# Chapter 9
# The CFTA in a Changing Trade Landscape

The Continental Free Trade Area (CFTA) is being negotiated in an evolving trade landscape. The multilateral trading system is in crisis after the failure of the Doha Round and populist anti-globalization sentiments in several large trading nations. The rapid rise of emerging market economies has caused a fundamental shift in the trade patterns of many African countries. The controversies surrounding the Economic Partnership Agreements (EPAs) and Brexit require new thinking on restructuring trade relations with Europe. Africa's trading relationship with the United States, having developed under the African Growth and Opportunity Act (AGOA), is likely to transform into reciprocal arrangements by 2025 in a post-AGOA agenda. The so-called "mega-regional" trade agreements that once threatened Africa's preferential trade with established partners, now have evolved into a different threat of protectionism. Finally, new modes of trade such as e-commerce are putting pressure on demands for new trade rules.

Chapter 4 introduced the concept of "external factors" as critical junctures in the political economy of the CFTA. These may offer windows of opportunity to speed up processes, alter political priorities or reshape the incentive environment for different CFTA stakeholders. Alternatively, such changes may require a downscaling of ambition or even stall efforts towards the CFTA as reform windows narrow or close. This chapter expands on these concepts, assessing the implications of the biggest tremors in Africa's trading landscape.

## Rise of the mega-regionals or of protectionism?

The rise of regional trade agreements was triggered by another external factor: a profound slowdown in multilateral trade negotiations at the World Trade Organization (WTO) and the "death of the Doha round" (*Financial Times*, 2015). This critical juncture spawned the proliferation of negotiations on regional trade agreements, including mega-regional trade agreements (MRTAs), as a means of circumventing the multilateral impasse and developing new trade rules among groups of willing countries.

Trade, however, occurs not between countries in a vacuum but in the context of a global trading environment; the MRTAs threatened to have spill-over effects for excluded countries, including many in Africa. Trade between mega-regional members would have increased at the expense of third countries outside the agreements.

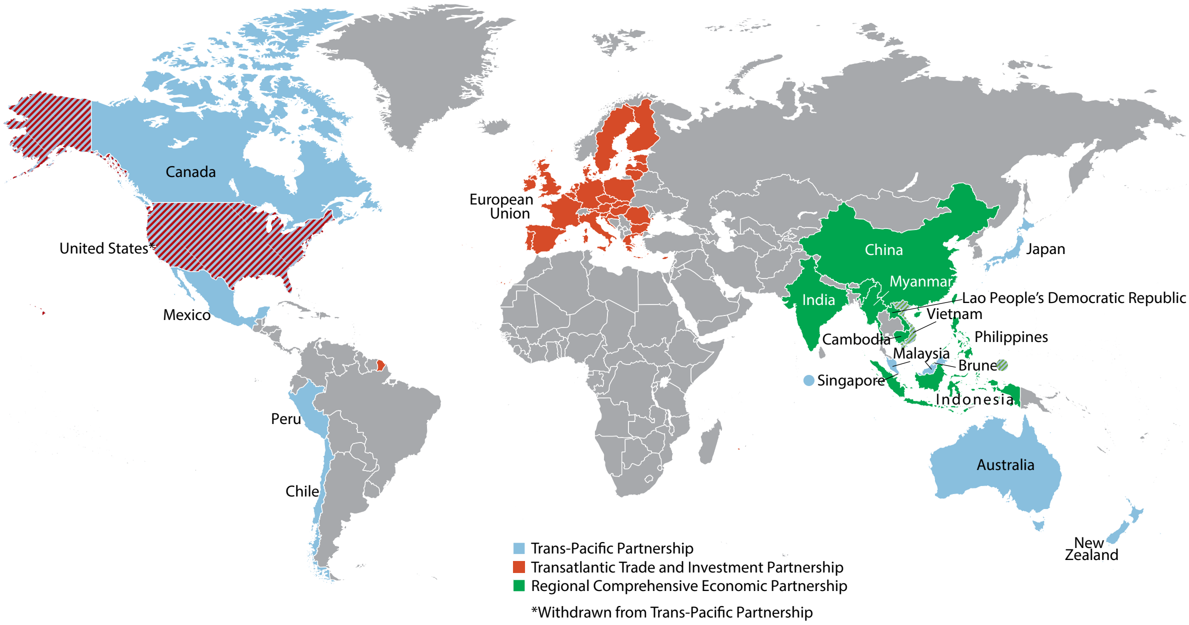
The MRTAs of note here are the Transatlantic Trade and Investment Partnership between the European Union (EU) and the United States; the Trans-Pacific Partnership (TPP), originally comprising the United States and 11 other Pacific Rim countries; and the Regional Comprehensive Economic Partnership (RCEP), covering the Association of Southeast Asian Nations (ASEAN) group of countries and others, notably China and India, and conceived largely as a rival to the TPP.

The implications for Africa would be higher competition and erosion of preferences in MRTA markets resulting in trade diversion. Estimates by Mevel and Mathieu (2016), using a model in which all three of these agreements are implemented, see Africa's net exports falling by $3 billion (equivalent to 0.3 per cent) in 2022 compared with the baseline. They also found a further concentration of Africa's exports in energy and mining, largely on the back of reduced agricultural and industrial exports to China and India. The impacts would be felt most severely by certain sectors of particular countries, such as African textile producers, which would face competition from Vietnam and other highly efficient Southeast Asian producers, undercutting the textile preferences granted to African countries, for instance through AGOA.

The potential impacts extend beyond the conventional focus on tariffs and trade diversion, however. The MRTAs have been conceived to include new disciplines, such as e-commerce, competition policy and labour standards, and deeper commitments to existing disciplines,

Figure 9.1

**Membership of mega-regional trade agreements**




such as government procurement, services and trade facilitation, which extend their remit beyond traditional "shallow" trade agreements and instead amount to "deep" agreements (Lawrence, 1996; Baldwin, 2014a; Ueno, 2013). This could create new discriminatory arrangements against outsiders but also establish norms for the *multilateralization* of new and deeper issues (Melendez-Ortiz, 2014; Draper et al., 2014). By eroding WTO's status as the forum for creating new trade rules, MRTAs undermine the voice that outsiders, including Africa, have in shaping these rules. The WTO may be increasingly sidelined as the international rule-making body. Yet to export to these markets, outsider countries would still have to play by their rules (Baldwin, 2014b).

