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Foresight Africa Podcast

"The role of regional economic communities in implementing the African Continental Free Trade Area"

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Episode Summary:

In a discussion with Aloysius Uche Ordu, Andrew Mold, chief of regional integration for Eastern Africa at the United Nations Economic Commission for Africa, explores aspects of the continent's economic integration agenda under the African Continental Free Trade Area (AfCFTA), arguing that low estimates of intra-African trade can be misleading and exploring how the region's individual regional economic communities will be central to the agreement's implementation.

ORDU: From the promise of new technologies to the innovative and youthful population shaping our continent's future, Africa is full of dynamism worth celebrating. Hi, I'm Aloysius Uche Ordu, director of the Africa Growth Initiative at the Brookings Institution and host of Foresight Africa podcast.

Since 2011, the Africa Growth Initiative has published a high-profile report on the key events and trends likely to shape affairs in Africa in the year ahead. Entitled "Foresight Africa," the goal of the publication is to bring attention to these burning issues and to support policy actions to address them. With this podcast, we intend to engage the report authors, as well as policymakers, captains of industry, Africa's youths, and other key figures.

My guest today is Andrew Mold. Andrew is the chief of regional integration for Eastern Africa at the United Nations Economic Commission for Africa. I met Andrew recently during my visit to Kigali, Rwanda, where he is currently based. Andrew has written extensively on trade policy and economic integration, and he's a regular contributor to our platform, "Africa in Focus." Andrew, welcome to our podcast.

MOLD: Thank you very much, Aloysius, and thank you for the invitation.

ORDU: So, let's start by you telling our listeners about your journey thus far, how you got to where you are right now professionally.

MOLD: I work in Eastern Africa. I'm based in Kigali, in Rwanda, and I work for the U.N. Economic Commission for Africa. I've been here in Eastern Africa for the last ten years. And our office basically focuses on the theme of the continental project and regional integration. So, I'm the chief of cluster here for Eastern Africa. We cover 14 countries in Eastern Africa. And it's a very, very interesting job in a very interesting region as well.

Prior to that, I worked at the OECD for three and a half years at the OECD Development Center in Paris. And then before that I was in Latin America working in ECLAC in Santiago. And then prior to that I was also in Ethiopia. So, I've come back to Eastern Africa basically after a pause. So, Eastern Africa for me is, you know, one of the most interesting parts of the continent. There's always interesting things happening on the continent. But I think Eastern Africa is especially interesting in terms of its dynamics and what's going on economically as well as socially and culturally.

ORDU: Andrew, I share those sentiments. I've always told colleagues and friends that of all the regions on our continent there's something about East Africa that is very special. So, I definitely can relate to what you're saying.

Since time immemorial, we've always heard that Africans do not trade much with each other. In your recent piece, Andrew, you challenged the idea that intra-African trade is low. Why is that?

MOLD: Well, this would take me on quite a long detour of the reasons. The answer is a little bit complicated in the sense that there's a lot of elements to it. But basically, I think at the time when we're talking about implementing the African Continental Free Trade Area, it's a time when we should be talking up inter-African trade. And at the moment, everybody starts their presentations talking down inter-African trade. They lament how low it is compared to other continents.

And in this paper, I just make the point that these figures are very misleading. The way that they're presented and interpreted are wrong. They don't do any service to continental integration. And the reasons for that are threefold, basically. I mean, one important reason is the largest economies in the region tend to be less integrated than the average African economy.

So, for example, let's take the case of the largest economy in terms of absolute GDP, Nigeria. We all know that 98 percent of its exports are oil, and the bulk of that oil is destined outside the continent. So, that immediately drags down the continental average. Take the case of Egypt as well, one of the top three economies on the continent. Egypt trades enormously with the Middle East and with Europe for historical reasons. So, that drags down the continental average. And then finally, we have South Africa, which, although in absolute terms is the largest inter-African trader in terms of exports and imports, it is actually less integrated into the Africa economy than we would hope for, principally because of its historical trajectory as well, and apartheid that really kept it apart from the rest of the sub-Saharan economy, at least.

