Effects of COVID-19 on Trade, Industrialization and Globalization in Africa

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Abstract

This paper examined the potential effects of the global Corona Virus (COVID-19) pandemic on the paths of international trade, industrial development and economic globalization on the African continent. Deploying a purely descriptive analytical approach, a number of submissions are made. One, the pandemic significantly disrupted African trade -on both import and export sides – particularly owing to the closures of ports and other external trade infrastructure in China which is the largest trading partner for most African countries. Two, and somewhat related to the first point, the manufacturing sector that is meant to propel industrialization on the continent was also hard hit especially due to the huge shock to the supply chains of intermediate inputs. Third, since globalizations -on both the economic and cultural fronts- has led to greater interconnectedness, spillovers of the negative shock from China to other parts of the world including Africa is more palpable than otherwise. On the basis of the foregoing, some propositions on the key efforts that should be pursued and intensified are highlighted.

Keywords: International trade in Africa; industrial development; economic globalization; resilience

Introduction

Following the initial infections in China at the end of 2019, the Coronavirus disease (COVID-19) has significantly spread around the world. All continents have fallen victim of this virus, which has registered average fatalities of around 2.3 percent (According to the Chinese Center for Disease Control and Prevention). Approximately 1.7 million deaths have occurred to date, with more than 77 million infected individuals and 54million recoveries across countries and territories worldwide[i].COVID-19 was declared a pandemic by the World Health Organization (WHO)on 11th March 2020 and given its effects on the entire world population and economy, it has become a global emergency. As a result of the effects of the pandemic, global growth was projected to decline by 5 percent by the end of 2020, according to the International Monetary Fund (IMF) scenario simulations. A decline in global growth due to the direct effects of the COVID-19 outbreak is also expected by many other projections (World Bank, World Trade Organization among others). In addition to the direct and indirect effects of the crisis (e.g. supply and demand shocks, the downturn in commodities, the decline in tourism arrivals, etc.), the global economy was projected to enter a recession at least in the first half of 2020.However, as the pandemic advances steadily on the African continent, the economic effects on individual African countries have been less discussed in studies carried out by international organizations. Africa is not, indeed, immunized from COVID-19. According to COVID-19 Surveillance Update[ii]: the spread of the virus has crossed 55 Member States of the African Union, reached -2,728, 602cases, 2,280, 488 recoveries and 64,790 deaths, and no signs of slowing down have been identified (Africa CDC, as of 31st December 2020, 6pm EAT).

Moreover, the outbreak of the Coronavirus has distorted mass production and caused disruptions in supply chain following the closure of ports and borders in China and other developed and emerging economies, triggering universal ripple effects, which transverses every segment of economy in an uncommon “twin supply-demand shock” (OCED, 2020). Economies in Africa like elsewhere in the world have been severely affected by the outbreak. The demand for commodities and raw materials in Africa by China, Europe, America and other Asian economies have declined on the one hand, and the accessibility to manufactured goods and industrial components by African countries from China and other parts of the world have been disrupted on the other hand. Further, this has added to the vulnerability in a region that is at present contending with prevalent economic and geopolitical insecurity.

The Coronavirus has negatively impacted international trade since its inception in December 2019. The African continent has been severely affected by COVID-19, as China represents Africa's major trading partner. Following the closure of the manufacturing sectors and ports in China and other regions of the world, there has been a consequential fall in demand for raw materials and commodities in Africa. This resulted from cancelation of orders by importers from China and other regions following the drop in consumption and as a result of border closures, and exporters of commodities in Africa are also hindered by the imposition of lockdowns. It is documented that more than 75 percent of exports from Africa to China and other parts of the world are concentrated on natural resources and any fall in demand is detrimental to the economies in Africa (ibid). For example, economies such as Algeria, Angola, Cameroon, Chad, Democratic Republic of Congo (DRC), Equatorial Guinea, Ghana, Nigeria, South Sudan and Zambia are vulnerable to risk in terms of raw commodities exports, including aluminium, coal, cotton, copper, crude oil, iron ore, rubber, etc., to America, Asia and Europe. Exports of crude oil account for a significant proportion of GDP for a number of crude oil exporting African Countries. Africa's top two largest oil producers, Angola and Nigeria, account for over 90 percent of foreign exchange earnings, with over 70 percent of government budget (OECD, 2020). The fall in oil prices occasioned by COVID-19 exacerbated the unavailability of exports earnings for economies within the Regional Economic Communities (RECs); e.g. Economic Community of West African States (ECOWAS) and Economic Community of Central African States (CEMAC), which further caused the devaluation of the CFA Franc. For example, the Nigerian government revised its 2020 budget due to oil price decline.[iii]

In a related way, the manufacturing sectors have been severely impacted by the by COVID-19 aftermath. Because of the nature of the global supply chain system, factory closures increase the risk of disruptions in supply chain for international firms. This arises from the created scarcities of raw materials, delays, rise in costs and cancelation of orders affecting global manufacturing plants. In terms of imports from other regions of the world into Africa, more than 50 percent of Africa's collective requirements are made up of transport and manufacturing equipment and industrial machinery (OECD, 2020). Also, imports from China and other regions of world account for over 50 percent of aggregate volume of imports to countries in Africa – key suppliers being Europe (35 percent), China (16 percent) and Asia including India (14 percent) (OECD, 2020). Hence, COVID-19 induced disruptions have led to drop in the availability of manufactured goods imported from China and other regions into Africa.

In addition, the emergence of globalization has brought about economic and cultural development of different regions of the world, including Africa (Berlinguer, 1999). Growth in urban centres and universal integration of the economies of the world has aided worldwide interconnectedness (Wu, *et al*., 2017). Thus, this global connectivity that typifies globalization is a cause of many economic gains for several economies in Africa (Yaya, Out and Labonte, 2020). However, movements and trade, which are critical constituents of globalization, contribute considerably to the distribution of contagious diseases (Shresha, Shad, Ulvi, *et al*., 2020). Moreover, following the outbreak of Corona virus, there have been disruptions in Africa's global supply chains in the face of plummeting crude oil prices and dropped in international demand for non-oil commodities in Africa, resulting to increased risk to the already unstable economic conditions of the region (Yaya, *et al*., 2020).