On the other hand, elements of deep regional trade agreements can also benefit Africa; the MRTAs would also include provisions with no enforceable preferences (Baldwin, 2014a). For instance, disciplines on certain services and many other issues often lack a legally and administratively feasible discriminating mechanism that can be used for identifying and restricting the nationality of firms that use those disciplines. In such circumstances, the agreements are merely a vehicle for locking in domestic reforms that are applied multilaterally. Furthermore, regulatory convergence and harmonization of diverse norms, standards and regulations are argued to also reduce trade costs to the benefit of outsider exporters (Baldwin, 2014a). The analogy here is to the EU, whereby an outsider country can export to a single bloc of countries with harmonized regulations, compared with the complexity of accessing 28 different markets.

Any discussion on MRTAs needs to touch on the recent emergence of political populism in developed countries and its apparent attachment to protectionism. On 14 January 2017, the subheading to one of the articles in *The Economist* referred to "a protectionist entering the White House." Nine days later President Donald Trump signed a presidential memorandum withdrawing the United Stated from the TPP. The incipient perception was of protectionism with immediate implications for the viability of concluding MRTAs.

A second disruption stems from Brexit and the disengagement of the Untied Kingdom from the EU, in an apparent rejection of European regional integration, marking a break from the world's most ambitious regional integration project.

Yet it is unclear whether these events really signify impending protectionism that will undermine MRTAs. Certainly the United States has left the TPP, but this may merely create a more enticing gap to be filled by the Regional Comprehensive Economic Partnership or for China to be included in the "rump" TPP (*Financial Times*, 2017). Alternatively, the TPP could go ahead without the United States (Reuters, 2017). Recent

Box 9.1

**Smartly sequencing trade agreements**

It will be important for Africa to "smartly sequence" its trade policy reforms to ensure that deeper regional integration takes place before the inevitable gradual opening up of African markets to the rest of the world, and before the main MRTAs are fully established. This will allow African countries to harness the economies of scale and learning by doing that is needed to develop competitive regional value chains (RVCs) and industries, which are then well positioned to compete internationally and integrate into global value chains.

Such sequencing calls for:

- Fast implementation of the CFTA to avoid any trade losses from the anticipated increase in reciprocity in Africa's trade agreements with the rest of the world and from the rise in MRTAs.[1]
- Well-managed and appropriately phased tariff reductions on imports into Africa would enable African industries to adapt. African countries must make smart choices when negotiating reciprocal versions of EPAs and AGOA and when negotiating new trade agreements with trading partners outside the continent. Tariffs on intermediate and capital goods not produced locally should be removed first,[2] which would cut the costs of industrialization and foster domestic value addition. Tariffs on intermediates and capital goods for which some domestic and regional production exists should be removed next, followed by tariffs on finished products. This sequencing would support Africa's industrialization, development of RVCs and technological catch-up, while providing temporary protection for local producers to guard against premature de-industrialization (Sommer et al. 2017).

political analysis on the rise of this populism finds less evidence of its origins in economic insecurity, which would incite protectionism, than in a cultural backlash against liberalism (Inglehart and Norris, 2016). Or as held by Paul Krugman in a *New York Times* op-ed, "Trump is wimping out on trade" and softening his protectionist rhetoric (Krugman, 2017). If this is so, the MRTAs may likely yet resurge.

Still, the apparent rise of protectionism is not restricted to the United Kingdom and the United States. Nor is it restricted to tariffs. A WTO report on G20 Trade Measures (2016), found that new trade-restrictive measures are being applied by the G20 group of countries at the fastest rate since monitoring began in 2009. A large share of them are trade-remedy actions against imports of industrial products. Within the G20, the majority of new measures are applied by Russia, China, India and Indonesia (European Parliament, 2015). After the global financial crisis, developing countries increasingly used anti-dumping remedies, and increasingly applied them to imports from other developing countries (Bown and Kee, 2011). While a "China reaction" accounts for a moderate share of the increased use of trade remedies, there is a growing use of trade-restrictive measures in developing countries to defend against imports from other developing countries.

### Implications

The CFTA was seen to be critical for Africa's trade in the context of the MRTAs. Implemented in parallel with the MRTAs, the CFTA was found, in modelling work by Mevel and Mathieu (2016), to substantially improve the outcomes for Africa, increasing intra-African exports by $27.5 billion (equivalent to 3 per cent). Moreover, the gain was estimated to benefit all African countries and to be especially beneficial to expanding Africa's industrial products.

With the TPP on hold, there is conceivably a reduced immediacy for the CFTA. Yet, the MRTAs may resurface, and rather than disincentivizing the CFTA, this apparent hiatus gives Africa some breathing room.

In recent years there has appeared to be a rise in protectionist sentiment and tendencies. This is not restricted to developed countries, but increasingly concerns trade-remedy actions applied by developing countries against imports from other developing countries. Africa is not yet a primary target for such means of trade defence, but the trend highlights external risks for Africa's trade with the rest of the world.

## New trade issues for the WTO and CFTA

The part of the trade landscape that has not altered is the WTO Doha Round. With little progress being made, developed countries have increasingly pressed to close the Round and move on to negotiate new issues. This will likely remain their focus at the upcoming WTO Ministerial Conference in Buenos Aires in December 2017. Developing countries have resisted this approach and demanded the conclusion of the Doha Round, which includes critical issues for developing countries, such as agricultural subsidies.

Energy has coalesced around the emergence of "new" trade issues at the WTO. While negotiations cannot begin on these issues without agreement by all WTO members, discussions have progressed to inform what will eventually become negotiations on these issues. Attempts are being made to convert these discussions into a mandate to negotiate new rules. The new issues include proposed rules on e-commerce, micro, small and medium-sized enterprises (MSMEs), domestic regulation of services and investment facilitation, as now discussed.

## e-commerce

E-commerce concerns the online sale or purchase of goods or services (OECD, 2011). It is frequently cited for its potential as a revolutionary new trade route of the 21st century that could reduce market costs for MSMEs, connecting them to international markets. In Africa, however, e-commerce is substantially constrained by inadequate infrastructure, digital education, digital regulations and Internet penetration (Budree, 2017). This creates a digital divide and knowledge gap, such that Africa's economies lag behind the digital development of the advanced countries and are less competitive in this area.

