Impact on African trade and the role of the AfCFTA in the recovery

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Plummeting commodity prices threaten Africa’s traditional exports

As the severity of COVID-19 emerged through Feb-Mar, commodity prices plummeted for more than 67% of Africa’s exports.

- Brent crude down 50%, Cotton (proxy for textiles) down 26%, metals down 20%, average food prices down 5%, only gold – a safe haven investment – is up 5%.

Composition of Africa’s total exports

- Petroleum oils 40%
- Metals and ores 12%
- Foodstuffs 11%
- Gold 7%
- Textiles 4%
- Other 27%

Prices for Africa’s commodities

Source: Based on ITC TradeMap Data (2016-18 average) and FAO and Trading Economics, April 2020
Special focus: crude oil revenues

- Crude oil exports accounted for 7.4% of Africa’s total GDP from 2016-18
- Brent crude average price has plummeted 50% lower than 2016-18 average
- Lowest price level since 2003
- Corollary impact on revenues, foreign exchange and domestic consumption
- Nigeria example:
  - ECA estimates revenues to decline by between $14 billion and $19.2 billion

Nigeria: revenue from oil exports, $19.2 billion losses are forecast by ECA

Source: ECA research based on data from the Central Bank of Nigeria
Lockdowns and shop closures in Africa’s two markets – US and EU – put severe downward pressure on demand.

Offline spending on apparel in EU estimated to have fallen 30-40% and as much as 80% in highly infected regions.

Puts at peril Africa’s $15bn in exports but also source of employment:
- 38,000 formal workers Kenya
- 37,000 formal workers Ethiopia

Knock-on effect on cotton prices for farmers in Benin, Burkina Faso, Mali and Zimbabwe.

Source: Based on data from UNCTAD Stat. Textile products include textile fibres, yarn, fabrics and clothing (SITC 26 + 65 + 84)
Special focus: tea, coffee and flowers

- Demand down for coffee and tea (particularly for out-of-home consumption) in EU and US markets
- ICO composite price for coffee fallen 7% since December
- Severe livelihoods risks for:
  - 4 million small-hold farmers Ethiopia
  - 500,000 households Uganda
  - 700,000 small-hold farmers and 3,000 large growers Kenya
- Collapse in demand for fresh-cut flowers – livelihoods risks for:
  - 100,000 Kenya (with indirect impact on 2 million)
  - 200,000 Ethiopia (potentially 150,000 job losses)

Coffee exports from Ethiopia, Uganda and Kenya to main trade partners (average 2016-2018)

Source: Based on data from UNCTAD stat
• Cocoa prices fall 6% since December, due mostly to slowdown in EU, US and UK which account for 77% of all African cocoa exports
• Large employment sector, involving 800,000 farmers in Ghana

Source: ECA research based on data from UNCTAD stat

Special focus: cocoa

Exports of cocoa beans from the main producing countries in Africa (average 2016-2018)

Source: ECA research based on data from UNCTAD stat

Destination for $10 billion in annual cocoa bean exports from Africa (average 2016-2018)

Source: ECA research based on data from UNCTAD stat
Tourism and air transport face almost complete collapse

95% of the 1.4 billion tourist visitors to Africa were from outside the continent in 2018, with 51% from Europe

Disproportionate impact on Small Island Developing States
- 38% of Seychelles GDP
- 25% of Cabo Verde GDP
- 15% Mauritius GDP

Devastating impact on foreign exchange earnings and jobs

Air transport employ 6.2 million directly

Source: UNWTO
Firm-level data shows businesses are struggling

Top challenges (from highest to lowest) reported by companies in Africa

1. Drop in demand for products/services
2. Lack of operational cash flow
3. Reduction of opportunities to meet new customers
4. Business is closed
5. Issues with changing business strategies and offering alternative products/services
6. Decline in workers’ production/productivity from working at home
7. Many workers cannot return to work
8. Challenges in logistics and shipping of products
9. Difficulties in obtaining supplies of raw materials essential for production

Notes: Each respondent represents a company that operates in at least one and up to 54 African countries, data was collected on 210 firms from 14 to 20 April
African firms report operating at very low capacity utilization rates

- On average, businesses in Africa report to be operating at only 43 percent between 14 and 20 April, though with larger firms reporting to operate at a slightly better capacity.
- The manufacturing, health/entertainment/utilities and transport/trade sub-sectors report to be operating at the lowest capacities.

