

The Prospects of AfCFTA in Promoting Industrialization and Economic Diversification in Africa

¹Katim Touray: Main author

²Sesha Nyanga: Co author

Pan African University, Institute of Governance, Humanities and Social Sciences, University of Yaoundé II SOA, Cameroon
Corresponding Authors ; **Katim Touray**

Abstract:- African Continental Free Trade Area (AfCFTA) functions as a boost for Africa's economic development by enhancing intra-African trade. This is because trade is an engine of growth and development. For the fact that most African nations that are located within the same region engage in similar and competitive production, the ensuing economic cooperation and trade exchanges not only have the promise of increasing trade but also stimulating other ancillary economic activities, creating new job opportunities, speeding up economic growth, promote the standard of living, and promote economic development. However, AfCFTA's record has not been very impressive. The main obstacles to intra-regional commerce among African countries include heavy reliance on trade in primary goods, high product and market concentration of exports, and inadequate regional manufacturing networks. This study therefore examines continental economic trends and Intra African Trade: Prospects for African Continental Free Trade Area. The study adopted qualitative methods of data collection and analysis and the comparative theory of integration. The study found that the low level of trade diversification implicated the capacity of the African Continental Free Trade Area (AfCFTA) to achieve improved intra-regional trade performances in Africa. African countries maintain as much as 77% export specialization, with higher external/world trade at 84.6 percent of their total import and export trade. The study recommended that Governments should invest in infrastructure development, including building roads, railways, ports, and airports, as well as improving access to electricity and broadband. Governments should adopt modern trade facilitation measures such as electronic customs systems, single window platforms, and risk management techniques and should align their technical regulations and norms with global best practices and standards, as those created by appropriate international standard-setting organisations like the International Organisation for Standardisation (ISO).

Keywords:- AfCFTA, Africa, Industrialization, Intra-Regional Trade, and Economic Diversification.

I. BACKGROUND INFORMATION AND INTRODUCTION

The African continent has a once-in-a-lifetime chance to boost industrialization and economic diversification, thanks to the African Continental Free Trade Area (AfCFTA). The purpose of the expected economic benefits of implementing the AfCFTA is to bring Africa's economy up to par with major global economies as the agreement will create a free trade area across the entire continent, made up of fifty-four (54) member states, with a population of 1.3 billion and a \$3.4 trillion Gross Domestic Product (GDP), corresponding to 19% to 20% of China's and the European Union's respective GDPs (Tay, 2023). To position Africa for sustainable growth and prosperity, this ambitious aim reflects a strategic vision to make the continent's economy more egalitarian, competitive, and integrated into the global economy. Undoubtedly, Africa has a distinctive opportunity to reshape its economic trajectory and realize its full potential on the global scene through the AfCFTA.

The AfCFTA seeks to promote sustainable development throughout the Continent, increase intra-African trade, and strengthen competitiveness. It has the potential to establish the largest single market in the world. This article explores the prospects of AfCFTA in driving industrialization and economic diversification in Africa, highlighting the opportunities and challenges that lie ahead. As African countries seek to reduce their reliance on commodity exports and move towards value-added manufacturing and services, the AfCFTA provides a platform for promoting industrial growth and diversifying their economies. With trade obstacles removed, regulations harmonized, and cross-border investments made easier, the African Continental Free Trade Area (AfCFTA) can foster an environment that encourages enterprises to grow, enter new markets, and take advantage of economies of scale. (AU, 2018).

The Agreement provides an additional, new means to connect and integrate Africa's economies. Ratifications of the AfCFTA Agreement stand at 38 of the 54 countries, 2 with some non-ratifications due to procedural reasons in some countries, even if others still have concerns about the likely effects on their economies given the range of predicted impacts across countries. Though some consignments have reportedly been traded under the AfCFTA, the first consignment traded under the AfCFTA on 5 January 2021 was reportedly cosmetics and alcoholic products from Ghana, this was largely symbolic as most other African countries have yet to operationalize or codify their tariff reduction offers, themselves still under negotiation (DNA Economics, 2021) while rules of origin (RoOs) negotiations are also still to be concluded.

Furthermore, AfCFTA offers the potential to attract foreign direct investment (FDI) into key sectors such as manufacturing, agribusiness, and technology, thereby stimulating job creation, skills development, and technology transfer. By promoting regional value chains and fostering collaboration among African countries, AfCFTA can enhance productivity, innovation, and competitiveness, positioning the continent as a global player in the manufacturing and services sectors. As well as creating a free trade area, the "Promote industrial development through diversification and regional value chain (RVC) development" is the stated goal of the African Continental Free Trade Area (AfCFTA) (AU 2018). This is a part of a larger effort to shift the focus of the economy from exporting primary goods to generating jobs and boosting self-sufficiency. The resonance of these industrial ambitions has only increased with the COVID-19 pandemic and the conviction that "Increased intra-African trade is what will drive economic development post-COVID-19" (Mene, 2021).

