A Tale of the Tended Garden: AfCFTA's Nudge to Look Inward

By:

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On March 9 2018, the African Union Ministers of Trade approved the Declaration establishing the Agreement establishing African Continental Free Trade Area Agreement (AfCFTA); a move that marked the creation of the largest Free Trade Area in the World. The Agreement seeks to create a single market for goods, services and movement of persons and investment among African countries thereby fostering intra-African trade, facilitating structural transformation of African economies and promoting sustainable and inclusive socio-economic development across the African continent. Whether this would turn out to be a significant positive development within the continent may largely depend on whether the broader issue is addressed- The continuous inclination of African States to explore the forest rather than tend the garden.

For the second largest continent in the world with the largest number of countries within it, intra African trade relationships occur at a much lower rate than one would expect. The figures are even more absurd when placed in comparison with other continents. According to Aljazeera, Intraregional trade relationships in Asia stands at the rate of 59%, the Europeans trade 69% of their products among themselves. Whereas, interstate trade relationship in Africa is only at the meagre rate of 20%. According to Dr. Carlos Lopez of University of Cape Town, Africa serves as the third largest trading partner of the European Union, meaning Africa trades with the European Union more often than Japan, Australia and Canada do. In recent times, it is recorded that China's export to East Africa has gone up 67%.

The irregularity in this position is further highlighted with the understanding that Africa inhabits some of the fastest growing economies in the world. Nigeria, for example has experienced roughly 357% increase in its population since independence in 1960. From a population of over 40 million people to a population of over 206,139,589, one could only imagine what the next twenty years would look like. Consistently growing at the rate of 3.2% per year, there are projections that the population of the country is likely to double by 2050, and may at the time constitute 26% of the world's working age population. Combining this figure to the population of South Africa which is almost 60 million, and the other 50 African Countries, the African Market is evidently enormous.

As far as trade is concerned, population matters. David Luke, one of the notable AfCFTA optimists argues that population, market potential and dynamism as well as economies of scale and scope are factors that strategically positions the African continent. To him, these are the indices for a successful "trade-led diversification away from Africa's commodity dependence and towards industrial development and structural economic change".

However, despite the fact that the African Continent wields this incredible leverage, its preference to transact beyond its border is baffling, especially considering the apparent inequities they face in transacting with the advanced North. Perhaps, the emergence of AfCFTA can be viewed as a possible panacea to address this dysfunctionality by motivating African countries to rethink their trading culture by re-evaluating their leverages and taking full advantage of them.

At the very hub of the discussion on the benefit of AfCFTA is the potential for African countries to shift from its mineral oriented export to value added exports. As at 2018, with a trade volume of USD$17,019,729.40 worth of export, over 30% of the export products engaged by sub-Saharan African countries involved raw materials. This is without including trade in crude oil, which itself constitutes over 26% of the exported products. These are enormous amounts of money that could have been transformed into considerable profits within the continent.

An easy example is seen in the production of Cobalt in Democratic Republic of Congo (DRC). In 2019, 100,000 tons out of the 25 Million tons of cobalt extracted around the world is from DRC. At the rate of USD$28,500 per ton as at July 2020, the demand for Cobalt increases and it is projected to reach 800,000 tons in 2050, whereas there has been a drastic decline in its supply since 2018. This is probably rational considering that it is projected that from 2030, up to USD$300 Billion in income would be generated yearly on the value chains derived from cobalt. Cobalt is particularly useful in the creation of Lithium Batteries, which are a significant part of electric vehicles.

As the world gears towards a greener and environment-friendly future, the demand for products produced using cobalt is bound to increase. In 2019, the sales of electric cars was over 2.1 Million which is a recorded increase from 2018 statistics. Thus, when one considers the fact that Tesla, as a company has so far generated four times more income from the value chains derived from cobalt than DRC has generated as a company extracting and exporting it, the need to focus on value added exports cannot be more emphasized, and this is only more pragmatic and workable when African States collaborate with one another.

The United Nations Economic Commission for Africa (ECA) in conjunction with the African Trade Policy Centre project that by 2040, intra African Trade would have increased by between 15 and 25 per cent and that such increase would account for between USD$50 Billion and USD$70 Billion worth of trade. Specifically, they project that intra-African Trade in industrial products such as textiles, apparels, leather, wood and paper, vehicles and transport equipment, electronics, and metals would increase by between 25 and 30 percent which is estimated at the value of between USD$36 Billion and USD$44 Billion, while intra African trade in Agricultural products such as sugar, vegetables, fruits, nuts, beverages, tobacco, meat and diary products are projected to increase by between 20 and 30 percent, and this is estimated to be valued at between USD$9.5 Billion and USD$17 Billion. Exchange in energy and mining products among African States is expected to increase by between 5 and 11 per cent and this is estimated at between USD$4.5 Billion and USD$9 Billion.

