AFREXIMBANK

Transforming Africa's Trade

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Inaugural Russia- Africa Summit: Outcomes and Prospects

The first-ever Russia-Africa Summit, co-organized by the Russian Export Centre and the African Export-Import Bank, took place in Sochi, Russia on October 23 and 24, 2019. More than 6,000 participants representing governments, the private sector, the business community and civil society organizations from 104 countries participated. Of the 54 African countries invited, 45 were represented by heads of state and the remaining by high-level government officials. The Summit was preceded by the Russia-Africa Economic Forum, aimed at strengthening trade and investment at a time when expanding growth and deepening economic integration between African nations have greatly enhanced the global competitiveness of the continent.

The Russia-Africa Summit and Economic Forum reaped significant results, identifying new opportunities in trade, investment and banking, industry and construction, transport and logistics, energy and technology. A total of 92 agreements, contracts and memoranda of understanding worth more than RUB1.004 trillion (US$15.7 billion) were signed with more than 40 African countries. The implementation of these agreements will support growth in strategic sectors, including banking, transport and logistics, extractive industries (mineral resources and oil and gas exploration), and high technologies. Russian service robot manufacturer PROMOBOT and Nigerian Company Pailz Global Ventures signed an agreement for the supply of V.4 robots for use at Nigerian health clinics, airports and in the entertainment industry.

The summit also brought major progress on several fronts. Russia agreed to write off about US$20 billion owed by African countries to the Russian Federation. And Russia and its African trading partners committed to promote and expand trade, with the goal of doubling the total within the next 5 years from its current level of US$20 billion. Although trade between Russia and African nations has increased over the last decade, that trade still pales compared to the performance of Africa's other major trading partners, Brazil, China, India and South Africa. Trade between Russia and Africa also remains highly concentrated, with just three countries, Egypt, Morocco and South Africa, accounting for more than 63 percent of Africa's total exports to Russia.

In a region where the dearth of energy infrastructure has been a key constraint to industrial output expansion and growth, Russian expertise in the energy sector, both renewable and non-renewable, as well as the commitment of Russian authorities to harness their expertise in support of African development and structural transformation, was particularly welcomed by African leaders. Reflecting on the significance of the event and its potential implications for Africa, H.E. Abdel Fattah El-Sisi, President of the Arab Republic of Egypt and Chairperson of the African Union, said "the Russia-Africa Economic Forum was an important venue for demonstrating opportunities to develop investment and trade between our nations, which help to strengthen our ties in line with the 2063 agenda developed by the African Union".

Half a century after Russia began playing a major role in the struggle for liberation on the African continent, the Russia-Africa Summit has opened a new chapter in the relationship between the world power and African nations, providing a framework for a broader and long-term engagement in a wide-range of areas and sectors. Both Russian and African authorities committed to holding summits of Russian and African leaders every three years going forward. The new Russia-Africa Partnerships Forum provides a vehicle to sustain engagement in the lead-up to the next Russia-Africa Summit scheduled for 2022.

AfCFTA: After Kigali, Niamey sets the tone of implementation to realize the dream

The operational phase of the African Continental Free Trade Area Agreement (AfCFTA) was launched on July 7, 2019 in Niamey, Niger at the 12th Extraordinary Session of the Assembly of the African Union. In accordance with the Agreement, the AfCFTA entered into force on May 30, 2019, 30 days after Sierra Leone and the Sahrawi Arab Democratic Republic brought the number of member states ratifying the agreement to 22. To date, 28 countries have ratified the agreement and of the 55 AU member states, only Eritrea has yet to sign.

The Summit also witnessed the launch of a number of instruments to facilitate the implementation of the agreement, including an online mechanism for monitoring and eliminating non-tariff barriers, the AfCFTA mobile application for businesses, the Pan-African Payment and Settlement System (PAPSS)—developed in collaboration with the African Export-Import Bank—and a dashboard of the AU Trade Observatory. It was announced that AfCFTA secretariat will be established in Ghana, while the African Export-Import Bank announced the establishment of a US$1 billion AfCFTA Adjustment Facility to help member states adjust to the new trade regime. The facility will provide supplemental financing to support governments, continue their trade facilitating and investment programs, and meet fiscal obligations as their economies adjust to AfCFTA trade reforms.

