



Working paper 586

Africa trade and Covid-19

The supply chain dimension

Karishma Banga, Jodie Keane, Max Mendez-Parra, Laetitia Pettinotti
and Lily Sommer

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Key messages

- Fall in trade volume – especially cross-border trade – investment and commodity prices have negatively impacted the forecast for Africa’s economic growth. For the first time in 25 years, gross domestic product (GDP) for the continent is projected to contract.
- Comparative value chain analyses show some similarities: adaptation includes shifting manufacturing towards the production of personal protective equipment (PPE).
- The shutdown of pharmaceutical manufacturing facilities in India and China, increased prices of raw materials and export restrictions imposed by other countries have exposed Africa’s vulnerabilities. There is a renewed focus on boosting intra-regional trade in the pharmaceutical sector.
- Covid-19 has strengthened the case for developing intra-African regional value chains and unlocking the continent’s business potential through the African Continental Free Trade Area (AfCFTA).



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Acronyms

AfCFTA	African Continental Free Trade Area
AMA	African Medicine Agency
API	active pharmaceutical ingredient
ARSO	African Regional Standards Organisation
ATPC	Africa Trade Policy Centre
AU	African Union
AUC	African Union Commission
COMESA	Common Market for Eastern and Southern Africa
DFID	UK Department for International Development
EAC	East African Community
EHPEA	Ethiopian Horticulture Producer-Exporters Association
FDA	US Food and Drug Administration
FDI	foreign direct investment
GVC	global value chain
IEC	International Economics Consulting
ILO	International Labour Organization
IPC	Integrated Phase Classification
KAM	Kenya Association of Manufacturers
MSMEs	micro, small and medium-sized enterprises
MT	metric tonne
NBA	non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
PMPA	Pharmaceutical Manufacturing Plan for Africa
PPE	personal protective equipment
R&D	research and development
ROW	rest of world
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNECA	United Nations Economic Commission for Africa
VC	value chain
WFP	World Food Programme
WTO	World Trade Organization

Executive summary

The economic crisis generated by the Covid-19 pandemic is likely to be the deepest since records began. The International Monetary Fund projects a fall in global gross domestic product of 3% and the World Trade Organization (WTO) a drop in trade of between 13% and 32%. In Africa, trade volumes are projected to decrease by 8% for exports and about 16% for imports for 2020, compared with previous historic trend estimates (WTO, 2020a).

Managing the pandemic has generated a unique blow to the world economy, simultaneously affecting supply, demand and trade. Supply has been affected directly through the suspension of operation of economic units across multiple activities. This has led to redundancies and suspensions, which have directly affected demand through dampening income expectations. The lockdowns have directly affected many services, such as hospitality and retail services, with a knock-on effect on their domestic and foreign suppliers.

In addition, restrictions applied on the movement of people and goods represent a huge hit to activities such as tourism and transportation. In the latter case, this has serious ramifications for many other activities that rely on the use of these services. Moreover, the actions (e.g. export restrictions) that third countries have adopted to increase the domestic supply of critical products (e.g. pharmaceuticals) have affected Africa's ability to address the pandemic and the economic crisis.

The crisis has had strong effects on Africa. The fall in commodity prices constitutes a significant blow to the trade and macroeconomic situation of many African countries that rely on few agricultural and mineral commodities. Meanwhile, the anticipated massive fall in income from tourism is going to hit many other countries that rely on tourism. Trade is also being affected, as Covid-19 is increasing international

trade costs through additional inspections, reduced hours of operation, road and border closures and increased transport costs. Moreover, the fall of income in Africa and in other regions is affecting the exports of manufactures.

Another dimension of the impact is associated with the participation of Africa in supply chains. Africa is primarily involved upstream, providing intermediate products and services to a wide range of global supply chains. African exports, including their value added, are therefore being affected simultaneously by the impact on direct exports but also by the impact on exports between third countries.

Europe (the EU and the UK) appears to be particularly important in the integration of African firms into global supply chains. More than 60% of African value added in global exports is embedded in European production. This value added embedded in part directly in exports to Europe but also indirectly in the exports of third countries to Europe. Consequently, the pandemic's impact on African trade is closely linked to the performance of Europe's economy.

The close integration of African firms within Europe-led supply chains suggests that the recovery of African trade is going to be significantly linked to how fast European production and trade recover. A recovery of the Chinese economy, which in part will be conditional on the global recovery, will have smaller direct effects in terms of assisting with the recovery of African trade.

In addition to their forward linkages, African economies are significantly integrated into supply chains as buyers. In some cases, African companies import intermediate goods to be further processed on the continent to be transformed into final goods. In other cases, imports of final products are commercialised through African retailers and wholesalers.

The pharmaceutical sector presents an interesting case, given the importance that its products have acquired during the pandemic's management. Africa is being affected by export restrictions in countries of origin and lower access to medicine supplies as a result of shutdowns of manufacturing facilities in China and India. Covid-19 has magnified Africa's reliance on imported pharmaceuticals (both final and intermediate products) and amplified the urgency to build competitive, resilient and robust value chains in this sector.

Simultaneously, the Covid-19 crisis is affecting some African countries through its participation in several value chains. In Kenya, the tea and cut flower value chains have been severely hit. In both cases, disruptions to the main trading markets have affected prices and volumes traded. In other cases, restrictions applied to passenger flights across the world have reduced the availability of transport for products such as cut flowers and fresh agricultural products. The tourism sector is also being severely affected, given the travel restrictions imposed in origin and destination countries.

Ethiopia's coffee and cut flower supply chains are being affected. Moreover, the importance of travel and transportation services in the Ethiopian economy (Addis Ababa is the most important travel hub in Africa) suggests that the global fall in travel will affect exports of these services as well as limiting their supply to other industries on the continent.

In order to recover and build resilience in the medium to long term, African economies should maintain momentum and ambition on the landmark African Continental Free Trade Area (AfCFTA) Agreement. A rapid and ambitious implementation of the AfCFTA will help the recovery from Covid-19 impacts, while reducing Africa's exposure to future adverse effects of global shocks related to health, food supply and climate change, and more regional shocks such as the locust crisis in East Africa. The pandemic has

highlighted that a robust supplier management system that takes into account sub-tier dependencies and proximity is a prerequisite for today's supply chain, and in turn has underlined the need to use the AfCFTA as a springboard for developing Africa's industrial base.

The delay to the start of trading offers a window of opportunity for creative thinking on how to reconfigure the AfCFTA to reflect the new realities and risks of the twenty-first century. The health sector needs to be elevated as the heart of the AfCFTA Agreement and prioritised in the initial stages of implementation. Pharmaceutical and medical products should not be included on the sensitive item or exclusion lists of state parties' tariff schedules and should be prioritised in the finalisation of rules of origin and harmonisation of standards. Member states should also consider adding health and education services to the priority list of services sectors for the first round of services negotiations, and revisiting the AfCFTA built-in agenda to introduce a new ambitious work programme of simultaneous negotiations on Phase 2 issues (intellectual property rights, investment and competition policy) and Phase 3 issues (e-commerce) in 2021–2022.

In addition to developing more regional value chains, African countries need to protect the position they have achieved in existing global value chains. The implementation of the AfCFTA is instrumental to this goal but insufficient. While investment has been substantially affected, African countries must assure that it is oriented to the sectors with the highest impacts in terms of competitiveness and productivity. This could be essential to respond to the requirements of global value chains to enhance global resilience and robustness. Moreover, the continuation and intensification of efforts to facilitate trade must be accompanied by new actions aimed at guaranteeing the safety of products and people operating in firms and at borders. It is necessary to ensure that the resulting safety requirements do not become new trade barriers.

1 Introduction

The coronavirus emerged in China in December 2019 and spread globally during the first quarter of 2020 (WHO, 2020a; 2020b). The transmission control policies implemented by governments almost simultaneously triggered severe economic disruption, as had been the case with other similar diseases – albeit at a lower scale (Brahmbhatt and Dutta, 2008). As isolation and shut-down policies were rolled out, stopping or limiting work activities and people’s mobility, value chains (VCs), and trade have slowed down or been brought to a halt, via several channels:

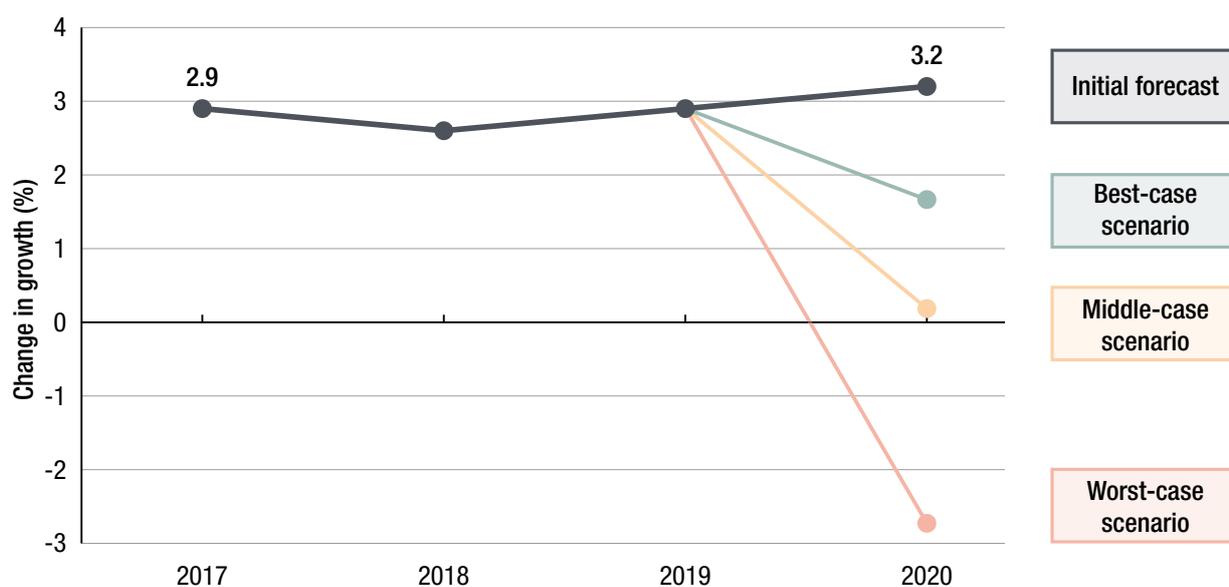
- **Reduced mobility of goods and people:** Reduced travel has affected passenger and cargo transport, with direct impacts on tourism and additional impacts on hospitality. Border closings have also slowed and halted the flow of goods.
- **Supply channel:** There has been reduced production of goods and services owing to

shutdowns or slowdowns, leading to a fall in employment and income.

- **Demand channel:** Lockdowns have generated lower circulation of people, reducing demand for a wide range of services (e.g. hospitality). In the case of retail, this has had a knock-on effect on the demand for commercialised products (e.g. garments) and a fall in income expectations.
- **Policy actions:** Measures adopted (e.g. export bans) to increase domestic supply of critical products (e.g. pharmaceuticals) have led to further disruptions in VCs.

As a result, World Bank projections in June estimated a 5.2% drop in global average gross domestic product (GDP) distributed between emerging and developing countries (2.5% drop) and advanced economies (7% drop) with sub-Saharan Africa’s GDP expected to contract by 2.8% (World Bank, 2020e). The Organisation for Economic Co-operation and Development

Figure 1 Expected contraction in growth from Covid-19 across Africa



Source: UNECA, 2020a

(OECD) observed a decline in global trade of 3.75% over the period from January to March 2020, while it had originally forecasted such decline as a worst case scenario (OECD, 2020a).

Specifically for Africa, in a best-case scenario, the continent's average GDP growth for 2020 could fall by 1.4 points, from 3.2% to 1.8%, equivalent to a loss in GDP growth of \$29 billion in 2020 (see Figure 1) (UNECA, 2020a). In a worst-case scenario, the projections indicate Africa's economy contracting by up to 2.6% in 2020, equivalent to a loss in GDP growth of \$120 billion. Ultimately, uncertainty remains considerable as to the scale

and intensity of the virus's economic impact, as this depends on the length of the disruption and the possibility of successive 'waves' of contamination triggering repeated lockdowns.

This report investigates the impacts of the virus and of the policies put in place to contain its effect on trade and VCs in Africa. After a first review of estimated impacts, it undertakes a VC impact analysis of the pharmaceuticals VC and selected VCs in Kenya and Ethiopia. Before offering policy recommendations with regard to the AfCFTA, it discusses implications of the crisis in terms of transformation for VCs.

2 Covid-19 ‘nowcast’ impacts on African trade and value chains

This chapter examines the impact of the lockdown and social distancing policies – in response to the Covid-19 crisis – on trade volumes, commodity prices, services and investment.

2.1 Impact on cross-border trade

In the fight against Covid-19, almost all African countries, albeit to a differing degree, have now suspended international flights, introduced a 14-day quarantine for entrants into the country and closed land and/or maritime borders.

A total of 38 of Africa’s 54 countries have now announced land closures of some form, and 17 countries have announced the closure of maritime borders (see Annex 1). Typically, these closures are targeted at the movement of people, and there are exemptions for the movement of emergency and essential freight supplies under very strict conditions, including mandatory testing, the sanitisation of trucks, limited crew members on trucks and designated transit resting areas.

This has led to an abrupt slowdown and delays in cross-border trade, often characterised by disputes between neighbouring countries, long lines of trucks awaiting clearance and the divergence of trade to less safe unofficial routes (see Box 1 on East Africa). Informal cross-border trade, which requires traders to cross the border to sell their goods and services on the other side, has been particularly hard hit (Luke et al., 2020). Disruptions to cross-border trade present significant challenges for Africa’s fight against Covid-19 and broader socioeconomic development, as elaborated in the remainder of this chapter.

Inadequate or delayed access to emergency Covid-19 supplies: Most African countries and/or regions have introduced guidelines and rules to prioritise and facilitate interstate flows of essential goods, including medicines, fuel and food. Yet broader border disruptions related to new requirements or disputes will undeniably also slow down the smooth flow of essential supplies. This risks exacerbating the impact of Covid-19 on fragile economies that are reliant on the timely importation of supplies by road. ‘Green lanes’ for super-fast clearance of medical supplies can help.

