African Continental Free Trade Agreement

What is the news?

African Union (AU) members have signed the African Continental Free Trade Agreement (AfCFTA) for goods and services at the 12th AU Summit.

What is the situation?

- Of the 54 countries that have signed AfCFTA, 27 have ratified it.
- Actual cross-border free trade could start by July 2020.
- The AfCFTA would be world's largest FTA.
- This would create an African Common Market of 1.2 billion people and a GDP of over $3.4 billion - metrics are comparable to India's.

What are the hurdles?

- AU's ineffectiveness - in dealing with the continent's myriad problems such as decolonisation, underdevelopment, etc.,
- The AU's grand plans have been spectacular flops, so may be the AfCFTA.
- Political, organisational and logistical challenges to the AfCFTA - the national economies in Africa are weak with a low manufacturing base.
- They also lack competitiveness and mutual complementarity.
- Countercyclical attitude of the AfCFTA towards the ongoing global protectionist trends as seen in the U.S.-China trade conflict, Brexit, etc.
- Reversal of globalisation - Commodity prices are stagnant and globalisation

is often being reversed.

- With Africa accounting for only 3% of global trade, there's a question whether the AfCFTA can defy the contrarian global tendencies.

What are the reasons to be optimistic?

- There are strong global headwinds like cooling Chinese ardour for Africa, greater collective self-reliance through African economic integration makes eminent sense.

- The AU Commission has prepared an extensive road map towards the AfCFTA with the preliminary work on steps such as tariff reduction, elimination of non-tariff barriers, etc.,

- The logistical and financial networking challenges across the continent can be overcome with stronger political will.

- Informal trade across national borders is already a fact of African life.

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

- There is a surge in consumer base, it would make the proposed AfCFTA even more important.

What is the Indian angle?

- Africa is India's important economic partner with nearly a 10th of our global trade.

- India is Africa's third largest trading partner. India's exports to Africa have upwarded recently.

- India needs to anticipate the AfCFTA's likely impact on its interests and try to influence it to enhance India-African economic ties.

- African economies becoming more formalised and transparent would be in India’s interest.

What India can do?

- India can help the AU Commission prepare the requisite architecture.
- 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.
- Therefore, the cross-linkages of a three million strong Indian diaspora spread across Africa can also be very valuable.

Source: The Hindu

Quick Facts

African Union

- 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
- It is successor to the Organisation of African Unity (OAU, 1963-1999).
- Vision - An Integrated, Prosperous and Peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena.

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