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Trade, Investment and the AfCFTA



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Trade, Investment and the AfCFTA

A Russia-EU-Africa Strategy for Economic Development and Prosperity

Russia and the European Union are in the ambitious pursuit of Africa's heart. Both parties continue to pursue their own rigorous cooperation strategies with the continent – Russia is preparing to open its very first industrial zone in Egypt, and the EU has guaranteed its seat at African Continental Free Trade Agreement (AfCFTA) negotiations, allocating more than 50 Million Euros and even more generous consultative assistance to the involved African parties. Apart from that, just recently the European Union published its updated strategy with Africa ahead of the 6th EU-Africa Summit this October, while Russia rounded up its very first Russia-Africa Summit in October 2019.

Yet, as the old African proverb says, "If you want to go fast, go alone. If you want to go far, go together." A well-coordinated and thought-through trilateral Russia-EU-Africa strategy could fulfil the political and economic needs of all three parties and elevate collaboration for the benefit of the continent.

Nonetheless, one should refrain from overestimating the desire and readiness of both Russia and the EU to collaborate on matters they are accustomed to perceiving as their own. Instead, an updated focus on mutual concessions and novel cooperation models could prove to be constructive. Additionally, that would push both the EU and Russia to have an honest conversation about the value of their proposals to the continent, as well as their capabilities right now. Paramount in finding ground for cooperation would be a refreshed focus on what should be the central figure of a new strategy – Africa.

This policy paper will delve into EU-Russia-Africa collaboration within the context of the newly founded AfCFTA.

Exploring the opportunities presented by the Agreement would allow the EU and Russia to seek new development and business ventures with the

continent, as well as prepare the legal framework for spearheading updated trade agreements with the rapidly developing continent. Opening the EAEU market to African countries could also help the continent achieve its goal of economic diversification and added-value chains.

The paper will focus on determining the potential, capabilities and opportunities all three parties have to offer. Additionally, the purpose of the paper is to explore novel ideas for cooperation, encourage their further discussion and seek to lay the foundation for an EU-Russia-Africa strategy.

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"This is the moment for the African continent. A free trade area for Africa is going to be like a flood. A flood that is going to lift all the boats. It is not about South Africa. It is more about all of us. All countries of Africa participating - big and small."

*Cyril Ramaphosa,
President of South Africa*

Africa's economic transformation is being further propelled by the flourishing growth of the continent's new "wunderkinds", as well as, perhaps most importantly, the signing of the Agreement Establishing the African Continental Free Trade Agreement (AfCFTA). All 55 members of the African Union signed the agreement, from the continent's struggling economic powerhouses – Nigeria, South Africa and Angola – to East Africa's blossoming economies – Rwanda, Ethiopia, Tanzania, Kenya, Djibouti and Uganda.

As stated in the Agreement, the AfCFTA opens the door for **local added-value chains, the further diversification of African economies, agricultural development and food security**, all of which are high priorities for the continent today.

The above-mentioned concept highlights several important aspects to be addressed.

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Firstly, the idea of added-value chains and economy diversification brings us to the importance of African countries positioning themselves as regional skill and knowledge centres. The case studies of **Mauritius, Rwanda and Botswana** could prove interesting in this regard.

The **Mauritius** International Finance Hub¹ (IFC) and Mauritius Africa FinTech Hub² (MAFH) have helped position the country, once tourism and sugar dependent, as one of Africa's leading financial hubs. The IFC contributes just under USD 1 billion to GDP (8 per cent of the total) and USD 180 million in tax revenues (8 per cent of total), as well as provides more than 11 000 jobs.³ Considering that the population of Mauritius in 2018 was 1 265 303 people, the rise in jobs is significant.⁴ Apart from that, FDI increased by 20 per cent in January 2019⁵ compared to the previous year, which underlines the positive dynamic of the country's economic growth.

