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MALAYSIAN PALM OIL INDUSTRY PERSPECTIVE IN PRE AND POST-AFRICAN CONTINENTAL FREE TRADE AGREEMENT

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ABSTRACT

The Malaysian Palm Oil (MPO) industry is important in the global oils and fats market, significantly contributing to economic value in Africa. As the African trade bloc represents the second largest export market for this industry, such implementation of the African Continental Free Trade Agreement (AfCFTA), could have profound influence on Malaysia's market position. This study explores the potential effects of AfCFTA on the MPO industry within African trade blocs using a mixed-method approach. Quantitative methods in this study include the use of paired sample t-tests to analyse differences in the MPO industry's metrics before and after the implementation of the agreement, assessing how AfCFTA influence the trade dynamics for MPO products. Qualitative approaches are utilised to investigate shifts in market access, tariff regimes, and non-tariff measures (NTMs), providing a comprehensive view of the trade environment. The results revealed that AfCFTA and associated trade liberalisation have not significantly enhanced the trade performance of Malaysian Palm Products (MPPs) exports. These findings suggest that external factors may play a critical role in shaping export dynamics, indicating the need for further research to fully understand AfCFTA's effectiveness within the palm oil sector. The findings offer deeper understanding of the complex interactions between trade agreements and the MPO industry, delivering actionable recommendations that could enhance trade relations between Malaysia and African countries.

Keywords: AfCFTA, Malaysian palm oil, trade agreement, trade openness.

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INTRODUCTION

The world population for the African region is 1.46 billion (18.2%), which makes it the second largest population after Asia (Worldometer, 2024). The Eastern and Western African blocs which are part of Sub-Saharan Africa contribute to more than half of Africa's population. The African continent is widely diverse in terms of culture, language, and economic output (Lu, 2024). As reported by the International Monetary Fund (2023), the African region has a combined gross domestic product (GDP) of USD3 trillion. Its biggest economy is South Africa (USD401 billion) and Nigeria (USD395 billion), followed by Egypt (USD358 billion). The top three African economies combined make up almost half of the African region's GDP. Although none of the African countries have a GDP of over USD600 billion, the African region still has the potential to expand its trade and infrastructure development.

For economic integration and harmonisation in the region, African countries relied on the Regional Economic Committees (RECs). However, in March 2018, the African Continental Free Trade Agreement (AfCFTA) was established by the African Union (AU) to consolidate trade amongst the African countries. The AfCFTA agreement creates the largest free trade area in the world where it connects 1.46 billion people across 54 countries with a combined GDP valued at USD3.4 trillion.

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Trades under the AfCFTA agreement commenced on the 1 January 2021 and is expected to increase intra-trade and secure socio-economic benefits for member countries (Debrah *et al.* 2024).

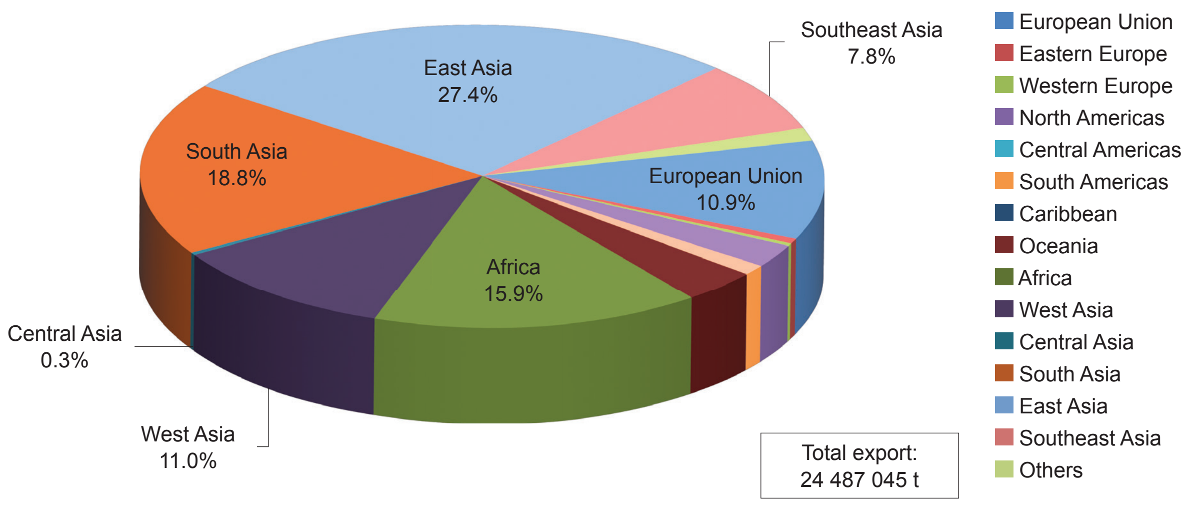
The African continent, as the second-largest importer of Malaysian Palm Products (MPPs) with a total export volume of 3 901 580 t, holds a significant 15.9% share of the MPPs export market (*Figure 1*), making it an important market for the MPO industry. While numerous studies on the AfCFTA exist, most focus on its framework of extra and intra-African exports and its benefits to African trade blocs (Keita, 2024; Stack *et al.*, 2023). There is a notable study that addresses the AfCFTA's impact on food commodity exports, highlighting how it can enhance food security by improving market access, increasing food availability, and improving livelihoods for farmers in the Southern African Development Community (SADC) region (Alhussam *et al.*, 2023). However, there appears to be a gap in the literature specifically examining the AfCFTA's impact on MPPs exports. Therefore, this study aims to address that gap by exploring the implications of the AfCFTA for the MPPs export market through a t-test analysis.

This study also aims to address this gap by examining market access, tariff regimes, and non-tariff measures (NTMs) to provide insights into the effectiveness of AfCFTA within the MPO industry. The paper's structure includes an introduction to the AfCFTA, methodology detailing mixed-method approaches, results and analysis sections, a discussion of findings, and a conclusion with recommendations and suggestions for future research.

