

UNIVERSITY OF NAIROBI

DEPARTMENT OF DIPLOMACY AND INTERNATIONAL STUDIES

**EXAMINING THE PROSPECTS OF THE AFRICAN CONTINENTAL FREE TRADE
AREA (AfCFTA) IN FACILITATING FREE TRADE IN AFRICA: A CASE STUDY OF
KENYA**

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NOVEMBER, 2021

DECLARATION

I, Isabelle Gogo, hereby declare that this research project is my original work and has not been presented for a masters degree in any university.

Signed..........

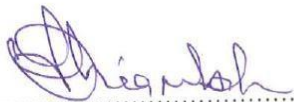
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DEDICATION

As a heartfelt appreciation, I dedicate this work to my late father Joseph Odiowuor Gogo, who always saw the inherent potential in me and would be proud of me. To my mother Nelly Awuor Odiowuor who walked with me through this journey and was always available for consultations. In addition, my two elder brothers George Gogo and Ben Odhiambo for the unending support and encouragement to push through in pursuit of attaining my success. Last but not least, to Eddy Kamau, my daughter Anaya Robyn Awino and my son Sekani Mugisha Kamau for their love, understanding, patience, unconditional support and encouragement.

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LIST OF ABBREVIATION

AfCFTA:	Africa Continental Free trade Area
AGOA	African Growth and Opportunity Act
AMU	Arab Maghreb Union
AU:	African Union.
CEN-SAD	Community of Sahel–Saharan States
COMESA	Common Market for Eastern and Southern Africa
COVID-19:	Coronavirus Disease 2019
DFTA:	Digital Free Trade Area
EAC	East African Community
ECOWAS	Economic Community of West African States
EPA	Environmental Protection Agency
EU:	European Union
FDI:	Foreign direct investment
FTA	Free Trade Agreement
GATS:	General Agreement on Trade in Services GDP Gross domestic product
GDP	Gross Domestic Product
KNCCI	Kenya National Chamber of Commerce and Industry
MoITED	Ministry of Industrialization, Trade and Enterprise Development
OAU	Organization of African Unity
RECs:	Regional Economomic blocs
SADC	Southern African Development Community
SDG:	Sustainable Development Fund

SFA:	Sustainable Food and Agriculture.
TRALAC	Trade Law Centre for Southern Africa
UNCTAD	United Nations Conference on Trade and Development
UNECA:	United Nations Economic Commission for Africa
WTO	World Trade Organization

ABSTRACT

Trade amongst the Africa countries has stayed low for a long period. The Africa Continental free trade agreement hence aimed at rectifying this. After being approved by all but one African Union (AU) member state, the African Continental Free Trade Area (AfCFTA) became the preferential trading area in the twenty-first century. Today the African Continental Free Trade Area has mostly concentrated around removing non-tariff obstacles. The research focused on the potential of the African continental free trade area in fostering free trade in Africa: a case study of Kenya. The research was based upon the following goals:; to Critically analyze the key policy challenges of attaining free trade in Africa, to assess and evaluate the key factors that may hinder AfCFTA in attaining free trade between Kenya and the rest of Africa, and to critically examine the impacts of AfCFTA in improving Kenya's Trade. In achieving this the study was guided by international business theories of Comparative advantage and the Theory of the Second best. These theories are well-positioned to explain the phenomenon of Continental free trade area. The study used a descriptive-analytical research approach, using a mix of qualitative and quantitative research methodologies. The study's target group included 383 respondents from the Department of Foreign Affairs, the Ministry of Industrialization, Trade, and Enterprise Development, AfCFTA specialists, academics, the business community, and the general public. The qualitative data was summarized and categorized according to the themes and presented thematically. Analysis of quantitative data was done through Statistical Package for Social Sciences Version 21 to generate frequency distributions, percentages, and inferential statistics. The findings of the study on Key policy challenges of attaining free trade in Africa were that the low intra-African trade is due to a number of Policy challenges faced by the African continent. Non-Tariff Barriers, Rules of Origin and Regulatory Policies, Poor macroeconomic policies, and poor trade infrastructure were found out to be the main policy challenges to attaining free trade in Africa. The studys findings pointed out to a number of challenges that can hinder Kenya from gaining in the AfCFTA. factors like lack of a political will can also hinder Kenya from gaining from. Moreover, the conclusions of the research on the effect of AfCFTA are that it would increase Kenyan enterprises' competition at the industrial and firm levels by pooling output capacities, offering global access to markets, and enabling effective resource allocation across the continent. The study, therefore, recommends Customize and defining broader economic support for AfCFTA implementation and economic change, such as infrastructure support, digitalization, and national AfCFTA and trade facilitation committees. Kenya should look for additional COVID opportunities, such as in the pharmaceutical industry (and associated intellectual property assistance) and other regional value chains.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

1.1.1 AfCFTA

According to current economic statistics, the African Continental Free Trade Area (AfCFTA), which has been recognized by all but one African Union (AU) member state, will become the preferential trading area in the twenty-first century. Eritrea is the sole non-signatory to the pact. The AfCFTA's major aim is to help to establish a stronger continent's economic integration by creating a common market system that will help in vending and buying goods, providing services, and creating a non-barrier movement for all the people in the Continent and resources within Africa. The AfCFTA, as stated by the United Nations Economic Commission for Africa (UNECA), has an end goal of eventually abolishing tariffs on almost all African products. It was established in 2015 by the year 2019 other countries had already adopted it and by the middle of 2020, almost all the countries adopted it. Ghana, because of its nature as the fastest growing nation in terms of development, was chosen to host the very first major African Continental Free Trade Area Secretariat. They want to create a tariff-free African market, which would enable domestic companies to thrive and open the door for countless prospects in the newly formed custom union.

The plan aims to improve trading activities among the African states by further harmonizing trade liberalization and also boosting industrialization to provide more work prospects for Africans. Although the African Continental Free Commerce Area agreement entered into force almost two years ago, trade that was intended to commence on July 1st was delayed owing to the COVID-19 outbreak, which delayed discussions to build the basis for goods and services trading activities,

including tariff reductions. Because of the pandemic, the AfCFTA implementation window has become narrower but the heads of state are still insisting on implementing as quickly as possible due to its emergency.¹

African Continental Free Trade Area will be regulated by five operating methods: origin law, an electronic negotiation platform, non-tariff barrier control and removal, a digital payment mechanism, and an African trade observation deck. Several African Heads of State and other people who hold high positions have released and actively endorsed every one of these operating instruments in turn. According to projections from 2018, the continent will have a US\$ 3.5 trillion economic exchange region once the AfCFTA is up and running. Additionally, if operating at full capacity, the free trade zone would have the biggest area in the world, with a massive market of 1.3 billion people and a forecasted GDP of US\$ 3.5 trillion. Despite the start of the continental free trade agreement, the member states are still having a long way to fully achieve their potential and objectives hence they should carefully learn from their peers, especially the European Union.

Presently, the African Continental Free Trade Area is primarily concerned with reducing non-tariff barriers. Numerous other steps have also been implemented like minimizing relatively brief fiscal adjustment costs and also aiding to revive the state's development banking organization. These development banks need to loan individuals or inject finances that are required to maintain structural transformation procedures. Long-term stability and security need a transition. This will

¹Armel, D. K. (2020). Understanding the African Continental Free Trade Area: Beyond “Single Market” to “Africa’s Rejuvenation” Analysis. *Education, Society and Human Studies*, 85-100.

ensure that the AfCFTA, which has established the world's largest free-trade zone, is implemented in a way that benefits all.²

1.1.2 Free Trade Area

Despite years of attempts to encourage international cooperation and regional trade, the continent economies seem not to be cooperating with each other. The previous emphasis on talks and seminars aimed at deepening regulatory law and policy harmonization for successful incorporation seems to have yielded little. Most of the African countries have their umbilical cords tethered to their former colonial masters' wombs. The influencing factors of emerging world actors such as Russia and China have exacerbated the situation.³ However, because of the recent serious usage in building regional economic integrations, intra-African commerce has expanded significantly in the previous two decades, although it remains weak. According to ECA modeling exercises, establishing the CFTA will dramatically boost intra-African commerce, which has grown considerably over the previous two decades but remains weak. According to ECA modeling, establishing the CFTA would significantly enhance intra-African commerce.⁴

In recent years, African nations have implemented a series of market changes in order to draw numerous foreign resources and ensure long-term economic growth and development. There are elements that ensure successful trade facilitation, they are lower cost of transportation and energy

² Fofack, H. (2020). *Making the AfCFTA work for 'The Africa We Want*. Accra : Africa Growth Initiative .

³ Sohn, R. (2013). Regional Trade and Monetary Integration in West Africa and Europe. *Center For European Integration Studies* , 5 -19.

⁴ Luke, D., & Sommer, L. (2017). *The Continental Free Trade Area (CFTA) in Africa –A Human Rights Perspective*. Geneva : United Nation Economic Commission for Africa.

costs, efficient and effective telecommunication services, there should be strong customs management, and above all is the availability of a reliable justice system, which are all important factors for attracting more financial resources. This means larger the trading opportunities the country has, the more foreign resources it will draw. This is a critical moment in the continent, as financial capital inflows are desperately needed to supplement the continent's insufficient financial wealth. Increasing the trading flow in the African states will automatically benefit them in several ways. There will be a spur in substantial economic growth trade facilitation will boost economic growth by lowering trade costs and boosting company productivity and profitability. Reducing trade prices would encourage local entities to raise their competitiveness, making them more likely to sell, while established organizations would boost their trade value. Trade facilitation raises the likelihood of businesses engaging in foreign trade.⁵

1.2 Statement of the Problem

The primary goal of this research is to identify the variables that may impede the AfCFTA's ability to promote free trade in Africa. Trade is important to any state. For the African continent, however, trade has not been entirely beneficial. The success of AfCFTA is pegged on an increased Intra-Africa trade. This means the removal of trade barriers all through the continent. However, this was tried in Africa through Regional Economic blocs (RECs) which were largely unsuccessful. This study will therefore analyze the underlying factors that may hinder the promotion of free trade in Africa by looking at the role of AfCFTA and the challenges ahead.

⁵ Sakyi, D., & Afesorgbo, K. (2019). The Effects of Trade Facilitation on Trade Performance in Africa. *Journal of African Trade*, 3-8.

There have been several attempts to increase the Intra Africa trade despite this, intra-Africa trade is low, notwithstanding a modest increase. Africa's total exports and imports to and from the rest of the continent amounted to less than 20 percent of the continent's total exports and imports in 2019. According to Armel, this is what prompted the establishment of the African Continental Free Trade Area. The Africa Continental Free Commerce Area, he claims, is intended to address the problem of low intra-African trade.⁶ Armel correctly notes that AfCFTA is the solution to low Intra African trade but fails to explain the challenge it may face and the factors that may hinder AfCFTA.

Viljoen observes AfCFTA is a long-debated proposal to establish one of the biggest global economic zones, including moreover 1.2 billion people and more than \$3 trillion (£2 trillion) in total GDP. It'd spawn additional trade prospects and employment across Africa, even while lowering the prices of different commodities in shops and marketplaces. After years of preparation and discussions, which were recently slowed by the worldwide coronavirus epidemic, the African Continental Free Trade Area was inaugurated. He notes that this is just but one of the many challenges AfCFTA is likely to face.⁷ Viljoen talks of covid as an immediate challenge to the commencing of operations of AfCFTA, however, he fails to explain other underlying non-pandemic factors that will hinder the operations of AfCFTA.

⁶ Armel, D. K. (2020). Understanding the African Continental Free Trade Area: Beyond “Single Market” to “Africa’s Rejuvenation” Analysis. *Education, Society and Human Studies*, 85-100.

⁷ Viljoen W., *ibid.*

This study therefore analyzes the Challenge of free trade in Africa and the role of AfCFTA in improving Kenya's trade with the rest of the African continent. The study will examine some of the factors that may hinder AfCFTA in achieving this ultimate goal.

1.3 Research Questions

- i. What are the key policy challenges of attaining free trade in Africa?
- ii. What are the key factors that may hinder AfCFTA in attaining free trade between Kenya and the rest of Africa?
- iii. What are the potential impacts of AfCFTA in improving Kenya's Trade?

1.4 Research Objectives

1.4.1 Broad Objectives

The Prospects of the African Continental Free Trade Agreement (Afcfta) in Promoting African Free Trade.

1.4.2 Specific Objectives

- i. To Critically analyze the key policy challenges of attaining free trade in Africa.
- ii. To assess and evaluate the key factors that may hinder AfCFTA in attaining free trade between Kenya and the rest of Africa.
- iii. To critically examine the impacts of AfCFTA in improving Kenya's Trade.

1.5 Literature review

The African Continent has experimented with integration starting from the regional level, which has resulted in the formation of AfCFTA, which is founded on the dreams of pan-Africanists and their ideologies for an economically autonomous Africa. The AfCFTA defines one of the goals on the road to establishing an African Economic Community, as depicted by the Treaty Establishing the African Economic Community. The African Economic Community's success was built on certain well-known regional economic communities. Surprisingly, at the heart of the AfCFTA is the authority of Africa's development through the formation of regional economic communities, implying that the AfCFTA is not a stand-alone program.⁸

The AfCFTA's implementation is dependent on the continent's diverse regional trade administration. As a result, it is reasonable to believe that the decision to have a mixed record as opposed to a failing administration was purposeful. Decentralization on the continent has both economic and non-economic implications. The truth is that economic integration among members has been slow. Non-economic integration, on the other hand, appears to be thriving. Accounts leading to trade deal disappointments, on the other hand, do not highlight these distinctions.⁹

Armel talks about the benefits of Its implementation. One internal prospect that cut across almost all the countries in Africa is the growth of SMEs. The eradication of import duties as in their outline policies will help to open new trading activities from the domestic market extending it to the regional market. It is seen as a way of reducing trade disputes among the multi- literal trade

⁸ Sanne Wass. 2021 "Africa's continent-wide payment and settlement system launched." Global Trade Review.

⁹ Murendere C, Ndonga D and Laryea E.(2021) "Assessing the Potential Impact of the African Continental Free Trade Area on Least Developed Countries: A Case Study of Malawi." Journal of Southern African Studies, <[https://doi:10.13140/RG.2.2.27327.74400](https://doi.org/10.13140/RG.2.2.27327.74400)>

systems this always happens when a country implements a policy that breaches the other countries' policies. The African Continental Free Trade Area does have a tribunal that resolves these disputes, but it is exclusively open to statutory bodies.¹⁰

According to a World Bank Group analysis, the African Continental Free Trade Areas agreement would boost regional output and efficiency, and also capital redistribution in almost all sectors and states. By 2035, East Africa's cumulative production will shoot higher. Natural resources and services will see the most growth, at 1.7 percent, followed by manufacturing at 1.2 percent. Agriculture production, on the other hand, will fall by 0.5 percent on a continental scale. The services sector will reap the majority of the benefits, with manufacturing and natural resources seeing smaller gains. In addition, agricultural production will fall by \$8 billion compared to the baseline.¹¹

According to an International Commerce Centre assessment, the adoption of AfCFTA would emphasize intra-African trade. Other possible market gains include allowing manufacturers to obtain access to low-cost raw resources by taking use of economies of scale and intermediate factors of production; improving local supply chain and increasing the probability of consolidation with global supply chains; catalyzing the growth of African economies toward better utilization of

¹⁰ Armel, D. K. (2020). Understanding the African Continental Free Trade Area: Beyond “Single Market” to “Africa’s Rejuvenation” Analysis. *Education Society and Human Studies*, 70- 97.

¹¹ GROUP, W. B. (2020). *AREA, AFRICAN CONTINENTAL FREE TRADE*. H Street NW, Washington: International Bank for Reconstruction and Development / The World Bank

technological advancements and innovations, skills, and knowledge; and facilitation of direct intra-African and international financial flows to African nations.¹²

Apiko, Woolfrey, and Byers say that a major amount of intra-African commercial activity is not documented and official. They are also small-scale. When trying to vend along the borders, the unrecognized cross-border vendors the majority of whom are women, face substantial obstacles, as well as bullying and harassment. Although the AfCFTA will render it more competitive for unstructured cross-border merchants working via formality or the proper channels by removing tariffs, much effort ought to be done to assist those vulnerable and marginalized players who are socially disadvantaged. In this regard, Africa's RECs have established initiatives to boost small-scale commerce. AfCFTA has the ability to play a key role in facilitating intra-regional agriculture-based commerce, particularly from excess to disadvantaged groups, therefore guaranteeing food security and stabilizing agricultural market prices. The AfCFTA gives an opportunity to accelerate the agricultural transformation and achieve a competitive edge through regional agricultural value chain expansion. In order for it to function, many nations would have to enact policies to increase productive capacity and stimulate value-added investment. In short, it has the ability to transform the economic sector of both African countries and African as a whole. Potential in industrialization can be triggered, exports of goods and services diversification.¹³

¹² Centre, I. T. (2018). *A business guide to the African Continental Free Trade Area Agreement*. Geneva: International Trade Centre.

¹³ Apiko, P., Woolfrey, S., & Byiers, B. (2020). The promise of the African Continental Free Trade Area (AfCFTA); Political Economy Dynamics of Regional Organisations in Africa. *DISCUSSION PAPER No. 287*, 10-19.

According to Albert, taxes and exchange costs will be considerably cut, decreasing import rates and allowing customers to increase their purchasing power. Furthermore, removing trade restrictions and quotas enables local market consumers to access a broader selection of products. This is because the simpler it is to export, the more enterprises will be able to engage in cross-border trade, hence broadening the product choices available. As a consequence, cutting trade costs boosts consumption and broadens economies, improving both local and global economic development. He added that's the Africa Continental Free Trade Area if fully implemented will attract several international investors therefore there is a direct effect on Africa's growth. With such investment constraints removed, investors are flocking Africa. This offers resources for the development of local industry and the expansion of domestic enterprises. New capital encourages an increasing productivity trend, which benefits the entire economy. Financial systems may be catalyzed by foreign money inflows, resulting in higher investment.¹⁴

The AfCFTA includes seven accords encompassing the exchange of goods and services, finance, proprietary rights, competition laws, dispute resolution procedures and mechanisms, investment, and personal freedom of movement. Their objectives are continuous eradication of tariffs, improving the efficiency of the customs, facilitating trade transportation among others.¹⁵

¹⁴ Albert, T. (2019). The African Continental Free Trade Agreement: Opportunities and Challenges. *Geneva: CUTS International, Geneva*, 18-23.

¹⁵ Masunda, S. (2020). *The Implications of the African Continental Free Trade Area on Intra-COMESA Trade*. Lilongwe, Malawi: COMESA .

According to Mishra, in a growing globalized world, the AfCFTA offers a significant platform for African nations. Eradication of tariffs on goods and services would help developing countries stimulate economic growth, reform their economies, and achieve long-term development objectives such as the Sustainable Development Goals. Furthermore, the benefits of the CFTA would be greatly enhanced if non-tariff obstacles to trade in goods and services were removed, and informal commerce was integrated into formal networks. It has brought various advantages, including a bigger and more connected regional market system, improved conditions for the establishment of regional value chains, and their absorption into global value chains. Consumers may now get lower-cost imports of items from other African countries. Economies of scale and availability of low-cost raw materials help manufacturers. Improved resource distribution leads to scale-up economic development. Increased intra-African and international foreign capital flows to African nations. Getting rid of the problems that come with having many and conflicting trade deals. African economies' systemic transition from raw material-based and poor technological advancement economies to a highly diverse, expertise which a proper understanding of economies.¹⁶

Geda and Yimer in their report argue that African Continental Free Trade Agreement's wide market would boost value-added production and distribution in Africa as a whole, allowing for economies of scale, attracting more international investors to invest. They went ahead to say that more trading activities are growing because of the elimination of trade barriers and the cross-

¹⁶ MISHRA, A. (2018). The African continental free trade area and its implications for India-Africa trade. *Occasional Paper*, 10- 33

border selling and buying activities will, in turn, allow different countries to grow and perfume a specialization technique to production sectors. This with no doubt fosters the intra- Africa demand and supply chain system. The developing countries like Kenya and others with small or having a limited connection with the global market will greatly benefit. Increasing competitiveness and larger markets may encourage the creation of new expertise and increased productivity. The paper says widely adopted, one report suggested that eliminating tariffs alone could raise intra-regional exchange to about 33% and 1% to annual GDP increase in the African states.¹⁷

Jesus Cazares analyses the major objectives of the Africa Continental Free Trade Area. These objectives are establishing a single market system that will boost trading activity for goods and services. The boost will come as a result of free movement of the goods and services creating the customs union among others. He speaks of strengthening intra-African commerce by effectively synchronizing and integrating trade liberalization across all Regional Economic Communities and Africa. The Continental free trade area will also provide a solution to the numerous challenges of multiple and overlaps of memberships while also speeding up the integration procedures. Finally, Increase business and organization productivity by taking advantage of opportunities for scale production, the availability of all continental consumers, resulting in a broader market for products and services, and effective resource re-distribution or allocation.¹⁸

¹⁷ Geda, A., & Yimer, A. (2019). The Trade Effects of the African Continental Free Trade Area (AfCFTA): An Empirical Analysis. *International Economics* , 55-77.

