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How Africa's historic free trade agreement will change the continent
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PARTICIPANTS:

ADRIANNA PITA
Host

WITNEY SCHNEIDMAN
Nonresident Fellow, Global Economy and Development, Africa Growth Initiative

LANDRY SIGNE'
David M. Rubenstein Fellow, Global Economy and Development, Africa Growth Initiative

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PITA: Hello and welcome to Intersections, the show where two experts explore and explain important policy issues today. We're part of the Brookings podcast network and I'm your host Adrianna Pita.

In March, more than 40 African countries signed the Continental Free Trade Agreement lowering barriers to trade within the continent and aiming to strengthen the economies of the participating countries, both individually and as a unified market when it comes to trade with the rest of the world.

The Continental Free Trade Agreement, or CFTA, will be implemented once 22 countries ratify that pact in their national parliaments. So far about six of them have ratified as of the end of July.

With us today to explain the current state of trade and economic development in Africa, what the CFTA hopes to accomplish, and what it will mean for African trade with the U.S. and the rest of the world are Landry Signe', the David M. Rubenstein Fellow with Africa Growth Initiative here at Brookings, and also a distinguished Fellow at Stanford University Center for African studies, and Witney Schneidman, who's a Nonresident Fellow with our Africa Growth Initiative, a senior international advisor for Africa at Covington & Burling, and former Deputy Assistant Secretary of State for African Affairs.

Witney and Landry, thank you so much for being here today.

SCHNEIDMAN: Thank you. Nice to be here.

SIGNE': Thank you for having us today.

PITA: It's always a pleasure. So I'm going to ask you to start -- Landry, maybe I'll ask you to start by sort of giving us an overview about what the current state of trade for Africa looks like, both within the continent and how does that compare to what trade outside of the continent looks like?

SIGNE': Yes. In fact, Africa represent only 2.4 percent of total export globally, so it is quite small. And even inter-African countries only represent about 18 percent of total export compared to Asia and Europe, which are about 59 and 69 percent respectively.

So in some regions on the continental out-pay forming order, for example, in the economic community of Central African states, this only 1.8 percent of total export compared to the East African community with about 20 percent of inter-African exports. So the situation is quite concerning and African countries should trade more between themselves and between Africa and the rest of the world.

PITA: There's also some difference in the type of trade, isn't there, a lot of the trade within Africa is often of more developed goods as opposed to commodities just being straight exported?

SIGNE': Absolutely. Another positive aspect of trading between African countries is the fact that over 40 percent of the products which are exchanged on the continent, manufactured goods, were less than 18 percent of the trade with the rest of the world is ready to manufacture goods.

So trading between African countries is a good thing, because, one, you speak about manufacturing goods, you speaking about industry development, we speak about a creation of jobs. As a matter of fact, Africa only has about 11 percent of the population working in the manufacturing sectors in product industries, compared to a much higher percentage in other developing regions.

PITA: How is the CFTA looking to improve that state of trade?

SIGNE': On the short run, the CFTA -- one of the goals of the CFTA is to increase by more than 52 percent the trade between African country. In order to achieve that, countries will be removing tariffs on about 90 percent of the products that they'll be exchanging between each other.

So those are connected to the potential of unlocking the manufacturing sectors, diversifying the economies and increasing the economic complexity so that the nature of product and goods exchanged on the (inaudible) are of high added value.

PITA: Aside from ratification, aside from each country sitting down at their home parliaments and deciding to go with this, what else needs to happen in order for CFTA to come start to come into force, what sort of organization or political aspects need to fall into place?

SIGNE': There's still a lot of negotiations which happen in competition, disparate resolution, (inaudible) proprietary rights, investments.

Countries should also submit their tariff concession schedules, which will define the timeline and the nature of the products to be liberalized.

The regulatory framework for service trade liberalization is also an important element. A (inaudible) will be created, resolution will be mobilized to ensure that the CFTA successfully implemented, those are part of the most critical aspects.

PITA: Is there any sort of timeline either in terms of when people hope it will be accomplished or is there a deadline about when it has to be accomplished, these aspects?

SIGNE': So many observers consider that African leaders have been quite ambitious. In fact for, as you mentioned, the ratification, about 22 countries should ratify the CFTA for it to come into force.

But one of the challenges is the fact that for the negotiations and the different documents, which need to be submitted, it is quite time consuming, countries will have to negotiate, will have to define the number of product, only speak about 90 percent of products which need to be

liberalized. So this takes time and not all the countries have the same capacity to provide timely responses and achieve the commitments.

PITA: There's a really wide number of countries taking part so far that at least have assigned to agree to take part. I believe it's up to about 49 countries; is that right?

