African Export-Import Bank
Banque Africaine d'Import-Export

Transforming Africa's Trade

Trade & Development Finance Brief

Volume 2. Issue 1. March 2018

The African Continental Free Trade Area (AfCFTA) Arrives!

Subsequent to the decision by the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union held in January 2012 to establish a Continental Free Trade Area (CFTA), African Heads of State and Government convened an Extraordinary Summit of the AU Assembly on March 21, 2018 in Kigali, Rwanda, during which the Agreement formally establishing the African Continental Free Trade Area (AfCFTA) was signed. The AfCFTA which brings together 55 African countries with a combined population of more than 1.2 billion people and a combined gross domestic product of more than US$2.5 trillion, creates one of the world's largest free trade areas and a single continental market for goods and services, with free movement of business persons and capital.

The AfCFTA is an important step towards rationalising Africa's regional trade arrangements to deepen economic integration and draw on economies of scale to accelerate the process of structural transformation of African economies. Preliminary estimates and simulations suggest that the AfCFTA could significantly expand intra-African trade and industrial production. In particular, intra-African trade in industrial products could increase by US$60 billion annually if the implementation of the AfCFTA is accompanied by robust trade facilitation measures. In effect, the AfCFTA offers tremendous opportunities for the development of regional value chains and could boost intra-African trade which is expected to more than double within the first decade of its implementation. The AfCFTA could also enhance the integration of African economies into the global economy, by strengthening Africa's voice and position in dealing with emerging mega-regional trade agreements in other parts of the world as well as Africa's engagement in trade negotiations at the multilateral level in the WTO.

While the growth and development impact of the AfCFTA are significant, realising the potential it brings hinges on overcoming a number of challenges including in the areas of trade finance, trade information, trade facilitation, and investment. The African Export-Import Bank is working closely with the African Union Commission to support implementation of the AfCFTA through a number of strategic initiatives, including launching an Intra-African Trade Fair that will be held later this year and will provide a platform for African businesses to showcase their products and services and link with other partners from across the region; developing an intra-African Trade and Payments Platform that will facilitate the clearing and settlement of intra-African trade transactions in multiple currencies; and establishing a Pan-African Private Sector Trade and Investment Committee as an advocacy platform to enhance African private sector participation in trade and investment policy formulation, and to galvanise the views of the African private sector on the ground and

transmit those to policy makers. In addition, as part of the Bank's Fifth Strategic Plan dubbed IMPACT 2021: Africa Transformed, the Bank is raising the cumulative amount disbursed to finance intra-African trade to US$25 billion by 2022, representing about 35% of the continent's intra-African trade financing gap.

African Union Launches the Single African Air Transport Market

The Single African Air Transport Market (SAATM), a flagship project of the African Union which has the overarching objective to create a single unified air transport market, was formally launched on January 28, 2018 at the 30th AU Heads of State Summit. To date, twenty-three African countries (Benin, Botswana, Burkina Faso, Cabo Verde, Congo, Cote d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Guinea, Kenya, Liberia, Mali, Mozambique, Niger, Nigeria, Rwanda, Sierra Leone, South Africa, Swaziland, Togo, and Zimbabwe), representing over 75% of intra-African air traffic, have signed up to the commitment which allows their airlines to freely access each other's aviation markets. This is in keeping with the Yamoussoukro Decision (YD) of November 1999, which provides for full liberalisation of intra-African air transport services in terms of market access; the free exercise of the first, second, third, fourth and fifth traffic rights; the elimination of restrictions on ownership; and the full liberalisation of frequencies, fares and capacities. It also provides eligibility criteria for African community carriers, safety and security standards, mechanisms for fair competition and dispute settlement as well as consumer protection.

With respect to scheduled air services, the fifth freedom rights permits an eligible carrier to fly between two other African countries on a flight originating or ending in its own country. The liberalisation delivers a great deal of flexibility to airlines, and is an opportunity for African airlines to capture a greater market share from previously underexploited destinations. With the added competition from regional airlines which will likely lead to lower air fares for intra-African travel and shorter travel times, it is expected to be a boon to air travellers. The experience from other regions suggests that more liberal air transport can play a pivotal role in the just-in-time manufacturing production, increased tourism, trade, inward investments and jobs. A study carried out by the International Air Transport Association showed that liberalising routes for twelve key countries within the region could boost economies with more than 150,000 additional jobs and an extra US$1.3 billion added to the continent's annual GDP.

