What products will Africa trade in under the Continental Free Trade Area?

Africa's Continental Free Trade Area, provides a market of 1.3 billion people, likely to create a $3.4 trillion economic bloc but what exactly will Africans be trading in, asks ***Sylvester Bagooro**.

What products would pass as African products (rules of origin in trade language) under Africa's Continental Free Trade Area (AfCFTA) remain contested by member states, trade experts and varied stakeholders in Africa. The contest emanates from how to agree on rules that will serve not only the diverse immediate interests of member states but also the broader picture of economic transformation in Africa as envisaged by the Heads of State when they launched the negotiations of the AfCFTA in Johannesburg, South Africa, in 2015.

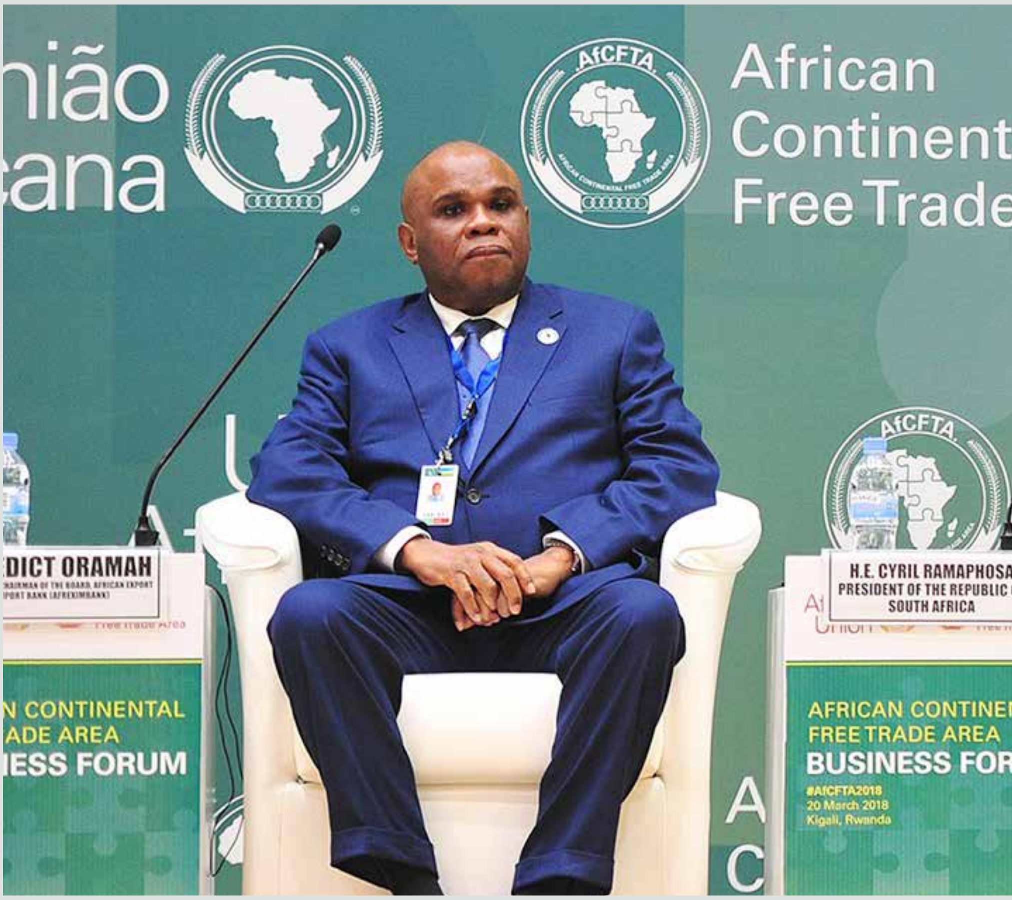
Related to the rules are weak productive bases of most African economies and with less sectorial linkages among others. Hence the rules must be appropriately defined to suit the African reality. If loosely defined, Africa's market will be flooded with foreign products and the much-needed economic transformation will be a mirage. On the other hand, if they are too strict, they can also be counter-productive and frustrate the smooth operation of potential and existing regional value chains. The resolution of this conundrum is foundational.