Overview of Free Trade Agreement (FTAs)

Free Trade Agreements (FTAs) are key instruments in international trade, facilitating economic integration among countries by reducing or eliminating both tariff and non-tariff barriers. FTAs can take various forms, including unilateral, bilateral, multilateral, and regional agreements, each designed to foster economic cooperation and enhance trade liberalisation among member nations while maintaining established trade policies with non-member countries (Ornelas and Turnes, 2024; Teteryatnikova, 2008). These agreements enable participating countries to improve their global competitiveness, stimulate domestic industries, and lower the cost of goods and services for consumers. Additionally, FTAs play a critical role in breaking down global monopolies and promoting economic growth by bolstering international relationships and fostering robust alliances among member states.

In the context of the MPO industry, the implementation of the AfCFTA represents a significant opportunity. The AfCFTA aims to establish a unified market for goods and services across African nations, thereby expanding market access and enhancing trade liberalisation. For Malaysia, whose palm oil industry is a major contributor to the global oils and fats market, the AfCFTA could facilitate an increased export of palm products to Africa. This expansion is expected to occur through improved market access and reduced trade barriers, aligning with Malaysia's strategic interests in diversifying its trade relations and economic ties with the African continent. Such



Source: MPOB (2024).

Figure 1. Exports of MPPs to different region in 2023.

developments could reshape the trade dynamics for MPO, reinforcing its position in the African oils and fats market while contributing to broader economic goals.

Regional Economic Communities (RECs) in Africa

RECs are crucial components of the AU, serving as foundational elements for broader African integration. RECs were initially proposed under the Lagos Plan of Action and later was formalised by the Abuja Treaty. These RECs, which include several FTAs, are governed by significant frameworks like the 2008 Protocol on Relations between the RECs and the AU, and the Memorandum of Understanding on Cooperation in the Area of Peace and Security. The Lagos Plan of Action, established in 1980, aimed to enhance Africa's self-sufficiency by maximising local resources and reducing dependency on Western economies. The Abuja Treaty, adopted in 1991, further promoted socio-economic and cultural development through economic integration. Together, these initiatives have significantly influenced trade openness among member countries, facilitating large-scale trade in both financial and non-financial goods and services, thus shaping the economic landscape of the region (AfCFTA, 2024; Oloyede *et al.*, 2021; Simola *et al.*, 2022).

The Economic Community of West African States (ECOWAS) is particularly important to Malaysia as the trading bloc's import of MPPs accounts for over one-third of Malaysian exports to the African region. Some of the biggest MPPs exports to ECOWAS countries are Nigeria, Ghana, Ivory Coast, Togo, and Benin. Although the AfCFTA has introduced new elements for social and economic integration, the REC FTAs are still expected to coexist and function alongside the AfCFTA. These agreements are essential building blocs for regional integration in Africa (Erasmus and Hartzenberg, 2022).

The Importance of AfCFTA for African Regional Economic Integration

AfCFTA is the world's largest free trade area and a major part of the African region's plan called African Agenda 2063. The Agenda comprises a set of developmental goals and a framework for the socio-economic transformation in Africa, aimed at achieving its own national and regional development priorities, as well as adapting to international development conventions and practices. AfCFTA is a trade agreement designed to consolidate African countries into a single market. It encompasses key sectors of the continent's economy, including digital trade and investment protection, and aims to foster economic and social integration across the region (Garfias Royo *et al*., 2022; Union, 2024).

The AfCFTA aims to eliminate trade barriers in Africa and thus, create better market access for trade in all sectors among African member states which will have a combined consumer of 1.7 billion with business spending of USD6.7 trillion by 2030 and USD29.0 trillion by 2050 (Signé, 2020), creating a trading bloc powerhouse for Malaysian goods, especially palm products. About 54 African countries have signed the agreement and submitted their tariff offer which was adopted and included in the Ministerial Directive on Provisional Schedule of Tariff Concessions on 26 October 2021. Initially, the United Nations Economic Commission for Africa projected that AfCFTA would increase intra-African trade by 52.0% by 2022 (Breuss, 2022). Nonetheless, a 2023 report by Okwatch (2023) reveals that as of January 2023, intra-African trade remains low, at just 14.4%. This figure indicates a sluggish pace in policy integration among the member states, impeding progress towards achieving the initial targets of the AfCFTA. However, it is important to verify the latest figures and outcomes as these projections were made prior to significant global disruptions, including the COVID-19 pandemic, which may have impacted the agreement's anticipated benefits (Asiedu, 2022).

The establishment of AfCFTA has also changed the current structure of import duties. Currently, the base rates follow Most Favoured Nation (MFN) tariffs for individual countries and the applied Common External Tariffs (CETs) for customs unions and ECOWAS. Special tariffs under the AfCFTA are expected to gradually reduce tariffs by about 2% annually until it reaches zero. The tariffs are expected to phase out entirely by 2050. Palm products are categorised under Category A which is under the non-sensitive label in which the tariffs will be eliminated over 10 years for Least Developed Countries (LDCs) and five years for non-LDCs. For crude palm oil (CPO) the tariff rates could be up to 10%, while tariffs on refined palm oil are around 10% to 25%, making palm oil processing and cultivation attractive (AfCFTA, 2024; Boysen, 2024).

