



**Addis Ababa University  
Collage of Development Studies  
Center for Regional and Local Development Studies**

**Qualitative Analysis of Ethiopia's Readiness to African  
Continental Free Trade Area (AfCFTA)**

**By**

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**July, 2022**

**Addis Ababa, Ethiopia**



**Addis Ababa University  
Collage of Development Studies  
Center for Regional and Local Development Studies**

**Qualitative Analysis of Ethiopia's Readiness to African Continental Free  
Trade Area (AfCFTA)**

**A Thesis Submitted to the School of Regional and Local Development Studies  
of Addis Ababa University in partial fulfillment of the Requirement for the  
Degree of Master of Art in Regional and Local Development Studies**

**By Ibsa Chemed**

**Advisor**

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**July, 2022**

**Addis Ababa, Ethiopia**

## DECLARATION

The undersigned thesis entitled “**Qualitative Analysis of Ethiopia’s Readiness to African Continental Free Trade Area (AfCFTA)**” submitted in partial fulfillment of the requirements for the award of the degree of Master of Art in Regional and Local Development studies to graduate program of college of Development studies, Addis Ababa university by Ibsa Chemedda is entirely original work conducted by the candidate under my supervision and this project work has not been submitted earlier for award of any degree, diploma and fellowship to the best of our knowledge and belief.

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Signature

Date

## APPROVAL SHEET

This is to certify that the thesis conducted by Ibsa Chemedo entitled “Qualitative Analysis of Ethiopia’s Readiness to African Continental Free Trade Area (AfCFTA)” and submitted in partial fulfillment of the requirements for the degree of Master of Art in Regional and Local Development studies fulfills with the regulations of Addis Ababa University and meets the accepted standards with respect to originality and quality.

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## *Abstract*

The research paper analyzed Ethiopian readiness to AfCFTA, to conduct this study, qualitative approach was employed. A total of 33 respondents were selected and involved as sample respondents in the study. Semi structured interview technique and both primary and secondary data sources were used. The study used non probability sampling procedure specifically purposive sampling technique in undertaking this research. The collected data were analyzed by thematic analysis method. The findings of this study show SMEs in Ethiopia aren't ready to AfCFTA. Awareness wise, majority of the Small-to-Medium Enterprises haven't heard about the CFTA, the requirements to participate in it and have not received training about the CFTA. Institutions like AACCSA, ECCSA and MoTRI are not giving equal attention to SMEs as they give big businesses and corporations. The research found in trade facilitation aspect Ethiopia is ready for AfCFTA. Almost all requirements set by AfCFTA about trade facilitation are implemented or are in the project phase. The research also found Ethiopia is ready to AfCFTA in macroeconomic policies aspect, the plans government hasn't been finished yet and projects in initial stages are hope givers. In digitalization, supply chain, national studies for the CFTA, Foreign Direct Investment (FDI) and industrialization related macroeconomic activities: Ethiopia is doing well to be ready while infrastructure, private sector, and sub-committee related policies and actions need better focus to be ready for the CFTA. Recommendation and future studies are forwarded.

Key Words: AfCFTA, Private sector, Trade facilitation, Critical policies

## ACRONMYMS

<b>AACCSA</b>	Addis Ababa Chambers of Commerce and Sectoral Association
<b>AAU</b>	Addis Ababa University
<b>AfCFTA</b>	African Continental Free Trade Area
<b>AGOA</b>	African Growth Opportunity Act
<b>AU</b>	African Union
<b>ASYCUDA</b>	Automated System for Custom Data
<b>CFTA</b>	Continental Free Trade Area
<b>COMESA</b>	Common Market for Eastern and Southern Africa
<b>CSM</b>	Custom Management System
<b>ECA</b>	Economic commission of Africa
<b>ECCSA</b>	Ethiopian Chamber of Commerce and Sectoral Association
<b>EIC</b>	Ethiopian Investment Commission
<b>ERCA</b>	Ethiopian Revenue and Custom Authority
<b>FDI</b>	Foreign Direct Investment
<b>FTA</b>	Free Trade Area
<b>GATT</b>	General Agreement on Tarrifs and Trade
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>HS</b>	Harmonized System
<b>ITC</b>	International Trade Center
<b>LDC</b>	Least Developing Countries
<b>MoTRI</b>	Ministry of Trade and Regional Integration
<b>MPD</b>	Ministry of Plan and Development
<b>NAFTA</b>	North America Free Trade Area
<b>NTB</b>	Non-tariff Barrier
<b>NTM</b>	Non-tariff Measures
<b>OAU</b>	Organization of African Unity
<b>OSBP</b>	One Stop Border Post
<b>REC</b>	Regional Economic Communities
<b>RoO</b>	Rules of Origin
<b>RTA</b>	Regional Trade Agreement
<b>SAD</b>	Single Administrative Document
<b>SME</b>	Small-to-Medium Enterprises
<b>TRS</b>	Time Release Studies
<b>WTO</b>	World Trade Organization.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background

In May 1963, the 32 Heads of African States and Governments assembled in the City of Addis Ababa, Ethiopia, Conscious of the fact that freedom, equality, justice and dignity are essential objectives for the achievement of the legitimate aspirations of the African peoples. The heads of states targeting to harness the natural and human resources of African continent for the total advancement of African people and to promote understanding among African people and states, and to the general progress of Africa, founded the Organization of African Unity (OAU) (OAU Charter, 1963).

OAU later was officially re-launched as African Union (AU) in July 2002 in Durban, South Africa, with a need to refocus attention from the fight for decolonization and ridding the continent of apartheid to a vision of an integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena (African Union, 2019a).

In their 50th Anniversary Solemn Declaration, the Heads of State and Government rededicated themselves to the continent's accelerated development and technological progress. They emphasized a guiding vision "to build an integrated, prosperous and peaceful Africa, driven and managed by its own citizens and representing a dynamic force in the international arena" in order to solve the different challenges identified and guide the different goals and strategies formed to tackle them. This is stated in the Agenda 2063, which is the chosen and shared framework for inclusive growth and sustainable development for Africa to be realized in the next years. (African Union, 2015).

With the founding fathers' wish to see the unified Africa and AU's current development goals, African Continental Free Trade Area (AfCFTA) was born in March 2018, in Kigali, Rwanda. As stated by African Business (2018) the agreement was brokered by the African Union (AU) and was signed by 44 of its 55 member states.

African Continental Free Trade Area (AfCFTA) is a free trade area agreement but in addition it is a flagship project of the AU in terms of Agenda 2063. The general objectives of the AfCFTA include creating a liberalized market for goods and services, contribute to the movement of capital and labor and facilitate investments, lay the foundation for a continental custom union and to enhance competitiveness of the economies of state parties (Tralac, 2021).

The African Continental Free Trade Area (AfCFTA) will be the world's largest free-trade area, creating a market of 1.2 billion people and the eighth economic bloc in the world with a \$3-trillion combined GDP, that is expected to more than double by 2050 (AfCFTA secretariat, 2021).

The AfCFTA plans go beyond traditional trade agreements that merely reduce tariffs. In the AfCFTA, African countries have committed to progressive services liberalization in which domestic services markets are to be opened for service suppliers from other African countries. Beyond tariffs, non-tariff barriers, the AfCFTA is expected to include a “non-tariff barrier mechanism” provisions for the recognition of technical and sanitary standards, transit facilitation and customs cooperation. By doing so, the aim is to significantly ease doing business across borders in Africa (African Union, 2019b).

According to ECA, (2018) African Union member States have agreed to remove 90 per cent of their tariffs on goods over a period of between 5 and 15 years, depending on whether a country is classified as developing or least developed. Ethiopia will have 10 years to fully cut 85 per cent from its non-sensitive products, 15 years to cut the other 5 per cent from non-sensitive products, and 13 years to bring their tariffs on sensitive goods to zero.

AfCFTA is a Regional Trade Agreement (RTA) or Regional economic integration. Cole et al., (1999) defined Regional economic integration as an agreement between groups of countries in a geographic region, to reduce and ultimately remove tariff and non-tariff barriers to the free flow of goods, services, and factors of production between each other. It has levels of integration from least to most integrate:

The liberalization of trade caused by RTAs has led to a massive expansion in the growth of world trade relative to world output. According to Thirlwall, (2000) world output has expanded fivefold, the volume of world trade has grown 16 times at an average compound rate of just over 7 percent per annum.

But trade liberalization between African countries isn't functioning at the highest level. According to Ighobor, (2018) patchwork of trade regulations and tariffs that make intra-African commerce costly, time wasting and cumbersome force African retailers to source their products from halfway around the world. Olaniyan, (2008) mentions political instability, weak Infrastructures, weak institutions, weak implementation of protocols and multiplicity of RECs as some common challenges to regional economic integration arrangements in Africa.

To discuss the benefits of AfCFTA to African people, according to the report by World Bank, (2021) Under AfCFTA, extreme poverty would decline across the continent—with the biggest improvements in countries with currently high poverty rates. The report identified AfCFTA agreement can lift 30 million Africans and 4.8 million from Eastern Africa and boost the incomes of nearly 68 million others who live on less than \$5.50 a day, boost Africa's income by \$450 billion by 2035 (a gain of 7 percent) while adding \$76 billion to the income of the rest of the world, increase Africa's exports by \$560 billion, mostly in manufacturing, Spur larger wage gains for women (10.5 percent) than for men (9.9 percent) and boost wages for both skilled and unskilled workers—10.3 percent for unskilled workers, and 9.8 percent for skilled workers.

According to Apiko et al., (2020) beyond boosting intra-African trade, the larger markets offered by the AfCFTA are expected to trigger investments, leading to higher productivity and value addition in the continent, resulting in more and better jobs, and broader welfare benefits, thus further enlarging the market.

In addition, AfCFTA is considered as a solution for the macroeconomic challenges African countries faced because of COVID-19. The disruptions caused by the COVID-19 pandemic has pushed an estimated 55 million Africans into extreme poverty in 2020 and reversed more than two decades of progress in poverty reduction on the continent (ECA, 2021). Researches like Oulmane, (2020) and Gopaldas, (2021) suggest AfCFTA can be the key to the economic and social problems COVID-19 created, by creating economic opportunities to reverse the problems.

Ethiopia as an African country and a member of the CFTA can benefit from AfCFTA. When narrowing down and focus on the contextual issues of Ethiopia one of the main reasons why AfCFTA will be a good opportunity for Ethiopian economy is, the fact that the export sector is considered to be one of the key drivers of the economic growth and transformation of the country. As presented in, the home grown economic reform, high export growth rates though improving the manufacturing sector's capacity, productivity, competitiveness and the investment climate are crucial in realizing high real GDP growth in Ethiopia (FDRE Planning and Development Commission, 2021).

According to Demas, (1965), developing countries can achieve balanced growth by increasing the size of the market, benefiting from economies of scale, and expanding their inter-industry transactions. Therefore he argued that economic development can be attained through economic integration.

According to ITC, (2018) Using trade to drive faster growth is essential to Ethiopia's aspirations to join the ranks of middle-income states by the year 2025. Over the past 15 years, the value of Ethiopian exports increased by 549%. Nevertheless, even faster import growth has led to a worsening balance of payments deficit, making the country's competitiveness in international markets an urgent priority.

Dirar, (2019) argues because Ethiopia is the headquarters of the African Union and founder, its role on regional integration is usually taken as given and assumed that the state has and is making efforts to integrate with the continent, but Ethiopia's historical engagement with regional integration has been at best passive and vague. According to Dirar, (2019) recently Ethiopian government contends that regional integration is central for **peaceful coexistence** and **creating economies of scale** in the Horn of Africa and Africa. The government signed a peace declaration with Eritrea ending the twenty years no-war-no-peace situation. And across the several meetings between the Horn of Africa leaders the phrase 'regional integration' seems to soar.

With this increased interest in regional integration, Ethiopia signed the AfCFTA agreement in 2019 and has taken such as the issuance of visas on arrival for citizens from AU member states AfCFTA (AU, 2019). In addition Ethiopia even added regional integration at the cabinet ministry level on 2021 (Aljazeera, 2021).

In addition to the above mentioned predicted AfCFTA benefits and Ethiopia's interest in increasing regional integration to a higher level, there is a third reason for Ethiopia's interest in AfCFTA. It is Ethiopia's eligibility for the African Growth Opportunity Act (AGOA), a trade program that provides tariff-free access to the US market for African manufacturers, was formally revoked on January 1st, 2022.

According to Mamo Mihretu, a senior policy advisor to Ethiopian Prime Minister Abiy Ahmed and Ethiopia's chief trade negotiator (Foreign Policy, 2021) Ethiopia's removal from the AGOA would deal a serious blow to the welfare of millions of low-income workers at a time when Ethiopia's manufacturing industry is registering record monthly output levels.

And Africanews, (2022) reports that Ethiopia is scrambling to find new export markets after being shut out of the lucrative US market over human rights concerns. Addis Ababa's industrial parks which have grown on the back of exporting textiles to the US now face the prospect of shutting down, along with tens of thousands of jobs.

With Ethiopia's national interest to increase its regional integration for better peace, economy and integration of the continent and looking for market to substitute the loss of market due to AGOA there are certain issues to consider. By using this analysis we can better understand the Ethiopian current status in implementation of the necessary action before starting a CFTA, by identifying the areas which Ethiopia isn't ready, the research tries to give policy, strategy, projects and actions required to better prosper from the CFTA.

## **1.2 Problem Statement**

The impact of the AfCFTA will depend not only on what is agreed in the negotiations, but also on whether African countries ratify, domesticate, implement and comply with the provisions of the AfCFTA Agreement. The impact of the AfCFTA will therefore also depend on the effectiveness of various complementary policies and initiatives put in place to enable African businesses and individuals take advantage of trade and investment opportunities under the AfCFTA (Apiko et al., 2020) and (Muchanga & Hogan, 2020)

According to Muchanga & Hogan, (2020) who is African Union Commissioner for Trade and Industry, African countries need to make themselves ready in different aspects like Getting the private sector ready for the AfCFTA, creating a conducive enabling environment, and national and regional policymakers working intensively to prepare for the AfCFTA.

Starting with getting the private sector ready for the AfCFTA, when we look at the private sector in Ethiopia, after summarizing 16 articles (Nigatu & Atsbeha, 2021) concluded the prominent challenges faced by private sector specifically by MSEs in Ethiopia are lack of financial management skill access to finance, inappropriate tenure uncollectible receivables selling at less price compared with other similar enterprises, starting business without conducting survey, shortage of raw material, lack of technology, lack of experience in own business, limited access to markets, to premise, weak performance leading to absence of growth thinking challenges, lack of training, cultural oppressions, high competition as a result of open entry to the business, development strategy and policy focuses on agriculture which in turn discourage MSEs operating in other sectors, unattractive market, lack of advertisement, training. shortage of electricity and unscheduled power cuts, bureaucratic working procedure, high tax, high collateral requirement and high interest rate.

The other aspect that needs preparation and readiness is creating a conducive environment that is related with trade facilitation and NTB reduction. In Ethiopia case, according to ITC, (2018) Ethiopian businesses would be performing even better in international markets were they not held back by NTMs, regulations applied by Ethiopia on export, conformity assessment, and private standards, technical requirements and rules of origin are the top five selected NTM challenges.

World Bank, (2016) categorized Ethiopia under one of the poor performing economies in terms of the overall ease of doing business. It ranks particularly low in the ease of starting a business, getting construction permits, which would particularly affect industry, protecting minority interests, getting credit and trading across borders.

