

The Emergence of African Continental Free Trade Area Agreement and Lessons from the Asia-Pacific Trade Agreement

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I. Introduction

Africa's regional integration agenda arrived at a cross roads in 2019, with the adoption of the African Continental Free Trade Area (AfCFTA) agreement. The AfCFTA framework came into force on 30th May, 2019, with its ratification by The Gambia, which brought the total number of African Union (AU) member state ratifications to twenty-two, the minimum threshold for AfCFTA implementation (Baker McKenzie 2019). As of May; 2022, forty-three of the 55 African countries have ratified the AfCFTA agreement (African Union 2018). The 12th Extraordinary Session of the Assembly of the African Union in Niamey on 7th July; 2019, witnessed the launching of AfCFTA's operational phase, which is governed by five instruments, namely: the rules of origin, the online negotiating forum, the monitoring and elimination of non-tariff barriers; a digital payment system and the African Trade

Observatory. In addition, the beginning of trade under the terms of the agreement was set for July 1, 2020 (TRALAC 2020).

A free trade agreement (FTA) can be aptly described as a pact between two or more countries on areas in which they agree to lift most or all tariffs, and other barriers to imports and exports among them (Barone 2019). Under a free trade framework, goods and services can be traded across international borders, with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange.

The theory of free trade Agreements is rooted in classical economics, dating back to the era of Adam Smith. During this period, David Ricardo (1772-1823), a British political economist, was acknowledged with pioneering thoughts on free trade as a key instrument for

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wealth accumulation. The evolution of preferential trade agreements is traceable to the rise of European countries after World War II, with the establishment of the European Coal and Steel Community in 1951, a development that eventually culminated in the creation of the European Union (EU) (Johnston 2019). Spurred by the success of regional bodies with free trade agreements and Africa's poor trading performance; estimated at a paltry 3% of annual global trade, the African Union embarked upon the creation of the AfCFTA agreement as a tool for Intra-Africa trade and regional integration.

II. The Emergence of the African Continental Trade Area (AfCFTA) Agreement

The AfCFTA agreement brings together all 55 African countries, with a combined GDP of more than US\$3.4 trillion and a market of more than 1.2 billion consumers. The objectives of AfCFTA are to (Cazares 2018): establish a single continental market for goods and services, accompanied by free movement of business professionals and investments, while accelerating the establishment of the continental customs union; expand intra-Africa trade through harmonization and coordination of trade liberalization and facilitation across the Regional Economic Commissions (RECs) and throughout Africa; resolve the challenges associated with multiple and overlapping membership in RECs, while expediting the integration process; and enhance competitiveness at

the industry and enterprise levels by embracing opportunities for scale production, continental market access and optimal reallocation of resources.

The agreement went into effect in May 2019, following its ratification by 22 countries, the threshold required to trigger enforcement of the agreement. In a report by the United Nations Conference on Trade and Development (2018), the AfCFTA framework was constructed along the principles of substantial liberalization, flexibility and building on current accomplishment. Also, a dedicated institutional framework on the Free Trade Area, including a secretariat, will be established to manage and administer it. The report posits that the single market in goods would be created over a transition period of five years by 21 non-least developed countries. In addition, about 90% of tariff lines would be subjected to progressive tariff cuts. The remaining 10% of tariff lines would comprise (i) sensitive products, which are subject to liberalization over 10 years by the non-least developed countries and 13 years by the least developed countries (LDCs); and (ii) products excluded from liberalization could be reviewed after five years through negotiations. Challenges associated with AfCFTA arise from the need to balance the diversified interests of African economies, ranging from low- to middle-income, and which are at various stages of development.