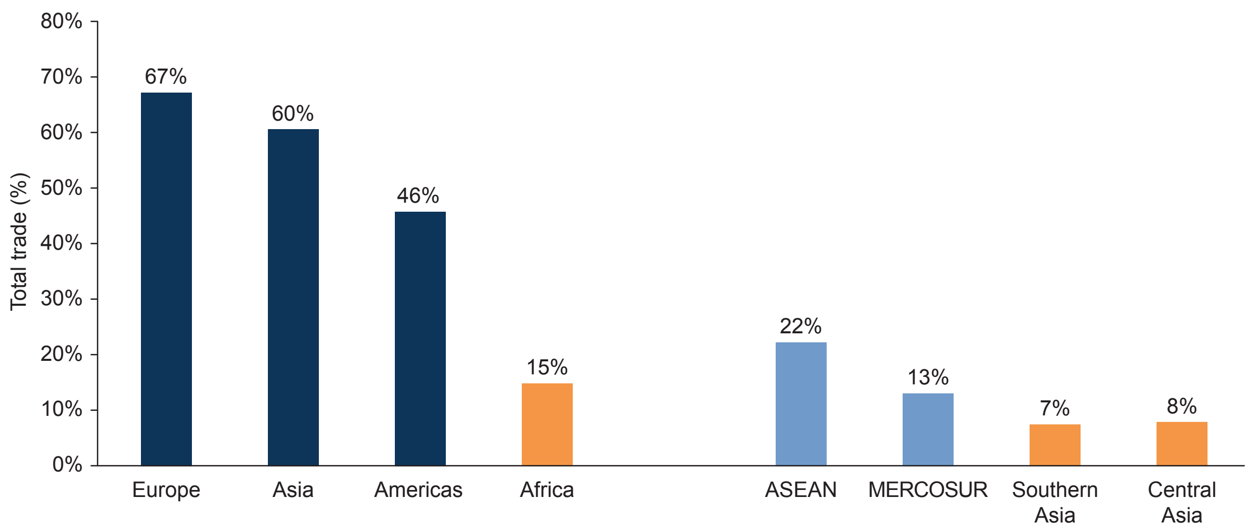
As regional trade among African countries is low, AfCFTA seeks to remove barriers in these areas of interest and thus allow free flows of goods and services among the contracting parties and provide a platform for challenging issues to be addressed (Munemo, 2021). AfCFTA could also strengthen Africa's partnerships with some of its largest traders. This trading could help facilitate and accelerate infrastructure developments, including improved ports, transportation, and energy. As logistics costs are reduced, palm oil products in intra-African trade may increase. Study conducted by Kuteyi and Winkler (2022) has shown that logistics will remain a stumbling block for intra-African trade until a proper and efficient infrastructure is in place. With appropriate infrastructure in place, the enhancement of intra-regional trade is anticipated, facilitating more efficient operations, reducing substantial transportation expenses, and mitigating delays, particularly in remote and landlocked regions. Such improvements in trade logistics are likely to lead to a reduction in trade costs, thereby enabling quicker availability in local markets.

Africa's intraregional trade makes up 15% (*Figure 2*) and relies on global trade to meet its other demands. The AfCFTA hoped to increase Africa's intraregional trade as other world intraregional trade agreements have shown higher intraregional trade percentages. The AfCFTA has launched the Guided Trade Initiative (GTI) involving 27 member countries to enhance intra-African trade, which remains relatively low compared to other continents. This initiative serves as a pilot to demonstrate the effectiveness of AfCFTA by facilitating smoother trade processes, including faster customs clearance and reduced tariffs (Department of Commerce USA, 2024). Although palm products are not currently included under the GTI, the initiative's success could potentially extend its benefits to these products in the future, potentially benefiting sectors such as the MPO industry. The GTI aims to foster sustainable and inclusive economic development by proving that streamlined intra-African trade is feasible under the AfCFTA framework.

Malaysian Palm Products (MPPs) Export Performance to Africa

Since 2018, ECOWAS member countries have been significant players in the trade of MPPs in Africa. As detailed in *Table 1*, Nigeria, Ghana, and Togo have notably contributed to the increasing import revenue from MPPs. The substantial population of ECOWAS, which accounts for approximately 30% of Africa's total population, drives high demand within the region. This demand facilitates intra-regional trade, extending even to neighbouring landlocked countries such as Mali and Niger. However, Congo is not a part of ECOWAS and should be considered separately. Since 2020, Kenya has surpassed Nigeria as the primary importer of MPPs in Africa. This development is part of Kenya's strategic implementation of its Big Four Agenda, which emphasises efficient governance practices. Additionally, Kenya has established itself as a critical re-export hub for palm products, facilitating trade not only within East Africa but also extending to Central African nations. This role shows Kenya's importance in bolstering regional trade networks across the continent.

Figure 3 illustrates the export volume of MPPs to Africa from 2014 to 2023. Despite the implementation of the AfCFTA in January 2021, the data indicates that MPPs exports to Africa have continued an upward trajectory. This trend suggests that the AfCFTA has not had a significant adverse impact on MPPs export performance to Africa. On the contrary, the steady growth in export volumes, reflected by the R^2 value of 0.5594, implies that the agreement has not negatively affected Malaysia's position in the African market. This period incorporates recovery phases from significant economic disruptions: Firstly, from the downturn due to the mineral oil price collapse between 2014 and 2017, and secondly, from the COVID-19 pandemic impacts between 2020 and 2022. The latter period observed a marked increase in export volumes, attributable to a base effect from subdued pre-pandemic levels. Empirically, this finding was supported by Asiedu (2022) and Morsy *et al.* (2021)



Source: Andrew (2021).

Figure 2. Intraregional trade (imports and exports) as percentages of total trade.

TABLE 1. MALAYSIAN EXPORT OF MPPs TO TOP 10 AFRICAN IMPORTERS

Countries	January-December Quantity (t)					January-December Value (RM Million)				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Nigeria	326 831	404 193	354 220	241 626	320 380	843.52	1 150.71	1 528.41	1 193.09	1 301.66
Ghana	177 222	279 445	230 091	77 643	97 139	422.16	816.58	974.66	417.75	423.55
Benin	125 065	114 750	46 923	779 520	139 092	369.32	373.55	233.74	581.41	643.34
Kenya	197 955	532 723	692 636	779 520	935 537	422.54	1 503.97	3 040.60	4 155.95	3 651.67
Djibouti	98 079	147 472	172 261	292 516	316 469	266.90	437.84	729.63	1 708.27	1 362.24
South Africa	264 839	256 948	174 948	167 440	160 058	677.77	766.98	834.13	1 056.80	720.04
Mozambique	203 949	309 710	288 582	208 725	276 579	438.16	883.36	1 275.73	1 146.73	1 079.84
Tanzania	222 146	204 219	207 146	253 420	324 314	560.29	608.49	999.62	1 453.27	1 384.43
Ethiopia	66 674	22 287	13 058	7 482	6 678	178.50	67.20	56.38	46.77	29.41
Togo	86 828	175 307	139 616	136 956	238 053	212.34	520.68	646.17	770.26	1 017.66
Total	**1 769 588**	**2 447 054**	**2 319 480**	**2 944 846**	**2 814 300**	**4 391.50**	**7 129.36**	**10 319.07**	**12 530.30**	**11 613.84**
Total MPPs Exported to Africa	**2 760 415**	**3 535 789**	**3 218 083**	**3 331 372**	**3 901 580**	**7 238.70**	**10 621.92**	**13 932.84**	**19 131.47**	**16 589.27**

Source: MPOB (2024).

