



Annexure C: KMUN2023 Topic Pack

Simulation: United Nations Economic and Social Council (UNECOSOC)

Topic: Trade - *The Disproportionate Effects of Covid-19 on African Trade*

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Introduction

The Covid-19 virus broke out late in 2019 though officially became a global pandemic at the beginning of 2020 with states around the world implementing Covid-19 prevention measures, resulting in economic and social lockdowns. Although these measures were integral in curbing the spread of Covid-19, they have been extremely detrimental to global economies and trade. However, African trade has been disproportionately affected by Covid-19 due to the strict restrictions on trade and tourism, in conjunction with inequitable distribution of resources. The effects of Covid19 have burdened African economies more so than other continents since Africa is predominantly reliant on trade giants such as China, the EU, India and the United States of America. The shutdown of these channels due to the pandemic deeply influences trading structures in Africa. Covid-19 has affected African economies and trade in three manners; firstly, lower trade and investments from China in the shortterm, secondly, a halt in the supply of fuels from OPEC states slows development and, thirdly, a plunge in continental supply affects domestic/intra-African trade. The effects of Covid-19 and its restrictions on Africa have been exacerbated by Africa's history of resource exploitation and economic marginalisation by European states and - in the 21st century - Eastern Asia. Africa's disproportionate trade with Covid-19 also hinders its further development by slowing down initiatives such as AfCFTA (African Continental Free Trade Area) to promote intra-continental trade and shift away from Africa's reliance on global trade.

Past Practices of African Trade

20th century

Post-World War 2 society has since moved on from transparent forms of exploitation and has since attempted to correct the socio-economic and socio-political imbalances brought upon by the outcomes of the 1884-1885 Berlin conferences. The establishment of the Bretton Woods institutions, namely the World Bank and International Monetary Fund, had the aim of bridging the economic gap by providing loans and financial assistance to states. The World Bank has the strict mandate of providing underdeveloped states with interest-free loans whilst the IMF acts similarly to a commercial bank as it provides loans attached with interest and that must be repaid within a set period.

Between 1960 and 1978 Sub-Saharan Africa experienced an average Gross Domestic Product growth rate of 2.9% - just over half of the average of all developing nations (5.7%).¹ Within the same dataset, it is presented that in African states average 1.8 and 3.3 per cent in the agricultural and industrial sectors respectively; compared to the average of developing states of 2.7 and 7.2 per cent. Despite African states embracing the practice of import substitution, industrialisation in Africa reaches a ceiling due to a lack of capital and global competition – particularly from Asia.

Data provided by G20 Insights indicates that after a peak in 1994, African trade diversification, particularly in the Sub-Saharan region, has since been on a steady

¹ Roemer, M. (1982). Economic Development in Africa: Performance since Independence, and a Strategy for the Future. *Daedalus*, 111(2), 125-148. Retrieved July 1, 2021, from <http://www.jstor.org/stable/20024788>

downward trajectory.² The lack of economic development has not only surrendered short-term revenue but, due to the slow pace of economic advancement, new technologies are not progressed that may be used to expand Africa's economy.

21st century

Coloniality, as conceptualised by Maldonado-Torres and Grosfoguel, refers to the current global socio-economic system in which the relationship between core and periphery states are skewed in the former's favour. Data has shown that the dependence of colonised states on their former colonial authorities was not severed once African states gained independence, but have continued to define African trade in the 21st century.

In 2005, 6 of Africa's 11 main export partners had previously colonised approximately 90% of the continent and who's cumulative trade balance imposed a \$350 billion trade deficit upon sub-Saharan Africa.³ The aforementioned states are as follows: Great Britain, Spain, Germany, France, Italy and Belgium – all of whom maintain close relations with each of their respective ex-colonies.

