

AfCFTA and Industrialization

A 'developmental regionalism' approach

Presentation to TIPS Development
Dialogue Session
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Outline of the Presentation

- Changing Narrative of Africa in the new Millennium
- History of regional integration in Africa: from Pan-Africanism to the AfCFTA
- Theory and Norms – the case for ‘Developmental Regionalism’.
- Four Pillars of “Developmental Regionalism”:
 - a) Fair Trade Integration;
 - b) Cooperation on Transformative Industrialization
 - c) Cooperation on Cross-Border Infrastructure Investment (and Trade Facilitation) and
 - d) Cooperation on Democracy, Good Governance and Peace and Security.
- Way Forward

Changing Narrative on Africa in New Millennium

- At the turn of the new millennium, the Economist magazine inscribed the following title across its front cover: “Africa-the hopeless Continent”!
- New Millennium: dramatic changes in trade architecture – Emerging markets and “Africa rising” – new narrative (*Lions on the Move* – 2010).
- *Lions on the Move II* estimates that, by 2025, Africa could nearly double its current manufacturing output to \$930 billion. (McKinsey Global Institute, 2016)
- McKinsey (2016) report argues that Egypt and Nigeria each increased their value added from food manufacturing by around 9 percent a year between 2004 and 2014.

Regional Integration in Africa

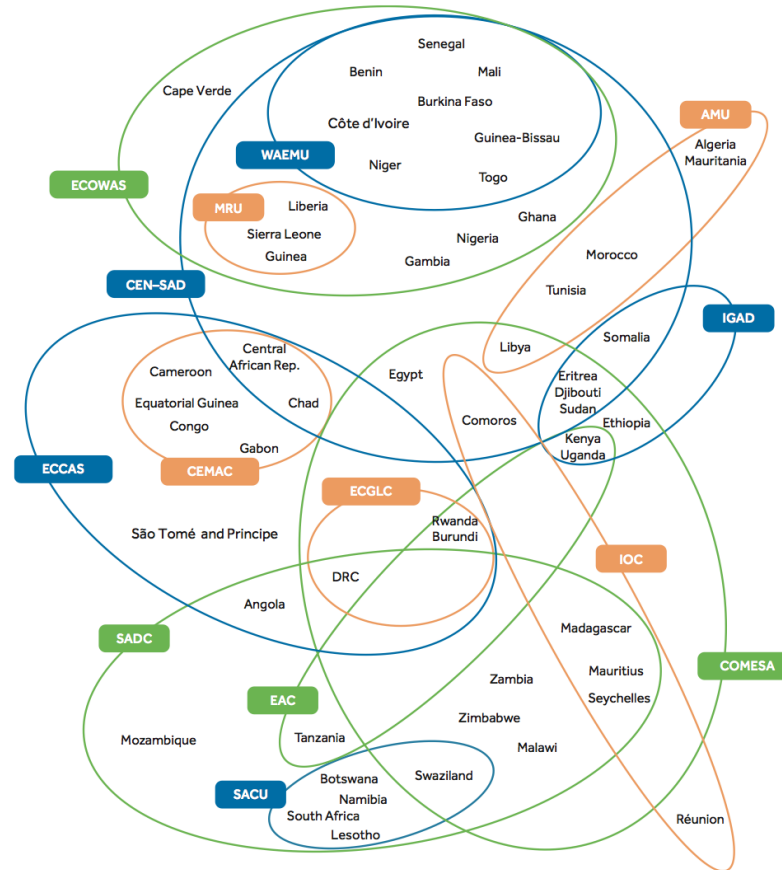
- African countries have also made considerable progress in increasing intra-regional trade, rising from a mere 10 percent in 1995 to 18 percent in 2014 (WTO, 2015).
- Intra-regional trade accounts for 70 percent of the EUs total trade.
- For North America, intra-regional accounted for 50 percent of its exports and
- in Asia just over half its exports were within Asia (52 percent) in 2014 (WTO, 2015).

Historical Context of the CFTA (I)

- Launch of the CFTA negotiations Historic Event!
- From Pan-Africanist Vision to OAU 1964 - Nkrumah
- Lagos Charter (1975); Action Plan (1980) – Adedeji
- Abuja Treaty (1991) – 8 RECs- AEC by 2028 - OAU
- Launch of TFTA (June 2011) – Leaders Summit
- Boosting-Intra-African Trade (Jan 2012)