Proposals for new e-commerce rules aim to limit policy space to ensure open access for businesses operating through these channels. Suggested rules include prohibiting customs duties and non-discrimination, forbidding data localization, safeguarding network competition, ensuring unrestricted cross-border data flows, promoting a free and open Internet, protecting critical source code and limiting policies on technology transfers[3] (Proposed e-commerce rules).

The concern is that these rules are being driven by established e-commerce companies that want to cement their market dominance in the digital world. Azmeh and Foster (2016) argue that such rules reduce the policy space for latecomer economies to promote their online businesses, foster technology transfer and implement digital industrial policy. Data localization laws, for example, can be imposed to require that businesses set up data centres within the countries in which they are operating, similar to how local content requirements work. However, Bauer et al. (2014) find the

Box 9.2

### Proposed e-commerce rules

**Prohibiting digital customs duties** — on electronically transmitted products, such as books, music, videos and software.

**Non-discrimination principles** — require that national treatment be provided to e-commerce goods and services.

**Data localization rules** — prohibit rules requiring that the storage, routing, processing or other use of data be within the territory of a country.

**Safeguarding network competition** — enables digital suppliers to build networks in the markets they serve or to access such facilities and services from incumbents.

**Enabling cross-border data flows** — enables companies and consumers to move data without restriction.

**Free and open Internet rules** — targets governments that block certain websites for commercial or political reasons, as well as similar initiatives by private companies.

**Protecting critical source code** — requires that businesses do not have to hand over their source code or proprietary algorithms to their competitors or to pass them along to a state-owned enterprise. Trade secrets (including source code) are not covered by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), however.

**Ensuring technology choice**—prohibits governments from forcing foreign businesses to use specific local technologies when they invest in an economy.

**No technology transfers** — prohibits governments from requiring companies to transfer technology, production processes or other proprietary information.

imposition of such laws to have a significant negative impact on economic growth, reducing domestic investments and contributing to welfare losses. They estimate that the welfare impact of such laws in India amounted to the equivalent of an 11 per cent loss to the average monthly salary and argue that any gains from data localization are too small to outweigh losses in the general economy.

Rules that strengthen intellectual property rights, such as those protecting critical source code, arguably make it more difficult for new entrants to a market to imitate the successes of those already established. Such rules can, however, help to ensure that online transactions and related businesses are unhindered and so promote the development of related industries.

Other e-commerce proposals, promoted by developing countries and better reflecting their interests, concern trade facilitation for e-commerce, infrastructure gaps to enable e-commerce, access to payment solutions and online security.

## Rules on micro, small and medium-sized enterprises

Proposals for addressing MSMEs at the WTO largely concern intellectual property rights. (MSMEs include entrepreneurs, start-ups, businesses, researchers and investors.) New rules would tighten and spread intellectual property rights to better cover the operations of MSMEs. Though it is argued that doing so could foster transparent and predictable intellectual property rules for such entities, it could also lock out developing country businesses from these areas.

Almost all African businesses are MSMEs. Support to them is thus vital in ensuring a successful CFTA. The flanking policies in Chapter 6 will be crucial for this purpose. As this is already part of the CFTA agenda, it is questionable whether Africa needs disciplines at the level of the WTO given the associated risks to policy space.

## Rules on domestic regulation of services

Several developed economies (including Australia, the EU, Japan and New Zealand) have proposed a package of rules for the WTO Ministerial Conference that is scheduled to be held in Buenos Aires in December 2017 on Domestic Regulation in Services. These rules "apply to measures by members relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards affecting trade in services where specific commitments are undertaken."[4] These disciplines must apply to all levels of government—central, regional and local.

The proposals include the following key elements:

- The measures relating to licensing and qualification requirements, procedures and technical standards must be "objective and transparent."
- The regulator must "administer in an independent manner."
- The technical standards must be developed according to "open and transparent processes."
- Detailed transparency requirements (all aspects of licensing and qualification requirements and procedures and technical standards) must be published including timeframes for processing, as well as fees and procedures for monitoring compliance.
- Fees must be reasonable and transparent and cannot restrict the supply of the service.
- They must allow for prior comment, i.e. foreign industry players are allowed to comment on regulations that are being developed domestically, etc.

Developing countries may be challenged on the basis of these disciplines when implementing measures intended to support development of domestic industries.

## Investment facilitation

Some members are also seeking a mandate at the December 2017 Buenos Aires Ministerial Conference to negotiate investment facilitation rules. Proposals were submitted in March–April 2017 by, Brazil, China and Russia, suggesting detailed transparency requirements that would require listing the criteria used in licensing requirements and the appraisal of potential investors.

A concern here is that these rules could mean that markets are open to investors without conditions, unless adequate criteria and conditions have already been put in place. This could be used to force countries to open up sectors for investment beyond what is desired by these countries.

### Implications

The CFTA can be a means of solidifying a common African position at the WTO to give Africa a single, strong voice, including on the new WTO issues. However, there is no requirement for any of the new issues to be included in the CFTA (although, as discussed in Chapter 10, negotiators way wish to consider issues of e-commerce as a topic of the second phase of CFTA negotiations).

In all cases, the new issues divert attention in the WTO from the remaining Doha Round issues, which are of particular value to developing countries. The new issues can thus be perceived as a way to circumnavigate the Doha Round interests of developing countries, enabling more advanced countries to pursue their alternative interests. African countries must be wary of how such new rules could restrict their policy space or strengthen intellectual property rights. Consideration should be given for the CFTA to establish a platform for solidifying a common African approach to these new issues.

## Traditional trading partners: Brexit and the EU

In what is commonly dubbed Brexit, the United Kingdom intends to exit the EU as a result of a 23 June 2016, referendum in which 51.9 per cent of those who cast a valid vote, voted to leave. This has the following three main implications or lessons for regional integration in Africa and the CFTA.

