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Effect of African Continental Free Trade Area (AfCFTA) on Trade Facilitation in East African Community Member Countries: A Study in Kenya

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Abstract:

The aim of this paper is to assess the effect of African continental free trade Area on trade facilitation in East Africa. The continental free trade area was established in an effort by the member countries to stir economic growth and development through facilitation of cross-border trade. The agreement was expected to commence in 2021, but most countries are yet to implement it effectively. This study seeks to establish the effect of member countries' commitment, easing of trade barriers and integration of information technology on trade facilitation in East African Community. The study utilized a descriptive research design and targeted trade officials from the 8 East African Community member countries and established traders. Through use of a structure questionnaire, the study collected primary data which was analysed using descriptive statistics. The findings revealed that the commitment of the member countries was essential in promoting trade facilitation in East African Community. Moreover, it was established that through easing of trade barriers, the member countries traded more. The findings further revealed that the integration of digital technology stirred the facilitation of trade within the member countries. It was concluded that the commitment of member countries and easing of trade barriers were not effectively embraced despite being integral in promoting trade facilitation. The integration of ICT was also not effectively upheld, despite this being emphasized on by the African Continental Free Trade Area. The study recommends the need for the member countries in East African Community to focus on key strategies that ensure implementation of the trade agreements for continued trade facilitation within the member countries.

Keywords: African continental free trade area, trade facilitation, east African community

1. Introduction

1.1. Background of the Study

In recent years, there has been renewed interest in Regional Trade Agreement (RTAs). There are several Regional Trade Agreements established across the globe such as the Caribbean Community and Common Market (CARICOM) and the Organization of East Caribbean States (OECS). Several large African groupings emerged: the Common Market for East and Southern Africa (COMESA), the Southern Africa Development Community (SADC), and the Economic Community of West African States (ECOWAS). Most sought to achieve an open regionalism, with lower external tariffs than the earlier efforts. It is expected that membership to multilateral trade institutions would bear a strong positive effect on trade.

Strong evidence for a positive WTO membership effect was found by Rose (2015), Subramanian and Wei (2017) and Kim (2019). Nevertheless, Eicher and Henn (2019) found evidence of an attenuated RTA membership impact after preferential trade agreements had entered into force. In parallel, the number of physical RTAs in force across the globe has steadily grown from 1980 to 2019. There were only 15 RTAs in 1980. They rose to 51 in 1995, 137 in 2005 to reach the number of 303 in 2019. Despite a slowdown in the number of new RTA negotiations worldwide, more RTAs are expected to see the light in the years to come.

In a World of emerging technologies and the dire need for trade expansion across the globe, countries, regions and the entire globe are keen to facilitate trade for faster socio-economic and political growth and development (Sakyi, Bonuedi & Opoku, 2018). In view of this, African countries through the African Union have been steadfast in facilitating trade across the member countries as a way of strengthening their continued development. One of the recent measures taken to facilitate trade within the continent is the establishment of the African Continental Free Trade Area (AfCFTA).

Adopted in March 2018, the AfCFTA was a flagship project for the AU's vision 2063, which aims at making the African continent a one free trade area where member countries can trade effectively and smoothly with limited barriers. By May 2019, over 24 AU member countries including Kenya had committed to sign the agreement, and by February 2022, 41 out of the 55 AU members had signed the agreement. This is an indication that over 90% of the African countries are willing and ready to have a free trade area as a way of facilitating trade through expansion of the market and reduction of the barriers for cross-border trade.

In July 2019, an operational embrace of the AfCFTA was agreed upon by the member countries that had signed the agreement. This is where the members agreed to have a list of five operational aspects to consider, including elimination of non-tariff barriers, the Rules of Origin; the online negotiating forum; a digital payments system and the African Trade Observatory. Implementation of these aspects would mean that member countries would start doing the free trade through the AfCFTAs. Moreover, the trade barriers would be reduced thus enabling many countries practice an effective and efficient cross-border trade.

1.2. Statement of the Problem

Trade facilitation has been one of the key drivers to the success of countries across the globe through enhanced trade. In an effort to enhance the effectiveness of trade facilitation and cross-border, countries have been signing treaties and trade agreements. One such agreement is the African Continental Free Trade Area (AfCFTA). This is a trade agreement signed by African countries who are members of the African Union, in an aim to enhance free trade across the continent. The implementation of some of the principles signed in the agreement was to take place between the year 2019 and 2022. However, very little has been achieved as the member countries still continue to have the trade barriers as experienced in the recent months.

