POWER INFRASTRUCTURE AND FINANCIAL INCLUSION - TOOLS FOR WINNING UNDER THE AFRICAN CONTINENTAL FREE TRADE AREA (AFCFTA)

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1. Overview

The African Continental Free Trade Area (AfCFTA) was created with the primary objective of creating a single African continental market for goods and services, with free movement of goods, services and investments. The AfCFTA, when fully implemented, will be the world's largest free trade area by number of participating countries since the formation of the World Trade Organisation (WTO) and will cover a market of more than 1.2 billion people with a combined gross domestic product (GDP) of more than US$3.4 trillion.

The AfCFTA Agreement creating the AfCFTA was initially signed by 44 member states of the African Union (AU) in Kigali, Rwanda on 21 March 2018. As of July 2019, 54 of the 55 AU member states had signed the AfCFTA Agreement with 30 of those countries having ratified the AfCFTA Agreement. Trading under the AfCFTA Agreement was due to commence on 1 July 2020, however, this date has been postponed due to the global impact of COVID 19 pandemic on trade and economic activities. A new date is yet to be confirmed.

The benefits of a successful implementation of the AfCFTA far outweigh its disadvantages. The postponement of trading commencement will afford member countries the opportunity to intensify preparations for the implementation of the AfCFTA. Despite the overall benefits of the AfCFTA, there will be winners and losers. This article explores the implications of power infrastructure and financial inclusion, two factors that will determine whether a member country will win or lose under the AfCFTA.

2. The AfCFTA: A Brief History

Prior to the advent of the AfCFTA, countries in Africa had Regional Existing Communities (RECs). The RECs, proposed by the 1980 Lagos Plan of Action for the Development of Africa, and the Abuja Treaty of 1991 establishing the wider African Economic Community, had the objectives of facilitating economic integration among and between members of the individual regions with a view

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to eventual continental integration. There are eight (8) RECs, recognized as the building blocks of the AU: the Arab Maghreb Union (AMU), the Community of Sahel-Saharan States (CEN-SAD), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Intergovernmental Authority on Development (IGAD), and the South African Development Community (SADC).

In January 2012, the AU, recognizing that the promotion of intra-African trade is a fundamental factor for sustainable economic development, employment and effective integration of Africa into the global economy adopted the Decision[2] to establish a Continental Free Trade Area (CFTA) during its eighteenth ordinary session held in Addis Ababa, Ethiopia.[3] The CFTA was to be operationalized by an indicative date of 2017.[4] However, it was not until July 2019 that the operational phase of the AfCFTA was launched after 27 countries that had ratified the instrument had deposited same at the depositary (Chair of the African Union Commission).

The AfCFTA has, amongst other objectives, the creation of a single market for goods and services, facilitated by movement of persons in order to deepen the economic integration of the African continent; the creation of a liberalised market for goods and services; contributing to the movement of capital and natural persons and facilitating investments; and laying the foundation for the establishment of a Continental Customs Union at a later stage.

3. COVID-19 and Implementation of the AfCFTA

The implementation of the AfCFTA presents Africa with a unique opportunity to create the world's largest trade area by number of participants together with the attendant economic benefits. The AfCFTA presents the opportunities of a larger market for goods and services produced within the continent, increased mobility of labour across the continent, increased participation of women in the formal business sector and faster and deeper development occasioned by the ease of interconnection between and among Small and Medium-Term Enterprises (SMEs) across the African continent.[5]

Trading under the AfCFTA was initially set for 1 July 2020. Due to the effect of COVID-19 on

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2 Assembly/AU/Dec.394(XVIII) retrieved from https://au.int/sites/default/files/documents/32454-doc-decision_-_english.pdf accessed on 15 July 2020.

3 United Nations Economic Commission for Africa. *Developments on the Boosting Intra-African Trade Initiative and the Continental Free Trade Area* retrieved from https://www.uneca.org/oria/pages/developments-boosting-intra-african-trade-initiative-and-continental-free-trade-area accessed on 15 July 2020.

4 Assembly/AU/Dec.394(XVIII) retrieved from https://au.int/sites/default/files/documents/32454-doc-decision_-_english.pdf accessed on 15 July 2020.

5 Adetayo Adetuyi and Nnanke Williams, Considerations for the Implementation of the African Continental Free Trade Area Agreement. Retrieved from https://brooksandknights.com/wp-content/uploads/2020/03/Considerations-for-the-Implementation-of-the-African-Continental-Free-Trade-Area-Agreement.pdf accessed on 15 July 2020.

global trade and economic activities and in particular, on African trade, the AfCFTA trading date was postponed with no agreed new date. Prior to the postponement of the AfCFTA, African countries were in discussions regarding best approaches to the challenges facing the implementation of the AfCFTA. The successful implementation of the AfCFTA faces both tariff and non-tariff barriers. Inefficient bureaucracy, poor infrastructure, persistent non-tariff barriers and other protectionist measures, heavy dependence on traditional export crops and commodities, little cross-border harmonisation of rules and regulations, long delays at road border crossings for cargo trucks and poorly functioning rail systems are amongst the myriad problems militating against a successful implementation of the AfCFTA.[6] Questions have therefore been raised on whether Africa is prepared for the AfCFTA.