Increased food insecurity: According to World Vision, the number of Africans suffering from hunger has declined to 20%, but Covid-19 risks reversing these gains through compounding other adverse shocks such as drought, extreme weather and the locust invasion in East Africa. Covid-19 border disruptions are having impacts on various stages of food VCs, from input supply and production through to food distribution and consumption. Covid-19 border restrictions and regulations make it difficult to move food from areas of surplus to deficit regions. This amplifies risks leading to negative impacts on food and nutrition security. For example, in May 2020, the East African region experienced an Integrated Phase Classification (IPC) v3.0 acute food insecurity phase, which was exacerbated by Covid-19 and desert locust infestations that have hit food distribution efforts and increased losses (AGRA, 2020).

Escalation of prices along key corridors and in cities: Cross-border trade also provides a lifeline for local communities and cities along

Box 1 Disruptions to cross-border trade in East Africa

Due to concerns that truck drivers will spread Covid-19, East African Community (EAC) partner states have introduced an array of new measures at borders that have disrupted trade and led to days-long queues and protests. Stand-offs between truck drivers and border control officials brought about by mandatory Covid-19 testing have been worsened by truck drivers boycotting work to protest against perceived mistreatment (EAGC, 2020).

Strict testing and disinfectant regimes in Uganda have seen truck drivers stuck in long queues at borders, sometimes for up to four days. Truck drivers waiting to be tested at the Kenya–Uganda border have been diverted to the Busia Airstrip as a waiting bay, which is now fully occupied and creates a 6 km stretch from the airstrip to the border (EAGC, 2020). Kenyan truck drivers have asked the government to consider establishing a temporary port at the border with Uganda to enable them to avoid new movement restrictions in Uganda (TMEA, 2020). A union representing Kenyan long-distance truck drivers suspended the movement of trucks to Uganda until it was assured of the drivers' safety, citing Covid-19-related harassment in Uganda (EAGC, 2020).

Rwanda has introduced a relay system at the border whereby incoming trucks are offloaded and sanitised before being handed over to Rwandan truck drivers. These rules have caused frustration among neighbouring countries, which argue Rwanda must trust the way they are handling Covid-19. For example, Tanzanian drivers recently protested at the Rusumo border post, blocking colleagues from Rwanda from entering the country (AFP, 2020).

entire corridors. In East Africa, many farmers have not been able to move their produce to border markets, which has cut off a vital source of cross-border trade. Much of the food crossing borders typically ends up in East Africa's cities, which are now experiencing worrying price hikes that threaten nutrition and food security. For example, the average price of maize in Nairobi for April 2020 was \$343/metric tonne (MT) compared with \$312/MT the same month in 2019; the average price of rice in Kampala for April 2020 was \$1,013/MT compared with just \$950/MT a year earlier (Luke et al., 2020). In West Africa, at the Aflao–Kodjoviakope border between Ghana and Togo, large trucks transporting bulky consignments are allowed to cross outside of curfew hours (8pm–6am) but informal cross-border trade by foot has come to an abrupt halt. Since Covid-19, there has been an increasing trend of small-scale traders joining forces, aggregating their goods and paying fees to truck drivers for transportation and clearance. For this reason, prices of key staples such as rice, tomatoes and peppers have jumped by about 50% in border towns in Ghana.

Loss of income for small-scale cross-border traders: Cross-border trade provides an important source of income for cross-border communities,

and vulnerable groups including women and smallholder farmers. These communities typically live subsistence existences and require weekly trade across the border in order to purchase essentials to survive. The majority of informal cross-border trade consists of perishable agricultural products such as tomatoes, peppers, cassava, fish and eggs. Since informal traders typically received only a couple of days' notice to prepare for border closures, much of their stocks have spoiled, resulting in hefty losses. For instance, in Kenya, the cessation of movements in and out of cities was announced abruptly as farmers were en route to markets with truckloads of produce. These farmers were not allowed to pass police barriers and were forced to abandon their harvest of a full season and return home.

Increased financial stress: Most cross-border traders are unbanked and sometimes rely on expensive informal loan sharks for bulk stock purchases, such as *mashonisas* in South Africa and *shylocks* in Kenya. Many of these traders borrow money early in the morning to acquire merchandise and repay in the evening of the same day once they have sold their goods. Losses from unsold stock owing to Covid-19 home directives and travel restrictions may quickly escalate into a spiral of debt.

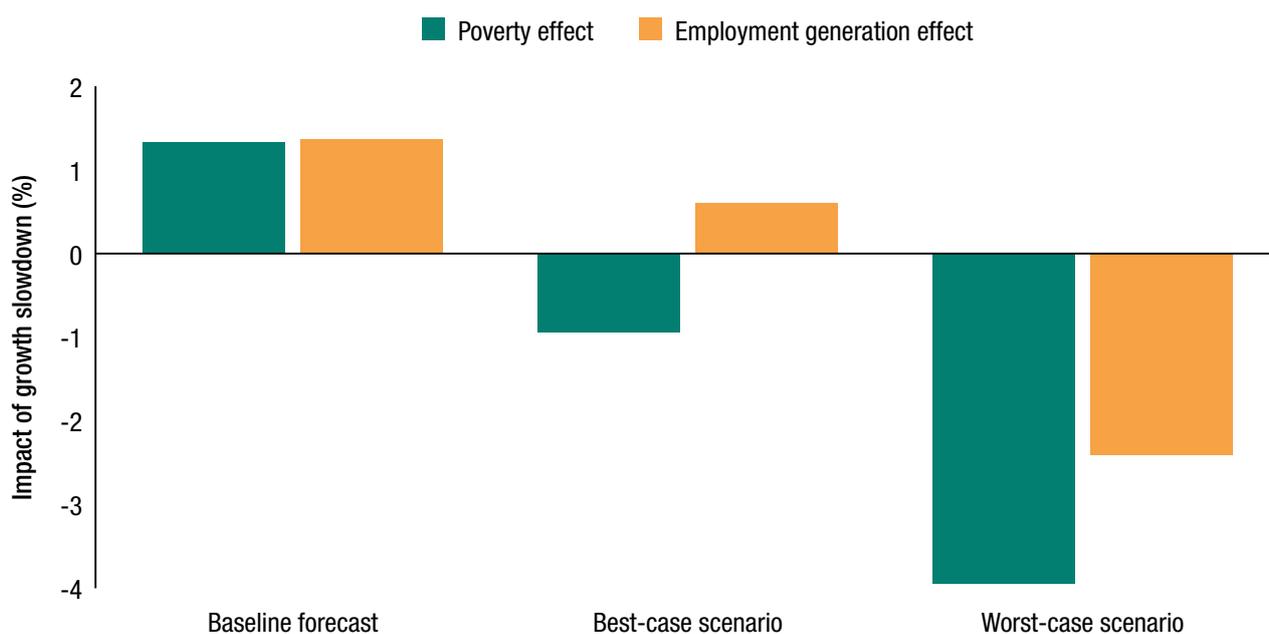
Reversing gains in women’s economic empowerment: The majority of informal cross-border traders are women, who can rely on this modality for an independent source of income which can further their empowerment in traditionally male-driven households and communities. Removing this income source, coupled with increased confinement at home, risks raising the rate of gender-based domestic violence. Women’s rights organisations across the continent are raising this concern.

In light of these challenges, it is crucial that African countries cooperate to overcome border disputes, and harmonise Covid-19 border requirements and regulations in order to reduce hold-ups and delays, while not undermining the safety of trade. Covid-19 has magnified challenges related to border operations, customs cooperation and trade facilitation and automation. This highlights the importance of fast-tracking implementation of the World Trade Organization (WTO) Trade Facilitation Agreement and the AfCFTA Annexes on trade facilitation, customs cooperation and transit trade.

2.2 Trade volume

Trade volumes for Africa are projected to decrease by 8% for exports and about 16% for imports for 2020, compared with previous historic trend estimates (WTO, 2020b). As a result, Africa is expected to be hit particularly hard, as 17% of the world’s ‘COVID-induced’ poverty will be located on the continent, second to East Asia, the continent with the highest concentration of ‘new poor’ (20%) (Sumner et al., 2020). Fears of a roll-back on Sustainable Development Goal achievements have been at the fore (Solberg and Addo Dankwa Akufo-Addo, 2020), with some estimates reporting that 40–59 million more people could be pushed into extreme poverty in Africa, adding to the current 455 million people (Save the Children, 2020). The UN Economic Commission for Africa (UNECA) estimates that up to 19 million jobs could be lost on the continent (see Figure 2). Ultimately, country-level economic shocks are tied to the country’s level of trade openness, its diversity of exports in terms of sector and destination and its relative competitiveness. Given the African context of low export and low sectoral diversification (IMF, 2017), the continent is expected to experience significant

Figure 2 Impact of Covid-19 growth slowdown on poverty and employment



Source: UNECA, 2020a

fallout. According to a vulnerability index by ODI, African economies most vulnerable to the pandemic are Kenya, Zambia, Rwanda, Sudan and Ghana due to a combination of high exposure and low resilience (Raga and te Velde, 2020).

2.3 Fall in commodity prices due to production and transport restrictions

The restrictions put in place to contain the virus have led – via the impact channels described in the introduction – to a substantial decrease in most commodity prices (Figure 3). These low prices are an additional shock to the economies as they constrain the resources that countries need now to tackle the current crisis as well as affecting the future recovery growth.

Fuel prices have reduced drastically, hitting a relative average low price in April of \$32 per barrel of crude oil (IMF, 2020a). This has affected fuel-exporting countries with little economic diversification, such as Angola and Nigeria, the hardest (IMF, 2020a). Global prices of minerals and metals have also fallen. The economic slowdown had less of an effect on less price-elastic commodities such as raw materials and fertilisers (World Bank, 2020c).

Trade restrictions put in place by exporter countries (e.g. Vietnam for rice and Russia for

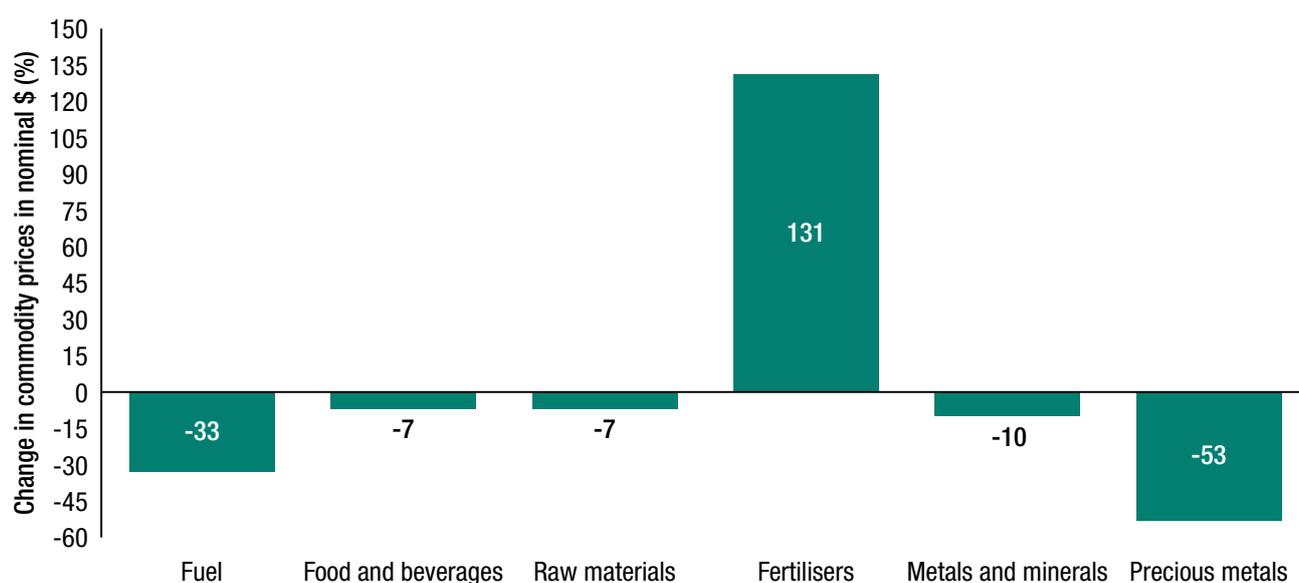
wheat) combined with excess buying by some countries (e.g. Egypt and Saudi Arabia for wheat and Philippines for rice) could destabilise markets and potentially further food insecurity where it already exists (World Bank, 2020c).

In particular, African net food importer countries would be vulnerable to an increase in commodity prices, supply chain disruptions and any export ban put in place by other countries (OECD, 2020). So far, global prices for food and beverages have decreased slightly (from January to May), which could help ease the decreased domestic purchasing power that is to be expected.

But for African countries such as Malawi, Guinea Bissau, Ethiopia and Côte d’Ivoire, which depend for more than 60% of their export earnings on agriculture, itself concentrated on very few food commodities of low value, a continued decrease in global prices would leave them particularly vulnerable (Schmidhuber et al., 2020).

As a result of the fall in commodity prices, Africa could lose between \$36 billion and \$54 billion in export revenue (Mendez-Parra, 2020a). In countries such as Republic of Congo and Libya, the full price effect of a fall in value could represent more than 15% of GDP. Even in large countries such as Nigeria, export income could fall by more than 20%, representing nearly 3% of GDP.

Figure 3 Change in commodity prices from January to May 2020



Source: Calculations based on World Bank Commodities Price Data (‘The Pink Sheet’) from January to May 2020

2.4 Services

In 2018 Africa imported about 3% of the world's traded services and contributed to about 2% of the world's exports. While this is a modest proportion relative to the total volume of traded services, this sector has been expanding since 2016 and driving national GDPs, with a recorded export growth of 9.4% in 2018 for the continent (UNCTAD, 2019).

For many African countries, services represent a growing share of total exports. For Ethiopia, Mauritius, Kenya, Morocco and Uganda, services represent more than 40% of exports on average for the period 2014–2018 (Mendez-Parra, 2020b). In particular, exports of travel and transportation services represent more than 10% of GDP in Mauritius and Morocco.

Services related to transport and tourism – which cannot go digital and which account for the highest share in traded services in Africa – have been hit hard by the crisis (UNCTAD, 2019). Tourism arrivals are expected to decline by between 60–80% this year (UNWTO, 2020). Globally, projections estimate a 20–30% decline in tourism exports (IMF, 2020a). On the continent, traded tourist services are estimated to fall by 9% compared with the baseline (Maliszewska et al., 2020). Indeed, in the case of the non-storable services of the hospitality and tourist industry, revenues lost as a result of lockdowns are potentially gone forever.

