



Meeting Summary

Plans for an African Free Trade Area

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04 April 2010

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Peter Lilley:

Good afternoon. The purpose of this meeting is to discuss the issue of trade within Africa as well as the international dimension. Throughout these proceedings we hope to improve our understanding of the transformative effects that free trade and investment can have on regions: in this instance, we shall be focussing on Africa and the creation of freer trade between the continent and nations outside it, as well as pan-African trade. Speaking on behalf of the All-Party Parliamentary Group on Trade Out of Poverty, we are very happy to welcome our esteemed panel of guest speakers to tackle this pressing issue. Starting off will be by the UK Minister of State for Trade and Investment, Lord Green.

Lord Stephen Green:

Thank you. As it stands, the current situation could be best described as a honeymoon period. Never before has so much interest and care about the transformative tenets of power of trade and investment been voiced until now. This government believes that trade is inclusive and can develop regions. The past history of Africa has often been unable to realise its full potential as a result of financial difficulties, often lacking the effective structures within to trade effectively. However, this talk of under-developed Africa is rapidly becoming obsolete. It is this government's contention that the majority of Africa is past the tipping point as far as investment and trade potential is concerned. Although the continent still represents a third of the world's poorest countries and half of all Africans live below the absolute poverty line, six out of ten of the fastest growing countries in the world can be located in sub-Saharan Africa.

The idea of free trade provides Africa with the potential powerhouse for economic development that it has pursued for many years. And it's not just African states that benefit: the international community will see the advantage in many ways including easier access of foreign direct investment and the breaking down of economic borders. It is because of this mutually beneficial arrangement, that aid for trade must be continued to improve cross-border efficiency. The government must attempt to maintain the current levels of investment in order to see a return in African economic development. Doha is important in establishing African development and it won't be easy to convince the other G20 nations to maintain their current levels of investment without adopting any protectionist measures. These global aid programmes

will be designed to facilitate African international and regional attempts to rid themselves of protectionism. Technical assistance from the UK will be necessary in establishing free trade across the continent.

The 1991 conference held in Abuja, Nigeria resulted in a treaty that stipulated Africa's long term aims at establishing a free market across Africa. This was obviously a long-term objective and is still the line currently being pursued. A few problems have arisen since this treaty's inception: chiefly the economic plight facing landlocked African countries. As the main exports from the continent consists of primary sector goods, without sufficient infrastructure (namely waterways or a port), landlocked states often suffer from difficult trade routes. It is these states that require the greatest concentration of investment (particularly technical) to develop the infrastructure within which to operate under a free market. In short, trade liberates people from poverty. You only need to look at Asia in the 1960s to understand where Africa stands today. The Asian market suffered from real under-development and poverty but, having braved the storm, has come out as some of the fastest and most competitive economies in the world today. Africa is developing its Tigers of tomorrow.

Ebele Ogbue:

I am going to try and remain as practical as possible. My background is in corporate banking in West Africa and as such I will mainly discuss these nations within the ECOWAS region, but try and integrate some continental facets to the argument as well. It is my belief that economic integration is essential in developing not just West Africa, but the whole continent. By way of a bit of context, here are a few details that you might find helpful to understand how West Africa stands now. 250 million people live within the ECOWAS region. Only 11% of its aggregate trade is conducted with other African countries – this is a very low figure as localised trade often proves one of the quickest ways to develop local infrastructure.

However, it should be noted that these figures are only taking formal trade in to account and fail to address the prevalent informal economy that occurs in the region. How do we go about documenting this informal trade? That is something that also needs to be put in to consideration. Many of the countries in the region are very small. Nigeria, Côte d'Ivoire and Ghana (the three major economic powers in the region) still have very low salaries per capita: these low salaries can be adjusted with greater infrastructure development and foreign investment. The small amount of intra-regional trade is chiefly

undertaken between Sierra Leone, Ghana and Mali. So as to get an accurate figure on trade, there needs to be a convergence of the informal and formal economy.