Member countries are set to commence trading under the AfCFTA on July 1, 2020, with the goal of reaping the full benefits of deepened economic integration envisioned by the founding fathers of the Organization of African Unity (OAU) more than five decades ago. These benefits are significant, and preliminary estimates suggest intra-African trade will increase markedly once the AfCFTA is implemented. Since industrial products and manufactured goods account for the lion's share of intra-African trade, the AfCFTA may also accelerate the process of structural transformation of African economies to sustainably raise Africa's share of global trade, which has remained dismally low at less than 3 percent.

But for the AfCFTA to deliver on its transformative economic potential, critical parts of the Agreement must be concluded. This includes schedules of tariff concessions, liberalization of services, and the establishment of commitments addressing investment, intellectual property, and competition. Additional work will be needed to ease implementation and interpretation of the Agreement, including establishing guidelines on infant industries, rules of origin, and the implementation of trade remedies, and regulations for goods produced in special economic zones.

As one of the flagship projects of the African Union's Agenda 2063: The Africa We Want, the launch of the operational phase of the AfCFTA marks a historic achievement in Africa's development. It provides new impetus and dynamism to the process of economic integration and structural transformation of African economies as envisioned under the Lagos Plan of Action and the Abuja Treaty of 1991, and gives practical effect to the Boosting Intra-African Trade (BIAT) Action Plan. Going forward, it will be important to ensure all African countries sign the Agreement and all signatory countries ratify it to maximize gains associated with economies of scale during its implementation.

From Trade Wars to Currency Wars

Over the last three years, the global economy has been subject to significant escalations of trade tensions, reflected in the increasing adoption of protectionist measures and the imposition of punitive tariffs outside the rules-based framework of the World Trade Organization. Protectionist measures employed by the United States to address structural imbalances and large trade deficits with its major trading partners have prompted retaliations, leading to trade wars that undermine global growth. On several occasions since 2018, global growth and trade forecasts have been revised downward. Forecasts point to a further slowdown in growth in 2020, largely due to persistent trade tensions. According to the International Monetary Fund, the trade wars could lower global growth by as much as 0.5

percent next year, most notably through trade and investment channels, but also through disruptions of global supply chains.

The rising cost of protectionism for leading economies on the front lines of the trade wars, and for the global economy as a whole, has led to uncoordinated and dangerous policy responses. Seeking to offset the adverse impact of tariffs, leading economies have undertaken a series of competitive devaluations. While designed to sustain the competitiveness of their economies and export-oriented sectors, these moves are leading the world towards another war—a currency war.

For example, amid the intensifying U.S.-China trade war, U.S. President Donald Trump has been accusing Beijing of intentionally letting its currency slide lower. A weaker renminbi makes Chinese exports more attractive, giving them a competitive edge in international markets. In August, when the People's Bank of China allowed the renminbi to slip below the key level of 7 to the dollar, the Trump administration labeled China a currency manipulator. But even as it did so, the US Federal Reserve continued to implement its policy of quantitative easing, which along with the lowering of US interest rates (three times in 2019) as insurance against a recession, has at times weakened the dollar's exchange rate. The Trump Administration has also put other leading economies on its currency manipulation watchlist. Included on the list are Germany and Italy, even though as part of the European Monetary Union neither have significant leverage on the movements of the euro in currency markets.

Drawing on competitive devaluations to boost growth and exports in an increasingly challenging zero-sum game global trade environment can be tempting, and has been done before, notably after the abandonment of the Gold Standard in 1933. During the Great Depression of the 1930s, devaluations became common policy employed by Britain, France and the United States to compete for exports and boost domestic growth and employment. After the 2009 global financial crisis, the euro, yen and the currencies of many developing market economies appreciated markedly against the US dollar and the Renminbi, leading experts to argue that China and the US were winning the currency war.

The growing number of central banks targeting exchange rates to offset the cost of tariffs suggests the current trade wars are morphing into currency wars. The effects are already visible in the dynamic of so-called haven assets—gold, and currencies such as the Japanese yen and Swiss franc. Between January and October 2019, the yen and Swiss franc were two of the best performing currencies in the world. The former appreciated 0.8 percent against the US dollar and the latter appreciated 2.1 percent against the euro. The value of gold, the haven asset par excellence, has risen by 15 percent since the start of year.