SIGNE': Absolutely.

PITA: But there are a couple big missing pieces such as Nigeria, which is one of the major economic powerhouses of the continent, what does it mean that Nigeria isn't part of it yet and why hasn't Nigeria signed on?

SIGNE': So Nigeria was part of the leaders in the conception of the CFTA and is only at the very last minute that President Buhari decided not to sign. However, based on the conversation that we are having with the negotiators, Nigeria is likely to sign.

They had to agree, because some industrialist were concerned about the competitiveness and the ability for Nigeria to remain one of the most competitive countries if free market is fully implemented, but those areas are being addressed. I'm very positive that Nigeria will sign the CFTA.

PITA: That's good to hear.

Witney, can I turn to you. In July the annual AGOA, the Africa Growth and Opportunity Act forum met, and of course that's the big arrangement that U.S. has with Africa in terms of increasing development and trade.

We've seen from other U.S. trading relationships that the Trump administration tends to prefer bilateral arrangements, so one-to-one arrangements rather than these big party arrangements.

How has the U.S. currently been working with the existing AGOA relationship and what came out of last month's meetings?

SCHNEIDMAN: Well, I think it was positive that the forum was held. But to be honest with you, I thought the two sides were talking past each other, because many of the ministers who were there -- there's some 40 AGOA beneficiaries from Sub-Saharan Africa.

Many of those ministers literally had just come from signing the Continental Free Trade Agreement, so they were thinking regionally, they were thinking continental-wide when it comes to trade.

The U.S. position was represented by Ambassador Lighthizer, the U.S. trade representative, who made the point that the Trump administration would like to find a country to develop a model free trade agreement with, then from that build on to a couple other countries.

So in many respects, to be honest, I thought the two sides were talking past each other in terms of where to go over the next couple of years, that doesn't mean that one African nation might come forward and sort of take this on and begin the process, but certainly nobody raised their hand at the forum and we've seen no announcement since of any African country who's willing to begin the negotiations on a free trade agreement.

Part of the problem is that the Trump administration hasn't put forward what that free trade agreement would look like. Will it be a gold-plated U.S. congressional style free trade agreement which covers sort of everything from tariffs, to IP, to services, and beyond which frankly would generate capacity issues from the African side, will it be a more specified kind of free trade agreement, will it be the kind of free trade agreement that will be asymmetric and sort of phased in over time.

There's certainly, I thought, a lack of specificity in terms of what the Trump administration was proposing to its partners from the continent.

PITA: Now, AGOA is a long-term act. It covers a wide time period. It was just renewed three years ago, so it's up again for renewal in 2025. By that time, maybe it's possible that the CFTA will be ready to be implemented and be enforced.

When AGOA comes up again in 2025, how is that going to look if there's now a CFTA and how do those two relationships fit together?

SCHNEIDMAN: Well, I think it's more than just the CFTA. I think you have to ask when -- when AGOA was originally passed in 2000, 18 years ago, Africa was in a very different place.

Growth was very low, investment was very low, and a lot has changed since that time. Governance has improved dramatically. We've seen the emergence of a middle class, we've seen Continental Free Trade Agreement, but what we've also seen is emergence of other trading partners with Africa and specifically the European Union, which has put in place this whole network of economic partnership agreements which makes African governments commit to most favored nation status, which means European companies' goods and services get preferential access to African markets.

That's a really big challenge for the United States, because we've seen that U.S. goods and services are starting to be discriminated against. Going into places like South Africa, European goods face on average a two percent tariff. U.S. goods are looking at about a 17 percent tariff.

So one of points that Ambassador Lighthizer did make, which I think is very appropriate, is how do we move from this nonreciprocal agreement that AGOA is, we've lowered to zero the duties and tariffs on some 6,400 products, how do we move to a more reciprocal relationship where U.S. goods and services can compete effectively with goods from the EU and elsewhere, I think that's the big

challenge facing us and I think that's the conversation that we should be having with our partners on the continent to be in place, so we have a new framework that is in place in 2025 when AGOA comes up for renewal.

Because I think what we want to do is have a seamless transition, have a roadmap in place to move from this nonreciprocal to a reciprocal trading relationship.

PITA: I'm glad you brought up the EU as one of the big trading partner, because I was going to ask next, but how did their arrangement, since they are on favored nation status, if Africa is trying to move to a place where you're not dealing with individual nations but as a trading block, how will Europe adjust, what does that current trading relationship look like, and how will that have to change?

SCHNEIDMAN: Well, I think actually Europe is in a better situation to sort of change with it -- with implementation of the CFTA, given that they have this active dialogue with African countries sort of across the continent.