Therefore, it is necessary to evaluate the effects of COVID-19 on trade, industrialization and globalization, given that the pandemic is at an advanced stage in Africa and that strong precautionary steps need to be taken by African countries due to a second wave in Asia, Europe and North America. As well as being very extroverted and vulnerable to external shocks, African economies remain informal. The study assesses the possible effect of the pandemic on the different aspects of the African economies. Because of the challenge of quantifying the actual effects of the uncertainty, the rapidly changing nature of the pandemic and the data shortage, our work focuses on identifying the potential socio-economic impacts of the crisis in order to propose policy recommendations to respond to the crisis. This is done with full recognition that the coronavirus pandemic with all its ravaging effects presents opportunity for recovery and resilience. The lessons learned from the study will provide further insight into the path forward as the continent is in a crucial phase of the African Continental Free Trade Area (AfCFTA) implementation.

Context (macro variables and trends)

The COVID-19 pandemic this year has devastated Sub-Saharan Africa (SSA), possibly contributing to the sharpest contraction in activity on record. In addition to its heavy toll on health and safety, attempts to curb the spread of the virus have disrupted the functioning of domestic economies, such as travel bans, border closures, and national lockdowns. Moreover, the sharply lower growths of the major trading partners, as well as the fall in commodity prices, have heavily affected exports. While growth is projected to recover in 2021, given the vulnerability of its health care systems, the compressed fiscal policy space and its limited capacity to effectively implement social distancing initiatives, the region is particularly vulnerable to a larger and longer-lasting downturn. Given high debt levels and significantly higher borrowing rates, it is also at risk of debt distress. In the first half of 2020, activity in SSA came to a grinding halt. The COVID-19 pandemic spread rapidly across the region, taking a heavy human and economic toll causing an unparalleled disruption to regional economic activity. In many industries, social distancing initiatives adopted in most countries to restrict the spread of the pandemic and relieve burdens on frequently vulnerable health systems brought activity close to a halt. In addition, as a result of the effect of the pandemic on key trade partners, the disruption of global travel and supply chains, and the near collapse of global commodity prices (Figure 1), particularly oil and industrial metals, African economies have immensely suffered.

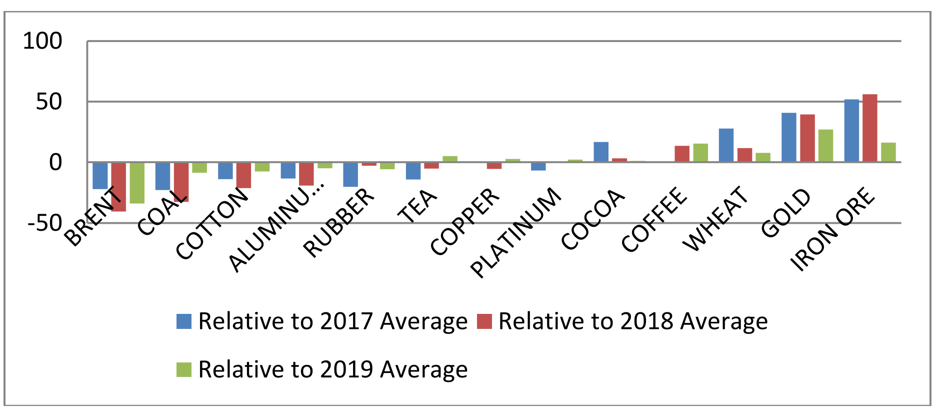

Figure 1: Commodity prices (percentage change)
Source: computed by authors' with data from World Bank Pink Sheet

The impact of these shocks has been compounded by increased investor risk aversion, which has sparked the region's unprecedented capital outflows, currency depreciation dislocations, dramatic stock market declines and significantly higher sovereign borrowing costs (Figures 2).

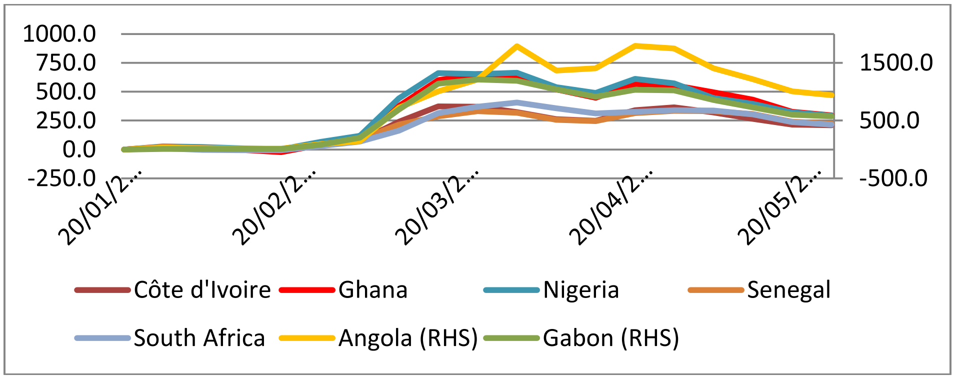

Figure 2: Change in sovereign borrowing costs in 2020
Source: J. P. Morgan
Note: Variation in Emerging Markets Bond Index spreads since 01/20/2020 (Basics points 0 = 01/20/2020). Angola and Gabon are on the right-hand side, while the other countries are on the left-hand side.

Further, activity in the region was projected to contract by 2.8 percent in 2020 as a consequence of these extreme economic stresses, the sharpest contraction on record and 5.8 percentage points weaker than previous projections (Table 1).

