ASSOCIATION DES BANQUES CENTRALES AFRICAINES ASSOCIATION OF AFRICAN CENTRAL BANKS

ABCA / AACB

CONTINENTAL SEMINAR OF THE ASSOCIATION OF THE AFRICAN CENTRAL BANKS ON THE THEME 'RENEWED PROTECTIONIST TENDENCIES: SOME IMPLICATIONS FOR MACROECONOMIC POLICY IN AFRICA'

Mauritius, Balaclava, 6 - 8 May 2019

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CONCLUSIONS AND RECOMMENDATIONS

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1. INTRODUCTION

The 2019 AACB Continental Seminar of the Association of African Central Bank (AACB) was hosted by the Bank of Mauritius and held on 6 - 8 May 2019 in Balaclava, Mauritius, on the theme '*Renewed Protectionist Tendencies: some Implications for Macroeconomic Policy in Africa*'. Seventy (70) delegates from twenty-four (24) member Central Banks, and twelve (12) regional and international institutions attended the seminar. The list of participants is attached as appendix.

2. OPENING CEREMONY

The opening ceremony was chaired by the Honourable Yandraduth Googoolye, Governor of the Bank of Mauritius.

In his introductory remarks, Mr. Papa Lamine Diop, Executive Secretary of the AACB, on behalf of the AACB Chairman, Mr. Tarek Amer, Governor of the Central Bank of Egypt (CBE), and in his own name, expressed their deepest gratitude to Honourable Yandraduth Googoolye, Governor of the Bank of Mauritius, for accepting to host this important event of the Association and making such excellent arrangements to ensure its success. He appreciated the generosity of the multicultural people of Mauritius and expressed his utmost gratitude to His Excellency, Acting President Vyapoory, the Prime Minister, the Government and the people of Mauritius.

He thanked the experts for having kindly agreed to share their knowledge on the topics to be discussed at this Seminar as well as the representatives of regional and international institutions for their contribution to this event and for the excellent collaborative ties established and maintained with the AACB. Moreover, the Executive Secretary commended the remarkable participation of AACB member central banks which is a testimony of their strong determination to contribute decisively in tackling the challenge of monetary integration on the continent.

He stated that the Continental Seminar is taking place in a context characterized by trade tensions reflected in particular by the increase of customs duties between the United States of America (USA) and trading partners, such as China and some countries of the European Union.

The Executive Secretary, on the basis of numerous academic and empirical studies which have demonstrated that the free exchange of goods and services improves people's standard of living, recalled the positive effects of free trade, notably the unrestricted access to foreign markets which facilitates more cost effective production given the larger sales volumes and economies of scale, and the efficiency and innovation promoted by increased competition from foreign producers.

Mr. Diop asked why there is resistance to free trade if its advantages seem obvious. In this regard, he pointed out that some authors have justified this situation by the fact that all countries that engaged in free trade did not benefit to the same extent. In this regard, any household or company that views free trade as a threat to their livelihoods will naturally reject it, regardless of whether they have any interest in gaining as a consumer and that their country as a whole will benefit.

The Executive Secretary of AACB argued that large scale protectionist measures and retaliation could have undesirable consequences for the global economy, in connection with tariffs that make imports more expensive. They increase domestic production costs as in cases of negative supply shocks, and also reduce consumers' purchasing power.

Moreover, he stressed that the negative effects of protectionism on inflation and growth are a challenge and a source of uncertainty for monetary policy. In fact, he wondered if a central bank should, in a situation characterized by increased tariffs, raise interest rates to combat inflation or if it should lower rates to stimulate economic activity, based on the temporary or permanent nature of the measures and expectations from producers and consumers.

Mr. Diop also argued that exchange rates would be harder to manage in a context of rising protectionism as they highly depend on the expectations of economic agents. Furthermore, fiscal authorities could also face some uncertainty with respect to tax revenues as higher tariffs could have an impact on imports and exports.

In this regard, the Executive Secretary indicated that the seminar should provide an opportunity to discuss, inter alia, on some issues, including the impact of protectionist measures taken by some developed and emerging countries on African economies, the behavior of African central banks to cope with the disruption caused by large-scale tariff increases, and the opportunities for intensifying intra-African trade as the rise in protectionist tendencies in developed and emerging economies could foster the implementation of the agreement on the African Continental Free Trade Area (AfCFTA).

To conclude his remarks, Mr. Diop pointed out that given the diverse and rich experiences that the participants bring to this forum, the proceedings could generate pertinent and profound ideas to support the practical recommendations to our leaders, so that they make informed decisions.

In his opening speech, the Governor of Bank of Mauritius warmly welcomed the delegates in Mauritius for this event which is hosted by the Bank of Mauritius for the first time. He expressed satisfaction with the participation of around 60 participants from 24 AACB member central banks and 12 institutions, which is a large turn-out that demonstrates the importance of the chosen theme.