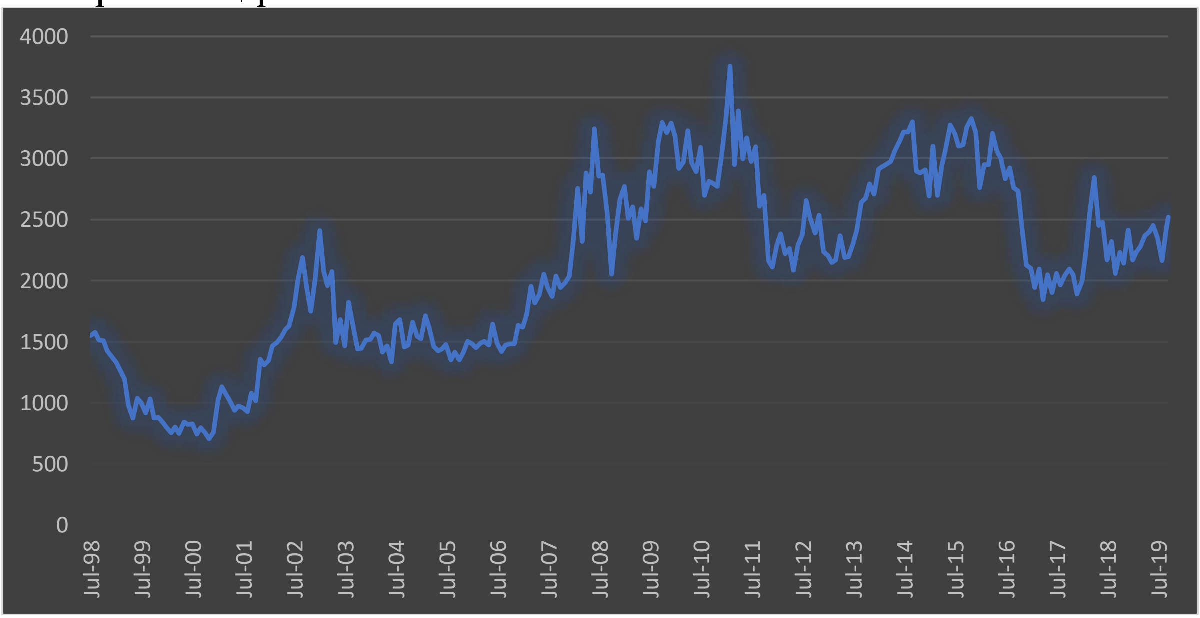
While the strong performance of gold may improve the trade balance of leading gold-exporting countries within Africa, most notably South Africa, Burkina Faso, Zimbabwe and Ghana, the escalation of policy-driven devaluations could further compound the growth and macroeconomic challenges associated with the trade war. In addition to exacerbating the risk of global volatility and capital outflows from developing emerging market economies towards haven assets, the depreciation of currencies could heighten uncertainty and weaken both investment and long-term growth. Improving global coordination to resolve trade disagreements cooperatively within the WTO rules-based framework should be a priority for all.

Will COPEC deliver to cocoa-producing countries what OPEC did for oil-producing?

Over the last two decades, three periods have defined the trajectory in cocoa prices. During the first quarters of 2003 and 2011, prices spiked largely because of political tensions in top producer Côte d'Ivoire. More recently, during the third quarter of 2015, the cocoa market rallied to US$3,327 per metric ton, after the El Niño-induced slowdown in cocoa output in West Africa, shortly before the end of a generalized commodity price crash in 2016. While these booms in cocoa prices have typically been followed by busts, it can be argued that the price crash of 2016 was the most severe for cocoa producers, particularly, in Africa, which accounts for more than 75 percent of global cocoa output.

The decline in cocoa prices in 2016 was steep and protracted—stretching from January 2016 to January 2018—just as cocoa producers and traders had been emboldened following a steady rise in cocoa prices since 2013. Further, as cocoa prices lost half their value during that period, the macroeconomic and social costs of that drop were felt particularly keenly by cocoa suppliers in Côte d'Ivoire and Ghana— the two leading producer countries which are also the most vulnerable because their activities have remained largely confined to the bottom of the cocoa global value chain.

Cocoa prices: US$ per metric ton



Source: Bloomberg, Afreximbank Research (2019)

Against that backdrop, the announcement in June 2019 by the two, which together account for around 60 percent of the global cocoa supply, that they would collaborate on cocoa prices, should come as no surprise, especially considering the adverse macroeconomic and fiscal implications of cocoa market volatility for the two economies. Both countries have previously conducted a study to determine the floor price of cocoa and agreed on a shift toward policy coordination to synchronize the start of their cocoa seasons and cooperate in setting producer prices—including agreeing on cocoa volumes to put to market—to exert more influence on prices and attract a younger generation of farmers to the sector.

