Towards a Developmental Approach to the African Continental Free Trade Area (AfCFTA)

By
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I was originally invited to deliver this lecture last year, but as we all know by last March our continent, along with the rest of the world, had become engulfed by the first wave of the Covid 19 pandemic. According to WHO figures, by the end of last year nearly 3,3 million people on our continent had been infected, with more than 79.000 people succumbing to that deadly virus. My own country, South Africa, has the unfortunate distinction of having more cases than any other country on the continent.

The Covid 19 pandemic has changed many things. This includes the way we conduct meetings. It has decisively pushed us into holding virtual meetings using new technologies – a practice whose benefits will continue to be evident long after the Covid 19 emergency passes. But the pandemic has also created new challenges that reach way beyond the direct health emergency. Among other things we are in the midst of what some are calling the Great Lockdown Recession, with major implications for production, jobs, incomes and indebtedness across the world. In a world economy characterised by enormous imbalances and inequalities, a disproportionate part of this burden is falling on the developing world, with our own continent being particularly hard hit. I will touch on some of the implications of this harsh reality in the course of this lecture.

Let me begin, though, by thanking UNECA and the Executive Director, Dr Vera Shongwe, both for the original invitation and for rolling it over to this year. I am greatly honoured to have been invited to deliver a lecture dedicated to the memory of a great African scholar and public servant, Professor Adebayo Adedeji. I had the privilege of getting to know Professor Adedeji in the early 1990s when he invited me, then a research Professor at the University of the Western Cape, to serve on the advisory Committee of his research institute, the African Centre for Development and Strategic Studies (ACDESS).

I fondly recall travelling to ACDESS meetings in Ijebu Ode, Professor Adedeji's home-town, where it was evident, even to the occasional visitor, that he was greatly respected in the community. Professor Adedeji was also a major figure in discussions on the future of African regional integration in the years immediately before South Africa's democratic transition. I am proud to have authored a Chapter in a volume edited by him entitled, *South Africa and Africa: Within or Apart ?*
But Professor Adedeji is perhaps best known as a former Executive Director of this organisation, UNECA. In this capacity he is renowned for the development of the African Alternative Framework to Structural Adjustment Programmes for socio-economic recovery and transformation (AAF SAP). AAF SAP became a major beacon looked to by many then doubting that externally-imposed Structural Adjustment Programmes were the best, or only, way forward.

In preparing this lecture, I re-read the key messages of AAF SAP. I was struck at how many of them remain relevant more than thirty years on. AAF SAP's point of departure and major premise was, and I quote its very first sentence, "The structure of the African economy defines the essential features of Africa's central problem of underdevelopment". AAF SAP identified what it saw as the structural weaknesses in most African economies. They included a "weak productive base" characterised by low productivity and productive activities dominated by either subsistence or export-orientated primary product production. From this, AAF SAP identified the central task as structural transformation of African economies. One key element of this was, and I quote from paragraph 43, "…Africa has to break the apron strings of structural and relational dependence on producing a limited number of cheap primary commodities for export".

This highly pertinent observation remains as valid today as it was in 1990. It speaks to a reality highlighted by the experience of those very few countries that have transitioned from low to high income, or from underdeveloped to developed economies. The vast majority of these achieved this transition by passing through a stage of economic diversification involving a shift to higher value-added production. In a word, they industrialised. Poor countries have stayed poor because they have remained trapped in their colonially- defined role as producers and exporters of some primary product or products- agricultural or mineral –used in industrial production elsewhere. Developments that have unfolded in the period since the 1990s – including the rise of globally networked industries (or Global Value Chains) and the emergence of more complex and knowledge intensive products – have increased the imperative to break from what AAF SAP called "the apron strings" of dependence on primary commodity production and export. The value of the raw materials as a proportion of the price of final products is both small and declining. This is true even of products where little or no further physical transformation takes place. A study by KPMG in 2014, for example, found that Africa produced and exported coffee to the value of US $ 6 bn. But that this - through roasting, blending, packaging, branding etc - was sold abroad in final products fetching $100 bn. In other words, 94% of the value chain of a primary product produced on this continent was captured abroad. In the case of highly knowledge intensive products, the figures are even more stark. Take the case of the iPhone 6, that retails for $649 in the US. The cost of the mineral products used in its manufacture totals a mere $1,03 (0,16%).

