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EFFECTS OF CONTINENTAL FREE TRADE AREA ON ETHIOPIAN ECONOMIC GROWTH

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~~Abstract~~: *The objective of this study is investigating continental free trade area and its impact on economic growth in Ethiopia. To undertake this study secondary data was used which was obtained from African union report, World Bank report, and government report and from other research out. The benefits from the full implementation of the TFTA could be highly significant, resulting in a boost to intra-regional trade of nearly a third (29.2%). Total intra-regional trade would rise by USD 8.5 billion. Increases in intra-regional trade would be particularly strong in heavy manufacturing, light manufacturing and processed foods, which would see intra-regional trade increase by 3.3, 2.6 and 1.8 billion USD respectively. In percentage terms, these represent significant boosts to intra-regional trade, raising the share of intra-TFTA exports from approximately 9.3 to 11.8% of total exports. Moreover, the cost of the removal of tariffs, in terms of government revenue foregone, would be relatively modest. This reflects the fact that a lot of intra-regional trade is already facing low average tariffs, due to the gradual implementation of regional liberalisation within the EAC, COMESA and SADC. Among the members of the TFTA have steadily increased from $2.3 billion to $36 billion between 1994 and 2014—more than a 12-fold increase over 20 years. However, the share of intra-regional trade in total exports, at 25% for 2014. UNCTAD Stat, which suggests an intra-regional TFTA trade of 10.7% for 2011 - closer in line with the initial figure of 9.3%. The problem resides in the way direction of trade statistics vary sharply according to the source. Often intermediate destinations are confused with final destinations. Therefore, for instance, Rwandan tea sent for auction to Mombasa (Kenya) for sale may be classified as an export to Kenya - yet in fact, the ultimate purchaser may well be in Europe. Problems like this continue to plague direction of trade statistics. SADC Tariff revenue for the whole of the TFTA in 2011 amounted to USD 21.74 billion, but intra-tripartite accounted for only 6.3% (or USD 1.45 billion) of that total. Most tariff revenue is currently coming from imports from the European Union and East Asia, and this revenue of course would be unaffected by the tariff reductions. Certainly, there is a 'cost' to the implementation of the TFTA. Like in terms of reducing trade with external trading partners who do not benefit from the tariffs eliminations. The principal 'losers' are the principal existing trading partners - the EU-25 (who loose USD 562.7 million of exports to the TFTA member countries) and East Asia (USD 505.9 million). Based on the finding the following, the researchers tried to recommend the following .These are the government, policy makers, trade community should work on proper functioning of continental free trade areas. The government, policy makers' and trade community should create conducive environment for continental free trade area. The government, policy makers and trade community should undertake further study for proper promotion of continental free trade agreement.*

Key words: *Continental Free Trade Area, Economic Growth, Ethiopia*

1. INTRODUCTION

1.1 Background of the Study

Regional integration has been pursued in Africa right from the early years of independence. The post-independence efforts towards integration were mainly geared towards creating a self - reliant African economy and improving the continents economic performance. The AU adopted a decision that highlighted the gains from the CFTA for intra-African trade, through the High-Level African Trade Committee and the consultations of the Committee of Seven Heads of State and Government, which addresses the challenges of intra-African trade, infrastructure and productive capacities (World Bank, 2013).

The creation of a single continental market for goods and services, with free movement of business people and investments, would help bring closer the Continental Customs Union and the African Common Market, turn the 54 single African economies into a more coherent, larger market. The larger, more viable economic space would allow African markets to function better and promote competition, as well as resolve the challenge of multiple and overlapping RECs, helping thereby to boost inter-REC trade. Moreover, the sheer size of the single market would provide a more conducive environment for industrial diversification and regional complementarities than what is viable under existing individual country approaches to development.

The main purpose of the African continental free trade area is to support efforts towards optimizing benefits from the trading good and services and to increasing domestic revenue generation through appropriate and progressive towards the common market (ECA, 2013). This study will focus on the challenges and opportunities of CFTA on Member countries in the case of Ethiopia.

1.2 Problem Statement

More than two decades after coming into force of Abuja Treaty, Africa has registered marginal improvement in its trade performance both internally and globally. The Treaty envisaged an integration approach of trade liberalization within regional economic communities that would eventually culminate into the formation of an African economic community. The disappointments have resulted in a decision by the African Union (AU) requiring RECs to proceed to establish a Continental Free Trade Area (CFTA) by 2017 as a means of fast tracking the integration process. African countries are building to complete negotiations for a continental free trade area between 55 countries. The idea, adopted by the African Union in 2012, is to create a single market, which includes the free movement of goods, services and people. The integrated African market covers 1.2 billion people and a combined GDP of over USD$3.5 trillion. (Economic Commission for Africa and Southern Africa Office, 2010).

Large markets are job-creating as they support more trade in goods, services and assets. It is expected that a well-designed agreement would help Africa boost industrial development, promote economic transformation and create new wealth. The benefits won’t be automatic but will require continuous national, regional and continental efforts. Large regional markets are also essential for industrialization. Viewed against the odds of success in getting 55 countries to foster meaningful regional integration, Africa has made commendable progress in crafting its own creative approach. However, reports from recent talks and a slowdown of regional integration efforts suggest a disturbing trend (http://www.standardmedia .co).

Some government delegates are likely to seek to include protection for existing products and industries. This would be detrimental to the process if these lists ended up shaping the final agreement given the 2018 signing deadline. Such a retreat would run counter to recent advances in Africa's trade integration efforts. In 2015 for example, three regional trading unions, covering 650 million people in 26 countries, signed the landmark Tripartite Free Trade Area with a combined GDP of over USD$1.5 trillion. The trade agreement nevertheless needs to be carefully thought out, particularly given that Africa is starting with a low intra-regional trade of 15% compared to 19% in Latin America, 51% in Asia and 72% for Europe (https://www.belfercenter.org).

There is the risk that rushed negotiations could result in an agreement with too many exceptions to cover protected industries. This could include using non-tariff barriers like safety measures to protect local industries. A range of African countries use non-tariff barriers to curb imports of goods such as maize, milk, sugar, food oil products, and steel and iron. Sensitive and excluded products – like sugar and dairy products – might in some cases cover up to 600 tariff lines (product codes used at the national level). But these exceptions should be used sparingly to enable domestic industries to access the larger regional and global markets needed for their growth. In addition, the trade agreement needs to address the effects it may have on existing industries, environment, peace and security. It also needs to provide the policy space needed for governments to promote social policies such as job creation that could provide new performance standard for industries. Such policies should also balance between social goals and the need to be competitive on the global market. Concerns over the expansion of foreign imports, rather than regional trade integration, also needs to be carefully assessed to avoid the free trade area becoming a conduit for imports. This could undermine Africa's goals to increase its industrial and trade capacity. At present, nearly 85% of the goods traded in Africa come from outside the continent. Only 15% of the goods traded in Africa are produced locally, leading to an annual food import bill of over USD$35 billion(https://www.afdb.org).