Macro-economic issues of Ethiopia are also another aspect that needs preparation and readiness. According to World Bank, (2022) Ethiopia is experiencing the unprecedented social and economic impact of the COVID-19 pandemic, the incidence of conflict has increased, particularly in the North since November 2020, firms continue to report income losses, and poverty is estimated to have increased. UNICEF, (2020) mentions external debt distress, high inflation rate and real GDP growth was at its lowest value in the past 15 years.

With the above mentioned problems, Ethiopia is about to begin free trade. According to Mangat Ram, (1970) difficult problems frequently arise out of trade between countries that have difference in economic status. And the current intra-African trade remains dominated by a few big regional players.

According to Ndonga et al., (2020) there have been growing fears that the AfCFTA's anticipated gains, and associated losses, are likely to accrue unevenly. Countries with large productive capacities in manufacturing or stronger supply capacities in non-manufactured products may reap more rewards than weaker landlocked and smaller economies, particularly the least developed countries (LDCs). According to Reporter, (2021) some Ethiopian scholars conclude

that comparatively industrialized African economies like South Africa, Egypt, Nigeria and Kenya will dump on countries like Ethiopia.

In conclusion, this research tries to answer if Ethiopia is ready for a market competition with manufacturing led and high GDP countries with the private sector facing many problems, while the trade facilitation performance is really poor and strong macroeconomic challenges exist in the country.

To the best of my knowledge there is no study on Ethiopian readiness to AfCFTA in perspectives from private sector, trade facilitation and macro-economic issues. This thesis paper aims to fill this information gap and add value to the implementation of AfCFTA in a way it makes Ethiopia one of the champions of it and help its citizens to get the many economic benefits the CFTA promises.

### **1.3 Research Objective**

#### **1.3.1 General Objective**

The main objective of this thesis paper is to explore Ethiopia's readiness to fully exploit the benefits of AfCFTA.

#### **1.3.2 Specific Objectives**

This includes

1. To examine the status of awareness and readiness of the private sector in Ethiopia to AfCFTA
2. To investigate if implementation of Trade Facilitation activities in Ethiopia are in line with the African Continental Free Trade Area agreement
3. To identify if the critical policies and provisions that are needed to ensure the gains of Free Trade Area (CFTA) exit and are implemented

### **1.4 Research Questions**

The research seeks to answer the following questions;

1. What is the status of awareness and readiness of the private sector in Ethiopia towards AfCFTA?
2. Is implementation of Trade Facilitation activities in Ethiopia are in line with the African Continental Free Trade Area agreement?
3. Do the critical policies and provisions that are needed to ensure the gains of the Continental Free Trade Area (CFTA) exit in Ethiopia and are they implemented?

### **1.5 Significance of the study**

This study serves a background for AfCFTA implementing actors to act and take action on the situations which can hamper Ethiopian benefit and minimize the risks of joining FTAs. The research also serves as the basis for problem solving for integrating private sectors, trade facilitation measures and some macroeconomic policies to the success of implementation of AfCFTA. The findings of the study offer profile of the ongoing realities of CFTA implementation in Ethiopia for further research on the area.

The research is believed to go a long way in helping to shape Ethiopia's implementation of regional integration related projects, actions and policies. The study is thus expected to be helpful in planning, designing, developing, implementing and evaluating regional integrations. By doing so the research expects to help many people who will benefit from the proper implementation of the CFTA and prevent huge macro-economic losses from not being well prepared.

The thesis also seeks to provide a benchmark for similar studies on other African country's readiness to the AfCFTA.

In addition, it can contribute for the achievement of sustainable development goals like SDG goal 8 promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all and SDG goal 17 Strengthen the means of implementation and revitalize the global partnership for sustainable development.

### **1.6 Scope of the study**

The research focuses on the readiness of Ethiopia to AfCFTA from the perspective of only private sector, trade facilitation and NTB reduction, and some specific macroeconomic policies.

To analyze this topic from private sectors perspective, the research used only SMEs in Ethiopia. Issue of financially big private sector actors like exporters isn't discussed. When studying the topic from the trade facilitation and NTB reduction, the research used only the AfCFTA annex to check alignment of its implementation in Ethiopia not implementation of international standards.

### **1.8. Limitation of the Study**

For reasons of time and financial constraints, the sample of the study was only limited to few number of SMEs in private sectors readiness analysis, experts and government officials for trade facilitation and macro-economic issues. Although the sample size is large enough for generalization, stronger findings are expected if the sample size is larger than the sample size of this study, future researches are suggested to address this limitation by increasing the number of experts and SMEs.

The research viewed Ethiopia's readiness to AfCFTA from 3 dimensions only; these are private sector (SMEs), trade facilitation from the AfCFTA agreement perspective and some specific policies. It is recommended future researches to address Ethiopia's readiness to AfCFTA within the settings of different dimensions or by widening the dimensions this research used. Example by including private sectors other than SMEs, evaluating Ethiopia's trade valuation in relation to international trade facilitation standards and adding more macroeconomic policies to the analysis.

### **1.9 Organization of the Thesis**

The remaining part of the thesis is organized as follows:

Literature Review (Chapter Two) – In this chapter, conceptualizing the basic ideas of Free Trade Area is discussed. In addition, the three dimensions of readiness to FTA are discussed.

Methodology of the study (Chapter Three) - describes the Methodology used followed by descriptions of the data collection and the data-analysis techniques that were implemented in this study.

Results and Discussion (Chapter four) - This chapter presents the results found from the analysis of the collected data.

Conclusion and Recommendation (Chapter five) - discusses the conclusion which includes the entire body of the research and it forwards some future directions.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

Starting from the 14<sup>th</sup> century, countries were focused on discovering new lands and Merchants and traders wanted to expand their business to the East because trading Eastern and Western products was profitable. International business became important in the age of discovery and exploration during the 15th century.

According to Cho & Moon, (2000) An economic theory at this time was called mercantilism. It continued to be the dominant economic thought until the 18th century. Mercantilism emphasized the necessity of a country to acquire an abundance of precious metals. To do this, the country had to export the maximum of its own manufactures and to import the minimum from other countries. The policy then shifted toward encouraging domestic production. The rationale was that the country, producing more goods for export, could achieve a favorable balance of trade.

Adam Smith questioned the assumptions of this theory in the book *Wealth of Nations* in 1776. He believed that free trade between countries caused the division of labor; factors of production will be concentrated in producing goods which are produced more cheaply than other countries good. It is in this case that both countries benefit from trade. He argued that through free trade, any deductions can specialize in producing goods in which they have an absolute advantage. (Hozouri, 2017)

Following Smith, Thirlwall, (2000) and Siddiqui, (2018) David Ricardo developed the theory of comparative advantage and showed rigorously in his *Principles of Political Economy and Taxation* book countries can reap welfare gains by specializing in the production of those goods with the lowest opportunity cost and trading the surplus of production over domestic demand. Ricardo's argument is that if protection is removed, resources would be expected to move away from high cost to low cost products and as a result productivity would rise. His comparative advantage theory advocating in favor of a free trade model is part of the argument implied generally to defend *laissez faire*. Protection is seen as interference in the free play of market forces. The concept of comparative advantage will be discussed in detail later.

The above mentioned three theories paved the way to many theories and arguments and publications about concepts like international trade, trade liberalization and preferential trade agreements. In this chapter the main theoretical constructs underlying the effects of economic integration will be discussed. These theories are divided into two parts Static (traditional) economic integration theories and Dynamic (new) economic integration theories.

## 2.2 Economic Integration Theories

### 2.2.1 Traditional Economic Integration Theories

#### A. Viner's Traditional Customs Unions Theory

To begin the literature review with the traditional economic integration theories, traditional welfare analysis is pioneered by Jacob Viner in (Viner, 1950), The Customs Union Issue. Viner's study was the first to identify concrete criteria to distinguish between the possible advantages and disadvantages of economic integration.

According to A. O. Krueger, (1999) Viner's study is the first one to define specific criteria for the distinction of the pros and cons of economic integration. A Viner's analysis of economic integration has divided possible effects of economic integration into the well-known trade creation and trade diversion effects.

Viner's definition of trade creation and diversion as stated by Yang & Martínez Zarzoso, (2014) Trade creation refers to the case when two or more countries enter into a trade agreement, and trade shifts from a high-cost supplier member country to a low-cost supplier member country in the union. Trade diversion may occur when imports are shifted from a low-cost supplier of a non-member country of the union (third country) to a high-cost supplier member country inside the union.

Viner, (1950) saw Customs unions as more of a undesirable action as he concludes it is not important, and is more unlikely to give economic benefit for member countries than harm. Custom unions to give benefit than harm when it is between sizable countries which practice substantial protection of substantially similar industries. Viner's theory suggests that countries to participate in integration when integration leads to more trade creation than trade diversion.

#### B. Developments made to the Viner Analysis

Many developments have been made to the Viner static analysis of economic integration effects. To mention some of the major developments

One of the major contributors to the static economic integration theories is James Meade. In his publications he well-regarded Viner's work but added two new concepts to Viner's work: trade expansion and secondary effect. Meade, (1955) argued that Viner's analysis is only true under some specific conditions where demand is inelastic and supply is completely elastic. So if the inelastic demand is allowed to be more elastic, according to Meade customs union may actually increase the volume of trade even though there is trade diversion. He named this effect "trade expansion", a condition which makes trade diversion may make not be that harmful.

The second development to Viner study by Meade, (1955) is the secondary effect. He concluded Viner has concentrated his analysis on the effect of tariff reduction on a single commodity. And if we can add the secondary effects on compliments and substitute goods, additional welfare can be gained from custom unions.

Meade, (1955) also suggested that a customs union may be welfare increasing if the partner countries are actually competitive but potentially complementary, if the initial tariff levels were very high, and if each partner is the principle supplier to the other partner of the traded products.

Another argument to Viner's study is that it Viner analysis has concentrated on the production side only, neglecting the consumption effect (Richard G. Lipsey, 1957). RTAs create both production effect and consumption effect. Consumption effect happens because member states will increase consuming each other's products. Lipsey argued Viner didn't take the second effect "consumption effect of the union" into consideration.

R. G. Lipsey & Lancaster, (1956) also came up with another aspect Viner's study should consider, which is the size of the reduced tariff and claim that economic welfare is more likely to raise in the case of tariffs being merely reduced, than being completely removed, suggesting to reduce tariffs in stages.

Another development by Johnson, (1975) mention another concept Viner didn't consider, production and substitution effects. He said that trade-diversion may actually be welfare-increasing if we take into account both production and substitution effects, in the sense that the welfare losses resulting from the diversion to a high-cost supplier country may be more than outweighed by the welfare gains resulting from the reduced prices to consumers due to the elimination of tariff on imports.

Another argument is FTA between similar vs. different levels of income. One of the models to discuss is the Heckscher-Ohlin (H-O) model of factor-proportions. According Leamer, (1996) the model states international trade main aim is to compensate uneven distribution of resources. A country will have a comparative advantage in one resource tend to export those products because the products require factors of production that are relatively abundant and therefore relatively cheap within its borders.

Linder, (1961) argues for a country to enjoy comparative advantage, first the good must be produced or demanded in domestic market. According to this theory if comparative advantage is related to demand preferences; trade should most likely occur between countries of similar demand structures. Using this logic Linder's conclusion is that countries with similar per capita Incomes (similar demand) would develop similar industries, and that they would enjoy more trade potential with one another in similar but differentiated products.

Another International trade literature that believes that the similarity in the demand structures or the income per capita levels is a significant determinant for the success of EI processes is (Sakamoto, 1969). Sakamoto argued as countries integrate, markets are enlarged, and in order that a country may benefit from economies of scale, its product must be demanded in the new member country of the union. Therefore, similarity of demand preferences, proxied by similarity of per capita income, is an important element in the success of economic integration efforts.

Studies dating back to (Lancaster, 1980) have been linking Per capita income with the Pattern of trade. Lancaster concluded that the greater the overlap of preferences in demand (similarity of per capita income) between potential trade partners, the greater the scope for intra-industry trade.

### **2.2.2 New Economic Integration Theories**

To answer why static analysis of PTAs became insufficient, Viner and other studies about static effect have concluded the reason behind forming customs unions is a better allocation of resources but (Krauss, 1972) argue analyzing the welfare impacts of customs union using static effects is irrelevant. As a result, another tool (dynamic effects) introduced by B. Balassa, (1962) and Cooper C. A. and B. F. Massell, (1965).

B. Balassa, (1962) argue static analysis in terms of trade creation and trade diversion is simply not capable enough to fully analyze welfare gains from economic integration and listed dynamic effects of integration as technological change, large-scale economies, productivity growth, risk and uncertainty, and investment as well as the impact of integration on market structure and competition. After Balassa many arguments were raised on current forces driving integration. These arguments are discussed below

#### **Economies of Scale**

Bela Balassa and Ardys Toutjesdijk, (1975) argue since possibilities for economic growth through import substitution are limited by the extent of a country's domestic market, countries of different size will need to have recourse to exports at different levels of industrial development in order to ensure the continued expansion of their manufacturing industries. In addition to expansion of market, the small markets increase costs, limit the extent of product specialization, reduce competition, and lessen the incentives for technological improvements while joining FTAs nations can create bigger market where costs decrease, product specialization and technology improvement increases.

#### **Investment creation and Investment diversion**

Studies by Baldwin, Forslid, (1995) introduced the concepts of investment creation and diversion as an extension of Viner's theory. Discriminatory liberalization shifts production of tradable goods from non-integrating to integrating region. Since tradable sectors are capital intensive relative to nontrade sectors, the production shifting raises the rental rate in the integrating region, lowering it elsewhere. Investment creation and diversion is the result.

Baldwin and Forslid, (1995) defined investment creation is the case when production is moved from a high-cost source to a lower-cost source in the union. Investment diversion occurs when production is moved from a low-cost non-member country to a higher-cost member country of the union as a result of the PTA.

**Increased importance of Private sector participation** is also identified as one of a driving force of integration. (It is discussed in sub section 2.3)

### **Increased importance of Services**

According to World Trade Organization, (2019) Trade in services has been expanding rapidly, at a faster pace than trade in goods since 2011. Services currently account for around three quarters of GDP in developed economies, up from 40 per cent in 1950, and many developing economies are becoming increasingly services-based. So in the new economic integration, services are getting focus as manufactured goods too.

### **Increased importance of Foreign Direct Investment**

The other driving force of current economic integration is FDI. Inotai, (1991) hypothesized the formation of an economic integration by itself can lead to increased FDI flows to the integrated region as a whole.

Massimo Motta, (1993) mentioned developing countries can use FDI as a route through which increased investments and more rapid technological change as a result of integration may significantly contribute to the economic growth of member countries.

Tironi, (1976) the formation of common markets with tariff restrictions on non-member countries and trade liberalization as the major reason for FDI increasing and use the expansion of multinational corporations in the last decade.

Ayhan Kose et al., (2005) foreign direct investment (FDI) flows between Mexico and its partners strengthened after NAFTA. The agreement contained various provisions that improved the relative standing of investors from the partner countries in Mexico and expanded the sectors in which they could operate. These changes helped boost FDI flows to Mexico from US\$12 billion over 1991–93 to roughly US\$54 billion in the 2000–02 period

In this sub section, the dynamic effects of economic integration have emerged from arguments to Viner's economic integration theory based on the results of recent changes that are shaping the world economy. Some analysts have argued economic integration theories of the Viner period by concluding it may be irrelevant to the case of developing countries. This argument is discussed on the following sub section.

### 2.2.3 Theories of Economic Integration for Developing Countries

Bela Balassa, (1965) argued that the theoretical literature of economic integration has mainly focused on economic integrations formed by industrialized countries.