Setting a minimum price level of US$2,600 per metric ton, as both countries argue they will, can be achieved; in fact, the market has in the past coped with much higher prices. But similar to other commodity markets, including energy, higher prices have typically been the result of demand rationing in a context of constrained supply or a reflection of high and sustained input costs. Policy-induced upward improvements in prices may send the wrong signal to the market and stoke an unwarranted supply response, especially from producers in Malaysia and Indonesia—who have the grind capacity and ability to respond.

Similar challenges have been observed in other commodity markets. In the energy sector, a sustained period of high oil prices created the conditions for a US shale revolution. Meanwhile, there are still many unknowns regarding the potential cocoa agreement, including how both countries will navigate the pitfalls of game theory inherent in collaborative behavior, the stability of the floor price over time—especially whether it will last beyond the 2020/21 cocoa season—and sustaining the market's conviction in this new price policy.

Beyond setting a minimum price, Africa's cocoa industry must diversify further to sustain demand and capture more than the current 20 percent (US$12 billion) of the industry global value chain revenues. Afreximbank has championed this strategy through its African Cocoa Initiative (AFRICOIN) which has expanded processing capacity in Côte d'Ivoire and could prove to be a more sustainable route to increase value retention along the cocoa global value chain and mitigate against price volatility.

TICAD 7 or the future of Japan-Africa cooperation

The Seventh Tokyo International Conference on African Development (TICAD 7) took place from August 28 to 30, 2019 in Yokohama, Japan. Established in 1993, TICAD has become a significant platform for strengthening and promoting Africa-Japan cooperation and partnerships. TICAD 7 was organized under the overarching theme of "Advancing Africa's Development through People, Technology and Innovation". Co-organized by Government of Japan, the African Union Commission, the United Nations, the World Bank and the United Nations Development Programme, TICAD 7 focused on accelerating economic transformation and improving the business environment through innovation and private sector engagement, deepening a sustainable and resilient society, and strengthening peace and stability. In addition to the relevance and alignment with the continental development strategy articulated under the African Union's Agenda 2063, the choice of these pillars reflects the importance of the private sector in the process of economic development and the security and development nexus in a region where the recurrence of conflicts has undermined prospects for long-term growth.

Delegates from 53 African countries, including 42 heads of state, development partners, members of international organizations and civil society representatives, attended the recent triennial event. With a strong emphasis on promoting private sector investment and business to business (B2B) relationships TICAD 7 witnessed the first inclusion of a formal business dialogue in the TICAD agenda. This focus on private sector investment and innovation saw over 10,000 participants in TICAD 7, making it among the largest conferences ever hosted in Japan. It also highlighted the growing importance attached to Africa-Japan relations. The event may also reflect a shift in Africa-Japan strategic relations, away from soft diplomacy and the provision of development assistance to one underpinned by trade, investment and economic cooperation.

At the same time the strategic shift in Africa-Japan relations under the TICAD framework could reflect the changing global and African economic landscape of increasing competition from development partners. TICAD 7 took place as Japan's share of African trade has declined sharply, from 7.4 percent in 1970 to about 1.6 percent in 2018. And even though Japan is the second largest economy among the most industrialized economies in the world, it has become a marginal player in the African investment landscape, slipping out of the list of top 10 providers of foreign direct investment to Africa. To address this relative decline, the Japanese Prime Minister pledged to push Japanese investment in Africa by drawing on enhanced trade insurance to boost private sector investment. This enhanced insurance would fully cover loans to African governments, their affiliated institutions, or private companies buying Japanese goods for infrastructure projects in Africa.

Furthermore, the conference adopted the Yokohama Declaration, which committed to enhance support towards Africa's inclusive and sustainable development efforts and aligns that support to the African Union's Agenda 2063 and the African Continental Free Trade Agreement (AfCFTA). The conference also committed to the "Yokohama Plan of Actions 2019," while pledging to continue implementation measures under the TICAD V Yokohama Action Plan and the TICAD VI Nairobi Implementation Plan. Both support economic diversification and industrialization, improving the business environment, establishing quality infrastructure, and bolstering agriculture, the blue economy, health, education, environment, good governance, and the rule of law.

Finally, reflecting the increasing push for results, the conference also adopted a monitoring mechanism to assess progress on conference outcomes. The monitoring mechanism is underpinned by efficient reporting systems based on the principles of African ownership and international partnership. The follow-up mechanism consists of the Joint Secretariat, a Joint Monitoring Committee and regular and periodic follow up meetings, as well as the TICAD Conference. TICAD 8 is scheduled to be held in Africa in 2022.

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