Nevertheless, the focus of the negotiations should not be the fear of imports. Rather the focus should be on scaling up export production in existing niche markets through the creation of new industries. Examples of growing industries include the supply of semi-processed processed foods that are turned into final products by importers. African firms such as the Agro Chemical and Food Company in Kenya are also producing specialty chemicals, which are used in a variety of medical and manufacturing industries. The alternative to protection is therefore market growth. This involves having deeper knowledge of markets through the collection of key information market, eliminating trade barriers, reducing subsidies and upgrading the quality of infrastructure. It also involves building capacity to manage the rules of origin of products to avoid illegal dumping of goods, customs and trade procedures and reporting and resolution of trade barriers.

The challenges facing African trade negotiators are not easy. Africa's regional integration efforts are the most complex ever undertaken. They are not just about emulating trading rules used in other regions of the world. They are about remaking the continent to create new-networked interactions between sovereign states in a flexible way. This makes for a more open future with expanding possibilities to use regional trade integration to spread prosperity. Few countries in history have achieved significant economic development without trade. In order to develop, African countries will need to trade more, both with one another and with the rest of the world. By breaking down barriers between African countries, the CFTA would significantly boost trade on the continent. In this regard, Ethiopia believes that it is proper to open its doors to the free market step-by-step since its economy is not ready yet; the country took a stand on sensitive issues that would bring negative impact on the country and the people (ENA, 2017). Based on this situation, this study tried to investigate continental free trade agreement and its impact on economic growth of Ethiopia. Moreover, the researchers want to adders the flowing research questions.

- What is the economic growth impact of continental free trade area for Ethiopia?
- What are the challenges and opportunities to implement CFTA in Ethiopia?

2. LITERATURE REVIEW

2.1 Definition of Continental Free Trade Agreement

The Continental Free Trade Agreement (CFTA) is an Africa-wide free trade agreement (FTA) designed to boost intra-African trade and pave the way for the future establishment of a continental customs union. The CFTA builds on existing Tripartite FTA negotiations amongst three African regional economic communities (RECs): the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), although it would like to incorporate all other African RECs too.

The decision to establish the CFTA was adopted as early as 2012 by the heads of state at the 18th ordinary session of the African Union (AU), and negotiations officially begun in June 2015. In bringing together all 55 African countries with a combined GDP of more than US$3, 4 trillion, the CFTA is an ambitious project that will connect more than one billion people to a variety of cross-continental goods and services through enhanced trade facilitation and greater movement of people and investments.

2.2 Rationale for a CFTA

During its 19th Ordinary Session in July 2012, the AU adopted a decision that highlighted the gains from the CFTA for intra-African trade, through the High-Level African Trade Committee and the consultations of the Committee of Seven Heads of State and Government, which addresses the challenges of intra-African trade, infrastructure and productive capacities. The creation of a single continental market for goods and services, with free movement of business people and investments, would help bring closer the Continental Customs Union and the African Common Market turn the 54 single African countries economies into a more coherent, larger market. The larger, more viable economic space would allow African markets to function better and promote competition, as well as resolve the challenge of multiple and overlapping RECs, helping thereby to boost inter-REC trade. Moreover, the total size of the single market would provide a more conducive environment for industrial diversification and regional complementarities than what is viable under existing individual country approaches to development (UNECA, 2013).

The United Nations Economic Commission for Africa (UNECA) calculates that the CFTA could increase intra-African trade by as much as $35 billion per year, or 52 percent above the baseline, by 2022. Imports from outside of the continent would decrease by $10 billion per year, and agricultural and industrial exports would increase by $4 billion (7 percent) and $21 billion (5 percent) above the baseline, respectively. If coupled with complimentary trade facilitation measures to boost the speed and reduce the cost of customs procedures and port handling, the share of intra-African trade would more than double over the baseline, to 22 percent of total trade by 2022.

Looking at the potential impact on the EAC for instance, one can see the potential for significant gains from a CFTA. Despite significant increases in intra-community trade within the EAC, the levels of trade between the EAC and other African countries, particularly those outside of the tripartite area, remains limited. There has been renewed interest in expanding trade and investment links further afield. For example, Nigeria - which officially became the largest economy in Africa in 2014 - and the ECOWAS sub-region could present a significant export market for EAC businesses. In 2012, EAC exports to ECOWAS amounted to $132 million, for a market of close to 300 million people. West Africa currently relies on extra-African imports of coffee and tea, and the EAC could be in a position to tap into this market, if high tariffs and weak transport links can be addressed. In May 2014, Kenya and Nigeria signed trade pacts aimed at deepening trade ties, following high-level political meetings and several large Nigerian business delegation visits to East Africa. Trade with neighbouring Central African States (ECCAS) has shown significant growth, with exports to the region expanding by close to 40 percent between 2010 and 2012, from $1.2 billion to almost $1.7 billion. The CFTA would further open doors to West and Central Africa, through the reduction and eventual elimination of tariffs and improved trade facilitation and infrastructure (ECCAS, Undated).

2.3 Benefits of Continental Free Trade Agreement

The CFTA is a determined attempt by African Governments to unlock Africa's tremendous potential to deliver prosperity for all Africans. Studies by UNCTAD and other institutions indicate the major benefits expected to emerge from the CFTA, including boosting trade and welfare gains and fostering a vibrant and resilient African economic space. These, in turn, could serve as a springboard for more beneficial integration by Africa into the global economy. Even though member states have the sole mandate to negotiate and agree to international trade agreements, the RECs can play an important role in facilitating the negotiations and building national-level capacity and ownership, especially if the CFTA structure is to build on the

Tripartite FTA as well as ECOWAS and ECCAS FTAs (CFTA acquis). It serves as a springboard for more beneficial integration by Africa into the global economy.

The opening of regional markets to African goods and services is set to boost intra-African trade. It has been estimated, for instance, that the full liberalization of trade in goods (manufactures and agriculture), backed by rules of origin compatible with African productive capacity, could have raised the share of intra-African trade in total African trade from about 10.2 to 15.5 per cent between 2010 and 2022. This share may have further increased to around 22 per cent with the improvement of trade facilitation measures, especially transportation linkages and customs clearance for intra-African trade. Beyond intra-African trade expansion, the CFTA has the potential to stimulate structural transformation in African countries, if Governments formulate and implement appropriate economic development policies that are linked to the CFTA.

The CFTA stems, in part, from the realization that regional integration is stultified and not equitably pursued amongst all African regional economic communities (RECs), and that intra-African trade is at critically low levels compared to African trade with outside partners. The CFTA will address seven priority areas related to trade: policy, infrastructure, finance, information, market integration, boosting productivity and trade facilitation. For the CFTA to be successful there is great need to address a variety of inter-linked challenges, some of which are critical for enhanced intra-Africa trade: diversification of the export base, reducing reliance on raw commodities and enhancing regional integration that would facilitate greater movements of goods, services, people and investment.

"The CFTA has the potential to boost intra-African trade by 52% between 2010 and 2022, while trade in industrial goods will receive the largest boost, increasing by an additional 53% for the same period. "Statistics show there is greater need to enhance intra-African trade because African export markets are already diversified and sophisticated – in comparison, greater intra-African trade will afford African countries with a broader market for their manufactured goods. For example, in 2015, African-manufactured goods accounted for 43% of intra-African exports, compared to 19% of exports to external markets.