The issue of appropriate rules for the AfCFTA as well as the related issues of production, trade infrastructure became topical concerns not only during the 12th Extra-Ordinary Summit of the Heads of State and Government of the African Union held in Niamey, Niger, on the 7th of July 2019, but also events leading up to the AU Summit. Prior to the Summit, there were civil society and business forums held on the 3rd of July and 6th of July 2019 respectively, during which these issues, related productive capacities as well as trade infrastructure were raised by various panelists.

These pre-Summit forums were organised by the Africa Union Commission (AUC) and the United Nations Economic Commission for Africa (UNECA) and brought together CSOs, research institutions, women groups, across all the regional blocs in Africa West, Central, East, North and Southern Africa.

The Extra-Ordinary Summit was one of the highest political moments on the AfCFTA discourse. It followed decisions taken from the 32nd Ordinary Session of the Assembly held in Addis Ababa, Ethiopia on 10 and 11 February 2019, where AU Heads of State and Government decided to hold an Extra-Ordinary Summit in July 2019 purposely on the AfCFTA. The Niger Summit formally launched the operational phase of the AfCFTA and decided on the location and structure of the AfCFTA Secretariat. Accra, Ghana, was chosen as the Secretariat.

But without appropriate rules, the AfCFTA would be counterproductive. The rules of origin define the nationality of the product and prevent countries which are not party to the Agreement from benefitting from the tariff preferences granted, simply by routing exports through a party to the Agreement with minimal local processing taking place prior to re-export.



In Africa, its specific context regarding how intermediate inputs can be supplied at the right time, at the right quantity and at the required standards, could be easy for some member states and a challenge to others. The rules of origin therefore have wide-ranging implications on the depth and pattern of regional integration, as they will affect the choice of intermediate inputs utilized in the production of goods eligible for preferential treatment under the AfCFTA.

The concern and quest for appropriate rules that speak to Africa's situation have been corroborated by the United Nations Conference on Trade and Development (UNCTAD) in its 2019 Report on Economic Development in Africa titled 'Made in Africa; Rules of Origin for Enhanced Intra-Africa Trade in Africa'. As the Secretary General of UNCTAD, Mukhisa Kituyi, put it 'the rules could make or break the African Continental Free Trade Area that entered into force in May 2019'.

In fact, UNCTAD reiterated views and concerns expressed by trade experts in Africa that for enhanced intra-Africa trade, the rules must be purposefully crafted and enforced in such a way as to support and shape the development of regional value chains on the continent and foster industrialization and structural economic transformation. As one expert at the African Union Commission puts it 'the rules must be transformational to be able to deal with Africa's weak and fragmented economies.'

Especially when Africa's manufacturing output is very low. Africa still accounts for a very low share of global manufacturing. It's share in global manufacturing value added is less than 2 percent. In fact, it declined from 1.2 per cent in 2000 to 1.1 per cent in 2008. Unlike the situation in Africa, developing Asia's rose from 13 per cent to 25 per cent. There has also been no significant change in Africa's share of global manufacturing exports in recent years. Although Africa's share of global manufacturing exports rose slightly from 1 per cent in 2000 to 1.3 per in 2008.

At the negotiations level Africa Ministers of Trade at a meeting in Niamey, prior to the Heads of State Summit, could not agree on the rules for all the products. As some member states looked for much more transformative rules others took opposing positions. At the end the Ministers, as captured in their meeting report in Niamey, took a decision to refer the outstanding issues to the Senior Trade Officials and the Negotiation Forum for resolution before December 2019.

Some of the issues and products that are the sticking points are butter, cheese, cotton, milk products, vessels and factory ships. These are mostly in the agro-food sector where the potential exists for creation of regional value chains. The agricultural sector and associated value chains are among the leading sectors in Africa with regard to investment attraction (PricewaterhouseCoopers, 2015).

There is huge demand for food products in Africa and it has the potential to create many jobs, not only in the food processing sector but also through the development of locally integrated

supply chains in the agricultural sector and the stimulus this gives to the rural economy in general.

However, in the short term, the rapid growth in African food demand is fuelling an expansion of imports of European Union (EU) agro-food products. This consists of both consumer ready products (e.g. poultry parts) and inputs for repacking with limited local value addition.

