

COVID-19 and the African Continental Free Trade Area Agreement

Key Considerations

Introduction

The total or partial lockdowns enforced by most African countries in the light of global health pandemic (COVID-19) has generated a socio-economic crisis within the region at a time when the African Continental Free Trade Area Agreement (AfCFTA) is in its critical phase of implementation. It is important to put into perspective, the implications of the COVID-19 pandemic which will inform the policy pathways to manage uncertainties around the agreement. The expectations of enhanced intra-Africa trade are being hampered by challenges such as border closure, travel bans, nationalism and uncertainty in tariffs and exchange rates. Also, the key question that comes to mind is – *“How can the African Continental Free Trade Area provide economic opportunities post-COVID-19 pandemic accelerate industrialisation within Nigeria and Africa in general?”*.

Background of the AfCFTA

At the turn of the year 2020, Africa was moving into a landmark year in which the long-awaited AfCFTA would eventually become a reality; with trading under the scheme originally scheduled to begin on 1st of July 2020. However, due to the COVID -19 pandemic, the implementation date has now been moved to 1st of January 2021. The Agreement is expected to create a Continental Free Trade Area (CFTA) for goods and services in Africa, liberalize and facilitate the free movement of people, investments and businesses across the continent.¹

The objective of the Continental Free Trade Area (CFTA) is to integrate, diversify and industrialise African economies of about 1.3 billion people² with a combined gross domestic product (GDP) of USD 3.4 trillion. However, the novel Coronavirus disease (COVID-19) seems to undermine these possibilities through the crippling effects that is causing a global economic crisis. On 11 March 2020, the World Health Organisation (WHO) declared COVID-19 as a pandemic, formally signaling its threat to every country in the world. This threat is not specific and isolated to international health systems; but also developed and developing economies as weak economies in Africa face the severity of the pandemic amidst the measures taken by governments such as border closure, travel bans and lockdowns that directly hinder activities necessary for economic growth and development.

1. Article 3, Agreement Establishing the African Continental Free Trade Area. https://au.int/sites/default/files/treaties/36437-treaty-consolidated_text_on_cfta_-en.pdf
2. United Nations, World Population Prospects 2019 Data Booklet https://population.un.org/wpp/Publications/Files/WPP2019_DataBooklet.pdf

On 14 February 2020, Africa recorded its index case of the pandemic in Egypt and on 27 February 2020, Nigeria confirmed its first COVID-19 case.³ As of 13 June 2020, the virus has impacted all African countries with 225,126 confirmed cases, 116,163 active cases with 6,051 deaths. The last country in Africa to record an index case of the pandemic is Lesotho on 13 May 2020.⁴ More importantly, 62.6% of cases in Africa are in the continent's key economies such as South Africa, Egypt, Nigeria, Algeria, Morocco and Kenya while 11.6% of the cases are in Ghana, Senegal, Ivory Coast, Ethiopia, Uganda, Rwanda, Tanzania, Libya and Benin that are Africa's fastest growing economies according to the International Monetary Fund (IMF).⁵ The pandemic has driven the global economy into recession which in turn has resulted in significant drop in demand for African commodities ; like agricultural products (such as barley, palm oil, sugar, cocoa bean, cotton, and

maize), industrial metal (such as copper, iron ore, nickel, lead, aluminum, and zinc), precious metal (such as gold), and energy (such as natural gas, coal and oil) etc. This will also affect demand for trade and services within the aviation, financial, telecommunications sectors.

The effect on Africa economies is expected to worsen as supply chains remain disrupted and the value of exports from the region reduces due to drop in demand from international trade partners such as Asia and America who are worst hit by the virus. In addition, poor testing facilities, inadequate Personal Protective Equipment (PPEs) for frontline health workers and congested communal settings could worsen the effect.

