
Health officials at Kotoka International Airport, Ghana

# Africa feels the negative economic waves of COVID -19 outbreak

The Covid-19 pandemic caused by the novel coronavirus is having a negative economic impact on Africa, an effect that is likely to continue for months to come, ***writes Cornelius Adedze.**

By end of March, Africa is expected to record 1.4 percent decline in economic growth, amounting to a loss of $29b thanks to the outbreak of the corona virus which has now been reported in 15 African countries.

The decline is linked to direct trade links with China where the outbreak started from, Europe, the US and the rest of the world which have been affected one way or the other by the pandemic.

China is Africa's single largest trading partner with total trade of $208bn in 2019 representing a modest annual growth of 2.2 % compared to 2018. China's imports from Africa fell by 3.8 per cent in the period to US$95.5 billion, while exports rose 7.9 per cent to US$113.2 billion as China looked for ways to compensate for the effects of the trade war launched by the United States. Trade with Africa was thus already beginning to decline but this has been aggravated as both imports from and exports to China are feeling the effects of economic waves created by the COVID-19 outbreak.

An estimate by The Economist Intelligence Unit says that the coronavirus could take 0.5 to 1 percent off China's GDP growth. This is likely to reduce China's demand for Africa's exports, including minerals, petroleum products, and other raw materials, it concluded. Some analysts put the impact of reduced exports, even if limited to a few months, at $4 billion in lost revenues to Africa from China alone.

Indications already foretell difficult times for Africa this year with shock falls in demand and price declines for commodities. Without a serious study of the impact of the virus, oil consumption is said to have been reduced by 1.5mn barrels per day in the first quarter of the year and demand for copper is forecast to fall by 300,000 metric tons in the year. Prices of some of Africa's key commodities, like copper, oil and thermal coal have already fallen by 20% since mid-January. Some Chinese buyers have postponed overseas orders, some declaring force majeure.

Oil exporters like Angola and Nigeria, and mineral exporters like the Democratic Republic of the Congo (DRC) and South Africa could thus face reduced sales. According to the MIT's Observatory of Economic Complexity, China accounted for 95 per cent of South Su-

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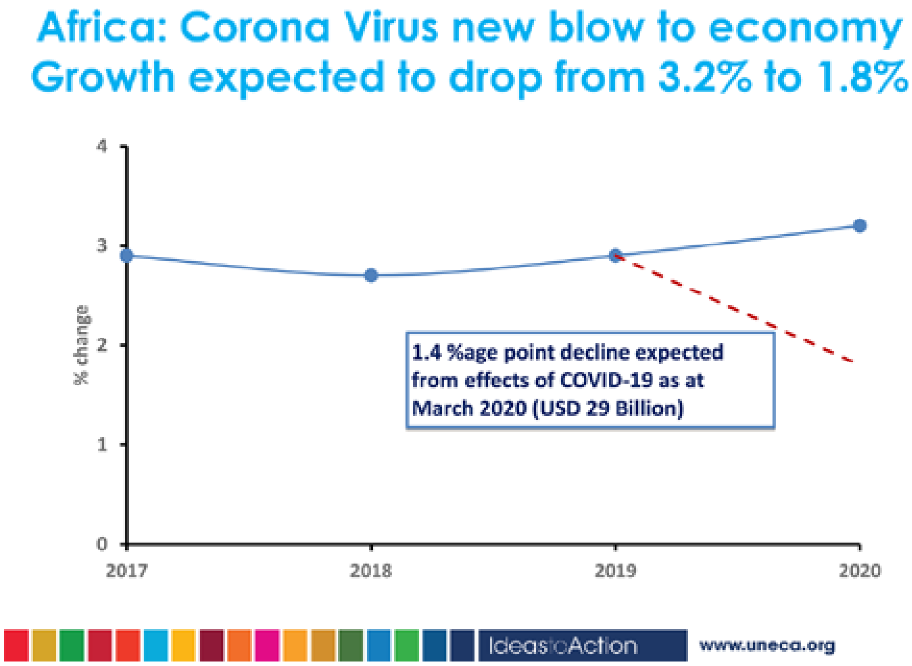
dan's exports and 61 per cent of Angola's in 2017, in the form of crude oil. It took 58 per cent of Eritrea's exports, mostly in zinc and copper ore and for the Democratic Republic of Congo, the figure was 45 per cent, mostly in the form of cobalt shipments. Sierra Leone, Lesotho and Zambia are other countries that will be hard hit.