While the official launch of the aviation single market is an important milestone in the process of economic integration, a speedy transition towards effective implementation of the YD is required to fully unlock the market potential. In particular, the integration should be accompanied by measures and policies to ease visa requirements for Africans within the intra-African air transport market, and by a redefinition of the roles and responsibilities of different institutions which are instrumental in implementing the YD and regulating issues such as ownership guidelines. Likewise, it will call for a mental and strategic shift away from excessive focus on colonial patterns of trade which have undermined intra-African trade integration. Ultimately, the full implementation will require the endorsement of all fifty-five member-states of the AU with the single market evolving into a common aviation market area.

11th WTO Ministerial Conference (MC 11)

Amid growing anti-trade sentiments globally and increasing preference for bilateral trade agreements, especially from leading developed economies, Ministers of the 164 WTO members met from 10 to 13 December 2017 in Buenos Aires, Argentina, at the 11th Ministerial Conference of the World Trade Organization (WTO MC11) to decide on the future of multilateral trade negotiations. After three days of deliberations, the 11th WTO Ministerial Conference failed to reach consensus on any substantive issues. Disagreement between members who were unable to reaffirm the centrality of the multilateral trading system and the development dimension of the WTO's Doha Development Agenda led to plurilateral discussions between a number of WTO members on a range of issues, including e-commerce and investment facilitation.

The pursuit of plurilateral initiatives poses the danger of further removing leverage and trade-off opportunities for African and other developing countries to advance their priorities through the multilateral system. Additionally, the pursuit may further lead to fragmentation and divisions among developing countries as a consequence of some opting to join these arrangements. Beyond the WTO negotiations, regional and bilateral free trade agreements will continue to be the main focus for trade integration both for Africa and the rest of the world. In this regard, deepening integration under the African Continental Free Trade Area (AfCFTA) offers significant opportunities to foster economic transformation and sustain the growth of African trade at a time of creeping protectionism at the global level.

Accepting the Renminbi as a Reserve Currency: A Year On

In the last quarter of 2016, the International Monetary Fund (IMF) admitted the Chinese renminbi (RMB) into its benchmark basket of reserve currencies alongside the dollar, euro, pound sterling and yen. The addition of the RMB as the fifth member of the basket used to value the Special Drawing Rights (SDR), which is the IMF's de facto currency, paves the way for its global use in global trade and finance as well as for the integration of the Chinese economy into the global financial system. The decision will likely alter the weight distribution in the IMF's basket of currencies which has thus far been dominated by the dollar and euro, which together accounted for almost 80 percent of the total currency weight in the IMF's SDR. The new SDR formula which gives more weight to financial variables, reduces the euro's share to give room to the RMB. With a share of 11 percent, the RMB integrated into the SDR basket with a higher weight than the Japanese yen and British pound.

The RMB is the first currency issued by a developing economy to be integrated into the SDR basket. The euro, which was the fourth currency, joined the basket in 1999 replacing the Deutsche mark and French franc. The increasing recognition of the RMB by the international financial community comes after the implementation of a series of economic reforms by Chinese monetary and financial authorities to liberalise domestic interest rates, open up interbank markets to foreign central banks and sovereign funds, and increase global access to Chinese currency markets. It also followed the completion of the yield curve for RMB assets after the issuance of short-term bonds and implementation of measures to align the RMB's exchange rate with its market value. However, more reforms are still needed to complete the accession of the RMB to a full reserve currency status. The RMB is the only currency in the SDR basket of currencies that is not yet fully convertible and under capital control.