Let begin this section with employment and productivity effects. Abdel Jaber, (1971) argue when one studies welfare impacts of economic integration among developing countries, it should not be narrowed to production and consumption effects only, but should also include employment, productivity, and income effects which are the main development issues in their countries, because higher productivity will lead to higher employment. In conclusion even if trade diversion occurs but moves labor from low-productive to high-productive sectors or activities, it will increase welfare.

The other discussion is that developing countries can benefit even more from FTAs than developed countries. Kreinin, (1964) argue claimed that small and medium-sized member countries gain more from economic integration. Regardless of their economic status, the small country will tend to gain more because its exports will now be demanded by a larger pool of consumers. This will be more beneficial to the small developing country, because this kind of integration will give then a consumer with higher purchasing power.

Even if Viner, (1950) conclude trade diversion as a more negative, in the case of developing countries there are some who have claimed that trade diversion may actually be beneficial in the case of developing countries

According to Linder, (1966) and Sakamoto, (1969) the main benefits are that it will enlarge the size of the market and help reduce costs due to economies of scale and import substitution over a wider area will enable the integrated region as a whole to spend higher proportions of its foreign exchange on imports of capital goods, therefore contributing to increased levels of investment and economic. Another argument for trade diversion is that it will allow consumers to purchase imports at lower prices after the removal of tariffs, thus increasing consumer surplus.

But there are others who argue this idea. Elkan, (1975) argues before we conclude trade diversion and economic integration is beneficial to developing countries, it has to be weighed against the tariff revenue lost in this process, because the gain from the economic integration has to be more than the loss of tariff related revenues which FTAs will remove.

The above discussion led to introduction of an interesting term Efficient Trade Diversion by Linder, (1966) and Sakamoto, (1969) .They argue that if economic integration between a group of developing countries occurs and results to trade diversion, it must not be welfare reducing. The shift in production will occur from an efficient developed country (third country) to the relatively efficient developing country member within the new union, putting aside the expected employment and income effects.

Economies of Scale as mentioned on above articles, is one of the benefit developing countries hope to gain when joining RTAs. But developing countries because of their specialization in primary products, have advocated a policy of diversification and import substitution to different extents in an attempt to accelerate economic growth. However, according to Demas, (1965), balanced growth can be achieved by small developing countries by benefiting from economies of scale, expanding their inter-industry transactions and increasing the size of the market. Therefore he argued economic integration can play a big role in to attain economic development in developing countries.

Another aspect economic integration and developing countries is International competitiveness. According to Rueda-Junquera, (2006) most developing countries are now adopting trade liberalization and deregulation policies, as part of their overall stabilization and adjustment programs as agreed with international organizations like IMF and World Bank. This recent approach aims at making economic integration policies compatible with, and complementary to, other policies to enhance international competitiveness in general. Therefore, developing countries are now looking at economic integration schemes as an instrument for a more competitive insertion into the global economy.

In the traditional economic integration theories, Viner, (1950) suggested that more benefits of economic integration will increase to competitive countries (countries producing similar products) than to complementary countries (countries producing dissimilar products). This analysis tends to be on the supporting side of economic integration between developing countries, as most developing countries specialize in exports of primary products.

But El-Naggar, (1964) argue this Viner suggestion as most of these exports being targeted at developed country markets is an obstacle to the benefits of economic integration between developing countries because it may not actually expand their levels of intra-trade. In argument to El-Naggar, (Abdel Jaber, 1971) mentioned the category of primary products itself is too large, and once disaggregated, potential benefits may arise. And, Bela Balassa, (1965) argued that the previous understanding of the criterion of competitiveness and complementarity is not at all relevant to the case of developing countries.

### **Size of the union**

Traditional theory suggests that the bigger the size of the countries entering the union, the larger the benefits of economic integration. Abdel Jaber, (1971) take GNP as a measure of economic size, and conclude developing countries' gains from integration will definitely be small or even negligible. But B. Balassa, (1962) argues when considering the size of the union, one shouldn't only consider the size of GNP only but the rate at which it developing countries increases too. In addition the size of the union to mean population size and most are over populated, developing countries can still benefit largely from integration based on this criterion.

## **Proportion of trade with member countries**

R G Lipsey, (1960) argued RTA will more likely produce welfare gains when trading is higher between partners in the union. But there are some factors which limit the integrations between them.

Abdel Jaber, (1971) list several factors that limit trade between developing countries, and claim that if these obstacles are removed, trade is likely to increase between developing countries entering a trade agreement. These factors include (a) low level of economic development, (b) inadequate transport facilities, (c) foreign exchange controls and other import restrictions, (d) inadequate marketing, and (e) absence of standardized specifications.

## **2.3 Dimensions of Readiness to FTA**

### **2.3.1 Private Sectors in Economic Integration**

As discussed in the economic theory section, one of the main differences between the old regionalism and new regionalism theories is that new regionalism is led assume economic integrations are by private firms while the old regionalism assumes it is led by government.

Issue of private sector participation is one of the issues that contributed to changing the scenes from those that prevailed during the Viner and following near period. The current wave of regionalism or integration is actually supported by private firms.

The private sector is one of the biggest actors in development. According to International Finance Corporation, (2012) it is responsible for approximately 90% of employment in the developing world (both formal and informal jobs). Private entrepreneurs and their profit-making activities – whether large multinationals, medium- and small-scale local enterprises or informal farmers – generate domestic tax revenues, provide critical goods and services that improve people’s lives, and are key to stimulating economic growth Private sector is the main actor of international trade.

According to Koffi Elitcha, (2018) the private sector has a key and multifaceted role to play in the whole process of regional integration. It is mainly responsible for running operations and investing along the identified value chains within the region. It can also facilitate the implementation of the industrialization strategy by actively contributing to infrastructure and skills development as well as creating conditions for enhanced access to investment finance.

An economic actor with these much role has to be a part of FTAs and will be the majority trader in the FTA. The different necessary actions needed to engage the private sector to FTAs is discussed below.

UNECA, (2015) A bottom-up approach to trade liberalization and integration is required, which includes aligning long-term national interests with regional interests, ensuring transparency in negotiations. In this bottom up approach the private sector actors and civil society groups have the potential to influence regional agreements and initiatives by emphasizing the interests of those whom they represent.

According to a guide to FTA negotiation Goode, (2005) when putting together a team to negotiate FTA agreements, in the assembly of a negotiating team private sectors should be one of the team members. And the ministries that are responsible for FTA negotiations should have well-established channels of communication with the private sector which can be used to support the efficient conduct of the negotiations. Another guide to FTA negotiation Asian Development Bank, (2008) recommend educating the private sector about some of the requirements of the FTA and preparing detailed Annex to help them understand the requirements of FTAs.

Davel, (2016) and Callista, (2018) identified consultation mechanism between government and the private sector, generally known as public- private consultation (PPC) being established and maintained can ensure that business interests brought to the free trade agreement (FTA) negotiating table. And one of the PPC instrument is media to update the private sectors about FTA In addition to meetings and open consultations.

In narrowing down the discussion and focusing on the private sector in AfCFTA, the private sector is crucial that the African private sector is encouraged to scale up investments and production to supply the AfCFTA market (Muchanga & Hogan, 2020).

Under the AfCFTA, private sectors will be one of the main actors to the achievement of it. Through the AfCFTA, firms in Africa will have access to larger markets and thus greater revenue. More income will enable firms to invest in new technology, boosting their productivity and competitiveness. Access to new markets may also enable firms to source raw materials of better quality and in bulk. Through economies of scale, the final unit price of output will be reduced, boosting firm competitiveness. And firms obtaining new or better-quality raw materials can develop innovative and specialized products for various market niches, again boosting firm competitiveness (UNECA, 2020) and (Kimbugwe et al., 2012).

But Unfortunately according to Parshotam, (2018) the AfCFTA process has been criticized for its lack of consultation with the private sectors and civil societies, and for limiting draft text consultations to a narrow group of stakeholders who were already involved.

Domestic reforms will also be needed to improve the business environment under the AfCFTA, including in areas such as access to finance and credit facilities, trade information, investment support and taxation. Investments in education, skills development and training, particularly in ICTs, would facilitate greater uptake of AfCFTA opportunities. Given that the private sector plays a crucial role in translating the AfCFTA's institutional framework into practical action on

the ground, the business environment and the development of productive and trading capabilities will also be a key (Apiko et al., 2020).

According to Koffi Elitcha, (2018) even if the private sector is the main actor and facilitator of the implementation of the success of FTA and creating conditions for enhanced trade in FTA, there some challenges that are limiting the private sectors to achieve the role they can play and the benefits they can get and give in REIs, some of these challenges are mentioned next.

For the potential of the private sector to be fully exploited, the public sector (including member States governments and RECs) still have to create an enabling environment in which private investors can effectively operate

According to UNCTAD, (2013) one of the vital area identified as a challenge for private sectors to participate and flourish in REIs and needs to be creatively addressed in the capacitation of African enterprises is access to financial resources, which studies suggest is one of the major constraints to private sector development in Africa. Private firms in Africa have a hard time getting access to affordable finance for their businesses. Only about 23 per cent of African enterprises have access to loans or lines of credit compared to 46 per cent for non-African developing countries. It has been established that even this 23 per cent gets loans at interest rates that are 5–6 percentage points higher than their counterparts in other regions of the world. The high interest rates are also often coupled with forbidding collateral requirements. This scarcity of access to finance is especially serious for small and medium enterprises (SMEs) as banks tend to target large enterprises.

Another challenge to international trade in private sector service perspective is related to the potential human development impacts of regional integration, the linkages are further undermined by weak capacities of government institutions (UNDP, 2011). Capacities are weak in many national government structures, including those departments and agencies that deal with elements of economic integration: trade ministries, standards bodies, home ministries and financial sector regulatory agencies.

### **2.3.2 Trade Facilitation and Reduction of Non-tariff Barriers (NTBs)**

Trade facilitation, according to the definition used in the WTO is the simplification and harmonization of international trade procedures, including the activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade (Dee et al., 2006).

Grainer, (2011) the exponential growth in trade and a considerable reduction in tariff levels witnessed in the last decades is now naturally progressing for trade negotiations now refocusing their efforts on the non-tariff area.

OECD, (2013) analysis of indicators to assess the relative economic and trade impact of specific trade facilitation measures on one hundred and seven countries at various stages of development concluded that the most significant trade facilitation measures (i.e. those that have the highest impact on trade volumes) are mostly non-tariff barriers(NTBs) like good governance, streamlining of border procedures, risk management, automated processes, information availability, harmonization and simplification of documents.

NTBs refer to the wide and heterogeneous range of policy interventions other than border tariffs that affect and distort trade of goods, services, and factors of production (Beghin, 2006). NTMs as one of the main sources of trade costs and that their impact on trade is still poorly understood and not easily measured, it is a relevant issue for both researchers and policymakers (Gourdon & Nicita, 2011).

Since the 1970s, nontariff barriers (NTBs) have emerged as one of the basic obstacle to international trade. To solve this problem, as tariffs were negotiated away over the successive rounds of the General Agreement on Tariffs and Trade, NTBs were exposed and new NTBs were created to protect uncompetitive industries from the consequences of liberalization (Frieden & Lake, 2003).

Using combination of case studies with econometric estimates, Carrère & de Melo, (2011) concluded NTMs are more restrictive than tariffs, and customs formalities are perceived as a more important barrier to trade in Africa than in other regions. For exports destined to high-income countries, testing requirements represent an important obstacle for exporters.

According to Deardorff, (1987) another cause for increasing implementation of NTBs is the distrust of governments towards tariff in restricting problems that come along with international trade. This distrust forces governments to prefer non-price measures over price measures. Some of the reasons mentioned are distrust of the price mechanism and a failure to understand it, a belief that foreign governments are subsidizing exports, imports being dumped on the domestic market by foreign firms, low short run supply elasticity and growth of competition over time.

Kinzius et al., (2019) empirical analysis provides evidence that NTBs significantly decrease the level of trade. Another empirical analysis on impact of non-tariff barriers on trade in the Eurasian Economic Union (Vakulchuk & Knobel, 2018) concluded various trade-growth effects can be observed in different trade groups if non-tariff barriers are reduced or fully eliminated.

Calo-Blanco & Naya, (2005) using a simple model to study the effects of non-tariff barriers on welfare concluded a government that really trying to maximize its welfare has no reason to introduce NTBs.

Quantitative simulations to assess Non-Tariff Barriers in Syria indicate that welfare gains resulting from a complete removal of NTBs could range between 0.4 and 4.8 percent of GDP, depending on the extent of technological upgrading triggered by greater competition and access to foreign markets and technology (Chemingui & Dessus, 2003).

When focusing on cases of NTBs in Africa, they are a major impediment to intra-African trade; low levels of intra-regional trade in most African regional economic communities (RECs) are attributed to NTBs more than tariffs. The Southern African Development Community (SADC), has eliminated tariffs trade by 85% on traded goods yet the intra-regional trade remains remained low at approximately 10%. NTBs, these barriers pose additional direct or indirect costs and time for the import and export of goods, and constrain the competitiveness of traders (Sithole, 2021).

Djankov et al., (2010) Poor trade facilitation affects the African trade even more than any other because the trade in Africa is highly dependent on exporting time-sensitive agricultural and manufacturing goods. In Sub-Saharan Africa it takes 48 days on average to get a container from the factory gate loaded on to a ship. Reducing export times by 10 days is likely to have a bigger impact on exports (expanding them by about 10 percent) of developing countries than any feasible liberalization in Europe or North America.

A report about regional integration between Horn of Africa Initiative (HoAI) members Desiderio & Iradj, (2020) NTB and other trade facilitation of the member states performance had been reviewed and concluded intra-regional trade in the HoA are relatively low. One of the key critical factors is the existence of many NTBs that raise trade and transportation costs, limited sub-regional transport connectivity and several security constraints.

According to UNECA, (2017) and AUDA, (2020) Getting non-tariff barriers right is one of the critical policies and provisions that are needed to ensure that the gains of the Continental Free Trade Area (CFTA) are fully exploited and shared equitably.

Sithole, (2021) Understanding the importance of NTB reduction's importance for trade facilitation, AfCFTA agreement has annexes that explain the role of trade facilitation in addressing non-tariff barriers in the implementation of AfCFTA. Annex 3 deals **with trade facilitation in customs administration**, addresses trade facilitation in customs administration through the harmonization of customs tariffs and statistical nomenclature, valuation systems and practices, simplification and harmonization of customs procedures, automation of customs operations, and the adoption of information requests and exchange measures. Annex 4 deals with the **trade facilitation in cross-border trade procedures**. It addresses publication of trade and customs information and procedures, pre-arrival processing, electronic payment, expedited shipments, use of information technology, single window, freedom of transit, use of uniform import, export and transit procedures and documents, and implementation of measures in international trade facilitation instruments, recommendations and guidelines. Annex 8 deals with **trade facilitation in transit. It addresses** granting all transit traffic freedom to traverse their

respective territories, licensing of transistors and carriers, transit procedures, exemption from customs examinations and charges, and liabilities **of sureties**.

To mention some of the basic NTBs AfCFTA agreement demands to reduce,

**Rules of origin** – according to World Customs Organization, (2012) the basic role of rules of origin is the determination of the economic nationality as opposed to the geographical nationality of a given good, it is provided when production of a certain good occurs entirely in a given country: the product “originates” from that country.

To A. Krueger, (1999) and Krishna, (2005) Rules of Origin is critical in determining the effects of FTAs. Because in an FTA, members maintain their own external tariffs, which means tariffs may differ between member countries. In this case, the role of RoO is to prevent the import of any particular commodity from entering through the country (which gets the tariff revenue) with the lowest duty on the item in question and being re-exported to other countries in the FTA.

