Common Market for
Eastern and Southern Africa

COVID-19

COMESA Report

Why **Africa** Must Brace Itself for Devastating Secondary Effects of the **COVID-19**

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Introduction

This note provides an anecdote of potential economic and trade impacts of the COVID-19 in COMESA and Africa in general. What started as simple mild symptoms in Wuhan, Hubei province in China quickly spread becoming a public health emergency and ultimately declared a pandemic on March 11, 2020. Asia and Europe have been the most affected continents, with North America, Australia and New Zealand also experiencing quick spreads. China and Europe have so far borne the greatest brunt ranging from deaths, morbidity, closure of factories, schools and restrictions on travel thereby threatening the fabrics of the global socioeconomic infrastructure.

In contrast, the spread of the virus in the African continent has been uncharacteristically sluggish, compared with the other continents so far. This may partly be attributed to the relatively low integration of Africa with the rest of world. However, there are all indications that the trends are increasing, and Africa must be prepared to grapple with the devastating secondary health, social and economic ramifications of the disease.

COVID 19 in Africa

Despite the comparatively low number of reported cases of the virus in African countries, there is no doubt that any economic slow-down in China, Europe and the United States have global repercussions given the interconnectedness and fragmentations in production, trade and investments. The magnitude of the effects on trade and investments for African countries would depend on the sizes and economic structures as well as characteristics of the various economies.

For the big economies like South Africa and Nigeria, the effects would be much larger owing to their stronger interconnectedness with the rest of the world compared to smaller economies. For instance, South Africa is strongly connected to global financial markets, manufacturing and tourism circuits. In addition, the severity of the impacts would also depend on the level of diversification of products and markets. More diversified economies would experience less severe effects compared to low diversified ones in the wake of reduced demand for exports and cut down in supply from import sources. Thus, commodity dependent countries like Nigeria, Ghana, Zambia, Angola and DR Congo are likely to be hit hardest by the crisis following China's reduced demand for copper

and cobalt. Already the Organization of Petroleum Exporting Countries (OPEC) has dramatically reduced its outlook for oil demand this year as a result of the virus. In a nutshell, low levels of diversification of African economies in product and export markets is a single most important source of economic vulnerability.

Besides, services-oriented economies, including South Africa, Egypt, Ethiopia, Rwanda and Kenya where air transport services, financial services and tourism services are relatively strong are more vulnerable, given the nature of the epidemic. The cancellation of air flights, travel bans and restriction of movements of persons slow down growth leading to job cuts. Likewise, in the tourism sector, countries may experience reduced incomes generated from Meetings, Incentive travel, Conventions and Exhibitions (MICE). Indeed, a recent analysis by the Overseas Development Institute (ODI), shows that Kenya, Tanzania, Rwanda, Burundi and Uganda are among the world's 97 economies that are most exposed to a Chinese slowdown either directly or indirectly.

Bilateral Trade Fronts

From bilateral trade fronts, China and the EU are leading export and import markets for Africa and the COMESA countries. Most countries are therefore likely to experience severe balance of payment difficulties in the short to medium term.

Latest statistics indicate that the EU, South Africa and China are the leading export destinations for COMESA exports and accounted for 32% (US$ 36.1 billion), 13% (US$ 14 billion) and 6% (US $ 7.3 billion) share of total exports, respectively during 2018. COMESA's top exports to China include mineral products such as copper, fuels, mineral oils and products of their distillation; bituminous substances and other base metals. Reduction of consumption demands in these markets coupled with low diversification implies cut down of export earnings from these markets in the short to medium term.

At the same time, the EU, China and US are the biggest sources of imports into COMESA countries. During the year 2018, they accounted for 32% (US$ 48 billion), 20% (US$ 29.4 billion) and 8% (12 billion) share of total imports respectively. Major imports from China into COMESA countries included consumables, electronics, construction materials, vehicle spare parts, clothing, furniture, kitchenware, raw materials and machinery. China being the global hub for manufacturing, quarantine-instigated production disruptions of factories would create a domino effect in downstream industries and supplies to African markets. This implies companies chasing less available inputs and the shortages leading to price hikes, less productions and erosion of prospects for value addition.

Manufacturing and Industrial Sectors

The manufacturing and industrial sectors in Africa are expected to be impacted by a decreased supply of key components from China, Europe and America. In particular, construction companies will be impacted by delays in the global supply chain and the resultant shortage of construction materials. Further, the African automotive sector will feel the impact as the Hubei province in China, an epicenter of the virus, is a large centre for the production of automotive parts and supply of such parts to other regions has been affected by shutdowns and closures. In addition, consumer demand is expected to affect the sector already feeling the strain of existing market conditions, as the resultant economic downturn affects sales.

