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**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF LAW AND GOVERNANCE STUDIES**  
**SCHOOL OF LAW**  
**LL.M PROGRAM-PUBLIC INTERNATIONAL LAW STREAM**

**PROSPECTS AND CHALLENGES OF MEMBERSHIP TO  
AFRICAN CONTINENTAL FREE TRADE AREA ON TRADE IN  
GOODS AND SERVICES: THE CASE OF ETHIOPIA**

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**ADDIS ABABA, ETHIOPIA**

**May, 2020**

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# **PROSPECTS AND CHALLENGES OF MEMBERSHIP TO AFRICAN CONTINENTAL FREE TRADE AREA ON TRADE IN GOODS AND SERVICES: THE CASE OF ETHIOPIA**

*A thesis Submitted in Partial Fulfillment of the Requirements for the  
LLM in Public International Law*

**BY YOSEF SAMUEL**

**ADVISOR: FIKREMARKOS MERSO (PHD, ASSO.PROF.)**


**ADDIS ABABA, ETHIOPIA**

**May, 2020**

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## **Declaration**

I, Mr. Yosef Samuel, declare that the thesis comprises my own work. In compliance with widely accepted practices, I have duly acknowledged and referenced all materials used in this work.

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Yosef Samuel

May, 2020

## **List of Acronyms**

AEC	African Economic Community
AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AMU	Arab Maghreb Union
AU	African Union
CBE	Commercial Bank of Ethiopia
CEN-SAD	The Community of Sahel-Saharan States
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
EAC	East African Community
EBA	Everything But Arms
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian Birr
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FTA	Free Trade Agreement

GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GSP	Generalized System of Preference
ICT	Information Communication Technology
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
ITU	International Communication Union
LDC	Least Developed Countries
MFN	Most Favored Nations Treatment
NT	National Treatment
OAU	Organization for African Unity
OECD	Organization for Economic Cooperation and Development
RECs	Regional Economic Communities
SACU	South African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programs
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TFTA	Tripartite Free Trade Area
UAE	United Arab Emirates
UNECA	United Nations Economic Commission for Africa

WTO World Trade Organization

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## **Abstract**

*The signing of the Agreement Establishing the AfCFTA in Kigali on 21 March 2018 is a great achievement for the continent's trade integration. The implementation of this agreement has prospects and challenges for the continent and for each State Party to the Agreement.*

*Ethiopia has signed the Agreement on the 21<sup>st</sup> day of March, 2018 and the FDRE House of Peoples Representatives has ratified the Agreement at its session held on the 21<sup>st</sup> day of March, 2019. In this regard, the prospects and challenges as well as the defensive and offensive interests of membership of Ethiopia to AfCFTA must be examined very well to use the potential benefits and minimize the possible challenges. Hence, the paper critically examines the prospects and challenges and identifies the defensive and offensive interests of membership of Ethiopia to AfCFTA in relation to the Protocol on Trade in Goods and the Protocol on Trade in Services.*

# CHAPTER ONE

## 1. 1. Introduction

Regional integration remains political and economic priority for African leaders and policy makers. There were efforts to create economic cooperation among African countries at a continental level. This was first observed in the establishment of the OAU which put regional solidarity and cooperation as fundamental objectives of the organization.<sup>1</sup>

The Agreement Establishing the AfCFTA was signed in March 21, 2018 with a general objective of creating a single and liberalized market for goods and services in the continent.<sup>2</sup>

The Agreement may have prospects and challenges on the export and import trade of State Parties to the Agreement though the extent may vary depending on their economic development. Therefore, critically examining the prospects and challenges of membership to AfCFTA is essential.

The paper discusses the issues with five chapters. The first chapter is the proposal. The second chapter deals with the nature and essence of the AfCFTA by giving special attention on Protocol on Trade in Goods and its Annexes, Protocol on Trade in Services and those steps taken by Ethiopian Government in the negotiation process.

The third chapter focuses on the prospects and challenges to Ethiopia in relation to trade in goods by raising the current and future trade potentials of the country. The offensive and defensive interests of membership to AfCFTA for Ethiopia on trade in goods are also discussed in the chapter. The fourth chapter covers the prospects, challenges, offensive and defensive interests of Ethiopia's membership to AfCFTA in relation to trade in services. The fifth chapter comprises conclusions and recommendations.

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<sup>1</sup> *OAU Charter* (signed May 25, 1963) preamble, Arts. II (1)

<sup>2</sup> *Agreement Establishing the African Continental Free Trade Area* (signed March 21, 2018) Art.3

## 1.2. Research Background and Problem

Regional integration initiatives in Africa dates back to the establishment of the SACU in 1910 and the EAC in 1919.<sup>3</sup> There were also efforts to create economic cooperation among African countries at a continental level. This was first observed in the establishment of the OAU.

Africa's regional integration agenda is highly promoted by the RECs which, in the long run, visualize the AEC. This vision came up during the creative years of the OAU, included in the 1980 Lagos Plan of Action as a systematic political program and was provided legal expression in the 1991 Abuja Treaty.<sup>4</sup>

The intra-African trade had only a small share of the continent's total exports and imports over 2010–2017.<sup>5</sup> The continent had high trade relation with the outside world than internally. Therefore, the low level of intra-African trade needs to be improved by creating an expanded and secure market for the goods and services through adequate infrastructure and progressive elimination of tariffs and non-tariff barriers to trade and investment.<sup>6</sup> Hence, the establishment of the AfCFTA in the continent is a great achievement.

The Abuja Treaty, which established the AEC, was signed on June 3, 1991.<sup>7</sup> Its aim was to strengthen sectorial cooperation and establish regional FTAs, a continental CU, a Common Market, and a Pan-African Economic and Monetary Union.<sup>8</sup>

The 25<sup>th</sup> Ordinary Session of the Assembly of Heads of State held in Johannesburg, South Africa launched the CFTA negotiations in June 2015.<sup>9</sup> Finally, in March 21, 2018, the Agreement

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<sup>3</sup> Alemayehu Geda and Haile Kibret, *Regional Economic Integration in Africa: A Review of Problems and Prospects with a Case of COMESA* (SOAS, University of London 2002) 2

<sup>4</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 1

<sup>5</sup> Ibid 6

<sup>6</sup> *Agreement Establishing the African Continental Free Trade Area* (signed March 21, 2018) the Preamble

<sup>7</sup> *Treaty Establishing the African Economic Community* (signed June 3, 1991) Art.105

<sup>8</sup> Ibid Art 6

Establishing the AfCFTA was signed at the 10<sup>th</sup> Extraordinary Session of the Assembly of the Heads of State and Government of the AU held in Kigali, Rwanda and it entered into force on 30 May, 2019.<sup>10</sup>

The operational phase of the AfCFTA Agreement was officially launched on 7 July 2019, at an Extraordinary Summit of the AU and trading under the AfCFTA will begin on 1 July 2020.<sup>11</sup>

The AfCFTA has the core objectives of creating a single continental market for goods and services, with free movement of business persons and investments.<sup>12</sup> It also aims at enlarging intra-Africa trade across the regional economic communities and the continent in general.<sup>13</sup>

54 African countries have signed the consolidated text of the Agreement Establishing the AfCFTA and 29 African countries have deposited their instrument of ratification with chair of the AU Commission until December 6, 2019.<sup>14</sup> Ethiopia also deposited the instrument of ratification on 10 April, 2019.<sup>15</sup>

The AfCFTA negotiation has two phases. Protocol on Trade in Goods, Protocol on Trade in Services, Protocol on the Settlement of Disputes and their Annexes and Appendixes are among first phase issues whose negotiations are completed.<sup>16</sup>

Under the Protocol on Trade in Goods, 90% of tariff lines are to be liberalised as per the Agreement of State Parties. The remaining 10% of tariff lines is divided into two categories: 7%

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<sup>9</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 40

<sup>10</sup> *The African Continental Free Trade Area: A Tralac Guide* (Trade Law Center, 6<sup>th</sup> edition, 2019) 2

<sup>11</sup> *AfCFTA: Towards the African Continental Free Trade Area: AfCFTA Ratification Barometer* (tralac, 2019) 1

<sup>12</sup> *Agreement Establishing the African Continental Free Trade Area* (signed March 21, 2018) Art.3

<sup>13</sup> Ibid

<sup>14</sup> 'AfCFTA: Towards the African Continental Free Trade Area' (Trade Law center, 2019) 9 <<https://www.tralac.org>> accessed 15 May 2020

<sup>15</sup> Ibid

<sup>16</sup> Landry Signe and Colette Van der Ven, *Key to Success for the AfCFTA Negotiations* (African Growth Initiative at Brookings 2019) 3

is assigned for sensitive products and 3% of tariff lines can be excluded from liberalisation entirely.<sup>17</sup>

Phase II of the AfCFTA negotiations, which commenced in February 2019, covers three topics: investment, competition policy, and intellectual property rights and are expected to be completed by June 2020.<sup>18</sup>

In the service sector, State Parties have distinguished five priority sectors: transport, communications, financial services, tourism, and business services. However, specific offers around these sectors are in the process of being negotiated.<sup>19</sup>

African countries have the potential of high economic gains from further liberalizing merchandise trade since it has the possibility to maximize the positive impacts on intra-African exports of agriculture, food and industrial products.<sup>20</sup> Moreover, the AfCFTA is a great opportunity to eliminate the continent's most prevalent non-tariff measures such as TBT and SPS. It will also minimize infrastructural gaps and other trade related transaction costs occurred at intra-African trade.<sup>21</sup>

On the other hand, elimination of tariff may have negative impacts on the trade tax earnings of countries and possibly lead to the demise of uncompetitive industries and services. So, membership to AfCFTA may have prospects and challenges for State Parties to the Agreement.

In Ethiopia, the export trade is highly characterized by concentration on few commodities. Furthermore, the under developed private sector which has a weak supply response to new market opportunities, weak services such as finance, telecommunication, and transport which are

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<sup>17</sup> Trudi Hartzenberge, 'AfCFTA: What is Expected of LDCs in Terms of Trade Liberalization' <<https://www.un.org>> accessed 4 February 2020

<sup>18</sup> Landry Signe & Colette Van der Ven, *Key to Success for the AfCFTA Negotiations* (African Growth Initiative at Brookings 2019) 3-4

<sup>19</sup> Ibid 6

<sup>20</sup> *African Continental Free Trade Area: Advancing Pan-African Integration: Some Considerations* (UN, New York and Geneva 2016) 8

<sup>21</sup> Lisandro Abrego and others, *The African Continental Free Trade Agreement: Welfare Gains Estimates from a General Equilibrium Model* (IMF working Paper, WP/19/124, 2019) 9

needed to accelerate the efficiency of production in the goods sector are also problems for the country. These may affect the competitiveness of the country's export and import trade in the African market. Yet, the AfCFTA has potential benefits to the country: creating market access, attracting foreign investment and creating jobs.

In Ethiopia, the Government highly controlled the financial sub-sector: trade cash flow, banking system etc. Ethiopia is one of the under banked countries in Sub-Saharan Africa with under developed nature<sup>22</sup> Therefore, liberalizing the financial sector may advance the efficiency, effectiveness and accessibility of the sub-sector. The infant and uncompetitive nature of the country's finance sector may, however, be affected by foreign banks and insurances.<sup>23</sup>

Furthermore, until recently, the telecom industry is under the full ownership of the government though there is already a process to sell 49 % stake share to private companies in the sector.<sup>24</sup> Liberalization of the sector may be difficult for domestic investors as it is challenging to compete with foreign investors. It will also stop being a source of national budget for the government.<sup>25</sup>

In contrast, since building a telecom system is expensive and needs high technology, liberalizing this sub sector will make possible for foreign investors to finance the communications infrastructure.<sup>26</sup> It will also improve and maintain communication networks, attracts investment, creates job opportunities and increases the productivity and efficiency of the sector.

The other service sector is the tourism sector. Liberalization of the tourism sector improves the sector by supporting with modern technological innovations such as the internet, worldwide web and electronic commerce.<sup>27</sup> It also makes the sector lead with well experienced tour guides and

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<sup>22</sup> Tefera Assefa, *Financial sector liberalization in Ethiopia: Resistance, Justification and its Credibility* (Journal of Studies in Management and Planning e-ISSN: 2395-0463 Volume 02 Issue 4, 2016) 233-234

<sup>23</sup> Ibid 240

<sup>24</sup> 'Ethiopia to Open Telecom Sector to Multinationals' <<https://www.ezega.com>> accessed 30 April 2020

<sup>25</sup> *Telecoms liberalization: an International Business Guide for Policy Makers* (International Chamber of Commerce 2004) 20

<sup>26</sup> Ibid 13

<sup>27</sup> Mariama Williams, *Economic Literacy Series: General Agreement on Trade in Services, #5 Tourism Liberalization, Gender and the GATs* (International Gender and Trade Network 2002) 3

other personnel which may in effect attract more tourists. But liberalization may affect most small and medium sized businesses which have major role in the country's tourism service. They cannot compete with the large well financed and overly capital endowed foreign competitors.

In the transportation sector, the role of Ethiopian Airlines is high. The AfCFTA helps to widen its services throughout Africa.

Considering the above potential opportunities and threats, Ethiopia, as a country which signed and ratified the Agreement, must critically examine those challenges and opportunities of membership to the AfCFTA. Therefore, the paper tries to analyze those potential benefits, challenges, defensive and offensive interests of membership of Ethiopia to AfCFTA covering the current and future trade periods of the country.

### **1.3. Research Objective**

The objectives of the paper, in general, are the following:

- Examining those prospects and challenges of membership of Ethiopia to AfCFTA considering both the current and future prospects of trade in goods and services of the country.
- Identifying the defensive and offensive interests of membership of Ethiopia to AfCFTA

Generally, the paper tries to give answer on whether AfCFTA benefits Ethiopia or not by examining the export and import trade data and the future trade potentials of the country with other African countries.