**Automation of Customs Operations** – according to OECD, (2009) due to its potential to reduce trade transaction costs and time, it is one of the most powerful tools to increase customs efficiency and has attracted considerable attention due to its. Trends for recently-introduced automation include single window systems, Internet utilization, paperless environments, and harmonization/standardization.

**Single window** – the single window is a system for traders to submit information to government so as to fulfill import or export regulatory requirements and it aims simplify information flows between trade and government and bring meaningful gains to all parties in cross-border trade (Kimberley, 2006).

Transit - Customs and the free movement of goods is a frequently noted idea, it is because the free movement of goods cannot, however, be complete without freedom of transit. Customs transit is one of the cornerstones of regional economic integration and enables goods to move freely within a particular geographic region, and makes Customs formalities more accessible by ensuring the suspension of the duties and taxes that are normally payable on imported goods. Transit therefore brings countries closer in economic, political and social terms (World Customs Organization, 2017).

### 2.3.3 Critical Macroeconomic Policies

In the theoretical framework section of this thesis paper, more or less much of the macroeconomic effects and policies are discussed. This section discusses additional concepts to it.

According to Bostan et al., (2018) the international trade is influenced significantly by the policies and actions that have effects on specific economic areas.

According to Holmberg, (2019) Africa is at a critical juncture in its development trajectory. Policies adopted now will determine how quickly the continent accelerates growth and creates prosperity for all. To meet the SDGs Africa will need to raise an estimated 11 per cent of GDP per year for the next 10 years to close the financing gap.

The impact of the AfCFTA will therefore also depend on the effectiveness of various complementary policies and initiatives put in place to enable African businesses and individuals take advantage of trade and investment opportunities under the AfCFTA (Apiko et al., 2020) and (Muchanga & Hogan, 2020)

### **Digitalization**

The digital transformation has different contribution to international trade. It has reduced the costs of engaging in international trade, facilitated the co-ordination of global value chains and connected a greater number of businesses and consumers globally. It makes it easier to engage in international trade. Because of this benefit, governments are facing new regulatory challenges, not just in managing issues arising from digital disruption, but also in ensuring that the opportunities and benefits from digital trade can be realized and shared inclusively (OECD, 2021).

The digitalization process of international trade has accelerated with Industry 4.0. The digitalization process has reshaped the way countries and companies make production and trade. Especially, the volume of international trade and the level of development of countries is gradually increasing with the increasing e-commerce activities as a result of digitalization. It has also contributed significantly to the productivity in the production processes and to the welfare of countries (METİN, 2003).

### **Infrastructure**

Infrastructure has a major impact in both the economic and social spheres in regional integration. As infrastructure development in regional integration improves and the economy becomes more connected, the cost of selling products goes down, competitiveness increases, new investments are stimulated, foreign customers are more satisfied and new markets open. Infrastructure forms an integral part of the productive system, facilitating the distribution of goods and impacting in a major way the earnings of companies within the economy, the organization of territories and their economic and social progress (ECLAC, 2009) and (ADBI, 2016).

In a vast literature on trade facilitation, it is doubly unfortunate that investment in infrastructure has received only scant attention. Infrastructure is one of the oldest and most decisive determinants of trade patterns (Roland-holst, 2005) and (Hong Yu, 2017).

An African case that sets out to examine the impact of improving the quality of regional road infrastructure in the ECOWAS region observed that such improvement will lead to a US\$397.80million (5.27%) increase in intra-regional trade and increased movement of factors of production will foster further intraregional trade (Akpan, n.d.).

## 2.4 Inter African Trade

In this section, the current African economic condition and inter African trade is discussed.

Abrego et al., (2021) African leaders have discussions of trade integration as a driver of sustained growth and poverty reduction. But unlike other regions that have pursued deeper trade integration, Africa stands out in at least four areas: heterogeneity in country size, income levels/development, and trade openness; diversity of trade regimes and trade policies; patterns of intra-regional trade; and the lack of a major continent-wide trading hub.

According to the report African Development Bank, (2020) Economic growth in Africa is stable and estimated at 3.4 percent for 2019, about the same as in 2018. East Africa maintained its lead as the continent's fastest growing region, with average growth estimated at 5.0 percent in 2019. Investments and exports are increasingly driving growth. Growth's fundamentals have improved, as its drivers are gradually shifting toward investments and net exports, and away from private consumption. Net exports were also a strong contributor, especially among commodity exporters, as oil prices recovered.

But According to Sandrey et al., (2021) Africa produces what it doesn't consume and consumes what it doesn't produce. This complicates regional integration and is a primary reason for the low intraregional trade. Over 80% of Africa's exports are shipped overseas. If you throw into the mix complex and often conflicting trade rules, cross-border restrictions and poor transport networks, it's hardly surprising that the level of intra-Africa trade has barely moved the needle over the past few decades. Not everybody agrees intra-Africa trade is that low. Some experts argue that a big chunk of the continent's trade is conducted informally and at times across porous borders. Most borders, they point out, are often poorly managed or informal trade statistics are simply not included in the official flows recorded by customs officials.

Kimbugwe et al., (2012) Africa's regional integration record is not impressive. UNCTAD, (2019) Regional trade can help reduce the vulnerability of the continent to external forces. More concretely, the share of exports from Africa to the rest of the world ranged from 80 to 90 per cent in 2000–2017. Conversely, the share of intraregional exports in total exports is lowest in Africa, compared with other regions. Intra-African exports were 16.6 per cent of total exports in 2017, compared with 68.1 per cent in Europe, 59.4 per cent in Asia, 55.0 per cent in America. Intra-African trade, defined as the average of intra-African exports and imports, hovered at around 15.2 per cent in the period 2015–2017.

## 2.5 Current Ethiopian Trade Statuses

According to Desiderio & Iradj, (2020) Ethiopia is ranked as the least integrated nation on the productive side in the COMESA Region and the country with the worst trade complementarity, despite being considered as the best macro economically integrated nation in the HoA Region.

The following Discussion is based on the data found from Ministry of Trade and Regional Integration (MoTRI).

When we look at the export destination of Ethiopian products, it reaches 140 countries and only 30 countries capture the 93% of Ethiopia's export. In the year 2020, EU becomes the major export destination of Ethiopia (25.73 %) followed by Asia (21.2 %) and Middle East (20.97 %). The country's export to Africa and North Africa Free Trade Area (NAFTA) comprising US and others accounted for 20.92 percent and 11.8 percent respectively.

Somalia share 57 percent of Ethiopia's export to Africa, followed by Djibouti with 21 percent. Saudi Arabia was the largest market for Ethiopia's export with 36.0 percent share in total export earnings from the total export to Middle East in the year 2020 followed by United Arab Emirates (32.5 percent).

The import data of Ethiopia shows the majority of Ethiopia's imports come from Asia (57.03%) followed by Europe (18.49%), Middle East (12.45 %), African countries (6.07) and the NAFTA member countries (5.96 %).

Bilateral trade between the United States and Ethiopia grew significantly in both directions, with U.S. exports to Ethiopia rising over six-fold while Ethiopia's exports to the U.S. similarly increasing nearly four-fold during the period stretching between 2009 to 2018.

The other huge trading partner to Ethiopia is China. From Ethiopia's export to Asia, China and Japan together take share of more than 35 % and imports from China accounted for 29.5 % of Ethiopia's total foreign supplies and 54 % of the country's import from Asia.

When we see the Ethiopia's Trade Performance a Product-Level Analysis, the following table shows the top 11 commodities Ethiopia exported from 2016 to 2020.

**Table 1 - Top Goods Exported to the ROW by Ethiopia (Billion USD)**

Rank	HS	Commodity	2016	2017	2018	2019	2020
1	09	Coffee, tea and spices	0.76	0.96	0.81	0.81	0.82
2	12	Oil Seeds and Seeds and oleaginous fruits	0.52	0.47	0.41	0.42	0.44
3	07	Edible vegetables	0.53	0.54	0.55	0.54	0.55
4	06	Live trees and other plants	0.22	0.22	0.23	0.23	0.22
4	02	Meat and Edible Meat	0.093	0.097	0.11	0.077	0.067
5	01	Live Animals	0.09	0.06	0.042	0.059	0.042
6	41	Raw hides and skins(not fur) & leather	0.067	0.075	0.073	0.059	0.028
7	71	Precious Stones and Metals	0.12	0.13	0.007	0.005	0.003
8	85	Electrical Machinery and Equipment	0.002	0.056	0.045	0.045	0.035
9	85	Articles of Apparel and Clothing	0.021	0.027	0.051	0.086	0.048
10	64	Footwear and others	0.037	0.045	0.051	0.032	0.007
11	84	Machinery and mechanical appliances	0.00018	0.00038	0.041	0.066	0.029
		Total export of top goods (A)	2.46	2.68	2.43	2.43	2.29
		Total Export of all commodities to ROW (B)	2.62	2.86	2.68	2.68	2.53
		Share (%) (A/B)	0.938	0.936	0.907	0.907	0.906

Source: International Trade Center- Trade Map (2021)

And the following product groups represent the highest dollar value in Ethiopia's import purchases during 2020, Mechanical Appliance and Equipment together accounts for (20.7%) of which the share of Machinery and Machinery Appliance is (13.3%) and Minerals Electrical Machinery and Equipment (7.4%) , Fuels and Oils (12.2 %), Vehicles (7.4%), Animal or vegetable fats and oils (6.3%), Cereals (6.1%), Iron and Steel (5%), Plastic and Articles thereof (4.5%), Pharmaceutical Products (4.1%), Fertilizers (3.6%), Articles of iron or steel and rubber (5.1 %), Sugar and Sugar confectionary (2.5%), Optical , Rubber and Article thereof (3.3%) and others. By value, Ethiopia's top 10 imports accounted for over two-thirds (79.9%) of the overall value of its product purchases from other countries.

Focusing on the regional economic integrations of Ethiopia prior to AfCFTA, Ethiopia played an important role in establishing COMESA, but is still not a member of its FTA. Its volume of trade with COMESA member countries is small but is growing rapidly. For Ethiopia, COMESA has been more of a co-operation of investment in infrastructure and aid than economic integration (Makonnen & Lulie, 2014), which makes it difficult to take COMESA as case to learn about Ethiopia's economic integrations.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Overview**

This chapter presents research methodology followed by the study. This includes research design, research approach, data collection methods and data analysis methods employed in this study.

#### **3.2 Research Design and Approach**

##### **3.2.1 Research Design**

This research used exploratory research design. According to Narayan, (2017) Exploratory Research is the primary stage of research with the purpose of achieving new insights into a phenomenon, when there are few or no research to which references can be made for information.

As the practice of Free Trade Area is a new phenomenon to Ethiopian case and there is no research about FTAs in Ethiopian case, exploratory research design was used. The focus of this research was on gaining insights and familiarity with the subject area for more rigorous investigation later. The paper investigated research questions that have not previously been studied in depth.

##### **3.2.2 Research Approach**

The research used qualitative research approach. According to C.R.Kothari, (1985) Qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior. Research in such a situation is a function of researcher's insights and impressions. Such an approach to research generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis. Generally, the techniques of focus group interviews, projective techniques and depth interviews are used.

As the research design is exploratory research design and the research questions are answered by collecting and analyzing non-numerical data and subjective assessment of attitudes and opinions of officials and experts, Qualitative research approach was used as research approach. Flexibility to follow unexpected ideas during research and explore processes effectively as advised by (Ospina, 2004), to understand the perspectives of participants; to explore the meaning they give to phenomena and to observe a process in depth as advised by (Patton & Cochran, 2002) and (Hammarberg et al., 2016) and to provide rich descriptions and more meaningful explanations as advised by (Sofaer, 1999) are the additional reasons qualitative approach was preferred.

### **3.3 Data collection**

#### **3.3.1 Data Collection Technique**

The research used semi- structured interview data collection techniques. According to Cohen & Crabtree, (2006) semi- structured interview is an interview type in which the interviewer and respondents involve in a formal interview where the interviewer develops and uses an interview guide, a list of questions and topics that need to be covered. The interviewer follows the guide, but may stray from the guide when he or she feels this is appropriate.

Because as the data sources for this research were mainly officers and experts, to explore these participant thoughts, feelings and beliefs about AfCFTA, the research used semi structured interview. The interview involved a number of open ended questions based on the research questions. The open ended nature of the questions was preferred to provide opportunities for both interviewer and interviewee to discuss some topics in more detail. When the interviewee has difficulty answering a question or provides only a brief response, the researcher can use cues or prompts to encourage the interviewee to consider the question further. In a semi structured interview the interviewer also has the freedom to probe the interviewee to elaborate on an original response or to follow a line of inquiry introduced by the interviewee.

The interviews were administered by the researcher, visiting each selected working places to meet and conduct interviews. The process of obtaining consent was relatively lengthy. Interviews were conducted by the researcher alone, in Amharic.

#### **3.3.2 Data Source**

Both primary and secondary data sources were used. The primary data was collected from targeted SMEs, government office officers and experts. The secondary sources of data were obtained from Publication of AACCSA, Revenue Minister, MoTRI, Digital Ethiopia 2025 and other publications were referred.

### **3.4 Sampling Method**

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample (C.R.Kothari, 1985).

This research used purposive sampling for all three objectives. The purposive sampling technique is the deliberate choice of an informant due to the qualities the informant possesses. It is a nonrandom technique that does not need underlying theories, the researcher decides what needs to be known and sets out to find people who can and are willing to provide the information by virtue of knowledge or experience (Tongco, 2007).

Snowball sampling method was used. According to (Naderifar et al., 2017) snowball sampling is efficient and cost effective to access people who would otherwise be very difficult to find. In this method, the researcher asks the first few samples, who are usually selected via convenience sampling, if they know anyone with similar views or situations to take part in the research. The snowball method not only takes little time but also provides the researcher with the opportunity to communicate better with the samples, as they are acquaintances of the first sample, and the first sample is linked to the researcher.

Samples in qualitative research tend to be small in order to support the depth of case-oriented analysis that is fundamental to this mode of inquiry (Sandelowski, 1996). Because this research used qualitative approach, as explained on the above cited paper, the number of samples used for this research was small. The samples were selected carefully by virtue of their capacity to provide richly-textured information. Saturation was the metric used to identify when the right number of respondents. According to Baker et al., (2018) Saturation has attained widespread acceptance as a methodological principle in qualitative research. It is stopping adding further participants when the researcher reached the point where adding further participants doesn't give you any further insights.

For objective one, the sampling area was limited to Addis Ababa through purposive sampling where the criterion was availability of information. For this reason, respondents were selected from the SMEs' exhibitions in Addis Ababa where many SMEs present their products for holiday time. This event was selected as sampling area by suggestion of officers from AACC and ECCSA, indicating SMEs that are doing good business wise in Ethiopia will be there. The research aims to study the readiness of private sector and believes these SMEs can represent the SMEs in Ethiopia.

For objective two and three, the research also used purposive sampling to select individuals from selected institutions. The research assessed the readiness of Ethiopia for AfCFTA; hence, individuals that have role associated to AfCFTA or similar responsibilities in the trade related institutions were purposively selected for the study. The details about sampling presented on the following pages.

Based on the above mentioned reasons, the research selected 16 SMEs in Addis Ababa, 2 employees of AACC AND ECCSA, 2 experts of MoTRI, 2 experts of Revenue Minister, 7 experts of ECC, 2 experts from AAU, 1 expert from MPD, 1 expert of EIC, and 1 expert from Ethio-Telecom.

