

## **Strength in Unity from AfCFTA**

*By Venkataramani Srivathsan, June 2018*

*The African Continental Free Trade Agreement (AfCFTA) offers great opportunities but it will not succeed without collaboration and commitment, says Venkataramani Srivathsan, Managing Director & CEO, Africa & Middle East, Olam International Ltd.*

No one can deny the extraordinary potential of Africa. It is a continent of 1.2 billion people – rivalling India – and, by 2050, expected to be home to 2.5 billion. But true strength for the future will come through unity. The ratification of the African Continental Free Trade Agreement (AfCFTA) represents such a critical juncture in African history – an opportunity for Africa’s nation to leapfrog together to a new phase of development.

Africa has seen free-trade initiatives before, but nothing with the breadth and inclusiveness of the AfCFTA which involves the whole continent. The AfCFTA would create the largest free trade area by member countries since the World Trade Organisation launched in 1995. It would initially see tariffs removed for 90% of goods, with the remaining “more sensitive” goods to be removed later.

Issues, however, remain to be resolved given the complexity and historic nature of the agreement. Eleven countries are yet to become signatories. For the AfCFTA to truly succeed, major economies like South Africa and Nigeria must commit, and commit soon.

### **A vision based on a proven reality**

What’s important about AfCFTA is that it is an African vision – not the brainchild of any international organization – born of a 2012 agreement among African heads of government determined to lay the best possible path forward for a continent which already has a combined GDP of more than \$2 trillion.

The UN Economic Commission for Africa (UNECA) has estimated that the AfCFTA could see intra-African trade increase by 52% by 2022. Today, intra-African trade is less than 20%, far below the 59% and 69% for intra-Asia and intra-Europe exports respectively.

Existing regional trade blocs within Africa, such as the East African Community (EAC) or the Economic Community of West African States (ECOWAS), have delivered great positive impact on participating economies. Research shows that bilateral trade between EAC members has grown more than twice as much as it would have otherwise. ECOWAS has successfully pushed ahead with a multi-lane super highway that will connect Nigeria, Benin, Togo, Ghana, and Côte d’Ivoire and bring their economies closer together.

Europe and North America have demonstrated what such continental initiatives can achieve. The EU is probably the closet model to what the AfCFTA envisages and notwithstanding significant issues like Brexit it will continue to deliver significant “greater good” to its member nations.

Taken as a bloc, the EU has become the world’s second largest economy, with a 2016 combined GDP of US\$20 trillion. It has transformed economic and political relationships among member states and changed socio-economic landscapes. Take Poland, for example. A year before it joined the EU in 2004, Poland’s annual GDP was US\$217 million. Last year it was US\$526 million. The Polish economy is now the EU’s eighth largest.

If AfCFTA is successfully enacted, Africa will be on the cusp of a golden era. A United Nations study calculated that while there would be \$4.1 billion in tariff revenue losses, AfCFTA would lead to long-term welfare gains of about \$16.1 billion; and that's the whole point – not an immediate seamless or even totally painless transition, but the creation of enduring benefits and opportunity for the entire continent.

### **Opportunity for all of Africa**

A successful AfCFTA will need strategies to create maximum value for all members – remembering that, aside from eight to 10 nations, most of its economies are relatively small.

In agri-commodities, there could, for example, be hub and spoke models that would bring together and benefit multiple member states. For instance, Côte d'Ivoire could become the continent processing hub while other producers become part of a greater value chain. A similar model has seen Vietnam – sourcing from all over the world – overtake India, a much larger economy, as a global market leader in processing cashew.

It is an approach replicable across different sectors, with the aggregated value starting within the continent.

### **Challenges and solutions**

The AfCFTA's sheer ambition makes it easy to list challenges – but what's critical is that recognition of its enormous potential also drives solution:

- **Economic fear factors:** Smaller economies understandably fear marginalization but, as the hub and spoke model demonstrates, the reality can be quite the opposite. On the other hand, larger economies may worry about becoming dumping grounds for neighbouring imports. But with the right political will, AfCFTA can represent the interests of all member nations.
- **A seamless eco-system:** Facilitating unrestricted people movement, not just trade movement, must be a priority. The EU's Schengen Area is the best example. Many African countries will require visas for fellow African travellers, which make intra-African travel cumbersome.
- **Infrastructure development:** Infrastructure is key to unlocking Africa's future and is crucial to the success of any free trade agreement.

Today, it costs more to send a container from Lagos in Nigeria to Douala in Cameroon than from China to Lagos. The continent must address its inefficient dependence on seaports and implement the significant rail projects that would change the entire face of intra-African movements of goods.

There is little doubt that AfCFTA can be a game-changer for Africa. The required developments' spending can have a multiplier effect in stimulating growth. One day we may even be talking about a common currency – but for now, we need African vision, cooperation and collaboration to embark on the journey.

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