The Impact of African Continental Free Trade Area (AfCFTA) Implementation on Ethiopian Economy

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Mussie M, Hailesilassie   Carlo Migliardo   Tadele Ferede

University of Messina

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Point in the Menu

AfCFTA Brief

- 1.3 billion people and 3.4 trillion USD GDP in 2020.
- Intra-African trade is 14 percent, or nearly 71 billion USD, compared to the European Union (38 per cent), and Southeast Asian countries (21.3 percent)
- On March 21, 2018, AfCFTA signed (55/47 or 85 per cent ratified) and total products to liberalize 97 per cent (5141/5300) of the tariff lines
- On July 7, 2019 (entry into force) and January 2021 (Commencement of Trade)
- 166 WTO members, 45 countries in Africa

Ethiopian Context and Rational

- Export: Asia (39.68), Europe-27 (24.88), Africa (19.08), and North and Central America countries (11.51)

- Import: Asia (69.74), Europe (9.16), Africa (6.71), and North and Central America countries (7.86)

- **The rationale for choosing Ethiopia:**
  * Ethiopia is a founding member of the AfCFTA
  * The implementation of the AfCFTA is expected to bring about economic changes by harnessing the countries' abundant resources and unlocking significant markets
  * Ethiopia's experience with such systems is limited, as it is not currently part of any continental or regional free trade area structures

Ethiopian context....

- In 2016–2021, Ethiopia traded goods worth, on average, annually.
  602.9 million US dollars were exported.
  864.7 million US dollars were imported.
  Regional goods trade deficit under 261 million USD (even a positive trade balance in 2021).

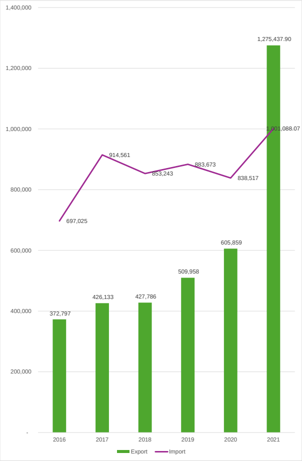

Fig.1: Ethiopia Export and Import to Africa

Contribution of the study

- Firstly, it enriches the literature by offering a comprehensive, country-specific investigation of the AfCFTA effects on Ethiopia, surpassing the standard 100 percent tariff liberalization at the African level explored in prior studies by considering progressive liberalization.
- Secondly, acknowledge that the imperfect competition market that characterizes African economies deviates from the traditional perfect competition market.
- Thirdly, the findings have implications for policymakers in Ethiopia and other African countries in their decision-making processes concerning the AfCFTA.
- Lastly, the study's robust modelling contribution serves as a methodological benchmark for future research in this field.

Modelling Approach

- Computable General Equilibrium (CGE)
  *To capture the interaction both within and between agents, sectors, and economics.
  * include both structural and behavioral components.

- Database that covers sixty-five sectors in 160 regions from the Standard Global Trade Policy Project

- Comparative Static Computable General Equilibrium Model

Scenarios development

- Static Effect (only 2025)
- Comparative statics S1: Remove the import customs duties from 90 percent of the goods tariff line. S2: S1 and 7 percent of sensitive lists. S3: S1+S2 and 20 percent (Maliszewska, 2020), NTBs.
- Imperfect competition market

Finding Static Effect Export

- The increase in Export quantities for Light and Heavy Manuf [8 percent] is due to raw material availability
- the decline in Processed food [40 percent], the countries might export in raw form for daily consumption.

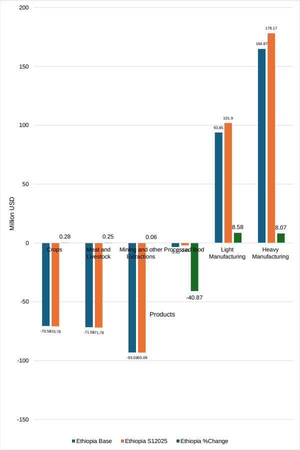

Fig.2 : The effect on Quantity of Export

Finding Static Effect Import

- The increase in Import quantities for Heavy Manuf [39 percent], Meat [30] and Crop [3] for the products that are non-sensitive
- The decline in Light Manuf [6 percent], the product is not subject to reduction.

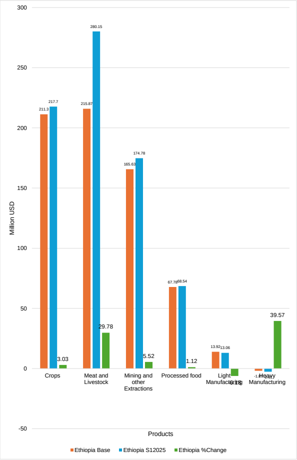

Fig.3 : The effect on Quantity of Import

Finding Static Effect Prices

- PEX Increase Crop [0.2], Meat [0.1] and Mining [0.09] for the products showed small increment
- PEX decrease in Heavy Manuf [0.59 percent] Light Manuf [0.55 percent], the cheaper raw material import
- PIM decrease Crop [0.4], Meat [5.36], Mining [0.79] and Heavy Manuf [0.59 percent]
- PIM decrease for the products subject to the reduction of import tariff.