¹⁸ CAZARES, J. (2020, APRIL 9). *The Africa Continental Free Trade Area: Benefits, Costs and Implications*. Retrieved from INFORMINEO: <https://infomineo.com/africa-continental-free-trade-area/>

Kidane discusses the economic advantages of the African Continental Free Trade Area in Eritrea. It has promoted the free mobility of goods and services without numerous barriers. The factors of production can also move freely ranging from the citizens, human capital, investors within the countries and across the borders of neighboring countries. Such activities will boost Eritrea's FDI and their domestic private investment schemes and finally promote sustainability and stability. The majority of integrations are motivated by trade, and as this relationship grows in importance, it may include integration that is not only economic but also cultural. He went ahead and list down some of the main positive effects on their economy. The AfCFTA has increased local and international investment. It has bout the map into countries that enjoys international trade. This economic growth pushes a state to enter a regional partnership and enables the single market to extend its trade ties with neighboring nations. Even though Eritrea's economy is weak, it would have more bargaining power with many other trade unions or investment firms.¹⁹

According to a document published by the United Nations Conference on Trade and Development, the African Continental Free Trade Area has substantial economic prospects and potential for African nations. It pushes the economies to develop sustainably and expand economically. Although, not all nations can benefit equally, and gaining welfare benefits comes with associated costs and commitments. The majority of the advantages of more economic cooperation are social security through reduced importation costs and prices of the goods brought in (imports), higher production capacity and general outputs, increased value-added positions and exporting of goods

¹⁹ Kidane, A. T. (2021). The Possible Contribution of the African Continental Free Trade Area to the Economy of Eritrea. *International Journal of Research and Innovation in Social Science*, 82-90.

and services, technology, innovation adoption more specialization among others will gain traction over time, whereas the majority of the cost that is involved when performing the several adjustments and the main theme which is integration (that is the reduction of the tariff, therefore, lower revenue, domestic small-medium organization failing or disappearing due to big organization entering the market and many more) will be realized over time.²⁰

Geda and Yimer state that the main goal of establishing AfCFTA is increasing the trading activity in the whole continent of Africa. The end goal is to create a wide economical community in the whole of Africa. Its fundamental rationale is the provision of bigger opportunities to harness economies of scale, productivity, effectiveness, and efficiency via an increased competition and differentiation, a lucrative domestic market for investors both internally and foreign investors, and improvement of intra- regions trading activities to promote the economic development and eradicate the level of poverty in those regions. They went ahead and said that its implementations seek to eradicate trading barriers and obstacles making Africa one of the greatest and biggest free trade areas.²¹

Jaime De Melo in his articles agrees with political analysts that if regional economic integration is broad, the establishment of multi-national institutions reduces global instability via consultation and the sharing of military capability knowledge. Groups' conversations spill on to political topics, preventing political squabbles from escalating into conflicts. Because all members are familiar

²⁰ Saygili, M., Peters, R., & Knebel, C. (2018). *African Continental Free Trade Area: Challenges and Opportunities of tariffs Reduction*. GENEVA : UNCTAD .

²¹ Geda, A., & Yimer, A. (2019). The Trade Effects of the African Continental Free Trade Area (AfCFTA): An Empirical Analysis. *International Economics* , 55-77.

with each other, substantially comprehensive regional trade agreements raise the economic costs of dispute and diminish asymmetric information. These two networks help to reduce the likelihood of expensive disputes and create a good environment for business to take place without any fears and the multinational organization setting up their offices in respective countries. He went ahead and talk about, bringing infrastructure reform to the regional level with benefits. Infrastructure deficiencies are becoming more relevant when trade barriers fall, mostly because products pass across infrastructure networks. As a result of trade liberalization, communication infrastructure has become more internationalized, and their related networks can function more effectively if they are coordinated globally. Regulation at the regionally reduces the likelihood of it acting as a barrier to international competition.²²

The Ministry of Trade and business hosted the primary “Made in Republic of Namibia “Expo in 2011. The event's goal was to highlight the variety of products created by small and medium-sized businesses from all over the world. ²³The Ministry additionally used the event to deal with many shortcomings or constraints that had been known by native industrialists and exhibited products that consummated the factors of excellent quality, packaging, branding, labeling, and production technology. The Ministry created supplementary promoting facilities for Namibian exports, through developing trade centers in neighboring countries and by putting in place warehouses and

²² Melo, J. D. (2019, MARCH 4). *The Africa Continental Free Trade Area: An opportunity to deepen cooperation on regional public goods*. Retrieved from BROOKINGS : <https://www.brookings.edu/blog/future-development/2019/03/04/the-africa-continental-free-trade-area-an-opportunity-to-deepen-cooperation-on-regional-public-goods/>

²³ Ministry of Trade and Industry Namibia, Ministry of Trade. Available at <http://www.globalvillagedirectory.info/Namibia/Windhoek/Ministry-of-Trade-and-IndustryNamibia.aspx> [accessed on 22 August 2021]

distribution networks of Namibian products in many target markets. The Ministry's primary goal will be to increase sales and stimulate high capital investment in domestic trade and industrial operations, which will afterward aid in the creation of employment and job prospects.

UNCTAD report clarifies that the Least Developed Countries are yet to procure the all-out benefits of the monetary cycle and territory unit protection behind various non-industrial nations. It contends that a couple of billion people in non-industrial nations are left behind by the world economy, because of a blend of topographical debilitations, common conflicts, and poor administration. In a few cases, those nations have gone through twenty years of primary changes, with almost no arrival at the show. Given this circumstance, LDCs and their development partners should carefully consider whether exports might help to promote growth in the world's most vulnerable countries. LDCs, like the rest of the developing world, are far from high-income markets, lacking in physical infrastructure, and requiring delicate hands. Individual organizations are faced with high gathering activity expenses, as well as a lack of property security.²⁴

Regional trade group units are multiplying inside the developing world scene, especially in Africa. There are nearly thirty provincial groups in Africa and on normal every one of the 53 nations on the landmass could be an individual from 4 (commonly covering) groups. On the other hand, official intra-African exchange streams stay appallingly low. In the event that one prohibits the African country, intra-African exchange represents less than a modest amount of absolute African

²⁴ UNCTAD., 2015., report on trade promotion

exports and imports. This low degree of exchange inside Africa reflects two reticulate components: the helpless state of transportation joins between nations, just as the costs identified with various designated spots and burdening rules, and the commonness of importation, which consistently creates an emotional qualification between genuine intraregional exchange and furthermore the authority insights.

According to Andrea Cofelice, the events building up to the continental free trade area (CFTA) provide a once-in-a-lifetime opportunity for thousands to better their living circumstances. The CFTA's capacity to generate employment and wealth has the potential to significantly aid in the alleviation of poverty, the creation of jobs, and the promotion of equality. The CFTA is more like a commercial agreement. Its vast scope – which encompasses imports and exports, trade in services, finance, trade policy, and intellectual property rights – provides a platform for African nations to accomplish Agenda 2063 and the global Agenda 2030 by supporting long-term institutional reform.²⁵

A report by the United Nation on the African Continental Free Trade Area has a plan within it to boost the Intra Africa trade. An action plan has been modified to strengthen Africa's multilateral cooperation and make trading a more powerful tool for achieving competitive and sustainable socio-economic growth. He adds that Africa would need to change its economic system in order to generate quality employment and reduce its exposure to shocks and falling commodities

²⁵ Cofelice, A. (2018). African Continental Free Trade Area: Opportunities and Challenges. *THE FEDERALIST DEBATE*, 32-45.

prices. Staff moving from low-productivity jobs to high-productivity jobs is known as structural change. These changes are going to be a major source of better employment and vital drivers of economic development.²⁶

According to Ataklti Tsige Kidane, the African Continental Free Trade Area intends to liberalize trade amongst the 54 countries in Africa and expand on the significant achievements already made within Africa's regional economic communities. The CFTA aims to promote intra-African trade, strengthen value chains that are facilitating a smoothly organized integration from their domestic blocks into the global economy or market system, and rejuvenate competitiveness, modern technological advancement, the industrial revolution, and innovation, all of which will contribute to the 54 countries economic and social advancement. The growth strategy of the CFTA is firmly rooted in Africa's political economy and the numerous problems hindering its economic development.²⁷

The economic sector in Africa as stated by Karingi and Mevel is facing several unusual barriers in the modern-day. Obstacles are deterring free trading of goods and services among them ranging from tariffs, non-tariff linked, innovations among others and such factors hinder the social and economic growth. For a fact Africa has a low trading efficiency, especially is one of the lowest in intra- African state when compared with other continents. Scholars have tried looking to the reasons why such happens but the reasons that normally pop up are the several barriers limiting

²⁶ Luke, D., & Sommerl, L. (2018). *The Continental Free Trade Area (CFTA) in Africa –A Human Rights Perspective*. Geneva : The United Nations Economic Commission for Africa (ECA) and the Friedrich-Ebert-Stiftung.

²⁷ Kidane, A. T. (2021). The Possible Contribution of the African Continental Free Trade Area to the Economy of Eritrea. *International Journal of Research and Innovation in Social Science*, 82-90.

the association among themselves. In this context, they argue that it anticipated that opening African economies by eradicating any obstacle within African countries would result in major benefits for the continent. As a consequence, adopting a CFTA may be seen as a preliminary move toward supporting African economies in transcending several of their restraints.²⁸

According to Gresha, the African Continental Free Trade Area helps to avert wars and fosters stability. Tensions and disagreements between adjacent nations may be eased by the existence of unity in many forms. Interconnectedness among member nations in terms of economic, political, military, and social aspects may increase the cost of war while decreasing the chance of internal and foreign conflict. Furthermore, frequent and timely political interaction among member nations would aid in the development of trust and coordination, notably military and security cooperation. This promotes cooperation on defense and security issues is critical to maintaining regional peace. The world will be conducive to long-term economic development. Gresham adds that Infrastructure spending rises both domestically and across borders as a result of regional cooperation. And it's the first step toward bettering communication among border countries, resulting in increased trading activities and numerous investments. Oblivious soft and hard infrastructure, on the contrary, will prevent countries from reaching their full potential.²⁹

²⁸ Karingi, & Mevel. (2012). Deepening Regional Integration In Africa ; Computable general equilibrium assessment op cit.

²⁹ Gresh, E. (2017). International Roadways Focus of Infrastructure in Eriteria . *Borgen Magazine*, 10-18.

1.6 Gaps in the literature review

The above literature has given an overview of the Africa Continental Free Trade Area and the role it plays in promoting free trade in Africa. However, there exists a gap in analyzing the challenge of attaining free trade in Africa. In particular, the above literature fails to clearly show how the implementation of the AfCFTA will actually promote trade in Africa. The literature on the implementation of AfCFTA lacks consideration of the existing sub-regional free trade blocs. Little is written on the factors that hinder the implementation of AfCFTA.

1.7 Justification of the study

Given that growth and economic prosperity are major goals of every state, the promise of the African Continental Free Trade Subject in supporting free trade in Africa, particularly in Kenya, is an important area of research. The Study hence will be of interest to a number of stakeholders.

1.7.1 Policy justification

This research will critically look at the prospects of the African Continental Free Trade Area (AfCFTA) in facilitating free trade in Africa, solely focussing on Kenya. This will be helpful to the policymakers as this work will try and give a deeper analysis of how the prospect of AfCFTA will improve Kenya's trade and achieve sustainability to its exports. The Study will provide a foundational framework that will improve capacity building by various policymakers, Government officials, and think tanks towards improving and addressing the issues of the trade deficit in the country through the AfCFTA. This will be important for planning purposes as well as the formulation of policy trade and exports.

1.7.2 Academic Justification

This research is driven by little availability of empirical study and documentation on the prospects of the African Continental Free Trade Area (AfCFTA) in facilitating free trade in Africa, focussing on Kenya. Efforts must therefore be put to address how Kenya will gain from AfCFTA.

1.8 Research Hypotheses

- i. Lack of political will is the main challenge of attaining free trade in Africa.
- ii. AfCFTA is faced with different challenges in attaining free trade between Kenya and the rest of Africa
- iii. AfCFTA will positively improve trade between Kenya and the rest of Africa.

1.9 Theoretical framework

This research will be influenced by international business ideas such as comparative advantage and the Theory of the Second Best. These hypotheses are well-suited to explaining the phenomena of the Continental Free Trade Zone.

1.9.1 Theory of Comparative Advantage

David Ricardo proposed the principle of comparative advantage in 1817. The idea of comparative advantage describes how an actor may produce more of and consume less of a commodity for which they have a comparative advantage in a free trade scenario. According to comparative advantage theory, a nation may concentrate on producing things that it can make more effectively while importing products from other countries that it can create less efficiently.

The African continent's commerce has been limited. This is even though many African nations have a comparative advantage in manufacturing a wide range of commodities, which they can subsequently trade with one another. However, the challenges have been trading restrictions inside the continent, making it difficult for African governments to trade freely.

1.9.2 Theory of the second-best

Economic integration's planned trade stimulating effects are already a component of the modern economy. Richard Lipsey proposed the notion of the second-best in 1956, arguing that the best choice is free trade, with open competition and no trade obstacles. Free trade is regarded as an idealistic choice, and while it is practiced in certain industrialized countries, economic integration has been regarded as the "second best" option for global commerce in areas where complete free trade is not possible.

With the present reality, it is probably not going to be so impeccably described. All things being equal, markets will probably have various bends and flaws. Some production and utilization exercises have externality impacts. A few merchandises have public good characteristics. A few business sectors have few firms, every one of which has some command over the value that wins and makes positive monetary benefit. Governments constantly set taxes on utilization, benefit, property, and resources, etc.

It is consequently that numerous kinds of trade policies can be appeared to improve public government welfare. Trade policies picked fitting to the market conditions, act to address the defects or mutilations. These remaining parts are genuine despite the fact that the trade strategies

themselves would act to diminish monetary effectiveness whenever applied beginning from a condition of financial despair. What happens is that the policy corrects the distortion or imperfection and, in this way, raises public government assistance by more than the loss in welfare emerging from the application of the policy.

The free trade area in East Africa continues to be hampered by the lack of implementation of agreed tariff reductions by countries. Another approach is to apply the present idea to multinational organizations. Their economic behaviors are scrutinized in terms of maximizing economic wellbeing and ensuring that all merchants are treated equally. It is commonly assumed that an economic union's tariff reductions and quota eliminations will always result in discrimination against third parties. The common assumption is that regional integration of national industries or economies is a quasi-monopoly structure that results in monopol

1.10 Research Methodology

The section examined the study's methodological approach.

1.10.1 Research design

A descriptive-analytical research approach was used, using a mix of qualitative and quantitative research methodologies. Using a descriptive research technique on a case study, according to Mugenda & Mugenda, provides for a thorough exploration of the issue in a short period of time and on a small scale. He goes on to suggest that the best method to get a comprehensive picture of

a situation is to use a qualitative research approach on a case study.³⁰

1.10.2 Variable for data collection

The study collected data on the following variable: **Independent Variables** The implementation of AfCFTA (Opportunities and challenges) **Dependent Variables**; Trade liberalization and trade facilitations. The study examined the key challenges and opportunities of implementing the AfCFTA and this affects trade liberalization and trade promotion in the African continent. Primary data was collected from the target population who were officials from the Ministry of Foreign Affairs, officials from the Ministry of Industrialization, Trade and Enterprise Development, experts on AfCFTA, Academicians, and the business community.

Table 1.1: Operationalization of variables used in the study

Variable	Measurement	Description
Dependent: Trade liberalization and trade facilitations	How AfCFTA will impact trade liberalization and trade facilitation in Africa	The aim of AfCFTA is to increase intra-Africa trade by abolishing the barriers to trade. This can only be achieved through trade liberalization and trade promotion
Independent		
Key Policy challenges	The policy hurdle of attaining free trade in Africa	Free trade in Africa is dependent on having a favorable policy that will encourage trade
Key factors Hindering AfCFTA	Economic, Social, and political factors that limit AfCFTA	Ensuring continental free trade is faced by a number of factors ranging from political, social ad economic
The potential impact of AfCFTA in improving trade	The impacts of AfCFTA on trade can be both negative and positive	AfCFTA will impact trade promotion and trade facilitation in Africa

³⁰ Mugenda, op cit.

1.10.3 Data collection method

Both secondary and primary data sources were used in the research. Secondary data was obtained from online sources such as scholarly literature (both published and unpublished) as well as books, journals, and reports available at libraries. The research also employed written resources such as newspaper stories, graduate project papers, and theses, and records from the Ministry of Industrialization, Trade, and Enterprise Development, in addition to published written documents. The primary sources of data were obtained through a questionnaire to the officials from the Ministry of Foreign Affairs, officials from the Ministry of Industrialization, Trade and Enterprise Development, experts on AfCFTA, Academicians, and the business community. To collect information from the general population, interviews with a detailed questionnaire guide covering all research variables were used.

1.10.4 Sampling size and technique

The descriptive-analytical research design provided an opportunity for the study to utilize purposive sampling. Purposive sampling is a method of selecting a sample of participants or groups of participants who are deemed informative for the goal of the research. The research's sample group was 383 respondents who were judged useful to the investigation.

The formula is shown below:

$$X = Z_{\alpha/2}^2 * p * (1-p) / MOE^2$$
, and $Z_{\alpha/2}$ is the critical value of the Normal distribution at $\alpha/2$ (e.g. for a confidence level of 95%, α is 0.05 and the critical value is 1.96)

Therefore, for such a population, the assumption is

Margin error 5%

Confidence level 95%

Population above 100,000

Sample population

$$X = 0.5 \times 0.5 \times (1.96 / 0.05)^2 = 383$$

The respondents were distributed as follows:

Table 1.2: Target sample and sampling size

Target sample	Sample Size
Officials from the Ministry of Foreign Affairs	40
Officials from the Ministry of Industrialization, Trade and Enterprise Development	40
Experts on AfCFTA	50
Academicians	100
The business community	53
General public	100
Total	383

Source: Researcher 2021

1.10.5 Data analysis and presentation

The qualitative data was compiled and classified by topics before being presented thematically. The Statistical Package for Social Sciences Version 21 was used to construct frequency distributions, percentages, and inferential statistics from quantitative data. This gave accurate and consistent responses to the research questions. Descriptive statistics such as mean and percentages shall be calculated and presented in tables and charts. This established the strength of relationships between the study variables. The qualitative data were analyzed through content analysis and triangulation.³¹

³¹ Kothari, C.R., (2008) Research Methodology. Methods and Techniques; Second Revised Edition New Age

1.11 Chapter Outline

The first chapter of the study provided an overview of the research. The chapter has provided important information such as the background of the research, the issue statement, the objective of the investigation, the theoretical basis, and the technique used in the study.

Chapter two will investigate the relevance of AfCFTA on inter-African trade.

Chapter three will examine the prospect of AfCFTA in facilitating free trade between Kenya and the rest of Africa.

Chapter four will evaluate the challenges of AfCFTA in facilitating free trade between Kenya and the rest of Africa.

The study will be concluded in Chapter 5. The chapter will include the study's results, summaries, and recommendations.

CHAPTER TWO

KEY POLICY CHALLENGES OF ATTAINING FREE TRADE IN AFRICA.

2.1 Introduction

Trade remains an important interest of African states. Trade is critical to Sub-Saharan Africa's protracted, growth of the economy. Africans trade relatively lowest with each other of any continent. The goal has therefore been to increase intra-Africa trade. However, to achieve this, there exist a number of challenges in achieving free trade in Africa. This chapter, therefore, looks at the key policy challenges of attaining free trade in Africa.

2.2 Demographic characteristics of the respondents

This segment provides an analysis of the demographic characteristics of the respondents. This will include response rate, age, gender, and level of education.

2.2.1 Response rate

The questionnaire, interview guide, and google forms were used to obtain responses from the respondents. Officials from the Ministry of Foreign Affairs, as well as officials from the Ministry of Industrialization, Trade, and Enterprise Development, were given questionnaires.

Google forms were utilized to gather data from Academicians and the general public, as well as AfCFTA specialists and the business sector. The information gathered from the questionnaires, interview guides, and Google forms were then analyzed using content analysis. This research had a 68 percent response rate. As indicated on the table.

