



# Turning Lemons to Lemonade: Impact of COVID-19 on the African Continental Free Trade Agreement



## Executive Summary

For 57 years, the African Union has made slow but steady progress in its efforts towards integration, with one of the long-awaited projects being the African Continental Free Trade Agreement (AfCFTA). To launch its operations this year, AfCFTA set out to increase intra-African trade and promote self-sufficiency. What the continent did not see coming was the COVID-19 pandemic, which at first, appeared to have spared the continent, but eventually reached the continent through travellers returning from Asia, Europe, and the United States. The Africa Centres for Disease Control and Prevention (Africa CDC) reported that as of 8 September 2020, there has been a total of 1,306,157 COVID-19 cases and 31,494 deaths in 55 African countries (Africa CDC 2020b). This policy brief argues that the implementation of AfCFTA should be accelerated rather than delayed to negate the current crisis and boost intra-African trade. Local innovative knowledge and technologies should be leveraged to address the continent's current vulnerabilities caused by COVID-19. The crisis demands heightened African integration rather than isolation. The policy paper begins by recounting the benefits of AfCFTA and the implications of COVID-19 on the functioning of the secretariat, member state commitment, and the economy. It concludes by highlighting the necessary steps needed to salvage the situation.

Written by **LYNDA CHINENYE IROULO**

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## Introduction

African Continental Free Trade Agreement (AfCFTA) dates back to 1963 when the consensus reached followed the Monrovia bloc's position to achieve unity gradually, firstly, through economic integration. In 1980, the Lagos Plan of Action was adopted to encourage less reliance on external partners and more on intra-African trade. Subsequently, this led to the 1991 Abuja treaty, which created the African Economic Community, an organization that promoted the development of free trade areas, customs unions, an African Central Bank, and an African common currency union (African Union 2019). The Agreement establishing AfCFTA entered into force on 30 May 2019, after 24 countries had deposited their instruments of ratification - reaching the agreed-upon legal threshold of 22 countries.

Implementation processes for the African Continental Free Trade Agreement (AfCFTA) were steadily underway before the pandemic hit. It was scheduled to commence on 1 July 2020 but has been pushed forward to 1 January 2021 due to the pandemic. Wamkele Mene had been elected Secretary-General at the 33rd Ordinary Session in Addis Ababa, Ethiopia; and the AfCFTA Secretariat was commissioned on 17 August 2020. However, the infiltration and spread of COVID-19 stalled the efforts, resulting in border closures and the suspension of many economic activities which threaten to weaken many of the continent's economies and impede the commencement of AfCFTA. Although the AfCFTA Secretariat has been commissioned, commencement is still delayed. So far, its activities have been devoted to talks with member states with no concrete policy implementation on how to utilise AfCFTA to cushion the impact of the pandemic.

In response to the first cases of the pandemic reported on the continent, many African Union member states rapidly implemented large-scale public health and social measures (PHSM) (Africa CDC 2020a). These were aimed at reducing and containing transmission to ensure

that healthcare facilities were not overwhelmed. The Africa CDC reported in April that 43 out of 55 countries had closed their borders as a result of the pandemic (Wills 2020). With a minimal movement of goods, this could have detrimental consequences for intra-African trade and the economies.

## The Promise of AfCFTA

Under the Abuja treaty, the idea of an African economic community is to "promote economic, social and cultural development and the integration of African economies to increase economic self-reliance and promote an endogenous and self-sustained development" and "to coordinate and harmonize policies among existing and future economic communities to foster the gradual establishment of the community" (OAU 1991). Notwithstanding the initiative to foster economic integration, the share of exports from Africa to the rest of the world ranged from 80 per cent to 90 per cent between 2000 and 2017. Intra-African trade, defined as the average of intra-African exports and imports, was around 2 per cent during the period 2015 and 2017, while comparative figures for America, Asia, Europe and Oceania were, respectively, 47 per cent, 61 per cent, 67 per cent, and 7 per cent (UNCTAD 2019).

