

ADDIS ABEBA UNIVERSITY



COLLEGE OF LAW AND GOVERNMENTAL STUDIES

SCHOOL OF LAW, LL.M PROGRAM

PUBLIC INTERNATIONAL LAW

**AfCFTA: Its Challenges and Prospects for the Realization of Sustainable
Development Goals (SDGs) in Ethiopia**

By Yeabsra Teferi (*Id:GSR/8047/12*)

Advisor: Fikremarkos Merso (*PHD, Asso. Prof*)

A Thesis Submitted in Partial Fulfillment for the Award of Masters Degree of Law (LL.M)
at the College of Law and Governance Studies, School of Law (AAU) in Public International
Law

September 2021

Ethiopia

Declaration

I, Mr. Yeabsra Teferi, declare that this research study is original and has never been presented at any institution. I further declare that, to the best of my knowledge and belief, any information used has been properly acknowledged.

Yeabsra Teferi

University Id. Number: GRS/8047/12

Date _____

Confirmed by: Advisor; Fikremarkos Merso (PHD, Asso.Prof)

Signature -----

Date-----

**African Continental Free Trade Agreement (AfCFTA); Its Challenges and Prospects for
the Realization of Sustainable Development Goals in Ethiopia**

BY

Yeabsra Teferi

Name and signature of Members of the Examining Board

Examiners	Signature	Date
Mehari Redae (PHD) (PHD, Asso.Prof)	_____	_____
Martha Bekele (LLM, Lecturer)	_____	_____

Advisor	Signature	Date
Fikremarkos Merso (PHD, Asso.Prof)	_____	_____

Acknowledgement

First of all I extend my heartfelt gratitude to the Almighty God. I would like to thank my advisor, Dr. Fikremarkos Merso, for his guidance and comments throughout the development of this thesis. My sincere thanks also goes to Mr.Zelalem Kebu, Mr.Amanuel Tadesse, Eyilachew Gedif and Kaleb Wonda for those who have valuable support in provision of valuable information. Finally I want to thanks my parents, friends and all others who participated and supported me in all aspects in this research process.

List of Abbreviations

ACBR	Ambedkar Center for Biomedical Research
ADP	Agricultural Development Program
AfCFTA	African Continental Free Trade Area
ASEAN	Association of Southeast Asian Nations
AU	African Union
CFTA	Continental Free Trade Area
CRGE	Climate-Resilient Green Economy
EU	European Union
EKC	Environmental Kuznet Curve
FAO	Food and Agriculture Organization
FDRE	Federal Democratic Republic of Ethiopia
FTAs	Free Trade Areas
GDAP	The Game Developers Association of the Philippines
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
GTP	Great Transformation Plan
IAT	Intra-African Trade
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IPR	Intellectual Property Right
LDCs	Least Developed Countries
NAFTA	North American Free Trade Area

NTBs	Non-Tariff Barriers
SDGs	Sustainable Development Goals
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Economic Social and Cultural Organization
UNs	United Nations
US	United State of America
WTO	World Trade Organization

Contents

Declaration.....	i
Acknowledgement.....	iii
List of Abbreviations	iv
Abstract.....	1
CHAPTER ONE	2
1.1. Background of the Study.....	2
1.2. Statement of the Problem	5
1.3. Research Questions.....	8
1.4. Research Objectives.....	8
1.5. Research Method	9
1.5.1. Sources of data	9
1.6. Scope of the Study.....	9
1.7. Significance of the Study	10
1.8. Limitations of the Study	10
CHAPTER TWO	11
CONCEPTUAL UNDERPINNING OF SUSTAINABLE DEVELOPMENT AND TRADE LIBERALIZATION, AND PATTERNS OF RELATIONSHIP	11
2.1. Introduction.....	11
2.2. Sustainable Development	11
2.3. Trade Liberalization, and Economic Theories of International Trade.....	12
2.3.2. Trade Liberalization	12
2.3.1. Economic Theories of International Trade.....	12
2.4. Linkages between Trade Liberalization and Sustainable Development	14
2.5. Conclusion	16
CHAPTER THREE.....	17
AfCFTA and its Linkage with Sustainable Development Goals.....	17
3.1. Background of the AfCFTA.....	17
3.2. AfCFTA: Objectives and Principles.....	19
3.3. Linkage Between AfCFTA and Sustainable Development.....	21
3.3.1. Potential Impacts of AfCFTA on Sustainable Development in Africa.....	22
3.4. Conclusion	25
CHAPTER FOUR.....	27

THE CHALLENGES AND PROSPECTS OF AfCFTA FOR THE REALIZATION OF SUSTAINABLE DEVELOPMENT GOALS (SDGs) IN ETHIOPIA	27
4.1. Introduction.....	27
4.2. Challenges and Prospects on Economic Aspect of Sustainable Development	27
4.2.1. Sustainable Economic Growth.....	28
4.2.2. Inclusive Economic Growth	38
4.2.3. Employment.....	42
4.3. Challenges and Prospects on the Social Aspect of Sustainable Development	44
4.3.1 Ensuring Food Security	44
4.4. Challenges and Prospects on Environmental Aspect.....	47
4.4.1. Avoiding Climate Changes and its Impacts.....	47
CHAPTER FIVE	51
CONCLUSION AND RECCOMENDATIONS	51
5.1. Conclusion	51
5.2. Recommendations.....	54
Bibliography	56

Abstract

The Agreement of AfCFTA, which was signed by Ethiopia on the 21st day of March, 2018 and ratified by the FDRE House of Peoples Representatives at its session held on the 21st day of March, 2019, has been recently launched in the country. Ethiopia has also adopted, in 2015, the UN's Agenda 2030 on the sustainable development, which has 17 different goals.

The implementation of AfCFTA agreement has prospects and challenges on the realization of sustainable development goals (SDGs) for the continent and for each State Party to the Agreement. In this regard, the prospects and challenges of membership of Ethiopia to AfCFTA on the realization of the SDGs of Agenda 2030 must be studied to use the potential benefits and minimize the possible challenges. Hence, the paper critically analyzes the prospects and challenges of membership of Ethiopia to AfCFTA agreement on the realization of selected SDGs of the UN's Agenda 2030 (i.e., G2, 8 & 13).

Key Words: AfCFTA, Sustainable Development Goals (SDGs), Challenges and Prospects, Ethiopia

CHAPTER ONE

1.1. Background of the Study

Literatures forward different perspectives regarding the impact of trade liberalization on the sustainable development. On the one hand, scholars are of the view that trade liberalization contributes to higher levels of investment, technology upgradation and increases in productivity, which expands production thereby enabling economic growth.¹ Scholars also argue that trade liberalization can progress food security by expanding food accessibility at the national level due to increase in food imports.² They also allude that it can ‘offer an important vehicle for adapting to climate change, by permitting the geographic relocation of world food supplies according to changing comparative advantage’.³ It also said to be good for the environmental protection by driving to the exchange of environmentally friendly innovation.⁴ On the other hand, some scholars question the benefits accrued from trade liberalization, especially by small developing countries and least developed countries (LDCs). According to these scholars, developing nations with expanded exchange in manufactured products show evidence of decreased social security attention for the poor as well as for the common population.⁵ They also argue that, by driving to removal of farmers subsidies in developed nations, it can be anticipated to raise food costs, since removal of food subsidies actuates farmers to decrease their out-put.⁶ Alike, ‘removing export subsidies raises the prices to food-importing countries’.⁷ It may also decapitalize poorer nations by intensifying improper utilization and repatriation of resources by outside companies.⁸ Moreover,

¹ Narayanan B.G., Duval, Y., Kravchenko, A. and Wadhwa, D. ‘Sustainable development impact of trade and investment liberalization in Asia and the Pacific,’ (ARTNeT Working Paper Series, 2017) 1.

² Michael Trueblood and Shahla Shapouri, ‘Implications of Trade Liberalization on Food Security of Low-income Countries’ (USDA, Agriculture Information Bulletin No. 765-5, April 2001).

³ Hertel Thomas and Randhir Timothy, ‘Trade Liberalization as a Vehicle for Adapting to Global Warming,’ (Agriculture and Resource Economics Review, 2002) 2

⁴ Marvin Spence, ‘Trade Liberalization and Environmental Protection’, (2011), (E-International Relations, 2011) 1

⁵ n.2

⁶ n.3

⁷ Ibid

⁸ Ahmad Sheikh, Ahmad Malik and Zehra Masood, ‘Assessing the effects of trade openness on sustainable development: Evidence from India’ (2020) 5 Asian Journal of Sustainability and Social Responsibility 3

environmentalists argue that trade liberalization leads to ‘high-energy use for economic growth, which contributes significantly to environmental degradation’.⁹

Depending on different empirical evidences that these literatures have provided one may extend an argument that trade liberalization may affect realization of sustainable development either positively or negatively. However, in either way, there is no conclusive empirical evidences that these literatures have provided to support their argument. The literatures have only indicated that the likely advantage or disadvantage of trade liberalization on member countries depends on various and country specific (i.e., mainly the capacity of the country to adapt the free trade agreements to its advantage) circumstances. Thus, depending on the situation of a country in the trade liberalization agreement, trade liberalization can, likely, be challenges as well as prospects for the realization of SDGs of such country.

Trade liberalization and economic integration has indeed been accepted as an important driver for sustainable development in both the UN 2030 Agenda for Sustainable Development and its Sustainable Development Goals (hereinafter, Agenda 2030), AU’s Agenda 2063, and also the Addis Ababa Action Agenda (AAAA).¹⁰ Yet, ‘Africa remains the least integrated area of the world, with the average centrality about half of that of other emerging and developing markets’.¹¹ In 2013, regional trade within Africa comprised around 12% of the total (compared with ASEAN, where it is 30%, North America, at 40% or Europe where regional trade equals 60% of total trade).¹² Depending on its proper implementation, the creation of Agreement Establishing the African Continental Free Trade Agreement (AfCFTA) is thus an important apparatus to stimulate trade growth and sustainable development of Africa.

AfCFTA entered into force on 30 May 2019 for 24 countries have deposited their instruments of ratification.¹³ As of 20 April 2021, 36 countries have deposited their instruments of ratification,

⁹ Ibid

¹⁰ Gary P. Sampson, *The WTO and Sustainable Development (United Nations University, 2005)* 54 See also UN’s Agenda 2030, para 21

¹¹ Donald L Sparks, *The Sustainable Development Goals and Agenda 2063: Implications for Economic Integration in Africa*, (Research in Applied Economics, 2016) 46

¹² Ibid

¹³ ‘Status of Ratification’ (*Trade Law center, 2019*) <:<https://www.tralac.org>> accessed 12 November 2020

with more ratifications in process.¹⁴ It will cover an African market of 1.2 billion people and a GDP of \$2.2 trillion, across all 55 member States of the African Union.¹⁵

‘The AfCFTA follows a “framework agreement” model, with a core agreement forming a foundation that will be built out through several phases of negotiation’.¹⁶ Phase I of the negotiations established the Protocols on Trade in Goods, Trade in Services, and Dispute Settlement, with equivalent schedules of market access concessions and rules of origin (ROO).¹⁷ It also includes annexes on ROO, NTBs, customs cooperation, trade facilitation, transit, trade remedies, SPS, and TBT.¹⁸ Negotiations on Phase II issues are programmed to commence after Phase I is operational and will comprise Protocols on IPR, Competition Policy, and Investment.¹⁹ ‘A Phase III to develop a Protocol on E-Commerce has also been formally approved by the AU Assembly’.²⁰

The AfCFTA has a strong development focus, emphasizing economic and social development and legal harmonization among its objectives, and incorporating aspects of the AU’s Agenda 2063, which prioritizes inclusive social and economic development and links Africa’s growth and integration to the SDGs.²¹ In such way, it confirms its general objective to promote sustainable development in accordance with the SDGs.²² It also recognizes the right of Member States to, for instance, regulate towards their overall sustainable development.²³

¹⁴ ‘Status of Ratification’ (*Trade Law center, 2021*) <<https://www.tralac.org>> accessed 27 May 2021

¹⁵ ‘Giant trade agreement for development in Africa: the Continental Free Trade Area’ (*UN Economic Commission for Africa, 2018*) 1

¹⁶ Kuhlmann and others, ‘The African Continental Free Trade Area: Toward a New Legal Model for Trade and Development’ (2020) 51 *Georgetown Journal of International Law*, 4-5

¹⁷ *Ibid*

¹⁸ *Ibid*

¹⁹ *Ibid*

²⁰ *Ibid*

²¹ *Ibid*

²² Amodu Nojeem, ‘Corporate Social Responsibility and Economic Globalization: Mainstreaming Sustainable Development Goals into the AfCFTA Discourse’ (*Legal Issues of Economic Integration* 71–104, 2020) 77

²³ *Ibid*

As one of its prospects to realize SDG, it has been believed that it has the potential to lift 30 million people out of extreme poverty,²⁴ which is a principal goal of the Agenda 2030. Yet, it can also pose potential challenges on the sustainable developments by causing environmental damage, increasing inequality and poverty.

As a country, which signed and ratified the agreement, Ethiopia may experience both the potential challenges and prospects of the AfCFTA in its progress of realizing the SDGs. Thus, this research will examine the potential challenges and prospects of Ethiopia's membership to the AfCFTA on the realization of SDGs in the country.

1.2. Statement of the Problem

'Sustainable development is based on the assumption that underdevelopment and poverty lead to the rapid deterioration of the environment that may, in turn, be a considerable obstacle to future development itself.'²⁵ Thus, economic development and growth must be achieved in a manner consistent with the sound management of natural resources.

The need to achieve sustainable development has long been part of international legal order. The obligations to ensure sustainable development are well integrated in the international legal order that Ethiopia has already accepted as part of its international legal obligation. For instance, Rio Declaration²⁶ describes that States has the obligation to eradicate poverty and to achieve economic development in consistent with the general obligation to protect their environment. In addition, Principle 8 of the Stockholm Declaration obliges states to preserve the ability of future generations to meet their own needs with the view to ensure forever 'the conditions on earth that are necessary for the improvement of the quality of life'.²⁷ The basis of these texts are the UN Charter's Preamble, which aims to promote social development and higher living standards.²⁸

²⁴ 'The AfCFTA: Economic and Distributional Effects' (Washington, DC: World Bank 2020)

²⁵ David Luff, 'An Overview of International Law of Sustainable Development and a Confrontation between WTO Rules and Sustainable Development' (REVUE BELGE DE DROIT INTERNATIONAL, 91-144, 1996) 93

²⁶ Declaration on Environment and Development (Rio, June 1992).

²⁷ Declaration on the United Nations Conference on the Human Environment (Stockholm, 16 June 1972), principle 8.

²⁸ n.26, 95

Many references to sustainable development have been incorporated into national governments' practice and policy pronouncements, reiterating their commitment to achieve sustainable development.²⁹ Regarding Ethiopia, the Constitution of the FDRE³⁰ provide a broad constitutional basis for the need of realizing sustainable development in the country.

Art 43(1) of the FDRE Constitution guarantees the peoples of Ethiopia 'the right to sustainable development' and envisages development through rational and prudent use of environmental resources (Article 43.4). The FDRE Constitution further requires that international agreements and relations, concluded or established by the country, should uphold the right to sustainable development (Article 43.3). Based on this provision the government of Ethiopia obliged to uphold sustainable development in process of implementing the Free Trade Agreements, including AfCFTA Agreement.