Table 2.1: The response rate for google forms and questionnaires

Target Group	Questionnaire's respondents	Response rate
1. Officials from the Ministry of Foreign Affairs	40	32 (80%)
2. Officials from the Ministry of Industrialization, Trade and Enterprise Development	40	26 (65%)
3. Experts on AfCFTA	50	20 (40%)
4. Academicians	100	85 (85%)
5. The general public	100	77 (77%)
6. The Business community	53	20 (38%)
Total	383	260 (68%)

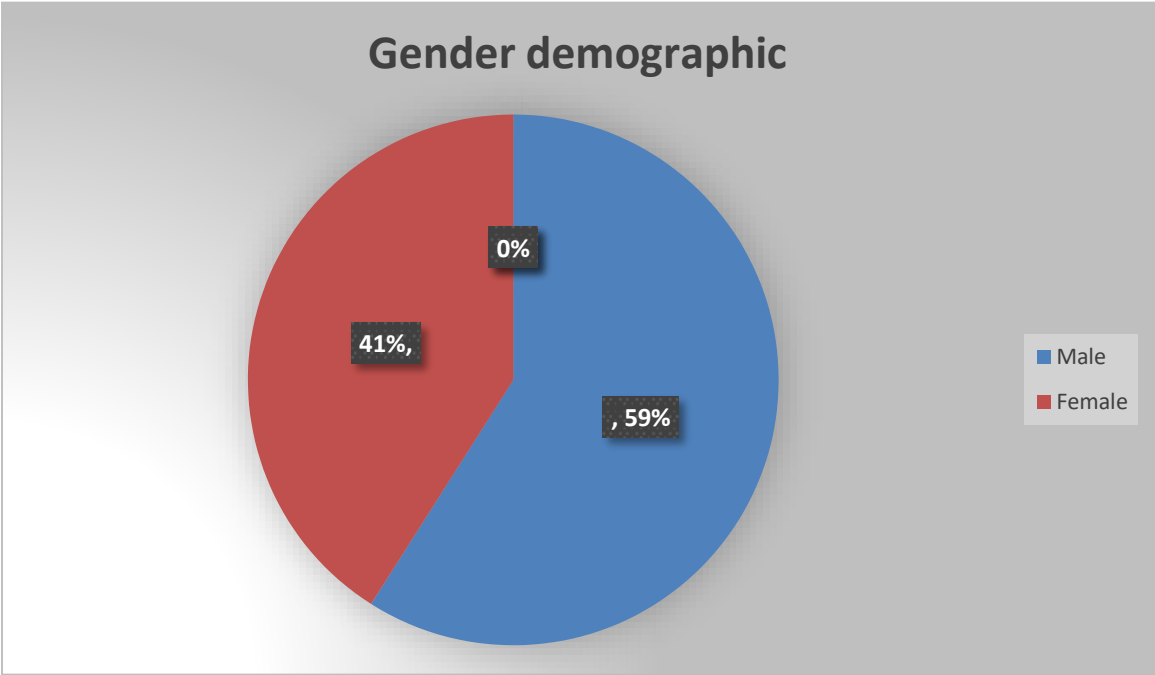
Source: Researcher, Primary data. (2021)

Mugenda and Mugenda (2003) affirm that if the rate of response is 50% then it is considered okay for data analysis, on the other hand, a response rate of 60% is considered good for data analysis, whereas over 70% response rate is excellent for data analysis. In this study, the response rate was 60% from the questionnaire, Interview guide, and google forms. The 68% response rate was good enough for data analysis.

2.2.2 Gender

From the questionnaire and google forms, the male respondents accounted for 59% while the female respondents accounted for 41%(see figure 2.1). This can be attributed to the fact that the respondents were given equal chances both male and female.

Figure 2.1: Gender of the respondents

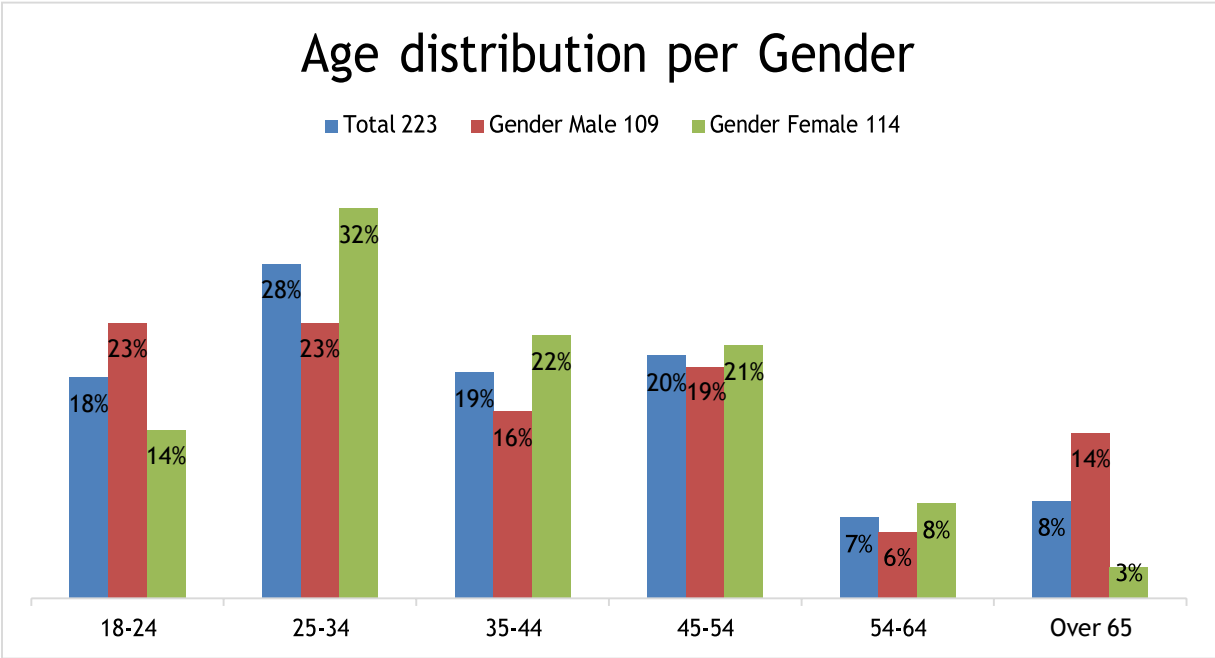


Source: Researcher, Primary data. (2021)

2.2.3 Age of the respondents

In terms of the age of the 260 respondents, two-thirds were aged between 19 and over 65 years, (28% comprised of those aged between 25-34 years, while a fifth were aged 45-54 years). Those aged between 35-44 years were 19%. It's important to note that of the entire sample only 18% are below 18-24 years; (See figure 2.2). This, therefore, presents a survey sample that is well knowledgeable based on their own past experiences.

Figure 2.2: Age per Gender



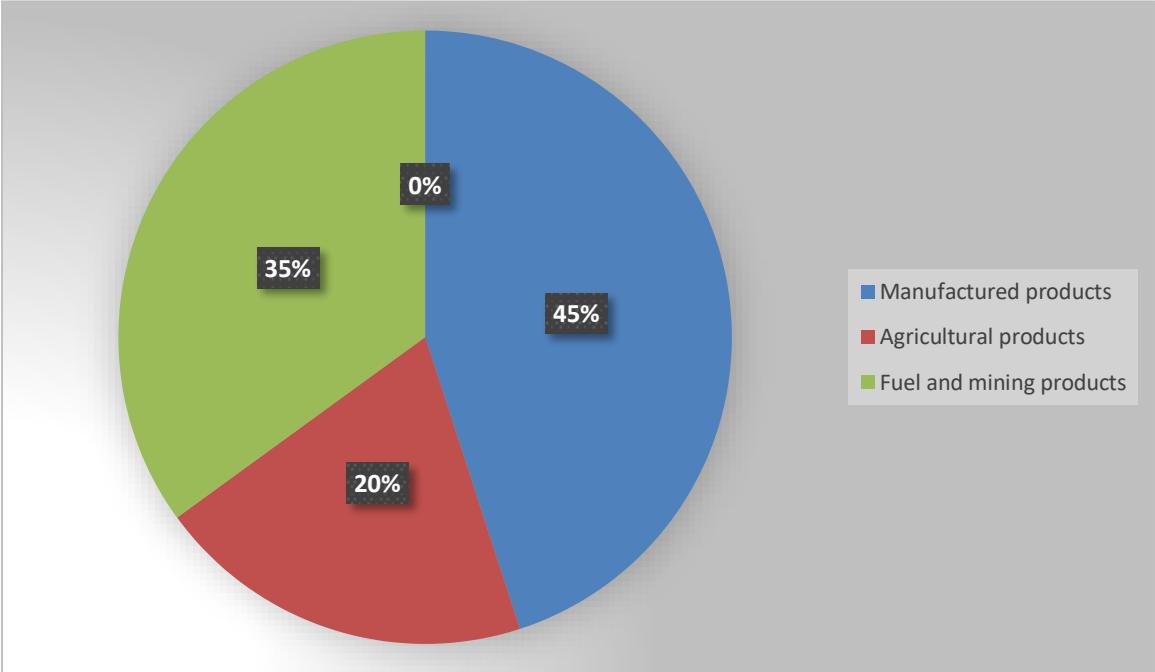
Source: Researcher, Primary data. (2021)

2.3 Levels of African Exports and Imports

Africa is said to have the lowest intraregional commerce in the world, with intraregional trade accounting for just 15% of cross-border trade and 65% of trade with developed countries. Africa is an important trading region since the pre-independence period. There is a significant distinction between the basket of products meant for Africa and the basket of goods destined for the rest of the globe. In general, manufacturing plays a larger role in intra-African commerce. Manufactured products account for around 45 percent of intra-African exports as shown in figure 2.3, while they

only account for a fifth of Africa's global exports. Almost over two-thirds of Africa's worldwide exports are fuels and mining goods, while only about a third are intra-African exports.³²

Figure 2.3: Intra-Africa Trade



In 2019, Africa's merchandise exports reached \$590 billion, while imports were \$407 billion. Among the major traders were South Africa, Nigeria, Algeria, Egypt, Libya, and Morocco. Africa's trade flows had hit unprecedented record levels the previous year, just to fall by even more than 20percent as a result of the global financial and economic crisis.

³² Siba E and Sow M (2018). Brookings. Available at <https://www.brookings.edu/blog/africa-in-focus/2018/03/21/strengthening-regional-value-chains-whats-the-role-of-the-african-continental-free-trade-agreement/> (accessed 11 August 2021).

Table 2.2: Africa's Exports by Product Group and by Destination (2017, billions of dollars)

Product group	Intra-Africa		Extra-Africa	
	Value	Share	Value	Share
Food and live animals	5.1	12.9%	19.5	9.3%
Beverages and tobacco	1.0	2.6%	2.3	1.1%
Crude materials, inedible, except fuels	1.8	4.5%	16.5	7.8%
Mineral fuels, lubricants, and related materials	13.2	33.4%	103.0	48.8%
Animal and vegetable oils, fats, and waxes	0.5	1.2%	0.7	0.3%
Chemicals and related products, n.e.s.	3.6	9.1%	9.2	4.4%
Manufactured goods classified chiefly by material	6.3	16.0%	26.6	12.6%
Machinery and transport equipment	5.1	13.0%	15.6	7.4%
Miscellaneous manufactured articles	2.4	6.2%	12.3	5.8%
Commodities and transactions not classified	0.4	1.1%	5.2	2.4%
Elsewhere				
All merchandise goods	39.6	100%	211.0	100%

Source: WorldBank

As demonstrated in table 2.1 the intra-African trade has remained muted despite unanimity by development theorists and professionals that it is the fuel for the development of the economy among Africa nations. The intra-African commerce has been restricted at 170 billion US dollars accounting for barely 5 percent of the intra-European trade. The African Union (AU) as well as

other economic enclaves on the African continent have sought to create free trade in Africa but their endeavors have been greeted with many hurdles. The International Monetary Fund (IMF) forecasts that intra-African trade amounted to just 11 percent of Africa's overall commerce from 2007 to 2011. The percentage was the lowest as compared to other continents like Europe having 70% intra-European trade accounting for its total trade and Asia at 50%. Despite the potential free trade has on the African countries, its performance has remained modest. The paucity of variety, same production patterns, and poor trade complementarity are major impediments to intra-African trade.³³

Trade barriers advance to restrict the increase of intra-African trade. Extraneous costs imposed on exporters raise buyer costs, erode trade regime controllability, and decrease the incentive to invest within the globe. For example, if inhabitants of San Francisco faced comparable costs while crossing the Bay Bridge to Oakland, as do inhabitants of Congo when crossing the Congo River between Kinshasa and Brazzaville, a return journey would cost more than \$1200 US dollars. As a consequence, the regularity of mobility between the two places in Congo is five times lower than the frequency of transit between East and West Berlin in 1988, before the fall of the Berlin Wall. Due to permits and other restrictions, a truck supplying supermarkets across a border in Southern Africa may need to carry up to 1600 paperwork. Delayed and costly customs processes, as well as obstacles caused by other agencies administering borders, raise the expenses of commerce. For example, a Southern African grocery chain claims that every day a truck is delayed at the border costs USD 500, and it spends 20,000 USD weekly on acquiring import authorizations to deliver

³³ Ibid.

meat, milk, and plant-based items to its shops in a single nation. Intra-African trade costs are 50 percent greater than in East Asia, and they are the highest of any emerging region's intra-regional expenses.³⁴

Other variables include structural, like the continent's geography and geopolitical disintegration, and policy-induced, such as a lack of infrastructure, insufficient accessibility to financing, difficult market conditions, confusing customs procedures, and inefficient transportation services. Landlocked countries in Africa have been greatly impacted by the high costs of trading due to the lack of free trade in Africa. The elimination of tariffs within regional communities was a central interest for African governments, although the African market remains extremely fragmented. Across Africa, a variety of non-tariff and regulatory obstacles continue to increase transaction fees and hinder the flow of products, information, persons, and money over frontiers. Foroutan and Pritchett identify poor transport and telecommunications infrastructures, the presence of a plethora of non-convertible currencies among African nations, political instability, and ethnic, cultural, and linguistic differences as barriers to free trade. Utter lack or precarious position of trade-related facilities; Macro policy-related troubles like the dearth of economic and financial cooperation, such as currency plurality and subject to conditions; Supply constraints such as promoting exports, ineffectual border control management, worldwide payment mechanisms, and commerce infrastructure are all barriers to free trade.³⁵

³⁴ Mengistie G and Blakeney M (2016). Geographical Indications in Africa: Opportunities, Experiences and Challenges. *European Intellectual Property Review*. 38(5):290–306

³⁵ Mbengue MM and Schacherer S (2017). The “Africanization” of International Investment Law: The Pan-African Investment Code and the Reform of the International Investment Regime. *The Journal of World Investment & Trade*. 18

The low Intra-Africa trade discussed above is attributed to a number of policy challenges. These are;

2.4 Non-Tariff Barriers, Rules of Origin and Regulatory Policies

Africa's trade faces a variety of policy obstacles. Non-tariff barriers (length lags and challenges connected with trade liberalization services) additionally impede individual business and trade, aggravating the limitations created by insufficient physical infrastructure. Constraints include complex and time-consuming systems controlling private economic activity, difficult immigration structures, restrictive regulatory requirements, and limited regional integration of statutes, ordinances, and protocols. Poor public transportation and numerous unofficial barriers along trade corridors add to the challenges.³⁶

According to a World Bank evaluation of the legal provisions for exporting and importing items reported in Doing Business, each of these variables contributes towards the highest cost of cross-border commerce in Sub-Saharan Africa. It is widely accepted that a large majority of people cross borders illegally in Africa, which is one of the reasons why recorded intra-regional trade volumes are so modest. However, there is cause to be optimistic about Africa's potential for increasing intra-regional commerce.³⁷

³⁶ Non-Tariff Barriers: Trade barriers in Africa (2021). [tradebarriers.org](https://www.tradebarriers.org/). Available at <https://www.tradebarriers.org/> (accessed 11 August 2021).

³⁷ *ibid*

Failures in administration and regulation cause blockages, impeding equipment and facilities from performing their functions. Physical integration and regulatory harmonization must go hand in one. Physical infrastructure network integration would be futile unless legal regimes and standard operating procedures were aligned to allow for the outflow of commodities beyond territorial frontiers. Even if efforts to liberalize trade in goods in the RECs are successful, the lack of services liberalization may lead to disastrous advanced security for commodities.³⁸

Table 2.3: The cost of cross-border trade

The cost of Across Borders						
	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US\$ per container)
OECD	4.4	10.9	1,058.70	4.9	11.4	1,106.30
East Asia & Pacific	6.4	22.7	889.8	6.9	24.1	934.7
Eastern Europe & Central Asia	6.4	26.7	1,651.70	7.6	28.1	1,845.40
Latin America & Caribbean	6.6	18	1,228.30	7.1	20.1	1,487.90
South Asia	8.5	32.3	1,511.60	9	32.5	1,744.50
Middle East & North Africa	6.4	20.4	1,048.90	7.5	24.2	1,229.30
Sub-Saharan Africa	7.7	32.3	1,961.50	8.7	38.2	2,491.80

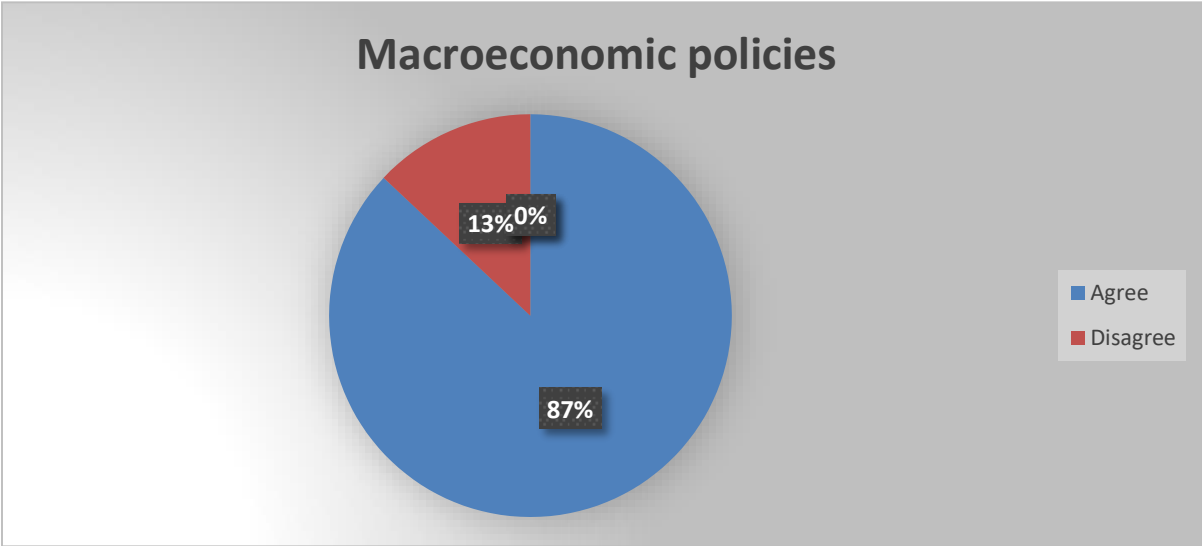
Source World Bank 2018.

³⁸ van der Nest G (2017). Sustainable Development Goals within an African context. Tralac Working Papers No. S17WP16/2017.

In all areas of the World Bank's cross-border trade rankings, Sub-Saharan Africa ranks near the bottom. The cost of cross-border trade in Africa remains very high. For example, as seen in the table above, it takes nearly three times as long for Sub-Saharan Africa to export or import products than it does for OECD nations. This might be owing to the complicated and time-consuming procedures for exporting and importing products. The region's unmatched container export/import costs further undermine competitiveness.

2.5 Poor Macroeconomic policies

Figure 2.4: Macro economic policy as a challenge to free trade



Source: Researcher, Primary data. (2021)

The majority of the respondents at 87% agreed that the poor Macro economic policy is a major challenge to free trade in Africa. Whereas 13% felt the policy was good but the implementation was poor. Numerous antagonistic African macroeconomic entities, such as wide incompatibilities in policies and economic structures, as well as policy uncertainty, have crippled African free trade.

Variable indifference is observed in the areas of North Africa, South Africa, and East Africa. Free trade in Africa faces various macro-policy barriers like the lack of a common currency amongst African states. For example, a group of nations that switch to standard currency may see their bilateral trade almost double. As a result, the influence of currency standardization on commerce is unmistakable, critical, and all-encompassing.³⁹

According to Yeboah, the plurality of currencies, exacerbated by currency exchange issues, encourages avant-garde commerce in the form of bootlegging, as well as an increase in unaccounted-for trade. Diverse currencies increase worldwide commerce expenditures since businesspeople must pay the cost of changing from one currency to the other, as well as the risks connected with the exchange for such currencies. Before the economic crisis, limited access to financial help hampered open commerce. Nonetheless, the crisis exacerbated the scarcity of credit facilities, since several African nations, such as Nigeria, had their trade credit lines terminated during the crisis.⁴⁰

The main limiting constraints for Sudanese exports include the actual exchange rates, exorbitant input prices, obsolete equipment, energetic expenses, and expensive port taxes. A supply constraint research on Ghana focused on cocoa, minerals, and wood exports discovered that macroeconomic variables such as the real currency rate and restrictive trade regulations are major predictors of Ghana's export growth.⁴¹

³⁹ Ibid.

⁴⁰ Luke D and MacLeod J, eds. (2019). *Inclusive Trade in Africa The African Continental Free Trade Area in Comparative Perspective*. Routledge.

⁴¹ Keller X (2019). *AfCFTA and Trade in Services for development*. Discussion Paper. GIZ, 9.

