



# Contemporary Issues in African Trade and Trade Finance

## CIAT

Volume 7 • Number 1  
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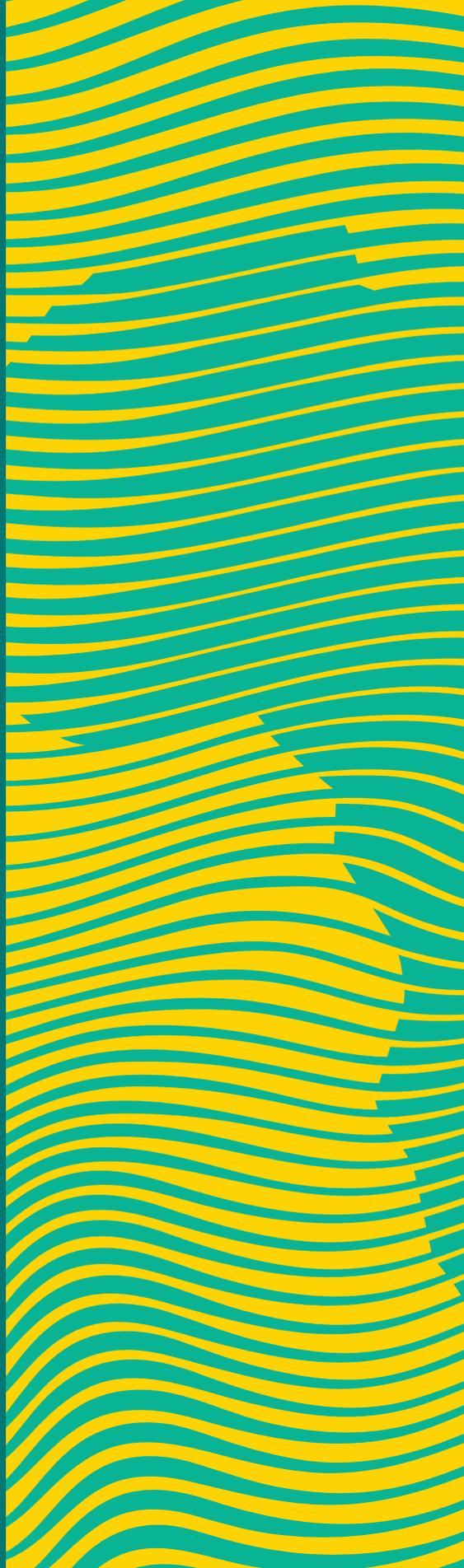


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Volume 7 • Number 1  
December 2021



THE AFRICAN EXPORT-IMPORT BANK

# CONTEMPORARY ISSUES IN AFRICAN TRADE AND TRADE FINANCE (CIAT)

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The Contemporary Issues in African Trade and Trade Finance (CIAT) is introduced by the bank to provide a platform for the staff of Afreximbank and other individuals knowledgeable in African trade and trade finance to publish articles in the areas of trade, trade finance and economic development in Africa. The CIAT publishes technical and non-technical papers. Edited by a committee, drawn from both internal and external sources, it also publishes relevant papers at conferences or seminars and those presented at the bank's internally organised Knowledge Sharing Sessions. The journal welcomes editorial comments and responses which will be considered for publication to the extent that space permits.

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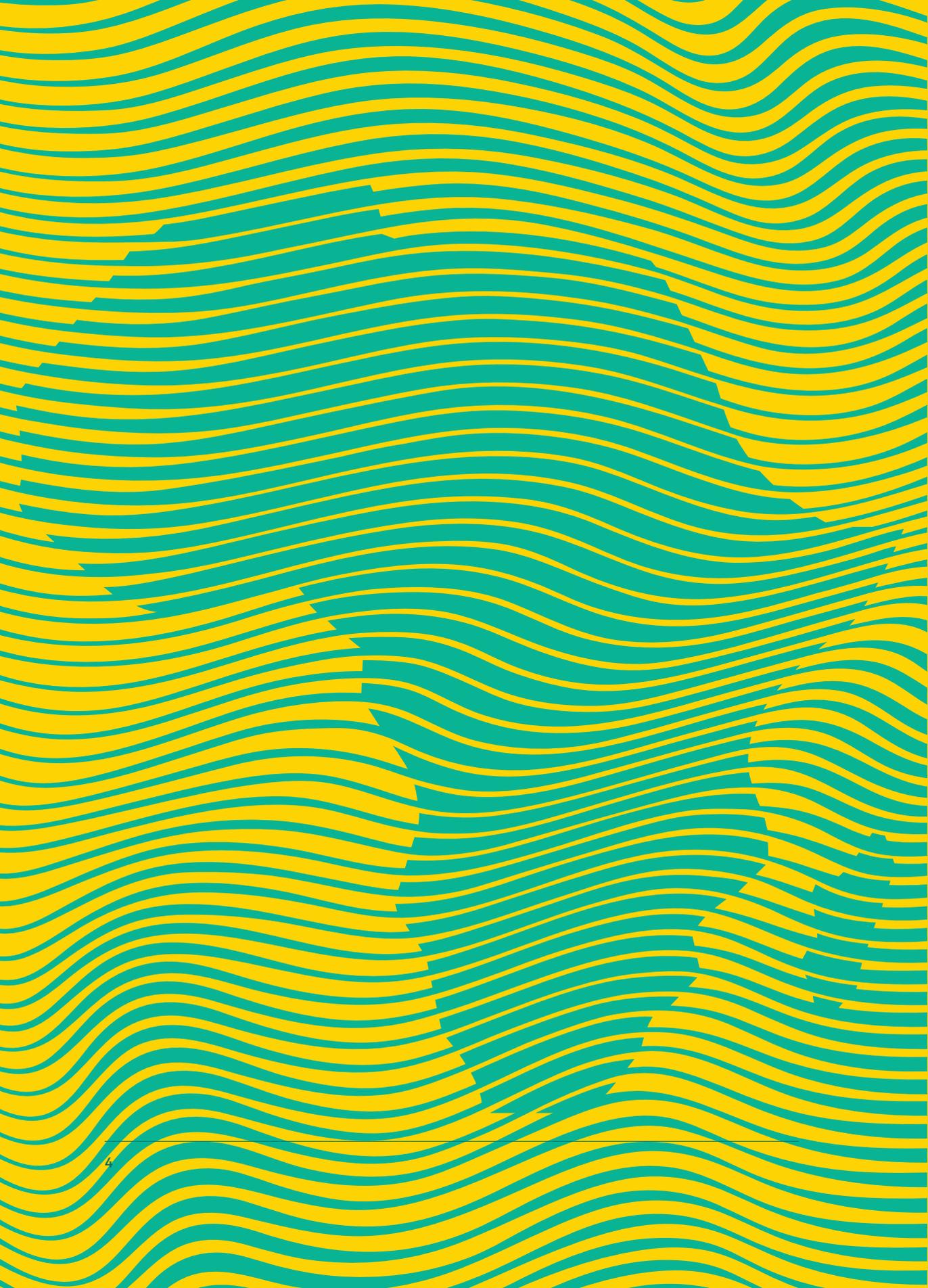
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## Foreword

In a region where investment in healthcare infrastructure has been neglected for decades, the relationship between public health and economic health has emerged as one of Africa's most important lessons from the COVID-19 pandemic. In the outbreak's aftermath, Africa, which exhibited commendable resilience in the wake of the 2008 financial crisis, suffered its first recession in more than two decades.

The inextricable link between public health and economic health is now playing out in the recovery phase of the pandemic downturn. The strong economic recovery – powered by effective vaccines as well as bold government stimulus measures and countercyclical financing from multilateral and development finance institutions – has been impaired by the emergence of highly transmissible COVID-19 variants. That these variants are arising with regularity reflects two factors: protectionist policies, and vaccine nationalism. Together, these are setting the stage for a dangerous two-speed recovery.

While more than 65% of the population of advanced economies is fully vaccinated, the inoculation rate is considerably lower in developing economies. Across Africa, just 13.6% of the population was vaccinated as of end-December 2021. In addition

to the obvious health concerns, vaccine apartheid is exacerbating disparities in the recovery gap between advanced and developing economies. While the former were able to draw on large fiscal and monetary stimulus to boost growth, the latter, including most African nations, were constrained by limited fiscal space.

The differences in the scope of governments' measures opened the door for multilateral and development finance institutions to exhibit their relevance in curtailing this crisis. In Africa, the International Monetary Fund (IMF) and African Export-Import Bank (Afreximbank) extended significantly large financial support to member countries. This edition of Contemporary Issues in African Trade and Trade Finance (CIAT) covers an array of measures executed by these institutions to

help steer the region through the pandemic. It outlines policy options for building back better, including implementing initiatives to accelerate the transformation of African economies and make them more resilient to adverse global shocks.

Ensuring that liquidity crises did not morph into solvency crises following the pandemic's outbreak was crucial. As argued by **Goran Amidzic** and **Catherine Pattillo**, the IMF stepped up, providing emergency financing and liquidity support to African countries, and boosting their reserve base to enhance macroeconomic stability through the issuance of new special drawing rights. But the recovery also depended on the provision of trade finance, which supports more than 80% of global trade annually and has been in short supply in Africa. As asserted by **Rene Awambeng**, **Gwen Mwaba**, and **Vitalis Uzor**, Afreximbank was well placed to provide bold and timely support to member countries through its Pandemic Trade Impact Mitigation Facility (PATIMFA). This helped clients meet trade debt payments that were falling due, as well as finance the acquisition of vaccines, test kits, therapeutics, and personal protective equipment. To build back better, Afreximbank also financed the expansion of manufacturing infrastructure to raise the production of pharmaceuticals and diversify the sources of growth and trade, post-pandemic.

The second set of articles in this edition of CIAT highlight the critical role that the African Continental Free Trade Agreement (AfCFTA) could play in the post-crisis transformation of regional economies, as corporates leverage economies of scale associated with the landmark continental trade integration reform. **Carlos Correa** argues for the expansion of African vaccine production and manufacturing capacity to help put the region on the path towards sustainable public health and economic development. **Pamela Coke-Hamilton** outlines the institutional support that the International Trade Centre can provide towards implementing the AfCFTA. These measures include the expansion of market opportunities for low-income countries – making sure that trade works for all – and harnessing partnerships to fast-track the diversification of sources of growth and trade and supporting the growth of micro-, small, and medium-sized African enterprises.

The pandemic downturn has also underlined the risks of excessive dependency on primary commodities and natural resource exports for foreign exchange earnings. **Janvier Nkurunziza** discusses how the region could free itself from this commodity-dependence trap. The challenges facing Africa are also influenced by the international trade environment, which has historically been biased against developing markets.

**Ha-Joon Chang** examines the contours of a pro-developmental multilateralism that recognizes the limits of an unfettered market economy and takes into account the implications of differences in stages of development for global competitiveness.

The COVID-19 pandemic has shed a great deal of light on the vulnerabilities of global supply chains and the difficulties of transcending politically expedient beggar-thy-neighbour policies in a context of scarcity. For Africa, building back better hinges on drawing on the AfCFTA's potential to expand the manufacturing component of intra-African trade. The papers in this issue outline strategies to transform regional economies and better prepare Africa for future crises. They provide answers to some of the key questions we have been grappling with in these difficult times, and I strongly recommend them to our thoughtful readers and all those interested in Africa's development and the international trading system.



**Professor Benedict Okey Oramah**  
President and Chairman  
of the Board of Directors,  
African Export-Import Bank

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# IMF Support to Africa through the COVID-19 Crisis

**Goran Amidzic and Catherine Pattillo**

The International Monetary Fund

**Abstract:** Confronted with a crisis like no other, the IMF responded to the COVID-19 crisis with unprecedented speed and magnitude. The Fund provided its African members emergency financing and liquidity support, advocated for debt service relief and improved coordination of debt treatments, and stepped up its concessional financial support and capacity development efforts. IMF support focused where it mattered most and made a critical difference in saving lives and livelihoods. As the uncertainty of the depth and duration of this crisis remains high, the Fund remains committed to supporting Africa's economic recovery by accelerating access to vaccines, enabling structural transformation, and supporting private sector growth.<sup>1</sup>

**Keywords:** COVID-19, capacity development, debt relief, Rapid Financing Instrument, Rapid Credit Facility, SDR

**JEL Classification:** F420, F340, F350, H630, O190

## 1. Introduction

The COVID-19 pandemic unleashed an unprecedented health and economic shock on the African continent. The region was acutely affected by several coinciding blows: a domestic health crisis, negative external spillovers, and a sudden decline in commodity prices. Swift introduction of containment and mitigation measures at the onset of the pandemic, while vital to saving lives, also caused significant production and supply chain disruptions and sharp declines in economic activity,

and heightened food insecurity. Spending needs increased, with countries looking to mitigate adverse effects of the crisis, while revenues fell due to lower growth and trade, and together these effects raised debt levels. Negative spillovers from the global fallout reduced external demand, while availability of imports weakened customs revenues and increased inflationary pressures.

The pandemic's fallout also led to the sharp tightening of global financial conditions in the first half of 2020 – with sovereign spreads in the region

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**1.** This article covers IMF support to all countries on the African continent, including 45 countries in Sub-Saharan Africa (SSA) and nine in North Africa.

reaching an all-time high in April 2020 – which reduced investment flows and hampered the region’s ability to mitigate the health crisis and support growth. The sharp decline in commodity prices further compounded the impact of the pandemic on the region’s resource-intensive countries, weighing on growth and adding to fiscal and external vulnerabilities.

Consequently, economies in Sub-Saharan Africa (SSA) contracted by 1.9 percent in 2020, the worst outcome on record, while many North African countries recorded even worse growth outcomes. No country was spared. The greatest impact was on tourism-dependent economies (Cabo Verde, Mauritius, Seychelles), oil exporters (Angola, Republic of Congo, Libya, South Sudan), and other commodity exporters (Botswana, South Africa). The pandemic’s acute economic impact also caused significant social dislocation in SSA: per-capita income declined to 2013 levels, estimated employment fell by about 8.5 percent in 2020, about 30 million people were pushed into poverty, and disruptions to education jeopardized the prospects of an entire generation of schoolchildren (IMF, 2021a).

In North Africa, youth unemployment rates, which were already structurally high before the pandemic in many countries, reached nearly 32 percent in Morocco and 36.5 percent in Tunisia (IMF, 2021b). A large proportion of Africa’s most marginalized

workers were employed in some of the region’s hardest-hit sectors. In addition, COVID-19-related disruptions to local and imported food supplies and depreciation pressures pushed up food prices, with a dramatic worsening in food insecurity in some (Angola, Burkina Faso). As a result, the pandemic is placing the attainment of the Sustainable Development Goals by 2030 out of reach for most African countries (IMF, 2021c).

Exceptional times call for exceptional measures. The IMF responded to the COVID-19 crisis with unprecedented speed and magnitude, dispensing financial and liquidity support, policy advice, capacity development, and debt relief. This paper provides an overview of support deployed by the Fund to assist its African member countries deal with the pandemic fallout. The next section focuses on emergency financing, with emphasis on the Rapid Financing Instrument and Rapid Credit Facility. Section 3 discusses the allocation of special drawing rights (SDRs) and their implications for greater resilience. Section 4 reviews the role played by the Fund in the promotion of debt relief extended to the most vulnerable countries. Section 5 highlights the Fund’s support in the area of capacity development and efforts to scale up its concessional financial support. Section 6 discusses the impact of IMF support, while section 7 outlines the Fund’s multipronged approach to strengthening the resilience

of African economies. The last section concludes.

## 2. Emergency financing

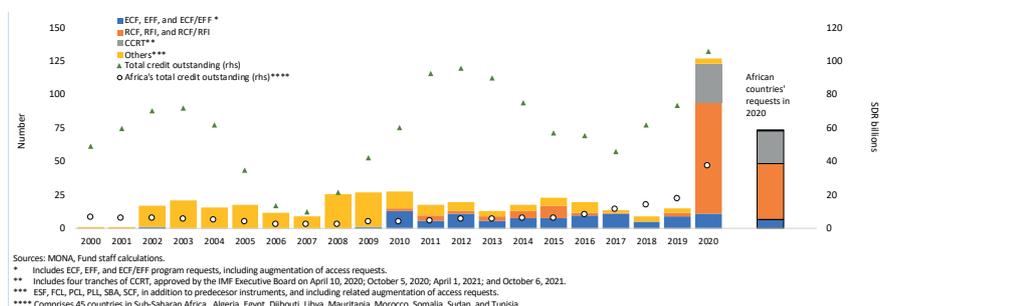
Faced with rapidly growing requests for emergency financing, the IMF responded with record speed and scale. The Fund expedited its institutional review processes, approving the first COVID-related emergency financing in mid-March 2020.<sup>2</sup> The Fund also temporarily increased access limits in its emergency financing toolkit, specifically the Rapid Financing

Instrument, available to all members, and the Rapid Credit Facility, available only to low-income countries eligible for concessional financing.

These enhancements enabled immediate scaling-up of IMF financial assistance, while helping to catalyse additional donor support. Since March 2020, the IMF has approved nearly US\$36.5 billion in COVID-19-related financial assistance to 44 African countries via Rapid Credit Facilities, Rapid Financing Instruments, and new and existing programs – including augmentations of access. The region

**Figure 1: IMF Financial Support**

(Total number of approved country requests for Fund financial support across the entire membership, by year of approval)



Sources: MONA, Fund staff calculations.

- \* Includes Extended Credit Facility (ECF), Extended Fund Facility (EFF), and ECF/EFF program requests, including augmentation of access requests.
- \*\* Includes four tranches of Catastrophe Containment and Relief Trust (CCRT), approved by the IMF Executive Board on April 10, 2020; October 5, 2020; April 1, 2021; and October 6, 2021.
- \*\*\* Exogenous Shock Facility (ESF), Flexible Credit Line (FCL), Precautionary Credit Line (PCL), Precautionary Liquidity Line (PLL), Stand-by Arrangement (SBA), Standby Credit Facility (SCF), in addition to predecessor instruments, and including related augmentation of access requests.
- \*\*\*\* Comprises 45 countries in Sub-Saharan Africa, Algeria, Egypt, Djibouti, Libya, Mauritania, Morocco, Somalia, Sudan, and Tunisia.

2. The first pandemic-related emergency support was provided to the Kyrgyz Republic on March 26, 2020. Rwanda was the first African country to receive this type of financial assistance, on April 2, 2020.

represented nearly 60 percent of all country requests for IMF financial assistance in 2020, significantly increasing the share of the region’s credit outstanding to 35 percent of the total IMF disbursements in 2020 (figure 1). More than one-third came from the Poverty Reduction and Growth Trust (PRGT) – the IMF’s vehicle for zero-interest loans to low-income countries.

The IMF balanced the need for immediate COVID-19 financing against appropriate accountability and transparency, to ensure that financial help reaches those in need. Member countries receiving IMF emergency financial support have committed to carrying out enhanced governance measures,

such as publication of procurement contracts (Democratic Republic of Congo, Guinea, Kenya) and beneficial ownership of contracting companies (Benin, Malawi), as well as enhanced monitoring, reporting, and ex-post audit of COVID-19-related spending (Burkina Faso, Guinea, Kenya, Sierra Leone, South Africa, Zambia).

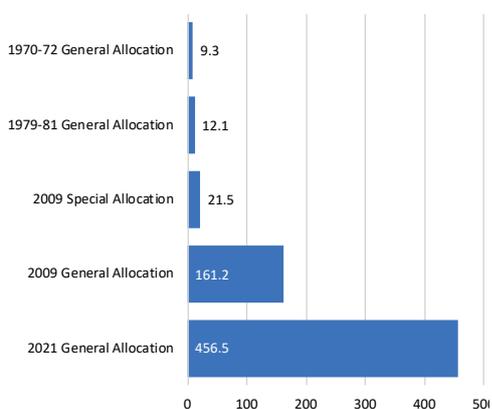
### 3. SDR allocation

To support liquidity-constrained countries in addressing the impact of the pandemic, the IMF Board of Directors approved the 2021 general allocation of SDRs in August 2021. This was the largest SDR allocation in the history of the IMF, equivalent to US\$650 billion (about SDR 456 billion), of which nearly US\$34 billion was allocated to African members (figure 2). The region’s three largest economies – Egypt, Nigeria, and South Africa – accounted for one-third of the subtotal. Relative to the size of their economies, the SDR allocation was significant. For example, in Zambia and Liberia, the total SDR allocation surpassed 5 percent of gross domestic product (GDP). Newly allocated SDRs can help member countries bolster reserves and reduce their reliance on more expensive domestic or external debt, while providing resources to invest in post-pandemic recovery.

Since SDRs are distributed to the IMF members in proportion to their IMF quotas (which are broadly based on a country’s relative position in the world economy), the majority of the

**Figure 2: SDR Allocations: General and Special**

(In billions of SDRs)

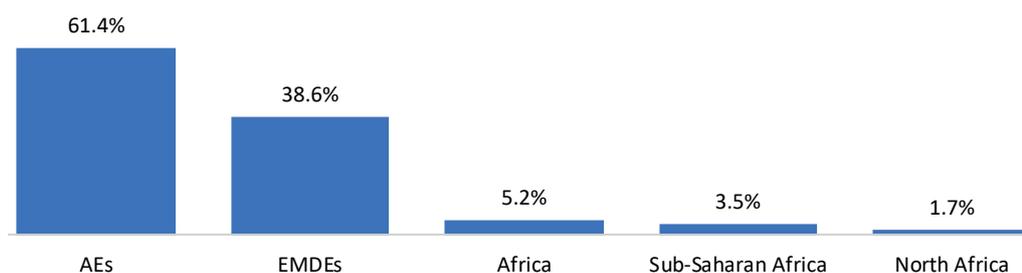


Source: IMF Finance Department

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**Figure 3: Share of the Total 2021 SDR General Allocation**  
(per Income Group and Selected Regions)

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Source: IMF Finance Department.

Note: Country classification is based on World Economic Outlook. AEs=Advanced Economies; EMDEs=emerging markets and developing economies.

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2021 SDR allocation was disbursed to advanced economies (figure 3). To magnify the impact of the new SDR allocation and complement lending to the poorest members, the IMF is exploring three approaches to encourage voluntary channelling of SDRs from countries with strong external positions to the poorest and most vulnerable countries. The first approach, with the highest priority, is to boost the Fund's PRGT lending capacity. This would build on the fast-track PRGT loan mobilization efforts over the past year and a half that culminated with 16 member countries pledging \$24 billion in new loan resources – including \$15 billion from existing SDRs – to sustain the Fund's concessional lending over the medium term. Going forward, voluntary channelling of SDRs (including the

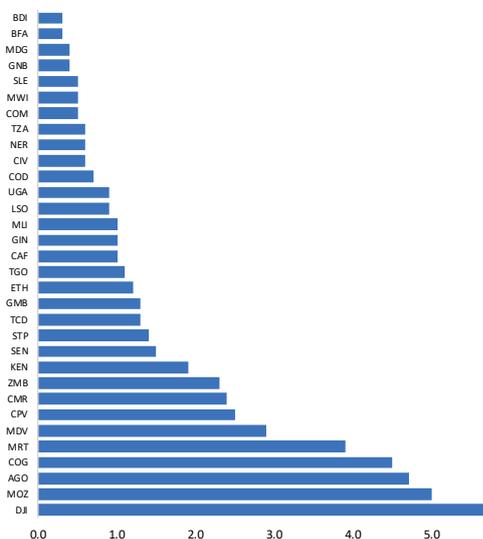
recent allocation) is expected to support the mobilization of US\$30-50 billion in additional PRGT loan resources, of which half is expected in the near term (IMF, 2021d). The second approach is to engage with member countries to establish a new Resilience and Sustainability Trust, which could help channel SDRs to support members' structural transformation with cheaper and longer-maturity financing. The third approach is to reinforce lending by multilateral development banks. Recognizing that SDRs could shape Africa's post-pandemic recovery, the Group of Seven (G-7) summit in June 2021 set a goal of mobilizing \$100 billion through voluntary channelling of budget loans, or of both budget loans and SDRs (G-7 2021).

#### 4. Advocacy on Debt Service Relief and Coordination of Debt Treatments

The pandemic pushed debt levels, already elevated before the crisis, to new heights. At the onset of the crisis, half of the world’s low-income economies were at high risk of debt distress or already experiencing debt distress (IMF, 2020a). The pandemic caused public debt in SSA to jump by more than six percentage points, to about 57 percent of GDP in 2020 – the highest level in almost 15 years. Similarly, public debt in North Africa

rose by about 12 percentage points to an average of 88 percent of GDP in 2020. As a result, interest payments last year reached 20 percent of tax revenue for the region as a whole and exceeded one-third of revenue in some countries (Georgieva, 2021a). Private sector balance sheets were also hit hard. Firms’ monthly sales plummeted by 40–80 percent in 2020, compared with pre-crisis levels. Between 50 percent and 80 percent of surveyed households reported income losses at the height of the first wave of the pandemic, as containment measures were put in place (Selassie and Hakobyan, 2021).

**Figure 4: Potential DSSI Savings**  
(May 2020 - December 2021, percent of GDP)

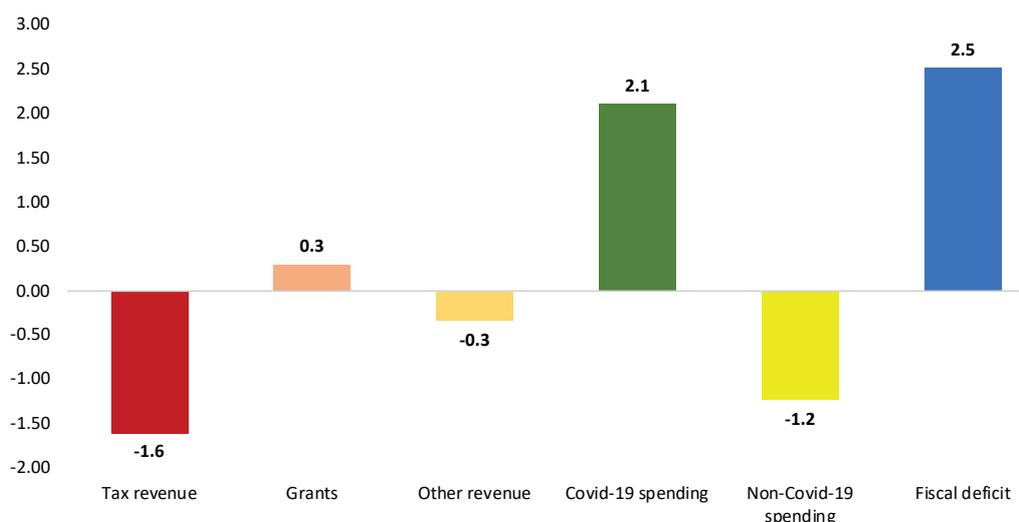


Source: Joint IMF-WBG Staff Note: DSSI Fiscal Monitoring Update, September 2021.  
Note: Sample comprises of 33 North African and Sub-Saharan African DSSI beneficiaries.