However, realizing the full potential of AfCFTA requires addressing various challenges, including infrastructure deficits, institutional capacity constraints, and regulatory barriers. African governments need to prioritize policy reforms, invest in critical infrastructure projects, and strengthen institutions to ensure effective implementation of AfCFTA agreements and frameworks (de Melo et al. 2020). Moreover, the 2022 Africa Agriculture Trade Monitor AATM report's examination of various models for AfCFTA implementation highlights the considerable opportunity costs linked to ineffective implementation, in which the findings advocate for a more robust and ambitious approach that encompasses the full liberalization of tariffs and the reduction of non-tariff barriers, to maximize the trade agreement's potential benefits (Bouët et al., 2022). This note discusses some of the practical challenges that will face the AfCFTA in altering current trade and production interests and incentives between and within states, and thus its ability to promote RVCs and industrialization. By doing this, the study aims to assist in determining the areas on which future policy attention should be concentrated for African stakeholders at the national, regional, and continental levels as well as for their outside partners.

II. LITERATURE REVIEW

The African Continental Free Trade Area (AfCFTA) is a significant trade agreement that aims to create a single market for goods and services across the African continent. The agreement has the potential to promote industrialization and economic diversification in Africa by increasing market access, stimulating investment, and fostering innovation. Several studies have examined the prospects of AfCFTA in promoting industrialization and economic diversification in Africa.

United Nations Economic Commission for Africa (UNECA, 2018) reported that AfCFTA has the potential to boost intra-African trade by 52.3% by 2022, leading to increased industrialization and economic diversification on the continent. The report also highlights the potential for AfCFTA to create opportunities for small and medium-sized enterprises (SMEs) to participate in regional value chains, thereby promoting industrialization and economic diversification. Generally speaking, a country is considered to be industrialised when its share of the GDP that comes from industry rises, or when the percentage of its workforce is employed in the secondary sector; labour productivity in this sector increases; unemployment rates decline year over year; and the contribution of the secondary sector to economic development is validated (Alderson, 1999). It is also widely acknowledged that a country cannot effectively promote its economic and social development without a robust and thriving industry, as it processes raw materials and opens up opportunities for the development of services.

Despite their efforts, most African countries have faced obstacles to industrial development. Africa is the least industrialized continent because of an energy deficit, technological gap, bad governance, and narrow domestic markets. Structural adjustment programs, while advocating trade liberalism, caused de-industrialization in some African countries. Industry in some African countries deteriorated in the past three decades. A study by (Hosseini and Weiss, 1999), for instance, showed that seven of 16 African countries in his sample experienced deindustrialization over the 1975–1993 period. Meanwhile, from 1980 to 2009, the share of manufacturing value added to GDP increased slightly in North Africa, from 12.6 to 13.6%, it decreased in the rest of Africa, from 16.6 to 12.7%. More than half a century after independence, while other regions increased their share of manufactured exports, the continent still depends on the exportation of raw materials to industrialized countries. Export of raw materials and mining and agricultural commodities are often the main sources of foreign exchange; so African raw materials are processed and resold at relatively high prices to African consumers (ECA, 2013).

One study by (Brenton et al., 2020) explores the potential impact of the AfCFTA on industrialization in Africa. The study finds that the agreement could lead to a significant increase in intra-African trade, which in turn could promote industrial development by creating economies of scale and enhancing competitiveness. The

authors argue that by reducing trade barriers and harmonizing regulations, the AfCFTA can help African countries attract investment, develop their manufacturing sectors, and diversify their economies. Another study (UNECA, 2019) focuses on the role of the AfCFTA in promoting economic diversification in Africa. The study highlights how the agreement can help African countries move away from reliance on commodity exports towards value-added manufacturing and services. By expanding market access, reducing tariffs, and promoting regional value chains, the AfCFTA can create opportunities for businesses to diversify their products and services, increase productivity, and foster innovation.

A key challenge for Sub-Saharan African countries is to reverse their strong reliance on exports from extractive resource industries, which provide few incentives to develop forward and backward linkages with their national and regional economies or to diversify their industrial export base. In addition to the deterioration of trade balance in Africa, RI raises the question of appropriate trade and industrialization strategy at the country level. Since the 1950s, the debate has been on the adoption of inward versus outward development policies (Dornbusch, 1992; Rodrik, 1992). Inward policies, which predominated in the 1970s, encourage protectionism through high tariffs and quotas on imports, on the assumption that a country will develop its manufacturing through indigenous 'learning by doing' and specialization in technologies for which the country is endowed with resources. Ultimately, some of the manufactured items will become competitive with world prices and the country will be able to export them. At the end of the 1960s, Ethiopia, Ghana, Nigeria, and Zambia pursued import substitution strategies (Kirkpatrick, 1987).