With the enactment of the Special Economic Zones of **Rwanda** Law⁶ in 2011 and plans to launch Africa's own Silicon Valley, Kigali Innovation City (KIC), valued at USD 2 billion, Rwanda is *en route* to becoming an innovative and technological hotspot. KIC, which was formed under a public-private partnership between the Government of Rwanda and Africa50,⁷ plans to host world-class universities, technology companies, biotech firms, and commercial and retail real estate. Carnegie Mellon University Africa (CMU-Africa), for example, was opened in KIC in November 2019⁸ and became the first educational institution to be opened in KIC. Apart from that, Rwanda is showing great ICT potential – the

country boasts the fastest broadband internet on the continent and is first in promoting ICT and in internet affordability.⁹

And finally, the **Botswana** government is demonstrating great efforts in developing their diamond down-stream industry, despite falling global demand for rough diamonds since mid-2018.¹⁰ The Diamond Technology Park (DTP) in Gaborone, for example, hosts tenants from leading global diamond companies with superior expertise and experience – the list includes De Beers Global Sightholder Sales – Learning Academy, Safdico Botswana, Rothschild Diamonds and Pratham International. As explained by Gareth Penny, Former De Beers CEO, “Aggregating diamonds in Botswana rather than in London would save De Beers money”.¹¹ He thus supported the initiative of the South African Diamond Corporation (Safdico) becoming one of the founding members of DTP.¹²

The above-mentioned three cases could prove important for European and Russian companies interested in expanding their business on the continent, including, amongst other factors, the localisation of business processes.

Secondly, Africa's goal to diversify its economy needs to be met by international markets open to African goods and services. The EU seems to be unlikely to become this kind of market. A thorough analysis of the Cotonou agreement¹³ shows that it failed to sufficiently open the European market to African countries. In fact, based on the principle of reciprocity in trade benefits in line with WTO rules (unlike the Lomé conventions that were a derogation from WTO principles in

¹ Overview of the Financial Services Sector, the Economic Development Board of Mauritius.

URL: <https://edbmauritius.org/opportunities/financial-services/fs-overview/> (last visited on March 4, 2020).

² Mauritius Africa Fintech Hub. URL: <https://mauritiusfintech.org/> (last visited on March 4, 2020).

³ Innovating and Transforming the Mauritius IFC of 2030: a Blueprint For Success, the Financial Services Commission of Mauritius, June 2018, page 3.

URL: <https://www.fscmauritius.org/media/67408/highlights-of-blueprint.pdf>

⁴ Population Total 2018, Mauritius, World Bank Development Indicators.

URL: <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=MU> (last visited on March 4, 2020).

⁵ FDI Inflows into the Mauritian Economy Record a 20% Growth in the First Semester of 2019, the Economic Development Board of Mauritius, October 28, 2019. URL: <http://www.edbmauritius.org/newsroom/posts/2019/october/semester-1-fdi-rs-1068-billion/> (last visited March 4, 2020).

⁶ Law N°05/2011 of 21/03/2011 Regulating Special Economic Zones in Rwanda.

URL: https://rdb.rw/wp-content/uploads/2018/01/SEZ-Law_1.pdf

⁷ In 2012 the African Development Bank established Africa50, an independent infrastructure fund that focuses on high-impact national and regional projects, mostly in the energy and transport sectors, with a particular emphasis on increasing the pipeline of investment-ready projects. About Africa 50.

URL: <https://www.africa50.com/about-us/> (last visited on March 3, 2020).

⁸ H.E. President Paul Kagame Opens CMU-Africa's New Home, Carnegie Mellon University Africa, November 22, 2019.

URL: <https://www.africa.engineering.cmu.edu/news/2019/11/cmuafrikanewlocation.html> (last visited March 4, 2020).

⁹ Infrastructure & ICT, the website of the Government of Rwanda, at <http://gov.rw/about-the-government/infrastructure-ict/> (last visited March 4, 2020).

¹⁰ The Global Diamond Industry 2019, Bain and Company, page 5.