### A direct effect on Africa's trade with the United Kingdom

Brexit has a direct effect on Africa's trade with the United Kingdom. Work by Mold (2017), finds a small increase in African exports to the United Kingdom due to trade diversion, under a scenario in which the United Kingdom falls back on WTO provisions for its trading with the EU. Certain African exporters have sensed this possibility, such as those in the Citrus Growers' Association of Southern Africa, who suggested that revised UK plant health regulations on citrus imports could help them improve access to the United Kingdom market (Luke and MacLeod, 2016). On the other hand, the effects of the British pound's devaluation have had immediate negative effects not just for African goods exports, but the dollar value of UK aid, investment, remittances and tourism in African countries (Mendez-Parra et al., 2016).

Brexit enables the United Kingdom to undertake a renewed trade policy towards Africa which, at most, could better support the CFTA by targeting continental Africa (Luke and MacLeod, 2017). However, Brexit also creates risks to Africa's trade. The preferential regimes of the UK for Africa through the current trade policies of the EU, including the Everything But Arms (EBA) initiative, Generalised System of Preferences (GSP), and the EPAs may be disrupted or excluded from the new UK trade policy. Were the United Kingdom to turn more protectionist or offer fewer preferences than the EU does, the UK trade arrangements could have potentially large negative effects for African and other developing countries (te Velde, 2016).

### A "catalyst" for African countries to exit the Economic Partnership Agreements

Brexit reduces the cost for African countries to leave the EPAs by removing from the EPAs one of the EU's largest markets for key African products. The United Kingdom accounts for about 11 per cent of Africa's exports to the EU, but among agricultural exports, it takes in 67 per cent of beef, 41 per cent of tea and spices, 31 per cent of wine, and 22 per cent of Africa's fruit exports to the EU (The United Kingdom's share of EU's agriculture imports from Africa, 2014).

The effect is to undermine the case for the EPAs in particular countries for which these products are of especial value. Stevens and Kennan (2016), identify the United Kingdom as accounting for 29.3 per cent of Ghana's "sensitive exports" to the EU, 27.3 per cent of Kenya's, 15.5 per cent of Namibia's and 9.6 per cent of Swaziland's. Ghana, which had long deliberated over the EPA, recently signed an interim Ghana EPA because of its strategic significance for priority fish, processed cocoa, fruit and vegetable exports, yet within the EU the United Kingdom accounts for over 50 per cent of some of these imports from Ghana.

Consequently, Brexit has sparked fresh EPA concerns while reigniting those already largely doused. It was, for example, the ostensible reason for Tanzania's decision

Table 9.1

**The United Kingdom's share of EU's agriculture imports from Africa, 2014**

| No. | Product | Value ($ million) | Share of EU imports (%) |
|---|---|---|---|
| 1 | Fruit | 813 | 22 |
| 2 | Vegetables | 394 | 17 |
| 3 | Fish | 329 | 8 |
| 4 | Cocoa | 289 | 5 |
| 5 | Wine | 167 | 31 |
| 6 | Tea and spices | 166 | 41 |
| 7 | Fresh cut flowers | 128 | 11 |
| 8 | Sugar | 126 | 10 |
| 9 | Beef | 66 | 67 |
| 10 | Banana | 61 | 10 |
| 11 | Tobacco | 59 | 6 |
| 12 | Coffee | 46 | 5 |
| 13 | Seeds and nuts | 41 | 7 |
| 14 | Edible oils | 15 | 3 |
| | Other agriculture | 99 | 11 |
| | Total agriculture | 2,802 | 11 |

*Source: Reconciled bilateral trade flows from the CEPII-BACI dataset.*

to postpone signing its East African Community (EAC) EPA.

### Lessons for African regionalism

Brexit is a cautionary tale for African integration, and a lesson in the risks of integration generally. Central to the case for Brexit was the perception that European integration had diminished UK sovereignty and that the decisions affecting UK citizens were instead being made by unaccountable European bureaucrats in a foreign capital. Africa is a continent all too familiar with its own, albeit much darker, struggle for sovereignty: Indeed, sovereignty is the first principle of the 1963 charter for the Organisation for African Unity. The lesson for Africa is that perceptions of sovereignty matter, and moves towards pan-African unity must be cautious.

### Other implications

At best, a new UK trade policy can contribute to the CFTA by orientating towards and supporting African continental integration. This can be buttressed by the United Kingdom's substantial development assistance, roughly $16 billion, which is reportedly to be increasingly focused on trade-related projects (*Financial Times*, 2016; DfID, 2017).

Brexit has fundamentally shifted the negotiating cards held by the EU in its EPA negotiations with Africa. This has already proved catalytic for certain countries in turning their back on the EPAs, but may be more constructively leveraged to reopen discussions with the EU for better achieving the trade interests of Africa, including continental integration and the CFTA.

Brexit is, in an admittedly very different context, a rejection of regional integration. African leaders must heed this caution and ensure that integration projects in Africa, including the CFTA, are cognizant of the potential pitfalls of integration and responsive to their root causes, including perceptions of loss of sovereignty.

## United States: Beyond AGOA

The African Growth and Opportunity Act (AGOA) has been the cornerstone of the United States–Africa trading relationship since 2000, and forms an important component of US development policy towards Africa. The legislation provides significantly enhanced market access to the United States for qualifying Sub-Saharan African countries and has been especially valuable in promoting African textile and apparel exports. Several AGOA beneficiaries, including Kenya, Lesotho, Madagascar, Swaziland, Ghana, Ethiopia, and Mauritius, have achieved some export diversification through textiles and apparel.

Beyond such notable success stories, AGOA is generally considered to have fallen short of achieving its transformation potential. Included within AGOA preferences are oil, gas and petroleum exports, which still account for the majority of AGOA exports (Figure 9.2). Over 2001–15, the value of AGOA exports was largely determined by the impact of the commodities super cycle on oil, gas and petroleum exports. In 2015, 55 per cent of US imports from Africa were oil or energy-related products, and since AGOA's inception, petroleum products have averaged around 80 per cent of exports. While AGOA has facilitated the production and export of certain processed and manufactured products to the United States, this has yet to lead to any fundamental change in the structure of African exports to that market.

In 2015, AGOA was renewed for another 10 years with new provisions, such as an emphasis on National Utilization Strategies, which are designed to ensure that African countries are better prepared to take advantage of AGOA opportunities.

