



Select Committee on International Relations and Defence

Corrected oral evidence: The UK and Sub-Saharan Africa— prosperity, peace and development co-operation

Wednesday 12 February 2020

10.40 am

Watch the meeting

Members present: Baroness Anelay of St Johns (The Chair); Lord Alton of Liverpool; Baroness Blackstone; Baroness Fall; Lord Grocott; Lord Hannay of Chiswick; Lord Mendelsohn; Lord Purvis of Tweed; Baroness Rawlings; Lord Reid of Cardowan; Baroness Smith of Newnham.

Evidence Session No. 5

Heard in Public

Questions 49 – 55

Witnesses

I. Dr Dirk Willem te Velde, Principal Research Fellow and Director of Programme, International Economic Development Group, Overseas Development Institute; Tom Pengelly, Director, External Secretariat for All-Party Parliamentary Group on Trade out of Poverty, and Managing Director, Saana Consulting.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Dr Dirk Willem te Velde and Tom Pengelly.

Q49 The Chair: Good morning. I give a formal welcome to our guests, who are going to share their expertise with us today. Thank you very much for attending. In a moment, I will give your background, but I remind you that the whole of the proceedings today will be broadcast and a transcript will be provided. Therefore, this session is entirely on the record.

I welcome Dr Dirk Willem te Velde, Principal Research Fellow and Director of Programme at the International Economic Development Group of the Overseas Development Institute, and Mr Tom Pengelly, Director of the External Secretariat for the All-Party Parliamentary Group on Trade out of Poverty, and Managing Director of Saana Consulting.

I start, as ever, with the opening question, which tends to be rather general in nature. After that, I will turn to my colleagues and invite them to put more detailed questions to you.

In opening, I refer to a recent event in the UK. What is your assessment of the importance and success of the recent UK-Africa Investment Summit? I do not know which of you would like to go first.

Dr Dirk Willem te Velde: I thank the Committee for inviting me here. I very much appreciate the invitation to take part in this important inquiry into UK-Africa economic relations.

The question you asked me needs a bit of context in terms of what has been going on in economic relations in the last decade or so. We have seen growth in sub-Saharan Africa and Africa as a whole. In terms of value, or GDP, it has grown by about 33% in the last decade. Quite a few forecasts suggest that growth will increase due to population growth and income growth. By 2050, one in four of the world's consumers will be in Africa. So there is a lot of dynamism.

In the context of UK-Africa economic relations, we do not see that same dynamic—at least, we have not seen it over the last decade. In 2018—this is in the evidence that we submitted—UK-Africa imports and exports, for example, were about £17.5 billion each, or £35 billion when combined. The same level of trade was achieved in 2008—a decade ago—so that is a flatline in trade.

The flow of UK foreign direct investment in Africa can vary from year to year. The stock of foreign direct investments—the accumulation of flows, more or less—was about £37 billion in 2008 but it was only £39 billion in 2018. So we have seen the same flatlining with investment, even though there has been quite a lot of dynamism.

In that context, it is pretty important to think about UK-Africa economic relations, and it is absolutely right that there has been the Summit around the UK and Africa. Why is it important? It is because investment is crucial for growth and job creation, which are so helpful in achieving

the Sustainable Development Goals. There is a huge job challenge in African countries—a subject that I can come back to later.

What did we see at the UK-Africa Investment Summit? There were some positive aspects and perhaps one negative aspect. Among the positives is that we had the space to discuss UK-Africa economic relationships. We need to think about resetting those relationships. They need to be more dynamic than they have been over the last decade. It is important for both the UK and for African economic development to have those discussions. There were informal discussions as well and various presentations at the summit. A major drinks company has invested £100 million in the north of Kenya, creating between 50,000 and 100,000 jobs directly and indirectly. There were also small-scale entrepreneurs and manufacturers there. There were representatives from a wide range of countries and the attention given to this matter was really good.

A number of deals were announced amounting to £6 billion or £7 billion, although of course some of them may have been in the pipeline already. There were also announcements about new aid—ODA—projects that have come on stream through Trade Connect, for example. A new project has been announced to stimulate imports from developing countries into the UK, which is a really good thing to do, and there is a range of other projects. CDC, an important development finance institution, announced that it would invest about £2 billion in Africa in the coming two years. That came on top of some other announcements.

What I think is a missed opportunity so far is that we have not seen a framework emerging for follow-up, but that is what I hope to see. There has been an Africa strategy but we have never seen the document. Would it not be a nice time now to have that strategy, and announce such a document to guide us into the next summit? I think that it was announced as the inaugural summit. It would be nice to have another one to provide a structure for the discussion on trade relationships, investment relationships and migration. I would like to see much more on that. We could see much more joined-up thinking by the UK and African countries on the follow-up.

