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**BEYOND CONTINENTAL FREE TRADE AREA: THE NEED  
FOR A COLLECTIVE EXPORT ARRANGEMENT FOR  
AFRICAN ECONOMIES**

**Prepared By:**

**TADESSE TILAYE**

**January 2025**

**Addis Ababa**

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**Addis Ababa University**

**Department of Political Science and International Relations**

**Beyond Continental Free Trade Area: The Need For a Collective Export**

**Arrangement for African Economies**

**Approved By Examining Board**

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**Chairperson**

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**Examiner**

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**Examiner**

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## **Declaration**

I, TadesseTilaye, hereby declare that this work titled, “Beyond Continental Free Trade Area: The Need for a Collective Export Arrangement for African Economies” is entirely my original work, and all the materials I used to write this paper are acknowledged. I also acknowledge that this work has never been submitted to any other institution or presented by myself or any other individual for any reason.

TadesseTilaye

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As I finish this paper, I think I should thank the people who helped me a lot in the process. Therefore, let it be known that this page is a page dedicated to offering my sincere appreciation to these wonderful people.

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## **Acronyms**

**AfCFTA** African Continental Free Trade Area

**AGOA** African Growth and Opportunity Act

**ASEAN** Association of South East Asian Nations

**AU** African Union

**BIAT** Boosting Intra-Africa Trade

**BRICS** Brazil, Russia, India, China and South Africa

**COMESA** Common Market for Eastern and Southern Africa

**EAC** East African Community

**ECLAC** Economic Commission for Latin America and the Caribbean

**ECOWAS** Economic Community of West African States

**EEC** European Economic Community

**EU** European Union

**FAO** Food and Agriculture Organization of the United Nations

**FDI** Foreign Direct Investment

**GAAT** General Agreement on Tariffs and Trade

**GDP** Gross Domestic Product

**IDI** In-Depth Interview

**ICPAC** The International Competition Policy Advisory Committee

**ICT** Information and communication technology

**KII** Key Informants' Interview

**LDCs** Least Developed Countries

**MNCs** Multinational Corporations

<b>LIFDCs</b>	Lower-Income Food-Deficit Countries
<b>OECD</b>	The Organization for Economic Cooperation and Development
<b>OPEC</b>	Organization of the Petroleum Exporting Countries
<b>PACCI</b>	Pan African Chamber of Commerce and Industry
<b>RTA</b>	Regional Trade Agreement
<b>R&amp;D</b>	Research and Development
<b>SADC</b>	Southern African Development Community
<b>SSM</b>	Special Safeguard Mechanism
<b>UK</b>	United Kingdom
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>UNECA</b>	United Nations Economic Commission for Africa
<b>USA</b>	United States of America
<b>US</b>	United States
<b>WTO</b>	World Trade Organization

## **Definition of Terms**

**Anglophone Countries** – States colonized by the British Empire in the late nineteenth and early twentieth century and English is the dominant language spoken.

**Balkanization** –The fragmentation of a region into smaller, often hostile, political units. The term comes from the Balkan Peninsula of Europe, which has been Balkanized many times and is still undergoing balkanization (Study.com).

**Cartel** – A collection of independent businesses, organizations, or countries that collude to manipulate the price of a product or service and enhance production and transportation efficiency by coordinating resources towards a common goal. Cartels are competitors in the same industry and seek to reduce that competition by controlling the price in agreement with one another.

Example: OPEC

**Customs Union** –Refers to a group of countries that apply one common system of procedures, rules, and tariffs for all or almost all their imports, exports, and transit goods.

**Foreign Direct Investment (FDI)** – is when an investor becomes a significant or lasting investor in a business or corporation in a foreign country. This can boost the global economy. FDI is an active form of cross-border investment in which the investor has at least a 10 percent stake in the company.

**Francophone Countries** –Countries that designate French as an official language or whose people primarily speak French.

**Globalization** – The connectedness or interdependence reality of the world due to Trade and Technology

**Global Trade** –Global Trade/Global Market is the exchange of Goods and Services between countries. Generally, it refers to the import and export of each participating countries.

***Intra-African Trade*** –The Volume and Value of Exports and Imports of Goods and Services between African countries

***Liberalization*** –The loosening of government controls. Liberalization is most often used as an economic term. In particular, it refers to reductions in restrictions on international trade and capital

***Multinational Corporations*** –Multinational Corporations (MNCs), also called Transnational Corporations, are Corporations that are registered and operate in more than one Country/State. Ex. Coca-Cola

***Non-Tariff Barriers*** –Any measure, other than a customs tariff, that acts as a barrier to international trade. These include regulatory red-tapes such as quotas.

***Regional Economic Integration*** –Regional Economic Integration, sometimes also called Regional Trade Agreement, is an agreement among nations to reduce or eliminate trade barriers and agree on fiscal policies. The European Union, for example, represents a complete economic integration.

***Rule Of Origin*** –the criteria used by national governments and international trade agreements and treaties to determine the national origin of a product or good

***Tariff Barriers*** –taxes imposed by a government on imports or exports of goods. The purpose of these barriers can be different, but mostly they are used to increase the cost of imported goods and services for domestic consumers and to increase government revenue.

## **Abstract**

*The African Continental Free Trade Area (AfCFTA) represents a historic effort to unify Africa's trade landscape and bolster intra-African trade. However, critical infrastructure deficits and the lack of complementary production structures hinder its potential. This study critiques the prevailing focus on intra-African trade, arguing for a shift toward collective export arrangements to enhance Africa's competitiveness in global markets. By employing qualitative methodologies, including in-depth interviews with trade experts and a narrative analysis of existing literature, the research identifies systemic inefficiencies and structural challenges undermining Africa's trade performance. Findings reveal that collective export mechanisms, akin to export cartels, can offer an effective alternative to conventional integration strategies. These arrangements would leverage Africa's shared resources, mitigate competitive fragmentation, and strengthen its global bargaining power. The study advocates a paradigm shift in trade policy, emphasizing collaboration over competition and collective export strategies as a pathway to industrial transformation and sustainable economic growth for the continent.*

**Keywords:** African trade, collective export, AfCFTA, export cartels, regional integration

# CHAPTER ONE

## 1. Introduction

### 1.1. Background

Regional Economic Integration is sought to advance the national interest of one nation by coordinating mutual goals with neighboring states. As globalization creates access for the global market to buy and sell resources and products regional integration also expands the national market to the region. The difference, however, is that regional integrations are geographical by nature; sometimes they also are political (Asian Development Bank, 2013).

In recent decades, states have entered or formed regional integrations to expand their market access. Looking into the history of regional economic integration, we find the EU to be the pioneering region that triggered the trend. Following the EU market integration model, other regions including African countries used regional economic integration to increase their presence in the global market. Particularly in the African continent, however, there has been a clear influence of a European Model on multiple areas. On regional Integration as well, African regional integration institutions tend to mimic the European Integration model, especially in their preference for Customs Unions (Draper, 2010).

Within this context, efforts to harmonize African economies through regional integrations have been made since independence. Today, the AU recognizes eight (8) regional organizations as building blocks of the African Union that are working on regional trade (UNECA, 2019). However, having all these organizations working towards realizing an integrated continent, history suggests a disappointment rather than a success. According to Langhammer(1977), no

other region in the world has so often applied the way of “trial and error” in integration and cooperation as Africa. There are two reasons behind the failure of African leaders despite their institutional arrangements to ensure Africa is politically and economically integrated. The first one is the economic and political “balkanization” Africa inherited from its history of colonialism. The colonizers carefully implemented “balkanization” to ensure African countries did not have meaningful collaborations to advance their common interests. The second problem relates to the mechanism by which African leaders are pursuing to tackle the first challenge. Africa further inherited the pattern of colonialism in terms of integration and cooperation. These patterns mainly consist of monetary and customs unions, which were continued after independence (ibid, p. 257).

With at least eight regional organizations comes the problem of multiple countries' memberships. Multiple memberships would jeopardize ensuring an integrated region by creating divided loyalty on top of resource dispersion (Hawaz, 2021). To overcome this, a new organizational model was necessary. That is where the African Continental Free Trade Area (AfCFTA) would fit. In terms of both the number of member states it contains and the size of its population, the African Continental Free Trade Area is believed to be the largest free trade area after the establishment of the World Trade Organization (WTO). Being the largest economic enabler ever attempted in Africa, there is a lot of optimism around it to deliver a more prosperous Africa by coordinating resources and reducing developmental red-tapes. AfCFTA aims to transform the African economy by increasing the free movement of goods, services, and people through deeper trade liberalization. It also plans to harmonize regulatory frameworks to eliminate trade barriers. The main argument concerning the need for AfCFTA is that Africa is the lowest buyer of its products, and changing this would help the overall economic transformation. Studies suggest that

intra-African trade stands somewhere between 15 percent and 20 percent. Reasons suggested contributing to this are the legacy of colonialism, the infrastructure problem, and the fact that most African countries are producing similar products. The organization also aims to boost African position in global trade. For instance, the AfCFTA on its official website claims that the continental free trade area would increase the gain of Africa by increasing the Intra-African trade by 52.3 percent, which will increase Africa's economy by \$ 29 trillion by 2050 (AfCFTA Hub, 2023).

## **1.2. Statement of the problem**

Many studies such as Olney(2020), Yang & Gupta(2005), UNCTAD(2013), Kuhlmann&Agutu(2020), Alemayehu& Addis(2019), etc. have been done on the AfCFTA since its inception. However, most of them tend to overstate the contribution of AfCFTA and fail to address the factors contributing to the low performance of intra-African trade. The agreement formulated to establish the African Continental Free Trade Area (AfCFTA), in its preamble, states two basic understandings put into consideration for the implementation of the initiative. The first is creating an expanded and secured market for goods and services [in the African markets] through adequate infrastructure and progressive elimination of tariffs and non-tariff barriers. The second is realizing a harmonious and transparent policy structure among African economies concerning trade and investment relationships with third parties (Agreement establishing the African Continental Free Trade Area, 2018). From the agreement, it's clear that AfCFTA is intended to promote trade and investment among African economies; it also aspires to attract foreign direct investments (FDI) to the African continent. However, it's evident that without tackling factors contributing to the low performance of intra-African trade, AfCFTA will play little or no role in transforming the African economy through trade and investment. Not

only that, but AfCFTA can also even worsen the conditions of African economies by exposing local producers to multinational corporations in the name of “free trade.” Once borders and regulatory frameworks are open for all goods, services, and people originating in the African continent, there will be little control over multinational corporations (MNCs) that want to base in one or a few African countries and dump their products on the rest of African markets. This will highly jeopardize the future of local producers and cement the legacy of colonialism. It’s also puzzling how intra-African trade and investment would be strengthened without changing the fact that most African economies are producing similar products.

Kuhlmann&Agutu(2020) argue that AfCFTA brought a new horizon of hope in international trade arrangements during this critical time of wreaking havoc on international trade laws. The study considered AfCFTA a good opportunity to reopen avenues for multilateral negotiations in the time of the WTO crisis, Brexit, and the U.S.-China trade agreements breakdown. The study is precise in terms of seeing AfCFTA as an opportunity to dismantle any quota and non-quota restriction in Africa; the question is, why does Africa need to open up its sovereignty while the world is moving to protectionism?

It’s mentioned above that Africa has the largest number of regional organizations [i.e., eight] that are working on intra-African trade. These organizations started their formation immediately after independence (i.e. from the 1970s onwards). However, intra-African trade has never shown a positive move; most importantly, the African position in global trade has shown a downward trend, from about 4 percent in the 1970s to about 2 percent at present (Yang & Gupta, 2005). From this finding, we may not safely say that regional trade organizations contributed to the negative growth of Africa’s global trade position; however, it’s clear that they don’t help to boost

its share in the global export market. The paper further argues that the potential of the regional trade agreements (RTAs) in promoting economies of scale and enhancing competition has been limited by the lack of trade complementarity among RTA partners, small market size, poor transport infrastructure, and high trading costs at the border (ibid). However, it failed to justify how states stayed reluctant to push these agendas unless the opportunity cost of opening up their border was much higher than the gains promised by intra-African trade.

A more sound argument by UNCTAD(2013) suggested that among the many reasons for the weak regional trade performance in Africa, one of which is that the approach to regional integration on the continent has so far focused more on the elimination of trade barriers and less on the development of the productive capacities necessary for trade. The report is appealing in identifying the “Big Elephant in the Room,” as it’s only a fantasy to think states trade amongst themselves without the supply side problem being addressed. In this regard, one can see that Africa’s dependence on trade with the outside world predominantly came from the fact that the continent produces homogenous primary goods and consumes industrial capital items.

An interesting study by Olney(2020) showed that growth in the natural resource and agricultural sectors is positively related to overall exports, particularly exports to non-African countries. However, when the finding singled out exports to fellow African countries, it showed an inverse relationship. The reason given for this is that, since African economies are mainly producers of primary natural resources and they mostly produce homogeneous products, there is little or no incentive to trade amongst themselves.

An empirical study by Alemayehu& Addis(2019) to evaluate the significance of AfCFTA on trade; which is the fundamental purpose of the agreement, showed rather a displeasing result.

From the subtopic dedicated to determining indicators of Comparative Advantage, Regional Orientation, Trade Complementarity, and Export Similarity, if we see trade complementarity and export similarity alone, the results are quite discouraging for the implementation of AfCFTA. On the trade complementarity index, the result showed that African countries' exports have a low match with the imports of the African region. This clearly shows that African countries do not have complementary trade patterns; which implies that there is no scientific reason for African states to trade with each other. The export similarity index also is another indicator that AfCFTA may not be able to deliver. According to the findings African countries, by and large, have similar exports. Not only that, even when there are differences in exports, the fact that revealed comparative advantages for all African countries is in primary commodities, and not in manufactured goods, shows the lack of strong “natural trading partners” features among African countries.

History suggests that without economic transformation from primary commodities export to industrial products export, countries will always be dependent on international trade. To resolve this, countries used different strategies; one common strategy is using cartels to coordinate their capacity and increase their competitiveness in the global market. A Study by Jensen-Eriksen(2013) argues that the popular belief in Cartels has been negatively drawn for a long time. It is believed to raise prices and reduce output, thus harming consumers. Cartels are also believed to reduce the need for competition among producers who are members of certain cartel arrangements, which would negatively affect productivity and efficiency. However, there is a strong argument in favor of cartels concerning their significant role in bringing poor states out of the vicious circle of lack of productivity and backwardness. Cartel plays a positive role in advancing the export performances of weak states by increasing their competitiveness in global

trade. On the other hand, according to the paper, the claim that says, cartel is a conspiracy against the public has no substantial empirical evidence to support it. Some scholars would consider Cartel as an act of theft from the public. However, the study argued that this type of stereotype comes from Cartels being seen from a conspiracy angle. Most people bring the collusion of German Cartel companies and the Hitler Nazi party. But this is only true considering people would use cartels for evil intentions. It also shows the historical practice of cartels in large economies such as Germany and the USA. These big countries can manipulate and distort the global market using Cartels if they decide to use them for evil motives (ibid).

However, for developing countries that are struggling to penetrate the global market, the findings suggest a completely different result. Not only that, if we dissect more and focus on export Cartels, the empirical evidence suggests an even more positive side of it. A study by Fellman& Shanahan(2020) suggested that at least the case for the export cartel has been the thing of even those who consider themselves watchers of the free market system. They used export cartels to penetrate the global market and establish themselves. The study clearly showed that the history of cartelization, especially in the interwar period, suggested that different factors determined cartel routes. Some international export cartels were formed to have connections with colonial economies. Whatever the cause might be, export cartels were seen as a “necessity” strategy, especially for small economies to penetrate and survive the global market. These small economies can’t manipulate and distort the global market; on the other hand, if they don’t approach the market collectively, they will not be able to provide a competitive offer in terms of quantity and quality. The argument for export cartels parallels the protection of infant industries and small countries on the verge of industrialization; they are a way to compete in world markets.