So, for that reason, the three largest economies have averages of inter-African trade, which is far below the average for smaller, landlocked countries, for example, where you already see that the share of inter-African trade, for example, neighboring Uganda here, more than 50 percent of their exports already go to the continental market, and that's before we even start to implement the continental agreement. So, that's one point.

I think a second point to bear in mind is that people aren't comparing like with like with this comparison. So, commonly they will say, I was in a presentation this morning and they were saying, Oh, 17 percent of inter-African trade vis-a-vis over 60 percent in Europe, over 60 percent in Asia. Those comparisons are so imprecise that I think we need to look at them again. Asia, for example. Asia is about 60 percent of humanity and around, a very large share of global GDP as well. And so consequently, it's not surprising that if you define a geographic block in such large terms, you will find that interregional trade is a very large share, and it doesn't represent the Asian total. So, the reason Asia has such a high degree of interregional trade is actually because we have Southeast Asia particularly and China, and Japan, and Korea, and Taiwan—those economies they trade enormously amongst themselves, a very intense interregional trade networks.

But it's not typical of the whole of the Asian continent. So, if you look at South Asia, the levels of interregional trade are around 20 percent, which is approximately the same as the East African Community, for example. If you look at Central Asia, it's far lower than the African average. You could take that comparison further and look at Latin America. Look at Mercosur, for example, which also has two commodity rich economies in it, which export principally outside the region. Mercosur actually has interregional trade of about 12 percent, which is about half of what you see in the East African Community. So, I think we don't compare like with like and that does an injustice to the economic significance of inter-African trade.

My one final point, Aloysius, I said that I could go on quite a long time on this point because I've been looking at the numbers in different from different perspectives, but my one final point would be about the informal sector trade. We know on the African continent this is very prevalent. I mean, estimates of the continental level go from anywhere between 10 percent to 60 percent depending on the economy. And other parts of the world also have informal sector trade like Bolivia and Paraguay, that's very prevalent, or in Cambodia; Laos, I understand it's also a prominent feature of their regional trade.

But I think there are reasons to think that Africa has particularly high levels of informal cross-border trade, which is not registered in the formal trade statistics . And in the paper that will be coming out Brookings Institution fairly shortly, I just do some tentative estimates, including the informal cross-border trade, and you suddenly see that Africa is trading at far more normal levels in terms of its interregional trade component. So, for those reasons, basically, I just feel we're not doing the continent justice.

ORDU: Fascinating, Andrew. You touched upon the informal trade between African countries and in the case of Nigeria, for example, the border with our neighbors, Benin, Togo, and all the other countries in the north. So, how do you actually quantify that in terms of the informality? Because it's not exactly an easy thing to do, right?

MOLD: Well, there are surveys undertaken. So, for example, Uganda and Rwanda both periodically do informal trade statistics. So, you can take it from that. Actually, I think African Development Bank did a publication in 2021 where they summarized all the different informal sector studies across the continent. And so it ranges. There's, for example, Tunisia, I think, was quite a low figure, if I seem to recall correctly, whereas in the Great Lakes region we have a very high intensity of informal cross-border trade. And the Benin-Nigeria frontier that you talk about, or Nigeria-Niger as well I think are borders where there's a lot of informal cross-sector trade.

One of the ideas, I think, of the African Continental Free Trade Area is to facilitate that kind of trade and formalize it more. And that would be by, for example, adapting policies where you have particular small quantities of trade which can be excluded from the normal formal customs duties. We have a simplified trade regime, for example, both in the East African Community and I believe COMESA has a similar arrangement. And I believe one of the ideas is to do that at the continental level, and that will encourage people to declare their goods as they pass through the frontier. So, there would be a degree of formalization under the Continental Free Trade Area.