According to the African Development Bank (ADB, 2021), African countries were losing to the tune of USD600 billion annually due to delays and excessive barriers brought about by lack of free trade areas. Recently, Kenyan Farmers and traders, who export fish products to Democratic Republic of Congo (DRC), lost an amount of Kshs.60 million after the government of Uganda imposed restrictions on transporting their cargo through the Ugandan territories (Osere, 2022). While East African countries are key members of AU that have signed the AfCFTA, its impacts are yet to be felt as the countries continue to face trade barriers. This paper, therefore, seeks to establish the extent to which AfCFTA could have enhanced trade facilitation in East African countries, with a specific focus on Kenya.

1.3. Objectives

- To establish the effect of AfCFTA Members Commitment on trade facilitation in East Africa.
- To assess the effect of Easing of Barriers by AfCFTA on trade facilitation in East Africa.
- To establish the effect of Adoption of digital technology by AfCFTA on trade facilitation in East Africa.

1.4. Research Questions

- What is the effect of AfCFTA Members Commitment on trade facilitation in East Africa?
- How does Easing of Barriers by AfCFTA affect trade facilitation in East Africa?
- What is the effect of Adoption of digital technology by AfCFTA on trade facilitation in East Africa?

2. Literature Review

2.1. Free Trade Area and Trade Facilitation

The traditional analysis of the impact of regional groupings by economists is based on the concepts of trade diversion and trade creation. Trade diversion occurs when a country ceases to import a product from the low-cost source on the world market in favor of buying a product from a country within the free trade area at a price higher than world market but lower than the world market price plus the external tariff imposed by the RTA.

Free trade across the world has always been viewed with suspicion by all but economists. The contrary tends to be true of free trade among neighboring countries. Economists have usually been skeptical, while others—including political leaders—have often been enthusiastic supporters. Support for regional free trade has waxed and waned. There was considerable enthusiasm in the 1960s. The Central American Common Market (CACM), the Latin American Free Trade Area, the East African Community (EAC), and the association of francophone West African countries (UOEMA) were established in that period. After some disappointment with results, and political changes that dissolved some efforts, RTAs generated little interest in the 1980s.

2.2. Regional Trade Areas and Trade Facilitation in Africa

For developing countries, the experience with RTAs has been that little trade creation occurs. Instead, imports that previously came from world markets now come from other RTA members. Schiff (2019) provides a compelling justification for this view. He argues that the increase in trade between RTA members has typically come from import substitution in new products, typically trade-diverting, and not from more efficient production of the products already being made in the member countries.

According to Xirinachs (2021), the new regionalism through RTAs such as the AfCFTA with a low common external tariff wall is much more likely to yield positive results than the 'old' regionalism, where tariff barriers to the products of non-members were very high. Using very low-powered tests, SXirinachs suggests that the recent RTAs in Africa and Latin America have tended to be more trade-creating than trade-diverting. This view has some merit. In any

case, low overall tariffs will limit the scope for trade diversion. To the extent that RTA negotiations caused countries to reduce tariffs on imports from non-members below their pre-RTA levels, the overall level of distortions in the economy might be reduced.

Not all RTAs are equal. Dür *et al.* (2014) created deep integration indicators proving that differences on the depth of the agreements produce weaker effects for shallow agreements. Considering the heterogeneity of economic integration agreements, Egger and Nigai (2015) concluded that shifting to deeper trade agreement increases welfare, this effect being particularly high for some countries. Kohl *et al.* (2016); Ahcar and Siroën (2017) confirmed the effects of deep integration on trade, where deeper agreements result in larger gains.

Baier *et al.* (2018) also found that certain integration settings produce greater impacts on the intensive margin than on the extensive margin. Seeking better predictions of the effect of new economic integration agreements, Baier *et al.* (2018) and Baier *et al.* (2019) went beyond the importance of accounting for RTA heterogeneity. They found asymmetries in the RTA effect linked to the direction of trade. They also proved that country-pair heterogeneity is relevant as any given integration agreement can produce different effects on trade. For example, partners engaged in pre-existing economic integration agreements and distant pairs of countries obtain weaker gains out of further integration.

