Common Market for
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COMESA

Towards Enhancing Benefits of COMESA – **UK Ties Post-Brexit**

Special Report

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1. Introduction

The United Kingdom (UK) officially exited the European Union (EU) on 31st January 2020. This followed a lengthy disengagement process popularly known as Brexit, which had started in June 2016, with UK citizens voting in favour of leaving the EU (Amadeo, 2020[3]).

Around the world, Brexit has given rise to considerable uncertainty about the future of trade, investment, development cooperation and human mobility relations. The UK's post-Brexit foreign and trading relations with major allies is yet to take shape. The changing dynamics in Africa combined with Brexit is a compelling factor for the UK and African countries to rethink their trade relations. The need for a more progressive trade relationship is more vital than ever given the anticipated cuts in UK aid. According to international observers, "The main channels through which Brexit affects Africa, including its 18 Commonwealth countries, is Trade, Foreign Direct Investment (FDI), Official Development Assistance (ODA) or donor aid, Remittances and Tourism"[4]. Trade is at the top of the list of implications for Africa.

COMESA region is no exception to Brexit-related impulses and unknown socio-economic and political consequences. Top of the list are trade and development implications of Brexit in the bloc are salient issues to unravel and be prepared to grapple with. With Brexit, a few questions regarding UK-COMESA relations within the global trading landscape are therefore worthwhile to consider: how important was the UK, pre-Brexit, in terms of global and COMESA trade and investments? what are likely to be some of the UK's main post-Brexit considerations in thinking about trade and investment policy positions on Africa in general and COMESA in particularly? What must COMESA do – proactively and pre-emptively – to get prepared for the post-Brexit world? This policy brief addresses these issues from various descriptive statistical and qualitative perspectives.

Perhaps, it is important to highlight the performance of a few indicators in the region at this juncture. In terms of real GDP, the COMESA region (excluding Libya[5]), which had grown at an annual regional average rate of 3.4 percent in 2019 contracted by an estimated 3.3 percent in 2020 largely due to COVID-19 (Figure 1). The region's annual average GDP growth rate is projected to rebound to 3.7 percent in 2021, with a wide variation in recovery rates across the Member States. Mauritius and Djibouti are projected to experience

3 Amadeo, K. 2020. "Brexit Consequences for the U.K., the EU, and the United States: What Happens Next" The Balance, Trade Policy, March (https://www.thebalance.com/brexit-consequences-4062999)

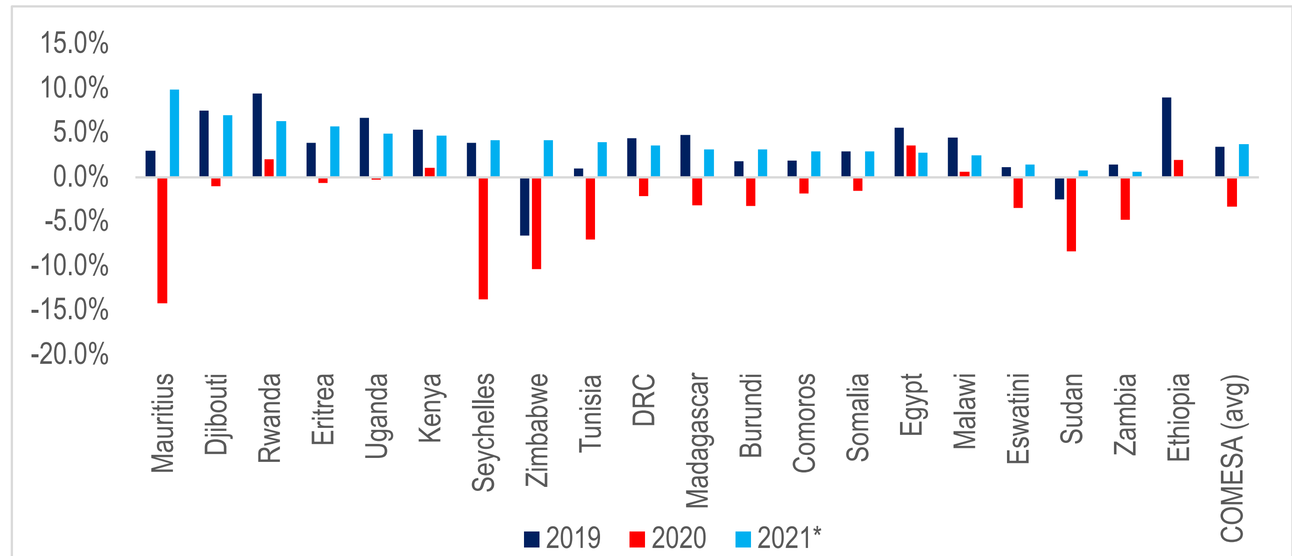
4 Tralac: https://www.tralac.org/images/docs/10056/odi-brexit-speaking-notes-david-luke-7-july-2016.pdf