In my secondary data analysis, I found that although there are studies on cartels and their potential contribution to developing economies, there is no study on the African economy and the contribution of cartels to the transformation of the African economy. Therefore, this thesis's main focus is the contribution of cartels to transform African economies and by doing so, I believe it will have a certain role in filling this gap.

I argued, that Africa also should follow this pattern if she has to break the vicious circle of underdevelopment. Even today, as discussed earlier, the world is moving back to protectionism. Scholars also suggested that, whether we like it or not cartel is coming. Buckley (2021) argued that the trend towards divided governance of the global economy and the rise of technonationalism will lead to the return of the cartel as a mode of corporate governance. The paper showed developments of protectionist approaches across the global economic activities between China and the USA. The existence of protectionist behaviors, such as quotas, tariffs, bans, etc., favor cartels.

Against this background, this thesis explored remedies for the African trade problem by indicating that the African continent should stretch beyond intra-African trade and adopt a collective export arrangement to increase the continent's competitiveness in global trade. In this regard, my paper argued that African economies need to consider using a cartel type of export approach which would suggest a collective export mechanism to emerge as a competitive region in the global market. The thesis also argued that if Africa is not preparing herself and grasping the opportunity a collective export mechanism could bring, others will, and Africa once again will be at the receiving end of it. It also argued that Africa is trying to solve a less critical problem of intra-Africa trade with AfCFTA. The most important problem is Africa's poor performance in its

trade with the outside world, manifested through its weak bargaining power, poor product development, lack of R&D facilities, inefficient transportation & delivery, and lack of funding, etc. These need coordinated efforts and a collective resource utilization scheme, and for that, I have argued in favor of collectivity, instead of complementarity; and collaboration over competition among African states.

### **1.3. Central Argument**

My paper has argued for a more pragmatic approach to transform African trade and economies. I have argued that Africa needs a Cartel type of export arrangement rather than free trade, which calls for open borders and liberal trade policy tools. The reason is that a Cartel type of export arrangement will increase the bargaining power of Africa and it will increase African domestic capability to transform its industries by coordinating the continent's limited resources. It also will help the continent guard its infant industries against global giants.

### **1.4. Objectives of the Study**

#### **1.4.1. General Objective**

The general objective of this study is to discuss and indicate that the African continent should stretch beyond intra-African trade and adopt a collective export arrangement to increase the continent's competitiveness in global trade.

#### **1.4.2. Specific Objectives**

- ✓ To explore the importance of boosting African competitiveness in global trade by promoting a collective export among African economies
- ✓ To examine the challenges of African integration efforts and how collective export arrangement would save African economies

✓ To investigate the viability of the promotion of free trade in Africa against particular challenges the continent has.

✓ To further discuss the danger(s) of promoting intra-African trade without having strong home-grown and diversified sectors.

## **1.5. Research Questions**

### **1.5.1. General Research Question**

The general Research question of this study is: Should Africa stretch beyond intra-African trade and adopt a collective export arrangement to increase the continent's competitiveness in global trade?

### **1.5.2. Specific Research Questions**

✓ What is the importance of promoting collective export among African economies to boost Africa's competitiveness in global trade?

✓ What are the impacts of changes in the global trade landscapes on Africa, and how would collective export arrangement help Africa mitigate these challenges?

✓ Is the promotion of intra-African trade relevant for African economies?

✓ What is/are the danger(s) of promoting intra-African trade without having strong home-grown and diversified sectors?

## **1.6. Research Methodology and Methods**

To address the objectives of this paper, the study has employed a qualitative research methodology. The reason for that is due to the nature of the study, the researcher wanted to capture as detailed information as possible, and qualitative methods is suitable for that. In addition, secondary data was gathered and reviewed to assess the existing knowledge. In doing so, the researcher reviewed related literature to lay a theoretical and historical foundation by

showing how initiatives on intra-African trade failed to serve their purpose. After reviewing secondary resources, a gap analysis was conducted to identify specific areas for primary investigation, and based on the gaps identified, primary data was gathered to support the historical and theoretical analysis from the literature review. I gathered the data since AfCFTA is the main actor behind the promotion of intra-African trade, I collected primary data from respondents who are directly or indirectly related to the organization. Therefore, people who are working in/for AfCFTA were targeted. In addition, scholars who are directly or indirectly working on the promotion of African trade and AfCFTA in particular, and public opinion influencers (i.e., such as politicians) were targeted. In general, the following details are about how the researcher ensured professional research approaches were followed and objectives were met.

### **1.6.1. Sampling**

#### **a) Sampling Technique**

The subject that the study aspired to pursue required it to carefully use purposely selected target groups. Accordingly, I have employed a purposive sampling procedure.

#### **b) Sample Size**

Regarding primary data sources, the researcher selected 4 key informants who are deeply familiar with the African Continental Free Trade Area (AfCFTA) agreement and have direct or indirect involvement with the process of the formation of AfCFTA and collected information using an in-depth interview method. I also tried to fill in the gaps by extensive exploration of secondary data sources.

### **C) Source of Data**

Regarding data sources, this thesis used secondary data from various journals, books, and other websites where research articles are published, and primary data was collected from scholars and decision-makers with experience and knowledge in international trade and regional integration.

## **1.6.2. Methods of Data Collection and Analysis**

### **a) Instruments of Data Collection**

At the proposal stage, the researcher planned to hold a 20-30-minute discussion with each key informant to gather more detailed information. However, in practice, due to the deep experience of the key informants involved, and because the number of participants is small, it was necessary to get as detailed ideas as possible from each of them. In addition, since two of the participants did not live in the country, it became necessary to conduct the discussion with the two of them over the Internet. In this way, the discussion was done using the Internet discussion method called Zoom Meeting. However, with the remaining two participants, the discussion was done through the face-to-face discussion method.

### **b) Data Analysis**

The audio-recorded data was transcribed into English for analysis. Then, the data was analyzed using the Narrative analysis method. The method is well-suited to capturing the complex and valuable insights of respondents.

## **1.6.3. Ethical Consideration**

Throughout the study, the researcher made sure that all the individuals involved in this study were treated with dignity and respect. Furthermore, the researcher also ensured that individuals' participation was voluntary and based on informed consent.

- Participants gave informed consent according to a standard protocol before collecting any personal data;
- Make sure that all respondents were 18+ years old

### **1.7. Scope of the Study**

This study discusses and indicates the need for the African continent to see beyond intra-African trade and promote a collective export scheme to tackle the real problem behind Africa's poor performance in global trade. This study is continental by nature; the head office of AfCFTA, which is the main target for this study is in Accra, Ghana. To this end, I have faced limitations in terms of gathering sufficient data on the topic. However, I have tried to gather as much data as possible from key informants with a deep understanding of the subject matter from here in Addis Ababa and in other countries. In addition, a thorough review of secondary sources has been done to close the gap created by inconveniences created by the lack of willingness by some participants in the study.

### **1.8. Limitation of the study**

When planning to implement this study, I planned to go to the government institutions concerned with the Continental Economic Cooperation agreement to collect primary data. As a result, I have repeatedly asked the Ministry of Foreign Affairs, which is directly involved in the matter, in a letter, but they have refused to assign me a person who is willing to provide us with information. In addition, since the AfCFTA Secretariat office is located in Accra, Ghana, direct information was difficult to obtain.

### **1.9. Significance of the Study**

The study will provide meaningful insights for stakeholders working on causes related to African trade and investment promotion. Because even though there are global studies on the importance of the cartel-type export approach to mitigate the acute problems poor nations are facing when it comes to international trade, to the extent of the researcher's knowledge no study has been done about African economies. In this regard, the paper will also help to contribute to the scholarly research literature.

### **1.10. Organization of the study**

This study has been organized in the following manner to meet the study objectives. It commences its first chapter with an introduction. The first chapter addresses the background of the study, the problem statement, the central argument of the study, the significance of the study, the scope and limitations of the study, the Objectives of the study, and the research questions. Chapter two deals with the literature review, where related works by other scholars have been reviewed to build a strong theoretical and historical case for the study. The third chapter is the discussion/analysis chapter. In this chapter, the paper interprets and discusses facts, information, and data found/gathered primarily from direct information sources. Conclusion and references are the last two sections of the paper. With the conclusion, the study justifies the title and concludes what we learn from the whole journey of the study. The reference section on the other hand presents materials and previous studies used to construct this particular study.

## **CHAPTER TWO**

### **2. Review of Related Literature**

#### **2.1. Conceptual Framework**

##### **2.1.1. Free Trade Area**

According to Investopedia, a free trade area is a region in which several countries sign a free trade agreement and maintain little to no barriers to trade in the form of tariffs or quotas among one another (Investopedia, 2024). Based on this interpretation, at least three issues can be seen. The first issue is that for free trade area agreements to exist, at least two and more than two countries must be part of the agreement. The second issue indicates the purpose of the agreement. When free trade area agreements are signed, they mainly aim to eliminate barriers to trade movement/flow, [i.e., to eliminate tariffs and quotas]. Finally, it concerns the scope of free trade area agreements; accordingly, the free trade area agreements apply to the trade relations between the signatory countries, meaning free trade agreements are designed to promote intra-national trade.

##### **2.1.2. Collective Export /Export Cartel**

The Encyclopedia of World Problems & Human Potential defines Export Cartel /Collective Export as an arrangement between competing firms relating primarily or exclusively to export

activity. The definition further suggests that an export cartel/collective export agreement can have two forms. The first is the so-called Pure Export Cartel. This cartel agreement is a business agreement in which the parties agree to work together without choosing a market and not competing on the products and services they provide to the domestic consumer or the international/export market. The opposite type of business cooperation/cartel is called mixed trade agreement/mixed cartel. This type of trade agreement allows the parties to compete in the domestic market and sell; however, instead of competing in the international market/export market, it is a type of trade agreement where they can increase their global competitiveness by cooperating and creating a common front.

## **2.2. Theoretical Perspectives**

Many theories can serve as an analytical framework for this study. For example, cooperative game theory, the theory of efficiency by cooperation, etc. However, the theory that I have found to be able to bring these and other theories of cooperation together is the "Collective Action Theory". Therefore, I have attempted to explore this theory as a framework for my analysis.

### **2.2.1. Classical Theory of International Trade**

According to Zhang (2008), Classical International Trade Theory originated from the theory of international trade known as "mercantilism," which was widely believed between the 16th and 18th centuries. The main tenet of this theory of international trade, called mercantilism, is that if a country is to benefit from international trade, it must encourage exports and reduce imports through quotas and tariffs; thereby, it must be able to accumulate gold and other capital by exporting more. Therefore, for one country to benefit, the other must lose. This is why the theory of international trade of mercantilism is said to be based on the theory of the "zero-sum

game<sup>1</sup>.” However, the theories of international trade proposed in the 18th and 19th centuries have shown that countries can trade with each other to their advantage. However, it is still argued that classical international trade theory does not take developing countries into account. For example, as Myint (2011) puts it, classical international trade theory is a theory that has a pattern of developing countries being suppliers of raw materials and importers of capital goods that are many times more expensive. Therefore, it is difficult to bring developing countries out of poverty and into equitable development through classical international trade. This is why other theories are recommended; one of them is the Collective Action Theory.

### **2.2.2. Collective Action Theory**

As Pugel, Javernick-Will, and Linden (2019) argued, the word's meaning has gradually changed from its initial meaning; but they began by defining what “collective action theory” is; because it is essential to their work. They tried to give this interpretation by from the work of (Olson, 1965). Accordingly, "collective action theory" means that when individuals act rationally in terms of their benefit, they can hinder a common goal that can be achieved as a group. Therefore, to achieve the goal of ensuring mutual benefit means that the individuals may have to give up their views as opposed to ensuring their interests alone.

The book the researchers used titled "The Logic of Collective Action: Public Goods and the Theory of Groups" was written in 1965 by Mancur Olson, who developed political science and economic theory by comparing concentrated benefits and diffuse costs. The central argument of this theory is that individuals want to be free riders; because they want to invite the benefits without facing the problem, especially in large groups, the interest of the few can cover the

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<sup>1</sup> A zero-sum game is a situation in which one person's gain is exactly balanced by another person's loss, resulting in no net change in wealth or benefit. Essentially, the total amount available remains constant; if one party benefits, it comes at the expense of another.

interest of the majority through fraud. Accordingly, cooperation for the common good will be difficult unless there is an incentive reward for being faithful to common goals, i.e. forsaking personal gain for the sake of common gain. However, collective action can be realized by creating an incentive scheme that can be expressed in different ways and that gives value to the common purpose.

Willer (2009) proposes a solution to this problem of free-riders and realizing collective action. That is, in his expression, is "the status solution". According to Willer, the "status solution" is in many ways a convenient solution to increase the motivation to stand together for a common goal. First, a "status solution" does not require a centralized, formal institution to implement. Primarily status-related rewards and honors that are held by other members of the group for members who have paid a price. This means that this method of honoring those paying the sacrifice cannot be easily lost and does not require formal leadership or institutions to implement.

Furthermore, as the importance of sacrifice to a group increases, status incentives may also increase accordingly. As the importance of the price to be paid for the common goal becomes higher, so does the sacrifice. At this point, status incentive also increases; because the price paid in such situations shows the concern one has for the group. This shows that the status incentive system is flexible and adaptive. This being the case, the fact that it does not require any planning or management and that makes it even more preferable. Because the status incentive system is flexible it makes collective action possible in any situation. Willer concludes: Many studies have shown that although selfishness is inherent in all of us, there are many ways to overcome this selfishness. Among these, feelings of shared identity and a common cause may help people become active in groups, as do resources, strong conviction to the cause, and the feeling that you

can make a difference. But, says Willer, the question "What do others think of me?" echoing in every human being drives people to buy into status incentives. Although many desires move men, there is none as strong as the desire to be thought well of, the desire for respect from like-minded fellows.

In line with the above arguments, Glaser-Segura, and Anghel (2002) explored extensively the importance and possibility of cooperative action for a common goal. According to them, it is inherent in human nature. The researchers further argue that the ways of cooperation are different. Therefore, both historically and non-historically; they say it should be seen in macro- and micro-social settings, and as genetic and learned behaviors.

Accordingly, they provide an interpretation of cooperation based on the conclusions drawn from previous studies. They say cooperation represents the combination of two or more elements, which leads to a much deeper combination. This combination gives the group a better chance to overcome difficult environmental forces than individual entities.

Here they reinforce their idea by citing the study of Kropotkin (1902). According to Kropotkin, standing cooperation for the common good; that is, reciprocal cooperation has been there in the animal world as well as in the human world both in the past and present. This argument is given in opposition to Darwin's social analysis, the idea that stresses survival is based on competition. It also contradicts the idea that Jean-Jacques Rousseau's cooperation is based on the universal love found in nature. According to Kropotkin, the world is not an arena of competition for survival; but cooperation for survival. However, the cooperation is based not on a universal romance, as Rousseau says, but on pragmatic cooperation to overcome difficult situations

together. This cooperation has the possibility of growing further with civilization. Because it is more likely to be embraced with the increase in rationality.