AfCFTA is designed to rectify the anomaly by fostering economic integration through a unified, single market and customs union; to promote the free movement of people, goods, and services; and shortly, adopt a single currency. AfCFTA is expected to escalate intra-African trade through better harmonization and coordination of trade liberalization as well as to assist the Regional Economic Communities (RECs) in facilitating trade instruments across Africa. It is anticipated that AfCFTA will enhance competitiveness at the industry and enterprise level through the leveraging of opportunities for scale production, continental market access and better reallocation of resources (Trade Law Centre 2020).

If successfully implemented, the benefits of AfCFTA will be manifold. The Economic

Commission for Africa (ECA) estimates a potential boost in intra-African trade by 52.3 per cent when import duties are eliminated, as well as a doubling of this trade if non-tariff barriers are also reduced. During his swearing-in ceremony, Mene notes that African countries have the opportunity through AfCFTA to double their production, with three-quarters of that growth coming from manufacturing to substitute imports (AU 2020a). The operational phase of AfCFTA was launched during the 12th Extraordinary Session of the Assembly on AfCFTA in Niamey in July 2019. It was agreed that AfCFTA will be governed by five operational instruments: the Rules of Origin, the online negotiating forum, the monitoring and elimination of non-tariff barriers, a digital payments system, and the African Trade Observatory (Trade Law Centre 2020).

## Old Meets New Challenges

Before the outbreak of COVID-19, AfCFTA was already faced with enormous challenges, begging the question of whether Africa was ready for a single market. The continent still struggles with fundamental components - dilapidated infrastructure for industrial transportation, the onerous task of moving commodities due to expensive and inefficient transport systems and corrupt customs officials, the lack of social welfare benefits to cushion the impact of competition, and industrialisation (Iroulo 2018).

Despite having decades of common market agreements through the RECs, poor infrastructure continues to impede on market access. The average cost of importing a container in Africa is about 2,492 dollars compared with 935 dollars in East Asia and the Pacific and 1,488 dollars in Latin America and the Caribbean (Fofack 2018). Although seven of the world's 10 fastest-growing economies are in Africa (AU 2020a), the bulk of its states rank low in competitiveness. This could be explained by the variation in economic development, physical and technological infrastructure between developed and many developing economies, and the

inability of several developing economies "to undertake the critical economic and institutional reforms needed to raise their market efficiency" (Fofack 2018). Also, the differences in financial systems continue to challenge the efficiency of AfCFTA. AfCFTA still grapples with the contrast between international and national interest rates and exchange rate movements by the banks.

These are some of the challenges which AfCFTA faced pre-COVID-19. In addition to these, the secretariat will have to contend with current and post-COVID-19 challenges to ensure the successful implementation of AfCFTA. The AU has been lauded for its innovative initiatives, but what they lack the most of is a commitment by African governments to implement them. In addition to existing challenges, AfCFTA will have to deal with additional issues in the face of COVID-19. In subsequent paragraphs, I highlight major challenges AfCFTA will have to deal with during the pandemic.

## The Functionality of AfCFTA

As a result of the pandemic, the implementation of AfCFTA has been delayed. AfCFTA agreement was scheduled to commence on 1 July 2020 but has now been postponed to 1 January 2021. In addition, the pandemic has affected AfCFTA activities such as the second biennial Intra-African Trade Fair (IATF) which has now been pushed forward to 2021 as well. The IATF provides a platform for entry into a single market of over 1.2 billion people within the African Continental Free Trade Area. It serves as a marketplace, bringing together continental and global buyers and sellers to showcase their goods and services. The platform will enable stakeholders to share trade, investment, and market information aimed at supporting intra-African trade and African economic integration (AU 2020b).

The cancellation of events and delays to the commencement of AfCFTA will impact the plans, economies, and performance of AfCFTA. The staff of AfCFTA have to address the difficulties of



working remotely since physical meetings and travels have been suspended. A major impediment to functionality might be the lack of broadband connections to the internet - meetings which bring stakeholders together will have to be done virtually. Although meetings have resumed virtually, a broadband internet connection will be needed for optimal performance. Advanced digitalisation will be crucial for the functionality of the AfCFTA secretariat as well as promoting intra-African trade during a pandemic.