5 Libya was excluded on account of its outlier GDP growth pattern, which exhibited a considerable amount of volatility, with rates from 9.9 percent in 2019 to -66.7 percent in 2020 and an anticipated rebound to 76 percent in 2021. This had a distorting effect on the calculation of the regional average GDP growth rates.

the largest recoveries of 9.9 and 7 percent respectively. On the other side of the spectrum, Zambia and Ethiopia are anticipated to post the weakest growth rate (0.6 and -0.02 percent), respectively.

To achieve meaningful GDP growth rebound and improve prospects for enhanced trade and investment performance, including with the UK as a solid post-Brexit partner, COMESA countries will variously do well to address some of their key longstanding productive capacity constraints. UNCTAD recently published the Productive Capacity Index (PCI)[6], which range between 0 and 100 (boundaries not included), covers 193 economies for the period 2000-2018, and maps a set of productive capacities and their specific combinations across 46 indicators in a multidimensional context. At a broad level, the Overall PCI is decomposed into eight sub-indexes, namely: (i) Human capital; (ii) Natural capital; (iii) Energy; (iv) Transport; (v) Information and Communication Technology (ICT); (vi) Institutions; (vii) Private sector; and (viii) Structural Change. It is therefore a dynamic and practical tool for supporting developing countries, including COMESA Member States to understand the status of their productive capacity and how this can be improved.