## **2.3. Review of Empirical Studies**

### **2.3.1. The African Market Integration Challenges**

The African states' attempt to integrate the continent's market through the promotion of intra-African trade came a long way and now the official signing of AfCFTA by almost all the states laid the legal foundation for it. But, the question remains, can AfCFTA be successful in integrating Africa? To this end, many experts would argue otherwise. The arguments discussed below suggest that the AfCFTA is unlikely to succeed, just like all the unsuccessful regional trade cooperation agreements that have been tried in Africa before.

#### **A) African economic Patterns are not suitable for Integration**

Langhammer (1977) argues that the history of African integration suggests that it will imitate the global experience, particularly the European Union in its effort to integrate African countries both economically and politically. However, many theoretical arguments suggest that this trend wouldn't work for Africa. Some of the reasons are; the fact that African states are hardly interdependent in modern sectors, infrastructural barriers to communication, political differences among African governments, and considerable interstate differences in the level of industrial development.

African industrialization pattern also is not suitable for integration. Most of the African economies are based on import substitution industrialization strategy. This strategy requires strict protection in domestic markets. Competition from either developed countries or from neighboring countries, which are members of the same free trade area agreement would jeopardize the national efforts of import substitution industries. If member states are working

towards growing their respective national industries, the integration will call for a conflict of interest; if not, the parallel investment will be a waste of resources (ibid).

### **B) Colonialism Distorted the African Economy**

The African economic structure is not suitable for integration. Colonialism and its modern version, which is imperialism positioned Africa to be a permanent raw material producer to feed the industrialization efforts in European countries. According to Ocheni and Nwankwo (2012), colonialism has an invisible version – imperialism. Colonialism is a direct form of imperialism.

Ocheni and Nwankwo further argue, that before colonialism, the African economy was characterized by a barter-based system. This system couldn't serve the interest of the colonizers since the main objectives of colonialism were to find a large market for European manufactured goods and raw materials as their inputs. To make that happen, European colonizers moved towards direct control of African systems to facilitate both the exploitation of raw materials and the dumping of manufactured goods. Later on, though direct control ended, Africa was forced to accept the international division of labor which assigned her to be a raw material producer for the input of industrialized economies and receiver/buyer of manufactured goods. Colonialism also destroyed the traditional African markets. The traditional African markets were based on local needs, but the colonial marketing pattern was import-export based. Therefore, Africans began to abandon their traditional markets and start to depend on newly formed markets which are planned to satisfy the raw material demand of colonial masters. This permanently distorted the market pattern and urbanization pattern of African countries. This fact explains the reason why even today the role of African economies in international trade seems to be a producer of primary goods.

They also used education to make sure Africa remained a raw material-producing continent. The colonial education system that has been implemented in Africa also contributed to the weak performance of African economies. The colonial education system was not rooted in Africa, hence, it had no natural linkage with African economies. This loose linkage between African economies and the education system caused Africans to not articulate their economies based on their potential. There was also a disarticulation in terms of the types of goods African economies must produce. Since the colonizers set the economic landscape of African countries to their advantage, African economies focused on the production of exportable goods. In the process goods which have local demand such as food items received little or no attention from African economies. This resulted in food shortage and made Africa net food items importer. This is the main reason why Africa is still dependent on former colonial powers to get their food items (ibid).

Another study by Nicita and Rollo (2015) also demonstrated a similar result. According to them, the African share in the global trade is very low. African total merchandise exports significantly increased during the past half-century. However, its relative share is still too low (2.5%); lower than the African share of global GDP (3%). This relative performance is even lower if we see it about the continent's population share, which is 17% of the global population.

A further exploration by Ocheni and Nwankwo (2012) suggested that the integration of Africa into the global trade system is promoted by the colonial powers which is to the disadvantage of Africa. These efforts by colonial powers to permanently control African economies by integrating African trade prematurely into the world market. Since the integration happened before the local market developed, African trade was hijacked by more advanced economies as

it's always the case. Furthermore, premature integration cannot absorb shock from the international market, and will never enjoy a trade balance or comparative advantage.

### C) **Problems with African Integration Policies**

Yeast, Amjadi, and Reink, (1996) did a study on Africa's marginalization from international trade. The study mainly focused on examining the main reason for the low performance of Africa in international trade. The result suggested, that the reason for this marginalization, almost entirely is Africa's policy which is playing a significant role in this low performance. The study argues that African trade policies are not favorable for trade. The study particularly stresses that its trade policy is anti-export.

Supporting the importance of having a proper policy to increase the competitiveness of the region in the global market when it comes to regional integration, the Economic Commission for Latin America and the Caribbean (ECLAC), (2014)) explains that the main motivation behind the formation of ECLAC is to increase the competitiveness of the region in terms of production and foreign trade. The strategy put forward is that national markets have to be transcended to reap benefits from economies of scale. Economies of scale can be achieved if these individually noncompetitive markets coordinate their resources and complement each other. This, according to the study, can be achieved if firms can collaborate to realize a competitive manufacturing sector. The manufacturing sector will transform the overall regional market, and countries that used to be reliant on raw material exports now will be able to transact amongst themselves with diversified industrial goods. Not only that, their gain from foreign trade will be higher as the gain from industrial products in the global trade matrix is much higher than the gain from raw material export. So, regional integration, according to the study, if seen as a driver to the

transformation of the economies from raw material producing economy to manufacturing, will serve as both a means to increase intra-regional trade and as an end to boost the overall economic performance of the region.

#### **D) African Integration Efforts fail to engage Private Business**

Declercq (2019) successfully demonstrated that developed countries not only support export cartels, but from a wider perspective, they have also used private sector organizations to maximize their advantage globally, and they were using them at the cost of developing countries in Africa. But contrary to this, African countries fail to incorporate African-based private sectors in their integration agendas.

The African industrialization pattern suggests that African policies are designed to ease the landscape for foreign firms. This is another problematic pattern that exists in African economies which is the main reason for the nonexistence of the multiplier effect. Under normal economies, where local firms are active players in the economy, profits made will be reinvested to bring out new profits. However, in Africa, colonialists did not re-invest profit made from the African economy, rather they transferred the profit abroad for the development of their home economy. But still, the same thing is happening to global multinational corporations in Africa. Even now, the reason why they are promoting integrations and trade liberalizations seems to reap Africa once more (Ocheni and Nwankwo, 2012).

#### **2.3.2. Cooperation or Integration?**

For developing countries, a lack of competitiveness in global trade is an urgent challenge to address. In this regard, though integration is good for creating market access within the regions, it will have little contribution toward the increase in their competitiveness in the global market.

Therefore, a cooperative arrangement to increase their collective capacity in the global value chain is necessary.

### **2.3.2.1. The need for moving from Integration to Cooperation**

A study by the Economic Commission for Latin America and the Caribbean (ECLAC), (2014) indicated that the traditional arguments for integration still hold: increased production efficiency, economies of scale, larger markets, and greater scope for economic complementation and the provision of regional public goods. Integration also helps to achieve lessening of conflict situations, greater resilience to external shocks, and joint exploitation of opportunities in the global economy. It also helps to coordinate actions toward tackling climate change and administering shared natural resources, such as cross-bordering rivers, etc.

The study further suggested that the value chain in the global economy suggests that centrality is very important for the transformation of economies. The argument is that the global production networks are concentrated around specific regions due to the proximity of the regions for organizing factors of production which are fragmented among different countries. According to the study however, the case of North America, East Asia, and Europe reveals that proximity is a necessary but not sufficient condition for the development of modern production networks. For the realization of value chains, having an integrated legal framework is more important than proximity. Transformation in production requires coordinated planning and implementation, integration on production, and an adequate transport, logistics, energy, and telecommunications infrastructure. Without these important conditions, productive integration becomes an aspiration rather than a reality.

Langhammer (1977) even argues that the African aspiration for integration presupposes industrialization; however, a combined supplier position such as the formation of cartels for primary products is possible even without integration. Because the scheme that is required for integration is not necessary for cartels.

On the other hand, the Economic Commission for Latin America and the Caribbean (ECLAC), (2014) indicated that to get the most out of regional cooperation, it is important to ensure effective and collective actions are put in place. Otherwise, mere integration agreements wouldn't solve the competitiveness problems for the parties involved. Langhammer also did a comparative analysis between cooperation and integration in terms of transforming the economy in general. The analysis given regarding that gives good insight. According to the researcher, if properly managed, cooperation has the potential to transform the economy of developing countries better than integration.

Generally, according to Langhammer (1977), cooperation is better than integration in at least five areas: The first one, cooperation is easier to manage than integration. Because the net benefit from cooperation is much easier to calculate than integration. Integration is time-consuming and far-reaching, hence it's not easy to see its impact in the short run. Second, related to the first one, because cooperation is /can be limited in time and scope, the impacts are easy to perceive thus it creates less political frustration in member states than integration. The third one is the fact that cooperation is easy to enter and leave. Contrary to cooperation, integration requires restructuring of trade and production systems which will be difficult to recover if the arrangement fails. Fourth, cooperation can serve as a quick fix to overcome the colonial legacy of Anglophone and Francophone countries than integration. Colonialism has a big impact on African countries when

it comes to tax systems and trade relations with developing countries. Therefore, in the short run cooperation would work better than integration. Finally, International donors and financial institutions are willing to finance concrete arrangements in which they can easily evaluate the gains rather than a long-term integration based on some vague estimates of net integration benefits.

Economic Commission for Latin America and the Caribbean (ECLAC), (2014) reported that the benefit expected from participation in global value chains is directly related not only to the degree of participation but to the quality of participation. The logic here is, that a higher degree of participation will help the country to incorporate the best inputs available to perfect its competitiveness. Plus, it also can bring the best know-how available to further increase its production capacity. The other benefit of a high degree of participation is the spill-over effect. The possibility of incorporating the best inputs and know-how will result in passing on this knowledge and productivity to the other sectors of the economy. A low level of participation on the other hand will make the country to be a recipient of poor quality inputs and know-how. By ensuring a high degree of participation countries can get quality gains of inputs and know-how. But, developing countries don't have this luxury of high degree of participation as they are (i) fragmented to impact the global value chain, and (ii) they offer raw materials with very low price tags. To overcome this circle of disappointment, they must transcend their limited national market and coordinate their means to achieve a high degree of participation in the global value chain. For this, a cartel type of arrangement on production and export will play a meaningful role in breaking this trap.

African Policy influencers are also beginning to see the reality that a cooperative framework is necessary to tackle the collective global market challenge. For example, Cristina Duarte<sup>2</sup> stated that “Regional integration has become a necessary condition for Africa to optimize its growth potential and to be able to compete and play a leading role in the global marketplace. Individually, most of our countries are simply too small” (Duarte, 2015). The speech suggests that African integration agendas should focus on increasing Africa’s competitiveness in the global market, and this can be best achieved through coordination of inter-African trade, not intra-African trade.

Finally, Sebahizi(2016)<sup>3</sup> stated that the key objective protocol on trade in goods is to support the goal of the AU's Action Plan for Boosting Intra-Africa Trade (BIAT) of doubling intra-African trade from where it is at around 15% by 2022. However, Aro (2023) reported the speech delivered by Antonio Pedro, acting executive secretary of UNECA, on the success of the AfCFTA project on the sidelines of the 9th session of the Africa regional forum on sustainable development in Niamey, Niger Republic. According to the secretary, intra-African trade has been at 20% as of the end of the year 2022; which is quite off the target by AU.

### **2.3.3. Export Cartel as an Alternative to Integration**

Dollar and Kraay (2004) argue that trade should be liberalized as liberalization is good for trade and trade is good for development. The hypothesis assumes that development coming from trade liberalization would reduce poverty. However, this expression is quite vague and too hypothetical; because even if poverty is reduced because of trade liberalization, the source of wealth created and wealth distribution should be put into consideration.

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<sup>2</sup>Cristina Duarte has been Minister of Finance and Planning, Republic of Cape-Verde. Currently, she is serving as United Nations Secretary-General Special Adviser on Africa.

<sup>3</sup>Prudence Sebahizi is the Lead Technical Advisor on the CFTA

Hoekman&Mavroidis (2002) on the other hand, argue that opening up markets to foreign firms/products would not help to ensure growth and it even doesn't eliminate anticompetitive practices. However certain products may be produced by firms who have a natural monopoly. Some multinational companies have natural monopolies over some products – rights they get from patents, monopolies of inputs, etc. In fact, for a nation, they would argue, to implement a competition law there must be a clear merit for it. The merit according to them is the pay-off must be higher than other choices including cartels. Competition laws also need to be evaluated from their high technical requirements, which are in short supply in many developing countries.

When commenting on the impact of cartelization on developing countries, Afrika and Bachmann (2011) argue that cartels will have an overall negative impact on the formation of a competitive and prosperous economy. The reason given here is that, since developing countries are dependent on foreign direct investment to transform their economies, they need to demonstrate to prospective investors that their economy is open. But the argument has two major problems; first of all, it ignores the need for domestic firms in the development process and the need to protect them from multinational giants. The other problem is that it doesn't differentiate between national cartels and export cartel arrangements. National cartels are bad for citizens of a country; especially the poor. Without a competitive landscape, price fixation and quota will cause consumers to carry the cost. However, in the global market, firms from weak economies cannot survive unless they come up with export cartel arrangements. The argument given concerning the potential market distortion by export cartels also is not reasonable as they will not be able to affect the global market having their small size and capacity.

Agnosteva, Syropoulos&Yotov (2017) argue that the conventional understanding suggests that a reduction in trade cost (trade liberalization) increases international competition, abolishes cartelization, and increases efficiency. However, they stress that cartels thrived despite substantial liberalization and globalized trade relations.

According to the study, cartel discipline is endogenous; thus, under repeated play markets will be linked strategically. Due to this reason, when markets are liberalized cartel discipline will be stronger, and a further reduction in trade cost will enhance it. (ibid)

Many developing countries are shy to consider cartels as an alternative developmental strategy because there is a trend of criminalizing cartels. The study by Fellman and Shanahan (2020) argues that the post-war boom, particularly in the last two decades of the twentieth century witnessed the trend of criminalizing cartel conduct. In the 1980s revolution in communication and computing technologies, brought about the emergence of new products and services that are dominating the global market. Following this development, some new powerful oligopolistic and monopolistic structures also emerged.

The recent transformation in communication and computing technologies has provided a challenge to national and international policymakers, whose regulations are usually many decades behind the pace of the transformation. Some scholars even argue that the widening gap in income, the deterioration of consumers' welfare, and the relative decline of wages are mainly caused by the failure to safeguard the societal welfare of national and international competition and anti-trust policies. For example, Gotts (2019) argues that the current U.S. antitrust paradigm is the cause of broad societal issues, including income inequality, low wage growth, and sluggish corporate investment spending. On the other hand, Eeckhout (2020) argues that the impact of

market power on welfare is exaggerated without a shred of concrete evidence to support the claim. Most of the time, market power is caused by technological change; therefore, assuming that the source of market power is anti-trust activities without considering other more important factors such as technological change is an irrational conclusion.

Fellman and Shanahan (2020) argue that cartelization can be motivated by different factors. The main reason for cartels obviously is profit maximization, but there are also other reasons such as increasing market share, reducing uncertainty crisis management in supply or price, etc. are some common factors. Here, Africa also can use cartels to increase its competitiveness in the global market, increase efficiency in production and trade, reduce transportation costs, etc.

Historically, export cartels considered the rule for a successful industrialization process, but they've received little attention in historical cartel studies. The famous Webb-Pomerene Act of 1918 can be taken as a typical example of the argument that export cartels were used by many industrialized countries. The reason for the promotion of export cartels is that they have been seen as a 'necessity' for small countries in their early stage of industrialization. These small economies cannot negatively affect the price of global markets through distortion, but they can form a competitive front to make sure they are not crushed by giant competitors. Therefore, experts argue that export cartels should be promoted by small countries that are on the verge of industrialization as it helps them to transform their economies (Schröter, 2013; Jensen-Eriksen, 2013).