For instance, in October 2013 Danone (a French multinational food-products corporation based in Paris) acquired a majority interest in West African dairy products company, Fan Milk International (FMI), with the aim of building on FMI's proven system of serving and developing markets such as Ghana, Nigeria, Togo, Burkina Faso, Cote d'Ivoire and Benin. At the time of this acquisition FMI had reported sales of €120 million, with production being based exclusively on imported milk powders. This represented a sales level in excess of Danone's dairy sector turnover in Spain, Mexico, Argentina, UK and Brazil.

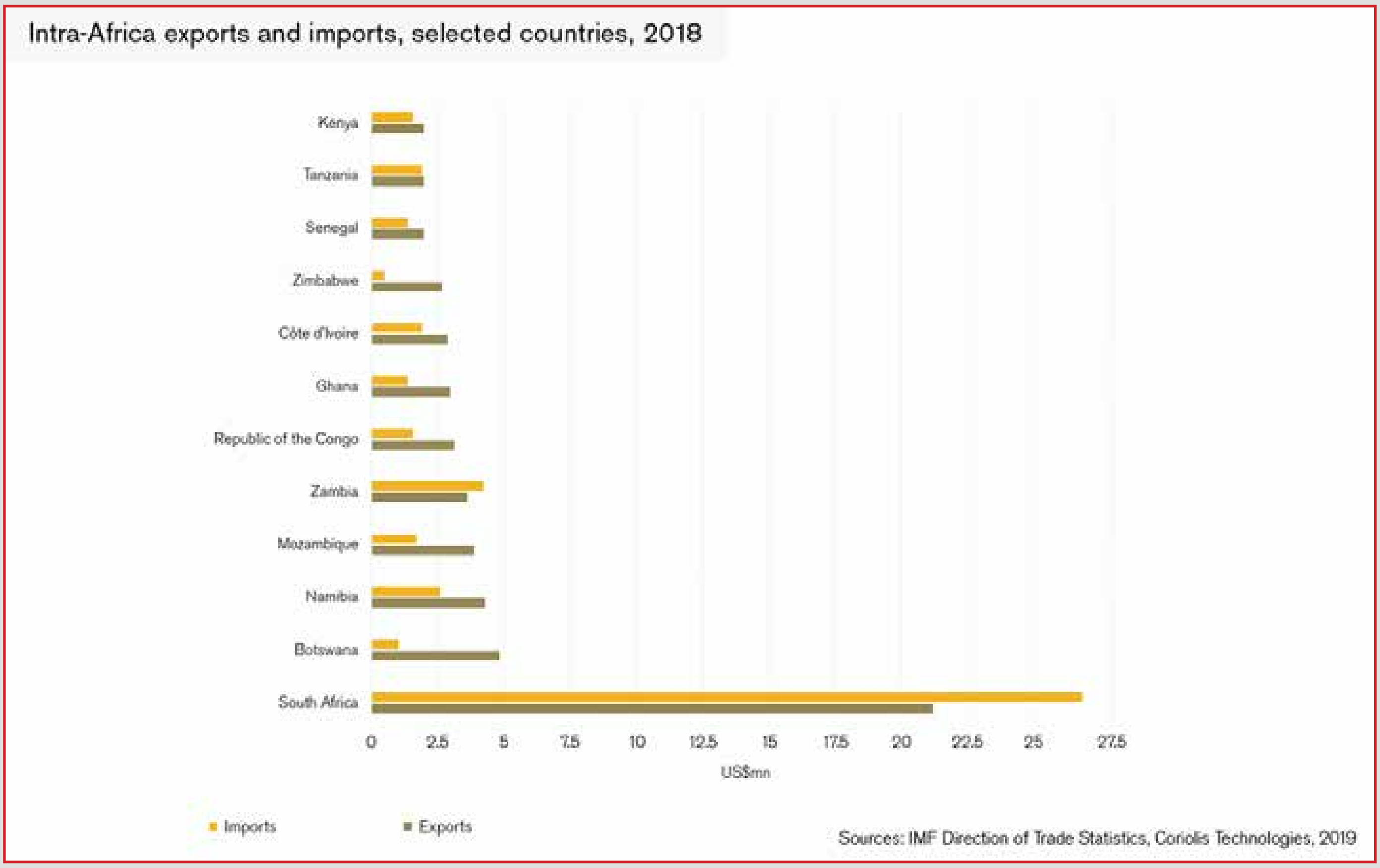
Also, in July 2014, Danone further extended its reach to East Africa by entering into a Joint Venture with Kenya's leading dairy company Brookside Dairies. Since Danone entered into a joint venture with Brookside Dairy, EU exports of milk powder to Kenya, Tanzania and Uganda have increased 235 percent, while exports of butter have increased 102 percent and exports of cheese almost 67 percent.

