

# Conference Report

Potsdam Winter Dialogues 2020

sef:

## Building Sustainability into African Free Trade

Mischa Hansel

Trading under African Continental Free Trade Area (AfCFTA) rules officially commenced on 1 January 2021. The AfCFTA agreement establishes the largest free trade area in the world and offers a glimmer of hope during this pandemic, opening up new prospects for long-term social and economic development on the African continent. What can be done to ensure that the free trade area contributes to social welfare in all the member states? How can international partners support economic integration in Africa? And what lessons can be learned from other regional free trade initiatives? These questions were discussed by African and European experts at the Potsdam Winter Dialogues on 14-15 December 2020. Due to the pandemic, the event was held online.

### Economic integration against the backdrop of a pandemic

The coronavirus pandemic has had devastating economic and social impacts on the African continent, as Erastus Mwencha, former Deputy Chair of the African Union Commission and current Chair of the Executive Board of the African Capacity Building Foundation (ACBF), made clear in the opening session. The collapse of supply chains and the closure of production sites are driving unemployment and poverty and causing budget crises in many African countries. As a result, implementing the African Continental Free Trade Area, launched on 1 January 2021, has become an even more urgent necessity. The abolition of customs duties and non-tariff barriers to trade is intended to stimulate economic recovery and promote regional value chains.

However, the free trade area seems set to be merely the first step in economic integration, which will be progressively expanded with harmonised competition and investment policies and, in the long term, a common market. The AfCFTA is a key pillar of Agenda 2063 and therefore of a broad vision for sustainable development, a point emphasised by Michael Krake, Director of Private Sector, Trade, Employment and Digital Technologies at the German Federal Ministry for Economic Cooperation and Development (BMZ). But with so many social and political challenges, it is clear that it cannot only be about increasing the volume of trade and boosting



Potsdam Winter Dialogues 2020 (clockwise): David Luke, Michèle Roth, Helmut Asche and Hanna Gersmann (Chair)

economic growth. Which social and environmental goals should guide economic integration in Africa, and how can distributional conflicts within society be avoided? These questions sparked lively discussions throughout the event.

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## Practical expectations

Intra-African trade is underdeveloped at present: less than 20 per cent of African exports currently remain on the continent. Individual countries' trade balances with the EU and the US are dominated by



Potsdam Winter Dialogues 2020 (clockwise): Hanna Gersmann (Chair), Maria Auma Horne, Lerato D. Mataboge, Steven Pope and Samuel Mensah

raw materials exports and agricultural commodities, although processed goods feature more prominently in trade between African countries. The development of intra-African trade therefore has the potential to contribute substantially to economic diversification and to strengthening regional value chains in Africa, according to David Luke, Coordinator at the African Trade Policy Centre, United Nations Economic Commission for Africa.

What prevents African producers from engaging in more cross-border trade? First, there are the high operating costs. For example, customs duties make up around 50 per cent of the costs of exporting wine from South Africa to Uganda, according to Maria Auma Horne, founder of BLI Global Capital in Kampala and New Hampshire. Global corporations are able to absorb these costs, but start-ups and local businesses cannot keep pace. A further example was provided by Samuel Mensah, whose fashion company Kisua works with suppliers from a variety of African countries. If his firm buys fabrics in Ghana, processes them in South Africa and then re-exports them into Ghana as finished goods, the customs duties charged are equivalent to those applicable to garments manufactured entirely in China. Hardly any African countries have customs regimes that recognise re-exports of African primary products and apply lower tariffs accordingly.