### **1.4. Literature Review**

Regarding AfCFTA some writers argue that in its contents and timing, the AfCFTA goal of the AU is an unrealistic folly.<sup>28</sup> For them, it doesn't take in to account the economic reality of African countries. All developed countries of today have reached their competitive position through a high import protection on agriculture and infant industries and through subsidies.<sup>29</sup>

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<sup>28</sup> Jacques Berthelot, *The folly of the Africa's Continental Free Trade Area (CFTA)* (2017) 1

<sup>29</sup> Ibid 2

Then, opening their market comes next. But African countries are doing otherwise.<sup>30</sup> For them, unless there is minimal income redistribution policies, premature free trade areas such as the AfCFTA, would disregard the poorest households, businesses and regions and becomes additional under-development for Africa.<sup>31</sup> Substantial tariff revenue losses and an unequal distribution of costs and benefits are also mentioned as challenges.

On the other hand, there are many writers who consider AfCFTA as a great opportunity for African countries.<sup>32</sup> They argue that it has the potential benefits of producing bigger and integrated regional market for African products, permitting producers to access cheaper raw materials and intermediate inputs, supplying cheaper imported products for consumers and gives faster economic and trade growth.<sup>33</sup> Writers in the area also argue that for developing countries like Ethiopia, export trade and trade liberalization have direct relationship by considering that opening market will give better chance to exploit market opportunities through product diversification and differentiation.<sup>34</sup> It also transfers Ethiopia from the protectionist, inward-oriented mentality to a more out-ward-oriented attitude towards trade.<sup>35</sup>

On the other hand, studies on the Ethiopian economy show that, considering the two periods: from 1974-1991 (pre liberalization period) and from 1992-2009 (post liberalization period) imports did increase as a proportion of GDP following trade liberalization and a high deterioration in the trade balance occurred following trade liberalization.<sup>36</sup>

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<sup>30</sup> Ibid 12

<sup>31</sup> Ibid 13

<sup>32</sup> Mensut Saygill, Ralf Peters and Christian Knebel, *African Continental Free Trade Area: Challenges and opportunities of Tariff Reductions* (UNCTAD Research Paper No.15 2018) 5

<sup>33</sup> Ibid

<sup>34</sup> Hailegiorgis Biramo, *The Impact of Trade Liberalization on the Ethiopia's Trade Balance* (American Journal of Economics 2012, 2(5): 75-81 DOI: 10.5923/j.economics.20120205.02 ) 76

<sup>35</sup> Ibid 77

<sup>36</sup> Ibid 78

The above discussed literatures have raised the general benefits and challenges of AfCFTA, but they lack identifying the prospects and challenges of Ethiopia's membership to AfCFTA: they have gaps in examining the country's membership to AfCFTA in relation to agricultural and manufactured products by combining with the trade data of the country. They also lack in identifying the used and unused export potentials of the country in African market and the possible remedies in utilizing the market opportunity of the country. The literatures also have gaps in raising those prospects and challenges in relation prioritized service sectors identified by AfCFTA such as communication, finance, transport and tourism in the context of Ethiopia.

The paper, by filling these gaps, tries to deeply look at the prospects and challenges of Ethiopia's membership to AfCFTA through critically examining the trade data of agricultural and manufactured goods, and the used and unused export potentials of the country. It also examines the prospects and challenges of the country's membership on its service trade focusing on the AfCFTA identified prioritized service sectors.

## **1.5. Research Questions**

The paper will attempt to answer the following questions:

1. What is the nature and essence of the AfCFTA Agreement and its Protocol on Trade in Goods, Protocol on Trade in Services and their Annexes?
2. What are the offensive and defensive interests of membership to AfCFTA for Ethiopia in relation to trade in goods and services?
3. What are the prospects and challenges to Ethiopia in relation to trade in goods and services considering the current and future trade potential of the country?
4. What are the measures to be taken by Ethiopian government to magnify the potential benefits and minimize those challenges?

## **1.6. Research Method**

Regarding methods employed, depending on the cases, the paper employs doctrinal legal research method by analyzing and interpreting laws relevant to the topic. Additionally, it also examines the practice the country experiences on trade in goods and services with African

countries and the current and future trade potential of the country. As a result, it also employs non doctrinal (empirical) method.

Concerning on data sources and sample selection:

- Primary sources: the Proclamation on the Ratification of the Agreement Establishing the AfCFTA, the Agreement Establishing the AfCFTA and its Protocols on Trade in Goods and Services and other relevant domestic and international laws.
- Regarding secondary sources: Books, journals, articles, internet sources, expert interviews, unpublished materials, reports and other government documents especially from concerned government bodies like Ministry of Trade and Industry and Ethiopian Customs Commission will be referred and interpreted, selectively and purposively.

## CHAPTER TWO

# THE NATURE AND ESSENCE OF THE AfCFTA AND THE STEPS TAKEN BY ETHIOPIAN GOVERNMENT IN THE NEGOTIATION PROCESS

### 2.1. African Regional Integration in General

Regional integration remains political and economic priority for African leaders and policy makers. The adoption and implementation of many regional integration programs both at continental and regional levels are typical evidences for this reality.<sup>37</sup>

Africa's regional integration initiatives date back to the establishment of the SACU in 1910 and the EAC in 1919.<sup>38</sup> There were also efforts to create economic cooperation among African countries at a continental level. This was first observed in the establishment of the OAU which put regional solidarity and cooperation as fundamental objectives of the organization.<sup>39</sup>

It was in 1979 at Monrovia that the continental wide regional integration in Africa was given significant attention by African leaders.<sup>40</sup> In the 1979 Monrovia Declaration, African states devoted to the advancement of economic and social growth and integration of their economies so as to achieve self-sufficiency and to promote economic integration of Africa.<sup>41</sup>

The adoption of the Lagos Plan of Action for the Economic Recovery of Africa (LPA) and the Final Act of Lagos in 1980 was another important step in the integration movement of Africa.

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<sup>37</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 1

<sup>38</sup> Alemayehu Geda and Haile Kibret, *Regional Economic Integration in Africa: A Review of Problems and Prospects with a Case of COMESA* (SOAS, University of London 2002) 2

<sup>39</sup> Martha Belete, *Regional Economic Integration in Africa: Challenges and Prospects* (Mizan Law Review, vol.8, No 2, 2014) 312

<sup>40</sup> Ibid

<sup>41</sup> Ibid

The aim of the Lagos Plan of Action was establishing an African Common Market by the year 2000 on step by step basis: formation of a Free Trade Area, then a formalized Common Market, and finally a Pan African Economic Union.<sup>42</sup> However, neither of its aims was successful.

The other effort in the integration process was the 1991 Abuja Treaty (the treaty establishing AEC) which aims at establishing economic integration by consolidating the existing regional blocks. The treaty had set 2028 as a new date for attaining a Pan African economic community using six stages of integration.<sup>43</sup> The six stages are strengthening existing RECs and establish new RECs; ensuring consolidation within each REC and harmonization between the RECs; establishing FTAs and CUs in each RECs; coordinating and harmonizing tariff and non-tariff systems among the RECs to create continental CU; creating an African Common Market (ACM) and finally establishing an AEC, including an African Monetary Union and a Pan-African Parliament by 2028.<sup>44</sup> Accordingly, the RECs are expected to achieve the first three stages of the integration process whereas the remaining stages relate to integration at continental level.

When we see the progress until now, we can observe mixed results through the eight AU RECs. EAC, COMESA, ECOWAS, ECCAS, and SADC are at stage three since they have achieved FTA status and launched CU programs but IGAD and CEN-SAD are at stage two.<sup>45</sup>

African integration agenda was also reaffirmed by the 2000 constitutive act of AU, the 2012 Boosting Intra-African Trade action plan and, most recently, the Agreement Establishing the AfCFTA, signed in 2018.<sup>46</sup>

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<sup>42</sup> Ibid

<sup>43</sup> Ibid

<sup>44</sup> *Assessing Regional Integration in Africa VIII: Bringing the Continental Free Trade Area About* (UNECA, AU, ADB Group, 2017) 15

<sup>45</sup> *Martha Belete, Regional Economic Integration in Africa: Challenges and Prospects* (Mizan Law Review, vol.8, No 2, 2014) 314

<sup>46</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 1

## 2.2. Status of Intra-African Trade

Trade is considered as basis for integration in many regional groupings. It is a foundation for investment in regional infrastructural development which in turn enables integration and promotes industrialization.<sup>47</sup>

The notion of trade integration is incorporated in the AU's 2009 Minimum Integration Program and Agenda 2063.<sup>48</sup> In this regard, with in their respective sub-regions, RECs have a great role in the interaction of various counties of Africa by eliminating tariff and nontariff barriers.

Nowadays there are 8 RECs which are formally recognized by the AU:<sup>49</sup> AMU, ECOWAS, EAC, IGAD, SADC, COMESA, ECCAS and CEN-SAD. Among these RECs, only three of them are both FTA and CU:<sup>50</sup> ECOWAS, EAC and COMESA.

When we see the level of intra-African trade, it had only a small share of Africa's total exports and imports over 2010-2017.<sup>51</sup> It was around 15.2 % in the period 2015–2017.<sup>52</sup> Moreover, the value of intra-African exports in 2018 was US\$74 billion, which accounted 15% of Africa's world exports.<sup>53</sup> From 2017-2018 Africa's exports to the rest of the world increased by 22% but intra-Africa exports increased by only 1%.<sup>54</sup>

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<sup>47</sup> Ibid 5

<sup>48</sup> Ibid 5

<sup>49</sup> *Assessing Regional Integration in Africa VIII: Bringing the Continental Free Trade Area About* (UNECA, AU, ADB Group, 2017) 14

<sup>50</sup> Ibid

<sup>51</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 6

<sup>52</sup> *Economic Development In Africa Report 2019: Made In Africa-Rules of Origin for Enhanced Intra-African Trade* (UN, 2019) 19

<sup>53</sup> *The African Continental Free Trade Area: A Tralac Guide* (Trade Law Center, 6th edition, 2019) 10

<sup>54</sup> Ibid

Of the total exports of Africa, the share of intra-regional exports is marginal: 16.6 % of total exports.<sup>55</sup> The continent traded more with the outside world and the largest share of its export is from EU, which accounts more than 30%.<sup>56</sup>

But, through time intra-African trade has shown some progress and the intra-African export trade potential is estimated to exceed US\$48 billion which might considerably raise the present level of intra-African trade to around US\$210 billion, hypothetically sharing for more than 20 % of total African trade, *ceteris paribus*.<sup>57</sup>

The ten products with the greatest potential in the intra-African trade are mineral products, machinery, food products, motor vehicles and parts, beauty and cosmetic products, chemicals, fish and shellfish, plastics and rubber, fertilizers, and sugars and confectionary, which collectively cover over 50 percent of the total intra-African export potential.<sup>58</sup>

## **2.3. The African Continental Free Trade Area: a Road to Trade Liberalization**

The 25<sup>th</sup> Ordinary Session of the Assembly of Heads of State held in Johannesburg, South Africa launched the CFTA negotiations in June 2015.<sup>59</sup> Then, negotiations on various trade issues were held in different cities of the continent. Finally, after ten rounds of negotiations, in March 21, 2018, the Agreement Establishing the AfCFTA was signed by 44 African countries at the 10<sup>th</sup> Extraordinary Session of the Assembly of the Heads of State and Government of the AU held in Kigali, Rwanda.<sup>60</sup> Then, it entered into force on 30 May 2019. Till December 6, 2019, the

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<sup>55</sup> n.52

<sup>56</sup> n.51

<sup>57</sup> *African Trade Report: African Trade in a Digital World* (African Export-Import Bank, 2019) 104

<sup>58</sup> Ibid

<sup>59</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 40

<sup>60</sup> Landry Signe and Colette Van der Ven, *Key to Success for the AfCFTA Negotiations* (African Growth Initiative at Brookings 2019) 2

consolidated text of the Agreement Establishing the AfCFTA was signed by 54 countries: all AU Member States except Eritrea and 29 countries have deposited their instruments of ratification with the depositary (Chair of the AU Commission).<sup>61</sup>

The negotiation process of the AfCFTA has two phases. Protocol on Trade in Goods, Protocol on Trade in Services, Protocol on the Settlement of Disputes and their Annexes are among the first phase issues whose negotiations are completed. Phase II of the AfCFTA negotiations, which commenced in February 2019, covers three topics: investment, competition policy, and intellectual property rights and are expected to be completed by June 2020.<sup>62</sup>

The establishment of the AfCFTA is a stepping stone to an African CU and in the long run for fully-fledged African Economic Community. Since the establishment of the WTO, it will be the world's largest free trade area and if it is implemented very well, Africa will have a combined consumer and business spending of \$6.7 trillion in 2030.<sup>63</sup> It will have also a substantial impact on manufacturing and industrial development, intra-African cooperation, tourism and economic transformation. Compared to an Africa without the AfCFTA, UNECA has forecasted that AfCFTA will raise intra-African trade by 15 to 25 percent or \$50 billion to \$70 billion by 2040.<sup>64</sup> Similarly, the IMF projected that, under the AfCFTA, Africa's expanded and more efficient goods and labor markets, will meaningfully raise the continent's total ranking on the Global Competitiveness Index.<sup>65</sup>

The Agreement has both general and specific objectives. The general objectives include creating a single and liberalized market for goods and services, contributing to the movement of capital and natural persons and facilitate investments, laying the foundation for the establishment of a

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<sup>61</sup> *AfCFTA: Towards The African Free Trade Area: AfCFTA Ratification Barometer* (tralac, 2019) 1

<sup>62</sup> Landry Signe and Colette Van der Ven, *Key to Success for the AfCFTA Negotiations* (African Growth Initiative at Brookings 2019) 3-4

<sup>63</sup> Ibid 1-2

<sup>64</sup> Ibid 1-2

<sup>65</sup> Ibid 1-2

Continental CU and enhancing the competitiveness of the economies of State Parties within the continent and the global market.<sup>66</sup>

Progressive elimination of tariffs and non-tariff barriers to trade in goods, liberalizing trade in services, cooperating on customs matters on all trade related areas and implementation of trade facilitation measures are among the specific objectives stated in the Agreement.<sup>67</sup>

There are also principles governing the AfCFTA: RECs' FTAs as building blocks for the AfCFTA, flexibility and special and differential treatment, transparency and disclosure of information, MFN, NT and reciprocity.<sup>68</sup>

## 2.4. Institutional Frame Work of the AfCFTA

There are institutions of the AfCFTA which are responsible for the implementation, administration, facilitation, monitoring and evaluation of the AfCFTA. These institutions are briefly described as follows:<sup>69</sup>

- 1. The Assembly:** It is the highest decision making organ of the AU and the AfCFTA comprising of not only those State Parties to the Agreement but all AU Heads of State. It provides oversight and strategic guidance on the AfCFTA, including the Action Plan for Boosting Intra-African Trade.
- 2. The Council of Ministers:** It contains Ministers of Trade or other representatives from State Parties. It has the authority, with in its mandates, to take decisions on all matters under the AfCFTA Agreement, and works in collaboration with the relevant organs and institutions of the AU. It reports and gives recommendations to the Assembly for the adoption of authoritative interpretation of the Agreement.
- 3. The Committee of Senior Trade Officials:** This Committee comprises of Permanent Secretaries or other officials designated by each State Party. The development of

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<sup>66</sup> *Agreement Establishing the African Continental Free Trade Area* (signed March 21, 2018) Art.3

<sup>67</sup> *Ibid* Art.4

<sup>68</sup> *Ibid* Art.5

<sup>69</sup> *The African Continental Free Trade Area: A Tralac Guide* (Trade Law Center, 6<sup>th</sup> edition, 2019) 6

programs and action plans for the implementation of the AfCFTA Agreement are the responsibilities of the Committee.