So I think they'll be able to calibrate the implementation of their economic partnership agreements. But I think also the AU and African nations will also work to make sure that their other trading partners from Turkey, from India, from Brazil, certainly from China, from Russia, all the other countries that are active on the African continent also are able to continue to have beneficial trade relationships.

PITA: Could I ask you both to touch on the issue of China and what the current relationship with China is like and how that might change?

SCHNEIDMAN: Sure. So most recently there was the BRICS summit two weeks ago in Johannesburg. This is the 10th BRICS summit, which is convening of Brazil, Russia, India, China, and South Africa.

China has really used this quite effectively just to enhance its commitment to the continent. There's a new development bank that has been announced and is in the process of being funded.

President Xi Jinping made a tour of the continent going to South Africa. He went to Senegal and Rwanda and South Africa and Mauritius. He actually made a joint appearance in Rwanda with President Moody from India.

So China's been quite effective not only in the BRICS sense but through their summit mechanism, FOCAC, of making loans available to Africa, making scholarships available. There will be another FOCAC. They happen every three years. I think this will be the tenth one that will be held in

Beijing in September.

So the Chinese relationship toward Africa is really quite active and very focused on infrastructure and it's focused on people as well.

SIGNE': As a matter of fact since 2005, Chinese investments in Africa have been multiplied by more than 12. So China is really interested where if you compare from 2014 to 2016, trade between the United States and Africa have drastically been reduced.

So China is definitely challenging the United States and other traditional partners on the continent. For this reason, it's extremely important on the U.S. side, for example, to ensure that the Africa/U.S. business summit come back in the agenda on older initiative such as Power Africa given the attention it deserve.

PITA: Still just to keep on the China point for one more moment. There's this current escalating trade war between the U.S. and China, is that having any ramifications for Africa, is this either an opportunity for the continent or is it damaging it in any way, how is that playing out?

SCHNEIDMAN: Well, there's actually been some collateral damage. The AGOA forum, we heard about the erosion of AGOA. The Trump administration's imposition of tariffs -- 25 percent tariffs on steel and aluminum has impacted South Africa and it's impacted Mozambique. So Africa is sort of innocent bystander as it were in some of these implications for this trade war.

SIGNE': Yes. I think on the short run I didn't see a huge benefit for Africa of that trade war.

PITA: So within Africa there are some already existing regional economic organizations like the EAC in the East, ECOWAS, the West African economic organization.

How are those regional economic organizations going to fit under a continental-wide relationship, how do they change and grow as this comes into being?

SIGNE': So one of the most important point is that the CFTA aims at harmonizing those multiple RECs, Regional Economic Communities. In the short run, they will serve as coordination institutions to help or accelerate the implementation and facilitate integration.

However, ultimately the CFTA would like to manage things originally, but I think we still have a lot of years before the management (inaudible) continent develop fully. So they will be (inaudible) for accelerating the implementation of the CFTA at this operational level.

PITA: You talk a lot about, in some of your previous writings, importance of industrialization and how this is really important for the further economic development.

As labor costs have continued to rise in China, it's sort of been widely expected that

Africa will have the opportunity to pick up a lot of these lower cost manufacturing jobs, but what have been some of the challenges to industrialization in Africa? It's been sort of stagnant for many years now and what can the CFTA do to help change that?

SIGNE': Africa has numerous challenges, human capital is one of them, the quality of training skills, the cost of doing business, infrastructure, market access. Many countries are quite small and they have a limited market. You also have (inaudible) such as investments, for indirect investment.

So by 2030, Africa will have about 1.7 billion people and a combined consumer and business spending of more than 6.7 trillion USD. So this mean with the CFTA if fully implemented would unlock the business potential and accelerate the development of the manufacturing sector, plus the diversification of economies.

This is very important if you bear in mind that when African countries trade with each other, they mostly trade manufactured product. So it will definitely be a strong tool, a very good tool, to accelerate (inaudible).

PITA: Can you talk a little bit about some of the other economic sectors that will benefit from CFTA? Agriculture is a big field in Africa that stands to show a great deal of growth. I think the statistic is something like 60 percent of the world's arable land is in Africa. It's still either un or underused.

SIGNE': Absolutely. So I think market access is the key. Especially for people doing business, we have many very small country with about 2 million people and sometime crossing border is very distressive for business in the business community.

So many sector will be benefiting. We have spoke about agriculture, a growing industry, tourism. Because with the CFTA, for example, about 30 countries have already signed the Free Movement Protocol, and the goal is to have all the African countries allowing free movement of people (inaudible) for business, for example, there's tourism sector. ICT, information and communication technology, is another sector which will be extremely important.