In addition, in 2015, the Government of Ethiopia has adopted UN's Agenda 2030 for Sustainable Development, which contains 17 different SDGs to be realized until 2030.³¹ It has also integrated the goals in its national development framework.³²

Ethiopia has ratified the AfCFTA Agreement in 2019. And it has been launched recently in January 2021.³³ In terms of the number of member countries, it is the first big multilateral FTA Ethiopia has launched.

As stressed earlier, FTAs can in some cases be challenges for the realization of sustainable development, and in other cases prospects, or both at once. This thesis, specifically, analyzes the potential challenges and prospects of AfCFTA on the realization of Goal 2, 8 and 13 of the Agenda 2030 in Ethiopia.

²⁹ Ibid, 97

³⁰ The Constitution of the Federal Democratic Republic of Ethiopia, Proclamation No. 1/1995.

³¹ Sustainable Development Goals Officially Adopted by 193 Countries <<https://sustainabledevelopment.un.org>> accessed 23 December 2020

³² Ethiopia 2017 Voluntary National Review on SDGs Government Commitments, National Ownership and Performance Trends (UNDP Ethiopia, Mar 16, 2018) 6

³³ 'AfCFTA: Towards the African Continental Free Trade Area' (Trade Law center, 2019) 9 <<https://www.tralac.org>> accessed 12 December 2020

Goal 2 of the Agenda 2030 intends to end hunger by achieving food security, improving nutrition and promoting sustainable agriculture. In light with the Agenda 2030, achieving food security is the primary policy area in Ethiopia. However, addressing food insecurity and malnutrition remains a major challenge in the country.³⁴ In principle, implementation of AfCFTA will help Ethiopia to address its food security issues ‘by stimulating intra-trade among African countries and thereby improving redistribution of agro-food products from surplus to deficit regions’.³⁵ However, it may degrade food security in the country ‘by encouraging food importation from other countries, thereby undermining food self-sufficiency strategy’.³⁶

Goal 8 of the Agenda 2030 desires to promote inclusive and sustainable economic growth, full and productive employment and decent work for all.

AfCFTA would be a challenge on the realization of sustainable economic growth as it may exacerbate the existing trade deficit Ethiopia has incurred in the intra-Africa trade (IAT) and lead into ‘fiscal revenue losses and other negative impacts from premature liberalization’.³⁷ Moreover, poor people, including unskilled people, may not capture the full benefit from participation in the continental markets, as the goods they produce tend to be subject to relatively high trade barriers³⁸ and in that way the potential growth will be less inclusive. In Ethiopia, agricultural sector is the biggest employer of labor, followed by the service and industrial sector. Liberalizing those sectors may lead to loss of job of the people employed in such sectors due to potential increase of importation competition. Nonetheless, better access to external merchandise for the goods, for

³⁴ Ethiopia country strategic plan (2020–2025) (WFP, *Executive Board Annual Session, Rome 25 June 2020*) <<https://docs.wfp.org/>> accessed 3 July 2020

³⁵Pasara, M.T.; Diko, N., ‘The Effects of AfCFTA on Food Security Sustainability: An Analysis of the Cereals Trade in the SADC Region’ (*12:4 Sustainability*, 2020) 2

³⁶Emeka C. Iloh and others, ‘WTO’s Trade Liberalization Policy on Agriculture and Food Security in West Africa’, <<https://www.intechopen.com>> accessed 3 November 2020

³⁷ Albert Muchanga, ‘Preparing for Trade under the AfCFTA Agreement’ *Great Insights magazine* (EDCAM, 26-03-2020)

³⁸ WTO Contribution to the 2019 High Level Political Forum 3 (WTO Sustainable Development, 13 March 2019)

example agricultural goods, that the rural poor produce opens up new employment opportunities for poor farmers.³⁹

Goal 13 of the Agenda urges to combat climate change and its impacts. It also requires states to take urgent action to combat climate change.

Impacts of trade liberalization on climate change of certain country depends on several things. These include the composition of traded goods (i.e., whether the traded goods are environmentally sensitive or not) and the kind of sectors, which the country has comparative advantage (i.e., capital-intensive or labor intensive). Considering these circumstances, this paper analyzes the potential challenges and prospects of AfCFTA Agreement depending on ‘crosscutting effects of trade liberalization on climate change’; i.e., Scale effects, Composition and Technique effects.

Bearing in mind the above major points, the potential challenges and opportunities of Ethiopia’s membership to the AfCFTA for the realization of SDGs (Goal 2, 8 and 13) must be examined analytically. Thus, the paper analyzed those and other possible prospects and encounters of Ethiopia’s membership to AfCFTA for the realization of the selected SDGs in the country.

1.3. Research Questions

The study has primarily addressed the following questions:

- What are the essences of trade liberalization and the sustainable development? How are the two interrelated?
- What are the objectives and principles of the AfCFTA Agreement? How are the AfCFTA and SDGs interrelated? In addition, what are the likely impacts of the AfCFTA on sustainable development?
- What are the potential challenges and prospects of Ethiopia’s membership to the AfCFTA for the realization of the SDGs (Goal 2, 8 and 13) in the country?

1.4. Research Objectives

The general objective of this paper is to analyze the implications of AfCFTA on the realization of SDGs of Agenda 2030 (G2, 8&13) in Ethiopia.

³⁹ n.37

The following are the specific objectives:

- Discuss the relation between sustainable development and trade liberalization;
- Examine the interrelation between SDGs and the AfCFTA Agreement; and potential impacts of the latter on the former.
- Identify and examine the potential challenges and prospects of membership to AfCFTA on realizing SDGs (G2,8&13) in Ethiopia;
- Provide some recommendations that may help in harnessing the potential benefits while minimizing the challenges.

1.5. Research Method

The research employed doctrinal legal research. It examined the potential challenges and prospects of AfCFTA for the realization of the selected SDGs in Ethiopia by analyzing and interpreting laws and policies relevant to the topic.

More specifically, AfCFTA's trade liberalization and other related policies embodied in the agreement including tariff liberalization concession, non-tariff measures (NTMs) and trade facilitation measures would have various impacts on sustainable development policies. This paper has tried to answer how these measures can potentially affect realization of sustainable development goals of the Member states. By using analytical/logical reasoning, it, in particular, examined the potential challenges and prospects of AfCFTA for the realization of the selected SDGs of the Agenda 2030 in Ethiopia.

1.5.1. Sources of data

Primary sources: the Agreement Establishing the AfCFTA and its Protocols on Trade in Goods and Services, including its annexes and other pertinent laws and policies recognized by the country, AU, UN and, Ethiopia's intra-African trade data.

Secondary sources: Books, journals, articles, internet sources, reports and other government documents such as trade and development policies etc.

1.6. Scope of the Study

This study particularly examines the potential challenges and prospects of the AfCFTA for the realization of SDGs in Ethiopia. The SDGs that the paper have mentioned are depicted in the UN's Agenda 2030. The Agenda 2030 contains 17 different goals each falling under varied aspects of

the sustainable development (Social, Economic and Environmental). The study, however, has chosen to discuss three of the 17 goals such as Goal 2, 8&13.

1.7. Significance of the Study

The study will have academic and policy significance.

Academic Significance: it can add to the existing body of knowledge (if any) on the impacts of AfCFTA on sustainable development in Ethiopia and would be valuable to future research on the similar topics.

Policy Significance: the study findings and recommendations will contribute to strengthening the existing and developing new policy measures of Ethiopia to avoid/reduce potential challenges of trade liberalization (AfCFTA) on the realization of SDGs and amplify possibilities of achieving SDGs through trade liberalization.

1.8. Limitations of the Study

The researcher initially faced by a difficulty of limiting scope of the study due to broad nature of the topic. However, an attempt has been made to limit the scope by choosing three of the 17 SDGs. These three goals selected resolutely. First, these goals involve important components of SDGs as each contains different aspects of sustainable development (i.e., Goal 2 contains the social aspect and goal 8 and 13 contains the economic and environmental aspects of sustainable development, respectively). Second, the sustainable development components that are included in these goals such as ‘addressing food insecurity and malnutrition, ensuring sustainable and inclusive economic growth and employment issues and reducing climate change impacts’ are the growth and development priorities of Ethiopia. Thus, it is more vital to address the potential impacts of AfCFTA on such SDGs.

CHAPTER TWO

CONCEPTUAL UNDERPINNING OF SUSTAINABLE DEVELOPMENT AND TRADE LIBERALIZATION, AND PATTERNS OF RELATIONSHIP

2.1. Introduction

The discussion in this chapter explicates the notion of sustainable development and trade liberalization and the interrelationship between them. To do so, the next two section discusses the conceptual underpinning of sustainable development, economic theories of international trade and trade liberalization, respectively. The fourth explains the patterns of relationship between trade liberalization and sustainable development. The final section ends the chapter by placing a brief conclusion.

2.2. Sustainable Development

Definition and Theories

There is no universally accepted definition of “sustainable development”. However, the Brundtland Report’s definition of sustainable development is a widely accepted definition. It defines sustainable development as “a development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.⁴⁰ The Report also noted that, in order to move towards a development that is truly sustainable the economic, social and environmental concerns have to be addressed correspondingly.⁴¹

In practice, sustainable development requires the combination of economic, environmental, and social goals through sectors, regions, and generations throughout decision-making processes, with the adoption and implementation process of free trade agreements.⁴² Therefore, the inseparability of environment, social and economic objectives is the central tenet of the concept of sustainable development.

⁴⁰*Our Common Future*, (World Commission on Environment and Development 1987), <<http://www.un-documents.net>> accessed on 27 July 2020

⁴¹ Ibid

⁴² Rachel Emas, *The Concept of Sustainable Development: Definition and Defining Principles*, (2015) <<https://sustainabledevelopment.un.org>> accessed 15 April 2021

2.3. Trade Liberalization, and Economic Theories of International Trade

2.3.2. Trade Liberalization

For trade liberalization to occur some criteria have to be met by member countries in the FTA. The basic requirements', inter alia, involves the relaxation or elimination of tariffs and removal of duties and/or quotas on exports; adjustment in non-tariff barriers such as import quotas and quantitative restrictions; changes in licensing and direct allocation of foreign exchange and in specific regulations for products; and removal or relaxation of export subsidies.⁴³

Trade liberalization can be achieved through multilateral and regional economic integration.⁴⁴ As such as, trade can be liberalized through continental free trade agreements. However, concerns of FTAs are not just removing trade barriers between trading partners. A full package of certain FTA contains different concessions including NTMs (SPS & TBT), measures on trade facilitation, harmonization of rules, mutual administration and assistance, custom cooperation etc.

2.3.1. Economic Theories of International Trade

Economic theories of international law, generally, explicates the potential advantage a country may gain and disadvantages that may encounter a country from participating in the international trade. The two major theories are Adam Smith's absolute advantage and David Ricardo's comparative advantage. Also others emanated from these two major theories. These are the Heckscher-Ohlin theory of trade, Product Life-Cycle Theory, The New Trade Theory and others.

The theory of absolute advantage refers to the situation in which one country is more efficient at producing a product than any other country.⁴⁵ A country tends to specialize in the production of commodities in which it has absolute advantage in cost of production.⁴⁶ In this regard, while there are many determinants, productivity differences rank high on the list.⁴⁷ However, some researchers

⁴³ Xiangming Li, 'Trade Liberalization and Real Exchange Rate Movement' (Palgrave Macmillan Journal, Vol. 51, No. 3, 2004) 553-584

⁴⁴ F. O.Ndukwe, Promoting Trade: Regional Integration and the Global Economy, 6 <<https://www.elibrary.imf.org>> Accessed on May 10, 2021

⁴⁵ Schumacher, Reinhard, 'Adam Smith's Theory of Absolute Advantage and the Use of Doxography in the History of Economics' (2012)5 Erasmus Journal for Philosophy and Economics 64

⁴⁶ Ibid

⁴⁷ Ibid

argue that it is not possible to conclude that absolute differences in production capabilities are necessary for trade to occur.⁴⁸ This leads to the emergence of the theory of comparative advantage.

David Ricardo's theory of comparative advantage is as a situation in which a country specializes in the production of those goods that it produces most efficiently and to buy from other countries those goods that it produces less efficiently, even if this means buying goods from other countries that it could produce more efficiently itself.⁴⁹ The theory suggests that it is the relative rather than the absolute differences in productivity that can form a determining basis for international trade.⁵⁰ The notion requires that nations make intensive use of those factors they possess in abundance.⁵¹ They should export those goods in which they have a comparative advantage and import those goods in which they have comparative disadvantage.⁵² From this, it can be inferred that Ricardo's theory stresses comparative advantage arises from differences in productivity or differences in the cost of production is the basis for international trade. Thus, the existence of difference in factor of production (i.e., land, labor, capital) between countries is sufficient to make comparative advantage in the inter-state trade.

The Heckscher-Ohlin Theory of Trade, also referred to as "the factor endowment theory of trade or the modern theory of trade." The theory argues that the pattern of international trade is determined by differences in factor endowments.⁵³ It predicts that countries will export those goods that make intensive use of locally abundant factors, and will import goods that make intensive use of factors that are locally scarce.⁵⁴

⁴⁸Andualem Debas, Assessment of the Level of Performance, Challenges and Prospects of Export Trade in Ethiopia: A Management Perspective, 2010, St. Mary University 215-251, 220

⁴⁹ Ruffin Roy, 'David Ricardo's Discovery of Comparative Advantage' (2002) 34 History of Political Economy 4

⁵⁰ n.45

⁵¹ Ibid

⁵² Ibid

⁵³ Clements, Benedict, 'The Heckscher-Ohlin Theorem of International Trade Theory: New Empirical Tests for Brazil' (2011) 3Journal of Applied Business Research 16

⁵⁴ Ibid

2.4. Linkages between Trade Liberalization and Sustainable Development

As mentioned before, trade liberalization may affect sustainable development either negatively or positively or both at once. However, there is no simple pattern to such relationship.⁵⁵ Different studies on the subject matter have revealed that impacts are contingent on a number of external and country specific factors including the liberalized sectors, the country, the markets and prevailing policies.⁵⁶ Generally, effects of trade liberalization on sustainable development classified into scale effects, structural effects, technology effects, product effects, distribution effects and regulatory effects.⁵⁷ These effects are also known as cross-cutting effects,⁵⁸ or physical and economic effects,⁵⁹ of trade and investment liberalization on sustainable development.

I. Scale effects

Trade liberalization can raise economies of scale by making financial movement more effective subsequently making wealth has to increase. Increment of wealth in turn can have positive impacts on sustainable development in numerous ways. For instance, expanded efficiency can specifically advantage the environment, since productive firms require less natural resources and pollute less. Moreover, much evidence recommends that wealthier economies will likely have lower levels of certain hurtful emissions than poorer ones.

On the other hand, expanded economic activity can have negative environmental impacts. It may cause higher level of pollution due to expanded use of natural resources. Moreover, economic growth does not assure an advancement in natural assets.

II. Structural effects

Trade liberalization may lead changes in the composition of country's economies, through specialization in those goods and services where the country has a comparative advantage. For

⁵⁵ Environment and Trade: A Handbook 2nd Edition, (*The International Institute for Sustainable Development Environment, 2005*) 45

⁵⁶ Ibid

⁵⁷ OECD 1994, UNEP/IISD 2000, UNEP 2002 as cited in Colin Kirkpatrick and others, 'The Implications of Trade and Investment Liberalization for Sustainable Development: Review of Literature', (Impact Assessment Research Centre, Working Paper Serious No.1, 15, 2004)

⁵⁸ Ibid

⁵⁹ n.55

instance, a country, which have comparative advantage in agricultural production, can produce more for export.