Similarly, limits imposed by institutional and regulatory legislation impose expenditures of close to 20percent on the volume of Ghana's exports. The Kenyan government fueled the development of the horticultural export sector through the Horticultural Crops Development Authority (HCDA), which strives to promote and enhance horticultural product manufacturing and distribution by supervising the acquisition and integration of contracts among farm owners and export markets. Limited export supply is hampered by poor roads, high-priced energy in Kenya, and the exorbitant cost of foreign commodities like fertilizers and chemicals in Kenya and Ethiopia. The poor quality of items including hides and skins, competitiveness from many other export industries, and accessibility to funding are all impediments to exporting in both nations..⁴²

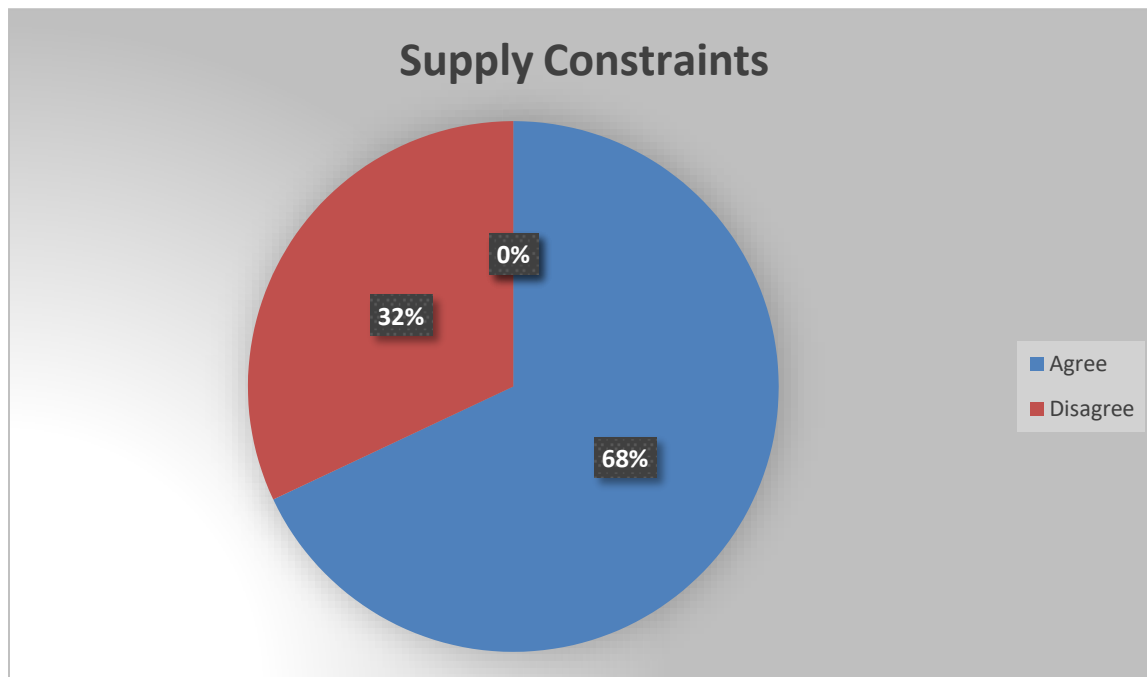
In Uganda, financing, capacity utilization, and the exchange rate affect Ugandan exports. Access to cutting-edge technology, high input costs, high taxing and permission fees, unpredictability in government policy, a paucity of strategic marketing, and malfeasance are all major barriers to export growth. The real exchange rate at the macroeconomic scale, as well as the level of investment and national GDP, constrain export availability in Côte d'Ivoire and Congo. Furthermore, Congo's export supply, mostly oil and lumber, is hampered by inadequate roads as well as a lack of and high cost of energy.⁴³

⁴² *ibid*

⁴³ *ibid*

2.6 Supply constraints

Figure 2.5: Supply Constraint as a challenge to free trade



Source: Researcher, Primary data. (2021)

Supply Constraints as a challenge to free trade in Africa were suggested by 68% of the respondents whereas 32% of the respondents felt that supply constraint is not an issue in ensuring free trade in Africa. A multitude of obstacles, at both company level and beyond the demarcation line, have an impact on African commerce, both regional and worldwide. High utility prices, unpredictable electricity availability, underqualified labor, and a lack of technical know-how and investment all contribute to a lack of export viability. High documentation demands for establishing a firm or exporting can stifle the export push. For instance, in SSA, it takes around 8 papers to export, compared to 4.5 documents in the OECD.

African nations are much more in need of trade-related aid, although these nations suffer from a severe dearth of governmental backing for trade, private enterprise growth, business and investment liberalization, and other forms of economic growth. As a result of poor investment in manufacturing, many African nations lack the production facilities necessary for a diverse manufacturing base and rely on exports of basic goods. This is because investors do not consider them to be lucrative enough places. Nonetheless, nations have made great progress in promoting sustainable development for investment and trade, per the World Bank's 2010 Doing Business report. Rwanda is among the world's leading reformists in respect of cross-border trade as well as other structural barriers. Nonetheless, enterprises in Africa suffer higher legal and supervisory hurdles, as well as fewer safeguarded investment protections, indicating that there is still potential for improvement.⁴⁴

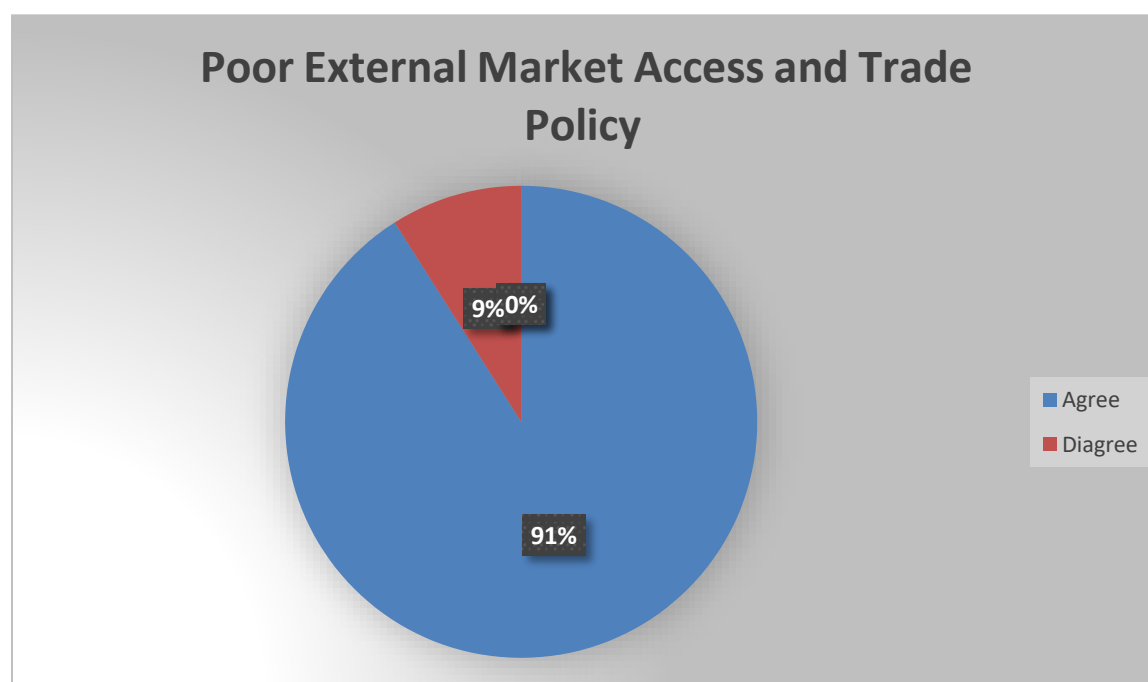
Failure to intensify trade facilitation standards limits trade by lessening market access by stoppages and more high-priced expenses it additionally increases input expenses corroding the competitiveness of exporting firms. Traversing a border in Africa is equal to the expense of up to 1,000 miles of inland transportation matched to 100 miles in Western Europe. Border crossing delays are associated with additional payments as well, particularly exploitation by customs officials. A related trade facilitation challenges include problems with international payments mechanisms, insurance requirements, and customs guarantees. Documentary credit payment which is common in many African countries is characterized by cumbersome and complex procedures. The process is time-consuming and is not well understood and is badly managed by

⁴⁴ Ibid.

many users. Indeed it has been reported that half of all payment requests are rejected on grounds of documentary inconsistencies. In addition, setbacks and intricate methods linked to the insurance of goods and customs guarantee obligations increase the cost of exports from Africa. It is approximated each day of delay lessens export incomes by 1 %. For example, if Uganda reduces its factory-to-ship time from the current level of 58 days to 27 days, its exports would increase by 30%.⁴⁵

2.7 Poor External Market Access and Trade Policy

Figure 2.6: Poor External Market Access and Trade Policy as a challenge to free trade



Source: Researcher, Primary data. (2021)

⁴⁵ Ibid.

The majority of the respondents at 91% strongly agreed that poor external market access and poor trade policies were a stumbling block for free trade in Africa. The handling of African exports in global markets is another key element influencing regional integration in Africa. African countries' integration goals are jeopardized by differences in market access treatment and related origin laws that are applied in important export markets. The EU's Everything But Arms duty-free, quota-free access policy favors LDCs but not other African countries. The same may be true of other nations' preferential trade deals..⁴⁶

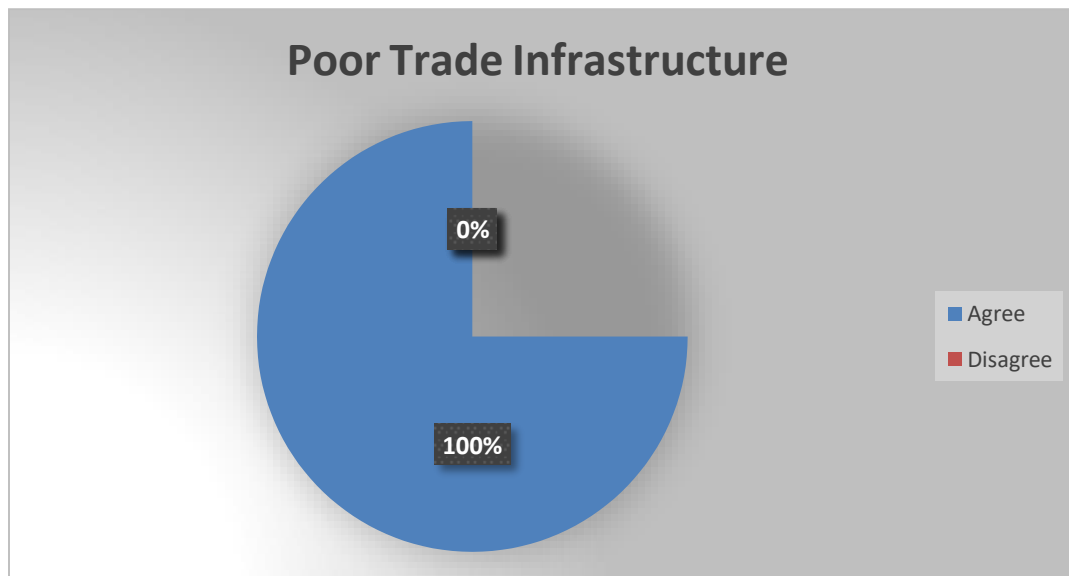
In several cases, African LDCs and non-LDCs are parties to a regional integration agreement; hence, market access disparities affect motivations for regional integration and could harm regional supply chain investments, cross-border investment, and outsourcing. Even if major commercial states guarantee duty-free accessibility to their territories, changes in origin rules may have equivalent negative repercussions for certain African countries.⁴⁷

⁴⁶ Hoekman B, Senbet LW and Simbanegavi W (2017). Integrating African Markets: The Way Forward. *Journal of African Economies*. 26(suppl_2):3–11, Centre for the Study of African Economies (CSAE).

⁴⁷ *ibid.*

2.8 Poor Trade Infrastructure

Figure 2.7: Poor Trade Infrastructure as a challenge to free trade



Source: Researcher, Primary data. (2021)

All the respondents 100% stated that Trade infrastructure was the biggest challenge to free trade in Africa. Trade infrastructure is both a policy and physical trade component. This is due to advancements in transportation and communications, which have promoted the internationalization of industry by decreasing the cost of severing the production process in many parts of the globe. As a result of their participation in production sharing, several developing nations have been able to grow and diversify their trade. Flexibility, speed, and dependability in products delivery have become increasingly important as businesses adjust to just-in-time manufacturing and management systems as a result of growing competition in major markets.⁴⁸For intra-African commerce, closing the gaps in Africa's regional infrastructural linkages is very important. Africa's transportation, electricity, and ICT networks are unable to function as a

⁴⁸ Ibid.

cohesive whole due to these missing linkages. Africa has not been able to achieve its trade interests until these disparities are bridged.⁴⁹

In Africa, the lack of infrastructures, both material (roads, transportation, and electricity) and soft (ICT and customs processes), has been identified as a predictor of poor intra-African commerce (Holtz-Eakin, 1994). As per Longo and Sekkat (2001), a 1percentage improvement in the exporting country's transportation and communications infrastructure increases exports to other African nations by around 3%. The persistence of a well-developed infrastructure supports economic range reduction and accelerates steady commerce, investment, and labor flow. Nonetheless, Africa's weak transportation and communication infrastructure has increased the cost of doing business across African nations and hampered the African continent's ability to compete worldwide.

The World Bank Enterprise Survey observes that in Sub-Saharan Africa, transportation expenses are the most expensive compared to other continents. Freight costs account for 13% of African import costs, compared to 7.5 percent in Latin America, 9 percent in Asia, and around 5% in industrial countries. In Africa, infrastructure represents for 40percent of projected transportation costs in nations with coastal ports and up to 60percent in landlocked areas. Internationally, shoreline nations enjoy a 1.5 percentage point growth edge over landlocked peers. Despite road transport being the commonly adopted median of transportation in Africa, the African road networks remain to be in a poor state and inadequate. Road density in Africa is the most inferior

⁴⁹ *ibid*

globally at less than 7 kilometers per 100 square kilometers. Most roads in Africa are untarmacked, and the tarmacked ones are rarely maintained, leading to a more extended conveyance rate and more accelerated vehicle devaluation.⁵⁰

Transportation costs are 63 percent higher in African nations, as per the ECA report. Similarly, based to UNCTAD, transportation costs as a proportion of imported value are 11 percent for North African nations, 111% greater than in industrialized countries, and 25% higher than in developing countries.⁵¹

A look at the Democratic Republic of the Congo's weak transit system gives a detailed overview: copper transported from the Copper Belt region typically takes 2 to 3 weeks to reach the port of Durban, but the same distance is completed in Europe in 2 days. Poor and underdeveloped telecommunications services and unusual costs are other constraints to the intensification of open trade. The progression of technology in Africa is the lowest as opposed to different continents. Vital market information is expensive to reach for both importers and exporters as communication connections among African countries are scarce and indirect. Lack of states advancing ICT development in their nations and unusual charges have continually frustrated intra-trade among African states. In 2007, the average cost of a three-minute phone call to the United States in Africa was \$0.14, compared to the global average of \$0.09.⁵²

⁵⁰ Sohn, R. (2013). Regional Trade and Monetary Integration in West Africa and Europe. *Center For European Integration Studies*, 5 -19.

⁵¹ Sakyi, D., & Afesorgbo, K. (2019). The Effects of Trade Facilitation on Trade Performance in Africa. *Journal of African Trade*, 3-8.

⁵² Ibid.

Tariffs imply massive trade obstacles, yet they do not render intra-trade unsustainable, nor does a lack of necessary regional infrastructure (UNCTAD, 2007). Furthermore, Shams (2003) said that bureaucratic hurdles to intra-regional commerce in West Africa exist, such as road tolls, transit costs, and bureaucratic impediments at borders and ports (Shams, 2003). Unproductive procedures at country boundaries frequently lead to prolonged setbacks and unusual trade expenses, including unauthorized fees. Stoppages at African customs are the most long-drawn globally. Customs processing at the Victoria Falls border checkpoint from Zambia into Zimbabwe via the North-South Corridor, for example, may take up to 36 hours. The before-mentioned setbacks lead to a notable discouraging impact on trade capacities. Traversing a conveyance region scores an extra 4% to trade expenses regardless of the mileage traversed. Recurring roadblocks on common highways create additional setbacks. Looking at the road between Lagos and Abidjan, there are 69 established checkpoints, precisely seven roadblocks per 100 km.⁵³

Intra-African commerce suffers significant transportation constraints in the East African Community, as seen by the 27 police checkpoints between the Ugandan borderline and the Kenyan seaport of Mombasa. Regional regulations governing customs processes, axle loads, truck specifications, company permits, and third-party motor insurance may provide enormous challenges to cargo movement. Similarly, power is an infrastructural barrier for intra-African commerce. Energy dissipation in Africa is around one-tenth of the total for the undeveloped nations, at 124 KWh per capita. Energy shortages and frequent blackouts disrupt economic activity

⁵³ Armel, D. K. (2020). Understanding the African Continental Free Trade Area: Beyond “Single Market” to “Africa’s Rejuvenation” Analysis. *Education, Society and Human Studies*, 85- 100.

and drive up operating costs in up to Thirty African countries. African businesses claim that frequent power outages cause them to lose 5percent of their revenues. Businesses in the local sector that cannot afford backup generators suffer 20 percent losses.⁵⁴

2.9 Conclusion

Conclusively, the chapter has discussed the Key policy challenges of attaining free trade in Africa. The chapter started by examining the low intra-African commerce, noting that the African continent has a variety of difficulties that impede intra-Africa trade. Non-Tariff Barriers, Rules of Origin and Regulatory Policies, Poor macroeconomic policies, and poor trade infrastructure were found out to be the main policy challenges to attaining free trade in Africa. The continents for a long time have been facing with Non-traffick barrier, rules, and regulatory policies that have slowed down trade. Poor macroeconomic policies have also hindered the attainment of free trade whereas the poor trade infrastructure continues to be a big stumbling block to free trade in the continent.

⁵⁴ *ibid*

CHAPTER THREE

THE KEY FACTORS THAT MAY HINDER AfCFTA IN ATTAINING FREE TRADE BETWEEN KENYA AND THE REST OF AFRICA

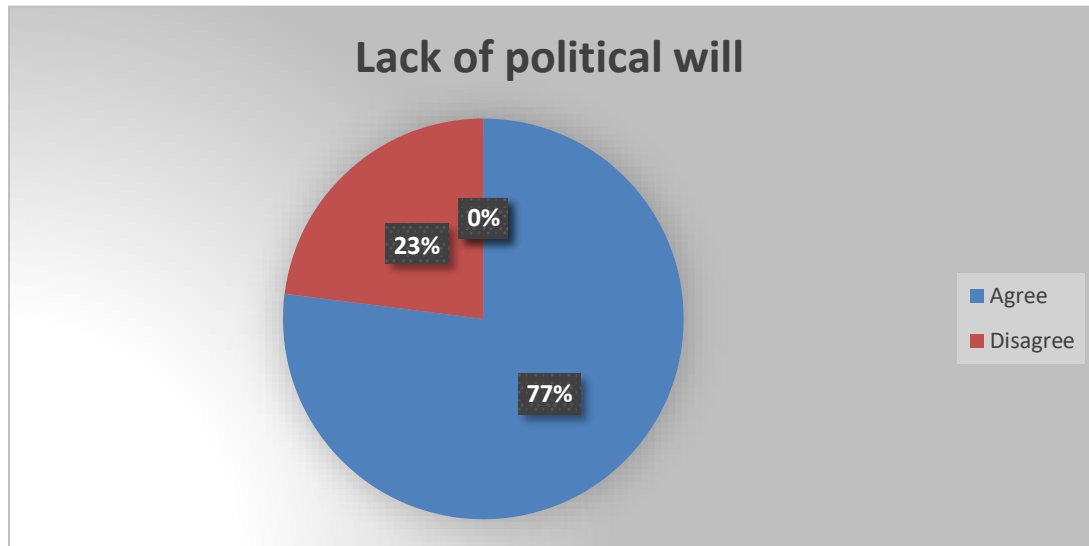
3.1 Introduction

The preceding chapter of the study looked at the major policy obstacles to achieving free trade in Africa. This chapter will go more into the reasons that may stymie AfCFTA's ability to provide free trade between Kenya and the rest of Africa. Intra-African commerce is limited, as mentioned in the preceding chapter. If the newly formed African Continental Free Commerce Area (AfCFTA) succeeds in expanding trade within the continent, it has the potential to significantly change these figures. Kenya, as one of the AfCFTA's founding members, expects to benefit greatly from the free trade agreement. However, given the limited intra-Africa trade, it is critical to assess the major obstacles that may obstruct the attainment of free trade between Kenya and the rest of Africa through AfCFTA.

3.2 Lack of political will

Figure 3.1 Lack of Political will as a factor that may hinder AfCFTA in attaining free trade between Kenya and the rest of Africa

Figure 3.1: Lack of Political Will



Source: Researcher, Primary data. (2021)

Over 77% of the respondents Agreed that lack of political will is likely to hinDER Kenya from attaining free trade within Africa. Whereas 23% feels that Kenya being one of the leading countries in advocating for AfCFTA has sufficient political will. Another of the AfCFTA's primary objectives is to encourage free trade. The AfCFTA targets continue providing opportunities for African nations in boosting free trade and company that specializes in different trades to benefit from economies of scale, enabling them to be more sustainable and effective by fostering intra-African trade and attempting to create an integrated Markets of 1.2 billion individuals. The major item necessary is for different states to enact free trade policies in order to fully realize the goal, however owing to a lack of political will by heads of states and respective laws, the policies are not implemented in the countries.