The Chair: Thank you. Mr Pengelly, would you like to add to that?

Tom Pengelly: Yes, thank you, and thank you for inviting me to give evidence here today. I will generally talk today in my personal capacity but, where there is a specific link to the work of the APPG on Trade out of Poverty, I will try to highlight that. There is such a link to the first question. The APPG has been interested in Africa in particular. We produced an inquiry report in 2016 led by Lord Stephen Green, and Lord Paul Boateng, among others, was also on the committee. The report set out a number of recommendations and reviewed the last big Africa-UK initiative, launched by David Cameron in 2011—the UK-Africa Free Trade Initiative. Therefore, this inquiry took place five years on to look at how that had gone.

Specifically in relation to the summit that took place last month, in 2017 the Government ran a White Paper consultation on the UK's independent trade policy. There was a section in that policy about relationships with developing countries. The APPG made a formal submission to Ministers about that, and one thing that it highlighted was a call for regular high-level summits between the UK, Africa and other developing countries.

Members pointed out that the UK was alone in not having these. The US and Japan have had them through the AGOA¹ and TICAD² processes respectively, and China, India, Germany, France and even Turkey have had them. It felt long overdue but very welcome and the APPG members were delighted that the Summit took place.

The day after the Summit, they had a debriefing with one of the participants. The Chief Executive of TradeMark East Africa, Frank Matsaert, came to Parliament and briefed some of the APPG members, including the chair, Greg Hands MP, a former Trade Minister. Some messages came out of that debriefing. There was a very positive mood. One of the highlights from the APPG's point of view, if you think of not just trading but trading out of poverty and the development dimension, was that the DIT,³ DfID⁴ and the Foreign Office were all very prominently involved in it, all the way up to Minister level, in both London and posts abroad, and that it was led by No. 10.

It was also positive in portraying Africa as not just a needy recipient of aid but a dynamic, fast-growing population, consumer base and trading partner with a future. Figures were often promoted about how a number of the fastest-growing economies are in Africa. I thought that was very positive, as was the general way in which it was run. It seemed to be very well organised. As Dirk said, the key thing that members of the group focused on was following up and whether this was a one-off or the beginning of a new chapter. We can talk more about that.

There have been successive administrations, particularly since the Brexit referendum in 2016. The intention and willingness have been there from successive Ministers and Secretaries of State at the DIT and DfID to do more for Africa and more on trade for development, but the delivery has not really come through. I looked back at our records. That submission on the White Paper exercise that I mentioned was at the end of 2017. Then, in January 2018, when Penny Mordaunt and Liam Fox were the Secretaries of International Development and International Trade respectively, they had some joint op-eds saying that they would be working together to launch a new, integrated, comprehensive package on trade and development for developing countries. However, we did not see that materialise.

¹ The US African Growth and Opportunity Act

² The Tokyo International Conference of African Development

³ The Department for International Trade

⁴ The Department for International Development

Liam Fox was then billed to speak at Chatham House in May 2018 on a new deal for the UK and Africa. I was at Chatham House waiting anxiously to hear that speech, but it was cancelled at the last minute, unfortunately. I think what was generally happening was that other competing priorities, particularly to do with Brexit, were taking up Ministers' bandwidth. It is easy for Africa to get pushed down the list of priorities, and then it falls off the edge.

It was very good to see the Summit taking place, as I think it was Prime Minister Theresa May who first promised it during her visit to Africa in August 2018. However, previous to that, Ministers promised that the Summit was going to be part of a much bigger framework and package for Africa. That is really what the APPG members are looking to see, and they hope that it will happen.

You wanted to ask in a later question about the idea of a UK-Africa Prosperity Commission. I will not talk about that now, but I want to draw a connection to that as a way of adding some extra short-term capacity to look at these issues. Clearly, we can learn the lesson that the willingness from Ministers has been there, but the bandwidth is not always there. Those competing demands on Ministers' bandwidth will be just as tight in 2020, so it is worth looking at the idea of the Prosperity Commission in that light, as well.

The Chair: Thank you very much for setting the scene so clearly for us. I now turn to Lord Mendelsohn.

Q50 Lord Mendelsohn: Thank you both very much for coming and thank you for your work, particularly with the ODI. Some of the stuff you have been doing has been really interesting and we are very grateful for it.

I would like to probe, if I can, the issue of what obstacles there are to the UK achieving the Government's stated ambition to become the largest investor in the G7. You made the point that all the core indicators show a flatline of performance over the last decade, and longer in fact, even though the ambition initiatives and goals have increased mightily in some linear fashion.