URL: https://www.bain.com/contentassets/e225bceffd7a48b5b450837adbbfee88/bain_report_global_diamond_report_2019.pdf

¹¹ Diamond Technology Park for Botswana, Diamond World News Service, June 21, 2006.

URL: <https://www.diamondworld.net/contentview.aspx?item=448> (last visited March 4, 2020).

¹² New USD 50m Diamond Technology Park for Botswana, Engineering News, June 20, 2006.

URL: <https://www.engineeringnews.co.za/print-version/new-50m-diamond-technology-park-for-botswana-2006-06-20> (last visited March 4, 2020).

¹³ The Cotonou Agreement. URL: https://www.europarl.europa.eu/intcoop/acp/03_01/pdf/mn3012634_en.pdf

favor of ACP countries¹⁴), the Cotonou agreement contributed to the opening of the African market to the EU to a far greater extent than vice versa. The thesis is proved by statistical data.

According to Eurostat, European exports to Africa rose from EUR 120 billion in 2008 to EUR 152 billion in 2018. On the contrary, EU imports from Africa decreased from EUR 161 billion to EUR 151 billion over the same period. As a result, since 2015 the EU enjoyed positive trade balance with Africa that had not been the case earlier.¹⁵ Moreover, with the Cotonou agreement having expired on February 29, 2020, the EU and Africa are left with a limited legal framework for future economic cooperation that might temporarily even further complicate the access of African goods to the EU market. Although negotiations on the post-Cotonou EU-Africa cooperation continue,¹⁶ it is not yet fully clear what shape this cooperation will take.

In this regard, it is **the Eurasian economic union (EAEU) that could represent an alternative market for African economies**. Currently, the EAEU has three institutional frameworks of international cooperation: free trade agreements, non-preferential trade agreements that merely provide for cooperation on the removal of non-tariff restrictions, and memoranda of understanding¹⁷. As for now, the EAEU cooperation with Africa is rather limited. It includes a memorandum of understanding between the Eurasian Economic Commission and the Commission of the African Union¹⁸ and the ongoing negotiations on a free trade agreement with Egypt.¹⁹ The EAEU could open its market to African goods, first and foremost, through the progressive reduction of tariffs on goods from African countries via free trade agreements. Such a scheme has already been employed in the EAEU trade relations with developing nations, notably Vietnam.²⁰ Even if the EAEU is not prepared to conclude full-fledged free-trade agreements with some African coun-

tries, one could adopt the concept of preferential trade agreements only covering goods and services representing mutual interest for African exporters to the EAEU as importer. Thus, two questions arise: why would the EAEU market be attractive to Africa and what can Africa potentially export to the EAEU?

Finding a comprehensive and definite answer to the latter will take time, although an analysis of EU and EAEU imports, as well as trade with Africa, could prove useful.

For example, trade between Africa and the EU, the EAEU and, for comparison, MERCOSUR, differs vastly.

As seen in the table above, trade between the EAEU and Africa is rather limited, especially when compared to trade between Africa and the EU and MERCOSUR. The EAEU overall imports from Africa in 2019 were approximately half the size of those to MERCOSUR, not even speaking about the EU, which is the obvious leader. Food products are the number one import from Africa to the EAEU (unlike mineral products that the EAEU has no shortage of), while mineral products dominate the EU's imports from Africa.

Additionally, an analysis of the overall EAEU and EU imports might give an insight into what is in demand and what that could mean for African exporters.

The data suggests that the EU imports from Africa are primarily of raw material. On the contrary, the demand for mineral products is rather low in the EAEU. Hence, the EAEU provides a good opportunity for non-mineral imports from Africa (which, as mentioned above, is a top priority for the continent). In particular, the EAEU might prove a vast market for African agricultural products that have difficulty in gaining access to the EU agricultural market that is protected by high tariffs (as seen in Table 1, agricultural produce is of high demand in the EAEU). However,

¹⁴ Briefing "Future Partnership Between the EU and the African, Caribbean and Pacific States" ("post-Cotonou"), website of the European Parliament. URL: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/637981/EPRS_BRI\(2019\)637981_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/637981/EPRS_BRI(2019)637981_EN.pdf) (last visited March 4, 2020).