Similarly, projections by the United Nations Economic Commission for Africa shows that the CFTA has the potential to boost intra-African trade by 52% between 2010 and 2022, while trade in industrial goods will receive the largest boost, increasing by an additional 53% for the same period. Therefore, the CFTA's role in improving intra-African trade levels will be important for enhanced continental growth, particularly as it will facilitate market access for COMESA, SADC and EAC countries to Central and Western African states.

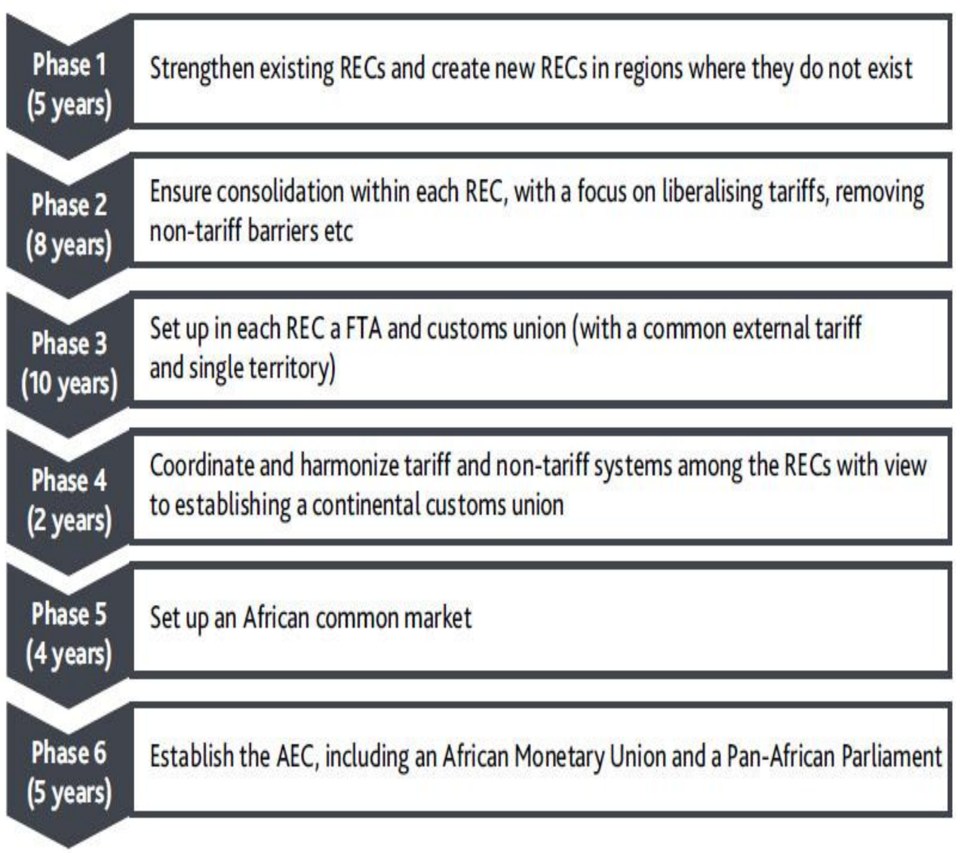
The CFTA also has an Action Plan on Boosting Intra-African Trade (BIAT), which underscores a framework for regional development, with a particular focus on doubling intra-Africa trade flows between January 2012 and January 2022. The Action Plan is endorsed by the African Union, and implementation of its various programmers will work towards addressing the key constraints hindering intra-African trade, together with promoting sustainable economic development.

In order to achieve deepened African market integration the plan is divided into seven clusters related to trade: productive capacities, infrastructure, finance, market integration, and trade facilitation, information and policies

2.4 African Integration

Regional integration has been a core element of African countries' development strategies since their independence. The Africa-wide development agenda, as championed by the African Union (AU), is based on regional integration and the formation of an African Economic Community (AEC). This was laid out in the 1980 Lagos Plan of Action for the Economic Development of Africa and the Abuja Treaty of 1991. The Africa regional integration roadmap considers the Regional Economic Communities (RECs) as the building blocks of the AEC. The AEC is to be formed in six phases over 34 years, as outlined below:

Figure 1: The African Union Continental Integration Agenda



Source: ECA report.

At its 18th Ordinary Session in January 2012 in Addis Ababa, on the theme "Boosting Intra-African Trade," the Assembly of Heads of State and Government of the AU adopted a decision

and a declaration that reflected the strong political commitment of African leaders to accelerate and deepen the continent's market integration. The Heads of State and Government agreed on a roadmap for establishing a Continental Free Trade Area (CFTA) by the indicative date of 2017.
As highlighted in the roadmap, the CFTA is set to build on the Tripartite FTA negotiations, which would create a free trade area among the 26 countries of the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). Since the formal launch of the negotiations in 2011, significant progress has been made, and leaders have expressed confidence that the negotiations will be successfully concluded by the end of 2014, with the agreement to be fully implemented by 2016. The 26 Tripartite countries represent close to 60 percent of the AU's GDP and population, and an FTA among them would constitute a fundamental building block for the CFTA.

Table 1: Continental Free Trade Area (CFTA) Roadmap

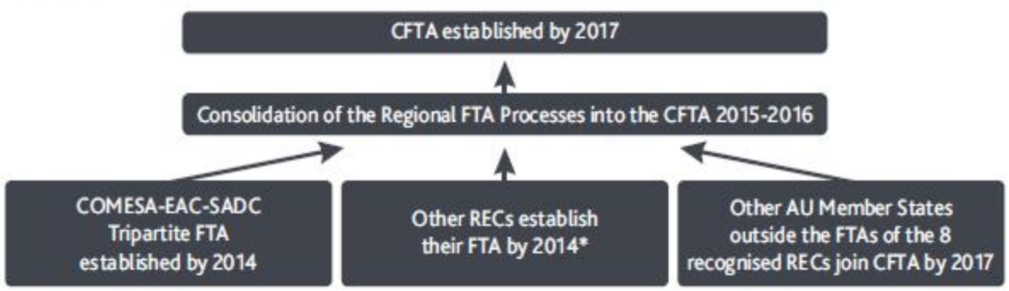


Figure 2: Continental Free Trade Area (CFTA) Roadmap
Source: ECA report document

2.5 Current Status of the CFTA

The January 2014 AU Heads of State meeting reaffirmed the commitment to the CFTA roadmap and highlighted the need to launch the CFTA negotiations in 2015. The second meeting of the Continental Task Force on the CFTA took place in Addis Ababa in early April 2014. The meeting put forward draft objectives and guiding principles for negotiating the CFTA, which were presented to the Extraordinary Session of the Conference of AU Ministers of Trade (CAMOT) in Addis Ababa between April 23 and 28 this year. The session was attended by officials from member states, six RECs (including the EAC), and private sector organisations (East African Business Council, CBC, Federation of West African Chambers of Commerce).

Key recommendations from the ministers included the following: Further discussions on and refining of the Draft Objectives and Principles and the Draft Institutional Arrangements for the CFTA, should be undertaken and presented to the 9th Session of CAMOT (scheduled for early December 2014).

