



Working paper 586

Africa trade and Covid-19

The supply chain dimension

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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

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

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