On the positive side, if the structure of the economy changes favour industries that are less extractive of natural resources, less pollution intensive or generate higher employment opportunities and provide higher wage, positive environmental or social effects can be expected. And in the negative side, without appropriate environmental policies, structural effects of trade liberalization increased pollution, or accelerated harvesting of natural resources such as fish or timber in an unsustainable manner.

III. Technology effects

It occurs when changes in the way products are made depending on the technology used. It also known as a subset of product effects.⁶⁰ Positive effects of trade liberalization happens when the lowering of domestic prices following the reduction of trade barriers encourages imports of environmental goods. ‘Foreign producers may transfer cleaner technologies abroad when a trade measure or agreement results in a more open market and a business climate more conducive to investment. Trade-induced growth and competitive market pressures generated by liberalization can hasten processes of capital and technological modernization for all firms.’

Inversely, ‘trade liberalization may harm more environmentally-friendly and socially valuable traditional production methods. It can also promote the spread and use of harmful, less-environmentally-friendly technologies’.

IV. Distribution effects

It is about distributional changes resulting from trade liberalization. In a positive side, trade liberalization provides new commercial opportunities for companies that are able to export. And through imports, provides consumers with access to cheaper and various products. On the other hand, those import products might be in competition to local products and in consequence, domestic companies may suffer from competition pressure, which could result expulsion of the companies and loss of employment of the employees working on the companies.

⁶⁰ Ibid p.46

Depending on the type of projects which a country have comparative advantage, trade liberalization may also increase or reduce income inequality between different segments of the society. For example, it may reduce income inequality between low-skilled and high-skilled labors provided that a country started exporting low-skill labor-intensive goods. Simply, the crux of distributional effects of trade liberalization is that it may create winners and losers and/or increase or reduce inequality.

In addition, trade liberalization may have ‘regulatory effects’. Regulatory effects are associated with the legal and policy effects of trade liberalization on environmental regulations, standards and other measures. Law and policy interactions between trade liberalization agreements and sustainable development occur at both national and international level. Nationally, tariff and NTMs, subsidies, intellectual property rights, national-level environmental standards such as discrimination based on the use of process and production methods, the competitiveness effects of different levels of standards between countries are some of the areas of policy that these two concepts interact. These two concept interact internationally at two legal regimes; i.e., MTA and MEA.

2.5. Conclusion

This chapter discussed the concepts of sustainable development, trade liberalization and economic theories of international trade, separately. Economic theories of international trade, generally, indicates the likelihood of both gains and loss from participating in international trade. And, such possibility highly depend on the resources a country possess (absolute or relative advantage) and the level or capacity of exploiting such resources.

It has also discussed the relationship between sustainable development and trade liberalization based on the various impacts of trade liberalization on the sustainable development. As it has been explained, trade liberalization can affect sustainable development via five ways: scale effects, structural effects, technology effects, distribution effects and regulatory effects. Through those ways trade liberalization can affect the sustainable development either positively or negatively, or in both at once. As indicated in various studies, the impact is, however, conditional on a number of external and country specific factors, including the liberalized sectors, the country (Developed, Developing or LDC), the markets and prevailing policies among others.

CHAPTER THREE

AfCFTA and its Linkage with Sustainable Development Goals

3.1. Background of the AfCFTA

Since the 1960s, independent African states have attempted to create economic groupings ‘in order to improve their bargaining position and achieve sustained economic growth and development.’⁶¹ With this motive many REC were created in the continent. In 1980, African states adopted the Lagos Plan of Action.⁶² It was an OAU backed plan to increase Africa’s self-sufficiency, to minimize Africa's links with Western countries, by maximizing Africa's own resources. It also aimed at establishment of additional RECs and the strengthening of existing ones.⁶³ However, the plan was ineffective. Lack of incorporation of the plans by states into their development strategies and failure of the Plan to provide an effective monitoring and follow-up mechanism for its implementation are identified as crucial reasons that rendered the Plan ineffective.⁶⁴

The adoption by the AU of Abuja treaty in 1991,⁶⁵ which came into force in 1994, was crucial stepping-stone to attain continental economic integration in the continent. This treaty contains 6-stage integration plan⁶⁶ for the establishment of AEC by 2028, based on specific milestones and timelines. The third stage of the plan was targeted towards the establishment of a continental FTA by eliminating tariff and non-tariff barriers and the creation of custom union among African states by 2017.⁶⁷

The 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union, held in Addis Ababa, Ethiopia in January 2012, adopted a decision to establish a CFTA by

⁶¹ Ezi, Obuah Emmanuel, ‘Regional Economy and Foreign Capital in Economic Integration in Africa: Reflections on ECOWAS’ (Africa Development, 1989) 61-124.

⁶² Lagos Plan of Action for the Economic Development of Africa, (1980) 68

⁶³ Ibid

⁶⁴ Dr. Bell IHUA and others, ‘An Independent Study on the Potential Benefits of AfCFTA on Nigeria’ (2018), 11

⁶⁵ Treaty Establishing the African Economic Community, (Signed 3 June, 1991)

⁶⁶ Ibid Art. 6

⁶⁷ n.64

an indicative date of 2017.⁶⁸ The Summit also endorsed the Action Plan on Boosting Intra-Africa Trade (BIAT), which identifies seven clusters: trade policy, trade facilitation, productive capacity, trade related infrastructure, trade finance, trade information, and factor market integration.⁶⁹

On March 21, 2018 representatives of over 40 (out of 55) member countries of the African Union (AU) signed the African Continental Free Trade Area (AfCFTA) agreement.⁷⁰ And, it came in to effect on May 30th 2019.⁷¹

AfCFTA creates a single continental market for goods and services as well as a Customs Union with free movement of capital and business persons.⁷² It expected to cover all 55 African countries, with an estimated combined current GDP of US\$2.5 trillion, and a population of over one billion, 60 percent of whom are below the age of 25 years.⁷³ In terms of numbers of participating countries, AfCFTA will be the world's largest free trade area since the formation of the World Trade Organization.

The AfCFTA covers trade in goods, trade in services, dispute settlement, investment, competition, intellectual property and digital trade. The Protocols on Trade in Goods, Trade in Services and dispute settlement have already been adopted in the Phase I negotiations while the rest are being negotiated in Phase II negotiations.

The AfCFTA has been seen as a potential driver for economic growth, industrialization and sustainable development in Africa.⁷⁴ It has the potential to raise Africa's low productivity and promote higher investment, thereby helping to increase income levels and reducing poverty.⁷⁵ It

⁶⁸ African Union, CFTA-Continental free trade Area: <<https://au.int/en/ti/cfta/>>, May 5, 2021

⁶⁹ Ibid

⁷⁰ Lisandro Abrego and others, '*The African Continental Free Trade Agreement: Welfare Gains Estimates from a General Equilibrium Model*' (IMF working paper, May 2019) 3

⁷¹ Chiyoge B. Sifa, Background Paper AfCFTA: <<https://www.ilo.org/wcmsp5>> Accessed on 5 may, 2021

⁷² Ibid

⁷³ Mesut Saygili, Ralf Peters and Christian Knebel, '*African Continental Free Trade Area: Challenges and Opportunities of Tariff Reductions*', (UNCTAD Research Paper No. 15, 2018) 5

⁷⁴ Lily Sommer and Chris Nshimbi, '*The AfCFTA: An Opportunity for Informal Cross-Border Trade*', *Bridges Africa* (Pretoria 5 June 2018) 7

⁷⁵ Ibid

also has the potential to generate significant benefits for informal cross-border traders.⁷⁶ However, to exploit the potential economic contributions of AfCFTA, much work remains as critical parts of the agreement, which have yet to be completed, including countries' schedules of tariff concessions and services commitments, rules of origin, investment, intellectual property, competition, and a possible protocol on e-commerce.⁷⁷

3.2. AfCFTA: Objectives and Principles

Article 3 of the Agreement establishing the AfCFTA identifies the general objectives of the agreement. These are to deepening economic integration in Africa; creating a continental customs union; liberalizing intra-African trade; resolving the challenges of overlapping memberships in regional economic communities; enhancing competitiveness; contributing to the movement of capital and natural persons and facilitating investment; promoting sustainable and inclusive socio-economic development, gender equality and structural transformation; and promoting industrialization.

To achieve these eight objectives, the agreement contains specific objectives. These are to progressively eliminate tariffs and non-tariff barriers to trade in goods and liberalize trade in services; cooperate on investment, intellectual property rights and competition policy; cooperate on all trade-related areas; cooperate on customs matters and the implementation of trade facilitation measures; establish a mechanism for the settlement of disputes concerning their rights and obligations; and establish and maintain an institutional framework for the implementation and administration of the AfCFTA.⁷⁸

Furthermore, to guide the process of achieving these objectives, the AfCFTA identifies principles that should guide members'. Principles of non-discrimination such as the MFN, NT and Special and Differential Treatment are included in the agreement. The MFN principle is enshrined under Article 5 of the agreement establishing AfCFTA. In the AfCFTA, MFN is based on preserving the *acquis*; that State Parties to one of the eight RECs recognized under the AfCFTA shall maintain,

⁷⁶ Ibid

⁷⁷ Ibid

⁷⁸ *Agreement Establishing the African Continental Free Trade Area*: (signed March 21, 2018) Art. 4

and if possible improve upon the levels of liberalization.⁷⁹ Based on NT principle, all State Parties are obliged to the AfCFTA to treat products imported from other AfCFTA State Parties in the same way as they treat products produced domestically after the imported goods are cleared by customs.⁸⁰ Under the special and differential treatment State Parties are obliged to provide flexibilities to other State Parties that are at different levels of economic development or that have individual specificities to ensure comprehensive and mutually beneficial trade in goods.⁸¹ The principle of the agreement also includes substantial liberalization, consensus in decision-making and variable geometry.

The Agreement has three coats. The first is the AfCFTA agreement, which serves as a framework agreement. The second consists of Protocol on Trade in Goods, Trade in Services, Rules and Procedures on the Settlement of Disputes (Phase I negotiations), and four more protocols to be negotiated in future – Phase II and III negotiations (i.e., Investment Competition Policy, IPRs and E-commerce), which will enter into force after the second round of negotiations.⁸² And the third consists of Annexes, Guidelines and Schedules to the aforementioned Protocols.

The protocol on Trade in Goods set path for tariff liberalization with a level of ambition of 90% of tariff lines to be liberalized in a linear form over a period of 5 years for Non LDCs and 10 years for LDCs.⁸³

A group of countries called G6 (Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe) will secure a 15-years phase down period as they argued that they will face specific development challenges.⁸⁴ The percentage for Sensitive Products shall not exceed 7% of total tariff lines subject to negotiation and tariff dismantling starts on the 6th year.⁸⁵ Non-LDCs shall liberalize their

⁷⁹ Ibid, Art. 5

⁸⁰ Ibid, Art. 5

⁸¹ Ibid, Art. 6

⁸²Mbakiso Magwape, 'The AfCFTA and Trade Facilitation: Re-Arranging Continental Economic Integration' <<https://repository.up.ac.za>> accessed 4 April 2021

⁸³ Trudi Hartzenberge, 'AfCFTA: What is Expected of LDCs in Terms of Trade Liberalization' <<https://www.un.org>> accessed 4 February 2020

⁸⁴ n.82

⁸⁵ Ibid

sensitive products within 10 years and LDCs within 13 years.⁸⁶ The Exclusion List shall not exceed 3% of total tariff lines with intra-Africa import value limit of not more than 10 percent subject to negotiation and review every after 5 years.⁸⁷

The protocol on trade in goods includes nine (9) annexes dealing with different liberalization measures. These are annexes on tariff concessions, rules of origin, customs cooperation, trade facilitation, non-tariff barriers, technical barriers to trade, sanitary and phytosanitary measures, and transit and trade remedies.

On the liberalization of trade in services, member countries have also agreed to a request-and-offer approach, based on seven identified priority sectors: logistics and transport, financial services, tourism, professional services, energy services, construction, and communications.⁸⁸

3.3. Linkage Between AfCFTA and Sustainable Development

In terms of objective, the positive relationship between the AfCFTA and SDGs is apparent. AfCFTA is built with an objective of realizing aspects of the AU's Agenda 2063.⁸⁹ AU's Agenda 2063 is established with a vision of building an integrated, prosperous and peaceful Africa based on inclusive growth and sustainable development.⁹⁰ The seventeen SDGs fit neatly into the twenty goals of Agenda 2063. They are all compressed in the 20 goals of Agenda 2063. Hence, by implementing Agenda 2063 Member States will ipso facto be meeting global obligations under the SDGs. And thus, by making the AU's Agenda 2063 its core objective AfCFTA links Africa's growth and integration to the Sustainable Development Goals (SDGs).

The Agreement also references sustainable development in its objectives and specifically refers to some areas covered by the SDGs (such as gender equality and food security).⁹¹ Moreover, sustainable standards (such as SPS, TBT, General exceptions) are included in the Agreement, making it conscience of the continent's ecosystem and the world. It also recognizes the right of Member States to regulate towards their overall sustainable development. However, one author

⁸⁶ Ibid

⁸⁷ Ibid

⁸⁸ Trade in services negotiations under the AfCFTA, <<https://www.tralac.org>> 8 May 2021

⁸⁹ Agreement Establishing the African Continental Free Trade Area (signed March 21, 2018) Art.3(a)

⁹⁰ *The African Union Commission, Agenda 2063, The Africa We Want* (May 2014) 10

⁹¹ Agreement Establishing the African Continental Free Trade Area (signed March 21, 2018) Art.3(e)

have criticized the Agreement alleging that it does not establish comprehensive approach to sustainable development. The author also suggested that, to establish a comprehensive approach to sustainable development AfCFTA needs full alignment with the seventeen SDGs and their 169 goals and 230 targets.⁹² This will require addressing a number of additional areas of law including strategies to address food security, health and environment and climate change, along with binding rules on gender, labor, and other aspects of human rights.

3.3.1. Potential Impacts of AfCFTA on Sustainable Development in Africa

As mentioned in the previous chapter, FTAs can affect sustainable developments in various manners. Similarly, the AfCFTA can affect different sustainable development components in a number of ways; both positively and negatively. Depending on different literatures, the AfCFTA's potential prospects and challenges on the realization of SDGs in the continent are provided below.

3.3.1.1. Potential Prospects of AfCFTA on Sustainable Development in Africa

Various studies have considered implementation of AfCFTA as a potential prospect for welfare gain in the continent.

According to the GDAP's study result, full elimination of tariffs among African countries, which AfCFTA can do, would create an overall welfare gain of \$16.1 billion in the long-run for African countries.⁹³

In specific terms, indicators of welfare gain such as GDP, employment and real wages would increase for the continent.