Meanwhile African oil exporters are in double agony as apart from the coronavirus drawback, an escalating oil price war has taken off with Saudi Arabia announcing that it will supply the oil market with 12.3m barrels a day beginning April. This is 2.5m barrels a day more than what it was producing before and will flood the market leading to further drop in the price of oil from the current low of $36 per barrel, which is devastating news to African oil producers already reeling from the low demand and price for the commodity thanks to coronavirus. A scenario projected by the UNECA shows that even if the same volumes of barrels of oil are exported in 2020 as in the period 2016-18 and the price is pegged at $35, the impact of the coronavirus and price wars will make revenue for Africa exporters fall to $101b, a loss of over $65b. Indeed, the price wars resulting from tensions between Saudi Arabia and Russia, two major oil producers, could degenerate as Russia in response to the Saudi action, has also indicated it could raise its production by 500,000 b/d very soon.

"It is a catastrophe that is unfold-

**Chinese kid with a face mask**




**"On the supply or import side, quite a number of African countries will be impacted. The telecom sector is one major area that Africa may suffer from greatly. Chinese Telecom giant, Huawei, is a major player on the African continent as far as telecom infrastructure, hardware and software are concerned."**

ing," Bank of Namibia Governor Ipumbu Shiimi told reporters after cutting interest rates on Feb. 19. "We don't know exactly where and when it is going to peak but I think it is already starting to disrupt economic activities."

For a country that sells close to a fifth of its exports, mostly diamonds and copper, to China, any disruption in trade with China could prove catastrophic.

The global economy, according to the IMF was already slowing, and so its new forecasts in January had revised down both China's expected growth (6 percent in 2020) and that of sub-Saharan Africa (3.5 percent in 2020) before the virus hit. The IMF predicts that 21 African countries that it defines as resource-intensive will make "their growth move in slow gear" of about 2.5 per cent. The UNECA has also revised the continent's growth from 3.2 percent to 1.8 percent this year in its recent publication, Economic Impact of COVID-19 on Africa. (Graph provided)

It is not just the extractive sector which is at risk but such food supplies to China like Namibian beef, Rwandan coffee, Kenyan avocados and South African citrus among others.

The airline industry has not been left out as African airlines, RwandAir, Kenya Airways, Royal Air Maroc, EgyptAir, Air Madagascar, Air Mauritius, and AirTanzania, have cancelled flights to China.

The particular case of Angola, analysts say, could be very damaging. Exports to China account for 23 per cent of Angola's GDP, according to data compiled by Renaissance Capital. The longer the fall in oil prices the more devastating it would be for Angola's IMF programme, as the government had put its hope on prices staying at an average of $55 a barrel to help stabilise public finances. Falling oil prices and dwindling demands from China would thus be "a double whammy" to the country.

South Africa is another country that stands to lose a lot according to a study by PwC as China is its largest supplier of imports, and its biggest buyer of exports. On the export side China's steel and copper manufacturing industries rely a lot on South African minerals so the shutdown of industries in China will hit South African minerals exports hard. Another area that may take a hit from the fallout is the tourism sector. Some 95,000 Chinese are reported to visit South Africa yearly, it is estimated that there will be at least more than 15 percent drop in tourist arrivals from China with a "potential loss of R200 million in Chinese tourist spending".

On the supply or import side, quite a number of African countries will be impacted. The telecom sector is one major area that Africa may suffer from greatly. Chinese Telecom giant, Huawei, is a major player on the African continent as far as telecom infrastructure, hardware and software are concerned. In South Africa's telecoms sector one report suggests mobile phones are South Africa's largest import category by value from China, with 85% of South Africa's mobile phone imports. In addition, Kenya, Tanzania, Mozambique and Ghana are other countries that also import large quantities of equipment and machinery from China and the longer the situation continues the more likely they are to be hugely affected.

