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Harnessing Intra-COMESA Trade through the Interface with African Continental Free Trade Area (AfCFTA).

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Estimating the Economic Effect of the African Continental Free Trade Area in COMESA

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The African continent has reported marked growth in total trade over time. However, intra-Africa trade has grown at a slow pace, behind other regions. Intra-African exports constitutes 18 percent of the continent's total exports, compared to 59 and 69 percent for intra-Asia and intra-Europe exports respectively. The onset of the COVID-19 pandemic has hit African economies hard, especially countries which heavily relied on trade with countries outside Africa. The fundamental changes in global trade arising from the pandemic have hindered the role of extra-African trade as the engine for African growth, hence rekindling the debate on the need for expanding intra-African trade.

International trade agreements such as the African Growth and Opportunity Act (AGOA), the Economic Partnership Agreement (EPA), among others, have positively contributed to the continent's total trade. However, Africa is still the world's least connected continent in terms of trade and mobility of factors of production. Towards that end, African countries have put in place a framework to promote intra-African trade by implementation of the African Continental Free Trade Area (AfCFTA). Implementation of the AfCFTA brings enormous opportunities, and some challenges for Africa. Empirical studies on trade liberalization generally indicate that the long-run gains outweigh the short-run adjustment costs.

The potential benefits of the AfCFTA implementation include; creation of a bigger and integrated market for African products, enabling producers to enjoy economies of scale, participation in the regional and global value chains and consumers to access a wide variety of cheaper and quality products from other African countries. Further, implementation of the AfCFTA will catalyze structural transformation of African countries from resource and low technology-based economies to more diversified knowledge-based economies. This will lead to better allocation of resources and enhanced trade and economic growth.

COMESA was initially established as a Preferential Trade Area (PTA) for Eastern and Southern Africa in 1981 and transformed to the Common Market for Eastern and Southern Africa in 1994. Currently, it has a membership of 21 countries namely: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Eswatini, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tunisia, Uganda, Zambia and Zimbabwe.

Subsequently, the COMESA Free Trade Area (FTA) was established on 31 October 2000 after a sixteen-year period of progressive trade liberalization through reduction of intra-COMESA tariffs. This has led to the growth of intra-COMESA exports from US$ 1.5 billion in 2000 to US$ 10.9 billion in 2019. However, intra-COMESA trade remains low at 7 percent. Similarly, COMESA's trade with the rest of Africa stands at 9.3 percent of the total COMESA trade.

As the largest regional economic community (REC) on the continent, COMESA is expected to be affected by AfCFTA implementation. Questions abound on the magnitude of the benefits and costs from implementation of the AfCFTA, and how the region could position itself strategically to maximize its benefits while minimizing any associated costs. As such, there is need to empirically establish the economic effect of AfCFTA implementation in COMESA.

This study was therefore undertaken to establish the effect of AfCFTA implementation in COMESA. It employed the Computable General Equilibrium (CGE) model and Global Trade Analysis Project (GTAP) data base to simulate the effect of elimination of import tariff by the rest of Africa on imports from COMESA and vice-versa.

From the study findings, the AfCFTA is a vital step towards integrating African economies and boosting intra-African trade. Its agenda is not only ambitious but far-reaching as it intends to hasten Africa's industrialisation and exploit the enormous opportunities in the various sectors through removal of existing tariff and non-tariff barriers to trade, among others. This is expected to improve development prospects for COMESA and allow firms within the region to tap into the fast-growing markets throughout the continent. The AfCFTA can therefore be seen as a timely opportunity for COMESA Member States, and indeed African countries in the wake of globalization.

The study established that removal of import tariffs led to an increase in COMESA exports and imports, and a fall in import prices within the region and the AfCFTA at large. Tariff removal also led to an overall welfare gain among the African countries. Additionally, implementation of the AfCFTA would lead to a marginal fall in COMESA's Gross Domestic Product, which could be attributed to the increase in the region's imports.

