



African  
Economic  
Platform

MAURITIUS, 20-22 MARCH 2017

## PLENARY PANEL 2

A brief on

***Intra African Trade and Investments***

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AFRICAN ECONOMIC PLATFORM MAURITIUS 20-22 MARCH 2017

## **Intra African Trade and Investments**

1. Trade is a powerful engine for economic growth and development. However, Africa's story in this regard has been different as compared to other regions of the world such as East Asia, where trade is believed to have been particularly instrumental in the development of that region and has had an enormous impact on poverty levels through its effect on economic growth, employment, consumer prices and government revenues and spending. So far, Africa's fundamental role in the global trade market has generally been providing raw commodities in exchange of manufactured goods, thereby capturing a minimal 3% of the global share of trade.

2. Fostering intra-African trade and unifying the continental market therefore is imperative, especially given that Africa has been trading with itself at on average over the past decade, not more than 15%. This does not compare well with other regions of the world, such as Europe where 63% of Western European trade takes place with other European nations and North American countries where 63% of their trade takes place among themselves. The implications of low shares of trade both at the continental and global level have been far reaching for Africa's growth and development where trade patterns have continued to be influenced by historical links both within and with the rest of the world.

3. There are myriads of challenges that have led to the low level of intra Africa Trade. This position can however change if Africa effectively addresses supply side constraints and weak productive capacities, infrastructural bottlenecks, trade information networks, access to finance for traders and other economic operators, free movement of people as an important ingredient of cross border trade, trade Facilitation and trade in services as an important emerging opportunity.

4. It was against this background that the 18<sup>th</sup> Ordinary Session of the Assembly of Heads of State and Government of the African Union which was held in January 2012 under the theme "*Boosting Intra-African trade*" took important decisions aimed at enhancing trade integration in Africa. The Assembly endorsed an Action Plan for Boosting Intra-African Trade and agreed on a roadmap for the establishment of the CFTA to be operationalized by an indicative date of 2017.

5. The Action Plan for boosting Intra- African trade aims at deepening Africa's market Integration and significantly increasing the volume of trade that African countries undertake among themselves. This plan aims to tackle some of the challenges enumerated in 3 above and it is organized into seven clusters as follows:-

- (i) *Trade policy:* to ensure implementation of coherent and efficient trade policies at all levels
- (ii) *Trade facilitation:* to deal with all other non-tariff related trade constraints
- (iii) *Productive capacity:* to low and inefficient means of production.
- (iv) *Trade related Infrastructure:* crucial for achieving trade competitiveness and diversification

- (v) *Trade Finance*: to improve access to finance for economic operators
- (vi) *Trade Information*: crucial for making rational business decisions.
- (vii) *Factor market integration*: to increase intra-regional mobility of factors of production such as labour and capital

6. This Action plan, was developed to complement other existing initiatives also crucial in the boosting of Intra African Trade such as the Action plan for Accelerated Industrial Development of Africa (AIDA), the Program for Infrastructure Development (PIDA) and the Comprehensive Africa Agriculture Development Program (CAADP) and the draft Protocol on Free Movement. The challenge therefore for Africa lies in ensuring that there is smooth coordination and implementation of these initiatives. With Africa's GDP of over \$3 trillion and a population of over one billion, emerging middle class, harnessing and consolidating Intra Africa Trade can contribute significantly to the realisation African Unions Agenda 2063 and its vision of creating a peaceful and prosperous continent.

7. Building on the progress that has been made in the trade liberalisation programmes of the various Regional Economic Communities in Africa, the establishment of the CFTA will significantly accelerate growth of Intra-African trade and allow Africa to use trade more effectively as an engine of growth and sustainable development. It will assist in the fight against poverty and underdevelopment in the continent and expand trade and investment opportunities for Africa.

8. The role of Investments, both from foreign and local sources in boosting Intra African trade cannot be overemphasized. Africa still has the smallest share of global FDI flows even though it increased to 4.4% in 2014 from 3.7% in 2013. There is however an opportunity for this share to increase further given the slow global economic growth which may make the faster growing African economies relatively more attractive, especially to investors from emerging-markets. Given that these inflows are skewed towards the commodities sector, the fall of commodity prices on the world market is likely to weaken this growing trend. However what is encouraging is that Africa's services sector is attracting more FDI in terms of announced Greenfield FDI projects. UNCTADs World investment Reports indicates that there has been a fourfold increase in these projects in the last decade. This shows therefore the significance that FDI in Services has for the growth of the continent and boosting Intra African trade. The CFTA scope which included both trade in goods and services is therefore opportune to usher in an aggressive growth trajectory for the continent.

9. The establishment of a CFTA is therefore not only going to enhance Intra African Trade but also serve as an attraction for investors who will now have an opportunity to enjoy a larger market as opposed to the current fragmented nature of individual or regional markets. This however will need to be augmented by well-rehearsed policies that encourage investments and regulatory reforms that will make doing business easier in the Continent.

10. The World Bank Doing Business Report for 2015 documented 230 business reforms, with 145 of such reforms aimed at reducing the complexity and cost of complying with business regulations, and 85 reforms aimed at strengthening legal institutions. With 75 of the 230 reforms aimed at making it easier to do business originating from Sub-Saharan Africa,

the region accounted for 5 of the top 10 improvers in 2013/2014. More than 70% of its economies carried out at least one such reform. There is need therefore for Africa to consolidate and cement these gains so as to continue attracting the much needed Foreign Direct Investment. The challenge however still lies in ensuring that the investment is targeted toward productive sectors that will assist in boosting Intra African trade so as to effectively contribute to Africa's transformation agenda.

## **FREE MOVEMENT OF PERSONS IN AFRICA**

11. Pan Africanism and the African identity have been advanced for decades as inspiration of free movement and articulated in the African Union's rekindled hope for a more united Africa. The African Union's Vision, states that the Union is Africa's premier institution and principal organization from the promotion of accelerated socio-economic and political integration of the continent through political partnership and development. This has been emphasized by African States through Agenda 2063 which states that "our aspirations of the Africa we want".

12. The realization of free movement for the African Continent will impact positively on various political, social, economic, cultural and developmental formats, including: increased integration; increased technological advancements, investments, industrial growth and job creation opportunities; labour mobility; larger markets for African goods and services and increased intra-regional trade; reduced 'brain drain'; increased tourism revenue, cultural integration and exchange between groups separated by colonial boundaries etc. However, the free movement of Africans from country to country has been constrained by bureaucratic red tape impeding their interaction and socialization. There is therefore a need to encourage less stringent border controls and free movement of people within the continent. Such a need is also a fundamental right of all people. According to the Universal Declaration of Human Rights, Freedom of movement is part of the "liberty of man" making it one of the most basic human rights.

13. In June 2005 the African Union Conference of Ministers on Immigration held in Tripoli, Libya, considered possible options to facilitate free movement for African nationals within the continent. Whilst the 27<sup>th</sup> Ordinary Session of the Assembly in July 2016, in Kigali, Rwanda, (Assembly/AU/Dec.607 (XXVII)) adopted the Executive Council Decision EX.CL/Dec.908 (XXVIII), to develop the Protocol on Free Movement of Persons in Africa by January 2018. The assembly also requested the Commission to facilitate the issuance of the African passport and afford technical support to Member States to produce and issue the Passport to their citizens. Anchored in these decisions the Commission has embarked on the development the draft protocol on free movement of persons in Africa and the consultative processes with relevant departments of the Commission, RECs, and Independent as well as Member States experts in series of meetings before submission for adoption by the Assembly.