Africa's Spaghetti Bowl

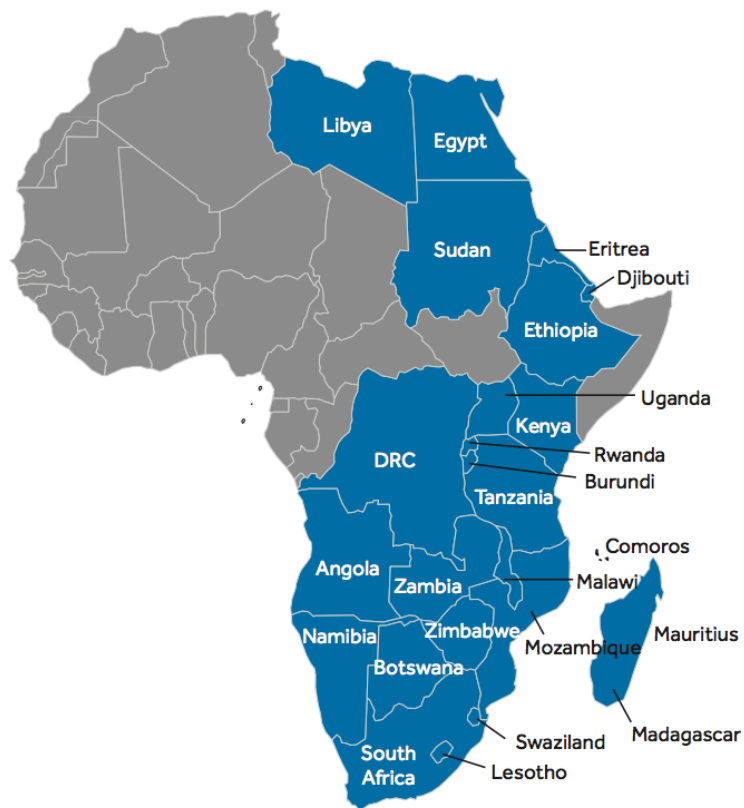
Figure 1.4 The 'spaghetti bowl' effect of multiple REC memberships in Africa



Source: ACBF (2016)

Africa's TFTA

Figure 3.2 Africa's Tripartite Free Trade Area (TFTA)



Historical Context of the CFTA (II)

- Signing of Phase I of TFTA (10th June 2015)
- Launch of CFTA (15th June 2015) – First AU Summit to Focus on Trade Integration Only
- Agenda 2063 (Jan 2015) – “the Africa we Want”
- CFTA – June 2017 - Ministers agree on Modalities – on Goods and Services – in Niamey, Niger
- AU Summit – in Kigali, Rwanda (21 March 2018) – creates AfCFTA – HISTORIC AGREEMENT!

AfCFTA Agreements signed by Leaders at the AU Summit in Kigali

- I. AGREEMENT ESTABLISHING THE AFRICAN CONTINENTAL FREE TRADE AREA
- II. PROTOCOL ON TRADE IN GOODS
- III. PROTOCOL ON TRADE IN SERVICES
- IV. PROTOCOL ON RULES AND PROCEDURES ON THE SETTLEMENT OF DISPUTES

Protocol on Trade in Goods: Annexes

- SCHEDULES OF TARIFF CONCESSIONS
- RULES OF ORIGIN
- CUSTOMS CO-OPERATION
- TRADE FACILITATION
- NON-TARIFF BARRIERS
- TECHNICAL BARRIERS TO TRADE
- SANITARY AND PHYTOSANITARY MEASURES
- TRANSIT
- TRADE REMEDIES

ANNEX IV

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Towards One African Market

**MODALITIES FOR CONTINENTAL FREE TRADE AREA
ON TARIFF NEGOTIATIONS**

D. Principles

The Objectives and Guiding Principles for CFTA negotiations adopted by the AU Assembly (Assembly/AU/11(XXV) Annex I) shall apply to tariff liberalization negotiations. The following principles were adopted by this AU Assembly:

- The CFTA negotiations shall be AU Member States/RECs/Customs Territories driven with support of the African Union Commission and its structures.
- RECs FTAs as building blocks for the CFTA
- Preservation of Acquis
- Variable geometry
- **Flexibility and Special and Differential Treatment**
- **Transparency and disclosure of information**
- **Substantial liberalisation**
- **MFN Treatment**
- National Treatment
- **Reciprocity**
- **Decisions shall be taken by consensus.**
- **Adoption of Best Practices**

Level of Ambition and Modalities for Tariff Liberalisation

| | Non –LDCs | LDCs | Time-frame: Non-LDCs | Time-frame: LDCs (SDT) |
|---------------------------|--|--|-----------------------------|-------------------------------|
| Level of Ambition | 90 percent | 90 percent | 5 years | 10 years |
| Sensitive Products | X percent; Subject to Notification and Negotiations; Method of Negotiation: Request and Offer. | X percent; Subject to Negotiations; Method of Negotiation: Request and Offer. | 10 years | 13 years |
| Exclusion List | Ypercent; Review after 5 years; subject to negotiation; Subject to anti-Concentration Clause. | Ypercent; Review after 5 years; subject to negotiation; Subject to anti-Concentration Clause. | | |

Importance of Values and Norms

- Stiglitz (2016): Political commitment to collective action or Solidarity are important for the success of regional integration.
- Mandela (1994): South Africa's relations with the continent of Africa should be based on the 'principles of equity, mutual benefit and peaceful cooperation'
- Africa needs to base its integration on the principle of UBUNTU! – NOT MFN or RECIPROCITY!

