428	1.289197819	2010
	48585.93986	X	X	2011
	649037.1739	X	X	2012

X=absence of data

Authors' compilation with data (2007-2012) from WITS, COMTRADE

**Table 2:** North Africa's Regional Trade Potential (Amount in US Dollars).

values, based on results (Figure 2) English speaking countries like Nigeria and Ghana tend to trade more together (stable ratios ranging from 0.1 in 2007 progressively to 3.2 in 2012) over French speaking neighboring Cote d'Ivoire ( 0.0005 with Nigeria and 0.0225 with Ghana both in 2009). Cote d'Ivoire is might be facing challenges reaping more benefits both Nigerian and Ghana competitive markets with ratios showing all zero (exhausted markets). The country too had been victim of a short term political instability with the ousting of Ex. President Laurent Gbagbo's regime causing political instability in the region as a whole and causing zero trade potential ratios for Nigeria and Ghana between 2007 and 2011(Figure 2).

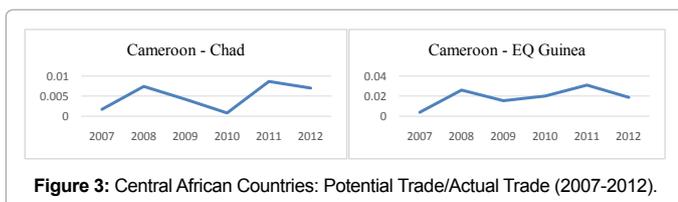
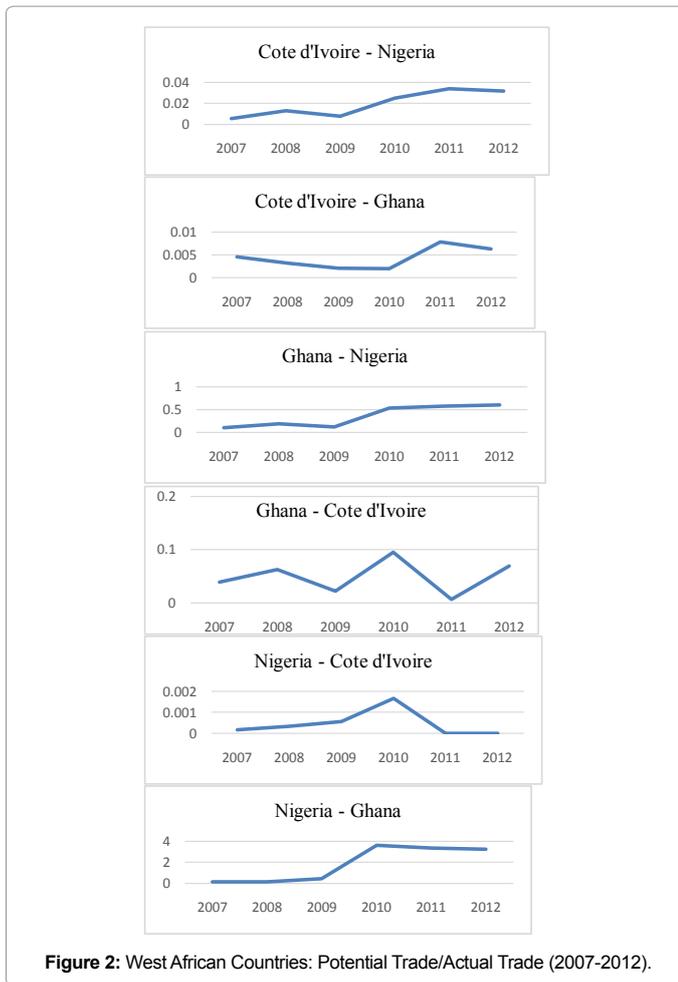
### C) Central Africa

Based on the challenges of unavailability of data in this region notably with countries Chad and Equatorial Guinea, projections were done only on Cameroon known to be the economic giant in Central Africa. The results in Figure 3 show a huge actual trade values between Cameroon and these nations. All of the trade potential

ratios on both countries were below one meaning absence of future market prospective. This might be as a result of the high dependency of Cameroon's ports as entry point for merchandise transiting to land-locked countries like Chad and Central African Republic. Chad has been in political instability over decades while Spanish speaking Equatorial Guinea tends to trade more outside the region.

### D) Southern Africa

This region too was recorded amongst the top three most active regions in terms of intra-regional trade (according to our statistics). Results show Malawi with the highest trade potential (+32.7) in 2008 into Angola's markets but this phenomenon was rather unstable the following year and 2010 where it recorded another high ratio of +2.7. Despite these encouraging figures for Malawi trade exporters, there is absolute need to increase their export volumes as a dramatic drop was noticed in trade values from 105.725 in 2009 to 21.163 in 2010 towards Angolan markets (Figure 4).