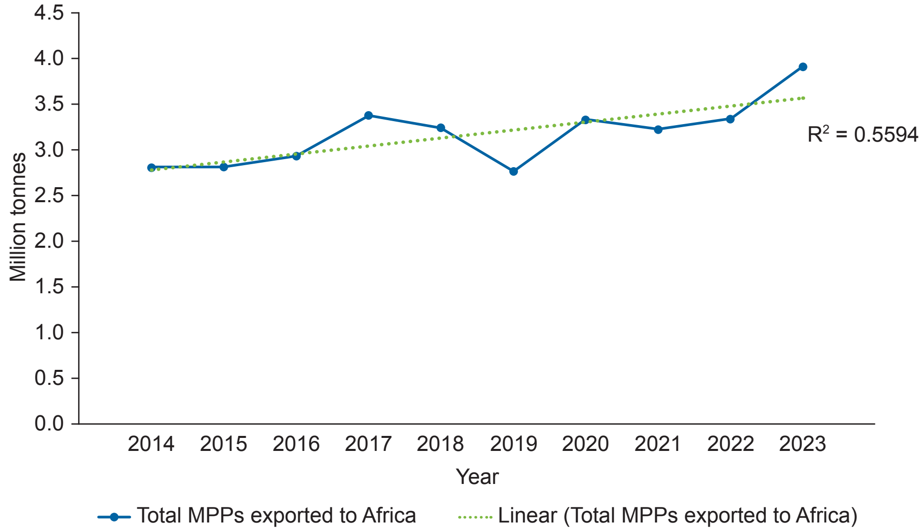
who demonstrated the subsequent stabilisation of demand post-2022 which highlights adaptability in the African markets to global economic shifts, justifying further analysis of the resilience mechanisms employed by these economies.

MPPs exports are significantly influenced by existing trade agreements, as demonstrated by Malaysia's trade interactions with Pakistan and Türkiye. Following the establishment of FTAs with Pakistan and Türkiye, an increase in the export of MPPs to these markets are evident (Balu and Nazlin, 2011). Similarly, the AfCFTA holds the potential to boost the economies of African countries and, by extension, could enhance the trade performance of MPO products in Africa. This suggests that the AfCFTA should align with other existing FTAs to optimise trade outcomes. Additionally, local government policies and regulatory landscape are fundamental in shaping the trade performance of palm oil, indicating that both international agreements and domestic policies are crucial for the export success of this commodity.

MATERIALS AND METHODS

This study employed a mixed-method approach, utilising both qualitative and quantitative analyses to assess the impact of the AfCFTA on the MPO industry. In examining the current state of research and key developments related to the AfCFTA and its effects on the MPO industry, a narrative literature review was conducted. Although narrative reviews lack standardised guidelines, their quality can be enhanced by incorporating elements from systematic literature review (SLR) methodologies. By doing so, the process can minimise potential biases in the selection and analysis of articles, thereby providing a more comprehensive and objective assessment (Ferrari, 2015). The review process was started with a targeted search using key terms such as 'AfCFTA,' 'trade liberalisation,' 'palm oil industry,' 'free trade agreement,' and 'economic integration in Africa' The primary platforms used for sourcing academic articles were Scopus and ScienceDirect, known for their extensive databases of peer-reviewed journal articles.

To ensure a strong literature framework, we established specific inclusion and exclusion criteria for our document analysis. We included documents that were peer-reviewed, published within the last decade, and directly addressed topics such as trade agreements, economic integration, and the palm oil industry. Documents older than 10 years were generally excluded unless they were deemed relevant and important to the literature review. This ensured that the study's theoretical foundation was well-supported and coherent (Foster *et al.*, 2021; Locke and Golden-Biddel, 1997). The search



Source: MPOB (2024).

Figure 3. Total export of MPPs to Africa from 2014-2023.

involved initial screening of titles and abstracts to assess relevance, followed by a full-text review of selected articles. This process ensured that the most pertinent literature was included in the review. Additionally, a quality assessment was performed to evaluate the methodological consistency and relevance of the selected articles.

The document analysis incorporated a wide range of materials, including peer-reviewed articles discussing economic integrations like AfCFTA, official reports from the AfCFTA secretariat offering updates and guidelines, and other relevant documents that elucidate trade regulations and their implications. To complement these academic sources, we also included market research data and analysis from Euromonitor International, a leading provider of business intelligence and market analysis. This review of diverse sources enabled a thorough examination of the intricate relationship between trade policies and industry dynamics, thereby offering a nuanced understanding of the potential impacts of the AfCFTA on the MPO industry.

Quantitative research designs apply a comparative approach to assess the impact of the AfCFTA on the MPO industry. The research focuses on examining the export volume trends over a decade, specifically comparing the periods before and after the implementation of the AfCFTA. Data collection involved gathering 10 years of annual export statistics from authoritative sources. Statistical methods were then applied to analyse these trends, providing a quantitative measure of the AfCFTA's effect on export volumes. This methodology allows for a precise quantification of changes in export patterns, offering clear insights into the trade dynamics influenced by the AfCFTA.