There are some real challenges that this region must face before it is ready to embrace a free market and developed economy. The evident conflict of interest between politics and economics: many national leaders and statespeople have heavily invested in their countries' major industries have accumulated vast personal wealth and, as such, the distribution of funds for economic development is sparse on the ground. There is also a tendency to veer towards vertical integration and other forms of corruption which stifle the establishment of a free market. This dearth in re-investment is demonstrated in the lack of development of infrastructure and transport links to facilitate trade within the region or continent.

Another issue is the export of primary goods to former colonial powers. At present, multi-national corporations extract the primary resources of the country and they are then processed abroad. This arrangement needs to change: African countries need to develop the equipment and infrastructure to process their own products and use the funds garnered to put back in to the economy. This extra national income could be used to develop better trade links with other African states. If this pattern were to be followed, greater regional integration within West Africa would drive down costs, creating vastly improved economies of scale.

On top of this, the costly and time-consuming bureaucracy involved can hamper free trade exchanges and put investors off. Security is another issue that is likely to scare away business prospects. These are issues that need to be addressed outside the economic sphere. Perhaps a way to tackle the informal/formal trade aggregate can be overseen by the ECOWAS Monetary Committee, whose current remit is to observe how payments are being made within transactions in the region. This regional integration could create a common position for developing trade within the area.

John Battersby:

Africa's current position should be a focus for foreign direct investment. The West's approach towards Africa has transformed over the last seven years. This is partly a result of the emergence of the Commission for Africa, which created an awareness of the importance of the continent as a whole as well as its economic significance. The McKinsey Report of this year (*Lions on the Move*) has voiced an optimistic economic forecast for African economies, an

outlook that was shared and voiced by former President Thabo Mbeki as long as a decade ago.

It seems Mbeki's words are now coming to fruition. *Lions on the Move* delivers some impressive statistics: although Africa's economy grew only a little over the previous two decades, there is real potential for its economy to expand rapidly in the near future. Africa's GDP stood at an impressive \$1.6 trillion; by 2020, we're looking at \$2.6 trillion (a significant jump). Africa has entered a new era, and the report indicates that the continent has enjoyed sustained growth. It also highlights a number of measures used to reenergise markets (in light of the current global economic climate): these include cutting corporation tax, reducing trade barriers and strengthening the legal regulations over reducing oligopolistic and monopolistic behaviour. At the moment, the continental growth stands at 4.5% and Africa represents an emerging market of 1 billion, as well as a territory with plentiful natural resources.

So, in spite of all these positives, what is holding Africa back from achieving its development dreams? The current regional economic groups within which a lot of African multinationals operate are clumsy in action, and ill-thought through in design. They overlap (a hangover from imperial border-making) – giving real ambiguity to economic jurisdiction. As it stands, there are three main groups (SADC, ECOWAS and COMESA) who together created the Africa free trade zone. It is up to Doha to eliminate the red tape that is stifling the productive efforts towards progressive change. The Economic Partnership Agreement is a step in the right direction of what will certainly be a lengthy process.

Real progress has been made in development: the boom of the telecommunications industry is reflective of the progressive economic transformation that is being made throughout Africa.

Q & A SESSION

Question:

To what extent do you think the current tendency to operate within the informal economy (with cash) can have any real impact on the regional economy?

Lord Stephen Green:

The real economy is certainly larger than the figures would indicate: the informal economy still provides a lot of Africans with their incomes. This is useful to be aware of and helpful that these individuals have livelihoods. Unfortunately, according to recent surveys, this informal set-up is failing to deliver higher standard of living for all Africans involved within the trade. As such, data collection is necessary to ensure that development is for all.

Ebele Ogbue:

Discussions with central banks about the notion of free trade have inevitably led to a single complaint: the flow of currency. The flow of funds is needlessly complicated and the whole system needs a shake-up. On top of this institutional overhaul, central banks must oversee and monitor all transactions in order to capture information. Keeping reliable information on this will attract foreign direct investment, as it will indicate an organised central body on top of a high GDP figure. The cash flow problems have declined since the decision was made to conduct all transactions with local currency - rather than dollars or sterling – to avoid escalating exchange rate costs: a step in the right direction.