The establishment of the International Monetary Fund, as well as the Washington consensus, have targeted African states by disproportionately increasing the amount of national debt. IMF data from 2011 shows that of the 27 largest loans granted by the IMF, 7 were African nations – all of whom are within the lowest 30% GDP per

² https://www.g20-insights.org/policy_briefs/diversification-and-the-world-trading-system/

³

<https://wits.worldbank.org/CountryProfile/en/Country/SSF/Year/2005/TradeFlow/EXPIMP/Partner/bycountry>

capita.⁴ At 8.5%, Liberia holds the largest loan in relation to its GDP, followed by the Republic

of Congo, Comoros, Maldives and Ghana all of whom possess loans between 1 and 2% of their GDPs.⁵ At the start of the 21st century, 13 African states possessed gross debt in excess of 100 per cent of their GDP.⁶

Chinese and Indian influence in Africa has increased dramatically since the turn of the 21st century – overtaking almost all European states as the main import partner in every Africa state. African imports from China had increased from 3.8% in 2000 to 12.9% in 2011, whilst Indian imports rose from 1.7% to 4.45% within the same timeframe. China and India have announced themselves as global superpowers in the 21st century and have subsequently become global trade hubs. However, these two states have displayed patterns in their trade with Africa that resembles the exploitative relationships the continent experienced in the 19th and 20th centuries.

Several economic opportunities have risen in Africa in the form of tourism and foreign investment. In 2016, Foreign Direct Investment in Africa stood at \$51 billion due to the development opportunity within the continent.⁶ Africa's largely undeveloped wilderness remains a key attraction to those in developed states and has made it the most visited destination for international tourists since 1996.⁷ To combat the struggles of international trade Africa has implemented several trade unions, most

⁴ <https://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2011-04-30>

⁵ <https://www.theguardian.com/news/datablog/2011/may/24/imf-loans-dominique-strauss-kahn>

⁶

https://www.imf.org/external/datamapper/G_XWDG_G01_GDP_PT@FM/ADVEC/FM_EMG/FM_LIDC

⁶ <https://unctad.org/press-material/wir-foreign-direct-investment-africa-fell-21-2017-says-unitednations-report>

⁷ https://www.brookings.edu/wp-content/uploads/2018/12/Africas-tourism-potential_LandrySigne1.pdf

notably the African Continental Free Trade Union, that seeks to motivate intra-continental trade without added tariffs and duties.

Disproportional Impact of Covid-19 on African Trade

To curb the spread of Covid-19, all states adopted strategic measures, including African states, which resulted in the closures of borders and key economic sectors.⁸ Subsequently an unforeseeable global recession was induced, leading to a collapse in global trade with Africa ranging between 0.5% and 3.8 %. The preoccupation of this research will focus on the economic impacts, Africa as an actor in the international arena and Covid-19 positive policy reforms in the disproportional effect Covid-19 has in African Trade. The subject period is the years between 2019 and 2022, during which this document will view and evaluate African development with regards to international actors and/or states.

Covid-19 varies across African countries affecting numerous sectors effecting Africa's position in the International Relations Arena.⁹ The United Nations Economic Commission for Africa (UNECA) estimated a minimum loss of US\$65 billion in revenue among Africa's top ten fuel exporting economies. The fall in global demand for exports and a collapse in prices of major commodities, such as natural materials fuels and gases are of great concern to Africa due to the fall in Foreign Direct Investment (FDI) since these commodities are closely linked to the extractive sector.

⁸ Gondwe, G. 2020. Assessing the impact of Covid-19 on Africa's Economic Development, Internet: https://unctad.org/system/files/official-document/aldcmisc2020d3_en.pdf . Accessed: 29 June 2021.

⁹ Gondwe, G. 2020. Assessing the impact of Covid-19 on Africa's Economic Development, Internet: https://unctad.org/system/files/official-document/aldcmisc2020d3_en.pdf . Accessed: 29 June 2021.

The decline in crude oil prices (up to 60%) will put significant strains on the revenue of the net oil exporters such as Nigeria, Sudan, Algeria, etc.

Another impact of Covid-19 is the disproportional impact it has on African trade with international states.¹⁰ Since China has announced itself as Africa's biggest trading partner, the effects of Chinese imposed Covid-19 restrictions are being felt throughout Africa. With China having shut down many manufacturing centre and closed its ports during the first year of the pandemic, there has been a resultant decrease in demand for African commodities. Africa is confronted with a twofold supply and demand shock, arriving in three successive waves

- (I) Lower trade and investment from China in the immediate term
- (II) A demand slump associated with the lockdowns in the European Union and OECD states; and (iii)
- (III) A continental supply shock affecting domestic and intra-African trade.¹¹

