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# momento

## AFCFTA UP AGAINST MAJOR TRADE BLOCS AND BILATERAL AGREEMENTS

## GLOBAL MONETARY POLICY: BOLDER, FASTER

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# momento

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# EDITOR'S NOTE

Wow!!! 2021 has been a perfectly curated rollercoaster. A little bright, a little blue; 2021 has been a mix of the two and in a few hours, we will be drawing the curtains on the year. The year started with a lot of expectations from individuals, businesses, and governments around the world. For some, this has been an amazing year, while for others, the narrative has not been so great. I reflect on my journey of economic literacy and am indeed very proud of the small wins that I recorded this year. There were low moments too, but I choose to focus on the wins just as the global focus is on economic recovery despite the persistence of the pandemic.

In our closing issue for the year (obviously), **Ilerioluwa Adeoye** weighs in on the emergence of the omicron variant of the COVID-19 virus, and its implications for economic recovery in **Omicron: How far away is recovery?** (Page 12). It is no longer news that global central bankers have become more hawkish in their policy stance and the Bank of England (BoE) took this to the next level earlier in the month. Against the backdrop of a resurgence in global infections from the pandemic, I highlighted what is most important to global central banks at this time in **Global monetary policy: Bolder, faster** (Page 05).

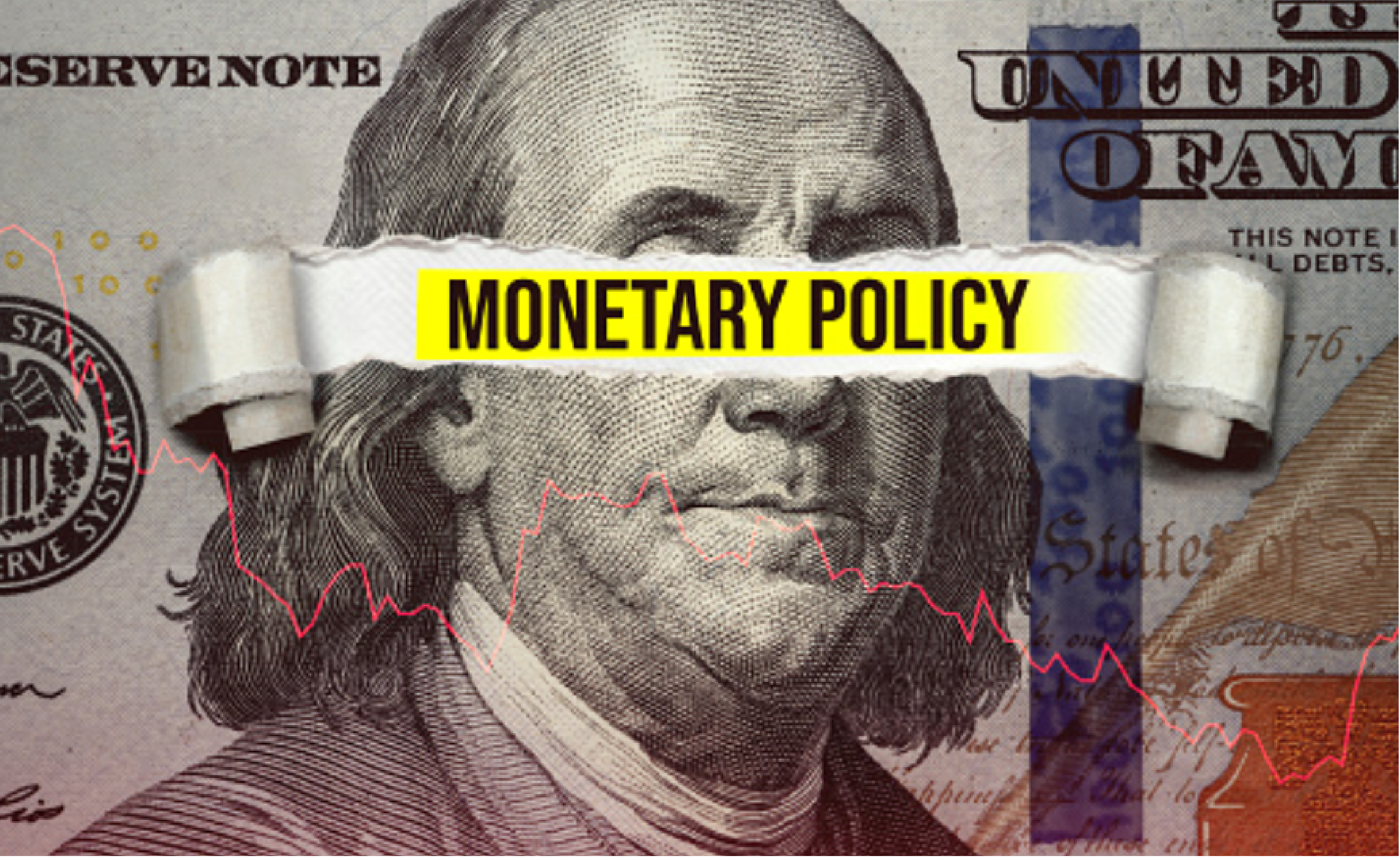
Apart from the BoE's rate hike, Europe experienced another shake-up with the exit of Angela Merkel from Germany's chancellery, as she handed it over to Olaf Scholz after 16 remarkable years. In **Merkel out, Scholz in** (Page 10) I examined the implications of the power change on Germany's policies, and what this means for the wider continent.

