



Summary Webinar 3 June 2020

Assessing the economic impact of Covid-19 in Africa and the future of AU-EU relations

Background: 2020 should have been a milestone in redefining AU-EU relations, but the summit planned for October between the two neighbouring continents will be overshadowed by the Corona crisis. Although the number of people infected with Covid-19 on the African continent is comparatively small, the serious economic consequences of the pandemic can also be clearly felt here and affect the relations between the AU and the EU. The continued withdrawal of the United States from Africa and China's successful diplomacy on the continent are other important factors influencing Europe's relations with its African partners.

Highlights:

- *The Covid-19 pandemic has exposed the fragility of economic growth in Africa. The economic situation could only start to recover in the course of 2021.*
- *Structural reforms, particularly with regard to small and medium-sized companies, the informal sector, the creation of value chains and the role of technology are necessary to make Africa globally competitive.*
- *The redefinition of AU-EU relations must finally be used to establish an interest-based partnership between the two continents that not only verbally demands the end of the asymmetric relationship, but actually implements it.*
- *With the global withdrawal of the United States and the lack of democratization in China, Europe and Africa have the opportunity to take on "global leadership" together. Germany should use its EU Council Presidency to implement the paradigm shift in the partnership between the two continents.*

Welcome remarks:

- **David Schwake**
Secretary General, German Africa Foundation

Input:

- **Prof. Carlos Lopes**
High Representative of the African Union Commission Chairperson for AU-EU relations

Discussion:

- **Prof. Carlos Lopes**
High Representative of the African Union Commission Chairperson for AU-EU relations
- **Dr. Obiageli Ezekwesili**
Former Vice President World Bank (Region Africa)
- **James Shikwati**
Director of Kenyan Think Tank Inter Region Economic Network

Moderation:

- **Sabine Odhiambo**
Deputy Secretary General, German Africa Foundation

Economic consequences of Covid-19 in Africa: At the beginning of the year, everything looked like a continuation of Africa's economic success story: 16 of the world's fastest growing economies in 2020 should have been on the African continent. But the corona pandemic revealed the fragility of this growth, according to the discussants.

In particular, Covid-19 exposed the structural weaknesses of African economies. Still, raw materials make up more than 80% of the exports of 35 African countries, the prices of which have fallen sharply in the wake of the pandemic. The breakdown of transportation as part of the lockdowns moreover led to dramatic losses in agricultural raw materials. The 20-30% decline in remittances, the increase in debt service costs, the tightening of fiscal leeway and the devaluation of African currencies are other economic consequences that will lead to a decline in domestic consumption, which, according to Lopes, accounts for two-thirds of Africa's growth. The crisis also highlighted the low productivity of African small and medium-sized enterprises (SMEs), said Shikwati. Against this background, poverty levels might rise significantly and lead to societal destabilisation, according to Ezekwesili. A recovery of the economic situation will probably take place in a very slow U-shape and only start in the course of 2021, says Lopes.

Policy measures: Due to the structural economic weaknesses, African countries do not have the same capacity as industrialized countries to react to external shocks, the panelists unanimously agreed. In particular (with the exception of South Africa), they could not set up economic stimulus packages of 7-10% of their GDP, nor could they "print money" because, in addition to inflation, this would result in a downgrading by the international rating agencies and thus a lack of investment, according to Lopes.

Against this background, the panelists agreed, good leadership and sound public policy are of particular importance. Conflicts can only be avoided with the right political response. In this context, Ezekwesili pointed out the importance of good industrial policy, of the diversification of the economy as well as of the need for value addition within African countries. The goal must be to increase Africa's share of global industrial production, which currently stands at a mere 2%. In order for the private sector to create sustainable jobs, further public private partnerships are needed. African governments should specifically promote growth that is inclusive, strengthens human capital and focuses on the digital economy. In addition, the AU must continue to implement the African Continental Free Trade Area (AfCFTA) despite corona to strengthen intra-African trade.

In order to promote local SMEs, but also to integrate the huge informal sector into the formal economy, it is necessary to cut red tape and improve the business climate for local companies. Too often, public policy is focused on the needs of foreign companies and markets rather than the needs of the local population, Shikwati said. Lopes also called for the reform of African tax systems, whose revenues, with an average share of 15% in GDP, are significantly lower than those of the industrialized nations (around 35% on average). This is not due to the lack of involvement of the informal sector, but to the lack of progressive tax systems and the "informality of the rich", i.e. that wealthy people and big businesses profit from exemptions and corruption and do not contribute their share to the tax system.

AU-EU relations in times of Covid-19: Relations between the AU and the EU are still characterized by an asymmetry that needs to be removed. The relationship between the two

continents should be formulated upon the premise of mutual interest and Africa should be seen as a business not a migration or conflict case by Europe, demanded Ezekwesili. A major challenge for the success of this year's AU-EU summit is the existence of filters such as the ACP group that do not include the whole African continent, said Lopes. From the AU's point of view, every discussion must be conducted from continent to continent, that is from AU to EU. However, the EU imposes that 48 African countries be part of the ACP group, which, however, cannot replace the AU as a negotiating partner.

Furthermore, there are remaining issues in three of the four priority areas of AU-EU cooperation. In the area of trade, the Economic Partnership Agreements (EPAs) have contributed to a fragmented approach by the EU towards African countries. However, as a new trade agreement is supposed to cover another 20 years from now, any negotiations can only be held against the backdrop of the implementation of the AfCFTA, that is *one* common African free trade area. In the area of migration, the AU calls for one single set of rules that is binding for all states and not for the existence of various regulations (such as the Khartoum process, the Rabat process, etc.). While the AU and the EU largely agree on the area peace and security, a closer look is needed when it comes to climate change. While the two continents are in agreement about the need for a green transformation, sensitivity is needed when negotiating intra-European arrangements. For example, the European Green Deal should not result in European companies gaining unfair competitive advantages over African companies through indirect subsidies in the name of e.g. "greening" imports.

AU-EU relations and the global political order: According to Shikwati, unfair competitive advantages also lie in the multi-billion Euro rescue packages for European companies that African countries either cannot afford for their enterprises or for which the international financial institutions would reprimand them. He also regards the EU's approach of fragmentation towards Africa as a disadvantage compared to China's approach, which deals with the continent as a whole. At the same time, sub-Saharan Africa only has a 4% share in overall Chinese trade. As with the EU, there is therefore still a need for greater integration of African products. Overall, the growing interest in Africa both from China and the EU would offer opportunities for African countries to benefit from healthy competition between the two actors.

With the United States withdrawing from international partnerships and the lack of democratization in China, Ezekwesili is demanding more courage from Europeans to take up global leadership. The increasing demand among African societies for good governance shows that Europe and Africa can break new ground as partners and take global leadership together.

Germany should use its EU Council Presidency in this regard. According to Lopes, Germany should also work to ensure that the much-evoked paradigm shift in AU-EU relations is no longer just an empty phrase, but is finally being carried out and underpinned with action.