As a representative of a logistics company operating in Africa, Steven Pope, Vice President of GoTrade, Deutsche Post DHL Group, experiences the problems of cross-border trade on a daily basis. In addition to the costs, there is the bureaucratic burden of dealing with customs formalities. The rules are often changed at very short notice. Samuel Mensah estimated that without all the delays and costs, he would be in a position to increase his workforce three- or fourfold. From an macroeconomic perspective, this is devastating, added Trudi Hartzenberg, Executive Director of the Trade Law Centre in Stellenbosch: "We are losing our competitive edge in the global markets as a result of excessive and sometimes arbitrary border formalities." However, Steven Pope also saw some progress being made: in some countries, digitalisation has simplified and expedited the procedures. With the AfCFTA now a reality, he was optimistic that more harmonisation is within reach.

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## Overcoming stumbling blocks in implementation

The AfCFTA is not the first attempt to find a stepwise solution to these problems. The regional economic communities have been working towards economic integration for some time, albeit to varying extents. What is often lacking, however, is implementation and compliance, according to Professor Helmut Asche from the University of Mainz. Thus far, no regional customs union has managed to remove all non-tariff barriers to trade. The recent arbitrary border closures between Nigeria and Benin, both members of the Economic Community of West African States (ECOWAS), speak volumes. Why should the situation be any better at continental level?

There is indeed a lack of agreement on the most contentious issues, such as the identification of tariff-free product groups and the development of rules of origin that would avoid abuses involving imports. Precisely because the volume of intra-African trade is so limited, it is important to ensure that customs duties do not continue to apply to the very goods that account for a larger share of trade, warned David Luke. With the rules of origin, the devil is in the detail, said Lerato Mataboge, Deputy Director General of Export Development, Promotion and Outward Investments in South Africa's Department of Trade. On the one hand, it is essential to keep as much value-added as possible on the continent; on the other, it is important not to scare away trade partners and foreign investors willing to engage in the African market.

Implementation has been the death knell of many previous integration projects, commented Rob Davies, a former South African trade minister. How-

ever, Trudi Hartzenberg countered by highlighting the potential to learn lessons from past mistakes. One of these lessons is that strong institutions are



Potsdam Winter Dialogues 2020 (clockwise): Hanna Gersmann (Chair), Onohoómhen Ebhohimhen, Colette van der Ven and Hilma Mote

key. For example, in most regions, private companies have no access to dispute settlement mechanisms. However, the AfCFTA framework provides for this possibility. Rob Davies also emphasised that both the political commitment and the AfCFTA institutions are more robust than under previous integration initiatives.

### Creating equilibrium between African countries

There are major differences between the African economies. By liberalising trade, will the AfCFTA heighten these differences and thus create new regional tensions? Not necessarily, said Colette van der Ven, Founder and Director of TULIP Consulting in Geneva. For example, if the AfCFTA makes it easier for Kenyan garment manufacturers to import high-quality fabrics from West Africa instead of Asia, free trade will create new transregional links rather than new frictions. Nevertheless, she called for transition and support programmes for the benefit of weaker economies; the current exemption rules do not go far enough.

According to David Luke, all countries and sectors will benefit from the AfCFTA, so there is no need for smaller countries to be afraid of trade liberalisation. Regional supply chains will support the advancement of countries with the weakest economies, and the expected prosperity gains will, in all cases, outweigh the loss of customs revenue. Helmut Asche was far more sceptical: compensation programmes are needed, he said, to promote the development of competitive production sectors in weaker countries. This is also evident from experience in Europe,

where concerted efforts were made to enable weaker countries to catch up economically. Without comparable mechanisms, the AfCFTA will solely benefit existing economic champions in Nigeria, South Africa and Algeria.

What might these measures look like? Prudence Sebahizi, Head of the AfCFTA Negotiations Support Unit and Chief Technical Advisor on the African Continental Free Trade Area (AfCFTA) at the African Union Commission (AUC), drew attention to the planned AfCFTA Facilitation Facility, which will provide compensation for the loss of customs revenue and sectoral decline. However, the funding issue has yet to be resolved. Alongside contributions from member states, one option is for international partners to get involved.