Figure 1: Real GDP growth rates (annual %) in COMESA, 2017-2021

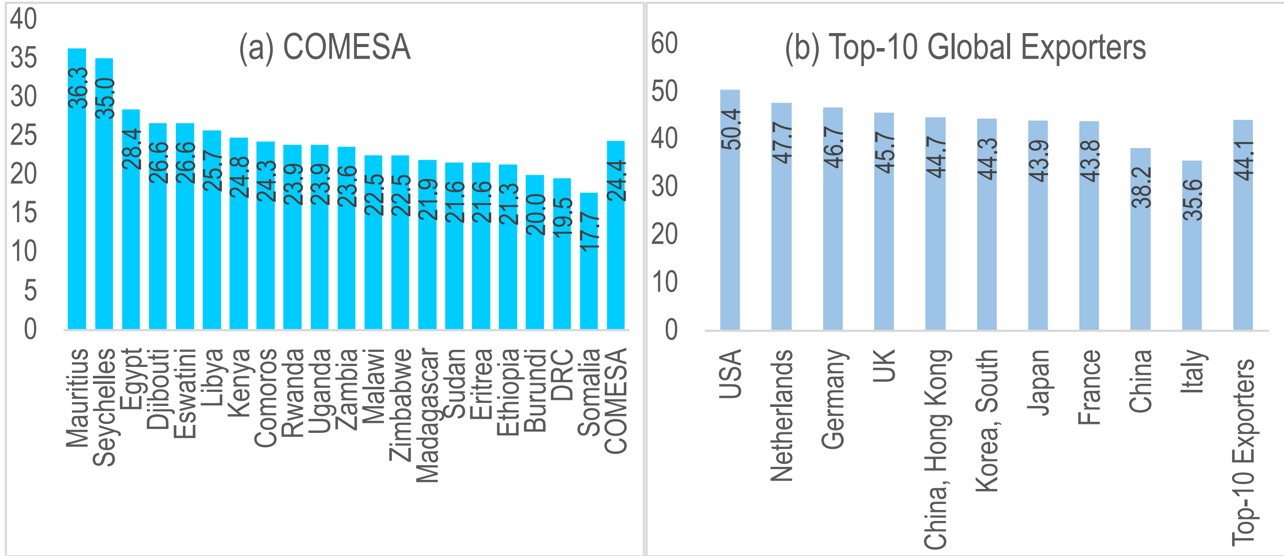


Source: Constructed from IMF World Economic Outlook database

6 https://unctadstat.unctad.org/EN/Pci.html

Figure 2 presents the average values on the Overall PCIs for COMESA countries, in Panel (a) and the top-10 global exporters, in Panel (b) (drawn from Figure 1, Panel (a)) for the period 2010-2018. In COMESA, the overall PCI for the region over 2010-2018 was 24.4 on average per annum. The highest index score (36.3) was for Mauritius and the lowest (17.7) was for Somalia. Unsurprisingly, the overall PCI for the top-10 global exporters, at 44.1, was markedly higher than the COMESA score. Interestingly, Mauritius, the best performer in COMESA was ahead of the worst performer, Italy, in the group of top-10 exports in terms of overall productive capacities. This suggests that with the right policies and investments, COMESA countries can also build their productive capacities to significant levels.

Figure 2: Overall PCIs for COMESA and Top-10 exporters (avg. 2010-2018)

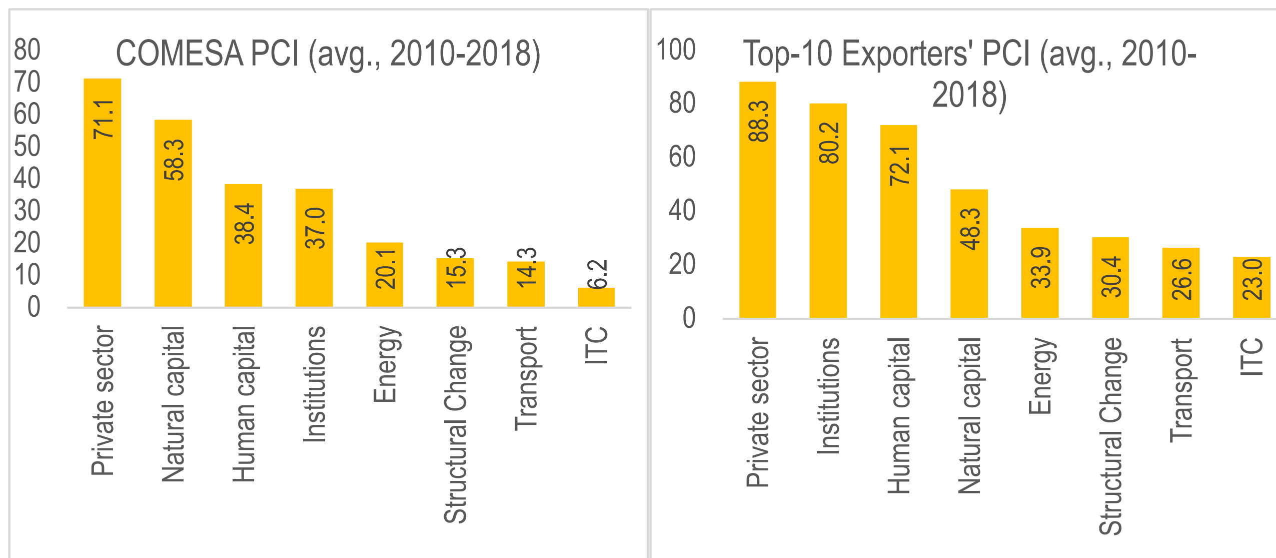


Source: Constructed from UNCTADStats

Taking a comparative look at the decomposition of the overall PCI (Figure 3) between COMESA and the top-10 global exporters (as a benchmark), the following observations are noteworthy:

- Private sector productive capacities ranked highest in both COMESA and the group of top-10 exporters over 2010-2018, suggesting that COMESA, though behind on the index score, was generally in the right direction in terms of prioritizing the installation of private sector productive capacities;

Figure 3: Decomposition of PCI for COMESA and Top-10 exporters (avg. 2010-2018)



Source: Constructed from UNCTADStats

- Institutions productive capacities, which ranked second highest in the group of top-10 exporters, with an index score of 80.2, ranked fourth in COMESA, with a score of 37. This suggest that relatively weak institutions in terms of productive capacities may be among the capacity constraints holding back COMESA from achieving robust GDP growth, and enhanced trade and investment performance.

