

# **IMPACT OF COVID-19 PANDEMIC ON THE EXTERNAL SECTOR WITH FOCUS ON GOODS AND SERVICES**

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# Outline

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1. Introduction
2. Effects of COVID-19 on Trade in Goods and Services
3. Recommendations

# 1. Introduction

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- COVID-19 pandemic brings a massive economic crisis for Africa. This is a development crisis whose impact will be felt for years to come.
- The Pandemic particularly affected trade in the region, since most African countries are commodity dependent and their trade with the rest of the world exceeds significantly their trade within the continent.
- In 2018, only 15% of total Africa's exports went to other African countries. This however, does not include informal cross border trade (ICBT), which is particularly vulnerable to the pandemic.
- As assessment by IMF indicates that the pandemic has pushed the global economy into recession. As global economic growth slows, so will the demand for Africa's commodities like oil, minerals cocoa, coffee, etc. A decline in remittances and external financial flows is already evident.
- Measures adopted by large economies in Africa such as South Africa will also have significant impact within their sub-region. For example, South Africa's transport, logistics, wholesale and retail enterprises are integral

## ----Introduction

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to many supply chains, across Eastern and Southern Africa. Any measure that stifles the functioning of these supply chains and impede cross-border flows of goods will have serious effects for the region, as well as for these sectors in Southern Africa. This will inevitably affect participation in trade and value chains, as well as reduce foreign financing flows.

- Given the limited regional market, trade with the rest of the world is vital for Africa.
- Before the pandemic, Africa's trade with the rest of the world had been showing good momentum.
- In the following, the impacts of COVID-19 pandemic on trade and services will be presented. Finally recommendations will be made.

# Impacts of COVID 19 on Growth, Trade and Services

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## Impacts on Growth

- The COVID-19 Pandemic is expected to hit African Economies Extremely hard. According to the World Bank Biannual Africa's Pulse report, as a result of the pandemic economic growth in Sub-Saharan Africa will decline from 2.4% in 2019 to between -2.1% and -5.1% in 2020, depending on the success of measures taken to mitigate the pandemic's impact. This means that the region will experience its first recession in 25 years.
- The decline will be primarily due to large economies such as South Africa, Egypt, Nigeria etc. and the reliance of most economies on commodities whose prices have crashed as well as other structural issues.

## Impact on Exports and Imports

- The economic slowdown will inevitably affect Africa's participation in trade and value chains as well as reduce foreign financing flows.

# Impacts of COVID 19 on Growth, Trade and Services

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- The risks to trade may stem from two fronts: First close to half of Africa's merchandise trade is with economies and regions that are highly impacted by the pandemic including China, India, EU, and USA. As these economies experience declining aggregate demand as a result of the pandemic, the need for inputs that support manufacturing processes will continue to fall, thereby limiting African exports of raw materials to these large markets. Second, commodity prices may be particularly affected, leaving some of the continents leading commodity exporters vulnerable. If such downward pressure on commodity prices persist, African countries that disproportionately rely on commodity trade for foreign exchange and government revenue could experience significant external and fiscal imbalances, which will lead to exacerbation of higher debt levels.

## ----Impacts of COVID 19 on Growth, Trade and Services

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- The impact of COVID-19 will also be felt in the manufacturing sector. Because China is part of the global supply chain, factory closures raise the risk of supply chain disruptions for multinational companies with delays, raw material shortages, increased costs and reduced orders affecting manufacturing plants around the world, including in Africa.
- According to research from Baker McKenzie and Oxford Economics, African imports from outside the continent reveal that industrial machinery, manufacturing and transport equipment constitute over 50 percent of Africa's combined needs. As such, disruptions due to the impact of COVID-19 will lead to decrease in the availability of manufactured goods imported into Africa.

# Impacts of COVID 19 on Growth, Trade and Services

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- Many small poor importers, traders and consumers in many African countries are also seriously affected by the crisis as they earn their livelihood trading Chinese products such as textiles, electronics, and household goods.