2.2.1. The Concept of Trade Facilitation

Trade facilitation has been addressed in different contexts and concepts. While it remains integral to enhance trade facilitation in many countries across the globe, the indicators of trade facilitation have remained to be the compelling issues. The available Trade Facilitation Agreement (TFA) drafts by the Organisation for Economic Co-operation and Development (OECD) have identified 12 indicators for trade facilitation process (Neufeld, 2014). These indicators represent many important policy areas mentioned in TFA drafts. The main commonly used and accepted measures of trade facilitation include the increase in trade volumes, the reduction of costs of trade and availability of trade information (Hoekman & Shepherd, 2015). It is expected that when trade facilitation is enhanced, the member countries will record increased trade volumes, as many traders are able to import and export goods and services to the widened market. The costs of trade are also expected to reduce with the enhanced trade facilitation. Mukhisa (2013) argues that trade facilitation is about reducing policies and barriers that prevent the traders from engaging in trade between two or more countries. The reduction of any barriers will result to reduced costs of trade. Moreover, availability of information is an essential indicator of trade facilitation. According to OECD (2014), a well-facilitated trade among countries will result to availability of information on trade for more traders to take part in trade.

According to Moïse and Sorescu (2013), one of the essential indicators of trade facilitation, especially in developing countries, is the harmonization and simplification of trade documents and policies. Regional Trade Agreements play a significant role in minimizing the trade policies and documentation among the member countries. This is enabled by strategies such as harmonization of some requirements and policies, as well as eradication of policies and procedures that add minimal value to the trade among the member countries. This is what the AfCFTA sought to achieve as a way of promoting trade facilitation among the member countries. Harmonization can, as well, be enhanced by the integration of ICT in the trade agreements and member countries agreeing to have unified ICT trade platforms. Enhancing trade facilitation would be achieved by first understanding the trade facilitation indicators, so as to set clear goals and frameworks by the member countries.

2.3. Conceptual Framework

The conceptual framework for the study is shown in figure 1 below. The conceptual framework shows the independent variables which are the key aspects of African Continental Free Trade Area, which include: member countries' commitment, easing of trade barriers, and integration of digital technology. The dependent variable is the trade facilitation in East African Community.

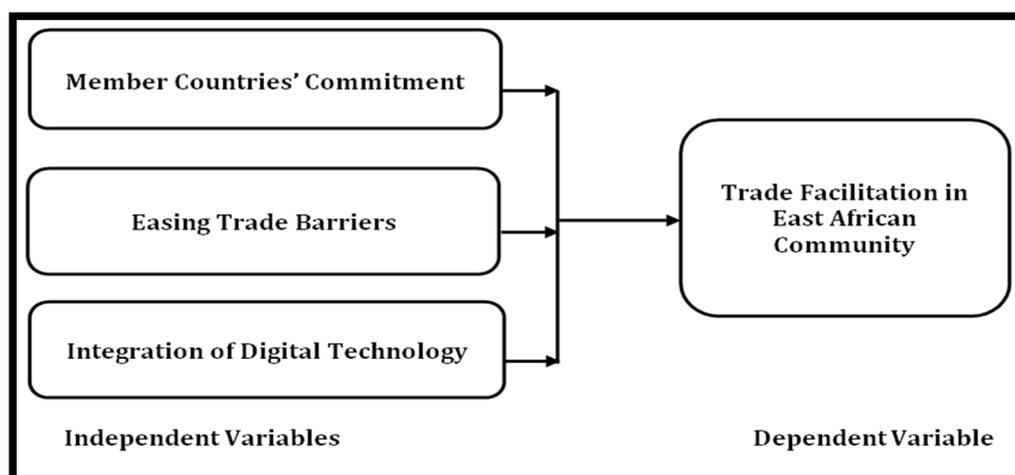


Figure 1: Conceptual Framework

3. Research Methodology

3.1. Research Design

A descriptive design was adopted in this paper. The design is used because it sets out to describe the effect of AfCFTA on trade facilitation in East Africa. The study adopted the design as it helps describe the situation as it exists.

3.2. Population and Sampling

The study targeted the trade officials from the seven (7) East African Community countries which include Kenya, Uganda and the United Republic of Tanzania, Burundi, Rwanda, South Sudan and the recently added Democratic Republic of Congo (DRC). The senior representatives of trade affairs for these countries based in Kenya were targeted. The study also targeted key traders dealing with import and export, where 3 established traders importing or exporting goods from each of the seven (7) member countries were targeted.

3.3. Data Collection and Analysis

The research utilized a structured questionnaire to obtain the primary data. The questionnaire was administered to both the key officials and the selected traders. Questions were asked in a general structure that allowed all the participants resonate with them in relation to trade facilitation and the aspects of the African Continental Free Trade Area. This study adopted a descriptive data analysis. The qualitative data was analysed using content analysis. The quantitative data was analysed using descriptive data analysis through mean, standard deviation and percentages.