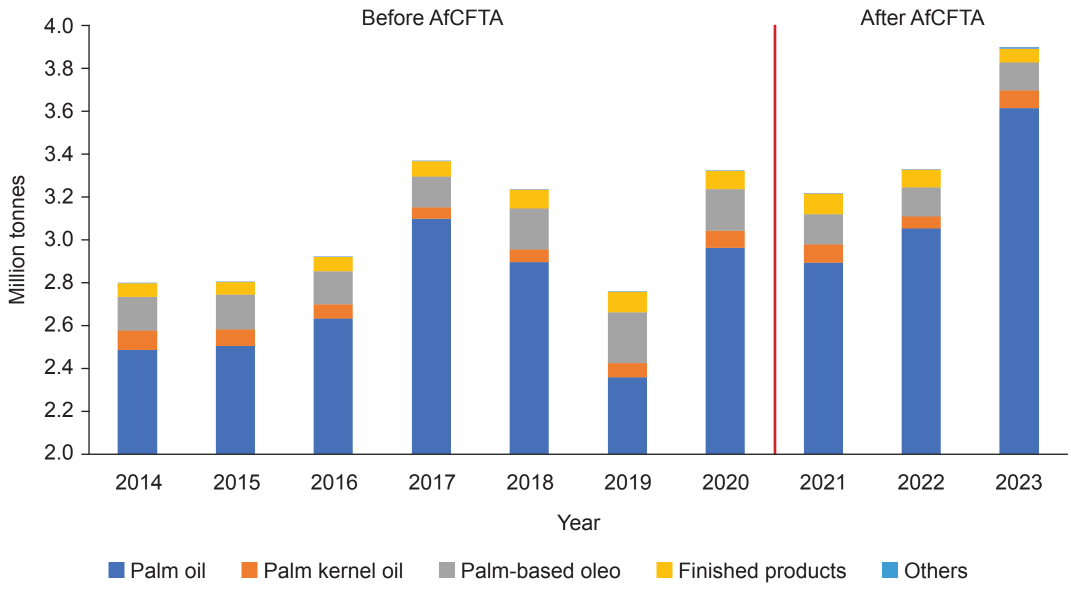
Through this comparative analysis, the study aims to identify significant shifts in the export behaviour of the MPO industry, attributing these changes to the trade liberalisation effects of the AfCFTA. The study divides the time series data into two different periods as follows:

i. From 2014 to 2020, indicated as the 'pre-AfCFTA' period.
ii. From 2021 to 2023, indicated as the 'post-AfCFTA' period.

In addition to the comparative time series data, this study also produces a five-year projection of MPPs export from 2024 to 2028 based on the same export data from 2019 to 2023. This section thus, facilitates a detailed examination of any important changes in the export dynamics of MPPs to African nations in response to the AfCFTA.

Data Collection

The dataset for this study consists of annual export data from 2014 to 2023 obtained from the MPOB database (*Figure 4*). This dataset specifically covers the export volumes of MPPs to the African region. To enhance transparency and facilitate reproducibility, comprehensive details regarding the data source and its format are provided. The segmentation of the dataset into distinct periods aligns with the annual intervals, thus reflecting the temporal distinction coinciding with the implementation of the AfCFTA. This temporal alignment ensures that the analysis captures the relevant periods before and after the initiation of AfCFTA, allowing for a focused examination of any visible changes in MPPs exports to Africa.



Source: MPOB (2024).

Figure 4. Exports of MPPs to Africa, 2014-2023.

Statistical Test Selection

Given the nature of the objective and the characteristics of the data, the paired sample t-test is chosen for its ability to compare the related export performance of MPPs, control for variability, assume normality in differences, handle small sample sizes effectively, and provide easily interpretable results, all of which are essential for analysing the impact of AfCFTA on the MPO industry.

Statistical Assumptions and Data Characteristics

This section addresses the assumptions inherent in the paired samples t-test methodology and examines into the characteristics of the dataset under examination. The key assumptions of the paired samples t-test include the normality of differences and the acknowledgment of dependent observations. Notably, in the case of larger sample sizes, the assumption is that the differences are approximately normally distributed. This section intentionally does not explicitly address homogeneity of variances, recognising that this assumption is not required for paired samples t-tests.

The dataset employed in this study spans a decade whereby each year is represented by a singular data point, resulting in a sample size of 10. Using a consistent 10 year period helps ensure comparability across the data points, providing a balanced view of trends and reducing the impact of anomalies that could skew the shorter-term analysis. This sample size is generally considered sufficient for conducting a paired t-test, allowing for adequate statistical power to detect meaningful differences (Fritz *et al*., 2012). Despite the relatively small number of observations, the paired sample t-test is resilient to deviations from normality and small sample sizes, making it a valuable analytical tool in this study. Furthermore, the repeated measurements over a 10-year period hold the potential to yield meaningful insights into the impact of the AfCFTA on MPPs exports to the African region.

Significance Level

A significance level (alpha) of 0.10 was selected for this analysis. This conventional threshold is employed to determine the statistical significance of observed differences, providing a balance between Type I and Type II errors.

Export Projections of the MPPs from 2024 to 2028

A time series forecasting function to predict future values based on historical data using an advanced machine learning algorithm called Exponential Triple Smoothing (ETS) is adopted to produce a five-year projection of MPPs export from 2024 to 2028 (*Figure 5*). The projection method collects historical MPPs export data from 2019 to 2023. The ETS algorithm was selected for its robustness in handling time series data. ETS breaks down the time series into three components; trend, seasonal, and error (residual) which allows the model to capture different aspects of the data effectively:

i. Trend Component: Represents the long-term progression of the time series.
ii. Seasonal Component: Accounts for repeating patterns or cycles within specific intervals.
iii. Error Component: Captures random variations and noise in the data.

This function requires the timeline to be organised with a constant step between the different points suitable for a yearly timeline. Once the timeline is organised and data points have been determined, the ETS is guided to observe the historical MPPs export data and project MPPs export data for the next five years. The predicted export values are a continuation of the historical data whereby it extends the timeline into the future.

