Fighting the COVID-19 Today: A Reflection on Positioning the AfCFTA for the Future

By:

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May 8, 2020

The COVID-19 pandemic has surfaced as an unprecedented calamity post World War II. Researching about, and analysing the pandemic as a socio-political, economic, medical or scientific phenomenon will undoubtedly engage the global community for at least the next decade. History has documented a plethora of similar or much deadlier pandemics to serve as lessons for the world's geopolitics and economic forecasting. The dichotomy lies in the fact that this dispensation is deemed as having advanced in medicine, science and technology to deal swiftly with such false majeures ever to be encountered. This must also be looked at on the balance of the relative demographics of the periods when such analysis is being considered. The devasting effects of the current pandemic have not discriminated and respected any single state or bloc in the international community. Currently, the search for solutions to the pandemic has been multifaceted (i.e. from the perspective of law, science, technology, spiritual, myths and conspiracies; and perhaps by a combination of

all of them). What is indisputable to all the facets is that none of the approaches has so far proven potent to eradicate the spread of the COVID-19 virus.

When in December 2019, the novel coronavirus pandemic was first reported in Wuhan, Hubei Province of China, it could not be foreseen that only a few short weeks later, it would have spread to over a hundred countries in all the six regions under the World Health Organisation (WHO). To date, different information has circulated the world through the official communication network of the WHO about the origin of the disease and the actual and pipeline efforts to studying about it; including the search for its origins and treatment continues and efforts to treat those infected continue throughout the world. So far, the COVID-19 pandemic has led to the disruption and cancellation of academic activities, scientific conferences, sporting gatherings, international trade and forums, social and personal distancing, travel and flights schedules as well as the introduction of novel preventive measures and protocols led by the WHO.

In anticipation of all plausible projections, it is prudent to forecast an African economy driven by the business environment in such dispensation. It is also wiser in the same manner to project a sustainable way to prepare, forestall and mitigate any eventualities that may confront the commerce of Africa in particular. The world's biggest trading nations and blocs have seen the hardest hit with this catastrophic disease in this short period grinding almost all economic activities and commerce to a halt. Countries which hold sway for Africa's major trading bloc, the European Union (EU), has been painfully inflicted and that will eventually impact on the foundations of the pillars of African trade output. African member countries in the African Continental Free Trade Area (AfCFTA) that would serve as the strongholds of the continental trade arrangement like South Africa, Nigeria, Egypt, Ghana, Kenya, Tunisia, Ivory Coast have been saddled with the debilitating effects of the pandemic.

Africa's net contribution to world trade under the multilateral trading system has been nothing to write home about (Nahanga, 2017: 6). Often, the markets of the continent have been at the receiving end with significant national budgets going into imports of finished goods and basic lifestyle products.

Exports commodities have primarily been raw and unfinished products to the global north (Nahanga, 2017: 6). Investment in supporting Micro, Small and Medium Enterprises (MSMEs) (Davis, 2018) especially for those in manufacturing, to take advantage of the vast continental market has been woeful. With the coming into force of the AfCFTA in July 2019, there was hope that the African trading platform and impact were going to be felt more aggressively especially in trade in goods and services under its first phase. The business community in Africa, which is expected to serve as the conduit for this agreement, is predominantly led by MSMEs with little financial muscles to make a meaningful impact on the global arena of commerce (Beck and Culld, 2014). Finance has always surfaced as the singular most essential element that serves as the livewire for the growth and survival of MSMEs (Flynn and Beashel, 2019). World trade volumes are pushed by MSMEs and statistics shows that MSMEs constitute a significant percentage of the trading activities on the continent (Muriithi, 2017) It is trite that "[A] thriving micro and small scale enterprise sector is considered worldwide as a key to the path of successful and healthy economic development." The AfCFTA is projected to rely heavily on the sustainability and resilience of the MSME sector of the member countries to push its agenda.

However, MSMEs continue to be frustrated by identifiable financial gaps than multinationals with less access to external financing (International Trade Centre, 2016). The reliance on commercial banks, non-financial and credit institutions have been largely unreliable. Most African businesses expected to be the anchors of the continental free trade agreement have stuck to traditional means of trade finance such as personal capital, family incomes, loans and overdrafts which are not just woefully unreliable and inadequate, but also expensive to be serviced due to some demand and supply considerations.

After the 2nd World War in 1944, the world was certain that it was not going to war again on matters surrounding trade and disputes on economic inequalities. It must be clear that the trade spat, for instance, between the United States and China, which has taken centre stage in the international trade system is going to heighten in the face of this pandemic. Thus, impacting on African's trade relations and market access in international commerce. Africa cannot be oblivious of the imminent hike in this tussle in post-COVID-19. This cements the

point that the multinational dominated environment does not guarantee a conducive space for African businesses to compete on the international import and export market if a new horizon to business financing in Africa is not galvanised. It is on these reasons that the following suggestions are made to guarantee quick recovery of MSMEs in Africa after the crisis.