4. Findings

4.1. Response Rate

The study had a sample of thirty two (32) respondents comprising eight officials from the seven (7) member countries of EAC and 24 traders trading with the seven (7) east African community member countries. Out of the twenty-nine (29) respondents participated in the study, five (5) were the senior officials and the remaining twenty-four (24) were traders. This was considered a good response adequate for the study.

4.2. Commitment of the Member Countries

The study sought to establish the extent to which the member countries were committed to embrace and implement the African Continental Free Trade Area agreement. The AfCFTA upholds the need for the member countries to be committed to the trade agreement, and to start this within their regional trade areas. The East African Community member countries have their regional trade agreements where the countries have agreed on the continued commitment to facilitate cross-border trade. However, this has not been the case as the findings in Figure 2 portray. The respondents felt that there was no political goodwill to support the trade agreements as shown by only 24.8% of the respondents who rated the statement. Moreover, only 19.6% of the respondents agreed with the statement that there was monitoring and evaluation through assessments to reduce trade barriers. On the alignment of policies to allow the implementation of the trade agreement, 40.2% of the respondents agreed with the statement. However, 35.1% of the respondents agreed that their member countries were supporting local traders to compete with the traders from neighboring countries. The results imply that the commitment of the member countries in enhancing trade facilitation has not been effective. This is despite the emphasis by the AfCFTA agreement upholding the need for commitment by the member countries to stir trade facilitation.

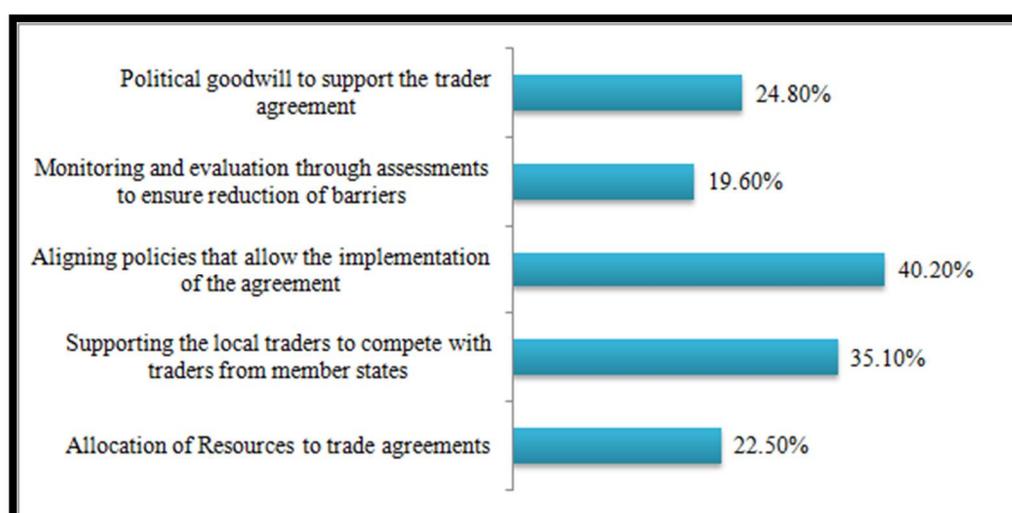


Figure 2: Member Country's Commitment

4.2.1. Easing Trade Barriers

One of the key elements in the African Continental Free Trade Area treaty is easing of trade barriers by the member countries and removing non-tariff barriers. This would enhance the free trade among the member countries and ease the flow of goods and services across the member countries. The study sought to find out the extent to which the member countries in East African Community had eased trade barriers in line with the African Continental Free Trade Area. As the findings on Figure 3 portray, 27.3% the respondents indicated that the governments in the member countries had continually eased the trade barriers for foreign traders. The removal of non-tariff barriers by the member countries was rated by 38.6% of the respondents. The respondents agreed that the trade requirements by the member countries had been reduced but stated that the review of policies to ensure easing of trade barriers had not been embraced effectively.