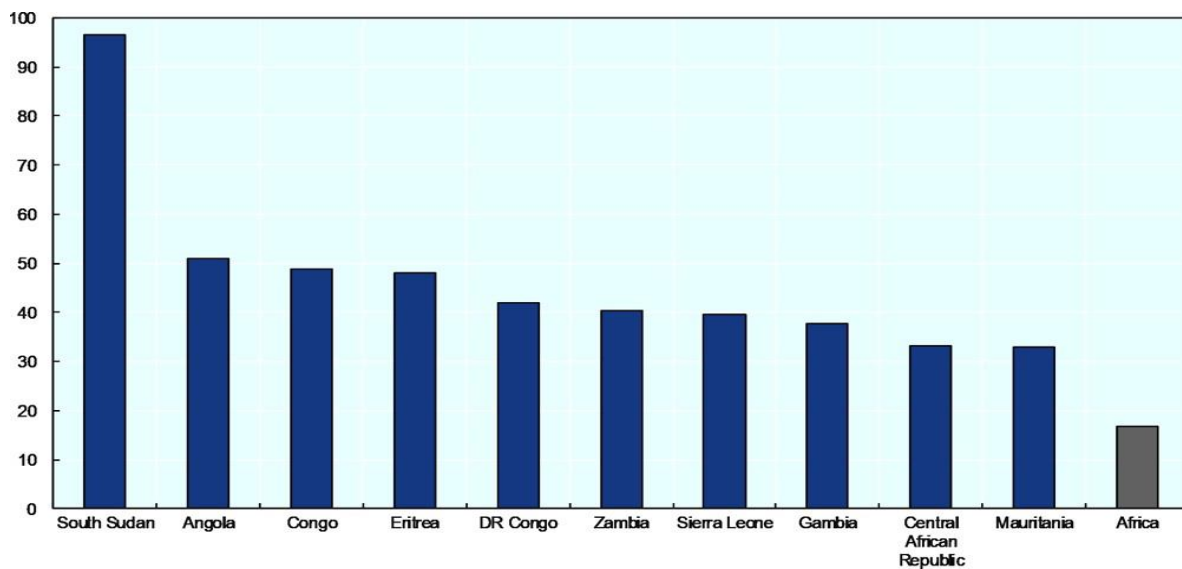
A first wave comes from China through weakened trade channels and lower foreign direct investment (FDI) in the immediate term. For instance, the International Monetary Fund had predicted South Sudan to be the fastest growing global economy

¹⁰ Van Der Merwe, M. Du Plessis, W. Subban, V. Mackenzie, J. Whyte, K. Yudaken, M. Bell, J. Van Rensburg, M. South Africa: The Impact Of Covid-19 on Key African Sectors, Internet: <https://www.globalcompliancenes.com/2020/03/26/south-africa-the-impact-of-covid-19-on-keyafrican-sectors/> . Accessed: 29 June 2021.

¹¹ OECD Policy Responses to Coronavirus (Covid-19), Covid-19 and Africa: Socio-Economic Implications and Policy responses, Internet: <https://www.oecd.org/coronavirus/policy-responses/covid19-and-africa-socio-economic-implications-and-policy-responses-96e1b282/> . Accessed: 29 June 2021.

in 2020, growing by 8.2%, mainly due to oil exports to China – 98% of its total exports (Table 1). Investment projects exports have either been delayed or cancelled whilst China experienced and recovers from the effects of the pandemic.

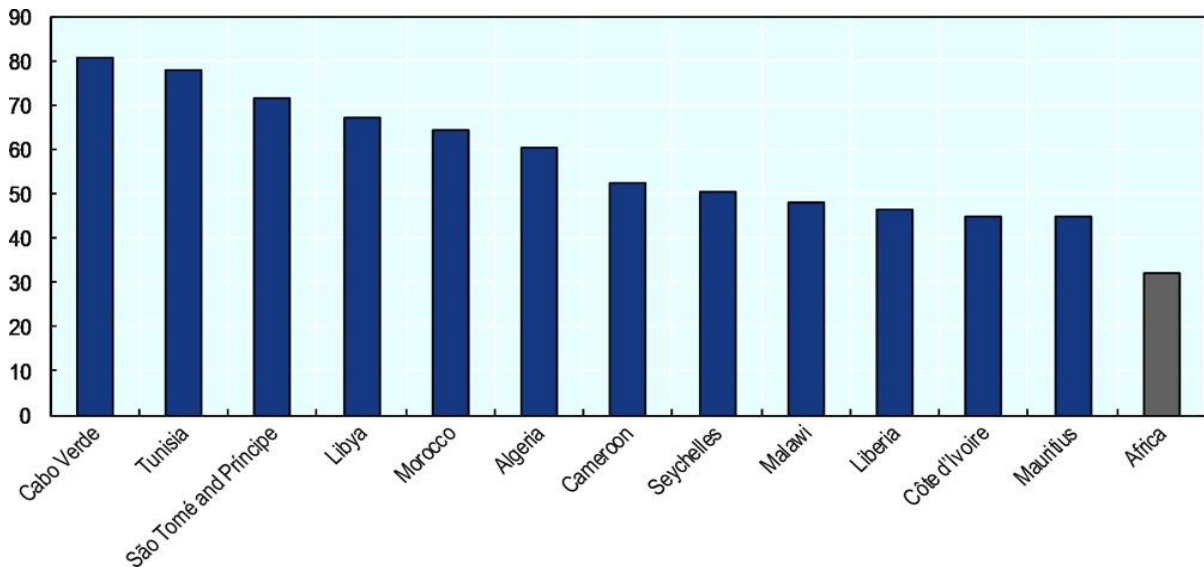
TABLE 1: Exports to China, 2014-2018 average (in % of total exports)