Cartels formed by US and European producers were based on ‘beggar-thy-neighbor’<sup>4</sup> policies, and these firms were benefiting at the expense of developing African countries. They used a quota system to protect their markets. In contrast, they worked against the interest of African countries as the agreements cut outputs which directly affected export earnings and employment for the African countries (Fellman and Shanahan, 2020).

Another study by Declercq, (2019) on international copper cartels showed that governments both in the US and Europe welcomed or tolerated cartels so long as they could provide security and social stability for domestic employment by regulating competition. This favorable policy treatment helped firms in the US and Europe to successfully tap into the international market by using the legally accepted export cartel. Later, the application of anti-trust laws on these cartels was implemented because the treatment made the firms push the boundaries and gradually transform into a production quota cartel. The work also makes it clear that while the governments in the US and UK benefited from cooperation with the cartel, governments and citizens in several African countries were disadvantaged.

Export cartels are usually legal and blessed by governments in their home country because first of all, they don’t affect the welfare of domestic consumers, which is the most important thing to determine whether firms are involved in antitrust activities. Second, export cartels help to increase gains from international trade. For instance, international air and maritime transportation often are arranged based on cartels. But, these cartels have been found to raise prices significantly especially for developing country shippers and consumers (Fink, Mattoo, and Neagu, 2002).

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<sup>4</sup>**Beggar-thy-neighbor** refers to economic and trade policies that a country enacts that end up adversely affecting its neighbors and/or trading partners. Protectionist barriers such as tariffs, quotas, and sanctions are all examples of policies that can hurt the economies of other countries

Export cartels are legal in many developed countries because of their efficiency-enhancing impact. However, this international cartelization is affecting developing countries negatively. Therefore, it's only fair to say that either developing countries should promote export cartels to increase their competitiveness in global trade, or there must be a global effort to eliminate export cartels for all. This could be pursued through a multilateral agreement involving a ban on exemptions for export cartels. So, to be effective in assisting developing countries, such a ban would need to be complemented by an agreement that OECD countries take action to enforce it (Messerlin, 1994).

Export cartels are not the only area in which developed nations promote to increase their comparative advantage. One of the well-known areas in which export and production subsidies are given by national governments is agriculture. Marketing boards, state trading, the exercise of monopsony power by multinational buyers, restrictive conditions imposed on access to—and the use of—seeds, and food safety and related labeling standards set by retailers are examples of practices and policies out there that are having a direct anticompetitive implication in Agricultural inputs and products (Hoekman and Mavroidis, 2002).

Historically, agricultural policies have been primarily devoted to improving the welfare of agricultural producers, because of political imperatives and social values. Agricultural producers are exempted from antitrust laws to increase their welfare. This freedom is assumed to have a trickle-down effect on the price of agricultural products in the national market. But while farmers often benefit from antitrust law exemptions, they are often strong advocates of using antitrust laws to take action against increasingly concentrated buyers and retailers. Because these multinational buyers and retailers, especially meatpackers use the price-fixing technique to reap

the benefit away. These buyers and retailers are usually concentrated in OECD states, which is a strong advocates of anti-trust laws globally and have cartel arrangements (OECD, 2004).

The World Trade Organization General Agreement on Tariffs and Trade (GAAT) proposed a special safeguard mechanism (SSM), particularly for lower-income food-deficit countries (LIFDCs). The argument is that Agricultural food producers in developed countries would manipulate the market using both import volume surges and price depression. Here, volume surges are where imports rise suddenly and sharply over and above a base level or trend. The other phenomenon is depressed import prices, mostly due to movements in world market prices, which undermine or threaten to undermine, an otherwise viable domestic production (FAO, 2004). The proposed special agricultural safeguard expands the options by which Member states may impose a new import restriction (Finger, 2009). The mechanism is planned to help developing countries to protect their local production and to ensure their self-sufficiency in Agricultural foods. This also is a green light to developing countries if they come up with protectionist policies such as organizing their local producers and traders in the form of cartels or so.

A study by the World Bank Group suggested that, in 1997, developing countries imported US\$81.1 billion worth of goods from industries where companies were involved in price-fixing arrangements in the 1990s (Levenstein and Suslow, 2001). The figure shows how significant the impact of international cartels is on developing countries. It is not easy to showcase the impact of international antitrust business practices on developing countries. The most common effect that will have is a direct impact on consumer welfare is a price increase which will result from price-fixing by these multinational cartels. Here experts suggest that governments of developing

countries have to use options to protect agricultural producers and final consumers of agricultural products (UNCTAD, 2008).

Avidit Acharya and Alexander Lee have done a bold study on the cartel system of states arguing that states used economic cartels to hinder their citizens from choosing the best service there is. Citizens cannot choose where to spend and where they get their services from because of the territorial state system. If there were a competitive service provision scheme for all governments around the world; particularly governments in the bordering democracies of two states, presumable, this competition would be good for citizens since governments would be compelled to provide more and better services at lower costs, or else be driven out of the market (Acharya and Lee, 2019).

Acharya and Lee (2019) further argue that contemporary states divide among themselves the right to tax the world just like Archer Daniels Midland and its Japanese and Korean competitors distributed among themselves the global market in lysine in the 1990s, or Osram, General Electric, Associated Electrical Industries, and Philips divided global market in lightbulbs in the 1920s. The global system of territorial division is rigorous in the sense that it doesn't allow the other party to interfere in one's border or to offer citizens living in bordering states better or affordable services. Any attempt will be considered a "border violation".

Afrika& Bachmann (2011) assessed anti-trust regulations in three BRICS emerging countries, namely: South Africa, Brazil, and India. Their report suggested that in those economies, unlike those developed countries, there is a strong prohibition of any cartel behaviors. In developed economies, there seems to be a clear separation between efficiency-enhancing cartels and those distorting the market to charge unfairly high prices. The OECD for example regards anti-trust

measures as a way of ensuring consumer welfare; the implication is that, if the collusion is welfare-enhancing, anti-trust measures are not required.

#### **2.3.4. Export Cartel as Efficiency-Enhancing Mechanism**

Cartels are usually understood as a collusion of producers to charge an unfairly high price and to block competition. For example, the European Union's Competition Commission defines cartels as "a group of similar, independent companies which join together to fix prices, to limit production or to share markets or customers between them ... As a consequence, their clients (consumers or other businesses) end up paying more for less quality". But, in reality, cartels can also serve as efficiency-enhancing and price-stabilizing arrangements. Positive cartels should be defined as a group of similar, independent companies that join together to increase efficiency, increase productivity, and coordinate transportation to remain relevant in the global market by enhancing their overall performance in productivity, quality, and delivery (Afrika & Bachmann, 2011).

According to Hoekman & Mavroidis (2002), there are two kinds of views concerning cartelization. The first one is the view that prohibits certain forms of agreements between firms unconditionally; whereas, the second one evaluates the cooperation formed to see whether it limits competition or increases efficiency. Because some agreements increase efficiency and improve the country's competitiveness in global trade. For instance, research joint ventures or agreements on the development/use of common standards can allow positive network externalities to be realized. Particularly in developing countries where R&D infrastructures are very rare, firms find it very difficult to develop and produce standard products; but by coordinating their limited resources they will be able to realize competitive products to strengthen their competitiveness in the international trade. This way, export cartelization can

help to enhance the welfare of consumers in developing countries by increasing gains from exports.

Dick (1989) also forwarded an alternative argument, particularly in favor of export cartels. He argues that export cartels enhance the efficiency gain from reducing firms' costs of selling in foreign markets. By approaching the global market with a centralized common export, firms can avoid costly duplication of services. Plus, if many of these sales functions involve fixed expenditures such as R&D and standardizations, coordinating among firms will help them to exploit economies of scale. Now, if this coordination happens in competitive markets, these lower costs will pass to the buyers in the form of lower prices. He concluded then, that if this argument holds, export cartels would increase the level of outputs and reduce the price of goods and services; which is a favorable thing for both the economy and the consumers.

According to a study by Agnosteva, Syropoulos, and Yotov (2017), international cartels may be welfare enhancers through trade. Their study showed a positive relationship between the presence of cartels and international trade, which indicates cartels may enhance consumer welfare through trade.

Khan (2003) has also done an interesting study on the impact of sports league expansion on economic efficiency. The study noted that monopolistic leagues are more efficient than competitive leagues in terms of producing efficient play and enhancing fun's utility (welfare). When leagues are expanded beyond a certain optimal size, quality players will be distributed and the chance for them to compete with each other to further sharpen their quality and the possibility of creating wonders by playing together will be reduced; plus fans will not have the

chance to see high-level sport which will result in consumer's dissatisfaction. This will result in a loss of total welfare.

Experts suggest two basic indicators to say anti-competitive behaviors are there in a certain market/economy. The first one is if there is a threat to the entry of new firms – if a group of organized firms restrict the way for entry of new firms to the sector that can serve as an indicator for the existence of anticompetitive practices. The second one is the existence of high prices (potentially much higher than marginal cost) which implies that consumers are suffering because of the anticompetitive behaviors of the firms (Hoekman&Mavroidis, 2002). Their argument is if cooperation made by the firms resulted in a price decrease, if there are no restrictions to the entry of new firms to the market; and most importantly, if consumers' welfare is maximized due to economies of scale and efficient utilization of resources, or because of any other gains from the cooperation, it should be encouraged.

Dick (1992) also further distinguished between efficiency-enhancing and monopoly-promoting export cartels. According to Dick, Efficiency-enhancing export cartels help to coordinate sales services, and promotion in foreign markets and reduce costs for the members. In this case, members will not have a dominant role in distorting the market. On the other hand, monopoly-promoting export cartels are cartels formed by and between large corporations to distort and enjoy monopoly power in foreign markets.

The study by Zhao(2011) is intended to showcase the negative impact of monopoly on employment using the efficiency-wage model. However, the conclusion suggests that the effect of monopoly on total welfare is found to be ambiguous. Numerical simulations of the model

indicate that under a certain range of parameter values, a monopoly generates a higher total surplus than perfect competition.

On the other side, the study by Bridgman (2009) considers cartels as the main contributor to the poor performance of many industries in many countries. The study argues that during the Great Depression, there was widespread legal cartelization in the US, and it prolonged the depression. In addition, the poor performance in many Japanese industries could be associated with legal cartels in the country. However, the research focuses on production cartels; whereby distortion in production and quality would occur due to relocation of production industries and inefficient management of sponsoring governments. The other feature of these studies is that they assessed national cartels only, where domestic producers collude to manipulate price and output levels. Traditionally, cartels are practiced domestically to influence the price level and output level of certain products.

### **2.3.5. Factors behind successful Export cartel**

Historically, the role of national governments in the meaningful and responsible export cartels toward industrial transformation has been paramount. Here, we can mention cartel happened in Finland's forestry sector where cartel members were reluctant to participate but pressured by government and external influences to create a national cartel. This helped the Finnish forestry sector become exceptionally competitive in the global market. For example, Kuisma (1993) argues that the reason for the economic miracle of Finland during the period of crisis and economic disintegration in Europe was the coordinated policies by the government which reinforced the cartelization of Finnish timber exporting firms. On the other hand, cartelization also can help to promote positive business values and efficiency rather than market distortion.

For instance, from 1915 – 1965 the Swedish advertisement industries formed a cartel based on the promotion of loyalty, freedom, fairness, and soundness (Rudberg, 2019).

The success of the cartel also depends on the negotiation process between the members to decide on collective gains versus individual gains. Karlsson, (2020) for example, suggested that the agreement made between the existing Swedish paper cartel and the European Economic Community (EEC) compromised the gain of the Swedish paper cartel because other EEC members, for example, the UK paper producers felt that they were having a weak economic position even though the collective gain was there. The EEC considered the Swedish producers to have an ‘unfair’ advantage because they possess an abundant forest resource. The Swedes on the other hand rejected the argument believing that, for one the premises were based on a misunderstanding of the Swedes, because the Swedes emphasized that the collaboration made their firms more competitive and efficient which would improve product development and productivity; and two, the hidden motive behind can be that EEC wanted access to Swedish raw materials, and paper (Fellman and Shanahan, 2020). But after the decision was passed to dismantle the Scandinavian paper cartel the Swedish paper cartel could continue in much the same way as before. The decision ended up in a compromise founded on a common skepticism towards North American producers. This historic cartel negotiation is a good example that members will reach a constructive agreement towards the establishment and continuation of cartels if the common threat they face is higher than the competition among themselves (Karlsson, 2020).

For the Economic Commission for Latin America and the Caribbean (ECLAC), (2014), the most important thing is for governments of the region to have a shared goal to promote the creation

and development of multinational production linkages. Once this is agreed upon, they can explore options for progressing gradually toward full regional cumulation of origin. For example, they can look into greater regional or sub-regional coordination of the trade facilitation actions being implemented by several governments (such as single windows for external trade) and gradual harmonization or mutual recognition of each country's technical, sanitary, and phytosanitary standards. This will lead to the possibility that inputs from any country in the region, incorporated into an end product to be exported by another country in the region to a third country also within the region, may be considered to be from the country exporting the end product. This would increase the range of regional suppliers to which export firms in the region have access, without losing the tariff preferences negotiated as part of integration agreements.

### **2.3.6. The Global Regulations Towards Export Cartel**

According to the AfCFTA agreement (2018), article 23, which discusses special economic arrangements, state parties can support establishing and operating special economic arrangements if they see any potential to reinforce their common developmental goals. Further, the AfCFTA agreement of article 3, which deals with the general objectives of the agreement briefly states that one of the objectives of the agreement is to “Enhance the competitiveness of the economies of State Parties within the continent and the global market”. Therefore, the promotion of cartel-type export arrangements among African states is not opposite to the agreement.

The paper by Afrika & Bachmann, (2011) argues that even the 1972 dictum of the US Supreme Court and the US Sherman Act stresses the importance of balancing the free market and consumer welfare. But the meanings can be understood as, a free market, including cooperation between firms, especially export cartels, should be monitored if they compromise social welfare.

EU Competition Law, (2013), which consists of the European Union rules applicable to antitrust enforcement suggests two major pillars to determine an agreement to be allowed; these are: if the collaboration is not distorting the internal market (i.e. not the external market), and if the collaboration/the agreement contributes to improving the production or distribution of goods or promoting technical or economic progress while allowing consumers a fair share of the resulting benefit, it is allowed. In this regard, Article 101, Sub-article (1) states:

*The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings, and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction, or distortion of competition within the internal market.*

Sub-article (3) further states:

*The provisions of paragraph 1 may, however, be declared inapplicable in the case of: — any agreement or category of agreements between undertakings, — any decision or category of decisions by associations of undertakings, — any concerted practice or category of concerted practices, which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit.<sup>5</sup>*

The takeaway from EU antitrust regulation is that cartels are legal as long as they don't negatively affect the local market or consumers in the EU common market zone, and if they are meant to contribute to and improve the production or distribution of goods or to promote technical or economic progress while allowing consumers a fair share of the resulting benefit.

According to the WTO, States are free to adopt any competition law they wish as long as they do not impose nondiscriminatory approaches against products of foreign origin. For instance, GATT (Art. 3) states that governments should not deny foreign products equal opportunities with

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<sup>5</sup><https://data.europa.eu/doi/10.2763/35312>

domestic products. Moreover, the WTO considers this the responsibility of governments only and not of private parties (Hoekman and Mavroidis, 2002).

