

A SHOT AT ECONOMIC LOGIC**Context:**

- ✚ India needs to prepare for the promising impact of the African Continental Free Trade Area.

Why is in News?

- ✚ The 12th Extra-Ordinary Summit of the African Union (AU) which concluded on July 8 at Niamey, the capital of the Niger Republic, saw 54 of 55 of its member states signing the African Continental Free Trade Agreement (AfCFTA) for goods and services.

African Union (AU):

- ✚ The African Union (AU) is a continental body consisting of the 55 member states that make up the countries of the African Continent.
- ✚ It was officially launched in 2002 as a successor to the Organisation of African Unity.
- ✚ In May 1963, 32 Heads of independent African States met in Addis Ababa Ethiopia to sign the Charter creating Africa's first post-independence continental institution, The Organisation of African Unity (OAU).
- ✚ The OAU was the manifestation of the pan-African vision for an Africa that was united, free and in control of its own destiny and this was solemnised in the OAU Charter in which the founding fathers recognised that freedom, equality, justice and dignity were essential objectives for the achievement of the legitimate aspirations of the African peoples and that there was a need to promote understanding among Africa's peoples and foster cooperation among African states in response to the aspirations of Africans for brother-hood and solidarity, in a larger unity transcending ethnic and national differences.
- ✚ The guiding philosophy was that of Pan-Africanism which centred on African socialism and promoted African unity, the communal characteristic and practices of African communities, and a drive to embrace Africa's culture and common heritage.

The main objectives of the OAU were:

- ✚ To rid the continent of the remaining vestiges of colonisation and apartheid;
- ✚ To promote unity and solidarity amongst African States;
- ✚ To coordinate and intensify cooperation for development;
- ✚ To safeguard the sovereignty and territorial integrity of Member States and to promote international cooperation.

The Cast of the African Union:

- ✚ The African Union (AU) was officially launched in July 2002 in Durban, South Africa, following a decision in September 1999 by its predecessor, the OAU to create a new continental organisation to build on its work.
- ✚ The decision to re-launch Africa's pan-African organisation was the outcome of a consensus by African leaders that in order to realise Africa's potential, there was a need to refocus attention from the fight for decolonisation and ridding the continent of apartheid, which had been the focus of the OAU, towards increased cooperation and integration of African states to drive Africa's growth and economic development.
- ✚ The AU is guided by its vision of "An Integrated, Prosperous and Peaceful Africa, driven by its own citizens and representing a dynamic force in the Global Arena."

The African Continental Free Trade Agreement (AfCFTA):

- ✚ AfCFTA was signed by 44 African countries in Kigali, Rwanda, in March 2018, and is meant to create a tariff-free continent that can grow local businesses, boost intra-African trade, rev up industrialization and create jobs.
- ✚ The agreement creates a single continental market for goods and services as well as a customs union with free movement of capital and business travellers.
- ✚ Countries joining AfCFTA must commit to removing tariffs on at least 90% of the goods they produce.
- ✚ If all 55 African countries join a free trade area, it will be the world's largest by number of countries, covering more than 1.2 billion people and a combined GDP of \$2.5 trillion, according to the UN Economic Commission for Africa (ECA).
- ✚ The ECA adds that intra-African trade is likely to increase by 52.3% by 2020 under the AfCFTA.
- ✚ Economists believe that tariff-free access to a huge and unified market will encourage manufacturers and service providers to leverage economies of scale; an increase in demand will instigate an increase in production, which in turn will lower unit costs.
- ✚ Consumers will pay less for products and services as businesses expand operations and hire additional employees.