To help channel scarce resources toward mitigating the pandemic’s impact, the IMF modified the Catastrophe Containment and Relief Trust instrument in March 2020 to provide immediate debt service relief for its poorest and most vulnerable members. Relief was approved for debt service falling due to the Fund for 31 Catastrophe Containment and Relief Trust-eligible countries (29 initially, with two new additions, including Lesotho). The relief was granted for as long as two years, until April 2022, subject to the availability of resources in the Trust. So far, debt relief of about US\$850.7 million, covering the period through January 10, 2022, has been provided in four tranches, including about US\$716.3 million to 24 African economies (IMF, 2021e).

## Figure 5: Contribution to Support COVID-related Spending in African DSSI Participants

(change from Pre-COVID Projections, in Percentage Points of GDP, Simple Average of 33 African Phase 1 DSSI Beneficiaries)



Source: Joint IMF-WBG Staff Note: DSSI Fiscal Monitoring Update, September 2021.

Note: Sample comprises of 33 North African and Sub-Saharan African Phase 1 DSSI beneficiaries.

Together with the World Bank, the IMF advocated for the Group of 20 (G-20) Debt Service Suspension Initiative (DSSI), which obtained assurances from G-20 bilateral official creditors to temporarily suspend debt service payments from the poorest countries (73 low- and lower-middle-income countries) that requested the suspension. In 2020, 43 participating countries<sup>3</sup> were estimated to have benefited from US\$5.7 billion, of which \$2.1 billion went to 33 African countries (IMF-WBG, 2021a). DSSI helped provide

temporary debt service savings to all participating countries (figure 4) and supported budget planning. Specifically, the initiative supported higher deficits, allowing for the countries to increase their spending related to COVID-19, despite a fall in tax and other revenues. This was made possible by more donor grants and cuts in expenditures not related to the pandemic (figure 5). The initiative also helped lower sovereign bond spreads for participating frontier economies (Fuje et al., 2021).

3. Including one national development bank participating under commercial terms.

Beyond the DSSI, the Fund has called for full implementation of the Common Framework for Debt Treatments. This framework could help coordinate debt treatments provided by major official creditors, including rescheduling and deeper restructuring. For countries with sustainable debt but persistent liquidity needs (Ethiopia), it could facilitate more timely and comprehensive debt resolution, including comparable relief from private sector creditors. In this regard, a successful resolution for countries that sought debt relief under this framework so far (Zambia, Chad, and Ethiopia) is critical.

Independently from the pandemic, the IMF also approved substantial debt relief for Somalia and Sudan under the Highly Indebted Poor Countries initiative. Each country cleared its arrears to the IMF and World Bank, allowing it to resume financial engagement, and reached the Highly Indebted Poor Countries Decision Point in March 2020 and June 2021, respectively. The total debt relief from the IMF to these two countries amounted to US\$1.7 billion (including interim assistance).

## **5. Concessional Financial Support and Capacity Development Efforts**

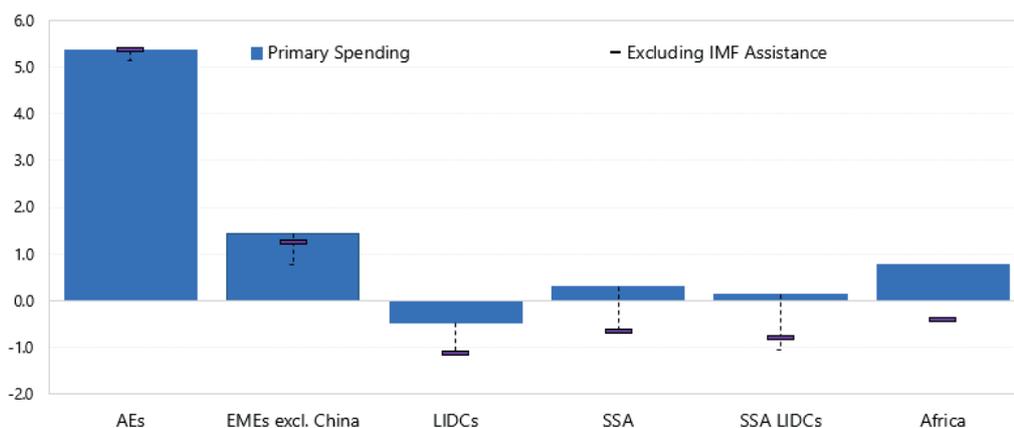
The persistence of the pandemic motivated the IMF to bolster its concessional financial support capacity over the medium term. The Fund temporarily increased access limits on emergency facilities in April 2020 and on General Resource Account (GRA) and PRGT

facilities in July 2020. The new limits initially applied for six months and later extended through the end of 2021. Furthermore, PRGT reforms in July 2021 permanently raised limits on normal annual and cumulative access to concessional resources and removed hard limits on exceptional access by the poorest members. These reforms also have strengthened access to support concessional and blended financing (i.e., borrowing from both concessional and non-concessional IMF sources), maintained the zero interest rates for PRGT credit outstanding until July 2023, and enhanced safeguards to help protect debt sustainability and capacity to repay in borrowing countries (IMF, 2021d).

In addition, the IMF assisted African countries with their response to the pandemic through scaled-up virtual and blended technical assistance and training efforts. Nearly 44 percent of the IMF's total capacity development resources in 2020 were allocated to African countries, of which more than half focused on fiscal issues, including re-prioritization of public spending on crisis support measures and transparent management of COVID-19 related funds. Two-fifths of IMF's capacity development efforts focused on fragile states. The IMF also has seen a pronounced increase in capacity development on monetary and financial sector issues, including financial sector supervision and regulation, bank resolution, and debt management.

## Figure 6: Impact of IMF Support

(change relative to October 19 Fiscal Monitor projections, in percent of pre-pandemic projected GDP)



Sources: IMF WEO, IMF Fiscal Monitor, IMF Financial Data Query Tool, and IMF staff calculations.

Note: IMF financial assistance (comprising both GRA purchases and PRGT disbursements) is calculated by calendar year, using the original disbursement date of funds. The US\$ value is calculated using the SDR-US\$ conversion rate at the transaction date. The figure above shows the (change in) primary government spending projected in the latest vintage (July 2021) and excluding the IMF financial assistance, relative to the October 2019 Fiscal Monitor projections, in percentage points. All values are in a percentage of pre-pandemic GDP projections (October 2019 WEO GDP projections until 2024). AE=advanced economies; EMEs=emerging market economies; LIDC=low-income developing countries; SSA=Sub-Saharan Africa; Africa=SSA+Algeria, Egypt, Djibouti, Libya, Mauritania, Morocco, Somalia, Sudan, and Tunisia.

## 6. Impact of IMF Support

IMF emergency financing and resources freed up by the Catastrophe Containment and Relief Trust and the DSSI, in addition to other donor support, allowed additional government spending and revenue actions, which prevented a more severe global economic contraction – including through spillovers. At the global level, estimates suggest that such actions may have mitigated the fall in global growth in 2020 by as many as 6 percentage points, averting a global growth contraction

that could have been three times worse (IMF, 2021f). The IMF's actions also have allowed social spending to increase by an average of 0.6 percent of GDP across 151 countries during the first three quarters of 2020 (Gentilini et al., 2020), enabling nearly 10 million people worldwide to escape extreme poverty (IMF, 2021g).

High levels of debt and limited market access constrained African economies' fiscal space and limited their ability to mitigate the pandemic's social and economic impact. While

crisis-related fiscal packages in the SSA region averaged 2.6 percent of GDP in 2020, this was markedly less than the 8.1 percent of GDP spent by advanced economies (IMF, 2021a and 2021g). The IMF support helped secure additional fiscal space, allowing the African economies to increase spending by about 1.2 percent of GDP (Figure 6) (Gaspar and Gopinath, 2021). The region's emerging and frontier markets also have benefited from spillovers arising from massive monetary and fiscal policy responses by advanced economies, which eased global financial conditions, limited capital outflow pressures, increased remittance flows, and supported global demand.

## **7. Building resilience for the future**

The pandemic continues to cause severe economic impact on Africa, elevating its medium-term spending needs. Continued spread and mutation of the virus leaves the region bracing itself for subsequent waves of potentially more infectious variants of the disease. Many countries are in a much worse position than at the start of the pandemic, with depleted fiscal and monetary buffers, shrinking resources, and millions of people thrown into poverty. The Fund estimates that between 2021 and 2025, Africa's financing needs for an adequate COVID response will total around US\$285 billion, of which US\$135 billion will be needed for low-income countries (IMF, 2021h).

Inadequate access to vaccines and slow rollout of vaccines are holding back Africa's recovery. Africa's vaccine rollout, among the slowest in the world, is mired in challenges that range from global production constraints, to stockpiling by advanced economies, to export restrictions (IMF, 2021i). Since the first vaccine dose was administered in early January in Seychelles, as of mid-October 2021, barely 3 percent of the population in SSA had been fully vaccinated (IMF, 2021j). Further delays in vaccination could worsen the pandemic dynamics on the continent, threatening to cause long-lasting economic scarring. The IMF forecasts Africa's growth to start diverging from other regions in 2021, as the global economy rebounds. The economy is estimated to grow by 5.9 percent globally, but by significantly less across Africa, and 3.7 percent in SSA.

### **a. ...by accelerating the region's access to vaccines...**

To avert further divergence in economic prospects, the region needs greater access to COVID-19 vaccines. IMF staff has proposed a plan to vaccinate at least 40 percent of people in every country by the end of 2021 and 70 percent by mid-2022 (IMF, 2021k and 2021l). The most urgent part of the plan is to redirect excess vaccine doses from advanced economies to the developing world. The plan also requires boosting vaccine production capacity,

removing barriers to export of raw materials and vaccines, and securing sufficient funding for diagnostics, personal protective equipment, and oxygen, including assistance with vaccine delivery. The overall cost of the IMF proposal (US\$50 billion) pales in comparison to its benefits – the plan’s successful execution could generate nearly US\$9 trillion in global output by 2025.

In addition to saving lives and supporting the region’s growth, ensuring broad vaccine coverage for the African continent is a global public good. The longer the world allows a large proportion of its population to go unvaccinated, the greater the possibility that new virus variants will develop, adding to the prospect of a more protracted global pandemic. Hence, channels should be established to ensure that excess doses in wealthy countries are redistributed quickly. Multilateral facilities (such as COVAX) and regional initiatives (such as African Vaccine Acquisition Trust) should be fully funded. Restrictions on the dissemination of vaccines and on inputs into vaccine production or medical equipment should be avoided. It is also important to ensure that the Aspen Pharmicare facility in South Africa is operating at full capacity. To help track, coordinate, and advance delivery of COVID-19 vaccines, the IMF has joined several multilateral organizations in forming the Task Force on COVID-19 Vaccines, Therapeutics, and Diagnostics for Developing Countries.

### **b. ... by enabling Africa’s structural transformation to deliver an inclusive and prosperous future...**

Beyond vaccines, the next priority is to reinforce Africa’s recovery and unlock its growth potential. This will require bold and transformative domestic reforms, including enhancing domestic revenue mobilization efforts, strengthening spending efficiency, advancing governance reforms, and facilitating external private financing to limit additional public borrowing and encourage private sector growth.

To sustain growth, African economies will also need to align education with the skills required in tomorrow’s marketplace. With more than 1.5 million people entering the labour force every month in SSA, realizing the region’s demographic dividend will require reenergizing pre-pandemic reforms to promote private sector-led and more inclusive growth, while also adapting countries’ economic models to the post-pandemic world.

This is also important for North African countries, including Algeria, Morocco, and Tunisia, where reforming the large public sector and state-owned enterprises could provide room for the private sector to grow and also help ensure fiscal sustainability. Labour market reform could reduce distortions that favour public sector jobs, lower informality, and ensure the creation of high-value-added jobs in the private sector. Also, streamlining rules while ensuring their fair enforcement

and strengthening anti-corruption frameworks could enhance the population's trust in the government (IMF, 2021m).

Unlocking Africa's growth potential also will depend on boosting investment in digital technologies and climate-resilient infrastructure. Strengthening digitalization could help enhance the effectiveness of fiscal measures, by expanding digital filing and payment of taxes and facilitating better targeting and coverage of public benefits. For example, at the onset of the pandemic, Togo developed a cash transfer program to improve targeting of transfers to the country's most vulnerable groups, while simultaneously enhancing financial inclusion. Separately, investing in adaptation to climate change can generate high returns and create much-needed jobs (IMF, 2020b).

To support a transformative reform agenda and return Africa to its path of income convergence with advanced economies, the IMF estimates that the region will need US\$425 billion in additional external funding, of which SSA's poorest countries will require US\$245 billion, over the next five years (IMF, 2021i). In addition to catalysing donor support for the continent, the IMF is supporting Africa's structural transformation through tailored policy advice and delivery of its capacity development efforts. In particular, the Fund is committed to supporting Africa's commitment to the 2030 Development Agenda by

helping member countries strengthen their revenue mobilization capacity, improve infrastructure governance, promote deeper and stable financial markets, and support gender and climate budgeting. These efforts are further reinforced through the committed work of the IMF's seven regional capacity development centers across Africa, and are expected to help boost inflows of foreign direct investment and reinforce private sector growth.

### **c. ...and supporting the private sector in facilitating Africa's development.**

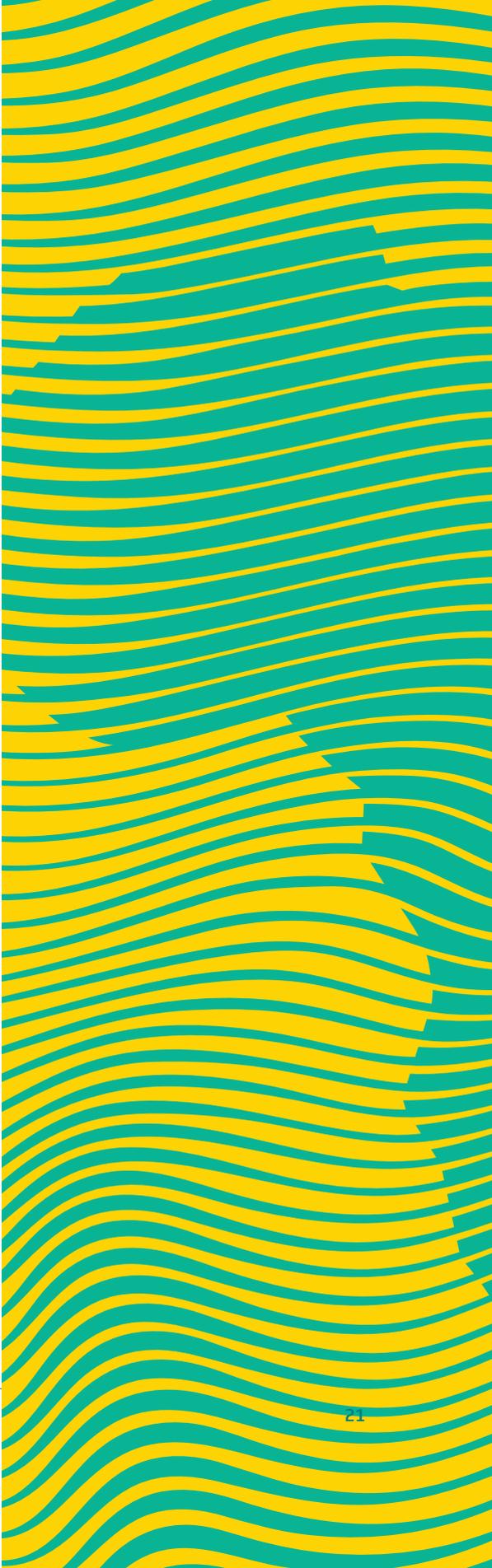
The African continent holds immense opportunity for the private sector. Infrastructure – both physical (roads, electricity) and social (health, education) – is one area where private sector investors could become more involved. At the same time, Africa's infrastructure development needs are considerable. For example, in SSA, they average 20 percent of GDP by the end of this decade (Eyraud et al., 2021). While the private sector's involvement is currently limited, IMF research shows that by the end of this decade, it could bring additional annual financing equivalent to 3 percent of SSA's GDP (IMF, 2021n). To enable these investments, development finance institutions and their multilateral partners have committed to supporting Africa's private sector development with US\$80 billion over the next five years (G-7, 2021).

Nevertheless, additional efforts will be needed to help lower investment risks faced by the private sector in Africa. This can be accomplished by improving the quality of the region's business environment and enhancing trade and regional integration.

In this regard, the G-20 Compact with Africa, a key framework to enhance the business environment in the region, could be further strengthened and expanded. An effective trade-integration framework, such as the African Continental Free Trade Area – a potential market of 1.3 billion people with a combined GDP of almost \$2.5 trillion – could boost opportunities for local production, create jobs for the region's growing workforce, and help minimize economic scarring.

## **8. Conclusion**

Securing the large-scale financing needed to offset the effects of the pandemic and accelerate income convergence across Africa will require contributions from all potential sources. Now is the time to build on a broader sense of common responsibility, to enable strong policy action and the robust international cooperation needed to give everyone a fair shot – a shot in the arm to end the pandemic everywhere, and a shot at a better future for the African continent (Georgieva, 2021b).



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# The African Export-Import Bank's Responses to the COVID-19 Pandemic: An Overview

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The African Export-Import Bank

**Abstract:** To help its member countries confront the health and socioeconomic fallout from the COVID-19 pandemic downturn, African Export-Import Bank dramatically increased its liquidity support to African sovereign and corporate entities. Drawing on its Pandemic Trade Impact Mitigation Facility (PATIMFA), it provided countercyclical support to meet trade payments falling due and funded the acquisition of COVID-19 vaccines and other related medical products. At the same time, it increased its support for the expansion of processing capacities for drug manufacturing on the continent, enhancing prospects for greater supply chain resilience in the post-COVID-19 world.

**Keywords:** AMSP, APC, Aspenova, AVATT, COVID-19, COPREFA, PATIMFA

**JEL Classification:** E62, F15, F18, F68, H12, I15

## 1. Introduction

The impact of the COVID-19 pandemic, which set the world on a synchronised global recession (IMF, 2021), continues to be felt worldwide almost two years after the outbreak. In a context of vaccine nationalism and the emergence of new strains of the virus, infections have continued to rise, undermining the prospects for sustained recovery in economic activity. According to the most recent estimates (end-December 2021), COVID-19-related deaths are more than 5.5 million worldwide (WHO). Globally, about 309 million people have contracted the virus, and the number is still rising.

Although infections and death rates have remained relatively low in Africa – the region accounts for just 3.3 percent of infections worldwide and 4.2 percent of deaths – the economic consequences of the pandemic on the region have been severe. Africa suffered its first recession in 25 years. It is also experienced a widening fiscal and current account deficit, with government expenditures increasing sharply exactly when government revenues were collapsing at the height of the pandemic downturn. In the aftermath of the outbreak, these developments were exacerbated by sudden stops and large-scale capital outflows, undermining the capacity of countries and corporations to

finance critical imports, including COVID-19-related products (personal protective equipment, ventilators, and vaccines).

The response to the global crisis by both sovereign nations and development finance institutions was swift and bold. While governments provided fiscal stimulus, multilateral development banks and development finance institutions provided countercyclical support to assist both sovereign and corporate entities throughout the region. Through its Pandemic Trade Impact Mitigation Facility (PATIMFA) and other interventions, the African Export-Import Bank (Afreximbank) provided timely support to its member countries and key stakeholders, thereby averting payment defaults and setting the stage for a speedy recovery (Afreximbank et al., 2021; Oramah, 2021a) to keep the region on the path of economic resilience.

This paper provides an overview of interventions made by Afreximbank in response to the challenges posed by the pandemic. The rest of the paper is organised as follows: Section II discusses the impact of the COVID-19 pandemic on African economies. Section III provides an overview of Afreximbank's responses and specific interventions. Section IV examines how the Bank has leveraged funding in addressing COVID-19-related challenges under COPREFA. Section V discusses the preliminary developmental impact, and Section VI concludes.

## **2. Impact of COVID-19 Pandemic on African economies**

The coronavirus pandemic began as a health concern and gradually metamorphosed into a global economic crisis. As the virus spread across the world, the globalization of containment measures (social distancing, lockdowns, and border closures) had an adverse impact on the global economy. The disruptions in business and economic activity led to a sharp contraction of global output and trade. Global output contracted by 3.1 percent, with advanced economies contracting by 4.5 percent, and emerging market and developing economies by 2.1 percent (IMF, 2021). Across Africa, gross domestic product contracted by about 1.9 percent, the first major growth reversal in 25 years, from a pre-pandemic output forecast of more than 3.7 percent (IMF, 2020).

African countries heavily dependent on commodities were particularly affected through trade channels (UNCTAD, 2021). As global demand and commodity prices fell, African trade fell by 12 percent in 2020, in line with global trade, declined by 5.3 percent over the same period (WTO, 2021). The sharp decline in export and commodity prices widened the current account deficit to about US\$56 billion. The overall impact of the sharp contraction of African trade was reflected in the decline in aggregate foreign exchange reserves, which contracted by about 10 percent to US\$364.2 billion, the lowest level since 2016.

African economies were also affected through other channels, including tourism, as well as capital flows and foreign direct investment. Lockdowns and border closures particularly affected tourism-dependent economies such as Seychelles, Mauritius, and Cabo Verde. These economies suffered a sharper decline, with GDP contracting by about 15 percent in Mauritius and about 13 percent in Seychelles (IMF, 2021). FDI inflows to the region contracted by 16 percent to just about US\$40 billion, and net capital outflows further exacerbated the liquidity crisis and macroeconomic management challenges. At the same time, the globally synchronised nature of the COVID-19 pandemic affected the inflow of remittances, which have become one of the most resilient sources of foreign exchange earnings, overtaking overseas development assistance and the inflow of foreign direct investment into the region (World Bank, 2021).

While forecasts point to a global recovery, vaccine nationalism and hoarding have undermined the process. This is particularly affecting developing countries, especially low-income countries. By the end of November, over 70 percent of the population in advanced economies was fully vaccinated, against 9.5 percent in Africa, where access to vaccines remains the lowest of all regions. In addition to countercyclical measures to sustain the growth of African trade, Afreximbank's

interventions are also supporting vaccine acquisitions either through pooled procurement under its African Medical Supplies Platform (AMSP) or expansion of processing capacities to address supply constraints

### **3. Overview of the Afreximbank's Responses**

Afreximbank's responses to the COVID-19 pandemic were swift, bold, and broad in scale. These included countercyclical support under its PATIMFA, its support under the African Vaccine Acquisition Task Team (AVATT), as well as under its African Medical Supply Platform. Through partnerships and its convening power, the Bank also leveraged global support to further enhance its response to the COVID-19-triggered crisis. The response measures are summarised in this section.

#### **a. Pandemic Trade Impact Mitigation Facility: A Crisis Management Tool**

Prior to the first reported case of COVID-19 in Africa, signs of potential economic distress associated with the pandemic began to surface. By early February 2020, many African commercial banks, corporations, and governments were beginning to face stricter credit terms in international financial markets, and by March 2020, credit lines were no longer available to many African countries. Cuts in credit lines and the withdrawal of correspondent banking relationships, coupled with a sharp decline in export earnings and inward remittances, constricted the debt

service capacities of most African governments, financial institutions, and private corporations.

As the rate of infections began to rise, the limits and the fragility of Africa's health infrastructure became evident. With the number of hospital beds at 13 per 10,000 persons,<sup>1</sup> the health care sector could not meet the rapidly expanding demand, and the prospect of Africa being an epicentre of COVID-19 became a major concern. Immediate actions were required to contain the spread of the disease and deal with its economic fallout.

In response, on 20 March 2020, with the approval of its Board of Directors, Afreximbank announced a commitment of US\$3 billion (net disbursements) under PATIMFA to minimise the health and economic impact of the pandemic on African countries and to contribute to an expeditious economic recovery. PATIMFA was launched just nine days after the World Health Organization (WHO) declared COVID-19 a pandemic.<sup>2</sup>

The facility supported member country central banks and other financial institutions to meet trade debt payments falling due and to avert trade payment defaults. It assisted member countries in procuring critical imports under emergency conditions. It assisted member countries whose fiscal

revenues were tied to specific export revenues, such as mineral royalties, to manage any sudden fiscal revenue declines as a result of reduced export earnings, and it provided emergency trade finance facilities for the importation of urgent needs to combat the pandemic, including medicine, medical equipment, and hospital refitting, among others (Oramah, 2021a). The facility was made available through direct funding, lines of credit, guarantees, cross-currency swaps, and other instruments.

Through PATIMFA, the Bank's array of facilities in support of its member countries, the Bank once again demonstrated its relevance and systemic importance. As of the end of December 2021, the Bank had disbursed US\$7.05 billion under PATIMFA and COVID-19 response-related facilities, with outstanding loans amounting to US\$5.34 billion with the share of the facility in the Bank's total loans portfolio standing at 26.25 percent over the same period.<sup>3</sup>

1. [https://www.who.int/data/gho/data/indicators/indicator-details/GHO/hospital-beds-\(per-10-000-population\)](https://www.who.int/data/gho/data/indicators/indicator-details/GHO/hospital-beds-(per-10-000-population))

2. <https://www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-COVID-19---11-march-2020>

3. Afreximbank, own data (2021).

Looking ahead, several long-term benefits will accrue to the Bank's member countries under this facility, as follows:

- History has shown that if countries default on trade debt payments, they lose access to international markets and take years to regain the confidence of markets after conditions have normalised. Lack of access to trade finance can significantly reduce a country's development prospects, as many African countries experienced in the 1980s. PATIMFA will help prevent trade debt payment defaults and thereby allow trade to continue.
- PATIMFA will enable member countries to access financing on favourable terms to meet their foreign currency needs and finance critical basic imports, including essential medical supplies. This, in turn, will help reduce mortality rates caused by the COVID-19 pandemics and enhance the process of economic recovery in the post-containment phase.
- Curtailment of trade caused by the pandemic and other crises can result in especially severe fiscal strains for African economies that are highly dependent on commodity exports and tariffs for foreign exchange and fiscal revenues.

PATIMFA will help fill the gaps created by declining commodity-linked fiscal revenues, enabling African countries to meet their budget objectives and avoid defaults on their international obligations.

- Corporations engaged in trade and export manufacturing are exposed to the negative consequences of the pandemic by a lack of access to financing, disruptions in supply chains, a sharp drop in demand, and extensive downtimes due to lockdowns. Financing provided through PATIMFA is expected to help corporations manage liquidity shocks and avoid bankruptcy.

#### **b. African Medical Supplies Platform**

Africa experienced difficulties in securing access to Personal Protective Equipment (PPE) and other medical supplies at the outset of the pandemic. Africa was not alone as there was a global scramble driven by limited supplies and huge demand. As a result, and given that Africa had limited production capacity for medical supplies, it became quickly evident that an innovative and coordinated solution was needed. This led to the development of the Africa Medical Supplies Platform (AMSP).<sup>4</sup>

4. The African Medical Supplies Platform was developed by Mr Strive Masiyiwa, African Union Special Envoy for mobilization of COVID-19 supplies, Afreximbank, United Nations Economic Commission for Africa (ECA) and Janngo. For more details, see [www.amsf.africa](http://www.amsf.africa)

AMSP adopted a whole of Africa approach to unlock immediate access to an African and global base of vetted manufacturers and strategic procurement partners that enabled AU Member States to purchase certified medical equipment such as diagnostic kits, PPE and clinical management devices with increased cost effectiveness and transparency. The platform served as a unique interface enabling volume aggregation, quota management, payment facilitation as well as logistics and transportation to ensure equitable and efficient access to critical supplies for African governments. Afreximbank serves as the payments partner and provides trade services as well as credit to buyers in a way that ensures efficient functioning of the platform.