GDP would grow by 0.66-0.97% and employment by 0.82-1.17%; the largest employment growth rates are found in manufacturing industry followed by services and agriculture sectors.⁹⁴

⁹² Kuhlmann and others, 'The African Continental Free Trade Area: Toward a New Legal Model for Trade and Development' (Georgetown Journal of International Law, March 16, 2020) 12

⁹³ Théophile Albert, 'The African Continental Free Trade Agreement: Opportunities and Challenges' (CUTS International, Geneva, 2019)

⁹⁴ AfCFTA Phase 1 Negotiations: Issues and Challenges for Eastern Africa, (2019, Third World Network-Africa) 26

Real wages would also increase: it will increase more for ‘unskilled’ laborers compared to skilled laborers (0.74% in agriculture and 0.8% in non-agricultural sectors for the unskilled; 0.54% for the skilled).⁹⁵

The potential welfare gain via AfCFTA has also been supported by the ‘natural trading bloc’ argument. The assumption of natural trading bloc is that the countries forming a regional integration would likely to gain larger welfare if they are geographically proximate as the risk of trade diversion will be minimal.⁹⁶ Further analysis in support of the argument is that the world was divided into continents; supposing that the transport costs are zero in intra-continent while, they are non-zero in inter-continentals.⁹⁷ Thus, since intra-continental transportation and business costs decrease relative to inter-continental ones, economic integration among proximate countries becomes a better policy in welfare terms.⁹⁸ As such, AfCFTA will potentially contribute to welfare gain since it is a free trade agreement among countries found in one continent.

It will also support realization of food security in the continent. Implementation of AfCFTA will result improved custom clearance times and logistics, which will benefit agricultural countries, whose exports are perishable in nature. In addition, distribution of goods from surplus regions to areas where there is a shortage is expected to become cheaper and easier. This in effect will satisfy Africa’s increasing food security requirements.

AfCFTA can also be a strategic advantage to advance the Green growth agenda.⁹⁹ First, Phase I protocols on trade in goods and trade in services, though finalized, can be operationalized with environmental considerations at their core.¹⁰⁰ For instance, in finalizing their tariff schedules, member states should not put environment-friendly technology (such as wind turbines or photovoltaic systems) on sensitive or exclusion lists.

⁹⁵ Ibid

⁹⁶ Etem Karakaya and Andrew Cookem, ‘*Economic Integration: An Overview of The Theoretical and Empirical Literature*’ (ISSN 1353-1506, 2002) 13.

⁹⁷ Ibid

⁹⁸ Ibid

⁹⁹ Ibid

¹⁰⁰ Ibid

Second, Phase II (on investment, competition policy and intellectual property rights) and III (on E-commerce) of the AfCFTA are yet to be negotiated. Thus, each can be an opportunity to embed environmental considerations. For example, incentives can be crafted to facilitate investment in green-friendly infrastructure, energy and research and development.¹⁰¹

Moreover, tariff and NTBs have been the biggest cost factors cited by cross border traders in the continent.¹⁰² This is exacerbated by the fact that a majority of cross-border traders in Africa are small to medium players.¹⁰³ Thus, the AfCFTA will significantly lower trade costs, thereby increasing not only the volume but also value of trade and ultimately contributing to reducing poverty and inequality levels.

3.3.1.2. Potential Challenges of AfCFTA on Sustainable Development in Africa

The Agreement, at least in the short-term, may adversely affect many economies in Africa and may bring adverse effects on the sustainable development in the continent. This will happen due to several reasons. Some of the reasons has been stated as follow:

First, each members of the AfCFTA may not capture the welfare benefits of the agreement. The reality in the continent, revealed that most African countries contains undiversified economies; most of the African countries including Ethiopia mostly contains Agricultural led economies. In addition, industries are weak in most of the countries. In contrast, in some African countries like in South Africa, manufacturers are most efficient and could significantly benefit from the Agreement by expanding their exports throughout the African continent and giving them an advantage over manufacturers from other countries. Therefore, considerable economic growth and welfare gains may be experienced by those countries with large productive capacities in manufacturing.¹⁰⁴ However, those countries with small economies and LDCs like Ethiopia may face significant fiscal revenue losses and local industries local industries likely be affected because of foreign (import) competition. This would be potential challenge to Africa's sustainable

¹⁰¹ Ibid

¹⁰² Michael Takudzwa and NoluthoDiko, 'The Effects of AfCFTA on Food Security Sustainability: An Analysis of the Cereals Trade in the SADC Region' Walter Sisulu University, 2020, 2

¹⁰³ Ibid

¹⁰⁴ Mensut Saygili, Ralf Peters and Chrstian Knebel, African Continental Free Trade Area: Challenges and opportunities of Tariff Reductions (UNCTAD Research Paper No.15 2018) 6

development since it will cause unequal economic gains (being against SDG 10) among the African states.

Second, AfCFTA's trade liberalization policy will create competitive environment between the trading parties, which may result negative structural change. A stronger competitive environment may threaten MSMEs and small-scale farmers because they would have higher trading costs than bigger companies and as a result face financial challenges to compete with greater companies.¹⁰⁵ As a result, it may expel MSME and small-scale farmers out of business, which will, in effect, cause loss of job and unemployment.

Fourth, AfCFTA can have a negative impact on unskilled labour in the short and medium term because of tougher competition, especially if low-skill sectors were originally protected.¹⁰⁶ This may create social tensions unless compensatory measures are set in place by the governments.

Fifth, AfCFTA's tariff liberalization policy may cause tariff revenue loss.¹⁰⁷ Falls in tariff revenues may have significant effects on government budget balances in some countries, which may adversely affect the governments' capacity to invest in infrastructure, education and social programs, which are crucial for attaining sustainable development.

In addition, the AfCFTA's benefit of boosting intra-African trade (IAT) could be threatened by climate change by raising temperatures and producing extreme weather events.¹⁰⁸ Such climate effects can also reduce agricultural production and yields; harm the biodiversity and natural attractions on which tourism in Africa depends.¹⁰⁹

3.4. Conclusion

This Chapter discussed the key elements including objectives and principles of the AfCFTA and its interaction with sustainable development. AfCFTA is established incorporating aspects of AU's Agenda 2030, which prioritizes inclusive, social and economic development and links Africa's

¹⁰⁵ n.93

¹⁰⁶ Ibid, 15

¹⁰⁷ n.104

¹⁰⁸ David Luke & Lily Sommer, *'Opinion: To build back better, make African trade greener'* (Africa Trade Policy Centre, 5 October 2020)

¹⁰⁹ Ibid

growth and integration to the SDGs. Thus, one may argue that, achieving the sustainable development goals is one of the mandates of the Agreement. However, the Agreement has not fully incorporated the SDGs of Agenda 2030 and their targets, indicating the lenient approach it has followed regarding realization of SDGs. Sustainable development is currently a global agenda as degradation of the global ecosystem has threatened the very survival of nature. Thus, as a sensitive global agenda, AfCFTA have to integrate each SDGs of the Agenda 2030 in its system.

AfCFTA is seen to be a potential challenges as well as prospects on the realization of sustainable development in the continent. In the one hand, it has been said that AfCFTA will bring significant welfare gain by increasing GDP, per capita income and employment.

On the other hand, there is a threat that the potential welfare gain may not be distributed equitably due to the prevailing development gap between African countries. It is also likely that the AfCFTA may have negative effects on the environment. The rise of intracontinental trade and exchanges could increase CO2 emissions. Never the less, free trade agreement between natural trading blocs would in turn reduce trade distance and therefore have less impact on climate change. Thus, AfCFTA could be a potential challenge as well prospects on achieving sustainable development in the continent.

In recognition to some of the aforementioned potential challenges, it has been suggested that ‘AfCFTA has to be asymmetrical (for support of smaller economies) and synchronized with the two other pillars of the integration agenda: building productive capacity, and enhancing cross-border infrastructure.’¹¹⁰ When implementation of AfCFTA includes such measures, IAT will be more proportional with increased and balanced share of exports thereby realizing equality of development among member states.

¹¹⁰ Philomena Apiko, Sean Woolfrey and Bruce Byiers, ‘*The promise of the African Continental Free Trade Area (AfCFTA)*’ (ECDPM, Discussion Paper No. 287, December 2020) 4

CHAPTER FOUR

THE CHALLENGES AND PROSPECTS OF AfCFTA FOR THE REALIZATION OF SUSTAINABLE DEVELOPMENT GOALS (SDGs) IN ETHIOPIA

4.1. Introduction

Built on the Preamble to the UN Charter ‘to promote social progress and better standards of life’ the obligation to realize sustainable development has been part of international legal order. Ultimate legal integration of environmental protection and economic development occurred in the Agenda 21; The Rio Declaration on Environment and Development; United Nations Framework Convention on Climate Change and Convention on Biological Diversity¹¹¹ and others.

Agreeing to these international legal obligation Free Trade Agreements have been identified to be potential prospects on the process of realizing sustainable development. However, FTAs also have some challenges on the realization of sustainable development of member countries to the FTA. As explicitly mentioned previously, recent studies on the AfCFTA have also revealed the potential challenges and prospects of AfCFTA Agreement on the sustainable development in Africa.

Coming to Ethiopia, since the Agreement is launched recently (January 1, 2021), the country is yet to experience its impacts on its domestic sustainable development goals. Thus, the potential challenges and prospects of AfCFTA on the SDGs in Ethiopia need to be studied since it will help a concerned body to take appropriate measure to avert/reduce the challenges and magnify the prospect. With such motive, this thesis analyzes the potential challenges and prospects of AfCFTA on the realization of the selected SDGs in Ethiopia. As mentioned in the first chapter, three SDGs of the Agenda 2030 has been selected i.e., G2, 8 and 13. This paper categorize each of these goals in the various aspects of sustainable development (i.e., Economic, Social and Environmental).

4.2. Challenges and Prospects on Economic Aspect of Sustainable Development

Goal 8 of the Agenda 2030 on sustainable development has been characterized as an economic aspect of sustainable development. It contains three different components of sustainable development: i.e., “sustainable” and, “inclusive economic growth” and “decent and full

¹¹¹ These institutions of international law are produced at the United Nations Conference on Environment and Development (UNCED), held in Rio de Janeiro, Brazil, in June 1992.

employment”. The potential challenges and prospects of AfCFTA on each component of sustainable development stated in Goal 8 are analyzed as follow.

4.2.1. Sustainable Economic Growth

The discussion in the second chapter shows that, different theories of trade and economics have signified how international trade can affect economic growth of a country. According to the theories, international trade may have positive effect for economic growth if a country has comparative advantage or in the other view absolute advantage in producing the goods or services it sells in the trade.

In light with the David Ricardo’s theory of comparative advantage, AfCFTA will have positive contribution for economic growth in Ethiopia by expanding economic activities of the sectors of which the country has comparative advantage. The agricultural sector is a good example in this regard; since the country has been endowed with relatively abundant labor, which is a necessary factor endowment for the sector to be effective. However, this cannot be always true as the affirmative effects of trade liberalization on economic growth may also depend on many other conditions such as like the availability of technology, skilled labor force, sufficient infrastructure etc.

Nevertheless, the conventional path of economic growth is different from sustainable economic growth.¹¹² Sustainable economic growth involves both environmentally sustainable growth and sustainable growth in terms of low inflation and a balanced economy.¹¹³ An economic growth without sufficient consideration to natural resources would bring negative outcome to the ecosystem thereby causing risks against sustainable development. Moreover, an economic growth not concerned with the interest of poors or/and vulnerable societies will sustain environmental degradation.¹¹⁴ The relationship between poverty and environmental degradation is like a ‘vicious cycle’ in which poverty causes the degradation of the environment and such degradation in turn

¹¹² CRGE (Green Economy Strategy), (FDRE, Addis Ababa, November 2011) 11

¹¹³ Tejvan Pettinger, ‘Sustainable growth’, <<https://www.economicshelp.org>> accessed 29 May 2020

¹¹⁴ Khan, H. Poverty, environment and economic growth: exploring the links among three complex issues with specific focus on the Pakistan’s case. *Environ Dev Sustain* 10, 913–929 (2008) 920

perpetuates more poverty.¹¹⁵ Thus, sustainable economic growth should also ensure a balanced economy and include inclusiveness (inclusive economic growth) whereby all, especially the poor's, can benefit from the economic growth (This section analyzes the potential impacts of AfCFTA on sustainable economic growth, while the potential impacts of the Agreement on inclusive economic growth has been examined in the next section).

In this section, AfCFTA's potential impacts on sustainable economic growth will be analyzed, by first bearing in mind its impacts on the agricultural and manufacturing sector. These two sectors are selected as appropriate for this section because highest share of Ethiopia's import and export commodities in the IAT are classified in these sectors and, thus, AfCFTA's impact will be more viable on these two sectors.

As will be discussed in detail in the section below, the AfCFTA agreement's potential impacts on trade of goods produced from these sectors will have a second order impacts (both challenges and prospects) on the sustainable economic growth in Ethiopia.

Potential Impacts of AfCFTA on Agricultural Sector and It's Challenges and Prospects on Sustainable Economic Growth

Although the agricultural sector is the engine of Ethiopia's economy, various studies reveal that the overall performance of the export sector is unsatisfactory. In the IAT, in particular, Ethiopia's contribution of agricultural products is considerably low. Ethiopia contributes only 7% of its total trade in the IAT and only 20.8% of the total export of Ethiopia is directed in the trade.¹¹⁶

With the existing limited participation of Ethiopia in the IAT, it would be difficult to achieve the AfCFTA's potential contribution for economic gain from comparative advantage and the SDGs that will likely result from it. Thus, factors hindering the country's potential in the continental trade should first be identified.

Two main grounds are seen as a major factor for the low level of Ethiopia's export of agricultural products in the (IAT). The AfCFTA agreement is, to a large extent, likely to address the second reason.

¹¹⁵ Emeka Polycarp Amechi, 'Linking Environmental Protection and Poverty Reduction in Africa: An Analysis of the Regional Legal Responses to Environmental Protection'(2010) Law, Environment and Development Journal 128-129

¹¹⁶ Annual Report of the National Report of Ethiopia (2018/2019) 83

1. Inadequacy of product supply: As shown in Andualem Debas's study exporters have revealed that shortage of supply is a problem facing the Ethiopia's agricultural export sector.¹¹⁷ Various factors are identified as a cause for the shortage, of which agricultural productivity problem (lack of productivity) is the major problem. In addition, there is strong domestic demand for most of agricultural commodities being traded in the IAT. The prominent exports of agricultural products in the IAT, such as Khat, Coffee, Live bone animals etc, also faces strong domestic demand. Thus, it can be noted that high domestic demand for agricultural products coupled with productivity lack to satisfy domestic food need have resulted in lower volume of agricultural exports.
2. Market access problem: As mentioned above, very limited volume of Ethiopia's export of agricultural products is directed to Africa. On the other hand, most of its agricultural commodity exports are destined outside Africa. Notably, this may be due to the preferential trade arrangement of Europe and USA such as EBA and AGOA.¹¹⁸ Exporting to developed country through preferential trade arrangement may, however, be a problem for the unilateral nature of the arrangement can be stopped any time they want.

Whereas the country does not participate to the preferential trade arrangements on the continent.¹¹⁹ Being membership to the AfCFTA can thus be advantageous for Ethiopia as it can serve as a reliable and predictable give and take trade agreement.¹²⁰

As reported by exporters, market access problem is the other major factor contributing to the low volume of agricultural products exports in a foreign market. In the IAT, Ethiopia's market access problem is predominantly due to tariff and NTBs including trade facilitation problem.