ORDU: Let's turn now to the regional economic communities commonly known as the RECs. Such entities as the East African Community, the Economic Community of West African States, and the Southern African Development Corporation—SADC—et cetera. Most mainstream literature is rather critical of the contributions they have made to inter-African trade. Do you share that view?

MOLD: No, not at all. Firstly, in the words of the African Continental Free Trade Area Agreement, you will see that the RECs, the regional economic communities, are considered as the building blocks for the continental agreement. And there's a very important sense in which effectively the mainstream opinion of this is again distorted. There's a very wonderful paper by a Ghanaian economist whose name I find difficult to pronounce, I'm afraid, but I can share with you later. But he did a paper in 2016 where he looked at the previous studies that have been done on the regional economic communities across the continent and the extent to which they'd managed to increase the volumes of trade. And he just pointed out that methodologically they were not sound. They were using gravity models which were not using the right kind of estimator. And they should have been using PPML estimators, which is a new generation of estimators, which controls much better for when you have a lot of zero values, which is the case for inter-African trade often because we're talking about a relatively reduced number of product lines quite often. And so there's no trade in certain product lines. And that distorts the parameter estimates.

So, he looked at these previous studies, generation of studies, that found that inter-African trade had not really been boosted by these regional agreements. And reviewing them, he found that that was not the case, and that on average they'd boosted interregional trade by around 30 percent. And that seems to be quite a robust finding actually across studies that by at least a third.

A colleague of mine used this PPML estimator with an econometric study of also manufacturing trade across the continent within regional economic communities that was published in the *Journal of African Trade* a few years ago—Rodgers Mukwaya. And he found that regional integration over a ten year period increased interregional manufacturing trade by 78 percent. So, that's really a quite major magnitude, isn't it? And it really also reinforces the arguments in favor of going the regional route to economic diversification for the continent.

ORDU: Andrew, for the benefit of our listeners up and down the world, could you just explain to us briefly what you mean when use—I know economists, we all like to throw these jargons around. Could you explain briefly what the gravity model means? What PPML means?

MOLD: Oh, goodness, yeah. Well, gravity model is really applying the principles of physics to the world of trade. So, it's the idea that you naturally tend to trade with your nearest neighboring countries. And also, it's a function of the weight of those economies, the size of their GDPs. So you would expect more trade between larger economies than you would between smaller ones. So, it's just basically putting into action that looking at the bilateral trade between all countries and then you would see whether the, you know, the levels of tariffs are changing the economic weight of that trade. It's a very good post hoc way of analyzing things after an agreement has been put in place to see how it's impacted.

And actually the results of those kind of studies are generally more reliable. So, for example, for the European Union, they I think it was Maya and colleagues in 2018 published an important paper where they were looking at the impact of the European Union on intraregional trade there. And they found that the single market program had increased trade by 109 percent, which is a very powerful result. And services trade, they were able to estimate as well, because they have good quality service trade data in Europe, and they found that that has increased by around 60 percent.

And I would expect that for the continent we would see impacts of a similar magnitude over the long run because the continental project, despite its name, it's not really just a free trade area. It's much more ambitious than that. It includes cross-border investment, includes the free movement protocol as well. So, as long as things are implemented well, then we could see a major rise in the intensification of economic activity amongst African economies.

ORDU: A major recent development where you are in East Africa right now is the entry of the Congo DRC as a member of the East African community. Andrew, what in your view, are the implications for the enlarged community?

MOLD: Okay. Well, I think there's a there's a lot of expectation around DRC's entry into the EAC, and that's because for a number of economies, it's a really important market, whether that's Kenya, Uganda, or Rwanda, Burundi. They already trade quite a lot with DRC. And it's also of interest for these economies because if you look at the structure of their exports, it's their diversified exports that go to DRC, particularly the eastern parts of DRC. So, there is a sense in which eastern DRC is already part of the East African Community, and it's formalizing it.