### Tackling domestic reforms

Fabio di Stefano, Team Leader of the Panafri- can Programme in the European Commission's Directorate-General for International Partnerships, proved very receptive to this idea. The European Commission, he said, has provided this type of adaptation support within the framework of the Southern African Development Community (SADC) in the past. One option is to establish programmes to support tax reforms within a national framework in order to offset the loss of customs revenues. Trudi Hartzenberg also underlined the need for national reforms, for example to ensure that direct investment benefits local producers. The African countries are already well-integrated in the global economy and should regulate, but not restrict, economic links with partners in other regions of the world. Memory Dube from the African Development Bank criticised the frequent decoupling of efforts to achieve



Potsdam Winter Dialogues 2020: Taking a break...

continent-wide economic integration from domestic policy processes in the member states. In addition to the tax reforms, already mentioned, there is a need for change in other areas, such as immigration policy. Overall, the member states need to become more efficient, with less emphasis on rent-seeking,

in order to derive maximum benefit from the AfCFTA. The African Development Bank supports these efforts in a multitude of sectors.

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### Strengthening social and environmental sustainability

A domestic consensus in support of the AfCFTA is conditional, however, on the avoidance of distributional conflicts within society and the defusing of social tensions. There is still a great deal of work



Potsdam Winter Dialogues 2020: Hub in Berlin

to do here, as the participants made clear. In many countries, workers' interests in particular have been bypassed and subordinated to achieving progress in intergovernmental negotiations, according to Dr Onohoómhen Ebhohimhen from the Nigerian Labour Congress. The failure to address employment issues is irresponsible: millions of well-qualified young people are jobless and the demographic situation is critical. In order to identify potential solutions within the AfCFTA framework, governments and employer associations must cooperate with the trade unions.

Hilma Mote from the International Labour Organization (ILO) endorsed this criticism. Engaging in social dialogue is an urgent necessity as part of AfCFTA implementation. At the same time, trade unions must strengthen their own trade policy expertise in order to narrow the information gap with governments and businesses and facilitate more effective participation. Several attendees underlined civil society's lack of influence in the shaping of the agreement. Colette van der Ven, for example, criticised the lack of provisions on workers' rights and sustainable development criteria. Appropriate amendments are required in order to avoid a race to the bottom on social and environmental standards. The agreement also ignores the key role played by

women in agriculture and in informal cross-border trade, Hilma Mote added.

The gaps left in the negotiations now need to be filled – and the AfCFTA Secretariat has a role to play here, according to Colette van der Ven. Member states must grant it a mandate to ensure adequate civil society participation in the implementation phase, and the Secretariat must act on this responsibility.

In addition to social criteria, sustainable free trade should have an environmental dimension. This sparked a lively discussion about the negative impacts of economic integration, particularly as regards climate change mitigation. Several participants rejected the assumption that strengthening intra-African trade and regional value chains will necessarily drive up emissions: on the contrary, simplified customs formalities have already reduced the distances some goods have to travel, as Steven Pope explained. Ultimately, it is for governments to ensure that trade and economic growth are compatible with climate change mitigation, said Maria Auma Horne. This can be achieved by participating in emissions trading and providing climate policy incentives for small and medium-sized enterprises, for example.

Many environmental problems are exacerbated by poverty. Samuel Mensah drew attention to illegal logging as one example: poverty forces people to engage in unsustainable behaviour. An increase in trade has the potential to reduce poverty and thus ensure more environmental sustainability. Beyond these indirect effects, the AfCFTA can be utilised to a greater extent as a mechanism to promote the distribution of sustainable products and services, according to Colette van der Ven. Customs duties on green technology should certainly be abolished; this should be one of the priority product groups.

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### Europe's controversial role

The environmental and social challenges posed by climate change are the best example showing that equitable transformation can only succeed through cooperation. In the context of African trade, the European Union – the most important economic partner – has a responsibility here. The economic partnership agreements (EPAs) that the EU has concluded bilaterally with a large number of African countries and some regional organisations are the most significant – but much-criticised – mechanism here.