The AU Commission should prepare Draft Terms of Reference of the CFTA-Negotiating Forum based on best practices in the RECs and/or the Tripartite FTA and submit a draft for discussion at the next meeting of senior trade officials.

During the June AU Heads of State Meeting in Malabo, the High Level African Trade Committee (HATC) called on member states to maintain the momentum in the CFTA timetable, and authorized trade ministers to meet as often as needed to ensure the launch remains on track.

2.6 Opportunities and Challenges

Negotiating an agreement of this magnitude will be an enormous undertaking, and will require the political will of leaders across the continent. Important issues to be considered include:
The AU includes many smaller least-developed countries, as well as economic powerhouses such as Nigeria and South Africa. It will be important that the CFTA negotiating framework allows all member states to participate effectively and the negotiations reflect the interests of the poorest countries on the continent. Capacity building on the key technical issues will be a vital component to ensure all countries can effectively engage.

The TFTA negotiations included two phases, the first covering tariff liberalisation, rules of origin, customs procedures and simplification of customs documentation, transit procedures, non-tariff barriers, trade remedies and other technical barriers to trade and dispute resolution, and the second covering trade in services, facilitating movement of business people, competition policy and intellectual property. It may be more practical for the CFTA to cover all of these areas from the get-go, to conform to modern FTA structures.

Constructive engagement with the private sector and civil society will be vital to generate the momentum to drive the process forward. The private sector must be engaged from the start, including via national and regional chambers of commerce, to understand the process and potential economic benefits from the agreement. In November 2013, the Pan-African Chamber of Commerce and Industry (PACCI), representing 35 national chambers, signed a Memorandum of Understanding with the African Union outlining its support to the CFTA process and highlighting the need to engage with the business community. The meeting of trade ministers in December will be a critical milestone as the AU Commission will present key negotiating principles for consideration prior to the January 2015 High Level African Trade Committee, currently chaired by the President of Ghana, John Dramani Mahatma.

2.7 Continental Free Trade Area and Ethiopia Positions

The negotiations leading up to the continental free trade area (CFTA) present a unique opportunity to improve the livelihoods of millions of African people. The jobs and wealth that the CFTA can bring about have the potential to contribute significantly to alleviating poverty, creating jobs and promoting equality. The CFTA is more than a trade agreement. Its wide scope – covering trade in goods, trade in services, investment, competition policy and intellectual property rights – provides a platform to facilitate the inclusive structural transformation of African countries, contributing to the attainment of Africa’s Agenda 2063 and the global Agenda 2030. But trade agreements and economic integration do not necessarily lead to fair and sustainable outcomes. Assessing the distributional impacts of an agreement such as the CFTA is therefore crucial to ensure that human rights and trade are complementary. Contrary to this, Hailemariam Dessalegn said Ethiopia is not ready to enter Continental Free Trade Area (CFTA), considering its effect on the economy of the country, according to ENA. Seven countries including Ethiopia disagreed on the negotiations to open fully their doors for the continental free trade area. They argued the need to open their doors step-by-step as it requires readiness in the side of the countries, Hailemariam said during a press conference. To fully open its doors for the free trade area, Hailemariam noted that it is important that the country need to create a conducive atmosphere that complies with the situation. In this regard, Ethiopia believes that it is proper to open its doors to the free market step-by-step since its economy is not ready yet, he said.

"We took a stand on sensitive issues that would bring negative impact on the country and the people, and we are happy that this stand of ours has been accepted by other countries." "Our decision is to work together and trade with our fellow African countries in areas other than the sensitive issue" Hailemariam underlined. "We are also happy that our difference was respected." Some 86 percent of the expected 90 percent of African countries have agreed for the implementation the continental free trade area. In line with the Abuja Treaty and the African Union Agenda 2063, African heads of state and government launched the negotiations for the Continental Free Trade Area in 2015. The target date set for completing the first phase of the negotiations is 2017 (ENA) (https://www.ezega.com).

2.8 Conceptual Framework

Applied to the CFTA negotiations, which has an indicative time-frame to reach an agreement within two years, a framework agreement will establish the principles, scope and modalities to be covered in the agreement. It will also include the areas of an ‘early harvest’. With the negotiations due to be launched in June 2015, it should be possible to establish the CFTA by the indicative date of 2017 with early harvest agreements in such areas as goods, some services sub-sectors, investment movement of business persons, etc., with clear provision for what remains to be done, how and when.

The relatively short time-frame for the CFTA negotiations is related to the fact that implementation of the Abuja Treaty which provides the legal basis for the negotiations is running behind schedule. The Abuja Treaty, which entered into force in 1994, provides a roadmap to advance regional integration in Africa, with the ultimate objective to establish an African Economic Community by 2028. The role of the regional economic communities (RECs) as building blocks for the regional integration process is underlined in the Treaty and has been translated into meaningful actions undertaken on the ground. However, the eight RECs[1] recognized by the African Union (AU) have made uneven progress.

In fact, the RECs have generally not been able to meet the deadlines set by the Abuja Treaty and more recently through the “Declaration on Boosting Intra-African Trade and the Establishment of a Continental Free Trade Area (CFTA)” adopted by African Heads of State and Government at the 18th Ordinary Session of the African Union Assembly in January 2012. This Declaration established the following milestones and timelines:

- "Finalization of the East African Community (EAC)-the Common Market for Eastern and Southern Africa (COMESA)-Southern African Development Community (SADC) Tripartite initiative by 2014;
- Completion of FTA(s) by Non-Tripartite RECs, through parallel arrangement(s) similar to the EAC-COMESA-SADC Tripartite Initiative or reflecting the preferences of their Member States, between 2012 and 2014;
- Consolidation of the Tripartite and other regional FTAs into a Continental Free Trade Area (CFTA) initiative between 2015 and 2016;
- Establishment of the Continental Free Trade ----Area (CFTA) by 2017 with the option to review the target date according to progress made."

(Extract from Assembly/AU/Decl.1 (XVIII).

3. RESEARCH METHODS

The researchers have applied descriptive and explanatory design of research design titled investigating the challenges and opportunities of CFTA on member countries, in the case of Ethiopia. This approach recognizes the challenges and opportunities effect as the result of the interaction of the country that need to be identified their roles and relationships well described in order to understand the structure of Continental Free Trade. Effect in this context refers to whether the Continental Free Trade is able to deliver with economic growth possible.

Secondary data source concentrated mainly from literature review of the subject and interview is conducted by asking expert in the area. The available literature was used to gain an understanding of the informal sector and to compile the theoretical chapters and the interview was conducted for Trade Officials and Experts who is participating on the trade negotiation, import and export of goods and services traders who will be the benefited from the negotiation.
Population of the study is the data obtained from various documents and the interview was conducted for eleven interviewees (Trade Officials and Experts, import and export).
The model has the following form:-

$$Y = \beta_0 (\beta_1 X_1, \beta 1X2, \beta 3\, X_3, \beta 4\, X_{4.....}, \beta_n X_n) + \varepsilon$$

Where: Y= contribution of the continental free trade area to economic growth (dependent
B_0 is constant
β_1 - β_n is Y intercept (a vector of estimated coefficient of the explanatory variables)
X_1- X_n is independent variables (a vector of explanatory variables)
ε= disturbance term

4. RESULTS AND DISCUSSION

4.1. Economic growth impact of continental free trade area for Ethiopia

Negotiations for the formation of a Tripartite Free Trade Area (TFTA) between three existing regional economic communities - the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC) – have now been on-going since the first TFTA summit held in Kampala in October

2008. In a decisive move forward at a meeting held in June 2015 in Egypt, the member states of the three blocks agreed to move forward to the establishment of a TFTA.