To address the challenge of limited production capacity of medical supplies on the continent, Afreximbank, working with UNECA, put in a place a facility amounting to US\$200 million with the objective of supporting existing African manufacturers of COVID-19 medical supplies as well as African manufacturers re-purposing their factories to produce COVID-19 medical supplies.

The market dynamics in play with the scramble for PPEs and other medical supplies also applied later on for vaccines access. With African countries not involved in vaccine development, and unable to outbid the global economic powerhouses,

the real possibility emerged that Africa would end up at the back of the queue for vaccines and be forced to rely on the limited capacity of the GAVI Covax Facility to distribute vaccines, which would be limited to only 30 percent of the African population. The socio-economic consequences for the continent threatened to be protracted and severe. The concept of pooled procurement which had proved hugely successful with AMSP, became an important lesson in thinking about how to address the vaccine access issues. As a result, AVAT was conceived around the same key principle. In addition, AMSP also proved to be an ideal vehicle to support the ordering and allocation process for the vaccine procurement. AMSP also worked very closely with UNICEF in the delivery of the vaccines and is primed to become an important vaccine delivery entity for the continent moving forward.

### **c. African Vaccine Acquisition Task Team**

In the face of a rapid spread of the COVID-19 virus and the emergence of new strains, it was quickly recognised that the best approach to effectively overcome the challenges rested in the speedy development and widespread production, distribution, and administration of vaccines. Vaccines represented the most promising option to reduce the prevalence and allow the safe resumption of socioeconomic activity. In a remarkable scientific achievement, three separate

vaccines – from Pfizer-BioNTech, AstraZeneca-Oxford, and Moderna – were announced effective in clinical trials by November 2020. Other effective vaccines against the COVID-19 pandemic were announced, including Sputnik, Sinovac, and Abdala.

While the unprecedented speed with which vaccine development was being pursued boded well for the resumption of socioeconomic activity, significant uncertainties remained on scaling up production and ensuring equitable access to vaccines. While the WHO and a number of international partners advocated for equitable access to COVID-19 vaccines, developments surrounding the race to a vaccine and lobbying by governments suggested that this would be extremely difficult to achieve. The pandemic and subsequent vaccine development saw the emergence of nationalistic policies and vaccine hoarding by wealthy countries.

For instance, in the United States, the US Department of Health and Human Services announced US\$456 million in funding for Johnson & Johnson's candidate vaccine, US\$483 million in support of Moderna's vaccine, and up to US\$1.2 billion in support for AstraZeneca's vaccine, developed in conjunction with the University of Oxford. Several other countries and regions took a similar

approach. France, Germany, Italy, and Netherlands set up an "Inclusive Vaccine Alliance" through which they jointly negotiated with COVID-19 vaccine developers and potential producers. For its 27-member states, the European Union sought a mandate to negotiate. In India, the privately-owned Serum Institute produced one of the leading COVID-19 vaccine candidates by Astra Zeneca. The Serum Institute signaled that most of the initial batches of vaccine will be distributed within India.<sup>5</sup>

It was against this backdrop, that the African Union Bureau of Heads of State and Government on 20 August 2020 endorsed an Africa Vaccine Strategy that aimed to distribute vaccines to 60 percent of the population – the Africa Centre for Disease Control and Prevention recommendation to achieve herd immunity. To advance the strategy, President Cyril Ramaphosa, the Chairperson of the African Union at the time, established the COVID-19 AVATT. Given the limited capacity to produce vaccines in Africa, one of the key roles of AVATT was to work with African Union Member States and key partners, including those from the private sector, multilateral agencies, and donors to secure sufficient vaccine supplies and funding to vaccinate at least 60 percent of the African population.

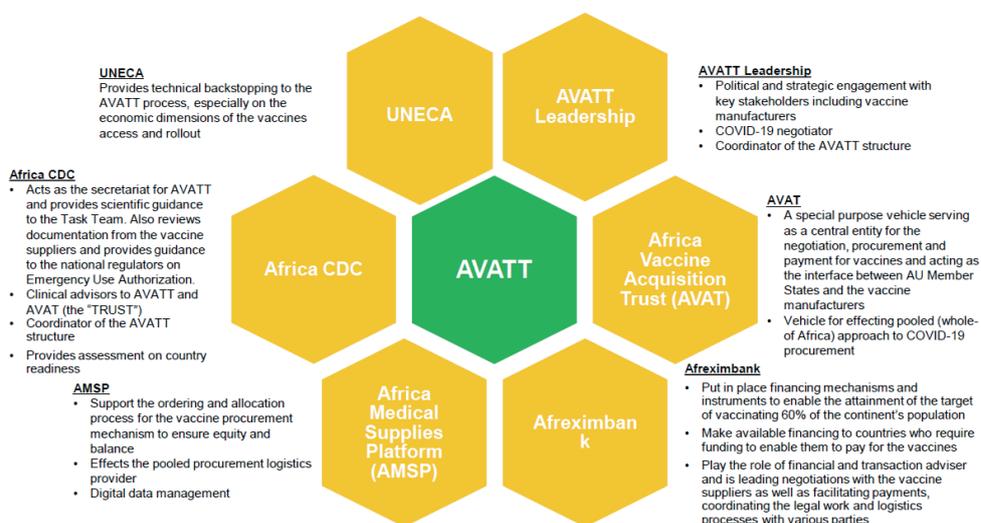
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5. At the same time, India, alongside the United States and Russia, chose not to join the Access to COVID-19 Tools Accelerator, which was launched by the WHO to promote collaboration among countries in the development and distribution of COVID-19 vaccines and treatments.

AVATT was a partnership between several institutions and entities, as summarised in the organizational framework (see Figure 1).<sup>6</sup> Vaccine procurement was to be done by adopting a whole-of-Africa approach to enable early procurement on the best possible terms. Providing vaccine manufacturers with the confidence that financing was available to back the purchase commitments was critical for success. Afreximbank was instrumental in putting the financing mechanism in place, making financing available to countries, coordinating the legal framework, and leading negotiations with vaccine suppliers.

To secure the necessary vaccines and blended financing resources for achieving Africa's COVID-19 vaccination strategy, Afreximbank, in collaboration with Africa CDC and UNECA, arranged for the formation of the African Vaccine Acquisition Trust (AVAT), a Special Purpose Vehicle that could act as a centralised vaccine purchasing agent on behalf of the African Union Member States. AVAT would procure vaccines from manufacturers on cash payment terms and provide them to participating countries, ensuring fair and equitable distribution of available doses. To facilitate this,

**Figure 1: AVATT Organisational Framework**



6. The leadership of AVATT was made up of an AU Special Envoy and included Benedict Oramah (President and Chairman of the Board, Afreximbank), Strive Masiyiwa (Chairman, Econet Wireless Group), Vera Songwe (UN Under Secretary General and Executive Secretary, UNECA), and John Nkengasong (Director, Africa CDC).

Afreximbank put in place a US\$2 billion guarantee and financing mechanism called the Advance Procurement Commitment (APC) Guarantee and Financing Framework to serve the dual purpose of providing confidence to vaccine manufacturers and providing financing to countries looking to procure vaccines.<sup>7</sup>

Under the APC framework, participating countries were required to provide AVAT with their commitments to purchase their required number of doses, supported by a partial down payment. AVAT would, in turn, consolidate these requirements and issue a purchase commitment for the total number of doses to vaccine suppliers. AVAT's purchase commitment to vaccine suppliers was secured by providing suppliers with the partial down payments received from purchasing countries and a financial guarantee from the Afreximbank for the balance.

Upon vaccine deliveries by the suppliers, AVAT would pay suppliers the outstanding balance for the vaccines supplied. Countries could make cash payments for their share of the vaccines supplied from either their own resources or by using funding received from the World Bank or other funding agencies. In cases where countries were not able to

make cash payments an instalment payment option was made available to countries.

Afreximbank provided funding to AVAT to pay vaccine suppliers on cash terms with the financing repaid by AVAT upon receipt of instalment payments from purchasing countries. The payments made by AVAT for vaccine supplies would reduce the outstanding guaranteed amount, and the guarantee would run off on completion of supplies and payments. A complete legal structure was put in place, at the heart of which was a participation agreement between AVAT, participating countries, and Afreximbank, to document the above arrangements.

In parallel with setting up the APC guarantee and financing framework, Afreximbank also led the negotiations with vaccine suppliers. On 28th March 2021, an agreement was reached with Johnson & Johnson whereby the company provided a commitment to supply 220 million doses of its single-shot vaccine for delivery between August 2021 and September 2022. An option for AVAT to order an additional 180 million doses was also negotiated and included in the contract. Afreximbank's guarantee for US\$2 billion and a down payment of US\$330 million secured AVAT's commitments and were key enablers

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7. Afreximbank's Vaccine Task Team was led by Gwen Mwaba (Global Head and Director Trade Finance), and included Kwabena Ayirebi, Samallie Kiyingi, Yusuf Daya, Constantin Von Moltke, Ekene Uzor, Enga Kameni, Hayam Abou Arab, Ketiwe Lwando, Morenikeji Adebisi, Afolabi Obisesan, Mohamed Sayed, Vinay Chhabra, Tapiwa Kuipa, Stevenson Ngila, and Milcah Mutesi.

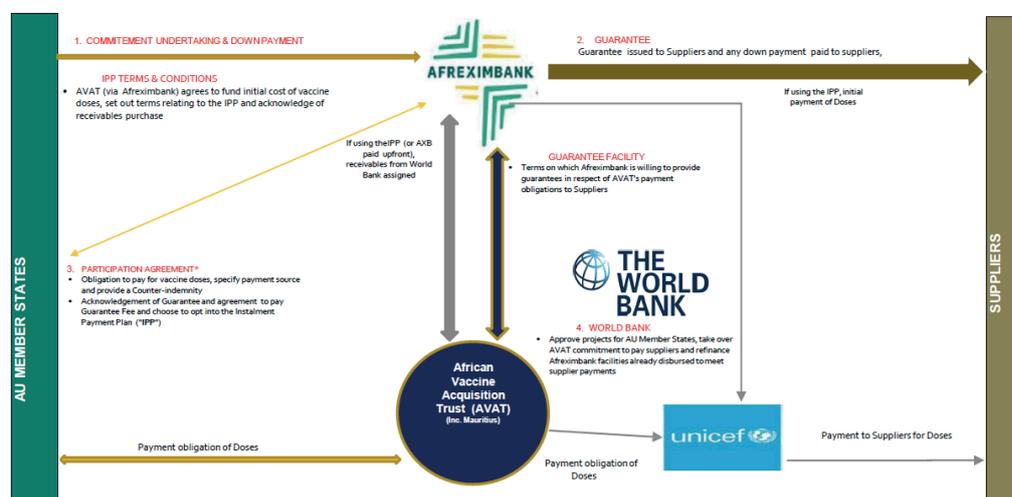
in securing up to 400 million vaccine doses – Africa’s largest vaccine supply contract to date.<sup>8</sup>

Recognizing the value of AVAT approach and Afreximbank’s contributions, the World Bank was highly supportive, and arrangements were put in place for countries approved by the World Bank to finance vaccine supplies by accessing World Bank funds. This collaboration helped ease the financial pressures on resource-constrained governments and ensured that Africa was able to secure vaccines for its people. The efforts of AVATT also attracted the attention of other partners. Both the MTN Group and the

Mastercard Foundation supported vaccination efforts through donations of US\$25 million and US\$500 million, respectively, to procure vaccines for allocation to AVAT participating countries.

However, an important leg in the journey that also needed to be addressed was the transportation and storage of vaccines under carefully controlled conditions to ensure that the efficacy of the vaccines was not compromised. The partnership with UNICEF, which has built the required logistical capability of supplying vaccines to countries all over the world, was another important milestone.

**Figure 2: AVAT Vaccine Procurement, Financing, and Delivery Framework**



8. At the same time that AVATT was negotiating with vaccine suppliers, the World Bank was also putting in place its financial intervention programme to provide financing to member countries to manage the costs of the pandemic, creating a unique opportunity for synergy and collaboration. Afreximbank initiated a dialogue with the World Bank to coordinate the financing arrangements for vaccines through an arrangement whereby African countries could access World Bank funds to pay for the vaccine supplies, thereby easing the burden on their national budgets.

An agreement was reached for UNICEF to be the logistics partner for delivery of the vaccines available through AVAT to an agreed delivery point in each participating country. Figure 2 outlines how this ecosystem of vaccine supply, procurement, financing, and delivery was structured.

While securing access to available vaccines presented the most pressing challenge, it emerged that the large up-front financial commitments to manufacturers offered only half the solution when it came to vaccine manufacturers being willing to participate in the AVAT mechanism for vaccine distribution. Equally important was offering companies protection against potential liability, should COVID-19 vaccines cause real or perceived injuries to recipients.

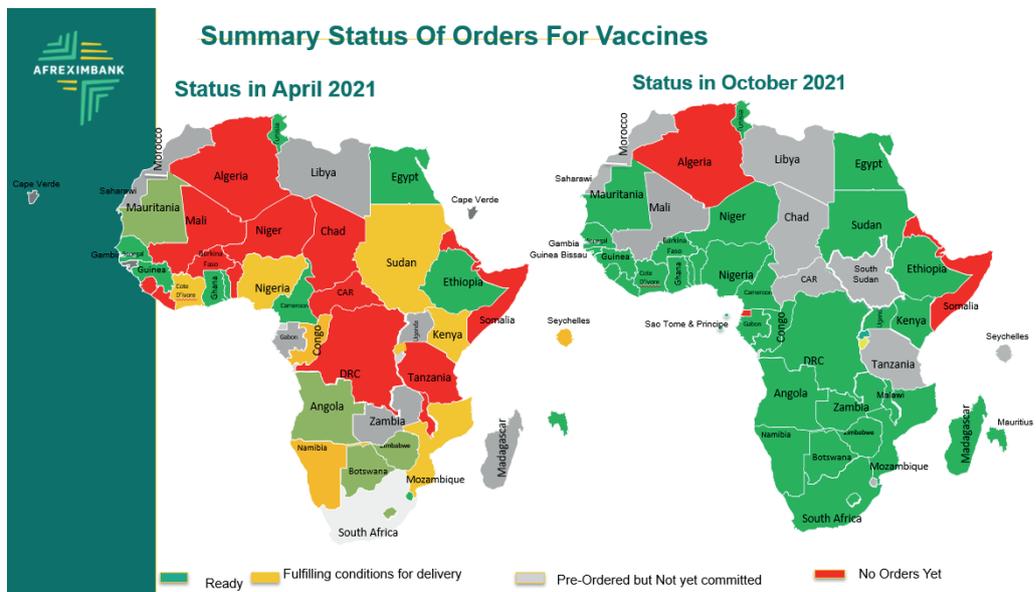
However, for many countries, offering vaccine manufacturers indemnity or immunity from liability is constitutionally or financially impossible. Compounding this was the emergence of vaccine hesitancy as the public expressed concerns over vaccine safety given the rapid pace of vaccine development, despite assurances on their safety and approval by regulatory authorities. To address this challenge, AVAT established a no-fault compensation programme for COVID-19 vaccines in participating countries in Africa and the Caribbean.

The AVAT No-Fault Compensation Scheme provides eligible individuals with prompt, fair and transparent compensation for unlikely adverse events associated with COVID-19 vaccines procured or distributed under the AVAT Advance Purchase Commitment Framework. The AVAT No-Fault Compensation Scheme is the first of its kind to be created by an African consortium. It is designed to reinforce public trust that, in the unlikely event of adverse effects related to COVID-19 vaccination, quick and easy access to compensation is guaranteed. This compensation programme is a central pillar in AVAT's wider vaccine delivery strategy and is essential for achieving widespread vaccine adoption. It also provided vaccine manufacturers with the necessary assurance against liability needed to trigger shipments of vaccines and the commencement of mass vaccination campaigns in countries.

With all the pieces in place, in August/September 2021, the first shipments totaling 6.2 million vaccines under the AVAT initiative were delivered to 29 African countries and 6 CARICOM States (Annex 1), with the support of UNICEF, AVAT's appointed procurement and logistics agent. This was an important milestone and the first of this kind collaboration by African member states to safeguard the health of the continent.

By the end of October 2021, 39 African countries were participating in the AVAT programme, with the number expected to increase to 41 by the end of 2021. At least 35 million doses were delivered as of end-2021, with deliveries expected to ramp up thereafter to reach at least 220 million by September 2022. The World Bank approved financing for the 39 participating countries. The total deliveries of 400 million doses procured under AVAT will vaccinate one-third of the African population and will bring Africa halfway to its continental goal of vaccinating at least 60 percent of the population. International donors have committed to deliver the remaining doses required to achieve the 60 percent target through the GAVI COVAX initiative.

The AVAT initiative demonstrated the potential for Africa to take its destiny into its own hands. But the COVID-19 pandemic has also provided an opportunity to build back better to ultimately mitigate the risk of excessive dependence on imports of manufactured goods, including pharmaceutical products. With the support of Afreximbank and other regional institutions and partners, South Africa's Aspen Pharmacare and Johnson & Johnson signed a deal to sell J&J shots across Africa. The deal would allow Aspen to bottle and market the vaccines across Africa under the brand name Aspenova around a process known as "fill and finish." Although the deal falls short of continental aspirations to establish an active pharmaceutical ingredient platform to catalyse technology transfer, it is



a step in the right direction, one that will enhance greater vaccine equity in the short term.

#### **d. Direct Support to Member Countries in the Form of Grant**

In addition to significantly raising short-term lending under its counter-cyclical support, the Bank also provided timely assistance to its member countries in the form of grant (Oramah, 2021b). This was particularly important in a region where the socioeconomic fallout from the COVID-19 pandemic (human toll, economic contraction, and rising poverty in the absence of social safety net mechanisms) were magnified by the precarious state of health infrastructure and lack of preparedness to deal with the outbreak of the pandemic.

It is in this context and drawing on previous interventions to support emergency relief efforts, most notably the Ebola epidemic and Cyclone Idai, that the Bank, in April 2020, availed US\$3 million grant in support of efforts to combat the COVID-19 pandemic across the continent. US\$1.4 million of the total grant amount was disbursed to support continental efforts to combat the pandemic through African Union COVID-19 Response Fund and the Africa Centers for Disease Control and Prevention (Africa CDC). An additional US\$1.25 million was disbursed to countries that house the Bank's offices and Bank staff and families, namely:

Cameroon, Cote d'Ivoire, Egypt, Nigeria, Uganda, and Zimbabwe.

The remaining US\$350,000 was made available for other specific requests including using it in innovative ways to mobilise additional grant funding for the continent. For instance, the Bank provided support to organising a virtual fund-raising event targeting the African private sector, provided technical assistance to the AU to mobilize resources towards the COVID-19 continental relief efforts, and to the Cheikh Anta Diop University in Dakar, Senegal, to support COVID-19 research.

#### **4. Leveraging**

The Bank has also leveraged its relationship with international financial institutions which include multilateral and bilateral development finance institutions, export credit agencies and corporations to mobilise additional resources to support its interventions and COVID-19 response. The funds mobilised are in various forms, ranging from grants to dedicated lines of credit for the Bank to on-lend to target clients, risk sharing, and co-financing with various partners with a view to enhancing the Bank's capacity and development impact, optimizing its capital as well as managing risk exposure, among others.

As at end of 2020, the Bank had mobilised circa US\$2 billion from several of its strategic partners,

including the European Investment Bank, the International Islamic Trade Finance Corporation, Agence Française de Développement, NEXI (Japanese ECA), Mitsubishi Financial Group, the Export-Import Bank of India, the China Development Bank, and the Bank of China, among others. Currently, the Bank's pipeline of funds mobilization from strategic partners is in the region of US\$1.5 billion, of which some of the arrangements have been finalised and others in advanced stages.

The Bank has also extended its leveraging strength by working with African development finance institutions and strategic partners in co-financing transactions. A good example of this is the Collaborative COVID 19 Pandemic Responses Facility (COPREFA) Agreement in an amount of US\$1.5 billion. Partners in COPREFA, including ITFC and BADEA, have established a co-financing limit of US\$200 million each. As of November, two transactions for an amount of US\$45 million had been closed, with other pipeline transactions at various stages of the credit value chain with COPREFA partner institutions.

The Bank's swift and bold response also provided the framework to leverage grants from multinational corporations to help its member countries deal with challenges induced by the COVID-19 pandemic. These included US\$25 million from MTN Group to support the COVID-19 vaccination programme, and US\$700

million from Master Card Foundation to finance the procurement of COVID-19 vaccines (US\$500 million) and logistics (US\$200 million).

## **5. Preliminary Assessment of Development Impact**

Although it is too early to assess the full development impact of Afreximbank's assistance to its members both sovereign and corporate entities – it is fair to say that the impact of that bold and timely support deployed by the Bank was positive and well received by stakeholders. The impact was particularly significant in the area of trade finance, especially in a region which, in addition to persistently large trade financing gaps (AfDB and Afreximbank, 2021) has been confronted with large-scale withdrawal of international banks and financial institutions in response to increased compliance, and regulatory costs (Erbenova et al., 2016; Fofack, 2017).

Even though the COVID-19 pandemic downturn highlighted the risk perception and liquidity constraints as balance of payment pressures intensified in the face of widening trade deficits following the sharp contraction of African trade, trade payment defaults remained relatively low – in part reflecting the timeliness of support provided by the Bank under its PATIMFA. Since the outbreak of the COVID-19 pandemic, the Bank has disbursed more than US\$9.8 billion (as of end-December 2021). More than 97 percent of that

overall disbursement corresponding to about US\$9.6 billion have been allocated to the financing of African trade, enabling financial institutions to meet trade debt payments falling due and pay backlogs of letters of credit.

By sustaining the expansion of trade through the timely provision of trade finance, the support deployed by the Bank has played a key role in economic recovery in a region where trade remains the leading driver of growth, accounting for more than 35 percent of GDP in 2020 (IMF, 2021). The contribution of trade to GDP growth is even higher in some leading countries across the region, including in Morocco, where it represents more than 75 percent of GDP.

The development impact of support provided by the Bank in terms of economic growth and recovery are also reflected in the dynamics of the crisis, specifically its containment and limitation to the real sector. By ameliorating the liquidity constraints and averting the risk of payment defaults, the timely support provided by the Bank ensured that the short-term liquidity crisis will not lead to a cascade of default, which could have resulted in solvency crisis with long-lasting consequences.

The speedy recovery enjoyed by the region, which recorded one of the lowest rates of contractions by about 1.9 percent in 2020 against the world average of 3.4 percent, also reflects the progress made in the drive to

increase access to COVID-19 PPE and vaccines to stem the spread of the virus and fast-track the resumption of economic activities. Despite the widespread nature of COVID-19 and the rapid spread of new variants, infections and death rates have remained relatively low in the region.

The combination of PPE and vaccines was always critical to unlocking economies, as the sharp economic contraction was largely due to the implementation of lockdowns and border closures to stem the spread of the virus (Fofack, 2021). While nationalistic policies and vaccine hoarding undermined progress on the acquisition of COVID-19 vaccines, the Bank's investment in local manufacturing of PPE and financing of imports as well as incentives for increased access through its Africa Medical Supplies platform have helped in the ongoing efforts to stem the spread and encourage the resumption of economic activity.

The Bank's support has also provided the region the opportunity to build back better. By expending processing capacities in the pharmaceutical industry, the Bank is contributing to the acceleration of diversification of sources of growth, and trade, is setting the region on the path of sectoral and structural transformation necessary to reduce the excessive exposure to recurrent adverse commodity terms of trade shocks.

That commodity dependency – the bane of African economies has been largely responsible for recurrent balance of payment crises. But more than mitigating the risk of a balance of payments crisis, the long-term development impact associated with the transformation of African economies is significant.

The expansion of labour-intensive employment opportunities will have a positive impact on per-capita income, growth, and welfare improvement. But the development impacts are expected to be even broader – the diversification of resources of growth, and expansion of manufacturing output will boost intra-African trade and accelerate the implementation of the AfCFTA in a region where manufactured goods account for the lion’s share of cross-border trade.

## **6. Conclusions**

The COVID-19 pandemic has created havoc – disrupting supply chains, heightening inflationary pressures, widening fiscal and current account deficits, and exacerbating liquidity crises. It has also provided the opportunity for Afreximbank to further enhance its relevance as a systemically important development finance institution. Through its PATIMFA, it provided countercyclical financing to support the growth of trade and quicken the process of economic recovery in the post-containment phase of the pandemic. By financing the acquisition of

COVID-19 medical supplies and vaccines, the Bank contributed in a timely manner to ongoing efforts to stem the spread of the highly lethal virus to unlock African economies.

Furthermore, by drawing on its convening power to leverage more resources from partner institutions into the continent, the Bank raised the development impact of financial institutions during extremely challenging times, emerging as one of the most critical and systemically important development finance institutions on the continent. More than quickening the process of economic recovery, these bold initiatives swiftly undertaken by the Bank during exceptional circumstances are also accelerating the process of structural transformation, building back better for greater resilience in the post-COVID-19 world.

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# A Response to COVID-19 and beyond: Expanding African Capacity in Vaccine Production

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**Abstract:** The unequal global distribution of vaccines against the deadly COVID-19 virus has cast a spotlight on the lack of access to vaccines on the African continent, and the vulnerability that such a lack places on both the economies of African nations and the health of their people. Various initiatives have been launched to overcome the dependence of African nations on vaccines produced elsewhere. If implemented in timely and effective ways, those initiatives will contribute to the diversification of African economies and strengthen the capacity of nations on the continent to address their public health needs during pandemics and at other times. While establishing a viable vaccine industry on the continent presents serious challenges, the African Continental Free Trade Area (AfCFTA) can provide the framework for leveraging economies of scale to stimulate the production of needed vaccines across the region.

**Keywords:** AfCFTA, API, economic diversification, vaccine production, techno nationalism

**JEL Classification:** F10, F13, F18, H51, I15, N67

## 1. Introduction

The unequal global distribution of vaccines and the low rate of vaccination in Africa against COVID-19 has revealed a great weakness of the African continent: its lack of vaccine manufacturing capacity. Despite being home to 17 percent of the world's population, less than 1 percent of vaccines used around the globe -against more than 20 life-

threatening diseases- are produced in Africa.<sup>1</sup> This overwhelming dependence of African nations on imported vaccines has triggered the reaction of African leaders and institutions, as well as of the World Health Organization (WHO). A number of initiatives have been introduced to increase self-sufficiency in the vaccine sector.