Fabio di Stefano defended the usefulness of the EPAs. Although they were not a springboard to the AfCFTA, they did not impede the establishment of the free trade area. On the contrary, within the EPA

framework, it was and is still possible to establish useful capacities for implementing the AfCFTA. That depends on which phase of the AfCFTA we are talking about, countered Sean Woolfrey from the European Centre for Development Policy Management. However, he saw no fundamental contradiction between the partnership agreements and the African free trade area, merely technical incompatibilities that need to be resolved. However, countries' bilateral commitments to the EU could undoubtedly complicate the establishment of an African customs union in future.

David Luke was more critical: in his view, very few economic sectors in Africa actually benefit from the economic partnership agreements with Europe. Full implementation and expansion of the EPAs would be detrimental to intra-African trade. The question is not whether Africa should deepen trade with Europe, but how and when it should do so. However, implementing the African free trade area should be the priority. Only then can the partnership with the EU be deepened, to the benefit of both continents. As a further important point, the EU should not negotiate with individual African countries on a bilateral basis but engage with the AU as a whole. The AfCFTA offers a useful platform for developing a coordinated approach and presenting a united front to the EU, according to David Luke.



Potsdam Winter Dialogues 2020 (clockwise): Hanna Gersmann (Chair), Prudence Sebahizi, Stephan Bethe, Sean Woolfrey and Fabio di Stefano

We need to develop a shared vision for the way in which we approach our international partners, said Rob Davies. The European raw materials strategy and other policies demonstrate that European policy-making is often too short-sighted. The European partners need to recognise that there is a long-term development pathway for Africa that also serves Europe's interests and should not be blocked by particularistic interests.

There were doubts not only about the strategic direction but also the coherence of European policies.

In many areas, Europe can offer support and share lessons learned if this is what the African partners want, but it needs to adopt a coherent approach, according to di Stefano. This is the idea behind “Team



Potsdam Winter Dialogues 2020: audio equipment

Europe”. The European Commission has established a multi-stakeholder task force for this purpose.

Technical and administrative support for the implementation of the AfCFTA is supplied not only by Brussels but also by the EU member states. Germany, for example, is currently providing 28 million euros in financial support for the AU, the regional economic communities and individual African countries, according to Stephan Bethe, Head of the Trade Policy Unit in the German Federal Ministry for Economic Cooperation and Development (BMZ). He emphasised the need for international partners to adopt a broader perspective – one which does not focus solely on trade development but also covers energy supply issues, industrial policy and investment promotion. In all these areas, Europe can help to establish the bases for sustainable economic relations.

## Bridging the digital divide

A welcome form of support that the European partners could provide is assistance with the financing of digital business models in Africa, said Jamie MacLeod from the United Nations Economic Commission for Africa. Granted, the pandemic response has boosted digitalisation in Africa, as elsewhere, reflected in a substantial increase in user numbers and transactions. Nevertheless, there is widespread mistrust of e-commerce, and banks still shy away from lending risks. There are countless young entrepreneurs who have very promising ideas and would like to start a digital services business. The stumbling block is the lack of access to finance; the European partners could provide valuable assistance here.

Infrastructure deficits are another factor hindering efforts by African producers and traders to achieve online competitiveness. In many African countries,

Internet access is both unreliable and expensive. Electronic payment systems are underdeveloped, and many customers are hard to reach by post, making it difficult to deliver goods sold online. African businesses are struggling to cope with these practi-



Potsdam Winter Dialogues 2020 (clockwise): Hanna Gersmann (Chair), Rob Davies, Helmut Scholz MEP and Memory Dube

cal problems; for them, the contentious issues that are the subject of WTO negotiations are less significant.