The effect of the lockdown policies on countries' service trade can differ depending on the capacity of services to go digital. The digital economy could offer a route to mitigate the effect of the loss of revenues from services that cannot respect physical distancing. Economic opportunities could include an increased offer of digital services (e.g. cloud computing) and digitally deliverable services (i.e. that

can be carried out online, e.g. legal services), e-commerce and online work (Banga, 2020).

Early evidence shows that African services firms are adapting. A firm survey across sectors and sizes in Africa shows that, to maintain their activities, businesses have adapted as much as possible and pursued new opportunities via e-commerce, among others, with 80% of surveyed large firms reporting having done so and 57% of micro firms reporting such a change (UNECA and IEC, 2020). Similarly, the online labour index reports a one-point increase in online work contracting since the beginning of the crisis for Africa (Kässi et al., 2020). In Kenya, gross merchandise value of one national e-commerce platform has reportedly tripled since the start of the pandemic, showing adaptive supply (Banga, 2020).

2.5 Investment

The pandemic is affecting foreign direct investment (FDI) across the world. The United Nations Conference on Trade and Development (UNCTAD) (2020) estimates that global FDI flows could fall by 40% because of the spread of Covid-19. This is on account of the rapid deterioration of global prospects, adverse demand shock to sales and global supply chain disruptions. The negative effects of FDI will be concentrated in countries hit severely by Covid-19, but the effects will extend to other countries as a result of demand shocks and supply chains connections.

As a result of Covid-19, the continent's overall FDI inflows are estimated to shrink by 25–40% (UNCTAD, 2020). Investments affected most are those in energy and primary industries, because of the oil price drop, and the airline and tourism industries, given travel cancellations and bans. According to UNCTAD's latest projections, Africa will also experience foreign capital outflows as a result of Covid-19 (UNCTAD, 2020).

3 African participation in global and regional value chains

African countries are well integrated into the global economy as suppliers and buyers of many final and intermediary products and services to and from the rest of the world. This chapter details the impacts of the crisis on African exports outside and within the continent given Africa's position within global trade. Assessing the value added distribution across key economies helps understand the multiple channels through which African countries are affected by the crisis but also highlighting the small but existing dependencies of other countries' economies on African ones.

3.1 Impact within global value chains

The direct effects of lockdown policies on African exports are significant enough to raise serious concerns about the short-term economic cycle on the continent as well as about long-run economic growth. The commodity price and services shock could take away a significant share of economic growth and put many African economies into recession. Moreover, lower economic growth is likely to reduce all investment dimensions, which will bring down productivity and in turn curtail future economic growth.

Indeed, Africa is a major global exporter of commodities such as oil, gold, cocoa, coffee, iron ores and copper, among others. Increasingly, the continent is also an important supplier of a wide range of services in the travel and transportation sectors. Exports of certain manufactures and other products (e.g. cut flowers) that benefit from preferences in developed countries are also

being affected by the closure of retailers and the lockdowns applied in export countries (McVey and te Velde, 2020; te Velde, 2020).

Mendez-Parra (2020a) indicates that economies such as South Sudan, Chad, Libya, Nigeria and Equatorial Guinea may experience falls in export income higher than 20% with respect to the previous year as a result of the impact of the crisis on commodities and services exports. This impact is mostly explained by the fall in the price of oil.

In the case of services, many African countries appear particularly vulnerable as a result of the importance of services in their exports and the high share of travel and transportation in their composition. Mendez-Parra (2020b) shows that services represent more than 40% of the total exports of Ethiopia, Mauritius, Kenya, Morocco and Uganda; and that travel and transportation tend to represent more than 50% of their services exports.

In addition to the demand effect, the restriction policies have also created issues along VCs by limiting the availability of critical inputs and intermediate products to be used by industries. This has affected African countries' economies as a result of their integration into supply chains via the impact on the exports of inputs and intermediate products. For example, the fall of Chinese exports of manufactures to Europe and the US, which amounts to \$1.13 trillion and represents 7% of total global trade, will significantly reduce the demand for many inputs and intermediates, many of them (iron ores, copper, oil) exported by African countries.

3.2 Impact within regional value chains

Intra-continental trade is being affected in the same way as extra-continental exports. The combination of lockdowns and lower income is reducing demand for products and services traded within the continent. While the share of intra-African trade remains relatively low, the fall has significant implications, given that it affects, in particular, trade in manufactures and processed products. Much of intra-African trade between neighbouring countries takes place informally, and recent Covid-19 border closures mean that this trade has largely come to a complete halt. This has fed into price hikes in key agricultural staples in some of Africa's largest cities such as Nairobi and Accra (Luke et al., 2020).

The fall in intra-African trade, with strong effects on cross-border transactions, has been particularly affected by additional controls and restrictions placed at borders to stop the spread of the disease. This has generated serious delays at border, which have been compounded by the lack of personal protective equipment (PPE) for customs and other agencies' staff as well as quarantines imposed on truck drivers when crossing the border.

3.3 Distribution of African value added and key players for recovery

To understand possible trade recovery drivers, the participation of African value added in global trade is assessed (see Annex 2 for the distribution of African value added by country). The value added used to produce exports by key export players can be analysed to examine two dimensions: on the one side, the importance of each of these destinations in the value added produced in Africa; on the other side, the importance of African value added in total value added embedded in exports.

Table 1 highlights the importance of Africa in global supply chains. It presents how African value added is distributed or 'exported' to other regions to produce exports. Therefore, China used \$20 billion of African value added to produce its exports. Moreover, only \$14 billion of African value added was embedded in African exports, which accounts for only 2.8% of total value added embedded in global exports.

Of all African value added in exports, 62.8% is embedded in EU exports. It is important to highlight that this value added is embedded in the direct exports of Africa to the EU as well as in exports to the EU by other countries. For example, US exports to the EU that use African value added (e.g. in African exports of oil to the US) contribute to this figure. This makes the EU the most critical hub of supply chains from the African perspective. Consequently, African recovery is closely tied to the recovery of the EU.

The third column illustrates the importance of Africa as a supplier for each of the regions.

Table 1 African value added in third countries' exports, 2015

Country/region	Value added in exports (\$m)	As share of total value added exported	As share of total foreign value added used by partner
Africa	13.9	2.8%	N/A
China	20.2	4.1%	2.7%
EU	313.0	62.8%	6.8%
India	4.6	0.9%	3.9%
UK	20.8	4.2%	3.2%
US	27.3	5.5%	2.9%
Rest of world (ROW)	98.8	19.8%	3.9%
Total	498.59	100.0%	

Source: Own elaboration based on EORA-MRIO database

It indicates the share of Africa in total foreign value added used by each country to produce its exports. For the EU, for example, Africa accounts for 6.8% of total foreign value added used.

We can also see the characteristics of African value chain participation by looking at the distinction between exports of intermediate and final products. This is understood by assessing how importers use the African products they import based on input–output analysis. Africa’s exports of intermediate products make up a high share of exports (80%), particularly to China, the EU and the US. This indicates that participation in VCs is primarily upstream, characterised by forward linkages. As the World Bank (2020d) points out, demand and price shocks tend to hit countries with high forward linkages more than they do those with backward linkages.

Moreover, comparison of the share of partners in direct exports with the share of value added exported (see Table 2) suggests that a significant part of the value added exported by Africa is not embedded in its direct exports but actually in third countries’ exports. In this sense, while the EU represents 62.8% of African value added exported, total exports represent only 42%.

Analysis of the participation of African value added in the production of third countries allows us to identify a series of elements so as to anticipate the main channels through which VCs will affect exports in Africa. First and foremost, the impact of the economic crisis in Africa, through its participations in VCs, is closely linked to the economic performance of the EU (and the UK). The longer and deeper the recession in Europe, the higher will be the impact on the African economy.

Hence, a two-way effect is at play – albeit with effects of different magnitude. African economies are greatly affected by changes in demand, supply, prices and investment in the rest of the world, but, conversely, African economies are depended on by other countries’ economies, given their forward linkages position. Moreover, the importance of Europe in the participation of African firms in VCs goes beyond direct exports of intermediate goods. A significant share of African value added exported to Europe arrives indirectly through the exports of third countries. This indicates that the recovery of supply chains into Europe from third countries is likely to also drive African exports and economic activity.

Table 2 African direct exports by use, 2015

	Intermediates (\$m)	Final products (\$m)	Total (\$m)	Share in total exports	Share Intermediate
Africa	67.9	52.9	120.8	11.4%	56.2%
China	56.2	5.4	61.6	5.8%	91.2%
EU	387.0	62.0	449.0	42.4%	86.2%
India	14.4	5.7	20.1	1.9%	71.6%
Rest of world (ROW)	157.0	53.4	210.4	19.9%	74.6%
UK	33.8	18.0	51.8	4.9%	65.3%
US	127.0	18.4	145.4	13.7%	87.3%
Total	843.3	215.8	1,059.1	100.0%	79.6%

Source: Own elaboration based on EORA-MRIO database

4 Impacts in specific value chains

The crisis is having critical impacts on particular VCs. As mentioned earlier, essential products such as medical supplies, PPE and pharmaceuticals were hit immediately by a combination of higher demand and policy actions (e.g. export bans).

African countries' role in VCs tends to be confined to the supply of intermediate products or final products commercialised by retailers in the destination country (e.g. fresh fruit). In most of these chains, command of the VC lies at its end (e.g. retailers). Kenya and Ethiopia present an interesting comparison in terms of how they are being affected by and dealing with the disruption of global supply chains.

4.1 Pharmaceutical value chains

There are five major stages in the operation of pharmaceutical VCs (Verma, 2019), as Figure 4 shows. The initial stage of the VC comprises the research and development (R&D) of a new medicinal molecule. The next phase involves getting patents for the new medicines and licences in various countries where the new drug will be manufactured or sold. Pharma manufacturing typically begins with a manufacture of the active pharmaceutical ingredients (APIs) and intermediates from basic chemicals and biological substances. API plants tend to be concentrated in a few countries, with

APIs then shipped to manufacturing plants where they are formulated into finished drug dosages, which are then packaged and labelled. In the last stage, the new medicine is sent to various pharmacies and hospitals using distribution channels (wholesalers, retailers, etc.).

The EU, Japan and the US are leading pharma R&D economies, whereas China and India are major API producers (Palmer, 2020), particularly for generic drugs. In 2018, China was the largest pharmaceuticals producer in the world (in terms of value), responsible for 32.2% of all pharmaceuticals produced globally, up from 26.5% in 2013 (Rude, 2020). India is responsible for 20% of pharmaceuticals production in volume terms globally, accounting for 2.4% share of world pharmaceutical exports, with exports amounting to \$14.3 billion in 2018 (ibid.). Around 70% of all APIs used in Indian drug production also come from China.

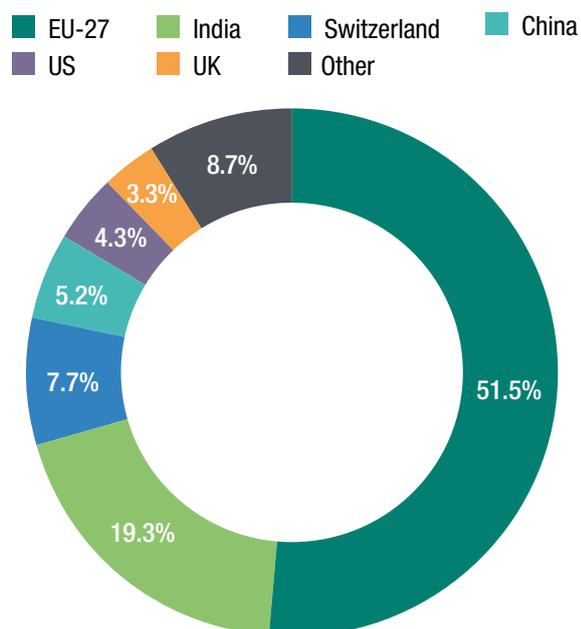
4.1.1 Africa's role in pharmaceutical value chains

Covid-19 has demonstrated the heavy import dependency and vulnerability of Africa's pharmaceutical sector, perhaps more so than for any other industry. All African countries are net importers of medical and pharmaceutical products, with Africa importing 94% of its pharmaceuticals in total (UNECA, 2020c).

Figure 4 Stages in a pharmaceutical value chain

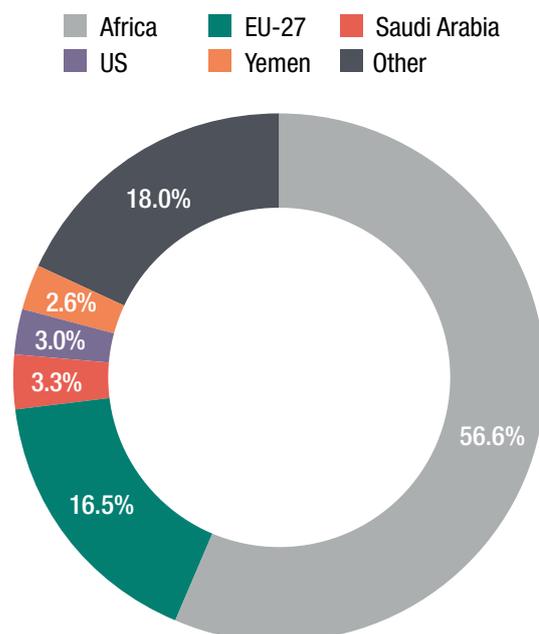


Figure 5 Africa's import sources of pharmaceuticals (2016–2018)



Source: Based on data from UNCTADstat

Figure 6 Africa's export destinations for pharmaceuticals (2016–2018)



Source: UNECA based on UNCTADstat

The top three import sources of pharmaceuticals in Africa are the economies of EU-27, India and Switzerland (Figure 5), while intra-Africa trade forms a significant share of Africa's exports (Figure 6). Not only are many of the main providers of Africa's pharmaceuticals heavily hit by Covid-19, but as of 21 March 2020, a total of 54 countries have limited exports of medical supplies and medicines associated with the pandemic, including Bulgaria, France, India, Indonesia and the UK (Evenett, 2020). This puts Africa in a perilous position in accessing essential supplies (ATPC, 2020).