### **3.4 Data Analysis Method**

Thematic analysis is a method selected data analysis. According to Anne Lacey, (2007) it is used for analyzing qualitative data to enable researchers to develop a deeper understanding for the group, the organization, or situation they are researching.

Data from Semi-structured interviews transcribed, key quotes have been highlighted coded and sorted into themes. Hence, according to Anne Lacey, (2007) the research taken the following steps in the process of analyzing the qualitative data:

1. Transcribing – in the process of data collection the data may be tape recorded interviews, focus groups, video recordings, and different hand written notes..
2. Coding data – Researchers code the data by hand. Usually, the researcher will be coding every two or three lines of text that identify key words, ideas, concepts, and reflections. Coding is a clear and repetitive process in which the researcher will alter the analysis as reflected by the data.
3. Code validation – To ensure the truthfulness of the codes, means that the codes have not been misinterpreted and are free of researcher bias.
4. Themes identification – after coding the researcher identifies themes/patterns that have emerged from the coded data. The researcher needs to be able to define each theme sufficiently so that it is clear to others exactly about the theme.
5. Information consolidation, finalize theme names – The researcher finalizes the name of each theme, writes its description and illustrates it with a few quotations from the original text to help communicate its meaning to the reader.

### **3.5 Ethical Considerations**

- i. Orientation: All study participants or data sources were provided with adequate information as to the purpose, goal, and objective of the study.
- ii. Informed consent: All instruments were accompanied with informed consent forms;
- iii. Voluntary Participation: All participants were informed prior to the data collection that their participation is fully voluntary.
- iv. Confidentiality: All data sources were informed prior to data collection that all data are collected unanimous and no identification, such as, names, identification numbers, are used to identify or correlate individual respondents with the body of data they provided.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### 4.1 Private sector readiness to AfCFTA

This sub section presents the results from interviews with sixteen SMEs and two officers from ECCSA and AACCSA. The demographic characteristics of the sixteen SMEs are: 10 (62 percent) were male; 6(37 per cent) were female, 9 (55 percent) were aged 20–30; 5 (30 percent) were aged above 30 and 2 (12 per cent) were below 20 years old and 14 (88 percent) have Bachelor’s degree; the rest two has Master’s degree and Diploma.

##### 4.1.1 Interview Results from ECCSA and AACCSA

ECCSA and AACCSA are engaging government and the private sector in making sure the effectiveness and implementation of the FTA. With the belief that the private sector should be aware of AfCFTA and prepare them to it, AACCSA also prepared a magazine devoted to AfCFTA specifically that highlighted the main policy and firm level challenges in joining AfCFTA and made recommendations on how the private sector should prepare itself. In addition to the magazine, AACCSA has its own TV program on Addis TV, radio program, telegram channel and Website to inform the society on business related information which includes the issues of AfCFTA and it has a constant email contact with their members to update them.

The other action AACCSA has done in regards to AfCFTA is a research study in 2020 on the competitiveness of Ethiopian foreign trade in African level with AFSEL consulting, and concluded it is competitive. This study focuses on the opportunities and challenges Ethiopian firms have in foreign trade, and the solution to these challenges. According to the above mentioned study, Ethiopia is 13<sup>th</sup> in foreign trade from Africa. The study recommends even if this level is good at African level, there are many actions needed to better the level.

ECCSA and AACCSA have also direct contact with MoTRI which is the responsible body of AfCFTA implementation in Ethiopia. Issues like the decreasing performance of Ethiopian export, absence of continuous trade balance, informal trade and poor macroeconomic administration are some of the fears of the private sector has in regards to AfCFTA and ECCSA and AACCSA are transferring these concerns of their members to MoTRI.

There are trainings and awareness given to ECCSA and AACCSA members about AfCFTA. The workers of ECCSA and AACCSA have received trainings by Professor Melaku Geboye Desta who is one of drafters of AfCFTA since its inception. The trainees then gave trainings for their members. But this all very good job done by ECCSA and AACCSA is for their members only.

In addition to these activities, ECCSA prepare “Buy Ethiopian” bather and exhibition to help Ethiopian businesses to be known and chosen by Ethiopian consumers, which can help create a culture of buying Ethiopian products which later can help the firms be better competitive in

AfCFTA. Firms from the big ones like Ethiopian Airlines, Ethio Telecom, Midroc investment group to different SMEs from different sector participated.

The trainings, engagement with government, constant update by email all are for the members. Other firms in Addis Ababa and Ethiopia didn't get this opportunity. Especially SMEs in Ethiopia aren't getting these opportunities.

#### **4.1.2 Interview Results from SMEs**

The other data source this research uses is the SMEs in Addis Ababa, to directly understand their readiness to AfCFTA.

##### **4.1.2.1 Awareness and Engagement of government with SMEs about AfCFTA**

Out of the interviewed sixteen SMEs, only four have heard about AfCFTA or FTA in general, which is slightly above one fourth, with 25% of firms across all samples indicating awareness of their country's participation in the AfCFTA. From the four SMEs which have heard about AfCFTA, none of them knows the requirements to trade in AfCFTA or the requirements to get the Certificate of origin to trade in AfCFTA.

In comparison this result with a research (ECA, 2022), with key focus to understand business perceptions of trading under the CFTA across seven African countries (Angola, Côte d'Ivoire, Gabon, Kenya, Namibia, Nigeria, and South Africa) found firms' awareness of a country's membership of various regional agreements appears is relatively high, in the case of AfCFTA, 64% of firms across all countries indicating awareness of their country's participation in the CFTA. This shows actions by Ethiopian government in creating awareness towards the CFTA is low in relative to other competitors, which is a disadvantage as SMEs as the private sector is one of the biggest actors and participants of the CFTA.

Of the four firms, one was able to hear about the CFTA from tv news (EBC business news), one from Gazette (Reporter), and the other two couldn't tell exactly where they heard about it. From the result of the study, it can be said that the majority of the respondents follow business news using different platforms. The majority mentioning TV news and online platforms like Facebook and telegram. This show the responsible bodies to promote AfCFTA and inform the nation about it aren't using these majorly used platforms to educate about the CFTA.

None of the firms also has any engagement with government about the CFTA. They haven't been consulted or asked to give their ideas to the negotiations of AfCFTA, haven't received any training or guidance about FTA, COMESA or AfCFTA from MoTRI or ECC or any other government body on how to be competitive in FTA.

This finding is different from what is discussed under literature review, Davel, (2016) and Callista, (2018) consultation mechanism between government and the private sector for better success of FTAs and one of the PPC instrument is media to update the private sectors about FTA. In addition to meetings and open consultations isn't being implemented in Ethiopia.

#### 4.1.2.2 SMEs interest in African market

Firms from the engineering, agriculture and service are fully interested to expand their business to Africa, while more than half of the food and garment sector are also interested. Reason like closeness to Ethiopia, less competition, similar demography is the main reasons mentioned for interest to expand. But even if there is interest to expand the business to African market, almost all of these firms haven't done any study about African market yet. The few firms which showed neglect to the CFTA mentioned better profit can be acquired from western market and lack of information about African market as the main reason.

One of the respondents said "I can easily go online and understand what kind of product a consumer in US wants or who is the leading company in my business sector, their product and marketing strategies but it is really difficult and almost impossible to understand the African market deeply."

#### 4.1.2.3 Readiness of the firms to compete with other African firms in Ethiopian market

The following table summarizes Readiness of the firms to compete with other African firms in Ethiopian market.

Table 2 – Readiness of the firms to compete with other African firms in Ethiopian market

	Ready	%	Not Ready	%
Technology	5	31%	11	68%
Product Quality	5	31%	11	68%
Skill	5	31%	11	68%
Innovativeness	5	31%	11	68%
Pricing	0	0%	16	100%
Marketing	3	19%	13	81%

Source – Own calculation

#### A. Technology

As depicted in table 2, technology wise most of the SMEs don't think they are ready for the market competition, only firms from engineering and service think they are ready to compete, while the garment and food producer believe their technologies aren't fit enough to make them ready to compete.

## **B. Product quality, skill and Innovation**

On product quality, skill and Innovation readiness, firms from service and engineering are fully confident they can compete. One of the respondents from service sector stated “I believe in my company’s product quality, even if we don’t know the quality of other African country products yet, we can upgrade our products to their level and will not lose market because of quality”.

One of the respondent from garment sector mentioned “we are living in the globalization era, we update designs constantly. Using internet, we became very skilled in our area and innovate unique products considering our target market. But if we up against very modern competitors, their skills, experience, innovations might be a challenge for us to compete.”

Another respondent from garment sector “It might be our culture but we don’t update our production fast. It takes time to even change designs let alone business models and strategies.”

Firms from food sector have fear too. “Look around, there are many African, Indian and Chinese producers of food products in Ethiopia and the consumer seems to incline to them”. “People used to buy locally produced food oil in the past, but now the business is dead because the consumer stops buying them”. The food producers’ fear is the firms that will join Ethiopian market might produce high-quality products that can win the market.

As shown in table 2, the majority of the respondents believe their skills and innovativeness is not enough and thinks they need to update their selves if the international competitor will join Ethiopian market.

## **C. Pricing**

As portrayed in table 2, Pricing is the issue all of the respondents agreed upon not to be ready at. A respondent from food sector stated “If the African firms that will join Ethiopian market use pricing strategy to win the market, I don’t think we can compete with them, since we are pricing our products to minimum possible”.

Pricing became the issue because most of the firms believe their pricing for the products they are selling is the least possible and a firm with lesser price than that can win them. A respondent from garment sector stated “we produce cultural clothes. Recently there appears to be a flood of cheaper, less quality cultural clothes people rumor Chinese producers produce is winning the market. Another competent on this can really hurt our business”.

## **D. Marketing and Branding**

As shown in table 2, Next to price, the readiness most of the firms fear is marketing and branding. “Let alone firms from Africa, here in Ethiopia it is really difficult to get the trust of consumer because of our lack of marketing” one of the respondents from garment sector. Most of

the respondents are SMEs and claim the reason for marketing and branding problem the lack of capital. “We aren’t big enough yet to spend big cash on marketing on huge Medias”.

The service sector respondents were the only confident to win in the marketing and branding, “our target consumer doesn’t spend his/her time on TV, they are online and we can promote our product there with cheaper means”.

#### **4.1.2.4 Readiness of firms based on the general Ethiopian business environment**

All of the respondents agree the current Ethiopian economic environment isn’t an enabling environment in which Ethiopian private investors can effectively operate and prosper from this CFTA.

##### **A. Government officials’ unfitness, corruptness and Government carelessness**

According to the majority of the respondents, Government officials’ unfitness, corruptness and Government carelessness about SMEs are the biggest challenge they have.

“They just want to take the money we make. They call for meetings sometimes, ask what our problems are and promise they will solve but you will see nothing changed after ” a respondent from garment sector.

“They need to hire fit politicians. Even if the top politicians are interested in changing the economy, the officials in local level are unfit, uneducated and corrupted who has no interest in helping their people” a respondent from food sector.

“Most of our politicians were financially poor and are highly influenced by rich merchants. The policy, projects, plans Ethiopia has is all to help the rich. Almost no politician fight for the poor, create no policies that consider the poor. Even when there are plans to help the poor, they don’t execute it” another respondent from food sector.

“The fact that we haven’t heard anything about the FTA you are talking about is a proof the government bodies aren’t working their work” a respondent from service sector.

“Our business hasn’t grown that big but whenever we demand help from officials, tipping some of the employees has become a norm. We paid much money to decrease the unreasonable huge tax bill they gave us” a respondent from garment sector.

“I have seen many leaving their business due to unethical and disgusting jobs of the local officials. I know a friend who once tried self-suicide after the local officials order him to pay a huge tax bill” a respondent from food sector.

But the firms from agricultural product selling and engineering sectors think the government is doing well regards to SMEs. “They helped us really well; we are here because of the help of

them. They aren't perfect of course but I can't complain." a respondent from agricultural product sellers.

"Our sector really demands the help of government, since what we do is assembly there are many processes to our business. A help from government is the reason we are here and is the reason why we hope a better future for our business" a respondent from engineering sector.

### **B. Access to finance, high collateral requirement and high interest rate.**

"There is zero financial support from government and it is really difficult to secure funding from banks due to the lack of stability and security of a new business" a respondent from service sector.

"We were able to start this business using personal funds and funding from family and friends, imagine those youths with great ideas and no privilege like us, forced to be unemployed when they can help themselves and their country" a respondent from food sector.

"We have so many big plans. Not only compete in Ethiopia we believe we can compete in Africa and internationally. But we are still SMEs with plans and minimum growth due to lack of finance, it is delaying our growth" respondent from garment sector.

"I can now show you how adding some capital can grow our business. The demand is high, doubling our investment will for sure double our income and profitability but the high collateral banks demand tie our hands to grow the business" another respondent from garment sector.

"Lack of access to finance affects the daily operations of the business because of less production we are having less revenue from the business, which circularly result less investment on our business" respondent from food sector.

None of the respondents receive financial support from government and most agree the high collateral requirement and high interest rate of banks prevent them from access to finance their business.

### **C. Foreign currency**

Foreign currency is another issue discussed here. It is a macroeconomic challenge government itself confessed it has. From the respondents sectors from engineering mentioned it.

"Even if government is helping as much as it can, lack of foreign currency is a challenge we have. We have tools and inputs we import and the time delay caused by delay of foreign currency is affecting our business. We sometimes can even have to wait for months" a respondent from engineering sector.

“I heard Moha was forced to shut down production temporarily due to lack of foreign currency, while coca is increasing its production and market share because they find a way to solve the foreign currency problem by working from Kenya. If African firms with much foreign currency will join Ethiopian market, Ethiopian businesses will die instantly because of shortage of foreign exchange in Ethiopia. Imagine a company as big as Moha shutting its business temporarily, what will happen to the smaller ones like us” another respondent from engineering sector.

The fear is, if African firms will join Ethiopian market with much foreign currency, they might beat Ethiopian businesses in production time and amount, which can push the Ethiopian firms out of business in a very short amount of time, if they can't produce as fast and as much as the African firms due to shortage of foreign currency.

The variables found in this research which are shown on sub section 4.1.2.3 and 4.1.2.4, in which the SMEs feel not to be ready to AfCFTA market competition, are found to be consistent with the past researches that studied challenges of SMEs in Ethiopia. Technology (Gebreselassie, 2020), product quality, skill and Innovation (Dinka, 2019), (HAGOS, 2012) and (Shibru, 2017), Marketing (Kebede, 2015), Access to finance (Gebreyesus, 2016), Government officials related challenges (Getahun, 2016), found these as challenges of SMEs. This shows that SMEs in Ethiopia has been facing these challenges for a long time and if the government and other stakeholders will not solve them, they can continue to be a challenge of Ethiopian SMEs in AfCFTA competition. These challenges vary from sector to sector but most of the challenges mentioned are faced by the majority of the SMEs. The readiness challenges also found to be related one another. The effect of one challenge is reflected on the other challenges. It shows the direction government and other stakeholders related to AfCFTA implementation has to start from solving existing challenges of SMEs as they will be huge disadvantage for Ethiopia in the AfCFTA competition.

## **4.2 Trade facilitation related readiness to AfCFTA**

### **4.2.1 Rules of origin**

“Ethiopian success of AfCFTA depends on achieving the rule of origin agreement to Ethiopia's advantage” according to the lead negotiator of Ethiopia in RoO. If countries will import products and sell as their own, it will kill the premise of the CFTA and the hope of increasing regional value chain, industrialization and prosper we expect from it. RoO isn't only about giving logos to products, it sets criteria which products can be sold under AfCFTA and which products will not, which raw materials can be imported and which processes of production should be local or African.