Although the Africa Continental Free Trade Agreement has built working free trade zones, not every member countries contribute, and the states that do frequently fail to keep their promises. This disconnect between agreements and execution has slowed African free trade progress and stifled intra-Africa trade's revolutionary potential. African nations must make sure that the AfCFTA does not fall into this trap because⁵⁵ authorities in states where political dynamics favor deeper free trade might be using the AfCFTA to 'secure in' market changes – such as those linked to services, competition, free trade, and investments – to boost regional enterprises' competitiveness. Business people can utilize the AfCFTA to hold their elected officials accountable for their obligations on regional trade integration. But states which are making policies that don't favor free trade using the parliament are making it difficult for the free movements⁵⁶.

The majority of politicians are skeptical of African goods. Kenya, for example, trades mostly with the Chinese government, ignoring the products of its neighbors. Such actions by political elites jeopardize the implementation of free trade since most people will wish to trade with countries with which their government has a positive relationship. The west's exposure and profitable transactions as a result of their wealth make it tough for third-world countries to trade with their allies. This is a clear indication that the political side directly has an effect when trying to implement free trade in Africa.

⁵⁵ Mr. James Thuo Gathii, 2017 Human Rights Impact Assessment of the Continental Free Trade Area united Nation Commission

⁵⁶ ECA. 2012. Assessing Regional Integration in Africa V – Towards an African Continental Free Trade Area, 21 <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Assessing%20Regional%20Integration%20in%20Africa%20-%20Towards%20an%20African%20Continental%20Free%20Trade%20Area.pdf> (accessed 30 March 2017)

The ACFCTA presented a significant test to Africa's political leaders. Political will is needed to ensure the successful implementation of this initiative. Each member state must adhere to the agreement tariffs, domestic trade policies must take a standstill to ensure free movements of goods and people. Africa must adopt a joined approach for trade to move forward. Lack of political will is a serious malaise that is harmful to economic growth. It can also cause damage to economic performance. Nontariff and free trade facilitation changes may necessitate significant policy changes at the state level⁵⁷. Hence politicians of goodwill are needed to push for such reforms in order for the full realization of free trade.

In certain cases, these improvements could entail politically unpopular decisions. The pact's potential, on the other side, maybe utilized to aid legislators in conquering these impediments and adopting the genuine changes required to make the Continent as successful as any other region on the planet. As a result, it is the political will that will lead to the realization of the free trade ideal. Governments, local trade associations, and those sponsoring global negotiating forums must take steps to ensure that involvement is fruitful.⁵⁸

The CFTA's Draft Strategic Framework emphasizes the need of having an integrated, participative, and transparent negotiating process inclusive of all parties, notably civil society organizations at the local, sub-regional, and continental stages. Taking into account a diverse variety of perspectives and implications prior to the agreement's conclusion will help to ensure a strong,

⁵⁷ Ibid.

⁵⁸ *ibid*

inclusive, and long-term CFTA. Failure to follow such guidelines the free trade objective of AFCTA will not be realized. In Kenya when there was apolitical difference and difference in policies concerning the Namanga Border about the covid protocols, free trade was compromised long as trucks spend days at the border without clearance. This was during the late President Magufuli regime but when President Suluhu took over he tried mending policies with the Kenyan president Kenyatta. These new policies enable the realization of the free movement and trade among the two countries citizens.

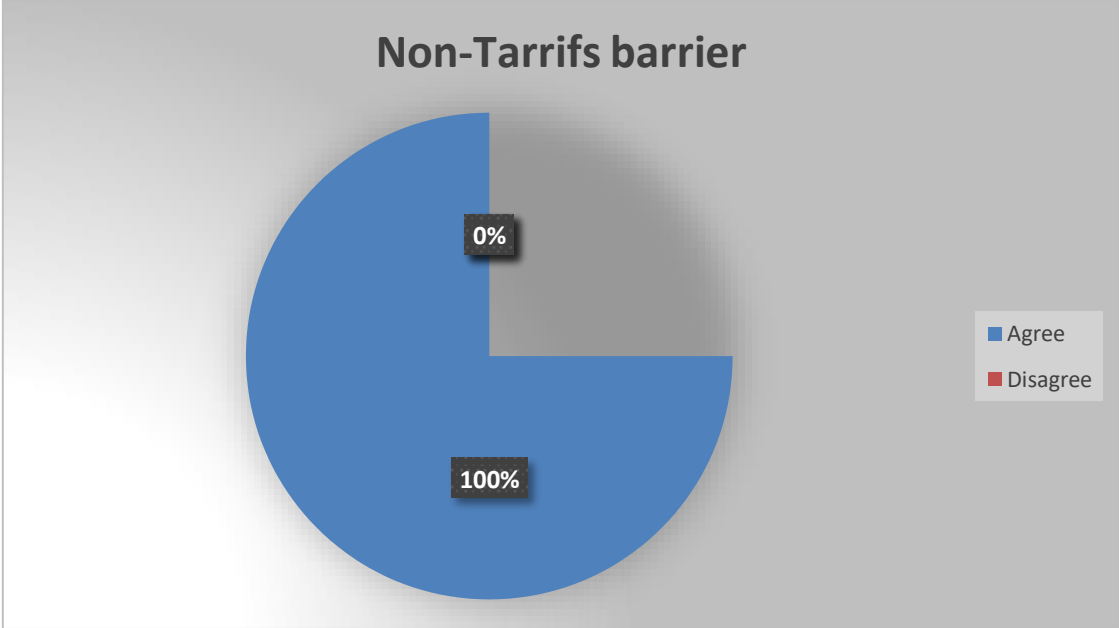
The ACFCTA is more dependent on the political goodwill of the continent. Excessive engagement of other government agencies such as border police and other political restraint are some of the major barriers hindering successful trade from taking place in Africa especially in Kenya. When there's a lack of cooperation among African politicians, nothing much is always done, it affects the economic growth of the state. For instance, some deals that may favor the traders might not be signed due to the division among the leaders every state is believed to have a policy that favors them, when this is combined a lot can be therefore achieved.

Lack of a political will can bring a big gap when it comes to trade. Africa is a growing region with a promising trading result. A well-structured framework and political will towards economic integration will create a stronger Africa. The policies that ease trade a free movement are always formulated by parliaments or direct executive orders from the president. Therefore, when those two critical players are reluctant in formulating favorable policies or amending the laws that were deterring the free movement before, free trade will be an impossible mission to achieve among the African countries. For example, the Kenyan cabinet fully approved the African Continental Free

Trade Area (AfCFTA) because it was going to create a single liberalized marketplace that was going to promote industrialization, infrastructure growth economic transformation, and trade throughout the region's 1.2 billion inhabitants. Specialization, area value chain growth, agricultural expansion, and food security are all part of the pact's objectives. Political will made them approve such a lucrative pact but lack of political will would have obstructed its approval by the cabinet hence the country was not going to get its benefits⁵⁹.

3.3 Non-tariffs barriers

Figure 3.2 Non-Tariffs barriers as a factor that may hinder Afcfta in attaining free trade between Kenya and the rest of Africa



Source: Researcher, Primary data. (2021)

⁵⁹ Helen V. Milner, 1999, THE POLITICAL ECONOMY OF INTERNATIONAL TRADE, Department of Political Science, Columbia University, New York, New York 10027; e-mail: Hvm1@columbia.edu

Non-Tariff barriers, according to all respondents, will be a substantial impediment to the free movement of goods and services between Kenya and the rest of Africa. Despite the fact that trade between Africa is increasing, intra-African trade stays low. In 2017, Africa's overall trade volumes to and from the other region accounted for much less than 20% of Africa's entire exported and imported commodities. The dependency of countries in Africa on commodities producers and exporters, an absence of diversity, tariffs and non-tariff barriers (NTBs), poor transportation infrastructure, and significant security concerns are all reasons for this state of affairs. Another impediment to intra-Africa commerce is non-tariff barriers. Difficult clearing systems, burdensome documentation, and inconsistent trade policies lead to higher intra-Africa trade costs due to infrastructure, regulatory, and administrative barriers.

NTB cuts can strengthen the economy, enhance intra-African trade flows, and enhance trading arrangements across the continent. Kenya has taken steps to resolve the NTB issue and its impact on intra-REC commerce. The government has processes in place to report, monitor, and eliminate NTBs. These are internet-based mechanisms that allow impacted parties to notify intra-REC NTBs. National focal points, national monitoring committees, and coordinators are among the organizations involved in handling complaints concerning alleged NTBs. The mechanism was put in place by the Kenyan government upon the realization that these tariffs barriers slow down the movement of business individuals or free trade⁶⁰.

⁶⁰ Ibid.

Despite the fact that the processes raised awareness of the problems caused by NTBs, the methods had less success in removing recurring and repeated barriers. They necessitate policy changes as well as the actual implementation of REC pledges. Policy-related NTBs, as well as those involving insufficient infrastructure and ongoing fraud and corruption, are repeated or non-actionable concerns. These systems are incapable of effectively resolving such issues. Furthermore, the period between filing a complaint and having it resolved might be lengthy; they are not problem-solving tools that can be used right away. Hence, NTBs like a sudden change in export policies and standards; intra- Africa import restrictions of particular goods like confectionery, cooking oils and fats, vegetables, cereals, sugar, dairy, and liquefied natural gas (LPG); re-assessment of commodities before to enter into particular markets; and entry restrictions for textile materials produced by companies in the EAC proceed to stymie intra-EAC trade⁶¹.

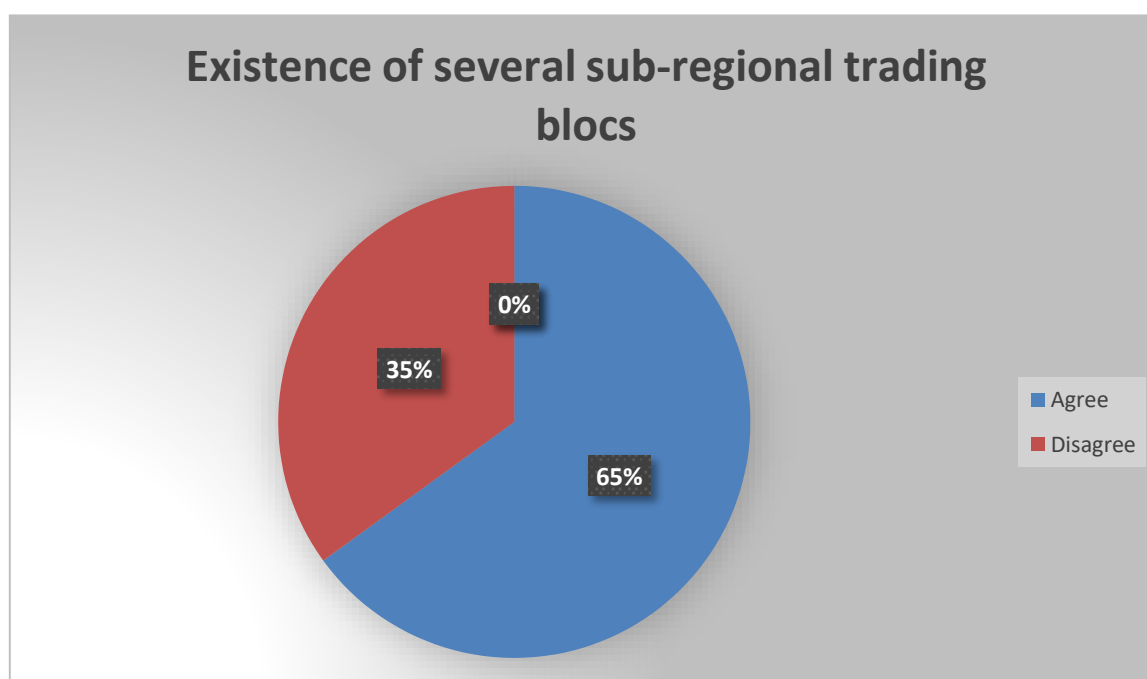
With full liberalization, eliminating tariffs on trading activities among the African economies, as the AfCFTA proposes, may result in a reduction of 4.1 billion USD dollars in regional tariff receipts which is about 9 percent of the Africa revenue, but exclusions imply the actual total will be markedly smaller. Tariff revenue accounts for a bigger proportion of government revenue in several nations, therefore tariffs eradication will have uneven effects on each African government Guinea (4.4 percent), Togo (3.5 percent), and Benin (2.0 percent) Burkina Faso (44%) will suffer the highest losses as a percentage of total tariff earnings, followed by Zimbabwe(36 percent), Malawi (22 percent), and Ghana (21 percent). Tariff reductions are likely to have

⁶¹ Willemien Viljoen, 2019 The intra-Africa non-tariff barrier dilemma – the challenges facing the AfCFTA approach, tralac Researcher

a favorable outcome in the long run, as advantages of trade offset tariff losses. But with the short-run effects, several governments may be reluctant to implement the non –tariffs policies because of the immediate effects like the loss of a certain percentage of the revenue ⁶².

3.4 Existence of several sub-regional trading blocs

Figure 3.3: Existence of several sub-regional trading blocs as a hindrance to trade between Kenya and the rest of Africa



Source: Researcher, Primary data. (2021)

Concerning the current sub-regional regional organizations, 65% of participants indicated that they would provide a hurdle to the continental free trade deal, whilst 35% believed that they will strengthen rather than impede continental free trade agreements. The execution of AfCFTA is

⁶² Signé, Landry. “How can the new African free trade agreement unlock Africa’s potential?” OECD Development Matters. October 22, 2018. (<https://oecd-development-matters.org/2018/10/22/how-can-the-new-africanfree-trade-agreement-unlock-africas-potential>).

fraught with difficulties. There are already many regional economic integration agreements in place; The Southern African Customs Union (SACU) and the East African Community (EAC) are two instances of effective regional organizations on the African continent. There are now over 15 regional integration agreements in existence across Africa, and while these agreements have resulted in significant increases in intra-African trade, the IMF believes that they have resulted in less trade benefits than were projected.⁶³

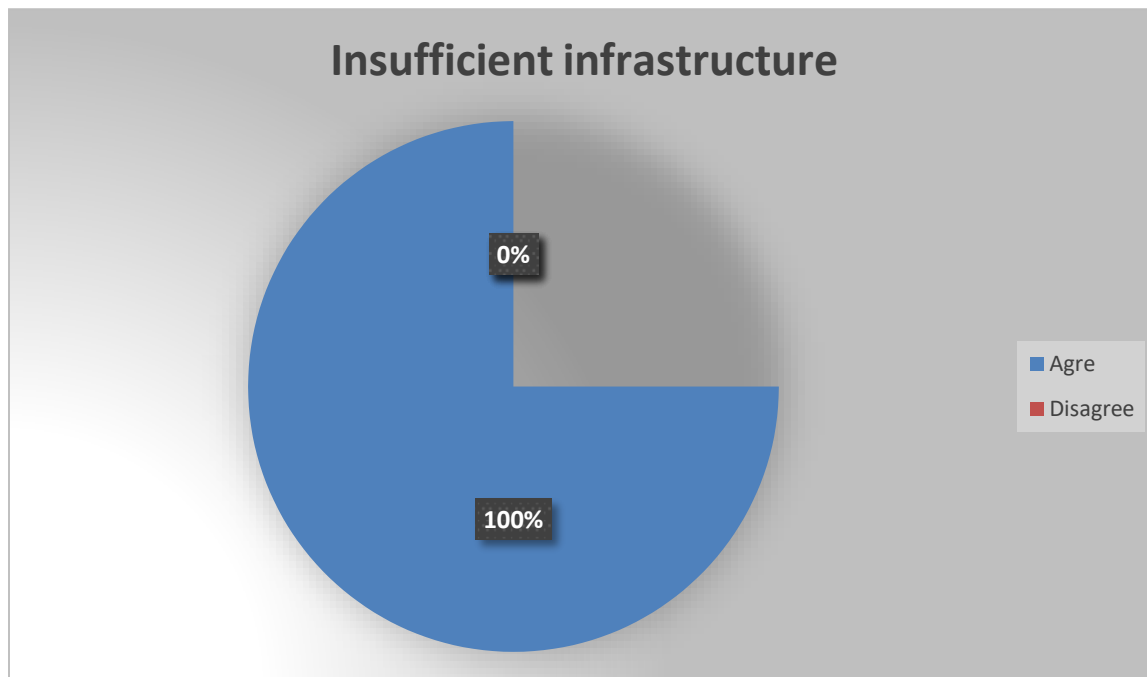
Important features of the AfCFTA are still being worked out, and each country's economic weight and objectives differ dramatically. Nigeria, Egypt, and South Africa account for more than half of Africa's GDP, whereas Africa's six sovereign island states account for less than 1%. Negotiations have gotten more difficult as a result. Economists have also pointed up the obstacles to the AfCFTA's effectiveness, like insufficient road and rail connections, vast regions of insecurity and sectarian violence, significant borderline bureaucracies, and fraud, all of which threaten to hinder regional development and integration.⁶⁴

⁶³ Centre, I. T. (2018). *A business guide to the African Continental Free Trade Area Agreement*. Geneva: International Trade Centre.

⁶⁴ Cofelice, A. (2018). African Continental Free Trade Area: Opportunities and Challenges. *THE FEDERALIST DEBATE*, 32-45.

3.5 Insufficient infrastructure

Figure 3.4: Insufficient infrastructure as a stumbling block to Continental free trade



Source: Researcher, Primary data. (2021)

All the respondents strongly agreed that the Africa continent is having the poorest intra-regional commerce in the globe, with intra- continent trade accounting for only 15percent of cross-border trading and 65 percent of trading activities with big industrialized economies. The newly founded African Continental Free Trade Area (AfCFTA), which intends to promote free trade inside the continent, has the potential to drastically alter these numbers in case its successful implemented . The AfCFTA is a continental free trade agreement with the primary purpose of creating a single market for goods and services to increase economic integration among African countries.

Kenya was among the very first states plus Ghana to lodge its instruments of ratification for the major non-tariff trade agreement, exhibiting leadership and support to the accord. Several African nations, such as Kenya, do not necessary customs processes and infrastructure to properly implement the AfCFTA tariff-free trading provisions⁶⁵.

The lacking infrastructure remains Africa's most pressing developmental issue. Insufficient transportation, telecommunications, water, and electricity infrastructure stymies growing free trade, business growth, efficiency, and competition. Africa's governments desire to trade with one another, but weak infrastructure makes it hard to reach marketplaces, particularly in the deep locations. Physical infrastructure, which includes all corners of connections, enables growth, but social infrastructure, which includes the supply of water, cleanliness, sewer systems, education, and health, all of which are essential amenities, has a significant effect on people's standard of living⁶⁶.

Lack of sufficient infrastructure is a very major obstacle to growth and development in every country, for example, poor roads; whenever there's a bad road in the country it hinders people from having good trading, therefore when there's sufficient infrastructure, It will highly contribute to the economic growth of every country, it also gives traders the opportunity of trading freely without any limitation.

During the Africa Continent Free Trade Movement, they experienced some problems that did not

⁶⁵ Cynthia Olotch , 2021, Africa Continental Free Trade area –Spotlight on Kenya

⁶⁶ Andre Pottas , Adressing African infrastructure Challenges , Deloitte Corporate Finance

make trading very successful, among them was also insufficient infrastructure which was experienced by the traders, for instance, poor roads. This brought about the downfall of other traders since they could transport their goods well and also on time. The perishable goods also took time to be delivered due to poor roads causing big losses to the traders. Also, it became a bit hard for traders to connect to the market.

Whenever there are poor roads sometimes traders are overcharged on roads this leads to low-profit sales, during the trade period some traders could not afford the high transportation cost. In some areas people could not access vehicles, they were therefore forced to transport goods by themselves. Sometimes the conditions around them could not favor them, for example during heavy rain periods where there was a lot of flooding, people suffered to lack of better bridges that could make it easier for them to access their markets with ease.⁶⁷

Therefore the government should always focus more on giving people good infrastructures, investing more in it, to increase good trading that will help traders to grow without necessarily having to be in certain places. It should also focus on the economic growth of the country because that is what will make the country move ahead and save people from economic frustrations. The bad standard of Africa's infrastructure facilities (roads, trains, ports, and telecommunications) is a big hindrance to intra-regional commerce. Bigger investments in the Continent's trade-related infrastructure, such as the African Union's Programme for Infrastructure Development in Africa

⁶⁷ Fofack, H. (2020). *Making the AfCFTA work for 'The Africa We Want*. Accra : Africa Growth Initiative .

(PIDA), are thus critical for facilitating intra-African commerce and assuring the AfCFTA's effectiveness.