2021 was also touted to be the year for African trade with the kick-off of the African Continental Free Trade Agreement (AfCFTA). While Ghana may seem to be at the forefront of the project, some other countries may not be as enthusiastic. In **AfCFTA up against major trade blocs and bilateral agreements** (Page 07), **Dr. Zakaria Sorgho** spotlights the implications of parallel trade pacts on the success of the AfCFTA, reinforcing the need for African countries to prioritize the AfCFTA.

Looking beyond 2021's storms, remember that every finish line is the beginning of a new race, so do not snooze in 2022. My hope is that we do not move from Contagion to Jurassic park, with the unearthing of "Baby Yingliang" – an exquisitely preserved dinosaur embryo – in China. Regardless, I will be available to take your questions, comments, queries, and suggestions via info@mosopearubayi.com, so do not hesitate to reach out.

In high spirits, I wish you a prosperous 2022 – a year where goals will be crushed.

**Mosope Arubayi**




# GLOBAL MONETARY POLICY: BOLDER, FASTER

**BY MOSOPE ARUBAYI**

A new strain of the coronavirus bursting in to disrupt end-of-year programs was not the only surprise the end of the year had, for financial markets at least. Central Banks in major economies; the US Federal Reserve, European Central Bank (ECB), and Bank of England (BoE), had a gift for the market – the earlier-than-expected return of a hawkish stance with interest rate. While the Federal Reserve only announced its intention to jerk interest rate in 2022 - up to three times over the course of the year-, and the ECB declared the end of its bond buyback program, the Bank of England hiked its central monetary policy rate to 0.25% from 0.1% in its last meeting for the year - a move that caught many off-guard.

Often, it seems the actions of monetary authorities are largely predictable. Employing their trusted tool – interest rate – central banks usually steer the economy lightly, lowering the interest rate to stimulate growth or hiking the rate to control money supply in the economy and rein inflation. This time, however, the emergence of the Omicron variant amid record inflation levels created a conundrum. While it was largely anticipated that central banks would retain interest rates at pandemic lows in order to cushion any demand-sagging effect the spread of the new strain of the virus might have on the economy, the Bank of England opted to raise the interest rate for the first time in three years to address the alarming climb of price levels in the economy.

While the rise in inflation had initially been tagged as transitory and a fleeting effect of frantic lockdown and post-lockdown efforts to sustain the economy, the outlook on the record-high inflation levels – 5.1% in the UK (a decade high) and 6.8% in the US (a three-decade high) – changed as the rise in prices and wage rate persisted during the course of the year, resulting in an upward review of 2022 inflation forecasts - making it clear that the rise in inflation was anything but transitory. The unprecedented climb in price levels has been attributed to supply-side factors such as the rise in global commodity prices coupled with supply chain constraints.