This is where the negotiation becomes relevant, if Ethiopia in this negotiation can make sure raw materials which are Ethiopian comparative advantages cannot be imported to make the produced products (commutation), if Ethiopia can make the processes we operate are mandatory processes for goods to be allowed in CFTA and make sure the products we substantially transform are

allowed in AfCFTA, it will be a huge success for Ethiopia and AfCFTA will be a sure gold mine for Ethiopia, since other African countries will be forced to consume Ethiopian raw material to get the AfCFTA benefits. And our already going on production processes and substantially produced products will have an advantage.

The lead negotiator believes Ethiopia is achieving this in the RoO negotiation. “We presented the above three advantages mentioned above that will make sure Ethiopian success in the CFTA and got accepted”.

“The negotiation is at 83% right now and commodities like sugar, garment and oil are the only Ethiopian demands left to be negotiated and we are sure we will finish the negotiation making sure Ethiopian advantage is protected”.

“There is a coordination problem in the negotiation. Some team members, even if they had lots of experience they sometimes create mess. In my opinion Ethiopia isn’t in WTO because of our negotiators. We fixed so many mistakes the previous negotiators have done. Better care for future is necessary” according to one of the negotiators of RoO.

In addition this respondent mentioned this coordination exist in ECC and suggest to be solved. “Lack of skilled human resource and the authority filling positions most of the time with newly hired staff is the reason”. And as a cause of this problem mentioned “ECC doesn’t keep the interest of its employees. ECC is one of the heart line of Ethiopian economic growth but it doesn’t give enough salary, cars and house as other custom commissions in Africa. Because of this reason, many talented people left this office to get better opportunities which will in turn affect the ECC daily activities which can affect the Ethiopian economy at the end”. According to the study by ERCA in 2017, 900 employees left ERCA in 2016 only. The provision of certificate of origin will be done by lower level officers of ECC and trainings has been prepared to these officers to correctly provide the service but hasn’t started yet.

#### **4.2.2 Harmonization of Customs Tariff Nomenclatures and Statistical Nomenclatures**

According to an expert from ECC, Ethiopia applies the general rule for the interpretation of the HS. The latest edition of the Harmonized System (HS 2022) entered into force in Ethiopia on 1 January 2022. Ethiopia is the first African country to have submitted a notification on the implementation of HS 2022 amendments to the WCO.

This result is not surprising as in Ethiopia, all customs tariff revisions and amendments since 1993 have been done based on the HS (ERCA, 2017). It shows ECC has been doing its job consistently in the nomenclature aspect.

But past researches like (MULAT, 2020) identified the clearing agents and customs officers not have a good knowledge of tariff (HS) classification as one of the reasons for affecting the speed of import customs clearance in Ethiopia. Lack of knowledge on tariff classification is an

indication for submitting a declaration with incorrect HS code. It shows even if ECC is updating the HS codes on time, the main job of training the service deliverers is not getting the necessary attention in needed.

#### **4.2.3 Harmonization of Valuation Systems and Practices**

As explained by an expert from ECC, Ethiopia hasn't ratified Article VII of GATT on valuation for customs purposes yet, because we use the system data base while this valuation and WTO require transaction value (TV). Under AfCFTA one of the expectations in harmonization of valuation system is to ratify Article VII of GATT on Valuation for Customs Purposes. But even if Ethiopia hasn't ratified it yet, the valuation principles in Ethiopia are highly dependent on this international valuation system. On the current performance of Ethiopian valuation system, one of the experts from ECC stated there is increasing of revenue gain from custom in Ethiopia due to the developments made on valuation system and implementation.

But this finding is different from past research on Customs Valuation System in Ethiopia (Seifu, 2009) which concluded Ethiopia's customs valuation has risk of revenue loss to the government due to under invoicing of imports by the traders and it is in infant stage and facilities in terms of importers' voluntary compliance, data base, infrastructures and skilled manpower are still inadequate. The difference in finding can be due to the long time difference between the researches and shows the works done by ECC are creating relevant changes in the custom process.

#### **4.2.4 Simplification and Harmonization of Customs Procedures**

Another harmonization related action is making Ethiopia's customs Laws and procedures based on internationally accepted instruments and standards such as the Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures and WTO Trade Facilitation Agreement. As explained by an expert from ECC, Ethiopia hasn't ratified these international standards yet but the simplification and harmonization of custom procedures in Ethiopia are mainly taken from these international standards. Because of this high similarity between the Ethiopian and international standards, there is a plan to completely ratify these international standards and a committee is formed to study the ratification of the international standards.

#### **4.2.5 Automation of Customs Operations**

Under automation of custom operations, Ethiopia established use of modern data processing system known as Custom Management System (CSM) to facilitate effective and efficient Customs operations and transmission of trade data. The previous custom system Ethiopia used was Legacy system ASYCUDA++ by United Nations software, which was used up to 2015 and was updated to CMS for better custom service.

According to experts from custom operation, the automation process of custom operation in Ethiopia is at one hundred percent in Ethiopian custom offices. Automation of all of the 27 customs offices of the country, the next task in action is to integrate this custom automation to other African countries custom automation. “The implementation of CMS is improving the country’s revenue, enhancing efficiencies of custom services and facilitating trade” as stated by an officer in ECC. The monitoring of the transit movements between Djibouti and Addis, which represents more than 80% of the trade flow and which is now fully controlled and generates more revenue. The overall revenue has shown an increment of up to 30% since the implementation of the new technology. On capacity building for implementers of the custom automation, Webb Fontaine used to give trainings but currently ECC has taken this task, giving continuous trainings for its employees on how to use and provide custom services using the Custom Management System (CSM) and the ECC employees have become self-sufficient

The implementation of the custom automation must be done by experts according to AfCFTA agreement and the Ethiopian custom automation has been installed by one of the world known provider of trade facilitation related IT solutions, Webb Fontaine. It began its task in 2016 and has completed the implementation of the Webb Fontaine Customs System called eCMS in Ethiopia. In addition to the custom automation in Ethiopian custom offices, Webb Fontaine worked in Interconnection between Djibouti and Ethiopia Customs administrations for enhanced transit monitoring both by road and train.

When comparing this finding with past researches, (Tefera, 2016) found automation as one of the challenges of custom operation in Ethiopia. The study identified the previous custom system Ethiopia used, ASYCUDA++, was the challenge of export clearance procedures because of unavailable system functionalities, lack of experienced and trained customs employees, lack of skills in order to utilize the system for trade facilitation, lack of ICT infrastructure and ineffective telecommunication network connections are the reason behind ineffective utilization of customs automation. According to this research, insufficient use of automated processes and information technology was a major source of delays, costs and inefficiencies of Customs procedures in ERCA.

This shows change of custom system from ASYCUDA++ to CMS was the right decision by Ethiopian government and helped Ethiopian Custom service. It also shows the several reforms undertaken by ERCA to undertake several reform and modernization efforts in order to ensure effective and efficient Customs administration worked.

#### **4.2.6 Advance Exchange of Information**

The agreement expects Ethiopia to electronically on an automatic basis, exchange any information in advance of the arrival of persons, goods and means of transport in the territory of another State Party. As per an expert from ECC, currently Ethiopia is electronically communicating with the neighboring countries border line custom offices. For example in Ethio-

Djibouti border Galafi, the custom office of two countries exchange information in advance of the arrival of goods.

The custom system Djibouti uses is ASYCUDA and Ethiopia uses CMS, which demands the advance exchange of information. When a good enters from Djibouti to Ethiopia, the Djibouti custom transfer the good's information to Ethiopian custom office electronically, Ethiopian custom office then retrieve this information and the good will receive the necessary papers and codes like T1 to continue its journey.

But Ethiopia has to change this process to better ways and formed after forming a committee and identifying Ethiopian demands, proposed Single Administrative Document (SAD) to Djibouti and is waiting for response. It is the same process with all neighboring countries; Ethiopia is exchanging custom data electronically in advance of goods arrival.

#### **4.2.7 Technical Cooperation**

To improve capacities in customs matters, the agreement expects state parties to develop joint training programs, exchange staff and share training facilities and resources and exchange professionals but in this aspect according to an expert from ECC, Ethiopia hasn't begin to technically cooperate with any of the neighbors and according to the respondents there is zero plan for the future too.

But the agreement requires technically cooperate with each other in the modernization of customs procedures including e-customs and electronic data interchange applications and Ethiopia is working with the neighboring countries in this aspect.

COMESA is the one leading this technical cooperation. The project in hand is to create a custom system that can communicate the customs of the member countries easily. It is called RCTG-MIS, which will decrease the time goods take on border. For example as discussed in the above section advance exchange of information, exporter or importer has to wait on border until the Djibouti custom office transfers information to Ethiopian office and change the information to its system. But with this new system RCTG-MIS, exporters and importers can pass from one border to the other border in shorter time. And COMESA has recently sent trainers on how to integrate this system to Ethiopian CMS.

In addition, Ethiopia Kenya and Djibouti currently adopted fast-track arrangements - such as the Authorized Economic Operator (AEO) program and Electronic Cargo Tracking Systems (ECTSs) but isn't coordinated with each other yet.

#### **4.2.8 Publication**

ECC publish the necessary documents, information, services and links on its website. The website provides custom related News, Custom related resources like proclamations, regulations, directives, circular and manuals, Tariff and Rule of origin related resources like binding tariff

information, preferential tariff treatments for LDCs, certificate of origin format, tariff Procedure, classification& amendment letters, and Announcements about Bids. This site also provides services like custom tax calculator and income tax calculator. The website serves in two different languages, Amharic and English

In addition to the above mentioned site ECC administer custom trade portal website, where traders can simulate the tax they will pay, get tariff details, know when their T1 will arrive, get exchange rate information and identify the necessary documents required from them for transactions. Even if the main publication ECC uses is its website and portal, once in a while it publish basic needed information about custom service in Ethiopia like the “Ethiopian Customs Guide” by Ethiopian Revenues and Customs Authority in March 2017.

#### **4.2.9 Establishment and Publication of Average Release Times**

Ethiopia has done publication of TRS in 2016 prepared by Ethiopian Revenues and Customs Authority (ERCA) with Bantie Management Consultancy (BMC). Since then according to respondent from Ethiopian Revenue Minister, the average release time of goods decreased, which makes the publication reliability very low and the office hasn't updated the TRS up to now but there are plans to update the TRS study recently.

#### **4.2.10 Single Window Service**

Another automation related must be done task is the custom single window service. According to a data acquired from Ethiopian Revenue Minister, a research done by ERCA in 2017, on average it takes an exporter/importer in Ethiopia 44 days. But in 2021 Ethiopia launched an electronic single window service to increase the efficiency in trade logistics by enhancing the custom process for traders.

As per an expert from Revenue Minister, the electronic single window system has eliminated the need to physically apply and get permits for each export shipment from the Ministry of Trade. After the implementation of this single window service, of the forty institutions needed for custom related service 16 major cross-border regulatory agencies are on the electronic platform and the rest 26 are on the process. The expert states “Because of this it was able to gain millions of additional revenue and a reduction of the time from 44 days to 15 days currently”.

The service is being provided by portal website. The website has a good user friendly interface and clear to use. But even if users became confused, the Electronic single window has its own YouTube channel in which it explains the steps for users. If the user has still troubles in using this service, ECC has officers in Ethiopian Revenue Minister who is in constant contact with traders to provide help for users. According to one of these officers “clients are forwarding positive feedback about the service”

#### **4.2.11 Border Agency Cooperation**

As discussed under technical cooperation in the above, Ethiopia is working in making sure the custom procedures will be shorter and comfortable to traders.

In addition, Ethiopia built One Stop Border Post (OSBP) with neighboring country Kenya. An OSBP with Kenya was inaugurated last year and goods and vehicles are stopping only once and being served custom service in a single facility in which they undergo necessary controls following applicable regional and national laws to exit one state and enter the adjoining Ethiopian or Kenyan state.

Furthermore, as per an expert from ECC Ethiopia with the help of COMESA is in the process of building another OSBP with Djibouti. The project will take place at Galafi border and later be connected with the OSBP at Moyale border, which will increase the regional trade. In 2021, COMESA and Ethiopia have signed a 5.6 million Euro sub-delegation agreement to improve coordinated border management, trade and transport facilitation at the Moyale and Galafi border posts.

Small scale cross border trade is also set to thrive along the Djibouti- Ethiopia borders following the first joint border trade committee meeting in April 2022. The meeting was driven by the need to identify and resolve challenges facing the implementation of the Djibouti – Ethiopia Border Trade Protocol signed in 2015. To address unfavorable condition for small scale traders identified at the borders, the meeting proposed the establishment of Cross Border Traders Associations and development of a platform/software that facilitates cross border trade. Capacity building workshops are also planned be organized. The meeting also agreed on the need to set up Trade Information Desk Office.

There is also high interest from Ethiopia to work with border agencies at Eritrea and Somalia, but the current political condition is preventing Ethiopia from taking actions.

#### **4.2.12 Transit Procedures**

Experts from ECC states, ECC Transit department is currently working on scanning machine in different border posts including Galafi, Dewele and Moyale to increase the number of cars scanned, which will increase trade at border. Currently ECC border posts scan 700 cars per day.

Import /export logistics transit requires streamlined operation from source to end and the other transit project transit department at ECC is working on Cargo tracking project to achieve this. In addition CCTV camera installation in border posts is also in action. The other portion of this office, the Warehouse department on the other hand has plans and projects in hand to solve warehouse related challenges too. The number of cargo handling equipment at Modjo dry port are found to be inadequate and cargo handling equipment are efficient nearly at 80% of the time implying nearly 20% of the time idle as a result of breakdown maintenance requirements.

Shortage of working materials like stamps and furniture, office, warehouse are the problems respondents identified. In all ECC transit stations, employees share tables and chairs. Even they sit on documents working in containers. Other respondent confirms this problem saying “In some of the border post ECC transit stations, the working environment in border posts is difficult. There are border post ECC offices where you can’t even breathe properly. There are offices with less equipment, unmotivated and inexperienced employees. They sometimes don’t get basic things like water and toilet too”. Increasing custom laboratories is also recommended by transit officers Ethiopia needs to increase to facilitate transit provision better.

#### **4.3 Macroeconomic / Critical policies related readiness to AfCFTA**

##### **4.3.1 Foreign Currency Challenge and Shortage of Finance**

One of the macroeconomic challenges Ethiopia facing is shortage of foreign currency. These challenges have a huge effect in Ethiopian economy in general, creating problems like inflation, factories and businesses being closed and resulting high unemployment.

According to one of the experts from MoTRI, “We understand the foreign currency is one of the issues scholars and private sector actors in Ethiopia worry about when joining the CFTA”. A recent study (Lloyd & Teshome, 2018) and (Belete, 2020) show, the worry of Ethiopian private sector based on the issue of shortage of foreign currency is understandable. The foreign currency shortage has led to long delays in accessing foreign currency to import materials and services and businesses do not always receive their full foreign currency request. Delays are expected to be between 4-12 months for essential imports and up to 3 years for non-essential imports, which differ between the banks. Unit production costs for a manufacturing have increased by around 20% and production levels reduced by around 30% because of the shortage of foreign exchange.

But according to the experts from MoTRI, the problem feared by the private sector can also bring good news to solve this exact problem. “Once AfCFTA become practical, after certain time Banks and financial institutions from different African countries will join Ethiopian market. These African banks will join Ethiopian market with much foreign currency and that will be one of the solutions”. On inauguration of Commercial Bank of Ethiopia (CBE) head office, the Ethiopian prime minister told Ethiopian Banks to be ready by revealing the government’s plan to open the banking sector for international banks. Ethiopia has arranged plans to liberalize the banking sector, formed a committee to study the liberalization process and form a new financial service code.