RESULTS AND DISCUSSION

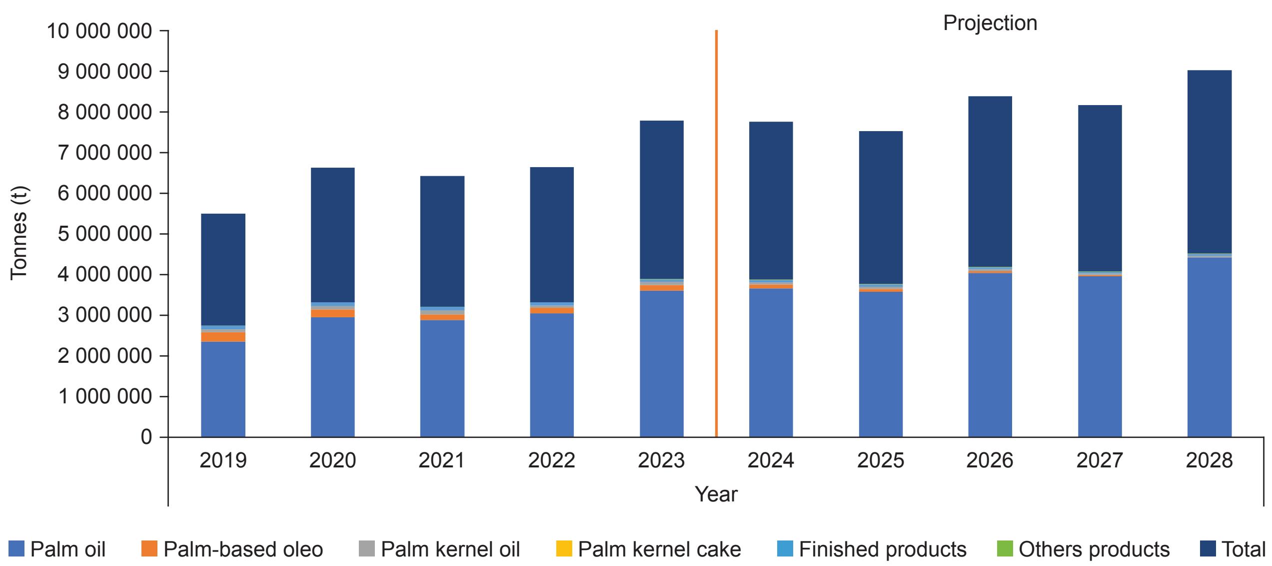
This section presents a detailed exploration of the findings obtained from the investigation into the impact of the AfCFTA on the export of MPPs to the African region. This section also unfolds the statistical outcomes, effect sizes, and implications, thus providing an understanding of the complex dynamics surrounding palm oil trade in the pre- and post-AfCFTA implementation periods. While the interpretation of these results predominantly relies on statistical significance derived from t-test analyses, the focus extends beyond broad statistical outcomes.

The study examines the practical implications of the observed changes, emphasising the importance of a holistic approach in determining the true effects of AfCFTA on the MPO industry. Even within the confines of t-test analyses, the goal is to provide a detailed understanding that goes beyond statistical significance and considers the broader implications of the observed variations. Additionally, the discussion explores into contextual factors, potential limitations, and avenues for further research, supporting the narrative with a broader perspective on the complex interplay between trade agreements and the dynamics of MPO trade.

T-Test Analyses

The paired samples t-test was employed as a key analytical tool in this study to carefully investigate the effects of the AfCFTA on the export dynamics of various MPO products to the African continent. The result of the t-test is outlined in *Table 2*.

In examining the t-test results of palm oil and palm kernel oil, our analysis identified non-significant mean differences, with *p*-values of 0.072 and 0.698 respectively. This suggests that there were no statistically significant changes in export volumes before and after the AfCFTA. While these statistical tests did not demonstrate significant changes, the observed effect sizes warrant further consideration due to their potential implications in practical contexts. This emphasises the importance of assessing the real-world impacts alongside statistical outcomes, as results that are not statistically significant can still hold considerable relevance for policy and strategic decision-making.



Source: MPOB (2024).

Figure 5. Export projections of MPO to Africa.

TABLE 2. PAIRED SAMPLES T-TEST RESULTS

Products	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. deviation	Std. error mean	90% Confidence interval of the difference				
				Lower	Upper			
Palm oil	-660 234.32	323 913.67	187 011.64	-1 206 305.61	-114 163.02	-3.530	2	0.072
Palm kernel oil	4 090.28	15 816.82	9 131.84	-22 574.56	30 755.13	0.448	2	0.698
Palm-based oleo	25 465.15	7 563.27	4 366.66	12 714.58	38 215.72	5.832	2	0.028
Finished products	-18 572.64	17 664.25	10 198.46	-48 351.99	11 206.71	-1.821	2	0.210

This also applies to finished products with *p*-value of 0.210 which are also directly imported from Malaysia and do not qualify for special tariff under AfCFTA.

The primary exports of MPPs to Africa are refined, bleached and deodorised (RBD) cooking oils, predominantly exported in bulk and subsequently repackaged into consumer packaging. Similarly, palm kernel oil, primarily used in the confectionery industry, follows a comparable export pattern. Notably, neither product qualifies for tariff liberalisation (*Table 3*) under the AfCFTA, which may explain the observed *p*-values. Given these conditions, it is anticipated that the trend in export volumes will remain consistent in the foreseeable future.

In contrast, the investigation into the export of palm-based oleo yielded a significant increase in production levels ($p = 0.028$) post-AfCFTA. This statistically significant finding is crucial in shedding light on the tangible impact of AfCFTA on this specific palm-based product. The significant effect size, coupled with statistical significance, emphasises the economic significance of the observed significant changes in the export volume of palm-based oleo.

The importation of palm-based oleochemicals into Africa can largely be attributed to their critical role in the production of cleaning and disinfectant products. As these oleochemicals are imported as raw materials, the finished products derived from them may qualify for preferential tariff rates under the AfCFTA. This regulatory framework potentially explains the observed increase in demand for Malaysian palm-based oleochemicals. This also supports support the study conducted by Othman *et al.* (2022) demonstrated that Malaysia, even though as the second largest producer of palm oil, has higher trade advantages relative to other main producers of oleochemical products and this applies to high dependency of African countries in sourcing oleochemical products. Additionally, the tariff concessions under AfCFTA are likely to make these raw materials more economically attractive for manufacturers in Africa, fostering a market environment that encourages the use of imported oleochemicals in the production of various consumer goods (*Table 3*).