Under the “effect” doctrine countries are allowed to take action against actions taking place in foreign countries that might have negative effects on their national interest. One of the examples here can be a cartel, particularly an export cartel. Export cartels can be considered as restrictions on exportations. If countries feel that a cartel practice in a certain country is affecting their national interest and/or consumer welfare, they can take legal measures against the cartel. The second issue of importance is the form cartel action takes. If competition is limited via quotas and there is a government measure supporting the cartel, the practice can be attacked in the WTO (ibid).

The OECD discussions on ‘hardcore’ cartels focused on three types of cartels, these are international cartels<sup>6</sup>, export cartels<sup>7</sup>, and import cartels. Out of these three, the need for cooperation is proposed for international cartels due to its complex nature. The OECD recommendation against hardcore cartels also excluded export cartels from the ‘hardcore’ cartels category which needs international cooperation. Moreover, The OECD Recommendation focuses on national enforcement and excludes export cartels: The hardcore cartel category does not include agreements, concerted practices, or arrangements that (i) are reasonably related to the lawful realization of cost-reducing or output-enhancing efficiencies, (ii) are excluded directly or indirectly from the coverage of a Member country’s laws, or (iii) are authorized by those laws” (OECD, 1998).

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<sup>6</sup> A collusion or an explicit agreement among firms from two or more countries on prices, market shares, allocation of customers, division of profits, etc. with the purpose of increasing the profits of individual members by reducing competition.

<sup>7</sup> Cartels which focus only on foreign markets, not affecting directly markets in the jurisdictions where cartel members are located.

Schultz, (1999) stresses that export cartels are legal in many countries which mostly have strict antitrust laws for other forms of cartelization. For instance, export cartels are legal in most European countries, Japan, and the United States. The reason for this, according to Schultz is that export cartels normally don't hurt domestic consumers, which is the main focus of most antitrust laws. There is also a legal reason for it; unless there is an anti-competitive effect, on the domestic market, the basic jurisdictional requirement for the application of a prohibitive law is lacking. The Sherman Antitrust Act of the United States of America prohibits the cooperation of American businesses with foreign businesses primarily if the collaboration injures the export business in the United States, (The Sherman Antitrust Act, 1890).

The South African antitrust law, like most antitrust laws, distinguishes anticompetitive collaborations from efficiency-enhancing collaborations. The law clearly states what practices are prohibited both horizontally and vertically. According to the Competition Commission Act of the Republic of South Africa, published in the Government Gazette, on 30th of October, (1998), restrictive horizontal practices are prohibited if it is between parties in a horizontal relationship and they have the effect of substantially preventing or lessening competition in a market, unless a party to the agreement, concerted practice. Or decision can prove that any technological, efficiency, or other pro-competitive, gain resulting from it outweighs that effect. Similarly restrictive vertical practices, it labeled them "prohibited" if they have the effect of substantially preventing or lessening competition in a market unless parties to the agreement can prove that any technological, efficiency, or other pro-competitive, gain resulting from that agreement outweighs that effect. The spirit of the law promotes efficiency and competitiveness, which suggests that if collaborations are planned to enhance the overall welfare of the country, it is welcomed.

A study by Farrell and Shapiro (1990) on horizontal mergers indicated mergers that generate synergy find out to be price-reducing. The policy recommendation they gave implies that, if cartels are formed to enhance efficiency by coordinating resources, expertise, and market knowledge/reach, it should be promoted. According to them, this type of cartel increases the overall welfare of the society. On the other hand, if cartels are formed to control output level only, they should be discouraged. Based on this finding, African economies only can afford to go for efficiency-enhancing cartels due to their weak individual performance in the global market. The reality of African industries does not let them play output-reducing games but they can generate synergies in terms of R&D, packaging, transportation, promotion, negotiation, etc.

### **2.3.7. Export Cartels as a Means of Survival for Economically Weak Countries**

Sing (2018) has done a good study on digital industrialization and the possibility of a “digital divide” between developed countries and developing countries. He compared digital industrialization with the Industrial Revolution in 18th-century Europe and argued that just like the Industrial Revolution placed machine power at the center of the economy, digitalization makes digital intelligence its new center point. So, unless proper measures are put in place to avoid gaps being created between poor and rich countries another round of marginalization will happen. The paper suggested, among other things, regulatory measures against monopolies and other anticompetitive behaviors, need to be implemented.

The seriousness of the global market in implementing the anti-trust laws is fragile. The developing countries will not be able to force multinational corporations from big economies to follow a fair business model even if they identify their action to be manipulative and distortive. Kunze (2009) presented a case study by examining the case of EC-banana to show the options available to developing countries to enforce the WTO obligations of developed countries. EC-

banana is about the European Union (EU) grant of preferential market access to bananas from certain African, Caribbean, and Pacific countries in a manner inconsistent with its World Trade Organization commitments. This preferential deal affected the Latin American banana market. To this end, Ecuador sued the European Union and after 15 years of court debate, Ecuador won the case. Here the argument by Kunze is that even developing countries can force developed countries to follow WTO obligations against unfair business collaborations. However, the same paper noted that the case took 15 years while the WTO law was on the side of Ecuador, not only that, the most powerful trading partner – the USA has been on the side of Ecuador.

European Commission report on EC-banana clearly shows that the USA's role in Ecuador's success was paramount. The following statement is taken from (EC Online):

*The import regime between the EU and some African countries was found to be illegal by the WTO in 1997. In April 1999, the WTO authorized the US to impose trade sanctions for an annual value of \$191 million. The US carried this out by setting 100% customs duties on an equivalent amount of trade. The US has now been applying these prohibitive duties to several products from EC Member States (excluding Netherlands and Denmark) since 3 March 1999.<sup>8</sup>*

The EU and the US investigation in the 1990s on several cartels such as Vitamins, Steel, and Animal feeds suggested that these cartels affected more than their national markets (ICPAC, 2000). Similarly, Levenstein, Oswald, and Suslow (2003) have done a study on sixteen goods whose supply was found to be internationally cartelized by European and/or American enterprises. According to them, in 1997 alone, developing countries imported US\$36.4 billion in goods from 10 industries that had a track record of price-fixing conspiracy. This figure represents 2.9 percent of their import and 0.7 percent of their GDP for developing countries. This

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<sup>8</sup>[DORIE-0391247-00.pdf](#).

suggests that developing countries are at the receiving end of anticompetitive acts by multinational corporations from the EU and the US.

Blumberg (2002) has done an eye-opening work on the impact of MNCs on global trade. His article argues that MNCs have very complex multi-tiered corporate structures consisting of a dominant parent corporation, sub-holding companies, and scores or hundreds of subservient subsidiaries scattered around the world. This complex structure usually is too complex for the existing anti-trust regulation laws in the USA or any other country. As of 1999, there were around 60,000 MNCs around the world with more than 500,000 subsidiaries. Because their headquarters and their countries of operation are different, their illegal activities are not easy to detect and control. Some MNCs go further to the extent that they would compete in their base countries and conspire elsewhere. These behaviors are making the developing countries, where their subsidiaries operate, pay the price of cartels with little or no capacity to hold them accountable.

Cartels of service-providing enterprises hurt developing countries. Typical examples of this are international air and maritime transportation cartels and ICT cartels. These international cartels are complex and usually supported by governments. In this regard, Tanburn and Singh, (2001) warned us about the potential damage ICT cartels can have on poorer countries. According to them, the existing trends towards economic polarization can be worsened through digital advantage and developments and growth can get concentrated where the info-structure is best developed. Consequently, coordinated efforts are essential to secure the economic benefits of these technologies for both the information “rich” and the information “poor”.

Regulation of anti-competitive agreements especially in the era of MNCs is very difficult, especially for developing countries. Afrika and Bachmann, (2011) argue that only increased cross-border cooperation through bilateral agreements between domestic competition authorities in the developed world can regulate anti-competitive cartel activities effectively.

The competition policy of AfCFTA stresses that competition policies are national in scope. But it also states that there might be anti-competitive behaviors with a cross-border nature due to the spread of value chains and the growth of MNCs. So, the goal of the competition policy is to strengthen Africa's capacity to deal with anti-competitive practices (AfCFTA Agreement, 2018)

As a strategy to defend Africa from the anticompetitive behaviors of MNCs, AfCFTA uses the principle of "Rules of Origin". Rules of origin have their parameters; first, only goods 'made in' member countries benefit from tariff preferences, and the originating status will be given if a product is fully obtained and sufficiently worked/processed (ibid). This is highly theoretical in the sense that, many MNCs operate in LDCs with separate identities but in actuality, they would expatriate their profit to countries where their mother companies are.

One of the AfCFTA core principles under Article 5 concerns the national treatment of goods imported from member states. The principle compels member states not to treat goods imported from other state parties no less favorably than goods that are produced within the country border. This means that governments may not discriminate against imported products in the domestic market just because they are not produced locally. This obligation however is a problematic approach considering the techniques that MNCs use to abuse local economies. Yes, the principle puts two criteria to determine the status of the goods imported and to consider them as goods originating from member states. These, as mentioned earlier, are they may be "wholly obtained",

meaning entirely produced in the territory of a State party, or “sufficiently worked or processed”, which means sufficient value has to be added to the product. But still, the organizational structures of MNCs are not easy to track their activities unless there is a collaboration from countries where their headquarters are.

The study by Hoekman and Mavroidis (2002) is clear about what the role of all anti-trust disciplines should be – that is promoting the interests of poor consumers in developing countries. In this regard, the objective of their study revolves around answering two questions. The first question concerns ‘what matters most from a competition point of view; and the second one is about the best options available for the realization of development. For the first question, they have argued that the existing WTO anti-trust disciplines are great. For the second part, they have argued that WTO anti-trust disciplines should be pursued to ensure private practices are not causing a rise in price in developing countries without imposing significant implementation costs on developing countries governments. Here the paper suggests that anti-trust disciplines are intended to maximize the welfare of developing countries.

The study further explored the impacts of ‘mega-mergers’ on market competitiveness. The study investigated anti-trust behaviors of multinational companies such as Microsoft, Boeing-McDonnell Douglas, General Electric, Honeywell, and WorldCom-Sprint. The study noted that competition policies are the most important factors for the creation of the European single market and wanted to explore if a similar approach would help the effectiveness of GATT/WTO (ibid)

When we discuss cooperation between developed and developing countries to enforce antitrust laws, certain points need to be considered. In practice developing countries are being affected by

antitrust practices and when we say ‘cooperation to enforce antitrust laws’ we are mainly talking about protecting the welfare of these developing countries. Now, the question is, how these developing countries will pay the cost to track down and punish these cartels based in OECD countries? The most feasible option for this is for developing countries to use the legal infrastructures in the OECD and sue the guilty parties in the OECD court systems. But this raises issues not only of standing but also of the criteria embodied in national legislation. Insofar as the OECD country’s welfare is not affected negatively (and by definition, it will not be in the case of export cartels), current legislation would not permit cases to be brought. As the national resource is going to be used for the benefit of another country, therefore, the consideration is very unrealistic (Hoekman and Mavroidis, 2002). The WTO remedies are impractical in this regard. If the OECD authorities refuse to collaborate and act on behalf of developing countries, the laws cannot be enforced. A developing country may threaten to restrict market access or take measures on tariffs, but this will hurt its own economy and no positive gain will be there.

After demonstrating that the WTO remedies do not have the power to stand to the economic rights of developing countries, Hoekman&Mavroidisconcluded that for a collaboration on the elimination of ‘hardcore’ cartels to be effective, there must be a meaningful bargain between OECD countries and developing countries. The negotiation has to have a clear understanding of who will give what, including developing countries. If OECD countries help with the implementation of WTO remedies against antitrust activities, developing countries also need to offer something meaningful in return. The paper would recommend trade liberalization commitment by developing countries in return for OECD countries’ commitment to enforcement of WTO remedies against exploitative cartels based in those countries. However, this

recommendation is only partial and ignores the problem liberalization would bring on infant industries in developing countries (ibid).

## **CHAPTER THREE**

### **Trends of Regional Integration in Africa**

This chapter is the chapter where the current conditions of the African Economic Cooperation Agreement are explored. In this chapter, the ideas that have not been explored by secondary data sources, and those that have been explored and need to be intensively explored, are analyzed using primary data sources.

#### **3. 1 Recent Developments in AfCFTA**

Based on our examination of secondary data sources, it is evident that the attempt to achieve economic and political integration in Africa was a lengthy process with numerous challenges. To substantiate this conclusion using primary information, comprehensive interviews were conducted with four experts and stakeholders who have a deeper understanding of the matter. Consequently, an effort was made to delve into the historical background of integration attempts within the continent.

According to key informant 1 from the UN Technology Bank for Least Developed Countries, the attempt to integrate Africa was the main agenda for the forefathers who were leading the independence of Africa. Once the African countries were freed from colonialism, it was important to set a direction to determine the future of the continent. Therefore, two options were brought to the table. The first was economic and political integration to be done immediately,

while the second option was a step-by-step approach toward full integration. It can be said that the origin of the sub-continental economic blocs is the result of the second option.

*Following independence from colonialism, there was an idea by the likes of Nkrumah to unite Africa under one political and economic system. When this idea failed, another idea came to continue working on sub-continental economic cooperation agreements, and eventually to realize unity through economic integration<sup>9</sup>*

That is how regional economic blocs began to emerge in different parts of the continent. Currently, the African Union has recognized eight of them. The so-called African Continental Free Trade Agreement (AfCFTA) results from this process.

As we have seen above, the African economic integration, although it has been in place since independence, has not progressed much. It can be said that other regions have done a better job in this regard. For example, when we compare it with Asia, Europe, and Latin America, Africa is lagging in this issue of trade integration. In this regard, the idea of AfCFTA is very important not only to bring Africa forward in terms of economic integration but the African continental free trade area is arguably the biggest and most important. It is the largest trade cooperation organization established after the World Trade Organization. Also, in terms of population, it is a trade area with about 1.3 billion people (JIBOKU, Peace, 2016; Mihalakas and Malkawi, 2024)

Formerly, the reason why immediate and total integration of Africa was not possible was because the political conditions did not allow for a unified continental economic cooperation back then. Therefore, they started gradually from sub-continental economic cooperation. Instead of thinking of a continental trade framework, the decision was to start with regional blocs such as ECOWAS, SADC, COMESA, East African Community, etc. Of course, the established sub-

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<sup>9</sup> P1. UN Technology Bank for Least Developed Countries

continental cooperation frameworks are ineffective. However, the key informants argue that for example, SADC is doing well. If we take the East African Community as well, it is a cooperation framework where a lot of trade cooperation is there. Both COMESA and ECOWAS are also doing well, though not as good as SADC. But the main thing here is, that this new African Continental Free Trade Area laid its foundation on the three sub-continental trade cooperation frameworks; namely, COMESA, SADC, and the East African Community. The agreement document is also copied from these three cooperation frameworks. For example, if we look at the Investment Protocol, and the Intellectual Property Rights Protocol, they are taken from SADC and the East African Community. This shows that the new African Continental Free Trade Area agreement is trying to build on the existing sub-continental trade blocs.

On the other hand, some associate African continental economic integration with efforts to uproot the legacy of colonialism from the African continent. The goal of colonialism was to make Africa a supplier of manpower and raw materials for European industries. They have been implementing this plan by force and when the continent gained its independence, this existing plan continued indirectly.