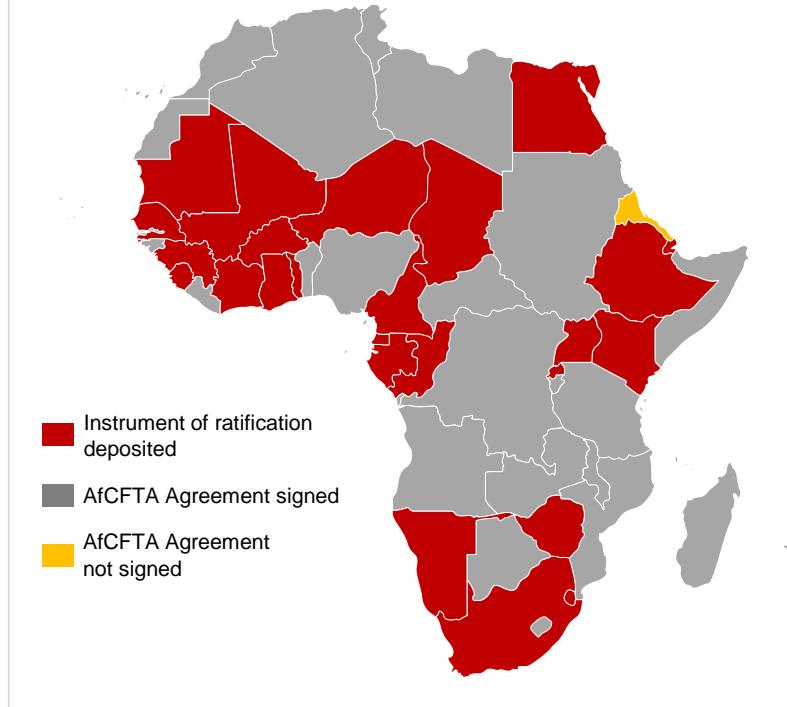


Current State of the Agreement

The establishment of the AfCFTA is being progressed in two phases. Phase I has been completed except for two issues; Schedules of Tariff Concession and Rules of Origin (RoO).⁶ These outstanding issues require negotiation for trade under the CFTA to begin. Phase II, which is still ongoing, includes protocols on competition policy, investment and intellectual properties.

There seem to have been some level of commitment to the success of AfCFTA by African Governments since signing the agreement in 21 March 2018. On 29 April 2019, 22 countries had deposited their instruments of ratification with the Chair of the African Union Commission, making it possible for the AfCFTA to have become effective on 30 May 2019 as stipulated in the Agreement establishing the CFTA.⁷

AfCFTA Signature and Ratification Status



3. Nigeria Centre for Disease Control (2020). COVID-19 Outbreak in Nigeria: Situation Report <https://ncdc.gov.ng/themes/common/files/sites/2616e9ad5a41131edfb571638d163c58.pdf>

4. Coronavirus in Africa. <https://www.africanews.com/2020/05/14/coronavirus-in-africa-breakdown-of-infected-virus-free-countries/>

5. 2019 Top 10 Africa Fastest Growing Economies. <https://www.proshareng.com/news/NIGERIA%20ECONOMY/2019-Top-10-African-Fastest-Growing-Economies/43666/>

6. African Union (2019). Operational phase of the African Continental Free Trade Area are launched <https://au.int/en/articles/operational-phase-african-continental-free-trade-area-launched>

7. Article 23, Agreement Establishing the African Continental Free Trade Area. https://au.int/sites/default/files/treaties/36437-treaty-consolidated_text_on_ctfa - en.pdf

The Operational Phase of the Agreement was launched by an Extraordinary African Union (AU) Summit in Niamey on 7 July 2019 after the minimum number of member states expected to submit their instrument of ratification was reached. This means that the Agreement entered into force, making the AfCFTA one of the largest markets in the world. This gave way for technical instrument to be concluded. The conclusion of the instrument led to the planned removal of tariffs on goods traded under the AfCFTA by 1 July 2020 prior to the pandemic. As at 6 May 2020, 30 countries have met domestic conditions for AfCFTA ratification; 28 of these countries have deposited their ratification instruments with the depositary of AfCFTA (Chair of the African Union Commission).