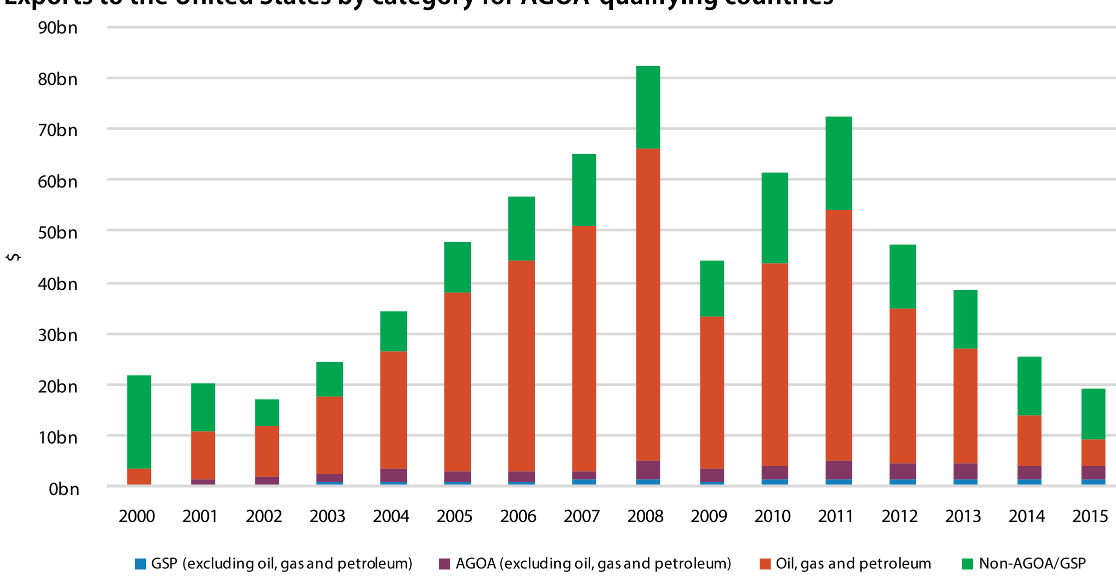
The *Beyond AGOA* report, released by the US Trade Representative in September 2016, lays out US intentions for the future of AGOA beyond this 10-year renewal. It argues that provision of unilateral preferences for Africa is untenable while Africa negotiates reciprocal agreements with other regions and countries, and while other providers of non-reciprocal preferences to Africa, such as the EU, move towards reciprocal arrangements.

*Beyond AGOA* frequently alludes to the increasing commercial and domestic pressure in the United States for reciprocal arrangements with Africa. It also presents Africa's rising economic significance, in terms of development improvements and increasing economic size, suggesting that with these opportunities American businesses could be "left out" in the competition with other trading partners with which Africa is developing reciprocal agreements. Chief among this competitive scramble is the EU with its EPAs, and China, which is frequently mentioned in the Report. China does not yet have serious reciprocal agreements under negotiation in Africa, but it overtook the United States in 2004 as the second-biggest supplier of Africa's imports (after the EU) and in 2012 as the second-biggest destination for African exports (again after the EU).

The Report hints heavily at a multilayered approach to engaging different African countries based on their divergent characteristics and appetites, such as levels of development, wealth and readiness for expanded trade engagements. This suggests an approach of pre-selecting "can-do" countries as regional leaders for individual free trade areas, after which other countries can be folded into these agreements when ready.

Figure 9.2

**Exports to the United States by category for AGOA-qualifying countries**




*Note: GSP denotes products that would already qualify for access into the United States through the United States GSP preference scheme without AGOA. AGOA denotes products that benefit from additional AGOA-related preferences. Non-AGOA/GSP denotes exports to the United States that do not enjoy any preferential market access scheme.*

*Source: AGOA.info.*

This presents a serious challenge to African regional integration, with the risk of fragmenting, rather than consolidating, African integration—despite "African regional integration" being stated as one of the three underlying principles of any new United States–Africa trade framework and the Report also identifying "small fragmented markets" as among Africa's key challenges to its competitiveness.

The Report ostensibly draws lessons from the EPAs, suggesting that the failure of EPA negotiations is due to regional approaches that draw in too many countries of divergent characteristics and interests. Ironically, then, the one concluded EPA (with SADC) is actually with the continent's most divergent countries, because it includes South Africa, Africa's most advanced economy.

The United States is likely drawing lessons instead from its experiences in Latin America and the failure of the FTAA (see Chapter 3), in which a one-size fits all trade agreement with no flexibilities for its less developed members was ultimately rejected by the 34 countries of the Americas. However, there is caution for Africa from the FTAA experience also. It resulted in the fragmentation of regional integration in Latin America (see Box 3.1 and associated text).

When considering its options beyond AGOA, Africa should remain cautious of such fragmentation and should instead press for a comprehensive continental agreement with the United States that is supportive of the CFTA.

## Implications

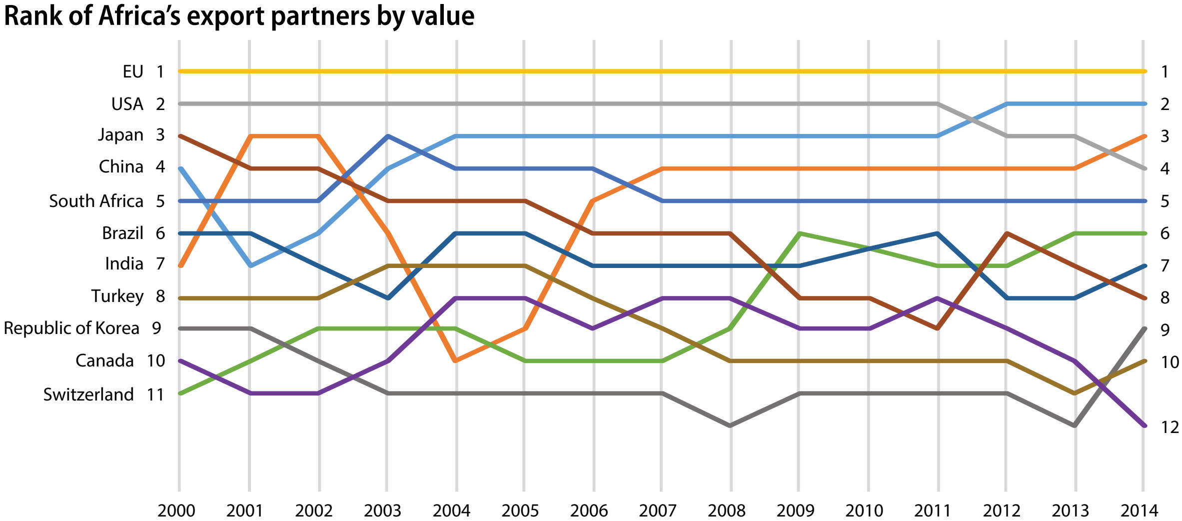
African trade policy makers should be aware that such a US approach to individual "can-do" FTA countries may again be the desire of the United States and would present a major critical juncture against African continental integration. This is all the more reason to ensure the conclusion and implementation of the CFTA before 2025, so that African countries are prepared to address the United States as a single, cohesive and stronger entity, and individual FTAs do not pick apart the African regional integration agenda. The window of opportunity to secure the CFTA is now open—but will not remain so indefinitely.