I think there's probably a political economy calculation on the part of President Tshisekedi in terms of why he wanted DRC to enter into the East African Community. It's the same kind of rationale I think you'd find that Spain entered into the European Economic Community back in the 1980s, because Spain at the time had come out of a dictatorship and they'd had a coup d'état as well in 1981. And I think the first socialist government that came in in 1982 decided actually that the way to make sure that there was no reversal towards authoritarian political system was to integrate into the European Union because you regionalized the situation. And I suspect that the calculations on the part of DRC has been similar in the sense that they want to lock the country into reforms and have a regional context in which to deal with … so the country goes forward in terms of, you know, two steps forward and one step backwards in terms of economic and political reforms. That's my feeling.

I think it's a very major opportunity for the region to consolidate economic-wise at least, the benefits that we've already seen from the East African Community.

The one caveat you have to place, of course, is we've had a degree of conflict in eastern DRC recently, which has been causing some problems. And there are still considerable non-tariff barriers across eastern Africa, actually, within the EAC which need tackling. So, just last week, for example, I was coming back from Arusha by road via Nairobi actually, and I was with the executive secretary and when we got to the border post, there was about a 15 kilometer queue of lorries and apparently it had been because one of the scanners had been broken down and so all the lorries were parked back. And it went back for miles on both sides actually at the frontier. And that's the kind of thing which needs to be avoided, isn't it, to have smooth interregional trade. So, I think there's a real consciousness about the importance of eliminating non-tariff barriers.

ORDU: Trade facilitation, infrastructure, et cetera. With membership, with the enlarged membership, how do you see the prospect, especially given the challenges you just outlined, you guys confronted on your way back from Arusha?

MOLD: Well, I think things have been going in the right direction. So, this particular case maybe wasn't representative of what's been happening over the last year and a half because President Suluhu, since she came into power, I think has made an effort there to repair Kenyan-Tanzanian trade relations, because there were repeated complaints of non-tariff barriers being applied previously. And when you see the dynamics of the trade between the two countries, it's on course now to surpass 1 billion U.S. dollars a year. And actually Tanzania has interestingly started to pass by Kenya in terms of the absolute volume of trade. So, they're exporting more to Kenya now than Kenya's exporting to Tanzania.

So, the dynamic's right, but clearly we need more investment in terms of cross-border facilities. Actually, it's a state of the art facility that we passed through on the trip to Nairobi the other week. It's one of these One Stop Border Posts which has received considerable trade facilitation investment through organizations like TradeMark East Africa.

What I would stress about this, Aloysius, is I think this is not just about trade facilitation in general, this is definitely about putting in place the infrastructure to facilitate inter-African trade. The continental project is there to increase the intensity of economic transactions amongst African economies. So, we need to think carefully about the investments. It's not just simply about port infrastructure and making imports come in more rapidly, but making sure that we cover those inter-African borders, which require more investment.

ORDU: One also hears, of course, DRC has been admitted. There's talk of Somalia also wanting to join the East African Community. Where do things stand on that?

MOLD: Yes. Well, that was a very interesting development at the EAC summit last week when President Hassan Sheikh Mohamud, he attended the meeting and made a very passionate plea for Somalia to be admitted into the East African Community. I think that's a very interesting proposal. Anybody that's dealt with Somalia in the past know that they have a tremendous amount of entrepreneurial spirit in that country, and they do a lot of business outside Somalia, and they'd be valuable members, I think, of any regional economic community. The peace and security situation I think has been getting better over the last few months. It was of some concern, of course, over the last decades. But I think it's getting better, and I think they would probably bring a lot to the table as well.