This finding is in opposite to the findings of the past researches like (Kiyota, 2007) that revealed widespread opposition to liberalization of Ethiopian banks by Ethiopian scholars and government. This difference is due to recent macroeconomic policy changes by Ethiopian government.

“The liberalization of the banking service can result in increase of foreign currency to Ethiopian economy. These banks will join Ethiopian market with their much foreign currency” as stated by expert from AAU. According to the expert, Ethiopia banks mainly focus on collecting money, they don’t lend without collateral and for SMEs and startups. This challenge is one of the reasons why Ethiopian industry parks are dominated by foreign investors. Even if the Ethiopian entrepreneurs have ideas, it ties their hands.

These shortage of Ethiopian investors due to shortage of foreign currency is also found in research (Melaku, 2020) that the foreign currency shortage affects negatively investment demand by cutting imports of available goods and affects Ethiopian participation in external trade among different countries. Presence foreign currency shortage aggravates investment gaps by cutting available raw materials. And according to (Lloyd & Teshome, 2018) there are indications that the foreign currency shortage will ease slightly as exports grow and private transfers increasingly flow through formal channels.

Letting the African banks join the Ethiopian market, the hope is this type of problems will be solved which will lead to increase in number of startups, innovations, small businesses, employment and economic growth. As a result, the Ethiopia businesses can make themselves ready to compete with other African businesses in AfCFTA.

As stated by the experts interviewed, the financial sector liberalization not only affect the macroeconomic situation, but it will have microeconomic effects, helping small firms in the economy to create jobs and develop themselves economically, which in turn will create a macroeconomic effect. This response is supported by (Laeven, 2002), which concluded financial liberalization relaxes the external financing constraints of small firms.

Another positive thing liberalizing the banking sector can bring is, it can force the low performing Ethiopian banks according to the assessment of the experts, to reform their services.

This is seen in the findings of (PBC & IMF, 2015) research on liberalization of banking sector in China, the presence has to some extent helped the Chinese banks to improve their own corporate governance structure and managerial skills as well as enhance their assets, profitability, and resilience and made reform a necessity.

Another previous research that support this argument is (Levine, 2000), that concluded allowing greater foreign bank presence tends to enhance the efficiency of the domestic banking system. In turn, better banks spur economic growth primarily by accelerating productivity growth. Thus, international financial integration can promote economic development by encouraging improvements in the domestic financial system, with positive ramifications for long-run productivity growth.

The other suggestion made by an expert is to work intensively on when the preconditions necessary for its success of financial liberalization before allowing the sector to liberalize. This suggestion is supported by past researches like (Odhiambo, 2010) which suggested while financial liberalization may contribute positively to economic growth, it may sometimes lead to financial instability, especially when the preconditions necessary for its success are not taken into account

Another paper that support the working on intensively on precondition is (FDRE, 2020). According to this paper, successful macro-economic reform requires coordination and Ethiopian government, to balance the urgent need for addressing macroeconomic imbalances, the home grown macroeconomic reform agenda is being implemented with careful calibration of the pacing, sequencing, and timing of specific reform measures. The reform agenda is expected to be implemented through a structured and coordinated whole-of government approach.

Another step Ethiopia taking to increase the foreign currency and investment is the setting up stock exchange in Ethiopia. “This major policy shift can also be a crucial vehicle for long-term financing, which is the missing link in Ethiopia. The banks are financing only short-term businesses”. According to another expert from AAU “Ethiopia’s preparedness to setting up a stock market is still argumentative between scholars but if we can pull this off, it will be a new period to Ethiopian economy, which can be an advantage for Ethiopian firms in the competition of AfCFTA market”.

The other option Ethiopia is looking to solve the challenge of shortage of foreign currency is by increasing the FDI to Ethiopia. This is discussed on the next sub section.

#### **4.3.2 FDI and Industrialization**

According to one of expert from MoTRI, as AfCFTA is an FTA, resources can be imported from other countries freely, which can lead to a movement of foreign investors without the location of the inputs as a main factor of investment location, which can lead to a flood of investors from other African countries to Ethiopia (who were investing in Africa already). “Ethiopia has to work on creating an attractive working environment for foreign investors, because it will be the major decider of the winners and losers of the AfCFTA”.

Experts from MoTRI and AAU stated, the increase in FDI will help Ethiopia to solve the shortage of foreign currency challenge mentioned above, create jobs and lead to economic growth. But on the other hand the experts also mentioned, if Ethiopia won’t create an investment environment for foreign investors, we can lose them to other African countries like Kenya and Uganda who are working really hard to attract FDI.

An expert from Ethiopian Investment Commission (EIC), “Ethiopia is working in creating an environment with specific focus on AfCFTA”. The commission considers AfCFTA as a big opportunity to increase FDI and industrialization. The commission is in direct contact and has been participating in studies done by a Ministry of Trade and Regional Integration studies about AfCFTA. EIC eyes AfCFTA in focus for other reason too, which is the AGOA case. 85 percent of the output of manufacturers in Ethiopian industry parks exports their outputs to the American market. Now AGOA is revoked, these exporters are showing interest to export to African nations and are keenly awaiting the free trade area’s implementation.

EIC is working hard to achieve this goal. It is implementing a full-fledged after-care strategy in which EIC additionally provide practical support on the ground for foreign investors after securing their licenses to solve some of the bureaucratic problems. In addition EIC has identified the challenge as a threat to investment to make sure the war in Ethiopia will not decrease FDI. The commission is currently working on ERA—Expansion, Reinvestment, and Attraction, a strategy EIC is using to incentivize investors to reinvest in Ethiopia because only 0.3 percent of profits have been reinvested by foreign investors.

EIC is also undertaking to market the commission as “one that actually listens to investors”. Even if there are African countries like Rwanda promoting themselves in international platforms, EIC took gold in the 2022 awardee of the World Association of Investment Agencies for the best investment promotion practices. EIC uses virtual promotion methods to show Ethiopian investment opportunities, particularly over social media.

According to one of the experts from MoTRI “Ethiopia will lose 26 billion birr annually, but the main substitute Ethiopia hopes for this income is FDI and investment. Ethiopian manufacturing’s contribution to Ethiopian GDP is decreasing in recent years, but AfCFTA can be the last piece it needed because availability of a daily laborer and skilled fresh graduate with small salary, industrial parks, infrastructures like Great Ethiopian Renaissance Dam, notable investment promotion works, fiscal incentives to investors, is too good to ignore foreign investors”. The expert believes with all advantage Ethiopia has in the manufacturing sector, AfCFTA will be huge opportunity.

#### **4.3.4 Digitalization**

According to an expert from MoTRI, new fourth industrial revolution is based on digital economy. So Ethiopia has to hop on that horse and gain from the benefits. In addition Ethiopia is a country where most of the population is youth and if Ethiopia train them and provide the necessary digital infrastructures, they can create jobs, create profit and help Ethiopia to be one of the winners of the AfCFTA agreement. The digital sector has been identifies as one of the major five sector Ethiopia will focus on.

But according to the expert from EIC “we are also trying to give it due attention. However, when compared to the other four priority areas, we gave it the least attention and our incentive packages are not as inviting”. EIC is trying to solve this problem by working together with Ethiopian Ministry of Finance to improve incentive gaps to draw in more tech investment. In addition EIC is reaching out to concerned investors to learn what constitutes a conducive environment for them. The investment of Safaricom in Ethiopia’s telecom sector has been a huge move and it is the main cause of recent investors’ interests.

According to the “Digital Ethiopia 2025: a digital strategy for Ethiopia” digital economy is at an early stage of development with few private sector players offering digital services. But based on this strategy, Ethiopia is working to modernize the digital economy. Some of the works include diversifying energy sources and off-grid solutions, Digital ID, Digital payments, cyber security, E-Governance, Encouraging local investors to invest in the ICT sector and more. The expert from MoTRI “Ethiopia is obviously behind many African countries in digital economy, but we hope a proper implementation of the digital transformation strategy will keep us in track in the competition of AfCFTA”.

One of the experts from MoTRI also mentioned the appreciated job Ethio Telecom is doing to Ethiopian digitalization. As stated by the expert from Ethio-Telecom, Ethio-Telecom is one of the biggest institutions in Ethiopia and one of the responsible actors in implementation of Ethiopian Digitalization, Ethio Telecom, has 60 million customers in Ethiopia, is now working on different projects that will increase Ethiopia digitalization with slogan “Realizing Digital Ethiopian Digitalization” expanding LTE advanced service, launching 4G and 5G networks (Kenya was the only one with 5G in Eastern Africa), opening digital learning centers, introducing digital payments which are integrated to government services and banks in Ethiopia, aiming to swiftly run socio-economic activities and easing doing business.

“With all the good work government and Ethio Telecom is doing, and the liberalization of Ethiopia’s telecoms market, we can conclude Ethiopia is on the right truck. Because infrastructure gap was one the main reasons holding Ethiopia from becoming a leader in digital transformation and ICT” states the expert from Ethio-Telecom.

#### **4.3.5 Inflation**

Another macroeconomic challenge Ethiopia is facing is inflation. According to the expert from MoTRI “I am sure AfCFTA will have high contribution in decreasing the high inflation we are facing”. AfCFTA will bring many African firms to the Ethiopian market with no tariff payment, cheaper production cost and more competition created by the trade expansion price of commodities will decrease”. “It is good news from a consumer perspective. But it can be a bad news for the private sector if they won’t be making themselves ready for the upcoming market competition” Expert from AAU. This idea by the respondent is in consistency with the past

researches like (Noh-sun kwark, 2020) which concluded FTAs will have a positive impact in decreasing inflation.

As per an expert from AAU “If Ethiopian merchant isn’t ready to innovate, invest in safe businesses only like building molls and guest house, increase price whenever something happens without considering the economic capacity of the people and loves to show off his car or fancy close but don’t do the necessary jobs to take Ethiopian economy to the next level, then why do we need to protect them”.

Another expert from AAU states “If we allow the trade to be open for African firms, the rich people in Ethiopia can be affected when they face competitor but the consumer will get cheaper products. MacDonald can come and serve a burger with 50 birr only when Ethiopian burger houses are pricing their product above two hundred and three hundred. This is one example, in every sector opening the market will bring cheaper products to consumer and the competition will lead to decreasing inflation”.

#### **4.3.6 Private Sector**

In the first sub section of this chapter, the readiness of private sector from the private sectors understanding and perception is discussed. A short discussion is presented in this sub section to show the national actions towards private sector and AfCFTA.

According to expert from MoTRI, their office as the main implementer of AfCFTA in Ethiopia is trying to engage the private sector. Meetings have been held with the major exporters in Ethiopia to get inputs for negotiations. And AACCSA and ECCSA have been engaged in the committee that follows AfCFTA. In addition MoTRI gave trainings about challenges and opportunities of AfCFTA for Ethiopian businesses.

But in regards to SMEs, MoTRI, the responsible actor of AfCFTA related issues in Ethiopia isn’t doing much. “For now we are prioritizing the major exporters, we gave the trainings to major exporters in Coffee, leather and other leading sectors in export. But we believe in the importance of SMEs and will engage them in future”. An expert from ECC also mentioned plans to introduce SMEs to AfCFTA. The commission is preparing training modules for different sectors of SMEs to teach them about the rules of origin of AfCFTA and the requirements to be eligible to participate in the market”.

According to the expert from MoTRI “Even if government doesn’t give trainings, Ethiopian firms has to start to invest in Ethiopian comparative advantages, work on their productivity, update themselves with the current market demand and technologies, study the weakness of African firms, study profitable firms in Africa and work on upgrading their labor skills”.

#### **4.3.7 National studies**

According to some economics related articles in Ethiopian gazettes, scholars in Ethiopia worry about is how trade with giant economies like Egypt, south Africa and Nigeria will affect their economy. Based on this MoTRI has done a national study constituting members from different government and private bodies and hiring consultancy, concluded all in all AfCFTA will be beneficial to Ethiopia.

According to the expert from MoTRI “even if Ethiopia is categorized under LDCs and competing with giant economies, by focusing and working on the comparative advantages we have, we can prosper from AfCFTA”. In this national study, MoTRI aimed to find Ethiopia’s comparative advantage and identified leather and leather products, coffee, Garment and live animal export sectors as the major ones. The study also identified even if Ethiopia is currently working on agro processing, the sector can face challenges from African firms. The study also concluded Ethiopian export capacity is competitive in African level.

On the sectors that need protection, the experts in MoTRI weren’t willing to share, claiming it is sensitive information as Ethiopia is still in negotiation of AfCFTA. And the negative perception of AfCFTA fearing dumping of goods from other AfCFTA members is nonsense according to the expert from MoTRI. “The agreement has anti-dumping rules in the agreement and if Ethiopia identifies this kind of problems, based on the agreement we can untie our economic integration with that country without leaving the CFTA” National studies on potential impact of FTA are done by countries and as an example from past researches (United States International Trade Commission, 2021) studied the potential impact of FTAs US joins. Ethiopia also has done this research on potential impacts of AfCFTA, in which the possible potentials and challenges identified.

#### **4.3.8 Infrastructure**

Another macroeconomic action needed is infrastructure. According to the expert from MPD “Ethiopia as an LDC the infrastructures isn’t enough. But the mega projects in hand are highly related with the success of AfCFTA. Infrastructure projects like GERD and other hydroelectric power plant, Industry parks, Addis Ababa-Djibouti Railway, express roads connecting key industrial towns, Largest Airport in Africa, Lapsset Project, OSBP project and many more. These all will have huge contribution to the regional trade Ethiopia aims and the investment and FDI we desperately need”.

According to this expert “Some of the mentioned projects had implementation problems and cost Ethiopia huge sum of money, government should protect these projects as its eye lens for future. Because not only they delay the country’s growth and opportunities from the CFTA but also leave a ton of loan to Ethiopia”.

Ethiopia's action in building mega projects with the aim of increasing regional integration is coherent with the idea explained on previous researches like (Roland-holst, 2005) that identified infrastructure as one of the oldest and most decisive determinants of trade patterns. The research using a global CGE model, found that infrastructure can be a potent catalyst for wider economic participation, can promote private, individual agency as a means of poverty reduction and more rapid growth among the poorest regional economies. As Ethiopia exists in one of the poorest regions in the world, the mega projects in hand shows Ethiopia is going in the right way to a better regional integration and the benefits it will bring.

#### **4.3.9 Sub-Committee of Trade Facilitation towards AfCFTA**

As per an expert from MoTRI, Ethiopia has formed a committee which specifically focus on trade facilitation, customs cooperation and transit, the committee constitutes members from ECCSA and AACCSA, national bank, Ethiopian transport minister, ECC, Ethiopian standard agency (ESA), MoTRI and Ethiopian shipping lines.

But one of the member of this committee said “the committee isn't active. Every member of the committee has other demanding tasks on their main job. And the committee doesn't even have a specific office” But it is trying to do the tasks given to it, which is to find the areas Ethiopia needs to fix to better prosper from AfCFTA and reports to the ministries cabinet.

Ethiopia formed Sub-Committee of Trade Facilitation as the AfCFTA agreement orders, and previous publications on FTA negotiation and implementation manuals (Goode, 2005) and (Asian Development Bank, 2008) recommends. What Ethiopia lacks is creating the proper working environment for the committee.