A major concern surrounding the upward shift in interest rate is the timing. Was the decision prompt or ill-timed? In favour of the former, the argument is that since record low rates had contributed to the record-high inflation, an interest rate adjustment would support inflation dampening. This stance is also supported by dipping unemployment levels - a sign of economic recovery and brighter growth prospects. Central Banks around the world including Turkey, Mexico, Norway, Russia, and Hungary have towed the hawkish path taken by the BoE. In countries where the central banks had embarked on a bond buyback scheme, the monetary authorities ended or fast-tracked their bond buyback timeline in line with the hawkish stance on interest rate.

**Going forward, monetary authorities are expected to keep an eye out for the economic implications of the Omicron strain.**

Amidst all this, the picture is different in Australia, where the Bank of Australia insists on maintaining its timeline on its bond-buyback program and delaying interest rate hikes till 2023, amid low inflationary pressures and better labour market prospects. With Omicron cases soaring especially in the United Kingdom as lockdowns and travel restrictions make a comeback, it may seem as though the BoE's move was too soon. Going forward, monetary authorities are expected to keep an eye out for the economic implications of the Omicron strain. Should the impact be mild, further rises in interest rates would be needed to keep inflation under control. However, should more restrictions be needed, which would negatively impact economic performance, further rate hikes may be postponed.

# AFCFTA UP AGAINST MAJOR TRADE BLOCS AND BILATERAL AGREEMENTS

BY DR ZAKARIA SORGHO

Establishing a market of 1.3 billion people in an economic bloc with a combined Gross Domestic Product (GDP) of $3.4 trillion, the African Continental Free Trade Area (AfCFTA) has been lauded as a game-changer. The agreement aims to eliminate or reduce tariff and non-tariff barriers amongst its 54 members under a single market for goods and services. Facilitated by the movement of persons, a deepening of economic integration and prosperity has the ability to lift over 30 million people out of poverty on the African continent.

The AfCFTA is not a Customs Union, which is a trade bloc with a unified external common tariff against non-members (i.e. European Union). Currently, its 54 member states are allowed to negotiate and maintain preferential trade and tariff arrangements with third-party, non-African countries. The condition is that they do not impede or frustrate the objectives of the AfCFTA. Notably, to deepen the economic integration and prosperity of the African continent. The concern for small economies, like those of Africa, is allowing member States to negotiate trade deals with third-party countries. Agreements with very big players in world trade call into question the capacity of the AfCFTA to foster intra-African trade into an integrated continental market.

Africa is an exceptional region because it trades very little with itself. The main reasons are the high trade costs induced by the lack of infrastructure, the poor level of institutional governance (corruption, instability, and political uncertainty, etc.), and inconsistent rules of origin (RoO) clauses in various Regional Economic Communities (RECs). In addition to removing tariffs on 90 percent of goods and the trade liberalization of services, the AfCFTA is working to harmonize the RoO among its 54 members. This will open trade networks inhibited by RECs operation in "silos."

The benefit of the AfCFTA to intra-African trade could be undermined if African countries negotiate trade agreements with third-party, non-African countries. According to economic studies, if a country signs a new bilateral trade agreement, it creates a tariff preference for the new agreement partner(s). Thus, the new trade agreement eliminates previous tariff preferences for the country's imports from existing agreement partners. For example, imports from other AfCFTA members. This could either eliminate or reverse the trade benefits inherent in the AfCFTA.

Signing a more liberal trade agreement with major trading partners (i.e. a G7 member, China, or Russia) could "nip in the bud" preconditions necessary for successful intra-African trade. Infant industries, particularly small and medium-sized enterprises supported by African investors cannot compete favourably against foreign counterparts unless protected. Therefore, AfCFTA members should refrain from signing agreements with global commercial powers until the African RECs integrate. A substantial number of strong and competitive actors is a prerequisite to competing in foreign markets.