After recalling the active participation of the Bank of Mauritius in AACB meetings and activities over past years, he stressed that the theme of this 2019 continental seminar is highly pertinent and topical. In addition, he indicated that economic growth levels in sub-Saharan Africa, estimated at 3.0% in 2018 and 3.5% in 2019 by the IMF, are somewhat insufficient to provide decent jobs to an estimated 20 million new entrants into labour markets each year.

He added that IMF had cautioned that the growth in sub-Saharan Africa could be lower by 2 percentage points this year on the back of heightened trade tensions, slower growth in China, lower commodity prices, and tighter global financial conditions. He pointed out that as expected, the impact would be more pronounced for commodity exporters and countries with stronger links to China and global markets.

Reviewing the performance of African countries with respect to the African Monetary Cooperation Program criteria in recent years, Governor Googoolye indicated that African countries are not building adequate fiscal and external buffers to cope with a range of shocks – both internal and external. He underlined the relatively higher dependence of

Africa on overseas trade and the fact that African exports are concentrated in raw materials and agricultural products, notably crude oil, gold and diamond, cocoa, etc, a key source of vulnerability for Africa.

In view of the benefits to the supply side of the economy brought by openness to trade, the Governor of the Bank of Mauritius welcomed the AfCFTA which, once finalized, will create a market of 1.2 billion people with a combined GDP of 2.5 trillion dollars. The agreement could significantly boost intra-African trade whilst promoting foreign direct investment and technology transfers, thus enhancing integration of African countries into the global economy.He observed that the integration of economies into global trade, notably through participation in global value chains, has improved incomes and moved millions of people out of poverty. Since the crisis, trade has generally lagged behind output growth. Governor Googoolye underlined that protectionist measures, through higher tariffs, could have an effect on growth and inflation whilst influencing financial conditions, expectations and confidence in the near to medium term. Thus it becomes important for central banks to carefully weigh these factors when formulating monetary policy.

In view of the uncertainty about growth prospects, and the decline in productivity and potential output caused by barriers to trade, Mr. Googoolye pointed out that the seminar will enable the participants to ponder on the implications of protectionism for central bank policy.

Before ending, Mr. Googoolye quoted the former US President Barrack Obama who said: "There are legitimate concerns and anxieties that the forces of globalisation are leaving too many people behind - and we have to take those concerns seriously and address them. But the answer isn't to turn inward and embrace protectionism. We can't just walk away from trade".

To conclude, the Governor of the Bank of Mauritius argued that there cannot be winners in trade wars and that the protectionism is not the right answer to the economic challenges that some economies are witnessing.

3. STRUCTURE OF THE SEMINAR

The Seminar was structured as follows : three sub-themes were presented by resource persons. Representatives of central banks then shared their experiences. Finally, three break-out sessions were organized to discuss specific topics and to reflect on some implications of renewed protectionist tendencies for macroeconomic policy in Africa and to make recommendations to be presented to the Assembly of Governors for consideration.

3.1. Plenary Session 1: Presentation of the Sub-themes

The following three sub-themes were presented respectively by Dr. Abdoul Aziz Wane, Director of the African Training Institute and Coordinator of AFRITAC South, International Monetary Fund (IMF), Mr. Neetyanand Kowlessur, Chief, Economic Analysis & Research and Statistics, at Bank of Mauritius and Mr. Björn Van Roye, Principal Economist, External Developments Division at the European Central Bank (ECB):

- Mitigating the Impact of Rising Protectionist tendencies: Role of Central Banks and the Continental Free Trade Area in Promoting Intra-African Trade;
- Trade War and Protestionist Tendencies: Implications on External Sector Performance in Africa;
- Protectionist Trends Around the World: Prospects for Monetary Integration in Africa.

Mr. Roye made his presentation by videoconferencing, from the ECB in Frankfurt.

In his presentation, Dr. Wane defined the African Continental Free Trade Area (AfCFTA) as a free trade area of 55 member countries of the African Union (AU), with a market of 1.2 billion persons and a combined gross domestic product (GDP) of 2.5 trillion US dollars. The agreement, which has been ratified by 22 countries and is likely to take effect in 2019, aims at reducing tariffs on 90% of tradable items, liberalizing trade in services, and clearing rules of origin as well as identifying the non-tariff barriers. At a later stage, it aims at creating a free movement of labor and capital and, ultimately establishing a currency union.

He indicated that the size of intra-regional trade in Africa is broadly in line with its patterns observed in other emerging market and developing regions. He noted that while the share of intra-regional trade in total imports originating from the region (about 12% over the period 2007-2017) is almost equal to or greater than that of intra-regional trade in other less developed areas of the world (between 10 and 13%) it is much lower than in more advanced regions (20% and more). He added that one of the key features of regional exports in Africa is their diversification and technological content superior to that of African exports to the rest of the world, which are mainly oriented towards minerals. On the other hand, intra-regional exports over the same period include higher value-added products, with manufactured goods representing on average about 40% of intra-regional trade, mineral products (44%) and agricultural products (16%).