But there is a vibrant smallholder dairy sector in East Africa especially in Kenya, Uganda, Rwanda and Tanzania. The future of the East African smallholder dairy sector will be strongly influenced by how the rules are defined in the AfCFTA.

Again, in Southern Africa the picture is not all that different, both European owned and local South African companies have come up with regional market development strategies based on using low priced imported inputs in the production of mass market focussed value added dairy products.

Specifically, in South Africa, apart from milk products, there are butter, cheese and a growing volume of liquid milk. In some cases, this consists of bulk imports which are then repacked into consumer ready sizes and traded as Southern Africa Development Community (SADC) originating products under regional preferential trading arrangements, even though these products do not originate in the SADC region. This is particularly the case for butter, where the tariff reductions agreed under the 1999 EU-South Africa trade agreement can be exploited.

Rolling back the dominance of the agro-food sector by foreign corporations and building of regional and local players will depend on how the rules of origin are defined. If the rules are defined loosely that will be a basis for foreign companies already operating in Africa to entrench their dominance and flood the African market with products with limited local value addition. On the other hand, if the rules of origin are too strict, they can also be problematic. Stringent rules of origin can disrupt the smooth



operation of cross-border supply chains. Especially when lots of intermediate inputs are already imported by businesses operating in Africa.

The resolution of this conundrum is critical for the ability of the AfCFTA to create the necessary linkages in Africa's economies. As a way forward in determining the appropriate rules, UNCTAD has offered three broad ways that Africa could consider.

Briefly the rules should be i) Stringent rules to promote local value addition, ii) Simple (in the sense of being clear and understandable), transparent and predictable, to facilitate intra-African supply chain trade, iii) "Evolutionary" rules, starting with simple rules that can gradually be made more stringent later, as economies develop.

According to the UN body, the rule of origin should be calibrated to the level of development. The rules should be less restrictive and less complex at the initial stages of implementation of the AfCFTA. This is due to the fact that many member countries have weak institutional capacities, low levels of competitiveness and limited capabilities to participate in regional value chains due to insufficient productive capacities for supplying sourced inputs. Simplified, flexible and lenient rules of origin are needed, in particular for those countries with limited capacities, in the early stages, to help kickstart regional industrial production. At higher levels of development with product diversification, more complex and restrictive rules of origin can boost regional trade, accelerate the development of regional value chains and ensure that a larger share of the value-added and value created during production is retained within Africa.

In the light of the above two issues are implicated. First of all, negotiations on the rules must create room for review linked to say, some development indicators. As things stand now it is only the exclusion list (those products that will be protected from foreign competition) that is subject to review every five years. The rules on defining the nationality of the products, though still under negotiation, seem not to have review clauses and so might remain static and rigid. Will the negotiators consider these before the finalization of the rules before December 2019?

Secondly, developing local inputs as substitute for foreign inputs is a policy imperative for Africa. Supply-side constraints such as the low response to inputs supply at the right quantities and specified standards must be addressed to boost intraregional trade through the development of regional value chains. Such chains are indeed critical vehicles for spreading the economic benefits of African trade (e.g. jobs in the formal sector and gains from manufacturing) to a wider set of countries, if they participate in such value chains and gain opportunities to upgrade technologically and move up within the value chains.

So it is that clear that what products that Africa will trade on the continent require much work and flexibility with an eye on the rules that are strict, simple, dynamic and evolutionary. Strategic market integration needs to be linked with clear industrial policies and the rules of origin have a significant part to play.

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