The postponement of the trading date of the AfCFTA due to COVID-19 does not mean all is lost. The postponement gives African leaders more time to continue discussions and subsequently reach agreements on the modalities for the removal of physical trade and non-tariff barriers, two major factors militating against the successful implementation of the AfCFTA. The postponement also gives African countries the opportunity to develop local capacity in essential goods and services and as well, implement trade and investment policies while investing in critical infrastructure to accelerate investment.[7]

The benefits of a successful implementation of the AfCFTA are indications that increased international trade is beneficial to the economies of all the participating countries.[8] However, where there are winners, there are bound to be losers and international trade is no different.[9] In international trade involving developed and developing countries, developing countries are usually the winners and developed countries the losers. The North American Free Trade Area (NAFTA) is a good example. In the case of AfCFTA, the postponement is an opportunity for the member countries of the AU to decide which part of the divide to domicile as power infrastructure and financial inclusion are two factors that will play important roles in deciding who wins and who loses.

4. Power Infrastructure as a tool for winning under the AfCFTA

Researchers have found a causal link between electricity consumption and industrial output.[10] Manufacturing demand forms a

6 Is Africa really ready for the AfCFTA? Retrieved from www.independent.co.ug/is-africa-reallyready-for-the-afcfta/ accessed on 27 February 2020.

7 Adetayo Adetuyi and Nnanke Williams, The Implications of the Postponement of the Implementation of the African Continental Free Trade Area (AfCFTA) Agreement on Intra-African Trade. Retrieved from https://brooksandknights.com/2020/05/20/the-implications-of-the-postponement-of-the-implementation-of-the-african-continental-free-trade-area-afcfta-on-intra-african-trade/ accessed on 15 July 2020.

8 Daniel R. Carroll & Sewon Hur, 2019. "The Winners and Losers from Trade," Economic Commentary, Federal Reserve Bank of Cleveland.

9 Nina Pavcnik, 2019. The Winners and Losers from International Trade. Retrieved from https://www.iiss.org/blogs/survival-blog/2019/01/winners-losers-trade accessed on 15 July 2020.

10 A. Sankaran, Sanjay Kumar, Arjun K, and Mousumi Das. 2019. Estimating the causal relationship

large part of electricity demand[11] and the absence or presence of electricity supply has an effect on a country's level of industrialisation. Invariably, the cost of manufacturing will be higher in a country where the manufacturer has to self-generate power as against a country where a manufacturer does not have to self-generate, as the cost of power of generation is factored into the price of the manufactured product. In 2016, two leading tyre manufacturers in Nigeria relocated their factories to Ghana citing epileptic energy supply in Nigeria as the principal reason.[12] Countries with regular blackouts may experience higher costs of production compared to countries with steady power supply.

The quantum of power produced by a country and the price of the power in relation to the population of a country are of significance when considering industrial output and the cost of manufacturing. South Africa, with a population of circa 58 million generates 51,309 MW of electricity compared to Nigeria's 4,000MW[13] for a population of circa 200 million. Ghana, on the other hand, has an installed generation capacity of 4,000MW but with actual generation of circa 2,400MW[14] for a population of circa 30 million whereas Ethiopia with a population of circa 112 million has an installed generation capacity of 4,206 MW.[15]

Understanding the causal relationship between electricity availability and industrial output means that a country can take advantage of the postponement of AfCFTA's trading date to invest in its power infrastructure. This will place such a country in a winning position when trading under the AfCFTA eventually takes off.

5. Financial Inclusion as a tool for winning under the AfCFTA.

There is a huge untapped market for financial inclusion services using technology in Africa as majority of the adult population remain unbanked. Financial services are a key sector in Africa's continental market as the free movement of goods and services invariably requires ease in the movement of capital. Africa is experiencing an increase in the availability of financial products to people who would ordinarily have been excluded. For instance, financial inclusion currently stands at 83% in Kenya, up from 27% in 2006[16] while

between consumption and industrial output: ARDL bonds and Toda-Yamamoto approaches for ten late industrialised countries. Retrieved from https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6600005/ accessed on 15 July 2020.

11 Adam Kahane and Ray Squitieri. 1987. Electricity Use in Manufacturing. Retrieved from https://www.annualreviews.org/doi/pdf/10.1146/annurev.eg.12.110187.001255 accessed on 15 July 2020.

12 Babatope Bablobi. Of Nigeria's dying factories and exodus to Ghana. The Punch Newspaper, 22 January 2020. Retrieved from https://punchng.com/of-nigerias-dying-factories-and-exodus-to-ghana/ accessed on 15 July 2020.

13 USAID. Nigeria Power Africa Fact Sheet. Retrieved from https://usaid.gov/powerafrica/nigeria accessed on 15 July 2020.

14 USAID. Ghana Power Africa Fact Sheet. Retrieved from https://usaid.gov/powerafrica/ghana accessed on 15 July 2020.

15 USAID. Ethiopia Power Africa Fact Sheet. Retrieved from https://usaid.gov/powerafrica/ethiopia accessed on 15 July 2020.

16 Yomi Kazeem. 2019. Quartz Africa. Everything you need to know about African fintech right now. Retrieved from https://qz.com/africa/1751701/everything-you-need-to-know-about-african-

Nigeria has the ambitious goal of achieving 80% financial inclusion in 2020.[17]

Financial inclusion means more people have easier access to funds which they can use for their businesses. Financial inclusion can only be made possible with the introduction and deployment of technology more particularly mobile devices and the internet. A country that neglects or refuses to develop critical technological infrastructure risks losing when trading commences under the AfCFTA.

6. Conclusion

It is not sufficient for a country to merely ratify the AfCFTA instrument. In international trade, there are winners and losers. For a country to win when trading under the AfCFTA eventually commences, such a country must have invested in two critical infrastructure - power and financial inclusion.

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17 Central Bank of Nigeria. Financial Inclusion. Retrieved from https://www.cbn.gov.ng/devfin/fininc.asp#:~:text=Specifically%2C%20adult%20Nigerians%20with%20access,%25%2C%20within%20the%20same%20period. accessed on 15 July 2020.