

REMARKS ON AFRICA DAY

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THERE IS A TIME FOR EVERYTHING: THE AFRICAN CONTINENTAL FREE TRADE AREA

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Thank you and Good Morning.

It is a pleasure to be here.

I thank you all for inviting me and for your presence here this morning.

This will be the second time I have been to the Wilson Center this year and I feel at home.

Thank you so much Ambassador Arikana, your colleagues AU Ambassadors, our good friend Monde and the Wilson Center for making this possible.

I thank you in particular for asking me to speak on the AfCFTA, a decision which, in my judgment, is the most important, Africa has taken since the attainment of total liberation in 1994.

So this morning I want to share with you the following:

- What is the AfCFTA ?
- What does it mean?
- What it is not
- Why now?
- What is the remaining agenda to make it a reality?
- What are the complementary measures needed?
- I would then like to conclude by sharing with you my view that the AfCFTA is an undertaking beyond an exercise in tariff elimination, one beyond simply a larger, deeper trading space.

Before I do so I would like to spell out the context.

The context of why Africa must reinforce its unity, its organs and its purpose at this very challenging time:

A time when multilateralism is deficient : from trade, security, epidemics, migration, refugees, let alone economic cooperation;

A time when the geopolitical situation is ever more complex;

A time when populism is gathering force, appeals to narrow nationalism, and more dangerously, as during the Cold War, African countries are called upon to take sides in conflicts which are external to Africa.

Most importantly, all three developments are taking place when the Continent is set to have the largest working force in the world, which represents both an opportunity, but also a challenge.

Each time I have spoken at Africa Day in different settings, I have always reminisced on Mwalimu Julius Nyerere's remarks in the South African Parliament in 1997 about what it means to be African;

Why the rest of the world views us all as Africans, in spite of the different colonial boundaries we inherited and agreed to abide by.

I strongly recommend this reading to all Africans in this room.

I have also reflected on the recent history of other parts of the world, especially our most immediate neighbour : Europe.

After years of bloodletting in Napoleonic Wars, European nations convened an important rendez-vous known as “the Congress of Vienna”, to make peace and agree on how to conduct their relationships in a peaceful way.

Despite much hype, and incidentally agreed diplomatic practice which still governs how countries relate to each other today, it did not stop Europeans from fighting each other in the so called World War 1 and World War 2.

In fact, the post-Congress of Vienna era was possibly the most bloody in Europe.

So in the ruins of World War 2, in 1951, they got together and constituted the European Coal and Steel Community (ECSC).

Along the way came Treaty of Rome, the European Economic Community (EEC), Maastricht, the European Union (EU) and subsequently for some, the Treaty of Lisbon, the Euro and the Schengen Agreement.

Europe has been at peace since, and despite recent turbulences (the Euro Crisis, the Brexit divorce), Europe has been quite prosperous.

Europeans have learnt the lessons from their painful history, although they sometimes forget !

So what is the AfCFTA?

It is an initiative to remove tariffs among and between African nations, to be complemented by efforts to lower non-tariff restrictions, promote free movement of persons and a single Africa aviation market.

When countries wish to expand trade among themselves, they may go through several stages:

- Preferential Trade Agreements: lower tariffs compared to non-members, but not necessarily elimination;

- Free-Trade Areas: eliminate tariffs among members, but keep them against non-members and free to treat external parties differently.
- Customs Union: eliminate tariffs among members but also have one common tariff for non-members;
- Along the way, Nations may then progress to Common Markets, Monetary unions or Total Economic Unions, and maybe even some degree of political union.

In the past 50 years, African Countries have undertaken these different arrangements with varying degrees of success.

The reality however is that trade levels have remained quite modest.

If successful, the AfCFTA would raise trade levels by 52% and create one of the largest and most ambitious economic space in the World.

What the AfCFTA is not

The AfCFTA is only 90% liberalisation.

It is a pragmatic, sequential arrangement with a view to proceed cautiously bearing in mind political realities and current regional arrangements.

Each country still has the option of pointing out products that are sensitive;

Products that require time, infant industries that need a period of adjustment to full competition.

It also has provisions for a “Negative List”; products that will remain protected.

That said, the AfCFTA is not just about physical merchandise.

It is also about services, logistics, finance, data, IT.

It is important to emphasise this point because some countries who are not signatories have not fully appreciated that there are not only enough safeguards against things like dumping, non-respect of rules of origin, etc.

They may also wish to take note of the fact that the services sector is probably as important as physical goods.

Our calculations show that around 50% of all the welfare gains in the AfCFTA are generated by the services.