- Human capital productive capacities ranked third highest in both COMESA and the group of top-10 exporters over the reference period, albeit with a significant disparity in index scores between the two; thus, while COMESA was generally in the right direction in terms of building human capital productive capacities, it was lagging rather far behind on this score;

- Natural capital productive capacities in COMESA were, over the period, higher than those the top-10 exporters. Since natural capital related to natural resource and environmental endowments that are God-given and outside the direct control of human kind to bestow or

build, the main strategy for COMESA should be to establish and implement robust policies, regulations, instruments and programmes for effective and efficient natural resource and environmental management, towards harnessing the full potential of its natural capital.

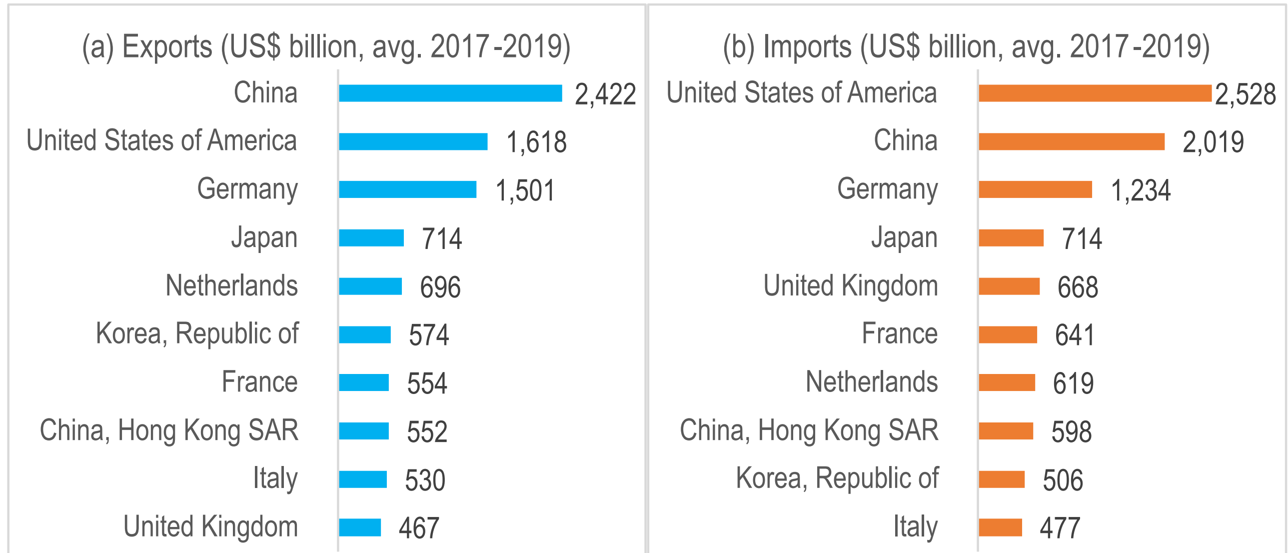
- Energy, Structural Change, Transport and ICT followed the same ranking or prioritization in COMESA and the group of top-10 exporters, although the individual index scores were consistently significantly lower in COMESA. This suggests that considerably more investments in Energy, Structural Change, Transport and ICT to build productive capacities there are still urgently needed in COMESA, towards resolving underlying productive capacity constraints.

2. Importance of the UK's Trade and Investment to COMESA

The importance of the UK in the global trade and investment landscapes is undeniable. For instance, the country makes the lists of top-10 global exporters and imports in recent times. It accounted for annual average exports of US$467 billion during 2017-2019 (Figure 4, Panel (a)), representing 2.5 percent of total world exports. Only four European countries – Germany, the Netherlands, France and Italy were larger global exporters over the period.