Now, it would mean the East African Community as an entity has expanded geographically at quite a pace, wouldn't it, because DRC is such a massive country. Somalia is as well, of course, it's got thousands of kilometers of coastline, it's a very large country. And it would change the dynamics in the region rather a lot as well with regarding the other regional economic communities, particularly IGAD. Once the secretary general of IGAD did express to me the interest in doing a study on seeing how it would be for IGAD to integrate into the East African Community customs union. So, economically, they've always been interested in that. And I think if Somalia was to gain entry into the East African Community, Ethiopia would have to do some thinking about its calculations with regard to IGAD as well.

And in another sense, the African Continental Free Trade Area trumps all these initiatives in the sense that if you don't achieve tariff liberalization and a freeing up of investments across the region through your regional bloc, you do have the alternative, the AfCFTA. So, one very interesting question, for example, is now that DRC is going to become a member of the East African Community, will the tariff liberalization proceed that that would happen anyway under the AfCFTA?

So, yes, the ultimate objective of all these regional economic communities needs to be to, you know, liberalize trade amongst, trade and investment amongst African partners. But there's several ways of routes to achieve that goal, isn't there now. And I personally, Aloysius, I don't think it detracts from the role of the regional economic communities because they all have their own particular subregional objectives. So, the East African Community is not just about achieving the continental level integration, but also having a monetary union, political federation. It already has a customs union. So, it's quite a high level of ambition for the EAC, and I think they've achieved a lot. So, I think the right way to see this is that the regional economic communities as building blocks to the continental market.

And one other just example I could just quickly give of the way these kind of objectives might overlap. Both Ethiopia and DRC are members of COMESA. And so a lot of people will anticipate, okay, so you've already achieved a degree of trade liberalization under the COMESA trading arrangements. But actually, neither DRC nor Ethiopia have actually fully implemented the trade agreements under COMESA. So, they still charge quite high tariffs on imports from the EAC. DRC is still doing that. And Ethiopia has been doing likewise. But of course the EAC as a bloc also has a high external tariff which now in the maximum range actually after the revisions is 35 percent. So, that's a really quite significant tariff liberalization that will happen either under the AfCFTA or if countries like Somalia join the EAC because they're members.

So, it's interesting times. There's a lot of changing dynamics. It's a lot of things for people to monitor. But I think, you know, as long as we keep in sight what the final objective of all this is, things will go well.

ORDU: Andrew, in your remarks you made references to IGAD and COMESA. For the benefit of our listeners up and down the world. Could you kindly spell out what these acronyms mean, please?

MOLD: Yes, sure. The Common Market for Eastern and Southern Africa, COMESA, is actually the largest bloc in terms of membership, and it covers all the way from southern Africa all the way up to some northern African countries as well. So, it is an important player and it has some important institutions, I think, which are going to be relevant for the African Continental Free Trade Area, such as its competition authority and it's based in Lusaka.

And then we have the Intergovernmental Authority on Development, which is the IGAD countries, which is the Horn of Africa, basically. Ethiopia, Somalia, Djibouti, and Eritrea. Although Eritrea has had some difficulties because of IGAD's position with the conflicts that it had with Ethiopia in the past. So yeah, those are the largest regional economic communities in the region.

There is one important thing to say about IGAD, Aloysius, which is I think because of the peace and security situation there, the secretary general of IGAD once lamented to me that he's been caught up his whole time in office dealing with peace and security situation. And he really wanted to move the agenda forward to the economic one and wasn't able to. Now, the resolution of some of the regional problems in terms of peace and security you would hope that that economic agenda would come to the forefront.

ORDU: Andrew, let's now turn to the African Continental Free Trade Area, by far the largest trading bloc in the world in terms of number of countries. Could you tell our listeners the current status of the African Continental Free Trade Area? How does it, for example, compare and contrast with other integration schemes worldwide?

MOLD: Right, okay, well, in terms of status at the moment, I'm not sure of the exact numbers because it changes quite quickly, but we have over 40 ratifications of the agreement, member states that sign up. We have 54 or 55 African Union member states that signed up to the agreement, which is an incredible degree of consensus when you think about it, with such a large continent, with so many countries involved. You wouldn't get that kind of level of consensus probably within the European Union these days on many topics.