He noted that the region's substantial degree of regional trade integration conceals large heterogeneity across countries and subregions. As regional trade has expanded, trade hubs have emerged, including Côte d'Ivoire, Kenya, Senegal and South Africa, which alone are the source of about 35% of all intraregional imports in Africa and about 40% of intraregional manufactured imports. In contrast, some of the largest African economies, such as Algeria, Egypt, and Nigeria, which collectively represent about half of the African region's total GDP, remain poorly integrated with the region and account of a limited share of regional trade.

Dr. Wane added that the experience with Africa's Regional Economic Communities (RECs) offers some insights into the factors that may affect intra-regional trade on the continent. He showed that the expansion of regional trade flows within Africa in recent decades occurred along with the creation and expansion of several RECs, within which several apply near-zero preferential tariffs to trade. He indicated that the analysis reveals that today, 75 percent of intraregional trade took place in five Regional Economic Communities (RECs) in 2017, with the SADC alone accounting for half of regional trade flows. Moreover, trade between countries belonging to different RECs remains limited, reflecting the low regional trade flows between RECs in Africa.

The Director of the African Training Institute argued that these developments are mainly due to some structural African features such as tariffs and nontariffs barriers, trade regulations and regulatory requirements that appear to limit the African ability to trade. He showed, on the basis on empirical studies, that non tariffs barriers (quality of infrastructure, logistics, level of credit available to the private sector and indicators of the business climate and education) are found to play a significant and stronger role than tariffs in hindering intraregional trade in Africa. In this regard, he argued that there is significant room for further trade integration in certain subregions and industries. Thus, he invited the Authorities to improve logistics and infrastructure, along with easier access to credit and a more supportive business environment, in order to facilitate higher intra-regional trade flows.

Using a Computable General Equilibrium (CGE) model, the presenter showed that with tariff reductions, intra-African trade increases, but welfare and growth effects are limited. Moreover, he urged that reducing only simultaneous nontariff bottlenecks (NTBs) and trade costs would improve welfare effects substantially. However, he noticed that results vary greatly across countries, depending on the economic structure.

In light of these developments, Dr. Wane stated that the AfCFTA could affect countries unevenly. Indeed, he argued that combining trade and structural policies increased payoffs for less diversified economies and the impact of increased trade on income inequality over the medium term is in general limited in Africa. He noted higher income inequality in the short term, but, the inequality-increasing effect fades away over the medium term. He added that informality increases inequality but appears to reduce the effects of trade liberalization on inequality. He also revealed that the impact on African economies was not substantially different from the one in other countries.

However, the presenter pointed out that deeper regional trade integration is also likely to have adverse fiscal revenue effects in a few countries. Moreover, he showed that the fiscal revenue losses due to AfCFTA are relatively limited, with few exceptions. He mentioned Côte d'Ivoire, Malawi, Zambia and Zimbabwe, as the main countries concerned, with a relatively high share of total imports.

For monetary policy, he indicated that Mark Carney, Governor of the Bank of England, argued that "the implications of protectionist measures depend on the balance of their effects on demand, supply, the exchange rate and import prices. Those, in turn, will depend on factors such as the extent to which measures are expected to be a temporary skirmish or the new normal, how quickly tariffs are passed through to prices, whether they hit productivity, and whether there are any non-linear effects – for example arising from disruptions to supply chains or wholesale obsolescence of plant and equipment".

He empirically showed that global economic policy uncertaintly increased sharply since the beginning of the year 2018 and growth forecast revisions for 2019 and 2020 are slightly more negative for countries with large trade exposure to the United States.

Estimating the impact of trade tension on investment, he argued that, using the Baker-Bloom-Davis overall Economic Policy uncertainty measure, a 1 standard deviation increase leads to 1 percent drop in the level of investment in the US. The empirical analysis reveals that the impact in other countries is scaled by their trade openness relative to the US — countries more dependent on trade see a larger fall in investment than does the United States. Dr. Wane noted that GDP losses from a 10 percent sharp increase in tariffs on US trade and a sharp rise inflation would confront monetary policy makers with trade-off.

Using Taylor Rule and Monetary Policy Dilemma under Protectionism, he indicated that the rule recommends a lower interest rate (monetary policy easing) when inflation is under its target or output is below its full employment level. But when inflation is above its target or output is above its full employment level, it recommends a higher interest rate (monetary policy tightening).

To adapt to structural changes from trade tensions, he stressed the needs for monetary policy makers to take into account the potential for reduced trade to result in more fundamental changes to the relationship between domestic slack and inflation, which could steepen and shift up as trade falls back.