III. The Establishment of the Asia-Pacific Trade Agreement

The Asia-Pacific Trade Agreement (APTA) is a regional preferential trade agreement (PTA) established in 1975, aimed at promoting economic development of participating member states through the adoption of mutually beneficial trade liberalization strategies that support regional trade and economic cooperation (UNESCAP 2022). Formerly known as the Bangkok Agreement, APTA has evolved over time, refocusing from the initial negotiation of tariff concessions to merchandise trade to the current negotiating liberalization in investment, services trade, as well as trade facilitation, and the modernization of its Rules of Origin (RoO) for trade in goods. The APTA framework was initially endorsed between India, Bangladesh, Republic of Korea,

Lao Peoples Democratic Republic and Sri Lanka. It is acknowledged as the oldest trade agreement in the Asia-Pacific region and remains the first preferential trade agreement (PTA) between developing countries, many of which have transitioned into emerging market economies. Currently, APTA membership comprises seven countries: India, Lao People's Democratic Republic, Bangladesh, Sri Lanka, Republic of Korea, The People's Republic of China and Mongolia. While China became a member in 2001, Mongolia acceded to APTA in 2020 (Dhyani 2022). The major objectives of APTA are to (APTA 2020): promote economic development through trade expansion among member countries, and embrace international economic cooperation through trade liberalization measures contributed with their respective present and future development absorption.

Table 1. Major APTA Milestones, 1975-2020

Date	Events
July; 1975	Bangkok Agreement signed
June; 1976	Implementation of the 1 st round of negotiation results
May; 1990	Implementation of the 2 nd round of negotiation results
April; 2001	China officially joined the Agreement
November; 2005	1 st Ministerial Council held in Beijing, China
September; 2006	Implementation of the 3 rd round of negotiation results
October; 2007	2 nd Ministerial Council held in Goa, India
December; 2009	3 rd Ministerial Council held in Seoul, Republic of Korea
January; 2017	4 th Ministerial Council held in Bangkok, Thailand
March; 2018	Establishment of Working Group on Investment, Services and Trade Facilitation
July; 2018	Implementation of the 4 th round of negotiation results
September; 2020	Mongolia officially joined the Agreement

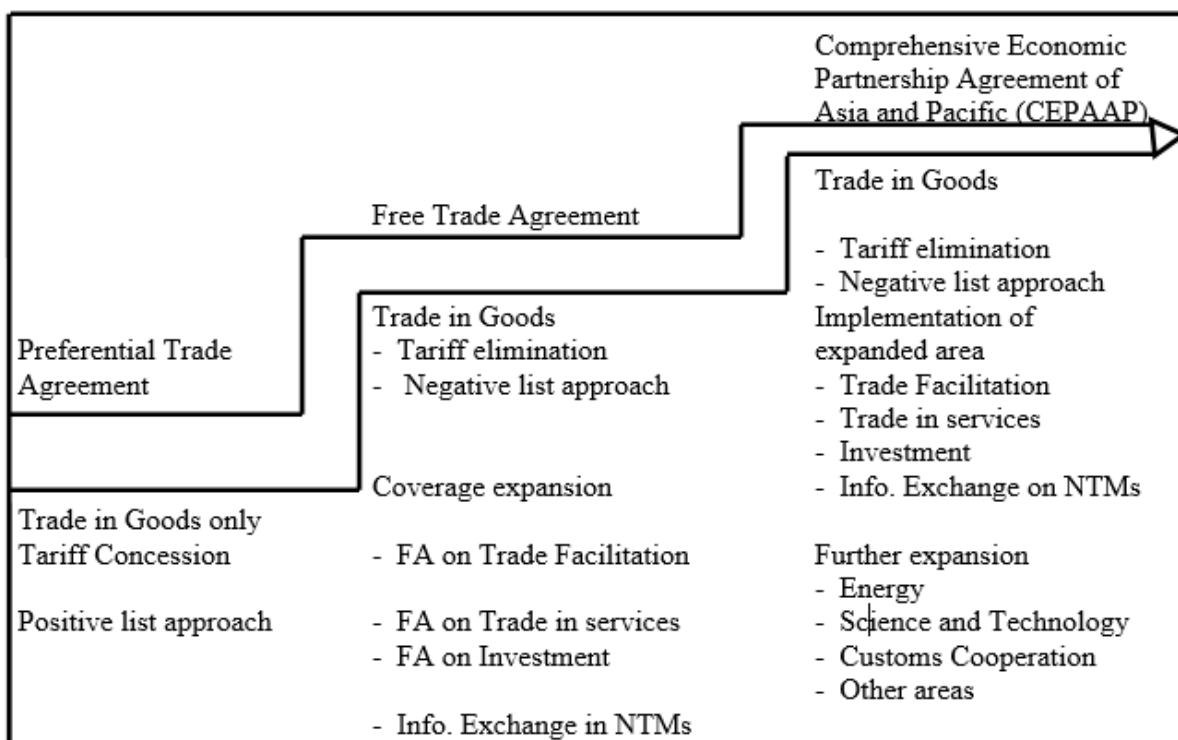
Source: Adapted from UNESCAP, 2020.