The study recommended that COMESA Member States eliminate tariffs on trade with the rest of Africa to boost the region's total trade as well as intra-African trade: undertake measures towards greater reliance on non-tariff revenue to mitigate against the revenue loss; sensitize producers to diversify and expand their production capacities in readiness for the expanded AfCFTA market opportunities; sensitize consumers on the benefits of lower prices and accessibility of a wide range of products associated with the AfCFTA implementation; and undertake further research on the potential impact of AfCFTA implementation using a dynamic CGE model to account for trade in inputs that are used to produce final goods and disaggregation of the trade flows into more product categories.

Effects of the African Continental Free Trade Area on Intra-COMESA Trade

Shingirirai Mashura

Continental integration has long been viewed by policy-makers in Africa as the ideal mechanism for improving intra-Africa trade, promoting economic growth, reducing poverty and integrating Africa into the global economy. Currently, there are eight Regional Economic Communities (RECs) recognized by the African Union Commission (AUC), which have been established over the years, but the African Continental Free Trade Area (AfCFTA) seems to enlarge the market through a consolidated Free Trade Area (FTA).

The Agreement establishing the AfCFTA entered into force on 30 May 2019. As of December 2019, 54 of the 55 African Union states had signed the agreement, except Eritrea. Thirty-one Member States had ratified the agreement, of which 28 had deposited their instruments of ratification. Among the 28, nine were COMESA Member States: Djibouti; Egypt; Eswatini; Ethiopia; Kenya; Mauritius; Rwanda; Uganda; and Zimbabwe.

The agreement is being negotiated in two phases. Phase 1 covers trade in goods and services and dispute settlement. Tariff concessions, rules of origin and scheduled of specific commitment on trade in services are still being negotiated. Phase 2 focuses on cooperation on investment, competition and intellectual property rights.

The AfCFTA negotiations and implementation are underpinned by the principle of variable geometry. The LDCs have 10 years to achieve 90 percent liberalisation, while non-LDCs have five years. The remaining 10 percent of tariff lines is divided into two categories. Seven percent is designated as sensitive products and three percent excluded from liberalization, but this should not account for more than 10 percent of the total trade. The non-LDCs have to phase down their 90 percent tariff liberalization for full implementation within five years, the LDCs within 10 years and a specific group of countries, the G6 countries (Ethiopia, Madagascar, Malawi, Sudan, Zambia, Zimbabwe) within 13 years. The non-LDCs have 10 years to phase down the sensitive products, while LDCs and G6 have 13 years.

The main objectives of the AfCFTA are to create a single continental market for goods and services, with free movement of businesspersons and investments, and thus pave the way for accelerating the establishment of the Customs Union

(CU). It will also expand intra-Africa trade through better harmonization and coordination of trade liberalisation, and facilitation instruments in the RECs and the continent in general. The AfCFTA is also expected to enhance industrial competitiveness through exploitation of opportunities associated with economies of scale, continental market access and better reallocation of resources. The establishment of the AfCFTA and the implementation of the action plan on Boosting Intra-African Trade (BIAT) provide a comprehensive framework to pursue a developmental regionalism strategy. However, some of the anticipated AfCFTA implementation challenges include; poor road and rail links, political unrest, and excessive border bureaucracy.

Existing literature shows that Africa will have an aggregate business and consumer spending of US$6.7 trillion by 2030, providing biggest opportunities for the world's international investors. In addition, the AfCFTA is projected to boost intra-African trade by 52.3 percent by 2022. Although these predictions raise hopes for many nations in Africa, the overarching question is how the free trade area will affect trade, welfare and revenue in the respective countries. The tariff policy adjustments have significant effects on trade and welfare of both producers and consumers. Trade is key for economic growth and customs duties contribute significant share of government revenue in African countries. Since intra-Africa trade is concentrated within the RECs, it is important to analyse the intra-REC trade, revenue and welfare effects of the AfCFTA.

Using the World Integrated Trade Solution - Software for Market analysis and Restrictions on Trade (WITS-SMART), the trade, revenue and welfare effects of the AfCFTA on COMESA has been established.

Implementation of the AfCFTA would create new trade worth US$520.9 million in COMESA, with DR Congo, Zambia, Ethiopia and Tunisia being the main beneficiaries while a further US$139.7 million would be diverted leading to a net trade effect of US$660.7 million. This would constitute 37.8 percent of the total intra-Africa net trade effect of US$1.75 billion. In addition, COMESA would lose tariff revenue worth US$319.4 million, with DR Congo (US$100.3 million), Zambia (US$71.3 million) and Kenya (US$48.9 million) being the most affected. However, its Member States could mitigate against the losses by broadening their tax bases especially in countries that suffer higher revenue losses. In addition, domestic taxes could compensate for the lost tariff revenue through the trade gains.