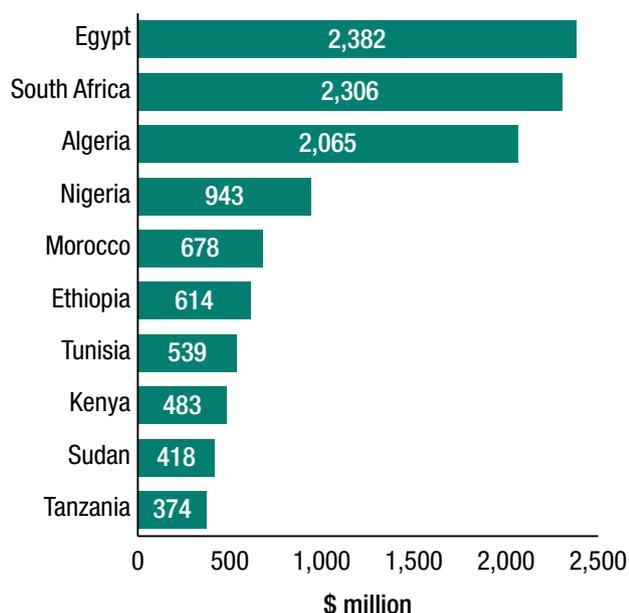
The pharmaceutical industry in Africa is the fastest-growing in the world, driven by a small number of countries – South Africa, Nigeria, Ghana, some Eastern African countries and North Africa (see Figures 7 and 8). The continent's overall backward integration in global value chain (GVC) manufacturing is low; it imports between 70% and 90% of the drugs it consumes. The most common example of the lack of backward integration capability is the importation of processed artemisinin, a compound derived from plants in the artemisia family that is used in malaria treatments (Asoko Insight, 2019). Kenya exports raw artemisinin

and then reimports it in its processed form to be used by pharmaceutical manufacturers to make anti-malarial drugs. In the case of imports into Africa, India's share is higher than China's for drug formulations across the 10 largest exports markets of pharmaceuticals in Africa – South Africa, Egypt, Morocco, Kenya, Algeria, Ethiopia, Tunisia, Sudan, Tanzania and Nigeria (Kurian and Kapoor, 2020). However, with regard to bulk drugs, China exported more to five of these 10 markets.

Table 3 uses import data on intermediate pharmaceutical products (following BEC classification at HS 4-digit level) from Comtrade and finds that, for HS 3003 – medicaments that consists of two or more constituents – India's share is higher than China, but for HS 3005 and 3006 China's share is higher.

Local production remains weak and limited on the continent: local manufacturers produce 25–30% of pharmaceuticals and less than 10% of medical supplies that are on the African market (AfDB, 2020). Africa has roughly 375 drug-makers, almost all of them drug product manufacturers – that is, they purchase APIs from Indian and Chinese manufacturers and formulate them into finished drugs (McKinsey

Figure 7 Top 10 African importers of medicinal and pharmaceutical products, average 2016–2018



Source: Based on data from UNCTADstat

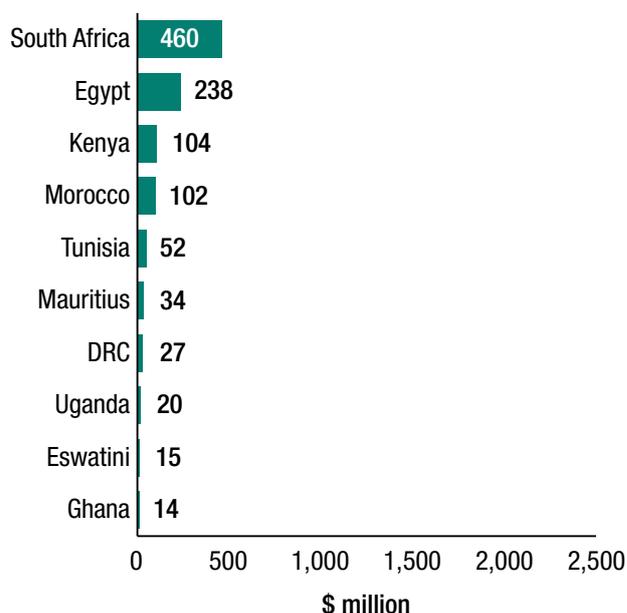
& Company, 2019). Around 100 manufacturers in sub-Saharan Africa are limited to packaging: purchasing pills and other finished drugs in bulk and repackaging them into consumer-facing packs. Only three – two in South Africa and one in Ghana – are producing APIs, and none has significant R&D activity (McKinsey & Company, 2019).

4.1.2 Impact of Covid-19 on African pharmaceutical value chains

The pharmaceutical industry in Africa is being affected through the following channels.

Lower access to medicine supplies owing to the shutdown of manufacturing facilities in China and India: To contain the spread of the virus, several countries, including those that are key players in global pharmaceutical VCs – such as China and India – have put in place containment measures, which include closure of factories, social distancing and travel bans, all of which are affecting pharmaceutical supply chains globally. Many manufacturing plants in China were closed for weeks (Palmer, 2020). In late February, the US Food and Drug Administration (FDA) announced the first Covid-19-related drug shortage, and other such shortages may well occur, since supply

Figure 8 Top 10 African exporters of medicinal and pharmaceutical products, average 2016–2018



Source: UNECA based on UNCTADstat

chains for generic drugs are often lean (FDA, 2020). In India, 301 producers were hurt by ingredient shortages for Mintelukast (asthma), Nimesulide (pain medication), Amoxicillin, Ofloxacin and Chloramphenicol (bacterial infections) and antibiotic Metronidazole – all essential drugs (Rude, 2020). This supply chain disruption is likely to spill over to the rest of the world, as 70% of all APIs used in Indian drug production come from China, and India is responsible for 20% of pharmaceuticals production in volume terms globally.

Nigeria, for instance, is facing a shortage of medical supplies and products, since products manufactured in China before the shutdown were not shipped and prolonged factory closures in China meant new products were not manufactured (Baker McKenzie, 2020). While much of China's manufacturing is now coming back on line, contract manufacturing organisations in India are being forced to shut because of the government mandated lockdown. Overall, the non-availability of transport and logistics services, the lack of courier services, the reverse migration of contractual workers and the absence of a significant number of staff in pharma and devices manufacturing units, among others, have led to low production in

Table 3 Share of China and India in African imports of intermediate pharmaceutical products

Importing country	Exporting country	Intermediate pharmaceutical product				
		HS 3001 Glands and other organs for organo-therapeutic uses	HS 3002 Human blood; animal blood prepared for therapeutic, prophylactic or diagnostic uses	HS 3003 Medicaments consisting of two or more constituents which have been mixed together for therapeutic or prophylactic uses	HS 3005 Wadding, gauze, bandages and similar articles	HS 3006 Pharmaceutical goods not elsewhere specified (n.e.s.)
Ghana	China	2.13	1.60		64.62	10.08
	India	58.34	45.93	56.07	10.88	8.57
Kenya	China	10.65	1.08	15.90	70.95	27.15
	India		25.81	11.41	4.37	5.47
Nigeria	China	9.88	3.55	12.67	96.02	57.89
	India		33.49	30.81	0.14	1.78
Tanzania	China		1.83	0.28	78.82	60.47
	India	95.17	18.54	91.76	4.75	13.79
Uganda	China		0.21	0.01	76.62	4.45
	India		14.15	47.22	3.52	9.04
South Africa	China	20.10	0.12	18.97	32.47	7.36
	India	0.08	0.27	34.85	2.96	0.34

Source: Data imported from UN Comtrade (follows BEC classification at HS 4-digit level)

India. As a result, the manufacturing units of pharmaceuticals and medical devices in India are working only up to 20–30% of their capacity (Sridhar, 2020).

Increase in price of pharma products: In the wake of Covid-19, the prices of pharmaceutical ingredients manufactured in China are rising. For instance, Indian authorities claim a 20–30% rise in the prices of APIs (Rude, 2020). A number of factors have further pushed up the cost of importing APIs, including the rising price of air freight. The aviation industry has been hit by the widespread cancellation of flights owing to travel bans imposed on countries with the highest number of Covid-19 cases in an attempt to contain the spread of the virus. On the other hand, the demand for air cargo for pharmaceuticals has increased by about 100% globally (Campbell, 2020). As the cargo holds of passenger planes transport a large fraction of overall air freight moved, logistics providers

and pharmaceutical companies must grapple with capacity constraints. With global demand and supply disruptions, the cost of air freight, particularly in East African countries, has escalated drastically (TRALAC, 2020).

Export restrictions put in place by countries: A number of countries have set up export bans on pharmaceutical products, so as to be able to tackle domestic demand. For instance, in March 2020, India banned the export of 26 pharmaceutical ingredients as well as formulations that are used in the making of generic drugs, such as paracetamol and antibiotics (Ellis-Petersen, 2020). The regulation was imposed supposedly to tackle possible domestic shortages of medicines as Covid-19 infection cases continue to rise in India. While India removed export restrictions on 24 of the APIs and formulations in April, outbound shipments of paracetamol and its formulations remain restricted or require a licence from the

government (Suneja, 2020). Globally, there have been more than 80 restrictions on medical exports and 40 countries have implemented outright bans on the export of certain drugs, pharmaceutical ingredients, or medical equipment (Douglas, 2020).

The pharmaceutical industry has exposed Africa's reliance on GVCs for access to essential products in a major way, leading to a now increased focus on regional VCs and intra-regional trade for economic recovery. Some African countries have abolished or reduced tariffs to facilitate trade in pharmaceuticals (Burundi, Democratic Republic of Congo, Ethiopia, Malawi, Somalia, Tunisia, Uganda, Zambia and Zimbabwe) (COMESA, 2020). On the other hand, Egypt, Kenya, e-Swatini, Libya, Madagascar and Zimbabwe have imposed export restrictions and export licensing requirements on certain products, including medical supplies, masks, ventilators and hand sanitisers, which may increase prices for pharmaceutical products in the region. Some regions have good potential to leverage intraregional trade in pharmaceuticals during the pandemic. The Common Market for Eastern and Southern Africa (COMESA), for instance, exported pharmaceuticals amounting to \$442.53 million in 2018, with intra-COMESA exports constituting 32% of its total exports (COMESA, 2020). Freer movement of essential goods in the region, as well as implementation of digital trade facilitation and e-commerce, will help enhance the production of pharmaceuticals and boost intra-COMESA trade during the pandemic (ibid.).

Within COMESA, Tunisia and Kenya have good potential to become key players regionally in the fight against the pandemic. For instance, although it accounts for a small share of exports, Tunisia's pharmaceutical industry presents high potential for integration in regional VCs, with 50 units of pharmaceutical production employing 3,800 people, and around 10% of total production exported (UNECA, 2016). Similarly, Kenya is the largest producer of pharmaceutical products in the COMESA region (Africa Business, 2020). Tanzania, Uganda and Rwanda have traditionally been the main export markets. The growth of these markets highlights the sustainability of Kenya's pharma market in the face of changing regional dynamics.

4.1.3 Policy interventions

Boost intra-regional trade of pharmaceuticals:

Africa manufactures 'less than 2 per cent of the medicines it consumes' (UNECA, 2019) while importing about 70% from outside the continent at an annual cost of \$14.5 billion. The AfCFTA can facilitate creation of an environment conducive to establishing regional VCs and champions in pharmaceuticals, which can be leveraged as a springboard for nurturing African multinationals and creating jobs and prosperity. Producing pharmaceuticals on the continent is important given the need to tackle local diseases where there is no investment case for large external pharmaceutical companies. The economies of scale offered by the AfCFTA will mean market size is no longer an obstacle for pharmaceutical manufacturers to engage in local production of generic medicines (for export on the continent), or pooled procurement of medicines.

African countries can leverage the AfCFTA to boost intra-regional trade through (1) harmonisation of standards as well as collective bargaining with foreign drug suppliers in the short to medium run and (2) increasing investment in pharmaceutical production in the long run. Countries should use this opportunity to accelerate implementation of the Pharmaceutical Manufacturing Plan for Africa (PMPA) and establishment of the African Medicine Agency (AMA) by prioritising investment for regulatory capacity development; pursuing convergence and harmonisation of medical products regulation in regional economic commissions; and allocating adequate resources for AMA. With this in mind, UNECA, in collaboration with the African Union Commission (AUC), the African Union Development Agency, the World Health Organization, the Joint United Nations Programme on HIV/AIDS and the Inter-Governmental Authority on Development, launched an AfCFTA-anchored pharmaceutical initiative in 2019 to be piloted in Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Rwanda, Seychelles and Sudan. This adopts a three-pronged approach: localised production, pooled procurement and harmonised regulatory and quality frameworks.

The AfCFTA needs to be compatible with the Agreement on Trade-Related Aspects of

Intellectual Property Rights (TRIPS) (with careful attention to ensure it preserves TRIPS flexibilities), and member states should be encouraged and supported to pass domestic TRIPS-compatible patent legislation. Through supporting the African continent to negotiate as a coherent bloc, the AfCFTA should be harnessed as a vehicle to strengthen Africa's ability to ensure TRIPS flexibilities are fully utilised in efforts to enable local production and access to essential medicines. Box 2 presents these and further recommendations for the pharmaceutical sector in the AfCFTA.

Decentralisation and keeping stocks over longer periods: In the long term, there are strategic steps manufacturers can take to reduce drug shortages. Often, a single manufacturer can make the API, and the finished form of the drug is nearly always made at a single manufacturing plant (Woodcock and Wosinka, 2012). Decentralising supply chains could help counter upstream disruptions. Rather than producing a drug in a single plant, companies could distribute production across multiple plants, ideally in different areas of the world. This could prevent

Box 2 Policy recommendations for the pharmaceutical sector

Enhanced integration on the continent represents a huge opportunity for Africa's pharmaceutical industry. Yet it will not provide a panacea to Africa's overreliance on foreign pharmaceuticals without a targeted framework that integrates an awareness of the multiple ways in which trade can affect health systems. The pharmaceutical sector in the name of public health should occupy centre stage of the AfCFTA Agreement and should be prioritised in the initial stages of implementation. This can be achieved through the following key priority policy actions.