Those few underdeveloped countries that have more recently emerged as high income or "moderately prosperous" countries have all followed the same path as earlier industrialisers. Whether they were the East Asian Newly Industrialising Economies in the 1960s and 1970s (South Korea, Taiwan, Malaysia) or, more recently, China, their governments pursued active industrial policies that promoted, nurtured and protected nascent industries. The industrialisation they experienced not only resulted in greater output and higher incomes for those directly involved in manufacturing, it also supported a host of related service activities that created higher quality, better remunerated and higher quality jobs than those that existed before. All of this created a generalised improvement in productivity that raised incomes throughout diversifying economies. In his book, *How Rich Countries Became Rich: Why Poor Countries remain Poor,* Erik Reinart argues that the reason luggage handlers, bus drivers, hotel personnel, barbers and shop attendants in Peru are paid less than their counterparts in Norway has nothing to do with lesser abilities or the nature of the work they perform. Both do the same job, and indeed those in Peru probably work longer hours than their counterparts in Norway. The reason for their different incomes lies in the fact that industrialisation in Norway generated an overall increase in incomes in that country.

Our leaders then are perfectly correct when they have repeatedly called for the industrialisation of this continent. Responding to the challenge to develop our countries and create better living standards for our people requires that we move up the value chain by breaking as AAF SAP put it the structural "apron strings" that have kept much of the continent in its colonially-defined place in the global division of labour – as producers and exporters of raw materials used in industries located elsewhere.

But we need to recognise that our efforts to industrialise are taking place in the context of two pre-existing global mega challenges as well as the impact of the Covid 19 socio-economic as well as health crisis. The first mega challenge is that arising from the imperative to mitigate and adapt to human induced climate change. The second, the technological transformations associated with the so-called 4th Industrial Revolution.

According to the Special Report of the UN Intergovernmental Panel on Climate Change released in 2018, global warming will likely rise to 1,5 degrees centigrade above pre-industrial levels between 2030 and 2052 and by 3 degrees by the end of the century (compared to the target of less than 2 degrees): That is unless net emissions reach net zero by 2050. This points to the likelihood, and indeed necessity, of (1) a structural transition to a lower carbon economy that will affect all forms of productive activity (mitigation), and (2) massive infrastructure investment (reactive if not pro-active) to respond to the impact of the unavoidable climate change already evident and likely to gather pace (adaptation). Both of these imperatives are seeing the development of new green technologies and indeed a wave of green industrialisation.

At same time, we are entering the early stages of what is called the 4th Industrial Revolution. It is widely accepted that the world underwent a 3rd Industrial revolution at the end of the twentieth century, with products like the personal computer and cell phones giving rise to innovations like the internet. This in turn facilitated an explosion of cross border economic activities, the emergence of trans-national corporations and globally networked industries (or Global value chains) – phenomena associated with the term "globalisation". As I understand it, the years following the onset of the global economic crisis of 2007/8 saw digital technology advance in new directions and in ways that were set to bring about not just quantitative but qualitative change. Digital technologies began to advance into the realm of "big data" management, mining and application. In 2016, Klaus Schwab of the World Economic Forum argued that the world was on the cusp of a "technology revolution…unlike anything humankind has experienced before" and that this was set to bring about "disruptive change" in practically all sectors of all economies. Among the new technologies associated with the 4th Industrial Revolution, also known as Digital Industrial Revolution, are the Internet of Things, where machines will be able to pass on instructions to other machines via the internet; Additive Manufacturing or 3D printing that can be combined into global networks via the internet; autonomous vehicles; nano-technology and the greater application of robotics and Artificial Intelligence. On the frontier are developments like quantum computing which will totally revolutionise the speed of all computation – and incidentally also render all existing security codes obsolete. All of this will be enabled by the introduction of 5G (or fifth generation) networks.