I want to probe what issues you think underlie that. We obviously have a lot of historical issues. We are highly engaged in the extractive industries and it is largely listed companies that are there, which are not even inherently part of the UK base. Our involvement is extractive and based around South Africa. Even when we look at the DFI⁵ that we have, we are recreating the institution which we divided some time ago when we sold off the active fund manager.⁶

So, what issues underlie the reason why we cannot move on? Is it that we are trapped as a product of history and that our aid and trade policies

⁵ Development Finance Institution

⁶ The UK's development finance institution is CDC Group. In 2004, CDC Group was restructured and a large part of CDC was part-privatised as a fund management business.

still have a legacy view of Africa? Is it structural? Are we pursuing the wrong sort of framework or delivery mechanisms for policy? Is it that we do not have the right engagement with the private sector, or that we are not going into manufacturing, technology or other areas, despite Africa's ambition to become the manufacturing hub? What are the core impediments that are stopping us increasing that performance in any meaningful way?

Dr Dirk Willem te Velde: That is a very good question. There are two issues here. One is about determinants of investment in Africa and different African countries. Your question is also about the performance of the UK vis-à-vis other countries, such as Germany, France, or the US.

On the question of the determinants of foreign direct investment, what we find, looking at the evidence, is that market size and market growth are still the most important determinants of FDI overall, particularly for the market-seeking type of foreign direct investment. At the moment, African countries are also still quite fragmented, and more work needs to be done on that.

We recently produced a report—my colleague Max Mendez-Parra led on this—which looks at the business environment issues in African countries. Many countries do not score that well on business environment regulatory rules, for example. Sometimes the issues are general, but sometimes they are specific. There are also issues to do with skills, infrastructure, et cetera. Much of that is lacking, but this can be addressed. Investment can be attracted, despite the conditions not being optimal.

I would point to Ethiopia as an example. It has attracted manufacturing investment recently through a much more targeted approach and by really going out there to attract investment. Countries should make sure they have a plan ready; they can build industrial parks. That has been done really ably by a Minister called Arkebe Oqubay, for example, who leads on designing industrial policy for Ethiopia. This can be done if you have the right instruments and approach, but of course there are huge challenges.

Then there is the question of the frameworks for different types of countries. When you look at investment, there are different sides to the coin. You can think about pulling investment into a country, which is the most important way to get investment, but you can also think about pushing investment into developing countries. Then there are the bilateral investment treaties and the international relations that govern investment.

It is also fair to say that other countries may also be challenged in this. The Germans have a compact with Africa. There are positive and negative aspects of it, but German investment in Africa is not picking up much at the moment. Countries that have been successful in increasing their investment are China and The Netherlands. China is increasing its investment but coming from a low base, and The Netherlands, for various reasons, has quite a high stock of FDI in African countries.

On the sectoral picture, the Germans have more manufacturing. They have a stronger manufacturing base with the *Mittelstand*, or SMEs, that can invest. Also, car companies are now beginning to be interested in Ghana, Nigeria and Ethiopia, for example. Fewer manufacturers in the UK are interested in investing, although I attended a pre-event of a manufacturing summit on the UK and Africa and there were manufacturers there who were interested, but fewer than in Germany.

The UK has a comparative advantage in the services industry, such as professional and financial services. These are also very important for getting manufacturing going and making it more efficient. That is where there is also an important role for the UK and more attention could be paid to it. It is important to think about the ways in which the UK can help African countries to pull investment in. That will help different types of investors, including lots of UK investors. In that process you have win-win situations. If you help African countries to reduce trade costs—you mentioned TradeMark East Africa, for example—and are successful in helping countries to build industrial parks, that can attract investors, some of whom are UK investors. If you can also build an ecosystem around it, you have a win-win situation. First and foremost, that is important for the development objectives in developing countries, and UK investors and traders, as well as other traders, might help in the process.

Tom Pengelly: It was an excellent question. I know that the Committee is interested in the trade aspect as well as the investment aspect, but a lot of the same factors will be at play. There is a good economic reason for that because trade will follow investment.

I would pick out four points that are relevant to that question and to the trade side. Some of them have come from events that the APPG has organised, including consultations with UK plc and African businesses. For example, there was an event and dinner here in Parliament as part of the inquiry process in 2016. Industry would say various things to us. The first of the four factors is, as Dirk was saying, that there are lots of small countries and small markets in Africa with thick borders between them. It is not easy to ship trade across those small countries and markets, even if they are neighbouring.

Secondly, there are other risks related to being an investor or trader in the business environment. The ODI report that Dirk has there—by Max Mendez-Parra and co, produced just before the Summit—picks out some of the risks that were raised in a survey of UK investors, and those might be around the regulatory frameworks.