Assessing the spillover from tariffs, Dr. Wane indicated that the empirical analysis on 35 countries and 13 manufacturing sectors suggests that tariffs have significant and economically sizable effects both along the value chain and horizontally on real value added, employment, and productivity.

He pointed out that for closer integration, trade wars cause collateral damage to companies in third countries because of globally integrated supply chains. He argued that AfCFTA bolsters integration of African goods into global value chains. Countries less integrated in global trade before could be adversely affected by AfCFTA. He added that a trade dispute could provide opportunities for companies in third countries.

African agriculture exports to China could increase, for example, as they may replace products once sourced from the US. African manufacturing companies could benefit from rising export opportunities in the US. Overall, he argued that net effect of AfCFTA on Africa's exports could be positive because of the prominence of non-manufacture exports that would benefit from trade diversion.

To conclude, Dr. Wane conveyed key messages. He indicated that policies aim at reducing tariff could play a significant role in fostering intraregional trade if applied to a large proportion of trade flows. However, these policies should be complemented by policies aim at reducing nontariff bottlenecks (e.g. logistics). Moreover, he highlighted that policies should address the adjustment costs of trade integration to boost agricultural productivity in less diversified economies. In a few countries, he invited to mobilize domestic tax revenue to offset losses. Finally he stated that to be successful, regional trade integration policies should mitigate the adverse effects of trade integration on income distribution, through targeted social programs and training schemes to ease worker mobility across industries. He also urged to reassess central banks' policy reaction functions and to capture opportunities from trade diversion by strengthening competitiveness of relevant industries.

Following this presentation, the concerns raised by participants focused on the additional tasks to be assigned to central banks to mitigate the impact of rising protectionist tendencies on monetary policy, as well as how central banks might influence policies in other sectors, in particular to help reduce unemployment and boost growth. Some participants also raised concerns about fears over China's invasion of the African market following the US trade war with the US and the appropriate measures that could be taken to prevent it.

In response to these concerns, it was suggested to African countries to promote trade on the continent, in order to limit not only the impact of protectionism on our economies but also to mitigate the influence of China on our markets. With regard to monetary policy, it has been recommended that monetary and fiscal policies be coordinated with a view to enhancing the effectiveness of monetary policy in combating and mitigating the impact of renewed protectionist tendencies on African countries. In addition, central banks have been invited to engage in in-depth discussions to address rising protectionist tendencies, while focusing on their traditional missions, including price stability and financial stability.

The second sub-theme ('Protectionist Trends Around the World: Prospects for Monetary Integration in Africa') was presented by Mr. Björn van Roye, by video conference from the ECB in Frankfurt, Germany. The presentation focused mainly on the implications of the rising trade protectionism on economic activity, the analysis of the effects of an increase of trade tensions observed recently, notably between the United States of America (USA) and China.

Mr Roye noted that his presentation comes at an opportune moment in the light of recent news and current reflections in international institutions. He proposed sharing with the participants the results of the research undertaken by the ECB in the event of a generalization of the trade war. The trade war is limited today between the US and China. However, it is considered as a major risk for all other countries in the world.

The presenter noted that global trade integration has slowed over the past decade. In parallel with this slowdown, public authorities' support for trade openness has decreased considerably, while protectionism has gradually and globally increased.

Indeed, the measures taken by the US show a strategy of substitution to its imports, the US authorities considering that Chinese business practices are similar to a policy of forced transfer of technology, with regard to intellectual property. Tensions with China intensified particularly in the second half of 2018. In July 2018, 25% ad valorem duties were applied by the US on 1,300 types of products imported from China, an equivalent annual import value of US$ 50 billion. The second tariff increase in September 2018 targeted $ 200 billion cut in imports from China. Customs duties imposed directly on China affect a wide range of industries, including electronic components, electrical equipment and machinery.

As for China, the measures taken are part of a dynamic response to rising US tariffs. Indeed, China has responded by imposing tariffs on imports from the US, equivalent to $60 billion dollars. China's retaliatory measures targeted imports from several sectors including agricultural products, chemicals and automobiles.

Measures accumulated as a result of US tariff announcements since the beginning of 2018 accounted for 13% of Chinese exports, and less than 2% of world exports. China's response focused on 7% of US exports, accounting for less than 1% of global exports. In such a configuration, Mr Roye said that third countries could benefit from this situation by aligning their foreign trade with the reorientation that could be induced by the increase in customs duties that the countries in conflict apply. As an illustration, he said that in 2018, China imposed a 25% duty on soybean imports from the US. As a result of this measure, Chinese imports of agricultural products from the USA had declined significantly while those from Brazil had increased by about 10%. These observations show that China is reorienting its foreign trade.