Furthermore, according to (Barro and Lee, 2002) and (Vreeland, 2003), the narrow export base and weakening industrial sector of Sub-Saharan African countries are related to a radical change in African trade policies in the 1980s toward economic liberalization. In line with the structural adjustment programs of the World Bank and the short-term macroeconomic stabilization programs of the International Monetary Fund, this change in trade policy was aimed at attracting private investment in Sub-Saharan Africa. However, countries did not experience import substitution industrialization for a sufficiently long period, and trade liberalization prematurely exposed their infant industries to global competition. Several academic papers have also explored the link between trade liberalization, industrialization, and economic diversification in Africa. For example, (Oyejide, 2018) highlights the importance of addressing structural constraints, such as limited access to finance and inadequate infrastructure, to promote industrial development in Africa. The author argues that by implementing supportive policies and addressing existing challenges, African countries can leverage the opportunities presented by the AfCFTA to drive economic transformation on the continent.

III. THEORETICAL REVIEW

A. Theory of Comparative Advantage

The first and most significant attempt to develop a theory of trade can be traced to the work of David Ricardo. He was one of the most famous British political economists of this time, after Adam Smith. His most famous work is *On the Principles of Political Economy and Taxation* (1817). Ricardo's theory of comparative advantage argues that trade is beneficial for all countries. Ricardo argued that a nation should specialize in the economic activity in which it is less inefficient. He used the imaginary example of England and Portugal to prove his theory of comparative advantage. In this theory, both England and Portugal can produce wine and cloth. However, Ricardo argued that since Portugal is more productive in making wine and England is more productive in making cloth both countries would enhance their welfare by specializing in one product and trading with each other.

The African Continental Free Trade Area (AfCFTA) is leveraging the theory of comparative advantage to promote industrialization and economic diversification. By creating a single market for goods and services, African countries aim to boost intra-African trade and economic integration, identifying their strengths and specializing in their products.

For instance, the UNECA (2016) report suggests that countries with abundant natural resources may specialize in producing finished products, increasing efficiency and competitiveness. However, Ethiopia, with skilled labor and limited capital, should not produce cars like the Japanese Lexus due to the capital-intensive technology used. The report suggests that Ethiopia's labor and capital resources make it better off focusing on producing Lexus, despite its potential.

Moreover, The AfCFTA promotes industrialization and economic diversification in African countries, reducing reliance on traditional exports and promoting higher value-added industries. This leads to job creation, technology transfer, and overall economic growth. The theory of infant industry protection suggests that poor countries' poor productive capabilities hinder their economic growth. The main challenge for developing countries is to deliberately change these capabilities through private sector efforts and public policy intervention, including investments in physical equipment, worker training, management skills, research and development, and infrastructure improvements.

In summary, the theory of comparative advantage provides a theoretical framework for understanding how countries can benefit from specialization and trade within the AfCFTA. By identifying and leveraging their comparative advantages, African countries can harness the potential of the AfCFTA to promote industrialization and economic diversification across the continent.

B. The Theory of Infant Industry Protection

The theory of infant industry protection, unlike Ricardo's classical theory of comparative advantage, argues that although countries have different productive capabilities, these capabilities can be and should be enhanced over time through deliberate policy intervention. (Chang, 2002) argues that almost all of today's rich countries use the theory of infant industry promotion to develop their economies. They refused to accept that they should stick to their comparative advantage and actively promoted industries in which they had no business specializing (according to the theory of comparative advantage).

Infant Industry Protection theory suggests that developing industries in a country require temporary government support to grow and become competitive in the international market. This protection can include tariffs, subsidies, and other measures to shield domestic industries from foreign competition. In the context of the African Continental Free Trade Area (AfCFTA), this theory is relevant as it helps nurture nascent industries within African countries. Both the United Kingdom and the United States adopted free trade policies when they were competitive Friedrich List (1789-1946). He is commonly known as the father of the infant industry argument that in the presence of more developed countries, backward countries cannot develop new industries without state intervention, especially tariff protection (Chang, 2002: p.3). The big change in England was to come only when the repeal of its Corn Laws in 1846 led to freer trade in corn. This was regarded as the launch of free trade policies in Europe (Chang, 2002). A radical member of parliament, Richard Cobden, led the campaign for free trade in Britain on behalf of a coalition of merchants, manufacturers, workingmen, and journalists.

African countries are aiming to boost industrialization and economic diversification through the AfCFTA by protecting emerging industries from established and competitive ones. Temporary protection, such as tariffs or subsidies, can help address challenges like lack of economies of scale, limited access to finance, and inadequate infrastructure. Supporting infant industries can foster industrialization, create jobs, and promote economic diversification (UNECA, 2016).