The transition into an AfCFTA driven African economy is obviously not without its cost. In this instance, this appears to be a cost that is not necessarily indispensable, but perhaps one that African States have found themselves sentimentally attached to over the years. It is estimated that although the AfCFTA would boost the overall rate of Africa's Export and Gross Domestic Products (GDP), it will inevitably decrease its rate of export to non-African States, which is currently high. For example, it was projected that by 2020, with the effect of the AfCFTA alone, independent of other sub-regional arrangements such as the Pan Arab Free Trade Agreement, North Africa is likely to experience an increase by 2.7 per cent in its exports which is valued at roughly USD$8.9 Billion, but is expected to experience a gross decrease in its export outside Africa, thereby losing USD$1.7 Billion.

However, the above projection may not be achievable within the stipulated time frame in the light of certain intervening factors such as the Covid-19 Pandemic and the fact that the African States are behind the set timeline to execute the goals birthing the AfCFTA. Nevertheless, the prospects are glaring, and the calculations reveal that African States have more to gain engaging their compatriots than maintaining the status quo.

Moreover, in nudging Africa's economic sphere to life, another factor to consider is its trade dimensions. Almost half of value-added products from North Africa are produced by resource-based activities and 60 per cent of its exports to the global markets are primary activities. Medium and high technology industries only represent 23 per cent of its industrial production. Regional integration in Africa can offer enormous benefits to E-commerce businesses on the continent, especially with the global developments in the technology landscape, such as the 5G network. In one of its recent reports, the United Nations Economic Commission for Africa has highlighted the interconnectivity between the E-commerce businesses within Africa and the achievement of the objectives of AfCFTA.

E-commerce essentially thrives with a wholesome Information and Communication Technology (ICT) infrastructure, which itself requires intensive investment. According to ECA *et al*, the International Telecommunication Unionestimates a need for up to 90,000km optic fibre link, which could include 25,000 international submarine cable routes for Africa to keep up with the global ICT standards. This potentially requires investments of up to US$2.6 Billion for both international submarine networks and regional links, and this could probably increase with 5G infrastructure in view. Currently, most of the international bandwidth traffic towards Africa is only directed via Europe as opposed to being connected directly to the global source, and this is largely due to its deficiency in the required infrastructure. Notably, several discussions, strategies and initiatives have been on going in this regard for a long time, such as the African Development Bank ICT Strategy 2008, Kigali Connect Africa Summit 2007, and the New Partnership for Africa's Development (NEPAD) e-school initiative. Nevertheless, it is glaring that much more important that the talk, is the impetus and financial capacity to execute such strategies and initiatives. This is probably more foreseeable with AfCFTA, as collaboration of efforts are made by government and private corporations across the various African States. Sadly, It appears that the larger portion of regional integration that has been engaged by African States so far has been in terms of free movement of people, while production and trade integration aimed at meeting promoting science and technology remains largely uncharted.

Further, if there is any phenomenon that has highlighted, more than any other, the dire need for African States to tend their allegoric garden, it would be the recent Covid-19 Pandemic. With nations closing their borders and transcontinental trade stifled, the frailty in wholly depending on international economic relations could not be more obvious. While the effect of the pandemic on the most vulnerable of States may not be immediately obvious, a case has been made for the need for a Trade vulnerability Index in order to measure same. Nevertheless, in forestalling what Clair Gammage and Olabisi Akinkugbe regards as the "worst case scenario", the need to explore viable alternatives is pertinent. Although Gammage and Akinkugbe, make the case for a focus on the growing legacies of the New International Economic Order, which advocates for economic collaboration of postcolonial States in order to achieve economic stability, skepticism with such arrangement breeds in certain quarters especially as it relates to Africa’s relations with China. However, a home-grown trading system that is characteristic of the African region, which may be implemented through the AfCFTA seems more apposite. Dr Brenda Kombo considers this desirable in so far as it “embodies and promotes shared African values and commitments”.

The latest African Regional Integration Index Report 2019 reveals that Africa still scores very low in terms of regional integration, and a country like Nigeria which is a strong contributor to Africa’s GDP, still has only a marginal proportion of its import from African States. In hoping that the African region responds to the nudge to look inward, I could not conclude with better words than the preamble to the 2019 ARII’s report: “Now that we are moving forwards with the implementation of AfCFTA, it is time for quantum leaps. Regional integration is the glue that will make that happen”.

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