Member States could maximize the trade creation benefits associated with the AfCFTA by establishing and strengthening existing regional value chains within COMESA. This will enhance production and supply to the enlarged AfCFTA market and integration into the global value chains. Further, they could broaden their tax bases to mitigate against tariff revenue losses by expanding their production capacities. Finally, they could establish trade distribution hubs to maximise the enhanced AfCFTA trade opportunities with COMESA and non-COMESA African countries.

Antecedents to the AfCFTA: Lessons from Kenya's Export Survival under COMESA

Socrates Majune, Kemal Türkcan and Eliud Moyi

Policy discourse on intra-African trade is currently dominated by discussions on the potential benefits of the African Continental Free Trade Area (AfCFTA). The AfCFTA is projected to be the largest free trade agreement in the world upon its full implementation. One of its anticipated benefits is the expansion of markets for goods and services for 55 members of the African Union. This entails improving market access of member countries by reducing barriers to market entry and trade. However, this does not guarantee survival of exports.

Trading under the AfCFTA started on 1 January 2021 with implementation of the first phase of negotiations. There are ongoing negotiations on trade in goods and services with a focus on rules of origin, tariff concessions and schedules of specific commitments on trade in services. Phase 2 negotiations on competition policies, investment and intellectual property rights protocols are expected to be completed by December 2021.

African and developing countries in general have a reputation of creating new trade relationships faster than developed countries but their firms have a lower survival rate in the new markets. This affects the long-term growth of their exports as existing trade relationships remain shallow.

The study drew lessons for the AfCFTA from Kenya's export survival under COMESA and other Economic Integration Agreements (EIAs) in Africa. This is justified by Kenya being one of the top exporters in Africa having had long episodes of low export growth in recent years despite pursuing several trade agreements.

Export survival is also explained by the Search and Matching theory where a trade relationship between a seller and a buyer undergoes different stages. The first stage entails searching and matching of buyers and sellers since they are in different countries. Once a buyer has identified a seller, the seller starts exporting their product in small quantities. The reliability of the seller determines whether the trade relationship will deepen or halt. A halt will mean that the trade relationship ceases and the buyer reverts to re-matching with another buyer. A trade relationship is deemed brief if the buyer and seller abandon the relationship soon. From this theory, the duration of a trade relationship is determined by the search cost, level of asymmetry in information and size of export volume at the start of a relationship.

Exports survival can also be explained by the product switching links to demand in foreign markets. Products that receive negative demand in the foreign market are switched. Those that receive positive demand continue to be traded. Therefore, deserting or adding a product is determined by characteristics of the firm, destination and product. Duration is accounted for by the possibility of introduction and product turn-over in a foreign market.

From the existing literature various studies have been undertaken on firms export survival using annual data but none have been done using firm specific monthly data in the COMESA. The study estimated a statistical model (Probit Model) to establish the relationship between firms export survival and membership to an economic integration arrengement including COMESA. It used monthly firm-product-destination customs transaction data for Kenya's Exports to 52 African and 20 COMESA countries, over the period January 2006 to December 2017.

The study found that exporting under a trade arrangement enhanced export survival as opposed to trading with a country that Kenya had no trade arrangement. About 70 percent of exports from Kenya survived beyond the first month of trading in COMESA. Half of the exporting firms survived to the 12th month and less than 10 percent of them beyond the 108th month.

The trade arrangements, export-survival-enhancement-effects implies that the AfCFTA is likely to improve survival of exports besides diversifying the market. Progressive discussions on key policy issues in COMESA have deepened its trade arrangement, hence enhancing its capacity to improve export survival.