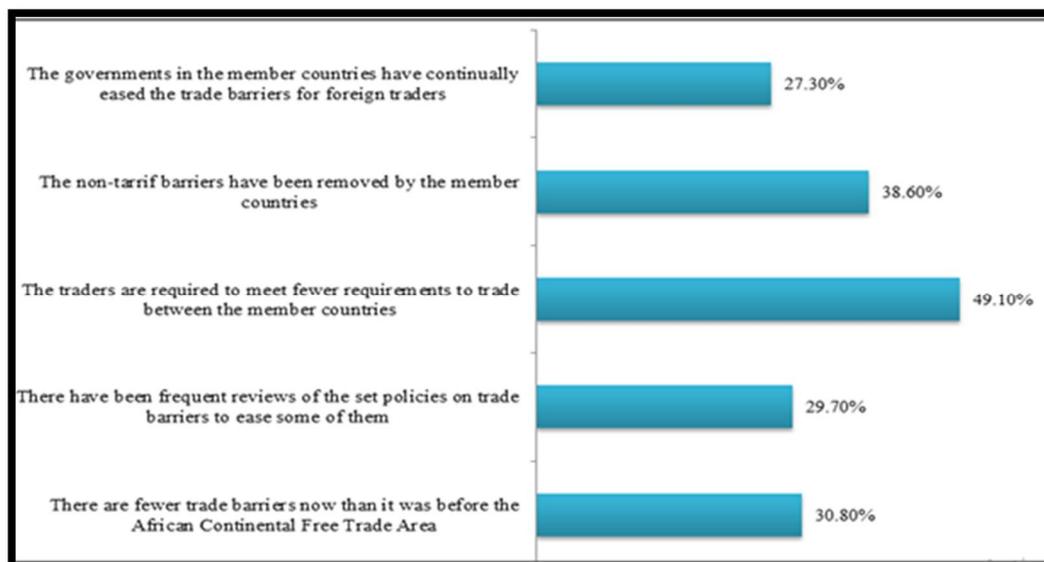


Figure 3: Easing of Trade Barriers

4.2.2. Integration of Digital Technology

The success of the African Continental Free Trade Area as it is for other regional trade agreements has mainly been anchored on the information sharing and proper communication that ensures reduction of the processes and procedures. This can be enhanced through integration of digital technology by the member countries. The AFCFTA upholds the need for embrace and adoption of technology where requirements such as licensing, registration of traders and monitoring of flow of goods are done through digital technology (Sakyi & Afesorgbor, 2019). This enhances unification and reduction of duplication of processes, thus promoting trade among the member countries. The study sought to establish the extent to which the East African Community member countries have embraced Information Technology in the trade facilitation process as one of the requirements by the African Continental Free Trade Area agreement, and how this has enabled trade among the member countries.

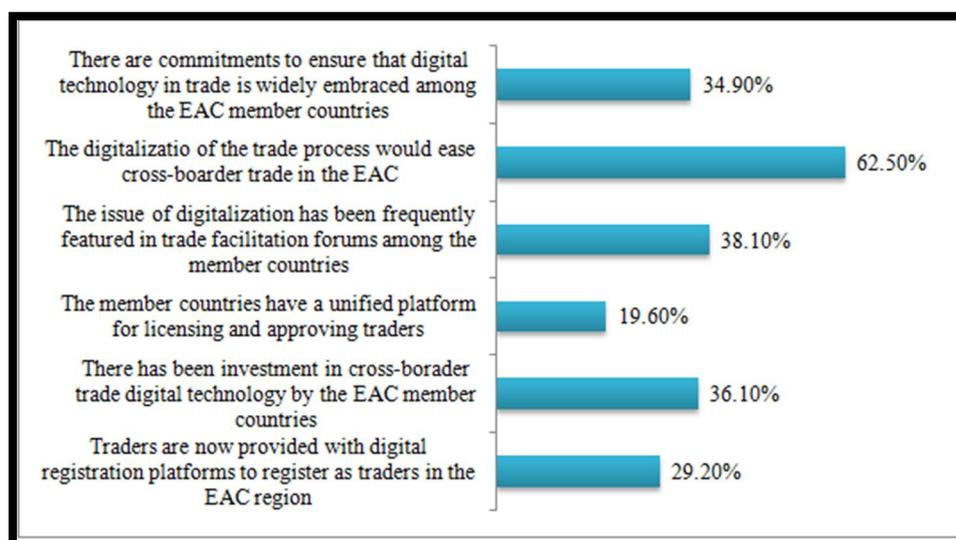


Figure 4: Integration of Digital Technology

4.2.3. Trade Facilitation

The main aim of trade agreements such as the African Continental Free Trade Area is to enhance trade facilitation among the member countries. This is achieved through commitment of the member countries, the easing of barriers and