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AfCFTA in recovery: Trade in medical goods

COVID-19 maybe around for some time. African innovators and manufactures are repurposing capacity to respond:

**N95 masks**: South Africa's U-Mask redirected production from protective masks for mining and agricultural companies

**Testing kits**: Ghana, Senegal, Uganda, Kenya, South Africa all have innovative low-cost rapid testing kits undergoing trials, prototyping or manufacture

**Hand sanitizer**: Ethiopia’s government working with Sansheng Pharmaceuticals

**Ventilators**: South Africa to produce 10,000 by end of June, Morocco Industry Ministry report 500 produced by mid April

With more than 80 countries worldwide restricting exports on COVID-19 medical supplies, intra-African trade can help share African production and innovation:

**Protocol on Trade in Goods**: original modalities didn’t mandate liberalization of health goods – schedules can be adjusted for this.


**Standards**: automatic registration of medical supplies that have met ARSO standards and adoption of common standards eg ARSO recommended fast tracking of FDARS 1470-2019 hand sanitizers

**Trade facilitation**: ‘Green Lanes’ for quick inspection and release from vetted sources, with more rigorous ‘Orange Lanes’ for new sources.
AfCFTA in recovery: Trade in services

The fight against COVID-19 requires the exchange of expertise, knowledge and services.

**Technical support to COVID-19 manufacturing**: Required to initial and supervise production and safety certification in African factories. Eg Indian manufacturers reported that travel bans limited their ability to rapidly accelerate production of medical supplies.

**Health expertise**: As COVID-19 hit Italy, 300 Chinese intensive-care doctors moved to Italy to share advice and experiences.

The AfCFTA modalities for trade in services prioritize liberalization in 5 sectors: business services, communication, financial, tourism and transport services.

**Health related and social services** were not immediate priorities, but countries can (and should) still submit services schedules with liberalization in this sector.

**Health education services** were also not initial priorities, but can be liberalized.

**Needs to be complemented** with allowing international movement of critical health and technical experts:
- Movement needs to be managed safely
- But is important for combating COVID
# AfCFTA in recovery: digital trade and e-commerce

## Immediate steps

**Go digital for social distancing**
- Identify internet services as ‘essential services’ to avoid disruption
- Coordinate with telecom operators to improve internet service bottlenecks (*eg Ethio Tel reduced tariffs*)
- Fast-track mobile money adoption (*eg. M-Pesa fee waiver*)
- Publicize and raise awareness of digital work opportunities (*eg. Freelancer, Upwork, Andela etc*)
- Rapidly deploy digital infrastructure (*eg. Kenya Google Loon*)
- Expand access to digital work

## Digital trade and e-commerce protocol

**Setting the ground for African regional e-commerce**
- At the WTO level, negotiations on e-commerce failed to start.
- Need **bottom up** for Africa’s digital SMEs in scaling up and expanding across borders
- **Cooperation framework** to help regulators pool expertise on issues of data policy, cyber security and data privacy
- **Regulatory interoperability:** harmonization, minimum standards or principles
**Using the AfCFTA to bounce back**

Change in intra-African exports by main sectors, as compared to the baseline without AfCFTA in place - 2040 - US$ bn (various scenarios)

- Businesses are already questioning their GVCs, and looking towards more reliable local and regional production chains.
- AfCFTA can channel this momentum towards African regional value chains.
- ECA modelling anticipates AfCFTA causing largest % increase (over 25%) in intra-African exports of industrial products, such as textiles / apparel and manufacturing.

Source: ECA research based on MIRAGE CGE model
THANK YOU!