All countries in the world could indirectly suffer the effects of the war between the two most powerful countries in the world, as there will be a surplus of country risk premium in global financial markets. Indeed, Mr. Roye said the financial markets have reacted to each of the US ads related to rising tariffs. For example, in the US, the electronic components sector reported a 15% drop in investment returns in 2018. The automobile sector was also affected by the trade war, both in the US, China and in the EU, where investment in this sector has declined significantly. A rise in uncertainty, coupled with financial difficulties in targeted sectors, can have an impact on the financial markets as a whole and help magnify the negative impact of increasing protectionism on economic activity.

However, he added, the total impact of rising tariffs on economic activity in countries depends on the extent to which domestic production can substitute for imported products. It also depends on retaliatory powers exercised by trading partners.

Mr Roye informed that the results obtained by the ECB studies come from several models (global monetary and fiscal model of the IMF and global model of the ECB). The simulations make the hypothesis of a generalization of the trade war opposing the USA to all the other countries of the world. The US imposes an additional tax of 10% on products imported from all other countries. In turn, other countries impose an equivalent tax on imports from the USA. The combined results from the models show:

- an increase in import prices in all countries;
- supply and demand shocks in all countries, reflected in marginal costs;
- a drop in exports (-3%) and economic growth (-2%) in the US;
- a disruption in financial markets around the world;
- positive overall effects in China, which could benefit from a reorientation of foreign trade of other countries, in the event that China does not apply tariff measures on products from other countries;
- the risk of a gradual orientation of world trade towards a new geographical balance.

According to Mr Roye, the results obtained show that the pass-through of the tariff increase in 2018 represented a negative limited risk for the global and eurozone outlook. However, if trade tensions were to be generalized, the impact would be greater. He further argued that trade liberalization in multilateral cooperation has been a key factor in global economic prosperity and should be preserved.

Regarding African countries, under the assumptions of the model, Mr. Roye said that products exported by Africa to the US could be redirected to other destinations, such as Europe. In the short term, the effects of the trade war between the US and China are weak on African economies. However, in the long run, lower imports and exports between Africa and the rest of the world, as a result of higher prices, could result in a 2% loss on Africa's external trade.

Following this presentation, the participants questioned the real motivations that led the US to trigger this trade war, since the results of the studies carried out by the ECB show that the global economic effects in the medium and long term are not clearly in their favor.

Participants were also concerned about the consequences of a continuing trade war on African economies. They think that it was necessary for African countries to consider a common strategy and speak with one voice in international institutions such as the World Trade Organization. They encouraged the signing by African countries of trade partnership agreements with the US and China, by staying as a bloc to have a more significant weight.

Finally, participants recommended that African countries and regional or continental institutions conduct in-depth studies on the impact of trade war on African economies (exports, exchange rates, economic growth). The results of these studies would make it possible to propose and refine the strategies to be adopted by the African countries in the hypothesis of a generalization of the trade war.

The third sub-theme ('Trade War and Protectionist Trends: Implications for the External Sector in Africa') was presented by Mr. Neetyanand Kowlessur, Chief, Economic Analysis & Research and Statistics, Bank of Mauritius. The presentation focused in particular on the recent external sector developments in Africa and the implications of the rise of protectionism on the sector, based on latest economic reports published by the International Monetary Fund and the African Development Bank.

Mr. Kowlessur recalled that Sub-Saharan Africa's economic growth rate is estimated at 3% in 2018 and is projected at 3.5% in 2019 and 3.7% in 2020. However, there are significant variations across countries within regions and it is a matter of concern that growth was anaemic in several resource –dependent countries, including the largest – Nigeria and South Africa. While inflation is projected to decrease from 8.5% in 2018 to 8.1% in 2019, in line with the decline in energy prices, it remains relatively high compared to inflation in major trading partners. The external current account deficit is projected to rise to 7.3% in 2019, from 6.6% in 2018, reflecting the high vulnerability of African economies to terms of trade shocks.

Furthermore, notwithstanding fiscal consolidation in many countries, public debt vulnerabilities remain high and average public debt was estimated at 56% of GDP at the end of 2018.

Mr Kowlessur noted that Africa's external imbalances have worsened, measured by both the current account and the trade deficits. He underlined that around 40% of exports are raw material exports, with low jobs content and low complexity, while the share of capital goods in imports has declined in Africa, stagnating at about 25%, compared with nearly 40% in Latin America and East Asia.

He added that rising current account deficits reflect low domestic savings in Africa, driven particularly by rising public deficits. Stagnating tax revenue, volatile non-tax receipts, increased spending on basic infrastructure and social needs contributed mainly to high fiscal deficits.

The financial account of the balance of payments in Sub-Saharan Africa indicated the following trends:

- A significant increase in non-official cross-border capital flows, from $25 billion in 2007 to about $60 billion in 2017, representing 3% of GDP
- Declining trend in official development assistance to the region.
- Sovereign bond issuances have increased notably.
- Portfolio flows have increased significantly, though FDI remains the most dominant type of non-resident flow.