- Tariff Barriers

As described above, the destination of agriculture export products of the country are mainly outside Africa. This is seen to be due to the tougher tariff conditions Ethiopia faces from African

¹¹⁷ Andualem Debas, Assessment of the Level of Performance, Challenges and Prospects of Export Trade in Ethiopia: A Management Perspective, 2010, St. Mary University 215-251, 243

¹¹⁸ Yoseph Samuel, 'Prospects and Challenges of Membership to AfCFTA on Trade in Goods and Services: The Case of Ethiopia' Addis Abeba University, 2020, 34

¹¹⁹*The Countdown to Implementing the African Continental Free Trade Area in East Africa*, <<https://www.brookings.edu/>> accessed 25 May 2021

¹²⁰ n.118

countries.¹²¹ For instance, Kenya, which is a principal importer of Ethiopia's agricultural exports (e.g., Pulses), currently impose a high common external tariff on imports of Ethiopian goods.¹²² In addition, Ethiopia have not been member of the previously formed regional economic integration in the continent. In this regard, AfCFTA will serve a reliable resolution by dismantling the protectionist tariff policy adopted by trading partners of Ethiopia in the IAT. As such, the agricultural products of Ethiopia will benefit from the special treatment provided by the Agreement in accordance with their categorization in the Schedule of Tariff Concessions. In addition, AfCFTA will pave the way for new market access opportunity for Ethiopia's agricultural products.

- Non-tariff Barriers (NTBs)

The Non-Tariff Barriers (NTBs), which include a wide range of measures such as discriminative measures, government procurement, and unnecessary customs processes, are a significant obstacle to IAT.¹²³ Many of the obstacles related to NTMs that are reported by Ethiopian traders relate to domestic policies and procedures.¹²⁴ For instance, exporters point to Ethiopian export regulations, such as export clearance procedures (form entry procedures), as a major hurdle to trade. Traders also point to the overlapping administrative bureaucracies often leading to delays in obtaining certificates of origin or securing necessary customs inspections, weakness of infrastructure and geographical impediments as a difficulty.¹²⁵ The Ethiopian government can address some of the aforementioned obstacles, by acting domestically. Additionally, implementation of the AfCFTA commitments on elimination of non-tariff barriers to trade; arrangements regarding trade facilitation, ROO can play a strategic role in simplifying firm entry procedures and other barriers to trade at IAT level. Through the aforementioned ways, AfCFTA will facilitate export of Ethiopia's agricultural production in the IAT. Using the AfCFTA market access opportunity the country can also widen its export destinations to other African countries.

¹²¹ Export potentials of Ethiopia, Kenya, Mozambique and Zambia (International Trade Center) 16

¹²² n.119

¹²³ African Farmers and AFCFTA, FEBRUARY, 2021, Positioning of African Farmers Organizations in the context of the AfCFTA, Panafrican Farmers Organization (PFO), 25

¹²⁴ ITC, 'Most Ethiopian exporters face challenges related to non-tariff measures' (2021) Available at <<https://www.intracen.org/>>

¹²⁵ Ibid

As a second order effect, increased markets in agricultural products will have both challenges and prospects on the realization of sustainable economic growth. The potential prospects and challenges of the AfCFTA on Ethiopia are explained as follow:

First, by stimulating the agricultural sector AfCFTA will enhance sustainable economic growth in the country. The agricultural sector in Ethiopia is dominated by the smallholder agriculture and it is the most important sub-sector in the country since it covers over 80% of employment.¹²⁶ However, there remains a high prevalence of poverty among smallholder farming communities.¹²⁷

Yet, the smallholder agriculture has significant contribution to the countries agricultural export products. For instance, the top export products of Ethiopia in the IAT such as Khat, Sesame, Live bone animals etc, are largely produced by the smallholder agriculture.

Through the aforementioned mechanisms, implementation of AfCFTA would increase market access for such products. This, in effect, will stimulate the sub-sector by raising the demand for the products. According to Economics, the increase in demand causes excess demand to develop at the initial price.¹²⁸ Excess demand will cause the price to rise, and as price rises producers are willing to sell more, thereby increasing output.¹²⁹ As such, by increasing demand for the agricultural products AfCFTA can help poor farmers gain better income thereby overcoming poverty. It has been shown that reduced poverty will have positive environmental outcome. This is because, people with poverty are usually depend on the environment for their survival and the vice versa is true for people with better income.¹³⁰ This, in turn, contributes for sustainable economic growth in the country. Therefore, by stimulating the smallholder agriculture and helping the poor farmers to overcome their poverty, AfCFTA is likely contribute to sustainable economic growth in Ethiopia.

¹²⁶ Urgessa Tilahun, 'Review of Challenges and Prospects of Agricultural Production and Productivity in Ethiopia' (2014) *Journal of Natural Sciences Research* 71

¹²⁷ Ibid

¹²⁸ The Effects of Changes in Demand and Supply on Equilibrium Price and Quantity, Available on <<https://www3.nd.edu/>> Accessed on 7/27/2021

¹²⁹ Ibid

¹³⁰ Khan, H. 'Poverty, environment and economic growth: exploring the links among three complex issues with specific focus on the Pakistan's case'(2008)10 *Environ Dev Sustain* 921

However, this potential prospect can only be achieved when the Government devoted to address agricultural productivity problem and reduce the existing shortage of supply. To reduce lack of agricultural productivity the government has taken agricultural development program (AGP) in two different period (i.e., ADP I & II).¹³¹ These programmers aims to sustainably increase agricultural production and productivity of selected crop and livestock commodities by establishing market linkages and accelerate commercialization, increasing access to agricultural public services, building smallholder farmers' capacities in efficient water and crop management to adopt and implementing climate change mitigation and adaptation measures.¹³² Although these projects have addressed some drawbacks in agricultural production and productivity,¹³³ facts reveal that lack of agricultural productivity remains a problem in the country.

As indicated by Urgessa, the limited use of improved farming practices (through use of technology) by the majority of smallholders is an important factor contributing to low agricultural productivity.¹³⁴ In addition, another numerous constraints to yield and productivity growth have been identified. This includes relatively low levels of input use (fertilizer, pesticide, and improved seeds), low levels of irrigation, soil degradation and soil erosion, inadequate agricultural research and extension, and constraints in market development.¹³⁵ Also, poor animal handling and inadequate facilities at the abattoir and export level also challenge the livestock sub-sector. In this regard, by strengthening implementation of the existing ADPs and adopting a new one, the national government can play a vital role in averting these main constraints of agricultural productivity in the country.

Second, it will increase foreign earnings from exports, which can serve as a source of revenue to finance implementation of SDGs. Foreign earning inevitably increases when exports rise. In effect, it will reduce trade imbalances and hard currency problem resulting from trade deficits the country

¹³¹ Guush Berhane, Mekdim Dereje and others, 'Agricultural Growth Program (AGP) of Ethiopia: Baseline Report 2011' International Food Policy Research Institute, 1-48.

¹³² Ibid

¹³³ 'Agricultural Growth Project II (AGP II)' Available on <<https://www.gafspfund.org/>> Acceded on August 5, 2021

¹³⁴ n.126, 76

¹³⁵ Ibid

has faced. This can give the Government a room of revenues that can serve as a source of finance for implementation of the SDGs in the country.

On the other way, AfCFTA can be potential challenge against sustainable economic development in Ethiopia due to the overarching unsustainable agricultural practice in the country. Agriculture in Ethiopia is characterized by unsustainable practice as most of agriculture being practiced in Ethiopia is characterized by soil erosion and land degradation, which can also result for biodiversity loss.¹³⁶ Whereas, AfCFTA have a potential of stimulating the predominant unsustainable agricultural practice in the country by opening up a new foreign market access and increasing the demand for the products. Although, AfCFTA's contribution to a new market access to agribusiness is good for economic growth of the country, it can also be a threat for sustainable economic growth because of the prevailing unsustainable agricultural practice in Ethiopia.

Potential Impacts of AfCFTA on Industrial Sector and It's Challenges and Prospects of on Sustainable Economic Growth

Ethiopia faces a growing trade deficit with total imports steadily increasing on average by 12.5% per year during the previous 10 years.¹³⁷ In 2017, Ethiopia had a trade deficit with Africa for over USD 3000 million.¹³⁸ Trade deficit, in effect, would be a challenge for sustainable economic growth. Before going to the analysis of how trade deficit could affect sustainable economic growth, it would be necessary to indicate the circumstances that caused the sustained trade deficit of Ethiopia in the IAT with particular focus of the industrial sector.

Persistent trade deficit, as in Ethiopia, is mainly caused by the differences in the technological and knowledge intensity of the products exchanged.¹³⁹ In other words, the difference in the technology and knowledge intensity on the composition of Ethiopia's export and import goods is the main cause of trade deficit in the country. This happens because goods produced with high technology and knowledge intensity (i.e., industrial products) are high in price and the goods produced with

¹³⁶ Ibid, 72

¹³⁷ 'Ethiopia; Market Overview', Available on <<https://www.export.gov/>> Acceded on August 2, 2021

¹³⁸ 'Ethiopia: Intra-Africa Trade and Tariff Profile' (Tralac Trade Law Center, 2018) <<https://www.tralac.org> accessed 16 May 2021

¹³⁹ Gould David and Ruffin Roy, 'Trade Deficits: Causes and Consequences', 1996, Economic and Financial Policy Review 10-20, 8

low technology and knowledge intensity (i.e., primary (agricultural) products) are relatively low in price.¹⁴⁰

When we look at Ethiopia's export products in the IAT, the vast majority of Ethiopia's exports are primary agricultural products, which are low in price. In contrast, Ethiopia's share of exports of manufactured commodities are very low. During 2001 and 2016/17, the total share of manufactured exports in the international trade is less than 13 %.¹⁴¹ In the IAT, manufacturing sector of Ethiopia contains not more than 4% of Ethiopia's exports. From these, cement, including cement clinkers and Molasses each constitutes 3% and 1% respectively, of the total share of Ethiopia's export of manufactured commodities.¹⁴²

Looking at composition of imports, industrial products constitute the highest import of Ethiopia. Over 90% of top imported products are high value or value added goods (such as capital goods, manufactured consumer goods and semi-finished products including fertilizers). These include, Mineral or chemical fertilizers (36%), Coal; briquettes, Ovoids and similar solid fuels manufactured from fuels (10%), Petroleum oils and oils obtained from bituminous mineral, excluding crude (7%), Petroleum coke, petroleum bitumen, and other residues residues of petroleum oil (4%), Motor cars and other Motor vehicles principally designed for transport of persons (3%), Wheat and meslin flour (2%).¹⁴³ Out of the aforementioned top imported products, we could not find purely agricultural products. Thus, Ethiopia's imports from the IAT is concentrated in industrial products that are relatively high in price compared to agricultural products. To the worse, import of these products may rise in the implementation of AfCFTA due to reduction/elimination of tariffs and NTBs and exacerbate the existing trade deficit.

As it has been mentioned, that trade deficit would be a challenge on the realization of sustainable economic growth in the country. This will happen through various ways.

¹⁴⁰ Ibid

¹⁴¹ Arkebe Oqubay, The structure and performance of the Ethiopian manufacturing sector :Working Paper Series N° 299, (African Development Bank, 2018) 4

¹⁴² n.138

¹⁴³ Ibid

First, Trade deficit may exacerbate shortage of foreign hard currencies in the country. Hard currency shortages (mainly resulting from merchandise trade deficit) are considered by the government as well as international financial institutions such as IMF as one of the biggest challenges that the Ethiopian economy is facing.¹⁴⁴ In addition, shortage of hard currencies is the prominent challenge facing Ethiopian development projects. For instance, it is one of the challenges facing implementation of employment creation and poverty reduction projects of Ethiopia.¹⁴⁵ Because of shortage of finance, many similar kinds of sustainable development projects remain unrealized in the country. In addition, Ethiopia is looking for foreign aids to finance its development projects. As such, persistent trade deficit is flinging Ethiopia under threat of foreign aid dependence. Apparently, it would not be feasible to achieve sustainable economic growth with persistent dependence on foreign source of finances.

Second, trade deficit may also cause loss of employment and unsustainable economic growth by causing import competition against industrial products in the country.¹⁴⁶ While this assumption could be true, Economists disagree on the broad impact of trade deficits on employment as they claimed offsetting job growth in other sectors is possible through the same trade ties.¹⁴⁷ In other words, increasing imports of capital goods, which may cause trade deficit in countries like Ethiopia, are likely to increase capital mobility thereby increasing economic activity and employment in the country.¹⁴⁸ In this regard, by eliminating tariff and NTBs AfCFTA can increase capital inflows to the country with relatively better ease and cheap price and facilitate economic activities in the country. In fact, such external capital inflows can succeed for developmental purpose if and only if the external resources are dedicated to the creation of a competitive industrial sector to increase manufactured goods exports.¹⁴⁹ Thus, the Government should be dedicated on

¹⁴⁴ ZinabuSamaro, 'Trade deficits as development deficits: Case of Ethiopia', *Structural Change and Economic Dynamics*, Volume 52,344-353, ISSN,2020, 348.

¹⁴⁵ HailemariamAssefa, 'Implementation of the Population Policy of Ethiopia: Achievements and Challenges' 2016, 9

¹⁴⁶ Trade Imbalances and Jobs, Available on <<https://saylordotorg.github.io/>> Accessed on August 5, 2021

¹⁴⁷ Adam Hayes, 'Trade Deficit: Advantages and Disadvantages'<<https://www.investmedia.com/>> Accessed on July 27, 2021

¹⁴⁸ n.139

¹⁴⁹ n.117, 346

transforming the imported capital goods to facilitating economic activity through industrialization and job creation.

Therefore, although trade deficit is good in some aspects, it should however be reduced to address some of its negative impacts. Seemingly, in response to the underlying problem, the government of Ethiopia has begun to stress, since 2010, the importance of structural transformation and development of manufacturing sector.¹⁵⁰ However, the structure of the economy has failed to transform in the right direction.¹⁵¹ The economy is still dominated by the agricultural sector. Whereas the industrial sector has little contribution to the economy of the country. The sector is still highly dominated by small firms and resource-based industries, and concentrated around the capital city.¹⁵² It characterized by low level of export earnings and relatively less competitive.¹⁵³

Various studies have mentioned different factors for low export performance of the industrial sector in the country. Underdevelopment of private manufacturing sector (which dominates the industrial sector of the country), lack of adequate physical capital (technology plant assembly lines, machinery, building, etc), inadequacy of quantity and quality of raw material supply, transportation problem (time taking transportation for import and export) are identified as a major constraint hindering export potential of the manufacturing sector.¹⁵⁴ The government need to work on averting such constraints.

Lack of diversification of export products is also the major problem of the country.¹⁵⁵ Ethiopian firms export is the least diversified among firms in East Africa. They export less than four products on average.¹⁵⁶ Ethiopia's government should focus on increasing manufacturing product exports to the African market. Ethiopia has more untapped leather export potential than any other country

¹⁵⁰ Ibid, 352

¹⁵¹ Ibid

¹⁵² Arkebe Oqubay, *Made in Africa: Industrial Policy in Ethiopia* (Oxford University Press, 2015) 66

¹⁵³ Ibid

¹⁵⁴ n.117, 203

¹⁵⁵ 4th Ethiopia Economic Update: *Overcoming Constraints In The Manufacturing Sector* (World Bank, 2015) 24

¹⁵⁶ Ibid

in East Africa.¹⁵⁷ Articles of clothing and clothing accessories, as well as skins, and the leather of goats or kids and raw hides and skins (other than fur skins) are among these products.¹⁵⁸

In addition, leather has a stronger demand and potential in the African market.¹⁵⁹ Cotton and textiles, particularly cotton yarn (not sewing thread) 85% or more cotton, not retail, other produced textile products, sets, worn garments, etc., and articles of apparel, accessories, not knit or crochet, are all viable exports for Ethiopia in East Africa.¹⁶⁰ As a result, Ethiopia can take advantage of the AfCFTA through these products. Hence, through these products, Ethiopia can use AfCFTA's market access opportunity to exploit its potential and reduce the trade deficit being faced in the industrial sector.