On the global import side, the UK was the 5th largest importer in the world, with imports amounting to US$668 billion (or 3.5 percent of world imports) per year on average over 2017-2019 (Figure 4, Panel (b)). In Europe, only Germany was a larger importer over the period.

Figure 4: Top-10 global exporters and importers in 2017-2019

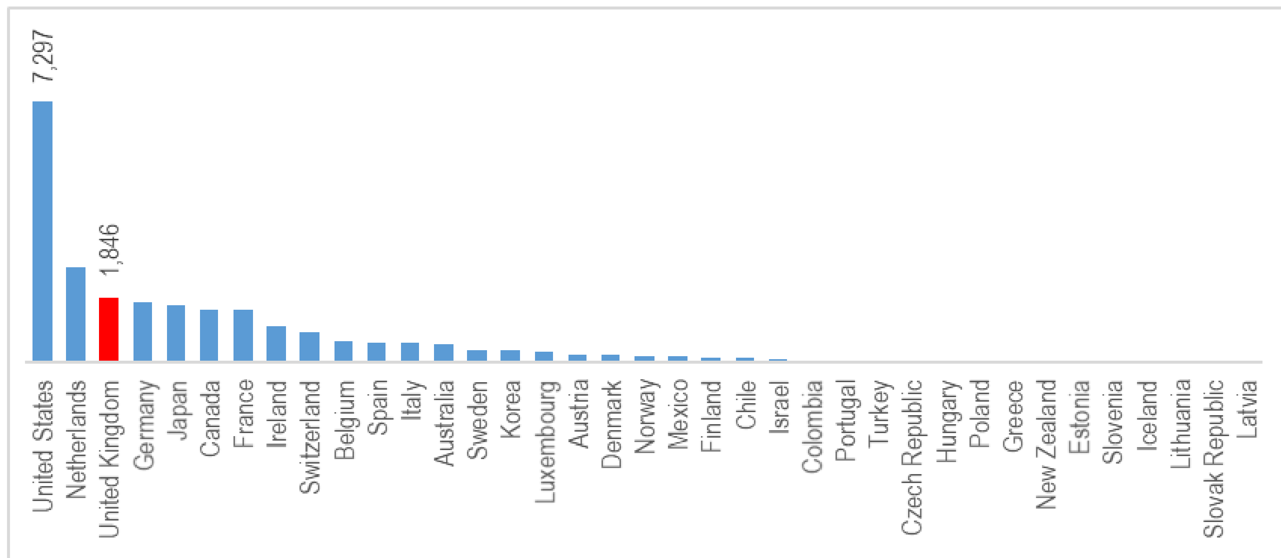


Source: constructed from UNCTADStats (https://unctadstat.unctad.org/)

In terms of stocks of outward Foreign Direct Investment (FDI), over 2017-2019, the UK held the third largest outlay out of OECD countries, with an estimated outward FDI position of US$1.8 trillion (Figure 5). In Europe, the UK was only surpassed by the Netherlands in terms of FDI outlays over the period.

With the levels of global presence that the UK exhibits in trade and investment, the world, COMESA included, has little choice but to pay close attention to the shape and form of the country's (forthcoming) trade and investment policy positions post-Brexit. It is important to consider some of the key factors that are likely to shape the UK's trade and investment decisions, going forward.

Figure 5: FDI outward positions in the OECD (US$ billion, avg. 2017-2019)



Source: Constructed from OECD (https://www.oecd.org/investment/investmentnews.htm)

3. What are the implications of 'grandfathering' EPAs post-Brexit?

Other than the conventional factors that drive trade and investments, including the Commonwealth ties, UK's renewed interest in strengthening its relations with Africa emanates from the promises envisaged in renewed dynamism, consolidation of efforts and resources and the quest for structural transformation of the continent. In this context, the UK has been quite in favour of grandfathering or seeking to continue applying existing agreements with EU with third parties.