The Nigerian Government has also taken steps to demonstrate its commitment to the success of the agreement by putting different measures in place. On the 28 July 2019, President Muhammadu Buhari approved the establishment of a National Action Committee (NAC) for implementation of African Continental Free Trade Area (AfCFTA) Agreement having the Hon. Minister, Federal Ministry of Industry, Trade and Investment as the Chairman of the Committee and the Hon. Minister, Federal Ministry of Budget and National Planning as the Alternate Chairman. The NAC is comprised of representatives of Ministries, Departments and Agencies with competent and relevant jurisdictions as well as selected stakeholder groups from the private sector and the civil society to coordinate the implementation of all the AfCFTA readiness interventions.

Implications on the Agreement as a result of COVID-19

The CFTA is expected to facilitate trade in goods and services through free movement of persons in order to promote and expand economic integration in line with the African Union Agenda 2063.⁸ However, the pandemic has restricted travels around the globe, having a direct impact on economic integration and intra Africa trade. Therefore, it is important for governments within the region to be prepared for the possible negative impact the virus will have on the implementation of the agreement and seek out ways to convert the pandemic to opportunities for stronger economic and political integration. Some of the negative impacts of the pandemic are highlighted below:

- The border closure and travel bans placed by key and emerging African economies such as Nigeria, South African, Ghana, Algeria, Morocco, Kenya and Ethiopia etc. have impacted on trade within the continent. The demand for essential commodities such as pharmaceutical and agricultural products has weakened export in the face of measures adopted by governments to manage the spread of the virus. By implication, the demand for essential commodities is on the increase resulting in its scarcity, which ultimately results in hike in prices and unhealthy

The Nigerian Government has implemented economic policies to attract investors, promote ease of doing business in Nigeria and accelerated activities promoting economic growth and development. An example of such policies is the Finance Act signed by the President on 13 January 2020, in order to reflect economic realities and best practices. The Finance Act contains tax reliefs especially for micro, small and medium enterprises (MSMEs). The government has said that the release of Finance Act will be done on a yearly basis.

On 4th February 2020, Nigeria launched a new visa policy where citizens of other African countries will now be issued visa upon arrival in Nigeria as against having to apply for Nigerian visa in their respective countries. This is a commendable step by the Nigerian Government in promoting trade within the African continent and ensuring the success of the CFTA agreement. The Government has also implemented different economic stimulus and palliative measures to cushion the effects of the pandemic. Examples include the deferment of tax due date for filing tax returns by companies, waiver of import duty on pharmaceutical and medical supplies etc.

competition amongst producers and exporters. Therefore, rather than strengthen economic integration, economic development in Africa had been undermined.

Trade liberalisation is expected to improve economic activities with the CFTA in terms of trade and investment. Currently, all negotiations on tariff concessions are at a halt due to the pandemic as countries are more focused on saving lives and preserving livelihoods. This creates uncertainties for low developing economies (LDCs) as tariffs form a huge percentage of their revenue. Such uncertainties cannot be negotiated at a pace required to foster trade liberalization as the pandemic has paused all forms of contact and collaborations in negotiating key aspects of Phase I (i.e. RoO and Schedules of Tariff Concession) that are necessary for trading under the agreement to begin. The RoO is a critical issue that require prompt negotiations in order to determine which products can be exempted from tariffs. Negotiations on Phase II protocols such as competition policy, investments and intellectual properties are also expected to be delayed.

- The continuous promotion of inclusive socio-economic development of state parties⁹ is currently undermined by the pandemic as African countries with low per capita income depend on agriculture for their export earnings. The dependence on extra-regional trade imports for food makes African countries vulnerable to disruptions in international logistics and distribution. This could result in food shortages and an increase in food prices.¹⁰ COVID-19 has created a crucial demand risk, especially within Africa's poor population because there is no efficient manufacturing and agricultural sector to improve self-sustenance within the continent.¹¹ This has increased the risk of food insecurity and exposed the continent to heavy reliance on external aids.
- The demand for Africa's raw materials and commodities in Asia, Europe and North America has declined and Africa's access to industrial components and manufactured goods from these regions has also been hampered. This has caused further uncertainty in a continent already grappling with widespread geopolitical

and economic instability.¹² The pandemic could widen the competitive gap between African economies and further undermine the competitiveness of smaller economies that are largely monocultural and unable to attract foreign direct investment.