- A decision should be made not to include pharmaceutical and medical products on the sensitive item or exclusion lists of state parties' tariff schedules. An African Union (AU) directive would help support compliance with this proposal.
- Pharmaceutical products should be prioritised in the finalisation of rules of origin.
- Member states should consider adding health and education services to the priority list of services sectors for the first round of services negotiations. Alternatively, liberalisation of professional services under the overall business services sector could extend to cover medical services personnel.
- The AfCFTA needs to be TRIPS-compatible (with careful attention to ensure it preserves TRIPS flexibilities), and member states should be encouraged and supported to pass domestic TRIPS-compatible patent legislation.
- Through supporting the African continent to negotiate as a coherent bloc, the AfCFTA should be harnessed as a vehicle to strengthen Africa's ability to ensure TRIPS flexibilities are fully utilised in efforts to enable local production and access to essential medicines.
- Pharmaceutical products should be prioritised in the AfCFTA standards harmonisation process in order to reduce the monetary and time costs of compliance, and to fight against counterfeits.
- The AfCFTA trade facilitation, customs cooperation and transit trade annexes should be implemented in a manner that is cognisant of the risks of unregulated movements of pathogens and hazardous goods.

These trade policy measures will need to be supported by a range of domestic industrial policy measures to provide a conducive environment and boost capacity of African countries' pharmaceutical firms. This includes supply-side policy instruments on business and labour regulations and providing correct incentives to local pharma manufacturing firms. Additional support, from development finance institutions such as AFREXIMBANK and the African Development Bank, would help provide an additional impetus. Other African institutions such as the AUC, the AfCFTA Secretariat and UNECA can play an important role in coordinating efforts and guiding appropriate specialisation strategies based on comparative advantage.

a single problem from affecting the entire supply. Typically, each stage holds little inventory, ranging from a few weeks to a few months, which can potentially be increased to boost resilience (GAO, 2014).

However, it is unlikely that companies will implement measures in this regard if they are not profit-maximising. The configuration of supply chains, in the pharmaceutical sector and any other, responds to a model that aims to maximise efficiency through specialisation of production, aiming to gain scale in each link of the chain as well as the minimisation of stocks.

Governments can either coordinate with companies or enforce changes in the way that supply chains are operated. However, given the geographic dispersion of supply chains, these actions require coordination among governments. Otherwise, unilateral policies in this regard may be translated into the disengagement of domestic firms from the supply chain.

In this sense, the AfCFTA can be a facilitator of this coordination with the aim that all African countries involved in the chain adopt a coherent approach to the modification of supply chains.

On the other hand, these changes are likely to increase costs, as they imply a departure from the lean and efficient normal operation of supply chains. These costs are expected to be paid by consumers. Therefore, there is a political question to answer as to whether African countries can, eventually, afford these changes. These costs can be minimised should these changes to supply chains be adopted in a context of trade openness within and outside the continent.

Enforcement against counterfeits: The AfCFTA will be critical for protecting the African market from fake, substandard and counterfeit products and services through harmonisation of regulatory policies and standards on medical products. Africa has the highest prevalence (18.7%) of falsified and substandard medicines and is particularly at risk from counterfeit medical supplies and fake coronavirus ‘cures’. Already, in the first week of April 2020, Cameroon had seized fake chloroquine, a much-touted possible remedy to the Covid-19, from at least 300 pharmacies and hospitals (Schneider and Nam, 2020). Effective enforcement is paramount to ensure consumers are not victims of counterfeit products.

4.2 Kenya and Ethiopia: effects across GVCs

Global trade in 2020 is estimated to decline by between 13% and 32% (WTO, 2020a) and since late February, certain sectors of African economies have been severely affected, particularly for producers integrated within supply chains linked to China (World Bank, 2020a). One framework through which to analyse the trade-related economic effects is that developed by the World Bank (2020a), which identifies vulnerable sub-Saharan African economies based on their share of commodity exports in GDP (between 5% and 10%) and imports from China at around the same level. According to the World Bank (2020a), Ethiopia falls into the ‘high-risk’ category whereas Kenya does not: a country has ‘high’ exposure to the trade transmission with China if its imports from or its trade with China as a percentage of GDP exceed the world’s 75th percentile – that is, 5.2% and 7.3%, respectively; additionally, a country has ‘high’ commodity exposure if its exports of commodities as a percentage of GDP exceed the world’s 75th percentile (21%).

However, given the important role of services, particularly transportation, the effects of the demand shock will be more differentiated, especially given Ethiopia’s importance as an international transportation hub. This summary focuses on the trade-related effects of Covid-19 on these economies – a useful point of comparison because both are integrated within manufacturing supply chains, in addition to commodities and services such as tourism, as indicated by Table 4.

Importantly, agriculture accounts for a large share of export earnings – 65% in Kenya and 84% in Ethiopia – as well as of rural employment in both countries. The sector has suffered from the effects of the Covid-19 lockdown on movements of migrant labour, costs of inputs and transportation (and especially in view of the concerns regarding a forthcoming locust invasion).

Gross exports can provide a misleading approximation of the amount of domestic value added in exports. It is for these reasons that analysis of net exports, compared to gross

Table 4 Trade-related Indicators for Kenya and Ethiopia, 2018 (% of GDP)

	Kenya	Ethiopia
Trade	36	32
Merchandise trade	27	21
Tourism inbound	2	4.4
Remittances	2.9	0.6

Source: UNWTO (2020); World Bank (2020g; 2020f)

Table 5 Top 5 exports of goods and services for Kenya, 2018 (% of total)

Gross exports		Net exports	
Transportation	14.6	Tea	24.7
ICT	13.7	Cut flowers	11.9
Tea	13.6	Travel and tourism	11.4
Travel and tourism	8.3	Transport	10.3
Cut flowers	6.1	Insurance and finance	4.6

Source: Atlas of Economic Complexity (2018)

Table 6 Top 5 exports of goods and services for Ethiopia, 2018 (% of total)

Gross exports		Net exports	
Transportation	44.5	Coffee	35.0
Coffee	12.1	Other oil seeds	17.3
ICT	9.5	Cut flowers	9.9
Travel and tourism	7.4	Gold	7.8
Other oil seeds	6.0	Legumes, dried	7.1

Source: Atlas of Economic Complexity (2018)

exports, can help to reveal how countries trade in GVCs and the use of foreign value added within exports. Tables 5 and 6 show how services such as transportation and information and communication technology (ICT) both account for large share of gross exports in Kenya. Therefore any impact assessment of the Covid-19 pandemic must take into account the importance of services trade for both countries.

4.2.1 Kenya

Economic growth was already expected to decline in 2020 compared with 2019 even without the Covid-19 pandemic: the GDP growth rate in 2018 was 5.4%; the World Bank Kenya economic

update for April 2020 predicted growth of 1.5% in 2020 in the baseline scenario, with a potential downside scenario of a contraction to 1.0%, if Covid-19-related disruptions in economic activity last longer (World Bank, 2020b). However, in 2019 growth had already decreased from 6.3% in 2018 (KNBS, 2020). Total exports declined by 2.9% to KSh 596.7 billion in 2019, with horticulture, tea and apparel and clothing the major foreign exchange earners; principal exports such as horticulture and tea had already declined in 2019 compared with 2018, by 5.9% and 6.9%, respectively. International tourist arrivals increased by only 0.4% in 2019.

Kenya recorded its first case of Covid-19 on 16 March 2020 and the economy subsequently went into lockdown/state of emergency. A ban on all inbound and outbound international flights, imposed on 25 March, was extended for 30 days from 6 April, with the exception of cargo flights and evacuation charters for foreign nationals. Kenya is now expected to enter into recession in 2020, with real GDP contracting by 3.3%, owing to severe disruption to the global and domestic economy caused by the pandemic (EIU, 2020a). In addition to suffering from the economic fallout from the pandemic, there are other major risks for 2020, including a locust invasion in mid-2020, which could further affect the agriculture sector.

Issues

There are clear issues with the resilience of the most affected GVCs, such as tourism and cut flowers, which rely heavily on aviation transportation routes. However, the effects of Covid-19 on demand and supply in intra-regional VCs are also important, as is the agriculture sector more broadly, given concerns regarding pest invasions into the second half of 2020. The below sub-sections summarise some of the major reported effects across selected VCs; this is followed by a brief summary of response measures introduced.

Tea: Unlike other producers, Kenya can produce all year round, but reduced demand puts 700,000 smallholder farmers and 3,000 large farms in Kenya at risk (UNECA, 2020a). It is important to note that, given its designation as an essential service, the tea industry is excluded from the nationwide dawn-to-dusk curfew and the ban

on all movement; the only change has been that companies are sending fewer representatives to auction houses; exports were relatively unchanged from January to February and were expected to continue that way into March and April at the time of writing (Collins, 2020).

Garments: In a survey by the Kenyan Association of Manufacturers, 87% of domestic producers said they were exposed to a shortage of raw materials owing to reduced supply from China, and 23% had already downsized (KEPSA, 2020). Private firms could shed up to 38,000 formal workers as a result of the reduction in offline spending in apparel in affected markets in Europe (UNECA, 2020a). There are no reported issues with contract enforcement and non-payment of orders, which begs the question as to why, especially when compared to the situation faced by other garment exporters such as Bangladesh and Cambodia since the Covid-19 shock. This deserves closer scrutiny.

Cut flowers: As of March 2020, direct sales orders have been cut by 50%, sales on the Dutch auction market are down by 70% and prices have reduced (Flora Daily, 2020a). Around 1,000 seasonal workers have had contracts terminated (Mbabazi, 2020). Overall, around a million people will be adversely affected directly and indirectly by the industry's imminent collapse (Otieno, 2020). Although support to businesses has been provided, there is a need for more for employees.

Tourism: The United Nations World Tourism Organization has forecast a 60–80% drop in international tourist arrivals worldwide this year as a result of the pandemic; hotels have been reducing wages (by 30–50%) and encouraging staff to take annual leave. Italy is a major market, with many flights into Mombasa now grounded (Xinhua, 2020a).

Mitigating measures

Cut flowers:

- **Transportation:** There has been some increase in exports, partly because of the increase in cargo flights operated by Kenya Airways, which has converted some of its passenger aircraft into cargo flights (Flora Daily, 2020b).
- **Reopening of auction house through price stabilisation:** The auction house was able to stabilise prices by limiting supply to 30% of last year's level (Bloomberg, 2020).

- **Socially responsible business:** Farms certified by Fairtrade have been able to use the Fairtrade Premium (additional revenues received through selling through this marketing channel) to cover food costs for workers, as well as protective equipment and hand sanitiser (Fair Trade, 2020).

Garments:

- **Switching production:** Private sector manufacturers have been adjusting operations to ensure supplies of much-needed medical equipment and PPE are available (Oxford Business Group, 2020).
- **Kenya Private Sector Alliance (KEPSA)** is exploring ways to adapt existing manufacturing capabilities. Kenya Medical Research Institute has started manufacturing Covid-19 rapid testing kits to aid state assessment facilities (previously produced for the region) (Oxford Business Group, 2020).
- **The Kenyan National Business Compact** is a platform for collaboration between competing industries in hygiene to confront the crisis; the coalition was convened by the Marketing Society of Kenya and has brought in the Kenya Association of Manufacturers (KAM) with its member companies (Business Fights Poverty, 2020).
- **Digital:** KAM has produced a directory for locally manufactured goods for shopping online; all person-to-person transactions under Ksh 1,000 were free for 90 days from mid-March, and the daily transaction limit increased for micro, small and medium enterprises from KSh 70,000 (\$657) to KSh 150,000 (\$1,400) (Oxford Business Group, 2020).

Tourism:

- **Tourism stakeholders** are to establish recovery funds for small enterprises, targeting domestic and regional markets (Xinhua, 2020b). However, clearly, these market diversification efforts are unlikely to recoup the severe losses faced by the steep declines in international arrivals.
- At the time of writing, the tourism minister was considering incentives for tourism sector investors and the creation of an enhanced domestic tourism marketing budget (Tairo, 2020).

4.2.2 Ethiopia

The Ethiopian economy was expected to grow by at least 7–9% in 2020, consistent with its economy experiencing strong, broad-based growth averaging 9.9% a year from 2007/08 to 2017/18 (World Bank, 2020a). The government is in the process of implementing the second phase of its Growth and Transformation Plan, which will run to 2019/20 and targets an average of 11% GDP growth annually, and an expansion of the industrial sector by 20%. However, growth will decline and the economy is now expected to enter a recession in 2020, with an expected contraction of 0.6% of economic growth owing to the Covid-19 pandemic and the locust infestation (EIU, 2020b).

On 13 March 2020, the first Covid-19 case was confirmed in Ethiopia, and a lockdown was introduced soon after. While a strong bounce-back is anticipated, given the government's reform agenda (EIU, 2020b), others have urged caution: there will be challenges to maintaining food security (Hirvonen et al., 2020). Moreover, securing a bounce-back is not the same as ensuring a strong recovery within a post-Covid-19 world.

Issues

In addition to the issues discussed below regarding Ethiopia's participation in international value chains, there are major concerns regarding domestic and regional VCs. Within the agriculture sector, producer prices are lower, input prices are up or inputs not available and migrant labour supply has been affected (Tamru et al., 2020a). Ensuring the availability of agricultural inputs to farmers at low prices, and assuring incentives for production, will be important over the coming few months to support supply. This is because labourers are not working or have been demanding up to 40% higher wages over the past month, there are restrictions on travel and transport costs are estimated to be up by at least 15% (Hirvonen et al., 2020). Overall, the procurement of inputs for agricultural production is at risk because of more general disruptions to supply chains and delays in transportation (Bundervoet and Finn, 2020).

Coffee: In the first half of April, coffee trade on the Ethiopian Coffee Exchange declined by about

30% compared with the same period in previous years (Tamru et al., 2020b). Containers of coffee that have not shipped have created a backlog; when shipping resumes at full capacity this backlog will likely lead to a container shortage, which may cause further delays and potentially increase prices (Abraham, 2020). Delayed payments and shipping from buyers reduce cashflows for growers (mainly smallholders) (Kanniah, 2020).