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**1.** Toyin Abiodun, Hayley Andersen, Liya Temeselew Mamo, and Omaru Badara (OB) Sisay, Vaccine Manufacturing in Africa: What It Takes and Why It Matters (Tony Blair Institute for Global Change, 2021), 5. Accessed at <https://institute.global/sites/default/files/articles/Vaccine-Manufacturing-in-Africa-What-It-Takes-and-Why-It-Matters.pdf>

The search for greater autonomy in the production of vaccines in Africa, and more generally in that of pharmaceuticals, predates the COVID-19 pandemic. The imposition of restrictions during the COVID-19 crisis by several governments on the export of medicines and other medical products,<sup>2</sup> and the supply shortage caused by the sudden increase in demand, highlighted the dependence of many countries on imports in a critical sector for public health (and the economy). Alerts about this situation were sounded in developed countries as well, as discussed below.

Global asymmetries in the production of pharmaceuticals, including vaccines, have been noted in many studies and reports. While many developing countries manufacture medicines, their value-added contribution – with the noticeable exception of China and India – is often limited to the formulation of imported active pharmaceutical ingredients.<sup>3</sup> In the case of vaccines, again with some exceptions,<sup>4</sup> the manufacturing process conducted

in developing countries is generally limited to the last step of production, known as “fill and finish,”<sup>5</sup> often under manufacturing contracts with major vaccine producers based abroad.

Several organizations have studied and proposed expanding the capacity of developing countries to manufacture pharmaceuticals. A 2011 report by the United Nations Conference on Trade and Development (UNCTAD) encouraged both developing countries and least developed countries (LDCs) to expand pharmaceutical manufacturing capacity. Most of LDCs are in Africa and are not yet subject to the obligation to recognize patents imposed by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).<sup>6</sup> The UNCTAD report, however, noted possible tensions between local production and the achievement of public-health objectives (which include the availability of affordable medicines) and recommended reviewing procurement practices and regional options, among other

2. Trade Measures Adopted by Countries in Response to COVID-19 (South Centre, April 2020). Accessed at <https://www.southcentre.int/COVID-19/>

3. See, however, an analysis of the decline of local manufacturing in and exports of active pharmaceutical ingredients in India in the excellent study by T. C. James, Dinesh Kumar, and Deepika Chawla, Public Policy and Economic Development Case Study of Indian Pharmaceutical Industry, (RIS, 2021). Accessed at <https://www.ris.org.in/sites/default/files/Public%20Policy%20and%20Economic%20Development%20Case%20Study%20of%20Indian%20Pharmaceutical%20Industry-min.pdf>

4. Such as the production of active pharmaceutical ingredients in the Oxford/AstraZeneca vaccine against COVID-19 by a firm in Argentina, mAbxience News: “mAbxience enters into an Agreement with AstraZeneca to Produce COVID-19 Vaccine,” (August 17, 2020). Accessed at <https://www.mabxience.com/mabxience-enters-into-an-agreement-with-astrazeneca-to-produce-covid-19-vaccine/>

5. Eric Monticello, Explainer: What Is Fill-Finish? (CSL Behring, June 3, 2021). Accessed at <https://www.cslobehring.com/vita/2021/explainer-what-is-fill-finish>

6. South Centre, Statement by the South Centre on the extension of the transition period for LDCs under the TRIPS Agreement (June 2021). Accessed at <https://www.southcentre.int/wp-content/uploads/2021/07/SC-LDC-Extension-Statement-FINAL.pdf>

measures, to ensure markets for locally made medicines.<sup>7</sup> The UNCTAD 2011 report found that in Ethiopia, Tanzania, and Uganda, “significant gains in the local production of pharmaceuticals had been made,”<sup>8</sup> while it was in fact Bangladesh, also a least-developed country, that made the most progress in developing a strong pharmaceutical industry.<sup>9</sup>

Three years before the COVID-19 pandemic, a report produced jointly by the United Nations Industrial Development Organization (UNIDO), the African Vaccine Manufacturing Initiative (AVMI), and the WHO had signaled the need to increase vaccine production in Africa by developing the vaccine industry on the continent.<sup>10</sup> The report found that:

...developing vaccine production in Africa is a debatable and contentious question. As things stand, established external manufacturers and suppliers are responding to most of Africa’s funded demand. However, there is a place for existing and potential African manufacturers to develop their capacities for manufacturing in the next 10-20 years, when considering, for example, economic and population

growth projections for the continent over the next 30 years. It must be noted that the conditions required for entering a new stage in a dynamic process such as this, in all aspects of manufacturing, are still to be studied.<sup>11</sup>

While there have been hesitations in Africa on the need to expand vaccine production and overcome the dependence of African nations on foreign-made vaccines, whether purchased or donated, these have been cast aside since the COVID-19 pandemic took hold.<sup>12</sup> Bolstering vaccine production has now become a priority for the continent. This paper discusses, first, recent progress towards greater autonomy in the manufacture of pharmaceuticals in Africa. Second, it presents an overview of the main features of the vaccine industry. Third, it examines the current capacity of African countries to produce vaccines and recent initiatives to increase local manufacturing. Fourth, it addresses the vaccine strategy put in place by the African Union (AU) and the factors that may contribute to its effective implementation, including the African Continental Free Trade Agreement (AfCFTA).

7. UNCTAD, *Local Production of Pharmaceuticals and Related Technology Transfer in Developing Countries* (United Nations, 2011). Accessed at [https://unctad.org/system/files/official-document/diaepcb2011d7\\_en.pdf](https://unctad.org/system/files/official-document/diaepcb2011d7_en.pdf)

8. UNCTAD, *Local Production of Pharmaceuticals* (2011).

9. South Centre, *The End of the Transition Period for Pharmaceutical Products under the TRIPS Agreement upon LDC Graduation: Implications for Bangladesh* (May 2020).

10. UNIDO, AVMI, and WHO, *Vaccine Manufacturing and Procurement in Africa* (2017), 4. An analytical assessment of vaccine manufacturing capacity and procurement mechanisms for establishing sustainable vaccine manufacturing capacity in Africa. Accessed at <https://www.avmi-africa.org/wp-content/uploads/2017/09/VMPA-Study-e-book.pdf>

11. UNIDO, AVMI, and WHO, *Vaccine Manufacturing and Procurement in Africa* (2017), 3. Accessed at <https://www.avmi-africa.org/wp-content/uploads/2017/09/VMPA-Study-e-book.pdf>

12. Carlos Correa, “Vaccination inequalities and the role of the multilateral system,” *SouthViews* no. 224 (South Centre, July 19, 2021). Accessed at <https://www.southcentre.int/wp-content/uploads/2021/07/SouthViews-Correa.pdf>

## 2. Seeking autonomy <sup>13</sup>

The vulnerability of countries during the COVID-19 pandemic due to an uncertain supply of vaccines and other products needed to address the crisis calls attention to an often-neglected aspect of globalization: the dependence of some countries, including in the developed world, on imports of pharmaceuticals. Such dependence is of concern from the perspective not only of public health, but also of national security.<sup>14</sup> This is exemplified by the United States government's use of the Defense Production Act in 2020 to speed vaccine production.<sup>15</sup> At the height of the COVID-19 crisis, it was noted that Chinese pharmaceutical companies supplied 97 percent of the US market for antibiotics,<sup>16</sup> more than 90 percent of vitamin C, 95 percent

of ibuprofen, and 91 percent of hydrocortisone, according to a report by Yanzhong Huang, a senior fellow for global health at the Council on Foreign Relations. The report found a global dependence in US markets on imported active pharmaceutical ingredients of about 80 percent.<sup>17</sup> The same report found the United States to be similarly dependent on firms in India for the production of antibiotics, painkillers, hormones, antiviral drugs, and vitamins B1, B6, and B12.<sup>18</sup>

Similarly, 80 percent of active pharmaceutical ingredients of medicines marketed in the European Union are imported, also mainly from China and India; the need to reduce this external dependence emerged during the COVID-19 pandemic as a common and urgent objective for the European Union, where policymakers

**13.** This section is partly based on a report by Carlos Correa, "Lessons from COVID-19: Pharmaceutical Production as a Strategic Goal," SouthViews no. 202 (South Centre, July 17, 2020). Accessed at <https://www.southcentre.int/wp-content/uploads/2020/07/SouthViews-Correa.pdf>

**14.** Katherine E. Bliss, Heidi J. Larson, and J. Stephen Morrison, Vaccine Confidence & National Security in the COVID-19 Crisis (Center for Strategic and International Studies). Accessed at <https://www.csis.org/features/vaccine-confidence-national-security-COVID-19-crisis>. See also Frederick Abbott, The TRIPS Agreement Article 73 Security Exceptions and the COVID-19 Pandemic, Research Paper no. 116 (South Centre, August 2020). Accessed at <https://www.southcentre.int/wp-content/uploads/2020/08/RP-116.pdf>

**15.** The Act was used to broker a deal between two pharmaceutical companies, Merck and Johnson & Johnson, to increase the vaccine supply. See, e.g., Biden Administration Announces Historic Manufacturing Collaboration Between Merck and Johnson & Johnson to Expand Production of COVID-19 Vaccines. Accessed at <https://www.hhs.gov/about/news/2021/03/02/biden-administration-announces-historic-manufacturing-collaboration-between-merck-johnson-johnson-expand-production-covid-19-vaccines.html>. The Defense Production Act gives the US President, *inter alia*, the power to require a pharmaceutical company to share technology and data with a rival. See Olga Gurgula, Accelerating COVID-19 Vaccine Production via Involuntary Technology Transfer, Policy Brief no. 102 (South Centre, September 2021). Accessed at [https://www.southcentre.int/wp-content/uploads/2021/09/PB102\\_Accelerating-COVID-19-Vaccine-Production-via-Involuntary-Technology-Transfer\\_EN.pdf](https://www.southcentre.int/wp-content/uploads/2021/09/PB102_Accelerating-COVID-19-Vaccine-Production-via-Involuntary-Technology-Transfer_EN.pdf)

**16.** The bipartisan proposal for the "Pasteur Act" aims at creating incentives for the development of new antibiotics in the United States. See Pew Charitable Trusts, Legislation Aims to Jump Start Antibiotic Development to Battle Superbugs (September 9, 2021). Accessed at <https://www.pewtrusts.org/en/research-and-analysis/articles/2021/09/09/legislation-aims-to-jump-start-antibiotic-development-to-battle-superbugs>

**17.** Yanzhong Huang, The Coronavirus Outbreak Could Disrupt the U.S. Drug Supply? (Council on Foreign Relations, March 5, 2020). Accessed at <https://www.cfr.org/in-brief/coronavirus-disrupt-us-drug-supply-shortages-fda>

**18.** Huang, The Coronavirus Outbreak Could Disrupt the U.S. Drug Supply?

have considered granting financial incentives to relocate the production of active pharmaceutical substances to Europe.<sup>19</sup> According to the European Union's Commissioner for Health and Food Safety, "It is now more evident than ever that we need a strategic approach to limit dependence on manufacturers and countries and that the means to produce essential medicines in the [European Union] must be created."<sup>20</sup> The response to this situation is also reflected in the "Pharmaceutical Strategy for Europe," which includes the objective "to reduce direct dependence on raw materials from non-[European Union] countries."<sup>21</sup> Asian countries have also begun to stress the strategic importance of domestic manufacturing, including India<sup>22</sup> and Japan, which announced subsidies for companies that repatriate factories.<sup>23</sup>

The recognition of the problems associated with dependence on imports of pharmaceuticals and the recognition of the strategic importance of a local pharmaceutical industry (including the production of vaccines), have occurred in the context of a deeper and more general reconsideration of the benefits of economic globalization.<sup>24</sup> The COVID-19 crisis has highlighted to governments around the world, including those of industrialized nations, the vulnerabilities of a production system based on global value chains. These value chains geographically fragment production processes to exploit economies of scale and lower labour costs.<sup>25</sup> Those vulnerabilities were exacerbated by the recent trade war launched by the United States against China by the Trump's Administration<sup>26</sup> and later by the rise of economic nationalism amidst the COVID-19 pandemic,<sup>27</sup> as

19. BAE Negocios, La UE busca depender menos de Asia en el rubro medicamentos (May 12, 2020). Accessed at <https://www.baenegocios.com/mundo/La-UE-busca-depender-menos-de-Asia-en-el-rubro-medicamentos-20200512-0042.html>

20. BAE Negocios, La UE busca depender menos de Asia en el rubro medicamentos (May 12, 2020). Accessed at <https://www.baenegocios.com/mundo/La-UE-busca-depender-menos-de-Asia-en-el-rubro-medicamentos-20200512-0042.html>

21. European Commission, Pharmaceutical strategy for Europe (November 25, 2020). Accessed at [https://ec.europa.eu/health/human-use/strategy\\_en](https://ec.europa.eu/health/human-use/strategy_en)

22. Rajesh Roy, "India's Leader Calls for Economic Self-Sufficiency, Promises Relief" (The Wall Street Journal, May 12, 2020). Accessed at <https://www.wsj.com/articles/indias-leader-calls-for-economic-self-sufficiency-promises-relief-11589306423>

23. "Globalisation unwound: Has COVID-19 killed globalisation?" (The Economist, May 14, 2020).

24. S. Javed Maswood, *Revisiting Globalization and the Rise of Global Production Networks* (Springer, 2018).

25. Eduardo Bianchi and Carolina Szpak, "Cadenas globales de valor, comercio internacional y actuación empresarial," *Revista Argentina de Investigación en Negocios* 1, no 1. (April 2015). Accessed at [https://redib.org/Record/oai\\_articulo1598814-cadenas-globales-de-valor-comercio-internacional-y-actuaci%C3%B3n-empresaria](https://redib.org/Record/oai_articulo1598814-cadenas-globales-de-valor-comercio-internacional-y-actuaci%C3%B3n-empresaria)

26. Peter Lunenborg and Fernando Rosales, *Global Cooperation Instead of Confrontation* (South Centre, January 2021). Accessed at <https://www.southcentre.int/wp-content/uploads/2021/01/Global-Cooperation-Instead-of-Confrontation-FINAL.pdf>

27. Willy C. Shih, "Global Supply Chains in a Post-Pandemic World," *Harvard Business Review* (September–October 2020). Accessed at <https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world>

well as by “techno-nationalism” as a means to advance a state’s power on the international scene.<sup>28</sup>

These trends towards more government activism and protectionism among industrialized countries pose new challenges to developing countries. The nations in the developing world cannot provide the same level of support to existing or nascent industries as the more industrialized countries.<sup>29</sup> and cannot offer comparable infrastructure, qualified human resources, and financing to enter such a race for autonomy. Increasing their manufacturing capacity in the technology-intensive sector of pharmaceuticals (including vaccines) would contribute to a much-needed diversification of their economies. This is particularly important in the case of countries that are overdependent on the production and export of commodities.<sup>30</sup> By creating or expanding their

vaccine manufacturing capacity either individually or, as suggested in the report by UNIDO, AVMI, and WHO, with a regional approach, African and other developing countries would become more self-reliant and less vulnerable.<sup>31</sup> Given the characteristics of the vaccine industry, however, this will require sustained efforts and a conducive policy framework.

### 3. The vaccine industry

The global vaccine industry has been dominated by a small number of multinational enterprises based in developed countries, operating in an oligopolistic market structure. In 2014, for example, just four vaccine companies accounted for 85 percent of all global vaccine sales.<sup>32</sup> According to the WHO, nearly one-third (32 percent) of vaccines are produced by fewer than four suppliers, while nearly two-thirds (63 percent) have two or fewer WHO prequalified products.<sup>33</sup>

28. ‘Techno-nationalism’ is based on the belief that the success of a nation can be determined by how well that nation innovates and diffuses technology across its people. See Yadong Luo, “Illusions of techno-nationalism,” *Journal of International Business Studies* (2021). Accessed at <https://link.springer.com/article/10.1057/s41267-021-00468-5>

29. As shown, for example, by the major differences in the size of recovery packages adopted in the context of the COVID-19 crisis. In 2020, advanced economies on average deployed about 24 percent of GDP in fiscal measures, compared with only 6 percent in emerging markets and less than 2 percent in low-income countries. See Kristalina Georgieva, “The Great Divergence: A Fork in the Road for the Global Economy” (IMF Blog, February 24, 2021). Accessed at <https://blogs.imf.org/2021/02/24/the-great-divergence-a-fork-in-the-road-for-the-global-economy/>

30. UNCTAD, *Commodities & Development Report 2021—Escaping from the Commodity Dependence Trap through Technology and Innovation* (Geneva, 2021). Accessed at [https://unctad.org/system/files/official-document/ditccom2021d1\\_en.pdf](https://unctad.org/system/files/official-document/ditccom2021d1_en.pdf)

31. UNIDO, AVMI, and WHO, *Vaccine Manufacturing and Procurement in Africa* (2017). Accessed at <https://www.avmi-africa.org/wp-content/uploads/2017/09/VMPA-Study-e-book.pdf>

32. Felix Lobo, *Restructuring the Global Vaccine Industry*, Research Paper no. 134 (South Centre, September 2021), 34. Accessed at [https://www.southcentre.int/wp-content/uploads/2021/09/RP134\\_Restructuring-the-Global-Vaccine-Industry\\_EN-1.pdf](https://www.southcentre.int/wp-content/uploads/2021/09/RP134_Restructuring-the-Global-Vaccine-Industry_EN-1.pdf)

33. UNCTAD, *COVID-19 heightens need for pharmaceutical production in poor countries* (May 27, 2020). Accessed at <https://unctad.org/news/COVID-19-heightens-need-pharmaceutical-production-poor-countries>

Unlike some other pharmaceuticals, vaccines are not available as generic products.<sup>34</sup>

The vaccine industry has been characterized by a lack of investment in research and development, but has historically received significant government support.<sup>35</sup> Vaccines typically take a long time to develop – five to seven years on average – and just one in 15 vaccines in development reach the market. Once developed, vaccine production is dependent on a large number of inputs by third-party producers while know-how is key in the production process which is subject to significant economies of scale.<sup>36</sup>

The vaccine industry is also capital intensive, particularly compared with the production of pharmaceuticals by chemical synthesis. Estimates of the cost of establishing a new

manufacturing plant for vaccines vary. One study found that “[f]acilities can cost US\$50–500 million per antigen based on the high complexity of design, automation, segregation, utilities, and contamination controls, and as much as US\$700 million for multiple vaccines.”<sup>37</sup> The UNIDO, AVMI, and WHO report estimated the cost of building a manufacturing facility at between US\$60 million and US\$130 million.<sup>38</sup> More recently, the chief executive officer of South African company Biovac estimated that a facility capable of producing up to one billion doses of vaccines would cost between \$200 million and \$336 million.<sup>39</sup> Whatever the real costs are,<sup>40</sup> they are considerably higher than for a plant producing pharmaceuticals through the process of chemical synthesis. Given the scale of such costs, countries willing to move forward in the production of vaccines

34. Improvements in regulations are still needed to put in place abbreviated pathways for the marketing approval of follow-on non-originator vaccines. See K.M. Gopakumar, Chetali Rao, and Sangeeta Shashikant, Trade secrets protection and vaccines: The role of medicine regulatory agencies, Briefing Paper (Third World Network PUBLISHER, June 2021). Accessed at [https://www.twn.my/title2/briefing\\_papers/twn/Trade%20secrets%20TWNBP%20Jun%202020%20Gopakumar%20et%20al.pdf](https://www.twn.my/title2/briefing_papers/twn/Trade%20secrets%20TWNBP%20Jun%202020%20Gopakumar%20et%20al.pdf)

35. The support received by Western companies to develop COVID-19 vaccines has been exceptional, but in line with past practices. See, e.g., Anthony McDonnell and Flavio Toxvaerd, How Does the Market for Vaccines Work? (Center for Global Development, May 14, 2021). Accessed at <https://www.cgdev.org/blog/how-does-market-vaccines-work>. See also Mariana Mazzucato, Jayati Ghosh, and Els Torrelee, “On waiving COVID patents,” (The Economist, April 20, 2021), Accessed at <https://www.economist.com/by-invitation/2021/04/20/mariana-mazzucato-jayati-ghosh-and-els-torrelee-on-waiving-COVID-patents> (“In America alone, six vaccine companies have received an estimated \$12bn of public money. Development of the AstraZeneca/Oxford vaccine is estimated as having been 97% publicly funded.”). See also Richa Chintan, Big Pharma—Maximum Earnings, Minimum Responsibilities, August 23, 2021. Accessed at <https://www.newsclick.in/Big-Pharma%E2%80%93Maximum-Earnings-Minimum-Responsibilities>

36. Felix Lobo, Restructuring the Global Vaccine Industry, Research Paper no. 134 (South Centre, September 2021). Accessed at [https://www.southcentre.int/wp-content/uploads/2021/09/RP134\\_Restructuring-the-Global-Vaccine-Industry\\_EN-1.pdf](https://www.southcentre.int/wp-content/uploads/2021/09/RP134_Restructuring-the-Global-Vaccine-Industry_EN-1.pdf)

37. Stanley Plotkin, James M. Robinson, Gerard Cunningham, Robyn Iqbal, and Shannon Larsen, “The complexity and cost of vaccine manufacturing—An overview,” *Vaccine* 35, Issue 33 (July 24, 2017), 4069.

38. UNIDO, AVMI, and WHO, Vaccine Manufacturing and Procurement in Africa (2017). Accessed at <https://www.avmi-africa.org/wp-content/uploads/2017/09/VMPA-Study-e-book.pdf>

39. Toyin Abiodun et al., Vaccine Manufacturing in Africa: What It Takes and Why It Matters (Tony Blair Institute for Global Change, 2021), 13.

will have to consider the amount of financial support needed and how to ensure, through appropriate procurement policies, sustained demand to avoid overcapacity or entirely frustrating an industrial project.

High capital investment, the need for qualified resources, a complex production function, and the tacit nature of production knowledge can, among other factors, explain the oligopolistic structure of the vaccine industry. A frequent argument has also been the low profitability of vaccine production. Although empirical information on this issue is lacking, Scherer of Harvard University found a 56.4 percent price cost margin for vaccines, compared with an average of 28 percent for the manufacturing industry, suggesting that the industry is profitable.<sup>41</sup> Although the circumstances under which COVID-19 vaccines are being produced are exceptional – notably global demand

and urgency by governments to obtain vaccines at whatever price they are available – the recent profitability of producers of vaccines against COVID-19 seems to widely confirm Scherer’s observation.<sup>42</sup>

Although the production of vaccines is more complex than that of most pharmaceutical products, many manufacturers in developed and developing countries<sup>43</sup> may be able to produce vaccines (including against COVID-19), in some cases by repurposing plants used to produce biologicals. One barrier, often noted during the current pandemic, has been the importance of know-how in vaccine production. In accordance with Gavi, the Vaccine Alliance,

Vaccine production involves high investment costs for research and development, and for production facilities. It also requires significant know-how. Know-how is difficult to acquire and so technology transfer requires a strong cooperative

**40.** The African Development Bank aims to help finance at least two technology platforms for vaccine production, which will be capable of producing at least 300 million doses per year. They will need, in accordance with source, investments of up to US\$400 million. See Aisling Irwin, “How COVID spurred Africa to plot a vaccines revolution,” *Nature* (April 21, 2021). Accessed at <https://www.nature.com/articles/d41586-021-01048-1>

**41.** Felix Lobo, *Restructuring the Global Vaccine Industry*, Research Paper no. 134 (South Centre, September 2021), 6. Accessed at [https://www.southcentre.int/wp-content/uploads/2021/09/RP134\\_Restructuring-the-Global-Vaccine-Industry\\_EN-1.pdf](https://www.southcentre.int/wp-content/uploads/2021/09/RP134_Restructuring-the-Global-Vaccine-Industry_EN-1.pdf)

**42.** Moderna’s profits on the COVID-19 vaccine could be as high as US\$14 billion (in 2019, it reported total revenue of US\$60 million). See “Moderna, Racing for Profits, Keeps COVID Vaccine Out of Reach of Poor” (*The New York Times*, October 10, 2021). Accessed at <https://www.nytimes.com/2021/10/09/business/moderna-COVID-vaccine.html>. Pfizer is reported to have obtained a 20 percent gross profit margin with its COVID-19 vaccine. See Pierre-Alexandre Sallier, “Efficace, l’ARN messenger s’avère aussi très rentable” (*Tribune de Genève*, August 10, 2021). Accessed at [https://www.tdg.ch/efficace-larn-messenger-savere-aussi-tres-rentable-846625366598?utm\\_source=sfmc&utm\\_medium=email&utm\\_campaign=TG\\_ED\\_9\\_ENG\\_EM\\_NL\\_MATIN\\_NOUVELLE\\_XX\\_A0&utm\\_term=2021-08-10&utm\\_content=1498089](https://www.tdg.ch/efficace-larn-messenger-savere-aussi-tres-rentable-846625366598?utm_source=sfmc&utm_medium=email&utm_campaign=TG_ED_9_ENG_EM_NL_MATIN_NOUVELLE_XX_A0&utm_term=2021-08-10&utm_content=1498089). See also Julia Kollwe, “A year that changed the world—and medical companies’ fortunes,” (*The Guardian*, September 11, 2021). Accessed at <https://www.theguardian.com/business/2021/sep/11/a-year-that-changed-the-world-and-medical-companies-fortunes>

**43.** CEPI, *CEPI Survey Assesses Potential COVID-19 Vaccine Manufacturing Capacity* (August 5, 2020). Accessed at [https://cepi.net/news\\_cepi/cepi-survey-assesses-potential-COVID-19-vaccine-manufacturing-capacity/](https://cepi.net/news_cepi/cepi-survey-assesses-potential-COVID-19-vaccine-manufacturing-capacity/)

relationship between the partners. All these factors create barriers to entry into vaccine production.<sup>44</sup>

Access to know-how and data would allow new entrants to move fast. But developing the required know-how would not be impossible if scientific and industrial support is available for the various phases of manufacturing (active ingredient, formulation, and fill and finish). While many developing countries have the skills to produce vaccines with conventional technologies, some, such as Thailand<sup>45</sup> and China,<sup>46</sup> have also engaged in the development of vaccines based on the mRNA technology used by Moderna and Pfizer/BioNTech. If the companies that developed vaccines for COVID-19 had shared their know-how, supply could have been expanded and reached developing countries in a timely manner.<sup>47</sup> While a compulsory license system for know-how (in addition to the compulsory

license system applied for patents) has not been implemented to date at either the national or regional level, governments may start to consider this option. Such a system is conceivable and would be compatible with the TRIPS Agreement.<sup>48</sup>

#### 4. Vaccine production in Africa

As noted in the UNCTAD report referred to above, some African countries, including those classified as least developed, have made significant gains in domestic production of pharmaceuticals (by chemical synthesis), with firms in these countries manufacturing a wide range of products. South Africa, Algeria, Ethiopia, Ghana, Nigeria, Egypt, and Tunisia currently undertake or have plans to initiate vaccine production,<sup>49</sup> although generally limited to the last stages of “fill and finishing” and packaging.<sup>50</sup>

Of the 40 vaccine manufacturers in

44. WHO, Key Concepts: Economics of Vaccine Production. Accessed at [https://www.who.int/immunization/programmes\\_systems/financing/analyses/en/briefcase\\_vacproduction.pdf](https://www.who.int/immunization/programmes_systems/financing/analyses/en/briefcase_vacproduction.pdf)

45. “Thailand’s very own mRNA vaccine ‘will be ready for use by yearend’ (The Star, July 22, 2021). Accessed at <https://www.thestar.com.my/aseanplus/aseanplus-news/2021/07/22/thailands-very-own-mrna-vaccine-will-be-ready-for-use-by-yearend>

46. Josephine Ma, “Domestic clinical trials planned for China’s mRNA COVID-19 vaccine,” (South China Morning Post July 22, 2021). Accessed at <https://www.scmp.com/news/china/science/article/3142084/domestic-clinical-trials-planned-chinas-mrna-covid-19-vaccine>

47. However, companies did not share their technologies despite the establishment, under WHO auspices, of a “technology access pool” designed with that end. See <https://www.who.int/initiatives/COVID-19-technology-access-pool>

48. Olga Gurgula, Accelerating COVID-19 Vaccine Production via Involuntary Technology Transfer, Policy Brief no. 102 (South Centre, September 2021). Accessed at [https://www.southcentre.int/wp-content/uploads/2021/09/PB102\\_Accelerating-COVID-19-Vaccine-Production-via-Involuntary-Technology-Transfer\\_EN.pdf](https://www.southcentre.int/wp-content/uploads/2021/09/PB102_Accelerating-COVID-19-Vaccine-Production-via-Involuntary-Technology-Transfer_EN.pdf)

49. Aisling Irwin, “How COVID spurred Africa to plot a vaccines revolution,” Nature (April 21, 2021). Accessed at <https://www.nature.com/articles/d41586-021-01048-1>

50. Institut Pasteur de Dakar is likely to be the first on the continent to manufacture the substance of vaccines in parallel with fill-and-finish. See Zainab Usman and Juliette Ovadia, Is There Any COVID-19 Vaccine Production in Africa? (Carnegie Institute? IT IS CALLED AS “CARNEGIE” OR “CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE”, September 13, 2021). Accessed at <https://carnegieendowment.org/2021/09/13/is-there-any-covid-19-vaccine-production-in-africa-pub-85320>

14 countries that are members of the Developing Countries Vaccine Manufacturers Network,<sup>51</sup> only one is African: the Biovac Institute based in Cape Town, South Africa, which currently delivers more than 25 million doses of measles, polio, and tuberculosis vaccines each year. “Sanofi and Pfizer have worked with Biovac for modernising its production

site, transferring technology, and upskilling staff; only now is the plant capable of diversifying from packaging into fill and finish, and it is still some way off fully integrated manufacture” (Abodium et al., 2021).<sup>52</sup> The Institut Pasteur of Senegal is the only WHO pre-qualified vaccine manufacturer in Africa. It currently produces small quantities

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### Box 1: Initiatives for COVID-19 vaccine production in Africa

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Galenica (Morocco) has signed a deal with the Russian Direct Investment Fund to produce Russian COVID-19 vaccines.