The study recommends that:

a) Countries to complete the pending policy issues (state aid, public procurement, environmental laws and labour market regulations) both at the AfCFTA and at COMESA, to maximise on the firms'export survival;

b) Countries to improve trade facilitation policies and programmes at both AfCFTA and COMESA since the high cost of importing, as well as distance, reduce export survival;

c) Firms to gather information on markets before entry and during operations and network with existing firms to improve their chances of survival;

d) Firms should also improve their productivity to enhance their product and market diversity through participation in regional and global production value chains.

The Comparative Growth-Enhancing Effects of the African Continental Free Trade Area and COMESA Trade Regimes

Laston P Manja and Exley B D Silumbu

Regional Trade Agreements (RTAs) have been pursued alongside other trade liberalization initiatives as a probable solution to economic growth and development. As an RTA, COMESA has experienced improved economic integration with membership from the recognized AUC-Regional Economic Communities (RECs), except Economic Community of West African States (ECOWAS).

The Agreement establishing the African Continental Free Trade Area (AfCFTA) entered into force on 30 May 2019 and trading commenced on 1 January 2021. Its tariff liberalization ambition is 90 percent, slightly less than that of COMESA, at 100 percent.

In terms of trade flows, intra-COMESA exports grew from US$ 1.5 billion in 2000 to US$ 10.9 billion in 2019, though up to 93 percent average of annual trade was with non-COMESA Member States. The intra-Africa trade stood at 15 percent as of 2019, implying that 85 percent was with non-African countries. The AfCFTA is, therefore, expected to increase intra-REC and intra-Africa trade by opening more markets in the continent through infrastructure connectivity improvement; creating a larger market; and enhancing competitiveness, value addition and productivity.

Intra-COMESA trade increased from 5.6 to 12.2 percent between 1995 and 2015. The increased foreign trade was expected to increase intra-industrial specialization and competition as well as create opportunities for technological transfer. However, economic performance in the region remains unsustainable. Given that there is scarce empirical literature on the effects of intra-Africa and intra-regional trade on economic growth, it is important to analyse and compare the growth-enhancing effects of COMESA and the AfCFTA trade regimes.

The comparison of the growth-enhancing aspect of the two trade regimes contributes to the achievement of some of the AfCFTA objectives and principles such as the operationalization of the goals of Agenda 2063, especially the eradication of poverty. It motivates the importance of existing RTAs and reorients implementation of its existing agreements. In addition, it lays a foundation for monitoring and evaluation of future continental trade integration efforts.

Economic growth in COMESA and Sub-Saharan Africa (SSA) ranged between 2 - 4 percent between 1994 and 2000. COMESA's GDP growth averaged about 4.3 percent between 2000 and 2010 while SSA grew by about 1.1 percent. The average GDP growth of 4.7 percent between 2010 and 2019 in COMESA was 1.2 percent higher than that of SSA, possibly due to the increased membership of COMESA FTA.

These growth rates are inadequate to eradicate poverty or achieve the Sustainable Development Goals (SDGs) in the region by 2030. There are minimal structural changes in terms of Gross Domestic Product (GDP) composition with the share of extractives and agriculture remaining higher than that of manufacturing. In Africa economic growth declined from 7.5 to 3.4 percent from 2017 to 2019. The outbreak of COVID-19 pandemic in 2020 shocked economic growth, with Africa's GDP expected to grow at negative 1.1 to negative 0.8 percent in 2020.

The analysis and comparison established the existence of mixed growth-enhancing effects of the AfCFTA and COMESA trade regimes. While intra-Africa trade was growth-enhancing in the pooled model, intra -COMESA trade did not. In the fixed effects model, both regimes enhanced economic growth.

The Dynamic Model revealed that intra-COMESA trade was growth-enhancing (with or without other RECs), while intra-Africa trade was not. The most important drivers of economic growth in Africa are intra-Africa trade, growth in capital stock and financial development. Investment has a long-term effect on economic growth in Africa. The labour force enhances economic growth given that labour is a factor of production but has a negative effect due to high unemployment rates and low job opportunities in Africa.

From the foregoing, it is recommended for COMESA to enhance trade promotion initiatives and deepen its integration to increase its contribution to regional and continental economic growth; intensify supply-side measures to improve its productive capacities, to maximize the regional integration economic growth enhancing opportunities; and fast-track negotiations on trade in services and relax regulations on movement of capital and labour to maximize the gains from regional integration.

