COVID-19 PANDEMIC | HOW HAS IT AFFECTED AFRICAN TRADE AND ECONOMIES?

By **Simon Cook,** Partner, Trade & Export Finance, Sullivan, London
Alexander Swayne, Associate, Sullivan, London

Back in February/March 2020, China was in full lockdown as a result of COVID-19 and the virus had taken hold in Europe and elsewhere. The effect of this on global trade generally, and African trade in particular (especially as a result of events in China), was devastating. In this article we will look at how things have developed since then and what the future holds for Africa.

The immediate impact of COVID-19 was that demand for African commodities dried up almost overnight with the lockdowns in China and elsewhere and many export contracts were terminated or suspended (rightly or wrongly) for force majeure on a large scale. Things looked bleak for the continent.

Another significantly adverse effect of COVID-19 has been the delay to the rollout of the African Continental Free Trade Area (**ACFTA**). ACFTA, which aims to create the largest free-trade zone in the world and promote intra-African trade, was due to be established on 1 July 2020 and no replacement date has been set yet.

Historically, intra-African trade has been low when compared to regional trade in, for example, Europe or Asia, and the UN estimated that ACFTA could significantly increase the volume of intra-African trade as well as significantly help African economies to diversify and generate millions of new jobs. The fact that this postponement is a damaging set-back can be seen when you look at the African economies which have fared better during the outbreak of COVID-19.

Many economies in East and West Africa, for example Rwanda, Ethiopia, Senegal and Côte D'Ivoire, have had their growth forecasts cut but are still expected to grow by around 2.5% to 3.5% in 2020. They are by and large more diverse economies with robust domestic/regional consumption, something ACFTA would promote.

Many others, especially those whose revenues rely on international consumption in one predominant sector badly affected by COVID-19, have been hit much harder and have had their growth forecasts cut by around 5% to 10%. Examples include the oil based economies of Nigeria, Angola and Equatorial Guinea and those which usually enjoy significant tourism, such as Mauritius and the Seychelles, demand for both of which has fallen significantly. In the medium to long term, ACTFA would have helped a number of the worst hit and the longer it is delayed, the more difficult it will be and the longer recovery will take.

Another problematic aspect of COVID-19 has been the (in some cases dramatic) fall in commodity prices. The obvious example here is how oil prices have plummeted during the pandemic, with the World Bank predicting the average oil price in 2020 to be USD 35 per barrel. A contributing factor has been the severe limitation of travel. It has been widely reported how this has significantly harmed countries such as the US, Russia and Saudi Arabia as well as the oil producing countries in Africa. However, while these non-African countries have the resources and ability to introduce countermeasures to protect their economies, the oil-driven African economies are less able to implement such drastic measures and have fewer alternative revenue streams to fund them. It is not only oil that has been affected, as the halt in general economic activity has also had a knock-on effect on commodities such as zinc and copper which are typically used in industrial processes. The disruption to China, which accounts for over 50% of the global metal demand, has had and is likely to continue to have consequences for global metal prices (the world bank predict a 13% price drop in 2020). Zambia and the DRC (respectively two of the largest copper and mineral exporting countries in the world), for example, will feel the harsh effects of lower copper and other mineral prices for at least the rest of this year and possibly much longer

In more developed nations, we have seen an unprecedented response by governments to "prop-up" economies. These measures have protected jobs and companies that may, otherwise, not have survived the outbreak of COVID-19. The virus has not (yet) fully established itself on the continent, partly as a result of learning lessons from other countries and in some cases, including Rwanda and Uganda, partly through locking down early and severely. Should African governments have to cope for any significant length of time with very low commodity prices and/or the virus does at some point establish itself on the continent, then there is a real likelihood that they may not be able to adequately fund the protective measures required and healthcare systems may be overwhelmed.

Whilst billions have been made available to Africa to deal with the fallout from COVID-19 by international agencies such as the World Bank/IMF and the EU, there is still a significant hole in the finances of many Africa countries, especially the less wealthy. In some cases, the only way these holes could be filled is through additional sovereign borrowing. Many of these countries are already in financial trouble and the need to incur this additional borrowing, combined with creditors who are resisting blanket debt relief, means that the prospect of sovereign default is becoming increasingly likely as a result of the virus.

It is not, however, all doom and gloom. China has re-opened and is looking to stimulate economic growth and, whilst it may take time, there are signs of an uptick in the demand for commodities. A panellist in a recent webinar suggested that last month China reported positive figures, showing how quickly trade could bounce back. Some lenders have indicated that trade volumes are already increasing (partly down to China) which would suggest that the outlook may not be as bleak as previously thought. This should give some comfort to other trading nations, including Europe/the United States, that they will be able to do the same once their lockdowns are lifted, all of which would be good news for African trade.

Globally, there have also been responses to the pandemic, both on a national and an international scale, in terms of promoting trade. Many financiers and trade groups (for example, **ITFA** and **BAFT**) have been pushing a digitisation agenda covering solutions from signing trade documentation electronically to lobbying governments to implement changes in law to facilitate digitised trade.

Unfortunately, many traders in Africa are SMEs and they simply have not had access to the technologies and legal systems with sufficiently advanced laws to benefit from such programmes. Some commentators believe that the way trade and trade finance is structured may change for good as a result of COVID-19. If this is the case, this would present a huge opportunity to kickstart a technological revolution in Africa. Historically, implementing wide-ranging legal changes in Africa has proved challenging but COVID-19 may prove a useful catalyst both for this and for making the decision to focus minds on technological advances.

There is an opportunity here for Africa to learn from, and take advantage of, the events of 2020. If the continent can move towards greater digitisation, get ACFTA up and running sooner rather than later and implement other measures to promote both the increased diversification of African economies and greater domestic/regional trade on the continent then, in the medium to long term, 2020 may not be seen from an African perspective as an “annus horribilis”.

Trade finance will certainly survive this pandemic and we may find that the way trade is conducted will change for the better as a result of COVID-19 with Africa benefitting from it and taking a large leap forward.

Contributors’ Profile

Simon Cook is a partner in the Trade & Export Finance Group in international law firm Sullivan’s London office. His experience covers a wide variety of finance transactions, including structured trade and commodity finance, supply chain finance and project finance primarily across Africa and the Middle East, where he was based for four years. He acts for lenders (including commercial lenders, multilaterals, DFIs and investment funds) and borrowers across all commodity sectors and for industry bodies such as the International Trade and Forfaiting Association (ITFA) where he is a member of ITFA’s Africa Regional Committee.

Alexander Swayne is an associate in the Trade & Export Finance Group in Sullivan’s London office. He advises a broad range of clients on structured and unstructured trade finance across mainland Europe, CIS, Africa and Asia. Alex also advises on receivables financings, including in relation to payables platforms, as well as working on FinTech and crypto-asset matters. He has also advised on the impact regulatory changes has had on trade finance.