Many of these technologies have enormous potential to increase human welfare by increasing overall productivity. They also have potential to offer innovative solutions to a host of developmental challenges. On this continent we have seen many innovative uses and adaptations, including cell phone banking, the use of drones to deliver medicines to remote areas and the development of apps to draw small producers and service providers into networks giving them access to larger markets. It is therefore entirely appropriate to examine the opportunities that these technologies offer for African development. We need, however, to be aware that the roll out of the very same technologies are also posing enormous challenges. Firstly, they have the potential to widen inequalities both within and between countries. This arises, in part, through exacerbating "winner takes most" outcomes. MIT economists Erik Brynjolfsson and Andrew McAfee explained this with an example. In the nineteenth century only a few hundred people could have attended performances by the best opera singer. This meant there was a market for the ninth, tenth, eleventh best. In the case of ICT apps, however, global networks provide access for the vast majority of consumers to the best, meaning there is no market for the "also rans". The implication of this is that "winners" begin to receive extraordinary rewards, while "runners up" get little or nothing.

For manufacturing, potential "disruptive changes" associated with the 4th Industrial Revolution look set not just to be confined to what happens within each domestic economy, but also to impact on the location of industries around the world. Additive manufacturing networked through the Internet of Things looks poised to replace large assembly lines with smaller scale processes located closer to the site of consumption. The potential implication of this was exemplified in 2017 when Adidas announced that it was relocating some of its production from Bangladesh to Germany on the grounds that a combination of 3D printing and robotics had lowered production costs far below those that could be obtained by paying low wages in Asia. But "disruptive changes" are expected to go much further. They will impact on mining and agriculture, on financial services, legal services, the practising of medicine, on education and a host of other public and private services. An early mover looks set to be wholesale and retail trade. Electronic commerce, both in intermediate products and in sales to final consumers is taking off rapidly, with digitisation of processes within physical shops reducing demand for till clerks and other less skilled personnel.

Even Global Value Chains look set to undergo radical re-organisation. Parminder Jeet Singh describes this as follows:

> "As industrialisation placed machine power at the centre of the economy, digitalisation makes digital intelligence its new fulcrum. The factory as the site of mechanised production was the central economic institution of the Industrial Age. For the Digital Age, it is sectoral platforms that reorganise entire economic activities in any sector based on digital intelligence from data."

A further reality, is that the digital platforms emerging at the apex of digitally reorganising networks are exhibiting an exceptionally high degree of concentration and centralisation. According to UNCTAD, the top 1% of technology, software and IT-services companies globally increased their share of market capitalisation in the sector from 27% in the period 1996-2000 to 52% in 2009-15. Over the same period, their share of revenues rose from 31 to 43%, of physical assets from 31 to 47%, while their share of employment remained flat at 27% compared to 25% in the earlier period.

Both green industrialisation and the 4th Industrial Revolution will both enhance the imperative and raise the bar for Africa's drive to industrialise. If the continent is "left behind" as these developments unfold, the negatives of exclusion will outweigh the benefits of the introduction of products or systems based on the new technologies. Indeed, the continent's ability to create a scenario in which the positives or benefits outweigh the negatives or costs will depend on the extent to which it is able to industrialise. A key question, in this context, will be: Can the continent develop its own niches and competitive advantages (maybe beginning in agro-processing and smart agriculture as well as infrastructure related industries) ? The answer to that question will determine the extent to which the 21st Century becomes the African century. Like every other industrialisation process before it, African industrialisation in the era of green industrialisation and the 4th Industrial Revolution will depend on the successful implementation of industrial policy using all of the policy tools deployed by others to support, nurture and protect their emerging manufacturing industries. This, in turn, will depend on the extent to which the continent is able to defend access to the policy space used by earlier industrialisers and not have this curtailed by increasingly aggressive pressure to accept unfair trade rules.