When asked by participants whether the market power of IT corporations means that African businesses are in a hopeless starting position, Jamie MacLeod said that this gives the wrong impression of what competition means. There is no need for African companies to try to compete with Google – there are plenty of opportunities for smaller African competitors in other segments. By developing a common competition policy, the AfCFTA can create effective leverage for dealing with the Western IT companies that dominate the market. Steven Pope was also optimistic: today's digital opportunities open a window to the world for smaller and medium-sized enterprises. It is less about trade rules than about the right skills, such as the ability to provide a clear and appealing product description online.

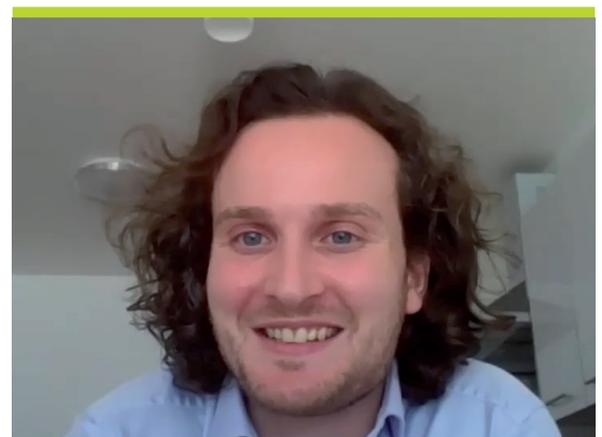
### Time for a new paradigm

The example of digitalisation shows yet again that free trade is not an end in itself and cannot contribute to development by operating in a vacuum. It relies on economic and industrial policies that have a stimulus effect; ultimately, it is about achieving a comprehensive transformation that goes beyond technical details and includes education policy, for example. There is no blueprint for this, however: European integration is not necessarily a model to be emulated, said MEP Helmut Scholz, a member of the European Parliament's Committee on Inter-

national Trade. The ongoing issue with European integration is that although a single market has been created, there are still no shared political solutions to social problems, such as the very high wage gap. Memory Dube was equally sceptical, drawing attention to the very different starting conditions on the African continent. The sheer number of countries involved makes the challenge in Africa far more daunting.

Nevertheless, there is guidance available, notably the UN Sustainable Development Goals, Helmut Scholz added. In order to move closer to these Goals through free trade, Rob Davies recommended the paradigm of development-oriented integration. It is also important to learn from the past, for example by recognising that industrialisation has a key role to play. All the countries that have achieved significant improvements in the Human Development Index have gone through this process. Today, however, industrialisation must be guided by very different priorities that take account of the challenges posed by megatrends such as climate change and digitalisation. A common approach by the African countries is also essential if they are all to share in the benefits of social development.

Trudi Hartszenberg welcomed the fact that the AfCFTA is not a separate entity but dovetails with a range of complementary measures that form part of the AU's Agenda 2063, such as the African Digital Transformation Strategy. This is where it differs from previous integration programmes, which were never more than political statements of intent. Hartszenberg and Davies also drew attention to the emergence of regional pharmaceutical manufacturing clusters during the pandemic. This shows that the development of regional supply chains is a real



Potsdam Winter Dialogues 2020: Jamie MacLeod

possibility, not a vague hope. These opportunities, created by the crisis, must now be utilised to a greater extent.

As the contributions to the Potsdam Winter Dialogues repeatedly showed, three elements are required. First, there must a political commitment

on the part of decision-makers not only to drive this very ambitious project forward but also to flank it with community instruments aimed at achieving a fair balance of interests. Second, there must be a willingness on the part of the societies concerned to engage with each other and address distributional conflicts in a constructive manner. And third, a far-sighted and coherent approach is required from international partners, especially in Europe, in order to give the many young entrepreneurs in Africa genuine opportunities. There are many possible approaches and strategies for dealing with these challenges from a variety of contexts, as the participants made clear. By clustering these approaches, Africa has the potential to realign free trade towards development, a model which offers scope for replication in other regions of the world.



Potsdam Winter Dialogues 2020: networking on wonder

## Cooperating partners



## Imprint

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