Table 1: GDP growth (percentage)

		Sub-Saharan Africa	Nigeria and South Africa	Industrial-commodity exporters	Agricultural commodity exporters	Commodity importers	Downward scenario	2000-19 average
Sub-Saharan Africa	2018	2.6						4.5
	2019	2.2						4.5
	2020	-2.8					-5.2	4.5
	2021	3.1					2.2	4.5
Nigeria and South Africa	2018		1.4					4.1
	2019		1.2					4.1
	2020		-5.1				-7.7	4.1
	2021		2.2				0.7	4.1
Industrial commodity exporters	2018			1.6				4.8
	2019			1.6				4.8
	2020			-2.5			-7.8	4.8
	2021			2.5			3.5	4.8
Agricultural commodity exporters	2018				6.3			5.2
	2019				5.1			5.2
	2020				1.8		-0.2	5.2
	2021				5.5		4.8	5.2
Commodity importers	2018					4.3		3.6
	2019					3.1		3.6
	2020					-5.2	-6.8	3.6
	2021					5.3	1.2	3.6

Source: World Bank

The decline in GDP growth will be followed by a decline in the per capita income growth which is likely to be much deeper, causing millions to fall back into severe poverty in the region (Lakner *et al.,* 2020). Growth in the region is projected to recover to 3.1 percent in 2021: this will likely be achieved given that vaccines development and onward distribution will reach advanced stage in 2021. The expected pick-up assumes that by the second half of 2020, the pandemic will have diminished, that the region's domestic outbreaks will follow a similar course, and that growth in the major trading partners will recover. Another classic assumption for the projected growth rate is that vaccines development would have reached an advanced stage and available for vaccination in Africa by 2021. The vaccination would ensure that there is minimal disruption to economic activities. It is also expected that commodity prices will rebound but remain below 2019 levels. In SSA, however the progression of the pandemic is particularly difficult to predict, as the region faces major barriers to containing the virus. These include poor, dysfunctional and underfunded health care systems, about 2 percent of government per capita expenditure on health care of advanced economies, and lack of access to basic sanitation (Walker *et al.,* 2020). Fiscal deficits are projected to deteriorate sharply in the region this year, doubling to about 5 percent of GDP on average. Increased public spending to help reduce the transmission and economic consequences of the virus is reflected in larger deficits, sharp drops in revenue as mitigation and other control measures have dampened activity, higher interest payments and in some cases, the impact on government revenue of weaker exports.

Effect on the Sustainable Development Goals (SDGs)

When the 2030 Agenda for SDGs was adopted by world leaders in 2015, they committed themselves to a shared vision of setting the world on a sustainable path for people, the planet, peace, partnership and prosperity (UN, 2015).Although there was significant progress in some areas, the COVID-19 pandemic has disrupted efforts to achieve the 2030 SDGs in just a brief period of time. The global community is in an unprecedented situation where parallel threats from health, economic and social crises have left countries struggling to contain the epidemic and provide the many people affected by the associated macroeconomic downturns with immediate financial relief. The pandemic threatens to undo years of progress in the categories of hunger, starvation, health care and education. Although the virus has affected all countries, the world's poorest and most vulnerable people are the most affected by it. COVID-19 is threatening to reverse the progress of SDG 3, which is aimed at ensuring healthy lives and well-being for all. Many countries stopped child vaccination programs during the crisis, and health services for cancer screening, family planning, or non-COVID-19 infectious diseases were interrupted and neglected.

The world was off track to end poverty under SDG 1 even before COVID-19 by 2030, with projections suggesting that 6 percent of the global population would still be living in extreme poverty by 2030 (UN, 2020). Currently, because of COVID-19, an estimated 71 million additional individuals may be living in extreme poverty[iv]. Although income inequality in some countries has been widening, in the wake of the pandemic, a global economic recession could push millions back into poverty and exacerbate inequality. The pandemic is hitting the most vulnerable groups hardest, threatening SDG 10. Additionally, before COVID-19, the population affected by food insecurity had risen between 2014 and 2018, the ambition under SDG 2 to end hunger was faltering, but the COVID-19 crisis has added to the pressure on output, supply chains, and household incomes, with the poorest being most affected. Over 2.2 billion people live without clean drinking water and the COVID-19 crisis has demonstrated that billions of people lack access to sanitation. Also, the mitigation of climate and land-use change is intrinsically related to resolving global hunger and water and food shortages. However, in an effort to recover quickly, countries may pay less attention to climate change related issues. This is something global leadership should address.

The SDG 4's goal of ensuring comprehensive and equal access to education is also likely to be overlooked, with an estimate that by 2030, more than 200 million children will still be out of school. During the COVID-19 epidemic, most of the world's children were deprived of formal education, a legacy that could challenge the underlying desire of the SDGs to leave no one behind. With fewer girls being pushed into early marriage and more women taking leadership positions, the world has made progress on SDG 5's gender equality targets. During the COVID-19 epidemic, however, women's well-being suffered, with incidences of domestic abuse rising by 30 percent in some countries and a greater demand for unpaid care work for women (ibid). Eventually, without international cooperation, reaching the SDGs will be impossible. SDG 16 to promote peace and security from violence and SDG 17 to strengthen international partnerships could be threatened by the political tensions stoked by COVID-19 and a trend towards hardening national borders. Whereas multilaterals are the chosen vehicle to handle these challenges, the world is at the lowest in the last seven decades in global approaches to global challenges in the wake of unilateralism.

African continent experience with trade and regional integration

The genesis of regional integration in Africa can be traced to the continent’s colonial legacy: a continent left fragmented, with geographically scattered, small populations and long distances between capitals, compounded by landlockedness and inadequate infrastructure (Ancharaz, 2020). This gave rise to a political rhetoric about rebuilding Africa, consolidating unity, achieving self-reliance and ensuring peace and security. The leaders of the emerging African independent states in the later 1950s and early 1960s recognized that cooperation and integration among African countries was a must especially in the economic, social and cultural spheres. This would help to overcome the ensuing challenges and accelerate transformation and sustained development of the African continent. The formation of the Organization of African Unity (OAU) significantly contributed to this goal.