Interestingly, inflation was argued to have a significant impact on trade dynamics. External factors such as high inflation at the state level were argued to significantly impact economic growth (Mandeya and Ho, 2021) and consequently influence trade dynamics (Yiheyis and Musila, 2018). Babangida *et al.* (2024) empirically demonstrated that inflation do adversely affect business growth and reduce consumer spending. Major economies in African countries, including Nigeria, Egypt, and South Africa, have been impacted by high inflation rates. As reported by the Euromonitor International (2023), inflationary conditions have been severe since 2022 and worsened in 2023, exacerbated by the continuing depreciation of the local currencies. This depreciation is attributed to government policies on demonetisation and increased fuel prices in 2023, which have dampened the anticipated benefits of the AfCFTA on trade performance in Africa. Inflationary conditions increase trade costs through the depreciation of local currencies and indirectly affect market demand as unit prices increase. This contributes to the slow impact of AfCFTA since its implementation in 2021, highlighting the complexity of regional trade dynamics influenced by economic policies and global economic conditions.

Impacts of AfCFTA on Palm Products Import into Africa

As of 2024, Malaysia does not have any FTAs with the African region, nor does it have bilateral relations with any specific African country through an intercontinental FTA (MITI, 2024). Despite the absence of formal trade agreements, the relationship between Malaysian oil palm stakeholders and Africa operates on a business-to-business basis. Moreover, the trade relationship between Malaysia and African countries remains strong or at least consistent over the year, as evidenced by the strong trade performance metrics between Malaysia and the region (*Figure 1*).

TABLE 3. RULES OF ORIGIN CRITERIA

Wholly obtained	Substantial transformation
Goods that occur naturally in the free trade area	Change in tariff classification
	Specific processing
	Value added
	Value of non-originating material content

Source: AFCFTA Secretariat (2022).

However, Malaysia's primary competitor in the palm oil sector, Indonesia, has significantly strengthened its trade position in Africa through strategic agreements. In 2019, Indonesia signed the Indonesia-Mozambique Preferential Trade Agreement (IMPTA), which eliminates tariffs on hundreds of products and is designed to enhance trade volume between the two nations. This agreement strategically positions Mozambique as a hub for Indonesia to improve its market reach across Southern Africa (Ayman, 2023). The preferential tariffs resulting from Indonesia's trade agreements with African nations may impact negatively to Malaysia's export performance in the region.

Furthermore, Indonesia is currently negotiating with the Southern African Customs Union (SACU), which includes South Africa, to establish a similar preferential trade agreement aimed at reducing tariffs. The South African Deputy Director General of Asia and the Middle East from the South African Foreign Ministry has expressed support for Indonesia, indicating openness to a preferential trade agreement with Indonesia should the negotiations with SACU face hurdles (Sri, 2019). In their bilateral discussions, both nations have committed to expanding trade and investment, particularly in sectors such as infrastructure, manufacturing, and agriculture. These proactive efforts by Indonesia in securing advantageous trade terms could afford it a competitive edge over Malaysia in capturing market share within Africa.

In the context of AfCFTA, the agreement provides exclusivity to its member states, thus making it more attractive to trade among its contracting members than countries outside of the agreement. Nonetheless, it does not necessarily mean that it cannot benefit non-member states or the MPO industry. It is worth noting that there are rising demands for palm oil in Africa that the region cannot fulfil. In 2021, the Sub-Saharan African domestic consumption was 3.58 million tonnes and its domestic production which are mainly from Nigeria, Ghana, and Cote D'Ivoire only produced 2.13 million tonnes (Oil World Annual, 2023). This indicates that Africa is a net importer of palm oil whereby it is unable to meet the demand of its domestic consumption, thus relying on imports to fulfil such demand well into the foreseeable future.

As the world's two largest palm oil producers, the situation in Sub-Saharan Africa creates an attractive opportunity for Malaysia and Indonesia. It may take some time before the region can domestically produce goods by itself and not rely on others to fulfil its domestic consumption. In fact, with the limited infrastructure in place, there is a chance that intra-regional trade may not be able to benefit fully from the AfCFTA. Imports from suppliers of goods and services to develop infrastructure in the region are still required, which means there are still potential gains to be taken.

Opportunities for the MPO Industry in Africa

The shift of MPPs towards the African market can be analysed through three main areas: Market access, tariff regimes, and NTMs. These aspects offer valuable opportunities and insights for the MPO industry to penetrate the Africa market effectively. This analysis draws on a comprehensive review of journal articles, the latest reports, and current news regarding the AfCFTA. The recommendations provided are based on the results gathered from this study, highlighting potential strategic advantages and areas for further exploration. The findings suggest that while AfCFTA's impact may be gradual, strategic partnerships and adherence to trade regulations can provide significant benefits to Malaysian exporters.

Market Access

Implementing AfCFTA could further increase MPPs consumption in Africa as loosened trade barriers allow palm oil import to landlocked countries and reduce trade costs. Although only member states may have preferential tariff rates, the MPO industry can indirectly benefit from this because, as discussed earlier, Africa's palm oil consumption still requires import to fulfil its local demand. Palm oil is the preferred type of oils and fats among consumers as it is the cheapest compared to soybean oil and sunflower oil. It will continue to be the preferred type of oils and fats for as long as its price is more competitive than others. MPPs have shown increasing exports to Africa with the exception from the year 2020 to 2021 which is the result of a global pandemic, severely affecting and halting many trade movements.

Based on the projections in *Figure 5*, the projected exports of MPPs to the African region did not show any significant changes in the next five years and may continue to gain a gradual increment, whilst noting that unanticipated changes that might take place in the forecasted future may affect the projections. By 2028, the MPPs, particularly palm oil, export to Africa is expected to increase but may have very little to do with the AfCFTA.