The implications in economic terms for the countries involved are potentially enormous - the TFTA involves 26 (almost half of all African) countries, spanning the whole Eastern side of the continent from the Cape to the North African coast. If fully implemented, it would create Africa's largest free trade area. The TFTA area currently has a total population of 683 million people and a combined Gross Domestic Product (GDP) of USD 1.2 trillion at market exchange rates of 2015 (World Bank, 2016). This represents more than half (54.3%) of the Africa's total GDP, and 58% of Africa's population. The TFTA thus constitutes a very significant market by any standards and collectively places the block as the 14th largest economy in the world.

As with most regional integration schemes, the underlying economic rationale of the agreement is to provide greater opportunities to reap economies of scale, greater competition, a more attractive internal market for investment (both foreign and domestic), and an acceleration of intra-regional trade. As stressed by the EAC (2014) on the TFTA, “in opening our markets to each other, the development of regional value chains will be enhanced. There would increase intra-Africa trade, stimulate economic growth and lift people out of poverty”. Beyond that, the agreement also has a great symbolic importance – the TFTA is expected to serve as the basis for the completion of a Continental Free Trade Area (ostensibly to be completed by 2017), with the aim of boosting trade within Africa by 25–30% in the next decade, and ultimately establishing a continental-wide African Economic Community.

It needs stressing that the current levels of intra-regional trade are low – in COMESA, intra-regional trade has oscillated in recent years between just 5–10% of total trade, and for SADC, intra-regional trade was actually declining in the early 2000s (from around 15 to11 percent) (principally due to the sharp rise in commodity exports from the SADC region to the rest of the world). The EAC has been more successful in maintaining a relatively high level of intra-regional trade (between 18 and 20% of total trade since 2008), but pointedly the share has not been growing significantly over the last decade. By 2014, intra-regional trade within the TFTA accounted for just 16.7% of total trade of the 26 TFTA members.

Compared with an integrated area like the European Union, where intra-regional trade already represented around two-thirds of total trade at the onset of the European Single Market in 1993, it can be appreciated that, regardless of the differences in geography (above all, the much larger geographic span of the TFTA) and the constraints to trade because of serious infrastructural deficits, there is the potential for a significant increase in the volume of intra-regional trade under the TFTA.

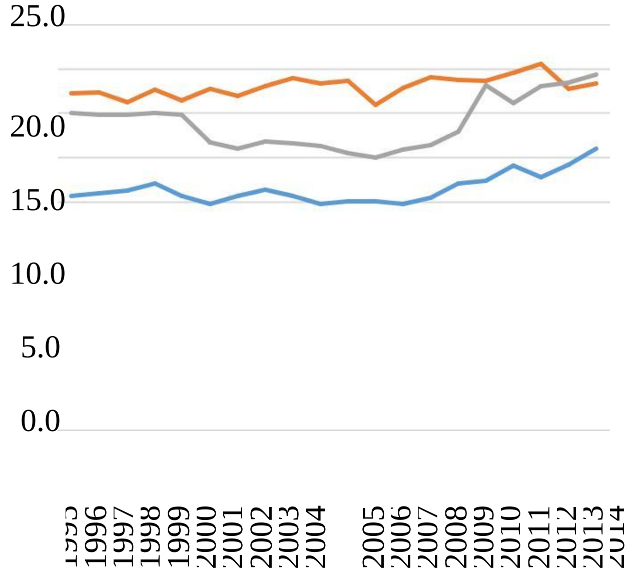


Figure 3- Intra-Regional Trade as a percent of Total Trade, 2000–2014. Source: UNCTAD (2016)

Moreover, the researchers have conducted interview with Ministry of Trade Officials and Experts, import and export of goods and services traders. About the definition of continental free trade interviewee reported that Unique continental commercial space through exploitation of opportunities for scale production, continental market access and better reallocation of resources; It is intended to be a continental market of approximately 1.2 billion consumers where trade in goods and services are gradually liberalized. Unique continental commercial space through exploitation of opportunities for scale production, continental market access and better reallocation of resources. It is intended to be a continental market of approximately 1.2 billion consumers where trade in goods and services are gradually liberalized. It is expansion of intra-African trade through better harmonization and coordination of trade liberalization and facilitation and instruments across the RECs and across Africa in general.

It is a free movement of businesspersons and investments, and thus pave the way for accelerating the establishment of the Customs Union to create one African market. It creates a single continental market for goods and services, with free movement of businesspersons and investments, and thus pave the way for accelerating the establishment of the Continental Customs Union and the African customs union. The programme will help Ethiopia to Accelerated Industrial Development; domestic investments in education and training can ensure the necessary complementary skills. The African Continental Free Trade (AfCFTA) is the

African largest market where goods and services will be moving freely without any trade barriers (tariff barriers and non-tariff barriers) throughout the Continent. It creates one African Market.
A particular pertinent question is what will be the economic geography implications of these changes. At the time of implementing the European Single Market in the early 1990s, there was a rush in academic interest in how it might affect different member states and the implications for the location of industry across the integrated block (Corado, 1990; Krugman and Venables, 1990; Krugman, 1991). This reflected concerns that the Single Market might result in a concentration of industry in the 'core' countries of the EU (Germany, France, Belgium, Luxembourg, and the Netherlands) to the detriment of the more peripheral countries like Spain, Portugal, Ireland and Greece.

Such concerns are equally legitimate within the TFTA - not only does it span an enormous geographic area, but the existing economic geography is highly uneven. GDP within the block is not evenly distributed – indeed, the two largest economies (Egypt and South Africa) together account for more than 50% of the TFTA's total GDP. The seven largest economies (South Africa, Egypt, Angola, Sudan, Ethiopia, Kenya and Tanzania) together account for more than 80% of the GDP of the total area, the remaining 19 countries accounting for just one-fifth. From this it is possible to infer that Ethiopia has a potential of getting benefit continental free trade area.

Table 1. Share of GDP between 26 Members of the Tripartite Area, 2015/16

	Country	GDP share (%)
1	South Africa	25.5
2	Egypt	27.2
3	Angola	8.5
4	Sudan	6.9
5	Kenya	5.2
6	Ethiopia	5.1
7	Tanzania	3.7
8	Rest	17.8

Source: Own Elaboration from World Bank (2016)

Table 1 showed that GDP share of Share of GDP between 26 Members of the Tripartite Area, 2015/16. As mentioned before Egypt and South Africa was receiving large share of continental free trade benefits. Ethiopia has 5.1% Share of GDP from continental free trade. Thus, Ethiopia should take measure to promote Continental free trade agreement for better benefit of economic growth.