However, countries need to ensure that protectionist measures are temporary and gradually phased out as industries become more competitive. Over-reliance on protectionism can lead to inefficiencies, market distortions, and reduced competitiveness in the long run. In summary, the theory of Infant Industry Protection can play a role in promoting industrialization and economic diversification within African countries under the AfCFTA. By providing temporary support and protection to nascent industries, African countries can leverage the opportunities presented by the AfCFTA to build competitive industries and drive economic growth across the continent.

IV. EMPIRICAL LITERATURE ON STATUS OF THE AfCFTA IMPLEMENTATION

The advent of the African Continental Free Area (AfCFTA), which entered into force on 30 May 2019 and progressed into an operational phase on 7 July 2019, at an African Union (AU) summit in Niger marked a momentous milestone for economic integration of Africa. Article 23 of the Agreement states that the Agreement enters into force thirty days after the 22nd ratification instrument is placed with the African Union Commission (AUC) Chairperson, who is the designated depositary for this purpose. As of 5 February 2021, 36 countries have deposited their instruments of ratification. With a market size of 1.3 billion people and a GDP of \$3.4 trillion spread among 55 African Union Member States, the Agreement went into effect on January 1, 2021. 47 of the 54 signatories (87%) had deposited their instruments of ratification of the AfCFTA as of August 2023 (listed chronologically).

The implementation of the African Continental Free Trade Area (AfCFTA) is a complex and ongoing process that involves multiple stakeholders, including governments, regional economic communities, businesses, and civil society organizations. Here is an overview of some aspects of the status of the AfCFTA implementation with examples:

A. Tariff Reductions:

- Many African countries have started to reduce tariffs on goods traded within the continent as part of their commitment to the AfCFTA. For example, Ghana has already eliminated tariffs on 90% of goods imported from other member countries.
- Countries like Kenya and South Africa have also taken steps to reduce tariffs on specific products to promote intra-African trade. For instance, Kenya has reduced tariffs on raw materials used in the manufacturing sector. South Africa's launch to commerce preferential trade under the AfCFTA guided trade initiative (GTI) and the 13th AfCFTA Council of Ministers.

B. National Implementation Plans:

- The ECOWAS Common Trade Policy (CTP) defines the principles and guidelines that would drive both the internal and external market within the West African region. The CTP also brings together various trade instruments coherently and predictably. The development of the Policy takes into consideration existing ECOWAS trade-related instruments, specifically, the Common External Tariff (CET) and ECOWAS Trade Liberalization Scheme (ETLS), and the coordination of common approaches in the context of trade relations with third parties at the bilateral, regional, or multilateral level. The draft CTP has 4 pillars which are aligned to ECOWAS aspirations and goals outlined in ECOWAS Vision 2050. This policy component helps the implementation process of the AfCFTA.

- Member countries are in the process of developing national implementation plans to align their domestic policies and regulations with the requirements of the AfCFTA. For example, countries like Rwanda and Ethiopia have also developed comprehensive strategies to implement the agreement.

Despite these achievements, challenges remain in the implementation of the AfCFTA, including addressing non-tariff barriers, improving infrastructure, and building capacity. By implementing supportive policies and addressing existing challenges, African countries can leverage the opportunities presented by the AfCFTA to drive economic transformation on the continent.

V. ECONOMIC COMPLEMENTARITY

The idea of "economic complementarity" describes how nations might specialise in producing commodities and services in which they have a comparative advantage, then trade with other nations to take advantage of their disparities in production capacities. In the aspect of the African Continental Free Trade Area (AfCFTA), economic complementarity plays a crucial role in promoting intra-African trade and boosting economic growth. Here is an explanation of the benefits of economic complementarity in the AfCFTA context to improve industrialization and economic diversification and the concept of comparative advantage:

A. Benefits of Economic Complementarity in AfCFTA:

➤ Enhanced Efficiency and Increased Competitiveness

Countries can boost their productivity and efficiency by concentrating on manufacturing commodities and services in which they have a comparative advantage. In the end, consumers gain from cheaper pricing and more options as a result of higher output levels and lower manufacturing costs. For instance, the UNECA (2016) report suggests that countries with abundant natural resources may specialize in producing finished products, increasing efficiency and competitiveness. However, Ethiopia, with skilled labor and limited capital, should not produce cars like the Japanese Lexus due to the capital-intensive technology used. In addition to this, specializing in specific sectors allows countries to become more competitive in the global market. By leveraging their comparative advantages, African countries can produce high-quality goods and services at competitive prices, attracting foreign investment and expanding their export markets.