Source: Authors' calculations based on United Nations Comtrade database.

A second wave arrived from OECD states, due to the EU demand slump associated with the lockdown and the halt in tourism. Island developing states, North African states as well as several West African economies, depend on the EU for at least 50% of their trade (Figure 2). Resource exportation to the European Union and tourism from the EU has been significantly cut thus adding increased economic woes to the continent. The large percentage of African exports are sent to the European Union indicating a persistent reliance of African states on Europe for revenue.

TABLE 2: Exports to EU States, 2017 (in % of total exports)



Source: Authors' calculations based on United Nations Comtrade database

Finally, a third wave has come from the shock on domestic demand and the sudden decrease in African inter-continental trade. The shock in domestic demand is driven by disruptions in household and business spending and will particularly hit states affected by strict Covid-19 restrictions and prevention measures, as is the case in South Africa. Travel and trade restrictions to prevent the spread of Covid-19 could also hamper regional sourcing, which currently stands under 15%, and endanger crossborder informal trade; estimated to be one-third of Africa's trade.

Given the rapidly changing situation and high levels of uncertainty, growth forecasts need constant revision; however current data shows a downward trend in African growth. A recession in several African countries – the first in 25 years – is now likely,

negatively affecting existing problematic performance areas in African society such as unemployment and healthcare.¹²

The final impact focuses on how Covid-19 policy reforms have resulted in a positive impact for the affected African states.¹³ As the world submerges into this new state of existence, the Covid-19 pandemic has created a new break for trade and development in Africa as it slowly plunges into the new Covid-19 trading policies. For example, global economic growth heavily influences the market prices of key commodities thus the reduction in supply has led to rapid growth in local prices. The uncertainty of the impact of Covid-19 on local markets has led to increased risk aversion from investors who sought to invest in the African market. However, a temporary fall in share prices always provides opportunities for prudent investors. The African economy anticipated an improved political and economic environment before proceeding with potential capital investments. Baker McKenzie's Global Transactions Forecast showed that there were zero Initial Public Offerings in South Africa in 2019. Eroding investor confidence while numerous global trade tensions exist, African markets wait for economic indicators before the implantation of IPOs. With Africa looking to benefit from new global and regional trade agreements, the forecasts is pointing to a potential recovery in capital markets in the next 5 years, but this might be delayed as the uncertainty around the impact of Covid-19 in Africa reaches its peak. Thus, Covid-19 has created an opportunity for the more efficient re-arrangement of African Trade development.

¹² Beegle, K., Christiaensen, L., Dabalen, A., & Gaddis, I. (2016). *Poverty in a rising Africa*. World Bank Publications.

¹³ Van Der Merwe, M. Du Plessis, W. Subban, V. Mackenzie, J. Whyte, K. Yudaken, M. Bell, J. Van Rensburg, M. South Africa: The Impact Of Covid-19 on Key African Sectors, Internet: <https://www.globalcompliancenews.com/2020/03/26/south-africa-the-impact-of-covid-19-on-keyafrican-sectors/> . Accessed: 29 June 2021.