*Even if we look at the beginning of colonialism, it has to do with the Europeans seeing Africa as a place to stockpile raw materials and manpower. Europeans wanted to use African labor for their agricultural operations in the Americas and the Caribbean islands. At the time of the Industrial Revolution, Europe was looking for raw materials for industrial inputs, and they found Africa ideal for this. However, instead of taking raw materials from Africa in a relationship based on equality, they said "Why wouldn't we control them by force and achieve our own needs the way we want?" That's how they came up with the idea of colonialism. After a long struggle, colonialism seems to have left Africa, but in fact, it can be said that colonialism has not left Africa. This is why Africa has such a fragmented structure. Because during colonialism, Africa used to supply the West with gold, timber, salt, ivory, and other raw materials that were used for the industrial input of the West. But,*

*even after the end of colonialism, Africa continues to supply the same raw materials to the West.<sup>10</sup>*

How colonialism stayed till this day in Africa? Many argue that as soon as colonialism ended, African countries came together and formed the Organization of African Unity in 1963 to get rid of the colonial system. Thus, it was possible to realize political freedom. However, this movement almost ignored economic freedom. It was necessary to realize that the economy always precedes politics. It is absurd to say that any political actor serves the people without benefiting from the economy. Any honest person wouldn't interested in public service if there is no monetary benefit just like any other profession. And the people who can serve their community at a higher level will isolate themselves from politics. But with a vibrant economy, politics becomes more interesting. Those great fathers who founded the Organization of African Unity do not seem to have this in mind. Although they achieved high political success by founding the Organization of African Unity, the West followed the path of using economic power to keep Africa captive. Western strategy was largely focused on controlling the African trade system. This meant controlling not only Africa's trade with the rest of the world but also intra-African trade. Of course, other cultural and religious factors have also made Africa have a fragmented economic system. Now, with the establishment of AfCFTA, people believe that it's possible to break the vicious circle of economic dependency of Africa on its former colonizers. Regarding the importance of AfCFTA, one of my key informants states that:

*I now believe that the AfCFTA is an important step to bring Africa from this vicious circle. You see, Africa is one; it was disintegrated by a colonial conspiracy. Now this kind of economic movement will allow us*

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<sup>10</sup> P2. International Trade & Commerce Research, Nigeria

*to add value to our economic capacity and be able to be globally competitive<sup>11</sup>*

Though there is no significant evidence found in our secondary literature reviews, still our primary data findings have provided evidence that the former colonizers are against African integration. According to informant (2) from International Trade & Commerce Research, for example, the journey of AfCFTA, from the Lagos Treaty to the Abuja Accord, spans over two to three decades before its final signing in 2018. This prolonged timeline can be attributed to the continued interference of Westerners and Europeans in African economies. Unfortunately, many of our political leaders remain oblivious to this manipulation, inadvertently becoming puppets in the hands of external forces. Therefore, for some optimists, the AfCFTA is a movement aimed at changing the reality imposed on Africa by the colonial powers and which has made the African economic movement more fenced. When the AfCFTA agreement was signed in 2018, Africans envisioned eliminating their borders and making Africa the center of quality and prosperity by customizing an integrated trading system.

The other reason why some people are optimistic about AfCFTA is that it differs from other sub-continental economic integration agreements because there has not been an experience of economic integration at the continental level. Of course, as discussed earlier, there are many sub-continental economic integration agreements, and eight sub-continental economic agreements have been decided to continue as the founding blocks for the AfCFTA. However, these subcontinental agreements were sometimes in conflict with each other and were overshadowed by the individual interests of countries.

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<sup>11</sup>P2. International Trade & Commerce Research, Nigeria

Of course, these eight regional economic blocs are helping the implementation of AfCFTA. For example, AfCFTA has not yet been recognized by the World Trade Organization, and it is these sub-continental blocs that are used for its performance both up and down. But when it comes to performance, as discussed earlier, these sub-continental blocs themselves are at different levels. For example, if we take West Africa, it works better than Central Africa. When it comes to East Africa, the East African Community does more than COMESA. Maybe it's because they've had the experience of being dissolved and rebuilt once before, so that experience has given them strength. Thirdly, we can put Southern Africa. We cannot say the rest are even working. In addition to using the existing regional bloc's infrastructure to link with the likes of WTO, the most important thing here is that these sub-continental blocs are close to their governments, so they can convince their governments. AfCFTA was previously signed in principle as a move to integrate COMESA, the East African Community, and SADC. Little is known about what the outcome of this signing will bring yet, but it is also believed that the creation of the AfCFTA will help strengthen the interdependence of these sub-continental blocs. The direction and movements indicate the same. However, since the AfCFTA Secretariat itself was recently established, it is focusing on unfinished business. Even the issue of certificate of origin, which is one of the issues that should be completed in the first chapter, is not properly completed. In this regard, one can say that the AfCFTA is too far behind; and some people say that this will slow down the momentum. Of course, there is the political will to implement the AfCFTA. But since the countries did not think about it well at first when they tried to implement it, the absence of bureaucracy and institutions, became a stumbling block. A key informant from Pan African Chamber of Commerce and Industry argues that:

*I believe that the dissolution of these regional blocs is highly unlikely, considering the vast size of Africa as a continent. I don't see an AfCFTA headquarters in Accra to facilitate trade relations across Africa without the mechanism to integrate these sub-continental blocs. While the nature of their operations may evolve, their significance remains indisputable. These regional blocs play a crucial role in efficiently implementing tasks, mitigating conflicts between countries, and more. They may transform into regional offices for AfCFTA in the future, given their diverse range of responsibilities beyond trade, such as addressing climate change, promoting development, and fostering peace and security. Therefore, the continuity of these institutions seems inevitable.<sup>12</sup>*

We have analyzed African integration endeavors, both from a historical perspective and in light of current circumstances. Consequently, generally, we have observed that these efforts have been ongoing since the time of independence, with the recent signing of the AfCFTA agreement serving as a manifestation of the long-standing desire for collaboration among Africans. The subsequent matter that necessitates examination is the potential outcome of this difficult undertaking, which has already begun to yield positive results on a consensus level. In light of this, the first aspect to consider is the practicality of implementing this agreement and fostering economic connectivity across Africa. Additionally, the question, of whether this framework of economic cooperation ultimately achieves its ultimate objective, namely the political integration of the African continent, will remain crucial for the relevance of AfCFTA.

### **3.1.2 Major Challenges for the Implementation of AfCFTA**

The biggest issue with this agreement is how it will be implemented. Signing an agreement is easy, but implementation and integration with the national policies of each country is another matter. When we talk about implementation, the country's industrial policy, the country's investment policy, the country's trade policy, and the country's customs policy should all be connected with the agreement. If the institutions, laws, and policies of each country are not

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<sup>12</sup>P3. Pan African Chamber of Commerce and Industry (PACCI)

revised in line with the agreement, it means that the agreement will not work. Let us see a simple example to show how difficult it is. The protocol on trade in goods states that the tariff on trade in goods will be zero. Tariffs on limited items of up to 10 percent may remain for now, but tariffs on most traded goods will remain at zero. Now, about 18 countries in Africa collect a significant amount of their government revenue from trade taxes (Kassim, 2016; UNCTAD, 2003). It is like saying that if these countries were to reduce the income they get from trade tax to zero, government spending would be greatly affected. To compensate for this, the Secretariat of the African Continental Free Trade Area (AfCFTA) has received one billion dollars in support from the African Export-Import Bank. It is meant to supplement the budget gap that occurs when these countries begin to implement the zero-tax policy on trade. This means that approving the agreement is one thing, but implementing the agreement requires commitment, capacity, and sacrifice. For example, if you plan to develop indigenous industries and have an import substitution strategy, it means that it needs to be changed because it is not in line with this agreement. Here, one of the respondents will bring a practical example of how difficult the implementation process in Ethiopia will be.

*The Ministry of Industry of Ethiopia has import substitution industrialization as a major policy. This policy conflicts with the African Continental Free Trade Area. Import Substitution Industrialization means protecting indigenous industries from competition from foreign industries.<sup>13</sup>*

As we can see, the hardest challenge lies in the implementation. Implementation begins when countries begin to align the agreed laws, regulations, and policies with their national laws, regulations, and policies. This is the hardest test. For example, maybe because of the above reason, Ethiopia currently has a very slow implementation process. When they joined COMESA before, they just entered it for political input and did not conduct any negotiations. They also

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<sup>13</sup> P1. UN Technology Bank for Least Developed Countries

showed no motivation for implementation. Because their focus was on foreign trade partnerships like AGOA and the EU, not regional cooperation. But now, when they split the Ministry of Trade and Industry, which was together, they named the new Ministry, the Ministry of Trade and Regional Cooperation, which is very encouraging, but still integrating it with the national policies is not as easy as forming a ministry.

On the other hand, there is an argument that sees AfCFTA as its indirect benefit of modernizing Africa by minimizing the power of governments. When we look at making sacrifices, it certainly hasn't reached that level yet. It's still at the stage of sitting in the office and exchanging emails. It is yet to be seen how these problems will emerge as it has not yet reached the point where practical sacrifices will be made. In this regard, our respondents agree that it is not expected that all countries will be beneficiaries of such agreements. Rather, there are a few countries that have put themselves on the right track and can come out victorious. And it means that there will be few profitable countries. If you have seen this on the contrary, it is like saying that many countries may lose. If we look at the AfCFTA differently, it is not only a matter of economic benefit, but because it is an idea of integration, it also has the issue of nationalism and fraternity. Now, if we take the case of Afreximbank that we mentioned above, the money was donated not because it would be useful, but to stand together. In any case, some people argue that AfCFTA might play an important role in transforming the unhealthy trade policies of some African countries. For instance, the respondent from PACCI would argue that those countries that are generating their major income from trade tax are definitely on the wrong path.

*Those countries that you said get their main source of income from trade taxes should understand that their policy direction is problematic. The tax revenue mainly benefits government programs, not the consumers. And indeed, if they liberalize their trade policies, it may also provide an opportunity to adjust government policies. It can bring us from strong governments to a strong*

*private sector, and even to the benefit of consumers. It can move them away from buying tanks and fighter jets and focus on certain critical issues.*<sup>14</sup>

Essentially, the above argument is the neoliberal approach. However, it should be seen as an advantage in transforming their economy as it forces them to diversify even those who produce the same product. For all this to succeed, not only the business community but the entire community must be made to believe in the idea. Because, AfCFTA is not just for the business community. For example, a doctor who could not work here in Ethiopia can go to Malawi and get a job just like in his country. However, some countries may benefit better; but also because it is an agreement with the spirit of brotherhood, it means that these countries should support the non-beneficiary countries. So the foundation of success is brotherhood. Therefore, strong leaders must come to lead this and make it fruitful. Otherwise, it is difficult to imagine that the desired result will come.

### **3.1.3 The Role of AfCFTA for African Political Integration**

In this regard, the secondary data reviewed indicated the potential of AfCFTA in realizing political integration in Africa by promoting the free movement of people and through the realization of economic union. However, most of the respondents consider the example of the European Union. Europeans followed this approach and tried to bring about political integration. First, they tried to bring about economic unity by strengthening economic ties and then continued by establishing the European Parliament. This is an attempt to bring about political integration. And now, as it is known, it is Von der Leyen who leads missions on behalf of Europe. But one can see how hard it is for them to realize it as presented by one of the key informants.

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<sup>14</sup> P3. Pan African Chamber of Commerce and Industry (PACCI)

*This dream of realizing the political integration of Europe through economic integration was already a dream of the like of Charles de Gaulle, and they were trying to achieve it. However, if we look at what happened recently, we will remember that Great Britain left.<sup>15</sup>*

One of the reasons for this was that the people wanted their political freedom. They could not accept that their fate was decided in Brussels. So, if we look at it from this point of view, we are still early to think about political integration in Africa; and no practical reason is there to believe that it will be easy for Africa. We can further elaborate it by raising the case of the East African Community; which is one of the strongest regional blocs. If we take their trade relations, it is the largest of all sub-continental trade relations in Africa. Although Kenya takes the lion's share. But recently, about nine years ago, a strange thing happened and their business relationship came to a halt. This happened because Museveni and Kagame had a clash. This shows that the political situation in Africa is still too far to think about political integration. It clearly shows that it depends on individual politicians and is manipulated by them. It also shows that no institutional system has been developed.

Generally, we can say that there is still a long way to go for the African regional trade cooperation, which is not driven by institutions but by the personal motivation of politicians. And will the African Continental Free Trade Area lead to political cooperation? The answer is that it at least will take a long time. In this regard, one of the protocols that have been agreed upon is the agreement on the right of free movement of people. This agreement allows any citizen (African) who is part of the African Continental Free Trade Area to travel from one African country to another African country without any visa and get a job. It is the same as in Europe. As it is known, in Europe, any citizen of one country in Europe has the right to leave and

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<sup>15</sup>P1. UN Technology Bank for Least Developed Countries

enter another European country. And even this protocol has only been signed by four countries; so, it's to say that this in itself takes a lot of time.

*It is the desired result. By the way, some subcontinental blocs have customs integration already. So the plan is to bring customs union, monetary union, etc. at the level of the continent. Then finally, it is hoped to bring about political unity".<sup>16</sup>*

### **3.1.4 The Challenge of ensuring a workable Rule of Origin**

The AfCFTA agreement is known as an agreement that allows African countries to have ties with each other without restrictions on the movement of goods, services, and people. In connection with this, the problem that arises widely is that countries that have a long-standing desire to exploit Africa as well as multinational corporations from these countries can take advantage of this loophole and engage in the exploitation of Africa. In other words, the fact that trade relations between countries that are part of the AfCFTA agreement should be done without any quota or tariff restrictions, there is a fear that these multinational corporations may make African countries dumping grounds for their products by establishing their base in one or few African countries. There is a fear that African infant industries will fail to compete and will get out of the market, causing Africa to get into a re-colonization trap by itself. The solution to this threat is the so-called "Rule of Origin". Now the question is, will this instrument help us to effectively implement the AfCFTA by addressing these concerns?

In this regard, the AfCFTA is having a real test addressing this; informants also have their fears. As one can see from the AfCFTA process, this has been one of the basic issues that have been raised. Transshipment – the situation whereby large international manufacturers establish a base in an African country, unload their products there and sell them across to other African countries,

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<sup>16</sup> P3. Pan African Chamber of Commerce and Industry (PACCI)

or they do some assembly works in an African country and then sell them using the current free trade agreement could be a problem. This concern was raised as a big question when the agreement was about to be signed. As it is known, Rules of Origin is a way to track and identify where a product has value added. In this regard, a key informant from the UN Technology Bank argues that most of the issues are handled already, and what is left is the textile industry.

*As of now, they have solved 89 percent of the Rules of Origin issues; the only thing left is the textile industry. You can understand Rules of Origin like this: For example, if the jacket you are wearing is produced in Ethiopia, you can take it to any African country, such as Kenya, and sell it tax-free. But Rules of Origin will be investigated; then, if the jacket is manufactured by a Chinese company in Ethiopia, you cannot sell it to Kenya without duty.<sup>17</sup>*

The Rules of Origin Agreement states that, depending on the product, if at least 40-60 percent of the value added is not in Africa, it cannot be sold under the AfCFTA agreement. Now the issue of textile and apparel has been bothering them so far. In the Rules of Origin, there is something called a single transformation and a double transformation. For example, in the textile sector, if a jacket manufacturer is in Ethiopia and the agreement allows a single transformation, it means that if it brings the raw material from the country it wants and produces the product in Ethiopia, it can sell it to any African country in the AfCFTA agreement without tax. However, if it is a double transformation, it will have to buy not only the jacket, but also the input from Ethiopia, or from another African country that is part of the AfCFTA agreement. Of course, there is also a triple transformation. If it is a triple transformation, not only the cloth, but all the cotton should grow there. But they don't focus much on the Triple Transformation in Africa. The issue of single transformation and double transformation has been very controversial already. Because, countries such as South Africa, Morocco, and Mauritius already have textile production

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<sup>17</sup>P1. UN Technology Bank for Least Developed Countries

machinery, they do not have resource problems; hence they support double transformation. On the contrary, the countries whose apparel industry is weak argue that we should let them bring apparel from anywhere as long as they produce the clothes here. Thus, they support single transformations. This alone has taken two years and is still an unfinished matter. Therefore, some argue that the Rules of Origin Law is being enacted to prevent any company from outside Africa or an African-based company from abusing this free trade agreement. Therefore, for instance, a Chinese company cannot come here to the Ethiopian Industrial Park, bring the cloth from China, and sell it using the AfCFTA tax privileges with only a small value addition. Another advantage raised of the Rules of Origin is that it forces/encourages African countries to add value. It is not about bringing in foreign investors and selling finished products, but about adding value to your country or region. In addition, if the product is value added in two or three African countries, there is a procedure to sum up the values.