- 4. The Secretariat:** The Secretariat, which bases in Accra, Ghana, is the administrative organ of the AfCFTA which is responsible for coordinating the implementation of the AfCFTA.

In addition to the above institutional arrangements, the Protocols of the AfCFTA Agreement also established different technical committees to support the implementation of the Agreement.<sup>70</sup> The operation of the Protocol on Trade in Goods is facilitated by Committee on Trade in Goods. This Committee will also establish sub-committees responsible for the operationalization of the Annexes of the Trade in Goods Protocol. Similarly, the operation of the Protocol on Trade in Services will be facilitated by the Committee on Trade in Services.<sup>71</sup>

## **2.5. The Nature and Essence of Protocol on Trade in Goods**

The Protocol on Trade in Goods, its Annexes and Appendices, as stated under Article 8 of the Agreement, are integral part of the Agreement. As stated under Article 3 of the Protocol, it is among the First Phase Negotiations with 9 Annexes: Annex 1 on Schedules of Tariff Concessions, Annex 2 on Rules of Origin, Annex 3 on Customs Cooperation and Mutual Administrative Assistance, Annex 4 on Trade Facilitation, Annex 5 on Non-Tariff Barriers, Annex 6 on TBT, Annex 7 on SPS, Annex 8 on Transit and Annex 9 on Trade Remedies.

Creating a liberalized market for trade in goods is the main objective of this Protocol. Additionally, its specific objective include boosting intra-African trade in goods through progressive elimination of tariffs and non-tariff barriers; greater efficiency of customs procedures, trade facilitation and transit; enhanced cooperation in the areas of TBT and SPS; development and promotion of regional and continental value chains; and improved socio-economic development, diversification and industrialization across Africa.<sup>72</sup>

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<sup>70</sup> Ibid 8

<sup>71</sup> Ibid, 8

<sup>72</sup> *Agreement Establishing the African Continental Free Trade Area: Protocol on Trade in Goods* (signed March 21, 2018) Art. 2

### 2.5.1. Principles of Non-Discrimination

Principles of non-discrimination such as the MFN, NT and Special and Differential Treatment are included under Part II of the Protocol.

The MFN principle is enshrined under Article 4 of the Protocol. The traditional MFN clause requires a country to unconditionally extend any concessions, privileges, or immunities granted to one member to all other members of the free trade agreement.<sup>73</sup> But the MFN principle under AfCFTA is different from the traditional MFN for its application is on a reciprocal basis, not automatic or unconditional.<sup>74</sup> In the context of the AfCFTA, the absence of a traditional MFN clause serves a purpose called preserving the *acquis* which means that State Parties to one of the eight RECs recognized under the AfCFTA shall maintain, and if possible improve upon the levels of liberalization.<sup>75</sup>

NT principle, as stipulated under Article 5 of the Protocol, obliges all State Parties to the AfCFTA to treat products imported from other AfCFTA State Parties in the same way as they treat products produced domestically after the imported goods are cleared by customs.

Special and differential treatment is the other principle under non-discrimination which obliges State Parties to provide flexibilities to other State Parties which are at different levels of economic development or that have individual specificities to ensure comprehensive and mutually beneficial trade in goods.<sup>76</sup> The treatments include special consideration and an additional transition period in the implementation of this Agreement.

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<sup>73</sup> Landry Signe and Colette Van der Ven, *Key to Success for the AfCFTA Negotiations* (African Growth Initiative at Brookings 2019) 4

<sup>74</sup> *Agreement Establishing the African Continental Free Trade Area: Protocol on Trade in Goods* (signed March 21, 2018) Art. 4 (3)

<sup>75</sup> *Ibid* Art. 8 (2)

<sup>76</sup> *Ibid*, Art. 6

## 2.5.2. Liberalization of Trade under the Protocol on Trade in Goods

Across Africa, the level of tariff imposed on goods varies from country to country. Those countries which trade in the FTAs of their RECs, with eliminated or zero tariff preferences and members of fully fledged CUs such as SACU trade duty-free with one another whereas among countries with no preferential agreement the level of tariffs imposed on goods is higher.<sup>77</sup>

Accordingly, Article 7 of the Protocol obliged State Parties to progressively eliminate import duties or charges having equivalent effect on goods originating from the territory of any other State Party.

Additionally, Article 8 of the Protocol stated that the applied tariff to imports are preferential tariffs based on its Schedule of Tariff Concessions contained in Annex 1 to this Protocol and in conformity with the adopted tariff modalities and the Schedules of Tariff Concessions, the adopted tariff modalities and outstanding work on tariff modalities to be negotiated and adopted will be an integral part of this Protocol. Accordingly, under the Protocol on Trade in Goods, 90% of tariff lines are to be liberalized as per the Agreement of State Parties.<sup>78</sup> But there is a distinction between LDCs and non-LDCs for the tariff negotiations. Non-LDCs have 5 years to achieve 90% liberalization while LDCs have 10 years.<sup>79</sup> The remaining 10% of tariff lines is divided into two categories: 7% is assigned for sensitive products and 3% of tariff lines can be excluded from liberalization entirely.<sup>80</sup> To eliminate tariffs on sensitive products, LDCs have 13 years and may up hold their current tariffs for the first 5 years and phase down starts in year 6.<sup>81</sup> Non-LDCs have 10 years to eliminate tariffs on sensitive products and may also maintain the current tariff during first 5 years and phase down starts in year 6.<sup>82</sup> 3% of tariff lines may be

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<sup>77</sup> *The African Continental Free Trade Area: A Tralac Guide* (Trade Law Center, 6th edition, 2019) 20

<sup>78</sup> Trudi Hartzenberge, 'AfCFTA: What is Expected of LDCs in Terms of Trade Liberalization' <<https://www.un.org>> accessed 4 February 2020

<sup>79</sup> Ibid

<sup>80</sup> Ibid

<sup>81</sup> Ibid

<sup>82</sup> Ibid

excluded by LDCs and non-LDCs but the excluded products should not exceed 10% of their total trade. There are also specific group of countries called G6: Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe which argued that they face specific development challenges and, accordingly, secure a 15-years phase down period.<sup>83</sup>

Rules of Origin are the other issue covered under phase I negotiations that help to decide which products are eligible to receive preferential tariffs. Rules of origin are intended to prevent tariff evasion by non AfCFTA State Parties, develop regional and continental market integration and boost intra-Africa trade.<sup>84</sup>

According to Article 4, 5 and 6 of Annex II of the Protocol, a product is considered as originated from a State Party if it has been wholly obtained in that State Party or is sufficiently worked or processed by adding value, non-originating material content, change in tariff heading or specific processes.

The negotiation process on Rules of Origin, according to Mr. Musse Mindaye, is made on the product by product basis and each product will have a chapter.<sup>85</sup> According to him there is a consensus on agricultural products by the State Parties: whole agricultural products must be obtained from Africa.<sup>86</sup> However, State Parties are still under negotiation on many products such as cars, textile, edible oil etc.<sup>87</sup>

The main focus of the negotiation on this point is the level of restrictiveness of the rules.<sup>88</sup> Early industrialized countries of Africa such as South Africa, Egypt and Morocco support for stricter rules of origin in the form of product-specific rules so as not unjustifiably benefit non-AfCFTA

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<sup>83</sup> Ibid

<sup>84</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 46-47

<sup>85</sup> Interview with Musse Mindaye, Multilateral Trade Relation and Negotiation Director and Alternative Negotiator of Ethiopia in the AfCFTA, Ministry of Trade and Industry (Addis Ababa, 30 March 2020)

<sup>86</sup> Ibid

<sup>87</sup> Ibid

<sup>88</sup> Landry Signe and Colette Van der Ven, *Key to Success for the AfCFTA Negotiations* (African Growth Initiative at Brookings 2019) 7

countries from this African trade agreement. Conversely, in LDCs there are small and medium-sized enterprises (SMEs) which can't meet stricter rules of origin.<sup>89</sup>

Because of the weak status of manufacturing in many African countries, and the ill-equipped private SMEs, strict rules of origin would prevent the majority of African businesses from taking benefit of the preferential tariffs under the AfCFTA. Thus negotiators should adopt relatively soft rules of origin so as to ensure State Parties able to trade using the AfCFTA preferences.

### **2.5.3. Non-Tariff Barriers (NTBs), TBT and SPS**

NTBs are generally assumed to hinder intra-African trade more than tariffs.<sup>90</sup> Therefore, significant attention is needed to eliminate NTBs. Article 3 of Annex IV of the Protocol listed general categorization of potential NTBs: government participation in trade and restrictive practices tolerated by governments; customs and administrative entry procedures; TBT; SPS; specific limitations; and charges on imports.

TBT, as per Article 2 of Annex VI, is applied to standards, technical regulations, conformity assessment procedures, accreditation, and metrology in the State Parties and the basis of this Annex is the WTO TBT Agreement as described under Article 3 of the Annex. Article 4 of the Annex mentions the objectives of the Annex: facilitating trade through cooperation in the areas of standards, technical regulation, conformity assessment, accreditation and metrology and establishing mechanisms and structures to enhance transparency in the development and implementation of these areas.

SPS, governed under Annex VII of the Protocol, applies to SPS measures that directly or indirectly affect trade between the State Parties. According to Article 3 of the Annex, the provisions of the WTO Agreement on the Application of SPS Measures are the guiding agreement in the preparation, adoption, and application of SPS measures for State Parties. It has the objectives of facilitating trade while safeguarding human, animal or plant life or health in the

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<sup>89</sup> Ibid

<sup>90</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 47

territory of State Parties; and enhancing cooperation and transparency in the development and implementation of SPS measures; as stated under Article 4 of the Annex.

#### **2.5.4. Customs Co-operation and Mutual Administration Assistance, Trade Facilitation and Transit**

The issue of customs co-operation and mutual administrative assistance is governed under Annex III of the Protocol. Article 2 of the Annex obliges State Parties to cooperate in all areas of customs administration to improve the regulation of trade flows and the enforcement of applicable laws within the State Parties. The co-operation also extends in the form of Mutual Administrative Assistance in accordance with the framework of the Agreement within their competence and available resources of their Customs Authorities. To achieve the objectives of the Annex, harmonization of Valuation Systems and Practices is included under Article 4 of the Annex which is a system of valuing goods for customs purposes based on the principles of non-discrimination, transparency and uniform application of such a system in accordance with Article VII of GATT on Valuation for Customs Purposes.

Trade facilitation, covered under Annex IV of the Protocol, has the objective of simplifying and harmonizing international trade procedures and logistics to expedite the processes of importation, exportation and transit; and accelerating the movement, clearance and release of goods including goods in transit across borders within State Parties as noted in Article 2 of the Annex.

Transit, covered under Annex VIII of the Protocol, applies to any transitor, mail, means of transport, or any shipment of bonded goods in transit between two points either in two different State Parties or between a State Party and a Third Party. The Agreement on transit, as stated in Article 2 of the Annex, grants all transit traffic freedom to pass through their respective territories by any means of transport suitable for that purpose when coming from a State Party or bound to one; third Parties and bound to other State Parties; other State Parties and bound to third countries; or third Parties and bound to third Parties.

#### **2.5.5 Trade Remedies**

It governs measure such as anti-dumping, countervailing and safeguard measures taken by State Parties with respect to goods. It is applied as per Articles 17-19 of the Protocol on Trade in

Goods, Annex 9 and the AfCFTA Guidelines in accordance with relevant WTO Agreements. According to Article 4 of the Annex, State Parties may apply preferential Safeguard measures if, as a result of implementing the Agreement, any product originating in a State Party is being imported into the territory of another State Party in such increased quantities, absolute or relative to domestic production, and under such conditions to cause or threaten to cause serious injury to the domestic industry of like or directly competitive products. Additionally, Provisional Safeguard Measures can be taken by State Parties in critical circumstances as per Article 5 of the Annex.