On top of all this, we face the challenge of recovering from the pandemic-induced Great Lockdown Recession. According to World Bank estimates, the GDP of Sub-Saharan African countries shrunk by an average of 3,7% last year. Even if "optimistic" projections of 2% growth off a smaller base materialise in 2021, this will be less than the population growth rate –meaning average living standards will again fall raising the spectre some have spoken about of a prolonged period of depressed living standards. Certainly a V shaped recovery – a quick bounce back after the health emergency passes – looks increasingly unlikely. Hysterisis – or scarring – the persistence of damage even after the initial cause subsides will affect many sectors, including previously thought of "quick win" job creators like tourism, travel and hospitality. On top of that our economies are confronting depressed prices for many mineral commodities and an increasing debt burden adding to already onerous debt service costs. What the Director General of the World Health Organisation has called a "catastrophic moral failure" in the roll out of vaccines – meaning that people in the rich world will be vaccinated earlier than more vulnerable people in poorer countries – highlights the perils of continuing to be just consumers and not producers of medical equipment or vaccines.

All of this points to the urgent necessity of basing a recovery strategy not on going back to where we were, but on striving with renewed commitment and urgency to bring about structural transformation in the of African economy – particularly by breaking the apron strings of dependence on production of primary commodities by diversifying and moving to higher value-added production. How does all of this relate to the flagship project rightly absorbing much of the attention of the continent right now - the operationalisation of the AfCFTA ? We can all be proud of the fact that, despite the pandemic, the AfCFTA entered into force as a commercially meaningful partial FTA at the beginning of this year. The Secretariat is now established and already hard at work in ensuring its implementation.

I included a short chapter on the AfCFTA in a small volume published at the end of 2019 by the South Centre and available for downloading from their website free of charge. In it, I argued that in the lead up to the establishment of AfCFTA we faced a strategic choice of whether to prioritise the of the broadening of integration by establishing an FTA reaching beyond existing RECs or the deepening integration within RECs by moving them into customs unions, common markets or monetary unions. Whatever the pathway or pathways that led to us to prioritise broadening of integration by establishing a continental FTA, that decision was, in my view, both correct and appropriate to the circumstances we find ourselves in.

We have passed through a period in which the hegemonic multi-lateralism that drove the processes of uneven and unequal hyper-globalisation of the 1990s and early 2000s gave way to a shift towards outright mercantilism. "Discontent" with widening inequality and a sense of economic insecurity among social forces in many developed countries has underpinned both a scepticism about multi-lateralism and a greater economic nationalism, that some have suggested threatened to propel a trend towards de-globalisation. To what extent this will change with the installation of the Biden Administration in the USA remains to be seen. But I would suggest that while we may well see a welcome shift away from some of the extreme unilateralism of the Trump era, we are not likely to see any great willingness on the part of the developed world for an asymmetrical opening up of its markets to value added products from developing countries or even the removal of distortions on agricultural trade (unless well paid for by developing countries, and so-called "emerging economies" in particular). A major reason for this is that one of the major beneficiaries of the most recent phase of globalisation has been the latest economy to industrialise - China. It was not that China followed the policy prescriptions of neo-liberalism proffered to the developing world during that era. It decidedly did not. China's industrialisation is much more recognisable as having proceeded along a path similar to that of other industrialisers before it. It implemented a clear industrial policy and calibrated its trade policy stance to this. It liberalised its economy selectively and strategically – beginning with liberalisation of investment in defined Special Economic Zones. Only when its industries had achieved a level of competitiveness did it move towards a carefully calibrated liberalisation of trade. But, like others before it, China took advantage of any trade openings to expand its manufactured exports – beginning with clothing and textiles following the phase out of the Multi-Fibre Agreement. China has now emerged not just as the world's second largest economy and a major industrial producer, but also (and again as a result of its industrial policy choices) as a major innovator in the technologies of the 4th Industrial Revolution and indeed a leader (over its competitors) in a number of strategic areas. Rather than accepting its competitive challenge, China's rise has been met with a number of retaliatory measures by the developed world. As UNCTAD's *Trade and Development Report noted,* the "tariff tantrums" that began in 2018 were soon recognisable as being rooted in "technology turbulence". As Professor Klaus Schwab perceptively suggested we are witnessing nothing less than a struggle for mastery over the 4th Industrial Revolution, that looks set to shape international relations for some time to come. Among other things, we are likely, in this context, to see the developed world continuing to seek to reclaim industrial policy, acting to consolidate domestic production in key strategic areas and consequently not being likely to offer easy access to its industrial markets, that have in any case not been major drivers of global growth since onset of the Great Recession of 2007/8.