Perhaps even more striking from an economic geography perspective is the extent to which manufacturing capacity is unevenly distributed across the TFTA. Two thirds of manufacturing value added produced within the TFTA are accounted for by South Africa and Egypt alone. At a time when industrialisation has risen sharply up the agenda of priorities for African states (UNECA, 2015), this raises fears that the free trade area could result in a polarisation of the benefits at the two geographical extremes, at the expense of the relatively weak and undeveloped manufacturing sectors in rest of the TFTA.

Table 2: Share of tripartite manufacturing value added, percent, 2015/16.

	Countries	Percent
	South Africa	38
	Egypt	29
	Angola	5
	Sudan	4
	Kenya	4
	Congo D.Rep.	4
	Rest	16

Source: UNIDO (2017)

Table 2 showed that Share of tripartite manufacturing value added, per cent, 2015/16. Regarding share of tripartite manufacturing valued South Africa and Egypt took the leading position. Here Ethiopian participation is zero and Ethiopia need to work on manufacturing value added.

Moreover, compounding such concerns is the fact that average productivity differences (as reflected in average GDP per capita) between the richest and poorest members of the TFTA are enormous. The richest TFTA member in 2015 (Seychelles) had an average GDP per capita more than 56 times that of the poorest member (Burundi). South African and Egyptian per capita GDP was 20 and 13 times larger than Burundi's. If we compare these differences with those existing in the EU-12 at the time of the formation of the Single Market Programme (SMP) in 1993, it will be noted that the scale of the gap is several multiples in the TFTA. Moreover, the respondents reported that continental free trade area has contribution to economic growth of Ethiopia. Some of the contributions were removal of existing non-tariff barriers and create job in a sense AfCFTA will certainly contributes to Ethiopian economic growth, subject to tariff liberalization to be undertaken by Ethiopia and other African countries; the productive capacity of Ethiopia. Other respondents reported that Yes it has a significant impact for the growth the country Yes it will allow industry's to set lower prices for consumers, increased exports, benefits from economies of scale and a greater choice of goods. The African Continental Free Trade Area when it came into force will highly contribute to the economic growth of Ethiopia. It will strengthen the economy and create more jobs for youth and women. Trade in goods, services, investment and removal of non-tariff barriers. Yes, it has a significant impact for the growth the country

4.2. Challenges of Continental Free Trade Area

The key challenge in the establishment of the TFTA is the elimination or reduction of Non-Tariff Measures (NTMs). Trade costs within the TFTA have been declining over recent decades, with tariffs falling because of multilateral, regional and bilateral trade liberalisation. However, NTMs have not declined at the same pace as tariffs and consequently countries in the region have not the realised the full benefits of integration. Some NTMs are employed as tools of trade policy (e.g. quotas, subsidies, and export restrictions), while others stem from non-trade policy objectives (e.g. technical measures). The A number of quantitative studies have tried to quantify the impact from reducing or eliminating NTBs in African economies. For example, Vanzetti et al. (2016) found that by removing NTMs in the SADC region, exports would increase exports by 2.2%. Rial (2014) analysed European imports of agri-food products and found that exports from African LDCs were reduced by almost 5% for each additional Sanitary and Phytosanitary requirement in the EU. Cadot and Gourdon (2014) found that, on average, sanitary and phytosanitary measures increased the domestic prices of foodstuffs by about 13% in Sub-Saharan Africa, impacting negatively on cross-border trade.

TFTA has a relatively high incidence of such non-tariff measures, even when compared to the rest of Africa. According to what must be admittedly incomplete WTO data, TFTA countries account for as much as 87% of (recorded) NTMs within Africa Again, however, the geographical distribution of NTMs within the TFTA is uneven. Technical barriers and phytosanitary measures to trade are the most common NTMs, with four countries - Uganda, Kenya, South Africa, and Egypt - accounting for 86% and 72% of reported NTMs, respectively.

The second purpose of this study was to evaluate the economic effects of the proposed TFTA on industrial production, trade, and consumption across the member states. It focuses on the effects of the TFTA on the economic growth of the region particularly on Ethiopia economy. While several studies have explored the welfare effect of trade integration in Africa, very few specifically study the impact of integration of continental free trade area.

Furthermore, the interviewee reported that the challenges to implement continental free trade area in Ethiopia. Some of the challenges were the government policy the high tax imposed to import the good and the low income of the society to penetrate into the market. The rapid currency inflation is one factor that we can take as a challenge to implement the continental free trade area in Ethiopia; The policy of the government; the unskilled ma power towards the trade policy issues. The government believe that they will get fewer advantages compared to bigger economies. The government marketing policy was a challenge on the negotiation.
Finally, the interviewee reported the main challenge is the fact that Ethiopia is not willing to open its market to external businesses yet.

4.3. Opportunities of Continental Free Trade Agreement

In the 1990s there were a number of interesting attempts to formalise models, which analyse spatial patterns of economic activity, attempts which collectively became known as the "New Economic Geography" (NEG). Contributions to this literature (e.g. Krugman and Venables, 1995; Baldwin, 1999) developed an (ostensibly) novel approach to the way we think about location - the emphasis being on agglomeration, on the way in which firms tend to cluster together and how regions are formed. The distinctive trait of these models was that, in contrast to the partial equilibrium models, which characterised previous analysis of industrial location, these newer contributions involved full general-equilibrium models. Wherein resource constraints were incorporated, the geographical distributions of population, demand and supply were made endogenous. The two-way feedback between location decisions by individual agents and these distributions became the focal point of interest (Krugman, 1998).

If regional integration is an imperfect process, and trade costs remain considerable, Krugman hypothesizes a situation whereby it may pay to concentrate production at the location with higher costs but better market access, so as to take advantage of scale production economies. Because of the difficulty of reducing trade costs to a negligible level, Krugman foresaw the possibility of a sizeable re-allocation of industry in favour of the centre, and away from the periphery, when trade liberalisation is incomplete. Although peripheral countries are unlikely to lose overall from the formation of a regional market (because the impact of lower consumer prices is felt no matter where the production of goods takes place), there is thus a possibility that richer regions will gain most because of their enhanced attractiveness as locations for those industries (Barry, 1996).

The conclusion that some authors (for example, Corado, 1990) drew is that it is necessary to deepen the integration process, so as to lower the costs of market access from the periphery and thereby make peripheral regions more attractive. Crucially, however, this interpretation relies on one's conception of whether or not trade or non-trade barriers can be eliminated, or at least minimised so as to have a negligible effect. If it is believed that significant barriers will remain, then, following the “second-best theorem”, it may be better for peripheral countries to resist further integration.[6] Indeed, other authors (Barry, 1996; Dignan, 1995) drew a quite different conclusion to that of Corado, warning that dedicating too many resources towards the development of transport infrastructure in the periphery could theoretically have a negative impact on the locational advantages of the peripheral regions. The advantages of a central location for industries where increasing returns are dominant would still not be overcome, and the improvement of transport provision in peripheral areas would simply facilitate access for centrally-located firms to sell their goods there. This represents a powerful and polemical argument.