## Rise of emerging market economies: Brazil, China, India and Turkey

The rise of emerging market trade with Africa—we focus here on Brazil, China, India and Turkey—is momentous. Rank of Africa's export partners by value and Figure 9.3 show the rising importance of these countries in Africa's trade over the 15 years 2000–14. While the EU, Africa's most important trading partner in terms of value, has remained Africa's number one export destination, the United States, traditionally Africa's second-most

Figure 9.3

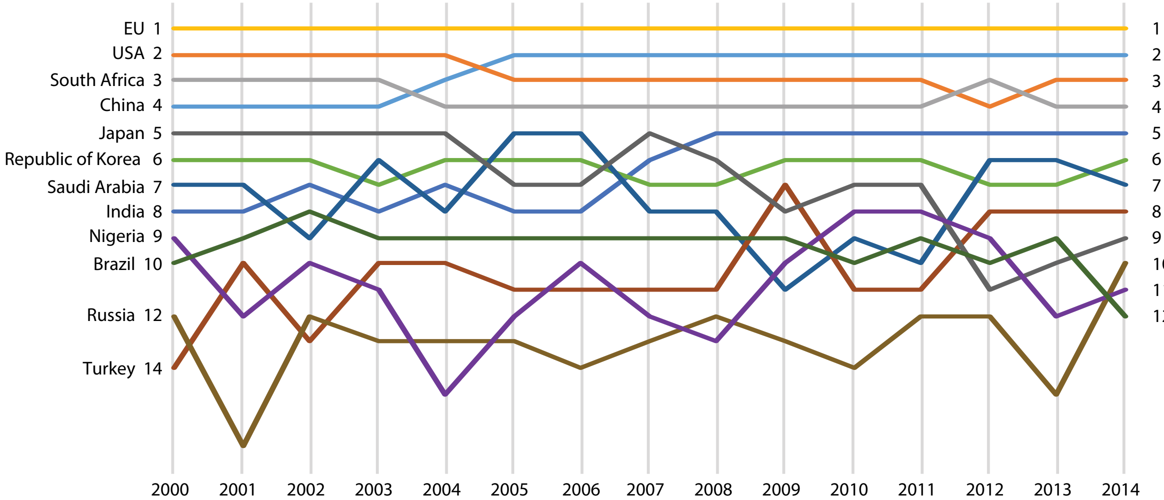
**Rank of Africa's export partners by value**




*Source: ECA calculations using CEPII-BACI trade dataset.*

Figure 9.4

**Rank of Africa's import partners by value**




*Source: ECA calculations using CEPII-BACI trade dataset.*

important destination, was overtaken by China in 2012 and India in 2014. Japan, which was Africa's third-most important export destination in 2000, has been superseded not only by China and India, but also Brazil, South Africa and Switzerland (to which the value of gold exports has risen substantially) (Rank of Africa's export partners by value). Turkey, which was Africa's eighth most important export destination in 2000, rose to seventh in 2003–05, before falling behind Switzerland and the Republic of Korea to 10th place by 2014.

The story of Africa's most important import partners bears similarities (Figure 9.4). While the EU remains the most important source of Africa's imports, the United States was moved out of second place by China in 2005 and South Africa in 2012, before recovering to third above South Africa in 2013. South Africa fell one place, from third to fourth, as a result of China. India, which was Africa's eighth most important source of imports in 2000, climbed above Japan, the Republic of Korea, and Saudi Arabia to fifth place in 2014, while Japan fell from fifth to ninth. Also notable is the increasing importance of Turkey, from 14th position in 2000 to 10th in 2014, and Russia from 12th to eighth. Brazil comes 12th, after Nigeria in 11th, after being pushed down by Russia and Turkey.

The cumulative impact of the rise of emerging market economies has been an increase in Africa's exports to these markets from $18 billion to $130 billion over 2000–14, for an increase in the share of Africa's exports from 9 per cent to 15 per cent (Evolution of African exports and imports). Similarly, imports have risen from $13 billion to $145 billion over the same period—equivalent to an increase in the share of Africa's imports from 8 per cent to 25 per cent.