What this means, immediately, is that even if we in Africa wanted to base an industrialisation effort on production of value-added products for export to the markets of the developed world that path is much less available than it was to previous industrialisers – even to China. Under such circumstances, several of the more successful developing countries, China and India among them, have been turning to domestic consumption to drive the next phase of their development. The problem facing African countries in moving in a similar direction is that none of us – not even the largest -has a domestic market of sufficient scale to drive significant industrialisation. However, if we look to the continent as a whole, its 1,2 billion people and combined GDP of US $2,3 trillion does offer a base for significant diversification and potentially for deep industrialisation.

It is often said that the main benefit of the AfCFTA will be that it supports an increase in intra-regional trade - from the mere 17% of total trade it now is to a level approaching that of other successful regions; 31% in North America, 59% in Asia or 69% in Europe. That of course would be an important gain and indication of success of the AfCFTA. But I would suggest that the AfCFTA's real prize would be if it supported the emergence of regional value chains involved in the production of higher value-added goods and services. Such an outcome could expect to see components and other intermediate inputs being produced in a number of countries before being assembled into "products of Africa" consumed by the citizens of the continent and also exported. Under such a scenario we could expect to see not just a quantitative increase in intra-regional trade but a qualitative change in its character. This would involve a greater absolute and relative intra-trade in components and intermediate products – which is in fact the largest and fastest growing part of global trade in goods. For this to occur, it is important to recognise that trade integration is not a stand-alone. It must be an integral component of a broader economic integration process. Again, we can turn to AAF SAP for guidance in this regard. Paragraph 47 argues that African integration must "…involve three mutually interdependent dimensions (a) the integration of the physical, social and institutional infrastructure (b) the integration of production structures (c) the integration of the African markets".

This speaks to the elements long argued by proponents of development integration. A fundamental point of departure of the development integration perspective is that in developing country regions low levels of intra- regional trade are not only, or even principally, a result of high customs tariffs or other regulatory barriers. Underdeveloped production structures and inadequate infrastructure are also critical factors. Thus, if country x is a producer and exporter of some raw mineral exported abroad, it has little to trade with county y next door which produces and exports some other primary product. If roads and rail networks built fundamentally to take the raw material from the mine or farm to the nearest port for export out of the region, and are inadequate in linking up country x and y, that too will impede trade between them. From this it is argued by proponents of development integration that trade liberalisation alone (reduction of tariffs and perhaps smoothing of other regulatory barriers) will only go so far. Two other pillars need to be integral to the integration effort. The first is infrastructure development. This would need to connect the economies of the integrating region – physically and digitally – and address the massive deficit in this regard. The onset of climate change would add a further imperative – we need to build greater infrastructural resilience so that

we can defend roads and railway lines against floods or fires, ports against the effects of rising sea levels and storms and peoples' access to water through better water course management.
The other essential pillar is to promote cooperation to support industrial development. As with industrialisation elsewhere, Africa's industrialisation will depend on strong policy driven processes, including ensuring that local industries become involved in the infrastructure build, and that nascent industries in emerging value chains are supported through appropriate programmes such as localisation. The appropriate combination of industrial policy at national, REC and continental level is something still to be discovered. But one thing that is clear is that a united voice from the continent in defence of our right to access policy tools used by earlier industrialisers will strengthen our hand in circumstances where powerful external forces will seek to constrain this not just to preserve their access to cheap raw materials but also to allow them to benefit from accessing a growing consumer markets and mining data generated on the continent, in the latter case by, *inter alia,* opposing any attempt to establish data sovereignty.

