Common Market for
Eastern and Southern Africa

COMESA

# How COMESA Can **Mitigate Negative Effects** of Covid-19 Pandemic on Trade

Special Report

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This article provides an exposition of potential trade effects and mitigation measures of the COVID-19 in the COMESA. The COMESA Free Trade Area (FTA) which was launched in 2000 has experienced a tremendous growth as evidenced by the growth of intra-COMESA trade from US$ 1.5 billion to 10.3 billion dollars in 2018. Today, these efforts and achievements are under threat, especially if Member States do not stand together and collectively respond to the Covid-19 pandemic.

## Introduction

The COMESA Free Trade Area (FTA) was launched in 2000 and has since experienced a tremendous growth as evidenced by the growth of intra-COMESA trade from US$ 1.5 billion to 10.3 billion dollars in 2018. Today, these efforts and achievements are under threat, especially if Member States do not stand together and collectively respond to the Covid-19 pandemic. All the 21 COMESA Member States have reported Covid-19 cases with majority of them maintaining an upward trajectory of reported infections. The new cases are a pointer to an increase in the numbers of community transmissions of the virus that are closely linked to mobility of freight crews across the borders.

## Measures Imposed in response to Covid-19

Governments across the globe have imposed two categories of measures: First, measures to prevent the spread of the virus. Some of the mitigation measures include restriction on movement of people at the borders, curfews and lock downs, restriction of movement of non-essential goods, closure of businesses, mandatory testing of truck drivers, traders and all people crossing the borders and 14-day mandatory quarantine.

Secondly, there are measures to reduce socio-economic impacts of the pandemic. Some Member States have abolished or reduced tariffs and taxes to facilitate trade in pharmaceuticals and medical supplies in the fight against Covid-19 (ITC, 2020; COMESA, 2020). These include Burundi, DRC, Ethiopia, Malawi, Somalia, Tunisia, Uganda, Zambia and Zimbabwe. Somalia, Zambia and Egypt have abolished or reduced tariffs and taxes on imported food stuffs and other products such as cement, metallurgy and ceramic manufactures, concentrates for the mining sector, precious metals and crocodile skins. Egypt, Kenya, Eswatini, Libya, Madagascar and Zimbabwe have imposed export restrictions and export licensing requirements on medical supplies, masks, ventilators, hand sanitizers among others. Egypt and Sudan have imposed export restrictions on beans, peas and maize and sorghum respectively. The export restrictions may lead to increase in prices for the pharmaceutical products and food supplies in the region which may slow the fight against Covid-19.

Member States have also embraced electronic transactions and put in place different measures to facilitate trade at the borders and expedite the movement of essential goods and services. However, to ensure a coordinated response to COVID-19, COMESA has developed guidelines for the movement of goods and services during the Covid-19 pandemic.

To address shortages in essential products as well as maintain output and revenue, manufacturing companies in COMESA are repurposing their production lines to produce Covid-19 essential products. For example, Sansheng Pharmaceuticals in Ethiopia, Nyanza Textile Industries Ltd, National Enterprise Corporation in Uganda, Rivatex, Kitui County Textile Centre and Shona Export Processing Zone Ltd in Kenya are producing ventilators, hand sanitizers, masks, protective clothing, helmets, goggles, or other garments.

### Effects of Covid-19 on COMESA Trade

The Covid-19 health crises has become an economic crisis through reduction in economic activity. The International Monetary Fund (2020), projects that the global economy will contract by 3 percent in 2020, much worse than during the global financial crisis and grow by 5.8 percent in 2021 assuming that the pandemic fades in the second half of 2020 and containment measures are uplifted. The Sub Saharan Africa is projected to contract by 1.6 percent in 2020 and grow by 4.1 percent in 2021. According to the World Trade Organisation (WTO), (2020) merchandise trade could fall by 13% and 32% in 2020 depending on the length and severity of the Covid-19 pandemic. In addition, world trade volume (goods and services) are projected to contract by 11 percent in 2020 and rebound to 8.4 percent in 2021.

According to research from Baker McKenzie and Oxford Economics, African imports (COMESA is a third of Africa) from outside the continent reveal that industrial machinery, manufacturing and transport equipment constitute over 50 percent of Africa's combined needs (https://www.oxfordeconomics.com/). The most important suppliers being Europe (35 percent) China (16 percent) and the rest of Asia, including India (14 percent). As such, disruptions due to the impact of Covid-19 will lead to a decrease in the availability of manufactured goods imported into Africa.

In 2018, 91% of COMESA exports were destined to outside markets. The top export destinations included European union (32%), South Africa (13%), intra-COMESA (9%) China (6%), United Arab Emirates (6%), Switzerland (5%) and USA (4%) and the rest of the World (19%). COMESA's trade with the rest of Africa is dominated by its trade with South Africa which grew from US$10.96 billion in 2017 to US$14.4 billion in 2018. South Africa alone accounted for 46.76% of COMESA's African bound exports.

COMESA exports mainly primary products accounting for about 60% of total exports. The leading exports by sectors in 2018 were manufactures, fuels, ores and metals, food and agricultural raw materials. The major exports to the EU are crude petroleum, refined petroleum, electric conductors and natural gas, primarily exported by Libya, Egypt and Tunisia while exports to China have largely been metals and related primary products. The top exports to the USA are mineral fuels, woven apparel, coffee, tea & spice (mostly coffee), knit apparel, and precious metal and stone (diamonds) while the top traded intra-COMESA products include primary products and manufactures such as Portland cement, carbonates, refined copper, medicaments, articles for conveyance/packing of goods, babies garments and clothing accessories.