The Implications of the African Continental Free Trade Area on Intra-COMESA Trade

Stein Masunda

The effect of regional trade agreements on economic performance of countries is inconclusive, yet the number of such agreements is growing globally. On 30 May 2019, the African Continental Free Trade Area (AfCFTA) entered into force, bringing the number of regional trade agreements recognized by the African Union to nine. The AfCFTA is envisaged to be the largest free trade area in terms of membership since the birth of the World Trade Organization (WTO). Once fully operational, the AfCFTA will comprise of 55 Member States, 1.2 billion people and GDP of over US$ 3.4 trillion.

The AfCFTA Member States belong to one or more of the eight pre-existing regional economic communities (RECs) recognized by the African Union. These are the Arab Maghreb Union (UMA), Common Market for Eastern and Southern Africa (COMESA), Community of Sahel-Saharan States (CEN-SAD), East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development (IGAD), Southern Africa Development Community (SADC). The AfCFTA is expected to increase intra-Africa trade from 10.2 percent in 2010 to approximately 52 percent in 2022 through a 90 percent reduction in tariffs on merchandise trade. In 2018, intra-Africa exports stood at 15.86 percent which was low compared to North America (30.16 percent), Asia (59.98 percent) and Europe (68.71 percent).

Trade performance in COMESA over the period 1995 - 2018 averaged 5.7 percent, which was low compared to SADC (19 percent), ECOWAS (11 percent) and EAC (9 percent). As of 2018, COMESA had a higher membership (21 countries), population of 557 million and US$ 750 billion in gross domestic product. In addition, COMESA exports and imports with the rest of Africa averaged 40.8 and 59.47 percent respectively.

The AfCFTA has seven protocols: trade in goods; trade in services; intellectual property rights; competition policy; dispute settlement mechanism; investment; and e-commerce. The overarching objectives of the trade in goods protocol are progressive elimination of tariffs and non-tariff barriers, enhancing the efficiency of customs, trade facilitation and transit, cooperation on technical barriers to trade and sanitary and phytosanitary measures, development and promotion of regional and continental value chains, socio-economic development, diversification and industrialization across Africa.

The trade in goods protocol was negotiated in phase one and Member States agreed to liberalize 90 percent of all trade. However, the period for liberalizing the 90 percent of trade depends on the classification of the countries and the nature of the products. Developing countries are expected to fully liberalize over the period of five years, least developed countries over 10 years while the group of six (Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe) are expected to fully liberalize over a 15-year period. The AfCFTA Member States agreed that developing countries should liberalize in 10 years, while least developed and the group of six in 13 years in the case of sensitive products. Member States agreed that excluded products should not constitute more than 10 percent of the country's total trade.

The emergence of free trade agreements such as the AfCFTA is not a random phenomenon but rather, part of the 21st Century regionalism evolution. Such agreements are deeper than the standard regional agreements that focus on trade liberalization and narrowly on merchandise trade. These agreements are connected to the 21st Century trade that is composed of trade in goods, services and freer cross-border movement of persons.

The structured Gravity Model on a panel data of 35 reporting and 48 partners countries over the period 2000 - 2018 was used to examine the potential effects of the African Continental Free Trade Area (AfCFTA) on intra-COMESA trade.

The AfCFTA was found to have potential trade creation effect (increase in intra-COMESA exports) and trade diversion effect (decrease in imports from non-COMESA countries). Country Gross Domestic Product GDP), trade cost (proxied by distance), language, shared border and regional trade agreements are important determining factors for intra-COMESA trade. Increasing GDP for both the exporting and importing countries increase trade between them. An increase in trade costs (distance) between trading countries was found to reduce bilateral trade flows. Countries sharing a border and using a common language trade more compared to those that do not.

COMESA's implementation of the AfCFTA will therefore lead to its exports trade creation and imports trade diversion. The net effect is trade creation, implying that the AfCFTA has the potential of boosting intra-COMESA trade. In this regard, COMESA can consider aligning its trade policies with the AfCFTA to maximize the AfCFTA benefits; sensitize producers to maximize on the benefits and opportunities of the AfCFTA implementation; and build capacity of producers to enhance production efficiency to mitigate against the loss of trade to non-COMESA Member States.

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