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Regional economic integration in uncertain Trump era should be AU's key mandate

While President Obama, and George Bush before him, made a commitment to prioritize on developing and promoting US trade with and investment in Africa, the era of President Donald Trump has plunged the US-Africa relations into a vastness of uncertainty with clear cut inclinations towards apathy. Building Africa's trade capacity and extending preferential access to the US market for African products is clearly not a priority of his.

Under the specially crafted trade agreement AGOA (Africa Growth Opportunity Act) enacted in 2000, Africa has been able to access the American market for goods under preferential terms of trade aimed at strengthening the continent's export front.

However in the Trump era, the future of this trade agreement that was extended for a further 10 years to 2025,

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Key highlights in the NSE

Kenyan Stock Market Performance and Outlook The market continued its downward trend with the NASI easing 4.5% to 123.94 (24.1.2017) characterized by a decline in overall trading activity. Majority of the counters posted price declines notably Safaricom, Britam, Equity and KCB. Equity and KCB saw increased demand towards the end of the week, providing some price stability. We also expect demand to improve (and supply to subside) on Safaricom and EABL. We therefore expect stability in the overall market index.

	02.02.2017	01.02.2017	Change
Equity Turnover (KES)	631,611,894	1,024,961,048	-62.28%
Total Volume	30,010,109	37,522,944	-25.03%
Traded Market Cap	1,799	1,799	0.02%
Bond Turnover	2.66	1.78	33.08%
NSE 20 Share Index	2,925	2,933	-0.27%
NSE All Share Index	124.21	124.19	0.02%
FTSE NSE KENYA 15 Index	147.33	147.1	0.16%
FTSE NSE Kenya 25 Index	152.44	152.03	0.27%
FTSE NSE KENYA Gov't bond index	-	89.86	
Foreign buys	567,237,414	956,583,953	-68.64%
Foreign Sales	563,161,600	927,343,488	-64.67%

Source: NSE

The key market indicators for this week is shown below.

4 Day Key Market indicators (September)				
Indicator	2ND	1ST	31ST	30th
NSE 20	2924.9	2932.79	2929.68	2955.44
NASI	124.21	124.19	124.09	124.27
Market Cap (KES bn)	1799.06	1798.66	1797.32	1799.83
Equity +I Reit turnover (KES bn)	0.632	1.025	0.448	0.105
Bond Turnover (KES bn)	2.663	1.781	2.508	2.63

Source: NSE

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seems bleak as the erratic leader has promised radical changes are to be expected in how the government will be run henceforth.

Data from the Office of United States Trade Representative has total goods traded between the two regions at US$ 37 billion as at 2015 and exports from the United States amounting to US$ 18 billion, while those from SSA to the USA totaled US$ 19 billion leaving US$ 1 billion deficit.

Roughly 31 percent of U.S. exports to Sub-Saharan Africa went to South Africa in 2015, and 19 percent went to Nigeria. The top U.S. export markets in Sub-Saharan Africa for 2015 were: South Africa $5.5 billion, Nigeria $3.4 billion, Ethiopia $1.6 billion, Angola $1.2 billion, and Kenya $937 million.

The Donald has made it categorically clear that the United States will now henceforth only allow room for mutually benefiting trade negotiation and hence the future of Aid- based initiatives like AGOA lie in jeopardy of becoming extinct.

Regional integration is critical for Africa's economic development and growth, and hence poverty reduction. It provides access to bigger markets, stimulates competition and specialization, and strengthens production systems, and enables countries to exploit the economies of scale necessary to build competitive industries, increase productivity and innovation, and attract a greater share of international markets and investment.

While Africa's Regional Economic Communities (RECs) have made substantial progress in integrating their markets by establishing free trade areas and harmonizing external tariffs, this has not yet translated into significant increases in regional or international commerce flows, competitiveness or employment.

With intra-regional trade between 10 percent and 12 percent of total exports, Africa's domestic performance remains limited compared with other parts of the world, which offers many opportunities for improvement. The continent's share of world trade is 2 percent to 3 percent meaning the dramatic contraction in global commerce due to the economic crises in the developed economies makes regional cooperation and integration on trade even more crucial.

The African Union that was formerly Organization of African Union hitherto 2001, bears the biggest burden of ensuring Africa is a fortifying prosperous economic bloc with irreversible socio-political tranquility to ensure sustainability of meaningful progress. However, few would dispute that the AU since its formation has exercised little to null vigor in pushing for the much talked about regional integration.

The role of the African Union

In 2001, the OAU was transformed to the AU under a new constitution treaty formulated to enhance the speed up of the regional and economic integration aimed at achieving the economic objectives set out by the OAU. The AU having been established in conformity with the AU charter and treaty that formed the African Economic Community.

Most of the sub-regional economic integration arrangements have the aim to establish a customs union and a common market through the abolition of obstacles to the free movement of goods, persons, services and capital. The achievement of these goals has, in most cases, been very slow for political reasons; however, legal factors have also contributed significantly to the near collapse of these goals.