The third factor is the type of investment in the sectors that we can expect to increase. Again, talking to the authors of that ODI report, the survey suggests that it is unlikely that UK manufacturing will be building factories in Africa; it is much more likely that the UK presence will be in the services sectors. We need to think that through and, as Dirk said, we need to think through how finance, legal and professional services can boost industrialisation in Africa indirectly. It is a critical part of what is missing. We might not be able to build the factories, but if we had the

capabilities that you see in the City of London in African countries, you would see a big spur of economic activity off the back of that.

The fourth factor, which Dirk also touched on, is a theme which I am sure the Committee comes across repeatedly in its inquiry about Africa. It is not a single country. We are talking about 50-plus countries that obviously have different economic spaces and infrastructure patterns and a different natural resources endowment. Perhaps we cannot think of individual countries as that is too difficult to do, but we should think about clusters and sub-economic zones—the east of Africa and the Horn, southern Africa, and Nigeria and Ghana in the west—as that would be a helpful way of looking at our analysis and framing what can be done. It would also be helpful in seeing how the Government interact with Africa. Obviously, to do that country by country, with 50 countries, would be too difficult, but we need to go beyond the usual suspects of Kenya, South Africa and Nigeria.

The Chair: Thank you. I invite Baroness Rawlings to ask the next question.

- Q51 **Baroness Rawlings:** Good morning. To what extent do you think the important UK investment in fossil fuel industries in sub-Saharan Africa undermines efforts by the Government to combat climate change? For future planning, might that have to stop, bearing in mind that none of our cars, even the hybrid ones, will be using petrol or diesel and will be allowed to use only electricity? How will all that electricity be produced, and will we still need the fossil fuel industry or will we be able to rely on windmills, solar panels and nuclear?

Dr Dirk Willem te Velde: That is a very important question and there are various ways in which you can answer it. There is a global picture, with individual countries and contributions within that. Globally, we have far too many fossil fuels in the ground which we burn and use. If we were to use all of them, this would be quite a hot planet, so we need to keep quite a lot of them in the ground, and there are different discussions about what exactly needs to be done. I am not the key expert on that but I would say that within 50 years we need to have reduced quite a lot of fossil-fuel use.

There are commitments to and international negotiations about reducing the use of fossil fuels, and those are important. As you rightly say, energy is still very important for growth and development in the poorest countries, and we are not denying the importance of energy for development; the question is how it will be generated and the speed at which it can be achieved. Malawi, for example, might need more energy. If it was using fossil fuels, its contribution to the reduction in their use would be tiny, whereas in developed countries a reduction could be achieved more quickly, so overall there would not be much of an increase.

Of course, if that particular fossil fuel investment or use were to be to the detriment of investment in renewables, you would have a problem. So we

need to make sure that we do not subsidise the use of fossil fuels or investment in them, and that we do subsidise the use of, and develop, renewables. The aid budget is going much more into renewables than into fossil fuels.

Energy is really important. Renewable energy has promise for African countries as well: hydropower, solar power, wind power. It is really important that these can now sometimes be generated at an equivalent cost, or even more cheaply, than some fossil fuel generation. That may give a comparative advantage in a carbon-constrained world, where we know that in future we have to reduce carbon dioxide emissions. That will entail different comparative advantages for different industries, and one may be renewable energy, where African countries may have an advantage. They may be able to power some of their manufacturing through renewable energy. Kenya, for example, has geothermal energy, in Ethiopia, there is hydropower, which will be quite cheap as well.

How soon that can happen, in which countries, at what time, is up to the vagaries of political issues as well. So, on the direct question: yes, it is important to reduce the use of fossil fuels. But then, of course, the question is the counterfactual one of which countries at what time. Then some fossil fuels—oil and gas, for example—are better than coal.

It is a complex question, but I would say: stimulate the use of renewable energy as much as you can and that can lead to competitive advantages for African countries in future.

Tom Pengelly: Another aspect comes back to the small markets in Africa that are not very well joined up. There have been efforts and initiatives to develop power pools in regions of Africa. There is the south, east and west region, where you have the opportunity to generate on a large scale by renewables because the geography allows you to do large-scale geothermal, for example, or hydroelectric power. Neighbouring countries are not as well equipped, but regional power pools allow you to generate in one country and trade it and move it to another, which is much more efficient and is trading in the service of power.

That aspect of connectivity in Africa is certainly something to be looking at in the different regions as part of the solution, alongside renewables, as Dirk said. Beyond power generation is the wider issue of environmental sustainability and reducing carbon emissions. Looking at production in industry and transport, as well as power, will be very important. It is not just about the level of the UK's investment, which was the question earlier: this gets to the heart of the question of the nature and the quality of UK investment in Africa. Can we bring with it not just the pounds and pennies but our technologies and know-how in the UK? For example, we are market leaders in a lot of green tech around cleaner production and cleaner transport. Can we bring the economic transformation impact of UK FDI, where the increase in FDI in Africa is much higher? That, hopefully, can be part of our aspiration and a central part of our plan.