¹⁵ Africa-EU – International Trade in Goods Statistics, Eurostat. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php/Africa-EU_-_international_trade_in_goods_statistics (last visited March 5, 2020).

¹⁶ A Post-Cotonou Agreement between the EU and the African, Caribbean, and Pacific (ACP) countries, Interview with Xavier Oudin, Website of the European Commission. URL: <https://ec.europa.eu/research/social-sciences/index.cfm?pg=newspage&item=160404> (last visited March 10, 2020).

¹⁷ Prospects for the Development of the EAEU Project by 2025, Russian International Affairs Council. URL: <https://russiancouncil.ru/papers/EAEU2025-Paper-ru.pdf> (last visited March 10, 2020).

¹⁸ Eurasian Economic Commission and African Union Commission sign Memorandum of Understanding, Eurasian Economic Commission Website. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/24-10-2019-5.aspx> (last visited March 10, 2020).

¹⁹ EAEU Continues to Negotiate a Free Trade Zone With Israel and Egypt, TASS Russian News Agency. URL: <https://tass.ru/ekonomika/7522087> (last visited March 10, 2020).

²⁰ Free Trade Agreement with Vietnam, Eurasian Commission website. URL: <http://www.eurasiancommission.org/ru/act/trade/dotp/Pages/Соглашения-о-свободной-торговле-с-Вьетнамом.aspx> (last visited March 10, 2020).

TABLE 1. COMPARISON OF TRADE BETWEEN AFRICA AND THE EU, EAEU AND MERCOSUR IN 2017, 2018 AND 2019 (USD)

	2017	2018	2019	Top 3 Traded Goods
EU (27) imports from Africa, mln USD	149.9	181.6	174.7	Mineral fuels, mineral oils and products of their distillation; bituminous substances; etc. Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad, etc. Vehicles other than railway or tramway rolling stock, and parts and accessories thereof
EAEU (exc. Tajikistan) imports from Africa, mln USD	3.2	3.4	3.2	Edible fruit and nuts; peel of citrus fruit or melons Cocoa and cocoa preparations Ores, slag and ash
MERCOSUR's imports from Africa, mln USD	6.9	8.4	6.3	Mineral fuels, mineral oils and products of their distillation; bituminous substances; Fertilisers Natural or cultured pearls, precious or semi-precious stones, precious metals, etc.

Source: Author's calculations based on data from Trade Maps. URL: https://trademap.org/Bilateral_TS.aspx?nvpm=1%7c%7c7%7c%7c36735%7cTOTAL%7c%7c%7c2%7c1%7c2%7c1%7c2%7c1%7c1%7c1 (last visited March 14, 2020).

TABLE 2. EU AND EAEU IMPORTS GLOBALLY IN 2018 (%)

EU	EU		EAEU	EAEU
	Total	Africa		
Machinery & vehicles	31,3%	12,4%	Machinery, equipment & vehicles	44,44%
Other manufactured goods	25,0%	15,9%	Chemicals	18,23%
Energy	20,9%	47,3%	Food & agriculture	11,61%
Chemicals	10,3%	2,9%	Metals & metal products	6,85%
Food & drink	5,7%	12,8%	Textile, clothing & footwear	6,67%
Raw materials	4,1%	5,3%	Pulp, paper & wood	1,65%
Other	2,8%	3,3%	Mineral products	1,59%
			Leather & fur products	0,54%

Source: Author's calculations based on data from Eurostat. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Main_exports_and_imports_by_product,_EU-28,_2018.png (last visited March 14, 2020) and EAEU Statistics, 2018, page 90. URL: http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/publications/Documents/Ext_2018.pdf (last visited March 14, 2020).

there is definitely room for improving cooperation between the EAEU and African countries, since agricultural products that can be offered by Africa (e.g. tropical fruit, dates, coffee etc.) are largely imported from South America or Asia.