## **2.6. The Nature and Essence of Protocol on Trade and Services**

Currently, African services trade in general and intra-African services trade in particular is low though there is potential for growth because of the worldwide increase in services trade over the past few decades.<sup>91</sup> In comparison with OECD countries, services trade restrictiveness is four times higher in Africa.<sup>92</sup> The services export of Africa is less than 2 % and its services import share is around 3 %. Although global services exports increased by 7% between 2017 and 2018, Africa's services exports increased only by 5%.<sup>93</sup>

In Africa, services share nearly 55 % of the continent's GDP.<sup>94</sup> This indicates that many African economies are composed of services. It is also a significant employer and income generator: it covers one-third of African employment.<sup>95</sup> However, exporting services in continent is restricted because of various trade barriers. Hence, AfCFTA will be a great opportunity to eliminate such barriers and to increase competitiveness to Africa's service sector.

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<sup>91</sup> *The African Continental Free Trade Area: A Tralac Guide* (Trade Law Center, 6th edition, 2019) 24

<sup>92</sup> *Ibid* 25

<sup>93</sup> *Ibid* 49

<sup>94</sup> Landry Signe and Colette Van der Ven, *Key to Success for the AfCFTA Negotiations* (African Growth Initiative at Brookings 2019) 6

<sup>95</sup> *Next Steps for the African Continental Free Trade Area: Assessing Regional Integration in Africa\ ARIA IX* (UNECA, AU, ADB and UNCTD, 2019) 47

Services negotiations are included in Phase I of the AfCFTA negotiations and to date five priority sectors are identified by State Parties: transport, communications, financial services, tourism, and business services though specific offers on these sectors are in the process of negotiation.<sup>96</sup> The Protocol on Trade in Services is an integral part of the Agreement on the Establishment of the AfCFTA as indicated under Article 8 of the Agreement.

The term services includes any service in any sector with the exception of services supplied in the exercise of governmental authority which comprise any service supplied neither on a commercial basis, nor in competition with one or more service suppliers.<sup>97</sup> Yet, the Protocol is not applied to measures affecting air traffic rights, however granted; and services directly related to the exercise of air traffic rights.<sup>98</sup>

The Protocol recognizes four modes of supply: 1) Cross-border supply: from the territory of one State Party into the territory of any other State Party. 2) Consumption abroad: in the territory of one State Party to the service consumer of any other State Party. 3) Commercial presence of a service supplier of one State Party in the territory of any other State Party. 4) Presence of natural person of a State Party in the territory of any other State Party.<sup>99</sup>

The Protocol has the objective of creating, on the basis of progressive liberalization of trade in services, an open, rules based, transparent, inclusive and integrated single services market which provides economic, social and welfare-enhancing opportunities across all sectors for the African people.<sup>100</sup>

The MFN is included under Article 4 of the Protocol which obliges State Parties to accord immediately and unconditionally to services and service suppliers of any other State Party treatment no less favorable than that it accords to like services and service suppliers of any Third Party. The Principle of NT is also covered under Article 20 which imposes obligation on State

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<sup>96</sup> n.95

<sup>97</sup> *Agreement Establishing the African Continental Free Trade Area: Protocol on Trade in Services* (signed March 21, 2018) Art. 2

<sup>98</sup> Ibid

<sup>99</sup> Ibid, Art.1

<sup>100</sup> Ibid, the preamble

Parties to accord to services and service suppliers of any other State Party treatment no less favorable than that it accords to its own like services and service suppliers, subject to the conditions and qualifications agreed and specified in its Schedule of Specific Commitments.

With respect to schedules of Specific Commitments, as stated under Article 22, State Parties have to set out in a schedule, the specific commitments that it undertakes under Articles 19, 20 and 21 of this Protocol. The specific commitments, are expected to specify ‘.....terms, limitations and conditions on market access; conditions and qualifications on national treatment; undertakings relating to additional commitments; and where appropriate the time-frame for implementation of such commitments, including their date of entry into force’.<sup>101</sup>

## **2.7. Steps Taken by Ethiopian Government in the Process of Membership to the AfCFTA**

Trade liberalization in Ethiopia started in 1992 with the re-structuring of the economy through the SAP.<sup>102</sup> This was realized by making policy and institutional reforms to make the Ethiopian economy more market driven. Among the actions taken by government, devaluation of the domestic currency and reducing tariff and non-tariff barriers can be mentioned.<sup>103</sup>

Under the tariff reforms, there were a significant reduction of both tariff levels and tariff dispersion. For example, before 1992, the range of tariff rates was from 0-240%. Then in 1995 it narrowed to 0-80% and after that 0-35% in 2002.<sup>104</sup>

Ethiopia has made various efforts to get market access to the domestically produced products. Among these efforts, the process of joining the WTO, which started in 2003, can be

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<sup>101</sup> Ibid Art. 22

<sup>102</sup> Kebede Sindu, Belay Fekadu & Dejene Aredo, *Impact of Trade Liberalization on Poverty in Ethiopia: A Computable General Equilibrium Micro simulation* (2016) 115

<sup>103</sup> Ibid

<sup>104</sup> Ibid

mentioned.<sup>105</sup> Membership to WTO would give the country many advantages including predictable and rules-based market access within the WTO framework.

The other advantage the country enjoys is the preferential market access under the GSP executed by industrialized economies. It is WTO recognized system of exemption and mostly duty free. Through this system developing countries got a market access opportunity for selected products.<sup>106</sup>

Ethiopia also enjoys a preferential market access to EU markets through EBA initiative which offers exporters of LDCs with full duty-free and quota-free access to the EU market except arms.<sup>107</sup>

Ethiopia is also a beneficiary of AGOA which is originally promulgated by USA in 2000 and extended to 2025.<sup>108</sup> This is a non-reciprocal trade act that gives duty and quota-free treatment to African products meeting eligibility requirements.

In relation to regional trade integrations, the country is a non-FTA member of COMESA.<sup>109</sup> The country is also a signatory of the IGAD and the TFTA which comprises the regional economic communities of COMESA; EAC and SADC.

At the continental level, Ethiopia has signed the AfCFTA which aims to establish an FTA among African countries. This can be considered as an important opportunity for the country which has not actively engaged in tariff liberalization in the RECs.

The Government of Ethiopia signed the Agreement Establishing the AfCFTA in Rwanda, Kigali, on the 21st day of March, 2018 then the House of Peoples' Representatives of the FDRE has

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<sup>105</sup> 'Country Risk of Ethiopia: International Trade' <<https://import-export.societegenerale.fr>> accessed 16 May 2020

<sup>106</sup> *Ethiopia: Company Perspectives-An ITC Series on Non-Tariff Measures* (International Trade Center, 2018) 7

<sup>107</sup> Ibid 8

<sup>108</sup> Ibid 8

<sup>109</sup> Ibid 8

ratified the Agreement at its session held on the 21<sup>st</sup> day of March, 2019 and the Ministry of Trade and Industry is empowered to implement the Agreement<sup>110</sup>

In Ethiopia, there is a directive enacted by the Council of Ministers on the WTO membership and Regional Trade Relations negotiation issues.<sup>111</sup> The negotiation on the membership of AfCFTA is covered under the directive. To achieve the negotiation process, national and technical committees are established.<sup>112</sup> The national committee leads trade negotiation issues and is accountable to the Prime Minister.<sup>113</sup> It comprises government bureaus: Ministry of Trade and Industry, Ministry of Foreign Affairs, Ministry of Finance, Ethiopian Revenue and Customs Authority (now Customs Commission), National Bank, Ethiopian Development and Research Institute and others.<sup>114</sup> The technical committee consist members from Ministry of Trade and Industry, Offices which are members of the national committee, professional and academic community etc.<sup>115</sup>

In the negotiation process of Ethiopia on membership to AfCFTA, there was a Negotiating Committee/Team established by organizing concerned experts and government officials from Ministry of Trade and Industry, Addis Ababa University, Ministry of Foreign Affairs, Ministry of Finance and Economy and Ethiopian Customs Commission.<sup>116</sup> This was a technical team and acted as alternative negotiator. Other government Offices like Ethiopian Investment Commission

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<sup>110</sup> 'Agreement Establishing the AfCFTA, Ratification Proclamation No.1124/2019' (Enacted, 5 April 2019) the preamble & Art.3 < <https://chilot.me>> accessed April 14, 2020

<sup>111</sup> *Council of Ministers Directive to Regulate WTO Membership and Regional Trade Relations Negotiation issues, Directive No. 2/2017* (enacted , July 14, 2017)

<sup>112</sup> Ibid Art.3 & 6

<sup>113</sup> Ibid Art. 4 (1)

<sup>114</sup> Ibid

<sup>115</sup> Ibid Art. 7 (2)

<sup>116</sup> Interview with Desalegn Wendmu: Tariff Policy Lead Expert and Alternative Negotiator in the AfCFTA, the FDRE Customs Commission (Addis Ababa, 27 January 2020)

was also participated as an adviser.<sup>117</sup> The Committee, after having a detail looks to the negotiable areas, prepared a paper showing the position of Ethiopia and submit to the Steering Committee for political decision. Then, the final paper will be send to the African Union Commission. The technical Committee was led by the Ministry of Trade and Industry and the Steering Committee was led by the person nominated by the Prime Minister, in this case Mr. Mekonnen Manyazewal and latter Mr Mamo Esmelalem.<sup>118</sup>

The person who was assigned by the Prime Minister as a chief negotiator was Mr. Mekonnen Manyazewal, who participated in all ten negotiation rounds up to Rwanda, Kigali, where the agreement was signed.<sup>119</sup> Therefore, Ethiopia, has participated in all meetings of AU Ministers of Trade, Senior Officials, CFTA\_NF and Technical Working Groups.<sup>120</sup>

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<sup>117</sup> Ibid

<sup>118</sup> Ibid

<sup>119</sup> Ibid

<sup>120</sup> Ibid

## CHAPTER THREE

# Prospects, Challenges, Defensive and Offensive Interests of Membership of Ethiopia to AfCFTA in Relation to Trade in Goods

### 3.1. General Prospects of the Agreement for Africa

African trade in regional economic communities is mostly characterized by either within communities or with another community.<sup>121</sup> It is not distributed fairly across the remaining communities. Trade relations among the eight RECs are focused only among a few groups.<sup>122</sup> In this regard the AfCFTA is a good opportunity to create conducive environment for dialogue and negotiation across all eight regional economic communities. It also makes the communities to increasingly trade each other so as to speed up harmonization and coordination among them, which in effect achieves the objectives of the Abuja treaty.<sup>123</sup> By improving the economic viability of industrialization on the continent and accelerating structural transformation, the AfCFTA can also enhance intra-African trade.<sup>124</sup>

In comparison with their export outside Africa, businesses in Africa currently face relatively higher tariffs when they export with in Africa.<sup>125</sup> Thus, progressive elimination of intra-African

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<sup>121</sup> *Economic Development In Africa Report 2019: Made In Africa-Rules of Origin for Enhanced Intra-African Trade* (UN, 2019) 27

<sup>122</sup> Ibid

<sup>123</sup> Ibid

<sup>124</sup> Ibid

<sup>125</sup> *The African Continental Free Trade Area: Questions and Answers* (AU,UNECA) 1

trade tariffs is essential to make easier for African exporters to earn advantages from the advancing African market.<sup>126</sup>

According to the ECA estimation because of the AfCFTA intra-African trade will potentially be boosted by 53.2 % by eliminating import duties and if non-tariff barriers are also reduced this trade will be doubled.<sup>127</sup>

It has also the potential to diversify Africa's trade and inspire a transition from extractive commodities, such as oil and minerals, which have traditionally accounted for most of Africa's exports to a more stable and viable export base.<sup>128</sup> Products like oil and minerals have the risk of unpredictability. Because of the price variations of these products, the fiscal and economic fate of too many African countries is at risk.<sup>129</sup>

Additionally, since the AfCFTA encourages countries to focus on manufactures and agricultural goods which are more labor intensive, it will create more employment opportunities for many youth population.<sup>130</sup>

Small and medium-sized enterprises, which account for around 80 % of the continent's businesses, can also get a better market access because of the AfCFTA by supplying inputs to larger regional companies.<sup>131</sup>

Improved custom clearance times and logistics, which AfCFTA achieves in the future, will also benefit agricultural countries, whose exports are perishable in nature. This in effect will satisfy Africa's increasing food security requirements. Moreover, the AfCFTA, in its trade facilitation,

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<sup>126</sup> Ibid

<sup>127</sup> Ibid 2

<sup>128</sup> Ibid 2

<sup>129</sup> Ibid 2

<sup>130</sup> *The African Continental Free Trade Area: Questions and Answers* (AU,UNECA) 3

<sup>131</sup> Ibid

transit and customs cooperation arrangements, benefits land locked countries which are suffered with higher costs of freight and unpredictable transit times.<sup>132</sup>

In general terms, AfCFTA would increase the GDP, employment and intra-African trade of the continent. To see these indicators one by one the GDP of the continent would grow by 0.66-0.97 % and employment by 0.82-1.17 %. For unskilled laborers real wages would increase more and more: 0.74 % in agriculture and 0.8% in non-agricultural sectors in comparison with ‘skilled laborers which is 0.54 %. When we see the growth of intra-African trade the estimation is at 24 - 33 %.<sup>133</sup> It is the manufacturing industry which would have the biggest employment growth rates followed by some services and agriculture subsectors.<sup>134</sup>

The AfCFTA would also expand diversification, and the industrial product and technology element of AU member states’ exports. This is because the higher skill and technology content of intra-African trade as compared to Africa’s trade with others.<sup>135</sup>

### **3.2. General Challenges of the Agreement for Africa**

In the implementation of AfCFTA one of the major challenges is in relation to the tariff modalities: AU Ministries are requested by the January 2019 AU summit to submit the Schedule of Tariff Concessions in accordance with agreed modalities up to the July 2019 summit. Finalizing the tariff Schedules is time taking since it may take up to 200 tariff negotiation.<sup>136</sup> It will also take a lot of resources from usually under-capacitated trade ministries. Moreover, Current MFN tariffs and trade data has to be collected before an offer is submitted to a counter party. Additionally, adoption of the Schedules of Tariff Concessions also takes a lot of times as it needs to be adopted in stages. The treatment of LDCs in CUs is also not yet fully resolved.<sup>137</sup>

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<sup>132</sup> Ibid 4

<sup>133</sup> *AfCFTA Phase I Negotiations: Issues and Challenges for Eastern Africa* (Third World-Network, 2019) 26

<sup>134</sup> Ibid

<sup>135</sup> Ibid

<sup>136</sup> Ibid 21

<sup>137</sup> Ibid 23

Additionally, Africa's exports are predominated by cash crops and mining commodities and the private sectors are relatively shallow and consist of small and informal enterprises. The considerable numbers of the manufacturing production are driven by relatively large foreign firms through foreign direct investment.<sup>138</sup> Accordingly, achieving the Protocol on Trade in Goods objectives may be challenging.