In 1980, the OAU extraordinary summit adopted the Lagos Plan of Action as a major step towards the goal of integration (OAU, 1980). The commitments in this Plan and the Final Act of Lagos were translated into concrete form in Abuja, Nigeria in June 1991 when the OAU heads of states signed the treaty establishing the African Economic Community (AEC) during the 27th ordinary session of the assembly (OAU, 1991). The Abuja treaty came into force after the requisite numbers of ratification in May 1994. It provided for the AEC to be set up through a gradual process, which would be achieved by coordination, harmonisation and progressive integration of the activities of existing and future Regional Economic Communities (RECs) in Africa, which were regarded as the building blocks of the AEC. Like its predecessor, the AEC aimed to promote economic, social and cultural development as well as African economic integration in order to increase self-sufficiency and endogenous development and to create a framework for development, mobilisation of human and material resources.

African regional integration processes and progress (the FTAs and AfCFTA)

The implementation of the Abuja Treaty is a process that is intended to be achieved in 6 stages over 34 years, i.e. by 2028, as follows (Ancharaz, 2020): (i) strengthening existing RECs and creating new ones; (ii) stabilisation of tariff and other barriers to regional trade and strengthening of sectoral integration, particularly in the field of trade, agriculture, finance, transport and communication, industry and energy, as well as coordination and harmonisation of the activities of the RECs; (iii) establishment of an FTA and a CU at the level of each REC; (iv) coordination and harmonisation of tariff and non-tariff systems among RECs, with a view to establishing a continental CU; (v) establishment of an African Common Market (CM) and the adoption of common policies; and (vi) integration of all sectors, establishment of an African Central Bank and a single African currency, setting up of an African Economic and Monetary Union and creating and electing the first Pan-African Parliament. According to (ibid) the first stage has now been accomplished, with eight RECs officially recognized by the African Union (AU). The second stage has not been fully completed because progress by the RECs and by members within the RECs has been uneven (UNECA, AU, and AfDB, 2017). The third stage is still work-in-progress in some RECs. Currently, the integration process is somewhere between stages 3 and 4. Although a continental free trade area (CFTA) did not feature explicitly in the Abuja Treaty, it is now seen as a logical step along the way to a continental CU and negotiations on it started in June 2015.

In terms of progress Ancharaz, (2020) observes that, due to varying levels of ambition and implementation, all the eight AU-recognized RECs have registered delays in reaching key milestones. He notes that four of the RECs[v] - EAC, ECOWAS, COMESA and SADC have made important progress at regional integration, while the remaining four (IGAD, AMU, CEN-SAD, and ECCAS) are struggling with the very first step in the process. Notwithstanding this progress, among the more successful initiatives, progress has been slow and erratic. The EAC has made significant strides in a relatively short period following the launch of its CU in 2005. Details are in Table 2.

Table 2: Regional integration index and its components

	Integration					Free people
	Regional	**Trade**	**Productive**	**Macro-economic**	**Infrastructure**	**movement**
Africa	0.33	0.38	0.20	0.40	0.22	0.44
SADC	0.34	0.34	0.24	0.42	0.21	0.49
IGAD	0.44	0.44	0.32	0.42	0.48	0.54
AMU	0.49	0.48	0.45	0.57	0.51	0.44
CENSAD	0.38	0.38	0.26	0.44	0.30	0.51
ECOWAS	0.43	0.44	0.22	0.47	0.30	0.73
ECCAS	0.44	0.36	0.32	0.68	0.37	0.47
COMESA	0.37	0.44	0.33	0.37	0.32	0.39
SACU	0.37	0.64	0.33	0.33	0.31	0.17
EAC	0.54	0.44	0.43	0.66	0.55	0.66

Data source: Africa Regional Integration Index web page (https://www.integrate-africa.org/reports-data/download-the-data/)
Note: Arab Maghreb Union (AMU)

Community of the Sahel-Saharan States (CEN-SAD); Common Market of Eastern and Southern Africa (COMESA); East African Community (EAC); Economic Community of Central African States (ECCAS); Economic Community of West African States (ECOWAS); Inter-Governmental Authority on Development (IGAD); Southern African Customs Union (SACU); Southern African Development Community (SADC).

Its CM Protocol entered into force in July 2010, and the protocol for the establishment of a monetary union was signed in November 2013. Its average intra-regional trade share is 19 percent, which is the highest among the Africa's economic blocs. The economic integration composite index based on five dimensions[vi] demonstrates that the EAC is the best performer among all RECs, followed closely by ECOWAS (ibid). At the other end, CEN-SAD and COMESA post the lowest scores. The other 4 RECs are not markedly different in ranks. There are significant variations across all RECs in the key drivers of regional integration. Although the EAC ranks the highest on trade integration, it has the lowest degree of macroeconomic integration among all RECs and ECOWAS leads both on macroeconomic integration and on the free movement of people even if it is among the poorest performers on trade integration.

The AU adopted the Action Plan on Boosting Intra-African Trade (BIAT) in 2012, which identifies seven trade action clusters AUC (2012):(i) trade policy; (ii) trade facilitation; (iii) production capacity; (iv) trade infrastructure; (v) trade finance; and (vi) trade Information. The trade cluster specifically aims at addressing challenges, including the absence of a continental framework for facilitating intra-regional trade, high tariffs between AU member states, overlapping membership in RECs, and lack of diversity in its exports base (AUC, 2012 &Ancharaz, 2020). Agenda 2063 is partly a response to these challenges. It provides a shared framework for inclusive growth and sustainable development for Africa to be realized over the next fifty years. The AfCFTA is thus in its initial stages with negotiations on trade in goods and services and settlement of dispute concluded. The second phase of the negotiations focuses on investment, competition policy, intellectual property rights, and e-commerce. The broad scope of the AfCFTA negotiations, stretching far beyond conventional WTO issues, suggests that the AfCFTA is more than a trade agreement. It is rooted in the idea of development regionalism and promises to deliver wider benefits (Ancharaz, 2020).