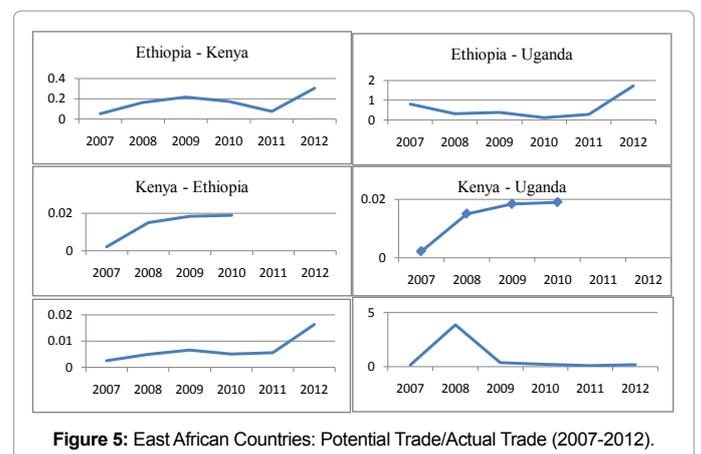
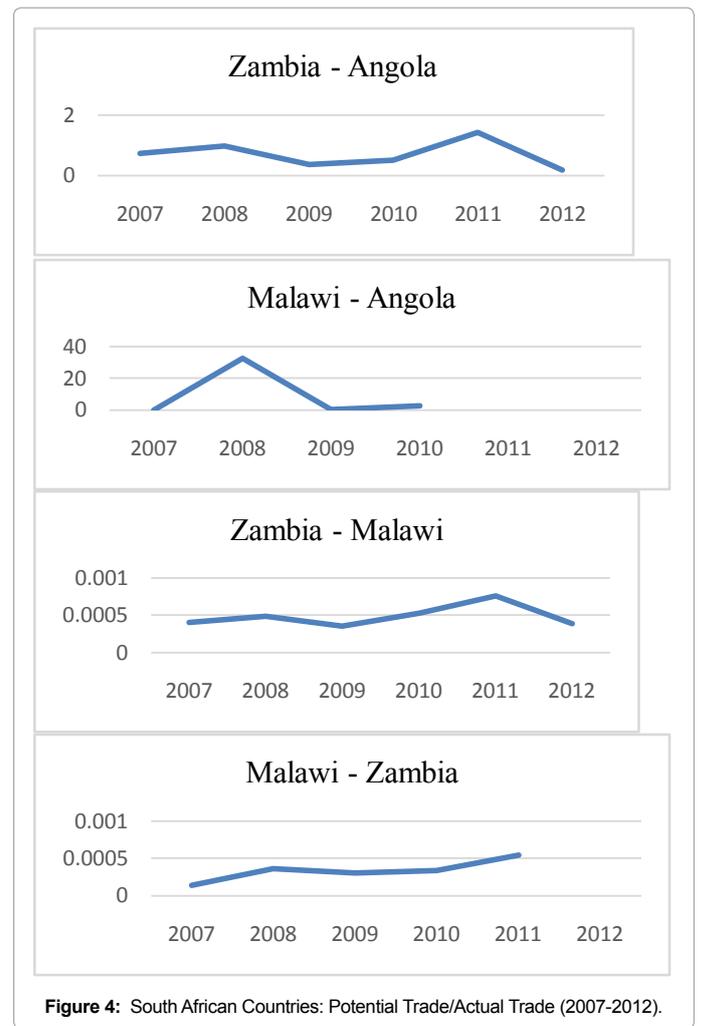
Angola seems to be the “milk cow” of the region but the problem of Portuguese seems to persist as a major block to its markets. Active trade at constant ratios was spotted between English speaking neighbors Zambia and Malawi as oppose to Portuguese speaking Angola. With the coming of the South-Eastern one stop boarder post into the region, the positive linkages between trade, languages and distance would be adjusted to boost more export values within the region.

Huge disappointment again with the availability of data from Angola who seem to be directing a lot of its exports outside the region (similar case with Equatorial Guinea in Central Africa) as this phenomenon may be explained by the language differences and attachments to colonial ties to the West as oppose to neighboring Southern African countries.

### E) Eastern Africa

Considering visible statistics from Figure 5 his region seems to

perform well in intra-regional trade. Most of the potential ratios are below zero with rising trends of actual exports between Kenya and Uganda, whom score the highest actual export volumes in 2012 from total exports with a remarkable progression from 498850.55 in 2007 to 657286.060 (highest in the region’s statistics in 2012). Both Ethiopia and Kenya champion the region in economic sizes and it is expected that signing of all three countries into the COMESA FTA, trade amongst



parties will progress tremendously. The Ethiopia market seems to have much potential especially with their current high rates of protectionism and tariffs. With the help of regional initiative or the CFTA at large, the country might gradually grant more tariff privileges to the region, Africa and the rest of the world. Both Uganda and Ethiopia are land locked explaining why they tend to import more merchandise from Kenyan deep sea ports notably Mombasa [25-33].