The major challenge for the continent will arise from the wider development gap among African countries: Considerable economic growth and welfare gains may be experienced by those countries with large productive capacities in manufacturing and those countries with small economies and LDCs may face significant fiscal revenue losses and affects local industries.<sup>139</sup> For instance, Egypt, Nigeria and South Africa contribute over 50% of Africa's cumulative GDP while 1% of the GDP is collectively contributed by Africa's six sovereign island nations.<sup>140</sup> Substantial tariff revenue losses and an unequal distribution of costs and benefits are also mentioned as challenges.

### **3.3. General Overview of Ethiopia's Trade with Africa**

From 2013-2017 the export trade of Ethiopia from Africa is relatively constant though there was an increase on the imports trade. In 2017, Ethiopia's trade deficit was more than 310 million USD since its import amounts 800 million USD and the export was around 500 million USD.<sup>141</sup>

When we see the export destination of Ethiopia, in 2018/19 Asia has the largest share covering 41.6 % of the country's total export followed by Europe (25.4 %), Africa (20.8 %) and America

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<sup>138</sup> *A Business Guide to African Continental Free Trade Area* (ITC, Geneva, 2018) 11

<sup>139</sup> Mensut Saygill, Ralf Peters and Chrstian Knebel, *African Continental Free Trade Area: Challenges and opportunities of Tariff Reductions* (UNCTAD Research Paper No.15 2018) 6

<sup>140</sup> 'Who are the winners and losers in Africa's Continental Free Trade Area?' <<https://www.weforum.org> accessed 24 December 2019

<sup>141</sup> 'Ethiopia: Intra-Africa Trade and Tariff Profile' (Tralac Trade Law Center, 2018) <<https://www.tralac.org> accessed 16 May 2020

(11.3 %).<sup>142</sup> Similarly, the largest import destination of Ethiopia is Asia (62.3 %), followed by Europe (21.4 %), America (10 %) and Africa (6.2 %).<sup>143</sup>

From 2012-2018 the average Africa's share in overall Ethiopia's export share is 20.04 % and the average Africa's share in overall Ethiopia's import share is 4.33 %.<sup>144</sup>

In 2017 mostly imported products from Africa include Minerals or chemical fertilizers, which amounts 36%, coal (accounting 10%) and petroleum oils and oils, obtained from bituminous minerals which covers 7 % of the import trade.<sup>145</sup> In relation to export trade the dominantly exported products are other vegetables, fresh or chilled (excluding potatoes, tomatoes, alliaceous vegetables etc.) such as chat which have 50% share, telephone sets amounting 11 % and dried leguminous vegetables covering 6 % of the export trade.<sup>146</sup> This shows that the import and export trade of Ethiopia is characterized by concentration on few products: 90 % of the total exports are vegetable products. On the other hand most of the imported goods are value added manufactured or processed goods such as chemical products and mineral products.

When we see the intra-Africa trade tariff of Ethiopia, most goods originating from African countries, particularly from top suppliers enter at preferential rates. It is only around 15 % of the total intra-Africa imports enter at MFN rates: low tariffs are imposed on top imported products. 2 % of the entire intra-Africa imports which accounts 12 million USD are also duty free products in 2017.<sup>147</sup> Therefore, though Ethiopia's trade with Africa is growing, a lot of efforts are required from the government to improve it.

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<sup>142</sup> *Annual Report of the National Report of Ethiopia* (2018/2019) 83

<sup>143</sup> Ibid

<sup>144</sup> Mindaye (n.86)

<sup>145</sup> 'Ethiopia: Intra-Africa Trade and Tariff Profile' (Tralac Trade Law Center, 2018) <<https://www.tralac.org>> accessed 16 May 2020

<sup>146</sup> Ibid

<sup>147</sup> Ibid

## 3.4 Prospects, Challenges, Defensive and Offensive Interests in Relation to Trade in Goods

### 3.4.1. General

Now a day, FTAs and CUs in Africa cover most of intra-African exports.<sup>148</sup> However, still there are countries which are not members to such FTAs and CUs. Therefore, the impact of AfCFTA varies depending on this membership of countries. For countries whose exports are destined to countries with which they have trade agreement, AfCFTA would not be important to increase exports, at least in the short run. But for those which have no trade agreement, AfCFTA would have a potential to enhance their existing exports. These countries include Ethiopia, Djibouti, Eritria, Somalia and Sudan. Similarly, the import side has the same effect.<sup>149</sup> Generally, for countries like Ethiopia which have non-preferential export and import trade with African Countries, AfCFTA has the largest addition and expected impact.

As stated below, most of Ethiopia's exports destined outside Africa. This might be due to the preferential trade arrangement of Europe and USA such as EBA and AGOA.<sup>150</sup> However, because of the unilateral nature of the arrangement it can be stopped any time they want. Hence, reliable and predictable give and take trade agreement like the AfCFTA is important.<sup>151</sup> Additionally, exporting to USA and Europe may also be difficult since their technical and sanitary standards are stringent. Furthermore, trade competition in USA and Europe markets is difficult as there are countries which produce the same product with least cost.<sup>152</sup> In this regard exporting in the African market through AfCFTA is advantageous and membership to AfCFTA may not affect Ethiopia since the country's import from Africa is marginal.<sup>153</sup>

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<sup>148</sup> *AfCFTA Phase I Negotiations: Issues and Challenges for Eastern Africa* (Third World-Network, 2019) 10

<sup>149</sup> Ibid 11

<sup>150</sup> Mindaye (n.86)

<sup>151</sup> Ibid

<sup>152</sup> Ibid

<sup>153</sup> Ibid

The AfCFTA can also be a good chance to achieve one of the three general objectives of the foreign trade policy of Ethiopia: developing and ensuring a broad international market for the country's export trade.<sup>154</sup> Exposure to such free trade area has also the potential of eliminating non-tariff trade impediments, long government bureaucracies, corruptions and creates new employment opportunities for the country. Additionally, it offers cheaper alternative products for the country's consumers.

However, internally there are factors which generally hinder Ethiopia's exports. These may include the following: The first one is the mix of macroeconomic policy: exchange rates are used as an external anchor for domestic price stability which resulted in a sudden rise in the real effective exchange rate through the 2000s, declining the competitiveness of exports and of import-competing production.<sup>155</sup>

In 2019, on ease of doing business, Ethiopia's rank was 159<sup>th</sup> out of 190 countries.<sup>156</sup> It shows that Ethiopia is one of the most problematic countries in the world from which to engage in the global economy.

The process for exporting and importing is also complex:<sup>157</sup> the number of documents required is too many. Exporting and importing is time taking. The transportation is slow and expensive because of lack of seamless multimodal transport systems—most inward and outward bound containers are unstuffed or stuffed in Djibouti. The customs procedures are cumbersome with multiple inspections in routes.

The limited nature of export products (lack of product diversification) is among the major challenges Ethiopia may face. It may expose the country with serious short-run and long-run economic risks. The short term economic risks include unpredictability and instability of foreign exchange earning which could have negative macroeconomic effects on growth, employment, investment planning, import and export capacity, foreign exchange cash flow, inflation, capital

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<sup>154</sup> *Ethiopia: Company Perspective An ITC Series on Non-Tariff Measures* (International Trade Center, 2018) 7

<sup>155</sup> Dan Ciuriak and Claudius Preville, *Ethiopia's Trade and Investment: Policy Priorities for the New Government* (2010) 5

<sup>156</sup> 'Doing Business 2019' < <https://www.doingbusiness.org> > accessed 17 May 2020

<sup>157</sup> n.155, 6

flight and undersupply of investments by risk averse investors and others. In the long term, secular and volatile diminishing terms of trade trends may aggravate short run effects. These economic risks of less diversification may be reduced by widening the number of geographical destinations for the country's export sales.<sup>158</sup>

The other important thing needed for efficient production and exporting of goods is the service sector. However, the country's service sector such as finance, telecommunications and transport are less effective and efficient which has negative effect on the profitability and efficiency of exporters.

The above trade related problems of the country may challenge the competitiveness of our trade with in the AfCFTA. Because AfCFTA creates tariff elimination commitments and needs policy harmonization and compatibility of rules, it will also limit the sovereignty of the country, creates reduction of government revenue and put high competition on domestic industries of the country. Elimination of tariffs has a direct impact on the domestic taxes of the country. Therefore, in the short run the government's revenue from tariffs and domestic taxes will be reduced. However, in the long run if the country adjusts itself with the Agreement through empowering the export capacity, making trade reform etc, such challenges will be reduced.

### **3.4.2 Prospects and Challenges on the Agricultural Sector**

Until now there are 11 countries which have submitted their product categorization to AU Commission.<sup>159</sup> These are Mauritius, Seychelles, Egypt, Congo Brazzaville, Equatorial Guinea, Central Africa Republic, Chad, Cameroon, Gabon, Sao Tome and Principe and Malawi. Many State Parties including Ethiopia have not yet offered their product categorization. In Ethiopia, products are categorized based on their GDP share, government revenue they generate, employment and government priority.<sup>160</sup> Products are also confidentially identified as sensitive,

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<sup>158</sup> Yeshineh Alekaw Kebede , *Determinants and Potentials of Foreign Trade in Ethiopia: A Gravity Model Analysis* (MPRA Paper No. 74509) 2

<sup>159</sup> Mindaye (n.86)

<sup>160</sup> Interview with Gebretsadik Tassew, Trade Expert, Ministry of Trade and Industry (27 January 2020)

non-sensitive and excluded as a draft but not yet approved.<sup>161</sup> Hence, based on the external trade data of the country the prospects and challenges on the agricultural sectors will be discussed as follows.

In 2018/19 the share of flower trade in total export of Ethiopia is 9.6 which show growth through time: from 7.5 % and 8.1 % in 2016/17 and 2017/18 respectively.<sup>162</sup> Europe is the main importer of flowers grown in Ethiopia and nearly 90 % of flowers are exported to the Netherlands. Currently, Ethiopia is also looking to provide floriculture products to African countries.<sup>163</sup>

To see coffee export of the country, it is estimated a record level for 2019/20, 4 million bags (240,000 metric tons).<sup>164</sup> Ethiopia exports coffee to over 60 countries and according to the export data of 2017/18 the main export destinations for Ethiopia were: Germany (22 %), Saudi Arabia (16 %), USA (11 %), Belgium (7 %), Sudan (6 %) and Italy (5 %). Hence, Ethiopia's coffee export is mainly outside Africa.<sup>165</sup> In African market in addition to Sudan there is also unused potential of coffee, not roasted, not decaffeinated and black tea (fermented) and partly fermented tea in packages in East Africa.<sup>166</sup> So, the country must boost its African coffee export potential and should use the unused potentials to benefit more from the AfCFTA.

Currently, many animals, because of the geographic advantage, are sold in East African Market though Ethiopia faces tougher tariff conditions than its competitors.<sup>167</sup> Somalia and Sudan (North and South) and Egypt are also the top importers of live bovine animals.<sup>168</sup> Moreover, Sudan

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<sup>161</sup> Mindaye (n.86)

<sup>162</sup> *Annual Report of the National Report of Ethiopia* (2018/2019) 77

<sup>163</sup> 'Ethiopian Flower Exporters-Flower Companies' <<https://www.flowercompanies.com>> accessed 13 May 2020

<sup>164</sup> *Ethiopia: Coffee Annual Report, GAIN Report Number: ET1904*, (Global Agricultural information network, 2019) 4

<sup>165</sup> Ibid

<sup>166</sup> *Export potentials of Ethiopia, Kenya, Mozambique and Zambia* (International Trade Center ) 25

<sup>167</sup> Ibid 16

<sup>168</sup> Ibid 104

(North and South), Egypt and Libya are top importers of live animals. Live sheep is also mainly exported to Djibouti (one of the top importers).<sup>169</sup> However, the livestock sub-sector is challenged by poor animal handling and inadequate facilities at the abattoir and export level. There must also be improvement of animal health, feed and breed to enhance the productivity of meat, milk, honey and egg.<sup>170</sup>

The other agricultural export products are pulses. In 2016/17 export of pulses reached 340,000 metric tons (14 % of the whole pulse production of the country), generating 255 million dollar in for ex.<sup>171</sup> The FAO data shows that Ethiopia is one of the world's largest producers and exporters of pulses and is one of the top ten exporters of chickpeas, dry beans and peas and is among the top five exporters of faba beans.<sup>172</sup> Kenya is among the top destinations of Ethiopia's pulse export according to the 2016/2017 data of ERCA.<sup>173</sup> Republic of Sudan is also the main destination of broad beans.<sup>174</sup>

In terms of commodity export composition, for many years, coffee continues to dominate the export trade of the country. However other commodities also contributes a lot: the five main non-coffee exports (oilseeds, gold, chat, flower, and pulses) which each convey in more than \$100 million per year compared to none in 2000.<sup>175</sup> There is such a good development on non-coffee exports but still lack of diversification of agricultural export products is the main problem. When we see the export destination of top export products of the country, it is only coffee which has a reduced dependency on a single country market. Other export commodities have high