First, there is still a legitimate expectation of Africa to take advantage of the new eventual paradigm, albeit with considerable costs to its development plan and budget, to launch an aggressive trade protocol and economic discourse to create a meaningful living for its citizens. What needs to be done is for the structures and players of commerce in Africa to be positioned adequately to have a voice and the wherewithal to compete to anchor the continent's overall economic development. The next focus must be on global competitiveness and economic viability on the back of stronger trade and investment enterprises. Financial bailouts from internal and external sources targeted at MSMEs in productive sectors like manufacturing, agriculture and technology in respective countries must be encouraged, especially countries that have not contemplated or begun applying same (Mizner, 2020). Business health check must be done to appraise and target businesses that are focused on import substitution ventures to have good returns on such bailouts through job creation, contribution to gross domestic production and eradication of poverty.

Second, international trade relations, no doubt is going to be uttered immeasurably after this period; relations are going to be redefined; new partnerships eminent; readjustments have to be made to exiting continental agreements; trade focus and protocols will be redirected, and economies are going to be reengineered based on available social capitals. What is required is an investment climate conducive for competitive MSMEs grounded in sustainable financing scheme. The competitiveness of the businesses must be nurtured based on efficient production on the value chain of the businesses, which is possible. Apart from traditional loans, mortgaging and overdrafts, alternate financing avenues like peer to peer and mutual financing can be explored; the later are financing means that do not require stringent securitisation or collateralisation.

Third, trade finance for MSMEs has become a critical global challenge for the

attention of key trade organisations such as the International Chamber of Commerce (ICC). It is, therefore, strongly suggested that valuable attention is given to this sector to be adequately robust after the COVID-19 crisis. African governments agencies must facilitate the conducive regime for businesses to explore other sustainable and reliable means of trade financing such as factoring (invoice discounting) (Korankye-Sakyi, 2019). Arguably, one of the AfCFTA's major competitors in international trade will be the European Union (EU), whose businesses do not have such constraint and have for decades leveraged on trade financing schemes such as factoring to support their businesses.

In this vein, I propose Africa to leverage on factoring, which has not received the needed recognition, promotion and the milieu to operate in most African countries, as a key alternative but reliable and sustainable means of financing its economic wheels on the global economic market. It is simply a trade finance scheme by which an entity discounts its invoices and sells to a factor for upfront cash. Factoring has exited over a century as a financing model for businesses across the globe. However, Africa's share of the overall factoring business in the world is approximately 1% with South Africa as the leader (Bickers, 2017). It is yet a very complex and sophisticated market involving multinationals but which can retain local investors and banks when regulated adequately with the right legal environment (Bickers, 2017). The advantages of invoice discounting stand out from other known traditional financing schemes such as loans and overdraft facilities (Bickers, 2017). Fortunately, Africa has a vehicle already in motion that has a special interest in promoting factoring activities. The African Export-Import Bank (Afreximbank) has since 1993 offered the expertise and financial injections to give technical, financial, legal and research support to countries that embrace and crave for the use of factoring to resource their MSMEs in particular. Recently, the bank moved in a way to absolve African MSMEs against the ramifications of the pandemic with a whopping $3billion as a buffer to cushion businesses that will suffer from the anticipated rippling effects of the pandemic in future. This effort must be a reckoning to the AfCFTA Secretariat and African governments to think outside the box in search of such interventions to absolve the aftermath shocks of the pandemic on MSMEs operating from the shores of Africa. What is needed to maximise the merits of factoring enterprise is to rely on existing international

and regional factoring legal frameworks to encourage African countries to enact laws purposely suited to regulate the factoring industry in tune with their socio-economic dynamics.

In conclusion, the world of commerce after this pandemic will change significantly and controlled by those countries and blocs whose industries, research, trade and technology are robustly resourced and positioned to take advantage of the new market of knowledge, utilities and essential commodities of life. Access to trade finance is predicted to be the fundamental contrasting issue between developed and developing countries. Trade facilitation to move value-added products and services more efficiently across borders to other parts of the world must inform the thinking and planning of governments in the short and medium-term. Technical assistance in trade facilitation by AfCFTA in this course to offer the needed incentives for importers, exporters and players of international trade on the continent in reducing delays and cost of doing business across borders is non-negotiable. The benefit of hindsight in international economics offers practical models on how Africa can leverage its potential resources to succeed after this period. This will depend essentially on how the continent prepares its MSMEs through a reliable, sustainable and efficient system of trade financing to carry its economic objectives. Factoring has proven over the years and across the globe as one surest means of achieving this. In such a situation, one cannot but advocate strongly for policy synchronisation of all facets of the economies towards building a resilient trade and investment sector for Africa spearheaded by the MSMEs.

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