Reasons to be sceptical of the viability of the AfCFTA:

- ✚ Three main reasons to be sceptical about the viability of the AfCFTA.
- ✚ **Firstly**, the African Union (founded as the Organisation of African Unity in 1963) has been largely ineffective in dealing with the continent's myriad problems such as:
 - ✚ Decolonisation,
 - ✚ Underdevelopment,

- ✚ Islamic terrorism and
- ✚ The Arab Spring.
- ✚ The AU's grand plans, including the Muammar Qadhafi-funded Africa Unity project, have been spectacular flops.
- ✚ It is, therefore, natural to take the AfCFTA, which is also the AU's most ambitious project so far, with a ladleful of salt.
- ✚ **Secondly**, serious political, organisational and logistical challenges to the AfCFTA notwithstanding, the national economies in Africa are generally weak with a low manufacturing base.
- ✚ They also lack competitiveness and mutual complementarity.
- ✚ As a matter of fact, only a sixth of Africa's current total trade is within the continent.
- ✚ **Thirdly**, the AfCFTA seems to be countercyclical to the ongoing global protectionist trends as seen in the U.S.-China trade conflict, Brexit and the stalemates at the World Trade Organisation and the United Nations Conference on Trade and Development.
- ✚ It is important to note that world trade is likely to grow only by 2.6% in 2019, which is a quarter of the figure in the year 2018.
- ✚ Commodity prices are stagnant and globalisation is often being reversed.
- ✚ An important question arises: With Africa accounting for only 3% of global trade, can the AfCFTA defy the contrarian global tendencies?

Reasons to be Optimistic:

- ✚ Given the strong global headwinds including a cooling Chinese ardour for Africa, greater collective self-reliance through African economic integration makes eminent sense.
- ✚ The AfCFTA can build upon the experience of the continent's five regional economic blocks.
- ✚ While the AU Commission is not famous for efficient planning, it has prepared an extensive road map towards the AfCFTA with preliminary work on steps such as incremental tariff reduction, elimination of non-tariff barriers, supply chains and dispute settlement.
- ✚ In December 2018, it organised the first Intra-African Trade Fair in Cairo with 1,086 exhibitors signing \$32 billion in business deals.
- ✚ New breeds of African transnational corporations such as Dangote, MTN, Ecobank and Jumia have continental ambitions.
- ✚ The logistical and financial networks across the continent are poor and customs formalities raise apprehension, but these can be eventually overcome with stronger political will.
- ✚ Moreover, vigorous "informal" trade across porous national borders is already a fact of African life.

- ✚ Thus, by adopting the AfCFTA, African leaders are only following the economic logic.
- ✚ 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.

Looking at the Indian Perspective:

- ✚ Africa is already an important economic partner for India with total annual merchandise trade estimated at \$70 billion or nearly a tenth of our global trade.
- ✚ India is Africa's third largest trading partner.
- ✚ While India's global exports have been largely stagnant, those to Africa have surged.
- ✚ Nigeria in 2018-19 grew by over 33% over the previous year.
- ✚ Africa still has unfulfilled demand for Indian commodities, especially foodstuff, 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.
- ✚ India needs to anticipate the AfCFTA's likely impact on its interests and try to influence and leverage it to enhance India-African economic ties.
- ✚ In principle, African economies becoming more formalised and transparent would be in India's interest.
- ✚ While local manufactured items and services may ultimately compete with Indian exports, Indian firms can co-produce them in Africa.
- ✚ If handled in a proactive manner, the AfCFTA is likely to open new opportunities for Indian stakeholders in fast-moving consumer goods manufacturing, connectivity projects and the creation of a financial backbone.
- ✚ India donated \$15 million to Niger to fund the Niamey AU Summit. As the next step, New Delhi can help the AU Commission prepare the requisite architecture, such as common external tariffs, competition policy, intellectual property rights, and natural persons' movement.
- ✚ It can also identify various African transnational corporations which are destined to play a greater role in a future continental common market and engage with them strategically.
- ✚ The cross-linkages of a three million strong Indian diaspora spread across Africa can also be very valuable.

Conclusion:

- ✚ Finally, once the AfCFTA is accepted as beneficial game changer, the African elite could perhaps contemplate crossing another Rubicon: an India-African FTA.
- ✚ Before Africa was "discovered" by the West, it had a thriving overland trade.

- ✚ Large camel caravans ferried commodities such as ivory, gold, mineral salt, precious stones and slaves across prosperous trading centres such as Timbuktu, Ghana, Kano, Burnu, Agadez, Edo, Zinder, Ghat, Addis Ababa, Dar es Salaam and Cairo.
- ✚ 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 historic distortion.