Africa's marginalization in world trade

Africa experienced a massive increase in its total merchandise exports during the past half-century, reaching an average of half a trillion US dollars in 2018. Notwithstanding this progress, the continent's share of world exports is still relatively low (Figure 3).

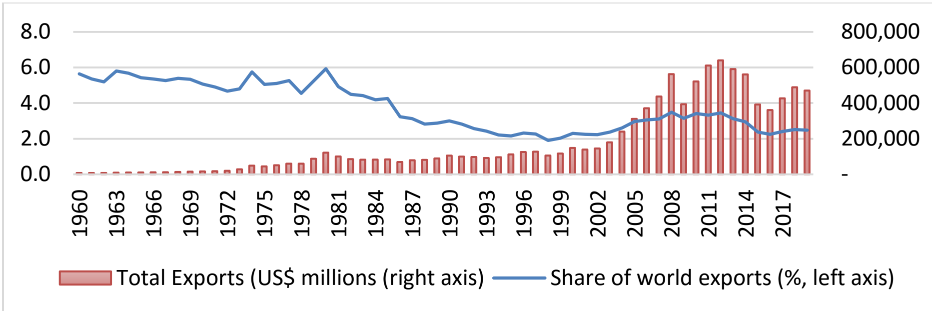

Figure 3: Africa's merchandise export, 1960 – 2018 (US$ millions)
Data Source: UNCTADStat

This share stood at 2.5 percent in 2018, lower than Africa's share of global GDP of 3 percent, and way below the continent's share of world population of 17 percent (Nicita and Rollo 2015). Moreover, Africa' exports remain concentrated in a few unprocessed primary commodities as given in Figure 1.Thus, export will only improve during this pandemic when there is recovery of major trading partners' economies. More so, the progress in covid-19 vaccine will determine to a large extent, the improvement in the global production which Africa's export can benefit from. Note that Africa's performance is already dismal and any recovery will start from a weak base of a very insignificant global share.

Figure 4 shows trends in intra-regional trade share among African RECs and for Africa as a whole. It should be borne in mind that these statistics largely exclude informal trade which is rarely captured and included. It is observed that intra-Africa trade increased steadily to a peak of 18 percent in 2016, but is on a downward trend since then. It averaged 12.5 percent over the period 1995 -2019. The trends confirm that the EAC is the best performer among African RECs, with an average trade intensity of 19 percent. However, it is observed that SADC remarkably increased from 14 percent in 1995 to 20.2 percent on intra-bloc trade in 2019. This spike in the growth of intra-bloc trade especially happened after the 2005 when the SADC Trade Protocol entered into force. Although SACU has a lower average of 8.3 percent its performance also drastically improved from 2010. The IGAD and COMESA also show decent performances, with rising intra-bloc trade over the past two decades. When compared with intra EU trade, this is extremely low given that in 2019, most EU member states had a share of intra exports between 50 and 75 percent.

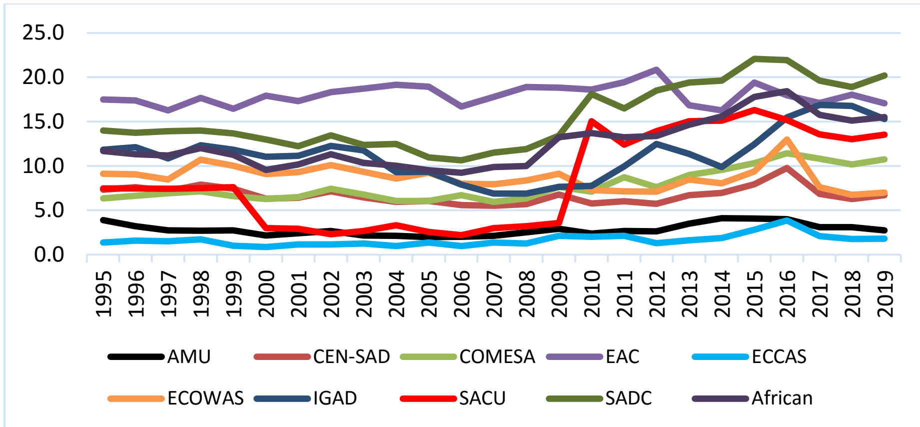

Figure 4: Intra-bloc trade (%), 1995-2019
Data source UNCTAD Stat

ECOWAS maintained an average of 8.7 percent with AMU dismally performing at an average of 2.8 percent. The last performer is ECCAS with the proportion of intra-bloc trade hardly exceeding a 2 percent mark.

Africa's experience with industrialization

Africa's experience with industrialization over time has been rather disappointing. In 2010 the average share of manufacturing in GDP for SSA was 10 per cent, similar to that in the 1970s and only improved to 12 percent recently (Newman *et al.,* 2016). Africa's share of global manufacturing fell from about 3 per cent in 1970 to less than 2 per cent in 2010 and this has not significantly changed at a time when the Asian countries have made significant milestones[vii]. Manufacturing output per person is about a third of the average for all developing countries and manufactured exports per person are about 10 per cent of the global average for low-income countries (Ibid). This is partly because there has been limited structural transformation, a shift of resources from lower productivity to higher productivity sectors as argued by Lewis (1954) &Chenery (1986).

Figure 5 shows Africa's manufactures export trade as proportion of GDP (average 2000 - 2019). At the global level, countries exported manufactured merchandise worth 61.3 percent of the GDP with East Asia having the highest at 73 percent, followed by the EU (70 percent), South Asia (63 percent), the Latin American and Caribbean (42 percent) and Africa's was only 18.4 percent. This explains the limited earnings from exports and the limited technology intensity in the continent's exports composition. On the other hand, Africa's manufactured imports as a proportion of GDP between 2000 and 2019 averaged 58 percent, within range to the other regions. The analysis thus suggest that the continent is a net exporter of commodities and has high propensity to import manufactured products.

