IPS

INTERVIEWS 02.12.2022

‘Africa can achieve more if it will speak with one voice‘

David Luke on the free trade area which will contribute to transforming trade in the African continent and drive long-overdue industrialisation

How would you describe the current trade relationship between Africa and Europe?

As geographical neighbours, Europe and Africa have a long trade history. The EU is Africa’s most important source of imports, accounting for 26 per cent of all imports followed by China (16 per cent) and intra-African trade (15 per cent). The US and the UK are also important trade partners but much less significant sources of imports into African countries. The EU is also Africa’s most important destination for exports.

Regarding the composition of trade, the EU’s imports from Africa are made up mainly of fossil fuels (40.7 per cent) and other primary commodities (ores, metals and pearls, precious stones and non-monetary gold) as well as food items (15.7 per cent). This means that EU imports are highly concentrated on low value-added products, a reflection of Africa’s poor industrial base which has not changed for decades. In contrast, Africa’s imports from the EU are strongly dominated by manufactured goods.

It is clear that Africa’s trade relationship with Europe is highly asymmetrical — a persistent pattern since the independence era of the 1960s. But this pattern is also repeated in Africa’s trade with partners such as China, the US, the UK and emerging economies such as India and Turkey. Despite accounting for around 17 per cent of the total world population, only about 3 per cent of global GDP occurs in the African continent.

Intra-African trade however presents a different picture and tends to be more diversified with relatively higher value-added content (e.g. manufactured and designed goods) than Africa’s exports to trading partners outside the continent.

Africa's trade is essentially a tale of two patterns. The first is a pattern of commodity concentration in Africa's exports to the EU and the rest of the world. The second is a pattern of a higher degree of diversification when Africa trades with itself. It is this second pattern that provides a viable pathway for Africa's economic integration, industrial development and transformation aspirations that will also entail more meaningful engagement with the EU and the rest of the world. Trade growth and trade integration in Africa is in the interest of the EU and all partners. Through the African Continental Free Trade Area (AfCFTA) Agreement, African countries have committed themselves to 'lay the foundation for the establishment of a Continental Customs Union at a later stage.' This increasingly involves policy harmonisation in a range of areas, including tariffs, trade in services intellectual property rights, competition policy, investment and digital trade.

What are some issues which stand in the way of a stronger trade relationship between Africa and Europe?

The regime governing trade relations between the EU and Africa varies based on geography (such as whether the country is in North Africa or below the Sahara), the level of development (whether it is a least-developed or a developing country), whether there are existing Economic Partnership Agreements (EPA) in place or the Generalised System of Preferences (GSP) that applies to its exports, and so on. Integral to Europe's patchwork of agreements and instruments is a conditionality for security of market access, particularly on the non-least-developed countries, to accept and adhere to the trade regime devised and imposed by the EU for its own purposes. This fragmentation of EU trade policy towards Africa constitutes a negative incentive for achieving trade policy coherence on the African side.

Still, the EU's support for the AfCFTA is not in question and is backed by concrete efforts to overcome supply constraints in Africa, and more broadly to provide development and financial support across a wide range of policy areas. But European trade policy towards Africa remains at odds with the publicly expressed intention to champion AfCFTA-led integration of the African continent. In particular, the EU's fragmented approach results in hard borders for EU trade between African countries within the same customs union. It is difficult to see how a continental customs union could emerge from the divisions created by the EU.

How could EU-African trade be redesigned to contribute to Africa's own development ambitions?

Empirical evidence from the Economic Commission for Africa found that the implementation of the EU reciprocal agreements ahead of the AfCFTA would result in losses in trade – or trade diversion – between African countries. But if the AfCFTA was fully implemented before the reciprocal agreements, this negative impact would be mitigated.

In my view a good development case can be made for a unilateral market access that is duty- and quota-free to all African countries, with a unified 'rules of origin' regime. This will require multilateral legitimisation through a new WTO waiver. Here it must be recognised that the WTO's 'one size fits all' rules require reimagination to meet the 21st century realities and challenges facing late developers, such as African countries.

