GEOPOLITICS AND REGIONAL INTEGRATION

The African Continental Free Trade Area (AfCFTA) in the Context of COVID-19

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Photography: "So that we are not erased", by Obiageli Adaeze Okaro

While the African continent is still feeling the economic and social consequences of the pandemic, the process of establishing the African Continental Free Trade Area (AfCFTA) continues to make progress. The AfCFTA has numerous ambitions, including increasing intra-regional trade, promoting industrial development and creating jobs. Its operational launch in January 2021, despite the pandemic, represents a watershed moment in the history of pan-African integration. Within the present context of difficulties —although also the early stages of recovery—, the AfCFTA stands as a key instrument in the African agenda for rendering markets more competitive and furthering the continent's economic and social development.

Impact of the pandemic and economic crisis in 2020

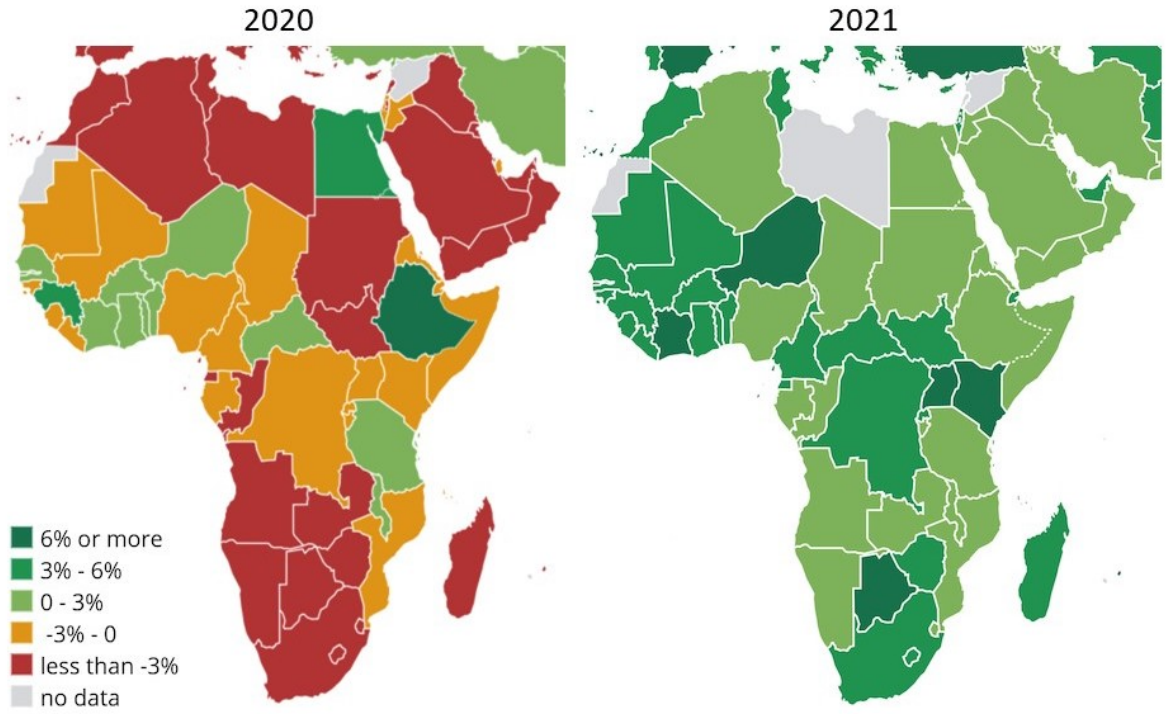
The 2020 pandemic brought to an end a cycle of economic growth on the African continent and sparked the worse economic recession in fifty years. This situation was largely the result of the following factors:

- Falling oil demand and prices, which affected not only Africa's main oil producers (Nigeria, Angola, Algeria, Libya and Egypt), but also countries which rely heavily on crude oil revenue, such as the Republic of the Congo, South Sudan, Guinea and Equatorial Guinea, inter alia.
- The decline in remittances from foreign migrants, sent by the African Diaspora to their countries of origin. The impact was particularly negative in countries such as the Comoros, Lesotho, Gambia and Senegal, highly dependent on this form of foreign revenue. In Senegal, for instance, remittances account for 10% of its Gross Domestic Product (GDP).
- The collapse in tourism revenue, which affected a sizeable number of African economies. The suspension of tourism had a more crippling impact on countries with the heaviest reliance on tourism revenue (including several island States such as Seychelles, Cape Verde and São Tomé and Príncipe), as well as the continent's most popular tourism destinations: Morocco, South Africa and Tunisia.
- Other factors, such as the widespread decline in exports, value chain disruptions and the lock-downs imposed in certain countries also had negative economic impacts. The suspension of economic activities in the European Union and China, Africa's biggest trade and investment partners, led to a stoppage in exports and commodities in 2020, as lock-down measures began to be introduced in countries that buy African goods.

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Together, these impact channels resulted in a sharp downturn in Africa's economic activity in 2020, in line with events around the world. The impact, however, despite being widespread, was not homogeneous (Table 1). Some countries proved especially vulnerable, a situation which was particularly evident in Libya (which suffered an economic downturn measured in GDP of -59% year-over-year), while, overall, a greater impact was experienced by oil-exporting countries (such as Angola, South Sudan and Equatorial Guinea, with declines in GDP of -4%, -6.6 and -5.8%, respectively) and countries with a greater dependency on tourism (such as Mauritius, Cape Verde and Seychelles, with GDP setbacks of -15.8%, -14% and -13%, respectively).

Table 1: Economic growth rates (% variation in GDP) (2020-2021)



Source: International Monetary Fund [1]

Prospects for economic recovery

According to most forecasts, a global recovery is expected to take place at some point during 2021, a trend which includes all African countries. Nonetheless, it is worth underlining three fundamental ideas which affect African countries within this context of recovery:

(1) The first is that access to vaccines has become a difference maker, with better prospects in countries with higher vaccination rates. In Africa, despite cross-country differences, the current pace of vaccination is exceedingly slow [2], undermining the prospects for recovery. Table 2 shows a global forecast indicating a 6% rise in the world GDP for 2021, with a slower average pace (3.4%) for countries in Sub-Saharan Africa.

Table 2: Economic growth and prospects by region and countries

	2020	2021	2022
World total	-3,2	6,0	4,9
Advanced economies:	-4,6	5,6	4,4
– USA	-3,5	7,0	4,9
– Eurozone	-6,5	4,6	4,3
Developing economies:	-2,1	6,3	5,2
– China	-2,3	8,1	4,7
– Latin America and the Caribbean	-7,0	5,8	3,2
– Sub-Saharan Africa	-1,8	3,4	4,1

— *Nigeria*	-1,8	2,5	2,6
— *South Africa*	-7,0	4,0	2,2

Source: compiled by author based on IMF data [3]

(2) The second idea regarding economic recovery concerns continental diversity. Just as the economic impact of the pandemic has been unequal, African countries are expected to recover at different speeds (see Table 1). For instance, while the economies of countries that rely most heavily on tourism experienced the sharpest declines (11% on average in 2020), they are predicted to recover faster than the African average (6.2% in 2021). On the other hand, the recovery of oil-exporting countries will also depend on global crude oil prices (which have already shown an upward trend), with an anticipated average GDP increase of 3.1% for 2021.

(3) The third fundamental idea is that, despite the economic recovery, a reversal of the poverty increase caused as a result of COVID-19 cannot be predicted. According to the African Development Bank [4], 30 million Africans fell into extreme poverty in 2020 because of the pandemic, while another 39 million could be pushed into extreme poverty in 2021. This increase is the result of several factors, including enforced lock-downs, increased unemployment caused by the global downturn and now, in 2021, the rise in prices (of food and fuel, for example).