Horticulture: The Ethiopian Horticulture Producer-Exporters Association (EHPEA) has indicated that Ethiopia has lost about \$25 million – almost 10% of annual revenue – just over \$10 million within the horticultural sector and around 50,000 workers could lose their jobs (mostly female labourers) (Royal Flora Holland, 2020). However, EHPEA is lobbying hard for companies to provide leave for employees rather than face redundancies (Bhalla and Wuilbercq, 2020). It is difficult to obtain more specific information on effects, though it is known that producers tend to specialise in the Dutch auction house sales – where prices have collapsed, with 85% of turnover gone (Vinay, 2020).

Garments: According to an International Labour Organization (ILO) survey undertaken in April 2020, the average reported capacity utilisation rate had decreased by 30% in Q1 2020 relative to the same period in 2019 (ILO, 2020a). Just under half of firms (9 of 20) reported cancelled or reduced orders from their customers as a result of Covid-19-related disruptions; locally owned firms are more likely to report having already faced cancelled orders. Six firms reported that lack of access to raw materials had contributed to a production slowdown.

Several interviewees also mentioned challenges related to workers' transportation to and from workplaces, as the government has imposed limits on bus capacity to ensure social distancing. There have also been increased business costs as a result of the need to provide additional PPE and hand sanitiser. Half of respondents said employee layoffs were likely in Q2 2020. Locally owned firms are more likely to expect layoffs as compared with FDI firms.

Tourism: Tourism arrivals have been hit significantly, including from major markets such as China. The state-run Ethiopian Airlines is seeing

a massive drop in both cargo and passengers, particularly to China; cargo flights to China and Hong Kong are reportedly down nearly 30%, according to the Ethiopian Custom Commission (Davis, 2020). Ethiopian Airlines has lost \$550 million over the past two months, furloughed some workers and laid off others and is focusing on cargo to sustain the business through this period (Getachew, 2020). Travel bans will have a severe effect as two thirds of government revenue comes from the airline (Zakrzewska et al., 2020).

Mitigating measures

Coffee: Farms may need to rely on corporate social responsibility and existing initiatives such as Fairtrade, which enable producers to retain price premiums. The retainment of the premium increases the value retained by producers, but clearly cannot support producers in case of lost sales.

Cut flowers: To prevent collapse, the government has designated the cut flowers sector essential, meaning companies and workers can keep working despite the state of emergency measures introduced (van der Wolf, 2020). Rescheduling bank loans, financing interest on principal loans and temporary suspension of the \$3.8 minimum price for every 1 kg of flower exports are other measures, with a view to ensuring labourers stay on firms' payroll (Flora Daily, 2020c; Zakrzewska et al., 2020).

Garments/manufacturing:

- Firms have implemented social distancing measures and shifted markets to supply the domestic market for PPE (ILO, 2020b).
- Government has introduced awareness-raising activities within industrial parks, with random testing at factories.
- To support ramping up production, managers are requesting help to secure orders, access to new raw materials and assistance with employee re-training.
- The Homegrown Economic Reform Agenda is continuing. This includes an electronic single window to facilitate trade, replaces the need for physical, manual and duplicate processes and also enhances transparency.

Tourism/aviation:

- Shifts have been made into cargo.
- Addis Ababa has been designated a Humanitarian Air Hub by the World Food Programme (WFP) and World Health Organization (Stat Times, 2020); different UN agencies, donor governments and philanthropists are using Addis Ababa as a hub to distribute medical supplies across Africa as part of the global effort to contain Covid-19.

On more general concerns regarding food security, existing platforms, such as the Ethiopian Grain Trade Enterprise and the Productive Safety Net Programme, are to procure and distribute grains, including to private traders/retailers (Taffesse and Minten, 2020).

5 The transformation of value chains after the crisis

The efficient operation of VCs relies on a combination of specialisation in production tasks and minimal constraints in trade flows. Specialisation leads to economies of scale in tasks that delivers greater efficiency to the whole chain. The connection of each of the links in the chain is facilitated by low restrictions and costs on trade, transport and logistics. Just-in-time operations, where intermediates arrive at the next link of the chain at the same time they are required, allow these flows to operate under low costs. Companies, in normal times, operate with minimum stocks of intermediates and final products.

These configurations and procedures of VCs have contributed to a major increase in efficiency in production and lower costs. They have contributed to major growth in world trade, from which Africa has benefited as a supplier of intermediates but also as consumer of cheaper products.

However, the experiences observed with respect to the operation of supply chains during the crisis suggest they struggle to adapt fast enough to extraordinary changes in demand, supply and trade. On the one hand, some VCs are 'long' in that they involve a long list of suppliers spread across the world. Reacting to sudden changes in the market conditions of long supply chains takes time. On the other hand, rapid scarcity of products and inputs, as a result of low levels of stocks, gives a signal to consumers and users to overstock. This leads to an almost immediate collapse of supply and of the operation of the supply chain.

In this sense, the Covid-19 crisis has pointed to the need to reconsider how supply chains operate. This may involve both the shortening and the regionalisation of supply chains as well as changes in how supply chains are managed.

Outsourcing, the fragmentation of production and the lengthening of VCs have allowed for a finer division of labour and greater gains from specialisation across countries. Just-in-time management practices also require holding minimal inventories to improve profits. The rise of GVCs has therefore helped reduce costs and increase the efficiency of trade and production networks. However, this reasoning assumes sourcing from other countries can be easily managed. Yet this is not always the case. There is a growing list of risks that need to be considered in countries' production and trade decisions, ranging from natural disasters to geopolitical, technological, contractual or demand factors.

The Covid-19 pandemic has resulted in a triple shock: health, supply and demand. This has shaken GVCs and uncovered a trade fragility, pointing to the need to reflect on the shortcomings of GVCs and to reassess their operation and structure. Many are talking of a future characterised by more diversified (rather than clustered) production networks that are reliant on trusted nodes; shorter and more regionalised VCs; and improved tracking of the chain of subcontractors. Meanwhile, in response to supply chain risks and disruptions as a result of Covid-19, many global lead firms have also relied on 'Industry 4.0' technologies. Future GVCs are likely to embody higher levels of automation, which can facilitate more flexible adjustment to changing demand, mitigating firms' risks in the event of a pandemic or other shock.

On the African continent, Covid-19 has strengthened the case for developing intra-African regional VCs and unlocking the continent's business potential. Given Africa's underdeveloped supply chains and minimal value addition, the continent has suffered a

significant blow as a result of the Covid-19-induced disruption to GVCs. As chapter 4 has shown, three months into the pandemic in Africa, food shortages, price hikes and breakdowns in pharmaceutical supply chains are widespread and growing. World staple food production is enjoying favourable conditions in most major producer markets. Yet a panic response to Covid-19 has resulted in export restrictions and distribution disruption. Most worrisome for Africa is the stall in shipments of rice from India, Africa's second biggest supplier, because of a nationwide lockdown in that country, and export bans on rice in Vietnam and Myanmar, Africa's fifth and sixth biggest suppliers (UNECA, 2020a). The construction industry has also reported delays in the delivery of materials such as metals sourced from Asia (PwC, 2020). These delays are placing a financial burden on contractors who, under normal circumstances, carry the cost of supply-side delays.

Covid-19 related breakdowns in supply chains have resulted from an increase in transaction costs in foreign trade (driven by additional inspections, reduced hours of operation, road closures, border closures and increases in transport costs), coupled with an endemic reliance on imports. In 2018, 82.2% and 95.9% of Africa's imports of food items, and medicinal and pharmaceutical products, respectively, originated from outside the continent. As chapter 2 has highlighted, the shift

in the Covid-19 epicentre from China, which accounts for 11% of African exports and 16% of imports, to Europe, which accounts for 33% of African exports and 32% of imports, has been problematic (UNECA, 2020a).

The AfCFTA Agreement serves as the leading framework for boosting intra-African trade. Swift implementation will be crucial to fast-track the development of 'made in Africa' brands embedded in competitive and robust regional VCs. In fact, a leading objective of the AfCFTA is to 'stimulate production through the development of regional value chains, as well as ensuring that manufacturing, agro-processing and other activities across the continent are stimulated to supply the market'. The Agreement therefore offers an opportunity for the continent to recommit itself to industrial development, in a way that will reduce its high trade dependence on non-African partners, and to position itself more strongly in the face of future global shocks.

For African countries to benefit from diversification of global supply chains and develop resilient regional VCs, major efforts on industrial policy will be required to boost competitiveness so that Africa is able to match low-cost production in China and Southeast Asian countries such as Vietnam and Cambodia. The AfCFTA offers an opportunity for Africa to revisit and overcome the continent's well-known non-tariff barriers (NTBs) and other constraints to boosting diversified trade and industrialisation.

6 African suppliers' reactions

In the wake of countries' struggles to procure essential medical products from global suppliers to fight Covid-19, there has already been a positive shift from global towards more regionalised and local supply chains. For example, in South Africa, U-Mask has redirected its production from protective masks for mining and agricultural companies to medical respirator masks. The National Agency for Science and Engineering Infrastructure has produced the first made-in-Nigeria ventilators. Senegal, in collaboration with the UK and France, is prototyping a pocket-sized testing kit that will cost less than \$1, and in Ghana a diagnostic firm in cooperation with a local university has developed a test that delivers results in 20 minutes (Primi et al., 2020). This demonstrates that there is potential for Africa's industries to respond to demand, whether public or private.

A recent survey jointly carried out by the Africa Trade Policy Centre (ATPC) of UNECA and International Economics Consulting Ltd. (IEC), on the impact of Covid-19 on business and trade across Africa, substantiates the ability of African firms to adapt and innovate in response to Covid-19 challenges, including global supply chain disruptions. Box 3 summarises the findings of this survey (UNECA and IEC, 2020).

At the continental level, UNECA and AFREXIMBANK have also partnered to support the scaling up of manufacturing of Covid-19 medical supplies that can be produced in Africa and sent across borders. Notable capacity has already been identified in South Africa, Egypt, Morocco, Kenya and Nigeria. This is expected to facilitate a regional approach to developing

medical VCs based on comparative advantages and economies of scale. It will also help ensure that African countries without the capacity to produce these products can access them from within the region. Further efforts will be required to strengthen the R&D capacity and associated human capital of all African countries, to build the necessary infrastructure for adaptability and resilience (Desta, 2020). The trends are expected to continue and become more entrenched post-Covid-19. These anticipated shifts are global in nature and not confined to Africa. In recent decades, it has become the norm for many supply chains to rely on one supplier or region, for various cost and sometimes property rights reasons. Different components of many of the world's electronic gadgets come from several different countries. This has made countries along the entire VC, including end importers, vulnerable to shocks emanating from different countries or regions. The broad reach of Covid-19 has exposed these vulnerabilities in a way that is expected to awaken global operations' management procedures (Nwokolo, 2020). Extended global supply chains will be less attractive in the post-Covid-19 world. The economic efficiencies generated by heavy specialisation of production and just-in-time inventories will be weighed against the vulnerabilities they embed across global supply chains if even just one link in the chain breaks. This is not a rejection of trade, but rather a rational rethinking and optimisation. The likely outcome will be shorter supply chains, more emphasis on regional trade and less reliance on a single trade partner (Olson, 2020).

7 The AfCFTA response

The AfCFTA can serve as a key fundamental piece in the recovery after the crisis. Any development of regional and shorter supply chains is going to be facilitated by efforts to streamline trade flows in goods and services within the continent. The AfCFTA provides an institutional mechanism to address trade barriers but also to channel investment to address existing bottlenecks. In this sense, speeding up implementation of the AfCFTA and making the levels of commitment deeper is going to be essential to facilitate the recovery. The pandemic has reinforced the political commitment as well as presented an opportunity to demonstrate the importance of the Agreement.

7.1 The political support to implement the AfCFTA

African Heads of State have signalled continued political commitment and will to implement the AfCFTA Agreement once the pandemic has settled. With the postponement of the 30 May 2020 Extraordinary Summit, a strategy is being devised to pursue the AfCFTA negotiations through video conferencing. The AU has developed a Roadmap for Finalisation of Phase 1 Negotiations through Virtual Meetings and plans to hold an Extraordinary Session of the Assembly of AU Heads of State and Government in November or December 2020 on Finalisation of Preparations for the Start of Trading under the AfCFTA on 1 January 2021. The African private sector, led by AfroChampions, has offered a secure and confidential electronic platform to facilitate meetings of the negotiation institutions, including the AfCFTA Negotiating Forum, the Committee of Senior Officials and the African Ministers of Trade. The AUC is currently working with member states to operationalise the AfroChampions platform as part of the AU Roadmap.

Besides measures to ensure continuation of the negotiations, the AU, the AfCFTA Secretariat and African member states are focusing efforts on two other important objectives (Fabricius, 2020):

1. Ensuring trade continues to flow as much as possible despite border closures and travel restrictions. This includes fast-tracking access to essential medical supplies by creating green lanes, and urgently suspending tariffs on all Covid-19-related medical products.
2. Solidifying plans on how the AfCFTA can enhance Africa's preparedness to fight future pandemics, once trading commences.

African countries are working together to strengthen continental supply chains and coordinate their response to Covid-19. For example, the Africa Task Force for Coronavirus, in partnership with the Africa Centres for Disease Prevention and Control, is working with existing supply chain systems to step up functioning regional lab referral networks to help countries without diagnostic capacity find a suitable, timely option for testing. The Partnership to Accelerate Covid-19 Testing, directed by the Bureau of AU Heads of State and Government, encompasses three important objectives (AU, 2020):

1. Establishing warehousing and distribution hubs across Africa, in partnership with organisations like WFP and Ethiopian Airlines.
2. Coordination of pooled procurement of diagnostics and other medical commodities for distribution across the continent.
3. Standardisation and deployment of common technology platforms to boost public trust in testing data, epidemiological models and critical health forecasting techniques as part of the economic recovery and reopening agenda.

Box 3 Insights into African businesses' reactions to and outlook on Covid-19

The UNECA ATPC/IEC was administered online during one week, from 14 to 20 April 2020. The results were based on 337 responses and 210 fully completed questionnaires, with each respondent representing an enterprise that operates in at least one and up to 54 African countries, and disaggregated as 76 micro enterprises, 59 small-sized enterprises, 42 medium sized-enterprises and 33 large enterprises.

One of the immediate effects of Covid-19 is that African businesses are functioning with considerably fewer employees than under normal circumstances. The rate of capacity utilisation ranged from 30–40% (for small-sized enterprises) to 50–60% (for large-sized enterprises). African businesses anticipate a slow recovery from the impact of the crisis and their revenues to fall by an average of 30–40%, with smaller companies expecting even more negative impacts: micro, small and medium-sized enterprises (MSMEs) forecast a drop in revenue in 2020 of as much as 40–50%.