#### **4.3.10 Supply chain and Value chain**

According to the expert FROM AAU, “Above all challenges Ethiopia's economy has, supply chain is the one that is creating the biggest problems”. According to this expert, if Ethiopia plans to prosper from the CFTA, the problem of supply chain has to be solved since Ethiopia isn't even getting the necessary income it should get from the low productivity it has. “If supply chain is corrected, we can get our GDP higher by increasing productivity”.

Another expert from AAU, citing a recent article by Reporter Magazine, Ethiopia recently accepted a proclamation that allows the arrangement of a vertical integration in coffee market. Exporters are given the permit to buy coffee directly from farmers without the involvement of the Ethiopian Commodity Exchange (ECX) and coffee exports reached new heights this year and farmers are earning more. According to the expert, this kind of proclamations has to be transferred to other exporting sectors to better benefit from international trade and AfCFTA.

Past researches Benfica & Thurlow, (2017) findings are similar to the suggestion of the expert. The research suggests that government policy shouldn't focus on a single value-chain to achieve all policy objectives; instead, a more balanced portfolio of value-chains would enhance agriculture's future contribution to poverty reduction and economic growth, promote faster rural transformation, and create job opportunities.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATION

This chapter introduces conclusions derived from the study and some recommendations based on the data presented during the study.

#### 5.1 Conclusion

Ethiopia signed the AfCFTA agreement in 2019 with motivations like growing the export sector since it was the key way considered to achieve economic growth, AGOA revocation and creating peaceful coexistence with the region. But Ethiopia is joining the CFTA and will compete with manufacturing led and high GDP countries with the private sector having problems emanated from it and government, while the trade facilitation performance is really poor and many macroeconomic problems exist in the country.

With the aim of identifying the actions and policies needed from government and other stakeholders to better readiness of Ethiopia to AfCFTA and to make sure the maximum benefits will be acquired from the CFTA, the research reached the following conclusions.

The first objective is the readiness of the private sector in Ethiopia for AfCFTA with a focus on SMEs. The research found SMEs in Ethiopia aren't ready to AfCFTA and concludes the lack of awareness and readiness of SMEs if not solved urgently will be a huge disadvantage for Ethiopia in AfCFTA competition as awareness wise, majority of the SMEs haven't heard about the CFTA and the ones that know, have no clue about the requirements to participate in it, while the performance of other AfCFTA members in this aspect is high. And no government body gave training about the CFTA to the SMEs and the Medias they follow for business news isn't delivering information about the CFTA.

The research also concludes the Ethiopian SMEs challenges, which comes rolling down from past are still issues and if not solved from their sources, they can be challenges for Ethiopia's competition in AfCFTA. Ethiopian economic environment not being enabling for Ethiopian SMEs due to lack of finance to grow business caused by high collateral and interested demand from banks, shortage of foreign currency, government officials being unfit, corrupt and careless are mentioned as some of the reasons for the lack of SMEs in readiness to compete in AfCFTA.

Institutions like AACCSSA and ECCSSA are doing good job about making the private sector ready for AfCFTA by participating in negotiations, publications and giving trainings about the CFTA. But this effort is benefiting private sectors that are members of these institutions only, which will limit the opportunities Ethiopia can get by creating awareness and readiness for all private sectors. By giving equal focus; Ethiopia can make sure the SMEs are aware on which areas they should focus when making business decisions for future.

The second objective of the research is to investigate if implementation of Trade Facilitation in Addressing Non-Tariff Barriers is in line with the African Continental Free Trade Area agreement. The research concludes in trade facilitation aspect, Ethiopia is ready for AfCFTA, which will be an advantage for Ethiopia in AfCFTA competition.

RoO negotiation is on the right track keeping Ethiopia's interest and training for certificate of origin providers is in process. Harmonization and simplification related internationally accepted standards haven't been ratified but the principles are almost fully copied into Ethiopian rules. Trade facilitation related actions including Automation, Advance exchange of information, Technical cooperation, Publications, Single window service and Border agency cooperation and transit procedure: are all ready to facilitate trade between Ethiopia and other African countries with some modifications. And there are ongoing action and future plans to better these aspects of trade facilitation.

The third objective of this research is to identify if the critical policies and provisions that are needed to ensure the gains of the Continental Free Trade Area (CFTA) exit and are implemented. This research concludes Ethiopia is ready to AfCFTA in macroeconomic policies aspect, the plans government has and projects in initial stages are hope givers, which will be an advantage for Ethiopia in AfCFTA competition. Government's plan to liberalization of banks and setting of stock exchange are the examples of plans in hand which haven't been implemented yet but when they will, can create many positive effects to the economy. In digitalization, supply chain, national studies for the CFTA, FDI and industrialization related macroeconomic activities: Ethiopia is doing well to be ready while infrastructure, private sector, and sub-committee related policies and actions need better focus to be ready for the CFTA.

## **5.2 Recommendation**

In private sector readiness, same care has to be given to SMEs as government; AACC and ECCSA give for the bigger sectors. Trainings and awareness should be given to them. In addition they have to be part of negotiation too. Government should listen to their perception towards the CFTA and demands to be competitive.

Media has to work on notifying the nation on the levels of AfCFTA negotiation, the opportunities it will bring and the challenges to be solved.

SMEs in Ethiopia should get trainings that develop their skills and increase usage of technology. Government also should work on creating access of finance for SMEs and solve the shortage of foreign currency.

The availability of finance can solve the marketing, product quality and price related challenges of SMEs. Government officials also should increase their care, skill and ethics when serving their people to make sure SMEs' readiness to compete in AfCFTA.

In trade facilitation readiness, Lack of skilled human resource due to salary, cars and house issues should be solved. Trade facilitation offices are one of the key places in Ethiopia keeping the skilled and experienced employees is necessary.

Clearing agents and customs officers have to get proper trainings as they don't have a good knowledge of tariff (HS) classification.

Border post ECC transit stations working environment should be bettered to, necessary working equipment should be bought, and basic things like water and toilet should be provided. In addition increasing custom laboratories is also recommended.

Final recommendation is, as trade facilitation projects and plans are in action and haven't been finished yet, coordinated focus of government is needed in the implementation of these projects in time.

In macroeconomic issues of readiness, the practice of supply chain in the coffee market should be copied to other Ethiopian comparative advantage products.

The committee of trade facilitation towards AfCFTA should be encouraged to be active by hiring experts who work on the issue of AfCFTA only, giving a specific office and giving proper benefits for participants from other office.

Trainings given about AfCFTA by MoTRI are specifically to large sectors in Ethiopia and MoTRI and other stakeholders should consider giving these trainings to SMEs too.

The research recommends as the policies and projects haven't been finished yet, the implementation of these policies and projects in time should be seen carefully.

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## APPENDIX

### Appendix A: Interview Outline to Objective One

#### Part 1

The following questions will be forwarded to:

- Employees of AACC and ECCSA

What kind of action is your institution taking about AfCFTA?

Providing training \_\_\_\_\_

Publication \_\_\_\_\_

Negotiations \_\_\_\_\_

Updating AfCFTA information \_\_\_\_\_

#### Part 2

The following questions will be forwarded to:

- Selected samples of SMEs

Age \_\_\_\_\_

Gender \_\_\_\_\_

Education Status \_\_\_\_\_

What is your responsibility in this business? \_\_\_\_\_

Are you aware of the day today activities of the business and Future plans? \_\_\_\_\_

Business sector - \_\_\_\_\_

Question 1 – Awareness and Engagement with government about FTA

1. Have you heard about AfCFTA? \_\_\_\_\_

If the answer for Question number 1 is yes,

Do you know the requirements to trade in AfCFTA? Or The requirements to get the Certificate of origin to trade in AfCFTA? \_\_\_\_\_

Have you been contacted by MoTRI or ECC or any other government body about AfCFTA?

\_\_\_\_\_

Have you been consulted or asked to give your ideas to negotiation of AfCFTA?

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Have you received any training about FTA, COMESA or AfCFTA from MoTRI or ECC or any other government body or any guidance given by government about how to be competitive in FTA? \_\_\_\_\_

What is your main source of business information? \_\_\_\_\_

If your answer is no,

What is your main source of business information? \_\_\_\_\_

Do you think there is a dedicated government or private gazette or media or website which continuously updates the private sectors on business issues in Ethiopia and international trade?

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Have you been contacted by MoTRI or ECC or any other government body about international trade? \_\_\_\_\_

Have you received any training about international trade from MoTRI or ECC or any other government body or any guidance given by government about how to be competitive in international trade? \_\_\_\_\_

Question 2 – Interest

Are you interested in exporting your products to African market?

If yes,

Why? \_\_\_\_\_

Have you studied the African market yet? Which company is winning in your sector?

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If no, what are your reasons?

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Question 3 – In AfCFTA, many African firms will join Ethiopian market very soon. In general, do you think your business can compete with them and become profitable or do you think your business might die? (General perception)

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If your answer is No, in what aspect do you think is you are not ready?

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Do you have any suggestions on what kind of areas Ethiopian businesses have weakness and should work on, in order to maximize the use of FTAs by Ethiopian firms?

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Question 4 - Do you consider the current Ethiopian economic environment as an enabling environment in which Ethiopian private investors can effectively operate and prosper from this CFTA?

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If your answer is No, which problems in Ethiopian economic environment should be solved for you to compete fairly with other African firms?

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## **Appendix B: Interview Outline to Objective Two**

The following questions will be forwarded to:

- trade and regional integration minister
- Revenue minister
- Custom commission

Question 1 - Rules of Origin

Is RoO negotiation going on in Ethiopian direction?

Who is the implementer of this Annex in Ethiopia? And are they ready to provide RoO to traders who want to participate in AfCFTA?

Question 2 - Harmonization of Customs Tariff Nomenclatures and Statistical Nomenclatures

Is Ethiopia using all the headings and sub-headings of the HS without addition or modification, together with their related numerical codes?

Is Ethiopia applying the general rule for the interpretation of the HS?

Does Ethiopia follow the numerical sequence of the HS?

Question 3 - Harmonization of Valuation Systems and Practices

Has Ethiopia adopted 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.

#### Question 4 - Simplification and Harmonization of Customs Procedures

Is Ethiopia's customs Laws and procedures shall be based on internationally accepted instruments and standards, practices and guidelines applicable in the field of customs and trade such as the **Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures** and WTO Trade Facilitation Agreement;

#### Question 5 - Automation of Customs Operations

Has Ethiopia established use and continually upgrade modern data processing systems to facilitate effective and efficient Customs operations and transmission of trade data amongst themselves?

At what stage is the hardware and software installation of automation of custom administration?

Is the installation process done by capable ICT experts? Has training the ICT staff to run this process began?

#### Question 6 - Advance Exchange of Information

Is Ethiopia electronically on an automatic basis under set terms and conditions consistent with the Agreement, exchange any information covered by this Annex in advance of the arrival of persons, goods and means of transport in the territory of another State Party?

#### Question 7 - Technical Cooperation

In order to continue to enhance their capacities in customs matters, is Ethiopia technically cooperating in the following ways

- (a) Developing joint training programs;
- (b) Exchanging staff and share training facilities and resources;
- (c) Exchanging professional, scientific and technical data relating to Customs Laws and procedures;
- (d) Supporting each other in the modernization of customs procedures including e-customs and electronic data interchange applications;
- (e) Support each other in the implementation of trade facilitation measures and simplification of customs procedures;

#### Question 8 - Sub-Committee on Trade Facilitation, Customs Cooperation and Transit

Has Ethiopia formed Sub-Committee on Trade Facilitation, Customs Cooperation and Transit?

If Yes, what kind of activities is this sub-committee taking?

#### Question 9 - Publication

Is Ethiopia punctually publishes on the internet the following information in a non-discriminatory and easily accessible manner?

Does the publication has the information and data importers and exporters must have?

- a description of procedures and practical steps needed for importation, exportation, and transit, including port, airport, and other entry-point procedures, and required forms and documents;
- (laws, regulations, and procedures for import into, export from or transit through its territory;
- applied rates of duties and taxes of any kind imposed on or in connection with importation or exportation;
- fees and charges imposed by or for governmental agencies on or in connection with importation, exportation or transit;
- rules for the classification or valuation of products for customs purposes;
- laws, regulations, and administrative rulings of general application relating to rules of origin;
- import, export or transit restrictions or prohibitions;
- penalty provisions for breaches of import, export, or transit formalities;
- procedures for appeal or review;
- agreements or parts thereof with any country or countries relating to importation, exportation, or transit;
- procedures relating to the administration of tariff quotas;
- And import and export guidelines.

#### Question 10 - Establishment and Publication of Average Release Times

Has Ethiopia measured and publish average release time of goods periodically?

#### Question 11 - Single Window

Has Ethiopia established and maintained a Single Window, enabling traders to submit documentation and/or data requirements for importation, exportation, or Transit of goods through a single entry point to the participating national authorities?

#### Question 12 - Border Agency Cooperation

Has Ethiopia ensured that its authorities and agencies at border coordinate their activities in order to facilitate trade?

- Alignment of working days, hours, procedures and formalities;
- Development and sharing of common facilities; joint controls; and establishment of one stop border post control.

#### Question 13 - Exemption from Customs Examinations and Charges

Has Ethiopia exempt customs duties and all transit duties or other charges imposed in respect of transit for AfCFTA importers?

#### Question 14 - Transit Procedures

How is Ethiopian transit provision? What areas need focus? What kind of projects are in your hand?

#### Question 15 - Pre-shipment Inspection

Is Ethiopia not requiring the use of pre-shipment inspection entities in relation to tariff classification or customs valuation?

### **Appendix C: Interview Outline to Objective Three**

The following questions will be forwarded to:

- two senior experts from Ministry of Trade and Regional Integration (MoTRI)
- Economics experts
- Macro-economic Advisor to Ministry of Plan and Development (MPD)
- Expert from Ethiopian Investment Commission (EIC)
- Expert from Ethio Telecom

1. Our lack of foreign currency is preventing Ethiopian businesses from producing their maximum potential. They aren't buying the raw materials and machineries, how will they

compete with other African countries? Won't this be a disadvantage for Ethiopian businesses? Won't this lead to Ethiopian market being flooded with African products?

2. Can investors still stay in Ethiopia after AfCFTA?

Will FDI increase to Ethiopia or Other African countries can win us in attracting FDI after afcfta?

How can we bring more FDI by being more attractive to foreign investors than other afcfta members?

What is AfCFTA's effect on FDI in Ethiopia while investment flows are exhibiting downward trends due to a flood of challenges including the pandemic, national security deterioration, and war?

3. Ethiopia is far from other African countries in digitalization currently. What plans and projects are in action to solve this problem and be competitive in AfCFTA?

4. Inflation

Will not the current inflation in Ethiopia hurt the existing Ethiopian firms not to compete fairly with other African firms?

How will AfCFTA affect the price of commodities in Ethiopia?

How can AfCFTA affect the consumers?

5. How should Ethiopian businesses make themselves ready for the implementation of the AfCFTA?

What kind of support or policy is needed to help Ethiopian businesses benefit from AfCFTA? SMEs?

6. Any national studies, researches and strategies about AfCFTA?

Africa comprises a range of countries from those large and more developed, to those small and less developed like Ethiopia. How Ethiopia as a least developed country will not be affected by the implementation of AfCFTA competing with more developed and industrialized AfCFTA members?

In which trade areas Ethiopia has a comparative advantage? On which sectors should Ethiopia focus to prosper more from AfCFTA?

Which sectors should be protected when Ethiopia negotiate in AfCFTA agreement?

7. How is Ethiopia's infrastructure level?

How will this level affect the implementation of AfCFTA?

8. A national subcommittee is needed for the effective implementation of the AfCFTA.

How is the performance of this committee?

What kind of challenges is it facing?