### Member State Commitment Amidst COVID-19

Several experts and institutions have emphasised that the success of AfCFTA will depend on the political will and commitment of member states to the project. The African Union Development Agency (AUDA) advised that member states must embrace the following: sensitivity to non-tariff barriers to trade, including governance, infrastructure and border crossings, and the prevalence of informal trade; improved tracking of trade across borders; coordination on harmonizing trade policies across national, regional economic community, continental, and global trade agreements; and a coordination mechanism for dealing with trade disputes (Mayaki et al. 2020).

Given that the pandemic has heavily impacted life as we know it in Africa, member states have turned their attention to the invisible enemy. African leaders are now insouciant to AfCFTA due to COVID-19 having taken centre-stage of efforts. National policies have moved from elsewhere to focus on containing and minimising the spread of the virus - upgrading and stocking up on health amenities and equipment are prioritised. As a result of COVID-19, leaders are faced with the possibility that the outbreak might further shrink Africa's production capacity at least in the short to medium term, and that demand might also fall due to consumers having less to spend. They also have to cater to the spike in unemployment and hunger.

Besides that, member states that are now receiving International Monetary Fund (IMF) or World Bank support to cushion themselves against COVID-19 may take years to repay these loans and recover to pre-COVID-19 levels. All these will affect the involvement of member states, including whether they can meet fundamental AfCFTA criteria such as interest rates, inflation, minimal debts levels, financial sector sanity, and robust fiscal policy.

### Nature of the African Economy

The nature of the African economy makes the task of AfCFTA in times of COVID-19 more daunting. Africa's major exports are with countries that have been hit hard by the COVID-19: the EU, US, and China. This means that prices of commodities on which many African countries remain dependent on have fallen, which in turn affects foreign exchange, government revenues, and domestic demand. The Economic Commission for Africa (ECA) reports that 53 per cent of Africa's imports originate from highly impacted COVID-19 countries (African Trade Policy Center 2020). Economic shutdowns and border closures have disrupted the supply chains of both intra-African and external trade relations. In the past, there have been tensions among member states over border closures and other disagreements over commodities. For example, one recent trade-related issue occurred in 2019 when Nigeria closed its borders with Benin, Niger, and Cameroon as an attempt to halt the smuggling of rice, tomatoes, and poultry. As earlier mentioned, 43 out of 55 countries had closed their borders as a result of the pandemic with minimal movement of goods; this could have detrimental consequences for intra-African trade. The ECA estimates that the impact on African economies could be the slowing of growth to 1.8 per cent in the best-case scenario or a contraction of 2.6 per cent in the worst case, which could push 27 million people into extreme poverty (ECA 2020). One potential downside could be that measures taken to contain the pandemic could

further aggravate reluctance to open borders and encourage trade.

Also, a large proportion of Africa's sector is informal - this sector is split between wage and self-employment. The informal sector is largely made up of people who do not hire others, for example, street vendors, retailers in local markets, and home-based businesses. Farmers who specialise in large scale production find it challenging at the moment to transport many of their supplies to retailers. The suspension of most economic activities and movement has affected the bulk of service providers and producers of commodities - leaving the informal sector without support during the pandemic. This will have drastic implications for businesses and income across the continent. The summation of these obstacles to economic activities will cause a recession. Although it is important to stop the spread of the virus, it is also crucial that economic activities are maintained to avoid the escalation of poverty and hunger, unemployment, and crime.

The infiltration of the pandemic into the continent means that if economic activities are to carry on amidst the crisis, e-commerce should be taken more seriously. According to UNCTAD, African countries still rank very low when it comes to e-commerce. This is based on four indicators: percentage of the population with access to the internet, the percentage of the population with access to a bank account, the score given to the security of web servers, and the reliability of postal services (Goldstein 2019). The bulk of telecommunication providers on the continent are profit-making private companies. Access to broadband connection to the internet is still very low, and their reach is limited to certain areas.