He observed that capital inflows in Africa are driven by both global and domestic factors and pointed out that several non-resource intensive countries, including Côte d'Ivoire, Ethiopia, Kenya and Mauritius, tend to receive more inflows. Sub-Saharan Africa has become increasingly connected with the global financial cycle, which warrants careful macroeconomic management of capital flows in view of the vulnerability to changes in global financial conditions and greater policy uncertainty.

Analyzing the impact of rising protectionism on the external sector in Africa, Mr. Kowlessur noted that recent tariff increases have been unprecedented since the Second World War, given the magnitude of tariff increases and the size of the countries involved. Trade tensions between the US, China and several advanced economies have contributed to slowing global demand, particularly in China. This led to lower commodity prices and lower demand for commodity exports from sub-Saharan Africa. Mr. Kowlessur pointed out that more than 60% of Africa's exports are destined for the United States, China and Europe, and more than 70% of Africa's imports come from these countries.

According to him, financial conditions could deteriorate further in the event of escalating trade tensions, higher than expected inflation in the US and a deeper than expected slowdown in China. Tighter global financial conditions, as reflected in higher US interest rates, a stronger US dollar, and lower commodity prices could increase capital outflows and refinancing risks. This would have a negative impact on financing and growth for many countries, especially frontier economies.

Several international institutions have estimated that increased trade tensions, heightened US trade policy uncertainty, slower growth in China, lower commodity prices and tighter global financial conditions could have a noticeable negative impact on growth in sub-Saharan Africa.

In conclusion, Mr. Kowlessur recommended that African countries accelerate the implementation of structural reforms aimed at diversifying their economies. He also recommended the reorganization of tax collection and administration systems to improve fiscal revenue. He considered that it is necessary to strengthen the capacity of countries to manage their public debt and to create a favourable environment for domestic and foreign investment. Central banks have a key role to play in ensuring price stability and financial stability and the development of financial markets to ensure domestic resources are mobilised to finance economic growth and development. They should emphasize the development and integration of regional payment systems, which would help promote intra-African trade, particularly in the context of the African Continental Free Trade Area (AfCFTA). The AfCFTA, through economies of scale, could attract more FDI and technology transfers which would raise competitiveness of African economies and enhance their integration into global economy.

Finally, Mr Kowlessur argued that African countries could leverage on the growing interest from major countries to expand trade and investment links with Africa to accelerate structural transformation of their economies. He cited the 'Belt and Road' initiative, which led to significant infrastructural development in many countries.

Following the presentation, the participants highlighted the adverse effects of the trade war on the external sector of African countries and considered that it is time for the African continent to re-negotiate old agreements, adopting a common strategy through consultations, to obtain more equitable prices for the commodities they export.

Participants discussed the important trade relations with China and noted the development of key infrastructure through initiatives such as "Belt and Road". They, however, argued that countries should be vigilant regarding the rise in sovereign debt levels. They commended the implementation of the AfCFTA, which will enable the design of a new approach in trade relations between Africa and its trading partners.

In addition, participants expressed concern over the potential impact of Africa's deteriorating balance of payments on the macroeconomic convergence criteria in the context of the African Monetary Cooperation Programme. Noting that the margin of manoeuvre of the central banks was limited in a situation of commercial war, particularly with regard to the mandates of central banks (price stability and financial stability), the participants asked the African central banks to strengthen the supervision of capital flows and to examine the possibility of revising the convergence criteria.

3.2. Plenary session 2: Experiences of AACB central banks

Seven AACB central banks shared their experiences with respect to the main theme of the Seminar.

4. BREAK-OUT SESSIONS

Delegates deliberated on three topics in the break-out sessions.

Break-out session I: 'Implications of Rising Protectionist Tendencies for Macroeconomic Policy and Monetary Integration in Africa'

OBSERVATIONS

1. Rising Protectionism is a result of trade imbalance between USA and China.
2. Protectionism occurs due to the need to protect domestic industries, reduce current account deficits, curtail unfair competition practices, restore competitiveness, promote nationalism, protect new industries, and competition for global market share.
3. The impact of protectionism on an economy can be negative or positive depending on the existing structure and macroeconomic fundamentals of each economy. It is negative when there is trade diversion and low substitution of domestic goods for foreign goods and positive with trade creation and high domestic substitution of imported goods.
4. Channels through which protectionism can affect a country include the trade, financial, exchange rate and economic agent confidence channel.
5. High imports and weak exports worsen by dumping and decline in remittance inflows would lead to current account deficits. This would result in exchange

rate misalignment, precipitate inflationary pressures, and depletion of the external reserves. The converse holds.