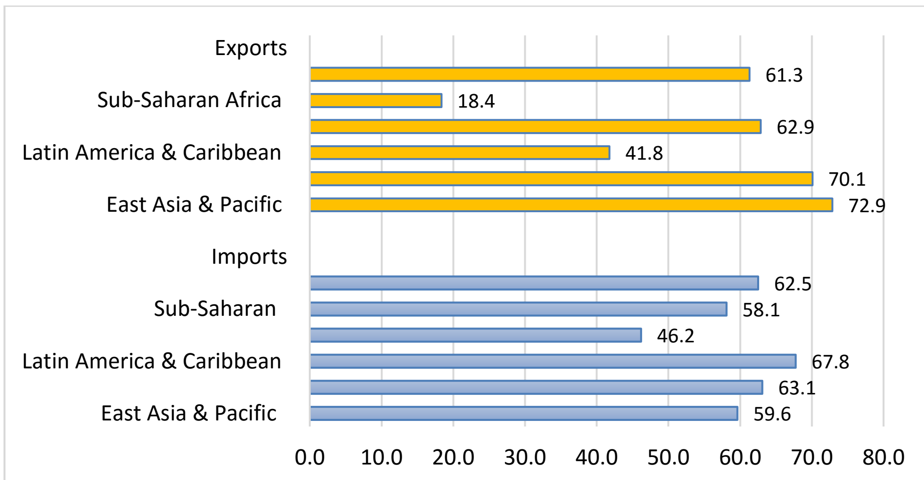

Figure 5: Manufactures trade (exports & import) as proportion of GDP (average 2000 - 2019)

Data source World Development indicators

This weak performance on the side of the African content in industrialization is further revealed by the comparatively poor manufactured value added as proportion of GDP as illustrated in Figure 6. Whereas the global average between 1991 and 2019 was 16.6 percent, Africa's was 12 percent. The rest of the regions were between 15 and 16 percent. Therefore, it can be argued that the SSA region has the least manufacturing value added which is a demonstration of lower levels of industrialization.

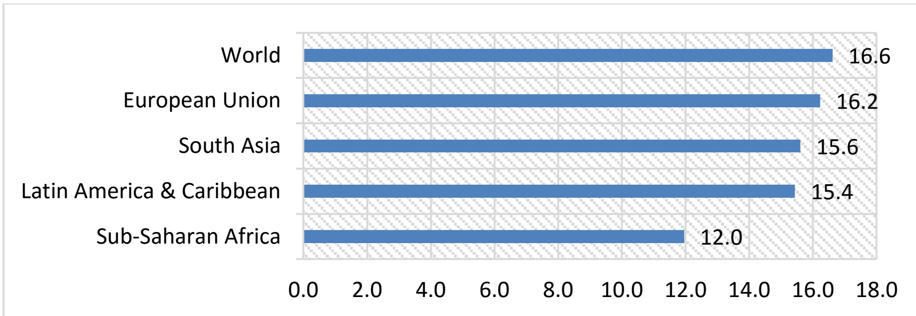

Figure 6: Average manufacturing value added (% of GDP) 1991-2019
Data source World Development indicators

The likely impact of COVID-19 on all these key variables and processes

The COVID-19 pandemic is expected to adversely affect African economies. A World Bank (2020a) report projects that, economic growth in SSA will decline from 2.4 percent in 2019 to between -2.1 and -5.1 percent in 2020, depending on the success of measures taken to mitigate the pandemic's effects. This implies that the region is likely to undergo its first recession in 25 years. Inevitably Africa's participation in trade and value chains as well as foreign financing flows will be adversely affected. Africa's participation in global trade stands between 2 and 3 percent, intra-African exports are about 16 – 18 percent much lower compared with 68.1 percent in Europe, 59.4 percent in Asia, 55.0 percent in America (ibid). According to UNCTAD (2019), in the period of 2015-2017, total trade from Africa to the rest of the world averaged US$760 billion in current prices. Despite its late arrival, the COVID-19 virus has spread rapidly across SSA and it is estimated to cost the region between US$37 billion and US$79 billion in terms of output losses for 2020 (Espitia, Rocha, and Ruta, 2020). The COVID-19 crisis is also contributing to an increasing food insecurity in the continent as currencies are weakening and prices of staple foods are rising in many parts of the region. This is compounded by the rise in export restrictions in some countries (ibid) and other existing crises in many countries, including the desert locust emergency, drought, climate change, fragility, conflict, violence, and underdeveloped food markets. The COVID-19 crisis has the potential to create a severe food security crisis in Africa. Food imports also declined substantially (from 13 percent to 25 percent) due to a combination of higher transaction costs and reduced domestic demand (ibid).

The COVID-19 pandemic is likely to significantly interfere with this status quo in production (Zeng, 2020). Following the mass production shutdowns and supply chain disruptions, there will be ripple effects across all global economic sectors, causing further uncertainty for a continent already grappling with widespread geopolitical and economic instability. It is envisaged that with China, Africa's largest trading partner, and other major economies gradually reopening their economies, Africa's trade will gradually pick up, however, the path might not be that smooth at least for the foreseeable 1-2 years (UNCTAD, 2019). The pandemic has severely affected industries and economic fundamentals (e.g. demand, supply and production) in Africa and globally (Hartzenberg & Chidede, 2020). The impact of COVID-19 has swept across all sectors, especially tourism, sea, air and road transport, freight forwarding, logistics. Travel and trade restrictions disrupted international production networks and value chains. To exacerbate this, the demand for and prices of African raw materials and commodities declined significantly affecting the continent's commodity-dependent countries (see figure 1). Access to industrial components and manufactured goods from Europe and Asia got hampered, slowing production processes. Given the lower global demand and containment measures both at home and abroad, SSA industries have been heavily impacted. The ensuing low global demand has reduced key industrial inputs and outputs, leading to industrial firms simultaneously experiencing a drop in domestic sales and exports. This has directly negatively affected the demand for labour. This is the case when households are restricted in their economic activity; providing less labour and consequently receiving less income from labour, businesses and remittances. This reduces aggregate demand as less consumption takes place due to their decreasing purchasing power. The impact on local industries thus increases income and food insecurity.