The Chair: There are two supplementaries to be asked. I invite Lord Purvis and Lord Reid to ask their supplementaries one after the other and then have a joint answer, because I know that, as ever, we are trying to make best use of time.

Q52 **Lord Purvis of Tweed:** I declare an interest as an office holder of the All-Party Group. Leading on from the previous question, Mr Pengelly, it is not only the type of investment but the ethics surrounding some investment.

I have seen research that indicates that if multinational companies, including UK companies, paid the same level of tax for their operations in African countries as they would in this country and that was extrapolated internationally, there would have been more revenue retained in the continent than there have been aid transfers over the last 60 years, since many of those countries have been independent. Many British law and accountancy firms have been at the front end of exceptionally complex legal and financial vehicles, some for highly exploitative contracts. Some mechanisms have effectively been tax avoidance.

What can we in the UK do to ensure that that is no longer the case, so that when we see increased investment, it is not associated with exploitation by another means?

The Chair: I will ask Lord Reid to ask his question, and then, in answering those two, could each of you choose which one you answer, so it is a joint effort? Lord Reid.

Lord Reid of Cardowan: You make the very important point that the future is about not just the quantity but the quality or, let us say, the strategic direction of plans to work in partnership with Africa.

Do you ever wonder about the present strategic direction? By that, I mean that the Chinese have a number of clear priorities: trade, cyber, quantum, rare earths and land for food production. In all of those, one can see the circumstances in which they will become vital globally, as well as to the Chinese. I presume that that shapes part of their investment in Africa. When we look at ours, over 51% of what we are doing in trade now is in the extractive industries, which are likely to be curtailed, as was mentioned earlier, by climate change concerns. Secondly, as you said, it is unlikely that investment will take the form of manufacturing industry but will be in professional services, all of which, over the next 10, 20 or 30 years, will be completely undermined in terms of labour by artificial intelligence: in insurance, banking and so on and so forth.

In other words, I just wonder whether the two main apparent props of where we are and, presumably, where we are going, really have a sensible strategic direction to them.

The Chair: Thank you. As I say, perhaps each witness would like to answer just one of those questions.

Dr Dirk Willem te Velde: I suppose both of them discuss the quality of relationships, particularly quality of investment. There are two sides to the quality of FDI. There are multinational headquarters and what rules they obey and there is what the host country does with the investment. That is an important part.

If we think about what a country does with investment, we can contrast, say, Botswana and Nigeria and, outside the continent, Indonesia. Extractive industries may not have led to huge productivity increases or structural transformation in the right areas in Nigeria, for example, but in Botswana, investment in the extractive industries has helped to generate revenue which has been used to finance education and infrastructure, and GDP per capita has gone up. Indonesia has used its extractive industries to diversify out and move in to manufacture and services, and so have a much more complex export basket. That is really important. A lot of this is about what you do with your investment.

Tax transparency is absolutely important, to weed out tax evasion. That needs to be the bottom line everywhere. That is from the country's perspective. Then, of course, it is up to a country to think about what tax regime it has in place. That is an important consideration. The tax regime should be such that you can generate enough resources to provide public goods, such as education and infrastructure, that are important to crowd in private investment. You need a particular level of tax revenue. That is important. There is also the home-country side of this—where the multinational is based, where the investors come from—and it is important to impose minimum standards on transparency and debt sustainability as well.

Some of the other investors in Africa may be more state-owned rather than private, but that may at some point increase the debt-to-GDP ratio. We have seen quite a big increase in those ratios; our research has shown that. In Africa, after debt relief, it was 10% to 12% of GDP, but it is now much higher—around 30% to 40% of GDP.

That on its own might not be a huge problem as long as that debt is being used to finance productive investment, transform economies, create jobs and generate tax revenues. But that is not happening sufficiently; we do not see enough economic transformation happening in African countries to generate revenue in the future to pay off the debt. That combination of increased debt and a lack of transformation is concerning to me.

It is important to make sure that those standards on transparency and the quality of the relationships are imposed by both the sending and the receiving country. This goes to show that it is really important to think about the strategic direction of the relationships, setting standards and moving things in the right direction. I agree with both of you that it is really important to think about the quality of the FDI and what you do with it, and to increase the transparency around it.

The Chair: Thank you. I think you have answered both questions, so in

the interests of time we will move on. Next time, I will go to Mr Pengelly. I turn now to Lord Grocott.