Concessions to Africa, as the world's least developed continent accounting for only 2.3 per cent of world exports, allowing non-reciprocal access to advanced country markets for a fixed transitional period is strongly pro-development. It incentivises African countries to seek trade opportunities with each other and mitigates the risks of trade diversion.

What is the current status of the African Continental Free Trade Area? which achievements have been made and which steps must still be taken?

The AfCFTA enjoys broad consensus and strong political backing as a flagship project of the African Union (AU). However, with the start of trading stuck on technicalities, the AfCFTA is yet to substantively take off (beyond the seven countries taking part in the Guided Trade Initiative). Eventually, once the rules of origin and the tariff schedules are concluded, countries will need to take practical steps to put the agreement into operation within their customs administrations, including through the gazetting of new tariff structures, notification of specimen stamps and signatures, and in some instances training for customs officers. The AfCFTA Secretariat is aware of the gatekeeper role played by Africa's customs administrations and has sought to find bottlenecks and solutions to the practical start of trading under the AfCFTA.

If trading under the AfCFTA will be up and running: what are some positive prospects of the agreement but also what could be some potential inequalities that might arise?

The case for the AfCFTA is strong: it aims to boost intra-African trade and through doing so diversify African economies while contributing to their long over-due industrialisation. It provides a

platform for ambitious reforms that include elimination of nearly all tariffs, disciplining non-tariff barriers, services liberalisation and ushering in a rules-based arrangement for trade governance across the continent.

The policy rationale behind the AfCFTA project can be divided into five core parts. The first of these is that the AfCFTA represents a large and attractive marketplace. Most individual African countries are small. Twenty-two of the 54 African countries have populations under 10 million and a further 22 have populations under 30 million. The annual GDP of the median African country is just $16 bn, roughly equivalent to the output of a German city like Wiesbaden. To the extent that it reflects a consolidated market, the AfCFTA by comparison comprises 1.3 bn people and an annual output of $3 trillion. These are metrics that are almost exactly like India's and equivalent to about the seventh or eighth largest economy in the world.

While large today, what is perhaps more enticing is how the African marketplace is expected to further grow. This is the second part of the rationale. Ten of the top 20 fast growing economies are expected to be African in 2023, according to IMF estimates as of April 2022. Over the longer term, the African population is expected to grow to 2.75 bn by 2060, with an increasing middle-class market and a combined annual output of $16 trillion.

The third part of the AfCFTA rationale is its perceived potential to contribute to the industrialisation and economic diversification of African countries. African policymakers correctly view manufacturing-based industrialisation as a critical step in their countries' development, and as a means of reducing their dependencies on primary commodities.

Trade outside the continent – dominated by primary products like fuels and metals – has struggled to drive such industrialisation. Conversely, the intra-African trade that would be stimulated by the AfCFTA is seen as a more conducive vehicle for industrialisation. Intra-African trade comprises a far greater share of manufactures, as well as agricultural goods and embodies a higher technology content. Moreover, on the question of equity and inclusion, the AfCFTA is expected to boost employment in manufacturing which is significant in view of the demographic pressure for jobs.

However, as a market-driven and incentive-based initiative, the AfCFTA risks exacerbating inequality in Africa. But, as a recent Friedrich Ebert Stiftung report on *Human Rights and the African Continental Free Trade Area*noted, employment generation under the AfCFTA should be accompanied by measures to ensure adequate

social and labour protection; prioritisation of training, vocational guidance and reskilling; promotion of gender sensitisation and women's rights; and support to the employment creating role of small-scale cross border trade.

The fourth part of the rationale for the AfCFTA speaks to its form. The AfCFTA includes provisions on trade facilitation, non-tariff barriers, trade in services, and behind the border regulatory issues such as competition policy, investment, intellectual property rights and e-commerce.

While the average tariff encountered on intra-African exports amounts to about 6.1 per cent, the ad valorem equivalent for non-tariff barriers is much larger, at an estimated 14.3 per cent on some estimates. It is unsurprising, therefore, that most of the models that estimate the impact of the AfCFTA attribute relatively more importance to trade facilitation and addressing non-tariff barriers, than tariff reductions.