As of now, Africa is one of the continent with the weakest level of cybersecurity and there's a shortage of cybersecurity experts, so they (inaudible) in a room for improvement in those sectors.

PITA: There's been some interesting developments on the technology side. Google has been making some interesting developments. They've announced that they're going to be opening a new artificial intelligence center in Accra and they're running the launchpad accelerator for startups. I think they've picked 12 out to be part of the first class.

SIGNE': Yeah, absolutely. I think such initiatives will keep growing. Because one of challenges before us the mobility, not just for goods and capital but also of people. Now most African can travel in at least 30 countries without requesting a Visa or obtaining a Visa on arrival.

So those are part of a sector which will accelerate, so the transfer of competencies across countries, which is one of the obstacles for economic development.

SCHNEIDMAN: Adrianna, I think you put your finger on a very important dynamic in technology. We saw in the 1990s and early 2000s the explosion of mobile cell phones and how it jumped the landline generation.

Now we're seeing sort of a second generation of leapfrog from the cell phone technology to mobile financial services. Kenya is certainly at the forefront of that, but it's happening across Africa.

One example, one of the leading banks in Kenya that we've been talking to has about 12 million customers, 4 million of those are retail, 8 million are mobile based and you don't need a Smartphone for this.

So these financial institutions can develop algorithms that monitor your payment activity. So based on that, they can start making loans available in increments of \$50 and \$100. So you're just seeing this innovation taking place in the technology area, in the financial services that I think will be a real catalyst for economic growth.

PITA: Yeah, it's been a real boom to businesses being able to get loans now, that you don't need to walk all the way to brick and mortar store that might be a hundred miles away.

SCHNEIDMAN: Not only that, in the U.S. you need three years of certified tax returns to get a personal loan. Now they can track your activity on your phone, make sure if you're paying your water, your cell phone, and other commitments on a regular basis, boom credit pops up.

That's a way it should just enhance not only folks' connectivities to national economies but over time to the global economy as well.

PITA: Yeah. It's really great.

Witney, there's also another act that's currently going through the U.S. Congress, it's the BUILD Act, it's meant to improve our current investment in the continent.

Can you talk a little about what that's trying to achieve and what that will mean?

SCHNEIDMAN: So the BUILD Act is really quite important. Number one, it's a bipartisan piece of legislation. It's passed the House. It's currently in the Senate Foreign Relations Committee waiting to come out. The Trump administration is fully on board.

Once it's passed, hopefully it will be passed soon, it would double the size of the overseas private investment corporation, which is currently a \$30 billion U.S. agency that makes debt financing available.

It will become a \$60 billion agency that can take equity positions in investments. This is a whole new dimension for U.S. companies. It will also have a new name. It will be called the U.S. International Development Finance Corporation.

In many respects, it will put the U.S. in the game investing in African and other emerging economies in a way that it has not been until now. It will also make technical assistance available. The USIDFC will have the capacity to do enterprise funds that OPEC can't do. So it really has the potential to be a game changer once the legislation is passed, and there's actually a tremendous amount of excitement about it.

PITA: We brought up the growth of the middle class a little bit earlier. Can we talk a little bit more about what intra-African trade -- what role that plays in the growth of the middle class, but also there are some countries where that growth hasn't happened as much, where inequality is still pretty deeply entrenched.

How can expanding this intra-African trade help deal with these inequality issues where they haven't seen that middle class growth?

SIGNE': So one important point is the fact that 70 percent of people involved in informal cross-border trade are women, sometime with the low level of education, and they face many challenges including corruption and abusers by Custom agents.

So by removing trade barriers, I think those women will be on the most important beneficiary of the development at the continental level of the CFTA.

Additionally as we know about 70 percent of the population in Africa is below the age of 35, and about 70 percent of young people in Africa live below poverty line. African young people are twice as likely to be unemployed than the current generation. Those are critical challenges.

With this CFTA, especially the development of different industries, the most important beneficiaries will be the current young people and the women.

So I think by addressing those challenges, we will substantially reduce poverty and inequality on the continent.

SCHNEIDMAN: Yeah. One other dynamic to keep in mind is the role of nontariff barriers to trade. One of the best examples is it takes a truck full of goods to get the thousand miles from Cape Town to Johannesburg, it will take that truck 17 hours.

It will take that same truck five days to go from Johannesburg to Lusaka, although it's the same amount of distance just because of the delays, delays, delays. What that does is that drives up prices.

If the barriers, nontariff barriers, can come down, trade will happen more easily, more quickly, and that will stimulate growth. That's one of the real drivers to get more people into the economy and to reduce the inequality.