integration of modern technology to enhance the process of trade. The study sought to establish the trade facilitation among the EAC member countries through opinions of the surveyed respondents. The findings as shown in Figure 5 revealed that majority of the respondents agreed that the trade volumes among the EAC member countries had increased over the past five years (69.3%) and that there had been a surge in the number of registered traders in the EAC member countries over the past five years (54.8%). The reduction of costs of trade among the EAC member countries following the inception of African Free Trade Area Agreement was achieved at 40.3%, while the availability of trade information among the EAC member countries, which has increased following the inception of the AfCFTA, was rated at 27.8%. The results implied that the trade facilitation had not been effectively achieved, even after the AfCFTA was introduced. On the other hand, 39.2% of the respondents indicated that there were minimal documentations required to trade within the EAC member countries, while 46.3% agreed that harmonization of trade requirements and documentations had been embraced in some of the EAC member countries. The results imply that trade facilitation is still not effective in the EAC member countries, despite the emphasis by the AfCFTA for the RTAs to be effectively implemented by the member countries.

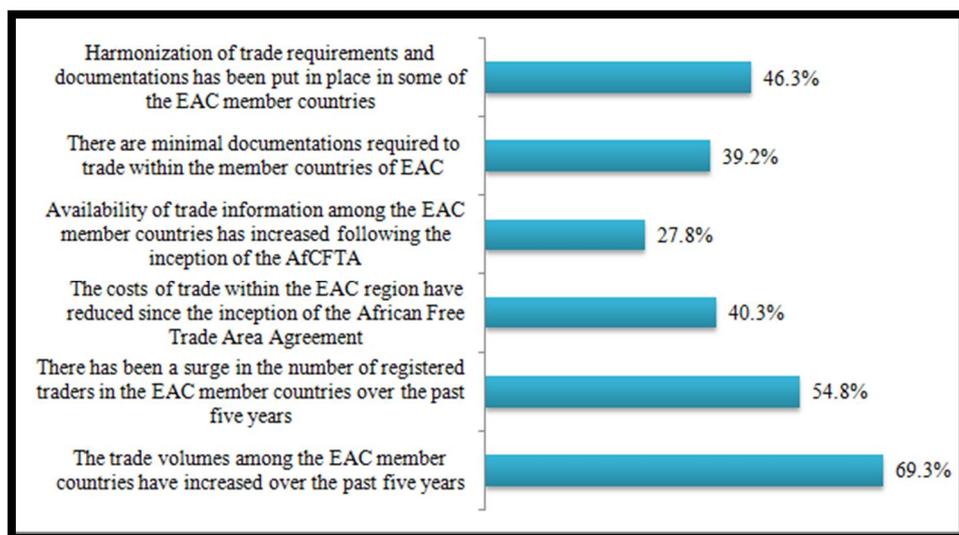


Figure 5: Trade Facilitation in East African Community

5. Conclusion and Recommendations

The study established that all the eight East African Community member countries were members of the AfCFTA which seeks to enhance trade within African Continent. While the agreement requires countries to enhance regional trade and expand the trade to other regions within the continent, EAC, as one of the regions, is yet to have an effective free trade area. It is concluded that the EAC member countries are yet to show adequate commitment to the trade agreements despite this being an integral driver to the success of regional trade agreements in facilitating trade. The easing of trade barriers was also not effectively upheld among the EAC member countries, as there were still incidences of traders unable to trade due to barriers that are not tariff-based imposed by the governments in the EAC. Integration of information technology was found not to be effectively embraced among the EAC member countries as far as trade facilitation processes were concerned.

The study recommends the need for EAC member countries to fully embrace the Regional Trade Agreements (RTA) that seek to reduce the trade barriers and promote regional trade. The embrace of trade agreements as highlighted by OECD is one of the major strategies through which governments can enhance the economic growth and development through the expansion of market for their produce. Minimizing the trade barriers, especially the non-tariff barriers, is upheld by the AfCFTA as one of the main ways through which member countries can enhance cross-border trade. The EAC member countries through their respective governments have a duty to ensure that the trade barriers are reduced by closely working together for facilitation of trade. ICT is another integral aspect that could steadily drive the success of trade in the EAC member countries. Integrating ICT in their trade systems and policies and harmonizing the systems would ensure trade facilitation is reduced by promoting efficiency and effectiveness of traders to meet the set requirements. Through ICT, some of the processes and requirements can be harmonized among the member countries, thus reducing the duplication of processes. This will ensure trade facilitation is achieved, thus promoting the growth and development of the member countries.

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