- Q53 **Lord Grocott:** I noticed in one of the papers we have here that you talked about the dynamism surrounding the African Continental Free Trade Area. Could you develop that a bit and give us an update on where it is, where you see it going and how much expectation there is surrounding it?

Also—this is related, I suppose—what about the role of the African Union in the development of the free trade area, among other things? Does it have the capacity to be a key part of developing trade?

Tom Pengelly: That is an excellent question. The continental free trade area is really a response to the issue that we were talking about earlier, the fundamental economics of those small markets in Africa, which are not well joined up. They are trying to join them all up into a large single market.

It is moving in different stages. The first stage will go live in July and is really a kind of tariff-cutting exercise. Then they will start negotiations on the second phase, which looks at services, investment, competition and so on. It is definitely the right initiative in terms of joining up these small markets and trying to reduce the costs of trading between them and the connectivity challenges.

On the role of the African Union in creating that process and supporting it, the UK played quite a central role in the early stages of that, supporting the African Union to play that role, which was very valuable. The first head of the new secretariat for the free trade area was appointed just yesterday; it is a separate organ of the African Union. It is only the African Union which can play that role, and it is really good to see how it has taken that on.

There is strong heads-of-state buy-in from the top; the regular summits have helped to drive that process forward. It has promise in the sense that some of the sub-regional initiatives in Africa have overlapping memberships and have not necessarily gone all the way through to completing the job. This is a continental framework and it takes away that potential problem, but some of these legacy frameworks are still there and they have to think about how those can be folded in.

The interesting thing for the UK is thinking about what our position on the free trade area is. At the early stages, the UK was a keen supporter of that and helped the African Union do some of the diplomacy around the continent to start the negotiations. The UK provided technical assistance to the African Union to support the first stages of the negotiations. That has been taken over by the European Commission and the German aid agencies. As we come to the launch, the question is: what is the UK position? We seem to have faded a bit into the background as a partner, honestly.

The Prime Minister will be in Kigali in June for the Commonwealth Heads of Governments Meeting, which will be about a week before the CFTA goes live. Nineteen of the Commonwealth countries are African countries, and I am sure they will ask him about the UK's position on the CFTA, especially as the summit will be in Africa. It will be interesting to see what the response is.

One area to finish on is the economic analysis that has been done on the benefits that can come from the continental free trade area. One of the studies we looked at suggests that, if all the tariff cutting goes to plan—if it is done fully and everybody implements it—you might see an increase of up to 50% in inter-African trade. It is only about 15% of their total trade at the moment. The really big-swing increase would come if, on top of the tariff cutting, you added trade facilitation measures, such as improving transport systems and customs points, and reducing red tape as you move goods across the borders between countries. If you do that, you get about three times the benefits.

A lot of the UK aid for trade has been quite well targeted on this area at the moment. This is what initiatives such as TradeMark East Africa, which we looked at in the inquiry report, essentially do. It is one of the biggest UK aid for trade programmes in Africa. Essentially, what they do is try to reduce the very high transport costs and the delays at borders and ports by working on that trade facilitation agenda.

In a way, you can see how the Prime Minister might craft his response at CHOGM⁷—I think this would be welcomed by African leaders—to talk about realising a lot of the benefits of the CFTA⁸ through a focus on trade facilitation. The Africans can do the tariff cutting themselves; there is not much we can do to help them with that. The part which we could really help with is the trade facilitation side, which is where most of the benefits are. Fortunately, we have the aid delivery infrastructure quite well in place.

There is definitely an interesting story for the UK on that and on how we craft our own future trading relationships with Africa. At the moment, they are based on a combination of rollovers of the Economic Partnership Agreements⁹ in certain parts of the continent, such as the SACU¹⁰ region, and our GSP,¹¹ our system of preferences. Could we transition that in the future to a relationship with the African FTA bloc? That is some way down the line, but it would be interesting to talk about it in the future.

Dr Dirk Willem te Velde: I would second that, based on what our own evidence on the impact of integration shows. There is shallow integration and deeper integration, and deeper integration has greater benefits. In my previous life, in the 1990s, I worked on European integration, and

⁷ The Commonwealth Heads of Government Meeting, to be held in Kigali in 2020.

⁸ The (African) Continental Free Trade Area

⁹ EPAs are EU agreements.

¹⁰ The South African Customs Union

¹¹ The Generalised Scheme of Preferences

this was also the case there: deeper integration has greater benefits than shallow integration. That is also the case in African regions. If you have deeper integration or provisions, the benefits are greater.

It is important to think about the dynamism that comes out of the signing of the Continental Free Trade Area agreement and the ratifying of the new secretary-general of the secretariat. That is being complemented by the bottom-up work to connect countries by building roads and one-stop border posts. Having those things together is really important.