Yet despite the pandemic… the AfCFTA was launched in 2021

Among the 14 flagship projects outlined in the African Union's (AU) 2063 Agenda is the implementation of the African Continental Free Trade Area (AfCFTA, or ZELCAf in French). Some of the more pessimistic voices branded the AfCFTA project as overly ambitious, especially given the fact that previous attempts at regional integration in Africa had not been particularly successful. Many therefore expected the project to drag out over time. This has not been the case. The impetus provided by the African Union, together with the high level of political commitment on the part of the various governments, led to the fairly prompt signing of the AfCFTA/ZLECAf in March 2018 and its operational launch in January 2021.

Despite the fact that the continent's two biggest powers, South Africa and Nigeria, initially refrained from signing the Agreement in 2018, the number of signatory countries proved so high (44 of the 55 AU members) that the event can be considered a watershed moment in continental economic integration and a major step forward in the history of African pan-Africanism. The Agreement entered into force on 30 May 2019, and within just one month, it was announced that the AfCFTA Secretariat would be based in Ghana. Since 2019, the process of establishing the Free Trade Area has developed according to schedule and has been warmly received in most countries. Subsequent signatures and ratifications of the Agreement have ensued. In 2020, South Africa's Wamkele Mene was appointed the first secretary general, and the start date for the liberalised trade regime between the thirty-odd countries that had ratified the Agreement was set for July of that same year (a date which

would be delayed several months due to the spread of the pandemic throughout the continent).

Yet despite the delay, the pandemic did not prevent trading under the AfCFTA regime from commencing in 2021. This regime involves eliminating trade barriers (particularly customs tariffs) between the countries that have ratified the Agreement. As a general rule, members are required to eliminate 90% of their tariffs on products and services from other African countries within a period of 5 years. For less developed countries, this period is longer. Within 10 to 13 years, all African trade will be tariff-free [5].

> The AfCFTA's liberalisation of Africa's markets, will enable African companies to trade with other African markets under more favourable conditions

The liberalisation of Africa's markets, with the elimination of all customs tariffs, is the biggest and fastest change that the AfCFTA will bring and will enable African companies to trade with other African markets under more favourable conditions. This development is highly significant, because tariffs on imports between African countries have traditionally been very high. The average tariff that African companies have been required to pay to export to other African countries is 6.5%. As a result, it has often been easier to trade abroad rather than with other countries on the continent.

Effects of the pandemic on the AfCFTA

The impact of COVID-19 has rendered the AfCFTA initiative even more relevant. Trade imbalances and a disruption in the global value chain caused as a result of COVID have brought to light two major issues: on the one hand, the vulnerability of African economies and their excessive reliance on international markets; and, on the other, the need to reduce this dependency by strengthening regional value chains, i.e. to relocate as much of the production process as possible to African soil and reduce the dependency on supplies —and even sales— to and from the outside world. In other words, to ensure that Africa trades more with Africa.

Bearing in mind that the AfCFTA's primary objective is precisely this, to increase intra-African trade (which at present accounts for less than 20% of the continent's total volume of trade) to at least 50% by the year 2030, it is easy to understand the vital role that the Free Trade Area plays in this new context. The pandemic has heightened, for instance, the dependence on imports in key sectors, such as the pharmaceutical and medical supply sectors, and sped up plans to stimulate production in several African countries. This liberalised and tariff-free market is expected to encourage the substitution of international suppliers for African products and suppliers in various sectors.

> For the AfCFTA to work, economic transformations will be needed, along with improved infrastructure network

Nonetheless, strengthening regional value chains and increasing intra-African trade —among the lowest in the world— will take more than just political rhetoric; the AfCFTA will require economic transformations (particularly industrial development) and an improved infrastructure network. There must be major changes in the production system that enable countries to produce what their neighbours demand, a situation which once again pushes industrial development to the forefront as one of the continent's primary objectives.

Essential elements for the success of the AfCFTA

The Free Trade Area is undoubtedly an ambitious project, with bold objectives that are mostly medium-term: increased intra-African trade, industrial development, job creation, investment attraction, etc. Seeing as there is a certain consensus that immediate effects cannot be expected, regard must be had for a series of key factors or elements that will enable the expectations surrounding the impact of the AfCFTA to become a reality and which essentially involve: ratifications, actual implementation, economic recovery, industrial development, infrastructure and time.