Morocco and China National Biotec Group Company Limited signed two cooperation agreements on COVID-19 vaccine trials to allow Morocco to produce a vaccine.

The Federal government of Nigeria has announced plans to set up a vaccine production company in Nigeria to boost local COVID-19 Vx production.

Aspen Pharmacare signed a production agreement with Johnson & Johnson for “fill and finish” of the COVID-19 vaccine. A €600 million funding package will be provided by the International Finance Corp. in cooperation with the US International Development Finance Corp., DEG – the German Development Finance Institution, and Proparco, a subsidiary of France’s Agence Française de Développement. The fund includes money for the entire vaccine supply chain. Aspen aims to produce more than 500 million doses of the Johnson & Johnson single-dose vaccine by the end of 2022.

In Egypt, VACSERA plans to produce more than 200 million doses per year of the Sinovac coronavirus vaccine to cover national needs. A second factory is planned to produce around 1 billion doses per year.

BioNTech signed an agreement with the government of Rwanda and Institut Pasteur de Dakar in Senegal on the construction of the first mRNA vaccine manufacturing facility in Africa. It is scheduled to produce 50 million doses of the company’s COVID-19 vaccine beginning in mid-2022.

Sources: Toyin Abiodun et al., Vaccine Manufacturing in Africa: What It Takes and Why It Matters (Tony Blair Institute for Global Change, 2021), 8-9. Accessed at <https://institute.global/sites/default/files/articles/Vaccine-Manufacturing-in-Africa-What-It-Takes-and-Why-It-Matters.pdf>; Ludwig Burger, “BioNTech eyes construction start for African mRNA vaccine factory in mid-2022” (Reuters, October 26, 2021). Accessed at [https://www.reuters.com/world/africa/BioNTech-says-aims-start-building-mrna-vaccine-factory-africa-mid-22-2021-1026/?taid=617816c80fbc4500016cc66d&utm\\_campaign=trueAnthem:+Trending+Content&utm\\_medium=trueAnthem&utm\\_source=twitter](https://www.reuters.com/world/africa/BioNTech-says-aims-start-building-mrna-vaccine-factory-africa-mid-22-2021-1026/?taid=617816c80fbc4500016cc66d&utm_campaign=trueAnthem:+Trending+Content&utm_medium=trueAnthem&utm_source=twitter); Shabtai Gold, “World Bank to finance vaccine production in Africa, increase fund to \$20B” (Devex, July 1, 2021). Accessed at <https://www.devex.com/news/world-bank-to-finance-vaccine-production-in-africa-increase-fund-to-20b-100284>; “Egypt to produce 1 billion Sinovac vaccines a year” (Africanews, September 1, 2021). Accessed at <https://www.africanews.com/2021/09/01/egypt-to-produce-1-billion-sinovac-vaccines-a-year/>

51. <http://www.dcvmn.org/>

52. Toyin Abiodun et al., Vaccine Manufacturing in Africa: What It Takes and Why It Matters (Tony Blair Institute for Global Change, 2021), 8. Accessed at <https://institute.global/sites/default/files/articles/Vaccine-Manufacturing-in-Africa-What-It-Takes-and-Why-It-Matters.pdf>

of yellow fever vaccines and has plans to expand manufacturing capacity at a new facility (the AfricAmaril project) and is developing other products.<sup>53</sup> Other initiatives for expanding COVID-19 vaccine production in Africa are summarized in Box 1.

In addition to the initiatives mentioned in Box 1, WHO and its COVAX partners have contributed to the creation of a COVID mRNA vaccine technology transfer hub with a South African consortium comprising Biovac, Afrigen Biologics and Vaccines, a network of universities, and the Africa Centres for Disease Control and Prevention.<sup>54</sup> The purpose of this hub<sup>55</sup> is to expand the capacity of low- and middle-income countries to produce COVID-19 vaccines and scale up the manufacturing output through “a hub and spoke model to transfer a comprehensive technology package and provide appropriate training to

interested manufacturers in low- and middle-income countries.”<sup>56</sup>

The value of Africa’s current vaccine market is estimated at US\$1.3 billion, and is expected to grow to US\$2.35 billion by 2030.<sup>57</sup> During the COVID-19 pandemic – which may have affected more people in the continent than reported<sup>58</sup> – a large investment has been made in vaccines manufactured outside Africa. For instance, the African Export-Import Bank approved an outlay of US\$2 billion in February 2021 to support the acquisition of COVID-19 vaccines.<sup>59</sup>

If some funding received by African countries to tackle the pandemic by importing finished vaccines could have been directed to creating or strengthening vaccine manufacturing capacity on the continent, Africa could have transformed a major crisis into an opportunity for its development.

53. Toyin Abiodun et al., *Vaccine Manufacturing in Africa: What It Takes and Why It Matters* (Tony Blair Institute for Global Change, 2021), 8. Accessed at <https://institute.global/sites/default/files/articles/Vaccine-Manufacturing-in-Africa-What-It-Takes-and-Why-It-Matters.pdf>

54. WHO, *WHO supporting South African consortium to establish first COVID mRNA vaccine technology transfer hub* (June 21, 2021). Accessed at <https://www.who.int/news/item/21-06-2021-who-supporting-south-african-consortium-to-establish-first-covid-mrna-vaccine-technology-transfer-hub>

55. Another regional hub with the same purpose is being established by the Pan American Health Organization (PAHO) with two partners in Argentina and Brazil. See PAHO, *PAHO selects centers in Argentina, Brazil to develop COVID-19 mRNA vaccines* (September 21, 2021). Accessed at <https://www.paho.org/en/news/21-9-2021-paho-selects-centers-argentina-brazil-develop-covid-19-mrna-vaccines>

56. WHO, *Establishment of a COVID-19 mRNA vaccine technology transfer hub to scale up global manufacturing* (April 16, 2021). Accessed at <https://www.who.int/news-room/articles-detail/establishment-of-a-covid-19-mrna-vaccine-technology-transfer-hub-to-scale-up-global-manufacturing>

57. Toyin Abiodun et al., *Vaccine Manufacturing in Africa: What It Takes and Why It Matters* (Tony Blair Institute for Global Change, 2021), 6. Accessed at <https://institute.global/sites/default/files/articles/Vaccine-Manufacturing-in-Africa-What-It-Takes-and-Why-It-Matters.pdf>

58. “The World Health Organization (WHO) data found that fewer than 15 percent of COVID-19 cases in African countries are correctly reported,” from “Why you are not hearing about COVID-19 outbreaks in Africa,” Quartz Africa (October 26, 2021 ). Accessed at <https://qz.com/africa/2079064/only-one-in-seven-cases-of-covid-19-in-africa-is-reported/>

59. “Afreximbank approves \$2 billion for African nations to secure COVID-19 vaccines” (Reuters, February 23, 2021). Accessed at <https://www.reuters.com/article/us-health-coronavirus-afreximbank-vaccin-idUSKBN2AN1JZ>

Understandably, there was urgency to obtain vaccines from whatever reliable producer was available, but one of the lessons of the pandemic is that African dependence on imported vaccines can be overcome in the future if needed actions are taken.

## 5. The African Union Strategy

In August 2020, the AU's Bureau of Heads of State and Government endorsed a Continental COVID-19 Vaccine Development and Access Strategy aimed at the "Successful immunisation of a critical mass of the African population with one or several safe and efficacious COVID-19 vaccines." The strategy aims to establish "a sustainable vaccine development and manufacturing ecosystem in Africa" with the "proposed ambition to manufacture 60 percent of Africa's routine immunisation needs on the continent by 2040, aligned with the call for a New Public Health Order."<sup>60</sup>

Financing this initiative will be challenging, but not beyond the reach of the African Union and its partners. It is worth noting in this regard the approval of "The Team Europe initiative on manufacturing

and access to vaccines, medicines, and health technologies in Africa" with the purpose of supporting "local vaccines manufacturing in Africa and tackling barriers on both supply and demand sides, backed by €1 billion from the European Union budget and the European development finance institutions."<sup>61</sup>

Implementing the AU strategy would require appropriate financing for setting up or expanding manufacturing facilities, training needed technical personnel, and a coordinated and active role by African States to support the long-term development of the industry consistently with the public health needs of the continent. As noted by Abiodun et al., "with large, state-backed investments and grants to manufacturers for production of COVID-19 vaccines in richer countries, African manufacturers are likely to face an uneven playing field and higher unit-production costs unless similar support is replicated."<sup>62</sup>

Appropriate procurement policies, the use of flexibilities permitted under the TRIPS Agreement to overcome eventual barriers imposed

60. African Union and Africa CDC launch Partnerships for African Vaccine Manufacturing (PAVM), framework to achieve it and signs 2 MoUs (African Union, April 16, 2021). Accessed at <https://africacdc.org/news-item/african-union-and-africa-cdc-launches-partnerships-for-african-vaccine-manufacturing-pavm-framework-to-achieve-it-and-signs-2-mous/>

61. European Commission, €1 billion Team Europe initiative on manufacturing and access to vaccines, medicines and health technologies in Africa (May 21, 2021). Accessed at [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_2594](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2594)

62. Toyin Abiodun et al., Vaccine Manufacturing in Africa: What It Takes and Why It Matters (Tony Blair Institute for Global Change, 2021), 13. Accessed at <https://institute.global/sites/default/files/articles/Vaccine-Manufacturing-in-Africa-What-It-Takes-and-Why-It-Matters.pdf>

by intellectual property rights,<sup>63</sup> and an adequate regulatory framework for the marketing approval of vaccines will be essential components of the African vaccine production strategy. The pandemic has actually “prompted calls to accelerate efforts to establish an African Medicines Agency (AMA – similar to the European Medicines Agency (EMA – which would provide national African regulators with regulatory guidance on new medicines, as the EMA does in Europe.”<sup>64</sup>

South-South and Triangular cooperation can make a critical contribution to executing the AU strategy. Such cooperation has expanded in scope and intensity in recent years, as reflected in the outcome document of the BAPA+40 Conference in 2019, which marked the 40th anniversary of the Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries.<sup>65</sup>

Several developing countries, including India, China, Cuba, Brazil, and Argentina, have significant capacities in vaccine production and may provide knowledge, equipment, and other support to African countries. Notably – and in contrast to some Western companies – vaccine producers from developing countries that have developed their own vaccines for COVID-19 are active in the transfer of technology to partners in developing countries.<sup>66</sup>

Of course, many issues would have to be addressed in implementing the AU strategy. It is unclear, for example, how many vaccine manufacturers the continent could host to ensure the achievement of industrial and public health objectives. It is also uncertain how to attract a large number of manufacturers but still ensure their economic viability.<sup>67</sup> Also in question is what vaccines<sup>68</sup> will be manufactured and whether mRNA technology, given its advantages in terms of cost

63. See on this matter, e.g., Carlos Correa, *Interpreting the Flexibilities Under the TRIPS Agreement*, Research Paper no. 132 (South Centre, June 2021). Accessed at <https://www.southcentre.int/wp-content/uploads/2021/06/RP-132.pdf>; Yousuf A. Vawda and Bonginkosi Shoji, *Eighteen Years After Doha: An Analysis of the Use of Public Health TRIPS Flexibilities in Africa*, Research Paper no. 103 (South Centre, February 2020). Accessed at [https://www.southcentre.int/wp-content/uploads/2020/02/RP103\\_Eighteen-Years-After-Doha-An-Analysis-of-the-Use-of-Public-HealthTRIPS-Flexibilities-in-Africa\\_EN.pdf](https://www.southcentre.int/wp-content/uploads/2020/02/RP103_Eighteen-Years-After-Doha-An-Analysis-of-the-Use-of-Public-HealthTRIPS-Flexibilities-in-Africa_EN.pdf)

64. See Aisling Irwin, “How COVID spurred Africa to plot a vaccines revolution,” *Nature* (April 21, 2021). The project, led by the African Union and the Africa CDC, will cost US\$100 million.

65. See <https://www.un.org/pga/73/wp-content/uploads/sites/53/2019/03/6March-Outcome-document-SS-Cooperation-6-March-2019.pdf>

66. See transfer of technology agreements for COVID-19 vaccines in <https://www.unicef.org/supply/COVID-19-vaccine-market-dashboard>.

67. In accord with the UNIDO, AVMI, and WHO report, *Vaccine Manufacturing and Procurement in Africa* (2017), 4, accessed at <https://www.avmi-africa.org/wp-content/uploads/2017/09/VMPA-Study-e-book.pdf>, Africa can develop capacities in the next 10-20 years, but “there may be limited place for more than two or three sub-regional hubs.”

68. There are different types of vaccines: conventional vaccines include Live-attenuated vaccines, Inactivated and Toxoid vaccines; more modern vaccines include subunit, recombinant protein, polysaccharide, and conjugate vaccines; Virus-like particles and Nucleic acid vaccines; mRNA vaccines are one of the most important development in the latter category.

and speed of production at scale,<sup>69</sup> is likely to become dominant in vaccine production.<sup>70</sup>

The African Continental Free Trade Agreement may play a significant role in ensuring the viability of vaccine production in the continent.<sup>71</sup>

While at present no African country is implementing preferential tariff concessions under the agreement, pursuant to the Ministerial Directive on the application of Provisional Schedules of Tariff Concessions adopted by the 7th Council of Ministers responsible for Trade in charge of the AfCFTA on October 10, 2021, State Parties that attained a level of liberalization of 90 percent in terms of tariff lines will start implementing tariff concessions (vis-à-vis other State Parties that have done the same, in line with the principle of reciprocity).<sup>72</sup> The tariff treatment that vaccines and vaccine inputs receive within the continent will influence the possibility of domestic producers to compete with foreign

producers, reach economies of scale, and reduce costs. If vaccines and vaccine inputs are given preferential access or duty-free status in intra-African trade, it could stimulate the production of vaccines in Africa.<sup>73</sup>

The Trade Facilitation commitments contained in Annex 4 to the Protocol on Trade in Goods of the AfCFTA Agreement are also relevant, as vaccines require many inputs from different locations. African countries have made divergent commitments under the WTO Trade Facilitation Agreement, as specific provisions can be allocated by each country in different categories. The AfCFTA Agreement incorporates provisions of the WTO Trade Facilitation Agreement, providing for harmonization in the level of commitments across African countries. Thus, Article 15 – which may be applicable to vaccines and their inputs as perishable goods – incorporates the same commitments contained in Article 7.9 of the WTO Trade Facilitation Agreement (Articles

**69.** The manufacturing of mRNA vaccines is a cell-free, biochemical process performed with synthetic enzymes, according to David Verga, mRNA and the future of vaccine manufacturing (PATH, February 10, 2021). Accessed at <https://www.path.org/articles/mrna-and-future-vaccine-manufacturing/>

**70.** One disadvantage of mRNA vaccines, particularly in developing countries, is “because RNA is so fragile, all RNA vaccines would require ultra-cold chain storage, which carries enormous costs and significantly limits usability in countries with low- and middle-income economies.” David Verga, mRNA and the future of vaccine manufacturing (PATH, February 10, 2021). Accessed at <https://www.path.org/articles/mrna-and-future-vaccine-manufacturing/>

**71.** I thank Peter Lunenburg for the analysis of the possible impact of the AfCFTA on vaccine production and trade, as presented below.

**72.** The first group of customs unions / countries expected to implement tariff concessions are: Economic and Monetary Community of Central Africa (CEMAC), Democratic Republic of the Congo, Economic Community of West African States (ECOWAS), Egypt, Madagascar, Mauritius, Seychelles, Zambia, and Zimbabwe. Other African countries will follow (e.g., Southern African Customs Union (SACU), Morocco, and Tunisia are well advanced to reach the threshold of 90 percent).

**73.** There is no standardized list of Harmonized System (HS) / tariff line codes that represent vaccine inputs. Nonetheless, the WTO started reviewing this and published an information note on COVID-19 vaccine production and tariffs on vaccine inputs. See WTO information note, October 8 2021. Accessed at [https://www.wto.org/english/tratop\\_e/COVID19\\_e/vaccine\\_production\\_report\\_e.pdf](https://www.wto.org/english/tratop_e/COVID19_e/vaccine_production_report_e.pdf)

7.9.1 to 7.9.3; Article 7.9.4 has not been inserted in the AfCFTA Agreement text).

Conformity assessment procedures serve legitimate policy goals but might also hinder the flow of necessary medical goods. Article 5 of Annex 6 (Technical Barriers to Trade) to the Protocol on Trade in Goods of the AfCFTA Agreement provides that State Parties shall cooperate inter alia in the development and implementation of conformity assessment procedures, to facilitate trade within the AfCFTA. This Article is not very specific, but could be the basis for developing directives and guidelines under the AfCFTA Agreement. Possible measures might include committing State Parties to ensure their domestic regulations incorporate the WHO's Good Manufacturing Practices guidelines, or mutual recognition of inspections and approvals to ensure that quality assurance for vaccines produced in one country is valid for all.<sup>74</sup>

Finally, commitments around services, for instance, those related to the transport sector, might be relevant for the production and distribution of vaccines.<sup>75</sup>

## 6. Conclusion

The unequal distribution of COVID-19 vaccines hit the African continent particularly hard. The continent has the lowest rate of vaccination in the world, despite the efforts of African governments and donations from the United States, the European Union, China, and Russia, among others. The pandemic drew attention to the fact that 99 percent of vaccines administered on the African continent are not produced there.

The COVID-19 crisis represented a wake-up call for many countries, both developed and developing, that have become overly dependent on the supply of pharmaceuticals from outside their borders. Some developed countries seek greater autonomy in what they view now as a strategic sector, in a context of the rebirth of economic and technological nationalism.

The oligopolistic structure of the vaccine industry at the time of the COVID-19 outbreak, with a few multinational enterprises dominating much of the market, reflected the many barriers to entry prevailing in this sector. Among those barriers were and still are its capital-intensive

<sup>74</sup>. Carlos Kuriyama, Promoting Trade in Vaccines and Related Supplies and Equipment, Policy Brief no. 40 (APEC Policy Support Unit, May 2021). Accessed at [https://www.apec.org/docs/default-source/Publications/2021/5/Promoting-Trade-in-Vaccines-and-Related-Supplies-and-Equipment/221\\_PSU\\_Promoting-Trade-in-Vaccines-and-Related-Supplies-and-Equipment.pdf](https://www.apec.org/docs/default-source/Publications/2021/5/Promoting-Trade-in-Vaccines-and-Related-Supplies-and-Equipment/221_PSU_Promoting-Trade-in-Vaccines-and-Related-Supplies-and-Equipment.pdf)

<sup>75</sup>. Under the AfCFTA Agreement, State Parties are submitting offers for liberalization in five priority sectors: business, communication, financial, tourism, and transport services. A total of 36 offers had been submitted when this article was published. While substantive progress had been made in negotiations in the five priority sectors, some work remained. Negotiations also were underway on cross-cutting regulatory frameworks.

character, the role played by tacit knowledge and economies of scale, and long and risky processes of product development. Nevertheless, the emergence of new vaccine producers, many of them from developing countries, demonstrates room for diversification in the vaccine supply.

Africa can play a new role in this scenario. Some initiatives already underway, although initially limited to final stages of the manufacturing process, will increase vaccine production capacity on the continent. Developing a vaccine manufacturing industry in Africa will involve significant financial, technical, and regulatory challenges. It will be also crucial to improve or put in place adequate health delivery systems, procurement, and other supportive policies.

The AU initiative to satisfy 60 percent of African vaccine demand with production on the African continent by 2040 promises the possibility of transforming crisis into a major opportunity, to promote industrial development and to bolster self-sufficiency in addressing the health

needs of the African population. To significantly expand vaccine production in Africa is a sound proposition, not just from a public health perspective, but also from an economic one, especially as economies of scale may be harnessed in the context of the AfCFTA Agreement.

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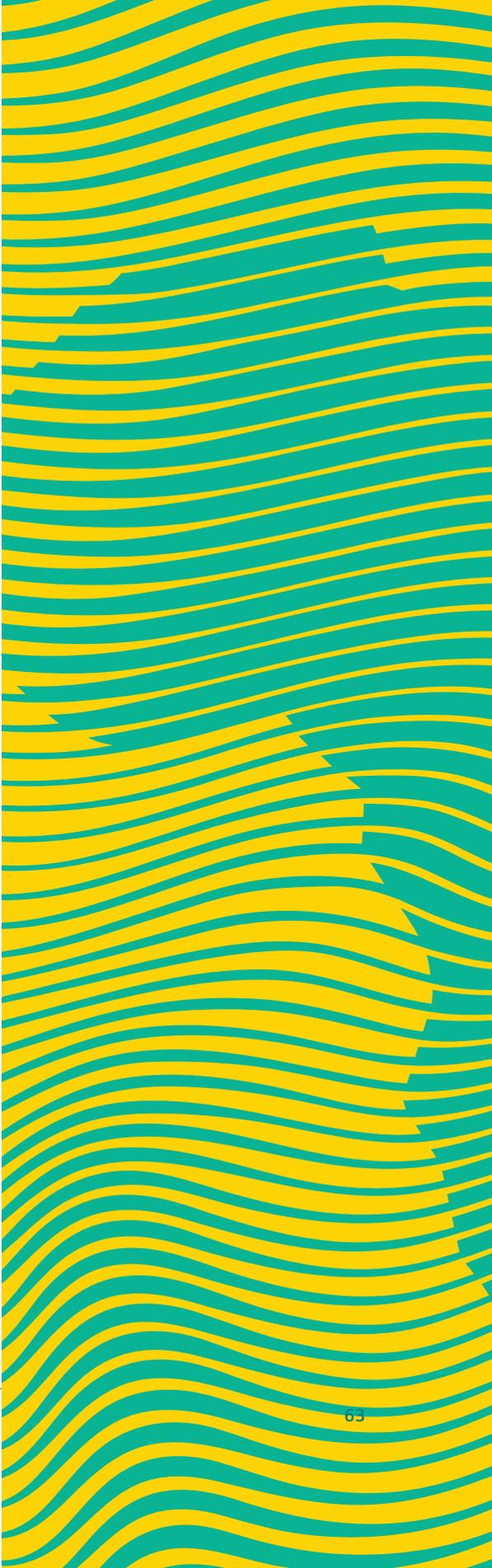
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# The African Continental Free Trade Area: A Perspective of the International Trade Centre

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**Abstract:** Africa's drive to deepen regional integration and enhance the competitiveness of African economies through the African Continental Free Trade Area (AfCFTA) is laudable. This article outlines four issues that will be relevant in supporting the AfCFTA from the perspective of the International Trade Centre. First, it emphasises the need to foster resilience and recovery in the post-COVID-19 era. Second, it discusses the importance of expanding integration and opportunities for marginalised actors in international trade for a successful AfCFTA. Third, it discusses the intermediary role of trade-related technical assistance in bridging trade rules and market opportunities. Finally, it underscores the need to harness partnerships to support the growth of micro, small, and medium-sized enterprises and to accelerate the diversification of sources of growth and trade to enhance implementation of the AfCFTA. In relation to the four issues, the article outlines a set of interventions considered by the International Trade Centre to support implementation of the AfCFTA.

**Keywords:** AfCFTA, ATO, LDC, MSME, TRTA

**JEL Classification:** F1, O1, P33

## **1. Introduction**

Africa started trade under the much-awaited African Continental Free Trade Area (AfCFTA) Agreement on 1st January 2021. Two Ghanaian companies initiated the process to test-run the trade under the AfCFTA. Kasapreko Company Limited, a beverage producer, exported a 20-footer container of products to South Africa by air. Ghandour Cosmetics Limited also exported a 20-footer container of cosmetic

products to Guinea by sea (Kwofi, 2021). In addition to their history-making nature, trade conducted by these two companies also raised an interesting and relevant point. Both companies exported value-added products (beverages and cosmetics) as opposed to the commodities exports the continent is known for.

For background, intra-Africa trade stands at less than 20 percent, as

opposed to intra-regional trade in the Americas (47%), Asia (59%), and Europe (69%) (UNCTAD, 2019). Despite being low in percentage terms, the composition of intra-African trade is highly value-added. Data show that the percentage of manufactured goods traded within Africa was 41.9 percent, compared with 14.8 percent in 2014 (Songwe, 2019). Indeed, the exports made by the two Ghanaian companies mentioned earlier highlight the potential of the AfCFTA to diversify and expand intra-African trade. They paint a picture of hope under the AfCFTA, which aims to boost intra-African trade to about 50 percent by 2040 (UNECA, 2018). For these reasons, the need to rally behind a successful AfCFTA is urgent.