Although most of the initial applications of the ‘new economic geography’ were confined to European integration, the findings have some direct relevance to the countries of the TFTA too. Countries in the region are actively engaged in trying to reduce both transport costs, through improved infrastructure, and reducing trade costs, particularly those related to ‘non-tariff barriers’. Take, for instance, the case of landlocked Rwanda. Approximate estimates, by comparing FOB and CIF cost of imports suggest that trade and transport costs add on average 22% to the cost of goods for landlocked Rwanda, compared with reported estimates of international transport costs of 12.6% on the delivered value of exports for Africa as a whole, and a world average of 6.1% (UNCTAD, 2015). Reducing such costs has thus become a government priority, both through actions domestically and attempts to pressure trading partners to remove the impediments to the free movement of goods. However, the lessons of the new economic geography suggest that one should not presuppose that such a strategy will result in the desired impact. The reduction in ‘distance costs’ may help attract mobile investments, but equally runs the risk of facilitating market access for producers based in other countries, with larger domestic markets and a greater ability to reap scale economies.

A World Bank (2012) report on the economic geography of the EAC argues that "implementing and deepening the current program of regional infrastructure improvements would ensure that consumers and producers throughout the region are better connected to each other and to global markets". However, the same paper also suggests that only the coastal areas of East Africa offer a viable option with regards to building up manufacturing export processing zones, while the three landlocked EAC partners (Burundi, Rwanda and Uganda) would struggle to attract their share of mobile investments in industrial capacity.

A similar concern exists that in a larger TFTA market, economic activity could polarise at the extreme ends, in the countries with the largest domestic markets and therefore with greater capacity to attract increasing return industries where proximity to the bulk of their clients is important. In other words, industrial activity would concentrate in Egypt and South Africa. These fears materialised themselves in different ways. Tanzania actually left COMESA in 2000 precisely because of fears that it would open the 'floodgates' to cheaper more competitive imports from Egypt (East African Trade Review, undated). The New Economic Geography does at least alert policymakers to the possibility of 'unexpected outcomes' from deeper regional integration, and that a reduction in distance and trade costs do not necessarily lead to the desired outcomes, in terms of ability to attract a greater share of industrial capacity. Moreover, the interviewee reported the opportunities to implement continental free trade area in Ethiopia. Some of the opportunities are:
It provides the opportunities of trading goods and services and removes taxations. It will help by creating better job opportunity and increased competitive pressures may improve firm efficiency. By reducing tariffs, the CFTA will make it more affordable for informal cross-border traders to operate through formal channels, which will reduce to cost of goods sold in the country. Job creation, free movement of goods and services, infrastructure development, free movement of people and tourism development are some of the opportunities to implement the African Continental Free Trade Area in Ethiopia are: jobs creation, free movement of goods and services, infrastructure development, free movement of people and tourism development. Capacity to appropriate AfCFTA agreement and protocols; private sector's understanding of AfCFTA rules of origin.

4.4. Benefits of Continental Free Trade

~~Empiri~~cal studies of regional economic integration can be divided into partial equilibrium analyses, computable general equilibrium (CGE) models and econometric studies. Although not without their detractors, CGEs are widely used because of the way they attempt to capture the interactions between sectors. In a partial equilibrium setting, such interactions on relative prices and factory utilization between sectors are lost. CGE models use economic data to estimate how an economy or region might react to changes in policy or to external shocks. They adopt a multi-sector and multi-region general equilibrium framework, and are able to capture interactions of different sectors and markets in a given economy and at the international level. Applications of CGE models to trade policy across the world are numerous (Scollay and Gilbert, 2000; O'Ryan et al., 2011; and Kitwiw Attanachai et al., 2010).

In this brief review, given the nature of the empirical analysis, we will focus on previous CGE studies on regional integration for African economies. A number of authors have focused on the effects of African continental trade agreements and customs unions. Mevel and Karingi (2012) explore the effects of the African continental free trade area and Customs Union (CU). They found that a continental FTA would significantly contribute to increasing trade within the African continent. They also found that the formation of a continental CU would not result in any additional increase in intra-African trade, as compared to the FTA.

Cheong and Tongzon (2013) also used the MIRAGE CGE model to assess the economic impacts of establishing the continental FTA, with a focus on the effects of regional integration on agricultural production and employment. The results indicate that, for Africa as a whole, the establishment of regional FTAs would increase continental exports, real income, and real wages for all categories of workers, although the estimated changes are small. The formation of a larger FTA at the continental level would amplify these gains. In particular, agricultural and food exports would be significantly stimulated following the removal of relatively high tariff barriers, and unskilled workers employed in agriculture would see their purchasing power enhanced. Intra-African trade as a share of Africa's total trade would increase by about 50% over a 12-year period, from 10.2% of total trade in 2010 to 15.5% by 2022.

Minor and Mureverwi (2013) use the GTAP CGE model to determine the impact of several proposed trade agreements – such as the completion of the regional integration with SADC, the TFTA and the African Continental Customs Union - on Mozambique's poorest households. They find that the poorest agricultural households gained real income because of increased sugar prices, as exports to Kenya increased. The top two quintiles in both rural and urban areas also gain real income because of higher rents on capital in the agricultural sectors. In contrast, poor urban households (second and third quintiles) experience a negative impact on real incomes. With respect to the African Continental-wide CU, they found a negative impact on Mozambique, with poor households (those in the first three quintiles) bearing a disproportionate burden.

Hallaert (2007) uses a CGE model to evaluate the impact of the SADC FTA on Madagascar's economy. He finds that the SADC FTA would have a limited impact on Madagascar's real GDP. However, Madagascar's trade and production pattern would change, benefiting the textile and clothing sector. Dimaranan and Mevel (2008) estimate the potential impact of the formation of a COMESA customs union through the use of the MIRAGE CGE model and the GTAP database. They find that the customs union would result in overall expansion of trade in the region. However, it would also hurt some members in terms of lost tax revenue and significant terms of trade losses. Mashayekhi et al. (2012) analyse the impact of further regional trade liberalisation on the SADC region. They use the GTAP CGE model to analyse the effects of further regional integration, finding a positive welfare and employment effects from the elimination of intra-SADC tariffs.

In the first extensive analysis on the TFTA, Willenbockel (2013) simulates the impact using a combination of the GLOBE CGE model and the GTAP 8.1 database. Assuming a complete tariff

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liberalisation between the three blocks, he finds that the TFTA leads to a welfare benefit of USD 578 million. However, under the most ambitious TFTA scenario, which combines complete tariff liberalisation for intra-TFTA trade with a reduction in non-tariff trade barriers, the projected aggregate net benefit for the TFTA group rises to over USD 3.3 billion per annum. This represents more than five times the gains resulting from full intra-TFTA tariff liberalisation alone. In this most ambitious scenario, the total volume of intra-TFTA trade is boosted by USD 7.7 billion, an increase of nearly 20%. Significant sectoral production effects are concentrated in a sub-set of sectors, including sugar products with backward linkage effects to sugar cane production, beverages, tobacco, and light manufacturing, and to a lesser extent for some countries in textiles, metals and metal production, and chemicals.

Because all the studies discussed above have used different models, databases and variations in the model closure, the results from these studies vary. It is worth stressing that all these CGE models are also highly sensitive to the parameters used and the model closures employed. For example, smaller Armington trade elasticity's result in lower welfare gains from liberalisation, while the larger trade elasticities result in larger gains (Hertel et al., 2002; Burfisher, 2011).
In addition to this, the initiating factors for the establishment of continental free trade area are for the African country to be benefited from each other's resources. Factor of the establishment of continental free trade area generally to have a positive welfare effects for those countries and leads to economic growth and poverty reduction. For African to trade their good and service and to use the resource with in the African market. The current context and the realization that Africa's integration into the global economy starts with a strong regional market.