So, even countries without large manufacturing sectors have a lot to gain.

I want to suggest that as AU member states move through the tortuous stages of ratifications and implementation, this moment should not simply be seen as one about elimination tariffs - but of a potential to generate a change in mindsets.

Why now?

At the foundation of the OAU, it was agreed that colonial borders, even though a historical wrong, should be recognised and maintained as such.

Those borders were left intact as "scars of history", not because they were meaningful.

The focus was to be on liberation and economic integration.

Political liberation was completed in 1994, with the end of apartheid in South Africa.

Economic integration is still very much a work in progress.

Despite much progress, numerous achievements, integration is still seen as too slow and unsatisfactory for many young Africans.

But then, one must admit facts, the "realpolitik".

The AU of the OAU, before it, remains an Intergovernmental Organisation.

It can only move at the pace that individual sovereign nations are willing to accept.

Not surprisingly therefore that it has sometimes seemed like two steps forward, one step backward.

This is the reality for all similar organisations.

With the AfCFTA however, a giant leap is made ; capable of increasing Africa's internal trade by 52%.

But it is not simply about trade.

It is about jobs, diversification, prosperity, opportunities.

It is about stability, peace and security.

It would be a quantum leap and a paradigm shift.

The global trends leave Africa no choice.

The demographic dynamics make this an imperative.

That is why, it is critical to address the fears of those who would be reluctant or are in a “wait and see” attitude.

It is important to deal with those fears - real or perceived, and that is possible.

Those fears range from:

- Potential loss of revenues;
- Loss of jobs;
- The economy is too small;
- There is not yet adequate infrastructures;
- The RECs will be weakened;
- There is not enough safeguards;
- The risk of dumping;
- The need to protect the so-called “infant industries”.

I must commend AfCFTA negotiators who were able to address many of those fears through a well sequenced, gradualist approach to the AfCFTA.

Going forward:

I understand the negotiators are now tackling all matters to do with rules of origin, dispute resolutions, Intellectual Property rights,

the negative lists, anti-dumping measures, etc; all things needed for a smooth implementation of the Free-Trade Area.

In principle therefore, this package should bring every country to the zone of comfort.

It is important to appreciate that trade today is not what it was 30 years ago.

It is no longer about simply trucking goods across the borders, or shipping containers across the oceans.

It is a package of physical merchandise, data, services, communication, IT, insurance, trade finance and the whole range of associated investments.

Complementary measures

While, Agreement on a free trade area is a significant achievement.

It is important to understand that the existence of a free-trade area does not on its own necessarily lead to free-trade.

Tariffs are only one part of the problem, often not even the most important one.

Studies conclusively show that the welfare gains are probably four or five times higher if non-tariffs restrictions are also removed.

By non-tariff restrictions, I refer here to quotas, import bans, excessive documentation, roadblocks, health and sanitary measures which are not justified, etc.

Yet, we know that dealing with such non-tariff barriers (NTBs) is a much more complex process, politically.

Eliminating (NTBs) will require a higher level political threshold.

It will require the mobilisation of the citizens, the businesses who provide the services, to the varying domestic constituency interests, to demonstrate that this is not a “zero sum game”.

Finally, and above all, the timing: the geopolitical context in particular and the weakening multilateral trade context.

You just have to look at the outcomes of the last 11th WTO Ministerial Conference in Buenos Aires (Argentina).

Little progress or none at all : all around.

Gone are the days of the bullish sentiments of the Uruguay Round or even the modest hopes which were pinned on the Doha Round.

The AfCFTA should therefore be seen as much more than a tariffs elimination exercise.

It should be a quantum jump in how our continent repositions itself in the context of a weak multilateral system and on the eve of a potential “demographic cliff” for Africa, for lack of a better word.

That is why dealing with fears, convincing doubters or even cynics who think all this is an utopia, is so critical.

You just have to listen carefully to the debate on Brexit!

Three additional issues in particular have been pointed out:

1. The implications for the RECs; will the Regional Economic Communities co-exist seamlessly with the AfCFTA?

2. AU's implementation track record of its decisions; will member countries implement?
3. The challenge of adequate supportive infrastructure, how will the Free Trade Area function, without adequate highways, etc.

Concerning the RECs, I believe Article 21 and two other Articles provide the necessary clarity: the AfCFTA will build on and strengthen rather than weaken the RECs.

In relation to infrastructure, it is well known that the AfCFTA will be accompanied by an African Trade Development Plan of action.

That is why the Single Air Market is so critical or is one of the ways of the intensifying commercial links and progressively lowering costs of doing business.