Many micro, small, and medium-sized enterprises (MSMEs) that operate on the continent will be major drivers of that transformation and could emerge as the main beneficiaries of continental trade integration reform. According to World Bank estimates, 90 percent of MSMEs worldwide contribute 50 percent of employment in emerging economies.<sup>1</sup> MSMEs tend to be a source of creativity and innovation due to their agile nature and ability to avoid long bureaucratic processes in decision making. Big companies can tap into the invaluable ideas of MSMEs, while MSMEs also gain access to resources and legitimacy provided by big companies (Prashantham, 2019; Nandonde et al., 2019).

In Africa, MSMEs account for 80 percent of businesses and constitute the largest proportion of the industry structure (Awani, 2020). The success of the AfCFTA hinges on a thriving pool of innovative MSMEs. However, because most MSMEs in Africa are informal, they operate their businesses as “survival workshops” (Kuada, 2015). Most MSMEs run by women face challenges such as lack of access to finance, market information, and market access. In cross-border trade, MSMEs and women-headed enterprises face a host of non-tariff barriers including extended delays, cumbersome paperwork, difficult-to-follow customs procedures, among others. These obstacles may inhibit the ability of MSMEs to tap into the advantages of the AfCFTA.

The International Trade Centre (ITC) is well positioned to provide trade-related technical assistance to MSMEs and companies such as Kasapreko and Ghandour to prepare them for trading under the AfCFTA. The ITC operates on a basis of decades-long experience and expertise and partnerships with other international organisations to demonstrate how regional integration can work for development. This paper highlights the four areas through which the ITC would most effectively support implementation of the AfCFTA. It provides an overview of interventions and programmes considered by the ITC to facilitate the realisation of the AfCFTA’s huge development potential.

1. <https://www.worldbank.org/en/topic/sme/finance>

The remainder of the paper is organized as follows. Section 2 sheds light on the mandate of ITC and articulates a justification for its support for the AfCFTA. Section 3 provides an overview of the four areas of intervention identified and considered useful to support the AfCFTA. Section 4 shows the work that ITC is undertaking to support the AfCFTA with MSMEs at its core. Section 5 concludes by reiterating the usefulness of international trade organisations in an AfCFTA regime.

## **2. The Mandate of ITC and AfCFTA**

ITC was formed in 1964 as the sole United Nations agency dedicated to providing trade-related technical assistance (TRTA) for developing and transition economies. It was jointly formed by the World Trade Organisation (WTO) and the United Nations (UN) through the United Nations Conference on Trade and Development (UNCTAD). The Agency's goals are distributed across three levels: macro, meso, and micro. At the macro level, ITC contributes to strengthening the integration of the business sector of beneficiary countries into the global economy. At the meso level, ITC works to improve the performance of trade and investment support institutions to enhance their abilities to support MSMEs. At the micro level, ITC works to improve the international competitiveness of MSMEs through firm-level capacity building. These goals should foster inclusive and

sustainable economic development and contribute to achieving the UN Global Goals for Sustainable Development.

Overview of ITC Priority Areas of Intervention:

ITC's areas of intervention are broad and cover a wide range of areas along trade and production value chains. They can be classified into six key areas listed below.

- Building a conducive business environment
- Strengthening trade and investment support institutions
- Providing trade and market intelligence
- Connecting MSMEs to international value chains
- Promoting and mainstreaming inclusive and green trade
- Supporting regional economic integration and South-South links

Trade has been one of the most important channels through which ITC has supported MSMEs in its member countries. The AfCFTA provides the opportunity to expand this mandate. In Africa, ITC's interventions have been active, consistent, and sustained over the years. It has thus far worked in 50 out of the 55 African countries, representing 92 percent of continental geographical coverage. Africa has consistently been a priority

region for ITC. About 50 percent of ITC's budget was directed to Africa in recent years, and the institution is expected to deploy even more resources towards Africa during the implementation of the AfCFTA.

In the Agreement establishing the AfCFTA, there are provisions under the Protocol on Trade in Goods and the Protocol on Trade in Services which specifically emphasize technical assistance, capacity building, and cooperation. Article 29 of the Protocol on Goods underscores the critical importance of technical assistance:

1. The (AfCFTA) Secretariat, working with State Parties, RECs and partners, shall coordinate and provide technical assistance and capacity building in trade and trade related issues for the implementation of this Protocol.

Article 27 of the Protocol on Trade in Services also emphasizes the need for technical assistance, capacity building, and cooperation, notably by inviting State Parties:

(i) to recognise the importance of technical assistance, capacity building and cooperation in order to complement the liberalisation of services, to support State Parties' efforts to strengthen their capacity in the supply of services and to facilitate implementation and attainment of the objectives of this Protocol; (ii) to agree, where possible, to mobilise resources, in collaboration with development partners, and implement measures,

in support of the domestic efforts of State Parties...; and (iii) ensuring that The (AfCFTA) Secretariat, working with State Parties, RECs and partners, shall coordinate the provision of technical assistance.

The mandate of ITC combines with the technical assistance needed under AfCFTA to make ITC a supporting partner of the continental trade agreement. In this vein, it has been providing trade-related technical assistance to promote effective implementation of the AfCFTA.

### **3. Overview of Potential Areas of Support and Collaboration**

Coincidentally, the AfCFTA was implemented amid the COVID-19 pandemic, which is redefining the contours of the new growth and economic model, setting the stage for the emergence of a new world where digitalisation will become a more important driver of growth. The post-pandemic recovery is a priority for most governments and development finance institutions. The ITC has adjusted and expanded the scope of its support to account for these developments, and its interventions cover four areas.

#### **3.1. A Post-COVID-19 Recovery AfCFTA**

COVID-19 is still a significant hurdle to overcome. According to the World Health Organisation (WHO), there have been more than 273 million confirmed cases worldwide and more

than 5.3 million deaths as of 16th December 2021 (WHO undated). Measures have been taken to reduce the spread of COVID-19. They have become even stricter since the emergence of the Omicron variant. The WHO reports that more than 8.3 billion doses of vaccines have been administered so far. However, when the nuances are captured, just about 6 percent (77 million) of Africa's population have been vaccinated. This could undermine the process of economic recovery as a vaccination rate of at least 60 percent is required to achieve herd immunity, according to the Head of the Africa Centres for Disease Control and Prevention.<sup>2</sup>

The lockdowns, border closures, and consequent disruption in global supply chains put many African countries on the brink of economic collapse. Even though the total number of COVID-19 cases in Africa represents 2.5 percent of global cases (Africa CDC, 2021), the social and economic fallout has been significant for the region, which entered the crisis with limited fiscal space.

The pandemic also exposed the vulnerability of the African pharmaceutical sector in providing vaccines, essential medicine, and personal protective equipment such as medical masks and hand sanitizers. For countries that depend on tourism as a major source of national revenue,

these lockdowns and restrictions on international travel, particularly from Europe, contributed to a significant loss in foreign exchange and a reduction in gross domestic product (GDP), which also translated into employment losses.

For example, the contribution of tourism to Seychelles' GDP fell from 39.2 percent in 2019 to 21.9 percent in 2020 (Statistica, 2021). Elsewhere, Ethiopian airlines lost US\$550 million due to COVID-19 restrictions on international flights.<sup>3</sup> For MSMEs, the pandemic posed an existential threat, crowding many out of business, slashing their workforce, or driving them into the informal sector.

A post-COVID-19 recovery must be premised on resilience for AfCFTA. According to the SME Competitiveness Outlook by ITC, the resilience of micro and small enterprises was 16 percent lower than that of medium and large firms (ITC, 2021a). Since most businesses in Africa are micro and small enterprises, they should be actively supported to integrate into regional supply chains to better respond to future uncertainties and emergencies. It is likely that Africa would have responded to COVID-19 faster if MSMEs had been fully integrated into established regional value chains complemented by local value chains.

2. [https://www.africanews.com/2021/09/09/africa-cdc-slams-leaders-for-hollow-vaccine-pledges//](https://www.africanews.com/2021/09/09/africa-cdc-slams-leaders-for-hollow-vaccine-pledges/)

3. <https://www.aa.com.tr/en/africa/COVID-19-ethiopian-airlines-reports-550m-revenue-loss/1796260>

### **3.2. Regional Integration and Opportunities for Actors at the Margins of International Trade**

Deepening regional integration has been seen as a growth opportunity for the least-developed countries (LDCs), which have been marginalised in international trade. There are 33 LDCs (including small island states) in Africa, representing 61 percent of all countries in Africa. Similarly, women constitute 58 percent of the self-employed in Africa (World Bank, 2019). In some cases, women make up to 70 to 80 percent of small-scale traders in Africa (Brenton and Soprano, 2018). Furthermore, data show that Africa's youth population accounted for 19 percent of the global youth population in 2015 but is estimated to grow rapidly to 42 percent by 2030 (United Nations, 2015). MSMEs in Africa make up 80 percent of jobs and in real numbers, Sub-Saharan Africa alone has 44 million MSMEs (Runde et al., 2021). Despite the critical role played by MSMEs, they suffer bottlenecks in international trade, including limited access to markets and information, red tape, and bias against women.

Regional integration efforts can help lower the costs of and barriers to trade, thus facilitating wider participation of entrepreneurs and businesses in the export sector. These efforts can help deliver important gains for sustainable and inclusive economic development.

In the context of the AfCFTA, opportunities include better access to regional markets through integrated hard and soft infrastructure. This will facilitate the flow of goods and services, people, capital, and technology. Market opportunities can potentially expand and boost intra-Africa trade by 33 percent (UNCTAD, 2018). This in turn, can trigger innovation and spur entrepreneurship.

Africa's share of processed and semi-processed goods in intra-Africa trade is 61 percent, which compares favourably to 37 percent in other parts of the world (ITC, 2021b). Thus, enhanced intra-African trade has the potential to boost value addition under the AfCFTA.

However, the AfCFTA can also leave specific regions underdeveloped and micro actors marginalised when the gains are skewed towards advanced countries, either due to their market size, robust infrastructure, or improved economic and business environment. For these reasons, opportunities must be extended to LDCs, women, and youth-led enterprises.

### **3.3. Bridging Trade Rules and Market Opportunities Through Trade-related Technical Assistance**

For meaningful trade to take place, there must be market opportunities and market-enhancing trade rules. On the one hand, modern international trade is grounded in trade rules which

determine how trade is conducted. On the other hand, trade is only possible where market opportunities exist. Technical assistance could facilitate understanding of trade rules and market opportunities. Without trade-related technical assistance (TRTA), MSMEs may not be aware of market access and trade financing opportunities, standards requirements, and tariff and non-tariff barriers.

As an example, due to certification costs associated with new standards, large exporters had to relieve 60 percent of their smallholder farmers in Kenya for horticultural crops (Graham et al., 2007; ITC 2018). Without better access to market information, MSMEs are limited in their ability to determine which markets present opportunities and challenges. In this regard, TRTA is a useful intermediary to make trade rules simpler and easily understood by MSMEs, and to show where market opportunities exist.

### **3.4. Partnerships for Regional Integration**

Nowadays, international economic and trade partnerships have the sustainable development agenda at their core. This means that proactively reducing poverty and supporting regional integration to enhance trade opportunities for the region and the globe at large depends heavily on partnerships (Woolfrey and Bilal, 2017). Export and its practices have the potential to advance

regional integration and sustainable development. Partnerships can tear down tariff and non-tariff barriers and encourage the use of common standards and practices that can be accepted at the regional and/or continental levels. However, trade actors must collectively understand the role played by export practices in regional integration and make conscious efforts to integrate them into export programmes and embed them in partnerships.

ITC's support towards regional integration in Africa has been actively pursued in partnership with other multilateral institutions including the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organisation (WTO). Together with ITC, these institutions comprise the leading trade organisations located in Geneva, Switzerland. These bodies have prioritized advancing the trade and development agenda, especially for those in developing countries and LDCs. They have identified several avenues that can translate and accelerate development gains at the ground level. Among them, regional integration is identified as a key component to facilitate trade. Benefits include trade-creation opportunities, enhanced utilisation of export markets, mutual recognition of skills and qualifications, and streamlined customs and border controls.

#### **4. Areas and Collaborations Supported by the International Trade Centre**

Direct support for African MSMEs during COVID-19 and beyond is housed under ITC's One Trade Africa Programme. There is recognition that MSMEs will play a key role in the implementation of the AfCFTA, thus helping lift the supply-side constraints. The One Trade Africa Programme operates at the global, continental, regional, and national levels. At the national level, the Programme seeks to enhance the competitiveness of MSMEs, women and youth to access new market opportunities within a country, a region, or the continent. At the regional level, it seeks to improve the regional business ecosystem that aligns with the AfCFTA. At the continental level, One Trade Africa seeks to increase support to prioritize MSMEs, women, and youth. ITC's contribution to the AfCFTA through its One Trade Africa Programme seeks to enable MSMEs to build back better.

For marginalised actors, ITC is conducting trainings on how to export under the AfCFTA in collaboration with the African Export-Import Bank. LDCs such as Gambia, Guinea, Rwanda, Madagascar, Senegal, São Tomé and Príncipe, and Sierra Leone are among the pilot countries. The SME Competitiveness Survey conducted by ITC also contributes to useful business intelligence for policy in LDCs. As of January 2021, more

than 18,400 enterprises had been surveyed in 50 countries, including 13 LDCs in Africa, such as Benin, Burkina Faso, Togo, and Zambia. The SME Competitiveness Survey also serves as a market database for entities seeking products and services from MSMEs, including those from LDCs. Within the context of the AfCFTA, the market database and business intelligence generated by the survey present opportunities for trade and guide potential investors into AfCFTA member countries.

Regarding TRTA, ITC has been very active in the field of market intelligence and consequent dissemination to MSMEs in both developed and developing countries. This has been conducted through its service provision tools such as the trade map, export potential map, standards map, and the global help desk portal. Within the African context, ITC is implementing the African Trade Observatory (ATO), which doubles as one of the operating instruments of the AfCFTA and a flagship project of ITC. The ATO aims to provide sufficient data and information on trade and market intelligence specifically for Africa. Data gathering and search in Africa have for a long time been scattered, inadequate, and outdated. Although many regional economic communities have trade outlets that capture trade on the continent, the challenge relating to the lack of comprehensive trade data in Africa is still pervasive. The ATO

centrally captures continental trade data to understand trade rules and spot market opportunities. The ATO is a practical example of how TRTA facilitates trade.

Initiatives to support women focus on enhancing their trading capabilities and competitiveness. In this vein, ITC and the German Development Cooperation (GIZ) are actively supporting women in trade under the SheTrades AfCFTA project. The interventions offered under the project include AfCFTA policy analysis and reform, capacity building, networking, policy discussions, and COVID-19 recovery support. In addition, online courses have been developed for women on AfCFTA, policy briefs, market research, and policy advocacy. These should help women understand, identify, and act on AfCFTA opportunities and propose recommendations related to both Phase I and Phase II of the AfCFTA Protocols.

For youth, the Young Entrepreneurs (YE!) Community actively supports capacity building to capitalise on the AfCFTA through awareness-raising on the agreement. Recently the YE! Community collaborated with the Youth Alliance for Leadership and Development in Africa to produce a publication to sensitize African youth on emerging entrepreneurship and employment opportunities in

the context of the AfCFTA. Indeed, regional integration can create opportunities for those too often at the margins of international trade. For optimal benefits, these objectives of supporting LDCs, MSMEs, women, and youth must be at the heart of Africa's integration exercise.

Regarding inter-agency collaboration, the Joint ITC/WTO/UNCTAD collaboration on cotton by-products conducts studies and trainings related to value addition and feasibility assessments in eight African LDCs (Benin, Burkina Faso, Chad, Mali, Mozambique, Tanzania, Uganda, and Zambia). These countries have the potential to develop viable cotton by-product industries that could contribute to poverty reduction while supporting the growth of intra-African trade under the AfCFTA. There is also an environmental component to this work, which aims to encourage the use of organic residues in the cotton value chain to reduce waste, decrease greenhouse gas emissions, and promote forest conservation and the circular economy.

Indeed, capitalizing on the synergies amongst ITC, UNCTAD, and WTO<sup>4</sup> can be beneficial in the implementation of the AfCFTA. Their combined expertise and technical resources can offer valuable assistance to the delivery of regional integration efforts. These areas include the

4. [https://www.wto.org/english/news\\_e/news21\\_e/ddgaw\\_04mar21\\_e.htm](https://www.wto.org/english/news_e/news21_e/ddgaw_04mar21_e.htm)

development of national export and trade promotion strategies, support for trade facilitation efforts and ease of doing business, training and capacity building of policy makers and businesses, as well as provision of market information. Given the overlapping areas of intervention and focus, continued and deepened partnerships can have a multiplier effect on the impact catalysed by collaboration.

## **5. Conclusion**

The AfCFTA has been touted as a game changer, considering its potential for the diversification of sources of growth and trade in a region where the expansion of intra-regional trade has been undermined by supply-side constraints and excessive dependency on primary commodities and natural resources. The value-added content of products exported by the two Ghanaian companies that were part of the test run under the AfCFTA earlier this year augurs well for the dynamics of African trade, and more generally for the transformation of African economies during the implementation of continental trade integration reform.

This article outlines several programmes and interventions by ITC to enhance the implementation of the AfCFTA and realize its full potential. One is direct support to

African MSMEs, which will play a key role in the diversification of sources of growth, trade and ongoing efforts to deepen integration through the development of regional value chains. ITC interventions also cover such areas as market intelligence to boost trade creation, to bridge the trade information gap. At the same time, ITC's interventions emphasize trade-related technical assistance and partnerships, which have the potential to accelerate the process of harmonisation of standards across the region and tear down tariff and non-tariff barriers. These initiatives will set the region on a solid path of intra-regional trade growth.

The AfCFTA is a policy tool to enhance trade practices in Africa and beyond. Similarly, the work of ITC cuts across both policy and practice. Thus, working to bring the AfCFTA to fruition is an avenue to hammer home the benefits of regional integration and mitigate the obstacles that hinder its implementation. Present in more than 90 percent of African countries, ITC remains a trusted partner of the African Union Commission, the AfCFTA Secretariat, African development organisations, regional economic communities, business support organisations, MSMEs, women, and youth.

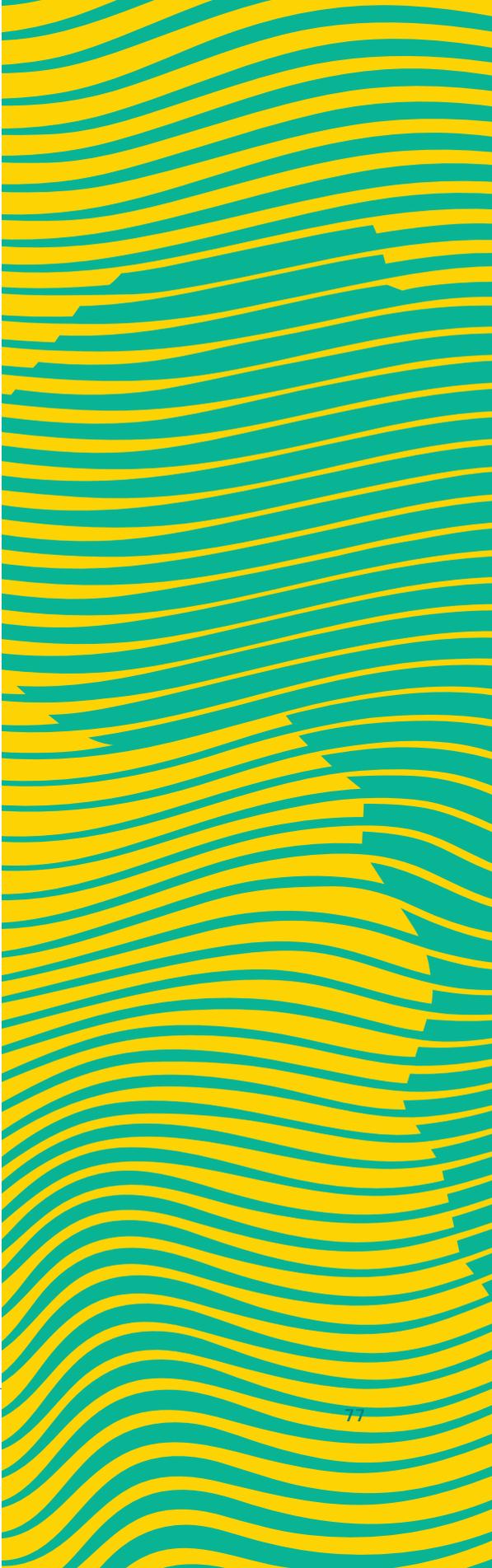
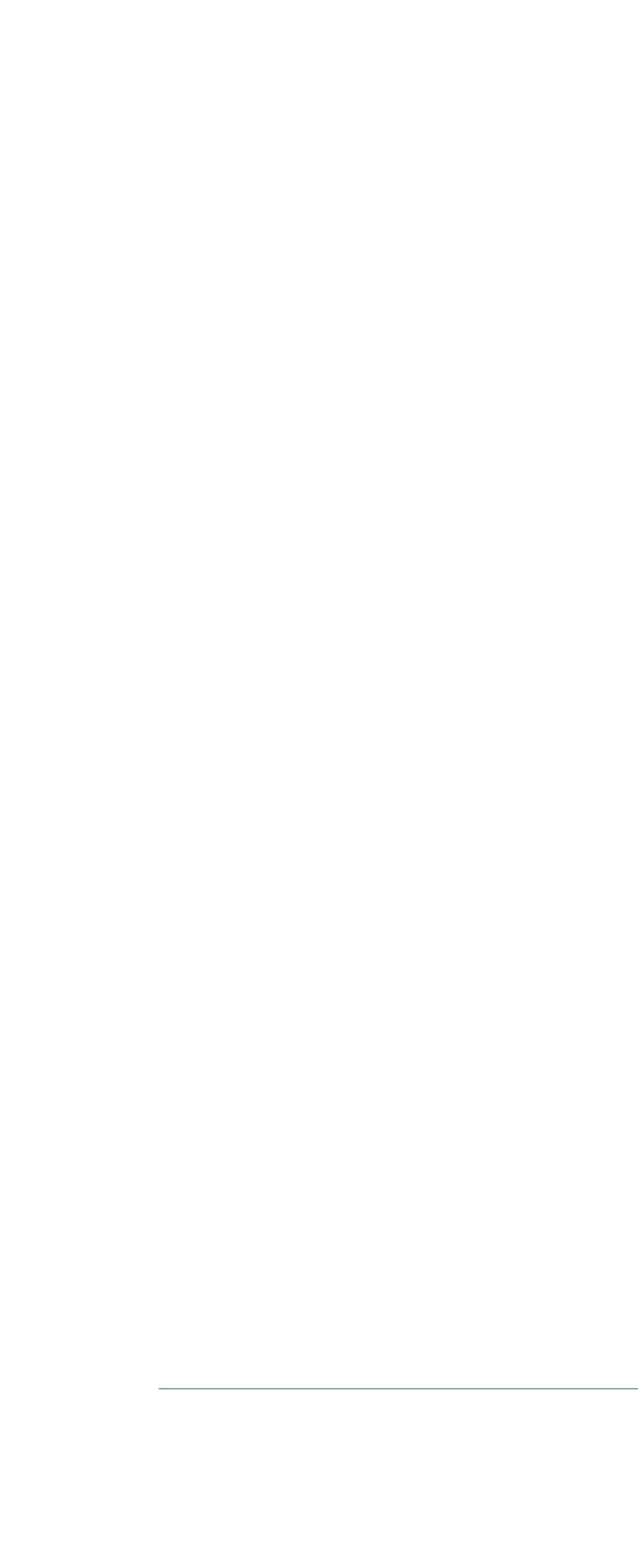
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# The Commodity Dependence Trap

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**Abstract:** This article argues that commodity-dependent countries, which are mostly developing nations, are trapped in a state of commodity dependence. They are too reliant on the export of raw materials or other primary products for a large share of their export earnings, and hence for their economic growth and development. It analyses the degree to which, over time, countries move between three states: not commodity dependent, commodity dependent, and strongly commodity dependent. It uses empirical analysis to confirm that once a country becomes either commodity dependent or strongly commodity dependent, it has difficulty breaking out of the dependence. This exposes such countries to a multitude of challenges, limiting their capacity to meet development objective such as the Sustainable Development Goals of the United Nations. Taking the example of Costa Rica, a country that has successfully transformed its economy from strong commodity dependence to export diversification, the article suggests policy actions that commodity-dependent developing countries, particularly in Africa, could pursue to escape the dependence trap.

**Keywords:** Commodity-dependence trap, diversification, Costa Rica, Nigeria, Zambia

**JEL Classification:** O25, O38, O43, O55

## 1. Introduction

Countries that are commodity dependent, defined as deriving at least 60 percent of their merchandise export earnings from commodity exports, experience significant challenges.<sup>1</sup> When prices of their commodity exports fall on world markets relative to prices of goods they import, their relative export

revenues decline, leaving these countries deeply vulnerable. They suffer from macroeconomic instability as illustrated by high trade deficits, unstable exchange rates, large budget deficits, high inflation, and high indebtedness. Such countries are also affected by microeconomic challenges such as low firm

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**1.** The 60 percent threshold was determined econometrically using a quantile regression of human development on several variables, including the share of commodity exports over total merchandise exports, in value terms. For details, see Nkurunziza et al. (African Development Review 2017).

profitability and declining household incomes (UNCTAD and FAO, 2017); UNCTAD 2021a). Furthermore, commodity dependence is associated with political instability that results from conflict over the control of rents generated by natural resources (Collier and Hoeffler, 2004).<sup>2</sup> Therefore, there is a negative association between commodity dependence and several key development outcomes.

This article uses transition analysis to measure mobility across three states: non-commodity dependence, characterising countries that derive less than 60 percent of their merchandise export revenues from the commodity sector; commodity dependence, characterising countries that derive between 60 percent and 80 percent of their merchandise export earnings from the commodity sector; and strong commodity dependence, characterising the remainder of countries. Because this analysis examines a relatively short period, from 1995 to 2018, short-term mobility is directly derived from empirical data. On this basis, the analysis also derives a steady-state distribution of countries in the three states.

Export trade data presented in Annex 1 suggests the vast majority African countries are trapped in commodity dependence. Of the 54 countries on the continent, Lesotho is the only one that was not commodity dependent

in both 2000, the earliest year for which information is available, and 2019. Sao Tome and Principe was not commodity dependent in 1969, the earliest year for which data is available, but had become commodity dependent in 2019. Five countries, Egypt, Eswatini, Mauritius, Morocco, and Tunisia, moved out of commodity dependence between 1965 and 2019. Therefore, 87 per cent of African countries are trapped in commodity dependence in the sense that they were commodity dependent in the initial period, in 1965 for most countries, and were still commodity dependent in 2019, the latest year for which information is available.

Unless strong policy actions and interventions are undertaken by African governments to diversify their sources of growth and trade, commodity dependence will continue to persist among the vast majority of countries on the African continent, fuelling intergenerational poverty across the region long into the future.