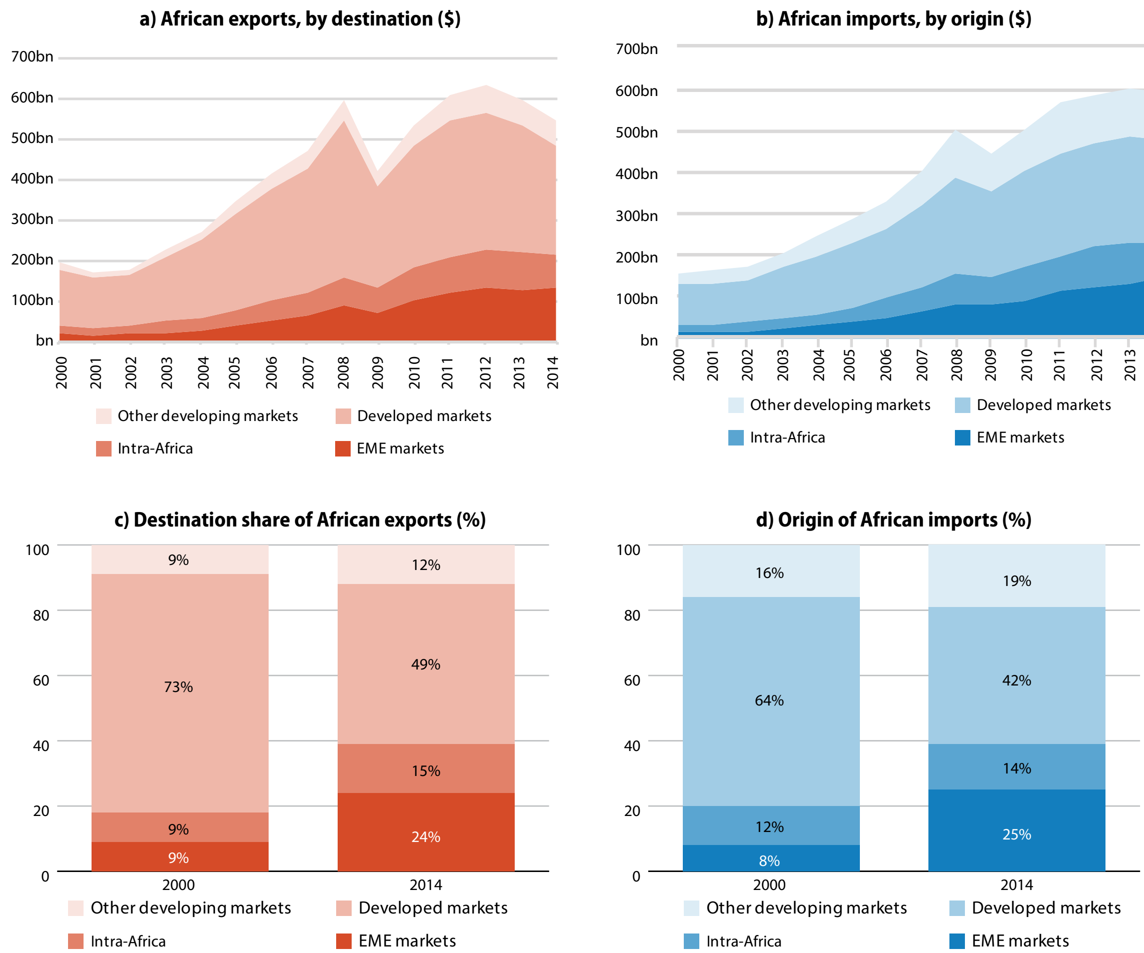
This dramatic shift in the pattern of Africa's imports and exports reduces Africa's dependence on traditional trading markets such as the EU. The critical juncture posed by this better enables African countries to pursue alternative trade policy objectives that might otherwise be required. For instance, less reliant on the EU, African countries are better able to delay and turn down proposed EPAs.

The composition of Africa's trade with emerging markets is also important. As Africa's extractive industry exports and world commodity prices shows, the bulk of Africa's impressive almost three-fold increase in exports, from $194 billion in 2000 to $544 billion in 2014, is largely due to the expansion of extractive exports and the commodity price boom.[5]

A key driver of this trend has been the growth of extractive exports to emerging market economies, which accounted for 37 per cent of Africa's growth in extractive exports over this period (Composition of extractive industry exports to destination markets). By 2014, 88 per cent of products imported by China, India, Brazil and Turkey from Africa were extractive industry exports. In contrast, the impressive growth in intra-African exports has comprised a far larger share of non-extractive exports. Intra-African trade accounted for 32 per cent of Africa's total growth in non-extractive industry exports over 2000–14.

Figure 9.5

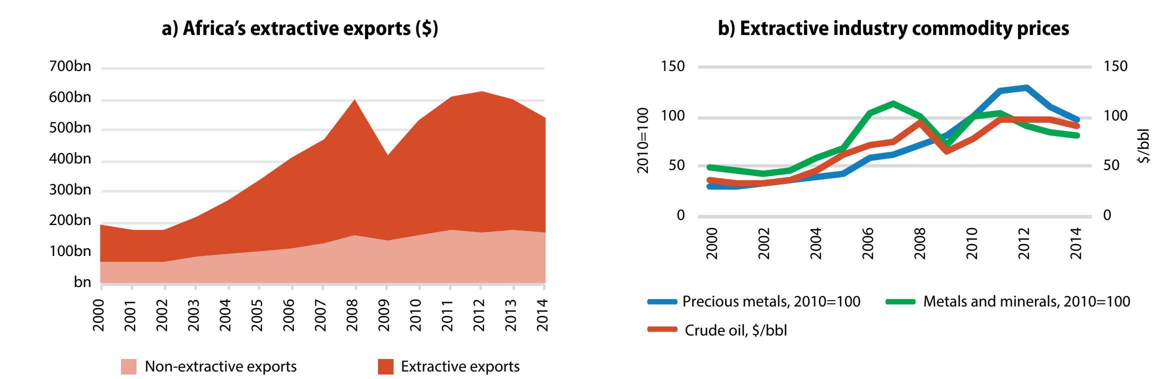
## Evolution of African exports and imports