- The pandemic has disrupted the regional value chain. The CFTA seeks to improve industrial development that can benefit continental sustainability especially in the agricultural sector. This can be possible when participating states upscale their industrial and manufacturing sectors which in turn increases the GDP from processing imported raw materials within the CFTA to semi-finished or finished goods for export either within the CFTA or outside. However, COVID-19 has weakened the possibilities for a regional value chain as industrial development during the pandemic seems to be a secondary alternative for most low-income African economies based on revenue.



COVID-19 and AfCFTA – Key Considerations

Initial actions in Africa have focused on slowing down the spread of the pandemic with different measures including border closures. Such actions come as the continent has made bold steps towards greater economic integration. The coronavirus could pose a risk for the continental project, but leaders could also turn it into an opportunity for stronger collaboration, if certain policies are pursued quickly.

COVID-19 shows that self-sustainability matters and is important mostly for food security, education healthcare and logistical services. An objective of the CFTA is to make the continent self-reliant in these sectors and signatories to the Agreement need to develop a framework and set realistic implementation plans to improve these key sectors irrespective of regional integration. Rather than close borders that can send a negative signal to the progress of the Agreement, governments can reduce human flows while keeping borders open to key goods and services required for national development and economic sustainability. In this case, border management agencies are tasked to ensure movement across borders met the business and economic criteria set by the Nigerian government. This will signal continued belief in the importance of economic activities and trade in provision of goods and services that people need to continue their daily lives. This will require quick and timely decision making

supported by accurate and credible data available to policy makers. Such management information systems (MIS) should include economic, social, environmental, health, cultural, governance and technology data that are key requirements for effective competition within the CFTA.

Countries like Nigeria need to consider fiscal sustainability in terms of focusing efforts in key areas where the country has biggest impact such as rails, ports in order to optimise the country's resources. This could be achieved through public and private sector collaborative efforts.

One important question Nigeria must ask in these uncertain times is how its digital economic strategy - *National Digital Economy Policy and Strategy (2020-2030)*¹³ proposed by the Ministry of Communication and Digital Economy and *The Smart Nigeria Digital Economy Project* proposed by the Nigerian government can sustain economy interactions and development in the face of a pandemic. The CFTA will be competitive and countries like Egypt with three active digital strategies (National E-Commerce Strategy, Strategy for Social Responsibility in ICT, and Digital Arabic Content Strategy) would have an edge over countries in the market with weak or no digital framework to support trade in good and service within the market.

9. Article 3e, Agreement Establishing the African Continental Free Trade Area.

10. Food and Agriculture Organisation of the United Nations (2020): Intra-African trade, the African Continental Free Trade Area (AfCFTA) and the COVID-19 pandemic <http://www.fao.org/3/ca8633en/ca8633en.pdf>

11. Food and Agriculture Organisation of the United Nations (2020). COVID-19: Channels of Transmission to Food and Agriculture. <http://www.fao.org/3/ca8430en/CA8430EN.pdf>

12. <https://www.bakermckenzie.com/en/insight/publications/2020/03/the-impact-of-covid19-on-key-african-sectors>

13. National Digital Economy Policy and Strategy (2020-2030). https://www.commtech.gov.ng/Doc/National_Digital_Economy.pdf



Going into the AfCFTA post COVID-19 requires Nigeria as well as other African economies to build a digital economy to foster production of higher quality goods and services at reduced costs.¹⁴ This will open new channels for value addition and broader structural change. To sustain this process in the continent, there is a need to develop and/or upgrade the digital infrastructure, digital financial services, digital entrepreneurship and digital skills that are thematic pillars of the Digital Economy for Africa (DE4A)¹⁵ to encourage trading digitally across individuals, SMEs and Governments. Countries that can get this development requirement could compete effectively within the CFTA. Clearly, Information Technology (IT) support was not considered as an essential service during the lockdown. Each government needs to review its Information Technology plan in line with economic digitalisation before trading in the CFTA begins in 2021 as it is now clear that globalisation has gone online.