Boosting internet access is also critical for enhancing intra-African commerce under the AfCFTA, particularly given Africa's growing interest in online business. Since the start of the coronavirus, online technologies like cloud sites and digital networks have enabled e-commerce and facilitated the exchange of goods and services, they have grown enormously relevant driving force of economic development. In Africa, online technological tools also aid to facilitate commerce by lowering transaction costs and eliminate obstacles to cross-border commerce. Web-based portals, single windows, digitized documentation, online cash, electronic certifications (such as certificates of origin) and signatures, and computerized trade statement filing can all assist in streamlining, consolidating, and expediting trade-related operations at crossing boulder points. Switching from paper-based to digital trade facilitation offers the added advantage of becoming more accessible to companies, less susceptible to minor bribes, and needing less physical contact (all of which are crucial considerations in the event of a global pandemic). Digital techniques may also be used to ease data communication between border officials.⁶⁸

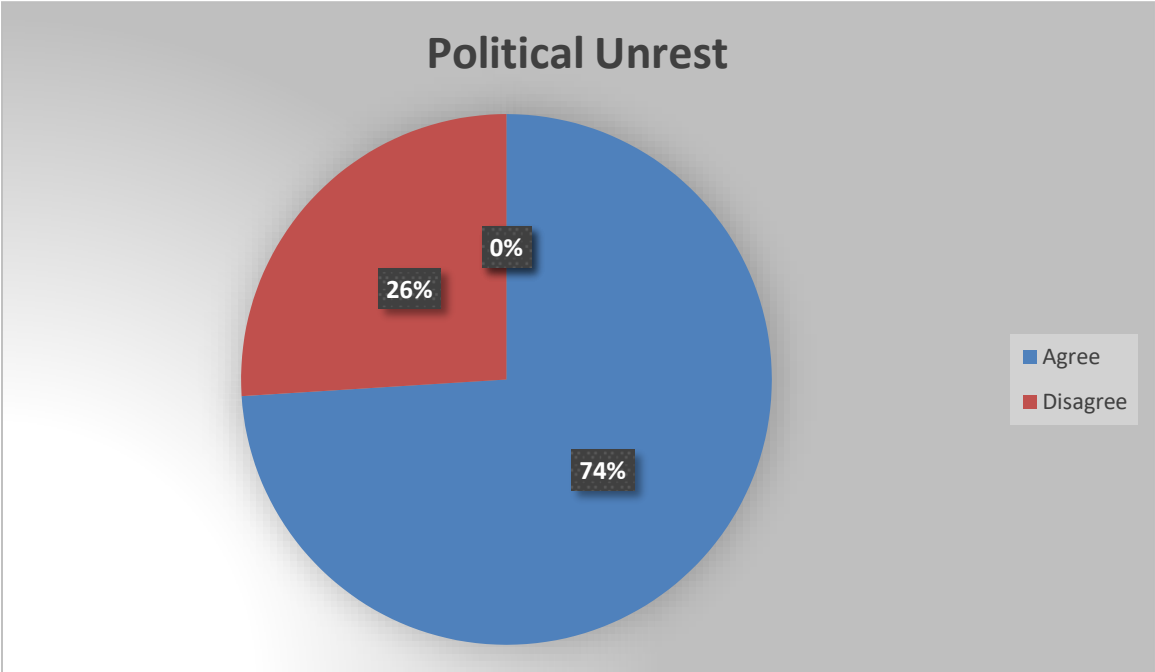
Individuals and businesses are limited in their ability to acquire digital technology due to a lack of financial resources and infrastructure deficiencies. While larger companies in Kenya are well-positioned to take advantage of technological advances, Small and medium enterprises are

⁶⁸ Geda, A., & Yimer, A. (2019). The Trade Effects of the African Continental Free Trade Area (AfCFTA): An Empirical Analysis. *International Economics*, 55-77.

incapable of working due to a shortage of creditworthiness and the high cost of implementing these innovations. Despite Kenya having made substantial progress in terms of smartphone ownership, a large proportion of the population still lacks high-speed digital services, preventing them from benefiting from the digitalization of trade.⁶⁹

3.6 Political Unrest

Figure 3.5: Political unrest as a hindrance to free trade in Africa



Source: Researcher, Primary data. (2021)

74% of the respondents agreed that whenever there's political unrest in the country, a business cannot do well, this is because there's fear of the unknown. Whereas 26% felt that Kenya and

⁶⁹ Apiko, P., Woolfrey, S., & Byiers, B. (2020). The promise of the African Continental Free Trade Area (AfCFTA); Political Economy Dynamics of Regional Organisations in Africa. *DISCUSSION PAPER No. 287*, 10-19.

Africa at large have matured politically hence the limited number of political unrest. The findings noted that for any good business to take place, there must be peace in the country. Therefore, political unrest also affected free trade. Africa's Continent Free Trade was affected by political unrest due to many things. Traders could not move in search of other goods since there was the restriction of movements, destructions of properties also happened during that period, there was division and this could not lead into healthy trading, also there was a change in leadership, a lot of things also tend to change the new presidential policies that most traders could not abide by, not leaving behind high taxation and hard economical time and other political factors.

For instance, traders experienced high taxation. During this time, traders could not continue with trading, there were losses in profit since some goods were spoilt, other goods could not be taken back to the markets since the sale dates were overdue. Traders are more confident when the country is at peace, this will enable them to interact freely with traders from other continents without any restriction. This will also improve the economic growth of various countries since they are having the chance to share ideas on economic development.⁷⁰

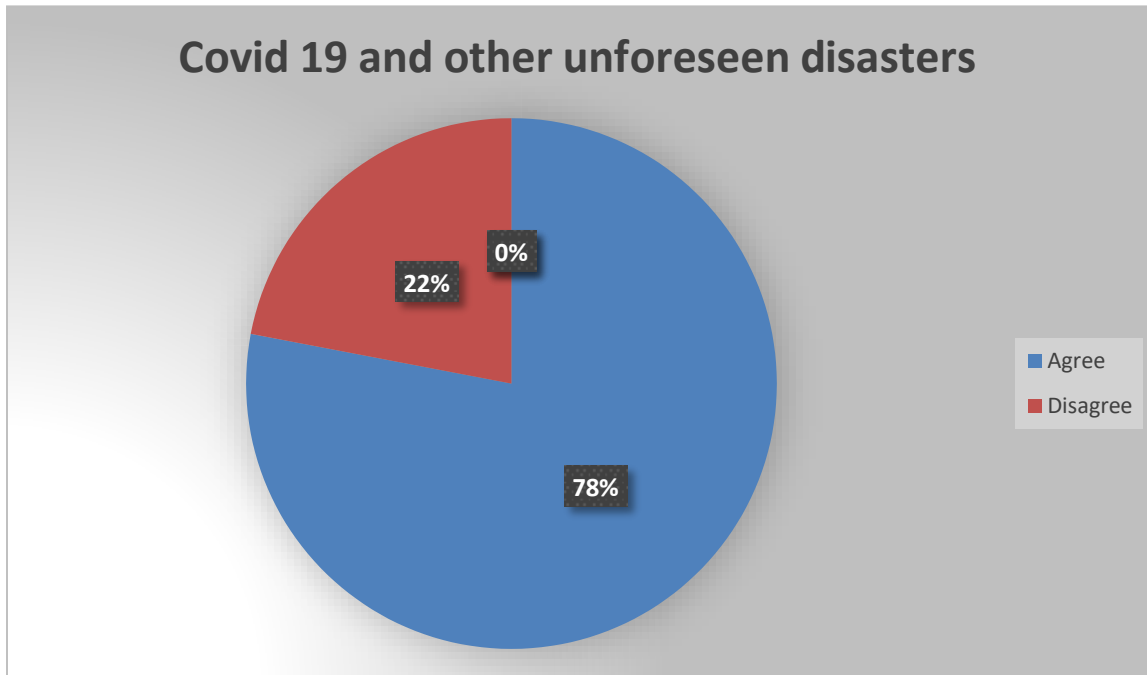
Political unrest did not just put traders into a stressful state but also deprived them of getting access to other fellow traders from other continents, this is because violence could also erupt leading to massive loss. During the 2007 post-election, there was political unrest and a lot of things were lost, people experienced a lot of losses and people doing international trading stopped because there

⁷⁰ Fofack, H. (2020). *Making the AfCFTA work for 'The Africa We Want*. Accra : Africa Growth Initiative .

was no access. Therefore, in order to have successful trading, peace should be a priority.

3.7 Covid 19 and other unforeseen disasters

Figure 3.6: Covi-19 and other unforeseen disasters as a hindrance to Continental free trade



Source: Researcher, Primary data. (2021)

78% of the respondents noted that covid-19 has delayed the operationalization of AfCFTA hence any future disaster may slow it down. However, 22% felt that even with Covid-19 or any future disaster, trade is likely to still continue. The CFTA is planned to help in trading products and services by allowing people to freely travel around, thereby promoting and expanding economic cooperation in accordance with the AU's Agenda. The pandemic, on the other hand, has hampered movement around the world, putting a damper on economic cooperation and regional trade. As a result, it is critical for the head of state among the Africa countries to be equipped for COVID -

19 potential negative influence on the agreement's adoption and to look for ways to turn the epidemic into prospects for further economic cooperation. Crossing point closures and travel restrictions imposed by significant and developing African countries such as Kenya, Nigeria, South Africa, Ghana, Ethiopia, among others, have had an effect on intra-African commerce⁷¹. In the midst of government schemes to control the transmission of the infection, the need for basic products such as pharmaceuticals and agricultural items has reduced exports. As a consequence, demand for basic commodities is increasing, leading to a shortage, which leads to price increases and ill living conditions⁷². The measures by governments like Kenya and Tanzania on the movement of people made it difficult for the movement of goods and people across those borders. This went against the policies of free trade and movement. In this case, the unwillingness of the 2 nations to come to an agreement on Covid-19 regulations for cross-border movement of persons and products sparked the economic dispute between Kenya and Tanzania.

The Tanzania government responded against Kenya's policy to limit traffic in the Namanga border and due to the COVID-19 outbreak by prohibiting all autos and people from entering Kenya. Concerns of cross-border spreading between the two countries were originally highlighted by Kenya when the Namanga and Kenya-Somalia crossings were identified as the virus hubs. Kenya insisted that at the Namanga border, all the long-distance truckers be screened for coronavirus before being allowed to enter the country as a preventative measure. Magufuli missed the EAC heads of government video conference in May 2020, which sparked a diplomatic spat

⁷¹ United Nation Conference on Trade and Development 2020 , Impact of the COVID- 19 pandemic on trade and development , https://unctad.org/system/files/official-document/osg2020d1_en.pdf

⁷² enny, F. (2020). Competition Law Enforcement and the COVID-19 Crisis: Business as (Un)usual? (SSRN Scholarly Paper ID 3606214). Social Science Research Network. <https://papers.ssrn.com/abstract=3606214>

between the two countries. As per the meeting, the aim was to develop and help in assessing virus levels in East Africa but later Magufuli would respond by saying that his country was free from the virus by God grace⁷³

After 22 governments lodged ratification paperwork, the East Africa Community and, by extension, the very optimistic African Continental Free Trade Area (AfCFTA) took effect on the 5th month of 2019. While their disagreement may be regarded as "minor," it serves to highlight the huge hurdles that African countries would face in their efforts to abolish trade barriers by the AfCFTA policies. AfCFTA aims to increase intra-African trade and market integration, thereby positioning Africa as a key factor in world commerce and policies. Even as they fight Covid-19⁷⁴, Governments, especially some in the East Africa Community, should focus on the wider vision of African unity. The Covid -19, or petty political obstructionism, shouldn't be harnessed to prevent countries, from reaping from the opportunities of the common market. The head of state should know that there is no pride in controlling suffering poor countries, and the continent's cooperation is a key component of Africa's quest for business freedom⁷⁵.

Because of the virus, tariff discussions have come to a halt as governments prioritize protecting people and safeguarding livelihoods. This generates uncertainty for low-income countries (LDCs), as tariffs account for a significant portion of overall revenue. Because the Covid -19 halted all

⁷³ Peter Kirui,(2020) Why the Kenya –Tanzania Border Row Undermines Prospective African Free Trade , Africa argument Foundation

⁷⁴ Baldwin, R. and Tomiura, E. (2020). 'Thinking ahead about the trade impact of COVID-19', in Baldwin, R. and di Mauro, B. W., Economics in the Time of COVID-19. London, UK: Centre for Economic Policy Research (CEPR), pp. 59-72.

⁷⁵ Majune K. Socrates ,2021, The Effect of Lockdown Policies on International Trade: Evidence from Kenya

types of interaction and collaborative effort in trying to negotiate major components of Phase I (i.e. RoO and Schedules of Tariff Concession) that are needed for trading on The AfCFTA to initiate, these uncertainties could not be bargained at the pace needed to enhance trade liberalization. The RoO is a crucial issue that necessitates swift talks to establish which commodities are free from duties. But due to the Covid pandemic, the Kenya government like many other countries lessen its concentration on the free trade policies and concentrated on stimulus packages on the countries like reduction of VAT tax, universal health programs among others. This necessitated the short-term creation of levies, such as oranges sent from South Africa for purchase in a Kenyan store charging a 25% levy. So, if Kenya removes the taxes along with all the essential systems that are already in effect, they will be able to generate such a large sum of money.⁷⁶

3.8 Conclusion

The AfCFTA is also designed to increase the viability of African enterprises at the industry and company level by increasing the amount of production, providing access to continental markets, and allowing for more efficient utilization of resources across the entire continent. A number of challenges can hinder Kenya from gaining in the AfCFTA. The Covid-19 pandemic for instance has slowed down the implementation of the AfCFTA. Other factors like lack of a political will can also hinder Kenya from gaining since AfCFTA was entered into by President Uhuru Kenyatta's regime. Kenya can either gain or lose big time from AfCFTA, the difference is how Kenya positions itself and how it overcomes the obstacles ahead.

⁷⁶ Ibid.

CHAPTER FOUR

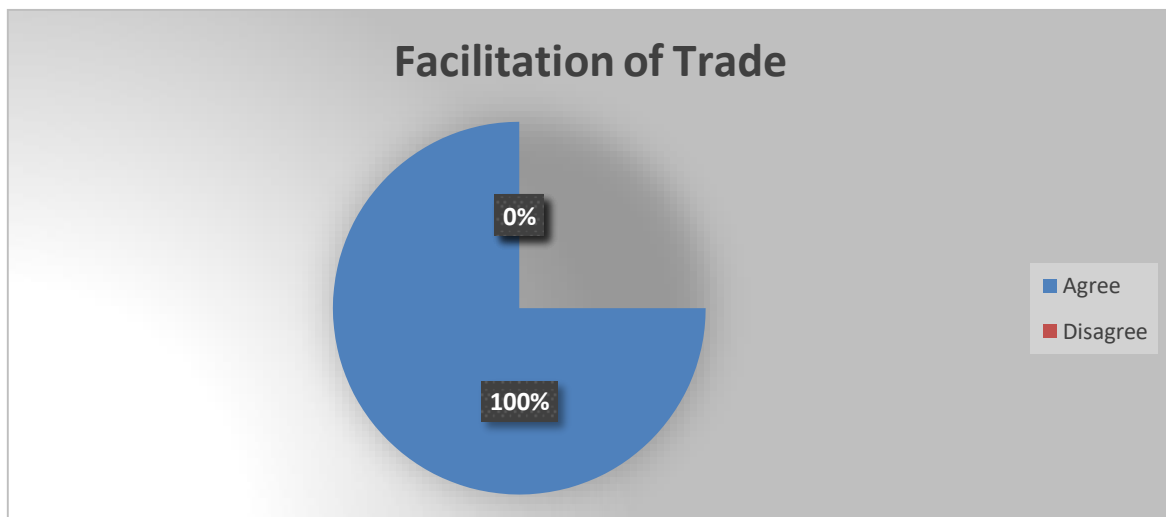
THE IMPACTS OF AfCFTA IN IMPROVING KENYA'S TRADE

4.1 Introduction

In the previous chapter, the study has looked at the Key challenges that are likely to hinder Kenya from attaining free trade with the rest of Africa under the AfCFTA. This fourth chapter will analyze the impacts of AfCFTA in improving Kenya's trade. The AfCFTA has been hailed as a game-changer for trade in Africa. As a consequence, Africa has enormous transformational possibilities. The deal will establish the world's biggest free-trade zone in terms of the number of nations participating. The deal, which brings together 1.3 billion persons in 55 countries with a total Gdp of \$3.4 trillion, occurred at a time when much of the globe is moving away from cooperation and free trade. This research investigates the economic implications of establishing the African Continental Free Trade Area (AfCFTA) in Kenya.

4.2 Will Facilitate Effective Trade in Goods and Services

Figure 4.1: AfCFTA will facilitate trade



Source: Researcher, Primary data. (2021)

The respondents to the survey agreed that the African Continental Free Commerce Area (AfCFTA) would unquestionably enhance trade in products and services throughout the continent. The African Continental Free Trade Area (AfCFTA) deal, which includes Kenya, will build the world's biggest free trade area by establishing the world's largest free trade area by several nations participating in the agreement. The pact brings together 1.3 billion individuals from 55 nations, with a combined GDP of US\$3.4 trillion, under a single roof. However, considerable legal changes, as well as trade facilitation measures, would be required to bring 30 million people out of severe poverty if this promise were to be realized. Kenya has taken several initiatives to strategically position itself to reap the benefits of the AfCFTA's multiple benefits, even though many African countries, including Kenya, lack the necessary customs processes and infrastructure to fully implement tariff-free trade as envisaged by the Agreement on African Continental Free Trade. However, although Kenya has a long way to go in terms of putting in place the essential processes, the following are some of the benefits of the AfCFTA in terms of boosting commerce.

The African Union also enacted the Action Plan for Boosting Intra-African Trade in 2012, which was another important policy document. The seven action clusters defined in the Plan are trade policy, trade facilitation, increasing productive capacity, trade-related infrastructure, trade finance, trade information, and factor market integration. Trade policy challenges have faced Kenya, including the absence of a continental framework to facilitate intra-regional trade, high tariffs between African Union Member States, overlapped participation in regional economic communities (RECs), and a lack of diversification in the country's manufacturing export base. The adoption of the AfCFTA will help to relieve some of these concerns, but as a recent study has

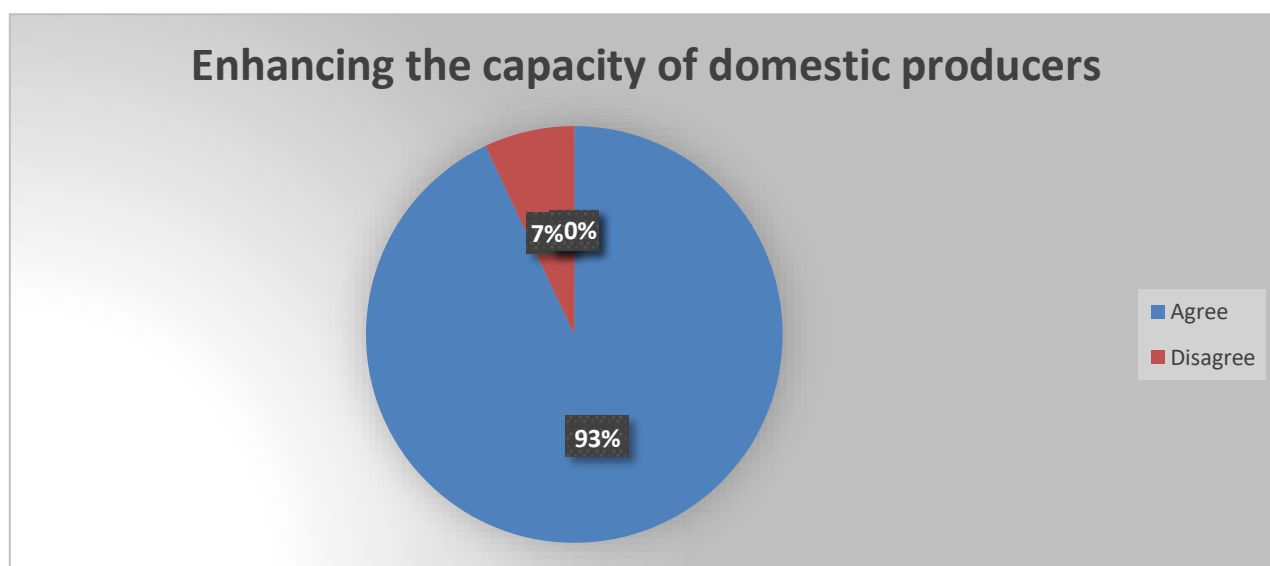
shown, the administrative burden of obtaining visas and work permits adds considerable expenses to cross-border commerce and transactions.

After being fully implemented, the Agreement is expected to result in tariff reductions on around 90 percent of all items traded inside Kenya. This is designed to increase intra-African trade, which is now disappointingly low when compared to intra-regional business under other trade arrangements such as the Association of Southeast Asian Nations (ASEAN) or the European Union (EU). International trade in 2016 amounted to 18 percent of total exports in Africa, compared to 59 percent for intra-Asian exports, and 69 percent for intra-European exports. In contrast to their exports to the rest of the world, which are mostly commodities, African nations trade a greater proportion of high-value-added products among themselves. AfCFTA has the potential to increase intra-African trade in manufactured and other high-value-added commodities, therefore positioning African nations for entrance into developing and established markets.⁷⁷

⁷⁷ UNECA (2015). Investment policies and bilateral investment treaties in Africa : implications for regional integration August. Available at <https://repository.uneca.org/handle/10855/23035> (accessed 12 May 2021).