Commodities	Price of Export	Price of Import
Crops	0.21	-0.4
Meat and Livestock	0.16	-5.36
Mining and other Extractions	0.09	-0.79
Processed food	-0.34	-0.05
Light Manufacturing	-0.55	-0.07
Heavy Manufacturing	-0.59	-0.22

Table.1 : Price of Export and Import

Finding Comparative Static Effect Export

- Increase export output for the Manufacturing sector than Agriculture
- The Long-term benefits outweigh the short-term benefits
- The tariff and non-tariff barrier reduction effect is higher than tariff alone.

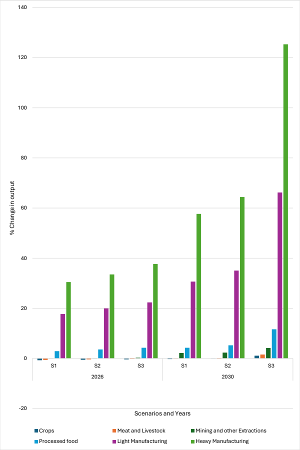

Fig.4 : Effects on the quantity of export quantity

Finding Comparative Static Effect Import

- Increase import output for the agriculture sector [livestock] and Mining sector than Manufacturing sector
- The Long-term benefits outweigh the short-term benefits
- The effect of both tariff and non-tariff barrier reduction is higher than tariff alone

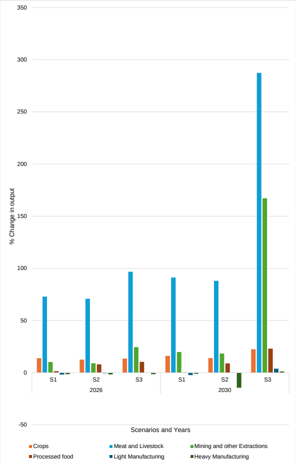

Fig.4 : Effects on the quantity of import quantity

Finding Comparative Static Effect Prices

- Reduction on the price of import for agriculture than Manufacturing sector
- Increase in the price of exports for agriculture in the initial period and decrease over time. The price of exports in the Manufacturing sector is declining from the initial period
- The effect of both tariff and non-tariff barrier reduction is higher than tariff alone

	2026			2030		
pim	S1	S2	S3	S1	S2	S3
Crops	-0.39	-0.39	-0.62	-0.77	-0.77	-2.56
Meat and Livestock	-5.33	-5.32	-7.33	-5.91	-5.91	-16.81
Mining and other Extractions	-0.72	-0.72	-2.33	-1.82	-1.82	-13.5
Processed food	0.00	-2.07	-2.87	0	-2.54	-7.31
Light Manufacturing	-0.01	-0.61	-0.92	0	-0.97	-3.81
Heavy Manufacturing	-0.15	-0.15	-0.44	-0.55	-0.55	-3.51
	2026			2030		
pxw	S1	S2	S3	S1	S2	S3
Crops	0.76	0.55	0.39	0.27	0	-1.37
Meat and Livestock	0.54	0.34	0.18	0.11	-0.15	-1.51
Mining and other Extractions	0.09	-0.08	-0.41	-0.34	-0.55	-3.12
Processed food	-0.7	-0.85	-1.01	-0.83	-1.01	-2.17
Light Manufacturing	-1.1	-1.23	-1.37	-1.12	-1.28	-2.29
Heavy Manufacturing	-1.2	-1.31	-1.46	-1.2	-1.33	-2.44

Table.2 : Price of Export and Import

Finding Imperfect competition market Effect on outputs

- On import: meat [20.5], mining [6.2] and food [4.3]
- On the export side, mining [7.5], Heavy manuf [4.3], and light manuf [2.1].

Products	Quantity of Imports		Quantity of Exports	
	Ethiopia	Rest of Africa	Ethiopia	Rest of Africa
Crops	1.82	0.06	1.75	-0.11
Meat and Livestock	20.48	0.08	1.61	-0.02
Mining and other Extractions	6.16	0.04	7.53	-0.03
Processed food	4.27	0.03	0.94	0.05
Light Manufacturing	1.71	0.04	2.12	0.13
Heavy Manufacturing	0.3	0.04	4.31	0.16

Table.3 : Effect on Export and Import outputs

Finding Imperfect Competition Market Effect on Prices

- On the import side: meat [6.1], food [2.6], and mining [1.9].
- On the export side, mining [0.5], light manuf [0.39], and food [0.38].

Products	Price of Imports		Price of Exports	
	Ethiopia	Rest of Africa	Ethiopia	Rest of Africa
Crops	-0.97	0	-0.24	0.02
Meat and Livestock	-6.08	-0.01	-0.28	0.02
Mining and other Extractions	-1.89	0	-0.48	0
Processed food	-2.55	0	-0.38	0.02
Light Manufacturing	-1.15	0	-0.39	0.02
Heavy Manufacturing	-0.62	0	-0.41	0.02

Table.4 : Effect on Export and Import prices

Implications

- The liberalization of both non-sensitive and sensitive items is a requirement.
- The reduction of non-tariff barriers is of utmost importance.
- The influence of perfect competition is typically more substantial than that of imperfect competition.

Policy Advice

- Increase production and structural change
- Sector-specific studies
- Engagement of the private sector with recognized trade potential

Thank you for listening!: hailesilassiemussie@gmail.com

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