*Source: ECA calculations using CEPII-BACI trade dataset.*

Figure 9.6

## Africa's extractive industry exports and world commodity prices

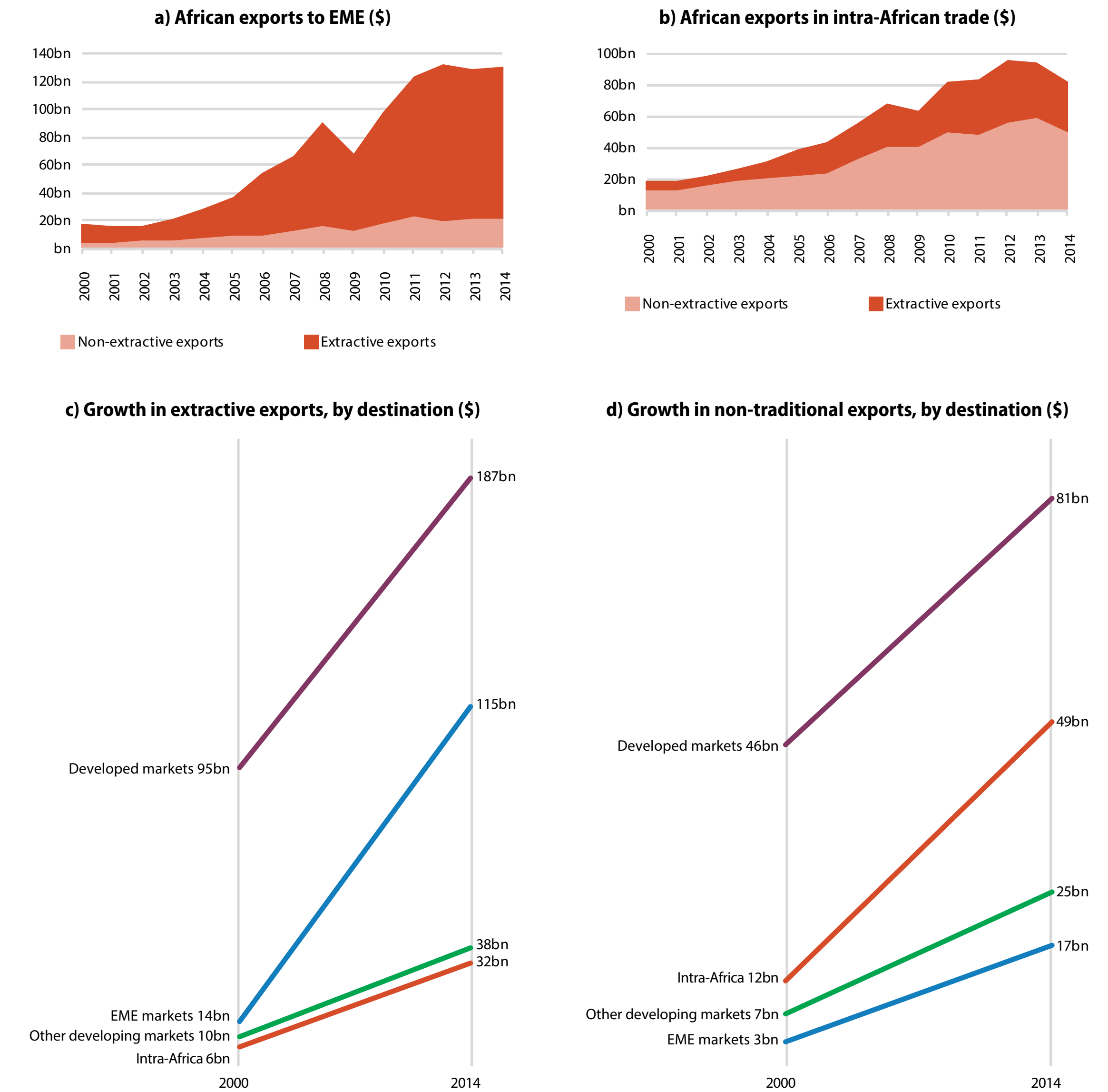



*Source: ECA calculations using CEPII-BACI trade dataset and World Bank Commodities Market Data.*

Drilling down into these non-extractive exports, we see that intra-African trade experienced rapid growth in most categories of non-traditional exports, and notably more than other markets for consumer goods, capital goods, transport equipment, processed industrial supplies and processed food and beverages (Share of Africa's export growth in non-extractive export categories, by destination market), demonstrating the considerable importance of the intra-African market in boosting Africa's value-added industrial exports.

Figure 9.7

## Composition of extractive industry exports to destination markets




*Source: ECA calculations using CEPII-BACI trade dataset.*

Table 9.2

## Share of Africa's export growth in non-extractive export categories, by destination market

| | Export category | EMEs | Intra-Africa | Developed markets | Other developing markets |
|---|---|---|---|---|---|
| Food and beverages | Primary | 14 | 18 | 31 | 36 |
| | Processed | 3 | 51 | 30 | 15 |
| Industrial supplies | Primary | 43 | 15 | 6 | 36 |
| | Processed | 15 | 44 | 27 | 13 |
| | Capital goods | 3 | 57 | 28 | 12 |
| | Transport equipment | 5 | 45 | 45 | 6 |
| | Consumer goods | 5 | 46 | 30 | 19 |

*Note: Values compare the export growth between three-year averages of 1998/2000 and 2012/14, and calculate the proportion of export growth attributable to each market such that* $Share\ Attributable_{i,j} = \left(Exp_{i,j,t} - Exp_{i,j,t-1}\right) / \left(Total_{i,t} - Total_{i,t-1}\right)$ *where i is the export category, j is the buying market, and t is the period. Exp is the value of exports of category i to market j while Total is the total value of exports from Africa of product j.*

*Source: CEPII's BACI dataset.*

## Implications

The dramatic rise in trade between Africa and emerging market economies reduces Africa's dependency on traditional EU trading partners, potentially giving the continent greater independence and flexibility in pursuing its trade objectives. However, Africa's exports to emerging markets have been concentrated in extractive industry exports, including products such as petroleum oils, gold and precious metals, and other metals and minerals. Current trade flows are unlikely to prove a panacea for African industrialization.

Intra-African exports, in contrast, tend to comprise an especially large share of industrial and value-added products that can be better used to support African industrialization. Moreover, the African market is expected to expand faster than any region in the world. African population growth is set to account for more than half the world's total by 2050 (UNDESA, 2015). Most African countries will more than double their populations in this period, and by the end, one in four people in the world will be African.

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## Endnotes

1 ECA modelling shows that effective and timely implementation of the CFTA would offset the negative outcomes of the three MRTAs on Africa. Instead of reducing them, Africa's total exports would increase by $27.5 billion. Intra-African trade would expand by $40.6 billion and the majority of this increase would be in industrial products such as electronics; machinery and transport equipment; chemical, textile and metal products; and processed food. This would help to support industrialization and structural transformation (Mevel and Mathieu, 2016).

2 Possible examples are fertilizers, machines, spare parts and packaged materials.

3 See, for example, the proposed WTO rules in the US paper (JOB/GC/94).

4 JOB/SERV/239/Rev.1 31 October 2016 Australia et al. "Domestic Regulation – Administration of Measures."

5 Extractive exports here include petroleum oils (SITC 33), gas (SITC 34), non-ferrous metals (SITC 68), metalliferous ores and metal scrap (SITC 28), crude fertilizers and minerals (SITC 27), coal, coke and briquettes (SITC 32), and the remaining precious metals in HS 71, uranium (HS 2844), and the basic iron products of HS7201–HS7206.