## Conclusions

With the realities of the spaghetti bowl effect resulting in fragmented and disorganized levels of compliance to regional trade protocols, the establishment of a CFTA might just be that right path the continent has been looking for in reconnaissance of its 2.8 billion people market potential by 2063 and in preparation for an *economic self-reliant and fully integrated Africa* as prescribed in pillars 2 and 6 of the Agenda 2063: "The Africa we want" AU Summit Declaration, as well as the 2015 January AU General Assembly Decision (Dec.555/XXIV) on the Report of the High Level African Trade Committee (HATC) on trade issues and fast-tracking the establishment of a CFTA by 2017.

Establishing a Pan-African and WTO compliant FTA might also be a good approach of sharing the relative empirically and statistically tested economic gains and losses unanimously across all AU negotiating parties in a free and fair platform for trade negotiations. The CFTA's holistic approach of speaking "with one voice" in addressing cross cutting issues on trade barriers and challenges across the continent will not only fall in line with the AU agenda of unifying and empowering its people economically, socially and democratically but, will also serve as a global interest in fostering the WTO's pillars of transparency, predictability and trade liberalization across borders.

For Africa as a whole, the results of this study portrays the positive trade potentialities of regional markets in Africa which should be complemented with political and technical attention by AU member states given their similarities/differences in colonial heritage, unemployment, variable geometry and weak infrastructures. The example of the ASEAN FTA (with same objective of attaining an economic and monetary community) was chosen to generate lessons that can be learnt for Africa's trade integration. The results of the out-of-sample comparative analysis in this study shows projectable positive gains that could be generated from the establishment of a CFTA in reducing/eliminating high tariff barriers on goods across Africa

However, the sad reality of an unequivocal distribution of these gains is expected within regions/countries with the realization of the CFTA, partly by their differences in economic mass, diversified export bases, dissimilar levels of infrastructures and trade protection, as well as their difference in levels of custom revenue losses, amongst others. Nevertheless, if the CFTA is complemented by trade facilitation measures, all African countries would actually benefit positively from the establishment of a CFTA, in terms of boosting their trade flows and real income levels. Moreover with this single continental FTA, Africa stands a better chance of amassing influence at negotiation/bargaining multilateral trade platforms.

With the current challenges of concluding the WTO Doha Development Agenda (DDA), the realization of a CFTA should provide a higher incentive for African member states and RECs in uniting themselves together to speak with one voice. A notable example where embracing a common strategy/approach for AU member states on the Economic Partnership Agreements (EPAs) negotiations with the EU, the African Growth Opportunity Act (AGOA) with the US and

WTO Bali package, was adopted at the 2013 AU Conference of Africa Ministers of Trade (CAMoT).

According to AU/UNECA ARIA publications of 2007, the ills of trade reciprocity under the EPA scheme are detrimental to intra-African and regional trade for most less industrious and fragile African economies. With the acceptance of African countries to extend these tariffs preferences (Duty Free, Quota Free) under the EPAs to their neighboring countries or regions, the multiplier effect of these deals may be disadvantageous to fragile Africa domestic and uncompetitive industries. The infant industry argument, alongside putting into jeopardy intra-regional trade and Africa's integration (at long and medium terms) has to be taken into serious consideration when signing bilateral and multilateral trade agreements.

Most importantly, the CFTA could be a more resourceful approach in attempting to resolve overlapping and multiple memberships of member states and RECs. These conflicts of interests and overlapping commitments (spaghetti bowl) within RECs weaken Africa's progress towards establishing an AEC because of the challenges of coordinating and simultaneously implementing diverse programs and activities (UNECA, 2006). The welfare implications of a CFTA as projected by US economist Paul Krugman could lead to deeper integration and enhanced trade amongst "neighboring countries" as compared to distant countries. The CFTA has the momentum of catalyzing Africa's plans of operating a Continental Customs Union by 2019, a Continental Common Market by 2023 and a Continental Economic and Monetary Union by 2028 respectively as endorsed in the 1994 Abuja Treaty and most importantly, Africa's projected 2.8 billion populated market has the potential of accompanying the continent towards realizing its 7 pillars/aspirations as prescribed in the AU Agenda 2063: "The Africa we want" 24<sup>th</sup> AU General Assembly Declaration in Addis Ababa, January 2015.

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