To integration of the continent as a stand-along strategy, a top-down Process, or through the integration of the different African regional economic communities, a bottom up process. Furthermore, the respondents reported about the benefits of continental free trade area for Ethiopia. Some of the benefits were It help to access a large continental market and gain from economies of scale. Opportunity for the private sector to achieve economies of scales and for the country to attract more investors; opportunity for the government to further reform and modernize the business enabling environment.

Lower costs for imported raw materials and intermediate inputs increases competitiveness of downstream producers and promotes the generation of regional value chains. It helps to access a large continental market and gain from economies of scale.

It helps to access a large continental market and gain from economies of scale. It will help the industrlization to grow faster
The benefits for Ethiopia are the same as for other African Union Member States. The AfCFTA means openness of Ethiopian market to others. This will automatically generate new enterprises creation and jobs creation. The benefits question is related to the opportunities.

4.5. The current position of Ethiopia towards continental free trade area

The current position of Ethiopia towards continental free trade according to interviewee report was Ethiopia has sign the agreement ; Ethiopia has sign the agreement and protocols and is participating in the development of list of tariff concessions and schedules of commitments; the agreement is signed and Ethiopia aggress to open the door with 85% to all African centuries . The agreement is signed and the ratification will follow onwards. Ethiopia signed the agreement with the other 44 country's .Ethiopia singe the agreement of free trade movement for 85 present to African countries. The current position of Ethiopia towards the African Continental Free Trade Area is encouraging. On 21 March 2018 during the Extraordinary African Union Summit, Ethiopia was among the 44 countries that signed the AfCFTA agreement, which is yet to be ratified. However, Ethiopia did not sign the Protocol on Free Movement of People.

5. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

The benefits from the full implementation of the TFTA could be highly significant, resulting in a boost to intra-regional trade of nearly a third (29.2%). Total intra-regional trade would rise by USD 8.5 billion. Increases in intra-regional trade would be particularly strong in heavy manufacturing, light manufacturing and processed foods, which would see intra-regional trade increase by 3.3, 2.6 and 1.8 billion USD respectively. In percentage terms, these represent significant boosts to intra-regional trade, raising the share of intra-TFTA exports from approximately 9.3 to 11.8% of total exports.

Moreover, the cost of the removal of tariffs, in terms of government revenue foregone, would be relatively modest. This reflects the fact that a lot of intra-regional trade is already facing low average tariffs, due to the gradual implementation of regional liberalisation within the EAC, COMESA and SADC.

Among the members of the TFTA have steadily increased from $2.3 billion to $36 billion between 1994 and 2014—more than a 12-fold increase over 20 years. But the share of intra-regional trade in total exports, at 25% for 2014. UNCTAD Stat, which suggests an intra-regional TFTA trade of 10.7% for 2011 - closer in line with the initial figure of 9.3%. UNCTAD Stat numbers do in fact reveal a sharp increase in intra-TFTA trade in 2013, up to 14.4%. But even still, a jump to 25% in one year is not really plausible. The problem resides in the way direction of trade statistics vary sharply according to the source. Often intermediate destinations are confused with final destinations. Therefore, for instance, Rwandan tea sent for sale to Mombasa (Kenya) may be classified as an export to Kenya - yet in fact, the ultimate purchaser may well be in Europe. Problems like this continue to plague direction of trade statistics. SADC Tariff revenue for the whole of the TFTA in 2011 amounted to USD 21.74 billion, but intra-tripartite accounted for only 6.3% (or USD 1.45 billion) of that total. Most tariff revenue is currently coming from imports from the European Union and East Asia, and this revenue of course would be unaffected by the tariff reductions.

The sectors that would benefit most from the elimination of tariffs on intra-regional trade are precisely the ones that consensus opinion believes are the ones that would help create more employment and a vibrant domestic industry, i.e. light and heavy manufacturing, processed foods, and textiles and apparel. These sectors also face the highest pre-simulation tariff rates in intra-regional trade. In other words, the removal of tariffs in these sectors could give a renewed impetus towards the objective of structural transformation within the TFTA. Shifts in total output after the implementation of the TFTA would be more modest than the increases in export, for the simple reason that a relatively small share of total output is currently exported in most sectors. Once again, those increases would be most marked in the manufacturing sectors, whereas the extractive sector would actually see its output contract, as resources are reallocated towards the sectors favoured by the implementation of the TFTA. Again, this is desirable from the perspective of contributing to the structural transformation of the region. In a sense, this follows the line argumentation of Cooper and Massell (1965), who postulated that by forming a trade block, developing countries could retain protection against the 'North' in order to achieve a target level of industrialization, while reducing the cost of this industrialization by liberalising trade among each other.

Of course, there is a 'cost' to the implementation of the TFTA, in terms of reducing trade with external trading partners who do not benefit from the tariffs eliminations. The principal 'losers' are the principal existing trading partners - the EU-25 (who loose USD 562.7 million of exports to the TFTA member countries) and East Asia (USD 505.9 million) initiating factors for the establishment of continental free trade area.

For the African country to be benefited from each other's resources. Factor of the establishment of continental free trade area generally to have a positive welfare effects for those countries and leads to economic growth and poverty reduction. For African to trade their good and service and to use the resource with in the African market. The current context and the realization that Africa's integration into the global economy starts with a strong regional market.

To integration of the continent as a stand-along strategy, a top-down Process, or through the integration of the different African regional economic communities, a bottom up process.
The benefits of continental free trade area for Ethiopia. It helps to access a large continental market and gain from economies of scale. Opportunity for the private sector to achieve economies of scales and for the country to attract more investors; opportunity for the government to further reform and modernize the business enabling environment. Lower costs for imported raw materials and intermediate inputs increases competitiveness of downstream producers and promotes the generation of regional value chains. It helps to access a large continental market and gain from economies of scale. It helps to access a large continental market and gain from economies of scale. It will help the industrialization to grow faster.

Finally, the benefits for Ethiopia are the same as for other African Union Member States. The AfCFTA means openness of Ethiopian market to others. This will automatically generate new enterprises creation and jobs creation. The benefits question is related to the opportunities.

5.2. Recommendations

Based on the finding the following, the researchers tried to recommend the following:

- Increase awareness by giving -Ongoing training about CFTA and it benefits starting from the government official and downward hierarchically.
- Improving policy framework: Modernizing, quality management and control so that the implementers accept the process easily.
- Lessons must be learned from the TFTA process. A good recommendation is that the formation of CFTA must be chronological process giving the capacity, skill and financial challenges sectors must be liberalized and harmonization on the incremental basis.
- The government, policy makers, trade community should work on proper functioning of continental free trade areas.
- The government should create conducive environment for continental free trade area.
- The various multilateral, regional and bilateral trade agreements must be incorporated into CFTA negotiations.
- Further study shall be done for proper promotion of continental free trade agreement.

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