➤ Diversification of Trade

Economic complementarity encourages countries to specialize in different sectors based on their strengths, which promotes diversification of trade within Africa. This diversification reduces dependence on a few export products and markets, making economies more resilient to external shocks. For example, Cote d'Ivoire and Ghana - Transforming cocoa into chocolate manufacturing. Producers of commodity products have long suffered from "declining terms of trade"; that is, the global prices of their

exported products have declined in comparison with the global prices of their imports of manufactures (Kaplinsky, 2005). The experience of cocoa growers in Côte d'Ivoire and Ghana is an excellent example of the challenges facing commodity growers. A few West African countries have traditionally been the world's major suppliers of high-quality cocoa beans.

Furthermore, Ethiopia's Floriculture is from zero to second in Africa. According to the UNECA Report on Transformative Industrial Policy in Africa (2016), Ethiopia is the only nation in Africa, except from Rwanda, whose GDP growth has been continuously strong for more than 10 years without depending on a boom in natural resources. The other high-growing African economies, such as Angola, Mozambique, and Nigeria, have relied heavily on natural resources. The UNECA report states that between 2004 and 2013, per capita GDP growth in Ethiopia was 8.1 percent per annum, the highest on the continent during this period and very high by any standard. Also, during this period Manufacturing Value Added (MVA) grew at a rate of 11 percent a year, by far outperforming Rwanda. Manufacturing exports have grown more than 11-fold, from US\$21 million to US\$237 million, largely thanks to the increasing export earnings of the leather textile and apparel industries. The percentage of manufactured exports to total goods exports has more than doubled, amounting to US\$4786 million from US\$922 million, which more than quadrupled during the same time. However, Ethiopia's MVA as a percentage of GDP is still only 5%, far less than the 10% average for Africa (UNECA, 2016).

B. Sectoral Opportunities

The African Free Trade Area (AfCFTA) has the potential to boost investment by including stakeholders from all sectors, for example, through the agreement's Private Sector Strategy, it seeks to bring about economic recovery and effect in the post-pandemic world. According to the African Union (2023), it focuses on creating regional value chains to boost trade and economic performance while lessening reliance on external shocks. Based on the potential for import substitution and current production capabilities, the strategy concentrates on four priority sectors: agro-processing, automotive, pharmaceuticals, and transportation & logistics. According to OECD iLibrary (2024), the AfCFTA could stimulate investment in renewable energy through unified regulations and improved electricity access, it could also boost Africa's pharmaceutical production through greater pool procurement capacity, simpler trade regulations, and regulatory harmonization. This Continental Free Trade Area may perhaps also accelerate the transformation of the African logistics value chain by creating new trade channels and tackling issues like poor infrastructure and non-tariff trade barriers. For instance, in Ecowas, one of the priorities stated by the Authority of Heads of State and Government is given appropriate consideration when establishing the Department of Infrastructure, Energy, and Digitalization, which serves as a crucial facilitator of the regional process. To support the delivery of integrated infrastructure projects, ECOWAS has approved a new regional infrastructure development plan

that spans 25 years, from 2020 to 2045. ECOWAS also needs to be in line with the Continental Infrastructure Framework of the African Union. Transportation, Energy & Mines, Telecommunication and Information Technology, and Water Resources will make up the department.

By aligning the ECOWAS infrastructure project with the goals of the AfCFTA, it can contribute to the realization of a single market for goods and services in West Africa. It will also promote economic growth, job creation, and poverty reduction by fostering increased trade and investment opportunities within the region. Ultimately, the integration of the ECOWAS infrastructure project with AfCFTA will strengthen regional economic cooperation and position West Africa as a competitive and attractive market for global trade which improve the sectoral opportunities.

AfCFTA Guided Trade focuses on five main areas: transportation, business services, financial services, communication services, tourism, and travel-related services, aiming to enhance implementation and boost Africa's economic growth through free trade zones and commercial agreements. For instance, it seeks to advance trade and industrialization, but it necessitates focused initiatives, financial contributions, and cooperative efforts. The development of financial institutions in Africa is essential in securing funding for industrial and trade growth. According to OECD iLibrary (2024), financing time and expenses can be greatly decreased by utilizing new instruments like the Afreximbank-African Collaborative Transit Guarantee Scheme and the Pan-African Payment and Settlement System (PAPSS). This coordinated financial market infrastructure, the PAPSS, makes it easier for money to move securely across African borders. It offers a low-cost, risk-controlled payment clearing and settlement service in collaboration with central banks. Six switches, 28 commercial banks, and 8 central banks make up the network as of June 2022. By the end of 2023, it intends to grow into five regions. PAPSS, which has 42 currencies, intends to save the continent an estimated \$5 billion a year by lowering currency convertibility costs (African Union, 2023).