Impact on Development

Trade is a vital factor contributing to African development; therefore, any challenges African trade may have faced during the Covid-19 pandemic disproportionately influences the rate of development. Three trade factors that have a significant influence over African development are global trade, the exportation of natural resources and the implementation of AfCFTA (African Continental Free Trade Area Agreement). Global trade and the exportation of natural resources experienced diminished since 2019 due to Covid-19. These two trade factors hinder African development in two decisive ways: shrinking economies and increasing unemployment. However, the AfCFTA has been constructed to boost African development and, from 2020, help to counter the economic effects of Covid-19.

Global trade has taken severe knocks during the Covid-19 pandemic as it has negatively impacted both global supply and demand. Global trade is integral to Africa development despite the continent having a disproportionate influence, as Africa is reported to comprise 2% of global trade.¹⁴ Consequently, any decrease in global trade typically results in domestic recessions for many states. Global trade is expected to decrease between 13% and 32%¹⁵ due to the economic restrictions brought upon by Covid-19. A decrease in global trade is directly linked to shrinking domestic economies. Shrinking economies seriously undermine development by decreasing production and making it more difficult for the regular functioning of economic activities. Shrinking economies in Africa lead to the decreased productivity, production and trade – creating an overall decline in GDP and annual income.

Economic growth

¹⁴ <https://ustr.gov/about-us/policy-offices/press-office/blog/trade-keyafrica%E2%80%99s-economic-growth>

¹⁵ https://unctad.org/system/files/official-document/aldcmisc2020d3_en.pdf

in Sub-Saharan states declined between -2.1% and -5.1% in 2020; the variation of decline was dependent on the disaster management measures implemented by national governments.¹⁷ The sub-Saharan region has faced its first recession in 25 years.

Exportation of natural resources, which constitutes three-quarters of Africa's exports, provides strategic economic benefits for Africa with an ability to increase GDP which, in turn, increases African trade revenue. The export of natural resources has been influenced by Covid-19 through the drop in commodities and natural resources prices. Fuel prices fell by 60% due to the fall in demand of oil from the Organization of Petroleum Exporting Countries.¹⁶ Other exports of natural resources have also experienced a decrease in demand as they have already decreased by an estimated 16.7%. What this means for African development is that there are fewer opportunities for employment, consequently unemployment has grown rapidly in the past 2 years, with South Africa alone having a 32% unemployment rate (7 million people).¹⁷ Unemployment hinders development due to the financial costs of government, increased crime and the mental effects on the general population.¹⁹ In conclusion, decreasing exports greatly affects Africa since the subsequent unemployment and recession halt development.

The African Continent Free Trade Area agreement is an integral initiative aimed to boost intra-continental trade. African development benefits from internal trade through

¹⁶ <https://www.bakermckenzie.com/en/insight/publications/2020/03/the-impact-of-covid19-onafrican-trade>

¹⁷ <https://www.reuters.com/article/us-safrica-economy-unemployment-idUSKBN2AN0S1>

¹⁷ <https://blogs.worldbank.org/africacan/how-will-covid-19-impact-africas-trade-and-market-opportunities>

increased production, high revenue and trade substitution. The AfCFTA was initially postponed due to Covid-19 but officially was implemented on 1 January 2021. The AfCFTA is vital to the recovery of African economic activities, and provides great benefits to African countries such as lifting 30 million Africans out of poverty, adding \$450 million to the African economy by 2035 and providing workers with increased wages.¹⁸ These positive effects are very important to combat shrinking African economies and unemployment. The AfCFTA, if applied and managed successfully, will leverage Africa to more continental independence through intra-continental trade.

Questions to Consider

1. Is Africa's reliance on foreign states for development particular to Africa or is it a global phenomenon?
2. Can Covid-19 be an opportunity for Africa to restructure trade relations, and develop more on sustainable trading?
3. Have developed states capitalized on African exploitation to continue to marginalize African trade?
4. Can Covid-19 force Africa to expand their exports from natural resources to service (e.g. Nigerian banking services)?
5. Did Covid-19 create an ideal space for the AfCFTA to fully launch their project and promote intra-continental trade in the wake of closed international borders?
6. Have African states imposed beneficial trade policies in response to the Covid19 pandemic?
7. Has Covid-19 increased trade between Africa and China to an exploitative scale?

¹⁸ <https://www.linkedin.com/pulse/benefits-african-continental-free-trade-area-afcfta-smesvir-obe/>

8. What are the economic impacts of Covid-19 on African economies in relation to trade development?