4.3 Enhance the Productive Capacity of Domestic Producers and Exporters

Figure 4.2: Enhancing productivity of domestic producers and exporters



Source: Researcher, Primary data. (2021)

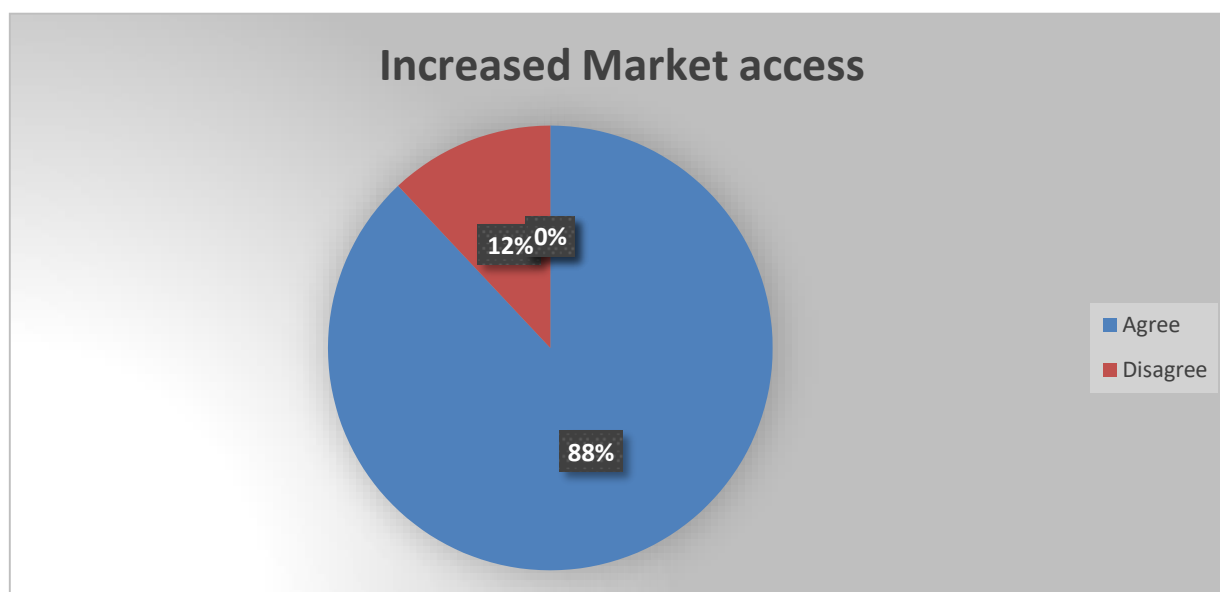
The majority of the respondents at 97% strongly agreed that AfCFTA will enhance the production capacity of domestic producers due to increased market access. Kenya is eager to expand its supply capacity and raise its exports of products and services across Africa and beyond, in keeping with its economic transformation policy, which aims to improve export capacity, create jobs and wealth for citizens, and promote shared prosperity. Ambassador Johnson Weru, Kenya's Trade Principal Secretary, stated that now that the strategy is in place, Kenya's firms should get to work. At the same time, development partners should provide local producers with the necessary technical assistance. Kenya's AfCFTA plan identifies important items and services, as well as markets that the country would emphasize as it strives to increase exports to the rest of Africa.

Trading pathways also described as "green lanes," aid in the acceleration and free movement of essential goods, which would be vital for reducing the pandemic's effect. The AfCFTA contains an addendum on economic cooperation, regulatory coordination, and transportation that, if

implemented, will compel State Parties to establish infrastructure to facilitate cross-border commerce, enabling trade corridors to be readily built. AfCFTA anticipates the formation of a Subcommittee on Trade Facilitation, Customs Cooperation, and Transit that would be able to supervise and expedite customs procedure synchronization, such as the speedy delivery of important commodities across the continent—tasks that are urgently required right now in the current economic climate.⁷⁸

4.4 Increased Market access within the Region and Abroad

Figure 4.3: Increased market access regionally



Source: Researcher, Primary data. (2021)

88% of the respondents agreed that AfCFTA would lead to increased market access due to the elimination of Tariffs on 90% of goods, progressive liberalization of trade in services, and removal of a plethora of additional non-tariff obstacles. The agreement, if completely implemented, would

⁷⁸ UNCTAD (2016a). African Continental Free Trade Area: Advancing Pan-African Integration. Some Considerations. 52. (accessed 10 August 2021).

create a single African market with a population of over a billion people and a GDP of more than \$3 trillion. As a consequence of this, Africa will become the world's biggest free-trade zone.⁷⁹

The AfCFTA's signing in Kigali comes at a time when the benefits of trade are hotly debated, and global powers who have long supported trade as a key engine of growth are increasingly questioning its very foundations. This worry is well-founded. While globalization and trade have contributed to the tremendous economic growth of the last three decades, the benefits have not been evenly distributed. Inequality surged sharply between 1988 and 1998, according to the World Bank's population-weighted Gini index, and only significantly diminished by 2013. Despite the fact that worldwide poverty has decreased, prosperity has not been evenly distributed. It is also projected to increase intra-African commerce, foster industrialization, create jobs, and raise African firms' worldwide competitiveness. By improving women's access to trade opportunities, the deal will also empower them. Women account for the majority of informal traders, accounting for 70% to 80% in some nations.

Through Economic diplomacy, Kenya has launched a number of continental and sub-regional trade agreements that have resulted in increased regional and continental trade. Kenya is also commonly regarded as the most effective East African entrance point. This is owing partially to its early embrace of free enterprise or trade ideas, but it also has strategic value due to the presence of infrastructure like the Mombasa port, which serves a multitude of landlocked economies in the area. Kenya has established reasonably efficient communication systems and is viewed as the

⁷⁹ Ibid.

financial and investment harbor owing to the accessibility of highly - skilled and competent indigenous staff, as well as reasonably good road infrastructure through Nairobi's international airport and the Kalinin open deep ocean harbor, which are the area's biggest, largest and busiest of their being.⁸⁰

To this end, regional cooperation is a crucial element in Kenya's economic policies and it is promoted using a number of regional projects, including the East African Community which is very essential to Kenya's trade development. Kenya was among the first country to sign the African Continental Free trade agreement. Through Economic diplomacy, Kenya played a key role in the formation of the AfCFTA.⁸¹ Geda and Yimer in their report argue that African Continental Free Trade Agreement's wide market would boost value-added production and distribution in Africa as a whole, allowing for economies of scale, attracting more international investors to invest. They went ahead to say that more trading activities are growing because of the elimination of trade barriers and the cross-border selling and buying activities will in turn allow different countries to grow and perfume a specialization technique to production sectors. This with no doubt fosters the intra- Africa demand and supply chain system. Kenya having a limited connection with the global market will greatly benefit from the AfCFTA.⁸² Increasing competitiveness and larger markets may encourage the creation of new expertise and increased productivity. The paper says widely

80 Geda, A., & Yimer, A., The Trade Effects of the African Continental Free Trade Area (AfCFTA): An Empirical Analysis. *International Economics*(2019).

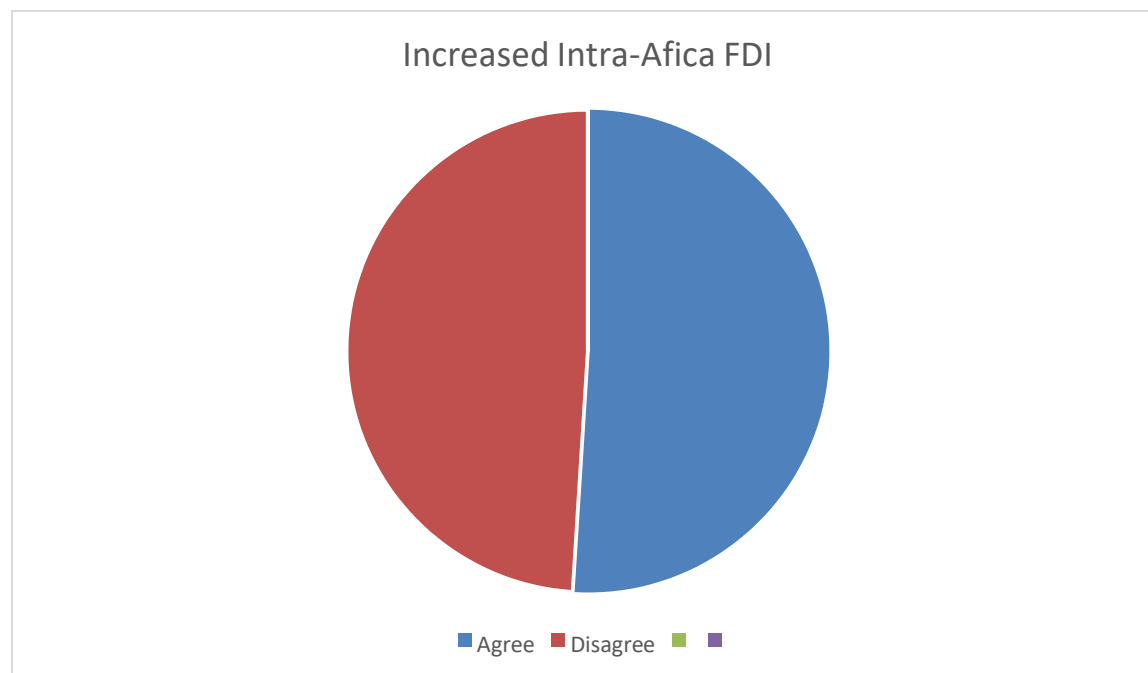
81 Albert, T., The African Continental Free Trade Agreement: Opportunities and Challenges. *Geneva: CUTS International, Geneva*(2019)

82 Armel, D. K., Understanding the African Continental Free Trade Area: Beyond "Single Market" to "Africa's Rejuvenation" Analysis. *Education Society and Human Studies*, (2020)

adopted, one report suggested that eliminating tariffs alone could raise intra-regional exchange to about 33% and 1% to annual GDP increase in the African states.⁸³

4.5 Increased Intra-Africa FDI

Figure 4.4: Increased intra-Africa FDI



Source: Researcher, Primary data. (2021)

On AfCFTA leading to increased intra-Africa FDI, there was a mixed reaction with 45% of the respondents agreeing whereas 49% felt that with AfCFTA each country will focus on improving its trade rather than investing in another country

83 Geda, A., & Yimer, A., The Trade Effects of the African Continental Free Trade Area (AfCFTA): An Empirical Analysis. *International Economics*(2019).

One of the main impacts that AfCFTA will have in Kenya is increased Foreign Direct Investment Especially from investors within the continent. As it stands now, the majority of the Foreign Direct Investment (FDI) to Kenya are from developed western and eastern countries like the United Kingdom, China, etc. Foreign direct investment is strongly related to trade and development aid. Thus, FDI is expected to rise in parallel with growing Kenya and the rest of Africa trade in the coming years. The FDI to Kenya from Africa is still small in comparison to the external FDI flows from developed countries. Kenya has invested significantly in intra Africa projects like the LAPPSET project to Southern Sudan, Ethiopia and Rwanda are among the nations that are connected to Lamu Port.⁸⁴ It is also deemed as being supportive of regional entities such as the East African Community and the Great Lakes Forum, as well as cross-border infrastructure projects. These initiatives are expected to help further integrate African markets, where customers provide a ready market for African-made goods.⁸⁵

Even though Kenya's economy is among the most varied in East Africa, the country's foreign direct investment has continuously lagged behind its regional peers. Tanzania's offshore gas and oil mining generated a total of US\$ 1.70 billion in revenue in 2012, which was funneled via the country. Similarly, Tanzania has seen an increase in investment inflows, as demonstrated by UNCTAD statistics.⁸⁶

84 Abdullahi H, 'Lamu Port Project', Kenya News Agency, http://www.information.go.ke/index.php?option=com_content&task=view&id=591.

85 Anyanzwa J, 'State seeks partners to fund Sh2 trillion Lapsset project', The Standard, 20 June 2012, http://www.standardmedia.co.ke/?articleID=2000060148&story_title=State-seekspartners-to-fund-Sh2-trillion-Lapsset-project.

86 Yakop, M. and Bergeijk, P.A.G. 'Economic diplomacy, trade and developing countries', Cambridge Journal of Region, Economies and Society, Vol. 4,(2016), pp.253–267

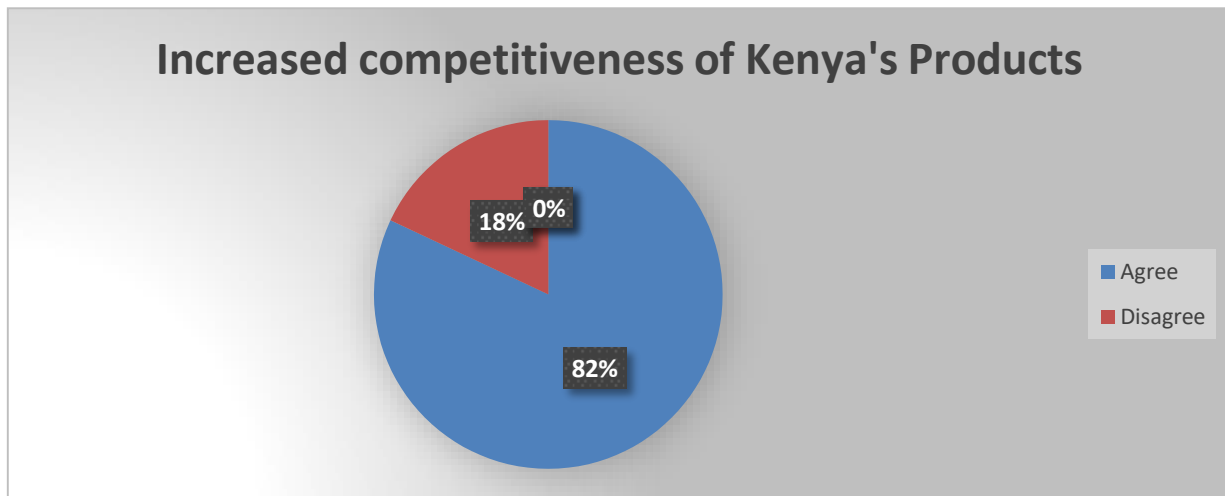
Kenya expects foreign direct investment to exceed Sh200 billion, thanks to increasing investor interest and confidence in the country's economic environment. Kenya Investment Authority (KIA) managing director Moses Ikiara said the improved business environment, along with scheduled, high-profile investment forums, continues to draw investors from across the world. Foreign direct investment (FDI) is rapidly increasing because of the better business climate; hence it is estimated that the FDI inflows to increase in coming years.⁸⁷

The benefits of AfCFTA to Kenya include bringing resources into the economy, which without the FDI would have not been. The extensive mechanisms of economic diplomacy help Kenya in gaining technological transfer especially from a number of multinationals thus leading to an increased rate of economic growth. It also leads to the creation of employment as well as new job creation. Finally, it also has a positive impact on Kenya's Balance Of Payment (BOP) in terms of capital investments, increased exports, and substitutes for imports. The costs on the other hand include increased levels of competition in the country, capital account affected negatively due to earnings and imports, and key economic decisions are made by foreigners.

87 https://www.kenyachamber.or.ke/wp-content/uploads/2019/09/why_kenya_needs_economic_diplomacy.pdf

4.6. Increased competitiveness of Kenya's products

Figure 4.5: Increased competitiveness of Kenya's Product



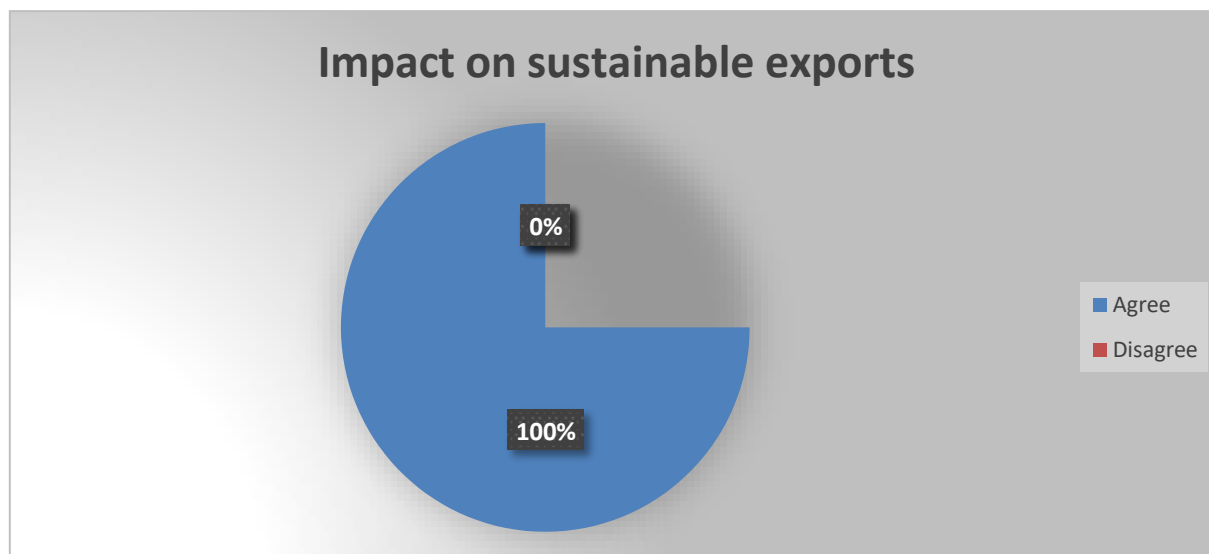
Source: Researcher, Primary data. (2021)

Majority of the respondents at 82% felt that through AfCFTA, Kenya stands a chance to market its products abroad to increase its competitiveness. For instance, Kenya's coffee, tea, and flowers remain the most preferred globally. According to the World Bank's most favored nation Trade Tariff Restrictive Index (TTRI), which measures degrees of openness, Kenya's competitiveness is quite good by regional norms. The TTRI in Sub-Saharan Africa averages 11.42, according to 2009–2010 world trade data. Tanzania is the most open economy in East Africa, with a TTRI of 7.8 and a score of 131 out of 131 nations; Kenya comes in second with an index of 8.2 and a ranking of 95. Kenya, on the other hand, stays competitive since its overall trade is growing at a real rate, whilst Tanzania's is growing at a positive rate. The regional benefits of CET tariff bands

— which boost exports into Kenya – may be attributed to Burundi and Uganda.⁸⁸ This means that with AfCFTA, Kenya stands to gain massively due to the competitive nature of its products.

4.7 The impact on sustainable exports

Figure 4.6: Impact of sustainable exports



Source: Researcher, Primary data. (2021)

All the respondents agree that with AfCFTA, Kenya stands a better chance of having sustainable exports since it will be trading mostly with equal partners. As per the findings of the study, one of the biggest impacts of AfCFTA on Kenya will be improved trade which will likely lead to sustainable exports. Kenya's trade policy has typically concentrated on promoting its export commodities. Throughout this regard, the governments aid the private industry by analyzing for them the statistic and proper information on global market potential and offering specialized

88 Daniel J O., Kenya's Foreign Policy Shift from Political to Economic Diplomacy, (2011)

assistance in the ways they can surge through and implementation of market systems programs and sales campaigns in other countries. The Export Promotion Council (EPC) is Kenya's primary export promotion organization. Its mission is to provide leadership to every country's export programs and to coordinate and harmonize export growth and promotion operations. It aims to integrate and unify export improvement and development efforts by giving guidance to all country's exports already accessible in Kenya, promoting trade, and offering work permits to citizens, foreign visitors, and citizens of the host nation who aspire to visit Kenya. The EPC, as the principal agency for export growth and promotion, lends an outward focus to an economy whose exports face severe world competition.⁸⁹

AfCFTA will also hugely benefit the private sector in Kenya. The state aids the private sector by offering information on global market potential and offering expert aid in the development and implementation of market programs and marketing strategies in other countries.⁹⁰ Export promotion is a major economic goal for almost every government. While aiding the extension of available export product categories is an apparent focus area, AfCFTA can provide unique assistance to domestic businesses in the development of new export items and the exploitation of existing markets. International markets present a variety of challenges for emerging countries like Kenya. Therefore the Intra-Africa market provides a familiar environment where Kenya can trade freely with fellow African countries on equal terms.⁹¹

89 Orwa, K. D., Continuity and change; Kenya's foreign policy from Kenyatta to Moi. In *Politics and Administration in East Africa*. Oyugi, W. (ed.) (East African Educational Publishers, Nairobi, 1994)

90 Karingi, & Mevel., Deepening Regional Integration In Africa ; Computable general equilibrium assessment of the establishment of a continental free trade area followed by a continental customs union. *nAfrican economic conference*, 2012

91 Sakyi, D., & Afesorgbo, K., The Effects of Trade Facilitation on Trade Performance in Africa. *Journal of African*

The Exporters' organizations in Kenya have faced challenges when dealing with highly developed countries. Foreign restrictions on sustainability and safety standards, as well as other market-specific norms, are hotly debated by domestic exporters, posing genuine nontariff barriers (NTBs) to the entrance. Also, domestic exporters lack trust with potential international buyers, creating a chicken-and-egg situation that makes it tough to shake the cycle of relative inexperience. With the emergence of AfCFTA, the commercial promotion has its priorities sorted out for it in such circumstances. Its fundamental benefit will ensure that Kenya gains through the free movement of goods and services.⁹² The important step for Kenya is the creation of sector-specific guidelines for domestic export markets; advertising authorities are rarely well trained in this kind of task – and it should be a primary concern in training programs – but it is practicable to develop skills, and the act of learning is itself a valuable learning experience.