The Africa Trade Action Plan is quite comprehensive; it concerns:

- Trade-related infrastructure;
- Trade Finance;
- Payment Systems;
- Investment policy harmonisation;
- Movement of Persons

As for whether member countries of the AU will see through the implementation, I would like to respond this way: that is the whole essence of the AU reforms.

The ordinary citizens of Africa want an AfCFTA within a stronger African Union which is focused, effective, relevant, and which funds itself rather

than remaining dependent on the outside world, half a century of independence!

These are all the matters over which President Paul KAGAME of Rwanda has made proposals.

These proposals have been adopted, at the highest level.

The first of which is precisely to deal with the implementation crisis - decisions taken and not implemented.

It is an existential issue for the AU and the expectations is that it will be resolved this time.

Part of the problem is that we do not mobilise the African Citizenry enough.

Hence one of President KAGAME's proposals is to figure out a way to bring the AU closer to the people, such as the African Volunteer Corps.

In that spirit, the people of Africa need to be mobilised for the AfCFTA and the AU Reform.

Nothing should be taken for granted.

We need to get the AfCFTA out of the high-level conference halls to the people at all levels, to advocate, to demonstrate the criticality for their future.

This is crucial to the success of this historic enterprise.

In this regard and concerning the Reform of the AU, I would like to refer to the financing of our organisation, which falls within your purview, as Ambassadors, to advocate and follow through.

There is no shortage of technical proposals - beginning with the set of ideas put forward by President OBASANJO in 2015 and those adopted by the AU Summit a year later.

Just to refresh your memory on AU finances, there are mainly five challenges:

1. A high level of external dependence;
2. An equally high level of internal dependence on a few countries; five to be precise.
3. Duplication of roles with RECs and other continental organisations which does not only increase the burden and multiply transaction costs, but does not even reflect comparative advantages;
4. New and emerging onerous responsibilities such as the very costly peacekeeping missions or peace stabilisation, for which the UN or the International Community is not able or willing to come to the table.

At the AU Heads of State Summit in 2015 in Johannesburg and Kigali in May 2016, Leaders decided that the AU had come of age and had to henceforth autonomously fund its activities.

They resolved that external dependency was not right, was politically risky, and was not even necessary.

The decisions by the Heads of State are now in the implementation phase by the competent AU organs.

A committee of 15 Finance Ministers has been entrusted with the follow-up.

They have met several times and are making good progress.

Equally, a parallel Committee of 15 Foreign Affairs Ministers is tackling the other aspects of reform of the AU and indeed will be meeting this weekend in Addis.

But there is a long way to go.

As I speak with you now, many of our outstanding financial obligations for 2017/2018 to the AU are not met.

This has little to do with the proposed new approach of which only 22 countries are implementing or on course to.

It is to do with political willingness to prioritize the AU.

Whether under the new proposed formula or the old approach, the Organisation is severely under-resourced.

Several members do not meet their obligations, even for what often looks like fairly modest amounts.

The more I look into this matter, the more I am convinced that resourcing the AU is not about ability; it is something which every member can afford to do.

It is something which can be done.

Incidentally, regarding the proposed financing framework, some countries under pressure from one or two big powers had said they needed to find ways of respecting this AU financial obligation while complying with International Treaties including the WTO.

It was said that if AU members proceeded along the proposed financing framework, they would be discriminating against non-AU members.

Those making the case cited the MFN Clause of the WTO or the issue of bound tariffs, a technical argument but a long shot politically!

In any case, the AfCFTA now offers the legal framework.

For those not familiar with such issues, I want to remind the audience that this is exactly how the European Union funds itself.

It is sincerely my hope that every AU member would henceforth make a solemn pledge that the AU, the only continental political instrument we have and we need, should be a top priority in terms of financing.

Let me now make my last point!

At the end of the day, a free-trade area is only a means to economic transformation, fiscal space and fiscal sustenance needed for the challenge ahead.

It has often been said that the next 30 years will be a turning point.

The expectations that the bulging demographic dynamics, and the associated benefits that the so-called demographic dividend will bring.

What we need to discuss a bit further is the enormous fiscal stress which that will entail, and the need to generate the means to do so.

Funding the needs in education, training, health, jobs and infrastructure will be a fiscal challenge as none we have seen before.

Especially coming at a point when ODA in sectors such as health, which has been receiving large inflows from external sources like the UN, philanthropy and vertical funds, will be tapering off.

This morning, I want to say that tough choices have to be made, but that we must reject the Hobson choices.