An analysis of the top challenges by company size (see figure) clearly shows that surveyed MSMEs viewed operational issues the highest risk under the Covid-19 crisis ('lack of cash flow' was cited as the number one challenge by micro and small-sized companies and 'business is closed' by medium-sized enterprises). In the case of large companies, a 'reduction of opportunities to meet new customers' as well as 'issues with changing business strategies and offering alternative products/services' were the main concerns. In other words, while MSMEs seem to be concerned primarily with surviving the Covid-19 crisis, larger businesses appear to be more focused on the need to adapt to a new business environment.

Top three challenges faced by companies, by size

	Micro	Small	Medium	Large
1	 Lack of operational cash flow	 Lack of operational cash flow	 Business is closed	 Reduction of opportunities to meet new customers
2	 Business is closed	 Drop in demand for products/services	 Drop in demand for products/services	 Issues with changing business strategies and offering alternative products/services
3	 Reduction of opportunities to meet new customers	 Reduction of opportunities to meet new customers	 Reduction of opportunities to meet new customers	 Drop in demand for products/services

'Difficulties in obtaining supplies of raw materials essential for production' was an important challenge for companies engaged in manufacturing. In fact, when enterprises operating primarily in goods were asked about any shortages from suppliers in the Covid-19 context, 51% said they faced challenges with respect to national suppliers and 49% in relation to international suppliers. The survey revealed that larger companies are more integrated into global supply chains and more dependent on accessing supplies from third markets.

For those surveyed companies that rely on international suppliers for raw materials essential for production, it appears that micro and small companies are typically not exploiting the African market to obtain their supplies. Therefore, there is a clear opportunity with the ongoing establishment of the AfCFTA to develop critical regional VCs and supply chains so that businesses, particularly MSMEs, can better take advantage of the African market to source their inputs.

This cooperation, coordination and collaboration offers a springboard for successful implementation of the AfCFTA.

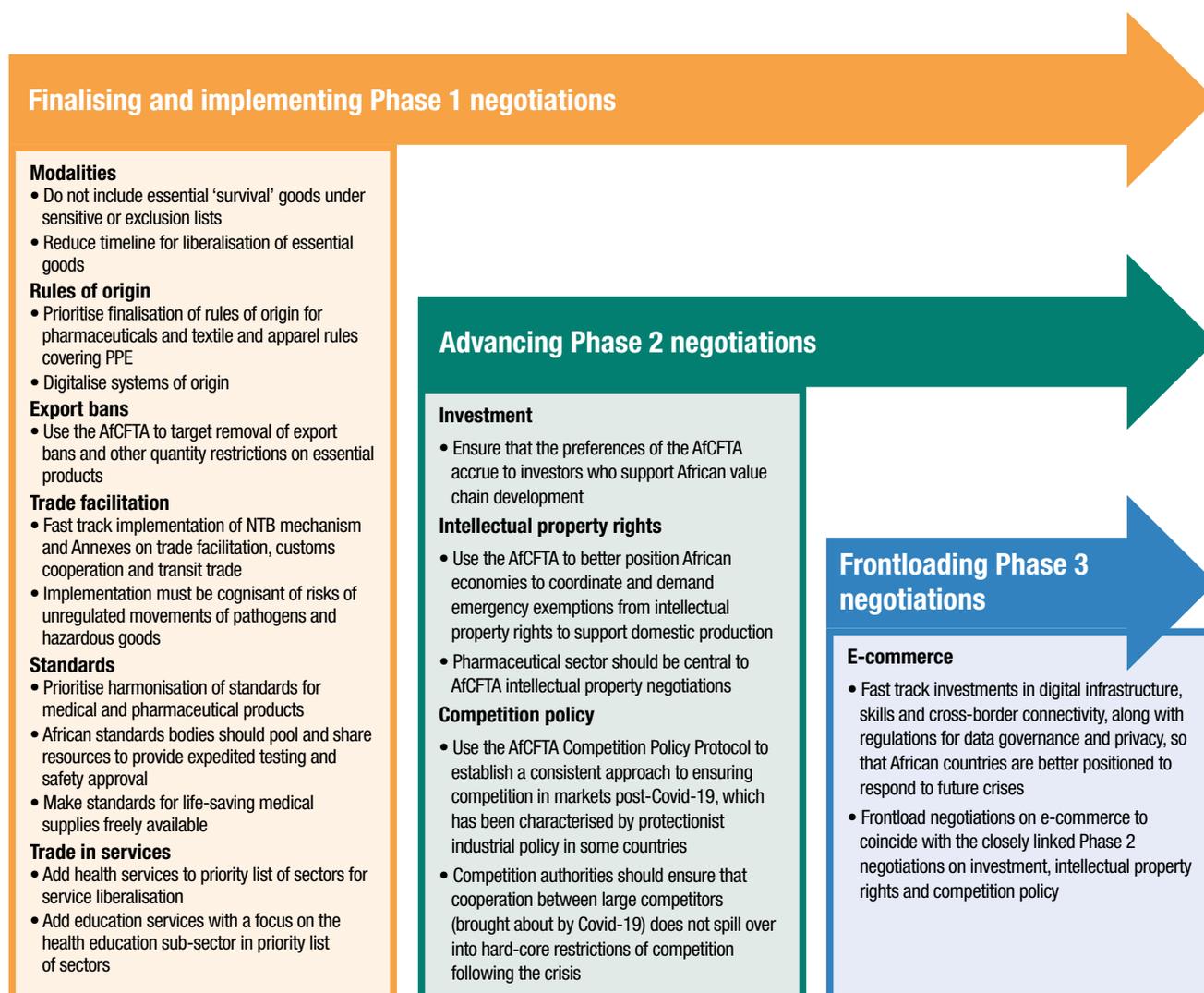
7.2 Taking stock: a window of opportunity for reflection on the AfCFTA

The delay to the start of trading offers a window of opportunity for creative thinking on ways to reconfigure the AfCFTA to reflect the new realities and risks of the twenty-first century. This is needed to better position the African economy in the face of future adverse shocks emanating from novel viruses and climate change, among others. The pandemic has shown that a robust supplier management system that takes into account sub-tier dependencies and proximity is a prerequisite

for today's supply chain, and in turn the need to utilise the AfCFTA as a springboard for developing Africa's industrial base.

Annex 3 lays out a set of priority actions needed for the AfCFTA to build competitive and resilient African VCs and economies in the post Covid-19 era. These include measures to tweak and finalise Phase 1 issues, fast-track and align Phase 2 issues to public health priorities and frontload Phase 3 negotiations on e-commerce to boost digital connectivity. The overarching recommendation is for African policy-makers to revisit the AfCFTA built-in agenda to introduce a new ambitious work programme of simultaneous negotiations on Phase 2 and 3 issues, as well as prioritisation of the liberalisation of health and education in services in 2021–2022. Figure 9 summarises the set of recommendations contained in Annex 3.

Figure 9 Priority recommendations for ensuring an AfCFTA that enhances Africa's resilience to future crises



7.3 Getting prepared for AfCFTA implementation

Despite the strong political will behind the AfCFTA, it is clear that Covid-19 may lessen some countries' preparedness to implement the Agreement. A recent report by AfroChampions highlights that the initiative expects its AfCFTA country commitment and readiness rankings to be downwardly revised in the coming months on account of Covid-19. It also highlights that AfroChampions' early surveillance indicates that some of the continent's strongest companies and businesses are already in severe financial stress (Afrochampions, 2020). A struggling private sector risks reducing the support of African business for competitiveness-inducing trade liberalisation.

The fiscal pressures and financial stress associated with the crisis and recovery should not be seen as a reason not to forge ahead with the AfCFTA. In fact, Covid-19 has actually amplified the urgency to implement the Agreement, for two reasons: (1) intra-African trade offers a stimulus for job creation, foreign exchange, industrial development and economic growth for the recovery phase; and (2) Covid-19 has shed light on the underdeveloped status of African supply and value chains, which the AfCFTA aims to strengthen. The cost of dismantling the customs taxes on intra-African trade are also low, amounting to just \$3.5 billion, or a little more than 0.1% of the continent's GDP (Mayaki, 2020). The AfCFTA should be seen as a complementary tool to maximise the impact, sustainability and geographical spill-overs of more targeted national Covid-19 recovery policies. If AfCFTA trading can take off in the recovery, this will send a strong signal to the rest of the world about Africa's dedication to regional integration and unified action.

In order to ensure that African countries are ready to implement the AfCFTA and that negotiations recommence, a number of pro-active preparatory actions will be required, including the following (Afrochampions, 2020):

- The AfCFTA Secretariat should continue its staff recruitment and operationalise a fully functional virtual office.

- AfCFTA negotiations should continue online, utilising the secure electronic platform offered by AfroChampions.
- The AU should request that ministers of trade prepare and present Covid-19 reports on the impact of the coronavirus on AfCFTA implementation plans.
- National planning for AfCFTA implementation (and supporting institutions) should continue so that countries will be ready for implementation once the crisis eases.
- The AUC should consider accepting electronically ratified versions of the Agreement until the pandemic dies, to keep momentum going.
- Special AfCFTA envoys should be appointed to assist the AfCFTA secretary general to coordinate with governments towards keeping the AfCFTA process on track.
- Governments and development finance institutions should channel financial assistance to keep national industries with export capacity or potential afloat, so they are ready for trading under the AfCFTA

7.4 Frontloading implementation of trade facilitation and customs cooperation provisions

At the same time as continuing negotiations, finalising tariff offers and preparing for the start of trading, African countries can already start to prioritise the implementation of elements of the AfCFTA Agreement that are complete and 'ready to go'. Most importantly, these should include:

- The Annex on Trade Facilitation, which aims to simplify and harmonise international trade procedures and logistics to expedite the processes of importation, exportation and transit.
- The Annex on Customs Cooperation, which commits state parties to cooperate in all areas of customs administration, with the end goal of improving the regulation of trade flows and the enforcement of applicable laws.
- The NTB mechanism, to be built into AfCFTA implementation to monitor, report and resolve NTBs.

Immediate implementation of these elements of the Agreement would go a long way towards overcoming existing border disruptions induced by Covid-19 and facilitating the movement of essential goods needed to save lives, ensure food security and protect livelihoods. These continental provisions and mechanisms offer a

foundation for building greater coordination at the national level. Continental frameworks have the benefit of embodying regional priorities and not being driven by a single country's national interests. This reduces the motivation for uncooperative behaviour and border disputes, as witnessed under the Covid-19 crisis.

8 Conclusions

The unprecedented global and simultaneous shock to supply and demand triggered by the coronavirus crisis is deeply affecting African economies. Trade volumes for goods and services, prices and, hence, value added in trade are all being affected. Our specific analysis of pharmaceutical and certain other VCs in Kenya and Ethiopia has described impact transmission and potential policy interventions: more regionalised VCs can build on already adaptive businesses.

When it comes to recovery, in light of the continent's structural fiscal constraints, and associated limitations in introducing traditional large-scale stimulus packages, boosting intra-African trade can be in itself a stimulus package to get Africa back on track post-Covid-19.

Amid the pandemic, it will thus be important for African countries not to lose sight of the landmark AfCFTA. African member states are fittingly focusing efforts on protecting lives and economies, and the AfCFTA start of trade date has been pushed back from 1 July 2020 to 1 January 2021. If economies sink too deep, recovery will be slow, and intra-Africa trade will be hampered even more.

Yet, in order to recover and build resilience in the medium to long term, African economies must maintain AfCFTA momentum and ambition. A rapid and ambitious implementation of the AfCFTA will go a long way towards hastening the recovery from Covid-19 impacts while inoculating Africa against future adverse effects of global shocks related to health, food supply and climate change, and more regional shocks such as the locust crisis in East Africa. Similar to the post-war Bretton Woods Agreement, the AfCFTA can be seen as an aid to rebuild African economies and promote continental cooperation and solidarity in the realm of trade and economic relations.

While the development of regional VCs constitutes part of the response to increase resilience and robustness, maintaining the position of African firms in GVCs is also imperative. African firms will have to adapt to the requirements, in terms of resilience and robustness, of VCs led by other countries. This needs to be enhanced by orienting investments, which are expected to be lower in the short term, to address logistics. Moreover, trade facilitation efforts, intensified during the pandemic, must be continued to ensure that any new safety requirements do not become new trade barriers.