Manufacturers in Africa whose inputs come from China are not left out. Tsedenia Mekbib, managing director of the Ethiopian operations of Pittards, a UK leather and apparel producer, bemoans the impact on their company's supply chain as they import thread and packing materials from a plant in Tianjin, northern China, but the factory there had not resumed operations since the lunar new year holiday.

"Not much is happening at the moment. Until that is cleared, we're just living off our stock," she added. "Everybody is affected by coronavirus. We are heavily dependent on China for inputs."

At the global level analysts expect a 2% reduction in China's output on an

“For now, health-wise, Africa, may not be seeing huge numbers of those infected by the virus, which is good but the longer the situation persists and the more people that get infected, the more dire Africa’s response mechanism becomes. With dwindling economic fortunes, the continent may find it an uphill task coping with the virus as some of its largest economies may get trapped further and deeper in debt crisis.”

**Decline in commodity prices could lead to fiscal pressures for Africa’s largest economies Making it impossible to respond to COVID-19 crisis**

| | Fiscal Deficit (% of GDP) | Debt (% of GDP) |
|---|---|---|
| Nigeria | -2.6 | 55.8 |
| South Africa | -5.9 | 55.9 |
| Egypt, Arab Rep. | -8.0 | 84.9 |
| Algeria | -7.6 | 46.1 |
| Angola | 0.7 | 95.0 |
| Ethiopia | -2.7 | 59.1 |
| Kenya | -7.2 | 61.6 |
| Cote d'Ivoire | -3.2 | 52.7 |
| Ghana | -5.0 | 63.8 |
| Zambia | -4.6 | 91.6 |
| Mozambique | -6.1 | 108.8 |

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annual basis and this contraction will cause an estimated fall of about US$50 billion in exports across countries, an UNCTAD report has stated. The report continues that with 20 percent of global trade in the manufacture of intermediate products originating from China (up from 4 percent in 2002) it means Chinese manufacturing “is essential to many global value chains, especially those related to precision instruments, machinery, automotive and communication equipment. Any significant disruption in China’s supply in these sectors is deemed to substantially affect producers in the rest of the world.”

The EU and the US are expected to lose $15.6 billion and $5.8 billion, respectively, due to Chinese supply disruptions. These also have implications for Africa with an increasing interlocking global economy and especially as the EU and the US are major trade partners of Africa. The continent will thus be doubly impacted, directly from China and indirectly from the non-Chinese partners who are also dependent on China.

Additionally, China has become a major player in the investment and building of infrastructure in Africa over the last couple of decades. Some of these infrastructure are through loans guaranteed by resource concessions. Angola, Zambia, Guinea and Ghana in recent times are some of the countries that have leveraged their natural resources, especially oil and minerals for infrastructure with the Chinese.

Falling commodity prices, falling demands for the commodities may not only lead to delays in the projects but also more indebtedness to China in the long run. Meanwhile, the many ongoing or about to be launched Chinese projects across the continent may come to a complete halt or be suspended as the millions of Chinese workers on the various projects are either quarantined or could not return after celebrating the Chinese new year at home.

For now, health-wise, Africa, may not be seeing huge numbers of those infected by the virus, which is good but the longer the situation persists and the more people that get infected, the more dire Africa’s response mechanism becomes. With dwindling economic fortunes, the continent may find it an uphill task coping with the virus as some of its largest economies may get trapped further and deeper in debt crisis. Above is a scenario presented by the UNECA of the fiscal pressures some African countries may face.

African countries are net importers of pharmaceuticals and medical products (94 percent, with Europe, India and China 80 percent) and given the financial squeeze they will find themselves challenged in finding resources to fight the pandemic. Unfortunately, with 116 countries affected by the virus and mostly in the developed world help might not be as forthcoming as in the case of other outbreaks like ebola which originated from Africa. Procuring and making basic items like sanitizers, masks, test kits among others available may become a huge challenge to Africa, if the shortages in the developed countries are anything to go by. Inadequate and ill-equipped health infrastructure and personnel as well as non-preparedness to deal with the pandemic are major medium to long term issues that will come from lack of resources.

The economic malaise that has befallen the continent following the outbreak is thus likely to compound its well-known crippling poverty, unemployment, and poor social infrastructure.

** Cornelius Adedze is editor of African Agenda*