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<sup>169</sup> Ibid 104

<sup>170</sup> Ibid 16

<sup>171</sup> *Ethiopia: Pulse Crops Market Update: Gain Report Number: ET 1819* (Global Agricultural Information Network, 2018) 3

<sup>172</sup> Ibid

<sup>173</sup> Ibid 4

<sup>174</sup> *Export potentials of Ethiopia, Kenya, Mozambique and Zambia* (International Trade Center ) 22

<sup>175</sup> *Ethiopia's Export Performance Review* (Access Capital Research, 2010) 1

dependency on a particular country.<sup>176</sup> For example, Holland receives around 90 percent of flower exports, Switzerland receives 75 percent of gold exports, Somalia receives 74 percent of chat exports, UAE/Dubai receives 54 percent of meat exports and 42 percent of pulse exports go to Sudan.<sup>177</sup> In 2017, China was the top destination for Ethiopia's goods, having bought \$343 million of goods followed by Switzerland and USA which bought \$287 million and \$264 million of goods from Ethiopia.<sup>178</sup>

In relation to fruits and vegetable exports, Ethiopia, sales its vegetables and fresh fruits to Somalia and Djibouti from where they are shipped further to end markets.<sup>179</sup>

The country has also huge export potential of sesame. China is the largest importer of sesame accounting more than half of all exports. Yet, there is still export opportunity in East Africa, especially in Kenya.<sup>180</sup> There is also unused export potential on nuts, oilseeds and edible oils in East Africa especially in linseed, groundnuts (not roasted) and other oilseeds.<sup>181</sup> Spices such as Ginger are also exported to various East African countries.<sup>182</sup> Moreover, there is unused potential of turmeric (curcuma) in these African countries.<sup>183</sup>

When we see other products, Sudan is the largest destination of wood.<sup>184</sup> Sudan (North and South) are also among the top importers of chickpeas, dried, and shelled whether or not skinned or split. Sudan (North and South), Egypt and Djibouti are top destinations of broad beans and

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<sup>176</sup> Ibid 4

<sup>177</sup> Ibid 4

<sup>178</sup> 'Ethiopia(ETH) Exports, Imports and Trade Partners-OEC' < <https://oec.world> > accessed 17 May 2020

<sup>179</sup> *Export potentials of Ethiopia, Kenya, Mozambique and Zambia* (International Trade Center ) 18

<sup>180</sup> Ibid 20

<sup>181</sup> Ibid 21

<sup>182</sup> Ibid 23

<sup>183</sup> Ibid 24

<sup>184</sup> Ibid 29

horse beans, dried, shelled, whether or not skinned or split. Somalia and Sudan (North and South) are also among the top importers of potatoes, fresh or chilled.<sup>185</sup>

Even in the import side, through the AfCFTA Ethiopia can import products from African market in cheaper price. Rather than importing chocolate products from Europe, for example, it might be cheaper to import other products such as cacao butter from Western Africa since Ethiopian Airlines have every day flight to this African region.<sup>186</sup>

According to the trade data of the country described above, the destination of agriculture export products of the country such as flowers, coffee, pulses, livestock and sesame are mainly outside Africa. This may be because of the tougher tariff conditions Ethiopia faces from African countries.<sup>187</sup> Creating a liberalized market for trade in goods, the principal objective of the Protocol on Trade in Goods is expected to eliminate such tariff barriers the country faces in African market.<sup>188</sup> Moreover the preferential trade advantages of EU and USA also make exporters to choose EU and USA market than the African one.<sup>189</sup> However, such preferential market opportunities by their nature are not predictable and depend on the whim of the developed states. Hence, reliable and predictable liberalized market based on binding agreement like the AfCFTA is essential for the country. But until exporting to the African market is widened, the benefits Ethiopia may drive from AfCFTA is marginal since only 20.8 % of the total export of Ethiopia is directed to Africa.<sup>190</sup>

The other character of export of agricultural products is lack of diversification and dependency to one or few countries' market which are also called export concentration which exposes the

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<sup>185</sup> Ibid 104

<sup>186</sup> Mindaye (n.86)

<sup>187</sup> *Export potentials of Ethiopia, Kenya, Mozambique and Zambia* (International Trade Center ) 16

<sup>188</sup> *Agreement Establishing the African Continental Free Trade Area: Protocol on Trade in Goods* (signed March 21, 2018) Art. 2

<sup>189</sup> Mindaye (n.86)

<sup>190</sup> *Annual Report of the National Report of Ethiopia* (2018/2019) 83

export trade with sharp fluctuation in price and long term decline in price.<sup>191</sup> This in effect negatively affects the export revenue of the country. Therefore, the Government of Ethiopia should work in diversifying export products and destinations to hedge against adverse terms of trade shocks by stabilizing export revenues.<sup>192</sup>

To diversify export goods and destinations, lowering export barriers such as tariffs, minimizing firm entry procedures and employing trade facilitation measures are necessary.<sup>193</sup> Implementation of the AfCFTA commitments on elimination of tariff and non-tariff barriers to trade and arrangements regarding trade facilitation helps the country to simplify firm entry procedures and barriers to trade. Using the AfCFTA market access opportunity the country can also widen its export destinations.

In relation to the country's export trend to African countries, as per the trade data describe above there are exports of coffee to Sudan; significant number of live animals export to Egypt, Libya Djibouti and Sudan (North and South); considerable market of pulses in Sudan and Kenya; sesame in Kenya; wood and chickpeas in Sudan; broad beans and horse beans in Sudan, Egypt and Djibouti and potatoes in Somalia and Sudan. This export experience to African market, though encouraging, is marginal. There are also unused export potentials on agricultural products as discussed above: coffee, tea, fresh fruits, turmeric (curcuma) and oil seeds in East Africa. Hence, the AfCFTA market access opportunity may not have significant advantage taking the current export trend of the country to African countries. The Government in collaboration with domestic exporters must discuss as to how to increase export productivity to make exporters ready to use the liberalized market access opportunity created by the AfCFTA. The Government should also arrange short and long term credit schemes to exporters; simplify export regulations and bureaucracies which particularly affect new exporters to increase the export capacity of the

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<sup>191</sup> 'Dependency on Single Agricultural Commodity Exports In Developing Countries: Magnitude and Trends' <[www.fao.org](http://www.fao.org)> accessed 13May 2020

<sup>192</sup> Ibid

<sup>193</sup> Ibid

country and to properly utilize the unused export potentials of the country.<sup>194</sup> It should also update information gathering and distribution about foreign markets and requirements for exporting.<sup>195</sup>

### **3.4.3 Prospects and Challenges in Relation to the Manufacturing Sector**

The manufacturing sector of Ethiopia is characterized by low level of industrialization in terms of competitiveness, export earnings, sectors share in GDP and industrial intensity. The industrial structure is also highly dominated by small firms and resource based industries, and concentrated around the capital city.<sup>196</sup>

The output in the manufacturing sector is increasing through time. However, the manufactured exports have no comparable growth. During 2001 and 2016/17, of the total exports the share of manufactured exports is less than 13 %.<sup>197</sup> Additionally, the export products produced from manufacturing sector are low value products which are generated from leather, textile, apparel and meat industries. The failure to raise the share of manufactured exports on the total exports implies limited structural transformation and the significance of the balance of payments limitation on growth through industrialization.<sup>198</sup>

Larger firms play an essential role in the national economy. Their productivity and technological capability make them competent in the export sector. But, Ethiopian manufacturing sector is characterized by the numerical dominance of small firms which makes the sector very difficult to compete with large and sophisticated firm of other countries.<sup>199</sup>

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<sup>194</sup> 'Successful Strategies to Help Developing Countries Boost Exports' <<https://www.theigc.org>> accessed 14 May 2020

<sup>195</sup> Ibid

<sup>196</sup> Arkebe Oqubay, *Made in Africa: Industrial Policy in Ethiopia* (Oxford University Press, 2015) 66

<sup>197</sup> Arkebe Oqubay, *The structure and performance of the Ethiopian manufacturing sector :Working Paper Series N° 299*, (African Development Bank, 2018) 4

<sup>198</sup> Ibid

<sup>199</sup> Ibid 7

The other problem is the slow flow of domestic private investment in to manufacturing sector and particularly the flow is minimal in export oriented manufacturing.<sup>200</sup> There are various reasons for this: due to the inadequate capacity of public banks and the lack of interest by private banks in financing domestic firms, there is lack of access to long-term industrial financing for such firms. The political economy limitations also push investment in more profitable sectors and speculative activities rather than in export-oriented manufacturing.<sup>201</sup> Moreover, lack of internationally competitive export logistics and trade facilitation, an overvalued exchange rate and insufficient institutional support for exporters are main constraints on export-led industrialization.<sup>202</sup>

The other export problem of the country is under-development of the private sector. Industrial structure in Ethiopia is dominated by a relatively small number of government-owned firms.<sup>203</sup>

The existing private sector is also under developed which results in a weak supply response to new market opportunities afforded by trade liberalization or facilitation. The manufacturing sector is also not well competitive even in the present protected and distorted domestic market.<sup>204</sup>

Even those sub sectors in which one would expect Ethiopia to have a clear competitive advantage in the global market, namely food, beverages, textiles and leather sub-sectors are also not competitive.<sup>205</sup>

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<sup>200</sup> Ibid 8

<sup>201</sup> Ibid 17

<sup>202</sup> Ibid 18

<sup>203</sup> Dan Ciuriak and Claudius Preville, *Ethiopia's Trade and Investment: Policy Priorities for the New Government* (2010) 6

<sup>204</sup> Getenet Alemu and Admit Zerihun, *The Ethiopian Manufacturing Sector: competitiveness and the way a head* (2001) 45

<sup>205</sup> Ibid 46

Lack of adequate physical capital in the form of technologically plant assembly lines, machinery and building also challenges the manufactured exports sector.<sup>206</sup> This in effect hinders the production of quality products in significant number competitively.

There is also inadequacy of quantity and quality of raw material supply for almost all products of the manufacturing export sector excluding cement and to an extent, chemicals. For most enterprises in textiles and garments, leather and garments, agro-industry and the meat sectors there is dalliance and insufficiency as well as long import procedure for raw materials.<sup>207</sup>

Transportation is also the other challenge for export of the country. Transportation of containers took time between 10 to 44 days and the cost has been estimated to be about \$2,100 and \$2,500 for a 40 ton container for export and import, respectively including empty return.<sup>208</sup> But to make the trade more competitive additional considerable steps are possible including in trade protocol between Djibouti and Ethiopia, facilitation en route to Ethiopian dry ports, trade finance services, quality of trucking, decreasing turn-around time of containers, decreasing overcrowding at Modjo Dry Port, avoiding penalties/demurrage of vessels and by increasing the free time for containers.<sup>209</sup>

The macroeconomic stability, financial system and supply of infrastructure in the country are also poor. According to the 2019 Global Competitiveness Index, Ethiopia ranks 123<sup>rd</sup> in infrastructure, 127<sup>th</sup> in macroeconomic stability, 135<sup>th</sup> in product market and 107<sup>th</sup> in financial system.<sup>210</sup>

Top five critical and binding constraints are also identified by firms: access to finance, limited access to land, tax administration, availability and quality of electricity and unfair market

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<sup>206</sup> *Manufacturing Export Performance in Ethiopia* (UNDP Ethiopia, 2017) 4

<sup>207</sup> Ibid

<sup>208</sup> Ibid

<sup>209</sup> Ibid

<sup>210</sup> *The Global Competitiveness Report 2019*, (World Economic forum, 2019) 214

competition.<sup>211</sup> Firms are also affected by frequent and last longer outages in comparison with other countries: 7.8 hours in Ethiopia compared to 3.8 in Kenya, 6.0 in Tanzania, according to the Enterprise Survey Unit.<sup>212</sup>

When we see the tax administration, it is time taking and costly: firms make 30 payments per year and spend 306 hours per year filing, preparing, and paying taxes.<sup>213</sup> It is also difficult to access the tax appeals tribunal because of the long processes and high costs. To have recourse to the tax appeal commission, businesses are expected to deposit in cash 50 % of the disputed amount with interest which is discouraging.<sup>214</sup>

Customs and trade related regulations are also cited by large firms as one of the top restraints that drives their costs up: 44 days are required to comply with all procedures needed to export or to import.<sup>215</sup> All these external trade constraints of the country may be reduced through the gradual application of the AfCFTA commitments such as the trade facilitation arrangement.

Lack of diversification of export products is also the major problem of the country.<sup>216</sup> Ethiopian firms export is the least diversified among firms in East Africa. On average there export is less than four products.<sup>217</sup>

The other challenge is related to Rules of Origin. One of the major challenges in the country is lack of recorded input-output data of industries: lack of exhaustive list of raw materials used, difficult to identify the raw materials used from the local market and from abroad (Africa and the Rest of the World), and labour cost and overhead cost are not well identified.<sup>218</sup> Hence,

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<sup>211</sup> *4th Ethiopia Economic Update: Overcoming Constraints In The Manufacturing Sector* (World Bank, 2015) 33

<sup>212</sup> Ibid 41

<sup>213</sup> Ibid 41

<sup>214</sup> Ibid 41

<sup>215</sup> Ibid 42

<sup>216</sup> *4th Ethiopia Economic Update: Overcoming Constraints In The Manufacturing Sector* (World Bank, 2015) 24

<sup>217</sup> Ibid

<sup>218</sup> Desalegn (n.116)

Ethiopia's manufactured sector may encounter problems in applying AfCFTA's Rules of Origin.<sup>219</sup>

Since AfCFTA is aiming at creating liberalized single market for goods and, competitiveness is expected from traders.<sup>220</sup> Principles such as MFN and NT required the country to be non-discriminatory to other African countries' products. To compete with such liberalized market, the Government of Ethiopia should have to give remedy to the above mentioned export and import trade challenges of the country through minimizing bureaucratic and time taking procedures in import and export trade. Recently, the Government of Ethiopia introduced Electronic Single Window Service that aims at speeding the customs process for importers and exporters. It is expected to reduce the importers and exporters 44 days long paper work process to 15 days and gradually to three working days.<sup>221</sup> The enactment of a proclamation to create conducive legal framework to promote electronic commerce and electronic government service in the country is the other effort the Ethiopian Government took to minimize paper based, slow and bureaucratic trade procedures.<sup>222</sup> Ministry of Revenue has also started implementing its modernized system of payment: electronic tax payment replacing the paper based Cash Payment Order (CPO) to reduce delay of tax payment.<sup>223</sup>

Such efforts of the government to harmonize the laws of the country with the AfCFTA trade facilitation arrangement are encouraging but not enough. Reform should also be extended to other service sectors which are crucial to facilitate the export and import trade such as electricity, road, and telecom service to make the manufacturing sector more competitive.