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Annex 1 Travel restrictions in African countries

Table A1 Travel restrictions in African countries

	Flights suspended	Land borders closed	Maritime borders closed
Algeria	X		
Angola	X	X	X
Benin		X	
Botswana	X		
Burkina Faso	X	X	
Burundi	X	X	
Cameroon	X	X	X
Cape Verde	X		
CAR	X	X	
Chad	X	X	
Comoros	X		X
Congo	X	X	X
Côte d'Ivoire	X	X	X
DRC	X	X	X
Djibouti	X	X	X
Egypt	X		
Equatorial Guinea	X	X	X
Eritrea	X	X	
E-Swatini	X	X	
Ethiopia	X	X	
Gabon	X	X	X
Gambia	X	X	
Ghana	X	X	
Guinea	X	X	X
Guinea-Bissau	X	X	X
Kenya	X		

	Flights suspended	Land borders closed	Maritime borders closed
Lesotho			
Liberia	X	X	
Libya	X		
Madagascar	X		X
Malawi	X	X	
Mali	X	X	
Mauritania		X	
Mauritius	X		
Morocco	X	X	X
Mozambique	X		
Namibia	X	X	X
Niger	X	X	
Nigeria	X	X	
Rwanda	X	X	
São Tomé and Príncipe	X		X
Senegal	X	X	
Seychelles	X		
Sierra Leone	X	X	
Somalia	X	X	
South Africa	X	X	
South Sudan		X	
Sudan	X	X	X
Tanzania	X		
Togo	X	X	
Tunisia	X	X	X
Uganda	X	X	
Zambia	X		

Source: UNECA calculations based on WFP Covid-19 World Travel Restrictions Database (as at 7 June 2020)

Annex 2 Distribution of African value added

Table A2 Distribution of African value added by country, 2015

	Africa	China	EU	India	ROW	UK	US	Total value added (\$bn)
Algeria	0.4	1.1	79.9	0.3	9.8	2.6	5.9	119.27
Angola	0.5	27.6	32.8	0.4	23.4	1.3	13.9	22.25
Benin	11.3	2.0	40.8	3.1	37.8	1.8	3.0	0.38
Botswana	8.5	2.1	25.0	0.6	49.0	12.3	2.5	0.72
Burkina Faso	4.3	1.9	52.6	1.5	33.2	3.0	3.5	0.39
Burundi	5.0	2.1	41.8	0.8	43.8	2.4	4.1	0.26
Cameroon	2.6	3.1	75.4	0.3	13.2	2.9	2.6	5.37
Cape Verde	8.8	2.6	27.3	1.1	52.5	2.9	4.9	0.18
CAR	2.8	1.5	53.7	0.5	37.2	1.9	2.4	0.44
Chad	4.7	3.4	43.6	0.9	37.8	2.5	7.0	1.05
Congo	0.8	21.5	21.7	1.2	47.6	1.3	5.9	4.40
Côte d'Ivoire	3.7	1.0	77.3	1.0	11.0	3.1	2.8	7.05
Djibouti	7.4	2.6	24.5	1.3	57.2	2.3	4.6	0.21
DRC	3.0	1.4	76.3	0.5	12.1	2.1	4.6	4.67
Egypt	1.8	2.7	65.1	1.1	19.8	7.4	2.1	21.49
Eritrea	6.5	2.6	31.5	1.1	50.6	2.7	5.0	0.25
E-Swazini	7.3	2.7	39.1	0.7	40.6	6.4	3.2	0.58
Ethiopia	1.8	3.0	47.8	2.7	34.8	4.7	5.2	10.94
Gabon	1.5	12.4	37.6	0.7	27.2	1.5	19.0	5.62
Ghana	1.9	2.8	71.6	0.7	15.8	4.3	3.0	5.82
Guinea	1.4	1.3	75.6	0.4	16.7	2.1	2.4	2.63
Guinea-Bissau	7.7	2.4	38.1	1.0	43.0	4.5	3.3	0.13
Kenya	6.1	2.0	62.6	1.7	18.2	7.4	1.8	5.09
Lesotho	6.1	2.3	36.5	1.4	45.1	3.3	5.3	0.21
Liberia	1.5	1.8	61.1	0.8	26.1	2.5	6.2	1.24
Libya	0.6	1.1	85.9	0.2	8.5	2.8	0.9	45.88
Madagascar	3.3	3.6	66.7	0.5	19.3	2.3	4.4	2.08

	Africa	China	EU	India	ROW	UK	US	Total value added (\$bn)
Malawi	11.1	1.4	53.9	0.4	24.6	5.0	3.7	0.84
Mali	10.3	1.9	39.5	1.8	40.2	2.6	3.6	0.56
Mauritania	3.2	2.0	69.4	0.4	21.2	2.3	1.5	1.34
Mauritius	5.1	2.0	55.7	0.6	20.7	13.6	2.4	2.06
Morocco	0.8	2.7	57.6	0.8	31.9	3.0	3.2	25.72
Mozambique	21.5	2.9	46.8	1.4	22.5	2.7	2.2	0.94
Namibia	15.6	3.9	55.2	0.3	18.6	3.5	2.8	1.29
Niger	4.7	2.4	46.9	0.6	41.0	1.9	2.5	0.62
Nigeria	1.2	2.7	57.5	0.9	20.0	3.0	14.8	46.25
Rwanda	6.7	5.8	36.3	1.0	43.0	2.6	4.6	0.32
São Tomé & Príncipe	6.5	2.5	29.9	0.9	53.5	2.4	4.3	0.11
Senegal	5.9	1.4	72.6	1.5	13.6	3.4	1.6	2.29
Seychelles	4.5	1.8	54.4	0.6	29.9	6.1	2.8	0.48
Sierra Leone	5.1	1.8	45.4	0.8	39.0	3.1	4.8	0.36
Somalia	6.9	2.5	27.6	1.7	54.1	2.9	4.4	0.10
South Africa	5.8	4.9	48.1	1.7	28.3	7.3	3.9	120.38
South Sudan	6.9	3.0	23.9	1.3	58.1	2.6	4.2	0.46
Sudan	2.0	2.9	45.5	2.9	37.1	5.1	4.7	1.82
Tanzania	5.7	5.5	52.8	1.9	28.7	3.3	2.1	1.42
Togo	20.3	1.8	38.8	1.2	33.0	2.3	2.5	0.57
Tunisia	3.5	1.0	82.5	0.4	8.6	3.1	1.0	12.85
Uganda	7.3	1.6	59.9	0.7	25.0	3.0	2.5	0.78
Zambia	18.2	10.8	36.2	3.8	26.1	2.9	2.0	3.20
Zimbabwe	17.8	2.7	42.0	1.0	27.7	5.4	3.4	4.98
Total Africa								498.29

Source: Own elaboration based on EORA-MRIO

Annex 3 Priority actions needed for the AfCFTA to build resilient African value chains

Finalising and implementing Phase 1 negotiations

Modalities

The pandemic has exposed the interconnectedness of the global economy and risks associated with importing (from outside the continent) essential life-saving goods. The AfCFTA modalities commit AU member states to remove at least 90% of tariffs lines on goods imported from other state parties over a period of between 5 and 15 years. As member states finalise their tariff schedules, it will be important that essential ‘survival’ goods such as medicines, ventilators, PPE and food staples (e.g. grains, vegetables and meat) are not included under sensitive or exclusion lists. The timeframe of five years for liberalisation of these essential goods could also be reduced, in order to speed up the development of essential African VCs in anticipation of future shocks.

Rules of origin

Rules of origin are the cornerstone of any free trade agreement and critical to defining what is meant by the ‘made in Africa’ brand. It is important that remaining rules of origin are agreed upon swiftly, as soon as AfCFTA negotiations recommence online, with priority attached to pharmaceuticals and textile and apparel rules covering PPE and masks.

Covid-19 has also highlighted the difficulties in accessing preferential schemes in a period where physical presence is not possible. Digital signatures can go a long way in overcoming this challenge. For example, South Africa and the European Commission have relaxed the requirement to insist on the presentation or submission of original certificates of origin to prove the originating status of goods at the time of clearance. Instead, copies or electronic versions of proof of origin will be accepted in an attempt to curb the spread of Covid-19. Many African countries are not at par in terms of recognition of digital signatures. The AfCFTA offers a platform to call for the fast-tracking of digitalisation of the various systems of origin certification so Africa’s exporters are less at risk of losing access to preference schemes in future crises.

Export bans

A total of 14 African countries have now imposed export restrictions on Covid-19 medical supplies unrestrained by their WTO and/or other international obligations. In a world with the AfCFTA, diplomatic pressure will offer a tool to more effectively target the removal of export bans and other quantity restrictions on essential products. Currently, there is no legal obligation that precludes a state party to the AfCFTA Agreement from imposing a ban on the exportation of PPE to another state party during a time of emergency. Efforts should be made to revisit the rules and craft additional provisions to cater for crises that improve on the General Agreement on Tariffs and Trade/WTO regime for export restrictions (Desta, 2020). The AfCFTA principle of transparency, which requires members to publish and promulgate measures that relate to trade matters, should feature strongly in implementation. This will aid collaboration on a continent-wide response to any future crisis (Signé and van der Ven, 2020).

Trade facilitation and non-tariff barriers

African governments must fast-track implementation of the AfCFTA Annexes on Trade Facilitation, Customs Cooperation and Transit Trade, along with utilisation of the built-in AfCFTA NTB mechanism. This will be crucial to reducing Africa's NTBs, which currently significantly inflate the monetary and time costs of conducting intra-African trade, particularly across borders. This is of critical importance for laying strong and adaptive systems for responding to health and food emergencies in a timely manner. Green corridors, for example, have proven very effective in facilitating expedited clearance of essential Covid-19 medical supplies.

These annexes should also be implemented in a manner that is cognisant of the risks of unregulated movements of pathogens and hazardous goods. This is crucial to ensuring that ports and borders are ready to manage future health crises in a safe way (including testing, cargo tracking and sanitary facilities at border stations) so that cross border-trade can continue to flow with limited additional costs and disruption.

Standards

Africa faces extreme challenges in public health, partly owing to deficiencies in quality infrastructure for the medical industry. In the Southern African Development Community, South Africa remains the only state with a proper framework that recognises medical devices in their own category.

The AfCFTA Technical Barriers to Trade and Sanitary and Phytosanitary Annexes require harmonising standards and ensuring equivalence in technical regulations, metrology, accreditation and conformity assessment, and developing capacity-building programmes for cooperation. It will be important for state parties to prioritise the harmonisation of standards for medical and pharmaceutical products in pursuit of public health goals. The AfCFTA should also be used as a platform for African standards bodies to pool and share resources to provide expedited testing and safety approval for new production of medical equipment in Africa. In addition, automatic registration of medical supplies that have met standards in trusted economies or that have been approved by the African Regional Standards Organisation (ARSO) could help fast-track standards approval.

Typically, standards must be purchased and used in line with intellectual property right rules. At the peak of the pandemic in Europe, the European Committee for Standardization and the European Committee for Electrotechnical Standardization agreed to immediately make available a number of European standards for certain medical devices and PPE. This action helped EU and third-country companies that were willing to manufacture these items to swiftly start production and place products on the internal market more easily while ensuring a high degree of safety. To respond to future emergencies, the AfCFTA Secretariat in partnership with ARSO could similarly play an important role in coordinating efforts among national standards bodies to make standards for medical supplies freely available (ATPC, 2020).

Trade in services

Member states have agreed on five priority services for the first round of AfCFTA services negotiations: financial services, communications, transport, tourism and business services. Advancing these negotiations will be crucial to supporting increased efficiency and competitiveness of Africa's exporting and importing firms. Covid-19 has seriously disrupted the transport and tourism service sectors, so making progress on these areas will be particularly important to aid the recovery process. Under communications, African countries can identify what digital communications channels and types of digitally driven businesses were useful in tackling the coronavirus outbreak, and seek to consolidate their market opportunity and capacities.

However, health services are currently excluded from the priority services sectors for negotiation. In the interest of building more robust and resilient African health supply chains, member states should consider adding these to the priority list. Alternatively, the liberalisation of professional services under the overall business services sector could extend to cover medical services personnel. Through mode 3 (commercial presence), the establishment of polyclinics, hospitals, private laboratories, diagnostic centres and other health infrastructure can also be prioritised in the first round of services negotiations (Chaytor and Ogo, 2020). Along similar lines, education services with a focus on the health education sub-sector should be a priority. This needs to be complemented with allowing international movement of critical health and technical experts in a safe manner. Ensuring equivalency of accreditation for health-related degrees and programmes will be crucial to facilitating quick response and movement of health workers to respond to future epidemics and pandemics.

Advancing Phase 2 negotiations

Investment

The AfCFTA investment protocol will provide common rules for state parties to introduce harmonised incentives for attracting investments to accelerate development. This will make it easier for foreign investors to engage with African countries on designing trans-boundary investment projects. However, the pandemic has highlighted that it will be important to ensure that the preferences and benefits of the AfCFTA accrue to those investors who create production and value added within Africa, and in doing so fuel African supply capacity, networks and value chains.

Intellectual property

The flexibilities of the TRIPS and the Doha Declaration enable national governments to exclude medical supplies from patent subject matter, grant patent use without the consent of the patent holder and recur to parallel imports by establishing international exhaustion of intellectual property rights in response to domestic policy objectives. The AfCFTA should be used to better position African economies to coordinate and demand emergency exemptions from intellectual property rights to support domestic production. Of utmost importance, when a Covid-19 vaccine eventually becomes available (not expected until 2021), a coordinated African request for TRIPS flexibilities will be crucial, so that the that were willing is available and affordable to all (Primi et al., 2020). The pharmaceutical sector should also be central to the second phase of AfCFTA intellectual property negotiations.

Competition policy

As African governments switch focus from urgent short-term measures to longer-term efforts to encourage economic recovery, they can use the AfCFTA Competition Policy Protocol to establish a consistent approach to ensuring competition in markets. Covid-19-related industrial policy should not lead to protectionist measures that could undermine regional integration and cooperation. Over-shielding companies from competition can reduce their efficiency and contribution to the economic recovery (OECD, 2020b). It will thus be important to keep markets open and to respect competitive neutrality principles.

In addition, many companies that are competitors are now collaborating in the name of public health. For example, in Nigeria, the Dangote Group, Access Bank, Zenith Bank, Guaranty Trust Bank, MTN and KPMG have come together to form the Coalition Against Covid-19, which is providing financing for the immediate purchase of medical supplies and the creation of isolation centres (Hruby, 2020). Such collaboration is crucial and welfare-improving during the crisis. However, competition authorities should ensure that such cooperation does not spill over into any hardcore restrictions on competition following the crisis.

Frontloading Phase 3 negotiations

E-commerce

In January this year, African member states made a decision to add e-commerce as a Phase 3 issue to be negotiated under the AfCFTA. More than ever, Covid-19 has highlighted the importance of digital technologies (Chaytor and Ogo, 2020). Virtual platforms are being explored to ensure the AfCFTA negotiations continue and the process remains on track. Across the globe, remote online work, online orders and drone delivery and automated factories have been used to ensure lockdowns take place in a manner that is less harmful to the economy. Digital contact tracing tools have also proved helpful in containing the virus through collecting data on Covid-19 cases and tracking exposure. For example, the Safiri Smart initiative, from Safaricom, the Kenyan Ministry of Health and Korea Telecom, is a disease and epidemic surveillance and awareness project via Unstructured Supplementary Service Data (USSD), set up to help alert users of disease and epidemics via their mobile phones.

With these developments in mind it will be crucial for Africa to fast-track investments in digital infrastructure, skills and cross-border connectivity, along with regulations for data governance and privacy. Member states should consider frontloading negotiations on e-commerce to coincide with the closely linked Phase 2 negotiations on investment, intellectual property rights and competition policy. This would also provide a supporting impetus for implementation of the new AU Digital Transformation Strategy.



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ODI
203 Blackfriars Road
London SE1 8NJ

+44 (0)20 7922 0300
info@odi.org

odi.org
odi.org/facebook
odi.org/twitter