Still, the IMF reform is likely to boost the demand for RMB and RMB-denominated assets as central banks and fund managers adjust their portfolios to reflect changes in the global financial architecture. The European Central Bank invested 500 million euros of its reserves in RMB-denominated assets during the first half of 2017. More than sixty countries including Nigeria, South Africa, and Zimbabwe, have adopted the renminbi as a new reserve currency since its inclusion into the SDR basket, even though the reform raised SDR interest rate and potentially increased the cost of IMF loans on account of China's relatively higher interest rates. Furthermore, a growing number of countries (including Argentina, Belarus, Brazil, Canada, Hong Kong, Iceland, Indonesia, Malaysia, Singapore, South Korea, the United Kingdom, Uzbekistan and Egypt) have signed currency swaps with China's Central Bank and are expanding the holding of RMB in their foreign exchange reserve portfolios. Globally, the RMB now accounts for over 3.6% of direct investment, credit, bonds and note transactions.

Despite the increasing diversification of foreign exchange reserve portfolios towards the Chinese currency, the RMB is likely to evolve into a reserve currency that erodes rather than challenges the US dollar's supremacy in the short and medium term. According to IMF estimates, about 2.5 percent of foreign reserve assets are held in the form of SDRs, and the RMB accounts for less than 2 percent of global reserves. However, the RMB has the potential to change the global financial architecture, with significant geopolitical consequences even in the short run, especially with China consolidating its status as the world's leading trading nation. China is already Africa's top trading partner, and the establishment of swap arrangements between African central banks and China's central bank could reduce the demand for foreign currencies traditionally used for global trade. By the same token, as the RMB becomes more widely used and more deeply woven into the global economy, it could have implications on the efficacy of punitive financial measures placed on countries under sanctions.

'Made in China 2025' and Implications for Africa

The 'Made in China 2025' initiative unveiled by the government of China in 2015 is an ambitious project to comprehensively upgrade the Chinese industry and boost innovation in key strategic sectors of the economy. Although China has been the global manufacturing hub, accounting for more than 23% of world's manufacturing exports, it has consistently compared unfavourably against leading industrialised economies on the global competitiveness index, in part reflecting the relatively low domestic content of its high-tech goods. By upgrading the country's manufacturing industry, the 'Made in China' initiative could improve the position of China in global supply chains and in the process consolidate its status as a global manufacturing and industrial powerhouse.

To achieve that goal, and position the country as a world leader operating on global technology frontiers in key strategic industries, the 'Made in China' initiative set a number of strategic targets, raising the domestic content of core components and materials to 40 percent by 2020 and 70 percent by 2025 in ten key priority

sectors and industries, including aviation, technology, robotics, new energy vehicles and energy, which together account for more than 50 of its manufacturing.

Although the initiative has the potential of further enhancing the competitiveness of the Chinese economy on its path to innovation-led growth, it has raised a number of concerns globally, especially among leading industrialised economies. In particular, both the European Union Chamber of Commerce and US Chamber of Commerce have issued a report assessing the potential implications of technological shifts envisaged under the 'Made in China' initiative for western multinational companies. Globally, these economies account for more than 50 percent of domestic content of core components and materials presently used by Chinese corporations and industries. Consequently, a successful implementation of 'Made in China' could erode their leadership in high-tech industries and competitiveness against China, a country which in the past has drawn on its market size to drive technology transfers.

While the potential implications of the new growth and development strategy implemented by the Chinese government in partnership with leading Chinese industries on African economies have not yet been comprehensively assessed, its impact could be significant in the medium and long-term, especially for a region which increasingly depends on China as its top trading partner. Shifting the production technology frontier in China could affect the region's patterns of trade largely dominated by primary commodities and natural resources which have been the key drivers of African exports to China. At the same time, the shift in the frontier production technology could accelerate the outsourcing of Chinese light manufacturing industries to the rest of the world. A number of African countries have already taken advantage of ongoing rebalancing in China to diversify their exports and capitalise on the growth opportunities under AGOA.

Ultimately, the "Made in China" initiative highlights the importance of technology and the role of effective public-private partnership in the process of industrialization and competitiveness growth. The establishment of the African Continental Free Trade Area will create opportunities for economies of scale, similar to the ones enjoyed by China. A key question remains as to whether the success of 'Made in China 2025' could offer important lessons for accelerating the implementation of the 'Action Plan for Industrial Development of Africa (AIDA) with a view to setting African economies on an irreversible path of structural transformation.

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