Section 2 of this article illustrates the significance of the commodity dependence trap by briefly presenting the cases of Zambia, Nigeria, and Costa Rica. Section 3 presents empirical results of mobility across the three states of commodity dependence. Section 4 shows commodity dependence is not inescapable. It employs the case of Costa Rica to illustrate a country

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2. There is also an association between commodity dependence and climate change (UNCTAD 2019a), and high illicit financial outflows (UNCTAD 2016; Lemaître 2019).

able to successfully diversify its economy and exports.<sup>3</sup> It explores key policy actions successful countries have taken to escape the commodity dependence trap and suggests that African countries may consider adopting these policies to diversify their economies and export baskets and find a way out of commodity export dependence. Section 5 concludes.

## **2. The Commodity Dependence Trap: A Tale of Three Countries**

While commodity-dependent countries are found in all regions of the world, the problem of over reliance on a narrow range of exports is particularly acute in Africa, where 48 out of 54 countries – or 89 percent – were commodity dependent in 2019 (see data in Annex 1). That compares to 86 percent in Oceania, 43 percent in the Americas, 51 percent in Asia, and just 12 percent in Europe. And while other regions of the developing world made progress in diversifying their economies, and their exports, between 2009 and 2019, the number of commodity-dependent countries in Africa increased over the same period (UNCTAD, 2021b).

A brief discussion of the economic trajectories of three countries, Zambia, Nigeria, and Costa Rica,

between 1965 and 2018, using data from The Atlas of Economic Complexity,<sup>4</sup> illustrates the varying commodity dependency experiences of most developing countries.<sup>5</sup>

Zambia was commodity dependent during the entire period from 1965 to 2018. Nigeria was characterised by relative export diversification in the initial period but, over time, became strongly export dependent. Costa Rica was initially strongly commodity dependent but, over time, diversified its export sector and moved out of commodity export dependence.

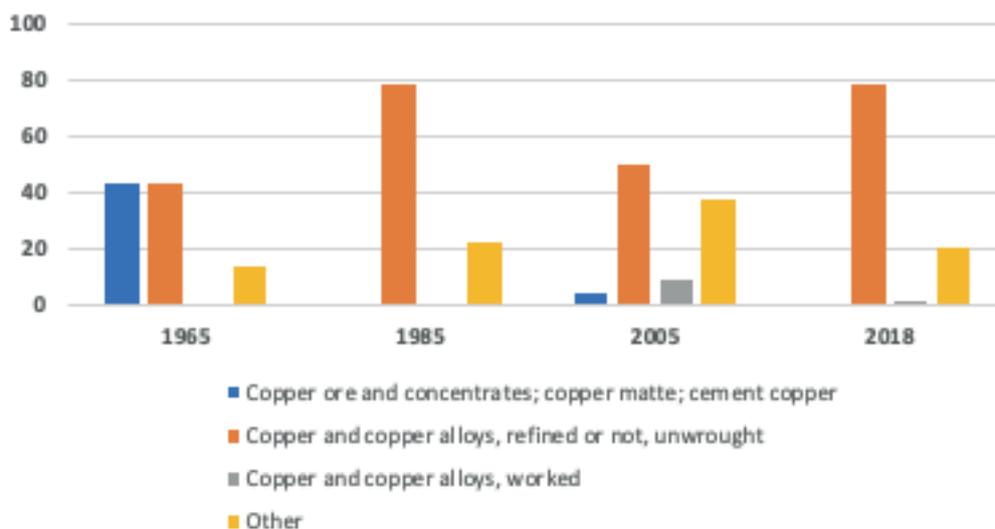
In 1965, copper ore and concentrate and copper alloys represented 85 percent of Zambia's net merchandise exports. Twenty years later, the composition of Zambia's export basket had hardly improved, with copper and copper alloys, refined or not, unwrought, representing 77 percent of the country's merchandise exports. By 2005, Zambia's merchandise exports were still dominated by copper-based raw materials, accounting for about 60 percent of the total. By 2018, Zambia's export concentration on copper had increased to almost 80 percent of total merchandise exports (Figure 1(a)).

3. Even though Costa Rica is rightly considered a success story in terms of economic and export diversification, the process leading to this success generated an increase in inequality (Ferreira et. al., 2018). This should be kept in mind before emulating the Costa Rican model.

4. <https://atlas.cid.harvard.edu/>

5. To access disaggregated data before 1995, the SITC4 classification system was used. Export shares are calculated using gross trade flows. Data in figures 1(a) and 1(b) are derived using the 4-digit level of disaggregation. However, in the discussion, sectoral level data at 1 digit is also used to show more aggregated information.

Figure 1(a): Zambia's main merchandise exports in 1965, 1985, 2005, and 2018



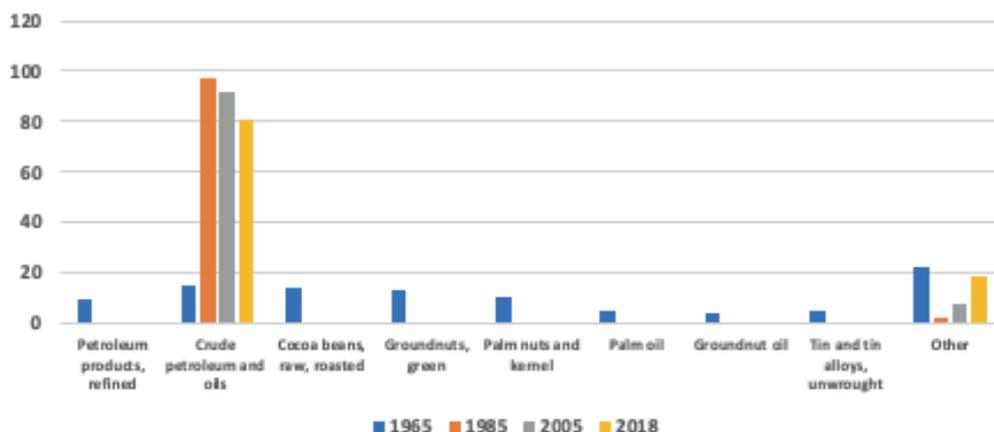
Source: Author based on: <https://atlas.cid.harvard.edu/explore?country=247&product=undefined&year=2018&productClass=SITC&tradeFlow=Net&target=Product&partner=undefined&startYear=undefined> (accessed 11 May 2021).

While Zambia has remained dependent on the same commodity for more than half a century, Nigeria's economy was relatively more diversified in 1965 but became more dependent on one commodity over time (figure 1(b)). In 1965, Nigerian exports were dominated by primary commodities, but its export basket was diversified with cocoa beans, groundnuts, and palm nuts and kernels, representing 15 percent, 13 percent, and 10 percent, respectively, of total merchandise exports. The country also exported palm oil, groundnut oil, and tin and tin alloys, unwrought. Crude petroleum accounted for 15 percent of total merchandise exports, and refined petroleum for 10

percent. Twenty years later, in 1985, the country was exporting almost entirely crude petroleum, which accounted for 97 percent of its total merchandise exports. In 2005, crude petroleum was still, at 92 percent of total merchandise exports, by far the major export of Nigeria. By 2018, the picture had changed only slightly, with crude petroleum still accounting for 81 percent of total merchandise exports (petroleum gases represented 12 percent).

In contrast, Costa Rica has emerged as a success story in export diversification. In 1965, the country's export base was dominated by coffee and bananas, representing about 68

Figure 1(b): Nigeria's main merchandise exports in 1965, 1985, 2005, and 2018



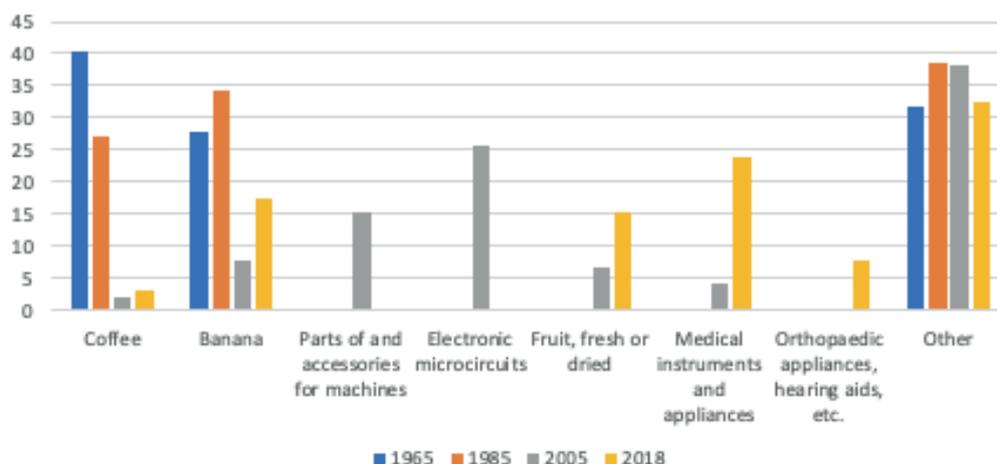
Source: Author, based on data from: <https://atlas.cid.harvard.edu/explore?country=159&product=undefined&year=2018&productClass=SITC&tradeFlow=Net&target=Product&partner=undefined&startYear=undefined> (accessed 11 May 2021).

percent of total merchandise export earnings (Figure 1(c)). Overall, food commodities represented 83 percent of Costa Rica's total merchandise exports. Twenty years later, in 1985, these two commodities were still the country's dominant exports, accounting for 61 percent of total merchandise exports. Even though food commodities made up 76 percent of total merchandise exports, a nascent manufacturing sector also contributed about 15 percent to total merchandise exports, compared with just seven percent 20 years earlier. Beginning in the 1980s, Costa Rica embarked on a diversification drive that by 2005, had dramatically changed its export basket. That year electronic microcircuits made up 26

percent of exports, and machine parts and accessories made up 15 percent. Food commodities made up just 24 percent of total exports. By 2018, new sectors had developed, including medical instruments and appliances and orthopaedic instruments. Interestingly, the traditional food sector remained important, with banana and fruits still representing an important share of exports.

Costa Rica's diversification strategy did not involve abandoning traditional products for new ones. In fact, the reconfiguration of exports in Costa Rica in 2018 shows the food sector regaining importance. The most important food exports, in addition to bananas, were fruit, fresh or dried, including avocados, pineapples

Figure 1(c): Costa Rica's main merchandise exports in 1965, 1985, 2005, and 2018



Source: Author based on data from <https://atlas.cid.harvard.edu/explore?country=52&product=undefined&year=2018&productClass=SITC&tradeFlow=Net&target=Product&partner=undefined&startYear=undefined> (accessed 11 May 2021).

and mangos; edible products or preparations; fruit and vegetable juices; and bakery products. Hence, diversification does not simply mean adding value to primary commodities or producing more sophisticated goods. While Costa Rica diversified its economy with the production of more sophisticated goods, it also increased the number of products exported within the commodity sector. This highlights that, even when a country remains commodity dependent, it benefits by broadening the range of products it exports. Such a strategy reduces the risk of adverse shocks associated with dependence on a single commodity.

Costa Rica owes its success to a combination of factors, including

visionary leadership, macroeconomic stability, openness to foreign direct investment, proximity to a large export market, and health and education policies that foster human capital development (UNCTAD and FAO, 2017). Zambia and Nigeria, in contrast, are two different illustrations of the commodity dependence trap. For more than half a century, Zambia has failed to diversify its economy beyond copper. For Nigeria, commodity dependence worsened despite clear opportunities over time to diversify the country's sources of growth and trade.

Although the three countries began with similar initial conditions, they followed different paths, with one escaping the commodity-

dependence trap to become a diversified upper-middle-income economy. To what extent are commodity-dependent developing countries trapped in a state of commodity dependence? The answer to this question may inform policy towards structural transformation and export diversification. Moreover, understanding the factors behind commodity dependence is key when exploring diversification policies. The next section empirically explores the level of mobility across commodity-dependent states.

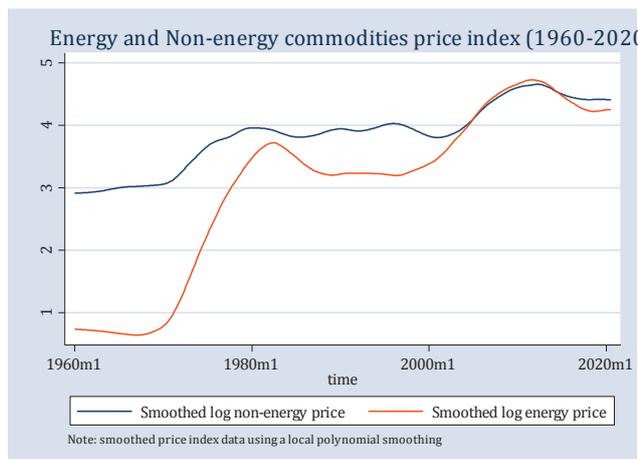
### 3. Evidence of Mobility Across Commodity-Dependent States

This article uses empirical data from 206 economies covering 24 years, from 1995 through 2018, providing

4,944 observations or country-years, and 23 possible annual transitions.<sup>6</sup> The analysis of mobility requires a relatively long period of observation, given that economic transformation leading to export diversification takes decades, as illustrated by the case of Costa Rica.

The 24-year period captures different phases of the commodity price cycle. Between 1995 and 2002, global commodities prices were low, corresponding with a declining phase of the price cycle that began in the early 1980s (Figure 2). The period from 2003 to 2011 was characterised by a commodity price boom, with commodities prices increasing manyfold over a few years. Since 2011, commodities prices have been declining, even though they have

Figure 2: Commodities prices: a 60-year view (1960–2020)



Source: Author, based on World Bank commodity price index. 2010=100.

6. The choice of the sample period is dictated by data availability.

remained higher than before the commodity boom of the 2000s.

It is worth discussing the behaviour of commodities prices to contextualise the issue of commodity dependence. Indeed, commodity dependence may be a function of prices. For example, during the last commodity price boom of the 2000s, the number of commodity-dependent developing countries increased from 110 in 2005 to 118 at the end of the boom in 2011. Thereafter, the number declined (Nkrunzinza et. al., 2017).

Dividing commodities into energy and non-energy groups, figure 2 illustrates commonalities and differences in the behaviour of each. The major common factor is that prices follow the same long-term trend. Prices in both groups have tended to increase, stabilise, and decline at the same time. Hence, over a long period, the prices of energy and non-energy commodities are fundamentally affected by the same major factors. This strong correlation suggests that while diversification within the wider commodity sector may help to some extent, only diversification out of the commodity sector could be an answer to the deleterious effects of commodity dependence. In other words, even though some types of commodities may face idiosyncratic challenges – climate change, for example, may have a much stronger impact on agricultural commodities than on minerals, ores, and metals – the major challenges facing the commodity sector are the same.

One key difference between the two groups is the amplitude of price changes. Energy commodities experience much stronger price changes than non-energy commodities. For example, due to the commodity price boom of the 1970s, the energy price index increased more than 1,350 percent, from 3.4 to 49.50 points between January 1973 and December 1980. Over the same period, the non-energy commodity price index increased 114 percent, from 27.07 to 57.87 points. Unequal price changes were again recorded during the commodity boom of the 2000s, with energy prices increasing 552 percent between January 2002 and July 2008, while non-energy prices increased 189 percent over the same period.

Energy markets have also been characterised by sudden and drastic price swings, shattering the economies of exporting countries. High price volatility is an intrinsic characteristic of energy markets. In the recent past, energy prices dropped by more than half in just six months. In June 2014, the energy price index stood at 131.48 points, but by January 2015, it had fallen to 63.10 points, less than half its value six months earlier. Countries that had planned spending based on an oil price of US\$112 in June 2014 were forced to substantially cut their budgets to adapt to a price that had reached US\$45 by January 2015. The brutal effect of commodity dependence was strongly felt by oil export-dependent countries across the world, including Angola and Nigeria.

Commodity dependence is harmful not only because price shocks are destabilizing, but also because relatively short periods of high commodities prices are followed by much longer periods of depressed prices, as illustrated by figure 2. This information may help explain why commodity dependence may manifest itself differently depending on the type of commodity on which a country depends. The empirical results of country mobility are presented in Table 1 below.

Table 1 provides three sets of information. The last row shows how the 206 countries are distributed among the three groups, accounting for their mobility over the sample period. On average, half were in the non-commodity dependent group. The other half were in the strongly dependent group (32 percent) and in the commodity dependent group (18 percent). Hence, while widespread, commodity dependence – including strong dependence – affects just half the countries in the sample, mostly developing countries.

Second, the fact that all elements of the table are above zero implies

mobility across all groups, even though the extent of mobility for some groups is relatively limited.

The third set of information relates to interpretation of the values in the table. There is limited mobility from the non-commodity dependent and the strong commodity dependent groups. Specifically, 95 percent of non-commodity-dependent countries remained within this group. Ninety-two percent of strongly dependent countries did not move out of the category. Thus, the probabilities that a non-commodity dependent country becomes commodity dependent or strongly commodity dependent are 0.04 and 0.01, respectively. Similarly, the probability that a strongly commodity dependent country becomes non-commodity dependent is 0.01. But there is a 7 percent chance that such a country could transition from strong commodity dependence to just commodity dependence.

The values also show an almost equal probability that a commodity-dependent country becomes non-commodity dependent (probability of 0.13) or strongly commodity dependent (probability of 0.12).

**Table 1: Commodity dependence: mobility across three states (1995–2018)**

	Non-com. dep.	Com. dep.	Strongly com. dep.
Non-commodity dependent	0.95	0.04	0.01
Commodity dependent	0.13	0.75	0.12
Strongly commodity dependent	0.01	0.07	0.92
<b>Total</b>	<b>0.50</b>	<b>0.18</b>	<b>0.32</b>

Source: Author calculations based on data from UNCTADStat.

On average, three-quarters of commodity-dependent countries remain in the same group. This result suggests that while some countries graduate into the non-commodity dependence category, an almost equal number fall into strong commodity dependence, perhaps indicating challenges associated with escaping the commodity dependence trap.

One important question is whether a sample period of 24 years is long enough to properly capture transition processes occurring across all commodity dependence states. In theory, the distribution of countries into the three groups as outlined above may depend on the period of observation. However, for the case under analysis, the answer is no. Observing mobility over a very long period only slightly changes the distribution. In the steady state, 51 percent of countries are in the non-commodity dependent group, 17 percent in the commodity dependent group, and 32 percent – no different from the short-term case – are in the strongly commodity dependent group.<sup>7</sup> These values are almost the same as those in Table 1, suggesting that the profile of commodity dependence as observed over the sample period reflects the future if no strong action is taken to change the status quo.

The empirical evidence shows that commodity-dependent and strongly commodity-dependent countries are trapped. In fact, computations

based on mobility as reflected in table 1 indicate that if no action is taken to accelerate mobility out of commodity dependence, it would take the average commodity-dependent country 190 years to cover half of the difference between its current share of commodities in total merchandise exports and that of the average non-commodity dependent country. This result is in line with the cases of Nigeria and Zambia presented above.

These results illustrate the challenge facing commodity-dependent developing countries. As the cases of Zambia and Nigeria illustrate, strong action is needed from governments and policymakers to change the status quo and put their countries onto more successful trajectories. Biding their time will not allow trapped countries to break away from their commodity dependence.

#### **4. Escaping From The Commodity-Dependence Trap: Some Lessons From A Successful Case**

Why are so many African countries trapped in commodity dependence? The simple answer is that escaping from the commodity-dependence trap is not simple. It necessitates complex political and economic strategies. First, it requires high-level political decisions and long-term engagement. Because the process spans many, if not all, sectors of the economy, involving different ministries and other entities, action and coordination must be centralised at the highest level of government.

7. Refer to Nkurunziza (2021) for details about the methodology.

Second, successfully building a diversified economy and export sector entails putting many pieces in the right places and in the right sequence, which is challenging. As Costa Rica illustrates, a national political consensus is needed to establish a new economic model (Ferreira et. al., 2018).

Third, commodity-dependent developing countries need to solve a time inconsistency problem: diversification requires long-term engagement, well beyond the duration of political cycles. Successful economic and export diversification comes as reward for decisions made several decades earlier. In Costa Rica, for example, the results of some measures initiated in the early 1980s were not felt until the 1990s and 2000s (Ferreira et. al., 2018). Politicians who reap the benefits of economic diversification are generally not those who initiated the measures leading to success. Government leaders need to look beyond immediate political benefits for themselves in favour of building a better long-term future for their nations.

Some specific measures that led to successful diversification in Costa Rica illustrate actions that African countries might consider in their quest for economic and export diversification. Putting basic infrastructure in place should be among the first priorities. Many African countries still lack basic infrastructure needed to increase production and trade. For example, only 47 percent of the population in Sub-Saharan Africa has access to electricity, making it difficult to

see how the continent could attract investments that heavily rely on electricity to function. The production of more power should be among the first priorities in any diversification strategy. In addition, producing and exporting require shipping goods by land, sea, or air. Developing transport infrastructure is another enabling condition for making product and export diversification possible.

The development of a non-traditional export sector requires the establishment of specific institutions. In the 1980s Costa Rica established an export promotion agency to provide market information to potential exporters, an investment promotion agency to encourage foreign direct investment, and export processing zones to attract investment targeting non-traditional export sectors. Moreover, given the domination of the business sector in many African countries by small and medium enterprises, it is important to include them in any export-led growth strategy. For example, in Costa Rica, the food industry, which accounts for a third of total manufacturing jobs and 25 percent of the total manufacturing sector, is dominated by domestically owned and largely family-owned small and medium enterprises. About two-thirds of them employed less than 10 workers each in 2006 (Ferreira et. al., 2018). Encouraging links between small and medium enterprises and large corporations, including multinational enterprises operating in the country, is one way Costa Rica managed to create an export model inclusive of businesses of every size.

The development of human capital should precede measures aimed at diversifying African economies and exports. The role of human capital in sectoral and structural transformation cannot be over-emphasized. Well-trained policymakers are more capable of making the right decisions, while a well-educated labour force is more productive and capable of absorbing new technologies needed for economic and export diversification. It is also through an educated labour force that African countries will be able to attract more foreign direct investment. Furthermore, well-trained workers have greater capacity to perform in different jobs and can be easily retrained to quickly adapt to the changing needs of export markets.

African countries should also better invest their windfalls accumulated from commodity booms. Revenues should be used to diversify economies and sources of exports. Indonesia provides a good example. In 1980, the oil and gas sector accounted for 71.5 percent of the country's total merchandise exports. Fifteen years later, this sector contributed only 22.2 percent of total merchandise exports. Indonesia had massively invested revenues from oil and gas into other sectors, including agriculture, manufacturing, and infrastructure. The result was a more diversified economy and export sector (UNCTAD, 2021a). African oil-producing countries have had similar opportunities to invest windfalls from the oil and gas sector, for example

after the last commodity boom of the 2000s. However, success has been muted. The problem appears to be that, during periods of high oil prices, export revenue inflows are high, and countries do not feel the need to diversify. When prices fall, the same countries feel the need to diversify but lack the resources to finance diversification.

Another important policy issue is political and macroeconomic stability. Diversification necessitates long-term investment which, in turn, is only viable in politically and economically stable environments. Costa Rica, for example, owes its success to its well-established democratic credentials in Central America. Democracy reassures investors that their interests are protected irrespective of who is in power. Indeed, in Costa Rica, when a new president came to power in 1986 after the initiation of the diversification strategy, one of his main policy objectives was to consolidate the policies introduced by the previous administration. This is not always the case in some African countries where new leaders might not fully appreciate their predecessors' achievements or policy choices. Costa Rica also maintained macroeconomic stability during the reform period. Its exchange rate with the currencies of its primary export markets, the United States and the European Union, remained stable for most of the period, at about 500 colons per U.S. dollar (Ferreira et. al., 2018). Exchange rate stability is good for investment and trade.

Upgrading technology and innovation is essential to any successful diversification strategy. The adoption of more sophisticated technologies and innovation increases the capacity of a country to produce and export goods and services with high technology contents, rather than commodities that use a low level of technology. That means less dependence on the commodity sector for exports. High-value, technologically advanced goods are less prone to negative price shocks than commodities. Costa Rica harnessed this strategy, developing technology packages for investors interested in putting their funds into specific economic sectors. Given the low level of technology in commodity-dependent developing countries in Africa (UNCTAD, 2021a)<sup>8</sup> particular attention should be paid to this important component of diversification strategy.

Embracing the current technological revolution can help commodity-dependent developing countries in many ways.<sup>9</sup> Frontier technologies can drastically reduce costs in processing data and more accurately forecast commodity prices. This would help countries forecast their export revenues more accurately. Moreover, the increase in computing power may help improve the resilience of commodity sectors to climate change through, for

example, enhanced weather and disaster prediction, and smart water management. New technologies also offer economically viable alternatives to costly investment in infrastructure associated with traditional technological paradigms. Decentralised solar systems are a case in point. Projects utilising such systems can generate their own power, avoiding reliance on costly electricity distribution systems that may not even reach project sites.

Furthermore, digitalisation of trade and logistics-related documents (e-trade) as well as more secure payment systems, make international trade more efficient, potentially benefiting commodities trade. In addition, the use of technologies such as blockchain can not only make trade more transparent through higher traceability but also connect producers with consumers. Allowing proximity between the two extreme ends of commodity value chains can help producers better understand consumer preferences, and eventually lead to more synchronization between consumer's needs and products on the market. These examples suggest technology and innovation hold enormous potential for commodity-dependent developing countries, both with regard to the production and the commercialisation of their commodities.

8. The median technology development index for commodity dependent developing countries is 1.55, below the index for other developing countries that are not commodity dependent (5.17) and well below the index for developed countries (34.36).

9. See UNCTAD (2021a) for details.

## 5. Conclusion

Empirical analysis shows that commodity-dependent developing countries, especially those on the African continent, are trapped in a state of dependence on export earnings from commodities. Strong action is needed to break that dependence. Such action needs to be taken at the highest political level, with clear long-term objectives and firm but realistic medium-term strategies for implementation. But the time needed to effect the structural transformation of commodity-dependent developing countries, particularly those in Africa, to diversify their exports seems to conflict with political realities. Political cycles – proxied by the duration of political terms in office – are much shorter than the time required to achieve economic transformation. Therefore, leaders need to look beyond their own political fortunes to successfully plan and achieve sustainable export diversification.