## A Look on the Bright Side...

COVID-19 has major implications for African economic integration. Governance issues such as infrastructure and social welfare still need to be resolved for AfCFTA to be successful. However, opportunities the situation offers could be used to Africa's advantage. A possible upside

could be that Africa's current isolation from its external trading partners could be a blessing in disguise if local resources are leveraged to resolve economic challenges while encouraging intra-African trade.

The following recommendations could serve as a pilot aspect for AfCFTA. The secretariat needs to apply new strategies for its successful functioning. Work needs to continue remotely, as the continent strives to contain the virus. The secretariat needs to delegate more to its national offices - AfCFTA country offices and personnel should be established and assigned fieldwork activities if needed since travel conditions have been altered. There should be a public-private partnership (PPP) between African member states and telecommunication providers to extend and distribute broadband connections of internet services across the continent.

The African Union Commission endeavours to ensure that all member states are signatories before the end of April 2020 and encourages member states who have not yet ratified the AfCFTA agreement to do so before commencement. However, I would argue that they need to change their game plan if they want to record achievements. Africa must opt for a multi-speed approach; a strategy of differentiated integrations whereby common objectives are pursued by member states who are both willing and able to implement the agreement immediately rather than waiting for all member states to be on board at the same time. Benefits accrued will persuade other members to commit to the conditions of the AfCFTA.

The nature of the African economy implies that the continent cannot afford to close its borders. The goal of AfCFTA is to encourage intra-African trade and this should be further promoted. Borders should be opened for goods, and Green Lanes created for essential commodities. The potential of AfCFTA, based on rules of origin, is evidenced in the haste for essential commodities such as Madagascar's COVID-Organics (Herrmann, 2020). Governments need to invest in local technologies such as Ghana's solar-

powered sink (Adamu 2020), low-cost hand sanitisers, Senegal's Pasteur Institute's test kit, and the production of personal protective equipment's (PPE), which should all be endorsed for trade. AfCFTA needs to identify and leverage these essential commodities which can be produced in Africa and demand access to intellectual property rights.

Digital trade is crucial during this pandemic. The digitalisation of trade will allow member states to compete fairly and simplify cross-border and national trade. Bridging the technological infrastructure and literacy divide will determine the extent to which e-commerce will be adopted and ultimately enable intra-African trade. AfCFTA needs to collaborate with firms to ensure ease of trading. A good instance is Flutterwave, a firm creating an e-commerce platform for African Small and Medium Enterprises in the wake of COVID-19 restrictions. This is a good opportunity for the African Export-Import Bank (Afreximbank) to uphold its promise and launch the Pan-African Payment and Settlement System (PAPSS) (Afreximbank 2019), the first continent-wide payment digital system focused on facilitating payments for goods and services in intra-African trade in African currencies. AfCFTA activities should especially be expedited so that African companies can enter the economies of member countries and thereby increase job opportunities for those facing recession. Local production should be tapped into for the benefit of the continent.

More than ever, Africa needs to be self-sufficient and it needs to do this through AfCFTA. A bandwagon strategy aimed at the exchange of COVID-19 medical equipment should be initiated. The role of AfCFTA should be to encourage small coalitions of member states willing to open its borders and trade now. Afreximbank has instituted one billion dollars towards the AfCFTA Adjustment Facility to enable countries to adjust in an orderly manner to sudden significant tariff revenue losses as a result of the implementation of the agreement - this should be used now as a dangling carrot to persuade member states to

kick-start trade amongst each other. Gradually, progress should persuade other member states to join. A concerted effort to pursue African solutions could drastically reduce the dependence on external partners and bring the continent a step closer to self-sufficiency.

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## About the Author

Lynda Chinenye Iroulo is Research Fellow at the Institute of African Studies and the German Institute of Global and Area Studies (GIGA).