The biggest problem with Rules of Origin however is that it is difficult to implement. This is a problem not only in Africa but also in many regions. This is because traceability is a huge headache. It is not easy for controllers to identify where the value is added. Even for private companies, providing proof of value addition to each transaction is a big challenge. And sometimes the Rules of Origin system (taking advantage of the tax-free opportunity) becomes a headache for them, so there is a situation where they simply pay tax and sell.

*Yes, this is a real concern. I think that's why they keep saying that we have about 20 percent left. It seems to me that it's these kinds of loopholes that make it difficult to completely close the deal and get into full implementation. As you said, this is an issue that needs to be resolved. I believe that it is needed because it is necessary.<sup>18</sup>*

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<sup>18</sup> P3. Pan African Chamber of Commerce and Industry (PACCI)

Some even argue that controlling the invasion of multinationals is impossible. They suggest selectively closing certain sectors and economic activities while leaving others open. Their reasoning is based on Africa's status as the epitome of poverty globally. It is questioned how Africa can afford to close its doors when it has not reaped any benefits from such policies in the past. According to an economist from one of the opposition parties in Ethiopia, a different approach should be considered.

*Is it really important to protect infant industries? Yes. But we need to be selective to protect strategic industries, like fertilizer, energy, armaments, etc....More importantly, rather than infant industries, Africa should ensure food security as an issue of sovereignty by protecting and supporting farmers.<sup>19</sup>*

### **3.1.5 African Continental Free Trade Area: Is it a Viable Option for Africa?**

How important is the AfCFTA agreement signed to strengthen intra-African trade to Africa and Africans? From this point of view, some say that AfCFTA takes more than what it gives, considering the multi-faceted costs of signing and implementing the AfCFTA, the benefits that countries will lose in terms of taxes and related issues, and the disadvantages associated with opening borders. In addition, the cost of infrastructure construction required to connect Africa is very high; also, some raise the idea that since African countries are mostly producers of similar raw materials, it does not make economic sense to trade with each other, so another framework should be followed. Of course, others would argue otherwise. Our secondary data review also suggested that there are strong arguments both for and against AfCFTA.

#### **A) Incentives for African Countries to implement AfCFTA**

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<sup>19</sup> P4. Politician, and Economist, EZEMA Party

It is assumed and hoped that when countries enter into this agreement, they have calculated their interests and entered into it. Because it is less likely to work if it is politically motivated. Respondents argue the importance comes from two, or three directions. The first one is reliability. If African countries reach an agreement among themselves, they will have a mechanism that they can negotiate and manage. Second, there is a potential for African industries to work together in terms of value chain. Third, because Western markets are too tough to penetrate, African producers will have a market for their relatively low-quality products. Specifically with having uninterrupted market access, a key informant from the UN technology bank for least developed countries will argue:

*For example, if we put ourselves in the place of those who are sitting in the position of Minister of Trade or Prime Minister in Ethiopia, the recent incident regarding AGOA is a great lesson. The American government suspended AGOA in one day because they did not agree with the political decisions made by the Ethiopian government. This shows you that initiatives like AGOA can stop at any time. So, if I were them, I wouldn't rely on such unconvincing possibilities. Rather, I would go for other possibilities that I can protect my rights while negotiating and that I can be given legal proof.<sup>20</sup>*

Let's add another example here; five years ago, the Rwandan government said that we should limit the importation of second-hand clothes because they were harming our country's textile industry. But immediately the US government protested. Because the US government earns four billion dollars in revenue from second-hand clothes every year (John, 2018). They did not stop there and immediately took Rwanda out of AGOA. This tells that, although commercial opportunities like AGOA are useful for exporting to countries like America, they are not in Africans' hands but depend on the kindness of other parties. So when we think about the future, it

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<sup>20</sup> P1. UN Technology Bank for Least Developed Countries

tells them to think about an alternative market opportunity where they can raise their voice and even if they make a mistake, they can negotiate. This is one aspect.

Another has to do with the fact that African countries have little trade among themselves. For example, if we take Europe, their mutual trade is about seventy percent. If we take ASEAN and the mutual trade between Asian countries, it is about fifty-eight percent. Even Latin America is bigger than Africa. About twenty-eight percent. But in Africa, it is not much more than sixteen percent. If this continues to grow, it can be seen as an opportunity for African countries to expand their market options. Another issue related to this is the issue of standards. As mentioned, the production standard of European countries is very high. As an African, if one wants to use African resources to produce an industrial product and export it to Europe, it cannot easily meet their standards. Therefore, to break into the European and American markets, one needs modern machines, manpower, and state-of-the-art laboratory capacity. However, the African market requirements are not that high. For example, foods, medicines, etc. produced in Ethiopia cannot be sold in Europe, but they can be sold in Africa. And as Africa's purchasing power grows, so will market opportunities. If we look at some of the future predictions, we will realize that there is great potential.

The third advantage is the regional value chain, which has been observed in other regions and plays an important role in moving towards industrialization by mobilizing capacity. For example, if Ethiopia produces one input, Kenya produces the other part, and Egypt produces the remaining part; then, if South Africa exports it to the international market, it means that everyone will benefit from it. Here, a key informant from the UN Technology Bank for Least Developed Countries substantiates the argument using the example by ASEAN.

*For example, what do you think ASEAN, the trade association of Asian countries does? Let's say if they wanted to manufacture a product like the iPhone, they would have different parts of the product manufactured in different member countries before finally assembling the final product in China. Then these countries send it to China; it means that China will immediately send it to the international market. Therefore, it means that African countries can also use it in the same way.<sup>21</sup>*

But this does not come easily but requires determination to implement. Policy alignment is required, customs reform is required, technological capacity is required, etc. Bringing up trade between the Congo and Zambia here helps to highlight the importance of implementation. It is said that the car queue reaches up to 100 kilometers as there is a high level of corruption and malpractice in this area. And to pass the checkpoints one should wait for weeks and even for months. As a result, a city was created near the checkpoint. Because the drivers stay so often that they would have a second wife in that town. When we see this kind of corrupt business activity, one can say that it is better to trade with Europe and America; but if there is determination in implementation and if it is done properly, it will have many potentials. Regarding trade with each other, for example, Rwanda imports military shoes from Korea, spending millions of dollars every year. Angola also imports its shoes and uniforms from Korea and China. But Ethiopia can produce this. From this point of view, we can say that if the legal framework and logistics issue works, there are possibilities already.

## **B) Huge Cost Of Infrastructure for the realization of AfCFTA**

As we have seen in the previous sub-topic infrastructure has been one of the biggest obstacles to the growth of trade in Africa. Lack of railway network, lack of road transport network, etc. are

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<sup>21</sup> P1. UN Technology Bank for Least Developed Countries

practical headaches for the implementation of AfCFTA. This is because African countries have been producers and exporters of raw materials since colonial times, and their infrastructure networks were not built to connect Africa but to transport the raw materials to the colonial countries. As an example of this, many African countries have road networks extending from capital cities to ports. In addition to physical infrastructure, air transportation is also not connected. For example, if one wanted to fly from Mali to neighboring Benin until recently he had to first go to Paris, France, then transit through Paris and return to Benin again. From this point of view, not only is there a huge lack of infrastructure financing, but it is also a big problem that the existing infrastructure network is designed to serve the colonial masters. In light of this, we have to ask, why did SADC's trade relations fare relatively well? One reason is related to well-connected infrastructure. Especially because they have a rail corridor. The corridor linked South Africa with Mozambique, South Africa with Lesotho, South Africa with Namibia, and South Africa with Botswana since colonial times. But other areas, they have a huge gap of especially the so-called 'hard infrastructure' such as roads and railways.

According to the African Development Bank report, there is a 100 billion infrastructure gap every year. The Economic Commission for Africa puts it at \$150 billion. This shows how far Africa is lagging in terms of infrastructure connectivity. In this case, until this is resolved, one can forget about the African Continental Free Trade Area. This is one of the criticisms of people who criticize this agreement: Instead of solving the infrastructural and related problems, they rush to produce laws and sign agreements. On the other hand, some regions were successful because they were able to solve these problems already. One of the key informants states that:

*For example, in Asia, countries like Cambodia, Laos, etc. What they did first was to build roads, build bridges, etc. before they moved to signing*

*treaties. Then, when the relationship was growing and the closeness was developing, they brought the idea of increasing the regional cooperation agreement.*<sup>22</sup>

Not only this, the issue of trade facilitation is also a big headache. Even business insurance itself is a big question. To think of a smooth business flow, there are many commitments to implement; there is trade finance, and there is trade insurance, all of these are not created to facilitate trade between African countries, so all these need hard work. However, considering the infrastructural problems of doing business between African countries, the limitations of technology, the corruption, and the communication problems associated with language, etc., make it not convenient.

A key informant from the UN Technology Bank for Least Developed Countries who also previously worked for UNCTAD shared his experience leading a study on the Ethio-Djibouti railway line. The research was conducted in the Galafi corridor on the Djibouti-Ethiopia border. In 2015, his team traveled the entire route as merchants. Upon arrival, they encountered a three-kilometer line in both directions due to a damaged computer, which was caused by a malfunctioning generator. They had to wait for a repairman to fix it. Another surprising discovery was the presence of only one closed toilet in that busy area, with the key held by the area manager. This lack of basic facilities, along with the inability to afford a \$20,000 generator after spending \$4 billion on building a railroad, highlights significant challenges for the successful implementation of the AfCFTA. The situation is even worse in West Africa and the Sahel Region, where many roads become unusable after rain, making trade discussions seem unrealistic with such inadequate infrastructure.

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<sup>22</sup> P1. UN Technology Bank for Least Developed Countries

However, others believe these infrastructure problems are possible to solve. According to them, AfCFTA can solve these problems. They would argue, that AfCFTA has a unique role to play in tailoring solutions to the infrastructure crisis. Even now, fundraising has begun. The main source of funding is involving the African diaspora. This is the strategy used by India and China to realize their growth. Of course, they agree that this task requires strict honesty and integrity. Because if we raise the fund and squander it without accountability, it will be wasted. Therefore, it is clear that AfCFTA has a great responsibility in terms of institutionalizing this activity and implementing an accountable system. They suggest it is not even an option for Africa to solve the infrastructure problem, but a must thing to do.

*We need to be connected by land transport, by rail transport, and by air transport. But as a starting point, there is a need to make African free airspace a reality. As far as I know, I don't think it has been approved in every country. However, I think that at least this agreement on freeing the airspace should be implemented as soon as possible since the funds required to implement it are small. As it has been said, in a situation where the infrastructure connection is not realized, the price of goods and services will be high, which means that the trade between Africans will not be preferred.<sup>23</sup>*

To overcome this infrastructure problem, the work of collecting resources should be done. And the plan is to get the resources mainly from the African diaspora. Maybe through the mechanism of Public Private Partnership. The African Development Bank is doing a very good job in this regard. AfCFTA can therefore work in partnership with the African Development Bank or other partners. Otherwise, it can form its special wing; meaning it can create a wing that finances infrastructure development efforts. Regarding its application, for example, let's say there is a need to build a railway line from Ethiopia to Nigeria. First, the countries connected by the

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<sup>23</sup> P2. International Trade & Commerce Research, Nigeria

railway line will be made to link their national railway construction plans with the AfCFTA plan. Accordingly, the cost will also be distributed to the countries to be connected by the railway line. It is necessary to ensure that the countries benefit from participating in this cooperation and punish them when they do not fulfill their responsibilities. To reduce the loss of the investment, the institution created to support the infrastructure of Africa will work on it. Other partners, such as the African Development Bank and the African Export-Import Bank, will no doubt be interested in supporting the development. Therefore, the question is not where and how the funds will be obtained, but how the collected funds will be managed in a way that ensures accountability. Africa's biggest killer is corruption. If it can resolve it and reform some systems, infrastructure problems can be solved.

*It's possible to embark on a Joint infrastructure development plan especially to create uninterrupted access to import and export. Joint development of cross-country railway and highway development.<sup>24</sup>*

**C) African countries are producers of homogenous primary products, why would they trade amongst themselves?**

The other is related to the type of products that African countries produce, that is, African countries mostly produce and export raw materials, so why do their neighbors buy from them? In this regard, there is an interesting fact. We said that the trade between African countries is only 16 percent. Of this, about 46 percent is manufactured products. When they trade with foreign countries, they send 90 percent of the raw materials. In this regard, the respondent from the UN Technology Bank for Least Developed Countries argues that AfCFTA will create market for African manufactured products that might not be able to sell in the European or US markets.

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<sup>24</sup> P4. Politician, and Economist, EZEMA Party

*If Ethiopia produces beer and exports it to another African country, it is easy to sell it. However, the bottle has detailed specifications and standards for shipping to Europe and America. Even the labeling on the bottle itself has its standards. When it comes to the chemicals that go into the beer, if even one ingredient is 0.0001 out of the standard they set, they will not accept it. Plus, the fact that Africans themselves want to buy manufactured products from other African countries and the fact that the issue of standardization in Africa is easier for sellers will help the African economy to come to industrialization. In addition, if you hear what the AfCFTA secretary is saying, they would say, 'This agreement is not just a trade agreement; it is an agreement that will help Africa industrialize.' The chairperson says that if African countries start trading with each other, they will not be able to trade raw materials, but manufactured products.<sup>25</sup>*

On the point that Africans produce and export mostly the same raw materials, so how to solve it, in the long term, one of the activities that AfCFTA plans to do is to add value to African products. Of course, it does not mean that AfCFTA does not support raw materials to move freely; but the main focus is to encourage African businesses to make value addition their primary focus. In this regard, doing business in Africa needs to be made easier. Repetitive taxation, complex bureaucracies at executive institutions, and complex procedures for obtaining certificates and other services are factors that deter businesses. It is known that many African investors set up their factories in countries outside Africa. Why, it means that these countries have found a legal and bureaucratic framework that is convenient for them. It is necessary to be able to create that in Africa. Another potential backbone of African economies is small and micro-enterprises. The main problem of these institutions is the lack of finance. So Africa needs a financial system to support these institutions.

The argument is that, by availing finance and information for African businesses AfCFTA might ensure value-chain among African producers. For example, if Ethiopia produces raw coffee, grading and roasting can be done in Kenya; the design and packaging can also be done in

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<sup>25</sup> P1. UN Technology Bank for Least Developed Countries

Djibouti. In this way, value addition and economic integration can be achieved side by side. Therefore, it is necessary to tailor solutions by making policy reforms that can achieve these.