Now, you have 54 countries signing up, but for the agreement to go into effect, they have to ratify through their national processes. That would be through their parliaments, et cetera, yeah. And currently we have more than 40 countries that have ratified. So, we're waiting really for the implementation stage to come into effect because in principle, trading started under the AfCFTA on January the first, 2021. However, of course that was in the middle of the pandemic on the one hand. And also the negotiations weren't concluded on phase one. Now, that included the tariff negotiations on merchandise good and, very crucially, the rules of origin. Now, for your listeners, the rules of origin are what are described sometimes as a passport for goods to correctly identify them as originating in the countries they're saying they're coming from. So, it's to avoid third-party countries benefiting from the tariff reductions from the continental free trade area. And all free trade agreements have those kind of rules of origin.

So, they're a very crucial thing, for example, in NAFTA previously, between Mexico, the United States, and Canada, rules of origin were fundamental, particularly on the side of the U.S. because they were concerned that Chinese goods might come in, try to come in the back door through Mexico. So, Africa has a similar system in place with the rules of origin.

But the negotiations have become rather complicated on just two topics actually, which have actually delayed implementation of the tariff reductions under the AfCFTA, because as I said, in principle, this should have started really in 2021 and we should be into the second year of tariff reductions already.

Now, the two areas where there have been problems have been the rules of origin on automobiles, which accounts for around 2 percent of the rules of origin. And the major area is actually textiles and clothing. And I was participating as an expert in those negotiations at the Secretariat in November. And you could see that there were different positions on what those rules of origin should be, whether they should be more liberal or stricter, which gives a stronger incentive to sourcing from the continent in textiles and clothing. So, it means basically that there's about 12 percent of tariff lines which haven't yet been finalized, the rules of origin.

Now, I think there's a level of impatience in terms of actual implementation of the agreement. People want to see the tariff reductions go ahead now. And so I understand that the discussions about applying the tariff reductions on all the other sectors, excluding those 12 percent where the rules of origin negotiations need to be concluded. So, that is the discussion at the moment. And my understanding is in September, tariff reductions will actually be implemented for the first time.

Now, what does that mean? Well, for the middle-income countries on the continent, or the countries which are non-LDCs, they have five years basically to eliminate 90 percent of their tariffs. And for the least developed countries on the continent, they're given a ten year time frame. And it's a linear reduction, so it would mean 10 percent of the tariff is reduced each year over a period of ten years. But because we've had this delay now, I think they're going to have to do a bit of catch up. So, possibly for the first time it will be a 20 percent reduction.

So, these are things where the effects won't be felt maybe in the first couple of years of tariff liberalization. But my goodness, you know, after five or six years, you should see a significant reduction in tariffs sufficient enough to really boost the interregional trade component. It will be a significant competitive advantage to be producing from within the continent.

ORDU: What about the rollout of cross-border investments, Andrew? Why is this such a crucial element in the construction of the African Continental Free Trade Area?

MOLD: That's a very important question because as I said before, I think the African Continental Free Trade Area is a bit of a misleading title because it's a lot more ambitious than that. And the cross-border investment component is crucial for the full implementation of the AfCFTA. And why do I say that? Well, because we know from all the economic literature that FDI and trade tend to go hand-in-hand. There are two schools of thought on this. Some people think that cross-border investments replace trade, but I think the consensus now is the majority of cases actually cross-border investment actually leads to much more trade. And we know globally 70 or 80 percent of global trade is in the hands of large corporations, which trade incredibly intensely within their intra-company groups. So, for example, Volkswagen Southern Africa would like to do more investments in both West Africa and East Africa. They've expressed an interest and they would set up production plants in different countries across the subregions of the continent. But they can't do regional production networks unless they're sure that the continental market is going to be liberalized in the right way.