4.2.2. Inclusive Economic Growth

'Inclusive growth is about ensuring that the benefits of development reach the entire population, including the most vulnerable members'.¹⁶¹ Growth is inclusive 'when it takes place in the sectors in which the poor work (e.g. agriculture); occurs in places where the poor live (e.g. undeveloped areas with few resources); uses the factors of production that the poor possess (e.g. unskilled labour); and reduces the prices of consumption items that the poor consume.'¹⁶²

As previously stated, AfCFTA will have positive economic gain provided that Ethiopia has used its potential in the areas, which it has comparative advantage. In addition, a previously conducted study has also revealed the potential positive economic benefits of the agreement in Ethiopia. The study includes Ethiopia among the countries with largest welfare gain if tariff is eliminated with African countries and if tariff liberalization would be accompanied by trade facilitation measures.¹⁶³ Through its tariff elimination and trade facilitation measure, implementation of AfCFTA would, therefore, likely have significant contribution to Ethiopia's economic growth.

¹⁵⁷ n.117, 45

¹⁵⁸ Export potentials of Ethiopia, Kenya, Mozambique and Zambia (International Trade Center) 17

¹⁵⁹ n.117, 47

¹⁶⁰ Ibid, 48

¹⁶¹ What does-inclusive economic growth actually mean in practice? <<https://www.undp.org/>> Accessed 26 April 26 2021

¹⁶² ibid

¹⁶³ AfCFTA Phase 1 Negotiations: Issues and Challenges for Eastern Africa, (2019, Third World Network-Africa) 34

However, the economic gain from trade liberalization (AfCFTA) ‘may not be equitably distributed’ (i.e., it may have unfavorable distributional impact).¹⁶⁴ In other words, an economic gain from trade liberalization may unevenly distributed between various segments of the society (rich and poor, skilled and unskilled, men and women, rural and urban population etc.). Uneven distribution of economic gain may, in effect, cause and/or increase income inequality between them.¹⁶⁵ This section of the paper examines distributional impacts of the AfCFTA agreement between the rich and poor, skilled and unskilled, men and women in Ethiopia.

- Rich and Poor

The study conducted on the potential impacts of AfCFTA in Ethiopia indicated that, the AfCFTA appears to be pro-rich in Ethiopia.¹⁶⁶ This means, the gains for the poor will be lower than the gains for the richest households. This will happen due to several reasons. Supposedly, the prominent cause could be that poor people may not capture the full benefit from participation in international markets, as the goods they produce tend to be subject to relatively high trade barriers.¹⁶⁷ In Ethiopia, poor people, especially poor farmers, often face market access problem for the things they produce. Lack of rural infrastructure and skills to produce quality and competitive products are the main problems that the poors have faced in the country. Thus, the Government need to introduce new and strengthen the existing pro-poor policies in Ethiopia. Among others, the government need further work on promoting rural infrastructure (road, education service), creating conducive rural investment climate and promoting agricultural research and development.¹⁶⁸

In addition, one study has find that trade liberalization could be pro-rich due to a higher share of imported goods consumed by the rich.¹⁶⁹ This will be true for Ethiopia, as most of the goods

¹⁶⁴Adegbemi Onakoya, Babatunde Johnson & Grace Ogundajo, ‘*Poverty and trade liberalization: empirical evidence from 21 African countries*’ (2019) Economic Research 637

¹⁶⁵ Ibid

¹⁶⁶ n.163

¹⁶⁷ WTO Contribution to the 2019 High Level Political Forum 3 (WTO Sustainable Development, 13 March 2019) 15

¹⁶⁸Wayan R. Susila and Robin Bourgeoi, ‘*Effect of Trade Liberalization and Growth on Poverty and Inequity: Empirical Evidences and Policy Options*’, (Forum Penelitian Agro Ekonomi, Volume 26 No. 2, 2008) 73

¹⁶⁹Kebede Sindu, Fekadu Belay and Aredo Dejene, ‘Trade Liberalization and Poverty: A Macro-Micro Analysis in Ethiopia’, SSRN Electronic Journal, 2011, 111

imported from the IAT are capital goods (Petroleum oils, Motor cars, Ovoids, Coals etc) which are largely, consumed by the riches in the country. However, AfCFTA may also benefit poor farmers as fertilizers are also imported from the trade. Through tariff elimination and trade facilitation measure AfCFTA will facilitate import of fertilizers. This will help the poor farmers in the country to access fertilizers with better ease and cheaper price.

- Skilled and Unskilled Labors

Apparently, there is considerable income inequality between the skilled and unskilled labors in Ethiopia. Most skilled workers in the country acquire from high to middle income in the country levels of income.¹⁷⁰ Relatively, the unskilled workers in the country obtain low income.

Based on Stolper-Samuelson theorem, it is likely that AfCFTA will decrease income inequality between skilled and unskilled labors in Ethiopia. In this theory, trade flows are determined by comparative advantage and the latter, in turn, depends on each country's resources.¹⁷¹ For instance, countries, well endowed with low-skilled labour relative to other countries, will export low-skill labor-intensive goods.¹⁷² Consequently, relative demand for low-skill workers would increase in such countries. In other words, agricultural and manufactured exports are more intensive in unskilled labour than imports or import competing goods, so that policies leading to greater (manufactured and agricultural) exports will lower the wages of skilled versus unskilled workers, hence tending to contribute to greater income equality.¹⁷³ In such way, income inequality between skilled and unskilled labors would be expected to decline in countries endowed with low-skilled labour.¹⁷⁴ Agricultural products constitutes huge amounts of Ethiopia's exports, apparently, as most people in Ethiopia are involved in agriculture. Also, agriculture is the most unskilled labor-intensive sector in the country. This shows that Ethiopia can take this comparative advantage to reduce inequality between skilled and unskilled labors. To magnify this potential prospect, Ethiopia should diversify its export of unskilled labor-intensive products, including the agricultural and manufacturing products.

¹⁷⁰ Trading Economic, 'Ethiopia Wages High Skilled', <<https://tradingeconomics.com/>> Accessed 6 August 2021

¹⁷¹ 'Trade in a Globalized World' (World Trade Report 2008) 123

¹⁷² Ibid

¹⁷³ Ibid

¹⁷⁴ Ibid

- Women and Men

Although empowering women economically is crucial in order to achieve inclusive and sustainable growth¹⁷⁵ facts reveal that women in the country are relatively less employed and earns less income than men earn. AfCFTA will have potential prospects as well as challenges in averting/reducing the economic gap between women and men in Ethiopia. In this regard, the paper will see AfCFTA's impact on women employment (which is the most important component for women economic empowerment) in the country.

According to some empirical evidences, FTAs potential impact on women employment depend on the kind of sectors intensified by the FTAs. In specific terms, women would be benefited from the FTA provided that such FTA encourages female-intensive industries. For instance, NAFTA has increased 32% in employment share of women in Mexico, between 1990-2000, as tariff reductions associated with the Agreement have increased the relative size of the manufacturing export sector that has a higher concentration of female workers such as textiles, clothing, and computers and electronics.¹⁷⁶

On the other hand, case studies of trade reforms in Senegal, Ghana, Uganda, indicate that the gender gap in earnings widened in favor of men due to trade liberalization.¹⁷⁷ This was due to the fact that in these agriculture-based economies, men are better positioned to produce cash crops for export.¹⁷⁸ Similarly, AfCFTA could be a potential challenge or prospect on women employment and income in Ethiopia depending on the kind of sectors that the FTA will intensify in the country.

Most products that Ethiopia exports in the IAT are agricultural products (for example, in 2017 Khat, Dried legumes, Potatoes) which are, evidently, male dominated and are less female intensive products. Thus, it can be said that AfCFTA is less likely to increase women employment and income in Ethiopia, as most of its products destined in the IAT are less female intensive products.

¹⁷⁵ n.167

¹⁷⁶ Aguayo, Ernesto, Jim Airola, and ChinhuiJuhn, 'Did Trade Liberalization Help Women? The Case of Mexico in the 1990' < <https://voxeu.org/> > accessed 26 May 2021

¹⁷⁷ Ibid

¹⁷⁸ Ibid

To use the AfCFTA for increasing women employment the government should exploit the AfCFTA's market access opportunity to export products of female intensive industries in the country. There are numerous manufacturing industries in Ethiopia with relatively high number of female employees. The recently launched industrial parks of Ethiopia and Eastern Industry Zone are the notable female intensive industries in the country as they contain relatively more women employees. By enhancing these industries, the government can use AfCFTA's market access opportunity to produce and export more products thereby creating more employments for female.

4.2.3. Employment

The other component of goal 8 of the Agenda 2030 for sustainable development is ensuring full and decent employment. Presently, lack of full and decent employment is a dominant problem in Ethiopia. The continued population growth expected to raise the problem in future also. Thus, there is a strong need for new employment in the country. AfCFTA would have potential impacts (both positively and negatively) on employment in Ethiopia.

As stated previously, implementation of the Agreement will increase Ethiopia's export. Many empirical evidences indicated that increase of export could increase employment. A study on NAFTA's impact on US employment, for instance, indicate that employment has dramatically increased in sectors that are intensified because of NAFTA.¹⁷⁹ In US, the largest traded goods industries at the time NAFTA was enacted were food manufacturers, chemicals, fabricated metals, non-electrical machinery, computer and electronics and transportation equipment.¹⁸⁰ Each industry employed more than a million workers showing positive impact of the Agreement on the employment of the country.¹⁸¹

Similarly, as it has been noted, by intensifying the agricultural sector AfCFTA can increase employment in the country. As such, it will create additional employment opportunity for those involved in the export of agricultural products in the IAT link; from smallholder producers to cross border traders. In addition, the positive employment impact from improved access to export market

¹⁷⁹ O'Leary, and Others, 'Effects of NAFTA on US Employment and Policy Responses' (OECD Trade Policy Working Papers, No. 131, 2012) 11

¹⁸⁰ Ibid

¹⁸¹ Ibid

could be magnificent when countries export labor-intensive commodities.¹⁸² AfCFTA's employment impact would, thus, be superb in Ethiopia as most of Ethiopia's exports and its potential in Africa's export market are labor-intensive products (i.e. agricultural and manufacturing products). However, the limited and less diversified nature of Ethiopia's export in Africa's export market would limit the potential positive impact of AfCFTA on employment of the country. Yet, Ethiopia can still utilize this potential prospect by diversifying and increasing its export potential by taking different measure.

On the other hand, implementation of AfCFTA agreement might be a challenge on employment of the country. This will happen because of the likely increase of imports to Ethiopia through the AfCFTA's tariff reduction agreement. The likely effect of this premise has also been supported by a previous study indicating that, in the case of Ethiopia, increase of imports will be even higher than exports.¹⁸³ As it has been explained, increase of imports, in turn, will cause import competition.¹⁸⁴ Studies also indicated import competition would have negative structural effect as net employment might come down because of increase in competition.¹⁸⁵ This is because domestic production for the home market using labour-intensive methods may be displaced by cheaper imports.¹⁸⁶ 'This structural effect of trade liberalization is seen to be greater in agricultural and manufacturing sector'.¹⁸⁷ As such, the impact is more likely in Ethiopia as AfCFTA is likely to trigger such competition by increasing imports of agricultural and manufacturing products (which contains the largest employment in the country) through its tariff elimination and trade facilitation measures, as most African trading partners of Ethiopia have a comparative advantage in such sectors.

Different studies have suggested that the positive effects of trade liberalization on employment is conditional on adjusting to the shock created by the liberalization.¹⁸⁸ Thus, to reduce the potential challenges in employment because of AfCFTA, in addition to enhancing the sectors and

¹⁸² Ibid, 19

¹⁸³ n.163

¹⁸⁴ n.179, 19

¹⁸⁵ ITC by Country- Ethiopia, (International Trade Centre, 2014), 125

¹⁸⁶ Ibid

¹⁸⁷ n.163, 3

¹⁸⁸ Ibid

diversifying export products from such sectors, Ethiopia need to take supplementary measures. These may include providing skill training for displaced workers (for displaced workers b/c of import competition this can help them grasp the relevant skills to involve in the market again), easy access to credit among displaced firms, self-employment assistance programme for dislocated workers etc.¹⁸⁹

4.3. Challenges and Prospects on the Social Aspect of Sustainable Development

The social aspect of sustainable development generally intends to protect well-being of a community. The Agenda 2030 for sustainable development includes various components of the social aspect of sustainable development. Whereas this section analyzes the potential challenges and prospects of AfCFTA on the realization of food security, which enshrined Goal 2 of the Agenda 2030.

4.3.1 Ensuring Food Security

FAO has alluded that, food security exists ‘when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.’¹⁹⁰ It has also noted that food security rests on four pillars: accessibility, availability, stability and utilization.

Although ensuring food security is the priority policy areas of Ethiopia, food shortage and malnutrition remains a problem causing food insecurity in the country.¹⁹¹ According to the study of Stephen Devereux, lack of agricultural productivity is the main cause of food insecurity in the country.¹⁹² In addition, the existing amount of agricultural products is seen to be insufficient to address the growing food needs of the rapidly increasing number of population.

In response to food insecurity, different measures have been taken by the national government to reduce the food shortage and agricultural productivity problem in the country. These measures include, access to land, market development, asset building/productive safety net programmes

¹⁸⁹ APEC, ‘*Trade, Inclusive Growth, and the Role of Policy, Key Trends and Developments Relating to Trade and Investment Measures and their Impact on the APEC Region*’, (APEC Policy Support Unit, November 2015) 9

¹⁹⁰ FAO, Food Security (Policy Brief, June 2006), < <http://www.fao.org/f> > Accessed on 6 August 2021

¹⁹¹ Ethiopia Country Strategic Plan (WFP, Executive Board Annual Session, Rome 25 June 2020) 25

¹⁹² Stephen Devereux, ‘Food Insecurity in Ethiopia; (A discussion paper for DFID’ IDS Sussex, October 2000) 3

(PSNP), enhancing agricultural productivity through ADPs, importing foods via aid and purchase, banning export of major cereals (teff, wheat etc.). This paper examines the potential challenges and prospects of the Agreement on the last two measures.

- **Importing foods (cereals) via aid and purchase**

One of the responses by the Government to address food shortage in the country is importing foods from abroad through foreign aid and purchase. For aid, Ethiopia has been receiving a mass of Wheat every year from US donates. However, being dependent on foreign aid can be a problem against food security as the donating country could revoke it any time. In such vein, by making Ethiopia to depend on it, regular foreign aid dependence may also risk the national food self-sufficiency strategy.

Ethiopia also imports significant amount of cereal products through purchase. In 2019, top exporters of Cereals; maize (corn), seed to Ethiopia were South Africa and Kenya.¹⁹³ These African countries makes the largest share of Ethiopia's cereal imports from abroad.

As Ethiopia trades, with the aforementioned and other cereal exporting African countries, without any preferential trade agreement, the AfCFTA can be a potential prospect via different ways. First, through its schedules of tariff concession, it will avoid or at least, reduce on the tariffs imposed on the items and allows import of the items with cheaper price. This will allow the destitute (people with low income) to access foods with relatively cheaper price thereby supporting realization of food accessibility in the country. Second, other arrangements of the AfCFTA, such as avoiding NTBs (quotas, embargos) and trade facilitation measures, may also contribute to easy transfer of agro-foods including cereals from food surplus to deficit regions. The AfCFTA agreement includes a commitment by the Member States to remove the NTBs (which is one of the prominent obstacles in the IAT) and refrain from imposing any new NTBs. This will facilitate and encourage increased movements of agricultural products on the African continental market. This would be considerable prospect for Ethiopia as it usually suffers from food shortage because of drought.