In 2018, COMESA exported pharmaceuticals amounting to US$ 442.53 million. The intra-COMESA exports of pharmaceutical products constituted 32 % of the exports. This shows that pharmaceuticals are a major intra-COMESA export hence the need to facilitate its cross- border trade during this pandemic period.

COMESA is likely to experience reduced exports due to the following: most of the export destination markets are among the countries highly impacted by Covid-19. Projected slow growth in 2020 in some of these major trading partners, EU (-7.1%), S.A (5.8%), USA(-5.9), China(1.2%) and India(1.9%) may lead to reduction in demand for COMESA exports; the advanced, emerging and developing economies are also projected to experience contraction in imports of goods and services by 11.5 percent and 8.2 percent respectively in 2020; and the disruption of supply chains due to closure of factories and businesses and other containment measures will result to reduced demand for raw materials and intermediate products which form the bulk of COMESA exports.

The decrease in commodity prices will affect COMESA exports. The average commodity prices as measured by Free Market Price Index (FMCPI), decreased in March 2020 by 20.4 month- on -month, 29.3 percent lower than in the same month in 2019. Fuels recorded the highest decline in prices at 33.2 percent, a slight decrease was recorded in food (-3.8%), agricultural raw materials (-3.1%), and minerals, ores and metals (-2.5%) (UNCTAD, 2020). Crude oil prices dropped by about 65 percent (US$40 a barrel from mid-January to end of March and the prices are projected to remain below US$ 45 a barrel through 2023 (IMF, 2020). While the effects on Member States will vary depending on their major export products, the high reduction in fuel prices may impact oil exporting countries such as Libya, Sudan, Egypt and Tunisia through foreign exchange and government revenues. However, the lower oil prices will benefit most of the COMESA oil importing countries and may help to ease the balance of payments deficits.

In 2018, COMESA top import origin markets were EU (32%), China (20%), USA (8%), intra-COMESA (7%), India (7%), SA (7%) and R o W (31%). The imports from the rest of Africa was dominated by South Africa which rose in value terms from US$8.96 billion in 2017 to US$10.2 billion in 2018, a 14% rise which matched intra COMESA's imports in 2018. The top imports by sector consisted of manufactures accounting for 62% of total imports in 2018, fuels, food, ores and metals and agricultural-raw materials.

Imports from advanced and emerging market and developing economies are expected to contract by 12.8 percent and 9.6 percent respectively in 2020. This coupled with the fact that some of these import origin markets are among the most hit by Covid-19 will lead to a reduction in COMESA's import of industrial machinery, manufacturing and transport equipment which are key inputs in the manufacturing sector.

COMESA is a net importer of pharmaceutical products. In 2018, its exports and imports were US$ 442.53 million and US$ 6,451.03 million respectively. The import origin markets namely EU (45%), India (19%), USA (6%), China (4%), UK (3%) are among the hardly hit by covid-19. Some of the countries, UK, US, China and India have imposed export restrictions in some pharmaceutical products which may affect their importation which is necessary in the fight against covid-19 (ITC, 2020).

### Key Points and implications to COMESA trade

The measures put in place to mitigate against the Covid-19 pandemic will lead to reduction in the level of output, household spending, investment and international trade. The trade disruptions will have a negative effect not only on intra but also extra-COMESA trade. The projected slow growth and contraction of imports in the major trading partners will dampen demand for COMESA exports; the commodity price shock will highly impact oil exporting countries which may affect their fiscal balance and their ability to fight the Covid-19. In the short to medium, disruption in supply chains (particularly in China and EU) could lead to filling the gap by regional producers hence the need to enhance implementation of COMESA trade integration programmes.

Trade has emerged as a remedy that could reduce this adversity through flow of essential goods like food, medical supplies and other hygiene products. Pharmaceutical products are among the top intra-COMESA traded products. The relaxation of the free movement of essential goods in the region will enhance their production and boost intra-COMESA trade during this pandemic period.

The COVID-19 pandemic provides an opportunity to COMESA Member States to consolidate and strengthen regional economic integration towards meeting the aspirations of structural transformation, sustainable and inclusive growth. Implementation of the Digital Trade Facilitation and other instruments remain core in mitigating vulnerability to shocks such as covid-19 pandemic.

To address the negative effects of the pandemic on trade, Member States should consider the following:

- A regional coordinated approach in mitigating the impact of COVID-19;
- Allow free movement of both, essential and non-essential goods within and out of COMESA;
- Enhance production capacity and regional value chains in the region to reduce over-reliance on external trade and vulnerability to global shocks/crisis;
- Diversify markets for COMESA imports and exports to reduce dependency on few countries;
- Identify and provide incentives to manufacturing companies with capacity to produce covid-19 essential products and facilitate their trade in the region;
- Institute tax policies such as tax holidays, reduction of VAT, Corporate tax, Pay as You Earn and other incentives to cushion the consumers and investors against the effects of the

pandemic;

- Fast track the creation of an online platform for sharing information on availability of essential products during the Covid-19 period;

- Embrace e-commerce in trade; and

- Fastrack implementation of the COMESA Digital Free Trade Area

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