Do not Confuse Means and Ends

Stiglitz (2016), “the euro was supposed to be a means to an end in itself – it was supposed to increase economic performance and political and social cohesion throughout Europe”

“means have become ends in themselves: the ultimate objectives have been undermined. Europe has lost its compass.”

objective of the founding fathers of regional integration in Europe (and in Africa) was not *more trade* but increased social and economic development

Q for Africa based on Experience of Europe?

- How can the CFTA advance the Development of the African Continent?
- How can the CFTA benefit ALL African countries? How can the CFTA lead to the transformative industrialization of the Continent?
- How can Development be mainstreamed in the CFTA?

Case for Developmental Regionalism

- Theory/critique – crisis of free trade-Trump/Brexit – crisis of EU – need for “solidarity”
- Concept of “developmental regionalism” – collective solidarity – need to go beyond the traditional “free trade” approach “development integration” (UNCTAD/UNIDO)
- Adejumobi and Kreiter (2016) – broaden concept of trade integration to include cooperation on economic, social and political integration
- 4 distinct Pillars of cooperation are identified: trade, industry, infrastructure and political cooperation

Four Pillars of Developmental Regionalism: Fair Trade

- **a) Asymmetrical trade integration – S&D for LDCs and SVEs:** a) longer time frames for tariff reduction; b) flexibility in the rules of trade, and; c) the need for capacity development.
- **b) The role of the private sector in regional integration** large companies mainly from South Africa, Nigeria, Kenya and Egypt. *Guidelines for Good Business Practice by South African Companies Operating in the Rest of Africa*
- **c) Inclusive decision making and domestic consultations** ensuring that all stakeholders including the private sector, trade unions and NGOs are consulted

Four Pillars of Developmental Regionalism:

Cooperation on Transformative Industrialization

- **Global Value Chains and Africa's economic transformation**
- **Regional Value Chains and regional integration in Africa**
- **Case Studies of Potential Success Stories in Africa's transformative industrialization**
 - **Cocoa – West Africa**
 - **Cut Flowers – Ethiopia**
 - **Nollywood – Nigeria**
 - **MPesa - Kenya**
 - **Gorilla Viewing - Rwanda**
 - **Auto Industry – South Africa**

What can we learn from the Case Studies?
*HANDBOOK ON TRANSFORMATIVE INDUSTRIALIZATION
AND THE CFTA - UNECA*

First, African states have the capacity to lead their countries structural transformation and industrialization.

Second, the strategic use of trade policy is essential for the implementation of industrial strategy.

Third, Africa is capable of rising to the challenge posed by the 4th Industrial Revolution and 'leapfrog' using these advanced technologies.

What can we learn from the Case Studies?

- **Fourth**, The case study of cocoa and chocolate manufacturing in Ivory Coast and Ghana is an excellent example of how Africa can make a major shift away from the low value trap of commodity chains and transform its production.
- **Fifth**, African countries are demonstrating increasing creative capacity to identify niches in the services sector where they can move up the value chain of production.

Four Pillars of Developmental Regionalism: Cooperation on Cross-Border Infrastructure Investment (and Trade Facilitation)

- Africa – 34 LDCs – 16 Landlocked – 6 Small Islands States
- BIAT – AIDA – Agenda 2063 – identify Infrastructure and cross border investment s critical for industrialization and regional integration
- NEPAD/PIDA –Economic theory - Role of soft and hard infrastructure in TF

Africa's Infrastructure initiatives

Program of Infrastructure Development for Africa (NEPAD/PIDA)

Presidential Infrastructure Champion Initiative (PICI)

16 Infrastructure Projects for African Integration (NEPAD/ECA)

Development Corridors and Spatial Development Initiatives

The Maputo Development Corridor

The Northern Corridor – Mombasa to Kigali to Kisangani

Why Africa needs to Integrate?

Africa's LDCs, LLDCs, and SVEs

- Africa is divided into 55 States
- Africa has 34 LDCs, 6 SIDS and 16 LLDCs.
- Some LDCs are also SIDS and some are also LLDCs.

Africa's 16 Landlocked Countries



Four Pillars of Developmental Regionalism: Cooperation on Democracy, Governance and Peace and Security

- OAU to AU – major change in approach - NEPAD – made link – economic development, democracy, good governance, peace and security
- “most African states have begun accepting multi-party systems of governance in the new millennium” (Matlosa, 2018).
- Pan-African Parliament (PAP), the Economic, Social and Cultural Council (ECOSOCC), and the African Court on Human and People’s Rights
- **The African Peer Review Mechanism (APRM)**
- Voluntary Membership - 37 members – 21 undertaken a first country review – Unique Africa

Way Forward

- AfCFTA – landmark – 4th Phase - in Pan-African journey – to United Africa!
- Leverage the AfCFTA to advance all four pillars of “developmental regionalism” in Africa
- Catalyse and Accelerate a virtuous circle of regional trade integration, transformative industrialization, cross-border infrastructure, democracy, good governance, peace and security across the continent.
- Solidarity and Ubuntu essential values for success!