Africa largely exports primary commodities in exchange for imports of consumer, capital and intermediate goods. During the pandemic, this situation has resulted into widening trade deficits and debt dependence. Although Africa heavily depends on FDI, debt and aid, by global standards their ratios are quite dismal. According to the UN (2020), SSA FDI share is declining compared to other regions. Whereas FDI flows to the region compared to those for all LDCs fell by 50 per cent between 2015 and 2018, it is expected that with COVID-19, FDI flows will drop further (ibid). According to the World Bank (2020a), in 2010, SSA's total external debt stock (excluding high-income countries) was around USD 300 billion and by 2018, it had doubled to USD 600 billion. The SSA region is also distinct with regard to the dependence of its households on income from the informal sector and on remittances. Due to COVID-19, the incomes of SSA households are also likely to decrease due to less money being sent home by migrants who themselves are facing reduced incomes in the host countries. The COVID-19 effects on the economy of the United States, China and high-income countries in the Middle East and Europe, are likely to reduce remittances to sub-Saharan Africa by 23.1 per cent (World Bank 2020a) from USD 48 billion in 2019 to USD 37 billion in 2020.

The importance of industrialization in the growth process has been widely acknowledged in the literature (See, for example, Bertrand and Osborne, 1959; Maddison, 2001 & 2007; Szirmai, 2008 among others). According to Szirmai (2008), many industries in some developing countries have benefitted from the imported manufacturing products which have led to the process of rapid catch up. However, coronavirus pandemic has started changing this narrative due to mass production shutdowns and distortion of the supply chain in the developed and emerging economies such as China, US, France, the United Kingdom, among others. This has hindered Africa's access to industrial and manufactured products from these countries.

In recent times, there has been a greater role for globalization in the world economy. The increasing level of urbanization and closer interaction of the world economy has accelerated global interdependence (Wu et al., 2017). The necessity for travel, trade, health, and among others has transformed the globe into one global community. Since globalization facilitates the mobility of people from one location to another, the emergence of a pandemic such as COVID-19 will cause a serious problem for the global community. To prevent the spread of COVID-19 across countries and regions, many countries started introducing travel and trade restrictions worldwide which greatly affected globalization and eroded its associated benefits. As different regions feel the enormous burdens imposed by the pandemic, the situation is not also different in the African region. It is a common knowledge that the African region was enjoying the benefit of globalization in its economy, especially, in the hospitality industry and tourism sector during the pre-pandemic period. This sector is one of the fastest-growing sectors and a key driver of growth in many African countries. More so, its labour-intensive requirements make it a key source of employment in the African region. For instance, tourism expenditure accounts for 38 percent and 26 percent of the GDP of Seychelles and Cape Verde (UN-WTO, 2020). Thus, one could imagine the devastating effect of the pandemic on the sector. The hospitality industry was also badly affected as globalization serves as the key driver of the industry. Amidst the travel restriction, hotels, transportation services airline services, conference centres among others have a shutdown. Unfortunately, UNCTAD (2020) posited that normalcy in the tourism sector within short-term will be difficult. Further, employment opportunities, scholarship, and schooling that are facilitated by globalization have been negatively impacted due to the pandemic. With the second wave of the pandemic occurring in the European countries and the United States, globalization benefits may be eroded if adequate measures are not in place and this will put African countries in a difficult position. The inherent socio-economic problems may worsen over time.

Recent global trends in handling challenges with COVID-19 in perspective

Since the founding of the UN, 75 years ago, the birth of multilateralism took centre stage at different layers to guide the world to develop, establish and implement common positions to global issues. However, this common approach has faced the greatest erosion over time and more especially in the last decade leading to what is referred to as unilateralism (Brundtland, 2020). The emerging choices between multi-literalism and unilateralism pose a significant threat to responding to global problems like COVID-19. Multilateralism and respect for a global rules-based system is responsible for peace, security, health and prosperity across the world. The world needs stronger multilateralism to tackle its toughest challenges, from climate change and poverty eradication to abuses of human rights and arms proliferation, and now COVID-19 pandemic. However, it is noted that its efforts cannot be at the expense of respect for national sovereignty, a bedrock principle of the Charter of the United Nations, (UN, 2019).

According to Fowdy (2020), the USA in the last four years has withdrawn from the UN Joint Comprehensive Plan of Action Treaty, the United Nations Human Rights Council (UNCHR), the United Nations Educational, Scientific and Cultural Organization (UNESCO), as well as the WHO, the Paris Climate Accord, and many more international treaties. Other areas where the USA has pursued unilateralism include literally disabling the WTO by blocking the appointment of judges on the Appellate Court, blocking the appointment of the WTO Director General to pulling out of the Intermediate-Range Nuclear Forces and Open Skies Treaties. America took a decision to withdraw from WHO at a time when tackling a global COVID-19 pandemic is critical and this is the latest assault on multilateralism (Brundtland, 2020).COVID-19 is leaving a devastating cost, first and foremost in human lives, but also in terms of economic growth, political momentum, and social inequality. It is noted that the lack of USA leadership on COVID-19 has significantly contributed to the weak multilateral response to the pandemic. This has led to national leaders turning inwards in response to the crisis and not prioritizing multilateral coordination. It is noted that the pandemic has come at a time when the pre-existing crisis of multilateralism has made it extremely difficult for leaders and institutions to respond effectively and save lives. The virus is likely not to be overcome unless all states work together, pooling resources and expertise to strengthen health systems, develop and distribute an effective vaccine, protect health workers, and provide the necessary care to all who need it in society. According to Serbin (2020), the post-pandemic is likely to worsen the already existing transition trends in the international order prior to the outbreak of COVID-19. The ultimate outcome is the deepening of the crisis of globalization and global governance, on the response capacity of multilateral institutions and on international readjustments of power relations. The quest for economic recovery from COVID-19 is likely to risk worsening the situation if countries do not publicly commit to a resilient and climate-conscious recovery and instead pursue short-term economic gains through environmental deregulation.