It is also important that external partners do not undermine African efforts to integrate. We are now reading reports that the US and Kenya want to think about a free trade agreement. However, it is really important that such an agreement does not undermine efforts to integrate. For example, rules of origin could be such that everything that Kenya imports from other African countries and then sends to the US, for example, is eligible for lower tariffs, and vice versa, where everything that Kenya offers to the US also needs to be offered to the rest of the region.

That, of course, could also be the basis of a UK-Africa free trade agreement in perhaps 30 or 40 years' time, or maybe 20 years' time—when the time is right. These things take time. European integration has taken 20 or 30 years and a lot of time will also be needed for African integration to get going.

It is important that what you do now does not undermine efforts for the future. At the moment, the UK has some issues that it needs to decide—what it is going to do in terms of trade policy vis-à-vis other countries on 1 January 2021. One issue that we have been looking at at the ODI is a new Generalised System of Preferences. At the moment, the UK is part of the EU Generalised System of Preferences, but now it might need to think about its own system. Could it perhaps sweep up all the African countries in that context now? At least it would have done that and it would be a win-win situation. Then perhaps in the future—in 20 or 30 years' time—you can work towards a UK-Africa free trade agreement, which Africans would also like.

The Chair: Thank you for going into detail backing up the overarching principles of the questions we have asked. As I turn to Lord Alton, it means that the mainstay of his question has already been answered following question 2, put by Lord Mendelsohn. Lord Alton, might I ask you just to address question 5a, as that would be new to our session?

Q54 Lord Alton of Liverpool: Certainly, Lord Chairman. In doing so, I too thank the two witnesses for the description they have given us of the flatlining over the last decade of investment and of exports and imports. That touches on the challenges that we are facing and the handicaps for businesses—everything from ideology in some parts of the region to mass migration—and also corruption, a word that has not been mentioned yet. I wonder how British businesses cope with some of those challenges, but also how we compare with some of our competitors, especially China.

In looking for the opportunities that Mr Pengelly has talked about a lot so far, can you say something about the role of the Trade Commissioner for Africa—the civil servant based in South Africa—and the trade envoys for Ghana, Guinea, Tanzania, South Africa, Angola, Zambia, Nigeria, Uganda, Rwanda and Kenya? What is your assessment of the way they conduct themselves, the resources they have been given and the role being played by those trade envoys and the Trade Commissioner?

The Chair: Thank you. As I say, I know that you addressed the question of obstacles in question 2, so perhaps you would focus on trade envoys and commissioners, which would be new to this session.

Tom Pengelly: I would be very pleased to do that but would just underline the point that Lord Alton was making. A key point to take away is that, if we are talking about increasing existing trade flows and dealing with the stagnation that Dirk pointed out, we will need to do something quite differently moving forward. Lord Reid made a point about the strategic vision for that and asked where that is going to come from.

On the trade arrangement side, it is very welcome that now that the UK has left the EU the government website says on trade system preferences that the UK will be replicating the same market access as the EU's Generalised System of Preferences, as that will affect many African countries. However, that has been in place while we have been experiencing stagnation. It is great that there will not be sudden disruption, but it is unlikely that continuing that system will in itself lead to a big increase in trade flows.

On the trade commissioners and trade envoys, I can speak about the work that the APPG has done. This was something that the group took up in its submission to the Secretary of State for Trade on the White Paper consultation at the end of 2017. A number of the members of the group have spoken in the House of Lords about the Trade Commissioner for Africa. Although it was very welcome to see the trade commissioner system put in place, two issues arise from it. Put simply, the group's view is that something is missing at the top, above the level of trade commissioner, and something is missing below it.

The below part is the staffing resource to do that trade promotion work across the large territory of the continent. In a recent speech, Liam Fox said that the DfID office in Kenya has about the same number of staff as the Trade Commissioner for Africa has across the whole continent. Therefore, it is important to have the personnel underneath the trade commissioner to cover a very large geography.

The other point about the top level is that, when the job description for the Trade Commissioner for Africa was published, it was essentially the same as for the other trade commissioners around the world, whether in America or China and so on. Members of the APPG with experience of the African continent and our relationship there—people like Lord Boateng and Lord Green—felt that something needed to be a bit different about that post, particularly bringing together the diplomacy and aid sides, as

well as the developmental role for those markets. They viewed that in two ways. First, they felt that the job profile should reflect that, with the need both on the continent and in Whitehall to span those different areas outside the walls of the DIT across into DfID and the Foreign Office, bringing those levers together. The second aspect was the seniority of the postholder. You can see from the summits that take place that often you need to work at head-of-state level in Africa to see significant reforms and changes. Members of the APPG felt that the trade commissioner post might have been held by somebody who previously held a senior Cabinet rank in the UK, for example. I think they used the phrase “African trade tsar”—somebody with a much higher level of seniority who could regularly talk with Presidents and heads of state in Africa but also, when back in Whitehall, could bring together parts of the government system on aid, diplomacy and trade so that opportunities were actually being taken, where they came up, rather than sometimes being missed because we had not aligned our systems and the different parts of our capabilities.