The APTA framework has undergone considerable transformation since its establishment in 1975. Its major milestones are illustrated in Table 1, revealing key developments on the framework from 1975 to 2020.

The future roadmap of APTA is revealed in Figure 1, featuring the roadmap of APTA, and the gradual transformation from preferential

trade agreement through a free trade framework and culminating into a Comprehensive Partnership Agreement of the Asia and Pacific (CEPAAP). The initiative has become a successful preferential trade agreement and a model of South-South regional cooperation open to membership of the region’s least developed countries (LDCs).

Figure 1. Future Roadmap of APTA



Source: UNESCAP, 2020

IV. Benefits of APTA Membership

Ratna and Huang (2016) acknowledged that APTA was the only operational trade agreement linking China, India and the Republic of Korea, which provided the momentum for intra-regional trade among participating countries. United Nations Economic and Social

Commission for Asia and the Pacific (UNESCAP) (2018) reveals that the region increased its share of global merchandise trade to double-digit growth in 2017 and remained the preferred destination and source of foreign direct investment. While the region increased its share of global merchandise trade to 38.5%, it accounted for 39.8% of global merchandise

exports and 36.5% of imports, driven by the region's double-digit trade growth rates, estimated at 11.5% and 15% for exports and imports in 2017, respectively. The key to the success of APTA members is anchored in trade liberalization policies, driven by export-oriented industrialization.

V. The Asia-Pacific Trade Agreement and Lessons for Africa

The lessons are focused on three main issues: (i) Robust implementation of the agreement, particularly on concessions to the LDC-members on the Rules of Origin for tradable goods. Thirty-three of 55 African countries are listed as LDCs, requiring more protection during the transitional period of AfCFTA; (ii) Diversity of membership, comprising large and small economies, as well as emerging and developing economies of participating countries. This demands delicate balancing of policies to accommodate all challenges associated with the framework; and (iii) Transformation of Tradable Goods, with creation of value chains for manufactures. African economies are driven largely by a narrow band of primary commodities, vulnerable to incessant price uncertainty and negative terms of trade. Sustainable industrialization is key to adding value to Africa's abundant natural resources that can transform livelihoods in the region. The lessons present

an opportunity for African countries to leverage trade liberalization policies, with the potential to increase revenue for their natural resources in the global markets. This holds the potential to increase intra-Africa trade flows.

VI. Conclusion

The Asia-Pacific Trade Agreement was established in 1975, as a preferential trade area, bringing together Bangladesh, India, Lao PDR, Sri Lanka, and Republic of Korea. China joined the framework in 2001 and Mongolia acceded it in 2020, translating to a combined population of more than 2.9 billion people. The initiative was the first South-South free trade agreement, bringing together a diversity of members, comprising a developed market economy (South Korea), emerging market economies (China and India) and least developed economies (Bangladesh, Lao PDR, Sri Lanka and Mongolia), reflecting a combination of large and small economies, as well as developed and developing economies. The imperatives for a robust free trade agreement spurred African policy makers to establish the African Continental Free Trade Area agreement in 2018. The development is particularly critical for the region, given its poor record in international trade, estimated at a paltry 3% per annum. The APTA framework presents lessons for African policy makers to leverage trade liberalization principles, which lay at the heart of APTA, to drive Intra-African trade. **KIEP**

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