For instance, India has chosen to remain outside of the Regional Comprehensive Economic Partnership (RCEP) Agreement — signed on the 15th of November 2020 in Vietnam by 15 Asia-Pacific countries including China, representing more than 28% of global trade and around 30% of world GDP — arguing that dropping tariffs would expose its nascent industries to a flood of the Chinese competition. The African Union must review current clauses permitting African countries to negotiate third-party trade agreements. Alternatively, individual countries can ensure non-African, bilateral trade agreements do not undermine the AfCFTA.

**Signing a more liberal trade agreement with major trading partners (i.e. a G7 member, China, or Russia) could "nip in the bud" preconditions necessary for successful intra-African trade.**


Happy New Year

# *MERKEL OUT, SCHOLZ IN*

**BY MOSOPE ARUBAYI**

Angela Merkel's sixteen-year hold of Europe's largest economy ended earlier this month, as she handed over the helm of Germany's affairs to Olaf Scholz, her four-year finance minister, vice-chancellor, and an ardent social democrat. Scholz, who narrowly edged out other candidates in the race to fill Merkel's huge shoes in the September elections, has taken up arguably the most powerful position in the European Union and is set to lead the German economy's charge into the new world.

The new Chancellor highly likened to Angela Merkel in terms of poise, civility, pragmatism, popularity among the people, is not expected to bring in radical changes to the country but build on Merkel's achievements. His administration, composed of a three-way coalition between his Social Democratic Party, the environment-focused Green Party, and the pro-business Free Democratic Party has a tall order to meet given the giant strides achieved by Scholz's predecessor since 2005.

On the foreign policy front, Scholz has largely signaled continuity in foreign policy, as the country looks to nurture its transatlantic alliance. Achieving stronger ties with the United States, managing Germany's relations with Poland and Russia, and upholding Germany's commitment to ensuring cohesion among the European Union nations are at the fore of the new administration's plans.

On the domestic from, the new coalition reached a three-way agreement on key policy issues, including increased investment in digital and climate infrastructure while maintaining budgetary prudence and refraining from raising taxes, as well as achieving social progress through more liberal policies in relation to legalizing cannabis and housing investment among others. The agreement, which was the product of five weeks of negotiation, gives a clear signal of the government's cognizance of the global momentum towards social welfare and green politics. For the new Chancellor, managing his coalition partners - the pro-spending, environmentalist Greens and the fiscally more conservative, libertarian Free

Democratic Party (FDP) - will task his mediation skills.

Championed by the Greens – whose co-leaders Annalena Baerbock and Robert Habeck, take on the roles of Foreign Minister and Economy and Climate Minister respectively - the administration's focus on climate and transitioning to a carbon-free future poses a huge threat to Germany's industrial growth. Although laudable, the environmental targets which include achieving an exit from coal-dominated electricity generation by 2030, are highly capital intensive. With the tax-cut advocate, Christian Lindner from the Free Democratic Party at the helm of the finance ministry, funding these capital-intensive investments may prove to be one of the major clashes in the new administration. However, the success of the traffic light coalition – in reference to the colours of the three parties – is supported by Germany's long history of compromise-based politics – including Merkel's administration, which gains from and yields the low level of polarization in the country's political scene.

Angela Merkel's strong crisis management, leading not just Germany but playing a significant role in shaping the coordinated response by EU countries would be another challenge for the new Chancellor. We did not have to wait too long to see how the new administration would fair, as the timing of his inauguration coinciding with the discovery of a new variant of the coronavirus meant he was thrown into the deep end. However, Olaf Scholz's experience from navigating Germany's economic response to the pandemic, overseeing the country's compensation and relief programs to businesses and individuals affected by the lockdown measures as well as designing the EU's recovery fund is expected to play a key role in his response to the new wave of infection in the coming weeks.

With a near-record time in office, Germany's second-longest serving post-war chancellor has certainly given her successor a huge responsibility as well as respect for the office in the international space. Scholz's government takes office with high hopes of modernizing Germany and combating climate change but faces the immediate challenge of handling yet another phase of the pandemic. In Olaf Scholz's bid to make the European powerhouse fairer, more liberal, and more digital, we anticipate how the new Chancellor would navigate balancing compromise, change, and continuity in his tenure.