Investments

It is expected that there would be reductions in FDI inflows to Africa in the immediate future as the most affected countries in Asia, Europe and the US shift focus to address the health and economic impacts caused by the COVID-19 crisis. The most likely to be affected would be the large infrastructure projects, including China's grand Belt and Road Initiative (BRI) which covers several countries in Africa. Chinese policy banks loaned USD 19 billion to energy and infrastructure projects in the region from 2014-2017, almost half of which was in 2017.

Questions about the sustainability of BRI amidst protection of the health of workers involved in infrastructure projects, and the wider local populations where the projects are underway. This coming at a time the BRI's investment viability is in sharp focus following debt sustainability concerns of most beneficiary countries like Ethiopia, Kenya, Zambia, Zimbabwe among others.

According to Ben Simpfendorfer, CEO, Silk Road Associates, the BRI will remain a priority for China, but the Chinese government's short-term and long-term response to COVID-19, shortfalls in China's health sector, and the economic fallout for the country's financially challenged SME sector, will divert official attention and resources away from BRI over the 12 months and potentially longer.

Financial Sector

As the virus continues spreading to major economies around the world, most investors in the equities market have become net sellers, wiping out any year to date gains that major indices had made. Most investors have moved to place their money in safer haven assets such as gold, driving their prices upwards with the YTD performance of gold increasing by 9.7% as of 13th March 2020. Trading in major stock exchange markets like in South Africa, Ghana and Kenya equally face the heat.

In Kenya for instance, trading in the Nairobi Stock Exchange drastically fell with stocks such as Safaricom and Kenya Commercial Bank (KCB) declining by 5.4% and 7.0%, respectively, immediately the first case was pronounced. Subsequently, trading was halted on 13th March 2020 after the NSE 20 dropped by more than 5.0%. Given the NSE is one of the strongest stock markets in Africa, this reinforces negative trickle-down effects arising from the declines in FDI flows and remittances associated with the outbreak. This further contracts sources of finances for productions in manufacturing and services sectors.

Energy and Mining

African mining companies producing lithium, cobalt, copper and iron ore have already noted reducing demands from China caused by production shutdowns and supply chain disruptions. Port closures, travel restrictions and manufacturing shutdowns are decreasing demand, causing oil importers in China to cancel purchases of African oil. This has compelled sellers to divert cargo as they seek new buyers often at discounted prices. In addition, significant outbreaks of COVID-19 in mining regions in Africa could affect workforce productivity, the availability of skilled technicians to travel from affected areas and the capacity of labor-intensive mining operations to produce raw materials.

Pharmaceutical sector

The other strain is on the pharmaceutical sector with the prices of ingredients manufactured in Europe, China and India rising. Shortages of the products themselves are expected after extended factory closures and supply chain disruptions. For instance, India's Directorate General of Foreign Trade announced in early March 2020 that the country would restrict exports on 26 medical products and ingredients, including paracetamol and some antibiotics, which could lead to a shortage in Africa. India produces a large percentage of the world's generic medicines.

Tourism Sector

In addition, reductions in investments in the tourism sector in several African countries is inevitable following massive restrictions on travel and social activities across the world. In some cases, the business health of major airlines has been put to test following travel cancellations. Indeed, travel agencies across Africa has raised the alarm with far reaching impacts expected in countries like Mauritius, Seychelles, Rwanda, Kenya and South Africa following restrictions on mobility of persons from outside the continent.

Implications to trade and economic integration

Whereas the spread of the virus in Africa is comparatively low, the scenario is likely to change in the coming weeks and may be catastrophic given the relatively low levels of preparedness and weak and quite often, over stretched public healthcare systems in many countries.

First, African countries must brace themselves for increased disease burdens – social and financial burden of the COVID-19. African states, including COMESA member states should therefore mobilize human and financial resources and coordinate preventive measures to counter the likely spread of the disease. This is coming amidst other secondary effects including fiscal constraints, debt sustainability, poverty and un-employment;

Second, reduced imports of manufactured products, input supplies, travel restrictions and FDI inflows are likely to put further constraints on growth and development in many economies considering the inter-connectedness and fragmentation of production across the globe. The strategy is for Central Banks to keep interest rates low so as to encourage private sector (including SMEs) borrowing to stimulate domestic production and consumption.

Third, African governments must provide and sustain a conducive environment to private sector to expand production capacities and enhance competitiveness and reduce over-reliance on extra-African imports even for basic commodities.

Conclusion

Finally, the COVID-19 pandemic should be a wake-up call for African countries to consolidate and strengthen regional economic integration in Africa towards meeting the aspirations of structural transformation, sustainable and inclusive growth. Thus, adherence to the timetables of the negotiations in the continental and the tripartite free trade areas is of essence. In the COMESA region, implementation of the Digital Trade Facilitation and other instruments and the liberalization of services remain core to strengthening the stability of regional economies against external shocks.

COMESA Secretariat

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