The Chair: Thank you. May I ask Dr Willem te Velde to answer rather briefly? Then we will move on to one more question, but I am afraid that we will not have time for the final one.

Dr Dirk Willem te Velde: Tom has answered the question well but there are two points that I can add. One concerns the Generalised System of Preferences and the fact that the UK is now in consultation about what the MFN—most favoured nation—tariff should be. One option is that it goes to zero. That might not happen but, if it does, the value of preferences that Africa has in the UK will go down. At the moment, its value of preferences in the UK is in the order of £320 million per year—that is, the tariffs that importers to the UK do not have to pay. If the MFN tariff goes down a lot, the value of preferences for African countries will go down, and that will mean that they have to compete more in the UK with China, for example. While of course I support lower levels of protection, for countries that have been dependent on preferences for some time, it would be important to support the transition, perhaps through increased aid for trade.

I would also like to discuss migration, which has been mentioned. People think about it in different ways but I would like to point you to an article published in the *Financial Times* yesterday by Dr Arkebe Oqubay, whom I mentioned earlier. In it, he looks at the UK’s visa system for Africans. It is important to look at migration issues and at that visa system to see whether it can be streamlined. I have some quarrels with the business indicators that the World Bank has been producing. These indicators can sometimes help and foster good discussions but I would like Africans to produce business indicators on the length of time it takes and burdens involved in getting visas. It is much easier to get visas for the EU and US than it is to get visas for the UK. It is really important to think about us being equal partners. The UK and African countries are equal partners in both trade and investment, in which there is a mutual interest and the opportunity for mutual prosperity, but the same applies to migration. Yes,

you can talk about work permits, but you should make the visa system easier—that is within your control. It is important to highlight how Africans see the migration problem.

The Chair: Thank you very much. Baroness Smith has the final question.

Q55 **Baroness Smith of Newnham:** Some of your remarks have already pre-empted part of the question that I was due to ask. Essentially, post Brexit, what are the likely implications for the UK's ability to influence development policy and trade with sub-Saharan Africa? In particular, will pulling out of European development structures be a disadvantage or an advantage?

Tom Pengelly: I should like to turn, first, to the point about the development structures, particularly European development aid for Africa through the European Development Fund. When the UK was a member of the EU, it contributed a significant part of that. That funding was used in particular to support trade facilitation and aid-for-trade projects. Sometimes you would find that the DfID office in African countries would say, "We know that this country needs support and aid for trade but we're not going to do it because the EU will cover that through the European Development Fund". However, if there are going to be fewer resources because there will be no contributions from the UK, it will be sensible and right for the UK to look at increasing its bilateral aid-for-trade contributions.

The APPG, in the submission on the White Paper that I mentioned, suggested two aspects of that which are relevant to your question. The first was that the Government should make a long-term commitment over the course of the Parliament to increase aid for trade over time and that it should be a bound target so that the risk is mitigated or taken away. That is helpful not just for transparency but because aid takes time to programme. If you know how much you have, you can programme it much more effectively.

The second thing which the APPG suggested was that, of that larger pie of total aid for trade that the UK would commit to—it is one of the Sustainable Development Goals, by the way, so it would be delivering on that explicit target—the UK should commit to earmark 50% to Africa. That is very relevant, and it reflects the fact that there are deserving needs around the developing world but they are particularly acute in Africa. If we are to try to level up across the world, we probably need to put most into Africa. Those are two very specific responses that would be very practical and would respond to that aspect of the challenge.

We have already touched on the trade arrangement side and how that was done through the EU, with the GSP and the Economic Partnership Arrangements. Some of those have been, or are being, transitioned. The African side would also say that it will miss the UK's voice in the EU in terms of having a champion for development and African interests. We will not be able to mitigate that so much but we are continuing those trade arrangements.

The Chair: Thank you. I am afraid that I now have to close the session. I do so with great regret, as I think we could have continued with our questions for some time. We have had a wealth of information from you. However, I am also aware of the need to be courteous to Professor Murithi in South Africa, who is waiting for the video link to start. I am also aware that question 7 would be of particular interest to our witnesses today. It is about the proposal to establish a Prosperity Commission. We already have some written evidence on that, but if there is any further information that you would like to supply to the Committee about the proposals to establish a commission, would you please do so? We would welcome your views on that, just as we have welcomed your contributions today. Thank you. I formally close this session.