Moussa Faki Mahamat the new African Union chair

In 2013, at the World Economic Forum held in Cape town South Africa, SSA economists reaffirmed that regional integration will play a key role in unleashing Africa's growth potential. More than 10 regional economic communities (RECs) are working toward this goal in Africa, but the main framework behind this effort is the African Economic Community (AEC). The AEC was established by the Abuja Treaty in 1991 and ratified in 1994 and aims to build the AEC gradually through harmonization, coordination and effective integration of Africa's RECs, eight of which have been chosen as "pillars" of the AEC.

It proposes the establishment of a continental free trade area (CFTA) by 2017, and integration of the RECs into a single customs union with a common currency, central bank and parliament by 2028. The Abuja treaty does not lay out precise, top-down steps for achieving this goal, but the African Union (AU) and the RECs have defined their relationship in working toward the AEC in the 2007 Protocol on Relations between the AU and RECs.

Like the European Union, the AEC would enjoy increased intra-African trade, improved self-sufficiency in meeting Africa's import demand, lower poverty levels and a more peaceful interdependent existence. However, in contrast with these grand plans to move toward a Continental Free Trade Area, Africa's RECs are grappling with numerous challenges. Though it is the responsibility of the RECs and individual countries to implement protocols and integrate, the AU Commission is charged with monitoring the continent's integration process.

The integration process has remained slow despite numerous efforts and working committees formed by the AU to coordinate the RECs, suggesting more work remains to be done. Now, many RECs have missed their target dates for implementing customs unions and common market requirements. For the RECs to achieve integration objectives and a CFTA to still take place, the AU may have to play a more active role.

The progress made and challenges encountered by Africa's RECs offer valuable lessons as to how the AU can best act to improve integration, development and growth moving forward. Consider the progress of two RECs from Central and East Africa.

Digital mobile banking: The sub saharan Africa phenomena

35 of the 50 least developed countries in the world are in Sub Saharan Africa, a region that trails the world in all aspects from technological innovations, poverty and disease eradication, governance, all except one; Mobile money penetration.

Mobile money has become a way of life for millions of Africans who use their phones to pay utility bills, settle loans and even bail out friends in distress. There were 84 million active mobile money accounts in Africa as of December, according to the London-based industry group GSMA. It says there were mobile money operations in 31 African countries.

In the East African capitals of Kampala and Nairobi, where the phenomenon is particularly strong, booths offering mobile money services dot the streets. In Uganda the sophisticated tax payment procedure has been demystified and has been successfully synchronized into the mobile phone making it possible for citizen pay tax via the platform.

Mobile money has widened financial inclusion by tapping into the un-banked Sub-Saharan population especially the rural folk who form the significant bulk of the continent's population. According to Frost &Sullivan, the value of mobile money transaction in 2015 stood at US$ 700million and is expected to surpass the billion dollar mark by 2019 if existing steady penetration rate is maintained.

The financial services sector landscape has undergone radical transformation

all courtesy of digital banking that is expected to play an even more dominant role in the financial sector and in the SSA emerging markets its couldn't be far-fetched to hint that the digital financial revolution could lead to the ultimate death of conventional banking as we have known it.

In Kenya, Africa's ultimate trailblazer in mobile money market, the disruption is in full effect as lenders have been shutting down the brick and mortar branches making way for the disruptive and inevitable digital banking platform. In a strategic move aimed at organizational adjustments to reduce costs, Bank of Africa is expected to close down 30 percent of its branches which places an estimated 500 employees at the risk of a lay off.

The bank attributed the downsizing to strategic adjustments that will see the bank transition from the conventional brick and mortar outlets to digital channels such as mobile banking, agents and online banking which bring much desired convenience and ease of transaction, the significant expenses reduction notwithstanding.

BOA joined other lenders in the sector who have engaged in massive staff layoff as effects of the interest capping rate and an evolving banking landscape continue to set in. *Shariah* compliant lender first community bank (FCB) recently announced plans to lay off a third of its workforce who total 300, with redundancy letters as part of overall cost cutting measures.

Recently rebranded Sidian bank, last year completed the laying off of approximately 108 employees, Family, Eco bank, and Standard Chartered are all planning massive staff retrenchment . Equity Banks implemented its staff reduction last year calling it a natural attrition that had to happen.

Role of regulator in the digital disruption

The regulator's main role is to provide guidance and stability to the entire industry and support the market as it innovates. While product design doesn't fall among its obligations, the regulator could play a significant advisory role as it does even in some segments of conventional banking. For regulation to be effective, the regulator must have clarity of changing market dynamics, and in its policy objective. Having clarity of policy objective can help identify the right path when it comes to new developments in the market.

In most countries, telecoms and banks are regulated by entirely different entities, hitherto the mobile banking innovation which would beg the question: Should the Central Bank to some extent exercise authority in the digital banking space in light of the changes? Generally, risks associated with operation in certain sectors determine the stringency of regulation and in this context, the banking sector is more supervised. Mobile money was initially a money transfer platform but presently there are platforms involved in advancing credit which then thought leaders would necessitate the involvement of the Central Bank.

Participants at the Global Economic Governance Conference 2016 agreed that mobile money has the potential to bring substantial benefits to many sectors of society. Perhaps the biggest potential winners may in fact be governments, if mobile payments increase formality and thereby eventually the taxation base, and if governments are able to harness mobile money for transfers and thereby reduce leakages and liquidity management issues. Central banks are also likely to benefit from decreased costs of currency management and increased pass-through of interest rates.

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