So, that's where you get this synergy between more cross-border investments leading to more trade, leading to more cross-border investments. And it's a very important synergy for the continent to build on.

ORDU: Andrew, the notion of cross-border investments leading to more trade is clearly quite settled in most parts of the literature because for years the notion of intra-industry trade, right, which is really what you're alluding to in terms of these corporations trading more with each other through investments in other countries. Andrew, there's lot of initiatives are around promoting cross-border trade, particularly focusing on small traders in Africa, and small- and medium-scale enterprises. Is that the right focus, in your view?

MOLD: Well, from what I just said about the role that cross-border investments have and large firms globally in terms of their share of global trade, no, I'm not sure it is, actually. I think there's rather too much rhetoric about putting the emphasis on SMEs and encouraging SMEs to trade more. And if you look at the figures like World Bank enterprise surveys and you look at the percentage share of small firms which actually trade, it's a very small percentage of them. So, in neighboring Tanzania from here, for example, it's about 4 or 5 percent of companies, SMEs, which actually trade at all, whereas half the larger firms above 20 employees trade. So, I think in terms of economic impact, we need to focus on those companies which are responsible for the bulk of trade initially.

And there's a very nice book actually by a gentleman, West African economist, Leke and colleagues, 2018, which talks about how the larger firms are baobabs under which the smaller companies can take shade. And I think that's a nice metaphor, really, because you need those baobabs because they have the potential to trade and take risks in a way that small enterprises don't. So, you shouldn't necessarily be encouraging too many SMEs to get involved in trade directly. What they should be doing is feeding into the larger companies, which do the bulk of the trade and take on the risk. That's the way it's happened in other parts of the world and that's the way I believe it should happen on the continent.

That's not to completely disparage, you know, the role of, you know, the informal cross-border trade activity that we were talking about, which is very vibrant. But I don't think it's where we should place our energies in terms of turning around the fortunes of the continent. And in the book that I just mentioned of Leke and colleagues, actually they point out that in that sense, Africa is handicapped by the lack of larger companies. So, when they go down the list of the Fortune top 500, for example, you don't even see one African company there, not even South African companies. When we look at lists like the Jeune Afrique list of 500 largest companies or the African Business does a list every year of 250 companies as well. I always look for the ranking of East African companies there, and there's only maybe out of that list twenty companies which make it into that top list. So, although we have the impression that these are very large entities, companies like the Tanzanian company Azam, for example, Bakhresa, those kind of companies, and Yanga [sp?] here, for example, they're not very big by any global standards. And that's one of the reasons why the continent struggles, I think, to compete in global markets.

And going further, I mean, I think we even have an idealized conception of things like the textile and clothing sector where people think that's done on small scale. But I was reading recently that you look at the average firm size in Bangladesh, which has had extraordinary success in textiles and clothing, average firm size is around 750 employees.

So, I think there is a real challenge there for the continent in terms of upscaling its economic activities and empowering some of those larger companies. And in that sense, that goes against a lot of the discourse that we hear on the continental free trade area that it's about small scale cross-border trade and the rest of it. But I think we're probably putting our eggs in the wrong basket if we focus too much on that.

ORDU: Andrew, we talk less about the free movement protocol. How does that fit into the architecture of the African Continental Free Trade Area?

MOLD: Well, I strongly believe that the free movement protocol is a fundamental core part of the agreement. I'm currently writing a book with Francis Mangeni, the former director general of trade of COMESA, and Francis and myself we both strongly believe that the free movement protocol needs to be first signed up to by more member states and also ratified. Now, in terms of signatures on the free movement protocol, it stands about half the number of countries which signed up to the AfCFTA agreement, the main agreement on trade. So, there is less enthusiasm amongst member states for the free movement protocol. In terms of ratifications, I believe it's only a handful of countries which have actually ratified.

Rwanda, where I'm currently talking from, is one of those countries which has ratified the free movement protocol. But again, they need to get to a certain statutory number of countries which ratify before anything can actually happen under the free movement protocol.