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<sup>219</sup> Ibid

<sup>220</sup> *Agreement Establishing the African Continental Free Trade Area*: (signed March 21, 2018) Art. 3

<sup>221</sup> 'Launch of Electronic Platform in Ethiopia' <<https://newbusinessethiopia.com>> accessed 29 January 2020

<sup>222</sup> *The Electronic Signature Proclamation No. 1072/2018* (Enacted, February, 2018) the preamble

<sup>223</sup> 'Ethiopia: the New Electronic System Replaces Cash Payment Orders' <<https://allafrica.com>> accessed 16 May 2020

As there will be elimination of tariff revenue or demand shift on the products of small and medium scale industries at the initial phase of the AfCFTA, the Government should also take measures like improving taxation: by allowing industries to get low cost raw materials free of taxation.<sup>224</sup> To curb the potential impacts of implementing the agreement, it should also build the capacity of its financial sectors such as trade and investment institutions.<sup>225</sup>

The business entry regulations and processes that impede firm entry and dynamism can also be addressed by giving emphasis on sectors and subsectors that show the most encouraging comparative advantages and job growth, applying measures which are the most cost effective in the short run and have least fiscal impact in the long run; and evaluating implementation capacity, effect for governance and the political economy policy reforms.<sup>226</sup>

Ethiopia has higher unused export potential of leather in East Africa than China and the EU.<sup>227</sup> These products include articles of apparel and clothing access, skins (in the dry state) and leather of sheep or lamb, hides and skins (in the dry state) and the leather of goats or kids and raw hides and skins (other than fur skins).<sup>228</sup> Also, there is a higher demand and potential of leather in African market.<sup>229</sup> Hence, through the AfCFTA, Ethiopia can be competitive in these products.

Ethiopia's export potential in East Africa also includes cotton and textiles particularly cotton yarn (not sewing thread) 85% or more cotton, not retail, other made textile articles, sets, worn

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<sup>224</sup> Yohannes Jemaneh, *CFTA: Giving Boost to the HoA's Trade, Investment* (the Ethiopian Herald, Vol. LXXV, No.187, 16 April 2019)

<sup>225</sup> Ibid

<sup>226</sup> *4th Ethiopia Economic Update: Overcoming Constraints In The Manufacturing Sector* (World Bank, 2015) 34

<sup>227</sup> *Export potentials of Ethiopia, Kenya, Mozambique and Zambia* (International Trade Center ) 17

<sup>228</sup> Ibid

<sup>229</sup> Interview with Shegaw, Trade expert, Ministry of Trade and Industry (Addis Ababa, 27 January 2020)

clothing, etc and Articles of apparel, accessories, not knit or crochet.<sup>230</sup> The country, as a result, can use AfCFTA's market access opportunity to exploit its potentials in Africa.

Currently, there are various industrial parks built by the government and the private sector. Mekele, Bole, Hawassa and Kombolcha Industrial Parks are among the parks built by the government and Eastern and Vogue industrial parks can be mentioned from the private one.<sup>231</sup> They are exporting textile, leather and other products to international market.<sup>232</sup> The opening of liberalized market in Africa will also create another market opportunity for these parks and makes the parks more preferable for FDI.

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<sup>230</sup> Ibid 27

<sup>231</sup> 'Industrial Parks Allurements to FDI' <<https://www.press.et>> accessed 15May 2020

<sup>232</sup> Ibid

## CHAPTER FOUR

# Prospects, Challenges, Defensive and Offensive Interests of Membership of Ethiopia to AfCFTA on Trade in Services

Progressive liberalization of services is among the first phase commitments of African countries in the AfCFTA in which domestic services markets are to be opened for service contractors from other African countries. In relation to the service sector, State Parties to the AfCFTA have distinguished five priority sectors: transport, communications, financial services, tourism, and business services.<sup>233</sup> Member States have to open at least one sub-sector from each prioritized sectors.

Ethiopia has not yet offered its Schedule of Specific Commitments and for now opening one sub-sector from each prioritized sectors may not be difficult for Ethiopia.<sup>234</sup> The Government is more flexible now; in the telecom service there is already a process to sell 49 % stake share to private companies in the sector.<sup>235</sup> Two other competing multi-national companies will be added in the telecom sector.<sup>236</sup> Ethiopian Airlines is also competitive enough and even the financial sector can be opened through transition period.<sup>237</sup> The Government can also minimize the risks by using its controlling system.<sup>238</sup> However, among the four modes of service supply, Ethiopia has defensive interest on mode III (commercial presence): Ethiopian investors face difficulty to invest their

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<sup>233</sup> Landry Signe & Colette Van der Ven, *Key to Success for the AfCFTA Negotiations* (African Growth Initiative at Brookings 2019) 3-4

<sup>234</sup> Mindaye (86)

<sup>235</sup> 'Ethiopia to Open Telecom Sector to Multinationals' <<https://www.ezega.com>> accessed 30 April 2020

<sup>236</sup> Ibid

<sup>237</sup> Mindaye (86)

<sup>238</sup> Ibid

money abroad as a result of shortage of foreign currency and the long time needed to get permit from the National Bank of Ethiopia.<sup>239</sup>

The prospects and challenges of Ethiopia's membership to AfCFTA on selected prioritized service sector areas will be discussed below.

## 4.1. Telecom Liberalization

Telecom liberalization, as one part of communication sector, is one priority area for liberalization in the AfCFTA that Ethiopia must take action. In Ethiopia, the telecom industry is under the full ownership of the government. The private companies in the country have no chance to invest in telecom services although the process of participating multi-national companies is began recently. The telecom regime monopoly of Ethiopia reduced the financial gain that it drives from the sector.<sup>240</sup> It is also the main reason for the country falling behind all other countries in terms of its ICT sector development. Neighboring countries such as Kenya and Sudan have the uppermost ICT penetration among African countries.<sup>241</sup>

The ITU ICT Development Index (IDI) of 2017 ranks Ethiopia at 170<sup>th</sup>.<sup>242</sup> IDI of Nigeria and Sudan is 1.5 times that of Ethiopia's, whereas Kenya's IDI is roughly double.<sup>243</sup> This means that the ICT development efforts in Kenya are twice that of Ethiopia.

Though the mobile penetration of Ethiopia shows considerable growth (more than 41% of the population), it is behind the most populated countries of Africa, Egypt and Nigeria, which have

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<sup>239</sup> Ibid

<sup>240</sup> Lishan Adam, *Risks and Opportunities of Late Telecom privatization: The Case of Ethio-Telecom* (Research ICT Africa, 2019) 8

<sup>241</sup> Ibid

<sup>242</sup> 'International Telecommunications Union ICT Development Index' (2017) <<http://www.itu.int/net4/ITU-D/idi/2017/index.html>> accessed 16 May 2020

<sup>243</sup> Ibid

commenced competition in the sector.<sup>244</sup> Nigeria and Egypt each have four very active mobile operators: Glo Mobile, MTN Nigeria, Bharti Airtel and 9Mobile (Etisalat) in Nigeria and Orange Egypt, Etisalat Misr, Telecom Egypt and Vodafone Egypt in Egypt.<sup>245</sup>

The quality of internet and voice service in Ethiopia is also lower than other countries.<sup>246</sup> The Internet service is well known for its ongoing unexpected blackouts. The call success rate (the answer-seizure ratio (ASR)) in 2017 was only 32 % while more than 45 % for other countries.<sup>247</sup> The average length of an answered call made over the network was 3.2 minutes which is also lower than other countries which have an average of 4 to 5 minutes.<sup>248</sup> Existence of no competition in the Ethiopian telecom sector, according to Research ICT Africa, has muted growth and innovation of the sector and limited investment on network expansion and upgrades.<sup>249</sup>

Telecom liberalization is a vital prerequisite for economic growth. It enables indigenous industries and home-grown companies of all sizes get the basic telecom infrastructure of business to thrive at home, compete internationally, and add to overall economic growth. It is also a tool to improve the efficiency of the sub-sector which results in better trade and market opportunities, reduce unemployment, enhanced health care delivery and advance quality of life. It also achieves universal access by extending improved communications throughout the entire country by increasing levels of fixed line and mobile penetration.<sup>250</sup>

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<sup>244</sup> Lishan Adam, *Risks and Opportunities of Late Telecom privatization: The Case of Ethio-Telecom* (Research ICT Africa, 2019) 8

<sup>245</sup> Ibid

<sup>246</sup> Ibid 9

<sup>247</sup> Ibid 9

<sup>248</sup> Ibid 9

<sup>249</sup> Ibid 10

<sup>250</sup> *Telecoms liberalization: an International Business Guide for Policy Makers* (International Chamber of Commerce 2004) 13

Building a telecoms system is expensive and needs modern technology. Then, liberalization makes possible the private investment essential to finance the communications infrastructure and enables the government focus on other responsibilities.<sup>251</sup> It has also the greatest rewards through indirect revenues: the benefits that are stretch all over the economy and society as more and better communications services benefit everyone.<sup>252</sup>

Creation of jobs is also one of the benefits of liberalization when new participants and existing service providers compete to offer new products and services to an emergent customer base.<sup>253</sup>

Benefits of telecom liberalization also include new and innovative services with better reliability and greater capacity, lower prices, mainly on long distance/international calls, FDI in the telecoms sector, and transfer of technology, skills and business methods.<sup>254</sup>

However, telecom liberalization is not challenge free. In the short run there may be higher prices of local calls because of the tariff rebalancing and reduced cross-subsidies. Additionally, there will be initial loss of jobs as it becomes more streamlined and competitive and it will no longer act as a cash cow for the national budget.<sup>255</sup> Nevertheless, the experience of many countries shows that competition in the end creates employment opportunities that compensate the initial job losses. The loss of government revenue may also be balanced by higher tax revenues created by market participants.

In Ethiopia detractors of privatization have constantly argued that involvement of private sectors may exploit their monopoly and disregard the extensive social costs. However, such problems may be solved by the government by including service obligations in the contract, plan pro-poor

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<sup>251</sup> Ibid 13

<sup>252</sup> Ibid 16

<sup>253</sup> Ibid 16

<sup>254</sup> Ibid 20

<sup>255</sup> Ibid 20

initiatives such as free public Wi-Fi or commence innovative subsidy arrangements to provide a better share of the benefits to the poor.<sup>256</sup>

The AfCFTA Protocol on Trade in Services aimed at creating a single liberalized market for trade in services.<sup>257</sup> For this effect Ethiopia, as Member State to the Agreement, is required to respect and promote principles of non-discrimination: MFN and NT. Considering the above mentioned advantages of telecom liberalization and the commitment it has to the AfCFTA, the Government of Ethiopia has to take steps to open the telecom sector and harmonize its laws with the AfCFTA arrangements. Recently, the Government, as part of State Owned Enterprise (SOE) reform program, introduced reform in the telecom sector including enactment of Communication Service Proclamation, review of the privatization option for Ethio-telecom and opening the sector to competition.<sup>258</sup> The telecom sector is open to both domestic and foreign private investors.<sup>259</sup> Moreover, the Government has decided that two new operators will be permitted to enter in to the market and compete with the Ethio-telecom.<sup>260</sup> By doing so, African investors can participate in Ethiopia's telecom sector which might be enough to the country to fulfill its commitments in the Protocol.

Generally, considering the flexibility of the Government to open the sector and the existence of various problems in the state owned telecom service in Ethiopia as discussed above, opening the sector through AfCFTA arrangement has advantages to the country especially in advancing the quality of voice and internet service, increasing mobile penetration and facilitating the import and export trade of the country. However, since investing in the telecom service is expensive, the

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<sup>256</sup> Lishan Adam, Risks and Opportunities of Late Telecom privatization: The Case of Ethio-Telecom (Research ICT Africa, 2019) 16

<sup>257</sup> *Agreement Establishing the African Continental Free Trade Area: Protocol on Trade in Services* (signed March 21, 2018) Art. 3(1)

<sup>258</sup> 'Completion of Preparation of the Reform Process of Ethio-Telecom' <[www.mofed.gov.et](http://www.mofed.gov.et)> accessed 15 May 2020

<sup>259</sup> 'Communication Service Proclamation No. 1148/2019' (Enacted June, 2019) Article 54 <[www.mofed.gov.et](http://www.mofed.gov.et)> accessed 15 May 2020

<sup>260</sup> n.258

government must consider mechanisms to empower the capacity of domestic investors. Consolidated works to minimize the above discussed challenges of telecom liberalization such as initial loss of jobs and reduction of revenue must also be done by the Government sustainably.