Firstly, all countries must ratify the Agreement establishing the AfCFTA, as ratification is what legally binds the governments to enforce the measures they undertake to implement. According to the Tralac Ratification Barometer, as of September 2021, 38 countries have ratified the Agreement, while all countries, except Eritrea, have signed the foundation agreement. Secondly, in order to ensure that the AfCFTA is successful, countries must effectively fulfil their commitments and implement the action plans, many of which are still in draft phase. Thirdly, normalcy must be restored among Africa's economies, wherefore it is necessary to confirm and consolidate the start of economic recovery in 2021. To do so, the pace of vaccination must be stepped up, as forecasts indicate that while economic recovery will occur despite low immunisation rates, it will be slower. The fourth key factor is the need to further industrialise Africa's economies, which will allow African countries to take full advantage of the benefits of a unified market and sell an increased volume of manufactured goods to neighbouring countries.

> The role of external funding in infrastructure development in Africa will be vital to the success of the AfCFTA, but the initiative needs time and cannot be rushed

As a highly relevant factor, and in fourth place, is the need to improve infrastructures: roads, bridges, ports and other key infrastructure for trade. To date, China's prominent role

in financing infrastructure has been a constant across the continent. Given the increased financing needs of African countries as a result of the pandemic (as has occurred around the world), the role of external funding (and from other players such as the G7 and EU, inter alia) in infrastructure development in Africa will be vital to the success of the AfCFTA.

Lastly, to be successful, the initiative needs time. A factor that, despite becoming more urgent as a result of the pandemic, cannot be rushed if the initiative is to bring about the desired effects.

Concluding thoughts

After a year of global recession, the economy is expected to recover in 2021. This trend also includes African economies, albeit at a slower rate due to the decreased pace of vaccination. This recovery will mark the end of the continent's worst recession in 25 years and is predicted to be fuelled by the reestablishment of tourism activities, rising raw material prices and the gradual lifting of pandemic-related restrictions.

Just as the pandemic affected African countries unequally in 2020, with oil-exporting countries and those reliant on tourism among the hardest hit, differences in the pace of economic recovery are also predicted. While certain contextual factors, such as the escalation in oil prices, are positive for crude oil exporters, they will place increased inflationary pressure on other countries.

The pandemic has also brought to light two key issues. On the one hand, the over-dependence and vulnerability of many African countries with regard to oil exports and the fluctuating price of crude oil, as well as, generally speaking, foreign markets. On the other, if value chains are disrupted, as occurred over several months in 2020, and there are no regional markets in Africa that can offset the decrease in international demand, Africa is unable to maintain stable rates of economic growth.

The pandemic has also exacerbated some of the problems facing African economies, such as debt levels in certain African countries, and has increased, in all countries, the need for financial resources. With the lock-downs, the economic downturn, increased unemployment and rise in prices have dealt a serious blow to the advancements made in recent decades in poverty reduction.

Yet despite the pandemic and its consequences, the AfCFTA has continued to make headway. COVID-19 has increased support for the project and rendered the need to strengthen economic ties between African countries, trapped since colonial times in a model based on exports and dependency on third countries (mainly from Europe, although increasingly on China), even more urgent. In this regard, and given the current context, the AfCFTA raises high expectations. If major obstacles such as the need for trade infrastructure are overcome in time and African countries show a political commitment to fulfilling their pledges, the initiative's potential to contribute to the growth and development of Africa is immense.

From a more optimistic viewpoint, the Free Trade Area could serve as an incentive to transform Africa's economies (particularly through greater industrialisation) into more diversified and competitive economies capable of delivering growth in jobs. In this regard, the concentration of value chains within the continent and the emergence of Factory Africa are objectives that the COVID-19 pandemic has pushed to the forefront in African political agendas.

While it is true that the AfCFTA's objectives are ambitious, according to economist Carlos Lopes, the African Union's representative for Europe, "The AfCFTA's agenda is huge, but so is Africa's political determination."

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