What are the economic arguments in favor of the free movement protocol? Well, I think one key argument is that many, many companies, when you look at the business surveys, they complain of not being able to access skilled labor. So, sometimes you'll see it as high as 50 percent of responses is that that is the major constraint that they face, not being able to find skilled labor. And that's ironic in a continent which has so many young people coming out of university because they often can't find work in their own economies. And so I think the free movement protocol would really give enormous benefits to young people across the continent to be able to find work in neighboring economies or indeed economies on the other side of the continent with liberty. And that would have very positive economic benefits as well. So, I'm a big believer in the free movement protocol, above all because I think it would give vast opportunities for the continent's young people, well-qualified people coming out of university but often can't find gainful employment in their own countries.

ORDU: So, we've been talking about trade and integration policy and practice in Africa. Andrew, I'd like to conclude with the two big elephants in the global room, so to speak, right now: the COVID-19 pandemic and the Russian invasion of Ukraine. How are the countries in the East Africa region where you are, how are they coping with these crises? And have these crises affected the resolve, in your view, of Africans to effectively implement the African Continental Free Trade Area?

MOLD: Okay, well, firstly, the pandemic clearly had a very negative impact. Countries with different levels of intensity applied lockdowns in the region. And of course, economic lockdowns are not, are not very good for economic growth and development. There is a definite cost for that. Since those lockdowns have been removed, you've seen definitely a bounce back in economic activity. So, 2020 was very bad, the first quarter of 2021. But thereafter, the quarterly data that we have for some Eastern African countries shows a very strong bounce back in 2021 and going into 2022. So, actually, Rwanda, for example, had three quarters of double digit growth, which is really very impressive bounce back.

However, I think there's been a long term impact there in terms of employment. The employment situation was already very fragile before going into this crisis, but it has caused some difficulties there, and tourism is recovering quite strongly. But we have a number of economies in the region which are really quite heavily dependent on that tourism revenue. So, things are going in the right direction.

On the other question of the Ukraine crisis, I think there's a tendency to overestimate its direct impact on Eastern Africa. Countries are not that exposed. If you look at the countries, for example, dependent on imports of cereals from Ukraine or Russia, Egypt has a very serious problem because it's very exposed and has large cereal imports. But Eastern African countries, not so much, and it's not even such an important component in their diets, either. So, I don't think the direct impacts are so serious.

The real problem has been the global inflationary environment and that has definitely taken off. You see that quite clearly now. Commodity prices over the last couple of months have started to moderate to some extent. But the fuel price increase: fuel represents on average for an Eastern African country around 2, 3 percent of GDP in terms of imports of fuel alone. And many of the countries are also net food importers. So, it's definitely had an indirect impact on the way it's impacted on global markets, but not perhaps the direct impact that we're talking about, the disruption to imports.

But finally, I would just say the region's also being very badly affected at the moment by climate change, which I think probably outweighs the external environment effects in some parts of the region. So, the Horn of Africa has had the most severe droughts in decades. That's been very negative for agricultural production, obviously. Madagascar, southern Madagascar, has a very serious drought as well. And South Sudan in the first half of this year actually suffered major flooding events as well, which was causing tremendous humanitarian problems. So, climate change is very high, I think, in people's agenda in terms of something that needs to be dealt with to help with resilience towards this, because Eastern Africa is definitely feeling the consequences of the lack of action on climate change globally.

ORDU: Andrew, it's been a pleasure talking with you. We hope you will join us in the future to discuss your new book when it is published. Thank you very, very much, and enjoy your day.

MOLD: Thank you. Thank you very much, Aloysius, to you and your team. And I look forward to speaking to you again.

ORDU: I'm Aloysius Uche Ordu, and this has been Foresight Africa. To learn more about what you heard today, find this episode online at Brookings dot edu slash Foresight Africa podcast.

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Thank you very much.