## 4.2. Financial Sector Liberalization

The financial sector of Ethiopia is small in number and is dominated by the state. Lending and interest rates are controlled by the government. The penetration of insurance sector is also inadequate. Per capita insurance premium of Ethiopia, expressed by the insurance penetration (total insurance premium as a percent GDP) and insurance density is low.<sup>261</sup>

Through time various international financial institutions tried to force the Government of Ethiopia to liberalize the financial sector. However, the government refused to do so for long time which negates the positive effects that would otherwise come from better financial intermediation.<sup>262</sup>

Even the domestic competition of the financial sector is inhibited by major government ownership and using of strict control on the domestic private ownership of financial institution. The National Bank of Ethiopia has monopolized all foreign exchange transactions and administers all foreign exchange payments and remittances. The bond market is also restricted to Treasury bill which is issued by it. Interest rate floor is also decided by the National Bank of Ethiopia. Both micro-finance and insurance is also poor and shallow.<sup>263</sup>

Ethiopian government officials raised arguments not to liberalize the financial sector. They believed that the growth of a viable domestic banking sector will be affected by foreign banks which have more experience and capital and better reputations and the Ethiopian financial sector is too young and inexperienced to compete<sup>264</sup>. They also think that foreign banks will ignore

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<sup>261</sup> Tefera Assefa, *Financial sector liberalization in Ethiopia: Resistance, Justification and its Credibility* (Journal of Studies in Management and Planning e-ISSN: 2395-0463 Volume 02 Issue 4, 2016) 244

<sup>262</sup> Ibid 238

<sup>263</sup> Ibid 238

<sup>264</sup> Ibid 240

sectors that the government gives priorities such as agriculture, small-scale and cottage/micro enterprises and give priorities to large-scale industrial, real estate and service enterprises. Foreign banks may also focus lending in major urban areas and will have little attention towards the development of rural banking and they would not be willing in domestic saving mobilization<sup>265</sup> The officials have also a fear that they may create foreign exchange and/or liquidity shortages since foreign banks may serve as channels for inward and outward flows of capital<sup>266</sup> Above all, it is firmly believed, the government bodies will be incompetent currently to control and supervise foreign banks effectively.<sup>267</sup>

However, the government's arguments and concerns are one sided since it disregarded the potential benefits of financial liberalization. It also lacks considering effective countries in liberalizing their financial sectors to outline lesson or experience.<sup>268</sup> The government also fails to examine the reason for the failure of the financial sector liberalization and simply mention the failure of the system. In developing countries financial liberalization may not be successful. But not because of the defect of the system rather the failure is due to lack of suitable environment for the effective and fruitful implementation of the financial liberalization.<sup>269</sup>

Therefore, the solution in Ethiopia is providing considerable attention to the development of basic infrastructures and helpful legal and regulatory framework in Ethiopia rather than closing the door.

Reforms such as the privatization of the dominant state owned CBE; allowing entry of foreign banks; permitting market forces to determine interest rates and the exchange rate of the ETB, and improving the regulatory and supervisory capacity of the National Bank of Ethiopia to reinstate the public's trust in the banking sector are also required.<sup>270</sup>

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<sup>265</sup> Ibid 240

<sup>266</sup> Ibid 240

<sup>267</sup> Ibid 240

<sup>268</sup> Ibid 241

<sup>269</sup> Ibid 241

<sup>270</sup> Ibid 242

The health operation of the Ethiopian economy is closely linked with the performance of the CBE. Hence, financial liberalization would help Ethiopia well to diversify the stress placed on the CBE by forming a greater role for private banks, with potentially opening access for foreign banks. It also solves the problem of under banking in Ethiopia.

The financial sectors such as banks and insurances, as per the AfCFTA arrangement are expected to be opened by Ethiopian Government. As stated above there are potential benefits and challenges of opening the financial sector. In relation to advancing the quality and accessibility of banking and insurance services, and creating alternative and modern loan arrangements, opening the sector as required by the AfCFTA may have benefits to the sector. It is also a good experience for the country's WTO accession process. However, considering the high capacity of foreign banks and insurance companies and the under developed nature of the country's banking and insurance services, through the membership of the AfCFTA, the sector may be dominated by foreign investors and domestic investors may not be competitive. Accordingly, the economy of the country will, in the long run, be controlled by foreign enterprises. Hence, modernizing and empowering the domestic private investors must be done first by the Government to minimize the long term threats in the sector. The Government's action to allow Foreign Nationals of Ethiopian Origin to invest in banking sector is encouraging effort in this regard so that the diaspora community can support the existing or newly established banks technically and financially.<sup>271</sup> But, the government can open the sector through transition period and can also minimize the risks by using its controlling system.<sup>272</sup>

### **4.3. Tourism**

Ethiopia's tourism sector has expanded through time because of the increased participation in international travel and tourism exhibitions promoting Ethiopia's natural, cultural and historical attractions.<sup>273</sup>

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<sup>271</sup>Amended Banking Proclamation No.1159/2019' (Enacted August 2019) the preamble <[www.flsllegalservices.com](http://www.flsllegalservices.com)> accessed 15 May 2020

<sup>272</sup> Mindaye (86)

<sup>273</sup> *Ethiopia: Services Snapshot* (International Trade Center 2013) 3

Liberalization of this sector through AfCFTA arrangement may attract foreign investors. The existence of Ethiopian airlines, a world class national carrier, cheap abundant trainable man power, the presence of AU, UNECA and other international and regional organizations are among the opportunities to invest in tourism sector in Ethiopia.<sup>274</sup> Liberalization may also improve the sector by supporting with modern technological innovations such as the internet, worldwide web and electronic commerce. It also makes the sector lead with well experienced tour guides and other personnel which may in effect attract more tourists.<sup>275</sup>

However, liberalizing tourism industry through the AfCFTA arrangement may invite strong competitions from various African countries which have trained man power, experience and money which may affect most small and medium sized businesses that have major role in the country's tourism service. Gradually, it also leads to privatization of state owned assets such as parks, and community lands which are homes and sources of livelihood for many citizens. It may also affect other sectors, such as domestic agricultural sector and the ecology.<sup>276</sup>

After Asia-Pacific, Africa was the second-fastest growing tourism region in the world, with a growth of 5.6% in 2018.<sup>277</sup> Countries like Mauritius, South Africa and Seychelles leads the travel and tourism sector in Africa and Ethiopia is behind Kenya and Tanzania.<sup>278</sup> So, Ethiopia may face much competition from African countries in the tourism industry.

In 2018, Ethiopia was Africa's fastest growing travel country growing by 48.6% in 2018 to be worth \$7.4bn because of its visa relaxation policies combined with improved connectivity as a regional transport hub and is the 19<sup>th</sup> least restrictive destinations in Africa.<sup>279</sup> Supporting this

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<sup>274</sup> 'Ethiopia's Tourism' <<http://unctad.org>> accessed 27 April 2020

<sup>275</sup> Mariama Williams, *Economic Literacy Series: General Agreement on Trade in Services, #5 Tourism Liberalization, Gender and the GATs* (International Gender and Trade Network 2002) 3

<sup>276</sup> Ibid 4

<sup>277</sup> 'Jumia Hospitality Report Africa 2019' (3<sup>rd</sup> edition, 2019) <<https://www.hospitalitynet.org>> accessed 17 May 2020

<sup>278</sup> 'WEF Competitiveness Index 2019' <<https://www.weforum.org>> accessed 17 May 2020

<sup>279</sup> n.277

progress of the country, existence of AfCFTA creates the opportunity of travel to Ethiopia for meetings, incentives, conferences, exhibitions and events and the Ethiopian Government should work in eliminating visa requirements for African nationals to realize the full potential gains of travel and tourism from AfCFTA.<sup>280</sup>

#### **4.4. Transportation**

In the transportation sector, the huge contribution of Ethiopian airlines to the national economy is the aforementioned one. It operates with a fleet of more than 100 aircrafts, serves 6 million passengers a year and reported 2.6 billion dollars in revenue in 2017.<sup>281</sup>

The African market is controlled by foreign carriers than Africans. African carriers share only 20 % of the market.<sup>282</sup> On the other hand, Ethiopian Airlines is Africa's largest Airline by Revenue and profit.<sup>283</sup> It has 58 destinations in Africa and to extend its regional footprint, it began establishing new hubs in Mozambique, Chad and Equatorial Guinea.<sup>284</sup> Considering the profitability and competitiveness of Ethiopian Airlines, opening air transport as per AfCFTA may not affect the country's economy. Even more, AfCFTA gives prior market access for it than its foreign competitors.

There is also a draft regulation drafted by Ethiopian Civil aviation authority which allows non-national investors to engage in domestic and international flight by entering into partnership with either Ethiopian or members of the Ethiopian diaspora.<sup>285</sup> This is also a good step by the Government to go in line with the AfCFTA arrangement.

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<sup>280</sup> n.277

<sup>281</sup> 'Ethiopia Moves to Liberalize Aviation Industry' <<http://addisfortune.news>> accessed 1May 2020

<sup>282</sup> 'Ethiopian Airlines Competitive advantages' <<https://businessday.ng>> accessed 17 May 2020

<sup>283</sup> 'Ethiopian Airlines Pan-African Strategy to Dominate Africa Skies' <<https://qz.com>> accessed 17May 2020

<sup>284</sup> Ibid

<sup>285</sup> Ibid

Logistics services: packaging, forwarding and shipping agency services are also opened for foreign investors.<sup>286</sup> The addition of foreign capital will make the sectors more efficient, professional and modern and will facilitate the export and import trade of the country. Measures of the Government in the logistics and air transport sectors are enough in the transport sector to fulfill the AfCFTA obligations the country has. However, sustainable works in increasing the domestic private sectors competitiveness should always be made by the government to benefit more from the AfCFTA arrangement.

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<sup>286</sup> 'On liberalization of the Logistics Sector' <<https://mtalawoffice.com> > accessed 17 May, 2020

# CHAPTER FIVE

## Conclusions and Recommendations

### 5.1 Conclusions

The core issues addressed in this paper are the prospects and challenges as well as the defensive and offensive interests of membership of Ethiopia to AfCFTA in relation to trade in goods and services.

The first chapter covered the proposal. The second chapter dealt with the nature and essence of the Agreement establishing the AfCFTA and its Protocols: Protocol on Trade in Goods and Protocol on Trade in Services. It raised African regional integration efforts starting from the establishment of the SACU in 1910 and the EAC in 1919 up to the establishment of the AfCFTA. It also discussed the status of intra-African trade which has only a small share of Africa's total exports and imports. The efforts to establish the AfCFTA, its institutional framework, objectives and principles are also discussed. It also analyzed the nature and content of the Protocol on Trade in Goods and its Annexes and the Protocol on Trade in Services. Finally, the efforts made by the government of Ethiopia in the negotiation process are dealt in the chapter.

The third chapter discussed the prospects and challenges as well as the defensive and offensive interests of Ethiopia's membership to AfCFTA on Trade in Goods. It analyzed the current agricultural and manufactured goods export and import trade data and the future trade potentials of the country.

The fourth chapter focused on the prospects, challenges, the defensive and offensive interests of Ethiopia's membership to AfCFTA on Trade in Services. It specially analyzed the prioritized sectors under the negotiation on the Protocol on Trade in Services: communication, transport, financial services, and tourism in the case of Ethiopia.

Generally, from this paper, it can be concluded that the current export and import trade of Ethiopia is mainly outside Africa. Accordingly, the implementation of the AfCFTA may not have significant impact on the external trade of the country. However, in the short run or in the transition period the country may face challenges such as unemployment and reduction of government revenues both in the tariff and domestic taxes. The uncompetitive nature of the

export sector exacerbated by government routine bureaucracies to start a business and pay taxes, poor service offers from banks; telecom, transportation and electricity are also among the challenges in the export and import trade of the country.

The prospects, on the other hand, include creating market access for exporters especially for industrial parks and attracting foreign investment. The less stringent nature of SPS and TBT standards in Africa also make the export more competitive. The Rules of Origin, if not stringent, also creates market access for our export sector. Exposure to trade liberalization also reduces the Government's trade related bureaucracies and corruptions. Therefore, there are short term losses but in the long run the country drives advantages from the AfCFTA.

In the service sector, since only one sub-sector from the prioritized sectors is required at least for the time being, opening the sectors may not have considerable impact to the service trade of Ethiopia. However, in the long run the sectors to be liberalized will increase. Hence, the competitiveness of our service sectors such as the financial sector may be challenged unless the Government and other concerned bodies work hard to empower the sector.

## **5.2. Recommendations**

Ethiopia's membership to the AfCFTA, as discussed in the paper, has both prospects and challenges on the export and import trade in goods and services of the country. Hence, to properly use the potential benefits and minimize the challenges, the paper suggests the following recommendations:

1. The negotiators of Ethiopia must critically do categorization of products as sensitive, non-sensitive and excluded based on the products GDP share, the man power employed in their production process and the revenue they generate.
2. The trade liberalization transition periods on trade in goods and services must be used properly through amending laws (investment, banking, customs and other relevant laws) and empowering the export sector by working in collaboration with all concerned government and non-governmental bodies.

3. The Government and exporters must identify and utilize the unused export potentials, both in agricultural and manufactured goods of the country, in the African countries.
4. The Government must take trade facilitation measures such as avoiding unnecessary trade and customs bureaucracies, and upgrading transportation, telecom, financial, electrical and other necessary services. Arranging easy access of foreign currency to investors who demand investing in other African countries and building the capacity of its financial sectors such as trade and investment institutions must also be done by the Government.
5. Boosting the capacity of the infant manufacturing industry with the active involvement of the domestic private sector and protecting such industries must be done by the Government. The Government and the trade community must also prepare mechanisms to minimize the possible short term problems such as initial loss of jobs and reduction of revenue, by giving emphasis on sectors and subsectors that show the most encouraging comparative advantages and job growth and by applying measures which are the most cost effective in the short run and have least fiscal impact in the long run.
6. Ethiopian Government should also work in eliminating visa requirements for African nationals to realize the full potential gains of travel and tourism from AfCFTA.
7. The Government must adequately arrange short and long term credit schemes to domestic private exporters and should simplify business entry procedures to new exporters to increase the export capacity of the country and diversify export of goods and destinations.

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