Generally, by easing food trade between Ethiopia and other African countries AfCFTA can be a potential prospect to address food shortage problem in Ethiopia. In fact, importing foods for

¹⁹³ World Integrated Trade Solution (WITS), 'Cereals; maize (corn), seed exports to Ethiopia (excludes Eritrea) in 2019' Accessed on 10 June 2021

purchase is not an advisable mechanism to ensure food security as it also, in the long term, hampers realization of food self-sufficiency strategy. However, it can be a feasible mechanism to address the growing food shortage problem in the country, at least in the short term.

- **Banning export of major cereals**

Cereal products are the most important agro-food products in any part of the world. In Ethiopia, Cereals and cereal products are the most consumed food items. On the other hand, Ethiopia suffers from sustained shortage of cereal products, which led her to food shortage. To minimize the shortage, the government has banned the top consumed cereal products from export.¹⁹⁴ According to the data from Ethiopian Agricultural Transformation Agency, Maize, Teff & Cereals nes, Sorghum, Wheat, and Barley are out of the top consumed products in Ethiopia that are banned from export.¹⁹⁵

AfCFTA's protocol on trade in goods would have potential challenge to this measure as it prohibits quota restrictions on export of goods, including the agricultural products, which the gov't has already taken unilaterally with the aim of minimizing food shortage in the country. In addition, as exporters revealed, due to its organic nature there is strong demand of Ethiopia's agricultural products, including the cereals, in the foreign market.¹⁹⁶ AfCFTA's restriction on imposing quotas on the exports added with high foreign demand on Ethiopia's agricultural products would likely increase outflow of cereal products of the country to abroad. This, in effect, may exacerbate the prevailing food shortage in the country. Here the example of Senegal can be mentioned; a country rich in fishery resources but where international trade has led to scarcity of fish in the domestic market.¹⁹⁷

As explained previously, increase of export can, indeed; contribute to economic growth of the country by reducing the trade deficit, which Ethiopia is known for. In other words, by contributing to a trade balance, it may facilitate GDP growth of the country. However, it would be difficult to

¹⁹⁴ Ethiopian Agricultural Transformation Agency (ATA), Cereal Export Restrictions in Ethiopia: A Review of Practice, Economic Costs and Benefits, 2019, 4

¹⁹⁵ Ibid, 41

¹⁹⁶ n.116, 141

¹⁹⁷UN's FAO, 'The African Continental Free Trade Area Agreement and agricultural development: challenges and prospects', FSN Forum in Africa, Available on <<http://www.fao.org/>> Accessed 22 May 2021

attain sustainable development solely for economic growth by risking food security; as such, growth may harm those vulnerable people in need of food.

Two possible measures can be suggested in response to the above challenge. First, as stated above, the government should strengthen and attain the strategy of agricultural productivity. Ensuring this strategy would be like ‘kicking two birds with one stone’. Enhanced and increased agricultural productivity can address food shortage problem and increase the country’s export potential. This, in effect, will realize both economic growth and food security.

Second, the government should avoid unfavorable agreements on cereal items and instead ensure enough domestic supply of cereal products to promote food security for the country’s population.¹⁹⁸ In this regard, AfCFTA’s schedules of tariff concession gives a favorable room by allowing some products (i.e., sensitive and excluded products) from tariff liberalization. The government can take this room to exclude the top consumed cereal products in the country. Teff is a best example in this regard.

4.4. Challenges and Prospects on Environmental Aspect

4.4.1. Avoiding Climate Changes and its Impacts

Our survival is interlinked and dependent on the ecosystem. As such, economic and social sustainability are also reliant on sustainability of the ecosystem. Environmental sustainability is thus the basic aspect of sustainable development. It is also the basic factor for interdependence (mutual supportiveness) of trade and sustainable development.

Nowadays, climate change is causing multiple problems against global ecosystem. In Ethiopia, climate change poses multitude of risks. According to the Voluntary National Review on SDGs, climate change is reported to be one of the major causes for decrease of agricultural products in the country.¹⁹⁹ ‘Decrease of agricultural produce in turn increases the likelihood of food shortages and, possibly, famine’.²⁰⁰ Food shortage, in turn, causes social crisis. Consequences of climate change is thus multifaceted. In response to the impacts of climate change, the 2030 Agenda for

¹⁹⁸ Ibid

¹⁹⁹ Ethiopia 2017 Voluntary National Review on SDGs Government Commitments, National Ownership and Performance Trends (UNDP Ethiopia, Mar 16, 2018) 6

²⁰⁰ n.1, 56

Sustainable Development, specifically SDG 13, calls for urgent action to combat climate change and its impacts.

In combating climate change in Ethiopia, AfCFTA can have potential challenges as well as prospects. As indicated in the second chapter, trade liberalization can affect climate change through different ways. In this section, the Scale effects, Technique effects and Composition effects of the AfCFTA in Ethiopia are discussed in analyzing the potential challenges and prospects of the Agreement on climate change in Ethiopia.

The scale of economic activities believed to increase because of successful implementation of AfCFTA in the member countries.²⁰¹ According to theory of scale effects, increase of the scale of economic activity may affect pollution positively or negatively. In the positive side, income growth because of increases in the scale of economic activity might help to reverse air pollution since richer economies will likely have lower levels of certain harmful emissions. (This effect can also be explained by Environmental Kuznets Curve (EKC) analysis).²⁰² In the negative side, increasing scale of economic activity will require more inputs, which lead to the deterioration of the environment. For instance, growing competition in agricultural and manufacturing sector will lead to over exploitation of natural resources, including exploitation of land areas covered by forests. Similarly, the growing industry will require more energy which mainly depends on the prevalent method i.e. energy derived from fossil fuels.²⁰³ This will constitute negative impact on the environment.

²⁰¹ n.163

²⁰² The relationship between income and environmental protection is explained by EKC. It states that the relationship between wealth/income growth and environmental protection follows an inverted U-shape pattern. It is based on the assumption that expansion in economic activity is detrimental for air and water pollution in the early phases of industrialization. However, when countries become wealthy/rich enough to pay to clean up their environments, pollution decreases.

²⁰³ Geoff McCarney and Vic Adamowicz, 'The Effects of Trade Liberalization on the Environment: An Empirical Study' (Contributed Paper prepared for presentation at the 26th Conference of the International Association of Agricultural Economists, Gold Coast, Australia, August 12-18, 2006)

Thus, to achieve high-quality environment and sustainable development through the AfCFTA, its scale effect should be kept in check.²⁰⁴ In other words, environmental costs associated with expansion in economic activity through the AfCFTA should be minimized. This could be made possible with environmental-friendly technologies especially in areas where the country has export advantage. Thus, the current source of Ethiopia's export in the IAT, which is mainly based on agriculture, 'should factor in the value of environment and should be in a way that does not cause climate change and harm the environment'. In this regard, the role of government is crucial in making the technologies familiar and creating awareness about the use of such technology has for sustainable development and quality environment.²⁰⁵

Through the technique (method) effect, AfCFTA will have potential prospect to the climate change in the country. First, AfCFTA will stimulate the use of different methods of production that have positive environmental impacts due to the possibility of substitution between different inputs through trade.²⁰⁶ Second, as mentioned previously, AfCFTA will boost the export capacity of Ethiopia, which may result in increased economic growth (export-led growth). Such an increase in economic growth might increase the income level of the country, which may lead the nation to import technology that is environmentally-friendly which aims to improve output levels.

Composition effects arise based on the composition of traded goods.²⁰⁷ Each good has its own polluting tendency; the composition of traded goods through AfCFTA in and out of Ethiopia therefore can determine the extent of pollution in Ethiopia. For example, if Ethiopia tend to have high export concentrations in climate-sensitive sectors, such sectors will be vulnerable to the effects of climate change and environmental degradation. In this regard, Ethiopia's export in the IAT will have positive composition effect, as most of them are agricultural products (labor-

²⁰⁴ Tariku Lamessa, 'The Impact of Trade Liberalization on Air Pollution: In Case of Ethiopia' (University of Milan, DEMM, 2015) 18

²⁰⁵ Ibid, 19

²⁰⁶ Samina Khalil, Mohsin Hasnain and Usman Azhar, 'Environmental Effects of Trade Liberalization: A Case Study of Pakistan', (The Pakistan Development Review 200746: 4 Part II, 645-655)

²⁰⁷ Ibid

intensive products) which cause relatively minimal damage against environment (labor intensive businesses are less pollution intensive than capital-intensive business).

As per the studies in the relevant literature, the relative strength and direction of the aforementioned effects will cause the environmental impact of trade liberalization to differ across countries.²⁰⁸ For instance, corrupt governance may impede the technique effect by rendering governments unresponsive to public demands for greater environmental quality.²⁰⁹ Corruption can also cause environmental degradation by reducing the effectiveness of environmental regulations. Accordingly, the high incidence of corruption in Ethiopia²¹⁰ would be a second order challenge.

In addition, according to the assumption of pollution haven analysis, developing countries like Ethiopia tend to apply less stringent environmental regulations to use the advantage of pollution haven effects of trade liberalization. This potential threat, if happened in Ethiopia, would attract pollution intensive industries, and may extend severe damage on the environment and exacerbate climate change and its impacts in the country. Thus, both the corrupt governance and pollution haven effect could affect the transferability of the EKC between Ethiopia and other member countries.

It follows that, by strengthening the existing and adopting new strict environmental regulations, setting up strong institutional mechanism and fighting corruption the government of Ethiopia can play significant role to utilize the positive effects of AfCFTA to combat climate change and its impacts in Ethiopia. Moreover, the government should enforce the environmental laws at all levels of governance so that there shouldn't be the transfer of goods and services, including outdated technologies.

²⁰⁸ Ibid

²⁰⁹Deacon, R.T. and Bernardo Mueller, '*Political Economy and Natural Resource Use*',(Working Paper Series No. 5-04, UC, Santa Barbara: Department of Economics, 2004)

²¹⁰ The low ranking of the Transparency International corruption perception index (CPI) indicates that incidence of corruption is high in the country (Ethiopia is ranked 133 of 176 countries)

CHAPTER FIVE

CONCLUSION AND RECCOMENDATIONS

5.1. Conclusion

This thesis, generally, addressed the potential challenges and prospects of FTAs (AfCFTA) on sustainable development. In particular, it analyzed the potential challenges and prospects of Ethiopia's membership to AfCFTA on the realization of SDG 2, 8 and 13 of the UN's Agenda 2030 for sustainable development.

The first chapter have provided the proposal of the thesis. The second chapter dealt with the concepts of sustainable development and trade liberalization (free trade area) and the interrelationship between them. It briefly discussed the definition of the topics and the relevant theories of both. In addition, it have pointed out some of the economic theories of international trade. Finally, it discussed the patterns of relationship between trade liberalization and sustainable development. The third chapter discussed background, objectives and principles of the AfCFTA and its linkage with SDGs. It also provided the potential challenges and prospects of the AfCFTA on the sustainable development. The fourth chapter particularly addressed the potential challenges and prospects of the Agreement on the realization of SDG 2 (ensuring food security), 8 (ensuring sustainable and inclusive economic growth, full and decent employment) and 13(combating climate change impacts) of the Agenda 2030 in Ethiopia. Each are discussed classified into the various aspects of sustainable development (i.e., Economic, Social and Environmental).

The paper initially analyzed the potential challenges and prospects of AfCFTA agreement on the Economic aspect (i.e., G8). The potential challenges and prospects of the Agreement on sustainable economic growth examined by first emphasizing its potential impacts on Agricultural and Industrial sector of the country.

Through its policy of avoiding/reducing tariff and NTBs, AfCFTA likely stimulate the agricultural sector in Ethiopia by averting the market access problem. Increased market access, in effect, may increase the demand for the products and as such, it will help smallholder poor farmers to gain better income thereby reducing poverty. Reduced poverty, in turn, will have positive environmental outcome. In such vein, AfCFTA will have a second order positive impact on the realization sustainable economic growth in the country. However, in order to realize this potential

prospect, the government should work on addressing the existing shortage of supply because of productivity problem.

On the other hand, by exacerbating the prevailing unsustainable agricultural practice AfCFTA can be a challenge on realizing sustainable economic growth in the country.

In the IAT, the industrial export sector of Ethiopia has been in a trade deficit due to the imbalances of its import and exports. By eliminating tariffs and NTBs, implementation of AfCFTA may increase import of industrial goods and exacerbate the prevailing trade deficit Ethiopia has incurred in the IAT. Increased import of industrial (capital goods) and its effect of trade deficit, in effect, would cause loss of employment and be a challenge for realization of sustainable economic growth. However, the country can use the imported capital goods, which will likely increase because of AfCFTA implementation, for facilitation of economic activity and creating employment opportunity. To reduce the trade deficit, the industrial sector has to be enhanced and export of manufactured products be improved.

Regarding inclusive economic growth, the paper has analyzed potential distributional effects of AfCFTA agreement on three different segments of society in Ethiopia (Rich and poor, skilled and unskilled and women and men). AfCFTA likely be pro-rich in the country. This is because the poor people may not capture the benefits that will be accrued by the Agreement, as the goods they produce tend to be subject to relatively high trade barriers. In addition, a higher share of imported goods consumed by the rich. On the other hand, through tariff elimination and trade facilitation measure AfCFTA will facilitate import of fertilizers and as such, it will help the poor farmers in the country to access fertilizers with cheaper price.

By stimulating unskilled labor-intensive sectors (i.e., the agriculture sector, which Ethiopia has better factor endowment), AfCFTA would increase income of the unskilled labors and reduce income inequality between skilled and unskilled labors in Ethiopia.

Provided that the national government uses the market access opportunity of AfCFTA agreement to encourage female-intensive industries in the country, the Agreement can also be potential prospect for female employment and income gain. By offering a system for women to formalize their trade and guaranteeing them greater protection, it can also encourage women to participate

in the regional cross border trade. As such, through plummeting economic inequality between men and women AfCFTA can be a potential prospect to ensure inclusive economic growth in Ethiopia.

Concerning employment, AfCFTA is likely improve employment opportunity via stimulating labor-intensive sectors in the country. On the other hand, through its tariff elimination and trade facilitation measure AfCFTA may increase import of goods and, in effect, it may displace some employees because of import competition.

Secondly, the potential challenges and prospects of AfCFTA agreement on the realization of the Social aspect of sustainable development (G2) were analyzed. This section particularly analyzed AfCFTA's potential challenges and prospects on the realization of food security in Ethiopia. The government has taken several measures in response to food insecurity problem in the country. This sub-section analyzed the likely challenges and prospects of the Agreement on two measures; i.e., importing food (through aid and purchase) and Banning of major cereals from export. By easing importation of agro-food products between Ethiopia and other African countries, AfCFTA can be a potential prospect to address food shortage problem in Ethiopia. On the other hand, its policy of eliminating NTBs (including quota restriction) the Agreement would be a challenge to Ethiopia's measure of banning export of cereals.

The third section analyzed the potential challenges and prospects of the AfCFTA agreement on the environmental aspect (G13 i.e., compacting climate change). AfCFTA can affect climate change in Ethiopia through scale, technique (method) and composition effect.