C. The AfCFTA Potential in Promoting "Made in Africa" Products and Services

The African Union's Agenda 2063 aims to boost Africa's manufacturing sector, focusing on value-added industries and reducing reliance on raw materials. The African Continental Free Trade Area (AfCFTA) aims to create a single market for goods and services, fostering sustainable growth and job opportunities. However, Africa has the lowest manufacturing production per capita and a trade imbalance compared to other regions. The continent's import-export dynamics show a low level of industrialization, with total imports exceeding exports. To realize its full potential, African nations are urged to adopt a strong industrial transformation plan like the Import Substitution Industrialization strategy, fueled by private sector investments (AUDA-NEPAD, n.d).

According to this study, the goal of the Import Substitution Industrialization (ISI) strategy is to increase African domestic manufacturing sectors. It entails utilizing cutting-edge technology to spur innovation and increase efficiency, including robotics, artificial intelligence, the Internet of Things, and data analytics. By automating procedures, these technologies can guarantee accuracy and quality while lowering reliance on imported items. African nations may increase production, raise the caliber of their products, and forge a strong position in both home and foreign markets by putting ISI ideas into practice. For example, Malawi's "Buy Malawi Strategy" promotes the buying of goods and services made locally as a means of bolstering homegrown businesses and promoting economic expansion. The "Proudly South African" campaign in South Africa encourages consumers to buy goods created in the country, supporting regional businesses and generating jobs.

In addition, AUDA-NEPAD (n.d) provides those strategies in Kenya and Nigeria, the "Buy Kenya to Build Kenya Strategy" and the "Buy Naija and Promote Naira Campaign" are initiatives meant to boost local businesses, advertise goods and services, create jobs, and encourage economic growth. These programs not only encourage consumers to purchase locally produced goods but also provide incentives for the manufacturing sector to embrace new technology and procedures. APET highlights how critical it is for African residents to adopt a new perspective that embraces and supports locally produced goods. Governments have the power to influence changes in consumer behavior and tastes, which will boost domestic industry support and accelerate industrialization. African nations have a significant chance to draw investment and support higher-value, export-focused manufacturing sectors—a prerequisite for industrialization and economic expansion. The domestication of the African Continental Free Trade Area (AfCFTA) agreement should be given top priority by African countries to take advantage of this opportunity. This will allow Africa to increase the strength of its industrial base, lessen its reliance on imports, and encourage the development of its indigenous industries.

D. SME Participation

Expected to revolutionize the continent, the AfCFTA pact aims to support Africa's economic recovery from the COVID-19 pandemic and the war in Ukraine. The agreement intends to establish a foundation for enhanced cooperation and deeper socioeconomic integration, facilitating trade, investment, and human movement to promote industrialization and the growth of a thriving services sector. The AfCFTA has the potential to reduce extreme poverty for 30 million people by 2035 and increase regional income in Africa by US\$450 billion if it is fully implemented. The implementation of the AfCFTA, however, requires the full participation of businesses, especially micro, small, and medium-sized enterprises (MSMEs), as well as the backing of regional organizations, governments, and development partners. As a result, MSMEs will be able to fully capitalize on new opportunities and support equitable growth across the continent.

By lowering trade obstacles and increasing market access, the Continental Free Trade Area gives South African SMEs a competitive advantage. As an example, BrownScense (2023) states that SMEs may access a massive continental market of over 1.3 billion people by reducing tariffs on 90% of items transferred between African countries, thereby expanding their consumer base. Increased investment and trade flows will draw capital and promote cooperation, which will open up new markets, allow for the transfer of technology, and boost productivity. By investigating untapped markets and swiftly adjusting to shifting trade dynamics, SMEs can also create niche markets and obtain a competitive edge. Digital tools and e-commerce can assist SMEs in connecting with possible partners and reaching customers outside of their physical location, and they should network with potential suppliers and consumers, carry out in-depth market research, adhere to international quality and safety standards, and apply for government support for export preparedness and market entry to fully take advantage of these prospects (International Trade Center, n.d). Conferring to UNDP (n.d), AfCFTA processes should incorporate Small and Medium-Sized Enterprises (SMEs), and to develop national business chamber capacities, governments and business support groups ought to be recruited, and communication between SMEs and governments needs to be promoted to identify potential obstacles

VI. METHODS AND MATERIALS

This study adopts the ex post facto research design. Ex-post facto research involves the use of a systematic account of past events, which the researcher has no power to manipulate but can only extract to make valid conclusions regarding interconnected variables. This study relies on the use of qualitative methods of data collection. This study made use of secondary sources of data which involves the collection of documentary evidence, written descriptions, and official reports related to the issue of regional economic cooperation and intra-regional trade in Africa (AfCFTA). This study makes use of the qualitative descriptive method of data analysis. The qualitative descriptive method of analysis involves a descriptive analysis or explanation regarding data generated for research.

