

# A SHOT AT ECONOMIC LOGIC

Relevant for: International Relations | Topic: Africa, African Union (AU) and India

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. Of these countries, 27 have already ratified it. Actual cross-border free trade could start by July 2020 with an elimination of custom duties on 90% of the tariff-lines. If taken to its logical conclusion, this audacious project would eventually create an African Common Market of 1.2 billion people and a GDP of over \$3.4 billion — the metrics are comparable to India's. The AfCFTA would be world's largest FTA, and in a world dependent on African markets and commodities, it would have global impact.

However, there are three main reasons to be sceptical about the viability of the AfCFTA. First, 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, the AU's most ambitious project so far, with a ladleful of salt. Second, 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. Only a sixth of Africa's current total trade is within the continent. Third, 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. World trade is likely to grow only by 2.6% in 2019, a quarter of last year's figure. Commodity prices are stagnant and globalisation is often being reversed. With Africa accounting for only 3% of global trade, can the AfCFTA defy the contrarian global tendencies?

Still, there are reasons to be cautiously optimistic. Given the strong global headwinds including a cooling Chinese ardour for Africa, greater collective self-reliance through African economic integration makes eminent sense. Further, 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. A new breed of African transnational corporations such as Dangote, MTN, Ecobank and Jumia have continental ambitions. Indeed, the logistical and financial networks across the continent are poor and customs formalities are foreboding, 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. Looking into the future, 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.

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.

For instance, exports to 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.

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.

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