### **3.1.6. Promotion of Collective Export among African countries to boost Africa's Competitiveness in Global Trade**

AfCFTA, as discussed above, will have a constructive role to contribute by strengthening cooperation among Africans, creating market opportunities for African industries, creating value chain linkages, etc. However, Africa's infrastructural budget gap, the fact that it is difficult to control the influence of foreign multinational corporations, and the fact that African countries produce and provide homogenous products make the success of Africa's mutual trade less realistic. As an alternative solution to this, there is an option of coordinating African exports and offering similar products to the world market to increase Africa's competitiveness in international trade. This will increase Africa's competitiveness, Africans will have better bargaining power when selling or buying than they have when they do separately. In addition, it is thought that it will make them competitive in research and development through collective funding, increase their capacity in quality of production and packaging, and in searching the market for their products. In this regard, secondary sources of information were found to be supportive of what is commonly known as an export cartel which is seen as a viable option for increasing export competitiveness. Even our primary sources seem to agree that the implementation of a common front on export would be beneficial.

As we have discussed it earlier, there is a concept commonly called the Regional Value Chain. The idea is that, instead of having difficult competition by trying to break into the international market individually, if all of them contribute their relative capabilities and work on value addition, they can all be competitive in the international market. As discussed earlier, if we take

the member countries of the ASEAN agreement, they are known for this. To produce a computer, Malaysia produces one part, Thailand produces the other part, and the Philippines produces the other part. Then these countries export what they produce to China. China then assembles this computer and sends it to the global market. African countries can also use it in the same way. But, even with raw materials we can think of some sort of cooperative framework. For example: the four African countries commonly called the Cotton Four (Benin, Burkina Faso, Chad, and Mali) whose main export product is cotton; means that it is like coffee for Ethiopia. But they also lack the capital to process their cotton. Everything they produce is sold to China and India. But in Africa, South Africa, Egypt, Morocco, and Mauritius have strong apparel industries. So they can sell them to these countries right here in Africa. Unless the problem of transportation is an obstacle, when Africa ends up sending cotton to India and China, there is no reason to import the cloth from India and China again. However, the collective export option will even take it further and will help Africa to collect its raw materials and export it in bulk to increase its bargaining power. But scale is very important here.

*If the consortium demonstrates value and addresses the issue of scale, it would be beneficial to include this alternative. The coalition of oil-exporting countries, such as OPEC, serves as a prime example. However, what sets OPEC apart is the significance of its product. Given that oil is a commodity capable of influencing the global economic balance, it enables them to collectively determine the supply and demand process. Of course, it's difficult to think the same about Africa, however, the concept remains feasible as an idea but needs further study.<sup>26</sup>*

Some respondents also see this initiative to be very helpful in terms of negotiating common interests. They also would suggest that it even should be replicated in other areas and Africa should create a common front in all areas.

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<sup>26</sup> P1. UN Technology Bank for Least Developed Countries

*I certainly agree with you. You see, for example, if Malawi tries to negotiate with China independently, it will not be able to achieve what it wants because it will not have that strong bargaining power. Instead, she is more likely to surrender her advantage. I agree that if we approach negotiations as a continent, we will have better influence as you said. Not only this, we also need a system called the "African Group" in the World Trade Organization to achieve our continental needs together. I think it is possible to negotiate it with AfCFTA since there is an evaluation process that is done every 5 years.<sup>27</sup>*

Only when we do that do we start to look interesting. When we do that, we begin to attract knowledge transfer. When we do that, we can accumulate resources. When we do that, our voices can be heard on a global scale. We need a central organization for all our African affairs; we also need a common front to protect Africa's interests at the international level. But they would advise that we have to be very careful when we do this. Because Africa is a continent with many challenges both internally and externally, so if we try to do everything like this openly, we may not succeed. Therefore, by standing in support of the AfCFTA approach we can introduce the collective export mechanism as well.

Though our respondents agree on the potential benefits of the idea, they also would agree that it would be very useful if it could be demonstrated that it can create an impact in terms of scale. If we come together, we can make an impact on the global scene. For example, if they want to increase the price, if they have the capacity, the international market will be forced to increase the price unwillingly. But now because we are so small, if we try to raise the price and we say, "If it's not at this price, I won't sell," they'll say, "Leave it," and they'll go and buy from Brazil. It is the scale that has helped China dominate the world market. According to some, even as an exporting company, it is difficult to benefit from exports if your scale is not large enough. Here,

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<sup>27</sup> P2. International Trade & Commerce Research, Nigeria

a respondent from UN Technology Bank for Least Developed Countries brought an interesting story:

*You just reminded me of a story, a long time ago, we went to a very good shoe manufacturing company here in Ethiopia, and the company produces very good shoes. Here he sells his products in countries like Djibouti, Somalia, and Kenya. Talking about the European and American markets, he said, I once sent 80 pairs of shoes to an American store as a sample. And that store posted a \$28 price tag in one of its branches where many African-Americans are living. He said it didn't last two days, because the shoe was made of fine leather. Normally, they sell shoes of this quality for \$200 to \$300. And the owner of the store, who saw this, ordered him to supply them with 16,000 pairs of shoes per month, saying that he would need a lot of them. It is not a problem for these stores, because they have two or three thousand shops. But it is difficult for the exporters. So, I tell you, when you export, scale is critical.<sup>28</sup>*

Another challenge to implementing this initiative is the leadership problem in Africa. Although there are many countries, most of them are weak, so it is not difficult to break them. For example, in West Africa recently, some countries have taken steps to get rid of French influence, but on the contrary, some countries do not cooperate and sometimes condemn that step. What makes AfCFTA different from other trade associations is that it simply accepts everyone as a member. For example, if we look at the way the European Union was founded, there were about five countries at the beginning. They are gradually increasing their members. The members must be able to understand and fully accept the principles, rules, and culture of the association. Even if there is a problem of lack of capacity, it is necessary to accept members after thorough training. But, AfCFTA first accepted fifty-four members, and then it's trying to fix it. For example, if Ethiopia wants to join the East African Community, it cannot join directly, because EAC took

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<sup>28</sup> P1. UN Technology Bank for Least Developed Countries

the EU model. Now, even if they agree to form a common front, the members can either defect or change their position under pressure.

*Ultimately, this option requires leaders who can take on a higher leadership role. Leaders who will not be swayed by persuasion or bribery. And now, Africa does not have leaders with great personalities like in the 60s. Therefore, it is impossible to say that even this option will bring better results than AfCFTA. Of course, as I told you, AfCFTA can only work for certain countries, I believe. Because of this, some countries, such as Ethiopia, may not make any effort to implement AfCFTA. I don't think there will be any desire to make any changes on the ground. So, in this regard, your option can be better.<sup>29</sup>*

Overall, the key informants agree that if the proposal increases Africa's export scale and makes them competitive, it will be great because it will make them decide the price and the market. If this is not the case, at least send them together to coordinate transportation, market search, etc. If it reduces their costs, it will have its advantages. For example, if neighboring countries are exporting the same raw material, it would be more beneficial if they do it together instead of doing it separately.

*Africa should start this initiative as a pilot on selective commodities, this will help the Africans to get competitive prices. Who knows, like the OPEC, who collectively set prices(P4, Politician, Economist, EZEMA Party).*

In conclusion, there are arguments questioning the possibility of AfCFTA making Africa's global economic competitiveness a reality. The reason given for this is that Africans mostly export the same raw materials to Western countries and import industrial products and capital goods, so there is no economic base to trade with each other. Second, because Africa's infrastructure links are very limited and expensive to develop, there is a huge challenge to carry out the transaction

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<sup>29</sup> P3. Pan African Chamber of Commerce and Industry (PACCI)

even if the will to trade is there. We had an in-depth discussion with four economic and regional integration experts on these and other related topics. Based on this, the key informants proposed possible benefits of the cooperation agreement. One idea is that it is possible to develop African infrastructure by coordinating the African diaspora and African development organizations. Another idea is that although Africans mostly export raw materials, they also produce some manufactured goods and can trade with these products. In addition, by creating a value chain, where all countries can participate and offer products in quantity and quality to the foreign market by looking at their relative capabilities. To this end, our proposal suggested that, while solving these existing problems, in the process, we create a common export front where Africans can cross the world barrier by offering their raw materials to the world market collectively. It was observed that all the key informants had a common position on the question. In other words, except for those who question its performance and argue whether African joint production can influence the world market, they support the idea that this alternative is cost-effective and economically reasonable.

## **Conclusion**

The main purpose of this paper was to point out that apart from strengthening the intra-African trade relations, which Africa has been trying for a long time, it should increase its international trade presence by looking into collective export arrangement options. Subsequently, the study employed 4 primary data sources by involving experts that are directly and indirectly related to the African Continental Free Trade Area (AfCFTA) and using an in-depth interview data collection method. Then, the analysis was done using the Narrative analysis method.

To meet the objective of the study, I tried to gather all the information I could by selecting 4 participants for the in-depth interview that I believed would give a representative opinion. An attempt has been made to fill the remaining gap with a secondary source of information. Meanwhile, if future studies on related topics try to gather data from the Ministry of Trade and Regional Integration of the Ethiopian Government, as well as the AfCFTA office, I believe that it will make the study a complete work.

According to the data gathered both from secondary sources and the four key informants, many existing conditions hinder the realization of trade relations between African countries. The effort to connect Africa through business and politics is an effort that transcends the ages. There were several reasons why this effort could not bear fruit as much and as quickly as desired, mainly internal and external in nature. Among the so-called internal ones, the main ones are related to the African economic structure and the continent's complex infrastructural problems.

When we look at the economic structure of Africa, since the continent mainly produces primary raw materials used for industrial inputs, it has made it seem trading with the West as a better option than trading with each other. This fact, coupled with the need for capital goods to operate the continent's small industries, has kept the continent from allowing inter-continental trade. Therefore, it has been supplying its raw materials to industrially rich Western countries and has been buying the capital goods it needs from these same countries. In short, this seems to be why some argue that African trade has little economic motivation other than nationalism.

The second internal reason is related to Africa's complex infrastructural problems. In this regard, infrastructure has been a major challenge as it is difficult to build infrastructure because of the topography and nature of the continent. This gap in the infrastructure and because the resources required to connect Africa and carry out trade within itself is very high makes intra-Africa trade problematic. On the contrary, some claim that the colonialists shaped Africa as a raw material supplier continent. This is an indication that apart from making the African economic structure based on the production of raw materials, the limited infrastructures they have built were built to facilitate resource shipments to the Western countries.

Despite the existing problems listed above, the continent has created a framework for cooperation that will make African trade relations a reality. That is the African Continental Free Trade Area (AfCFTA). This agreement is the largest continental free trade agreement in terms of the number of member countries and the number of people. After it was signed in 2018, almost all African countries have ratified it. It is this trade agreement that is the main focus of this study. The study also aimed at proposing an alternative solution directions that the agreement should focus on to overcome these challenges.

Based on this, we have confirmed from both secondary data review and from our discussion with key informants interviews, that the obstacles that the continent is facing are vivid. To overcome these challenges and to increase intra-African trade, some the options available to the continent to bridge the infrastructure gap, and using the value chain approach to create production linkages are given. However, to have meaningful economic cooperation; It is also necessary to explore other options to realize Africa's competitiveness in international trade. Among them, the main idea of this study is to create a common export front. By creating a common export front, the cooperation of all Africans will be based on meaningful common interests; plus, at least in the short term, will enable Africa to better serve its interests in the global resource market. In the long run, the cooperation will spill over to transform the continents' economic structure towards industrialization.

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## **Annexes**

### **Annex 1 – In-Depth Interview Participants Profile**

P1 – Dr. Taffere Tesfachew, Acting Managing Director, UN Technology Bank for Least Developed Countries. Date of Interview – Wednesday, November 1, 2023. Mode of Interview – Virtual, Via Zoom meeting.

P2 – Sand MbaKalu (Executive Director at International Trade & Commerce Research, Nigeria). Date of Interview – Monday, October 30, 2023. Mode of Interview – Virtual, Via Zoom Meeting

P3 – Kebour Ghenna Executive Director of the Pan African Chamber of Commerce and Industry (PACCI). Date of Interview – Saturday, November 4, 2023. Mode of Interview – Face-to-Face interview

P4 – Mr. Nigatu Wolde, Economist and Politician. Date of Interview –

Thursday, November 2, 2023. Mode of Interview – Face-to-Face interview

## Annex 2 – Discussion Guide

<b>INTRODUCTION</b>	<p style="text-align: center;"><b>Discussion Guide</b></p> <p style="text-align: center;"><b>CONSENT</b></p> <p>Hello Sir/Madam,</p> <p>I am [Tadesse]; first of all, I appreciate your kind cooperation in giving me your most valued insights on the African Continental Free Trade Agreements (AfCFTA). I am gathering data for a research project, to be conducted on AfCFTA. You have been selected to participate in the survey because you are the right fit to help me gather deep insights into AfCFTA and African Continental Free Trade Agreements. More specifically, I would like to know more about the historical challenges and success stories</p>
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	<p>concerning African continental and regional trade agreements and expectations from AfCFTA. Your opinion is very important to me; hence I encourage you to give me your responses openly. As part of my study protocol, I guarantee you that your answers will be kept anonymous and confidential.</p> <p>Our discussion will not take more than 30 minutes of your time.</p> <p>As we are holding an in-depth interview, we need to record the conversation to capture everything we discuss. Please let me know if you are comfortable with your voice being recorded; if you are okay with what I have told you so far, we can proceed to the interview.</p> <p>Signature: _____ Date and Place of Interview _____</p>
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<b>Part One - Profile of Key Informants</b>	
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<b>For Key Informants from AfCFTA and/or AU</b>	
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|--|--|
|  | 1. What is your designation/responsibility in AfCFTA/AU?   |
|  | 2. How is your work/responsibility related to the promotion of African continental free trade areas? Please explain.   |
|  | 3. Do you consider yourself to be an expert/professional in AfCFTA or African continental trade agreements in general? Could you give me a brief explanation of your level of expertise/engagements? |

<b>Part Two - About the historical developments of African continental/regional free trade agreements</b>	
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- |  |  |
|--|--|
|  | 1. How do you describe the historical developments of African continental/regional trade agreements? |
|--|--|

	2. Do you say African continental/regional integration initiatives did well in economically integrating the continent? Yes/No, how? Please explain...
	3. What were/are the main challenges for the African regional/continental trade agreements?
<b>Part Three - About AfCFTA</b>	
	1. Do you think the newly introduced AfCFTA would overcome the previous regional trade agreements' shortcomings in integrating Africa? How?
	2. [If the respondent thinks that AfCFTA would be able to integrate African economies]; Can you suggest how AFCFTA would solve the problem related to (A. The legacy of colonialism, such as balkanization, trade preference, and exploitative schemes by the former colonizers, B. Infrastructure problem which requires huge investment by African states, C. The fact that most African countries are producers of homogenous primary products)?
	3. [If the respondent thinks that AfCFTA would not be able to integrate African economies]; Why?
	4. [If the respondent thinks that AfCFTA could integrate African economies]; How do you suggest that AfCFTA would help/protect local infant industries from growing in the presence of multinational corporations?
	5. Contemporary developments in global trade suggest that countries are

	<p>moving into promoting and protecting national interests through quota and tariff restrictions. Do you think the schemes adopted by AfCFTA are designed to tackle these newly emerging challenges to boost Africa's position in global trade?</p>
	<p>6. Our hypothesis suggests a Cartel type of export arrangement by which African markets develop, transport, and sell their products collectively. What are your takes on this?</p>
	<p>7. Do you have any other alternative or additional comments? Please tell me...</p>