The fifth and final part of the rationale for the AfCFTA is that it can be a tool for cohering Africa trade policy. To use the language of the AU's *Agenda 2063*, in pursuit of 'the Africa we want', it is argued that Africa can achieve more if it will 'speak with one voice and act collectively to promote our [its] common interests and positions in the international arena'.

How will this agreement affect trade relations with Europe?

In 2021, the European Union took important steps that will shape its trade relations for the foreseeable future. For Africa some distinct facets of the new policy stand out. For the first time, the EU has made sustainability an explicit and central pillar of its trade policy. This implies a commitment to leverage the EU's global power and strong trade relationships to support sustainable and fair trade as well as to increase the ambition of its trading partners to address climate change. This is both an opportunity and a challenge for Africa as it implements the AfCFTA. The opportunity is that a new focus on sustainable and fair trade is consistent with Africa's industrial development ambitions for capturing and retaining more value from commodities along the supply chain. If this is backed by the approach that the EU rolled out in its *Global Gateway* Initiative, it could help to attract the investment needed to foster economic diversification and inclusive growth.

The challenge, however, is that the EU could pivot toward protectionism by introducing new measures and tariffs such as the already announced carbon border adjustment mechanism. This is aimed at avoiding the risk of carbon leakage in certain high carbon

emission intensity sectors where the EU increases its climate ambition and partners do not. Unfortunately, Africa, that bears little responsibility for the climate crisis, could find its exports from these sectors penalised in the EU market.

The second facet of the new policy is recognition that most future growth will take place outside the EU and trade plays a key role in connecting Europe to these high growth regions. Africa is viewed as one of these regions. Recognising the problematic effects that are reinforced by its own fragmented trade regimes in Africa, the policy points to a continent-to-continent trade agreement as a solution, not for the immediate future, but as a long-term prospect.

At the European Parliament if not at the Commission, there is strong support for a radical change in EU trade policy towards Africa. A June 2022 resolution of the parliament called for a whole new basis for its economic partnership with Africa based on solidarity and cooperation, and to reshape economic and trade relations with a view to empowering Africa.

What do African States themselves have to do to increase the development impact of their trade ?

The ideological battle for the AfCFTA has already been won. However, slippages to the deadlines for the conclusion of the negotiations, and cascading implementation delays, have in practice meant that the AfCFTA is not yet operating.

When the free trade area gets going—which it will—it will contribute to transforming trade in the African continent and driving long-overdue African industrialisation. The wait will be worth it.

In the meantime, Africa's regional hegemons have a leadership role to play in getting the AfCFTA moving without further delay. The collective size of leading economies like Nigeria, Egypt, South Africa and Kenya account for more than half of the continent's GDP. If they can show the leadership needed to make compromises in the rules of origin and get trade flowing, the AfCFTA will have the impetus it needs to truly take off.

The regional economic communities (RECs) have a practical function in enabling trade integration and connecting a continent that is as vast in size as Africa. They are massively under-resourced, but through trade corridors and cross border infrastructure, they help to apply common solutions to mutual supply constraints across Africa's 30.2 million square *kilometres. As the AfCFTA is implemented, the important role of the RECs in trade facilitation must not be overlooked.*

At the continental level, AU member states must 'speak with one

voice'. Summits between African leaders in an AU configuration and partners such as the EU now occur with regular frequency. The AU Commission has no mandate to act on behalf of member states in trade negotiations. Ad hoc arrangements are put in place to coordinate negotiations. This leaves the African countries vulnerable to being outmanoeuvred in trade negotiations and in their engagement with partners. They must learn to work together. The AU Commission must be given a mandate, direction and resources to secure outcomes that meet African aspirations.

At the WTO level where its 'one size fits all' rules require reimagination, African members must differentiate their development needs better and pinpoint with finer clarity where special and differential treatment is required to support their growth. This will not be achieved by maintaining alliances at the WTO with more advanced developing countries that have already climbed some distance up the ladder.

This interview was conducted by Lennart Oestergaard and Valentina Berndt.



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