6. Exchange rate pass through to domestic inflation would reduce productivity due to high cost of imported inputs, leading to reduction in the gross domestic product (GDP) and unemployment. The converse holds.Implementation of the budget by fiscal authorities would be constrained due to decline in revenue, resulting in budget deficit, central bank financing of government, other borrowings (external and domestic) to finance expenditure that could lead to high debt level and crowding out of the private sector.
7. Decline in inflow of foreign exchange through exports, aids, remittances, external loans and foreign direct investment would reduce liquidity in the economy, decline in credit to the real sector, productivity and output growth.
8. Rising trade protectionism is likely to continue into the medium term.
9. Monetary integration could be impaired arising from the inability of countries to meet set convergence criteria. It could also promote higher level of intra-Africa trade and cooperation.
10. The World Trade Organisation (WTO) remains a relevant institution to drive global trade and disputes arising thereof despite counter policies by few member countries.

Recommendations

Short term Macroeconomic Response to Protectionism:

1. Member central banks should continue to maintain price stability as the primary objective of monetary policy even for those with dual mandates.
2. The autonomy of central banks should be maintained for quick and flexible monetary policy formulation to combat economic vulnerabilities.
3. Member central banks should increase the level of communication and transparency of policies to the public to reduce panic and drive expectations.
4. Fiscal authorities should maintain counter-cyclical policies to respond rapidly to external vulnerabilities in order to safeguard their economies.
5. Member central banks should intervene in the foreign exchange market to smoothen exchange rate volatility.
6. Monetary policy tightening should be deployed to mitigate the effect of inflation, reduction in foreign capital inflow and reverse exchange rate misalignment.
7. Increase in consumption tax by the fiscal authorities to increase revenue.

Medium to Long Term Macroeconomic Response to Protectionism

1. Floating/adjustment of the exchange rate under a Flexible or fixed should be used to curb exchange rate misalignment and safeguard the external reserves.
2. Improvement in policy coordination between monetary and fiscal authorities.
3. Higher collaboration amongst African countries to increase intra-regional trade, investments and other joint projects of economic importance to mitigate the impact of trade shocks.
4. Capital markets should be developed to provide additional source of funding for the private sector and the fiscal authorities.
5. Countries should diversify their economies to improve availability of domestic goods in order to reduce importation, counter external shocks and meet internal balance.
6. Countries should produce commodities that are essentials for the advanced economies to avoid adverse impact of trade war and ensure sustainable exports earnings.

Break-out session II: 'Renewed Protectionist Tendencies: Opportunities and Challenges for Intra-African Trade in the Context of the African Continental Free Trade Area'

Introduction

Most of Africa's merchandise goods are exported abroad. For example, over 90 percent of South Sudan's oil and over 60 percent of Angola's oil and minerals are exported to China. However, there is limited intra-Africa trade with an estimate of only about 15 percent. Moreover, Africa largely exports raw and semi-processed goods, which are of less value and imports mostly processed goods at a higher cost.

The renewed protectionist tendencies have positive and negative implications for Africa. On one hand, the continent can benefit from possible trade diversion by taking advantage of the ongoing trade war between the U.S. and China. Africa could possibly increase its trade with both the US and China. On the other hand, the persistence of the medium to long term trade war could have a negative impact on global economic growth and as result, Africa's growth may be adversely affected.

Challenges

1. There is a high level of export concentration in both products and markets.
2. High tariffs and non-tariff barriers continue to hinder intra-Africa trade.
3. A number of bottlenecks continue to impede Africa's trade, and these include the following:
    a. Logistics;
    b. Transportation (sea, road, rail and air);
    c. Low levels of financial sector development and disintegrated payment systems; and;
    d. Shallow capital markets (low Credit/GDP).
4. Limited research and development also hinders trade.
5. A knock on global growth emanating from protectionist tendencies is likely to negatively impact on several African countries through a decline in export earnings and hence growth.
6. Most African countries continue to rate poorly on the ease of doing business indicators and this has negative implications on trade.
7. The risk of escalating trade wars and protectionist tendencies may spill-over to African economies in the form of trade war retaliations. This would possibly have negative implications on trade agreements such as the African Growth and Opportunity Act (AGOA) and several other bilateral and multilateral trade agreements.
8. The spill over effects of the escalating trade wars could materialize in the form of high premiums in the financial markets and as a result lead to a reduction in the availability and accessibility of credit.
9. The African Continental Free Trade Area (AfCFTA) does not have precise timelines to reap benefits of the trade wars.
10. African processed goods are likely to be less competitive in the global market compared to similar goods from developed economies.
11. High levels of corruption hinder trade.

Opportunities

1. There is a ready market for enhanced intra-African trade given the continent's population of 1.2 billion people. In addition, the continent can increase its trade with both the US and China, taking advantage of the ongoing trade protectionist tendencies.
2. Given the renewed protectionist tendencies, the establishment of the AfCFTA is poised to enhance intra-African trade by reducing tariff and non-tariff barriers. In addition, the AfCFTA could enhance the continent's bargaining power in trade negotiations with the rest of the world.