Successful implementation of the AfCFTA Agreement potentially increase scale of economic activity thereby causing income growth in the country. Income growth will, in turn, reduce pollution and climate change since richer economies will likely have lower levels of certain harmful emissions (positive scale effect). On the other hand, increasing scale of economic activity will require more inputs, which lead to the deterioration of the environment (negative scale effect). For instance, growing competition in agricultural and manufacturing sector will lead to over exploitation of natural resources, including exploitation of land areas covered by forests.

The Agreement can also stimulate the use of different method of production that have positive impact on the environment (technique effect).

In addition, depending on the composition of traded goods AfCFTA can, either negatively or positively, contribute to the environment in Ethiopia.

5.2. Recommendations

As discussed in the thesis, Ethiopia's membership to the AfCFTA Agreement has potential prospects as well as challenges on the realization of SDG 8 (ensuring sustainable, inclusive economic growth and decent and full employment); SDG 2 (realizing food security) and SDG 13 (combating of climate change and its impacts) of Agenda 2030 for sustainable development in Ethiopia. Therefore, to utilize the potential benefits and minimize the challenges, this thesis submits the following recommendations.

❖ Regarding SDG 8:

To ensure sustainable economic growth

- The government should enhance agricultural productivity with the necessary care to sustainability of the agriculture.
- The industrial sector must be enhanced to improve and diversify export of manufactured products and use AfCFTA's market access opportunity to reduce the trade deficit.

To achieve inclusive economic growth

- The Government should strengthen pro-poor policies, so that the poor can use AfCFTA's market access opportunity. To do so, the government should strengthen promoting rural infrastructure (road, education service), creating conducive rural investment climate and promoting agricultural research and development and other pro-poor policies.
- To create female employment through the AfCFTA's market access opportunity female intensive industries in the country should be enhanced to produce and export more products in the IAT.
- To reduce the potential challenges in employment because of AfCFTA, in addition to enhancing domestic sectors to be competitive in the trade, the Government need to take supplementary measures to support the workers that would likely be displaced by implementation of AfCFTA. These may include providing skill training for displaced workers, easy access to credit among displaced firms, self-employment assistance programme for dislocated workers etc.

❖ **Concerning SDG2:**

To support realization of food security

- In order to avoid/reduce outflow of cereals and control the likely challenge of the Agreement on food security, the government should avoid unfavorable agreements on cereal items. This may include excluding the major cereal products, like Teff, from tariff concession.

❖ **In Case of SDG 13,**

- The current source of Ethiopia's export in the IAT, which is mainly based on agriculture, should be made with environmental-friendly technologies and sustainable practice.
- The Government should encourage sustainable farming system. This can be done by strengthening farmer's rights over the land and natural assets by stronger and clearer legislations and other mechanisms including incentives, tax reductions, and technical support.
- The government should strengthen the existing environmental laws and policies and the capacity of relevant institutions for implementation.

Bibliography

Laws and Policies

UN Agenda 2030 on Sustainable Development (Adopted in September 2015)

Agreement Establishing the African Continental Free Trade Area including the Protocol on Trade in Goods and its 9 Annexes and the Protocol on Trade in Services (signed March 21, 2018).

Treaty Establishing the African Economic Community (signed June 3, 1991)

Declaration on Environment and Development (Rio, June 1992)

Declaration on the United Nations Conference on the Human Environment (Stockholm, 16 June 1972)

The Constitution of the Federal Democratic Republic of Ethiopia, Proclamation No. 1/1995.

Articles, Journals and Research papers

Adegbemi Onakoya, Babatunde Johnson & Grace Ogundajo, 'Poverty and trade liberalization: empirical evidence from 21 African countries' (2019) *Economic Research*

Ahmad Sheikh, Ahmad Malik and Zehra Masood, 'Assessing the effects of trade openness on sustainable development: Evidence from India' (2020), *Asian Journal of Sustainability and Social Responsibility*

Amodu Nojeem, 'Corporate Social Responsibility and Economic Globalization: Mainstreaming Sustainable Development Goals into the AfCFTA Discourse' (*Legal Issues of Economic Integration* 71–104, 2020)

Anthony P. Thirlwall, *Trade, Trade Liberalization and Economic Growth: Theory and Evidence* (ADB Research Paper No.63 2000)

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

Clements, Benedict, 'The Heckscher-Ohlin Theorem Of International Trade Theory: New Empirical Tests For Brazil' (2011) *Journal of Applied Business Research (JABR)*

Cutter, A., Osborn D., Romano J. and F. Ullah ‘SDGs and Integration: Achieving a better balance between the Economic, Social and Environmental Dimensions’, (The International Journal of Sustainable Development and World Ecology, 2015)

Daniel Weldegebriel, ‘Land Rights and Expropriation in Ethiopia’ (Doctoral Thesis in Land Law, Stockholm, 2013)

Deacon, R.T. and Bernardo Mueller, ‘Political Economy and Natural Resource Use’,(Working Paper Series No. 5-04, UC, Santa Barbara: Department of Economics, 2004)

Donald L Sparks, The Sustainable Development Goals and Agenda 2063: Implications for Economic Integration in Africa, (Research in Applied Economics, 2016)

Emeka Polycarp Amechi, ‘Linking Environmental Protection and Poverty Reduction in Africa: An Analysis of the Regional Legal Responses to Environmental Protection’(2010) Law, Environment and Development Journal 128-129

Etem Karakaya and Andrew Cookem, ‘Economic Integration: An Overview of The Theoretical and Empirical Literature’ (ISSN 1353-1506, 2002)

Ezi, Obuah Emmanuel, ‘Regional Economy and Foreign Capital in Economic Integration in Africa: Reflections on ECOWAS’ (Africa Development, 1989)

Guush Berhane, Mekdim Dereje and others, ‘Agricultural Growth Program (AGP) of Ethiopia: Baseline Report 2011’ International Food Policy Research Institute, 1-48.

Hertel Thomas and Randhir Timothy, ‘Trade Liberalization as a Vehicle for Adapting to Global Warming,’ (Agriculture and Resource Economics Review, 2002)

Kebede Sindu, Fekadu Belay and Aredo Dejene, ‘Trade Liberalization and Poverty: A Macro-Micro Analysis in Ethiopia’, SSRN Electronic Journal, 2011

Lisandro Abrego and others, ‘The African Continental Free Trade Agreement: Welfare Gains Estimates from a General Equilibrium Model’ (IMF working paper, May 2019)

Mesut Saygili, Ralf Peters and Christian Knebel, ‘African Continental Free Trade Area: Challenges and Opportunities of Tariff Reductions’, (UNCTAD Research Paper No. 15, 2018)

Mohan Munasinghe, 'Analyzing the Nexus of Sustainable Development and Climate Change', (OCDE Working Party on Development Co-operation and Environment, 2002)

Narayanan B.G., Duval, Y., Kravchenko, A. and Wadhwa, D. 'Sustainable development impact of trade and investment liberalization in Asia and the Pacific,' (ARTNeT Working Paper Series, 2017)

O'Leary, and Others, 'Effects of NAFTA on US Employment and Policy Responses'(OECD Trade Policy Working Papers, No. 131, 2012)

Pasara, M.T.; Diko, N., 'The Effects of AfCFTA on Food Security Sustainability: An Analysis of the Cereals Trade in the SADC Region' (12:4 Sustainability, 2020)

Samina Khalil, MohsinHasnain and Usman Azhar, 'Environmental Effects of Trade Liberalisation: A Case Study of Pakistan', (The Pakistan Development Review 200746 : 4 Part II, 645-655)

Schumacher, Reinhard, 'Adam Smith's Theory of Absolute Advantage and the Use of Doxography in the History of Economics' (2012) Erasmus Journal for Philosophy and Economics

The Implications of Trade and Investment Liberalization for Sustainable Development: Review of Literature', Impact Assessment Research Centre, (Working Paper Serious No.1, 15, 2004)

Urgessa Tilahun, 'Review of Challenges and Prospects of Agricultural Production and Productivity in Ethiopia'(2014) 4 Journal of Natural Sciences Research

Wayan R. Susila and Robin Bourgeoi, 'Effect of Trade Liberalization and Growth on Poverty and Inequity: Empirical Evidences and Policy Options', (Forum Penelitian Agro Ekonomi, Volume 26 No. 2, 2008)

Xiangming Li, 'Trade Liberalization and Real Exchange Rate Movement' (Palgrave Macmillan Journal, Vol. 51, No. 3, 2004, 553-584)

Yoseph Samuel, 'Prospects and Challenges of Membership to AfCFTA on Trade in Goods and Services: The Case of Ethiopia' Addis Abeba University, 2020

Zinabu Samaro, 'Trade deficits as development deficits: Case of Ethiopia', Structural Change and Economic Dynamics, Volume 52,344-353, ISSN, 2020

Books

4th Ethiopia Economic Update: Overcoming Constraints In The Manufacturing Sector (World Bank, 2015)

AfCFTA Phase 1 Negotiations: Issues and Challenges for Eastern Africa, (2019, Third World Network-Africa)

AfCFTA Phase 1 Negotiations: Issues and Challenges for Eastern Africa, (2019, Third World Network-Africa)

Arkebe Oqubay, Made in Africa: Industrial Policy in Ethiopia (Oxford University Press, 2015)

Environment and Trade: A Handbook 2nd Edition, (The International Institute for Sustainable Development Environment, 2005)

Gary P. Sampson, The WTO and Sustainable Development (United Nations University, 2005)
'The AfCFTA: Economic and Distributional Effects' (Washington, DC: World Bank 2020)

Jean Senahoun, The AfCFTA and Agricultural Development: Challenges and Prospects (Food and Agriculture Organization of the UNs, 12 May 2020)

Kuhlmann and others, 'The African Continental Free Trade Area: Toward a New Legal Model for Trade and Development' (Georgetown Journal of International Law, March 16, 2020)

Michael Abrokwa, 'The Significance of AfCFTA in the Attainment of SDGs' (ACINTaD, 21 May, 2020)

Théophile Albert , 'The African Continental Free Trade Agreement: Opportunities and Challenges' (CUTS International, Geneva, 2019)

Women & Cross Border Trade in East Africa: Opportunities and Challenges for Small Scale Women Traders (The East African Community Custom Union, 2006)

Reports

Annual Report of the National Report of Ethiopia (2018/2019)

Ethiopia 2017 Voluntary National Review on SDGs Government Commitments, National Ownership and Performance Trends (UNDP Ethiopia, Mar 16, 2018)

Trade in a Globalized World (World Trade Report 2008)

WTO Contribution to the 2019 High Level Political Forum 3 (WTO Sustainable Development, 13 March 2019)

Others

‘AfCFTA: Towards the African Continental Free Trade Area’ (Trade Law center, 2019)

‘Giant trade agreement for development in Africa: the Continental Free Trade Area’ (UN Economic Commission for Africa, 2018)

‘Key to Success for the AfCFTA Negotiations’ (African Growth Initiative at Brookings 2019)

‘Trade and the Sustainable Development Goals’ (ESCWA, 29 September 2017)

Albert Muchanga, ‘Preparing for Trade under the AfCFTA Agreement’ Great Insights magazine (EDCAM, 2020)

Andualem Debas, Assessment of the Level of Performance, Challenges and Prospects of Export Trade in Ethiopia: A Management Perspective, 2010, St. Mary University 215-251

David Luke & Lily Sommer, ‘Opinion: To build back better, make African trade greener’ (Africa Trade Policy Centre, 5 October 2020)

Emeka C. Iloh and others, ‘WTO’s Trade Liberalization Policy on Agriculture and Food Security in West Africa’, (Intechopen, 2020)

Ethiopia: Intra-Africa Trade and Tariff Profile’ (Tralac Trade Law Center, 2018)

Ethiopian Agricultural Transformation Agency (ATA), Cereal Export Restrictions in Ethiopia: A Review of Practice, Economic Costs and Benefits, 2019

Export potentials of Ethiopia, Kenya, Mozambique and Zambia (International Trade Center)

F. O.Ndukwe, Promoting Trade: Regional Integration and the Global Economy, 2021

FAO: ‘Transforming Food and Agriculture to Achieve the SDGs’ (UN’s FAO, Rome, 2018)

Gould David and Ruffin Roy, ‘Trade Deficits: Causes and Consequences’, 1996, Economic and Financial Policy Review 10-20

Gould David and Ruffin Roy, 'Trade Deficits: Causes and Consequences', 1996, Economic and Financial Policy Review 10-20

Hailemariam Teklewold, Stein Holden and Others, 'Ethiopia Environmental and Climate Change policy brief' (Sida's Helpdesk for Environment and Climate Change, 2013)

ITC by Country- Ethiopia, (International Trade Centre, 2014)

Lagos Plan of Action for the Economic Development of Africa, (1980)

Lily Sommer and Chris Nshimbi, 'The AfCFTA: An Opportunity for Informal Cross-Border Trade', Bridges Africa (Pretoria 5 June 2018)

Marvin Spence, 'Trade Liberalization and Environmental Protection', (E-International Relations, 2011)

Michael Takudzwa and NoluthoDiko, 'The Effects of AfCFTA on Food Security Sustainability: An Analysis of the Cereals Trade in the SADC Region' Walter Sisulu University, 2020

Michael Trueblood and Shahla Shapouri, 'Implications of Trade Liberalization on Food Security of Low-income Countries' (USDA, Agriculture Information Bulletin No. 765-5, April 2001)

Philomena Apiko, Sean Woolfrey and Bruce Byiers, 'The promise of the African Continental Free Trade Area (AfCFTA)' (ECDPM, Discussion Paper No. 287, December 2020)

Secretariat for the Convention on Biological Diversity, 'Assessing the Impact of Trade Liberalization on the Conservation and Sustainable Use of Agricultural Biological Diversity,' (Montreal, 2002)

Tariku Lamessa, 'The Impact of Trade Liberalization on Air Pollution: In Case of Ethiopia' (University of Milan, DEMM), 2015)

The African Union Commission, Agenda 2063, The Africa We Want (May 2014)

World Integrated Trade Solution (WITS), 'Cereals; maize (corn), seed exports to Ethiopia (excludes Eritrea) in 2019'

Internet Sources

<<https://sustainabledevelopment.un.org/>> (Last seen 23 December 2020)

<<https://www.intechopen.com>> (Last seen 3 November 2020)

<www.unescwa.org> (Last seen 3 November 2020)

<<https://www.wto.org>> (Last seen 15 December 2020)

<<https://www.ilo.org/wcmsp5>> (Last seen 5 May 2021)

<<https://www.economicshelp.org>> (Last seen 29 May 2020)

<<https://www.un.org>> (Last seen 4 February 2020)

<<https://repository.up.ac.za>> (Last seen 4 April 2021)

<<https://www.economicshelp.org>> (Last seen 28 April 2021)

<<https://www.undp.org/>> (Last seen 26 April 2021)

<<http://www.fao.org/f>> (Last seen 6 August 2021)

<<https://sarep.ucdavis.edu/>> (Last seen 5 August 2021)

<<http://www.un-documents.net>> (Last seen 27 July 2020)

<<https://www.intracen.org/>> (Last seen 21 July 2021)

<<https://www3.nd.edu/>> (Last seen 27 July 2021)

<<https://www.elibrary.imf.org>> (Last seen 10 May 2021)

<<https://www.ilo.org/wcmsp5>> (Last seen 5 May 2021)