In essence, African countries must take lessons from this current global pandemic by developing strong internal mechanisms that are strong enough to address future global emergencies. Unfortunately, almost all African countries relied heavily on developed countries and WHO to address the economic cost of this pandemic. This has wreaked havoc to the fragile economies in the African region. Thus, African Union and the RECS need to strategically and strongly step in to coordinate countries to develop strong frameworks for resilience and disaster management to swiftly response to future emergencies that can threaten individual country or the region as a whole.

Conclusion and Recommendations

The occurrence of the COVID-19 has necessitated many countries, regional bodies, and multilateral corporations to introduce different measures to address the ongoing health and the consequent economic crisis. The African region is not left behind in the ongoing efforts to address the economic and socio-economic challenges posed by this pandemic. It is observed that African economies are in danger of even further marginalization as a result of de-globalization. What does this mean for the African continent to recover and steer clear on the path of African resilience at a time when multilateral approaches seem to be waning and resources are glaringly scarcer? The process of recovery will be defined by the degree of resilient that the continent possesses. As noted in the discussion, the integration of Africa seems to have most of the answers as long as the continent achieves increment in intra-continental trade and pursues a path of industrialization. Resilience will not come from aid and handouts from the developed world but internal transformation of the African economy and building the requisite institutions that will cushion the continent from further shock. Some of the key efforts that should be pursued and intensified are highlighted as follows:

- African countries such will have to put in place robust policy responses, especially with strong support from Africa's development partners. There will be need to prioritise healthcare spending for the provision of essential personal protective equipment (PPE) and materials, acceleration of local production of medical supplies, vaccine and drug discovery. Specifically, Nigeria and other countries need to increase budgetary allocation to 15 percent for strong and efficient healthcare system to address unforeseen health emergency in the future.
- Promoting intra-regional trade by taking steps to ensure realization of the AfCFTA. This is critical at this point as intra-African trade can foster quick recovery of the economies in the region. If the AfCFTA is pursued rigorously, then economic recovery of the region will be guaranteed through increased productivity and rejuvenation of value chains as well as ensured economic resilience towards uncertainty.
- Industrialization of the African continent is a must, and it should be embedded in the regional integration process at both the continental and RECs levels. Key policy actions could include pursuance of technology transfer and adoption, technology innovation[viii] development of strong value chains, attraction of FDI, ensuring that

trade facilitation is addressed to reduce trade flow impediments, development of essential and supportive infrastructure, strengthening and putting in place strong institutional frameworks, facilitating and development of and access to appropriate industrial skills among others. African countries should explore their inward potentials to boost indigenous industrial activities and local content as well as relaxation of restrictive trade policy which can foster regional integration in Africa. This will increase value addition, intra-regional trade and improve the trade balance.

- Effective and efficient use of external stimulus packages from the AfDB, World Bank, IMF and EU in addition to internal stimulus package from African governments that will go a long way to address some of the economic repercussions of the global pandemic.
- There is also the suspension of fiscal deficit rule in a sub-regional block like West African Economic and Monetary Union (WEAMU) for members to borrow to more than 3 percent of GDP to fund their stimulus packages. Other African countries should take cue from WEAMU by allocating substantial amount to fund the stimulus packages that will adequately capture the small and medium enterprises which serve as the backbone of many African economies. During this period, countries have opportunity to document several informal businesses to them to benefit from stimulus packages.
- Amidst the limited resources envelope, there will be a need to implement targeted cash transfers and subsidies for vulnerable households and extend subsidies and tax relief for businesses. Though, many countries such as Nigeria, Togo, South Africa, Burkina Faso, Botswana, Mali, and Ghana among others, rolled social relief programmes but only few countries recorded significant progress due to lack of reliable data. Thus, African countries must learn for this and begin collection data on their citizens for future planning. More so, the central banks should inject liquidity into the economies to stimulate economic activities in the African region.
- There is need for countries to use this occurrence in the longer term, to build resilience to future crises. As good times return and economies get back on track, it should become a priority to build domestic and external buffers against any potential exogenous shocks. Hence, African countries should improve its domestic resource mobilization by ensuring strong and efficient tax system, increase value addition of the primary commodities, reduce unproductive debt accumulation, and build strong institutional framework.

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[i](WHO) Situational Report 22 December 2020, 09:00 pm GMT).

[ii]28th December 2020 9:00pm CDC in Africa

[iii]In 2020, the budgets forecast for Nigeria were based on US $57 per barrel; this was revised to US $28/barrel (NBS, 2020).

[iv]https://www.un.org/development/desa/en/news/sustainable/sustainable-development-goals-report-2020.html

[v]RECs: AMU= Arab Maghreb Union; CENSAD= Community of Sahel-Saharan States; COMESA=Common Market for Eastern and Southern Africa; EAC=East African Community; ECOWAS=Economic Community of West African States; ECCAS=Economic Community of Central African States; IGAD= Inter-Governmental Authority on Development; SADC= Southern African Development Community; and SACU= Southern African Customs Union;

[vi]The Index ranks the level of integration of African countries within their respective RECs and also with the rest of the continent. It scores across five key dimensions: trade integration, productive capacity, macroeconomic policy, regional infrastructure, and free movement of people.

[vii]https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=ZG Database accessed on December 3rd 2020

[viii]The continent should implement the science, technology, and innovation 2024 strategy where more money should be earmarked for economic and social research