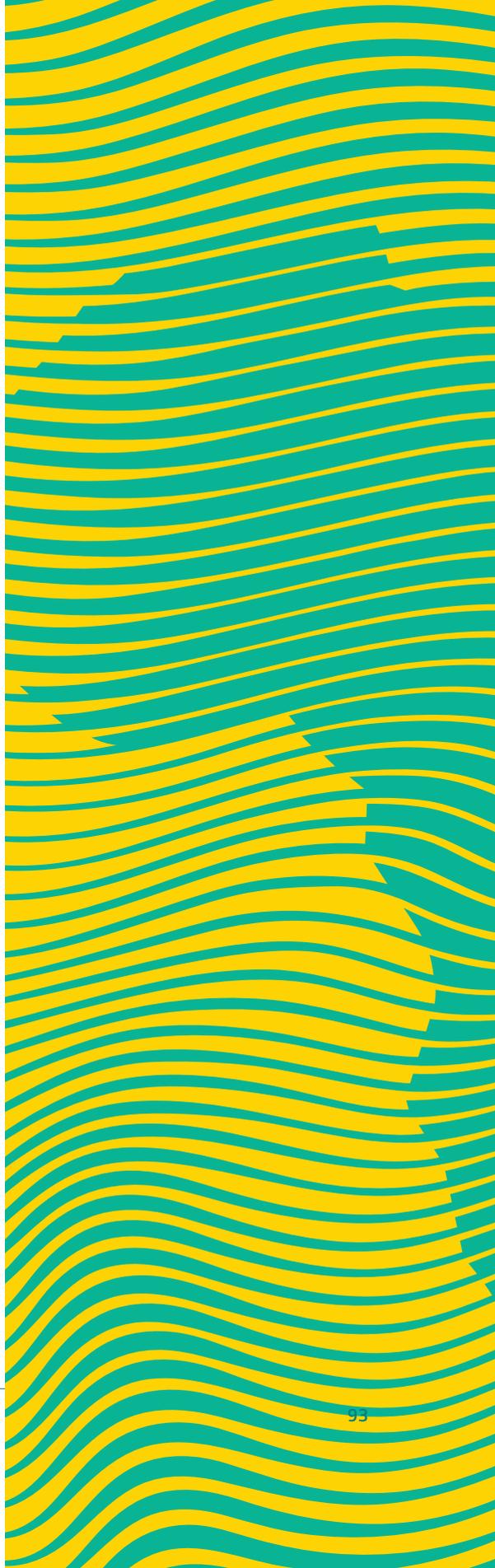
Because economic diversification takes decades to mature and show results, successfully building a diversified economy and export sector in the African context rests on developing stable political and economic institutions. This requires, first, developing human capital and infrastructure. Then, institutions should be created to promote the development and adoption of new

technologies, to attract foreign direct investment and to promote exports of new products. Policies should be adopted to promote job creation as a central objective of diversification strategies. Finally, given that small and medium enterprises dominate the business landscape in Africa, policies should seek to address their specific needs. This could be achieved by encouraging business linkages between small and medium enterprises and multinational enterprises and other large corporations operating in a country. By utilizing such strategies, among others, commodity-dependent developing countries in Africa can finally break free of the trap that has for too long left them reliant on exports of a narrow group of products and vulnerable to shifting global economic winds.

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# Annex 1

## African Exported Commodities, c. 1965 and 2019

Country	Starting year: 1965 or most recent year	End year: 2019
	<b>Exported commodities and their percentage shares in total merchandise exports</b>	<b>Exported commodities and their percentage shares in total merchandise exports</b>
Angola	Coffee (52.8); Diamonds (13.6); Sisal & agave fibres (5.6)	Petroleum (94.0); Diamonds (4.9)
Botswana*	Diamonds (73.0); Copper (12.5)	Diamonds (91.3); Bovine meat (1.4)
Burundi	Coffee (70.2); Diamonds (12.7); Tin ores (10.0)	Gold (57.2); Coffee (22.1); Tea (8.1)
Comoros	Essential oil (58.0); Copra (25.6); Spices (7.2)	Spices (51.8); Essential oil (22.5)
Djibouti	Coffee (45.8); Hides and skins (11.5); Goat and kid skins (9.6)	Animals, live (38.0); Sheep and goats (33.7)
Eritrea*	Sheep and lamb skin (47.3); Coffee (33.8); Leather (15.8)	Zinc ores & concentrates (42.3); Gold (36.8); Copper ore (20.2)
Ethiopia	Coffee (67.4); Leguminous vegetables (5.8)	Coffee (38.9); Sesame seeds (16.1); Cut flowers (7.9)
Kenya	Coffee (34.2); Tea (14.8); Cotton (10.0); Sisal & agave fibres (8.9)	Tea (30.7); Cut flowers (15.1); Coffee (5.2); Vegetables (4.9); Metals (4.6)
Madagascar	Coffee (32.0); Spices (12.3); Sisal & agave fibres (6.5); Sugar (6.0); Bovine meat (3.9)	Spices (27.3); Nickel (15.1); Precious stones (8.7); Non-ferrous metals (3.9); Gold (3.8); Base metals (3.5)
Malawi	Tobacco (39.4); Tea (30.3); Groundnuts (16.0); Cotton (7.2)	Tobacco (58.1); Tea (10.0); Vegetables (5.9); Sugar (5.7)
Mauritius	Sugar (92.6)	Fish (23.6); Sugar (13.2); Diamonds (6.2)
Mozambique	Edible nuts (21.3); Cotton (20.3); Sugar (9.2); Tea (6.4); Sisal & agave fibres (6.2)	Coal (32.7); Aluminium (22.8); Petroleum gases (9.4); Sawlogs (4.9); Gold (4.8)
Namibia*	Fish (32.5); Diamonds (15.8); Precious metals (7.3); Bovine meat (6.2)	Diamonds (30.7); Fish (14.4); Gold (13.6); Uranium & thorium ores (7.5)
Rwanda	Coffee (34.4); Tea (16.1); Non-ferrous metals (14.4); Barley (9.7); Wood (6.0)	Gold (35.0); Coffee (11.1); Tea (10.7); Non-ferrous metals (10.1); Tin ores (8.8)
Seychelles*	Sugar (75.2); Spices (10.1); Cotton (8.2)	Fish (90.6)
Somalia	Banana (82.1); Live animals (6.6)	Gold (43.1); Sheep and goats (21.4); Sesame seeds (10.2); Natural gums (8.2)
Zimbabwe	Tobacco (48.2); Copper (14.0); Asbestos (9.5)	Tobacco (25.7); Gold (21.4); Nickel (20.6); Non-ferrous metals (4.5)
Cameroon	Cocoa beans (21.3); Coffee (20.7); Aluminium (12.9); Banana (12.1)	Petroleum & petroleum gases (45.6); Cocoa beans (13.8); Wood (11.0); Gold (9.7)
Chad	Cotton (82.4); Live animals (8.1)	Petroleum (70.9); Gold (23.4)
Congo, DRC	Copper (46.7); Other base metals (8.9); Coffee (7.9); Diamonds (5.6)	Copper (72.8); Base metals (11.3); Metallic oxides (6.0)
Congo, Republic	Sawlogs & veneer logs (44.4); Diamonds (25.7); Wood (7.5)	Petroleum (68.4); Copper (23.1)
Equatorial Guinea	Cocoa (85.6); Sawlogs & veneer logs (12.6)	Petroleum & petroleum gases (89.3)
Gabon	Sawlogs & veneer logs (41.6); Manganese (20.5); Petroleum (16.1)	Petroleum (66.1); Manganese (21.3); Wood (8.6)

Benin	Palm oil (47.7); Palm nuts & kernels (20.6); Oilcake & other residues (8.2)	Cotton (32.6); Gold (25.5); Petroleum, refined (15.5); Edible nuts (13.0)
Burkina Faso	Live animals (39.7); Groundnuts (11.6); Sheep and goats (10.4); Hides and skins (5.4)	Gold (81.0); Zinc ores (5.7); Cotton (5.6)
Cabo Verde*	Banana (56.0); Minerals, crude (10.6); Crustaceans & molluscs (9.8); Live animals (6.9)	Fish (82.8)
Cote d'Ivoire	Coffee (31.7); Sawlogs and veneer logs (19.4); Cocoa beans (16.3); Wood (14.1)	Cocoa beans (32.3); Cocoa butter (11.0); Natural rubber (10.4); Edible nuts (7.6); Petroleum (7.2); Gold (6.5)
Gambia	Groundnuts (37.0); Peanut oil (34.3); Oilcake & other residues (15.6)	Sawlogs & veneer logs (32.2); Edible nuts (20.8); Wood (10.3); Fat & oils, fish & marine mammals (6.7);
Ghana	Cocoa beans (61.3); Sawlogs & veneer logs (8.5); Diamonds (6.5); Wood (6.0)	Gold (43.9); petroleum, crude (25.9); Cocoa beans (9.2); Cocoa butter (5.6); Manganese ore (5.0)
Guinea	Inorganic bases & metallic oxides (41.8); Aluminium ore (23.6); Coffee (15.9)	Aluminium (53.3); Gold (42.6)
Liberia	Iron ore (75.1); Natural rubber (12.1)	Iron ore (38.3); Gold (20.0); Natural rubber (16.6); Crude petroleum (5.0)
Mali	Live animals (39.7); Cotton (18.8); Groundnuts (11.3); Fish (10.2)	Gold (84.6); Cotton (4.9); Sesame seeds (3.0)
Mauritania	Iron ore (93.8)	Iron ore (38.5); Gold (16.6); Crustaceans and molluscs (16.6); Fish (14.5)
Senegal	Vegetable oils (33.5); Groundnuts (24.5); Oilcake & other residues (12.2)	Gold (28.3); Fish, crustaceans & molluscs (20.9); Non-ferrous metals (6.8); Groundnuts (6.3)
Sierra Leone	Diamonds (58.9); Iron ore (23.6); Palm nuts & kernels (9.0)	Non-ferrous metals (30.3); Sawlogs & veneer logs (19.0); Diamonds (18.5); Aluminium (12.7);

Source: Compiled by the author based on data from the Atlas of Economic Complexity (<https://atlas.cid.harvard.edu/>).

\*Data available after 1965 (Botswana: 2000; Eritrea: 1993; Namibia: 2000; Seychelles: 1970; Cabo Verde: 1970).

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# Contours of a Pro-developmental Multilateralism in Shifting Global Economic Order

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**Abstract:** There is an increasing concern with the erosion of multilateralism in the global economy. In this paper, I argue that a simple restoration of the WTO system is not enough, if we want to make the system pro-developmental. First, I show that the WTO's multilateralism itself, which was not sufficiently strong to begin with, has been in constant decline. I then argue how a truly pro-developmental multilateralism needs to allow developing countries to use more proactively those policy measures that help them develop productive capabilities. Finally, I discuss how a truly pro-developmental global economic order should be designed.

**Keywords:** ACP, EPA, Multilateralism, NAFTA, NAMA, TRIM, TRIP, SDT, WTO

**JEL Classification:** F02, F13, F55, O10, O25

## 1. Introduction

The aggressive trade policy of the Donald Trump administration in the United States led to a growing concern with the future of the world trading system. In the name of punishing unfair competition from China, the US has imposed extra tariffs. It has also renegotiated, in its favour, the North American Free Trade Agreement (NAFTA) and the free trade agreement with South Korea, using the threat of protective measures as crowbar to renegotiate treaties that were signed more than a decade ago. It has even tried to use tariffs as a tool to reduce migration flows from Mexico.

All of these, especially in the context of increasing racism and xenophobia

in the rich world, have increased the concern that our current world trading system based on multilateralism – the 'World Trade Organization system' – is under serious threat.

The attack on multilateralism is particularly bad news for developing countries, which individually have weak bargaining power and thus do much better under multilateralism, rather than bilateralism or regionalism. However, in this paper I will argue that a simple restoration of the WTO system is not going to be sufficient in helping the developing countries develop on a sustainable manner because the WTO system is not truly pro-developmental.

To argue this, I will first show that the WTO's multilateralism itself, which was not sufficiently strong to begin with, has been in constant decline. I will then argue how a truly pro-developmental multilateralism needs to allow developing countries to use more proactively those policy measures that help the development of productive capabilities – infant industry protection, regulation of FDI, and an intellectual property rights (IPR) regime that makes technological imitation and adaptation easier. Finally, I will discuss some principles that we need to apply in designing a truly pro-developmental multilateral system. And I will conclude the paper.

## 2. WTO system

Rich countries have constantly attempted to undermine the multilateral system whenever it doesn't work for them. But when the World Trade Organization (WTO) was launched in 1995, the rich countries professed their eternal devotion to multilateralism. They claimed that it gave all countries equal voices. Of course, they said that because they thought they could push around developing countries with the threat of trade sanctions, offers of extra foreign aid, and so on, and make them agree to whatever they put on the table at the WTO meetings.

Everything was supposed to be achieved by consensus and there was never any need for a vote, which meant that the numerical advantage of the developing countries counted for nothing. The early ministerial meetings of the WTO were run

through the so-called 'Green Room' meetings, where only the rich countries and a handful of big developing countries that couldn't be ignored were invited. In Seattle in 1999 and Cancun in 2003, there were disgraceful scenes in which developing country delegates, who were not invited to the Green Room meetings, were physically thrown out of the meeting room.

The developed countries started pushing for new demands even before the initial agreement was settled, with the proposal for the Multilateral Investment Agreement added to the WTO agenda in 1997. This proposal contained elements that were difficult for developing countries to accept, so it was thwarted.

With the launch of the Doha agenda in 2001, the rich countries brought up the Non-Agricultural Market Access (NAMA) proposal, which aimed to lower agricultural protection in the rich countries in return for developing countries lowering their manufacturing protection (on further details of the NAMA proposal and the negotiations over it (Chang, 2005). Realising how much they would lose out on if the original proposal was adopted, developing countries soon started resisting it in the NAMA negotiations. By the mid-2000s, negotiations were "between intensive care and the morgue", in the words of then Indian Trade Minister, Kamal Nath. Since then, the negotiations have gone nowhere because the developing countries found the demands unreasonable.

The rich countries have not been able to get their way in the WTO negotiations not least because developing countries now have far less to fear from rich countries in the global economy. The importance of South-South trade is growing. Between the mid-1990s and the mid-2010s, the share of trade between developing countries or South-South trade rose from around 42 percent of world trade to around 57 percent. It is now the majority.

Some may say, “That’s all because of China.” Indeed China’s economic rise has increased the country’s weight in global trade substantially. But even excluding China, South-South trade rose from around 35% of world trade to 42% in the last few decades.

Now that developing countries are putting up resistance, rich countries have basically abandoned their commitment to multilateralism and started taking different strategies. Even before the explicit anti-multilateralism of the Trump administration, the US had effectively pulled itself out of the WTO. It has been concentrating on bilateral and regional negotiations, such as the Trans-Pacific Partnership, involving the US, Japan, and other countries in Asia (including Vietnam and Malaysia but significantly not China or South Korea) and Latin America (such as Chile and Mexico), although the US withdrew from it in 2017.

The European Union has not rejected multilateralism to the same extent as the US, but it has engaged in divide-and-rule tactics in negotiations with

developing countries. The EU used to have the Lomé Convention, which gave trade preference to certain African Caribbean and Pacific (ACP) countries – basically, their former colonies. When it was told that this was not compatible with the WTO agreement, the EU created a new agreement. They called it the Economic Partnership Agreement (EPA). But instead of negotiating with all 90-plus ACP countries, it divided them into seven groups, four of them in Africa (Eastern and Southern Africa, Central Africa, West Africa and the Southern African Development Community). The reason is clear: if you try to negotiate with 90-plus countries, they are much stronger than when you negotiate with seven countries.

In short, the multilateral trading system has been falling apart and it is in the interests of the developing countries to revive it. However, it is not enough to just bring back the WTO system, because the system has inherent biases against developing countries. There will need to be radical reforms if it is to be truly pro-development.

The WTO system is based on the principle that free trade is best for all countries under all circumstances. In the short run, free trade does bring benefits to all countries because you can specialise and buy and sell things as you need. But in the long run, free trade among countries at different levels of development is bad for the economically-backwards countries. It prevents the emergence of the

high-productivity, high-technology industries that they don't have, and the rich countries do.

### **3. Infant Industry Argument**

Hyundai, the South Korean automobile manufacturer, is now the third-largest automobile manufacturer in the world, after Toyota and Volkswagen. The company was founded in 1967 and went into production in 1968. In 1969, it produced just over 2,000 cars a year. In the same year, General Motors in the US produced over 4.4 million cars – around 2,200 times more than Hyundai. If the Korean government liberalised trade in automobiles at that point, Hyundai would have been wiped out overnight.

The Korean government did not do that. Initially, imports of foreign cars were totally banned. Some were later allowed, but they had very high tariffs. The government gave a lot of subsidies and provided new technology through research at various government research institutes. It is only because of these policies that Hyundai is now the third-largest automobile manufacturer in the world. And it wasn't just the auto industry. Almost every other industry in the country was initially raised in this way: petrochemical, electronics, shipbuilding, steel, semiconductors, etc.

These policies are based on an economic theory known as the 'Infant Industry Argument'. The argument says that the government of a developing nation needs to protect and nurture its young industries

against competition from producers in more economically advanced countries until they grow up and can compete in the international market. It is the same principle that makes us send children to school, rather than to work.

If a developing country opens its economy while at a very low level of development, then it will keep doing the low productivity things it has been doing for the last few hundred years. Of course, it should be noted many of these economies are only producing these low productivity things because colonial powers made it so. When did Côte d'Ivoire start growing cocoa? And when did Kenya start growing tea?

When I talk about the successful application of the principle of infant industry, some people say, "Yes, maybe it is true for the East Asian countries, but what can other countries learn from them?" They will tell you that all other rich countries, except for Japan and Korea, have become rich on the basis of free trade and free-market policies.

### **4. Protectionism versus free trade**

However, infant industry protection was used by virtually all of today's rich countries when they were trying to catch up with more advanced economies. They all, with the exception of the Netherlands and Switzerland (but only up to World War I in the latter's case) used protectionism. Some of them used it very heavily. We have always been told that the British invented free

trade and the Americans perfected it. These were actually the most protectionist countries in the world in their respective catching-up periods. Britain became very protectionist from the mid-18th century and continued to be so until the mid-19th century, when it became the top dog. The US started with protectionism in the 1820s. It was the most protected country in the world for most of the next 130 years.

Other countries did not use tariffs as much as the US or Britain did, but they all used protectionism to a degree. Even when the average rates of tariff were relatively low, they could give high protection to selected industries. This is what the Japanese and the Koreans did in the late 20th century. In the late 19th and the early 20th century, Germany and Sweden had relatively high rates of tariffs, but not extraordinarily high like the US. However, they provided particularly heavy protection to the emerging heavy and chemical industries. Belgium in the 19th century had tariff rates of 30% to 60% for textiles and 85% for iron, even though its average industrial tariff rate was around 10%.

To put all these rates into perspective, the average industrial tariff rate of developing countries today is around 10%. The British and the Americans had tariff rates of four to five times higher. The Germans, Swiss and the Japanese had tariff rates which were two to three times as high (Bairoch, 1993; Chang, 2002).<sup>1</sup>

In addition to tariffs, these countries used numerous quantitative restrictions like import bans, quotas and export bans on key materials (Chang, 2002; 2007). When Britain was trying to develop the wool industry, the British government banned the export of raw wool. At the time, Britain was the raw material producer for the centres of wool manufacturing in Europe, especially the Netherlands and Belgium. The British realised that they needed to control the export of the raw material if they were to develop the industry themselves.

The theory of infant industry protection, interestingly, was invented by Alexander Hamilton, the first finance minister (or Treasury Secretary) of the US. Hamilton submitted a report to the US Congress saying that the US needed to protect its infant industries. It is called the *Treasury Secretary's Report on the Subject of Manufactures* (see Hamilton, 2001, for the original text). This report should be called the very first development planning document in history. Hamilton wasn't just talking about tariff protection. He was talking about infrastructure investment and developing the banking system. He was talking about developing the government bond market. He was talking about the development of the patent system. He was a visionary.

Initially, when Hamilton proposed this, other people, especially Thomas Jefferson who was the Secretary

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1. For further details on tariff rates, see Bairoch (1993) and Chang (2002).

of State at the time, laughed at it. The then politically dominant Southern landlord class preferred to import cheaper and better manufactured products from Europe in return for exporting tobacco and cotton. The members of this class questioned subsidising American products in favour of free trade.

Unfortunately, Hamilton didn't see the day when other Americans embraced his idea. However, from the 1820s, the Americans realised that, to become an economically powerful country, they needed to develop the manufacturing sector. Consequently, they had 40%, 50%, sometimes even 60% average industrial tariff rates, in order to support their young manufacturers against superior producers from Europe, especially Britain.

It is not just in the area of trade policy that rich countries did all the things that they tell the developing countries not to do in the WTO system.

The Trade-Related Investment Measures (TRIMs) agreement in the WTO tells developing countries not to regulate foreign direct investment (FDI). But when they were at the receiving end, today's rich countries actively regulated FDI, notably the US, Japan, Korea, Taiwan and Finland. In the US, until the mid-20th century, you couldn't even vote in the annual general meeting of shareholders, even if you were a shareholder, if you were not a US national. Japan today states in the WTO that restricting foreign investment is very bad for

economic development, despite the fact the country had the most restrictive foreign investment regime in the world outside the socialist bloc until the 1980s.

## 5. Intellectual Property Rights

Another area in which the past practice of the rich countries doesn't fit with the WTO rules is that of intellectual property rights. The Trade-Related Intellectual Property Rights (TRIPs) agreement in the WTO says that you have to accord protection of intellectual property rights to the same extent that the rich countries do. But today's rich countries didn't go by those rules when they were trying to absorb other people's technologies and develop their economies (Machlup and Penrose, 1950; Chang, 2001).

Many countries explicitly allowed patenting of foreigners' inventions. In 1852, a British merchant called Peter Durand took out the patent on canning technology. In the application, he explicitly said that he obtained the technology from a Frenchman called Nicolas Appert. It was legal, because the person who invented the technology was not an Englishman. Switzerland and Netherlands didn't even have patent laws until the early 20th century (Schiff, 1971).

Trademark laws were violated on a massive scale. In the mid-19th century, there was an international dispute between Britain and Germany because the Germans mass-produced fake 'made in England' products. The British in 1862 revised the trademark law and demanded that the place of

manufacturing had to be specified. Upon this, the Germans started producing watches that looked exactly like British watches that said “Made in Germany,” but only in the box, not on the watch itself. In the 1950s, when Japan was desperate to increase its exports, a little town outside Tokyo called Usa kept producing “Made in Usa” products in huge quantities.

The global trading system does not necessarily need to allow all the policy measures that were used by the rich countries in the past. But what matters is the principle that developing countries need the extra policy tools – trade protection, regulations on FDI, more lax protection of intellectual property rights and so on – that help them create a space in which their infant industries can absorb new knowledge and accumulate productive capabilities more easily. That principle has to be built into the global trading system.

## **6. The level playing field myth**

Often when I say this, I am asked about the principle of a level playing field. A level playing field, of course, is the right principle when the players are equal. For example, a football game between the national teams of Nigeria and Egypt where the ground is tilted and the Egyptians get to attack from up the hill is unfair. However, would you say the same if one team is the Nigerian national team and the other team is made up of 12-year-olds from Mozambique? No. In this case, you actually want the children to have the advantage.

Some may say, ‘That’s an absurd example. There is no football game like that.’ This is true because, in the real world of sports, unequal players are structurally banned from playing against each other. There are age groups, there are gender divisions. Some sports even have weight classes. But in international trade, the US, Switzerland, Guinea-Bissau, and Namibia all compete on equal terms.

Free trade among countries at similar levels of development is beneficial, like the Continental Free Trade Agreement that Africans are trying to launch, the German Customs Union of 1834, and the European Union before the enlargement. When you have similar countries that are engaged in free trade, it stimulates and benefits each other. However, when one team is the Nigerian national team and the other team is made up of children, it doesn’t work. The principle of level playing field needs to be rejected in such a circumstance.

Finally, in response to this criticism, the advocates of the WTO system argue that there is special and differential treatment (SDT), so developing countries already have extra advantages. While it’s true that SDT exists, it makes only minimal allowance for the least developed countries (LDCs). For example, they can use export subsidies that other countries cannot use, but there are very few of these provisions even for LDCs. When it comes to other developing countries, the only SDT they get is that they have longer to implement the same rule. This is not enough.

Moreover, it is wrong to call this special treatment. Calling this a special treatment is like calling ramps for wheelchair-users special treatment. We recognise that different people have different needs and capabilities, and therefore they need to be treated differently.

## **7. Conclusion**

In this paper, I have argued that the current international trading system, represented by the WTO, is insufficiently pro-developmental, even if the increasing attack on multilateralism can be reversed.

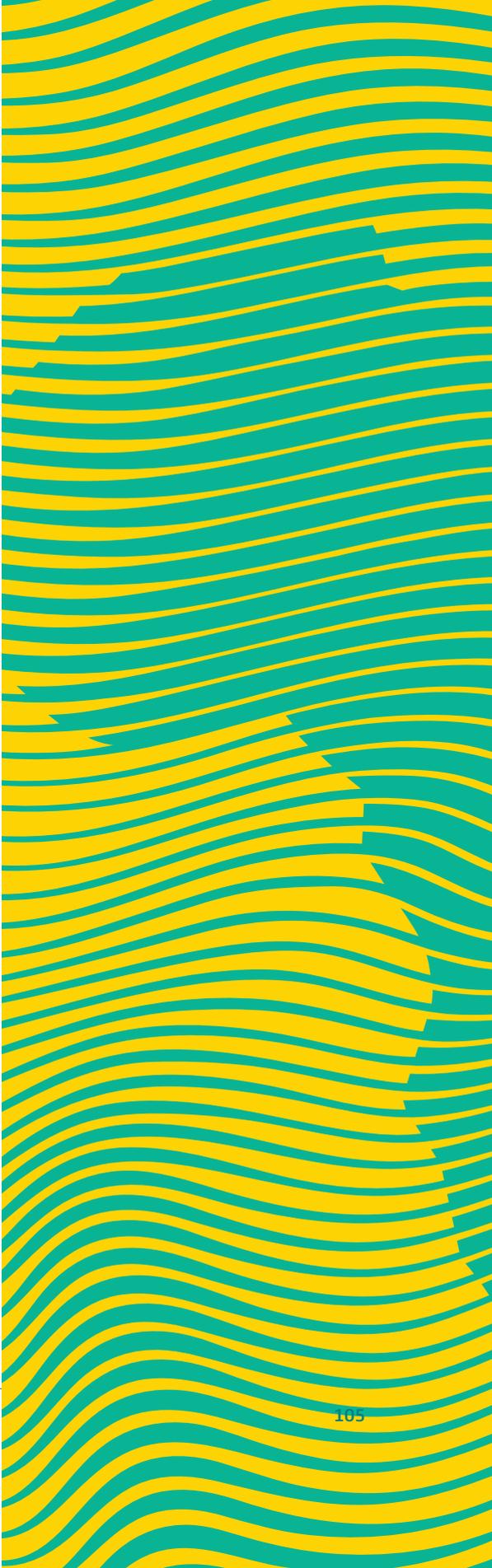
We need to build a truly pro-development multilateralism based on what I call the principle of asymmetric protectionism, in which the economically weaker countries are allowed to protect and regulate more than the stronger countries. As their economies develop over time and they catch up with those of the richer countries, they can be made to gradually reduce the use of these extra measures.

This is a long-term goal. This kind of reform of the WTO system is not going to happen any time soon. However, we have to keep arguing for this because we need to go in the right direction. At the same time, developing countries need to be smart about utilising the 'policy space' that exists within the WTO system, which is not inconsiderable (UNECA, 2016). The worst thing that developing country governments can do is to believe that there is nothing they can do.

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