VII. CONCLUSION AND RECOMMENDATIONS

In conclusion, the AfCFTA has the potential to have a transformative impact on intra-regional trade in Africa to increase industrialization and economic diversification. By reducing trade barriers, promoting competition, and encouraging regional value chains, the agreement has the potential to boost economic growth, create jobs, and improve living standards across the continent. The AfCFTA has the potential to transform intra-regional trade in Africa, but it requires a concerted effort from governments, private sector actors, and civil society organizations to create an enabling environment for trade and investment. However, successful implementation and enforcement will be crucial in realizing these potential benefits

VIII. POLICY RECOMMENDATIONS

A. Investment in Infrastructure

Improving transport, energy, and communication infrastructure is essential for facilitating trade and reducing transaction costs. Governments should invest in infrastructure development, including building roads, railways, ports, and airports, as well as improving access to electricity and broadband. Improving transportation infrastructure will reduce transit times, lower transportation costs, and enhance the efficiency of trade. It will also help to integrate landlocked countries into regional and global value chains. Investment in trade facilitation infrastructure, such as customs facilities, border posts, and trade information systems, is essential for streamlining customs procedures and reducing non-tariff barriers to trade. This will help to expedite the clearance of goods at borders and improve the predictability and transparency of trade processes. A reliable and affordable energy supply is essential for the production and movement of goods, as well as for attracting investment in manufacturing and other productive sectors (Mishra, 2018)

B. Trade Facilitation Measures

Simplifying customs procedures, reducing bureaucratic red tape, and improving border management can help to reduce the time and cost of trade transactions. Governments should adopt modern trade facilitation measures such as electronic customs systems, single window platforms, and risk management techniques. Simplifying and harmonizing customs procedures across African countries can help to reduce the administrative burden on traders and expedite the clearance of goods at borders. This can be achieved through the implementation of common customs procedures, documentation requirements, and the use of modern customs automation systems. Implementing single window systems that integrate all trade-related regulatory agencies and allow for the electronic submission of trade documents can streamline trade processes and reduce the time and cost of complying with import and export requirements. This can also improve transparency and reduce the opportunities for corruption in trade transactions. Implementing risk management systems and post-clearance audit procedures can help customs authorities focus their resources on high-risk shipments while facilitating the clearance of low-risk goods. This can help expedite trade processes and reduce delays at borders while ensuring compliance with trade regulations (Marinov, 2014).

C. Harmonization of Standards and Regulations

Divergent standards and regulations can act as a barrier to trade, particularly for small and medium-sized enterprises (SMEs). Harmonizing standards and regulations across the region can help to reduce compliance costs and promote cross-border trade. African nations ought to synchronise their technical rules and standards with global best practices and standards, like those established by relevant international standard-setting agencies and the International Organisation for Standardisation (ISO). This alignment can help to ensure that products and services produced in African countries meet global quality and safety standards,

making them more competitive in international markets. The AfCFTA member states should work towards mutual recognition agreements for conformity assessment procedures, which would allow products that have been certified as compliant with technical regulations in one country to be accepted in other member states without the need for additional testing or certification. This can help to reduce duplication of testing and certification processes, lower trade costs, and facilitate the movement of goods within the trading bloc (AfreximBank, 2018).