**With a near-record time in office, Germany's second-longest serving post-war chancellor has certainly given her successor a huge responsibility as well as respect for the office in the international space.**


# OMICRON: HOW FAR AWAY IS RECOVERY?

BY ILERIOLUWA ADEOYE

It is the end of the year, and festivities are in top gear as we all look to wind down a year marked by frantic recovery strides, following the turbulence in 2020. 2021 has definitely been a reset year, and just as we thought we were out of the bushes, COVID-19 poked its nose through the shrubs and re-emerged, this time in form of the Omicron variant. Just as the Delta variant crept up on the world disrupting norms, the Omicron variant has emerged, disrupting travel and festivity plans.

When the emergence of the new strain of the virus was announced to the world by scientists in South Africa, countries around the world needed no prompting, immediately reinstating social distancing in public spaces and compulsory face mask wearing. However, many European countries as well as the United States of America went a step further, opting to impose more adverse measures such as travel bans to control the importation of more cases of the virus into their countries.

While it can be argued that the move was a prudent action by these global powers to protect the hard-fought economic and social progress they have made during the year, countries at the receiving end – disproportionately African countries – criticized the action, which was been tagged as travel apartheid, marked with colonization and stigmatization motives against the region. African countries, especially South Africa and Nigeria, called for the ban - which was enforced within days of the announcement by South Africa - to be lifted citing it as an unwarranted punishment for the early disclosure of new medical findings, and premature since so little is known about the new strain of the virus.

For the affected African countries, the ban immediately had damaging effects on the already fragile economies – especially tourism-dependent economies like Botswana, Mozambique, Namibia, Uganda, and Zimbabwe - who were included in the list due to their proximity to South Africa, despite having no confirmed cases at the time. The aviation industries of the banned countries immediately suffered the brunt, given that the ban was imposed during the busiest season for the industry.

In a twist to what was seemingly becoming a political battle, the Nigerian government announced its intention to impose a retaliatory ban on the United Kingdom and Canada. However, about two weeks after the restrictions were imposed, the United Kingdom lifted its controversial ban on African countries and scrapped its mandatory hotel quarantines. Other countries followed suit, realizing the ineffectiveness of a partial ban in controlling the spread of a global virus. Although the bans and retaliatory bans have been suspended, the economic impacts of the new variants abound.

For individuals, travelling now includes a stop at the hotel to observe the mandatory quarantine imposed by countries to limit the spread of the virus. In cases where these costs are borne by individuals, they must weigh the increased cost of mandatory quarantine against their desire to visit family and see new places during the holidays. As such, at the microeconomic level, individuals are forced to rethink their holiday decisions and this trend may continue long into the new year. Reduced employment in tourism and hospitality sectors, which thrive on travel and festivity spending, was also an offshoot effect of the emergence of the virus during the festive season.

At the macroeconomic level, governments now face the unexpected fiscal cost of keeping facilities running to cater for new cases of the virus, intensifying the vaccination drive especially to remote cases where additional costs may be incurred for transportation and sensitization. Further costs also arise in cases where mandatory quarantines are government-funded.

While the travel ban was a wake-up call to African countries to ramp up their vaccination rates and reduce the gap to the global north, the hasty move to implement the travel restrictions directly debunked the message of togetherness pushed by these global powers during the thick of the pandemic in 2020. The action immediately highlighted the vulnerability of African economies to renewed uncertainties going into 2022. How much more fiscal distress would African economies be exposed to due to the mutating capability virus? How far away is economic recovery?

The Omicron scare was definitely a wake-up call, reminding us that the fight against the pandemic is not over yet. Despite less concern about the fatality of the new strain of the virus, governments around the world are now charged with staying on their toes to combat the possible emergence of new variants of the virus and manage the consequential economic implications.

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# THE STOCK MARKET IS DESIGNED TO TRANSFER MONEY FROM THE ACTIVE TO THE PATIENT

**WARREN BUFFET**