## **Impact on Services**

### **a) Impact on Tourism and Travel Industry**

- Tourism and travel industry are heavily affected due to travel restrictions, closing of borders and social distancing. IATA estimates the economic contribution of the air transport industry in Africa at USD55.8 billion dollars, supporting 6.2 million jobs and contributing 2.6% of GDP. COVID 19 resulted in the partial unemployment of airlines staff and equipment. African airlines have lost USD4.4 billion in revenue in March 2020 only.
- Under average scenario, the tourism and travel sector in Africa could lose at least USD50 billion due to the pandemic and at least 2 million direct and indirect jobs.

# Impacts of COVID 19 on Growth, Trade and Services

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## Impact on Logistics Industry

- The COVID-19 Pandemic is creating shocks to trade flows due to transport and logistics disruption. This resulted in the following:
  - Breakdown of supply chains due to severe disruption in inbound logistics in air, and sea cargo shipments , trucking, and rail cargo service,
  - Impact on transport & logistics will have a ripple effects on key economic sectors such as manufacturing, agriculture, construction, education, amongst others due to the interlinked global supply chains
  - Slower clearance of cargo at sea, ports,
  - COVID-19 related NTBs for cross border cargo movements
  - Restricted movement of people as countries shut down airports and restrict the entry of international passengers.

# Impacts of COVID 19 on Growth, Trade and Services

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## Impact on Financial Services

The following are the possible impacts of COVID-19 on the financial sector:

- Reduction of bank credit due to both supply and demand factors;
- Banking sector will likely face elevated credit risk;
- Reduction in the volume of world trade and trade finance;
- Increasing risks of SMEs failure;
- Collapse of borrowers' repayment capacity;
- Increase in non-performing loans leading to a reduction in profitability;
- Drastic drop in capital flows limiting the possibilities of mobilizing additional resources for public spending and for the private sector;
- Some banking systems may require recapitalization or restructuring

## ----Impacts of COVID 19 on Growth, Trade and Services

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- The analysis by McKinsey suggests that the COVID-19 crisis could result in African banking revenues falling by 23 to 33 percent between 2019 and 2021. Over the same period, African banks' return to equity (ROE) could fall by between 5 and 15 percentage points, driven by rising risk costs and reduced margins. Banking revenues might only return to pre crisis levels in 2022-24, depending on whether a rapid or slow recovery scenario prevails
- This comes at a time when Africa needs its banks more than ever. Already they have been the primary conduit of aid during the crisis, and will play a central role in the recovery- for example in channeling credit programme announced by several African Governments.

# Policy Recommendations

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COVID 19 pandemic could be an opportunity for African countries to build more resilient and sustainable economies, if they can do the following:

- (i) Diversification of the African Economies and strengthening the few strategic sectors. The pandemic highlights the importance of food and health sectors for all countries. Africa is uniquely positioned to further leverage its rich agricultural resources by improving basic infrastructure and efficiency, and agro processing capacity. More resources will be needed to strengthen the public health sectors, with the support of development partners.

## --Policy Recommendations

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(ii) Africa, must strengthen intra-regional trade. To boost the intra-regional trade, African countries need to make concerted efforts to harmonise their trade related regulations, customs controls, and reduce both tariff and non-tariff barriers, and meanwhile improve the infrastructure and connectivity to lower the logistics cost. This crisis provides an opportunity to take more concrete steps towards realizing the African Continental Free Trade Area (AfCFTA).

## ----Policy Recommendations

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(iii) Africa must embrace the digital age and adopt more and more digital technologies for both productions and services, such as banking, retailing, learning as well as public services. The sectors with high level of digitization seems to weather the storm much better. In doing so it needs to strengthen its educational , especially the training and learning related to digital skills.

(iv) Finally Africa will need more international trade agreements to support its growing but still fragile export sectors. This means that Africa would not only be limited with the existing favourable treaties, such as African Growth and Opportunity act (AGOA) and Every Things But Arms (EBA) but also should pursue more such treaties with other major economies, including India, Japan, China and other such markets.

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# **DISCUSSIONS SESSION**