Kenya will also take valuable experience from trading within the EAC bloc to AfCFTA. This will be of big help in evaluating potential markets for Kenya's products. This can be done by comparing another's export baskets with both the importing baskets of the foreign market; this indicates the potential, especially when it is paired with real exports from the homeland to that target market. AfCFTA will do this by eliminating the obstacles that hinder the swift export of their goods on the continent.⁹³

Trade, 2019)

92 Sohn, R. (2013). Regional Trade and Monetary Integration in West Africa and Europe. *Center For European Integration Studies*, 5 -19

93 Zhao Jinping, *Imbalanced Development between Developed and Developing Countries*, (Research Department of Foreign Economic Relations of DRC, 2015)

Cultivating commercial unions and industry groups on a steady, continuous basis is crucial for Kenyan business, particularly when local enterprises are not familiar with the partnership in an investment capacity. The AfCFTA make it easier for business to target countries and specific markets to venture into. This will open up markets for most of Kenya's products thereby leading to increased exports. The small industries in Kenya will equally thrive with increased market access where they can sell their products anywhere within the continent with limited restrictions.⁹⁴ AfCFTA will also play a critical role in increasing the 'companies and businesses in Kenya. Kenya continues to participate in intergovernmental, regional, and bilateral trading agreements which will allow it to fully exploit the markets created by these agreements. This necessitates increased participation in multilateral, regional, and bilateral trade deals Diversifying the Types and Values of Exports-Furthermore, the country has yet to fully realize the potential of the African markets. This will also lead to increased capacity to add value to existing goods and broaden the export base.⁹⁵

The Kenya National Chamber of Commerce and Industry has established the notion of economic diplomacy to promote Kenya as a major economic hub to keep the country viable and maintain its market share. Economic diplomacy is the art of using economic instruments to serve a nation's economic stability and strategic interests in the performance of government-to- government relations, hence it is critical to developing a suitable and robust economic diplomacy

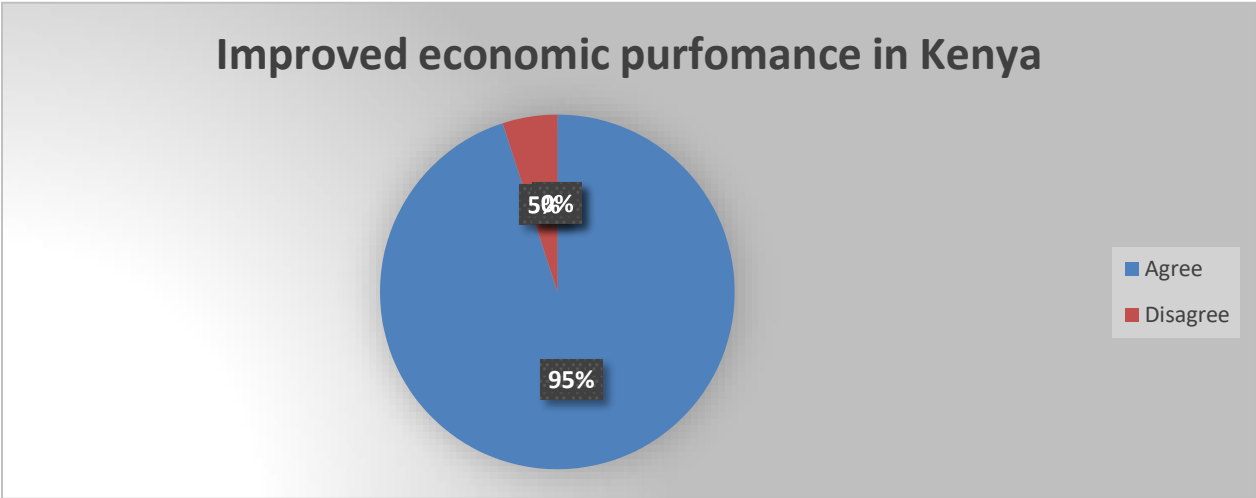
94 International Monetary Fund, [World Economic Outlook Database](#) (GDP based on Purchasing Power Parity). Accessed on July 3, 2019

95 Capital Markets Authority. (2017). Financial Stability Report 2016. Nairobi, Kenya: Capital Markets Authority of Kenya.

framework. Economic diplomacy is critical for Kenya’s gain in the African free trade by educating and informing possible foreign investors on potential investment possibilities, swaying public opinion, promoting national economic objectives in other nations, negotiating trade deals on trade and economic cooperation, settling difficulties related to foreign trade, and import-export relations, and so on.

4.8 Improved economic performance in Kenya

Figure 4.7: Improved economic performance in Kenya



Source: Researcher, Primary data. (2021)

95% of the respondents were of the opinion that with AfCFTA, The economic performance of Kenya will likely improve given that Kenya is one of the main economic powerhouses in Africa. As per the findings, AfCFTA without a doubt will drive towards expanding Kenya’s Market in Africa. This will result to increase market access. This has been achieved through increased public-sector infrastructure spending and governmental policies that support private enterprises to boost the domestic business climate. Intensifying cooperation via the East African common market, contrary, has created a single commercial and conducive environment for the various investors to

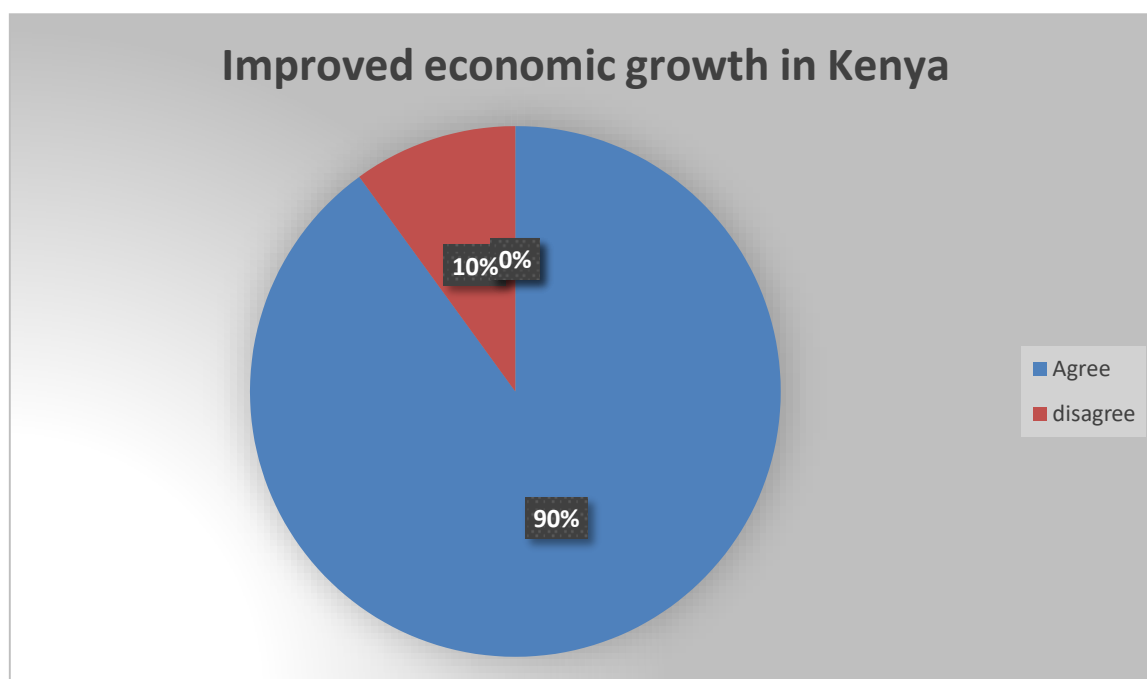
invest which Kenyan businesses may access huge integrated markets. According to research such as were examination of trading laws and patterns, Kenya's productivity in international and local markets has been harmed by the heavy price of commerce.

As a result, trade policy has been regarded as the primary tool of Kenya's economic diplomacy, as regional cooperation and bilateral trade deals have expanded prospects for Kenyan businesses. in order to create an attractive marketplace in the area and around the world, the government is eager to explore its potential s in agriculture, manufacture industries, and the expanding service industry. It sought to resolve obstacles that stymie development, such as ineffective policy coordination, by laying forth solutions that will help achieve the Kenyan Vision 2030. Trade is one of the biggest drivers of Kenya economics booming and development because it creates markets for products and the services offered by Kenyans; Also helps in critical in alleviating poverty because it creates jobs in informal, sales, and retailing trade; and it provides accessibility to favorable global prices and pushes for equitable distribution of income.⁹⁶

⁹⁶Wanjiku C ., The Role Of Kenya's Diplomatic Missions In East Africa In Enhancing Economic Diplomacy (Usiu, 2019)

4.8.1 Improved Kenya's Economic Growth

Figure 4.8: Improved Economic growth in Kenya



Source: Researcher, Primary data. (2021)

Majority of the respondents stated that with improved economic performance comes improved economic growth in Kenya. This was supported by 90% of the respondents whereas 10% felt that it will take awhile for AfCFTA to directly lead to economic growth in Kenya. The prognosis for economic growth in Kenya is promising. Gross domestic product is predicted to grow by 5.0 percent and 5.9 percent in 2021 and 2022, correspondingly. The rebound supposes that economic growth will bounce back as an outcome of the economy is fully reopened, the Economic Recovery Strategy being successfully implemented, and Kenya capitalizing of necessary to appropriately in

exterior cashflow and proposals to fulfill its exterior funding requirements. Outside trade promotion initiatives have had results.⁹⁷

The impact of AfCFTA on Kenya's exports will be nothing short of spectacular. Kenya's exports to Africa will skyrocket to a growth rate of 38 percent per year until 2022 as predicted by the World bank. The textiles and clothing sector will grow at a high rate thereby leading to increase economic growth in the country. Through AfCFTA, Kenya will further their economic relationship with the Africa Free Trade agreement through both bilateral and multilateral agreements.⁹⁸ Kenya's economy is one of the most attractive on the continent. therefore, with AfCFTA Kenya stands to gain a lot. These gains will result in increased economic growth through increased FDI, increase exports, and industrial growth.

4.9 Conclusion

Conclusively, AfCFTA looks promising for Kenya. The impact of AfCFTA is expected to be nothing short of positive as Kenya is well-positioned to maximize its gain from continental free trade. However, for this to happen, Kenya needs good policies and economic strategies to ensure it gains from AfCFTA. The findings of the chapter, therefore, are that AfCFTA will lead to expanded trade between Kenya and the rest of Africa. This will lead to increased exports, increase FDI, spur industrial growth, more employment opportunities, and positive economic growth in the country.

⁹⁷ <https://www.afdb.org/en/countries-east-africa-kenya/kenya-economic-outlook>

⁹⁸ Sakyi, D., & Afesorgbo, K., The Effects of Trade Facilitation on Trade Performance in Africa. *Journal of African Trade*, 2019)

CHAPTER FIVE

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

The previous chapter gave an analysis of the impacts of AfCFTA in improving Kenya's trade. This chapter presents the conclusion as well as suggested recommendations on the effectiveness of economic diplomacy in sustainable export in developing countries: a case study of Kenya.

5.2 Summary of Findings

5.2.1 The key policy challenges of attaining free trade in Africa

The findings of the study on Key policy challenges of attaining free trade in Africa were that the low intra-African trade is due to a number of Policy challenges faced by the African continent. Non-Tariff Barriers, Rules of Origin and Regulatory Policies, Poor macroeconomic policies, and poor trade infrastructure were found out to be the main policy challenges to attaining free trade in Africa. The continents for a long time have been facing with Non-traffick barrier, rules, and regulatory policies that have slowed down trade. Poor macroeconomic policies have also hindered the attainment of free trade whereas the poor trade infrastructure continues to be a big stumbling block to free trade in the continent.

5.2.2 Key factors that may hinder AfCFTA in attaining free trade between Kenya and the rest of Africa.

On the key factors hindering Kenya from gaining in After, The study's findings pointed out a number of challenges that can hinder Kenya from gaining in the AfCFTA. The Covid-19 pandemic for instance has slowed down the implementation of the AfCFTA. Other factors like lack of a political

will can also hinder Kenya from gaining since AfCFTA was entered into by President Uhuru Kenyatta's regime. Kenya can either gain or lose big time from AfCFTA, the difference is how Kenya positions itself and how it overcomes the obstacles ahead. Lack of political will future disasters, lack of trade infrastructures were among the key factors that may hinder Kenya from gaining from AfCFTA.

5.2.3 The impacts of AfCFTA in improving Kenya's Trade

Furthermore, ob the AfCFTA impact, research indicate that AfCFTA would increase Kenyan enterprises' competitiveness at the industry and company levels by leveraging production volumes, providing continental market access, and allowing for better resource allocation throughout the continent. AfCFTA looks promising for Kenya. The impact of AfCFTA is expected to be nothing short of positive as Kenya is well-positioned to maximize its gain from continental free trade. However, for this to happen, Kenya needs good policies and economic strategies to ensure it gains from AfCFTA. The findings of the chapter, therefore, are that AfCFTA will lead to expanded trade between Kenya and the rest of Africa. This will lead to increased exports, increase FDI, spur industrial growth, more employment opportunities, and positive economic growth in the country.

5.3 Conclusion

Based on the First objective which was to critically analyze the key policy challenges of attaining free trade in Africa, the study concludes that the low volume of intra-African trade has been due to a number of policy challenges that the continent has faced. These challenges have slowed down the efforts of Africa to improve trade among themselves. Africa for a long time has been heavily dependant on trading with the outside world where Africa exports mainly agricultural goods while

largely importing machinery. This has often led to a negative deficit in the balance of payment from the imbalanced trade. the trade between African and the rest of the world has been asymmetric where Africa exports their raw goods which and being processed abroad and brought back to Africa to be sold at an expensive price. The policy challenges that have hindered Intra- Africa trade hence has created a system whereby Africa mainly relies on trading with developed countries.

Based on the second objective that was to assess and evaluate the key factors that may hinder AfCFTA in attaining free trade between Kenya and the rest of Africa, the study concludes that Kenya stands a chance of ripping big from the AfCFTA. However, for this to happen Kenya must overcome the factors that may hinder it from attaining free trade with the continent through AfCFTA. First, there must be a good political will to increase trade under AfCFTA. Kenya must also harmonize its trade policy to go with that of AfCFTA and finally Kenya must invest big in intra-Africa infrastructure as it will increase the flow of goods and services.

Based on the third objective which was to critically examine the impacts of AfCFTA in improving Kenya's trade, the study concludes that AfCFTA without a doubt will have an impact on trade in Kenya. Kenya is an economic hub in Africa. This, therefore, means that with proper position and policy in place, Kenya stands the chance to gain massively from the operationalization of AfCFTA. The benefits of AfCFTA to Kenya are plenty as it will improve trade and lead to economic development in the county.

The African Continental Free Trade Agreement (AfCFTA) is a critical component of the African Union's goal of building an African Economic Community. Amid the COVID-19 debacle, it is now becoming more generally acknowledged as the cornerstone for African economic expansion. Well before that, the AfCFTA was intended to assist African industry and economic self-sufficiency. The potential of the AfCFTA, therefore, stretches far beyond growing trade patterns and beyond economic factors, with conversations relating the AfCFTA to contributing to peace and security, as well as aiding in the transition to a green economy. The bulk of African nations now exhibit poor infrastructure to fully capitalize on these digital opportunities. To fully fulfill the AfCFTA's economic potential, the technological barriers that exist across Africa and the entire world, and between and within African states, must be addressed. Substantial improvements in physical ICT infrastructure (ICT) and digital infrastructure are necessary, as is a suitable policy structure, such as that backed by COMESA's Digital Free Trade Area (DFTA). To guarantee that African individuals can take advantage of digital commerce possibilities, digital skills training is also required.

The hypotheses of the study were tested as follows

The study predicted that lack of political will is the main challenge of attaining free trade in Africa. This was positively tested where the findings of the study pointed to a number of key policy challenges ranging from Poor macroeconomic policies, lack of trade infrastructure, supply constraints among others.

AfCFTA is faced with different challenges in attaining free trade between Kenya and the rest of Africa. The hypothesis was also positively tested with a number of factors from lack of political will, lack of infrastructure, Non-Tariff barriers, and unforeseen disasters as a challenge of attaining

free trade between Kenya and the rest of Africa.

The third hypothesis was also positively tested where AfCFTA will positively improve trade between Kenya and the rest of Africa. AfCFTA as established in the study will lead to a number of positive impacts on the trade, development, and economic growth of Kenya.

5.4 Recommendation

Following the comprehensive analysis and research conducted above, The recommends the following strategies aimed at improving AfCFTA. The strategies are geared at assisting Kenya to achieve optimal performance of AfCFTA and reap its benefits.

- Customize and specify comprehensive economic support for AfCFTA implementation and economic development, such as infrastructure assistance, digitization, and national AfCFTA and trade facilitation committees. International partners can help African Union member states pursue the complementary economic improvements that will provide the greatest advantages, building on where political traction already exists.
- External partners should support national and regional industrialization projects by providing coordinated assistance to optimize the effect, with manufacturers reaping the most advantages. Through the AfCFTA, external actors will be able to promote or help in the acceleration of green industrialization..
- Kenya should look for additional COVID opportunities, such as in the pharmaceutical industry (and associated intellectual property assistance) and other regional value chains.

Recommendation for Further study

There is a need to examine the restructuring of the existing Trade policy framework of Kenya to complement the goal of AfCFTA.

There is also an academic gap in understanding the international political economy impacts of AfCFTA.

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APPENDIX I: QUESTIONNAIRE

This study is aimed at understanding **THE PROSPECTS OF THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA) IN FACILITATING FREE TRADE IN AFRICA: A CASE STUDY OF KENYA**. The findings and recommendations of this study are aimed at contributing to knowledge and a deeper understanding AfCFTA in attaining free trade in Africa and improving trade between Kenya and the rest of Africa. The information collected in this study will be specifically for academic purposes only and as such will be treated with top confidentiality. Kindly provide the answers appropriately

PART 1: BIO DATA

1. Gender:

Male ()

Female ()

Others (Specify)

2. Age:

19-30 Years ()

31-40 years ()

41-70 years ()

Others (Specify)

3. Level of studies:

Primary ()

Secondary ()

College ()

Undergraduate ()

Graduate degree ()

Post Graduate ()

Others (Specify)

PART II: The Key Challenges of attaining free trade in Africa

4. Comment on the level of Intra- African Trade

.....
.....

5. Why do you think the trade between Africa states has been low?

.....
.....

6. What are some of the key policy challenges of free trade in Africa?

.....
.....

Indicate the level at which you agree with the following statements

Tick appropriately where 1-Strongly agree 2. Agree 3. Moderately agree

Key Challenges of free trade in Africa	1	2	3
Tarriffs barriers			
Non-tariffs barriers			
Red tape			
Overlapping roles with other sub regional economic blocs			

6b) Explain your above response into details.....

Part III: Key factors that may hinder AfCFTA in attaining free trade in Africa

7. What is your understanding of Africa Continental Free Trade Area?

.....
.....

8. Do you think AfCFTA can succeed where the RECs failed?

.....

.....

9. What are some of the key factors that may hinder AfCFTA from attaining free trade between Kenya and the rest of the Africa?

Key factors that may hinder AfCFTA from attaining free trade between Kenya and the rest of the Africa	1	2	3
Lack of political will			
Non-tariffs barriers,			
Excessive border bureaucracy			
Insufficient infrastructure			
Political unrest			
Covid 19 and other unforeseen disasters			

PART IV: Impact of AfCFTA in improving Kenya’s gains from Intra Africa trade

10. In your opinion, what is the main impact of AfCFTA on Kenya’s trade

.....

.....

.....

11. How big does kenya stand to gain in AfCFTA?

.....

.....

.....

12. What are some of the key factors that may hinder Kenya from gaining from AfCFTA?

.....

.....

.....

13. What can be done better to overcome these challenges?

.....

.....

.....

APPENDIX II: INTRODUCTORY LETTER



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August 11, 2021

TO WHOM IT MAY CONCERN

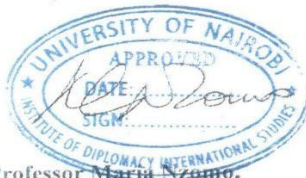
RE: ISABELLE LUCILE GOGO- R50/31581/2019

This is to confirm that the above-mentioned person is a bona fide student at the Institute of Diplomacy and International Studies (IDIS), University of Nairobi pursuing a **Master of Arts Degree in International Studies**. She is working on a research project titled, **“EXAMINING THE PROSPECTS OF THE AFRICAN CONTINENTAL FREE TRADE AREA (AFCFTA) IN FACILITATING FREE TRADE IN AFRICA: A CASE STUDY OF KENYA”**.

The research project is a requirement for students undertaking Masters programme at the University of Nairobi, whose results will inform policy and learning.

Any assistance given to her to facilitate data collection for her research project will be highly appreciated.

Thank you in advance for your consideration.



Professor **Maria Nzomo**,
Director, IDIS
&
Professor of International Relations and Governance

APPENDIX III: RESEARCH PERMIT

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APPENDIX V: TURNIT IN REPORT

EXAMINING THE PROSPECTS OF THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA) IN FACILITATING FREE TRADE IN AFRICA: A CASE STUDY OF KENYA

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