A choice between defaulting on our historic duties to invest in this generation, in this so called demographic dividend;

Or alternatively doing so in a fiscally unsustainable way, through excessive debt, huge deficits or inflation.

These fiscal needs, driven by the demographics and the SDGs will need a carefully planned response which can only be done sustainably on the back of strong growing economies, not ODA.

The ODA will be used for leveraging, for blend finance; but domestic resource mobilisation will be the decisive element.

This was the conclusion of the Addis FFD Conference in 2015.

It is also self-evident that more rigorous public financial management for accountability, value for money, efficiency, sealing loopholes will be needed.

Our countries will need to craft strategies that are less and less dependent on volatile commodity exports and greater reliance on domestic demand, regional trade, and greater participation in higher levels of the global value chains - in other words the fruits of the AfCFTA.

In recent months, much has been said about the need to avoid debt traps.

In the light of previous debt crisis and painful resolutions, International Organisations are raising caution.

This is as it should be.

However it is important to nuance.

This does not mean avoiding access to global capital markets.

All countries in the world were poor at some point.

They turned fortunes by accessing global trade and capital markets.

The issues here are beyond simple debt-to-GDP levels; the most often quoted dynamic.

Countries can default even at very low level of debt-to-GDP (Ecuador defaulted in 2008 at a very low 27% debt-to-GDP).

It is about broad debt dynamics.

In the context of Africa today, that risk exists but can be managed.

40 countries are still in comfortable territory.

It is only in 15 countries, heavily dependent one or two commodities, where the risk of distress is real.

The alarm being expressed is not so much about the stock of debt but more about :

- The speed of debt accumulation (debt servicing costs have increased three times in the last five years);
- Large currency, maturity and investment mismatches;
- Debt governance and transparency;
- Poor debt management capacities.

You will recall that at the turn of the Millennium, where African economies as a whole, turned a corner that was in part due to debt cancellation initiatives such as HIPC and MDRI.

In the following years, economies were growing so strongly on the back of robust export performance, investments, strong domestic buffers in terms of comfortable liquidity and robust banking systems such that for the first time in many years, access to international capital markets became a reality.

The signature was good, international markets were benign and the fiscal room was there to borrow.

Indeed, even during the Global Financial Meltdown in 2008/2009, our economies were able to pull out strong countercyclical measures that minimised the damage.

Macroeconomic indicators were in a positive space, low deficits, strong current account positions and good buffers generally.

I remain convinced that despite recent challenges globally and locally, exception made for a few outliers, the prospects for economic growth remain positive.

The slowdown in two of Africa's largest economies tends to bring down the averages; but other medium sizes economies such as Ethiopia, Ghana, Ivory Coast, Senegal, Kenya, Rwanda and many more are registering strong resilience and robust growth prospects.

That said, this time round, African economies are more vulnerable to slower economic growth, movements in interest rates, hardening of international market access conditions and limited domestic debt management capacity.

Therefore, while continued safe, well managed access to debt markets is to be encouraged, it has to be part of an integrated debt strategy rather than an opportunistic access to markets or a supply-driven exercise by international banks and lenders-

International Organisations have a key role to play in building debt management capacity in particular.

Assisting the countries conduct proper market analysis ahead of issuance - which can be quite complex given markets behaviour in the last few years - support on things like databases, data accounting, data reporting, DSA, etc.

I am persuaded that many African countries are capable of ensuring a sound macroeconomic environment and robust risk bearing platforms, drawing from the past experience and accumulated reform experience.

There is still a lot of room on the revenue side with potential to raise additional revenues anywhere between 3-5% of GDP.

There is still room to better plan investments both social and physical to assure value for money and minimise waste.

Macroeconomic discipline is something which African countries have demonstrated in the past.

We cannot afford to slide.

Let me end where I began.

At the end of the day, it is by promoting economic growth through trade and investment that a fiscal space will emerge to meet the upcoming demographic challenges, while moving up the global value chains.

That is the promise of the AfCFTA.

A necessary first step to an eventual Continental Economic and Monetary Union.

Through the AfCFTA, we will boost Intra-Africa trade, increase market size, depth and diversity, increase opportunities for business, consumers, producers, diversify our economies to complex products; thereby expanding fiscal possibilities.

It is only by doing so, that we can build resilience in the global system and avoid the demographic cliff.

The adoption of the AfCFTA is not a technical choice Africa is making.

It is a fundamentally, historic political choice which will have far reaching impact if successful.

That is why, everything must be done to ensure safe arrival at destination.

It will not be easy, it will require astute political management and trade off at each juncture but there is no more choice.

Thank you for listening.