Recommendations

1. There is need for investment in trade-enabling infrastructure (i.e road, rail, air and sea). However, most African countries have limited resources to improve infrastructure given that public debt is rising in a number of African countries. The ministry of finance could prioritize funds for infrastructure. In addition, there is need to consider alternative ways of financing infrastructure projects in the region. For example,

   a) Trading blocs could collect revenue from member states, for example, levy collected by Economic Community of West African States (ECOWAS);

   b) Contracting loans as a block rather than individual countries.

2. Enhance investment in research and development.

   a) Capacity building

   i. Improvement in marketing and branding.

   ii. Enhance negotiation skills

   b) Technology

3. Encourage export diversification (products and markets), focusing on intra-Africa trade.

a) Export diversification strategies.

b) Promotion of agencies to boost trade and diversification

4. Target and prioritize certain sectors for value-addition.

a) Investment in manufacturing sector

5. Improve the ease of doing business.

6. Enhance the role of central banks:

a) Exchange rate management;

b) Improve and integrate payments systems; and

c) A common regional currency;

d) Macroeconomic stability;

e) Reduce cost of credit to support agricultural production for export.

   i. Facilitate the establishment of specialized institutions to finance credit for high risk sectors such as the agriculture sector.

Break-out session III: 'Trade War and Growing Protectionism: Impact on Trade and Financial Flows in African Economies'

Outline

1. **Key Issues and Observations**
2. **Recommendation**

Impact of Trade War on Africa's Trading Partners (i.e. US, China, and Europe) and their incentives to redirect trade and capital flows toward the continent

Key Issues and Observations

1. In the US and China, growth and trade are likely to slow and impact employment but remain steady in the Euro area since the European Union countries largely trade among themselves.
2. But their incentives to redirect trade to Africa would be minimal considering structural impediments on the continent, including limited infrastructure, limited skills capacity, and less absorptive capacity.
3. In addition, the second round effects of the trade war are likely to slow growth in African economies and thus make them less attractive for capital flows.
4. However, it is important to note that there could be incentives for capital inflows to African economies that are more diversified than those that are less diversified. That said, careful consideration should also be given to growing public debt levels in various economies.
5. Early signs are showing that trade is being redirected to other regions, such as South East Asia, due to market availability and enabling infrastructure.

The Extent to Which Commodity Processing and Industrialization Could Attract Trade and Capital Flows

Key Issues and Observations

1. Transformation of economies is crucial for Africa. If African countries take advantage of the current situation, by industrializing their economies, they can enhance trade and attract capital inflows.
2. There is potential for African countries to take advantage of the trade war and fast track improvement in global value-addition as in the case of Brazil.

Possibility of Increased Capital Flows Resulting from Relocation of Processing Companies to Avoid Rising Tariffs

Key Issues and Observations:

1. The possibility of relocating processing companies to Africa is likely to be constrained by the less conducive environment. The trade war creates an opportunity for movement of capital from within (intra-African trade). The current structure of African economies presents limited opportunity for attracting investment from outside.
2. However, Africa could tap into the opportunity and attract investments into the continent in areas where it has comparative advantage. Intra-Africa trade presents a greater opportunity for movement of capital. There is potential for attracting investments from within the continent as opposed to over-reliance on foreign direct investment.

Short term and Long term effects of trade war on net exporters and net importers of raw materials

1. The trade war should serve as a catalyst to speed up the AfCFTA strategy.
2. Trade restrictions could lead to weak external demand, low export earnings, depreciation of local currencies; and inflation in the short-run. In the long term, there could be second round effects of a reduction in FDI due to potential slow growth of African economies.

Impact on African Financial Markets

The likely effects on the African financial markets include the following:

1. A drop in stock prices due to reduced demand for trade and increased uncertainties. Uncertainties are likely to increase volatility in the African financial markets, especially in countries with more developed financial markets. At the same time, investments in countries with less developed financial markets are likely to slow or be scaled down.
2. Banks and other financial institutions are likely to experience high non-performing loans resulting from a deterioration in the balance sheets of exporting companies.
3. Financial markets can also be affected through increased portfolio outflows if the performance of companies listed in the stock exchange deteriorates, which is likely to weaken exchange rate and adversely affect foreign exchange reserves.

Recommendations

African countries should consider:

1. Diversifying their economies to enhance their productive capacities and make them more resilient.
2. Fast-tracking the implementation of the AfCFTA.
3. Implementing programmes of the AACB such as the convergence criteria, which will facilitate intra-regional trade.
4. Improving the overall macroeconomic conditions with emphasis on addressing structural impediments.
5. Investment in commodity exchanges to influence global market prices of commodities for which African economies are the predominant producers and in order to derive maximum benefits from those resources.
6. Strengthening macro-prudential regulation to detect vulnerabilities emanating from the corporate sector which could arise from their exposure to the export sector.

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