If the AfCFTA were to become reduced to a conventional trade integration arrangement, it would very likely entrench the competitive advantages, and polarisation in favour, of the very few countries currently having some capacity to export finished goods to the rest of the continent – South Africa, Egypt, Morocco, Kenya. This could very likely provoke others to push for weak Rules of Origin that could lead to a proliferation of low value-added, screw-driver type, industries emerging in other countries. On a worst-case scenario, this could result in a net lowering of the overall level of value addition on the continent. If this were to occur, it would mean that the main beneficiaries of the CFTA would be those external parties producing goods subject only to nominal value addition on the continent.

It would be even worse if we were to succumb to siren songs of external forces urging that the AfCFTA becomes a stepping stone to greater liberalisation towards them. There are many external forces giving nominal support to the AfCFTA because they hope it will be a step towards opening up third party access to a larger African market and thereby enhancing the value of any FTA they seek beyond that available with individual countries. The kind of supposedly 21st century "high quality" agreement envisaged by many, would be only slightly asymmetrical or differentiated and include numerous behind the border "trade related" chapters that would, without doubt, severely curtail policy space essential for a drive to industrialise. AfCFTA must, at the stage we find ourselves in, entrench a real advantage for continental producers over others. If it does not it will be extra-regional rather than African producers that are the main beneficiaries of trade liberalisation in the AfCFTA.

If the AfCFTA is to fulfil its promise as a tool for inclusive development, industrialisation and diversification it needs, therefore, to embrace more of the perspectives of a development integration programme. This is not to suggest that the continent pauses to engage in a theoretical debate about paradigms. Even if this were desirable, which it is not, it could result merely in the formal adoption of wording in documents. What is needed as the AfCFTA moves into operationalisation is that practical implementation processes become firmly rooted in addressing concrete development challenges and providing more opportunities for the continent to move towards higher value-added production. The insignificant progress recorded in industrial cooperation, whether at REC or AU level, should be a matter of concern. Industrial development cooperation needs to rise above the kind of consultancy-heavy scoping exercises that have dominated the work in formal bodies up to now and deliver forward thinking proposals for sectorally specific "win-win" outcomes taking into account the AfCFTA. Ongoing work involving private sector players and some governments to produce an African "Auto Pact" is perhaps a pointer in this regard. This is addressing itself to the evident ambition of several countries to move into automotive assembly starting with "semi-knock down" (SKD) assembly. Rather than letting this lead to destructive competition between small scale operations that could see the continent's few completely knock down kit (CKD) manufacturers lose markets, the Auto Pact aims to find a "win-win" outcome that allows more of the activities of the latter to move towards the production of components to support SKD operations elsewhere, rather than these depending on components from extra-regional suppliers. Similar strategies are also being envisaged in railway equipment manufacturing as well.

In the circumstances we find ourselves in, it is imperative that AfCFTA becomes a tool of structural transformation and industrialisation . It is encouraging that research bodies, industry associations and trade unions across the continent are beginning to grapple with this issue. The Secretary General of AfCFTA, Wamkele Mene, is also deeply committed to working to ensure that AfCFTA fulfils its potential in this regard and is in the process of establishing a consultative body to advise on how AfCFTA can underpin the continent's industrialisation. These are positive developments that can, and must, be built on.

Let me conclude with my final reference to the man in whose honour this lecture is being held. In the concluding Chapter of the volume he edited, *South Africa and Africa: Within or Apart ?* Professor Adedeji wrote with reference to the Lagos Plan of Action, and I quote, "While Governments all over Africa swear by the Plan, and pay homage to it from time to time, this has been no more than lip service, as it has been honoured more by neglect than by implementation". He went on to lament that AAF SAP was suffering the same fate and argued that "…leadership is most crucial. It has to be visionary and practical at the same time. It should be pragmatic and eclectic without in any way compromising the relentless pursuit of the overall goal. And, above all, there is need for minimum qualifications with regard to legitimacy, honesty, accountability, integrity, competence, commitment and responsibility". Those qualities are critical as we implement a transformative and developmental AfCFTA. Let us then renew our commitment to them as we honour the memory of a great African scholar and activist.

I thank you for your attention.