Thus, for many countries in Africa, existing trade arrangements with the UK are continuing under the 'Everything but Arms' agreement. The UK has committed to maintain this framework, which offers duty-free and quota-free market access to "least developed countries", after the entry into force of the EU-UK Trade and Investment Agreement. In addition, the UK has also been negotiating continuity deals with African countries who had already agreed Economic Partnership Agreements (EPAs) with the EU. For instance, "roll-over" agreements have been signed with Côte d'Ivoire, Kenya, Mozambique, the member states of the Eastern and Southern Africa (ESA) group, and those of the Southern African Customs Union

(SACU). This is largely driven by the fact that the EU-UK Trade and Cooperation Agreement sets out preferential arrangements, including a Free Trade Agreement covering goods, services, investments, competition, transport, energy and fisheries, all of which are reflected in the EPAs. What is however not clear is whether the grandfathering taking place is permanent or entails transitional arrangements.

However, the grandfathering of EPA based trade relations has drawn mixed reactions with opponents driving the point that such a strategy undermines the African Unions pan-African vision of continental development. Being one of the AUs priority project, the 55-member African Continental Free Trade Agreement (ACFTA) covers a market of 1.2 billion people and a GDP of US$2.5 trillion. According to the United Nations Economic Commission for Africa (UNECA), is poised to generate as much as US$ 35 billion in increased trade between African countries. Above all, the AfCFTA is poised to enable African nations to capitalize and build synergies by breaking down barriers to the movement of goods, services, people, capital and foster the much-needed structural transformation. This alone is expected to increase the bargaining powers of African nations. At the same time, the agreement is likely to encourage foreign entry into the continent by creating a more attractive single market. This enormous economic potential, however, must be supported by strong dispute settlement.

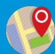
Overall, the EU-UK Trade and Cooperation Agreement consists of a Free Trade Agreement with ambitious cooperation in economic, social, environmental and fisheries issues. Within the context of FTA, grandfathering makes sense given that continuation of existing trade rules and regulations imply minimal changes or disruptions to existing market access conditions. Thus, critical trade instruments like mutual recognition agreements and Rules of Origin would automatically apply. However, there could as well be strong justifications as why some countries may want to seek concessions in pre-existing agreements, particularly in areas that may likely jeopardize or undermine national development and/or regional economic integration.

Two “schools of thought” emerge with respect to FDI flows into Africa: First, the anticipated contraction of UKs foreign investments attributed to its perceived inward-looking policy that led to its withdrawal from EU, the Covid-19 pandemic shock and low commodity prices in 2020 (especially oil) among other factors. Indeed, the United Nations Conference on Trade and Development reported contraction FDI into Africa by between 25 and 45 percent in 2020. On the other hand, there are arguments that UK is keen to strengthen its global political and economic influence and has opportunity to do so by re-channelling its resources initially utilised under the EU’s basket. Only by so doing can UK match the likes of China and the US in asserting its geo-political influence globally and in Africa. In addition, there are arguments that investments in infrastructure, natural resources and industrial development in Africa is increasingly

gaining value, hence the anticipated inflow of foreign investments, including UK investors. This is closely linked to the establishment of the African Continental Free Trade Area, which, is expected foster deeper economic integration across the continent and make Africa a more appealing destination for foreign investment.

5. In Closing...

Like other major economies, the UK has shown strong interest to trade with and invest more in Africa. For COMESA, the extent to which the region can nurture and grow benefits arising from ties with the UK will depend on its ability to achieve macroeconomic stability and growth and build the various aspects of its productive capacities and trade facilitation, aforementioned. Greater focus should be directed at building and/or strengthening institutions, infrastructure, energy, structural change and digital transformation. In addition, implications to growth, sustainable development and structural transformation will depend on the ultimate trading instruments agreed upon, including the Rules of Origin and mutual recognition agreements between the parties. Flexible, simple and transparent Rules of Origin, which allow for cumulation, are ingredients for stimulating value addition, manufacturing and integration of small and medium enterprises into regional and global value chains. COMESA must also remain steadfast in championing and strengthening continental integration as a path towards overcoming development challenges of its Member States.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