As the AfCFTA only came into effect in January 2021, not all member states have commenced trading under its provisions, as previously noted under the GTI of AfCFTA. Consequently, the export projections for MPPs may demonstrate modifications as additional member states begin to leverage the benefits of AfCFTA. A declining trend in the export of palm-based oleochemical products is observed due to reduced utilisation following the COVID-19 pandemic. Furthermore, the consumption of high value-added palm-based products, particularly palm-based oleochemicals, in Africa remains low, as illustrated in *Figure 4*. This trend can be attributed to the rising cost of living and price sensitivity among consumers. A significant portion of the African population lives below the poverty line, with limited income levels (Okwatch, 2023). In 2023, the average household disposable income in Africa was USD4221, substantially lower than the global average of USD27 653. Consequently, African consumers primarily allocate their spending to essential food items, limiting the market for non-essential, high-value-added products (Euromonitor International, 2023). It is also important to acknowledge that Indonesia may outpace Malaysia as a source of palm-based oleochemicals, as evidenced by trends in palm oil and palm kernel oil exports, which may explain the observed decrease in Malaysia's export volumes to Africa.

The Malaysian oil palm industry can take advantage of the local supply deficit to Africa's palm oil consumption by having a presence locally. A strategic partnership with local oils and fats companies, especially in African countries that produce palm oil, may allow MPO to enjoy the benefits of AfCFTA.

Tariff Opportunities

To acquire the preferential tariff under AfCFTA, Malaysian exporters must follow the AfCFTA Rules of Origin (RoO) from the Protocol on Trade in Goods, Annex 2 on RoO and its Appendix IV (AFCFTA Secretariat, 2022). RoO will determine and specify the condition required from a product to be considered as originating in the free trade area. Most MPPs imported from Malaysia are refined palm products (RBD palm olein and crude palm olein). However, according to the AfCFTA Annex 2 on RoO on minimal processes, simple packaging operations such as placing bottles or polybags are considered finished goods and would not enjoy the preferential tariff and therefore, it would not have a direct impact on the trade (*Table 3*).

Referring to AfCFTA Annex 2 on RoO, the origin criteria are categorised as follows: Working or Processing not Conferring Origin, Malaysia could take advantage of exporting crude palm olein, whereby it is treated as semi-finished products and will undergo further processes before turning into high value-added palm-based products in the member country. Change of Tariff Heading (CTH) and Change of Tariff Sub-Heading (CTSH) shall apply in this case. On the other hand, as it is not mentioned in the AfCFTA Annex 2 on RoO, Refining Rules might also apply for Crude Palm Olein to enjoy preferential tariffs in the member country with further chemical refining.

Non-Tariff Measures Opportunities

NTMs refer to policy measures other than tariffs that can affect the price and quantity of internationally traded goods (Disdier *et al.*, 2019). These measures include quotas, embargoes, sanctions, and bureaucratic regulations. While NTMs are often perceived as obstacles, they can also present opportunities for businesses looking to expand into new markets. In the context of the AfCFTA, these opportunities are particularly relevant for the MPO industry. The AfCFTA not only offers new market access but also enhances the potential for MPO exports through improved infrastructure and regional integration in Africa.

Collaborating with a local business in a strategic partnership is one way to navigate the local regulations, converting the barrier into a potential competitive advantage. There is also a potential advantage within a NTMs whereby as outlined by the Division for Africa (2018) in Article 9: Goods Produced under Special Economic Arrangements/Zones (SEZs). SEZs would typically offer relaxed regulations and incentives to businesses, thus making the area appealing to set up foreign operations. There is potential for the MPO industry to either collaborate with strategic partners in Africa or establish operational entities that would favourably position MPPs within SEZs. Specifically, Article 9, Sub-regulation 1 outlines how such entities could be formed, facilitating enhanced market access and possibly incentivising investment in the palm oil sector within these economically strategic zones. Under this Article 9 Sub-regulation 1 has stated that:

"Goods produced in SEZs shall be treated as originating Goods provided that they satisfy the rules in this Annex and in accordance with the provisions of Article 23.2 of the Protocol on Trade in Goods".

This provision offers a strategic advantage for Malaysian oil palm stakeholders to establish processing hubs within SEZs. Such hubs could facilitate better market access of MPPs to neighbouring countries through re-exporting, while also encouraging investment and capacity building within the refining sector. By aligning operations with the AfCFTA rules of origin, these hubs can produce high-value palm-based products that are competitively priced due to favourable tariff structures under the agreement. This alignment not only enhances the competitive stance of MPO in the African market but also potentially boosts income generation from these value-added exports. By understanding and strategically navigating NTMs, businesses can not only mitigate potential trade obstacles, but it could also unlock new growth opportunities in international markets.

CONCLUSION

AfCFTA is the largest free trade agreement in the world in terms of land area, but the African region still has a long way to go before member states can reap benefits from the full extent of the AfCFTA. Free trade among the African countries may take some time to increase palm oil consumption and as the region has been relying on imports of palm oil to fulfil its local demands. It may take quite some time for these countries to meet their local demands for palm oil, but at least the AfCFTA can serve as a stepping stone.

The result of the study concludes that there is no significant difference in MPPs trade performance before and after the implementation of the AfCFTA. The ratification of AfCFTA in 2021 may explain its limited immediate impact on the MPO industry especially during the pandemic period. Alternatively, Indonesia benefits from the FTAs signed with the African countries, which provide preferential tariffs and strengthens its market position in Africa and further challenge Malaysian exports to the region. Given these aspects, it is important for Malaysia to establish or strengthen cooperative ties within the African region to enhance the competitiveness of its palm oil industry and to foster growth in palm oil trade with Africa.

In relation to strengthening trade relations, strategic partnerships between members of the MPO industry and manufacturers within African trade blocs could provide mutual benefits for all parties involved. It would be a strategic move for Malaysia to establish a regional hub in Africa for its palm oil exports, which could also serve as a central point for re-exporting MPPs to other African countries, particularly countries that are landlocked.

This study acknowledges limitations, particularly in assessing the governance of the AfCFTA across different African countries. Therefore, future research should focus on analysing the level of trade governance under AfCFTA to comprehensively evaluate its impact on MPPs trade with the region. This would provide deeper insights into how trade policies and practices influence the participation of stakeholders, trade flows and market access in this emerging economic landscape.

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