PITA: It was an interesting thing, the deposit chairperson from the AU who we had here last month or two months ago had made a real interesting point that so much of the infrastructure in Africa, at least throughout the past, because it was primarily extractive, it was all going out to the ports and the infrastructure within the countries and heading inward was not as good.

Has that been starting to change particularly with as much infrastructure investment as China has been making as well as others, is that starting to turn around now or is that part of the further investment and development that the CFTA is looking at making?

SCHNEIDMAN: It started to change, but it hasn't changed fast enough or far enough. Still the internal cost of moving goods are prohibitively high. The cost of getting something -- product from Kampala say down to the MABA support is much more than getting that same good on a boat to the United States.

Until you can really cut the amount of time of these goods traveling, cut the cost of them traveling, Africa is going to be at a disadvantage.

SIGNE': Yes. The cost is still very high, but we have also in the city such as PIDA, the Programme for Infrastructure Development in Africa, which aims at addressing such challenges in facilitating investment in original infrastructure to better connect countries.

So we have been able to mobilize resources to make progress on some project to even create a presidential infrastructure champion initiative, where President Kagame have championed some of the projects to accelerate implementation. However we still need to see more substantial effect on reducing the cost of transport.

PITA: So to take this looking further into the future, as I was reading a lot about the CFTA a lot of it struck me as sounding like how the EU, the European Union, started out as the European economic community. They just started by lowering tariffs and some trade barriers.

The African Union does have this broader goal called the Agenda 2063 looking to the future, trying to build stronger, more prosperous continent.

Is the concept to ultimately head down the road becoming something like the European

Union and what does that look like and what's the long-term forecast here?

SCHNEIDMAN: I think Africa can learn from the European Union, but I think we have to go step by step at this point. I don't think we have the notion of the same degree of integration as in the EU on the table in Africa.

I think the first step is to get the 22 countries to ratify CFTA, then implement it, get Nigeria on board, South Africa on board. I'm confident all that's going to happen.

I think East Africa wants to move to a more integrated customs union and arrangement. That aspiration is not shared by ECOWAS. So I think we have to go step by step here with a clear vision -- we have a very clear goal and that is, as Landry said, to sort of increase interregional trade by 50 percent within the next several years.

PITA: But don't look so far ahead that you end up tripping?

SCHNEIDMAN: Correct.

SIGNE': Absolutely. And to enforce what Witney said, challenge African countries have, which is different from the European experience, is also the number of fragile countries conflict affected countries international displaced people, so these are part of the most important barriers to full integration.

So some countries remain concerned about the question of violent extremism, state fragility, conflict condition. So those are some of the challenges which may eventually delay the implementation of some aspects of the continental integration of the trade (inaudible), and the free movement of people.

But having said that, I think African countries are booking the isolationist trend. What is happening now will have been (inaudible) a goal. So it's very encouraging. It is also the personal commitment of African leaders to want integration despite the challenges which are much higher than the one which are faced in other regions of the world. The (inaudible) if things continue that way, it is likely to be much more successful.

SCHNEIDMAN: Another reason why the EU parallel isn't that apt is that I think there are more than twice the number of African nations than there are EU nations and the EU can fit in the African continent about four or five times over.

PITA: Besides it's just --

SCHNEIDMAN: Just the scale of Africa is not well appreciated, but it's an enormous and incredibly diverse continent. Bringing that together in a common trading relationship is a major challenge.

There should be no question that the commitment to the Continental Free Trade Agreement is an historic development on the continent and I think will provide a platform for more accelerated growth in the future.

PITA: Wonderful. Well, I'm going to recommend to our listeners that if they are interested in hearing more about Africa's economic growth, they can look for some past Intersections episodes.

There was one on China, the U.S., and Africa's transforming trade environment and there was one on Africa's expanding middle class. We'll have links to both of those, plus some more, from Witney and Landry in the show notes that you can find at [brookings.edu/intersections](https://www.brookings.edu/intersections).

You can also find those and other past episodes from Intersections and the rest of the Brookings podcast network on Apple and Google podcast, Castbox, Stitcher, or wherever you prefer to listen to your favorite shows.

Thank you both Witney and Landry for being here today.

SIGNE': Thank you very much for having us.

SCHNEIDMAN: Thank you, Adrianna.

PITA: Thanks for listening. You can find more episodes of Intersections and the rest of the Brookings Podcast Network on Apple or Google Podcasts, on Spotify, CastBox, Stitcher, or your other favorite podcast app. And don't forget to follow us on Twitter @policypodcasts for news and updates.

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