The Intra-African market could help to mitigate some of the negative effects of COVID-19 by limiting its dependence on external partners, particularly in food and pharmaceuticals. As a result, COVID-19 demonstrates the importance of implementing AfCFTA, and the current momentum needs to be maintained as a mechanism for building resilience and managing long-term volatility. A well-executed AfCFTA would go a long way in reducing Africa's reliance on donor funds and external aid in a global or continental recession.

Through the AfCFTA, Africa has an opportunity to reconfigure its supply chain, to reduce its dependence on external partners and to speed up the establishment of regional value chains that will boost intra-African trade. By doing this, African economies can improve their GDP by domestic value added on processed import within the CFTA that can be exported within or outside the continent.

If given a chance, the regional value chain will grow African economies in Southern and Northern Africa where manufacturing activities are highest in the continent. However, economies in Central, Eastern and Western Africa can plug into this value chain by upscaling their manufacturing sector while becoming competitive within the CFTA to benefit in growth potentials.

There is an urgent need to reduce the continent's high trade dependence on non-African partners. The AfCFTA can help to facilitate this, but that means removing tariff and non-tariff barriers as much as possible and intensifying the economic regionalisation processes that have now begun. The full liberalization of tariff barriers on 90% of products was initially planned to take place after 13 years for LDCs starting from the sixth year. This timeframe ought to be reviewed to accommodate the tariff uncertainty from LDCs.

Maximising the potentials of the AfCFTA will be an effective shock absorber if the global economy remains depressed by the pandemic and its uncertainty. It will also make Africa an attractive proposition when the global economy turns around.

There may be a silver line in relation to AfCFTA and its implementation. This may provide the much-needed time for reflection on what kind of trade space is required under the initiative. The crisis has also shown the importance and opportunities for African economies in the digital economy. The AfCFTA initiative should not be slowed down, instead it is essential to conclude negotiations on services schedules to allow vital industries to grow, develop domestic solutions and drive regional value chains. A consolidated market system will be crucial to ensure that African countries have relative collective power in terms of numbers and bargaining power in the post COVID-19 global economy.

14. United Nations Conference on Trade and Development (2019) Digital Economy Report 2019. https://unctad.org/en/PublicationsLibrary/dtr2019_overview_en.pdf

15. The World Bank. The Digital Economy for Africa Initiative. <https://www.worldbank.org/en/programs/all-africa-digital-transformation>

Conclusion

The pandemic is not as devastating in Africa as it is in Western Europe and North America, although the WHO in recent forecast has estimated that about 190,000 people could die of the virus within the region.¹⁶ It is unfortunate that the pandemic is happening during the critical phase of the CFTA agreement when the implementation of the free trade area is less than a year to commencement. However, it can turn into a “*blessing in disguise*” if proper strategies and policies are put in place by the various countries.

In many ways, the pandemic is an opportunity for African people to see themselves differently and the world to consider the African continent as a partner in finding solutions to complex problems such as COVID-19. While this new crisis may be another challenging time for Africa,

after the pandemic has ended, the continent will have the chance to become more autonomous and self-reliant. This will be the time to lay the foundations of economic reforms that give priority to African markets, innovation and local manufacturing.

This is a good time to start implementing the AfCFTA. It will be important for African countries to cooperate on all levels, especially in the context of the current pandemic. With the birth of AfCFTA, a strong commitment and joint action by the continent’s leaders would undoubtedly benefit the fight against the pandemic and its economic consequences for Africa post COVID-19.



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¹⁶. <https://www.afro.who.int/news/new-who-estimates-190-000-people-could-die-covid-19-africa-if-not-controlled>

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