As for the European Union, in 2017 the EU was Africa's main trading partner (36% of Africa's trade in goods, worth EUR 243.5 billion). The EU is also Africa's largest source of foreign direct investment – to be more precise, EUR 261 billion were

TABLE 3. EU FACILITATION OF AfCFTA NEGOTIATIONS

Support to the African Union Commission (AUC)	Goods classification (World Customs Organization standards)	AfCFTA advocacy and ratification
- providing technical expertise and studies	- launching a program for African customs administrations, the key aim of which is to equip local structures with the necessary knowledge for the modernisation and harmonisation of goods (with the World Customs Organization)	- providing support for the advocacy and ratification of the AfCFTA by helping develop national implementation strategies for the agreement (together with UNECA)
The African Trade Observatory	Intellectual Property Rights	Strategic dialogue on investment climate reforms
- supporting the establishment of the African Trade Observatory, requested by the AUC, in cooperation with the International Trade Centre	- strengthening African national and regional intellectual property organisations - supporting the negotiations of the African Continental Free Trade Area protocol on intellectual property	- facilitating a series of high-level strategic sector dialogues between African and EU stakeholders from the public, private, academic and research fields. EUR 26.4 million are to be allocated depending on identified needs.

Source: Author's calculations based on data from the Africa-EU Partnership description, *the African Union website*. URL: <https://www.africa-eu-partnership.org/en/stay-informed/news/africa-europe-alliance-eu-support-african-continental-free-trade-area> (last visited March 10, 2020).

invested in the continent in 2017²¹. Additionally, the European market is the most open globally for African exports²².

Also, EU support for the AfCFTA is prominent. Within the framework of the European Pan-African Program, EUR 62.5 million have been allocated for the facilitation of AfCFTA negotiations in the following six key areas.

Regarding the Eurasian Economic Union, between 2010 and 2018 Africa-EAEU trade increased more than two-fold, reaching USD 21.7 billion at the end of 2018. 80 per cent of the EAEU's exports to Africa are with five countries: Algeria, Egypt, Morocco, Nigeria and Tunisia²³, the bulk of which are from Russia. During the 2019 Russia-Africa Summit President Putin said, "We welcome the creation of the AfCFTA within the framework of the African Union and are ready to work with this

new structure. Russia, as an active participant in the EAEU, will do its utmost to facilitate the convergence of trade regimes operating within the framework of the African Free Trade Zone and the common market of the Eurasian Economic Union."²⁴

A comparison of the approaches and roles of the EU and EAEU show that the EU has the upper hand in Africa from the point of view of trade, FDI and the "openness of the African market". The EAEU, on the other hand, is showing significant trade growth with the continent, although most concentrated in five countries. This opens the door for the exploration of new areas of common interest in the continent's other 50 countries. Additionally, the EAEU shows potential interest in opening up to Africa. How and when exactly this will happen is not yet clear.

²¹ African Continental Free Trade Area (AfCFTA) Facts, the Africa-EU Partnership description, the African Union website. URL: <https://www.africa-eu-partnership.org/en/afcfta> (last visited March 14, 2020).

²² State of the Union Address on 12 September 2018, European Commission website. URL: https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-factsheet-africa-europe_en.pdf (last visited March 14, 2020).

²³ Eurasian Economic Commission and African Union Commission sign Memorandum of Understanding, Eurasian Economic Commission Website. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/24-10-2019-5.aspx> (last visited March 10, 2020).

²⁴ Sergey Glazyev: The EAEU and African Countries Can Jointly Build a New Monetary and Financial Architecture, Eurasian Economic Commission Website. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/24-10-2019-1.aspx> (last visited March 10, 2020).



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