Question:

Is there a risk that, without the aggressive promotion of free trade that you are espousing, resource reversion might take place, thus nullifying the merits of an open market?

Lord Stephen Green:

There will always be resource competition. The point is to make sure that all negotiations undertaken are conducted by people aware of the economic imperatives of their actions.

Ebele Ogbue:

To reiterate the previous point, fierce competition for resources will always occur initially. In this instance, the informal sector is larger than the formal and those local groups lucky enough to secure said resources will always benefit to the greatest extent.

Question:

What opportunities are there for African countries collectively taking their trade problems to the WTO?

John Battersby:

At the moment, airtime and mobile phone banking are the two precious commodities – this shows how far Africa has come over such a short time. The important final risk would be for neither the West nor Africa to engage in a constructive dialogue - the subject in question may very well be remittances, which represent a real source of revenue for the future.

Question:

Given the resilient resistance to a single African Economic Union, what can the UK Government do to smooth the transition of Africa to free trade? How can we help facilitate an integrate market?

Lord Stephen Green:

How the continent goes about developing is not our decision to make; it is Africa's. The UK can certainly assist. We can advise and encourage further investment in basic infrastructure, but it must be recognised that it is a slow, pain-staking business. Our goals need to be realistic: these should be evidenced in our construction of our aid programmes to these regions.

John Battersby:

The UK currently adopts a very broad view of African development. If the UK did decide to cut back on investment, it must (at least) maintain strong relations with the leading African economic partners (e.g. South Africa, China, Nigeria). We can't afford to fall behind: the Chinese Africa Forum is already investing heavily in infrastructure and assisting the micro-management of development projects.

Question:

With regards to Doha and African domestic support for the talks, how can the EU substantiate claims that it will attempt to break the unhelpful paradigms and stereotypes that are so often unfairly equated with Africa?

Lord Stephen Green:

Doha will probably conclude that the more you can free up of your economy, the better shape it will end up in. It will not be easy to arrive at this.

Ebele Ogbue:

Africa needs to change first. To achieve true economic integration, Africa must demonstrate that it is truly committed to building necessary infrastructure. Trade should be a primary issue – it is essential to achieve anything tangible. We must remove trade barriers and develop a greater accountability for currencies.

Question:

As mentioned above, the fruitful relations between Africa and China and India are indicating that the UK could certainly consider greater investment of time and effort in to this engagement. The North/South Corridor will promote intra-national trade across Africa if implemented effectively. However, despite these moves towards greater cooperation and interdependence, it should be stated that Africa will become part of a single currency (it's about as likely as the UK joining the single currency). But this is immaterial: we should not focus on a single currency, but instead analyse the nuts and bolts of the operations. For example, the suggestion of increasing one-stop border ports is something that DFID should consider to create a freer flowing trade. With regards to agriculture and delays at customs desks, what can be done by the private

sector to ensure that there are sufficient conditions to ensure stock wastage minimisation?

Ebele Ogbue:

Agriculture is vital to the future of Africa. Despite the fact that the market has begun to diversify (Nigeria's chief export used to be agricultural goods, but is now oil), many emerging economies still rely heavily on the primary sector. Liberia's main export is rice, for example. In the instance of agriculture, funding is critical. However, financial institutions tend to be short-sighted and not recognise the importance of agricultural investment.

John Battersby:

The UK should focus on research and development investment, particularly in recommending the planting of correct plants and the most effective way to maintain healthy yields. Economic Partnership Agreements can prove to be double-edged swords...

Lord Stephen Green:

Again, we must avoid grandiose and unrealistic targets; we must avoid a single target altogether as this will not be helpful when assessing a continent the size of Africa. A more effective way of dealing with the agricultural issue is to move towards an institution like a customs union – something that could provide a more realistic basis from which to operate. However, the pre-eminence of trade barriers will always mean that Africa will have tied a hand behind its back. The reference to Asia's role in Africa cannot be understated either.

Peter Lilley:

Many thanks to all our speakers today. We here fundamentally believe in the transformative powers of trade and the impact that it can have on improving the lives of Africans and helping us secure our final Millennium Development Goal (developing a global partnership for development).