REFERENCES

- [1]. African Union (AU). 2018. *Agreement Establishing the African Continental Free Trade Area*.
- [2]. Bouët, A., Odjo, S. P., & Zaki, C. (Eds.). 2022. *2022 Africa Agriculture Trade Monitor (AATM). AKADEMIYA 2063 and the International Food Policy Research Institute (IFPRI)*. <https://doi.org/10.54067/9781737916437> (Accessed 10th March 2024).
- [3]. DNA Economics. 2021. *What we *think* we know about tariff liberalization and the AfCFTA*. An update on the AfCFTA. June 2021.
- [4]. Mene, W. 2021. Statement by the Secretary-General of the AfCFTA Secretariat, H.E. Wamkele Mene, at the *AfCFTA Start of Trading Ceremony Webinar*.
- [5]. de Melo, J., Solleder, J.-M., Sorgho, Z. 2020. *A Primer on African Market Integration with a Hard Look at Progress and Challenges Ahead*. Ffhal-02972147f.
- [6]. Tay, S. 2023. AfCFTA and the Creeping Power Play: Africa, the European Union and China. *Policy Center For The New South*. <https://policycenter.ma> (Accessed 18th March 2024).
- [7]. Kaplinsky, R. 2005. *Globalization Poverty and Inequality*. Between a Rock and a Hard Place, Polity Press: United Kingdom
- [8]. African Union. (2023). AU Summit 2023: *Powering Trade Through AfCFTA*. Retrieved from <https://www.un.org/africarenewal/magazine/february-2023/au-summit-2023-powering-trade-through-afcfta#> (13 May 2024).
- [9]. African Union. (2023). *Powering Trade Through AfCFTA: a People Driven Wholesome Development Agenda*. Retrieved from <https://au.int/en/pressreleases/20230215/powering-trade-through-afcfta-people-driven-wholesome-development-agenda> (13 May 2024).
- [10]. AUDA-NEPAD. (n.d.). *Unlocking Africa's Potential Through Enhancing the Continent's Industrialisation Sector*. Retrieved from <https://www.nepad.org/blog/unlocking-africas-potential-through-enhancing-continent-industrialisation> (04 May 2024).
- [11]. BrownSense. (2023). *AfCFTA: Empowering Small South African Businesses for Growth*. Retrieved from <https://linkedin.com> (13 May 2024).
- [12]. International Trade Center. (n.d). *Empowering African Businesses*. Retrieved from <https://intracen.org> (13 May 2024).
- [13]. OECD iLibrary. (2024). *Production Transformation Policy Review of Egypt: Spotlight on the AfCFTA and Industrialization*. Retrieved from <https://oecd-ilibrary.org> (29 April 2024).
- [14]. UNDP. (n.d.). *Strengthening the readiness of small businesses to participate in AfCFTA marketplaces*. Retrieved from <https://www.undp.org/africa/news/strengthening-readiness-small-businesses-participate-afcfta-marketplaces> (04 May 2024).
- [15]. Brenton, P., Saborowski, C., & von Uexkull, E. (2020). *African Continental Free Trade Area: Economic and Distributional Implications for East Africa*. World Bank Group.
- [16]. UNECA. (2018). *Assessing Regional Integration in Africa VII: Innovation for Competitiveness and Inclusive Growth*. United Nations Economic Commission for Africa.
- [17]. Alderson, A. (1999), 'Explaining Deindustrialization: Globalization, Failure, or Success?', *American Sociological Review*, vol. 64, no. 5, pp. 701–721.
- [18]. Hossein, J. and Weiss, J. (1999), 'De-Industrialization in Sub-Saharan Africa: Myth or Crisis?', *Journal of African Economics*, vol. 9, no. 1, pp. 24–43.
- [19]. ECA (2013), *Industrialization for Africa's Economic Emergence, Abstract, Sixth Conference of African Ministers of Finance, Planning and Economic Development of the Economic Commission for Africa and the Conference of African Ministers of Economy and Finance of the African Union, Abidjan*
- [20]. United Nations Economic Commission for Africa (UNECA). (2019). *Assessing the Impact of the African Continental Free Trade Area (AfCFTA) on Industrialization and Economic Diversification*.
- [21]. Oyejide, T. A. (2018). *Industrialization in Africa: Challenges and Opportunities*. *Journal of African Economics*, 27(1), 83-101.
- [22]. Alesina, A. and Barro, R. J. (2002), 'Currency Unions', *Quarterly Journal of Economics*, vol. 117, no. 2, pp. 409–436.
- [23]. Barro, R. J. and Lee, J.-W. (2002), 'IMF Programs: Who Is Chosen and What Are the Effects?' Working Paper, no. 8951, National Bureau of Economic Research.
- [24]. Dornbusch, R. (1992), 'The Case for Trade Liberalization in Developing Countries', *Journal of Economic Perspectives*, vol. 6, pp. 69–85.
- [25]. Kirkpatrick, C. (1987), 'Trade Policy and Industrialization in LDCs' in Norman, Gemmell (ed.), *Surveys in Development Economics*, Oxford: Blackwell, pp. 71–72.
- [26]. Chang, H. 2002. *Kicking Away the Ladder. Development Strategy in Historical Perspective*. Anthem Press: London.
- [27]. UNECA. 2016. *Transformative Industrial Policy for Africa*. United Nations Economic Commission for Africa: Addis Ababa

- [28]. UNECA and NEPAD Agency. 2016. *16 Infrastructure Projects for African Integration*. United Nations Economic Commission for Africa and New Partnership for Africa's Development Agency. Addis Ababa: Ethiopia Available at <https://nepad.org/publication/16-infrastructure-projects-African-integration>.
- [29]. Afreximbank (2018) African Trade Report: *Boosting Intra-African Trade - Implications of the African Continental Free Trade Area Agreement*. Cairo. Available at: www.afreximbank.com
- [30]. Marinov, E. (2014) '*Economic Integration Theories and the Developing Countries*', in Dautov, R. et al. (eds) Proceedings of the 9Th Annual South-East European Doctoral Student Conference - Infusing Research and Knowledge in South-East Europe. Thessaloniki, Greece: South-East European Research Centre, pp. 164–177.
- [31]. Mishra, A. (2018) *The African Continental Free Trade Area and its Implications for India Africa Trade, Emerging Themes in Indian Foreign Policy*. ORF Occasional Paper, #171.